Angel Broking
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Asian Granito

Merger to boost the margin

Asian Granito India (AGIL) is engaged in the manufacturing and sale of ceramic wall, ceramic floor, vitrified tiles, digital polished glazed vitrified tiles, digital wall tiles, marble, and quartz. The company offers more than 1,200 designs and export its products in 50+ countries. It has eight manufacturing facilities spread across Gujarat and the current combined capacity is 100,000 sq. mtrs per day.

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. Artisique 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 new demand avenues for entry level or lower priced tiles (ceramic tiles). We expect AGIL to report a net revenue CAGR of ~11% to ~₹1,220cr over FY2016-18E. On bottom-line front, we expect CAGR of ~39% to ₹48cr over FY2016-18E owing to better product mix, higher B2C sales and amalgamation synergy. **We initiate coverage on the stock with a Buy recommendation and target price of ₹351 (22x FY2018E EPS), indicating an upside of ~27% from the current levels.**

Key financials

Y/E March (₹ cr)	FY2015	FY2016	FY2017E	FY2018E
Net Sales	842	994	1,118	1,220
% chg	*9.0*	*18.1*	*12.5*	*9.2*
Net Profit	15	25	39	48
% chg	*14.5*	*24.8*	*39.1*	*48.0*
OPM (%)	7.2	9.1	11.8	12.0
EPS (₹)	4.8	8.2	13.0	16.0
P/E (x)	57.5	33.6	21.3	17.3
P/BV (x)	2.9	2.3	2.1	1.9
RoE (%)	5.0	6.8	9.7	10.7
RoCE (%)	9.0	9.0	13.3	14.4
EV/Sales (x)	1.2	1.1	1.0	0.9
EV/EBITDA (x)	16.2	12.6	8.4	7.4

Source: Company, Angel Research, Note: CMP as of September 30, 2016

BUY

CMP	₹277
Target Price	₹351
Investment Period	12 Months

Stock Info	
Sector	Ceramics
Market Cap (₹ cr)	836
Net Debt (₹ cr)	304
Beta	1.3
52 Week High / Low	304/109
Avg. Daily Volume	74,887
Face Value (₹)	10
BSE Sensex	27,866
Nifty	8,611
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	3.2	6.5	43.8
AGIL	43.9	118.4	1000.9

3-year price chart

Source: Company, Angel Research

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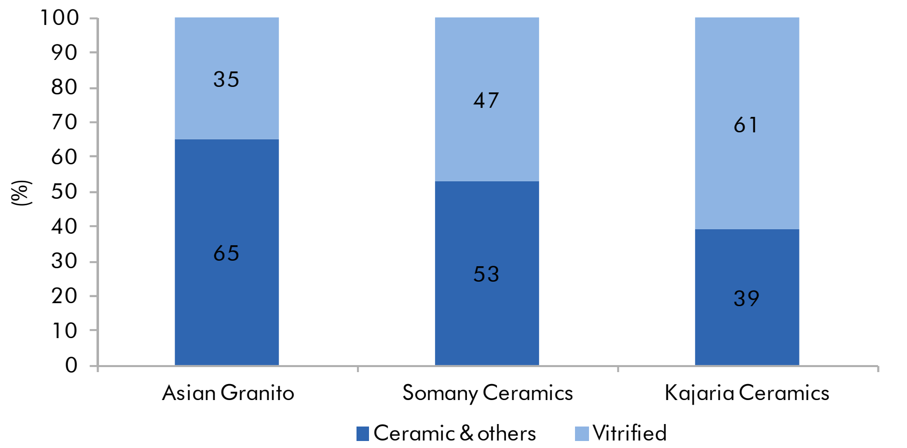
Key investment arguments

Focus on high value product

Currently, AGIL has lower (35%) vitrified sales as compares to its peers like Somany Ceramics (47%) and Kajaria Ceramics (61%). AGIL has recently 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 would improve due to their focus on increasing the vitrified product sales, which is a high margin business.

Exhibit 1: Product mix of its peers

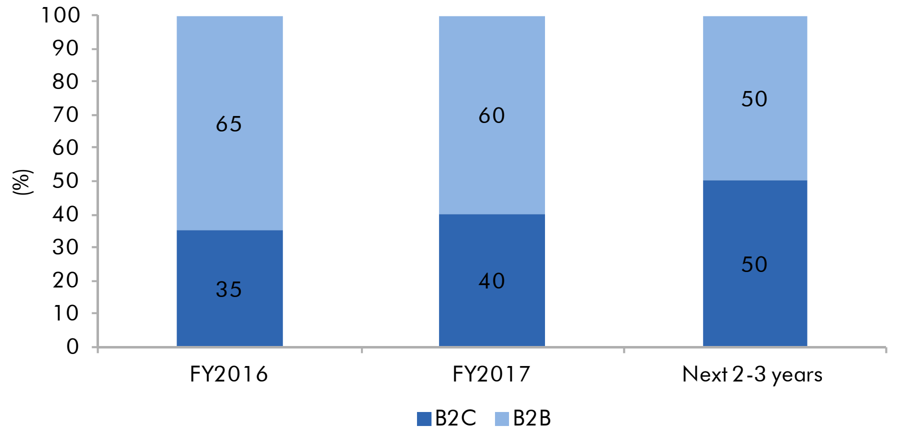


Source: Company, Angel Research

Shift from B2B to B2C would improve the margin

AGIL is continuously putting efforts to increase the B2C sales from current level (35% in FY16). It is expected to go 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 showroom, trade schemes on high value products, participation in key trade exhibition, etc.

Exhibit 2: B2C business expected to increase

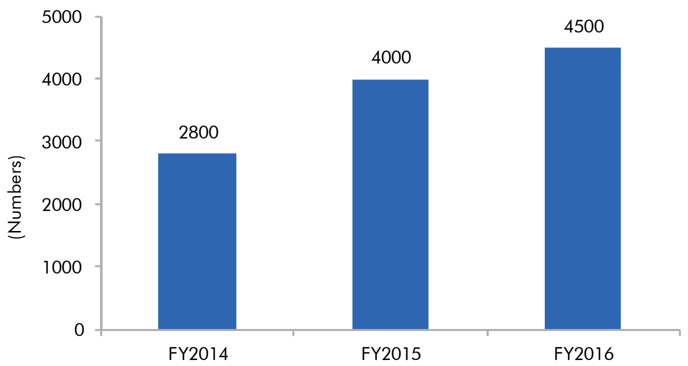


Source: Company, Angel Research

Strengthening Distribution Network

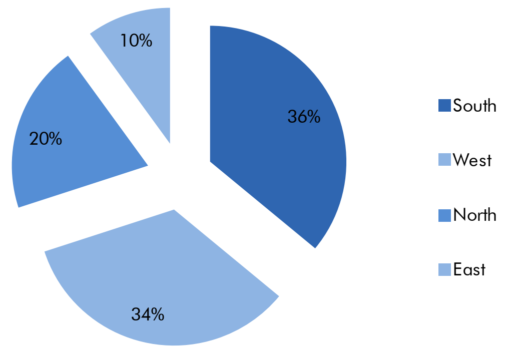
AGIL has an extensive marketing and distribution network. It comprises of more than 4,500 dealers and sub-dealers (~27 grew over last two years) and more than 80 exclusive dealer showrooms covering each and every state of the country. This helps the company in promoting its range of products to the consumers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

Exhibit 3: No. of dealer & sub-dealer



Source: Company, Angel Research

Exhibit 4: Geographical revenue breakup



Source: Company, Angel Research

Artistique Ceramic merger to boost margins

In July FY2016, AGIL acquired Artistique Ceramic which has a comparatively better margin profile. Going forward, we expect the company would be able to improve its operating margin from 7.5% in FY16 (excluding merger) to 12-12.5% in coming financial year. Artisique Ceramics has a contract with RAS GAS to supply natural gas of 10,000 calorific value at ₹10 per cubic meter which is lower than the market rate of 8,000 calorific value at ₹24 per cubic meter. This would definitely reduce overall power & fuel cost of the company.

The company is also expecting strong reduction in gas prices in coming quarters. Further, due to this merger, the company's capacity has increased from 45,000 sq. mtrs to 88,000 sq. mtrs per day and the combined capacity has reached to 100,000 sq. mtrs per day (Incl. Outsource).

Consideration: 157 equity shares of face value of Rs.10/- at par each fully paid-up of Asian Granito Ltd for every 100 equity shares of face value of Rs.10/- each fully paid-up held in Artistique Ceramics

Exhibit 5: Financial data of AGIL and Artistique

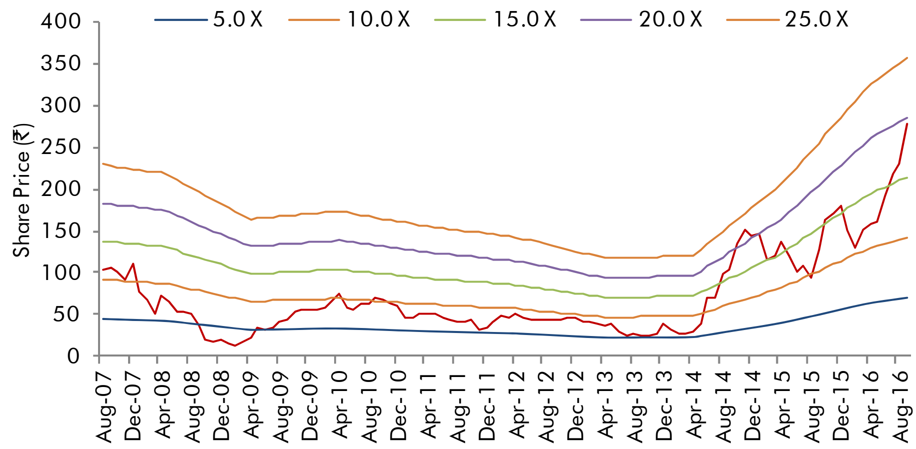
	Pre-Merger AGIL (FY16)	Artistique (9MFY16)	Consolidated Post-Merger AGIL
Net Sales	878	116	994
Operating Profit	66	24	90
Margin (%)	7.5%	21.1%	9.1%
PAT	18	7	25
EPS (EPS accretive by 5%)	7.79		8.24
No of share	2.3		3.0

Source: Company, Angel Research

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 new demand avenues for entry level or lower priced ceramic tiles. We expect AGIL to report a net revenue CAGR of ~11% to ~₹1,220cr over FY2016-18E. On bottom-line front, we expect CAGR of ~39% to ₹48cr over FY2016-18E owing to better product mix, higher B2C sales and amalgamation synergy. At the current market price of ₹277, the stock trades at a PE of 21.3x and 17.3x its FY2017E and FY2018E EPS of ₹13 and ₹16, respectively. **We initiate coverage on the stock with a Buy recommendation and target price of ₹351, based on 22x FY2018E EPS, indicating an upside of ~27% from the current levels.**

Exhibit 6: One year forward PE Chart



Source: Company, Angel Research

Exhibit 7: Peer Comparison

		EPS			PE			EV/EBITDA (x)			EV/Sales (x)			ROE (%)		
	Market Cap	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18	FY16	FY17	FY18
AGIL	836	8.2	13.0	16.0	33.6	21.3	17.3	12.6	8.4	7.4	1.1	1.0	0.9	6.8	9.7	10.7
Kajaria Ceramics	5,839	28.3	37.1	44.8	48.9	37.3	30.9	24.3	20.1	17.3	4.7	4.1	3.5	24.8	25.2	26.1
Somany Ceramics	2,589	16.3	20.0	26.4	37.6	30.5	23.1	19.1	15.5	12.7	1.6	1.4	1.2	15.1	16.2	17.1

Source: Company, Angel Research

The downside risks to our estimates include

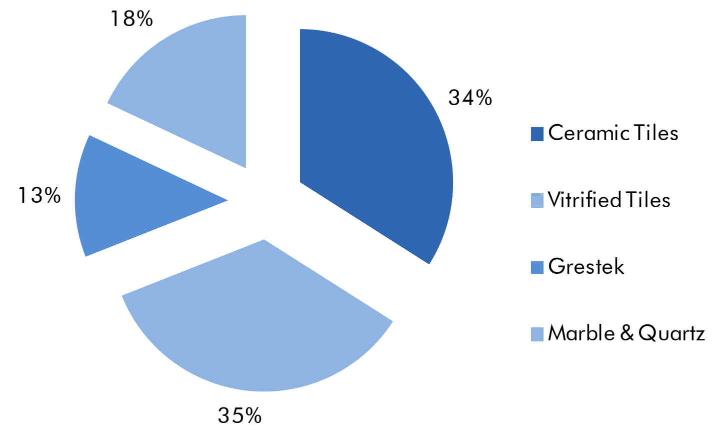
1) Lower than expected recovery in real estate industry can impact the overall performance (~65% revenue comes from B2B business)

2) Increase in gas prices can impact the company's operating performance

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.

Exhibit 8: Product portfolio mix



Source: Company, Angel Research

Exhibit 9: Product portfolio

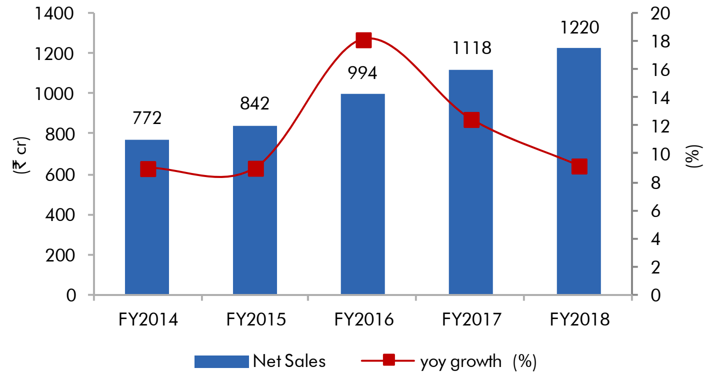
Ceramic Tiles	Vitrified Tiles	Grestek	Marble & Quartz
Digital wall tiles	Soluble Salt	Marvel Colour Body Tiles	Multi Colour Marble
Porcellanto wall tiles	Homogenous Body	Slimgress	Nano Crystal Marble
	Nano Tech - Double Charge	Hard Stone	Imported Natural Marble
	Grandura Exteriors	Hi-Tech Tuff Guard Digital	Onix Marble
	Grandura Digital	Grestek - Digital Glazed Vitrified	
	Imperio – Double Charge	XXL	
	Jumbo - Double Charge		

Source: Company, Angel Research

Financial performance

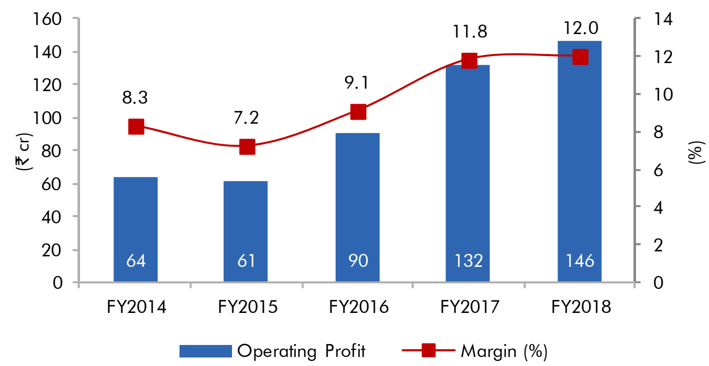
Going forward, we expect the company to report healthy top-line of ~11% CAGR over next two years on the back of revival in real estate industry, strong addition of dealer network, and plan to increase up to 200 exclusive dealer showrooms. Further, the company is planning to increase their ad spend for more brand visibility. On the operating front, we expect the company's margin to improve owing to the merger with Artistique Ceramic, which has comparatively higher margin (due to lower cost of gas prices). Further, the company is changing their product mix of value added products and is also expected to increase their retail business. On the bottom-line front, we expect 39% CAGR on the back of healthy revenue growth and strong improvement in operating performance.

Exhibit 10: Historical net sales trend



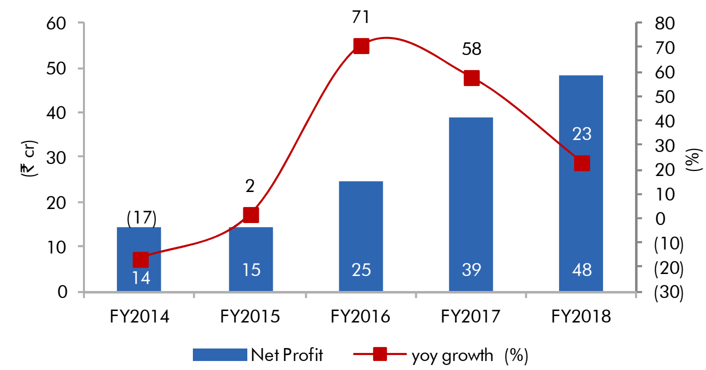
Source: Company, Angel Research

Exhibit 11: Historical operating profit trend



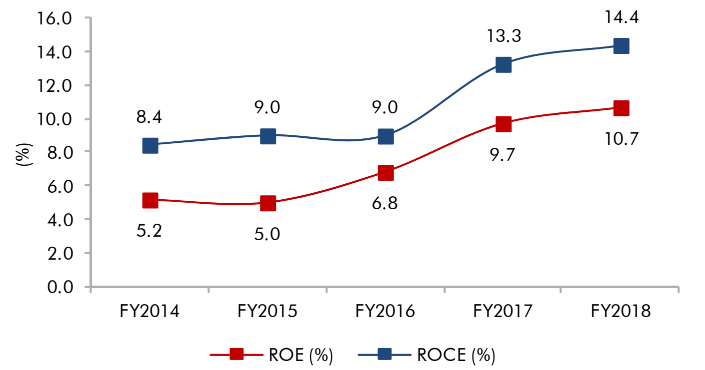
Source: Company, Angel Research

Exhibit 12: Historical net profit trend



Source: Company, Angel Research

Exhibit 13: Historical ROE & ROCE trend



Source: Company, Angel Research

Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Total operating income	**772**	**842**	**994**	**1,118**	**1,220**
% chg	*9.0*	*9.0*	*18.1*	*12.5*	*9.2*
Total Expenditure	**708**	**781**	**904**	**986**	**1,074**
Cost of Materials	480	534	615	687	747
Personnel	37	42	59	69	79
Power, Oil & Fuel	116	131	128	112	122
Others Expenses	74	74	102	117	126
EBITDA	**64**	**61**	**90**	**132**	**146**
% chg	*(8.2)*	*(5.1)*	*48.4*	*46.1*	*11.0*
(% of Net Sales)	*8.3*	*7.2*	*9.1*	*11.8*	*12.0*
Depreciation& Amortisation	22	19	28	37	39
EBIT	**43**	**42**	**63**	**95**	**107**
% chg	*(11.7)*	*(1.6)*	*50.0*	*51.6*	*12.7*
(% of Net Sales)	*5.5*	*5.0*	*6.3*	*8.5*	*8.8*
Interest & other Charges	21	23	29	37	35
Other Income	1	1	1	2	2
(% of PBT)	*5.7*	*4.7*	*3.9*	*2.5*	*2.0*
Share in profit of Associates	-	-	-	-	-
Recurring PBT	**23**	**20**	**35**	**59**	**74**
% chg	*(10.7)*	*(11.3)*	*74.2*	*69.2*	*24.3*
Prior Period & Extr. Expense/(Inc.)	-	-	-	-	-
PBT (reported)	**23**	**20**	**35**	**59**	**74**
Tax	8	6	11	20	24
(% of PBT)	*37.1*	*27.9*	*32.2*	*33.0*	*33.0*
PAT (reported)	**14**	**15**	**24**	**40**	**49**
Add: Share of earnings of asso.	-	-	2	2	2
Less: Minority interest (MI)	-	-	2	3	3
Extraordinary Items			(1)		
PAT after MI (reported)	**14**	**15**	**25**	**39**	**48**
% chg	*14.3*	*14.5*	*24.8*	*39.1*	*48.0*
(% of Net Sales)	*1.8*	*1.7*	*2.5*	*3.5*	*3.9*
Basic EPS (₹)	**4.7**	**4.8**	**8.2**	**13.0**	**16.0**
Fully Diluted EPS (₹)	**4.7**	**4.8**	**8.2**	**13.0**	**16.0**
% chg	*(16.7)*	*1.7*	*70.9*	*57.8*	*22.9*

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	372	420
Shareholders Funds	**275**	**290**	**363**	**402**	**450**
Minority Interest	-	-	19	19	19
Total Loans	228	175	335	315	295
Deferred Tax Liability	17	18	30	30	30
Total Liabilities	**520**	**483**	**747**	**766**	**794**
APPLICATION OF FUNDS					
Gross Block	308	338	603	623	643
Less: Acc. Depreciation	131	149	211	248	287
Net Block	**178**	**188**	**392**	**375**	**356**
Capital Work-in-Progress	7	15	6	6	6
Investments	13	11	13	13	13
Current Assets	488	438	539	615	681
Inventories	207	191	245	282	311
Sundry Debtors	191	166	197	217	237
Cash	19	15	17	26	35
Loans & Advances	21	21	30	34	37
Other Assets	49	46	50	56	61
Current liabilities	165	168	203	242	261
Net Current Assets	**323**	**270**	**336**	**372**	**419**
Deferred Tax Asset	**-**	**-**	**-**	**-**	**-**
Mis. Exp. not written off	-	-	-	-	-
Total Assets	**520**	**483**	**747**	**766**	**794**

Consolidated Cashflow Statement

Y/E March (₹ cr)	FY2014	FY2015	FY2016	FY2017E	FY2018E
Profit before tax	22	19	35	59	74
Depreciation	22	19	28	37	39
Change in Working Capital	6	49	(64)	(27)	(39)
Interest / Dividend (Net)	21	23	29	37	35
Direct taxes paid	(8)	(6)	(5)	(20)	(24)
Others	(0)	0	(1)	(1)	(1)
Cash Flow from Operations	62	104	21	86	84
(Inc.)/ Dec. in Fixed Assets	(23)	(30)	(224)	(20)	(20)
(Inc.)/ Dec. in Investments	5	2	(3)	-	-
Cash Flow from Investing	(29)	(33)	(221)	(20)	(20)
Issue of Equity	4	-	8	-	-
Inc./(Dec.) in loans	(24)	(53)	160	(20)	(20)
Dividend Paid (Incl. Tax)	-	-	-	-	-
Interest / Dividend (Net)	(24)	(23)	36	(37)	(35)
Cash Flow from Financing	(43)	(76)	203	(57)	(55)
Inc./(Dec.) in Cash	(10)	(4)	3	9	9
Opening Cash balances	29	19	15	17	26
Closing Cash balances	19	15	17	26	35

Key ratios

Y/E March	FY2014	FY2015	FY2016	FY2017E	FY2018E
Valuation Ratio (x)					
P/E (on FDEPS)	58.4	57.5	33.6	21.3	17.3
P/CEPS	23.2	24.8	16.2	10.9	9.4
P/BV	3.0	2.9	2.3	2.1	1.9
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0
EV/Sales	1.3	1.2	1.1	1.0	0.9
EV/EBITDA	16.1	16.2	12.6	8.4	7.4
EV / Total Assets	1.5	1.5	1.2	1.1	1.0
Per Share Data (₹)					
EPS (Basic)	4.7	4.8	8.2	13.0	16.0
EPS (fully diluted)	4.7	4.8	8.2	13.0	16.0
Cash EPS	11.9	11.1	17.0	25.4	29.4
DPS	0.0	0.0	0.0	0.0	0.0
Book Value	91.5	96.3	120.7	133.7	149.7
Returns (%)					
ROCE	8.4	9.0	9.0	13.3	14.4
Angel ROIC (Pre-tax)	9.0	9.5	9.4	14.0	15.4
ROE	5.2	5.0	6.8	9.7	10.7
Turnover ratios (x)					
Asset Turnover (Gross Block)	2.5	2.5	1.6	1.8	1.9
Inventory / Sales (days)	98	83	90	92	93
Receivables (days)	90	72	72	71	71
Payables (days)	68	61	57	56	55
WC cycle (ex-cash) (days)	121	94	105	107	109

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DISCLAIMER

Disclosure of Interest Statement	**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%)*	*Neutral (-5 to 5%)*
		Reduce (-5% to -15%)	*Sell (< -15)*