

Exxaro Tiles Ltd.

Building Materials | India

IPO | 03 August 2021

Working Capital Cycle; Key Monitorable

About the Company

Exxaro Tiles Ltd. (ETL), incorporated in 2008, is engaged in manufacturing and marketing vitrified tiles in India. 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 >1,000 different designs in 6 sizes, which are marketed under "Exxaro" brand. ETL also manufactures wall tiles on outsourced basis and supplies to certain markets. Integrated model has allowed the company to develop insights across entire value chain right from product design, process development and manufacturing to marketing. It has pan-India presence (24 states/union territories based on sales made in FY21), while it supplies products to >12 countries including Poland, the UAE, Italy and Bosnia etc. ETL has 2 state-of-the-art manufacturing facilities in Gujarat (Padra and Talod). Its combined installed production capacity stands at 13.2msm (million square meter). Over the years, ETL has made continuous investments in manufacturing infrastructure to support its product portfolio requirements and reach. ETL's capabilities include internal R&D expertise, state-of-the-art manufacturing units, strict quality control system and modern production expertise along with established marketing and distribution network. It has 6 display centres in 6 cities and 2 marketing offices at Delhi and Morbi.

Financials in Brief

ETL has delivered an impressive earnings performance during last two years. While its revenue and EBITDA clocked 3% and 12% CAGR, respectively over FY19-FY21, PAT recorded a healthy 31% CAGR over the same period. Notably, its EBITDA margin improved from 15.6% in FY19 to 18.5% in FY21, mainly led by continued reduction in staff cost and better operating efficiency. Further, its OCF generation has been steady over the last three years with cumulative OCF and FCF standing at Rs0.85bn and Rs0.79bn, respectively for last three fiscals. However, as it drives 14% of revenue from exports and is exposed to project segments, its working capital cycle (WCC) increased significantly to 205 days in FY21.

Our View

The IPO is valued at 35x of FY21 earnings, which looks attractive compared to peers like Kajaria Ceramics and Somany Ceramics. However, the issue commands a premium compared to its core peer like Asian Granito. As stretched WCC has been the key reason for sharp underperformance of Asian Granito over the years, stretched WCC of ETL can also be a potential overhang for the stock. **In our view, while tiles and ceramic players are expected to see healthy traction owing to revival in real estate sector and visible improvement in export opportunities, stretched WCC will be the key motorable for ETL in the ensuing period.**

IPO Details

Pice Band	Rs118-120
Face Value (Rs)	10
Issue Open/Closing Date	4th / 6th Aug'21
Fresh Issues (mn)	11.2
OFS (mn)	2.2
Total Issue (mn)	13.4
Minimum Bid Qty. (Nos)	125
Issue Size (Rs bn)	1.6
QIB / HNI / Retail	50% / 15% / 35%
Implied Market Cap (Rs bn)	5.4

Object of the Issue

- ▶ Prepayment / repayment of secured borrowings
- ▶ Funding working capital needs
- ▶ General corporate purposes

Shareholding (%)	Pre-Issue	Post-Issue
Promoters	56.1	42.5
Public	43.9	57.5

Key Financials

(Rs bn)	FY19	FY20	FY21
Revenue	2.4	2.4	2.6
EBITDA	0.4	0.4	0.5
EBITDA Margin (%)	15.6	17.8	18.5
PAT	0.09	0.11	0.15
PAT Margin (%)	3.7	4.7	6.0
EPS (Rs)	2.7	3.4	4.5
P/E (x)	60.3	47.9	35.3
EV/EBITDA (x)	18.3	16.5	14.7
EV/Sales (x)	2.9	2.9	2.7
Net Worth	1.09	1.21	1.36
RoE (%)	8.2	9.3	11.2
OCF	0.41	0.06	0.38
OCF Yield (%)	7.64	1.06	7.04
FCF	0.38	0.04	0.37
Gross Debt	1.59	1.74	1.61
Net Debt/Equity (x)	1.41	1.41	1.14
Gross Block	2.32	2.34	2.35
Asset Turnover (x)	1.04	1.03	1.09
WCC (Days)	158	200	205

Source: RHP

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