

FIRST LIGHT

RESEARCH

Kajaria Ceramics | Target: Rs 640 | +25% | BUY

Modest Q1; upgrade to BUY on reasonable valuations

NIIT Technologies | Target: Rs 1,550 | +15% | BUY

Healthy Q1 despite pockets of weakness in BFS

SUMMARY

Kajaria Ceramics

Kajaria Ceramics (KJC) posted below-expected Q1FY20 revenue growth of 6.5% YoY, with volumes up 9.6% but realisations down 3.8%. Operating margins rose 40bps YoY to 15.1% on lower other expenses and employee costs, leading to EBITDA/adj. PAT growth of 9.5%/11.9% YoY. Management has cut its FY20 tiles volume growth guidance to 12-13% vs. 15%. We trim FY20/FY21 earnings by 4%/ 3% and roll over to an unchanged Jun'20 TP of Rs 640. Post the recent fall, the stock is trading at an inexpensive 23.1x FY21E P/E – upgrade from ADD to BUY.

[Click here for the full report.](#)

NIIT Technologies

Adjusted for GIS divestment, NIIT Tech (NITEC) reported organic revenue growth of 4% QoQ CC and EBITDA margins of 16.9% in Q1FY20, marking a better-than-expected operating performance. Deal wins and executable order book were healthy. Management reported challenges at one large BFS client but no loss of wallet share. NITEC continues to focus on predictable and profitable growth for FY20. We remain positive on the stock and reiterate BUY, rolling forward to a revised Jun'20 TP of Rs 1,550 (Rs 1,500 earlier).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Cipla	Buy	630
GAIL*	Buy	245
ONGC	Buy	230
TCS	Add	2,360
HPCL	Sell	210

*GAIL target price is adjusted for the 1:1 bonus issue

MID-CAP IDEAS

Company	Rating	Target
Balkrishna Ind	Buy	1,290
Future Supply	Buy	780
Greenply Industries	Buy	245
Laurus Labs	Buy	495
PNC Infratech	Buy	235

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	2.05	(1bps)	(1bps)	(91bps)
India 10Y yield (%)	6.42	5bps	(44bps)	(139bps)
USD/INR	68.92	(0.2)	1.0	(0.1)
Brent Crude (US\$/bbl)	63.26	1.3	(3.0)	(13.4)
Dow	27,172	0.1	1.7	8.5
Shanghai	2,887	(1.3)	(3.8)	1.0
Sensex	38,031	(0.8)	(3.0)	3.6
India FII (US\$ mn)	19 Jul	MTD	CYTD	FYTD
FII-D	105.7	1,198.4	2,626.6	2,082.0
FII-E	(157.5)	(1,195.6)	10,143.3	3,298.1

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 640 | ▲ 25%

KAJARIA CERAMICS

Construction Materials

23 July 2019

Modest Q1; upgrade to BUY on reasonable valuations

Kajaria Ceramics (KJC) posted below-expected Q1FY20 revenue growth of 6.5% YoY, with volumes up 9.6% but realisations down 3.8%. Operating margins rose 40bps YoY to 15.1% on lower other expenses and employee costs, leading to EBITDA/adj. PAT growth of 9.5%/11.9% YoY. Management has cut its FY20 tiles volume growth guidance to 12-13% vs. 15%. We trim FY20/FY21 earnings by 4%/3% and roll over to an unchanged Jun'20 TP of Rs 640. Post the recent fall, the stock is trading at an inexpensive 23.1x FY21E P/E – upgrade from ADD to BUY.

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Modest revenue growth despite strong volume uptick: KJC reported revenue growth of 6.5% YoY to Rs 7bn, aided by volume growth of 9.6% whereas realisations fell 3.8%. Management has cut its FY20 volume growth guidance in the tiles segment from 15% to 12-13% due to continued tough market conditions. The sanitaryware, plywood & allied segment grew at a robust 24% YoY in Q1, and management expects sustained traction in FY20 off a low base. Working capital days expanded by ~5 days YoY to 62 during the quarter.

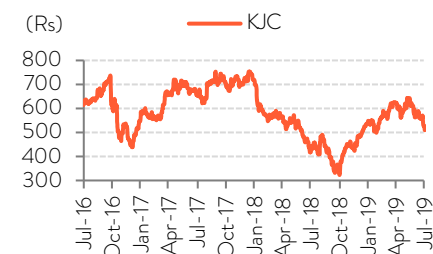
Operating margins expand: Despite a 125bps YoY shrinkage in gross margins, EBITDA margins increased 40bps YoY to 15.1% backed by a reduction in employee/other expenses of 62bps/103bps – this supported EBITDA/adj. PAT growth of 9.5%/11.9% YoY. Gross margins slipped due to a higher proportion of outsourced sales during the quarter at 18% vs. 11% in the year-ago period. Management has guided for operating margins of 15-16% in FY20.

Valuations attractive; upgrade to BUY: We trim FY20/FY21 earnings estimates by 4%/3% to factor in lower margins; on rolling valuations forward, we have an unchanged Jun'20 TP of Rs 640, set at 28x one-year forward P/E. The stock has corrected ~13% since our downgrade in May'19 and is now trading at a reasonable 23.1x FY21E P/E, prompting us to upgrade our rating to BUY.

Ticker/Price	KJC IN/Rs 511
Market cap	US\$ 1.2bn
Shares o/s	159mn
3M ADV	US\$ 5.1mn
52wk high/low	Rs 650/Rs 310
Promoter/FPI/DII	48%/26%/26%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19P	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	2,342	2,314	2,937	3,515	4,020
Adj. EPS (Rs)	14.7	14.6	18.5	22.1	25.3
Adj. EPS growth (%)	(7.4)	(1.2)	26.9	19.7	14.4
Adj. ROAE (%)	18.5	15.8	17.4	18.2	18.2
Adj. P/E (x)	34.6	35.1	27.6	23.1	20.2
EV/EBITDA (x)	18.0	18.2	14.6	12.3	10.7

Source: Company, BOBCAPS Research



BUY

TP: Rs 1,550 | ▲ 15%

NIIT TECHNOLOGIES

| IT Services

| 24 July 2019

Healthy Q1 despite pockets of weakness in BFS

Adjusted for GIS divestment, NIIT Tech (NITEC) reported organic revenue growth of 4% QoQ CC and EBITDA margins of 16.9% in Q1FY20, marking a better-than-expected operating performance. Deal wins and executable order book were healthy. Management reported challenges at one large BFS client but no loss of wallet share. NITEC continues to focus on predictable and profitable growth for FY20. We remain positive on the stock and reiterate BUY, rolling forward to a revised Jun'20 TP of Rs 1,550 (Rs 1,500 earlier).

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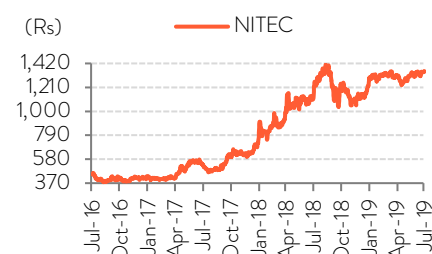
Operating performance healthy ex-GIS divestment: NITEC's reported Jun'19 quarter performance was adversely affected by divestment of the GIS business and select non-recurring expenses. Ex-GIS impact, organic revenue growth stood at 4% QoQ CC, bettering our estimate of 2.7%. Similarly, adj. EBITDA margins came in at 16.9% (-70bps QoQ) vs. 16% estimated. Consolidation of Wishworks contributed Rs 108mn in revenue for the quarter.

Ticker/Price	NITEC IN/Rs 1,353
Market cap	US\$ 1.2bn
Shares o/s	62mn
3M ADV	US\$ 8.8mn
52wk high/low	Rs 1,425/Rs 1,031
Promoter/FPI/DII	31%/42%/27%

Source: NSE

Deal wins and executable orders continue to trend up: Fresh order intake at US\$ 175mn rose for the eighth straight quarter. Also, combined order flows from North America and Europe grew 26% YoY. The 12-month executable order book at US\$ 395mn (+13.8% YoY) improved for the seventh quarter in a row.

STOCK PERFORMANCE



Source: NSE

Not immune to BFS challenges: As with industry peers, NITEC reported pockets of weakness in the BFS segment, which constrained revenue growth from the top 5 clients (-6.5% QoQ in dollar terms). Management stated that these challenges were specific to one account with no loss of wallet share.

Retain BUY: We trim FY20 EPS estimate by 4.5% on exceptional charges reported in Q1FY20 but largely keep FY21 forecasts unchanged. Retain BUY with a revised Jun'20 TP of Rs 1,550, based on an unchanged target P/E of 17x.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	2,802	4,089	4,472	5,462	6,369
Adj. EPS (Rs)	45.4	66.2	72.4	88.4	103.1
Adj. EPS growth (%)	3.5	45.9	9.4	22.1	16.6
Adj. ROAE (%)	15.3	21.2	20.2	21.5	21.7
Adj. P/E (x)	29.8	20.4	18.7	15.3	13.1
EV/EBITDA (x)	16.0	12.4	10.5	8.5	7.1

Source: Company, BOBCAPS Research



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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