CMI Ltd

October 04, 2018

Ratings

Facilities	**Amount (Rs. Crore)**	**Rating***	**Rating Action**
Long term Bank Facilities	120 (Enhanced from 85)	CARE BBB+; Stable (Triple B Plus; Outlook: Stable)	**Reaffirmed**
Long/ Short term Bank Facilities	135	CARE BBB+; Stable/ CARE A3+ (Triple B Plus; Outlook: Stable/ A Three Plus)	**Reaffirmed**
Total	**255 (Rupees Two Hundred And Fifty Five 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) 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 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 CMI Energy India Private Limited (CMIE) 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 CMIE's 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, 2018) 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. CMIE has recently bagged approval from Railways, thus, proportion of copper cables likely to increase once the supply start to Railways. The plant already has approvals of SEBs, BHEL and various solar EPC contractors for supply of power and solar cables.

Manufacturing facility of house wires is set up at a separate smaller plant in the same premises. The installed capacity of the plant is 1,80,860 kms with overall current capacity utilization of approx 22%. 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.

The manufacturing facility of CMIE has been built with latest technology with a low carbon footprint and certified green building status; it is 20-30% energy efficient compared with plants of similar size. The plant is more efficient as compared to existing manufacturing plant of CMI. The same has resulted in increasing the operational efficiency of CMI group.

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 35% in FY18 as compared to 45% in FY17, 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

Revenue: During FY18, CMI group reported total operating income of Rs. 562.68 crore (P.Y: Rs.380.24 crore), registering y-o-y growth of ~48%. The same was mainly on account of ramping up of operations in CMI Energy at Baddi facility (reporting total operating income of Rs. 220 crore in FY18 against Rs. 83.02 crore in FY17).

Profitability: The PBILDT margin remained in line with growing scale of operations at 13.95% during FY18 as against 13.40% during FY17. The increase was on account of factors such as reduction in expenses (such as employee, power & fuel, administrative & selling expenses as a percentage of sales) on account economies of scale and increase in in-house production (versus job work in the earlier period)**.** Although, the PAT margin has declined to 4.58% during FY18 from 7.86% during FY17 owing to deferred tax charge as against deferred tax credit in previous year. Subsequently, the company has booked GCA of Rs.38.09 crore in FY18 as against Rs.22.45 crore in FY17.

Solvency: The capital structure of the CMI group remained comfortable with debt-equity ratio of 0.22x as on March 31, 2018 as against 0.29x as on March 31, 2017. 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 moderated to 1.28x as on March 31, 2018 as against 1.01x as on March 31, 2017 on account of higher working capital limits primarily driven by working capital intensive nature of the business and ramping up of operations at Baddi facility subsequently raising the debt requirements.

Further, the debt coverage indicators remained comfortable. The total debt to GCA improved to 5.72x as on March 31, 2018 as against 7.06x as on March 31, 2017 on account of higher cash accruals. Also, interest coverage ratio improved to 2.71x during FY18 from 2.47x during FY17.

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 126 days for FY18. Moreover, as these entities buy the final stock only post inspection, the CMI's inventory days FY18 stood at 86 days. CMI group 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 Aug-18 average working capital utilization stood at around 82%.

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.

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 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, 2018. 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)	FY17 (A)	FY18 (A)
Total operating income	380.26	562.68
PBILDT	50.97	78.48
PAT	30.06	25.81
Overall gearing (times)	1.01	1.28
Interest coverage (times)	2.47	2.71

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
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

**For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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	-	-	-	120.00	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 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 - LT-Cash Credit	LT	120.00	CARE BBB+; Stable	-	1)CARE BBB+; Stable (26-Sep-17)	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 BBB+; Stable / CARE A3+ (26-Sep-17)	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 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

CIN - L67190MH1993PLC071691