

July 11, 2017

CMR Toyotsu Aluminium India Private Limited

Summary of Rated Instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund based working capital limit	27.0	[ICRA]BBB+(SO) (Stable) assigned
Term Loans	27.0	[ICRA]BBB+(SO) (Stable) assigned
Non Fund Based Limits	1.0	[ICRA]A2(SO) assigned
Total	55.0	

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned a long-term rating of [ICRA]BBB+(SO) (pronounced ICRA triple B plus Structured Obligation)¹ for Rs. 54.0 crore² bank lines of CMR Toyotsu Aluminium India Private Limited (CMRT). ICRA has also assigned a short-term rating of [ICRA]A2(SO) (pronounced as ICRA A two Structured Obligation) for Rs. 1.0 crore non-fund based limits of CMRT. The outlook on the long-term rating is Stable.

The letters SO in parenthesis suffixed to a rating symbol stand for 'Structured Obligation'. An SO rating is specific to the rated issue, its terms and its structure. 'SO ratings' do not represent ICRA's opinion on the general credit quality of the issuer concerned.

Detailed Rationale

The rating takes into consideration the unconditional and irrevocable corporate guarantee extended by Century Metal Recycling Private Limited (CMR) to ensure timely servicing of the rated debt obligations of CMRT. The rating addresses the servicing of the loan to happen as per the terms of the underlying loan and guarantee arrangement and assumes that the guarantee will be duly invoked, as per the terms of the underlying loan and guarantee agreements, in case there is a default in payment by the borrower. The rated instrument does not involve a structured payment mechanism.

In assigning the rating, ICRA has taken a consolidated view of the financial and operational profile of CMRT along with its other key group companies – promoter entity Century Metal Recycling Private Limited (CMR), CMR Nikkei India Private Limited (CMRN) and Sanjivani Non Ferrous Trading Private Limited (SNFTPL), given the common promoters, strong operational and financial linkage amongst the entities. These are together referred to as CMR Group or 'the Group'.

The assigned ratings also factors in CMR group's position as one of the largest players in the aluminium processing industry; long experience of its promoters in the business; and its sizeable manufacturing base strengthened by newer facilities under CMR and its JVs (CMRT and CMR Nikkei India Private Limited). These factors have enabled the group to develop a wide customer base which includes reputed auto and auto-ancillary companies; and register steady revenue growth. Moreover stabilisation of operations in the JVs, improvement in working capital management through reduction in inventory levels, and cost

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

² 100 lakh = 1 crore = 10 million

rationalisation initiatives undertaken by the group have led to an improvement in the profitability margins and to lower reliance on external debt for meeting the funding requirements in FY2017. Consequently the gearing level and debt protection metrics have exhibited some improvement. With improvement in cash flow generation, the reliance of JVs on CMR for debt servicing is expected to reduce. CMR group also benefits from the established profile and funding/technology support from its JV partners.

However the ratings are constrained by the fragmented and competitive nature of the industry, and relatively low value added nature of work which limits the pricing flexibility of the industry participants including the CMR group; and the group's high concentration on the automotive sector, which can have an adverse impact on its performance as witnessed by moderation of the revenue growth in the past. The profitability, though improved in FY2017, remains relatively moderate. Further, the inherent working capital intensity of the business remains high. As the company imports a significant part of raw materials (primarily aluminium scrap) which has a high lead time, the profitability is vulnerable to volatility in raw material prices and foreign exchange risk. .

Going forward, group's ability to maintain revenue growth; and improvement in profitability levels and debt protection metrics will remain the key sensitivities.

Key rating drivers

Credit Strengths

- a. Three decades of experience of promoter group in the aluminium processing business
- b. Sizeable manufacturing base and locational advantage of manufacturing facilities
- c. Diverse customer mix which also includes reputed names like Yamaha India, Sunbeam Auto, Maruti Suzuki, etc.
- d. Improvement in profitability margins in FY2017 on the back of cost rationalization initiatives and improved inventory management.
- e. Moderate gearing levels and improvement in debt coverage metrics
- f. Stabilization of operations at the manufacturing facilities of the two JVs- CMRN and CMRT.
- g. Corporate guarantee extended by CMR for the entire bank facilities of CMRT

Credit Weakness

- a. Fragmented and competitive nature of the industry limits the pricing flexibility of the industry participants including the CMR group.
- b. Vulnerability of profitability to volatility in raw material prices
- c. Exposure to foreign exchange risk as part of the raw material requirement is being met through imports. However the risk is mitigated to an extent given the presence of a hedging policy.
- d. High dependence of the group on the auto sector. Any slowdown in demand from the auto sector can have an adverse impact on the group's performance, as also witnessed in the past to some extent.
- e. Moderate profitability and high working capital intensity in the past

Detailed description of key rating drivers highlighted above:

The promoter group has been engaged in the aluminium processing business for more than three decades. The aluminium produced by the group is ultimately consumed for manufacturing aluminium die cast components for automobiles and its clientele includes well established players of the industry. Aluminium alloys, made by adding zinc, silicon, manganese, among others with the mother metal, is being increasingly used in the automotive industry to reduce car body weight and increase fuel efficiency. The group has developed a sizeable manufacturing base over the years, with its facilities located in

proximity to auto component manufacturing hubs. These factors have enabled the group to register steady revenue growth over the years. Also with the stabilization of facilities of both CMRN and CMRT, the revenue growth for the group is expected to be driven by these two JVs as they expand their customer base by leveraging on strengths and experience of CMR and the technology partners. Moreover stabilization of operations in both the JVs, some recovery in demand, initiatives undertaking to control costs and reduction in inventory levels to control exposure to price risk, the operating margins and debt protection metrics for the group have improved in FY2017.

The industry is highly fragmented and competitive in nature, which coupled with low value-added nature of work, and limited bargaining ability against large sized customers exert pricing pressure on the Group. Also as majority of the sales are being done to auto component manufacturers, the group's concentration on the automotive sector remains fairly high, which can have an adverse impact on its performance, as also witnessed by moderation of revenue growth and profitability in the past. Also the profitability remains vulnerable to volatility in raw material prices and foreign exchange risk as part of the raw material requirement is being met through imports.

Analytical approach:

For arriving at the ratings, ICRA has taken into account; *inter alia*, the explicit support provided by CMR to CMRT in the form of a corporate guarantee.

Also in assigning the rating, ICRA has taken a consolidated view of the financial and operational profile of CMRT along with its other key group companies – Century Metal Recycling Private Limited (CMR), CMR Nikkei India Private Limited (CMRN) and Sanjivani Non Ferrous Trading Private Limited (SNFTPL);, given the common promoters, strong operational and financial linkage amongst the entities. These are together referred to as CMR Group or 'the Group'.

Links to applicable Criteria

[Approach for rating debt instruments backed by third-party explicit support](#)
[Corporate Credit Rating Methodology](#)

About the Company:

CMR Toyotsu Aluminum India Private Limited (CMRT) is a joint venture between CMR (holding 70% stake) and Toyota Tsusho Corporation (holding 30% stake). CMRT's aluminum alloy manufacturing facility, located at Chennai, Tamil Nadu commenced operations in 2014 with an installed capacity of 30000 MTPA. Aluminium based alloys contribute around 80% of the company's sales and the balance is contributed by sales of molten metal.

In FY2017, CMRT reported an operating income of Rs. 258.2 crore and a profit after tax of Rs. 2.0 crore (as per provisional financials) as against operating income of Rs. 219.6 crore and net loss of Rs. 7.2 crore in FY2016.

In FY2017, CMR Group on a consolidated basis reported an operating income of Rs. 2,146.3 crore and a profit after tax of Rs. 69.4 crore (as per provisional financials) as against operating income of Rs. 2,136.2 crore and profit after tax of Rs. 0.40 crore in FY2016.

Key Financial Indicators - CMRT

Particulars (Rs. Crore)	FY2016	FY2017*
Operating Income	219.6	258.2
PAT	-7.2	2.0
OPBDITA/OI (%)	0.4%	6.1%
RoCE (%)	-2.5%	16.5%
Total Debt/TNW (times)	6.1	3.9
Total Debt/OPBDITA (times)	76.1	3.6
Interest coverage (times)	0.1	1.9
NWC/OI (%)	7%	1%

*provisional

About the Guarantor

Incorporated in the year 1994, Century Metal Recycling Private Limited has been promoted by members of the Agarwal family, who have almost three decades of experience in the aluminium processing business. CMR manufactures aluminium and zinc based alloys with a combined capacity of 151000 MTPA. The company has five manufacturing facilities located at Gurgaon, Manesar and Faridabad (Haryana), Haldwani (Uttarakhand) and Bhiwadi (Rajasthan). In addition to ingots, the company also produces and delivers ready to use hot liquid aluminium directly to its customer's production line.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				July 2017			
1	Working capital Limits	Long Term	27.0	[ICRA]BBB+(SO) (Stable)	NA	NA	NA
2	Term Loans	Long Term	27.0	[ICRA]BBB+(SO) (Stable)			
3	LC Limits	Short Term	1.0	[ICRA]A2(SO)			

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Working capital Limits	-	-	-	27.0	[ICRA]BBB+ (SO) (Stable)
Term Loans	2013	11%	March 2021	27.0	[ICRA]BBB+ (SO) (Stable)
LC Limits	-	-	-	1.0	[ICRA]A2

Contact Details

Analyst Contacts

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Harsh Jagnani
+91-124-4545394
harshj@icraindia.com

Deepak Jotwani
+91-124-4545870
deepak.jotwani@icraindia.com

Relationship Contact

Jayanta Chatterjee
+91-80-43326400
jayantac@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

© Copyright, 2017, 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.

**Registered Office****ICRA Limited**

1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office**Mr. Vivek Mathur**

Mobile: +91 9871221122

Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

3rd Floor, Electric Mansion
Appasaheb Marathe Marg, Prabhadevi
Mumbai—400025,
Board : +91-22-61796300; Fax: +91-22-24331390

Kolkata**Mr. Jayanta Roy**

Mobile: +91 9903394664

Email: jayanta@icraindia.com

A-10 & 11, 3rd Floor, FMC Fortuna
234/3A, A.J.C. Bose Road
Kolkata—700020
Tel +91-33-22876617/8839 22800008/22831411,
Fax +91-33-22870728

Chennai**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

5th Floor, Karumuttu Centre
634 Anna Salai, Nandanam
Chennai—600035
Tel: +91-44-45964300; Fax: +91-44 24343663

Bangalore**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

'The Millenia'
Tower B, Unit No. 1004, 10th Floor, Level 2 12-14, 1 & 2,
Murphy Road, Bangalore 560 008
Tel: +91-80-43326400; Fax: +91-80-43326409

Ahmedabad**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

907 & 908 Sakar -II, Ellisbridge,
Ahmedabad- 380006
Tel: +91-79-26585049, 26585494, 26584924; Fax:
+91-79-25569231

Pune**Mr. L. Shivakumar**

Mobile: +91 9821086490

Email: shivakumar@icraindia.com

5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range
Hills Road, Shivajinagar, Pune-411 020
Tel: + 91-20-25561194-25560196; Fax: +91-20-
25561231

Hyderabad**Mr. Jayanta Chatterjee**

Mobile: +91 9845022459

Email: jayantac@icraindia.com

4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj
Bhavan Road, Hyderabad—500083
Tel:- +91-40-40676500