



Between the Lines

Daily Corporate News Analysis

Dec 22nd, 2006

Murudeshwar Ceramics Ltd (MUCL)

Initiating Coverage

Key Data

CMP	Rs 110
Date	Dec 22 nd , 2006
Sector	Tiles
Face Value	10/-
BSE Code	515037
52 Week H/L	Rs 156 / 64
Market Cap	Rs 165 Cr

Investment Rationale

Housing and construction sector boom to drive growth: The retail sector primarily malls and multiplexes and the housing sector boom has largely contributed to robust demand for ceramics and vitrified tiles in India. MuCL earning ~60% of its revenues from institutional sales like builders is expected to benefit largely from this boom in the coming 2-3 years with an increase in the construction activity.

Firm regional presence: MuCL enjoys a dominant position in South India with ~50% share of the market. Tile industry being capital intensive and freight sensitive, the profitability of the players is highly dependent on proximity to the markets for raw materials and finished products. MuCL's strong footing in this region coupled with savings arising from locational advantage of its manufacturing facilities gives it an edge over its competitors.

Highest margins in the industry: MuCL enjoys the highest EBITDA margins in the industry due to its presence in the premium segment as also access to cheap natural gas and close proximity to raw materials, which has resulted in a savings of ~Rs150 per sq.mtr. Besides, the company also enjoys sales tax holiday for 10 years and income tax holiday for 5 years at its Karaikal plant. We believe all these factors would enable the company to continue to enjoy better margins in future also.

Capacity expansion to enhance revenue growth: MuCL has expanded its vitrified tiles manufacturing capacity from the current 4.5mn sq.mtrs to 6.3mn sq.mtrs p.a. and also re-entered the ceramic tiles segment with an expansion of 7.2mn sq.mtrs p.a. in the current fiscal. This expansion would facilitate growth in revenues in next 2-3 years.



Dec 22nd, 2006

Attractive valuations: MuCL, inspite of being a leader in the premium vitrified tiles segment is trading at a substantial discount compared to other players in the industry. With tremendous growth potential, high and sustainable margins and leadership position, we expect MuCL to generate superior returns in the future. We hence initiate coverage on the scrip with a BUY recommendation.

Developments and Impact

Capacity Addition

MuCL has recently enhanced its manufacturing capacity by setting up new facility as well as increasing the capacity of its existing plants. Following expansion has been done by the company:

- New facility for glazed ceramic tiles with capacity of 12000 sq. mtrs. per day started from January 2006
- Capacity of Vitrified tiles increased by 6000 sq. mtrs. per day at Karaikal and started production from February 2006
- Glazed ceramic tiles capacity increased by 12000 sq. mtrs. per day and production started from July 2006.

Financials

Robust top and bottomline growth

Net Sales of the company grew by handsome 35.6% during Q2FY2007 while the net profits grew by 46% during the same period over the corresponding quarter of FY2006. Robust sales growth was on account of good growth in its vitrified tiles segment and more on account of contribution from ceramics tiles which started contributing from the current fiscal. Good sales coupled with less than proportionate rise in raw material costs boosted the profits of the company.

Valuations

At the CMP of Rs110, MuCL is trading at Price/Earnings of 5.5x, EV/Sales of 1.6x and EV/EBITDA of 4.9x its TTM Earnings of Rs20.2, which is at a substantial discount to its peers in the tiles industry.



Dec 22nd, 2006



Disclaimer:

This publication has been prepared solely for information purpose and does not constitute a solicitation to any person to buy or sell a security. While the information contained therein has been obtained from sources believed to be reliable, investors are advised to satisfy themselves before making any investments. Kisan Ratilal Choksey Shares & Sec Pvt Ltd., does not bear any responsibility for the authentication of the information contained in the reports and consequently, is not liable for any decisions taken based on the same. Further, KRC Research Reports only provide information updates and analysis. All opinion for buying and selling are available to investors when they are registered clients of KRC Investment Advisory Services. As a matter of practice, KRC refrains from publishing any individual names with its reports. As per SEBI requirements it is stated that, Kisan Ratilal Choksey Shares & Sec Pvt Ltd., and/or individuals thereof may have positions in securities referred herein and may make purchases or sale thereof while this report is in circulation.



Kisan Ratilal Choksey Shares and Securities Pvt. Ltd.
1102, Stock Exchange Tower, Dalal Street, Mumbai 400
001. Phone : 91-22-56338050 Fax : 5633 8060

Members: BSE &
NSE
www.krchoksey.com