Research

CRISIL An S&P Global Company

CRISIL IER

Independent Equity Research

Enhancing investment decisions

CMI Ltd

Initiating Coverage

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)

Research Analysts

Bhaskar Bukrediwala
bhaskar.bukrediwala@crisil.com

Pratik Chheda
pratik.chheda@crisil.com

Arun Venkatesh
arun.venkatesh@crisil.com

Client servicing desk

+91 22 3342 3561
clientservicing@crisil.com

CMI Ltd

November 23, 2016

Wired for growth in a fragmented industry

Fundamental Grade: 3/5 (Good fundamentals) **Valuation Grade: 5/5 (CMP has strong upside)**

Industry: Cables and Wires **Fair Value: ₹211** **CMP: ₹130**

CMI Ltd, a Delhi-based multi-speciality cables manufacturer, is well placed to capitalise on strong domestic demand for cables owing to timely acquisition of a large capacity plant in Baddi, Himachal Pradesh. The attractively priced acquisition backed by management's proven ability to reroute a small, financially challenged company on the path to rapid growth augur well for CMI. However, in the background of aggressive growth, we expect competition to put pressure on its working capital. We initiate coverage on the company with a fundamental grade of **3/5**.

Investments in end-user segments to drive cables demand in the near to medium term
The cables industry is estimated to grow at ~13% CAGR to ~₹640 bn by FY20 from ~₹390 bn in FY16. Large-scale investments in key end-user segments, in the background of government initiatives such as 'smart cities' and 'housing for all', are expected to drive the demand for cables. While the ₹3.9 trillion railway network decongestion plan, which is underway, is a key driver for signalling cables, we expect power cables to grow 1.5-1.7x in the next three years vis-à-vis the past three years.

Well-timed acquisition of Baddi plant to bolster revenue growth in the near term
In February 2016, CMI acquired the manufacturing plant of General Cable Energy India (GCE), a wholly owned subsidiary of the US-based General Cable Corporation. The plant in Baddi has an installed capacity to potentially generate 3-4x CMI's FY16 revenue. The new plant should lead to product and client diversification; Indian Railways (IR) currently dominates with 52% revenue contribution. As the company scales up operations, we expect revenue to increase at a three-year CAGR of 40% to ₹6.6 bn in FY19. However, we expect CMI's EBITDA margin to contract to 11.5% in FY19 from 13.9% in FY16 owing to competitive intensity.

Relatively commoditised and fragmented industry keeps operating cash flows in check
Cable companies have historically faced challenges in working capital management. CMI, too, has been unable to generate positive operating cash flows, despite strong revenue growth in the past three years. We expect the pressure to continue and managing working capital requirements is a monitorable.

We initiate coverage with fair value of ₹211
We value CMI by the discounted cash flow (DCF) method and arrive at a fair value of ₹211 per share. At this fair value, implied P/E multiples are 9.1x FY18E and 7.2x FY19E EPS. At the current market price of ₹130, our valuation grade is **5/5**.

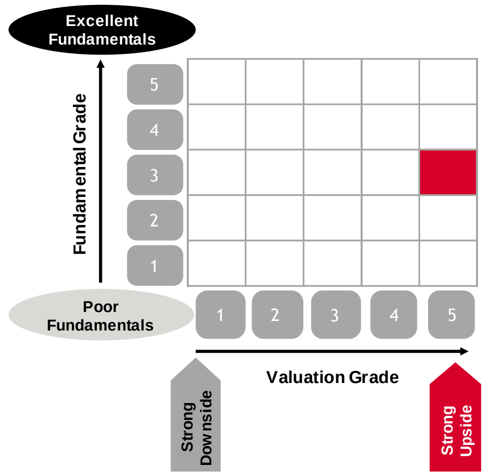
KEY FORECAST

(₹ mn)	FY15	FY16#	FY17E	FY18E	FY19E
Operating income	1,358	2,418	3,769	5,358	6,637
EBITDA	146	337	498	658	762
Adj net income	59	165	247	342	436
Adj EPS (₹)	5.1	11.7	16.7	23.1	29.5
EPS growth (%)	(4.7)	127.7	42.7	38.5	27.4
Dividend yield (%)	-	0.7	0.2	0.2	0.3
RoCE (%)	22.6	18.1	13.9	16.3	16.8
RoE (%)	23.0	15.5	13.1	15.7	17.0
PE (x)	28.2	12.4	7.8	5.6	4.4
P/BV (x)	4.5	1.2	1.0	0.8	0.7
EV/EBITDA (x)	13.6	9.4	6.5	5.1	4.3

NM: Not meaningful; CMP: Current market price

Source: Company, CRISIL Research estimates

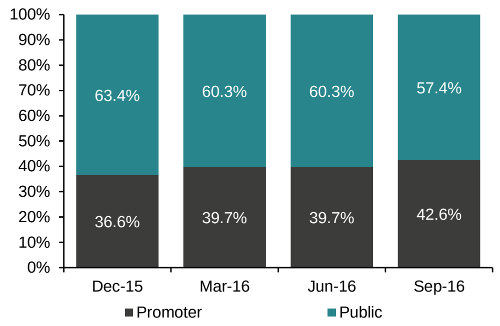
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	25961/8002
NSE/BSE ticker	CMI
Face value (₹ per share)	10
Shares outstanding (mn)	14.8
Market cap (₹ mn)/(US$ mn)	1,918/28
Enterprise value (₹ mn)/(US$ mn)	3,047/45
52-week range (₹)/(H/L)	424/118
Beta	1.2
Free float (%)	57%
Avg daily volumes (30-days)	62,159
Avg daily value (30-days) (₹ mn)	9.5

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
CMI	-23%	-27%	-36%	-62%
CNX 500	-9%	-7%	5%	3%

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.

Table 1: Business environment

Product / segment	Railway signalling cables and quad cables	Instrumentation and control cables	Power cables	Other specialised cables
Revenue contribution (FY16)*	52%	24%	12%	12%
Estimated revenue contribution (FY19E)*	38%	30%	15%	17%
Product / service offering	Cables used for transmission of railway signals	Cables used for connecting instrument circuits and provide communication services	Cables for bulk transfer of electrical energy from generation to sub-stations and then for distribution	Rubber cables and fire retardant cables used in the oil and gas sector, solar cables, air field lighting cables, etc.
Sales growth (CAGR over FY13-16)	88%	38%	2%	12%
Sales forecast (FY16-19)	28-30%	47-50%	50-53%	55-58%
Key competitors	Delton Cables Polycab Vindhya Telelink	KEI Industries Shilpi Cables Paramount Communication	KEI Industries Finolex Cables Sterlite Technologies Universal Cables	KEI Industries Polycab Finolex Cables
Market position	One of the fastest-growing cables manufacturers in India			
Key risks	Rapid scale-up in production and sales may put margins and working capital at risk on account of a fragmented industry			

Note**:** Selected peers in this report include Apar Industries, KEI Industries, Shilpi Cables Technology and Universal Cables

Source: Company, CRISIL Research

Grading Rationale

Strong demand for cables & capacity expansion to boost revenue; fragmented industry to limit profit growth

CMI, one of the leading cables manufacturers in India, is on the growth track thanks to:

a) Expected recovery in demand for speciality cables and conductors resultant of heavy investments in power transmission and distribution, railways, metros and smart city-related infrastructure projects over the next three-five years.

b) Large capacity Baddi plant acquired from GCE, which can enhance the company's revenue generating capacity by 3-4x its FY16 revenue.

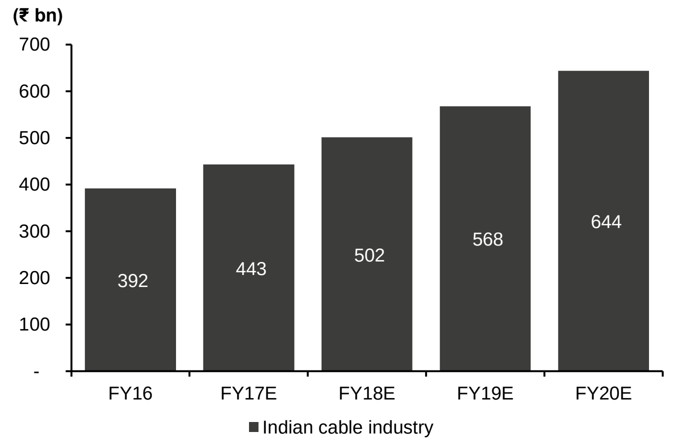
c) The company's strength in the B2B segment and the demonstrated ability to increase revenue significantly with limited dilution of margins and returns.

However, fragmentation in the industry and high competition are expected to curtail the company's ability to scale up and manage revenue growth without significant dilution of margin, leading to working capital constraints.

Wires and cables industry expected to grow at 13% CAGR until FY20

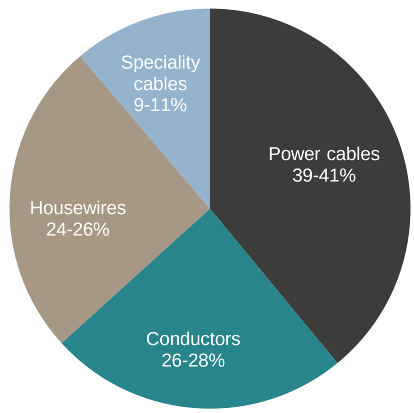
The wires and cables industry in India has grown significantly in the past decade. As per Indian Electrical & Electronic Manufacturer's Association (IEEMA), the estimated size of the industry is ~₹392 bn as of FY16, with power cables forming ~40% of the market. Significant investments across key end-user segments in the background of government initiatives such as 'smart cities' and 'housing for all' are expected to drive the demand for cables. We estimate the industry to grow at ~13% CAGR over FY16-20 and the market size to reach ~₹640 bn by FY20.

Figure 1: Indian wire and cables industry to grow at 13% CAGR over FY16-20



Source: IEEMA, CRISIL Research

Figure 2: Power cables account for ~40% of the cable market as of FY16



Source: IEEMA, CRISIL Research

Table 2: Summary of key demand drivers for the cable industry

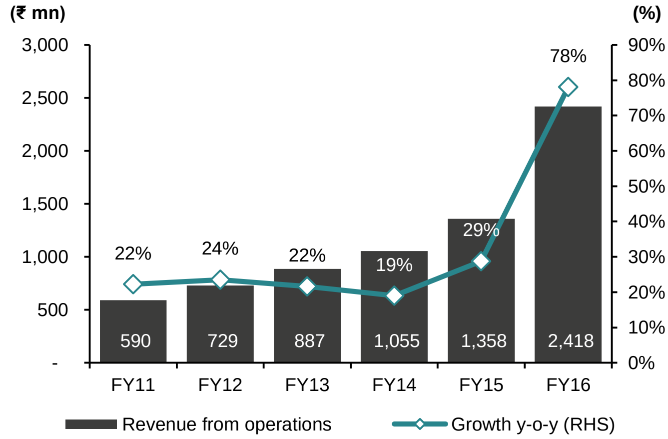
Segments	Key demand drivers	CMI's key products which are likely to benefit
Power (transmission & distribution and solar)	• Rural electrification, through centrally-funded schemes, to create fresh demand for power conductors. In FY16, PGCIL approved projects worth ₹103 bn for system strengthening and integration of renewable energy capacity into the national grid. • The Central government is expected to bid out transmission projects worth ₹1 trillion over the next two-three years, driving sustainable demand for power conductors and power cables for the next three-five years. • We expect 25-26 GW of solar PV capacity additions over FY17-19, boosting demand for cables and conductors. ***We expect the power cables market to expand 1.5-1.7x in the next three years compared to FY14-16. Power conductors are estimated to grow at 10-12% CAGR over FY16-18.***	• Power conductor • Extra-high voltage cables • High-tension and low-tension power cables, flat power cables • Arial bunched cables • Fire alarm cables
Railways	• Railway investments to the tune of ₹8.5 trillion over FY15-19 include ₹3.9 trillion pertaining to network decongestion and expansion. The government plans to electrify up to 33,000 km route by 2020. • In the metro railway space, as of February 2016, the government has sanctioned investments amounting to ~₹1,022 bn. In addition, value of projects yet to be sanctioned amounts to ~₹690 bn. ***Expansion of railway network, railway electrification along with development of metro rail projects – strongly positive for railway signaling cables, quad cables, overhead catenary wires, etc.***	• Railway signaling and power cable • Axle counter and quad cables • Catenary wires • Hard drawn copper wires • Low-smoke zero halogen cables
Smart cities	• As part of the smart city program, approved investments of ₹480 bn in 100 cities planned over five years until 2020. Strengthening of the existing power network is one of the key features. ***As a part of this initiative, overhead wires are expected to be replaced by underground cables, implying immense growth for power cables.***	• Medium and low voltage power cables
Oil and gas	• Investments in India's oil and gas sector are expected to touch ₹2.5-3 trillion over the next few years. Increase in safety measures have augmented demand for fire retardant cables ***Replacement and new demand for speciality cables such as fire retardant and control cables to pick up as safety standards increase.***	• Fire retardant low smoke cables • Fire alarm cables • Instrumentation and control cables, etc.

Source: Company, CRISIL Research

Historic revenue growth driven by IR for the past 3 years; diversification needed for expansion and sustainable growth

CMI's revenue posted robust growth of 33% CAGR over FY11-16. In the past three years, IR accounted for over half of revenue, thus exposing the company to customer concentration risk. The company is in the process of diversifying its product portfolio and tap opportunities in other sectors. As a result, IR's share has reduced to 52% of revenue in FY16 from 62% in FY14. With the acquisition of the Baddi facility (not directly approved for railway business, as of Q1FY17), we expect IR's revenue share to gradually decline to 38-40% by FY19.

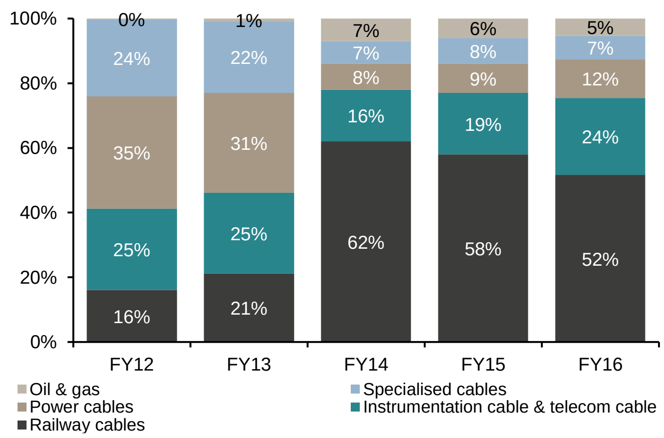
Figure 3: Revenue increased at 33% CAGR over FY11-16



Note: Figures have been reclassified as per CRISIL Research's standard parameters

Source: Company, CRISIL Research

Figure 4: IR's revenue share moderated in FY16



Source: Company, CRISIL Research

Strong and well-entrenched relationship with IR

Orders from IR have played a pivotal role in the company's sharp revenue growth over FY14-16. This is the result of a long-standing relationship with IR with proven capability of consistently meeting IR's standards over the years. For H2 2016, CMI has been empanelled by IR to supply eight of the nine cable products required by it (five of which are under Part I[1] and three under Part II[2]), more than any other player in the industry. We expect revenue from IR to grow at 28-30% CAGR over FY16-19, benefitting from the substantial investments in railways and optimal utilisation of the freed up capacity at CMI's Faridabad plant.

[1] *As per IR, Part I is the regular category of approval given to firms with capability to produce consistent quality material with regular monitoring of quality assurance system.*

[2] *As per IR, Part II is the initial category of approval given to firms whose capability to consistently produce the quality material and satisfactory service life in field is yet to be established. The firm can also be under the Part II category after downgrade from Part I category owing to a specific cause.*

Table 3: CMI is empanelled to supply most signalling and telecom cables to IR

Cables for IR	CMI		Delton Cables		KEI		Polycab		Vindhya Telelinks	
	Part I	Part II	Part I	Part II	Part I	Part II	Part I	Part II	Part I	Part II
Pvc insulated armoured, unscreened, underground, railway signalling cable (above 12 core)	✓						✓		✓	
Pvc insulated armoured, unscreened, underground, railway signalling cable (below 12 core)	✓			✓		✓	✓		✓	
Pvc insulated armoured, unscreened, underground power cable	✓						✓			
Pvc insulated railway signalling indoor multi core cable		✓	✓							
Pvc insulated railway signalling indoor single core cable		✓	✓					✓		
1.4 mm diameter copper conductor 4/6 quad cable		✓						✓	✓	
Polythene insulated polythene sheathed jelly filled telephone cable with poly-al moisture barrier	✓		✓					✓	✓	
underground railway jelly filled telecom quad cables for signalling and telecom installations	✓		✓				✓		✓	
24 fibre armoured optic fibre cable									✓	
Total	**5**	**3**	**4**	**1**	**-**	**1**	**4**	**3**	**6**	**-**

Source: Indian Railways, CRISIL Research

Over the next few years, company to become more diversified; margin and working capital to come under pressure

The addition of the Baddi facility is expected to expand the company's share in the speciality cables industry and increase business in power cables and conductors in India. In the long term, we expect the company to become geographically diversified as steady momentum builds in developing relationships and certifications to target marquee global customers. As a result, we expect IR's share of revenue to reduce from ~52% in FY16 to 38-40% in FY19, and exports to reach ~10% of revenue from ~2% in FY16. The business model is expected to become more diversified and de-risked from a customer concentration and geographic concentration standpoint. However, in this process, we expect the company's margin and working capital to be under pressure owing to larger scale and more complex customer mix.

Acquisition of Baddi facility sets the platform for rapid revenue growth in future

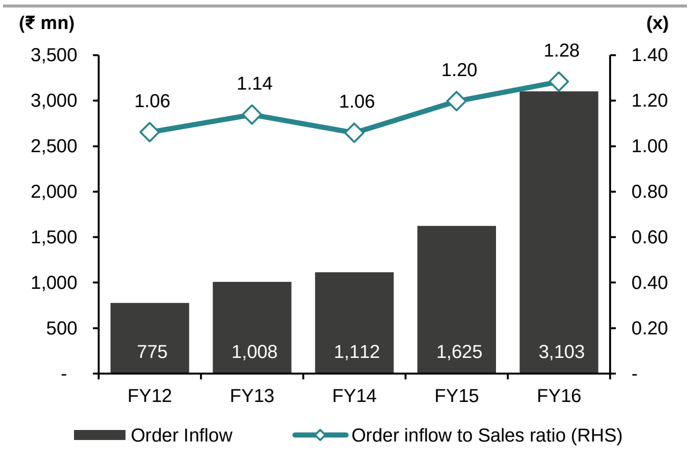
The company acquired the modern manufacturing facility established by General Cable Energy India in FY16. The facility was originally designed to produce building wires and has ~16,000 sq. m cable plant with 35 meter continuous vulcanisation tower. The 'green' facility complies with Indian Green Building Council standards and is designed for energy and water efficient operations. This is a significant factor, as being a 'green supplier' can aid in developing relationships with international customers in addition to aiding energy cost advantage in competing for large volume domestic orders. The cost of acquisition of the facility is lower than the capital cost involved in the building of the plant and is visible in the impairment value of the asset on the financials of the erstwhile General Cable India.

Depending on the product mix and pricing of new orders, we expect the Baddi facility's revenue potential to reach 3-4x CMI's FY16 revenue in the long term at full utilisation (in the backdrop of low metal prices).

Order book of ₹1.6 bn provides visibility for the near term

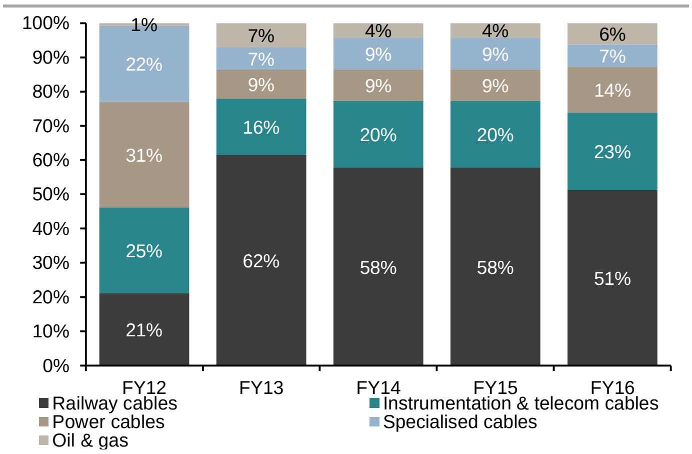
CMI's order book was valued at ₹1.6 bn in FY16 vis-à-vis ₹0.8 bn in FY15, providing revenue visibility for the near term. Order inflow increased 91% to ₹3.1 bn in FY16, of which 51% orders were for supply of signalling and quad cables to IR. We expect the order inflow to pick up in FY17-18, especially for power cables and overhead conductors as the company looks to ramp up operations in Baddi. We estimate order inflows to be ₹10-11 bn over FY17-18.

Figure 5: Order inflow rose 91% to ₹3.1 bn in FY16



Source: Company, CRISIL Research

Figure 6: IR formed 51% of ₹1.6bn order book as of FY16



Source: Company, CRISIL Research

In a fragmented industry, CMI's EBITDA margin relatively better than average of selected peers

The cables industry is commoditised and fragmented; 40-45% are unorganised players. Hence, the industry's EBITDA margin and working capital metrics are constantly under pressure. As of FY16, CMI has one of the highest adjusted EBITDA margin of 13.9% amongst selected peers. Margin significantly expanded in FY15 and FY16 owing to volume expansion and reduction in the selling and general administrative overheads. Going forward, as the company looks to ramp up operations and optimally utilise its capacity at the Baddi plant, we expect EBITDA margin to come under competitive pressure. The company's foray outside of speciality cables, into the high volume and low margin power cables and overhead conductors will be a key factor in achieving revenue growth. In effect, we expect EBITDA margin to gradually reach 11.5% in FY19 from 13.9% in FY16.

Table 4: EBITDA margin for selected peers under pressure; CMI's margin picked up in FY15-16

Company	FY12	FY13	FY14	FY15	FY16
Apar Industries	6.1%	6.8%	6.6%	5.2%	7.4%
CMI	9.0%	9.1%	8.6%	10.8%	13.9%
KEI	9.0%	10.3%	9.7%	9.8%	10.9%
Shilpi Cable Technologies	10.9%	11.0%	9.8%	8.1%	~9.2%
Universal Cables	2.5%	4.7%	-0.2%	3.8%	10.0%

Note: Figures have been recomputed as per CRISIL Research's standard parameters

Source: Companies, CRISIL Research.

Table 5: Selling and other expenses for CMI below the median amongst selected peers

Particulars	FY12	FY13	FY14	FY15	FY16
Apar Industries	5.8%	6.9%	5.9%	6.4%	6.7%
CMI	3.4%	4.0%	3.5%	3.7%	2.0%
KEI	5.8%	5.1%	5.6%	5.7%	5.6%
Shilpi Cable Technologies	1.4%	1.2%	1.0%	1.1%	~1.1%
Universal Cables	6.8%	3.7%	5.2%	2.9%	4.2%

Note: Figures have been recomputed as per CRISIL Research's standard parameters

Source: Companies, CRISIL Research

Fragmented industry puts pressure on working capital for most players

The highly competitive cables industry keeps the working capital requirements relatively higher for players in the B2B market. CMI is slightly better off than selected peers, though still broadly maintaining its debtors at a high 85-90 days over FY14-16. CMI's creditor days are slightly aggressive, in part attributable to its relatively lower scale of operations. As the company scales up, we expect creditor days to increase to 77 days in FY19 vis-à-vis 68 days in FY16.

Table 6: Debtor days high for industry; CMI at median level amongst selected peers in FY16

Particulars	FY12	FY13	FY14	FY15	FY16
Apar	82	60	80	83	72
CMI	78	82	73	89	88
KEI	97	84	90	81	84
Shilpi	188	124	144	118	~130
Universal	71	119	130	124	139

Note: Figures have been recomputed as per CRISIL Research's standard parameters

Source: Companies, CRISIL Research

Table 7: Inventory days for CMI higher than average of selected peer for FY16

Particulars	FY12	FY13	FY14	FY15	FY16
Apar	79	68	92	76	65
CMI	117	121	129	109	81
KEI	83	95	113	103	91
Shilpi	46	47	43	31	~30
Universal	67	82	67	65	75

Note: Figures have been recomputed as per CRISIL Research's standard parameters

Source: Companies, CRISIL Research

Table 8: Creditor days slightly aggressive amongst compared peers

Particulars	FY12	FY13	FY14	FY15	FY16
Apar	113	135	123	126	116
CMI	68	81	64	64	68
KEI	111	103	108	110	102
Shilpi	154	101	128	96	~90
Universal	48	100	75	72	84

Note: Figures have been recomputed as per CRISIL Research's standard parameters

Source: Companies, CRISIL Research

Debt/EBITDA higher than that of selected peers

CMI's debt/EBITDA increased to 3.4x in FY16 from 2.3x in FY15 as its total debt increased by ~₹800 in FY16, partly to fund the acquisition of GCE. This caused the ratio to be higher than that of selected peers. In order to funds its working capital requirements, CMI would potentially have to raise further debt. Going forward, CMI's ability to meet its working capital requirements in conjunction with servicing its debt obligations is a key monitorable.

Table 9: As of FY16, debt/ EBITDA higher than that of selected peers

Particulars	FY12	FY13	FY14	FY15	FY16
Apar	4.5	3.1	2.6	1.9	1.0
CMI	4.2	3.9	4.1	2.3	3.4
KEI	3.2	2.7	3.2	2.3	2.0
Shilpi	1.8	1.3	1.3	1.7	~2.1
Universal	10.5	7.2	NM	14.0	4.2

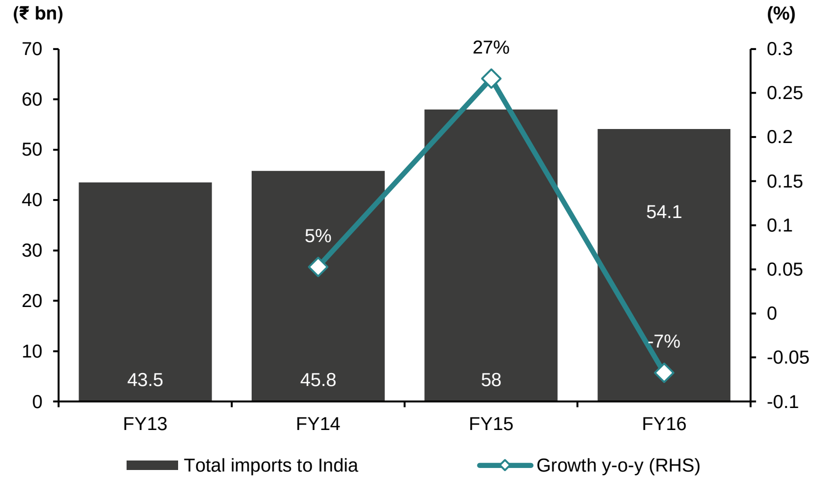
Note: Figures have recomputed as per CRISIL Research's standard guidelines

Source: Companies, CRISIL Research

Import substitution of high value cables presents long-term opportunity; global grade plant positive for exports potential

India's imports of cables (excluding optical fibre cables) have been significant. The value of imported cables increased ~8% between FY13 and FY16. Slight decline in the value of imported cables is in the context of global metal prices declining significantly in FY16. India's imports have been gradually moving to cables with higher value realisations in rupee terms. China, Korea, Germany and the USA account for about two-thirds of the value of imports; China has been steadily gaining share.

Figure 7: Cable imports to India declined to ~₹54 bn in FY16



Source: DGFT, CRISIL Research

With imports accounting for 14-18% of the value of the Indian cables industry over FY13-16, there are significant opportunities for CMI. We expect the company to build on its capabilities and efficiencies from a bigger plant and target substitution of imports in a focused way over the long term.

Further, we expect the company's export credentials to gain over the long term on account of the energy efficient Baddi plant. As the company diversifies from India and engages with customers across the world as part of its international sales process, we expect it to significantly benefit in the vendor qualification criteria pertaining to the manufacturing facility. This is important since key GCC countries, Singapore and South Africa imported over $4 bn worth of cables in 2015.

Key Risks

Rapid expansion to historically untested scale creates operational challenges

As CMI strategically expands scale, higher complexity can impact management of customers and product mix optimally. Weakness in pricing and ability of operations to keep pace with rapid business growth can adversely impact the ability to manage operating margin and working capital, particularly debtor days.

Volatility in commodity prices can weaken working capital situation

Sudden rise in copper and aluminium prices in the backdrop of planned business growth can adversely impact raw material procurement and inventory costing. This is a significant risk for the highly fragmented and competitive cables industry.

Slowdown in new orders can impact capacity utilisation, projections

Although the outlook for cables demand is positive, delay in awarding of new projects or cancellation of orders can impact the company's utilisation of capacity and, accordingly, our financial projections.

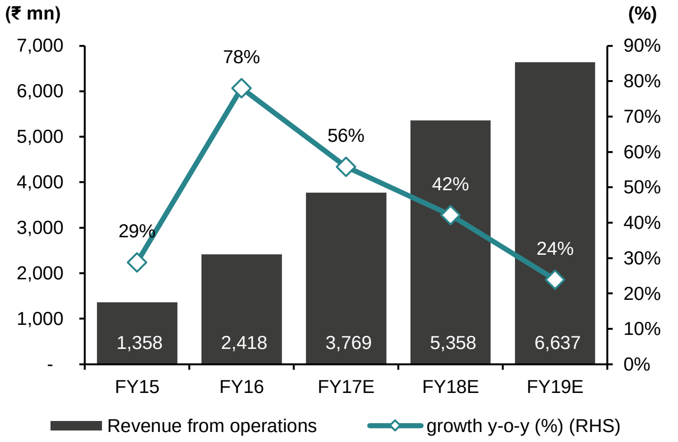
Financial Outlook[3]

Revenue to grow at 40% CAGR over FY16-19

Revenue is expected to grow at a three-year CAGR of 40% to ₹6.6 mn in FY19. The power segment is expected to grow the fastest at 47-50% CAGR, driven by large government spending on power transmission and distribution. The railway segment is likely to post healthy CAGR of 28-30%, augmented by expected optimal use of capacity at the Faridabad plant.

Power cables to drive revenue growth over the next two-three years

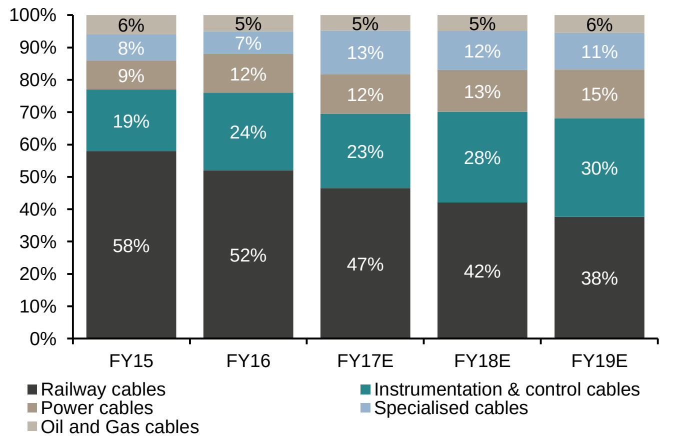
Figure 8: FY19 estimated revenue to be 2.8x of FY16



Figures have been reclassified as per CRISIL Research's standard parameters

Source: Company, CRISIL Research

Figure 9: Share of power cables to rise to 30%



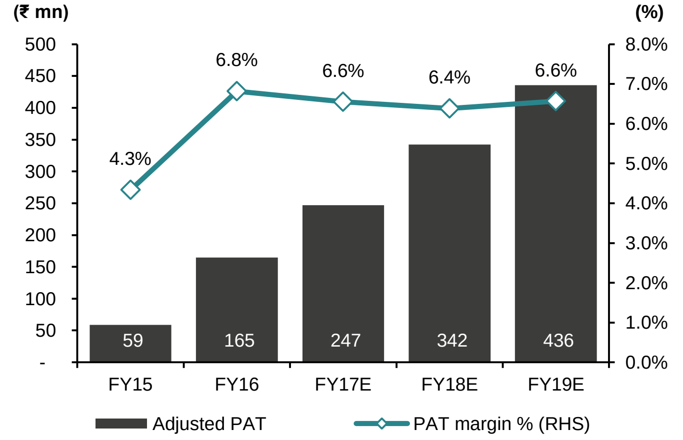
Source: Company, CRISIL Research

PAT to grow at 38% CAGR over FY16-19E; margin likely to contract in the near term

We expect PAT to grow at a slightly lower CAGR of 38% over FY16-19. While strong revenue growth of 40% is a driver of PAT growth, slight decrease in EBITDA margin is an inhibitor, as PAT margin is estimated to drop to 6.6% in FY19 from 6.8% in FY16.

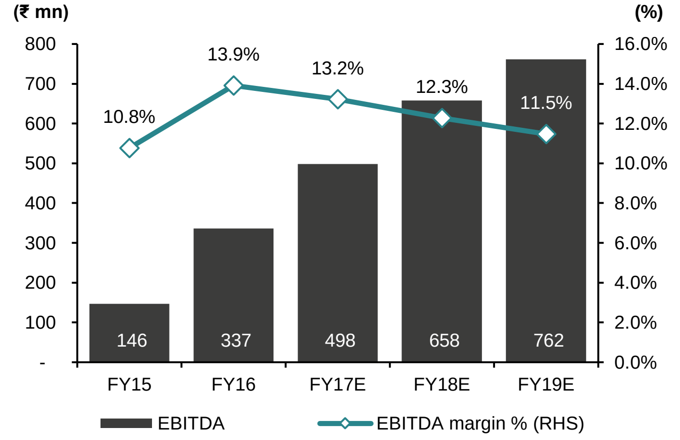
[3] Figures have been reclassified as per CRISIL Research's standard parameters

Figure 10: PAT margin to contract 20 bps over FY16-19E



Source: Company, CRISIL Research

Figure 11: EBITDA margin to moderate to 11.5% by FY19

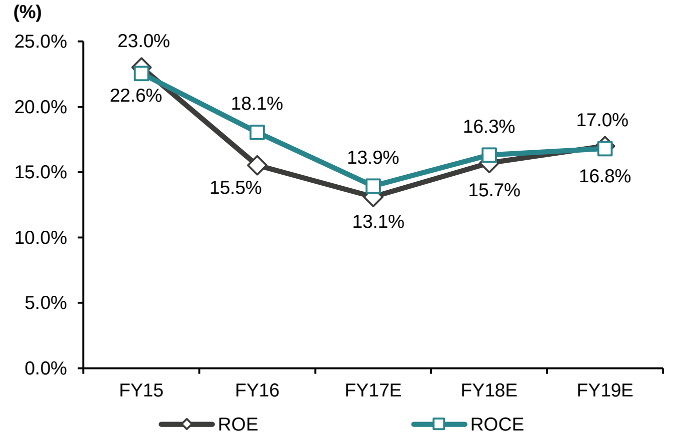


Source: Company, CRISIL Research

Return ratios to gradually improve

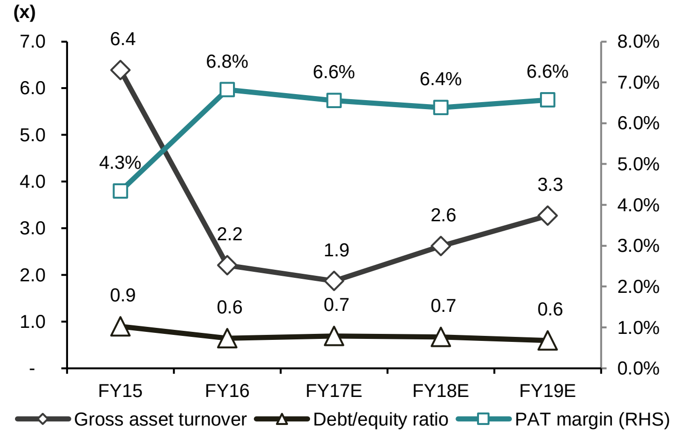
Owing to the acquistion of GCE, financed via debt and equity in March 2016, RoCE dropped to ~18 in FY16 from 22.6% in FY15 and RoE dropped to 15.5% in FY16 from 23% in FY15. As operations at the Baddi plant ramp up, we expect RoCE to gradually recover to 16.8% and RoE to improve to 17% by FY19 from 15.5% in FY16. We expect the Bawal (Haryana) facility, which is held as land and building, to be sold in FY18.

Figure 12: RoE & RoCE to gradually improve …



Source: Company, CRISIL Research

Figure 13: …driven by improving asset turns

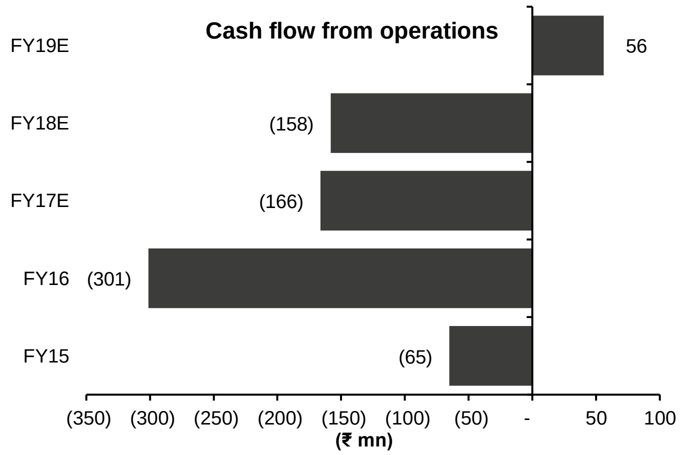


Source: Company, CRISIL Research

Operating cash flow to remain a concern until FY19

Owing to challenging working capital requirements of the industry, CMI has been unable to generate operating cash flows despite strong revenue growth and improving EBITDA margin in the past three years. We expect working capital requirements to remain challenging, with the company generating postive operating cash flow only by FY19.

Figure 14: Operating cash flow to remain negative until FY20



Note: Parameters are as per CRISIL Research estimates

Source: Company, CRISIL Research

Management Overview

CRISIL's fundamental grading methodology includes a broad assessment of management quality, apart from other key factors, such as industry and business prospects, and financial performance.

Experienced top management

CMI has an experienced management team headed by Mr Amit Jain, Managing Director. The management team has, on average, three decades of experience in the cables and metals industry. Under the guidance of the current management, the company has been able to turn around from a financially weak and small cable player to a company with larger scale, bigger product portfolio and profits over the past decade.

Support from second line

While promoters hold key management positions, the second line, comprising industry professionals with significant domain expertise, manages all the business verticals. Our interactions indicate the second line is well versed with the day-to-day operations of the company and ably supports the top management team for its immediate growth aspirations. However, over the longer term, we expect the company to expand its second line, as it expands further.

Good performance record

Over the past decade, CMI has established a track record of strong financial performance, despite volatility in raw material prices and rising competition. Management has been able to turn around the performance by expanding its product mix and scaling up the existing operations, with growth in revenue and EBITDA in nine of the previous 10 years. Additionally, with acquisition of GCC’s wholly owned subsidiary, the company is well positioned to strengthen its product portfolio and achieve robust growth in earnings in the near to medium term.

Corporate Governance

CRISIL's fundamental grading methodology includes a broad assessment of corporate governance and management quality, apart from other key factors such as industry and business prospects, and financial performance. In this context, CRISIL Research analyses the shareholding structure, board composition, typical board processes, disclosure standards and related-party transactions. Any qualifications by regulators or auditors also serve as useful inputs while assessing a company's corporate governance.

Corporate governance at CMI is commensurate with its size. This is in the backdrop of rapid growth in business and turnaround from financial distress to becoming one of the leaders in operating margin.

The board comprises seven directors, five of whom are non-executive independent directors, which meets Clause 49 of SEBI's listing agreement. The company has all the necessary committees – audit, stakeholders, corporate social responsibility, nomination and remuneration – in place.

Relatively weak disclosure levels

Based on the information furnished in the annual reports, presentations, websites and quarterly earnings call, CMI's disclosure levels are relatively weak in comparison to its publicly listed peers. For instance, historically, there have been no periodic conference calls on results or regularly updated company presentations or data on order book positions.

Weak quality of earnings; dividend payout started in FY16

Weak quality of earnings: Operating cash flows have been negative historically (though reducing as percentage of revenue until FY15), indicating weakness in the quality of earnings. As typically characteristic of the cables industry, high working capital requirements adversely impact operating cash flow.

Started dividend payout in FY16: The company started paying dividends in FY16. In that fiscal, dividend amounted to 1% of the reported PAT.

Fund raising and associated processes: In FY15 and FY16, the company raised equity by allocating equity shares on a preferential basis. The BSE had suspended trading in the company's stocks on March 29, 2016 in relation to allocation of preferential shares. However, management clarified that the suspension was attributable to the process/ documentation related aspects. The stock commenced trading within one business day on March 31, 2016.

Independent directors: In July 2016, the company appointed Mr Kishor Otswal as one of the independent directors. As of September 2016, CNI Research Ltd, where Mr Otswal is the managing director, holds 300,000 shares of CMI, which is more than 2% of issued shares. An independent director with significant shareholding can potentially create a conflict of interest.

Valuation Grade: 5/5

We value CMI by the DCF method to arrive at a fair value of ₹211 per share. At this value, implied P/E multiples are 9.1x FY18E and 7.2x FY19E EPS, and EV/EBITDA multiples are 6.9x FY18E and 5.9x FY19E EBITDA. The stock is currently trading at ₹130, implying P/E multiples of 5.6x FY18E and 4.4x FY19E. At the current stock price, the valuation grade is **5/5.**

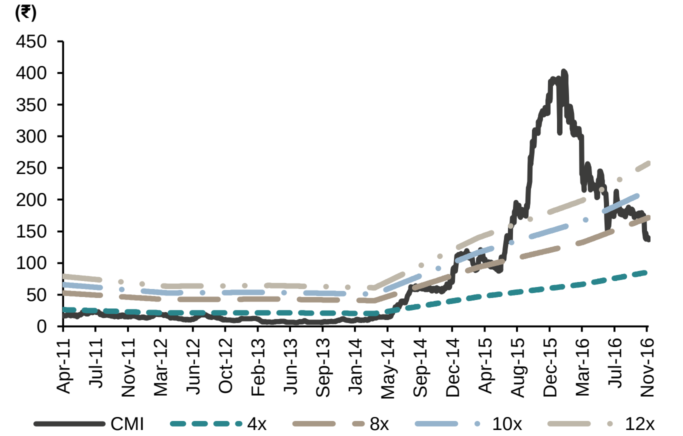
Key DCF assumptions

- We have taken FY19 as the base year and have discounted the estimated free cash flows from FY17E to FY27E.
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period.

WACC computation

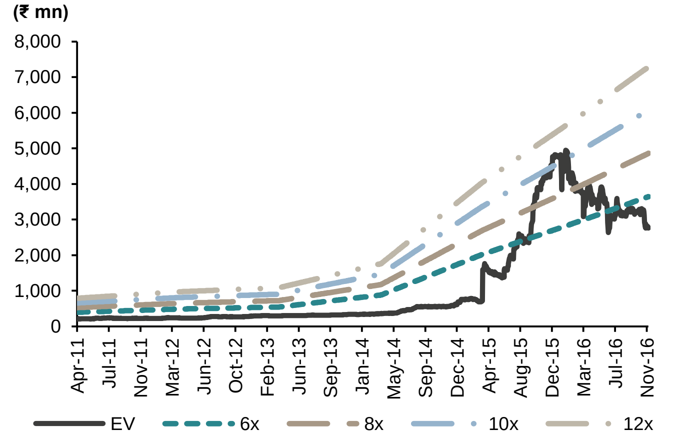
	FY17-26E	Terminal value
Cost of equity	19.5%	19.5%
Cost of debt (post-tax)	10.1%	10.1%
WACC	**15.0%**	**15.0%**
Terminal growth rate		3.00%

One-year forward P/E band



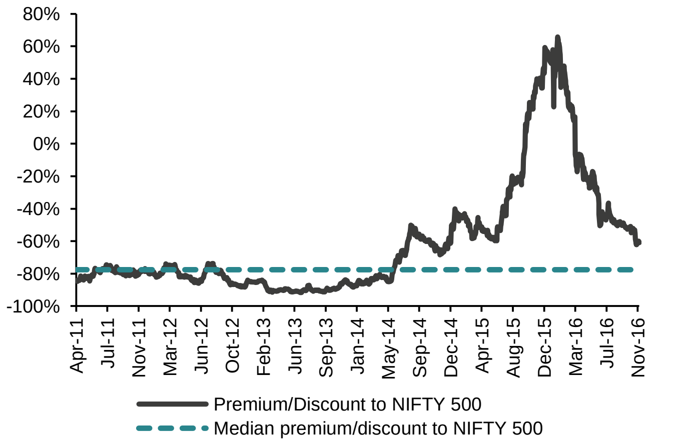
Source: BSE, CRISIL Research

One-year forward EV/EBITDA band



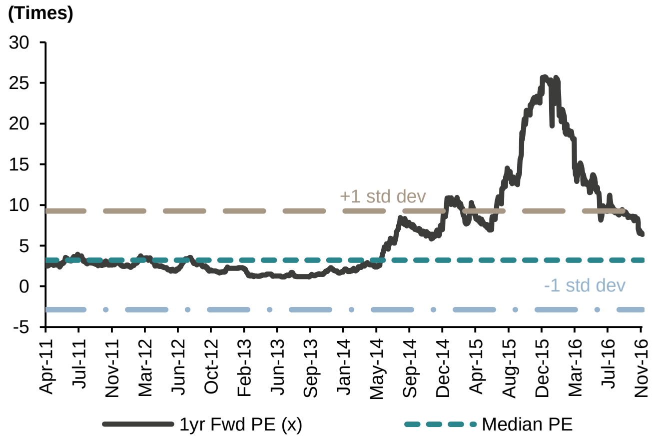
Source: BSE, CRISIL Research

P/E – premium / discount to NIFTY 500



Source: BSE, CRISIL Research

Forward P/E

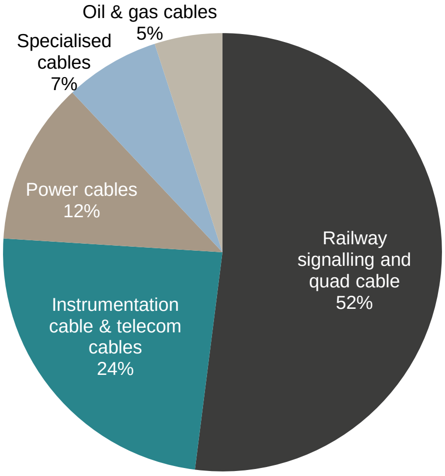


Source: BSE, CRISIL Research

Company Overview

Delhi-based CMI was incorporated in 1967 and was originally known as Choudhari Metal Industries. It was renamed CMI Ltd in 1988. Initially, the company was engaged in the trading of copper metal rods, copper melting and rod casting. From 1992 onwards, it diversified to cables and started manufacturing telecom, control and instrumentation cables for government projects and private players. In 1993, CMI came out with its initial public issue (IPO) and got listed on the Bombay Stock Exchange (BSE).

Figure 15: Business segment-wise contribution in FY16



Source: Company, CRISIL Research

Table 10: Key milestones (calendar years)

1967	Incorporated as a metal trading business
1988	Renamed CMI Ltd
1992	Started manufacturing telecom, control and instrumentation cables for government and private projects
1993	Came out with its IPO and got listed on the BSE
1994	Became an approved vendor for IR and started manufacturing signalling cables
1996	Started manufacturing jelly filled cables for IR
2007	Developed quad and signalling cables for IR
2009	Developed cables for Delhi Metro with low smoke zero halogen (LSZH) compound
2014	Developed cables for Hitachi, Japan. Also supplied cables to Bangladesh as per international specifications
2015	Developed fire survival cables
2015	Acquired Danish firm's FL Smidth unit in Bawal, Haryana
2016	Acquired General Cable Energy India Pvt Ltd, a wholly owned subsidiary of General Cable Corporation

Annexure: Financials

Income statement

(₹ mn)	FY14	FY15E	FY16	FY17E	FY18E	FY19E
Operating income	**1,055**	**1,358**	**2,418**	**3,769**	**5,358**	**6,637**
EBITDA	**91**	**146**	**337**	**498**	**658**	**762**
EBITDA margin	**8.6%**	**10.8%**	**13.9%**	**13.2%**	**12.3%**	**11.5%**
Depreciation	8	9	13	61	60	59
EBIT	**82**	**138**	**324**	**438**	**597**	**703**
Interest	56	59	88	183	222	235
Operating PBT	**27**	**79**	**236**	**255**	**375**	**468**
Other income	2	9	4	5	6	77
Exceptional inc/(exp)	(1)	4	895	-	-	-
PBT	**27**	**91**	**1,135**	**260**	**381**	**545**
Tax provision	10	28	75	13	39	109
Minority interest	-	-	-	-	-	-
PAT (Reported)	**18**	**63**	**1,060**	**247**	**342**	**436**
Less: Exceptionals	(1)	4	895	-	-	-
Adjusted PAT	**19**	**59**	**165**	**247**	**342**	**436**

Ratios

	FY14	FY15E	FY16	FY17E	FY18E	FY19E
Growth						
Operating income (%)	19.0	28.8	78.0	55.8	42.2	23.9
EBITDA (%)	12.0	61.7	130.0	48.1	32.0	15.8
Adj PAT (%)	2.4	208.6	179.9	49.7	38.5	27.4
Adj EPS (%)	2.4	(4.7)	127.7	42.7	38.5	27.4
Profitability						
EBITDA margin (%)	8.6	10.8	13.9	13.2	12.3	11.5
Adj PAT Margin (%)	1.8	4.3	6.8	6.6	6.4	6.6
RoE (%)	14.4	23.0	15.5	13.1	15.7	17.0
RoCE (%)	17.3	22.6	18.1	13.9	16.3	16.8
RoIC (%)	17.3	21.7	14.8	14.3	16.4	19.2
Valuations						
Price-earnings (x)	26.9	28.2	11.1	7.8	5.6	4.4
Price-book (x)	3.6	4.5	1.0	1.0	0.8	0.7
EV/EBITDA (x)	9.8	13.6	8.8	6.5	5.1	4.3
EV/Sales (x)	0.8	1.5	1.2	0.9	0.6	0.5
Dividend payout ratio (%)	-	-	1.3	1.2	1.2	1.2
Dividend yield (%)	-	-	0.7	0.2	0.2	0.3
B/S ratios						
Inventory days	129	109	81	85	86	88
Creditors days	64	64	68	71	74	77
Debtor days	73	89	88	92	95	95
Working capital days	137	138	140	132	128	125
Gross asset turnover (x)	5.4	6.4	2.2	1.9	2.6	3.3
Net asset turnover (x)	19.0	21.1	2.8	2.3	3.3	4.3
Sales/operating assets (x)	19.0	19.3	2.7	2.2	3.3	4.3
Current ratio (x)	3.5	3.3	3.2	3.5	3.3	3.2
Debt-equity (x)	2.7	0.9	0.6	0.7	0.7	0.6
Net debt/equity (x)	2.6	0.9	0.6	0.6	0.6	0.5
Interest coverage						
-EBITDA/Interest	1.6	2.5	3.8	2.7	3.0	3.2
-EBIT/Interest	1.5	2.3	3.7	2.4	2.7	3.0

Per share

	FY14	FY15E	FY16	FY17E	FY18E	FY19E
Adj EPS (₹)	5.4	5.1	11.7	16.7	23.1	29.5
CEPS	7.7	5.9	12.6	20.8	27.2	33.5
Book value	40.0	32.3	124.5	136.2	159.0	188.0
Dividend (₹)	-	-	1.0	0.2	0.3	0.4
Actual o/s shares (mn)	3.5	11.5	14.1	14.8	14.8	14.8

Balance Sheet

(₹ mn)	FY14	FY15E	FY16	FY17E	FY18E	FY19E
Liabilities						
Equity share capital	35	115	141	148	148	148
Reserves	106	256	1,613	1,865	2,202	2,631
Minorities	-	-	-	-	-	-
Net worth	**141**	**370**	**1,753**	**2,013**	**2,350**	**2,779**
Convertible debt	-	-	-	-	-	-
Other debt	375	333	1,131	1,390	1,576	1,662
Total debt	**375**	**333**	**1,131**	**1,390**	**1,576**	**1,662**
Deferred tax liability (net)	(2)	(9)	(20)	(21)	(23)	(24)
Total liabilities	**515**	**694**	**2,865**	**3,382**	**3,903**	**4,417**
Assets						
Net fixed assets	53	76	1,633	1,686	1,572	1,533
Capital WIP	-	12	94	-	-	-
Total fixed assets	**53**	**88**	**1,727**	**1,686**	**1,572**	**1,533**
Investments	18	26	66	72	72	72
Current assets						
Inventory	328	348	451	733	1,072	1,364
Sundry debtors	235	366	653	1,050	1,541	1,909
Loans and advances	60	102	416	377	429	498
Cash & bank balance	2	5	6	85	162	277
Marketable securities	-	-	-	-	-	-
Total current assets	**624**	**820**	**1,526**	**2,245**	**3,203**	**4,048**
Total current liabilities	**179**	**246**	**484**	**650**	**973**	**1,265**
Net current assets	**444**	**574**	**1,043**	**1,595**	**2,230**	**2,783**
Intangibles/Misc. expenditure	**-**	**7**	**29**	**29**	**29**	**29**
Total assets	**516**	**694**	**2,865**	**3,382**	**3,903**	**4,417**

Cash flow

(₹ mn)	FY14	FY15E	FY16	FY17E	FY18E	FY19E
Pre-tax profit	29	87	240	260	381	545
Total tax paid	(11)	(35)	(86)	(14)	(41)	(110)
Depreciation	8	9	13	61	60	59
Working capital changes	(108)	(126)	(468)	(473)	(559)	(438)
Net cash from operations	**(82)**	**(65)**	**(301)**	**(166)**	**(158)**	**56**
Cash from investments						
Capital expenditure	(3)	(50)	(884)	(20)	54	(20)
Investments and others	22	(8)	(40)	(6)	-	-
Net cash from investments	**18**	**(58)**	**(925)**	**(26)**	**54**	**(20)**
Cash from financing						
Equity raised/(repaid)	-	164	265	7	-	-
Debt raised/(repaid)	64	(43)	799	259	186	86
Dividend (incl. tax)	-	-	(16)	(4)	(5)	(7)
Others (incl extraordinaries)	(1)	6	179	9	(0)	-
Net cash from financing	**62**	**127**	**1,227**	**271**	**181**	**79**
Change in cash position	(1)	4	1	80	77	115
Closing cash	2	5	6	85	162	277

Quarterly financials

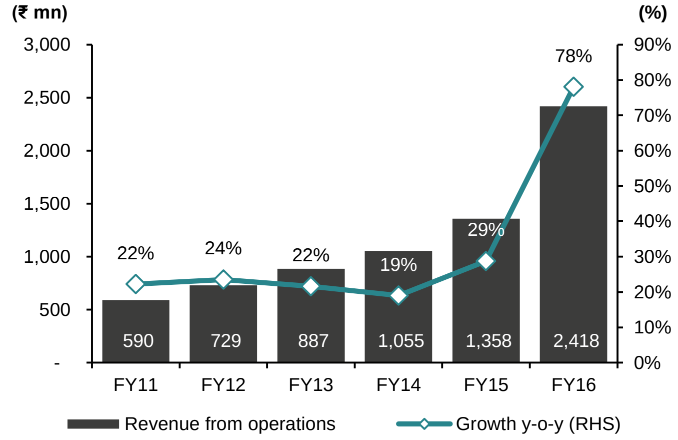
(₹ mn)	Q1FY16	Q2FY16	Q3FY16	Q4FY16	Q1FY17	Q2FY17
Net Sales	**453**	**575**	**671**	**718**	**770**	**828**
Change (q-o-q)	12.5%	26.8%	16.8%	6.9%	7.3%	7.5%
EBITDA	**61**	**85**	**97**	**99**	**108**	**118**
Change (q-o-q)	30.4%	40.3%	14.3%	2.3%	8.7%	9.2%
EBITDA margin	**13.4%**	**14.8%**	**14.5%**	**13.8%**	**14.0%**	**14.2%**
PAT	28	40	48	53	55	56
Adj PAT	**28**	**40**	**48**	**53**	**55**	**56**
Change (q-o-q)	37.3%	41.7%	19.7%	9.4%	4.5%	1.9%
Adj PAT margin	**6.3%**	**7.0%**	**7.2%**	**7.3%**	**7.1%**	**6.8%**
Adj EPS	**2.5**	**3.0**	**3.6**	**3.7**	**3.9**	**3.8**

Note: We have reclassified certain items of the financial statements as per CRISIL Research standard parameters

Source: CRISIL Research

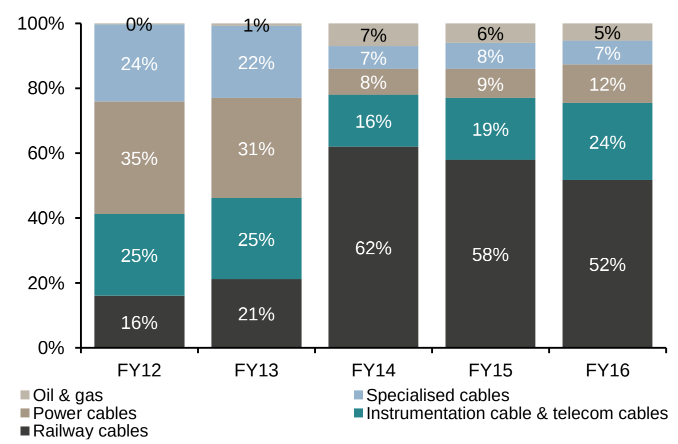
Focus Charts

Revenue increased at 33% CAGR over FY11-16



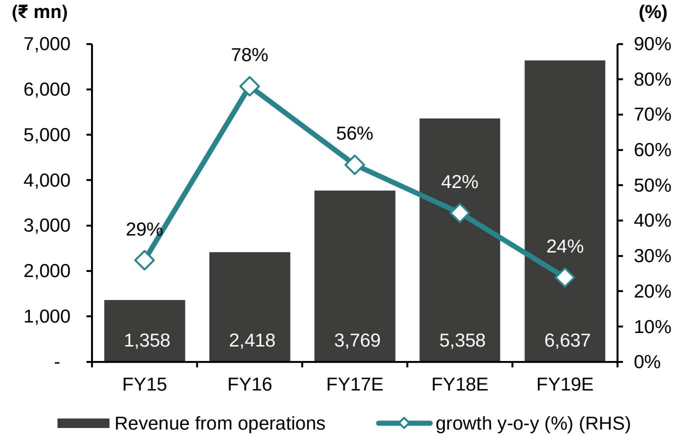
Source: Company, CRISIL Research

Railways accounted for 52% of revenue in FY16



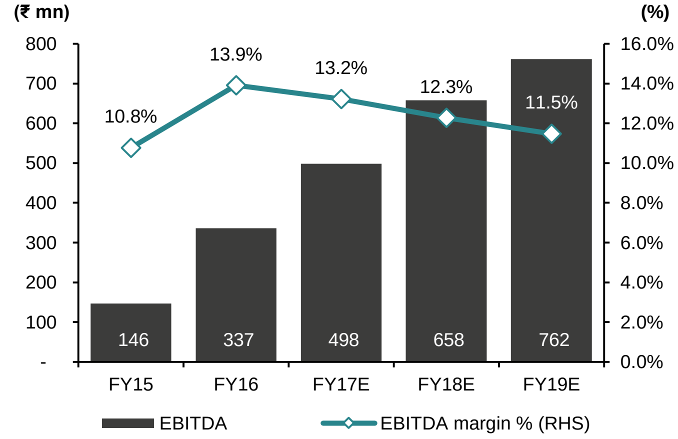
Source: Company, CRISIL Research

Revenue to grow at CAGR of 40% over FY16-19



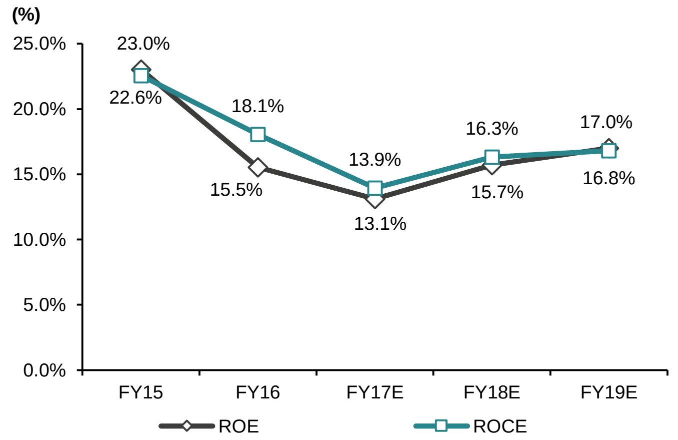
Source: Company, CRISIL Research

EBITDA to contract to 11.5% in FY19



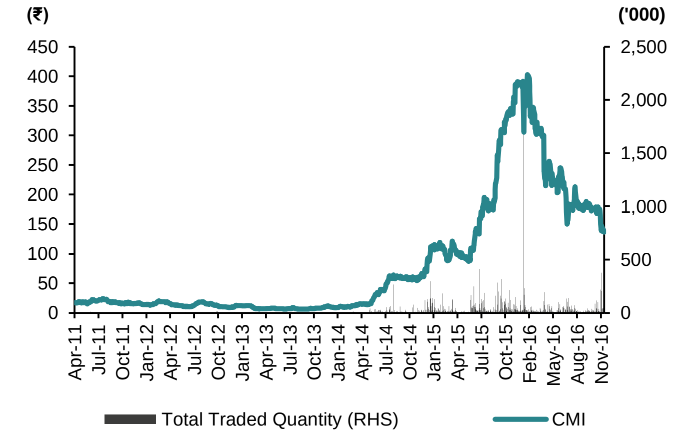
Source: Company, CRISIL Research

RoCE and RoE to gradually improve



Source: Company, CRISIL Research

Share price movement



Source: Company, CRISIL Research

CRISIL Research Team

Senior Director

Nagarajan Narasimhan	CRISIL Research	+91 22 3342 3540	nagarajan.narasimhan@crisil.com

Analytical Contacts

Prasad Koparkar	Senior Director, Industry & Customised Research	+91 22 3342 3137	prasad.koparkar@crisil.com
Binaifer Jehani	Director, Customised Research	+91 22 3342 4091	binaifer.jehani@crisil.com
Manoj Damle	Director, Customised Research	+91 22 3342 3342	manoj.damle@crisil.com
Jiju Vidyadharan	Director, Funds & Fixed Income Research	+91 22 3342 8091	jiju.vidyadharan@crisil.com
Ajay Srinivasan	Director, Industry Research	+91 22 3342 3530	ajay.srinivasan@crisil.com
Rahul Prithiani	Director, Industry Research	+91 22 3342 3574	rahul.prithiani@crisil.com
Bhaskar S. Bukrediwala	Director	+91 22 3342 1983	bhaskar.bukrediwala@crisil.com
Miren Lodha	Director	+91 22 3342 1977	miren.lodha@crisil.com

Business Development

Prosenjit Ghosh	Director, Industry & Customised Research		+91 99206 56299	prosenjit.ghosh@crisil.com
Megha Agrawal	Associate Director		+91 98673 90805	megha.agrawal@crisil.com
Neeta Muliyil	Associate Director		+91 99201 99973	neeta.muliyil@crisil.com
Dharmendra Sharma	Associate Director	(North)	+91 98189 05544	dharmendra.sharma@crisil.com
Ankesh Baghel	Regional Manager	(West)	+91 98191 21510	ankesh.baghel@crisil.com
Sonal Srivastava	Regional Manager	(West)	+91 98204 53187	sonal.srivastava@crisil.com
Sarrthak Sayal	Regional Manager	(North)	+91 95828 06789	sarrthak.sayal@crisil.com
Priyanka Murarka	Regional Manager	(East)	+91 99030 60685	priyanka.murarka@crisil.com
Sanjay Krishnaa	Regional Manager	(Tamil Nadu & AP)	+91 98848 06606	sanjay.krishnaa@crisil.com

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

CRISIL is 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 network of more than 5,000 primary 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 judgements 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.

CRISIL Privacy

CRISIL respects your privacy. We use your contact information, such as your name, address, and email id, to fulfil your request and service your account and to provide you with additional information from CRISIL and other parts of S&P Global Inc. and its subsidiaries (collectively, the "Company") you may find of interest.

For further information, or to let us know your preferences with respect to receiving marketing materials, please visit www.crisil.com/privacy. You can view the Company's Customer Privacy at https://www.spglobal.com/privacy

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.

Disclaimer:

Argentina | China | Hong Kong | **India** | Poland | Singapore | UK | USA

CRISIL Limited: CRISIL House, Central Avenue, Hiranandani Business Park, Powai, Mumbai – 400076. India

Phone: + 91 22 3342 3000 | Fax: + 91 22 3342 3001 | www.crisil.com

/company/crisil @CRISILLimited /CRISILLimited /user/CRISILLimited

CRISIL
An S&P Global Company