

ADD

TP: Rs 450 | ▲ 10%

KAJARIA CERAMICS

Construction Materials

08 August 2020

Tepid quarter but ahead of estimates

Kajaria Ceramics (KJC) posted a consolidated Q1FY21 revenue decline of 60% YoY – albeit bettering our estimates – as tile volumes fell 61% due to the lockdown. Negative operating leverage induced EBITDA and pre-tax losses of Rs 76mn and Rs 336mn respectively. Management stated that demand has improved in July to 70-75% of year-ago sales (vs. 60-65% in June). We maintain estimates and roll forward to a Sep’21 TP of Rs 450 (earlier Rs 425), set at an unchanged one-year forward P/E of 26x. Maintain ADD.

Arun Baid

research@bobcaps.in

Lockdown erodes volume growth: KJC’s Q1 consolidated revenue declined 60% YoY to Rs 2.8bn as volumes dropped 61% due to the lockdown and realisations increased just 1.6%. As per management, demand traction has improved after easing of the lockdown – revenues have returned to ~25% of normal levels in May, 60-65% in June and 70-75% in July. Most of the dealerships have also reopened and KJC operated its plants at 78% capacity in July (vs. 26% in June). Management stated that despite tough market conditions, collections were robust in Q1, which augmented the net cash position by Rs 750mn QoQ to Rs 1.8bn.

EBITDA and PBT losses: KJC reported an EBITDA loss of Rs 76mn due to negative operating leverage as sales plummeted amid the lockdown, resulting in a net loss of Rs 336mn. Gross margins shrank by 1,064bps YoY owing to an adverse product mix and sale from high-cost inventories. Management expects margins to improve backed by better sales, a stable pricing environment and benefits from recent cost rationalisation measures.

Maintain ADD: We maintain estimates and continue to like KJC despite near-term demand headwinds from Covid-19. Our stance is based on its leadership in the tiles segment, strong brand, robust balance sheet and wide distribution.

Ticker/Price	KJC IN/Rs 407
Market cap	US\$ 864.0mn
Shares o/s	159mn
3M ADV	US\$ 2.1mn
52wk high/low	Rs 606/Rs 296
Promoter/FPI/DII	48%/22%/31%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	29,562	28,080	22,857	28,158	31,387
EBITDA (Rs mn)	4,495	4,159	3,005	4,420	4,977
Adj. net profit (Rs mn)	2,314	2,553	1,551	2,565	2,956
Adj. EPS (Rs)	14.6	16.1	9.8	16.1	18.6
Adj. EPS growth (%)	(1.2)	10.3	(39.3)	65.4	15.2
Adj. ROAE (%)	15.8	15.5	8.7	13.3	13.9
Adj. P/E (x)	28.0	25.4	41.7	25.2	21.9
EV/EBITDA (x)	14.6	15.4	21.1	14.1	12.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Sales	2,776	7,000	(60.3)	6,520	(57.4)
COGS	1,940	4,148	(53.2)	3,822	(49.2)
Employee cost	608	882	(31.0)	869	(29.9)
Other expenses	303	910	(66.7)	896	(66.2)
EBITDA	(76)	1,060	(107.1)	934	(108.1)
EBITDA Margin (%)	(2.7)	15.1	(1,787bps)	14.3	(1,705bps)
Depreciation and amortization	252	258	(2.3)	283	(11.0)
EBIT	(328)	802	(140.9)	650	(150.4)
EBIT Margin (%)	(11.8)	11.5	(2,326bps)	10.0	(2,179bps)
Net Interest expenses	34	45	(25.2)	49	(31.4)
Other non-operating inc (exp), net	26	53	(50.4)	69	(62.1)
Earnings before tax	(336)	809	(141.5)	670.2	(150.1)
Income taxes	(6)	305	(102.0)	182	(103.4)
Earnings after tax	(329)	504	(165.4)	488	(167.5)
Minority interest (expense) income	(58)	(6)	827.0	(8)	658.4
Reported Net income (loss)	(271)	510	(153.1)	495.9	(154.6)

Source: Company, BOBCAPS Research

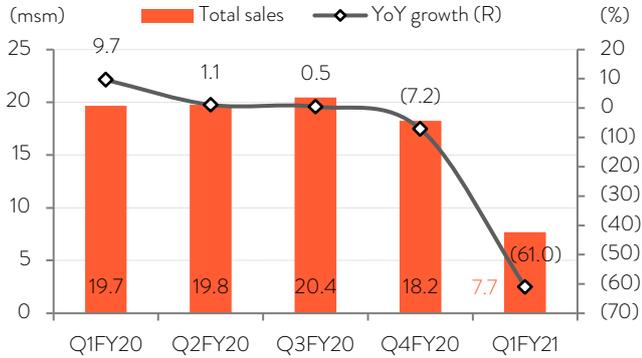
FIG 2 – SEGMENTAL PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Segment Revenues					
Tiles	2,577	6,509	(60.4)	6,051	(57.4)
Other	199	491	(59.5)	469	(57.7)
Total revenues	2,776	7,000	(60.3)	6,520	(57.4)
EBIT					
Tiles	(261.8)	816	(132.1)	669.7	(139.1)
Other	(66.1)	(14.5)	355.9	(19.4)	240.7
Total	(328)	802	(140.9)	650	(150.4)
EBIT margins					
Tiles	(10.2)	12.5	(2,270bps)	11.1	(2,123bps)
Other	(33.3)	(3.0)	(3,033bps)	(4.1)	(2,915bps)

Source: Company, BOBCAPS Research

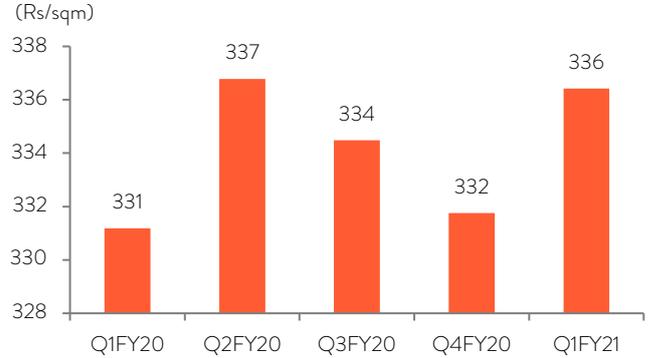
QUARTERLY TRENDS

FIG 3 – VOLUMES



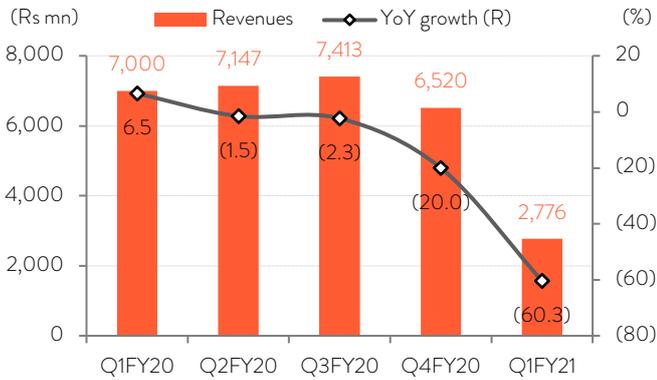
Source: Company, BOBCAPS Research

FIG 4 – NET REALISATIONS



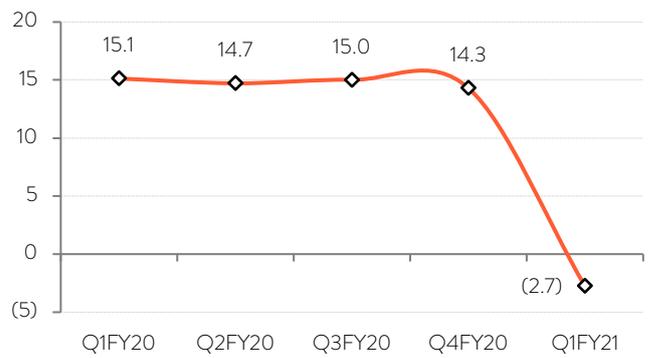
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED REVENUES



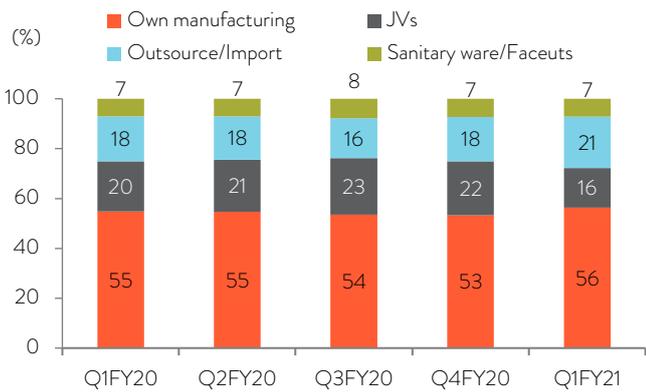
Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED EBITDA MARGIN



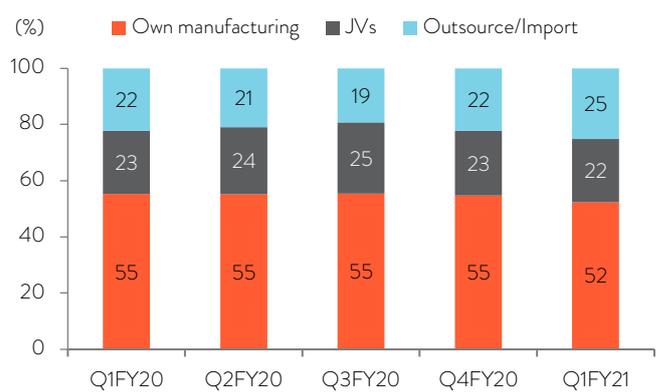
Source: Company, BOBCAPS Research

FIG 7 – REVENUE BREAKUP



Source: Company, BOBCAPS Research

FIG 8 – TILE VOLUME BREAKUP



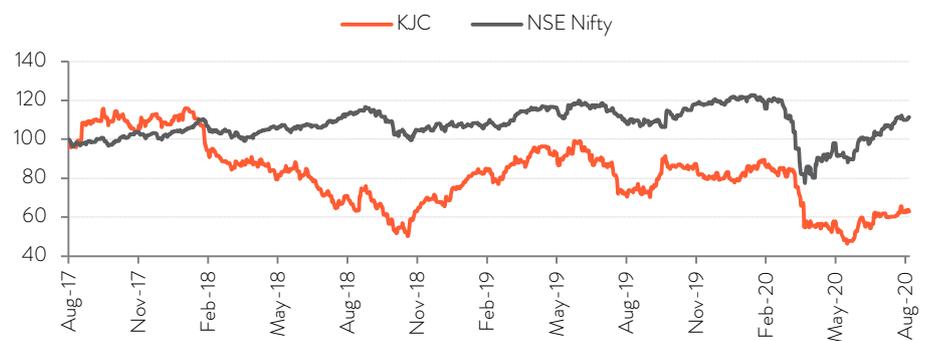
Source: Company, BOBCAPS Research

Valuation methodology

KJC is the largest organised player in the Indian tiles market, with an organised market share of ~22% (~10.6% of the total market). Unorganised players currently comprise ~50% of the Rs 270bn tiles market. We expect the company to benefit from the gradual formalisation of demand post-GST and e-way bill implementation, given its strong brand, wide distribution reach and market leadership. However, the near-term outlook may be challenging due to the Covid-19 outbreak.

We maintain our estimates post Q1 and roll forward to a revised Sep'21 target price of Rs 450 (earlier Rs 425), based on an unchanged one-year forward P/E multiple of 26x. Retain ADD.

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Higher raw material prices:** Any abnormal increase in prices of key raw materials, such as gas, coupled with an inability to pass this along could adversely affect KJC's profitability.
- **Increased competition from informal sector:** Higher competition from the informal sector primarily based out of Morbi, Gujarat, can hurt profitability.
- **Prolonged Covid-19 outbreak:** If pandemic fears prevail for a prolonged period of time, revenues will be adversely affected.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	29,562	28,080	22,857	28,158	31,387
EBITDA	4,495	4,159	3,005	4,420	4,977
Depreciation	(891)	(1,081)	(1,113)	(1,182)	(1,240)
EBIT	3,604	3,078	1,892	3,237	3,737
Net interest income/(expenses)	(156)	(195)	(152)	(90)	(42)
Other income/(expenses)	180	242	249	268	284
Exceptional items	(48)	0	0	0	0
EBT	3,629	3,125	1,988	3,416	3,979
Income taxes	(1,293)	(589)	(457)	(861)	(1,003)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(22)	18	20	10	(20)
Reported net profit	2,266	2,553	1,551	2,565	2,956
Adjustments	48	0	0	0	0
Adjusted net profit	2,314	2,553	1,551	2,565	2,956

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	2,890	2,105	1,863	2,003	2,242
Other current liabilities	2,211	2,311	2,154	1,753	2,160
Provisions	200	288	313	338	363
Debt funds	949	1,171	471	221	21
Other liabilities	1,073	731	746	771	796
Equity capital	159	159	159	159	159
Reserves & surplus	15,590	16,984	18,215	20,011	22,080
Shareholders' fund	15,749	17,143	18,374	20,170	22,239
Total liabilities and equities	23,732	24,386	24,538	25,864	28,448
Cash and cash eq.	2,524	2,350	4,376	4,379	5,544
Accounts receivables	4,751	3,967	3,632	4,320	4,816
Inventories	4,058	5,127	4,133	4,937	5,503
Other current assets	581	640	689	694	774
Investments	3	3	3	3	3
Net fixed assets	10,671	11,854	11,498	11,316	11,575
CWIP	934	257	0	0	0
Intangible assets	107	103	103	103	103
Other assets	103	85	105	112	131
Total assets	23,732	24,386	24,538	25,864	28,448

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	4,519	4,205	3,102	4,598	5,219
Interest expenses	156	195	152	90	42
Non-cash adjustments	0	0	0	0	0
Changes in working capital	48	(943)	906	(1,733)	(471)
Other operating cash flows	(1,215)	(986)	(452)	(879)	(1,009)
Cash flow from operations	3,508	2,472	3,708	2,076	3,781
Capital expenditures	(976)	(1,213)	(500)	(1,000)	(1,500)
Change in investments	0	0	0	0	0
Other investing cash flows	1	0	0	0	0
Cash flow from investing	(975)	(1,213)	(500)	(1,000)	(1,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(402)	222	(700)	(250)	(200)
Interest expenses	(156)	(195)	(152)	(90)	(42)
Dividends paid	(570)	(1,150)	(320)	(770)	(887)
Other financing cash flows	314	(329)	(10)	36	13
Cash flow from financing	(813)	(1,452)	(1,182)	(1,073)	(1,116)
Changes in cash and cash eq.	1,720	(194)	2,026	3	1,165
Closing cash and cash eq.	2,544	2,350	4,376	4,379	5,544

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	14.3	16.1	9.8	16.1	18.6
Adjusted EPS	14.6	16.1	9.8	16.1	18.6
Dividend per share	3.0	3.0	1.6	3.9	4.5
Book value per share	99.1	107.9	115.6	126.9	139.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	2.2	2.3	2.8	2.2	1.9
EV/EBITDA	14.6	15.4	21.1	14.1	12.2
Adjusted P/E	28.0	25.4	41.7	25.2	21.9
P/BV	4.1	3.8	3.5	3.2	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	64.6	81.7	78.0	75.1	74.3
Interest burden (PBT/EBIT)	99.3	101.5	105.1	105.5	106.5
EBIT margin (EBIT/Revenue)	12.2	11.0	8.3	11.5	11.9
Asset turnover (Revenue/Avg TA)	131.0	116.7	93.4	111.7	115.6
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.3	1.3
Adjusted ROAE	15.8	15.5	8.7	13.3	13.9

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	9.1	(5.0)	(18.6)	23.2	11.5
EBITDA	(1.5)	(7.5)	(27.7)	47.1	12.6
Adjusted EPS	(1.2)	10.3	(39.3)	65.4	15.2
Profitability & Return ratios (%)					
EBITDA margin	15.2	14.8	13.1	15.7	15.9
EBIT margin	12.2	11.0	8.3	11.5	11.9
Adjusted profit margin	7.8	9.1	6.8	9.1	9.4
Adjusted ROAE	15.8	15.5	8.7	13.3	13.9
ROCE	14.0	13.8	7.6	12.0	12.7
Working capital days (days)					
Receivables	57	57	61	52	53
Inventory	68	83	101	83	85
Payables	39	38	36	30	29
Ratios (x)					
Gross asset turnover	1.7	1.5	1.1	1.4	1.4
Current ratio	2.0	2.1	2.7	3.3	3.4
Net interest coverage ratio	23.1	15.8	12.4	36.1	88.8
Adjusted debt/equity	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

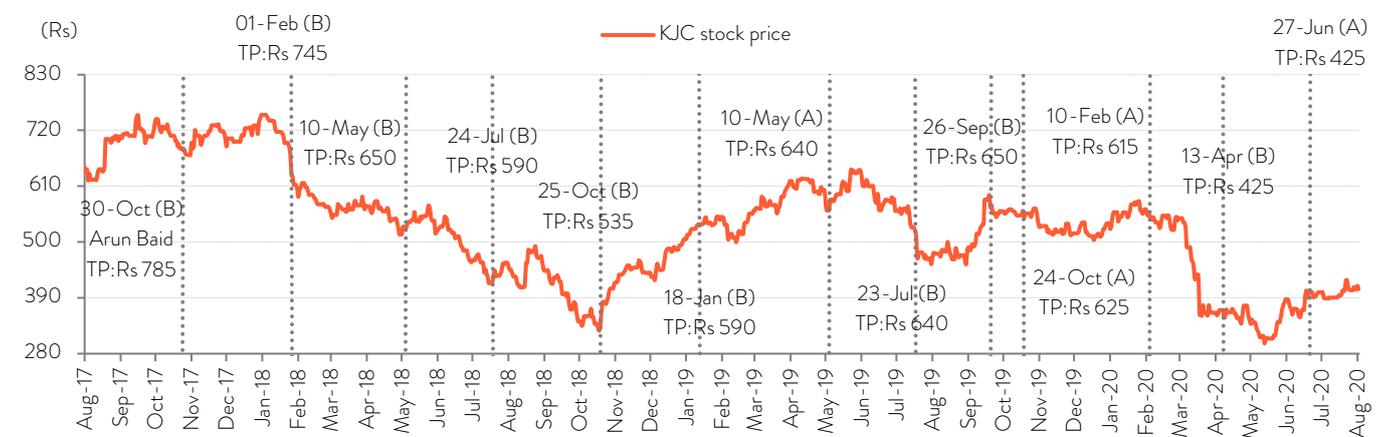
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): KAJARIA CERAMICS (KJC IN)



B – Buy, A – Add, R – Reduce, S – Sell

Rating distribution

As of 31 July 2020, out of 96 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 46 have BUY ratings, 20 have ADD ratings, 11 are rated REDUCE and 19 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research 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.

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.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do 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.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of 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.