

# Fundamental Analysis

Date: 01 Jun 2008

## **MURUDESHWAR CERAMICS LTD .**

Industry - Ceramics

<b>BSE CODE</b>	<b>515037</b>
<b>CMP</b>	<b>63.70</b>
<b>RATING</b>	<b>BUY</b>
<b>TARGET</b>	<b>117</b>

### AT A GLANCE

<b>Latest Equity (Rs Cr)</b>	17.51
<b>Price</b>	63.70
<b>P/E Ratio</b>	3.60x
<b>Mkt. Cap.(Rs Cr)</b>	112..00
<b>TTM EPS(Rs)</b>	17.75
<b>BV (Rs) (31.12.07)</b>	151.00
<b>Div. (%)</b>	20
<b>52 wk High/low</b>	156/54

### COMPANY BACKGROUND

Murudeshwar Ceramics (MCL) is a producer of ceramic and vitrified tiles in India. MCL manufactures tiles under the brand name of Naveen, and offers tiles for both residential and commercial uses. The Company's product range includes Naveen Diamontile, Naveen Ceramics and Naveen Granites. Naveen Diamontile is a range of fully vitrified porcelain tiles. Naveen Ceramics comes in a variety of colors and textures. MCL has also forayed into the business of natural granites. Naveen Granites offers stones from its own quarry situated at Hubli. Naveen Granites provides slabs that are fully fabricated and polished. MCL also exports tiles to the United States, Republic of South Africa, Russia, Middle East, Sri Lanka, Mauritius and others.

### KEY POSITIVES

- **Proximity to raw material sources:** ceramic industry is characterized as power and capital intensive. The company has its own quarry from which it sources key raw materials like china clay and feldspar. This gives the company a cost advantage over other players as its sources almost 80% of its raw material. This includes 90 percent for ceramic segment and 50 per cent for the vitrified tiles. Further, the company uses gas instead of LPG, which reduces the fuel cost to almost one-third.
- **Scope for further expansion:** As on March 31st 2007, the total capacity utilized stood at 65%. The under utilized capacity leaves ample scope for the company to increase its production volume proportionately to the growing demand. Further the company had also increased its capacity of vitrified tiles by 4000 sq.mpd to 25000 sq.mpd; owing to the rising demand of vitrified tiles.
- **Growth to be fueled by vitrified tiles;** consumers prefer tiles with better longevity. As vitrified tiles require no renovation for life and maintenance is easy compared to ceramic tiles, the demand of the same is likely to grow in leaps and bounds with the growing demand of housing. MCL sources almost 75% of its revenue from vitrified tiles. Hence with the increase in demand, the revenues of the company will get boosted.
- **Thrust on Branding;** Around 60% of the sales are from Southern India and 20% is from Western India.

Price chart



### Share Holding Pattern (%)

<b>Promoters</b>	48.08
<b>FII</b>	10.96
<b>Insurance Co.</b>	1.21
<b>Corporate Bodies</b>	12.95
<b>Indian Public</b>	23.24
<b>NRI</b>	3.56

The company sells its tiles under the brand name NAVEEN DIAMONTILE. The 60% of the sales are to institutions. In Karnataka, MCL has its own showrooms to promote sales while in other states; the operations are organized through network of dealers and distributors. MCL has 76 showrooms, 40 depot, 300 dealers and 250 sales persons to promote sales. MCL, having thrust on branding, would increase its showroom network from 76 in FY06 to 120 by FY08, extending showroom strategy to other states. Further, the company has initiated a strategy of having its own depots. Earlier, the cost of inventory holding was borne by the dealer. Now the company has started storing the inventory for sales in its own depot to meet dealer's requirements. This concept has helped dealers to cut down their inventory holding cost and boost sales by availing their requirements through these depots.

- **Reduced threat from Chinese players;** During the year China withdrew the export incentive to its tile makers and with increase in freight charges, imports of tiles from China to India would no longer be a lucrative proposition. Thus tile imports are expected to taper off in the coming months. Further an imposition of \$8.25 as anti dumping duty on tiles have safe guarded the industry against spurious trade.

## Industry Highlights

- Ceramic Tiles today have become an integral part of home improvement. It can make a huge difference to the way your interiors and outdoors look and express.
  - The Indian tile industry, despite an overall slowdown of the economy, continues to grow at a healthy 15% per annum.
  - Investments in the last 5 years have aggregated over Rs. 2000 crores and production during 2006-07 stood at approx. 340 million sq mts.
  - The Indian tile industry is divided into organized and unorganized sector. The organized sector comprises of approximately 16 players. The current size of the unorganized sector is about Rs 3000 crores. The unorganized sector accounts for 55% of the total industry bearing testimony of the attractive returns from this sector. The size of the unorganized sector is approximately Rs 3500 crores.
  - In India, the per capita consumption is as low as 0.30 square meters per person compared to China (2 square meters per person), Europe (5 to 6 square meters per person) or Brazil (2.5 square meters per person). Rising disposable incomes of the growing middle class and 40 million units of housing shortage hold out a great potential.
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## FINANCIAL HIGHLIGHTS

Particulars	200903(E)	200803(E)	200703	200603	200503
Gross Sales	329.44	286.46	250.229	202.952	179.135
Excise Duty	18.12	15.75	-14.828	-11.831	-11.718
Net Sales	311.32	270.71	235.401	191.122	167.417
Change y-o-y	15.0%	15.0%	23.2%	14.2%	19.4%
Other Income	2.4	2	0.973	0.647	0.334
Total Income	313.72	272.71	236.374	191.769	167.751
Expenditure	211.70	185.44	-161.425	-130.939	-118.939
As a percentage of sales	-68.0%	-68.5%	68.6%	68.5%	71.0%
Operating Profit	102.02	87.27	74.949	60.83	48.812
Change y-o-y	16.9%	16.4%	23.2%	24.6%	28.3%
OPM	32.8%	32.2%	31.8%	31.8%	29.2%
Interest	-26.71	-22.26	-16.288	-14.501	-12.997
Depreciation	-29.69	-25.82	-22.058	-18.214	-16.579
Profit before Tax	45.62	39.19	36.602	28.115	19.236
Tax	-5.47	-4.70	-6.874	-3.889	-1.509
Net Profit	40.14	34.49	29.728	24.226	17.728
Change y-o-y	16.4%	16.0%	22.7%	36.7%	46.4%
NPM	12.9%	12.7%	12.6%	12.7%	10.6%
Equity Capital	17.51	17.51	17.51	15.009	15.009
EPS	22.93	19.70	16.7	15.49	10.75

\* estimates are solely based on past track records

During the year ended March 2007, the company posted a healthy revenue growth of 23% on the back of increased capacity of vitrified tiles. Growing competition in the industry coupled with dominant presence of unorganized sector pressurized the margins both at the operating and the net level, keeping it intact. Despite this, the EPS of the company grew by almost 7% over the previous year.

Increased activity in the residential and commercial real estate segment has led to a corresponding increase in demand for associated building products like ceramic tiles. This has driven the healthy double-digit revenue growth of tile companies in the last couple of years. The upswing in the tile industry can be attributed to the change in the aesthetic tastes of the house owners and corporates. MUL is the only player in the industry having captive mines, as a result of which it has a cost advantage over its peers. This has helped the company to maintain a second position in the industry in terms of EBDITA margins, first being Euro Ceramics.

**At the CMP of Rs. 63.700, the company is trading at a P/E of 3.603x its TTM EPS of Rs.17.75,** which appears cheap when compared to the valuation of its sample peers. Although in terms of revenue growth the peer group has posted a 4 year CAGR of over 100%, as against 25% displayed by MCL, in terms of profitability the company enjoys an edge over them.

**All these factors make the scrip look attractive at the current level, setting a price target of 117.**

## VITRIFIED / CERAMIC TILES INDUSTRY

### Peer Comparison

Particulars (In Rs. Cr.)	Murudeshwar Ceramics (515037)	Kajaria Ceramics (500233)	Nitco Tiles (532722)	Euro Ceramics (532823)
	<i>TTM ending 1207</i>	<i>FY08 Actual</i>	<i>FY08 Actual</i>	<i>FY08 Actual</i>
Sales	245.53	502.65	578.26	228.32
Other Income	1.65	1.53	3.63	<b>6.38</b>
Operating Profit	76.12	83.42	86.57	69.48
<b>EBIDTA Margins (%)</b>	<b>31.00</b>	16.60	14.97	30.45
PAT	30.58	15.02	51.02	27.72
<b>PAT Margins (%)</b>	<b>12.45</b>	2.99	8.82	12.14
Equity	17.51	14.71	32.12	17.10
Reserves	247.00	140.17	NA	189.96
Book Value	151.00	21.00	NA	121.00
Face Value	10.00	2.00	10.00	10.00
Market Cap	112.00	225.00	573.00	268.00
Market Cap/ Sales (times)	0.46	0.45	0.99	1.17
Price (NSE)	63.70	30.60	178.45	156.61
<b>EPS (TTM)</b>	<b>17.75</b>	<b>2.04</b>	<b>18.16</b>	<b>16.21</b>
<b>PE TTM (x)</b>	<b>3.60</b>	<b>15.00</b>	<b>10.00</b>	<b>10.00</b>
Depreciation	25.19	23.61	10.93	15.05
<b>CEPS</b>	<b>31.85</b>	<b>5.25</b>	<b>19.28</b>	<b>25.01</b>
Dividend (%)	20.00	10.00	20.00	-
<b>Target Price</b>	<b>117.00</b>			

### **CONCERNS**

- Peak out in the real estate industry will severely hit the sales of tiles industry.
- The company's product lacks brand image.