



# KAJARIA CERAMICS LTD

October 26, 2016

SECTOR REALTY-HOUSEHOLD  
RECOMMENDATION

Buy @ 580, Target 740

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## ***Kajaria Ceramics ltd: Transforming the world.***

■ Company Overview and Stock Price .....	3
■ Joint Ventures & Subsidiaries .....	4
■ Company Financials .....	5
■ Peer Comparison .....	9
■ Shareholding Pattern .....	10
■ Growth Prospects .....	11
■ Industry Overview .....	12
■ Investment Rationale .....	13



## Company's Overview and Stock Price

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 68.60 mn. sq. meters presently, distributed across nine plants - one in Sikandrabad (UP), one in Gailpur (Rajasthan), One in Malutana (Rajasthan), five in Morbi (Gujarat) and one in Vijaywada (AP). Kajaria Ceramics exports to more than 20 countries round the Globe.

Kajaria Ceramics manufactures ceramic/vitrified tiles in India. The business activity of the Company falls within one broad business segment viz "Ceramic Tiles". The products of the company include ceramic wall and floor tiles, polished vitrified tiles, glazed vitrified tiles, european tiles, wooden floorings and sanitaryware & fittings.

### COMPANY PROFILE OF KAJARIA CERAMICS

Date of Incorporation	20-Dec-1985
Date of Listing	18-Jan-1995

#### Management

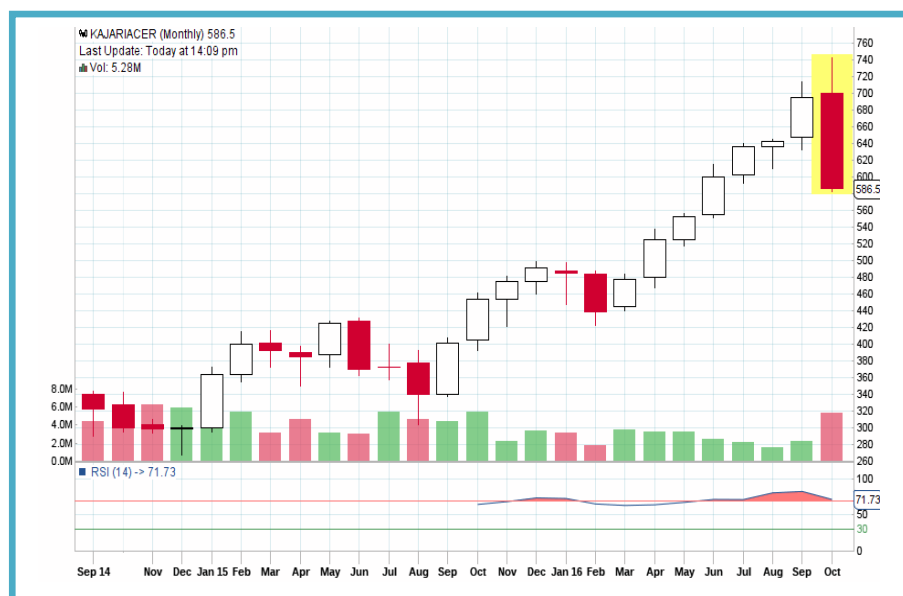
Name	Designation
Ashok Kajaria	Chairman & MD
Basant Kumar Sinha	Director - Technical
Dev Datt Rishi	Director - Technical
Sandeep Singhal	Ind. Director
Ram Ratan Bagri	Ind. Director
Raj Kumar Bhargava	Ind. Director
H Rathnakar Hegde	Ind. Director
Debi Prasad Bagchi	Ind. Director
Sushmita Shekhar	Ind. Director
Rishi Kajaria	Joint MD
Chetan Kajaria	Joint MD
Ashok Kajaria	Chairman & MD

#### Registered Office Address

SF-11, Second Floor, JMD Regent  
Plaza, Mehrauli Gurgaon Road, Village  
Sikanderpur,  
Ghosi, 122001, Gurgaon, Haryana, India

#### Website

<http://www.kajariaceramics.com>



**Chart Hypothesis:** This is the MONTHLY price chart of *Kajaria* for last 2 yr, in which we can see that it made a recent high of 740 and has given correction of 15%.

<b>BROAD INDUSTRY</b>	REALTY-HOUSEHOLD	<b>PE ratio</b>	37.84	<b>MARKET CAP (RS. CR.)</b>	9310
<b>INDUSTRY</b>	Ceramics/Tiles/Sanitaryware	<b>% Pledge</b>	0	<b>FV/ML</b>	1/1
<b>GROUP</b>	Kajaria Group	<b>NSE CODE</b>	<b>KAJARIACER</b>	<b>52 WEEK HIGH/LOW (RS.)</b>	742/421
<b>LTP (RS.)</b>	585.75	<b>INST. INVESTORS (%)</b>	31.92	<b>PROMOTERS (%)</b>	47.33

## Kajaria's joint Ventures and Subsidiaries

A. **SORISO CERAMICS** Acquired 51% stake in Soriso Ceramic Pvt Ltd. based in Morbi, Gujarat in February 2011 with an annual capacity of 2.30 MSM of ceramic floor tiles. Further expanded the capacity to 4.60 MSM in March 2012. Soriso has operated at 77% in Q2 FY17.

B. **JAXX VITRIFIED** Acquired 51% stake (now 61%) in Jaxx Vitrified Pvt Ltd, based in Morbi, Gujarat in February 2012, with an annual capacity of 3.10 MSM. Production commenced in March 2012. Jaxx has acquired another plant with a 2.60 MSM annual capacity of polished vitrified tile in April 2013 in Morbi making the total capacity of Jaxx to 5.70 MSM per annum. Further expansion of 4.50 MSM polished vitrified tile has increased Jaxx capacity to 10.20 MSM. Jaxx has operated at 79% in Q2 FY17.

C. **VENNAR CERAMICS** Acquired 51% stake in Vennar Ceramics Ltd, based in Vijayawada, Andhra Pradesh in April 2012, with an annual capacity of 2.30 MSM of high end ceramic wall tiles. Production has commenced on the 1st July, 2012. Vennar operated at full capacity in Q2 FY17.

D. **COSA CERAMICS** Acquired 51% stake in Cosa Ceramics Pvt. Ltd., based in Morbi, Gujarat – on 16th Oct.'12, with an annual production capacity of 2.70 MSM of polished vitrified tiles and further increased to 5.70 MSM in Sep. 2014. Cosa has operated at 91% capacity in Q2 FY17.

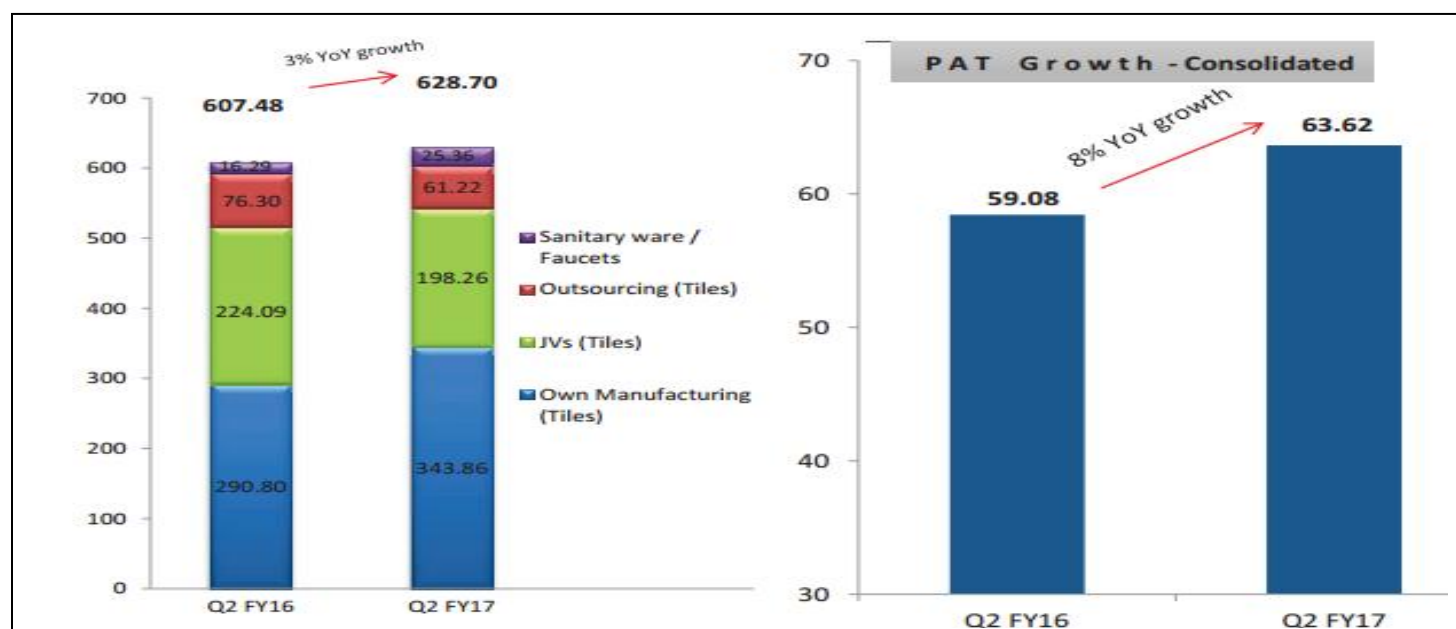
E. **TAURUS TILES** The Company has entered into another JV, Taurus Tiles Pvt. Ltd., which has put up 5 MSM polished vitrified tile capacity at Morbi (Gujarat). Kajaria owns 51% equity in Taurus. The commercial Production has commenced on 27 June 2015. The Plant has operated at 60% capacity in Q2 FY17. We expect utilisation to improve going forward.

F. **FLOERA CERAMICS** The Company has acquired 51% stake in Floera Ceramics Pvt. Ltd, which is putting up a manufacturing facility of polished vitrified tiles with a capacity of 5.70 MSM p.a. in Andhra Pradesh. The land has already been acquired. The plant will be commissioned in FY 17-18.

G. **KAJARIA BATHWARE (P) LTD. (KBL)** a) Sanitaryware: Kajaria Sanitaryware (P) Ltd., in which KBL was holding 64% shares (82% Now), has started the production of sanitaryware in April 2014. b) Faucet: The 1.00 million pieces faucet facility at Gailpur (Rajasthan) commenced commercial production in July 2015. The product quality has come out well.

## Company Financials

Income Statement ( In Cr)	Sep-16 Quarterly	June-16 Quarterly	% Growth (QoQ)
Net Sales/Income from operations	705.46	665.96	5.93%
Other Operating Income	1.39	1.24	12.10%
Total Income From Operations	<b>706.85</b>	<b>667.2</b>	5.94%
Increase/Decrease in Stocks	-6.86	-21.82	-68.56%
Consumption of Raw Materials	176.54	174.31	1.28%
Purchase of Traded Goods	57.17	37.81	51.20%
Power And Fuel	109.85	107.31	2.37%
Employees Cost	74.83	71.19	5.11%
Excise	76.76	74.18	3.48%
Depreciation	20.36	19.92	2.21%
Other Expenses	91.84	97.15	-5.47%
Total Expenditure	<b>600.49</b>	<b>560.05</b>	7.22%
Operating Profit	<b>106.36</b>	<b>107.15</b>	-0.74%
Other Income	2.1	1.72	22.09%
P/L Before Int., Excpt. Items & Tax	108.46	108.87	-0.38%
Interest	7.88	9.24	-14.72%
P/L Before Exceptional Items & Tax	100.58	99.63	0.95%
P/L Before Tax	100.58	99.63	0.95%
Tax	38.48	35.05	9.79%
P/L After Tax from Ordinary Activities	62.1	64.58	-3.84%
PAT	<b>62.1</b>	<b>64.58</b>	-3.84%
Minority Interest	1.52	-1.17	-229.91%
Net Profit/(Loss) For the Period	<b>63.62</b>	<b>63.41</b>	0.33%
Equity Share Capital	15.89	15.89	0.00%
EPS (Rs.)	<b>8.01</b>	<b>7.98</b>	0.38%

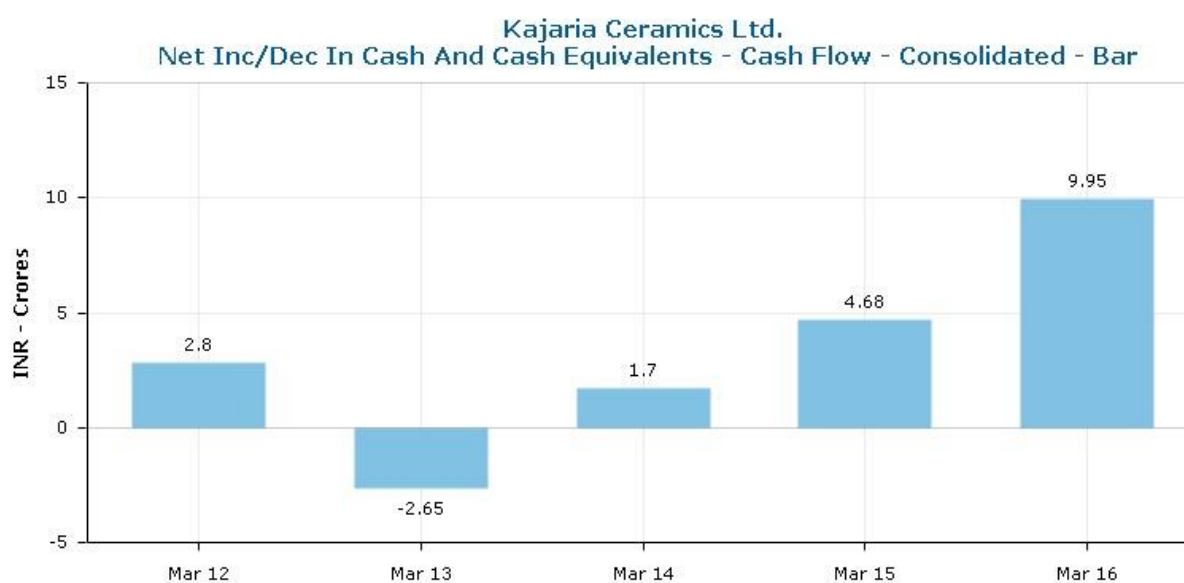


Balance Sheet	FY-16	FY-15	% Growth
<b>EQUITIES AND LIABILITIES</b>			
<b>SHAREHOLDERS FUNDS</b>			
<b>Equity Share Capital</b>	15.89	15.89	0.00%
Total Share Capital	<b>15.89</b>	<b>15.89</b>	0.00%
<b>Reserves and Surplus</b>	906.43	725.05	25.02%
Total Reserves and Surplus	<b>906.43</b>	<b>725.05</b>	25.02%
Total Shareholders Funds	<b>922.32</b>	<b>740.94</b>	24.48%
<b>Equity Share Application Money</b>	2.75	0	
<b>Minority Interest</b>	76.13	62.49	21.83%
<b>NON-CURRENT LIABILITIES</b>			
<b>Long Term Borrowings</b>	144.87	96.4	50.28%
<b>Deferred Tax Liabilities [Net]</b>	91.61	79.09	15.83%
<b>Other Long Term Liabilities</b>	4.26	0	
<b>Long Term Provisions</b>	9.56	10.27	-6.91%
Total Non-Current Liabilities	<b>250.3</b>	<b>185.76</b>	34.74%
<b>CURRENT LIABILITIES</b>			
<b>Short Term Borrowings</b>	110.36	125.63	-12.15%
<b>Trade Payables</b>	280.42	241.84	15.95%
<b>Other Current Liabilities</b>	206.81	152.17	35.91%
<b>Short Term Provisions</b>	69.39	50.41	37.65%
Total Current Liabilities	<b>666.98</b>	<b>570.05</b>	17.00%
Total Capital And Liabilities	<b>1,918.48</b>	<b>1,559.24</b>	23.04%
<b>ASSETS</b>			
<b>NON-CURRENT ASSETS</b>			
<b>Tangible Assets</b>	1,106.58	852.75	29.77%
<b>Intangible Assets</b>	13.93	7.33	90.04%
<b>Capital Work-In-Progress</b>	7.83	77.76	-89.93%
<b>Fixed Assets</b>	1,128.34	937.84	20.31%
<b>Non-Current Investments</b>	0.08	0.08	0.00%
<b>Long Term Loans And Advances</b>	25.74	41	-37.22%
Total Non-Current Assets	<b>1,154.16</b>	<b>978.92</b>	17.90%
<b>CURRENT ASSETS</b>			
<b>Inventories</b>	384.17	303.32	26.66%
<b>Trade Receivables</b>	274.23	207.1	32.41%
<b>Cash And Cash Equivalents</b>	21.51	11.16	92.74%
<b>Short Term Loans And Advances</b>	83.37	56.95	46.39%
<b>Other Current Assets</b>	1.04	1.79	-41.90%
Total Current Assets	<b>764.32</b>	<b>580.32</b>	31.71%
Total Assets	<b>1,918.48</b>	<b>1,559.24</b>	23.04%



Ratios	FY-16	FY-15	Growth %
Cash EPS (Rs.)	38.59	30.31	27.32%
Revenue From Operations / Share (Rs.)	304.4	275.3	10.59%
PBDIT / Share (Rs.)	58.8	45.48	29.29%
PBIT / Share (Rs.)	49.66	38.45	
PBT / Share (Rs.)	45.02	34.02	32.33%
Net Profit / Share (Rs.)	29.45	23.27	
NP After MI And SOA / Share (Rs.)	28.85	22.1	30.54%
PROFITABILITY RATIOS			
PBDIT Margin (%)	19.31	16.52	16.89%
PBIT Margin (%)	16.31	13.96	16.83%
PBT Margin (%)	14.79	12.36	19.66%
Net Profit Margin (%)	9.67	8.45	14.44%
Return on Network / Equity (%)	24.85	23.69	4.90%
Return on Capital Employed (%)	18.31	17.75	3.15%
Return On Assets (%)	11.94	11.26	6.04%
Long Term Debt / Equity (X)	0.15	0.13	15.38%
Total Debt / Equity (X)	0.27	0.29	-6.90%
Asset Turnover Ratio (%)	126.06	140.3	-10.12%
LIQUIDITY RATIOS			
Current Ratio (X)	1.15	1.02	12.75%
Quick Ratio (X)	0.56	0.48	16.67%
Inventory Turnover Ratio (X)	6.3	7.21	-12.62%
Dividend Payout Ratio (NP) (%)	17.33	18.1	-4.25%
Dividend Payout Ratio (CP) (%)	13.16	13.73	-4.15%
Earning Retention Ratio (%)	82.67	81.9	0.94%
Cash Earning Retention Ratio (%)	86.84	86.27	0.66%
COVERAGE RATIOS			
Interest Coverage Ratio (%)	10.72	10.39	3.18%
Interest Coverage Ratio (Post Tax) (%)	7.35	7.49	-1.87%
VALUATION RATIOS			
Enterprise Value (Cr.)	7880.6	6656	18.41%
EV / Net Operating Revenue (X)	3.26	3.04	7.24%
EV / EBITDA (X)	16.87	18.42	-8.41%
MarketCap / Net Operating Revenue (X)	3.13	2.92	7.19%
Retention Ratios (%)	82.66	81.89	0.94%
Price / BV (X)	8.21	8.61	-4.65%
Price / Net Operating Revenue (X)	3.13	2.92	7.19%
EarningsYield	0.03	0.02	
Cash EPS (Rs.)	38.59	30.31	27.32%
Revenue From Operations / Share (Rs.)	304.4	275.3	10.59%
PBDIT / Share (Rs.)	58.8	45.48	29.29%

Cash Flow Statement	FY-16	FY-15
Net Profit/Loss Before Extraordinary Items And Tax	<b>357.71</b>	<b>270.33</b>
<b>Net CashFlow From Operating Activities</b>	271.29	180.27
<b>Net Cash Used In Investing Activities</b>	-265.11	-263.02
<b>Net Cash Used From Financing Activities</b>	3.77	87.43
Net Inc/Dec In Cash And Cash Equivalents	<b>9.95</b>	<b>4.68</b>
<b>Cash And Cash Equivalents Begin of Year</b>	9.8	5.12
<b>Cash And Cash Equivalents End Of Year</b>	19.75	9.8





## Peer Comparison:

### Comparative Ratio Analysis

COMPANY NAME	NPM(%)	AVERAGE 3-YEARS	RONW(%)	AVERAGE 3-YEARS
Kajaria Ceramics	9.67	8.42	24.85	24
HSIL Ltd.	4.33	3.49	6.46	5.4
Somany Ceramics Ltd.	3.81	2.96	15.11	15.33
Asian Granito India	2.38	1.93	6.82	5.67
Cera Sanitaryware L	8.93	8.33	19.82	20.74

### Valuation

COMPANY NAME	CURRENT PRICE(RS.)	P/E	P/BV	MCAP/REVENUES
Kajaria Ceramics	589.9	37.84	5.08	3.88
HSIL Ltd.	347.1	28.17	1.82	1.22
Somany Ceramics Ltd.	663.7	40.84	6.57	1.64
Asian Granito India	271.8	31.6	1.73	0.82
Cera Sanitaryware L	2554	39.8	7.89	3.56

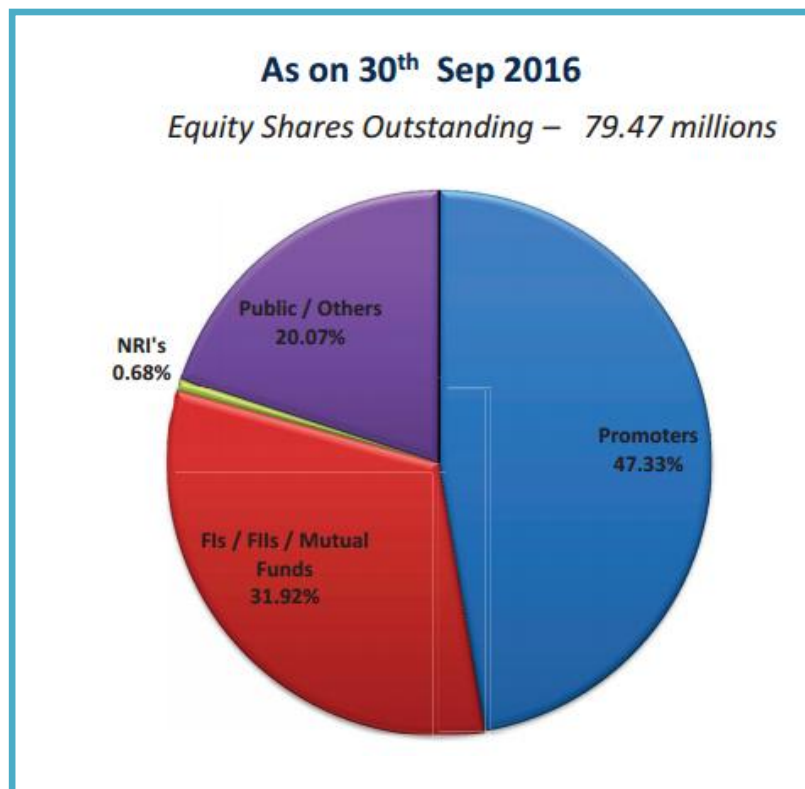
### Financial Comparison

COMPANY NAME	REVENUES (RS CR.)	3- YEAR CAGR(%)	PBDIT (RS CR.)	3- YEAR CAGR(%)	PAT (RS CR.)	3- YEAR CAGR(%)
Kajaria Ceramics	2,418.49	14.46	357.7	31.35	229.2	29.89
HSIL Ltd.	2,056.09	5.29	157.3	16.31	89.04	2.76
Somany Ceramics Ltd.	1,717.67	17.66	101.2	28.36	64.7	26.41
Asian Granito India	993.9	11.94	35.54	11.85	24.26	12.33
Cera Sanitaryware L	933.7	24.13	129.5	24.03	83.46	21.76

### Proportionate Distribution (%)

Particulars	Total (Rs Cr.)	Kajaria Ceramics	HSIL Ltd.	Somany Ceramics Ltd.	Asian Granito India	Cera Sanitaryware
Revenue	8,119.84	29.78%	25.32%	21.15%	12.24%	11.50%
PBDIT	781.23	45.79%	20.14%	12.96%	4.55%	16.57%
PAT	490.66	46.71%	18.15%	13.19%	4.94%	17.01%

## Shareholding Pattern



### Top Mutual funds Holding:

Scheme Name	Value (Rs. Cr)	Holding %		
		16-Sep	16-Aug	16-Jul
Tata Balanced Fund - Regular Plan	83.18	1.24	1.12	1.16
SBI Magnum Global Fund	69.46	2.3	2.13	2.17
DSP BlackRock Equity Fund	32.29	1.39		
Tata Infrastructure Fund - Regular Plan	26.34	3.98	3.67	3.78
Mirae Asset Emerging Bluechip Fund	25.1	0.95		
DSP BlackRock Balanced Fund	21.69	1.11		
Tata Equity Opportunity Fund - Regular Plan	20.79	1.63	1.48	1.52
L&T Business Cycles Fund - Regular Plan	18.42	1.65	1.43	
DSP BlackRock Tax Saver Fund	17.69	1.23		
Kotak Mahindra 50 Unit Scheme - Regular Plan	17.17	1.42	1.27	1.31
Canara Robeco Emerging Equities	16.25	1.25	0.7	0.75
Kotak India Growth Fund Series I	12.23	3.06	2.73	2.81
Tata Mid Cap Growth Fund - Regular Plan	12.02	2.08	2.13	2.15
JPMorgan India Mid and Small Cap Fund	11.18	2.28	1.93	

## Growth Prospects:

- India has announced path-breaking investment programmes namely the Housing for All, Swachh Bharat Abhiyaan, Smart City, Atal Mission for Rejuvenation and Urban Transformation and Pradhan Mantri Awas Yojana that promise growth opportunities over the long term
- India is one of the few countries with a third-quartile median age of 27 years, which represents a younger, ambitious and forward-looking population. As the internet penetration deepens, we expect to see consumption increase. The proportion of people employed in the country's workforce will continue to rise. By 2030, India is expected to constitute 28% of the world's workforce with the worker-to-dependent ratio expected to be 2.1 (14 in 1990). Besides, steady urbanisation will graduate labour markets from low paying agricultural jobs to better-paying manufacturing and service engagements.
- It is seen that consumption patterns are evolving a little ahead of income growth when the earners are optimistic of better times. Consumption growth more than doubled from 4% (1990-2002) to 11% (2003-2014), non-food consumption increased from 53% of overall consumption in 1990 to 69% in 2014
- The premium variants, have become increasingly affordable. The double charged vitrified tile that was available for around 140 per sq. ft. in 2008-2009 is now available for around ~50-60 per sq. ft. The price of glazed vitrified tiles declined from about 150-400 per sq. ft. to about 60-150 per sq. ft. This has been corresponded by a sharp increase in manufacturing capacities in India. Polished vitrified tile capacity increased multifold in just eight years.



## Industry Overview:

Tiles are integral to home and interiors improvement and have emerged as an aesthetically superior flooring and cladding solution, rather than just being hygiene products.

While the Indian tile industry was historically dominated by ceramic floor tiles, there is now an increasing shift towards vitrified flooring solutions due to their strength and low water absorption. A majority of the Indian tile manufacturers hail from Morbi (Gujarat) and account for 60% of the total production. Morbi is possibly the second largest tile cluster in the world. The growth of disposable incomes has enhanced a preference for branded products. Unorganized players lack marketing expertise; they do not possess the resources required to create large brands. As a result, quality conscious players prefer to partner leading national tile brands. In 2015-16, the tile industry performance largely mirrored the country's economic growth.

### Outlook

While soaring aspirations has been an important ingredient for increasing offtake, the primary trigger has been the significantly enhanced tile availability. This has worked towards making the product more affordable. Hence, what was once considered a rich man's foot-step luxury has now transcended into an Indian's regular wall and flooring solution. While this change remained concentrated in metros and urban India in earlier years, this transformation is currently sweeping Tier II and Tier III towns in India.

### Growth drivers

The Indian tile industry is poised to experience significant growth over the coming year. This optimism stems from the important realities that are expected to catalyse tile demand pan-India. The housing sector is expected to report reasonably good growth over the medium term primarily catalysed by the Government's policies namely 'Housing for All', "Swachh Bharat Abhiyan", the Real Estate Regulator Bill, the 'Smart City' initiative and the Shyama Prasad Mukherji urban Mission. In addition, the softening of the interest rates by the RBI is expected to stimulate housing sector growth. Further, recommendations in the Union Budget 2016-17 and the announcements by the 7th Pay Commission are expected to increase the disposable income in the hands of the average Indian which is expected to provide considerable impetus to tile offtake across India.

## Investment rationale:

- Kajaria has made its mark in the global business village. Kajaria is the only Indian company to feature among the Top-10 global tile manufacturing companies truly living upto the Government's '**Make in India**' call – an initiative devised to transform India into a global design and manufacturing hub.
- Against this satisfying achievement, the Company's financial performance, during the quarter under review remained below the historical average. Revenue grew by 3% over the corresponding period in the previous fiscal while EBIDTA and Net Profit for the quarter grew by 7% and 8% respectively over the same period.
- Going ahead, the business landscape appears promising because of **passing of GST Bill**. OROP; Normal monsoon; a 25 bps cut in interest rates by the RBI are expected to increase disposable income in the hands of the average Indian leading to increased discretionary spending.
- And this is just the beginning. India's '**Housing for All**' programme proposes to build six crore houses by 2022 - four crore of them in rural and two crore in urban India.
- The '**Swachh Bharat Abhiyaan**' intends to build six crore toilets in 4,041 statutory towns by 2019. The '**Smart City**' initiative will be implemented, the first phase of development in 20 cities.
- Increased spending: Aggregate consumer expenditure is likely to increase from 45 trillion in 2010 to nearly n50 trillion by 2020 - a more than three-fold increase in 10 years. This will be accompanied by an increase in affluent and aspirer households from 48 million to more than 100 million during the same time period.
- **Seventh Pay Commission:** The 7th Pay Panel has recommended the minimum salary at 18,000 and maximum salary at 2,50,000. The commission also recommended 14.27% increase in basic pay, 23.55% overall increase in salary, allowances and pension, which is expected to increase disposable incomes in the hands of the average Indian.
- **Competitive advantage:** India's leading brand in pricing and brand premium in the ceramic tile space. The Gailpur unit manufactures and stocks all sizes under one roof, a significant convenience in dealer procurement. Unmatched shelf space with dedicated teams for managing product display, branding and promotions at every dealer and sub dealer showroom
- **Performance report 2015-16:** Added 3.00 million square metres of ceramic tile capacity. Increased production of digitally printed tiles. Added 231 designs and two sizes to the product offering

*We recommend BUY in [Kajaria Ceramics](http://www.kajariaceramics.com) @ 580 with the Target of 740 as Kajaria has made its mark in the global business village. Kajaria is the only Indian company to feature among the Top-10 global tile manufacturing companies truly living upto the Government's '**Make in India**' call – an initiative devised to transform India into a global design and manufacturing hub.*

## Disclaimer:

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### Answers to the Best of the knowledge and belief of Dynamic/ its Associates/ Research Analyst who prepared this report

- DYANMIC/its Associates/ Research Analyst/ his Relative have any financial interest in the subject company? No
- DYANMIC/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company? No
- DYANMIC/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report or at the time of public appearance? No
- DYANMIC/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months? No
- DYANMIC/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months? No
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- DYANMIC/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months? No
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