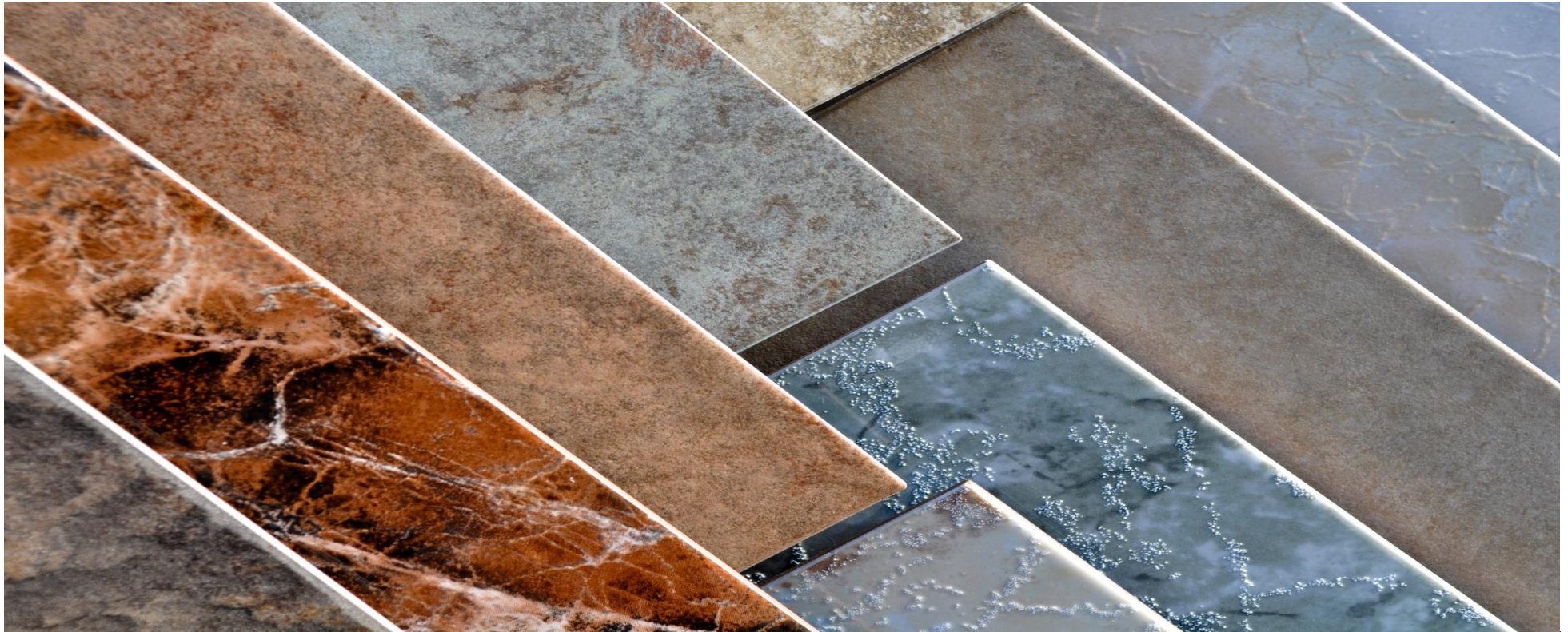


Insightful. Independent. Decisive.



Asian Granito India Ltd.

Beneficiary of GST + Product mix driving profitability

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Research Analyst

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Date: 22nd August 2017

Coverage Stock: Asian Granito India Ltd.**CMP INR 407 Target INR 640****Rating: BUY Upside: 57%****Beneficiary of GST + Product mix driving profitability**Date: 22nd August 2017

Asian Granito India (AGL) is the fourth largest tiles manufacturer in India, with ~33MSM capacity and accounts for ~8% of the organised tiles market. AGL produces ceramic wall & floor tiles and digital, polished/glazed vitrified tiles. It is also engaged in marble and quartz manufacturing with an annual installed capacity of 1.3MSM. The company has a wide range of tiles portfolio offering 1,200 plus designs across the INR 30 to INR 165 per sq ft price range. A vibrant product range, aggressively expanding distribution network, sustained capacity expansion and potential benefits of shift of market share to organised players are expected to aid AGL outperform peers. We estimate AGL to clock revenue/PAT CAGR of ~19%/45.7% over FY17-19E, respectively, with healthy RoCE of ~20%. Initiate coverage with 'BUY' and target price of INR 640.

Ample catalysts to spur outperformance

AGL's is expected to clock revenue CAGR of ~19% over FY17-19E primarily driven by increase in tiles sales volume CAGR by 16.7%, improvement in utilization, introduction of new products and increase in distribution reach to 5,500 sales points. AGL is targeting INR 2,000 cr sales over FY17-21E. GST implementation is expected to lead to market share gains for organised players as Morbi players: a) may convert into organised players as it will be difficult to bypass GST; b) may shift focus to export markets to replace anti-dumping duty hit China, thus helping organised players like AGL gain domestic market share; or c) could outsource their facilities to organised players.

Ample levers to spur operating margin

We estimate AGL's operating margin to catapult 180bps over FY17-19E on account of: (a) increased contribution of VAPs; (b) higher B2C sales (from 35% to 50%); c) lower gas prices; d) sharpening focus on branding; and e) expansion of dealers' network— planning to add another 90; targeting 1,200 dealers by FY19. Ergo, we estimate the company's EBITDA margin to jump to 13.4% by FY19E.

Outlook and valuations: On strong turf; initiate with 'BUY'

The key drivers that will spur AGL's surge are: 1) rising capacity; 2) focused vertical for value-added products; 3) aggressive launch of new products; 4) expanding network; and 5) demand recovery. These, we believe, will boost the company's profitability in coming years, which is likely to lead to re-rating of valuation multiple. We initiate coverage on the stock with 'BUY' recommendation and target price of INR 640 based on 25x FY19E earnings (12% discount to Kajaria's target multiple). The stock is currently trading at 24x/16x FY18E and FY19E earnings, respectively.

Year to March	FY15	FY16	FY17E	FY18E	FY19E
Revenues (INR Cr)	846	994	1,066	1,233	1,505
Rev growth (%)	9.1	17.5	7.2	15.7	22.0
EBITDA (INR Cr)	60	90	124	157	202
Net Profit (INR Cr)	13	24	40	56	84
P/E (x)	62.2	37.9	31.3	23.6	15.9
EV/EBITDA (x)	18.1	13.5	12.5	9.7	7.7
RoACE (%)	8.1	10.8	12.6	15.8	20.2
RoAE (%)	5.2	7.6	10.4	12.2	16.0

Bloomberg:	ASIAN:IN
52-week range (INR):	500/ 176
Share in issue (cr):	3
M cap (INR cr):	1,212
Avg. Daily Vol. BSE/NSE :('000):	190
Promoter Holding (%)	32.4

AGL's is expected to clock revenue CAGR of ~19% over FY17-19E primarily driven by increase in tiles sales volume CAGR by 16.7%, improvement in utilization, introduction of new products and increase in distribution reach to 5,500 sales points. AGL's tiles division expected to grow at 16.4% CAGR over FY17-19E with the increase in capacity & distribution network. A vibrant product range, aggressively expanding distribution network, sustained capacity expansion and potential benefits of shift of market share to organised players are expected to aid AGL outperform peers. We estimate the company to clock EBITDA and PAT CAGR of ~28% and 45.7% over FY17-19E, respectively, with healthy RoCE of ~20%.

AGL is targeting INR 2,000 cr sales over FY17-21E, driven by - rising capacity, increase VAPs, expanding network and demand recovery

	FY17	FY18E	FY19E
Revenue	1,066	1,233	1,505
EBITDA	124	157	202
EBITDA Margin	11.6	12.7	13.4
PAT	40	56	84

Multiple levers for margin expansion - increase VAPs and B2C sales

	FY17	FY18E	FY19E
RoACE (%)	12.6	15.8	20.2
EV/Sales (x)	1.5	1.2	1.0

Higher free cash flow generation & lighter balance sheet to help further growth

Business (FY19E)	Adj EPS (INR)	Proj Multiple PER (x)	Price Target (INR)
AGL	25.6	25x	640

Entry = INR 410



PAT CAGR of 45.7% over FY17-FY19E to lead to exit multiple of 25x FY19E P/E

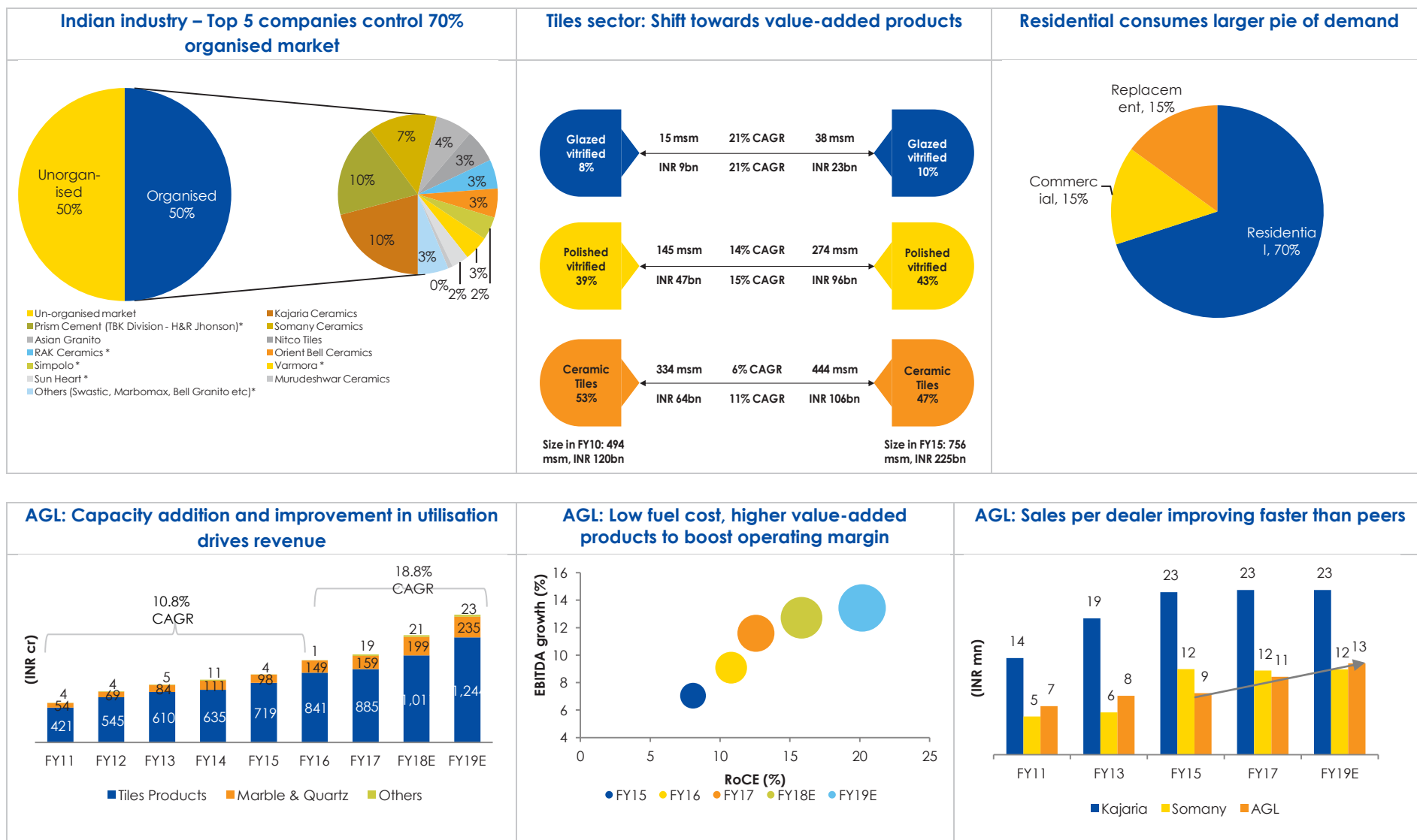
**Total
Return of
57%**

Price Target	INR 640	We have arrived at target price of INR 640, assigning 25x FY19E earnings. The company's revenue is estimated to clock CAGR of ~19% over FY17-19E driven primarily by the increase in tiles sales volume (16.7% CAGR over FY17-19E), improvement in utilization, introduction of new products and increase in distribution reach to 5,500 sales points. With the healthy sales growth, margin improvement and restricted depreciation & interest expenses, expected to result a PAT CAGR of 45.7% over FY17-19E.
Bull 25x Bull Case FY20E EPS	INR 1,023	Assuming higher revenue growth 25% and 330bps improvement in EBITDA margins, we expect AGL to generate EPS of INR 41 in FY19E. Assigning 25x FY19E earnings.
Base 25x Base Case FY19E EPS	INR 640	Assuming higher revenue growth ~19% and 180bps improvement in EBITDA margins, we expect AGL to generate EPS of ~INR 26 in FY19E. Assigning 25x FY19E earnings.
Bear 25x Bear Case FY20E EPS	INR 385	Assuming higher revenue growth 13% and 100bps improvement in EBITDA margins, we expect AGL to generate EPS of ~INR 15 in FY19E. Assigning 25x FY19E earnings.

Average Daily Turnover (INR cr)			Stock Price (CAGR)				Sensex CAGR (%)			
3 months	6 months	1 year	1 year	2 years	5 years	10 years	1 year	2 years	5 years	10 years
5.2	4.4	3.9	98.7%	272.9%	775.9%	323.8%	14.2%	16.2%	82.6%	138.0%

Business Value Drivers	Nature of Industry	The Indian tiles industry, worth INR 260bn, is the third-largest tiles producer and consumer in the world with an annual consumption of ~763 MSM. The sector is fragmented between organised and unorganised players, each ~50%; sector clocked 9.6%/15.9% volume/value CAGR over FY08-15, respectively. Top 5 companies control 70% of organised market & sector moving towards premium tiles segment.
	Opportunity Size	The current composition of industry provided opportunity for consolidation and scaling up the operations for organised players with the GST implementation – 50% unorganised pie & ~70% of India's total production of tiles from Morbi, which move to outsource their facilities or vacate market for organised players – big beneficiaries would be mid segment players like AGL. Industry, worth INR 260bn, expected to grow at ~13% y-o-y.
	Capital Allocation	In last five years, AGL has done capex of INR 379cr (including amalgamation) and generated additional sales of INR 442cr, including outsource sales. AGL expected to spend INR 120cr in coming years towards doubling quartz capacity new joint ventures and maintenance activities.
	Predictability	With the shift from unorganised to organised with regulatory changes, shift towards uses of value added products and increasing pan India presence – key drivers for growth and AGL with its capacity expansion, large product portfolio and wide distribution reach would be biggest beneficiary.
	Sustainability	The major five players accounts for 70% of organised pie and with their distribution, innovative products and capacity (own + outsourced) expected to sustain their dominance in market. AGL is driven by the goal of achieving INR 2,000 cr in revenues by FY21 accompanied by margin expansion with increase in retail sales and VAPs mix, expected to achieve with the sector structural changes.
	Disproportionate Future	With the increasing product mix towards value added vitrified tiles and quartz improve margins and increase in market share with sales volume expansion and geographic penetration – ensure that the future performance in terms of return ratios will be better than past.
	Business Strategy & Planned Initiatives	Current focus of capacity expansion (own + outsource), geographic penetration, asset light model (JV expansion), margin improvement with change in product mix and increase in B2C sales.
	Near Term Visibility	With the healthy sales growth (~19% CAGR over FY17-19E), margin improvement (180bps expansion over FY17-19E) and restricted depreciation & interest expenses, expected to result a PAT CAGR of 45.7% over FY17-19E.
	Long Term Visibility	To remain one of the biggest Tiles manufacturer in India with the increasing domestic market share and increasing export sales.

Focus Charts – Story in a nutshell



Source: Company, Edelweiss Investment Research

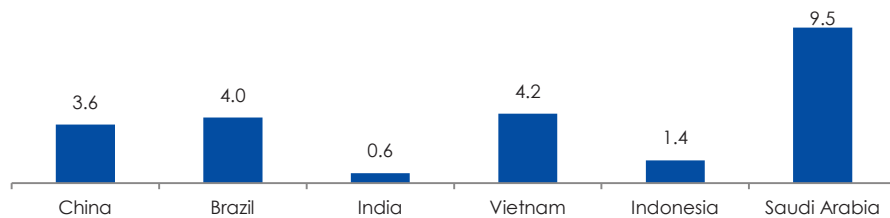
I. Tiles industry: Shift from unorganised to organised

Macro improvement, pick up in discretionary spending and government policy push are envisaged to spur the building products industry. Flooring/tile accounts for ~5% of cost of construction of a building. Housing constitutes 70% of tiles demand, followed by commercial (15%) and replacement market (15%). The domestic tiles industry is expected to clock volume CAGR of 13.0%, in coming years and organised players envisaged to outperform the industry with the implementation of GST and with the increase in value added product mix. In India, per capita consumption of tiles is as low as 0.60 sq mtrs compared to China (2.6 sq mtrs), Europe (5-6 sq mtrs) and Brazil (3.4 sq mtrs). Hence, rising disposable incomes of a burgeoning middle class and ~4 cr units of housing shortage entail humungous potential.

Cost structure of building a house

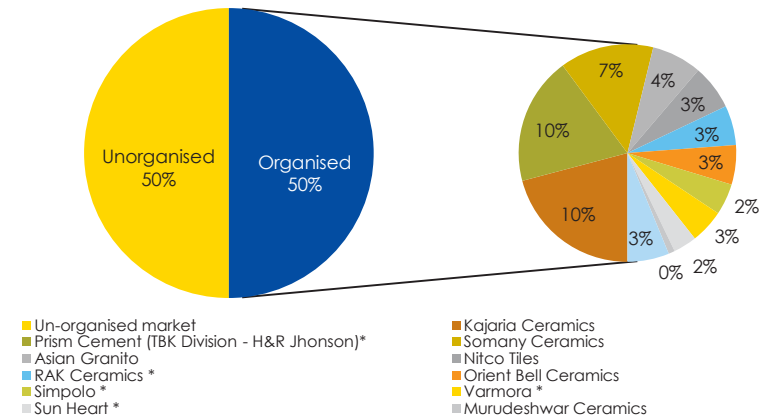
	% Total Cost	Cost (INR per sq ft)
Foundation	9	113
Floor Structure	12	150
Walls & Exterior Finish	12	150
Roof & Cover	10	125
Windows and Door	5	63
Interior Finish	8	100
Floor Finish	5	63
Interior Features	5	63
Bath Detail	4	50
Kitchen	8	100
Electrical	10	125
Plumbing	12	150
Total Cost	100	1,250

Per capita consumption of tile (Sq Mtr)

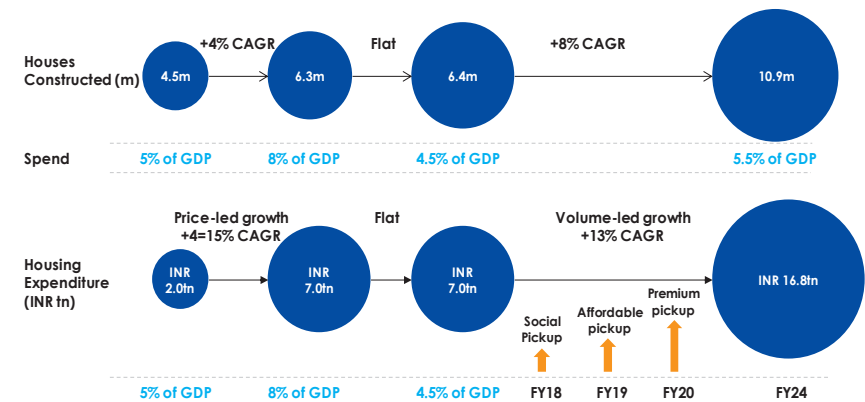


Source: Company, Edelweiss Investment Research

Indian industry – Top 5 companies control 70% organised market



Real Estate on verge of revival

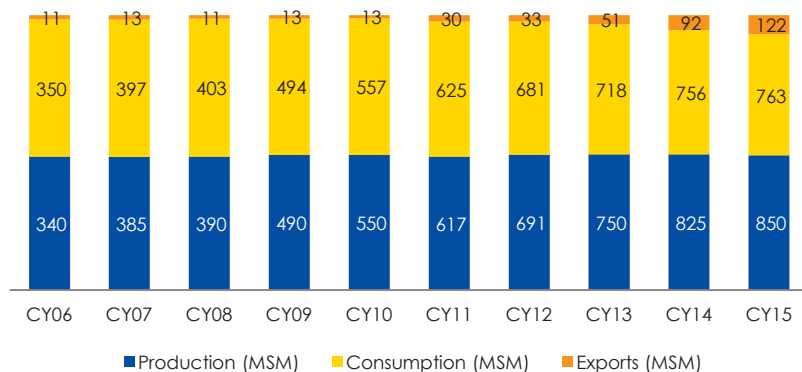


Source: Company, Edelweiss Investment Research

Multiple catalysts for tiles demand in India

Urbanisation	Expanding growth markets for Indian housing	Increase of discretionary income	Government initiatives	Growing replacement market
<ul style="list-style-type: none"> Urban housing demand in India is set to grow nearly 15mn units by end CY19. The top eight cities could account for nearly 3.4 mn units 	<ul style="list-style-type: none"> Eleven small cities are expected to generate incremental housing demand of 9.44 lakh units in coming five years 	<ul style="list-style-type: none"> Seventh Pay Commission recommendations RBI's initiative to reduce loans cost 	<ul style="list-style-type: none"> Smart Cities Mission Swachh Bharat Abhiyaan Atal Mission for Rejuvenation & Urban Transformation (AMRUT) Housing For All by 2022 Implementation of Goods and Service Tax (GST) 	<ul style="list-style-type: none"> Technological advancements have strengthened the aesthetic appeal of tiles, making them an integral home improvement component Replacement of natural stone as well as a lot of low/high end marble

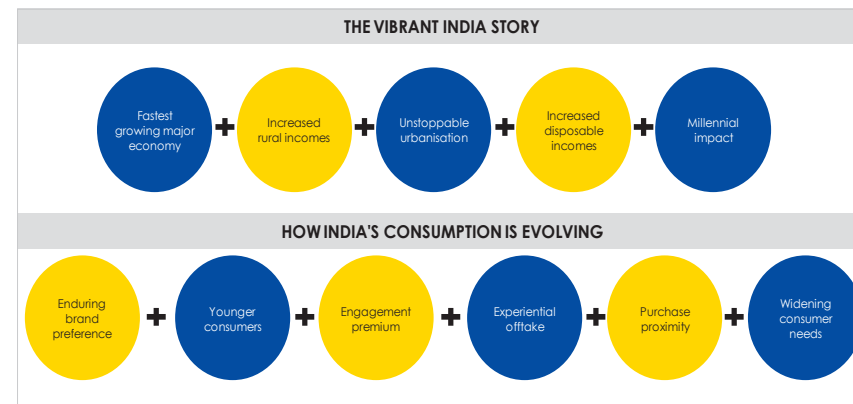
India tile industry



Source: Company, Edelweiss Investment Research

Urban housing shortage across India could catapult to an estimated 3.41 cr units by CY22 (source RNCOS), primarily on account of demand-supply gap and rising income levels among the working class seeking to purchase houses. Hence, we expect the tiles sector to gain palpable momentum over coming years.

Domestic tile industry evolving with demand

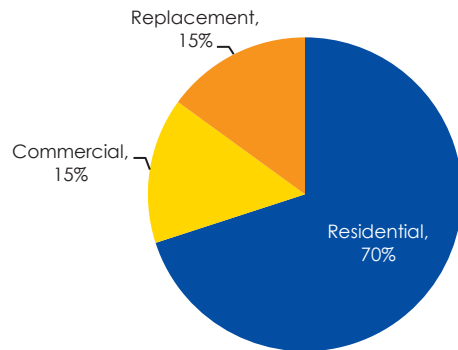


Demand for tiles is expected to grow in India in coming years on account of expanding real estate demand, rising disposable incomes and burgeoning middle class, along with government's initiatives such as "Housing For All 2022".

Ceramic tile industry statistics

World production:	12,355 MSM
India's Share:	850 MSM
World ranking (in production):	3
Per capita consumption:	0.60 sq. m
Global Industry Growth Rate:	6%
Growth Rate (India Domestic Market):	13%
Major National Player's Turnover (India):	~INR 8800 Cr
a) Glazed Wall Tile share:	45%
b) Glazed Floor Tile share:	8%
c) Vitrified Tile share:	40%
d) Industrial Tile Share:	7%
Unorganised Player's Turnover:	INR 12,900 Cr
Organised Sector:	
a) Share of Production (volume):	50%
b) Share of Production (value):	60%
Unorganised Sector:	
a) Share of Production (volume):	50%
b) Share of Production (value):	40%
Job Potential:	50,00 direct & 500,000 indirect
Investments in last 6 years:	INR 6000 Cr

Residential consumes larger pie of demand



Source: Company, Edelweiss Investment Research

II. Anti-dumping duty

a) Duty on China to boost organised players

The Directorate General of Anti-Dumping and Allied Duties (DGAD) has imposed anti-dumping duty on Chinese vitrified tiles for the next 5 years (valid up to 2022). The action was taken on an application filled by Gujarat Granito Manufacturers Association and Sabarkantha District Ceramic Association along with 24 producers of vitrified tiles in India for initiation of anti-dumping investigation and imposition of anti-dumping duty concerning imports of vitrified/porcelain tiles which originate in or are exported from China.

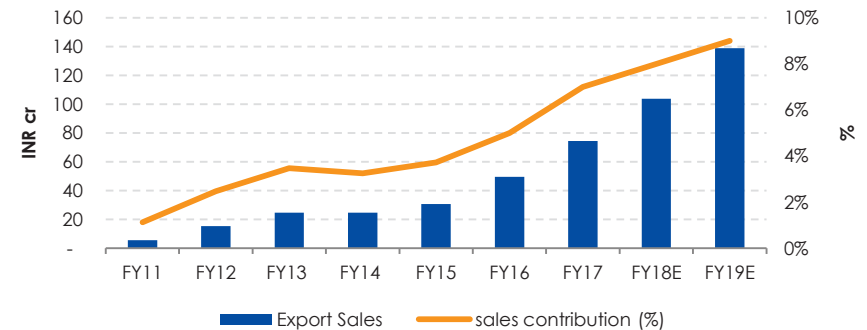
The DGAD had recommended imposition of anti-dumping duty on imports of glazed/unglazed porcelain/vitrified tiles in polished or unpolished finish with less than 3% water absorption to protect domestic players. Hence, the government imposed a provisional anti-dumping duty between USD 0.79 per sq mt and USD 1.87 per sq mt.

Vitrified tiles (polished and glazed) constitute almost ~50% of total India tiles consumption and most of the Chinese imports are in South India. AGL is expanding its capacity in South India via a JV plant and has also launched products like 800 x 800 mm/1000 x 1000 mm vitrified tiles to grab the potential opportunity and save freight cost. Post the anti-dumping duty, Chinese tiles will be expensive by INR 30 per sq mtr, creating room for domestic players to hike prices depending on demand.

b) Huge exports opportunity

The anti-dumping duty imposed on China—largest tiles exporter globally—by European countries (in May 2013 for 5 years), Korea, Vietnam, Brazil, Chile, Taiwan etc., provided an exports opportunity to Indian players. As these duties have been imposed for ~5 years, Indian players will continue to tap newer markets and gain market share. AGL exports its products to 53 countries and exports contribute ~7% (FY17) to consolidated sales, up from 3% in FY14.

AGL: Export sales increasing



Source: Company, Edelweiss Investment Research

He

III. GST: Advantage organised players

The current composition of industry provided opportunity for consolidation and scaling up operations for organised players with GST implementation. The sector have ~50% unorganised players and ~70% of India's total production of tiles from Morbi, which we believe will outsource their facilities or vacate market for organised players with the GST implementation – big beneficiaries would be mid segment players like AGL. Industry, worth INR 260bn, expected to grow at ~13% y-o-y.

AGL is expected to gain domestic market share with implementation of GST and gain from cost savings in octroi, freight, etc. We believe, the company will be major beneficiary of GST and following are probable outcomes of GST implementation:

- a) Morbi players may convert into organised players as GST will be difficult to bypass.
- b) Morbi players could focus on export markets to take advantage of anti-dumping duty on China by other countries. This could help organised players like AGL gain domestic market share.
- c) Morbi players could outsource their facilities to organised players.

We believe, GST is one of the key factors which will drive shift of market share to the organised segment and major beneficiaries will be players who have:

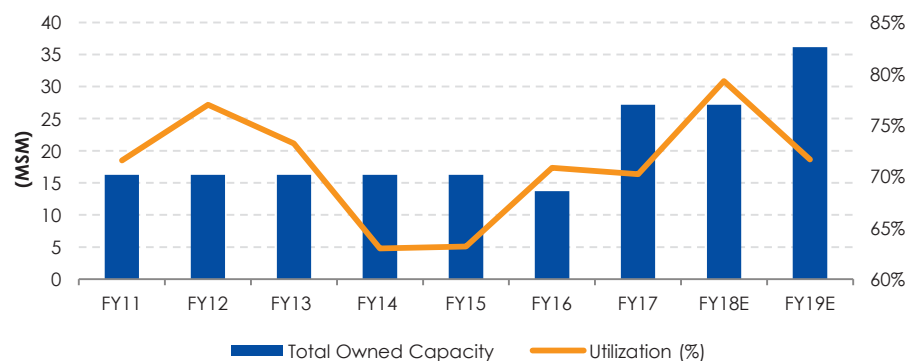
- a) Lower price differential with unorganised players.
- b) Better product quality and larger product basket.
- c) Established brand.
- d) Robust distribution network and availability of products.

IV. Asian Granito: Rise in capacity & utilisation

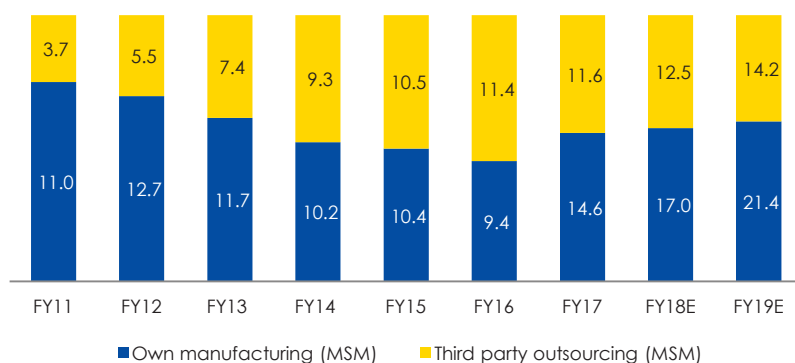
a) Improvement in owned capacity & utilisation

AGL is the forth largest player in the domestic market with owned capacity of 33 MSM, which is estimated at 36 MSM post expansion. The company's total sales volume has jumped to 31 MSM in FY17 and expected to touch 36 MSM by FY19E.

AGL: Owned capacity and utilisation



AGL: Sales volume

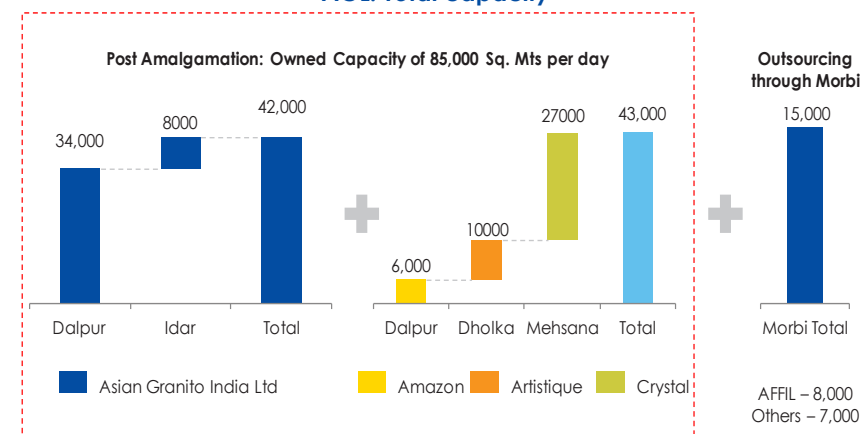


Source: Company, Edelweiss Investment Research

AGL: Manufacturing details

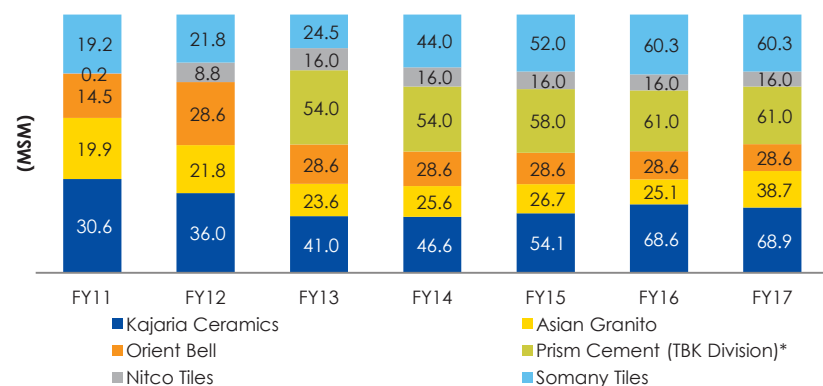
Location	Capacity	
	sq mtrs/day	mn sq mtrs/annum
FY17		
Dalpur, Himmatnagar	34,000	12.41
Idar	8,000	2.92
Dalpur, Himmatnagar (Amazon)	6,000	2.19
Dholka (Artistique)	10,000	3.65
Mehsana (Crystal)	27,000	9.86
Morbi (Outsourcing)	15,000	5.48
Total	100,000	36.50

AGL: Total capacity



Combined Capacity of 100,000 Sq. Mtrs per day (Incl. Outsource)

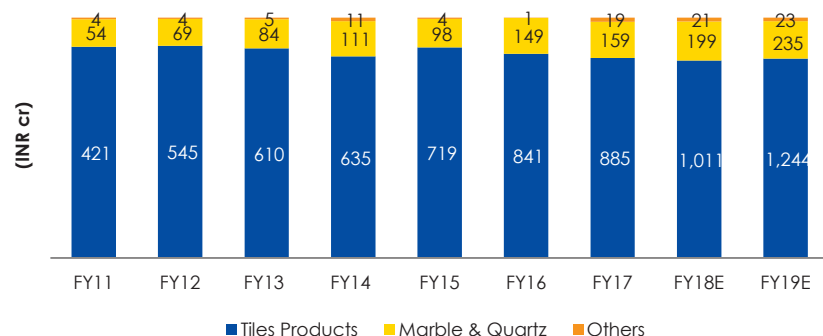
b) AGL: Capacity addition – Highest in past three years



c) Focus on premiumisation

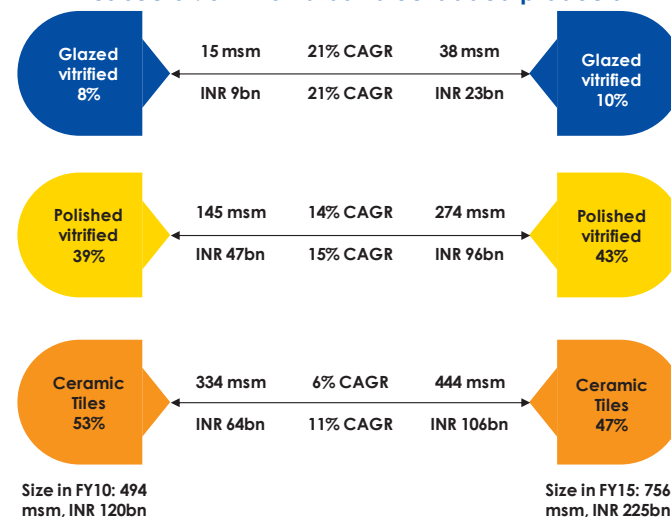
AGL is gradually shifting focus to the value-added segment—from ceramic to vitrified tiles and quartz—which enjoys better realisations. Contribution of value-added products is estimated to rise to ~50% in next couple of years. The company has created a separate vertical for its very high-value product range to sharpen focus on the segment. Further, to support this segment, AGL has widened its product basket through launch of multiple designs, sizes, textures and colours (revenue target of INR 2,000 cr by FY21).

Segment contribution



Source: Company, Edelweiss Investment Research

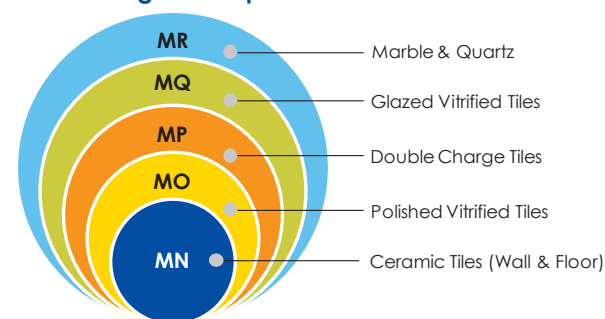
Tiles sector: Shift towards value-added products



AGL: Revenue mix shifting towards value-added products

Type of Tiles - Sales Contribution (%)	FY13	FY14	FY15	FY16	FY17
Ceramic (INR 30-65/sq ft)	46	49	43	44	36
PVT (INR 50-135/sq mt)	39	34	30	24	23
GVT (INR 70-165/sq mt)	11	11	14	16	19
Double Charge (INR 80-170/sq mt)	4	6	13	16	22

Focus on high value product mix



Product positioning

	Products pricing	New product/design launches in the last two years
Asian Granito	Ceramic Rs 30-65/sq ft Vitrified Rs 40-110/sq ft Glazed vitrified Rs 70-165/sq ft	<ul style="list-style-type: none"> CARARRA White unglazed large format Double Charge XXL – Polished Glazed Vitrified Tile Big Crack Stone – Double charged polished vitrified tile Hardstone) Grandura (Parking Tiles) Hexabon tiles
Kajaria Ceramics	Ceramic Rs 28-100/sq ft Vitrified Rs 42-120/sq ft Glazed vitrified Rs 60-350/sq ft	<ul style="list-style-type: none"> Strome Hi definition Digital ceramic wall tiles Eternity HD (Digital Glazed/polished Vitrified Tiles) The Beast 120 x 240 cm (Italian tile)
Somany Ceramics	Ceramic Rs 30-65/sq ft Vitrified Rs 40-120/sq ft Glazed vitrified Rs 75-145/sq ft	<ul style="list-style-type: none"> Rock Solid tiles – floor tile New size addition 800 x1200 mm PVT with ultra-charge Slip Shield – slip resistant technology



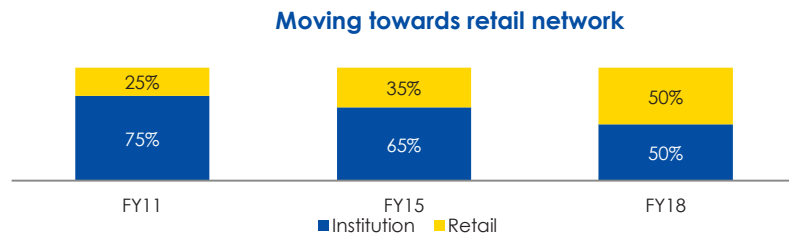
d) Sustained launch of new products

AGL is continuously launching new products, ranging from affordable tiles to upper-end glazed vitrified tiles. The expanding product basket has started creating a 'pull' for its products and also improved its realisations.

Product Name	Size in mm
Rainbow Glitz - 9 COLOR DIGITAL TILES WITH SPECIAL EFFECTS	300x900mm 300x600mm
GLISTER – POLISHED PORCELAIN TILES	600X600MM
STEP & RISER	300X1000MM 300X800MM
ECO BLANCO	300X300MM
Engineered Quartz (Different Sizes to cater to different markets)	1400 x 3100 1600 x 3200
Grestek – Splendour Series – Introduced 13 SKU's	800 x 1600
Grestek – Marvel Colour Body Tiles	300 x 600, 600 x 1200, 600 x 600, 196 x 1200
Imperio – Double Charge – Introduced 17 SKU's	800 x 800
Jumbo - Double charge – Introduced 16 SKU's	1000 x 1000
CARARRA White (World's Whitest Tile – in unglazed large format Double Charge)	800 x 800
XXL – Polished Glazed Vitrified Tile	800 x 1200
Polished Vitrified Tile (Double Charge) & Big Crack Stone (new design introduced first time in India)	800 X 1200 & 1000 X 1000
Hardstone (Outdoor Tiles in 16 mm & 10 mm thickness)	600 x 600
Grandura (Parking Tiles)	300 x 300 & 400 x 400
Hexacon Tiles (first to introduce)	304 x 350
Grestek SLIMGRES	600 x 1200

e) Moving to B2C sales

AGL's sharpened focus on retail sales is reflected in the continuously rising retail sales contribution from 25% to 35% over the past four years. The company is also enhancing its retail presence through a large network of distributors, retailers and exclusive showrooms. It is targeting retail sales of 50% in coming years via addition of new dealers & sub-dealers and exclusive showrooms. It is also eyeing geographical expansion, which will boost volumes, and higher retail presence will improve realisation, resulting in improved earnings.

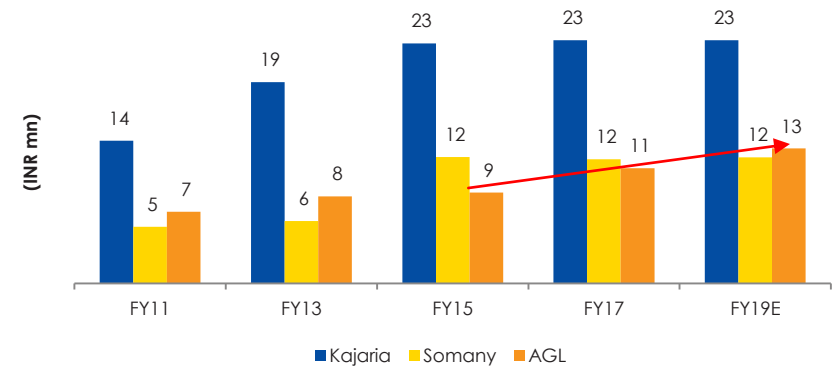


Source: Company, Edelweiss Investment Research

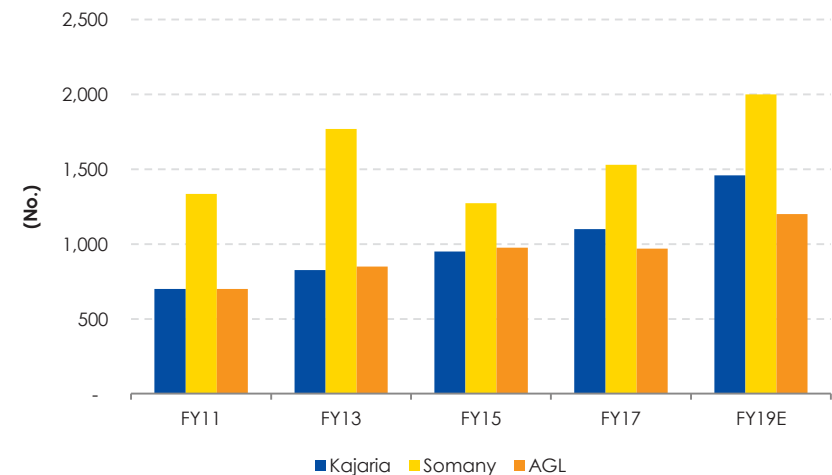
f) Strengthening its network—970 direct dealers

AGL is expanding its distribution network aggressively and also improving sales per dealer. The company has a strong and widespread dealership network of 970 currently (versus Kajaria's 1,100 and Somany's 1,528), up from 700 in FY11, and expected to reach 1,200 by FY19. It added 25 dealers in Q1FY18. The company's sales per dealer has been improving over the past three years (12.5% CAGR over FY15-17) against flat for Kajaria as well as Somany. Its dealers cater to ~4,330 sub-dealers/associate dealers across the country, almost at par with industry leader (Kajaria).

AGL: Sales per dealer improving faster than peers

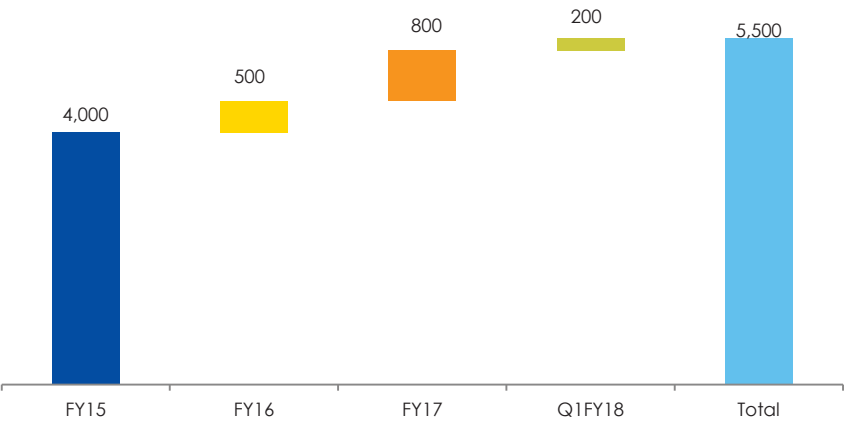


Dealer network – AGL adding fastly



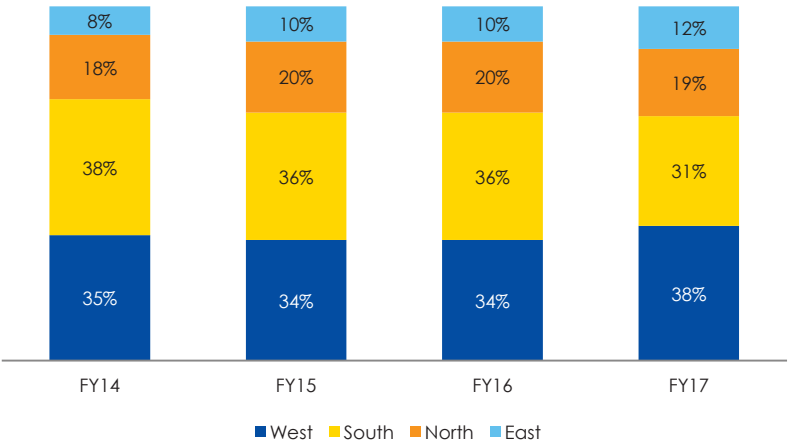
Source: Company, Edelweiss Investment Research

Addition in dealers & sub-dealers



Source: Company, Edelweiss Investment Research

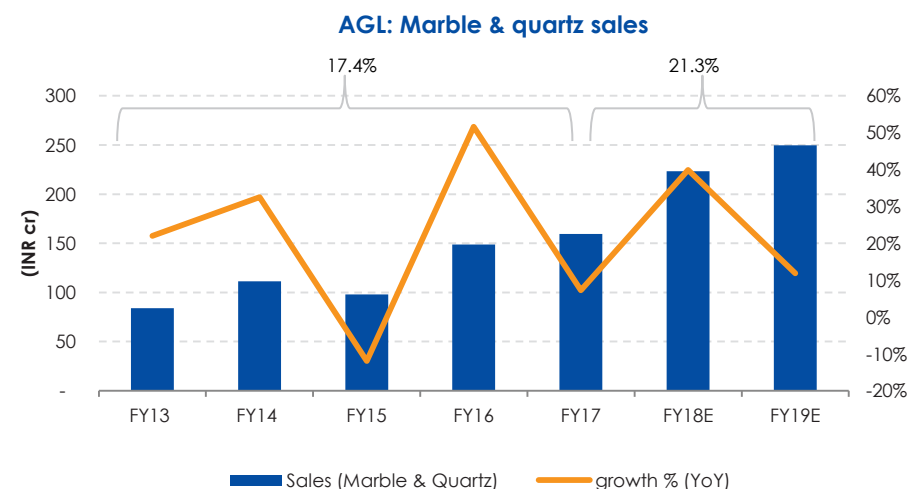
Geographical revenue break up



Source: Company, Edelweiss Investment Research

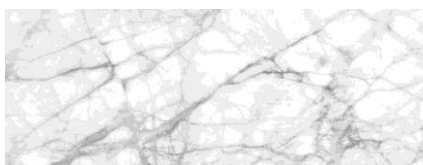
V. AGL: Quartz expansion

The Indian marble & quartz industry was pegged at ~INR 350cr compared to INR 50,000cr global market and AGL's marble division is engaged in the manufacture of marble and quartz with a market share of 45%. India is one of the key players in the global export of natural stone and is growing at faster rate. The domestic industry has posted ~14% revenue CAGR over last five years. AGL manufactures marble and quartz across a range of prices addressing the mass / mid and premium ranges. AGL has more than 102 projects customers with a diverse portfolio of >140 products in marble and quartz and a manufacturing capacity of 105,000 sq mtrs per annum. AGL has added 45 New dealers to this business in FY16 reach to 385 total dealers. AGL has strated 3rd line of Quartz commissioned in April-17 at Dalpur, resulted Quartz capacity from 2.64lac sq mt to 5.3lac sq mt, which expected to generate additional INR 40 cr sales. AGL is expected to generate ~21% revenue CAGR over FY17-19E, with the increase in capacity expansion and increase in dealers' network.



AGL's product portfolio – Marble & quartz

Marble



- Multi Colour Marble
- Nano Crystal Marble
- Imported Natural Marble
- Onyx Marble

Quartz



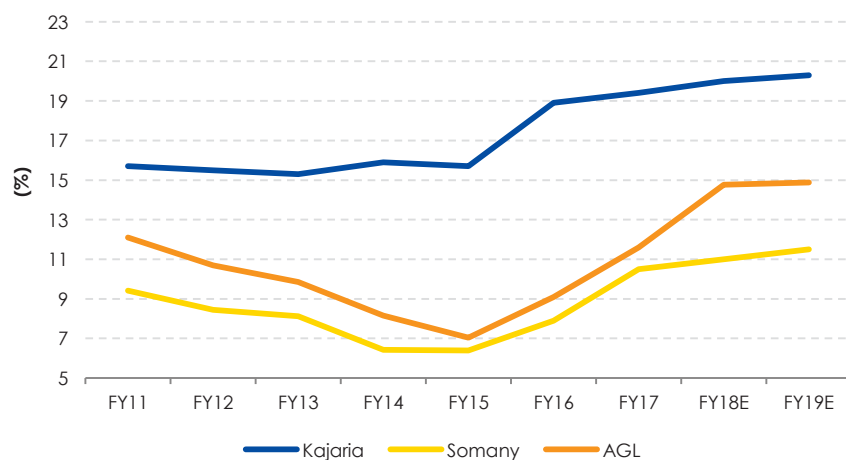
- Multi Colour Quartz
- E - Stone (Different Sizes to cater to different markets : 12mm, 15mm, 18mm, 20mm, 30mm)

Source: Company, Edelweiss Investment Research

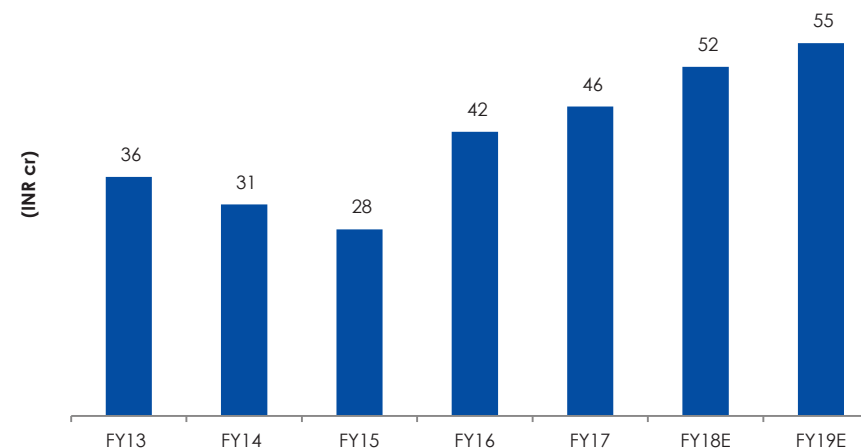
VI. Improvement in realisation to expand margin

AGL's average realisation is estimated to increase 2-3% over the next two years primarily driven by change in product and market mix. On the anvil are new products launches (like 1,000 x 1,000 mm and 800 x 1,200 mm) with higher VAPs and focus to enhance retail volumes. This is likely to lead to contribution of value-added products jumping from 35% currently to ~50% over the next two years. Also, we expect better realisations to improve the company's EBITDA margin.

AGL: EBITDA margin improving



AGL: Improving EBITDA per sq mtr



Source: Company, Edelweiss Investment Research

VII. Sharp reduction in fuel cost

Natural gas is the key source of fuel for the tiles industry and profitability is highly dependent on its availability and price. We believe, AGL is in a sweet spot on these two counts considering:

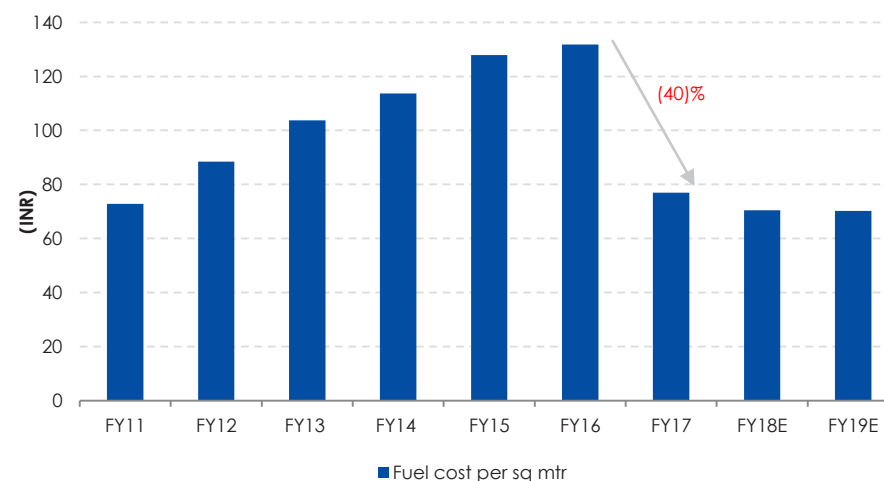
- 1) Correction in natural gas price from INR 372 per MMBTU (Million Metric British Thermal Unit) in Feb 2014 to INR 190 per MMBTU currently, (INR 41 per SCM to INR 23 per SCM).
- 2) Renegotiation of pricing formula for long-term contract of GAIL with Qatar-based RasGas.
- 3) ACPL and Crystal's contract prices at ~INR 14/scm and INR 12/scm, respectively, which are significantly lower than the spot price (INR 23 per SCM).

AGL had long-term contracts with GAIL, GSPL, IOCL and Sabarmati Gas. ACPL and Crystal Ceramics have long-term natural gas supply agreements with RasGas and ONGC, respectively, at a fixed price. ACPL and Crystal having contract price at ~INR 14/scm and INR 12/scm which is significantly lower than spot price. Hence, AGL's fuel cost reduced by ~40% y-o-y to INR 77 per sq mtrs.

Natural gas price movement (INR per MMBTU)



AGL: Fuel cost per sq mtr



Source: Company, Edelweiss Investment Research

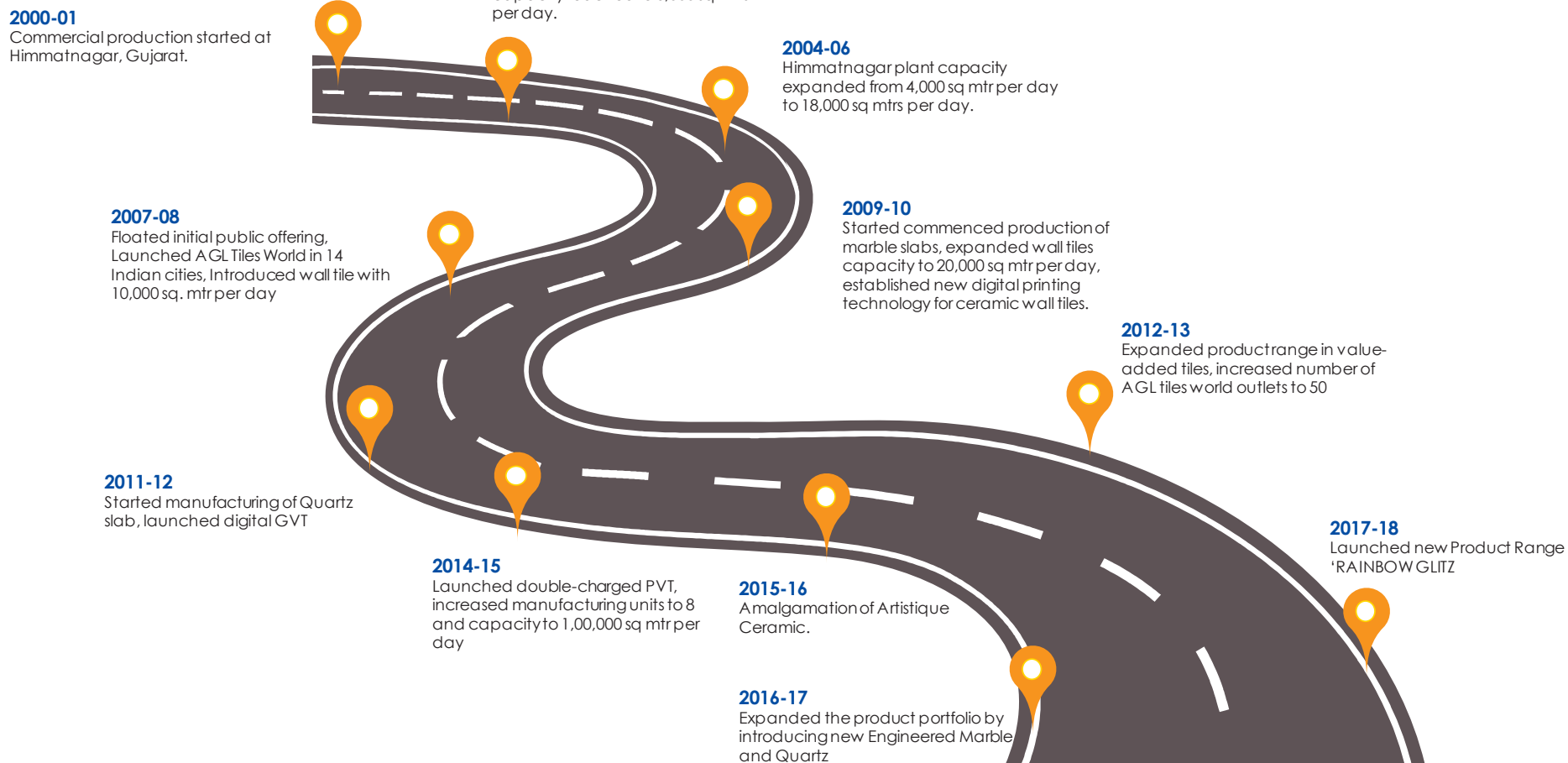
Asian Granito India Ltd. – Brief Summary

OVERALL GOAL	<ul style="list-style-type: none"> AGL is driven by the goal of achieving INR 2,000 cr in revenues by FY21 accompanied by margin expansion with increase in retail sales and VAPs mix.
GOAL CONTRIBUTORS	<ul style="list-style-type: none"> Owned Tiles Business: Grow revenue from INR 327cr in FY17 to INR 487cr by FY21; generate a larger proportion of revenues from value-added tiles Crystal Unit: Grow revenues from INR 110cr in FY17 to INR 316cr in coming years; <ul style="list-style-type: none"> Additional INR 100cr from improvement in utilization (from ~70% to 90%) Addition of one line (12k SM) results incremental >INR 100cr Marble & Quartz: Generate additional INR 60cr (from 2.64lacs sq mt to 5.3 lac sq mt); sales reach to INR 220cr; getting orders from dealers network New unit in Andhra Pradesh (in JV) – target revenue INR 150cr (we assumed ~INR 80cr), will produce GVT and soluble salt Vitrified tiles as south market has strong demand in soluble salt Vitrified tiles Increase Outsourcing being preferred partner – additional sales of INR 270cr expected to reach sales of INR 680cr
Goal Achieve through	<ul style="list-style-type: none"> Healthy product mix comparing industry, which continuously improving Ceramic tiles sector growing at ~13%; focus on second level dealers Demand of PVT & Ceramic coming from Government projects Increasing dealers' network & exclusive showrooms for high end tiles Addition in Marketing Team Increase export sales - Focus on Brazil & Gulf countries; Cost advantage & better quality
FOCUSED INVESTMENTS	<ul style="list-style-type: none"> Total Capex: ~INR 120cr over coming four years New unit in Andhra Pradesh (in JV) : ~INR 70cr capex Crystal Unit: Capacity increase from 5MSM to 9.9MSM in FY17 Quartz expansion: from 2.64lacs sq mt to 5.3 lac sq mt with capex of INR 20cr Distribution: Increase active dealers from 1500 to 2000 by 2020
PERFORMANCE MEASURES	<p>PROFITABLE GROWTH</p> <ul style="list-style-type: none"> Total income (Sales): Grew at CAGR of 12% over FY15-17 and expected to grow at ~19% CAGR over FY17-19E EBIDTA margin: Expanded by 450bps over FY15-17 and expected to expand 180 bps to 13.4% over FY17-19E Profit after tax: Grew at CAGR of 73% over FY15-17 and expected CAGR of 45.7% over FY17-19E <p>CONSISTENT VALUE CREATION</p> <ul style="list-style-type: none"> RoCE: Expected to expand 760 bps to 20.2% in next two years; expanded by 450 bps over FY15-17 Market capitalisation: Grew from INR 270cr as on 31st March 2015 to INR 1,134cr as on 31 March 2017 <p>BUSINESS HEALTH</p> <ul style="list-style-type: none"> Debt-equity ratio: Strengthened from 1.0x in FY13 to 0.8x in FY17 and expected to reach 0.6x by FY19E Cash conversion cycle: Improve from 130 days in FY13 to 90 days by FY19E Interest cover: Strengthened from 1.8x in FY15 to 2.3x in FY17 and expected to reach 4.4x by FY19E

AGL: SWOT Analysis



AGL: Key Milestones



AGL: Outlook & Valuations

AGL is currently best placed in the ceramics & tiles industry given company-specific sales and margin initiatives and significant financial and operating leverage that amplifies EPS growth in better sales environments. We expect AGL to benefit from its focus on branding and value proposition, which have driven favourable sales trend. In addition, internal initiatives enable AGL to gain market share versus competitors. The key growth drivers for AGL are: 1) rising capacity; 2) focused vertical for value-added products; 3) aggressive launch of new products; 4) expanding network; and 5) demand recovery. These, we believe, will spur the company's profitability in coming years, which is likely to lead to re-rating of valuation multiple. We initiate coverage on the stock with **'BUY'** recommendation and target price of INR 640 based on PER of 25x FY19E earnings (12% discount to Kajaria's target multiple). The stock is currently trading at 23.7x/16x FY18E and FY19E earnings, respectively. On EV/EBITDA basis, the stock is trading at 9.7x FY18E EV/EBITDA and 7.7x FY19E EV/EBITDA.

Peer Comparison

	Kajaria	Somany	Orient Bell	Asian Granito
Total capacities (Current)				
Tiles (mn sq mtrs)	62.1	51.7	30	33
Sanitaryware (mn pcs)	0.7	0.3	–	–
Faucetware (mn pcs)	1	Outsourced	–	–
Outsourced capacities (%)				
Tiles	42	58	20	13
Sanitaryware	NA	NA	–	–
Faucets	NA	100	–	–
Expansion				
Tiles (mn sq mtrs)	12.2	8	4.2	3.2
Sanitaryware (mn pcs)	–	–	–	–
Faucetware (mn pcs)	–	–	–	–
Market share (%) (Organised)				
Tiles	23	16	7	8
Sanitaryware	Negligible	2	–	–
Faucetware	Negligible	1	–	–
Revenue contribution (%)				
Tiles	95+	96	100	85
Sanitaryware		2	–	–
Faucetware	Below 5	2	–	–
Number of dealers/ distributors/retailers	10,000+	10,000+	4,000+	5,500+
Advertisement expenses as a % of sales (FY15)	2.5	1.9	1.2	0.5
Key brand	Kajaria	Somany	Orient Bell	AGL Tiles

Asian Granito India Ltd.

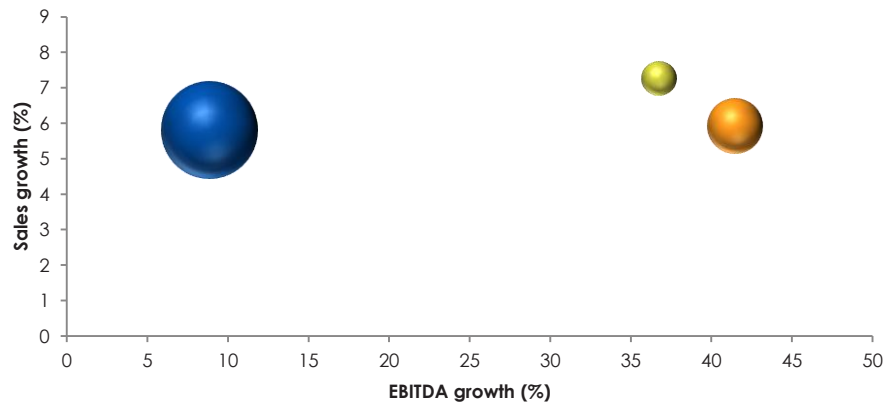
On historical average, AGL has been trading at a discount to Kajaria's one-year forward PER and EV/EBITDA. This is primarily on account of the latter's significantly better return ratios, superior EBITDA margin and lion's market share. We anticipate improvement in AGL's operating performance riding margin expansion and improving RoE & RoCE. Hence, we expect the the valuation gap between Kajaria and AGL to shrink.

Peers comparison

Company	Revenue growth (%)			EBITDA margin (%)			PAT growth (%)			ROACE (%)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Kajaria	5.8	13.1	17.1	19.4	20.0	20.3	9.7	27.2	24.4	31.7	33.4	35.1
Somany	5.9	13.2	17.2	10.5	11.0	11.5	41.3	22.4	33.2	23.2	25.1	30.1
Asian Granito	7.2	15.7	22.0	11.6	12.7	13.4	67.6	40.1	51.6	12.6	15.8	20.2

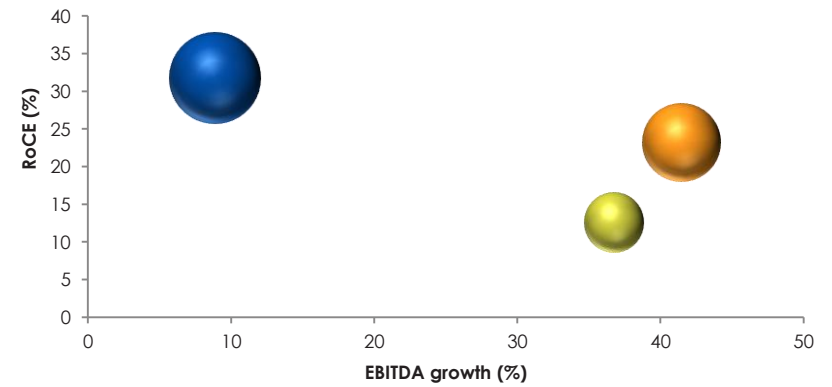
Company	Cash conversion cycle (days)			Debt/Equity (x)			Total asset turnover (x)			Diluted PE (x)			EV/EBITDA (x)		
	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E	FY17	FY18E	FY19E
Kajaria	80.0	88.0	82.0	0.1	-	-	1.7	1.7	1.7	41.3	32.4	26.0	21.4	18.0	14.8
Somany	46.0	46.0	43.0	0.4	0.2	-	2.2	2.4	2.7	35.0	28.6	21.4	18.2	14.6	11.5
Asian Granito	109.4	94.0	90.0	0.8	0.7	0.6	1.0	1.1	1.3	31.5	23.7	16.0	12.6	9.7	7.7

Peers: Sales & EBITDA growth (FY17)



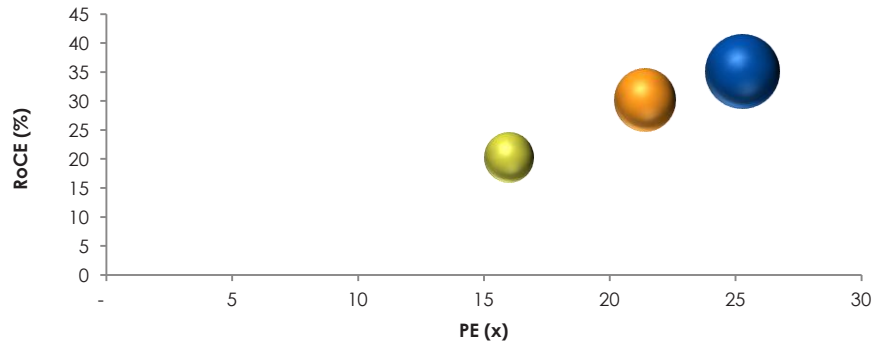
Bubble - MCap ● Kajaraia ● Somany ● AGL

Peers: Operating margin with returns



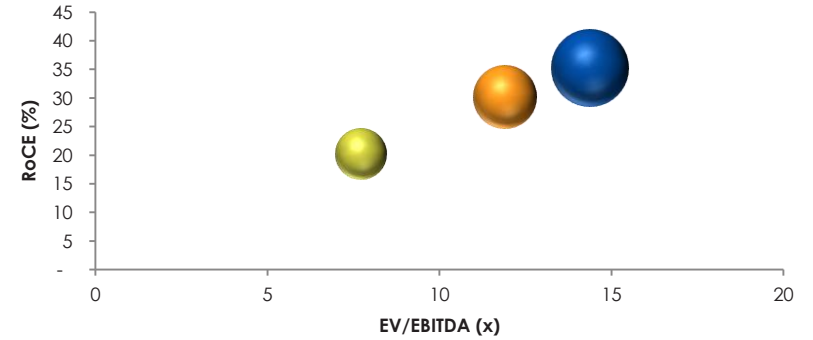
Bubble - Revenue (FY17) ● Kajaraia ● Somany ● AGL

Peers Valuations



Bubble - Revenue (FY19E) ● Kajaraia ● Somany ● AGL

Peers Valuations



Bubble - Revenue (FY19E) ● Kajaraia ● Somany ● AGL

Source: Company, Edelweiss Investment Research

Key Management

Name	Designation	Profile
Mr. Kamlesh Patel	<i>Chairman</i>	Mr. Kamlesh Patel has an overall experience of 18+ years in the tiles industry. He holds BBA degree from Sardar Patel University. Mr. Patel started his career with the foundation of Kedia Industries, a wall tiles manufacturer, in 1994. In 1999, along with Mr. Mukesh J. Patel, he started Asian Tiles.
Mr. Mukesh Patel	<i>Managing Director</i>	Mr. Mukesh Patel has 20+ years' experience in the tiles industry. He started his career with the foundation of Kedia Industries, a wall tiles manufacturer, in 1994. In 1999, along with Mr. Kamlesh Patel he started Asian Tiles.

Key Risks

- Inability to pass on fluctuating raw material prices.
- User industry growth remains muted.
- Rising competition from domestic players and neighbouring countries.

Business Overview

Company description

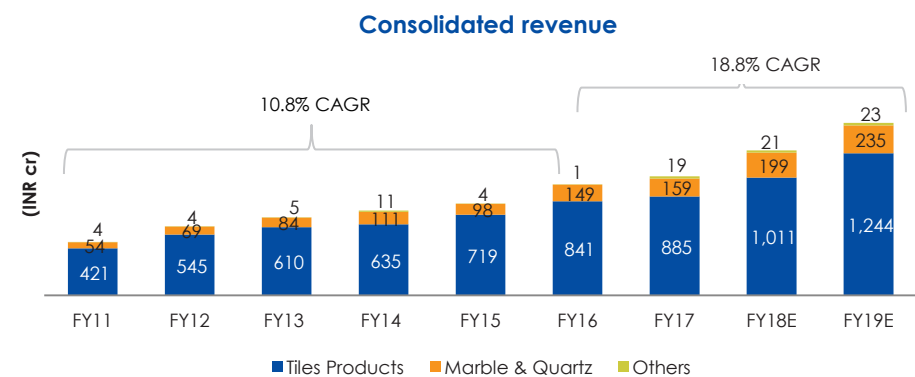
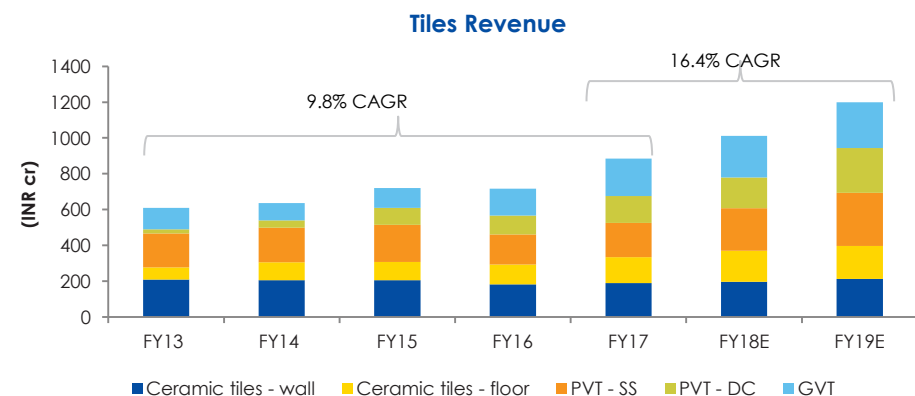
AGL was incorporated in 2000 by Gujarat-based entrepreneurs Mr. Kamlesh Patel and Mr. Mukesh Patel. AGL is the fourth largest tiles manufacturer in India with ~33MSM capacity. The company manufactures ceramic wall & floor tiles and digital/ polished/glazed vitrified tiles. It also manufactures marble & quartz with an annual installed capacity of 1.3MSM. AGL accounts for ~8% of the domestic organised tiles market. The company has wide range of tiles portfolio which offers 1,200+ designs across Rs 30 to Rs 165 per sq ft range.

Business Model	The company has 2 segments. 1) Tiles division 2) Marble and quartz division
Strategic Positioning	AGL is gradually shifting focus to the value-added segment—from ceramic to vitrified tiles and quartz—which enjoys better realizations and towards retail sales via addition of new dealers & sub-dealers and exclusive showrooms, estimated to rise to ~50% in next couple of years.
Competitive Edge	<ul style="list-style-type: none"> • Presence: The Company has its presence across India (Tier I and Tier II cities as well as metros) along with a global presence in 50+ countries through trade associates. • Technology: The Company's joint ventures with international partners in Italy have ensured access to cutting-edge technology catalyzing innovation and value-added product manufacture (digitally printed tiles and online vitrified manufacturing technology). • Product portfolio: The Company's product basket comprises tiles in a variety of sizes, designs and finishes, addressing virtually the widest consumer preference even wide range of prices addressing the mass / mid and premium ranges. • Showrooms: AGL has 16 display centres and 166+ exclusive showrooms, enhancing visibility.
Financial Structure	AGL focus on widen product range, aggressively expanding distribution network and sustained capacity expansion, which will result ~19% revenue CAGR over FY17-19E. Further, AGL would be potential beneficiary of shift of market share towards organised players with GST implementation.
Key Competitors	Kajaria Ceramics, Somany Ceramics, Orient Bell
Industry Revenue Drivers	Macro improvement, pick up in discretionary spending and government policy push are envisaged to spur the building products industry. The domestic tiles industry is expected to clock volume CAGR of 13.0%, in coming years and organised players envisaged to outperform the industry with the implementation of GST and with the increase in value added product mix.
Shareholder Value Proposition	The company is likely to clock 40% earnings CAGR over FY17-19E, results an EPS of INR 26 in FY19E. A 25x valuation can give price target of INR 640 for the company which gives an upside of 57%

Financial Analysis

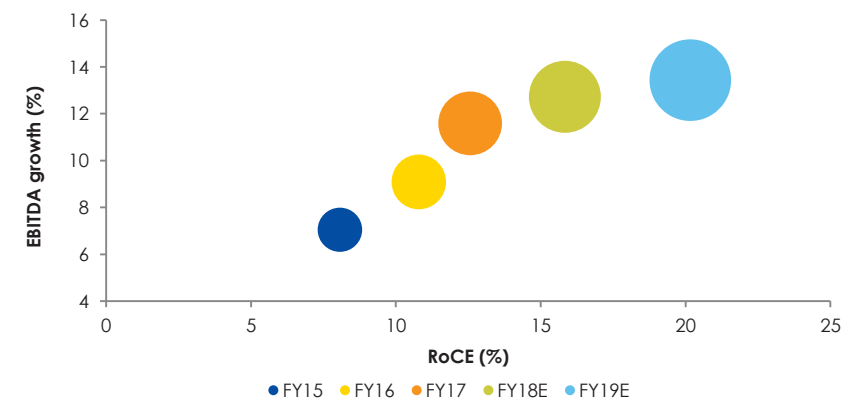
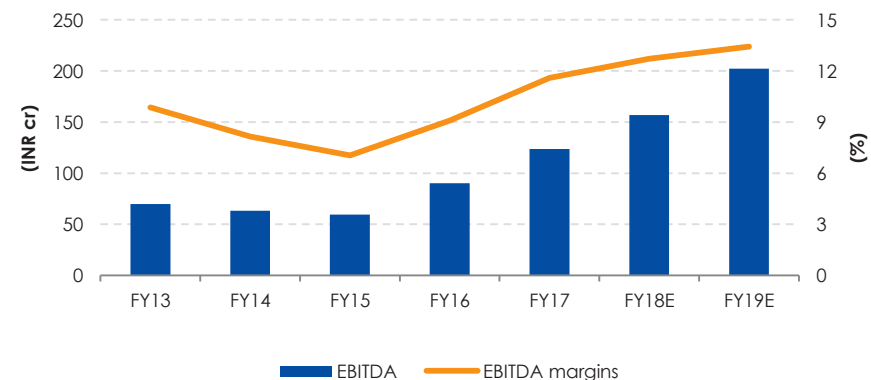
Capacity addition and improvement in utilisation drives revenue

AGL expected to increase its tiles sales volume by 16.7% CAGR over FY17-19E and improve its realisation by 1.6% over FY17-19E, results ~19% revenue CAGR during FY17-19E higher than industry's ~13% sales CAGR.



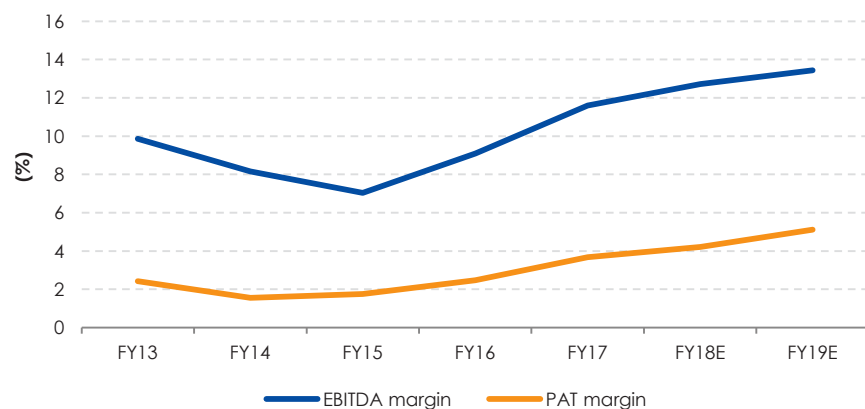
Low fuel cost, higher value-added products to boost operating margin

We estimate EBITDA margin to improve by ~180 bps over the next two years on account of benefits from merger, lower fuel cost and incremental value-added products in the portfolio. EBITDA is estimated to post CAGR of ~28% over FY17-19E.



Source: Company, Edelweiss Investment Research

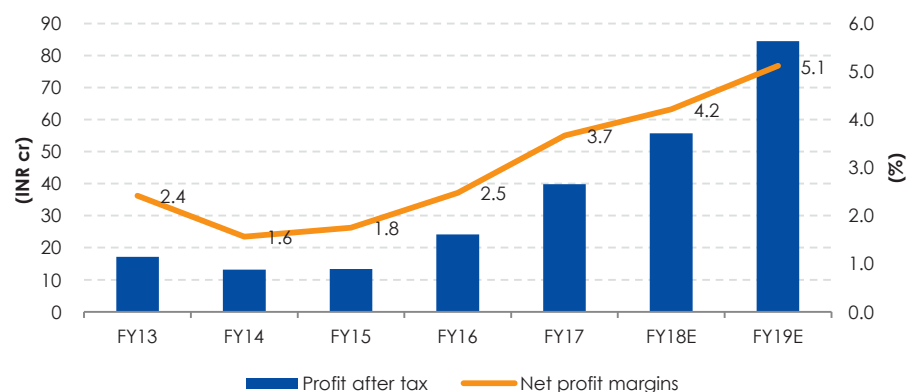
EBITDA and PAT margin improving



Robust PAT growth to sustain

With the healthy sales growth, margin improvement and restricted depreciation & interest expenses, expected to result a PAT CAGR of 45.7% over FY17-19E. PAT margin is estimated to improve from 3.7% in FY17 to 5.1% in FY19E.

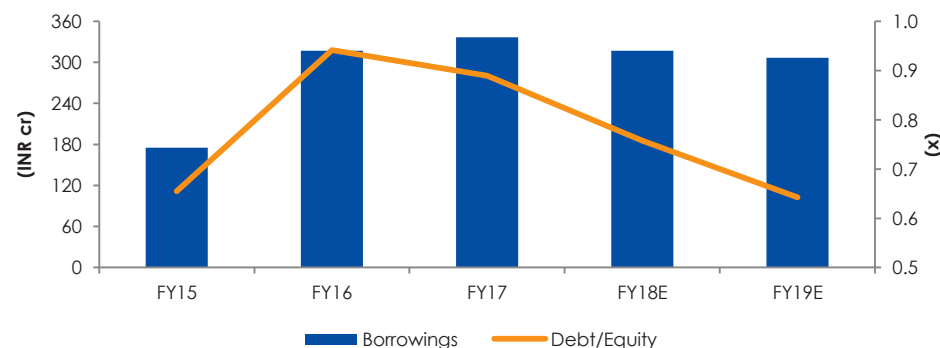
Net profit margin



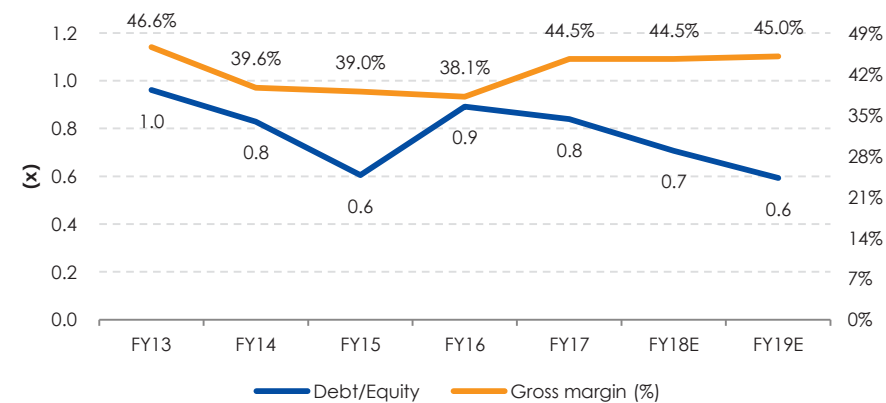
Debt to dip significantly

We estimate AGL's debt-equity ratio to improve to 0.6x in FY19E with positive free cash flow. Capacity expansion via the joint venture model will keep balance sheet stress free and help improve return ratios going forward.

Debt/Equity



Gross margin improving

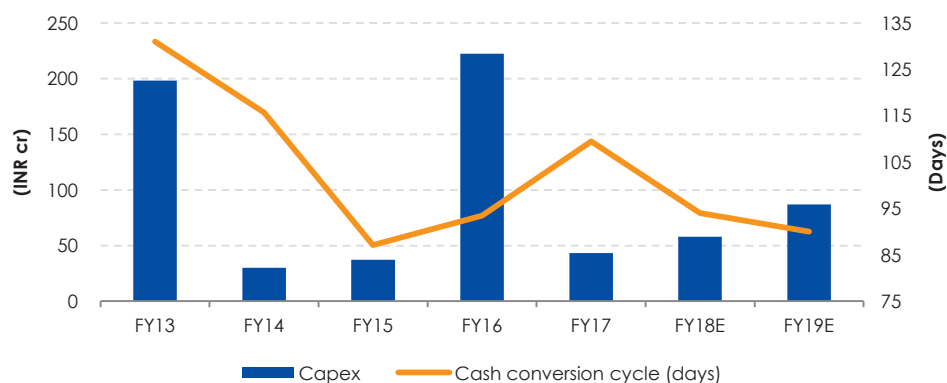


Source: Company, Edelweiss Investment Research

Lower capex & improving cash conversion cycle

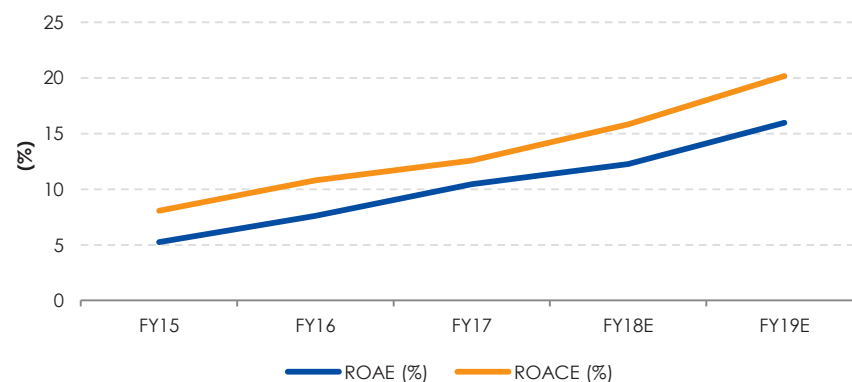
AGL's cash conversion cycle (days) have improved from 131 to 93 from FY13 to FY16 on account of improvement in product mix and expansion in distribution network, majorly with improvement in its debtors days.

We believe, there are still many untapped markets wherein AGL can extend its distribution reach. The company keeps dealers continuously motivated via attractive promotional schemes, apart from ensuring adequate stock levels and quick availability of products across range and designs, which is an advantage over competitors. This has resulted in AGL increasing its financially healthy dealers network, thereby keeping its working capital cycle largely under check. Apart from having an exhaustive and nation-wide dealer network, the company also has 182+ showrooms.

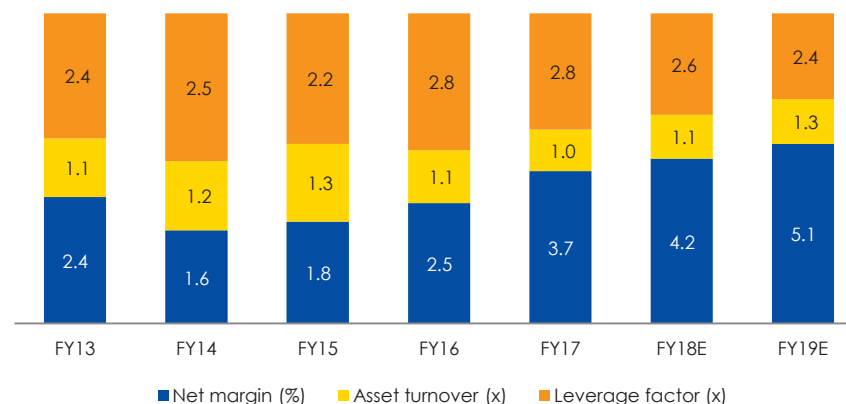


Return ratios to improve as utilisation picks up

With improving margin, we estimate AGL's RoCE and RoE to improve ~760 bps and 550 bps, respectively, over the next two years. We expect the company to clock higher RoCE on account of better product mix and lower operational cost.



DuPont Analysis



Source: Company, Edelweiss Investment Research

Financials

Income statement						(INR cr)						Balance sheet						(INR cr)						Ratios					
Year to March		FY15	FY16	FY17	FY18E	FY19E	As on 31st March		FY15	FY16	FY17	FY18E	FY19E	Year to March		FY15	FY16	FY17	FY18E	FY19E	Year to March		FY15	FY16	FY17	FY18E	FY19E		
Income from operations		846	994	1,066	1,233	1,505	Equity share capital		23	23	30	30	30	ROAE (%)		5.2	7.6	10.4	12.2	16.0	ROAE (%)		8.1	10.8	12.6	15.8	20.2		
Direct costs		667	743	733	834	1,006	Reserves & surplus		267	333	371	417	487	Debtors (days)		71	72	107	90	80	Current ratio		2.5	2.5	2.3	2.3	2.2		
Employee costs		44	59	71	83	101	Shareholders funds		290	363	401	448	517	Debt/Equity		0.6	0.9	0.8	0.7	0.6	Inventory (days)		82	90	94	84	80		
Other expenses		120	160	210	243	296	Borrowings		175	317	337	317	307	Payable (days)		67	69	91	80	70	Cash conversion cycle (days)		87	93	109	94	90		
Total operating expenses		786	904	942	1,077	1,303	Minority interest		0	19	22	22	22	Debt/EBITDA		2.9	3.5	2.7	2.0	1.5	Adjusted debt/Equity		0.6	0.8	0.8	0.7	0.6		
EBITDA		60	90	124	157	202	Sources of funds		465	699	760	786	846																
Depreciation and amortisation		19	28	34	38	42	Gross block		338	609	652	710	797																
EBIT		40	63	89	119	160	Depreciation		149	211	245	283	325																
Interest expenses		23	29	39	38	37	Net block		188	398	406	426	471																
Other income		1	1	4	3	3	Total fixed assets		203	398	406	426	471																
Profit before tax		19	35	53	83	126	Investments		11	13	17	17	17																
Provision for tax		6	11	13	27	42	Inventories		191	245	273	284	330																
Core profit		13	24	40	56	84	Sundry debtors		166	197	311	304	330																
Profit after tax		13	24	40	56	84	Cash and equivalents		15	17	19	23	-24																
Minority Interest		1	1	-1	-4	-8	Loans and advances		21	28	33	38	46																
Adjusted net profit		15	25	39	52	77	Other current assets		0	2	2	2	2																
Equity shares outstanding (mn)		2	2	3	3	3	Total current assets		392	489	638	651	684																
EPS (INR) basic		6.5	10.8	13.0	17.3	25.6	Sundry creditors and others		155	187	265	270	289																
Diluted shares (Cr)		2.3	2.3	3.0	3.0	3.0	Provisions		5	6	14	15	16																
EPS (INR) fully diluted		6.5	10.8	13.0	17.3	25.6	Total CL & provisions		159	193	279	285	304																
Dividend payout (%)		0.0	0.0	10.0	8.7	7.8	Net current assets		233	296	359	365	380																
							Misc expenditure		37	-8	-22	-22	-22																
Common size metrics- as % of net revenues							Uses of funds		465	699	760	786	846																
Year to March		FY15	FY16	FY17	FY18E	FY19E	Book value per share (INR)		128	158	133	149	172																
Operating expenses		93.0	90.9	88.4	87.3	86.6	Cash flow statement																						
Depreciation		2.3	2.8	3.2	3.1	2.8	Year to March		FY15	FY16	FY17	FY18E	FY19E																
Interest expenditure		2.7	2.9	3.7	3.1	2.5	Net profit		13	23	40	56	84																
EBITDA margins		7.0	9.1	11.6	12.7	13.4	Add: Depreciation		19	28	34	38	42																
Net profit margins		1.8	2.5	3.7	4.2	5.1	Add: Others		1	1	-1	-4	-8																
Growth metrics (%)							Gross cash flow		40	78	88	90	119																
Year to March		FY15	FY16	FY17	FY18E	FY19E	Less: Changes in W. C.		-44	61	62	2	61																
Revenues		9.1	17.5	7.2	15.7	22.0	Operating cash flow		84	18	26	87	58																
EBITDA		(5.7)	51.6	36.8	27.0	28.8	Less: Capex		37	222	43	58	87																
PBT		(12.5)	85.3	51.8	56.4	51.6	Free cash flow		47	-205	-17	29	-29																
Net profit		0.8	78.6	67.6	40.1	51.6																							
EPS		22.1	64.3	20.9	32.8	48.2																							

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Head Research

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Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate between 5-15% over a 12-month period
Reduce	Return below 5% over a 12-month period



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