

**Tactical BUY: CMI Ltd.****In the right place at the right time**

CMP INR: 326

Rating: BUY

Target Price INR: 463

Upside: 42%

CMI, a New Delhi-based company, is poised to benefit from demand boom in the cables industry, spearheaded primarily by capex in railways, metro rail and SEBs. Ramping up of the company's Baddi plant is coinciding with strong demand uptick, which we estimate to catapult capacity utilisation to 65% in FY20 from 25% currently. We expect CMI's net revenue and net profit to clock 35.3% and 54.1% CAGR, respectively, over FY17-20E. Limited capex requirement (only INR20cr), improving operating margin and higher asset turnover are estimated to lead to RoCE improving to 20.2% in FY20 from 12.9% in FY17. Currently, CMI is trading at FY20E P/E of 8.4x. We are valuing the stock at 25% discount to average of cables industry peers. We recommend 'Tactical BUY' with target price of INR463/share, an upside of 42% from the current level.

**Cables demand booming; high entry barrier favours incumbent players**

The domestic cables and wires industry's revenue is pegged at INR510bn, having clocked 15% CAGR over the past 5 years; cables and wires each contribute ~50% to the mix, with the later being primarily used as house wires. The cables industry—power cables, railway cables, control & instrumentation cables and specialty cables—is witnessing a demand boom, especially from railways, metro rail, SEBs, refineries, etc. Demand paucity had led to the industry not adding significant capacity over the past 5 years. We envisage the current demand boom to translate into the industry growing 16% over the ensuing 3 years, resulting in humungous opportunities for incumbent manufacturers. We expect incumbents to benefit disproportionately as pre-qualification criteria for most government projects is stringent. This creates a huge entry barrier as a new comer will take anywhere between 1 and 4 years to qualify.

**Large unutilised capacity to tap incremental demand**

CMI has been operating out of its facility at Faridabad (NCR), where it primarily manufactures copper-based cables for railways and control & instrumentation cables for various marquee clients like BHEL, NTPC, oil refineries and other large industries. With the acquisition of Baddi plant from General Cables in 2016 (EV~INR96cr), the company is well poised to benefit from the demand boom. The Baddi plant already has approvals of SEBs, BHEL and various solar EPC contractors for supply of power & solar cables. Management expects to bag approvals from railways, metros and other key clients over the next 2-3 months. The current plant occupies only 1/3rd of the 20 acre land, having potential turnover of INR1,000cr. As space constraint caps the Faridabad plant's revenue at INR350cr, we believe the Baddi plant will contribute to CMI's incremental growth.

**High revenue visibility, but higher working capital a concern**

Currently, only 25% of the Baddi plant is being utilised. Hence, considering the demand scenario, we estimate CMI's total net sales to post 35.3% CAGR over FY17-20. We are conservatively estimating EBITDA margin to dip to 13.0% in FY20 from 14.1% in FY18. Being in a B2B business, the company's cash cycle is stretched to ~120 days, which we believe is not likely to improve in the next 2 years. Higher working capital will remain a concern as we believe almost 75% of incremental capital will be funded by additional debt.

**Outlook and valuation: Trading at a significant discount to peers; recommend 'Tactical BUY'**

We estimate CMI's net profit to register 54.1% CAGR over FY17-20 with RoCE improving from 12.9% in FY17 to 20.2% in FY20. Currently, the stock is trading at FY20E P/E of 8.4x. We are valuing it at 25% discount to average of cables industry peers. We recommend 'Tactical BUY' with target price of INR463/share, an upside of 42% from current level.

Salil Utagi

Research Analyst

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Bloomberg:	CMI:IN
52-week range (INR):	326 / 172
Share in issue (cr):	1.5
M cap (INR cr):	489
Avg. Daily Vol. BSE/NSE : ('000):	92
Promoter Holding (%)	43.55

Year to March	FY16	FY17	FY18E	FY19E	FY20E
Revenues (INR Cr)	240	378	561	729	935
Rev growth (%)	77	57	49	30	28
EBITDA (INR Cr)	32	49	79	94	122
Net Profit (INR Cr)	27	30	29	42	58
P/E (x)	29.0	30.4	17.2	11.8	8.4
EV/EBITDA (x)	16.7	12.4	8.2	7.4	6.0
RoACE (%)	18.6	12.9	18.0	17.9	20.2
RoAE (%)	14.9	8.4	12.9	16.3	19.3

Date: 24th April 2018

CMI, a New Delhi-based company, is poised to benefit from demand boom in the cables industry, spearheaded primarily by capex in railways, metro rail and SEBs. Ramping up of the company's Baddi plant is coinciding with strong demand uptick, which we estimate to catapult capacity utilisation to 65% in FY20 from 25% currently. We expect CMI's net revenue and net profit to clock 35.3% and 54.1% CAGR, respectively, over FY17-20E. Limited capex requirement (only INR20cr), improving operating margin and higher asset turnover are estimated to lead to RoCE improving to 20.2% in FY20 from 12.9% in FY17. Currently, CMI is trading at FY20E P/E of 7.8x. We are valuing the stock at 25% discount to average of cables industry peers. We recommend 'Tactical BUY' with target price of INR463/share, an upside of 42% from the current level

Baddi plant has a revenue potential of INR1000cr. We expect increasing capacity utilisation to lead to net revenue and PAT CAGR of 35.3% and 54.1% respectively

	FY17	FY18E	FY19E	FY20E
Revenue	378	561	729	935
EBITDA	49	79	94	122
EBITDA Margin	12.8	14.1	13.0	13.0
PAT	16	29	42	58

Limited capex requirement (only INR20cr), improving operating margin and higher asset turnover are estimated to lead to RoCE improving to 20.2% in FY20 from 12.9% in FY17

	FY17	FY18E	FY19E	FY20E
RoACE (%) (ex cash)	12.9	18.0	17.9	20.2
Debt to Equity (x)	0.6	0.8	0.8	0.8

We recommend 'Tactical BUY' with target price of INR463/share, valuing the stock at P/E of 12x on FY20E basis

	Multiple	Price Target
CMI	10x P/E	733
	12x P/E	463

Entry = INR 326



Ramping of capacity utilisation will drive revenues and profits. We believe current low valuations, reasonable RoCE and high profits growth makes it a compelling BUY

Total Return of 42%

## Risk-reward extremely favourable

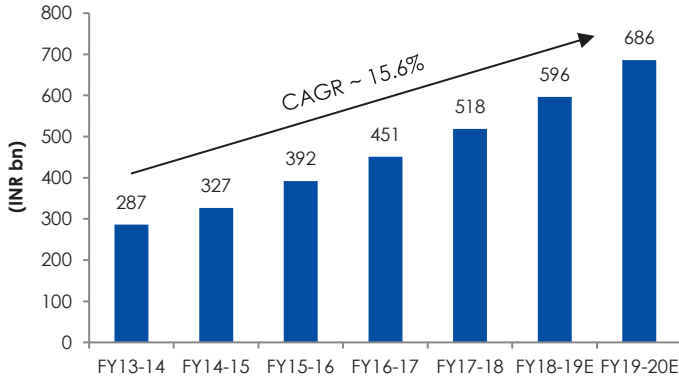
<b>Price Target</b>	<b>INR 463</b>	We estimate CMI's net profit to register 54.1% CAGR over FY17-20 with RoCE improving from 12.9% in FY17 to 20.2% in FY20. Currently, the stock is trading at FY20E P/E of 7.8x. We are valuing it at 25% discount to average of cables industry peers. We recommend 'Tactical BUY' with target price of INR463/share, valuing the stock at P/E multiple of 12x on FY20E basis
<b>Bull P/E multiple of 15x on FY20E</b>	<b>INR 579</b>	Valuing the stock at industry average P/E multiple of 15x on FY20E basis, bullish target price could be INR 579
<b>Base P/E multiple of 12x on FY20E</b>	<b>INR 463</b>	We estimate CMI's net profit to register 54.1% CAGR over FY17-20 with RoCE improving from 12.9% in FY17 to 20.2% in FY20. Currently, the stock is trading at FY20E P/E of 7.8x. We are valuing it at 25% discount to average of cables industry peers. We recommend 'Tactical BUY' with target price of INR463/share, valuing the stock at P/E multiple of 12x on FY20E basis
<b>Bear P/E multiple of 8x on FY20E</b>	<b>INR 309</b>	Valuing the stock at ~50% discount to industry average P/E multiple of 15x. Bearish target price on P/E of 8x on FY20E basis, could be INR 309

Average Daily Turnover (INR cr)			Stock Price (CAGR)				Relative to Sensex, CAGR (%)			
3 months	6 months	1 year	1 year	3 years	5 years	Since Inception	1 year	3 years	5 years	Since Inception
4.9	4.9	4.6	50%	49%	114%	86%	34%	41%	101%	73%

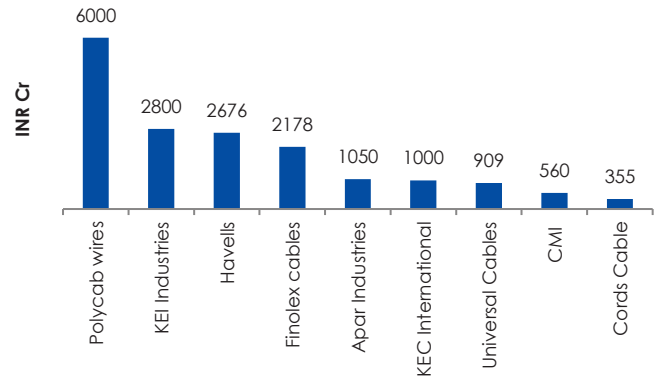
<b>Business Value Drivers</b>	<b>Nature of Industry</b>	The demand for wire and cables depends largely on the capex done by end-user industries like the railways & metro rail, transmission and distribution, renewable energy, oil and gas industries etc. The cable requirement for these industries is around ~3% to 5% of their respective total capex.
	<b>Opportunity Size</b>	Wire and cable market at end-FY18 is estimated to be around INR ~51,842 cr and is expected to touch INR 68,561 cr by FY20, thereby generating growth of 15% CAGR from FY18-FY20.
	<b>Capital Allocation</b>	CMI has been prudent in capital allocation. It has acquired the plant of General Cables at an equity value of INR 96 cr with a revenue potential of INR 1,000 cr
	<b>Predictability</b>	CMI's financials are related to the growth in capex of its end-user industries. We believe there are significant investments lined up by the end-user industries for next five years, which should generate good demand for wires and cables in the medium to long term
	<b>Sustainability</b>	Demand for wires and cables is sustainable as there is a thrust for infrastructure development in the railways, metro rail, T&D and renewable energy sectors by the Government of India.
	<b>Disproportionate Future</b>	CMI can achieve high growth for next few years as capacity utilisation of the Baddi plant, which it acquired from General Cables, improves. Revenue potential from the Baddi plant is INR 1,000 cr, of this it is currently achieving revenue of INR~200 cr (utilisation of ~20%). We expect utilisation from the Baddi plant to improve significantly in next two years
	<b>Business Strategy &amp; Planned Initiatives</b>	CMI is working to improve utilisation of the Baddi plant by installing balancing equipment with capex of INR 20 cr to enable it to shift some of the production from the Faridabad plant which is running at ~85% utilisation to Baddi
	<b>Near Term Visibility</b>	The demand for cable is strong from railways, metro rail, T&D and renewable sectors. This sector will continue to remain in focus as huge investments have been lined up. This has created substantial demand for power as well as for specialty cables
	<b>Long-Term Visibility</b>	CMI's fortunes are linked with the fortunes of its end-user industry. We believe there is strong growth potential in the railways, T&D, renewable energy and in the oil and gas industry over the long term. This growth is expected to drive CMI's revenue as CMI has the product portfolio to cater to any demand in cables

Focus Charts – Story in a nutshell

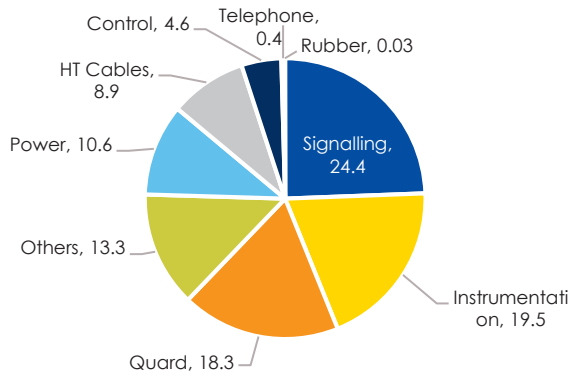
Indian Wire & Cable Market



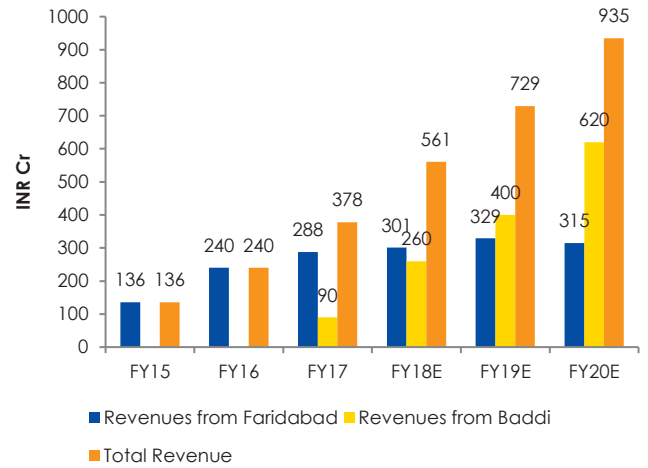
Major players' revenues from cable/wires segment



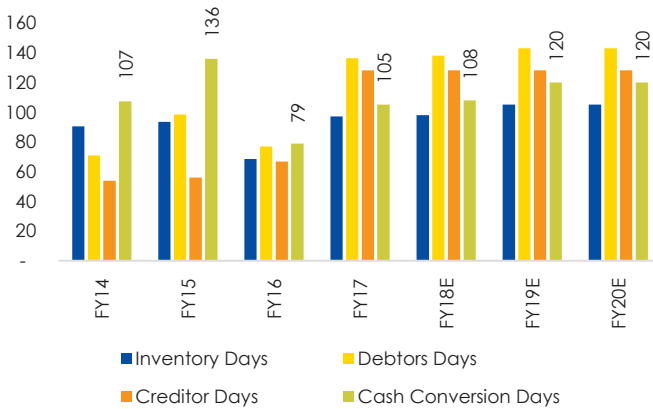
Breakdown of revenue from Faridabad plant (approx)



Total Revenue breakdown of the Faridabad and Baddi plants



CMI - Cash conversion cycle

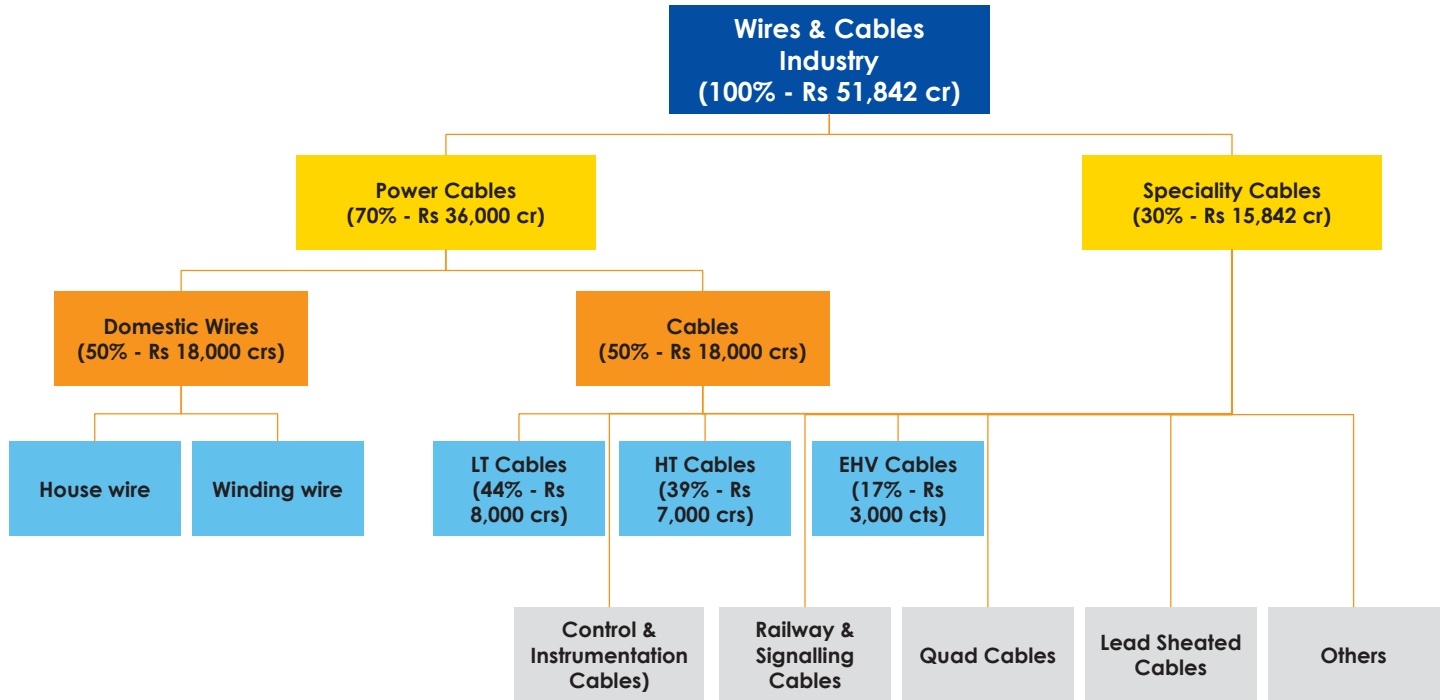


Peer comparison – RoCE(%)

Companies	FY16	FY17	FY18E	FY19E	FY20E
<b>CMI Ltd</b>	<b>18.6</b>	<b>12.9</b>	<b>18.0</b>	<b>17.9</b>	<b>20.2</b>
KEI Industries Ltd.	27.5	24.5	23.7	26.8	29.2
Finolex Cables Ltd.	27.5	20.5	24.7	24.5	24.6
Apar Industries	28.6	30.0	26.7	31.6	34.0
<b>Average of peers</b>	<b>27.9</b>	<b>25.0</b>	<b>25.0</b>	<b>27.6</b>	<b>29.3</b>

Source: Edelweiss Investment Research

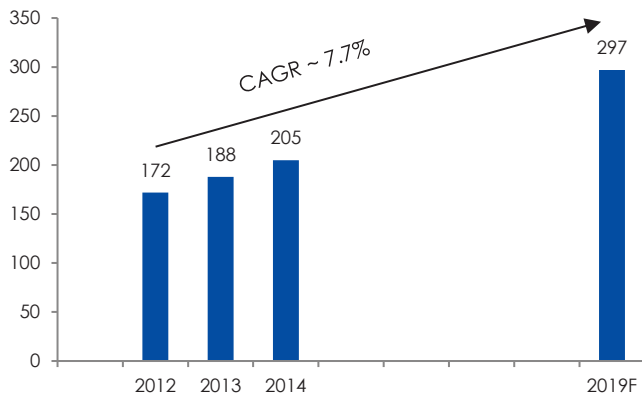
Overview of the wire and cable industry



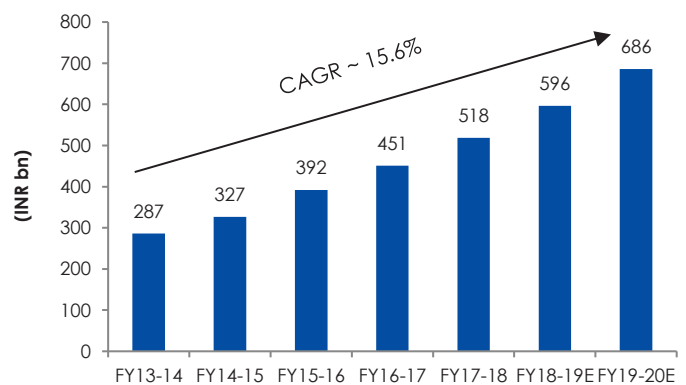
**Global wire and cable market:**

The global wire and cable market is estimated to grow from its current size of USD 205 billion in 2014 to USD 297 billion in 2019, registering CAGR of 7.7% over the 2014-19. Globally, the wire and cable market is categorised into two segments: power cables and those used in the telecom industry. The power cable segment is expected to grow at a CAGR of 7.5% over the forecast period (2014 to 2019) to reach USD 219.7 billion by 2019, while the telecom sector is likely to register CAGR growth of around 8.5% to post nearly USD 78 billion in 2019.

**Global wire and cable market**



**Indian Wire & Cable Market**

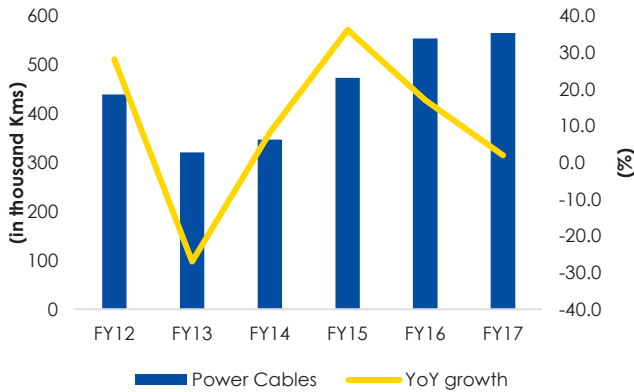


Source: IEEMA, Edelweiss Investment Research

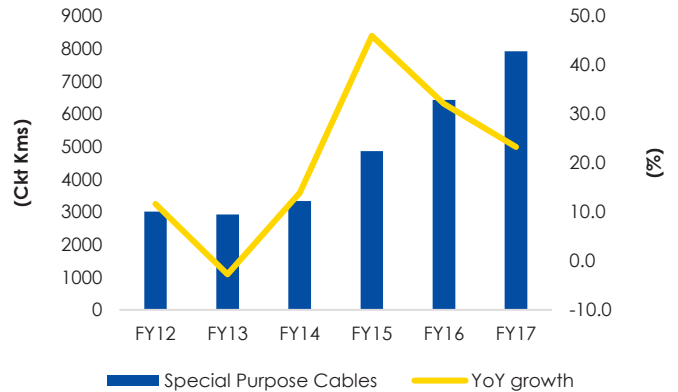
**Domestic wire and cable market: Benefiting from strong demand**

The domestic wire and cable market is estimated to be around INR 51,842 cr at end-FY18, representing growth of 15% over the previous year. According to industry estimates, the domestic wire and cable market is expected to maintain 15% CAGR over next two years as well as reach a size of around INR 68,561 cr in FY20. We believe that the industry drivers are well placed to drive the domestic wire and cable sector.

**Domestic production of power cables**



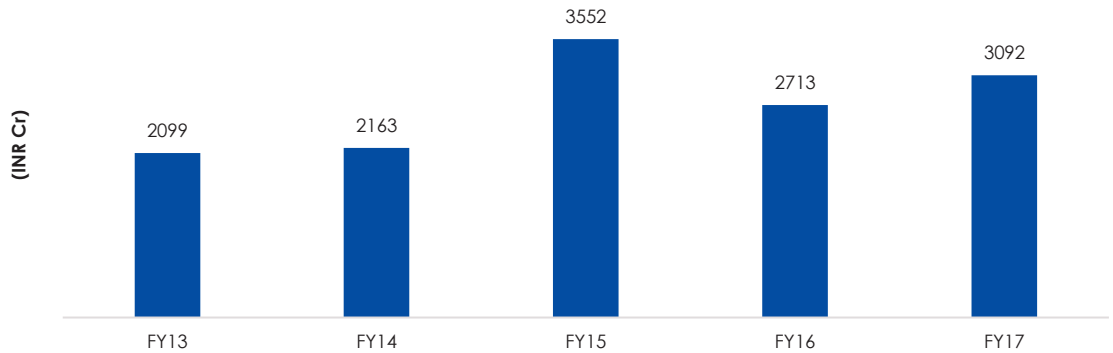
**Domestic production of specialty cables**



Source: IEEMA, Edelweiss Investment Research

Domestic production of power cable which is ~60% of the total market has grown at 5.1% CAGR from FY12-FY17, whereas production of specialty cables has grown at 21.3% CAGR over the corresponding period. CMI has largely focused on specialty cables, a managed to beat industry growth and posted a 33.3% CAGR from FY12-FY17.

**Import of wire and cable – mostly concentrated in EHV cables**



Source: DGFT, Edelweiss Investment Research

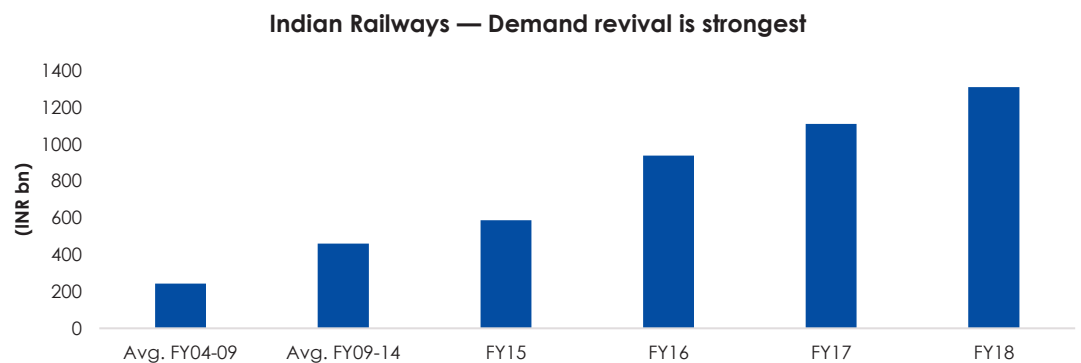
Import of wire and cable from FY13-FY17 has been in the range of INR 2,000 cr to INR 3,500 cr. Imports are largely in the EHV category (above 220kV), wherein domestic manufacturing is largely absent on account of the superior technological requirement. It is only recently that Universal, KEI Industries and Finolex Cables have started to manufacture EHV cables above 220kV in the domestic market.

**Growth drivers of the domestic wire and cable sector**

Sector	Investments (INR cr)	% of cables used	Opportunity size (INR Cr)	Remarks
<b>Railways</b>	5,84,320	3%	17,530	The Indian Railways is likely to witness investments of INR 584,320 cr in the next few years which will translate into INR 17,530 cr opportunity for cable companies. CMI's Faridabad plant has all the requisite approvals for railways' demands whilst approval for the Baddi plant is expected next month
<b>Metro Projects</b>	1,76,036	10%	17,604	Metro rail projects worth INR ~1.75 lakh cr are in various stages of approval and are likely to come up for bidding in the next 5 years offering an opportunity of ~INR 17,500 cr. CMI has already supplied cables to DMRC and other metros
<b>T&amp;D</b>	2,60,000	3%	7,800	Investments in T&D will provide an INR 8,000 cr opportunity for HT & LT power cables in the next 5 years
<b>Oil &amp; Gas</b>	6,00,000	3%	18,000	Investments in oil and gas will translate into a INR 18,000 cr opportunity for cable companies
<b>Renewables</b>	4,00,000	5%	20,000	The government's ambitious target of adding 175GW will offer an opportunity of INR 20,000 cr for this industry in next 5 years
<b>Roads</b>	5,00,000	1%	5,000	Investments in roads to generate a INR 5,000 cr demand for cables
<b>Total</b>	<b>25,20,356</b>	<b>3.5%</b>	<b>85,933</b>	

Source: Edelweiss Investment Research

**Opportunity for the wire and cable industry from:**



Source: IR, Edelweiss Investment Research

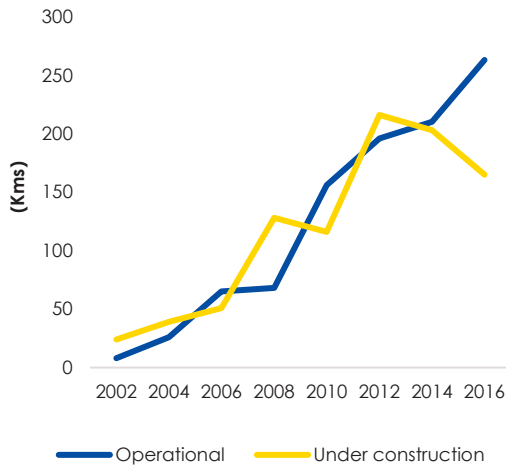
The government is focussing on substantial investments to improve and enhance infrastructure of the Indian Railways. From the meagre INR 24,300 cr average annual spend over the FY2004-09 period, capital investment has increased by more than 5x in FY18 to INR 131,000 cr. The government has also embarked on a huge capex programme of INR 8.56 lakh cr in the 11th Five Year Plan (FY14-19). This is likely to generate significant demand for the wire and cable industry ahead.



**Metro projects— Being set up in most large Indian cities**

The metro railway system has become a fast, safe and reliable mode of public transport in large cities. New metro rail networks are being developed to improve the urban transport situation in India. While tier-II cities like Lucknow, Kanpur, Ahmedabad and Nagpur are setting up their dedicated metro networks, proposals for cities such as Chandigarh, Bhopal, Ludhiana and Kozhikode are being evaluated.

**Overview of Metro Rail Projects**



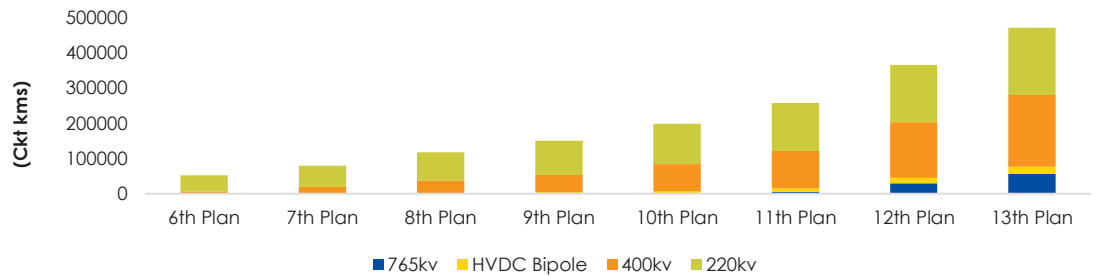
**Proposed Metro Railway**

Project Name	Length (Km)	Capex plan (INR Cr)
Bengaluru - Phase II	72	26,405
Ahmedabad - Phase I	38	10,773
Delhi - Phase IV	103	50,000
Chennai - Phase II	60	36,000
Visakhapatnam	45	13,488
Pune - Phase I	32	11,420
Indore	32	7,522
Vijaywada	26	6,823
Bhopal	28	6,963
Thiruvananthapuram	21	4,219
Gurgaon - Phase II	7	2,423
<b>Total</b>	<b>464</b>	<b>1,76,036</b>

Source: Edelweiss Investment Research

According to estimates, around 20% of the railway capex is utilised in signalling, telecom and electrification. This potential spend is likely to provide a significant opportunity for signalling and telecom cables.

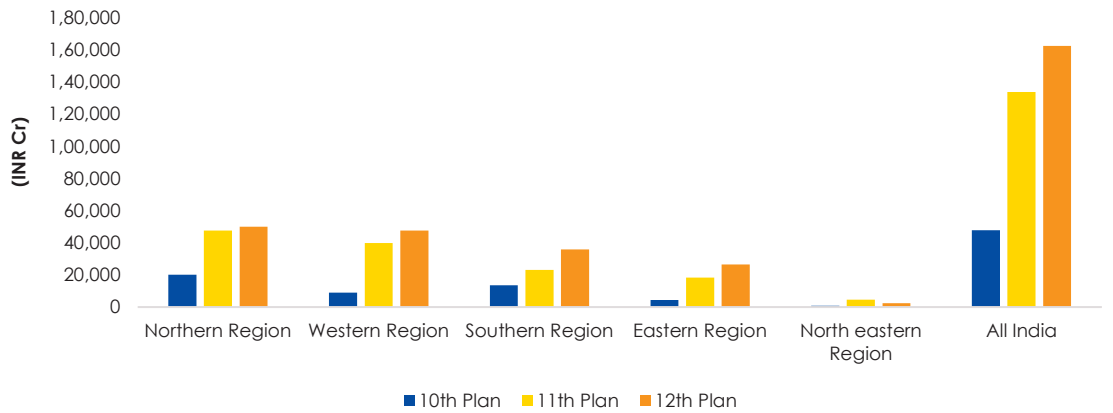
**Power Transmission and Distribution (T&D)**  
**Power T&D — this sector is gaining greater investment**



Source: Edelweiss Investment Research

Investments in power transmission are on an upswing. According to the CEA, investments in the power transmission sector are estimated to increase to INR 260,000 cr during the 13th plan (2017-22), which is 1.4x higher than that proposed in the 12th plan. Of the expected INR 260,000 cr spend, nearly INR 30,000 cr is likely to be spent on transmission systems of 220kV and below, wherein CMI has a presence.

**Plan wise investments in the distribution segment**



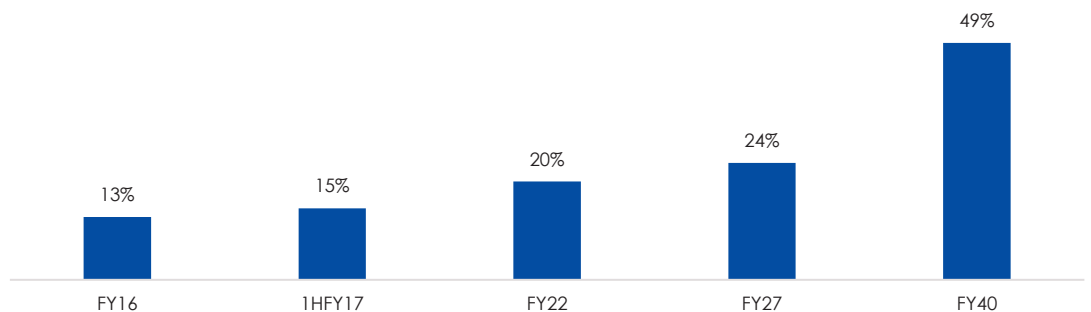
Source: CEA, Edelweiss Investment Research

Investments in power distribution are constantly increasing as cities continue to expand and new satellite towns come up rapidly. We estimate investments in distribution to increase as the government has introduced various schemes such as the Saubhagya scheme (to provide free electricity connections to all households) and the DDUGJY scheme (to provide continuous power to rural areas). This will lead to increased demand for power cables besides the ongoing investments.

**Renewable energy sector — Traction continues in the solar power segment**

The renewable energy sector has witnessed significant growth in capacity addition — contributing to the extent of 14.8% of the total generating capacity. It is expected that renewable power capacity be added at a rapid pace. Renewable capacity is estimated to reach 175 GW by FY22 from the current levels of 50 GW. The share of renewable is expected to be at 20.3% by FY22 from the existing level of ~15%. A large share of the capacity addition will arise from solar installations, thereby presenting a significant opportunity for solar cables ahead.

**Mix of renewable energy in power generation in total generation mix**



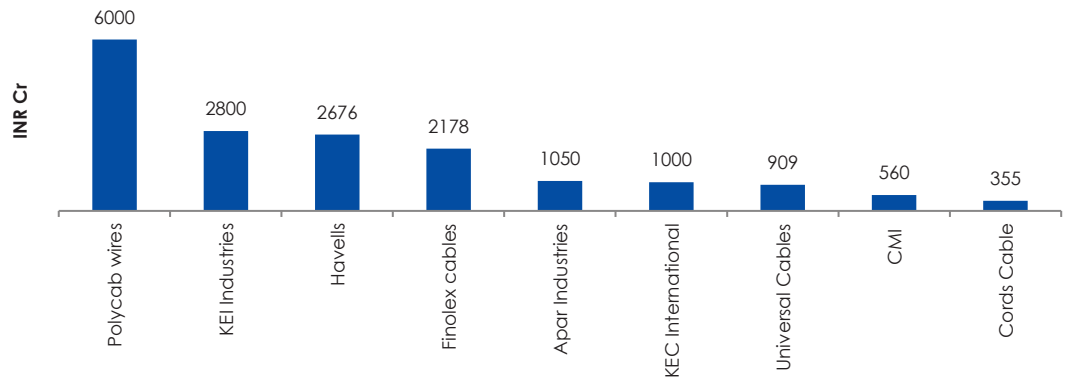
Source: Edelweiss Investment Research

**Oil & gas sector — likely to witness significant investments ahead**

The oil and gas industry is set to invest INR 6 trillion over the next seven years, and is largely focussed on increasing refining capacity and developing new oil and gas fields. This should create a big opportunity for cables as 3% of the capex in the oil and gas industry is utilised for spend on cables. We note that CMI has approvals from Engineers India (EIL) for supply of cables to various refineries.

Company	Investment	Timeframe	Purpose
<b>Indian Oil</b>	INR 1,75,000 cr	7 years (FY16 - FY22)	To scale output to around 100 million tonnes from existing 65 million tonnes
<b>Bharat Petroleum</b>	INR 1,00,000 cr	5 years (FY16 - FY21)	To increase refining capacity by 40%, branch into the petrochemical sector and expand city gas distribution business
<b>Hindustan Petroleum</b>	INR 3,25,000 cr	6 years (FY16 - FY22)	to set up new refinery and increase refining output

**Competitive scenario of the domestic wires and cables market:**  
**Major players' revenues from cable/wires segment**



Source: Edelweiss Investment Research

**Presence of major players across segments:**

Types of Cable	CMI	Havells	KEI	Polycab	Finolex	Universal	Cords Cable	Apar Ind	KEC Int	Delton	Vindhya Tele
<b>Power Cables</b>											
EHV at 400kV			✓			✓					
EHV upto 220kV	✓		✓	✓	✓	✓		•	✓		
EHV 11kV to 33kV	✓	✓	✓	✓	✓	✓	•	✓	✓		
HT upto 11kV	✓	✓	✓	✓	✓	✓	•	✓	✓	✓	
LT Cables	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
House wires		✓	✓	✓	✓						
<b>Specialty Cables</b>											
Signaling	✓									✓	✓
Instrumentation	✓		✓	✓			✓	✓			✓
Quard	✓						✓				
Control	✓		✓				✓	✓	✓		✓
Telephone	✓		✓	✓	✓						✓
Rubber	✓		✓	✓							
Others	✓	✓		✓			✓		✓		✓

Source: Edelweiss Investment Research

### CMI Ltd — Company structure

CMI Ltd (previously known as Chaudhary Metal Industries), was taken over by the present promoter, Mr Amit Jain in 2007 from the original promoters. CMI is a fast growing company in the domestic cable and wire industry with an estimated size of INR 50,000 cr. CMI sports expertise in the cables industry particularly in areas of control & instrumentation, railways and HT/EHV power cables up to 33kV. CMI also has capability to manufacture copper/aluminium based EHV cables up to 132kV.

Until 2016, CMI was operating only one plant based out of Faridabad, near New Delhi in the state of Haryana. This plant has key approvals from the Indian Railways, SEBs, BHEL, NTPC, oil marketing companies and other marquee clientele. In February 2016, CMI purchased a modern but temporarily closed wire and cable plant located in Baddi, Himachal Pradesh, from a Fortune 500 (in 2015) company called 'General Cables'.

#### Plant locations: Right mix of old and new plants

	Faridabad	Baddi
<b>Age of the plant</b>	30 year old plant. Semi Automated.	5 year old plant. Extensively automated with imported machines
<b>Plant specializes in</b>	30 Specialty Specialty cables - Railways and Control & Instrumentation	Power Power Cables, Solar Cables
<b>Major raw material in cables</b>	Focus on Copper based cables. Higher realisations.	Currently aluminium based cables. Proportion of copper cables will increase once supply starts to Railways
<b>Current capacity utilisation</b>	Current capacity utilisation ~100%	Current capacity utilisation ~25%.
<b>Maximum revenue potential</b>	Maximum revenue potential of INR 350cr	Maximum revenue potential of INR 1000cr. Current plant is utilising only 1/3rd of the available land

## I. Faridabad Plant: Running at full utilisation

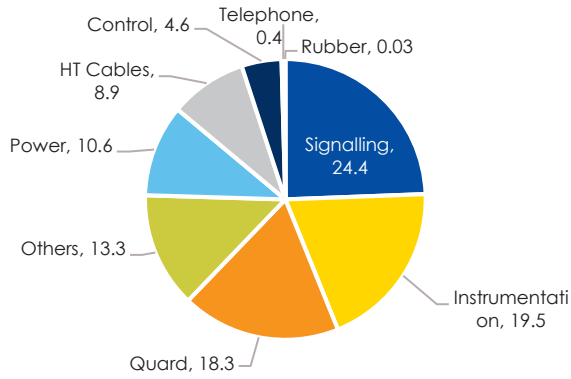


CMI's first plant at Faridabad, Haryana, is nearly 30 years old. The plant is situated over an area of two acres. This plant is a category 2 plant qualified under Indian Railway's pre-qualification criteria. A category 2 plant can bid for 80% of the railway's tenders in relevant products. Through this plant, the company is pre-qualified for the following products and has the following marquee clients:

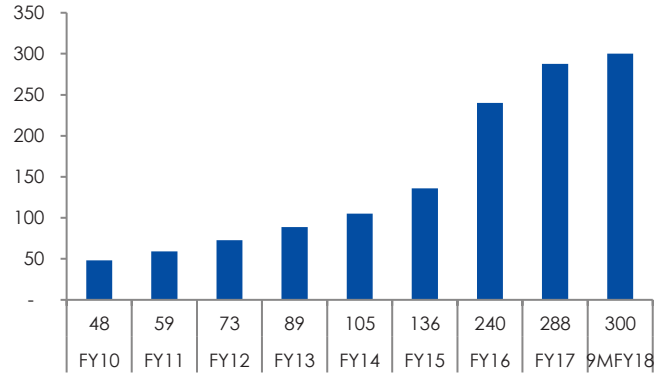
Indian Railways	BHEL/NTPC	ISRO	Engineers India	Alstom/ Siemens
<ul style="list-style-type: none"> <li>•Power</li> <li>•Signaling</li> <li>•Axles</li> <li>•Instrumentation</li> </ul>	<ul style="list-style-type: none"> <li>•Power</li> <li>•Control &amp; Instrumentation</li> </ul>	<ul style="list-style-type: none"> <li>•Specialty cable</li> </ul>	<ul style="list-style-type: none"> <li>•Fire</li> <li>•Signaling</li> </ul>	<ul style="list-style-type: none"> <li>•Special cables for GIS substations</li> </ul>

Cables utilised in the Indian Railways and for control and instrumentation are predominantly copper based owing to the demand for higher accuracy, conductivity, and efficiency. The company has been a leading supplier of all types of cables to the Indian Railways and BHEL/NTPC in the last 3-4 years. For FY17, Faridabad plant's turnover was divided into:

**Breakdown of revenue from Faridabad plant (approx)**



**Revenues from Faridabad (INR Cr)**



Source: Edelweiss Investment Research

## II. Baddi plant acquisition — Right time, right place

CMI Ltd acquired the Indian cable and wire manufacturing facility of the US-based then 'Fortune 500' company, 'General Cables'. The facility is based out of Baddi in Himachal Pradesh, on a land parcel of 20 acres. The actual plant is set up only over four acres of the land with separate facilities for HT/EHV cables, control & instrumentation cables, and railway cables. Manufacturing of house wires is set up at a separate smaller plant in the same premises.

General Cables had invested equity of INR 75 cr and had undertaken debt of INR 325 cr to set up this plant. At end-2015, the parent company of General Cables (...link) decided to exit Asian territory and focus on the domestic business opportunity in USA. In line with this strategy, General Cables closed 22 plants in Asia including the Indian plant at throwaway prices. CMI acquired 100% of General Cable Energy India Pvt Ltd at an enterprise value of ~INR 96 cr. This was financed by a term loan of INR 50 cr, raising of preferential equity of INR 26 cr from HNI investors and financing the remainder INR 20 cr through internal accruals.



Source: Company, Edelweiss Investment Research



**Tax benefits still available with CMI energy :**

During 2012-15, General Cables received approvals from many state electricity boards for LT/HT power cables. Even though the plant was operational for around three years, the company was consistently encountering losses due to demand slowdown and inefficient operations. Through the acquisition of 100% of shares, the company is entitled to use the carry forward losses of INR 150 cr and unabsorbed depreciation to the tune of INR 80 cr.

**We believe using these tax benefits, the company will not be liable to pay any cash tax until at least 2020.**

**Current approvals of the plant**

During the three years of the plant's operations, General Cables had taken approvals from various state electricity boards and solar EPC contractors for the supply of power cables. The plant is also approved by various buyers of control and instrumentation cables.

As of today, the company is operating separate production lines for <11kV and 33kV power cables, primarily that of aluminium based cable. CMI has completely integrated extrusion-to-cable drawing facilities for each type of cable. Currently the Baddi plant has approvals up to 132kV whilst the 11kV and 33kV witness the highest demand.

Power cables business is essentially a volume spinner wherein the company is confident of maintaining a monthly revenue run rate of INR 30-35 cr.

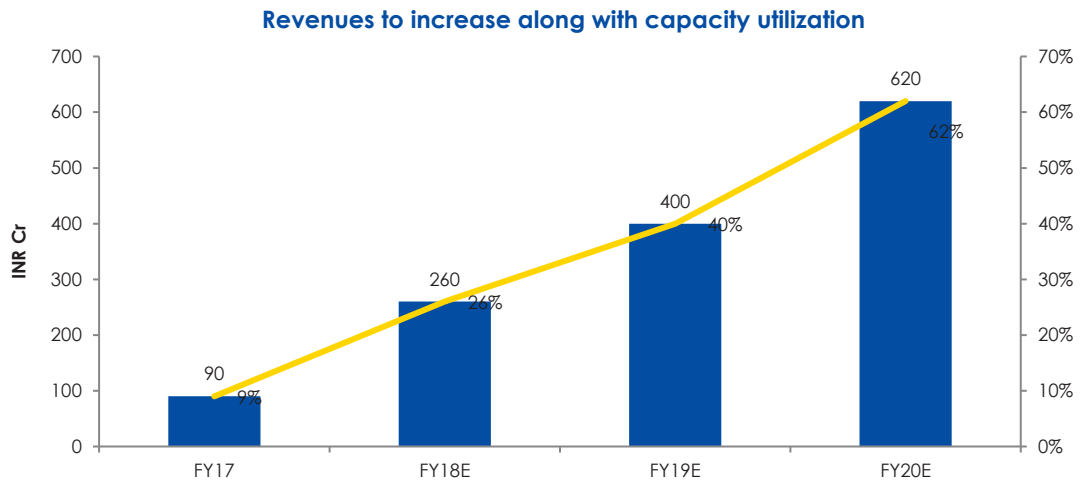
**Pending approvals can take the plant's revenue potential to INR 1,000 cr in next 3 years**

The company has applied for approval under the category 1 manufacturer status for supply to the Indian Railways. Under this category the plant will be eligible to bid for 20% relevant orders from the Indian Railways. The management expects this final approval some time during Q1FY18; this will open up a significant opportunity for revenue accretion Q2FY18 onwards.

Similarly, the company expects further approvals for its specialty cables segment from metro railways, other government agencies and large private contractors during the course of this year.

We note that the current installed capacity along with the relevant approvals is adequate to enable a revenue potential of almost INR 1000 cr in one full year of operations.

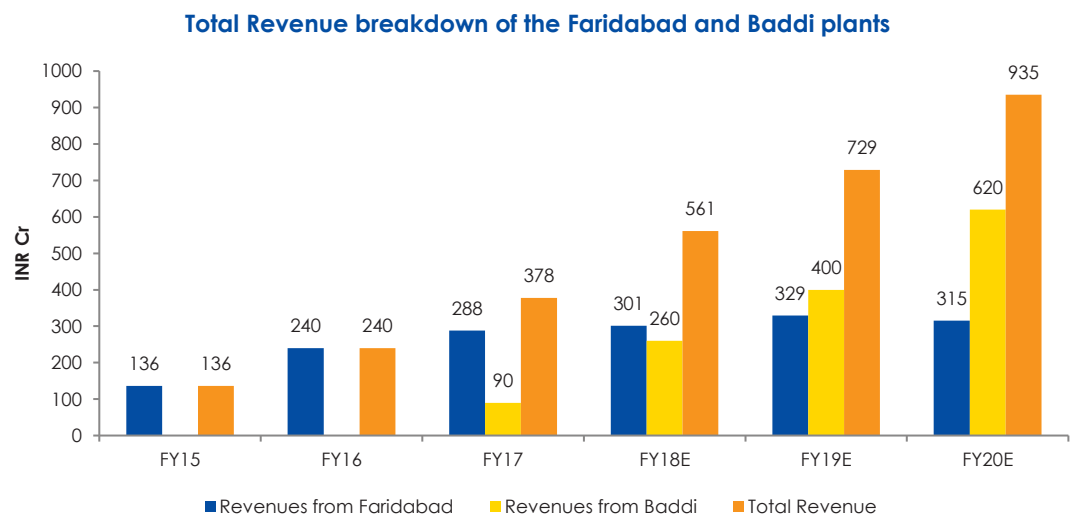
We are factoring in ramping up of capacity utilisation from 25% in FY18E to 45% in FY19E and to 65% in FY20E.



Source: Edelweiss Investment Research

#### Revenue trajectory – Growth momentum is expected to be healthy

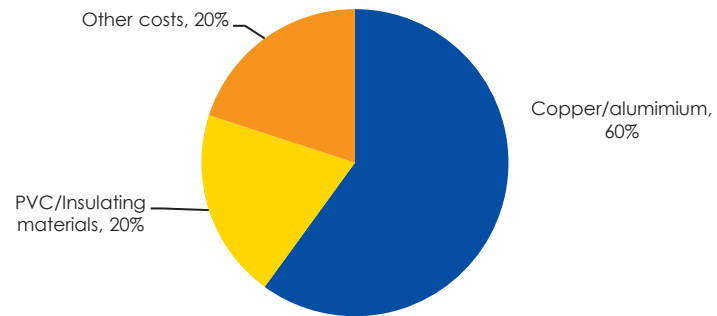
We expect CMI's total revenues to grow at a CAGR of 35% over FY17-20E. While revenues from the Faridabad plant will be capped at an upper limit of INR 330-350 cr, incremental growth in revenues will be largely contributed from the Baddi plant. The share of revenue contribution of the Baddi plant to total revenues is expected to increase to 66.3% in FY20E from 23.8% in FY17.



Source: Edelweiss Investment Research

### III. Cost of operations: Raw materials constitute 80% of the cost

#### Break-up of the costs

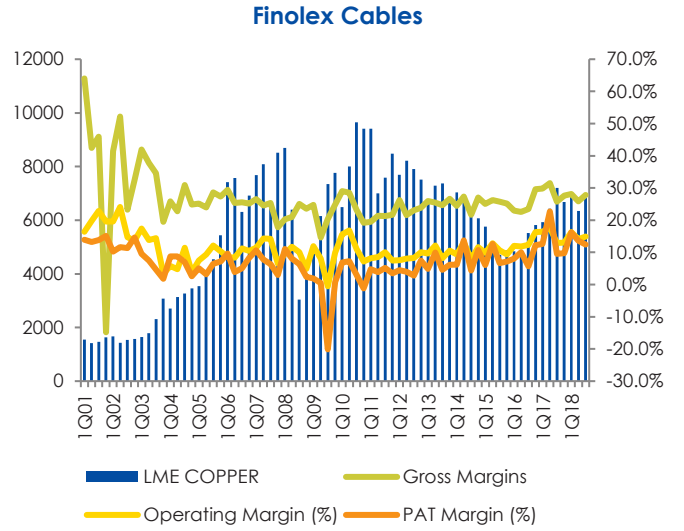
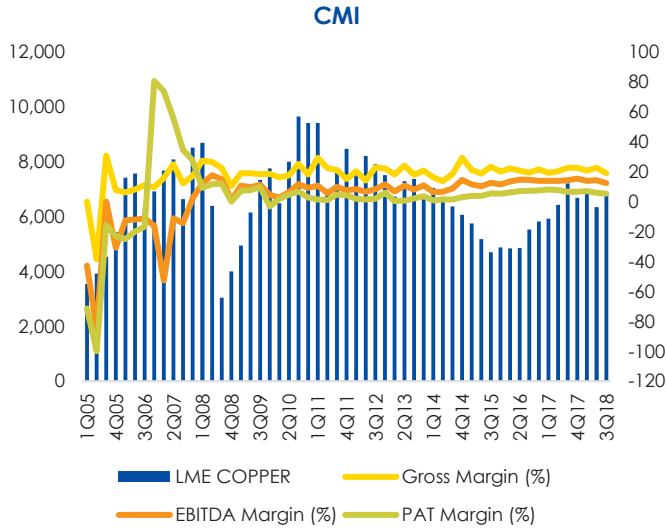


Source: Company, Edelweiss Investment Research

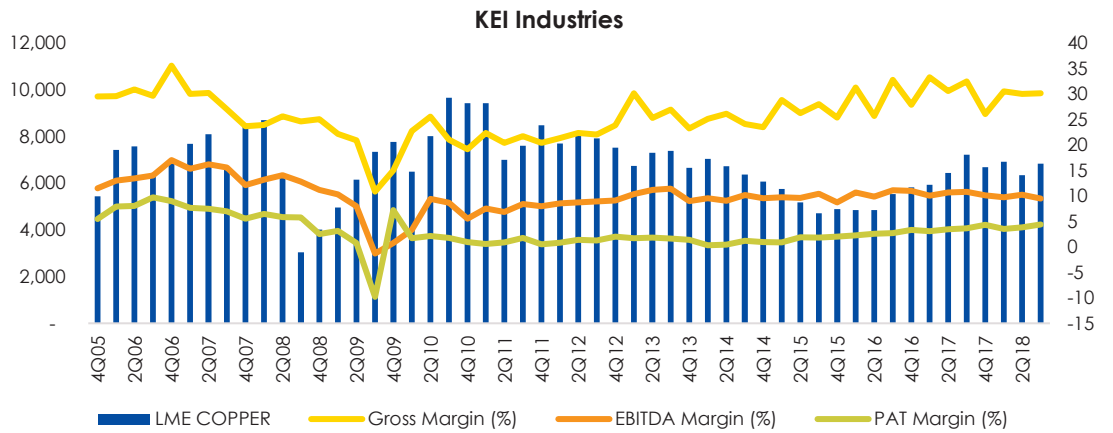
The manufacturing of cables involves converting strands of either copper or aluminium into an electric conductor having insulation. Depending upon the application and complexity required the raw materials are selected for manufacturing. CMI purchases all the raw materials primarily from domestic manufacturers. At any point in time, the company retains raw material stock of 20-30 days as a contingency, in the event of higher demand.

As the raw materials copper, aluminium, and PVC are traded in the international markets, the purchase price is benchmarked to international indices such as the London Metal Exchange (LME). During bidding for the government contracts, CMI incorporates the ruling rate of commodities into the bidding price. If at the time of dispatch, the price of that same commodity is different from that of the bidding price, then with the in-built price variation clause, the new price of the commodity is offered to the company. In this way, the company passes on any volatility in the underlying commodity without impacting its margins.

Impact of copper on margins of the companies (copper = \$/ton)

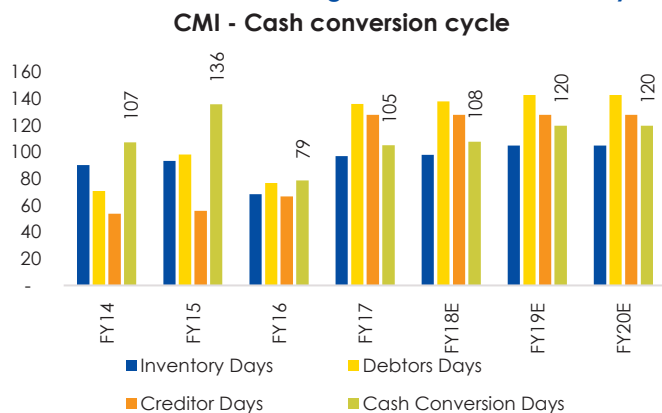


Source: Edelweiss Investment Research



Source: Edelweiss Investment Research

Nature of business demands higher cash conversion days – highly sensitive to OCF



Peers exposed to B2B business carry higher WC

WC Cycle (days)	FY12	FY13	FY14	FY15	FY16	FY17
KEI	98	118	132	113	97	101
Finolex	59	55	61	56	49	56
Universal	90	91	109	109	113	111
Apar Ind	57	27	37	53	23	34

Source: Edelweiss Investment Research

Currently CMI is a 100% B2B company with a significant revenue share arising from government entities such as the railways, SEBs and other large PSU industries. As per the norms, the standard receivable days in government contracts are anywhere between 90-120 days. Moreover, as these entities buy the final stock only post inspection at the company's facility, the company's inventory also tends to be closer to 90 days.

CMI purchases primary raw material i.e. copper/ aluminum from Sterlite or Hindalco and PVC compounds from various domestic suppliers. As these players are large in size compared to CMI, the payment terms are less than 15 days. The company extends overall creditor days with letter of credit (LC) funding from banks.

Overall, cash conversion days for the company are around 110 days. We believe as the company continues to be highly dependent on the government business, we expect no correction in cash conversion days, in fact we are keeping cash conversion days at 120 days for FY19E and FY20E.

We believe except for Finolex Cables, which is primarily a B2C cables/wires player, other competitors have similar working capital at between 100-120 days.

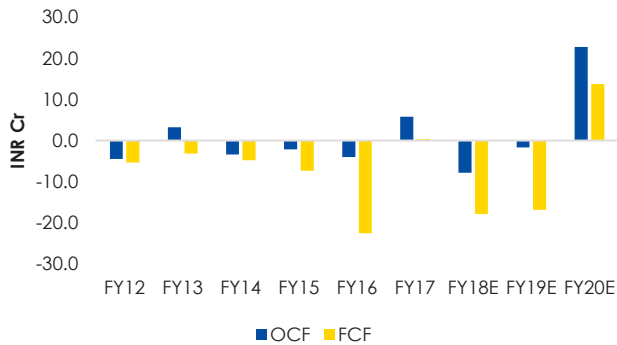
CMI's operating cash flow is expected to be highly sensitive to changes in working capital days and EBIDTA margins.

	FY19				FY20			
	12%	12.5%	13%	13.5%	12%	12.5%	13%	13.5%
Margin	12%	12.5%	13%	13.5%	12%	12.5%	13%	13.5%
Working Capital Days								
90	65.6	67.6	69.5	71.4	34.4	37.9	41.3	44.8
100	41.3	43.1	44.9	46.8	27.5	30.9	34.3	37.8
110	16.9	18.6	20.4	22.1	20.5	23.9	27.4	30.8
120	-7.5	-5.8	-4.2	-2.6	13.6	17	20.4	23.7
130	-31.8	-30.3	-28.8	-27.2	6.7	10	13.4	16.7

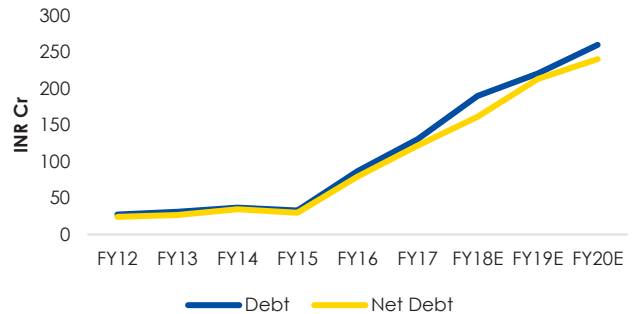
Source: Edelweiss Investment Research

**Growth funding – from where will it come?**

**OCF to remain under pressure due to WC investment**



**Working capital to be funded mostly by debt**

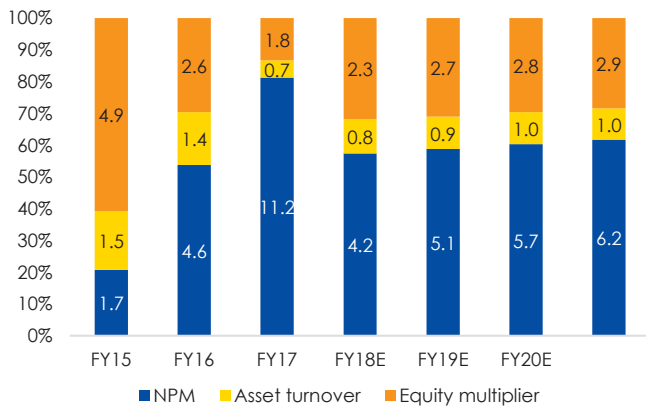


Source: Company, Edelweiss Investment Research

CMI has a capital expenditure plan of around INR 20 cr in FY19E which will be funded by term loans of INR 15 cr and internal accruals of INR 5 cr.

- We believe the company would have to fund its high growth expectations via the right mix of debt and internal accruals. We expect the company's short term working capital debt to increase from INR 80 cr in FY17 to INR 215 cr in FY20E while the term loan will come down from INR 51 cr in FY17 to INR 45 cr in FY20E (adjusted for the new term loan of INR 15 cr to be raised for capex of balancing equipments).

**Return ratios – Expected to hit a healthy level of 20% in FY20E**



**Peer comparison – RoCE(%)**

Companies	FY16	FY17	FY18E	FY19E	FY20E
<b>CMI Ltd</b>	<b>18.6</b>	<b>12.9</b>	<b>18.0</b>	<b>17.9</b>	<b>20.2</b>
KEI Industries Ltd.	27.5	24.5	23.7	26.8	29.2
Finolex Cables Ltd.	27.5	20.5	24.7	24.5	24.6
Apar Industries	28.6	30.0	26.7	31.6	34.0
<b>Average of peers</b>	<b>27.9</b>	<b>25.0</b>	<b>25.0</b>	<b>27.6</b>	<b>29.3</b>

Source: Company, Edelinvest Research

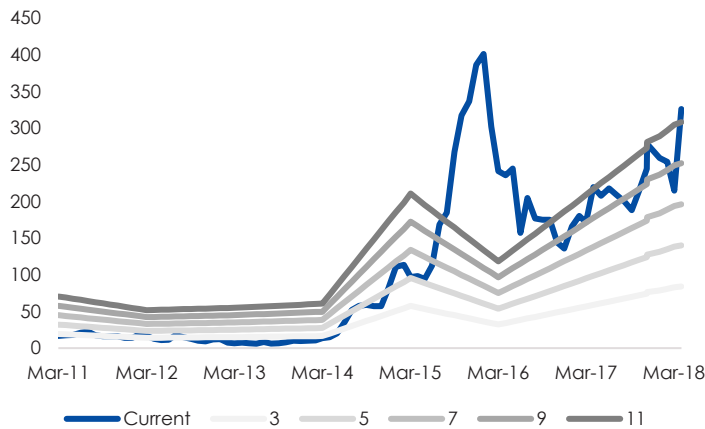
Improving asset turnover as a result of bargain acquisition of Baddi plant, operating leverage and low capex requirement for incremental revenue growth is likely to boost the company's RoCE to 20.2% in FY20E from 12.9% in FY17. Peers having high exposure to the B2C segment enjoy RoCE upwards of 25% while players dealing primarily with B2B orders usually have RoCEs of <20%.

**Valuation rerating expected along with earnings expansion**

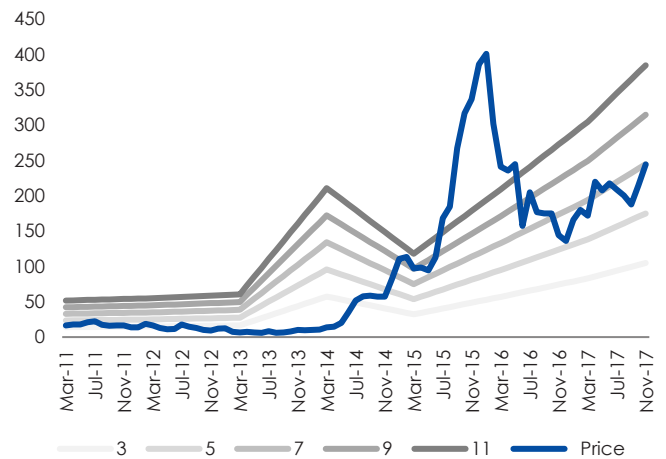
At CMP of INR 326, the stock is trading at a P/E multiple of 8.4x on a FY20E basis. We expect the company's net profits to grow at a CAGR of 54.4% over FY17-FY20E while RoCE is expected to improve to 20.2% in FY20E from 12.9% in FY17. Currently, the stock is trading at a discount of 50% on P/E multiple on FY20E basis over the average of peers in the cable industry.

We are valuing the stock at a discount of 25% to company's peers in the industry, valuing the stock at a P/E multiple of 12x on a FY20E basis. We recommend 'Tactical Buy' on the stock with a target price of INR 463/share.

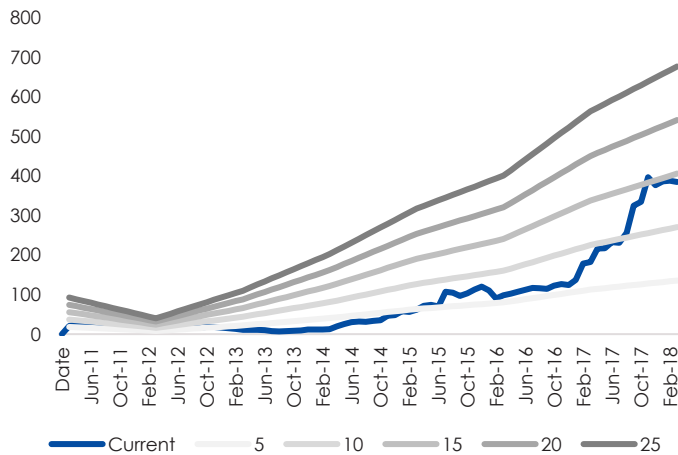
**CMI - 1 YR FWD PE**



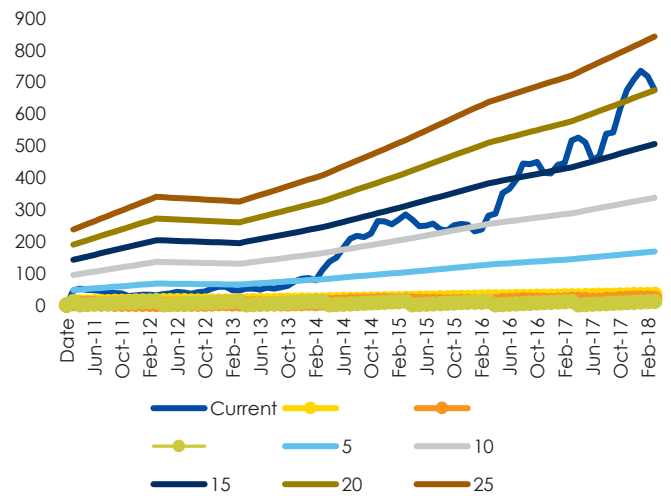
**CMI - 2 yr FWD PE**



**KEI - 2 YR FWD PE**



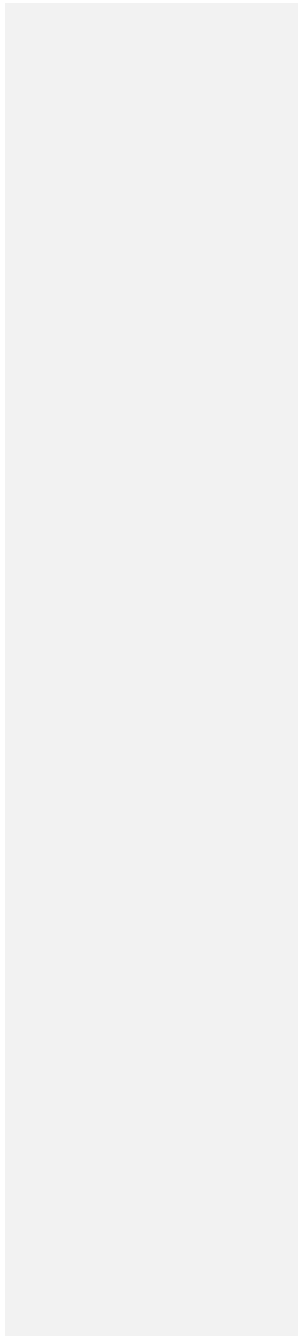
**Finolex - 2 yr FWD PE**



Source: Edelweiss Investment Research

Peer Comparison

	M. Cap	EV/EBITDA (x)				P/E (x)				Total Debt/Equity (x)				ROCE (%)			
	(INR crs)	FY17	FY18e	FY19e	FY20e	FY17	FY18e	FY19e	FY20e	FY17	FY18e	FY19e	FY20e	FY17	FY18e	FY19e	FY20e
CMI Ltd.	489	9.8	6.6	6.1	4.9	30.4	17.2	11.8	8.4	0.6	0.8	0.8	0.8	12.9	18.0	17.9	20.2
KEI Industries Ltd.	3,432	15.0	12.6	10.0	8.0	34.8	26.0	19.5	14.5	1.4	1.1	0.9	0.7	24.5	23.7	26.8	29.2
Finolex Cables Ltd.	10,599	28.2	24.1	19.9	16.2	33.5	29.3	25.5	21.9	-	-	-	-	20.5	24.7	24.5	24.6
Apar Industries	3,061	7.4	7.7	5.5	4.7	17.3	18.6	13.8	11.4	0.3	0.2	0.1	0.1	30.0	26.7	31.6	34.0
<b>Average of peers</b>		<b>16.9</b>	<b>14.8</b>	<b>11.8</b>	<b>9.6</b>	<b>29</b>	<b>25</b>	<b>20</b>	<b>16</b>					<b>25.0</b>	<b>25.0</b>	<b>27.6</b>	<b>29.3</b>





## Business Overview

### Company Brief:

CMI Ltd is engaged in the manufacture of cables for various industries in segments such as the railways, oil & gas, telecommunication, energy, industrial, power and petrochemical. The company is present in the entire value chain of the wire and cable industry, starting from design, development and manufacturing to marketing and distribution of cables. It has a diversified range of cables and caters to the requirements of a broad spectrum of industries and clients.

<b>Business Model</b>	<ul style="list-style-type: none"> <li>CMI has two plants one at Faridabad and the other at Baddi. The Faridabad plant manufactures all types of specialty cables and also has approvals from various authorities and companies. Baddi plant can manufacture power cables like HT, LT and solar cables.</li> </ul>
<b>Strategic Positioning</b>	<ul style="list-style-type: none"> <li>CMI Ltd has positioned itself as a specialty cables manufacturer; further it focuses on supplying cables to the railways (signalling &amp; quad cable), for which it has all the required approvals at its Faridabad plant and can participate in 80% of the railways cable opportunity.</li> </ul>
<b>Competitive Edge</b>	<ul style="list-style-type: none"> <li>The Baddi plant is a modern state-of-the-art plant, with energy efficiency of 20%-30% compared to a plant of a similar size. This will enable cost saving and in turn offer a better margin profile vs its competitors.</li> </ul>
<b>Financial Structure</b>	<ul style="list-style-type: none"> <li>Current debt to equity stands at 0.7x, which is at a comfortable level, considering acquisition of the Baddi plant and installation of balancing equipment at Baddi plant for INR 20 cr</li> </ul>
<b>Key Competitors</b>	<ul style="list-style-type: none"> <li>KEI industries, Universal Cables and Cords Cables Ltd. are CMI's competitors domestically. KEI Industries is present across the entire spectrum of power cables and Cords Cable has its presence in control and instrumentation cables.</li> </ul>
<b>Industry Revenue Drivers</b>	<ul style="list-style-type: none"> <li>Growth in end user industries such as the railways, metro rails, transmission &amp; distribution, renewable energy and oil &amp; gas industries will be the revenue driver for CMI's cables</li> </ul>
<b>Shareholder Value Proposition</b>	<ul style="list-style-type: none"> <li>We are valuing the stock at a discount of 25% to the company's peers in the industry, valuing the stock at a P/E multiple of 12x on FY20E basis. We recommend 'Tactical Buy' on the stock with a target price of INR 463/share</li> </ul>

## Management Profile

Name	Designation	Profile
<b>Mr. Amit Jain</b>	<i>Chairman cum Managing Director</i>	Mr. Amit Jain is an industrialist with an experience of more than two decades in cable manufacturing. He is a second generation entrepreneur with foresight & keen business acumen having turned around the loss making unit that CMI Limited had acquired in 2007 to a profitable and ambitious growth aspiring company today.
<b>Mr. Munishvar Gaur</b>	<i>Group President</i>	Mr. Gaur has an experience of more than three decades in leading Indian business houses of Electrical and Mechanical Industry. His areas of expertise include Research and Product Development, Quality Management, Operations Management, Project Management, and Marketing & Sales.
<b>Mr. Rattan Lal Aggarwal</b>	<i>Chief Financial Officer</i>	Mr. Rattan Lal Aggarwal is a graduate of Ajmer University and is a qualified Company Secretary and Chartered Accountant. He possesses over 2 decades of post-qualification experience in finance, accounts, project accounting, M&A activities-acquisitions, etc. He has an experience of working with reputed companies and also has an experience in managing all commercial operations relating to purchases, imports, export, open credit Risk, credit control, forex management, etc. He has worked as a team leader, head of Finance & Account and Chief Compliance Officer continuously for more than a decade.
<b>Mr. Vijay Kumar Gupta</b>	<i>Whole-Time Director</i>	Mr. Vijay Kumar Gupta (B.E., DBM) has a vast experience of 42 years in manufacturing and marketing different types of wires and cables for Government and Private sector. During his association with CMI from the last 13 years, he has been instrumental in ensuring a manifold increase in turnover through continuous development of innovative products and growing the customer base. He has sound knowledge of technical requirements of cables, intricacies of commercial terms & conditions and national/international specifications.

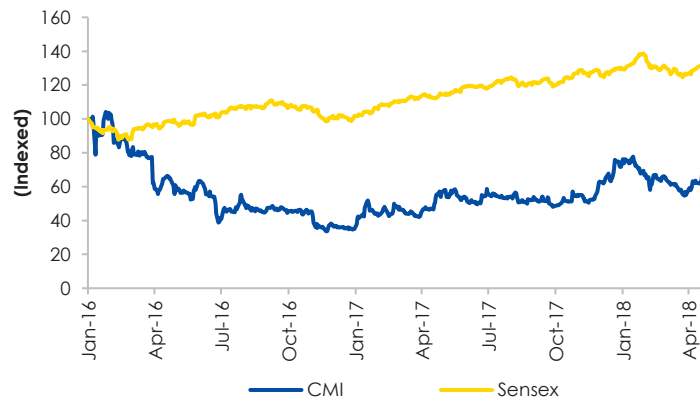


**Vinay Khattar**

Head Research

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Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate between 5-15% over a 12-month period
<b>Reduce</b>	Return below 5% over a 12-month period



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