

Kajaria Ceramics Ltd

Q2FY15 Results: Capacity addition to drive volume growth

MIDCAP-HOME DÉCOR: Quarterly Update



PhillipCapital (India) Pvt. Ltd.

28 October 2014

Kajaria Ceramics (KCL) results were marginally below estimates mainly on revenue miss on account of lower than expected volume growth. However, Management commentary has been encouraging and has guided for 14-15% volume growth in FY15 driven by (7.5 msqm) capacities added during the quarter. With Government initiatives of “Swachh Bharat Abhiyan” and “Housing for everybody” by 2019 & 2022 respectively, we believe that KCL is well placed to continue the healthy revenue growth momentum led by capacity expansions/new ventures (increased market penetration). We remain positive on the growth prospects of the company and value at 25x FY16E EPS with a target price of Rs 733.

Revenue growth led by realizations: Revenue (restated for Q2FY14) grew by 17% (YoY) on the back of an 8.4% realization growth and 7% volume growth (lower on capacity constraint). Realization growth improved by 8.4% YoY basis at Rs 376 per SM on higher proportion of vitrified tiles sold during the quarter. Production grew by 8% (YoY) driven by 13% (YoY) from production in JV Partners and own plants (up 6% (YoY)). EBITDA per SM grew by 16% (YoY).

EBITDA margins improved to 15%. Margin improvement of 130bps 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 other expenditure grew by 37% (YoY) on higher advertisement expenditure.

Existing JV capacities operating at 90% +, further capacities to add: KCL has already commissioned 4.50 msm capacity of high end polished vitrified tiles acquired from Jaxx and 3 msm additional capacities from Cosa in September and is expected to attain full capacity utilization by next quarter. Apart from this, the company’s expansion plans include (a) 1.5m-piece faucet plant in Rajasthan at cost of Rs 500mn, the project is expected to commence operation in Q1FY16 (b) 5 msm vitrified tile plant in Morbi by acquiring a 51% stake in Taurus Tiles, the production is expected to commence by Q4FY15. (c) 5 msm Greenfield vitrified tile plant in Rajasthan and a 3 msm Brownfield facility of ceramic wall tiles at cost of Rs 1bn (d) 0.7 m-piece sanitary ware plant in Morbi in a JV with local partners (a 34% stake). The company will be spending Rs2.5bn over FY15-FY16E to increase its existing capacity by 40% to 61.5 msm in FY15E & 66.5 msm by June 2015 from 46 msm in FY14.

Management Outlook & Earnings call highlights: a) Management guide for topline growth of 20% CAGR over next 5 years. H2FY15 will witness 15% additional growth in turnover and PAT over H1FY15. Total volume growth for FY15 would in 14-15% b) Company is looking to step-up brand promotional expenses to Rs 600-650mn in FY15 and going forward. c) Implementation of GST would be positive for the industry. Total tax incident currently is ~26%. Uniform rate for GST would ~20%. Overall savings will be 6%. Company might retain about 2% margins and rest will be passed to trade, who can then further reinvest the same in business and manufacturing facilities.

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 610, the stock trades at ~21x FY16E EPS. We marginally revise our estimates upward for FY15E to factor in saving in interest cost due to reduction in debt levels. 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 733.

Please refer to Disclosures and Disclaimers at the end of the Research Report.

BUY

KJC IN | CMP RS 610

TARGET RS 733 (+20%)

Company Data

O/S SHARES (MN) :	76
MARKET CAP (RSBN) :	46
MARKET CAP (USDBN) :	0.8
52 - WK HI/LO (RS) :	690 / 228
LIQUIDITY 3M (USDMN) :	1.2
FACE VALUE (RS) :	2

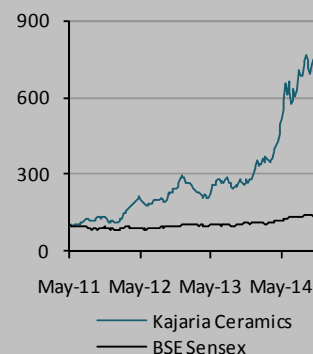
Share Holding Pattern, %

PROMOTERS :	52.1
FII / NRI :	30.4
FI / MF :	3.7
NON PROMOTER CORP. HOLDINGS :	2.4
PUBLIC & OTHERS :	11.4

Price Performance, %

	1mth	3mth	1yr
ABS	0.1	-1.5	158.9
REL TO BSE	0.1	-3.4	129.8

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	1,654	2,218
EPS, Rs	16.4	21.9	29.3
PER, x	37.1	27.9	20.8
EV/EBIDTA, x	17.1	14.1	10.8
P/BV, x	2.6	2.2	1.8
ROE, %	23.5	26.1	27.0
Debt/Equity, %	36.6	44.4	34.3

Source: PhillipCapital India Research Est.

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Quarterly Performance

	Q2FY15	Q2FY14
Net sales	5,412	4,636
<i>Growth YoY, %</i>	16.7	
Total income	5,412	4,636
Operating expenses	4,598	3,980
EBITDA	813	656
<i>Growth YoY, %</i>	24.0	
<i>Margin</i>	15.0	14.1
Depreciation	135	117
EBIT	678	539
<i>Margin</i>	12.5	11.6
Interest paid	84	114
Other Non-Operating Income	14	20
Pre-tax profit	608	444
Tax provided	193	153
Profit after tax	415	292
PAT After Minority Interest	398	269
<i>Growth YoY, %</i>	47.7	
<i>Margin</i>	7.3	5.8
Adj EPS, Rs	5.3	3.7
Unadj. shares (m)	75.6	73.6
Wtd avg shares (m)	75.6	73.6

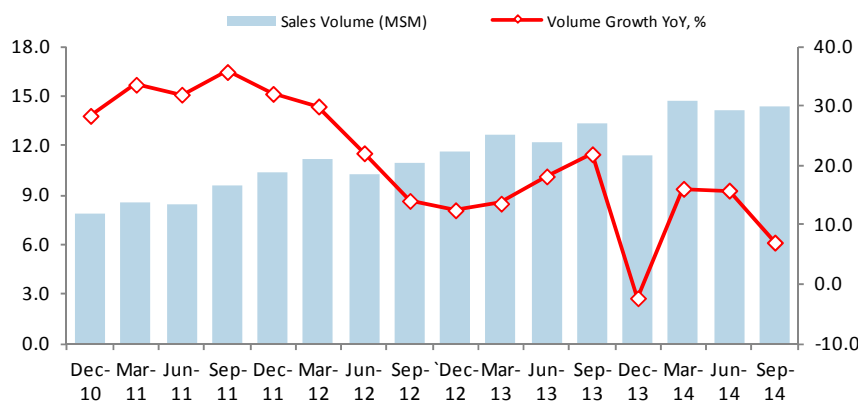
Source: Company, PhillipCapital India Research

Concal Highlights

- **Debt position/ working capital days improve:** Debt equity ratio at the consolidated level improved to 0.32xs from 0.82x since March 13. Consolidated debt at the end of the quarter decreased by 29mn to Rs 2.07bn. Working capital days improved to 22 days from 32 days since March 2013. QoQ it improved by 3 days.
- **Impact of falling crude prices on Gas prices** – Price of APM gas was \$4.2/mmBtu and now revised to \$ 6.1/mmBtu still company is paying \$15/mmBtu. Company expects prices will come down from January 2015. By March 2017 Gail will start importing Shale Gas which will be at \$12. So current gas prices are peak prices. Gas prices as per contract change every month and determined as per formula where Brent crude price is one of the components. If gas prices come down significantly, Company will pass on the benefit to trade and to support Swachh Bharat Abhiyan programme.
- **Freight costs** will reduce with falling diesel prices from 1st Nov. It won't be a material impact on the margins.
- **Unorganised players at Morbi**– All the units at Morbi are running on Gas. 90% of the plants are operating. Prices were increased in Dec 2013. No price increase has taken place since then. Company doesn't expect any price increases as Housing market is sluggish. There are two kinds of units vitrified and Ceramics. Vitrified units were on Gas even before mandated change to Gas. However, most of Ceramics units –250 out of 350 units were on Coal. Also, In ceramics there were under reporting of production. Now they have had to move to Gas and also improve the compliance. Many units are available for acquisition but the company will acquire as and when we need. Next leg of growth will come from such acquisitions.
- The company's entry into new business vertical – sanitary ware will open avenues to further leverage on its distribution network over 925 dealers and around 4,500 sales points across India. Company plans to add 100-150 dealers every year. Tiles are such that it has to have good display and hence need minimum size (1000 sf) of showroom to sell. 70% of purchasing decision is taken by women and they would like to see couple of times before making purchase.
- Kajaria's 70% of sales is through dealer network and rest is institutional
 - Individual builders – who are doing well
 - Builders such as Magarpatta- who are doing well

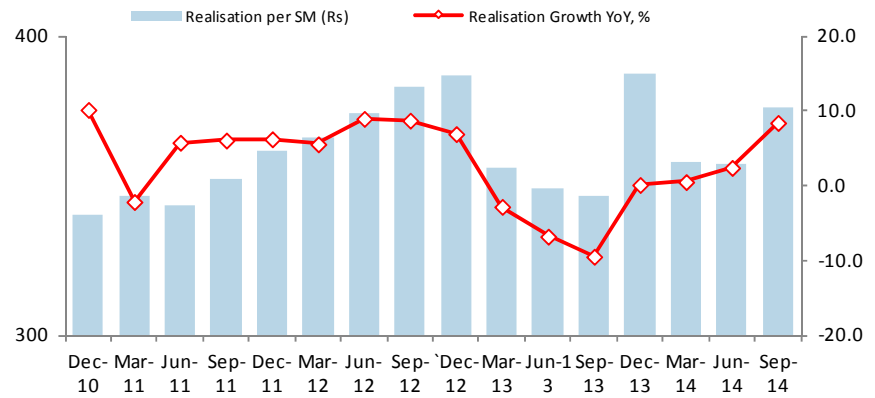
- Government agencies
- Listed players – 10% of industry turnover – they have maximum problems in terms of execution and payment
- Actual construction is happening in Tier 2 and Tier 3 markets. 60-65% demand from these markets. In tier 1 cities demand is renovation led.
- Tax rate would be 31.5% for FY15E. Company is getting investment allowance for capex made for FY15.
- Debt level would be at the same levels as that of March 2014.
- Sanitary ware is 700,000 pieces and current utilization is 80%. Sanitary ware margins are slightly better than tiles.

Sales Volume growth – Q2FY15 growth at 7% YoY



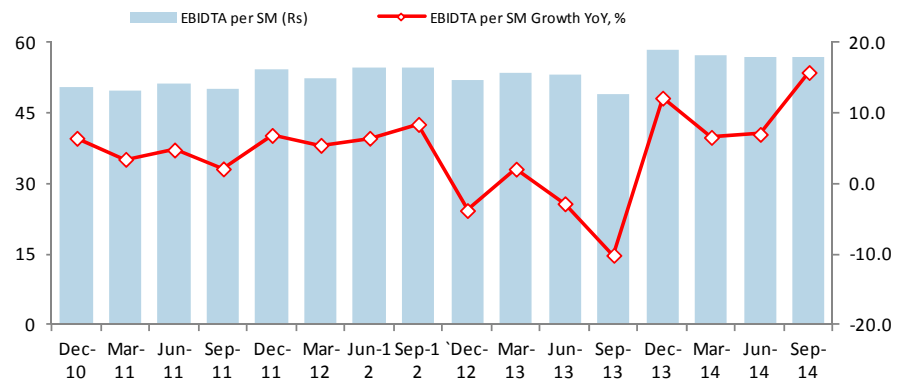
Source: Company, PhillipCapital India Research

Realization and growth – -8.4% (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	-322	-357
Other Non-Operating Income	30	63	50	60
Pre-tax profit	1,577	1,992	2,626	3,521
Tax provided	-499	-678	-867	-1,162
Profit after tax	1,078	1,314	1,759	2,360
Others (Minorities, Associates)	-33	-71	-106	-142
Net Profit	1,045	1,243	1,654	2,218
Growth, %	29.2	18.9	33.1	34.1
Net Profit (adjusted)	1,045	1,243	1,654	2,218
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	19	199
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	4,677	6,071
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	14,894	17,088
Current liabilities	4,703	5,339	7,323	7,508
Provisions	438	0	0	0
Total current liabilities	5,140	5,339	7,323	7,508
Non-current liabilities	1,451	713	713	713
Total liabilities	6,592	6,052	8,036	8,222
Paid-up capital	147	151	151	151
Reserves & surplus	3,462	5,144	6,193	8,060
Shareholders' equity	3,884	5,704	6,858	8,866
Total equity & liabilities	10,475	11,756	14,894	17,088

Cash Flow

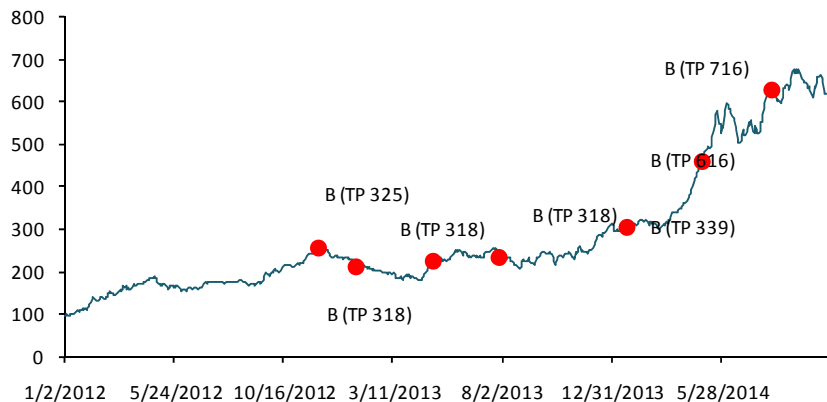
Y/E Mar, Rs mn	FY13	FY14	FY15E	FY16E
Pre-tax profit	1,577	1,992	2,626	3,521
Depreciation	446	470	564	677
Chg in working capital	97	153	1,812	-1,028
Total tax paid	-479	-664	-867	-1,162
Cash flow from operating activities	1,641	1,951	4,136	2,009
Capital expenditure	-1,491	-1,513	-3,159	-1,476
Chg in investments	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	74	180

Valuation Ratios & Per Share Data

	FY13	FY14	FY15E	FY16E
Per Share data				
EPS (INR)	14.2	16.4	21.9	29.3
Growth, %	29.2	15.7	33.1	34.1
Book NAV/share (INR)	49.0	70.1	83.9	108.6
FDEPS (INR)	14.2	16.4	21.9	29.3
CEPS (INR)	20.3	22.7	29.3	38.3
CFPS (INR)	12.5	25.1	40.9	25.8
DPS (INR)	3.0	3.5	4.0	4.0
Return ratios				
Return on assets (%)	13.9	14.2	14.8	16.2
Return on equity (%)	29.0	23.5	26.1	27.0
Return on capital employed (%)	27.3	26.5	28.1	30.2
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)	(0.1)	(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	77.9	65.4
Working capital days	(19.5)	(19.2)	(44.1)	(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	9.0	10.7
Dividend cover (x)	4.7	4.7	5.5	7.3
Total debt/Equity (%)	72.8	36.6	44.4	34.3
Net debt/Equity (%)	71.3	35.4	44.1	31.9
Valuation				
PER (x)	42.9	37.1	27.9	20.8
Price/Book (x)	12.4	8.7	7.3	5.6
Yield (%)	0.5	0.6	0.7	0.7
EV/Net sales (x)	2.9	2.6	2.2	1.8
EV/EBITDA (x)	19.4	17.1	14.1	10.8
EV/EBIT (x)	23.7	20.5	16.9	12.8

Source: Company, PhillipCapital India Research Estimates

Recommendation Chart



Source: PhillipCapital India Research

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