

Kajaria Ceramics Ltd

Q3FY14 Results: Margin improvement despite plant shut down; brand strength, new biz to aid margins further
MIDCAP-HOME DÉCOR: Quarterly Update



PhillipCapital (India) Pvt. Ltd.

20 January 2014

Kajaria Ceramics results were below our estimates at the revenue and PAT front, however EBITDA margins came ahead of our expectation mainly led by improvement in the gross margins and driven by lower power and fuel cost. Notwithstanding the current macro environment, we believe that company 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.

Revenues impacted by strike at Morbi plants: Revenue grew by 5% (YoY) led by 2%(YoY) volume growth and 3%(YoY) realizations growth. During the quarter the facilities at Morbi including JV companies were shut for 30 days resulting in production loss of ~1.5 mn sq metres translating into revenue loss of ~Rs240 mn.

EBITDA margins at 15.1% ahead of estimates: EBITDA margins during the quarter improve by ~60bps (YoY) mainly led by improvement in gross margins (~138bps) and reduction in power and fuel cost by 75 bps which partially gets offset by increase by staff cost by 17% (YoY) and other operating expenses by 11% (YoY). EBITDA per SM grew by 8% (YoY). Gross margins improvement is on account of a) lower Outsourcing during the quarter stands at 18.4% as compared to 20.5% in Q3FY13. We highlight that the margins in the manufactured tiles are more than the outsourced tiles b) Power cost was lower during the quarter led due to lower gas procurement prices and partial shut down of facilities c) Company took price increase during the quarter.

Debt position/ working capital days improve: Debt equity ratio at the consolidated level improved to 0.42x from 0.82x since March 13. Consolidated debt at the end of the quarter decreased by 720mn at Rs 2.23bn. We highlight that during the quarter, company has raised Rs 500mn from the private equity (WestBridge Crossover Fund). Working capital days improved to 29 days from 32 days in March 2013.

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 c) Guiding growth of top-line 20% with 50-100 bps margin expansion

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 over the next few quarters. At CMP of Rs 310, the stock trades at ~15x FY15E EPS and ~12x FY16E EPS. We marginally revise our estimates upward for FY15E to factor in better volume growth. 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 15x average of FY15E and FY16E earnings and arrive at target price of Rs 339.

BUY

KJC IN | CMP RS 306

TARGET RS 339 (+11%)

Company Data

O/S SHARES (MN) :	76
MARKET CAP (RSBN) :	23
MARKET CAP (USDBN) :	0.4
52 - WK HI/LO (RS) :	320 / 174
LIQUIDITY 3M (USDMN) :	0.5
FACE VALUE (RS) :	2

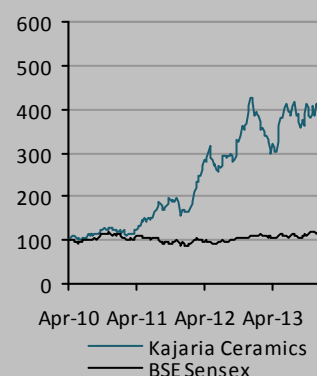
Share Holding Pattern, %

PROMOTERS :	53.5
FII / NRI :	19.7
FI / MF :	3.1
NON PROMOTER CORP. HOLDINGS :	8.6
PUBLIC & OTHERS :	15.1

Price Performance, %

	1mth	3mth	1yr
ABS	5.2	33.8	37.1
REL TO BSE	4.6	32.3	31.3

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY14E	FY15E	FY16E
Net Sales	18,603	22,051	25,909
EBIDTA	2,716	3,418	4,016
Net Profit	1,161	1,530	1,890
EPS, Rs	15.4	20.2	25.0
PER, x	19.9	15.1	12.2
EV/EBIDTA, x	9.2	7.3	6.1
P/BV, x	1.3	1.1	0.9
ROE, %	23.4	24.9	24.6
Debt/Equity, %	43.9	35.5	24.5

Source: PhillipCapital India Research Est.

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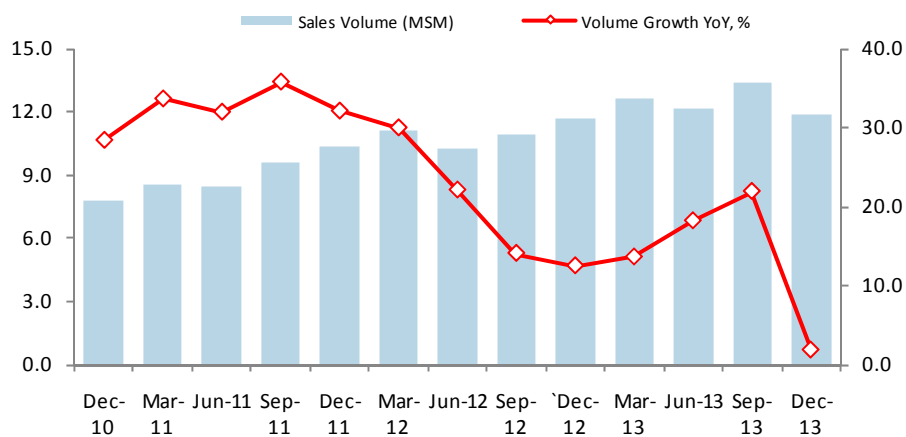
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Quarterly Performance

	Q3FY14	Q3FY13
Net sales	4,404	4,177
<i>Growth YoY, %</i>	5.4	
Total income	4,404	4,177
Operating expenses	3,739	3,570
EBITDA	665	607
<i>Growth YoY, %</i>	9.6	
<i>Margin</i>	15.1	14.5
Depreciation	119	113
EBIT	547	494
<i>Margin</i>	12.4	11.8
Interest paid	110	118
Other Non-Operating Income	16	3
Pre-tax profit	453	379
Tax provided	152	120
Profit after tax	300	258
PAT After Minority Interest	294	265
<i>Growth YoY, %</i>	10.7	
<i>Margin</i>	6.7	6.4
Adj EPS, Rs	3.9	3.6
Unadj. shares (m)	75.6	73.6
Wtd avg shares (m)	75.6	73.6

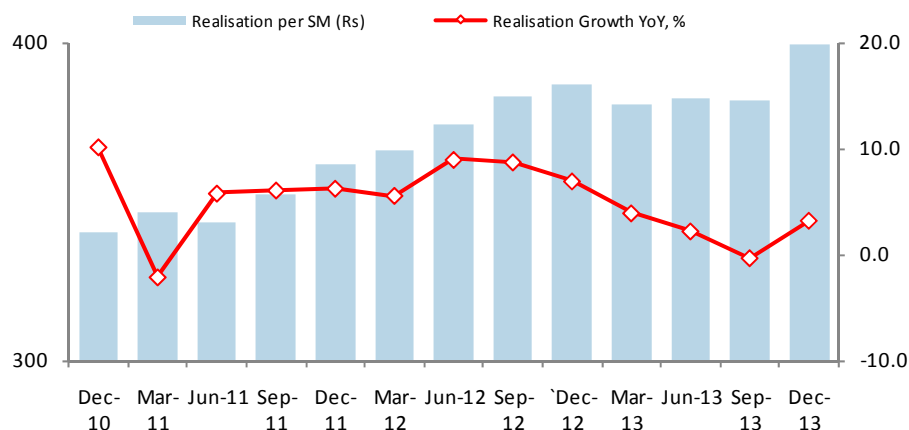
Source: Company, PhillipCapital India Research

Sales Volume growth – Q3FY14 growth at 1.8% YoY



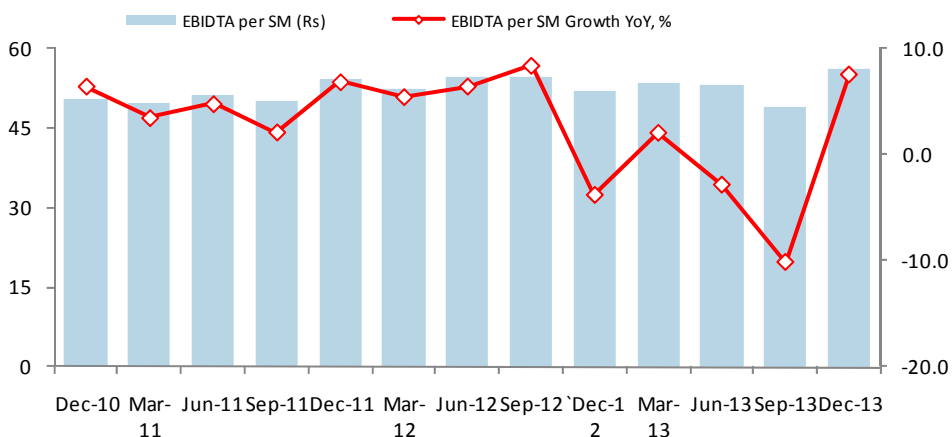
Source: Company, PhillipCapital India Research

Realization and growth – 3.2% (YoY)



Source: Company, PhillipCapital India Research

EBIDTA per SM and growth – EBIDTA per SM at Rs 56.2



Source: Company, PhillipCapital India Research

Financials

Income Statement

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Net sales	16,120	18,603	22,051	25,909
Growth, %	23	15	18.5	17.5
Total income	16,150	18,648	22,101	25,969
Raw material expenses	-7,485	-8,576	-10,011	-11,763
Employee expenses	-1,364	-1,600	-1,874	-2,202
Other Operating expenses	-4,824	-5,711	-6,747	-7,928
EBITDA (Core)	2,446	2,716	3,418	4,016
Growth, %	18.6	11.0	25.8	17.5
Margin, %	15.2	14.6	15.5	15.5
Depreciation	-446	-477	-573	-619
EBIT	2,000	2,239	2,845	3,397
Growth, %	19.8	11.9	27.1	19.4
Margin, %	12.4	12.0	12.9	13.1
Interest paid	-454	-441	-440	-426
Other Non-Operating Income	30	45	50	60
Pre-tax profit	1,577	1,843	2,455	3,032
Tax provided	-499	-626	-810	-1,000
Profit after tax	1,078	1,216	1,645	2,032
Others (Minorities, Associates)	-33	-55	-115	-142
Net Profit	1,045	1,161	1,530	1,890
Growth, %	29.2	11.1	31.7	23.5
Net Profit (adjusted)	1,045	1,161	1,530	1,890
Unadj. shares (m)	74	76	76	76
Wtd avg shares (m)	74	76	76	76

Balance Sheet

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Cash & bank	55	338	315	561
Debtors	1,436	1,466	1,700	1,972
Inventory	2,197	2,558	3,032	3,563
Loans & advances	504	579	666	766
Total current assets	4,197	4,940	5,713	6,862
Investments	1	1	301	301
Gross fixed assets	9,302	10,429	11,602	12,821
Less: Depreciation	-3,102	-3,579	-4,152	-4,771
Add: Capital WIP	78	0	0	0
Net fixed assets	6,278	6,850	7,450	8,050
Non-current assets	0	0	0	0
Total assets	10,475	11,791	13,463	15,213
Current liabilities	4,703	5,842	6,221	6,290
Provisions	438	0	0	0
Total current liabilities	5,140	5,842	6,221	6,290
Non-current liabilities	1,451	656	656	656
Total liabilities	6,592	6,498	6,878	6,947
Paid-up capital	147	151	151	151
Reserves & surplus	3,462	4,811	5,989	7,527
Shareholders' equity	3,884	5,292	6,586	8,266
Total equity & liabilities	10,475	11,791	13,463	15,213

Source: Company, PhillipCapital India Research Estimates

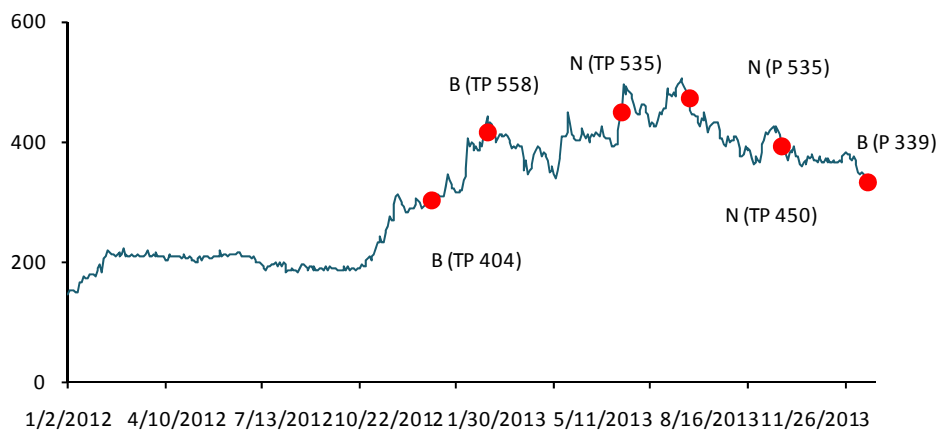
Cash Flow

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Pre-tax profit	1,577	1,843	2,455	3,032
Depreciation	446	477	573	619
Chg in working capital	97	540	-416	-833
Total tax paid	-479	-669	-810	-1,000
Cash flow from operating activities	1,641	2,191	1,802	1,817
Capital expenditure	-1,491	-1,049	-1,173	-1,218
Chg in investments	0	0	-300	0
Cash flow from investing activities	-1,491	-1,049	-1,473	-1,219
Debt raised/(repaid)	-122	-795	0	0
Dividend (incl. tax)	-214	-564	-352	-352
Cash flow from financing activities	-167	-859	-352	-653
Net chg in cash	-17	283	-23	-54

Valuation Ratios & Per Share Data

	FY13	FY14E	FY15E	FY16E
Per Share data				
EPS (INR)	14.2	15.4	20.2	25.0
Growth, %	29.2	8.1	31.7	23.5
Book NAV/share (INR)	49.0	65.6	81.2	101.6
FDEPS (INR)	14.2	15.4	20.2	25.0
CEPS (INR)	20.3	21.7	27.8	33.2
CFPS (INR)	12.5	23.8	23.2	27.2
DPS (INR)	3.0	3.5	4.0	4.0
Return ratios				
Return on assets (%)	13.9	13.5	15.3	16.1
Return on equity (%)	29.0	23.4	24.9	24.6
Return on capital employed (%)	27.3	26.2	29.2	28.5
Turnover ratios				
Asset turnover (x)	2.4	2.4	2.7	2.8
Sales/Total assets (x)	1.6	1.7	1.7	1.8
Sales/Net FA (x)	2.8	2.8	3.1	3.3
Working capital/Sales (x)	(0.1)	(0.1)	(0.0)	0.0
Receivable days	32.5	28.8	28.1	27.8
Inventory days	49.7	50.2	50.2	50.2
Payable days	53.0	72.5	68.0	63.7
Working capital days	(19.5)	(24.3)	(13.6)	0.1
Liquidity ratios				
Current ratio (x)	0.8	0.8	0.9	1.1
Quick ratio (x)	0.4	0.4	0.4	0.5
Interest cover (x)	4.4	5.1	6.5	8.0
Dividend cover (x)	4.7	4.4	5.1	6.2
Total debt/Equity (%)	72.8	43.9	35.5	24.5
Net debt/Equity (%)	71.3	37.1	30.4	17.2
Valuation				
PER (x)	21.5	19.9	15.1	12.2
Price/Book (x)	6.2	4.7	3.8	3.0
Yield (%)	1.0	1.1	1.3	1.3
EV/Net sales (x)	1.6	1.3	1.1	0.9
EV/EBITDA (x)	10.3	9.2	7.3	6.1
EV/EBIT (x)	12.5	11.2	8.8	7.2

Recommendation Chart



Source: PhillipCapital India Research

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