

## Strong overall performance led by quartz business

Pokarna's topline grew 63.1% YoY to ₹ 144.7 crore in Q4FY19. EBITDA margin expanded 773 bps YoY to 34.5% led by 826 bps YoY expansion in EBITDA margins of granite business to 31.3% & 575 bps YoY expansion in EBITDA margin of quartz business to 38.4% in Q4FY19). PAT grew a robust 94.6% YoY to ₹ 26.4 crore led by strong performance of quartz business.

## Quartz performance steers strong overall performance

Pokarna's revenue growth was led by strong performance in the quartz division that grew 112.9% YoY to ₹ 107.2 crore in Q4FY19. This was on account of a couple of factors: i) better realisation on quartz products due to currency depreciation and a better product mix and ii) shift in demand towards Indian quartz in export markets, especially with the US imposing anti-dumping duty on Chinese quartz, which accounts for ~60% of the US quartz market. Going ahead, Pokarna's quartz portfolio, with 64+ colour palettes with multiple shades & textures of ~350 colours, augurs well for the company to improve its product mix.

## Capacity addition to boost revenues ahead

Pokarna's existing 6 lakh sq mt (LSM) capacity in Visakhapatnam operated at 100% utilisation in FY19. Due to this capacity constraint, despite robust demand for quartz, we see lower growth in Pokarna's quartz revenues in FY20E. The company is setting up new a 7.8 LSM capacity quartz plant in Hyderabad that is expected to be commissioned in Q4FY20E. The company has proposed ₹ 330 crore capex for the project (₹ 250 crore debt and ₹ 80 crore internal accruals). Pokarna has already incurred one-third of this capex as of FY19. Overall, with quartz business contributing ~68% to overall revenues, the new plant will help Pokarna overcome its capacity constraints and cater to incremental demand, thus boosting overall revenues, going ahead.

## Antidumping investigations carried out by US

The US ended its preferential trade treatment for India, effective June 5, 2019. Pokarna's management is awaiting more clarity on the extent of impact of this development. Secondly, the US Department of Commerce recently received a petition to impose antidumping duty on quartz products from India & Turkey. While investigation on this matter is under way, the management highlighted that no evidence of dumping of quartz products from India has been found. The USITC is expected to make an announcement related to antidumping duty by June 24, 2019. We highlight that with 98% of Pokarna's quartz sales coming from US market, imposition of antidumping duty, if any, could have a significant influence on its business performance.

## Valuation & Outlook

At the CMP, the stock is trading at ~6.5x FY19E EPS. We like Pokarna, given its increasing focus on high-margin quartz business, its owned quarries and technological moat (Bretonstone technology) in India. We believe the new quartz facility in Hyderabad will further help the company increase its share in the US market. We maintain **BUY** rating with a target price of ₹ 215 per share (9x FY20E EPS). Any imposition of antidumping duty by US on Indian Quartz would remain a key risk for the stock.



### Particulars

Particular	Amount
Market Capitalization	523.2
Total Debt	220.0
Cash & equivalent	20.9
EV	₹ 664 Crore
52 week H/L (₹)	199 /122
Equity capital	6.2
Face value	₹ 2

### Key Highlights

- Topline grew 63.1% YoY to ₹ 144.7 crore in Q4FY19, led by strong performance in quartz division that grew 112.9% YoY to ₹ 107.2 crore
- New 7.8 LSM capacity quartz plant in Hyderabad expected to be commissioned in Q4FY20E
- The US Department of Commerce has initiated investigations with respect to a petition seeking to impose antidumping duty on quartz products from India & Turkey
- Maintain **BUY** with a target price of ₹ 215/share

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**Exhibit 1: Quarterly Performance**

Year	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ(%)	Comments
Net Sales	144.7	88.7	63.1	119.6	21.0	Topline growth on account of strong performance in quartz business
Other Income	1.7	1.5	9.8	1.3	27.3	
Total raw material Expenses	48.0	24.5	95.7	36.4	31.8	
Employee Cost	11.4	8.4	35.4	9.7	17.8	
Other Expenditure	35.4	32.0	10.5	30.2	17.0	
EBITDA	49.9	23.7	110.3	43.2	15.4	
EBITDA Margin (%)	34.5	26.7	773 bps	36.1	-168 bps	EBITDA margin expansion on account of better product mix in its quartz division and higher EBITDA margins from its granite business
Depreciation	9.8	4.9	98.6	5.5	76.4	
Interest	5.8	7.5	-22.6	6.3	-8.6	
PBT	36.0	12.9	179.7	32.7	-5,243.3	
Taxes	9.6	-0.7	-1,516.2	5.6	71.4	
PAT	26.4	13.6	94.6	27.1	-2.6	PAT growth on account of higher topline growth and EBITDA margin expansion

Source: Company, ICICI Direct Research

**Exhibit 2: Financial performance**

(Year-end March)	FY15	FY16	FY17	FY18	FY19E
<b>P&amp;L</b>					
Revenues (₹ crore)	326.4	393.9	367.4	328.2	462.2
EBITDA (₹ crore)	83.6	132.8	136.4	97.2	143.1
EBITDA Margins (%)	25.6	33.7	37.1	29.6	31.0
Net Profit (₹ crore)	31.4	51.2	70.3	42.1	80.7
<b>Balance Sheet</b>					
Equity (₹ crore)	6.2	6.2	6.2	6.2	6.2
Net worth (₹ crore)	53.0	96.8	164.2	191.3	269.4
Debt (₹ crore)	290.2	271.6	270.8	220.0	302.7
<b>Ratios</b>					
RoNW (%)	59.1	52.9	42.8	22.0	29.9
RoCE (%)	18.9	32.9	29.1	19.9	21.9
P/B	9.9	5.4	3.2	2.7	1.9
P/E	16.7	10.2	7.4	12.4	6.5
Earnings per share (₹)	10.1	16.5	22.7	13.6	26.1
Asset turnover (x)	0.9	1.1	0.8	0.8	0.8
EV/EBITDA (x)	9.6	5.9	5.6	7.4	5.1

Source: Company, ICICI Direct Research

## Conference Call Highlights

- **Quartz business:** As per the management, while the trade war between the US and China is moving demand for quartz away from China to India, tens of new players are coming up with additional manufacturing facilities in the country. Nonetheless, the management highlighted that with Pokarna having better set of product mix and superior BretonStone technology for manufacturing of quartz, this would not have a material impact on the company
- **EBITDA margins improve:** EBITDA margin expanded 773 bps YoY to 34.5% on account of a better product mix and cost efficiencies. Margin expansion was led by 826 bps YoY expansion in EBITDA margins of granite business to 31.3% and 575 bps YoY expansion in EBITDA margin of quartz business to 38.4% in Q4FY19. The management has guided for 35%+ EBITDA margins for quartz business, going ahead
- **Challenges from US:** The US recently ended a preferential trade treatment for India, effective June 5, 2019. Pokarna's products also come under this ambit. The management awaits more clarity on the extent of impact of this development
- **USITC carrying out antidumping investigation:** The US Department of Commerce received petition for imposition of antidumping duty on quartz surface products from India & Turkey. While the matter is still under investigation, Pokarna's management highlighted that the US has still not found anything on this front. The United States International Trade Commission (USITC) is expected to make an announcement related to antidumping duty by June 24, 2019. If necessary, Pokarna is looking to participate in proceedings related to anti-dumping. Pokarna, to combat any slowdown faced from the US market, could consider entering other potential markets like Europe
- **New quartz plant:** Pokarna is currently expanding its quartz manufacturing facility by 130% i.e. 7.8 LSM new capacity in Hyderabad. The new capacity could take two to four years to reach 100% utilisation. The company has proposed ₹ 250 crore debt to be raised for the new plant. As of FY19, it has incurred one-third capex (total ₹ 330 crore capex proposed) towards this new plant.
- **Business exclusivity with Ikea:** Pokarna enjoys an exclusive partnership with Ikea in India and sees good business potential with the latter expanding its operations in the country
- **Apparel business:** With no attractive buyers identified by the management for the apparel business, they have decided not to pursue a restructuring solution for this business

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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