



Mid-cap Sector

Impact of Fall In Crude Oil Prices

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Mid-cap Companies



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Mid-cap Sector



Impact of Fall In Crude Oil Prices

Brent crude oil prices declined 38.9% from US\$115.0/bbl on 19 June 2014 to US\$70.3/bbl on 3 December 2014, while Indian crude oil basket prices fell 37.4% from US\$111.9/bbl to US\$70.1/bbl over the same period. We tried to figure out the impact of this fall in crude oil prices in terms of savings on raw material costs of companies in the mid-cap space under our coverage.

JBF Industries

CMP: Rs238; Rating: Accumulate; M-Cap: Rs15.6bn;



Likely savings in raw material costs

Raw material costs accounted for 72.9% of FY14 net sales. The costs of most of the raw materials like pure terephthalic acid or PTA (69.8% of raw material consumption) and mono ethylene glycol or MEG (25.6%) are linked to crude oil prices. The costs of these raw materials accounted for ~72.0% of net sales and, therefore, the fall in Indian crude oil basket price will boost gross margin. On a consolidated basis, raw materials costs accounted for 78.0% of net sales and its composition is fairly similar to the standalone entity. As the company has inventory (high-cost) of 78 days, it will suffer inventory loss in 3QFY15 and after three months the positive benefit of lower crude oil prices will be visible. The company has Rs80bn of debt, with a 4x D/E ratio in 1HFY15 and working capital requirement of Rs22.7bn. With the fall in crude oil prices, its working capital requirement will reduce significantly, which will ease the high D/E ratio and also reduce interest costs to that extent.

Raw material cost break-up

Scenario analysis of improvement in gross margin

Raw material details	Rsmn	(%)	(Rsmn)	Current estimates		0.50% increase in gross margin		0.75% increase in gross margin		1.00% increase in gross margin	
				FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
PTA	26,264	69.8									
MEG	9,628	25.6	Gross margin (%)	24.6	24.5	25	24.9	25.1	25.1	25.3	25.3
Chip	553	1.5	EBITDA (%)	10.2	10	10.5	10.4	10.7	10.6	10.9	10.7
Master batch	239	0.6	EBITDA	18,708	20,737	19,402	21,521	19,749	21,912	20,096	22,304
Others	952	2.5	PAT	7,154	9,837	8,110	10,799	8,458	11,192	8,806	11,584
			EPS (Rs)	109.1	150.1	124.1	165.3	129.5	171.3	134.8	177.3
			Change (%)	-	-	13.7	10.1	18.7	14.1	23.6	18.1
Total	37,636	100	P/E (x)	2.2	1.6	1.9	1.4	1.8	1.4	1.8	1.3

Source: Company, Nirmal Bang Institutional Equities Research

Bata India

CMP: Rs1,311; Rating: Buy; M-Cap: Rs84.3bn



Likely savings in raw material costs

Costs of raw materials and traded goods together accounted for 46% of the company's CY13 sales. Costs of raw materials used for in-house footwear manufacture accounted for 16% of net sales, while traded goods accounted for 30% of sales. In respect of products manufactured in-house, the costs of more than 50% of raw materials consumed like synthetic textiles (7.6% of raw material consumption), chemicals (18.3%) and a significant portion of other raw materials (34.6%) are linked to crude oil prices. With the costs of more than 50% of raw materials consumed and traded goods (accounting for ~20%-23% of sales) linked to crude oil prices, a 37% fall in Indian basket of crude oil will improve margins of the company. As the company has inventory of 190 days, it will take seven months to witness the benefit of lower crude oil prices.

Raw material cost break-up

Raw material details	Rsmnn	(%)
Leather	555	16.6
Rubber	208	6.2
Synthetic textile	256	7.6
Chemicals	614	18.3
Packaging	210	6.3
Job charges	344	10.3
Other materials	1,159	34.6
Total	3,346	100

Scenario analysis of improvement in gross margin

(Rsmn)	Current estimates		1.0% increase in gross margin		1.5% increase in gross margin		2.0% increase in gross margin	
	CY15E	CY16E	CY15E	CY16E	CY15E	CY16E	CY15E	CY16E
Gross margin (%)	54.7	54.7	55.7	55.7	56.2	56.2	56.7	56.7
EBITDA (%)	16.0	16.8	17.0	17.8	17.5	18.3	18.0	18.8
EBITDA	4,195	5,400	4,458	5,721	4,589	5,881	4,721	6,041
PAT	2,597	3,328	2,775	3,545	2,863	3,653	2,952	3,761
EPS (Rs)	40.4	51.8	43.2	55.2	44.6	56.8	45.9	58.5
Change (%)	-	-	6.8	6.5	10.3	9.8	13.7	13
P/E (x)	32.5	25.3	30.3	23.8	29.4	23.1	28.6	22.4

Source: Company, Nirmal Bang Institutional Equities Research

Supreme Industries

CMP: Rs620; Rating: Buy; M-Cap: Rs78.8bn



Likely savings in raw material costs

Raw materials costs accounted for 69.4% of the company's FY14 sales. Of this, the costs of commodity plastic (80.8% of raw material consumption), engineering plastics (3.1%), additives (8.3%) and a significant portion of other materials (7.8%) are linked to crude oil prices. As the costs of over 95% of raw materials (accounting for ~65% of net sales) are linked to crude oil prices, the fall in Indian crude oil basket price will boost gross margin. As the company has inventory (high-cost) of 65 days, it will suffer inventory loss in 2QFY15 and only after three months the positive benefit of lower crude oil price will be visible.

Raw material cost break-up

Raw material details	Rsmn	(%)
Commodity plastic	20,699	80.8
Engg.plastic	784	3.1
Additives	2,138	8.3
Others	2,003	7.8
Total	25,462	100

Scenario analysis of improvement in gross margin

(Rsmn)	Current estimates		1.0% increase in gross margin		2.0% increase in gross margin		3.0% increase in gross margin	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Gross margin (%)	33.4	33.4	34.4	34.4	35.4	35.4	36.4	36.4
EBITDA (%)	13.7	14.1	14.7	15.1	15.7	15.7	16.7	17.1
EBITDA	7,626	9,525	8,183	10,201	8,740	8,740	9,296	11,552
PAT	3,969	5,163	4,340	5,613	4,711	4,711	5,082	6,514
EPS (Rs)	31.3	40.7	34.2	44.2	37.1	37.1	40.0	51.3
Change (%)	-	-	9.4	8.7	18.7	18.7	28.1	26.2
P/E (x)	19.8	15.2	18.1	14.0	16.7	16.7	15.5	12.1

Source: Company, Nirmal Bang Institutional Equities Research

V-Guard Industries

CMP: Rs1,081; Rating: Buy; M-Cap: Rs32.5bn



Likely savings in raw material costs

Costs of raw materials and traded goods accounted for 73.5% of the company's FY14 sales, Out of this 31.9% was accounted for raw materials used for in-house manufacturing and traded goods accounted for 41.6%. As regards, the prices of raw materials used for in-house manufacturing of wire and cable (accounting for 36% of total revenue) like PVC (9.1% of total raw materials consumed) and XLPE (0.7%) are linked to crude oil prices. Similarly, traded goods (contributed ~60% to total revenue) like voltage stabilisers - which accounted for 17.6% of total revenue - 12.5% of the costs of raw materials/components like ABS cabinet/containers are impacted by the movement in crude oil prices. On a blended basis, the costs of raw materials accounting for ~11%-15% of sales are linked to crude oil prices. Therefore, the fall in Indian crude oil basket price will boost gross margin. As the company has inventory of 81 days, it will take three months to witness the benefit of lower crude oil prices.

Raw material cost break-up

Scenario analysis of improvement in gross margin

Raw materials details	Rsmn	(%)	(Rsmn)	Current estimates		0.5% increase in gross margin		1.0% increase in gross margin		1.5% increase in gross margin	
				FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Copper	3,505	70.9									
PVC	449	9.1	Gross margin (%)	27.6	28.2	27.9	28.6	28.3	28.9	28.7	29.3
			EBITDA (%)	8.9	9.3	9.2	9.7	9.6	10.0	10.0	10.4
Aluminium	273	5.5	EBITDA	1,915	2,415	1,993	2,508	2,071	2,601	2,149	2,694
XLPE	35	0.7	PAT	1,188	1,570	1,243	1,636	1,299	1,702	1,354	1,768
Others	680	13.8	EPS (Rs)	39.8	52.6	41.7	54.8	43.5	57	45.4	59.2
			Change (%)	-	-	4.7	4.2	9.3	8.4	14.0	12.6
Total	4,942	100	P/E (x)	27.2	20.6	25.9	19.7	24.9	19.0	23.8	18.3

Source: Company, Nirmal Bang Institutional Equities Research

Havells India

CMP: Rs332; Rating: Buy; M-Cap: Rs207.6bn



Likely savings in raw material costs (standalone)

Raw materials costs accounted for 61.5% of FY14 sales. Of this, the costs of engineering plastics (1.9% of raw material consumption), general plastics (6.8%), paints and chemicals (5.0%) and a significant part of other materials (29.1%) are linked to crude oil prices. These raw material costs accounted for ~12%-15% of net sales and, therefore, the fall in Indian crude oil basket price will boost gross margin. As the company has inventory of 100 days, it will take four months to witness the benefit of lower crude oil prices.

Raw material cost break-up

Raw material details	Rsmn	(%)
Engg. plastics	475	1.9
General plastics	1,737	6.8
Aluminium	3,673	14.4
Copper	8,701	34.2
Paints & chemicals	1,263	5.0
Steel	1,008	4.0
Packing materials	1,196	4.7
Others	7,410	29.1
Total	25,462	100

Scenario analysis of improvement in gross margin

(Rsmn)	Current estimates		0.5% increase in gross margin		1.0% increase in gross margin		1.5% increase in gross margin	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Gross margin (%)	38.9	38.9	39.2	39.2	39.5	39.5	39.8	39.8
EBITDA (%)	14.2	14.2	14.5	14.5	14.8	14.8	15.1	15.1
EBITDA	9,172	10,714	9,370	10,944	9,567	11,175	9,765	11,405
PAT	6,119	7,178	6,262	7,344	6,404	7,509	6,546	7,675
EPS (Rs)	9.8	11.5	10.0	11.8	10.3	12.0	10.5	12.3
Change (%)	-	-	2.3	2.3	4.6	4.6	7.0	6.9
P/E (x)	33.9	28.9	33.2	28.1	32.2	27.7	31.6	27.0

Source: Company, Nirmal Bang Institutional Equities Research

Havells India

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Likely savings in raw material costs (consolidated)

Raw materials costs accounted for 54.6% of FY14 sales. Of this, the costs of engineering plastics (1.9% of raw material consumption), general plastics (6.0%), paints and chemicals (4.3%), and a significant part of other materials (33.3%) are linked to crude oil prices. The costs of these materials accounted for ~12%-16% of net sales and, therefore, the fall in Indian crude oil basket price will boost gross margin. As the company has inventory of 116 days it will take four months to witness the benefit of lower crude oil prices.

Raw material cost break-up

Raw material details	Rsmn	(%)
Engg. plastics	610	1.9
General plastics	1,887	6.0
Aluminum	4,226	13.5
Copper	8,715	27.8
Paints & chemicals	1,359	4.3
Steel	1,272	4.1
Packing materials	1,504	4.8
Others	10,449	33.3
Phosphor powder	534	1.7
Glass and glass tube	213	0.7
Ballast	632	2.0
Total	25,462	100

Scenario analysis of improvement in gross margin

(Rsmn)	Current estimates		0.5% increase in gross margin		1.0% increase in gross margin		1.5% increase in gross margin	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Gross margin (%)	43.3	43.6	43.6	43.9	43.9	44.2	44.2	44.5
EBITDA (%)	10.4	11.4	10.7	11.7	11.0	12.0	11.3	12.3
EBITDA	10,634	12,965	10,923	13,285	11,212	13,606	11,502	13,926
PAT	6,594	8,227	6,883	8,547	7,173	8,867	7,462	9,187
EPS (Rs)	10.6	13.2	11.0	13.7	11.5	14.2	12.0	14.7
Change (%)	-	-	4.4	3.9	8.8	7.8	13.2	11.7
P/E (x)	31.3	25.2	30.2	24.2	28.9	23.4	27.7	22.6

Source: Company, Nirmal Bang Institutional Equities Research

Nilkamal Industries

CMP: Rs408; Rating: Not Rated; M-Cap: Rs6.1bn



Likely savings in raw material costs

Raw materials costs accounted for 55.5% of the company's FY14 sales. Of this, costs of polyethylene (52.9% of raw material consumption) and polypropylene (34.7%) are linked to crude oil prices. These raw material costs accounted for ~50% of net sales and, therefore, the fall in Indian crude oil basket price will boost gross margin. With a lower margin structure, percentage increase in net profit because of a sharp fall in crude oil prices will be very high for the company. As the company has inventory (high-cost) of 100 days, it will suffer inventory loss in 3QFY15/4QFY15 and after four months the positive benefit of lower crude oil price will be visible.

Raw material cost break-up

Scenario analysis of improvement in gross margin

Raw material details	Rsmn	(%)	(Rsmn)	Current estimates		1.0% increase in gross margin		2.0% increase in gross margin		3.0% increase in gross margin	
				FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Polyethylene	3,162	52.9	Gross margin (%)	37.7	38	38.7	39	39.7	40	40.7	41
Polypropylene	2,072	34.7	EBITDA (%)	9.2	9.5	10.2	10.5	11.2	11.5	12.2	12.5
Others	740	12.4	EBITDA	1,802	2,101	1,997	2,322	2,193	2,543	2,388	2,765
Total	5,973	100	PAT	726	927	864	1,083	1,002	1,239	1,140	1,395
			EPS (Rs)	48.0	61.5	57.3	71.9	66.5	82.4	75.7	92.8
			Change (%)	-	-	19.2	17	38.5	34.0	57.7	51
			P/E (x)	8.5	6.6	7.1	5.7	6.1	5.0	5.4	4.4

Source: Company, Nirmal Bang Institutional Equities Research

Relaxo Footwear

CMP: Rs508; Rating: Not Rated; M-Cap: Rs30.5bn



Likely savings in raw material costs

Costs of raw materials consumed and traded goods together accounted for 51.7% of the company's FY14 sales. Out of this, 45.5% was accounted for by raw materials used to manufacture footwear in-house, while traded goods accounted for the balance 6.2%. As regards the raw materials used for in-house manufacturing, the costs of ~ 50%–60% of items like EVA (29.4% of raw material consumption), synthetic rubber (1.4%) and a significant part of other raw materials (42.8%) are linked to crude oil prices. The costs of these materials accounted for ~25%-30% of sales and, therefore, the fall in Indian crude oil basket price will boost margins of the company. As per our discussions with the management, the company will not pass on the decline in input costs to the consumers and will retain additional margin with itself. As the company has inventory of 103 days, it will take four months to witness the benefit of lower crude oil prices.

Raw material cost break-up

Raw material details	Rsmn	(%)
Raw rubber	572	12.2
EVA	1,380	29.4
Synthetic rubber	66	1.4
Packing material	670	14.3
Others	2,009	42.8
Total	2,679	100

Scenario analysis of improvement in gross margin

(Rsmn)	Current estimates		1% increase in gross margin		2% increase in gross margin		3% increase in gross margin	
	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Gross margin (%)	55.5	56	56.5	57	57.5	58	58.5	59
EBITDA (%)	12.9	13.4	13.9	14.4	14.9	15.4	15.9	16.4
EBITDA	2,254	2,829	2,429	3,040	2,603	3,251	2,778	3,462
PAT	1,104	1,495	1,221	1,636	1,338	1,776	1,455	1,917
EPS (Rs)	18.4	24.9	20.4	27.3	22.3	29.6	24.3	32
Change (%)	-	-	10.6	9.4	21.2	18.8	31.8	28.2
P/E (x)	27.6	20.4	24.9	18.6	22.8	17.2	20.9	15.9

Source: Company, Nirmal Bang Institutional Equities Research

Whirlpool of India

CMP: Rs658; Rating: Not Rated; M-Cap: Rs83.5bn



Likely savings in raw material costs

Costs of raw materials/traded goods accounted for 47.9%/17.9%, respectively, of the company's FY14 net sales. Of the raw materials consumed, the costs of a significant portion of other intermediates and components (12.4% of raw material consumption) along with another nearly ~10% in respect of traded goods are linked to crude oil prices. These raw material costs accounted for ~8%-10% of net sales and, therefore, the fall in Indian crude oil basket price will boost gross margin. In the past nine months, white goods manufactured benefited from appreciation in the US/INR rate from 69 to 61, reduction in excise duty from 12% to 10% and lower commodity prices. However, none of the benefits were passed on to the consumers. We expect the benefit of lower input costs because of the fall in crude oil prices to be also retained by the company. As the company has inventory of 87 days, it will take four months to witness the benefit of lower crude oil prices.

Raw material cost break-up

Scenario analysis of improvement in gross margin

Raw material details	Rsmn	(%)	(Rsmn)	Current estimates		0.5% increase in gross margin		1.0% increase in gross margin		1.5% increase in gross margin	
				FY16E	FY17E	FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
Steel sheet	1,374	52.9	Gross margin (%)	63.1	62.8	63.6	63.3	64.1	63.8	64.6	64.3
Compressors	2,363	34.7	EBITDA (%)	19.5	19.9	20.0	20.4	20.5	20.9	21.0	21.4
			EBITDA	7,797	9,364	7,991	9,593	8,185	9,822	8,379	10,050
Other intermediates	9,789	12.4	PAT	5,249	6,368	5,384	6,528	5,520	6,688	5,655	6,848
			EPS (Rs)	41.4	50.2	42.4	51.5	43.5	52.7	44.6	54.0
Total	13,526	100	Change (%)	-	-	2.6	2.5	5.2	5	7.7	7.5
			P/E (x)	15.9	13.1	15.5	12.8	15.1	12.5	14.8	12.2

Source: Company, Nirmal Bang Institutional Equities Research

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THANK YOU

