# CMI FPE Limited

February 02, 2018

**Ratings**

| Facilities | Amount (Rs. crore) | Ratings[1] | Remarks |
|---|---|---|---|
| Long/Short term Bank Facilities (Fund Based/Non-Fund Based Bank Facilities) | 200 | **CARE BBB+; Stable/ CARE A2+ [Triple B Plus; Outlook: Stable/ A Two Plus]** | **Rating reaffirmed; Outlook revised from Negative to Stable** |
| **Total Facilities** | **200 (Rs. Two hundred crore only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale& Key Rating Drivers**

The ratings assigned to the bank facilities of CMI FPE Limited (CFL) continue to factor its relationship with Belgium-based, Cockerill Maintenance & Ingénierie SA (CMI SA) being the ultimate parent company of CFL. The ratings additionally benefit from the established track record and experience of the promoters and management of CFL as well as its global presence. The ratings are further strengthened by comfortable capital structure and adequate liquidity marked by low utilization of working capital limits.

The rating strengths are however tempered due to an elongated working capital cycle, albeit improved in FY17, with its sales concentrated to the steel industry players as well as low profitability ratios. Additionally, the company is exposed to foreign exchange fluctuation risk, by virtue of CFL being a net exporter as well as the inherent cyclicality of the end user steel industry.

Further, the outlook has been revised to 'Stable' from 'Negative' on account of improvement in the order book position, revenue as well as profitability and also due to recovery of long outstanding receivables during H1FY18.

The ability of CFL to show a sustained improvement in its scale of operations, along-with timely execution of its order book and further achieve diversification of customers while improving its profitability margins and efficiently managing its operating cycle and maintaining a comfortable capital structure are the key rating sensitivities.

**Detailed description of the key rating drivers**

**Key Rating Strengths**

***Established track record:*** Promoted by the Cockerill Maintenance & Ingénierie (CMI) group, CFL has almost three decades of experience in the designing, manufacturing, erection and commissioning of cold rolling mill complexes, processing lines, meeting global demand for ferrous and non-ferrous industries. The company has also manufactured certain niche products such as color coating lines, wet flux lines and HR skin pass mills. Over the years, the company has catered to domestic and international clientele with revenue spread across geographies.

***Vast experience of the management team at CFL:*** The company was promoted by late Mr. T.R. Mehta, a gold medalist in metallurgy and a leading technocrat, both in India and overseas. Subsequently, the company was taken over by Cockerill Maintenance &Ingénierie SA (CMI SA), Belgium, which has more than two centuries of experience in equipment manufacturing for the ferrous and non-ferrous industry. Mr. Raman Madhok, Managing Director, was previously the Group Director at JSW Group and Joint MD and CEO of JSW Steel and currently looks after the strategic functions at CFL. The Chairman of CFL, Mr. Joao Felix Da Silva accompanied by Mr. Vyes Hunhon (Director) and Mr. Fabrice Orban (Director) represent the CMI Group and usher technical expertise and synergies. They are assisted by a team of qualified

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications.*

and experienced professionals to handle day-to-day operations like marketing, finance and other functions of the company.

***Geographical diversification of operations:*** CFL's global footprint and established domestic reputation has enabled the company to enjoy a geographically diversified array of clientele. CFL has its customers and suppliers spread across Asia, Africa, Middle East, Europe, North America with the help and reach of CMI Group.

***Comfortable capital structure and adequate liquidity profile:*** The capital structure of the company continued to be comfortable with an overall gearing of 0.17 times as on March 31, 2017 with an adequate liquidity profile marked by low working capital utilization levels in FY17 and H1FY18.

***Improvement in order book position:*** As on March 31, 2017, the order book of the company stood at Rs.529.31 crore, out of which Rs.303.72 crore (57%) is contributed by overseas customers and Rs.225.58 crore (43%) is contributed by domestic customers. Furthermore, the order book position has improved to Rs. 918.17 crore as on November 30, 2017, out of which Rs.505.08 crore (55%) is contributed by overseas customers and Rs.413.09 crore (45%) is contributed by domestic customers. These orders will get completed during the period from FY18-FY20 which gives a revenue visibility in the medium term.

***Improvement in financial profile in H1FY18:*** The total operating income declined by around 24% in FY17 owing to low order backlog and sluggish end-user industry. However, during H1FY18, the operating performance of CFL has improved with revenue of Rs. 126 crore and PBILDT margin of 9.50%. Moreover, CFL witnessed a net profit of Rs. 4.44 crore in H1FY18 as compared to net loss of Rs. 8.08 crore in H1FY17. Moreover, the operating cycle has improved from 162 days in FY16 to 135 days in FY17 owing to improvement in average collection period led by gradual recovery from long outstanding debtors. The operating cycle is expected to improve further going forward as most of the long overdue receivables have been collected and the current order book has clients with relatively stronger credit risk profile.

**Key Rating Weaknesses**

***Concentration risk:*** The company is mainly engaged in the design, manufacturing, erection and commissioning of facilities for steel players. Thus, the order book and hence, the performance of the company is primarily dependent on the prospects of the highly cyclical steel industry. Also, the clientele is concentrated as majority of the sales in FY17 were accounted by the top ten customers.

***Foreign exchange fluctuation risk:*** The company is regularly exposed to foreign currency fluctuation risk. However, the company enjoys a natural hedge and hedges around 60-70% of its open foreign currency exposure to protect against volatility.

**Industry Outlook**

India became the second largest crude steel producer in 2017, as large public and private sector players strengthen steel production capacity in view of rising demand. Moreover, the capacity has increased to 124.77 MT in FY17, which is 2.2% more than FY16 levels, while in the coming 10 years, the country is anticipated to produce 300 MT of steel. India's comparatively low per capita steel consumption and expected growth due to growing infrastructure, construction, automobile and railway sectors offer scope for growth. The government has launched the National Mineral Exploration Policy (NMEP), which will help to adopt comprehensive exploration of non-fuel and non-coal mineral resources that would give a major boost to the economy.Metal Scrap Trade Corporation (MSTC) Limited and the Ministry of Steel have jointly launched an e-platform called 'MSTC Metal Mandi' under the 'Digital India' initiative, which will facilitate sale of finished and semi-finished steel products.The Parliament of India has cleared amendments to the Mines and Minerals Development and Regulation (MMDR) Act, which will enable companies to transfer captive mines leases similar to mines won through an auction, and which is expected to lead to increased Mergers and Acquisitions (M&A) of steel and cement companies. The total outlay for infrastructure in Budget 2017-18 stands at Rs 3,96,135 crore, which is expected to generate much needed demand for steel industry. Huge scope for growth is offered by India's comparatively low per capita steel consumption and the expected rise in consumption due to increased infrastructure construction and the thriving automobile and railways sectors. All this will help in boosting demand for the capital machinery required for the steel industry expansion plans.

**Analytical approach: Standalone**

**Applicable Criteria**

[Criteria on assigning Outlook to Credit Ratings](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)
[Rating Methodology-Manufacturing Companies](#)
[Financial ratios –Non-Financial Sector](#)

**About the Company**

CMI FPE Limited (formerly known as Flat Products Equipments India Ltd. [FPE]) was incorporated in 1986. CFL has been engaged in the designing and manufacturing of cold rolling mill, galvanising lines, colour-coating lines, tension levelling lines, skin pass mills, acid-generation plants, wet-flux lines and pickling lines meeting global demand for ferrous and non-ferrous industries since 30 years.

The company was promoted by late Mr. T.R. Mehta and subsequently the company was taken over (75% stake in the equity share capital) by CMI SA group, Belgium, from the founder promoters. The acquisition was completed in the year 2008. Consequently, the name of the company was changed to CMI FPE Ltd. and has ever since been a part of the CMI industry vertical. CMI SA, Belgium and CMI Industry Automation Private Limited (CMIIAPL) together hold 75% stake in the equity share capital of CFL. CFL has its manufacturing facilities at Taloja and Hedavali, both in Maharashtra. It has a global footprint across Asia, Africa, Middle East, Europe and North America.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---|---|
| Total operating income | 206.58 | 157.48 |
| PBILDT | 5.23 | 0.87 |
| PAT | 13.12 | 3.45 |
| Overall gearing (times) | 0.00 | 0.17 |
| Interest coverage (times) | 2.24 | 1.05 |

*A: Audited*

*Classification as per CARE Standards*

**Status of non-cooperation with previous CRA: Not Applicable**

**Any other information: Not Applicable**

**Rating History for last three years:** Please refer Annexure-2

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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**About CARE Ratings:**

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Fund-based/Non-fund-based-LT/ST | - | - | - | 47.50 | CARE BBB+; Stable / CARE A2+ |
| Fund-based/Non-fund-based-LT/ST | - | - | - | 147.50 | CARE BBB+; Stable / CARE A2+ |

**Annexure-2: Rating History of last three years**

| Sr. No. | Name of the Instrument/Bank Facilities | Current Ratings | | | Rating history | | | |
|---|---|---|---|---|---|---|---|---|
| | | Type | Amount Outstanding (Rs. crore) | Rating | Date(s) & Rating(s) assigned in 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Fund-based/Non-fund-based-LT/ST | LT/ST | 47.50 | CARE BBB+; Stable / CARE A2+ | - | 1)CARE BBB+; Negative / CARE A2+ (31-Dec-16)<br>2)CARE BBB+ (07-Oct-16)<br>3)CARE BBB+ (06-May-16) | - | - |
| 2. | Fund-based/Non-fund-based-LT/ST | LT/ST | 147.50 | CARE BBB+; Stable / CARE A2+ | - | 1)CARE BBB+; Negative / CARE A2+ (31-Dec-16)<br>2)CARE A2+ (07-Oct-16)<br>3)CARE A2+ (06-May-16) | - | - |

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