Mid-cap Sector

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Subdued Growth Likely

We expect the companies in our mid-cap coverage universe to post revenue/EBITDA/net profit growth of 9.5%/13.4%/11.4%, respectively, for the December 2014 quarter on likely strong perfomance from CCL Products (CCL), V-Mart Retail (VRL), Just Dial (JDL), Kajaria Ceramics (KCL), La Opala RG (LORL), Crisil, and JBF Industries (JBF) which are all expected to post more than a 15% EBITDA or net profit growth. Bata India (BIL), Arvind, Greenply Industries (GIL), Havells India (HIL), Supreme Industries (SIL) and Tilkanagar Indusries (TIL) are likely to report weak performance. Additional volume and zero income-tax at Vietnam plant of CCL would drive its net profit 67.2% to Rs288mn. New store addition and festive/marriage demand would drive VRL's revenue/net profit by 29.8%/29.0% resepectively. Healthy growth in paid listings and operating leverage would drive JDL's EBITDA 35.3% to Rs451mn. On a low base of 3QFY14 coupled with additonal capacity in 3QFY15, KCL would post a 34.3% growth in net profit despite weak demand. Growth in distribution network, launch of new products and better margins would drive LORL's net profit 27.4% to Rs141mn. On the back of healthy growth in research business and improvement in the rating division, Crisil would report a15.5% growth in net profit. With the revival in domestic profitability, better profit at RAK unit and capacity expansion, JBF Industries would post a 58.6% rise in net profit to Rs440mn. With the problems faced in key markets like Tamil Nadu and Andhra Pradesh, TIL would report a net loss. Lower footfalls and suply chain pressure would exert pressure on same-store sales growth for BIL. Inventory loss in the textile division because of falling cotton prices and weak Diwali demand at Megamart would hurt Arvind's profitability. Subdued demand for plywood would hurt GIL. Weak domestic growth at 7.5%, higher pension liability of Sylvania and currency volatility in Latin America would hurt HIL. Inventory loss because of a fall in crude oil prices would hurt SIL.

Adi Finechem: The company expanded its capacity by 38% in September 2013, which led to a 41.3% revenue growth in 3QFY14, while its capacity expanded by 80% would go on stream in February 2015. Consequently, its revenue is likely to grow by a mere 2.0% to Rs404mn. With depreciation of the Indian rupee along with a better product mix and lower costs, operating margin increased 1,233bps to 24.4% in 3QFY14. Currently, tocopherol - accounting for 35% of its revenue - is undergoing a downturn following oversupply and the benefit of a weak rupee is also absent in 3QFY15 and, therefore, we expect operating margin to decline 544bps to 19.0%. Following muted revenue growth and lower margins (on a high base), operating profit/net profit would decline 20.7%/19.6% to Rs77mn/Rs44mn, respectively. Post 80% capacity expansion in 4QFY15, the company would report a healthy net profit growth from 1QFY16 onwards.

Arvind: Arvind reported a 80bps inventory loss with ~12% decline in cotton prices in its textile division in 2QFY15. We expect inventory loss to continue in 3QFY15 as well. Diwali festival demand was weak for Megamart. Following 5.5%/29.9% growth in textile/branded garment divisions, respectively, we expect consolidated revenue to grow by a mere 13.2% to Rs20,083mn. In the wake of inventory loss in textile division and lower margins at Megamart, consolidated operating margin would decline 101bps to 13.3%. Following lower revenue growth and pressure on margins, EBITDA/PAT would grow only 5.2%/2.1% to Rs2,671mn/Rs1,049mn, respectively.

(Rsmn)		CMP	TP	Net sales			EBITDA			EBITDA margin (%)			APAT		
Company	Rating	(Rs)	(Rs)	3QFY15E	YoY (%)	QoQ (%)	3QFY15E	YoY (%)	QoQ (%)	3QFY14	2QFY15	3QFY15E	3QFY15E	YoY (%)	QoQ (%)
Adi Finechem	Buy	328	460	404	2.0	20.6	77	(20.7)	61.3	24.4	14.2	19.0	44	(19.6)	77.6
Arvind	UR	281	-	20,083	13.2	2.2	2,671	5.2	10.3	14.3	12.3	13.3	1,049	2.1	9.4
Bata India*	UR	1,324	-	6,243	12.6	13.9	1,030	3.4	61.9	18.0	11.6	16.5	648	9.1	66.2
CARE	UR	1,609	-	626	16.2	(15.8)	375	15.4	(29.3)	60.3	71.4	59.9	298	6.4	(44.3)
CCL Products	UR	175	-	2,584	30.3	4.5	493	29.7	1.7	19.2	19.6	19.1	288	67.2	10.1
Crisil*	Acc.	1,965	2,060	3,542	16.1	13.0	1,218	13.6	31.6	35.2	29.5	34.4	819	15.5	15.2
Greenply Industries@	UR	1,109	-	5,675	8.2	(9.0)	777	16.1	2.1	12.8	12.2	13.7	325	13.9	(12.2)
Havells India	Buy	278	325	21,283	1.2	(3.5)	2,338	10.3	10.3	10.1	9.6	11.0	1,409	3.0	24.6
ICRA	UR	3,295	-	824	11.0	7.3	274	15.4	39.5	32.0	25.6	33.3	167	13.1	35.3
JBF Industries	UR	250	-	22,422	5.1	(0.2)	2,305	54.0	6.5	7.0	9.6	10.3	440	58.6	23.7
Just Dial	Buy	1,405	2,010	1,556	29.8	5.6	451	35.3	(1.3)	27.8	31.0	29.0	352	18.3	4.5
Kajaria Ceramics	Buy	618	848	5,524	29.1	2.1	862	29.6	6.0	15.5	15.0	15.6	395	34.3	(0.7)
La Opala RG	Acc.	449	458	736	29.1	29.3	220	31.6	29.6	29.3	29.8	29.9	141	27.4	27.0
Supreme Industries#	UR	603	-	10,544	8.2	38.8	1,371	(6.0)	68.4	15.0	10.7	13.0	593	25.0	136.4
Tilaknagar industries	Buy	29	44	1,982	(11.8)	22.2	250	(48.8)	125.0	21.7	6.8	12.6	(24)	(114.0)	(86.9)
V-Guard Industries	UR	1,136	-	4,107	16.4	(4.8)	345	18.5	(3.2)	8.3	8.3	8.4	191	8.9	(0.4)
V-Mart Retail	Buy	552	790	2,539	29.8	75.6	320	23.8	485.3	13.2	3.8	12.6	182	29.0	569.5
Aggregate				**110,269**	**9.5**	**4.6**	**15,301**	**13.4**	**17.6**	**13.4**	**12.3**	**13.9**	**7,271**	**11.4**	**21.9**

*Note: *BIL and Crisil financial year-end is in December and, therefore, the preview is for 4QCY14. # Supreme Industries' year-end is in June and, therefore, the preview is for 2QFY15. @ Greenply Industries demerged its laminate business into Greenlam Industries in 3QFY15 which would be listed tentatively in February 2015. Due to lack of separate details, all forecasts are of combined entity at present. With the run-up in stock price, we have kept our ratings on BIL, CARE, CCL Products, ICRA, Supreme Industries and V-Guard under review from Buy earlier. The ratings would become Buy once we roll forward to FY17 estimates in our result update.*
Source: Company, Nirmal Bang Institutional Equities Research

BIL: With the demand being weaker than expected, poor supply chain with SAP implementation in progress and lower footfalls, revenue from existing stores of the company is impacted, leading to flat to negative growth of 5% for most of the stores (based on our ground research on 31 stores in metros and Tier-I cities). As BIL opened 100/85 gross/net outlets in 9MCY14 alone, compared to 95/30, respectively, in CY13, it would report revenue increase of 12.6% to Rs6,243mn in 4QCY14. With higher lease rentals and higher advertising expenses on a lower revenue base, operating margin is likely to fall 148bps to 16.5%. EBITDA/net profit would grow by only 3.4%/9.1% to Rs1,030mn/Rs648mn, respectively.

CARE: Better volume in bank loan rating assignments and increased focus on SME (small and medium enterprise) rating segment is likely to drive a 16.2% rise in revenue in 3QFY15 to Rs626mn. Because of higher employee costs and higher expenses for ramp-up of SME rating business, operating margin would decline 41bps to 59.9%. Following healthy revenue growth, EBITDA would grow 15.4% to Rs375mn. However, considering lower other income, net profit would grow by a mere 6.4% to Rs298mn.

CCL Products: With the full benefit of Vietnam facility (capacity utilisation expected to increase to 70% in 2HFY15E from 40% in 1HFY15) and optimum capacity utilisation at Indian operations in 3QFY15, we expect net sales to grow 30.3% to Rs2,584mn for the quarter. Despite lower margins at domestic operations because of addition of new clients at aggressive prices, consolidated margin would remain flat at 19.1%. With strong revenue growth, EBITDA is expected to rise 29.7% to Rs493mn. Because of lower interest expenses due to healthy cash flow and zero income-tax at Vietnam plant, net profit would grow by a healthy 67.2% to Rs288mn.

Crisil: On the back of 17.0%/15.4% growth in research/rating services divisions, respectively, revenue is likely to register a 16.1% rise to Rs3,542mn in 4QCY14. With higher employee costs and other expenses, operating margin is likely to decline 76bps to 34.4%. EBITDA/net profit would grow 13.6%/15.5% to Rs1,218mn/Rs819mn, respectively.

Greenply Industries: The company is witnessing weak demand because of no pick-up in the construction space and even replacement demand is believed to be slack with limited signs of revival. With the demand being weak for plywood, we expect a moderate growth of 10% in the plywood segment on the back of price hike to the tune of 2% taken during the quarter. Price hike in the plywood segment helped in pushing up the demand for MDF (medium density fibre) board, where we expect a revenue growth of 7% in 3QFY15 against a decline of 4.9% in 2QFY15. We expect consolidated revenue to rise by a mere 8.2% to Rs5,675mn. The company incurred a forex loss of 0.7% in 3QFY14. With lower forex loss, price hike, and a better product mix, operating margin would improve 94bps to 13.7%. Following better margins, EBITDA/PAT are likely to grow 16.1%/13.9% to Rs777mn/Rs325mn, respectively. As during 3QFY15, Greenply Industries demerged its laminate division into a separate company called Greenlam Industries, which would be listed separately - tentatively in February 2015 - 3QFY15 published numbers would be of the demerged entity, i.e. plywood and MDF and, therefore, the numbers are not comparable. Following unavailability of separate details for demerged Greenply Industries and Greenlam Industries, we have considered consolidated numbers.

Havells India: With weaker-than-expected demand recovery, standalone operations are likely to witness a 7.5% revenue growth and with an increase in competitive intensity, advertisement spending and incentives may elevate, which would in turn cap operating margin improvement by 25bps to 14.6%. Sylvania is likely to report a 2% 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 6.9%. With higher forex volatility in Latin America and higher pension liability on account of higher bond yields, reported EBITDA margin for Sylvania would decline 22bps to 6.4%. Following lower standalone revenue growth and revenue decline at Sylvania in INR terms, consolidated revenue would rise by a mere 1.2% to Rs21,283mn. With weak margin improvement at standalone operations and lower margins at Sylvania, consolidated EBITDA/PAT would grow by just 10.3%/3.0% to Rs2,338mn/Rs1,409mn respectively.

ICRA: We expect the company to post a 10.4% growth in non-rating business and a 11.0% growth in rating revenue, which is likely to lead to a 11% growth in net revenue in 3QFY15. Following a 166bps fall in staff costs, EBITDA margin is likely to expand 126bps to 33.3%. With better revenue and healthy margin, EBITDA/net profit would grow 15.4%/13.1% to Rs274mn/Rs167mn, respectively.

JBF Industries: With improving delta margin in POY and PET chips, profitability at its Indian operations are expected to improve in 3QFY15. In line with previous quarters, its RAK unit would continue to witness some improvement in profitability. With a fall in crude oil prices, realisation in chips and film has declined, impacting revenue growth. The company commissioned its 90,000tpa film plant at Bahrain at a capex of US$200mn and a 390,000tpa chip plant at Belgium at a capex of US$200mn in 3QFY15, which would provide some revenue for the quarter. As a result, consolidated revenue would grow 5.1% to Rs22,464mn. With better margins at domestic RAK operations, consolidated EBITDA/net profit would grow 54%/58.6% to Rs2,305mn/Rs440mn, respectively.

Just Dial: We expect the company to post strong revenue increase of 29.8% to Rs1,556mn on account of sustained growth momentum in paid listings. Margins are likely to increase 118bps to 29.0% on account of operating leverage benefit, in terms of lower other expenses by 147bps. With a healthy revenue growth and better margins, EBITDA would grow 35.3% to Rs451mn. However, in the wake of lower other income, net profit would grow by a mere 18.3% to Rs352mn.

Kajaria Ceramics: The company's revenue growth in 2QFY15 was impacted because of lower availability of new capacity as existing capacity operates at optimum level. With capacity expansion at Jaxx Vitrified and Cosa Ceramics, the company's total capacity increased 24.1% in 3QFY15 as against 6.9% in 1HFY15. With the closure of unorganised Morbi-based units in 3QFY14 because of strict environmental laws forcing them to use natural gas instead of lignite, revenue growth in 3QFY14 stood at a mere 2.4%. On account of low base of 3QFY14, and higher available capacity, despite weak demand, the company would report a healthy 29.1% revenue rise to Rs5,524mn. The company would protect its margins at 15.6%, despite weak demand and a higher share of revenue from its joint ventures (JVs). With healthy revenue growth, EBITDA/net profit would grow at healthy pace of 29.6%/34.3% to Rs862mn/Rs395mn, respectively.

La Opala RG: 3Q is the strongest quarter for the company led by wedding and festive seasons, but because of early Diwali this time, a part of Diwali demand was witnessed in 2QFY15. LORL reported a 42.9% revenue growth in 2QFY15. With the growth in distribution network, launch of new products and new price points, on a higher base, the company is expected to report a healthy revenue growth of 29.1% to Rs736mn in 3QFY15. On account of lower power and fuel costs because of the shift from furnace oil to electricity and a better product mix, operating margin would improve 57bps to 29.9%. As a result, EBITDA/PAT would increase robustly by 31.6%/27.4% to Rs220mn/Rs141mn, respectively.

Supreme Industries: On account of a fall in crude oil prices, demand at its plastic pipes and other divisions got deffered in 1QFY15 (June year-end). Plastic pipe division reported a 7% decline in volume in 1QFY15. We expect plastic pipe division to report 8% volume growth in 2QFY15. Similarly, we expect healthy 14%/8% volume growth in industrial/packaging products divisions, respectively. The company passed on the benefit of lower crude oil prices to consumers, which reduced its realisation. As a result, we expect consolidated revenue to grow by a mere 8.2% to Rs10,544mn. On account of high-cost inventory and falling crude oil prices, we expect the company to report inventory loss in 2QFY15 also. As a result, consolidated operating margin would decline 197bps to 13.0%. Reported operating profit/net profit would decline 6.0%/5.4% to Rs1,371mn/Rs593mn, respectively. The company had income from sale of real estate in 2QFY14, excluding which we expect core EBITDA/net profit to grow 10.5%/25.0% to Rs1,371mn/Rs593mn, respectively.

Tilaknagar Industries: With the problems faced in the key market of Andhra Pradesh because of carving out of a separate Telangana state and the bottling problem in Tamil Nadu, we expect volume and profitability of the company to be under pressure in 3QFY15. We expect a 18.5% decline in volume to 3.2mn cases in 3QFY15. As a result, EBITDA would decline 48.8% to Rs250mn, while it would report a net loss of Rs24mn in 3QFY15 as against a profit of Rs174mn in 3QFY14.

V-Guard Industries: With weaker demand still playing spoilsport, barring voltage stabilisers (good sales because of increase in TV sales) and water heaters (due to new launches and Pebbles doing good in the premium segment), all other products like wires, cables, fans, etc are expected to report poor revenue as government initiatives are yet to boost demand. We expect revenue rise of 16.4% to Rs4,107mn. Though revenue growth of 16.4% would be better than expected, a 7.5% growth in domestic operations of Havells is likely. With a better product mix, VIL would report a 15bps improvement in operating margin to 8.4%. With moderate revenue growth and better margins, EBITDA would grow 18.5% to Rs345mn. However, because of a higher tax rate at 27% in 3QFY15 as against 19.5% in 3QFY14, net profit would grow by a mere 8.9% to Rs191mn.

V-Mart Retail: 3Q is the strongest quarter for V-Mart Retail because of the wedding and festive seasons. 3QFY14 alone contributed 48.1%/52.2% to FY14 EBITDA/PAT, respectively. We expect revenue growth of 29.8% for 3QFY15 compared to 18.3% in 2QFY15. As the company is moving its inventory from one warehouse to another physically, its shrinkage ratio was higher in 1HFY15 and we expect the shrinkage ratio to remain higher in 3QFY15 as well, which would exert pressure on margins. Following the jump in employee costs, higher shrinkage ratio and higher other expenses, we expect EBITDA margin to decline 61bps to 12.6%. With a healthy revenue growth, EBITDA/PAT are expected to grow by a healthy 23.8%/29.0% to Rs320mn/Rs182mn, respectively.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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