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Nitco Tiles Ltd. is India's leading flooring tiles manufacturing company having its presence in vitrified, ceramics, marble and mosaic tiles. Given the ongoing boom in the real estate and housing construction sector, the demand for tiles has been growing by over 20% per annum. During the same period, Nitco has been growing at 50% i.e. higher than the industry average.

Contract Manufacturing Tie-ups in China...

The ongoing strength in the realty sector has prompted Nitco Tiles to augment its overall manufacturing and supply chain in China. The company completely outsources its requirements of vitrified tiles from China.

In 2004, Nitco Tiles first entered into a contract manufacturing agreement with Nanhai Shangyuan Oulian Construction Ceramics Co Ltd. (now known as Foshan Chancheng Oulian Construction Ceramics Co Ltd) of China. It had guaranteed an offtake of 1.5mn square metres of vitrified tiles annually. However, by 2006, the company actually imported 3.5mn sq mtrs.

Now that the demand for tiles is growing at a fast clip, Nitco Tiles has decided to tie up with New Zhong Yuan (NZY) Group, the world's largest manufacturer of tiles. The first partnership still continues. The new tie up will ensure uninterrupted supply of vitrified tiles to meet the continuously rising demand for tiles in India.

Under the new arrangement with Foshan Lungo Ceramics, which is part of NZY, Nitco Tiles has agreed for a minimum offtake of 3mn sq mtrs of vitrified tiles in the first 12 months, 4.5mn sq mtrs in the next 12 months and 6mn sq mtrs.

What's more, there won't be any upward revision in prices for the vitrified tiles procured from Foshan Lungo Ceramics. Another plus is that the Government of India has exempted export of vitrified tiles by Foshan Lungo Ceramics to India from the levy of anti-dumping duty. Other Chinese manufacturers are normally charged an anti-dumping duty of 300%.

Reasoning...

Vitrified tiles make up over 50% of Nitco Tiles' product mix. In the year 2005-06, the company's sales turnover jumped 47% annually. In the first six months of FY07, sales have risen by 53%. In order to maintain this healthy rate of growth, the company thought it fit to strengthen its supply chain and signed its second contract manufacturing agreement with the NZY Group.

Also, China is extremely competitive when it comes to tiles manufacturing. The cost of manufacturing vitrified tiles is among the lowest in China. For instance, NZY's annual production capacity for manufacturing vitrified tiles is around 40mn sq mtrs per annum. This is more than twice that of India (40mn sq mtrs).

There is a place called Foshan in China, which has over 600 factories manufacturing tiles and each of these plants enjoys the benefits of the economies of scale. Also, these factories are very close to the key raw material required for making vitrified tiles. There is one particular type of clay that is required for manufacturing vitrified tiles. This clay is not available in India and therefore Indian companies have to import the same from Ukraine, which is very costly.

Retail thrust...

Nitco Tiles plans to set up its own showrooms across India over the next one year (2007-08). It has already opened 10-15 showrooms. This will reach 100 in two years. By the end of FY07, the company will set up 25 exclusive stores at an investment outlay of Rs100mn. Over the next two years, Nitco Tiles will pump in another Rs200-250mn.

There will not be any sales across the counter in these stores. But, they will be self sustaining with good number of footfalls which the company expects will translate into indirect sales. A customer can place the order at the store after going through a full range of tiles. The company has witnessed a hit rate of 98% in its existing showrooms.

Foray in wall tiles segment...

The company is also planning a foray into the wall tiles segment. It is looking at an acquisition in this space. If the acquisition doesn't fructify, the company will set up its own facility for manufacturing wall tiles at its existing plant at Alibaug. The investment outlay for setting up its own wall tiles manufacturing facility will work out to Rs500mn.

Real estate plans...

Simultaneously, Nitco Tiles is entering the real estate sector through a wholly owned subsidiary called Nitco Realty Ltd. The company's Managing Director, Vivek Talwar, has been into the real estate sector in his personal capacity. Now, he wants to transfer the privately held realty business into Nitco Tiles. He owns land in Mumbai, Delhi and Bangalore, and is also buying land fresh.

Financials...

Particulars	Q2 FY07 Rs Cr	FY06 Rs Cr
Net Sales	97.12 (88.37)	275.2
Net Profit	8.99 (6.90)	20
EPS	4.04* (3.10)	15.59

* on enhanced equity after the IPO.

Product-wise Gross Income Contribution

Product Range	Q2 FY07 Rs Cr	2005-06 Rs Cr
Ceramic tiles	27.9 (26)	96.75
Vitrified tiles	57.8 (51)	170.20
Marble tiles	20.9 (17)	32.52
Mosaic tiles	26.4 (4.5)	11.31
Others	6.2 (>1)	0.39
Total		311.17

In the year ending March 31, 2007, Nitco Tiles expects to clock revenues of Rs4.5bn. Out of this, Rs1.3bn will come from Ceramic tiles, Rs2.5bn from Vitrified tiles, Rs750mn from Marble tiles and balance from Mosaic tiles.

Outlook:

With the real estate sector in the country going full steam ahead, the demand for floor and wall tiles will increase as well. While the industry growth rate is pegged between 15-20%, Nitco Tiles is growing at 40-50%. The new tie up for contract manufacturing in China, with the NZY Group and the existing partnership, will help the company meet the rising demand for premium tiles.

The fact that there will be no price increase from the Chinese manufacturers over the next two years, and the Chinese firms have been exempted from anti-dumping duty will help improve margins for the company. The planned expansion of its exclusive showrooms will not only boost retail sales but also enhance the company's visibility among the consumers.

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