

FIRST LIGHT

21 October 2020

RESEARCH

Kajaria Ceramics | Target: Rs 585 | +2% | REDUCE

Good performance but in the price – downgrade to REDUCE

SUMMARY

Kajaria Ceramics

Kajaria Ceramics (KJC) posted an above-expected Q2FY21 with stable YoY revenue and volumes, aided by better traction in tier-2 cities and below. EBITDA margins rose 545bps YoY to 20.2% due to lower fuel, employee and other costs, enabling EBITDA/PBT growth of 37%/48%. Management expects volume growth to return from Q4 and has guided for 18% margins in H2FY21. We raise FY21-FY23 earnings by 13-61%, hike our target P/E to 28x from 26x, and roll to a new Dec'21 TP of Rs 585 (vs. Rs 450). Cut from ADD to REDUCE on limited upside.

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	155
Petronet LNG	Buy	310
Tech Mahindra	Buy	910

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	270
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.77	2bps	8bps	(103bps)
India 10Y yield (%)	5.94	0bps	(8bps)	(58bps)
USD/INR	73.37	0	0.1	(3.1)
Brent Crude (US\$/bbl)	42.62	(0.7)	(1.2)	(27.7)
Dow	28,195	(1.4)	1.9	5.1
Shanghai	3,313	(0.7)	(0.8)	12.7
Sensex	40,432	1.1	4.1	2.9
India FII (US\$ mn)	16 Oct	MTD	CYTD	FYTD
FII-D	163.8	241.2	(14,438.6)	(4,679.1)
FII-E	(1.2)	1,192.3	5,232.4	11,835.4

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



REDUCE

TP: Rs 585 | ▲ 2%

KAJARIA CERAMICS

Construction Materials

20 October 2020

Good performance but in the price – downgrade to REDUCE

Kajaria Ceramics (KJC) posted an above-expected Q2FY21 with stable YoY revenue and volumes, aided by better traction in tier-2 cities and below. EBITDA margins rose 545bps YoY to 20.2% due to lower fuel, employee and other costs, enabling EBITDA/PBT growth of 37%/48%. Management expects volume growth to return from Q4 and has guided for 18% margins in H2FY21. We raise FY21-FY23 earnings by 13-61%, hike our target P/E to 28x from 26x, and roll to a new Dec'21 TP of Rs 585 (vs. Rs 450). Cut from ADD to REDUCE on limited upside.

Arun Baid

research@bobcaps.in

Decent volumes in a tough environment: KJC's Q2 revenue (Rs 7.1bn) and volumes were stable YoY due to better traction from tier-2 and below cities. Management believes this trend will continue in the near term due to Covid-19 pressures in larger cities and has guided for a flat Q3, followed by ~10% YoY volume growth in Q4 off a tepid base. The company has gained market share and believes the gains are sustainable. Management is targeting 15% volume growth over the next 3-5 years aided by expansion in smaller cities.

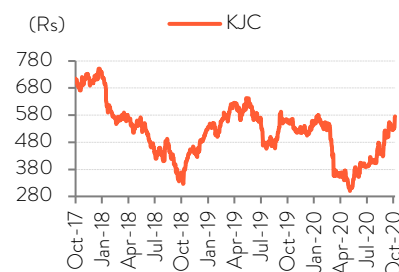
Operating margins expand: EBITDA margins swelled 545bps YoY to 20.2% due to higher gross margins (+105bps YoY) and lower employee (-150bps) and other expenses (-290bps). EBITDA/PBT thus grew 37%/48% YoY. Despite reversing salary cuts in Oct'20 and seeing a gradual increase in A&P activity, management has guided for operating margins of ~18% in H2 on lower gas prices.

Positives priced in – cut to REDUCE: We increase FY21-FY23 earnings estimates by 13-61% primarily due to lower input prices, while resetting our target P/E to 28x (from 26x) – in line with the 5Y average. Rolling valuations forward, we have a revised Dec'21 TP of Rs 585 (earlier Rs 450). Following the recent rally, KJC is trading at 26.5x FY23E EPS which offers limited upside potential – cut from ADD to REDUCE.

Ticker/Price	KJC IN/Rs 575
Market cap	US\$ 1.2bn
Shares o/s	159mn
3M ADV	US\$ 2.9mn
52wk high/low	Rs 596/Rs 296
Promoter/FPI/DII	48%/22%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	29,562	28,080	25,516	28,872	32,434
EBITDA (Rs mn)	4,495	4,159	4,203	4,840	5,591
Adj. net profit (Rs mn)	2,314	2,553	2,501	2,905	3,455
Adj. EPS (Rs)	14.6	16.1	15.7	18.3	21.7
Adj. EPS growth (%)	(1.2)	10.3	(2.1)	16.2	18.9
Adj. ROAE (%)	15.8	15.5	13.8	14.4	15.4
Adj. P/E (x)	39.5	35.8	36.6	31.5	26.5
EV/EBITDA (x)	20.5	21.9	21.4	18.4	15.6

Source: Company, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Rating distribution

As of 30 September 2020, out of 104 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 54 have BUY ratings, 18 have ADD ratings, 10 are rated REDUCE and 22 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

Each of the analysts mentioned in this research report certify, with respect to the sections of the report for which they are responsible, that (1) all of the views expressed in this report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

Important disclosures

This product is a compilation of previously published research notes. To view the complete report along with the associated Analyst certifications and Company-specific disclosures, please click on the hyperlink accompanying each excerpt.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS’s prior written consent.

Other disclosures

BOBCAPS does not have any financial interest in the subject company. BOBCAPS does not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS is not engaged in any market making activities for the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS’s associates may have financial interest in the subject company. BOBCAPS’s associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.