

# Mid Cap Sector

06 July 2020

## 1Q to face maximum brunt of lockdown

We present 1QFY21 preview of our mid-cap coverage universe. The maximum impact of the nation-wide lockdown will be felt in 1QFY21. As majority of the factories were shut for the entire month of Apr'20, followed by sub-optimal capacity utilization in May'20 (also Jun'20 in select cases), we expect significant revenue decline (in the range of 15%-75%) for companies in our coverage universe. Limited revenue decline expectation in CCL Products (CCLP) is on account of smooth functioning of Vietnam operations and 4QFY20 unsold inventory in India, which will be booked during the quarter. On the profitability side, we believe that despite various cost rationalization measures, including pay cuts, Mold-Tek Packaging (MTEP) and La Opala RG (LOG) are expected to report loss at the EBITDA level for the quarter as fixed costs have more or less remained constant despite significant downsizing of activity. We expect CCLP to report profit for this quarter although overall earnings are expected decline in excess of ~30% YoY. We believe that all these businesses have been built on strong fundamentals and have long runway for growth. The true potential of these businesses cannot be judged from 1QFY21 earnings performance. While we are positive on all companies, CCLP is our top pick (Refer note- [CCLP – In a sweet spot](#)).

**CCLP:** We are building in ~15% YoY decline in consolidated revenue for 1QFY21. Although Vietnam operations were running smooth and are expected to deliver strong growth, sub-optimal capacity utilization in India would affect revenue for the quarter. The freeze dried units were not operational for the entire quarter. We expect ~40% utilization for the spray dried unit. Vietnam growth would be driven by new order received from USA-based client starting Apr'20. On a blended level, we expect capacity utilization at ~22% in India and 70% in Vietnam for 1QFY21. Coffee prices continued to trend downwards (Robusta average 1QFY21 price declined by ~13% YoY and ~6% QoQ). Despite these challenges, we expect CCLP to report positive EBITDA while margin would be affected on account of operating deleverage. We are building in EBITDA and earnings decline of ~39% and ~32% YoY, respectively. Lower earnings decline compared to EBITDA is on account of strong performance of Vietnam operations where the tax rate is Nil.

**LOG:** We expect a sharp decline of ~75% YoY in revenue as the company stopped all the dispatches from 23<sup>rd</sup> Mar 2020 on account of the lockdown. Currently, only a small furnace (catering to ~40% of capacity) is running and capacity utilization at the end of 1QFY21 was ~30%. As the bigger furnace was shut for repairs and maintenance before Apr'20 (the same is not operational now), LOG would end up saving reasonable amount of fixed costs. The company is also facing logistical issue as the dependence on trains is high. As per our channel checks in key markets like Mumbai and Kolkata, although the shops are open, consumer off-take has been close to a standstill. We expect LOG to report loss at EBITDA and PAT level for 1QFY21. We do not expect a liquidity crunch for LOG unlike peers as the company has ~Rs2.6bn cash and a debt free balance sheet.

**MTEP:** We expect MTEP to report ~55% YoY decline in 1QFY21 revenue. Average capacity utilization for the quarter would be 35-40% in our view. Management indicated that at ~55% capacity utilization, the company can breakeven at the operational level. F&F revenue will be affected on account of loss of ice-cream sales. Other dairy products and edible oil packs should do well as all are classified as essentials and were running for fairly large part of the quarter. Paints and Lubes divisions would be under pressure. Management indicated that recovery in Lubes is better than Paints and does not expect Paints demand to recover before the start of the festive season. However, during 1QFY21, APNT has given orders in excess of normal sharing proportion of ~30%, which can offset the overall decline partially. We do not see immediate liquidity challenges. MTEP has also not opted for RBI moratorium and is making debt payments on time. On the profitability side, we expect MTEP to report loss at both EBITDA and PAT level for 1QFY21.

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**Abhishek Navalgund**

Research Analyst

abhishek.nalgund@nirmalbang.com

+91-22-6273-8013

1QFY21 Result Preview

Company Name	Rating	TP (Rs)	Revenue (Rsm)			EBITDA (Rsm)			EBITDA margin (%)			Adj PAT (Rsm)		
			1QFY21	YoY (%)	QoQ (%)	1QFY21	YoY (%)	QoQ (%)	1QFY21	YoY (bps)	QoQ (bps)	1QFY21	YoY (%)	QoQ (%)
CCL Products	Buy	340	2,315	-15%	-12%	422	-39%	-40%	18.2%	-717bps	-850bps	236	-32%	-44%
La Opala RG	Buy	233	145	-75%	-77%	-111	-145%	1%	-76.3%	-1366bps	-1332bps	-112	-100%	-100%
Mold-Tek Packaging	Buy	300	521	-55%	-51%	-52	-126%	-127%	-10.0%	-2753bps	-2787bps	-122	-212%	-253%

Source: Nirmal Bang Institutional Equities Research

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BUY > 15%

ACCUMULATE -5% to 15%

SELL < -5%

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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 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

## 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 6273 8000/1; Fax. : 022 6273 8010