

Pokarna Ltd.

- Pratik Patel
 - https://forum.valuepickr.com/u/Pratik_Patel9/
- Disclosure

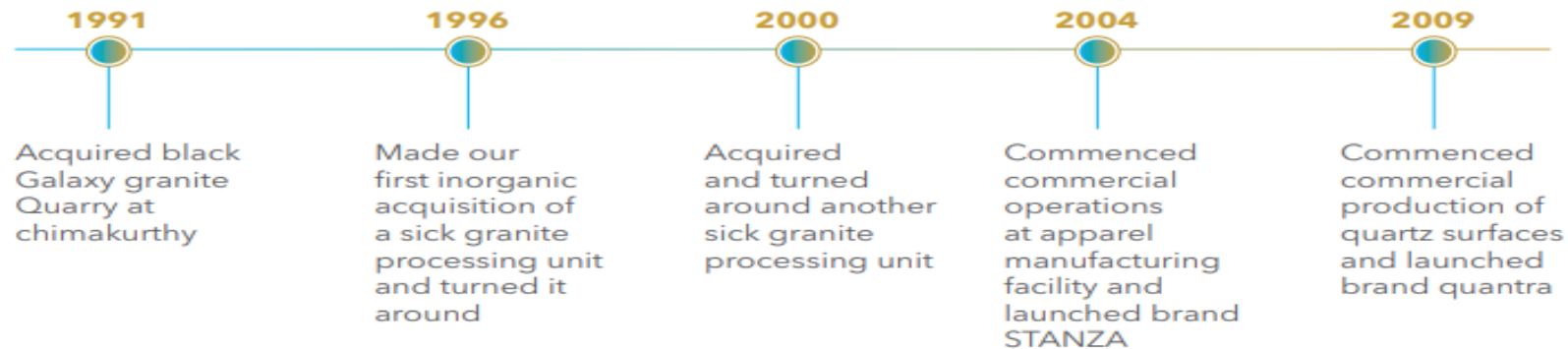
I am invested in the stock and views could be biased. I am not a SEBI registered advisor. Please consult your financial advisor before taking any decision on investment in the company being discussed.

What does it do?

- Quartz Slabs Manufacturing under Quantra brand
 - 80% of the revenue
 - 1 plant in Telangana and 1 under progress
 - Fully automated production line
 - sources RM natural quartz from Telangana and Hydrabad
 - only Company to use Bretonstone[®] System in India
 - highest exporter of Quartz slabs in India



- Granite Processing
 - 20% of the revenue
 - backward integrated processing units sourcing from own quarries
 - 2 plants in Telangana
- Apparel Manufacturing
 - 2% of the revenue
 - loss making (loss of ~7.5cr last year)
 - plans to sell it off



Geographical Distribution of Revenue

- 77% in USA, 95% of Quartz in USA
- 6% in China
- 7% in India
- 10% rest of the World

Why Quartz Slabs?

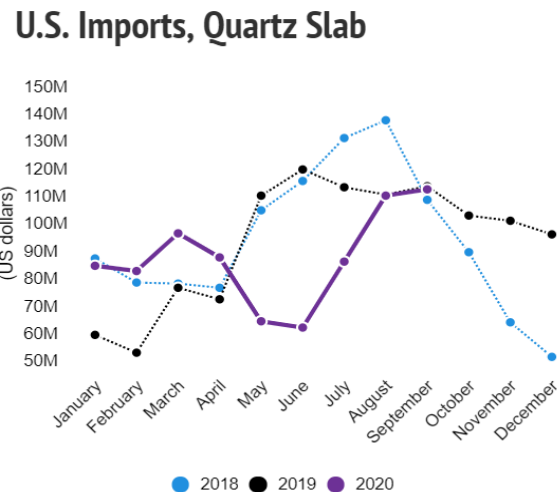
- An engineered stone made from 95% natural ground quartz and 5% polymer resins
- Ability to customize patterns and color palettes
- Less maintenance compared to Granite slabs
- Harder than Granite and more durable, nearly indestructible
- Non porous unlike Granite and hence remains more bacteria-free
- An established trend in favor of quartz surfaces

US countertop market projected growth at 2.8% CAGR until 2024

Quartz countertop market projected growth at 6.9% CAGR until 2024

Developments regarding ADD and CVD in USA

- December 2018 USA announced new ADD and CVD of around 242% to 314%
- China had almost 50% market share in Quartz surface in 2018 before new tariffs.
- Today India is the highest exporter of Quartz surfaces in USA for latest Quarter



Data: U.S. International Trade Commission; Hard-Surface Report analysis. Hard-Surface REPORT

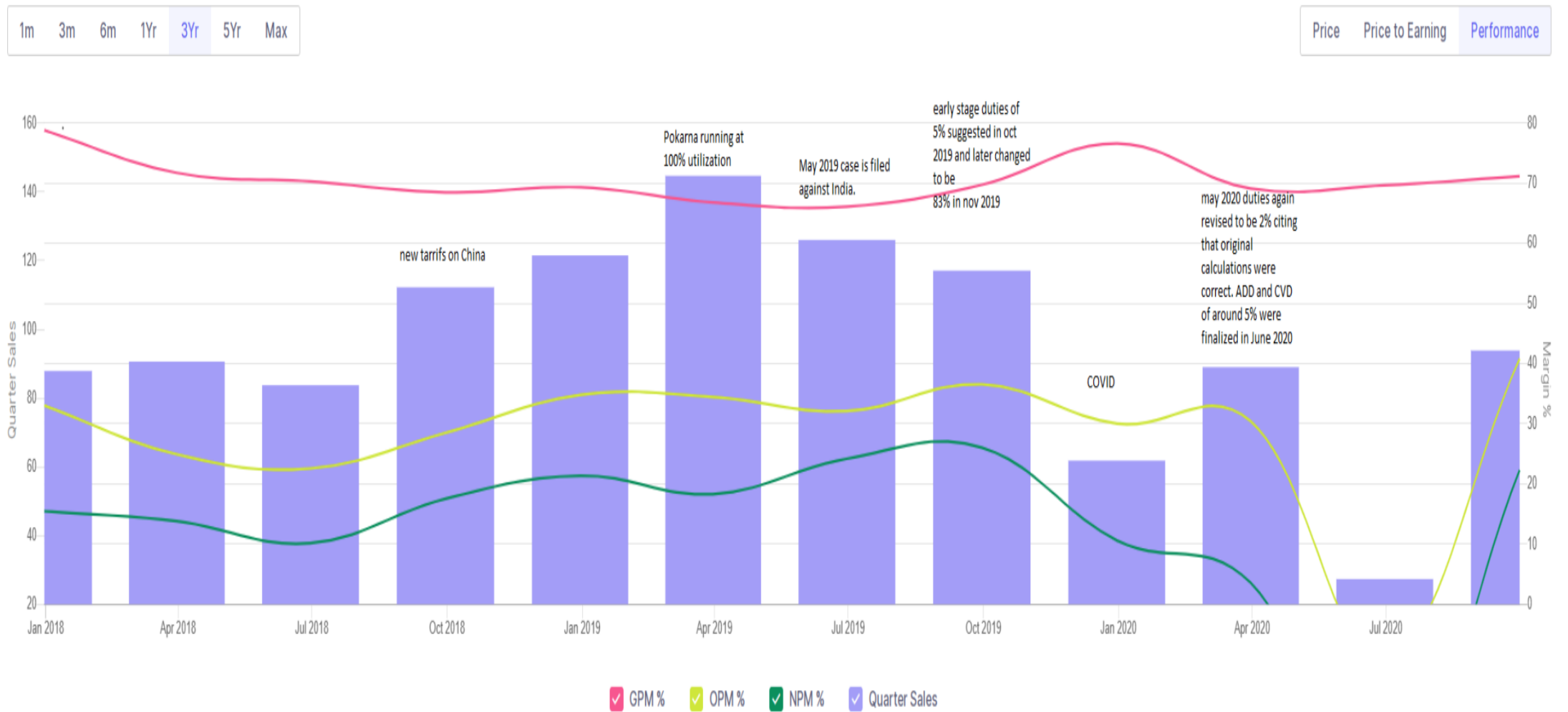
September 2020
\$115,873,984 (-1.3%)

Sector Leader
India
\$20,944,155 (-28.7%)

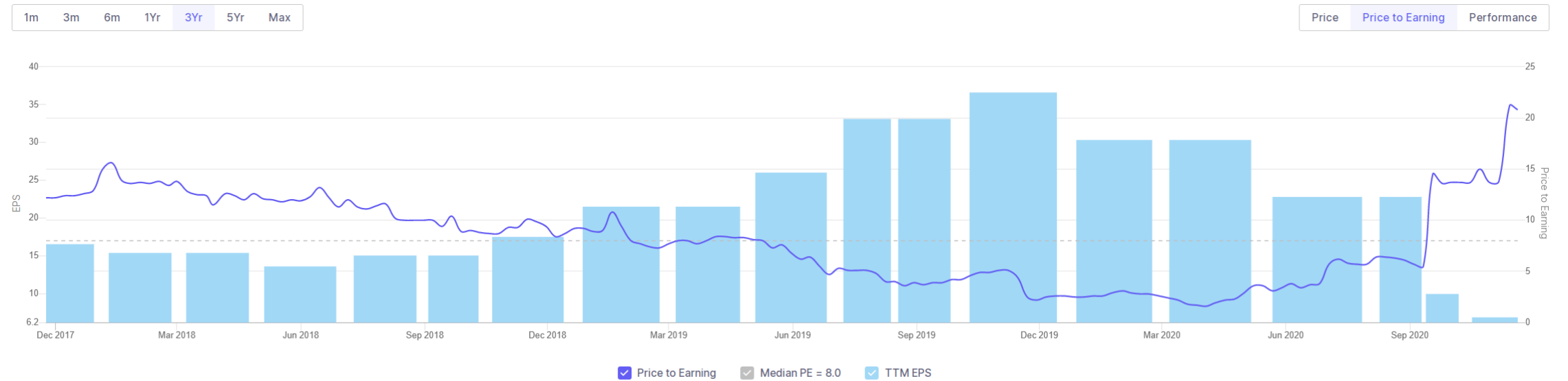
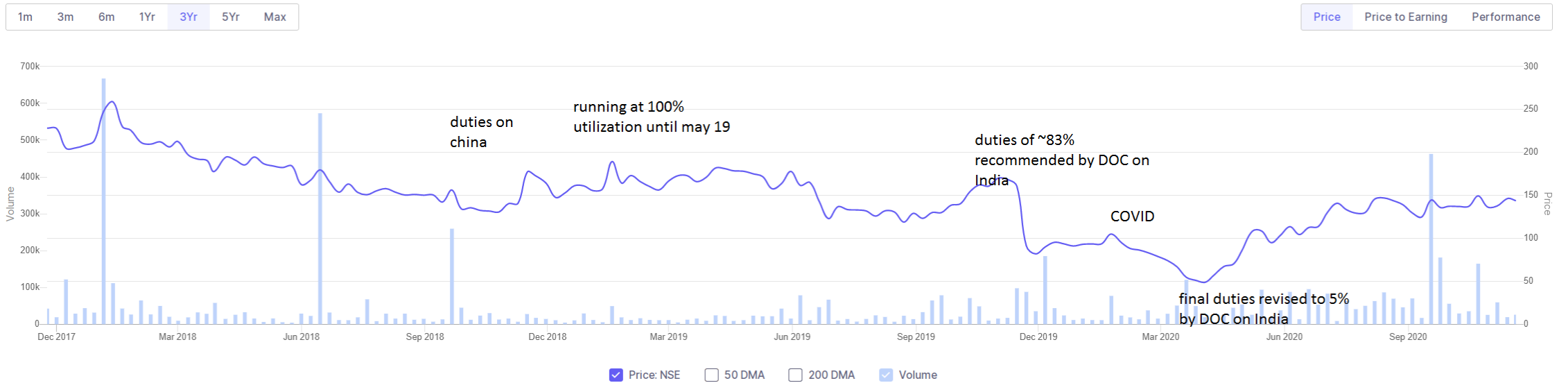
Year-to-Date 2020
\$818,540,560 (-5.2%)

Sector Leader
Spain
\$186,703,866 (-12.3%)

Impact of new tariffs on Pokarna



Impact on valuation



- Investment Thesis

- As can be seen, current price is slightly lower than the price which was prevailing before COVID and before any tariffs were declared for India.
- Considering COVID has not impacted US housing and remodeling market as significantly and that the vaccine would be available in few months, the risk of COVID on business can be lowering in future.
- Final tariff for China is roughly 300% and 5% for India
- New plant for Quartz surfaces is in the final stages of completion and is expected to be commissioned in 2 to 3 quarters. This is expected to increase the capacity by 130%
- With favorable demand environment in USA, new capacity being commissioned, valuation of the business being not higher than pre-covid pre-tariff times, the risk reward ratio might be favorable.

- ROE and ROCE of company has been consistently higher than 20

Description	Mar 20	Mar 19	Mar 18	Mar 17	Mar 16	Mar 15
Book Value (Rs.)	109.24	87.23	61.75	48.67	31.22	17.11
ROA	9.17%	14.26%	8.25%	14.44%	11.54%	7.45%
ROE	23.22%	34.93%	24.68%	56.73%	68.36%	79.59%
ROCE	20.09%	26.92%	18.76%	31.00%	29.34%	22.66%

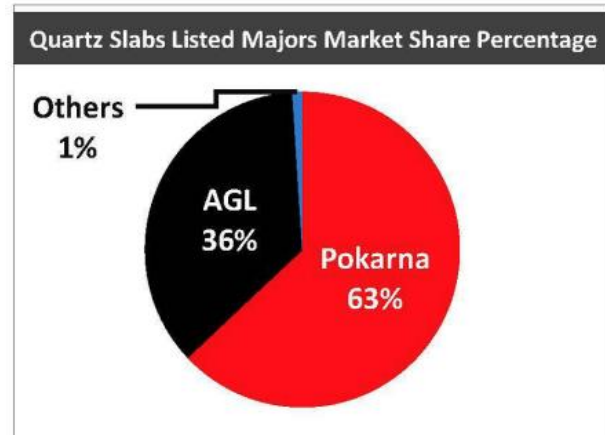
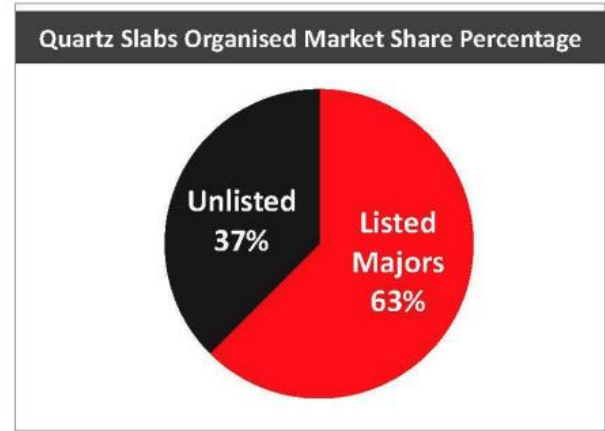
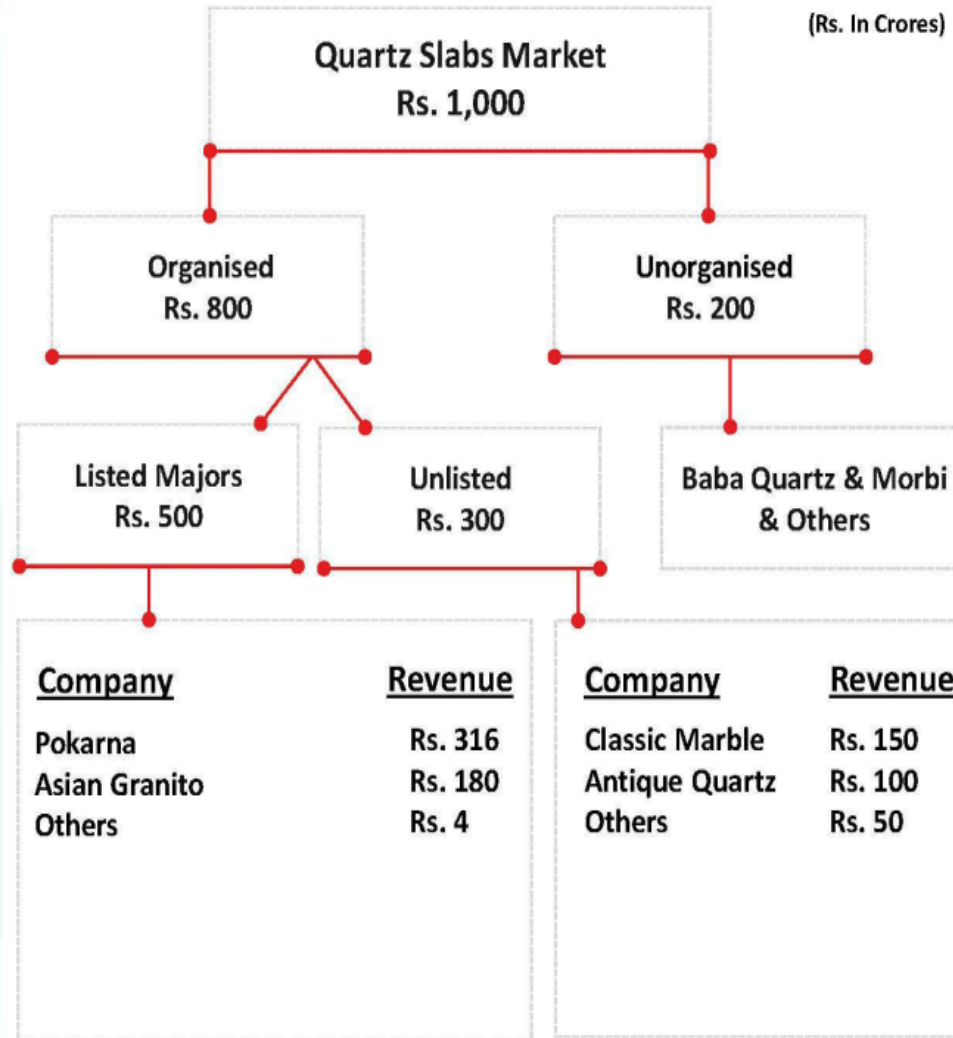
- Exclusive partnership with IKEA for measurement, supply and installation of made to measure quartz surface worktops in India.

Relevant Data from AGL Presentation

- USA – Department of Commerce has imposed anti-dumping and countervailing duties on China between the range of 350-700 percent on Tiles and Quartz Slabs Exports to USA.

Single biggest game changer to impact Indian Tiles & Quartz Slabs Industry through Inorganic Growth

- Over the years, Indian Ceramics Companies have achieved economies of scale and are competing with China on pricing front.
- China was exporting more than 45 percent of the US demand through its massive production capacities and economies of scale as compared with other countries.
- With anti-dumping and other duties enforced on China by USA, that market share would **NOW** be captured by countries like India, Spain, Turkey, Italy, Vietnam etc.
- Since, India has a competitive price advantages over other countries, a larger section of the Export orders are likely to percolate to the Indian Companies.
- AGL is one of the largest exporter of ceramic and quartz products. AGL is exporting to approx. 100 countries.
- With existing duties on China, AGL would be in a strategic position to capture the USA/Canada Market in Tiles and Quartz Slabs segment. This could multi fold increase AGL's total Consolidated Exports over the coming years.



Risks

- High reliance on USA. Any negative change in tariffs could impact the business significantly as seen in recent past.
- No significant moat as Quartz manufacturing is done in many countries.
- Company had mentioned in last con call that they are witnessing mushrooming on small Quartz manufacturers.
- Company has stopped doing investor calls.
- Commission of new Quartz plant is delayed by more than a year.
- Debt to equity is 0.85