

CMI FPE Limited
March 31, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term/Short-term Bank Facilities	291.00 (reduced from 297.50)	CARE A-;Stable / CARE A1 (Single A Minus; Outlook: Stable /A One)	Reaffirmed
Total facilities	291.00 (Rupees Two Hundred Ninety-One Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation in the ratings assigned to the bank facilities of CMI FPE Limited (CFL) factors in the healthy outstanding order book position translating into long term revenue visibility, strong parentage of CMI Group, established track record & experience of management of CFL and execution backed growth for FY19.

The rating strengths are however tempered due to inherently cyclical nature of steel sector capex, customer concentration risk and foreign exchange fluctuation.

Key Rating Sensitivities**Positive Rating Sensitivities**

- Sustained increase in scale of operations of the company
- Improvement of profitability margins with registration of PBILDT margin above 10.00%.

Negative Rating Sensitivities

- Decline in operating profitability of the business below 5.00%
- Any significant increase in working capital utilization/debt funded capex expenditure resulting into deterioration of its capital structure
- Any significant deterioration of the operating cycle from the existing levels

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.

Benefits deriving from leveraging 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

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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. The confirmed order book worth Rs.573.00 outstanding as on 31st January 2020 provides long term revenue visibility for CFL.

Execution backed growth in total operating income in FY19 albeit decline in revenue for 9MFY20

During FY19, CFL doubled its total operating income on back of robust order book execution under its construction segment. Continuous Galvanizing Lines and Colour Coating lines were the key contributors to income growth. The collaborative strategy 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 FY19 and 9MFY20.

Thus, PBILDT margins have improved significantly from 4.24% in FY18 to 9.56% in FY19. Furthermore, with improvement in PBILDT and lesser fixed cost PAT margins improved from 2.06 in FY18 to 6.83% in FY19.

Key Rating Weaknesses

Inherent cyclicality of the steel industry and future prospects correlated to capex cycle of steel industry leading to decline in revenue for 9MFY20

During the nine month period ended December 31st, 2019, the company reported total operating income (TOI) with Y-o-Y deterioration from Rs. 394.32 crore in 9MFY19 to Rs. 319.24 crore in 9MFY20. CMI has stated that this is on account of the postponement of revenue recognition wherein sales are recorded on % of completion method. Due to overall slow-down/sluggishness in the steel industry, customers have slowed down the pace of their CAPEX project execution which has affected the sales accrual.

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.

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 export oriented sales were worth Rs.456.86 crore in FY19 (Rs.132.89 crore in FY19). The company enjoys some natural hedge with payables in foreign currency and hedges around 60-70% of its open foreign currency exposure using forward foreign exchange contracts to protect against volatility. However, unhedged foreign currency remains susceptible to loss due to fluctuation in foreign exchange.

Liquidity: Strong

The company is virtually debt free as on March 31, 2019 and December 31, 2019 as the company has no long term debt and working capital borrowings. 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 46 days in FY18 to 31 days in FY19 with the improvement in collection period and effective inventory management during the year. The company had unencumbered cash balance of Rs. 108.06 crore as on March 31, 2019. The capital structure remained comfortable at an overall gearing of 0.49x as on March 31, 2019.

Analytical approach: Standalone.

Applicable Criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[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 Equipment's (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 medallist 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)	FY18 (A)	FY19 (A)
Total operating income	316.92	513.76
PBILDT	13.44	49.10
PAT	6.53	35.10
Overall gearing (times)	0.58	0.49
Interest coverage (times)	26.37	16.23

A: Audited

Overall gearing is calculated considering 1/3rd customer advances as debt 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

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	-	-	-	243.50	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 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/Non-fund-based-LT/ST	LT/ST	47.50	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (04-Mar-19)	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	243.50	CARE A-; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (04-Mar-19)	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)

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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