Mid-cap Sector

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Moderate Growth Likely

From our mid-cap coverage universe, we expect a moderate pick-up in growth for companies such as Supreme Industries (SIL), Mold-Tek Packaging (MPL) and Bata India (BIL) which were impacted to various extent because of Goods and Services Tax (GST) implementation. We expect strong top-line growth for Vinati Organics on account healthy offtake of new products and likely increase in market share of one of its key products, ATBS. CCL Products (CCL) had a rough 2QFY17 on account of plant shutdowns. As a result we believe that CCL may have grown at an extremely healthy pace during the quarter on account of a very low base of the year-ago period. Apart from this, our mid-cap universe comprises rating agencies – Crisil, Credit Analysis & Research or CARE and ICRA. With the rating business being largely dependent on cyclical recovery in corporate capex and bank credit growth, we expect CARE, CRISIL and ICRA to report mid single-digit rating revenue growth for 2QFY18, mainly backed by corporate debt market. Credit growth at 6.9% is at an all-time low, largely on account of subdued demand for industrial credit which remains in the negative territory since a fairly long time. Heightened debt market activity has been the saving grace for this sector over the past few quarters. Reduction in NSIC subsidy for SME ratings is also likely to have an impact on these companies' revenues. Rating agencies are also insulated from any negative impact of GST. Our mid-cap universe's sales/EBITDA/PAT are expected to grow 11.7%/12.4%/11.7%, respectively, with marginal expansion in operating margin by 20bps.

Vinati Organics, a speciality chemicals company with market leader status in IBB, ATBS and IB, is on track in respect of new product launches. We expect sales to grow 17% with 4% gowth in operating profit. However, margins were at peak during FY17 and we expect them to decline from 32.9% in 2QFY17 to 29.2%. As a result, PAT is expected to decline 7%.

Shaily Engineering Plastics, the manufacturer of injection-moulded plastic components, is expected to grow its sales/EBITDA/PAT by 18%/24%/19%, respectively. Healthy offtake from its major client, a Swedish home furnishing major (SHFM), is likely to continue during the quarter. EBITDA margin is expected to improve by 80bps to 17.1%.

CCL Products is the second-largest green coffee bean processor in India. We expect strong growth during the quarter on account of a low base. On a consolidated basis, its sales/EBITDA/PAT may grow 37%/39%/83%, respectively, with margin expansion of 180bps to 20.4%.

Supreme Industries, the market leader in PVC pipes in India, was severly impacted during the quarter because of destocking by distributors before the implementation of GST. However, the management has given guidance that growth has been picking up since August 2017. As a result, we expect SIL to increase its sales/EBITDA/PAT at a modest rate of 11%/15%/14%, respectively. Operating margin is likely to improve by 50bps to 15.6%.

Bata India, the largest footwear retailer in India, is expected to post a decent growth of 9% in its top-line with EBITDA/PAT growth of 15% and 21%, respectively. Second quarter for BIL is usually sub-par in terms of growth and margins. We expect BIL's operating margin to be 9.7% versus 9.2% in 2QFY17 (13.0% in 1QFY18).

Mold-Tek Packaging, a pioneer in pail manufacturing business in India, is expected to post modest growth of 20% in top-line with EBITDA/PAT growth of 23%/20%, respectively. Operating margin is expected to expand 120bps to 18% on account of rising contribution from Food & FMCG (F&F) sector.

Market leader Crisil is deriving ~30% of its revenues from the rating space and is expected to report rating revenue growth of 4.7% on account of a weak investment climate coupled with the fact that a significant portion of its revenues come from SME ratings where the NSIC subsidy has been reduced. Research business, contributing ~65% to its revenues, is expected to grow 14.5% while the advisory business is likely to witness 18% growth. At a consolidated level, we expect revenue/EBITDA/PAT growth of 11.5%/8.4%/6.1%, respectively.

CARE, being a pure play in the rating business and also taking into account the current investment scenario, we expect revenue/EBITDA/PAT growth of 5%/4.3%/10.3%, respectively. Higher PAT growth expected is on account of a lower tax rate because of IND-AS adjustments.

After the sale of its IT business, ICRA's rating segment's contribution to total revenues has increased to ~75%. The company's rating performance has been the most consistent compared to its peers and we expect a 6.8% increase in rating revenues for the quarter considering the fact that it has a dominant status in debt market ratings. At a consolidated level, the company is expected to report revenue/EBITDA/PAT growth of (15%)/(3.5%)/7.7%,respectively.

(Rsmn)		CMP	TP	Net sales			EBITDA			EBITDA margin (%)			PAT		
Company	Rating	(Rs)	(Rs)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	1QFY18	2QFY17	2QFY18E	YoY (%)	QoQ (%)
Vinati Organics	Sell	953	880	1,635	16.9	(11.3)	477	3.7	(4.9)	29.2	27.2	32.9	282.2	(7.3)	(9.2)
Shaily Eng. Plastics	Buy	575	768	766	17.8	10.2	131	23.8	12.0	17.1	16.8	16.3	47.9	19.4	8.1
CCL Products	Buy	302	326	1,950	37.0	(20.5)	398	39.3	(12.9)	20.4	18.6	20.1	237.0	82.9	(12.3)
Supreme Industries	Buy	1,097	1,384	9,836	11.4	(15.3)	1,536	15.2	(3.2)	15.6	13.7	15.1	755	14.0	(3.0)
Bata India	Acc	741	696	6,363	9.0	(13.6)	617	15.3	(35.4)	9.7	13.0	9.2	387	20.7	(35.5)
Mold Tek	Buy	283	381	873	15.0	(1.3)	157	23.3	(3.5)	18.0	18.5	16.8	79.5	20.0	(1.2)
Crisil Ltd	Acc	1,780	2,024	4,334	11.5	6.4	1,171	8.4	13.3	27.0	25.4	27.8	847	6.1	26.0
Care Ratings	Acc	1,393	1,661	846	4.5	37.9	624	4.3	59.2	73.7	63.9	73.9	477	10.3	34.4
ICRA	Acc	3,972	4,051	783	(15.0)	12.2	301	3.5	21.9	38.4	35.4	31.5	233	7.7	3.2

Source: Company, Nirmal Bang Institutional Equities Research

Vinati Organics: The specialty chemicals company with market leader status in IBB, ATBS and IB, is on track in respect of new product launches. Three new products were launched in FY17 and their off-take so far has been good. A couple of new product launches were expected to happen in 2QFY18. Apart from this, the management had given guidance during 1QFY18 that one of VOL's biggest competitors in ATBS has stopped commercial production of ATBS. As a result, the company expects to further strengthen its leadership status in global ATBS market. We expect sales/EBITDA to grow 17%/4%, respectively. However, margins were at peak during 2QFY17/3QFY17. Operating margin is expected to decline by 380bps to 29.2%. As a result, PAT may fall 7% on YoY basis.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			*EBITDA margin (%)*			PAT		
Company		(Rs)	(Rs)	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*1QFY18*	2QFY17	2QFY18E	*YoY (%)*	*QoQ (%)*
Vinati Organics	Sell	953	880	1,635	*16.9*	*(11.3)*	477	*3.7*	*(4.9)*	*29.2*	*27.2*	*32.9*	282.2	*(7.3)*	*(9.2)*

Source: Company, Nirmal Bang Institutional Equities Research

Shaily Engineering Plastics or SEPL: SEPL, a manufacturer of injection moulded plastic components, has been growing at a healthy pace during the past two quarters. We expect the healthy growth to remain during the quarter as SEPL is likely to continue executing the new order book of SHFM. SEPL is expected to grow sales/EBITDA/PAT by 18%/24%/19%, respectively. EBITDA margin is likely to improve by 80bps to 17.1%.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			*EBITDA margin (%)*			PAT		
Company		(Rs)	(Rs)	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*1QFY18*	2QFY17	2QFY18E	*YoY (%)*	*QoQ (%)*
Shaily Engineering Plastics	Buy	575	768	766	*17.8*	*10.2*	131	*23.8*	*12.0*	*17.1*	*16.8*	*16.3*	47.9	*19.4*	*8.1*

Source: Company, Nirmal Bang Institutional Equities Research

CCL Products: It is the second-largest green coffee bean processor in India. During 2QFY17, CCL had shut down its plants for maintenance purpose. With a low base, we expect CCL to grow its sales/EBITA/PAT at a healthy pace of 37%/39%/83%, respectively. Operating margin is expected to improve by 180bs to 20.4%.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			*EBITDA margin (%)*			PAT		
Company		(Rs)	(Rs)	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*1QFY18*	2QFY17	2QFY18E	*YoY (%)*	*QoQ (%)*
CCL	Buy	302	326	1,950	*37.0*	*(20.5)*	398	39.3	*(12.9)*	*20.4*	*18.6*	*20.1*	237.0	*82.9*	*(12.3)*

Source: Company, Nirmal Bang Institutional Equities Research

Supreme Industries or SIL: The market leader in PVC pipes in India, SIL is expected to grow its sales/EBITDA/PAT at a modest rate of 11%/15%/14%, respectively. Operating margin is expected to improve marginally by 50bps to 15.6%. Destocking of inventory by distributors had led to a sharp decline in profitability during the previous quarter. However, the management had given guidance that growth has picked up since August 2017.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			*EBITDA margin (%)*			PAT		
Company		(Rs)	(Rs)	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*1QFY18*	2QFY17	2QFY18E	*YoY (%)*	*QoQ (%)*
Supreme Industries	Buy	1,097	1,384	9,836	*11.4*	*(15.3)*	1,536	*15.2*	*(3.2)*	*15.6*	*13.7*	*15.1*	755	*14.0*	*(3.0)*

Source: Company, Nirmal Bang Institutional Equities Research

Bata India: The largest footwear retailer in India is expected to post a decent growth of 9% in top-line with EBITDA/PAT growth of 15% and 21%, respectively. Second quarter is usually a slow quarter for the company in terms of sales and margins. Operating margin is expected to marginally improve by 50bps to 9.7% (versus 13.0% in 1QFY18).

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			*EBITDA margin (%)*			PAT		
Company		(Rs)	(Rs)	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*YoY (%)*	*QoQ (%)*	2QFY18E	*1QFY18*	2QFY17	2QFY18E	*YoY (%)*	*QoQ (%)*
Bata	Acc	741	696	6,363	*9.0*	*(13.6)*	617	*15.3*	*(35.4)*	*9.7*	*13.0*	*9.2*	387	*20.7*	*(35.5)*

Source: Company, Nirmal Bang Institutional Equities Research

Mold-Tek Packaging: A pioneer in pail manufacturing business in India, it is expected to show modest growth of 15% in top-line with EBITDA/PAT growth of 23%/20%, respectively. Operating margin may expand by 120bps to 18%. The improvement in operating margin will be led by higher contribution from Food & FMCG (F&F) segment.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	1QFY18	2QFY17	2QFY18E	YoY (%)	QoQ (%)
Mold-Tek	Buy	283	381	873	15.0	(1.3)	157	23.3	(3.5)	18.0	18.5	16.8	79.5	20.0	(1.2)

Source: Company, Nirmal Bang Institutional Equities Research

CRISIL: Market leader Crisil, which derives ~30% of its revenues from the rating space, is expected to report rating revenue growth of 4.7% on account of a weak investment climate coupled with the fact that a significant amount of its revenues come from SME ratings where NSIC subsidy has been reduced. Research business, which is also Crisil's core business and contributing ~65% to its revenues, is expected to grow 14.5% while the advisory business is likely to witness 18% growth. At a consolidated level, we expect revenue/EBITDA/PAT growth of 11.5%/8.4%/6.1%, respectively. Margin is likely to contract by about 77bps to 27%.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	1QFY18	2QFY17	2QFY18E	YoY (%)	QoQ (%)
Crisil	Acc	1,780	2,024	4,334	11.5	6.4	1,171	8.4	13.3	27.0	25.4	27.8	847	6.1	26.0

Source: Company, Nirmal Bang Institutional Equities Research

Credit Analysis and Research (CARE): CARE, being a pure play in the rating business and also taking into account the current investment scenario, we expect the company to report revenue growth of 5%. EBITDA is expected to grow 4.3%, with flattish margin at 73.7%. PAT is expected to post a growth of 10.3% on account of a lower tax rate because of IND-AS adjustments.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	1QFY18	2QFY17	2QFY18E	YoY (%)	QoQ (%)
CARE	Acc	1,393	1,661	846	4.5	37.9	624	4.3	59.2	73.7	63.9	73.9	477	10.3	34.4

Source: Company, Nirmal Bang Institutional Equities Research

ICRA: After the sale of its IT business, ICRA's rating segment's contribution to total revenues has increased to ~75%. The company is in a transitionary phase post the IT business sell-off and its rating performance has been the most consistent among its peers. We expect a 6.8% increase in rating revenues for the quarter considering that it has dominance in debt market ratings and has also taken a strategic call to remain selective in low ticket size BLR instruments and SME ratings. Non-rating business includes outsourcing and consultancy services and this segment is likely to report a decline of 44% owing to the sale of IT business. At a consolidated level, the company is expected to report revenue/EBITDA/PAT growth of (15%)/(3.5%)/7.7%,respectively. Margins are expected to expand by 688bps owing to the sale of low-margin IT business.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	YoY (%)	QoQ (%)	2QFY18E	1QFY18	2QFY17	2QFY18E	YoY (%)	QoQ (%)
ICRA	Acc	3,972	4,051	783	(15.0)	12.2	301	3.5	21.9	38.4	35.4	31.5	233	7.7	3.2

Source: Company, Nirmal Bang Institutional Equities Research

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

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