Foundation Alert

STCL: Analyst Briefing Takeaways

Event

- Shabbir Tiles & Ceramics Limited (STCL PA) held its Analyst Briefing on Friday to discuss its FY22 financial/operational results. Following are the key takeaways of the briefing.

Impact

- The Company is engaged in the business of manufacturing tiles and trading of allied building products.
- Company's sales increased by 20% YoY in FY22. This is mainly due to higher retention prices as volumes declined to 11.90mn SQM in FY22 from 12.38mn SQM a year ago, due to slowdown in construction sector, record rupee depreciation and economic headwinds.
- Moreover, increase in raw material and fixed production costs suppressed gross margins which decreased by 20/6ppt YoY in 1QFY23/FY22.
- Ceramic tiles account for ~70% of STCL's sales mix while remaining is comprised of porcelain and vitrified tiles.
- Going forward management has shared that industry had to witness the impact of multiple adverse factors in FY23 such as (1) withdrawal of subsidized markup housing loan incentives schemes, (2) slowdown of activities at government projects, (3) market depression post floods and unprecedented monsoon season.
- STCL/other competitors currently hold a market share of 14/74% while the remaining 12% is catered via imports and smuggled products. Pakistan has enough capacity to fully cater to the local demand. However, on and off smuggling from Iran despite border control keeps the supply of cheaper alternatives available.
- According to management, major challenges being faced by the industry are (1) continued commoditization of tiles market from existing and new Chinese manufacturers, (2) no level playing field as govt is subsidizing new players in SEZ without compensating old players, (3) poor business practices of local industry in terms of undocumented players and (4) smuggling from neighbors.
- Presently, the company's average monthly production stands at 0.99mn SQM while its monthly capacity is 1.3mn SQM. STCL only managed to produce 11.9mn SQM in FY22 which resulted in capacity utilization of 74.5%. The management expects to achieve a capacity utilization of 75-80% during FY23.
- Raw materials/Energy costs contribute ~45/30.6% to the company's COGS. Approximately, ~50% of the company's raw material is imported. Natural Gas serves as the primary resource for STCL with Diesel and LPG being alternatives in the case of gas unavailability. Therefore, COGS is highly sensitive to (1) vulnerable exchange rate parity, (2) change in energy mix i.e. shift from natural gas to coal/LPG/Diesel, (3) unstable gas pressure coupled with quality issues and (4) tax on unregistered dealer margins.
- Moreover, management is expecting gas prices to increase by 46.56% YoY in FY23 to Rs1,545/MMBTU.
- STCL primarily caters to the low-middle segment with a secondary focus on the upper middle segment. The company's Stile Emporiums across the country primarily serve as the company's branding galleries for the upper middle segment.
- STCL management does not anticipate an upsurge in demand soon unless government projects are re-initiated and government schemes providing subsidized housing loans are resumed.

Outlook

- Company is not under our formal coverage but going forward company may benefit from (1) resumption in construction activity, (2) reversal of high interest rate cycle and (3) increased housing finance. However, stiff competition from Chinese competitors and smuggling from other neighbors would remain key challenge for the company.

Table 1: Shabbir Tiles & Ceramics Limited - Financial Highlights

Rs mn	1QFY23	1QFY22	YoY	4QFY22	QoQ	FY22	FY21	YoY
Sale	2,918	2,666	9%	3,143	-7%	11,899	9,904	20%
Cost of Sale	2,614	1,865	40%	2,437	7%	8,904	6,844	30%
Gross Profit	**305**	**801**	**-62%**	**707**	-57%	**2,995**	**3,060**	**-2%**
Selling and Distribution Cost	438	357	23%	418	5%	1,602	1,395	15%
Administrative expenses	92	78	18%	85	9%	336	289	16%
Other income	38	46	-17%	44	-14%	181	300	-40%
Other expenses	17	49	-66%	18	-8%	115	119	-3%
Operating loss or profit	**(204)**	**362**	**na**	**230**	**na**	**1,123**	**1,557**	**-28%**
Finance cost	36	25	42%	28	26%	116	107	8%
Profit before taxation	**(240)**	**337**	**na**	**202**	**na**	**1,007**	**1,450**	**-31%**
Taxation	35	134	-74%	170	-79%	509	525	-3%
PAT	**(205)**	**203**	**na**	**32**	**na**	**497**	**925**	**-46%**
EPS	**(0.86)**	**0.85**		**0.13**		**2.08**	**3.86**	
Gross Margin	10%	30%		22%		25%	31%	
Net Margin	-7%	8%		1%		4%	9%	
Effective tax rate	-15%	40%		84%		51%	36%	

Source: Company acc., Foundation Research, Nov 22

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Important disclosures:

Recommendations definitions

If

Expected return >+10%	Outperform.
Expected return from -10% to +10%	Neutral.
Expected return <-10%	Underperform.