

January 20, 2011

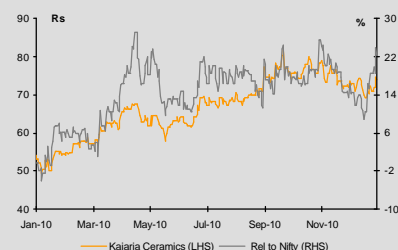
Reco	Previous Reco
Buy	Buy
CMP	Target Price
Rs 74	Rs 100
EPS change FY11E/12E (%)	8 / -
Target Price change (%)	NA
Nifty	5,724
Sensex	19,092

Price Performance

(%)	1M	3M	6M	12M
Absolute	3	(0)	9	32
Rel. to Nifty	8	4	4	20

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)	5/110
Daily Avg Volume (No of sh)	198855
Daily Avg Turnover (US\$m)	0.3

Shareholding Pattern (%)

	D'10	S'10	J'10
Promoters	51.3	51.3	51.3
FII/NRI	5.7	3.3	2.5
Institutions	7.3	4.1	5.8
Private Corp	10.7	14.1	18.2
Public	25.1	27.2	22.2

Source: Capitaline

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- **Results ahead of estimates with 41% increase in revenues to Rs 2.5 bn and 113% PAT growth to Rs 176 mn**
- **Strong demand supported higher trading since purchase of traded goods (% of sales) increased from 37% to 41%**
- **Entered into MOU with Turkey based company –Eczasibasi, for exclusive distribution of its products for 5 years**
- **Upgrade FY11E estimates by 8% to Rs 8.1 on strong Q3FY11 results, maintain FY12E estimates at Rs 10, maintain BUY**

Revenues grew by 41% on higher trading ...

Kajaria's net revenues increased by 41% yoy / 14% qoq to Rs 2.5 bn which was 7% ahead of our estimates. Purchase of traded goods increased by 54% yoy to Rs 1 bn (40% of sales as against 37% previous year) facilitating higher revenue growth.

... EBITDA margins declined by 40bps to 15.6%

The company has shifted from high cost propane to low cost natural gas from May'10 which helped it to reduce fuel cost. P&F cost declined by 22% to Rs 236 mn. P&F cost (as % of sales ex trading) declined by 1130 bps to 15.5%. However despite savings in P&F cost, EBITDA margins contracted by 40bps to 15.6%, which was in line with estimates. We will like to highlight that margins contraction is mainly contributed to higher trading. EBITDA increased by 38% yoy / 14% qoq to Rs 397 mn which was ahead of our estimates of Rs 372 mn.

PAT doubled to Rs 176 mn, ahead of estimates

For Q3FY11, PAT increased by 113% yoy / 32% qoq to Rs 176 mn (17% higher than our estimates of Rs 150 mn) with an PS of Rs 2.4. Strong PAT growth is supported by revenue growth and lower interest cost (interest declined by 27% to Rs 73 mn).

Capex on schedule, Signed MOU with Turkey based company

Kajaria has entered into MOU with Turkey based company –Eczasibasi, for exclusive distribution of its products including the sanitary ware and CP Fittings under the Brand name of "VitrA" for 5 years. Company has chalked down capex plan 1) of Rs 194 mn for conversion of ceramic floor tile at Unit-3, Sikandrabad plant into vitrified tile with expected completion by Feb'11. 2) Its capex plan to put vitrified plans (polished and glazed) is as per schedule (expected completion by Jan'11) should drive its volume growth for FY12.

Upgrade FY11 estimates by 8%, Maintain Buy

On back of strong Q3FY11 results, we are upgrading our FY11 PAT estimates by 8% to Rs 594 mn (previous Rs 549 mn) and EPS to Rs 8.1 (Rs 7.5). We maintain our FY12E earnings at Rs 10. We maintain BUY recommendation on the stock based on 10x FY12 estimates.

Financial Snapshot

Rs Mn

YE-Mar	Net Sales	EBITDA (Core)	EBITDA (%)	APAT	EPS (Rs)	EPS % chg	RoE (%)	P/E	EV/ 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	9,262	1,471	15.9	594	8.1	65.6	27.8	9.2	5.9	2.3
FY12E	10,663	1,754	16.5	737	10.0	24.2	27.5	7.4	4.6	1.8

Key Financials – Quarterly

Rs Mn

Rs mn	Q3FY10	Q4FY10	Q1FY11	Q2FY11	Q3FY11	YoY (%)	QoQ (%)	YTD'11	YTD'10	YoY (%)
Revenue	1,797	2,149	1,955	2,222	2,539	41.3	14.2	6,716	5,211	28.9
Expenditure	1,509	1,841	1,642	1,873	2,142	42.0	14.3	5,657	4,366	29.6
<i>as % of sales</i>	<i>84.0</i>	<i>85.7</i>	<i>84.0</i>	<i>84.3</i>	<i>84.4</i>			<i>84.2</i>	<i>83.8</i>	
Consumption of RM	831	1,171	908	1,278	1,471	76.9	15.1	3,657	2,476	47.7
<i>as % of sales</i>	<i>46.3</i>	<i>54.5</i>	<i>46.4</i>	<i>57.5</i>	<i>57.9</i>			<i>54.5</i>	<i>47.5</i>	
Power & Fuel	304	278	244	205	236	(22.2)	15.3	685	771	(11.1)
<i>as % of sales</i>	<i>16.9</i>	<i>12.9</i>	<i>12.5</i>	<i>9.2</i>	<i>9.3</i>			<i>10.2</i>	<i>14.8</i>	
Employee Cost	162	157	186	188	215	32.6	14.6	589	456	29.3
<i>as % of sales</i>	<i>9.0</i>	<i>7.3</i>	<i>9.5</i>	<i>8.4</i>	<i>8.5</i>			<i>8.8</i>	<i>8.7</i>	
Other expenditure	212	235	304	203	220	3.8	8.2	726	664	9.4
<i>as % of sales</i>	<i>11.8</i>	<i>10.9</i>	<i>15.6</i>	<i>9.1</i>	<i>8.6</i>			<i>10.8</i>	<i>12.7</i>	
EBITDA	288	308	313	349	397	37.7	13.8	1,059	845	25.3
Depreciation	65	74	74	78	72	11.7	(6.6)	224	193	15.7
EBIT	224	235	239	271	325	45.2	19.6	835	652	28.2
Other Income	2	-	-	-	-	(100.0)	-	-	3	(100.0)
Interest	100	48	78	81	73	(27.1)	(9.9)	232	327	(29.0)
PBT	125	186	162	190	251	100.8	32.2	603	328	83.9
Total Tax	43	59	49	57	76	77.6	32.5	181	97	86.2
Adjusted PAT	83	128	113	133	176	112.7	32.1	422	231	83.0
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0			0	0	
APAT after MI	83	128	113	133	176	112.7	32.1	422	231	83.0
Extra ordinary items	0	0	0	0	0			0	0	
Reported PAT	83	128	113	133	176	112.7	32.1	422	231	83.0
Reported EPS	1.1	1.7	1.5	1.8	2.4	112.7	32.1	5.7	3.1	83.0

Margins (%)						(bps)	(bps)			(bps)
EBIDTA	16.0	14.3	16.0	15.7	15.6	(41)	(6)	15.8	16.2	(45)
EBIT	12.4	10.9	12.2	12.2	12.8	34	57	12.4	12.5	(7)
EBT	6.9	8.7	8.3	8.6	9.9	305	134	9.0	6.2	275
PAT	4.6	5.9	5.8	6.0	6.9	233	93	6.3	4.4	186
Effective Tax rate	33.9	31.5	30.0	30.0	30.0	(391)	6	30.0	29.6	37

Key Financials

Income Statement

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Net Sales	6,649	7,355	9,262	10,663
Growth (%)	32.3	10.6	25.9	15.1
Expenditure	5,700	6,207	7,791	8,908
Materials Consumed	3,602	3,644	4,869	5,622
Employee Cost	505	613	741	800
Other Exp	1,593	1,951	2,181	2,486
EBITDA	949	1,148	1,471	1,754
Growth (%)	15.9	21.0	28.1	19.3
EBITDA margin (%)	14.3	15.6	15.9	16.5
Depreciation	249	267	322	351
EBIT	700	881	1,149	1,403
EBIT margin (%)	10.5	12.0	12.4	13.2
Other Income	10	8	10	10
Interest expenses	582	375	311	360
PBT	127	514	848	1,053
Tax	38	156	254	316
Effective tax rate (%)	30.2	30.3	30.0	30.0
Adjusted PAT	89	359	594	737
Growth (%)	(40.7)	302.8	65.6	24.2
Net Margin (%)	1.3	4.9	6.4	6.9
(Profit)/loss from JVs/Ass/MI	-	-	-	-
Adjusted PAT After JVs/Ass/MI	89	359	594	737
E/O items	-	-	-	-
Reported PAT	89	359	594	737
PAT after MI	89	359	594	737
Growth (%)	(40.7)	302.8	65.6	24.2

Cash Flow

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
PBT (Ex-Other income)	118	506	838	1,043
Depreciation	249	267	322	351
Interest Provided	274	241	311	360
Other Non-Cash items	3	7	-	-
Chg in working cap	(92)	406	(291)	(438)
Tax paid	-33	-117	-184	-236
Operating Cashflow	519	1,310	996	1,080
Capital expenditure	(121)	(471)	(1,290)	(30)
Free Cash Flow	398	839	-294	1,050
Other income	10	8	10	10
Investments	-	-	-	-
Investing Cashflow	10	8	10	10
Equity Capital Raised	-	-	-	-
Loans Taken / (Repaid)	(121)	(623)	800	(500)
Interest Paid	(274)	(241)	(311)	(360)
Dividend paid (incl tax)	(17)	(17)	(86)	(103)
Income from investments	0	0	0	0
Others	0	0	0	0
Financing Cashflow	-412	-882	404	-963
Net chg in cash	-4	-34	119	97
Opening cash position	83	79	45	164
Closing cash position	79	45	164	262

Balance Sheet

Y/E, Mar (Rs. mn)	FY09	FY10	FY11E	FY12E
Equity share capital	147	147	147	147
Reserves & surplus	1,474	1,746	2,237	2,837
Net worth	1,621	1,893	2,384	2,984
Minority Interest				
Secured Loans	2,927	2,588	3,388	2,888
Unsecured Loans	325	40	40	40
Loan Funds	3,252	2,628	3,428	2,928
Net deferred tax liability	535	549	619	699
Total Liabilities	5,407	5,070	6,431	6,611
Gross Block	5,015	5,435	6,711	6,751
Less: Depreciation	1,738	1,988	2,310	2,661
Net block	3,277	3,448	4,401	4,090
Capital work in progress	0	25	40	30
Investment	34	34	34	34
Current Assets	2,968	2,976	3,585	4,185
Inventories	1,385	1,403	1,776	2,045
Sundry debtors	678	773	888	1,022
Cash & bank balance	79	45	164	262
Loans & advances	827	756	756	856
Other current assets	-	-	-	-
Current lia & Prov	872	1,413	1,629	1,728
Current liabilities	830	1,198	1,396	1,461
Provisions	42	216	233	267
Net current assets	2,096	1,563	1,956	2,457
Misc. exp	-	-	-	-
Total Assets	5,407	5,070	6,431	6,611

Key ratios

Y/E, Mar	FY09	FY10	FY11E	FY12E
Profitability (%)				
EBITDA Margin	14.3	15.6	15.9	16.5
Net Margin	1.3	4.9	6.4	6.9
ROCE	13.1	17.0	20.2	21.7
ROE	5.6	20.4	27.8	27.5
RoIC	13.2	17.2	20.6	22.5
Per Share Data (Rs)				
EPS	1.2	4.9	8.1	10.0
CEPS	4.6	8.5	12.4	14.8
BVPS	22.0	25.7	32.4	40.6
DPS	0.2	1.0	1.2	1.6
Valuations (x)				
PER	61.2	15.2	9.2	7.4
P/CEPS	16.1	8.7	5.9	5.0
P/BV	3.4	2.9	2.3	1.8
EV / Sales	1.3	1.1	0.9	0.8
EV / EBITDA	9.0	7.0	5.9	4.6
Dividend Yield (%)	0.3	1.4	1.6	2.2
Gearing Ratio (x)				
Net Debt/ Equity	1.9	1.3	1.4	0.9
Net Debt/EBITDA	3.3	2.2	2.2	1.5
Working Cap Cycle (days)	68	49	50	55

Recommendation History: Kajaria Ceramics – KJC IN

Date	Reports	Reco	CMP	Target
31/12/2010	Kajaria Ceramics Company Update	Buy	73	100
12/10/2010	Kajaria Ceramics Q2FY11 Result Update	Buy	80	91
14/07/2010	Kajaria Ceramics Q1FY11 Result Update	Buy	67	91
29/04/2010	Kajaria Ceramics Initiating Coverage	Buy	66	91

Recent Research Reports

Date	Reports	Reco	CMP	Target
18/01/2011	Rallis India Q3FY11 Result Update	Buy	1,313	1,800
13/01/2011	Coromandel Inter Q3FY11 Result Update	Buy	279	435
29/12/2010	United Phosphorus Company Update	Buy	161	230
27/12/2010	Rallis India Management Meet Update	Buy	1,391	1,800

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