

RESEARCH

Kajaria Ceramics | Target: Rs 585 | +2% | REDUCE

Good performance but in the price – downgrade to REDUCE

SUMMARY

Kajaria Ceramics

Kajaria Ceramics (KJC) posted an above-expected Q2FY21 with stable YoY revenue and volumes, aided by better traction in tier-2 cities and below. EBITDA margins rose 545bps YoY to 20.2% due to lower fuel, employee and other costs, enabling EBITDA/PBT growth of 37%/48%. Management expects volume growth to return from Q4 and has guided for 18% margins in H2FY21. We raise FY21-FY23 earnings by 13-61%, hike our target P/E to 28x from 26x, and roll to a new Dec'21 TP of Rs 585 (vs. Rs 450). Cut from ADD to REDUCE on limited upside.

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

TOP PICKS

LARGE-CAP IDEAS

| Company | Rating | Target |
|-------------------------------|--------|--------|
| Bajaj Finance | Buy | 4,000 |
| Cipla | Buy | 850 |
| GAIL | Buy | 155 |
| Petronet LNG | Buy | 310 |
| Tech Mahindra | Buy | 910 |

MID-CAP IDEAS

| Company | Rating | Target |
|----------------------------------|--------|--------|
| Alkem Labs | Buy | 3,600 |
| Chola Investment | Buy | 280 |
| Laurus Labs | Buy | 1,200 |
| Transport Corp | Buy | 270 |
| Mahanagar Gas | Sell | 750 |

Source: BOBCAPS Research

DAILY MACRO INDICATORS

| Indicator | Current | 2D (%) | 1M (%) | 12M (%) |
|------------------------|---------|---------|------------|-----------|
| US 10Y yield (%) | 0.77 | 2bps | 8bps | (103bps) |
| India 10Y yield (%) | 5.94 | 0bps | (8bps) | (58bps) |
| USD/INR | 73.37 | 0 | 0.1 | (3.1) |
| Brent Crude (US\$/bbl) | 42.62 | (0.7) | (1.2) | (27.7) |
| Dow | 28,195 | (1.4) | 1.9 | 5.1 |
| Shanghai | 3,313 | (0.7) | (0.8) | 12.7 |
| Sensex | 40,432 | 1.1 | 4.1 | 2.9 |
| India FII (US\$ mn) | 16 Oct | MTD | CYTD | FYTD |
| FII-D | 163.8 | 241.2 | (14,438.6) | (4,679.1) |
| FII-E | (1.2) | 1,192.3 | 5,232.4 | 11,835.4 |

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



REDUCE

TP: Rs 585 | ▲ 2%

KAJARIA CERAMICS

Construction Materials

20 October 2020

Good performance but in the price – downgrade to REDUCE

Kajaria Ceramics (KJC) posted an above-expected Q2FY21 with stable YoY revenue and volumes, aided by better traction in tier-2 cities and below. EBITDA margins rose 545bps YoY to 20.2% due to lower fuel, employee and other costs, enabling EBITDA/PBT growth of 37%/48%. Management expects volume growth to return from Q4 and has guided for 18% margins in H2FY21. We raise FY21-FY23 earnings by 13-61%, hike our target P/E to 28x from 26x, and roll to a new Dec'21 TP of Rs 585 (vs. Rs 450). Cut from ADD to REDUCE on limited upside.

Arun Baid

research@bobcaps.in

Decent volumes in a tough environment: KJC's Q2 revenue (Rs 7.1bn) and volumes were stable YoY due to better traction from tier-2 and below cities. Management believes this trend will continue in the near term due to Covid-19 pressures in larger cities and has guided for a flat Q3, followed by ~10% YoY volume growth in Q4 off a tepid base. The company has gained market share and believes the gains are sustainable. Management is targeting 15% volume growth over the next 3-5 years aided by expansion in smaller cities.

Operating margins expand: EBITDA margins swelled 545bps YoY to 20.2% due to higher gross margins (+105bps YoY) and lower employee (-150bps) and other expenses (-290bps). EBITDA/PBT thus grew 37%/48% YoY. Despite reversing salary cuts in Oct'20 and seeing a gradual increase in A&P activity, management has guided for operating margins of ~18% in H2 on lower gas prices.

Positives priced in – cut to REDUCE: We increase FY21-FY23 earnings estimates by 13-61% primarily due to lower input prices, while resetting our target P/E to 28x (from 26x) – in line with the 5Y average. Rolling valuations forward, we have a revised Dec'21 TP of Rs 585 (earlier Rs 450). Following the recent rally, KJC is trading at 26.5x FY23E EPS which offers limited upside potential – cut from ADD to REDUCE.

| | |
|------------------|---------------|
| Ticker/Price | KJC IN/Rs 575 |
| Market cap | US\$ 1.2bn |
| Shares o/s | 159mn |
| 3M ADV | US\$ 2.9mn |
| 52wk high/low | Rs 596/Rs 296 |
| Promoter/FPI/DII | 48%/22%/31% |

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

| Y/E 31 Mar | FY19A | FY20A | FY21E | FY22E | FY23E |
|-------------------------|--------|--------|--------|--------|--------|
| Total revenue (Rs mn) | 29,562 | 28,080 | 25,516 | 28,872 | 32,434 |
| EBITDA (Rs mn) | 4,495 | 4,159 | 4,203 | 4,840 | 5,591 |
| Adj. net profit (Rs mn) | 2,314 | 2,553 | 2,501 | 2,905 | 3,455 |
| Adj. EPS (Rs) | 14.6 | 16.1 | 15.7 | 18.3 | 21.7 |
| Adj. EPS growth (%) | (1.2) | 10.3 | (2.1) | 16.2 | 18.9 |
| Adj. ROAE (%) | 15.8 | 15.5 | 13.8 | 14.4 | 15.4 |
| Adj. P/E (x) | 39.5 | 35.8 | 36.6 | 31.5 | 26.5 |
| EV/EBITDA (x) | 20.5 | 21.9 | 21.4 | 18.4 | 15.6 |

Source: Company, BOBCAPS Research



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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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