

## Volumes back to pre-Covid level; healthy guidance

Kajaria Ceramics' Q2FY21 performance was resilient with sales volumes up 0.3% YoY at 19.8 MSM as blended utilisations went back to 90% coupled with a strong rebound in demand tier II, III cities. The topline was down 0.3% YoY at ₹ 712.5 crore, albeit realisations were down 2.4% YoY, as a result of product mix. The company reported EBITDA of ₹ 143.7 crore with margins at 20.2%, up 544 bps YoY driven by lower power costs (down 12.4% YoY) on account of subdued gas prices and continued reduction in some overheads. The beat at the operating performance level percolated to PAT wherein it was reported at ₹ 89.1 crore, down 4.4% YoY.

## Key beneficiary of organised players' market share gain

The company pegged the likely FY21 annualised industry size at ₹ 25000 crore vs. ₹ 30000 crore in FY20, with exports stable at ₹ 7000-8000 crore & domestic sales decline of ~20-22%. It attributed its market share gain to strong traction in tier II cities. Interestingly, the company also believes exports by Morbi players driven by the anti-dumping duty levied by the US on Chinese players is structural in nature, thereby absorbing Morbi based unorganised volumes. This could structurally improve both demand and pricing scenario for the organised player. The company expects near term volumes to be flattish, 10% YoY growth in Q3, Q4, respectively. In the medium term (three to five years), it expects to see steady revenue CAGR of 15%, driven by overall demand traction as well as this development.

## Guidance of 18%+ margins in H2...

The company indicated that it has reversed salary cuts and expects higher promotional spends in H2FY21. However, the operating margin is likely to remain elevated at 18%+ in H2FY21, to be aided largely by benign gas prices and some structural costs rationalisation. Overall, we expect sales volumes to fall ~13% YoY in FY21 with a sharp recovery in the form of 21% volume growth on a distressed base in FY22. Sharp cut in costs and benign gas prices are likely to result in a step up in margins of 16.5%, 18.2% in FY21E, FY22E, respectively.

## Valuation & Outlook

Notwithstanding weak FY21 for the tiles industry, Kajaria's impressive show in tier II towns and beyond is heartening. Continued export demands for Morbi players would improve both the demand and pricing scenario for the organised player. Kajaria, with a net cash balance sheet and superior brand, is likely to capitalise on market share gain. We raise our earnings estimates by 52% and 41%, respectively, given low cost structure. We upgrade to **BUY** with a revised target price of ₹ 670/share, at 30x FY22E P/E.

### Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	2,710.6	2,956.2	2,808.0	2,462.5	3,064.4	4.5%
EBITDA	456.4	449.5	415.9	405.9	556.2	15.6%
EBITDA Margin (%)	16.8	15.2	14.8	16.5	18.2	
PAT	235.3	226.6	255.3	234.1	353.9	17.7%
EPS (₹)	14.8	14.2	16.1	14.7	22.3	
P/E (x)	38.9	40.4	35.8	39.1	25.8	
P/B (x)	6.8	5.8	5.3	4.8	4.2	
EV/EBITDA (x)	20.1	20.0	21.7	21.2	15.3	
RoCE (%)	22.7	20.2	16.3	15.0	19.7	
RoE	17.4	14.4	14.9	12.4	16.4	

Source: Company, ICICI Direct Research

# Kajaria

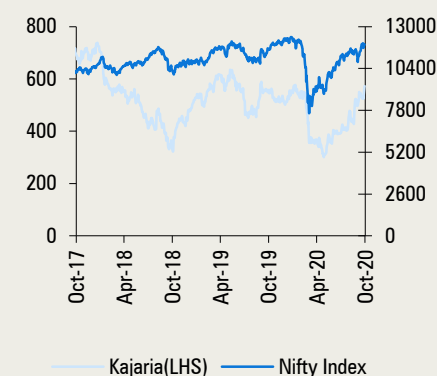
### Particulars

Particular	Amount (₹ crore)
Market Capitalization	9,141.5
Total Debt	118.1
Cash	225.2
EV	9,034.5
52 week H/L (₹)	606 / 295
Equity capital	15.9
Face value (₹)	1.0

### Key Highlights

- Sales volumes up 0.3% YoY at 19.8 MSM as blended utilisations went back to 90% coupled with strong rebound in demand tier II, III cities
- Upgrade to BUY (vs. HOLD earlier) with revised target price of ₹ 670/share, at 30x FY22E P/E

### Price Chart



### Research Analyst

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**Exhibit 1: Variance Analysis**

	54	82	49		53		
	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Net Sales	712.5	605.8	714.7	-0.3	277.6	156.7	Strong all round performance with superior volumes and recovery abck to pre-covid levels.
Other Income	4.8	5.0	6.8	-29.8	2.6	82.8	
Net Purchase of Stock in Trad	121.6	70.3	101.2	20.2	158.8	-23.4	
Cost of Materials Consumed	177.3	151.4	189.5	-6.4	18.8	843.3	
Staff cost	77.9	65.0	88.8	-12.3	60.8	28.0	
Other expenditure	71.7	101.8	92.5	-22.6	30.3	136.6	
EBITDA	143.7	96.1	105.2	36.5	-7.6	-1,998.2	EBITDA beat on account of subdued gas prices and continued reduction in some of the overheads
EBITDA Margin (%)	20.2	15.9	14.7	544 bps	-2.7	2289 bps	
Depreciation	27.4	27.0	26.2	4.6	25.2	8.5	
Interest	2.1	3.5	5.2	-60.2	3.4	-38.5	
PBT	119.0	70.6	80.7	47.5	-33.6	-454.8	
Taxes	29.4	17.8	-12.4	-337.1	-0.6	-4,919.7	
PAT	89.1	55.8	93.2	-4.4	-27.1	-428.9	

**Key Metrics**

Sales Volume (in MSM)	19.8	19.5	19.8	0.3	7.7	158.5
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Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

	FY19	FY20	FY21E			FY22E			Comments
(₹ Crore)			Old	New	% Change	Old	New	% Change	
Revenue	2,956.2	2,808.0	2,258.5	2,462.5	9.0	2,896.4	3,064.4	5.8	Realign our estimates
EBITDA	449.5	415.9	311.6	405.9	30.3	434.6	556.2	28.0	
EBITDA Margin (%)	15.2	14.8	13.8	16.5	269 bps	15.0	18.2	315 bps	
PAT	226.6	255.3	154.2	234.1	51.8	250.5	353.9	41.3	
EPS (₹)	14.2	16.1	9.7	14.7	51.8	15.8	22.3	41.3	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

			Current	Earlier	Current	Earlier	Comments
Volume in MSM	FY18	FY19	FY20	FY21E	FY22E		
<b>Production</b>	<b>60.2</b>	<b>67.4</b>	<b>67.0</b>	<b>49.8</b>	<b>43.7</b>	<b>67.1</b>	<b>64.0</b>
Own	40.8	46.0	45.6	35.6	30.5	47.5	45.4
JV	19.4	21.4	21.4	14.2	13.2	19.6	18.6
<b>Sales</b>	<b>71.9</b>	<b>80.3</b>	<b>86.1</b>	<b>68.2</b>	<b>61.7</b>	<b>82.3</b>	<b>78.5</b>
Own	39.8	44.4	45.6	38.3	33.1	47.5	45.4
JV	19.0	21.3	20.6	15.5	14.8	19.6	18.6
Import/Outsourced	13.1	14.7	19.9	14.5	13.8	15.2	14.5

Source: Company, ICICI Direct Research

## Company Analysis

- **Strong volume recovery leads to robust performance**

The volume beat was mainly driven by a) strong demand arising from tier II, III cities and smaller towns, b) higher acceptance to newly launched high-end products, c) robust dealer's network and d) improved presence with exclusive showrooms built over past couple of years. This, coupled with lower costs and benign gas prices led to operating performance beat

- **Allied businesses showing strength:**

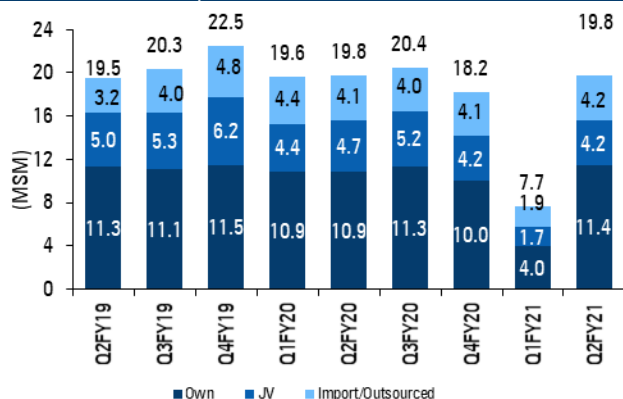
Kajaria's subsidiaries and allied businesses managed to report strong growth during Q2 FY21. Its bathware business improved 25% YoY to ₹ 53 crore and posted positive PAT of ₹ 2 crore for the first time. Similarly, revenue from plywood business has improved to ₹ 9 crore (up by 23% YoY). However, the segment registered loss of ₹ 2.6 crore impacted by higher cost related to initial setup and branding exercise. Additionally, tiles subsidiaries reported PAT of ₹ 5.4 crore in Q2FY21. The management expects revenue from allied business (bathware, ply, etc) to reach ₹ 500 crore over the next three to four years to be led by capacity additions, higher product acceptances and a strong dealer network

### Other highlights

- The management expects 15% volume CAGR over the next three to five years with no major addition of dealers foreseen in the near term
- Kajaria has neither taken any price cuts nor increased prices for any of its product in the recent past. Realisation, however, is likely to remain little volatile depending on product mix.
- The management has guided for < ₹ 100 crore, < ₹ 150 crore capex to be incurred during FY21, FY22, respectively
- The revenue mix was 40% from ceramics, 30% from PVT and 30% from GVT. GVT share is likely to increase by 2 percentage points in the near term. Overall sales mix is 90% retail and remaining being trade.
- Collection during the quarter was strong with working capital down to normalised levels of 50 days vs. 73 days in Q4, coupled with healthy operating cash flow generation. Consequently, net cash improved to ₹ 358 crore (vs. ₹ 182 crore in Q1). Gross Cash & cash equivalent at the end of September 2020 was at ~₹ 420 crore. With higher cash flow generation, the company may look for capacity expansions or buyback, higher dividends
- Within Q1, sales for July, August and September were 85%, 100% and 115% of last year, respectively

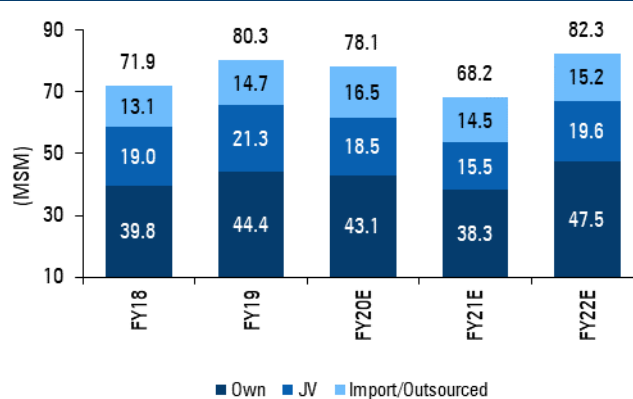
## Company Analysis

**Exhibit 4: Quarterly sales volume trend**



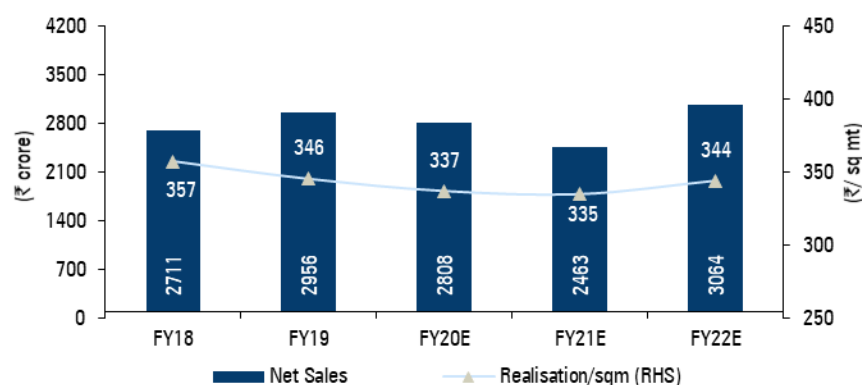
Source: Company, ICICI Direct Research

**Exhibit 5: Annual sales volume trend**



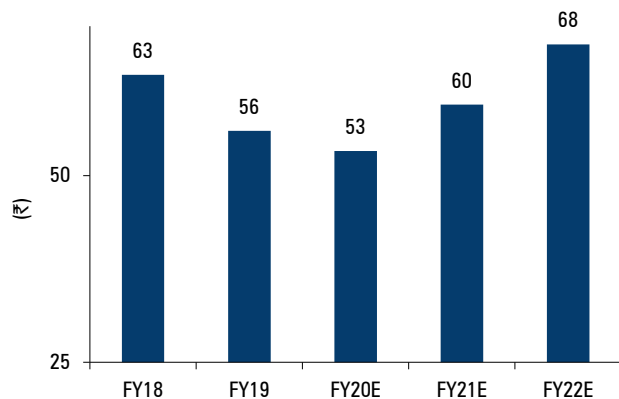
Source: Company, ICICI Direct Research

**Exhibit 6: Revenue, realisation trend**



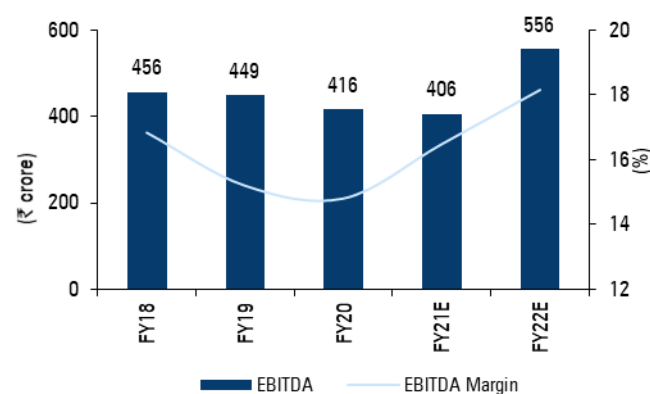
Source: Company, ICICI Direct Research

**Exhibit 7: EBITDA/sq metre trend**



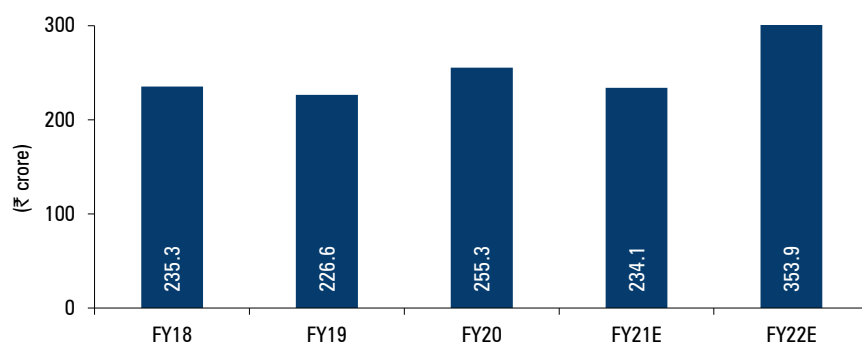
Source: Company, ICICI Direct Research

**Exhibit 8: EBITDA and EBITDA margin trend**



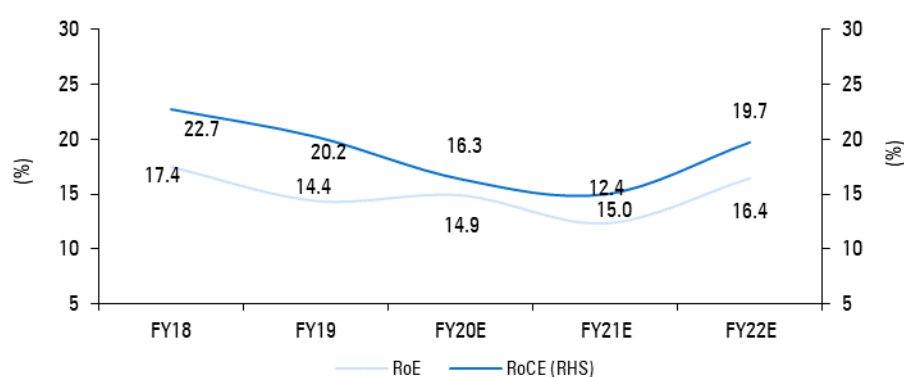
Source: Company, ICICI Direct Research

**Exhibit 9: PAT growth trend**



Source: Company, ICICI Direct Research

**Exhibit 10: Return ratios trend**



Source: Company, ICICI Direct Research

**Exhibit 11: Valuation**

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITD (x)	RoNW (%)	RoCE (%)
FY18	2710.6	6.5	14.8	-7.0	38.9	20.1	17.4	22.7
FY19	2956.2	9.1	14.2	-3.7	40.4	20.0	14.4	20.2
FY20	2808.0	-5.0	16.1	12.7	35.8	21.7	14.9	16.3
FY21E	2462.5	-12.3	14.7	-8.3	39.1	21.2	12.4	15.0
FY22E	3064.4	24.4	22.3	51.2	25.8	15.3	16.4	19.7

Source: Company, ICICI Direct Research

## Financial summary

Exhibit 12: Profit and loss statement ₹ crore				
(₹ Crore)	FY19	FY20	FY21E	FY22E
<b>Net Sales</b>	<b>2,956.2</b>	<b>2,808.0</b>	<b>2,462.5</b>	<b>3,064.4</b>
Other Operating Income	-	-	-	-
Total operating income	2,956.2	2,808.0	2,462.5	3,064.4
Raw Material Expenses	354.6	364.7	418.6	334.0
Cost of Materials Consumed	791.8	736.4	608.2	812.1
Employee benefit expenses	345.5	356.9	320.1	352.4
Other Expenses	1,014.9	934.2	709.6	1,009.7
Total operating expenses	2,506.7	2,392.1	2,056.6	2,508.2
<b>EBITDA</b>	<b>449.5</b>	<b>415.9</b>	<b>405.9</b>	<b>556.2</b>
Interest	15.6	19.5	17.1	14.1
Depreciation	89.1	108.1	109.2	116.0
Other income	18.0	24.2	33.2	47.0
PBT	358.0	312.5	312.9	473.2
Taxes	129.3	58.9	78.9	119.2
PAT before MI	228.8	253.5	234.1	353.9
Minority Interest	2.2	(1.8)	-	-
<b>PAT</b>	<b>226.6</b>	<b>255.3</b>	<b>234.1</b>	<b>353.9</b>
Growth (%)	(3.7)	12.7	(8.3)	51.2
<b>EPS (₹)</b>	<b>14.2</b>	<b>16.1</b>	<b>14.7</b>	<b>22.3</b>

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement ₹ crore				
(₹ Crore)	FY19	FY20	FY21E	FY22E
<b>Profit after Tax</b>	<b>226.6</b>	<b>255.3</b>	<b>234.1</b>	<b>353.9</b>
Depreciation	89.1	108.1	109.2	116.0
Interest	15.6	19.5	17.1	14.1
Others	111.3	34.8	45.6	72.3
Cash Flow before wc changes	442.5	417.7	405.9	556.2
Net Increase in Current Assets	(54.5)	(74.6)	205.1	(180.2)
Net Increase in Current Liabilities	26.6	(73.3)	(50.2)	87.4
<b>Net CF from operating activities</b>	<b>282.7</b>	<b>214.5</b>	<b>482.0</b>	<b>344.1</b>
(Purchase)/Sale of Fixed Assets	(97.6)	(116.3)	(40.0)	(152.0)
<b>Net CF from Investing activities</b>	<b>(79.5)</b>	<b>(101.9)</b>	<b>(6.8)</b>	<b>(105.0)</b>
Inc / (Dec) in Equity Capital	54.0	(58.5)	(0.0)	0.0
Dividend	(56.6)	(57.4)	(58.5)	(86.7)
Interest paid	(15.6)	(19.5)	(17.1)	(14.1)
Inc / (Dec) in Secured Loans	(11.0)	10.2	-	-
Inc / (Dec) in Unsecured Loans	(3.7)	(12.3)	-	-
<b>Net CF from Financing activities</b>	<b>(33.2)</b>	<b>(139.8)</b>	<b>(75.6)</b>	<b>(100.8)</b>
Net Cash flow	170.0	(27.2)	399.7	138.3
Opening Cash	82.4	252.4	225.2	624.8
<b>Closing Cash/ Cash Equivalent</b>	<b>252.4</b>	<b>225.2</b>	<b>624.8</b>	<b>763.1</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet ₹ crore				
(₹ Crore)	FY19	FY20	FY21E	FY22E
<b>Liabilities</b>				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,559.0	1,698.4	1,873.9	2,141.2
Total Shareholders funds	1,574.9	1,714.3	1,889.8	2,157.1
Minority Interest	65.9	63.7	63.7	63.7
Total Debt	120.3	118.1	118.1	118.1
Other Liabilities	107.3	110.9	110.9	110.9
<b>Total Liabilities</b>	<b>1,873.0</b>	<b>2,030.9</b>	<b>2,206.5</b>	<b>2,473.7</b>
<b>Assets</b>				
Gross Block	1,658.9	1,842.3	1,882.3	2,034.3
Less Acc. Dep	591.7	699.8	809.0	925.0
Net Block	1,067.1	1,142.5	1,073.3	1,109.4
Net Intangibles Assets	10.7	11.2	11.2	11.2
Capital WIP	93.4	25.7	25.7	25.7
Total Fixed Assets	1,171.2	1,179.4	1,110.2	1,146.3
Investments	0.3	10.1	10.1	10.1
Inventory	405.8	512.7	371.1	461.8
Sundry Debtors	475.1	396.7	337.3	419.8
Loans & Advances	35.4	33.2	29.1	36.2
Cash & Bank Balances	252.4	225.2	624.8	763.1
Other Current Assets	33.0	81.3	81.3	81.3
Total Current Assets	1,201.7	1,249.1	1,443.6	1,762.2
Trade Payable	309.1	239.3	209.9	261.2
Other Current Liabilities	175.7	163.4	143.3	178.3
Provisions	15.5	5.0	4.4	5.4
Net Current Assets	701.4	841.4	1,086.1	1,317.3
<b>Total Assets</b>	<b>1,873.0</b>	<b>2,030.9</b>	<b>2,206.5</b>	<b>2,473.7</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY19	FY20	FY21E	FY22E
<b>Per Share Data (₹)</b>				
EPS - Diluted	14.2	16.1	14.7	22.3
Cash EPS	19.9	22.9	21.6	29.6
Book Value	99.1	107.8	118.9	135.7
Dividend per share	3.6	3.6	3.7	5.5
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	15.2	14.8	16.5	18.2
PAT / Net Sales	7.7	9.1	9.5	11.6
Inventory Days	50	67	55	55
Debtor Days	59	52	50	50
Creditor Days	38	31	31	31
<b>Return Ratios (%)</b>				
RoNW	14.4	14.9	12.4	16.4
RoCE	20.2	16.3	15.0	19.7
RoIC	23.6	17.4	19.2	26.3
<b>Valuation Ratios (x)</b>				
EV / EBITDA	20.0	21.7	21.2	15.3
P/E (Diluted)	40.4	35.8	39.1	25.8
EV / Net Sales	3.0	3.2	3.5	2.8
Market Cap / Sales	3.1	3.3	3.7	3.0
Price to Book Value	5.8	5.3	4.8	4.2
Dividend Yield (%)	0.6	0.6	0.6	0.9
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	(0.1)	(0.1)	(0.3)	(0.3)
Debt/EBITDA	0.3	0.3	0.3	0.2
Current Ratio	1.9	2.5	2.3	2.2
<b>Quick Ratio</b>	<b>1.1</b>	<b>1.3</b>	<b>1.3</b>	<b>1.2</b>

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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