Kajaria Ceramics

28 September 2018

Initiating Coverage

Reuters: KAJR.NS; Bloomberg: KJC IN

In A Sweet Spot To Increase Market Share

Kajaria Ceramics (KCL) is India's largest ceramic tile producer holding 30% and 9% volume share in the organised and overall market, respectively, currently. Superior manufacturing practices, high product quality, wide product range, robust distribution network and strong brand recall are all helping the company to perform well in the ongoing cyclical downturn. We expect KCL to come out stronger when the dust settles in the coming quarters. For FY19/FY20/FY21 we expect the volume to increase 9.6%/11.0%/11.5% translating into revenue growth of 9.7%/14.0%/14.2%, respectively. EBITDA margin should bottom out in FY19 and improve thereafter. As compared to 16.8% EBITDA margin in FY18, KCL is expected to post 15.9%, 17.2% and 17.8% EBITDA margin in FY19/FY20/FY21, respectively. Thus, we expect EPS CAGR of 16% over the next three years. With KCL stock price already down 55% from its recent high and trading at a two-year low, the bad news already seems to be factored in by the market and at some time from now it will be viewed on the basis of inherent strength and underlying long-term growth potential. At the current market price or CMP, we see a good entry point in KCL for the next three to four years. We initiate coverage on KCL with a Buy rating and a target price of Rs492, up 29% from the CMP.

Primary beneficiary of industry growth: FY19 should mark the cyclical bottom for the ceramic tile industry that has been struggling over the past three years. Disruption caused by demonetisation and Goods and Services Tax or GST implementation is now behind, leaving channel inventory at a lower-than-normal-level. As the revival in construction activity becomes more visible (because of rising discretionary income), KCL will benefit from rising demand for tiles. Over the next three years, we expect KCL to gain market share and deliver 12.6% revenue CAGR versus 10% industry growth.

RoCE and EBITDA margin to improve: In FY18, KCL reported RoCE and EBITDA margin of 25.3% and 16.8%, respectively. Decreasing pricing headwinds, better pass-through of cost inflation and a partial shift to coal-based manufacturing (vs. gas) should help in margin expansion. We expect KCL's EBITDA margin to revert to its three-year average level of 17.8% by FY21. Margin expansion coupled with a higher share of trading revenues (sales of outsourced tiles) should also help RoCE expand to over 27.1% in the same period.

Brand, product and distribution leadership: While KCL does not have any significant pricing power, it does enjoy the best brand recall among all ceramic tile companies in India. This is the result of marketing, distribution and product innovation investment that the company made over the past several years. Wide product range, better quality and timely availability also helped in maintaining its leadership position. Strong relationship with dealers helped KCL to maintain lower receivable days, better shelf space and customer service It also benefits from the scale as smaller outsourcing suppliers provide favourable trade agreements.

Strong balance sheet and FCF generation: Prudent capital allocation and healthy cash flow generation helped KCL to have a strong balance sheet. In the past three years, on an average, KCL converted 4.4% of its net sales into FCF while delivering 6% revenue CAGR. In the same period, rival Somany Ceramics delivered negative 2% with zero sales growth. FCF generation was used by KCL to reduce its net debt/equity ratio from 0.28x in FY16 to 0.07x in FY18. Somany Ceramics continues to finance its operations with higher debt, increasing its net debt-equity ratio from 0.32x in FY16 to 0.71x in FY18.

Y/E March (Rsmn)	FY17	FY18	FY19E	FY20E	FY21E
Net sales	25,496	27,106	29,743	33,904	38,702
EBITDA	4,963	4,564	4,731	5,825	6,891
EBIT	4,149	3,678	3,768	4,734	5,586
Adj. net profit	2,398	2,269	2,385	3,100	3,712
Adj. EPS (Rs)	15.05	14.24	14.97	19.46	23.30
EPS growth (%)	*9*	*(5)*	*5*	*30*	*20*
EBITDA margin (%)	*19.5*	*16.8*	*15.9*	*17.2*	*17.8*
EBIT margin (%)	*16.3*	*13.6*	*12.7*	*14.0*	*14.4*
PER (x)	38.77	40.03	26.72	20.56	17.17
FCF/sales (%)	*7.7*	*3.7*	*6.6*	*5.9*	*6.9*
Net cash or Debt/equity (%)	*(13.7)*	*(6.5)*	*5.8*	*12.7*	*19.4*
Pre-tax RoIC (%)	*32.2*	*26.5*	*26.1*	*31.5*	*34.7*
RoE (%)	*23.6*	*18.6*	*16.5*	*18.7*	*19.3*

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Building Materials

CMP: Rs380

Target Price: Rs492

Upside: 29%

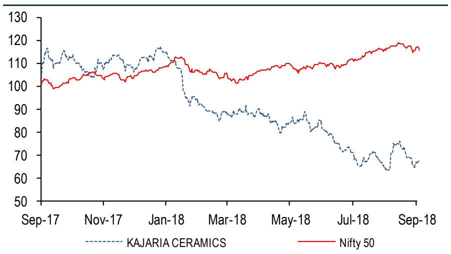
Mohit Khanna
Research Analyst
mohit.khanna@nirmalbang.com
+91-22-6273 8089

Key Data

Current Shares O/S (mn)	159.0
Mkt Cap (Rsbn/US$mn)	60.4/832.1
52 Wk H / L (Rs)	765/382
Daily Vol. (3M NSE Avg.)	880,897

Share holding (%)	3QFY18	4QFY18	1QFY19
Promoter	47.6	47.6	47.6
Public	16.3	15.1	16.4
DII	36.1	37.3	36.1
Others	-	-	-

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Kajaria Ceramics	(21.5)	(34.6)	(45.3)
Nifty Index	(6.1)	7.8	12.8

Source: Bloomberg

From aspiration to necessity: Tile consumption remains a secular growth story

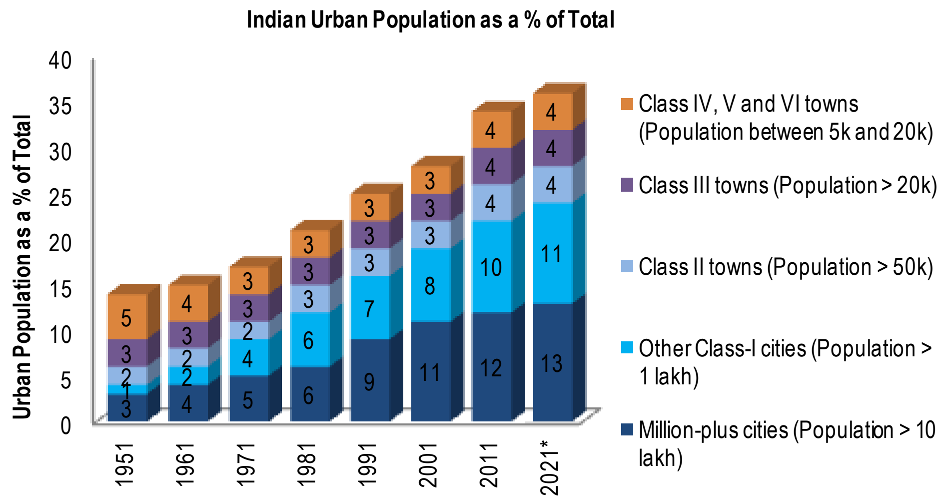
India's tile industry has grown from Rs95,000mn in FY09 to Rs2,70,000mn in FY18, registering a 12.3% CAGR. In the same period, volume posted a 6% CAGR to touch 785msm. This indicates that as the market continued to absorb higher volume, it also migrated to better quality or more expensive tiles. We expect the trend to continue as per capita consumption of tiles in India is still abysmally low compared to various developing and developed countries.

In FY09, India's per capita ceramic tile consumption stood at 0.35sqm. vs. China's 1.88sqm. In FY18, while India's per capita tile consumption increased to 0.59sqm, China's consumption rose to 3.95sqm, indicating faster growth in China. The primary reason for faster growth in China was higher per capita disposable income, urbanisation and rising housing demand. We believe that India is at the cusp of such a growth trend as rising disposable income and urbanisation should change the consumer's perception of tiles from being an aspirational product to one of necessity.

Rising urbanisation

64% of India's population still resides in villages with a population of 5,000 or lower. Data from 2011 Census and Indian Institute for Human Settlement (chart below) suggests that in 1961 around 70mn people or 15% of the total population lived in Indian cities and towns, which rose to nearly 420mn (or 34%) in 2011. It is expected that 500mn people or 38% of the total population will live in cities and towns in 2021, which are major markets for tile manufacturers.

Exhibit 1: India's urban population as a percentage of total population



Source: Census 2011 & Indian Institute for Human Settlement

Cyclical base for real estate in 2018 with a gradual recovery

In our view, demonetisation, Real Estate (Regulatory and Development) Act or RERA, GST, Bankruptcy Code and IndAS accounting have collectively changed the way the real estate industry operates in India. These disruptions have increased regulatory and customer scrutiny of developers, which in turn has hit their operating performance. The real estate sector is currently bouncing back from its cyclical bottom and should stabilise after years of turbulence. We are cautiously optimistic (when the market is scared) because of the following reasons:

- Approval for Real Estate Investment Trusts or REITs is already showing progress in attracting fresh investment in the sector. Developers have also started seizing this opportunity by selling large projects to PE funds and utilising the proceeds for reducing debt and strengthening the balance sheet. Median debt to equity ratio of BSE Realty Index companies declined from 0.77x in FY15 to 0.56x in FY18.

- Liquidity crunch post demonetisation created intense working capital problem for developers which ultimately translated into slower project execution. The damage has been done and liquidity conditions are now easing.
- Rising FDI into the sector is also introducing a higher level of accounting and operational transparency. Hiring professional management teams, centralised procurement processes organised manpower and effective management systems are a few examples of the ongoing positive changes in the sector. These changes are essential to meet high due diligence standards maintained by foreign investors.
- Terrible past experience has increased customers' preference for completed/ready-to-move-in projects rather than under- construction properties. This is also supported by GST-related tax savings in case of completed properties.
- Interest rate subsidy for consumers under Pradhan Mantri Awas Yojna has given the much-needed boost to demand, especially in affordable housing segment.
- Price correction in the past few years has increased affordability. We believe that realty prices will continue to erode as unsold inventory remains high in the system.

Rising importance of flooring

Indian consumers in metro cities now no longer view tiles as a product for high-income individuals/families. Aspiration for better-looking homes, need for durable flooring and rising affordability because of better household income drives the demand for tiles. We expect this trend to spread to smaller cities and towns where still most of the houses have mud/cement flooring. According to Census 2011, nearly 47% of Indians live in houses with mud flooring, 37% with cement flooring and only 11% with mosaic and tile flooring. In cities, 26% houses had tile flooring while 46% houses had cement flooring in 2011. As urbanisation gains momentum, the demand for tile flooring should also rise.

Advantages over alternate flooring materials

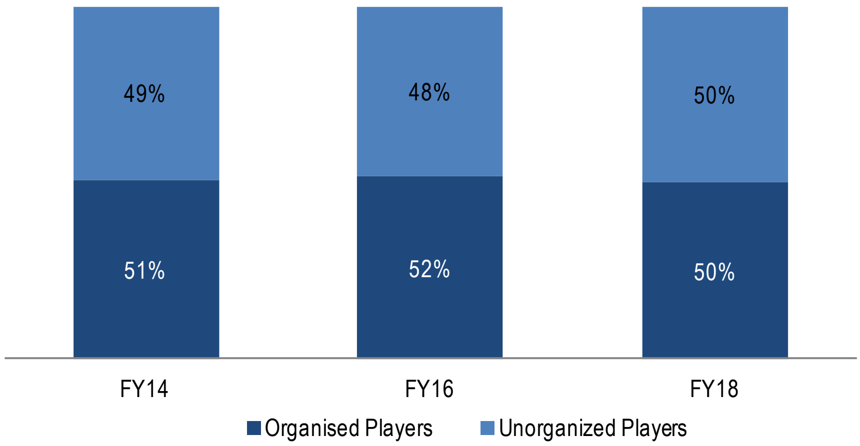
Tiles have multiple advantages over other flooring options like marble/stone, cement, wood, PVC, etc. Low water absorption, higher durability, termite-resistance and a wide range of sizes and designs place tiles on top of the list among other options. While marble and stone are worthy competitors, their high daily maintenance (increased cost of ownership), fragility and difficult application makes them less appealing as compared to tiles.

GST + e-way bill: Strong push towards an organised market

Implementation of GST last year was expected to shift the odds in favour of organised players by eliminating the pricing advantage (because of tax evasion) enjoyed by unorganised players. However, poor ground-level implementation, lax compliance regulation and increased tax differential led to the opposite effect; wherein unorganised players increased their value and volume share from 49% and 67% in FY14 to 50% and 69% in FY18, respectively.

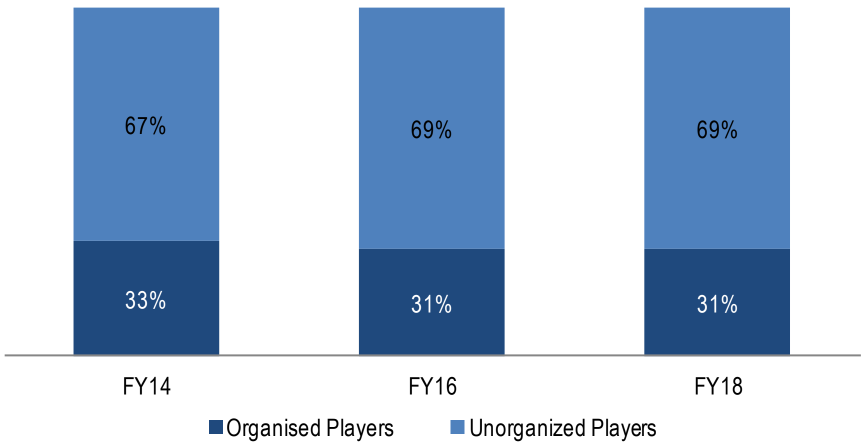
However, the government has started tackling the problems and reduced GST on tiles from initial 28% to 18% in November 2017. This has lowered the tax arbitrage enjoyed by unorganised players. Implementation of e-way bill from April 2018 was expected to reduce tax evasion significantly, but it has failed to deliver the results. Unorganised players have resorted to under-invoicing to escape the tax net. All in all, business for a tax-evading unit has become difficult and this should eventually trigger consolidation in the segment. We expect the players in the organised segment to pocket good assets and KCL leads the way on the back of its solid balance sheet, FCF generation, scale and branding. We like to highlight that we do not expect a runaway shift towards organised players, but rather a more gradual progression.

Exhibit 2: Tile market in sales value terms



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 3: Tile market in sales volume terms



Source: Company, Nirmal Bang Institutional Equities Research

Cost pressure and rising tax scrutiny serve as entry barriers for new unorganised players

Unorganised players today control 50% of India's tile market and have concentrated their manufacturing in Gujarat's Morbi district because of its gas price advantage over other states. Currently, there are more than 600 units in operation with fierce competition among themselves. Rise of the unorganised players has largely been a function of poor tax policing and razor-thin margins.

Our analysis from the data collected during our ground research reveals that RoE of a new tile plant has now dropped close to a risk-free rate. This can have two implications. Firstly, it reasonably assures limited ability of players to undercut prices and secondly, low returns will discourage new players from entering the business. Additionally, even if the unit somehow escapes the 32% corporate tax, then also it generates only 2%, 10% and 9% RoE in Case 1, 2 and 3, respectively. Additionally, taking into account the high risk and cost involved in despatching the goods while escaping the tax authorities, the business becomes unviable.

Exhibit 4: RoCE model of a ceramic tile plant

RoCE model of a ceramic tile plant	Case 1	Case 2	Case 3
Product mix	100% ceramic	50% ceramic & 50% GVT	33% ceramic, 33% PVT & 33% GVT
Capacity (msm)	5.0	5.0	5.0
Blended ASP (Rs per sqm.)	300	398	380
Revenues (Rsmn) @ 85% capacity utilisation	**1,275**	**1,692**	**1,614**
EBIT margin (%)	*8%*	*10%*	*10%*
EBIT (Rsmn)	**102**	**169**	**154**
Capital expenditure (Rs.250mn for 1msm)	1,250	1,250	1,250
Working capital (15% of revenues)	191	254	242
Capital employed	**1,441**	**1,504**	**1,492**
RoCE (%)	***7%***	***11%***	***10%***
Assuming D/E of 50:50			
Debt (Rsmn)	721	752	746
Cost of debt @ 12%	(86)	(90)	(90)
Net profit (post 32% tax)	11	54	44
RoE (%)	***1%***	***7%***	***6%***

Source: Nirmal Bang Institutional Equities Research

Morbi shifts focus to exports

As the Indian government continues to tighten the lid for illicit tiles trade in India, unorganised players have started focusing on the more lucrative export markets. Going forward, this should ease supply pressure in Indian market and help the organised players. The Vibrant Ceramic Expo held in November last year provided a great platform for unorganised players to directly connect with importers from across the globe. **During FY17, tile exports from Morbi amounted to Rs62,000mn. This was equivalent to 22% of Morbi's total annual tile sales of Rs285,000mn. In the first nine months of FY18, export sales from Morbi topped the Rs85,000mn mark. In FY18, it touched Rs110,000mn, registering a whopping 77% YoY growth. This was equivalent to nearly 34% of Morbi's total FY18 tile sales of Rs320,000mn. Going forward, we expect the share of exports in Morbi's total tile sales to continue to rise as any incremental capacity addition is likely to be export-oriented.**

Anti-dumping duty on Chinese tiles in India

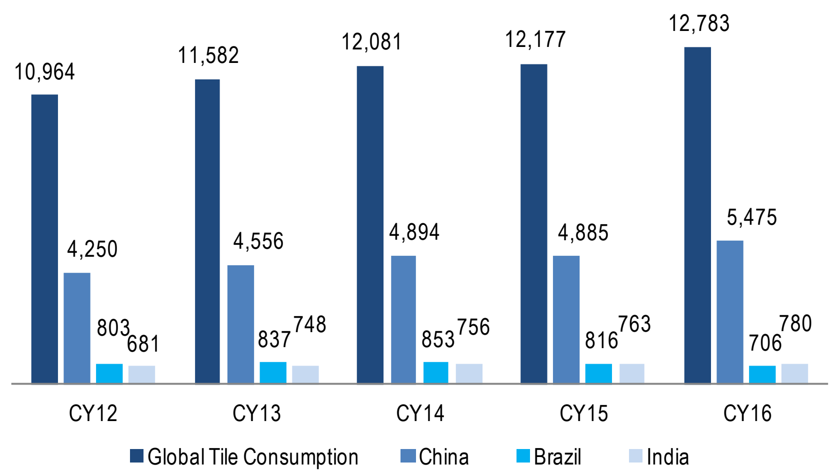
India has imposed an anti-dumping duty on Chinese vitrified tiles for the next five years, valid up to 2022. It is implemented on imports of glazed/unglazed porcelain/vitrified tiles in polished or unpolished finish with less than 3% water absorption. Vitrified tiles (polished and glazed) constitute almost 50% of India's total tile consumption making Chinese imports unviable.

Tile industry overview

Global scenario

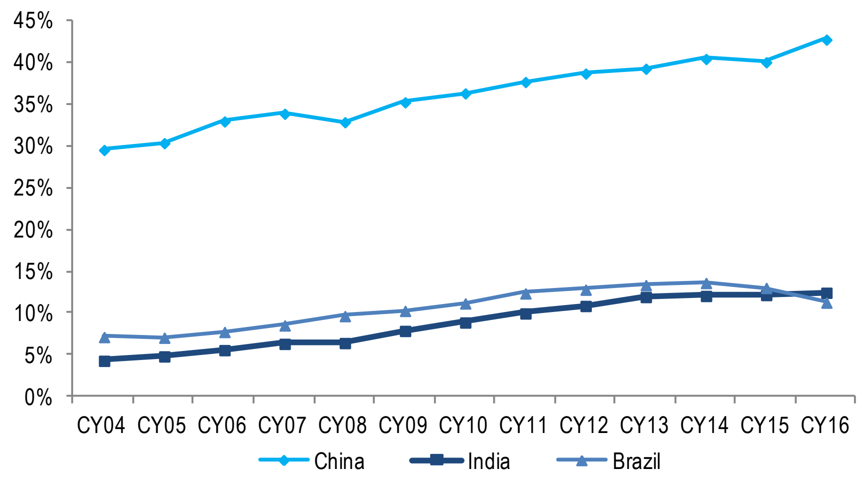
Tile industry globally stood at 12,783msm in 2016 and has been posting a 5% CAGR since 2011. Assuming the same growth rate, we expect the global tile industry to be over 14,000msm by CY18. India's share at the global level currently stands at 12%, while that of Brazil and China at 11% and 43%, respectively. **Per capita consumption of tiles in India currently stands at 0.59sqm as compared to Brazil's 3.39sqm, China's 3.95sqm and Vietnam's 4.40sqm.** As per capita income continues to rise in India, tile consumption should also increase. Therefore, we expect India's share in the global tile industry to increase over the next several years. However, the demand for tiles remains cyclical, tracking the real estate sector.

Exhibit 5: Global tile consumption



Source: World Ceramic Review, Nirmal Bang Institutional Equities Research

Exhibit 6: Volume share in global tile consumption



Source: World Ceramic Review, Nirmal Bang Institutional Equities Research

Indian tile industry

India's tile industry currently stands at Rs270bn or 785msm. The unorganised segment currently has 50% and 69% share in terms of sales value and volume, respectively. The remaining portion is shared by the organised players. KCL continues to be the de-facto market leader with a 20% value and 30% volume share in the organised segment.

The unorganised players are largely concentrated in Morbi, Gujarat. This single location accommodates more than 600 ceramic units employing over 3,50,000 people directly. These unorganised players have largely survived by focusing on low-priced products, tax evasion and their manufacturing expertise. Increased regulatory and tax compliance in the recent past has forced these unorganised units to tweak their business model. While some are now looking at export markets more rigorously, others are either associating themselves with a bigger/organised player or trying to establish their own brand.

Total tile demand/consumption in India has declined by 2.5% CAGR over the past two years. The decline can be attributed to poor state of the real estate sector which has been struggling with high finished inventory and lower level of new construction launches. Ceramic tiles continue to be most popular type of tiles in India and still command a 55% volume share. However, better quality PVT and GVT tiles have also gained some market share. Except for GVT, both ceramic and PVT have witnessed lower volume in FY18 vs. FY16. This clearly indicates changing consumer preference for GVT tiles which are produced in more designs and offer a superior finish.

Exhibit 7: Tile industry product break-up (volume)

	FY14		FY16		FY18	
	volume (msm)	*% mix*	volume (msm)	*% mix*	volume (msm)	*% mix*
Ceramic wall & floor tiles	415	*61*	470	*57*	430	*55*
PVT	236	*35*	310	*38*	275	*35*
GVT	30	*4*	45	*5*	80	*10*
Total	**681**		**825**		**785**	

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 8: Tile Industry - product break-up (value)

	FY14		FY16		FY18	
	value (Rsmn)	*% mix*	value (Rsmn)	*% mix*	value (Rs. mn)	*% Mix*
Ceramic Wall & Floor Tiles	93,000	*39*	105,000	*44*	120,000	*44*
PVT	77,000	*32*	105,000	*44*	110,000	*41*
GVT	25,000	*10*	30,000	*13*	40,000	*15*
Total	**195,000**		**240,000**		**270,000**	

Source: Company Reports, Nirmal Bang Institutional Equities Research

GVT tiles have witnessed 15%-25% price erosion over the past two years because of massive new supply entering the market in a short span of time. Channel checks suggest that GVT price decline is now largely over and industry participants expect the prices to stabilise at the current level. In terms of value, industry has posted a 6% CAGR since 2016 as it passed on cost price inflation to consumers.

Exhibit 9: Indian tile industry

Indian Tiles Industry (Rsmn)	FY18
Domestic industry size	270,000
Export market	110,000
Total	**380,000**

Source: Company Reports, Nirmal Bang Institutional Equities Research

Indian tile manufacturers have historically focused on domestic demand. However, the trend to export tiles is now gaining importance, especially after Chinese exports turned uncompetitive because of anti-dumping duty imposed in various countries. **During FY17, tile exports from Morbi amounted to Rs62,000mn. This was equivalent to 22% of Morbi's total annual tile sales of Rs285,000mn. In the first nine months of FY18, export sales from Morbi topped the Rs85,000mn mark. In FY18, exports touched Rs110,000mn, registering a whopping 77% YoY growth. This was equivalent to nearly 34% of Morbi's total FY18 tile sales worth Rs320,000mn. Going forward, we expect the share of exports in Morbi's total tile sales to continue to rise as any incremental capacity addition is likely to be export-oriented.**

Saudi Arabia is the biggest market for Indian tiles. During FY18, it imported 60msm tiles, registering a growth of 23% YoY and replacing China from the top slot. In FY18, India exported 60msm of tiles to Saudi Arabia (up 23% YoY), 11.5msm (up 29% YoY) to Iraq and 11.4msm to the UAE. Exports to Oman and Kuwait have also doubled in the past three years, touching 10msm cumulatively. Overall, Asian countries account for 75% of India's exports, Africa 13%, Europe 5%, North America 4% and South America 3%. Imposition of anti-dumping duty on Chinese tiles in several countries including the UK and EU (now extended till 2022), fall in the Indian rupee or INR and poor returns in domestic business should continue to drive export sales growth for Indian players.

We expect the domestic tile industry to register a 10% value CAGR over FY18-FY21E, which is higher than 9% CAGR registered over FY15-FY18. The growth should accelerate because of a pick-up in home sales, recovery in replacement demand, rising discretionary income and growing preference towards tiles for flooring.

Exhibit 10: Tile industry value growth

	FY10-FY14	FY15-FY18	FY18-FY21E
Tile industry value growth	15%	9%	10%

Source: Source: Company Reports, Nirmal Bang Institutional Equities Research

KCL is miles ahead of competition

Rising market share

KCL has been the frontrunner in terms of industry growth, both in volume and value terms. KCL's strategy to differentiate its products in terms of design, pattern and size has helped attract customers and increase market share. It is also ahead of the curve in introducing new products like GVT, which has increased the reach to all segments of the market. Additionally, intelligent marketing and branding campaign and strong relationship with distributors also resulted in higher mindshare among its prospective customers.

KCL has gained share in terms of volume sold. In the overall industry volume, KCL increased its share from 7% to 9% between FY14 and FY18. Among the organised players, KCL captured the largest share of 30% in FY18 as compared to only 21% in FY14. We expect KCL to maintain its lead and grab a higher share from unorganised players over the next few years. Market share gains for KCL are likely to be be driven by innovative products, designs and competitive pricing.

Exhibit 11: Tile Industry Market share (sales volume)

Mkt .share: Tiles (sales volume)	FY14			FY16			FY18		
Companies	**Volume (MSM)**	**Organised mkt share**	**Total mkt. share**	**Volume (MSM)**	**Organised mkt. share**	**Total mkt. share**	**Volume (MSM)**	**Organised mkt. share**	**Total mkt. share**
Kajaria Ceramics	52	21%	7%	64	28%	8%	72	30%	9%
Somany Ceramics	38	15%	5%	46	20%	6%	64	27%	8%
Prism Johnson	38	15%	5%	43	19%	5%	39	16%	5%
Cera Sanitaryware	4	1%	0%	4	2%	0%	4	2%	0%
Otherorganised players	118	47%	16%	95	31%	11%	62	26%	8%
Total organised market size	**249**		**33%**	**252**		**31%**	**241**		**31%**
Unorganised players	507		67%	573		69%	545		69%
Total tile market	**756**			**825**			**785**		

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 12: Tile Industry Market share (sales value)

Mkt share: Tiles (sales value)	FY14			FY16			FY18		
Companies	**Size (Rsbn)**	**Organised mkt. share**	**Total mkt. share**	**Size (Rsmn)**	**Organised mkt. share**	**Total mkt. share**	**Size (Rsmn)**	**Organised mkt. share**	**Total mkt. share**
Kajaria Ceramics	19,930	21%	10%	26,960	22%	11%	27,110	20%	10%
Somany Ceramics	12,669	13%	6%	18,010	15%	8%	17,130	13%	6%
Prism Johnson	19,325	20%	10%	24,500	20%	10%	16,850	12%	6%
Cera Sanitaryware	557	1%	0%	1,249	1%	1%	2,375	2%	1%
Otherorganised players	44,519	46%	23%	53,361	43%	22%	71,535	53%	26%
Total organisedmMarket size	**97,000**		**51%**	**124,080**		**52%**	**135,000**		**50%**
Unorganised players	98,000		49%	115,920		48%	135,000		50%
Total Ttles market	**195,000**			**240,000**			**270,000**		

Source: Company Reports, Nirmal Bang Institutional Equities Research

Industry-leading margins

KCL continues to maintain its margin leader position among peers in the tile business. In the last 10 years, KCL has averaged 15.6% EBITDA margin while Somany Ceramics averaged only 9.2%.

Exhibit 13: EBITDA Margin of Ceramic Players

EBITDA margin (%)	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18
Cera	18.4	19.2	19.9	17.9	16.5	14.5	14.5	15.4	17.4	15.0
HSIL	14.2	17.3	18.0	16.3	13.8	12.9	15.8	15.5	13.1	11.9
Kajaria	12.2	15.7	14.8	14.8	14.3	14.2	15.0	18.9	19.5	16.8
Somany Ceramics	9.5	10.5	9.1	8.1	7.9	6.3	7.1	8.4	13.2	11.7

Source: Company Reports, Nirmal Bang Institutional Equities Research

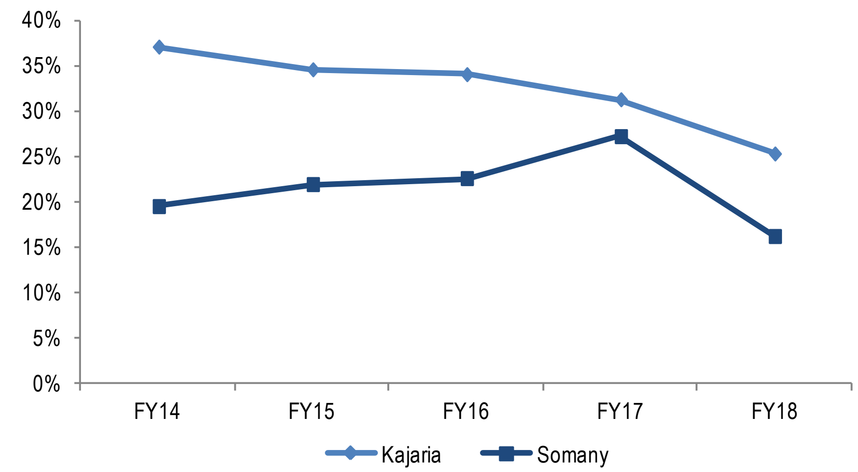
Primary reasons for KCL's better margins is favourable product mix, higher proportion of in-house produced tiles and technologically advanced manufacturing process. We expect KCL to maintain its margins higher than that of the industry because of the following factors:

- Self-produced tiles form nearly 55% of KCL's total sales volume as compared to 41% at Somany Ceramics. The remaining portion is procured from its joint venture or JV and outsourcing partners. This results in lower working capital investment, cheaper procurement and better gross margin. Additionally, KCL enjoys higher economies of scale (as smaller outsourcing suppliers provide favourable trade agreements) with its total sales volume at 72msm as compared to Somany Ceramic's 64msm and Prism Johnson's 39msm.
- Higher priced GVT tiles form 20% of KCL's sales volume as compared to 9% industry average. While GVT prices have corrected nearly 15%-25% in the last one year, they still continue to remain close to 2x (for bigger size tiles) when compared to ceramic tiles. We do not expect any further material price correction in GVT as Morbi players are now focused on export markets and the recent crude oil price rally has increased cost pressure.

Superior RoCE: A function of higher margins

KCL has delivered 32% average RoCE over the past five years as compared to 21% of Somany Ceramics, indicating higher efficiency of the investments made.

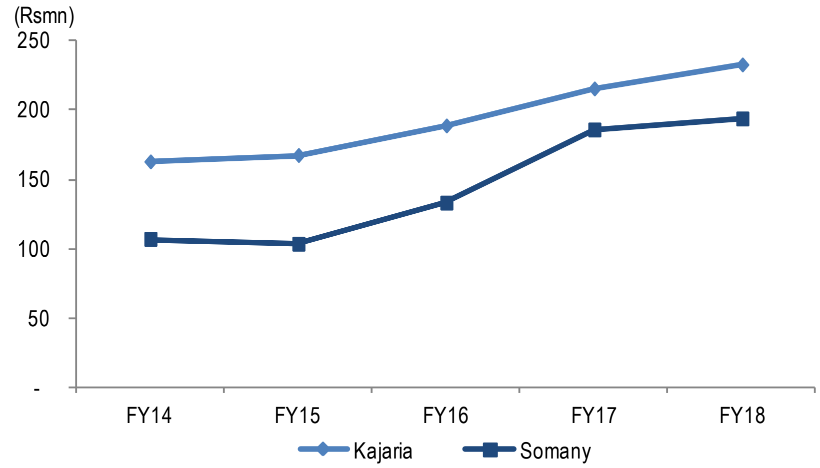
Exhibit 14: RoCE



Source: Company Reports, Nirmal Bang Institutional Equities Research

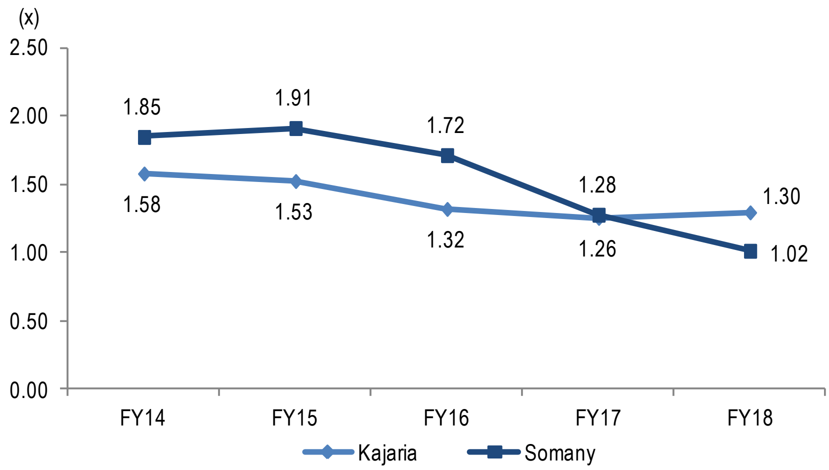
Somany Ceramics has lower capital employed for each unit of production, but it has witnessed a sharper decline in asset turnover over the past five years as compared to KCL. This indicates Somany Ceramics' investments are largely in assets that produce lower-priced or mass market tiles and its plants are operating at lower capacity.

Exhibit 15: Capital/msm capacity



Source: Company Reports, Nirmal Bang Institutional Equities Research

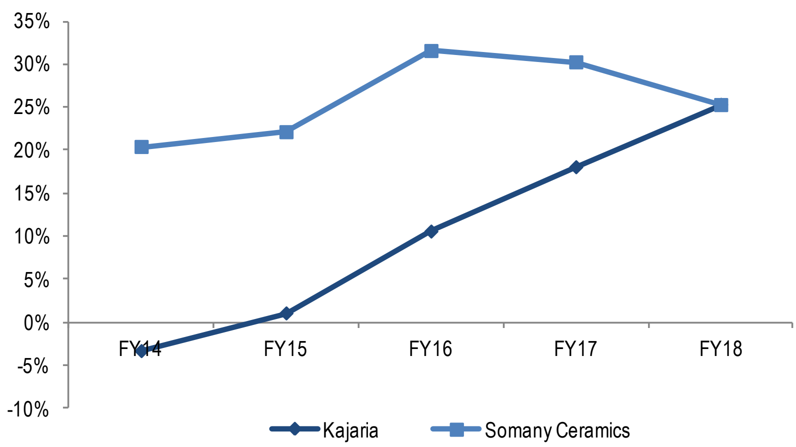
Exhibit 16: Asset turnover rartio



Source: Company Reports, Nirmal Bang Institutional Equities Research

KCL's working capital investment has been increasing over the past few years and now equal that of Somany Ceramics with respect to total capital employed. Even as Somany Ceramics has better capital allocation as compared to KCL, it is not able to deliver higher RoCE. This indicates that KCL's higher RoCE is the function of its superior margin or realisation. Put differently, KCL derives a larger proportion of its sales from higher-priced (and larger-sized) premium tiles as compared to Somany Ceramics. It is able to do so on the back of its brand equity and better product display.

Exhibit 17: Working capital as a percentage of capital employed



Source: Company Reports, Nirmal Bang Institutional Equities Research

Kajaria Ceramics has the lowest cash conversion cycle (CCC)

Disruption because of demonetisation and GST, slowdown in the real estate sector and unfavourable demand-supply equation led to a rise in the cash conversion cycle for both tile and sanitaryware industry in the past few years. However, KCL still continues to convert its sales into cash faster than any other player in the industry, keeping itself ahead of the curve.

Over the FY10-FY14 period, KCL's CCC averaged 29 days when rivals Somany Ceramics, Cera and HSIL averaged 51, 75 and 86 days respectively. Over the next five-year period i.e. between FY14-FY18, CCC for all players increased because of higher receivable and inventory days. However, Somany Ceramics managed to reduce its inventory days. In FY18, KCL's receivable days stood at 53, much lower than the peer group. **During our ground check, a few dealers told us that they pay KCL relatively earlier (less credit days) than the others as its products sell faster.**

Exhibit 18: Cash conversion cycle

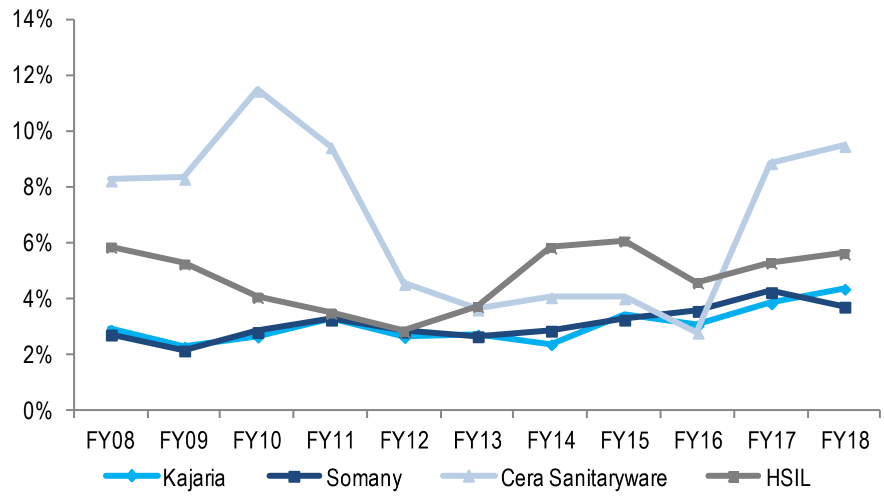
Cash Conversion Cycle	FY14	FY15	FY16	FY17	FY18	Avg. (FY10-FY14)	Avg. (FY14-FY18)
KCL							
Receivable days	28	28	33	44	53	29	37
Inventory Days	37	37	46	93	82	48	59
Payable days	38	38	49	69	57	49	50
CCC	**27**	**28**	**30**	**68**	**78**	**29**	**46**
Somany Ceramics	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**Avg. (FY10-FY14)**	**Avg. (FY14-FY18)**
Receivable days	53	53	58	71	97	54	67
Inventory Days	29	26	28	34	50	37	33
Payable days	54	48	48	46	47	40	49
CCC	**28**	**31**	**38**	**60**	**100**	**51**	**51**
Cera	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**Avg. (FY10-FY14)**	**Avg. (FY14-FY18)**
Receivable days	50	57	66	74	75	50	64
Inventory Days	52	49	49	102	102	63	71
Payable days	21	23	26	54	53	38	35
CCC	**81**	**83**	**90**	**122**	**124**	**75**	**100**
HSIL	**FY14**	**FY15**	**FY16**	**FY17**	**FY18**	**Avg. (FY10-FY14)**	**Avg. (FY14-FY18)**
Receivable days	74	72	69	64	73	56	70
Inventory Days	78	79	83	80	84	67	81
Payable days	34	32	33	36	37	37	34
CCC	**117**	**119**	**119**	**109**	**120**	**86**	**117**

Source: Company Reports, Nirmal Bang Institutional Equities Research

Brand and product leadership

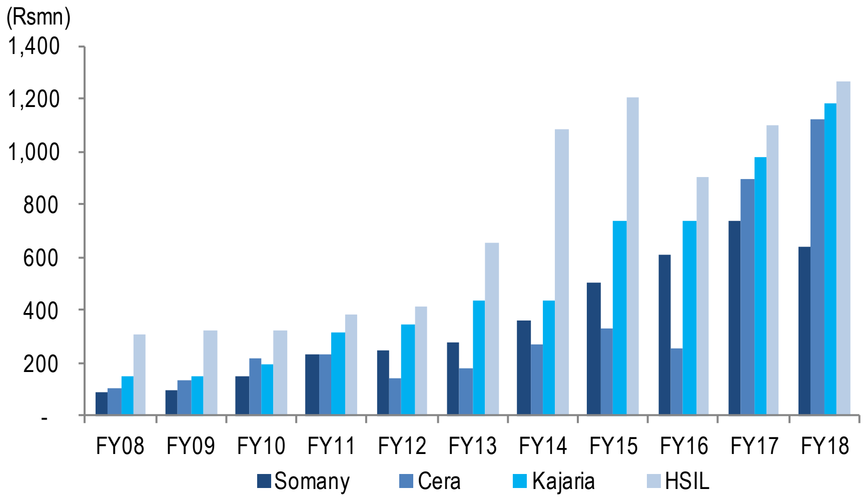
While KCL does not have any significant pricing power, it does enjoy the best brand recall among all ceramic companies in India. This is the result of marketing, distribution and product innovation investment that the company made over the past several years. Wide product range, good quality and timely availability also helped in maintaining its leadership position. **Strong relationship with dealers helped KCL to maintain lower receivable days, better shelf space and customer service. KCL has 1,400 dealers and 5,000 sales touch points across India**

Exhibit 19: Advertisement and promotion spending as a percentage of net revenues



Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 20: Advertisement and promotion expenses

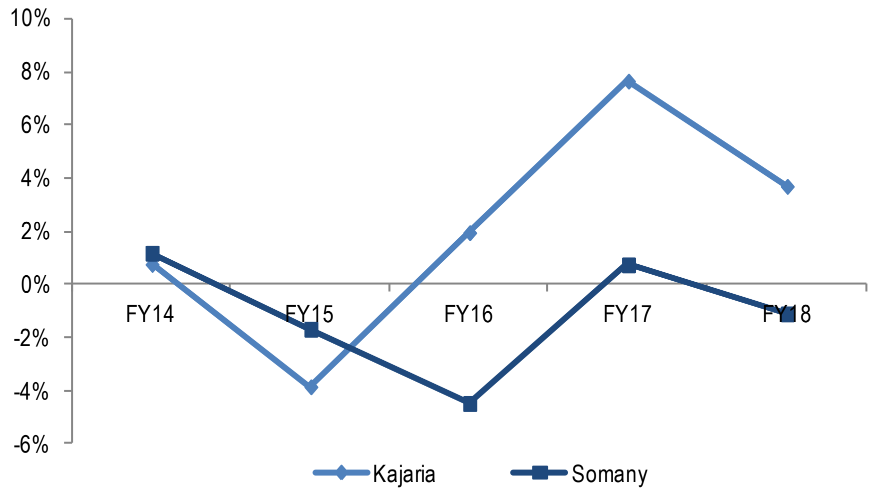


Source: Company Reports, Nirmal Bang Institutional Equities Research

Strong balance sheet and FCF generation

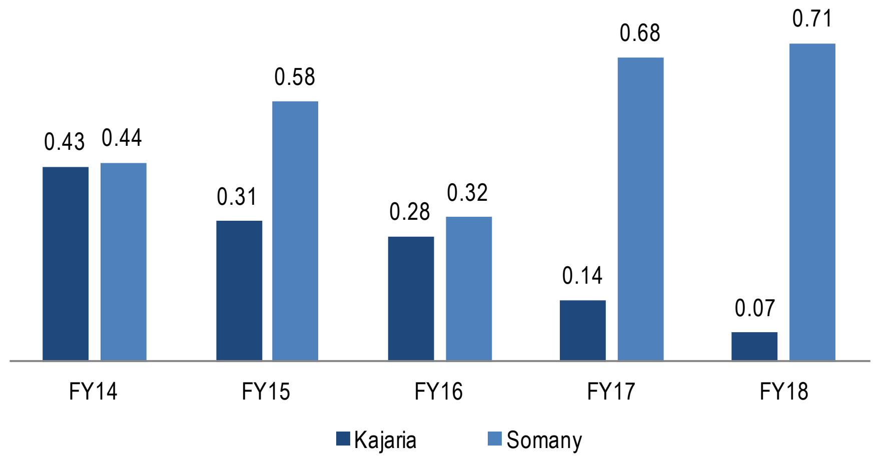
KCL has balanced its growth and capital allocation well. Healthy cash flow generation helped KCL to have a strong balance sheet. In the past three years, on an average, KCL converted 4.4% of its net sales into FCF while delivering 6% revenue CAGR. In the same period, Somany Ceramics delivered negative 2% with zero sales growth. Such strong FCF generation was used by KCL to reduce its net debt/equity ratio from 0.28x in FY16 to 0.07x in FY18. Somany Ceramics continues to finance its operations with higher debt, increasing its net debt- equity ratio from 0.32x in FY16 to 0.71x in FY18.

Exhibit 21: FCF as a percentage of net revenues



Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 22: Net debt-equity ratio



Source: Company Reports, Nirmal Bang Institutional Equities Research

Valuation

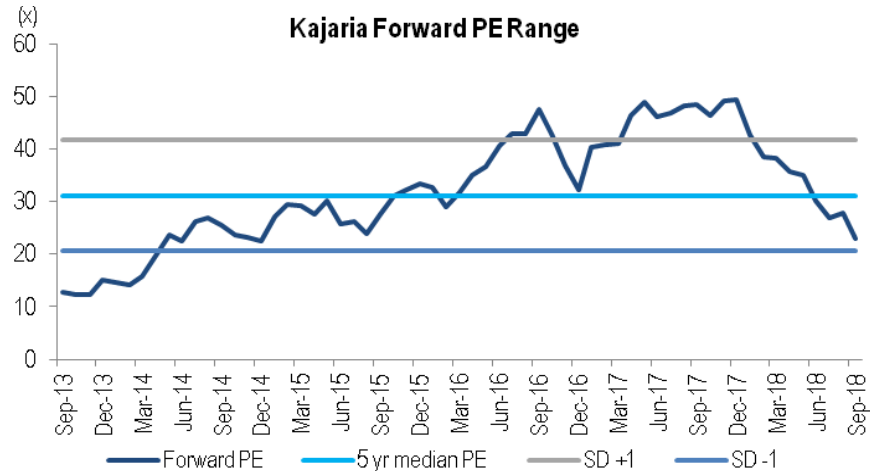
KCL's stock has declined 50% from its recent highs in the past couple of years, largely on account of P/E multiple correction. While the stock still continues to slide, we believe its fundamentals are now turning favourable. We expect its earnings growth to pick up going forward. Margins should bottom out in FY19 and return to the growth trajectory from next year.

Exhibit 23: KCL's valuation

Time period	Revenue CAGR	EPS CAGR	Median P/E (x)
FY03-FY08	19%	9%	13.8
FY08-FY13	28%	47%	15.5
FY13-FY18	10%	16%	35.5
FY18-FY21	13%	16%	-

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 24: P/E ratio



Source: Company Reports, Nirmal Bang Institutional Equities Research

In the past 60 quarters (15 years), that includes a full business cycle, KCL's shares have traded at a median level of 23 times. We, therefore, value KCL at 23x exit multiple based on FY20 September EPS estimate of Rs 21.38. Our target price of Rs492 translates to a 29% upside from the CMP. Our exit multiple of 23x is at a 35% discount to the stock's past five-year median multiple of 35.5x, which we believe is overstreatched.

Exhibit 25: Valuation multiple

FY20 Sept. EPS		21.38
Target	at 23x P/E	492.00
Upside		29%

Source: Company Reports, Nirmal Bang Institutional Equities Research

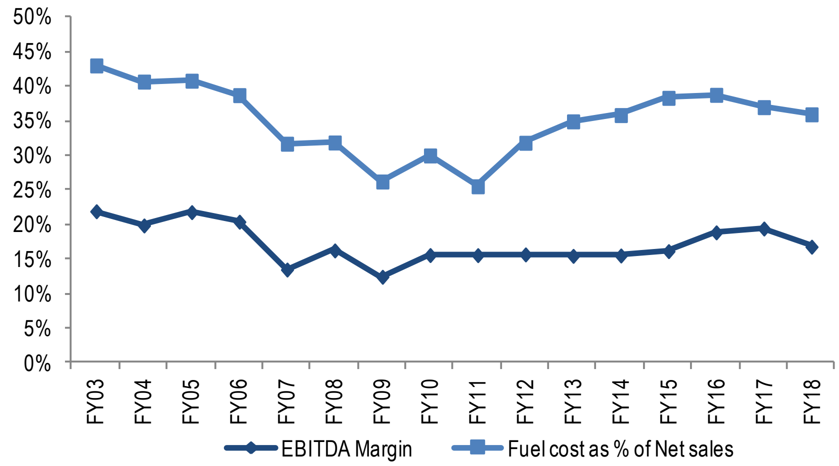
Key risks

Rising gas cost

Tile industry uses gas for spray dryer and kiln heating, costing it around 20% of net sales. Spray dryer helps in converting the liquid mud mixture/silt into a fine powder. Kiln is used to heat the tile biscuit to impart it strength and is a crucial process. Gas prices depend on three-month average Brent crude oil prices. We are currently factoring US$75/barrel Brent crude oil price into our estimates. If Brent crude oil price increases by US$5/bbl, then KCL should see a nearly 1.5% dip in its EBITDA margin.

The dip for KCL is lower as it plans to move spray dryer operations on coal (as it is a less important process as per quality control point of view) for its in-house manufacturing plants. This is expected to save Rs25mn in costs per month for the company, equating to 1% EBITDA benefit for the full year on FY19 revenue level.

Exhibit 26: Relationship between gas cost and EBITDA margin



Source: Company Reports, Nirmal Bang Institutional Equities Research

Slowdown in new construction activity

Building material industry derives its demand from the real estate industry. Hence, any slowdown in the real estate sector will impact KCL. However, we expect the impact to be limited as a major portion of its sales is derived from retail customers.

Competition

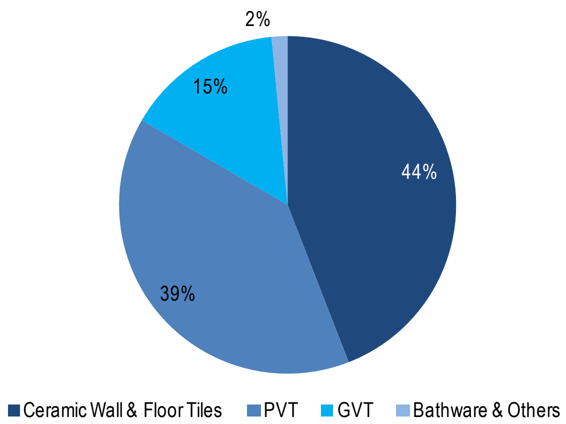
Tile industry is highly competitive which restricts players' ability to pass on cost inflation. While KCL continues to gain market share, it certainly does not influence prices. KCL is exposed to the competitive pricing risk, as witnessed in GVT price decline recently.

Business description

Revenue break-up

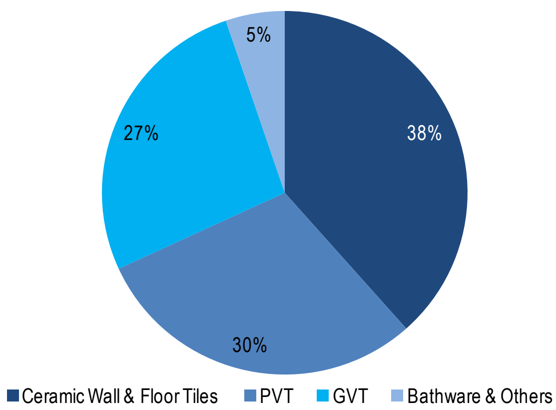
For KCL, revenue contribution from relatively lower-priced ceramic tiles has been declining as higher-priced GVT increased its share. Additionally, bathware has also increased its revenue contribution from 2% in FY18 to 8% in FY18, but likely to remain close to 10% as per the management's view.

Exhibit 27: FY14 revenue break-up



Source: Company Reports, Nirmal Bang Institutional Equities Research

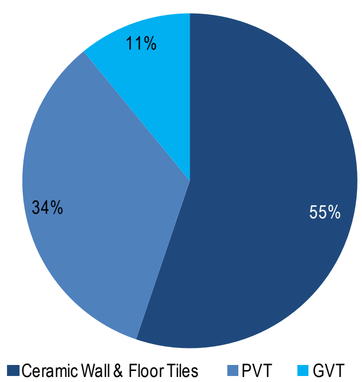
Exhibit 28: FY18 revenue break-up



Source: Company Reports, Nirmal Bang Institutional Equities Research

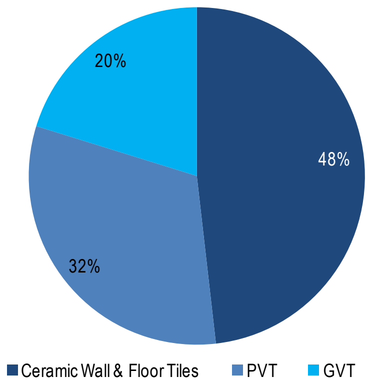
KCL's change in revenue mix is correlated to its volume sales mix which clearly displays rising GVT share. Fall in PVT revenues is higher than the fall in respective sales volume because of price decline in the category. In the past few quarters, KCL has been witnessing a fall in GVT prices because of oversupply in the market.

Exhibit 29: FY14 tile sales volume



Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 30: FY18 tile sales volume



Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 31: Average gross realisation

Average gross realisation (Rs/sqm)	FY13	FY14	FY15	FY16	FY17	FY18
Ceramic wall and floor tiles	299	311	331	294	302	300
PVT	446	451	432	392	370	355
GVT	613	536	598	514	488	496

Source: Company Reports, Nirmal Bang Institutional Equities Research

We have calculated gross realisation for the tile categories due to unavailability of the requisite data. Our calculation also includes effect of decrease in GST rate from 28% to 18% in the middle of FY18. We believe that realisation is close to bottom and the industry should witness price improvement going forward. Diversion of additional capacity (mostly by Morbi players) toward export markets, recovery in sale volume, anti-dumping duty on Chinese imports and cost pressure should be primary pricing drivers for the industry.

Exhibit 32: Tile Pricing by Branded Players

Price (Rs/sq.mt.)	FY13	FY14	FY15	FY16	FY17	FY18
Ceramic Wall & Floor Tiles	225-1000	200-800	220-800	225-650	225-650	225-650
PVT	425-1200	400-800	400-1000	400-1000	500-1500	500-1500
GVT	600-1800	600-1800	530-1200	550-1100	550-2000	550-2200

Source: Company Reports, Nirmal Bang Institutional Equities Research

Product offering

KCL has been industry leader in product innovation as well. It has been ahead of the curve in launching better designs, large- sized tiles and offering more choice (larger number of SKUs – stock keeping units) to its customers. The trend in the tables below indicates that the company internally shifted its focus from ceramic tiles to higher-priced PVT and GVT categories in recent years. This is in line with its strategy of premiumisation. However, it could not yield full benefits of the strategy because of market disruption and price erosion. Going forward, the focus remains on introducing large-sized tiles in all categories that command higher prices per sqm because of better look and shine. KCL's product excellence is one of its key differentiating factors that help drive more customer footfall into the dealers' showrooms.

Exhibit 33: Kajaria's Tile Design Offering

No. of designs (SKU)	FY13	FY14	FY15	FY16	FY17	FY18
Ceramic wall & floor tiles	790	932	1,214	1,270	1,800	1,800
PVT	58	60	95	90	74	173
GVT	175	320	360	468	800	890

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 34: Kajaria's Tile Size Offering

No. of sizes	FY13	FY14	FY15	FY16	FY17	FY18
Ceramic wall & floor tiles	11	11	11	11	15	15
PVT	3	2	3	3	3	4
GVT	6	6	7	8	12	15

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 35: Capacity and product mix

Geographical spread	FY14			FY15			FY16			FY17			FY18		
of tile capacity (MSM)	Ceramic	PVT	GVT	Ceramic	PVT	GVT	Ceramic	PVT	GVT	Ceramic	PVT	GVT	Ceramic	PVT	GVT
Sikandrabad, UP	3.5	2.0	2.9	3.5	-	6.3	3.5	-	6.3	-	-	8.4	-	-	8.4
Gailpur, Rajasthan	15.5	3.0	3.0	15.5	3.0	3.0	18.5	-	6.0	18.9	-	7.7	22.9	-	8.1
Malutana, Rajasthan	-	-	-	-	-	-	-	6.5	-	-	6.5	-	-	6.5	-
Jaxx, Morbi - (JV)	-	5.7	-	-	10.2	-	-	10.2	-	-	10.2	-	-	10.2	-
Cosa, Morbi - (JV)	-	2.7	-	-	5.7	-	-	5.7	-	-	5.7	-	-	5.7	-
Floera, AP - (JV)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Taurus, Morbi - (JV)	-	-	-	-	5.0	-	-	5.0	-	-	5.0	-	-	-	-
Soriso, Morbi - (JV)	4.6	-	-	4.6	-	-	4.6	-	-	3.7	-	-	3.7	-	-
Vennar, Vijayawada, AP - (JV)	2.3	-	-	2.3	-	-	2.3	-	-	2.9	-	-	2.9	-	-
Total - MSM	**25.9**	**13.4**	**5.9**	**25.9**	**23.9**	**9.3**	**28.9**	**27.4**	**12.3**	**25.5**	**27.4**	**16.1**	**29.5**	**22.4**	**16.5**

Source: Company Reports, Nirmal Bang Institutional Equities Research

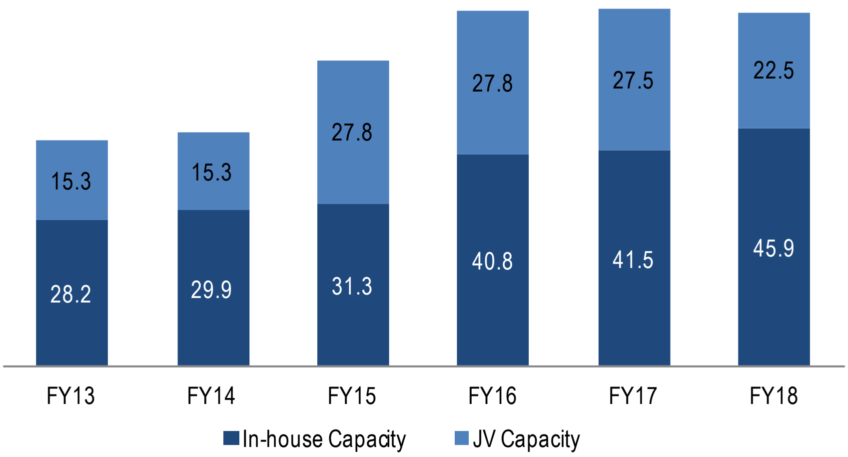
Exhibit 36: Plant-wise Capacity

Capacity	FY13	FY14	FY15	FY16	FY17	FY18
Tiles (msm)						
Sikandrabad, Uttar Pradesh	8.1	8.4	9.8	9.8	8.4	8.4
Gailpur, Rajasthan	20.1	21.5	21.5	24.5	26.6	31.0
Malutana, Rajasthan	-	-	-	6.5	6.5	6.5
Jaxx, Morbi - (JV)	5.7	5.7	10.2	10.2	10.2	10.2
Cosa, Morbi - (JV)	2.7	2.7	5.7	5.7	5.7	5.7
Floera, AP - (JV)	-	-	-	-	-	-
Taurus, Morbi - (JV)	-	-	5.0	5.0	5.0	-
Soriso, Morbi - (JV)	4.6	4.6	4.6	4.6	3.7	3.7
Vennar, Vijayawada, Andhra Pradesh - (JV)	2.3	2.3	2.3	2.3	2.9	2.9
In-house capacity	**28.2**	**29.9**	**31.3**	**40.8**	**41.5**	**45.9**
JV capacity	**15.3**	**15.3**	**27.8**	**27.8**	**27.5**	**22.5**
Total - msm	**43.5**	**45.2**	**59.1**	**68.6**	**69.0**	**68.4**
Bathware - Morbi (mn pieces)	-	-	0.7	0.7	0.54	0.6
Faucets - Gailpur (mn pieces)	-	-	-	1.0	1.0	1.0

Source: Company Reports, Nirmal Bang Institutional Equities Research

KCL has a healthy mix of in-house and JV capacity. The company has maintained at least 82% of its tile manufacturing capacity in-house (including JVs) which helps in maintaining margins. Its bathware and faucet capacity is in-house. KCL's manufacturing is well spread and closer to consumption centres. This is particularly important for a tile company that has high logistic costs and higher SKUs.

Exhibit 37: KCL's manufacturing capacity



Source: Company Reports, Nirmal Bang Institutional Equities Research

Diversification: Sanitaryware and faucets

KCL entered sanitaryware and faucet manufacturing in FY15-FY16 as complement to its tile offering. Currently the company manufactures 0.6mn sanitaryware and 1mn faucet pieces annually. Both the products contribute 5% to KCL's consolidated top-line. The company is not planning any major expansion in this business, but wants to operate as a complement offering and grab more shelf space. **The business unit (Kajaria bathware) has also received investment from Westbridge Crossover Fund, which picked up a 15% stake in the unit for Rs645mn, valuing the business at Rs4300mn.**

Management team

Mr. Ashok Kajaria, CMD

Mr. Ashok Kajaria is the founder chairman and managing director (CMD) of the company. He holds a Bachelor's in Science (BSc.) degree and pursued engineering (BSME) at UCLA (California), USA. He has seen the rise of KCL from what started as a 1msm tile fledging in 1988 into industry leader and most respected tile brand in India.

Mr. Chetan Kajaria, Joint. MD

Mr. Chetan Kajaria has a Bachelor in Petrochemical Engineering (B.E) degree from Pune University and MBA degree from Boston College, USA. He joined KCL in 2000 and heads the ceramic tile vertical. He also oversees the group's acquisitions.

Mr. Rishi Kajaria, Joint MD

Mr. Rishi Kajaria holds a B.Sc. in business administration degree from Boston University,USA. He joined KCL in 2003 and looks after the vitrified tile vertical and bathware business.

Exhibit 38: Shareholding pattern

Shareholding pattern	% of shared held
Promoter	47.6%
Franklin India	3.5%
Norway Sovereign Fund	3.1%
Jwalamukhi Investments	2.7%
Fidelity International - Discovery Fund	2.6%
Kotak AMC	1.8%
SBI MF	1.6%
Aditya Birla MF	1.4%
HDFC Standard Life Insurance	1.1%

Source: BSE, Nirmal Bang Institutional Equities Research

Annexure

Faucet industry overview

The Rs85bn Indian faucet industry continues to grow at 15% as compared to 13% CAGR over FY14-FY16. The higher growth rate is supported by replacement demand which is more than 2x the institutional market. This immunes the business from cyclical nature of the real estate sector and provides much consistent earnings profile with better pricing power. However, the unorganised segment controls 50% of the total market and has gained small share because of high rural demand in recent years. Jaquar continues to rule the market with over 60% share in the organised segment followed by fierce competition between Parryware, HSIL, Cera, Kohler, Grohe, etc.

Exhibit 39: Faucet industry growth

	FY10-FY14	FY14-FY16	FY16-FY18	FY18-FY21E
Faucet industry growth	17%	13%	15%	15%

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 40: Faucet - Demand segments

Faucet - Demand segments	FY14	FY16	FY18
Retail	70%	70%	70%
Institutional	30%	30%	30%

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 41: Market Share Faucet Players Market Share Faucet Players

Companies	FY16 size (Rsbn)	Organized Market Share FY16	Total Mkt Share FY16	FY18 size (Rsbn)	Organized Market Share FY18	Total Mkt Share FY18
Jaquar	20.0	61%	31%	26.0	61%	31%
Cera	2.0	6%	3%	2.6	6%	3%
Others - Organized (HSIL, Cera, Kohler)	11.0	33%	17%	13.9	33%	16%
Total Organised Market size	**33.0**	-	**51%**	**42.5**	-	**50%**
Unorganized Players	32.0	-	49%	42.5	-	50%
Total Faucet Market	**65.0**	-	-	**85.0**	-	-

Source: Company Reports, Nirmal Bang Institutional Equities Research

Sanitaryware industry overview

Indian sanitaryware industry is currently valued at Rs36bn. Organised players held 53% of the market share in March 2018. Contrary to original belief, the demand shift from unorganised to organised players has been painfully slow till now. This was largely because of the GST tax rate anomaly, delayed e-way bill provision and poor regulatory scrutiny. The tide is now turning in favour of organised players and they are all set to capture a higher pie of the market. Reduction of GST rate from 28% to 18% has lowered the pricing differential and e-way requirement for each consignment is also discouraging unlawful sales. Unorganised players also benefitted from high rural demand under Swachh Bharat Mission. With 82% of the targeted toilets already constructed and GST/e-way bill system being effectively implemented, we expect organised players to recoup market share.

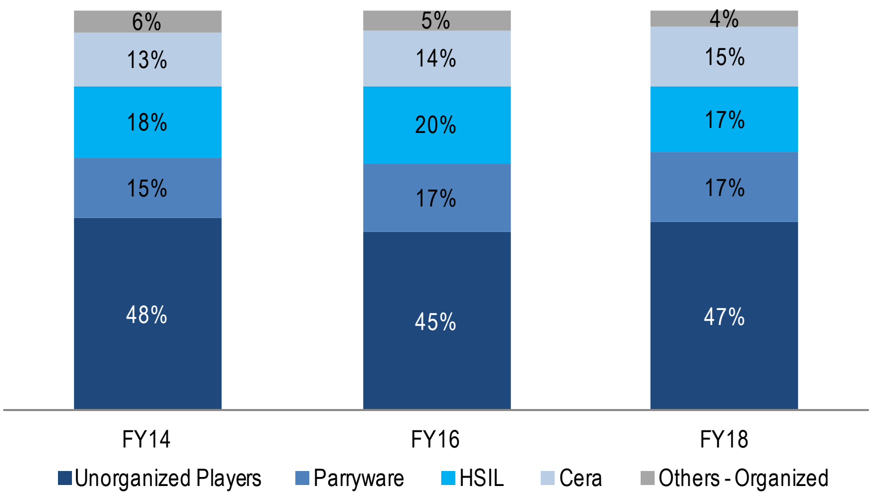
Market share gain for the unorganised segment is largely because of the government's push for toilet construction, especially in the hinterlands. Indian government launched Swachh Bharat Mission in October 2014, and since then has built more than 78mn toilets across India at an unprecedented pace. We expect the pace of the mission to reduce going forward as 87% of the targeted 90mn toilets (to be constructed by October 2019) are already complete. **Going forward, we expect the branded/organised players to regain lost market share as the demand from rapid urbanisation takes over from rural areas.**

Exhibit 42: Market share of sanitaryware players

Companies	FY14			FY16			FY18		
	Size (Rsmn)	Organised mkt. share	Total mkt. share	Size (Rsmn)	Organised mkt. share	Total mkt. share	Size (Rs mn)	Organised mkt. share	Total mkt.share
HSIL	5,611	34%	18%	6,300	35%	20%	6,018	31%	17%
Parryware	4,800	29%	15%	5,500	31%	17%	6,300	33%	17%
Cera	4,200	26%	13%	4,500	25%	14%	5,389	28%	15%
Others - Organised	1,800	11%	6%	1,600	9%	5%	1,500	8%	4%
Total- Organised market size	**16,411**	-	**52%**	**17,900**	-	**55%**	**19,207**	-	**53%**
Unorganised players	15,100	-	48%	14,400	-	45%	17,000	-	47%
Total -Sanitaryware market	**31,511**	-	-	**32,300**	-	-	**36,207**	-	-

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 43: Market share of sanitaryware players



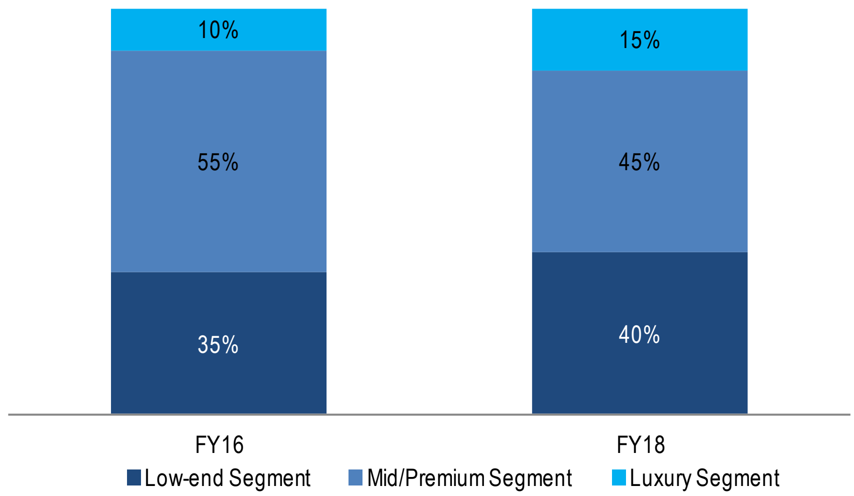
Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 44: Sanitaryware - Product Segment

	FY16	FY18	Price points (FY18)	Players	Market leader	Competition
Low-end segment	35%	40%	Rs.500-2,000	Unorganised	-	-
Mid/premium segment	55%	45%	Rs.2,000-10,000	Cera, HSIL, Parryware, Kerovit & Somany	Cera & HSIL	High
Luxury segment	10%	15%	Rs.10,000-20,000+	Kohler, Duravit, Parryware, American Standard, Toto	Parryware	High

Source: Company Reports, Nirmal Bang Institutional Equities Research

Exhibit 45: Sanitaryware-product segment



Source: Company Reports, Nirmal Bang Institutional Equities Research

Financials

Exhibit 46: Income statement

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Net Revenue	25,496	27,106	29,743	33,904	38,702
YoY (%)	*5.6*	*6.3*	*9.7*	*14.0*	*14.2*
Purchase of finished goods	(2,297)	(3,432)	(3,747)	(4,266)	(4,583)
% of sales	*9.0*	*12.7*	*12.6*	*12.6*	*11.8*
COGS	(12,601)	(13,274)	(14,542)	(16,324)	(18,481)
Gross Profit	10,599	10,400	11,453	13,314	15,637
Selling, General & Admin Expense	(2,372)	(2,307)	(2,736)	(3,051)	(3,522)
Other Operating & Employee exp.	(3,263)	(3,529)	(3,986)	(4,438)	(5,225)
EBITDA	4,963	4,564	4,731	5,825	6,891
Depreciation	(814)	(885)	(964)	(1,090)	(1,305)
EBIT	4,149	3,678	3,768	4,734	5,586
YoY (%)	*8.1*	*(11.4)*	*2.4*	*25.7*	*18.0*
Interest Expense	(340)	(241)	(169)	(135)	(135)
Interest income	23	35	73	135	217
Other Income	130	81	0	0	0
PBT (adjusted)	3,833	3,472	3,671	4,734	5,668
- Income Tax Expense	(1,425)	(1,267)	(1,287)	(1,633)	(1,956)
Effective tax rate (%)	*36.0*	*35.7*	*35.0*	*34.5*	*34.5*
- Minority Interests	(10)	64	-	-	-
PAT (adjusted)	2,398	2,269	2,385	3,100	3,712
Diluted EPS (adjusted)	15.05	14.24	14.97	19.46	23.30

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 47: Cash flow

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
PBT	3,963	3,553	3,671	4,734	5,668
Depreciation & Amortization	814	885	964	1,090	1,305
Other Non-Cash Adjustments	(916)	(1,046)	(1,287)	(1,633)	(1,956)
Changes in working Capital	(485)	(1,009)	124	(670)	(853)
Cash From Operating Activities	**3,377**	**2,383**	**3,472**	**3,521**	**4,163**
Disposal of Fixed Assets	45	145	-	-	-
Capital Expenditures	(1,470)	(1,527)	(1,517)	(1,526)	(1,509)
Increase in Investments & Subsidiaries	35	-	-	-	-
Decrease in Investments	-	-	-	-	-
Other Investing Activities	28	(21)	-	-	-
Cash From Investing Activities	**(1,362)**	**(1,403)**	**(1,517)**	**(1,526)**	**(1,509)**
Dividends Paid	(491)	(572)	(534)	(620)	(928)
Change in Short-Term Borrowings	(554)	306	-	-	-
Increase in Long-Term Borrowing	-	-	-	-	-
Decrease in Long-term Borrowing	(266)	(225)	-	-	-
Increase in Capital Stocks	(28)	12	-	-	-
Decrease in Capital Stocks	-	-	-	-	-
Other Financing Activities	(340)	(241)	-	-	-
Cash from Financing Activities	**(1,679)**	**(720)**	**(534)**	**(620)**	**(928)**
Net Changes in Cash	**336**	**260**	**1,421**	**1,375**	**1,726**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 48: Balance sheet

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Equity	159	159	159	159	159
Reserves	11,592	13,351	15,202	17,682	20,466
Net worth	**11,751**	**13,510**	**15,361**	**17,841**	**20,625**
Accounts payables	2,677	2,578	2,756	3,103	3,475
Other ST liabilities	2,312	2,153	2,153	2,153	2,153
Short-term loans	551	757	757	757	757
Total current liabilities	**5,540**	**5,487**	**5,665**	**6,012**	**6,385**
Long-term loans	1,155	594	594	594	594
Other LT liabilities	1,195	1,151	1,151	1,151	1,151
Minority interest	760	661	661	661	661
Total Equity & Liabilities	**20,401**	**21,403**	**23,432**	**26,259**	**29,416**
Gross block	16,504	16,833	18,350	19,876	21,385
Depreciation	(4,845)	(5,497)	(6,461)	(7,551)	(8,856)
Net block	11,658	11,336	11,889	12,325	12,529
Other LT assets + WIP	522	549	549	549	549
Long-term investments	1	4	4	4	4
Inventories	3,720	3,785	4,109	4,626	5,182
Debtors	3,389	4,507	4,237	4,737	5,408
Cash & ST Investments	520	824	2,245	3,620	5,346
Other current assets	592	398	398	398	398
Total current assets	8,221	9,513	10,989	13,381	16,333
Net current assets	2,681	4,026	5,324	7,369	9,948
Total assets	**20,401**	**21,403**	**23,432**	**26,259**	**29,416**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 49: Key ratios

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Profitability & return ratios					
EBITDA margin (%)	19.5	16.8	15.9	17.2	17.8
EBIT margin (%)	16.3	13.6	12.7	14.0	14.4
Adj Net profit margin (%)	9.4	8.4	8.0	9.1	9.6
RoE (%)	23.6	18.6	16.5	18.7	19.3
RoCE (%)	31.3	25.3	23.6	26.4	27.1
Pre-tax RoIC (%)	32.2	26.5	26.1	31.5	34.7
Working capital ratios					
Receivables (days)	44	53	52	51	51
Inventory (days)	93	82	82	82	82
Payables (days)	69	57	55	55	55
Cash conversion cycle	68	78	79	78	78
Leverage and FCF ratios					
Net cash (debt) (Rsmn)	(1,612)	(879)	894	2,269	3,995
Net Debt (cash)/Equity (%)	(14)	(7)	6	13	19
Total debt/Equity (%)	0.18	0.13	0.09	0.08	0.07
FCF Yield (%)	2.1	1.1	3.2	3.3	4.4
FCF/Sales (%)	7.7	3.7	6.6	5.9	6.9
Valuation ratios					
EV/sales (x)	3.7	3.4	2.1	1.8	1.6
EV/EBITDA (x)	19.2	20.2	13.1	10.6	9.0
P/E (x)	38.8	40.0	25.4	19.5	16.3
P/BV (x)	7.9	6.7	3.9	3.4	2.9

Source: Company, Nirmal Bang Institutional Equities Research

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as "NBEPL") for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I/We, Mohit Khanna, the research analysts are the authors of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:

Name		Email Id	Direct Line
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010