

Retail Equity Research

Kajaria Ceramics Limited

Building Products

BSE CODE: 500233

NSE CODE: KAJARIACER

Bloomberg CODE: KJC:IN

SENSEX: 57,277

ACCUMULATE

12 Months Investment period Rating as per Mid Cap
CMP Rs. 1,272 TARGET Rs. 1,400 RETURN 10%
(Closing: 27-01-22) 

KEY CHANGES:

TARGET 

RATING 

EARNINGS 

Growing volumes despite industry slowdown

Kajaria Ceramics limited manufactures glazed and unglazed ceramic tiles. The company sells its products in India and it also exports them to other countries.

- During Q3FY22, revenues grew 27.4% YoY (+9.7% QoQ), driven by robust sales volumes (+13.5% YoY to 25.6 MSM).
- Resultantly, EBITDA rose 1.1% YoY to Rs. 184cr, despite margin contracting 450bps YoY to 17.2% on account of higher power and fuel costs (+69.6% YoY) and cost of raw materials (+16.1% YoY). PAT rose 2.6% YoY to Rs. 122cr.
- While concern remains around higher fuel costs, company's long-term outlook remains promising with strong economic revival despite the supply chain constraints and lockdown, increased sales volumes, ramp up of construction activities and low interest rates regime. Given current upside potential at current price levels, we reiterate our ACCUMULATE rating on the stock with a rolled forward target price of Rs. 1,400 based on 35x FY24E adj. EPS.

Resilient growth across segments

For Q3FY22, consolidated revenue surged 27.4% YoY to Rs. 1,068cr (+9.7% QoQ), primarily led by higher sales volumes of 25.6 MSM (+13.5% YoY). Production volumes also increased to 18.6 MSM (+8.2% YoY). Revenue from tiles business rose 26.8% YoY to Rs. 962cr, with own manufacturing, subsidiaries and outsourcing businesses contributing Rs. 552cr (+18.9% YoY), Rs. 138cr (+11.2% YoY) and Rs. 271cr (+60% YoY), respectively. Sanitary ware and plywood business revenue also climbed up 33.1% YoY to Rs. 107cr.

Higher gas cost puts pressure on margins

With robust topline growth, company managed to post 1.1% YoY increase in EBITDA to Rs. 184cr, although, EBITDA margin shrank 450bps YoY to 17.2% due to higher power and fuel costs (+69.6% YoY to Rs. 223cr) and raw materials costs (+16.1% YoY to Rs. 225cr). Also, staff costs were up 19.1% YoY to Rs. 107cr. PAT rose 2.6% YoY to Rs. 122cr benefitted from lower tax outgo (-4.2% YoY) during the quarter.

Key concall highlights

- Company is undertaking capacity expansion at three sites across Rajasthan, Gujrat and Andhra Pradesh to add ~12.4 MSM total capacity with an overall capex of Rs. 250cr. All three expansion projects are expected to be completed by April-2022.
- Company continued to hike prices for its products. YTD, prices were hiked cumulatively by 5-6% for tiles, ~15% for faucet and ~8% for sanitary ware.
- Low channel inventory has reduced inventory cost. The inventory days have reduced after GST and faster payments.
- Management has approved acquisition of further 26% stake in Cosa Ceramics

Valuation

While concern remains around higher fuel costs, company managed to pass on the input cost to market by hiking its product prices. Company's long-term outlook remains promising with strong economic revival despite the supply chain restrictions and lockdown, increased sales volumes, ramp up of construction activities and low interest rates regime. Hence, we maintain our optimistic view on the company's performance and reiterate ACCUMULATE rating on the stock with a rolled forward target price of Rs. 1,400 based on 35x FY24E adj. EPS.

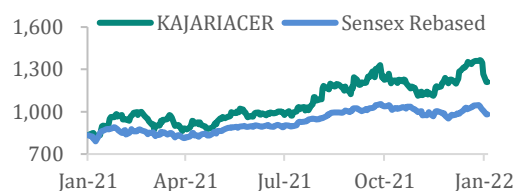
Company Data

Market Cap (cr)	Rs. 19,492
Enterprise Value (cr)	Rs. 19,273
Outstanding Shares (cr)	15.9
Free Float	52.0%
Dividend Yield	0.8%
52 week high	Rs. 1,379
52 week low	Rs. 806
6m average volume	28,359
Beta	0.6
Face value	Rs. 1

Shareholding %	Q1FY22	Q2FY22	Q3FY22
Promoters	47.5	47.5	47.5
FII's	25.1	24.9	22.5
MFs/Insti	14.9	15.2	17.3
Public	9.8	9.8	9.9
Others	2.6	2.6	2.8
Total	100.0	100.0	100.0
Promoters' pledge	0.0	0.0	0.0

Price Performance	3 Month	6 Month	1 Year
Absolute Return	-1.4%	22.1%	45.1%
Absolute Sensex	-5.5%	8.5%	17.6%
Relative Return*	4.1%	13.6%	27.4%

*over or under performance to benchmark index



Consolidated (cr)	FY22E	FY23E	FY24E
Sales	3,598	4,359	5,032
Growth (%)	29.4	21.2	15.4
EBITDA	648	812	948
EBITDA Margin (%)	18.0	18.6	18.8
Adj. PAT	410	527	634
Growth (%)	33.1	28.4	20.4
Adj. EPS	25.8	33.1	39.9
Growth (%)	33.1	28.4	20.4
P/E	47.5	37.0	30.7
P/B	9.2	7.8	6.6
EV/EBITDA	29.7	23.5	19.9
ROE (%)	19.3	21.2	21.4
D/E	0.0	0.0	0.0

Quarterly Financials (Consolidated)

Profit & Loss Account

	Q3FY22	Q3FY21	YoY Growth %	Q2FY22	QoQ Growth %	9MFY22	9MFY21	YoY Growth %
Revenue	1,068	838	27.4	974	9.7	2,603	1,828	42.4
EBITDA	184	182	1.1	180	1.9	445	318	39.9
EBITDA margins	17.2	21.7	(450bps)	18.5	(130bps)	17.1	17.4	(30bps)
Depreciation	28	28	1.9	28	(0.3)	83	80	3.2
EBIT	156	154	1.0	152	2.3	362	238	52.3
Interest	3	3	15.3	3	10.7	9	8	8.4
Other Income	7	6	15.0	7	4.2	21	14	48.2
Exceptional Items	-	-	-	-	-	-	-	-
PBT	160	158	1.3	157	2.2	374	244	53.5
Tax	35	37	(4.2)	37	(5.3)	88	66	34.2
Sh. of profit from Associate	-	-	-	-	-	-	-	-
Minority Interest	3	2	29.7	3	(14.8)	4	(3)	232.8
Reported PAT	122	119	2.6	116	5.1	281	181	55.4
Adjustments	-	-	-	-	-	-	-	-
Adj. PAT	122	119	2.6	116	5.1	281	181	55.4
No. of shares	15.9	15.9	0.0	15.9	(0.0)	15.9	15.9	0.0
Adj. EPS (Rs.)	7.7	7.5	2.5	7.3	5.1	17.7	11.4	55.3

Change in Estimates

Year / Rs. cr	Old estimates		New estimates			Change %	
	FY22E	FY23E	FY22E	FY23E	FY24E	FY22E	FY23E
Revenue	3,459	4,104	3,598	4,359	5,032	4.0	6.2
EBITDA	627	791	648	812	948	3.3	2.7
Margins (%)	18.1	19.3	18.0	18.6	18.8	(10bps)	(70bps)
Adj. PAT	400	514	410	527	634	2.6	2.5
Adj. EPS	25.1	32.3	25.8	33.1	39.9	2.6	2.5

PROFIT & LOSS

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenue	2,808	2,781	3,598	4,359	5,032
% change	(5.0)	(1.0)	29.4	21.2	15.4
EBITDA	416	509	648	812	948
% change	(7.5)	22.3	27.4	25.2	16.8
Depreciation	108	107	109	123	128
EBIT	308	402	540	689	820
Interest	20	11	13	8	11
Other Income	24	21	23	25	27
PBT	312	413	549	706	836
% change	(12.7)	32.1	33.1	28.4	18.5
Tax	59	104	138	178	200
Tax Rate (%)	18.9	25.2	25.2	25.2	23.9
Reported PAT	255	308	410	527	634
Adj*	-	-	-	-	-
Adj PAT	255	308	410	527	634
% change	10.3	20.6	33.1	28.4	20.4
No. of shares (cr)	15.9	15.9	15.9	15.9	15.9
Adj EPS (Rs.)	16.1	19.4	25.8	33.1	39.9
% change	10.3	20.6	33.1	28.4	20.4
DPS (Rs.)	3.0	10.0	10.0	10.0	10.0
CEPS (Rs.)	22.9	26.1	32.6	40.9	47.9

CASH FLOW

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Net inc. + Depn.	363	415	519	650	762
Non-cash adj.	(32)	1	17	19	17
Changes in W.C	(107)	93	(174)	(174)	(186)
C.F. Operation	224	509	361	494	593
Capital exp.	(121)	(101)	(270)	(174)	(201)
Change in inv.	(9)	(4)	-	-	-
Other invest.CF	40	(190)	19	21	23
C.F - Investment	(90)	(296)	(251)	(153)	(178)
Issue of equity	0	5	-	-	-
Issue/repay debt	(10)	(44)	(21)	(17)	(21)
Dividends paid	(115)	(159)	(159)	(159)	(159)
Other finance.CF	(15)	(7)	(13)	(8)	(11)
C.F - Finance	(140)	(205)	(193)	(184)	(191)
Chg. in cash	(6)	9	(83)	157	224
Closing cash	225	443	360	517	741

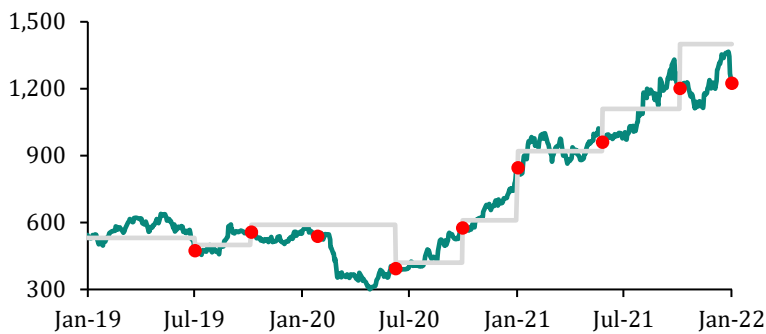
BALANCE SHEET

Y.E March (Rs. cr)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash	225	443	360	517	741
Accounts Receivable	397	432	576	706	825
Inventories	513	373	510	588	719
Other Cur. Assets	53	45	48	51	54
Investments	0	-	-	-	-
Gross Fixed Assets	1,302	1,404	1,673	1,848	2,049
Net Fixed Assets	1,184	1,181	1,342	1,392	1,465
CWIP	26	15	16	16	17
Intangible Assets	11	11	12	12	12
Def. Tax (Net)	1	1	2	2	2
Other Assets	28	25	27	30	32
Total Assets	2,439	2,527	2,891	3,315	3,868
Current Liabilities	407	394	525	584	669
Provisions	24	17	18	20	22
Debt Funds	155	112	91	74	54
Other Liabilities	75	70	71	81	91
Equity Capital	16	16	16	16	16
Reserves & Surplus	1,698	1,853	2,104	2,471	2,947
Shareholder's Fund	1,714	1,869	2,120	2,487	2,963
Minority Interest	64	65	66	67	69
Total Liabilities	2,439	2,527	2,891	3,315	3,868
BVPS (Rs.)	108	118	133	156	186

RATIOS

Y.E March	FY20A	FY21A	FY22E	FY23E	FY24E
Profitab. & Return					
EBITDA margin (%)	14.8	18.3	18.0	18.6	18.8
EBIT margin (%)	11.0	14.5	15.0	15.8	16.3
Net profit mgn.(%)	9.1	11.1	11.4	12.1	12.6
ROE (%)	14.9	16.5	19.3	21.2	21.4
ROCE (%)	15.9	19.7	23.7	26.2	26.6
W.C & Liquidity					
Receivables (days)	51.6	56.7	58.4	59.1	59.9
Inventory (days)	112.4	81.9	104.8	106.6	108.4
Payables (days)	52.4	45.5	65.0	64.2	63.5
Current ratio (x)	2.3	2.8	2.6	3.0	3.4
Quick ratio (x)	1.2	1.9	1.6	2.0	2.3
Turnover & Leverage					
Gross asset T.O (x)	1.1	1.0	1.2	1.2	1.3
Total asset T.O (x)	0.6	0.6	0.7	0.7	0.7
Int. coverage ratio (x)	15.8	37.5	40.8	85.5	74.2
Adj. debt/equity (x)	0.1	0.1	0.0	0.0	0.0
Valuation					
EV/Sales (x)	2.1	5.2	5.4	4.4	3.7
EV/EBITDA (x)	14.4	28.4	29.7	23.5	19.9
P/E (x)	23.4	47.7	47.5	37.0	30.7
P/BV (x)	3.5	7.9	9.2	7.8	6.6

Recommendation Summary (Last 3 Years)



Source: Bloomberg, Geojit research

Dates	Rating	Target
29-Oct-19	HOLD	590
19-Feb-20	HOLD	590
1-Jul-20	HOLD	420
23-Oct-20	HOLD	610
25-Jan-21	HOLD	920
18-Jun-21	ACCUMULATE	1,110
28-Oct-21	ACCUMULATE	1,400
28-Jan-22	ACCUMULATE	1,400

Investment Rating Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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