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FIRST LIGHT

04 August 2021

RESEARCH

BOB Economics Research | Trade

Exports shine, oil and gold imports accelerate

Kajaria Ceramics | Target: Rs 995 | +3% | HOLD

In-line quarter

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.18	(4bps)	(25bps)	62bps
India 10Y yield (%)	6.20	(1bps)	13bps	36bps
USD/INR	74.35	0.1	0.5	0.9
Brent Crude (US$/bbl)	72.89	(4.5)	(4.3)	65.1
Dow	34,838	(0.3)	0.1	30.7
Shanghai	3,464	2.0	(1.5)	2.9
Sensex	52,951	0.7	0.9	43.3
India FII (US$ mn)	**30-Jul**	**MTD**	**CYTD**	**FYTD**
FII-D	15.6	(86.4)	(3,253.2)	(1,225.9)
FII-E	(343.9)	(1,706.0)	6,378.2	(948.2)

Source: Bank of Baroda Economics Research

SUMMARY

India Economics: Trade

India's trade deficit rose to US$ 11.2bn in Jul'21 from US$ 9.4bn in Jun'21 led by higher oil and gold imports. Exports continue to accelerate. Non-oil exports (over a 2-year horizon) are 21.1% higher in FYTD22. We expect exports to be a driver of growth. With states gradually easing restrictions, imports are also likely to increase. Non-oil-non-gold imports have been muted at 3.8% in FYTD22 (over a 2-year period). Above backdrop implies INR is expected to move in a tight range of 73-75/$ in the financial year.

Click here for the full report.

Kajaria Ceramics

- Consolidated Q1 revenue grew 102% YoY as tile volumes doubled, aided by a soft lockdown-hit base quarter
- Operating profit stood at Rs 804mn vs. a loss of Rs 76mn in Q1FY21, with EBITDA margin at 14.3%
- We broadly maintain estimates and roll over to a new Jun'22 TP of Rs 995 (vs. Rs 950). Retain HOLD

Click here for the full report.

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Bank of Baroda

TRADE

03 August 2021

Exports shine, oil and gold imports accelerate

India's trade deficit rose to US$ 11.2bn in Jul'21 from US$ 9.4bn in Jun'21 led by higher oil and gold imports. Exports continue to accelerate. Non-oil exports (over a 2-year horizon) are 21.1% higher in FYTD22. We expect exports to be a driver of growth. With states gradually easing restrictions, imports are also likely to increase. Non-oil-non-gold imports have been muted at 3.8% in FYTD22 (over a 2-year period). Above backdrop implies INR is expected to move in a tight range of 73-75/$ in the financial year.

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Key highlights

- Exports rise to a lifetime high of US$ 35.2bn in Jul'21 from US$ 32.5bn in Jun'21.
- Imports rose to US$ 46.4bn (59.4% YoY) in Jul'21 versus US$ 41.9bn in Jun'21.
- Oil imports rise further to US$ 12.9bn in Jul'21; gold imports also increase to US$ 4.2bn.
- Trade deficit expanded to US$ 11.2bn in Jul'21 from US$ 9.4bn in Jun'21.

Exports accelerate: As per preliminary data, India's exports rose to US$ 35.2bn (47.9% over Jul'20) in Jul'21 from US$ 32.5bn (34.1%) in Jun'21. The rebound can be explained by a low base (9.3% decline in Jul'20) and a sharp increase in oil at 215.7%. Even so, non-oil exports increased by 34.4%. Within non-oil exports, gems and jewellery (130.4%) and engineering goods (42.1%) rose the most. Even over a 2-year horizon exports have picked up sharply by 34.1% in Jul'21. Over the same time period, non-oil exports are up by 30% and oil exports have risen by 60.5%. In FYTD22, exports are tracking higher at US$ 130.6bn versus US$ 75.2bn in FYTD21 and US$ 107.1bn in FYTD20. Momentum is expected to remain strong on the back of higher external demand.

Imports on an upward trajectory: India's imports rose to US$ 46.4bn in Jul'21 from US$ 41.9bn in Jun'21. On a YoY basis, imports increased by 59.4% in Jul'21 (decline of 28% in Jul'20). This was lower than increase of 98.3% in Jun'21 which came on a decline of 48.5% in Jun'20. Gold imports rose to US$ 4.2bn in Jul'21 from US$ 1bn in Jun'21. Oil imports too rose to US$ 12.9bn in Jul'21 versus US$ 10.7bn in Jun'21. Non-oil-non-gold imports were stable at US$ 29.3bn versus US$ 30.2bn in Jun'21. Within this, imports of pearls and precious stones rose the most by 179.3%. Capital goods imports continue to lag behind with a 16.1% decline in transport equipment and 78.6% dip in project goods. Over a 2-year horizon, imports have increased by 14.8%, led by a surge in gold (145.4%) and oil (32.3%) imports. Non-oil-non-gold imports have remained muted at 1.2%.

Trade deficit widens further: India's trade deficit expanded to US$ 11.2bn in Jul'21 from US$ 9.4bn in Jun'21 as imports, particularly gold and oil imports rose sharply. However, this was offset by a sharp rebound in exports. Prospects for India's exports remain positive led by strong recovery in advanced economies. Imports are also likely to be higher due to higher oil prices and improvement in domestic demand in coming months. Hence, we expect trade deficit to widen to US$ 152bn in FY22 from US$ 102bn in FY21 (Brent at US$ 75/bbl). Even so, CAD is likely to remain within ~1% of GDP. Thus, we expect INR to trade in a tight range of 73-75/$. Higher oil prices and another Covid-19 wave remain key risks to our view.

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HOLD

TP: Rs 995 | ⋎ 3%

KAJARIA CERAMICS | Construction Materials | 03 August 2021

In-line quarter

- **Consolidated Q1 revenue grew 102% YoY as tile volumes doubled, aided by a soft lockdown-hit base quarter**
- **Operating profit stood at Rs 804mn vs. a loss of Rs 76mn in Q1FY21, with EBITDA margin at 14.3%**
- **We broadly maintain estimates and roll over to a new Jun'22 TP of Rs 995 (vs. Rs 950). Retain HOLD**

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Low base aids strong revenue growth: KJC reported consolidated Q1FY22 revenue growth of 102% YoY to Rs 5.6bn with tile volumes rising 99% YoY off a soft base. Sanitary & faucetware grew 113% YoY. As per management, demand in Q1 was affected due to resurfacing of the pandemic but has improved in Q2 alongside unlocking across major markets. Working capital days increased by 38 days QoQ to 88 as lower sales led to buildup of inventory. Management expects inventory to normalise by end-Q2. KJC aims to increase tile market share from ~12% in FY21 to ~15% over the next three years.

Demand trends improving: Per management, demand was decent till mid-April after which it tapered down till May but subsequently recovered in June as unlocking began. July has been normal with KJC achieving 100% of its sales target during the month. The company anticipates sustained demand revival in Q2. Management has now guided for 15-16% tile volume growth in FY22 (earlier guidance of 20-25% withdrawn in mid-June) and value growth of 18-20%, which translates to a 6-7% uptick in tile volumes in 9MFY22, assuming the pandemic doesn't resurface. KJC has also guided for ~50% growth in bathware and ~100% in plywood in FY22 off a low base.

Operating margin at 14.3%: Consolidated operating margin stood at 14.3% (vs. -2.7% in Q1FY21) and EBITDA at Rs 804mn (vs. -Rs 76mn). Management did not put out margin guidance for FY22 but stated that it has hiked tile prices by 1-1.5% in Q1 and another ~3% in July to negate some part of the higher raw material cost. KJC expects to cut losses in the plywood business from Rs 110mn in FY21 to Rs 50mn in FY22 and also anticipates positive contribution from the bathware segment.

Maintain HOLD: We broadly maintain FY22/FY23 PAT estimates and roll forward to a revised Jun'22 TP of Rs 995 (earlier Rs 950), set at an unchanged 32x one-year forward P/E, in line with the stock's five-year average. Though we like the company for its leadership in tiles, strong balance sheet and robust return ratios, valuations look full at 34.5x FY23E EPS – retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	KJC IN/Rs 1,028
Market cap	US$ 2.2bn
Free float	52%
3M ADV	US$ 2.8mn
52wk high/low	Rs 1,055/Rs 397
Promoter/FPI/DII	48%/25%/27%

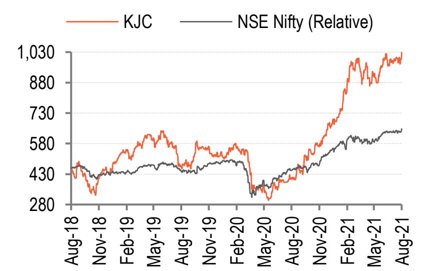
Source: NSE | Price as of 3 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	27,809	34,273	39,720
EBITDA (Rs mn)	5,088	6,308	7,648
Adj. net profit (Rs mn)	3,081	3,848	4,743
Adj. EPS (Rs)	19.4	24.2	29.8
Consensus EPS (Rs)	19.4	24.1	30.9
Adj. ROAE (%)	17.2	20.1	23.4
Adj. P/E (x)	53.1	42.5	34.5
EV/EBITDA (x)	31.9	25.5	21.1
Adj. EPS growth (%)	20.6	24.9	23.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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