

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 Fundamental Grade	Assessment	CRISIL 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% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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CMI Ltd

December 18, 2017

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 ramp-up 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

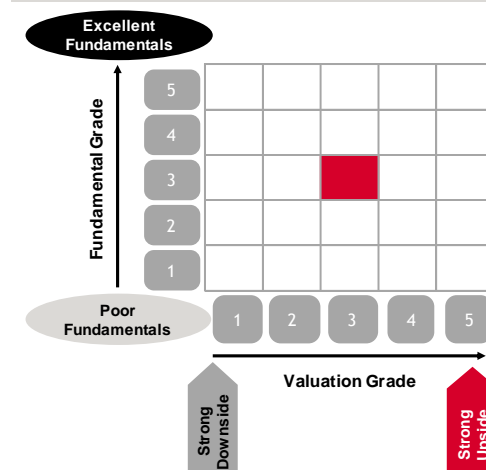
based on abridged financials;

Source: Company, CRISIL Research estimates

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.

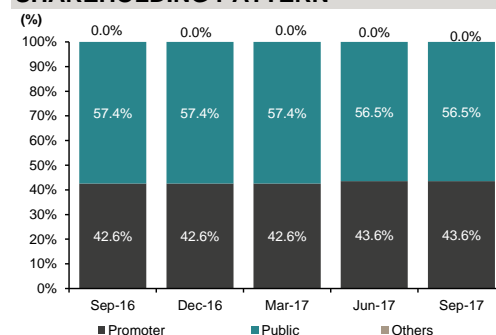
CFV MATRIX



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%

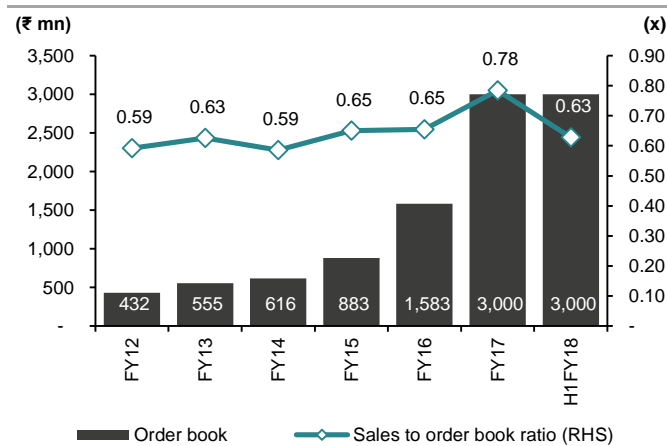
Q2FY18 results summary (Consolidated)

(₹ mn)	Q2FY18	Q1FY18	Q2FY17	q-o-q (%)	y-o-y (%)
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
Tax	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

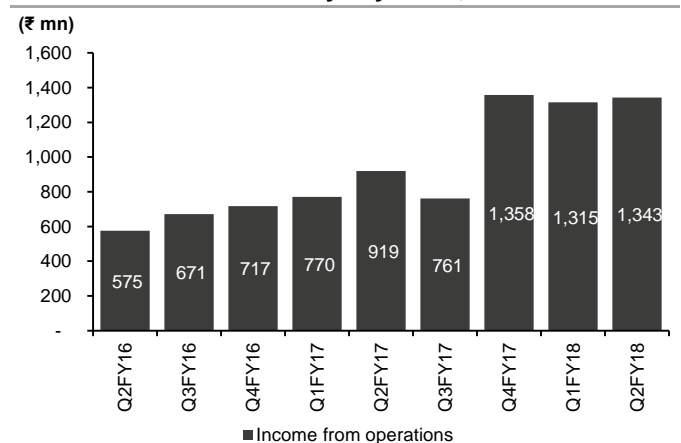
Source: Company, CRISIL Research

Order book at ₹3.0 bn as of Q2FY18



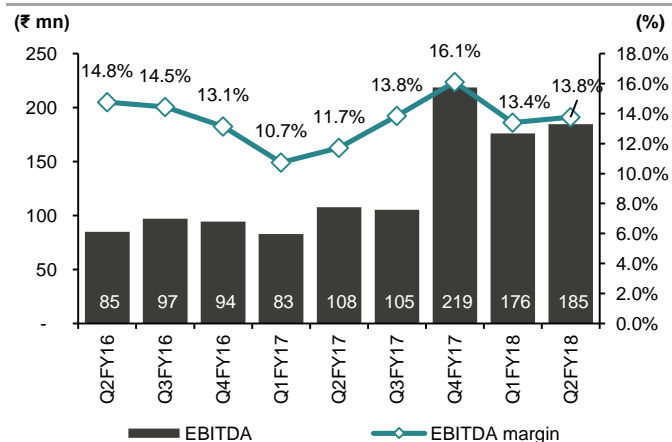
Source: Company, CRISIL Research; * considered TTM sales for H1FY18

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



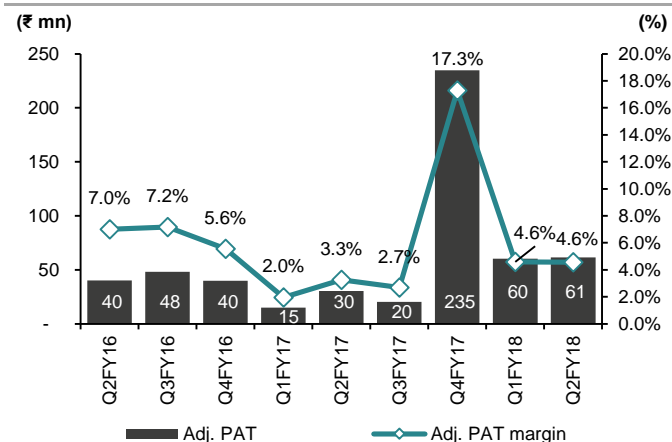
Source: Company, CRISIL Research

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



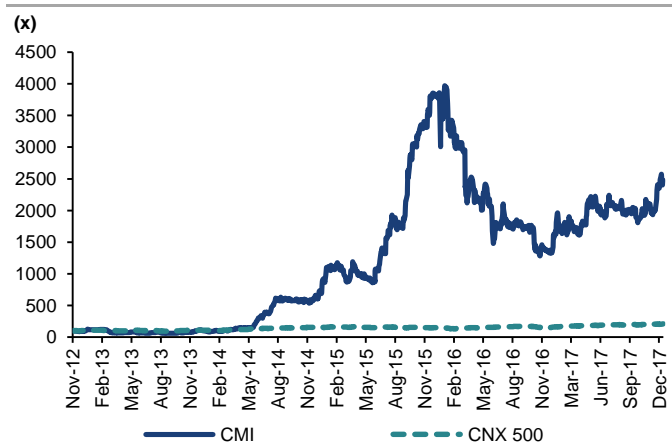
Source: Company, CRISIL Research

...leading to 104% y-o-y increase in PAT to ₹61 mn



Source: Company, CRISIL Research

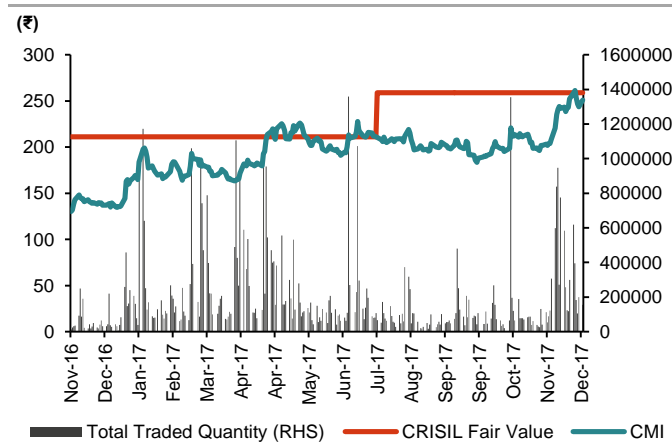
Share price movement



-Indexed to 100

Source: NSE, 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.

(Rs mn)	FY18E			FY19E		
	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%

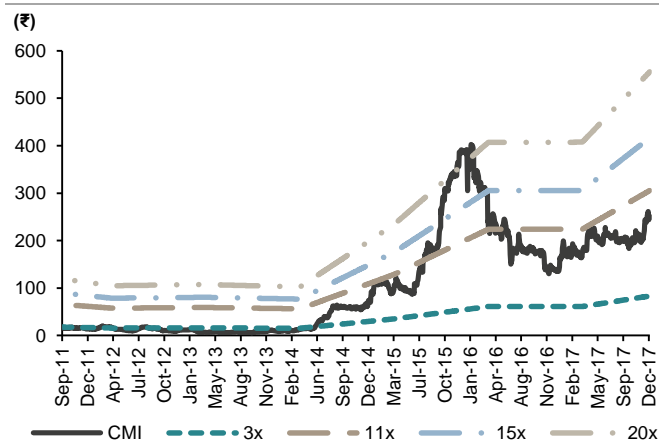
Source: Company, CRISIL Research

Valuation

Grade: 3/5

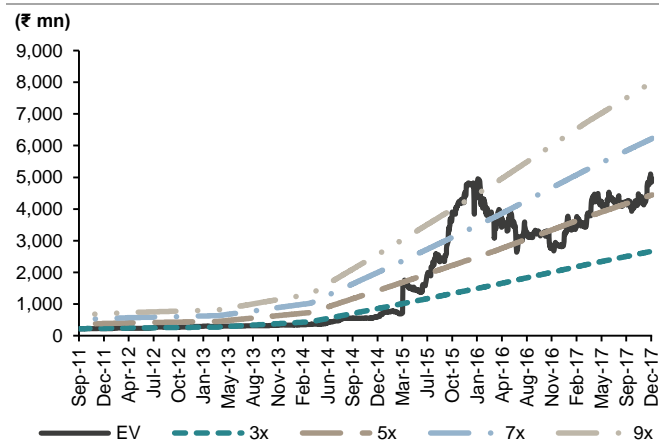
We broadly maintain our earnings estimates for FY18 and FY19. The DCF-based fair value is ₹259. As this fair value, the implied EV/EBITDA multiples are 7.7x FY18E and 6.3x FY19E EBITDA. At the current market price of ₹244, our valuation grade is **3/5**.

One-year forward P/E band



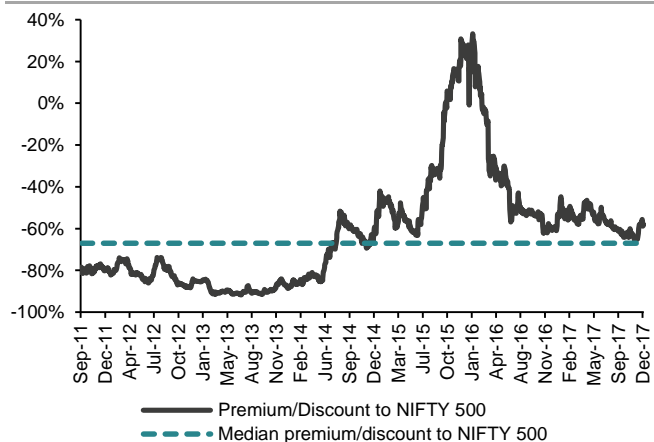
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



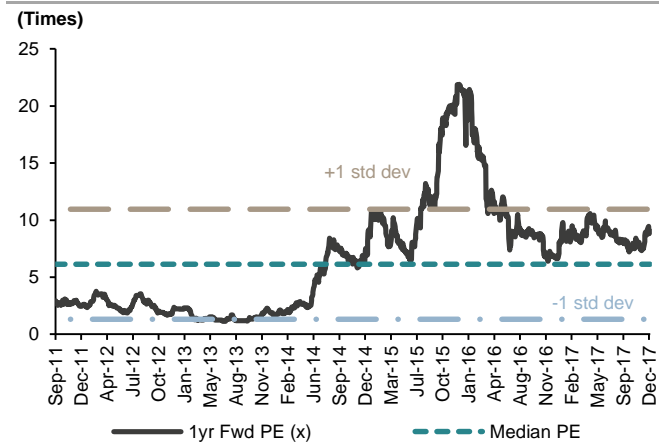
Source: NSE, CRISIL Research

P/E – premium / discount to Nifty 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on CMI Ltd

Date	Nature of report	Fundamental		Valuation		CMP (on the date of report)
		grade	Fair value	grade		
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

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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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