11th Mar'18

Dec'17 earnings update on

Acrysil
Wim Plast
CARE Rating

Dear Members,

We have released 11th Mar'18 – Dec'17 earnings update on Acrysil, Wim Plast and CARE Rating. The same has been produced below. For other updates, please log into the website at the following link – http://katalystwealth.com/index.php/my-account/

Date: 11th Mar'18

Acrysil (BSE – 524091) – Sep'11 Alpha stock

CMP – 522.90 (BSE)

Rating – Positive – 3% weightage; this is not an investment advice (refer rating interpretation)

Acrysil 3 Years price chart   Source: BSE India

For Dec'17 quarter, on consolidated basis the company has reported 17.45% growth in sales on YOY basis to Rs 48.24 crore. The growth in sales is good; however it's on the back of base effect with Dec'16 sales being lower on account of demonetization.

As per the company's presentation, for the nine months the domestic market has contributed 33% to sales while the exports have accounted for the remaining. It's important to note here that around 5 years back the contribution from domestic sales was only 5%. Further, sales of appliances are growing at a relatively higher pace in comparison to SS Sinks and Quartz Sinks.

On the front of raw materials, the company has recorded gross margins of 55.97% against 60.20% in Dec'16 quarter. As per the management, MMA (Methly Methacrylate), a key raw material used in the making of quartz sinks, its prices shot up by around 20% and as a result gross margins are down by around 400 basis points.

The operating expenses have increased by only around 10%; however on account of more than 400 bps contraction in gross margins, the EBITDA is up by only 6.4% to Rs 5.86 crore with EBITDA margins of 12.14%.

We checked with the management as to why the margins come off considerably in H2 against H1 and as per them H2 has higher contribution from domestic sales (very low exports during the months of December and January) and domestically company is in investment phase and incurring decent sums on brand building and distribution expansion. In fact, domestically, company's dealer network has expanded from 400 to 1300 in 4 years.

Interest cost is up marginally while the depreciation cost is up by 28%. Unlike last year when the company was incurring currency losses on its USD borrowings due to depreciation of UK Pound against USD, this quarter it has recorded gain of around 0.1 crore against loss of 1.00 crore in Dec'16 quarter.

As a result of the above currency impact, the PBT of the company is up by 39.3% on YOY basis to Rs 2.69 crore.

During our con-call, we checked with the management on the thought process behind launching commercial kitchen equipments and as per the management it's a very huge space and mostly unorganized. They believe that with their fabrication capabilities and service network, they can capitalize on the market; however initially they are testing the market with outsourced products.

The stock is currently quoting around 24 times trailing twelve months earnings. We have upgraded our rating to positive, because after a consolidation of 3 years, we believe the company is now poised for decent growth on the back of both expansion in product line and expansion in reach domestically and internationally. The key risks to our assumptions will be unfavourable currency exchange and higher crude prices.

Wim Plast (BSE – 526586) – May'11 Alpha stock

CMP – 1200.00 (BSE)

Rating – Neutral; this is not an investment advice (refer rating interpretation)

Wim Plast 3 Years price chart Source: BSE India

For Dec'17 quarter, the company has reported 13.21% growth in sales on YOY basis to Rs 88.67 crore. Since some time now the company's sales have been stagnating and this is despite having launched several new products in the last 2-3 years. We believe there's good potential for the company to do well in air-coolers segment; however its sales will reflect in upcoming March and June quarters.

On the front of raw materials the company has recorded gross margins of 44.88% against 46.79% in Dec'16 quarter. Companies across the polymer segment have witnessed contraction in gross margins on account of around 20% increase in crude prices since the last 1 year.

Wim Plast has exercised very good control on operating expenses as the same are up only 3.48% against 13% increase in sales and as a result the EBITDA of the company is up by 14.63% on YOY basis to Rs 19.20 crore with EBITDA margins of 21.66%

Wim Plast continues to be debt free and a net interest earner, however its depreciation cost has increased and as a result the PBT of the company for the Dec'17 quarter is up by only 7.04% on YOY basis to Rs 15.32 crore.

With the dwindling impact of GST and economy showing signs of recovery, we expect the sales growth rate for the company to improve. With the recent correction in stock price, the stock is now trading around 31.5 times trailing twelve months earnings.

CARE Ratings (NSE – CARERATING) – Aug'13 Alpha stock

CMP – 1356.15 (BSE); 1349.00 (NSE)

Rating – Positive – 3% weightage; this is not an investment advice (refer rating interpretation)

CARE Rating 3 Years price chart   Source: BSE India

Credit rating revenue growth can be more realistically judged on annual basis due to timing difference in recognition of surveillance revenue. Against this backdrop, the company has reported 13.44% growth in income from operations on YOY basis to Rs 74.81 crore. Prima facie, the growth in sales looks good; however as the company has changed revenue recognition policy to % completion method, the actual growth will be known only at the end of the year.

For the nine months the company has reported 12% growth in rating income.

Crisil has reported 1.5% drop in rating income in Dec'17 quarter and 2.7% growth in the last 12 months while ICRA has reported 7.27% growth in Dec'17 quarter and 7.52% growth in the last nine months.

As far as other metrics are concerned, CARE has reported an increase of 10.17% in the volume of debt rated in the last 9 months. The growth has primarily been driven by debt market while the bank loan ratings have seen a decline.

The operating expenses of the company are up by 31.31% with employee expenses being up by 40% (including ESOP charge of 3.94 crore) and as a result the EBITDA of the company is up by only 4.70% with EBITDA margins of 61.96% against 67.14% in Dec'16 quarter.

Other income is down by 30.39% YOY because of the IND-AS impact on accounting for fair value of investments. As a result, the PBT of the company is almost flat at Rs 50.22 crore.

Since few years the rating revenues have been growing in the range of 7-10%. This is also reflective of benign credit growth with banks and several infrastructure companies grappling with NPA issues. The reforms have started happening however transformation of the same into actual investment cycle pick-up may still take some time. India still lacks considerably in infrastructure and manufacturing and the reforms like demonetization, GST and factors like lower rates, good monsoon, development of bond markets, etc. should help propel the growth.

The stock is currently trading around 25 times trailing twelve months earnings (42-44 times ICRA and CRISIL respectively). Further, CRISIL bought 8.9% stake in CARE at around 1,660/- per share.

Disclosure: I have personal investment in all the 3 stocks i.e. Acrysil, Wim Plast and CARE Rating.

Best Regards,

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Rating Interpretation

Positive – Expected return of ~15% + on annualized basis in medium to long term for investment recommendations and in short term for Special situations
Neutral – Expected Absolute return in the range of +/- 15%
Negative – Expected Absolute return of over -15%
Coverage closure – No further update on the stock

% weightage – allocation in the subject stock with respect to equity investments

Short term – Less than 1 year
Medium term – Greater than 1 year and less than 3 years
Long term – Greater than 3 years

Research Analyst Details

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Analyst ownership of the stock: In Acrysil, Wim Plast and CARE Rating

Details of Associates: Not Applicable

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