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Company update and earnings revision

Tiles

Target price: Rs530

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 14.0	↑ 4.1
EBITDA	↑ 3.3	↑ 1.1
EPS	↑ 9.0	↑ 0.9

Target price revision

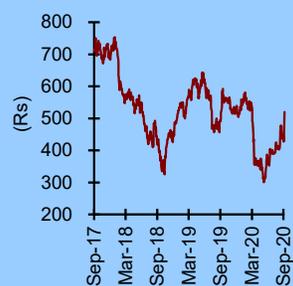
Rs530 from Rs385

Shareholding pattern

	Dec '19	Mar '10	Jun '10
Promoters	47.6	47.6	47.6
Institutional investors	37.0	38.0	38.8
MFs and others	12.5	14.5	16.5
FIs/Banks	0.0	0.0	0.0
Insurance	0.2	0.1	0.1
FIIIs	24.3	23.4	22.2
Others	15.4	14.4	13.2

Source: NSE

Price chart



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INDIA

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Kajaria Ceramics

HOLD

Maintained

Faster than estimated recovery priced-in

Rs520

Considering the improving demand prospects for tiles (from semi-urban and rural India in particular), Kajaria Ceramics (KJC) is poised to deliver better than expected volume/earnings recovery in the near term. Our channel checks suggest that Jul'20 and Aug'20 recorded 85-90% of sales in the same months last year. Faster recovery in volumes coupled with benign fuel costs, stable industry pricing and recent cost-cutting initiatives are expected to drive EBITDA margin higher than expected. Considering the growth momentum in tiles is likely to continue in the near term with metros and tier-I cities opening up post Q2FY21, we expect KJC's volume growth to improve going forward. With the sharp run-up in the counter, the upside seems limited on the stock despite the earnings and multiple upgrade. **Maintain HOLD.**

- ▶ **Earnings increased by 9%/1% for FY21E/FY22E after factoring-in the faster than expected recovery.** Building-in the faster than expected recovery in both demand for tiles and margins driven by higher operating leverage, benign fuel cost and cost-saving initiatives, we increase our revenue/earnings estimates by 14%/4.1% and 9%/1% respectively for FY21/FY22. Maintain **HOLD** with a revised target price of Rs530 (30x FY22E earnings) vs Rs385 (22x FY22E earnings) earlier.
- ▶ **Demand and pricing headwinds for tile industry ease considerably post lockdown.** With Morbi players witnessing sharp demand recovery largely led by burgeoning exports, the pricing headwinds have eased considerably in the recent past. With these units focusing majorly on exports and having largely moved on to cash and carry model in the domestic trade, the top organised players (as per our checks) have been able to gain some market share in the domestic trade thereby speeding up their sales recovery.
- ▶ **Volume recovery likely to be faster than expected.** Based on our channel checks for the months of Jul'20 and Aug'20, we expect KJC volumes to recover at a faster pace than expected earlier. The better than anticipated demand recovery is mainly led by strong demand from rural and semi-urban cities/towns. We also expect KJC's bathware division to report much improved performance driven by increasing distribution and product range. We expect revenues to decline 11.3% in FY21E while registering a 2.4% revenue CAGR over FY20-FY22E.
- ▶ **EBITDA margins likely to surprise in the near term.** Besides higher operating leverage, near-term margin improvement is expected to be aided by benign fuel costs, stable industry pricing and cost-cutting initiatives. Recent gas price cut in Morbi (unlikely to be passed on) and operating leverage at KJC's Morbi JVs are likely to result in better operating performance in the JVs as well. We expect KJC to report 13.8% margins in FY21E, which is expected to improve to 16.5% in FY22E.
- ▶ **Balance sheet strengthening to aid rerating.** We expect KJC to see significant improvement in FCF over the next two years driven by muted capex and better profitability over FY20E-FY22E. This is expected to drive RoCEs higher to 17.8% by FY22E.

Market Cap	Rs82.6bn/US\$1.1bn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	KAJR.BO/KJC IN	Revenue (Rs mn)	29,562	28,080	24,914	29,419
Shares Outstanding (mn)	159.0	Rec. Net Income (Rs mn)	2,297	2,553	1,830	2,809
52-week Range (Rs)	605/295	EPS (Rs)	14.6	14.3	11.5	17.7
Free Float (%)	52.4	% Chg YoY	(1.2)	(2.0)	(19.4)	53.5
FII (%)	22.2	P/E (x)	35.7	36.4	45.2	29.4
Daily Volume (US\$/'000)	2,302	CEPS (Rs)	19.9	22.9	18.5	25.3
Absolute Return 3m (%)	41.1	EV/E (x)	18.1	19.6	23.0	16.0
Absolute Return 12m (%)	0.8	Dividend Yield (%)	0.6	0.6	0.8	1.0
Sensex Return 3m (%)	15.4	RoCE (%)	21.2	17.3	12.3	17.8
Sensex Return 12m (%)	4.8	RoE (%)	15.1	13.3	10.0	14.2

Please refer to important disclosures at the end of this report

Table 1: Earnings revision

Estimates	Old		New		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	21845.5	28268.6	24914.2	29418.9	14.0%	4.1%
EBITDA	3333.4	4785.7	3442.9	4840.0	3.3%	1.1%
EBIDTA margins	15.3%	16.9%	13.8%	16.5%	-150bps	-40bps
Adj. PAT	1677.9	2782.9	1829.5	2809.2	9.0%	0.9%
Adj. EPS	10.6	17.5	11.5	17.7	9.0%	0.9%

Source: Company data, I-Sec research

Financial summary

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	29,562	28,080	24,914	29,419
Operating Expenses	25,067	23,921	21,471	24,579
EBITDA	4,495	4,159	3,443	4,840
% margins	15.2%	14.8%	13.8%	16.5%
Depreciation & Amortisation	891	1,081	1,117	1,209
Gross Interest	156	195	154	178
Other Income	132	242	198	340
Recurring PBT	3,580	3,124	2,370	3,794
Less: Taxes	1,293	589	611	960
Less: Minority Interest	22	(18)	(71)	25
Net Income (Reported)	2,266	2,553	1,830	2,809
Extraordinaries (Net)	(32)	-	-	-
Recurring Net Income	2,297	2,553	1,830	2,809

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	12,017	12,071	15,072	17,747
of which cash & cash eqv.	2,524	2,252	5,505	7,084
Total Current Liabilities & Provisions	5,048	4,704	5,353	5,847
Net Current Assets	6,969	7,367	9,719	11,900
Investments	3	101	101	101
Net Fixed Assets	10,694	11,957	11,597	11,138
Capital Work-in-Progress	934	257	-	-
Goodwill	85	-	-	-
Total Assets	18,684	19,682	21,417	23,139
Liabilities				
Borrowings	1,203	1,171	1,850	1,700
Deferred Tax Liability	1,073	731	731	731
Minority Interest	659	637	634	658
Equity Share Capital	159	159	159	159
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus*	15,590	16,984	18,044	19,891
Less: Misc. Exp. n.w.o.				
Net Worth	15,749	17,143	18,203	20,050
Total Liabilities	18,684	19,682	21,417	23,139

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net revenues	7,147	7,413	6,520	2,776
% growth (YoY)	-1.5%	-2.3%	-20.0%	-60.3%
EBITDA	1,052	1,113	934	(76)
Margin (%)	14.7	15.0	14.3	(2.7)
Other income	68	51	69	26
Extraordinaries (Net)	-	-	-	-
Net profit	643	615	496	(271)

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	3,297	3,052	2,947	4,018
Working Capital Changes	73	(670)	901	(602)
Capital Commitments	(568)	(1,583)	(500)	(750)
Free Cashflow	2,802	799	3,348	2,666
Cashflow from Investing Activities	1	(98)	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(500)	(32)	679	(150)
Dividend paid	(577)	(599)	(773)	(937)
Change in Deferred Tax Liability	(26)	(342)	-	-
Chg. in Cash & Bank balance	1,700	(272)	3,253	1,579

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
EPS	14.6	14.3	11.5	17.7
Cash EPS	19.9	22.9	18.5	25.3
Dividend per share (DPS)	3.0	3.0	4.0	5.0
Book Value per share (BV)	103.2	111.8	118.5	130.2
Growth (%)				
Net Sales	9.2	-5.0	-11.3	18.1
EBITDA	-1.5	-7.5	-17.2	40.6
PAT	-1.2	-2.0	-19.4	53.5
Cash EPS	-2.4	15.1	-18.9	36.4
Valuation Ratios (x)				
P/E	35.7	36.4	45.2	29.4
P/CEPS	26.2	22.8	28.1	20.6
P/BV	5.0	4.7	4.4	4.0
EV / EBITDA	18.1	19.6	23.0	16.0
EV / Sales	2.8	2.9	3.2	2.6
Operating Ratios				
Raw Material / Sales (%)	38.8	39.1	42.6	42.4
Employee cost / Sales (%)	11.7	11.4	14.2	11.6
SG&A / Sales (%)	5.1	10.5	10.1	9.6
Other Income / PBT (%)	0.1	0.1	0.1	0.1
Effective Tax Rate (%)	36.1	26.6	25.8	25.3
Working Capital (days)	70.6	87.1	78.0	65.0
Inventory Turnover (days)	50.1	66.6	58.0	55.0
Receivables (days)	58.7	51.6	60.0	50.0
Payables (days)	38.2	31.1	40.0	40.0
Net D/E Ratio (x)	-0.1	-0.1	-0.2	-0.3
Return/Profitability Ratios (%)				
Net Income Margins	7.8	8.1	7.3	9.5
RoACE	21.2	17.3	12.3	17.8
RoAE	15.1	13.3	10.0	14.2
Dividend Payout	25.4	22.6	42.1	34.2
Dividend Yield	0.6	0.6	0.8	1.0
EBITDA Margins	15.2	14.8	13.8	16.5

Source: Company data, I-Sec research

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