

Rating matrix		
Rating	:	Buy
Target	:	₹ 620
Target Period	:	12-18 months
Potential Upside	:	16%

What's changed?		
Target	Changed from ₹ 450 to ₹ 620	
EPS FY19E	Changed from ₹ 15.1 to ₹ 14.9	
EPS FY20E	Changed from ₹ 18.5 to ₹ 20.2	
EPS FY21E	Introduced at ₹ 24.7	
Rating	Unchanged	

Quarterly performance					
	Q3FY19	Q3FY18	YoY (%)	Q2FY19	QoQ (%)
Revenue	758.6	661.2	14.7	725.3	4.6
EBITDA	120.8	110.0	9.9	108.9	10.9
EBITDA (%)	15.9	16.6	-70 bps	15.0	91 bps
PAT	65.5	54.3	20.5	50.2	30.4

Key financials				
₹ Crore	FY18	FY19E	FY20E	FY21E
Net Sales	2,710.6	2,990.3	3,519.8	4,115.6
EBITDA	456.4	462.5	580.5	683.7
Net Profit	235.3	237.6	321.6	392.9
EPS (₹)	14.8	14.9	20.2	24.7

Valuation summary				
	FY18	FY19E	FY20E	FY21E
P/E	36.2	35.8	26.4	21.7
Target P/E	41.9	41.5	30.6	25.1
EV / EBITDA	18.7	18.5	14.6	12.2
P/BV	6.3	5.5	4.8	4.1
RoNW (%)	17.4	15.5	18.1	18.9
RoCE (%)	22.7	21.2	24.6	26.3

Stock data	
Particular	Amount (₹ crore)
Market Capitalization	8,501.2
Total Debt	135.1
Cash	70.1
EV	8,566.1
52 week H/L (₹)	764 / 316
Equity capital	15.9
Face value (₹)	1.0

Price performance				
Return %	1M	3M	6M	12M
Kajaria	16.3	52.0	23.1	(24.9)
Somany	16.0	(1.7)	(22.4)	(58.9)

Research Analyst	
Deepak Purswani, CFA	
deepak.purswani@icicisecurities.com	

Harsh Pathak
harsh.pathak@icicisecurities.com

Kajaria Ceramics (KAJ CER)

₹ 535

Delivers all-round performance in Q3...

- The topline grew 14.7% YoY to ₹ 758.6 crore, mainly on account of strong volume growth and in line with our estimate of ₹ 755.1 crore
- EBITDA margins expanded 91 bps QoQ to 15.9% (slightly better than our expectation of 15.5%) on account of lower power & fuel costs
- Reported PAT grew 24.1% YoY to ₹ 65.9 crore (our estimate: ₹ 61.4 crore) mainly on account of EBITDA margin expansion & lower tax rate
- The working capital cycle increased from 59 days in Q2FY19 to 62 days in Q3FY19 while it turned a net cash company (net cash: ₹ 63 crore)

Achieves 15.9% volume growth in Q3FY19...

With operational disruptions behind for the company, Kajaria is back on the growth trajectory. It posted strong volume growth of 15.9% YoY to 20.3 MSM, leading to 14.7% YoY topline growth to ₹ 758.6 crore in Q3FY19. The company is looking to sustain similar volume growth, going ahead. Kajaria Floera's 5.0 MSM GVT capacity addition (expected to be commissioned in Q1FY20E) will take the company's installed capacity to 73 MSM. Beside this, the company would also explore outsourcing tie ups to cater to incremental volume growth if there is revival in demand. Overall, with an improvement in operations and with demand picking up, we expect sales volumes to grow at 12.5% CAGR to 102.4 MSM in FY18-21E. Consequently, we expect topline, PAT to grow at 14.9%, 18.6% CAGR to ₹ 4115.6 crore, ₹ 392.9 crore, respectively, in FY18-21E.

EBITDA margins expand 91 bps despite rising gas prices...

Gas prices inched up by ₹ 2/SCM QoQ to ₹ 38/SCM in Q3FY19. However, EBITDA margins sequentially expanded 91 bps to 15.9%. This was on account of: a) reduction in kiln firing time from 40-42 minutes to 38 minutes; and b) use of coal as a fuel instead of LNG gas in spray dryer. Consequently, power & fuel cost declined 190 bps QoQ to 20.4% in Q3FY19. Going ahead, though the company is looking to sustain 16%+ EBITDA margins, there is possibility of improvement in margins beyond 16% given the sharp reduction in crude oil prices, which should lead to lower gas prices in coming quarters for Kajaria. Hence, we build in 15.5%, 16.5% & 16.6% EBITDA margins for FY19E, FY20E & FY21E, respectively.

Strong revenue growth in sanitary ware & faucets division...

Sanitary ware & faucets division revenues grew at a robust 40.6% YoY to ₹ 48.9 crore in Q3FY19. The sanitary ware facility [6.0 lakh per annum (lpa)] reached optimum utilisation in Q3FY19. The company is expanding this facility by 1.2 lpa, which is expected to be completed in Q1FY20E. The faucets plant operated at 73% utilisation in Q3FY19. Kajaria plans to achieve optimum capacity utilisation at this plant in FY20E. Overall, we expect revenues from sanitary ware & faucets division to grow at 35.8% CAGR to ₹ 351.3 crore in FY18-21E.

Revenues expected to grow at 14.9% CAGR; maintain BUY...

With the recent clampdown related to tax evasions by unorganised Morbi-based tile manufacturers and financial distress observed among some of these players, Kajaria, being a leading organised player, could be a prime beneficiary of the unorganised to organised shift in the ceramic industry. We introduce our FY21E estimates and expect revenues, PAT to grow at 14.9%, 18.6% CAGR to ₹ 4115.6 crore, ₹ 392.9 crore, respectively, in FY18-21E. Hence, we maintain our **BUY** recommendation on the stock with a target price of ₹ 620/share (~25x FY21E EPS).

Variance analysis

	Q3FY19	Q3FY19E	Q3FY18	YoY (%)	Q2FY19	QoQ (%)	Comments
Net Sales	758.6	755.1	661.2	14.7	725.3	4.6	Topline growth was on account of 15.9% YoY volume growth
Other Income	4.5	4.6	1.8	155.9	4.6	-1.3	
Net Purchase of Stock in Trade	105.8	69.1	88.6	19.5	66.4	59.3	
Cost of Materials Consumed	190.7	210.0	167.3	14.0	201.7	-5.4	
Staff cost	85.7	87.6	79.0	8.6	84.1	2.0	
Other expenditure	100.7	106.7	95.5	5.4	102.5	-1.8	
EBITDA	120.8	117.1	110.0	9.9	108.9	10.9	
EBITDA Margin (%)	15.9	15.5	16.6	-70 bps	15.0	91 bps	EBITDA margins expanded sequentially on account of lower power & fuel expenses
Depreciation	22.2	22.5	22.3	-0.4	22.5	-1.6	
Interest	3.6	4.7	5.2	-30.5	4.5	-19.7	
PBT	99.5	94.4	84.2	18.2	83.0	19.9	
Taxes	33.7	33.0	31.1	8.1	32.4	3.9	
PAT	65.5	60.9	54.3	20.5	50.2	30.4	PAT growth was on account of strong topline growth and lower tax rate

Key Metrics

Sales Volume (in MSM)	20.3	20.1	17.6	15.9	19.5	4.1	Kajaria reported strong volume growth of 10.5% YoY to 19.5 MSM
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Source: Company, ICICI Direct Research

Change in estimates

(₹ Crore)	FY18	FY19E			FY20E			FY21E	Comments
		Old	New	% Change	Old	New	% Change	Introduced	
Revenue	2,710.6	3,022.3	2,990.3	-1.1	3,488.3	3,519.8	0.9	4,115.6	
EBITDA	456.4	460.3	462.5	0.5	539.1	580.5	7.1	683.7	
EBITDA Margin (%)	16.8	15.2	15.5	27 bps	15.5	16.5	99 bps	16.6	We revise our margin estimates upwards given operational excellence achieved by the company by changing fuel in spray dryer and reducing kiln firing time
PAT	235.3	240.6	237.6	-1.3	293.5	321.6	8.7	392.9	Margin expansion leads to bottomline upgrade
EPS (₹)	14.8	15.1	14.9	-1.3	18.5	20.2	8.7	24.7	

Source: Company, ICICI Direct Research

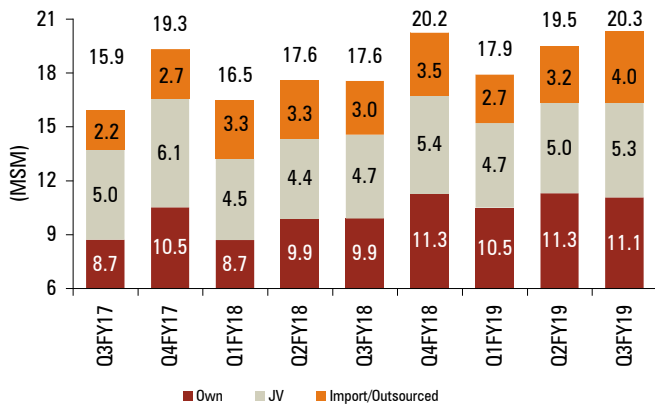
Assumptions

	FY15	FY16	Current		Current	Earlier	Current	Earlier	Introduced	Comments
Volume in MSM			FY17	FY18E	FY19E		FY20E		FY21E	
Production	49.7	58.2	58.5	60.2	67.2	67.4	71.8	75.2	80.3	We introduce FY21E estimates
Own	30.5	33.2	37.2	40.8	46.8	48.5	48.6	49.3	53.8	
JV	19.2	25.0	21.3	19.4	20.4	20.1	23.2	23.4	26.6	
Sales	58.5	64.3	67.8	71.9	80.5	80.4	90.7	90.8	102.4	We introduce FY21E estimates
Own	29.3	32.7	37.4	39.8	45.0	46.7	48.6	49.3	53.8	
JV	18.3	24.1	22.3	19.0	19.9	19.6	23.2	23.4	26.6	
Import/Outsourced	10.9	7.6	8.1	13.1	15.5	14.4	19.0	16.8	22.1	

Source: Company, ICICI Direct Research

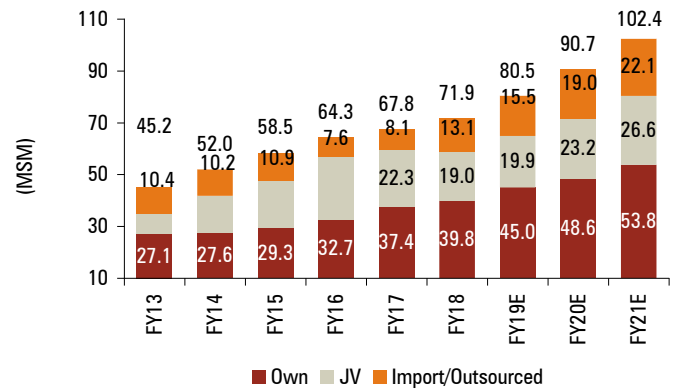
Story through charts...

Exhibit 1: Quarterly sales volume trend



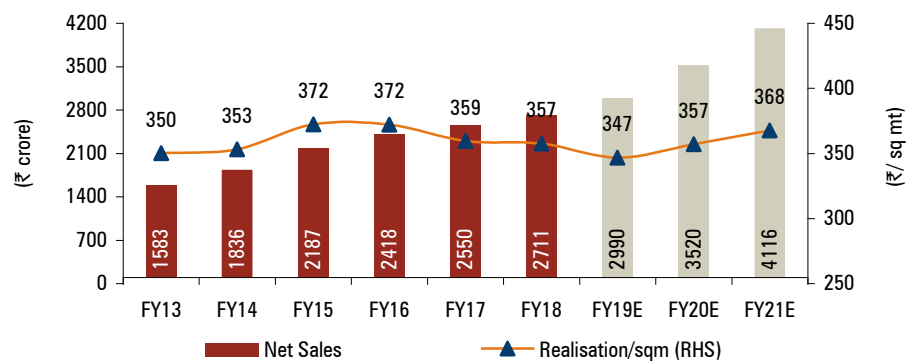
Source: Company, ICICI Direct Research

Exhibit 2: Sales volume trend



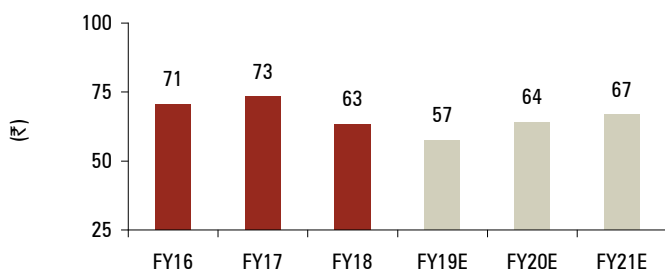
Source: Company, ICICI Direct Research

Exhibit 3: Revenue, realisation trend...



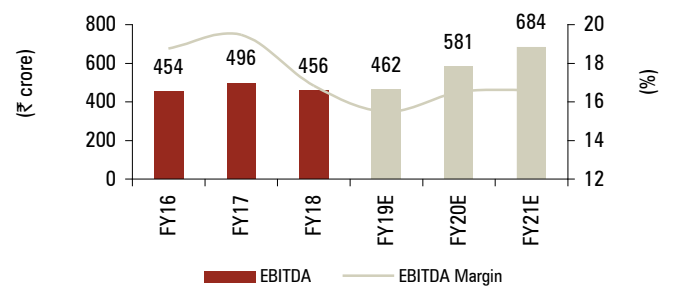
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA/sq metre trend



Source: Company, ICICI Direct Research

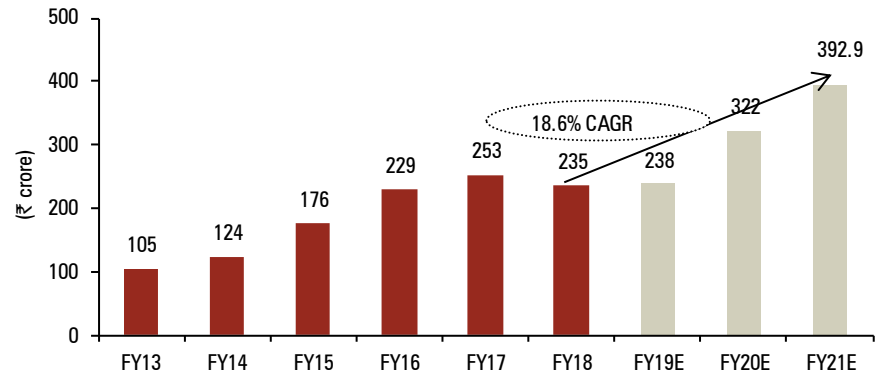
Exhibit 5: EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

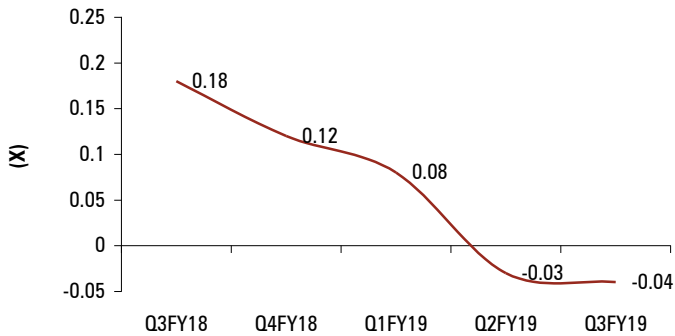
We expect the bottomline to record a healthy CAGR of 18.6% in FY18-21E aided mainly by the strong topline show and stable margins

Exhibit 6: PAT growth trend



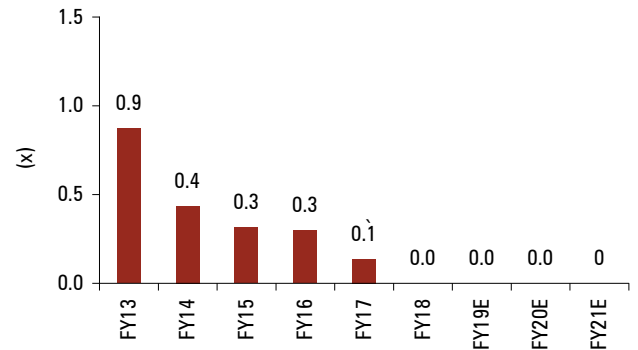
Source: Company, ICICI Direct Research

Exhibit 7: Quarterly debt to equity trend



Source: Company, ICICI Direct Research

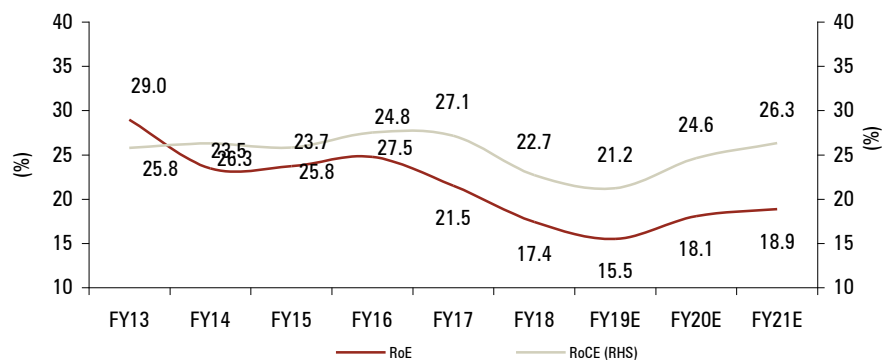
Exhibit 8: Net debt to equity trend



Source: Company, ICICI Direct Research

Return ratios are expected to moderate (RoE and RoCE of 18.9% and 26.3%, respectively, in FY21E)

Exhibit 9: Return on equity and return on capital employed trend



Source: Company, ICICI Direct Research

With the anticipated improvement in financial performance and recent sharp correction in the stock, we upgrade Kajaria to **BUY** recommendation with a revised target price of ₹ 620 at (~25x FY21E EPS)

Outlook and valuation

The recent short-term operational disruptions like Kerala floods and truckers' strike had impacted the financial performance of Kajaria and other tile manufacturers in H1FY19. However, with these issues behind for the company, Kajaria is back on its growth trajectory. The company's topline grew 14.7% YoY to ₹ 758.6 crore in Q3FY19. Also, with operational improvements, EBITDA margins sequentially expanded 91 bps to 15.9% though an increase in gas prices. Going ahead, the company is looking to sustain similar level of operational & financial performance. Overall, with improvement in operations and with demand picking up, we expect sales volumes to grow at 12.5% CAGR to 102.4 MSM in FY18-21E. Consequently, we expect topline to grow at 14.9% CAGR to ₹ 4115.6 crore in FY18-21E.

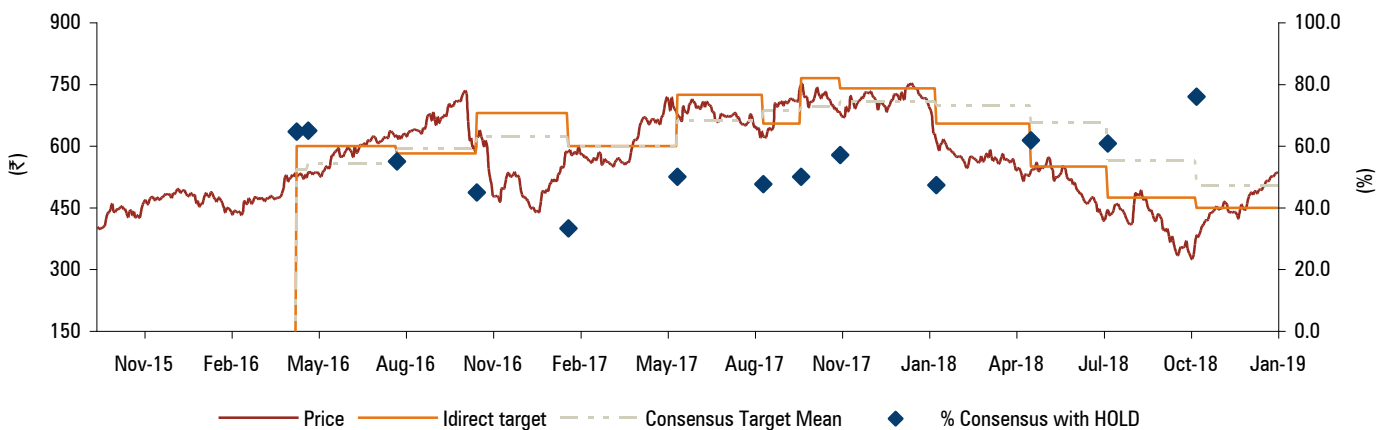
With the recent clampdown related to tax-evasions by unorganised Morbi-based tile manufacturers and financial distress observed among some of these players, Kajaria, being a leading organised player, could be a prime beneficiary from the unorganised to organised shift in the ceramic industry. We introduce our FY21E estimates and expect PAT to grow at 18.6% CAGR to ₹ 392.9 crore in FY18-21E. Hence, we maintain our **BUY** rating on the stock with a target price of ₹ 620/share (~25x FY21E EPS).

Exhibit 10: Valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY17	2545.6	5.7	15.9	10.3	33.6	17.5	21.5	27.1
FY18E	2710.6	6.5	14.8	-7.0	36.2	18.7	17.4	22.7
FY19E	2990.3	10.3	14.9	1.0	35.8	18.5	15.5	21.2
FY20E	3519.8	17.7	20.2	35.4	26.4	14.6	18.1	24.6
FY21E	4115.6	16.9	24.7	22.2	21.7	12.2	18.9	26.3

Source: Company, ICICI Direct Research

Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Key events

Date	Event
Feb-11	Acquires a 51% stake in Soriso Ceramic Pvt. Ltd in Gujarat for ₹ 5.62 crore having a annual capacity of 2.30 msm
Apr-12	Acquires 51% stake in Vennar Ceramics Ltd, based in Vijayawada, Andhra Pradesh with an annual capacity of 2.30 msm
Feb-12	Acquires 51% stake in Jaxx Vitrified Pvt Ltd, based in Morbi, Gujarat with an annual capacity of 3.10 msm
Oct-12	Acquires 51% stake in Cosa Ceramics Pvt Ltd, based in Morbi, Gujarat, with an annual production capacity of 2.70 msm
Q2FY14	Outlines capex of ₹ 450 crore over the next two years
Nov-13	Equity fund raising from WestBridge Crossover Fund aggregating ₹ 150 crore (equity and warrant)
Nov-13	Production shutdown by Morbi tile manufacturers
Dec-13	Production strike in Morbi called off
Sep-14	Jaxx and Cosa expand their capacity by 4.5 MSM and 3 MSM, respectively
Jun-15	Gujarat government reduces price of natural gas by ₹ 2.8 per SCM from ₹ 31.8 per SCM to ₹ 29 per SCM, which is a positive for Kajaria Ceramics
Jul-15	Kajaria's board approves acquisition of a 51% stake in Floera Ceramics Pvt Ltd. Floera Ceramics plans to set up a manufacturing facility of polished vitrified tiles with a capacity of 5.7 MSM per annum in Andhra Pradesh
Jul-15	Kajaria plans to set up a greenfield plant for manufacturing polished vitrified tiles at Malutana with a capacity increase to 6.5 MSM per annum
Aug-15	The government declares its plan to convert 98 Indian cities to Smart Cities, which will lead to an increase in demand of building materials auguring well for Kajaria Ceramics
Mar-16	The government imposes an anti-dumping duty of US \$1.37 per square metre on all vitrified tiles from China for six months

Source: Company, ICICI Direct Research

Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Kajaria (Versha & Kajaria)	31-Dec-18	16.3%	25.9	0.0
2	Professional Home Solutions Pvt Ltd,	31-Dec-18	16.3%	25.9	0.0
3	Kajaria (Ashok & Rishi)	31-Dec-18	8.1%	12.9	0.0
4	Norges Bank Investment Management (NBIM)	31-Dec-18	4.5%	7.1	0.7
5	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Dec-18	4.3%	6.8	0.0
6	Kotak Mahindra Asset Management Company Ltd.	31-Dec-18	1.9%	3.1	0.1
7	Franklin Advisers, Inc.	31-Dec-18	1.9%	3.1	0.0
8	JPMorgan Asset Management U.K. Limited	31-Dec-18	1.9%	3.0	0.8
9	SBI Funds Management Pvt. Ltd.	31-Dec-18	1.7%	2.7	0.2
10	L&T Investment Management Limited	31-Dec-18	1.6%	2.6	0.3

Source: Reuters, ICICI Direct Research

Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18
Promoter	47.6	47.6	47.6	47.6
Pubic	52.4	52.4	52.4	52.4
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
HDFC Asset Management Co., Ltd.	9.8	1.9	Invesco Hong Kong Limited	-1.6	-0.3
Kuwait Investment Authority	13.1	1.8	Wasatch Advisors, Inc.	-0.4	-0.1
Goldman Sachs Asset Management (India) Private Ltd.	11.8	1.7	DHFL Pramerica Asset Managers Private Limited	-0.2	0.0
J.P. Morgan Asset Management (Hong Kong) Ltd.	5.8	0.9	PineBridge India Private Limited	-0.2	0.0
JPMorgan Asset Management U.K. Limited	5.5	0.8	State Street Global Advisors (US)	-0.1	0.0

Source: Reuters, ICICI Direct Research

Financial summary

Profit and loss statement				
₹ Crore				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Net Sales	2,710.6	2,990.3	3,519.8	4,115.6
Other Operating Income	-	-	-	-
Total operating income	2,710.6	2,990.3	3,519.8	4,115.6
Raw Material Expenses	330.3	361.8	425.9	498.0
Cost of Materials Consumed	730.0	801.4	943.3	1,103.0
Employee benefit expenses	317.7	349.4	408.8	478.3
Other Expenses	876.3	1,015.2	1,161.2	1,352.6
Total operating expenses	2,254.2	2,527.8	2,939.2	3,431.9
EBITDA	456.4	462.5	580.5	683.7
Interest	24.1	14.8	9.5	2.5
Depreciation	88.5	89.7	97.0	104.4
Other income	10.8	14.7	15.0	20.3
PBT	354.6	372.8	489.0	597.1
Taxes	126.7	134.2	166.3	203.0
PAT before MI	227.9	238.6	322.7	394.1
Minority Interest	(7.4)	1.0	1.1	1.2
PAT	235.3	237.6	321.6	392.9
Growth (%)	(7.0)	1.0	35.4	22.2
EPS (₹)	14.8	14.9	20.2	24.7

Source: Company, ICICI Direct Research

Cash flow statement				
₹ Crore				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Profit after Tax	235.3	237.6	321.6	392.9
Depreciation	88.5	89.7	97.0	104.4
Interest	24.1	14.8	9.5	2.5
Others	115.9	119.5	151.2	182.7
Cash Flow before wc changes	463.8	461.5	579.4	682.5
Net Increase in Current Assets	(92.3)	(115.6)	(235.9)	(210.2)
Net Increase in Current Liabilities	12.9	10.7	85.6	96.4
Net CF from operating activities	256.9	222.4	262.9	365.7
(Purchase)/Sale of Fixed Assets	(65.7)	(151.5)	(150.0)	(150.0)
Net CF from Investing activities	(55.2)	(136.8)	(135.0)	(129.7)
Inc / (Dec) in Equity Capital	(5.2)	(0.0)	-	(0.0)
Dividend	(54.1)	(54.6)	(74.0)	(90.4)
Interest paid	(24.1)	(14.8)	(9.5)	(2.5)
Inc / (Dec) in Secured Loans	(82.3)	(25.0)	(50.0)	(50.0)
Inc / (Dec) in Unsecured Loans	4.3	-	-	-
Net CF from Financing activities	(171.3)	(93.4)	(132.4)	(141.7)
Net Cash flow	30.4	(7.8)	(4.5)	94.3
Opening Cash	52.0	82.4	74.6	70.1
Closing Cash/ Cash Equivalent	82.4	74.6	70.1	164.4

Source: Company, ICICI Direct Research

Balance sheet				
₹ Crore				
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,335.1	1,518.1	1,765.7	2,068.2
Total Shareholders funds	1,351.0	1,534.0	1,781.6	2,084.1
Minority Interest	66.1	67.1	68.2	69.4
Total Debt	135.1	110.1	60.1	10.1
Deferred Tax Liability	109.9	109.9	109.9	109.9
Total Liabilities	1,667.3	1,826.2	2,024.9	2,278.7
Assets				
Gross Block	1,675.1	1,830.1	1,980.1	2,130.1
Less Acc. Dep	544.0	633.7	730.7	835.1
Net Block	1,131.1	1,196.4	1,249.4	1,295.0
Net Intangibles Assets	14.0	14.0	14.0	14.0
Capital WIP	17.6	14.1	14.1	14.1
Total Fixed Assets	1,162.7	1,224.5	1,277.5	1,323.1
Investments	0.4	0.4	0.4	0.4
Inventory	378.5	423.1	517.3	604.9
Sundry Debtors	450.7	500.7	608.6	711.7
Loans & Advances	60.9	81.8	115.6	135.2
Cash & Bank Balances	82.4	74.6	70.1	164.4
Other Current Assets	4.7	4.7	4.7	4.7
Total Current Assets	977.2	1,085.0	1,316.4	1,620.9
Trade Payable	257.8	252.4	297.1	347.4
Other Current Liabilities	202.6	217.7	256.2	299.6
Provisions	12.7	13.6	16.0	18.8
Net Current Assets	504.2	601.2	747.0	955.1
Total Assets	1,667.3	1,826.2	2,024.9	2,278.7

Source: Company, ICICI Direct Research

Key ratios				
	FY18	FY19E	FY20E	FY21E
Per Share Data (₹)				
EPS - Diluted	14.8	14.9	20.2	24.7
Cash EPS	20.4	20.6	26.3	31.3
Book Value	85.0	96.5	112.1	131.1
Dividend per share	3.4	3.4	4.7	5.7
Operating Ratios (%)				
EBITDA / Net Sales	16.8	15.5	16.5	16.6
PAT / Net Sales	8.7	7.9	9.1	9.5
Inventory Days	51	52	54	54
Debtor Days	61	61	63	63
Creditor Days	35	31	31	31
Return Ratios (%)				
RoNW	17.4	15.5	18.1	18.9
RoCE	22.7	21.2	24.6	26.3
RoIC	23.7	21.6	25.1	27.8
Valuation Ratios (x)				
EV / EBITDA	18.7	18.5	14.6	12.2
P/E (Diluted)	36.2	35.8	26.4	21.7
EV / Net Sales	3.2	2.9	2.4	2.0
Market Cap / Sales	3.1	2.8	2.4	2.1
Price to Book Value	6.3	5.5	4.8	4.1
Dividend Yield (%)	0.6	0.6	0.9	1.1
Solvency Ratios (x)				
Net Debt / Equity	0.0	0.0	0.0	(0.1)
Debt/EBITDA	0.3	0.2	0.1	0.0
Current Ratio	1.9	2.1	2.2	2.2
Quick Ratio	1.1	1.2	1.3	1.3

Source: Company, ICICI Direct Research

ICICI Direct Research coverage universe (Tiles Universe)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)		
	(₹)	TP(₹)	Rating		FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Kajaria Ceramics (KAJCER)	390	450	Buy	6201	14.8	15.1	18.5	26.4	25.8	21.1	13.7	13.5	11.5	4.6	4.0	3.5	17.4	15.7	16.7
Somany Ceramics (SPLIND)	333	520	Hold	1412	26.4	18.3	18.3	18.4	26.7	26.6	10.2	13.3	12.4	3.9	3.6	3.2	21.4	13.3	12.1

Source: Company, ICICI Direct Research

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

Hold: Up to +/-10%;

Sell: -10% or more;



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

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

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