

KAJARIA CERAMICS LTD.

Industry Building Materials
Bloomberg KJC IN
BSE CODE 500233

Robust volume growth; Lower gas cost boost margins

RATING	BUY
CMP	534
Price Target	613
Potential Upside	15%

Rating Change	
Estimate Change	
Target Change	

Stock Info

52wk Range H/L	731/310
Mkt Capital (Rs Cr)	8504
Free float (%)	52%
Avg. Vol 1M (,000)	592
No. of Shares	16
Promoters Pledged %	0%

Research Analyst

PRATIK PODDAR

pratik.poddar@narnolia.com

+91-22-62701207

3Q FY19 Result Update

- Kajaria Ceramics reported 14.7% YoY growth in revenue to Rs 759 crores better than our expectations of Rs 734 crores on the back of strong tiles volume growth of 16% YoY as against expected 10%. The sanitaryware/faucet division continued its strong growth momentum of 40% in FY19. The realisations for tiles came in 1% lower YoY on a blended basis.
- The gross margins came in lower at 60.9% (expected 62.5%) due to lower than expected realisations and higher than expected outsourcing share in the revenue mix.
- 5% lower gas cost QoQ came in as a positive surprise which led to power and fuel cost at 20.4% of sales as against an expected 22.6%. Lower other expenses further aided EBITDA margins to come at 15.9% vs. expected 14%.
- Strong volume growth and improved EBITDA margins helped the company to post a PAT of Rs 65 crores for the quarter, up 19.3% YoY indicating a PAT margin of 8.5%.
- The company also announced the delay in its expansion of facility at Malutana, Rajasthan and it will now be completed by end of FY20.

View and Valuation

The last two quarter results reinforce the fact of volume growth being witnessed by the company. With the growth momentum expected to continue 4th quarter being the best quarter seasonally, tiles volume growth for full year FY19 is expected to be ~14% within the guided range of 12-15%. The sanitaryware and faucets would continue its robust growth of 40% in FY19 increasing its revenue contribution from 5% in FY18 to 6.6% in FY19. With the fall in crude prices in the recent past, the industry is rejoicing with the lower gas cost boosting its margins. From touching as high as 23.4% of sales in Q1FY19, the lower gas cost prices would result in the fuel cost returning to its general range of 20% in FY20. With the lowering cost pressures, the competition from unorganised Morbi players would be tackled in a better way. Thus lower pricing competition, better cost environment and improved regulatory compliance would fuel the growth going forward. We revise our Revenue and PAT estimates for FY19/FY20 by 1.6%/1.9% and 4.3%/6.1% respectively. We expect Revenue and PAT to grow at CAGR of 13.4% and 19.5% over FY18-20 respectively and value KAJARIACER at 30x FY20E EPS to arrive at a price target of Rs 613 and reiterate BUY.

Key Risks to our rating and target

- Untimely slowdown in real estate lobby and liquidity crunch impacting demand.
- Pricing competition from unorganised Morbi players and negative gas cost.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	2413	2550	2711	3054	3486
EBITDA	457	496	456	479	596
EBIT	385	415	368	389	497
PAT	231	253	234	249	325
EPS (Rs)	15	16	15	15	20
EPS growth (%)	31%	9%	-7%	5%	32%
ROE (%)	26%	23%	19%	17%	19%
ROCE (%)	32%	30%	24%	23%	27%
BV	61	74	85	97	114
P/B (X)	7.8	7.9	6.7	5.5	4.7
P/E (x)	32.8	36.9	38.5	34.6	26.2

The views expressed above accurately reflect the personal views of the authors about the subject companies and its(their) securities. The authors have not and will not receive any compensation for providing a specific recommendation or view. Narnolia Financial Advisors Ltd does and seeks to do business with companies covered in its research reports. As a result, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision.

3Q FY19 Results Better than estimates

ROBUST PERFORMANCE

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	661	750	657	725	759	14.7%	4.6%	2,550	2,711	6.3%
Other Income	2	5	2	5	5	155.9%	-1.3%	15	11	-29.4%
Total Revenue	663	755	659	730	763	15.1%	4.5%	2,565	2,721	6.1%
COGS	256	291	227	268	297	15.9%	10.6%	919	1,060	15.3%
Gross Margin	61%	61%	65%	63%	61%	-0.4%	-2.1%	64%	61%	-3.1%
Power & Fuel	121	152	154	162	155	28.0%	-4.3%	448	519	15.9%
Employee Cost	79	81	87	84	86	8.6%	2.0%	289	318	10.0%
Other Expense	95	106	92	103	101	5.4%	-1.8%	397	357	-10.2%
EBITDA	110	120	97	109	121	9.9%	10.9%	496	456	-8.1%
EBITDAM	17%	16%	15%	15%	16%	-0.7%	0.9%	19%	17%	-2.6%
Depreciation	22	23	23	23	22	-0.4%	-1.6%	81	89	8.8%
EBIT	88	97	74	86	99	12.5%	14.2%	415	368	-11.4%
Interest	5	5	4	5	4	-30.5%	-19.7%	34	24	0.0%
PBT	84	98	72	86	100	18.2%	15.2%	396	355	-10.5%
Exceptional	-	-	-	(3)	-	0%	-100%	-	1	0.0%
Tax	31	28	27	32	34	8.1%	3.9%	142	127	-11.1%
Share of	-	-	-	-	-	0%	0%	-	-	0.0%
Minority Int	1	(4)	0	(0)	(1)	-191%	153%	(1)	6	-736%
PAT	54	66	46	50	65	19.3%	29.1%	253	235	-7.1%
PAT Margin	8%	9%	7%	7%	9%	0.3%	1.6%	10%	9%	-1.2%

Revenue Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Own Mfg(Tiles)	54%	53%	54%	57%	57%	57%	59%	59%	55%
JVs (Tiles)	30%	29%	28%	23%	23%	23%	23%	22%	23%
Outsourcing (Tiles)	11%	12%	14%	15%	14%	14%	11%	13%	16%
Sanitary ware / Faucets	5%	5%	4%	5%	5%	7%	6%	6%	6%

Robust tiles volume growth drives revenue

Kajaria Ceramics reported 14.7% YoY growth in revenue to Rs 759 crores better than our expectations of Rs 734 crores on the back of strong tiles volume growth of 16% YoY as against expected 10%. The realisations for tiles came in 1% lower YoY on a blended basis. The share of own manufacturing tiles came in lines with our expectation in absolute volume terms operating at 90% utilisation. The robust volume growth has been supported by increasing share of outsourcing in the revenue mix and better utilisation at the JVs.

The sanitaryware/faucet division continued its strong growth momentum of 40% in FY19. While sanitaryware continues to operate at optimum utilisation, improvement in Faucet utilisation to 73% would certainly help in achieving breakeven in the segment.

Strong EBITDA margins on the back of lower gas costs

The gross margins came in lower at 60.9% (expected 62.5%) due to lower than expected realisations and higher than expected outsourcing share in the revenue mix. ~5% lower gas cost QoQ came in as a positive surprise which led to power and fuel cost at 20.4% of sales as against an expected 22.6%. Other expenses came in lower at 13.3% of sales against an expected 14.9% denoting operational efficiency on the back of higher volumes growth. EBITDA margins for the company came at 15.9% against our expectation of 14%. Strong volume growth and improved EBITDA margins helped the company to post a PAT of Rs 65 crores for the quarter, up 19.3% YoY indicating a PAT margin of 8.5%.

With higher volume sales and improvement in margins, we expect the company to report a PAT CAGR of 19.5% over FY18-20.

Exhibit: Sales and Gross Margin %

Sales grew 14.9% YoY on the back of strong volumes growth

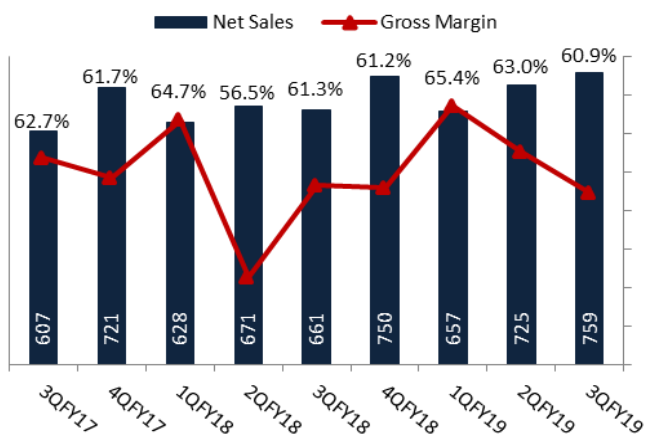


Exhibit: EBITDA and EBITDA margin %

Strong EBITDA margins on the back of lower gas costs

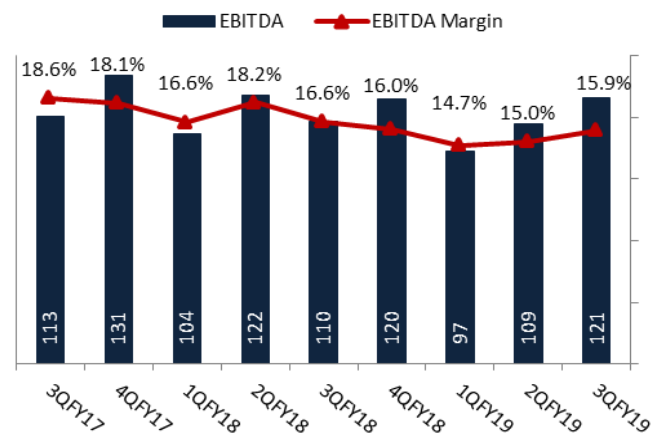


Exhibit: Return Ratios %

Strong profitability to drive return ratios higher after hit in FY19

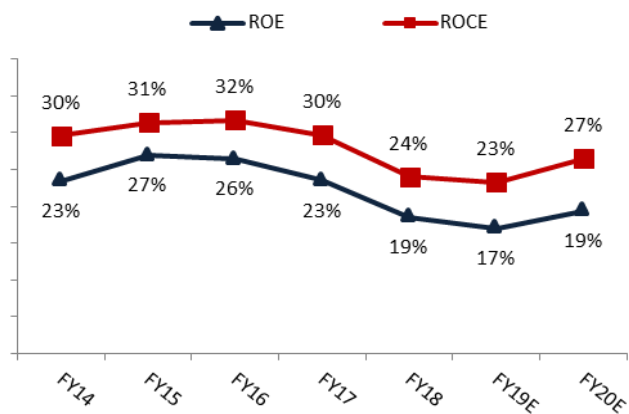


Exhibit: Revenue Mix %

Strong Volume growth fueled by higher outsourcing share

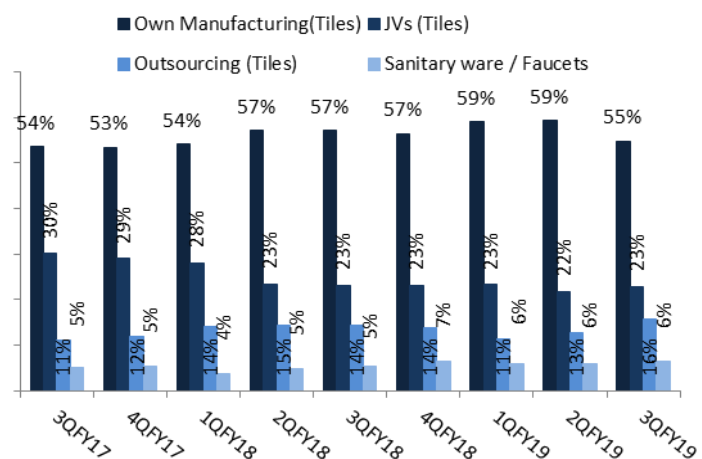


Exhibit: Tiles Volume Growth

Strong volume growth over last 2 quarters indicate improved demand

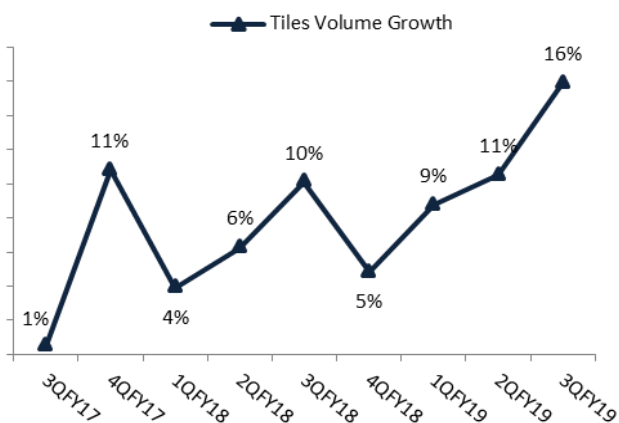
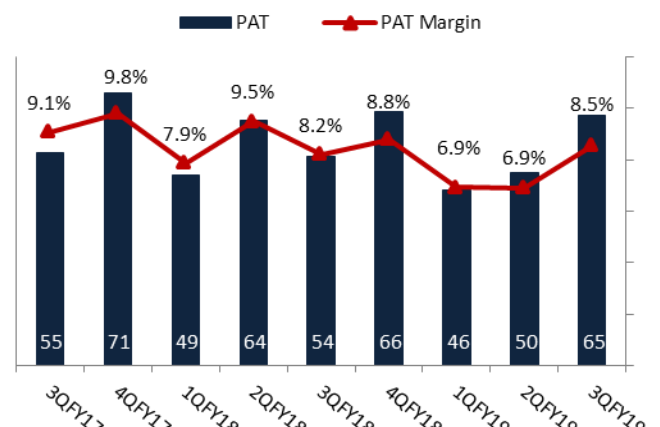


Exhibit: PAT and PAT Margin

Strong PAT growth on back of higher volumes and EBITDAM



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	15	16	16	16	16	16	16
Reserves	489	760	956	1,159	1,335	1,523	1,790
Net Worth	530	776	972	1,175	1,351	1,539	1,806
Minority Interest	41	62	76	76	66	68	70
Debt	194	230	253	171	135	94	80
Other Non Current Liab	80	92	104	119	115	115	115
Total Capital Employed	844	1,161	1,405	1,541	1,667	1,816	2,071
Net Fixed Assets (incl CWIP)	732	932	1,118	1,174	1,151	1,172	1,273
Goodwill	-	5.5	10.5	11.5	11.5	11.5	11.5
Other non-current assets	28	44	30	32	26	26	26
Non Current Assets	760	982	1,158	1,218	1,189	1,210	1,310
Inventory	193	303	384	372	378	463	536
Debtors	165	215	274	339	451	466	532
Cash & Bank	6	10	20	50	80	144	235
Other Current Assets	51	57	82	61	42	70	76
Current Assets	415	585	760	822	951	1,143	1,378
Creditors	152	253	293	268	258	292	338
Provisions	39	5	9	10	13	13	14
Other Current Liabilities	140	149	211	221	203	232	265
Curr Liabilities	331	406	513	499	473	537	617
Net Current Assets	84	179	247	323	478	606	760
Total Assets	1,176	1,567	1,918	2,040	2,140	2,353	2,688

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	1,836	2,187	2,413	2,550	2,711	3,054	3,486
Change (%)	16%	19%	10%	6%	6%	13%	14%
Other Income	2	7	10	15	11	16	25
EBITDA	285	354	457	496	456	479	596
Change (%)	17%	24%	29%	8%	-8%	5%	25%
Margin (%)	16%	16%	19%	19%	17%	16%	17%
Depr & Amor.	47	56	73	81	89	89	99
EBIT	238	298	385	415	368	389	497
Int. & other fin. Cost	41	29	34	34	24	18	13
EBT	199	276	361	396	355	388	509
Exp Item	-	(6)	-	-	1	(3)	-
Tax	68	85	125	142	127	137	182
share of profit/(loss) of associates	-	-	-	-	-	-	-
Minority Interest	(7)	(9)	(5)	(1)	6	(2)	(2)
Reported PAT	124	176	231	253	235	246	325
Adjusted PAT	124	181	231	253	234	249	325
Change (%)	19%	46%	28%	9%	-7%	6%	30%
Margin(%)	7%	8%	10%	10%	9%	8%	9%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Current Ratio	1.3	1.4	1.5	1.6	2.0	2.1	2.2
Debt-Equity Ratio	0.4	0.3	0.3	0.1	0.1	0.1	0.0
Interest Coverage Ratio	5.8	10.1	11.2	12.2	15.3	22.0	37.0
Capital Turnover Ratio	3.0	2.5	2.2	2.0	1.9	1.9	1.9
Fixed Asset Turnover Ratio	2.5	2.6	2.4	2.2	2.3	2.6	2.9
Inventory Days outstanding	89.9	132.8	165.7	147.7	130.3	145.3	145.3
Accounts Receivable Days outstanding	32.8	35.9	41.5	48.5	60.7	55.7	55.7
Accounts Payable Days outstanding	70.8	110.8	126.3	106.3	88.7	91.7	91.7
ROCE	29.6%	31.4%	31.7%	29.7%	24.0%	23.3%	26.5%
ROE	23.5%	26.9%	26.4%	23.5%	18.6%	17.0%	19.4%
FCF per Share	0.9	(5.3)	3.0	12.3	6.3	12.0	9.4
Price / EPS	22.3	36.4	32.8	36.9	38.5	34.6	26.1
Price / Book Value	5.2	8.2	7.8	7.9	6.7	5.5	4.7
EV/EBITDA	9.9	18.6	17.1	19.0	19.9	17.6	13.9
EV/Sales	1.5	3.0	3.2	3.7	3.3	2.8	2.4
Div Yield	1.0%	0.5%	0.5%	0.5%	0.5%	0.6%	0.7%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	199	270	361	396	355	384	509
(inc)/Dec in Working Capital	(15)	(66)	(53)	(48)	(101)	(38)	(64)
Non Cash Op Exp	12	26	77	85	87	73	74
Int Paid (+)	36	30	34	34	24	18	13
Tax Paid	(65)	(80)	(103)	(129)	(128)	(137)	(182)
CF from Op. Activities	166	180	316	338	238	300	350
(inc)/Dec in FA & CWIP	(152)	(265)	(269)	(142)	(138)	(110)	(200)
Free Cashflow	14	(84)	47	195	100	190	150
(Pur)/Sale of Inv	-	-	-	(0)	-	(25)	-
others	1	2	2	3	1	16	25
CF from Inv. Activities	(151)	(263)	(267)	(140)	(137)	(119)	(175)
inc/(dec) in NW	82	90	12	(3)	1	-	-
inc/(dec) in Debt	(69)	28	22	(82)	8	(42)	(14)
Int. Paid	-	-	(34)	(34)	(24)	(18)	(13)
Div Paid (inc tax)	(26)	(31)	(38)	(49)	(47)	(57)	(58)
others	-	-	-	(0)	(10)	-	-
CF from Fin. Activities	(13)	87	(39)	(168)	(72)	(117)	(85)
Inc(Dec) in Cash	2	5	10	30	30	65	90
Add: Opening Balance	3	5	10	20	50	80	144
Closing Balance	5	10	20	50	80	144	235

Narnolia Financial Advisors Ltd. is a SEBI registered Research Analyst having SEBI Registration No. INH300006500. The Company/Analyst (s) does/do not have any holding in the stocks discussed but these stocks may have been recommended to clients in the past. Clients of Narnolia Financial Advisors Ltd. may be holding aforesaid stocks.

The stocks recommended are based on our analysis which is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed.

Disclosures: Narnolia Financial Advisors Ltd. (NFAL) (Formerly Microsec Capital Ltd.) is a SEBI Registered Research Analyst having registration no. INH300006500. NFAL is engaged in the business of providing Stock Broking, Depository Participant, Merchant Banking, Portfolio Management & distribution of various financial products. Details of associate entities of NFAL is available on the website at www.narnolia.com

No penalties have been levied on NFAL by any Regulatory/Statutory authority. NFAL, its associates, Research Analyst or their relative may have financial interest in the subject company. NFAL and/or its associates and/or Research Analyst may have beneficial ownership of 1% or more securities in the subject company at the end of the month immediately preceding the date of publication of the Research Report. NFAL and its associate company(ies), their directors and Research Analyst and their relatives may; (a) from time to time, have a long or short position in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein. (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions; however the same shall have no bearing whatsoever on the specific recommendations made by the analyst(s), as the recommendations made by the analyst(s) are completely independent of the views of the associates of NFAL even though there might exist an inherent conflict of interest in some of the stocks mentioned in the research report. Research Analyst may have served as director/officer, etc. in the subject company in the last 12 month period. NFAL and/or its associates may have received compensation from the subject company in the past 12 months. In the last 12 months period ending on the last day of the month immediately preceding the date of publication of this research report, NFAL or any of its associates may have: a) managed or co-managed public offering of securities from subject company of this research report, b) received compensation for investment banking or merchant banking or brokerage services from subject company of this research report, c) received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company of this research report. d) Subject Company may have been a client of NFAL or its associates during 12 months preceding the date of distribution of the research report. NFAL and its associates have not received any compensation or other benefits from the Subject Company or third party in connection with the research report. NFAL and / or its affiliates may do and seek to do business including Investment Banking with companies covered in the research reports. As a result, the recipients of this report should be aware that NFAL may have a potential conflict of interest that may affect the objectivity of this report. Compensation of Research Analysts is not based on any specific Merchant Banking, Investment Banking or Brokerage service transactions. Research Analyst's views on Subject Company may vary based on Fundamental research and Technical Research. Proprietary trading desk of NFAL or its associates maintains arm's length distance with Research Team as all the activities are segregated from NFAL research activity and therefore it can have an independent view with regards to subject company for which Research Team have expressed their views.

Analyst Certification The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issues, and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations and views expressed by research analyst(s) in this report.

Disclosure of Interest Statement-

Analyst's ownership of the stocks mentioned in the Report	NIL
---	-----

A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com.

Correspondence Office Address: Arch Waterfront, 5th Floor, Block GP, Saltlake, Sector 5, Kolkata 700 091; Tel No.: 033-40541700; www.narnolia.com.

Registered Office Address: Marble Arch, Office 201, 2nd Floor, 236B, AIC Bose Road, Kolkata 700 020; Tel No.: 033-4050 1500; www.narnolia.com

Compliance Officer: Manish Kr Agarwal, Email Id: mkagarwal@narnolia.com, Contact No.:033-40541700.

Registration details of Company: Narnolia Financial Advisors Ltd. (NFAL): SEBI Stock Broker Registration: INZ000166737 (NSE/BSE/MSEI); NSDL/CDSL: IN-DP-380-2018; Research Analyst: INH300006500, Merchant Banking: (Registration No.: INM000010791), PMS: (Registration No.: INP000002304), AMFI Registered Mutual Fund distributor: ARN 3087

Registration Details of Group entities: G. Raj & Company Consultants Ltd (G RAJ)-BSE Broker INZ260010731; NSDL DP: IN-DP-NSDL-371-2014 || Narnolia Commerze Limited (Formerly Microsec Commerze Ltd.)-MCX/NCDEX Commodities Broker: INZ000051636 || NarnoliaVeloX Advisory Ltd.- SEBI Registered PMS: INP000005109 || Eastwind Capital Advisors Pvt Ltd. (EASTWIND)-SEBI Registered Investment Adviser: INA300005439 || Narnolia Insurance Brokers Limited (Formerly Microsec Insurance Brokers Ltd.)-IRDA Licensed Direct Insurance Broker (Life & Non-Life) Certificate No. 134, License No. DB046/02 || Narnolia Securities Ltd. (NSL)-AMFI Registered Mutual Fund distributor: ARN 20558, PFRDA NPS POP: 27092018 || Narnolia Capital Advisors Pvt. Ltd. - RBI Registered NBFC:B.05.02568.

Disclaimer:

This report has been prepared by Narnolia Financial Advisors Ltd. (NFAL) and is meant for sole use by the recipient and not for public circulation. The report and information contained herein is strictly confidential and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of NFAL. The report is based on the facts, figures and information that are considered true, correct, reliable and accurate. The intent of this report is not recommendatory in nature. The information is obtained from publicly available media or other sources believed to be reliable. Such information has not been independently verified and no guaranty, representation of warranty, express or implied, is made as to its accuracy, completeness or correctness. All such information and opinions are subject to change without notice. The report is prepared solely for informational purpose and does not constitute an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments for the clients. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. Certain transactions -including those involving futures, options, another derivative products as well as non-investment grade securities - involve substantial risk and are not suitable for all investors. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his/her/its own advisors to determine the merits and risks of such an investment. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NFAL will not treat recipients as customers by virtue of their receiving this report. Neither the Company, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profits or lost opportunities that may arise from or in connection with the use of the information/report. The person accessing this information specifically agrees to exempt NFAL or any of its affiliates or employees from, any and all responsibility/liability arising from such misuse and agrees not to hold NFAL or any of its affiliates or employees responsible for any such misuse and further agrees to hold NFAL or any of its affiliates or employees free and harmless from all losses, costs, damages, expenses that may be suffered by the person accessing this information due to any errors and delays.

This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NFAL & its group companies to registration or licensing requirements within such jurisdictions.