Mid-cap Sector

4 January 2019

December 2018 Quarter Result Preview

Consumer Sentiment Barometer

Our expectations on December 2018 quarter performance of mid-cap companies in our coverage universe:

Bata India (BIL): We expect an increase in sales/EBITDA/PAT by 15%/21%/25%, respectively, on YoY basis. Growth in retail (~85% of business) will be ~16%. Wholesale should grow 10% after a rather poor 2QFY19 when it grew only 2%. We expect margins to improve 90bps YoY, despite higher spending on advertising. Premiumisation, discontinuation of unprofitable products and efforts to reduce raw material and sourcing costs will drive gross margin. Other expenses will be controlled by its focus on rentals through: (1) Store size rationalisation. (2) Rental renegotiation. (3) Greater control on operational expenses. We expect sales pick-up because of: (a) Higher footfalls on the back of advertisement spending which has gone up to 2.5%-3% of sales compared to less than 1% two years ago. (b) Fresh and trendy inventory (on a relative basis compared to history). (c) Addition of COCO and franchisee stores. (d) Focus on the entire range of products through a reinvigorated wholesale channel under a new leadership.

V-Mart Retail: We expect increase in its sales/EBITDA/PAT by 25%/35%/34%, respectively, on YoY basis. 3Q is seasonally the strongest quarter for the company because of festive and marriage seasons. In 2018-19, many more festivals got bunched up in 3QFY19. After a tepid 1% same-store sales growth or SSG in 1HFY19, we believe SSG in 3QFY19 will be in low teens. With store area addition of ~20% on YoY basis and revenue per sqft likely up 5%, we expect 25% revenue growth. The increase in revenue per sqft is explained by likely more sales of high-priced merchandise in 3QFY19. Gross margin and EBITDA margin are expected to be a tad better YoY. The street will watch out for: (1) The impact of increased competition on SSG and margins. (2) Progress of expansion and metrics in Tier 4 cities. (3) Impact of rural distress.

Thomas Cook (India): We expect it to post good sales momentum because of festival holidays. Forex and travel revenues should increase 7% and 11% YoY, respectively. Travel EBIT margin should improve from 2.6% in the same quarter last year to 2.8% this year, leading to 18% YoY EBIT growth. Margin recovery is largely because of falling integration costs and recovery in DMS business. Forex EBIT margin should bounce back from 15.7% last year to 33.3% as working capital pressure is easing in corporate travel business. Sterling should also increase its losses as Ind-AS115 restricts full revenue booking for vacation ownership product, while cash flows remain unaffected. We would watch out for management's commentary on Sterling's future strategy and the progress in loss-making DMS and domestic holiday (online) businesses.

CCL Products (India): We expect consolidated revenues to increase 10.7% YoY on rising contribution from retail operations. EBITDA margin, however, may decline 60bps because of higher cost of retail operations which may be mitigated partially by small packs shipped in the legacy business. We expect EBITDA margin of 22.9% (India 23% and Vietnam 22.7%) as against 23.5% (India 22.7% and Vietnam 26.0%) in the same quarter last year. India business is operating at peak capacity and therefore Vietnam is the main driver of growth in FY19. Chennai plant remains on track for April 2019 commencement with customer audit underway.

Mold-Tek Packaging: We expect 18%/19% YoY sales/EBITDA growth. The primary growth driver should be FMCG and lubricant divisions, while we expect stable performance of paint division. We will keenly watch management commentary related to Mysuru and Vizag paint operations. Another emerging growth area is the pharmaceutical sector where the management had previously indicated possible commercial orders starting April 2019. The sharp decline, after a spike in crude oil prices in recent months, should shield cost inflation. The outlook on costs remains optimistic as we see no signs of recovery in crude oil prices so far.

Kajaria Ceramics: During 2QFY19, the company posted blockbuster results and since then crude oil price tailwind continued to lift the stock higher to our target price of Rs492. The management's guidance of 15% volume growth and possible margin expansion because of falling crude oil costs in a tough demand environment is leading to P/E multiple expansion, in our view. On the demand front, metro cities are flat (because of oversupply in real estate market), but tier-2 and tier-3 cities are witnessing good traction, although not in tune of 15% volume growth. This indicates that Kajaria Ceramics is increasing its market share. Other players (both organised and unorganised) seem to be struggling with a poor cash conversion cycle. This confirms our thesis of Kajaria Ceramics acting as a consolidator in the industry. Does the company deserve higher multiple on the back of market share gains is the key question at this point, in our view.

Cera Sanitaryware: The end-user demand for sanitaryware remains weak and we expect this to reflect in the company's results. We expect it to report lower revenue growth and margin. Revenues are expected to increase 6.9% YoY to Rs3,109mn. Revenue growth should be largely driven by tiles and faucet business while lower margins should be because of higher expenditure relating to premium brand (which was launched recently). However, the company has the highest ratio of advertising and promotion expenditure (with respect to sales) in the industry which could be lowered to mitigate margin pressure. We continue to like the company for its superior execution and management quality even in the ongoing tough market conditions.

La Opala RG: The company is under the investment mode as it is expanding capacity in premium categories by 55% over the next couple of years. The current capacity is enough to support a 15% volume CAGR over FY19E-FY21E. For the quarter, we expect the company to report 14% volume and revenue growth. Higher volume should also lead to better fixed-cost absorption, resulting in margin expansion. We expect EBITDA margin to expand 280bps YoY to 45.6%. We believe the stock is attractive considering the strong future growth potential.

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Company (Rsmn)	Analyst Name	Net sales			EBITDA			EBITDA margin (%)			PAT		
		3QFY19E	YoY (%)	QoQ (%)	3QFY19E	YoY (%)	QoQ (%)	3QFY19E	2QFY19	3QFY18	3QFY19E	YoY (%)	QoQ (%)
Bata India	Girish	7,738	14.8	15.0	1346	20.8	54.1	17.4	13.0	16.5	850	24.6	52.6
V-Mart Retail	Girish	4,600	25.0	75.4	862	34.6	NM	18.7	(1.5)	17.4	492	34.0	NM
CCL Products (India)	Mohit	3,033	10.7	4.3	695	7.9	(8.9)	22.9	26.2	23.5	414	2.4	(12.3)
Mold-Tek Packaging	Mohit	1,005	26.8	-	189	25.0	13.9	18.9	16.5	17.8	88	8.8	7.2
Thomas Cook (India)*	Mohit	15,599	9.3	(2.0)	421	(65.0)	265.0	2.7	4.0	0.7	210	(65.0)	NA
Kajaria Ceramics	Mohit	7,438	12.5	2.5	1,250	13.6	14.7	14.4	15.0	16.6	528	(1.0)	4.2
Cera Sanitaryware	Mohit	3,109	6.9	(6.1)	423	4.2	(7.2)	13.6	13.8	14.0	246	6.6	(12.6)
La Opala RG	Mohit	795	14.0	9.7	363	21.3	5.7	45.6	47.4	42.8	209	(8.0)	(2.4)

** Reported numbers are not comparable   Source: Nirmal Bang Institutional Equities Research*

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SELL < -5%

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