

January 29, 2023

RESULT REPORT Q3 FY23 | Sector: Building Materials

Kajaria Ceramics Ltd

Shift to alternate fuel should aid margin expansion!

Result Synopsis

Kajaria Ceramics Ltd (KJC) registered a steady quarter wherein Tiles volumes & revenue growth was muted at 25.45msm & Rs9.84Bn respectively. Benign demand scenario in Oct-Nov'22 weighed on KJC's Q3FY23 performance. Margins continued to remain under pressure at 12.2% due to low volume off-take coupled with elevated fuel cost.

Demand continued to remain sluggish in Jan'23, however management expects the same to improve from Feb'23. Moreover, management guided for a 13-15% volume growth in FY24E & though they refrained from giving any guidance on margins, KJC is switching to alternate fuel & the same should constitute 35% (5% LPG & 30% bio-fuel) of fuel cost from Feb'23 which should enable the company to improve margins.

We reckon, company's tile volumes & revenue to grow by 11% & 16% CAGR over FY22-FY24E owing to better demand from FY24E. Overall Revenue/EBITDA/PAT should grow by 17%/15%/15% respectively over FY22-FY24. At CMP, we continue to value the company at P/E(x) of 35x on FY24E EPS of Rs32 (revised downwards by 13%). Hence, we alter our rating from BUY to NEUTRAL.

Result Highlights

- Revenue: Company reported Rs10.91Bn revenue, reporting a growth of 2.1%YoY & flattish QoQ (Vs our est of Rs11.02Bn).
- EBITDA margins came in at 12.2% in Q3FY23 Vs 17.3%/12% in Q3FY22/Q2FY23 respectively (Vs our est of 13%). Absolute EBITDA stood at Rs1.33Bn, a growth of 3%QoQ & a decline of 28%YoY.
- Net profit stood at Rs737Mn (15% below our est), a decline of 41%YoY & growth of 7%QoQ.
- Tiles revenue stood at Rs9.84Bn, a 2.3%YoY growth & remained flattish QoQ. Own manufacturing/Subsidiary/Outsourced constated 57%/17%/27% of tile revenue. Total volumes were flattish YoY & increased minimally by 2%QoQ to 25.45msm (Vs our est of 25.7msm). Volume mix was 55%/20%/25% between Own manufacturing/Subsidiary/Outsourced respectively. Tiles blended realizations came in at Rs387 in Q3FY23 as compared to Rs375/395 in Q3FY22/Q2FY23 respectively.
- Plywood revenue stood at Rs188Mn (Vs our est of Rs190Mn), a degrowth of 25%YoY & 3%QoQ. Sanitaryware sales stood at Rs794.8Mn (Vs our est of Rs700Mn), registering a degrowth of 6%YoY & 2%QoQ.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	10,911	11,025	11,395	(1.0)	(4.2)	Revenue was in-line with our estimates, but margins were below our expectations.
EBITDA	1,331	1,433	1,590	(7.1)	(16.3)	
EBITDA Margin (%)	12.2	13.0	14.0	-80 bps	-176 bps	
Adjusted PAT	738	869	957	(15.1)	(22.9)	

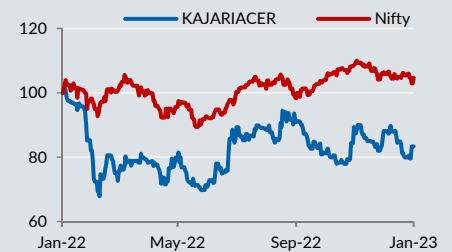
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 1,097
Target Price	: Rs 1,122
Potential Upside	: +2%

Stock data (as on January 27, 2023)

Nifty	17,892
52 Week h/l (Rs)	1352 / 885
Market cap (Rs/USD mn)	174766 / 2143
Outstanding Shares (mn)	159
6m Avg t/o (Rs mn):	202
Div yield (%):	1.0
Bloomberg code:	KJC IN
NSE code:	KAJARIACER

Stock performance



	1M	3M	1Y
Absolute return	-5.4%	2.6%	-16.7%

Shareholding pattern (As of Dec'22 end)

Promoter	47.5%
FII+DII	43.1%
Others	9.4%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	BUY
Target Price	1,122	1,290

Δ in earnings estimates

	FY23e	FY24e
EPS (New)	20.3	32.0
EPS (Old)	26.7	36.9
% change	-24.2%	-13.2%

Financial Summary

(Rs mn)	FY22	FY23E	FY24E
Net Revenue	37,052	42,859	50,629
YoY Growth	33.2	15.7	18.1
EBIDTA	6,107	5,624	8,101
EBIDTA(%)	16.5	13.1	16.0
PAT	3,827	3,222	5,098
YoY Growth	23.9	(14.9)	58.2
ROE	18.0	14.1	19.3
EPS	24.1	20.3	32.0
P/E	40.7	54.2	34.2
BV/Share	133.4	143.6	165.7
P/BV	7.3	7.6	6.6

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Exhibit 2: Quarterly Snapshot

Rs mn	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9M FY22	9M FY23	y/y (%)
Revenue	5,617	9,736	10,682	11,018	10,082	10,778	10,911	2.1	1.2	26,034	31,771	22.0
Expenditure	4,812	7,931	8,839	9,358	8,546	9,484	9,581	8.4	1.0	21,582	27,610	27.9
- RM	1,963	4,223	4,497	4,869	3,739	4,519	4,444	(1.2)	(1.7)	10,682	12,703	18.9
- Staff Cost	933	1,020	1,061	1,058	1,144	1,138	1,166	9.9	2.4	3,013	3,448	14.4
- Power cost	1,296	1,776	2,234	2,283	2,685	2,672	2,783	24.5	4.2	5,306	8,140	53.4
Other cost	621	912	1,047	1,148	978	1,154	1,188	13.4	2.9	2,580	3,320	28.7
Operating Profit	804	1,805	1,844	1,659	1,536	1,294	1,331	(27.8)	2.8	4,453	4,161	(6.6)
OPM(%)	14.3	18.5	17.3	15.1	15.2	12.0	12.2	-506 bps	19 bps	17.1	13.1	-401 bps
Other Income	60	71	74	70	81	76	75	0.8	(2.0)	205	232	13.0
Depreciation	265	282	281	326	324	337	325	15.9	(3.3)	827	985	19.1
Interest	30	27	30	40	36	32	83	176.1	163.0	88	151	72.3
PBT	569	1,567	1,607	1,364	1,257	1,002	997	(38.0)	(0.5)	3,743	3,257	(13.0)
Tax	154	374	355	391	328	277	261	(26.5)	(5.9)	883	865	(2.1)
PAT	415	1,193	1,253	972	930	726	737	(41.2)	1.5	2,861	2,392	(16.4)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Revenue Split (Mn)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9M FY22	9M FY23	y/y (%)
Tiles	5,193	8,826	9,616	9,999	9,165	9,830	9,839	2	0	23,635	28,834	22
Sanitaryware	370	744	817	827	714	744	795	(3)	7	1,931	2,253	17
Plywood	54	165	249	192	203	194	188	(25)	(3)	468	585	25
Adhesives	-	-	-	-	-	-	90	-	-	-	90	-
Tiles Volumes (msm)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9M FY22	9M FY23	y/y (%)
Own	9	14	14	14	13	15	14	(3)	(5)	38	42	12
JV/Subsidiary	2	4	4	4	3	4	5	37	24	11	13	20
Outsourced	4	6	7	8	7	6	6	(15)	6	18	19	7
Tiles Revenue (Rs Mn)	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	y/y (%)	q/q (%)	9M FY22	9M FY23	y/y (%)
Own	3,253	5,242	5,522	5,587	5,381	5,968	5,592	1	-6	14017	16941	21
JV/Subsidiary	795	1,480	1,381	1,439	1,397	1,354	1,640	19	21	3656	4391	20
Outsourced	1,146	2,104	2,714	2,973	2,387	2,421	2,608	-4	8	5963	7415	24

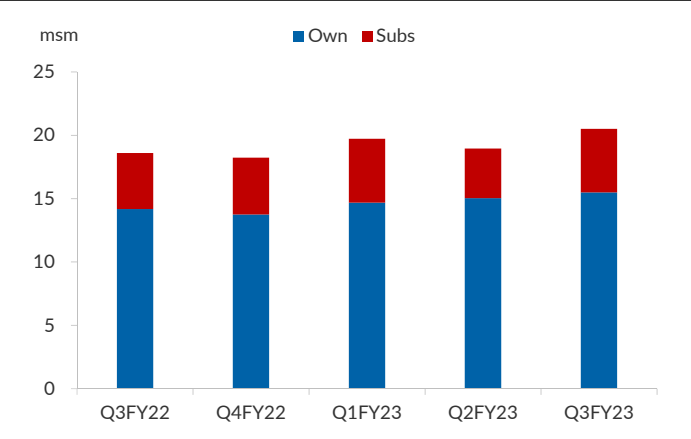
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Demand:** Management stated that demand was sluggish in Q3 & the same scenario prevails in Jan'23 as well. Overall management believes demand to improve from February'23. For FY24, company aims to achieve 13-15% YoY volume growth.
- **Fuel cost:** In Q3FY23 was Rs53/scm Vs Rs56/scm in previous quarter. Going ahead, management expects Q4FY23 fuel cost to come in at Rs47-48/scm.
- Gas price in Q3FY23 in North/South/West was Rs57/44/48 respectively (avg was Rs53/scm).
- Management expects exports to improve to Rs150-160Bn in FY23 Vs Rs127Bn in FY22. Nov-Dec'22 was Rs15Bn each & for Jan-March'23 management believes Morbi to cloak cumulative exports of Rs50Bn.
- On margins, company believes Q4FY23 EBITDA margins to come in at 14%+.
- Company has moved to alternate fuels, by Feb'23 Gas/Bio-fuel/LPG will constitute 65%/30%/5% respectively.
- Capex for FY23 will be Rs900Mn & FY24 will be ~Rs3Bn.
- Current capacity utilization is ~90-93%.
- Ceramic/PVT/GVT constituted 45%/26%/29% in volume terms & in value terms the same was 40%/27%/33% respectively for Q3FY23.
- Working capital days expanded to 66-days due to higher inventory & same should come down by March'23.
- Company has planned to divest Vennar Ceramics Ltd as further capex in that region is not possible & outsourcing from Morbi is more lucrative for KJC.
- Cash as on Dec'23 was ~Rs1.88Bn. CFO for 9MFY23 was Rs3.35Bn & Capex for 9MFY23 was Rs750-800Mn.
- Management aims to grow Plywood biz substantially in next 3-4years.
- Company has approved modernization of Gailpur facility by replacing Kilns for which capex will be Rs511Mn & will be completed by July'23. This will enable company to manufacture bigger size tiles and save on energy cost.
- KJC will add 450-500 dealers in next 3-years, in 9MFY23 company added 125-dealers of which 35 were exclusive.

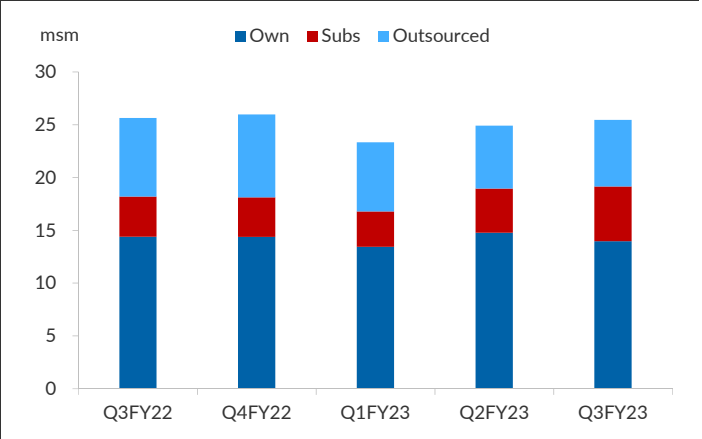
QUARTERLY TRENDS

Exhibit 4: Production vols up by 10%YoY...



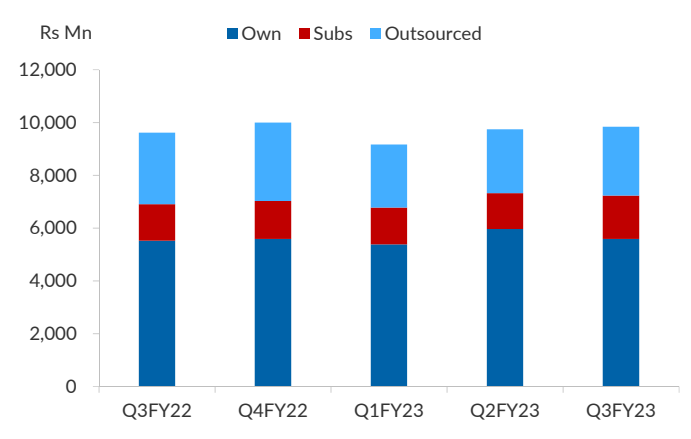
Source: Company, YES Sec

Exhibit 5: Sales were flattish YoY...



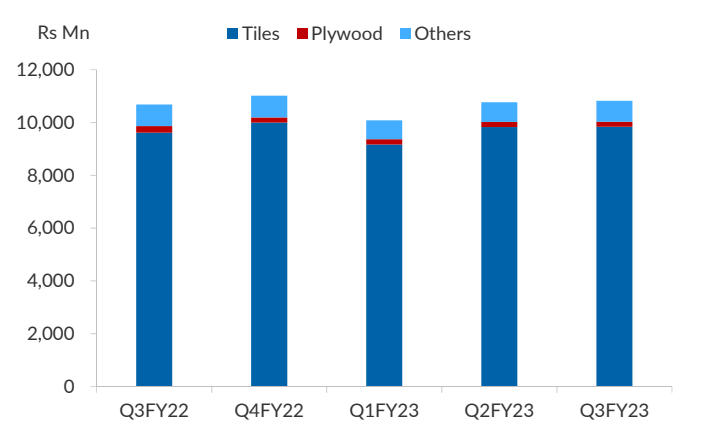
Source: Company, YES Sec

Exhibit 6: Tile sales grew by 2%YoY...



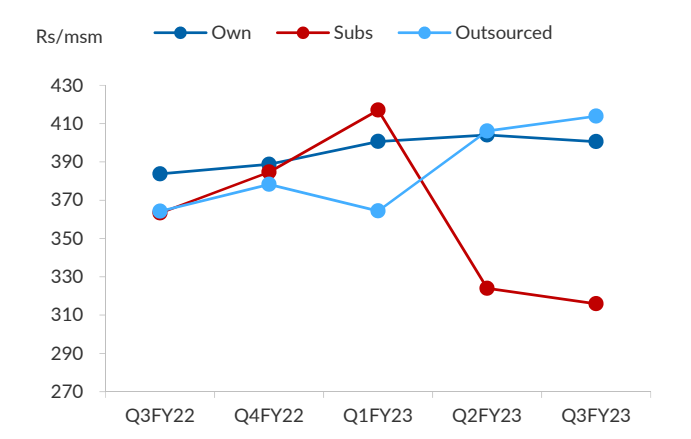
Source: Company, YES Sec

Exhibit 7: Tiles constituted 91% of revenue...



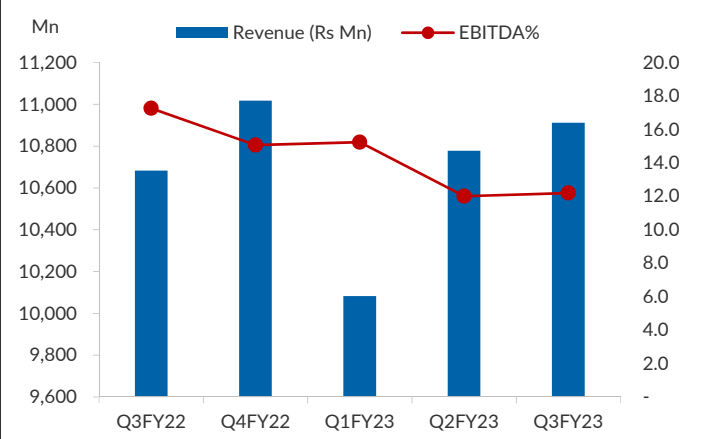
Source: Company, YES Sec

Exhibit 8: ASP for Own & Subsidiary declined...



Source: Company, YES Sec

Exhibit 9: EBITDA margins came in at 12.2%...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sales	27,809	37,052	42,859	50,629	57,152
COGS	12,470	15,551	17,219	19,745	22,575
COGS %sales	44.8	42.0	40.2	39.0	39.5
GP	15,340	21,501	25,640	30,884	34,577
GP%	55.2	58.0	59.8	61.0	60.5
Employee cost	3,247	4,077	4,633	5,569	6,287
Power & Fuel	4,149	7,590	10,856	12,151	13,145
Other cost	2,856	3,727	4,527	5,063	5,715
EBITDA	5,088	6,107	5,624	8,101	9,430
EBITDA%	18.3	16.5	13.1	16.0	16.5
Depreciation	1,067	1,154	1,310	1,531	1,603
Finance Cost	107	127	191	149	108
Other Income	213	276	307	377	425
PBT	4,127	5,102	4,430	6,797	8,145
Tax	1,038	1,274	1,171	1,699	2,036
PAT	3,089	3,827	3,222	5,098	6,109
PAT%	11.1	10.3	7.5	10.1	10.7

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share Capital	159	159	159	159	159
Reserves	18,530	21,065	22,691	26,199	30,716
Equity	18,689	21,224	22,850	26,358	30,876
Non-current liab	1,336	1,403	1,578	1,488	1,398
Payables	2,072	2,981	2,860	3,354	3,835
Provisions	62	80	80	80	80
Other current Liab	2,461	3,530	3,708	3,881	4,101
Total Equity & Liab	25,266	29,865	31,724	35,809	40,937
Gross Block	18,883	19,511	22,511	25,511	26,711
Acc Dep	7,359	8,512	9,823	11,353	12,956
Net Block	11,524	10,998	12,688	14,157	13,755
CWIP	149	2,634	3,039	3,444	3,605
Other Noncurrent	582	1,636	1,827	2,084	2,299
Inventory	3,731	4,659	4,794	5,812	6,645
Receivables	4,317	5,133	5,433	6,311	7,046
Cash & Bank	4,428	4,244	3,519	3,598	7,133
Loans	129	160	160	160	160
Other	273	318	220	200	250
Total Assets	25,266	29,865	31,724	35,809	40,937

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
PBT	4,127	5,102	4,430	6,797	8,145
Depreciation	1,067	1,154	1,310	1,531	1,603
Finance cost	107	127	191	149	108
before working capital changes	5,202	6,161	5,931	8,477	9,855
Movement in Working capital	868	(621)	(398)	(1,254)	(924)
Cash from operations	6,070	5,541	5,533	7,223	8,932
Taxes paid	(980)	(1,285)	(1,171)	(1,699)	(2,036)
CFO	5,089	4,255	4,362	5,524	6,896
Capex	(1,012)	(2,634)	(3,405)	(3,405)	(1,362)
Cash flow from investing	(2,955)	(2,975)	(3,405)	(3,405)	(1,362)
Movement in Loan	(302)	352	100	(300)	(300)
Interest paid	(68)	(92)	(191)	(149)	(108)
Cash from financing	(2,045)	(1,130)	(1,682)	(2,040)	(1,999)
INCREASE /(DECREASE) IN CASH	89	151	(725)	79	3,535
Opening balance of Cash	161	4,428	4,244	3,519	3,598
Closing balance of Cash	250	4,578	3,519	3,598	7,133

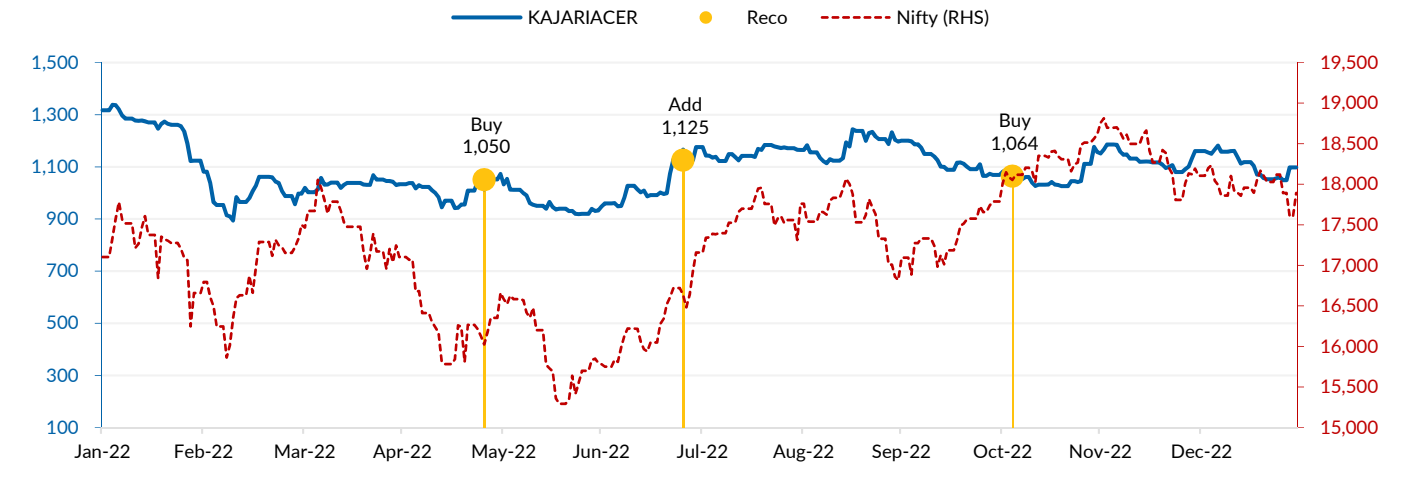
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY21	FY22	FY23E	FY24E	FY25E
Growth (%)					
Total Sales	(1.0)	33.2	15.7	18.1	12.9
EBIDTA	22.3	20.0	(7.9)	44.0	16.4
PAT	21.8	23.9	(15.8)	58.2	19.8
Profitability (%)					
GP Margins	55.2	58.0	59.8	61.0	60.5
EBIDTA Margins	18.3	16.5	13.1	16.0	16.5
EBIT Margins	15.2	14.1	10.8	13.7	14.4
PAT Margins	11.1	10.3	7.5	10.1	10.7
Return Ratios(%)					
ROCE	21.1	23.1	18.9	24.9	25.6
ROE	16.5	18.0	14.1	19.3	19.8
Per Share Data (Rs)					
EPS	19.4	24.1	20.3	32.0	38.4
CEPS	26.1	31.3	28.5	41.7	48.5
BVPS	117.5	133.4	143.6	165.7	194.1
Valuations (x)					
P/E (x)	53.2	40.7	54.2	34.2	28.6
P/BV (x)	8.8	7.3	7.6	6.6	5.7
EV/EBIDTA	31.5	25.0	30.7	21.2	17.8
Gearing Ratios					
Debt/Equity	0.1	0.1	0.1	0.0	0.0
Net Debt/Equity	(0.2)	(0.1)	(0.1)	(0.1)	(0.2)
Int Coverage	39.5	41.1	24.2	46.5	76.6

Source: Company, YES Sec

Recommendation Tracker



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8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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