Narnolia™

Kajaria Ceramics Limited

Industry	Building Materials
Bloomberg	KJC IN
BSE CODE	500233

Lower gas costs aid margins; Strong Volume Guidance

RATING	HOLD
CMP	586
Price Target	579
Potential Upside	-1%

Rating Change	⟷
Estimate Change	↓
Target Change	↓

Stock Info

52wk Range H/L	635/310
Mkt Capital (Rs Cr)	9314
Free float (%)	52%
Avg. Vol 1M (,000)	618
No. of Shares (Cr)	16
Promoters Pledged %	0%

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4QFY19 Result Update

- Kajaria Ceramics reported 8.7% YoY growth in revenue to Rs 815 crores on the back of tiles volume growth of 11% YoY. The sanitaryware/faucet division witnessed a slowdown in revenue growth to ~8% in Q4FY19. The realisations for tiles came in ~3% lower QoQ on a blended basis.
- The gross margins came in much lower at 56.5% due to lower realisations on poor product mix and higher share of outsourcing in the revenue mix.
- The cool down in gas prices helped in lower power & fuel cost which came in at 17.9% of sales. Further, lower other expenses aided EBITDA margins to come at 15.1% for the quarter.
- Tiles volume growth and lower gas costs helped the company to post a PAT of Rs 66 crores for the quarter, flat YoY indicating a PAT margin of 8.1%.
- The company also announced the delay in its expansion of facility at Malutana, Rajasthan and it will now be completed by August of FY20.

View and Valuation

FY19 ended with an overall sales growth of 9% YoY which was primarily driven by an overall tiles volume growth of ~11.6% with the realisations down due to stiff competition in industry. Post the NGT order of banning the use of coal, the management is quite confident of improving industry dynamics with all the players now on the same level playing field where they comply with the GST. Further, the Morbi players have now lost the undue cost benefit from using cheaper energy source Coal instead of Gas which should ease the pricing environment with Morbi taking price hikes. The management has guided a 15% tiles volume growth for FY20 against the expected flat industry growth, implying market share gains and has said that the value growth would be further higher. However, being cautious on the market share gains, we have taken ~12% tiles volume growth for FY20. Further, the management has guided the sanitaryware/faucets division revenue growth to be 30% YoY and plywood revenues to be at Rs 50 crores. We have taken former revenue growth of 25% and latter FY20 revenues at Rs 40 crores. At the current gas prices, the total gas cost should come down from 20.8% of sales in FY19 to ~18% in FY20. With the lowering cost pressures and easing price competition from Morbi players post the NGT order, EBITDA margin is expected to improve to 16.4%. We revise down our Revenue and PAT estimates for FY20 by 4.6%/6.9%. Given strong market share hold and brand value, we value KAJARIACER at 30x FY20e P/E to arrive at a price target of Rs 579 and maintain HOLD.

Key Risks to our rating and target

- Slowdown in overall demand environment, stiff competition on market share
- Highly volatile gas prices pose a threat to margins

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	2413	2550	2711	2956	3375
EBITDA	457	496	456	449	554
EBIT	385	415	368	360	459
PAT	231	253	234	231	307
EPS (Rs)	15	16	15	14	19
EPS growth (%)	31%	9%	-7%	-3%	35%
ROE (%)	26%	23%	19%	15%	18%
ROCE (%)	32%	30%	24%	21%	24%
BV	61	74	85	99	115
P/B (X)	7.8	7.9	6.7	6.0	5.1
P/E (x)	32.8	36.9	38.4	41.3	30.4

4QFY19 Results
Lower than estimates

Higher Guidance

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	750	657	725	759	815	8.7%	7.5%	2,711	2,956	9.1%
Other Income	5	2	5	5	7	27.0%	44.2%	11	18	66.3%
Total Revenue	755	659	730	763	822	8.8%	7.7%	2,721	2,974	9.3%
COGS	291	227	268	297	355	21.8%	19.6%	1,060	1,146	8.1%
Gross Margin	61%	65%	63%	61%	57%	-4.7%	-4.4%	61%	61%	0.3%
Power & Fuel	152	154	162	155	146	-4.3%	-5.9%	519	616	18.6%
Employee Cost	81	87	84	86	89	10.0%	3.5%	318	345	8.8%
Other Expense	106	92	103	101	103	-2.5%	2.7%	357	399	11.7%
EBITDA	120	97	109	121	123	2.4%	1.7%	456	449	-1.5%
EBITDAM	16%	15%	15%	16%	15%	-0.9%	-0.8%	17%	15%	-1.6%
Depreciation	23	23	23	22	22	-5.2%	-2.3%	89	89	0.6%
EBIT	97	74	86	99	101	4.2%	2.6%	368	360	-2.0%
Interest	5	4	5	4	3	-30.3%	-9.9%	24	16	-35.3%
PBT	98	72	86	100	105	7.0%	5.0%	355	363	2.3%
Exceptional	-	-	(3)	-	(1)	-100%	-100%	1	(5)	-745%
Tax	28	27	32	34	36	29.3%	7.6%	127	129	2.0%
Share of	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Minority Int	(4)	0	(0)	(1)	(1)	-76.5%	-21.1%	6	(2)	-134%
PAT	66	46	50	65	66	0.0%	1.9%	235	227	-3.6%
PAT Margin	9%	7%	7%	9%	8%	-0.7%	-0.4%	9%	8%	-1.0%

Revenue Mix	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Own Mfg(Tiles)	53%	54%	57%	57%	57%	59%	59%	55%	51%
JVs (Tiles)	29%	28%	23%	23%	23%	23%	22%	23%	24%
Outsourcing (Tiles)	12%	14%	15%	14%	14%	11%	12%	15%	17%
Sanitary ware / Faucets	5%	4%	5%	5%	7%	6%	6%	6%	6%

Robust tiles volume growth drives revenue

Kajaria Ceramics reported 8.7% YoY growth in revenue to Rs 815 crores, lower than our expectations of Rs 882 crores. The strong revenue growth was on the back of strong tiles volume growth of 11% YoY (est. 15%). The realisations for tiles came in ~3% lower QoQ on a blended basis. The robust volume growth has been supported by increasing share of outsourcing in the revenue mix and better utilisation at the JVs. All the capacities in JVs now run on full capacity utilisation.

The sanitaryware/faucet division showed a poor quarter of only ~ 8% revenue growth in Q4FY19. While sanitaryware continues to operate at optimum utilisation, Faucet plant utilisation if expected to reach 90% in FY20 from current ~65%. Better utilisation of capacities would help in achieving breakeven for the division. The plywood division did total revenue of Rs 17 crores in FY19.

Strong EBITDA margins on the back of lower gas costs

The gross margins came in lower at 56.5% (expected 61.1%) due to lower than expected realisations and higher than expected outsourcing share in the revenue mix. Lower gas prices led the power & fuel costs reduce to 17.9% of sales as against an expected 20.3%. Other expenses came in lower at 12.7% of sales against an expected 14% which denotes volume growth is leading to better operational efficiency. EBITDA margins for the company came at 15.1% against our expectation of 16.2%, primarily due to lower gross margins.

Tiles volume growth and lower gas costs helped the company to post a PAT of Rs 66 crores for the quarter, flat YoY indicating a PAT margin of 8.1%.

Analyst Meet Highlights

- FY19 12% volume growth. FY19 industry growth was flat and for FY20 also it is expected to be flat. Company has guided to 15% volume growth in FY20 through market share gains. Value growth should be marginally higher than volume growth in FY20
- Gas prices affected margins in FY19. Profit of FY19 was impacted by Rs 50 crores due to higher gas costs
- Andhra Pradesh plant to now commence by Aug 2019. It will help them to have deeper reach in southern parts of the country
- Capex is going to be low for next 2 years. Not more than Rs 200 crores to be spent. They won't do any unrelated capex
- Expect 30% growth in sanitaryware/faucets and Ply sales to be Rs 50 crs in FY20
- The company has Roped in Ranveer Singh as ply business ambassador
- Operating dealer network now stands at 1500. Company now has 240 exclusive dealers from 200
- Dealers growth is good due to GST
- Morbi players are facing stress due to NGT order
- Pricing pressure is still there; however, eased out to a certain extent. Morbi increased prices by 5-8% post NGT order. Company took price hikes of 4-6% in South and West region
- FY19 ad spends at 100 crores, FY20 should be 105 crores
- Sanitaryware/Faucets should do PAT of Rs 10 crores in FY20
- Anti-Dumping Duty by GCC: Morbi players are assured by the GCC authorities that the duty will be imposed only after consultation with them. Duty imposition will come after 9months and that also should be low in rate
- Board may consider to distribute extra cash in the coming year by way of buyback or dividend. It is too early to say though

Exhibit: Sales and Gross Margin %

Sales grew 8.7% YoY, Gross margins reduced with higher share of outsc

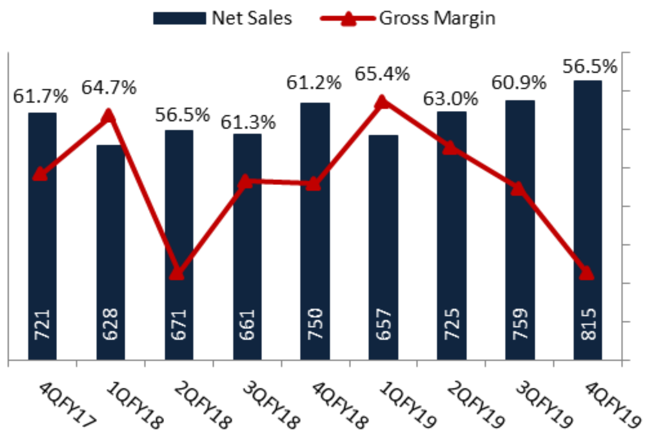


Exhibit: EBITDA and EBITDA margin %

EBITDA margins were higher with lower gas costs and other expens

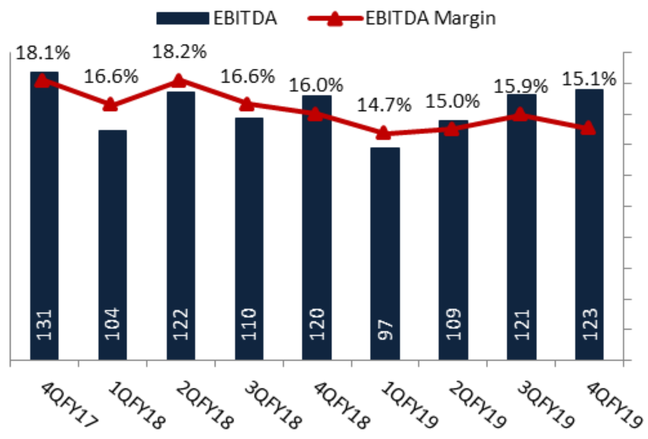


Exhibit: Return Ratios %

Strong profitability to drive return ratios higher after hit in FY19

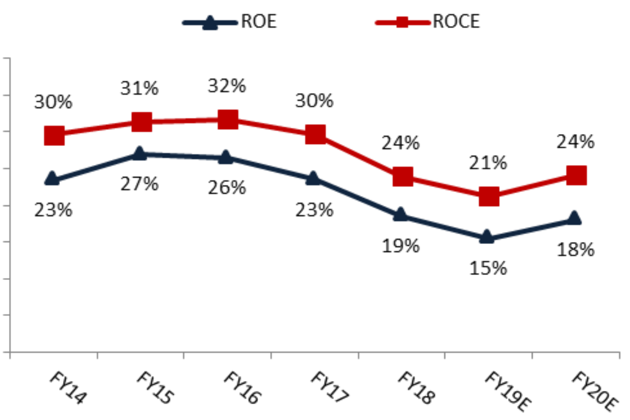


Exhibit: Revenue Mix %

Strong Volume growth fueled by higher outsourcing share

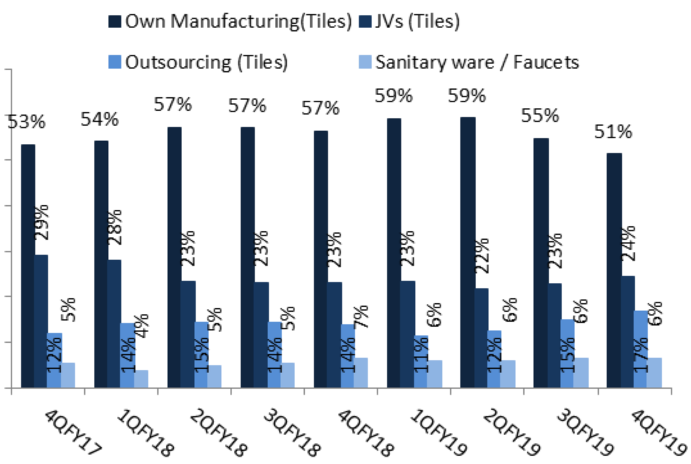


Exhibit: Tiles Volume Growth

Double digit volume growth over past 3 quarters

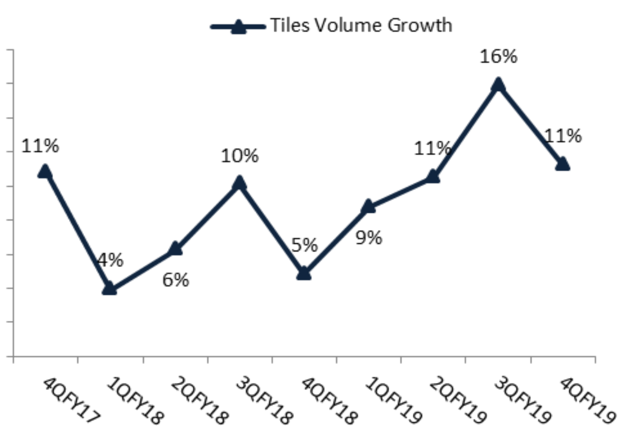
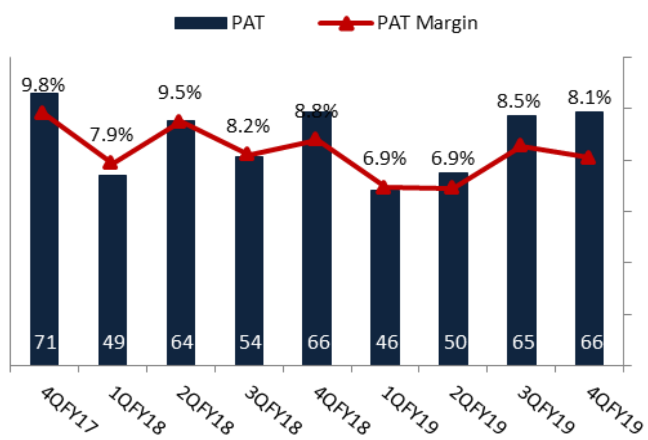


Exhibit: PAT and PAT Margin

Strong PAT growth on back of higher volumes and EBITDAM



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Share Capital	**15**	**16**	**16**	**16**	**16**	**16**	**16**
Reserves	489	760	956	1,159	1,335	1,559	1,808
Net Worth	**530**	**776**	**972**	**1,175**	**1,351**	**1,575**	**1,824**
Minority Interest	**41**	**62**	**76**	**76**	**66**	**66**	**68**
Debt	194	230	253	171	135	95	81
Other Non Current Liab	80	92	104	119	118	114	114
Total Capital Employed	**844**	**1,161**	**1,405**	**1,541**	**1,670**	**1,850**	**2,088**
Net Fixed Assets (incl CWIP)	732	932	1,118	1,174	1,151	1,163	1,188
Goodwill	-	5.5	10.5	11.5	11.5	8.5	8.5
Other non-current assets	28	44	30	32	26	31	31
Non Current Assets	**760**	**982**	**1,158**	**1,218**	**1,189**	**1,202**	**1,227**
Inventory	193	303	384	372	378	406	496
Debtors	165	215	274	339	451	475	542
Cash & Bank	6	10	20	50	80	22	151
Other Current Assets	51	57	82	61	42	268	274
Current Assets	**415**	**585**	**760**	**822**	**951**	**1,171**	**1,463**
Creditors	152	253	293	268	258	309	361
Provisions	39	5	9	10	13	16	15
Other Current Liabilities	140	149	211	221	200	199	227
Curr Liabilities	**331**	**406**	**513**	**499**	**470**	**523**	**602**
Net Current Assets	**84**	**179**	**247**	**323**	**481**	**648**	**860**
Total Assets	**1,176**	**1,567**	**1,918**	**2,040**	**2,140**	**2,373**	**2,690**

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Revenue from Operation	**1,836**	**2,187**	**2,413**	**2,550**	**2,711**	**2,956**	**3,375**
Change (%)	16%	19%	10%	6%	6%	9%	14%
Other Income	2	7	10	15	11	18	34
EBITDA	**285**	**354**	**457**	**496**	**456**	**449**	**554**
Change (%)	17%	24%	29%	8%	-8%	-2%	23%
Margin (%)	16%	16%	19%	19%	17%	15%	16%
Depr & Amor.	47	56	73	81	89	89	95
EBIT	**238**	**298**	**385**	**415**	**368**	**360**	**459**
Int. & other fin. Cost	41	29	34	34	24	16	13
EBT	**199**	**276**	**361**	**396**	**355**	**363**	**480**
Exp Item	-	(6)	-	-	1	(5)	-
Tax	68	85	125	142	127	129	171
share of profit/(loss) of associates	-	-	-	-	-	-	-
Minority Interest	(7)	(9)	(5)	(1)	6	(2)	(2)
Reported PAT	124	176	231	253	235	227	307
Adjusted PAT	**124**	**181**	**231**	**253**	**234**	**231**	**307**
Change (%)	19%	46%	28%	9%	-7%	-1%	33%
Margin(%)	7%	8%	10%	10%	9%	8%	9%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Current Ratio	1.3	1.4	1.5	1.6	2.0	2.2	2.4
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	23.1	34.8
Capital Turnover Ratio	3.0	2.5	2.2	2.0	1.9	1.8	1.8
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	129.2	129.2
Accounts Receivable Days outstanding	32.8	35.9	41.5	48.5	60.7	58.7	58.7
Accounts Payable Days outstanding	70.8	110.8	126.3	106.3	88.7	98.4	94.0
ROCE	29.6%	31.4%	31.7%	29.7%	24.0%	21.3%	24.1%
ROE	23.5%	26.9%	26.4%	23.5%	18.6%	15.5%	18.0%
FCF per Share	0.9	(5.3)	3.0	12.3	6.3	16.7	11.3
Price / EPS	22.3	36.4	32.8	36.9	38.4	41.3	30.4
Price / Book Value	5.2	8.2	7.8	7.9	6.7	6.0	5.1
EV/EBITDA	9.9	18.6	17.1	19.0	19.9	20.5	16.3
EV/Sales	1.5	3.0	3.2	3.7	3.3	3.1	2.7
Div Yield	1.0%	0.5%	0.5%	0.5%	0.5%	0.5%	0.7%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	**199**	**270**	**361**	**396**	**355**	**358**	**480**
(inc)/Dec in Working Capital	(15)	(66)	(53)	(48)	(101)	(3)	(84)
Non Cash Op Exp	12	26	77	85	87	125	61
Int Paid (+)	36	30	34	34	24	16	13
Tax Paid	(65)	(80)	(103)	(129)	(128)	(129)	(171)
CF from Op. Activities	**166**	**180**	**316**	**338**	**238**	**366**	**299**
(inc)/Dec in FA & CWIP	(152)	(265)	(269)	(142)	(138)	(101)	(120)
Free Cashflow	14	(84)	47	195	100	265	179
(Pur)/Sale of Inv	-	-	-	(0)	-	-	-
others	1	2	2	3	1	(210)	34
CF from Inv. Activities	**(151)**	**(263)**	**(267)**	**(140)**	**(137)**	**(311)**	**(86)**
inc/(dec) in NW	82	90	12	(3)	1	-	-
inc/(dec) in Debt	(69)	28	22	(82)	8	(40)	(14)
Int. Paid	-	-	(34)	(34)	(24)	(16)	(13)
Div Paid (inc tax)	(26)	(31)	(38)	(49)	(47)	(57)	(58)
others	-	-	-	(0)	(10)	-	-
CF from Fin. Activities	**(13)**	**87**	**(39)**	**(168)**	**(72)**	**(113)**	**(85)**
Inc(Dec) in Cash	**2**	**5**	**10**	**30**	**30**	**(58)**	**129**
Add: Opening Balance	3	5	10	20	50	80	22
Closing Balance	**5**	**10**	**20**	**50**	**80**	**22**	**151**

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

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