

An Indicative timetable

| | |
|-------------|------------------------------|
| Issue Open | 4 th August, 2021 |
| Issue Close | 6 th August, 2021 |
| Price Band | Rs. 118-120 |
| Lot Size | 125 |

Issue Details

| | |
|----------------------------|--------|
| Face Value (Rs) | 10 |
| Pre Issue Equity (Rs Cr) | 33.5 |
| Post Issue Equity (Rs Cr) | 44.74 |
| Fresh Issue (Rs Cr) | 134.23 |
| Offer for Sales (Rs Cr) | 26.86 |
| Issue Size (Cr) | 161.09 |
| Implied Market Cap (Rs Cr) | 537 |

Book Building (%)

| | |
|--------|----|
| QIB | 25 |
| NIB | 35 |
| Retail | 40 |

Key Investment Rationale:

Midsized player with a decent track record in the Tiles business: Exxaro Tiles is a midsized tile manufacturer operating plants at Vadodara and Talod with a production capacity of 13.2 MnSq Mt. The company sells its products under its own Brand “Exxaro” and has wide network of 2000 distributors, spread across 27 states.

Building material sector and tiles in particular has large addressable market size in India: The Indian tiles industry was worth Rs. 40,000 Cr in 2019 and is growing at CAGR of 13%. Post GST implementation there has been a shift towards the organized sector from the unorganized sector and this has helped in better pricing power for the organized players. Exports are ~35% of the sector revenue, which also still has decent potential for scaling up in the years to come.

Decent growth in and margins in FY21, despite challenging times: FY21 has been a challenging year for the economy and despite this the company delivered 6% YoY growth in revenues to Rs 255 cr and improved its EBITDA Margins to 18.6% vs 17.8% YoY. Better margins helped in 25% growth in PAT to Rs 15.2 cr in FY21. The Company derives ~85% revenues from retail sales channels and balance 15% comes from the institutional / projects segment. Exports are around 14% of the revenue and could scale up to 20% in coming years.

Debt reduction and interest cost saving should help improving in return ratios: The company intends to use Rs. 50 cr from the issue towards repaying the existing debt and Rs. 45 cr towards working capital. The company had a long-term debt of Rs. 79 cr as on 31st Dec, 2020, and hence debt reduction will help in saving in interest expenses and incremental allocation towards working capital from equity raising will also help interest cost reduction and hence there is a scope for improvement in its ROE and ROCE going ahead.

Valuations and Outlook: At the upper band of the offer price, the issue is valued at 37x its FY21 EPS on diluted Equity, which at par with industry average of 36.9X. On Pre Issue Equity the issue is offered 26.5X FY21 EPS. The organized tiles industry has been gaining market share post GSP implementation and midsized companies have a higher growth potential going ahead and based on this we recommend **SUBSCRIBE** to the issue of Exxaro Tiles Ltd.

Key Financials:

| Particulars (INR Cr) | FY18 | FY19 | FY20 | FY21 |
|----------------------|------|------|-------|-------|
| Revenue | 220 | 242 | 241 | 255 |
| EBITDA | 39.4 | 37.8 | 43.0 | 47.3 |
| PAT | 9.1 | 8.9 | 12.2 | 15.2 |
| P/E | 44.0 | 45.1 | 33.1 | 26.5 |
| P/BV | 4.0 | 3.7 | 3.3 | 3.0 |
| ROE % | 9.1% | 8.1% | 10.1% | 14.9% |

Source: RHP, SMC Institutional Research

Analyst: Siddharth Purohit

E-mail: siddharthpurohit@smcindiaonline.com

Ph-022-6734-1689

Company Background

Incorporated in 2008, **Exxaro Tiles Ltd** is a mid-sized vitrified tiles manufacturer, based out of Gujarat. The company has two manufacturing facilities one each at Vadodara and Talod spread over 1.5 lacs sq. meters. The company's products are divided into two broad categories. (A) Double Charge Vitrified Tiles & (B) Glazed Vitrified Tiles.

(A) **Double Charge Vitrified Tiles**; It is fed through a press, which prints the pattern with a double layer of pigment and double charge finish.

Primary use- Flooring and Suitable for heavy traffic commercial projects

Finish- Glossy

(B) **Glazed Vitrified Tiles**; These are flat slabs manufactured from ceramic materials such as clay, feldspar and quartz and other additives and fired at high temperatures to ensure high strength and low water absorption.

Primary Use-In Flooring, wall and exteriors

Finish-Glossy, Matt

The company sells products under its own umbrella Brand "Exxaro" and is engaged in across the value chain from product designing, process development, manufacturing to marketing. The company has 100 designs with a production capacity of 13.2 Mn Sq. mt of tiles. And the products are sold via its 2000+ dealer networks. The company has wide presence in the Tier I cities.

Key Milestones of the company

| | |
|------|--|
| 2008 | Incorporation of the company |
| 2012 | Started Vadodara Unit |
| 2013 | Strong Foothold of Exxaro brand in the industry |
| 2015 | Started Talod Unit, Crossed Annual Sales of Rs. 100 cr |
| 2017 | Launched PGVT, GVT Tiles and full colour body collection |
| 2018 | Crossed annual sales of Rs. 200 cr |

Source: RHP, SMC Institutional Research

Objects of the issue

- To repay Rs. 50cr towards existing debt.
- To use Rs. 45 cr towards incremental working capital.

Key Risk

- Fuel is a major cost for the manufacturing of tiles and any major rise in international prices could have an adverse impact on the company's profitability.
- The tiles sector is highly dependent on the new construction, and any slowdown in the new launches by the real-estate sector could result in a slowdown in the off take. However, the replacement market plays a sizable role and hence it could compensate the same.

Comparative Valuations

| Rs Cr | CMP | Market Cap | Revenue | PAT | Net Worth | P/E | P/ BV |
|------------------|-----|------------|---------|-----|-----------|-------------|------------|
| Kajaria Ceramics | 996 | 15,849 | 2,781 | 308 | 1,869 | 51.5 | 8.5 |
| Somany Ceramics | 700 | 2,966 | 1,650 | 58 | 655 | 51.1 | 4.5 |
| Asian Granito | 176 | 562 | 1,292 | 57 | 626 | 9.9 | 0.9 |
| Exxaro Tiles | 120 | 537 | 255 | 15 | 297** | 35.3 | 2.1 |
| Average | | | | | | 36.9 | 4.0 |

Source: RHP, SMC Institutional Research

** Net worth for Exxaro taken post dilution for comparative purpose.

Key Financials

| Income Statement (Rs. Cr) | FY18 | FY19 | FY20 | FY21 |
|----------------------------|-------|--------|--------|--------|
| Revenue | 220 | 242 | 241 | 255 |
| % YoY | | 10.3% | -0.6% | 6.0% |
| Cost of Materials Consumed | 70 | 95 | 71 | 84 |
| % YoY | | 35.3% | -25.0% | 18.4% |
| Gross Profit | 149 | 147 | 169 | 171 |
| Gross Margin | 68.0% | 60.7% | 70.4% | 66.9% |
| Employee Benefit Expenses | 30.3 | 29.1 | 26.5 | 19.3 |
| % YoY | | -4.1% | -8.9% | -27.4% |
| As % of Sales | 13.8% | 12.0% | 11.0% | 7.5% |
| Other Expenses | 79.5 | 80.2 | 100.0 | 104.1 |
| % YoY | | 1.0% | 24.6% | 4.2% |
| As % of Sales | 36.2% | 33.1% | 41.5% | 40.8% |
| EBITDA | 39.4 | 37.8 | 43.0 | 47.3 |
| % YoY | | -4.1% | 13.6% | 10.2% |
| EBITDA % | 18.0% | 15.6% | 17.8% | 18.6% |
| Depreciation | 11.8 | 14.1 | 14.3 | 13.6 |
| As % of Sales | 5.4% | 5.8% | 5.9% | 5.3% |
| EBIT | 27.7 | 23.7 | 28.7 | 33.7 |
| EBIT % | 12.6% | 9.8% | 11.9% | 13.2% |
| Interest | 14.0 | 17.8 | 19.7 | 21.3 |
| Other Income | 1.7 | 1.8 | 3.2 | 4.7 |
| PBT | 15.3 | 7.7 | 12.2 | 17.2 |
| Tax | 6.2 | -1.2 | 0.0 | 1.9 |
| Tax Rate % | 40.4% | -16.2% | 0.1% | 11.3% |
| PAT | 9.1 | 8.9 | 12.2 | 15.2 |
| % YoY | | -2.4% | 36.3% | 25.2% |
| PAT % | 4.2% | 3.7% | 5.1% | 6.0% |

Source: RHP, SMC Institutional Research

| Balance Sheet (Rs Cr) | FY18 | FY19 | FY20 | FY21 |
|------------------------------------|--------------|--------------|--------------|--------------|
| Equity | 33.6 | 33.6 | 33.6 | 33.6 |
| Reserve | 66.9 | 75.9 | 87.2 | 102.5 |
| Net Worth | 100.5 | 109.5 | 120.7 | 136.0 |
| Borrowings | 106.8 | 88.0 | 86.4 | 69.9 |
| Deferred Tax Lib | 5.6 | 5.7 | 4.3 | 3.0 |
| Long Term Provisions & other Liab | 2.9 | 2.7 | 1.6 | 1.5 |
| Total Non Current Liabilities | 115.4 | 96.4 | 92.3 | 74.4 |
| Borrowings | 50.1 | 55.4 | 75.7 | 73.5 |
| Trade Payables | 52.0 | 57.6 | 69.7 | 50.9 |
| Other Financial Liabilities | 35.5 | 25.7 | 19.7 | 22.8 |
| Short Term Provisions+ Other CL | 11.0 | 9.9 | 3.8 | 8.8 |
| Current Tax Liabilities | 4.5 | 2.4 | 2.6 | 3.0 |
| Total Current Liabilities | 153.1 | 151.0 | 171.5 | 158.9 |
| Total Liabilities | 368.9 | 356.8 | 384.5 | 369.3 |
| Plant, Property & Equipment | 195.8 | 184.7 | 171.9 | 159.4 |
| Financial Assets | 1.3 | 1.4 | 2.7 | 2.6 |
| Non Current Investments | | | 1.4 | 1.4 |
| Other Non Current Financial Assets | 1.3 | 1.4 | 1.3 | 1.2 |
| Total Non Current Assets | 197.2 | 186.1 | 174.6 | 162.0 |
| Inventories | 89.4 | 79.5 | 105.5 | 104.3 |
| Trade Receivables | 69.0 | 83.4 | 96.4 | 90.1 |
| Cash & Cash Equivalents | 3.8 | 1.5 | 0.5 | 2.2 |
| Bank Balances other than Above | 6.6 | 3.0 | 3.0 | 3.1 |
| Other Current Assets | 2.7 | 3.3 | 4.5 | 7.4 |
| Total Current Assets | 171.7 | 170.7 | 210.0 | 207.3 |
| Total Assets | 368.9 | 356.8 | 384.5 | 369.3 |

Source: RHP, SMC Institutional Research

| Key Ratios | FY18 | FY19 | FY20 | FY21 |
|------------------------------------|-------|-------|-------|-------|
| Per Share Data | | | | |
| EPS | 2.7 | 2.7 | 3.6 | 4.5 |
| CEPS | 6.2 | 6.9 | 7.9 | 8.6 |
| Book Value | 29.9 | 32.6 | 36.0 | 40.5 |
| Profitability Return Ratios | | | | |
| EBITDA % | 18.0% | 15.6% | 17.8% | 18.6% |
| PAT % | 4.2% | 3.7% | 5.1% | 6.0% |
| ROE % | 9.1% | 8.1% | 10.1% | 14.9% |
| ROCE % | 7.5% | 6.7% | 7.5% | 9.1% |
| Valuations | | | | |
| P/E | 44.0 | 45.1 | 33.1 | 26.5 |
| P/ BV | 4.0 | 3.7 | 3.3 | 3.0 |

Source: RHP, SMC Institutional Research

Key to ratings

| Ratings | Definition |
|------------------|--|
| Buy | ESR is greater than EMR + 15% |
| Accumulate/ Hold | ESR falls between EMR + 5% and EMR + 15% |
| Sell | ESR is lesser than EMR - 5% |

Notes:

ESR = Expected Security Return

EMR = Expected Market Return, defined as 1 year domestic yield + 5% (as a proxy for market risk premium)



SMC Global Securities Ltd

Lotus Corporate Park, A Wing 401 / 402 ,
4th Floor, Graham Firth Steel Compound,
Off Western Express Highway, Jay Coach Signal,
Goreagon (East) Mumbai - 400063
Tel: 91-22-67341688
Email ID: vipulsharma@smcindiaonline.com

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