



Company Name	: Kajaria Ceramics
BSE Code	: 500233
Time Duration	: 2 year
CMP	: ₹493 (as on 05 January, 2017)
Target Price	: ₹635

Our Upstream Pick for the month of January 2017 is Kajaria Ceramics. Kajaria Ceramics is the largest manufacturer of ceramic, vitrified, polished tiles along with sanitary ware and faucet. Kajaria Ceramics has eight manufacturing facilities in the states of Gujarat, Uttar Pradesh, Rajasthan and Andhra Pradesh to cater to its customers across India. The company has grown at 13 per cent CAGR with ROA and ROE of 12.82 per cent/ 28.14 per cent respectively over the last five years through integrated business model and pan-India base of strong dealership network.

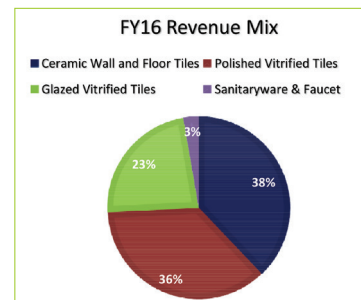
This growth was mainly driven by the glazed vitrified tiles (GVT) and polished vitrified tiles (PVT) segments. The company also benefited from the anti-dumping duty on Chinese polished and vitrified tiles. This duty will make Chinese imports costlier by Rs 30 per sq. m. The company's sales growth will get impacted to the tune of 20 per cent due to slowdown in the real estate sector and the liquidity crunch because of demonetisation in FY17. But organised players such as Kajaria Ceramics are likely to benefit with the shift in demand which augurs well for revenue growth in the future. The organised market is approximately 50 per cent of the total tiles market. In the organised market, Kajaria has an estimated market share of 21 per cent as of March 2016.

Considering all these factors, market leadership, various government initiatives (Housing for all, Smart City etc) and revival in real estate sector in near term, we expect the company to grow at 6 per cent CAGR over FY16-18E with 36 percent upside in the stock from current level.

GVK and PVK segments: The growth drivers

The company derives revenue from ceramic wall and floor tiles (38%), polished vitrified tiles (36%), glazed vitrified tiles (23%) and sanitaryware and faucets (3%). The value-added product mix and expanding dealership network augur well for the company's growth. The GVK and PVK segments witnessed double digit growth of 11 per cent and 24 per cent, respectively, in FY15-16. In the GVK segment, the company is a dominant market leader under the brand 'Eternity' with 500-plus dealer and sub-dealer network which gives it more than two times volume as compared to its peers. Kajaria's PVK has grown by 10-fold in the last five years. Both segments benefited due to anti-dumping duty on Chinese tiles. The company is focusing on tier II and III cities for business opportunities.

The sanitaryware segment will be the future revenue driver of the company. It contributes just three per cent of the revenue but has grown three-fold in FY15-16. In H1FY17 too it has grown over 100 per cent to Rs 46.5 crore when the other segments recorded subdued growth.



Integrated Business Model through JVs

Kajaria Ceramics Stake in JV's

Commence Operation	Company Name	Location	Capacity %	Stake %	Product Manufactures
Feb-11	SORISO Ceramics	Gujarat	77	51	Ceramic Floor Tile
Feb-12	JAXX Vitrified	Gujarat	79	61	Polished Vitrified Tile
Apr-12	VENNAR Ceramics	AP	100	51	High End Ceramic Wall Tiles
Oct-12	COSA Ceramics	Gujarat	91	51	Polished Vitrified Tile
Jun-15	TAURUS Tiles	Gujarat	60	51	Polished Vitrified Tile
Apr-14	Kajaria Bathware Ltd (KBL)	Rajasthan	--	100 %Subsidiary	Sanitary were
Jul-15					Faucet
FY17-18E	FLOERA Ceramics	AP	--	51	Polished Vitrified Tile

CONFIDENTIALITY NOTICE : Information contained in this report is intended for the subscribers of this product only. Unauthorized forwarding, printing, copying, distribution, or using the information in a searchable, machine-readable database is strictly prohibited and may be unlawful. **Disclaimer**: The recommendations are purely a view point and there is no guarantee on the returns. Hence all the clients (paid or unpaid) are requested to apply their prudence before acting on any of the recommendations. Neither DSJ Pvt Ltd nor any of its promoters, members, or employees shall be held responsible for any losses incurred (if any) by acting on the recommendations.

The company has a strategic pan-India presence to cater to maximum area in the country. Also, it gets advantage from controlled tiles pricing due to its strategic geographical presence through JV's. The company also outsources 10 per cent of tiles to gain on quality, pricing and location advantage.

To meet increase in demand for ceramic tiles, Kajaria has increased its own capacity of ceramic tiles by 6.5 MSM in Thana Gazi Rajasthan with capex of ~Rs 110 crore. Recently Kajaria has commissioned its greenfield project in Jan,16. It has also increased its capacity of faucet at Gailpur, Rajasthan by 3 MSM (Sept,15) which transformed company from tiles manufacturer to holistic bathroom solution provider.

It is also expanding its capacity through a JV with FLOERA Ceramics in Andhra Pradesh with a capacity up to 5.70 MSM for polished vitrified tiles with capex of ~Rs 100 crore which expected to commence in FY17-18E. This facility will cater to southern region of the country. With this Kajaria will built its capacity to ~40 MSM.

Anti dumping duty boosts topline

The government has imposed anti-dumping duty of \$1.37 per sq.m, on Chinese imports, which is lower than industry expectations of \$3 per sq.m. This was announced in April 2016 and has made Chinese polished and vitrified tiles imports costlier. This is auguring well for the company and has helped to reduce competition in a tough economic environment.

The duty which was levied in April with a provisional period of six months can be revoked and this can lead to added competition. The Chinese imports impact eight to nine per cent of industry volumes in coastal regions such as Mumbai, Kolkata and Kochi, among others.

RasGas contract aids to improve margin

The sector was positively impacted by renegotiation of gas prices with Qatar-based RasGas. However, with the prices of LNG rising, there might be revision in prices in early FY18. In the short term, the company will be insulated by the rise in gas prices which will be positive for the company in term of improvement in fuel cost.

Financial Performance

The company's revenue grew 6 per cent in H1FY17 to Rs 1220 crore on a yearly basis led by sanitaryware and faucet segment (104 per cent growth) and own manufacturing (21 per cent growth). The PAT of the company increased 20 per cent YoY to Rs 127 crore in H1FY17 as against Rs 105 crore in H1FY16. The EBITDA margin of the company expanded by 216 bps to 18.75 per cent YoY due to lower cost of fuel and purchase cost of finished goods. The PAT margin also expanded by 71 bps to 9.22 per cent YoY in H1FY17.

The company also delivered higher RoE and ROCE of 28.14 and 35.77 per cent in FY16. The company shows financial strength with healthy 47 working capital days and higher interest coverage ratio with D/E of 0.41x as of now. The company is placed well in terms of profit margin and RoE/RoCE as compared to peers like HSIL, Somany Ceramics, Cera Saanitaryware and Asian Granito India.

Valuation

The company with a TTM EPS of Rs 15.81 is trading at TTM P/E of 29.43x. Considering the future growth prospects of the company after revival of the real estate sector, government initiatives like "Housing For All", "Smart City Projects", urbanisation and rise of liquidity in economy in future, we recommend investors to BUY this scrip in the range of Rs 450-505 (CMP-493) with a target price of Rs 635.

Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201609	201606	Q on Q Var%	201509	Y on Y Var%
Net Sales	628.70	591.78	6.24	607.48	3.49
Total Expenditure	503.37	465.95	8.03	490.88	2.54
PBIDT (Excl OI)	126.72	127.07	-0.28	118.62	6.83
PAT	62.10	64.58	-3.84	61.13	1.59
PBIDTM% (Excl OI)	17.93	19.05	-5.88	17.46	2.69
PBIDTM%	18.22	19.30	-5.60	17.74	2.71
PATM%	8.79	9.68	-9.19	9.00	-2.33
Adj. EPS(Rs)	4.00	3.99	0.25	3.72	7.53

Inc/Exp Statement(Consolidated) (Rs in Crore)

Description	201603	201503	201403	201303	201203
Net Sales	2418.49	2186.89	1836.31	1583.28	1313.03
Total Income	2422.28	2194.11	1838.18	1586.32	1314.50
Total Expenditure	1955.14	1832.76	1550.52	1337.74	1106.64
PBIDT	467.14	361.35	287.66	248.57	207.86
PAT	233.98	184.90	131.35	107.84	81.85
Dividend %	250.00	200.00	175.00	150.00	125.00
Adj. EPS(Rs)	14.42	11.05	8.22	7.10	5.50

