

Retail Equity Research

Kajaria Ceramics Limited

Building Products

BSE CODE: 500233

NSE CODE: KAJARIACER

Bloomberg CODE: KJC:IN

SENSEX: 39,832

HOLD

12M Investment period

Rating as per Mid Cap

CMP Rs. 553

TARGET Rs. 590

RETURN 7%

(Closing: 29-10-19)



KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↑

Muted volume with lower realisation

Kajaria Ceramics (KJC) is the largest manufacturer of glazed & unglazed ceramic tiles and vitrified tiles in India. The company has eight plants in Sikandrabad (UP), Gailpur and Malootana (Rajasthan), Morbi (Gujarat) and Vijayawada (AP), with annual capacity of 73 mn. sq. meters (MSM). The company also exports its products to more than 35 countries.

- Company reported 1.5% YoY decline in Q2FY20 revenue primarily impacted by weaker realisations (-3.0% YoY) and somewhat muted sales volume growth (+1.1%).
- EBITDA margin declined 30bps to 14.7% on slightly higher operating costs.
- Corporate tax rate cuts boosted the bottom line with Adj. PAT growing 73.8% YoY during the quarter.
- Srikalahasti greenfield project got commissioned in September 2019 and expects to improve logistics for southern market.
- We maintain our HOLD rating on the stock, with a revised target price of Rs. 590, based on ~28x FY21E adj. EPS.

Topline a tad disappointing

Consolidated revenue decreased 1.5% YoY to Rs. 715cr in Q2FY20 led by weaker revenue from own manufacturing (-9.1% YoY to Rs. 391cr) and tiles subsidiaries (-6.1% YoY to Rs. 149cr). This is partly offset by growing revenue from tiles outsourcing (+39.2% YoY to 126cr). Company recorded a muted growth in sales volumes during the quarter (+1.1% YoY to 19.8 MSM, well below earlier management guidance of 15% volume growth for the year). Production volumes fell 7.7% YoY to 16.1 MSM. Average realisation declined 3.0% YoY to Rs. 337 per SM impacting the overall topline during the quarter.

New tax rate regime boosted bottom line

EBITDA margin declined 30bps to 14.7% in Q2FY20 driven by lower realisations and higher operating costs. Overall EBITDA was down 3.4% YoY to Rs. 105cr. However, adj. net profit rose 73.8% to Rs. 93cr primarily benefitted from lower corporate tax rates and reversal of net deferred tax liability.

Key highlights

- Recent shift from coal gasifier to natural gas in the tile industry may result in increased compliance for the unorganised players and could trigger switch towards organised sector.
- The new 5.0 MSM glazed vitrified tiles manufacturing facility in Andhra Pradesh has been commissioned and commenced production in September 2019. This is expected to improve logistics for southern region.
- Sanitaryware plant in Morbi commissioned additional annual capacity of 1.5 lac pieces in September 2019.
- We expect demand to remain lacklustre in Q3FY20, followed by a potential improvement over the remainder of the year.

Valuation

We estimate earnings to grow at ~20% CAGR over FY19-21E, with EBITDA margin reaching 16.2% by FY21 aided by cost management and optimised product mix. We retain our HOLD rating on the stock, with a revised target price of Rs 590, based on ~28x FY21E adj. EPS

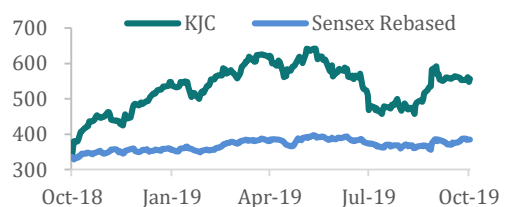
Company Data

Market Cap (cr)	Rs. 8,850
Enterprise Value (cr)	Rs. 8,646
Outstanding Shares (cr)	15.9
Free Float	52.0%
Dividend Yield	0.5%
52 week high	Rs. 649
52 week low	Rs. 325
6m average volume (cr)	0.1
Beta	0.8
Face value	Rs. 1

Shareholding %	Q4FY19	Q1FY20	Q2FY20
Promoters	47.6	47.6	47.6
FII's	26.0	26.0	26.2
MFs/Insti	10.7	10.7	10.5
Public	11.5	11.4	10.9
Others	4.3	4.4	4.8
Total	100.0	100.0	100.0
Promoters pledge %	NIL	NIL	NIL

Price Performance	3 Month	6 Month	1 Year
Absolute Return	16.7%	-10.1%	54.1%
Absolute Sensex	3.2%	0.8%	15.9%
Relative Return*	13.5%	-11.0%	38.2%

*over or under performance to benchmark index



Consolidated (Rs. cr)	FY19A	FY20E	FY21E
Sales	2,956	3,181	3,436
Growth (%)	6.2	7.6	8.0
EBITDA	449	491	557
EBITDA Margin (%)	15.2	15.4	16.2
Adj. PAT	231	297	334
Growth (%)	-1.2	28.3	12.5
Adj. EPS	14.6	18.7	21.0
Growth (%)	-1.0	28.3	12.5
P/E	39.5	29.8	26.5
P/B	5.8	4.9	4.2
EV/EBITDA	20.1	17.6	15.3
ROE (%)	14.4	16.3	15.8
D/E	0.1	0.1	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q2FY20	Q2FY19	YoY Growth %	Q1FY20	QoQ Growth %	H1FY20	H1FY19	YoY Growth %
Revenue	715	725	(1.5)	700	2.1	1,415	1,382	2.3
EBITDA	105	109	(3.4)	106	(0.7)	211	206	2.7
EBITDA margins	14.7	15.0	(30bps)	15.1	(40bps)	15	15	-
Depreciation	26	23	16.1	26	1.3	52	45	15.0
EBIT	79	86	(8.5)	80	(1.3)	159	161	(0.8)
Interest	5	5	15.5	5	15.5	10	9	12.1
Other Income	7	5	48.6	5	29.2	12	7	73.6
Exceptional Items	-	(3)	-	-	-	-	(3)	-
PBT	81	83	(2.8)	81	(0.3)	162	155	4.0
Tax	(12)	32	(138.2)	31	(140.6)	18	59	(69.5)
Share of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	(0)	0	n.m.	(1)	n.m.	(1)	0	n.m.
Reported PAT	93	50	85.6	51	82.7	144	96	50.6
Adjustments	-	3	-	-	-	-	3	n.m.
Adjusted PAT	93	54	73.8	51	82.7	144	99	45.4
No. of shares	15.9	15.9	(0.3)	15.9	-	15.9	15.9	0.1
EPS (Rs)	5.9	3.4	74.3	3.2	82.7	9.1	6.0	50.4

Change in Estimates

Year / Rs. cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	3,336	3,787	3,181	3,436	(4.7)	(9.3)
EBITDA	527	612	491	557	(6.8)	(9.0)
Margins (%)	15.8	16.2	15.4	16.2	(40bps)	0bps
Adj. PAT	274	318	297	334	8.4	5.0
EPS	17.2	20.0	18.7	21.0	8.7	5.0



PROFIT & LOSS

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Revenue	2,851	2,783	2,956	3,181	3,436
% change	5.7	(2.4)	6.2	7.6	8.0
EBITDA	496	456	449	491	557
% change	7.1	(8.1)	(1.5)	9.3	13.4
Depreciation	81	89	89	94	100
EBIT	415	368	360	398	457
Interest	34	24	16	24	35
Other Income	15	12	13	18	18
PBT	396	355	358	392	440
% change	10.8	(10.3)	0.8	9.5	12.3
Tax	142	127	129	98	109
Tax Rate (%)	36.0	35.7	36.1	25.0	24.9
Reported PAT	253	235	227	297	334
Adj*	-	(1)	5	-	-
Adj PAT	253	234	231	297	334
% change	10.3	(7.4)	(1.2)	28.3	12.5
No. of shares (cr)	15.9	15.9	15.9	15.9	15.9
Adj EPS (Rs)	15.9	14.7	14.2	18.7	21.0
% change	(44.9)	(7.4)	(1.0)	28.3	12.5
DPS (Rs)	3.0	3.0	3.0	3.0	3.0
CEPS (Rs)	21.0	20.3	20.2	24.6	27.3

CASH FLOW

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	334	323	316	391	434
Non-cash adj.	53	13	16	(20)	44
Changes in W.C	(49)	(98)	(14)	(14)	(65)
C.F. Operation	338	238	317	357	413
Capital exp.	(142)	(138)	(114)	(175)	(189)
Change in inv.	(0)	4	10	-	-
Other invest.CF	3	(2)	(158)	-	-
C.F - Investment	(140)	(137)	(261)	(175)	(189)
Issue of equity	(3)	1	(1)	-	-
Issue/repay debt	(82)	8	(40)	3	-
Dividends paid	(49)	(47)	(48)	(48)	(48)
Other finance.CF	(34)	(34)	(25)	(24)	(35)
C.F - Finance	(168)	(72)	(114)	(68)	(83)
Chg. in cash	30	30	(58)	115	142
Closing cash	52	82	252	367	509

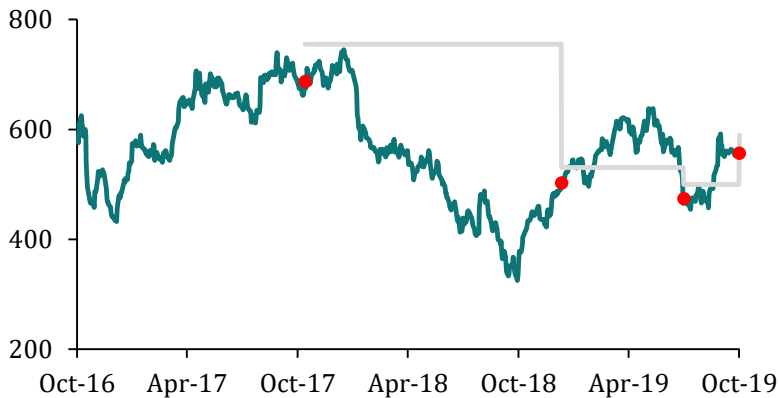
BALANCE SHEET

Y.E March (Rs cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	52	82	252	367	509
Accounts Receivable	339	451	475	477	533
Inventories	372	378	406	438	473
Other Cur. Assets	61	40	38	39	39
Investments	0	0	0	0	0
Gross Fixed Assets	1,642	1,675	1,229	1,356	1,544
Net Fixed Assets	1,163	1,131	1,067	1,235	1,323
CWIP	8	18	93	7	7
Intangible Assets	15	14	11	11	11
Def. Tax (Net)	-	-	1	1	1
Other Assets	31	26	29	29	29
Total Assets	2,040	2,140	2,373	2,603	2,925
Current Liabilities	497	473	523	552	584
Provisions	10	5	5	5	5
Debt Funds	171	135	95	98	98
Other Liabilities	111	110	110	61	68
Equity Capital	16	16	16	16	16
Reserves & Surplus	1,159	1,335	1,559	1,808	2,094
Shareholder's Fund	1,175	1,351	1,575	1,824	2,110
Minority Interest	76	66	66	63	60
Total Liabilities	2,040	2,140	2,373	2,603	2,925
BVPS (Rs)	73.8	84.8	99.1	114.7	132.7

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab. & Return					
EBITDA margin (%)	17.4	16.4	15.2	15.4	16.2
EBIT margin (%)	14.6	13.2	12.2	12.5	13.3
Net profit margin (%)	8.9	8.4	7.7	9.3	9.7
ROE (%)	21.5	17.4	14.4	16.3	15.8
ROCE (%)	29.2	23.7	20.8	20.0	20.1
W.C & Liquidity					
Receivables (days)	43.4	59.1	58.7	54.8	56.6
Inventory (days)	147.7	87.4	84.0	84.0	84.0
Payables (days)	116.0	59.6	64.0	63.3	63.3
Current ratio (x)	1.5	1.7	2.0	2.1	2.4
Quick ratio (x)	0.7	1.0	1.2	1.4	1.6
Turnover & Leverage					
Gross asset T.O (x)	0.9	0.8	1.0	1.3	1.2
Total asset T.O (x)	0.7	0.7	0.7	0.6	0.6
Int. coverage ratio (x)	12.2	15.3	23.1	16.8	13.1
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.0
Valuation					
EV/Sales (x)	3.3	3.3	3.1	2.7	2.5
EV/EBITDA (x)	18.9	19.9	20.1	17.6	15.3
P/E (x)	36.4	38.3	39.5	29.8	26.5
P/BV (x)	7.8	6.6	5.8	4.9	4.2

Recommendation Summary



Dates	Rating	Target
6-Nov-17	ACCUMULATE	755
4-Jan-19	HOLD	531
25-Jul-19	HOLD	500
29-Oct-19	HOLD	590

Source: Bloomberg, Geojit research

Investment Rating Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0%- 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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