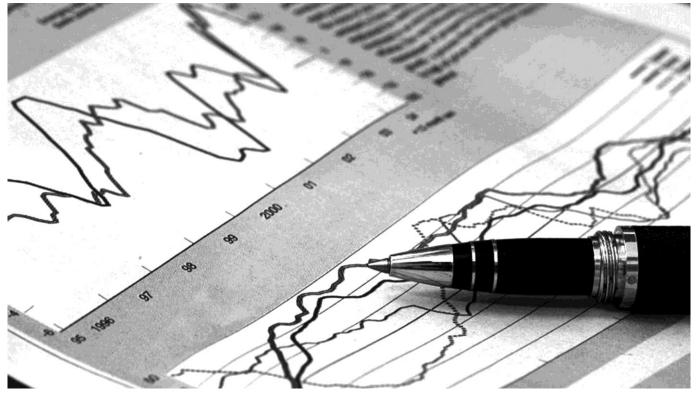


CRISIL IER Independent Equity Research

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).

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 (neg		Downside (negative 10-25% from CMP)		
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)	

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July 17, 2017

CMI Ltd

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 demonetisationimpacted 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**.

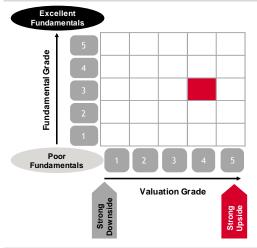
KEY FORECAST

(₹ 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





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%	

For detailed initiating coverage report please visit: www.crisil.com

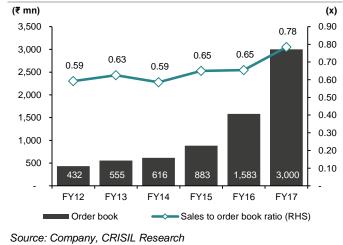
CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

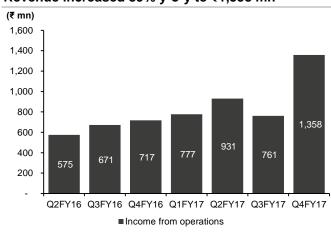
Q4FY17 results summary (Consolidated)

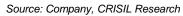
(₹ mn)	Q4FY17	Q3FY17	Q4FY16	q-o-q (%)	у-о-у (%)	FY17	FY16	у-о-у (%)
Income from operations	1358	761	717	78.4	89.3	3827	2417	58.3
Consumption of raw materials	1004	560	566	79.2	77.4	2912	1916	52.0
Raw materials cost (as a % of net sales)	73.9%	73.6%	78.8%	34 bps	(493) bps	76.1%	79.3%	(318) bps
Employees' 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
EBITDA	219	105	94	107.6	131.9	534	337	58.5
EBITDA margin	16.1%	13.8%	13.1%	226 bps	296 bps	13.9%	13.9%	1 bps
Depreciation	25	23	4	12.5	619.3	101	13	692.2
EBIT	193	83	91	133.5	113.0	432	324	33.4
Interest and finance charges	68	53	32	28.4	113.4	206	92	123.1
Operating PBT	126	30	59	318.7	112.7	227	232	(2.2)
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
Reported PAT	235	20	943	NM	(75.1)	301	1060	(71.6)
Adj PAT	235	20	152	NM	53.9	301	156	92.1
Adj PAT margin	17.3%	2.7%	21.2%	1,460 bps	(397) bps	7.9%	6.5%	138 bps
No of equity shares (mn)	15	15	15	-	-	15	15	(0.1)
Adj EPS (Rs)	15.9	1.4	10.3	1,050.0	53.9	20.3	10.6	92.4
NM: Not meaningful								

Source: Company, CRISIL Research

Order book at ₹3.0 bn as of Q4FY17

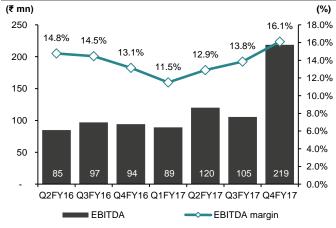






Revenue increased 89% y-o-y to ₹1,358 mn

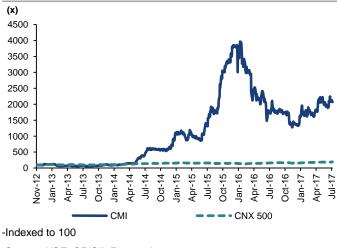




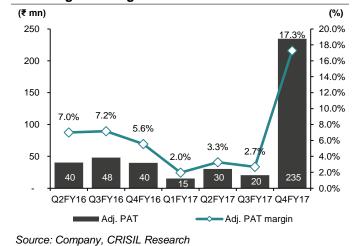
EBITDA margin expanded 296 bps y-o-y to 16.1%...

Source: Company, CRISIL Research

Share price movement

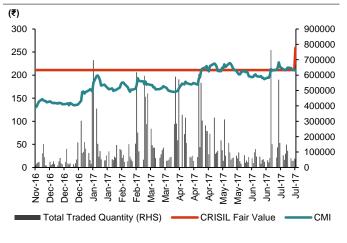


Source: NSE, CRISIL Research



…leading to strong increase in PAT to ₹235 mn

Fair value movement since initiation



Source: NSE, CRISIL Research

Revised Estimates

(T man) –		FY18E			FY19E	
(₹ mn) –	Old	New	% change	Old	New	% change
Revenue (₹ mn)	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-₹	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 estima	tes, but it is restricted by higher interest outgo		

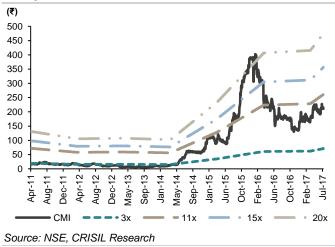
Valuation

Grade: 3/5

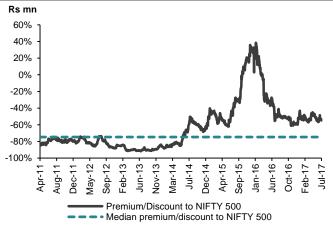
One-year forward EV/EBITDA band

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**.

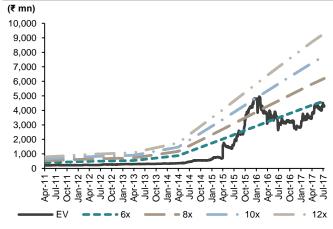
One-year forward P/E band





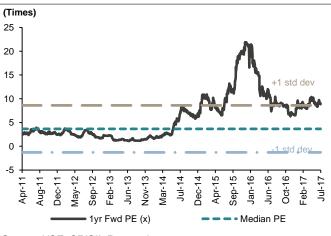


Source: NSE, CRISIL Research





P/E movement





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	3/5	₹210

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	725	901
EBITDA margin	10.8%	13.9%	13.9%	13.1%	12.4%
Depreciation EBIT	9 138	13 324	101 432	98 626	102 799
Interest	59	324 88	432 206	249	272
Operating PBT	79	236	200 227	377	527
Other income	9	4	-	6	49
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					
Ratios	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	35.9	24.3
Adj PAT (%)	208.6	179.9	82.3	1.7	50.7
Adj EPS (%)	(4.7)	127.7	73.7	1.7	50.7
Profitability					
EBITDA margin (%)	10.8	13.9	13.9	13.1	12.4
Adj PAT Margin (%)	4.3	6.8	7.9	5.5	6.3
RoE (%)	23.0	15.5	15.5	13.6	17.9
RoCE (%)	22.6	18.1	13.7	17.1	19.1
RoIC (%)	21.7	14.8	16.4	15.5	18.8
Valuations					
Price-earnings (x)	32.1	14.1	12.6	12.4	8.3
Price-book (x)	5.1	1.3	1.8	1.6	1.4
EV/EBITDA (x)	15.2	10.2	9.4	7.4	6.0
EV/Sales (x)	1.6	1.4	1.3	1.0	0.8
Dividend payout ratio (%)	-	1.3	4.9	1.2	1.2
Dividend yield (%)	-	0.6	0.4	0.1	0.1
B/S ratios					
Inventory days	109	81	121	114	114
Creditors days	64	68	113	101	101
Debtor days	89	88	122	120	120
Working capital days	138	140	121	120	119
Gross asset turnover (x)	6.4	2.2	1.9	2.5	3.2
Net asset turnover (x)	21.1	2.8	2.3	3.2	4.3
Sales/operating assets (x)	19.3	2.7	2.2	3.1	4.3
Current ratio (x)	3.3	3.2	2.0	2.0	2.0
Debt-equity (x)	0.9	0.6	0.6	0.7	0.6
Net debt/equity (x)	0.9	0.6	0.6	0.6	0.6
Interest coverage					
-EBITDA/Interest	2.5	3.8	2.6	2.9	3.3
-EBIT/Interest	2.3	3.7	2.1	2.5	2.9
Per share					
A di EDC (a)	FY15E	FY16	FY17#	FY18E	FY19E
Adj EPS (₹) CEPS	5.1 5.9	11.7	20.3 27.2	20.7 27.3	31.2 38.0
Book value	5.9 32.3	12.6 124.5	144.6	27.3 159.2	38.0 189.9
Dividend (₹)	-	124.5	144.6	0.3	0.4
Actual o/s shares (mn)	11.5	14.1	14.8	14.8	14.8
# Based on abridged Fin			17.0	1 1.0	

(₹ mn)	FY15E	FY16	FY17#	FY18E	FY19E
Liabilities					
Equity share capital	115	141	148	148	148
Reserves	256	1,613	1,990	2,206	2,659
Minorities	-	-	-	-	-
Networth	370	1,753	2,138	2,354	2,807
Convertible debt	-	1,755	2,150	2,334	2,007
Other debt	333	1,131	1,306	1,543	1,643
Total debt	333 333	1,131	1,306	1,543 1,543	1,643
Deferred tax liability (net)	(9)	(20)	(178)	(178)	(178
Total liabilities	(9) 694	. ,	. ,	· · /	•
	694	2,865	3,266	3,719	4,273
Assets	76	4 000	4 000	4 700	4 004
Net fixed assets		1,633	1,686	1,733	1,681
Capital WIP	12	94	94	-	3
Total fixed assets	88	1,727	1,780	1,733	1,684
Investments	26	66	-	-	-
Current assets					
Inventory	348	451	1,004	1,454	1,936
Sundry debtors	366	653	1,410	1,977	2,606
Loans and advances	102	416	401	442	561
Cash & bank balance	5	6	88	16	15
Marketable securities	-		-	-	-
Total current assets	820	1,526	2,904	3,888	5,117
Total current liabilities	246	484	1,418	1,902	2,528
Net current assets	574	1,043	1,487	1,987	2,589
Intangibles/Misc. expenditure	7	29	-	-	-
Total assets	694	2,865	3,267	3,719	4,273
Cash flow (₹ mn)	FY15E	FY16	FY17#	FY18E	FY19
Pre-tax profit	87	240	227	383	576
Total tax paid	(35)	(86)	(84)	(77)	(115
Depreciation	(00)	13	101	98	102
Working capital changes	(126)	(468)	(362)	(572)	(603
Net cash from operations	(65)	(301)	(118)	(168)	(000 (41
Cash from investments	(00)	(001)	(110)	(100)	(+)
Capital expenditure	(50)	(884)	(125)	(51)	(53
Investments and others	(30)	(40)	66	(51)	(53
Net cash from investments				(51)	-
Net CASH ITOM INVESTMENTS	(58)	(925)	(59)	(51)	(53
Cash from financing	104	005	7	0	
Cash from financing Equity raised/(repaid)	164	265	7	0	-
Cash from financing	164 (43)	265 799	7 175	0 237	- 10

Quarterly financials					
(₹ mn)	Q4FY16	Q1FY17	Q2FY17	Q3FY17	Q4FY17
NetSales	717	770	828	761	1,358
Change (q-o-q)	6.9%	7.3%	7.5%	-8.1%	78.4%
EBITDA	94	108	118	105	219
Change (q-o-q)	-2.8%	14.4%	9.2%	-10.5%	107.6%
EBITDA margin	13.1%	14.0%	14.2%	13.8%	16.1%
PAT	943	55	56	20	235
Adj PAT	40	55	56	20	235
Change (q-o-q)	-17.2%	38.0%	1.9%	-63.6%	1050.3%
Adj PAT margin	5.6%	7.1%	6.8%	2.7%	17.3%
Adj EPS	2.8	3.9	3.8	1.4	4.3
	(< mn) Net Sales Change (q-o-q) EBITDA Change (q-o-q) EBITDA margin PAT Adj PAT Change (q-o-q) Adj PAT margin	(t mn) Q4FY16 Net Sales 717 Change (q-o-q) 6.9% EBITDA 94 Change (q-o-q) -2.8% EBITDA margin 13.1% PAT 943 Adj PAT 40 Change (q-o-q) -17.2% Adj PAT margin 5.6%	(₹ mn) Q4FY16 Q1FY17 Net Sales 717 770 Change (q-o-q) 6.9% 7.3% EBITDA 94 108 Change (q-o-q) -2.8% 14.4% EBITDA margin 13.1% 14.0% PAT 943 55 Adj PAT 40 55 Change (q-o-q) -17.2% 38.0% Adj PAT margin 5.6% 7.1%	(₹ mn) Q4FY16 Q1FY17 Q2FY17 Net Sales 717 770 828 Change (q-o-q) 6.9% 7.3% 7.5% EBITDA 94 108 118 Change (q-o-q) -2.8% 14.4% 9.2% EBITDA margin 13.1% 14.0% 14.2% PAT 943 55 56 Adj PAT 40 55 56 Change (q-o-q) -17.2% 38.0% 1.9% Adj PAT margin 5.6% 7.1% 6.8%	(₹ mn) Q4FY16 Q1FY17 Q2FY17 Q3FY17 Net Sales 717 770 828 761 Change (q-o-q) 6.9% 7.3% 7.5% -8.1% EBITDA 94 108 118 105 Change (q-o-q) -2.8% 14.4% 9.2% -10.5% EBITDA margin 13.1% 14.0% 14.2% 13.8% PAT 943 55 56 20 Adj PAT 40 55 56 20 Change (q-o-q) -17.2% 38.0% 1.9% -63.6% Adj PAT margin 5.6% 7.1% 6.8% 2.7%

6

4

5

127

(16)

179

1

6

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(18)

95

259

82

88

(5)

(86)

147

(72)

16

(7)

(1)

15

-93

Based on abridged Financials

Source: Company, CRISIL Research

Dividend (incl. tax)

Closing cash

Others (incl extraordinaries)

Net cash from financing

Change in cash position

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About CRISIL Limited

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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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