

Dear Member,

We are pleased to inform you that Value Pick of Oct 2017 is released by our team today on 26th Nov 2017. Value Pick stock of the month is Asian Granito India Ltd (**BSE Code: 532888, NSE Code: ASIANTILES**). Asian Granito India Ltd has a market capital of Rs. 1482 crores and operates in tiles & granite sector.

1. Company Background:

Asian Granito was incorporated in 2000 by Gujarat-based entrepreneurs Mr. Kamlesh Patel and Mr. Mukesh Patel. The company is the fourth largest tiles manufacturer in India. The company operates in two business segments: i) tiles and ii) marble and quartz. Asian Granito manufactures ceramic wall & floor tiles and digital/ polished/glazed vitrified tiles, it also manufactures marble & quartz. The company manufactures tiles in multiple sizes and offers more than 1,200 designs. The company exports its products to more than 53 countries like North America, Europe, Africa, UAE, Australia, East Asia, Middle East, etc.

The company has eight manufacturing facilities with an aggregate production capacity of more than 100,000 square meters per day including an outsourcing capability of 15,000 square meters per day. It has 13 digital color printers to enhance product aesthetics and design with 9-color printing technology. Besides latest technology, the company also avails the easy availability of low-cost gas at two of its plants.

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).

2. Recent Developments

i) Asian Granito forms JV to invest Rs. 35 crore on quartz stone plant – Nov 2017

Asian Granito India has recently announced a joint venture company with Paramshree Granito Pvt Ltd and plans to invest Rs. 35 crore in setting up a green-field plant for quartz stone in Gujarat.

As per management, the JV company, Camrolla Quartz Ltd, would have a capacity to manufacture 1,600 square meters of quartz stone per day in first phase and become commercially operational in April 2018. The company would double the capacity subsequently.

The plant will be based at Prantij in Himmatnagar Gujarat and initially manufacture 15, 20 and 30 mm thickness slabs of quartz in large formats of 11.5 feet X 6.50 feet. The

company expects sales of around Rs. 70 crore from this JV in the first year of operation i.e. FY 2018-19.

Asian Granito will have a 51% stake in the JV, which will initially start with two lines of production, followed by a third line every six months until it has a total of six lines in two years. Seventy percent of its production will be exported while 30 percent will be for domestic markets.

Currently, the company has a market share of nearly 18-20% in the branded quartz market in India. Market for quartz stone in India is estimated at around Rs. 220-250 crore and growing at 25-30% per annum. Quartz has emerged as the latest trend for all kind of counter tops and wall surfaces and its demand is growing across the world on account of aesthetics, durability, strength, variety and less wastage or damage compared to natural marble. In India demand for the quartz is limited to high-end hotels, expensive homes etc.

Quartz slabs are mostly preferred for use in high-traffic areas such as malls, airports, railway stations, hospitals, commercial spaces etc. It is a substitute material for granite and Marble. The United States is the biggest market for quartz, followed by Europe, Canada, Australia and New Zealand. The total market size for engineered quartz stone across world is around 3 billion square meters, of which the US market is around 65%.

Target market for the new quartz plant will be counter tops and interiors (floors) in kitchens, malls, airports, high-end hotels and other places. Replacement of counter tops is the largest market for engineered quartz in the U.S and other countries.

ii) Asian Granito India launches new product range – Sept 2017

Asian Granito has recently launched its new product range of GVT in Grestek with brand name MARBLEX in size of 1200 x1200mm, 1200x2400mm with all new latest technology and high end finishing, and all new range of GVT tiles with brand name `Platina` an exclusive new designs in the company`s already famous range of Marvel on 17 & 18 September, 2017 at Hotel Novotel Convention Centre, Novotel Hotel Road, Kavuri Hills, Kondapur, Hyderabad, Telangana.

3. Financial Performance:

Asian Granito India consolidated net profit rises 48.94% in the Sept 2017 quarter

Net profit of Asian Granito India rose 48.94% to Rs 16.16 crore in the quarter ended Sept 2017 as against Rs 10.85 crore during the previous quarter ended Sept 2016. Sales rose 0.90% to Rs 273.01 crore in the quarter ended Sept 2017 as against Rs 270.57 crore during the previous quarter ended Sept 2016.

Asian Granito India consolidated net profit rises 28.27% in the June 2017 quarter

Net profit of Asian Granito India rose 28.27% to Rs 10.39 crore in the quarter ended June 2017 as against Rs 8.10 crore during the previous quarter ended June 2016. Sales rose 6.86% to Rs 224.91 crore in the quarter ended June 2017 as against Rs 210.47 crore during the previous quarter ended June 2016.

4. Investment Rationale:

i) The Indian ceramic tile industry is the world's third largest manufacturer of ceramic tiles at 825 million square metres (MSM), after China and Brazil. India is also the third largest consumer of tiles in the world with about 6.25% of all global ceramic tile consumption. Per capita consumption of tiles in India is as low as 0.60 sq mtrs compared to 2.6 sq mtrs in China, 5-6 sq mtrs in Europe and 3.4 sq mtrs in Brazil. With rising disposable incomes of Indians and government initiatives like Housing for All by 2022, Smart Cities Mission, Swachh Bharat Abhiyaan, Indian tile industry is expected to grow at the rate of 13% in coming years. Moreover, organized players are expected to increase their market share over unorganized players with implementations of GST and increase in value added product mix.

ii) On 10th November 2017, the GST Council cut GST rates on Marble, Granite and Ceramic Tiles of all kinds from 28% to 18%. This is a positive development for the ceramic industry as a whole. This will not only augment sector growth but will also encourage unorganised players to pay taxes which were facing problems post demonetisation and slowdown in real estate. Lowering GST on Tiles, Marbles and Granite will give push to Government's infrastructure push along with real estate reforms which would catalyze sectoral growth. Asian Granito is well placed to capitalize on growth opportunities with increase in capacity utilization, introduction of value added products and expanding distribution network.

iii) Asian Granito in past has emerged as an institutional player with majority of its products marketed and sold to real estate builders and government institutions. The company derived 65% of its total revenue from institutional channel in FY17. However, considering robust demand expected from retail segment in coming years, the management is targeting retails sales contribution above 50% from existing 35% by 2021. With higher focus on B2C segment, the company plans to increase its total retail stores aggressively to the count of 500 over next 4 years from 196 currently, this is expected to augur well for the company with rise in operating margins.

iv) Marble and quartz stone segment is one of the top focus areas for the company. Market for quartz stone in India is estimated at around Rs 220-250 crore and growing at 25-30% per annum. As part of its expansion, the company commissioned its third line of

quartz stone facility at its Himmatnagar plant dedicated for exports. With this expansion, its capacity has increased from 2.64 lakh square meter to 5.28 lakh square meter, which is expected to generate additional Rs. 60 crore revenue in FY18. Quartz is a premium product and hence it's expected to earn a healthy EBITDA margin in the range of 30-32%.

v) Asian Granito has strong global footprint with presence in more than 53 countries across the globe. The company has set up a 50,000 sq. ft showroom in Morbi, Gujarat which is dedicated for export branding. The company plans to double its exports from Rs. 60 crores in FY17 to Rs. 150 crores over the next 2 years.

vi) Under marketing initiatives, the company has rolled out various marketing campaigns recently. From 1st November 2017, the company has begun its New Brand Campaign (Chala De Jaadoo) on all platforms i.e. Electronic Media, Digital Media and Outdoor Marketing PAN India. To drive exports growth, the company continuously participates in International exhibitions like CERSAIE – Italy, Big-5 Dubai, Expo Nacional Ferretera – Mexico. The company is also positioning its products by increasing online presence in social media i.e. Facebook, Twitter and Pinterest and through extensive regional road shows in Gujarat, Maharashtra and Kerala.

vii) Overall capacity utilization of the company stood at 65% in FY17, which is expected to improve to around 85% in the next 3-4 years. Higher capacity utilization should improve margins of the company. Moreover, the company is focusing on going through joint venture and outsourcing model like other players in the Industry to expand its tiles capacity, which will help it to create an asset light business structure and improve asset turnover ratio in the coming years.

viii) To encourage domestic manufacturing under Make in India initiative, the government has imposed an anti-dumping duty between USD 0.79 per sq mt and USD 1.87 per sq mt on all vitrified tiles imported from China in April 2017 for a period of five years (valid till 2022) which is expected to augur well for the industry as well as Asian Granito in coming years.

ix) The company has paid dividend of Rs. 0.80 in Sept 2017. The dividend yield at current market price is 0.26%. The company has registered sales CAGR of 8.8% and profit CAGR of 7.9% with ROE of 6.3% over last 5 years. With recent initiatives, we expect company to achieve revenue CAGR of 19% over next 2 to 3 years. The debt to equity ratio is improved from 1.0x in FY13 to 0.8x in FY17 and expected to reach 0.6x by FY19.

x) As of Sept'17, promoter's shareholding in the company is 32.32%, promoters have not pledged any shares. Promoters have reduced their shareholding in the company by 0.78% since March 2017. However, promoters increased their shareholding from 28.16% in Dec 2016 to 33.1% in March 2017. Institutions shareholding in the company is at 10.26% as on Sept 2017.

5. Key Concerns & Risks:

- i) The company is targeting to more than double its exports sales in coming years and currently exports to more than 53 countries, higher volatility in foreign currencies can adversely impact the profitability of the company.
- ii) Any slowdown in demand or rise in competition in tiles and quartz industry can impact company's revenue growth and profitability.

6. Saral Gyan Recommendation:

As per our estimates, Asian Granito is expected to deliver PAT of Rs. 52.6 crores in FY17-18 and Rs. 69.6 crores in FY18-19 with annualized EPS of Rs. 17.5 and Rs. 23.1 respectively. At current price of 492.50, stock is available at forward P/E multiple of 21.3X based on FY18-19 earnings and looks reasonably valued. The company offers good investment opportunity for long term investors considering better earning visibility and discounted valuations compared to players like Kajaria Ceramics and Somany Ceramics.

Domestic factors like rising disposable income, pick up in real estate sector, rapid urbanization and government initiatives and projects like Housing for all, Smart cities, Swachh Bharat Abhiyan etc are expected to augur well for the tile industry and contribute to the sector growth, which in turn would benefit company like Asian Granito in coming years. Considering company's focus on high margin products like quartz and value added tiles, going through joint venture and outsourcing model to expand its capacity, comfortable debt position and management vision to achieve turnover of 2000 crore over next 3 to 4 years with higher contribution from retail segment to boost profitability, Saral Gyan team recommends "Buy" on Asian Granito India Ltd at current market price of Rs. 492.50 for target of 750 over a period of 12 to 24 months.

Buying Strategy:

- 70% at current market price of Rs. 492.50
- 30% at price range of Rs. 370 – 400 (in case of correction in stock price in near term)

Portfolio Allocation: 3% of your equity portfolio.

Regards,
Team – Saral Gyan,
Saral Gyan Capital Services.