

Mid-Cap & Small Cap Sector Analysis

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Private & Confidential

Catch them young

- General perception: small caps and mid caps considered extremely risky, very difficult to predict the earnings, less competitive, poor governance, etc
- Efficient market theory and mid/small caps
- Better returns than large cap. Risk adjusted returns ?
- Fundamental analysis – the recommended approach. Technicals may not work in mid/small caps
- Mid/Small caps require a detailed primary analysis, field studies, management visits not only before investing; but on continuous basis post investment
- Typical characteristics to look for: sound management, leadership position in respective segment, high entry barriers, unique selling points to customers, better return ratios, etc.
- The real opportunity comes when a couple of your investments become mega companies.
- Recently one of the small cap funds of DSP Blackrock stopped taking new inflows into funds

Mid-cap & Small-cap Performances

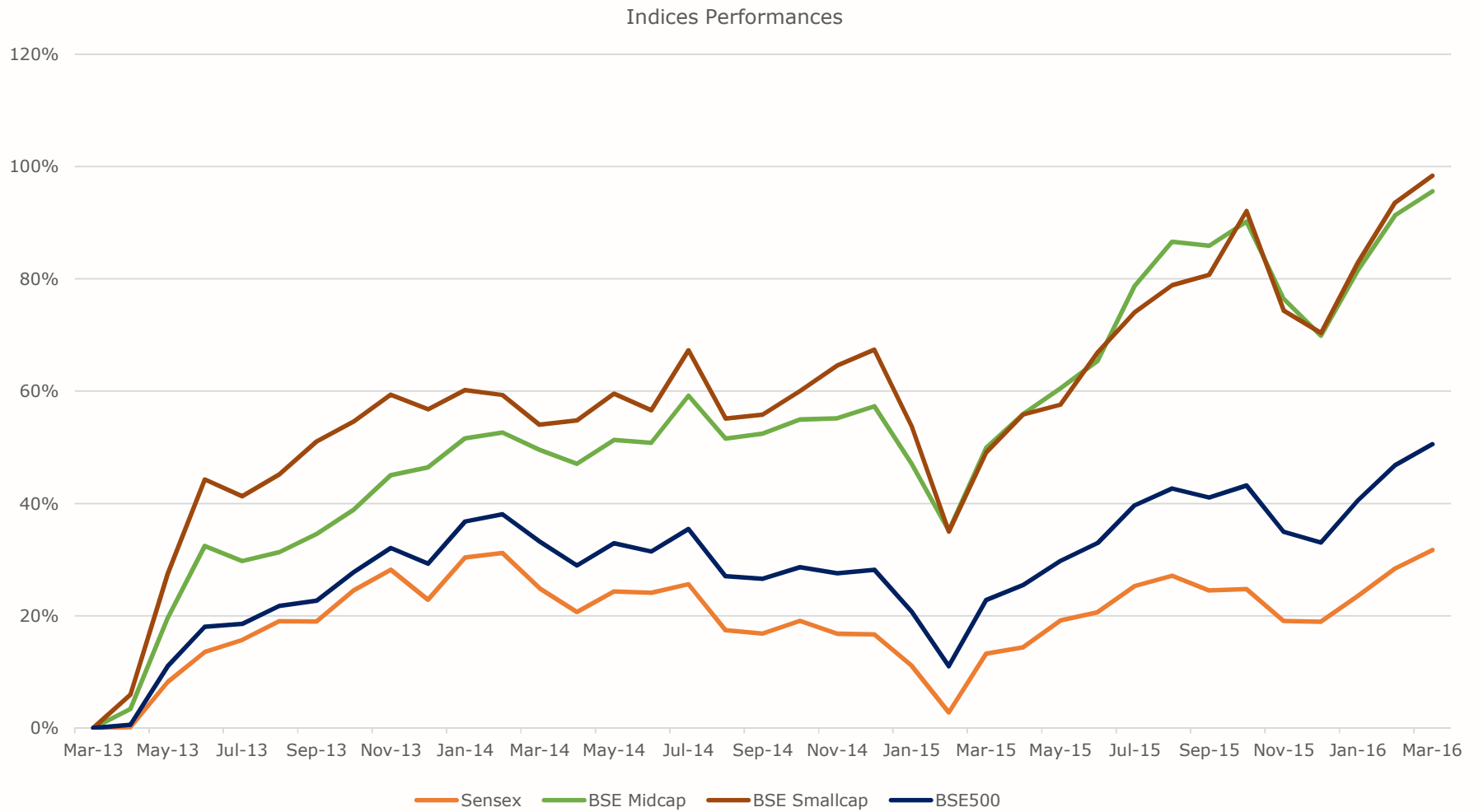
Emkay Universe v/s. Indices (Q3FY17 financials)

| Parameters ----> | Net Sales Growth | Ebitda Growth | EBITDA Margin growth | EBIT margin growth | Adjusted PBT Growth | Adjusted PAT Growth | Interest Cost Growth | Tax Growth |
|--|------------------|---------------|----------------------|--------------------|---------------------|---------------------|----------------------|------------|
| Sensex | 6.7% | 4.8% | -35 bps | -54 bps | 2.4% | 1.6% | 18.0% | 6.4% |
| NIFTY | 7.0% | 6.6% | -6 bps | -27 bps | 4.2% | 3.7% | 20.1% | 6.4% |
| BSE 500 | 7.8% | 7.9% | 2 bps | 5 bps | 10.5% | 8.1% | 6.8% | 18.0% |
| BSE 200 | 9.1% | 8.6% | -8 bps | -5 bps | 10.6% | 7.1% | 10.9% | 20.4% |
| BSE100 | 8.0% | 11.0% | 52 bps | 48 bps | 13.2% | 7.9% | 10.1% | 28.9% |
| NSE Midcap | 11.2% | 6.5% | -61 bps | -56 bps | 18.5% | 25.0% | 5.6% | 0.1% |
| BSE 500 ex-Nifty | 8.6% | 9.7% | 15 bps | 40 bps | 23.7% | 16.4% | 1.3% | 48.8% |
| BSE 200 ex-Nifty | 12.6% | 12.7% | 2 bps | 39 bps | 29.9% | 16.2% | 4.7% | 95.8% |
| BSE 100 ex-Nifty | 12.4% | 30.4% | 283 bps | 349 bps | 94.4% | 35.2% | -1.3% | |
| Emkay Universe | 6.3% | 12.0% | 101 bps | 93 bps | 12.6% | 5.1% | 18.0% | 38.5% |
| Emkay Large Cap | 7.1% | 13.0% | 108 bps | 101 bps | 13.1% | 4.5% | 22.7% | 44.2% |
| Emkay Mid Cap | 2.7% | 3.5% | 16 bps | 16 bps | 4.1% | 3.6% | 7.0% | 1.4% |
| Emkay Small Cap | 1.7% | 10.7% | 104 bps | 79 bps | 18.4% | 24.1% | -2.8% | 5.5% |
| Emkay Universe ex Top 3 Cos | 5.0% | 4.9% | -2 bps | -24 bps | 2.1% | -3.8% | 17.2% | 25.8% |
| Emkay Universe ex Top 5 Cos | 4.3% | 3.5% | -16 bps | -41 bps | -0.7% | -7.1% | 18.0% | 24.3% |
| Emkay Universe ex Top 3 and Bottom 3 Cos | 7.0% | 12.8% | 115 bps | 99 bps | 13.6% | 7.3% | 17.2% | 39.5% |
| Emkay Universe ex Top 5 and Bottom 5 Cos | 5.4% | 10.5% | 101 bps | 82 bps | 10.1% | 8.5% | 16.5% | 18.0% |

Source: Emkay Research & Exchange website

Indices Performance

3yrs comparative Indices performance



Indices Performance

BSE 100



BSE 200



BSE Auto



BSE Capital Goods



Indices Performance

BSE Consumer Durables



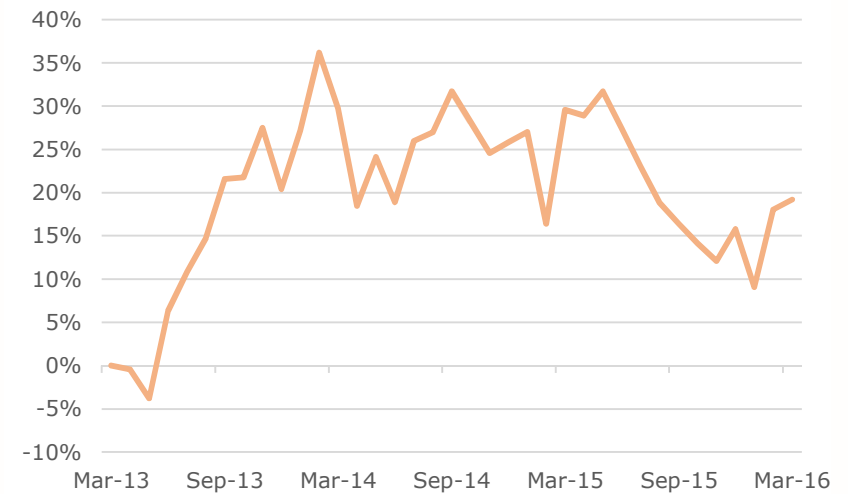
BSE FMCG



BSE Healthcare



BSE Information Technology



Indices Performance

BSE Metal



BSE Oil & Gas



BSE Power



BSE Realty



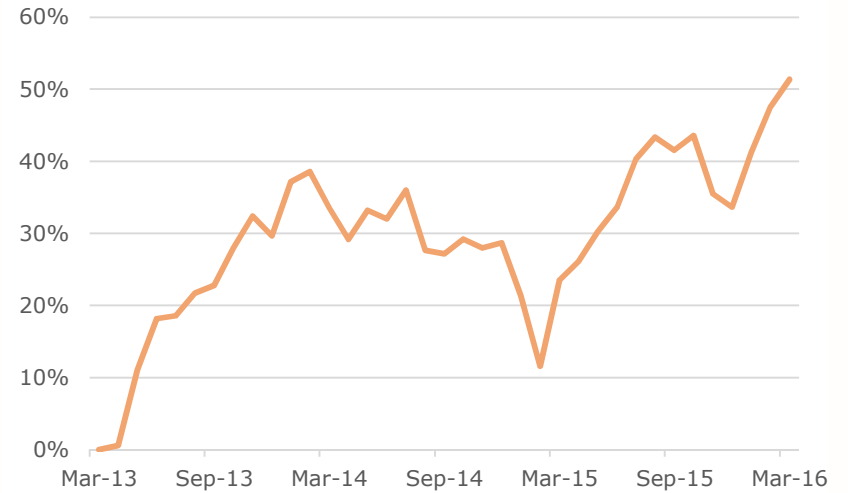
Source: Emkay Research & Exchange website

Indices Performance

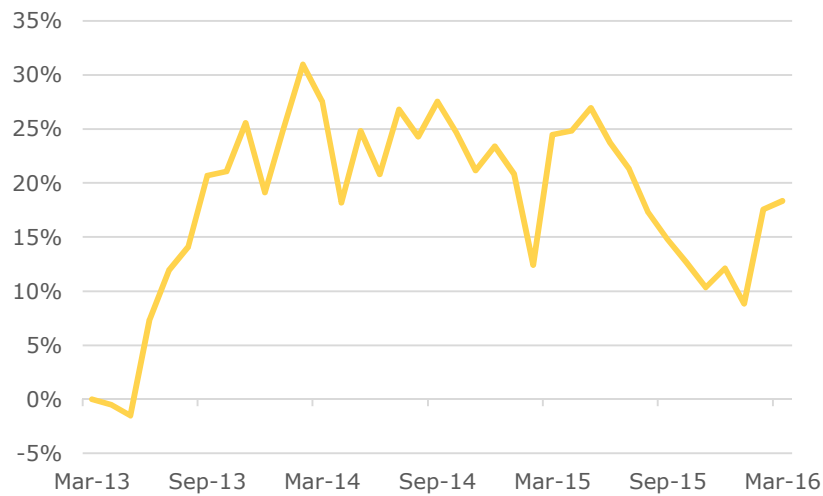
BSE PSU



Nifty 500



BSE Technology



Nifty



Indices Returns

Indices Returns

| Indices | Returns | | | |
|-----------------------|---------|--------|--------|--------|
| | 1 yr | 2 yrs | 3yrs | 5 yrs |
| Sensex | 16.4% | 5.5% | 31.7% | 69.4% |
| BSE Midcap | 30.5% | 30.8% | 95.6% | 118.3% |
| BSE Smallcap | 33.1% | 28.8% | 98.4% | 111.6% |
| BSE100 | 20.3% | 9.5% | 40.5% | 77.3% |
| BSE200 | 21.4% | 11.9% | 47.6% | 83.4% |
| BSE500 | 22.6% | 13.0% | 50.6% | 84.8% |
| BSE Auto | 23.2% | 15.2% | 67.0% | 118.9% |
| BSE Cap Goods | 24.9% | -7.1% | 33.7% | 60.2% |
| BSE Consumer Durables | 27.9% | 40.9% | 124.9% | 129.3% |
| BSE FMCG | 21.2% | 19.9% | 33.7% | 107.4% |
| BSE Healthcare | 1.2% | -11.3% | 52.0% | 131.3% |
| BSE IT | -8.0% | -8.1% | 19.2% | 72.2% |
| BSE Metal | 57.2% | 25.2% | 17.9% | 4.5% |
| BSE O&G | 45.3% | 43.0% | 40.3% | 64.6% |
| BSE Power | 25.6% | 4.8% | 29.3% | 6.7% |
| BSE Realty | 28.5% | -5.2% | 7.5% | -11.2% |
| BSE PSU | 37.3% | 10.2% | 32.0% | 14.7% |
| BSE Tech | -4.9% | -7.2% | 18.3% | 62.9% |

| Indices | Returns | | | |
|--------------------|---------|--------|-------|--------|
| | 1 yr | 2 yrs | 3yrs | 5 yrs |
| Nifty | 17.9% | 7.4% | 36.1% | 72.2% |
| Nifty Midcap 100 | 32.7% | 30.2% | 96.5% | 119.5% |
| Nifty Smallcap 100 | 39.6% | 21.3% | 84.7% | 101.4% |
| Nifty100 | 20.0% | 10.3% | 42.5% | 80.8% |
| Nifty200 | 21.3% | 11.5% | 46.6% | 82.7% |
| Nifty500 | 22.6% | 13.3% | 51.4% | 87.3% |
| Nifty Auto | 23.2% | 15.6% | 71.7% | 136.8% |
| Nifty Bank | 30.2% | 15.4% | 65.0% | 105.8% |
| Nifty Energy | 34.8% | 37.4% | 36.4% | 50.3% |
| Nifty FMCG | 20.4% | 19.7% | 31.6% | 96.0% |
| Nifty Infra | 19.9% | -6.0% | 16.9% | 21.8% |
| Nifty Media | 33.6% | 41.6% | 72.9% | 151.6% |
| Nifty Pharma | -4.5% | -18.3% | 37.5% | 108.3% |
| Nifty Realty | 34.5% | -2.6% | 11.3% | -11.9% |

Screeners result



Your success is our success

3 yrs CAGR

| CAGR growth - 3yr | Net Sales | EBITDA | Adj. PAT |
|-------------------|-----------|--------|----------|
| 200-500 | 12.69% | 20.60% | 36.25% |
| 500-1000 | 9.77% | 19.60% | 47.99% |
| 1000-1500 | 12.52% | 20.80% | 30.53% |
| 1500-2000 | 17.70% | 27.33% | 38.89% |
| 2000-2500 | 16.04% | 30.22% | 70.87% |

Price Performance

| Mcap Range | 3 mnths | 6 mnths | 1 yr | 3 yrs |
|------------|---------|---------|-------|--------|
| 200-500 | 1.1% | 2.5% | 26.4% | 369.1% |
| 500-1000 | -1.6% | 8.2% | 20.9% | 303.2% |
| 1000-1500 | -7.2% | 4.5% | 29.7% | 282.9% |
| 1500-2000 | -4.7% | 1.6% | 13.6% | 316.1% |
| 2000-2500 | -3.0% | 6.6% | 30.5% | 325.9% |
| BSE 500 | -4.8% | 2.4% | 10.6% | 51.1% |

Indian Tile Industry

- Indian tile industry size Rs26000 cr and growing at 12%-15% p.a.
- World capacity 14000 m sq mtrs with China 40%, Brazil 7% and India 6% share
- With 900 m sq m capacity, the Indian industry is the third largest industry in the world
- More than 600 manufacturers in India with 90% located in Morbi (Gujarat)
- 50% of the industry is unorganised
- 59% ceramic tile, 36% polished vitrified tiles and 5% Glazed vitrified tiles
- India's per capital consumption of tile is 0.54 sq m while that of China and Brazil and 3 sq mtrs and 4 sq mtrs respectively.
- 15% replacement market while 30% in China
- Exports growing faster but at a low base
- Organised players very few: Kajaria, Somany, Johnson, AGL and Orient Bell
- Key to success: Branding, distribution, cost efficiency, outsourcing capability

Peer Comparision

| | AGL | Somany | Kajaria | Orient Bell |
|---------------------------------------|-------|--------|---------|-------------|
| Capacity (mn sq mtr per annum) | 30.0 | 60.3 | 68.6 | 29.0 |
| - Own | 26.4 | 25.6 | 45.3 | 24.0 |
| - JV | 2.4 | 25.7 | 23.3 | |
| - Outsource | 1.2 | 9.0 | | 5.0 |
| Sanitarware (pcs pa) | - | 303000 | | |
| Faucet (mn pcs) | - | - | 1 | |
| FY17 Annualised (Rscr) | | | | |
| Sales | 906 | 1807 | 2502 | 558 |
| EBITDA | 112 | 175 | 491 | 43 |
| PAT | 32 | 87 | 251 | 9 |
| Cash PAT | 65 | 120 | 332 | 22 |
| EBITDA% | 12.4 | 9.7 | 19.6 | 7.7 |
| PAT% | 3.5 | 4.8 | 10.0 | 1.5 |
| Sept16 B/S (Rs cr) | | | | |
| NW | 380.0 | 460.7 | 1130.3 | 131.4 |
| Debt | 391.0 | 281.0 | 389.0 | 113.5 |
| Cash | 21.0 | 111.3 | 19.6 | 5.7 |
| D/E | 1.0 | 0.4 | 0.3 | 0.8 |

Peer Comparison (contd..)

| | AGL | Somany | Kajaria | Orient Bell |
|-------------------------------|------------------------------|--------------------------------------|------------------------------------|-------------|
| Domestic% | 95 | 96 | 98 | |
| Export% | 5 | 4 | 2 | |
| Export to number of countries | 53 | 55 | | |
| Insti | 65 | 35 | 30 | |
| Retail | 35 | 65 | 70 | |
| Dealer/Subdealers | 5300 | 1500 Dealers, 8500 sub dealers | 1100 Dealers/4000 Associates | 4242 |
| EBOs/Showrooms | 106 (90 EBOs, 16 Display) | 190 | | 109 |
| N | 21 | 39 | | |
| W | 34 | 12 | | |
| S | 34 | 29 | | |
| E | 11 | 16 | | |
| Inventory Days | 113 | 39 | 59 | |
| Debtor Days | 65 | 69 | 40 | |
| Creditor Days | 89 | 66 | 58 | |
| Core WC Cycle | 89 | 43 | 41 | 0 |

Peer Comparison (contd..)

| | AGL | Somany | Kajaria | Orient Bell |
|-----------------|---|--|---|--|
| Plant Locations | IDAR DALPUR DHOLKA MORBI MEHSANA | KASSAR, Haryana KADI, Gujarat | Sikandrabad, UP Gailpur, Raj Malootana, Raj Morbi, Guj Vijayawada, AP | Sikandrabad, UP Dora, Gujarat Hoskote, Karnataka |
| PRODUCTS | CERAMIC TILES VITRIFIED TILES GRESTEK MARBLE QUARTZ | CERAMIC TILES VITRIFIED TILES SANITARYWARE | CERAMIC TILES VITRIFIED TILES SANITARYWARE FAUCET | CERAMIC TILES VITRIFIED TILES SANITARYWARE FAUCET |
| Tiles | 81% | - | - | - |
| Marble & Quartz | 19% | - | - | - |
| Vitrified | 61.0 | 51.4 | | 19 |
| GVT | 18.0 | | | |
| Double Charge | 23.0 | | | |
| PVT | 20.0 | | | |
| Ceramics | 39.0 | 48.6 | | 81 |

Peer Comparison (contd..)

| | AGL | Somany | Kajaria | Orient Bell |
|------------|--------|--------|---------|-------------|
| CMP (Rs) | 359.0 | 660.0 | 563.5 | 163.1 |
| Mcap | 1080.2 | 2798.4 | 8954.0 | 231.4 |
| EV | 1450.2 | 2968.1 | 9323.4 | 339.2 |
| P/E | 34.2 | 32.3 | 35.6 | 26.8 |
| EV/Sales | 1.6 | 1.6 | 3.7 | 0.6 |
| Mcap/Sales | 1.2 | 1.5 | 3.6 | 0.4 |
| EV/EBITDA | 12.9 | 16.9 | 19.0 | 7.9 |
| FY17E ROE% | 7.9 | 17.3 | 20.1 | 6.3 |

Peer Comparison (contd..)

Somany Ceramics Valuations – Preferential Issue

(Rs. in Mn; except for per share data)

| | Somany Ceramics# | | | | Kajaria Ceramics\$ | | | |
|-----------------------|------------------|--------|--------|--------|--------------------|--------|--------|--------|
| | FY12 | FY13 | FY14E | FY15E | FY12 | FY13 | FY14E | FY15E |
| Net sales | 8,790 | 10,462 | 12,425 | 16,027 | 13,130 | 16,120 | 18,293 | 20,012 |
| EBITDA | 741 | 871 | 803 | 1,135 | 2,064 | 2,446 | 2,851 | 3,162 |
| PAT | 254 | 316 | 264 | 464 | 819 | 1,078 | 1,387 | 1,607 |
| Margins | | | | | | | | |
| EBITDA | 8.4% | 8.3% | 6.5% | 7.1% | 15.7% | 15.2% | 15.6% | 15.8% |
| PAT | 2.9% | 3.0% | 2.1% | 2.9% | 6.2% | 6.7% | 7.6% | 8.0% |
| As on Jan-2014 | | | | | | | | |
| CMP | 117.00 | | | | 300.00 | | | |
| Mcap | 4,036.1 | | | | 23,838.0 | | | |
| Valuation | | | | | | | | |
| P/E | 15.9x | 12.8x | 15.3x | 8.7x | 29.1x | 22.1x | 17.2x | 14.8x |
| Mcap/Sales | 0.5x | 0.4x | 0.3x | 0.3x | 1.8x | 1.5x | 1.3x | 1.2x |

Source: Bloomberg

Peer Comparison (contd..)

Somany Ceramics Valuations – QIP

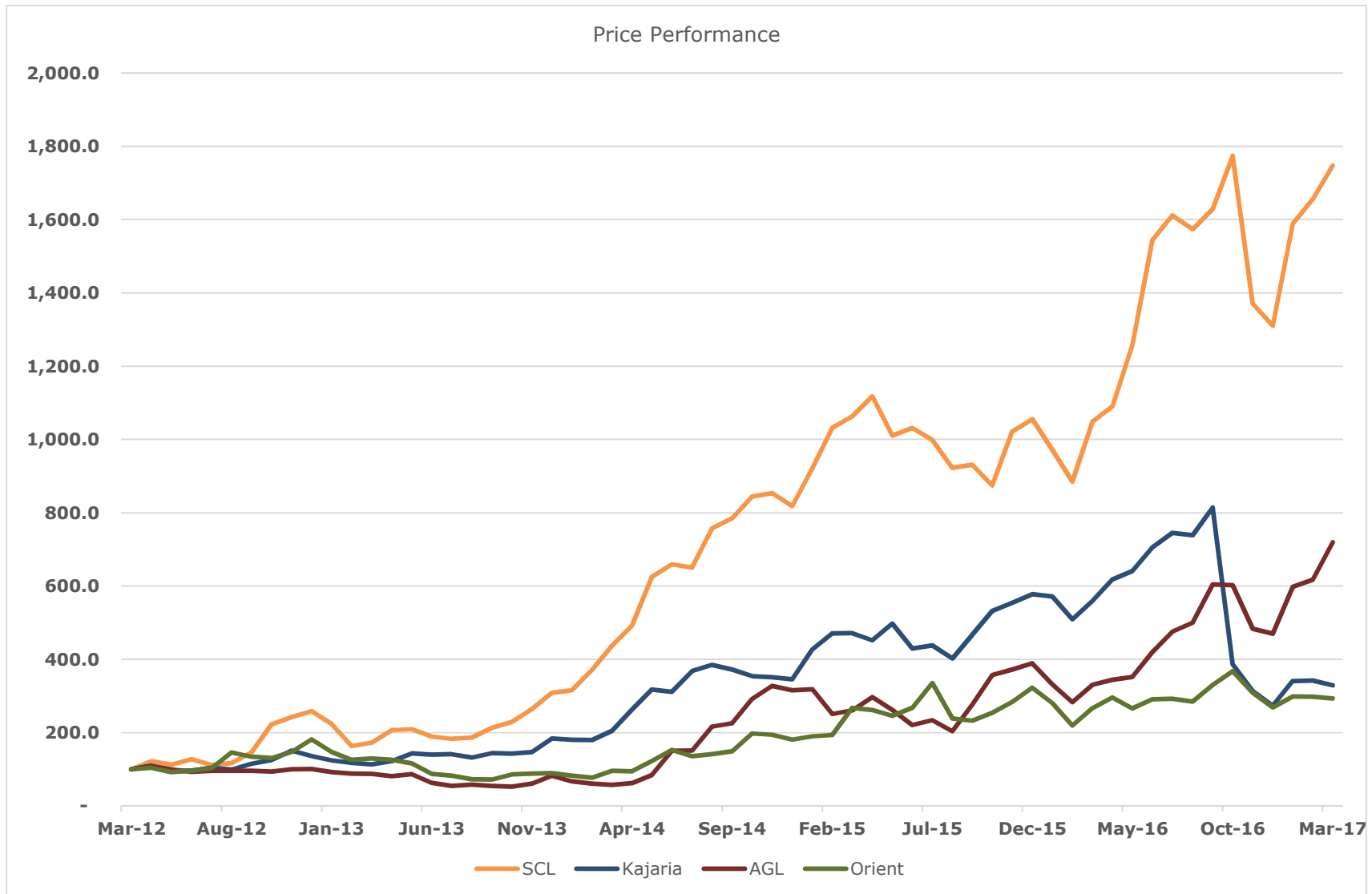
(Rs. in Mn; except for per share data)

| | Somany Ceramics# | | | | Kajaria Ceramics\$ | | | |
|--------------------------|------------------|--------|--------|--------|--------------------|--------|--------|--------|
| | FY14 | FY15E | FY16E | FY17E | FY14 | FY15E | FY16E | FY17E |
| Net sales | 12,629 | 15,302 | 18,431 | 22,145 | 21,184 | 22,190 | 27,597 | 32,684 |
| EBITDA | 868 | 973 | 1,265 | 1,618 | 3,329 | 3,467 | 4,380 | 5,214 |
| PAT | 282 | 446 | 635 | 858 | 1,661 | 1,712 | 2,220 | 2,715 |
| Margins | | | | | | | | |
| EBITDA | 6.9% | 6.4% | 6.9% | 7.3% | 15.7% | 15.6% | 15.9% | 16.0% |
| PAT | 2.2% | 2.9% | 3.4% | 3.9% | 7.8% | 7.7% | 8.0% | 8.3% |
| As on 16-Mar-2015 | | | | | | | | |
| CMP | 370.00 | | | | 775.00 | | | |
| Mcap | 14,370.8 | | | | 61,581.5 | | | |
| Valuation | | | | | | | | |
| P/E | 44.8x | 31.1x | 21.1x | 16.1x | 35.6x | 36.0x | 27.7x | 22.4x |
| Mcap/Sales | 1.1x | 0.9x | 0.8x | 0.6x | 2.9x | 2.8x | 2.2x | 1.9x |

Source: Bloomberg

Price Performance

Price performance chart of SCL, Kajaria, AGL & Orient



Thank You



Your success is our success

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