# Asian Granito India Ltd.: Q3FY18 Result Update

## Strong volume growth continue

**CMP INR: 519**
**Rating: BUY**
**Target Price INR: 735**
**Upside: 42%**

**Asian Granito India Ltd. (AGL) has reported Q3FY18 revenues at INR 264cr (up 6.4% YoY), inline with our estimates. The sales growth was supported by strong growth in volume and restricted realisation correction, however, weak performance in marble business impacted consolidated sales. Gross margin were reported at ~51% (expanded by 20bps y-o-y). EBITDA at INR ~36cr up ~6% y-o-y inline with our estimate mainly due to expansion in the gross margin and higher sales. EBITDA margins were reported at 13.7% inline with our estimates. Reported PAT of INR ~13cr (down ~5% y-o-y) against our estimate of INR ~15cr, due to sequential increase in interest expenses and higher tax rate. We believe that there is volume & realisation improvement in coming years with the demand pickup and full GST implementation. We maintain 'BUY'.**

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### Strong volume growth, realisation down

The company has shown robust volume growth of 26% y-o-y in Q3FY18 (against Kajaria/Somani of 10%/6% volume growth, respectively), however, realization down by ~10% y-o-y due to correction in GVT prices due to non-compliance unorganized players' evasion of taxes post GST. The company has reported healthy volume growth in all three segments - own manufacturing (~17% y-o-y), outsourcing (~19% y-o-y) and associate business (~53% y-o-y). We believe that the impact due to evasion of taxes by unorganized players will subside with the full implementation of GST (E way bill etc) and thereafter, organized players likely to gain market-share and sustain realization as well.

### Expected price hike in tiles

The increase in gas price from ~INR 25/SCM to INR 30/SCM has little impacted on AGL's expenses in Q3FY18 as 1) its major gas requirement fulfilled from its long term contract 2) delay in price hike in state of gujarat. However, the full impact of gas price hike will be visible in Q4FY18. The management expected to take price hike in tiles in coming quarter to compensate the gas price hike, thus, we believe that AGL will maintain its margin.

### Focus of B2C segment with expanding distribution network & advertisement

AGL expected to improve its B2C sales contribution to >50% in coming years with increase in distribution network to 8,000 dealers network (2,000+ direct dealers) and 500+ retail stores from 5,780 dealers (1,120 direct dealers) and 206+ retail stores, respectively. The increase of dealer network has resulted healthy volume growth for the company in last 9M, which will further continue with expanding distribution network. Further, AGL is aggressively focusing on advertisement and promotions to drive the sales.

### Outlook and valuations: Positive; Re-iterate BUY

With GST rate revision for tiles to 18% from 28%, the player with less price differential with unorganized players, have wide distribution network and product portfolio is expected to gain from shift towards organized players, which is visible in AGL's number. We have tweaked our AGL's earnings estimate for FY18E/FY19E as per its 9MFY18 performance. We have introduced FY20 numbers and roll forward our target price to FY20E. We maintain our BUY rating on the stock with revised target price of INR 735, valuing at 25x FY20E earnings.

| Bloomberg: | ASIAN:IN |
|---|---|
| 52-week range (INR): | 618.15 / 265.10 |
| Share in issue (cr): | 3 |
| M cap (INR cr): | INR 1,557 |
| Avg. Daily Vol. BSE/NSE :('000): | 200 |
| Promoter Holding (%) | 32.6 |

| Year to March | Q3FY18 | Q3FY17 | % change | Q2FY18 | % change | FY17 | FY18E | FY19E |
|---|---|---|---|---|---|---|---|---|
| Net sales | 264 | 248 | 6.40% | 276 | -4.40% | 1,066 | 1,136 | 1,325 |
| Growth (%) | | | | | | 7.2% | 6.6% | 16.7% |
| EBITDA | 36 | 34 | 5.70% | 39 | -5.90% | 124 | 155 | 187 |
| PAT | 13 | 14 | -5.00% | 15 | -16.10% | 39 | 52 | 71 |
| Growth (%) | | | | | | 68% | 41% | 38% |
| Dil. EPS (INR) | 5.2 | 5.6 | | 7.8 | | 13 | 17.4 | 23.6 |
| Diluted P/E (x) | | | | | | 39.9 | 29.9 | 22 |
| ROACE (%) | | | | | | 12.6 | 15.7 | 18.7 |

Date: 14th February 2018

## Q3FY18 Result Highlights

| Particulars | Q3FY18 | Q3FY17 | % change | Q2FY18 | % change | 9MFY18 | 9MFY17 | % change |
|---|---|---|---|---|---|---|---|---|
| Income from operations | 264 | 248 | 6.4 | 276 | -4.4 | 765 | 731 | 4.7 |
| Direct costs | 129 | 122 | 5.9 | 143 | -9.8 | 390 | 386 | 0.9 |
| Employee expenses | 19 | 15 | 26.0 | 22 | -13.5 | 61 | 45 | 34.6 |
| Other expenses | 79 | 76 | 3.4 | 72 | 10.1 | 210 | 207 | 1.8 |
| Total operating expenses | 228 | 214 | 6.5 | 237 | -4.1 | 661 | 638 | 3.6 |
| EBITDA | 36 | 34 | 5.7 | 39 | -5.9 | 104 | 93 | 12.5 |
| Depreciation and amortisation | 6.0 | 6 | -2.0 | 5 | 19.5 | 18 | 18 | 2.8 |
| EBIT | 30 | 28 | 7.4 | 34 | -9.7 | 86 | 75 | 14.7 |
| Interest expenses | 11 | 12 | -7.8 | 9 | 21.0 | 28 | 30 | -5.4 |
| Other income | 1 | 0 | 151.6 | 1 | -47.9 | 2 | 1 | 296.9 |
| Profit before tax | 20 | 17 | 20.4 | 26 | -22.2 | 60 | 46 | 31.7 |
| Provision for tax | 7 | 3 | | 11 | | 21 | 15 | |
| Core profit | 13 | 14 | -5.0 | 15 | -16.1 | 39 | 31 | 26.5 |
| Extraordinary items | 0 | 0 | | 0 | | | | |
| Adjusted net profit | 13 | 14 | -5.0 | 15 | -16.1 | 39 | 31 | 26.5 |
| Equity capital (FV INR 10) | 30 | 30 | | 30 | | 30 | 30 | |
| No. of shares (Cr) | 3 | 3 | | 3 | | 3 | 3 | |
| Diluted EPS (INR) | 4.3 | 4.5 | -5.0 | 5.1 | -16.1 | 12.9 | 10.2 | 26.5 |

### Revised estimates

| (INR cr) | FY18E | | | FY19E | | |
|---|---|---|---|---|---|---|
| | Old | Revised | Change (%) | Old | Revised | Change (%) |
| Net sales | 1,169 | 1,136 | -2.8 | 1,404 | 1,325 | -5.6 |
| EBITDA | 156 | 155 | -0.9 | 198 | 187 | -5.5 |
| *EBITDA margin (%)* | *13.3* | *13.6* | | *14.1* | *14.1* | |
| PBT | 82 | 84 | 1.6 | 124 | 116 | -6.7 |
| *PBT margin* | *7.0* | *7.4* | | *8.8* | *8.7* | |
| Net profit | 55 | 56 | 1.6 | 83 | 78 | -6.7 |
| Adj EPS (Rs) | 17.1 | 17.4 | 1.7 | 25.1 | 23.6 | -6.0 |

# Asian Granito India Ltd.

## Business Overview:

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. 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.

**Improvement in owned capacity & utilisation**

AGL is the fourth 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 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).

**Shifting focus from B2B to B2C business through strengthening its distribution network & brand**

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. 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).

**Return ratios set to improve significantly**

With improving margin, we estimate AGL's RoCE and RoE to improve ~760 bps and 550 bps, respectively, over the next two years to reach 20% and 16% respectively. We expect the company to clock higher RoCE on account of better product mix and lower operational cost.

## Key Risks

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

## Financials

| Income statement | | | | | (INR Cr) |
|---|---|---|---|---|---|
| Year to March | FY16 | FY17 | FY18E | FY19E | FY20E |
| Income from operations | 994 | 1,066 | 1,136 | 1,325 | 1,511 |
| Direct costs | 743 | 733 | 758 | 878 | 1,002 |
| Employee costs | 59 | 71 | 82 | 95 | 109 |
| Other expenses | 160 | 210 | 223 | 260 | 296 |
| Total operating expenses | 904 | 942 | 981 | 1,139 | 1,297 |
| EBITDA | 90 | 124 | 155 | 187 | 214 |
| Depreciation and amortisation | 28 | 34 | 37 | 39 | 44 |
| EBIT | 63 | 89 | 118 | 148 | 170 |
| Interest expenses | 29 | 39 | 38 | 37 | 35 |
| Other income | 1 | 4 | 4 | 5 | 5 |
| Profit before tax | 35 | 53 | 84 | 116 | 140 |
| Provision for tax | 11 | 13 | 28 | 38 | 46 |
| Core profit | 24 | 40 | 56 | 78 | 94 |
| Extraordinary items | 0 | 0 | 0 | 0 | 0 |
| Profit after tax | 24 | 40 | 56 | 78 | 94 |
| Minority Interest | 1 | -1 | -4 | -7 | -7 |
| Share from associates | 0 | 0 | 0 | 0 | 0 |
| Adjusted net profit | 25 | 39 | 52 | 71 | 87 |
| Equity shares outstanding (mn) | 2 | 3 | 3 | 3 | 3 |
| EPS (INR) basic | 10.8 | 13.0 | 17.4 | 23.6 | 29.0 |
| Diluted shares (Cr) | 2.3 | 3.0 | 3.0 | 3.0 | 3.0 |
| EPS (INR) fully diluted | 10.8 | 13.0 | 17.4 | 23.6 | 29.0 |
| Dividend per share | 0.0 | 1.3 | 1.5 | 2.0 | 2.0 |
| Dividend payout (%) | 0.0 | 10.0 | 8.6 | 8.5 | 6.9 |

| Common size metrics- as % of net revenues | | | | | |
|---|---|---|---|---|---|
| Year to March | FY16 | FY17 | FY18E | FY19E | FY20E |
| Operating expenses | 90.9 | 88.4 | 86.4 | 85.9 | 85.8 |
| Depreciation | 2.8 | 3.2 | 3.2 | 2.9 | 2.9 |
| Interest expenditure | 2.9 | 3.7 | 3.4 | 2.8 | 2.3 |
| EBITDA margins | 9.1 | 11.6 | 13.6 | 14.1 | 14.2 |
| Net profit margins | 2.5 | 3.7 | 4.6 | 5.4 | 5.8 |

| Growth metrics (%) | | | | | |
|---|---|---|---|---|---|
| Year to March | FY16 | FY17 | FY18E | FY19E | FY20E |
| Revenues | 17.5 | 7.2 | 6.6 | 16.7 | 14.1 |
| EBITDA | 51.6 | 36.8 | 25.2 | 20.7 | 14.7 |
| PBT | 85.3 | 51.8 | 57.3 | 38.3 | 20.9 |
| Net profit | 78.6 | 67.6 | 40.8 | 38.3 | 20.9 |
| EPS | 64.3 | 20.9 | 33.6 | 35.9 | 22.8 |

| Ratios | | | | | |
|---|---|---|---|---|---|
| Year to March | FY16 | FY17 | FY18E | FY19E | FY20E |
| ROAE (%) | 7.6 | 10.4 | 12.3 | 14.8 | 15.8 |
| ROACE (%) | 10.8 | 12.6 | 15.7 | 18.7 | 20.0 |
| Debtors (days) | 72 | 107 | 90 | 80 | 80 |
| Current ratio | 2.5 | 2.3 | 2.4 | 2.4 | 2.3 |
| Debt/Equity | 0.9 | 0.8 | 0.7 | 0.6 | 0.5 |
| Inventory (days) | 90 | 94 | 84 | 80 | 80 |
| Payable (days) | 69 | 91 | 80 | 70 | 70 |
| Cash conversion cycle (days) | 93 | 109 | 94 | 90 | 90 |
| Debt/EBITDA | 3.5 | 2.7 | 2.0 | 1.6 | 1.3 |
| Adjusted debt/Equity | 0.8 | 0.8 | 0.6 | 0.6 | 0.5 |

| Valuation parameters | | | | | |
|---|---|---|---|---|---|
| Year to March | FY16 | FY17 | FY18E | FY19E | FY20E |
| Diluted EPS (INR) | 10.8 | 13.0 | 17.4 | 23.6 | 29.0 |
| *Y-o-Y growth (%)* | *64.3* | *20.9* | *33.6* | *35.9* | *22.8* |
| CEPS (INR) | 23.0 | 24.5 | 29.5 | 36.6 | 43.6 |
| Diluted P/E (x) | 48.3 | 39.9 | 29.9 | 22.0 | 17.9 |
| Price/BV (x) | 3.3 | 3.9 | 3.5 | 3.1 | 2.6 |
| EV/Sales (x) | 1.5 | 1.8 | 1.6 | 1.4 | 1.2 |
| EV/EBITDA (x) | 16.3 | 15.2 | 11.8 | 9.9 | 8.6 |
| Diluted shares O/S | 2.3 | 3.0 | 3.0 | 3.0 | 3.0 |
| Basic EPS | 10.8 | 13.0 | 17.4 | 23.6 | 29.0 |
| Basic PE (x) | 48.3 | 39.9 | 29.9 | 22.0 | 17.9 |
| Dividend yield (%) | 0.0 | 0.3 | 0.3 | 0.4 | 0.4 |

| Balance sheet | | | | | (INR cr) |
|---|---|---|---|---|---|
| As on 31st March | FY16 | FY17 | FY18E | FY19E | FY20E |
| Equity share capital | 23 | 30 | 30 | 30 | 30 |
| Preference Share Capital | 8 | 0 | 0 | 0 | 0 |
| Reserves & surplus | 333 | 371 | 418 | 482 | 562 |
| Shareholders funds | 363 | 401 | 448 | 512 | 592 |
| Secured loans | 256 | 127 | 0 | 0 | 0 |
| Unsecured loans | 61 | 209 | 0 | 0 | 0 |
| Borrowings | 317 | 337 | 317 | 307 | 287 |
| Minority interest | 19 | 22 | 22 | 22 | 22 |
| **Sources of funds** | **699** | **760** | **787** | **840** | **900** |
| Gross block | 609 | 652 | 708 | 792 | 861 |
| Depreciation | 211 | 245 | 282 | 321 | 365 |
| Net block | 398 | 406 | 426 | 471 | 496 |
| Capital work in progress | 0 | 0 | 0 | 0 | 0 |
| Total fixed assets | 398 | 406 | 426 | 471 | 496 |
| Unrealised profit | 0 | 0 | 0 | 0 | 0 |
| Investments | 13 | 17 | 17 | 17 | 17 |
| Inventories | 245 | 273 | 261 | 290 | 331 |
| Sundry debtors | 197 | 311 | 280 | 290 | 331 |
| Cash and equivalents | 17 | 19 | 51 | 21 | 5 |
| Loans and advances | 28 | 33 | 35 | 41 | 46 |
| Other current assets | 2 | 2 | 2 | 2 | 2 |
| Total current assets | 489 | 638 | 630 | 644 | 716 |
| Sundry creditors and others | 187 | 265 | 249 | 254 | 290 |
| Provisions | 6 | 14 | 15 | 16 | 16 |
| Total CL & provisions | 193 | 279 | 264 | 270 | 306 |
| Net current assets | 296 | 359 | 366 | 375 | 410 |
| Net Deferred tax | 0 | 0 | 0 | 0 | 0 |
| Misc expenditure | -8 | -22 | -22 | -22 | -22 |
| **Uses of funds** | **699** | **760** | **787** | **840** | **900** |
| Book value per share (INR) | 158 | 133 | 149 | 170 | 197 |
| | 0 | 0 | 0 | 0 | 0 |

| Cash flow statement | | | | | |
|---|---|---|---|---|---|
| Year to March | FY16 | FY17 | FY18E | FY19E | FY20E |
| Net profit | 23 | 40 | 56 | 78 | 94 |
| Add: Depreciation | 28 | 34 | 37 | 39 | 44 |
| Add: Misc expenses written off | 45 | 14 | 0 | 0 | 0 |
| Add: Deferred tax | -18 | 0 | 0 | 0 | 0 |
| Add: Others | 1 | -1 | -4 | -7 | -7 |
| Gross cash flow | 78 | 88 | 89 | 110 | 131 |
| Less: Changes in W. C. | 61 | 62 | -26 | 39 | 51 |
| Operating cash flow | 18 | 26 | 114 | 71 | 80 |
| Less: Capex | 222 | 43 | 57 | 84 | 69 |
| **Free cash flow** | **-205** | **-17** | **58** | **-13** | **11** |

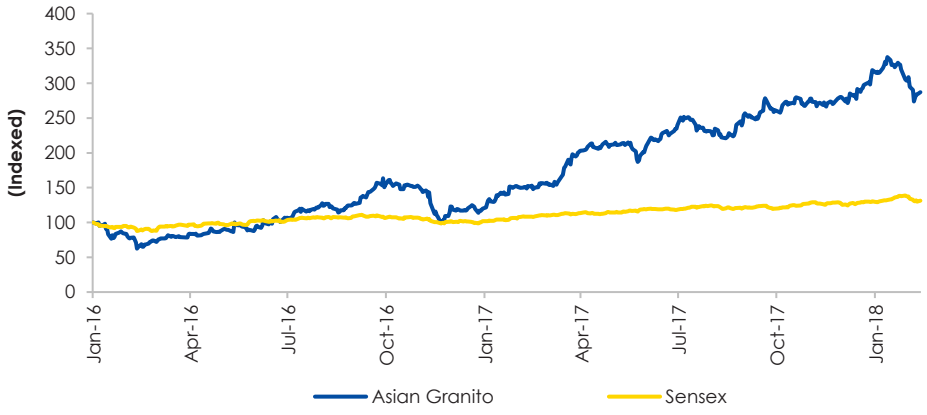
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| Rating | Expected to |
|---|---|
| **Buy** | appreciate more than 15% over a 12-month period |
| **Hold** | appreciate between 5-15% over a 12-month period |
| **Reduce** | Return below 5% over a 12-month period |



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