Mid-cap Sector

13 April 2015

March 2015 Quarter Result Preview

Jignesh Kamani, CFA
jignesh.kamani@nirmalbang.com
+91-22-3926 8239

Ruchita Maheshwari
ruchita.maheshwari@nirmalbang.com
+91-22-3926 8023

Subdued Growth Likely

We expect the companies in our mid-cap coverage universe to post muted revenue/EBITDA/net profit growth of 7.4%/12.2%/6.5%, respectively, for the March 2015 quarter. Taking into account the current challenging environment, CCL Products (CCL), Credit Analysis & Research (CARE), V-Mart Retail (VRL), Just Dial (JDL), La Opala RG (LORL), and Kajaria Ceramics (KCL) are expected to post good results while Bata India (BIL), Adi Finechem, Supreme Industries (SIL) and V-Guard Industies (VIL) are likely to report a weak performance. Additional volume and zero income-tax at Vietnam plant of CCL is likely to drive its net profit up 74.9% to Rs285mn. Healthy growth in paid listings and operating leverage would drive JDL's EBITDA 39.2% to Rs520mn. Growth in distribution network, launch of new products and better margins would drive LORL's net profit 27.2% to Rs108mn. Healthy growth in SME (small and medium enterprise) rating business would aid CARE's growth. Better product mix, lower power & fuel costs and also operating margin improvement by 49bps to 16.5% would benefit KCL. In the wake of healthy store addition driving revenue and also better margins because of lower cotton prices and lower shrinkage ratio, operating profit would grow 42.9%, despite lower same-store sales growth because of weak demand, in case of VRL. With the revival in domestic profitability, better profit at RAK unit and capacity expansion, JBF Industries would post a 18.2% rise in EBITDA to Rs2,337mn. Lower footfalls and suply chain pressure would exert pressure on same-store sales growth of BIL. Weak demand at Brand & Retail division, and lower cotton prices and weak volume growth in textile business would hurt Arvind's revenue and profitability. Healthy MDF (medium density fibre) board division's revenue would partially offset subdued demand for plywood in case of Greenply Industries or GIL. Subdued domestic growth at 7.5% and weakness in the euro may impact Sylvania's performance, but lower pension liability on a high base is the saving grace for Havells India or HIL. Inventory loss because of a fall in crude oil prices would hurt SIL. 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. Revenue of global investment banks, key clients of Crisil, continue to remain under pressure and as a result Crisil's revenue is likely to remain under pressure. Following weak non-rating business revenue, overall revenue growth is expected to remain muted in case of ICRA. Inventory loss because of lower copper prices and weak demand would hurt VIL.

Adi Finechem: The company expanded its capacity by 39% in September 2013. As the 80% expanded capacity will go on stream this month, volume growth is expected to remain muted in 4QFY15. Also, the prices of tocopherol (35% of revenue) have declined. Consequently, on a high base of 4QFY14, its revenue is likely to decline 4.0% to Rs426mn. With depreciation of the Indian rupee (benefiting exports - 35% of revenue) along with a better product mix and lower costs, operating margin increased 1,292bps to 25.4% in 4QFY14. Tocopherol is undergoing a downturn following oversupply and the benefit of a weak rupee is also absent in 4QFY15 and, therefore, we expect the operating margin to decline 924bps to 16.2%. Following muted revenue growth and lower margins (on a high base), operating profit/net profit would decline 38.9%/42.8% to Rs69mn/Rs37mn, respectively. Post 80% capacity expansion in 1QFY16, the company is expected to report a healthy net profit growth.

(Rsmn)		CMP	TP	Net sales			EBITDA			EBITDA margin (%)			APAT		
Company	Rating	(Rs)	(Rs)	4QFY15E	YoY (%)	QoQ (%)	4QFY15E	YoY (%)	QoQ (%)	4QFY14	3QFY15	4QFY15E	4QFY15E	YoY (%)	QoQ (%)
Adi Finechem	Buy	328	453	426	(4.0)	14.5	69	(38.9)	17.3	25.4	15.8	16.2	37	(42.8)	24.6
Arvind	UR	283	-	20,606	9.7	(0.6)	2,782	12.1	(3.5)	13.2	13.9	13.5	1,000	6.3	(9.9)
Bata India*	Buy	1,158	1,499	5,004	1.0	(6.9)	578	(17.8)	(5.9)	14.2	11.4	11.6	344	(19.0)	(1.7)
CARE	Buy	1,716	1,930	881	16.5	41.2	604	14.6	52.0	69.6	63.6	68.5	459	8.5	69.4
CCL Products	Buy	214	245	2,563	17.2	6.2	484	16.2	6.1	19.0	18.9	18.9	285	74.9	9.0
Crisil*	UR	2,227	-	3,571	15.5	9.2	1,228	19.5	19.6	33.2	31.4	34.4	819	19.3	15.8
Greenply Industries	Buy	1,030	1,407	4,145	10.0	5.4	560	13.2	5.4	13.1	13.5	13.5	289	28.4	10.7
Havells India	UR	293	-	22,027	(1.2)	4.1	2,227	17.2	48.9	8.5	7.1	10.1	1,295	16.7	271.9
ICRA	UR	4,689	-	894	11.3	7.7	352	12.7	29.8	38.9	32.6	39.3	246	11.7	38.3
JBF Industries	Buy	233	355	22,586	7.8	(6.0)	2,337	18.2	(12.8)	9.4	11.1	10.3	206	(27.4)	(5.0)
Just Dial	Buy	1,325	2,137	1,601	28.9	3.7	520	39.2	(6.6)	30.1	36.1	32.5	383	12.1	6.5
Kajaria Ceramics	Buy	760	868	5,933	13.2	6.7	979	16.6	11.9	16.0	15.7	16.5	493	17.0	8.1
La Opala RG	UR	476	-	616	26.1	(2.4)	184	33.0	(11.7)	28.3	32.9	29.8	108	27.2	(22.0)
Supreme Industries#	UR	735	-	10,947	8.9	2.7	1,172	(8.9)	(9.0)	12.8	12.1	10.7	351	(39.8)	105.8
V-Guard Industries	Buy	1,021	1,315	4,590	8.6	16.1	376	6.3	73.5	8.4	5.5	8.2	216	5.6	133.3
V-Mart Retail	Buy	568	834	1,708	23.0	(28.9)	87	42.9	(74.9)	4.4	14.4	5.1	26	138.0	(86.6)
Aggregate				**107,672**	**7.4**	**0.5**	**14,469**	**12.2**	**4.5**	**12.9**	**12.9**	**13.4**	**6,521**	**6.5**	**27.4**

*Note: * Crisil's financial year-end is in December and, therefore, the preview is for 1QCY15. # Supreme Industries' year-end is in June and, therefore, the preview is for 3QFY15. Bata India changed its financial year-end from December to March and, therefore, the preview is for 5QFY15. With the run-up in stock prices, we will revise our target prices for Crisil, Havells India, ICRA, La Opala and Supreme Industries in our result update.*
Source: Company, Nirmal Bang Institutional Equities Research

Arvind: Following lower cotton prices, we expect revenue from the textile division to moderate in 4QFY15 to 7% compared to 26.8% growth in 4QFY14. The benefit of lower cotton prices is likely to be visible from 1QFY16 and a significant portion of the savings will be retained by the B&R division. Following weak demand, the B&R division is expected to grow 22.0% compared to 24.9% in 9MFY15. Following 7%/22% growth in textile/branded garment divisions, respectively, we expect consolidated revenue to grow by a mere 9.7% to Rs20,606mn. With weak demand witnessed by the B&R division despite lower cotton prices, operating margin would improve by a mere 29bps to 13.5%. We expect EBITDA/PAT to grow 12.1%/6.3% to Rs2,782mn/Rs1,000mn, respectively.

BIL: BIL started SAP implementation in November 2014. SAP was implemented in some of its ~1,450 outlets in 4QFY15 and in the remaining outlets it will be implemented in 5QFY15. (BIL changed its year-end from December to March and therefore the result preview is for 5QFY15 and we have compared it with 1QFY15/4QFY15 for YoY/QoQ comparison). Due to teething problems, the outlets where SAP was implemented were not able to communicate with the warehouse, which impacted the stock position and thereby the sales at these outlets. Problems with the supply chain along with weak demand and lower footfalls are expected to result in a mere 1% revenue growth in 5QFY15. January-March, being a seasonally weak quarter, any small impact on revenue would have a large impact on profitability of the company because of high opex on account of lease rent, employee costs etc. BIL spent Rs45mn (0.9% of sales) on advertisements in 1QFY15. Excluding this, operating margin would decline 264bps, while including advertisement expenditure the operating margin would decline 174bps. Following weak revenue and lower margin, operating margin/net profit (excluding one-time advertisement spending) would decline 17.8%/19.0% to Rs578mn/Rs344mn, respectively. Including advertisement expenditure, operating profit/net profit would decline 12.2%/9.4%, respectively. We believe the worst is behind BIL, and 1QFY16 performance would be better than 5QFY15 performance on all parameters.

CARE: Better volume in bank loan rating assignments and increased focus on SME rating segment is likely to drive a 16.5% rise in revenue in 4QFY15 to Rs881mn. Following higher employee costs and also higher expenses for ramp-up of SME rating business, operating margin would decline 113bps to 68.5%. Following healthy revenue growth, EBITDA would grow 14.6% to Rs604mn. However, considering lower other income, net profit would grow by a mere 8.5% to Rs459mn.

CCL Products: With the full benefit of Vietnam facility (capacity utilisation expected to increase to 60% in 2HFY15E from 40% in 1HFY15) and optimum capacity utilisation at Indian operations in 4QFY15, we expect net sales to grow 17.2% to Rs2,563mn for the quarter. Despite lower margins at domestic operations because of addition of new clients at aggressive prices, consolidated margin would decline marginally by 16bps to 18.9%. With strong revenue growth, EBITDA is expected to rise 16.2% to Rs484mn. With lower interest costs because of a healthy cash flow and zero income-tax at Vietnam plant, net profit would grow by a healthy 74.9% to Rs285mn.

Crisil: Revenue of global investment bankers, key clients of Crisil, continue to remain under pressure. As a result, outsourcing revenue of Crisil remains under pressure. On the back of 18.5%/12.1% growth in research/rating services divisions, respectively, revenue is likely to register a 15.5% growth to Rs3,571mn in 1QCY15. With lower employee costs and other expenses, operating margin is likely to improve 116bps to 34.4%. EBITDA/net profit would grow 19.5%/19.3% to Rs1,228mn/Rs819mn, 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 offtake by dealers and also improvement in the 'lifting scheme' (the number of truckloads of plywood lifted by dealers), which was muted in 3QFY15, we expect a modest growth of 4.5% to Rs2,990mn in the plywood segment. Also, we expect sustained demand growth in case of MDF boards on account of the shift in consumers' preference from cheap plywood to MDF boards. We expect MDF board revenue growth of 27.8% in 4QFY15. We also expect consolidated revenue to rise by a mere 10% to Rs4,145mn. With lower forex loss, improvement in the 'lifting scheme' and a better product mix, operating margin would improve 38bps to 13.5%. We expect EBITDA/net profit growth of 13.2%/28.4% to Rs560mn/Rs289mn, respectively.

Havells India: With weak demand, similar to the previous quarter, and a 4.1% decline in copper prices (impacting revenue of the cable division) standalone operations are likely to witness a 6.7% revenue growth. Following weak revenue growth, operating margin would remain flat at 13.5%. 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 13.5%. Excluding the impact of pension liability, we expect Sylvania to report EBITDA margin of 6.5%, up 120bps. Sylvania reported high pension liability of euro4.3mn in 4QFY14 and as the company already reported high pension liability of euro6.1mn in 3QFY15, the size of the liability would be lower in 4QFY15. As a result, Sylvania is expected to report a healthy operating profit for the quarter. Following lower standalone revenue growth and revenue decline at Sylvania in INR terms, consolidated revenue would decline 1.2% to Rs22,027mn. Following the improvement in margins at Sylvania and assuming lower pension liability, despite weak improvement in margins in standalone operations and depreciation of the euro by 11.34%, consolidated EBITDA/PAT would grow 17.2%/16.7% to Rs2,227mn/Rs1,295mn, respectively.

ICRA: We expect the company to post a 7% growth in non-rating revenue and a 14% growth in rating revenue, which is likely to lead to a 11.3% growth in net revenue to Rs894mn in 4QFY15. Following a 112bps fall in staff costs, EBITDA margin is likely to expand 47bps to 39.3%. With better revenue and healthy margin, EBITDA/net profit would grow 12.7%/11.7% to Rs352mn/Rs246mn, respectively.

JBF Industries: With improving delta margin in POY and PET chips, profitability at its Indian operations are expected to improve in 4QFY15. In line with previous quarters, its RAK unit would continue to witness some improvement in profitability. With the fall in crude oil prices, realisation in PET chips and film has declined, impacting revenue growth. 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 is likely to be felt in 4QFY15. As a result, consolidated revenue would grow 7.8% to Rs22,586mn. With better margins at RAK operations, consolidated EBITDA would grow 18.2%. However, following a likely higher forex loss of Rs100mn in 4QFY15 as against forex gain of Rs129mn in 4QFY14 and also higher depreciation/interest costs because of capacity expansion at overseas operations, net profit is expected to reduce 27.4% to Rs206mn from Rs 284mn.

Just Dial: We expect the company to post strong revenue growth of 28.9% to Rs1,601mn on account of sustained growth momentum in paid listings. Margins are likely to increase 241bps to 32.5% on account of operating leverage benefit, in terms of lower other expenses by 256bps. With a healthy revenue growth and better margins, EBITDA would grow 39.2% to Rs520mn. However, because of lower booking of income from liquid investments to improve tax efficiency, other income would decline 35%. Therefore, net profit would grow by a mere 12.1% to Rs383mn.

Kajaria Ceramics: The company commissioned new capacity at Jaxx Vitrified and Cosa Ceramics units in September 2014, which would provide volume growth in 4QFY15. Factoring in weak demand and a high base of 4QFY14, we expect the company to report a low double-digit revenue growth of 13.2% for 4QFY15. With a fall in crude oil prices, spot prices of gas have started declining. If spot prices of gas remain low, the company is expected to witness a strong improvement in operating margin. Despite weak demand, because of a better product mix and lower power & fuel costs, operating margin would improve 49bps to 16.5%. With modest revenue growth and better margins, EBITDA/net profit would grow 16.6%/17% to Rs979mn/Rs493mn, respectively.

La Opala RG: With the growth in distribution network, launch of new products as well as new price points, and despite a higher base, the company is expected to report a healthy revenue growth of 26.1% to Rs616mn in 4QFY15. 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 154bps to 29.8%. As a result, EBITDA/PAT would increase robustly by 33%/27.2% to Rs184mn/Rs108mn, respectively.

Supreme Industries: On account of a fall in crude oil prices, demand at its plastic pipes and other divisions got deferred in 1QFY15 (June year-end). However, following lower crude oil prices, the plastic pipes division reported a 12.5% volume growth in 2QFY15. We expect the plastic pipes division to report an 8% volume growth in 3QFY15. Similarly, we expect healthy volume growth in industrial and packaging products divisions, respectively. However, following a 10.8% decline in crude oil prices, revenue would grow by a mere 8.9% to Rs10,947mn. The fall in crude oil prices would result in inventory loss in 3QFY15 as well. As a result, consolidated operating margin would decline 209bps to 10.7%. Reported operating profit/net profit would decline 8.9%/39.8% to Rs1,172mn/Rs351mn, respectively.

V-Guard Industries: With weak demand still playing spoilsport, barring voltage stabilisers (good sales because of increased sales of white goods), 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), cable 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 8.6% to Rs4,590mn. With lower copper prices, we expect VIL to report inventory loss to the tune of ~Rs30mn for the quarter. VIL would report an 18bps decline in operating margin to 8.2%, despite good performance of the high-margin voltage stabiliser division. With moderate revenue growth and pressure on margins, EBITDA/PAT would grow 6.3%/5.6% to Rs376mn/Rs216mn, respectively.

V-Mart Retail: Demand continues to remain challenging at retail stores, but would be partially aided by the extended winter season in North India (additional sales of winter articles). We expect moderate revenue growth of 23% for 4QFY15 against 46.2% in 4QFY14. 4Q is, any way, the lowest-margin quarter for the company. 4Q contributes ~11%/~4% to EBITDA/PAT for the full year usually and, therefore, it has limited impact on profitability of the company. On account of lower cotton prices and lower shrinkage, we expect EBITDA margin to improve 71bps to 5.1%. With better margins and modest revenue, EBITDA/PAT are expected to grow by a healthy 42.9%/138% to Rs87mn/Rs26mn, respectively.

Sameer Panke
sameer.panke@nirmalbang.com
+91-22-3926 8114

Lakshmi Machine Works (LMW): We expect the order inflow for textile machinery to remain subdued for LMW in the coming quarters. The order book as of end-December 2014 stood at Rs29bn, which excludes export orders worth Rs3bn. We expect YoY revenue growth of 13% for 4QFY15. This will be mainly driven by short execution cycle export orders and sale of spare parts. For the same period, higher operating leverage is likely to be driven by revenue growth. This along with raw material cost efficiency in relation to revenue is expected to result in EBITDA margin expansion of 180bps to 9.9%. However, the likely fall in other income by 55% YoY to Rs202mn and a 15% YoY growth in depreciation may result in a 7.4% decline in PAT to Rs498mn for 4QFY15. (Analyst: Sameer Panke)

(Rsmn)	Rating	CMP	TP	Revenue			EBITDA			*EBITDA margin (%)*			PAT		
Company		(Rs)	(Rs)	4QFY15E	*YoY (%)*	*QoQ (%)*	4QFY15E	*YoY (%)*	*QoQ (%)*	*4QFY14*	*3QFY15*	*4QFY15E*	4QFY15E	*YoY (%)*	*QoQ (%)*
LMW	Buy	4,027	4,725	7,180	*13.2*	*26.4*	710	*38.0*	*(1.3)*	*8.1*	*12.7*	*9.9*	498	*(7.4)*	*11.1*

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

This report is published by Nirmal Bang's Institutional Equities Research desk. Nirmal Bang has other business units with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets. This report is for the personal information of the authorised recipient and is not for public distribution. This should not be reproduced or redistributed to any other person or in any form. This report is for the general information for the clients of Nirmal Bang Equities Pvt. Ltd., a division of Nirmal Bang, and should not be construed as an offer or solicitation of an offer to buy/sell any securities.

We have exercised due diligence in checking the correctness and authenticity of the information contained herein, so far as it relates to current and historical information, but do not guarantee its accuracy or completeness. The opinions expressed are our current opinions as of the date appearing in the material and may be subject to change from time to time without notice.

Nirmal Bang or any persons connected with it do not accept any liability arising from the use of this document or the information contained therein. The recipients of this material should rely on their own judgment and take their own professional advice before acting on this information. Nirmal Bang or any of its connected persons including its directors or subsidiaries or associates or employees or agents shall not be in any way responsible for any loss or damage that may arise to any person/s from any inadvertent error in the information contained, views and opinions expressed in this publication.

Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") is a registered Member of National Stock Exchange of India Limited, Bombay Stock Exchange Limited. NBEPL is in the process of making an application with SEBI for registering as a Research Entity in terms of SEBI (Research Analyst) Regulations, 2014.

NBEPL or its associates including its relatives/analyst do not hold any financial interest/beneficial ownership of more than 1% in the company covered by Analyst.

NBEPL or its associates/analyst has not received any compensation from the company covered by Analyst during the past twelve months. NBEPL /analyst has not served as an officer, director or employee of company covered by Analyst and has not been engaged in market-making activity of the company covered by Analyst.

The views expressed are based solely on information available publicly and believed to be true. Investors are advised to independently evaluate the market conditions/risks involved before making any investment decision.

'Access our reports on Bloomberg Type NBIE <GO>'

Team Details:

Name		**Email Id**	**Direct Line**
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 3926 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 3926 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 3926 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 3926 8102/8103, +91 22 6636 8830
Umesh Bharadia	Dealing Desk	umesh.bharadia@nirmalbang.com	+91-22-39268226

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address
B-2, 301/302, Marathon Innova,
Nr. Peninsula Corporate Park,
Lower Parel (W), Mumbai-400013.
Board No. : 91 22 3926 8000/1; Fax. : 022 3926 8010