CMI LIMITED
AN ISO 9001, ISO 14001
& ISO 45001 COMPANY
CIN No. L74899DL 1967 PLC018031

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Website : www.cmilimited.in

Works : Baddi, Himachal Pradesh-173205 (India)
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CMI/CS/2020-21/ **July 31, 2020**

BSE Corporate Compliance & Listing Centre
BSE Limited
Phiroze Jeejeebhoy Towers, Dalal Street,
MUMBAI-400001

Listing Department
National Stock Exchange of India
'Exchange Plaza', Bandra Kurla Complex,
MUMBAI-400051

BSE Scrip Code: 517330/ NSE Scrip Code: CMICABLES

Subject: Disclosure under Regulation 30 of SEBI (Listing Obligation and Disclosure Requirements) Regulations, 2015

Dear Sir/Madam,

With reference to the disclosure submitted on 30th July, 2020 to the stock exchanges regarding revision in credit rating, we would like to update that the CARE has downgraded the rating from BBB+; Stable (Triple B Plus; Outlook Stable) to **CARE BBB; Stable (Triple B; Outlook Stable)** for the Long Term Bank Facilities and CARE A3+ (A Three Plus) to **CARE A3 (A Three)** for the Short Term Bank facilities availed by the Company vide their letter dated 30th July, 2020.

Pursuant to Continuous Disclosure Requirements for Listed Entities - Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please refer enclosed rating rationale for the reasons provided by the rating agency for such downward revision.

You are requested to take the above information on record.

Thanking you,
Yours faithfully,

For **CMI LIMITED**

CMI LIMITED DELHI

Subodh K. Kumar

(SUBODH KUMAR BARNWAL)
COMPANY SECRETARY

CMI Limited

July 30, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long term / Short Term Bank Facilities	235.00	**CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable / A Three)**	**Revised from CARE BBB+; Stable/CARE A3+ (Triple B Plus; Outlook: Stable / A Three Plus)**
Long Term Bank Facilities	306.99	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB+; Stable/CARE A3+ (Triple B Plus; Outlook: Stable / A Three Plus)**
Total	**541.99 (Rupees five hundred forty one crore and ninety-nine lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of CMI Limited (CMI) factors in deteriorating liquidity position, moderation in debt coverage parameters, weak operational performance during FY20 (refers to the period: April 01 to March 31) and business disruption in the current year owing to the outbreak of the covid-19 pandemic. The ratings are further constrained by CMI's working capital intensive operations marked by elongated operating cycle and presence in highly competitive industry. The ratings continue to derive strength from CMI's experienced promoters and management team with long track record of operations, diversified product portfolio with reputed client base of the company and adequate order book position.

Rating Sensitivities

Positive

- Improvement in scale of operation above Rs.600 crore and in PBILDT margin above 14% on a sustainable basis.
- Improvement in the liquidity position.

Negative

- Decline in scale of operations below Rs.400 cr.
- Decline in PBILDT margin below 9%.
- Deterioration in the interest coverage ratio below 1.5x.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and management team: 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 (34.26% as on June 30, 2020) and possesses 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.

Long track record of operations: The company's plant in Faridabad, Haryana with an installed capacity of 47,000 Kms cables as March 31, 2020 has been operational for nearly three decades manufacturing specialty cables like railway signaling and control & instrumentation cable with focus on copper based cables which has relatively higher realizations and operations supported by key approvals from Indian Railways, State Electricity Boards (SEB's), BHEL, NTPC and other oil refinery companies. The company acquired and has been operating modern and automated plant from General Cable Corporation, USA located in Baddi, Himachal Pradesh with and installed capacity of 1,93,140 Kms of cables as on March 31, 2020.

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

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

CMI LIMITED DELHI

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 (upto 132 KV), HT Aerial Bunched Cables, Solar Cables, Railway Signaling and Quad Cables, AAC/ AAAC Overhead Conductors.

Key Rating Weaknesses

Weak operational performance during FY20: CMI's operating performance was adversely impacted with 21.39% decline in total operating income to Rs. 512.12 crore in FY20 (PY: Rs. 651.47) and steep decline in profitability. The decline was mainly due to combined impact of delays in modalities of conversion of orders from CMI Energy to CMI Limited (in Q3FY20 – refers to October 01 to December 31) as a result of their merger and outbreak of Covid-19 (in Q4FY20 – refers to January 01 to March 31) which led to lower order execution during the last quarter which generally accounts for nearly 30% of the total annual operating income. The PBILDT margin moderated marginally to 12.16% in FY20 (PY: 13.35%), on account of increase in administration and freight cost along with lower operating income. However, the PAT margin of the company declined significantly to 0.72% in FY20 from 6.90% 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.

Moderation in the debt coverage parameters: The debt coverage indicators of the company moderated in FY20 as reflected by deterioration in the total debt to gross cash accruals from 6.60x in FY19 to 15.97x in FY20, the deterioration is mainly on account of lower PAT as a result of lower total operating income in FY20. Also, interest coverage ratio deteriorated from 2.58x in FY19 to 1.56x in FY20 owing to increase in the interest cost coupled with decline in the PBILDT. The capital structure of CMI, remains moderate with debt-equity ratio of 0.19x as on March 31, 2020 (March 31, 2019: 0.19x) and overall gearing of 1.12x as on March 31, 2020 as against 1.10x as on March 31, 2019.

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 180 days during FY20 (PY: 138 days) (PY: Rs. 273.72 crore). Moreover, as these entities buy the final stock only post inspection, the CMI's inventory holding period in FY20 stood at 142 days (PY: 92 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.

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: Stretched

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. Further, banks have also provided extension in LC Usance period from 180 days to 270 days. Besides, the company has also been granted ad-hoc limits of Rs. 7.50 crore from its bankers. However, net operating cash flow of the company stood comfortable at Rs. 59.72 crore during FY20. No contract assigned to the company has been canceled since force majeure was invoked by the company before lock down and all customers have agreed for extension of time for the supplies. Although, the counter party risk is low for the company as majority of its customers are PSUs, however, delays in payments from the customers lead to cash flow mismatches. After considering the moratorium the company has repayment of Rs. 7.70 crore scheduled for FY21. The company has regular capex of ~Rs. 10.00 crore scheduled for FY21. The company has a negligible free cash and bank balance which stood at Rs. 0.57 crore as on March 31, 2020.

CMI LIMITED DELHI

Analytical approach: Standalone

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

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-Abridged)
Total operating income	651.47	512.12
PBILDT	87.00	62.27
PAT	44.94	3.70
Overall gearing (times)	1.10	1.12
Interest coverage (times)	2.58	1.56

A: Audited

Status of non-cooperation with previous CRA: Brickwork vide PR dated June 22, 2020

Any other information: Nil

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 - LT-Cash Credit	-	-	-	220.00	CARE BBB; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	235.00	CARE BBB; Stable / CARE A3
Term Loan-Long Term	-	-	February, 2025	86.99	CARE BBB; Stable

CMI LIMITED DELHI

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 BBB; Stable	-	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 BBB; Stable / CARE A3	-	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 BBB; Stable	-	1)CARE BBB+; Stable (26-Feb-20)	-	-

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

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.*

UAM LIMITED DELHI

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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.

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CMI LIMITED DELHI