2QFY12 Mid-Cap Sector Preview

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Sector Preview

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Mixed performance likely

From our mid-cap coverage universe, we expect Bata India to report a strong set of numbers. Sintex Industries should also report strong numebrs on the operating front, but higher MTM (mark-to-market) loss on FCCB is expected to play spoilsport. After strong growth momentum in FY11, we expect BGR Energy to pause in 2QFY12. JBF Industries' profit is seen under pressure on account of higher forex losses, lower sales volume and a fall in POY/PET film prices.

Bata India: The company's net sales increased 22% in 1HCY11 and we expect it to maintain the growth momentum. The second quarter is usually the best quarter for the company on account of seasonality and therefore sequential performance is not comparable. The company opened 108/68 stores in CY10/1HCY11 on the back of aggressive retail expansion supported by better product mix and net sales should increase 20% YoY to Rs3,530mn in 3QCY11. On the back of higher share from K-stores and improved product mix, the operating profit margin should expand by 350bps to 16.2% in 3QCY11. Operating profit is expected to grow 53.1% to Rs572mn in 3QCY11. As the company is debt-free and the rise in depreciation would lag operating profit growth, net profit should witness a strong growth of 57.3% YoY to Rs326mn in 3QCY11.

Sintex Industries: We expect the company to report a strong set of 2QFY12 numbers on core business, but MTM loss on FCCB is expected to play spoilsport. Net revenue should register strong 19% YoY growth to Rs10,984mn, mainly on strong performance of the building products division with 32.3% growth at Rs5.5bn. The company should report EBITDA margin of 18.4% in 2QFY12 as against 18.6% in 2QFY11. Operating profit should register a growth of 17.8% YoY to Rs2,021mn. Of the FCCB amounting to $225mn, the company has utilised Rs4,975mn ($112mn) until 31 March 2011. The rupee has depreciated sharply by 9.6% (Rs4.3) from 30 June 2011 to 30 September 2011, which should result in MTM loss of ~Rs480mn on utilised FCCB in 2QFY12 and as a result the net profit should show a de-growth of 19.6% to Rs805mn. As we have factored in MTM loss on FCCB, our net profit estimate is lower by 14.6% compared to Bloomberg consensus estimate for 2QFY12. We expect any MTM loss on FCCB on account of depreciating rupee to be hedged from translation gains/higher profitability of its overseas subsidiaries in FY12/13.

JBF Industries: We expect profitability to be under pressure in 2QFY12 on account of lower sales volume, lower POY/film prices and higher forex loss on YoY basis, but profitability is expected to be better than 1QFY12. Net revenue should increase by 33.7% to Rs18,876mn in 2QFY12 on the back of higher input costs-driven price hikes, although merchant sales of chips/film volume are expected to be lower by 18%/14% YoY in 2QFY12. On account of pressure on PET film/POY prices, we expect operating margin to remain subdued at 9% in 2QFY12 compared to 16% in 2QFY11. As a result, operating profit should decline by 24.5% to Rs1,708mn. The company started paying for forex losses on its derivates contract from August 2010 onwards. In addition, the yen has appreciated by10.5% from August 2010 to September 2011 and as a result we expect the company to report forex loss of Rs489mn in 2QFY12 against a loss of Rs109mn in 2QFY11. The company bought back Citigroup' s 32.62% holding in its RAK unit, Oman, in 2HFY11 and as a result there would not be any minority interest in 2QFY12. Net profit should decline 42.2% YoY to Rs589mn in 2QFY12, but grow12.8% QoQ. We expect profitability to bounce back in FY13 on the back of lower forex loss and a better product mix.

(Rsmn)		(Rs)	(Rs)	Net sales			EBITDA			EBITDAM (%)		RPAT		
Company	Rating	CMP	TP	2QFY12E	YoY (%)	QoQ (%)	2QFY12E	YoY (%)	QoQ (%)	2QFY11	2QFY12E	2QFY12E	YoY (%)	QoQ (%)
Bata India	Buy	634	817	3,530	20.0	(18.5)	572	53.1	(18.0)	12.7	16.2	326	57.3	(20.5)
Sintex Industries	Buy	106	179	10,984	19.0	(1.2)	2,021	17.8	6.8	18.6	18.4	805	(19.6)	(14.9)
JBF Industries	Buy	120	209	18,876	33.7	18.2	1,708	(24.5)	6.2	16.0	9.0	589	(42.2)	12.8
BGR Energy	Under Review	304	-	10,722	(5.6)	46	1,233	(6.8)	28.3	11.7	11.5	693	(10.9)	37.9

Source: Bloomberg, Nirmal Bang Institutional Equities Research; Note: Bata India's financial year ends in December and hence the preview is for 3QCY12.

BGR Energy: The company had reported all-round de-growth in 1QFY12 on the back of slowing order inflow/execution and higher base of FY11, which led to 55% YoY revenue growth. Revenue/EBITDA/PAT in 1QFY12 fell by 19%/7.4%/17% YoY, respectively. We expect the deceleration in growth to continue in 2QFY12 as well. Revenue is likely to witness 5.6% YoY de-growth to Rs10.7bn in 2QFY12. The two EPC projects on hand, Kalisindh and Mettur TPP, are likely to account for a major share of the revenue as both are scheduled for completion in FY12. The NTPC bulk tender won by BGR Energy is unlikely to impact FY12 financials as the project execution is expected to start from FY13. On the order inflow front, apart from the NTPC bulk tender, the company won an electrical systems project worth Rs4.4bn from Nuclear Power Corporation of India during the quarter. We expect pressure on margins and forecast a 20bps YoY fall in operating margin to 11.5% in 2QFY12. Operating profit should register a de-growth of 6.8% to Rs1,233mn. On account of higher interest costs and increased debt, net profit is expected to decline sharply by 10.9% to Rs693mn in 2QFY12. Net profit margin is likely to fall by 30bps YoY to 6.5%.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

HOLD 0-15%

SELL < 0%

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