

Result Update

Stock Details

Market cap (Rs mn)	:	57437
52-wk Hi/Lo (Rs)	:	765 / 315
Face Value (Rs)	:	1
3M Avg. daily vol (mn)	:	976,629
Shares o/s (mn)	:	159

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY18	FY19E	FY20E
Sales	27,106	30,639	33,127
Growth (%)	6.3%	13.0%	8.1%
EBITDA	4,564	4,596	5,300
EBITDA margin (%)	16.8%	15.0%	16.0%
Net profit	2,344	2,395	2,842
EPS(Rs)	14.7	15.1	17.9
Growth(%)	9.0%	2.2%	18.7%
BVPS(Rs)	85.0	96.4	110.7
DPS (Rs)	3.0	3.0	3.0
ROE (%)	18.6	16.6	17.3
ROCE (%)	22.0	20.3	22.2
P/E (x)	24.5	24.0	20.2
EV/EBITDA (x)	13.0	12.8	10.9
P/BV (x)	4.2	3.7	3.3

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Sep-18	Jun-18	Mar-18
Promoters	47.6	47.6	47.6
FII	24.3	26.1	28.1
DII	9.7	9.6	9.2
Others	18.0	16.4	15.1

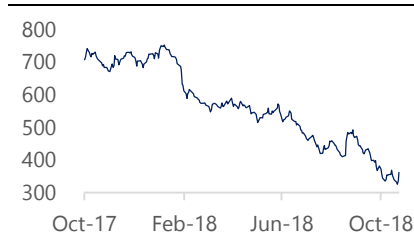
Source: Company

Price Performance (%)

(%)	1M	3M	6M
Kajaria Ceramics	(8.0)	(18.7)	(34.6)
Nifty	(8.5)	(9.0)	(4.2)

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

KAJARIA CERAMICS LTD

PRICE Rs.361

TARGET Rs.500

BUY

Kajaria Ceramics results were in line with our estimates led by healthy volume growth and sequential improvement in average realization. Margins decline on YoY basis was expected due to sharp hike in gas prices. Going ahead, we expect volumes to start witnessing traction on improved demand. High gas prices may continue to impact margins but benefits to margins will come from improvement in JV performance. Company had offloaded its stake in its subsidiary Soriso Ceramics for Rs 110 mn and has booked an exceptional loss of Rs 34 mn during the quarter.

Key highlights

Revenue growth of 8.1% YoY was led largely by 12.2% YoY volume growth. Realizations from owned plants and outsourced facilities have declined only marginally which indicates that prices have largely bottomed out. However, JV plant realizations have declined sharply. Operating margins stood at 15% vs 18.2% same period last year due to higher gas prices. Net profit performance on YoY basis was impacted by fall in margins but stood in line with our estimates.

Consolidated financial highlights

(Rs mn)	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Net Sales	7253.1	6712.3	8.1%	6570.2	10.4%
Total Expenditure	6164.0	5492.1	12.2%	5601.9	10.0%
EBITDA	1089.1	1220.2	-10.7%	968.3	12.5%
EBITDA %	15.0%	18.2%		14.7%	
Depreciation	225.3	215.7		226.7	
EBIT	863.8	1004.5	-14.0%	741.6	16.5%
Interest	45.2	63.9		41.7	
EBT(exc other income)	818.6	940.6	-13.0%	699.9	17.0%
Other Income	11.8	11.3		23.8	
PBT	830.4	951.9	-12.8%	723.7	14.7%
Tax	324.1	382.4		269.8	
Tax%	39.0%	40.2%		37.3%	
PAT	506.3	569.5	-11.1%	453.9	11.5%
Minority Interest	4.3	-67.5		-1.6	
Consolidated Net Profit	502.0	637.0	-21.2%	455.5	10.2%
NPM%	6.9%	9.5%		6.9%	
Equity Capital	159.0	158.9		159.0	
Face Value (In Rs)	1.00	1.00		1.00	
Basic EPS before Extraordinary Items	3.16	4.01	-21.2%	2.86	10.2%

Source: Company

Valuation and outlook

Stock is currently trading at valuations of 24x and 20.2x P/E on FY19 and FY20 estimates respectively. We maintain our estimates and target price of Rs 500 on FY20 estimates. We believe that though the shift from unorganized to organized players post GST and e-way bill implementation has not happened to a large extent so far, but with improved compliance towards e-way bill implementation post elections, organized players like Kajaria Ceramics are likely to benefit with market leading position and wide offering of products. We remain positive on the company and maintain **BUY**.

Teena Virmani

teena.virmani@kotak.com

+91 22 6218 6432

We expect the sector to witness these challenges further for 1-2 quarters more and once complete compliance begins towards e-way bill, then organized players will start witnessing increased volumes and improved realizations. Key risks to our estimates and recommendation would come from further hike in gas prices.

Revenue growth led by volume improvement

Revenue growth of 8.1% YoY was led largely by 12.2% YoY volume growth. Company sells nearly 12% of its volumes in Kerala and hence the impact of floods is also reflected in the performance. Volume growth is likely to be better in coming quarters.

Sequentially, realizations have started improving. Realizations from owned plants and outsourced facilities have declined only marginally YoY which indicates that prices have largely bottomed out. However, JV plant realizations have declined sharply. Average realization for Q2FY19 stood at Rs 371 per sq m, down by 3.7% YoY but up by 1.2% QoQ. We believe that sequential improvement in prices also corroborates the fact that prices have also largely bottomed out with most players operating at break-even level in the GVT category.

Realization (Rs/msm)

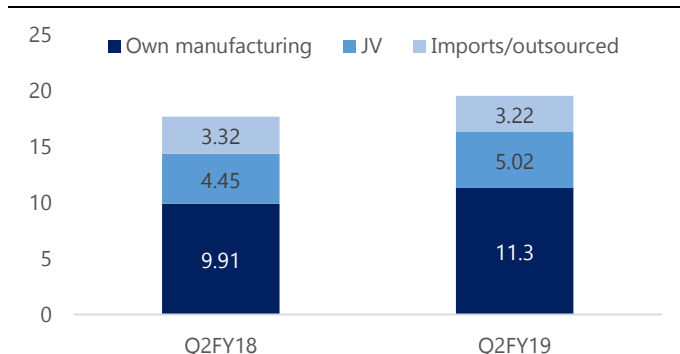
	Q2FY19	Q2FY18	YoY (%)	Q1FY19	QoQ (%)
Own manufacturing	381	388	-1.8%	370	2.9%
JV	315	352	-10.5%	326	-3.2%
Imports/outsourced	290	292	-0.9%	278	4.2%
Average	371	386	-3.7%	367	1.2%

Source: Company, Kotak Securities – Private Client Research

Volume details - Volumes were up by 12.2% YoY largely led by volume improvement from owned plants and JV plants. Sequentially, volumes were up by 9% with improvement being witnessed across all plants.

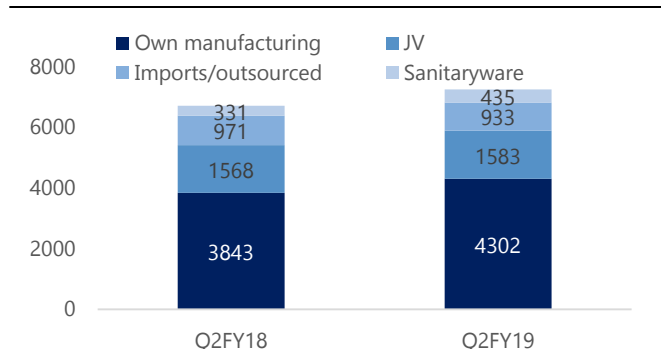
- Revenues from own production improved by 12% YoY and was led by volume gains of 14% YoY.
- Revenues from JVs improved by 1% YoY as volume gains were offset by pricing decline. Utilization levels are improving from the JV plants now.
- Revenues from outsourced segment has gone down by 4% YoY due to lower volumes as compared to own plants.
- Sanitaryware and faucets division has reported 32% YoY improvement in revenues. Volumes are likely to improve going forward with improved demand. Kajaria Sanitaryware has also increased its capacity at its existing location from 5.4 lacs pieces per annum to 6 lacs pieces per annum with ability to produce more value added products.

Volumes (mn sq m)



Source: Company

Revenues (Rs mn)



Source: Company

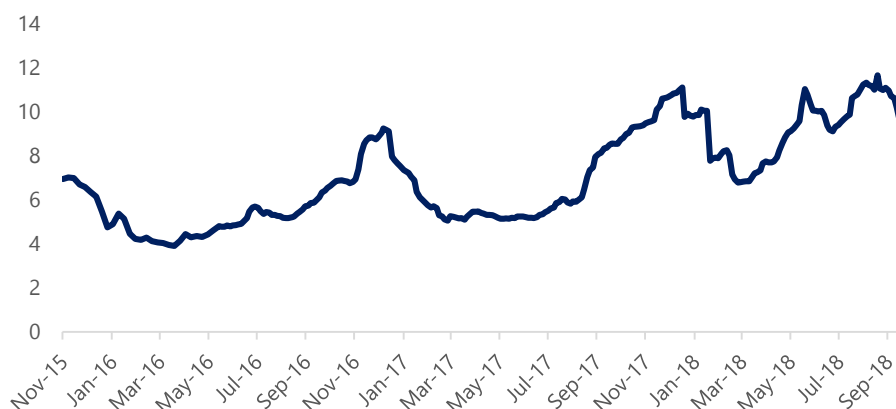
The expansion plan of 5mn sq m in AP is progressing on time and is expected to commission by Q1FY20. Kajaria ceramics plans to reach 100 mn sq m by 2021 through incremental additions and outsourcing. It can be through brown field or green field expansion in North while in south and western region, they can have a JV. It expects a capex of Rs 1.5 bn in FY19 and a branding spend Rs 1.1-1.15 bn in FY19.

We maintain our estimates and expect volumes to grow at a CAGR of 11.2% and revenues to grow at a CAGR of 10.6% between FY18-20.

Margins impacted by higher gas prices and pressure on realization on YoY basis

Operating margins for the quarter stood at 15% vs 18.2% for Q2FY18. Margins were impacted due to higher gas prices as well as pressure on realizations. We maintain our estimates and expect margins of 15%/16% for FY19/20 respectively. Improved product mix and improvement in JV performance is likely to aid margins going forward despite higher gas prices.

Spot LNG prices (US\$/mmbtu)



Source: Bloomberg

Net profit performance in line with our estimates

Net profit performance on YoY basis was impacted by fall in margins but boosted by lower interest expense. Company has turned net cash positive during the quarter. Loss making JVs have aided the operating profits during Q2FY19 and company expects to make profits in these JV's going forward. We maintain our estimates and expect net profits to grow at a CAGR of 10.1% between FY18-20.

Valuation and outlook

Stock is currently trading at valuations of 24x and 20.2x P/E on FY19 and FY20 estimates respectively. We maintain our estimates and target price of Rs 500 based on 28x FY20 estimates. We believe that though the shift from unorganized to organized players post GST and e-way bill implementation has not happened to a large extent so far, but with improved compliance towards e-way bill implementation post elections, organized players like Kajaria Ceramics are likely to benefit with market leading position and wide offering of products. We remain positive on the company and maintain BUY.

We expect the sector to witness these challenges further for 1-2 quarters more and once complete compliance begins towards e-way bill, then organized players will start witnessing increased volumes and improved realizations. Key risks to our estimates and recommendation would come from further hike in gas prices.

About the company

Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India and the 9th largest in the world. It has an annual capacity of 68 mn. sq. meters presently, distributed across eight plants - one in Sikandrabad (UP), one in Gailpur (Rajasthan), one in Malutana (Rajasthan), four in Morbi (Gujarat) and one in Vijaywada (AP).

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Revenues	25,496	27,106	30,639	33,127
% change YoY	6.0	6.3	13.0	8.1
EBITDA	4,963	4,564	4,596	5,300
% change YoY	8.0	(8.1)	0.7	15.3
Other Income	154	116	100	100
Depreciation	814	885	964	1,076
EBIT	4,303	3,794	3,732	4,325
% change YoY	9.0	(11.8)	(1.6)	15.9
Net interest	340	241	191	105
Profit before tax	3,963	3,553	3,541	4,219
% change YoY	10.0	(10.3)	(0.3)	19.2
Tax	1,425	1,267	1,204	1,435
as % of PBT	36.0	35.7	34.0	34.0
Profit after tax	2,538	2,286	2,337	2,785
Minority interest and other CI	17	(58)	(58)	(58)
Net income	2,521	2,344	2,395	2,842
% change YoY	9.0	(7.0)	2.2	18.7
Shares outstanding (m)	158.9	159.0	159.0	159.0
EPS (reported) (Rs)	15.9	14.7	15.1	17.9
CEPS (Rs)	21.0	20.3	21.1	24.6
DPS (Rs)	3.00	3.00	3.00	3.00

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBIT	4,286	3,852	3,790	4,382
Depreciation	814	885	964	1,076
Change in working capital	(303)	(1,305)	71	(482)
Changes in other net current assets	39	(207)	325	-
Operating cash flow	4,836	3,226	5,149	4,976
Interest	(340)	(241)	(191)	(105)
Tax	(1,425)	(1,267)	(1,204)	(1,435)
Cash flow from operations	3,071	1,718	3,754	3,437
Capex	(1,386)	(657)	(2,500)	(2,000)
(Increase)/decrease in investments	-	-	-	-
Cash flow from investments (1,386)	(657)	(2,500)	(2,000)	(2,000)
Proceeds from issue of equity	-	0	-	-
Increase/(decrease) in debt	(991)	(173)	(1,000)	(1,000)
Proceeds from share premium	-	(12)	-	-
Dividends	(381.4)	(572.0)	(572.4)	(572.4)
Cash flow from financing (1,372)	(757)	(1,572)	(1,572)	(1,572)
Opening cash	199	520	824	506
Closing cash	512	824	506	370

Source: Company, Kotak Securities – Private Client Research

Balancesheet(Rsmn)

(Year-end Mar)	FY17	FY18	FY19E	FY20E
Cash and cash equivalents	520	824	506	370
Accounts receivable	3,389	4,507	4,463	4,825
Inventories	3,720	3,785	4,242	4,586
Loans and Adv & Others	795	574	621	648
Current assets	8,424	9,689	9,830	10,429
Other non-current assets	121	82	82	82
LT investments	1	4	4	4
Net fixed assets	11,856	11,627	13,163	14,087
Total assets	20,401	21,403	23,080	24,603
Payables	2,921	2,578	3,108	3,360
Others	655	580	580	580
Current liabilities	3,576	3,158	3,688	3,940
Provisions	308	248	572	572
LT debt	2,900	2,728	1,728	728
Min. int and def tax liabilities	1,866	1,759	1,759	1,759
Equity	159	159	159	159
Reserves	11,592	13,351	15,174	17,444
Total liabilities	20,401	21,403	23,080	24,603
BVPS (Rs)	74.0	85.0	96.4	110.7

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY17	FY18	FY19E	FY20E
EBITDA margin (%)	19.5	16.8	15.0	16.0
EBIT margin (%)	16.9	14.0	12.2	13.1
Net profit margin (%)	9.9	8.6	7.8	8.6
Receivables (days)	43.9	53.2	53.2	53.2
Inventory (days)	54.1	50.5	50.5	50.5
Sales/assets (x)	2.2	2.3	2.3	2.4
Interest coverage (x)	12.7	15.7	19.6	41.1
Debt/equity ratio(x)	0.3	0.2	0.2	0.1
ROE (%)	23.6	18.6	16.6	17.3
ROCE (%)	27.0	22.0	20.3	22.2
EV/ Sales (x)	2.3	2.2	1.9	1.7
EV/EBITDA (x)	12.0	13.0	12.8	10.9
Price to earnings (x)	22.8	24.5	24.0	20.2
Price to book value (x)	4.9	4.2	3.7	3.3
Price to Cash Earnings (x)	17.2	17.8	17.1	14.6

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	– We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	– We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	– We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	– We expect the stock to deliver negative returns over the next 12 months
NR	– Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	– We advise investor to subscribe to the IPO.
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NA	– Not Available or Not Applicable. The information is not available for display or is not applicable
NM	– Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	– Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

FUNDAMENTAL RESEARCH TEAM

Rusmik Oza Head of Research rusmik.oz@kotak.com +91 22 6218 6441	Arun Agarwal Auto & Auto Ancillary arun.agarwal@kotak.com +91 22 6218 6443	Amit Agarwal Transportation, Paints, FMCG agarwal.amit@kotak.com +91 22 6218 6439	Nipun Gupta Information Tech, Midcap nipun.gupta@kotak.com +91 22 6218 6433	Deval Shah Research Associate deval.shah@kotak.com +91 22 6218 6423
Sanjeev Zarbade Cap. Goods & Cons. Durables sanjeev.zarbade@kotak.com +91 22 6218 6424	Ruchir Khare Cap. Goods & Cons. Durables ruchir.khare@kotak.com +91 22 6218 6431	Jatin Damania Metals & Mining, Midcap jatin.damania@kotak.com +91 22 6218 6440	Cyndrella Carvalho Pharmaceuticals cyndrella.carvalho@kotak.com +91 22 6218 6426	Ledo Padinjarathala Research Associate ledo.padinjarathala@kotak.com +91 22 6218 7021
Teena Virmani Construction, Cement, Buildg Mat teena.virmani@kotak.com +91 22 6218 6432	Sumit Pokharna Oil and Gas, Information Tech sumit.pokharna@kotak.com +91 22 6218 6438	Pankaj Kumar Midcap pankajr.kumar@kotak.com +91 22 6218 6434	Jayesh Kumar Economist kumar.jayesh@kotak.com +91 22 6218 5373	Krishna Nain M&A, Corporate actions krishna.nain@kotak.com +91 22 6218 7907
K. Kathirvelu Support Executive k.kathirvelu@kotak.com +91 22 6218 6427				

TECHNICAL RESEARCH TEAM

Shrikant Chouhan shrikant.chouhan@kotak.com +91 22 6218 5408	Amol Athawale amol.athawale@kotak.com +91 20 6620 3350
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DERIVATIVES RESEARCH TEAM

Sahaj Agrawal sahaj.agrawal@kotak.com +91 79 6607 2231	Malay Gandhi malay.gandhi@kotak.com +91 22 6218 6420	Prashanth Lalu prashanth.lalu@kotak.com +91 22 6218 5497	Prasenjit Biswas, CMT, CFTE prasenjit.biswas@kotak.com +91 33 6625 9810
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- **Level 1:** For Trading related queries, contact our customer service at 'service.securities@kotak.com' and for demat account related queries contact us at ks.demat@kotak.com or call us on: Toll free numbers 18002099191 / 1860 266 9191
- **Level 2:** If you do not receive a satisfactory response at Level 1 within 3 working days, you may write to us at ks.escalation@kotak.com or call us on 022-42858445 and if you feel you are still unheard, write to our customer service HOD at ks.servicehead@kotak.com or call us on 022-42858208.
- **Level 3:** If you still have not received a satisfactory response at Level 2 within 3 working days, you may contact our Compliance Officer (Mr. Manoj Agarwal) at ks.compliance@kotak.com or call on 91- (022) 4285 8484.
- **Level 4:** If you have not received a satisfactory response at Level 3 within 7 working days, you may also approach CEO (Mr. Kamlesh Rao) at ceo.ks@kotak.com or call on 91- (022) 4285 8301.