

## Pokarna Ltd (POKGRA)

₹ 173

### Revival in quartz business...

Pokarna posted good Q3FY19 results given the robust performance in its quartz business. The topline grew 36.1% YoY to ₹ 119.6 crore on account of 79.9% YoY growth in Quartz revenues to ₹ 84.3 crore in Q3FY19. The EBITDA margin expanded 209 bps YoY to 36.1% mainly on account of a better product mix in its quartz portfolio and expansion in EBITDA margin of granite business (29.6% in Q3FY19 vs. 27.8% in Q3FY18). Consequently, the bottomline grew 86.8% YoY to ₹ 27.1 crore led by robust topline expansion and expansion in overall EBITDA margin.

#### Immense opportunity for quartz business from US...

Revenue growth was led by strong performance in its quartz division that grew 79.9% YoY to ₹ 84.3 crore in Q3FY19. US imposed anti-dumping duty on Chinese quartz amid its trade war, resulting in demand shifting to Indian quartz in export markets, especially the US. As China accounts for ~60% US quartz market, this shift in quartz demand creates immense opportunity for Indian manufacturers. The company's quartz portfolio, with 64+ colour palettes with multiple shades & textures of ~350 colours, augurs well for the company to improve its product mix. On the flip side, citing huge opportunity in this space, tens of players in the Indian quartz industry are coming up with incremental capacity addition, which could be a concern in the long run. Overall, Pokarna, with its technological moat in quartz business stands as the frontrunner to capture the lucrative opportunity arising from demand shift from China to India.

#### New quartz manufacturing facility to cater to incremental demand...

Pokarna is currently undertaking expansion of its quartz manufacturing facility by setting up a 7.8 LSM capacity plant in Hyderabad (130% of existing capacity in Vishakhapatnam). This new quartz facility would be based on Bretonstone technology & may be commissioned in Q4FY20E. Also, as the existing Vishakhapatnam plant (6 LSM capacity) is operating at optimum utilisation, the new plant will help Pokarna lead next leg of growth. With 98% of overall revenues coming from the US market and quartz business contributing ~70% overall revenues, the additional capacity will help it to overcome its capacity constraints and cater to the incremental demand, thus boosting its overall revenues, going ahead.

#### To focus on cut-to-size products in granite division ...

Pokarna's muted, albeit, steady performance in the granite business is on lines similar to the management's earlier guidance. Higher EBITDA margin in the granite business in Q3FY19 was on the back of cost rationalisation measures and favourable currency tailwinds in Q3FY19. The management is focusing on improving operational efficiencies at its quarries, improving capacity utilisation and increasing share of cut to size products. Nonetheless, sticking to its earlier guidance, it expects no growth coming from this segment in near term.

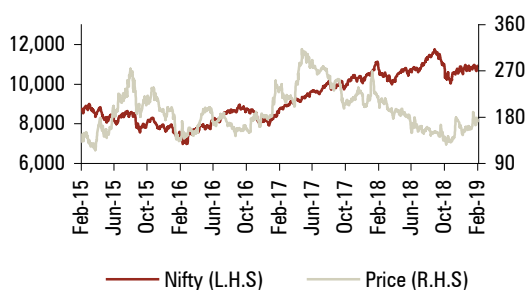
#### Trading at 6.5x FY19E EPS; reiterate BUY...

At the CMP, the stock is trading at ~6.5x FY19E EPS. We like Pokarna, given its increasing focus on high-margin quartz business, its owned quarries and having technological moat, being the sole quartz manufacturer by Bretonstone technology in India. We believe the new 7.8 LSM quartz facility in Hyderabad will further help the company increase its share in the US market. Various players adding quartz manufacturing facilities in the country could be a key risk for Pokarna as it could put pricing pressure in the long term, which will be closely monitored. Overall, we maintain **BUY** rating with TP of ₹ 225/ share (8x FY20E EPS).

Rating Matrix		
Rating	:	Buy
Target	:	₹ 225
Target Period	:	18-24 months
Potential Upside	:	30%

Stock Data	
Market Capitalization	535.6
Total Debt	220.0
Cash & equivalent	20.9
EV	₹ 664 Crore
52 week H/L (₹)	141 / 275
Equity capital	6.2
Face value	₹ 2
FII Holding (%)	0.6
DII Holding (%)	4.3

#### Price Movement



#### Research Analyst

Deepak Purswani  
deepak.purswani@icicisecurities.com

Harsh Pathak  
harsh.pathak@icicisecurities.com

## Conference call highlights

- **Quartz capacity expansion in India:** The management said the trade war between the US and China is moving demand for quartz away from China to India as India is a rich resource for the best quality Quartz in the world. Hence, tens of new players are coming up with additional manufacturing facilities in the country.
- **EBITDA margins improve:** EBITDA margins expanded 209 bps YoY to 36.1% mainly on account of better product mix in quartz business & expansion in EBITDA margins in its granite business.
- **Quartz business:** Pokarna's management reiterated the fact that 98% of its overall revenues comes from the US market. Of that, quartz remains a key focus area for growth for the company. With the recent trade war between the US and China, the Indian market is seeing a lot of demand for quartz, especially from the US. On capturing opportunities on this front, Pokarna plans to step up its technological offering to increase overall throughput. Also, the company sees immense opportunities arising from new housing and renovation/replacement market from the US.
- **Granite business:** The management said the operating and competitive environment continued to remain challenging for the company for its granite business. It is focusing on improving the operational efficiencies at quarries and aims towards improving capacity utilisation and increasing share of cut to size products in this business, going ahead
- **Capacity addition:** Pokarna is currently expanding its quartz manufacturing facility on 39 acres of land in Hyderabad, which will be set up using the Breton Stone technology. The new plant's capacity will be 7.8 LSM (130% of present available facility with the company). This plant is expected to be commissioned in Q4FY20E
- **Business with Ikea:** Pokarna is progressing well with its tie up with Ikea's store in Hyderabad. The management is committed to the latter's business model
- **Debt:** Pokarna has ₹ 179 crore consolidated gross debt on its books as of Q3FY19. Of this, ₹ 86 crore is from bank facilities, while ₹ 93 crore is promoters' loans

**Exhibit 1: Quarterly performance**

Year	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ(%)	Comments
Net Sales	119.6	87.9	36.1	110.3	8.4	Topline growth was on account of strong performance in Quartz business
Other Income	1.3	1.4	-8.8	3.4	-61.1	
Total raw material Expenses	36.4	18.6	95.6	34.8	4.7	
Employee Cost	9.7	8.7	11.0	9.7	0.3	
Other Expenditure	30.2	30.6	-1.2	33.3	-9.2	
EBITDA	43.2	29.9	44.4	32.6	32.6	
EBITDA Margin (%)	36.1	34.1	209 bps	29.5	660 bps	EBITDA margin expansion was on account of better product mix in its quartz division and higher EBITDA margins from its granite business
Depreciation	5.5	5.1	8.5	5.6	-0.2	
Interest	6.3	7.7	-17.8	6.5	-3.1	
PBT	32.7	18.6	75.7	23.3	3,582.3	
Taxes	5.6	4.1	36.9	3.6	57.0	
PAT	27.1	14.5	86.8	19.8	37.0	PAT growth was on account of higher topline growth and EBITDA margin expansion

Source: Company, ICICI Direct Research

**Exhibit 2: Financials Performance**

(Year-end March)	FY14	FY15	FY16	FY17	FY18
<b>P&amp;L</b>					
Revenues (₹ crore)	230.6	326.4	393.9	367.4	328.2
EBITDA (₹ crore)	46.4	83.6	132.8	136.4	97.2
EBITDA Margins (%)	20.1	25.6	33.7	37.1	29.6
Net Profit (₹ crore)	11.7	31.4	51.2	70.3	42.1
<b>Balance Sheet</b>					
Equity (₹ crore)	6.2	6.2	6.2	6.2	6.2
Net worth (₹ crore)	25.8	53.0	96.8	164.2	191.3
Debt (₹ crore)	310.0	290.2	271.6	270.8	220.0
<b>Ratios</b>					
RoNW (%)	45.4	59.1	52.9	42.8	22.0
RoCE (%)	7.8	18.9	32.9	29.1	19.9
P/B	20.8	10.1	5.5	3.3	2.8
P/E	45.8	17.1	10.5	7.6	12.7
Earnings per share (₹)	3.8	10.1	16.5	22.7	13.6
Asset turnover (x)	0.7	0.9	1.1	0.8	0.8
EV/EBITDA (x)	18.1	9.7	6.0	5.7	7.6

Source: Company, ICICI Direct Research

## **RATING RATIONALE**

ICICI Direct Research endeavours to provide objective opinions and recommendations. ICICI Direct Research assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



**Pankaj Pandey**

**Head – Research**

**pankaj.pandey@icicisecurities.com**

**ICICI Direct Research,  
ICICI Securities Limited,  
1st Floor, Akruiti Trade Centre,  
Road No 7, MIDC,  
Andheri (East)  
Mumbai – 400 093  
research@icicidirect.com**

## ANALYST CERTIFICATION

We /I, Deepak Purswani, CFA, MBA (Finance), Harsh Pathak, MBA (Finance), Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

## Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities Limited Sebi Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on [www.icicibank.com](http://www.icicibank.com)

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.