

Kajaria Ceremics Ltd.

"Buy"

23rd Jan' 14

"Capacity expansion & sustained realisation to drive growth..."

Result update	Buy
CMP	312
Target Price	350
Previous Target Price	285
Upside	12%
Change from Previous	19%

Market Data

BSE Code	500233
NSE Symbol	KAJARIACER
52wk Range	174/320
Mkt Capital	2,356
Average Daily	63,000
Nifty	6,322

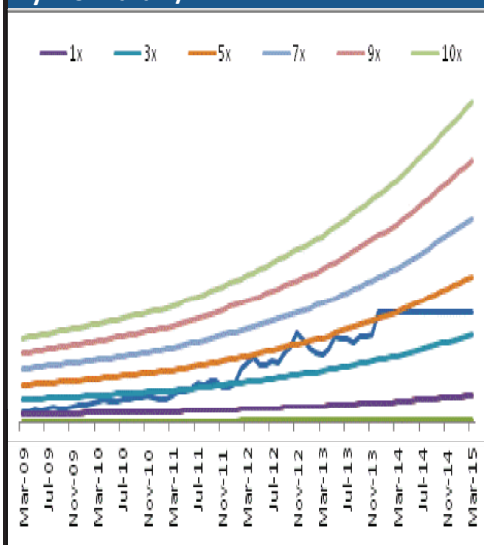
Stock

	1M	1yr	YTD
Absolute	6.3	35.4	61.8
Rel. to Nifty	5.3	29.8	50.4

Share

	2QFY14	1QFY14	4QFY13
Promoters	52.1	53.5	53.5
FII	25.6	18.4	15.6
DII	3.8	3.1	3.2
Others	18.5	25.0	27.6

1 yr Forward P/B



Despite the slowdown in the overall industrial space, company performed well in 3QFY14 numbers. Company's consolidated revenues increased by 5.4 per cent to Rs 440.4 crore while net profit witnessed a growth by 17.6 per cent to Rs 30.0 crore on yoy basis for the December quarter. Company's EBITDA has gone up by 9.5% to Rs 66.4 crore against Rs 60.6 crore in Q3FY13. The EBITDA margin of the company too has improved by 56 bps and stands at 15.1% in current quarter. On the basis of the company current quarter sales have been adversely affected due to production shut down at Gujarat which impact the company revenue by Rs. 20-25 crore. Kajaria's thrust on capacity expansion and gaining market share is helping it to post strong topline growth. Further, KCL has plans to do a capital expenditure of about Rs 425 crore over the financial year FY13 to FY16. This investment will help company to have revenue of over Rs 2500 crore by FY16. We are remain bullish on the counter and continue to maintain our buy rating on stock with an upgraded price target of Rs 350.

Growth story :

The company had taken a price hike in October'13, further recent developments in Morbi are structural positives Near-term demand trends look reasonable and this category has been relatively resilient to the general slowdown witnessed in consumption. If recent price increases stick, margins could expand significantly in the next few quarters. Further, Next year, company looking at selling almost about 60 million square meters of tiles.

Capacity expansion :

KCL has plans to do a capital expenditure of about Rs 425 crore over the financial year FY13 to FY16. This investment will help company to have revenue of over Rs 2500 crore by FY16. In addition, the Joint Ventures of KCL with the private firms - Jaxx Vitified and Cosa Ceramics, having annual capacity of 5.7 million square meters (MSM) and 2.7 MSM respectively, will increase the KCL's production capacity. Hence, with the increased capacities of its vitrified tiles and strong demand in the market, we expect KCL to deliver strong growth over the medium term.

Valuation :

At the current CMP of Rs. 311, the stock is trading at a PE of 19x and 14x of FY14E and FY15E. The company can post RoE of 29.2% and 30.0% & EPS of Rs. 18.3 and Rs. 24.9 FY14E and FY15E. **We believe that the current level is also good to enter. We expect Kajaria's strong earnings growth and rising market share will trigger re-rating and hence upgrade our price target to Rs 370. We advice those who have already bought into the counter to hold on for further gains and those wishing to get in can do so with a revised price target of Rs. 350 in mind (12% return) over the next couple of quarter.**

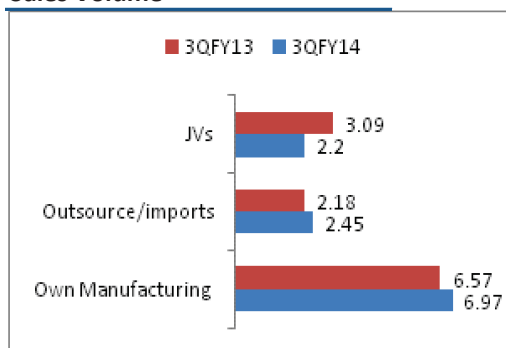
Financials	Rs, Crore				
	3QFY14	2QFY14	(QoQ)-%	3QFY13	(YoY)-%
Revenue	440.4	478.4	-7.9	418.0	5.4
EBITDA	66.5	65.6	1.4	60.7	9.6
PAT	30.0	29.2	3.0	25.0	20.4
EBITDA Margin	15.1%	13.7%	140 bps	14.5%	60 bps
PAT Margin	6.8%	6.1%	70 bps	6.0%	80 bps

(Source: Company/ Eastwind Research)

(Consolidated)

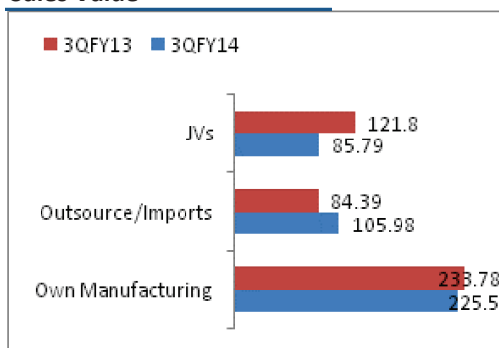
Kajaria Ceremics Ltd.

Sales Volume



(Source: Company/Eastwind Research)

Sales Value



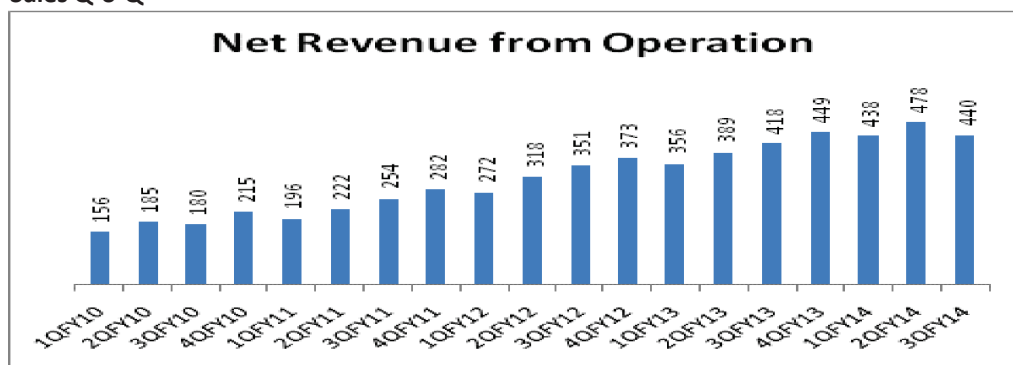
(Source: Company/Eastwind Research)

Management Guidance FY15:

Expect 18-20% Revenue growth in FY15 out of which a volume growth of about 14 percent and price and value both should add about 4-5 percent.

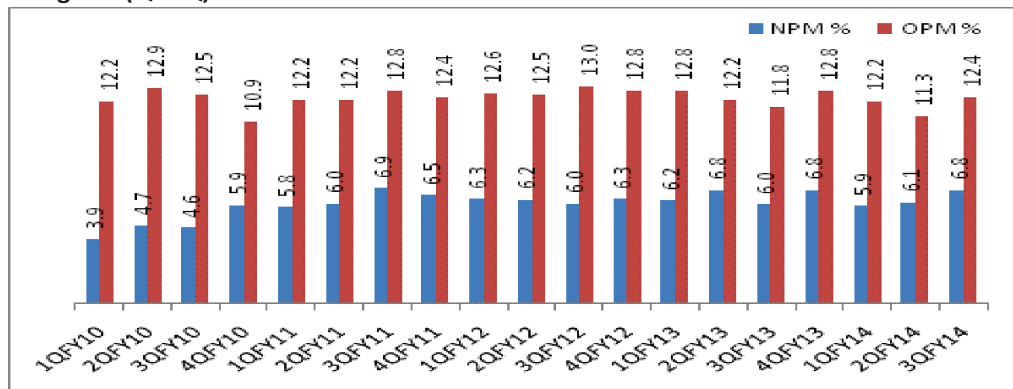
EBITDA margin to be somewhere around 16% in FY15, Expecting a growth somewhere between 50bps to 100bps.

Sales Q-o-Q



(Source: Company/Eastwind Research)

Margin % (Q-o-Q)



(Source: Company/Eastwind Research)

Kajaria Ceremics Ltd.

Key Financials

PARTICULAR	2009A	2010A	2011A	2012A	2013A	2014E	2015E
Performance							
Revenue	664.9	736.4	952.3	1313.0	1612.0	1934.4	2321.3
Other Income	1.0	0.0	1.1	1.5	3.0	3.0	3.0
Total Income	665.9	736.4	953.4	1314.5	1615.0	1937.4	2324.3
EBITDA	94.9	115.7	147.9	206.8	244.5	285.3	359.8
EBIT	70.0	89.0	118.2	167.5	199.9	238.3	304.8
DEPRICIATION	24.9	26.7	29.7	39.3	44.6	47.0	55.0
INTREST COST	58.2	37.5	30.1	48.5	45.4	44.1	40.0
PBT	12.7	51.4	89.2	120.5	157.6	197.2	267.8
TAX	3.8	15.6	28.5	38.1	49.9	62.4	84.8
Extra Oridiniary Items	NA	NA	NA	NA	NA	NA	NA
Reported PAT	8.9	35.8	60.7	82.5	107.7	134.8	183.1
Dividend (INR)	1.7	8.6	17.1	21.4	25.7	29.9	34.2
DPS	0.2	1.2	2.3	2.9	3.5	4.1	4.6
EPS	1.2	4.9	8.2	11.2	14.6	18.3	24.9
Yeild %							
EBITDA %	14.3%	15.7%	15.5%	15.7%	15.2%	14.8%	15.5%
NPM %	1.3%	4.9%	6.4%	6.3%	6.7%	7.0%	7.9%
Earning Yeild %	4.4%	7.9%	10.9%	6.6%	7.6%	5.9%	8.0%
Dividend Yeild %	0.9%	1.9%	3.1%	1.7%	1.8%	1.3%	1.5%
ROE %	5.5%	18.9%	27.3%	29.2%	30.2%	29.2%	30.0%
ROCE%	1.8%	7.9%	11.9%	18.1%	20.4%	19.8%	22.0%
Position							
Net Worth	162	189	223	282	357	462	611
Total Debt	325	263	288	175	170	220	220
Capital Employed	487	452	510	457	527	682	831
No of Share (Adj)	7	7	7	7	7	7	7
CMP	27	62	76	170	192	311	311
Valuation							
Book Value	22.0	25.7	30.2	38.3	48.5	62.7	83.0
P/B	1.2	2.4	2.5	4.4	4.0	4.9	3.7
Int/Coverage	1.2	2.4	3.9	3.5	4.4	5.4	7.6
P/E	23	13	9	15	13	17	12

(Source: Company/Eastwind Research)