

ADD

TP: Rs 615 | ▲ 13%

KAJARIA CERAMICS

Construction Materials

10 February 2020

All round miss

Kajaria Ceramics (KJC) posted a below-expected Q3FY20 with revenue down 2% YoY due to flat volumes (+0.5% YoY) and lower realisations (–4.1% YoY).

Operating margins contracted 90bps YoY to 15% due to higher employee costs, causing EBITDA/PBT to fall 8%/16%. Management expects better growth in FY21 backed by various government measures in the real estate sector. We cut FY20-FY22 earnings by ~8% each amid continued tough market conditions, and roll forward to a Mar'21 TP of Rs 615 (earlier Rs 625). Maintain ADD.

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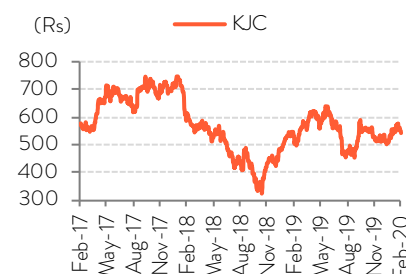
Flat volume growth: KJC's Q3 revenue declined 2% YoY to Rs 7.4bn as realisations fell 4.1% YoY (–1% QoQ) and volumes grew 0.5% YoY. As per management, volume growth was tepid due to continue weakness in the real estate market, the general economic slowdown and tight liquidity. Enhanced working capital discipline further exacerbated the weakness in sales. Management expects better growth in FY21 led by various government initiatives to finish incomplete real estate projects and a general improvement in liquidity.

Operating margins decline: Operating margins contracted 90bps YoY to 15% (+30bps QoQ) due to higher employee cost (+124bps YoY, +10bps QoQ), which was partly set off by lower other expenditure (–23bps YoY). EBITDA/PBT declined 8%/16% YoY. Employee cost as a percentage of sales increased YoY due to negative operating leverage. KJC reported 15% margins in 9MFY20 and management has guided for similar levels going ahead.

Maintain ADD: Given the 9MFY20 underperformance and challenging demand climate, we cut FY20-FY22 earnings estimates by ~8% each. On rollover, we move to a Mar'21 TP of Rs 615 (earlier Rs 625).

Ticker/Price	KJC IN/Rs 545
Market cap	US\$ 1.2bn
Shares o/s	159mn
3M ADV	US\$ 1.4mn
52wk high/low	Rs 650/Rs 443
Promoter/FPI/DII	48%/24%/28%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	27,106	29,562	29,707	32,780	36,573
EBITDA (Rs mn)	4,564	4,495	4,453	5,091	5,826
Adj. net profit (Rs mn)	2,342	2,314	2,557	3,015	3,513
Adj. EPS (Rs)	14.7	14.6	16.1	19.0	22.1
Adj. EPS growth (%)	(7.4)	(1.2)	10.5	17.9	16.5
Adj. ROAE (%)	18.5	15.8	15.3	16.0	16.5
Adj. P/E (x)	37.0	37.4	33.9	28.7	24.7
EV/EBITDA (x)	19.4	19.5	19.3	16.6	14.3

Source: Company, BOBCAPS Research

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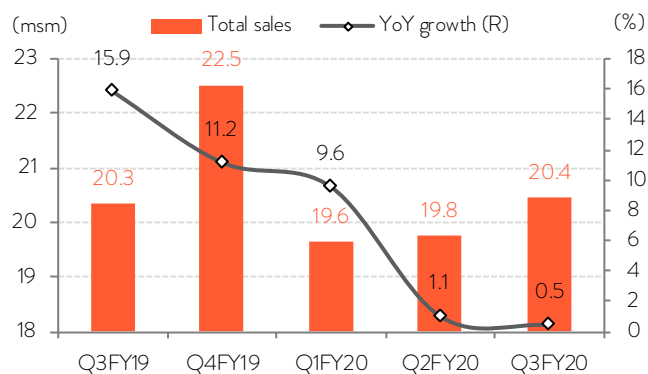


FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

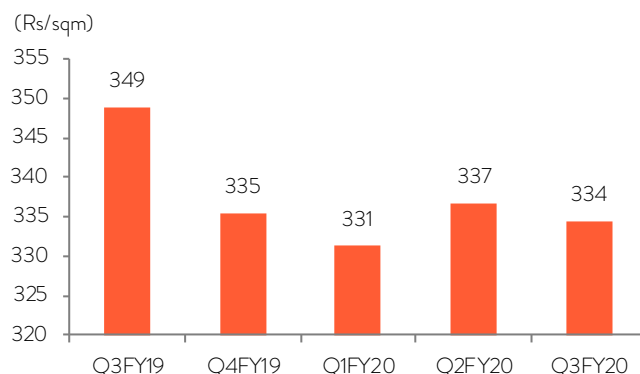
(Rs mn)	Q3FY20	Q3FY19	YoY (%)	Q2FY20	QoQ (%)	9MFY20	9MFY19	YoY (%)
Net Sales	7,413	7,586	(2.3)	7,147	3.7	21,560	21,409	0.7
COGS	4,404	4,514	(2.4)	4,281	2.9	12,833	12,623	1.7
Employee cost	930	857	8.4	888	4.6	2,700	2,567	5.2
Other expenses	967	1,007	(4.0)	925	4.5	2,802	2,953	(5.1)
EBITDA	1,113	1,208	(7.9)	1,052	5.8	3,225	3,266	(1.2)
EBITDA Margin (%)	15.0	15.9	(91bps)	14.7	29bps	15.0	15.3	(29bps)
Depreciation and amortization	278	222	25.2	262	6.2	798	674	18.4
EBIT	835	987	(15.3)	791	5.7	2,428	2,592	(6.3)
EBIT Margin (%)	11.3	13.0	(173bps)	11.1	21bps	11.3	12.1	(84bps)
Net Interest expenses	48	36	33.3	52	(7.3)	146	123	18.3
Other non-operating inc (exp), net	51	45	13.2	68	(24.8)	172	115	49.8
Earnings before tax	838	996	(15.8)	806.8	3.9	2,454	2,584	(5.0)
Income taxes	226	337	(32.9)	(124)	(282.2)	407	931	(56.2)
Earnings after tax	613	659	(7.0)	931	(34.2)	2,047	1,653	23.8
Extraordinary items	0	0	NA	0	NA	0	34	NM
Minority interest (expense) income	(3)	11	(125.7)	(1)	133.3	(10)	13	(178.0)
Reported Net income (loss)	615	648	(5.0)	931.9	(34.0)	2,057	1,606	28.1
APAT	615	648	(5.0)	932	(34.0)	2,057	1,640	25.5

Source: Company, BOBCAPS Research

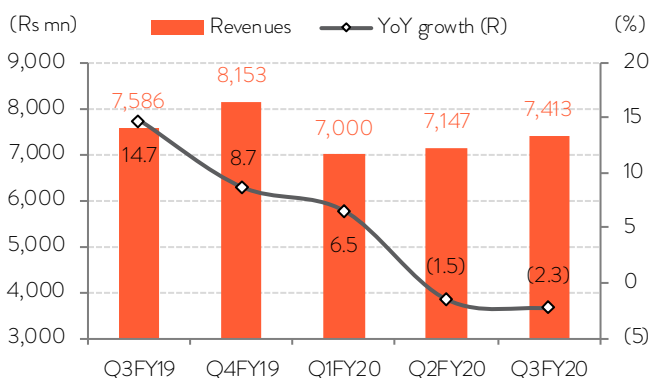
QUARTERLY TRENDS

FIG 2 – VOLUMES


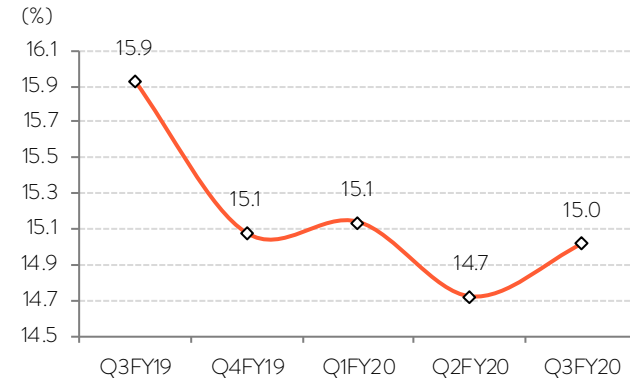
Source: Company, BOBCAPS Research

FIG 3 – NET REALISATIONS


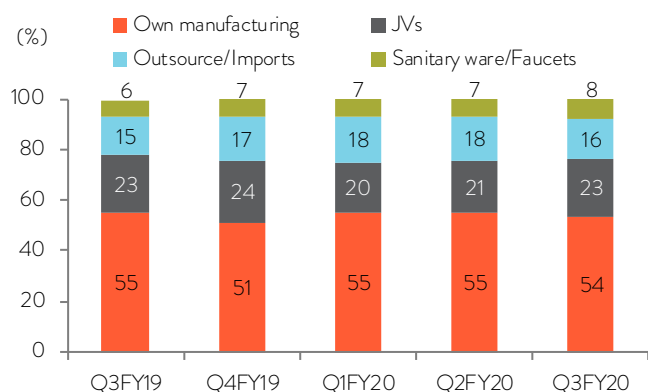
Source: Company, BOBCAPS Research

FIG 4 – REVENUES


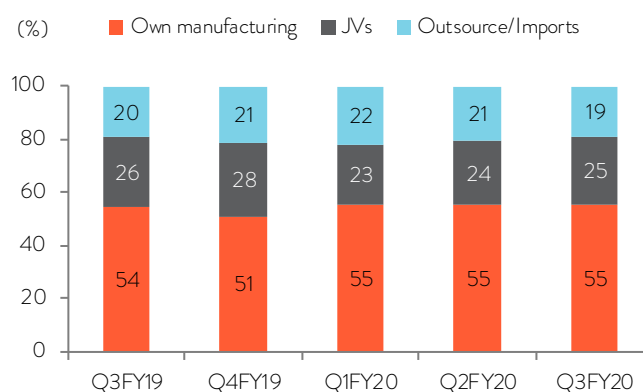
Source: Company, BOBCAPS Research

FIG 5 – EBITDA MARGIN


Source: Company, BOBCAPS Research

FIG 6 – REVENUE BREAKUP


Source: Company, BOBCAPS Research

FIG 7 – 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.

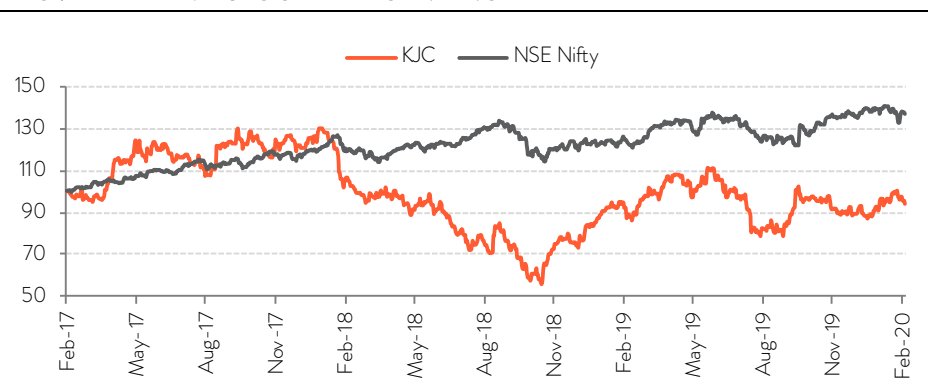
However, given the tepid 9MFY20 performance and challenging demand climate, we cut FY20-FY22 earnings estimates by ~8% each. On rollover, we move to a revised Mar'21 target price of Rs 615 (earlier Rs 625), set at an unchanged 28x one-year forward P/E – in line with the stock's five-year average. Maintain ADD.

FIG 8 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	29,707	32,780	36,573	31,089	34,659	38,657	(4.4)	(5.4)	(5.4)
EBITDA	4,453	5,091	5,826	4,687	5,431	6,251	(5.0)	(6.3)	(6.8)
PAT	2,557	3,015	3,513	2,782	3,291	3,833	(8.1)	(8.4)	(8.4)

Source: BOBCAPS Research

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.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	27,106	29,562	29,707	32,780	36,573
EBITDA	4,564	4,495	4,453	5,091	5,826
Depreciation	(885)	(891)	(1,080)	(1,182)	(1,315)
EBIT	3,678	3,604	3,374	3,909	4,510
Net interest income/(expenses)	(241)	(156)	(171)	(126)	(72)
Other income/(expenses)	108	180	234	270	283
Exceptional items	8	(48)	0	0	0
EBT	3,546	3,629	3,437	4,053	4,722
Income taxes	(1,267)	(1,293)	(880)	(1,037)	(1,209)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	64	(22)	0	0	0
Reported net profit	2,350	2,266	2,557	3,015	3,513
Adjustments	(8)	48	0	0	0
Adjusted net profit	2,342	2,314	2,557	3,015	3,513

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	2,578	3,091	2,906	3,186	3,538
Other current liabilities	2,153	2,211	2,421	2,433	2,685
Provisions	0	0	0	0	0
Debt funds	1,351	949	699	399	99
Other liabilities	1,151	1,073	1,073	1,073	1,073
Equity capital	159	159	159	159	159
Reserves & surplus	13,351	15,590	17,508	19,769	22,404
Shareholders' fund	13,510	15,749	17,667	19,928	22,563
Total liabilities and equities	21,403	23,732	25,425	27,679	30,617
Cash and cash eq.	824	2,524	3,514	3,711	4,232
Accounts receivables	4,507	4,751	4,232	4,670	5,210
Inventories	3,785	4,058	4,069	4,490	5,010
Other current assets	574	581	732	808	902
Investments	4	3	3	3	3
Net fixed assets	11,627	11,712	12,712	13,825	15,069
CWIP	0	0	0	0	0
Intangible assets	0	0	0	0	0
Deferred tax assets, net	82	103	162	171	190
Other assets	0	0	0	0	0
Total assets	21,403	23,732	25,425	27,679	30,617

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	4,431	4,519	4,517	5,235	6,037
Interest expenses	241	156	171	126	72
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(1,251)	48	381	(643)	(550)
Other operating cash flows	(1,209)	(1,215)	(880)	(1,029)	(1,190)
Cash flow from operations	2,212	3,508	4,188	3,689	4,369
Capital expenditures	(657)	(976)	(2,079)	(2,295)	(2,560)
Change in investments	0	0	0	0	0
Other investing cash flows	(3)	1	0	0	0
Cash flow from investing	(660)	(975)	(2,079)	(2,295)	(2,560)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(355)	(402)	(250)	(300)	(300)
Interest expenses	(241)	(156)	(171)	(126)	(72)
Dividends paid	(572)	(590)	(639)	(754)	(878)
Other financing cash flows	(79)	314	(59)	(18)	(38)
Cash flow from financing	(1,248)	(833)	(1,119)	(1,197)	(1,288)
Changes in cash and cash eq.	304	1,700	990	197	521
Closing cash and cash eq.	824	2,524	3,514	3,711	4,232

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	14.8	14.3	16.1	19.0	22.1
Adjusted EPS	14.7	14.6	16.1	19.0	22.1
Dividend per share	3.0	3.0	3.2	3.8	4.4
Book value per share	85.0	99.1	111.2	125.4	142.0

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.3	3.0	2.9	2.6	2.3
EV/EBITDA	19.4	19.5	19.3	16.6	14.3
Adjusted P/E	37.0	37.4	33.9	28.7	24.7
P/BV	6.4	5.5	4.9	4.3	3.8

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	65.9	64.6	74.4	74.4	74.4
Interest burden (PBT/EBIT)	96.6	99.3	101.9	103.7	104.7
EBIT margin (EBIT/Revenue)	13.6	12.2	11.4	11.9	12.3
Asset turnover (Revenue/Avg TA)	129.7	131.0	120.9	123.5	125.5
Leverage (Avg TA/Avg Equity)	1.7	1.5	1.5	1.4	1.4
Adjusted ROAE	18.5	15.8	15.3	16.0	16.5

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	6.5	9.1	0.5	10.3	11.6
EBITDA	(8.1)	(1.5)	(0.9)	14.3	14.4
Adjusted EPS	(7.4)	(1.2)	10.5	17.9	16.5
Profitability & Return ratios (%)					
EBITDA margin	16.8	15.2	15.0	15.5	15.9
EBIT margin	13.6	12.2	11.4	11.9	12.3
Adjusted profit margin	8.6	7.8	8.6	9.2	9.6
Adjusted ROAE	18.5	15.8	15.3	16.0	16.5
ROCE	15.9	14.0	13.8	14.5	15.1
Working capital days (days)					
Receivables	53	57	55	50	49
Inventory	72	68	69	66	66
Payables	45	41	43	40	40
Ratios (x)					
Gross asset turnover	1.6	1.7	1.5	1.5	1.5
Current ratio	1.8	2.0	2.2	2.2	2.3
Net interest coverage ratio	15.3	23.1	19.7	31.0	62.7
Adjusted debt/equity	0.0	(0.1)	(0.2)	(0.2)	(0.2)

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

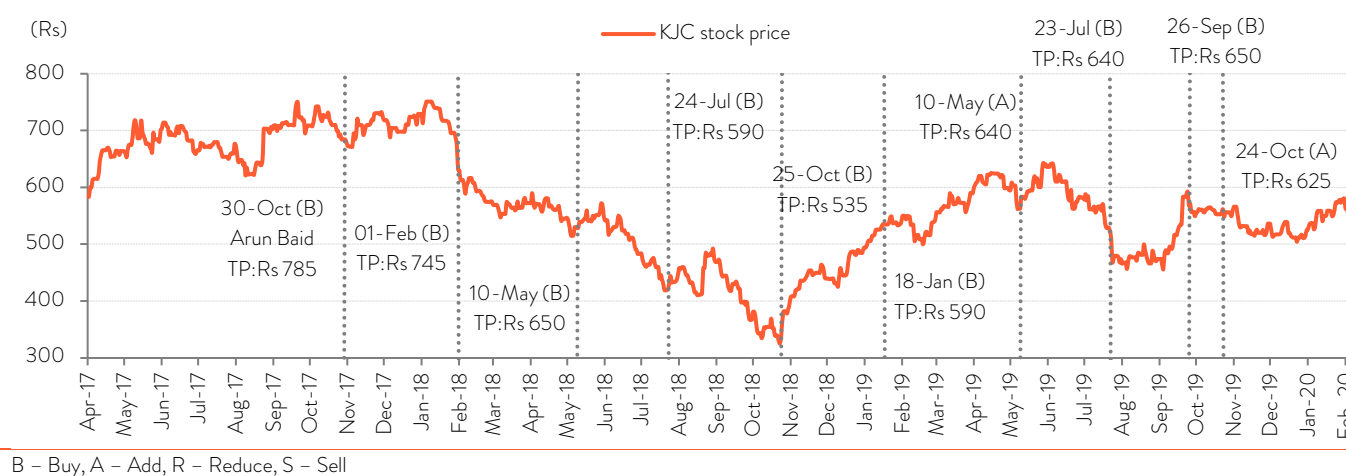
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: KAJARIA CERAMICS (KJC IN)



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