

CMP: ₹ 1028

Target: ₹ 1185 (15%)

Target Period: 12 months

BUY

August 4, 2021

Strong growth ahead...

About the stock: Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 70.4 million square metre (MSM).

- The company has announced a large capex of ₹ 250 crore (seeing strong demand and higher utilisation) in FY22, which will increase its overall capacity by 18% and generate ~₹ 500 crore worth of additional revenue

Q1FY22 Results: Kajaria reported weak Q1FY22 sequential results as expected.

- The topline was up 102% YoY, down 41% QoQ at ₹ 561.7 crore. Tiles sales volumes were up ~99% YoY, down 40% QoQ at 15.3 MSM while tiles revenues were up 101.5% YoY, down 40% QoQ at ₹ 519.3 crore
- EBITDA was at ₹ 80.4 crore vs. loss in Q1FY21 but decline of ~57% QoQ. The resultant margins were at 14.3%
- PAT was at ₹ 43.2 crore vs. loss in Q1FY21 but down 66% QoQ

What should investors do? Kajaria's share price has grown at ~10% CAGR over the past five years (from ~₹ 625 in August 2016 to ~₹ 1028 levels in August 2021).

- We maintain our BUY rating on the company

Target Price and Valuation: We value Kajaria at ₹ 1185/share.

Key triggers for future price performance:

- Increased exports demand for Morbi based unorganised players provide better opportunity to organised players focusing on domestic markets
- Kajaria has announced a large capex of ₹ 250 crore (seeing strong demand and higher utilisation) in FY22, which will increase its overall capacity by 18% and generate ~₹ 500 crore worth of additional revenue
- We expect 18% CAGR in tiles volume and realisations CAGR of ~2.5%, resulting in tiles revenues CAGR of 20.6% over FY21-23 to ₹ 3684 crore
- The increased dividend payout (~40-50% vs. 20-25%, earlier) is likely to improve return ratios (RoCEs to expand to 27% in FY23E vs ~20% currently)

Alternate Stock Idea: Besides Kajaria, we like Century Ply in building materials

- A play improving growth of plywood/MDF
- BUY with a target price of ₹ 490

Key Financial Summary

(₹ crore)	FY19	FY20	FY21	5 yr CAGR (FY16-21)	FY22E	FY23E	2 yr CAGR (FY21-23E)
Net Sales	2,956.2	2,808.0	2,780.9	2.9%	3,326.6	4,093.7	21.3%
EBITDA	449.5	415.9	508.8	2.3%	630.8	819.1	26.9%
EBITDA Margin (%)	15.2	14.8	18.3		19.0	20.0	
PAT	226.6	255.3	308.1	6.1%	394.9	522.3	30.2%
EPS (₹)	14.2	16.1	19.4		24.8	32.8	
P/E (x)	72.2	64.0	53.1		41.4	31.3	
P/B (x)	10.4	9.5	8.7		7.9	7.0	
EV/EBITDA (x)	36.1	39.0	31.4		25.4	19.4	
RoCE (%)	20.2	16.3	19.7		23.2	27.3	
RoE	14.4	14.9	16.5		19.1	22.4	

Source: Company, ICICI Direct Research

Kajaria

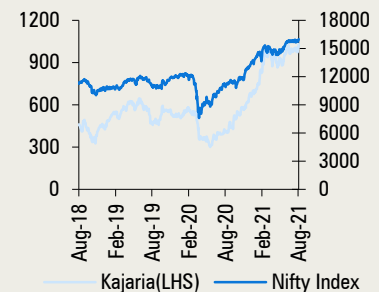
Particulars

Particular	Amount (₹ crore)
Market Capitalization	16,341.3
Total Debt (FY21)	99.1
Cash (FY21)	442.7
EV	15,997.6
52 week H/L (₹)	1055 / 397
Equity capital	15.9
Face value (₹)	1.0

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	47.6	47.5	47.5	47.5
DII	16.4	14.7	13.9	14.4
FII	23.3	23.7	25.3	25.1
Other	12.7	14.1	13.4	13.0

Price Chart



Key Risks

Key Risk: (i) Slowdown in demand; (ii) Gas price rise

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Key business highlight and outlook

- Second wave impact:** Tiles demand during Q1FY22 was largely impacted due to lockdown announced by several states owing to the second Covid-19 wave (May 2021- badly impacted; June 2021 recovered steadily). However, the industry witnessed significant traction in July 2021 with the gradual unlocking of economies. As per the management, Kajaria has met their 100% internal sales target during July 2021
- Capacity utilisation:** Average capacity utilisation during Q1FY22 was at ~75%, which improved to ~95% in July 2021 with a pick-up in sales. Going forward, the management expects utilisation to remain at an elevated level with robust tiles demand due to resurgence of construction activities
- Guidance:** Despite a muted Q1FY22, the management endeavours to achieve 15-16%, 20% volume, revenue growth on YoY basis during FY22E. This is likely to be backed by a) expected rise in demand from Tier I, II, III cities, b) incremental demand coming from urban areas, c) healthy capacity utilisation and d) expected increase in Kajaria's capacity
- Allied business:** Kajaria's subsidiaries and allied businesses have reported 2.1x growth during Q1FY22, albeit on a lower base. Faucet and sanitaryware revenues were up 2.1x YoY (to ₹ 40 crore). The management expects segmental revenue to jump to ₹ 300 crore in FY22, mainly led by introduction of new products, strengthened distribution network and larger acceptance by consumers. In the plywood business, revenues improved 1.8x YoY and were at ₹ 4.4 crore, on the lower base. The company is targeting ~₹ 80 crore of revenue in the plywood business during FY22
- RM and gas price rise:** Raw material prices required for the tiles industry including brass, gas, and packing boxes has jumped drastically over the past 6-9 months. For instance, average gas prices for Kajaria's plant during Q1FY22, July 2021 has increased to ~₹ 32/SCM, ~35/SCM, respectively, (from ~₹ 28/SCM in Q4FY21). Similarly, prices of brass have increased to ~₹ 480 currently (from ~₹ 320 in May 2020)
- Price hike:** In order to offset the rise in input costs, the company has increased prices of all products by 1-1.5% in April 2021. Additionally, Kajaria has hiked prices of bathware products by ~10% effective May 2021. Also, prices of sanitaryware products have been increased by 6-7% over the past six months mainly owing to increase in gas prices and higher transportation cost
- Volatility in gas price could impact margins:** The management has refrained from providing margin guidance given the uncertain situation with the second wave of Covid-19 pandemic and higher volatility in gas prices
- Working capital:** Working capital was at 88 days (vs. 50 days in Q4) mainly on account of lower sales. Going forward, the management expects working capital days to normalise to 50-55 days

Kajaria, with a net cash balance sheet and superior brand, is a quasi-play on an improved scenario. We maintain BUY and assign multiple at 36x P/E to ascribe a revised target price of ₹ 1185/share (vs. ₹ 1175, earlier).

Peer Comparison

Kajaria enjoys superior realisations (~10-15% premium to other listed peers) owing to better brand recall, has a strong balance sheet (net cash of ~₹ 319 crore) and commands superior margins (~20% vs. 12-14% for peers) resulting in stronger return ratio of 20%+ vs. 10-11% for peers.

Exhibit 1: Variance Analysis

	Q1FY22	Q1FY22E	Q1FY21	YoY (%)	Q4FY21	QoQ (%)	Comments
Net Sales	561.7	613.8	277.6	102.4	952.5	-41.0	Tiles sales volumes were up ~99% YoY/down 40% QoQ at 15.3 MSM and Tiles Revenues were up 101.5% YoY /down 40% QoQ at ₹ 519.3 crore. Sanitaryware revenues were up 110% YoY /down 49% QoQ at ₹ 36.6 crore. Plywood revenues were up 117% YoY/down 65% QoQ at ₹ 5.4
Other Income	6.0	7.0	2.6	129.0	7.4	-19.4	
Net Purchase of Stock in Trad	27.6	140.3	158.8	-82.6	217.7	-87.3	
Cost of Materials Consumed	168.7	122.8	18.8	797.6	200.6	-15.9	
Staff cost	93.3	90.0	60.8	53.3	96.4	-3.3	
Other expenditure	62.1	76.0	30.3	104.9	100.6	-38.3	
EBITDA	80.4	79.8	-7.6	LP	190.9	-57.9	
EBITDA Margin (%)	14.3	13.0	-2.7	1705 bps	20.0	-573 bps	
Depreciation	26.5	26.0	25.2	5.2	26.5	0.0	
Interest	3.0	2.6	3.4	NM	2.6	14.4	
PBT	56.9	58.1	-33.6	LP	169.2	-66.4	
Taxes	15.3	14.5	-0.6	NM	38.0	-59.7	
PAT	43.2	41.6	-27.1	LP	127.1	-66.0	

Key Metrics

Sales Volume (in MSM)	15.3	16.2	7.7	99.2	25.4	-39.9
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21	FY22E			FY23E			Comments
		Old	New	% Change	Old	New	% Change	
Revenue	2,780.9	3,321.4	3,326.6	0.2	4,046.4	4,093.7	1.2	Realign estimates
EBITDA	508.8	664.8	630.8	-5.1	814.0	819.1	0.6	
EBITDA Margin (%)	18.3	20.0	19.0	-105 bps	20.1	20.0	-11 bps	
PAT	308.1	419.4	394.9	-5.8	519.5	522.3	0.5	
EPS (₹)	19.4	26.4	24.8	-5.8	32.7	32.8	0.5	

Source: Company, ICICI Direct Research

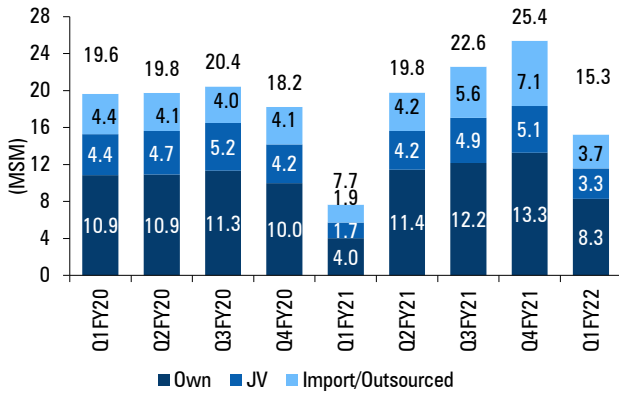
Exhibit 3: Assumptions

Volume in MSM	FY20	FY21	Current	Earlier	Current	Earlier	Comments
			FY22E		FY23E		
Production	67.0	52.0	66.8	68.5	76.5	80.1	
Own	45.6	37.7	47.9	46.4	55.8	55.8	
JV	21.4	14.3	19.0	19.6	20.7	20.7	
Sales	86.1	75.4	87.6	90.5	104.5	103.2	
Own	45.6	40.9	45.5	46.4	55.8	55.8	
JV	20.6	15.9	18.8	19.6	20.7	20.7	
Import/Outsourced	19.9	18.7	23.2	23.0	28.0	28.0	

Source: Company, ICICI Direct Research

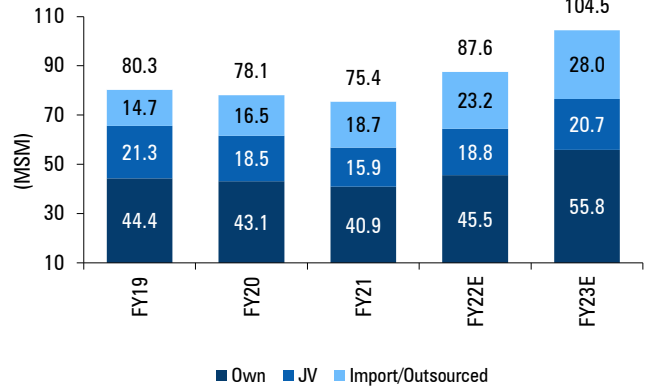
Company Analysis

Exhibit 4: Quarterly sales volume trend



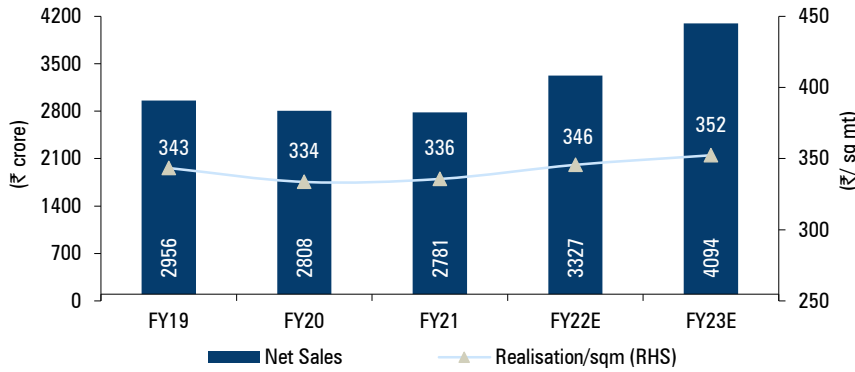
Source: Company, ICICI Direct Research

Exhibit 5: Annual sales volume trend



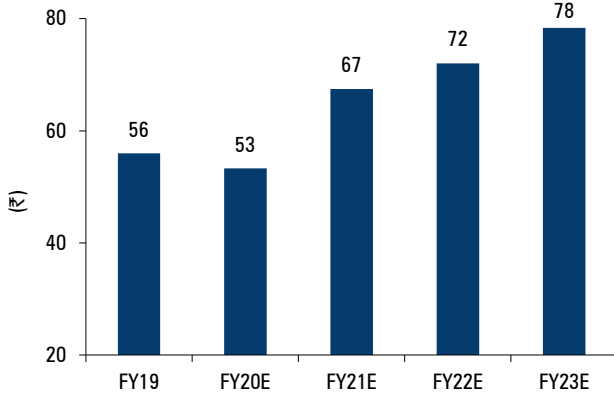
Source: Company, ICICI Direct Research

Exhibit 6: Revenue, realisation trend



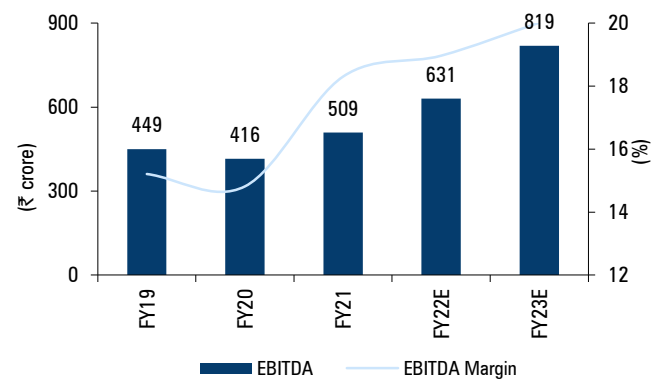
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/sq metre trend



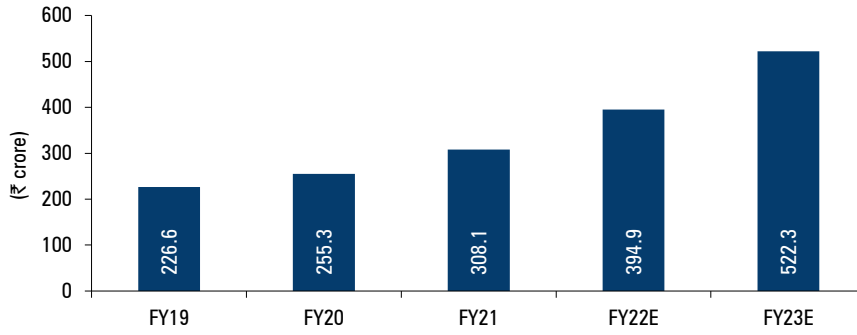
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



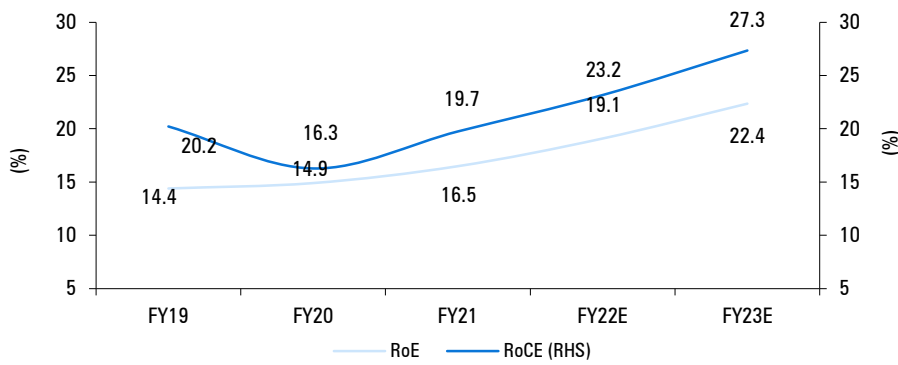
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Net Sales	2,808.0	2,780.9	3,326.6	4,093.7
Other Operating Income	-	-	-	-
Total operating income	2,808.0	2,780.9	3,326.6	4,093.7
Raw Material Expenses	364.7	656.6	399.2	491.2
Cost of Materials Consumed	736.4	590.4	898.2	1,068.5
Employee benefit expenses	356.9	324.7	382.6	470.8
Other Expenses	934.2	700.5	1,015.9	1,244.1
Total operating expenses	2,392.1	2,272.1	2,695.8	3,274.6
EBITDA	415.9	508.8	630.8	819.1
Interest	19.5	10.7	9.7	9.7
Depreciation	108.1	106.7	116.4	133.8
Other income	24.2	21.3	30.0	32.0
PBT	312.5	412.7	534.7	707.6
Taxes	58.9	103.8	134.7	178.3
PAT before MI	253.5	308.9	399.9	529.3
Minority Interest	(1.8)	0.9	5.0	7.0
PAT	255.3	308.1	394.9	522.3
Growth (%)	12.7	20.6	28.2	32.3
EPS (₹)	16.1	19.4	24.8	32.8

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Profit after Tax	255.3	308.1	394.9	522.3
Depreciation	108.1	106.7	116.4	133.8
Interest	19.5	10.7	9.7	9.7
Others	34.8	82.5	104.7	146.3
Cash Flow before wc changes	417.7	508.0	625.8	812.1
Net Increase in Current Assets	(32.6)	110.4	(178.2)	(235.8)
Net Increase in Current Liabilities	(83.3)	(23.4)	74.9	105.2
Net CF from operating activities	246.5	476.1	387.7	503.3
(Purchase)/Sale of Fixed Assets	(158.3)	(92.6)	(275.0)	(150.0)
Net CF from Investing activities	(143.9)	(66.1)	(245.0)	(118.0)
Inc / (Dec) in Equity Capital	(58.5)	5.6	-	-
Dividend	(57.4)	(159.1)	(194.3)	(255.9)
Interest paid	(19.5)	(10.7)	(9.7)	(9.7)
Inc / (Dec) in Secured Loans	7.7	(17.6)	-	-
Inc / (Dec) in Unsecured Loans	0.1	(11.5)	-	-
Net CF from Financing activities	(129.8)	(192.4)	(199.0)	(258.6)
Net Cash flow	(27.2)	217.6	(56.3)	126.6
Opening Cash	252.4	225.2	442.7	386.4
Closing Cash/ Cash Equivalent	225.2	442.7	386.4	513.0

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,698.4	1,853.0	2,053.6	2,319.9
Total Shareholders funds	1,714.3	1,868.9	2,069.5	2,335.8
Minority Interest	63.7	64.6	69.6	76.6
Total Debt	128.1	99.1	99.1	99.1
Other Liabilities	110.9	95.9	95.9	95.9
Total Liabilities	2,040.9	2,145.1	2,350.7	2,624.1
Assets				
Gross Block	1,860.4	1,963.7	2,238.8	2,388.8
Less Acc. Dep	675.9	782.6	899.0	1,032.7
Net Block	1,184.5	1,181.2	1,339.8	1,356.0
Net Intangibles Assets	10.3	11.2	11.2	11.2
Capital WIP	26.6	14.9	14.9	14.9
Total Fixed Assets	1,221.4	1,207.3	1,365.9	1,382.2
Investments	10.1	5.0	5.0	5.0
Inventory	512.7	373.1	501.3	616.9
Sundry Debtors	396.7	431.7	473.9	583.2
Loans & Advances	33.2	39.5	47.2	58.1
Cash & Bank Balances	225.2	442.7	386.4	513.0
Other Current Assets	39.3	27.3	27.3	27.3
Total Current Assets	1,207.1	1,314.3	1,436.2	1,798.6
Trade Payable	239.3	207.2	247.9	305.1
Other Current Liabilities	153.4	168.1	201.1	247.4
Provisions	5.0	6.2	7.4	9.1
Net Current Assets	809.4	932.8	979.8	1,236.9
Total Assets	2,040.9	2,145.1	2,350.7	2,624.1

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY20	FY21	FY22E	FY23E
Per Share Data (₹)				
EPS - Diluted	16.1	19.4	24.8	32.8
Cash EPS	22.9	26.1	32.2	41.3
Book Value	107.8	117.5	130.2	146.9
Dividend per share	3.0	10.0	12.2	16.1
Operating Ratios (%)				
EBITDA / Net Sales	14.8	18.3	19.0	20.0
PAT / Net Sales	9.1	11.1	11.9	12.8
Inventory Days	67	49	55	55
Debtor Days	52	57	52	52
Creditor Days	31	27	27	27
Return Ratios (%)				
RoNW	14.9	16.5	19.1	22.4
RoCE	16.3	19.7	23.2	27.3
RoC	17.3	23.9	26.5	32.8
Valuation Ratios (x)				
EV / EBITDA	39.0	31.4	25.4	19.4
P/E (Diluted)	64.0	53.1	41.4	31.3
EV / Net Sales	5.8	5.8	4.8	3.9
Market Cap / Sales	5.8	5.9	4.9	4.0
Price to Book Value	9.5	8.7	7.9	7.0
Dividend Yield (%)	0.3	1.0	1.2	1.6
Solvency Ratios (x)				
Net Debt / Equity	(0.1)	(0.2)	(0.1)	(0.2)
Debt/EBITDA	0.3	0.2	0.2	0.1
Current Ratio	2.5	2.3	2.3	2.3
Quick Ratio	1.2	1.3	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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