Rating Advisory

January 08, 2020| Mumbai

CMI Limited

Advisory as on January 08, 2020

This rating advisory is provided in relation to the rating of CMI Limited

The key rating sensitivity factors for the rating include:

- Timely ramp up of the Baddi unit.
- Sustenance of profitability level.
- Capex plan and its funding pattern.

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, it seeks regular updates from companies on business and financial performance. CRISIL is yet to receive adequate information from CMI Limited (CMI) to enable it to undertake a rating review. CRISIL is taking all possible efforts to get the rated entity to cooperate with its rating process for enabling it to carry out the rating review.

CRISIL views information availability risk as a key factor in its assessment of credit risk. (Please refer to CRISIL Ratings publication dated April 30, 2012 - 'Information Availability - a key risk factor in credit ratings')

If CMI continues to delay the provisioning of information required by CRISIL to undertake a rating review then, in accordance with circular SEBI/HO/MIRSD/MIRSD4/CIR/P/2016/119 dt Nov 1, 2016 and SEBI/HO/MIRSD/ MIRSD4/ CIR/ P/ 2017/ 71 dt June 30, 2017 issued by Securities and Exchange Board of India, CRISIL will carry out the review based on best available information and issue a press release.

About the group

Incorporated in 1967, CMI commenced business in 1969 as a copper trading company and diversified into manufacturing of cables in 1980. The company was acquired in 2007by the present management headed by Mr Amit Jain. It is a leading manufacturer of specialty cables including railways quad and signaling cables, control and instrumentation cables, power cables, rubber cables, and PIJF cables.

CMI Energy was incorporated under the name of General Cable Energy India Private Limited in August, 2006. The company was a wholly-owned subsidiary of General Cable Corporation, USA. On February 29, 2016, CMI has acquired 100% shareholding of General Cable Energy India Private Limited from General Cable Corporation, USA. Post-acquisition, the name of the company was changed to CMI Energy India Private Limited.

Please note: This advisory should not be construed as a rating reaffirmation.

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Rating Rationale

January 18, 2019 | Mumbai

CMI Limited

'CRISIL BBB+/Positive/CRISIL A2' assigned to bank debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.255 Crore**
Long Term Rating	**CRISIL BBB+/Positive (Assigned)**
Short Term Rating	**CRISIL A2 (Assigned)**

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL has assigned its '**CRISIL BBB+/Positive/CRISIL A2**' ratings to the bank facilities of CMI Limited (CMI; part of the CMI group).

The ratings reflect the extensive experience of the CMI group's promoters in the cable industry and its longstanding relationships with reputed customers in diversified segments such as railways, oil and gas, heavy electrical, transmission and distribution, and telecom. Established relationships with reputed customers and healthy demand led to smooth order flow in the three fiscals through 2018, has led to healty increase in scale of operations during the same period. Furthermore, CRISIL believes the group's business risk profile will improve with gradual increase in capacity utilisation of CMI Energy India Pvt Ltd (CMI Energy), driven by receipt of new approval and smooth order flow. The ratings also factor in the group's above-average financial risk profile, reflected in healthy build-up of networth, controlled gearing, and above-average debt protection metrics. These strengths are partially offset by large working capital requirement, susceptibility to volatility in raw material prices, and exposure to intense competition.

Analytical Approach

To arrive at the ratings, CRISIL has combined the business and financial risk profiles of CMI and its 100% subsidiary CMI Energy. Details of consolidation are given in the annexure.

Please refer Annexure - Details of Consolidation, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description
Strengths:
*** Extensive experience of the promoters and established relationships with reputed customers:**
The promoters have experience of over two decades in the specialty cables industry. Slowdown in the end-user industries and restricted product range led to huge losses for CMI, turning it into a sick company. CMI was taken over by the present management headed by Mr Amit Jain in fiscal 2007, who turned around the business with gradual diversification of product portfolio, thereby tapping into different industries and clients. Over the past decade, the company has become a leading manufacturer of specialty cables that are customised according to customers' specifications. Entry in this segment is restricted by the vendor eligibility and approval criteria set by customers, which normally take 3-4 years to complete. For example, in case of railways, a new player can only work as an educational supplier for the first two years (tier-2 supplier) and supply only 15% of the order. The products are tested for quality before the company is given eligibility as an approved supplier for bulk orders (tier-1 supplier). Currently, CMI's customers include reputed players such as Indian Railways, Bharat Heavy Electricals Ltd (BHEL; 'CRISIL AA+/Stable/CRISIL A1+'), NTPC Ltd (NTPC; 'CRISIL AAA/Stable/CRISIL A1+/CRISIL FAAA'), Bharat Sanchar Nigam Ltd (BSNL), and Indian Oil Corporation Ltd (IOCL; 'CRISIL AAA/Stable/CRISIL A1+'). CRISIL believes the CMI group will continue to benefit from its promoters' extensive experience.

*** Expected improvement in business risk profile:**
CMI Energy was acquired by CMI in fiscal 2016 and has capability to generate turnover of Rs 1000 crore per annum. The capacity utilisation at the company's Baddi plant was low (8% and 22% in fiscals 2017 and 2018, respectively) on account of lack of adequate approval from customers, leading to fewer orders. However, in fiscal 2019, CMI Energy received approvals from various state electricity boards (SEBs) and Indian Railways, leading to healthy order inflow (orders of Rs 317 crore as of December 2018 to be executed over the next 6 months). Consequently, capacity utilisation of the Baddi plant is expected to increase in fiscal 2019. CRISIL believes that with the Faridabad plant being fully utilised, the CMI group's business risk profile should improve with gradual increase in capacity utilisation of the Baddi plant.

*** Above-average financial risk profile**
The CMI group's financial risk profile is above-average. Networth increased to Rs 249 crore as on September 30, 2018, from Rs 172 crore as on March 31, 2016, backed by equity infusion and healthy accretion to reserves. Total outside liabilities to tangible networth ratio remained moderate at 1.4 times as on March 31, 2018 (1.35 times a year earlier). Healthy profitability resulted in above-average debt protection measures, indicated by interest coverage and net cash accrual to total debt ratios of 2.7 times and 0.19 time, respectively, in fiscal 2018. CRISIL believes the CMI group's financial risk profile will remain above average over the medium term on account of absence of any significant debt-funded capital expenditure (capex) plan.

Weakness:
*** Exposure to intense competition:**
The cables industry is diverse in terms of product range and quality. The CMI group faces competition from major brands such as Polycam, Incom, and Sri Ram. Furthermore, because of tender-based orders, players have to be cost competitive, which restricts their pricing power. Though the risk is mitigated by the CMI group's established relationships with customers, CRISIL believes the group will remain exposed to intense competition in the cables industry over the medium term.

*** Vulnerability to fluctuations in raw material prices:** Copper and aluminum are the primary raw materials used in the manufacture of cables and account for 70-75% of the group's product value. Though the group revises product prices every month based on the previous month's (M-1) LME prices, its profitability may be impacted if it is unable to pass on price increase to customers.

Outlook: Positive
CRISIL believes the CMI group will benefit over the medium term from healthy ramp-up in operations because of the newly acquired Baddi unit under CMI Energy. The ratings may be upgraded if revenue increases with increased capacity utilization level of Baddi plant while working capital cycle remains stable. The outlook may be revised to 'Stable' if the financial risk profile and liquidity weaken on account of lower-than-expected profitability or stretch in working capital cycle or large, debt-funded capex.

Liquidity
The CMI group has strong liquidity. Cash accrual is expected at Rs 44-60 crore over the medium term against debt obligation of Rs 7.5-10 crore. Bank limits of Rs 220 crore were utilised at an average of 76% over the 12 months through November 2018. The group has scaled up operations in the past two fiscals, and operations being working capital intensive, has consistently increased bank lines (from Rs 145 crore as of May 2018 to Rs 220 crore as of November 2018) and the promoters have infused funds in the form of equity (Rs 38.5 crore in the past three fiscals). With further scale-up of operations, arrangement for working capital funding will be a key rating sensitive factor.

About the Company
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Key Financial Indicators

Particulars	Unit	2018	2017
Revenue (comparable basis)	Rs crore	560.88	380.32
Profit after tax (PAT)	Rs crore	25.81	27.65
PAT margins	%	4.6	7.3
Adjusted debt/adjusted networth	Times	0.92	0.78
Interest coverage	Times	2.7	2.6

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs cr)	Rating Assigned with Outlook
NA	Fund-based facilities	NA	NA	NA	100.0	CRISIL BBB+/Positive
NA	Non-Fund based limit	NA	NA	NA	155.0*	CRISIL A2

** Rs 25 crore interchangeable with fund based limits*

Annexure - Details of consolidation

Fully consolidated entities: CMI Limited and CMI Energy (MMAPL)

Annexure - Rating History for last 3 Years

	Current			2019 (History)		2018		2017		2016		Start of 2016
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund-based Bank Facilities	LT/ST	100.00	CRISIL BBB+/Positive		--		--		--		--	--
Non Fund-based Bank Facilities	LT/ST	155.00	CRISIL A2		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Fund-Based Facilities	100	CRISIL BBB+/Positive	--	0	--
Non-Fund Based Limit*	155	CRISIL A2	--	0	--
Total	255	--	Total	0	--

** Rs 25 crore interchangeable with fund based limits*

Links to related criteria
[CRISILs Approach to Financial Ratios]
[CRISILs Bank Loan Ratings - process, scale and default recognition]
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