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Rating Information	
Price (Rs)	415
Target Price (Rs)	470
Target Date	30th Dec'19
Target Set On	-
Implied yrs of growth (DCF)	-
Fair Value (DCF)	-
Fair Value (DDM)	-
Ind Benchmark	BSETCD
Model Portfolio Position	NA

Stock Information	
Market Cap (Rs Mn)	66,052
Free Float (%)	52.4%
52 Wk H/L (Rs)	768/413
Avg Daily Volume (1yr)	421,801
Avg Daily Value (Rs Mn)	279.0
Equity Cap (Rs Mn)	318
Face Value (Rs)	2
Bloomberg Code	KJC IN

Ownership	Recent	3M	12M
Promoters	47.6 %	0.0 %	0.2 %
DII	8.9 %	1.5 %	3.1 %
FII	28.1 %	-0.6 %	-2.7 %
Public	15.4 %	-0.9 %	-0.6 %

Price %	1M	3M	12M
Absolute	-4.0%	-12.5%	-23.8%
Vs Industry	-2.3%	-10.7%	-33.0%
ASIANILES	-9.6%	-12.2%	16.8%
SOMANYCERA	-14.6%	-18.0%	-30.4%

#### Consolidated Quarterly EPS forecast

Rs/Share	1Q	2Q	3Q	4Q
EPS (18A)	3.2	4.0	3.4	4.2
EPS (19E)	2.9	3.3	3.5	4.5

# Kajaria Ceramics Ltd.

Annual Report Analysis

Regular Coverage

New launches to drive growth, gas prices & pricing stability remain key margin levers

Building Materials

We analysed Kajaria's (KJC) FY18 annual report and key takeaways are:

- KJC posted FY18 revenue/EBITDA/PAT growth of 6%/-8%/-8%. Sales volumes have grown at a 13.47% CAGR over last seven years with the revenue mix shifting towards higher-margin vitrified tiles (56% in FY18 vs. 49% in FY11) from ceramic tiles (38% in FY18 vs. 50% in FY11) earlier.
- At FY18-end, KJC had eight tile manufacturing facilities (own and JV) with a combined capacity to produce 68.37msm of ceramic and vitrified tiles. Its product portfolio, comprising over 2,800+ SKUs of ceramic and vitrified tiles, is the largest in India's ceramic tiles sector; it also has 250+ SKUs in sanitary-ware and faucets. The company aims to attain 100msm of tiles capacity by FY20.
- Revenues for Kajaria Bathware (S&F subsidiary) grew 25% yoy in FY18 with losses declining owing to increasing product awareness and acceptance. During the year, Aravali Investment Holdings (wholly-owned subsidiary of West Bridge Crossover Fund, LLC) bought a 15% stake in Kajaria Bathware for a consideration of Rs 645mn.
- In FY18, KJC launched several new designs across existing product verticals, viz. ceramic wall & floor tiles, polished vitrified tiles (PVT) and glazed vitrified tiles (GVT). It also launched a host of new SKUs in sanitary-ware and faucets divisions.
- The company incurred ~Rs 1.05bn in branding & advertising in FY18. KJC is the only Indian tile manufacturer to have a presence across 30 airports pan-India.
- KJC has strengthened its distribution network by adding 300 new dealers in order to enhance presence and visibility in tier 1-3 cities and towns.
- The company has forayed into the plywood business and will operate via an outsourcing model, leveraging the *Kajaria* brand. Till now, it has launched the product in western India (Gujarat, Maharashtra)
- Working capital cycle stood at 77 days in FY17 (FY17: 60 days) due to an increase in receivables amid competitive pressures and tough macro conditions.

**Equirus view:** We expect KJC to post a sales/PAT CAGR of 12%/14% over FY18-FY21E aided by higher retail penetration, increased visibility via higher A&P spending, a better product mix and improved utilization capacities. We currently have an ADD rating on the stock with a Dec'19 TP of Rs 470.

#### Change in Estimates

No change in estimates

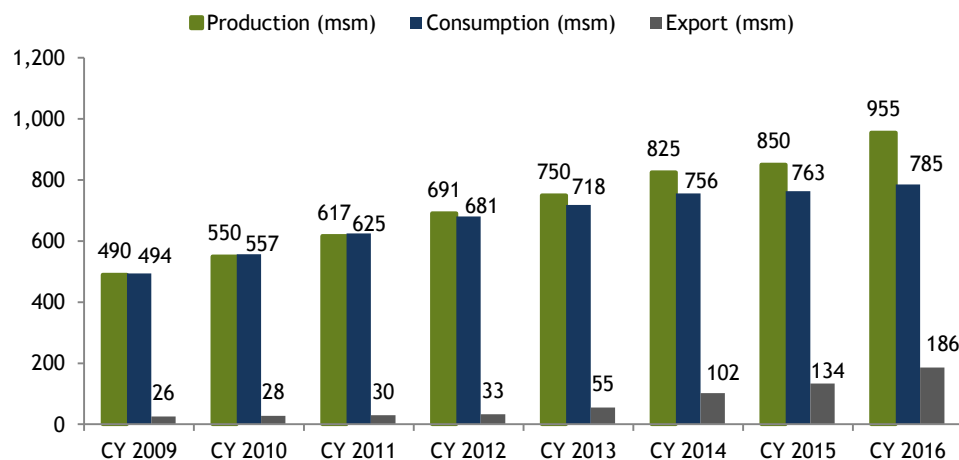
#### Consolidated Financials

Rs. Mn	FY18A	FY19E	FY20E	FY21E
Sales	27,106	29,754	33,647	38,733
EBITDA	4,564	4,593	5,562	6,567
Depreciation	885	930	943	1,016
Interest Expense	241	182	204	226
Other Income	108	106	119	116
Reported PAT	2,335	2,322	2,984	3,586
Recurring PAT	2,342	2,322	2,984	3,586
Total Equity	13,510	15,234	17,216	19,614
Gross Debt	1,351	1,594	1,683	1,771
Cash	824	823	1,011	1,234
Rs Per Share	FY18A	FY19E	FY20E	FY21E
Earnings	14.7	14.6	18.8	22.6
Book Value	85	96	108	123
Dividends	3.0	4.0	6.0	7.0
FCFF	7.4	3.2	7.3	8.8
P/E (x)	30.2	30.4	23.6	19.7
P/B (x)	5.2	4.6	4.1	3.6
EV/EBITDA (x)	19.2	19.1	15.7	13.3
ROE (%)	18%	16%	18%	19%
Core ROIC (%)	15%	14%	15%	17%
EBITDA Margin (%)	17%	15%	17%	17%
Net Margin (%)	9%	8%	9%	9%

**Indian tiles industry**

- In India, ceramic tiles are preferred for wall applications while vitrified tiles are being increasingly used as flooring solutions due to their longer usable life. The growth in the tile consumption over last 2 decades was mainly driven by the transformation of ceramic tiles from being typically hygiene products into adornment and aesthetic solution.
- A majority of Indian tile manufacturers are based out of Morbi (Gujarat).The region accounts for ~60% of India’s tile production capacity and is the second largest tile manufacturing cluster in the world.
- In CY16, India was the second largest producer and consumer of tiles, and one of the fastest growing tile markets in the world. Production jumped 12.4% yoy while consumption was up 2.4% yoy in FY18. Low domestic consumption growth was however compensated by a healthy uptick in exports, primarily from Morbi tile producers.
- It is also the fourth largest tile exporter globally and exported 186msm of tiles in CY16 clocking a growth of 39% yoy.

**Exhibit 1: India’s Tile production/consumption/exports grew at 10%/7%/32% CAGR over CY09-CY16**



Source: Ceramic World Review, Equirus Securities

**Exhibit 2: India is currently the world’s 2<sup>nd</sup> largest tile producer and consumer**

% of World Prod.	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016
China	43.7%	45.2%	46.3%	47.7%	48.5%	48.3%	49.7%
India	5.7%	5.8%	6.2%	6.3%	6.7%	6.9%	7.3%
Brazil	7.8%	7.9%	7.7%	7.3%	7.3%	7.3%	6.1%
ROW	42.8%	41.1%	39.8%	38.8%	37.6%	37.5%	36.9%

% of World Cons.	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016
China	36.9%	38.2%	38.8%	39.3%	40.5%	40.1%	42.8%
India	5.9%	6.0%	6.2%	6.2%	6.3%	6.3%	6.1%
Brazil	7.4%	7.4%	7.3%	7.2%	7.1%	6.7%	5.5%
ROW	49.9%	48.4%	47.7%	47.2%	46.2%	46.9%	45.5%

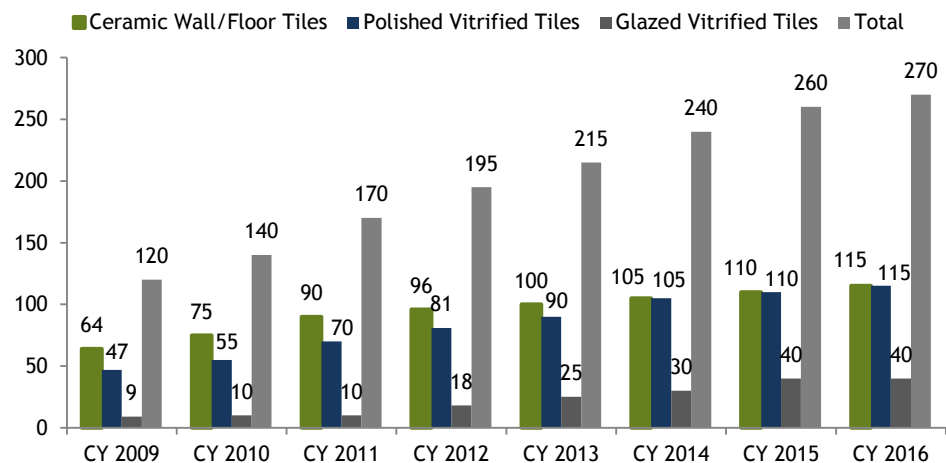
Source: Company, Equirus Securities

**Exhibit 3: GVT remains the fastest growing segment in terms of volumes**

	CY 2010	CY 2011	CY 2012	CY 2013	CY 2014	CY 2015	CY 2016	CAGR FY10-16
<b>Ceramic Tiles (MSM)</b>								
Domestic	352	390	405	420	430	415	420	
Imports	15	10	10	10	10	10	10	
<b>Total</b>	<b>367</b>	<b>400</b>	<b>415</b>	<b>430</b>	<b>440</b>	<b>425</b>	<b>430</b>	<b>3%</b>
<b>PVT(MSM)</b>								
Domestic	150	185	221	235	236	233	245	
Imports	20	15	15	15	40	30	30	
<b>Total</b>	<b>170</b>	<b>200</b>	<b>236</b>	<b>250</b>	<b>276</b>	<b>263</b>	<b>275</b>	<b>8%</b>
<b>GVT (MSM)</b>								
Domestic	12	23	28	36	35	70	75	
Imports	8	2	2	2	5	5	5	
<b>Total</b>	<b>20</b>	<b>25</b>	<b>30</b>	<b>38</b>	<b>40</b>	<b>75</b>	<b>80</b>	<b>26%</b>
<b>Total</b>	<b>557</b>	<b>625</b>	<b>681</b>	<b>718</b>	<b>756</b>	<b>763</b>	<b>785</b>	<b>6%</b>

Source: Company, Equirus Securities

**Exhibit 4: India's tiles market has grown at a 12% CAGR (value-wise) over CY09-CY16 led by GVT (24% CAGR) and PVT (14% CAGR) segments**



Source: Company, Equirus Securities

**Key Takeaways in FY18**

- Revenue/Volume growth for Kajaria during FY18 was 6.3%/6.2%.
- Company has around 2800+ SKUs in tiles which is the largest in the industry. It also has 250+ SKUs in Bathware.
- In FY18, company launched the Designer Series and Impression Series (70 concepts), the New Luxury Collection (98 concepts) in ceramic wall and floor tiles and launched the Ultima Luxury collection comprising 181 designs in glazed vitrified tiles.
- On the network front, it has 1,400 dealers of which 300 were added in FY18, mostly in Tier II cities/towns. The company has also added 130 net dealers in FY18.
- Company currently has 55 Galaxy stores (keeping Ceramic, PVT and GVT), 24 Star stores (keeping any 2 of the 3 tile types) and 250 Prima and Eternity stores.
- Retail to Institutional sales mix currently is 75%:25%.
- In FY18, Kajaria invested Rs 1.05bn in branding and awareness campaigns across the nation. In addition to Akshay Kumar, who is the tile brand ambassador, company has also tied up with the youth icon Anushka Sharma to make her the brand ambassador for its Kerovit brand (faucets and sanitaryware).
- Company has extended its brand presence to 30 airports (Tier I, II and III) as on March 31, 2018.

- GST implementation resulted in several business establishments (largely the MSME sector) getting impacted. As a result, this sector, which forms a majority of company's retail sales, postponed their purchases of tiles -impacting sales volumes.
- Increase in Gas prices impacted the margins during FY18 as due to subdued demand, company could not take any price hikes. Additionally, the GVT segment witnessed severe competitive pressure due to large capacity additions by Morbi players because of which resulting in prices seeing a sharp correction (15%+ yoy drop in prices as per our channel checks).
- Some of the company's subsidiaries based in Morbi posted losses as they operated at sub-optimal levels and faced other operational inefficiencies. This impacted company's consolidated PAT for FY18.
- Kajaria Bathware (Sanitaryware & Faucetware subsidiary)revenues grew 25% yoy in FY18 with losses declining owing to increasing product awareness and acceptance. Company has earmarked Rs 150mn for branding & advertisement for this division.
- Kajaria has entered into Plywood business and will operate via an outsourcing model leveraging the Kajaria brand. As per our channel checks, company has launched the product in Western India (Gujarat and Maharashtra).
- During the year, Aravali Investment Holdings (wholly owned subsidiary of West Bridge Crossover Fund, LLC) bought a 15% stake in Kajaria Bathware for a consideration of Rs 645mn thereby valuing the division at Rs 4.3bn.
- During FY18, company's exports were -Rs 483mn.
- Kajaria sources its gas from GAIL for its North India plants. Prices are re-set every month by GAIL and they have been seeing an increasing trend. In FY18, additional gas cost due to rise in prices stood at Rs 300mn.

**Plywood Products:**

- KajariaPLY Gold Plywood - Premium BWP grade product (20 years warranty, comes with Gurjan Face Veneer and is bonded with PF (Phenol Formaldehyde) resin).
- KajariaPLY Silver Plywood - Premium MR grade product (7 years warranty - first in the country, comes with Gurjan Face Veneer and is bonded with melamine).
- KajariaPLY Platinum Plywood - Premium BWP Marine grade product (25 years warranty, comes with Gurjan Face Veneer and is bonded with an un-extended phenol formaldehyde resin).

**Planned capex**

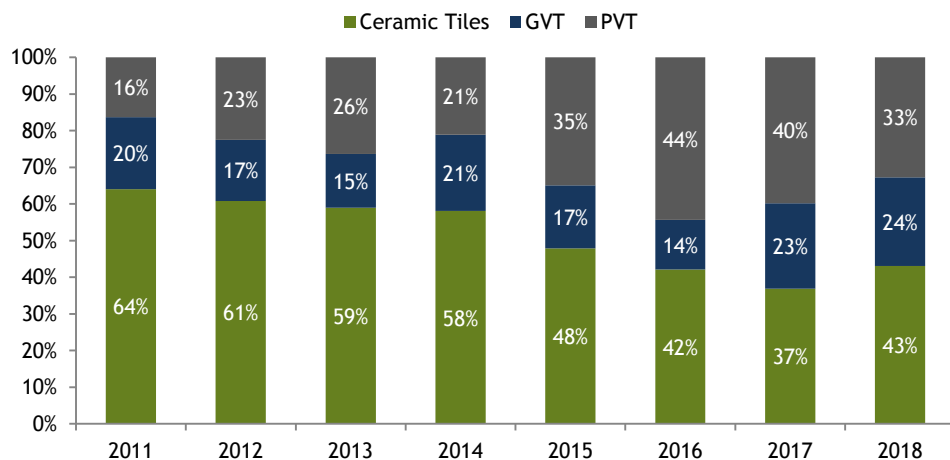
- KJC is adding 3.5MSM of ceramic wall and floor tile manufacturing capacity at its Gailpur unit.
- Company is setting up a 5msm GVT facility in Andhra Pradesh via a JV which would be used to cater the Southern and Western India markets. The unit is expected to come on stream in the late second half of FY19.
- Company is likely to spend Rs 1.5bn in FY19 including Rs1bn on new capacity addition at Mooltana, Rajasthan plant and new plant at AP. There would be no capex in S&F division as Rs 100mn capacity addition was already done in Sanitaryware in FY18 while Faucet division is running at 40% capacity utilization.
- The company targets to reach 100MSM capacity by 2020 from 68.37MSM in FY18. However, the capex spend for the incremental capacity addition from hereon would be much lower than what was spent for the existing capacity.
- Current outsourcing for the company from Morbi is equally distributed among several players and no one player controls any majority. Company would be exploring more outsourcing opportunities going forward to remain asset light since new plants in Morbi have latest technology which leads to lower production cost.

**Exhibit 5: Current capacities**

Factory	Product Type	Capacity (msm/annum)							
		2011	2012	2013	2014	2015	2016	2017	2018
<b>Own</b>									
Sikandrabad, UP	Wall/Floor Tiles	3.2	3.2	3.2	3.5	3.5	3.5	-	
	PVT	2	2	2	-	-	-	-	
	GVT	3	3	3	6.3	6.3	6.3	8.4	8.4
Gailpur, Rajasthan	Wall/Floor Tiles	14.1	14.1	14.1	15.5	18.5	18.5	18.9	22.9
	PVT	3	3	3	3	3	3	-	0
	GVT	3	3	3	3	3	3	7.7	8.1
Malutana, Rajasthan	PVT	-	-	-	-	-	6.5	6.5	6.5
<b>Total</b>		<b>28.3</b>	<b>28.3</b>	<b>28.3</b>	<b>31.3</b>	<b>34.3</b>	<b>40.8</b>	<b>41.5</b>	<b>45.9</b>
<b>JVs</b>									
Jaxx, Morbi, Gujarat	PVT	-	3.1	3.1	5.7	10.2	10.2	10.2	10.2
Cosa, Morbi, Gujarat	PVT	-	-	2.7	2.7	5.7	5.7	5.7	5.7
Taurus, Morbi, Gujarat	PVT	-	-	-	-	5	5	5	-
Soriso, Morbi, Gujarat	Wall/Floor Tiles	2.3	4.6	4.6	4.6	4.6	4.6	3.6	3.7
Vennar, Andhra Pradesh	Wall/Floor Tiles	-	-	2.3	2.3	2.3	2.3	2.9	2.9
<b>Total</b>		<b>2.3</b>	<b>7.7</b>	<b>12.7</b>	<b>15.3</b>	<b>27.8</b>	<b>27.8</b>	<b>27.4</b>	<b>22.47</b>
<b>Grand Total</b>		<b>30.6</b>	<b>36</b>	<b>41</b>	<b>46.6</b>	<b>62.1</b>	<b>68.6</b>	<b>68.9</b>	<b>68.4</b>

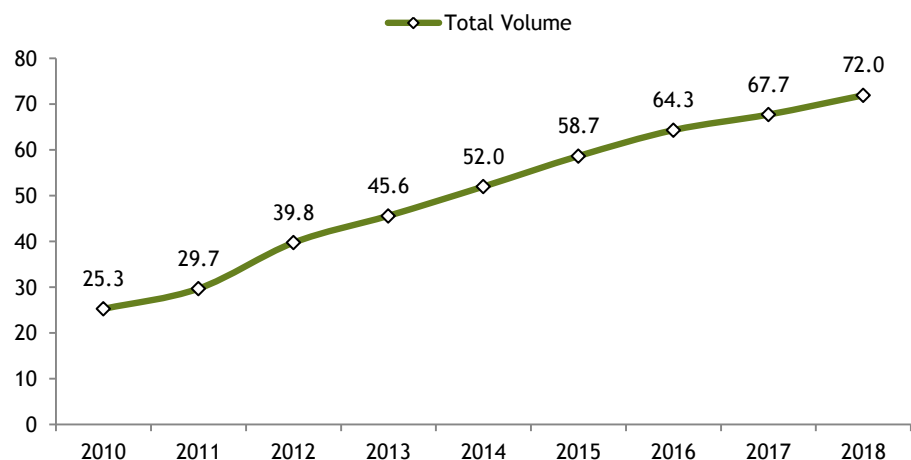
\* Taurus Tiles Private Limited ceased to be a subsidiary of the company during the year 2017-18.

**Exhibit 6: KJC is gradually shifting its capacity towards high-margin vitrified tiles**



Source: Company, Equirus Securities

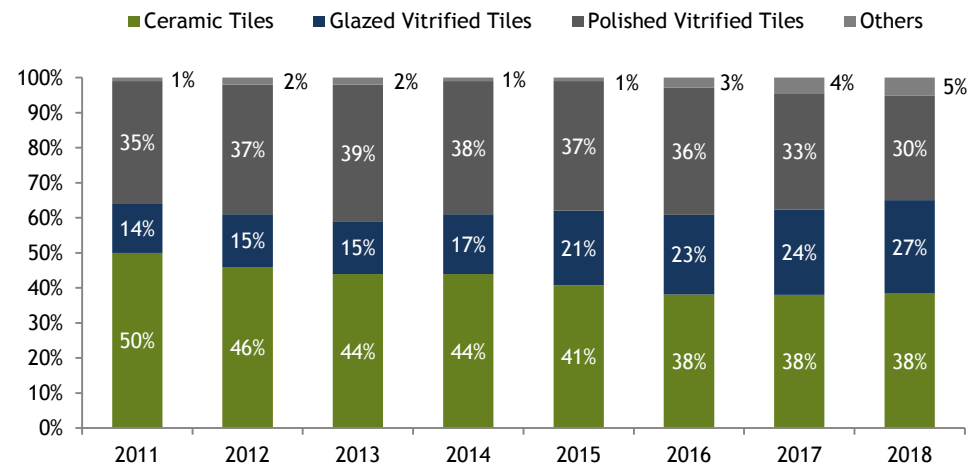
**Exhibit 7: Sales volume CAGR of 13.4%/9.5% posted over the last 7/5 years**



Source: Company, Equirus Securities

**Segmental performance**

**Exhibit 8: Value-wise segmental breakup - Proportion of high-margin GVP in total revenues continues to increase**



Source: Company, Equirus Securities

**Ceramic wall & floor tiles division**

- KJC has 29.47MSM ceramic wall and floor tile capacity spread across three units equipped with digital printing technologies. Recently in FY19, KJC has sold its stake in Soriso JV too.
- For FY18, segment turnover reached Rs 10.4bn from Rs 9.7bn in FY17, a growth of 7% yoy while volumes increased from 32.14msm in FY17 to 34.7msm in FY18, a growth of 8% yoy.
- Kajaria has created a new distribution channel, 'Kajaria Prima Plus' exclusively for marketing its ceramic wall and floor tiles.
- During FY18, KJC(1) introduced new value-added products, namely the Designer Collection and the Impression Series, in the 30x60 cm size with 70 new concepts - The Designer Collection comprised a set of wall and floor tiles, with third firing highlighters as the eye catcher. The Impression Series comprised two finishes - one that provided an embossed look on the tile surface and the other, a sparkling effect on the tile surface, (2) launched its New Luxury Collection, consisting of 98 concepts in multiple sizes, (3) also launched new bigger sizes namely Grestough slabs as a replacement of

high-end marble (sizes - 80 x 120 cm range) and Grestough planks, with the feel and finish of authentic wood (sizes - 20 x 120 cm and 20 x 100 cm) and(4) organized the Caravan shows in key consuming markets to increase customer awareness with the first show being organized in May 2017 in 20 cities and the second being organized in January 2018.

- Going forward, KJC plans to(1) introduce new sizes 20x20 and 80x120 which would bring presence in all segments from commodity to high value,(2)expand the *Prima Plus* channel network.

**Exhibit 9: Volume growth to be driven by affordable housing schemes, *Swachh Bharat Abhiyaan***

Particulars	2011	2012	2013	2014	2015	2016	2017	2018
Facilities	3	3	4	3	3	3	3	3
Capacity (msm)	19.6	21.9	24.2	25.9	25.9	28.9	25	29
Sizes	10	11	11	11	11	11	15	15*
Designs	545	750	790	932	1,214	1,270	1,800	1,800
Price/sqm.	200-700	200-900	225-1000	200-800	220-800	225-650	225-650	225-650*
Sales (Rs Mn)	5,025	6,472	7,630	8,866	9,599	10,027	10,620	10,413
growth yoy (%)	-	29%	18%	16%	8%	4%	6%	7%
Sales Volume (msm)	-	-	26.1	28.71	29.89	31.31	32.14	34.68
growth yoy (%)	-	-	-	10%	4%	5%	3%	8%
Realizations (Rs/sqm)			292	309	297	294	302	300
growth y/y (%)				6%	-4%	-1%	3%	-1%

\*: assumed to be same as last year since details not given in annual report

Source: Company, Equirus Securities

**PVT division**

- KJC has a 22.40MSM PVT capacity spread across 3 facilities (one at Malutana, Rajasthan, and two at Morbi, Gujarat).
- For FY18, segment turnover reached Rs 8.1bn vs. Rs 8.4bn in FY17, declining 5% yoy while volumes reduced from 22.95msm in FY17 to 22.74msm in FY18, a fall of 1% yoy. Realizations for the company under this segment have remained under pressure for last 3 years though % fall has been declining.
- KJC's four facilities manufacture 173 SKUs in various sizes.

- During FY18, KJC (1) introduced the 80 x 160 cm size in the double-charge segment which is the biggest size available in polished vitrified tiles in the double charge format in India, (2) also launched, for the first time in India, the 60x120 cm double-charge tile for indoor applications, (3) launched a range of penetrative products (different sizes and designs) for filling in product gaps in the price chain in this segment, (4) introduced another value-added tile variant - Stone Art which complements its existing product Sandune and (5) replaced the existing feeder system in Jaxx Vitrified (JV) with a contemporary variant, which facilitated the manufacture of a value-added range from the same line, with superior cost-effective designs.
- Going forward, KJC plans to (1) Increase the proportion of high-value tiles in the sales mix,(2) launch the full-body vitrified tiles both in Salt & Pepper and Solid Colors- a popular concept in high traffic areas; and(3) introduce large size showrooms under the KAJARIA AMBIANCE format, which will showcase large sized tiles and other value-added products.

**Exhibit 10: Focus on product rationalization by newer design launches, product premiumization**

Particulars	2011	2012	2013	2014	2015	2016	2017	2018
Facilities	3	3	5	5	5	5	5	4
Capacity (msm)	8	11.1	13.4	11.4	18.9	27.4	27.4	22.4
Sizes	3	3	3	2	3	3	3	3*
Designs	50	60	58	60	95	90	74	173
Price/sqm	400-1200	400-1200	425-1200	400-800	400-1000	400-1000	500-1500	500-1500*
Sales (Rs Mn)	3,518	5,206	6,763	7,657	8,859	9,746	9,470	8,077
growth yoy (%)	-	48%	30%	13%	16%	10%	-3%	-5%
Sales Volume (msm)	-	-	15.18	17.61	20.37	22.36	22.95	22.74
growth yoy (%)	-	-	-	16%	16%	10%	3%	-1%
Realizations (Rs/sqm)			445	435	435	392	370	355
growth y/y (%)				-2%	0%	-10%	-6%	-4%

\*: assumed to be same as last year since details not given in annual report

Source: Company, Equirus Securities

**GVT division**

- KJC has 16.50MSM GVT capacity spread across Gailpur (Rajasthan) and Sikandrabad (UP) facilities.
- Products are marketed under the ‘Kajaria Eternity’ brand through a network of dealers (Kajaria Eternity World, Kajaria Galaxy and Kajaria Boutique chains). Company’s GVT portfolio comprises of around 890 SKUs in 15 sizes and offers the largest number of tiles in various finishes in the large format.
- Segment revenues increased from Rs 6.2bn in FY17 to Rs 7.2bn in FY18, a growth of 17% yoy while volumes increased from 12.65msm in FY17 to 14.54msm in FY18, a growth of 15% yoy. Realizations in this segment improved in FY18 after remaining under pressure between FY15-17 possibly due to entry of newer players in this segment.
- During FY18, KJC(1) launched the ‘Ultima’ - a Luxury collection comprising 181 designs in five sizes (120x180 cm, 120x120 cm, 80x160 cm, 20x180 cm and 29x180 cm), (2) also added a new size (80x160 cm) to the Ultima range which is being positioned as an alternative to Italian marble/granite, and (3) introduced large planks with a wooden appeal (20x180 cm and 29x180 cm) as an alternative to wooden planks (use for wooden flooring).
- Going forward, Kajaria’s new GVT capacity in South India via JV will become operational in FY19 which would strengthen its capability to cater to customers in South, West and Central India.

**Exhibit 11: GVT- Fastest growing and high-margin segment for the company**

Particulars	2011	2012	2013	2014	2015	2016	2017	2018
Facilities	1	1	2	2	2	2	2	2
Capacity (msm)	3	3	6	9.3	9.3	12.3	16.1	16.5
Sizes	3	2	6	6	7	8	12	15
Designs	60	100	175	320	360	468	800	890
Price/sqm	500-1500	600-1800	600-1800	600-1800	530-1200	550-1100	550-2000	550-2000*
Sales (Rs mn)	1,407	2,111	2,601	3,426	5,220	6,290	7,069	7,211
growth y/y (%)		50%	23%	32%	52%	21%	12%	17%
Sales Volume (msm)			4.25	5.69	8.41	10.67	12.65	14.54
growth y/y (%)				34%	48%	27%	19%	15%
Realizations (Rs/sqm)			613	602	549	514	488	496
growth y/y (%)				-2%	-9%	-6%	-5%	2%

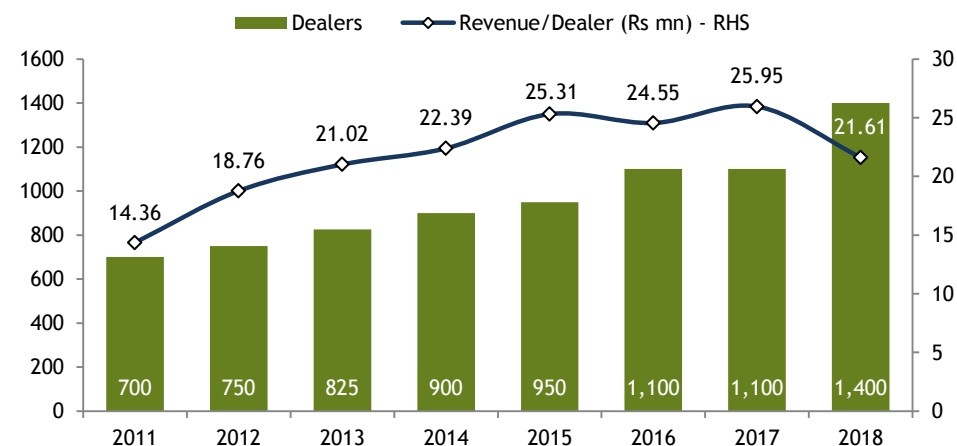
\*: assumed to be same as last year since details not given in annual report

Source: Company, Equirus Securities

**Sanitaryware &Faucetware division**

- KJC has 1mn pieces of faucet manufacturing facility at Gailpur (Rajasthan).
- Its product basket comprises 15 different sizes of faucets and 250+ SKUs. KJC also sources key components from global brand leaders in the trade.
- The company has 540,000 pieces of sanitaryware manufacturing facility at Morbi, Gujarat.
- Segment revenues grew by 25% yoy in FY18.
- During FY18, KJC (1) launched new product range in faucets and sanitaryware, (2) invested in a new technology, enabling it to manufacture single-piece toilets which were earlier outsourced thereby widening its growth potential, (3) invested in enhancing the capacity of its sanitaryware unit from 5.40 lacs pieces/annum to 6.00 lacs pieces/annum (with an ability to produce more value-added products) and it will come onstream in Jul’18, (3) added new dealers taking the total count to 300 across India, and (4) appointed Anushka Sharma as the brand ambassador for the Kerovit brand.

**Exhibit 12: Dealer network remains strong, however revenue/dealer was lower**



Source: Company, Equirus Securities

**Exhibit 13: Director remuneration**

Salary/Perquisites/Fees (Rs Mn)	2011	2012	2013	2014	2015	2016	2017	2018
Non-Independent Directors	30.2	51.5	58.4	73	85.5	95.2	107.1	111.9
Independent Directors	0.9	0.8	0.7	1	0.9	1.4	1.6	1.9
<b>Commission (Rs Mn)</b>								
Non-Independent Directors	-	-	43.5	36	48.4	70.8	80	76
Independent Directors	-	-	-	-	-	-	-	-

Source: Company, Equirus Securities

**Subsidiary results**

All subsidiaries have seen a decline in turnover and PAT in FY18 due to capacity rationalization, operational inefficiencies and increasing gas prices impacting margins.

**A). Soriso Ceramic Pvt. Ltd.**

Particulars (Rs Mn)	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Share Capital	30	30	30	30	30	30	30	30
Reserves	8	27	44	71	111	148	159	176
Total Assets	187	300	360	405	408	404	369	411
Total Liabilities	150	243	286	304	267	225	180	205
Investments	0	0	0	0	0	0	0	0
Gross Turnover	444	492	701	1,042	1,227	1,047	757	586
PBT	2	32	23	41	61	56	48	24
Tax	0	13	6	14	22	18	16	7
PAT	1	20	17	27	39	38	32	17
<b>Kajaria Shareholding (%)</b>	51%	51%	51%	51%	51%	51%	51%	51%

Source: Company, Equirus Securities

**B). Jaxx Vitrified**

Particulars (Rs Mn)	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Share Capital	46	46	82	150	150	150	150
Reserves	45	55	145	278	137	146	-39
Total Assets	359	419	906	2,192	2,319	2,137	1,999
Total Liabilities	269	319	680	1,765	2,034	1,843	1,888
Investments	1	1	1	1	1	1	1
Gross Turnover	11	662	1,460	2,262	2,883	3,114	2,291
PBT	1	16	54	31	-141	9	-185
Tax	0	5	18	0	0	0	0
PAT	1	11	36	31	-141	9	-185
<b>Kajaria Shareholding (%)</b>	51%	51%	51%	61%	61%	61%	82%

Source: Company, Equirus Securities

**C). Vennar Ceramics**

Particulars (Rs Mn)	FY13	FY14	FY15	FY16	FY17	FY18
Share Capital	150	150	150	150	150	240
Reserves	71	85	127	143	152	87
Total Assets	757	789	828	835	904	843
Total Liabilities	537	555	552	542	602	516
Investments	0	0	0	0	0	0
Gross Turnover	352	755	797	781	784	631
PBT	15	22	65	24	16	-101
Tax	5	8	23	8	6	-34
PAT	11	14	42	16	10	-67
<b>Kajaria Shareholding (%)</b>	51%	51%	51%	51%	51%	51%

Source: Company, Equirus Securities



**D). Cosa Ceramics**

Particulars (Rs Mn)	FY13	FY14	FY15	FY16	FY17	FY18
Share Capital	91	91	91	91	91	91
Reserves	151	220	304	450	533	592
<b>Total Assets</b>	<b>635</b>	<b>751</b>	<b>1,303</b>	<b>1,351</b>	<b>1,371</b>	<b>1,293</b>
<b>Total Liabilities</b>	<b>393</b>	<b>440</b>	<b>908</b>	<b>810</b>	<b>747</b>	<b>609</b>
Investments	0	0	0	0	0	0
Gross Turnover	342	1,197	1,737	2,313	1,816	1,632
PBT	37	108	144	187	115	59
Tax	8	38	60	41	32	-1
PAT	29	70	84	145	83	60
<b>Kajaria Shareholding (%)</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>	<b>51%</b>

Source: Company, Equirus Securities

**E). Kajaria Bathware**

Particulars (Rs Mn)	FY15	FY16	FY17	FY18
Share Capital	150	250	250	250
Reserves	44	93	-99	-197
<b>Total Assets</b>	<b>798</b>	<b>1,428</b>	<b>1,344</b>	<b>1,591</b>
<b>Total Liabilities</b>	<b>605</b>	<b>1,085</b>	<b>1,193</b>	<b>1,538</b>
Investments	0	0	0	0
Gross Turnover	162	721	1,200	1,412
PBT	0	-78	-191	-98
Tax	0	0	0	0
PAT	0	-78	-191	-98
<b>Kajaria Shareholding (%)</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>	<b>100%</b>

Source: Company, Equirus Securities

\*Taurus Tiles Private Limited ceased to be a subsidiary of the company during the year 2017-18.

**F). Kajaria Floera Ceramics**

Particulars (Rs Mn)	FY16	FY17	FY18
Share Capital	128	100	100
Reserves	-5	-5	2
<b>Total Assets</b>	<b>123</b>	<b>96</b>	<b>246</b>
<b>Total Liabilities</b>	<b>0</b>	<b>0</b>	<b>145</b>
Investments	0	0	0
Gross Turnover	0	0	0
PBT	-3	0	0
Tax	0	0	0
PAT	-3	0	0
<b>Kajaria Shareholding (%)</b>	<b>51%</b>	<b>51%</b>	<b>70%</b>

Source: Company, Equirus Securities

**Exhibit 14: Segmental Performance**

Particulars	2018			2017		
	Tiles	Others	Total	Tiles	Others	Total
Segment Revenue (Rs Mn)	26,414	1,412	27,826	27,344	1,201	28,545
Segment Results (Rs Mn)	3,702	-24	3,678	4,258	-109	4,150
EBIT (%)	14%	-2%	13%	16%	-9%	15%
Other Income			108			154
Finance Costs			241			340
Exceptional Items			8			0
Income Taxes			1,267			1,425
PAT			2,286			2,538
Segment Assets	18,938	1,591	20,529	18,451	1,344	19,795
Unallocable Assets			874			606
Total Assets			21,403			20,401
Segment Liabilities	2,805	1,538	4,343	3,342	1,193	4,535
Unallocable Liabilities			2,888			3,355
Total Liabilities			7,231			7,890
Capex	1,221	132	1,353	1,402	52	1,454

Source: Company, Equirus Securities

**Exhibit 15: Breakup of expenses at consolidated level - rise in Power & Fuel costs have impacted margins in FY18**

Particulars	2010	2011	2012	2013	2014	2015	2016	2017	2018
Sales	7,355	9,532	13,130	15,833	18,363	21,868	24,135	25,496	27,106
y/y growth (%)	11%	30%	38%	21%	16%	19%	10%	6%	6%
Material Costs	1,434	1,616	2,888	3,511	4,536	4,723	6,026	6,898	7,171
as % of Sales	19%	17%	22%	22%	25%	22%	25%	27%	26%
y/y growth (%)	2%	13%	79%	22%	29%	4%	28%	14%	4%
Purchase of Traded Goods	2,165	3,759	3,621	3,686	3,304	3,611	2,437	2,297	3,432
as % of Sales	29%	39%	28%	23%	18%	17%	10%	9%	13%
y/y growth (%)	-5%	74%	-4%	2%	-10%	9%	-33%	-6%	49%
Power & Fuel (P&F)	1,048	937	2,107	3,066	3,717	4,854	4,805	4,381	5,194
as % of Sales	14%	10%	16%	19%	20%	22%	20%	17%	19%
y/y growth (%)	16%	-11%	125%	46%	21%	31%	-1%	-9%	19%
Employee Costs	613	761	1,072	1,364	1,713	2,073	2,527	2,887	3,177
as % of Sales	8%	8%	8%	9%	9%	9%	10%	11%	12%
y/y growth (%)	21%	24%	41%	27%	26%	21%	22%	8%	3%
Other Expenses excluding P&F	946	973	1,381	1,758	2,243	3,068	3,769	4,071	3,568
as % of Sales	13%	10%	11%	11%	12%	14%	16%	16%	13%
y/y growth (%)	58%	3%	42%	27%	28%	37%	23%	2%	-18%

Source: Company, Equirus Securities

**Exhibit 16: Breakup of raw materials at consolidated level**

Particulars	2010	2011	2012	2013	2014	2015	2016	2017	2018
Body Material	353	532	1,366	1,994	1,962	3,056	4,303	3,827	3,938
y/y growth (%)		51%	157%	46%	-2%	56%	41%	-11%	3%
Glaze, Frits & Chemicals	830	725	1,217	1,153	1,552	1,605	1,317	1,810	1,991
y/y growth (%)		-13%	68%	-5%	35%	3%	-18%	37%	10%
Packing Material	255	317	523	571	684	980	1,063	1,135	1,372
y/y growth (%)		24%	65%	9%	20%	43%	8%	7%	21%
<b>Total</b>	<b>1,438</b>	<b>1,574</b>	<b>3,106</b>	<b>3,717</b>	<b>4,198</b>	<b>5,642</b>	<b>6,684</b>	<b>6,771</b>	<b>7,301</b>
		9%	97%	20%	13%	34%	18%	1%	8%

Source: Company, Equirus Securities

**Exhibit 17: Breakup of other expenses at consolidated level - A&P spend for the company remains the highest in the industry**

Other Expenses	2010	2011	2012	2013	2014	2015	2016	2017	2018
Rent	89	93	103	97	78	81	106	135	174
as % of Sales	1.2%	1.0%	0.8%	0.6%	0.4%	0.4%	0.4%	0.5%	0.6%
Travelling & Conveyance	88	114	146	188	203	242	272	303	330
as % of Sales	1.2%	1.2%	1.1%	1.2%	1.1%	1.1%	1.1%	1.2%	1.2%
Stores & Spares	116	150	298	463	600	684	891	889	885
as % of Sales	1.6%	1.6%	2.3%	2.9%	3.3%	3.1%	3.7%	3.5%	3.3%
Power & Fuel	1,049	937	2,107	3,066	3,717	4,854	4,805	4,480	5,194
as % of Sales	14.3%	9.8%	16.0%	19.4%	20.2%	22.2%	19.9%	17.6%	19.2%
Freight & Forwarding	179	114	142	144	493	641	910	860	508
as % of Sales	2.4%	1.2%	1.1%	0.9%	2.7%	2.9%	3.8%	3.4%	1.9%
A&P + Sales Commission	256	316	347	433	438	741	741	982	1,187
as % of Sales	3.5%	3.3%	2.6%	2.7%	2.4%	3.4%	3.1%	3.9%	4.4%
Miscellaneous Expenses	24	32	43	71	56	195	225	256	295
as % of Sales	0.3%	0.3%	0.3%	0.4%	0.3%	0.9%	0.9%	1.0%	1.1%
Other Expenses	193	154	303	361	375	483	624	547	191
as % of Sales	2.6%	1.6%	2.3%	2.3%	2.0%	2.2%	2.6%	2.1%	0.7%
<b>Total Expenses</b>	<b>1,994</b>	<b>1,909</b>	<b>3,488</b>	<b>4,824</b>	<b>5,960</b>	<b>7,921</b>	<b>8,574</b>	<b>8,452</b>	<b>8,763</b>

Source: Company, Equirus Securities

**Exhibit 18: Non-cash working capital break-up at consolidated level**

Particulars	2010	2011	2012	2013	2014	2015	2016	2017	2018
Accounts Receivables	773	943	1,190	1,436	1,649	2,152	2,742	3,389	4,507
Receivable Days	38	36	33	33	33	36	41	49	61
Inventory	1,403	1,547	1,865	2,197	1,931	3,033	3,842	3,720	3,785
Inventory Days	70	59	52	51	38	51	58	53	51
Account Payables	1,198	1,706	1,776	1,658	1,520	2,530	2,928	2,921	2,578
Payable Days	59	65	49	38	30	42	44	42	35
Cash Conversion Cycle	49	30	36	46	41	44	55	60	77

Source: Company, Equirus Securities

**Exhibit 19: Break-up of consolidated cash-flows - CFO reduced considerably on account of muted operational performance and increase in working capital**

	2010	2011	2012	2013	2014	2015	2016	2017	2018
Operating cash flow before WC change	788	1,099	1,602	2,440	2,817	3,555	4,724	5,150	4,668
Tax Paid	117	210	337	483	647	799	1,034	1,289	1,275
Changes in Working Capital	406	694	-355	-1,006	-509	-953	-534	-485	-1,009
<b>Operating Cash Flow</b>	<b>1,077</b>	<b>1,584</b>	<b>909</b>	<b>951</b>	<b>1,661</b>	<b>1,803</b>	<b>3,156</b>	<b>3,377</b>	<b>2,383</b>
Capex	-477	-1,629	-725	-1,509	-1,522	-2,646	-2,686	-1,425	-1,382
Others	6	-56	38	8	9	16	17	28	14
<b>Investing Cash Flow</b>	<b>-471</b>	<b>-1,685</b>	<b>-687</b>	<b>-1,501</b>	<b>-1,514</b>	<b>-2,630</b>	<b>-2,670</b>	<b>-1,397</b>	<b>-1,368</b>
Change in debt	-623	169	-23	739	-690	282	223	-820	81
Change in Equity	0	0	0	0	816	902	116	0	5
Others	-17	-86	-171	-214	-257	-310	-726	-859	-806
<b>Financing Cash Flow</b>	<b>-641</b>	<b>83</b>	<b>-194</b>	<b>525</b>	<b>-130</b>	<b>874</b>	<b>-387</b>	<b>-1,679</b>	<b>-720</b>

Source: Company, Equirus Securities

**Exhibit 20: Contingent liabilities break-up**

Commitments & Contingent Liabilities	2010	2011	2012	2013	2014	2015	2016	2017	2018
BGs	102	50	0	0	56	104	22	2,432	1,571
Claim against company	65	80	88	89	134	259	144	134	247
LC	1,015	1,658	1,324	807	1,021	498	640	0	0
Capital Commitments	136	4	10	55	556	88	9	41	87

Source: Company, Equirus Securities

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**Absolute Rating**

- LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies
- ADD: ATR >= 5% but less than Ke over investment horizon
- REDUCE: ATR >= negative 10% but <5% over investment horizon
- SHORT: ATR < negative 10% over investment horizon

**Relative Rating**

- OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon
- BENCHMARK: likely to perform in line with the benchmark
- UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon

**Investment Horizon**

Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.

**Lite vs. Regular Coverage vs. Spot Coverage**

We aim to keep our rating and estimates updated at least once a quarter for Regular Coverage stocks. Generally, we would have access to the company and we would maintain detailed financial model for Regular coverage companies. We intend to publish updates on Lite coverage stocks only an opportunistic basis and subject to our ability to contact the management. Our rating and estimates for Lite coverage stocks may not be current. Spot coverage is meant for one-off coverage of a specific company and in such cases, earnings forecast and target price are optional. Spot coverage is meant to stimulate discussion rather than provide a research opinion.

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I, Pranav Mehta, author to this report, hereby certify that all of the views expressed in this report accurately reflect my personal views about the subject company or companies and its or their securities. I also certify that no part of my compensation was, is or will be, directly or indirectly, related to the specific recommendations or views expressed in this report.

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