

ASIAN GRANITO

Volume growth robust; margins take a hit

India Equity Research | Home Decor

Asian Granito (AGL) reported mixed set of numbers while revenue growth for Q4FY18 at 18% YoY to INR3.9bn was above est of INR3.7bn, EBITDA grew by only 5% YoY to INR363mn (est INR431mn) on account of fall in margins. However, led by lower interest and depreciation, PAT increased by 8% YoY to INR168mn (est INR178mn). While volumes increased by 29% YoY; drop in revenues from trading of marble affected overall revenue growth. Further, increasing employees and gas cost has led to fall in margins by 110 bps YoY and 440 bps QoQ to 9.3%. To factor in ongoing margin pressure, we cut our FY19/20E EPS estimate by 17%/13%. AGL continues with its strategy of driving retail network to boost revenues and increasing share of value added products to support margin expansion. Reiterate 'BUY' with revised TP of INR625 (20x FY20E EPS; INR720 earlier).

Q4FY18: Margin springs a negative surprise

AGL's revenue growth of 18% yoy to INR3.9bn is driven by volume growth of 29% yoy as realizations and revenues from trading of marble continue to drop, which has affected overall growth. Further, Increase in employees and gas cost put pressure on margins restricting EBITDA growth to 5% YoY. However, led by lower interest and depreciation, PAT increased by 8% Yoy to INR168mn vs our estimate of INR178mn.

Volume growth to remain healthy

Post robust volume growth of 25% YoY in FY18 in a subdued environment, management has guided volume growth of upwards of 15% in FY19 led by E-way bill implementation. However, due to rising cost pressure (higher gas price), margins are likely to remain largely stable at ~12%.

Outlook: Maintain BUY given healthy volume growth outlook

We maintain our 'BUY' reco on the stock as company focuses on its retail penetration and expanding its distribution network. However, given the near term challenges on margin front, we cut our FY19/20E EPS estimate by 17%/13%. Management is confident about strong growth opportunity in low cost housing and overall housing which will drive volume growth upwards of 15% YoY. Reiterate 'BUY' with revised TP of INR625 (20x FY20E EPS; INR720 earlier).

EDELWEISS RATINGS

Absolute Rating	BUY
Investment Characteristics	Growth

MARKET DATA (R: ASGI.BO, B: ASIAN IN)

CMP	: INR 452
Target Price	: INR 625
52-week range (INR)	: 618 / 333
Share in issue (mn)	: 30.1
M cap (INR bn/USD mn)	: 14 / 202
Avg. Daily Vol. BSE/NSE ('000)	: 119.8

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	32.7	32.7	32.3
MF's, FI's & BKs	7.3	7.3	5.2
FII's	5.1	5.1	5.1
Others	54.9	54.9	57.4
* Promoters pledged shares (% of share in issue)	:		NIL

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(5.2)	(9.3)	(4.1)
3 months	(4.3)	(12.5)	(8.2)
12 months	7.8	19.6	11.8

Financials

(INR mn)

Year to March	Q4FY18	Q4FY17	% Chg	Q3FY18	% Chg	FY18	FY19E	FY20E
Net revenues	3,916	3,328	17.7	2,638	48.5	11,556	13,206	15,339
EBITDA	363	345	5.4	362	0.4	1,390	1,610	1,945
Adjusted Profit	168	156	8.0	104	62.1	526	709	940
Adjusted Diluted EPS	5.6	5.2	8.0	3.5	62.1	17.5	23.5	31.2
Diluted P/E (x)						24.4	18.1	13.7
EV/EBITDA (x)						11.6	9.8	8.0
ROAE (%)						10.9	13.3	15.4

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Q4FY18 conference call: Key highlights

1. **2021 Vision intact:** Despite challenging demand scenario, continued pricing pressure and increasing costs, AGL management has maintained its FY21 target of:

- Achieving INR20bn revenues by FY21 led by capacity expansion in tiles and quartz segment and higher focus on exports
- Increasing share of revenues from retail segment to 50%. Increased from 37% in FY17 to 39% in FY18.
- Increasing brand spends to 3.5% of sales
- More than 50% revenues from premium and value added products

Further, to achieve this vision, the management has hired Vector consultants to achieve operational efficiency of plant. The initial contract with this agency is for 2 years and is based on fixed as well variable component.

2. **Q4FY18 performance:** AGL's revenue growth of 18% yoy to INR3.9bn is driven by volume growth of 29% yoy as realizations and revenues from trading of marble continue to drop, which has affected overall growth. The robust volume growth was led by shift from unorganised to organised players. Further, apart from pressure on realizations (due to sharp fall in GVT prices), increase in employees cost and gas cost have put pressure on margins restricting EBITDA growth to 5% YoY. However, led by lower interest and depreciation, PAT increased by 8% Yoy to INR168mn vs our estimate of INR178mn

3. **Revenue and margin guidance:** Management has guided volume growth of upwards of 15% in FY19 led by healthy growth in tiles volumes, Quartz driven by capacity expansion and healthy exports. Tile capacity expansion in South (likely to start operations in FY19) and Quartz capacity expansion by another 5,200 sq. metres by July 2018 is likely to support growth. However, due to rising cost pressure (higher gas price), margins are likely to remain largely stable at ~12%.

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	3,916	3,328	17.7	2,638	48.5	11,556	13,206	15,339
Raw material	2,422	2,091	15.8	1,294	87.3	6,320	7,197	8,314
Staff costs	330	236	40.0	194	70.1	942	1,083	1,246
Other expenses	801	656	22.1	788	1.6	2,904	3,315	3,835
Total expenditure	3,553	2,983	19.1	2,276	56.1	10,166	11,595	13,395
EBITDA	363	345	5.4	362	0.4	1,390	1,610	1,945
Depreciation	71	64	11.4	60	18.8	254	289	316
EBIT	292	281	4.0	302	(3.3)	1,136	1,321	1,628
Interest	83	97	(14.6)	107	(22.4)	365	330	297
Other income	5	29	(81.7)	8	(30.8)	29	50	55
Profit before tax	214	213	0.8	203	5.7	800	1,041	1,386
Provision for taxes	42	40	7.0	74	(43.1)	256	312	416
Minority interest	10	16	(34.3)	13	(21.6)	43	50	60
Associate profit share	7	(2)	(520.2)	(11)	(157.5)	25	30	30
Add: Exceptional items								
Reported net profit	168	156	8.0	104	62.1	526	709	940
Adjusted Profit	168	156	8.0	104	62.1	526	709	940
Diluted shares (mn)	30	30		30		30	30	30
Adjusted Diluted EPS	5.6	5.2	8.0	3.5	62.1	17.5	23.5	31.2
Diluted P/E (x)	-	-		-		24.4	18.1	13.7
EV/EBITDA (x)	-	-		-		11.6	9.8	8.0
ROAE (%)	-	-		-		10.9	13.3	15.4
Raw material	61.9	62.8		49.0		54.7	54.5	54.2
Employee cost	8.4	7.1		7.4		8.2	8.2	8.1
Other expenses	20.4	19.7		29.9		25.1	25.1	25.0
EBITDA	9.3	10.4		13.7		12.0	12.2	12.7
Reported net profit	4.3	4.7		3.9		4.6	5.4	6.1

Change in Estimates

	FY19E			FY20E			Comments
	New	Old	% change	New	Old	% change	
Net Revenue	13,206	13,439	(1.7)	15,339	15,719	(2.4)	
EBITDA	1,610	1,811	(11.1)	1,945	2,137	(9.0)	
EBITDA Margin	12.2	13.5		12.7	13.6		On account of higher gas cost
Adjusted Profit After Tax	709	853	(16.9)	940	1,083	(13.2)	On account of change in margin assumption
Net Profit Margin	5.0	6.0		5.7	6.5		
Capex	(400)	(400)	0.0	(300)	(300)	0.0	

Company Description

AGL, established in 2000, has emerged fourth largest ceramic company in India with owned capacity of 33MSM, which is pegged at 37MSM post expansion. The company manufactures and sells a variety of tiles—ceramic wall, ceramic floor, vitrified, digital polished glazed vitrified, digital wall, etc.

AGL is also leveraging its presence and distribution strength in the tile industry by exploring niche non-tile opportunities like quartz, marble, sanitaryware, etc. The company exports its products to 53 plus countries like North America, Europe, Africa, UAE, Australia, East Asia, Middle East, among others. It has 8 manufacturing facilities spread across Gujarat. Currently, the company has combined capacity of 100,000 sq mtr per day.

Investment Theme

Asian Granito India (AGL) is the third and fourth largest player in domestic tile industry on profitability and revenue metrics, respectively. It is planning to enhance revenue contribution of high-margin retail segment to 50% (37% currently) by FY21. Company has plans to achieve this driven by a) increasing showrooms (120 to 500 over FY17-21E); b) adding dealers (970 to 1200 over FY17-21E) & retail touch point (5,300 to 8000 over FY17-21E); c) focus on branding (1.6% in FY17 to 3.5% by FY21); and d) expanding product mix. Driven by its focus on driving revenues from value added segments like quartz, marble, double charge & glazed vitrified tiles etc and improved plant utilization we expect AGL's bottomline to grow faster than revenues and return ratios to expand. Hence, we estimate it to clock revenue, EBITDA and PAT CAGR of 14%, 21% and 40%, respectively, over FY17-20. With RoCE jumping to 20% (from 12%) along with strong cash flow generation.

Key Risks

Over the past 2-3 years, tile industries' growth has been largely impacted by slowdown in the real estate sector. Volumes could face further pressure if the realty market remains weak.

AGL is focusing on increasing presence in the retail segment and is targeting its share to increase to 50% from current 35% over the next 3-4 years. Failure to achieve this target could lead to lower than- expected margin improvement and thus impact its return profile.

The tile industry is highly fragmented with the unorganised sector accounting for more than 50%. We expect that with increasing compliance driven by GST etc, there will be shift towards organized player and any delay in this can adversely affect our assumptions.

Natural gas forms one of the key inputs for the tile industry. Majority of AGL's plants runs on gas and any sharp increase in gas prices may put pressure on margins.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Sector				
Org.Sector growth (%) (Sector)	3.8	17.4	17.4	17.4
Unorg. Sector growth (%) (Sector)	3.8	3.6	2.7	1.5
Company				
Other expense as % of N. Sales	25.6	25.1	25.1	25.0
Volume Growth (%)	26.0	30.7	15.0	17.0
Realisation Growth (%) -	(5.7)	(7.8)	-	2.0
Cost assumptions				
Employee (% of net rev)	6.5	8.2	8.2	8.1
Depreciation (% of Avg GFA)	3.7	3.7	4.0	4.2
Int (% of avg G.debt)	12.6	11.4	11.0	11.0
Tax rate as % of PBT	28.4	32.0	30.0	30.0
Net borrowings (INR mn)	2,958	2,995	2,746	2,438
Capex (INR mn)	(470)	(447)	(400)	(300)

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Net revenue	10,639	11,556	13,206	15,339
Materials costs	5,955	6,320	7,197	8,314
Gross profit	4,684	5,236	6,009	7,025
Employee costs	691	942	1,083	1,246
Other Expenses	2,722	2,904	3,315	3,835
Operating expenses	3,413	3,847	4,398	5,081
Total operating expenses	9,368	10,166	11,595	13,395
EBITDA	1,271	1,390	1,610	1,945
Depreciation	242	254	289	316
EBIT	1,029	1,136	1,321	1,628
Less: Interest Expense	396	365	330	297
Add: Other income	34.96	29.41	50.00	55.00
Profit Before Tax	668	800	1,041	1,386
Less: Provision for Tax	190	256	312	416
Less: Minority Interest	(43)	(43)	(50)	(60)
Associate profit share	15	25	30	30
Reported Profit	451	526	709	940
Adjusted Profit	451	526	709	940
Shares o/s (mn)	30	30	30	30
Adjusted Basic EPS	15.0	17.5	23.5	31.2
Diluted shares o/s (mn)	30	30	30	30
Adjusted Diluted EPS	15.0	17.5	23.5	31.2
Adjusted Cash EPS	25.0	27.6	33.2	41.8
Dividend per share (DPS)	0.5	1.3	1.5	2.0
Dividend Payout Ratio(%)	3.3	7.4	6.4	6.4

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Gross margin	44.0	45.3	45.5	45.8
Operating expenses	32.1	33.3	33.3	33.1
EBITDA margins	11.9	12.0	12.2	12.7
EBIT margins	9.7	9.8	10.0	10.6
Interest Expense	3.7	3.2	2.5	1.9
Net Profit margins	3.8	4.2	5.0	5.7

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	7.0	8.6	14.3	16.2
EBITDA	39.9	9.4	15.9	20.7
PBT	88.1	19.7	30.1	33.2
Adjusted Profit	84.6	16.7	34.7	32.7
EPS	38.5	16.7	34.7	32.7

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	301	301	301	301	
Reserves & Surplus	3,689	4,016	4,724	5,664	
Shareholders' funds	3,990	4,317	5,025	5,965	
Minority Interest	244	324	221	221	
Long term borrowings	1,039	1,157	957	657	
Short term borrowings	2,092	2,045	2,045	2,045	
Total Borrowings	3,131	3,202	3,002	2,702	
Long Term Liabilities	173	2	2	2	
Def. Tax Liability (net)	192	243	243	243	
Sources of funds	7,730	8,088	8,493	9,133	
Gross Block	6,492	6,835	7,235	7,535	
Net Block	4,128	4,217	4,328	4,311	
Capital work in progress	11	115	115	115	
Total net fixed assets	4,139	4,332	4,442	4,426	
Non current investments	174	234	234	234	
Cash and Equivalent	173	208	257	265	
Inventories	2,735	2,759	3,155	3,644	
Sundry Debtors	2,997	4,005	3,256	3,782	
Loans & Advances	94	38	38	38	
Other Current Assets	288	297	297	297	
Current Assets (ex cash)	6,115	7,099	6,746	7,762	
Trade payable	2,298	2,965	2,366	2,733	
Other Current Liab	571	820	820	820	
Total Current Liab	2,870	3,785	3,186	3,553	
Net Curr Assets-ex cash	3,245	3,314	3,560	4,209	
Uses of funds	7,730	8,088	8,493	9,133	
BVPS (INR)	132.6	143.5	167.0	198.3	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	451	526	709	940	
Add: Depreciation	242	254	289	316	
Interest (Net of Tax)	284	248	231	208	
Others	(786)	(412)	(443)	(1,263)	
Less: Changes in WC	(463)	(250)	(246)	(648)	
Operating cash flow	652	866	1,032	850	
Less: Capex	(470)	(447)	(400)	(300)	
Free Cash Flow	182	419	632	550	

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		652	866	1,032	850
Financing cash flow		(258)	(340)	(583)	(668)
Investing cash flow		(381)	(418)	(350)	(245)
Net cash Flow		13	108	99	(62)
Capex		(470)	(447)	(400)	(300)
Dividend paid		(15)	(46)	(53)	(70)

Profitability and efficiency ratios		FY17	FY18	FY19E	FY20E
Year to March					
ROACE (%)		14.6	15.3	17.0	19.6
ROAE (%)		10.1	10.9	13.3	15.4
Inventory Days		159	159	150	149
ROA		5.8	6.7	8.5	10.7
Debtors Days		85	111	100	84
Payable Days		118	152	135	112
Cash Conversion Cycle		126	117	115	121
Current Ratio		2.2	1.9	2.2	2.3
Debt/EBITDA (x)		2.5	2.3	1.9	1.4
Debt/Equity (x)		0.7	0.7	0.6	0.4
Adjusted Debt/Equity		0.7	0.7	0.6	0.4
Interest Coverage Ratio		2.6	3.1	4.0	5.5
LT debt /Cap empl. (%)		40.5	39.6	35.3	29.6
Debt / Cap employed (%)		80.1	89.4	75.7	71.2

Operating ratios		FY17	FY18	FY19E	FY20E
Year to March					
Total Asset Turnover		1.4	1.5	1.6	1.7
Fixed Asset Turnover		2.6	2.8	3.1	3.6
Equity Turnover		2.7	2.7	2.7	2.7

Valuation parameters		FY17	FY18	FY19E	FY20E
Year to March					
Adj. Diluted EPS (INR)		15.0	17.5	23.5	31.2
Y-o-Y growth (%)		38.5	16.7	34.7	32.7
Adjusted Cash EPS (INR)		25.0	27.6	33.2	41.8
Diluted P/E (x)		30.2	24.4	18.1	13.7
P/B (x)		3.4	3.2	2.7	2.3
EV / Sales (x)		1.5	1.4	1.2	1.0
EV / EBITDA (x)		12.6	11.6	9.8	8.0
Dividend Yield (%)		0.1	0.3	0.3	0.4

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
Kajaria Ceramics	1,274	30.1	23.6	15.8	12.7	19.1	21.1
Asian Granito	202	15.8	12.4	9.0	7.5	15.4	16.6
Somany Ceramics	359	19.2	14.1	9.6	7.1	20.5	23.1
Median	-	19.2	14.1	9.6	7.5	19.1	21.1
AVERAGE	-	21.7	16.7	11.5	9.1	18.3	20.2

Source: Edelweiss research

Additional Data

Director Data

Mr. Kamleshbhai Patel	Chairman & Managing Director	Mr. Hemendrakumar Shah	Director
Mr. Mukeshbhai Patel	Managing Director	Dr. Satish Deodhar	Director
Mr. Sureshbhai Patel	Executive Director	Mr. Ajendrakumar Patel	Director
Mr. Bhaveshbhai Patel	Executive Director	Mr. Amrutbhai Patel	Director
Mr. Kanubhai Patel	Executive Director	Mr. Premjibhai Chaudhari	Director
Mr. Bhogibhai Patel	Executive Director	Dr. Indira Nityanandam	Director

Auditors - Manubhai and Shah LLP

**as per last annual report*

Holding Top -10

	Perc. Holding		Perc. Holding
Vignaharta Ceramics LLP	8.96	Principal Financial Group Ltd	0.85
Asian Overseas Ltd	5.48	United Services Automobile Assoc	0.83
Sundaram Asset Management Co Ltd	3.55	IDFC Mutual Fund	0.71
Grantham Mayo Van Otterloo & Co	2.30	Government of Sweden	0.30
Kajaria Portfolio Ltd	2.00	Dimensional Fund Advisors	0.12

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
20 Dec 2017	Vignaharta Ceramics LLP	Sell	186707	530.14

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
21 Sep 2017	Danjibhai P. Patel	Sell	17000.00
05 Jul 2017	DIPAK D PATEL	Sell	15000.00
03 Jul 2017	DIPAK D PATEL	Sell	25000.00
30 Jun 2017	DIPAK D PATEL	Sell	20000.00
29 Jun 2017	DIPAK D PATEL	Sell	20000.00

**as per last available data*

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Coverage group(s) of stocks by primary analyst(s): Home Decor

Asian Granito, Century Plyboards, Greenlam Industries, Kajaria Ceramics, Greenply Industries, Somany Ceramics

Recent Research

Date	Company	Title	Price (INR)	Recos
18-May-18	Century Plyboards	Near-term visibility weak; long-term thesis intact; <i>Result Update</i>	269	Buy
14-May-18	Kajaria Ceramics	The shift: Delayed, but imminent; <i>Visit Note</i>	542	Buy
08-May-18	Kajaria Ceramics	Bumpy ride; thesis intact; <i>Result Update</i>	530	Buy

Distribution of Ratings / Market Cap

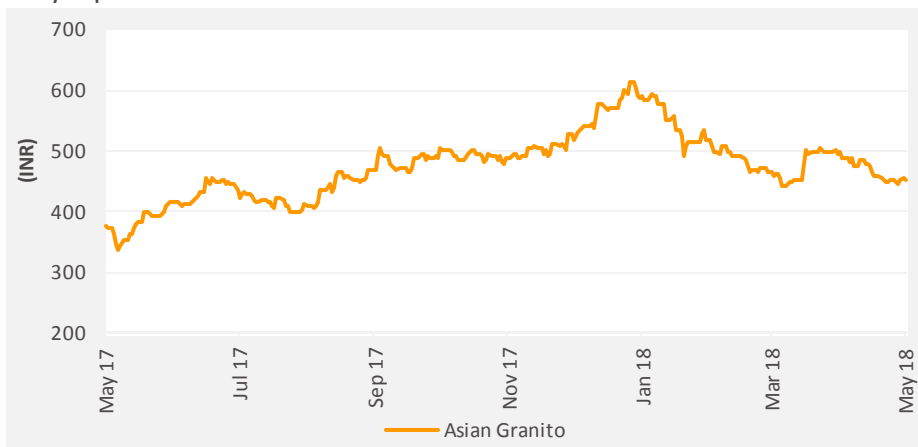
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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