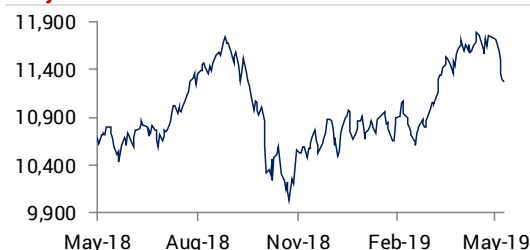


MAY 13, 2019

	10-May	% Chg			
		1 Day	1 Mth	3 Mths	
Indian Indices					
SENSEX Index	37,463	(0.3)	(2.9)	2.5	
NIFTY Index	11,279	(0.2)	(2.6)	3.1	
NSEBANK Index	29,041	0.5	(2.6)	6.4	
NIFTY 500 Index	9,290	(0.1)	(3.5)	2.8	
CNXMcap Index	17,029	0.5	(5.8)	2.6	
BSEMSCAP Index	14,106	0.2	(5.8)	3.3	
World Indices					
Dow Jones	25,942	0.4	(1.8)	1.6	
Nasdaq	7,917	0.1	(0.8)	6.7	
FTSE	7,203	(0.1)	(3.1)	0.2	
NIKKEI	21,345	(0.3)	(2.9)	0.4	
Hangseng	28,311	(2.4)	(4.5)	0.2	
Shanghai	2,939	3.1	(8.7)	7.0	
Value traded (Rs cr)		10-May	% Chg Day		
Cash BSE		2,243	19.7		
Cash NSE		31,338	4.1		
Derivatives		673,090	(68.7)		
Net inflows (Rs cr)		9-May	MTD	YTD	
FII		(549)	2,806	71,028	
Mutual Fund		457	1,455	(1,207)	
Nifty Gainers & Losers		Price	Chg	Vol	
10-May		(Rs)	(%)	(mn)	
Gainers					
Zee Entertainment		371	3.7	18.0	
SBI		308	2.9	60.7	
Bharti Airtel		324	2.7	7.7	
Losers					
Tata Steel		487	(6.2)	37.2	
HCL Tech		1,087	(4.4)	7.8	
Yes Bank		164	(3.8)	62.3	
Advances / Declines (BSE)					
10-May	A	B	T	Total	% total
Advances	235	446	55	736	100
Declines	222	505	59	786	107
Unchanged	4	32	16	52	7
Commodity		% Chg			
	10-May	1 Day	1 Mth	3 Mths	
Crude (US\$/BBL)	70.9	0.4	(0.9)	11.5	
Gold (US\$/OZ)	1,286.1	0.2	(0.5)	(1.7)	
Silver (US\$/OZ)	14.8	0.1	(1.9)	(5.7)	
Debt / Forex Market		10-May	1 Day	1 Mth	3 Mths
10 yr G-Sec yield %		7.4	7.4	7.4	7.3
Re/US\$		70.2	69.9	69.4	70.8

Nifty



Source: Bloomberg

News Highlights

- ▶ The National Company Law Tribunal (NCLT) rejected **ICICI Bank's** plea to initiate insolvency proceedings against Era Infrastructure (India) Ltd on the grounds of "duplicacy" of claims. (Business Line)
- ▶ Chemicals manufacturer **SRF Ltd** has signed an agreement to sell its engineering plastics business to DSM India Pvt Ltd for Rs3.2bn. DSM India is a wholly-owned subsidiary of Netherlands-based engineering plastics manufacturer Royal DSM. (Business Line)
- ▶ **PC Jeweller Ltd** said its board has given approval for the demerger of the company's export division and amalgamation of the same with its wholly-owned subsidiary PCJ Gems & Jewellery Ltd. (Mint)
- ▶ Tata group's fragrance brand Skinn, part of the listed **Titan Company**, is eyeing a Rs.5bn turnover and more than doubling market share by 2022-23. (Mint)
- ▶ The National Company Law Appellate Tribunal (NCLAT) has dismissed a plea for initiation of insolvency proceedings against **Spicejet** by Ramco Systems Ltd, an operational creditor of the low-cost carrier. (Mint)
- ▶ Consumer goods giant **Unilever** is considering a \$1 billion offer for US skin-care brand Drunk Elephant, the Sunday Telegraph reported.
- ▶ **GAIL (India) Ltd** has awarded contracts worth Rs105bn to speed up the completion of the Jagdishpur-Haldia & Bokaro-Dhamra Natural Gas Pipeline (JHBDPL) and the Barauni-Guwahati Pipeline (BGPL) pipeline. (Business line)
- ▶ Agrochemical firm **UPL** said it has acquired 26.75 per cent stake in Allfresh Supply Management for Rs 9.24 crore in an all-cash deal. The deal will be completed by May 20, 2019 and will be subject to compliance of certain conditions, UPL said in a filing to the BSE. (Moneycontrol).
- ▶ Etihad Airways has said it can only invest up to Rs. 17bn in **Jet Airways**, a fraction of what the grounded airline needs for survival. The Abu Dhabi carrier is also noncommittal on Jet's dues and has demanded a one-time settlement in a highly conditional bid it submitted on Friday. (ET).
- ▶ Ajay Piramal-owned **Piramal Group** plans to buy operational renewable power projects of Mytrah Energy, making the potential acquisition the first set of assets in the newly launched private InvIT that is co-owned by the Piramal Group and Canadian pension fund CPPIB. (ET)
- ▶ Mukesh Ambani-led **Reliance Industries'** entry into online retailing will help expand the current 15,000 digitised retail stores to over 5 million by 2023, a study of Bank of America Merrill Lynch said. (Mint)

What's Inside

- ▶ **Result Update:** Kajaria Ceramics Ltd

Source: ET = Economic Times, BS = Business Standard, FE = Financial Express, IE = Indian Express, BL = Business Line, BQ = BloombergQuint, ToI: Times of India, BSE = Bombay Stock Exchange, MC = Moneycontrol

Result Update

KAJARIA CERAMICS LTD

PRICE RS.583

TARGET RS.653

BUY

Stock Details

Market cap (Rs mn)	:	92811
52-wk Hi/Lo (Rs)	:	635 / 310
Face Value (Rs)	:	1
3M Avg. daily vol (mn)	:	499,680
Shares o/s (mn)	:	159

Source: Bloomberg

Financial Summary

Y/E Mar (Rs mn)	FY19	FY20E	FY21E
Sales	29,562	33,892	38,156
Growth (%)	9.1	14.6	12.6
EBITDA	4,495	5,441	6,254
EBITDA margin (%)	15.2	16.1	16.4
Net profit	2,268	2,950	3,462
EPS (Rs)	14.3	18.6	21.8
Growth (%)	-3.2	30.1	17.4
BVPS (Rs)	99.1	114.0	132.2
DPS (Rs)	3.0	3.0	3.0
ROE (%)	15.5	17.4	17.7
ROCE (%)	19.8	22.7	23.8
P/E (x)	40.9	31.4	26.8
EV/EBITDA (x)	18.9	15.3	13.1
P/BV (x)	5.9	5.1	4.4

Source: Company, Kotak Securities - PCG

Shareholding Pattern (%)

(%)	Mar 19	Dec-18	Sep-18
Promoters	47.6	47.6	47.6
FII	24.7	24.7	24.3
DII	10.2	10.2	9.7
Others	17.1	17.1	18.0

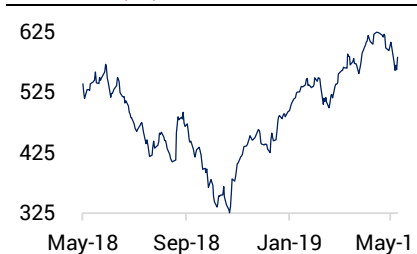
Source: Bloomberg

Price Performance (%)

(%)	1M	3M	6M
Kajaria Ceramics	(3.6)	9.3	34.1
Nifty	(2.6)	3.1	6.6

Source: Bloomberg

Price chart (Rs)



Source: Bloomberg

Kajaria Ceramics results were lower than our estimates due to marginally lower than expected volume growth and pressure on margins. Margin decline on YoY basis was led by pressure on realization and higher branding spend. Volume growth is likely to be strong going forward and further margin improvement is expected in coming quarters with lower gas prices and increased value added products. Performance of JVs is also improving in terms of reduced losses.

Key highlights

Revenue growth of 8.7% YoY was led largely by volume growth of 11.2% YoY. Realizations declined by 2.3% YoY which impacted the margins. Operating margins stood at 15.1% vs 16% same period last year due to higher branding spend and slightly lower realizations. Net profit performance on YoY basis was impacted by fall in margins and stood lower than our estimates.

Consolidated Financial highlights

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Net Sales	8153.1	7500.4	8.7%	7585.6	7.5%
Total Expenditure	6923.7	6299.7	9.9%	6377.3	8.6%
(Increase) / Decrease In Stocks	260.8	39.5		-36.8	
Cost of Services & Raw Materials	2056.7	1894.9		1907.4	
As % of sales	25.2%	25.3%		25.1%	
Purchase of Finished Goods	1228.0	976.1		1094.8	
As % of sales	15.1%	13.0%		14.4%	
Operating & Manufacturing Exp	1034.0	1060.9		1006.5	
As % of sales	12.7%	14.1%		13.3%	
Electricity, Power & Fuel Cost	1456.6	1521.3		1548.1	
As % of sales	17.9%	20.3%		20.4%	
Employee Cost	887.6	807.0		857.3	
As % of sales	10.9%	10.8%		11.3%	
EBITDA	1229.4	1200.7	2.4%	1208.3	1.7%
EBITDA (%)	15.1%	16.0%		15.9%	
Depreciation	216.8	228.6		221.8	
EBIT	1012.6	972.1	4.2%	986.5	2.6%
Interest	32.7	46.9		36.3	
EBT (exc other income)	979.9	925.2	5.9%	950.2	3.1%
Other Income	51.0	51.4		45.3	
PBT	1030.9	976.6	5.6%	995.5	3.6%
Tax	362.3	280.3		336.6	
Tax (%)	35.1%	28.7%		33.8%	
PAT	668.6	696.3	-4.0%	658.9	1.5%
Minority Interest	8.6	36.6		10.9	
Consolidated Net Profit	660.0	659.7	0.0%	648.0	1.9%
NPM (%)	8.1%	8.8%		8.5%	
Equity Capital	159.0	159.0		159.0	
Face Value (In Rs)	1.00	1.00		1.00	
Basic EPS before Extraordinary Items	4.15	4.15	0.0%	4.08	1.9%

Source: Company

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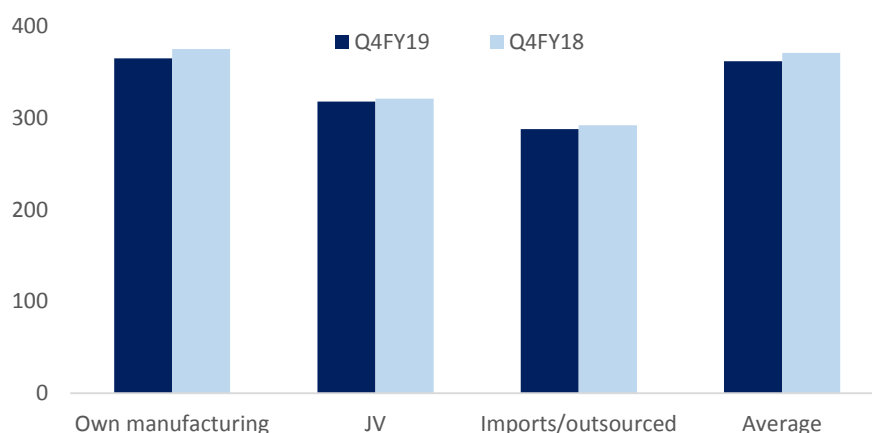
Valuation and outlook

Stock is currently trading at valuations of 31.4x and 26.8x P/E on FY20 and FY21 estimates respectively. We tweak our estimates to factor in FY19 financials and also introduce FY21 estimates. We roll forward our target price on FY21 and arrive at a revised target price of Rs 653 based on 30x FY21 estimates (Rs 572 earlier). Post the NGT ban on use of coal gasifiers, unorganized players are witnessing increased power and fuel cost due to shift towards gas and hence the price differential between organized and unorganized players is reducing. Along with this, with improved compliance towards e-way bill implementation post elections, organized players like Kajaria Ceramics are likely to benefit with market leading position and wide offering of products. We remain positive on the company and upgrade the stock to BUY from ACCUMULATE earlier.

Revenue growth marginally lower than estimates

Revenue growth of 8.7% YoY was led largely by 11.2% YoY volume growth. Realizations declined by 2.3% YoY but recently company has taken price hike of around 3% in ceramic category in few regions. Average realization for Q4FY19 stood at Rs 362 per sq m, down by 2.3% YoY and 2.9% QoQ. We expect prices to start inching up going forward due to pressure on unorganized players to comply with the environmental norms and e-way bill implementation thereby reducing the pricing gap between organized and unorganized. Company management is optimistic on the demand outlook and expects volumes to grow by 15% in FY20.

Realisation (Rs/msm)



Source: Company, Kotak Securities – Private Client Research

Volume details

Volumes were up by 11.2% YoY largely led by healthy volume improvement across JVs and outsourced segments. Sequentially, volumes were up by 10.6% with improvement led by improved JV and outsourced volumes.

- Revenues from own production declined by 1.2% YoY as the volume gain from own plants was just 1.7% YoY and realization were under pressure.
- Revenues from JVs improved by 14.2% YoY led by 15.3% YoY improvement in volumes while prices from JV plants remained under pressure. Utilization levels are improving from the JV plants now.
- Revenues from outsourced segment have gone up by 33.5% YoY led by significant jump in volumes.

- Sanitary ware and faucets division has reported 7.6% YoY improvement in revenues. During the quarter, sanitary ware has attained optimum capacity utilisation and company is in the process to expand it further by 1.5 lac pieces per annum which is expected to be completed by August 2019. The capacity utilisation of faucet plant increased to 65% during FY19 as compared to 48% in FY18. Company expects to attain utilization of 90% in FY20. Volumes are likely to improve going forward with improved demand. Plywood division has also started contributing towards sales from this quarter which is likely to increase going forward.

Volumes (mn sq m)

	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Own manufacturing	11.49	11.3	1.7%	11.06	3.9%
JV	6.24	5.41	15.3%	5.31	17.5%
Imports/outourced	4.78	3.53	35.4%	3.97	20.4%
Total	22.51	20.24	11.2%	20.34	10.7%

Source: Company, Kotak Securities – Private Client Research

Revenues (Rs mn)

	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Own manufacturing	4189.8	4241	-1.2%	4160	0.7%
JV	1985.1	1738	14.2%	1739	14.1%
Imports/outourced	1376.9	1031	33.5%	1198	15.0%
Sanitaryware	528.2	491	7.6%	489	8.1%
Plywood	73.1	0			
Total	8153	7500	8.7%	7586	7.5%

Source: Company, Kotak Securities – Private Client Research

Kajaria Floera (a wholly owned subsidiary) is putting up a manufacturing facility of glazed vitrified tiles with a capacity of 5.00 MSM p.a. in Andhra Pradesh. The plant is expected to be commissioned in August 2019.

We tweak our estimates and also introduce FY21 estimates. We expect volumes to grow at a CAGR of 11.6% and revenues to grow at a CAGR of 13.6% between FY19-21.

State of the industry

In order to curb pollution, NGT, in March 2019, had ordered to dismantle the coal gasifiers used by ceramic industry in Morbi Wankaner cluster and asked the ceramic units to switch over to LNG/PNG, if they wanted to continue their operations. As many as 450-500 units out of 800 odd manufacturing units face closure as they were run on coal gasifiers, which NGT has now disapproved. Those most affected are the wall tile and soluble salt tile manufacturers as they were meeting nearly their entire thermal energy requirements through coal gasifiers.

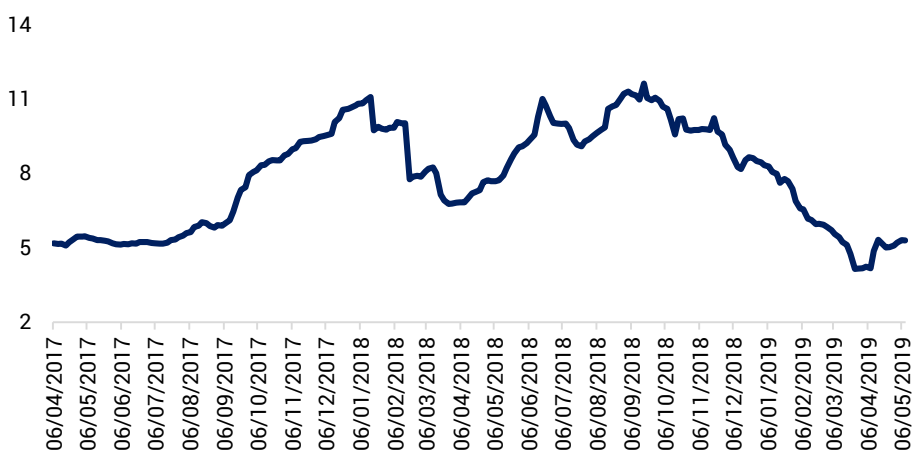
The NGT's order follows the National Environmental Engineering Research Institute (NEERI) report submitted to the NGT in February 2018 which flagged coal gasifiers as major air and water pollutants in the region. The report also stated that recommendations for modification of coal gasifiers and zero discharge were not being fulfilled and it was not possible to keep a day-to-day check on the industry. This resulted in complete banning of usage of coal gasifiers in March 2019, thereby impacting the unorganised players who were taking advantage of procuring low cost coal and having a huge differential in selling prices in comparison with organised players.

Post this order, we expect the power and fuel cost of unorganised players to increase by nearly 10-15 percent thereby impacting margins. Also, the working capital cycle of these players, which was already stretched owing to real estate slowdown and oversupply in the industry, would further get elongated due to strict payment terms for using PNG as compared to coal which was available on cash and even on easier credit terms. This we believe is likely to be positive for organized players.

Margin declined on YoY basis

Operating margins stood at 15.1% vs 16% same period last year due to higher branding spend and pressure on realization. Gas prices have come down in comparison with last year and the impact of lower gas prices is likely to get reflected in margins in the coming quarters. Average spot LNG prices for Q4FY19 have come down by 29.5% as compared to average prices during Q4FY18. Though sequentially LNG prices have moved up during Q1FY20 but it is still lower than last year. We tweak our estimates and expect margins of 16.1%/16.4% for FY20/21 respectively. Lower gas prices, improved product mix and improvement in JV performance is likely to aid margins going forward.

Spot LNG prices (\$/MMBTU)



Source: Bloomberg

Net profit performance ahead of our estimates

Net profit performance on YoY basis was impacted by fall in margins but boosted by lower interest expense. Company has turned net cash positive and losses from the JVs have reduced significantly during the year. Company expects to make profits in these JV's going forward. We tweak our estimates and expect net profits to grow at a CAGR of 23.6% between FY19-21.

Valuation and outlook

Stock is currently trading at valuations of 31.4x and 26.8x P/E on FY20 and FY21 estimates respectively. We tweak our estimates to factor in FY19 financials and also introduce FY21 estimates. We roll forward our target price on FY21 and arrive at a revised target price of Rs 653 based on 30x FY21 estimates (Rs 572 earlier). Post the NGT ban on use of coal gasifiers, unorganized players are witnessing increased power and fuel cost due to shift towards gas and hence the price differential between organized and unorganized players is reducing. Along with this, with improved compliance towards e-way bill implementation post elections, organized players like Kajaria Ceramics are likely to benefit with market leading position and wide offering of products. We remain positive on the company and upgrade the stock to BUY from ACCUMULATE earlier.

About the company

Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India and the 9th largest in the world. It has an annual capacity of 68 mn. sq. meters presently, distributed across eight plants - one in Sikandrabad (UP), one in Gailpur (Rajasthan), one in Malutana (Rajasthan), four in Morbi (Gujarat) and one in Vijaywada (AP).

Financials: Consolidated

Profit and Loss Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Revenues	27,106	29,562	33,892	38,156
% change YoY	6.3	9.1	14.6	12.6
EBITDA	4,564	4,495	5,441	6,254
% change YoY	(8.1)	(1.5)	21.1	14.9
Other Income	116	132	130	130
Depreciation	885	891	927	1,001
EBIT	3,794	3,736	4,644	5,383
% change YoY	(11.8)	(1.5)	24.3	15.9
Net interest	241	156	137	100
Profit before tax	3,553	3,580	4,507	5,284
% change YoY	(10.3)	0.8	25.9	17.2
Tax	1,267	1,293	1,532	1,796
as % of PBT	35.7	36.1	34.0	34.0
Profit after tax	2,286	2,288	2,975	3,487
Minority interest and other CI	(58)	20	25	25
Net income	2,344	2,268	2,950	3,462
% change YoY	(7.0)	(3.2)	30.1	17.4
Shares outstanding (m)	159.0	159.0	159.0	159.0
EPS (reported) (Rs)	14.7	14.3	18.6	21.8
CEPS (Rs)	20.3	19.9	24.4	28.1
DPS (Rs)	3.00	3.00	3.00	3.00

Source: Company, Kotak Securities – Private Client Research

Cash flow Statement (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBIT	3,852	3,717	4,619	5,358
Depreciation	885	891	927	1,001
Change in working capital	(1,305)	24	(707)	(830)
Chgs in other net currnt assets	(207)	(79)	372	-
Operating cash flow	3,226	4,553	5,211	5,529
Interest	(241)	(156)	(137)	(100)
Tax	(1,267)	(1,293)	(1,532)	(1,796)
Cash flow from operations	1,718	3,104	3,541	3,633
Capex	(657)	(976)	(1,500)	(1,500)
(Inc)/dec in investments	-	(1)	(1)	(1)
Cash flow from investments	(657)	(977)	(1,501)	(1,501)
Proceeds from issue of equity	0	-	-	-
Inc/(dec) in debt	(173)	(400)	(1,000)	-
Proceeds from share premium	(12)	543	-	-
Dividends	(572.0)	(572.4)	(572.4)	(572.4)
Cash flow from financing	(757)	(429)	(1,572)	(572)
Opening cash	520	824	2,524	2,994
Closing cash	824	2,522	2,992	4,554

Source: Company, Kotak Securities – Private Client Research

Balance sheet (Rs mn)

(Year-end Mar)	FY18	FY19	FY20E	FY21E
Cash and cash equivalents	824	2,524	2,994	4,555
Accounts receivable	4,507	4,751	4,921	5,541
Inventories	3,785	4,058	4,736	5,331
Loans and Adv & Others	574	546	750	796
Current assets	9,689	11,878	13,400	16,224
Other non-current assets	82	139	139	139
LT investments	4	3	3	2
Net fixed assets	11,627	11,712	12,285	12,785
Total assets	21,403	23,732	25,827	29,149
Payables	2,578	3,091	3,436	3,868
Others	580	633	633	633
Current liabilities	3,158	3,723	4,068	4,501
Provisions	248	200	572	572
LT debt	2,728	2,328	1,328	1,328
Min. int and def tax liabilities	1,759	1,732	1,732	1,732
Equity	159	159	159	159
Reserves	13,351	15,590	17,967	20,857
Total liabilities	21,403	23,732	25,827	29,149
BVPS (Rs)	85.0	99.1	114.0	132.2

Source: Company, Kotak Securities – Private Client Research

Ratio Analysis

(Year-end Mar)	FY18	FY19	FY20E	FY21E
EBITDA margin (%)	16.8	15.2	16.1	16.4
EBIT margin (%)	14.0	12.6	13.7	14.1
Net profit margin (%)	8.6	7.7	8.7	9.1
Receivables (days)	53.2	57.1	53.0	53.0
Inventory (days)	50.5	48.4	51.0	51.0
Sales/assets (x)	2.3	2.5	2.8	3.0
Interest coverage (x)	15.7	24.0	33.9	54.1
Debt/equity ratio(x)	0.2	0.2	0.1	0.1
ROE (%)	18.6	15.5	17.4	17.7
ROCE (%)	22.0	19.8	22.7	23.8
EV/ Sales (x)	3.2	2.9	2.5	2.1
EV/EBITDA (x)	19.1	18.9	15.3	13.1
Price to earnings (x)	39.6	40.9	31.4	26.8
Price to book value (x)	6.9	5.9	5.1	4.4
Price to Cash Earnings (x)	28.7	29.3	23.9	20.8

Source: Company, Kotak Securities – Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 15% returns over the next 12 months
ADD	–	We expect the stock to deliver 5% - 15% returns over the next 12 months
REDUCE	–	We expect the stock to deliver -5% - +5% returns over the next 12 months
SELL	–	We expect the stock to deliver < -5% returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
SUBSCRIBE	–	We advise investor to subscribe to the IPO.
RS	–	Rating Suspended. Kotak Securities has suspended the investment rating and price target for this stock, either because there is not a sufficient fundamental basis for determining, or there are legal, regulatory or policy constraints around publishing, an investment rating or target. The previous investment rating and price target, if any, are no longer in effect for this stock and should not be relied upon.
NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 12-month perspective. Returns stated in the rating scale are our internal benchmark.

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