

Asian Granito

Performance Highlights

Quarterly Data

| (₹ cr) | 2QFY17 | 2QFY16 | % yoy | 1QFY17 | % qoq |
|------------|--------|--------|-------|--------|-------|
| Revenue | 265 | 250 | 6.1 | 213 | 24.7 |
| EBITDA | 31 | 22 | 43.6 | 25 | 26.0 |
| Margin (%) | 11.8 | 8.7 | 308bp | 11.7 | 12bp |
| Adj. PAT | 10 | 6 | 56.4 | 6 | 53.3 |

Source: Company, Angel Research

For 2QFY2017, Asian Granito's results have come in line with our estimates on the bottom-line front while the top-line front disappointed. Revenues grew by ~6% yoy, which is lower than our estimate. On the operating front, the company reported margin improvement, primarily on account of lower power & fuel cost. Further, on the bottom-line front, the company reported strong growth on account of a favorable operating performance.

Volumes grew 6%: The company's top-line grew by ~6% yoy to ₹265cr (which is below our estimate of ₹296cr) on back of volume growth of 6% yoy. Going forward, the management expects improvement in sales on back of rival in industry.

Strong operating performance boosts profitability: On the operating front, the company's margin improved by 308bp yoy to 11.8%, primarily on account of lower power & fuel cost (due to recent merger with Artistique Ceramics, which has gas supply contract with ONGC in lower prices). The company reported ~56% yoy rise in its net profit to ₹10cr on back of the strong operating performance.

Outlook and valuation

Considering the various initiatives taken by the government like smart cities, housing for all by 2022, and push towards providing sanitation would create a new demand avenue for entry level or lower priced tiles (ceramic tiles). We expect AGIL to report net revenue CAGR of ~9% to ~ ₹1,182cr over FY2016-18E. On the bottom-line front, we expect CAGR of ~39% to ₹48cr over FY2016-18E, owing to better product mix, higher B2C sales and amalgamation synergy.

Hence, we recommend a BUY rating on the stock.

Key financials (Consolidated)

| Y/E March (₹ cr) | FY2015 | FY2016 | FY2017E | FY2018E |
|-------------------|--------|--------|---------|---------|
| Net sales | 842 | 994 | 1,071 | 1,182 |
| % chg | 9.0 | 18.1 | 7.7 | 10.3 |
| Net profit | 15 | 25 | 38 | 48 |
| % chg | 14.5 | 24.8 | 38.3 | 48.0 |
| EBITDA margin (%) | 7.2 | 9.1 | 12.1 | 12.4 |
| EPS (₹) | 4.8 | 8.2 | 12.7 | 16.0 |
| P/E (x) | 56.6 | 33.1 | 21.4 | 17.1 |
| P/BV (x) | 2.8 | 2.3 | 2.0 | 1.8 |
| RoE (%) | 5.0 | 6.8 | 9.5 | 10.7 |
| RoCE (%) | 9.0 | 9.0 | 12.2 | 13.9 |
| EV/Sales (x) | 1.2 | 1.1 | 1.1 | 0.9 |
| EV/EBITDA (x) | 15.9 | 12.5 | 8.8 | 7.5 |

Source: Company, Angel Research, Note: CMP as of October 27, 2016

BUY

| | |
|--------------|------|
| CMP | ₹273 |
| Target Price | ₹351 |

| | |
|-------------------|-----------|
| Investment Period | 12 months |
|-------------------|-----------|

Stock Info

| | |
|--------------------|----------|
| Sector | Ceramics |
| Market Cap (₹ cr) | 820 |
| Net Debt (₹ cr) | 304 |
| Beta | 1.3 |
| 52 Week High / Low | 304/109 |
| Avg. Daily Volume | 88,577 |
| Face Value (₹) | 10 |
| BSE Sensex | 27,916 |
| Nifty | 8,615 |
| Reuters Code | ASGI.BO |
| Bloomberg Code | ASIAN.IN |

Shareholding Pattern (%)

| | |
|-------------------------|------|
| Promoters | 37.5 |
| MF / Banks / Indian Fls | 0.8 |
| FII / NRIs / OCBs | 0.1 |
| Indian Public / Others | 61.6 |

| Abs. (%) | 3m | 1yr | 3yr |
|----------|-------|------|--------|
| Sensex | (0.4) | 7.1 | 35.7 |
| GWRL | 25.3 | 58.3 | 1030.1 |

3-year price chart



Source: Company, Angel Research

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Exhibit 1: Quarterly performance

| Y/E March (₹ cr) | 2QFY17 | 2QFY16 | % yoy | 1QFY17 | % qoq | 1HFY17 | 1HFY16 | % chg |
|------------------------------|-------------|------------|-------------|------------|-------------|-------------|------------|-------------|
| Net Sales | 265 | 250 | 6.1 | 213 | 24.7 | 478 | 449 | 6.6 |
| Consumption of RM | 149 | 143 | 4.3 | 111 | 34.2 | 260 | 269.32 | (3.6) |
| (% of Sales) | 56.0 | 57.0 | | 52.1 | | 54.3 | 60.0 | |
| Staff Costs | 16 | 16 | 2.6 | 15 | 4.5 | 31 | 28 | 13.6 |
| (% of Sales) | 6.0 | 6.2 | | 7.2 | | 6.6 | 6.2 | |
| Power, Oil & Fuel | 30 | 40 | | 34.8 | | 64.7 | 64.5 | |
| (% of Sales) | 11.3 | 16.0 | | 16.3 | | 13.5 | 14.4 | |
| Other Expenses | 40 | 30 | 31.5 | 27 | 46.4 | 67 | 51 | 30.0 |
| (% of Sales) | 14.9 | 12.0 | | 12.7 | | 13.9 | 11.4 | |
| Total Expenditure | 234 | 228 | 2.5 | 188 | 24.6 | 422 | 413 | 2.3 |
| Operating Profit | 31 | 22 | 43.6 | 25 | 26.0 | 56 | 36 | 55.8 |
| OPM | 11.8 | 8.7 | | 11.7 | | 11.7 | 8.0 | |
| Interest | 10 | 8 | 35.4 | 8 | 29.3 | 18 | 13 | 42.8 |
| Depreciation | 9 | 7 | 30.5 | 9 | 3.0 | 18 | 12 | 51.0 |
| Other Income | 0 | 1 | (85.8) | 0 | (55.0) | 0 | 1 | (62.0) |
| PBT (excl. Ext Items) | 12.0 | 8 | 52.7 | 8 | 45.4 | 20 | 12 | 66.6 |
| Ext (Income)/Expense | - | - | | | | - | - | |
| PBT (incl. Ext Items) | 12 | 8 | 52.7 | 8 | 45.4 | 20 | 12 | 66.6 |
| (% of Sales) | 4.5 | 3.2 | | 3.9 | | 4.2 | 2.7 | |
| Provision for Taxation | 2 | 2 | | 2 | | 5 | 3 | 56.8 |
| (% of PBT) | 18.5 | 19.6 | | 28.7 | | 23 | 24 | |
| Reported PAT | 10 | 6 | 54.8 | 6 | 66.3 | 16 | 9 | 69.7 |
| PATM | 3.7 | 2.5 | | 2.8 | | 3.3 | 2.1 | |
| Minority Interest After NP | 1 | 1 | | 0 | | 1 | 1 | |
| Profit | 1 | 0 | | 1 | | 2 | 0 | |
| Reported PAT | 10 | 6 | 56.4 | 6 | 53.3 | 15.9 | 9.1 | 74.6 |
| Equity shares (cr) | 15 | 15 | | 15 | 15 | 15 | 15 | |
| FDEPS (₹) | 0.6 | 0.4 | 56.4 | 0.4 | 53.3 | 1.1 | 0.6 | 74.6 |

Source: Company, Angel Research

Investment rationale

Focus on high value product

AGIL's current vitrified sales (35%) are lower as compared to its peers like Somany Ceramics (47%) and Kajaria Ceramics (61%). Recently, AGIL has launched various products in premium segments like Imperio, Jumbo – Double Charge, CARARRA White, XXL – Polished Glazed Vitrified Tiles, Polished Vitrified Tiles (Double Charge) etc. Going forward, we expect AGIL's profit margin to improve due to increase in focus for higher vitrified product sales, which is a high margin business.

Shift from B2B to B2C would improve the margin

AGIL is continuously putting efforts to increase the B2C sales from the current level (35% in FY16). It is expected to reach up to 50% in next 2-3 years on the back of various initiatives taken by AGIL to increase direct interaction with customers like strengthening distribution network, opening exclusive brand showrooms, trade schemes on high value products, participation in key trade exhibition, etc.

Strengthening distribution network

AGIL has an extensive marketing and distribution network. It comprises of more than 4,500 dealers and sub-dealers (~27% grew over last two years) and more than 80 exclusive dealer showrooms covering each and every state of the country. This helps the company in promoting its range of products in the market and hence is planning to open 200 more exclusive dealer showrooms. Going forward, we expect the company to continue to expand its network through dealers & sub-dealers. Also, the company is opening 16 large format exclusive corporate display stores for dealers and architects.

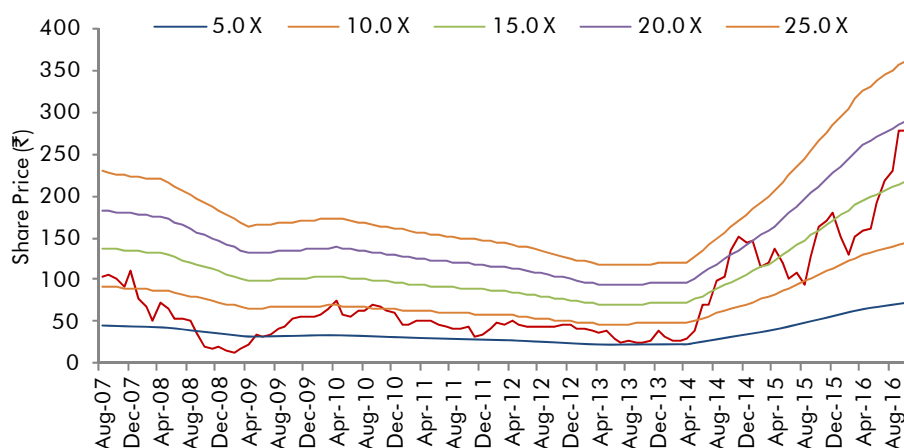
Artistique Ceramic merger to boost margins

In July FY2016, AGIL acquired Artistique Ceramic which has a better margin profile. Going forward, we expect the company to improve its operating margin from 7.5% in FY16 (excluding merger) to 12-12.5% in coming financial year. Artistique Ceramics has a contract with RAS GAS to supply quality natural gas at a discounted rate of 50% to current market rate, which would reduce the overall power & fuel cost of the company.

Outlook and valuation

Considering the various initiatives taken by the government like smart cities, housing for all by 2022, and push towards providing sanitation would create a new demand avenue for entry level or lower priced tiles (ceramic tiles). We expect AGIL to report net revenue CAGR of ~9% to ~₹1,182cr over FY2016-18E. On the bottom-line front, we expect CAGR of ~39% to ₹48cr over FY2016-18E, owing to better product mix, higher B2C sales and amalgamation synergy. **Hence, we recommend a BUY rating on the stock.**

Exhibit 2: One-year forward P/E band



Source: Company, Angel Research

Company Background

Asian Granito India (AGIL) is an India-based tiles manufacturing company. The company is engaged in the manufacture and sale of ceramic wall, ceramic floor, vitrified tiles, digital polished glazed vitrified tiles, digital wall tiles, marble, and quartz. The company operates two business segments: tiles and marble and quartz. The company manufactures tiles in multiple sizes and offers more than 1,200 designs. The company exports its products in 50+ countries like North America, Europe, Africa, UAE, Australia, East Asia, Middle East, etc. It has eight manufacturing facilities spread across Gujarat. Currently, the company has combined capacity of 100,000 Sq. mtrs per day.

Consolidated Profit & Loss Statement

| Y/E March (₹ cr) | FY2014 | FY2015 | FY2016 | FY2017E | FY2018E |
|---------------------------------------|------------|------------|------------|--------------|--------------|
| Total operating income | 772 | 842 | 994 | 1,071 | 1,182 |
| % chg | 9.0 | 9.0 | 18.1 | 7.7 | 10.3 |
| Total Expenditure | 708 | 781 | 904 | 941 | 1,035 |
| Cost of Materials | 480 | 534 | 615 | 659 | 723 |
| Personnel | 37 | 42 | 59 | 66 | 77 |
| Power, Oil & Fuel | 116 | 131 | 128 | 107 | 118 |
| Others Expenses | 74 | 74 | 102 | 109 | 117 |
| EBITDA | 64 | 61 | 90 | 130 | 147 |
| % chg | (8.2) | (5.1) | 48.4 | 43.5 | 13.1 |
| (% of Net Sales) | 8.3 | 7.2 | 9.1 | 12.1 | 12.4 |
| Depreciation & Amortisation | 22 | 19 | 28 | 37 | 39 |
| EBIT | 43 | 42 | 63 | 93 | 107 |
| % chg | (11.7) | (1.6) | 50.0 | 47.9 | 15.6 |
| (% of Net Sales) | 5.5 | 5.0 | 6.3 | 8.7 | 9.1 |
| Interest & other Charges | 21 | 23 | 29 | 39 | 39 |
| Other Income | 1 | 1 | 1 | 2 | 2 |
| (% of PBT) | 5.7 | 4.7 | 3.9 | 2.7 | 2.2 |
| Share in profit of Associates | - | - | - | - | - |
| Recurring PBT | 23 | 20 | 35 | 55 | 70 |
| % chg | (10.7) | (11.3) | 74.2 | 58.4 | 25.8 |
| Prior Period & Extraord. Exp./ (Inc.) | - | - | - | - | - |
| PBT (reported) | 23 | 20 | 35 | 55 | 70 |
| Tax | 8 | 6 | 11 | 18 | 22 |
| (% of PBT) | 37.1 | 27.9 | 32.2 | 32.0 | 32.0 |
| PAT (reported) | 14 | 15 | 24 | 38 | 47 |
| Add: Share of earnings of asso. | - | - | 2 | 2 | 2 |
| Less: Minority interest (MI) | - | - | 2 | 2 | 2 |
| Extraordinary Items | | | (1) | | |
| PAT after MI (reported) | 14 | 15 | 25 | 38 | 48 |
| % chg | (16.7) | 1.7 | 70.9 | 54.6 | 25.4 |
| (% of Net Sales) | 1.8 | 1.7 | 2.5 | 3.6 | 4.1 |
| Basic EPS (₹) | 4.7 | 4.8 | 8.2 | 12.7 | 16.0 |
| Fully Diluted EPS (₹) | 4.7 | 4.8 | 8.2 | 12.7 | 16.0 |
| % chg | (16.7) | 1.7 | 70.9 | 54.6 | 25.4 |

Consolidated Balance Sheet

| Y/E March (₹ cr) | FY2014 | FY2015 | FY2016 | FY2017E | FY2018E |
|-----------------------------|------------|------------|------------|------------|------------|
| SOURCES OF FUNDS | | | | | |
| Equity Share Capital | 23 | 23 | 23 | 30 | 30 |
| Reserves & Surplus | 253 | 267 | 341 | 371 | 419 |
| Shareholders Funds | 275 | 290 | 363 | 401 | 450 |
| Minority Interest | - | - | 19 | 19 | 19 |
| Total Loans | 228 | 175 | 335 | 359 | 320 |
| Deferred Tax Liability | 17 | 18 | 30 | 30 | 30 |
| Total Liabilities | 520 | 483 | 747 | 809 | 818 |
| APPLICATION OF FUNDS | | | | | |
| Gross Block | 308 | 338 | 603 | 643 | 663 |
| Less: Acc. Depreciation | 131 | 149 | 211 | 248 | 287 |
| Net Block | 178 | 188 | 392 | 395 | 376 |
| Capital Work-in-Progress | 7 | 15 | 6 | 6 | 6 |
| Investments | 13 | 11 | 13 | 13 | 13 |
| Current Assets | 488 | 438 | 539 | 614 | 668 |
| Inventories | 207 | 191 | 245 | 270 | 298 |
| Sundry Debtors | 191 | 166 | 197 | 211 | 230 |
| Cash | 19 | 15 | 17 | 25 | 34 |
| Loans & Advances | 21 | 21 | 30 | 54 | 59 |
| Other Assets | 49 | 46 | 50 | 54 | 47 |
| Current liabilities | 165 | 168 | 203 | 219 | 245 |
| Net Current Assets | 323 | 270 | 336 | 395 | 423 |
| Deferred Tax Asset | - | - | - | - | - |
| Mis. Exp. not written off | - | - | - | - | - |
| Total Assets | 520 | 483 | 747 | 809 | 818 |

Consolidated Cash flow

| Y/E March (₹ cr) | FY2014 | FY2015 | FY2016 | FY2017E | FY2018E |
|----------------------------------|-------------|-------------|--------------|-------------|-------------|
| Profit before tax | 22 | 19 | 35 | 55 | 70 |
| Depreciation | 22 | 19 | 28 | 37 | 39 |
| Change in Working Capital | 6 | 49 | (64) | (51) | (20) |
| Interest / Dividend (Net) | 21 | 23 | 29 | 39 | 39 |
| Direct taxes paid | (8) | (6) | (5) | (18) | (22) |
| Others | (0) | 0 | (1) | 1 | 1 |
| Cash Flow from Operations | 62 | 104 | 21 | 63 | 107 |
| (Inc.)/ Dec. in Fixed Assets | (23) | (30) | (224) | (40) | (20) |
| (Inc.)/ Dec. in Investments | 5 | 2 | (3) | - | - |
| Cash Flow from Investing | (29) | (33) | (221) | (40) | (20) |
| Issue of Equity | 4 | - | 8 | - | - |
| Inc./ (Dec.) in loans | (24) | (53) | 160 | 24 | (39) |
| Dividend Paid (Incl. Tax) | - | - | - | - | - |
| Interest / Dividend (Net) | (24) | (23) | 36 | (39) | (39) |
| Cash Flow from Financing | (43) | (76) | 203 | (15) | (78) |
| Inc./ (Dec.) in Cash | (10) | (4) | 3 | 8 | 9 |
| Opening Cash balances | 29 | 19 | 15 | 17 | 25 |
| Closing Cash balances | 19 | 15 | 17 | 25 | 34 |

Key Ratio

| Y/E March | FY2014 | FY2015 | FY2016 | FY2017E | FY2018E |
|------------------------------|--------|--------|--------|---------|---------|
| Valuation Ratio (x) | | | | | |
| P/E (on FDEPS) | 57.5 | 56.6 | 33.1 | 21.4 | 17.1 |
| P/CEPS | 22.9 | 24.5 | 16.0 | 11.0 | 9.5 |
| P/BV | 3.0 | 2.8 | 2.3 | 2.0 | 1.8 |
| Dividend yield (%) | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| EV/Sales | 1.3 | 1.2 | 1.1 | 1.1 | 0.9 |
| EV/EBITDA | 15.9 | 15.9 | 12.5 | 8.8 | 7.5 |
| EV / Total Assets | 1.5 | 1.5 | 1.2 | 1.1 | 1.0 |
| Per Share Data (₹) | | | | | |
| EPS (Basic) | 4.7 | 4.8 | 8.2 | 12.7 | 16.0 |
| EPS (fully diluted) | 4.7 | 4.8 | 8.2 | 12.7 | 16.0 |
| Cash EPS | 11.9 | 11.1 | 17.0 | 24.7 | 28.8 |
| DPS | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Book Value | 91.5 | 96.3 | 120.7 | 133.4 | 149.4 |
| Returns (%) | | | | | |
| ROCE | 8.4 | 9.0 | 9.0 | 12.2 | 13.9 |
| Angel ROIC (Pre-tax) | 9.0 | 9.5 | 9.4 | 12.9 | 14.9 |
| ROE | 5.2 | 5.0 | 6.8 | 9.5 | 10.7 |
| Turnover ratios (x) | | | | | |
| Asset Turnover (Gross Block) | 2.5 | 2.5 | 1.6 | 1.7 | 1.8 |
| Inventory / Sales (days) | 98 | 83 | 90 | 92 | 92 |
| Receivables (days) | 90 | 72 | 72 | 72 | 71 |
| Payables (days) | 68 | 61 | 57 | 53 | 52 |
| WC cycle (ex-cash) (days) | 121 | 94 | 105 | 111 | 111 |

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Asian Granito

| | |
|---|----|
| 1. Financial interest of research analyst or Angel or his Associate or his relative | No |
| 2. Ownership of 1% or more of the stock by research analyst or Angel or associates or relatives | No |
| 3. Served as an officer, director or employee of the company covered under Research | No |
| 4. Broking relationship with company covered under Research | No |

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)