

June 23, 2022

Core Carbons Private Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based facilities – Cash Credit	15.00	40.00	[ICRA]A-(Stable); Reaffirmed/Assigned
Short -term – Non-Fund Based	3.00	0.00	-
Long term/Short term - Interchangeable	(15.00)	(40.00)	[ICRA]A-(Stable)/[ICRA]A1; Reaffirmed
Long term/Short term - Unallocated	9.00	0.00	-
Total	27.00	40.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of the ratings continues to factor in Core Carbons Private Limited’s (CCPL/the company) healthy financial profile, characterised by revenue growth, a comfortable capital structure and a strong liquidity position. The revenues increased by 25% YoY to Rs. 274.7 crore in FY2022 from Rs. 218.9 crore in FY2021. The gearing was 0.14 times as on March 31, 2022 with a strong liquidity position characterised by free cash and bank balances of Rs. 88.36 crore as on March 31, 2022. CCPL is one of the early entrants in India in manufacturing activated carbon and is one of the largest players with an installed capacity of 27,500 MTPA. The ratings also consider the long track record of the promoters in activated carbon manufacturing and the favourable demand prospects for coconut shell-based activated carbon in the global markets on account of growing population and the acute need for superior waste disposal management.

The ratings, however, are constrained by the susceptibility of the margins to raw material price fluctuation, and the limited pricing flexibility in the export market. Further, the company’s profitability also declined significantly in FY2022 because of the increase in raw material prices and its inability to pass on the price increase to the customers due to significant competition in the market. As the entire revenue is derived from exports, the margins are susceptible to foreign exchange fluctuations as well. The ratings also consider the high customer concentration risk and the intense competition in the export market from other tropical countries and large international players in the organised segment. The regulatory risk inherent in the manufacturing of activated carbon remains a rating concern.

The Stable outlook reflects ICRA’s expectation that the company will continue to benefit from the extensive experience of the promoters in the activated carbon business and favourable demand prospects for coconut shell-based activated carbon. Further, the company’s financial risk profile is expected to remain healthy.

Key rating drivers and their description

Credit strengths

Favourable demand prospects for coconut shell-based activated carbon – Activated carbon is widely used in the purification industry, namely water, air and gas purification industries. Regulations related to water and air pollution across the world have a major role to play in influencing demand for activated carbon. Further, the demand for coconut shell-based activated carbon is on the rise as manufacturing coal-based activated carbon has a detrimental effect on the environment.

Experience of promoters in activated carbon industry for more than two decades – CCPL, incorporated in 1998, is one of the early entrants in India in manufacturing activated carbon and is one of the largest players with an installed capacity of 27,500 MTPA. The promoters have more than two decades of experience in activated carbon manufacturing.

Healthy financial profile – The company's capital structure is robust, with gearing at 0.14 times and TOL/TNW of 0.18 times as on March 31, 2022. The revenues increased by 25% YoY to Rs. 274.7 crore in FY2022 from Rs. 218.9 crore in FY2021. CCPL's coverage indicators remain healthy with interest coverage at 20.7 times for FY2022.

Credit challenges

Cyclical nature of business; margins exposed to volatility in raw material prices – The supply of coconut shell-based charcoal is cyclical as the yield of coconut is dependent on monsoons. Any scarcity in coconut shell supply will directly impact the production and the margins are affected by an increase in charcoal prices. The availability of coconut shell charcoal depends on coconut production, which in turn heavily depends on the monsoon. The supply of coconut shell generally lags by a year of producing the coconuts as coconut shells come last in the line of coconut use. There was an acute shortage of coconut shells by 10.5% in FY2019 due to erratic weather patterns of heavy rain and drought. This increased the prices of coconut shell, thereby raising charcoal prices in FY2019. Subsequently, on the back of better monsoons in FY2020, the supply of coconut shell improved in FY2020, resulting in a decline in charcoal prices for the company. However, due to the improved demand levels of coconut, prices of coconut-based charcoal have been rising since the last two years. In 9M FY2022, coconut-based charcoal prices rose to Rs. 42.12 per kg from Rs. 38.38 per kg in FY2021, which lowered the company's margins due to its limited price fixing ability and its inability to pass on the price hike to the customers.

High customer concentration risk – CCPL has increased its customer portfolio over the years and at present caters to customers across the globe. It has a well-diversified geographic portfolio, which includes the US, Germany, Africa, Switzerland, the Netherlands and Korea. However, the top-five customers accounted for ~60-63% of the total sales in FY2021 and 9M FY2022, resulting in high customer concentration risk.

Intense competition in export market; exposure to regulatory risks – Tropical countries such as the Philippines, Indonesia, Malaysia, Sri Lanka and India are the primary producers of coconut shell-based charcoal due to the abundance of the primary raw material. Numerous players from these countries give tough competition to the company, limiting its pricing flexibility. Further, the primary raw material, coconut shell-based charcoal, is conventionally obtained by burning coconut shells in large pits. As burning shells result in environmental pollution, there is a regulatory risk of possible restriction on its manufacturing using conventional methods.

Liquidity position: Strong

The liquidity position of the company continues to remain strong, supported by healthy cash balance of Rs. 88.36 crore as on March 31, 2022. CCPL does not have any debt repayment obligations. It also has a comfortable buffer in fund-based working capital limits of Rs. 9.90 crore as on March 31, 2022. The company uses its funds from the current account as and when needed to meet its working capital requirement. The company covers ~70-80 % of the EEFC account through forward contracts.

Rating sensitivities

Positive factors – CCPL's ratings can be upgraded if the company shows a sustained improvement in the scale of operations amid healthy profitability.

Negative factors – Negative pressure on CCPL's ratings could arise if its profitability is impacted by any significant decline in revenue or increase in input costs due to a change in industry conditions. Any major capex/investment that weakens CCPL's liquidity position will also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Entities in the Chemical Industry
Parent/Group Support	Not Applicable

About the company

Core Carbons Private Limited, incorporated in 1998, manufactures coconut-shell based activated carbon that finds application, mainly in water, air purification and gold extraction. CCPL has a capacity to manufacture 27,500 MT of activated carbon a year from its manufacturing plant in Coimbatore, Tamil Nadu. CCPL primarily caters to the export market and its primary export destinations are European Union countries, the US and Japan. Further, the carbon dust produced during the manufacturing of activated carbon is sold in the domestic market to agarbathi manufacturers and other food processing industries.

Key financial indicators (audited)

Core Carbons Private Limited (Standalone)	FY2020	FY2021
Operating income (Rs. crore)	196.7	218.9
PAT (Rs. crore)	28.1	18.6
OPBDIT/OI (%)	18.9%	10.8%
PAT/OI (%)	14.3%	8.5%
Total outside liabilities/tangible net worth (times)	0.0	0.0
Total debt/OPBDIT (times)	0.1	0.4
Interest coverage (times)	51.2	33.6

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years			
	Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2022 (Rs. crore)	Date & rating on	Date & rating in FY2021	Date & rating in FY2020	Date & rating in FY2019	
				Jun 23, 2022	Mar 09, 2021	Dec 17, 2019	Sep 11, 2018	
1 Cash Credit	Long-term	40.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	[ICRA]A-(Stable)	
2 Non-Fund based	Short-term	-	-	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	
3 Interchangeable	Long-term/Short-term	(40.00)	-	[ICRA]A-(Stable)/[ICRA]A1	[ICRA]A-(Stable)/[ICRA]A1	[ICRA]A-(Stable)/[ICRA]A1	[ICRA]A-(Stable)/[ICRA]A1	

4	Unallocated	Long-term/ Short-term	-	-	-	[ICRA]A- (Stable)/ [ICRA]A1	[ICRA]A- (Stable)/ [ICRA]A1	
---	-------------	--------------------------	---	---	---	-----------------------------------	-----------------------------------	--

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term - Fund-based facilities	Simple
Long term/Short term -Interchangeable	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No.	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (RS Crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	40.00	[ICRA]A-(Stable)
NA	Foreign Bill Discounting	NA	NA	NA	(40.00)	[ICRA]A-(Stable)/ [ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

ANALYST CONTACTS

Sabyasachi Majumdar

+91 12 4454 5304

sabyasachi@icraindia.com

Prashant Vasisht

+91 12 4454 5322

prashant.vasisht@icraindia.com

Kushal Kumar

+91 40 4067 6521

kushal.kumar@icraindia.com

Suhani Kabra

+91 12 4454 5414

suhani.kabra@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2022 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.