

9<sup>th</sup> Dec'17

Coverage closure on

Mazda  
Chaman Lal Setia

&

Sep'17 earnings update on

Poddar Pigments  
Control Print

Dear Members,

We have released 9<sup>th</sup> Dec'17 – Coverage closure update on Mazda and Chaman Lal Setia and Sep'17 earnings update on Poddar Pigments and Control Print. The same have been produced below. For other updates, please log into the website at the following link – <http://katalystwealth.com/index.php/my-account/>

Date: 9<sup>th</sup> Dec'17

### Mazda (NSE – MAZDA) – May'14 Alpha stock

CMP – 381.00 (BSE); 374.05 (NSE)

Rating – Negative and coverage closure; this is not an investment advice (refer rating interpretation)



Mazda 3 years price chart Source: BSE India

Off-late, a lot of stocks have got re-rated while the performances of the companies have failed to match up. Mazda falls into the same category, because over the last 4-5 years the stock has appreciated from 90 odd levels to around current levels of 380; however the company's performance has more or less remain unchanged.

Mazda's core engineering business has been going downhill in terms of performance and the management seems to be lacking in aggression in taking the business to higher levels and we therefore have a negative rating on the stock and also closing coverage on the same.

## Chaman Lal Setia Exports (BSE – 530307) – Nov'16 Alpha stock

CMP – 150.30 (BSE)

Rating – Negative and coverage closure; this is not an investment advice (refer rating interpretation)



Chaman Lal Setia Nov'16-Dec'17 price chart

Source: BSE India

Chaman Lal Setia has reported strong growth in sales for Sep'17 quarter at Rs 188.78 crore. The sales are up by more than 55% on YOY basis.

Among its peers, while KRBL has reported flattish sales, LT foods has reported 3% growth in sales on YOY basis.

On the front of raw materials the company has recorded gross margins of 16.65% against 32.31% in Sep'16 quarter. Chaman Lal's gross margins tend to be very volatile on quarterly basis, and in this quarter other expenses have gone down by more than 50% despite 55% increase in sales, so most probably there has been some recategorization of expenses; however otherwise as well the gross margins seem to be tending towards long term average of 20%.

Both KRBL and LT Foods have witnessed improvement in gross margins on YOY basis and this might be because they carry a lot of old inventory for ageing purpose. Also, they command much higher margins of around 35% and 30% respectively as both have higher share of branded business, while Chaman Lal Setia is more into trading.

As mentioned above the other expenses are down by more than 50%, while the overall operating expenses are down by around 40%; however on account of 1566 bps dip in gross margins, the EBITDA of the company is up by only 10.27% at Rs 17.67 crore.

As the company was carrying lots of inventory at the end of Mar'17 quarter, its net debt had increased and as a result finance cost is higher. With higher finance and depreciation cost, the PBT of the company is almost flat at Rs 15.97 crore against Rs 15.88 crore in Sep'16 quarter.

Looking at the downtrend in gross margins, we believe Chaman Lal is failing to move up the value chain and increase the share of branded sales in overall business; however at the same time its focus seems to be on efficient working capital management because a lot of rice processors have gone bankrupt on failing to effectively manage working capital.

As the stock has recently shot up by around 50% and quoting at around 20 times earnings, we have a negative rating on the stock and also closing coverage on the same. We may re-look at the company at a later stage depending on how the business of the company shapes out.

#### [Poddar Pigments \(NSE – PODDARMENT\) – Jan'17 Alpha stock](#)

CMP – 294.60 (BSE); 291.20 (NSE)

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

Sales of the company for the Sep'17 quarter are down by 4.18% on YOY basis at Rs 78.73 crore. On the back of expansion in capacity, company's competitor Plastiblends has reported 11% growth in sales.

Despite de-growth in sales, the company has done well in terms of gross margins as the same have improved to 25.99% against 22.98% in Sep'16 quarter. The company has been spending around Rs 4-5 crore annually on R&D and has been working on introduction of new colour and additive masterbatches. Further, there might be some impact of input tax credit getting reflected in raw material consumption. However, on the flip side, Plastiblends has reported contraction in margins of around 500 bps.

Company's operating expenses are up by 12.45% on YOY basis; however on account of 301 bps expansion in gross margins the EBITDA of the company is up by 1.26% to Rs 6.93 crore with EBITDA margins of 8.80%

The company is a net interest earner and with slightly higher other income the PBT of the company for the Sep'17 quarter is up by 3.36% on YOY basis to Rs 7.42 crore

The operating performance and balance sheet of the company continues to be very strong; though growth in sales has been lacking since quite a few quarters now.

The stock is currently quoting around 15 times trailing twelve months earnings. The company holds around Rs 30-40 crore of surplus cash.

In case of Poddar Pigments, the capital requirement for expanding capacity doesn't seem to be very high; however since some time now the company hasn't been very aggressive in terms of capacity addition and running the plants close to optimum utilization. The company's products are used in textiles and polymer products, so ideally in the long run there should be good demand and with Poddar's balance sheet, it should be able to capitalize on the same.

However, as the stock has re-rated while the earnings have failed to match up, we have a neutral rating on the stock.

#### [Control Print \(NSE – CONTROLPR\) – May'14 Alpha stock](#)

CMP – 499.00 (BSE); 500.75 (NSE)

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



Control print 3 years price chart

Source: BSE India

For the Sep'17 quarter, the company has reported 20.53% growth in sales on YOY basis to Rs 41.45 crore. The sales growth is good and in line with what the company has been reporting since last few quarters.

On the front of raw materials, the company has reported gross margins of 67.62% against 71.04% in Sep'16 quarter. Company's gross margins tend to vary depending on product mix, with printers commanding lower margins than consumables.

Company's operating expenses have increased by only 12.19% against 20% growth in sales and therefore despite lower gross margins, control print has reported 18.38% growth in EBITDA to Rs 11.78 crore with EBITDA margins of 28.42%

The company has restated its results as per IND-AS and on account of the same its depreciation cost has increased from the earlier reported figures of 0.8-0.9 crore for a quarter. With clubbing of printers on lease from inventory to fixed assets and restatement of fixed assets at fair value, the management expects depreciation cost to be around 1.8-1.9 crore for the quarter.

Last year's depreciation cost has been restated with some adjustments; however assuming it to be around 1.8 crore against the restated figure of 4 crore, the company has reported 17.5% growth in PBT to Rs 9.72 crore.

Overall, company has been reporting strong set of numbers with decent growth in sales and maintenance of margins at around 26-27%. The balance sheet also looks in slightly better shape with working capital increasing only marginally since Sep'16. The

management is hopeful of sustaining double digit growth rate in the range of 15-20% on the back of growth in overall market and expected gain in market share.

The stock is currently trading around 25-26 times earnings.

Disclosure: Out of the stocks discussed above, I have personal investment in Mazda and Control Print.

Best Regards,

Ekansh Mittal

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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

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Analyst ownership of the stock: In Mazda and Control Print

Details of Associates: Not Applicable

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