

KAJARIA CERAMICS LTD "Disappointing Q3FY13 Numbers"

Indian largest sanitaryware company, Kajaria Ceramics, has reported subdued numbers during the Dec 2012 quarter. Kajaria's consolidated revenues grew by 20% to Rs 417.71 crore while its net profit grew by 21% to Rs 25.81 crore. The total volumes increased by 9.86% to 11.36 million square meters (MSMs) in Q3FY13, which marked a sharp decline as compared to the 32% growth seen in the corresponding quarter last fiscal

During the quarter, the company has seen a flat volume growth of 2.5% from its captive manufacturing capacities to 6.97 MSM. The realisations, however, have increased by 7% on a YoY basis.

In the last one year, Kajaria has formed 4 joint ventures with 51% stake in each of them. Due to this capacity addition, its total JV capacity has gone to 12.7 MSM. The volumes from these JV capacities have nearly doubled on a YoY basis, and the realisations too have increased by 24%. The volumes from third-party manufacturing capacities have declined sharply by 20% while realisations have increased marginally.

Another noticeable factor, during the Dec 2012 quarter, is that the company manufactured a total 9.7 MSMs of sanitaryware products. However, only 8.9 MSMs of them were sold leaving a gap of 0.8 MSM. During the preceding quarter, its peer company HSIL had reported an inventory pile-up due to overcapacity. At the moment, it is not clear whether Kajaria Ceramics is facing any such issue, but a slower growth rate in the last two quarters indicates a slowdown in the high growth momentum.

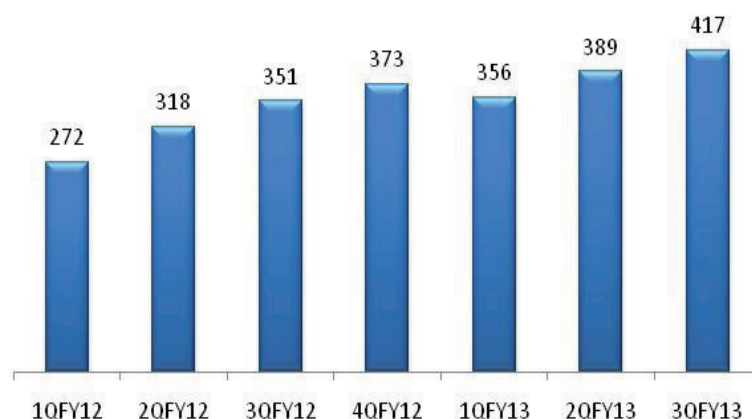
The Dec 2012 quarter also saw its EBITDA margins declining by 145 basis points. The company has said that high LNG cost, rupee depreciation and sharp increase in the power tariffs increased its operating costs. The total expenses grew by 21% to Rs 368 crore, which brought down the margins to 14.53%. This is the second consecutive quarter that the company has reported a decline in the EBITDA margins.

On the positive side, the company has reported 23% decline in the interest expenses. Kajaria also said that it has reduced its debt-to-equity ratio from 0.99 in Mar 2012 to 0.90 in Dec 2012.

Outlook:

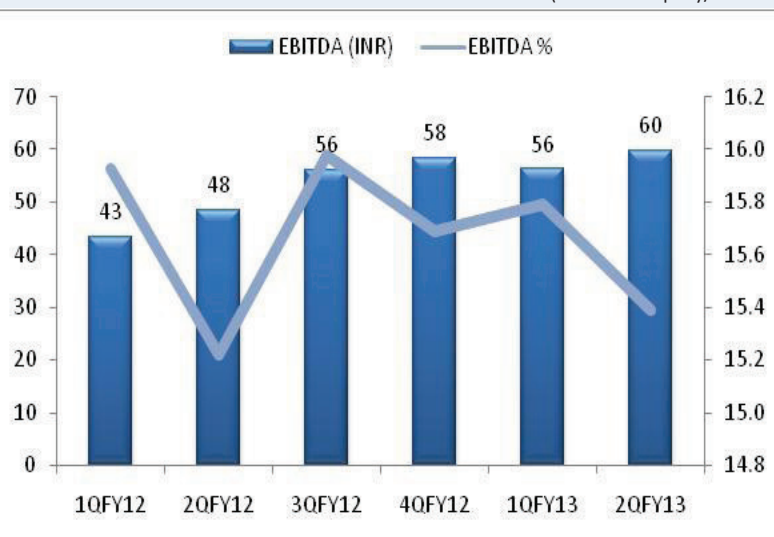
With the disappointing numbers, and the low volume growth and consecutive decline in EBITDA margins, we are not advised to readers to make any fresh exposure in this stock, while those who already owned this stock are advised to hold this stock. We have a neutral view on this stock until or unless a clear view come with us. At its CMP of Rs 210, the stock is trading at a TTM Price to Earnings multiple of 16x, which is in line with its peers.

Net Revenue From Operation



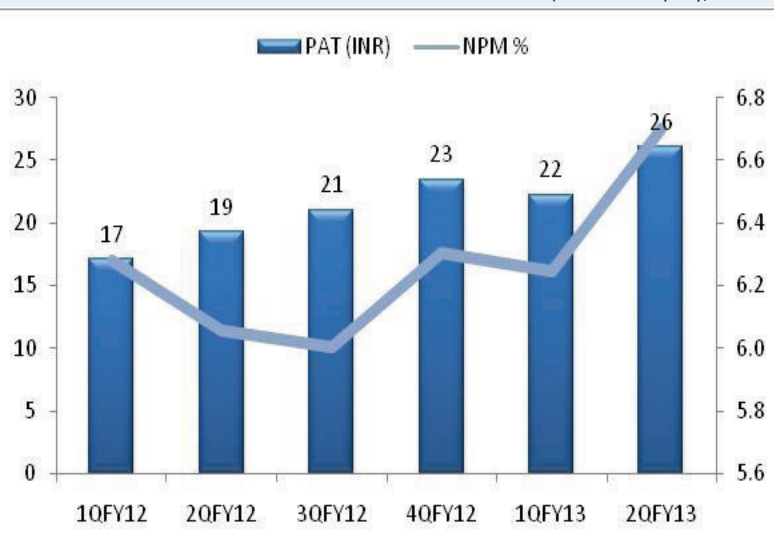
Consolidated

(Source: Company/Eastwind)



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