Research

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Independent **E**quity **R**esearch

Enhancing investment decisions

CMI Ltd

Detailed Report

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

July 17, 2018

Growth momentum to continue, but elongated working capital cycle is a monitorable

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

Industry: Cables and Wires | **Fair Value: ₹280** | **CMP: ₹197**

Established in 1967, CMI Ltd is a B2B multi-specialty cable manufacturer, primarily serving central and state government customers. Its ₹3.6 billion order book as of FY18 provides near-term revenue visibility. Healthy demand for cables and wires over FY17-22, driven by government spending on infrastructure, augurs well for CMI's order inflow. The company's new capacity at Baddi is largely in place. Capacity utilisation is estimated to improve from ~22% in FY18 to ~59% in FY20, driving 30% revenue CAGR over the period. Empanelment of the Baddi plant with Indian Railways is also expected to catalyse growth. However, CMI's B2B nature is expected to result in an elongated working capital (WC) cycle, raising the debt requirement. Rationalisation of the WC cycle through customer diversification and reduction in leverage are positive triggers for our earnings forecasts. We reiterate the fundamental grade of **3/5**.

Investments in end-user segments to drive cable demand in the near to medium term
We estimate the cables market to log 10-12% CAGR over FY17-21 to ~₹756 billion, driven by investments across key end-user segments. Power cables form 35-37% of the market and are expected to expand 1.4x in the next three years (versus FY16-18), driven by government schemes, such as Deen Dayal Upadhyay Gram Jyoti Yojana (DDUGJY), and 44-46 GW of solar power capacity addition over FY18-22. Expansion of the railway network, railway electrification, and the development of metro rail projects are expected to drive demand for railway cables. Healthy demand for cables is expected to benefit CMI, as its plants are capable of manufacturing products meant for a wide range of industries.

Baddi facility – a catalyst for the company's growth
CMI's Faridabad plant is almost fully utilised to its potential annual revenue generating capacity of ₹3-4 billion. The new facility at Baddi, with an annual revenue potential of ₹9-10 billion, sets the platform for rapid revenue growth, as capacity utilisation is estimated to rise from 22% in FY18 to 59% in FY20 amid healthy demand. The facility is approved by state electricity boards (SEBs), BHEL and various solar EPC contractors. Additionally, the company is in the process of getting the facility empanelled with Indian Railways (not factored in our estimates). We expect 30% revenue CAGR over FY18-20. EBITDA margin is expected to moderate to 13% in FY20 (13.5% in FY18) owing to competition and rising contribution of power cables.

B2B nature and exposure to SEBs elongate the WC cycle
Cable companies, including CMI, have historically faced challenges in WC management. CMI's elongated WC days have impacted operating cash flow (OCF), which has remained negative over the past four years despite strong revenue growth. As we factor in the rising contribution of power cables and the exposure to SEBs, we expect WC to remain stretched. The company's management of WC requirement is a key monitorable.

DCF-based fair value at ₹280 per share
The discounted cash flow (DCF)-based fair value works out to ₹280 per share. This fair value implies P/E multiples of 12.2x FY19E and 9.1x FY20E EPS. At the current market price of ₹197, our valuation grade is **5/5**.

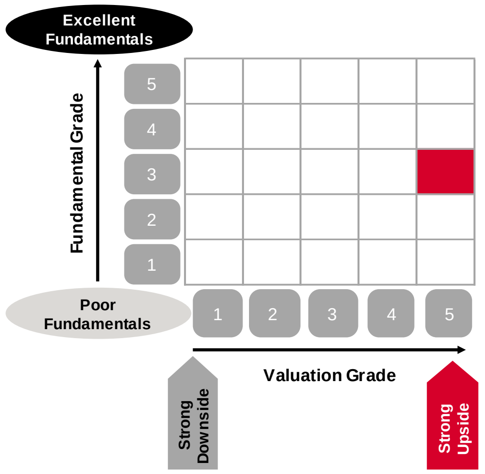
KEY FORECASTS

(₹ mn)	FY16	FY17	FY18#	FY19E	FY20E
Operating income	2,418	3,803	5,601	7,430	9,431
EBITDA	337	513	759	979	1,226
Adj net income	102	310	258	344	463
Adj EPS (₹)	7.3	20.9	17.2	22.9	30.8
EPS growth (%)	41.5	187.8	(18.0)	33.2	34.6
Dividend yield (%)	0.4	0.6	0.5	0.7	0.9
RoCE (%)	15.2	13.3	16.4	17.7	19.6
RoE (%)	9.7	16.3	11.7	13.5	15.9
PE (x)	33.2	8.2	11.5	8.6	6.4
P/BV (x)	1.9	1.2	1.2	1.1	0.9
EV/EBITDA (x)	13.0	7.6	6.6	5.5	4.7

NM: Not meaningful; CMP: Current market price; # as per abridged financials

Source: Company, CRISIL Research estimates

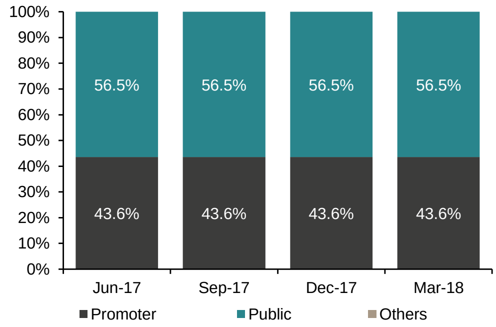
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	10937/ 36324
NSE/BSE ticker	CMI
Face value (₹ per share)	10
Shares outstanding (mn)	15
Market cap (₹ mn)/(US$ mn)	2,970/43
Enterprise value (₹ mn)/(US$ mn)	5,002/73
52-week range (₹)/(H/L)	372/184
Beta	1.3
Free float (%)	56%
Avg daily volumes (30-days)	43,945
Avg daily value (30-days) (₹ mn)	11

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
CMI	-21%	-18%	-32%	-7%
CNX 500	-1%	-1%	-4%	7%

Table 1: Business environment

Product / segment	Railway signalling cables and quad cables	Instrumentation and control cables	Power cables	Other specialised cables*
Revenue contribution (FY18)*	28%	22%	38%	12%
Estimated revenue contribution (FY20E)*	26%	20%	41%	12%
Product / service offering	Cables used for the transmission of railway signals	Cables used for connecting instrument circuits and providing 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, airfield lighting cables
Sales growth (CAGR over FY13-18)	52-54%	40-42%	50-52%	26-28%
Sales forecast (FY18-20)	24-26%	24-26%	34-36%	31-33%
Key competitors	Delton Cables Polycab Vindhya Telelinks	KEI Industries Paramount Communication	KEI Industries Finolex Cables Sterlite Technologies Universal Cables	KEI Industries Polycab Finolex Cables
Market position	One of the fastest-growing cable manufacturers in India			
Key risks	Rapid scale-up in production and sales may put margins and WC at risk because of a fragmented industry			

Note**:** Selected peers in this report include Apar Industries, KEI Industries and Universal Cables; *including cables for oil and gas

Source: Company, CRISIL Research

Grading rationale

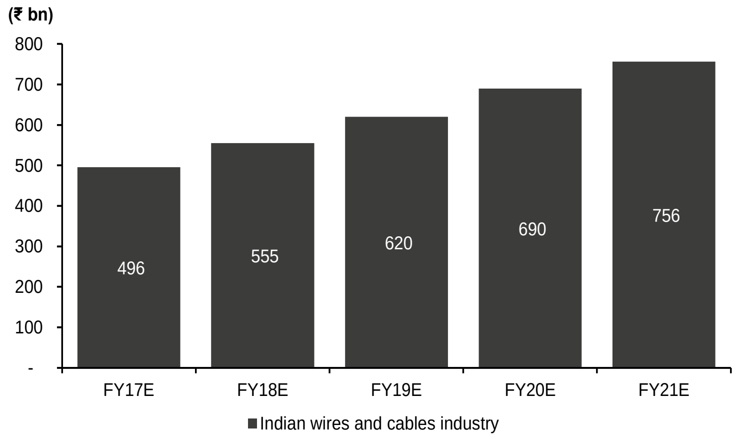
Healthy cable demand to complement production ramp-up amid margin moderation and elongated WC cycle

CMI, one of the leading cables manufacturers in India, is expected to be a beneficiary of healthy demand for cables, driven by capex in key sectors such as power transmission and distribution (T&D), railways, metros and smart city-related infrastructure. The rising demand for cables is expected to complement ramping-up of operations at the Baddi plant (annual revenue generating capacity Rs 9-10 billion) and capacity utilisation is expected to surge from 22% in FY18 to 59% in FY20. However, industry fragmentation, high competition and the changing revenue mix (rising contribution of the power cables business) are expected to lead to a moderation in margins and elongated WC requirement.

Wires & cables industry expected to log 10-12% CAGR over FY17-21

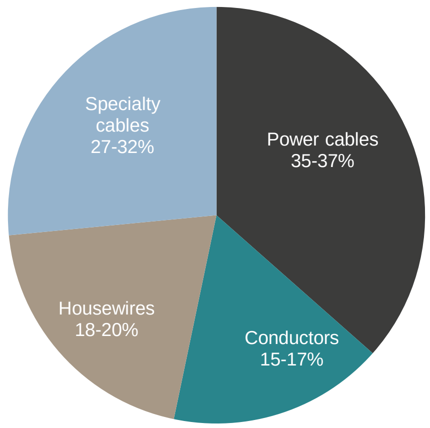
The wires and cables industry in India has grown significantly over the past decade. The estimated size of the cable industry (including conductors) is ~₹495 billion[1] as of FY17, with power cables forming 35-37% of the market. We estimate the industry to log 10-12% CAGR over FY17-21 to ~₹756 billion, driven by investments across key end-user segments.

Figure 1: Indian wire and cables industry to grow at 10-12% CAGR over FY17-21



Source: IEEMA, CRISIL Research

Figure 2: Power cables account for ~37% of the cable market as of FY17



Source: IEEMA, CRISIL Research

Table 2: A summary of key demand drivers for the cable industry

Segments	Key demand drivers	CMI's key products likely to benefit
Power (T&D and solar)	● Investments in T&D infrastructure by state utilities to drive demand for power cables. The UDAY scheme, which envisages to lower AT&C losses of up to 15% by FY19, is expected to lead to higher investments in the distribution space. DDUGJY and Integrated Power Development Scheme (IPDS) - with outlays of ₹833.3 billion and ₹776.1 billion, respectively - are expected to support growth. ● Orders from PGCIL and investments by state transmission companies (transcos) are key demand drivers over the long term. PGCIL is expected to incur an expenditure of ₹220-250 billion annually in the T&D sector during the 13th Five-Year Plan period. ● We expect 44-46 GW of solar power capacity addition over FY18-22, boosting demand for cables and conductors. ***We expect the power cables market to expand 1.4x in the next three years compared with FY16-18. Power conductors are estimated to grow at 6-8% CAGR over FY18-21.***	● Power conductors ● Extra high-voltage cables ● High-tension and low-tension power cables, flat power cables ● Aerial bunched cables ● Fire alarm cables
Railways	● CRISIL Research expects a railway capex of ₹6.8 trillion over FY19-22. The government plans to electrify up to 37,844 km of route by FY22, involving a budgetary requirement of ₹325.91 billion. ● In the metro railway space, ₹1.57 billion worth of projects are under execution and ₹4.13 billion worth of projects are in the planning stage. ***The expansion of the railway network, railway electrification and the development of metro rail projects are strong positives for railway signalling cables, quad cables and overhead catenary wires.***	● Railway signalling and power cables ● Axle counters and quad cables ● Catenary wires ● Hard-drawn copper wires ● Low-smoke zero halogen cables
Smart cities	● CRISIL Research expects ₹800 billion of capex over FY19-22 pertaining to the smart cities programme. Strengthening the existing power network is one of the key features of the smart cities programme. ***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	● CRISIL Research expects average annual oil and gas capex of ₹840-850 billion over FY19-20. Tighter safety measures have augmented demand for fire retardant cables. ***Replacement and new demand for specialty cables, such as fire retardant and control cables, should pick up as safety standards increase.***	● Fire retardant, low smoke cables ● Fire alarm cables ● Instrumentation and control cables.

Source: Company, CRISIL Research

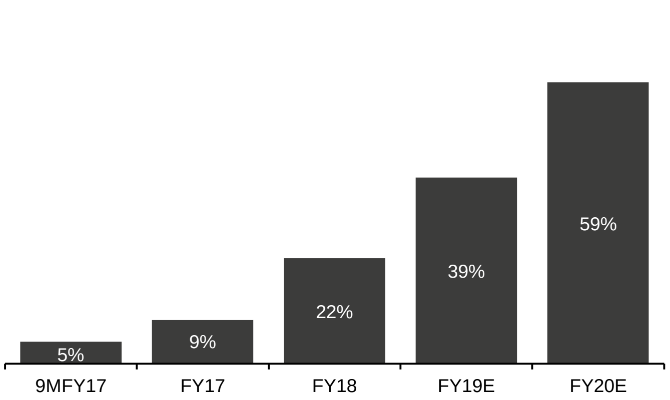
Capacity largely in place, ramp-up of the Baddi plant key to growth

The company has two plants – one each at Faridabad (Haryana) and Baddi (Himachal Pradesh). Currently, the Faridabad plant, which has a long history of operations, is capable of manufacturing for several product segments. According to the company, the Faridabad plant, which has an annual revenue generating capacity of ₹3-4 billion, is utilised optimally.

The Baddi plant, on the other hand, is a modern manufacturing facility acquired by the company from General Cable Energy India in FY16. The plant, currently focussed on power cables, is empanelled to supply power cables to various SEBs/solar EPC contractors. However, the company is planning a capex of ₹200 million for the installation of the balancing equipment at the Baddi plant to make the plant versatile for producing various types of cables.

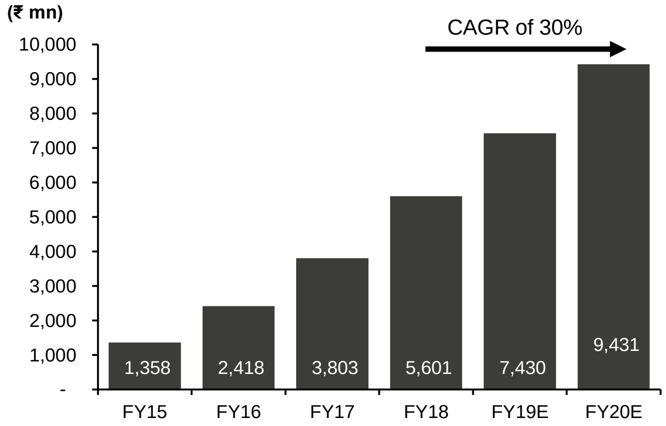
We believe that acquisition of the Baddi facility, which has an annual revenue potential of ₹9-10 billion, sets the platform for rapid revenue growth in future. Currently, the facility is operating at low utilisation (22% in FY18), which is expected to pick up given healthy demand.

Figure 3: High capacity utilisation at the Baddi facility…



Source: Company, CRISIL Research

Figure 4: …driving revenue growth

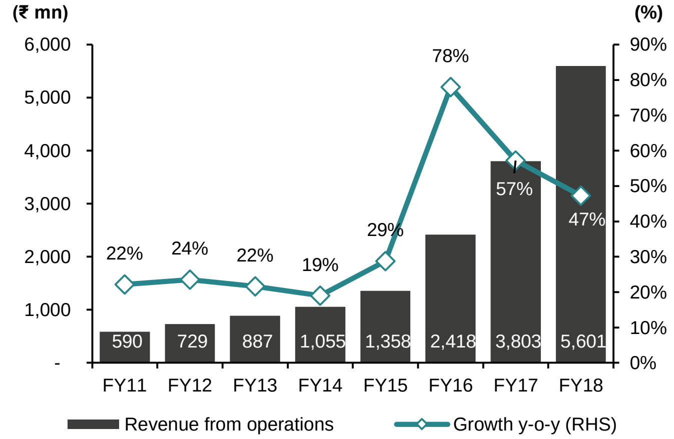


Source: Company, CRISIL Research

A fairly diversified client mix

CMI's plants are capable of manufacturing products meant for a wide range of industries (refer to Annexure). Before FY17, Indian Railways contributed more than 50% to the total revenue. With the Baddi facility coming on stream, the share of Indian Railways in the overall revenue has started to slide (28% in FY17 versus 62% in FY14), as revenue shares of other end-user segments, including power, have picked up. Moreover, the company is planning a capex of ₹200 million at the Baddi plant to make the facility fungible to manufacture a variety of cables and it is expected to further aid diversification.

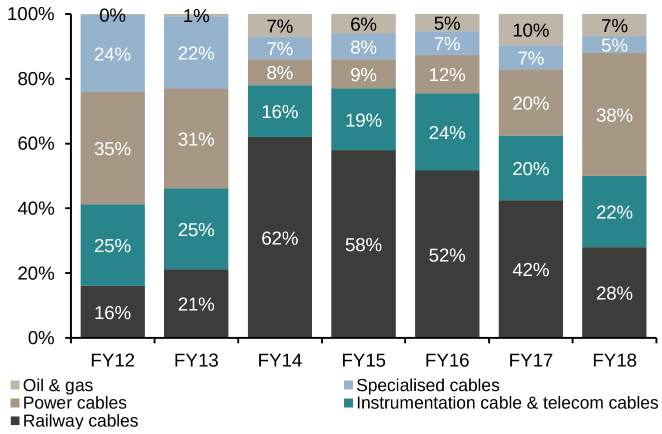
Figure 5: Revenue increased at 40% CAGR over FY12-18



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

Source: Company, CRISIL Research

Figure 6: Indian Railways' revenue share has moderated



Source: Company, CRISIL Research

Baddi facility's empanelment with Indian Railways can catalyse growth

Orders from Indian Railways have played a pivotal role in the company's growth over FY14-17, as the railways' revenue contribution has remained above 40% during the period. For H1 CY18, CMI's Faridabad plant has been empanelled with Indian Railways to supply seven of the eight cable products required by it (four of which are under 'Approved Vendor'[1] and three under 'Vendors for Developmental Orders[2]).

[1] A refers to approved vendors
[2] D refers to vendors for developmental orders. If sample testing is satisfactory then approval shall be accorded for inclusion of vendor in the "List of RDSO Vendors for Developmental Order" on satisfactory test of product prototype or initial or extended field trials (as per details provided in the specification of the item).

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

	CMI		Delton		KEI		Polycab		Vindhya Telelinks	
	A[1]	D[2]	A[1]	D[2]	A[1]	D[2]	A[1]	D[2]	A[1]	D[2]
PVC insulated underground unscreened railway power cable	✓			✓			✓		✓	
PVC insulated railway signalling Indoor Single Core Cable		✓	✓					✓		
PVC insulated railway signalling indoor multi core cable		✓	✓							
PVC insulated underground, unscreened railway signalling cable	✓			✓		✓	✓		✓	
Polythene insulated polythene sheathed jelly filled telephone cable with poly-al moisture barrier	✓		✓				✓		✓	
Underground railway jelly filled telecom quad cables for signaling and telecom installations	✓		✓				✓		✓	
24 fibre armoured optic fibre cable								✓	✓	
1.4 mm dia copper conductor 4/6 quad cable		✓		✓				✓	✓	
Total	**4**	**3**	**4**	**3**	**0**	**1**	**4**	**3**	**6**	**0**

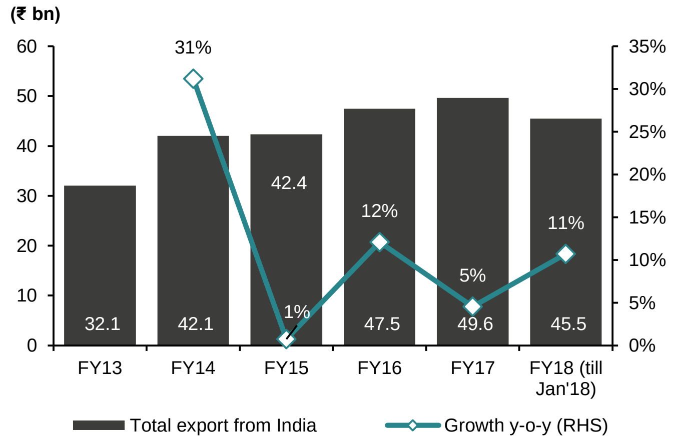
Source: Indian Railways, CRISIL Research

The company is also in the process of getting its Baddi facility empanelled with Indian Railways and has applied for approval (under category 1 manufacturer status) for supply of cables to the railways. According to management, approval from Indian Railways is expected by the end of July 2018. We believe the empanelment of the Baddi facility is expected to catalyse growth. We expect revenue from Indian Railways to grow at 24-26% CAGR over FY18-20, benefitting from substantial investments in the railways and optimal utilisation of the Faridabad plant. However, we believe the empanelment is a long-drawn process and, as such, our revenue estimate does not factor in the empanelment of the Baddi facility.

Energy-efficient Baddi plant a positive for exports potential

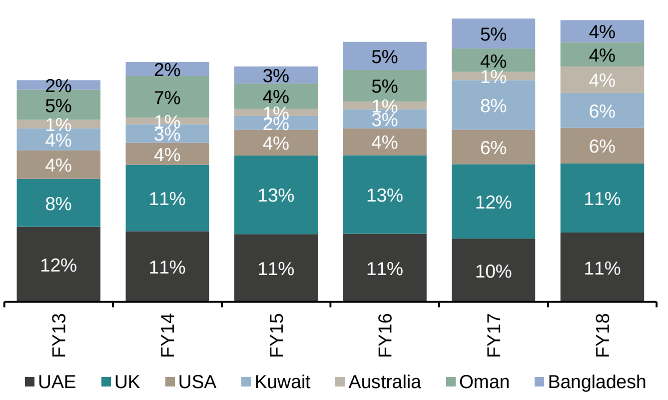
India's exports are rising at a healthy pace. During FY17 and the first 10 months of FY18, India exported ₹50 billion and ₹46 billion worth of cables and registered a growth of 5% and 11%, respectively. We believe CMI (export revenue at 3-5% of total revenue as of FY18) can benefit from rising export opportunities, because competing in the international market requires essential element of plants/suppliers being green-compliant. According to the company, the Baddi facility is compliant with a low carbon footprint and green buildings; it is 20-30% energy efficient compared with plants of a similar size. Moreover, CMI's acquisition of General Cable Energy India Pvt Ltd has also led to the inheritance of General Cable's international processes and systems for manufacturing cables.

Figure 7: Cable exports from India rose 11% to ~₹46 billion in FY18



Source: DGFT, CRISIL Research

Figure 8: The Middle East, the UK and the US are key markets

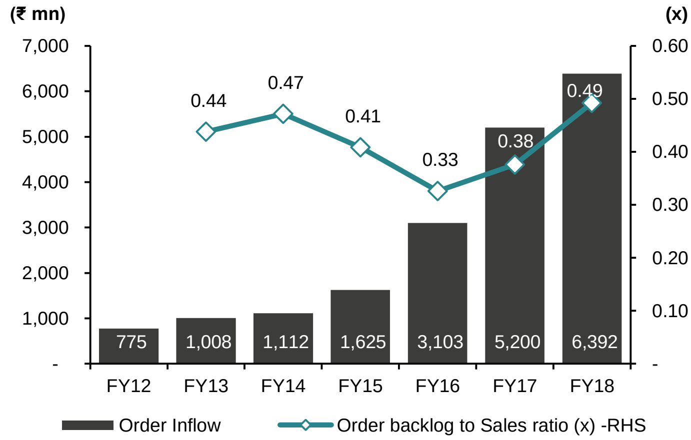


Source: DGFT, CRISIL Research

Order backlog of ₹3.6 billion provides near-term visibility

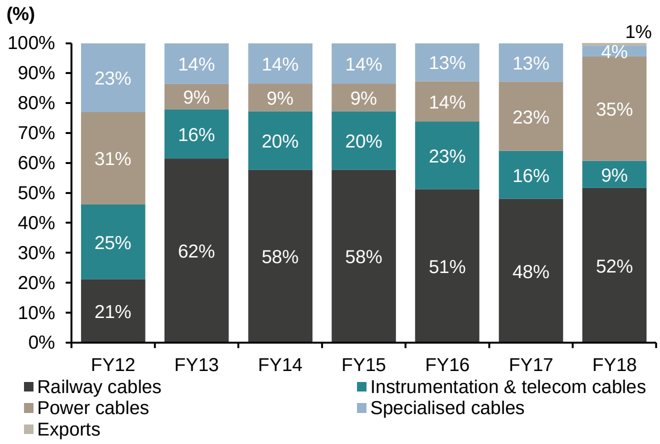
CMI's order backlog was valued at ₹3.6 billion in FY18 (versus ₹2.8 billion in FY17), providing near-term revenue visibility. Order inflow increased 42% to ₹6.4 billion in FY18, of which 43% and 33% were for railways and power cables, respectively. Cable order cycles for CMI are typically short, as a result of which order backlog conversion is less than 1. As we expect a positive outlook in terms of capex in key sectors, such as power T&D and Indian Railways, we expect ₹18-20 billion of order inflow for CMI during FY19-20. Our estimates factor in a pick-up in order inflow in power cables and overhead conductors, as the company looks to ramp up operations at Baddi.

Figure 9: Order inflow grew 42% in FY18



Source: Company, CRISIL Research

Figure 10: Indian Railways formed 52% of the ₹3.6 billion order backlog as of FY18



Source: Company, CRISIL Research

Margin profile is better than that of peers

As of FY18, CMI had one of the highest adjusted EBITDA margin of 13.5% among select peers thanks to a better product mix. After FY14, the company's operating leverage has also contributed to margin expansion.

Table 4: EBITDA margins of select peers under pressure; CMI's margin up in FY15-16

Company	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Apar Industries**	6.1%	6.8%	1.3%	5.3%	5.7%	8.6%	9.6%
CMI	9.0%	9.1%	8.6%	10.8%	13.9%	13.5%	13.5%
KEI	9.0%	10.3%	9.7%	9.8%	10.9%	10.8%	10.9%
Universal Cables	2.5%	4.7%	-0.2%	3.8%	10.0%	9.4%	8.7%

Note: Figures have been recomputed as per CRISIL Research's standard parameters; **margins for FY12-13 are for the overall business including specialty oils, auto lubes, cables and conductors; **margins for FY14-18 are for cables business

Source: Companies, CRISIL Research.

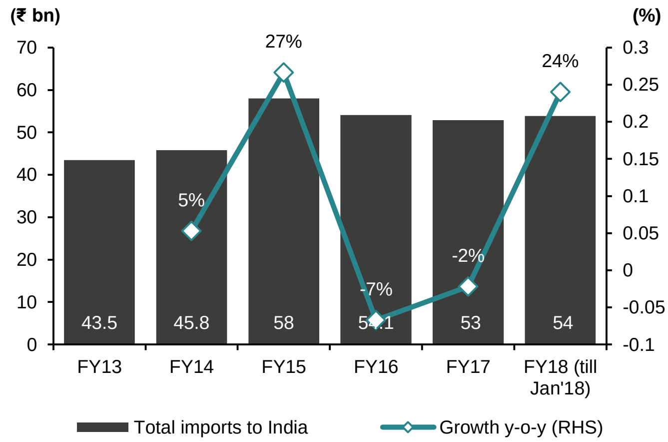
However, we expect moderation in margins owing to competition and rising contribution of the power cables business

Contracts pertaining to B2B cable orders typically incorporate a price variation clause (PVC). PVC ensures passing on of volatility/ variations in underlying commodity prices (versus prices of underlying commodities at the time of bidding) at the time of dispatch of cables. Accordingly, PVC provides support to EBITDA margins. However, we estimate moderation in EBITDA margins over FY19-20 as we factor in:

- rising contribution of the low-margin power cables business, and
- the highly competitive cable industry (35-40% unorganised) can put pressure on margins amid the company's target of optimally utilising Baddi facility. Moreover, rising cable imports (YTD January 2018 imports up 24% on-year) can add to the challenge.

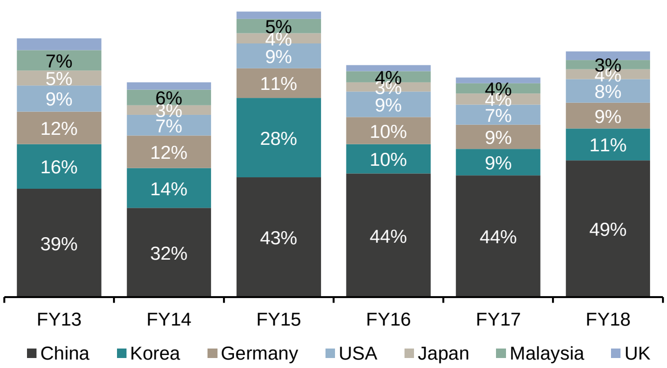
Accordingly, we expect EBITDA margin to reach 13% in FY20 against 13.5% in FY17.

Figure 11: Cable imports to India rose 24% to ~₹54 billion in FY18



Figures have been reclassified as per CRISIL Research's standard parameters; *Source: DGFT, CRISIL Research*

Figure 12: China dominates cable imports



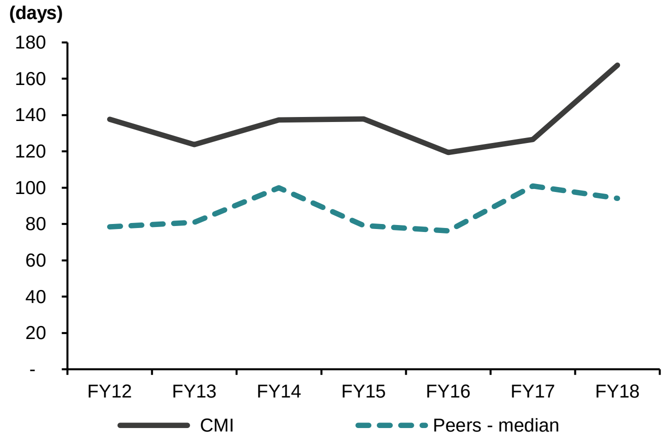
Source: DGFT, CRISIL Research

Industry is WC-intensive, rising WC requirement a key monitorable

The cable industry is typically WC-intensive because of competition and extended credit periods offered to customers. For CMI, net working capital (days) has historically been higher than its peers' median, impacting the OCF.

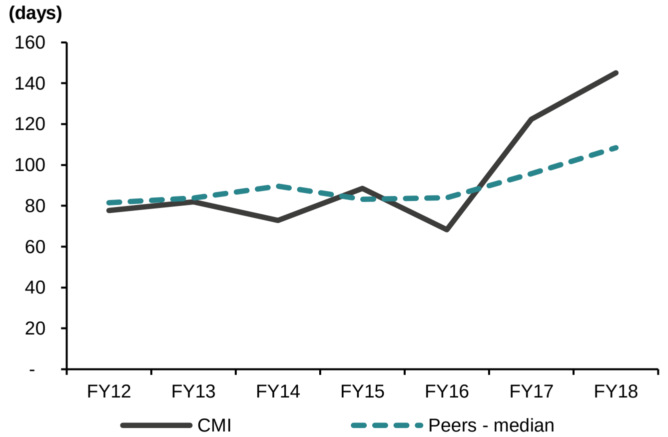
Moreover, CMI's net working capital (days) trended up after FY16, driven by longer collection period, primarily in the power cables business, owing to the exposure to SEBs.

Figure 13: CMI's NWC days have historically been higher than peers' median



Source: Company, CRISIL Research; Note: Peers include Apar Industries, KEI Industries and Universal Cables; Figures have been recomputed as per CRISIL Research's standard parameters

Figure 14: Collection period surged after FY16 and is at a 12-year high of 145 days

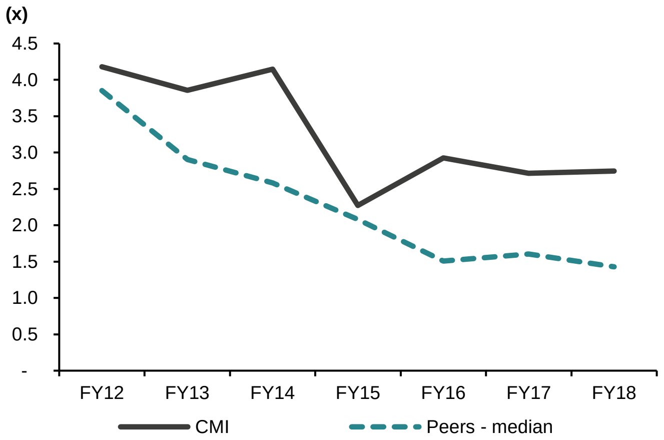


Source: Company, CRISIL Research; Note: Peers include Apar Industries, KEI Industries and Universal Cables; Figures have been recomputed as per CRISIL Research's standard parameters

Net debt/EBITDA higher than peers' median, but the gap is narrowing

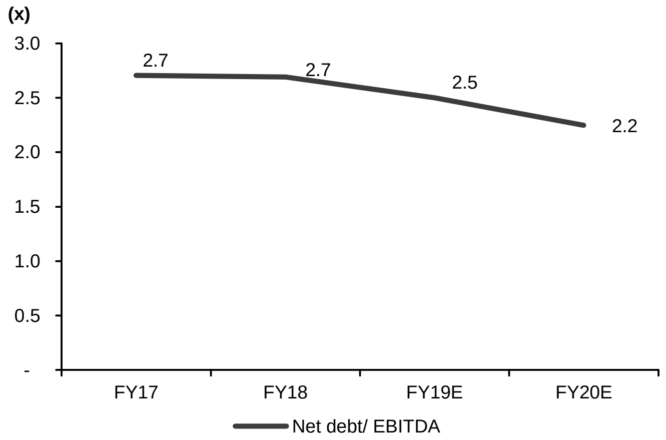
Historically, CMI's debt/EBITDA ratio has ranged from 2.3x to 4.2x – higher than the peers' median debt/EBITDA range of 1.4x-3.9x, primarily driven by WC-intensive nature of the cable business.

Figure 15: Debt/EBITDA of CMI over FY12-18 has been higher than peers' median



Source: Company, CRISIL Research; Note: Peers include Apar Industries, KEI Industries and Universal Cables; Figures have been recomputed as per CRISIL Research's standard parameters

Figure 16: Debt/EBITDA expected to fall to 2.2x by FY20

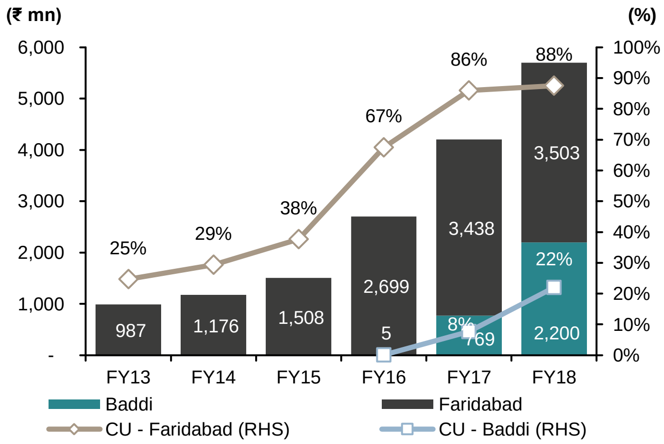


Source: Company, CRISIL Research;

After FY14, debt/EBITDA for CMI improved owing to:

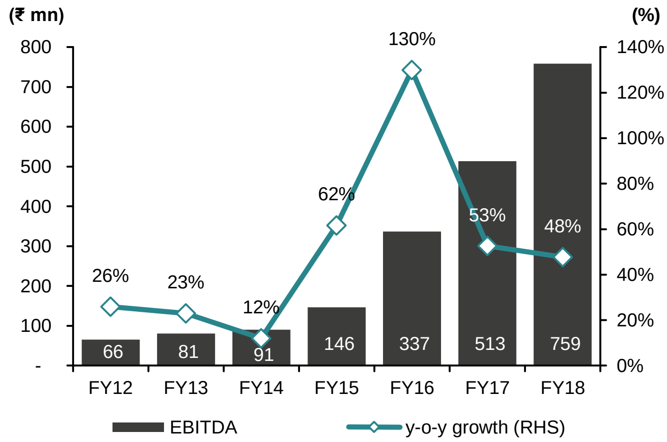
- An improvement in capacity utilisation at the Faridabad plant from 25% in FY13 to 88% in FY18 and ramp-up of operations at the Baddi facility, driving EBITDA CAGR of 70% over FY14-18.
- Equity infusion (₹474 million over FY15-17) by promoters/non-promoters to address the WC requirement amid acquisition of General Cables Energy (GCE), i.e. the Baddi facility in FY16.

Figure 17: Capacity utilisation pick-up boosted revenue…



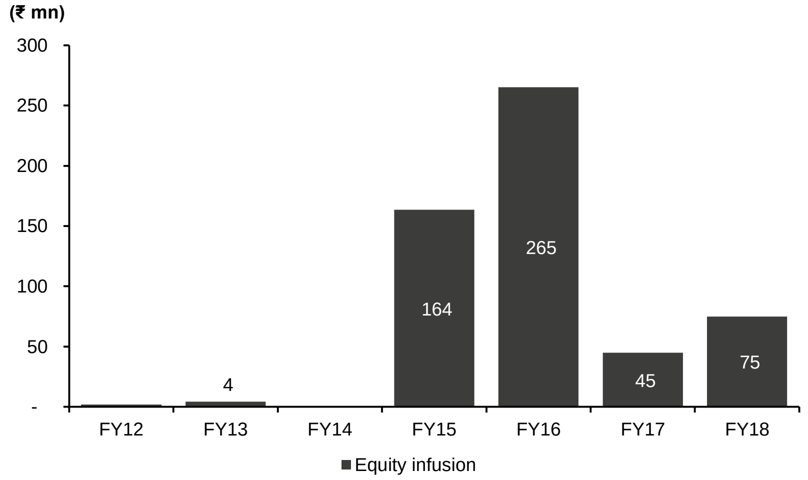
Source: Company, CRISIL Research; Figures have been recomputed as per CRISIL Research's standard parameters; CU refers to capacity utilisation

Figure 18: …resulting in a surge in EBITDA



Source: Company, CRISIL Research; Figures have been recomputed as per CRISIL Research's standard parameters

Figure 19: Equity infusion of ₹549 million over FY15-18



Note: Parameters are as per CRISIL Research estimates

Source: Company, CRISIL Research

CMI's ability to meet its WC requirement and service its debt are key monitorables. Our earnings estimates do not factor in promoters' equity infusion.

Key risks

Slowdown in new orders can impact capacity utilisation, projections

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

Raw material supply disruption can affect production

The key raw materials for producing cables and conductors are aluminium, copper rods, PVC, XLPE (cross linked polyethylene) compounds, armouring strips and copper tape. Any disruption in the supply of these raw material can impact production. Until recently, CMI was getting copper (raw material) from Sterlite Industries' plant in Tamil Nadu (Thoothukudi). On March 2018, the Tamil Nadu government ordered the closure of the copper plant. However, given long client-customer relationship, Sterlite continued its supply from an alternative plant at Silvassa. As a result, cable production at CMI facilities was not impacted. CMI is now trying to diversify its raw material supplier base and has approached Hindalco, Hindustan Copper and Sterlite's group company, Fujairah Gold, for the supply.

Volatility in commodity prices can weaken WC situation

A sudden rise in copper and aluminium prices, in the backdrop of planned business growth, can adversely impact raw material procurement and inventory cost. This is a significant risk for the highly fragmented and competitive cables industry. Moreover, the execution of contracts with no price-variation clause is expected to impact margins.

Rapid expansion at historically untested scale can create operational challenges

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

Long-term dilution remains a risk

CMI has issued 11.5 million shares since FY14, primarily to infuse equity to fund growing requirement of funds to meet WC. However, despite the dilution from equity issuances, EPS increased at 34% CAGR over FY14-18. During the Q4FY18 conference call, management indicated that the company is open to infuse equity capital into the company to fund acquisitions or major capex. Our earnings estimates do not factor in promoters' equity infusion.

Total shares outstanding as of March 2014	**3.5 million**
	Additional shares issued to promoters and non-promoters
Sep-14	7 million shares at ₹15 per share to promoters and non-promoters
Dec-14	0.757 million equity shares at ₹64 per share to non-promoters
Mar-15	0.16 million equity shares at ₹64 per share to non-promoters
Sep-15	1.926 million equity shares to non-promoters and 0.7 million warrants to promoters at ₹101/share
Mar-16	0.7 million equity shares in lieu of 0.7 million convertible warrants
Jun-16	0.7 million equity shares in lieu of 0.7 million convertible warrants
Jun-17	0.25 million equity shares at ₹290 per share to promoters
Total shares outstanding as of March 2018	**15 million**

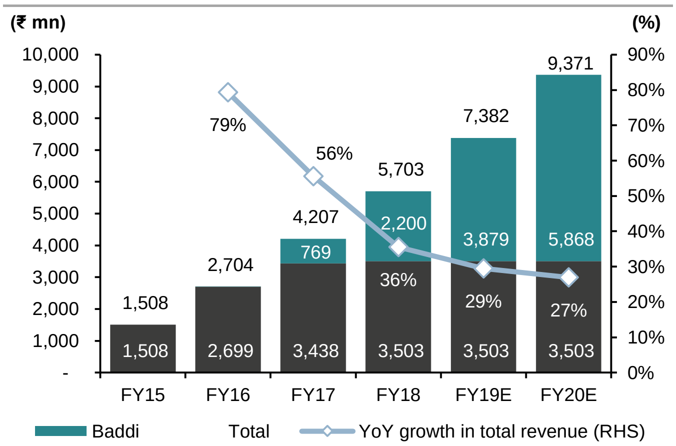
Financial outlook[3]

Revenue to grow at 30% CAGR over FY18-20

CMI's revenue is expected to grow at a two-year CAGR of 30% to ₹9.4 billion in FY20. The power segment is expected to grow the fastest at 34-36% CAGR (FY18-20), driven by government spending on power T&D. A surge in the power cable segment over FY18-20 is expected to be on the back of a pick-up in utilisation at the Baddi plant. Indian Railways and the instrumentation/telecom segments are expected to report a healthy CAGR of 24-26%, augmented by an expected optimal use of capacity at the Faridabad plant.

Power cables to drive revenue growth over FY19-20

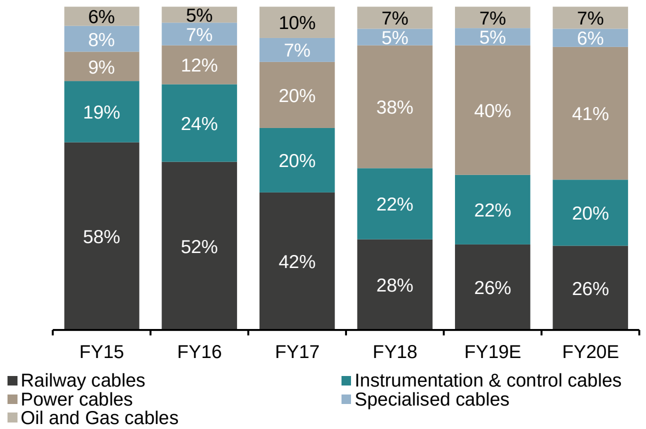
Figure 20: FY20 estimated revenue to be 1.6x of FY18 revenue – expected to be driven by the Baddi facility



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

Source: Company, CRISIL Research

Figure 21: Share of power cables to rise to 41% by FY20



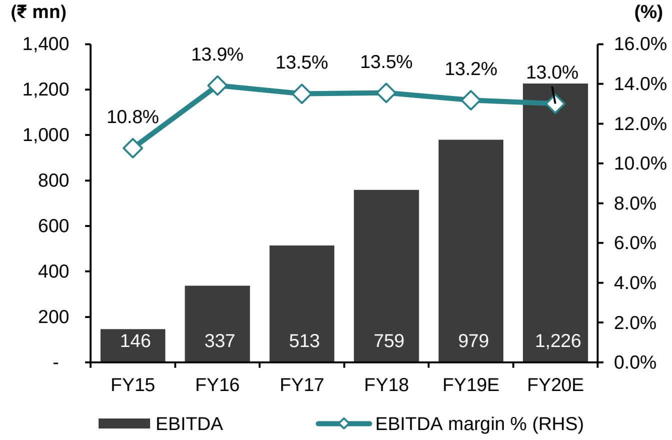
Source: Company, CRISIL Research

EBITDA margin to moderate, while PAT is likely to grow at 34% CAGR over FY18-20

We estimate a moderation in EBITDA margin, as we factor in the rising contribution of the power cables business and a ramp-up of operations at the Baddi facility amid high competition. EBITDA margin is expected to reach 13% in FY20 versus 13.5% in FY17. However, a strong revenue growth of 30% over FY18-20 is expected to result in 27% CAGR in EBITDA. Accordingly, PAT is expected to grow at 34% CAGR over FY18-20.

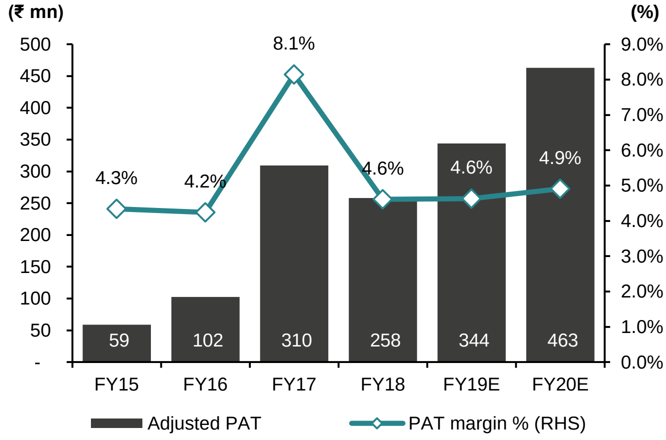
[3] Figures have been reclassified as per CRISIL Research's standard parameters

Figure 22: EBITDA margin is expected to moderate to 13% in FY20



Source: Company, CRISIL Research

Figure 23: PAT is expected to grow at 34% CAGR over FY18-20

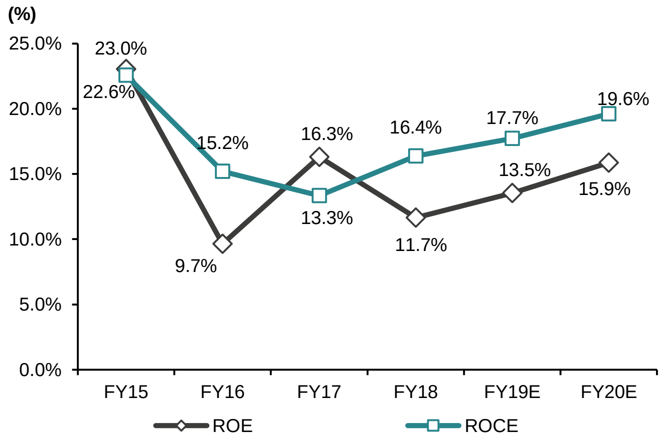


Source: Company, CRISIL Research

Return ratios to gradually improve

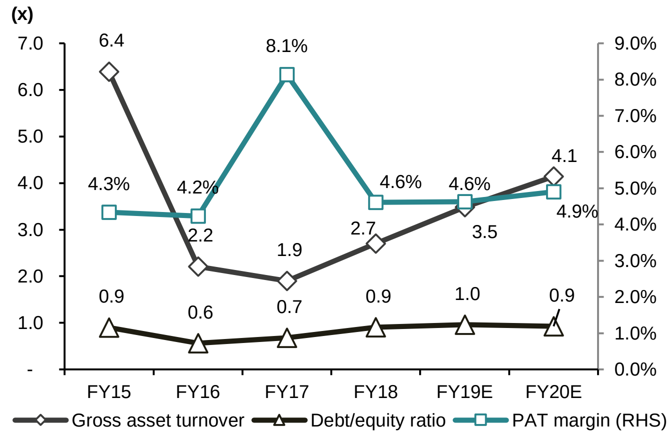
CMI's return on capital employed (RoCE) dropped to 15.2% in FY16 from 22.6% in FY15 and return on equity (RoE) dropped to 9.7% in FY16 from 23% in FY15 because of the GCE acquistion in March 2016, which was financed through debt and equity. As the operations at the Baddi plant ramp up, leading to an improvement in the gross asset turn, we expect RoCE and RoE to gradually recover to 19.6% and 15.9%, respectively, in FY20 from 16.4% and 11.7% in FY18.

Figure 24: Return ratios to improve gradually…



Source: Company, CRISIL Research

Figure 25: …driven by rising asset turns

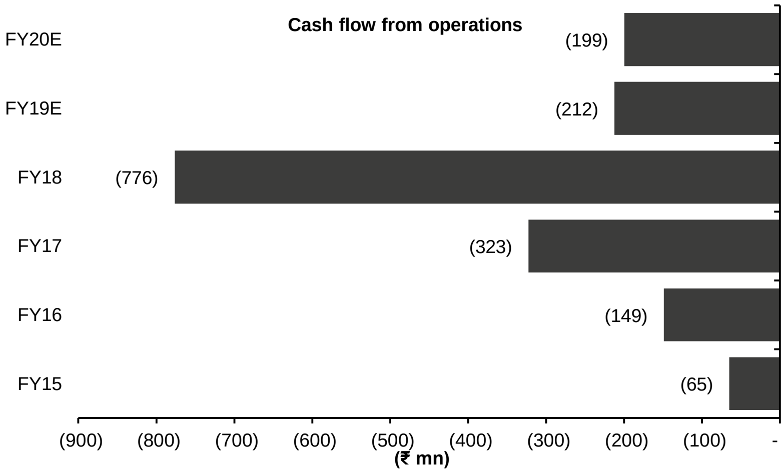


Source: Company, CRISIL Research

Elongated WC to keep OCF negative over FY18-20

CMI has been unable to generate positive OCF despite strong revenue growth and higher EBITDA margin versus its peers, because of the industry's challenging WC requirements and the company's growth phase. We expect WC days to remain high (158-162 days), keeping OCF negative over FY18-20.

Figure 26: OCF to remain negative during FY19-20



Note: Parameters are as per CRISIL Research estimates

Source: Company, CRISIL Research

Q4FY18 results highlights

Baddi facility drives growth, but lower gross margin and higher tax provision led to PAT decline

- Revenue increased 19.0% y-o-y and 18.8% q-o-q to ₹1,597 million, led by a ramp-up of operations at the Baddi facility (capacity utilisation at 22% as of FY18 versus 8% in FY17). Gross margin contracted 478 bps y-o-y and 307 bps q-o-q to 20.5% because of factors such as: (a) product mix, (b) an increase in-house production (versus jobs works in the earlier period), and (c) an increase in the cost owing to transportation pertaining to routing of products manufactured at the Baddi facility through the Faridabad facility. Consequently, EBITDA margin contracted 201 bps y-o-y and 112 bps q-o-q to 13.2%. EBITDA, however, grew 3.2% y-o-y and 9.4% q-o-q.
- Higher interest cost (up 36.7% y-o-y and 36.7% q-o-q) owing to an increase in borrowing (up 39% y-o-y to ₹2.1 billion in FY18) and tax rate of 34.8% in Q4FY18 (versus a tax benefit of ₹109 million in Q4FY17) resulted in 71.1% y-o-y (0.6% q-o-q) decline in PAT to ₹68 million.
- On the working capital front, debtor days increased by 23 days in FY18 (versus FY17) primarily because of higher contribution from the power cables business, which typically has a longer payment cycle (versus railways). Creditor days declined 54 days in FY18 (versus FY17), as the company utilised enhanced funding facility to make faster payments to suppliers with an objective to get better pricing on raw material/ supplies. WC days are currently at 167.

Q4FY18 results summary

(₹ mn)	Q4FY18	Q3FY18	Q4FY17	q-o-q (%)	y-o-y (%)
Income from operations	**1597**	**1345**	**1342**	**18.8**	**19.0**
Consumption of raw materials	1270	1028	1004	23.5	26.6
Raw materials cost (as a % of net sales)	*79.5%*	*76.5%*	*74.8%*	*307 bps*	*478 bps*
Employees' cost	43	38	40	14.0	9.5
Other expenses	73	86	95	(15.2)	(23.5)
EBITDA	**210**	**192**	**204**	**9.4**	**3.2**
EBITDA margin	**13.2%**	**14.3%**	**15.2%**	**(112) bps**	**(201) bps**
Depreciation	26	26	25	1.6	4.2
EBIT	**184**	**166**	**178**	**10.7**	**3.1**
Interest and finance charges	94	68	68	36.7	36.7
Operating PBT	**90**	**98**	**110**	**(7.5)**	**(17.8)**
Other Income	14	6	15	136.6	(10.2)
Extraordinary income/(expense)	-	-	0	NM	NM
PBT	104	104	125	0.6	(16.9)
Tax	36.3	35	(109)	3.0	(133.2)
PAT	68	68	235	(0.6)	(71.1)
Profit / (loss) of minority interest/associates	-	-	-	NM	NM
Reported PAT	**68**	**68**	**235**	**(0.6)**	**(71.1)**
Adj PAT	**68**	**68**	**235**	**(0.6)**	**(71.1)**
Adj PAT margin	**4.3%**	**5.1%**	**17.5%**	**(83) bps**	**(1,323.4)**
No of equity shares (mn)	15	15	15	-	1.7
Adj EPS (₹)	**4.5**	**4.5**	**15.9**	**(0.6)**	**(71.5)**

Source: Company, CRISIL Research; NM: Not meaningful

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 Amit Jain, managing director. On average, the management team has three decades of experience in the cables and metals industry. Under the guidance of management, the company has been able to turn around from a financially weak and small cables company to a player with a larger scale and a bigger product portfolio. The company started making profits over the past decade.

Support from the 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 with the company indicate that the second line is well versed with the day-to-day operations and ably supports the top management team to meet the company's growth aspirations. However, over the long term, we expect the company to expand its second line, as it grows 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 11 of the previous 13 years. Additionally, with the acquisition of General Cables Corporation's (GCC) wholly owned subsidiary, the company is well positioned to strengthen its product portfolio and achieve robust earnings growth 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 the business and turnaround from financial distress to becoming one of the sector leaders in terms of operating margin.

CMI's board comprises seven directors, five of whom are non-executive independent directors, which meets Clause 49 of the Securities and Exchange Board of India (Sebi) listing agreement. The company has all the necessary committees – audit, stakeholder, 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 calls, CMI's disclosures are relatively weak compared with its listed peers. For instance, company presentations or data on order book positions are not regularly updated, and the company began conducting conference calls only in Q4FY18.

Weak earnings quality; dividend payout started in FY16

Weak earnings quality: CMI's operating cash flow has been negative historically, indicating weak earnings quality. A typical characteristic of the cable industry is the high WC requirement that adversely impacts the OCF. Moreover, the ramp-up of operations at the Baddi facility after FY16 necessitated higher WC requirement, given that the primary products manufactured at the Baddi facility are power cables, with an exposure to SEBs, that inherently have longer payment cycle (versus the railways business).

Started dividend payouts in FY16: The company started paying dividends in FY16. During FY16-18, dividend payout ranged from ~1% to ~6%.

Fund-raising and associated processes: In FY15 and FY16, the company raised equity by allocating equity shares on a preferential basis. The Bombay Stock Exchange (BSE) had suspended trading in the company's stock on March 29, 2016, in relation to the allocation of preferential shares. However, management clarified that the suspension was attributable to the process/documentation-related aspects. The stock resumed trading on March 31, 2016.

Independent directors: As per the FY17 annual report, independent directors Ramesh Chand and Manoj Bishan Mittal hold 1,000 and 80,000 shares, respectively.

Promoters have started pledging shares: Over the quarters to December 2017 and March 2018, promoter pledging remained at 23-25%. Significant increase in debt and higher pledging can impact minority shareholders.

Merger is pending NCLT approval: On February 29, 2016, CMI announced the completion of the acquisition of General Cables Energy India Pvt Ltd (now CMI Energy Ltd), Baddi, a fully owned subsidiary of GCC. During the September 2016 quarter, CMI reported that it had applied for a fast-track merger of CMI Energy Ltd (a wholly owned subsidiary) and an order from the National Company Law Tribunal (NCLT) is awaited. However, the company has once again approached the NCLT through the normal route to get the merger approval.

Valuation Grade: 5/5

The DCF-based fair value works out to ₹280 per share. This fair value implies P/E multiples of 12.2x FY19E and 9.1x FY20E EPS, and an EV/EBITDA of 6.8x FY19E and 5.7x FY20E EBITDA. The stock is currently trading at ₹197, implying P/E multiples of 8.6x FY19E and 6.4x FY20E EPS. At the current price, our valuation grade is **5/5.**

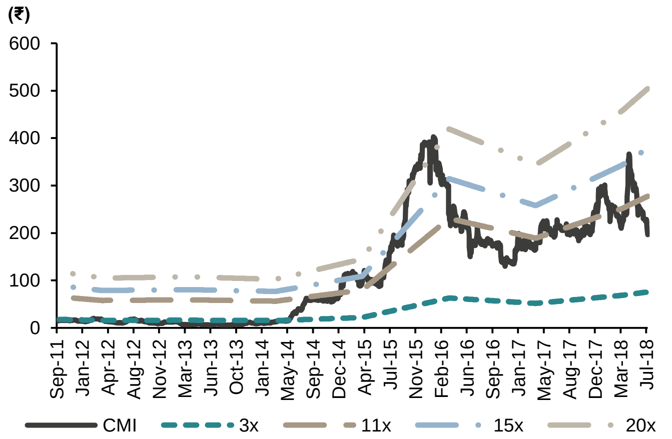
Key DCF assumptions

- We have taken FY19 as the base year and have discounted the estimated free cash flows from FY19E to FY27E.
- We have assumed a terminal growth rate of 3% beyond the explicit forecast period.

WACC computation

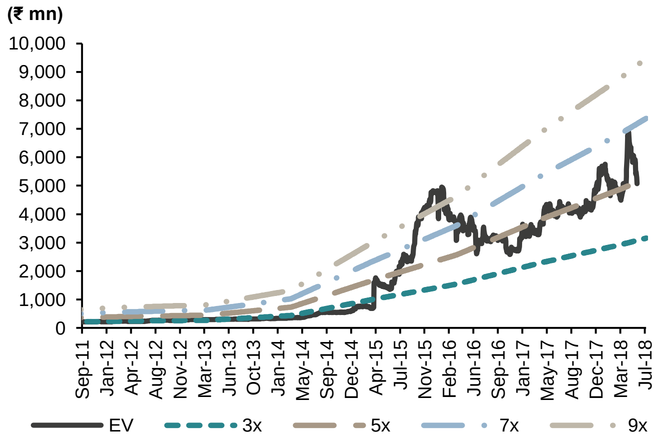
	FY19-27E	Terminal value
Cost of equity	19.5%	19.5%
Cost of debt (post-tax)	10.1%	10.1%
WACC	**15.0%**	**15.0%**
Terminal growth rate		3.00%

One-year forward P/E band



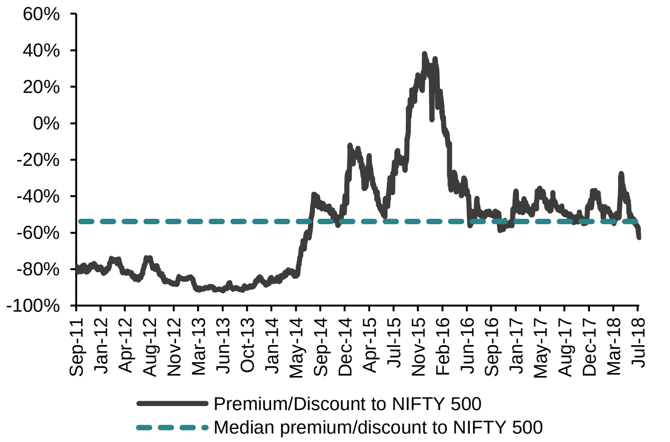
Source: BSE, CRISIL Research

One-year forward EV/EBITDA band



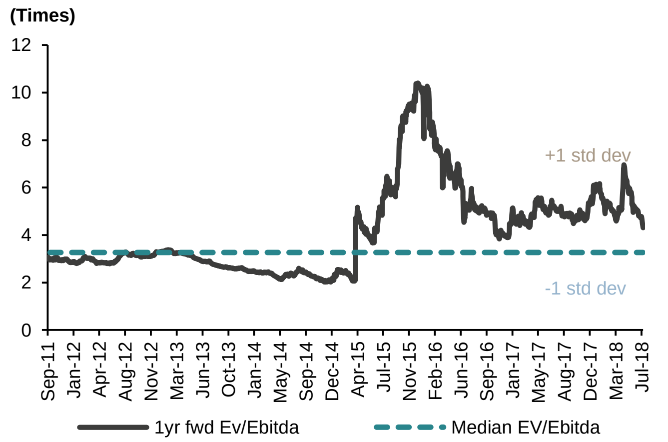
Source: BSE, CRISIL Research

P/E – premium / discount to NIFTY 500



Source: BSE, CRISIL Research

Forward P/E



Source: BSE, CRISIL Research

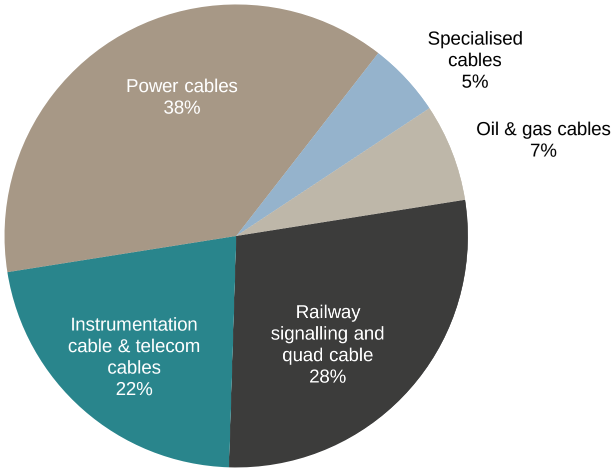
CRISIL IER reports released on CMI Limited

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP (on the date of report)
Nov 23, 2016	Initiating coverage	3/5	₹211	4/5	₹132
Mar 09, 2017	Q3FY17 Result update	3/5	₹211	4/5	₹174
July 14, 2017	Q4FY17 Result update	3/5	₹259	4/5	₹210
September 21, 2017	Q1FY18 Result update	3/5	₹259	5/5	₹205
December 18, 2017	Q2FY18 Result update	3/5	₹259	3/5	₹251
July 17, 2018	Detailed report	3/5	₹280	5/5	₹197

Company overview

Incorporated in 1967, Delhi-based CMI was originally 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. In 1992, it diversified into cables and started manufacturing telecom, control and instrumentation cables for government projects and private players. In 1993, CMI came out with its initial public offering (IPO) and got listed on the BSE.

Business segment-wise contribution in FY18



Source: Company, CRISIL Research

Table 5: Key milestones (calendar years)

1967	Incorporated as a metal trading business
1988	Renamed CMI Ltd
1992	Started manufacturing telecom, control and instrumentation cables for the government and private projects
1993	Came out with its IPO and got listed on the BSE
1994	Became an approved vendor for Indian Railways and started manufacturing signalling cables
1996	Started manufacturing jelly-filled cables for Indian Railways
2007	Present promoters took over the company's management with Mr Amit Jain as Chairman and Managing Director Developed quad and signalling cables for Indian Railways
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 FL Smidth's unit in Bawal, Haryana
2016	Acquired General Cable Energy India Pvt Ltd, a wholly owned subsidiary of General Cable Corporation
2017	Ramp-up of operations at the Baddi plant

Annexure: Financials

Income statement

(₹ mn)	FY16	FY17	FY18#	FY19E	FY20E
Operating income	**2,418**	**3,803**	**5,601**	**7,430**	**9,431**
EBITDA	**337**	**513**	**759**	**979**	**1,226**
EBITDA margin	**13.9%**	**13.5%**	**13.5%**	**13.2%**	**13.0%**
Depreciation	75	101	105	108	115
EBIT	**261**	**412**	**654**	**871**	**1,111**
Interest	88	200	290	395	457
Operating PBT	**173**	**212**	**364**	**477**	**654**
Other income	4	24	30	37	37
Exceptional inc/(exp)	957	(33)	-	-	-
PBT	**1,135**	**202**	**394**	**513**	**691**
Tax provision	75	(74)	136	169	228
Minority interest	-	-	-	-	-
PAT (Reported)	**1,060**	**277**	**258**	**344**	**463**
Less: Exceptionals	957	(33)	-	-	-
Adjusted PAT	**102**	**310**	**258**	**344**	**463**

Ratios

	FY16	FY17	FY18#	FY19E	FY20E
Growth					
Operating income (%)	78.0	57.3	47.3	32.7	26.9
EBITDA (%)	130.0	52.6	47.7	29.1	25.2
Adj PAT (%)	73.9	202.1	(16.6)	33.2	34.6
Adj EPS (%)	41.5	187.8	(18.0)	33.2	34.6
Profitability					
EBITDA margin (%)	13.9	13.5	13.5	13.2	13.0
Adj PAT Margin (%)	4.2	8.1	4.6	4.6	4.9
RoE (%)	9.7	16.3	11.7	13.5	15.9
RoCE (%)	15.2	13.3	16.4	17.7	19.6
RoIC (%)	11.7	17.8	14.9	16.2	17.3
Valuations					
Price-earnings (x)	33.2	8.2	11.5	8.6	6.4
Price-book (x)	1.9	1.2	1.2	1.1	0.9
EV/EBITDA (x)	13.0	7.6	6.6	5.5	4.7
EV/Sales (x)	1.8	1.0	0.9	0.7	0.6
Dividend payout ratio (%)	1.3	5.3	5.8	5.7	5.7
Dividend yield (%)	0.4	0.6	0.5	0.7	0.9
B/S ratios					
Inventory days	81	115	99	97	97
Creditors days	68	134	80	80	80
Debtor days	68	122	145	142	138
Working capital days	119	127	167	162	158
Gross asset turnover (x)	2.2	1.9	2.7	3.5	4.1
Net asset turnover (x)	2.8	2.3	3.5	4.8	5.9
Sales/operating assets (x)	2.7	2.2	3.4	4.5	5.6
Current ratio (x)	2.8	2.1	3.0	2.8	2.8
Debt-equity (x)	0.6	0.7	0.9	1.0	0.9
Debt/ebitda (x)	2.9	2.7	2.9	2.6	2.4
Net debt/ebitda (x)	2.9	2.7	2.7	2.5	2.2
Interest coverage					
-EBITDA/Interest	3.8	2.6	2.6	2.5	2.7
-EBIT/Interest	3.0	2.1	2.3	2.2	2.4

Per share

	FY16	FY17	FY18#	FY19E	FY20E
Adj EPS (₹)	7.3	20.9	17.2	22.9	30.8
CEPS	12.6	27.8	24.1	30.1	38.5
Book value	124.5	138.4	158.5	179.7	208.4
Dividend (₹)	1.0	1.0	1.0	1.3	1.7
Actual o/s shares (mn)	14.1	14.8	15.0	15.0	15.0

Balance Sheet

(₹ mn)	FY16	FY17	FY18#	FY19E	FY20E
Liabilities					
Equity share capital	141	148	150	150	150
Reserves	1,613	1,898	2,231	2,551	2,981
Minorities	-	-	-	-	-
Net worth	**1,753**	**2,046**	**2,381**	**2,701**	**3,131**
Convertible debt	-	-	-	-	-
Other debt	984	1,393	2,164	2,594	2,914
Total debt	**984**	**1,393**	**2,164**	**2,594**	**2,914**
Deferred tax liability (net)	(20)	(179)	(160)	(160)	(160)
Total liabilities	**2,718**	**3,259**	**4,385**	**5,135**	**5,885**
Assets					
Net fixed assets	1,633	1,618	1,584	1,527	1,649
Capital WIP	94	69	42	164	-
Total fixed assets	**1,727**	**1,687**	**1,627**	**1,690**	**1,649**
Investments	72	91	0	0	0
Current assets					
Inventory	451	1,004	1,276	1,662	2,110
Sundry debtors	506	1,410	2,267	2,874	3,546
Loans and advances	411	375	459	601	749
Cash & bank balance	6	4	122	144	159
Marketable securities	-	-	-	-	-
Total current assets	**1,374**	**2,793**	**4,124**	**5,281**	**6,562**
Total current liabilities	**484**	**1,331**	**1,384**	**1,856**	**2,346**
Net current assets	**890**	**1,462**	**2,739**	**3,425**	**4,217**
Intangibles/Misc. expenditure	**29**	**19**	**19**	**19**	**19**
Total assets	**2,718**	**3,259**	**4,385**	**5,135**	**5,885**

Cash flow

(₹ mn)	FY16	FY17	FY18#	FY19E	FY20E
Pre-tax profit	178	235	394	513	691
Total tax paid	(86)	(86)	(116)	(169)	(228)
Depreciation	75	101	105	108	115
Working capital changes	(316)	(574)	(1,159)	(664)	(777)
Net cash from operations	**(149)**	**(323)**	**(776)**	**(212)**	**(199)**
Cash from investments					
Capital expenditure	(947)	(51)	(45)	(172)	(74)
Investments and others	(46)	(20)	91	-	-
Net cash from investments	**(993)**	**(71)**	**47**	**(172)**	**(74)**
Cash from financing					
Equity raised/(repaid)	265	45	75	0	-
Debt raised/(repaid)	652	409	771	430	320
Dividend (incl. tax)	(16)	(18)	(18)	(24)	(32)
Others (incl extraordinaries)	242	(44)	21	-	(0)
Net cash from financing	**1,143**	**391**	**848**	**406**	**288**
Change in cash position	1	(2)	118	22	14
Closing cash	6	4	122	144	159

Quarterly financials

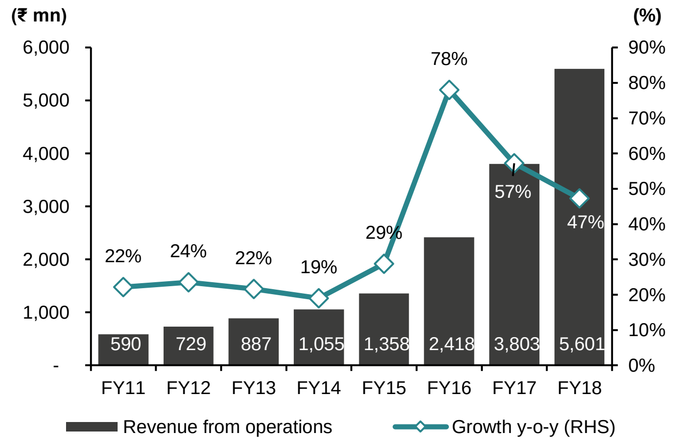
(₹ mn)	Q4FY17	Q1FY18	Q2FY18	Q3FY18	Q4FY18
Net Sales	**1,342**	**1,315**	**1,343**	**1,345**	**1,597**
Change (q-o-q)	79.7%	-2.0%	2.1%	0.1%	18.8%
EBITDA	**204**	**176**	**185**	**192**	**210**
Change (q-o-q)	122.7%	-13.5%	4.9%	4.0%	9.4%
EBITDA margin	**15.2%**	**13.4%**	**13.8%**	**14.3%**	**13.2%**
PAT	235	60	61	68	68
Adj PAT	**235**	**60**	**61**	**68**	**68**
Change (q-o-q)	1050.3%	-74.3%	1.9%	11.3%	-0.6%
Adj PAT margin	**17.5%**	**4.6%**	**4.6%**	**5.1%**	**4.3%**
Adj EPS	**15.9**	**4.0**	**4.1**	**4.5**	**4.5**

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

Source: CRISIL Research

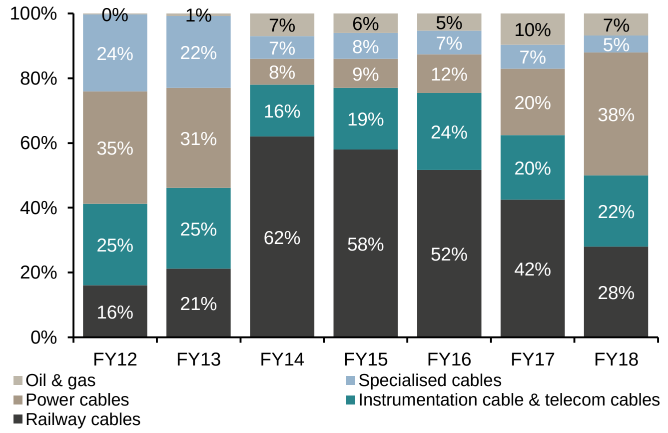
Focus Charts

Revenue increased at 38% CAGR over FY11-18



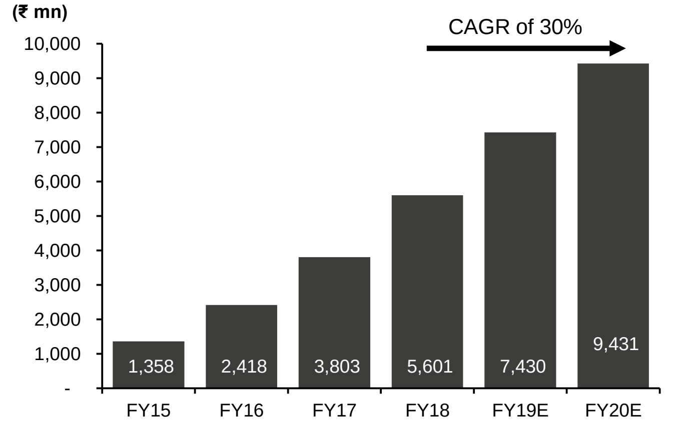
Source: Company, CRISIL Research

Power cables accounted for 38% of revenue in FY18



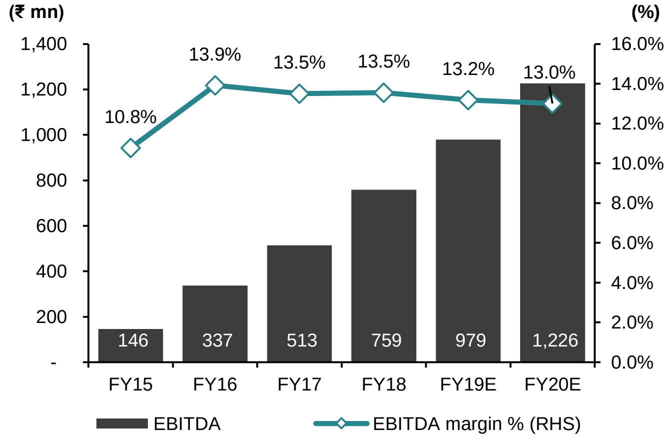
Source: Company, CRISIL Research

Revenue to grow at a CAGR of 30% over FY18-20



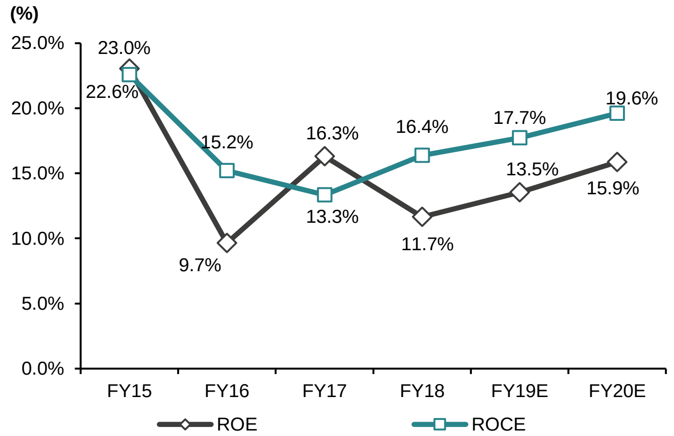
Source: Company, CRISIL Research

EBITDA margin to contract to 13% in FY20



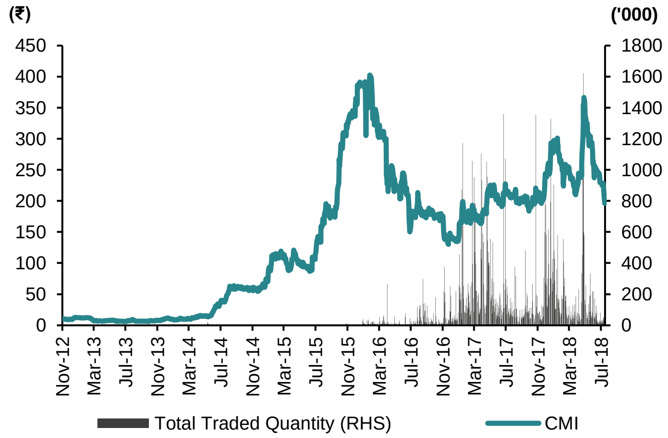
Source: Company, CRISIL Research

RoCE and RoE to improve over FY19-20



Source: Company, CRISIL Research

Share price movement



Source: Company, CRISIL Research

Broad product offerings by key players in the industry

	CMI Cable	KEI	Polycab	Apar	Delton	Vindhya Telelinks
Power & control cable						
----EHV power cable (66-132 Kv)	Y	Y	Y			
----MV power cable (3.3-33 Kv)	Y	Y	Y			
----MV aerial bunched cables (ABC)	Y	Y	Y			
----LV power cable	Y		Y			
----LT ABC	Y	Y	Y	Y		Y
----HT ABC				Y		
----LV control cable	Y		Y			Y
----LT power cables up to 66 Kv				Y		
----HT power cables up to 66 Kv				Y		
----XLPE cables up to 66 Kv				Y		
Instrumentation cable		Y	Y	Y	Y	Y
Railway signalling cables	Y		Y			
Telecom cables	Y	Y	Y	Y	Y	Y
Special cables						
----Marine, oil & gas (offshore onshore)	Y	Y	Y	Y	Y	
----Highly corrosive environment	Y		Y		Y	
----Anti-theft cable	Y		Y			
----Fire survival cable	Y	Y	Y	Y		
----Low fire hazard cables				Y		
----Extreme fire conditions	Y		Y			
----Airfield lighting cable	Y					
----VVF cable	Y		Y			
----Mining cable		Y		Y		
----Traffic signal			Y			
----Space station automobiles			Y			
----Ship wiring cables				Y		
----Aircraft/ aerospace cables					Y	
----Nuclear power plants					Y	
----Military and defence					Y	
----Chemical and metallurgical industries					Y	

Source: Company websites

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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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