

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

Growth hampered by Industry headwinds

RATING	NEUTRAL
CMP	544
Price Target	571
Potential Upside	5%

Rating Change	↓
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	649/443
Mkt Capital (Rs Cr)	8661
Free float (%)	52%
Avg. Vol 1M (,000)	196
No. of Shares (Crs)	16
Promoters Pledged %	0%

3QFY20 Result Update

- KAJARIACER posted mixed numbers; Revenue de-grew by 2.3% YoY to Rs 741 crs (vs. expect. Rs 790 crs) on account of low volume growth of 0.5%, impacted by subdued market environment.
- Tiles volume growth in own manufacturing (Tiles) division was 2% YoY. However, Subsidiaries (Tiles) and outsource (Tiles) division posted de-growth of 3% & 1% YoY.
- Segmental Revenue: Own manufacturing (Tiles), Subsidiaries (Tiles), Outsourcing (Tiles), Sanitary ware / Faucets and Plywood posted revenue of Rs 397 crs, Rs 167 crs, Rs 119 crs, Rs 50 crs and Rs 8 crs.
- Gross margin remained muted YoY at 61% and on QoQ basis it saw an expansion of 164 bps.
- EBITDA margin declined by 91 bps YoY to 15% led by increase employee expense by 124 bps YoY. However, power and fuel expenses remained flat and other expenses declined by 23 bps YoY.
- PAT stood at Rs 61 cr (vs. expect. Rs 56 cr) showing de-growth of 5.5% YoY. PAT margin was at 8.3%.

View and Valuation

The demand sentiment for tiles in Q3FY20 remained sluggish led by sustained weakness in real estate sector and continued slowdown in the overall economy. In the near term, demand is expected to remain impacted on account of subdued demand. Considering favorable input prices to continue, margins are expected to be maintained at current level. Taking into account uncertainty in demand we give NEUTRAL rating with target price of Rs 571 (11x FY21e EV/EBDITA).

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	3032	3157
EBITDA	496	456	449	451	473
EBIT	415	368	360	347	363
PAT	253	234	231	262	284
EPS (Rs)	16	15	14	16	18
EPS growth (%)	9%	-7%	-3%	16%	8%
ROE (%)	23%	19%	15%	16%	15%
ROCE (%)	30%	24%	21%	19%	18%
BV	74	85	99	109	122
EV/Sales (X)	7.9	6.7	6.0	5.0	4.5
P/E (x)	36.9	38.4	41.3	33.0	30.5

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3QFY20 Results

Mixed numbers

Conso./Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	759	815	700	715	741	-2.3%	3.7%	2,711	2,956	9.1%
Other Income	5	7	5	7	5	13.2%	-24.8%	11	18	66.3%
COGS	297	355	281	291	289	-2.4%	-0.5%	1,060	1,146	8.1%
Gross Margin	61%	57%	60%	59%	61%	0.1%	1.6%	61%	61%	0.3%
Pwr & Fuel	155	146	134	137	151	-2.4%	9.9%	519	616	18.6%
Empl. Cost	86	89	88	89	93	8.4%	4.6%	318	345	8.8%
Other Exp.	101	103	91	93	97	-4.0%	4.5%	357	399	11.7%
EBITDA	121	123	106	105	111	-7.9%	5.8%	456	449	-1.5%
EBITDA Mar.	16%	15%	15%	15%	15%	-0.9%	0.3%	17%	15%	-1.6%
Depreciation	22	22	26	26	28	25.2%	6.2%	89	89	0.6%
EBIT	99	101	80	79	84	-15.3%	5.7%	368	360	-2.0%
Interest	4	3	5	5	5	33.3%	-7.3%	24	16	-35.3%
PBT	100	105	81	81	84	-15.8%	3.9%	355	363	2.3%
Excep. Item	-	(1)	-	-	-	-	-	1	(5)	-
Tax	34	36	31	(12)	23	-32.9%	-282.2%	127	129	2.0%
PAT	65	66	50	93	61	-5.5%	-34.2%	235	227	-3.6%
PAT Margin	9%	8%	7%	13%	8%	-0.3%	-4.8%	9%	8%	-1.0%

Conso./Fig in Rs Cr

REVENUE MIX	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Own Manufd. (Tiles)	57%	57%	59%	59%	55%	51%	55%	55%	54%
JVs (Tiles)	23%	23%	23%	22%	23%	24%	20%	21%	23%
Outsourced (Tiles)	14%	14%	11%	12%	15%	17%	18%	18%	16%
Sanitary ware / Faucets	5%	7%	6%	6%	6%	6%	6%	6%	7%
Plywood	0%	0%	0%	0%	1%	1%	1%	1%	1%

Exhibit: Revenue Mix (%)

Outsourced Tiles revenue share is continuously increasing, it is 16% in 3QFY20.

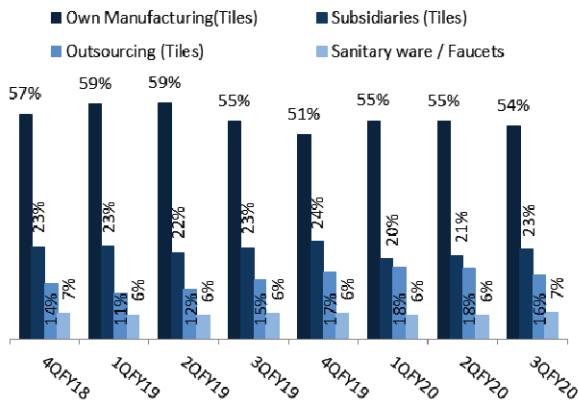


Exhibit: Tile Volume Growth (%)

Tiles volume growth is expected to bounce back in 4QFY20 led by improved demand sentiments.

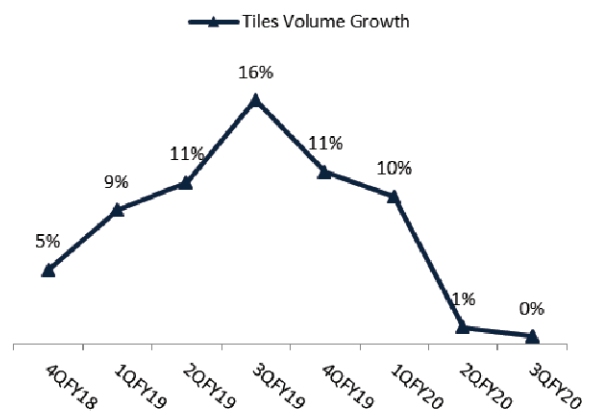


Exhibit: Sales and Sales Growth (%)

Sales growth declined by 2.3% YoY due to low volume growth of 1%.

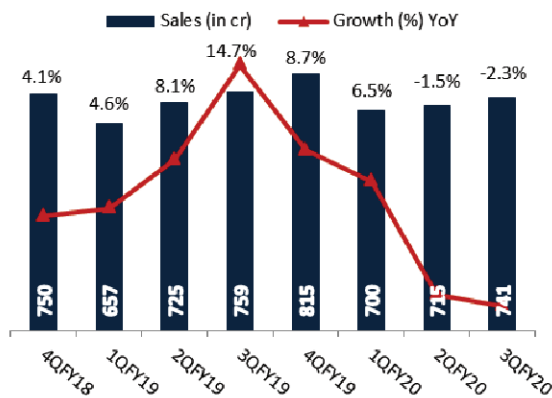


Exhibit: Gross and EBITDA Margin (%)

Increased employee expenses led to decline in EBITDA Margin in spite flattish Gross Margin.

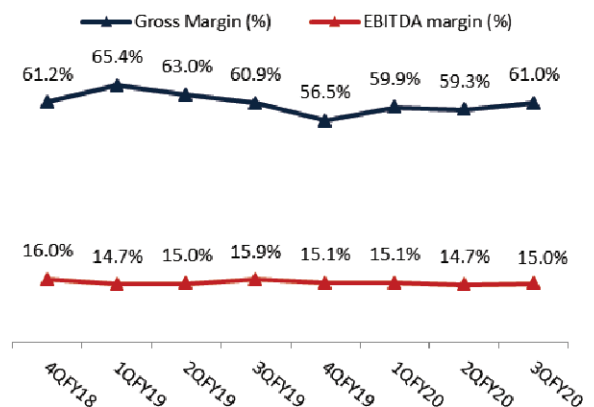


Exhibit: Expenses (as % of Sales)

Power and fuel expenses remained flat and other expenses declined by 23 bps YoY. Employee exp was up by 124 bps.

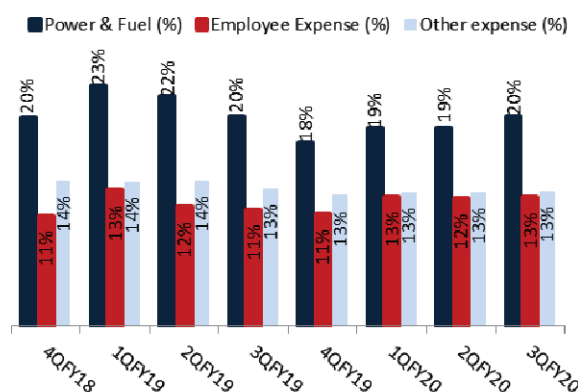
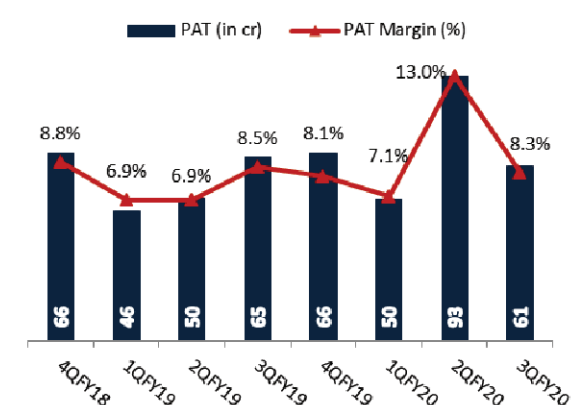


Exhibit: PAT and PAT Growth (%)

PAT stood at Rs 61 cr, showing de-growth of 5.5% YoY. PAT margin was at 8.3%.



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	1,714	1,921
Networth	530	776	972	1,175	1,351	1,575	1,730	1,937
Minority Interest	41	62	76	76	66	66	67	67
Debt	194	230	253	171	135	95	70	61
Other Non Current Liab	80	92	104	119	118	114	114	114
Total Capital Employed	844	1,161	1,405	1,541	1,670	1,850	1,981	2,180
Net Fixed Assets (incl CWIP)	732	932	1,118	1,174	1,151	1,163	1,177	1,186
Non Current Investments	-	5	11	11	11	8	8	8
Other Non Current Assets	28	44	30	32	26	31	31	31
Non Current Assets	760	982	1,158	1,218	1,189	1,202	1,216	1,226
Inventory	193	303	384	372	378	406	441	464
Debtors	165	215	274	339	451	475	487	507
Cash & Bank	6	10	20	50	80	22	105	276
Other Current Assets	51	57	82	61	42	268	269	271
Current Assets	415	585	760	822	951	1,171	1,303	1,519
Creditors	152	253	293	268	258	309	321	338
Provisions	39	5	9	10	13	16	13	14
Other Current Liabilities	140	149	211	221	200	199	204	212
Curr Liabilities	331	406	513	499	470	523	538	564
Net Current Assets	84	179	247	323	481	648	765	954
Total Assets	1,176	1,567	1,918	2,040	2,140	2,373	2,519	2,744

Income Statement

Conso./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Revenue from Operation	1,836	2,187	2,413	2,550	2,711	2,956	3,032	3,157
Change (%)	16%	19%	10%	6%	6%	9%	3%	4%
Other Income	2	7	10	15	11	18	23	35
EBITDA	285	354	457	496	456	449	451	473
Change (%)	17%	24%	29%	8%	-8%	-2%	0%	5%
Margin (%)	16%	16%	19%	19%	17%	15%	15%	15%
Depr & Amor.	47	56	73	81	89	89	104	110
EBIT	238	298	385	415	368	360	347	363
Int. & other fin. Cost	41	29	34	34	24	16	19	18
EBT	199	276	361	396	355	363	351	380
Exp Item	-	(6)	-	-	1	(5)	-	-
Tax	68	85	125	142	127	129	88	96
share of profit/(loss) of associates	-	-	-	-	-	-	-	-
Minority Interest	(7)	(9)	(5)	(1)	6	(2)	(1)	(1)
Reported PAT	124	176	231	253	235	227	262	284
Adjusted PAT	124	181	231	253	234	231	262	284
Change (%)	19%	46%	28%	9%	-7%	-1%	13%	8%
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	17.8	19.7
Capital Turnover Ratio	3.0	3	2.2	2.0	1.9	1.8	1.7	1.6
Fixed Asset Turnover Ratio	2.5	3	2.4	2.2	2.3	2.6	2.6	2.7
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%	19%	18%
ROE	0.2	27%	26%	23%	19%	15%	16%	15%
FCF per Share	1	(5)	3.1	12.5	6.4	3.6	14.8	17.3
Price / EPS	22	36	32.8	36.9	38.4	41.3	33.0	30.5
Price / Book Value	5	8	7.8	7.9	6.7	6.0	5.0	4.5
EV/EBITDA	10	19	17.1	19.0	19.9	20.5	18.6	17.3
EV/Sales	1.5	3.0	3.2	3.7	3.3	3.1	2.8	2.6
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
PBT	199	270	361	396	355	358	351	380
(inc)/Dec in Working Capital	(15)	(66)	(53)	(48)	(101)	(12)	(34)	(18)
Non Cash Op Exp	12	26	77	85	87	88	81	76
Int Paid (+)	36	30	34	34	24	16	19	18
Tax Paid	(65)	(80)	(103)	(129)	(128)	(133)	(88)	(96)
CF from Op. Activities	166	180	316	338	238	317	329	360
(inc)/Dec in FA & CWIP	(151)	(263)	(267)	(140)	(137)	(261)	(94)	(85)
Free Cashflow	15	(83)	49	198	102	56	235	275
(Pur)/Sale of Inv	-	-	-	(0)	-	0	-	-
others	-	-	-	0	-	(0)	-	-
CF from Inv. Activities	(151)	(263)	(267)	(140)	(137)	(261)	(94)	(85)
inc/(dec) in NW	82	90	12	(3)	1	(38)	(58)	(77)
inc/(dec) in Debt	(69)	28	22	(82)	8	(66)	(25)	(8)
Int. Paid	-	-	(34)	(34)	(24)	-	(19)	(18)
Div Paid (inc tax)	(26)	(31)	(38)	(49)	(47)	-	-	-
others	-	-	-	(0)	(10)	(10)	(1)	(1)
CF from Fin. Activities	(13)	87	(39)	(168)	(72)	(114)	(103)	(104)
Inc(Dec) in Cash	2	5	10	30	30	(58)	132	171
Add: Opening Balance	3	5	10	20	50	80	22	105
Closing Balance	5	10	20	50	80	22	154	276

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