

Kajaria Ceramics

BUY

Muted sales volume remains a concern

Summary

After a challenging Q1FY20, there is no respite for building material products companies as sales off take remained subdued in Q2FY20 as well. Kajaria, the largest player of domestic tile industry, reported just 1% YoY sales volume growth in Q2FY20. Though realization has improved marginally by 1.2% over Q1FY20, it is still down by 3.5% YoY. The company reported net sales of Rs 7,147mn (-1.5% YoY) led by lower blended net sales realization. EBITDA came in at Rs 1,052mn (-3.4% YoY), while higher raw material cost weighed on EBITDA margin by 29bps YoY to 14.7%. The company reported net profit of Rs 932mn (+84% YoY) supported by reversal of deferred tax.

After a muted Q1 performance which was marred by election led poor demand, extended monsoon played a spoil sport. We estimated flattish to lower single digit volume growth in Q2 for companies under our coverage in this space and we believe H2FY20 would be testing times for them. Amid challenging business environment, recent corporate tax rate cut came in as savor and will support net profitability. We forecast Net Sales/EBITDA/PAT to grow at a CAGR of 9.0%/9.2%/18% respectively over FY19-21E. Maintain BUY with a price target of Rs 779 (from Rs 677 earlier), assigning 33x PE to FY21E.

Key Highlights and Investment Rationale

Lower realization off set sales volume growth

Kajaria reported another disappointing quarter on both sales volume as well as realization front. The company reported just 1% YoY volume growth as monsoon as well as demand softness played the spoil sport. Also, blended net sales realization declined by 3.5%YoY, led by 6% degrowth in owned sales realization. The management has pruned its sales volume guidance from 12-13% YoY to 10% in FY20E. We believe with 5% volume growth in H1FY20, achieving 10% volume growth would be a difficult task for the company, considering demand revival may take longer time.

Marginal decline in EBITDA margin, reversal of deferred tax boosted profitability

The company reported 29bps YoY EBITDA margin decline at 14.7% led by lower net sales and higher operating cost. Kajaria reported 84% YoY increase in PAT as the company adopted to new lower tax regime and also it reversed net deferred tax liability of Rs 286.9mn in Q2FY20.

Q2FY20 Result Review

Key Stock Data

Bloomberg/Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	88,448
Market cap. (US\$ mn)	1,277
3-m daily avg Trd value(Rs mn)	211.5
52-week high / low	Rs649 / 316
Nifty / Sensex	39,059 / 11,604

TP	Rs 779
CMP	Rs 561
Potential upside / downside	+40%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY20E	FY21E
IDBI Capital	19.2	23.6
Consensus	17.8	22.1
% difference	8.0	6.8

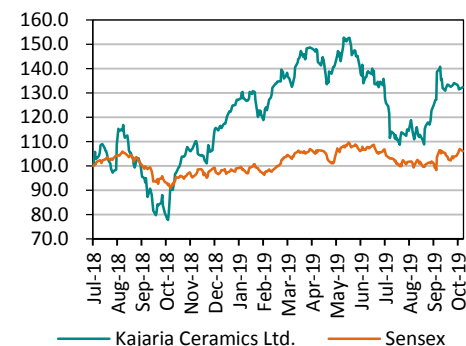
Shareholding Pattern (%)

Promoters	47.6
FII	26.2
DII	9.6
Public	16.6

Price Performance (%)

	-1m	-3m	-12m
Absolute	(3.8)	7.3	70.0
Rel to Sensex	(6.5)	4.5	55.6

Relative to Sensex (%)



Financial snapshot

Year	FY17	FY18	FY19	FY20E	FY21E
Revenue	25,496	27,106	29,562	32,212	35,499
EBITDA	4,963	4,564	4,495	4,953	5,944
EBITDA (%)	19.5	16.8	15.2	15.4	16.7
Adj. PAT	2,528	2,279	2,336	3,059	3,752
EPS (Rs)	16	14	15	19.2	23.6
EPS Growth (%)	8.8	(9.9)	2.5	30.9	22.7
PE (x)	35.3	39.2	38.2	29.2	23.8
Dividend Yield (%)	0.5	0.5	0.5	0.6	0.7
EV/EBITDA (x)	18.2	19.7	19.5	17.4	13.9
RoE (%)	23.5	18.0	16.0	18.6	20.1
RoCE (%)	24.9	21.2	19.7	19.9	21.9

Source: Company; IDBI Capital Research

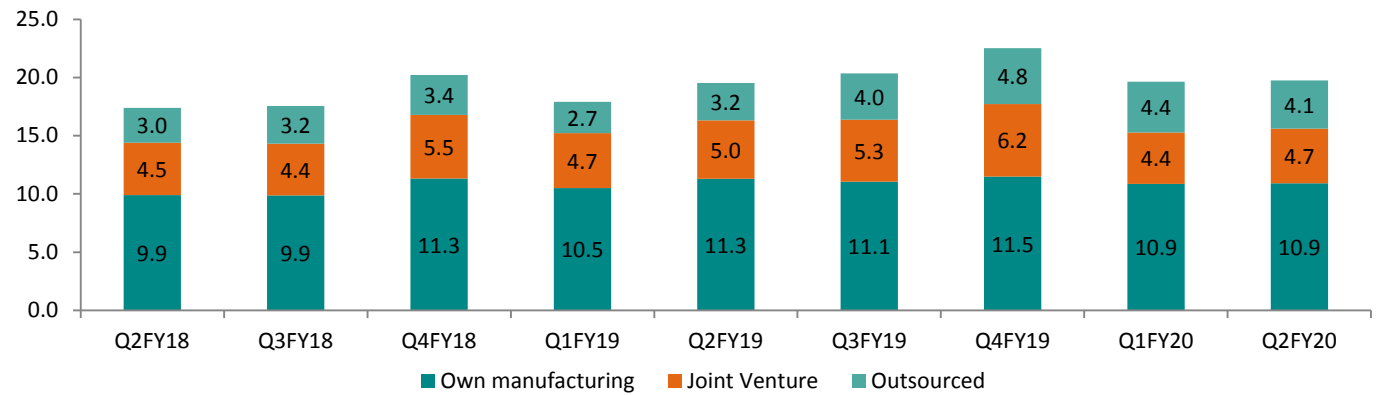
Exhibit 1: Financial snapshot						(Rs mn)
Particulars (mn)	Q2FY20	Q1FY20	QoQ (%)	Q2FY19	YoY (%)	
Total revenues	7,147	7,000	2.1	7,253	(1.5)	
Total expenditure	6,095	5,940	2.6	6,164	(1.1)	
EBIDTA	1,052	1,060	(0.7)	1,089	(3.4)	
EBIDTA margin(%)	14.7	15.1	(41.5) bps	15.0	(29.2) bps	
Depreciation	262	258	1.3	225	16.1	
Interest cost	52	45	15.5	45	15.5	
Other income	68	53	29.2	46	48.6	
PBT	807	809	(0.3)	865	(6.7)	
Tax	(124)	305	(140.6)	324	(138.2)	
Minority interest and exceptional items	1	6	(81.0)	-		
Adj. net profit	932	510	82.7	506	84.1	
Adj. EPS (INR)	5.9	3.2	82.7	3.2	84.1	

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates				(Rs mn)
Particulars (mn)	Q2FY20A	Q2FY20E	Variance (%)	
Net Sales	7,147	7,312	(2.3)	
EBITDA	1,052	1,122	(6.2)	
EBITDA Margin (%)	14.7	15.3	(62.1) bps	
Net Profit	932	654	42.6	
EPS, Rs	5.9	4.1	42.6	

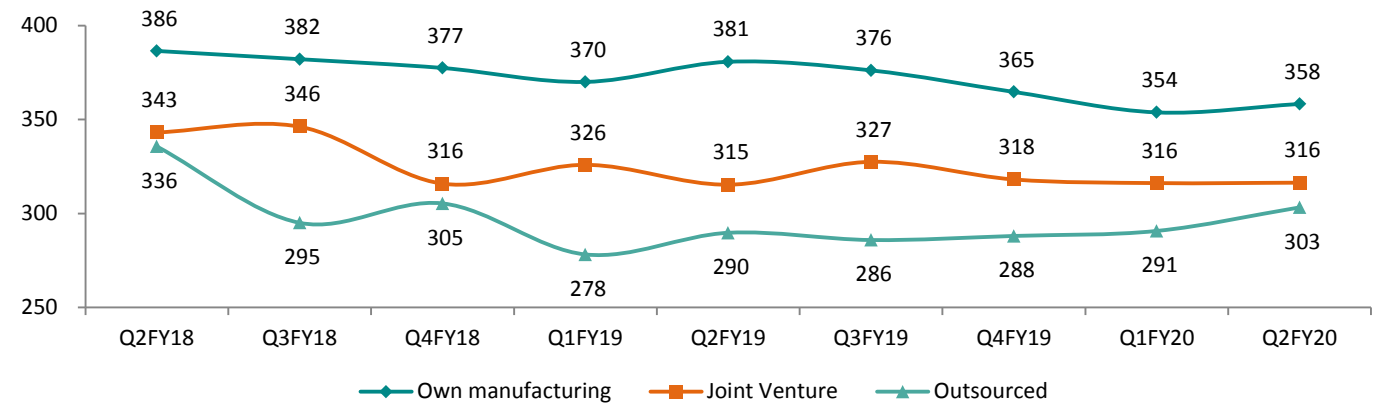
Source: Company; IDBI Capital Research

Exhibit 3: Sales volume contribution (MSM)



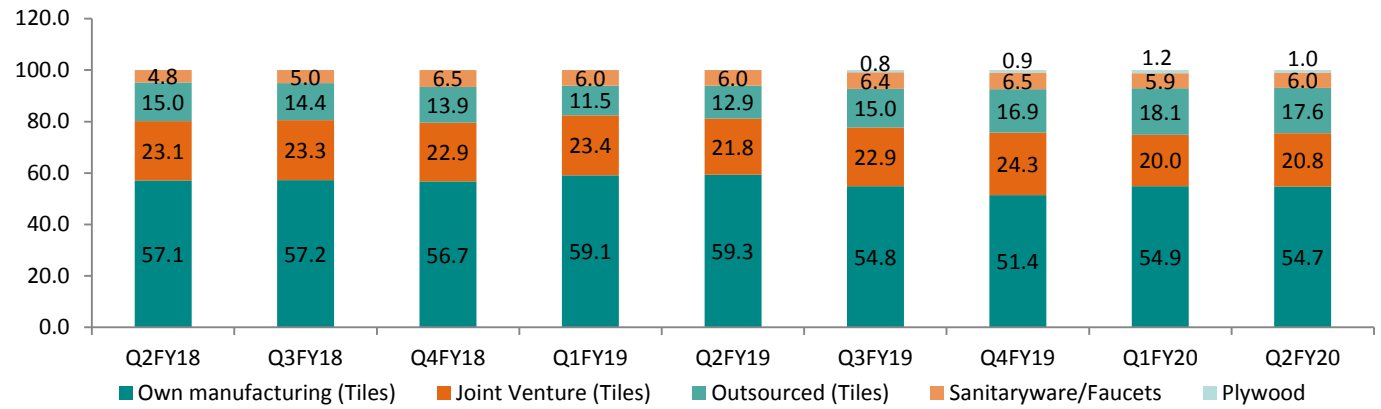
Source: Company; IDBI Capital Research

Exhibit 4: Tile realization (Rs/sqmtr)



Source: Company; IDBI Capital Research

Exhibit 5: Revenue contribution (%)



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net sales	27,106	29,562	32,212	35,499
<i>Growth (%)</i>	6.3	9.1	9.0	10.2
Operating expenses	(22,542)	(25,067)	(27,260)	(29,555)
EBITDA	4,564	4,495	4,953	5,944
<i>Growth (%)</i>	(8.1)	(1.5)	10.2	20.0
Depreciation	(885)	(891)	(946)	(997)
EBIT	3,678	3,604	4,006	4,947
Interest paid	(241)	(156)	(115)	(140)
Other income	108	180	198	208
Pre-tax profit	3,538	3,677	4,089	5,016
Tax	(1,267)	(1,293)	(1,031)	(1,264)
<i>Effective tax rate (%)</i>	35.8	35.2	25.2	25.2
Minority Interest	-	-	-	-
Net profit	2,271	2,384	3,059	3,752
Exceptional items	(8)	48	-	-
Adjusted net profit	2,279	2,336	3,059	3,752
<i>Growth (%)</i>	(9.9)	2.5	30.9	22.7
<i>Shares o/s (mn nos)</i>	159	159	159	159

Cash Flow Statement

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Pre-tax profit	3,538	3,677	4,089	5,016
Depreciation	652	891	946	997
Tax paid	(1,260)	(1,319)	(927)	(1,138)
Chg in working capital	527	(5)	(256)	(145)
Other operating activities	-	-	-	-
Cash flow from operations (a)	3,457	3,244	3,852	4,730
Capital expenditure	(423)	(1,258)	(556)	(540)
Chg in investments	(25)	3	(3)	(2)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(448)	(1,255)	(559)	(542)
Equity raised/(repaid)	29	-	-	-
Debt raised/(repaid)	(355)	(402)	10	205
Dividend (incl. tax)	(572)	(572)	(668)	(763)
Chg in minorities	(99)	(2)	-	-
Other financing activities	(1,707)	686	(971)	29
Cash flow from financing (c)	(2,704)	(290)	(1,629)	(530)
Net chg in cash (a+b+c)	305	1,699	1,664	3,659

Balance Sheet

(Rs mn)

Year-end: March	FY18	FY19	FY20E	FY21E
Net fixed assets	11,627	11,994	11,604	11,147
Investments	26	23	26	28
Other non-curr assets	-	-	-	-
Current assets	9,776	12,020	14,317	18,490
Inventories	3,785	4,058	4,342	4,603
Sundry Debtors	4,507	4,751	5,036	5,237
Cash and Bank	825	2,524	4,188	7,847
Marketable Securities	-	-	-	-
Loans and advances	295	296	330	361
Total assets	21,429	24,037	25,947	29,665
Shareholders' funds	13,510	15,749	17,140	20,129
Share capital	208	208	208	208
Reserves & surplus	13,302	15,541	16,932	19,920
Total Debt	1,351	949	960	1,164
Secured loans	424	315	236	259
Unsecured loans	927	635	724	905
Other liabilities	1,705	1,964	2,126	2,303
Curr Liab & prov	4,202	4,716	5,062	5,410
Current liabilities	4,023	4,515	4,855	5,198
Provisions	179	200	207	212
Total liabilities	7,258	7,629	8,148	8,878
Total equity & liabilities	21,429	24,037	25,947	29,665
Book Value (Rs)	87	101	110	128

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY18	FY19	FY20E	FY21E
Adj. EPS (Rs)	14.3	14.7	19.2	23.6
Adj. EPS growth (%)	(9.9)	2.5	30.9	22.7
EBITDA margin (%)	16.8	15.2	15.4	16.7
Pre-tax margin (%)	13.1	12.4	12.7	14.1
ROE (%)	18.0	16.0	18.6	20.1
ROCE (%)	21.2	19.7	19.9	21.9
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.3	1.3	1.3	1.3
Leverage factor (x)	1.7	1.6	1.5	1.5
Net margin (%)	8.4	7.9	9.5	10.6
Net Debt/Equity (x)	0.0	(0.1)	(0.2)	(0.3)
Working Capital & Liquidity ratio				
Inventory days	51	50	49	47
Receivable days	61	59	57	54
Payable days	42	45	46	47

Valuation

Year-end: March	FY18	FY19E	FY20E	FY21E
P/E (x)	39.2	38.2	29.2	23.8
Price / Book value (x)	6.5	5.6	5.1	4.4
PCE (x)	28.2	27.7	22.3	18.8
EV / Net sales (x)	3.3	3.0	2.7	2.3
EV / EBITDA (x)	19.7	19.5	17.4	13.9
Dividend Yield (%)	0.5	0.5	0.6	0.7



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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