

CMP: ₹ 960

Target: ₹ 1165 (21%)

Target Period: 12 months

May 18, 2022

BUY

## Higher gas price impacts margins...

**About the stock:** Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with a current annual capacity of 82.8 mn square metre.

- Apart from completed capex of ₹ 250 crore on tiles, it is doing ₹ 80 crore capex in the sanitaryware segment

**Q4FY22 Results:** High power and fuel expenses dragged the margins.

- The topline was up 15.7% YoY at ₹ 1,101.8 crore. Tiles sales volumes grew merely by 2% YoY and were at ~26.0 MSM impacted mainly by Omicron in Q4 beginning. Tiles revenues were up 15.5% YoY at ₹ 999.9 crore, with pricing growth contributing 12.9% YoY
- EBITDA was at ₹ 165.9 crore with margin at 15.1%, down 498 bps YoY, affected due to higher power and fuel costs (up 56% YoY) and higher freight and packing costs
- PAT was at ₹ 95.8 crore, down 24.7% YoY

**What should investors do?** Kajaria's share price has grown at ~7% CAGR over the past five years (from ~₹ 677 in May, 2017 to ~₹ 960 levels in May, 2022).

- Kajaria is a quasi-play on housing. Post steep correction, we believe gas price uncertainty is largely built in. Thus we upgrade from HOLD to **BUY**

**Target Price and Valuation:** We value Kajaria at ₹ 1165/share, at 35x FY24 P/E.

**Key triggers for future price performance:**

- Kajaria announced that a capex of ₹ 250 crore has been completed and ₹ 80 crore capex (revenue potential ₹ 160-170 crore) in the sanitaryware segment will be done, which will drive growth ahead
- We expect 14% CAGR in tiles volume and realisations CAGR of 2.5%, resulting in tiles revenues CAGR of 17% over FY22-24 to ₹ 4591 crore
- The increased dividend payout (~45% vs. 20-25%, earlier) is likely to improve return ratios (RoCEs likely at 24%+ in FY24E vs ~21% currently)
- Directional movement of gas prices will be a key determinant of overall margins trajectory

**Alternate Stock Idea:** Besides Kajaria, we like Phoenix Mills in the real estate space.

- A play on leadership and post Covid recovery in the malls segment
- BUY with a target price of ₹ 1230

### Key Financial Summary

(₹ crore)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	2,808.0	2,780.9	3,705.2	7.8%	4,542.2	5,086.5	17.2%
EBITDA	415.9	508.8	610.8	4.2%	725.6	837.7	17.1%
EBITDA Margin (%)	14.8	18.3	16.5		16.0	16.5	
PAT	255.3	308.1	377.1	8.3%	452.0	528.4	18.4%
EPS (₹)	16.1	19.4	23.7		28.4	33.2	
P/E (x)	59.8	49.6	40.5		33.8	28.9	
P/B (x)	8.9	8.2	7.2		6.5	5.8	
EV/EBITDA (x)	36.4	29.3	24.5		21.1	18.1	
RoCE (%)	16.3	19.7	21.5		23.6	24.8	
RoE	14.9	16.5	17.8		19.4	20.2	

Source: Company, ICICI Direct Research

## Kajaria

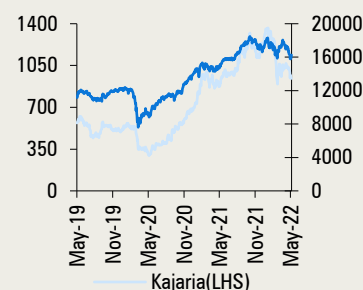
### Particulars

Particular	Amount (₹ crore)
Market Capitalization	15,254
Total Debt (FY22)	128
Cash (FY22)	424
EV	14,958
52 week H/L (₹)	1375 / 877
Equity capital	15.9
Face value (₹)	1.0

### Shareholding pattern

	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	47.5	47.5	47.5	47.5
DII	14.4	14.7	16.8	19.7
FII	25.1	24.9	22.5	21.3
Other	13.0	12.9	13.3	11.5

### Price Chart



### Key Risks

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

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## Key business highlight and outlook

- Volume driver and current volume traction:** Kajaria's performance during Q4FY22 got impacted by lockdowns in several states in January 2022 and February 2022 due to the third wave of Covid-19. Despite this, the company managed to clock best ever sales volume, revenue in the tiles segment to 25.97 MSM (up 2% YoY), ₹ 999.9 crore (up 15.5% YoY), respectively. This was largely aided by revived customer sentiments, improved real-estate demands in Tier-I, II, III cities, and upped re-construction/renovation activities in metro regions
- Capacity utilisation:** Kajaria operated at >95% utilisation during Q4FY22 backed by healthy sales volume. Going forward, the management expects utilisation to remain elevated with robust tiles and sanitaryware demand due to a pick-up in construction activities
- Allied business:** Kajaria's subsidiaries and allied businesses reported 17.6% growth in Q4FY22. Faucet and sanitaryware revenues were up 15.9% YoY at ₹ 82.7 crore. **The management expects segmental revenue to improve 30-35% YoY over the next few years (monthly run rate: ₹ 30+ crore currently) mainly led by introduction of newer products, strengthened distribution network and larger acceptance by consumers.** In the plywood business, revenues improved 25.4% YoY and were at ₹ 19.2 crore, on a lower base
- Guidance:** The management has guided for 15-20% YoY volume growth in the tiles segment during FY23 and endeavours to achieve 15%+ volume CAGR over the next two to three years - likely to be driven 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. **Revenue growth in FY23 is expected to be ~20-25% YoY with some support expected from price hikes.** However, the management has refrained from providing margin guidance with the ongoing volatility in gas prices and increased freight and packaging cost (overall cost has already risen by 2-3% on a QoQ basis at YTD FY23 level)
- Industry update:** As per the management, the overall size of the tiles industry during FY22 was at ~₹ 33,700 crore (domestic: ₹ 21,000 crore; export: ~₹ 12,700 crore). **Exports opportunity for Indian players, however, remained muted in FY22 (market size: ~₹ 12,000 crore during FY21)** due to Covid-19 disruptions, significant rise in gas prices, higher freight costs and unavailability of containers at desired levels. Going forward, the management expects healthy demand revival for Indian tiles in the foreign territory to be aided by competitive price advantage with significant rise in gas costs for European and Chinese players. With these, **exports from Indian manufacturers is likely to reach ~₹ 18,000 crore during FY23. Demand in the domestic market is likely to remain strong with a rise in real estate consumption and is expected to reach ~₹ 23,000 crore during FY23**
- Gas price rise:** Gas prices for the industry have continued to surge during FY22. For Kajaria, **average gas prices for FY22 in its northern, southern and Morbi plants were at ~₹ 41/SCM, ~₹ 44/SCM and ₹ 49/SCM, respectively. Similarly, average gas prices for Q4FY22 in its northern, southern and Morbi plants were at ~₹ 45.5/SCM, ~₹ 60/SCM and ₹ 62/SCM, respectively. Cumulatively, average gas prices for Kajaria were at ₹ 49.8/SCM, ₹ 42.2/SCM during Q4FY22, FY22 respectively.** Currently, average gas prices in its northern, southern and Morbi plants have increased to ~₹ 52/SCM, ~₹ 59/SCM and ₹ 68.5/SCM, respectively. On a cumulative basis, average gas prices have currently increased to ~₹ 50.3/SCM for Kajaria
- Price hike:** In order to offset the rise in input costs, Kajaria has taken **multiple price hikes across tiles product segments during FY22**, which includes ~2-3% in April 2021, ~3% in July 2021, ~3-4% in October 2021, ~2-3% in November 2021, **accumulating to ~10% for the entire FY22 period. Similarly, the prices of faucets and sanitaryware have increased ~15% YoY and ~12-13% YoY, respectively, in FY22 mainly due to jump in brass prices, increase in gas prices and higher transportation cost.** Recently, in May 2022, the company took a 2% price hike across its product portfolio
- Working capital:** Working capital remained **steady at 52 days (vs. 50 days at FY21-end).** Going forward, the management expects working capital days to hover at current levels to 50-60 days

- **Ad spends:** Kajaria has spent ~₹ 80 crore towards marketing and advertisement during FY22 (vs. ₹ 46 crore in FY21) and expects it to remain at an elevated level, going forward
- **Expansions:** Kajaria has commissioned 4.4 MSM of PVT capacity at its Morbi (Gujarat) plant during April 2022. The other two projects i.e. 4.2 MSM of ceramic floor tiles at Gailpur plant (Rajasthan) and 3.8 MSM of value added glazed vitrified tiles at Srikalahasti Plant (Andhra Pradesh) have also been commissioned during May 2022. Additionally, the company is expected to invest ₹ 80 crore to set up an 8 lakh pieces per annum sanitaryware manufacturing facility in Gujarat (revenue potential: ~₹ 175-180 crore at full capacity utilisation). The plant is likely to commence production during Q2FY24E. Further, Kajaria had plans to set up a greenfield GVT manufacturing facility having production capacity of 5 MSM per annum in Gujarat with an investment of ₹ 210 crore. However, the company has withdrawn the investment idea with the plant becoming less viable due to the steep rise in gas prices and inadequate gas supplies
- **Capex:** The management has guided for ₹ 300+ crore of capex during FY23 to be incurred for expansion
- **Dealers:** The company expects to add 400 dealers (including 175 exclusive traders) to its current network, which is likely to enable robust volume/sales growth for the company, going forward

Kajaria with a net cash balance sheet and superior brand, is a quasi-play on an improved scenario of real estate and expanding reach to tier 2/3 cities. Post a steep correction in the last four months, we believe gas price uncertainty is largely built in. We upgrade from HOLD to BUY. We value it at multiple at 35x FY24E P/E (vs. 38x, earlier) to ascribe a revised target price of ₹ 1165/share (vs. ₹ 1370, 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 ~₹ 338 crore) and commands superior margins range (~15-17% vs. 10-12% for peers) resulting in stronger return ratio of 20%+ vs. (10-11% for peers).

Exhibit 1: Variance Analysis

	Q4FY22	Q4FY22E	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	Comments
Net Sales	1,101.8	1,150.4	952.5	15.7	1,068.2	3.1	Tiles sales volumes grew merely by 2% YoY and stood at ~26.0 MSM impacted mainly by Omicron in Q4 beginning. Tiles Revenues were up 15.5% YoY at ₹ 999.9 crore, with pricing growth contributing 12.9% YoY. Faucet and Sanitaryware revenues were up 15.9% YoY at ₹ 82.7 crore. Plywood revenues were up 25.4% YoY at ₹ 19.2 crore
Other Income	7.0	7.0	7.4	-5.5	7.4	-5.3	
Net Purchase of Stock in Trad	223.8	225.0	217.7	2.8	202.6	10.4	
Cost of Materials Consumed	263.2	260.0	200.6	31.2	247.0	6.5	
Staff cost	105.8	110.0	96.4	9.7	106.6	-0.8	
Other expenditure	114.8	110.0	100.6	14.0	104.7	9.6	
Power & Fuel cost	228.3	250.0	146.2	56.2	223.4	2.2	
EBITDA	165.9	195.4	190.9	-13.1	183.8	-9.7	Lower margins due higher gas prices
EBITDA Margin (%)	15.1	17.0	20.0	-498 bps	17.2	-215 bps	
Depreciation	32.6	26.1	26.5	23.0	28.1	16.2	
Interest	4.0	3.0	2.6	50.8	3.0	32.2	
PBT	136.4	173.3	169.2	-19.4	160.2	-14.9	
Taxes	39.1	41.0	38.0	2.9	35.5	10.4	
PAT	95.8	128.3	127.1	-24.7	122.0	-21.5	

Key Metrics

Sales Volume (in MSM)	26.0	27.8	25.4	2.3	25.6	1.3
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22		FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change			
Revenue	3,705.2	4,442.1	4,542.2	2.3	4,969.6	5,086.5	2.4	Realign estimates	
EBITDA	610.8	799.3	725.6	-9.2	893.5	837.7	-6.2		
EBITDA Margin (%)	16.5	18.0	16.0	-202 bps	18.0	16.5	-151 bps		
PAT	377.1	503.6	452.0	-10.2	574.1	528.4	-8.0		
EPS (₹)	23.7	31.7	28.4	-10.2	36.1	33.2	-8.0		

Source: Company, ICICI Direct Research

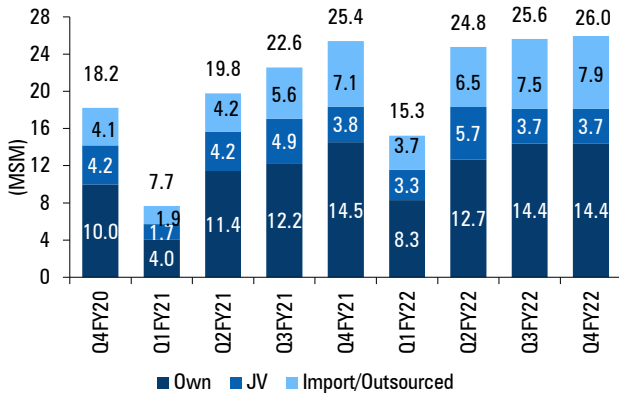
Exhibit 3: Assumptions

Volume in MSM	FY21	FY22	Current		New		Comments
			Earlier	Current	Earlier	Current	
			FY23E	FY23E	FY24E	FY24E	
<b>Production</b>	<b>52.0</b>	<b>68.4</b>	<b>78.7</b>	<b>79.9</b>	<b>85.2</b>	<b>87.0</b>	
Own	37.7	50.4	61.9	59.1	68.3	65.3	
JV	14.3	17.9	16.8	20.7	16.8	21.6	
<b>Sales</b>	<b>75.4</b>	<b>91.7</b>	<b>106.9</b>	<b>107.9</b>	<b>119.2</b>	<b>119.0</b>	
Own	44.6	51.9	61.9	59.1	68.3	65.3	
JV	12.1	14.3	16.0	20.7	16.8	21.6	
Import/Outsourced	18.7	25.4	29.0	28.0	34.0	32.0	

Source: Company, ICICI Direct Research

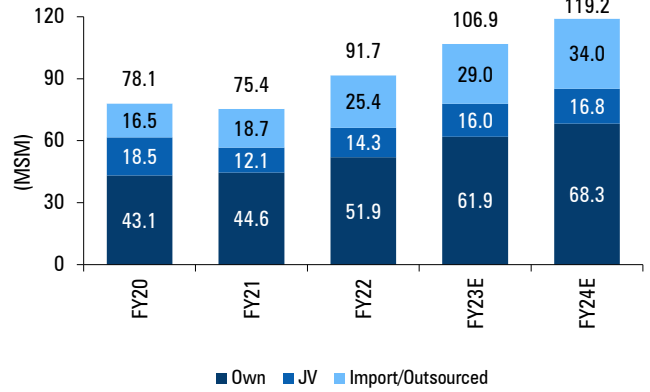
## Company Analysis

Exhibit 4: Quarterly sales volume trend



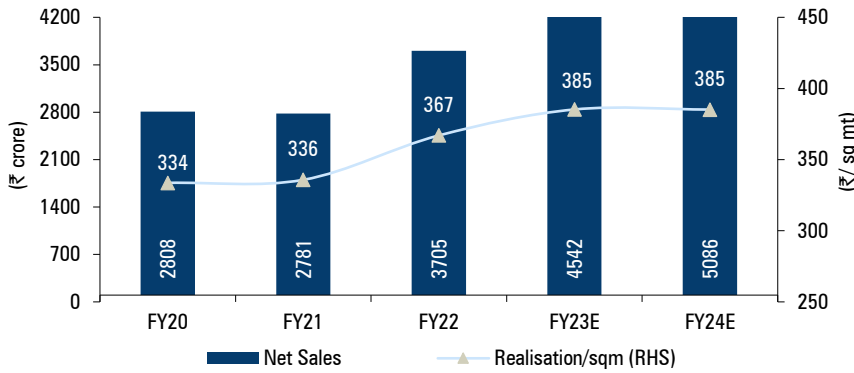
Source: Company, ICICI Direct Research

Exhibit 5: Annual sales volume trend



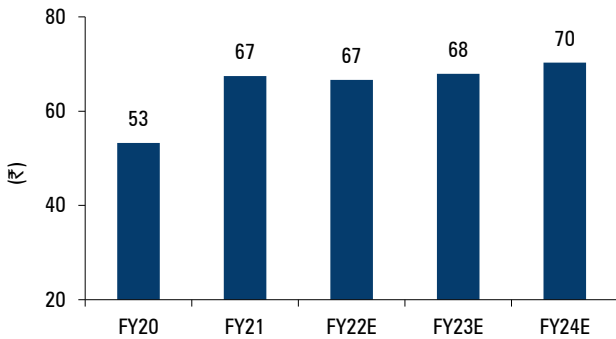
Source: Company, ICICI Direct Research

Exhibit 6: Revenue, realisation trend



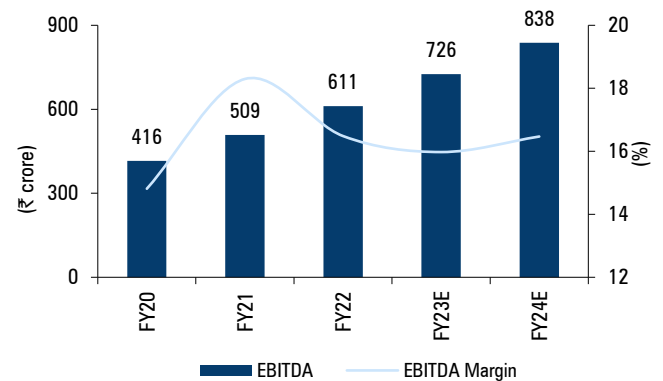
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/sq metre trend



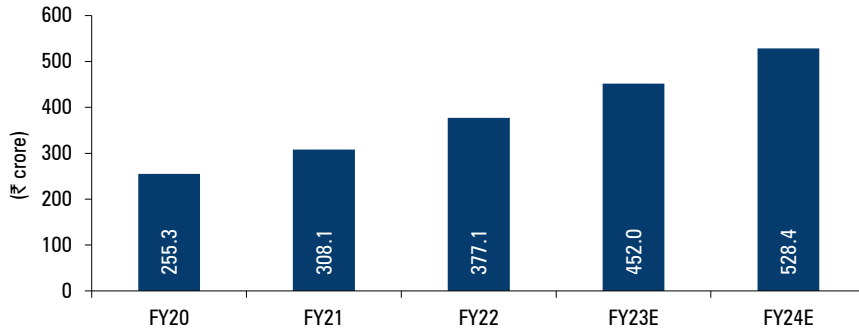
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



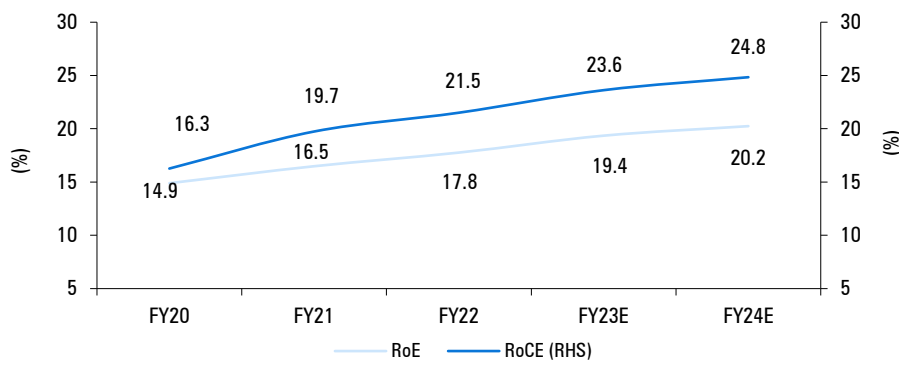
Source: Company, ICICI Direct Research

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)	FY21	FY22	FY23E	FY24E
<b>Net Sales</b>	<b>2,780.9</b>	<b>3,705.2</b>	<b>4,542.2</b>	<b>5,086.5</b>
Other Operating Income	-	-	-	-
Total operating income	2,780.9	3,705.2	4,542.2	5,086.5
Raw Material Expenses	656.6	730.3	799.4	890.1
Cost of Materials Consumed	590.4	824.8	1,067.4	1,175.0
Employee benefit expenses	324.7	407.7	458.8	508.6
Other Expenses	700.5	1,131.7	1,490.9	1,675.0
Total operating expenses	2,272.1	3,094.4	3,816.5	4,248.8
<b>EBITDA</b>	<b>508.8</b>	<b>610.8</b>	<b>725.6</b>	<b>837.7</b>
Interest	10.7	12.7	12.8	12.8
Depreciation	106.7	115.4	131.2	144.2
Other income	21.3	27.6	32.0	35.0
PBT	412.7	510.2	613.7	715.8
Taxes	103.8	127.4	154.7	180.4
PAT before MI	308.9	382.8	459.0	535.4
Minority Interest	0.9	5.8	7.0	7.0
<b>PAT</b>	<b>308.1</b>	<b>377.1</b>	<b>452.0</b>	<b>528.4</b>
Growth (%)	20.6	22.4	19.9	16.9
<b>EPS (₹)</b>	<b>19.4</b>	<b>23.7</b>	<b>28.4</b>	<b>33.2</b>

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Profit after Tax</b>	<b>308.1</b>	<b>377.1</b>	<b>452.0</b>	<b>528.4</b>
Depreciation	106.7	115.4	131.2	144.2
Interest	10.7	12.7	12.8	12.8
Others	82.5	99.9	122.7	145.4
Cash Flow before wc changes	508.0	605.0	718.6	830.7
Net Increase in Current Assets	110.4	(277.7)	(271.6)	(166.5)
Net Increase in Current Liabilities	(23.1)	174.6	125.4	81.5
<b>Net CF from operating activities</b>	<b>476.3</b>	<b>377.1</b>	<b>417.8</b>	<b>565.4</b>
(Purchase)/Sale of Fixed Assets	(92.6)	(321.0)	(532.2)	(250.0)
<b>Net CF from Investing activities</b>	<b>(66.1)</b>	<b>(288.4)</b>	<b>(500.2)</b>	<b>(215.0)</b>
Inc / (Dec) in Equity Capital	5.6	3.8	-	(0.0)
Dividend	(159.1)	(127.3)	(238.5)	(254.4)
Interest paid	(10.7)	(12.7)	(12.8)	(12.8)
Inc / (Dec) in Secured Loans	(17.6)	30.9	-	-
Inc / (Dec) in Unsecured Loans	(11.7)	(1.8)	-	-
<b>Net CF from Financing activities</b>	<b>(192.6)</b>	<b>(107.0)</b>	<b>(244.3)</b>	<b>(260.2)</b>
Net Cash flow	217.6	(18.4)	(326.8)	90.2
Opening Cash	225.2	442.7	424.4	97.6
<b>Closing Cash/ Cash Equivalent</b>	<b>442.7</b>	<b>424.4</b>	<b>97.6</b>	<b>187.8</b>

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(₹ Crore)	FY21	FY22	FY23E	FY24E
<b>Liabilities</b>				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,853.0	2,106.5	2,320.0	2,594.0
Total Shareholders funds	1,868.9	2,122.4	2,335.9	2,609.9
Minority Interest	64.6	64.8	71.8	78.8
Total Debt	98.8	127.9	127.9	127.9
Other Liabilities	95.9	98.5	98.5	98.5
<b>Total Liabilities</b>	<b>2,144.8</b>	<b>2,431.5</b>	<b>2,652.1</b>	<b>2,933.1</b>
<b>Assets</b>				
Gross Block	1,917.1	1,990.0	2,522.2	2,772.2
Less Acc. Dep	735.9	851.2	982.4	1,126.5
Net Block	1,181.2	1,138.8	1,539.8	1,645.7
Net Intangibles Assets	11.2	10.8	10.8	10.8
Capital WIP	14.9	263.4	263.4	263.4
Total Fixed Assets	1,207.3	1,413.0	1,814.0	1,919.9
Investments	5.0	-	-	-
Inventory	373.1	465.9	572.4	641.0
Sundry Debtors	431.7	513.3	647.1	724.6
Loans & Advances	39.5	138.3	169.5	189.8
Cash & Bank Balances	442.7	424.4	97.6	187.8
Other Current Assets	27.3	31.8	31.8	31.8
Total Current Assets	1,314.3	1,573.6	1,518.4	1,775.1
Trade Payable	207.2	298.1	365.5	409.3
Other Current Liabilities	168.3	248.9	305.1	341.7
Provisions	6.2	8.0	9.8	10.9
Net Current Assets	932.5	1,018.6	838.1	1,013.2
<b>Total Assets</b>	<b>2,144.8</b>	<b>2,431.5</b>	<b>2,652.1</b>	<b>2,933.1</b>

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY21	FY22	FY23E	FY24E
<b>Per Share Data (₹)</b>				
EPS - Diluted	19.4	23.7	28.4	33.2
Cash EPS	26.1	31.0	36.7	42.3
Book Value	117.5	133.5	146.9	164.1
Dividend per share	10.0	11.0	14.0	16.0
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	18.3	16.5	16.0	16.5
PAT / Net Sales	11.1	10.2	10.0	10.4
Inventory Days	49	46	46	46
Debtor Days	57	51	52	52
Creditor Days	27	29	29	29
<b>Return Ratios (%)</b>				
RoNW	16.5	17.8	19.4	20.2
RoCE	19.7	21.5	23.6	24.8
RoC	23.9	28.6	26.1	28.1
<b>Valuation Ratios (x)</b>				
EV / EBITDA	29.3	24.5	21.1	18.1
P/E (Diluted)	49.6	40.5	33.8	28.9
EV / Net Sales	5.4	4.0	3.4	3.0
Market Cap / Sales	5.5	4.1	3.4	3.0
Price to Book Value	8.2	7.2	6.5	5.8
Dividend Yield (%)	1.0	1.1	1.5	1.7
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	(0.2)	(0.1)	0.0	(0.0)
Debt/EBITDA	0.2	0.2	0.2	0.2
Current Ratio	2.3	2.1	2.1	2.1
<b>Quick Ratio</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>	<b>1.2</b>

Source: Company, ICICI Direct Research

## RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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## ANALYST CERTIFICATION

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