

September 20, 2017

Kajaria Ceramics (KAJ CER)

₹ 748

To clock double digit volume growth in FY18E..

Management confident of clocking double digit volume growth in FY18E..

Kajaria Ceramics had posted a subdued volume growth of 3.3% in Q1FY18 mainly on account of significant de-stocking at dealer's level. However, in recent media commentary, the management mentioned that the company has witnessed a pick-up in sales from mid-August. It reiterated that the company would achieve double digit volume growth for FY18E with pick-up in demand. Also, the management mentioned that the company is keen on improving the share of high value added vitrified tiles (currently ~60%) which would aid realizations and generate higher margins.

Kajaria to benefit from GST over long term...

The company is expected to benefit from GST over the long term as it would establish a level playing field for the organised players. At 28%, the GST rate is neutral for Kajaria as the current incidence of indirect tax is 26.5-29%. However, on a positive note, GST will benefit the sector as the organised pie (~50%) as it would bring in consolidation in the sector. On the demand front, with RERA in place, the company expects the residential demand to revive, going forward. On the costing front, it expects the gas prices to remain stable in the near term. With long term demand drivers in place, the management has also guided for a double digit volume growth over the next five years.

Capacity expansion on track...

Kajaria Ceramics is the market leader in the organised tiles industry with overall capacity of 63.9 MSM (excluding outsourcing tie-ups / imports). On the capacity expansion front, the company is expanding its existing wall tile manufacturing capacity of Gailpur plant by 3.5 MSM, which is expected to be complete by September, 2017. Even it is undergoing a greenfield expansion of 5 MSM of GVT tiles, post which capacity would rise to ~72.4 MSM. The company has planned its expansions well in sync with the expected demand revival in the real estate sector with the government's focus on affordable housing. Consequently, we expect topline, bottomline to grow at 15.4%, 21.2% CAGR to ₹ 3921.1 crore, ₹ 450.6 crore, respectively, in FY17-20E.

Long-term story intact; Await for a better entry point...

In our view, GST implementation would act as a key catalyst for Kajaria as it would lay down a level playing field for the organised players as the pricing differential between organised & unorganised tiles would shrink. Further, with demand in the real estate sector set to pick up with the government's focus on affordable housing, Kajaria would be well placed to capture this opportunity. We have rolled over our valuations to FY20E. However, with current valuation of 28.3x FY20E EPS and near term demand headwinds, we await a better entry point in the stock. We continue to maintain our HOLD recommendation on the stock with a revised target price of ₹ 765 (27x FY20E EPS).

Rating matrix		
Rating	:	Hold
Target	:	₹ 765
Target Period	:	12-18 months
Potential Upside	:	2%

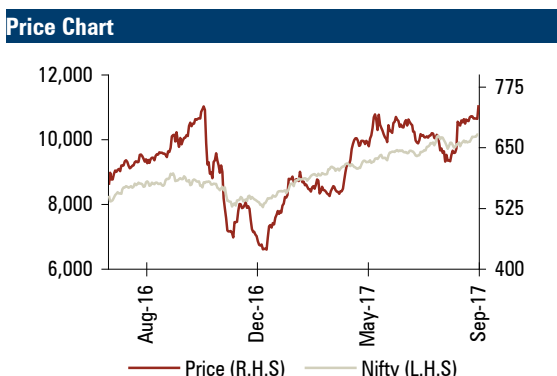
What's changed?	
Target	Changed from ₹ 655 to ₹ 765
EPS FY19E	Changed from ₹ 21.8 to ₹ 22.7
EPS FY20E	Introduced at ₹ 28.4
Rating	Unchanged

Key financials				
₹ Crore	FY17	FY18E	FY19E	FY20E
Net Sales	2,549.6	2,853.2	3,373.6	3,921.1
EBITDA	496.3	522.3	641.0	763.6
Net Profit	252.8	274.2	360.5	450.6
EPS (₹)	15.9	17.3	22.7	28.4

Valuation summary				
	FY17E	FY18E	FY19E	FY20E
P/E	47.0	43.4	33.0	26.4
Target P/E	48.1	44.3	33.7	27.0
EV / EBITDA	24.3	23.2	18.8	15.6
P/BV	10.1	8.6	7.1	5.9
RoNW (%)	21.5	19.8	21.7	22.4
RoCE (%)	27.1	24.9	27.7	29.2

Stock data	
Particular	Amount (₹ crore)
Market Capitalization	11,917.5
Total Debt	213.0
Cash	52.0
EV	12,078.5
52 week H/L (₹)	788 / 437
Equity capital	15.9
Face value (₹)	1.0

Price performance				
Return %	1M	3M	6M	12M
Kajaria	14.6	5.4	31.0	10.5
Somany	7.5	8.8	30.0	38.0
Cera	14.2	9.0	22.7	37.3



Research Analyst	
Deepak Purswani, CFA	deepak.purswani@icicisecurities.com
Vaibhav Shah	vaibhav.shah@icicisecurities.com

Financial summary

Profit and loss statement

(₹ Crore)	FY17	FY18E	FY19E	FY20E
Net Sales	2,545.6	2,848.8	3,368.7	3,915.7
Other Operating Income	4.0	4.4	4.9	5.3
Total operating income	2,549.6	2,853.2	3,373.6	3,921.1
Raw Material Expenses	242.3	271.2	320.6	364.9
Cost of Materials Consumed	677.1	757.8	896.1	1,041.6
Employee benefit expenses	288.7	332.0	381.8	439.1
Other Expenses	845.2	969.9	1,134.1	1,311.9
Total operating expenses	2,053.3	2,330.9	2,732.6	3,157.5
EBITDA	496.3	522.3	641.0	763.6
Interest	34.0	26.7	24.1	17.6
Depreciation	81.4	90.0	97.7	105.2
Other income	15.4	17.7	20.3	23.4
PBT	396.3	423.3	539.5	664.1
Taxes	142.5	148.2	178.0	212.5
PAT before MI	253.8	275.2	361.5	451.6
Minority Interest	1.0	1.0	1.0	1.0
PAT	252.8	274.2	360.5	450.6
Growth (%)	10.3	8.4	31.5	25.0
EPS (₹)	15.9	17.3	22.7	28.4

Source: Company, ICICIdirect.com Research

Balance sheet

(₹ Crore)	FY17	FY18E	FY19E	FY20E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,159.2	1,370.4	1,647.9	1,994.9
Total Shareholders funds	1,175.1	1,386.3	1,663.8	2,010.8
Minority Interest	76.0	77.0	78.0	79.0
Total Debt	213.0	223.0	173.0	123.0
Deferred Tax Liability	110.6	110.6	110.6	110.6
Total Liabilities	1,585.1	1,807.2	2,035.7	2,333.7
Assets				
Gross Block	1,718.3	1,799.3	1,954.3	2,104.3
Less Acc. Dep	555.7	645.6	743.3	848.6
Net Block	1,162.7	1,153.7	1,211.0	1,255.8
Net Intangibles Assets	14.6	14.6	14.6	14.6
Capital WIP	8.3	93.3	89.8	89.8
Total Fixed Assets	1,185.6	1,261.6	1,315.4	1,360.1
Investments	0.1	0.1	0.1	0.1
Inventory	372.0	498.3	599.5	720.9
Sundry Debtors	338.9	410.8	527.2	636.8
Loans & Advances	90.1	129.1	152.7	201.5
Cash & Bank Balances	52.0	20.3	37.5	83.9
Other Current Assets	1.5	1.5	1.5	1.5
Total Current Assets	854.5	1,060.1	1,318.4	1,644.7
Trade Payable	292.1	332.2	382.5	420.5
Other Current Liabilities	152.7	170.9	202.1	234.9
Provisions	10.3	11.5	13.6	15.8
Net Current Assets	399.4	545.5	720.3	973.5
Total Assets	1,585.1	1,807.2	2,035.7	2,333.7

Source: Company, ICICIdirect.com Research

Cash flow statement

(₹ Crore)	FY17	FY18E	FY19E	FY20E
Profit after Tax	252.8	274.2	360.5	450.6
Depreciation	81.4	90.0	97.7	105.2
Interest	34.0	26.7	24.1	17.6
Others	127.1	130.5	157.7	189.2
Cash Flow before wc changes	495.4	521.4	640.0	762.6
Net Increase in Current Assets	(34.0)	(237.2)	(241.2)	(279.8)
Net Increase in Current Liabilities	(64.0)	59.5	83.6	73.1
Net CF from operating activities	273.9	195.5	304.3	343.3
(Purchase)/Sale of Fixed Assets	(138.6)	(166.0)	(151.5)	(150.0)
Net CF from Investing activities	(123.3)	(148.3)	(131.2)	(126.6)
Inc / (Dec) in Equity Capital	54.6	(0.0)	-	0.0
Dividend	(57.4)	(63.1)	(82.9)	(103.6)
Interest paid	(34.0)	(26.7)	(24.1)	(17.6)
Inc / (Dec) in Secured Loans	(83.3)	10.0	(50.0)	(50.0)
Inc / (Dec) in Unsecured Loans	-	-	-	-
Net CF from Financing activities	(120.2)	(78.8)	(156.0)	(170.2)
Net Cash flow	30.5	(31.6)	17.2	46.5
Opening Cash	21.5	52.0	20.3	37.5
Closing Cash/ Cash Equivalent	52.0	20.3	37.5	83.9

Source: Company, ICICIdirect.com Research

Key ratios

	FY17	FY18E	FY19E	FY20E
Per Share Data (₹)				
EPS - Diluted	15.9	17.3	22.7	28.4
Cash EPS	21.0	22.9	28.8	35.0
Book Value	74.0	87.2	104.7	126.5
Dividend per share	3.6	4.0	5.2	6.5
Operating Ratios (%)				
EBITDA / Net Sales	19.5	18.3	19.0	19.5
PAT / Net Sales	9.9	9.6	10.7	11.5
Inventory Days	53	64	65	67
Debtor Days	49	53	57	59
Creditor Days	42	43	41	39
Return Ratios (%)				
RoNW	21.5	19.8	21.7	22.4
RoCE	27.1	24.9	27.7	29.2
RoIC	27.5	25.8	28.7	30.7
Valuation Ratios (x)				
EV / EBITDA	24.3	23.2	18.8	15.6
P/E (Diluted)	47.0	43.4	33.0	26.4
EV / Net Sales	4.7	4.2	3.6	3.0
Market Cap / Sales	4.7	4.2	3.5	3.0
Price to Book Value	10.1	8.6	7.1	5.9
Dividend Yield (%)	0.5	0.5	0.7	0.9
Solvency Ratios (x)				
Net Debt / Equity	0.1	0.2	0.1	0.0
Debt/EBITDA	0.4	0.4	0.3	0.2
Current Ratio	1.8	2.0	2.1	2.3
Quick Ratio	0.9	1.1	1.1	1.3

Source: Company, ICICIdirect.com Research

RATING RATIONALE

ICICIdirect.com endeavours to provide objective opinions and recommendations. ICICIdirect.com assigns ratings to its stocks according to their notional target price vs. current market price and then categorises them as Strong Buy, Buy, Hold and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock.

Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICIdirect.com Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

We /I, Deepak Purswani, CFA MBA (Finance), Vaibhav Shah, MBA (Finance); Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a Sebi registered Research Analyst with Sebi Registration Number – INH000000990. ICICI Securities is a wholly-owned subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

It is confirmed that Deepak Purswani, CFA MBA (Finance), Vaibhav Shah, MBA (Finance); Research Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report. It is confirmed that Deepak Purswani, CFA MBA (Finance), Vaibhav Shah, MBA (Finance); Research Analysts do not serve as an officer, director or employee of the companies mentioned in the report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.