

July 14, 2010

BUY

Price Rs 67	Target Price Rs 91
Sensex	17,986

Price Performance

(%)	1M	3M	6M	12M
Absolute	9	9	27	120
Rel. to Sensex	4	8	23	64

Source: Bloomberg

Stock Details

Sector	Ceramics
Reuters	KAJR.BO
Bloomberg	KJC@IN
Equity Capital (Rs mn)	147
Face Value(Rs)	2
No of shares o/s (mn)	74
52 Week H/L	70/29
Market Cap (Rs bn/USD mn)	5/107
Daily Avg Volume (No of sh)	197593
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	M'10	D'09	S'09
Promoters	51.3	52.5	52.5
FII/NRI	3.5	1.7	1.8
Institutions	6.5	1.6	1.5
Private Corp	17.6	20.7	23.3
Public	21.2	23.5	20.9

Source: Capitaline

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- **Kajaria Ceramics Q1FY11 results were better than our estimates with 25% revenue growth and PAT growth of 87% YoY. We maintain our BUY reco on the stock**
- **Commissioning of the vitrified plant in Jan'10 contributed to volume growth of 5% while improved product mix drove blended realisations by 16%**
- **The company shifted from high cost propane to natural gas for fuel from May'10, which is expected to drive its EBITDA margins with estimated annual cost savings of ~Rs 190 mn**
- **Ongoing capex for setting up 6 mn sqm vitrified tiles plant is scheduled to be commissioned by Dec'10**

Strong revenue growth driven by improved product mix

Kajaria reported net revenue growth of 25% to Rs 2 bn, 5% higher than our est. The company commissioned manufacturing of polished vitrified tiles in Jan'10 which has helped Kajaria to report volume growth of 5% to 6.1 mn sqm in Q1FY11. Driven by sustainable focus on improving product mix, which includes higher share of value added products and higher manufacturing of larger sized tiles, blended realisations for Q1FY11 improved by 16% YoY.

Lower fuel cost and increase in realisations to drive margins

The company has shifted from high cost propane to low cost natural gas from May'10 which is likely to result in annual cost savings of Rs 190 mn. Further, improved product realisations are expected to support margin expansion in subsequent quarters. The company reported EBITDA margins of 16% in Q1FY11, which was in line with our est. Interest cost also declined by 29% YoY to Rs 78 mn. Resulting PAT increased sharply by 87% to Rs 113 mn, which was 15% above our estimates. EPS for the quarter stood at Rs 1.5 as against Rs 0.8 in Q1FY10.

Capex on schedule, Maintain Buy

The company's capex plan to put vitrified plans (polished and glazed) is as per schedule (expected completion by Dec'10) should drive its volume growth for FY12. Management outlook for the industry remains buoyant driven by strong volume growth at ~14% and growing preference for high end value added tiles which is likely to drive overall realisations and EBITDA margins. Further, with improved asset turnover of 2.5x on brownfield capex as against the historical 1x, Kajaria is likely to witness RoE expansion from 19% in FY10 to 26% by FY12E. We believe that with strong brand and diversified dealers' distribution network, Kajaria is well placed to benefit from the industry growth. We maintain our FY11E and FY12 EPS estimates of Rs 6.7 and Rs 9.1 respectively and recommend BUY with a price target of Rs 91, based on 10 x FY12E EPS.

Financial Snapshot

Rs Mn

	Net Sales	EBITDA (Core)	EBITDA (%)	PAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ EBITDA	P/BV
FY09	6,649	949	14.3	89	1.2	(40.7)	5.6	55.4	8.5	3.0
FY10	7,201	1,128	15.7	337	4.6	278.9	19.2	14.6	6.8	2.6
FY11E	8,644	1,399	16.2	496	6.7	46.9	23.8	9.9	5.9	2.2
FY12E	9,747	1,684	17.3	671	9.1	35.4	26.3	7.3	4.6	1.8

Key Financials – Quarterly

YE Mar (Rs mn)	Q1FY10	Q2FY10	Q3FY10	Q4FY10	Q1FY11	YoY (%)	QoQ (%)
Revenue	1,560	1,854	1,797	2,149	1,955	25.3	(9.0)
Expenditure	1,307	1,550	1,509	1,841	1,642	25.6	(10.8)
as % of sales	83.8	83.6	84.0	85.7	84.0		
Consumption of RM	945	1,166	1,135	1,449	1,152	21.8	(20.5)
as % of sales	60.6	62.9	63.2	67.4	58.9		
Employee Cost	135	158	162	157	186	37.5	18.4
as % of sales	8.7	8.5	9.0	7.3	9.5		
Other expenditure	227	226	212	235	304	34.3	29.4
as % of sales	14.5	12.2	11.8	10.9	15.6		
EBITDA	253	304	288	308	313	23.8	1.5
Depreciation	64	65	65	74	74	15.5	(0.4)
EBIT	189	239	224	235	239	26.5	2.1
Other Income	1	1	2	-	-	(100.0)	
Interest	109	118	100	48	78		
PBT	81	122	125	186	162	100.6	(13.3)
Total Tax	20	35	43	59	49	140.1	(17.4)
Adjusted PAT	60	88	83	128	113	87.4	(11.4)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0		
APAT after MI	60	88	83	128	113	87.4	(11.4)
Extra ordinary items	0	0	0	0	0		
Reported PAT	60	88	83	128	113	87.4	(11.4)
Reported EPS	0.8	1.2	1.1	1.7	1.5	87.4	(11.4)
Margins (%)						(bps)	(bps)
EBIDTA	16.2	16.4	16.0	14.3	16.0	(20)	166
EBIT	12.1	12.9	12.4	10.9	12.2	12	134
EBT	5.1	6.5	6.9	8.7	8.3	314	(40)
PAT	3.9	4.7	4.6	5.9	5.8	192	(15)
Effective Tax rate	25.1	28.2	33.9	31.5	30.0	493	(150)

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	6,649	7,201	8,644	9,747
Growth (%)	32.3	8.3	20.0	12.8
Expenditure	5,700	6,072	7,245	8,063
Materials Consumed	3,602	3,662	4,505	4,884
Employee Cost	505	562	692	731
Other Exp	1,593	1,848	2,048	2,448
EBITDA	949	1,128	1,399	1,684
Growth (%)	15.9	18.9	23.9	20.4
EBITDA margin (%)	14.3	15.7	16.2	17.3
Depreciation	249	260	322	351
EBIT	700	869	1,076	1,333
EBIT margin (%)	10.5	12.1	12.5	13.7
Other Income	10	10	10	10
Interest expenses	582	397	378	384
PBT	128	482	708	959
Tax	38	145	212	288
Effective tax rate (%)	30.2	30.0	30.0	30.0
Adjusted PAT	89	337	496	671
Growth (%)	(40.7)	278.9	46.9	35.4
Net Margin (%)	1.3	4.7	5.7	6.9
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	89	337	496	671
E/O items	-	-	-	-
Reported PAT	89	337	496	671
PAT after MI	89	337	496	671
Growth (%)	(40.7)	278.9	46.9	35.4

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	127	482	708	959
Depreciation	249	260	322	351
Interest Provided	274	397	378	384
Other Non-Cash items	3	-	-	-
Chg in working cap	(92)	246	(198)	(385)
Tax paid	-33	-95	-142	-208
Operating Cashflow	528	1,290	1,068	1,102
Capital expenditure	(121)	(450)	(1,290)	(30)
Free Cash Flow	408	840	-222	1,072
Other income	-	-	-	-
Investments	-	-	-	-
Investing Cashflow	0	0	0	0
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(121)	(400)	600	(500)
Interest Paid	(274)	(397)	(378)	(384)
Dividend paid (incl tax)	(17)	(17)	(69)	(103)
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-412	-814	153	-988
Net chg in cash	-4	26	-69	84
Opening cash position	83	79	105	37
Closing cash position	79	105	37	121

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	147	147	147	147
Reserves & surplus	1,474	1,742	2,134	2,668
Net worth	1,621	1,889	2,281	2,815
Minority Interest				
Secured Loans	2,927	2,527	3,127	2,627
Unsecured Loans	325	325	325	325
Loan Funds	3,252	2,852	3,452	2,952
Net deferred tax liability	535	585	655	735
Total Liabilities	5,407	5,325	6,388	6,501
Gross Block	5,015	5,415	6,715	6,755
Less: Depreciation	1,738	1,998	2,321	2,672
Net block	3,277	3,417	4,394	4,083
Capital work in progress	0	50	40	30
Investment	34	34	34	34
Current Assets	2,968	3,004	3,350	3,852
Inventories	1,385	1,381	1,658	1,869
Sundry debtors	678	690	829	935
Cash & bank balance	79	105	37	121
Loans & advances	827	827	827	927
Other current assets	-	-	-	-
Current liabilities & Prov	872	1,179	1,431	1,498
Current liabilities	830	1,085	1,303	1,335
Provisions	42	94	128	163
Net current assets	2,096	1,825	1,919	2,354
Misc. exp	-	-	-	-
Total Assets	5,407	5,325	6,388	6,501

Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	14.3	15.7	16.2	17.3
Net Margin	1.3	4.7	5.7	6.9
ROCE	13.1	16.4	18.5	20.8
ROE	5.6	19.2	23.8	26.3
RoIC	14.3	18.2	20.7	23.3
Per Share Data (Rs)				
EPS	1.2	4.6	6.7	9.1
CEPS	4.6	8.1	11.1	13.9
BVPS	22.0	25.7	31.0	38.3
DPS	0.2	0.8	1.2	1.6
Valuations (x)				
PER	55.4	14.6	9.9	7.3
P/CEPS	14.6	8.3	6.0	4.8
P/BV	3.0	2.6	2.2	1.8
EV / Sales	1.2	1.1	1.0	0.8
EV / EBITDA	8.5	6.8	5.9	4.6
Dividend Yield (%)	0.3	1.4	2.1	2.8
Gearing Ratio (x)				
Net Debt/ Equity	1.9	1.4	1.5	1.0
Net Debt/EBITDA	3.3	2.4	2.4	1.7
Working Cap Cycle (days)	68	50	50	55

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Title	Reco	CMP	Target Price
Kajaria Ceramics – Initiating Coverage	Buy	66	91
Deepak Fertilisers Q4FY10 Result Update	Buy	110	128
Tata Chemicals Q4FY10 Result Update	Hold	304	321
TNPL Q4FY10 Result Update	Buy	102	143

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