CMI Ltd

September 26, 2017

Ratings

Instrument	**Amount (Rs. Crore)**	**Rating***	**Rating Action**
Long term Bank Facilities	85 (Enhanced from 55)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	**Revised from CARE BBB (Triple B)**
Long/Short term Bank Facilities	135 (Enhanced from 95)	CARE BBB+; Stable /CARE A3+ (Triple B Plus; Outlook: Stable/A Three Plus)	**Reclassification from Short term to Long term/Short term; Revised from CARE A3 (A Three)**
Total	**220** **(Rupees Two Hundred And Twenty Crore Only)**		

**While arriving at the ratings of CMI Limited (CMI), CARE has taken a consolidated view of CMI and its subsidiary CMI Energy India Private Limited (CMIE; formerly known as General Cable 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.*

Detailed Rationale & Key Rating Drivers

The revision in ratings of CMI Ltd (CMI) takes into account CMI group's improved operating performance during FY17 and Q1-FY18 characterized by growth in total operating income, its high profitability margins 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 CMI Energy India Private Limited (CMIE; formerly known as General Cable Energy India Private Limited) and diversified product portfolio with reputed client base of the group. The ratings are, however, constrained by CMI group's working capital intensive business operations marked by elongated operating cycle, its exposure to customer concentration risk 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 derive envisaged benefits from acquisition of CMIE would also remain a key rating sensitivity.

Detailed description of the key rating drivers

Key Rating Weaknesses

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 c. Jain family took over the management of the company in 2007 with Mr. Amit Jain as Chairman and Managing Director. He holds the major shareholding in CMI (34.47% as on June 30, 2017) and is having more than three decades of experience in the cable industry.

Diversified product portfolio -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. 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, Rubber Cables, PIJF Telecom cables, Solar Cables, AAC/ AAAC Overhead Conductors.

Reputed client base but customer concentration persists- The company is an approved vendor for supply of various cables to customers including Indian Railways, BSNL, DMRC, EIL, Department of Telecom, BHEL, NTPC, ISRO, SAIL, etc. As on August 09, 2017 CMI had a total order book position of Rs.209.99 Further, the manufacturing plant of CMIE has approval for supply of various cables to customers including BESCOM, BHEL, Bongaigaon Refinery & Petrochemicals Limited, Maharashtra State Electricity Transmission Company Limited, Indian Railways, SAIL, Tata Projects Limited, etc. As on August 09, 2017, CMIE had a total order book position of Rs.115.90 crore.

Growing scale of operations with high profitability - The CMI group's financial risk profile is marked by continuous growth in operating income, high profitability margins with healthy order book position and comfortable capital structure. During FY17, CMI group reported total operating income of Rs.380.24 crore as against total operating income of Rs.240.66 crore during FY16, registering y-o-y growth of ~ 58%. The PBILDT margin remained in line with growing scale of operations at 13.39% during FY17. Also, debt to equity remained comfortable at 0.29x as on March 31, 2017.

Prospects- The demand scenario in the end-user industries 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 and reviving the long-term growth prospects of the country. 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 manage its working capital cycle would be key rating sensitivities.

Key Rating Weaknesses

Working capital intensive operations - The CMI group's operations are working capital intensive with operating cycle of 97 days as on March 31, 2017 as against 91 days as on March 31, 2016. During the 12-month period ending August, 2017, average working capital utilization stood at around 89.43%

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 which to an extent pose entry barrier in the industry.

Analytical approach: Consolidated

While arriving at the ratings of CMI Limited (CMI), CARE has taken a consolidated view of CMI and its subsidiaries (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.

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 was incorporated in 1967 under the name of Choudhari Metal Industries Private Limited. The name of the company was changed to CMI Private Limited w.e.f. November 07, 1985. The Jain family took over the management of the company in 2007 with Mr. Amit Jain as Chairman and Managing Director.

The company is engaged in the manufacturing of cables which find applications across industries viz. railways, utilities, oil and gas refineries, petrochemical industries amongst others. The product range of the company includes signaling, instrumentation, control, power, telecommunication cables etc. The company has a manufacturing facility located in Faridabad, Haryana with installed capacity of 44,000 kms as on March 31, 2017.

On February 29, 2016, CMI acquired 100% shareholding of CMI Energy India Private Limited (CMIE; formerly known as General Cable Energy Private Limited) from General Cable Corporation, USA. Total cost for acquisition stood at Rs.96.73 crore. CMIE has a manufacturing facility located in Baddi, Himachal Pradesh with installed capacity of 1,80,000 kms as on March 31, 2017. The merger of CMIE with CMI Ltd is pending with NCLT as on September 20, 2017.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	240.66	380.24
PBILDT	32.66	50.93
PAT	26.94	30.08
Overall gearing (times)	0.77	0.93
Interest coverage (times)	3.54	2.48

A: Audited

Status of non-cooperation with previous CRA: BWR BB (Not Reviewed) (Stable)/A4+ (Not Reviewed) dated December 31, 2016

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.*

Analyst Contact:
Name: Manek Narang
Tel: 011- 45333233
Mobile: 9810596225
Email: manek.narang.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 - LT-Cash Credit	-	-	-	85.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	135.00	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 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 - LT-Cash Credit	LT	85.00	CARE BBB+; Stable	-	1)CARE BBB (03-Oct-16)	1)CARE BBB- (Under Credit Watch) (21-Jan-16) 2)CARE BBB- (17-Apr-15)	-
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	135.00	CARE BBB+; Stable / CARE A3+	-	1)CARE A3 (03-Oct-16)	1)CARE A3 (Under Credit Watch) (21-Jan-16) 2)CARE A3 (17-Apr-15)	-

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 99888 05650
Tel: +91-172-5171 100 / 09
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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