

## Euro Ceramics Ltd. - Q3-FY08 Results Update

February 5, 2008

Price: Rs205

52-wk High/Low: 275/100

M Cap: Rs351Cr (\$89mn)

BSE Sensex: 18663

Rating: **Buy**

### Highlights

#### Volumes driven growth; trading sales impact margins and cap bottomline growth

- On a consolidated basis (y-o-y), net sales grew by 47.8% backed by volume growth of 24.2% and 40.2% in vitrified tiles and aluminum sections respectively, whereas realizations dipped by 1.6% and 7.8% respectively.
- Sales of calcareous tiles were not seen picking up in the first full quarter since commercial launch. Sequential volume growth of 148% was mainly due to the base effect (1114 tonnes, over 449 tonnes sequentially). Average realizations dipped by 15%. While slower offtake of calcareous tiles is a concern, we expect higher contribution from this segment in Q4-FY08, with addition of prominent institutional clients.
- Revenue contribution of wall tiles trading sales increased substantially during Q3, while vitrified tiles sales declined on a sequential basis. We believe increase in trading sales is the key reason behind the impact on EBITDA margin, by as much as 780 bps on y-o-y and 1170 bps on a sequential basis. We are concerned about the impact on the company's overall pricing power during Q3.
- Recurring other income (gains on foreign currency transactions) contributed in a big way in shoring up the company's bottomline during Q3.

#### Expansion Plans

Capex of Rs550Cr is planned to be deployed in 2 phases

Phase 1 - ECL will spend Rs330Cr for expansion of vitrified tiles & calcareous tiles unit to be completed by FY09. Post-expansion, the installed capacities for both these segments would double.

Phase 2 - It plans to manufacture wall tiles, crystal tiles, laminated marbles, and pivot tiles.

#### Consolidated Financial Results

(RsCr)

| Particulars                   | Q3-FY07      | Q2-FY08      | Q3- FY08     | % change (y-o-y) | % growth sequential | 9 mths FY07   | 9 mths FY08   | % change      |
|-------------------------------|--------------|--------------|--------------|------------------|---------------------|---------------|---------------|---------------|
| <b>Gross Sales</b>            | <b>56.82</b> | <b>67.91</b> | <b>84.42</b> | <b>48.6%</b>     | <b>24.3%</b>        | <b>148.51</b> | <b>215.97</b> | <b>45.4%</b>  |
| Excise duty                   | 0.00         | 0.22         | 0.47         |                  | 111.0%              | 0.00          | 0.75          |               |
| <b>Net Sales</b>              | <b>56.82</b> | <b>67.69</b> | <b>83.95</b> | <b>47.8%</b>     | <b>24.0%</b>        | <b>148.51</b> | <b>215.22</b> | <b>44.9%</b>  |
| <b>Expenditure</b>            |              |              |              |                  |                     |               |               |               |
| Raw materials                 | 8.11         | 21.98        | 17.18        | 111.8%           | -21.8%              | 15.59         | 49.25         | 215.9%        |
| Traded goods                  | 8.47         | 0            | 23.00        | 171.7%           |                     | 25.10         | 37.53         |               |
| Staff cost                    | 2.67         | 2.90         | 3.99         | 49.3%            | 37.6%               | 5.68          | 8.76          | 54.2%         |
| Power and Fuel                | 10.35        | 9.73         | 10.97        | 6.0%             | 12.7%               | 26.60         | 31.43         | 18.1%         |
| Mfg, Selling & Other Exp.     | 10.02        | 9.91         | 9.89         | -1.3%            | -0.2%               | 28.82         | 29.57         | 2.6%          |
| <b>Total Expenditure</b>      | <b>39.61</b> | <b>44.52</b> | <b>65.03</b> | <b>64.2%</b>     | <b>46.1%</b>        | <b>101.80</b> | <b>156.53</b> | <b>53.8%</b>  |
| <b>EBITDA</b>                 | <b>17.20</b> | <b>23.17</b> | <b>18.92</b> | <b>10.0%</b>     | <b>-18.3%</b>       | <b>46.71</b>  | <b>58.69</b>  | <b>25.6%</b>  |
| Other income                  | 0.03         | 0.58         | 7.55         | -                | -                   | 0.07          | 9.73          | -             |
| Interest                      | 3.40         | 7.65         | 7.96         | 134.2%           | 4.0%                | 10.20         | 19.75         | 93.6%         |
| <b>EBDT</b>                   | <b>13.84</b> | <b>16.10</b> | <b>18.51</b> | <b>33.8%</b>     | <b>15.0%</b>        | <b>36.59</b>  | <b>48.67</b>  | <b>33.0%</b>  |
| Depreciation                  | 3.24         | 3.90         | 4.05         | 25.1%            | 4.0%                | 8.32          | 11.03         | 32.5%         |
| <b>Profit Before Tax</b>      | <b>10.60</b> | <b>12.20</b> | <b>14.46</b> | <b>36.4%</b>     | <b>18.5%</b>        | <b>28.26</b>  | <b>37.64</b>  | <b>33.2%</b>  |
| FBT                           | 2.33         | 0.05         | 2.09         | -10.2%           | -                   | 5.13          | 4.59          | -10.4%        |
| Current tax                   | 0.00         | 1.01         | -1.28        |                  | -227.2%             | 0.00          | -3.02         |               |
| MAT Credit                    | 0.09         | -0.63        | 0.09         | -9.3%            | -113.6%             | 0.15          | 0.17          | 14.6%         |
| Deferred Tax                  | 1.05         | 3.07         | 3.95         | 276.4%           | 28.5%               | 2.73          | 9.48          | 246.9%        |
| <b>Reported Net Profit</b>    | <b>7.13</b>  | <b>8.70</b>  | <b>9.61</b>  | <b>34.9%</b>     | <b>10.5%</b>        | <b>20.25</b>  | <b>26.42</b>  | <b>30.4%</b>  |
| <b>EBITDA margin</b>          | <b>30.3%</b> | <b>34.2%</b> | <b>22.5%</b> |                  |                     | <b>31.5%</b>  | <b>27.3%</b>  | <b>-13.3%</b> |
| <b>Paid-up Equity Capital</b> | <b>11.48</b> | <b>17.10</b> | <b>17.10</b> |                  |                     | <b>11.48</b>  | <b>17.10</b>  |               |
| <b>EPS (Rs)</b>               | <b>6.21</b>  | <b>5.09</b>  | <b>5.62</b>  |                  |                     | <b>17.64</b>  | <b>15.45</b>  |               |

Elizabeth L. John, Analyst (elizabeth@keynoteindia.net)

Keynote Capitals Research (+9122-30266043)

Nitin A. Khandkar, Head - Research (nitin@keynoteindia.net)

Keynote Capitals Research is also available on Bloomberg KNTE <GO>

**Results Summary****Q3-FY08 (y-o-y)****Revenues**

Gross sales grew by 24.3% on account of volume growth of 24.2% and 40.2% in vitrified tiles and aluminum sections respectively, whereas realizations dipped by 1.6% and 7.8% respectively (refer operational figures). We believe increased competition from Chinese tiles has impacted ECL's pricing power.

**Expenditure**

The raw material expenses in relative comparison show an increase of 111.8%.

**EBITDA margin**

EBITDA margin took a 780 bps hit, to 22.5% on account of higher contribution of wall tiles trading sales.

**PAT**

PAT grew by 34.9% mainly because of higher other income, consisting primarily of gains on foreign currency transactions.

**Q3-FY08 (sequential)**

Gross sales grew by 24.3% mainly on account of strong growth in wall tiles trading sales. Average sales realizations across segments have however dipped. While EBITDA margin declined sharply to 22.5%, with higher contribution from calcareous tiles, we expect it to increase going forward.

PAT growth restricted to 10.5% due to taxes in spite of rise in other income.

**Operational Figures****Revenue-Mix****(RsCr)**

| Particulars           | Q3-FY07 | Q2-FY08 | Q3-FY08 |
|-----------------------|---------|---------|---------|
| Vitrified tiles       | 40.68   | 51.62   | 49.73   |
| Aluminum Sections     | 4.57    | 4.38    | 5.91    |
| Calcareous Tiles      | -       | 1.35    | 2.85    |
| Trading in wall tiles | 12.07   | 10.33   | 27.60   |

**Sales volumes (tonnes)**

| Particulars       | Q3-FY07 | Q2-FY08 | Q3-FY08 | % change (y-o-y) | % change sequential |
|-------------------|---------|---------|---------|------------------|---------------------|
| Vitrified tiles   | 17,947  | 22,113  | 22,285  | 24.2%            | 0.8%                |
| Aluminum Sections | 302     | 271     | 424     | 40.4%            | 56.5%               |
| Calcareous Tiles  | -       | 449     | 1,114   |                  | 148.1%              |

**Average Sales Realisation (Rs per tonne)**

| Particulars       | Q3-FY07 | Q2-FY08 | Q3-FY08 | % change (y-o-y) | % change sequential |
|-------------------|---------|---------|---------|------------------|---------------------|
| Vitrified tiles   | 22,667  | 23,343  | 22,315  | -1.6%            | -4.4%               |
| Aluminum Sections | 151,262 | 161,516 | 139,466 | -7.8%            | -13.7%              |
| Calcareous Tiles  | -       | 30,067  | 25,546  |                  | -15.0%              |

Sales realizations for Aluminum Sections dipped on account of the weak trend in aluminium prices.

## Cost Structure (as % of net sales)

| Particulars               | Q3-FY07      | Q2-FY08      | Q3-FY08      |
|---------------------------|--------------|--------------|--------------|
| Raw materials             | 14.3%        | 32.5%        | 20.5%        |
| Purchase of traded goods  | 14.9%        | 0.0%         | 27.4%        |
| Staff cost                | 4.7%         | 4.3%         | 4.8%         |
| Power and Fuel            | 18.2%        | 14.4%        | 13.1%        |
| Mfg, Selling & Other Exp. | 17.6%        | 14.6%        | 11.8%        |
| <b>Total Expenditure</b>  | <b>69.7%</b> | <b>65.8%</b> | <b>77.5%</b> |

## Road ahead

### Vitrified Tiles

The fresh order book for vitrified tiles is Rs30Cr to be executed in 3 months.

### Sanitary ware

Sanitary ware plant is expected to commence operations in the near future, due to the delay in shipment of machinery imported from SACMI, Italy. The management expects trial runs for the same to commence during Q4.

## Valuation

The stock trades at 8.2x FY08E and 5.4x FY09E.

**Keynote Capitals Ltd.**

**Member**

Stock Exchange, Mumbai (INB 230930539)  
National Stock Exchange of India Ltd. (INB 010930556)  
Over the Counter Exchange of India Ltd. (INB 200930535)  
Central Depository Services Ltd. (IN-DP-CDSL-152-2001)

**Registered Office**

4th Floor, Balmer Lawrie Building,  
5, J. N. Heredia Marg,  
Ballard Estate, Mumbai 400 001  
Tel Nos. 022-22694322-25

---

**Disclaimer**

This report has been prepared and issued by Keynote Capitals Ltd, based solely on public information and sources believed to be reliable. Neither the information nor any opinion expressed herein, constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities. Directors, officers or employees of Keynote Capitals or its affiliates may have positions in securities covered in this report or in related investments. An affiliate of Keynote Capitals Ltd. may also perform or seek to perform broking, investment banking and other banking services for the company under coverage. Opinions presented herein are liable to change without notice. While due care has been taken in the preparation of this report, Keynote Capitals Ltd. or any of its directors, officers or employees shall not in any way be responsible for any loss arising from the use thereof. Investors are advised to apply their own judgment before acting on the contents of this report.