

Industry **Building Materials**  
 Bloomberg **KJC IN**  
 BSE CODE **500233**

## Volume growth expected to bounce back in H2 led by improved sentiments

RATING	BUY
CMP	514
Price Target	616
Potential Upside	20%

Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	649/409
Mkt Capital (Rs Cr)	8216
Free float (%)	52%
Avg. Vol 1M (,000)	278
No. of Shares (Crs)	16
Promoters Pledged %	0%

- KAJARIACER reported numbers below our estimates; Sales declined by 1.5% YoY to Rs 715 cr (vs. expect. Rs 774 cr) on account of low volume growth of 1% YoY led by subdued demand environment.
- Gross margin declined by 370 bps YoY to 59.3% on account of increasing outsourced business share and on QoQ basis it saw a decline of 60 bps.
- EBITDA margin contracted by 29 bps YoY to 14.7%, largely remained flattish in spite of huge decline in gross margin on back of reduced power & fuel expenses and other expenses by 307 bps & 119 bps respectively.
- PAT stood at Rs 93 cr (vs. expect. Rs 55 cr) showing a growth of 83.8% YoY hyped due to revised Income Tax rates and reversal of net deferred tax liability. PAT margin was at 13%.
- The company had other income of Rs 7 cr (vs. expect. Rs 6cr) in 2QFY20 and in FY19 it was reported at Rs 19 cr.
- The company's total borrowings stood at Rs 105 cr with long term debt of Rs 24 cr as on September 30, 2019 and company is still very low geared at Debt/equity ratio of 0.06.

### View and Valuation

Real estate sector is still under pressure and is expected to recover in next 6-7 months. The company's management is expecting retail sales (i.e. around 70% of its total sales) to help in beating realty stress. Moreover, recent moves taken by the government are expected to strengthen the country's economy and would further improve the consumer sentiments leading to bounce back in volume numbers of the company. Considering the current demand scenario, we reduce our sales estimates by 1%/3% for FY20/FY21 and reduce PAT estimate by 3%/6% for FY20/FY21. We value KAJARIACER at 32x FY21e EPS to arrive at a price target of Rs 617 and maintain BUY rating.

### Key Risks to our rating and target

- Continued slowdown in demand
- Hike in gas prices

## RESEARCH ANALYST

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Conso./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	2550	2711	2956	3159	3323
EBITDA	496	456	449	460	482
EBIT	415	368	360	367	385
PAT	253	234	231	281	306
EPS (Rs)	16	15	14	18	19
EPS growth (%)	9%	-7%	-3%	24%	9%
ROE (%)	23%	19%	15%	17%	16%
ROCE (%)	30%	24%	21%	20%	19%
BV	74	85	99	110	124
EV/Sales (X)	7.9	6.7	6.0	5.0	4.4
P/E (x)	36.9	38.4	41.3	31.0	28.5

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## 2QFY20 Results

### Below estimates

Conso./Fig in Rs Cr

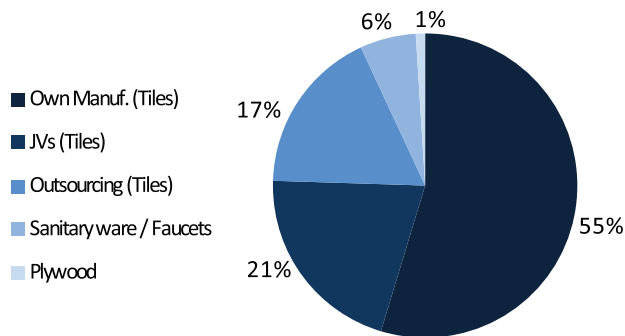
FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	725	759	815	700	715	-1.5%	2.1%	2,711	2,956	9.1%
Other Income	5	5	7	5	7	48.6%	29.2%	11	18	66.3%
COGS	268	297	355	281	291	8.4%	3.6%	1,060	1,146	8.1%
Gross Margin	63%	61%	57%	60%	59%	-3.7%	-0.6%	61%	61%	0.3%
Pwr & Fuel	162	155	146	134	137	-15.0%	2.3%	519	616	18.6%
Empl. Cost	84	86	89	88	89	5.7%	0.7%	318	345	8.8%
Other Exp.	103	101	103	91	93	-9.8%	1.7%	357	399	11.7%
EBITDA	109	121	123	106	105	-3.4%	-0.7%	456	449	-1.5%
EBITDA Mar.	15%	16%	15%	15%	15%	-0.3%	-0.4%	17%	15%	-1.6%
Depreciation	23	22	22	26	26	16.1%	1.3%	89	89	0.6%
EBIT	86	99	101	80	79	-8.5%	-1.3%	368	360	-2.0%
Interest	5	4	3	5	5	15.5%	15.5%	24	16	-35.3%
PBT	86	100	105	81	81	-6.7%	-0.3%	355	363	2.3%
Excep. Item	(3)	-	(1)	-	-	-	-	1	(5)	-
Tax	32	34	36	31	(12)	-138.2%	-140.6%	127	129	2.0%
PAT	50	65	66	50	93	85.4%	87.1%	235	227	-3.6%
PAT Margin	7%	9%	8%	7%	13%	6.1%	5.9%	9%	8%	-1.0%

Conso./Fig in Rs Cr

REVENUE MIX	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Own Manufd. (Tiles)	57%	57%	57%	59%	59%	55%	51%	55%	55%
JVs (Tiles)	23%	23%	23%	23%	22%	23%	24%	20%	21%
Outsourced (Tiles)	15%	14%	14%	11%	12%	15%	17%	18%	18%
Sanitary ware / Faucets	5%	5%	7%	6%	6%	6%	6%	6%	6%
Plywood	0%	0%	0%	0%	0%	1%	1%	1%	1%

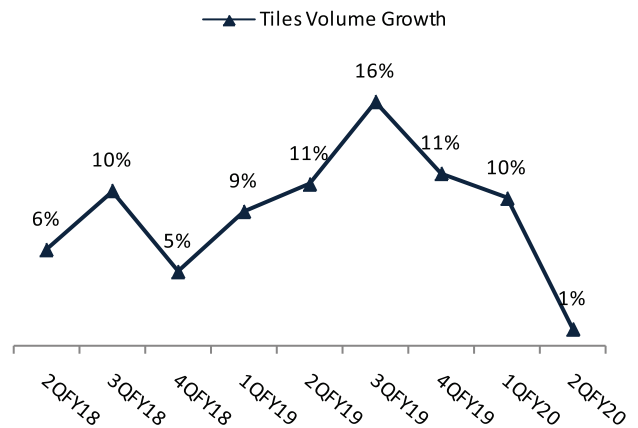
## Exhibit: Revenue Mix (%)

Own Manuf. & Outs. Tiles have revenue share of 55% & 17% respectively.



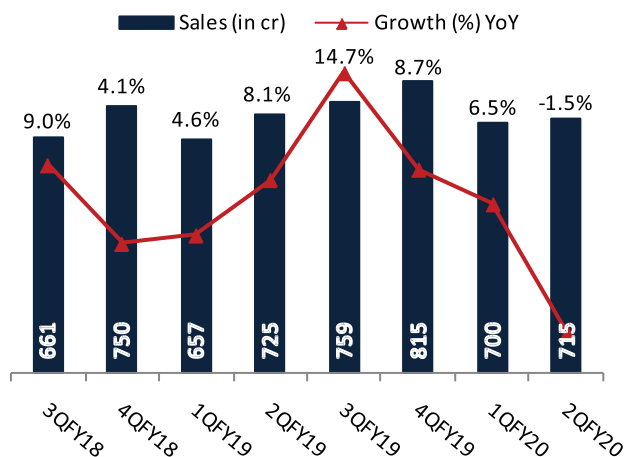
## Exhibit: Tile Volume Growth (%)

Tiles volume growth is expected to bounce back in H2FY20 led by improved demand sentiments.



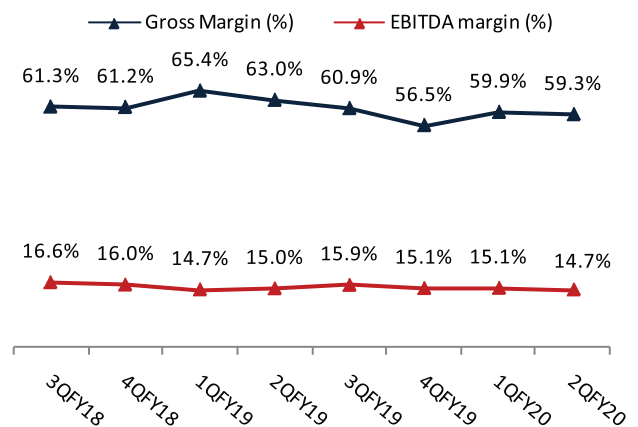
## Exhibit: Sales and Sales Growth (%)

Sales growth declined by 1.5% YoY due to low volume growth of 1%.



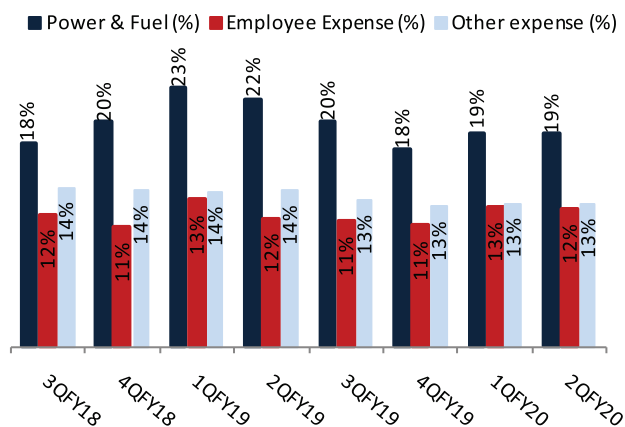
## Exhibit: Gross and EBITDA Margin (%)

Due to low power & fuel expenses EBITDA Margin remained flattish in spite decline in Gross Margin.



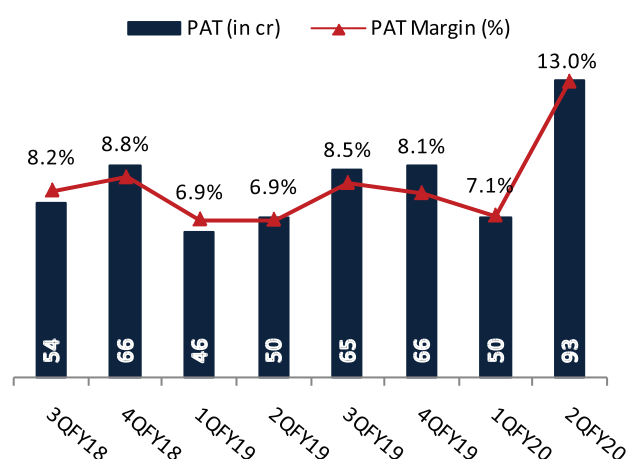
## Exhibit: Expenses (as % of Sales)

Power & fuel and other expenses. declined by 307 bps & 119 bps.(considered in % of sales)



## Exhibit: PAT and PAT Growth (%)

PAT margin was at 13% driven by reduced corporate tax & reversal of net deferred tax.



## Financial Details

### Balance Sheet

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Share Capital	15	16	16	16	16	16	16	16
Reserves	489	760	956	1,159	1,335	1,559	1,734	1,963
<b>Networth</b>	<b>530</b>	<b>776</b>	<b>972</b>	<b>1,175</b>	<b>1,351</b>	<b>1,575</b>	<b>1,750</b>	<b>1,979</b>
Debt	194	230	253	171	135	95	72	64
Other Non Current Liab	80	92	104	119	118	114	114	114
<b>Total Capital Employed</b>	<b>844</b>	<b>1,161</b>	<b>1,405</b>	<b>1,541</b>	<b>1,670</b>	<b>1,850</b>	<b>2,004</b>	<b>2,228</b>
Net Fixed Assets (incl CWIP)	732	932	1,118	1,174	1,151	1,163	1,188	1,190
Non Current Investments	-	5	11	11	11	8	8	8
Other Non Current Assets	28	44	30	32	26	31	31	31
<b>Non Current Assets</b>	<b>760</b>	<b>982</b>	<b>1,158</b>	<b>1,218</b>	<b>1,189</b>	<b>1,202</b>	<b>1,227</b>	<b>1,230</b>
Inventory	193	303	384	372	378	406	457	489
Debtors	165	215	274	339	451	475	508	534
Cash & Bank	6	10	20	50	80	22	330	527
Other Current Assets	51	57	82	61	42	268	41	43
<b>Current Assets</b>	<b>415</b>	<b>585</b>	<b>760</b>	<b>822</b>	<b>951</b>	<b>1,171</b>	<b>1,336</b>	<b>1,592</b>
Creditors	152	253	293	268	258	309	333	356
Provisions	39	5	9	10	13	16	14	15
Other Current Liabilities	140	149	211	221	200	199	212	223
<b>Curr Liabilities</b>	<b>331</b>	<b>406</b>	<b>513</b>	<b>499</b>	<b>470</b>	<b>523</b>	<b>559</b>	<b>594</b>
<b>Net Current Assets</b>	<b>84</b>	<b>179</b>	<b>247</b>	<b>323</b>	<b>481</b>	<b>648</b>	<b>777</b>	<b>998</b>
<b>Total Assets</b>	<b>1,176</b>	<b>1,567</b>	<b>1,918</b>	<b>2,040</b>	<b>2,140</b>	<b>2,373</b>	<b>2,563</b>	<b>2,822</b>

### Income Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>Revenue from Operation</b>	<b>1,836</b>	<b>2,187</b>	<b>2,413</b>	<b>2,550</b>	<b>2,711</b>	<b>2,956</b>	<b>3,159</b>	<b>3,323</b>
Change (%)	16%	19%	10%	6%	6%	9%	7%	5%
Other Income	2	7	10	15	11	18	23	37
<b>EBITDA</b>	<b>285</b>	<b>354</b>	<b>457</b>	<b>496</b>	<b>456</b>	<b>449</b>	<b>460</b>	<b>482</b>
Change (%)	17%	24%	29%	8%	-8%	-2%	2%	5%
Margin (%)	16%	16%	19%	19%	17%	15%	15%	15%
Depr & Amor.	47	56	73	81	89	89	93	98
<b>EBIT</b>	<b>238</b>	<b>298</b>	<b>385</b>	<b>415</b>	<b>368</b>	<b>360</b>	<b>367</b>	<b>385</b>
Int. & other fin. Cost	41	29	34	34	24	16	11	10
<b>EBT</b>	<b>199</b>	<b>276</b>	<b>361</b>	<b>396</b>	<b>355</b>	<b>363</b>	<b>379</b>	<b>412</b>
Exp Item	-	(6)	-	-	1	(5)	-	-
Tax	68	85	125	142	127	129	95	104
Reported PAT	124	176	231	253	235	227	281	306
<b>Adjusted PAT</b>	<b>124</b>	<b>181</b>	<b>231</b>	<b>253</b>	<b>234</b>	<b>231</b>	<b>281</b>	<b>306</b>
Change (%)	19%	46%	28%	9%	-7%	-1%	22%	9%
Margin(%)	7%	8%	10%	10%	9%	8%	9%	9%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Current Ratio	1	1.4	1.5	1.6	2.0	2.2	2.4	2.7
Debt-Equity Ratio	0	0.3	0.3	0.1	0.1	0.1	0.0	0.0
Interest Coverage Ratio	6	10	11.2	12.2	15.3	23.1	33.9	40.0
Capital Turnover Ratio	3.0	3	2.2	2.0	1.9	1.8	1.8	1.7
Fixed Asset Turnover Ratio	2.5	3	2.4	2.2	2.3	2.6	2.7	2.8
Inventory Days outstanding	89.9	133	166	148	130	129	129	129
Accounts Rece. Days outstanding	32.8	36	41	49	61	59	59	59
Accounts Pay. Days outstanding	70.8	111	126	106	89	98	94	94
ROCE	0.3	31%	32%	30%	24%	21%	20%	19%
ROE	0.2	27%	26%	23%	19%	15%	17%	16%
FCF per Share	1	(5)	3.1	12.5	6.4	3.6	28.4	18.5
Price / EPS	22	36	32.8	36.9	38.4	41.3	31.0	28.5
Price / Book Value	5	8	7.8	7.9	6.7	6.0	5.0	4.4
EV/EBITDA	10	19	17.1	19.0	19.9	20.5	18.4	17.1
EV/Sales	1.5	3.0	3.2	3.7	3.3	3.1	2.7	2.5
Div Yield	0.0	0.5%	0.5%	0.5%	0.5%	0.5%	0.7%	0.8%

### Cash Flow Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>199</b>	<b>270</b>	<b>361</b>	<b>396</b>	<b>355</b>	<b>358</b>	<b>379</b>	<b>412</b>
(inc)/Dec in Working Capital	(15)	(66)	(53)	(48)	(101)	(12)	(51)	(25)
Non Cash Op Exp	12	26	77	85	87	88	72	63
Int Paid (+)	36	30	34	34	24	16	11	10
Tax Paid	(65)	(80)	(103)	(129)	(128)	(133)	(95)	(104)
<b>CF from Op. Activities</b>	<b>166</b>	<b>180</b>	<b>316</b>	<b>338</b>	<b>238</b>	<b>317</b>	<b>316</b>	<b>356</b>
(inc)/Dec in FA & CWIP	(151)	(263)	(267)	(140)	(137)	(261)	136	(63)
Free Cashflow	15	(83)	49	198	102	56	451	293
(Pur)/Sale of Inv	-	-	-	(0)	-	0	-	-
others	-	-	-	0	-	(0)	-	-
<b>CF from Inv. Activities</b>	<b>(151)</b>	<b>(263)</b>	<b>(267)</b>	<b>(140)</b>	<b>(137)</b>	<b>(261)</b>	<b>136</b>	<b>(63)</b>
inc/(dec) in NW	82	90	12	(3)	1	(38)	(58)	(77)
inc/(dec) in Debt	(69)	28	22	(82)	8	(66)	(23)	(8)
Int. Paid	-	-	(34)	(34)	(24)	-	(11)	(10)
Div Paid (inc tax)	(26)	(31)	(38)	(49)	(47)	-	-	-
others	-	-	-	(0)	(10)	(10)	(3)	(3)
<b>CF from Fin. Activities</b>	<b>(13)</b>	<b>87</b>	<b>(39)</b>	<b>(168)</b>	<b>(72)</b>	<b>(114)</b>	<b>(94)</b>	<b>(97)</b>
<b>Inc(Dec) in Cash</b>	<b>2</b>	<b>5</b>	<b>10</b>	<b>30</b>	<b>30</b>	<b>(58)</b>	<b>357</b>	<b>197</b>
Add: Opening Balance	3	5	10	20	50	80	22	330
<b>Closing Balance</b>	<b>5</b>	<b>10</b>	<b>20</b>	<b>50</b>	<b>80</b>	<b>22</b>	<b>379</b>	<b>527</b>

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