

# Kajaria Ceramics Ltd

Q4FY14 Results: Robust volume momentum to continue



PhillipCapital (India) Pvt. Ltd.

MIDCAP-HOME DÉCOR: Quarterly Update

9 May 2014

Kajaria Ceramics (KCL) reported PAT at Rs 421mn ahead of our and consensus estimates on the back of a robust revenue growth (+17%, 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 22x FY16E EPS with a target price of Rs 616.

**Strong revenue growth led by volumes:** Revenue grew by 17% (YoY) on the back of a 16% volume growth. Realization growth remains flat on YoY basis at Rs 358 per SM on higher proportion of ceramic tiles during the quarter. Production grew by 13% (YoY) driven by ramp-up of the production in JV Partners (up 51% (YoY)). Thus the share of outsourced component in overall sales reduced by 340 bps (YoY). EBITDA per SM grew by 6% (YoY).

**EBITDA margins improved to 16%.** Margin improvement of 90bps on a YoY basis against our estimate of 14.9% despite of decline in gross margins (down 50 bps) on account of lower proportion of vitrified tiles was encouraging.

**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. (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 50:50 ceramics vs. vitrified tiles to 45:50.

**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 840mn to Rs 2.36bn. Working capital days improved to 25 days from 32 days since 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. b) Management guide for topline growth of 18-20% 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 490, the stock trades at ~17.5x FY16E EPS. We marginally revise our estimates upward for FY16E to factor in better volume growth aided by additional capacities. 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 22x FY16E earnings and arrive at target price of Rs 616.

## BUY

KJC IN | CMP RS 490

TARGET RS 616 (+26%)

### Company Data

O/S SHARES (MN) :	76
MARKET CAP (RSBN) :	37
MARKET CAP (USDBN) :	0.6
52 - WK HI/LO (RS) :	521 / 200
LIQUIDITY 3M (USDMN) :	0.6
FACE VALUE (RS) :	2

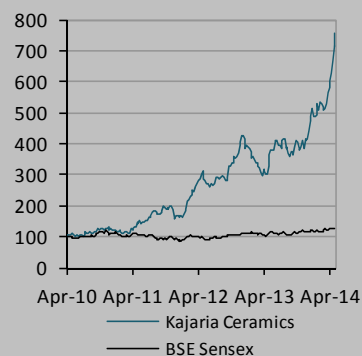
### Share Holding Pattern, %

PROMOTERS :	52.1
FII / NRI :	29.3
FI / MF :	3.8
NON PROMOTER CORP. HOLDINGS :	2.6
PUBLIC & OTHERS :	12.3

### Price Performance, %

	1mth	3mth	1yr
ABS	33.1	50.3	107.2
REL TO BSE	33.1	40.6	95.5

### Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

### Other Key Ratios

Rs mn	FY14E	FY15E	FY16E
Net Sales	18,400	22,051	27,575
EBIDTA	2,807	3,418	4,495
Net Profit	1,242	1,517	2,118
EPS, Rs	16.4	20.1	28.0
PER, x	29.8	24.4	17.5
EV/EBIDTA, x	14.0	11.7	8.9
P/BV, x	2.1	1.8	1.4
ROE, %	23.5	24.4	26.6
Debt/Equity, %	41.1	51.2	39.9

Source: PhillipCapital India Research Est.

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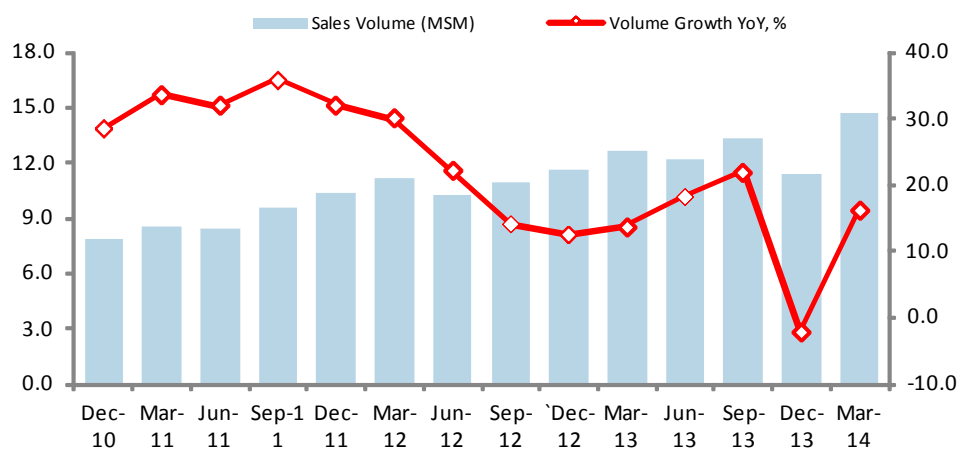
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### Quarterly Performance

	Q4FY14	Q4FY13
<b>Net sales</b>	<b>5,243</b>	<b>4,490</b>
<i>Growth YoY, %</i>	16.8	
<b>Total income</b>	<b>5,243</b>	<b>4,490</b>
Operating expenses	4,403	3,812
<b>EBITDA</b>	<b>840</b>	<b>678</b>
<i>Growth YoY, %</i>	23.8	
<i>Margin</i>	16.0	15.1
Depreciation	119	103
<b>EBIT</b>	<b>720</b>	<b>575</b>
<i>Margin</i>	13.7	12.8
Interest paid	67	102
Other Non-Operating Income	25	18
<b>Pre-tax profit</b>	<b>679</b>	<b>490</b>
Tax provided	232	156
<b>Profit after tax</b>	<b>447</b>	<b>334</b>
<b>PAT After Minority Interest</b>	<b>421</b>	<b>308</b>
<i>Growth YoY, %</i>	36.9	
<i>Margin</i>	8.0	6.9
<b>Adj EPS, Rs</b>	<b>5.6</b>	<b>4.2</b>
Unadj. shares (m)	75.6	73.6
Wtd avg shares (m)	75.6	73.6

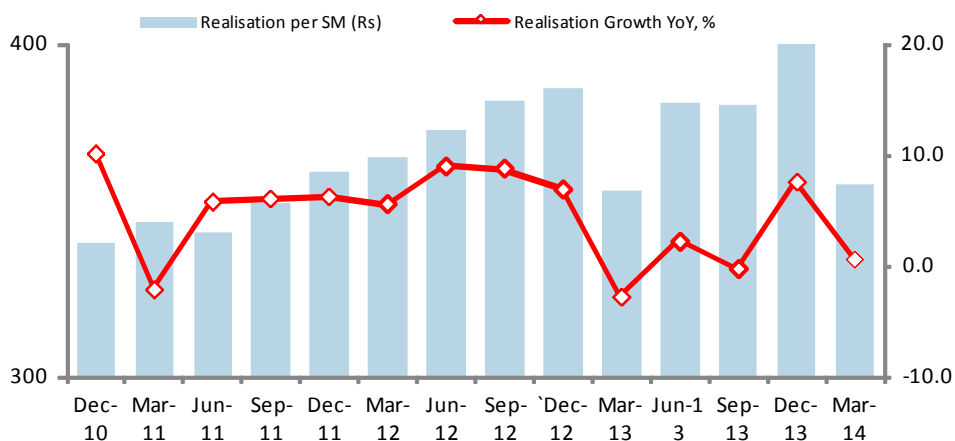
Source: Company, PhillipCapital India Research

### Sales Volume growth – Q4FY14 growth at 16% YoY



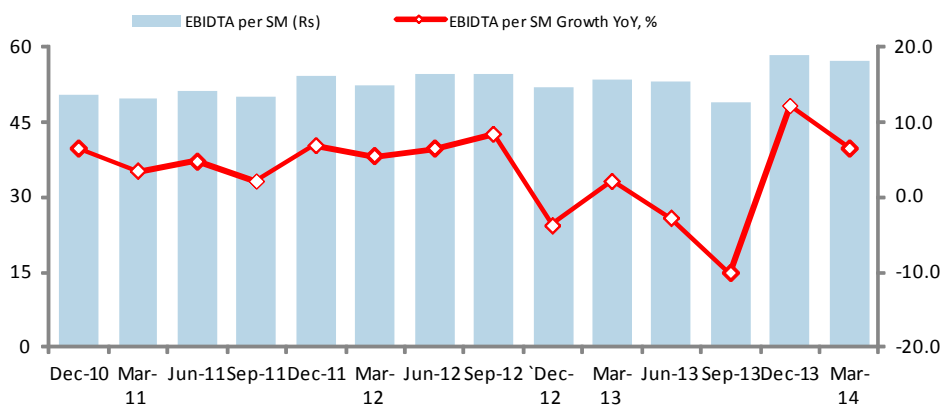
Source: Company, PhillipCapital India Research

**Realization and growth – flat (YoY)**



Source: Company, PhillipCapital India Research

**EBIDTA per SM and growth – EBIDTA per SM at Rs 57.3**



Source: Company, PhillipCapital India Research

## Financials

### Income Statement

Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
<b>Net sales</b>	<b>16,120</b>	<b>18,400</b>	<b>22,051</b>	<b>27,575</b>
Growth, %	23	14	19.8	25.1
Total income	16,150	18,463	22,101	27,635
Raw material expenses	-7,485	-8,252	-10,011	-12,353
Employee expenses	-1,364	-1,726	-1,874	-2,344
Other Operating expenses	-4,824	-5,615	-6,747	-8,383
<b>EBITDA (Core)</b>	<b>2,446</b>	<b>2,807</b>	<b>3,418</b>	<b>4,495</b>
Growth, %	18.6	14.7	21.8	31.5
Margin, %	15.2	15.3	15.5	16.3
Depreciation	-446	-470	-564	-677
<b>EBIT</b>	<b>2,000</b>	<b>2,337</b>	<b>2,854</b>	<b>3,818</b>
Growth, %	19.8	16.8	22.1	33.8
Margin, %	12.4	12.7	12.9	13.8
Interest paid	-454	-408	-470	-480
Other Non-Operating Income	30	63	50	60
<b>Pre-tax profit</b>	<b>1,577</b>	<b>1,992</b>	<b>2,434</b>	<b>3,399</b>
Tax provided	-499	-678	-803	-1,121
<b>Profit after tax</b>	<b>1,078</b>	<b>1,314</b>	<b>1,631</b>	<b>2,278</b>
Others (Minorities, Associates)	-33	-71	-114	-159
<b>Net Profit</b>	<b>1,045</b>	<b>1,242</b>	<b>1,517</b>	<b>2,118</b>
Growth, %	29.2	18.9	22.1	39.7
<b>Net Profit (adjusted)</b>	<b>1,045</b>	<b>1,242</b>	<b>1,517</b>	<b>2,118</b>
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	61	126	264
Debtors	1,436	1,649	1,544	1,792
Inventory	2,197	1,931	2,205	3,033
Loans & advances	504	791	666	766
Total current assets	4,197	4,434	4,541	5,856
Investments	1	1	301	301
Gross fixed assets	9,302	10,893	14,457	15,934
Less: Depreciation	-3,102	-3,572	-4,136	-4,813
Add: Capital WIP	78	0	0	0
Net fixed assets	6,278	7,321	10,321	11,121
Non-current assets	0	0	0	0
<b>Total assets</b>	<b>10,475</b>	<b>11,756</b>	<b>15,163</b>	<b>17,278</b>
Current liabilities	4,703	5,339	7,718	7,907
Provisions	438	0	0	0
Total current liabilities	5,140	5,339	7,718	7,907
Non-current liabilities	1,451	713	713	713
Total liabilities	6,592	6,052	8,431	8,620
Paid-up capital	147	151	151	151
Reserves & surplus	3,462	5,146	6,057	7,824
Shareholders' equity	3,884	5,706	6,731	8,658
<b>Total equity &amp; liabilities</b>	<b>10,475</b>	<b>11,758</b>	<b>15,163</b>	<b>17,278</b>

### Cash Flow

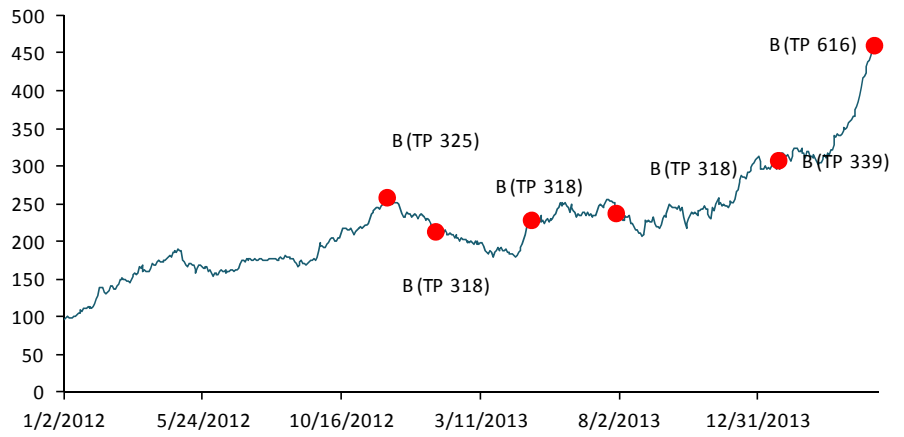
Y/E Mar, Rs mn	FY13	FY14E	FY15E	FY16E
Pre-tax profit	1,577	1,992	2,434	3,399
Depreciation	446	470	564	677
Chg in working capital	97	267	2,338	-988
Total tax paid	-479	-664	-803	-1,121
<b>Cash flow from operating activities</b>	<b>1,641</b>	<b>2,065</b>	<b>4,533</b>	<b>1,967</b>
Capital expenditure	-1,491	-1,513	-3,564	-1,476
Chg in investments	0	0	-300	0
<b>Cash flow from investing activities</b>	<b>-1,491</b>	<b>-1,513</b>	<b>-3,864</b>	<b>-1,477</b>
Debt raised/(repaid)	-122	-795	0	0
Dividend (incl. tax)	-214	-564	-352	-352
<b>Cash flow from financing activities</b>	<b>-167</b>	<b>-545</b>	<b>-604</b>	<b>-353</b>
Net chg in cash	-17	6	65	137

### Valuation Ratios & Per Share Data

	FY13	FY14E	FY15E	FY16E
<b>Per Share data</b>				
EPS (INR)	14.2	16.4	20.1	28.0
Growth, %	29.2	15.7	22.1	39.7
Book NAV/share (INR)	49.0	70.1	82.1	105.5
FDEPS (INR)	14.2	16.4	20.1	28.0
CEPS (INR)	20.3	22.6	27.5	37.0
CFPS (INR)	12.5	21.9	46.1	25.2
DPS (INR)	3.0	3.5	4.0	4.0
<b>Return ratios</b>				
Return on assets (%)	13.9	14.2	14.4	15.9
Return on equity (%)	29.0	23.5	24.4	26.6
Return on capital employed (%)	27.3	26.5	27.9	30.7
<b>Turnover ratios</b>				
Asset turnover (x)	2.4	2.3	2.4	2.5
Sales/Total assets (x)	1.6	1.7	1.6	1.7
Sales/Net FA (x)	2.8	2.7	2.5	2.6
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	62.7	77.8	65.4
Working capital days	(19.5)	(19.2)	(54.7)	(30.7)
<b>Liquidity ratios</b>				
Current ratio (x)	0.8	0.8	0.6	0.7
Quick ratio (x)	0.4	0.5	0.3	0.4
Interest cover (x)	4.4	5.7	6.1	8.0
Dividend cover (x)	4.7	4.7	5.0	7.0
Total debt/Equity (%)	72.8	41.1	51.2	39.9
Net debt/Equity (%)	71.3	40.0	49.2	36.5
<b>Valuation</b>				
PER (x)	34.5	29.8	24.4	17.5
Price/Book (x)	10.0	7.0	6.0	4.6
Yield (%)	0.6	0.7	0.8	0.8
EV/Net sales (x)	2.4	2.1	1.8	1.4
EV/EBITDA (x)	15.8	14.0	11.7	8.9
EV/EBIT (x)	19.3	16.8	14.0	10.5

Source: Company, PhillipCapital India Research Estimates

### Recommendation Chart



Source: PhillipCapital India Research

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