

**CMI Limited**  
**November 12, 2020**

**Ratings**

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term / Short Term Bank Facilities	235.00	<b>CARE D/CARE D (Single D/Single D)</b>	<b>Reaffirmed</b>
Long Term Bank Facilities (Fund Based Limits)	220.00	<b>CARE D (Single D)</b>	<b>Reaffirmed</b>
Long Term Bank Facilities (Term Loan)	86.99	<b>CARE D (Single D)</b>	<b>Reaffirmed</b>
<b>Total</b>	<b>541.99</b> <b>(Rupees five hundred forty one crore and ninety-nine lakh only)</b>		

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The reaffirmation in the rating assigned to the bank facilities of CMI Limited (CMI) factors in irregularities in the debt servicing for working capital facilities attributable to weak liquidity position of the company. The ratings takes cognizance of extension of LC usance period from 180 days to 270 days/inter-changeability of non-fund based limit to fund based limit by the lead bank till December 31, 2020 which regularized the earlier delinquencies, however the continued weakening of liquidity which stems from delay in receivables has led to continued delays in debt servicing for working capital facilities.

**Rating Sensitivities****Positive - Factors that could lead to positive rating action/upgrade:**

- Improvement in the liquidity position
- Improvement in the operational performance of the company

**Detailed description of the key rating drivers****Key Rating Weaknesses**

**Delays in servicing of debt obligations:** Due to disruption in the operations owing to the outbreak of Covid-19 pandemic which led to low capacity utilization, reduction in sales and lower collections weakened the liquidity profile of the company. In line with RBI's directive for Covid relief, the lender sanctioned the fund-based limits to tide over the temporary cash flow mismatches and also extended the LC usance period from 180 days to 270 days/inter-changeability of non-fund based limit to fund based limit up to June 30, 2020. However, these sanctions/extensions expired after June resulting in irregularities in conduct of account. Later, in October 2020, the lender has extended the validity of these sanctions/extensions till December 31, 2020. However, there are ongoing delays with some of the lenders due to stretched liquidity position of the company on account of delay in collection of payment from its customers.

**Weak operational performance during FY20 and Q1FY21:** CMI's operating performance was adversely impacted with 21.31% decline in total operating income to Rs. 511.24 crore in FY20 (PY: Rs. 649.66) and steep decline in profitability. The PAT margin of the company declined significantly to 0.72% in FY20 from 6.92% in FY19, as result of lower operating profit, higher deferred tax and increase in interest cost as a result of debt funded capex done in FY20. Further, in Q1FY21, the company reported significant decline in the total operating income to Rs. 22.83 crore (Q1FY20: Rs. 152.04 crore), the decline is mainly due to disruption in operations due to outbreak of Covid-19. The company reported net loss of Rs. 13.46 crore during Q1FY21 (Q1FY20: PAT of Rs. 6.74 crore). The collection from debtors stood significantly low during H1FY21 (refers to the period April 01 to September 30). The average utilization of fund based limits for the trailing 7 months period ending September, 2020 stood high at ~87%.

**Working capital intensive operations:** CMI is a 100% B2B company with significant revenue from PSUs. The agreed payment terms in government contracts are between 90-120 days which actually stretches up to 200 days. Resultantly, average collection period of the company stood high at 182 days during FY20 (PY: 141 days). Moreover, as these entities buy the final stock only post inspection, the CMI's inventory holding period in FY20 stood at 146 days (PY: 95 days), the increase in inventory holding period is mainly because the company was unable to dispatch several order in the month of March, 2020 as pre-inspection was stopped by the clients due to Covid-19.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Susceptibility of margins to volatility in raw material prices:** CMI's business is raw material intensive with raw material costs forming majority of its total operating cost. Primary raw materials for CMI are copper and aluminium forming more than 60% of total raw material costs, prices of which are highly volatile. However, contracts typically incorporate a price variation clause (PVC) where a company passes on any volatility in the underlying commodity without impacting its margins. The purchase prices are benchmarked to international indices such as London Metal Exchange (LME). During bidding for the government contracts, CMI incorporates the ruling rate of commodities in the bidding price.

#### **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: Poor**

The temporary closure of business operations due to lockdown has squeezed CMI's liquidity. The company has been granted moratorium by its working capital and term loan lenders towards payment of interest and instalments in line with RBI's Covid-19 relief scheme. Besides, the company has also been granted ad-hoc limits of Rs. 7.50 crore from its bankers. The counter party risk is low for the company as majority of its customers are PSUs, however, delays in payments from the customers led to cash flow mismatches. The company was extended relief in form of interchangeability between fund and non-fund based limits and extension of usance period of LC from 180 days to 270 days till December 31, 2020, however, slower than anticipated recovery in business operations, inability to procure raw material and stretched receivables have led to continued irregularities in the working capital facilities beyond 30 days.

**Analytical approach:** Standalone

#### **Applicable Criteria**

[Policy On Curing Period](#)

[Rating Outlook and Credit Watch](#)

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

[Rating Methodology-Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology- Liquidity Analysis of Non-Financial Sector Entities](#)

#### **About the Company**

CMI Ltd. was incorporated in 1967 under the name of Choudhari Metal Industries Private Limited. CMI Limited was taken over by the present promoter 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 47,000 km and 1,93,140 km respectively as on March 31, 2020. 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.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	649.66	511.24
PBILDT	85.16	61.29
PAT	44.94	3.70
Overall gearing (times)	1.08	1.09
Interest coverage (times)	2.52	1.53

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

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

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

#### 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 D
Non-fund-based - LT/ST-BG/LC	-	-	-	235.00	CARE D / CARE D
Term Loan-Long Term	-	-	February 25, 2020	86.99	CARE D

#### 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	220.00	CARE D	1)CARE D (25-Sep-20) 2)CARE BBB; Stable (30-Jul-20)	1)CARE BBB+; Stable (26-Feb-20) 2)CARE BBB+; Stable (07-Oct-19)	1)CARE BBB+; Stable (04-Oct-18)	1)CARE BBB+; Stable (26-Sep-17)
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	235.00	CARE D / CARE D	1)CARE D / CARE D (25-Sep-20) 2)CARE BBB; Stable / CARE A3 (30-Jul-20)	1)CARE BBB+; Stable / CARE A3+ (26-Feb-20) 2)CARE BBB+; Stable / CARE A3+ (07-Oct-19)	1)CARE BBB+; Stable / CARE A3+ (04-Oct-18)	1)CARE BBB+; Stable / CARE A3+ (26-Sep-17)
3.	Term Loan-Long Term	LT	86.99	CARE D	1)CARE D (25-Sep-20) 2)CARE BBB; Stable (30-Jul-20)	1)CARE BBB+; Stable (26-Feb-20)	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Nil**

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	Simple
3.	Term Loan-Long Term	Simple

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

#### Contact us

##### Media Contact

Mr. Mradul Mishra  
 +91-22-68374424/+91-9833070317  
[mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

##### Analyst Contact

Mr. Sachin Mathur  
 +91-11- 45333206/+91-9810865435  
[sachin.mathur@careratings.com](mailto:sachin.mathur@careratings.com)

##### Business Development Contact

Ms. Swati Agrawal  
 +91-11-45333200  
[swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

##### About CARE Ratings:

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