All set for Exxaro Tiles' IPO

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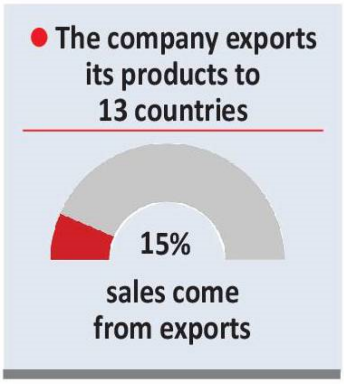
EXXARO Tiles Limited is tapping the capital markets with its fresh issue for 1,11,86,000 shares and an offer for sale of 22,38,000 in a price band of Rs 118-120. The issue opens on Wednesday the 4th August and closes on Friday the 6th August.

The tiles manufacturer as the name suggests is a ceramics player based out of Gujarat and has two manufacturing plants located at Vadodara and Palad near Ahmedabad in Gujarat. The company has a capacity of 132 lakh sq metres. The company produces two broad categories of tiles namely – double charged vitrified tiles and glazed vitrified tiles. The Palad plant is the largest plant for manufacturing glazed vitrified tiles under one roof in the country. The company has been introducing innovation in its products and has added '3D effect' in double charged vitrified tiles and also high transparent glazed vitrified tiles. Glaze is an important ingredient in tile making and Exxaro has introduced in-house capability of producing the same unlike most other competitors who source it from third parties.



The company exports its products to as many as 13 countries currently and roughly 15 per cent of the sales come from exports. The company had revenues of Rs 259 crore for the year ended March 2021 and this is after considering a near washout in the first quarter April-June 2020 due to covid-19.

Extrapolating this loss of production, it could be safe to assume that the company has an effective capacity currently to produce Rs 310-330 crore revenue comfortably. Tile manufacturing process needs a lot of heat to bake the tiles and the most effective way of doing the same is to use natural gas for the process. The reason for locating the first plant in Vadodara was the availability of cheap natural gas from ONGC fields in the area. The Palad plant is supplied gas by Sabarmati Gas, a state utility.

The objects of the issue are to reduce the long-term debt of the company by Rs 50 crore and a sum of Rs 40 crore for to be used for working capital. Ceramics manufacturing is a capital-intensive industry and the company needs additional working capital to grow its business.

The total issue size is less than Rs 250 crore and hence the shares would list under the 'trade to trade' category for ten trading sessions. Here there is a daily circuit filter of 5 per cent and each trade is compulsorily settled against the normal intraday trading and net quantity being settled.

This works to the disadvantage of investors and should be noted while applying. The allocation in the issue is 25 per cent for QIB's 35 per cent for HNI's and 40 per cent for retail investors. This has been done to cash in on the present retail interest in the markets.

The company earned an EBITDA of Rs 47.34 crore or 18.6per cent for the year ended March 2021. Net profit was Rs 15.22 crore which was 5.86 percent of sales. Post the IPO, the margin as a percentage would improve interest costs would reduce. On the other hand, the EPS would reduce as the dilution through fresh issue would affect the earnings per share.

While on a PE multiple, the share is comparable in terms of its competitors, it is very small in size and therefore the comparison becomes infructuous. Investors need to understand the business, the company and the opportunities and disadvantages associated with small size and 'T-to-T' trading. Subscribe only if you intend to hold the share for a long term. Alternatively look at this issue post the ten days of trading in 'T-to-T' segment are over.

(The author is the founder of Kejriwal Research and Investment Services, an advisory firm)