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Company update and
earnings revision

Tiles

Target price Rs487

Earnings revision

(%)	FY20E	FY21E
Sales	-	↓ 3.5
EBITDA	-	↓ 1.9
EPS	-	↓ 2.6

Target price revision

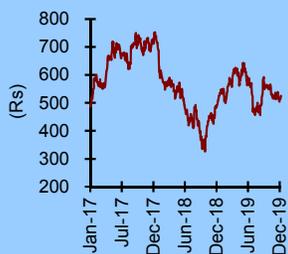
Rs487 from Rs500

Shareholding pattern

	Mar '19	Jun '19	Sep '19
Promoters	47.6	47.6	47.6
Institutional investors	36.3	36.3	36.3
MFs and others	10.2	10.2	9.4
FIs/Banks	0.0	0.0	0.0
Insurance	0.1	0.1	0.2
FII	26.0	26.0	26.7
Others	17.1	17.1	15.7

Source: NSE

Price chart



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INDIA

ICICI Securities

Kajaria Ceramics

REDUCE

Maintained

Playing safe in testing times

Rs525

In an environment where ceramic tile industry is down due to slack in the real estate sector, deferment of renovation demand and liquidity constraints, Kajaria Ceramics (KJC) – as opposed to striving for aggressive market share gains (as guided earlier) – now seems content playing a waiting game by just keeping its basics right. The basics are: 1) maintaining tight control on working capital; 2) focusing on retail by expanding distribution & sustaining aggressive branding measures, and 3) improving FCF aided by muted capex. KJC is thus likely to report muted volume growth and margins in FY20 amid realisation pressures and operating deleverage. **Maintain REDUCE.**

- ▶ **Valuation and Outlook:** While our estimates already factor-in muted growth for the current fiscal; we now tweak our revenue/earnings estimates lower for FY21E by 3.5%/2.6% considering the likelihood of muted demand over the next 2-3 quarters. We maintain REDUCE on the stock with a revised target price of Rs487 (Rs500 earlier) valuing it at 25x FY21 earnings.
- ▶ **Ceramic tile industry continues to decline amid testing times.** Industry volumes continue to be in declining mode (low-single digits) due to muted growth in the real estate sector, deferment of renovation demand, and liquidity constraints. South India (excl. Tamil Nadu) appears to be the most impacted as compared to other zones. While realisations in ceramic wall and PVT categories are close to bottoming out, the existing glut in GVT is likely to impact overall realisations in the near term.
- ▶ **Volumes likely to disappoint in FY20E.** At the start of FY20, the management was guiding for >15% volume growth, which was scaled down to 12-13% post the Q2 numbers. However, with no sign of demand improvement post the festive season and with oversupply prevailing in the tile segment, the management has turned cautious on growth with greater focus on controlling receivables and maintaining pricing discipline. This falls in line with our estimated volume growth of 7.5% (5.2% in H1FY20) for FY20E, which we had built-in against the management guidance of 12-13% volume growth post the Q2 results.
- ▶ **South India GVT plant in stabilisation mode; tangible benefits likely only in the medium term.** After commencing its South India unit in Sep'19, KJC's GVT plant is currently ramping up production. However, the company is unlikely to gain advantage of freight arbitrage as it will most probably pass on freight savings to the trade given overcapacity in the segment. We thus expect tangible benefits to accrue from the South unit only when demand starts improving. Also, with the GVT capacity getting freed in North India, which was earlier servicing the southern markets, the segment would continue to face realisation and margin pressures in the near term.
- ▶ **Margin pressures likely to sustain despite benign gas prices.** Despite the likelihood of benign LNG prices, we expect KJC's margins to remain under pressure due to subdued GVT pricing and higher competitive intensity amid existing oversupply in the tile segment. We maintain our muted margin assumption for FY20/FY21E and expect KJC to post an EBITDA CAGR of 6% over FY19-FY21E.

Market Cap	Rs83bn/US\$1.2bn	Year to Mar	FY18	FY19	FY20E	FY21E
Reuters/Bloomberg	KAJR.BO/KJC IN	Revenue (Rs mn)	27,106	29,562	32,386	36,411
Shares Outstanding (mn)	159.0	Rec. Net Income (Rs mn)	2,344	2,297	2,491	3,012
52-week Range (Rs)	643/457	EPS (Rs)	14.7	14.6	15.7	18.9
Free Float (%)	52.4	% Chg YoY	(7.4)	(1.2)	7.7	20.9
FII (%)	26.0	P/E (x)	34.7	35.1	32.6	27.0
Daily Volume (US\$/'000)	3,416	CEPS (Rs)	20.3	19.9	22.5	26.1
Absolute Return 3m (%)	(5.7)	EV/E (x)	18.0	17.7	16.3	13.9
Absolute Return 12m (%)	6.8	Dividend Yield (%)	0.6	0.6	0.8	1.0
Sensex Return 3m (%)	8.0	RoCE (%)	23.2	21.4	20.7	22.5
Sensex Return 12m (%)	15.2	RoE (%)	17.6	15.1	14.4	15.7

Please refer to important disclosures at the end of this report

Financial summary

Table 1: Profit & Loss statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Net Revenues	27,106	29,562	30,808	34,151
Operating Expenses	22,542	25,067	26,374	29,097
EBITDA	4,564	4,495	4,434	5,054
% margins	16.8%	15.2%	14.4%	14.8%
Depreciation & Amortisation	885	891	1,088	1,130
Gross Interest	241	156	196	216
Other Income	116	132	302	436
Recurring PBT	3,553	3,580	3,452	4,144
Less: Taxes	1,267	1,293	582	1,042
Less: Minority Interest	(64)	22	12	18
Net Income (Reported)	2,350	2,266	2,858	3,083
Extraordinaries (Net)	5	(32)	-	-
Recurring Net Income	2,344	2,297	2,858	3,083

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Assets				
Total Current Assets	9,772	12,017	14,539	16,640
of which cash & cash eqv.	824	2,524	4,310	5,209
Total Current Liabilities & Provisions	4,430	5,048	5,687	5,918
Net Current Assets	5,342	6,969	8,852	10,722
Investments	4	3	3	3
Net Fixed Assets	11,336	10,694	11,924	11,994
Capital Work-in-Progress	176	934	-	-
Goodwill	115	85	-	-
Total Assets	16,973	18,684	20,779	22,719
Liabilities				
Borrowings	1,703	1,203	1,700	1,500
Deferred Tax Liability	1,099	1,073	794	794
Minority Interest	661	659	735	753
Equity Share Capital	165	159	159	159
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	13,345	15,590	17,391	19,513
Less: Misc. Exp. n.w.o.				
Net Worth	13,510	15,749	17,550	19,672
Total Liabilities	16,973	18,684	20,779	22,719

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Dec-18	Mar-19	Jun-19	Sep-19
Net revenues	7,586	8,153	7,000	7,147
% growth (YoY)	14.7%	8.7%	6.5%	-1.5%
EBITDA	1,208	1,229	1,060	1,052
Margin (%)	15.9	15.1	15.1	14.7
Other income	45	65	53	68
Extraordinaries (Net)	-	(14)	-	-
Net profit	648	660	510	643

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY18	FY19	FY20E	FY21E
Operating Cashflow	2,986	3,297	3,659	4,213
Working Capital Changes	(1,159)	73	(97)	(971)
Capital Commitments	(423)	(568)	(1,300)	(1,200)
Free Cashflow	1,403	2,802	2,262	2,042
Cashflow from Investing Activities	(3)	1	-	-
Issue of Share Capital	(428)	(500)	497	(200)
Inc (Dec) in Borrowings	(674)	(577)	(694)	(943)
Dividend paid	-	-	-	-
Change in Deferred Tax Liability	7	(26)	(279)	-
Chg. in Cash & Bank balance	304	1,700	1,786	899

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY18	FY19	FY20E	FY21E
Per Share Data (Rs)				
EPS	14.7	14.6	16.2	19.4
Cash EPS	20.3	19.9	24.8	26.5
Dividend per share (DPS)	3.0	3.0	4.0	5.0
Book Value per share (BV)	89.1	103.2	115.0	128.5
Growth (%)				
Net Sales	6.3	9.2	4.2	10.9
EBITDA	-8.1	-1.5	-1.4	14.0
PAT	-7.4	-1.2	11.1	19.9
Cash EPS	-3.3	-2.4	25.0	6.8
Valuation Ratios (x)				
P/E	35.7	36.1	32.5	27.1
P/CEPS	25.9	26.5	21.2	19.9
P/BV	5.9	5.1	4.6	4.1
EV / EBITDA	18.5	18.3	18.3	15.8
EV / Sales	3.1	2.8	2.6	2.3
Operating Ratios				
Raw Material / Sales (%)	39.2	38.8	42.0	41.9
Employee cost / Sales (%)	11.7	11.7	11.4	11.2
SG&A / Sales (%)	6.3	5.1	10.5	10.8
Other Income / PBT (%)	0.0	0.1	0.1	0.1
Effective Tax Rate (%)	35.7	36.1	25.2	25.2
Working Capital (days)	77.1	70.6	70.0	70.0
Inventory Turnover (days)	51.0	50.1	50.0	50.0
Receivables (days)	60.8	58.7	58.0	56.0
Payables (days)	34.8	38.2	38.0	36.0
Net D/E Ratio (x)	0.1	-0.1	-0.1	-0.2
Return/Profitability Ratios (%)				
Net Income Margins	8.7	7.8	8.3	9.0
RoACE	23.2	21.2	18.5	20.0
RoAE	17.6	15.1	14.8	15.9
Dividend Payout	24.5	25.4	26.9	31.2
Dividend Yield	0.6	0.6	0.8	1.0
EBITDA Margins	16.9	15.2	14.4	14.8

Source: Company data, I-Sec research

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