

# CRISIL IER

## Independent Equity Research

Enhancing investment decisions



**CMI Ltd**

Q4FY17 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).

<b>CRISIL Fundamental Grade</b>	<b>Assessment</b>	<b>CRISIL Valuation Grade</b>	<b>Assessment</b>
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

July 17, 2017

**Robust quarter ending with strong order book; but, receivables and inventory are monitorables**

**Fundamental Grade: 3/5 (Good fundamentals)**

**Valuation Grade: 3/5 (CMP is aligned)**

**Industry: Cables and wires**

**Fair Value: ₹259 CMP: ₹210**

CMI Ltd's Q4FY17 consolidated revenue was above CRISIL Research's expectations. Revenue increased 89.3% y-o-y and 78.4% q-o-q to ₹1,358 mn, aided by demonetisation-impacted deliveries being executed in Q4. Revenue increased 58.3% to ₹3,827 mn in FY17 owing to ramp-up of operations in the Baddi facility. EBITDA margin expanded 296 bps y-o-y and 226 bps q-o-q to 16.1% in Q4FY17 following strong growth in operating income. EBITDA margin remained stable y-o-y at 13.9% despite start-up cost incurred for the Baddi plant and sharp increase in employee cost. Consequent to growth in revenue, adjusted PAT increased 53% y-o-y to ₹235 mn in Q3FY17. Given strong growth opportunities, especially after the acquisition of the Baddi plant, coupled with capable management, we maintain our fundamental grade of **3/5**.

**Strong order book of ₹3.0 bn to propel growth in the near term**

Order inflows continued to be strong even after demonetisation. The company's order book tallied at ₹3.0 bn, providing revenue visibility of 9-12 months. Approval for the Baddi plant from the Indian Railways would be a key growth driver. We expect order inflow to be robust in the near term and revenue to increase at 38% CAGR over FY17-19 to ₹6.6 bn.

**Expect moderation in EBITDA margin as share of power and telecom cables increases**

We expect EBITDA margin to moderate slightly from FY17. 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 EBITDA to increase at 29% CAGR over FY17-19 to ₹762 mn and EBITDA margin to moderate to 12.2% in FY19 from 13.9% in FY16.

**High receivables could persist in the near term as company looks to expand business**

The company's debtor days rose sharply to 122 days in FY17 vis-à-vis 88 days in FY16, given strong revenue in Q4FY17 (that accounted for over half of FY16 full-year revenue). Similarly, inventory days increased to 120 days in FY17 from 86 days in FY16 owing to the strong build-up in the order book in Q4FY17. Since the company is in a growth phase, we expect the working capital cycle to remain under pressure as it is expected to aggressively compete for new orders.

**Earnings estimates raised, fair value revised to ₹259**

We have increased our earnings estimates owing to higher-than-expected earnings of the company in FY17. We value CMI by the discounted cash flow (DCF) method and raise our fair value to ₹259. At the current market price of ₹210, our valuation grade is **3/5**.

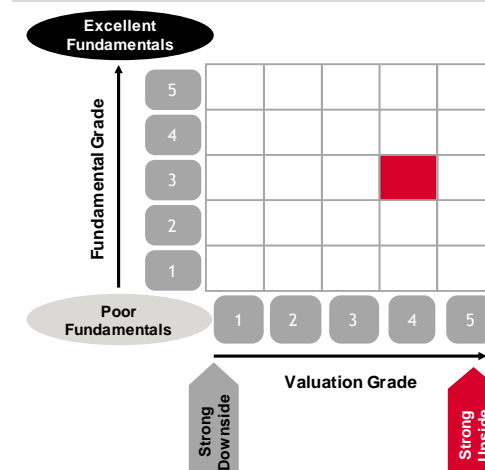
### KEY FORECAST

(₹ mn)	FY15	FY16#	FY17E	FY18E	FY19E
Operating income	1,358	2,418	3,827	5,527	7,284
EBITDA	146	337	534	725	901
Adj Net income	59	165	301	306	461
Adj EPS (₹)	5.1	11.7	20.3	20.7	31.2
EPS growth (%)	(4.7)	127.7	73.7	1.7	50.7
Dividend Yield (%)	-	0.6	0.4	0.1	0.1
RoCE (%)	22.6	18.1	13.7	17.1	19.1
RoE (%)	23.0	15.5	15.5	13.6	17.9
PE (x)	32.1	14.1	12.6	12.4	8.3
P/BV (x)	5.1	1.3	1.8	1.6	1.4
EV/EBITDA (x)	15.2	10.2	9.4	7.4	6.0

# based on abridged financials;

Source: Company, CRISIL Research estimates

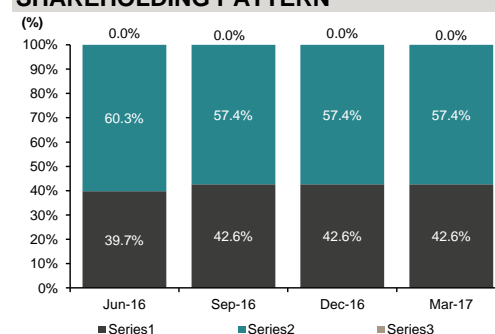
### CFV MATRIX



### KEY STOCK STATISTICS

NIFTY/SENSEX	9886/32021
NSE/BSE ticker	CMI/CMI
Face value (₹ per share)	10
Shares outstanding (mn)	14.8
Market cap (₹ mn)/(US\$ mn)	3,104/48
Enterprise value (₹ mn)/(US\$ mn)	4,322/67
52-week range (₹)/(H/L)	236/118
Beta	1.1
Free float (%)	57%
Avg daily volumes (30-days)	112,976
Avg daily value (30-days) (₹ mn)	24

### SHAREHOLDING PATTERN



### PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
CMI	8%	15%	14%	20%
NIFTY 500	3%	7%	20%	20%

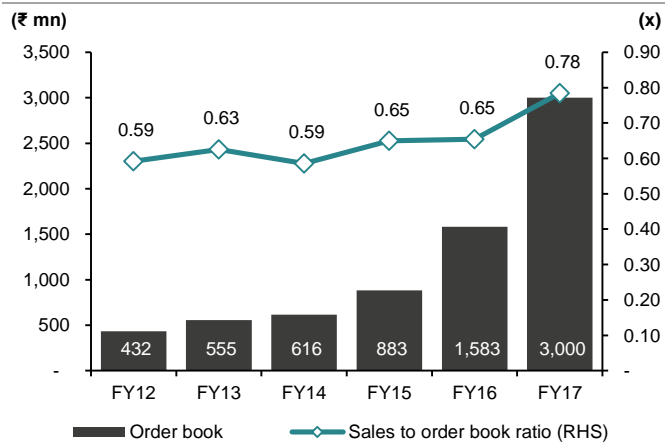
## Q4FY17 results summary (Consolidated)

(₹ mn)	Q4FY17	Q3FY17	Q4FY16	q-o-q (%)	y-o-y (%)	FY17	FY16	y-o-y (%)
<b>Income from operations</b>	<b>1358</b>	<b>761</b>	<b>717</b>	<b>78.4</b>	<b>89.3</b>	<b>3827</b>	<b>2417</b>	<b>58.3</b>
Consumption of raw materials	1004	560	566	79.2	77.4	2912	1916	52.0
<i>Raw materials cost (as a % of net sales)</i>	<i>73.9%</i>	<i>73.6%</i>	<i>78.8%</i>	<i>34 bps</i>	<i>(493) bps</i>	<i>76.1%</i>	<i>79.3%</i>	<i>(318) bps</i>
Employees' cost	40	31	14	29.3	184.4	115	34	241.8
Other expenses	96	65	44	47.2	120.2	267	131	103.9
<b>EBITDA</b>	<b>219</b>	<b>105</b>	<b>94</b>	<b>107.6</b>	<b>131.9</b>	<b>534</b>	<b>337</b>	<b>58.5</b>
<b>EBITDA margin</b>	<b>16.1%</b>	<b>13.8%</b>	<b>13.1%</b>	<b>226 bps</b>	<b>296 bps</b>	<b>13.9%</b>	<b>13.9%</b>	<b>1 bps</b>
Depreciation	25	23	4	12.5	619.3	101	13	692.2
<b>EBIT</b>	<b>193</b>	<b>83</b>	<b>91</b>	<b>133.5</b>	<b>113.0</b>	<b>432</b>	<b>324</b>	<b>33.4</b>
Interest and finance charges	68	53	32	28.4	113.4	206	92	123.1
<b>Operating PBT</b>	<b>126</b>	<b>30</b>	<b>59</b>	<b>318.7</b>	<b>112.7</b>	<b>227</b>	<b>232</b>	<b>(2.2)</b>
Other Income	-	-	113	NM	NM	-	-	NM
Extraordinary Income/(expense)	0	0	791	NM	NM	0	903	NM
PBT	126	30	962	318.7	(87.0)	227	1135	(80.0)
Tax	(109)	10	19	(1,238.3)	(669.2)	(74)	75	(198.5)
PAT	235	20	943	1,050.2	(75.1)	301	1060	(71.6)
Profit / (Loss) of minority interest/associates	-	-	-	NM	NM	-	-	NM
<b>Reported PAT</b>	<b>235</b>	<b>20</b>	<b>943</b>	<b>NM</b>	<b>(75.1)</b>	<b>301</b>	<b>1060</b>	<b>(71.6)</b>
<b>Adj PAT</b>	<b>235</b>	<b>20</b>	<b>152</b>	<b>NM</b>	<b>53.9</b>	<b>301</b>	<b>156</b>	<b>92.1</b>
<b>Adj PAT margin</b>	<b>17.3%</b>	<b>2.7%</b>	<b>21.2%</b>	<b>1,460 bps</b>	<b>(397) bps</b>	<b>7.9%</b>	<b>6.5%</b>	<b>138 bps</b>
No of equity shares (mn)	15	15	15	-	-	15	15	(0.1)
<b>Adj EPS (Rs)</b>	<b>15.9</b>	<b>1.4</b>	<b>10.3</b>	<b>1,050.0</b>	<b>53.9</b>	<b>20.3</b>	<b>10.6</b>	<b>92.4</b>

NM: Not meaningful

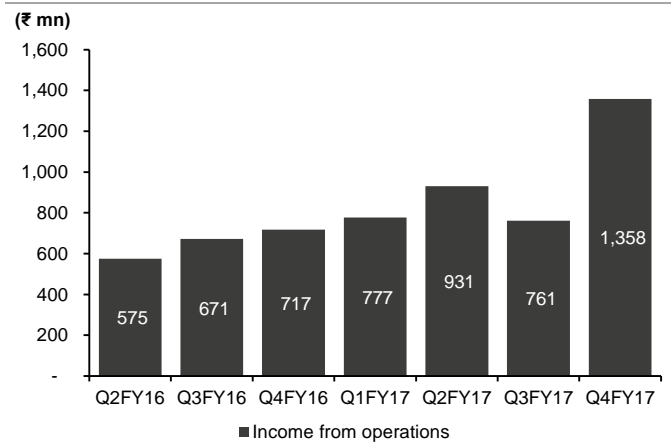
Source: Company, CRISIL Research

## Order book at ₹3.0 bn as of Q4FY17



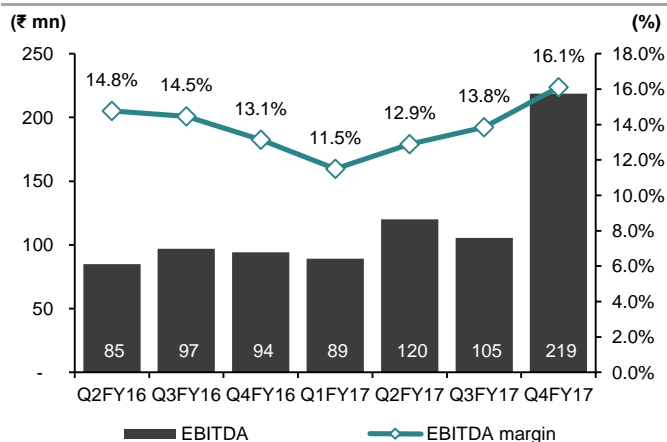
Source: Company, CRISIL Research

## Revenue increased 89% y-o-y to ₹1,358 mn



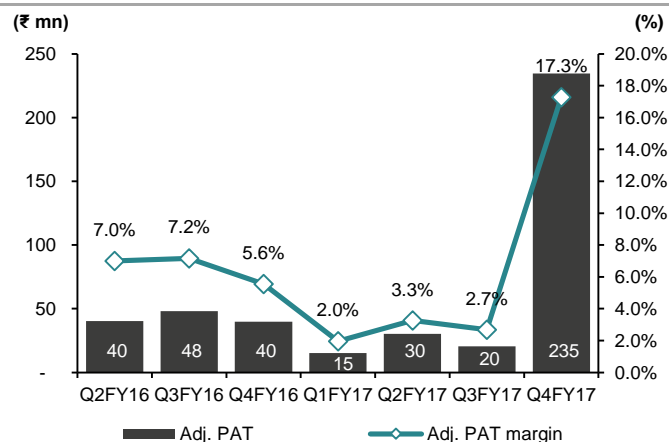
Source: Company, CRISIL Research

**EBITDA margin expanded 296 bps y-o-y to 16.1%...**



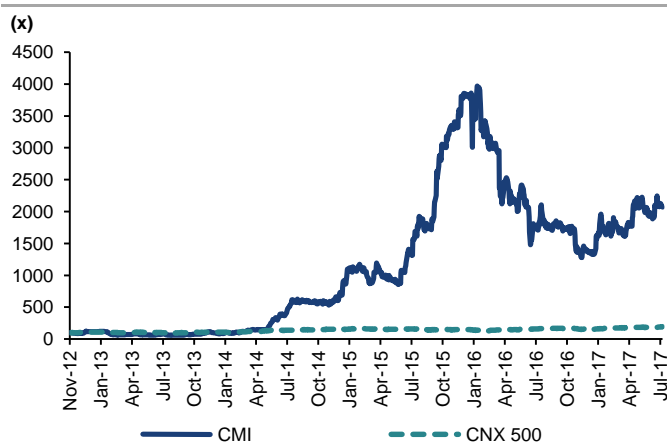
Source: Company, CRISIL Research

**...leading to strong increase in PAT to ₹235 mn**



Source: Company, CRISIL Research

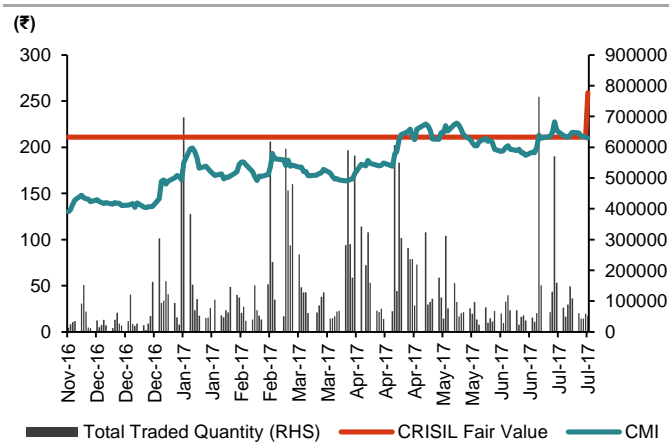
**Share price movement**



-Indexed to 100

Source: NSE, CRISIL Research

**Fair value movement since initiation**



Source: NSE, CRISIL Research

## Revised Estimates

( <i>₹ mn</i> )	FY18E			FY19E		
	Old	New	% change	Old	New	% change
Revenue ( <i>₹ mn</i> )	5,308	5,527	4.1%	6,582	7,284	10.7%
EBITDA	641	725	13.1%	746	901	20.7%
EBITDA margin (%)	12.1%	13.1%	104bps	11.5%	12.4%	86bps
Consolidated PAT	298	306	2.6%	389	461	18.4%
PAT margin (%)	5.6%	5.5%	-8bps	5.9%	6.3%	41bps
EPS- <i>₹</i>	20.2	20.7	2.4%	29.5	31.2	5.6%

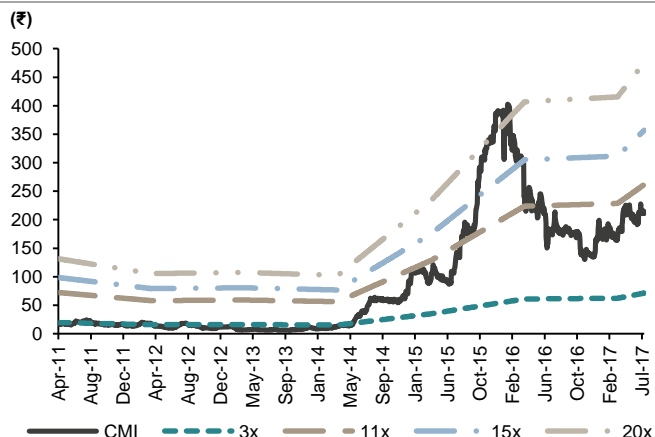
Line item	FY18	FY19
Revenue	Increased on account of higher-than-expected earnings in FY17 and a strong order book	
EBITDA margin	Increased to factor in the relatively better performance in FY17	
PAT	Increased in line with higher revenue and EBITDA estimates, but it is restricted by higher interest outgo	

**Valuation**

**Grade: 3/5**

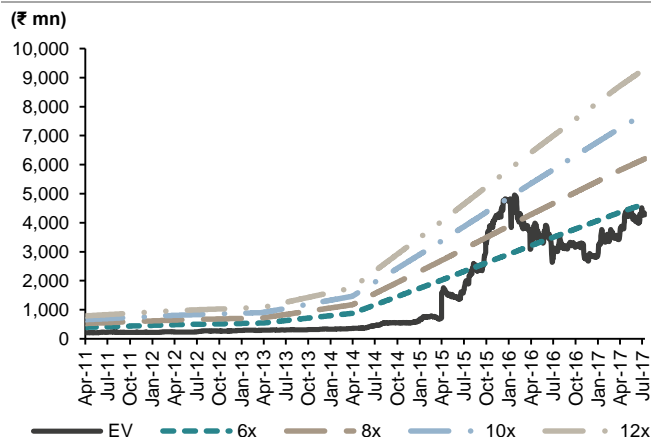
We have increased our earnings estimates to factor in higher-than-expected revenue of the company in FY17. The DCF-based fair value is raised to ₹259. As this fair value, the implied EV/EBITDA multiples are 7.3x FY18E and 6.0x FY19E EBITDA. At the current market price of ₹210, our valuation grade is **3/5**.

**One-year forward P/E band**



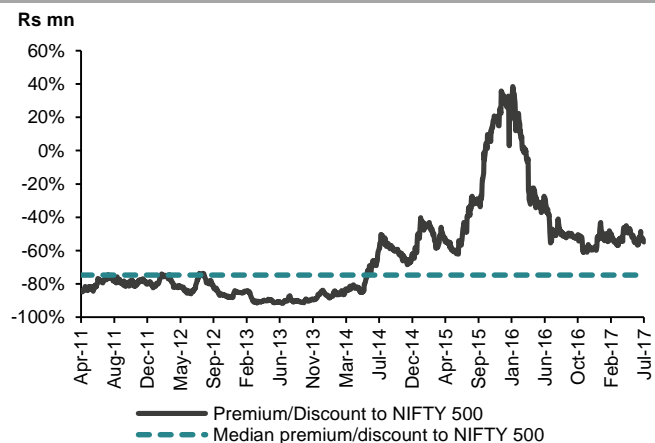
Source: NSE, CRISIL Research

**One-year forward EV/EBITDA band**



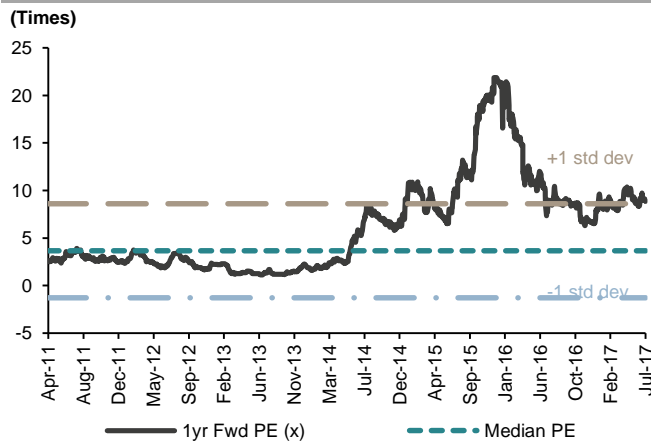
Source: NSE, CRISIL Research

**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	3/5	₹210	





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## About CRISIL Limited

CRISIL is a global, agile and innovative 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 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.

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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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