



**RESEARCH :: COMPANY:: KAJARIA CERAMICS LIMITED**

9<sup>th</sup> September '2010

**Long Term Buy**

CMP	70.70
Target price	94
Potential Upside	33+
Estimated EPS	7.61
Investment period	6-12 months

**Stock Info (TTM Basis)**

Sector	Ceramic Products
Market cap (Rs Cr)	500.48
Face value	2.00
Book value	25.73
EPS	5.59
Cash EPS	9.39
Dividend	50%
Sales Growth	18.8%
52 week H/L	72.00/35.00
Avg. Daily Vol (2wk)	1.69 Lakh
Managing Director	Ashok Kajaria
Incorporation	1985
Listed At	BSE/NSE
Equity capital	14.72
Promoters Holding	51.53%

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Kajaria Cermaics Limited incorporated in the year 1985 has emerged as a one stop shop for the complete tile solution for all market segments. The company offers entire value chain which ranges from ceramic glazed tiles to upper end ceramic glazed tiles to polished and glazed vitrified tiles.

**Key Highlights**

- ✚ **India's Leading Tile Manufacturer of ceramic floor and wall tiles with an installed capacity of 23.4mn sqmt.**
- ✚ **Largest Exporter of tiles with its presence across 20 countries worldwide.**
- ✚ **Volumes to increase on account of Expansion:** The company's new plant for Vitrified tile facility at Sikandrabad and at Gailpur for polished vitrified tiles and glazed vitrified tiles are expected to contribute to the company's increased volumes.

**Future Outlook**

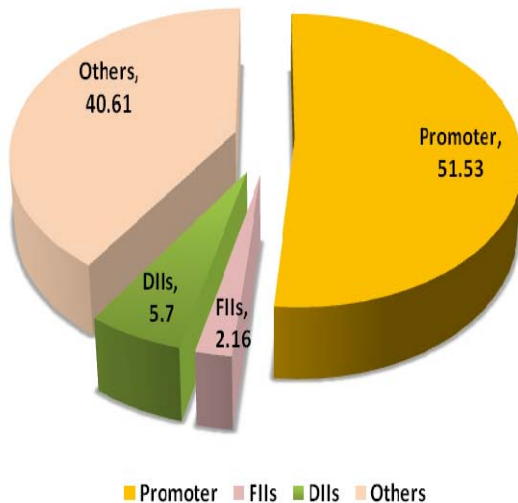
**At Current market price of Rs.70.70 , the stock is available at P/E of 13.96, and P/E of 8.93x of its FY11, and P/E of 6.49x of FY12 earnings. Fairwealth Research Desk recommend BUY with target price of Rs.94, given that company's future shows potential.**

Particulars (In crores)	FY10	FY11E*	FY12E*
<b>Net Sales</b>	735.53	940.00	1160.00
<b>% Change in Sales</b>	-	27.80	23.40
<b>Expenditure</b>	620.68	792.42	977.88
<b>PBIDT</b>	114.85	147.58	182.12
<b>Profit After Tax</b>	35.85	56.04	77.08
<b>% Change in PAT</b>	-	56.32	37.54
<b>EPS</b>	4.87	7.61	10.47
<b>P/E Ratio</b>	13.96	8.93	6.49
<b>OPM %</b>	15.61	15.70	15.70
<b>NPM %</b>	4.87	5.96	6.64

Source: Fairwealth Research Estimates

E\* stands for Estimated

## Shareholding Pattern As on 30<sup>th</sup> June'2010



Source: Fairwealth Research, Capitaline database

### Kajaria Ceramics has three manufacturing plants

Unit	Products	Installed Capacity
Gailpur	Ceramic Glazed wall tiles	14.10 mn sqm
Sikandrabad	Ceramic Glazed floor tiles	6.90 mn sqm
Sikandrabad	Polished vitrified tiles	2.40 mn sqm

The company has a total installed capacity of 23.4 sqm. By December 2010, Kajaria Ceramics is expected to increase its capacity by 29.4 sqm.

### Segments of the Company

**Glazed Vitrified Tiles:** Kajaria Ceramics pioneered glazed vitrified tile in India in 2007-08 with the brand name of **Kajaria Eternity**. It imports glazed vitrified from Europe and China. The company is proposing to set up a manufacturing facility at Gailpur with a capacity of 3 mn sqm per year which is expected to be operational by end of this calendar year.

**Polished Vitrified Tiles:** In this segment the company is present since past 6 years. These tiles are primarily floor application tiles. The company has **Kajaria Vitro Studio** to showcase its Polished Vitrified Tiles. The company presently imports polished vitrified tiles from China. In Feb'10, a manufacturing facility at Sikandrabad commissioned for entry level segment with 2.4 mn sqm annual capacity.

**Ceramic Wall and Floor Tiles:** The company is the leading wall and floor manufacturer with a cumulative facility of 21 mn sqm. The company currently manufactures medium and upper end tiles.

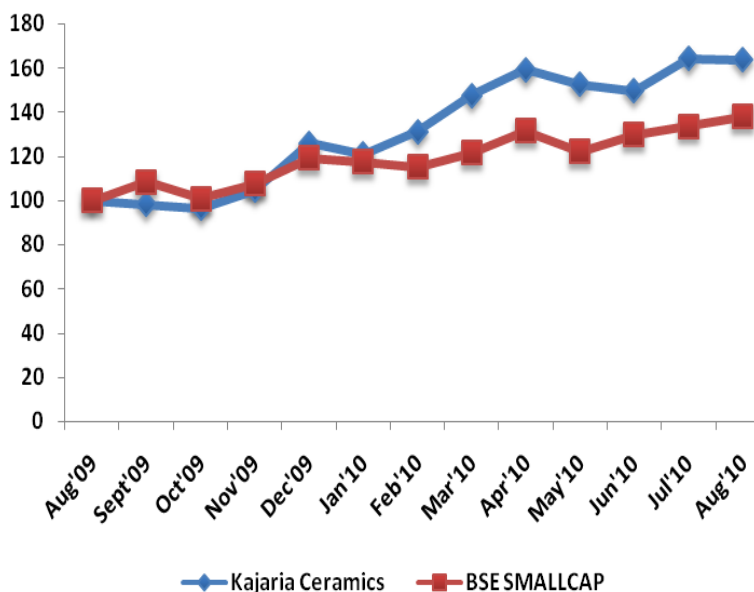
**Retail Chain- Kajaria World:** Kajaria World is the India's largest imported tile retail network with 14 retail points. Kajaria It showcases imported tiles and sanitaryware sourced through its alliances with European Brands like Saloni, Grespania, Argenta and Baldocer for premium products.

### Peer Analysis

Particulars(Cr)	Kajaria Ceramics	HSIL	Somany Ceramics
Market Cap	489.44	687.22	170.4
Sales	774.64	847.96	569.69
PBIDT	121.62	164.76	60.34
Net Profit	41.13	63.55	21.78
EPS	5.59	11.55	31.57
P/E	11.9	10.82	7.82
EV/PBIDT	6.63	6.54	4.82
P/BV	2.58	1.76	2.08
Equity	14.72	11	6.9

On TTM Basis

### Stock Performance



Kajaria Ceramics stock price has been in line with that of the BSE SMALL CAP Index.

The Beta of the stock is at 0.73.

In the month of July'10, both the stock price as well as the BSE SMALL CAP Index was at 12 month high.

## QUARTERLY ANALYSIS

Particulars (In crores)	Q1FY11	Q1FY10	VAR %	Q4FY10	VAR %
<b>Net Sales</b>	195.11	156	25.1	214.46	-9.02
<b>Other Operating Income</b>	0.39	0.06	550	0.48	-18.75
<b>Total Income</b>	195.5	156.06	25.3	214.94	-9.04
<b>Total Expenditure</b>	164.2	130.71	25.6	184.1	-10.81
<b>PBIDT</b>	31.3	25.35	23.5	30.84	1.49
<b>Interest</b>	7.77	10.92	-28.8	4.81	61.54
<b>PBDT</b>	23.53	14.43	63.1	26.03	-9.60
<b>Depreciation</b>	7.36	6.37	15.5	7.39	-0.41
<b>Tax</b>	4.85	2.02	140.1	5.87	-17.38
<b>Profit After Tax</b>	11.32	6.04	87.4	12.77	-11.35
<b>EPS</b>	1.54	0.82	87.8	1.74	-11.49
<b>OPM %</b>	16.04	16.25	0	14.38	0
<b>NPM%</b>	5.80	3.87	0.00	5.95	0.00

Source: Capitaline Database

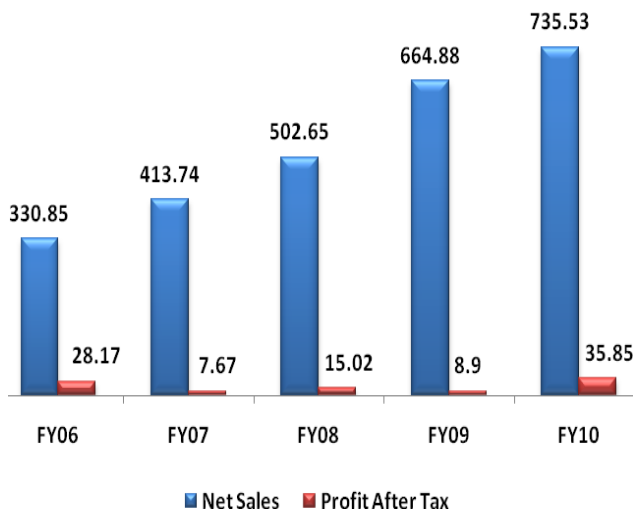
- ✚ Kajaria Ceramics has reported a increase of 25.1% in its sales number at Rs.195.11cr for the quarter ended June'2010 in comparison to Rs.156cr in the same quarter previous year.
- ✚ The company's bottom line surged massively by 87.4% to Rs.11.32cr in comparison to Rs.6.04cr in the corresponding quarter previous year on account of reduced interest cost and subdued increase in depreciation cost.
- ✚ The operating profit of the company for the quarter increased by 23.5% to Rs.31.3cr in the quarter ended June'10 as against Rs.25.35cr in the corresponding quarter previous year.
- ✚ During the quarter the company's Operating Profit Margin stood at 16.04% and the Net Profit Margin stood at 5.80%.
- ✚ The EPS for the June'10 quarter stood at Rs.1.54.
- ✚ On Q-O-Q Basis, the Company's top line for the quarter de-grew by 9.02% to Rs. 195.11cr in comparison to Rs.214.46cr in the previous quarter.
- ✚ On Q-O-Q Basis, the bottom line decreased by 11.49% posting it to Rs. 11.32cr in the quarter as compared to Rs.12.77cr in the previous quarter.

### HISTORICAL PERFORMANCE

Particulars (In crores)	FY10	FY09	FY08	FY07	FY06
Net Sales	735.53	664.88	502.65	413.74	330.85
Other Income	-	-	1.07	0.97	0.81
Other Operating Income	0.82	1	0.46	-	-
Total Income	736.35	665.88	504.18	414.71	331.66
Total Expenditure	620.68	569.95	420.76	357.39	263.12
PBIDT	115.67	95.93	83.42	57.32	68.54
Interest	37.52	58.24	39.78	24.9	14.28
PBDT	78.15	37.69	43.64	32.42	54.26
Depreciation	26.71	24.94	23.61	21.68	18.12
Tax	15.59	3.85	5.01	3.07	7.97
Profit After Tax	35.85	8.9	15.02	7.67	28.17
Equity	14.71	14.71	14.71	14.71	14.71
EPS	4.87	1.21	2.04	1.04	3.83
OPM %	15.73	14.43	16.6	13.85	20.72
NPM%	4.87	1.34	2.99	1.85	8.51

- ✚ For FY10, Kajaria Ceramics posted a growth rate of 10.62% in its top line numbers at Rs 735.53 crore as compared to Rs. 664.88 crore in FY09. The company is growing at a CAGR of approximately 22.2%.
- ✚ The Bottom line of the company grew by 302% in FY10 to Rs.35.85crore in comparison to net profit of Rs. 8.9crore in FY09.
- ✚ The Operating profit Margin of the company stood at 15.73% in comparison to 14.43% in FY09.

### Net Sales & PAT



The net sales of has grew by 10.62% during the FY10. Whereas the company's bottom line grew massively by 302% in FY10. The company's revenue have been increasing at a CAGR of 22.2% . The revenues for the FY10 grew on account of increased sale of value-added tiles which inturn lead to a significant rebound in profits.

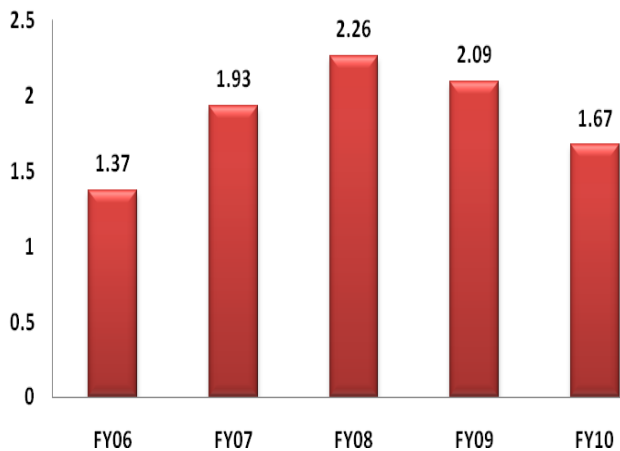
Source: Fairwealth Research, Capitaline

## Balance Sheet

Particulars (In crores)	FY10	FY09	FY08	FY07	FY06
<b>Net Worth</b>	189.34	162.07	154.89	141.61	135.62
<b>Loans-Term</b>	169.01	222.35	241.47	250.76	137.35
<b>Loans-Working Capital</b>	93.82	102.82	95.79	81.61	65.23
<b>Deferred Tax Liability</b>	54.85	53.45	52.2	49.75	48.48
<b>Total</b>	507.02	540.69	544.35	523.73	386.68
<b>Net Block including WIP</b>	347.33	327.66	340.83	358.03	281.76
<b>Investments</b>	3.39	3.39	3.39	6.46	4.46
<b>Net Working Capital</b>	156.3	209.64	200.13	159.24	100.46
<b>Deferred Revenue Expenses</b>	0	0	0	0	0
<b>Total</b>	507.02	540.69	544.35	523.73	386.68

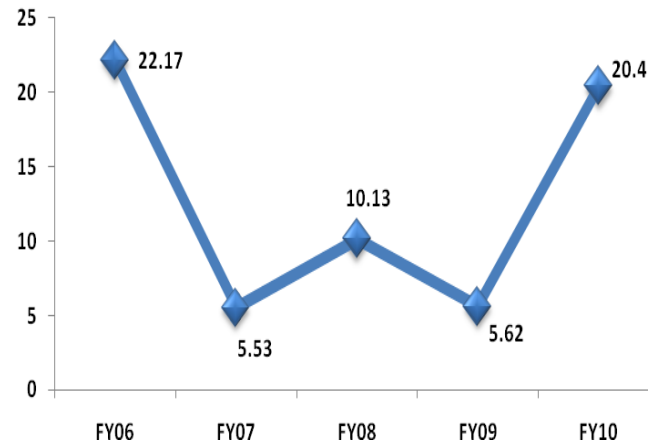
Source: Capitaline Database

### Debt-Equity Ratio



Source: Capitaline Database, Fairwealth Securities

### RONW



Source: Capitaline Database, Fairwealth Securities

The company reduced its external debt by 19.17% from Rs.325.16cr in FY09 to Rs.262.82cr in FY10. It strengthened its debt-equity ratio from 2.09 in FY09 to 1.67 in FY10.

Kajaria Ceramics Ltd. RONW increased from 5.62% in FY09 to 20.4% in FY10 on account of increase in PAT of around 302%.

## Why to Invest in shares of Kajaria Ceramics Limited?

### SECTOR:

#### **Global Ceramic Tiles Industry**

Globally, China is the largest ceramic tiles producer, accounting for 40% of the total global ceramic production. It is also the largest consumer of Ceramic tiles accounting for 34% of the world consumption. The US\$ 36 bn world ceramic tiles industry is growing at 6% annually. The annual per capita consumption of ceramic tiles is led by Turkey at 2.44 sqm. India's per capita consumption is a low 0.36 sqm.

#### **Indian Ceramic Tiles Industry**

India ranks among the world's top five tile producing countries with a total annual production of around 450 mn sqm as on March'10.

The ceramic tiles industry is large, rapid, growing and populated by organized and unorganized manufacturers. Over the last few years, industry prospects were subdued on account of an oversupply and increasing imports. However, the environment recently turned favourable due to a combination of various factors: Economic upturn, growing demand from the construction and real estate sectors as well as a decline in dumping and oversupply. This scenario not only bodes well for the industry but your Company as well.

The industry can be classified into three key segments, viz., wall tiles, floor tiles and vitrified & porcelain tiles, with market shares of 35%, 53% and 12%, respectively. Vitrified and porcelain tiles are recent entrants into the ceramic tile industry and have increased the size of the market considerably. This segment is expected to capture the bulk of the market gradually, replacing the conventional floor and wall tiles segment on account of durability, utility, maintenance and better appearance with premium pricing and higher realisations. In the international markets these tiles are already major sellers.

The anti-dumping imposition of Rs.137 per sqm on ceramic glazed tiles imported from China will benefit domestic manufacturers.

### COMPANY:

- ✚ In the year 2009-10, Kajaria Ceramic achieved standard quality of 98% for wall tiles which is a completely new record for the company.
- ✚ The company enhanced its capacity utilisation to 94% in FY10 in comparison to 76% in FY09.
- ✚ The company follows an integrated model which states that it is present across entire value chain ranging from affordable ceramic glazed tiles to upper-end ceramic glazed tiles to polished and glazed vitrified tiles.
- ✚ The company is the country's largest tile exporter with presence across 20 countries worldwide.
- ✚ Kajaria Ceramics facilitates any-time availability of finished products across a pan-India distribution network of 6000 dealers and subdealers and also exclusive showrooms.


## FUNDAMENTALS:

- ✚ The company's revenue have been growing at a CAGR of 22.2%. There has been a consistent growth without a drop in the revenues of the company since last 5 years.
- ✚ Kajaria Ceramics EPS has been continuously risen from Rs.1.04 in FY07 to Rs.4.87 in FY10 on account of addition of high growth lucrative products, scaled operational volumes and also managing of funds and working capital responsibly.
- ✚ RONW of Kajaria Ceramics increased to 20.4% in FY10 from 5.62% in FY09 on account of massive growth in bottom line of 302%.
- ✚ The company has been paying dividends to its shareholders since past 10 year which signifies that the company has been concentrating to create wealth.
- ✚ Domestic revenues comprises of about 95% of the total net sales accounting for Rs.698.8cr whereas the exports for FY10 stood Rs.36.7cr thereby contributing a total of 5%.

*Notes: Figures and graph sourced from [www.bseindia.com](http://www.bseindia.com) , capital market and Company reports.*

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