

Kajaria Ceramics Ltd

Q1FY15 Results: Robust growth continues

MIDCAP-HOME DÉCOR: Quarterly Update



PhillipCapital (India) Pvt. Ltd.

1 August 2014

Kajaria Ceramics (KCL) reported PAT at Rs 386mn ahead of our and consensus estimates on the back of a robust revenue growth (+19%, YoY) and healthy EBITDA margins (16%). Notwithstanding the current challenging macro environment, we believe that KCL is well placed to continue the healthy revenue growth momentum led by capacity expansions/new ventures (increased market penetration). The recent change in operating cost (from coal based to gas based power) of unorganized players would benefit branded players such as Kajaria. We value the company at 25x FY16E EPS with a target price of Rs 716.

Strong revenue growth led by volumes: Revenue grew by 19% (YoY) on the back of a 16% volume growth. Realization growth improved by 2.4% YoY basis at Rs 358 per SM on higher proportion of ceramic tiles during the quarter. Production grew by 19% (YoY) driven by 23% (YoY) from own plants and production in JV Partners (up 13% (YoY)). Thus the share of outsourced component in overall sales reduced by 70 bps (YoY). EBITDA per SM grew by 7% (YoY).

EBITDA margins improved to 16%. Margin improvement of 70bps on a YoY basis led by improvement in gross margins (up 220 bps) on account of higher proportion of vitrified tiles which gets offset with increase in power and fuel cost grew by 33% (YoY).

Existing JV capacities operating at 90% +, further capacities to add: KCL will add 4.50MSM capacity of high end polished vitrified tiles acquired from Jaxx and 3.00 MSM additional capacity from Cosa which would come into operation by August 2014. Apart from this, the company's expansion plans include (a) 1.5m-piece faucet plant in Rajasthan (b) a 5m sq.mt. vitrified tile plant in Morbi by acquiring a 51% stake in Taurus Tiles, the production is expected to commence by Dec 2014. (c) a 5m sq.mt. Greenfield vitrified tile plant in Rajasthan and (d) 0.7m-piece sanitaryware plant in Morbi in a JV with local partners (a 34% stake). The company will be spending Rs4.5bn over FY13-FY16E to increase its existing capacity by 40% to 61.1msqm in FY16E from 43.6msqm in FY14. Capex for the above expansion would be Rs 4.5bn over FY14-16E. The additional capacities would improve the product mix from current 55:45 ceramics vs. vitrified tiles to 45:55. We note that the company has increased its stake in Jaxx to 61% (51% earlier) in June 2014.

Debt position/ working capital days improve: Debt equity ratio at the consolidated level improved to 0.40x from 0.82x since March 13. Consolidated debt at the end of the quarter decreased by 90mn to Rs 2.27bn. Working capital days improved to 23 days from 32 days since March 2013. QoQ it improved by 2 days.

Management Outlook: a) The company's entry into new business vertical – sanitaryware, will open avenues to further leverage on its distribution network over 825 dealers and around 5,000 sales points across India. b) Management guide for topline growth of 20% CAGR over FY14-16E.

Outlook and Valuation: We believe that with the leadership position, product mix shift and timely price increases, the company will continue to post robust performance in the coming years. At CMP of Rs 628, the stock trades at ~22x FY16E EPS. We marginally revise our estimates upward for FY15E to factor in better margins aided by better product-mix. We continue to remain positive on the growth prospects and the cash generation ability of the company in the coming years and maintain our BUY rating on the stock. We value the company at 25x FY16E earnings and arrive at target price of Rs 716.

BUY

KJC IN | CMP RS 628

TARGET RS 716 (+14%)

Company Data

O/S SHARES (MN) :	76
MARKET CAP (RSBN) :	47
MARKET CAP (USDBN) :	0.8
52 - WK HI/LO (RS) :	629 / 200
LIQUIDITY 3M (USDMN) :	1.2
FACE VALUE (RS) :	2

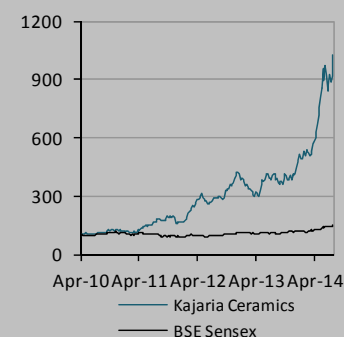
Share Holding Pattern, %

PROMOTERS :	52.1
FII / NRI :	29.2
FI / MF :	3.9
NON PROMOTER CORP. HOLDINGS :	2.8
PUBLIC & OTHERS :	12.0

Price Performance, %

	1mth	3mth	1yr
ABS	18.1	40.2	160.9
REL TO BSE	16.2	24.7	127.0

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY14	FY15E	FY16E
Net Sales	18,400	22,051	27,575
EBIDTA	2,807	3,462	4,495
Net Profit	1,243	1,588	2,166
EPS, Rs	16.4	21.0	28.6
PER, x	38.2	29.9	21.9
EV/EBIDTA, x	17.5	14.5	11.1
P/BV, x	2.7	2.3	1.8
ROE, %	23.5	25.3	26.8
Debt/Equity, %	34.4	44.8	34.8

Source: PhillipCapital India Research Est.

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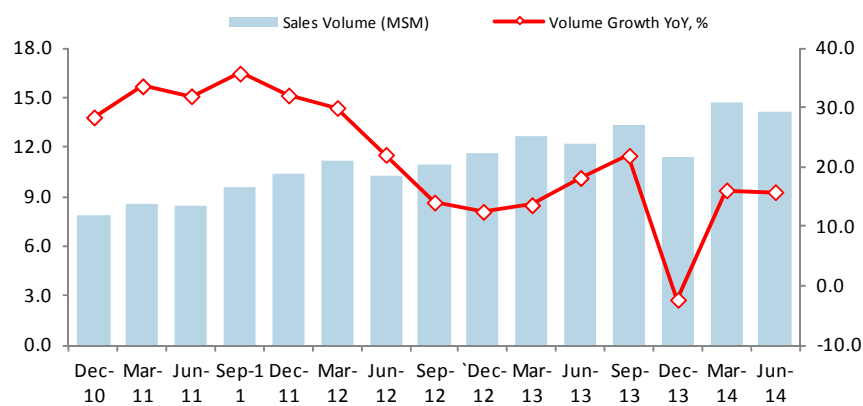
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Quarterly Performance

	Q1FY15	Q1FY14
Net sales	5,033	4,243
<i>Growth YoY, %</i>	18.6	
Total income	5,033	4,243
Operating expenses	4,232	3,597
EBITDA	802	647
<i>Growth YoY, %</i>	24.0	
<i>Margin</i>	15.9	15.2
Depreciation	127	115
EBIT	675	532
<i>Margin</i>	13.4	12.5
Interest paid	76	117
Other Non-Operating Income	13	2
Pre-tax profit	612	417
Tax provided	205	142
Profit after tax	407	275
PAT After Minority Interest	386	258
<i>Growth YoY, %</i>	49.5	
<i>Margin</i>	7.7	6.1
Adj EPS, Rs	5.1	3.5
Unadj. shares (m)	75.6	73.6
Wtd avg shares (m)	75.6	73.6

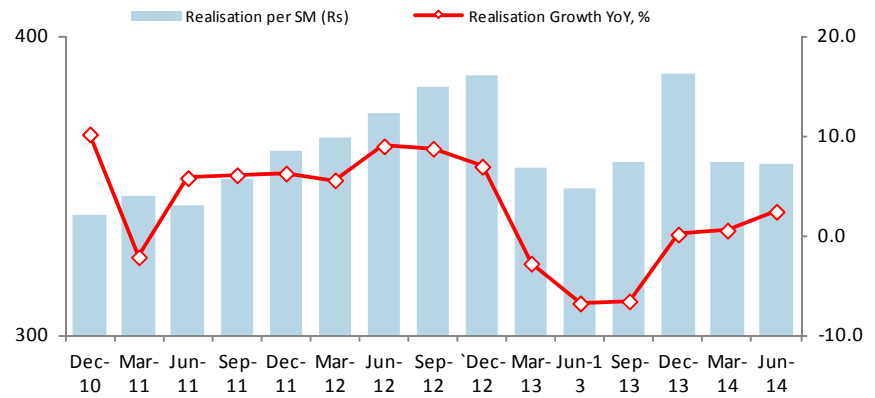
Source: Company, PhillipCapital India Research

Sales Volume growth – Q1FY15 growth at 15.8% YoY



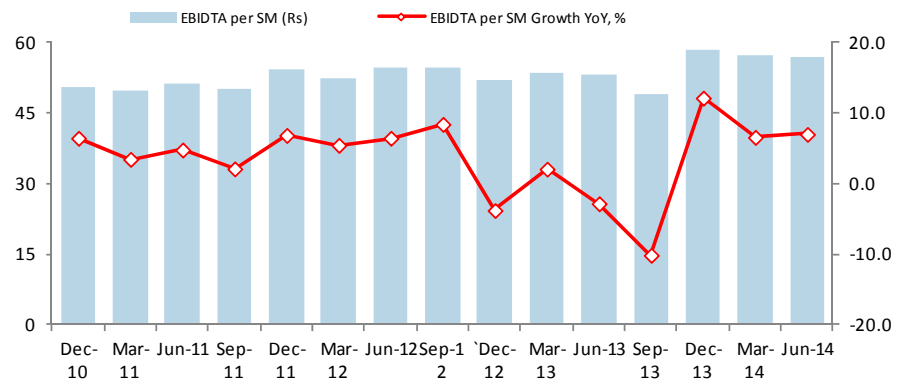
Source: Company, PhillipCapital India Research

Realization and growth – -6.5% (YoY)



Source: Company, PhillipCapital India Research

EBIDTA per SM and growth – EBIDTA per SM at Rs 56.9



Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Net sales	16,120	18,400	22,051	27,575
Growth, %	23	14	19.8	25.1
Total income	16,150	18,463	22,101	27,635
Raw material expenses	-7,485	-8,252	-9,967	-12,353
Employee expenses	-1,364	-1,726	-1,874	-2,344
Other Operating expenses	-4,824	-5,615	-6,747	-8,383
EBITDA (Core)	2,446	2,807	3,462	4,495
Growth, %	18.6	14.8	23.3	29.8
Margin, %	15.2	15.3	15.7	16.3
Depreciation	-446	-470	-564	-677
EBIT	2,000	2,337	2,898	3,818
Growth, %	19.8	16.9	24.0	31.7
Margin, %	12.4	12.7	13.1	13.8
Interest paid	-454	-408	-426	-441
Other Non-Operating Income	30	63	50	60
Pre-tax profit	1,577	1,992	2,522	3,438
Tax provided	-499	-678	-832	-1,134
Profit after tax	1,078	1,314	1,690	2,304
Others (Minorities, Associates)	-33	-71	-101	-138
Net Profit	1,045	1,243	1,588	2,166
Growth, %	29.2	18.9	27.8	36.4
Net Profit (adjusted)	1,045	1,243	1,588	2,166
Unadj. shares (m)	74	76	76	76
Wtd avg shares (m)	74	76	76	76

Balance Sheet

Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Cash & bank	55	61	60	74
Debtors	1,436	1,648	1,544	1,792
Inventory	2,197	1,931	2,205	3,033
Loans & advances	504	791	909	1,046
Total current assets	4,197	4,434	4,718	5,946
Investments	1	1	301	301
Gross fixed assets	9,302	10,488	14,052	15,529
Less: Depreciation	-3,102	-3,572	-4,136	-4,813
Add: Capital WIP	78	405	0	0
Net fixed assets	6,278	7,321	9,916	10,716
Non-current assets	0	0	0	0
Total assets	10,475	11,756	14,935	16,963
Current liabilities	4,703	5,225	7,433	7,508
Provisions	438	0	0	0
Total current liabilities	5,140	5,225	7,433	7,508
Non-current liabilities	1,451	713	713	713
Total liabilities	6,592	5,938	8,146	8,222
Paid-up capital	147	151	151	151
Reserves & surplus	3,462	5,144	6,127	7,942
Shareholders' equity	3,884	5,704	6,789	8,741
Total equity & liabilities	10,475	11,643	14,935	16,963

Cash Flow

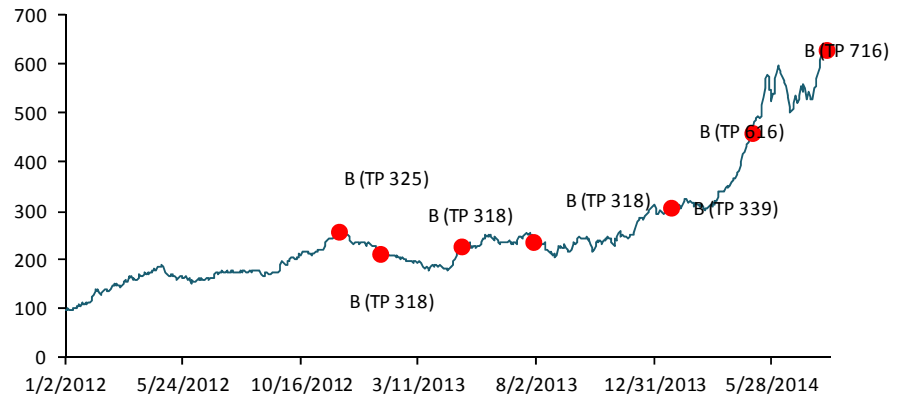
Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	1,577	1,992	2,522	3,438
Depreciation	446	470	564	677
Chg in working capital	97	153	1,923	-1,138
Total tax paid	-479	-664	-832	-1,134
Cash flow from operating activities	1,641	1,951	4,176	1,843
Capital expenditure	-1,491	-1,513	-3,159	-1,476
Chg in investments	0	0	-300	0
Cash flow from investing activities	-1,491	-1,513	-3,459	-1,477
Debt raised/(repaid)	-122	-795	0	0
Dividend (incl. tax)	-214	-566	-352	-352
Cash flow from financing activities	-167	-547	-604	-353
Net chg in cash	-17	-109	114	14

Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
Per Share data				
EPS (INR)	14.2	16.4	21.0	28.6
Growth, %	29.2	15.7	27.8	36.4
Book NAV/share (INR)	49.0	70.1	83.0	107.0
FDEPS (INR)	14.2	16.4	21.0	28.6
CEPS (INR)	20.3	22.7	28.5	37.6
CFPS (INR)	12.5	25.1	41.5	23.6
DPS (INR)	3.0	3.5	4.0	4.0
Return ratios				
Return on assets (%)	13.9	14.2	14.7	16.2
Return on equity (%)	29.0	23.5	25.3	26.8
Return on capital employed (%)	27.3	26.5	28.2	30.5
Turnover ratios				
Asset turnover (x)	2.4	2.3	2.4	2.5
Sales/Total assets (x)	1.6	1.7	1.7	1.7
Sales/Net FA (x)	2.8	2.7	2.6	2.7
Working capital/Sales (x)	(0.1)	(0.0)	(0.1)	(0.1)
Receivable days	32.5	32.7	25.6	23.7
Inventory days	49.7	38.3	36.5	40.2
Payable days	53.0	68.4	80.1	65.4
Working capital days	(19.5)	(16.9)	(45.9)	(21.7)
Liquidity ratios				
Current ratio (x)	0.8	0.8	0.6	0.8
Quick ratio (x)	0.4	0.5	0.3	0.4
Interest cover (x)	4.4	5.7	6.8	8.7
Dividend cover (x)	4.7	4.7	5.3	7.2
Total debt/Equity (%)	72.8	34.4	44.8	34.8
Net debt/Equity (%)	71.3	33.3	43.9	33.9
Valuation				
PER (x)	44.2	38.2	29.9	21.9
Price/Book (x)	12.8	9.0	7.6	5.9
Yield (%)	0.5	0.6	0.6	0.6
EV/Net sales (x)	3.0	2.7	2.3	1.8
EV/EBITDA (x)	19.9	17.5	14.5	11.2
EV/EBIT (x)	24.4	21.1	17.3	13.2

Source: Company, PhillipCapital India Research Estimates

Recommendation Chart



Source: PhillipCapital India Research

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