



Exxaro Tiles is engaged in the manufacturing and marketing of vitrified tiles with market share of less than 1%. It operates in a highly competitive field with fragmented players. The company has presence across premium products such as Double Charge Tiles and Glazed Vitrified Tiles of the ceramic industry. Its Retail and institutional sales volume mix 85% and 15% respectively in FY2021. Exxaro Tiles' profitability margin is better than its other peers in the industry. Its D/E stood at 1.12x in FY2021 and post issue, D/E would stand at ~0.87x. The company would trade at P/E of 26.43x for FY21 which is attractive as compared to its peer competitors. We recommend 'SUBSCRIBE' for listing gains.



About the Company

Incorporated in 2008, Exxaro Tiles is engaged in the manufacturing and marketing activities of vitrified tiles. The company manufactures Double Charge Vitrified Tiles (double layer pigment) and Glazed Vitrified Tiles made from ceramic materials i.e. clay, quartz, and feldspar. Its product portfolio consists of 1000+ different designs of tiles in 6 sizes. Topaz Series, Galaxy Series, and High Gloss Series are some of the well-established products of the company.

It supplies its products to large infrastructure projects i.e. residential, educational, commercial, hotels, hospitals, government, builders or developers, religious institutions, etc. It also exports tiles to different countries across the globe i.e. Poland, Bosnia, USA, and others.

Currently, Exxaro Tiles has 2 state-of-the-art manufacturing facilities in Padra and Talod with an installed production capacity of 1,32,00,000 sq mt per annum. It further has 6 display centers in 6 cities and 2 marketing offices in Delhi and Morbi.

Issue details

Price Band (in ₹ per share)	118-120
Issue size (in ₹ Crore)	158.40-161.09
Offer for Sale (shares in lakh)	22.38
Total number of shares (lakhs)	134.24
Issue open date	04-08-2021
Issue close date	06-08-2021
Tentative date of Allotment	12-08-2021
Tentative date of Listing	17-08-2021
Offer Allocation	QIB - 25 %, Retail- 40%, NIB - 35%
No. of shares for QIBs (lakhs)	32.89
No. of shares for non-institutional investors (lakhs)	46.05
No. of shares for retail investors (lakhs)	52.62
No. of shares for Employees (lakhs)	2.68
Employees Discount (in ₹)	NIL
Minimum order quantity	125
Face value (in ₹)	10
Amount for retail investors (1 lot)	14750-15000
Maximum number of shares for Retail investors at lower Band	1625(13 Lots)
Maximum number of shares for Retail investors at upper band	1625(13 Lots)
Maximum amount for retail investors at lower Band-upper band (in ₹)	191750-195000
Exchanges to be listed on	BSE, NSE

Promoters

Mr. Mukeshkumar Patel, Mr. Kirankumar Patel, Mr. Dineshbhai Patel, and Mr. Rameshbhai Patel

Objective of the Offer

The IPO proceed will be utilized towards following purposes:

- To make repayment or prepayment of secured borrowings availed by the company
- To meet working capital requirements
- Meet general corporate purposes
- Sell of 22,38,000 equity shares by Mr. Dixitkumar Patel

**Brief Financials**

Particulars (Rs. Cr)*	FY21	FY20	FY19
Share Capital	33.56	33.56	33.56
Net Worth	128.19	112.89	101.61
Revenue from Operation	255.15	240.74	242.25
EBITDA	47.35	42.96	37.83
EBITDA Margin (%)	18.56%	17.85%	15.62%
PAT	15.22	11.26	8.92
PAT Margin (%)	5.97%	4.68%	3.68%
EPS(Rs)	4.54	3.36	2.66
Net Asset Value (Rs)	38.20	33.64	30.28
P/E #	26.43	-	-
P/B #	3.14	-	-

Source: RHP, *Restated Consolidated, FV Rs.10/-, # Calculated at the upper price band

Industry Review**Indian Ceramic Tiles Industry – Overview**

The Indian Ceramic Tiles industry is highly fragmented in nature, with many small-size family- owned entities. The industry enjoys some inherent advantages such as abundant raw material from indigenous sources, advanced infrastructure and low labour costs. The size of the Indian tiles industry is estimated to be around Rs 35,000 to Rs 40,000 crores in 2019 with exports comprising of close to 35% of the sector revenue. While, domestic sales were impacted, due to Covid-19-induced lockdown, one of the strictest ever lockdowns, imposed in the country, exports remained continued to grow in 2020 which restricted the decline in overall size of the industry to just 10-12% in 2020. Although, there has been concerns of exports declining in GCC countries due to imposition of anti-dumping duty, access to newer markets in Europe and North America due to anti-China sentiments will keep the growth in exports strong.

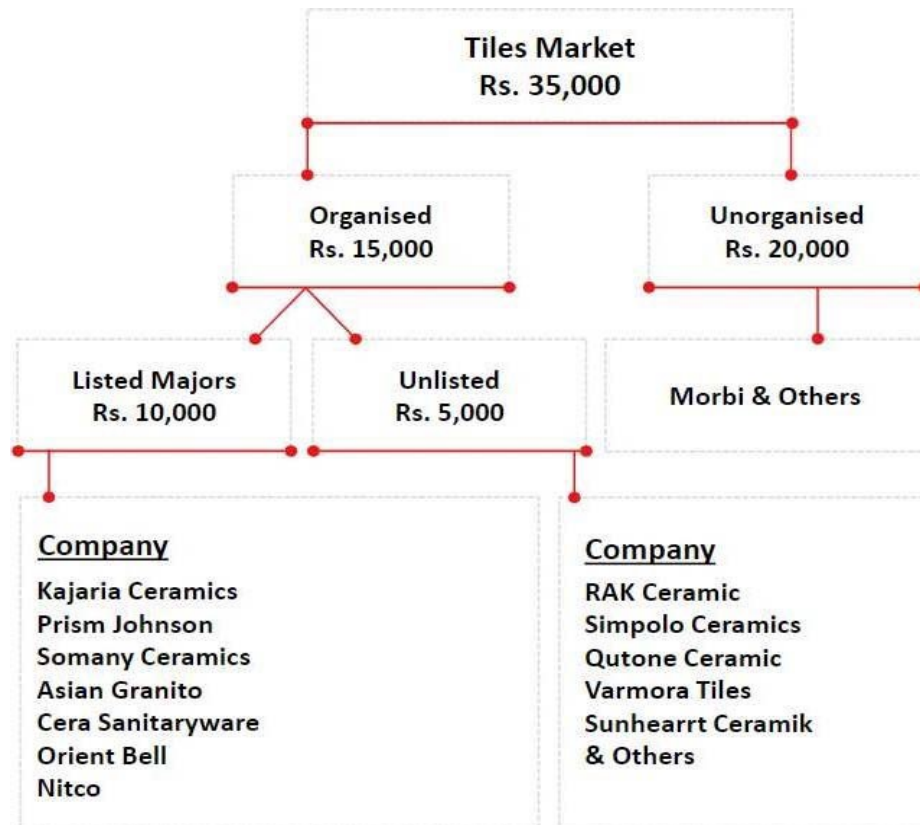


Note: E – BWA Estimate, P – BWA Projection, Source: Ceramic World Review

Source: RHP, CBSL

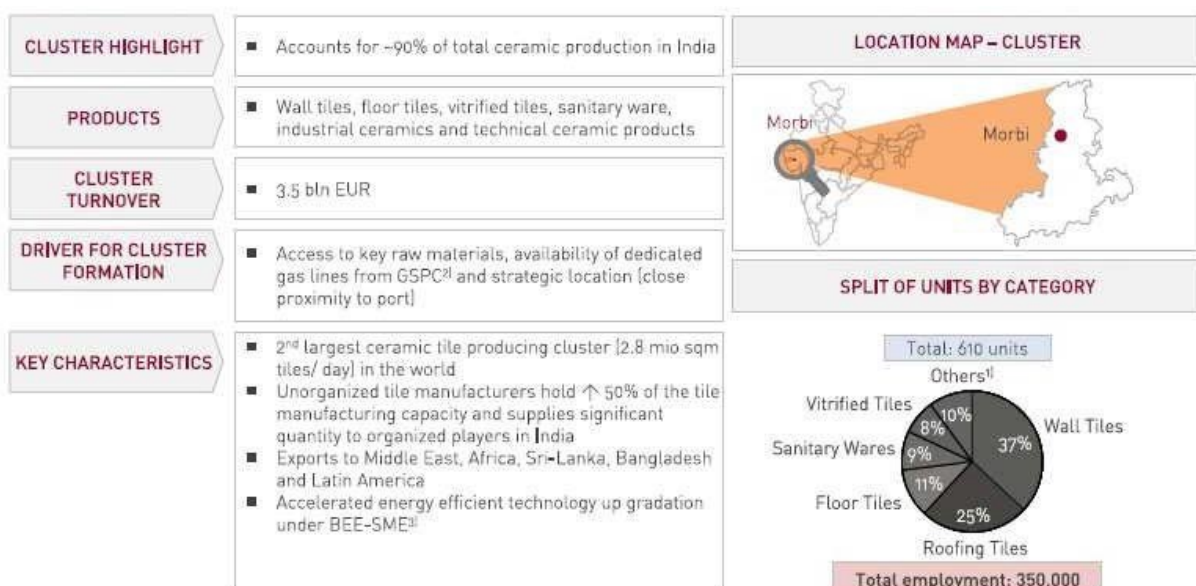
Industry Review

The sector is highly competitive because of the limited product differentiation and largely unorganised nature of the business. However, the share of organised players is increasing on account of their product innovation, adoption of latest technologies, expanding reach and branding activities. The organised players account for roughly half of the market size, and a few top players such as Kajaria Ceramics, Prism Johnson, Somany Ceramics, Nitco and Asian Granito control the majority chunk of the market.



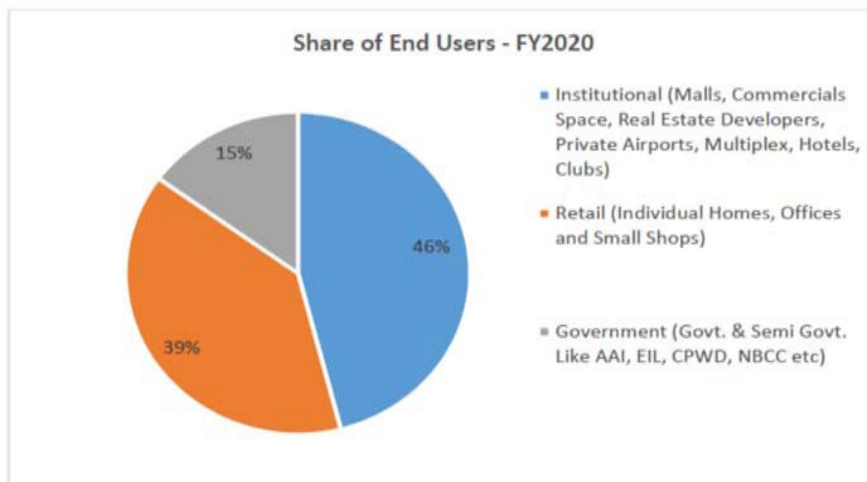
Source: RHP, CBSL

Morbi in Gujarat has been the largest cluster in the country apart from other clusters such as Thangarh, Virudhachalam, Himatnagar, Khurja, Palpara, and East and West Godavari.



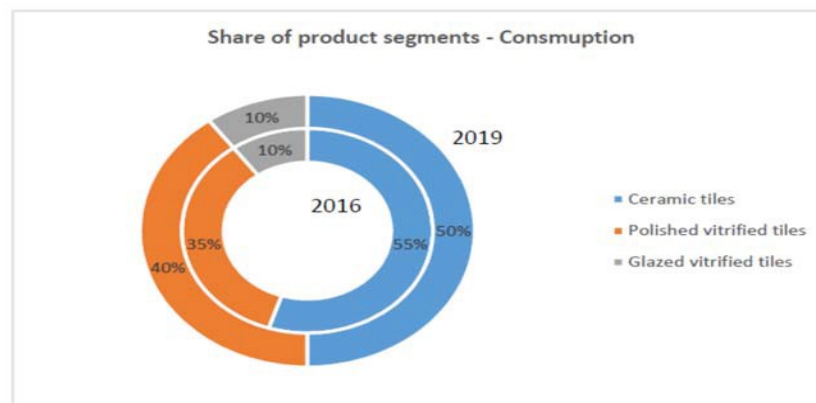
Source: RHP, CBSL

Industry Review



Source: RHP, CBSL

The domestic industry has also now moved on from traditional products such as floor tiles to other value-added products such as glazed vitrified tiles and polished vitrified tiles. Vitrified tiles are ceramic tiles with low porosity. Glazed vitrified tiles have a glazed surface and offers a variety of design, art work and surface textures. These value-added products are witnessing faster growth than traditional products do and are gaining share in the overall product segment.



Source: RHP, CBSL



Competitive Strengths

State-of-the-art manufacturing facilities with strong focus on design and quality

Exxaro Tiles manufactures majority of products in-house at its two Units which have a combined installed production capacity of 1,32,00,000 sq.mt. p.a. Unit I is spread over 37,460 sq.mt. whereas Unit II is spread over 1,23,504 sq.mt. The company's manufacturing facilities are fully integrated from raw material handling to finished goods warehousing process, and are equipped with latest key machineries such as Kiln, Press, Digital Printing, Glazing line (Unit II) enable to manufacture various sizes of products, minimise human labour involvement and achieving cost efficiencies. Its Unit II is one of the single largest plant for manufacturing glazed vitrified tiles under one roof in India. Majority of the key machineries are imported and match international standards. Exxaro Tiles also has an in-house laboratory, enabling the Company to develop new varieties, besides facilitating conducting of tests and analysis of various products. Over the years, the company made continuous investments in manufacturing infrastructure to support product portfolio requirements and reach. For the Fiscal 2021, 2020 and 2019, it had made capital expenditure in tangible assets of INR 13.42 million, INR 14.37 million and INR 30.30 million. Exxaro Tiles expects to continue to further develop technological systems and improve processes to increase asset productivity, operating efficiencies and strengthen competitive position.

Widespread sales and dealers network

Exxaro Tiles' marketing model for domestic operations is majorly divided into two parts: 1) Supply of products through dealer-distribution network 2) Supply of products for infrastructure related projects and to private customers. As on date of this RHP the company has 2,000 registered dealers and domestically, PAN India presence (24 states/ union territories based on sales made during Fiscal 2021). The company has maintained long term relationships with most of its dealers.

Exxaro Tiles' dealer network is aided by capable in-house sales and marketing team which liaise with the dealers on a regular basis for customer inputs, market demands as well as positioning of products vis-à-vis products of competitors. As on March 31, 2021, its sales and marketing team has 82 dedicated employees and is responsible for increasing pan-India as well as global reach of products.

Wide product portfolio comprising 1000+ designs

Exxaro Tiles has gradually diversified, expanded and evolved its operations from manufacturer of frit (one of the raw materials in manufacturing process) in 2007-08 to manufacturing vitrified tiles as per the needs of clients and dealers as on the date of the RHP. As on March 31, 2021, its product portfolio consists of 1000+ designs which are categorised into various series and available over 6 sizes. The company engages in continuous product development and introduction of new designs to keep up with the trends and meet customer requirements. Some of key product development highlights include: 1) 3D Effect in Double Charge Vitrified Tiles 2) Replica of Natural Stones in Double Charge Vitrified Tiles 3) High transparent glaze in weight method for glazed vitrified tiles. Exxaro Tiles has an in-house laboratory for quality control purpose which has 24 employees as on March 31, 2021.

Risk Factors

Volatility in the supply and pricing of raw materials may have an adverse effect on business

The principal raw materials used in manufacturing process are feldspar, clay, frit, bentonite, etc. The costs of raw materials consumed and stores and spares consumed for the fiscal 2021, 2020 and 2019 was 35.37%, 44.90% and 37.97% respectively total revenue from operations. Further its raw materials purchased for the fiscal 2021, 2020 and 2019 was Rs. 737.35 million, Rs. 922.26 million and Rs. 837.60 million respectively which was 28.90%, 38.31% and 34.58% of total revenue from operations. The company majorly source raw materials requirement and stores & spares locally. The import of raw-materials and stores (including hi seas purchase) was Rs. 11.50 million, Rs. 44.36 million and Rs. 79.38 million which was 1.30%, 4.24% and 9.03% respectively of costs of raw materials and stores and spares purchased for the fiscal 2021, 2020 and 2019. Exxaro Tiles do not have long term agreements with any of raw material or inputs suppliers and it purchase such raw materials and inputs on spot order basis. The company's top 10 suppliers for the financial year ended March 31, 2021 have contributed 26.10% and for the financial year ended March 31, 2020, have contributed 35.12% of total purchases.

Further, there may be volatility in prices of raw material and stores & spares and if the company is not able to compensate for or pass on increased costs to customers, such price increases could have a material adverse impact on result of operations, financial condition and cash flows.

**Slowdown in real estate and infrastructure sector could adversely affect demand for products**

Exxaro Tiles' products are primarily used in the real estate, infrastructure and related sectors. Adverse conditions in or uncertainty about these markets, or the economy could adversely impact end-customers' confidence or financial condition, causing the reduction of demand for products or delay purchasing or payment for those products. The performance of these sectors, and consequently the demand for products in these sectors, are dependent on economic and other factors such as government policies, regulations and budgetary allocations as well as investments made in these industries and sectors. The financial performance of the end users of the company's products and any adverse developments that affect the tile industry and the real estate, infrastructure and related sectors where products are used may adversely affect business, results of operations and financial condition.

Manufacturing process highly dependent on power & fuel

Exxaro Tiles manufacturing process requires substantial amount of power, fuel and water facilities. The company sources the power requirements for manufacturing facilities mainly from state electricity boards. To battle electricity failures, it also has diesel generator to meet exigencies at facilities. It source fuel requirements, mainly natural gas, under long term gas supply agreements with various suppliers of natural gas. If fuel supply is not available for any reason, it will need to rely on alternative sources, for example, LPG, Propane etc. which may not be able to consistently meet its requirements.

The company's highly dependent power & fuel demand is exposed to price fluctuations, mainly natural gas. Power and fuel cost accounts for a significant percentage of cost of operations. For the Fiscals 2021, 2020 and 2019, its power and fuel expenses were 29.37%, 28.29% and 21.09% respectively of total revenue from operations.

Peer Comparison

Name of the company	Face Value (in ₹)	Total Income (in ₹ crore)	Basic EPS (in ₹)	NAV (in ₹)	P/E	P/B	RoNW (%)
Exxaro Tiles	10	259.85	4.54	38.20	26.43	3.14	11.88%
Kajaria Ceramics	1	2,802.20	19.37	117.48	51.33	8.46	16.48%
Asian Granito India	10	1,293.64	18.57	183.82	9.51	0.96	9.11%
Somany Ceramics	2	1,663.24	13.62	154.64	52.00	4.58	8.80%
Orient Bell	10	504.34	5.36	167.30	66.46	2.13	3.20%
Murudeshwar Ceramics	10	81.75	(2.48)	63.20	NA	0.47	(3.59%)

*P/E & P/B ratio based on closing market price as on July 30th, 2021, At the upper price band of IPO, financial details consolidated audited results as on FY21

Our Views

Exxaro Tiles is engaged in the manufacturing and marketing of vitrified tiles with market share of less than 1%. It operates in a highly competitive field with fragmented players. The company has presence across premium products such as Double Charge Tiles and Glazed Vitrified Tiles of the ceramic industry. Its Retail and institutional sales volume mix 85% and 15% respectively in FY2021. Exxaro Tiles' profitability margin is better than its other peers in the industry. Its D/E stood at 1.12x in FY2021 and post issue, D/E would stand at ~0.87x. The company would trade at P/E of 26.43x for FY21 which is attractive as compared to its peer competitors. We recommend 'SUBSCRIBE' for listing gains.

Sources: Company Website and red herring prospectus



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