CMR Toyotsu Aluminium India Private Limited

January 28, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based working capital limit	27.0	27.0	[ICRA]A-(SO)(Stable) upgraded from [ICRA]BBB+(SO)(Stable)
Term Loans	27.0	27.0	[ICRA]A-(SO)(Stable) upgraded from [ICRA]BBB+(SO)(Stable)
Non Fund Based Limits	1.0	1.0	[ICRA]A2+(SO) upgraded from [ICRA]A2(SO)
Total	**55.0**	**55.0**	

*Instrument details are provided in Annexure-1

Rationale

The ratings factor in the healthy revenue growth registered by Century Metal Recycling Limited (CMR) in FY2018 and the current fiscal on the back of increase in both average realisations and sales volume, steady ramp-up of operations and increased internal accrual contribution in its two joint ventures (JV; CMR Nikkei India Private Limited and CMR Toyotsu Aluminium India Private Limited). The ratings also consider the repeat business from CMR's diverse customer base, which includes reputed auto and auto-ancillary companies. The Group continues to benefit from its strong position in the aluminium processing industry, supported by its sizeable manufacturing capacities which are strategically located in auto component manufacturing hubs, extensive experience of its promoters in the industry, and the strategic partnership with established Japanese aluminium processing/trading companies – Nikkei MC Aluminium Co. and Toyota Tsusho Corporation for the two JVs. The CMR Group is an important part of the supply chain of the auto component industry given the increasing usage of aluminium and the importance of just-in-time supply of molten metal to the operations and profitability. These factors have also enabled the Group to largely sustain its profit margins in the recent years, resulting in healthy internal generation and comfortable capital structure and debt protection metrics. The Group is in the process of enhancing its manufacturing capacities and widen its geographic presence[1] by setting up new facilities in Gujarat and Tamil Nadu, which will support the future revenue growth.

The ratings are based on an unconditional and irrevocable guarantee provided by CMR for the Rs. 55.0-crore bank facilities of CMR Toyotsu Aluminium India Private Limited (CMRT) and an undertaking from the guarantor to ensure that the debt obligations are serviced on or prior to the due date, irrespective of the invocation of the guarantee by the beneficiary.

The ratings, however, are constrained by highly fragmented and competitive nature of the industry and the company's vulnerability to the volatility in aluminium prices and foreign exchange rates, given that almost the entire requirement is being met through imports. These factors can have an adverse impact on the Group's performance. Moreover, the funding requirements have been accentuated in the current fiscal due to build-up of import duty/ Goods and Service Tax (GST) (paid on import of metal scrap by CMR)-related receivables and sizeable capex which is under way, translating into increased reliance on debt. Timely release of this receivable will be crucial in determining the funding requirements of

[1] *Group already has 7 facilities located across Haryana, Rajasthan, Uttarakhand and Tamil Nadu*

the Group in the near term. Further, timely commercialisation and ramp-up of the new manufacturing facilities are critical for future debt servicing and return indicators of the company. The Group is concentrated towards the automotive sector (both passenger and commercial), and any slowdown in the growth of the same or discontinuation of business by some clients can impact the CMR Group's performance.

Going forward, the Group's ability to maintain revenue growth and profitability levels, timely complete the ongoing capex without any major cost overrun, release import duty/GST receivable, and contain working capital intensity will remain the key rating sensitivities.

Outlook: Stable

ICRA believes that CMR will continue to benefit from its established operational track record, leadership position in the industry in terms of scale and manufacturing capacities, and its long-standing relations with its customer base. The outlook may be revised to Positive if substantial growth in profitability strengthens the financial risk profile. The outlook may be revised to Negative if cash accrual is lower than expected, if there is any major time or cost overrun in the ongoing capex programme, or if a stretch in the working capital cycle weakens liquidity.

Key rating drivers

Credit strengths

CMRT's credit profile is enhanced by the corporate guarantee for its bank lines extended by parent – CMR.

Extensive experience of promoter and established operational track record of Group – The promoters have almost three-decade-long experience and the Group has an established operational track record in the aluminium recycling industry.

Largest organised player in the industry – Over the years, the Group has developed sizeable metal recycling capacities and has emerged as the largest organised player in the industry. It also benefits from the favourable location of its manufacturing facilities in the auto manufacturing hubs like Bawal, Manesar and Chennai. Additionally, the Group is in the process of expanding its geographic presence and enhancing its capacities by setting up facilities in Gujarat.

Reputed and diverse customer base – The Group's customer base is well diversified and includes reputed auto sector companies such as Yamaha India, Sunbeam Auto and Maruti Suzuki India Limited. It has long-standing relations with most of its customers, which has resulted in repeat/incremental business over the years. For most of its key customers, it meets a large part of the total aluminium requirement.

Steady revenue growth in recent years – The CMR Group has registered steady revenue growth in the recent years, driven by an increase in both sales volume and value, and scaling up of operations in its two JVs. The Group's operating income has increased from Rs. 1,918 crore in FY2015 to Rs. 2,459 crore in FY2018.

Comfortable capital structure and debt protection metrics – Healthy internal accrual generation on the back of steady revenue growth and improvement/sustenance of margins in the recent years has resulted in gearing level of below 1 times and healthy debt protection metrics with interest coverage of 6.1 times and Debt/OPBDITA of 1.5 times in FY2018 at a consolidated level.

Credit challenges

Intensely competitive industry – The aluminium recycling industry is highly fragmented and competitive in nature, which limits the pricing flexibility of the industry participants. However, the CMR Group benefits to an extent because of its sizeable scale, presence in different regions and long-standing relations with its customers.

Sizeable capex and build-up of import duty/GST recoverable have increased reliance on debt – There has been build-up of import duty/GST receivable in FY2018 and the current fiscal (~Rs. 150 crore), which was being legally contested by the Group. Moreover, the Group is undertaking sizeable debt-funded capex in the current and the next fiscal. These factors, coupled with healthy revenue growth registered in FY2018 and the current fiscal, have accentuated the funding requirements of the business, resulting in increased reliance on debt. Also, any major time or cost overrun in the ongoing capex programme can exert increased pressure on cash flows in the medium term. However, there has been a recent favourable ruling by the Supreme Court regarding this recoverable and the timely release of the same will be instrumental in determining the funding requirements of the Group in the next few years.

Vulnerability to raw material price and foreign exchange volatility – As raw material accounts for almost 85% of the total cost of production, CMR's profitability remains exposed to volatility in the prices of its key raw material – aluminium. Moreover, almost the entire raw material requirement is met through imports, which exposes the Group to forex risk. However, the risk is mitigated to an extent due to the presence of a hedging policy.

High dependence on auto sector – Almost the entire revenue is generated by sales to aluminium die cast component manufacturers, which eventually supply to the auto sector. Any slowdown in demand from the auto sector can have an adverse impact on the Group's performance, as witnessed in the past to some extent.

Liquidity position

CMR's liquidity is supported by healthy internal accrual generation, moderate debt repayment liability in the near term and undrawn working capital limits (~Rs. 100 crore). Some pressure on cash flows was exerted in FY2018 and the current fiscal due to build-up of import duty/GST recoverable, as well as sizeable capex being undertaken in the current fiscal. However, the cash flow indicators are likely to improve from FY2020 onwards with anticipated release of this recoverable and conclusion of the capex program.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Parent: Century Metal Recycling Limited The ratings are based on explicit support in the form of a corporate guarantee extended by the parent (CMR) for the bank lines of CMRT
Consolidation/Standalone	For arriving at the ratings of the guarantor – CMR – ICRA has considered its consolidated financials; as on March 31, 2018, the company had five subsidiaries (enlisted in Annexure-2)

About the Guarantor

Incorporated in 1994, Century Metal Recycling Limited (CMR) has been promoted by members of the Agarwal family, who have almost three decades of experience in the aluminium processing business. CMR produces aluminium and zinc-based alloys with a combined capacity of ~1,60,000 MT per annum. The company has five manufacturing facilities located at Gurgaon, Manesar and Faridabad (Haryana), Haldwani (Uttarakhand) and Bhiwadi (Rajasthan) and is in the process of setting up another facility in Gujarat. In addition to ingots, the company produces and delivers ready-to-use hot liquid aluminium directly to its customers' production line.

About the company

CMRT is a joint venture between CMR (holding a 70% stake) and Toyota Tsusho Corporation (holding a 30% stake). CMRT's aluminium alloy manufacturing facility, located at Chennai, Tamil Nadu commenced operations in 2014 with an installed capacity of 45,000 MT per annum. CMRT produces aluminium-based alloys, sold in ingot or molten form. The company is in the process of setting up another facility in Chennai with installed capacity of ~30,000 MT per annum.

In FY2018, on a consolidated basis, CMR reported a net profit of Rs. 96.3 crore on an OI of Rs. 2,458.7 crore compared with a net profit of Rs. 74.9 crore on an OI of Rs. 2,191.7 crore in the previous year.

Key financial indicators (Consolidated) - CMR

	FY2017	FY2018
Operating Income (Rs. crore)	2,191.7	2,458.7
PAT (Rs. crore)	74.9	96.3
OPBDITA/OI (%)	7.1%	7.5%
RoCE (%)	26.5%	27.5%
Total Debt/TNW (times)	0.9	0.7
Total Debt/OPBDITA (times)	1.7	1.5
Interest coverage (times)	4.3	6.1

Key financial indicators (audited) - CMRT

	FY2017	FY2018
Operating Income (Rs. crore)	244.8	406.5
PAT (Rs. crore)	2.0	13.4
OPBDITA/OI (%)	4.7%	7.1%
RoCE (%)	11.8%	27.1%
Total Debt/TNW (times)	1.5	0.7
Total Debt/OPBDITA (times)	3.3	1.8
Interest coverage (times)	2.0	4.8

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (March 2018) (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					Jan 2019	July 2017	-	-
1	Fund-based Working Capital Limit	Long Term	27.0	-	[ICRA]A-(SO) (Stable)	[ICRA]BBB+(SO) (Stable)	-	-
2	Term Loans	Long Term	27.0	16.6	[ICRA]A-(SO) (Stable)	[ICRA]BBB+(SO) (Stable)	-	-
3	Non-fund Based Limits	Short Term	1.0	-	[ICRA]A2+(SO)	[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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
-	Fund-based Working Capital Limit	-	-	-	27.0	[ICRA]A-(SO) (Stable)
-	Term Loans	2013	~10.5%	2021	27.0	[ICRA]A-(SO) (Stable)
-	Non-fund Based Limits	-	-	-	1.0	[ICRA]A2+(SO)

Source: CMR Toyotsu Aluminium India Private Limited

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Sanjivani Non Ferrous Trading Private Limited	51%	Full Consolidation
CMR Nikkei India Private Limited	74%	Full Consolidation
CMR Welfare Foundation	90%	Full Consolidation
CMR Toyotsu Aluminium India Private Limited	90%	Full Consolidation
CTA Trading Group	100%	Full Consolidation

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About ICRA Limited:

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