4th Aug'18

Jun'18 earnings update on

Bajaj Corp

Control Print

Acrysil

Dear Members,

We have released 4th Aug'18 – Jun'18 earnings update on Bajaj Corp, Control Print and Acrysil. 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: 4th Aug'18

Bajaj Corp (NSE – BAJAJCORP) – Jul'12 Alpha stock

CMP – 415.50 (BSE); 416.00 (NSE)

Rating – Positive – 6% weightage; this is not an investment advice (refer rating interpretation)

Bajaj Corp 3 Year's price chart Source: BSE India

Bajaj corp has recorded 12.14% growth in sales on YOY basis to Rs 221.41 crore. The overall volume growth recorded by the company is 8.7%. In the domestic markets the company has recorded 13.5% value growth and 13.9% volume growth. In fact, on negating the impact of change in tax base, the value growth in domestic business is ~17.5%.

The overall growth has been hampered on account of 94% decline in international business and 22% decline in CSD business. As per the management while the CSD business is expected to remain unpredictable, they have already taken corrective actions for international business and the turnaround is expected from Q3.

As far as off-takes are concerned, they too have been encouraging and grew by 10.5% for ADHO (it's important to understand that there's no base effect as such for off-takes because off-takes were not impacted by GST) on the back of 11.9% growth in rural areas. ADHOs off-take during the quarter was better than industry's off-take of 2.6% and LHOs off-take of 6.7%.

Regarding NOMARKS, the company recorded 41% value growth on YOY basis. During the quarter the company completely restaged the brand with new packaging and communications strategy. The company has also roped in Tapsee Pannu as the brand ambassador. The management believes that anti-blemish category is likely to record 25-30% CAGR over the next three years and is strongly pursuing the brand NOMARKS.

As far as profitability is concerned, on the front of gross margins there's an improvement of 63 bps to 65.60%. This is surprising considering the increase in LLP and mustard oil prices; however as per the management they could negate the impact of higher raw material prices through increase in pricing in Apr'18, maintaining stock of lower price raw materials and input tax credits. Also, if the inflationary trend continues, they may have to consider another price increase during the year.

We believe, at this point of time the management is slightly more optimistic of market absorbing price increase without any major impact on off-takes and this is a good sign.

The employee expense during the quarter was up by 31% and the ASP cost was up by 21% while the other operating expenses remained flattish; as a result the EBITDA of the company is up by 13.88% on YOY basis to Rs 70.48 crore with EBITDA margins of 32.79%

With lower other income (MTM losses on invested funds) the PBT for the quarter is down by 2% on YOY basis to Rs 68.54 crore.

We believe, after a gap of 2 years or so, there are several positives to look forward to: pick up in rural demand, higher off-takes of light hair oil in comparison to other oils, NOMARKS finding its feet in the anti-blemish category, maintenance of margins despite major increase in raw material cost, confidence to take price hike in an inflationary environment and lastly focus on launching new products. As far as major dip in International business is concerned, here too the company has set up a new team and will be focusing on its key export markets of Bangladesh, Nepal, UAE, etc. In fact, the management has set an ambitious target of 100 crore international sales by FY 20.

In the last 2 years Bajaj Corp has focused on strengthening its core with significant investments in management, R&D, expanding direct distribution and IT infrastructure. The strengthened core should help the company accelerate meaningful new launches and reduce its dependence on ADHO, which contributes ~90% to revenue. Basically, the management is looking to transform the company into a complete FMCG player and looking at the investments made in the last 2 years, it is better positioned than any time in the past. On the flip side, it's a well known fact that success ratio is very low in FMCG products and company's profitability may get impacted with higher ASP expenses.

We believe the valuations are reasonable at around 28 times trailing twelve months earnings (lower end of last 4 years PE range) and 3% dividend yield.

Control Print (NSE – CONTROLPR) – May'14 Alpha stock

CMP – 414.40 (BSE); 416.35 (NSE)

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

Control Print 3 Year's price chart Source: BSE India

For the quarter ending Jun'18 the company has reported 3.58% drop in sales on YOY basis to Rs 43.63 crore.

As per the management, last year they got some decent orders before the implementation of GST and that pushed up the sales. Further, Jun’17 revenue had some indirect tax incentives which have been reduced in the GST regime. If the sales for Jun’17 were to be normalized, as per management estimates the growth in Jun’18 is roughly around 10%.

From Q2 onwards, the tax effect will be normalized because GST got implemented in Q2 FY 18.

The management is hopeful of higher sales in FY 19; though they haven’t guided on specific targets.

On the front of raw materials, the company has reported gross margins of 65.70% against 64.41% in Jun’17 quarter. Company’s gross margins tend to vary depending on product mix, with printers commanding very low margins while the consumables commanding very high margins.

While the company has exercised very good control on operating expenses, its employee expenses are up by 19% on YOY basis. As a result of minor drop in sales and higher employee expenses the EBITDA of the company is down by 15.5% on YOY basis to Rs 11.50 crore with EBITDA margins of 26.36%

The depreciation cost is more or less same as last year and as the company is debt free the finance cost is almost zero. During the quarter the company has recognized 0.62 crore other income on account of change in fair value of investments while the same was negative 0.95 crore in Jun’17 quarter and as a result of the same the PBT of the company is almost flat at Rs 10.27 crore.

Considering high base of FY 18, the company has reported decent performance in Jun’18 quarter. It remains to be seen as to how the performance pans out over the course of next few quarters. In the past the management has expressed confidence in sustaining double digit growth rate in the range of 15-20% on the back of growth in overall market, expected gain in market share and initiatives to reduce the usage of spurious ink. As we have often mentioned, the key thing to monitor will be overall working capital, especially inventory.

The stock is currently trading around 21 times earnings.

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

CMP – 584.85 (BSE)

Rating – Positive – 4% weightage; this is not an investment advice (refer rating interpretation)

Acrysil 3 Year’s price chart Source: BSE India

For Jun’18 quarter, on consolidated basis the company has reported 30.66% growth in sales on YOY basis to Rs 60.22 crore. The growth in sales is definitely very good though on a slightly lower base of Jun’17 quarter.

As per the management they have an excellent order book at hand and in view of the future orders they have already planned a capex to increase their capacities by 25% for Quartz Sinks.

Product wise, quartz sinks contributed 71% to the overall sales of the company, SS Sinks contributed 15% and the remaining 14% came from appliances. While the company hasn’t given YOY comparison; however in comparison to FY 18 sales, contribution from Quartz sinks and appliances has increased while SS sinks have seen a minor dip in contribution.

Geography wise, domestic sales accounted for 29% of the sales of the company while the rest came from exports. Considering higher growth in standalone numbers, we believe domestic sales have recorded a very strong growth over Jun’17 quarter.

On the front of raw materials, the company has recorded gross margins of 56.48% against 57.22% recorded in Jun’17 quarter. The gross margins have contracted by 74 bps and that could be on account of both product mix and higher resin prices. At the end of Mar’18 quarter the management had indicated that they had already started raising prices to account for increase in raw material prices.

As far as operating expenses of the company are concerned, they have increased by 19.57% against 30% increase in sales and as a result the EBITDA of the company is up by 57.3% on YOY basis to Rs 10.3 crore with EBITDA margins of 17.20% against 14.30% recorded in Jun’17 quarter. In the past the company has recorded 18-20% EBITDA margins and we believe the same is achievable with operating leverage and hike in product prices (which the company is already discussing with its customers).

The interest cost of the company has risen by 29% while the depreciation cost has risen by 24%; however during the quarter the company has incurred 1.25 crore currency fluctuation loss (on its USD borrowings due to depreciation of UK Pound against USD) and accrued lower other income and as a result the PBT of the company is up by only 18.39% on YOY basis to Rs 6.05 crore.

Ignoring the impact of currency fluctuation loss, the PBT would have been up by 42.8% on YOY basis to Rs 7.30 crore.

The stock is currently trading around 24 times trailing twelve months earnings and less than 20 times FY 19 (E) earnings.

With the investments made in moulds and the brand building efforts of the last few years, we believe the company is now poised for decent growth both domestically and internationally. Further, with strong sales growth, we believe there’s good scope for expansion in EBITDA margins. The key risks to our assumptions will be unfavorable currency exchange and higher crude prices.

Disclosure: I have personal investment in all the 3 stocks discussed above, i.e. Bajaj Corp, Control Print and Acrysil and have not traded in any of them in the last 30 days.

Best Regards,

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Positive – Expected return of ~15% + on annualized basis in medium to long term for investment recommendations and in short term for Special situations
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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

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Details of Associates: Not Applicable

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