

## Mid-cap Sector

6 April 2017

### Moderate Sales Growth Likely

Our mid-cap coverage universe is split between export-based and domestic-based businesses. 30% of companies in our universe operate in the B2B export-based segment, making it fairly resistant against any kind of volatility prevalent in domestic market. The remaining 70% comprises strong franchisees operating in an oligopolistic market in India. We expect the companies in our mid-cap universe to post moderate sales growth of 9.5% with EBITDA/PAT growth of 10.0% and 12.2%, respectively, on YoY basis. On the margins front, we expect them to remain flat at 21.7%.

Vinati Organics is a specialty chemicals company with ~70% B2B export business and 30% domestic B2B business. The company has successfully launched new products during the past three quarters as a result of which it showed strong growth in the previous quarter. We expect a similar kind of growth in the fourth quarter of FY17. We expect its sales/EBITDA to grow 12%/14%, respectively. PAT is likely to decline 4% as the company benefitted in 4QFY16 because of tax reversal.

Shaily Engineering Plastics is a high engineering injection moulded plastic business entity with ~78% of its business coming from outside India. Following postponement of orders, we expect its sales/EBITDA/PAT to grow at a moderate rate of 7%/3%/(21%), respectively. The major decline in PAT is because the company enjoyed MAT credit during the same quarter a year ago and hence ended up paying a tax of Rs2.2mn on PBT of Rs43mn.

CCL Products, an instant coffee manufacturer with 95% B2B export business, showed stupendous growth during 3QFY17. We expect its growth to taper down in 4QFY17 because of a weak market environment in Vietnam. As a result, we expect its sales/EBITDA/PAT to grow 11%/17%/24%, respectively.

Supreme Industries, a leading manufacturer of PVC/CPVC pipes in India, is expected to post sales/EBITDA/PAT growth of 10%/12%/19% respectively.

Bata India, a leading shoe manufacturer in India, is expected to post sales/EBITDA/PAT growth of 9%/20%/37%, respectively, on account of better same-store sales growth or SSG and better product mix.

Credit Analysis & Research or CARE, being a pure play on the rating business, is expected to report 5.6% revenue growth because of muted credit growth and increased activity in the corporate debt segment. Higher other income recognition on account of fixed-maturity plans or FMPs is expected to boost PAT by 14.4%. CRISIL is expected to report sales/EBITDA/PAT growth of 11.5%/3.2%/6.2% on the back of 14%/10.8%/4.3% growth in rating/research/advisory services divisions, respectively. After the sale of IT business ICTEAS, ICRA is expected to report sales/EBITDA/PAT decline of 12.8%/20.4%/12.4%, respectively, on a consolidated basis. With a likely recovery post demonetisation, La Opala RG is expected to post sales/EBITDA/PAT growth of 12.1%/13.7%/-2.1%, respectively, for the quarter.

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(Rsmn) Company	Rating	TP (Rs)	Net sales			EBITDA			EBITDA margin (%)			PAT		
			4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
Vinati Organics	Acc.	720	1,728	11.9	5.1	579	14.2	9.1	32.9	32.3	33.5	378.3	(3.7)	16.2
Shaily Engineering Plastics	Buy	780	580	7.0	4.3	94	2.5	26.9	17.0	13.4	16.3	32.6	(20.7)	133.5
CCL Products	Buy	404	2,941	11.2	2.6	712	17.0	(7.7)	23.0	26.9	24.2	453.1	23.6	(1.1)
Supreme Industries	Buy	1,258	13,237	10.3	19.5	2,415	12.2	30.7	17.9	16.7	18.2	1,359	18.6	34.8
Bata India	Buy	612	5,943	9.1	(7.3)	662	19.6	(12.6)	10.2	11.8	11.1	381.3	36.8	6.5
Crisil	Acc.	2,109	3,999	11.5	(6.3)	1,158.0	3.2	(19.8)	31.3	33.8	29.0	835.0	6.2	(14.9)
CARE	Buy	1,837	794	5.6	20.5	571.0	10.0	28.9	69.0	67.2	71.9	406.0	14.4	(10.2)
ICRA	Acc.	4,005	800	(12.8)	6.0	227.0	(20.4)	29.0	31.1	23.3	28.4	170.0	(12.4)	38.2
La Opala RG	UR	-	604	12.1	(8.6)	233.0	13.7	8.9	38.0	32.4	38.6	139.0	(2.1)	3.7

Source: Company, Nirmal Bang Institutional Equities Research

**Vinati Organics:** The company showed strong growth of 15% in top-line during the previous quarter on account of healthy pick-up in ATBS and decent off-take of its new products. We believe that growth in the fourth quarter of 2017 will be on similar lines and expect its top-line to grow 12%. We expect improvement in margins by 60bps to 33.5% on account of improved product mix (higher contribution from new products). We expect EBITDA to grow 14% and PAT to decline 4%. When adjusted for tax reversal which the company received in 4QFY16 (Rs49.6mn), PAT will grow 10%.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
Vinati Organics	Acc.	751	720	1,728	11.9	5.1	579	14.2	9.1	32.9	32.3	33.5	378.3	(3.7)	16.2

Source: Company, Nirmal Bang Institutional Equities Research

**Shaily Engineering Plastics (SEPL):** 3QFY17 was subdued on account of two reasons. Firstly, SEPL had received a contract from LED manufacturer CORVI a couple of quarters ago. However, this business did not ramp up as initially forecasted. SEPL provides automobile component to one of the major automobile component manufacturers. This automobile component goes into vehicle assembly. However, the vehicle manufacturer had some trouble with the assembly and as a result the order from this client got delayed. However, in both cases the order book stood intact and orders are expected to get executed by 1QFY18. We expect 4QFY17 to remain moderate and sales and EBITDA to grow 7%/2.5%, respectively. PAT is expected to decline 21%. However, the decline is on account of lower tax expenses during the same quarter a year ago. The company had some MAT credit available during 4QFY16 as a result of which tax expenses for the quarter were negligible.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
Shaily Eng.	Buy	535	780	580	7.0	4.3	94	2.5	26.9	17.0	13.4	16.3	32.6	(20.7)	133.5

Source: Company, Nirmal Bang Institutional Equities Research

**CCL Products:** 3QFY17 was a stellar quarter for the company. Its standalone sales/EBITDA/PAT grew 40%/89%/100% while consolidated sales/EBITDA/PAT rose 35%/69%/76%, respectively. The strong show in the previous quarter was mainly on account of a better product mix leading to higher margins. We expect the company to continue its strong performance, albeit at a slower pace. Due to slowdown in the coffee market in Vietnam, we expect the company to post moderate sales growth of 5% at its Vietnam operations while EBITDA/PAT is expected to grow 2% and 6%, respectively. However, we expect Indian operations to continue posting strong growth. Sales/EBITDA/PAT of standalone (Indian) operations are expected to show growth of 14%/26%/34%, respectively. On consolidated basis, sales/EBITDA/PAT are expected to grow 11%/17%/24%, respectively.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
CCL	Buy	342	404	2,941	11.2	2.6	712	17.0	(7.7)	23.0	26.9	24.2	453.1	23.6	(1.1)

Source: Company, Nirmal Bang Institutional Equities Research

**Supreme Industries (SIL):** The company posted decent volume growth of 6% and sales growth of 11% in the previous quarter. We expect SIL to continue its moderate growth rate in 4QFY17 as well. We expect its sales to grow 10% and EBITDA/PAT to increase 12%/19%, respectively. With average crude oil prices increasing by ~7% in 4QFY17, we expect gross margin to shrink 110bps.

(Rsmn)	Rating	CMP	TP	Revenue			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
Supreme Ind	Buy	1,092	1,258	13,237	10.3	19.5	2,415	12.2	30.7	17.9	16.7	18.2	1,359	18.6	34.8

Source: Company, Nirmal Bang Institutional Equities Research

**Bata India:** We expect the company's top-line to grow 9% on account of improved SSG. As per our channel checks, we believe that sales are almost back to the pre-demonetisation level. EBITDA and PAT are expected to grow 20%/37%, respectively. EBITDA margin is expected to be better by 90bps to 11.1%.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
Bata India	Buy	565	612	5,943	9.1	(7.3)	662	19.6	(12.6)	10.2	11.8	11.1	381.3	36.8	6.5

**CRISIL:** On the back of 14%/10.8%/4.3% YoY growth in rating/research/advisory services divisions, respectively, revenues are likely to register 11.5% growth to Rs3,994mn in 1QCY17. With higher employee costs on the research side and mounting other expenses, operating margin is likely to decline 223bps to 29%. EBITDA/net profit may grow 3.2%/6.2% to Rs1,158mn/Rs835mn, respectively.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	1QCY17E	YoY (%)	QoQ (%)	1QCY17E	YoY (%)	QoQ (%)	1QCY16	4QCY16	1QCY17E	1QCY17E	YoY (%)	QoQ (%)
Crisil	Acc.	1,970	2,109	3,999	11.5	(6.3)	1,158	3.2	(19.8)	31.3	33.8	29.0	835.0	6.2	(14.9)

Source: Company, Nirmal Bang Institutional Equities Research

**Credit Analysis and Research (CARE):** With the bank loan segment remaining muted because of weak credit growth and increased activity in the corporate debt segment, we expect CARE to post revenue growth of 5.6% to Rs794mn in 4QFY17. Following 5.6% revenue growth and lower employee costs on account of employee reduction on the SME side, operating margin is expected to expand 300bps to 72%. Consequently, EBITDA is likely to increase 10% to Rs571mn. With higher other income recognition on account of fixed maturity plans or FMPs, CARE's net profit is expected to rise 14.4% to Rs406mn.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
CARE	Buy	1,597	1,837	794	5.6	20.5	571	10.0	28.9	69.0	67.2	71.9	406.0	14.4	(10.2)

Source: Company, Nirmal Bang Institutional Equities Research

**ICRA:** Following the sale of IT business ICTEAS, we expect ICRA's non-rating revenues to decline 40%. On the rating side, following muted bank loan segment and support from corporate debt market, we expect rating revenue growth of about 7.5%. All this is likely to lead to 13% decline in consolidated net revenues to Rs800mn. EBITDA margin is likely to fall 270bps to 28.4% on account of the same, while EBITDA/net profit are expected to decline 20.4%/12.4% to Rs227mn/Rs170mn, respectively.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
ICRA	Acc.	4,135	4,005	800	(12.8)	6.0	227	(20.4)	29.0	31.1	23.3	28.4	170.0	(12.4)	38.2

Source: Company, Nirmal Bang Institutional Equities Research

**La Opala RG:** With consumer spending picking up and the demonetisation effect fading away, we expect the company to report 12% revenue growth to Rs604mn. The company had gone for a price cut in its Diva range of products in 4QFY16, the base effect of which will also come into play. Factoring in rising power and fuel costs along with other expenses during the quarter, EBITDA margin is likely to remain flattish at 38.6%. As a result, EBITDA and PAT are expected at Rs233mn/Rs139mn, respectively, for the quarter.

(Rsmn)	Rating	CMP	TP	Revenues			EBITDA			EBITDA margin (%)			PAT		
Company		(Rs)	(Rs)	4QFY17E	YoY (%)	QoQ (%)	4QFY17E	YoY (%)	QoQ (%)	4QFY16	3QFY17	4QFY17E	4QFY17E	YoY (%)	QoQ (%)
La Opala RG	UR	548	-	604	12.1	(8.6)	233	13.7	8.9	38.0	32.4	38.6	139.0	(2.1)	3.7

Source: Company, Nirmal Bang Institutional Equities Research

## Disclaimer

### Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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