

December 31, 2010

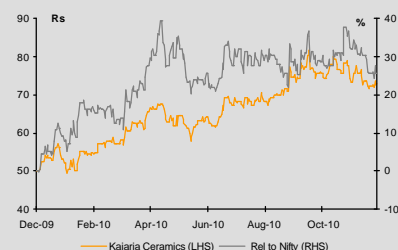
<b>Reco</b>	<b>Previous Reco</b>
Buy	Buy
<b>CMP</b>	<b>Target Price</b>
Rs 73	Rs 100
EPS change FY11E/12E (%)	11 / 10
Target Price change (%)	10
Nifty	6,135
Sensex	20,509

### Price Performance

(%)	1M	3M	6M	12M
Absolute	(6)	(4)	14	46
Rel. to Nifty	(8)	(5)	(0)	26

Source: Bloomberg

### Relative Price Chart



Source: Bloomberg

### Stock Details

Sector	Ceramics
Bloomberg	KJC@IN
Equity Capital (Rs mn)	147
Face Value(Rs)	2
No of shares o/s (mn)	74
52 Week H/L	84/47
Market Cap (Rs bn/USD mn)	5/111
Daily Avg Volume (No of sh)	381039
Daily Avg Turnover (US\$mn)	0.7

### Shareholding Pattern (%)

	S'10	J'10	M'10
Promoters	51.3	51.3	51.3
FII/NRI	3.3	2.5	3.5
Institutions	4.1	5.8	6.5
Private Corp	14.1	18.2	17.6
Public	27.2	22.2	21.2

Source: Capitaline

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- **Our recent interaction with the management suggests that industry demand remains encouraging helping it to boost revenues from higher trading, +75% in H1FY11**
- **Capacity in high end segment to increase from 10% in FY10 to 30% by FY12E**
- **Capex plans are on schedule 1) New vitrified plant to commission by Jan'11; 2) Conversion of ceramic floor tiles into vitrified tiles by Feb'11**
- **Upgrade FY11E EPS by 12% to Rs 7.5 and FY12E by 10% to Rs 10, and price target by 10% to Rs 100 and maintain BUY**

### Strong demand in higher end ceramics segment to help boost revenues

Kajaria Ceramics is likely to benefit from strong growth in the higher end vitrified tiles segment. Growth in this segment has helped the company leverage its strong brand and distribution network to boost revenues through higher trading. Trading revenues increased by ~75% yoy in H1FY11 (contributed 40% to revenues as against 27% previous year). Management expects that growth in trading revenues is likely to remain buoyant in the near future.

### Upgrade FY11E and FY12E estimates on back of higher revenues

On account of higher revenues driven by increased trading, we have revised our revenue estimates for FY11E by 4.8% to Rs 9.1 bn and for FY12E by 9.4% to Rs 10.7 bn. Though we estimate there may be some pressure on EBITDA margins (since margins in trading business are lower than own manufacturing) yet we have upgraded our overall EBITDA by 2.4% in FY11E and 4.2% in FY12E. Consequently, we upgrade our FY11E EPS by 10.7% to Rs 7.5 and FY12E by 9.9% to Rs 10.

### Capex on schedule, to be completed by end of FY11

- 1) Conversion of ceramic floor tiles at Unit-3, Sikandrabad plant (with capacity of 4 mn sqmt) into vitrified tiles (capacity of 2.4 mn sqmt) with cost of Rs 194 mn is on scheduled and expected to complete by Feb'11.
- 2) The company's capex plan to put vitrified tiles (polished and glazed) is as per schedule (expected completion by Jan'11) and should drive the volume growth for FY12.

Due to continued focus on increasing / shifting the capacity towards higher end vitrified tiles segment - capacity in high end (vitrified / polished / glazed) tiles should increase to 30% by FY12E from 10% in FY10. We expect this shift to help the company improve its average realisations and margins.

### Upgrade price target by 10%, maintain BUY

Driven by upgrade in earnings, we upgrade our price target by 10% to Rs 100 (10x FY12E EPS) and re-iterate our BUY recommendation on the stock. Kajaria Ceramics has witnessed 22% growth in revenues in H1FY11 and we expect the momentum to continue on the back of strong demand growth.

### Financial Snapshot

Rs Mn

	Net	EBITDA	EPS	EPS	RoE	EV/				
YE-Mar	Sales	(Core)	(%)	PAT	(Rs)	% chg	(%)	P/E	EBITDA	P/BV
FY09	6,649	949	14.3	89	1.2	(40.7)	5.6	61.2	9.0	3.4
FY10	7,355	1,148	15.6	359	4.9	302.8	20.4	15.2	7.0	2.9
FY11E	9,055	1,432	15.8	549	7.5	53.1	25.9	9.9	6.1	2.3
FY12E	10,663	1,754	16.5	737	10.0	34.3	27.9	7.4	4.6	1.9

## Revision Table

Rs mn	FY11E			FY12E		
	Old Estimates	New Estimates	% Change	Old Estimates	New Estimates	% Change
Net sales	8,644	9,055	4.8%	9,747	10,663	9.4%
EBITDA	1,399	1,432	2.4%	1,684	1,754	4.2%
EBITDA %	16.2%	15.8%	-40	17.3%	16.5%	-80
PAT	496	549	10.7%	671	737	9.8%
EPS	6.7	7.5	10.7%	9.1	10.0	9.9%

## Key Financials

## Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>Net Sales</b>	<b>6,649</b>	<b>7,355</b>	<b>9,055</b>	<b>10,663</b>
Growth (%)	32.3	10.6	23.1	17.8
<b>Expenditure</b>	<b>5,700</b>	<b>6,207</b>	<b>7,623</b>	<b>8,908</b>
Materials Consumed	3,602	3,644	4,743	5,622
Employee Cost	505	613	724	800
Other Exp	1,593	1,951	2,155	2,486
<b>EBITDA</b>	<b>949</b>	<b>1,148</b>	<b>1,432</b>	<b>1,754</b>
Growth (%)	15.9	21.0	24.7	22.5
<b>EBITDA margin (%)</b>	<b>14.3</b>	<b>15.6</b>	<b>15.8</b>	<b>16.5</b>
Depreciation	249	267	322	351
<b>EBIT</b>	<b>700</b>	<b>881</b>	<b>1,110</b>	<b>1,403</b>
<b>EBIT margin (%)</b>	<b>10.5</b>	<b>12.0</b>	<b>12.3</b>	<b>13.2</b>
Other Income	10	8	10	10
Interest expenses	582	375	336	360
<b>PBT</b>	<b>127</b>	<b>514</b>	<b>784</b>	<b>1,053</b>
<b>Tax</b>	<b>38</b>	<b>156</b>	<b>235</b>	<b>316</b>
Effective tax rate (%)	30.2	30.3	30.0	30.0
<b>Adjusted PAT</b>	<b>89</b>	<b>359</b>	<b>549</b>	<b>737</b>
Growth (%)	(40.7)	302.8	53.1	34.3
<b>Net Margin (%)</b>	<b>1.3</b>	<b>4.9</b>	<b>6.1</b>	<b>6.9</b>
(Profit)/loss from JVs/Ass/MI	-	-	-	-
<b>Adjusted PAT After JVs/Ass/MI</b>	<b>89</b>	<b>359</b>	<b>549</b>	<b>737</b>
E/O items	-	-	-	-
<b>Reported PAT</b>	<b>89</b>	<b>359</b>	<b>549</b>	<b>737</b>
<b>PAT after MI</b>	<b>89</b>	<b>359</b>	<b>549</b>	<b>737</b>
Growth (%)	(40.7)	302.8	53.1	34.3

## Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
<b>PBT (Ex-Other income)</b>	118	506	774	1,043
Depreciation	249	267	322	351
Interest Provided	274	241	336	360
Other Non-Cash items	3	7	-	-
Chg in working cap	(92)	406	(262)	(466)
Tax paid	-33	-117	-165	-236
<b>Operating Cashflow</b>	<b>519</b>	<b>1,310</b>	<b>1,005</b>	<b>1,052</b>
Capital expenditure	(121)	(471)	(1,290)	(30)
<b>Free Cash Flow</b>	<b>398</b>	<b>839</b>	<b>-285</b>	<b>1,022</b>
Other income	10	8	10	10
Investments	-	-	-	-
<b>Investing Cashflow</b>	<b>10</b>	<b>8</b>	<b>10</b>	<b>10</b>
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(121)	(623)	800	(500)
Interest Paid	(274)	(241)	(336)	(360)
Dividend paid (incl tax)	(17)	(17)	(86)	(103)
Income from investments	0	0	0	0
Others	0	0	0	0
<b>Financing Cashflow</b>	<b>-412</b>	<b>-882</b>	<b>378</b>	<b>-963</b>
<b>Net chg in cash</b>	<b>-4</b>	<b>-34</b>	<b>103</b>	<b>69</b>
Opening cash position	83	79	45	148
<b>Closing cash position</b>	<b>79</b>	<b>45</b>	<b>148</b>	<b>217</b>

## Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	147	147	147	147
Reserves & surplus	1,474	1,746	2,192	2,792
<b>Net worth</b>	<b>1,621</b>	<b>1,893</b>	<b>2,339</b>	<b>2,939</b>
<b>Minority Interest</b>				
Secured Loans	2,927	2,588	3,388	2,888
Unsecured Loans	325	40	40	40
<b>Loan Funds</b>	<b>3,252</b>	<b>2,628</b>	<b>3,428</b>	<b>2,928</b>
Net deferred tax liability	535	549	619	699
<b>Total Liabilities</b>	<b>5,407</b>	<b>5,070</b>	<b>6,386</b>	<b>6,566</b>
Gross Block	5,015	5,435	6,711	6,751
Less: Depreciation	1,738	1,988	2,310	2,661
<b>Net block</b>	<b>3,277</b>	<b>3,448</b>	<b>4,401</b>	<b>4,090</b>
Capital work in progress	0	25	40	30
<b>Investment</b>	<b>34</b>	<b>34</b>	<b>34</b>	<b>34</b>
<b>Current Assets</b>	<b>2,968</b>	<b>2,976</b>	<b>3,509</b>	<b>4,140</b>
Inventories	1,385	1,403	1,737	2,045
Sundry debtors	678	773	868	1,022
Cash & bank balance	79	45	148	217
Loans & advances	827	756	756	856
Other current assets	-	-	-	-
<b>Current lia &amp; Prov</b>	<b>872</b>	<b>1,413</b>	<b>1,597</b>	<b>1,728</b>
Current liabilities	830	1,198	1,364	1,461
Provisions	42	216	233	267
<b>Net current assets</b>	<b>2,096</b>	<b>1,563</b>	<b>1,911</b>	<b>2,412</b>
Misc. exp	-	-	-	-
<b>Total Assets</b>	<b>5,407</b>	<b>5,070</b>	<b>6,386</b>	<b>6,566</b>

## Key Ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
<b>Profitability (%)</b>				
EBITDA Margin	14.3	15.6	15.8	16.5
Net Margin	1.3	4.9	6.1	6.9
ROCE	13.1	17.0	19.6	21.8
ROE	5.6	20.4	25.9	27.9
RoIC	13.2	17.2	20.0	22.5
<b>Per Share Data (Rs)</b>				
EPS	1.2	4.9	7.5	10.0
CEPS	4.6	8.5	11.8	14.8
BVPS	22.0	25.7	31.8	39.9
DPS	0.2	1.0	1.2	1.6
<b>Valuations (x)</b>				
PER	61.2	15.2	9.9	7.4
P/CEPS	16.1	8.7	6.3	5.0
P/BV	3.4	2.9	2.3	1.9
EV / Sales	1.3	1.1	1.0	0.8
EV / EBITDA	9.0	7.0	6.1	4.6
Dividend Yield (%)	0.3	1.4	1.6	2.2
<b>Gearing Ratio (x)</b>				
Net Debt/ Equity	1.9	1.3	1.4	0.9
Net Debt/EBITDA	3.3	2.2	2.3	1.5
Working Cap Cycle (days)	68	49	50	55

**Recommendation History: Kajaria Ceramics – KJC IN**

Date	Reports	Reco	CMP	Target
12/10/2010	<a href="#">Kajaria Ceramics Q2FY11 Result Update</a>	Buy	80	91
14/07/2010	<a href="#">Kajaria Ceramics Q1FY11 Result Update</a>	BUY	67	91
29/04/2010	<a href="#">Kajaria Ceramics Initiating Coverage</a>	Buy	66	91

**Recent Research Reports**

Date	Reports	Reco	CMP	Target
29/12/2010	<a href="#">United Phosphorus Company Update</a>	Buy	161	230
27/12/2010	<a href="#">Rallis India Management Meet Update</a>	Buy	1,391	1,800
16/12/2010	<a href="#">GSFC Company Update</a>	Buy	349	530
10/12/2010	<a href="#">Rallis India Event Update</a>	Buy	1,283	1,800

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