

**RESEARCH REPORT**
**Cochin Minerals & Rutilite Ltd (CMR)**
**November 21, 2006**
**CMP: Rs34**
**ACCUMULATE**

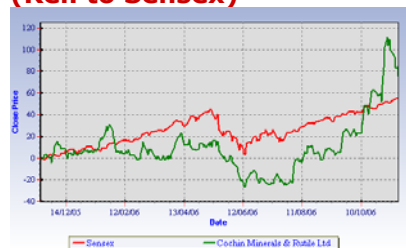
BSE Code	513353
NSE Code	

**Key Data**

Sensex	13,429
52 week H/L (Rs.)	41 / 13
Oct month H/L (Rs.)	32 / 22
Market Cap (Rs cr)	25.60
Avg. daily vol. (6m)	18,939
Face Value	10
Source: Capitaline	

**Shareholding Pattern (%)**

Promoters	52.28
Institution	0.43
Public & Others	47.3
Source: Capitaline	

**One-Year Performance (Rel. to Sensex)**


Source: Capitaline

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**Background and Business:**

CMR, established in 1989, is a 100% Export Oriented Unit (EOU) manufacturing synthetic rutile (SR) which finds application in Titanium Dioxide (TiO<sub>2</sub>) used primarily in the production of paints and printing inks. CMR's by product, Ferric Chloride is used as a cleansing agent while Ferrous chloride is mainly used in effluent treatment. CMR has its own source of ilmenite (*the basic raw material*), as the company has been allotted mining area lease by the Government of Kerala in the Neendakar-Kayamkulam belt in Kerala.

**Investment Positives:**
**Up from the bottom after taking a beating.**

The demand for SR apart from slowing down during the period 2003-2005 was also accompanied by a sharp increase in the cost of key raw material - hydrochloric acid. The combined effect of the demand slump and the rising input cost severely affected CMR's topline and bottomline and the company was saddled with a loss of Rs 4.45 crores in FY 2005 after a decade of consistent growth in turnover and profitability.

With the global demand for TiO<sub>2</sub> pigments recovering from the latter part of 2005 and coupled with a marked improvement in the supply position of raw materials, CMR had been able to bounce back and register a strong turnover growth of 40% to Rs 76 crores and post impressive profits of Rs 1.68 crores in FY 2006 as compared to a loss of Rs 4.45 crores in the previous year.

**Alternative Technology in the offing.**

Hydrochloric Acid – the key raw material in the manufacture of SR has been subject to wide price fluctuations on account of erratic supplies and has substantially affected CMR's operations and profitability. With a view to reduce the risk of uncertainty and fluctuations in the pricing and supply of Hydrochloric Acid, CMR is exploring the possibility of adopting alternate technology '*Metalization and Rusting*' to produce Synthetic Rutile, involving a capex of around Rs. 100 crs. The Pilot Plant Demonstration of the new technology is currently going on and the decision to implement the same is expected during the early part of the next year.

### **Backward Integration**

CMR has jointly embarked on a backward integration project for beach sand separation and ilmenite production with Rare Earths Limited and Kerala State Industrial Development Corporation Limited. The project once implemented would enable CMR to scale up operations and post strong revenues and profitability on the back of continuous and assured supplies of ilmenite. The project is expected to go on stream after obtaining the Government of Kerala's clearance for mining leases.

### **Investment Concern:**

#### **Fluctuating Input Prices**

The erratic supply and price fluctuations of Hydrochloric Acid have the potential to affect CMR's operations and profitability. The proposed alternate technology to manufacture SR is expected to minimize this risk.

### **Result Analysis (Q2FY07)**

- Net Sales moved up to Rs 27.3 crores in Q2FY07 from Rs 21.3 crores in Q2FY06 (Growth of 28.3% Y-o-Y, 19.6% Q-o-Q)
- CMR improved its operating margins by 910 basis points to 17% in Q2FY07 as compared to 7.9% in the corresponding period of the previous year on the back of higher product prices and stabilizing input costs.
- The growth in turnover together with the enhanced operating margins resulted in a whopping 177% increase in the operating profits to Rs 4.6 crores as compared to Rs 1.7 crores during the corresponding quarter of the previous year.
- Net Profits vaulted up by 312% (Y-o-Y) to Rs 2.7 crores, inline with the increasing turnover as well as rising operating margins. Sequentially, net profits were up by 127%.

### **Valuation:**

CMR is expected to report strong topline numbers with enhanced operating margins on the back of the spurting export market prices for SR. The proposed backward integration project is also expected to expand CMR's revenues, once the mining clearance are obtained from the Government of Kerala. CMR is currently quoting under 3X its FY 07 expected earnings. Considering CMR EOU Status and being one of the biggest exporters of SR, we believe that at the CMP of Rs 34, the company is available at an attractive valuation and recommend a buy on this scrip.

## Financial Snapshot

### Quarterly Performance

	Q2FY07	Q2FY06	YoY(%)	Q1FY07	QoQ(%)
Net Sales	27.3	21.3	28.3	22.8	19.6
Total Expenditure	22.7	19.6	15.6	20.6	9.9
Operating Profit	4.6	1.7	177.2	2.2	110.5
Interest	0.8	0.6	45.6	0.4	97.6
PBDT	3.8	1.1	245.0	1.8	112.8
Depreciation	0.8	0.4	90.0	0.5	68.9
Tax	0.4	0.1	566.7	0.2	166.7
RPAT	2.7	0.7	312.3	1.2	127.1
Equity	7.8	7.8		7.8	
EPS (annual)	13.7	3.3		6.0	
<b>Margins(%)</b>					
OPM	17.0	7.9		9.6	
NPM	9.8	3.1		5.2	

### Half Yearly and Annual Performance

Rs crore	H1FY07	H1FY06	Var(%)	FY06	FY05	Var(%)
Net Sales	49.1	35.9	36.8	76.5	54.9	39.2
Other Income	0.1	0.0	400.0	0.0	0.1	-76.9
Total Income	49.1	35.9	36.9	76.5	55.1	39.0
Total Expenditure	42.2	33.3	27.0	70.3	55.7	26.0
Operating Profit	6.8	2.6	161.7	6.2	-0.8	-857.3
PBIDT	6.9	2.6	162.6	6.2	-0.7	-1,004.3
Interest	1.3	1.2	7.8	2.4	2.1	16.7
PBDT	5.6	1.5	285.6	3.8	-2.8	-236.7
Depreciation	1.2	0.8	51.3	1.8	1.8	-3.3
Tax	0.6	0.1	900.0	0.4	-0.2	-
RPAT	3.9	0.6	541.7	1.7	-4.5	-137.8
Equity	7.8	7.8		7.8	7.8	
EPS (annual)	9.8	1.5		2.1	-5.7	
<b>Margins(%)</b>						
OPM	13.9	7.3		8.1	-1.5	
NPM	7.8	1.7		2.2	-8.1	

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