11th Feb'18

Dec'17 earnings update on

Cera Sanitaryware
Prima Plastics
Manappuram Finance

Dear Members,

We have released 11th Feb'18 – Dec'17 earnings update on Cera Sanitaryware, Prima Plastics and Manappuram Finance. 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 Feb'18

Cera Sanitaryware (NSE – CERA) – Oct'11 Alpha stock

CMP – 3359.50 (BSE); 3399.15 (NSE)

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

Cera 3 years price chart Source: BSE India

Cera has reported 23.05% growth in sales on YOY basis to Rs 290.88 crore. There is obviously some base effect because last year there was an impact of de-monetization; nevertheless the growth reported by Cera is still very good because its peers have reported only 8-10% growth.

Segment wise, sanitaryware has grown by 13.70%, faucets have grown by 24% and tiles segment has grown by 57%.

As per the management the market response has improved, however they still believe that FY 18 will be a year of consolidation with overall growth of around 15%.

The company has launched a new brand by the name of JEET. The products for the same will be completely outsourced and will target low-cost housing projects worth 20-30 lakhs.

On the front of gross margins, the company has reported 53.27% against 54.31% in Dec'16 quarter. As per the management tiles segment reported much higher growth, and in the same the company is currently selling lower margin soluble salt products and therefore the margins have contracted. The company has upgraded technology so that they can produce GVT, PVT tiles; however significant contribution will start from FY 19 onwards.

As per the management, currently almost 90% is soluble salt in the tiles mix and the management is hopeful of bringing it down to around 60% in the next 2-3 years.

The operating expenses of the company have increased by 28.47% on YOY basis. As per the management there has been some cost push lately with revision in wages and increase in fuel cost. Thus, with more than 100 bps contraction in gross margins and higher operating expenses, the EBITDA of the company is up by only 3.15% to Rs 40.61 crore.

Cera is a cash rich company and a net interest earner, however due to slightly higher interest cost and higher depreciation cost, the PBT of the company is almost flat on YOY basis at Rs 35.84 crore.

As far as reforms in the industry are concerned, the GST rate has been reduced to 18% and the e-way bill facility is getting introduced across the country. We believe these two should be positive for the organized players as the price differential will reduce and evading taxes will difficult for the unorganized players.

We believe Cera has again reported decent set of results with industry leading sales growth. The management has been working for the improvement in margins and the results might start accruing from FY 19 onwards. Further, with lower interest rates, Govt.'s focus on affordable housing, implementation of GST and implementation of RERA we expect the company to continue performing well in the long run and accelerate the growth rates from the current level of 12-13% to 15-20%.

The stock is currently quoting around 43 times trailing twelve months earnings.

Prima Plastics (BSE – 530589) – Jan'16 Alpha stock

CMP – 192.55 (BSE)

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

Prima Plastics Jan'16-Feb'18 price chart   Source: BSE India

Prima Plastics reports consolidated results only at the end of the financial year; however its consolidated results are important especially considering expanding operations in Cameroon and South America.

As far as Standalone results are concerned, the company has reported 10.25% growth in sales on YOY basis to Rs 22.80 crore. Considering strong 17% growth reported in Sep'17 quarter and expansion in domestic capacity, we were hoping for higher growth in sales.

On the front of raw materials the company has recorded gross margins of 37.98% against 37.72% in Dec'16 quarter. While the gross margins are higher on YOY basis, there's contraction of 241 basis points on QOQ basis. In the last one year the crude oil price has increased by around 20%; however it's good to note that till now the company has been able to maintain gross margins on YOY basis.

Company's employee expenses have increased by 26.70% while the other expenses have increased by 6% with resultant increase of 12.60% in operating expenses; as a result the EBITDA of the company is up by 5.82% on YOY basis to Rs 2.00 crore with EBITDA margins of 8.77%

With expansion in capacity in Andhra Pradesh and set up of new plant in Central America, company's finance and depreciation costs have increased and on account of the same the PBT of the company (excluding other income) have reduced by 22.55% on YOY basis to Rs 1.16 crore.

In the PBT, we have not considered other income, because last year company got dividend from its JV in Cameroon in the December quarter itself. Anyways, what matters is how the JV has performed and its performance will get reflected in Mar'18 quarter.

For the nine months and excluding the impact of other income, on standalone basis the company has performed reasonably well with around 14.5% growth in earnings and 10% growth in sales.

Overall, the company has reported decent set of results on standalone basis and we believe there's still scope for operating leverage to play in, especially in domestic business.

The stock is currently trading around 20 times trailing twelve months earnings. The company has expanded capacity in India, has set up operations in Guatemela (Central America) and its JV in Cameroon has almost doubled the capacity. If executed well, the above initiatives should help the company increase sales substantially over the next 2-3 years.

Manappuram Finance (NSE – MANAPPURAM) – Jul'17 Alpha stock

CMP – 104.40 (BSE); 104.60 (NSE)

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

For Q3 FY 18 Manappuram has reported 3.1% decline in income from operations on YOY basis to Rs 872.82 crore. The company's AUM is up by 0.7% on YOY basis to Rs 14,650 crore.

In Q2 the company had arrested the decline in AUM and now in Q3 it has reported 6.8% growth over Sep'17 quarter with gold loan increasing by 5.3% on QOQ basis. As per the management the impact of demonetization has reduced substantially and with near normal monsoon the gold loan business has started picking up. In fact, the management is confident of 10-15% CAGR in gold loan AUM and around 20% CAGR on consolidated loan book.

As far as other new verticals are concerned, microfinance AUM is up from Rs 1,650 crore to Rs 2,112 crore on YOY basis and similarly housing finance is up from Rs 263 crore to Rs 342 crore and commercial vehicle loan book is up from Rs 250 crore to Rs 500 crore. The 3 new verticals have reported growth on QOQ basis as well. The share of new businesses in consolidated AUM has increased to 22.6% from 16% at the end of Dec'16.

The Microfinance business has turned the corner with marginal profit of 0.36 crore. As per the management, for disbursements made since Jan'17, the collection efficiency is around 99.04% and since the Apr'17 the collection efficiency is 99.50%. The company is currently carrying excess provision of 26 crore (against what is stipulated by RBI) and expects reversal of some of the provisions in the subsequent quarters. Further, all the disbursements are now made directly to the bank accounts of the customers.

The commercial vehicle loan book of the company has been growing well, while in the housing finance business the company has revamped the team and expects the NPA to come down to 2% from 3%.

Coming back to financials, despite 3.1% decline in income from operations the company's net interest income is up by 5.5% on YOY basis to Rs 615.33 crore as the spreads have increased. Company's cost of borrowing has been coming down steadily and was down to 8.6% from 9.9% a year ago.

Operating expenses of the company have increased by 33.32% with 27.3% increase in employee expenses and 39.9% increase in other expenses. The increase in other expenses can be mainly attributed to Security charges. As per the management the security charges are currently running at around Rs 45 crore per quarter; however the company is now working with vendors like Godrej to bring it down to 20-25 crore per quarter or even lower. If it works out well, annually there could be substantial savings for the company on the security charges front alone.

As far as employee expenses are concerned, new hiring as well as increase in salaries has contributed to the increase.

During the quarter the company made a provision of Rs 40.18 crore for bad debts and other advances. Out of the same, Rs 31 crore was on account of microfinance business. The provisions have reduced on QOQ basis and should go down further or even see some reversal in the subsequent quarters.

With higher provisioning and higher operating expenses the PBT of the company for Dec'17 quarter is down by 15.5% on YOY basis to Rs 265.48 crore. For the nine months the PBT is down by 13.8%.

The stock is currently quoting around 12.75 times trailing twelve months earnings and 2.37 times book value. As mentioned last time, we expect sequential improvement in profitability on account of expected growth in loan book, lower provisioning and lower security charges.

Disclosure: I have personal investment in all the 3 stocks i.e. Cera Sanitaryware, Prima Plastics and Manappuram Finance.

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
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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Details of Associates: Not Applicable

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