Kajaria Ceramics Ltd

Growth momentum to continue

PhillipCapital

PhillipCapital (India) Pvt. Ltd.

MIDCAP-HOME DÉCOR: Analyst Meet Update

7 May 2013

We attended the Analyst meet of Kajaria Ceramics (KJC IN) recently and given below are the key takeaways from the meet.

Industry Dynamics

- The tile industry in the country has grown by ~12% YoY to Rs 190bn in FY13 as compared to Rs 170bn in the previous year. Kajaria thus enjoys market share of ~17% in the National brands players and ~9% in the overall industry.
- The industry is expected to grow at a CAGR of 12-13% over the next 5 years. The major growth is expected to come from the Class 'B' and 'C' towns as major new construction is coming up in these markets whereas the Class 'A' cities are growing slower on the back of renovation demand.
- According to the management, FY13 was one of the toughest years in terms of demand scenario and also in terms of raw material cost inflation.
- Ceramic Tiles (expected growth of 18% for the company in FY14E) find application in the Wall decoration whereas the Vitrified Tiles (both Polished as well as Glazed – expected growth of ~22% for the company in FY14E) find application in the flooring.
- A good opportunity for export to the European markets is what the industry is eyeing over the next 3-5 years period. This can open a market of 20-50 MSM over the next few years.

Dealer Network

- The company currently has 825 dealers across the country – of which 125 are exclusive Kajaria dealers and 700 dealers also sell other brands along with Kajaria products. It has its reach to 6000 retail points through this network.
- 11 Kajaria Galaxy stores are set-up across the country since April 2012. Galaxy stores are exclusive Kajaria dealer stores selling all varieties of Tiles and store admeasuring more than 3000 square feet.
- There are other exclusive Kajaria stores as well – Prima for Ceramic Tiles only and Kajaria Studio for Polished and Glazed Vitrified Tiles.
- All 3 segments of tiles put together make up around 1000 different SKUs for the company.

Outlook and Valuation

We believe that with the leadership position, product mix shift and timely increases in the production capacities, the company will continue to post robust performance over the next few quarters. The management has guided for a 20% CAGR in revenues over the next 5 year period which we believe is quite realistic given the robust industry dynamics and company's positioning. We have revised our FY14E and FY15E EPS upwards by 2.9% and 0.6% respectively. At CMP of Rs 229, the stock trades at 13.5x FY14E EPS and ~10.7x FY15E EPS. 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 with retained price target of Rs 318, which implies 15x FY15E EPS.

BUY

KJC IN | CMP RS 229

TARGET RS 318 (+39%)

Company Data

O/S SHARES (MN) :	74
MARKET CAP (RSBN) :	17
MARKET CAP (USDBN) :	0.3
52 - WK HI/LO (RS) :	261 / 153
LIQUIDITY 3M (USDMN) :	0.2
FACE VALUE (RS) :	2

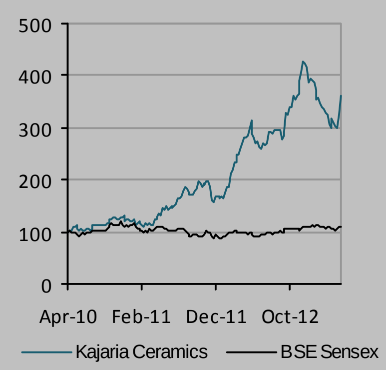
Share Holding Pattern, %

PROMOTERS :	53.5
FII / NRI :	16.6
FI / MF :	4.4
NON PROMOTER CORP. HOLDINGS :	9.5
PUBLIC & OTHERS :	16.0

Price Performance, %

	1mth	3mth	1yr
ABS	22.1	9.0	32.7
REL TO BSE	14.3	7.5	15.1

Price Vs. Sensex (Rebased values)



Source: PhillipCapital India Research

Other Key Ratios

Rs mn	FY13E	FY14E	FY15E
Net Sales	16,120	18,726	22,114
Ebidta	2,446	2,810	3,369
Net Profit	1,045	1,249	1,570
EPS, Rs	14.2	17.0	21.3
PER, X	16.1	13.5	10.7
EV/EBIDTA, x	7.9	6.9	5.7
EV/Net Sales, x	1.2	1.0	0.9
ROE, %	29.0	27.4	27.1

Source: PhillipCapital India Research Est.

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Sales details

- 70% of the total revenues of the company are through retail sales and ~30% come from institutional and project sales.
- The Northern market is the strongest market for the company in terms of sales distribution.
- With the acquisition in Andhra Pradesh the lead time of supply from factory to sales point has decreased from 15 days to less than 5 days.
- Faucets contribute to around Rs 150mn out of the total sales of the company. It is currently not looking to set-up its own manufacturing unit till the time the turnover from this segment does not reach Rs 300-350mn.
- The Value Added tiles account for ~45% of the total sales of the company in FY13 as against 5% three years back.
- The industry did not enjoy great pricing power in FY13.

Finance details

- The current debt for the company stands at ~Rs 3.2bn and this could be the peak debt according to the management for a sustained growth of 20% over the next few years.
- The company has earmarked a capex of Rs 1bn each for the coming 2 years.
- Current consolidated cost of debt for the company stands at 11.5%. The cost of debt at the parent level stands at 10.75% whereas for the JVs the cost of debt works out to around 14%.

Key Risks

- The availability and Pricing of gas is major cause of concern for the management. But it believes that the prices of gas have more or less stabilized.

Q4FY13 results highlights

The key highlights of the results are as under:

- Net revenues for the quarter grew by 20.5% YoY to Rs 4490mn on the back of volume growth to the tune of ~15%. The company sold 12.62 MSM of tiles during the quarter as compared to 11 MSM in the corresponding quarter last year. The realization per MSM increased by 2.7% YoY to Rs 380.3 on account of the product mix shift.
- For the year ended March 31 2013, the company reported revenue growth of 22.8% to Rs 16120mn. The revenue growth during the year was driven by 13.9% growth in the volumes. The volume of tiles sold during the year stood at 44.83 MSM as compared to 39.36 MSM in the corresponding period last year. The realization per MSM for the year increased by 7.8% YoY to Rs 359.6.
- The EBIDTA for the quarter increased by 16% YoY to Rs 678mn as the margins declined by around 60bps to 15.1%. The decline in margins for the quarter were largely on account of a ~20% in gas prices in the last 2-3 quarters and upward revised power tariff in the state of Andhra Pradesh. The Power and fuel cost as a percentage of sales increased by 360bps YoY to ~18.7%. The EBIDTA per MSM increased by 0.9% YoY to Rs 53.75 for the quarter.

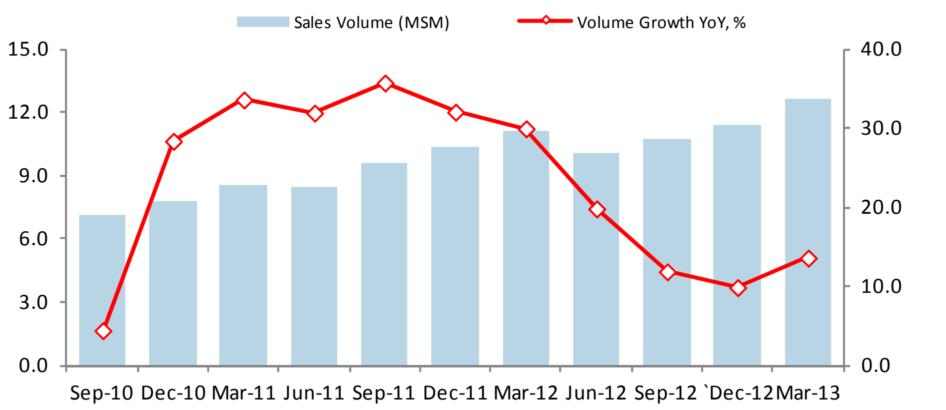
- The EBIDTA for the year saw a jump of 18.6% YoY to Rs 2446mn as the margins declined by 50bos YoY to 15.2%. The EBIDTA per MSM increased by 4.2% YoY to Rs 54.6 for the year.
- PAT after Minority Interest for the quarter surged by 31% YoY to Rs 308mn and the EPS stood at Rs 4.2. The increase in PAT was higher as compared to the EBIDTA on account of 250bps decline in Tax as percentage of PBT to 31.9%. For FY13 the PAT after minority interest stood at Rs 1045mn, YoY jump of 29.2% as the company reported EPS of Rs 14.2.

Quarterly Performance

	Q3FY13	Q3FY12	9MFY13	9MFY12
Net sales	**4,177**	**3,507**	**11,630**	**9,404**
Growth YoY, %	*19.1*		*23.7*	
Total income	**4,177**	**3,507**	**11,630**	**9,404**
Operating expenses	3,570	2,947	9,862	7,927
EBITDA	**607**	**561**	**1,768**	**1,477**
Growth YoY, %	*8.3*		*19.7*	
Margin	*14.5*	*16.0*	*15.2*	*15.7*
Depreciation	113	103	343	284
EBIT	**494**	**458**	**1,425**	**1,193**
Margin	*11.8*	*13.0*	*12.3*	*12.7*
Interest paid	118	154	351	353
Other Non-Operating Income	3	-	13	-
Pre-tax profit	**379**	**304**	**1,087**	**840**
Tax provided	120	91	343	257
Profit after tax	**258**	**213**	**744**	**583**
PAT After Minority Interest	**250**	**211**	**737**	**574**
Growth YoY, %	*18.5*		*28.5*	
Margin	*6.0*	*6.0*	*6.3*	*6.1*
Adj EPS, Rs	**3.4**	**2.9**	**10.0**	**7.8**
Unadj. shares (m)	73.6	73.6	73.6	73.6
Wtd avg shares (m)	73.6	73.6	73.6	73.6

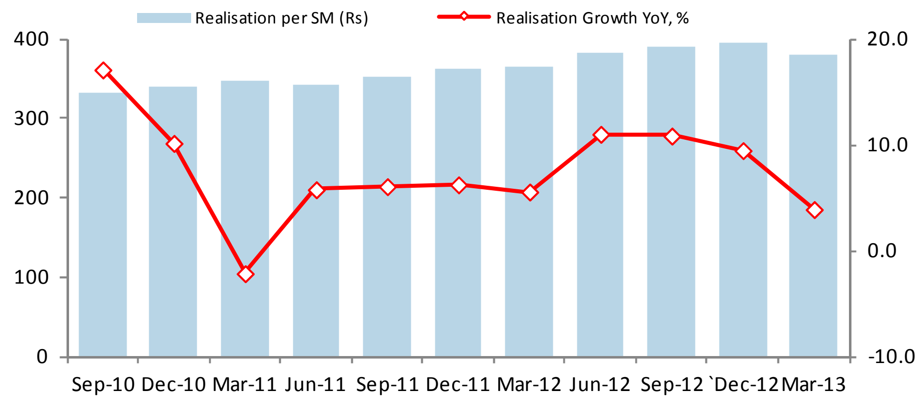
Source: Company, PhillipCapital India Research

Sales Volume and growth – Q4 growth at 13.6% YoY



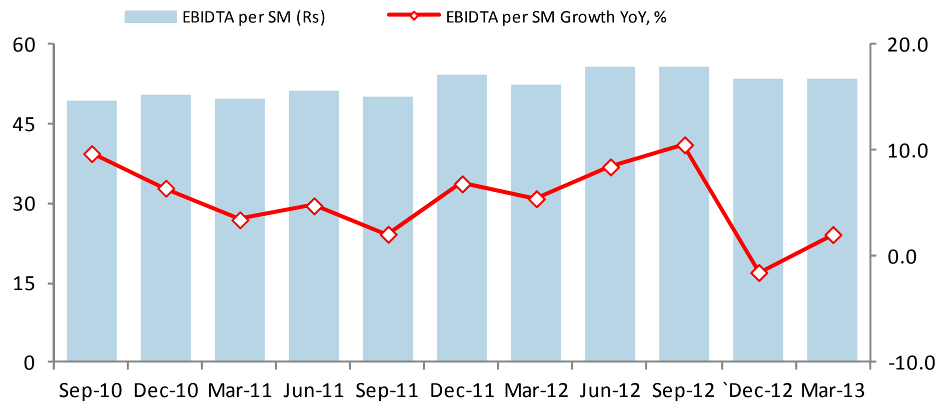
Source: Company, PhillipCapital India Research

Realisation and growth – 4% realization growth YoY



Source: Company, PhillipCapital India Research

EBIDTA per SM and growth – EBIDTA per SM at Rs 53.7



Source: Company, PhillipCapital India Research

Change in estimates

	FY14			FY15		
Rs Mn	**Earlier**	**Revised**	**% Change**	**Earlier**	**Revised**	**% Change**
Net Sales	19035	18,726	-1.6	22417	22,114	-1.4
EBIDTA	2771	2,810	1.4	3335	3,369	1.0
Margin, %	14.6	15.0	+40 bps	14.9	15.2	+30 bps
PAT	1212	1,249	3.1	1559	1,570	0.7
EPS, Rs	16.5	17.0	2.9	21.2	21.3	0.6

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Financials

Income Statement

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
Net sales	**13,130**	**16,120**	**18,726**	**22,114**
Growth, %	38	23	16	18
Other income	15	30	36	44
Total income	13,145	16,150	18,763	22,158
Operating expenses	-3,488	-4,825	-5,532	-6,484
EBITDA	**2,062**	**2,446**	**2,810**	**3,369**
Growth, %	39.4	18.6	14.9	19.9
Margin, %	15.7	15.2	15.0	15.2
Depreciation	-393	-446	-491	-530
EBIT	**1,669**	**2,000**	**2,319**	**2,839**
Growth, %	41.2	19.8	15.9	22.4
Margin, %	12.7	12.4	12.4	12.8
Interest paid	-485	-454	-459	-469
Pre-tax profit	1,199	1,577	1,896	2,413
Tax provided	-381	-499	-607	-796
Profit after tax	**818**	**1,078**	**1,289**	**1,618**
Net Profit	**809**	**1,045**	**1,249**	**1,570**
Growth, %	33.4	29.2	19.6	25.6
Unadj. shares (m)	74	74	74	74
Wtd avg shares (m)	74	74	74	74

Balance Sheet

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
Cash & bank	72	55	73	105
Debtors	1,442	1,436	1,670	1,937
Inventory	1,865	2,197	2,575	3,041
Loans & advances	549	504	579	666
Total current assets	3,928	4,197	4,902	5,754
Investments	1	1	1	301
Gross fixed assets	7,865	9,380	10,371	11,401
Less: Depreciation	-2,656	-3,102	-3,593	-4,123
Add: Capital WIP	24	0	0	0
Net fixed assets	5,233	6,278	6,778	7,278
Non-current assets	1	0	0	0
Total assets	**9,162**	**10,476**	**11,681**	**13,332**
Current liabilities	4,352	4,605	4,742	5,058
Provisions	357	437	497	560
Total current liabilities	4,709	5,042	5,239	5,618
Non-current liabilities	1,560	1,550	1,567	1,567
Total liabilities	6,269	6,592	6,807	7,185
Paid-up capital	147	147	147	147
Reserves & surplus	2,673	3,461	4,412	5,637
Shareholders' equity	2,893	3,884	4,874	6,147
Total equity & liabilities	**9,162**	**10,476**	**11,681**	**13,332**

Source: Company, PhillipCapital India Research Estimates

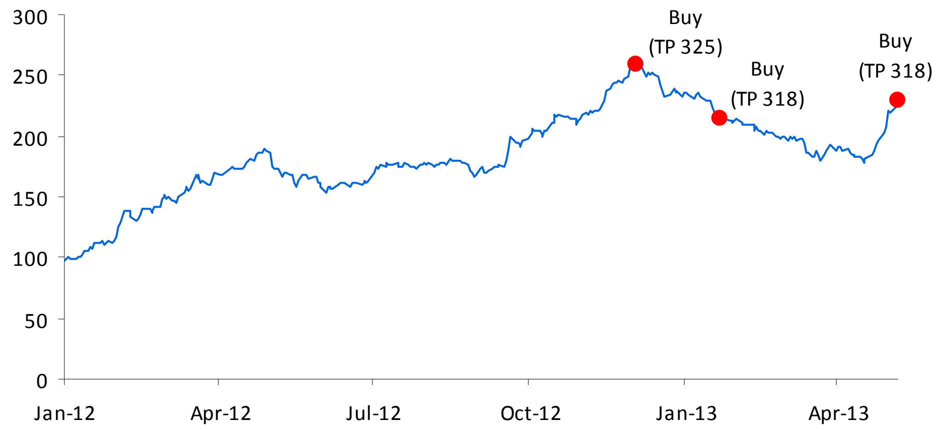
Cash Flow

Y/E Mar, Rs mn	FY12	FY13E	FY14E	FY15E
Pre-tax profit	1,199	1,577	1,896	2,413
Depreciation	393	446	491	530
Chg in working capital	664	0	-536	-489
Total tax paid	-523	-481	-603	-791
Cash flow from operating activities	**1,733**	**1,542**	**1,248**	**1,663**
Capital expenditure	-710	-1,491	-991	-1,030
Chg in investments	33	0	0	-300
Cash flow from investing activities	**-677**	**-1,491**	**-991**	**-1,330**
Debt raised/(repaid)	-896	-23	17	0
Dividend (incl. tax)	-171	-214	-257	-299
Cash flow from financing activities	**-1,067**	**-237**	**-239**	**-299**
Net chg in cash	-11	-186	18	34

Valuation Ratios & Per Share Data

	FY12	FY13E	FY14E	FY15E
EPS, Rs	11.0	14.2	17.0	21.3
BVPS, Rs	38.3	49.0	62.0	78.6
DPS, Rs	2.5	3.0	3.5	4.0
Return on assets (%)	12.9	13.9	14.3	15.3
Return on equity (%)	28.7	29.0	27.4	27.1
Return on Capital Employed (%)	24.5	27.0	26.0	26.5
Asset turnover (x)	2.2	2.4	2.3	2.5
Sales/Total assets (x)	1.5	1.6	1.7	1.8
Sales/Net FA (x)	2.6	2.8	2.9	3.1
Receivable days	40.1	32.5	32.6	32.0
Inventory days	51.8	49.7	50.2	50.2
Payable days	73.8	44.3	41.8	39.1
Current ratio (x)	0.9	0.9	1.0	1.1
Quick ratio (x)	0.4	0.4	0.5	0.5
Interest cover (x)	3.4	4.4	5.0	6.0
Dividend cover (x)	4.4	4.7	4.9	5.3
PER (x)	20.8	16.1	13.5	10.7
Price/Book (x)	6.0	4.7	3.7	2.9
EV/EBIT (x)	1.1	1.3	1.5	1.7
EV/NOPLAT (x)	1.4	1.2	1.0	0.9
EV/CE	9.1	7.9	6.9	5.7
EV/IC (x)	11.3	9.7	8.3	6.8

Recommendation Chart



Source: PhillipCapital India Research

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