CMI FPE Limited

March 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating	Remark
Long-term/Short-term Bank Facilities	297.50 (enhanced from 195.00)	**CARE A-; Stable / CARE A1 (Single A Minus; Outlook: Stable /A One)**	**Revised from CARE BBB+; Stable /CARE A2+ (Triple B Plus; Outlook: Stable /A Two Plus)**
Total facilities	**297.50 (Rupees Two Hundred Ninety-Seven Crore and Fifty lakhs Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of CMI FPE Limited (CFL) factors in the improvement in outstanding order book position led by adoption of integrated approach to acquire new business by Cockerill Maintenance & Ingénierie SA (Parent; CMI Group) translating into medium term revenue visibility. Revision in rating also factors in the execution backed growth in its total operating income and improvement in operating profit margin during FY18 and 9MFY19 owing to improved integration and substantial improvement in operating cycle during FY18 with control on receivables.

The ratings continue to factor its strong parentage and diverse offering of CMI Group, established track record & experience of management of CFL and comfortable leverage and debt coverage indicators for FY18 and 9MFY19.

The rating strengths are however tempered due to dependence on steel sector capex which is inherently cyclical in nature, customer concentration risk and foreign exchange fluctuation.

The ability of CFL to consistently generate orders owing to integration, continue to operate at same level of leverage and effective management of its working capital cycle would be key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of CMI Group and established track record of CFL in industrial construction

CFL is promoted by the CMI group. CMI is an international mechanical engineering supplier group headquartered in Seraing, Belgium, specializing in the production of machinery for steel plants, industrial heat recovery equipment and boiler, shunting locomotives and military equipment. CMI group operates under five segments namely; Energy, Defense, Services, Industry and Environment (CFL forms a part of CMI Industry).

CFL has more than three decades of experience in the customised design, engineering and installation and manufacturing components of cold rolling mill complexes and processing lines, chemical equipment, industrial furnaces and auxiliary equipment meeting global demand for ferrous and non-ferrous industries. CFL has developed machinery for the ferrous and non-ferrous industry which is now being used across the world. 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.

Benefits deriving from levering the internal capabilities via "One Metal" strategy, same translating into improving order book position

In order to improve upon the global footprint and leverage the global capabilities, CMI group adopted "One Metal" strategy. Under this, multiple business units (of CMI group; across geographies) collaborate / integrate to offer most optimized solution to prospective customers. This strategy translates, into improved execution capabilities, cost optimization and improved competitiveness.

Benefits deriving from "One Metal" strategy has translated into expansion in outstanding order book position from Rs.529.31 crore as on March 31, 2017 to Rs.905.72 crore as on January 31, 2019. The confirmed order book provides medium term revenue visibility for CFL.

Execution backed growth in Total Operating Income with comfortable debt coverage

During FY18, CFL doubled its Total Operating Income on back of robust order book execution. Continuous Galvanizing Lines, Continuous Annealing Line and Color Coating line were the key contributors to growth in income. The collaborative strategy as adopted by CMI group has translated into consistent order book and execution pipeline for CFL. Moreover, higher execution, with lower redundancy (of process and knowledge) and change in product mix has collectively translated into expansion in its PBILDT margin for FY18 and 9MFY19.

The overall gearing remains comfortable at 0.16x as on March 31, 2018. CFL does not have any long term borrowings nor it has any major working capital requirement to fund the operations. The interest coverage remains comfortable at 14x for year ended FY18 and has improved to over 36x during 9MFY19. The total debt/GCA stands at 3.37x as on March 31, 2018 as against 2.20x as on March 31, 2017.

Key Rating Weaknesses

Fortunes are directly correlated to capex cycle of steel industry, which remains inherently cyclical
CFL is mainly engaged in the customised design, engineering and installation and manufacturing components of cold rolling mill complexes and processing lines, chemical equipment for steel manufacturers. Thus, the order book and the performance of company is primarily dependent on the prospects of the highly cyclical steel industry operating in the region.
Prospects of steel industry are strongly co-related to economic cycles. Demand for steel is sensitive to trends of particular industries, viz. automotive, construction, infrastructure and consumer durables, which are the key consumers of steel products. These key user industries in turn depend on various macroeconomic factors, such as consumer confidence, employment rates, interest rates and inflation rates, etc. in the economies in which they sell their products. When downturns occur in these economies or sectors, steel industry may witness decline in demand, thereby impacting volumes, revenue and margins of steel makers.

Customer concentration risk
Although, the profile of the top 10 customers have significantly changed over the years, yet majority of the sales were accounted by the top ten customers over the years.

Foreign exchange fluctuation risk
CFL undertakes transactions denominated in foreign currencies and consequently is exposed to exchange rate fluctuations. Volatility in the exchange rates affects the company's revenue from export markets and the costs of imports, primarily in relation to raw materials. CFL exported finished goods worth Rs.132.89 crore in FY18 (Rs.68.22 crore in FY17) and imported raw materials worth Rs.55.47 crore (Rs.6.10 crore in FY17) in FY17. Thus, the company enjoys a natural hedge and hedges around 60-70% of its open foreign currency exposure using forward foreign exchange contracts to protect against volatility.

Liquidity
CFL does not have any long term borrowings nor it has any major working capital requirement to fund the operations. The operations are funded either through customer advances or by internal accruals. The customer advances are charged based on the nature and tenure of work and are non-interest bearing. The operating cycle has improved from 130 days in FY17 to 46 days in FY18 with the improvement in collection period and effective inventory management during the year. The cash flow from operations have also improved to Rs.89,69 crore in FY18 from Rs.59.77 crore in FY17. The company has an unencumbered cash balance of Rs.122.43 crore as on March 31, 2018.

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
Rating Methodology: Factoring Linkages in Ratings

About the Company
CMI FPE Limited (CFL; formerly known as Flat Products Equipments (India) Ltd., (FPEIL) was incorporated in 1986. CFL has been engaged in the designing, manufacturing, erection and commissioning of cold rolling mill complexes, processing lines, chemical equipment, industrial furnaces and auxiliary equipment meeting global demand for ferrous and non-ferrous industries since 33 years.
FPEIL 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 (75%) by Cockerill Maintenance & Ingénierie SA (CMI SA), Belgium, from the founder promoters and the acquisition was completed on June 25, 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 of CFL's equity share capital. Both CFL and CMIIAPL are 100% owned subsidiaries of Cockerill Maintenance & Ingénierie SA.
CFL has its manufacturing facilities at Taloja and Hedavali, both in Maharashtra and has a global footprint across Asia, Africa, Middle East, Europe, North America and South America.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	157.55	316.92
PBILDT	2.24	13.44
PAT	5.79	6.72
Overall gearing (times)	0.15	0.16#
Interest coverage (times)	2.17	13.72

A: Audited

 # CFL does not have any external debt. Overall gearing includes customer advances which are considered as debt as per standard classification.

Status of non-cooperation with previous CRA: NA

Any other information: NA

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.*

Analyst Contact:
Name: Kunal B. Shah
Tel: 022 6754 3451
Email: kunalb.shah@careratings.com

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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 A-; Stable / CARE A1
Fund-based/Non-fund-based-LT/ST	-	-	-	250.00	CARE A-; Stable / CARE A1

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	47.50	CARE A-; Stable / CARE A1	-	1)CARE BBB+; Stable / CARE A2+ (02-Feb-18)	1)CARE BBB+; Negative / CARE A2+ (31-Dec-16) 2)CARE BBB+ (07-Oct-16) 3)CARE BBB+ (06-May-16)	-
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	250.00	CARE A-; Stable / CARE A1	-	1)CARE BBB+; Stable / CARE A2+ (02-Feb-18)	1)CARE BBB+; Negative / CARE A2+ (31-Dec-16) 2)CARE A2+ (07-Oct-16) 3)CARE A2+ (06-May-16)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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