



ROYAL CERAMICS LANKA PLC

INTERIM UPDATE- 2QFY12

A 47% GROWTH IN NET PROFIT WITH HEALTHY 1HFY12 RESULTS

ROYAL CERAMICS LANKA PLC

INTERIM RESULTS UPDATE 2QFY12

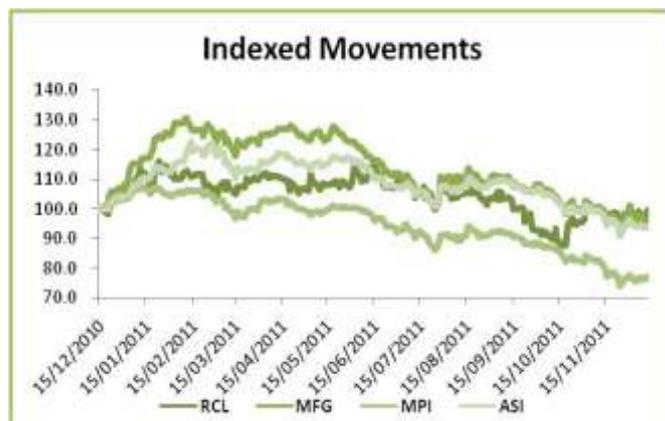
Tile star Royal Ceramics Lanka PLC (RCL) focused its efforts on being a brand leader in its industry. The new entrant to the Milanka Price Index has interests in porcelain tiles ceramic tiles, bathware and newly to paints & allied products.

Today it has captured 55% of the Sri Lankan market and exports to countries across the sphere. RCL's marketing operations are supported by a strong distribution network comprising over 40 showrooms and 3 warehouses positioned in strategic areas in Sri Lanka.

The group reported a promising 46.0% YoY growth in 1HFY12 to the tune of LKR 887.4 mn as profit attributable to equity holders. The 4Q trailing PE is currently at 9.0x at the price of LKR138.00. The net revenue at LKR 3.1bn in 1HFY12 was a circa 21.0% above the LKR 2.5bn recorded in 1HFY11. The EPS of LKR8.01 for the first half was 46.4% above the LKR5.47 recorded in the corresponding period in the previous year.

RCL acquired 20.03% (associate interest) stake of Lewis Brown & Company Ltd (holding company of Delmege Forsyth & Co. Ltd) on 16th June 2011 at a consideration of LKR623.0 mn. During the current quarter RCL had an associate profit of LKR17.0 mn from Delmege which favorably contributed to the group's bottom line.

RCL's robust business model expects to generate forward PE multiples of 7.6x and 6.7x in FY12 and FY13 respectively, solely on recurring earnings.



Major Shareholders (%)	
Voting (as at 30th June 2011)	
Vallibel One Ltd	51.00%
A.M Weerasinghe	8.33%
Employee Provident Fund	4.02%
SLIC - General Fund	2.46%
SLIC - Life Fund	2.27%

As at 15.12.2011	RCL
Price/Index Movement	
1 Month	-2.2%
3 Months	-6.1%
12 Months	-3.1%
Average Daily Turnover (LKR mn)	21.4
Market Capitalization (LKR mn)	15,288.9
PER	9.0
PBV	2.8
ROE	30.4%
DY (%)	2.3%

YE 31 Mar	FY08	FY09	FY10	FY11	FY12E	FY13E
Net Profit (LKR 'mn)	610.8	517.9	964.4	1,441.2	2,000.5	2,285.1
+/- YoY	85.6%	-15.2%	86.2%	49.4%	38.8%	14.2%
EPS (LKR)	5.5	4.7	8.7	13.0	18.1	20.6
+/- YoY	85.6%	-15.2%	86.2%	49.4%	38.8%	14.2%
P/E	25.0	29.5	15.9	10.6	7.6	6.7
PEG	29.2	-194.1	18.4	21.5	19.7	47.0
DPS	0.5	1.0	1.3	2.5	5.0	5.0
DY (%)	0.4%	0.7%	0.9%	1.8%	3.6%	3.6%
BVPS (LKR.)	24.0	27.6	35.1	45.6	58.6	74.3
PBV (X)	5.8	5.0	3.9	3.0	2.4	1.9
ROE (%)	23.0%	16.9%	24.8%	28.5%	30.8%	27.8%

QUARTERLY RESULTS

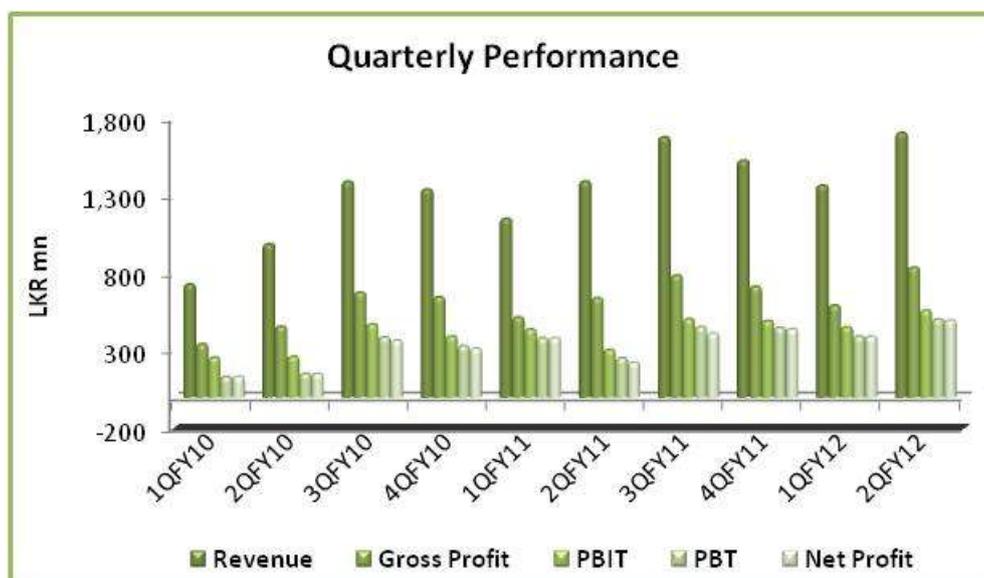
QUARTERLY FINANCIAL PERFORMANCE

(LKR mn)	2QFY12	2QFY11	% Change	CUMFY12	CUMFY11	% Change
Revenue	1,706.0	1,392.4	22.5%	3,072.7	2,544.8	20.7%
Cost of Sales	(868.6)	(751.9)	15.5%	(1,643.3)	(1,388.1)	18.4%
Gross Profit	837.4	640.5	30.7%	1,429.4	1,156.7	23.6%
Other Operating Income	42.2	24.1	75.2%	164.5	207.0	-20.5%
Distributing Expenses	(217.2)	(269.3)	-19.3%	(393.5)	(448.1)	-12.2%
Administrative Expenses	(102.1)	(88.3)	15.6%	(188.5)	(170.6)	10.5%
Finance Expenses	(75.5)	(53.7)	40.6%	(135.2)	(109.5)	23.4%
Finance Income	0.1	0.2	-27.4%	0.3	0.3	-26.2%
Profit Before Tax	484.8	253.4	91.3%	877.0	635.8	37.9%
Associate Profit	17.0	-		17.0	-	
Net Profit Before Tax	501.8	253.4	98.0%	893.9	635.8	40.6%
Taxation	(5.9)	(29.3)	-100.0%	(6.6)	(29.3)	-77.6%
Net Profit	495.9	224.0	121.3%	887.4	606.5	46.3%

QUARTERLY SEGMENTAL FINANCIAL PERFORMANCE

(LKR 'mn)	Tiles			Sanitaryware			Paints and Allied Products		
	2QFY12	2QFY11	% Change	2QFY12	2QFY11	% Change	2QFY12	2QFY11	% Change
Revenue	1,456.2	1,255.5	16.0%	207.8	136.9	52%	41.9	N/A	N/A
Gross Profit	760.0	616.8	23.2%	64.2	23.7	171%	13.2	N/A	N/A
Profit before tax and finance cost	499.2	297.4	67.9%	54.4	9.5	470%	6.6	N/A	N/A
Profit before tax	433.3	254.4	70.3%	45.0	(1.1)	4355%	6.6	N/A	N/A
Net Profit	427.4	225.1	89.9%	45.0	(1.1)	4355%	6.6	N/A	N/A
Total Assets	7,722.8	4,696.2	64.4%	2,121.6	2,209.7	-4%	105.1	N/A	N/A
Total Liabilities	3,544.8	1,925.8	84.1%	574.3	764.3	-25%	114.0	N/A	N/A

* Since RCL acquired Ever Paint & Chemical Industries (Pvt) Ltd on 1QFY12, the corresponding period of the previous year is not taken into consideration.



Sector Revenue Contribution

PERSISTENT REVENUE INCREASE

The group net revenue increased by circa 22.5% to LKR1.7 bn during 2QFY12 compared to LKR1.4 bn in 1QFY11. This was primarily supported by the tiles division with an 85% to the group top line. Tiles division recorded a 16.0% growth in revenue in 2QFY12 as compared to 2QFY11 supported by the heavy demand for tiles from commercial constructions such as condominiums and resort hotels. The newly acquired paint company contributed circa 3% to the group revenue during 2QFY12.

In addition during the six months period, RCL increased its selling prices on the tile range after one and half years. This pumped up the revenue as the demand for the merchandise is price inelastic with the prevailing quality.

HIKE IN OTHER INCOMES

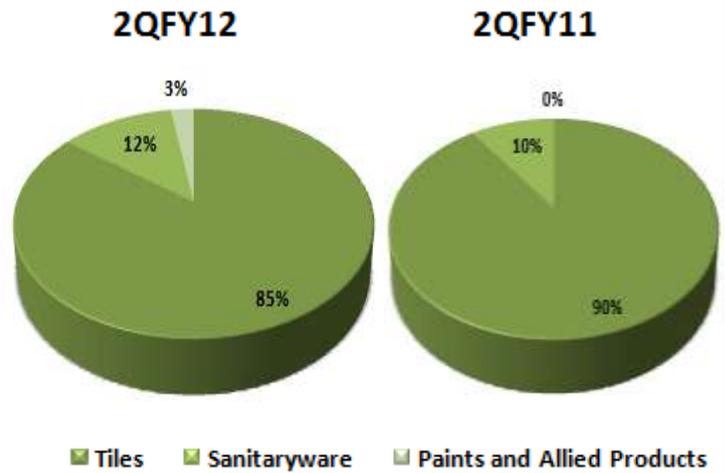
RCL's other operating income mainly comprised of realized capital gains on equity investments. During the period 2QFY12 other operating income raised to LKR42.2 mn as opposed to LKR24.1 mn 1QFY11. The prime element for this incline was due to the booking of profit from the equity investments which were held for trading.

STABLE EXPENSE LEVELS

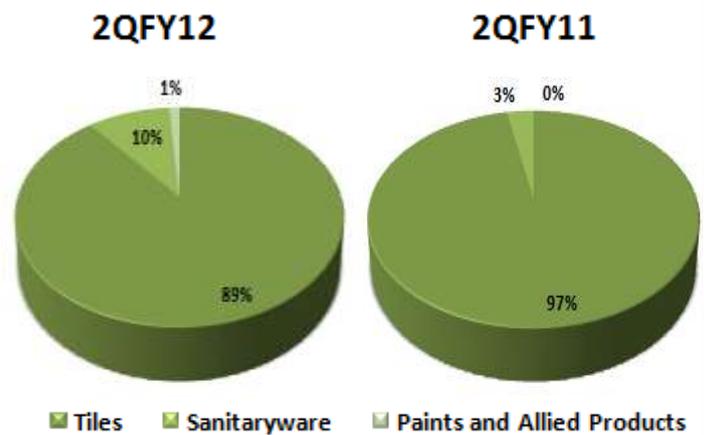
The cost of sales rose by circa 16% during 2QFY12 to LKR868.6 mn as opposed to LKR751.9 mn in 2QFY11. The prime reason for this was the exorbitant energy cost which accounted to 30%-40% of the total cost. Escalating kerosene prices had massively increased the production cost.

In addition the distribution expenses had a mild diminution as the marketing campaigns were heavily launched in FY11; hence the requirement was minimal in the current financial quarter. RCL currently possess 43 island-wide showrooms and over 250 dealers.

However, the administration expenses increased 15.6% YoY during 2QFY12 to LKR102.1 mn. This was due to salary increments and rise in overhead expenses backed by inflation.



Sector EBIT Contribution



(LKR mn)	2QFY12	2QFY11
Cost of Sales	868.59	751.95
Distribution expenses	217.24	269.35
Administration expenses	102.09	88.29
Finance Cost	75.53	53.73

Moving forward, despite reduced interest rates, finance cost rose 40.6% YoY in 2QFY12, due to extensive borrowing in order to partially fund the acquisition of Ever Paint & Chemical Industries Pvt Ltd and also to fully fund the acquisition of an associate interest (20%) of Lewis Brown and Company. In addition RCL capitalized its finance cost during prior year, however had to expense in the current financial period due to absence of any capital expenditure.

Furthermore, in the current quarter, the group encountered a tax expense of LKR5.9 mn in 2QFY12 as opposed to LKR29.3 mn in the corresponding period the previous year. This was due to benefits of corporate tax reduction (35% to 28%) during the current financial year.

HALE AND HEARTY MARGINS

As depicted by the corresponding table, all 2QFY12 margins have been superior to that of the corresponding year's period. Robust top line with stable expense levels jointly contributed toward healthy margins.

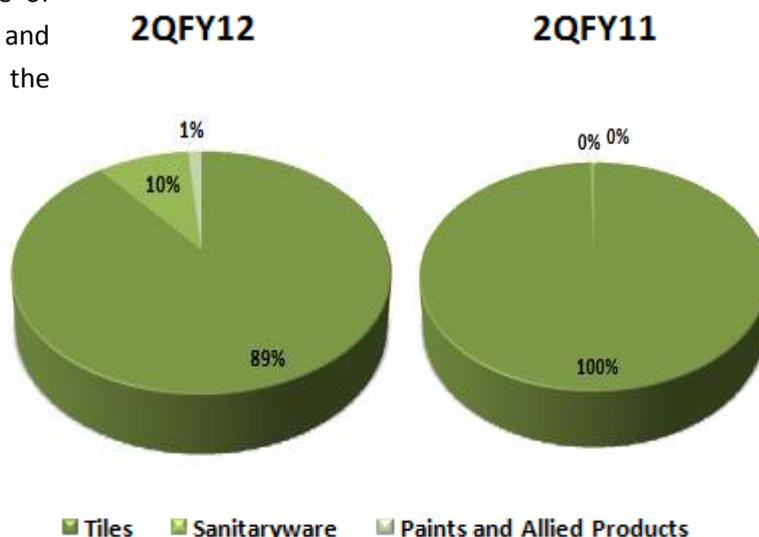
PERSISTENT YOY NET PROFIT GROWTH

The group net profit increased by tremendous 121.3% YoY to LKR495.9 mn during 2QFY12 compared to corresponding period of the previous year. Despite of expense hikes, robust revenue levels with hale and hearty other incomes drifted RCL's earnings to the positive territory.



Margin Analysis	2QFY12	2QFY11
Gross Profit Margin	49.1%	46.0%
EBIT Margin	32.8%	22.0%
EBT Margin	29.4%	18.2%
Net Profit Margin	29.1%	16.1%

Sector Net Profit Contribution



CONTEMPORARY IMPLICATIONS

- ✓ Devaluation of the Sri Lankan rupee will be favourable to the export cluster as more rupees can be obtained for the dollar. This in turn will boost the export revenue of the group contributing to the bottom line in future. Nevertheless, the export revenue accounts for a mere 6% of the total revenue, hence the impact is negligible.
- ✓ Rocell Bathware uses imported clays and glaze raw materials to ensure and enhance quality. This may have an adverse impact as the import cost will surge creating an escalation in cost of production. However since the products are targeted on up market caliber, additional costs will easily be transferred to the customers.
- ✓ RCL's LKR3.0 bn investment to build its third tile factory in Kiriwaththuduwa to add another 12,000 m² per day to the ceramic tiles segment. However this was post-poned by the senior management. The reason for this had been not stated but land preparation had been in progress.
- ✓ The cash conversion cycle is expected to move from 100 days in FY12 to 110 days in FY13. A longer cash conversion cycle implies that the group must finance its inventory and accounts receivable via delaying payables and the need for a higher level of working capital to fund day to day operations. This may have a possibility to lead to overtrading which may adversely affect the liquidity position of group.

QUICK PERFORMANCE REVIEW

Ratio Analysis	FY08	FY09	FY10	FY11	FY12E	FY13E
<u>Profitability</u>						
Revenue Growth	33.9%	7.7%	19.0%	29.2%	30.7%	6.5%
Gross Profit Margin	42.4%	43.9%	47.6%	46.2%	47.0%	47.5%
EBIT Margin	28.6%	25.6%	31.0%	30.2%	31.0%	32.9%
EBT Margin	18.5%	14.4%	22.5%	26.7%	28.0%	30.0%
Net Profit Margin	17.6%	13.8%	21.7%	25.1%	26.6%	28.5%
<u>Efficiency</u>						
Receivable Days	34.7	36.8	46.5	41.1	50.0	50.0
Inventory Days	194.0	260.5	237.2	162.7	120.0	110.0
Payable Days	56.0	65.9	69.6	86.1	70.0	50.0
Current Ratio	1.3	1.0	1.4	1.8	1.9	2.6
Acid Test Ratio	0.6	0.3	0.5	1.2	1.4	2.0
Interest Cover	2.8	2.3	3.6	8.5	10.2	11.3
Gearing(debt/equity)	96.7%	85.3%	47.1%	48.8%	41.2%	31.4%
Gearing(debt/debt+equity)	49.2%	46.0%	32.0%	32.8%	29.2%	23.9%
<u>Investor Ratios</u>						
ROE	23.0%	16.9%	24.8%	28.5%	30.8%	27.8%
ROA	17.5%	15.5%	21.3%	20.5%	23.0%	22.7%
Equity Multiplier	2.1	2.0	1.7	1.7	1.6	1.4
Asset Turnover	0.6	0.6	0.7	0.7	0.7	0.7

VALUATION

Current Status.....

Share is valued at 20.3x based on four quarter trailing earnings. The four quarter trailing PE is at 9.0x (based on a Share Price of LKR138.00 and an EPS of LKR15.70) when compared to the Sector PE of 11.00x and Market PE of 13.80x.

Based on a 52 week price movement the share hit its lowest price of LKR125.00, whilst reaching the highest price of 165.30.

Future Prospects.....

✓ P/E and PBV Based Valuation

Forecast FY12E earnings are in line to LKR2, 000.5 mn. With the tiles, bathware and paints segments positively progressing we expect the earnings to grow by 38.8% YoY in FY12E to LKR2, 000.5 mn and a YoY growth of 14.2% FY13E to LKR2, 285.1 mn.

At a price of LKR138.00, with forecast EPS's of LKR18.1 and LKR20.6 we derived at forward PE's of 7.6x and 6.7x for FY12E and FY13E respectively.

Similarly, at a price of LKR138.00, with forecasted book values per share of LKR58.6 and LKR74.3 we derived a forward P/BV's of 2.4x and 1.9x for FY12E and FY13E respectively.

RCL : 138.00	FY11	FY12E	FY13E
EPS (LKR)	13.0	18.1	20.6
P/E	10.6	7.6	6.7
BVPS	45.6	58.6	74.3
PBV	3.0	2.4	1.9
Sector P/E	11.0		
Sector PBV	2.2		
Market P/E	13.8		
Market PBV	2.3		

✓ Price Assimilation Based Valuation

Based on an analysis of a historic 52 week price movement, we derived a price volatility of 5.9% on a mean of LKR146.11 and a price standard deviation of LKR8.77. Furthermore, if it is assumed that the same upside momentum is witnessed pushing the price to LKR146.10 (from the current level of LKR138.00), the forward PE multiples would be 8.1x in FY12E and 7.1x in FY13E.

Moving forward, based on the 52 week upper bound price of LKR165.30, the forward PE multiples would be 9.2x in FY12E and 8.0x in FY13E.

Thus, given the expected strong growth in demand for construction sector facilities steered by economic development in the island together with the company's newly acquired paint manufacturing company and the renowned brand name 'Rocell' in the bathware segment, RCL expects to deliver healthy ROE's in future. Thus, we rate in the long term (over a twelve month time horizon) RCL as a BUY.

Assimilation of Price Movements*	FY12E		FY13E	
LKR	146.1	165.3	146.1	165.3
P/E	8.1	9.2	7.1	8.0
PBV	2.5	2.8	2.0	2.2

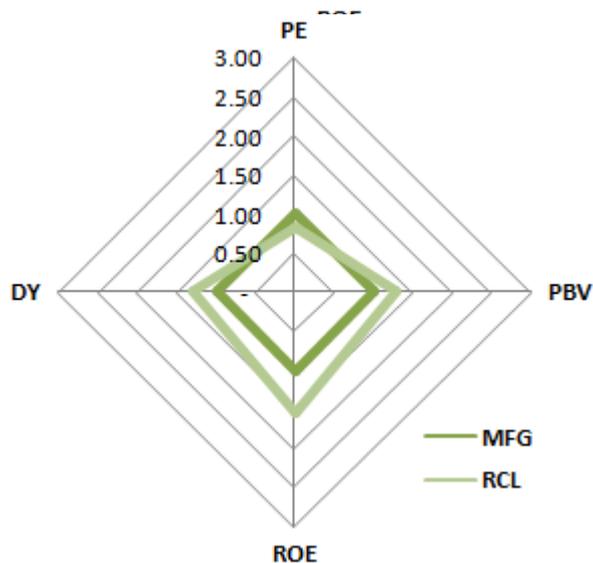
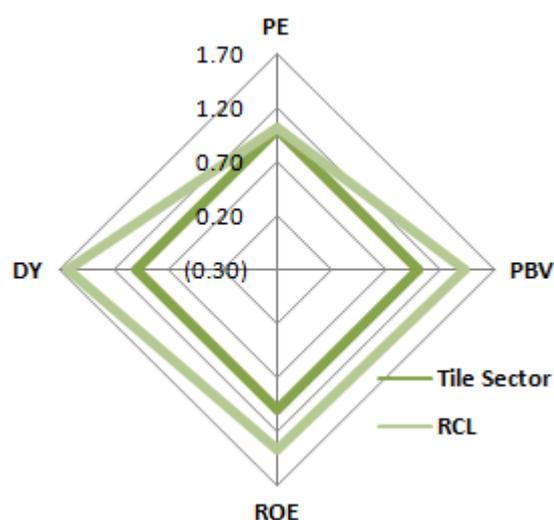
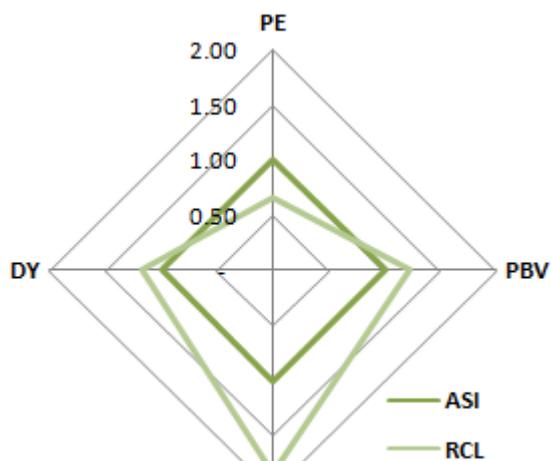
***Price band LKR146.10 is based on an upside growth of 5.9% derived via the 12 month standard deviation of the market price.**

****Price band LKR165.30 is the highest traded price over the past 12 month period.**

APPENDIX 1

RCL VS INDICES

		Market Performance	Sector Performance	
As at 15.12.2011	RCL	ASI	MFG	Tile Sector
Price/Index Movement				
1 Month	-2.2%	-4.6%	-4.3%	N/A
3 Months	-6.1%	-13.7%	-12.4%	N/A
12 Months	-3.1%	-6.6%	-4.9%	N/A
PER	9.0	13.8	11.0	8.9
PBV	2.8	2.3	2.2	2.0
ROE	30.4%	16.6%	19.8%	22.3%
DY (%)	2.3%	2.0%	1.8%	1.4%



**The radar charts used, benchmarks the RCL performance against the relevant index in terms of PE, PBV, ROE and Dividend Yield.*

APPENDIX 2

FINANCIAL SUMMARY

INCOME STATEMENT	.8	.2	.3	.4	.5	.6
For the year ended 31st March (LKR 'mn)	FY08	FY09	FY10	FY11	FY12E	FY13E
Revenue	3,474.8	3,741.2	4,451.2	5,751.4	7,516.5	8,008.5
Gross Profit	1,472.5	1,643.5	2,118.7	2,654.6	3,532.8	3,804.0
PBIT	992.4	958.9	1,382.0	1,738.4	2,330.1	2,634.8
Finance Cost	(349.0)	(421.0)	(381.9)	(204.3)	(227.7)	(232.7)
PBT	643.4	537.9	1,001.6	1,534.9	2,103.2	2,402.9
Tax	(32.6)	(20.0)	(37.3)	(93.7)	(102.7)	(117.7)
Profit to Equity Holders	610.8	517.9	964.4	1,441.2	2,000.5	2,285.1

BALANCE SHEET	.8	.2	.3	.4	.5	.6
For the year ended 31st March (LKR 'mn)	FY08	FY09	FY10	FY11	FY12E	FY13E
Fixed Assets	3,692.8	4,103.6	4,033.5	4,450.1	5,601.0	6,128.5
Current Assets	1,986.7	2,094.8	2,451.3	4,010.0	4,544.2	5,490.7
Total Assets	5,679.5	6,198.5	6,484.8	8,460.1	10,145.1	11,619.1
Long Term Liabilities	1,499.1	1,118.2	829.2	1,157.3	1,265.3	1,246.4
Short Term Liabilities	1,526.9	2,019.7	1,769.4	2,252.2	2,382.7	2,144.5
Total Equity	2,653.4	3,060.5	3,886.4	5,050.6	6,497.1	8,228.3
Total Liabilities & Equity	5,679.5	6,198.5	6,485.0	8,460.1	10,145.1	11,619.1

QUARTERLY FINANCIAL SUMMARY

(LKR mn)	FY10				FY11				FY12	
	1QFY10	2QFY10	3QFY10	4QFY10	1QFY11	2QFY11	3QFY11	4QFY11	1QFY12	2QFY12
Revenue	729.1	988.3	1,392.3	1,341.4	1,152.4	1,392.4	1,679.3	1,527.3	1,366.7	1,706.0
Cost of Sales	(387.1)	(532.4)	(717.7)	(695.2)	(636.2)	(751.9)	(893.0)	(813.7)	(774.7)	(868.6)
Gross Profit	342.0	456.0	674.6	646.2	516.2	640.5	786.3	713.6	592.0	837.4
Other Operating Income	108.7	10.3	22.2	15.5	182.9	24.1	(14.5)	21.8	122.3	42.2
Distributing Expenses	(130.3)	(134.9)	(131.6)	(141.4)	(178.7)	(269.3)	(166.7)	(90.7)	(176.3)	(217.2)
Administrative Expenses	(64.1)	(69.5)	(94.5)	(127.2)	(82.3)	(88.3)	(100.2)	(152.2)	(86.4)	(102.1)
Finance Expenses	(124.4)	(110.7)	(83.9)	(62.8)	(55.8)	(53.7)	(51.0)	(43.7)	(59.7)	(75.5)
Finance Income	0.6	0.3	0.3	0.3	0.2	0.2	0.2	0.1	0.1	0.1
Profit Before Tax	132.4	151.6	387.1	330.6	382.5	253.4	454.1	448.9	392.1	484.8
Associate Profit	-	-	-	-	-	-	-	-	-	17.0
Taxation	0.0	(0.2)	(20.8)	(16.3)	0.0	(29.3)	(41.2)	(9.2)	(0.7)	(5.9)
Net Profit	132.4	151.4	366.3	314.2	382.5	224.0	412.9	439.7	391.5	495.9

Research

Senior Analyst

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Dilan Wijekoon (94-11)5320253
Thilina Ukwatta (94-11)5320253
Shan Silva (94-11)5320251

Economy

Dhanusha Pathirana (94-11)5320254
Travis Gomez (94-11)5320000

Statistician

Nuwan Pradeep (94-11)5320257

Sales

Institutional Sales

Sabri Marikar (94-11) 5320224 077 3-576868 sabri@asiacapital.lk
Niroshan Wijayakoon (94-11) 5320208 0777-713645 niroshan@asiacapital.lk
Niyaz Aboobucker (94-11) 5320213 0777-727352 niyaz@asiacapital.lk
Anura Hedigallage (94-11) 5320211 0777 -713663 anura@asiacapital.lk
Chelaka Hapugoda (94-11) 5320240 0777 -256740 chelaka@asiacapital.lk
Chaminda Mahanama (94-11) 5320223 0777 -556582 mahanama@asiacapital.lk
Hiran Bibile (94-11) 5320238 0777 -352032 hiran@asiacapital.lk
Arshwin Amarasinghe (94-11) 5320215 0773 -717220 arshwin@asiacapital.lk

Retail Sales

Shiyam Subaulla (011)- 5320218 0773-502016 shiyam@asiacapital.lk
Gagani Jayawardhana (011)- 5320236 0714-084953 gagani@asiacapital.lk
Priyantha Hingurage (011)- 5320217 0773-502015 priyantha@asiacapital.lk
Neluka Rodrigo (011)- 5320214 0777-366280 neluka@asiacapital.lk
Subeeth Perera (011)- 5320227 0714-042683 subeeth@asiacapital.lk

Branches

CSE Floor	CSE,01-04, World Trade Centre, Colombo – 1.	Thushara Adhikari (011)-5735122 0773-688202 adhikari@asiacapital.lk M G Suranjana (011)-5763539 0773-954994
Kiribathgoda	Level 2-6,Udeshi City Shopping complex, No 94,Makola Rd,Kiribathgoda	Danushka Boteju (011)-5634803 0716-270527 boteju@asiacapital.lk Suranga Harshana (011)-5734773 0783-452500 harshana@asiacapital.lk
Kurunegala	Union Assurance Building, No.6,1st Floor, Rajapilla Rd, Kurunagala.	Asanka Samarakoon (037)-5628844 0773-690749 asanka@asiacapital.lk Gayana Nishanka (037)-5642717 0777-105356 nishshanka@asiacapital.lk
Matara	E.H.Cooray Building, Mezzanine Floor, No:24, Anagarika Darmapala Mw, Matara	Bandula Lansakkara (037)-5643580 0773-925852 Sumeda Jayawardena (041)-5677525 0773-687027 sumeda@asiacapital.lk
Galle	Peoples Leasing Building, 2nd Floor, No.118,Matara Road, Galle	Lalinda Liyanapathirana (041)-5677526 0778-628798 rishan@asiacapital.lk Ruchira Hasantha (091)-5629998 0773-687027 ruchira@asiacapital.lk
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Service Centers

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