Mid-cap Sector

10 July 2015

June 2015 Quarter Result Preview

Subdued Growth Likely

We expect the companies in our mid-cap coverage universe to post muted revenue/EBITDA/net profit growth of 10.1%/11.2%/5.7%, respectively, for the June 2015 quarter. Taking into account the current challenging environment, CCL Products (CCL), JBF Industries (JBF), Just Dial (JDL), La Opala RG (LORL), V-Guard Industries (VIL), V-Mart Retail (VRL) and Bata India (BIL) are expected to post good results while Adi Finechem (AFL), Arvind, Credit Analysis & Research (CARE), Crisil and Supreme Industries are likely to report a weak performance. Additional volume and nil income-tax at Vietnam plant of CCL is likely to drive its net profit up 18.4% to Rs239mn. Healthy growth in paid listings and operating leverage would drive JDL's EBITDA by 29.1% to Rs568mn. Growth in distribution network, launch of new products and better margins would drive LORL's net profit 29.8% to Rs79mn.Ramp-up in capacity from US$400bn investment would improve JBF's operaing profit by 38.1% to Rs2,871mn. Healthy cash flow and better margin would improve VIL's net profit by 18.8% to Rs264mn. New store addition would drive net profit by 24.9% for VRL, despite weak demand. With no problem on supply chain side, BIL would report 8% revenue growth and 14.6% net profit growth. High tax rate, delay in capacity expansion, high margin base because of one-offs and downturn in tocopherol (35% of revenue) would lead AFL to report a steep decline in net profit. Weak demand at Brands & Retail division, lower cotton prices and weak volume growth in textile business would hurt Arvind's revenue and profitability. Weak growth in SME (small and medium enterprise) rating business would impact CARE/Crisil growth, leading to 5.3%/14.5% decline in net profit, respectively. Weak deamand and lower margin would lead to a mere 4.8% rise in net profit of Kajaria Ceramics (KCL) to Rs404mn. Healthy MDF (medium density fibre) board division's revenue would partially offset subdued demand for plywood in case of Greenply Industries. Subdued domestic growth and weakness in the euro may impact subsidiary Sylvania's performance and this coupled with high pension liatbility would restrict Havells India's net profit growth to15.4% at Rs1,248mn. Following strong non-rating business revenue, overall net profit growth is expected to be 9.6% in case of ICRA.

Adi Finechem: With the delay in 80% capacity expansion, volume growth is expected to remain muted in 1QFY16 as well. Also, the price of tocopherol (35% of revenue) declined. Consequently, on a high base of 1QFY15, its revenue is likely to decline 14.9% to Rs366mn. In FY15 alone, tocopherol price declined by ~30%. Tocopherol price has stabilised at a lower level and we expect the downturn to get over in the next two quarters and also the margins to improve from 2HFY16. With depreciation of the Indian rupee or INR (benefiting exports - 35% of revenue) along with a better product mix and lower costs, operating margin had increased 370bps to 20.4% in 1QFY15. Tocopherol is undergoing a downturn following oversupply and the benefit of a weak INR is also absent in 1QFY16 and, therefore, we expect the operating margin to decline 635bps to 14.1%. Following muted revenue growth and lower margins (on a high base), operating profit/net profit may decline 41.3%/50.1% to Rs52mn/Rs26mn, respectively. Post 80% capacity expansion in 2QFY16, the company is expected to post healthy net profit growth.

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(Rsmn)		CMP	TP	Net sales			EBITDA			EBITDA margin (%)			APAT		
Company	Rating	(Rs)	(Rs)	1QFY16E	YoY (%)	QoQ (%)	1QFY16E	YoY (%)	QoQ (%)	1QFY15	4QFY15	1QFY16E	1QFY16E	YoY (%)	QoQ (%)
Adi Finechem	Buy	259	369	366	(14.9)	(1.1)	52	(41.3)	(5.2)	20.4	14.7	14.1	26	(50.1)	(14.1)
Arvind	Buy	284	354	19,224	8.5	(5.8)	2,384	6.9	(8.2)	12.6	12.7	12.4	733	(19.2)	(24.2)
Bata India*	Buy	1,158	1,355	6,718	8.0	36.7	1,115	14.7	137.9	15.6	9.5	16.6	693	14.6	117.9
CARE	UR	1,425	-	444	4.1	(42.9)	218	1.2	(59.1)	50.4	68.4	49.0	262	(5.3)	(26.9)
CCL Products	Buy	185	272	1,862	6.0	(13.9)	408	13.5	(1.2)	20.5	19.1	21.9	239	18.4	11.2
Crisil*	Acc.	1,970	2,110	3,094	1.4	0.6	773	(12.9)	(10.4)	29.1	28.1	25.0	495	(14.5)	(12.2)
Greenply Industries	Buy	836	1,407	3,679	11.1	(14.3)	497	10.1	(7.9)	13.6	12.6	13.5	239	2.8	(23.2)
Havells India	Acc.	298	312	21,294	0.0	0.5	2,058	6.0	28.6	9.1	7.6	9.7	1,248	15.4	(0.6)
ICRA	UR	4,264	-	761	11.6	(18.2)	196	14.8	(42.9)	25.0	36.8	25.7	236	9.6	2.5
JBF Industries	Buy	241	327	25,413	21.7	18.7	2,871	38.1	24.6	9.9	10.8	11.3	416	49.0	(176.9)
Just Dial	Buy	1,180	2,137	1,722	27.5	10.2	568	29.1	9.6	32.6	33.2	33.0	442	24.5	(19.6)
Kajaria Ceramics	Acc	749	728	5,677	12.8	(3.5)	874	9.1	(15.2)	15.9	17.5	15.4	404	4.8	(27.3)
La Opala RG	UR	439	-	520	24.1	(15.2)	137	28.2	(19.8)	25.6	27.9	26.4	79	29.8	(25.4)
Supreme Industries#	Acc	672	643	13,908	8.9	20.8	2,197	(1.2)	10.9	17.4	17.2	15.8	1,104	0.6	15.9
V-Guard Industries	Buy	915	1,175	5,179	8.4	17.3	456	12.7	29.2	8.5	8.0	8.8	264	18.8	31.7
V-Mart Retail	Buy	468	832	2,080	26.1	21.9	218	17.0	224.6	11.3	3.9	10.5	113	24.9	601.4
Aggregate				**111,576**	**10.1**	**6.4**	**14,971**	**11.2**	**8.6**	**13.3**	**13.1**	**13.4**	**6,968**	**5.7**	**15.0**

*Note: * Crisil's financial year-end is in December and, therefore, the preview is for 2QCY15. # Supreme Industries' year-end is in June and, therefore, the preview is for 4QFY15. Bata India changed its financial year-end from December to March and, therefore, the preview is for 1QFY16. With the change in stock prices, we will revise our target prices/rating for CARE, ICRA, and La Opala in our result update. Source: Company, Nirmal Bang Institutional Equities Research*

Arvind: Following lower cotton prices and limited volume growth, we expect revenue from the textile division to moderate in 1QFY16 to 5.0% compared to a 15.2% growth in 1QFY15. Following weak demand and also in the wake of area reduction in brands business because of store closure (like two Debenhams store of ~25,000sqft each closed in 4QFY15), the B&R division is expected to grow 17.0% compared to 25.6% in 1QFY15. The benefit of lower cotton prices is likely to be visible in this quarter which would improve margin of B&R division. Following 5%/17% growth in textile/branded garment divisions, respectively, and also because of a high base of 1QFY15, we expect consolidated revenue to grow by a mere 8.5% to Rs19,224mn. With lower share of high-margin textile segment, consolidated margin would decline 18bps to 12.4% despite expected margin improvement in B&R division. We expect EBITDA to grow 6.9% to Rs2,384mn, but because of a higher tax rate of 29.0% against 12.1% YoY, net profit may decline 19.2% to Rs733mn.

BIL: The company started implementing SAP at its outlets from November 2014 and by February 2015 SAP was implemented at most of its ~1,450 outlets. Following teething problems in implementation of SAP, revenue declined 3.1%/0.8%, in 4QFY15/5QFY15, respectively. (BIL changed its financial year-end from December to March in FY15 and therefore we have compared 1QFY16 with 2QFY15). As teething problems impacted sales, BIL scrapped SAP installation. Since March 2015, the outlets started receiving stocks in a normal manner and as a result sales did not suffer because of SAP problem. As BIL has over 1,450 outlets, it started supplying goods to priority outlets first and then gradually to non-priority outlets. Growth in 1QFY16 is expected at 8.0% against decline of 3.1%/0.8% in 4QFY15/ 5QFY15, respectively. Operating margin in 2QFY15 was suppressed by 0.5% because of ~Rs30mn advertisement expenditure. To increase footfalls, post reversal of SAP, we expect advertisement expenditure to remain high in 1QFY16 also. With more than 50% of its raw material prices (~20%-23% of sales) linked to crude oil prices, the recent fall in crude oil prices is expected to result in a 79bps improvement in gross margin. Following better gross margin and control over other expenses, we expect operating margin to improve 98bps to 16.6%. Against PAT decline of 41.2%/19.3% in 4QFY15/1QFY15, respectively, operating profit/net profit may grow 14.7%/14.6% to Rs1,115mn/Rs693mn, respectively. We believe the worst is behind BIL.

CARE: With reduction in government subsidy to one-third - from ~Rs800mn in FY14 to ~Rs250mn in FY15 on SME ratings, we expect a substantial drop in the volume of SME ratings as SME clients may not pay a 4x increase in rating/grading fees. Following negligible revenue likely from SME rating business and lower credit growth and also because of a high base of 1QFY15, we expect a meagre 4.1% revenue growth to Rs444mn. Following higher employee costs and lower revenue growth, operating margin is expected to decline 141bps to 49%. Consequently, EBITDA would grow just 1.2% to Rs218mn. CARE had announced a special dividend and paid dividend amounting to Rs2,291mn in FY15 compared to Rs812mn in FY14. With higher dividend, cash and liquid investments reduced in FY16, which would reduce other income. With lower other income, net profit would decline 5.3% to Rs262mn.

CCL Products: In 4QFY15, the company faced a logistics problem at its Vietnam plant at the end of March 2015, and got it cleared in April 2015. Hence, revenue and profit was not booked in March 2015 and the benefit of which will be visible in 1QFY16. Volume growth would be healthy for CCL, but because of a fall in coffee prices, its revenue growth would be lower than volume growth. Despite a high base of 1QFY15, Vietnam unit will report a healthy revenue growth of 37% to Rs589mn. As a significant part of contracts are on per kg coffee price basis rather than as percentage to sales, operating margin is likely to be higher by 141bps to 26.3% because of lower denominator (i.e. revenue). Operating profit is likely to grow by 44.8% to Rs155mn at Vietnam plant. Following capacity constraints impacting volume growth and the decline in coffee prices, its Indian operations should report a 4% decline in sales to Rs1,273mn and flat operating profit at Rs253mn. With likely healthy performance of Vietnam plant, consolidated operating profit would grow 13.5% to Rs408mn. With lower interest costs because of a healthy cash flow and nil income-tax at Vietnam plant, net profit is likely to grow 18.4% to Rs239mn.

Crisil: SME rating division accounted for more than 20% of India rating revenue and over 14% of total rating revenue for Crisil. With reduction in government subsidy to one-third from ~Rs800mn in FY14 to ~Rs250mn in FY15 on SME ratings, we expect a substantial drop in the volume of SME ratings. Hence rating revenue - accounting 35.5% of total CY14 revenue – may decline 6.1%. Revenue of global investment banks, key clients of Crisil, continues to remain under pressure. As a result, outsourcing revenue of Crisil is under pressure. On the back of 7%/(6.1%) growth/decline in research/rating services divisions, respectively, revenue is likely to register a meagre 1.4% growth to Rs3,094mn in 2QCY15. With operating deleverage because of higher employee costs and other expenses, operating margin is likely to decline 411bps to 25%. Incidentally, EBITDA/net profit may decline 12.9%/14.5% to Rs773mn/Rs495mn, respectively.

Greenply Industries: The company is witnessing weak demand because of no pick-up in demand from the construction sector and even replacement demand is believed to be slack with limited signs of revival. With the improvement in plywood off-take by dealers and also improvement in the 'lifting scheme' (the number of truckloads of plywood lifted by dealers), which was muted in 3QFY15 and 4QFY15, we expect a modest growth of 8% to Rs2,715mn in the plywood segment in 1QFY16. With best technology, GIL introduced better quality, light weight, lower priced MDF board, which led to shift in consumers' preference from cheap plywood to MDF board. On a low base and the shift from cheap plywood to MDF board, we expect MDF board division's revenue growth at 30% in 1QFY16. Consolidated revenue is expected to rise by a mere 11.1% to Rs3,679mn. Despite weak revenue, operating margin would remain flat 13.5%. We expect EBITDA/net profit growth of 10.1% to Rs497mn. However, because of a higher tax rate of 20.0% against 8.3% YoY, net profit would grow by a mere 2.8% to Rs239mn.

Havells India: With weak demand, similar to the previous quarter, and lower copper prices, standalone operations are likely to witness a 7.9% revenue growth. With a better product mix, operating margin would improve 70bps to 13.4%. Subsidiary Sylvania is likely to report a 1% revenue growth in constant currency terms. However, because of depreciation of the euro against the Indian rupee (INR), revenue in INR terms would be lower by 14.5%. Excluding the impact of pension liability, we expect Sylvania to report EBITDA margin of 5.3%, up 17bps. Sylvania reported pension liability of euro6.5mn in 4QFY15 and we expect high pension liability of euro2.5mn in 1QFY16 also, as its liability is underfunded???currently. As a result, Sylvania is expected to report subdued operating profit for the quarter. Following lower standalone revenue growth and revenue decline at Sylvania in INR terms, consolidated revenue would remain flat at Rs21,294mn. Following the improvement in core margin at Sylvania and better margin at domestic operations, consolidated margin would improve 55bps to 9.7%. EBITDA/PAT would grow 6%/15.4% to Rs2,058mn/Rs1,248mn, respectively.

ICRA: We expect the company to post a strong 15% growth in non-rating revenue and a moderate 8.7% growth in rating revenue, which is likely to lead to a 11.6% growth in net revenue to Rs761mn in 1QFY16. Following a 240bps fall in staff costs, EBITDA margin is likely to expand 72bps to 25.7%. With better revenue and healthy margin, EBITDA/net profit would grow 14.8%/9.6% to Rs196mn/Rs236mn, respectively.

JBF Industries: With improving delta margin in POY and PET chips, profitability at its Indian operations are expected to improve in 1QFY16. The company commissioned its 90,000tpa PET film plant in Bahrain at a capex of US$200mn and a 390,000tpa PET chip plant in Belgium at a capex of US$200mn in 3QFY15, the full benefits of which are likely to be reaped in 1QFY16. With the ramp-up in capacity utilisation at new ventures in Belgium and Bahrain, operating profit of RAK unit is expected to post healthy growth of 66.2% to Rs1,623mn. Despite lower realisation because of a fall in crude oil prices, consolidated revenue would grow strongly by 21.7% to Rs25,413mn on account of healthy volume growth. While operating profit would grow 38.1% to Rs2,871mn, net profit would rise 49.0% to Rs416mn.

Just Dial: We expect the company to post strong revenue growth of 27.5% to Rs1,722mn on account of sustained growth momentum in paid listings. Margins are likely to increase 41bps to 33.0% on account of operating leverage benefit, in terms of lower other expenses by 150bps. With a healthy revenue growth and better margins, EBITDA would grow 29.1% to Rs568mn. However, because of lower booking of income from liquid investments to improve tax efficiency, other income would grow by a mere 10%. Therefore, net profit would grow only 24.5% to Rs442mn.

Kajaria Ceramics: The company commissioned new capacity at Jaxx Vitrified and Cosa Ceramics units in September 2014, which would provide volume growth in 1QFY16. Factoring in weak demand and a high base of 1QFY15, we expect the company to report a low double-digit revenue growth of 12.8% for 1QFY16. With a fall in crude oil prices, spot prices of gas have started declining and the partial benefit of it would be visible in 1QFY16. However, because of lower volume growth and higher overheads on expanded capacity, operating margin would decline 52bps to 15.4%. With modest revenue growth and pressure on margins, EBITDA/net profit would grow 9.1%/4.8% to Rs874mn/Rs404mn, respectively.

La Opala RG: With the growth in distribution network and launch of new products as well as new price points, despite a higher base, the company is expected to report a healthy revenue growth of 24.1% to Rs520mn in 1QFY16. On account of lower power and fuel costs because of the shift from furnace oil usage to electricity and a better product mix, operating margin would improve 85bps to 26.4%. As a result, EBITDA/PAT would increase robustly by 28.2%/29.8% to Rs137mn/Rs79mn, respectively.

Supreme Industries: On account of a fall in crude oil prices, demand at its plastic pipes and other divisions got deferred in 2QFY15 (June year-end). However, following lower prices and restocking at dealers' level, the plastic pipes division would report a 11% volume growth in 4QFY15. Similarly, we expect healthy volume growth in industrial and packaging product divisions, respectively. However, following the decline in crude oil prices, revenue would grow by a mere 8.9% to Rs13,908mn. On account of inventory gains, margin was high at 17.4% in 4QFY14. On a high base, we expect operating margin to decline 161bps to 15.8%. With weak revenue and lower margin, operating profit would decline 1.2% to Rs2,197mn while net profit may remain flat at Rs1,104mn.

V-Guard Industries: With weak demand still playing spoilsport, barring voltage stabilisers (good sales because of increased sales of white goods) and to some extent water heaters also (because of new product launches and Pebbles doing good in the premium segment) and the early onset of the summer season in South India driving good sales in fans, all other products like pumps (Karnataka government imposing severe restrictions on new bore wells), cables division which witnessed a fall in copper prices (despite stable volume) etc, are expected to report poor revenue growth. We expect revenue growth of just 8.4% to Rs5,179mn. With a better product mix and lower input costs because of lower crude oil prices, gross margin would improve 64bps to 26.6%, which would improve operating margin by 33bps to 8.8%. With modest revenue growth and better margin, operating profit would grow 12.7% to Rs456mn, while because of lower interest costs due to healthy cash flow and lean capex, net profit would grow 18.8% to Rs264mn.

V-Mart Retail: Demand continues to remain challenging at retail stores. However, because of new store addition, we expect revenue growth of 26.1% for 1QFY16, lower than 39.5% in 1QFY15. On account of lower same-store sales growth or SSG along with weak demand, despite lower cotton prices, we expect EBITDA margin to decline 81bps to 10.5%. With lower revenue growth and lower margin, operating profit would grow 17.0% to Rs218mn. With lower interest costs on account of healthy cash flow and lower debt, net profit would grow by a healthy 24.9% to Rs113mn.

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Lakshmi Machine Works (LMW): We expect the order inflow for textile machinery from the domestic market to remain subdued in the coming quarters. However, the traction witnessed in export orders in FY15 is likely to continue in FY16 as well. The order book as of end-March 2015 stood at Rs29bn (same as of end-March 2014), which excludes export orders worth Rs4.6bn (Rs1.6bn as of end-March2014). We expect total net revenue to register a marginal YoY decline of 1% in 1QFY16. This will be mainly on account of subdued domestic execution for project orders. However, robust order inflow from overseas markets and a spurt in execution of export orders for textile machinery may restrict the decline to 1% on the revenue front. Efficiency in raw material costs in relation to revenue is expected to result in mere 34bps YoY erosion in EBITDA margin to 11.2%. However, around 12% YoY growth in depreciation and a 165bps rise in the tax rate may result in around 11.7% decline in PAT to Rs429mn in 1QFY16.

(Rsmn)	Rating	CMP	TP	Revenue			EBITDA			*EBITDA margin (%)*			PAT		
Company		(Rs)	(Rs)	1QFY16E	*YoY (%)*	*QoQ (%)*	1QFY16E	*YoY (%)*	*QoQ (%)*	1QFY15	*4QFY15*	*1QFY16E*	1QFY16E	*YoY (%)*	*QoQ (%)*
LMW	Buy	3,698	4,725	5,657	*(1.0)*	*(13.8)*	634	*(4.0)*	*(13.3)*	*11.6*	*11.2*	*11.2*	429	*(11.7)*	*(36.3)*

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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