RESULT UPDATE √

Nitco Tiles (NITTIL)

Current Price	Target Price
Rs 30.5	Rs 24
Downside 21%	Time Frame 12-15 months

UNDERPERFORMER

Sanjay Manyal
sanjay.manyal@icicidirect.com
Ritika Shewakramani
ritika.shewakramani@icicidirect.com

WHAT'S CHANGED…

PRICE TARGET……………………………………………..Changed from Rs 46 to Rs 24
EPS (FY09E)……………………………………………………………………Rs 10.9
EPS (FY10E)…………………………………………Changed from Rs 15.5 to Rs 12.0
RATING……………………………………Changed from HOLD to UNDERPERFORMER

Realty bites…

Nitco Tiles reported disappointing results in Q3FY09 with a topline growth of 5.3% to Rs 151.7 crore in Q3FY09 on the back of a 17.6% rise in sales of ceramic tiles to Rs 34.4 crore and a 135.0% rise in sales of cement to Rs 8.6 crore. The EBITDA margin declined to 12.3% from 14.5% in Q3FY08 due to a substantial rise in raw material costs, which could not be fully passed on to the customers. Interest costs rose 17.5% to Rs 3.8 crore from Rs 3.5 crore in Q3FY08 due to higher interest rates. As a result of this, the bottomline took a hit and declined by 46.8% to Rs 7.0 crore from Rs 13.2 crore in Q3FY08.

Highlight of the quarter

On account of the restatement of foreign currency exposure at the exchange rate of US$1= Rs 48.7, Nitco incurred a forex loss of Rs 0.3 crore in Q3FY09 as against a forex gain of Rs 0.9 crore in the corresponding quarter of last year.

Valuations

At the current price of Rs 30.5, the stock is trading at 2.8x its FY09E EPS of Rs 10.9 and 2.5x of its FY10E EPS of Rs 12.0. In the midst of the current financial turmoil and its spill-over effects percolating down to the real estate sector, a primary growth driver for tiles, we foresee the company's earnings remaining erratic and unstable. Moreover, with the fluctuation in the rupee dampening the margin we see growth remaining subdued, going forward. In light of this and the recent market correction, we are downgrading the stock from HOLD to **UNDERPERFORMER**.

Stock data….

Market Cap.	Rs 98.2 Cr
Debt	Rs 129.7 Cr
Cash	Rs 18.1 Cr
EV	Rs 209.8Cr
52 week H/L (Rs)	300 / 26
Equity capital	Rs 32.1 Cr
Face value	Re 10
MF Holding	6.7%
FII Holding	27.9%

Price performance (%)

Company	1M	3M	6M	12M
Nitco	-7.8	-23.4	-68.9	-88.5

Exhibit 1: Key Financials

	Q3FY09A	Q3FY09E	Q3FY08	Q2FY09	YoY Gr.	QoQ Gr.	YTDFY09	FY09E	FY10E
Net Sales	151.7	154.8	144.2	158.6	5.3%	-4.3%	464.8	619.3	670.0
EBIDTA	18.7	21.7	20.9	20.9	-10.7%	-10.6%	63.0	87.0	78.3
EBIDTA Margin (%)	12.3%	14.0%	14.5%	13.2%			13.6%	13.3%	11.7%
Depreciation	4.1	3.6	2.7	3.0	47.8%	34.1%	10.0	14.3	17.3
Interest	3.8	3.5	3.2	3.7	17.5%	1.8%	10.7	14.2	11.0
Other Income	-0.3	-1.8	2.1	0.0	-	-	-5.5	-7.0	5.4
Reported Net Profit	7.0	8.7	13.2	9.7	-46.8%	-27.8%	24.8	35.0	38.7
EPS (Rs)	2.2	2.7	4.1	3.0	-46.8%	-27.8%	7.7	10.9	12.0
Valuation									
PE (x)	-		-	-	-	-	-	2.8	2.5
Target PE (x)	-		-	-	-	-	-	2.2	2.0
EV to EBIDTA (x)	-		-	-	-	-	-	2.7	2.8
Price to book (x)	-		-	-	-	-	-	2.9	2.7
RoNW	-		-	-	-	-	-	6.6%	6.8%
RoCE	-		-	-	-	-	-	5.4%	6.0%

Source: Company, ICICIdirect.com Research

Result analysis

Nine month results as on December 2008

For the ninth-month period ended December 31 2008, the company reported a topline growth of 15.7% to Rs 464.8 crore from Rs 401.5 crore on the back of a 13.3% rise in revenues from vitrified tiles to Rs 245.9 crore and a 11.4% rise in revenues from ceramic tiles to Rs 97.8 crore. While marble revenues registered a 2% fall in revenues to Rs 82.1 crore, the company's imported cement distribution business witnessed a 901.4% surge in revenues to Rs 36.5 crore. The EBITDA margin dipped to 13.6% for the nine month period ended December 31 2008 from 15.1% in the corresponding period last year on account of an 18.0% increase in raw material prices to Rs 293.4 crore. Due to the provisioning for higher taxation, which rose 56.3% to Rs 11.9 crore from Rs 7.6 crore in the corresponding period last year, and a forex loss of Rs 5.5 crore net profit declined 34.1% to Rs 24.8 crore from Rs 37.7 crore in the corresponding period last year.

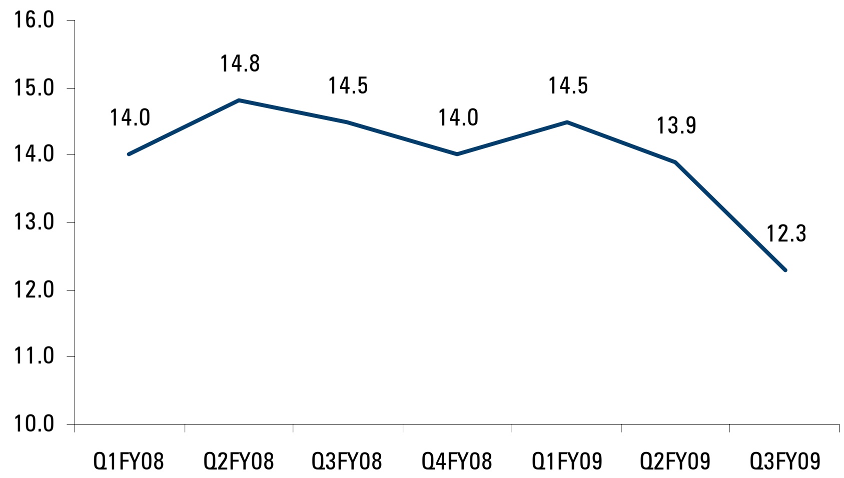
Segmental performance for Q3FY09

Revenues from vitrified tiles grew 4.5% to Rs 81.3 crore, whereas revenues from ceramic tiles grew 17.6% to Rs 34.4 crore. The EBITDA margin in the tiles business declined to 12.9% in Q3FY09 from 15.6% in Q3FY08. While revenues from the cement business surged 135.0% to Rs 8.6 crore, revenues from the marble segment dropped 13.0% to Rs 27.4 crore. However, the EBITDA margin for the cement business dipped to 1.7% in Q3FY09 from 2.3% in the corresponding quarter of last year.

Depreciating rupee dents margin

The company which imports vitrified tiles from China and marbles from Spain and Italy witnessed a significant rise in raw material costs on account of the depreciation of the rupee buoyed by the turmoil in the financial markets. This lead to considerable erosion in the EBITDA margin to 12.3% in Q3FY09.

Exhibit 2: EBITDA margin (%)



Source: Company, ICICIdirect.com Research

Real estate slowdown adds to woes

The combined effect of the credit crunch and despondent corporate and residential demand has sent the real estate sector into a tailspin. With financial institutions tightening their lending to cope with these circumstances, companies' have had to face the brunt causing aggressive expansion plans to go astray. Concurrently, the significant increases in construction costs buoyed by rising interest rates has raised the cost of capital for new as well as ongoing projects, thereby leading to a deterioration in affordability and curtailing construction. As a result, a slowdown in demand for commercial as well as residential properties is imminent. This, in turn, will further curtail the demand for tiles and adversely affect the company's realty venture, which is expected to start contributing to the topline from FY11E. However, we believe the easing home loan rates will provide some respite to the real estate sector, going forward, thereby improving the demand for tiles.

Revising estimates

In light of the bleak economic scenario triggered by slackening demand we have revised our FY10 estimates. Net sales have been changed from Rs 673.0 crore to Rs 670 crore in FY10E. Moreover, due to the adverse impact of the rupee depreciation, margins have eroded. Hence, net profit has been changed from Rs 49.9 crore to Rs 38.7 crore in FY10E.

Risk & Concerns

Volatile raw material prices and currency fluctuations:

The company imports marble from Spain and Italy and vitrified tiles from China. Any significant depreciation in the rupee will adversely affect raw material prices and, thereby, pressurise margins.

Delay in realty project execution:

In the current weak macro-environment triggered by the combined effects of the global liquidity crunch, rising interest rates and negative consumer sentiments a slowdown in the real estate and construction sector is imminent. With banks refraining from easy finance, companies are finding it difficult to meet their funding requirements thereby causing companies to stagger their ramp-up plans. Any noteworthy delay in completion of realty projects would consequently impact the company's revenue.

Falling demand poses bleak scenario

With credit drying up and consumer confidence eroding, demand conditions have severely slackened causing households to curb spending. This loss in purchasing power has curbed both commercial as well as residential property demand, thereby adversely affecting the demand for tiles. We believe the aforementioned circumstances denote a highly bleak scenario for the industry, going forward and will continue to pressurise demand for tiles in the coming quarters.

Valuations

At the current price of Rs 30.5, the stock is trading at 2.8x its FY09E EPS of Rs 10.9 and 2.5x of its FY10E EPS of Rs 12.0. In the midst of the current financial turmoil and its spill-over effects percolating down to the real estate sector, a primary growth driver for tiles, we foresee the company's earnings remaining erratic and unstable. Moreover, with the fluctuation in the rupee dampening margins we see growth remaining subdued, going forward. In the light of this and the recent market correction, we downgrade the stock from HOLD to **UNDERPERFORMER**.

Exhibit 3: Valuation Matrix

	Sales (Rs Crore)	EPS (Rs)	PE (x)	EV/EBIDTA (x)	RoNW (%)	RoCE (%)
FY08	578.3	15.9	1.9	2.2	12.7%	8.7%
FY09E	619.3	10.9	2.8	2.7	6.6%	5.4%
FY10E	670.0	12.0	2.5	2.8	6.8%	6.0%

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Outperformer, Performer, Hold, and Underperformer. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Outperformer (OP): 20% or more;
Performer (P): Between 10% and 20%;
Hold (H): $\pm$10% return;
Underperformer (U): -10% or more;

Pankaj Pandey **Head – Research** **pankaj.pandey@icicidirect.com**

ICICIdirect.com Research Desk,
ICICI Securities Limited,
Gr. Floor, Mafatlal House,
163, HT Parekh Marg,
Backbay Reclamation
Churchgate,
Mumbai – 400 020

research@icicidirect.com

ANALYST CERTIFICATION

We /I, *Sanjay Manyal MBA (Finance), Ritika Shewakramani PGDF* research analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our personal views about any and all of the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts aren't registered as research analysts by FINRA and might not be an associated person of the ICICI Securities Inc.

Disclosures:

ICICI Securities Limited (ICICI Securities) and its affiliates are a full-service, integrated investment banking, investment management and brokerage and financing group. We along with affiliates are leading underwriter of securities and participate in virtually all securities trading markets in India. We and our affiliates have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. Our research professionals provide important input into our investment banking and other business selection processes. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their dependent family members from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on reasonable basis, ICICI Securities, its subsidiaries and associated companies, their directors and employees ("ICICI Securities and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities is acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and may not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgement by any recipient. The recipient should independently evaluate the investment risks. The value and return of investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities and affiliates accept no liabilities for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities and its affiliates might have managed or co-managed a public offering for the subject company in the preceding twelve months. ICICI Securities and affiliates might have received compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. ICICI Securities and affiliates expect to receive compensation from the companies mentioned in the report within a period of three months following the date of publication of the research report for services in respect of public offerings, corporate finance, investment banking or other advisory services in a merger or specific transaction. It is confirmed that *Sanjay Manyal MBA (Finance), Ritika Shewakramani research* analysts and the authors of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months. Our research professionals are paid in part based on the profitability of ICICI Securities, which include earnings from Investment Banking and other business.

ICICI Securities or its subsidiaries collectively do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

It is confirmed that *Sanjay Manyal MBA (Finance), Ritika Shewakramani research* analysts and the authors of this report or any of their family members does not serve as an officer, director or advisory board member of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report. ICICI Securities and affiliates may act upon or make use of information contained in the report prior to the publication thereof.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.