CMI Limited

October 07, 2019

Ratings

Facilities	Amount (Rs. Crore)	Rating*	Rating Action
Long term Bank Facilities	220 (Enhanced from 120)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	**Reaffirmed**
Long/ Short term Bank Facilities	235 (Enhanced from 135)	CARE BBB+; Stable / CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	**Reaffirmed**
Total	**455 (Rupees Four Hundred And Fifty Five Crore Only)**		

Details of facilities in Annexure-1 the enhancement is on account of transfer of credit limits of CMI Energy India Private Limited which was merged in CMI Limited as per NCLT order dated April 03, 2019.

Detailed Rationale & Key Rating Drivers

The ratings of CMI Ltd (CMI) takes into account CMI group's consistent growth in operating income backed by higher profitability margins coupled with healthy order book. The ratings continue to derive strength from CMI group's experienced promoters and management team with long track record of operations, CMI's successful commencement of operations of Baddi unit and diversified product portfolio with reputed client base of the group. The ratings are, however, constrained by CMI group's moderate solvency, working capital intensive operations marked by elongated operating cycle and presence in competitive industry.

Going forward, the ability of the company to achieve the envisaged revenue and profitability while effectively managing its working capital requirement shall remain the key rating sensitivities. Further, CMI's ability to achieve optimum capacity utilization at Baddi facility would also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team coupled with long track of record of operations

CMI was established in 1967 under the leadership of Late Shri Shanti Lal M Choudhari, who was the founder of the company. CMI Ltd. was taken over by the present promoter and Chairman, Mr. Amit Jain in 2007. He holds the major shareholding in CMI (33.90% as on June 30, 2019) and is having more than three decades of experience in the cable industry. He is assisted by a team of professionals having rich experience in the cable industry.

CMI has been engaged in the cable business since 1974 and has capability to manufacture copper/ aluminium based cables and particularly in areas of control & instrumentation, railways and HT/ EHV power cables.

Minimal debt funded capex backed by large unutilized capacity at CMIE's (Baddi) facility to tap incremental demand

Until 2016, CMI was operating one plant located in Faridabad, Haryana (Delhi NCR) with an installed capacity of 44,000 kms. The plant is operational for nearly 3 decades and specializes in specialty cables like railway signaling and control & instrumentation cable with focus on copper based cables which has higher realizations. Currently, the plant is almost fully utilized. This plant has key approvals from the Indian Railways, SEBs, BHEL, NTPC, oil refinery companies etc.

In February, 2016 CMI purchased a modern and extensively automated plant CMI Energy India Pvt. Ltd. (CMIE) with imported machinery located in Baddi, Himachal Pradesh, from a General Cable Corporation, USA (a Fortune 500 company). The plant is 5-6 years old and majorly manufactures aluminium based power cables. Further, after the acquisition of the plant, the company has done capex to make the facility fungible to manufacture a variety of cables which aids diversification. During FY19, the company succeeded to get 26 fresh approvals from various prospective customers for the Baddi plant such as RDSO, Power Grid Corporation, BHEL, Airports Authority of India Limited, Mazagon Dock Shipbuilders Ltd, Jawaharlal Nehru Port Trust and more. Thus the capacity utilization continues to improve at Baddi plant, supported by sufficient headroom for growth. The installed capacity of the plant is 1,80,860 kms. The actual plant is set up only over 1/3rd of the 20 acre land, having potential turnover of Rs.1000 crore. As space constraint caps the Faridabad plant's revenue at approx Rs. 350-400crore, the Baddi plant likely to contribute to CMI's incremental growth.

Diversified product portfolio with reputed customer base

CMI's plants are capable of manufacturing products meant for a wide range of industries. CMI manufactures a wide variety of specialty cables including quad cables, railway signaling cables, Balise cable for train protection and warning system, control and instrumentation cables, PIJF telecom cables, fire survival cables.

CMI Ltd. facility focuses on copper based cables and has key approvals from the Indian Railways, SEBs, BHEL, NTPC, oil refinery companies etc. Further, CMI has diversified its product portfolio with acquisition of CMIE. The manufacturing plant of CMIE has the facilities to manufacture EHV cables, HT Aerial Bunched Cables, Solar Cables, Railway Signaling and Quad

Cables, AAC/ AAAC Overhead Conductors. With commencement of Baddi facility, the share of Indian Railways in the overall group's revenue declined to 30% in FY19 (as compared to 35% in FY18 and 62% in FY15), and revenue shares of other segments including oil & gas, specialized cables has increased.

Financial Risk Profile marked by growing scale of operation albeit moderate solvency

The CMI group's financial risk profile is marked by continuous growth in operating income, high profitability margins coupled with healthy order book position and comfortable debt coverage indicators.

During FY19, CMI reported total operating income of Rs. 639.82 crore as compared to Rs. 562.68 crore during FY18, registering y-o-y growth of ~14%. The same was mainly on account of ramping up of operations in Baddi facility (reporting total operating income of Rs.261 crore during FY19 as against Rs. 220 crore in FY18. The income from Baddi plant during FY17 stood at Rs. 83.02 crore). Going forward, the company expects higher contribution from the Baddi plant as it has also received various critical approvals during FY19.

The PBILDT margin remained stable during FY19 at 13.35% as against 13.80% during FY18. The marginal 45bps decline in the PBILDT margin was mainly attributable to increase in raw material and employee cost. However, PAT increased from Rs.25.81 cr in FY18 to Rs.44.94 cr in FY19 with an increase in PAT margin, from 4.58% in FY18 to 6.90% in FY19. The same was primarily driven by lower tax incidence on account of set-off of losses of the merged entity (Baddi plant).

The capital structure of CMI remained comfortable with debt-equity ratio of 0.19x as on March 31, 2019 as against 0.22x as on March 31, 2018. The improvement was on account of relatively higher net worth due to accretion of profits to reserves coupled with relatively lower long term debt on account of repayments during the period. Overall gearing has remained stable at 1.13x as on March 31, 2019 as against 1.10x as on March 31, 2018. Further, the debt coverage indicators remained comfortable. The total debt to GCA improved to 5.44x during FY19 (PY:5.71x) on account of higher cash accruals. Also, interest coverage ratio remained comfortable at 2.58x during FY19 (PY:2.72x).

Prospects

The investment in end-user segments such as power, steel, cement, among others is expected to pick pace going forward on the back of Government of India's thrust on infrastructure to drive cable demand in the near to medium term. The demand is driven by government schemes, such as Deen Dayal Upadhyay and Gram Jyoti Yojana (DDUGJY). Expansion of railway network, railway electrification, and development of metro rail projects are expected to drive demand for railway cables. The Union cabinet approved a proposal for the complete electrification of Indian Railways in the next four years, reducing dependence on imported fossil fuel and saving revenue for the national carrier. The move will cost the government ₹12,134 crore. The government backed the proposal saying it will help the carrier save ₹13,510 crore per annum in fuel costs.

Ramping up of company's Baddi plant is coinciding with the strong demand uptick. As such CMI group's ability to attract and effectively execute new orders, thereby achieving growth in sales and profitability as per the envisaged levels as well as effectively managing its working capital cycle, with rising contribution of power cables and exposure to SEBs, would remain key rating sensitivities.

Key Rating Weaknesses

Working capital intensive operations

Currently, CMI is a 100% B2B company with significant revenue share arising from government entities such as railways, SEBs and other large PSUs. As per the norms, the standard receivable days in government contracts are anywhere between 90-120 days. The average collection period for CMI group stood at 138 days for FY19 (PY: 122 days). The increase in collection days is primarily on account of growing scale of operations of the company and majority of the sales being done in the second half of the year. Extrapolating the H2 sales, the debtor days has remained stable. As a result, the company's cash flow from operation has also remained negative during last three years.

Moreover, as these entities buy the final stock only post inspection, the CMI's inventory days FY19 stood at 92 days. CMI procures major raw material such as copper/ aluminium from Sterlite or Hindalco and as these players are large in size compared to CMI, the payment terms are less than 15 days or are on advance payment basis. The company purchases PVC compounds, copper tapes etc. from various domestic suppliers with credit period of 30-60 days. During the 12-month period ending July, 2019 average working capital utilization stood at around 76%.

Susceptibility of margins to volatility in raw material prices

CMI's business is raw material intensive with raw material costs forming majority of the total operating cost. The major raw materials used by CMI group include copper, aluminium, PVC, XLPE (cross linked polyethylene) compounds, armouring strips and copper tapes etc. with copper and aluminium forming more than 60% of total raw material costs.

Contracts pertaining to B2B cable orders typically incorporate a price variation clause (PVC) where a company passes on any volatility in the underlying commodity without impacting its margins. As the raw materials copper, aluminium, and PVC are traded in the international markets, the purchase price is benchmarked to international indices such as London Metal Exchange (LME). During bidding for the government contracts, CMI incorporates the ruling rate of commodities (provided on a monthly basis by IEEMA-Indian Electrical and Electronics Manufacturers Associations) in the bidding price. PVC ensures passing on of volatility/ variations in underlying commodity prices (versus prices of underlying commodities at the time of bidding). If at the time of dispatch of cables, the price of that same commodity is different from that of the bidding price, then with the in-built price variation clause, the new price of the commodity is offered to the company. Accordingly, PVC provides support to EBITDA margins.

Competition in the cable industry
The Indian cable industry is highly competitive and fragmented with a large number of cable producers in both organized and unorganized sector, leading to the pressure on prices. However, CMI being in existence for over three decades in the cable industry has proven product quality standards for supply of niche cable products and CMI has an advantage with key approvals from the Indian Railways, SEBs, BHEL, NTPC, oil refinery companies etc as pre-qualification criteria for most government projects is stringent. This creates a huge entry barrier as a new player will take anywhere between 1 and 4 years to qualify.
Liquidity: Adequate
Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations. Its capex requirements are modular and expected to be funded using debt of Rs.10 Crore for which it has sufficient headroom. Its bank limits are utilized to the extent of 76% and has sought enhancement in bank lines, supported by above unity current ratio (1.48x as on March 31, 2019).

Analytical approach: Standalone
Approach considered till last surveillance was consolidated approach. Earlier while arriving at the ratings of CMI Limited (CMI), CARE had taken a consolidated view of CMI and its wholly owned subsidiary (CMI Energy India Private Limited) on account of companies operating in the same line of business and having strong operational and financial synergies with common ownership and management. These entities are together referred to as CMI group. However, with final NCLT order of merger CMIE has now been merged with CMI Limited and thus standalone approach for analysis has been taken.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Rating Methodology-Manufacturing Companies
Criteria for Short Term Instruments
Financial ratios – Non-Financial Sector
Rating Methodology: Factoring Linkages in Ratings

About the Company
CMI Ltd. was incorporated in 1967 under the name of Choudhari Metal Industries Private Limited. The company was renamed to CMI Private Limited w.e.f. November 07, 1985. CMI Ltd. was taken over by the present promoter and Chairman, Mr. Amit Jain in 2007.
CMI is a B2B multi-specialty cable manufacturer and is engaged in the manufacturing of cables for various industries in segments such as railways, utilities, oil and gas, petrochemical, energy, industrial, power amongst others. The product range of CMI includes signaling, instrumentation, control, power, telecommunication cables etc.
CMI has two manufacturing facilities one located in Faridabad, Haryana and the other at Baddi, Himachal Pradesh with installed capacity of 44,000 km and 1,80,860 km respectively as on March 31, 2019. On February 29, 2016, CMI has acquired 100% shareholding of CMI Energy India Private Limited (CMIE; formerly known as General Cable Energy Private Limited) from a Fortune 500 company- General Cable Corporation, USA. The operations commenced from April, 2016 at Baddi manufacturing facility.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	571.39	651.47
PBILDT	78.86	87.00
PAT	25.85	44.94
Overall gearing (times)	1.18	1.13
Interest coverage (times)	2.72	2.58

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

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

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 - LT-Cash Credit	-	-	-	220.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	235.00	CARE BBB+; Stable / CARE A3+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	220.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (04-Oct-18)	1)CARE BBB+; Stable (26-Sep-17)	1)CARE BBB (03-Oct-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	235.00	CARE BBB+; Stable / CARE A3+	-	1)CARE BBB+; Stable / CARE A3+ (04-Oct-18)	1)CARE BBB+; Stable / CARE A3+ (26-Sep-17)	1)CARE A3 (03-Oct-16)

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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