

Stupendous performance; strong guidance!

Kajaria Ceramics performance was strong across topline & bottomline. The sales volumes were up 10.5% YoY at 22.6 MSM, as utilisation got back to full levels coupled with strong outsourced sales driven by robust rebound in demand. The topline was up 13.1% YoY at ₹ 838.4 crore with stable realisations (up 0.3% YoY). Tiles Revenues were up 10.9% YoY at ₹ 758.2 crore. Faucet and Sanitaryware revenues were up 36% YoY at ₹ 67.4 crore. Plywood revenues were up 57.6% YoY at ₹ 12.8 crore, on a low base. EBITDA at ₹ 181.8 crore with margins at 21.7% were up 667 bps YoY driven by lower other expenses and operating leverage. The beat at operating level percolated to PAT wherein it reported a ₹ 118.9 crore, up 93% YoY.

Morbi export traction to keep domestic tiles market robust

Kajaria attributed its performance to strong traction in tier 1/2/3 cities aiding capacity utilisation notwithstanding Metro cities demand still at 75% of pre-covid (~45% in Q2) coupled with improved profitability at subsidiaries levels. It reiterated that exports by Morbi players driven by the anti-dumping duty levied by USA on Chinese players as well as other countries' is structural in nature, thereby absorbing the Morbi based unorganised volumes and improving the demand and pricing scenario for the organised player. It also outlined increased capex of ~₹150-200 crore in FY22E to add ~10 MSM brownfield capacities at its existing plants to cater the demand.

20-25% volumes growth guidance in FY22E; margins at 20%+

The company raised its volume growth guidance for FY22E to 20-25% vs. 15%, earlier and expect 15% volumes growth for next couple of years thereafter. The operating margin is likely to remain at an elevated level at ~20%+ ahead to be aided largely by aided by benign gas prices, operating leverage and structural costs rationalisation. Overall, after sales volumes decline of ~7% YoY in FY21E, we expect sharp recovery in the form of 25% volume growth on a distressed base in FY22E followed by ~15% volume growth in FY23E. We build in step up margins of ~20% in FY22E/FY23E, given the operating leverage and structural costs rationalisation.

Valuation & Outlook

Continued export demands for Morbi players is likely to keep both the demand and pricing scenario robust for the organised players. The increased dividend payout (~40-50% vs. 20-25%, earlier) is likely to improve return ratios. Kajaria, with a net cash balance sheet and superior brand, is a quasi-play on improved scenario. We raise our earnings estimates by 26%/27%, for FY21E/ FY22E respectively, given the commentary. We maintain **BUY** and roll over our valuations to FY23E at 29x P/E (vs. 30x FY22E P/E, earlier) to ascribe revised target price of ₹ 950/share.

Key Financial Summary

(₹ crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	2,956.2	2,808.0	2,670.2	3,407.3	3,969.5	12.2%
EBITDA	449.5	415.9	486.8	681.4	795.9	24.2%
EBITDA Margin (%)	15.2	14.8	18.2	20.0	20.0	
PAT	226.6	255.3	295.0	431.8	521.4	19.1%
EPS (₹)	14.2	16.1	18.6	27.2	32.8	
P/E (x)	55.6	49.4	42.7	29.2	24.2	
P/B (x)	8.0	7.4	6.9	6.2	5.5	
EV/EBITDA (x)	27.7	30.0	25.1	17.9	15.1	
RoCE (%)	20.2	16.3	18.9	25.3	27.3	
RoE	14.4	14.9	16.2	21.2	22.7	

Source: Company, ICICI Direct Research

Kajaria

Particulars

Particular	Amount (₹ crore)
Market Capitalization	12,600.0
Total Debt (FY20)	118.1
Cash (FY20)	225.2
EV	12,492.9
52 week H/L (₹)	840 / 295
Equity capital	15.9
Face value (₹)	1.0

Key Highlights

- Management guided for 20-25%/15% volume growth in FY22E/FY23E with margins of 20%+.
- We **maintain BUY** and roll over our valuations to FY23E at 29x FY23E P/E (vs.30x FY22E P/E earlier) to ascribe revised target price of ₹ 950/share.

Key Risks to our call

- One of the key catalyst for strong domestic growth assumption is expectations of strong Morbi based players. Any change to this condition could impact earnings impact
- Any sharp rise in gas prices could impact our margins assumption negatively.

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Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
Net Sales	838.3	801.0	741.3	13.1	712.5	17.7	Strong all round performance with superior volumes driving the topline beat
Other Income	6.5	6.0	5.1	25.7	4.8	34.7	
Net Purchase of Stock in Trad	158.5	112.1	94.2	68.3	121.6	30.4	
Cost of Materials Consumed	193.8	204.3	195.1	-0.7	177.3	9.3	
Staff cost	89.5	88.0	93.0	-3.7	77.9	14.9	
Other expenditure	83.0	112.1	96.7	-14.1	71.7	15.9	
EBITDA	181.8	148.3	111.3	63.3	143.7	26.5	EBITDA beat on account of operating leverage and lower other expenses
EBITDA Margin (%)	21.7	18.5	15.0	667 bps	20.2	152 bps	
Depreciation	27.6	27.0	27.8	-0.8	27.4	0.7	
Interest	2.6	5.0	4.8	-46.1	2.1	25.5	
PBT	158.1	122.3	83.8	88.5	119.0	32.8	
Taxes	37.0	31.7	22.6	64.0	29.4	25.9	
PAT	118.9	90.1	61.5	93.3	89.1	33.5	

Key Metrics

Sales Volume (in MSM)	22.6	22.0	20.4	10.5	19.8	14.1
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20		FY21E			FY22E			FY23E	Comments
	Old	New	% Change	Old	New	% Change	New			
Revenue	2,808.0	2,462.5	2,670.2	8.4	3,064.4	3,407.3	11.2	3,969.5	Raise estimates post management commentary	
EBITDA	415.9	405.9	486.8	19.9	556.2	681.4	22.5	795.9		
EBITDA Margin (%)	14.8	16.5	18.2	175 bps	18.2	20.0	185 bps	20.0		
PAT	255.3	234.1	295.0	26.0	353.9	431.8	22.0	521.4		
EPS (₹)	16.1	14.7	18.6	26.0	22.3	27.2	22.0	32.8		

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Volume in MSM	FY19	FY20	Current	Earlier	Current	Earlier	New	Comments
			FY21E	FY21E	FY22E	FY22E	FY23E	
Production	67.4	67.0	51.7	43.7	68.5	64.0	80.1	
Own	46.0	45.6	37.5	30.5	48.9	45.4	60.0	
JV	21.4	21.4	14.2	13.2	19.6	18.6	20.1	
Sales	80.3	86.1	72.7	61.7	90.5	78.5	103.2	
Own	44.4	45.6	39.8	33.1	48.9	45.4	60.0	
JV	21.3	20.6	15.7	14.8	19.6	18.6	20.1	
Import/Outsourced	14.7	19.9	17.2	13.8	22.0	14.5	23.1	

Source: Company, ICICI Direct Research

Other Highlights

Strong guidance ahead

Margins expansion was aided by the benefits arising from the higher capacity utilizations, improved plant efficiencies and lower other expenses. Going forward, the management has guided for healthy 20-25% volume growth during FY22E followed by ~15% volume CAGR over FY23-24E with a) continued demand arising from Tier I, II, III cities, b) incremental demand coming from Urban areas, c) expected increase in Kajaria's capacity over next two years, d) healthy capacity utilizations. Additionally, the management expects operating margin to remain at an elevated level of ~20% with better operating efficiencies, moderation in gas prices, lower advertising expenses, and improvement in JV's profitability.

Allied-businesses showing strength; likely to pick-up improve going forward

Kajaria's subsidiaries and allied businesses have reported strong growth during Q3 FY21. Its tiles subsidiaries have reported PAT of ₹ 11 crore during Q3 FY21. Faucet and Sanitaryware revenues were up 36% YoY (at ₹ 67.4 crore) during Q3 Y21 mainly led by introduction of new products, strengthened distribution network and larger acceptance by consumers. The management expects revenue in the segment to reach ₹ 210 crore / ₹ 280 crore during FY21E/22E respectively (vis-à-vis ₹ 186 crore during FY20). Additionally, profitability has improved in the segment with improved realizations, and healthy volume growth which are expected to continue going forward. In the plywood business, revenues improved 57.6% YoY at ₹ 12.8 crore, on the lower base. The management expects revenue in the plywood business to reach ₹ 40 crore / ₹70 crore in FY21/FY22 respectively. However, the segment continued to report loss impacted by higher cost related to initial setup and branding exercise. The growth will be driven by capacity additions, higher product acceptances and strong dealers network.

Morbi exports traction to boost Organised players domestic growth

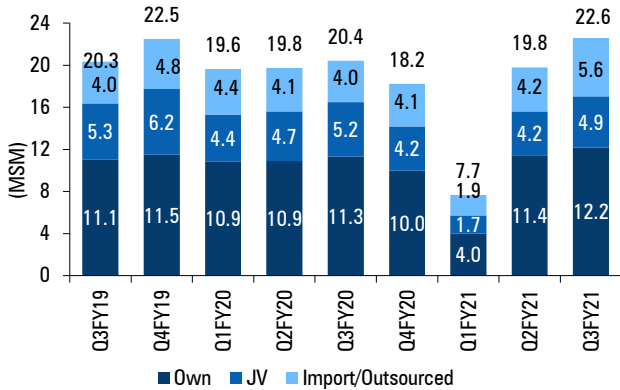
Tiles industry has witnessed stronger demand recovery from July'20 mainly led by Tier-II/II/III cities and smaller towns. Demand from Metro cities are still picking-up but yet to reach pre-covid levels. However, exports from Morbi have shown strength with benefits arising to Indian competitive players on foreign territory with anti-dumping duty applied by USA on Chinese players and anti-Chinese sentiments across major countries. The management expects exports to reach ₹ 11,000 crore during FY21 (vis-à-vis ₹ 9,000 crore reported in FY20; ₹ 7,300 crore during Apr-Dec'20 period) and is likely to improve 25%+ during FY22E. This, in-turn, provides better opportunity to the organized players like Kajaria largely focusing on domestic markets.

Other highlights

- Average capacity utilisation during Q3 has reached 100% (excluding a JV plant at Cosa due to conversion of its line from PVT to GVT) to cater exports demand.
- Retail contributes 80% of total sales while balance 20% is contributed by government entities (8-10%) and, large and small builders (10-12%).
- Average gas prices during Q3 for the North Indian plant have been cheaper by ₹ 4-5 per scm on YoY basis (to ~₹ 26 per scm). The management expects 3-4% increase in gas prices for Q4 FY21.
- The management has guided for ₹ 50 crore / ₹ 150-200 crore of capex to be incurred during FY21/FY22 respectively mainly to add new capacities at existing plants.
- Working capital remained at normalized levels of 55 days vs. (50 days in Q2) but much lower than 73 days in Q4FY20, coupled with healthy operating cash flow generation. Consequently, net cash improved to ₹ 424 crore (vs. ₹ 358 crore in Q2).

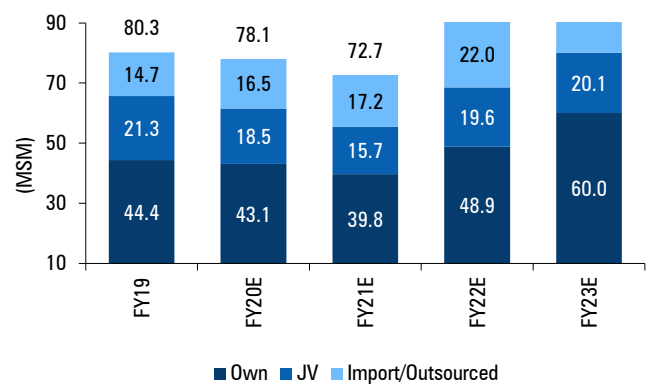
Company Analysis

Exhibit 4: Quarterly sales volume trend



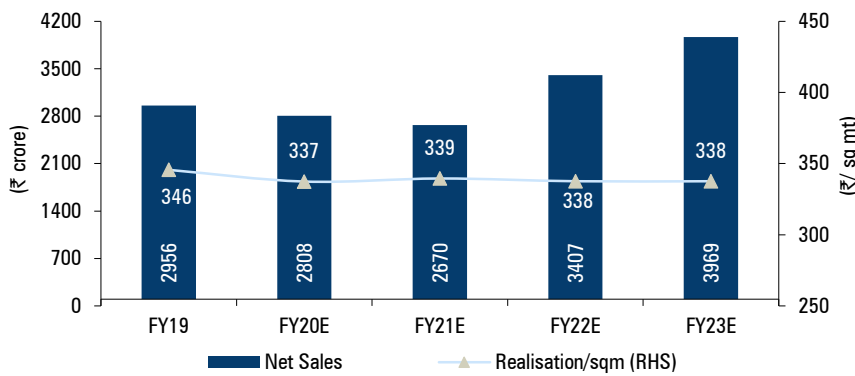
Source: Company, ICICI Direct Research

Exhibit 5: Annual sales volume trend



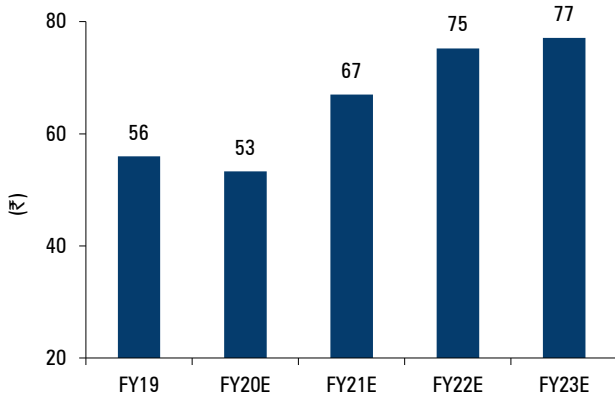
Source: Company, ICICI Direct Research

Exhibit 6: Revenue, realisation trend



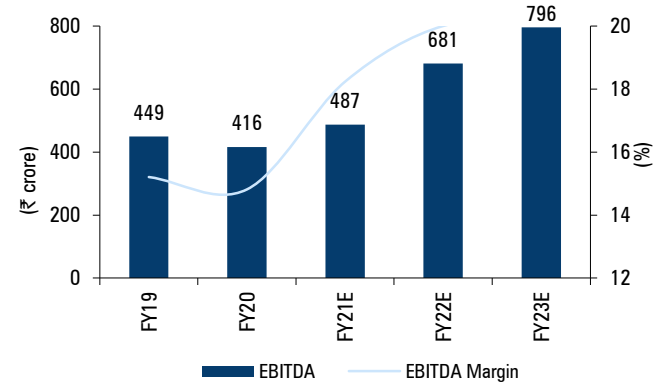
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/sq metre trend



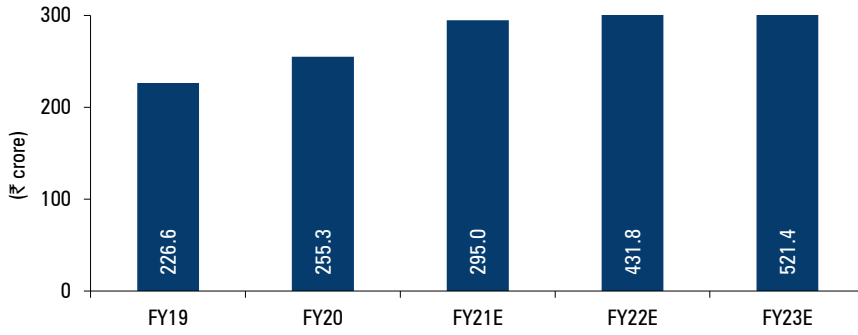
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



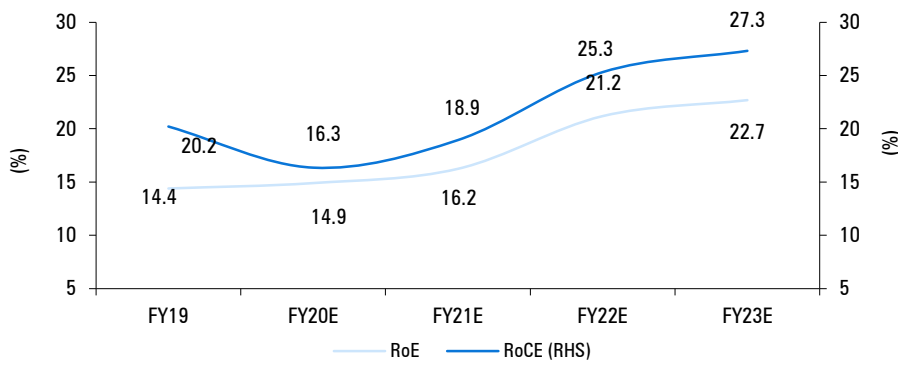
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



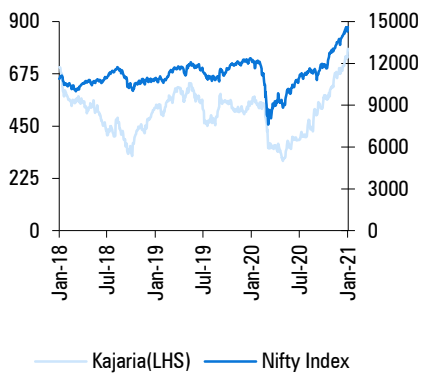
Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 11: Price Chart



Source: Company, ICICI Direct Research

Financial summary

Exhibit 12: Profit and loss statement				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Net Sales	2,808.0	2,670.2	3,407.3	3,969.5
Other Operating Income	-	-	-	-
Total operating income	2,808.0	2,670.2	3,407.3	3,969.5
Raw Material Expenses	364.7	453.9	371.4	432.7
Cost of Materials Consumed	736.4	659.5	902.9	1,051.9
Employee benefit expenses	356.9	320.4	391.8	456.5
Other Expenses	934.2	749.5	1,059.7	1,232.5
Total operating expenses	2,392.1	2,183.4	2,725.9	3,173.6
EBITDA	415.9	486.8	681.4	795.9
Interest	19.5	11.7	11.7	11.7
Depreciation	108.1	109.8	118.7	127.2
Other income	24.2	26.7	34.2	48.1
PBT	312.5	392.0	585.2	705.0
Taxes	58.9	98.8	147.5	177.7
PAT before MI	253.5	293.2	437.8	527.4
Minority Interest	(1.8)	(1.8)	6.0	6.0
PAT	255.3	295.0	431.8	521.4
Growth (%)	12.7	15.6	46.3	20.8
EPS (₹)	16.1	18.6	27.2	32.8

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Profit after Tax	255.3	295.0	431.8	521.4
Depreciation	108.1	109.8	118.7	127.2
Interest	19.5	11.7	11.7	11.7
Others	34.8	72.1	113.2	129.5
Cash Flow before wc changes	417.7	488.6	675.4	789.9
Net Increase in Current Assets	(74.6)	128.3	(224.8)	(171.5)
Net Increase in Current Liabilities	(73.3)	(20.0)	107.0	81.6
Net CF from operating activities	214.5	498.0	410.2	522.4
(Purchase)/Sale of Fixed Assets	(116.3)	(50.0)	(190.0)	(150.0)
Net CF from Investing activities	(101.9)	(23.3)	(155.8)	(101.9)
Inc / (Dec) in Equity Capital	(58.5)	-	-	-
Dividend	(57.4)	(191.8)	(211.6)	(261.2)
Interest paid	(19.5)	(11.7)	(11.7)	(11.7)
Inc / (Dec) in Secured Loans	10.2	-	-	-
Inc / (Dec) in Unsecured Loans	(12.3)	-	-	-
Net CF from Financing activities	(139.8)	(205.3)	(217.3)	(266.9)
Net Cash flow	(27.2)	269.5	37.1	153.6
Opening Cash	252.4	225.2	494.6	531.8
Closing Cash/ Cash Equivalent	225.2	494.6	531.8	685.3

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
₹ crore				
(₹ Crore)	FY20	FY21E	FY22E	FY23E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,698.4	1,801.6	2,021.8	2,282.0
Total Shareholders funds	1,714.3	1,817.5	2,037.7	2,297.9
Minority Interest	63.7	61.9	67.9	73.9
Total Debt	118.1	118.1	118.1	118.1
Other Liabilities	110.9	110.9	110.9	110.9
Total Liabilities	2,030.9	2,132.4	2,358.6	2,624.7
Assets				
Gross Block	1,842.3	1,892.3	2,082.3	2,232.3
Less Acc. Dep	699.8	809.6	928.3	1,055.5
Net Block	1,142.5	1,082.8	1,154.1	1,176.8
Net Intangibles Assets	11.2	11.2	11.2	11.2
Capital WIP	25.7	25.7	25.7	25.7
Total Fixed Assets	1,179.4	1,119.7	1,191.0	1,213.7
Investments	10.1	10.1	10.1	10.1
Inventory	512.7	402.4	513.4	598.1
Sundry Debtors	396.7	380.4	485.4	565.5
Loans & Advances	33.2	31.5	40.2	46.9
Cash & Bank Balances	225.2	494.6	531.8	685.3
Other Current Assets	81.3	81.3	81.3	81.3
Total Current Assets	1,249.1	1,390.3	1,652.2	1,977.2
Trade Payable	239.3	227.6	290.4	338.3
Other Current Liabilities	163.4	155.4	198.3	231.0
Provisions	5.0	4.7	6.0	7.0
Net Current Assets	841.4	1,002.6	1,157.5	1,400.9
Total Assets	2,030.9	2,132.4	2,358.6	2,624.7

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY20	FY21E	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	16.1	18.6	27.2	32.8
Cash EPS	22.9	25.5	34.6	40.8
Book Value	107.8	114.3	128.2	144.5
Dividend per share	3.6	12.1	13.3	16.4
Operating Ratios (%)				
EBITDA / Net Sales	14.8	18.2	20.0	20.0
PAT / Net Sales	9.1	11.0	12.7	13.1
Inventory Days	67	55	55	55
Debtor Days	52	52	52	52
Creditor Days	31	31	31	31
Return Ratios (%)				
RoNW	14.9	16.2	21.2	22.7
RoCE	16.3	18.9	25.3	27.3
RoC	17.4	23.5	31.4	35.1
Valuation Ratios (x)				
EV / EBITDA	30.0	25.1	17.9	15.1
P/E (Diluted)	49.4	42.7	29.2	24.2
EV / Net Sales	4.4	4.6	3.6	3.0
Market Cap / Sales	4.5	4.7	3.7	3.2
Price to Book Value	7.4	6.9	6.2	5.5
Dividend Yield (%)	0.5	1.5	1.7	2.1
Solvency Ratios (x)				
Net Debt / Equity	(0.1)	(0.2)	(0.2)	(0.2)
Debt/EBITDA	0.3	0.2	0.2	0.1
Current Ratio	2.5	2.3	2.3	2.2
Quick Ratio	1.3	1.3	1.2	1.2

Source: Company, ICICI Direct Research

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Sell: <-15%



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