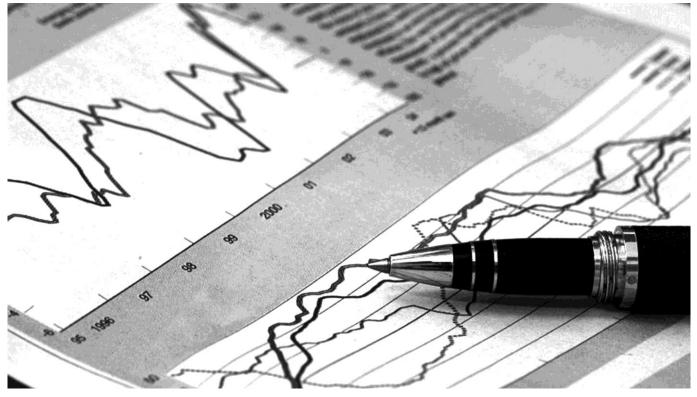
Research



CRISIL IER Independent Equity Research

Enhancing investment decisions



CMI Ltd Q2FY18 Results Update

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL		CRISIL		
Fundamental Grade	Assessment	Valuation Grade	Assessment	
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)	
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)	
3/5	Good fundamentals	3/5	Align (+-10% from CMP)	
2/5	Moderate fundamentals 2/5 Downside (negative 10-25% f		Downside (negative 10-25% from CMP)	
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)	

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CMI Ltd

Growth momentum continues; OCF generation impacted by rising working capital

Fundamental Grade:	3/5 (Good fundamentals)	Valuation Grade:	3/5 (CMP is aligned)
Industry:	Cables and wires	Fair Value: ₹259	CMP: ₹244

CMI Ltd's Q2FY18 consolidated revenue was broadly in line with CRISIL Research's expectations. Revenue grew 46.2% y-o-y to ₹1,343 mn (up 2.1% q-o-q), primarily led by rampup of operations in the Baddi facility. Gross margin improved 220 bps y-o-y to 23.3% (up 39 bps q-o-q), partly owing to improvement in cable prices. Consequently, EBITDA margin expanded 204 bps y-o-y to 13.8% (up 36 bps q-o-q) leading to EBITDA growth of 71.6% y-o-y to ₹185 mn (up 4.9% q-o-q). PAT grew 103.7% y-o-y to ₹61 mn (up 1.9% q-o-q) as interest cost increased 47.1% y-o-y to ₹70 mn (up 10.9% q-o-q). We expect CMI to benefit from strong growth prospects in the cable industry, which should drive operating leverage at the Baddi facility (currently at ~25% utilisation). However, expansion in working capital cycle driving higher debt requirement is a key monitorable. We reiterate the fundamental grade of **3/5**.

Order book continues to be at ₹3.0 bn - provides revenue visibility for the near term

During Q2FY18, CMI bagged new orders totalling ₹1.5bn (flat q-o-q), including ₹326 mn worth of orders for power cables from BHEL. At the end of Q2FY18, the order book was valued at ₹3 bn and provides revenue visibility for six-nine months. Going forward, approval for the Baddi plant from the Indian Railways can catalyse growth. Cable demand is expected to be strong - estimated to grow at ~13% CAGR (over FY17-20E) to ₹640 bn, driven by the government's focus on infrastructure including housing, smart cities and railways. With healthy order prospects for B2B cables, we factor in ~38% CAGR in revenue over FY17-19.

H1FY18 EBITDA margin improvement; signs of abating competitive pressure

EBITDA margin improved by ~36 bps q-o-q and ~230 bps y-o-y during Q2FY18 and H1FY18, respectively. As per management, cable prices have started to stabilise owing to improvement in order prospects and is a good augury for the company's margins.

Growth phase prompting higher requirement for working capital

Working capital cycle expanded by 25 days (on TTM sales) in H1FY18, resulting in a 34% rise in debt primarily led by longer credit terms for power distribution utilities. We believe higher working capital requirement is expected to impact OCF generation, at least over FY18-19.

Maintain fair value at ₹259

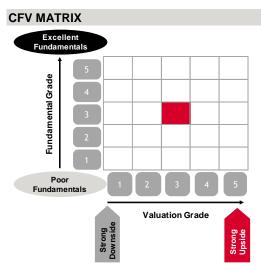
We have raised EBITDA margin estimates by 40-60 bps for FY18/ FY19, translating to ~33% CAGR in EBITDA over FY17-19. However, margin gain is offset by higher interest expenses as we factor in increased working capital requirement (raised by ~30 days for FY18/FY19). Accordingly, we maintain our earnings estimates for FY18 and FY19, and retain the discounted cash flow (DCF)-based fair value at ₹259 per share. At the current market price of ₹244 per share, our valuation grade is **3/5**.

KEY FORECAST

(₹ mn)	FY15	FY16	FY17#	FY18E	FY19E
Operating income	1,358	2,418	3,827	5,527	7,284
EBITDA	146	337	534	747	944
Adj Net income	59	165	301	306	461
Adj EPS (₹)	5.1	11.7	20.3	20.4	30.7
EPS growth (%)	(4.7)	127.7	73.7	0.1	50.6
Dividend Yield (%)	-	0.4	0.6	0.1	0.2
RoCE (%)	22.6	18.1	13.7	16.7	18.1
RoE (%)	23.0	15.5	15.8	13.7	17.4
PE (x)	18.8	20.6	8.4	12.0	8.0
P/BV (x)	3.0	1.9	1.2	1.5	1.3
EV/EBITDA (x)	9.8	13.4	7.2	7.4	6.1

based on abridged financials;

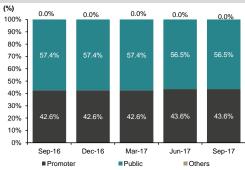
Source: Company, CRISIL Research estimates



KEY STOCK STATISTICS

NIFTY/SENSEX	10333/33463
NSE/BSE ticker	CMI/CMI
Face value (₹ per share)	10
Shares outstanding (mn)	15.0
Market cap (₹ mn)/(US\$ mn)	3,670/57
Enterprise value (₹ mn)/(US\$ mn)	4,962/77
52-week range (₹)/(H/L)	261/135
Beta	0.9
Free float (%)	56%
Avg daily volumes (30-days)	209,316
Avg daily value (30-days) (₹ mn)	61

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns					
	1-m	3-m	6-m	12-m		
CMI	21%	22%	28%	78%		
NIFTY 500	1%	4%	10%	32%		

December 18, 2017

For detailed initiating coverage report please visit: www.crisil.com CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

Research

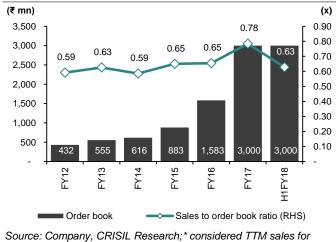
Q2FY18 results summary (Consolidated)

(₹ mn)	Q2FY18	Q1FY18	Q2FY17	q-o-q (%)	у-о-у (%)
Income from operations	1343	1315	919	2.1	46.2
Consumption of raw materials	1030	1013	725	1.6	42.1
Raw materials cost (as a % of net sales)	76.7%	77.0%	78.9%	(39) bps	(220) bps
Employees' cost	38	39	25	(3.6)	52.1
Other expenses	91	87	62	5.1	47.4
EBITDA	185	176	108	4.9	71.6
EBITDA margin	13.8%	13.4%	11.7%	36 bps	204 bps
Depreciation	26	26	27	1.8	(0.8)
EBIT	158	150	81	5.4	95.3
Interest and finance charges	70	63	47	10.9	47.1
Operating PBT	89	87	34	1.4	163.2
Other Income	6	4	12	74.1	(49.7)
Extraordinary Income/(expense)	-	-	(0)	NM	NM
PBT	95	91	46	4.3	106.2
Тах	33	31	16	9.0	109.9
PAT	61	60	30	1.9	104.2
Profit / (Loss) of minority interest/associates	-	-	-	NM	NM
Reported PAT	61	60	30	1.9	104.2
Adj PAT	61	60	30	1.9	103.7
Adj PAT margin	4.6%	4.6%	3.3%	(1) bps	129 bps
No of equity shares (mn)	15	15	15	-	1.7
Adj EPS (₹)	4.1	4.0	2.0	1.9	100.3

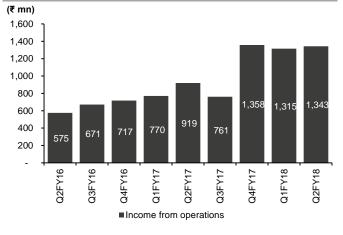
NM: Not meaningful

Source: Company, CRISIL Research

Order book at ₹3.0 bn as of Q2FY18



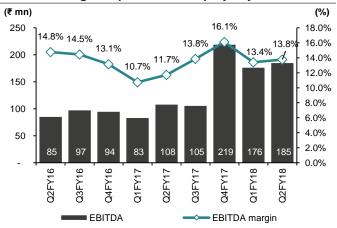
Revenue increased 46% y-o-y to ₹1,343 mn



Source: Company, CRISIL Research

H1FY18

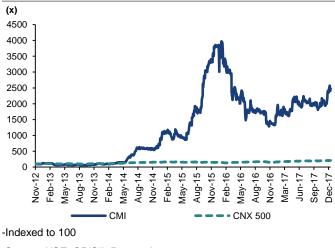




EBITDA margin expanded 204 bps y-o-y to 13.8%...

Source: Company, CRISIL Research

Share price movement

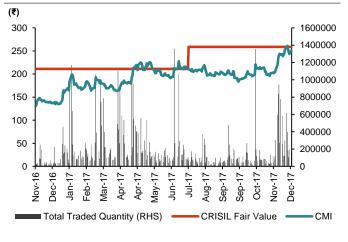


Source: NSE, CRISIL Research

...leading to 104% y-o-y increase in PAT to ₹61 mn (₹ mn) (%) 20.0% 250 17.3% 18.0% 200 16.0% 14.0% 150 12.0% 10.0% 7.0% 7.2% 100 8.0% 5.6% 4.6%4.6% 6.0% 3.3% 2.7 2.0% 50 4.0% 60 61 2.0% 40 48 40 30 221 20 15 0.0% 16 9 8 Q2FY16 Q2FY18 Q1FY17 Q2FY17 Q3FY17 Q4FY17 Q1FY1 Q3FY-Q4FY Adj. PAT Adj. PAT margin

Source: Company, CRISIL Research

Fair value movement since initiation



Source: NSE, CRISIL Research

FY18 & FY19 earnings estimates maintained

We have raised EBITDA margin estimates by 40-60 bps for FY18/ FY19, translating to ~33% CAGR in EBITDA over FY17-19. However, margin gain is offset by higher interest expenses as we factor in increased working capital requirement (raised by ~30 days for FY18/FY19). Accordingly, we maintain our earnings estimates for FY18 and FY19.

(Do mn)		FY18E			FY19E		
(Rs mn)	Old	New	% change	Old	New	% change	
Revenue	5,527	5,527	0.0%	7,284	7,284	0.0%	
EBITDA	725	747	3.1%	901	944	4.9%	
EBITDA margin (%)	13.1%	13.5%	40bps	12.4%	13.0%	60bps	
Consolidated PAT	306	306	0.14%	461	461	0.11%	
PAT margin (%)	5.5%	5.5%	1bps	6.3%	6.3%	1bps	
EPS-Rs	20.3	20.4	0.1%	30.7	30.7	0.1%	

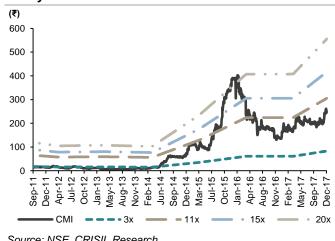
Source: Company, CRISIL Research

Valuation

Grade: 3/5

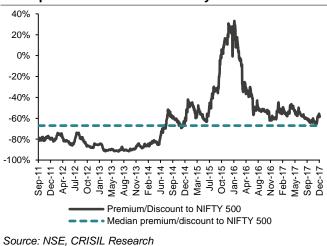
We broadly maintain our earnings estimates for FY18 and FY19. The DCF-based fair value is ₹259. As this fair value, the implied EV/EBITDA multiples are 7.7x FY18E and 6.3x FY19E EBITDA. At the current market price of ₹244, our valuation grade is **3/5**.

One-year forward P/E band

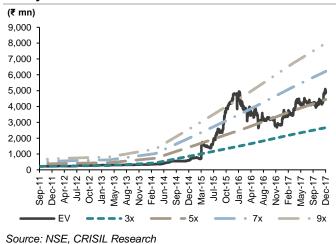


Source: NSE, CRISIL Research

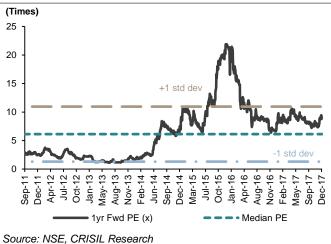
P/E – premium / discount to Nifty 500



One-year forward EV/EBITDA band







CRISIL IER reports released on CMI Ltd

		Fundamental		Valuation	СМР
Date	Nature of report	grade	Fair value	grade	(on the date of report)
11-Nov-16	Initiating Coverage	3/5	₹211	5/5	₹130
24-Mar-17	Q3FY17 result update	3/5	₹211	5/5	₹165
17-Jul-17	Q4FY17 result update	3/5	₹259	4/5	₹210
22-Sep-17	Q1FY18 result update	3/5	₹259	5/5	₹192
18-Dec-17	Q2FY18 result update	3/5	₹259	3/5	₹244

Annexure: Financials

Income statement					
(₹ mn)	FY15E	FY16	FY17#	FY18E	FY19E
Operating income	1,358	2,418	3,827	5,527	7,284
EBITDA	146	337	534	747	944
EBITDA margin	10.8%	13.9%	13.9%	13.5%	13.0%
Depreciation	9	13	101	105	108
EBIT	138	324	432	642	836
Interest	59	88	206	260	306
Operating PBT	79	236	227	383	530
Other income	9	4	-	1	47
Exceptional inc/(exp)	4	895	-	-	-
PBT	91	1,135	227	383	576
Tax provision	28	75	(74)	77	115
Minority interest	-		-	-	-
PAT (Reported)	63	1,060	301	306	461
Less: Exceptionals	4	895	-	-	-
Adjusted PAT	59	165	301	306	461
Ratios					
Tatios	FY15E	FY16	FY17#	FY18E	FY19E
Growth					
Operating income (%)	28.8	78.0	58.2	44.4	31.8
EBITDA (%)	61.7	130.0	58.5	40.0	26.4
Adj PAT (%)	208.6	179.9	82.3	1.8	50.6
Adj EPS (%)	(4.7)	127.7	73.7	0.1	50.6
B					
Profitability	40.0	10.0	10.0	10 5	40.0
EBITDA margin (%)	10.8	13.9	13.9	13.5	13.0
Adj PAT Margin (%)	4.3	6.8	7.9	5.5	6.3
RoE (%)	23.0	15.5	15.8	13.7	17.4
RoCE (%)	22.6	18.1	13.7	16.7	18.1
RolC (%)	21.7	14.8	16.5	14.9	17.7
Valuations					
Price-earnings (x)	18.8	20.6	8.4	12.0	8.0
Price-book (x)	3.0	1.9	1.2	1.5	1.3
EV/EBITDA (x)	9.8	13.4	7.2	7.4	6.1
EV/Sales (x)	1.1	1.9	1.0	1.0	0.8
Dividend payout ratio (%)	-	1.3	4.9	1.2	1.2
Dividend yield (%)	-	0.4	0.6	0.1	0.2
B/S ratios					
Inventory days	109	81	121	95	95
Creditors days	64	68	135	95 110	95 106
Debtor days	89	88	122	150	100
Working capital days	138	140	122	150	143
Gross asset turnover (x)	6.4	2.2	1.9	2.6	3.3
Net asset turnover (x)	21.1	2.8	2.4	3.4	4.5
Sales/operating assets (x)	19.3	2.7	2.4	3.3	4.5
Current ratio (x)	3.3	3.2	2.2	2.5	2.6
Debt-equity (x)	0.9	0.6	0.7	0.8	0.7
Debt/ebitda (x)	2.3	3.4	2.6	2.5	2.2
Net debt/ebitda (x)	2.2	3.3	2.4	2.5	2.2
Interest coverage	2.2	0.0	2.4	2.0	2.2
-EBITDA/Interest	2.5	3.8	2.6	2.9	3.1
-EBIT/Interest	2.3	3.7	2.0	2.5	2.7
Per share	EVACE	D// A	EV/47#	11.94	7.93
A di EDS (₹)	FY15E	FY16	FY17#	FY18E	FY19E
Adj EPS (₹) CEPS	5.1	11.7	20.3	20.4	30.7
Book value	5.9	12.6	27.2	27.3	37.9
	32.3	124.5	138.3	161.0	191.2
Dividend (₹) Actual o/s shares (mn)		1.0	1.0	0.3	0.4
A CIDALO/S SDATES (MD)	11.5	14.1	14.8	15.0	15.0

(₹ mn)	FY15E	FY16	FY17#	FY18E	FY19E
Liabilities					
Equity share capital	115	141	148	150	150
Reserves	256	1,613	1,896	2,270	2,724
Minorities	-		-	-	-
Networth	370	1,753	2,044	2,420	2,874
Convertible debt	-		-	-	-
Other debt	333	1,131	1,381	1,866	2,086
Total debt	333	1,131	1,381	1,866	2,086
Deferred tax liability (net)	(9)	(20)	(178)	(138)	(138)
Total liabilities	694	2,865	3,247	4,148	4,822
Assets					
Net fixed assets	76	1,633	1,592	1,632	1,573
Capital WIP	12	94	94	-	2
Total fixed assets	88	1,727	1,686	1,632	1,575
Investments	26	66	1	1	1
Current assets					
Inventory	348	451	1,004	1,211	1,597
Sundry debtors	366	653	1,410	2,471	3,148
Loans and advances	102	416	401	442	561
Cash & bank balance	5	6	88	22	35
Marketable securities	-		-	-	-
Total current assets	820	1,526	2,904	4,147	5,341
Total current liabilities	246	484	1,343	1,631	2,094
Net current assets	574	1,043	1,561	2,516	3,247
Intangibles/Misc. expenditure	7	29	-	-	-
Total assets	694	2,865	3,248	4,148	4,822

Cash flow					
(₹ mn)	FY15E	FY16	FY17#	FY18E	FY19E
Pre-tax profit	87	240	227	383	576
Total tax paid	(35)	(86)	(84)	(37)	(115)
Depreciation	9	13	101	105	108
Working capital changes	(126)	(468)	(436)	(1,021)	(718)
Net cash from operations	(65)	(301)	(192)	(570)	(149)
Cash from investments					
Capital expenditure	(50)	(884)	(31)	(50)	(52)
Investments and others	(8)	(40)	66	-	-
Net cash from investments	(58)	(925)	34	(50)	(52)
Cash from financing					
Equity raised/(repaid)	164	265	7	75	-
Debt raised/(repaid)	(43)	799	250	485	220
Dividend (incl. tax)	-	(16)	(18)	(5)	(7)
Others (incl extraordinaries)	6	179	1	(1)	-
Net cash from financing	127	1,227	240	554	213
Change in cash position	4	1	82	(66)	13
Closing cash	5	6	88	22	35

Quarterly financials					
(₹ mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Net Sales	919	761	1,358	1,315	1,343
Change (q-o-q)	19.3%	-17.2%	78.4%	-3.1%	2.1%
EBITDA	108	105	219	176	185
Change (q-o-q)	30.1%	-2.1%	107.6%	-19.4%	4.9%
EBITDA margin	11.7%	13.8%	16.1%	13.4%	13.8%
PAT	30	20	235	60	61
Adj PAT	30	20	235	60	61
Change (q-o-q)	99.6%	-32.4%	1050.3%	-74.3%	1.9%
Adj PAT margin	3.3%	2.7%	17.3%	4.6%	4.6%
Adj EPS	2.0	1.4	15.9	4.0	4.1

Based on abridged Financials

Source: Company, CRISIL Research

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About CRISIL Limited

CRISIL is an agile and innovative, global analytics company driven by its mission of making markets function better. We are India's foremost provider of ratings, data, research, analytics and solutions. A strong track record of growth, culture of innovation and global footprint sets us apart. We have delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers.

We are majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics and data to the capital and commodity markets worldwide.

About CRISIL Research

CRISIL Research is India's largest independent integrated research house. We provide insights, opinion and analysis on the Indian economy, industry, capital markets and companies. We also conduct training programs to financial sector professionals on a wide array of technical issues. We are India's most credible provider of economy and industry research. Our industry research covers 86 sectors and is known for its rich insights and perspectives. Our analysis is supported by inputs from our large network sources, including industry experts, industry associations and trade channels. We play a key role in India's fixed income markets. We are the largest provider of valuation of fixed income securities to the mutual fund, insurance and banking industries in the country. We are also the sole provider of debt and hybrid indices to India's mutual fund and life insurance industries. We pioneered independent equity research in India, and are today the country's largest independent equity research house. Our defining trait is the ability to convert information and data into expert judgments and forecasts with complete objectivity. We leverage our deep understanding of the macro-economy and our extensive sector coverage to provide unique insights on micro-macro and cross-sectoral linkages. Our talent pool comprises economists, sector experts, company analysts and information management specialists.

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Last updated: April 2016

Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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