ANANDRATHI

India I Equities

Building Materials

Company Update

Change in Estimates ☑ Target ☑ Reco ☑

31 January 2023

Kajaria Ceramics

Subdued Q3; yet promising outlook; upgrading to a Buy

Rating: **Buy**
Target Price: Rs.1,231
Share Price: Rs.1,059

While Kajaria's Q3 was muted, it is best placed to benefit from lower gas prices and capacity expansion leading to high volumes and margin growth. The inclusion of biofuel, a sharp focus on adding dealers and strong brand positioning are key positives. The B/S continues to be firm, being net-debt-free. We upgrade our rating to a Buy, at a higher TP of Rs.1,231 (earlier Rs.1,200).

Expansion to aid volume growth. The prolonged monsoon and festivals in Oct led to tile volumes slipping 1% y/y to 25.5m sq.mtr. Higher discounts (to gain market share) led to the NSR/sq.mtr. declining 1% q/q (though y/y, up 3%). Tile revenue grew 3.2% y/y; non-tile revenue fell 8% y/y. Tile volumes were guided to grow 13-15% in FY24 and outstrip the tile industry's expected 10% volume growth. We expect a 12% CAGR over FY22-25 in tile sale volumes and 16% in overall revenue, aided by an expanding market share and capacity expansion.

Margin expansion on the cards. Disrupted natural gas supplies and high gas prices hurt the operating performance. EBITDA declined 27.6% y/y to 1.3bn and the EBITDA margin, 501bps to 12.2%. From 100% gas, the fuel-mix would be changed in Q4 FY23 to gas-biofuel-LPG ~65:30:5. With more biofuel and lower gas prices, gas consumption would then be Rs47-48/cu.mtr. (vs Rs53 in Q3 FY23). While the Q4 FY23 EBITDA margin was guided to be 14%+, we expect a 12% EBITDA CAGR over FY22-25.

Business outlook, Valuation. More inventory days stretched working-capital days to 66 (from 62 the prior quarter), likely to be normalised by Mar'23. The company is divesting a 51% stake in Vennar Ceramics due to expansion constraints and low profitability, whereas it will increase its stake in Kajaria Vitrified to 95% (from 87.37% now). The 1.8m sq.mtr. expansion at Sikandarabad is expected to commence by Sep'23 and the 8m sq.mtr. unit set up in Nepal, by Mar'24, broadening its international footprint. We upgrade our rating to a Buy, with a TP of Rs.1,231, at 35.5x FY25e earnings. **Risks:** Demand slowdown, rise in input costs.

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	27,809	37,052	43,710	50,481	58,376
Net profit (Rs m)	3,081	3,770	3,407	4,385	5,519
EPS (Rs)	19.4	23.7	21.4	27.5	34.7
P/E (x)	47.7	44.7	49.5	38.4	30.5
EV / EBITDA (x)	28.2	27.1	28.5	23.2	18.8
P/BV (x)	7.9	7.9	7.3	6.5	5.7
RoE (%)	17.2	18.9	15.4	17.9	19.9
RoCE (%)	14.8	16.6	13.7	16.0	17.9
Dividend yield (%)	1.1	1.0	0.9	0.9	0.9
Net debt / equity (x)	-0.2	-0.1	-0.1	-0.1	-0.2

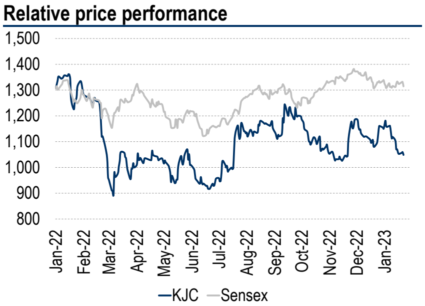
Source: Company, Anand Rathi Research

Key data	KJC IN / KAJR.BO
52-week high / low	Rs.1371 / 885
Sensex / Nifty	59550 / 17662
3-m average volume	$2.2m
Market cap	Rs.169bn / $2071.7m
Shares outstanding	159m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	47.5	47.5	47.5
- of which, Pledged	-	-	-
Free float	52.5	52.5	52.5
- Foreign institutions	18.6	19.4	19.6
- Domestic institutions	24.5	22.8	22.4
- Public	9.4	10.3	10.5

Estimates revision (%)	FY23e	FY24e	FY25e
Sales	(1.0)	(0.2)	0.5
EBITDA	(8.0)	(5.4)	0.4
EPS	(10.5)	(5.8)	1.3

Relative price performance



Source: Bloomberg

Manish Valecha
Research Analyst

Vibha Jain
Research Associate

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	27,809	37,052	43,710	50,481	58,376
Growth (%)	*-1.0*	*33.2*	*18.0*	*15.5*	*15.6*
Direct costs	12,470	15,551	18,201	21,661	24,893
SG&A	10,251	15,394	19,683	21,667	24,809
EBITDA	**5,088**	**6,107**	**5,825**	**7,153**	**8,674**
EBITDA margins (%)	*18.3*	*16.5*	*13.3*	*14.2*	*14.9*
- Depreciation	1,067	1,154	1,289	1,409	1,531
Other income	213	276	306	353	409
Interest expenses	107	127	205	144	74
PBT	4,127	5,102	4,638	5,953	7,477
Effective tax rates (%)	*25.2*	*25.0*	*25.2*	*25.2*	*25.2*
+ Associates / (Minorities)	9	58	63	70	77
Net income	3,081	3,770	3,407	4,385	5,519
Adjusted income	3,081	3,770	3,407	4,385	5,519
WANS	159	159	159	159	159
FDEPS (Rs / sh)	19.4	23.7	21.4	27.5	34.7
Adj. FDEPS growth (%)	*20.5*	*22.3*	*-9.6*	*28.7*	*25.8*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	159	159	159	159	159
Net worth	18,689	21,224	23,039	25,832	29,759
Debt (incl. Preference)	988	1,279	1,279	779	279
Minority interest	646	648	711	781	858
Deferred tax liability / (Assets)	674	726	726	726	726
Capital employed	**20,997**	**23,877**	**25,755**	**28,118**	**31,622**
Net tangible assets	11,812	11,388	13,532	14,323	14,792
Net intangible assets	28	24	24	24	24
Goodwill	85	85	85	85	85
CWIP (tang. and intang.)	149	2,634	200	1,000	500
Investments (strategic)	-	-	-	-	-
Investments (financial)	50	-	-	-	-
Current assets	8,703	11,485	14,969	17,288	19,992
Cash	4,428	4,244	4,130	3,697	5,825
Current liabilities	4,256	5,981	7,185	8,298	9,596
Working capital	4,447	5,503	7,784	8,990	10,396
Capital deployed	**20,997**	**23,877**	**25,755**	**28,118**	**31,622**
Contingent liabilities	69	-	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (Adj. OI and interest)	4,022	4,953	4,536	5,744	7,143
+ Non-cash items	1,067	1,154	1,289	1,409	1,531
Oper. prof. before WC	5,088	6,107	5,825	7,153	8,674
- Incr. / (decr.) in WC	-763	1,056	2,281	1,206	1,406
Others incl. taxes	1,083	1,210	1,167	1,498	1,882
Operating cash-flow	4,769	3,841	2,377	4,449	5,386
- Capex (tang. + intang.)	926	3,210	1,000	3,000	1,500
Free cash-flow	3,842	631	1,377	1,449	3,886
Acquisitions					
- Dividend	1,591	1,751	1,592	1,592	1,592
+ Equity raised	0	0	-	-	-
+ Debt raised	-293	291	-	-500	-500
- Fin Investments	-52	-50	-	-	-
- Misc. items (CFI + CFF)	-166	-596	-101	-209	-335
Net cash-flow	2,176	-184	-113	-434	2,129

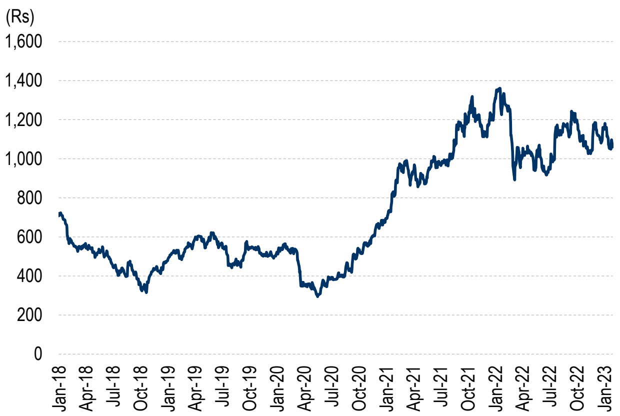
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	47.7	44.7	49.5	38.4	30.5
EV / EBITDA (x)	28.2	27.1	28.5	23.2	18.8
EV / Sales (x)	5.2	4.5	3.8	3.3	2.8
P/B (x)	7.9	7.9	7.3	6.5	5.7
RoE (%)	17.2	18.9	15.4	17.9	19.9
RoCE (%) - after tax	14.8	16.6	13.7	16.0	17.9
Fixed asset T/O (x)	1.5	1.9	2.0	2.1	2.2
DPS (Rs / sh)	10.0	11.0	10.0	10.0	10.0
Dividend yield (%)	1.1	1.0	0.9	0.9	0.9
Dividend payout (%)	51.5	45.8	45.9	35.7	28.5
Net debt / equity (x)	-0.2	-0.1	-0.1	-0.1	-0.2
Receivables (days)	57	51	56	56	56
Inventory (days)	49	46	60	60	60
Payables (days)	53	56	56	56	56
CFO : PAT %	154.8	101.9	69.8	101.4	97.6

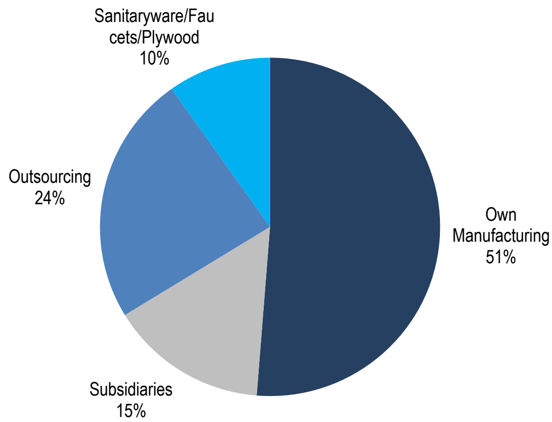
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg, Anand Rathi Research

Fig 6 – Revenue mix (Q3 FY23)



Source: Company, Anand Rathi Research

Company update

The largest manufacturer of ceramic/vitrified tiles in India and the eighth largest in the world, Kajaria Ceramics has annual capacity of 84.45m sq.mtr. at eight plants: one in Sikandrabad (UP), one each in Gailpur and Malutana (Rajasthan), two in Morbi (Gujarat) and one each in Vijayawada, Srikalahasti (AP) and Balanagar (Telangana). Over the past three decades, it has built up a wide distribution network.

In addition to tiles, Kajaria, through its subsidiary Kajaria Bathware, is into sanitaryware and faucets, marketed under the 'Kerovit' brand. In FY19 through a subsidiary, Kajaria Plywood, it entered the plywood business, marketing products under the 'KajariaPLY' brand.

Fig 7 – Tile plant capacities (m sq.mtr. a year)

Unit	Ceramic wall & floor tiles	Polished vitrified tiles	Glazed vitrified tiles	Total
Sikandrabad (UP)	-	-	8.40	8.40
Gailpur (Rajasthan)	29.4	-	9.1	38.5
Malootana (Rajasthan)	-	6.50	-	6.50
Morbi (Gujarat)	-	8.90	5.70	14.6
Balanagar (Telangana)	4.75	-	-	4.75
Vennar (Vijaywada, AP)	2.90	-	-	2.90
Srikalahasti (AP)			8.8	8.8
Total	**37.05**	**15.4**	**32.0**	**84.45**

Source: Company

The tiles division

The tiles division revenue grew 3% y/y to Rs9.9bn. Sales volumes declined 1% y/y to 25.5m sq.mtrs. whereas the NSR/sq.mtr rose 3% y/y to Rs387. While sluggishness in real estate impacted demand, discounts were given because of lower fuel costs. Despite the uncertain demand scene, Kajaria's volumes have been guided to grow ~13-15% in FY24, aided by market-share gains.

Sales volumes of the tiles it manufactured and outsourced declined 3% and 15%, and of its subsidiaries grew 37% y/y; their shares in the tile sales-volume mix were respectively 55%, 20% and 25%. The division reported Rs996m PBIT, down 33% y/y.

"Others" division (sanitaryware, faucets, plywood)

Sanitaryware/faucet revenue was down 3% y/y to Rs795m; and plywood/ adhesives revenue rose 11% y/y to Rs277m. The "others" division brought 9% to revenue (10% a year ago) and reported a Rs9.7m PBIT, down 85% y/y. The Gailpur (Rajasthan) faucet plant operated at optimal capacity in Q3 FY23, whereas the sanitaryware plant at Morbi operated at 86% capacity.

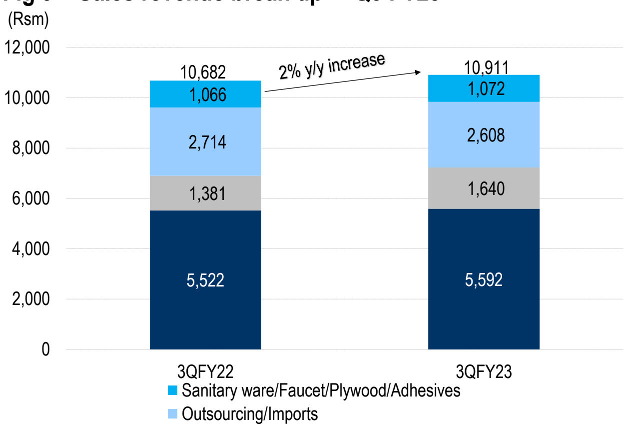
Result Highlights

Fig 8 – Quarterly Trend

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
Sales	2,776	7,125	8,383	9,525	5,617	9,736	10,682	11,018	10,082	10,778	10,911	*2.1*	*1.2*
EBITDA	-76	1,437	1,818	1,909	804	1,805	1,838	1,659	1,536	1,294	1,331	*-27.6*	*2.8*
EBITDA margins (%)	*-2.7*	*20.2*	*21.7*	*20.0*	*14.3*	*18.5*	*17.2*	*15.1*	*15.2*	*12.0*	*12.2*	*-501bps*	*19bps*
Interest	34	21	26	26	30	27	30	40	36	32	83	*176.1*	*163.0*
Depreciation	252	274	276	265	265	282	281	326	324	337	325	*15.9*	*-3.3*
Other income	26	48	65	74	60	71	74	70	81	76	75	*0.8*	*-2.0*
PBT	-336	1,190	1,581	1,692	569	1,567	1,602	1,364	1,257	966	997	*-37.8*	*3.3*
Tax	-6	294	370	380	154	374	355	391	328	277	261	*-26.5*	*-5.9*
Adj PAT	-329	896	1,210	1,312	415	1,193	1,247	972	930	726	737	*-40.9*	*1.5*
Less : Minority interest	-58	5	21	41	-16	32	27	15	7	-10	-7	*P2L*	*NA*
Adj. consolidated PAT	-271	891	1,189	1,271	431	1,161	1,220	958	923	735	743	*-39.1*	*1.1*

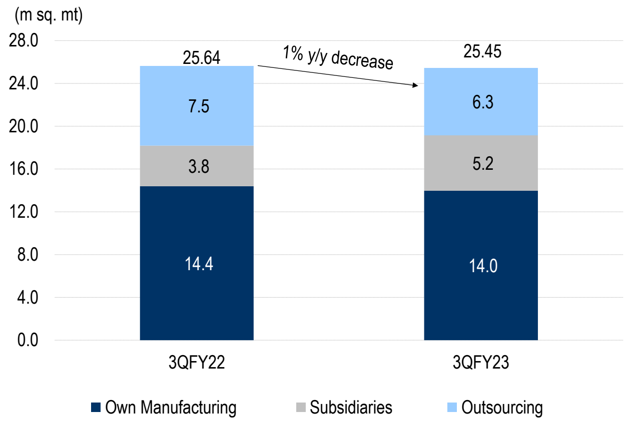
Source: Company, Anand Rathi Research

Fig 9 – Sales revenue break-up – Q3 FY23



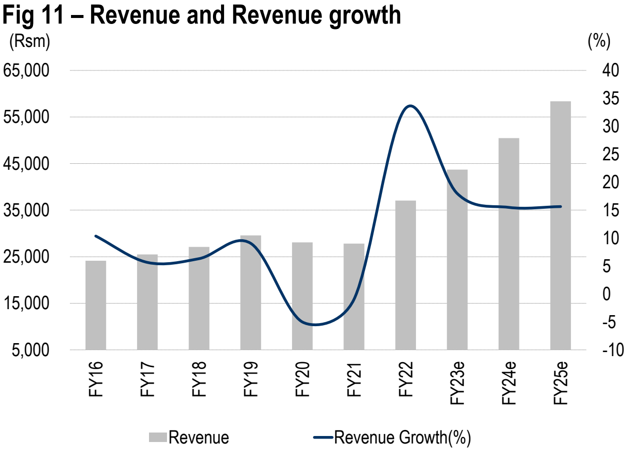
Source: Company

Fig 10 – Sales volume break-up – Q3 FY23



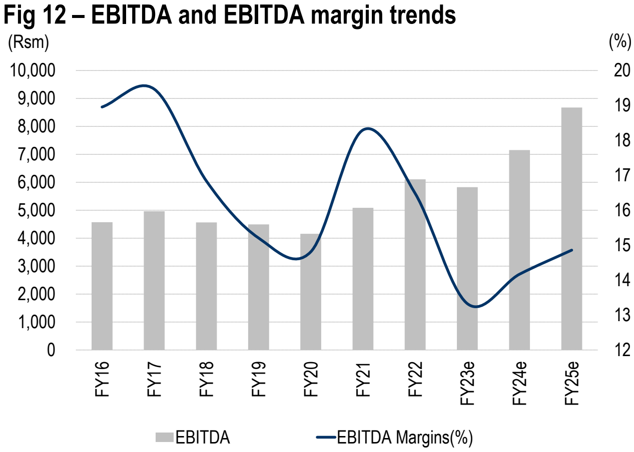
Source: Company

Fig 11 – Revenue and Revenue growth



Source: Company, Anand Rathi Research

Fig 12 – EBITDA and EBITDA margin trends



Source: Company, Anand Rathi Research

Concall Highlights

- Real estate sluggishness (due to the higher repo rate) dampened overall demand. The company operated at 90-93% capacity. Demand in Oct was impacted by the festival season, whereas in Nov and Dec, volumes grew more than 10%.
- Exports (from Morbi) would rise to ~Rs150bn-160bn (from Rs127bn).
- The ceramic-polished-vitrified tile volume and revenue mix was 45:26:29 and 40:27:33 respectively
- Tile sales volumes have been guided to grow ~13-15% in FY24. For Q4 FY23, a 14%+ EBITDA margin was guided to.
- Discounts have been given across products due to lower fuel prices.
- Working-capital days increased to 66 (from 52 in Mar'22) due to huge stocks. Management said this would shorten by Mar'23. Net debt at 31st Dec'22 was -Rs1.88bn (from -Rs3.73bn in Mar'22).
- Fuel prices averaged Rs53/cu.mtr. (vs Rs56 in Q2), driven by the disruption in natural gas supplies and an unprecedented increase in gas prices. For Q3 FY23, the average price of gas in the North was Rs57/cu.mtr (Rs59 in Q2), the South, Rs44 (Rs48 in Q2) and the West, Rs48 (Rs53 in Q2). For Q4, fuel cost is guided to be Rs47-48 because of biofuel and lower gas prices.
- The company started using biofuel at its Sikandarabad and Gailpur units from Dec'22 and expects the share of biofuel to rise to 30% by Feb'23. So from 100% gas, the fuel mix will change to ~65:30:5 gas-biofuel-LPG.
- The expansion-cum-modernisation of the larger GVT capacity of 1.8m sq.mtrs. with the latest technologies at the Sikandrabad plant is expected to be completed by Sep'23. This will increase plant capacity from 8.4m sq.mtr. to 10.2m sq.mtr. p.a. at Rs800m capex
- The Board at its 3rd Oct'22 meeting, approved a proposal to invest up to Rs1.25bn (50% of project cost) through equity and/or loans, to establish an 8m sq.mtr tile manufacturing plant in Nepal, in a joint venture with various individuals affiliated with Ramesh Corp., Nepal. While construction is expected to commence in Mar'23, the plant is expected to commence production Mar'24.
- At Rs50m capex, the faucet capacity at Gailpur, Rajasthan, is to be expanded by 600,000 pieces p.a. by Mar'23. Expansion of the Gujarat sanitaryware plant of 600,000 pieces p.a. is expected to be completed by Dec'23 at Rs700m capex (peak revenue Rs1.75bn-1.8bn).
- The company has a 51% stake in South Asian Ceramic Tiles Pvt. Ltd. SACT has 4.75m sq.mtr. capacity for ceramic tiles (of 60x60, 60x120). The unit is located near Hyderabad (LPG connection) and is guided to generate Rs1.3bn revenue in the first year of operations and Rs1.8bn thereafter. It operated at 75% capacity in Q3.
- During Q2, the company subscribed to 100% equity shares of Kajaria International DMCC, Dubai, for AED50,000 (Rs1,087,500) making it its wholly-owned subsidiary, to widen its footprint internationally. In Q3, it further subscribed to 950 shares for AED 950,000 (Rs2,13,65,500)

- The Board approved divesting its entire (51%) stake in Vennar Ceramics to other shareholders in a phased manner at an aggregate Rs182.5m. The capacity will be replaced by outsourcing from Morbi.
- With 1,700 dealers in FY22, it added a further 125 in 9M FY23 and intends to increase dealers by 200 in FY23 and 125 in FY24 and FY25 each.
- Cashflow from operations was Rs3.35bn during 9M FY23. Capex for FY23 and FY24 was guided to be Rs900m and Rs3bn respectively.

Valuations

While the Q3 performance subdued, Kajaria is in the best place to benefit from lower gas prices and capacity expansion, which would result in high volume and margin growth. The inclusion of biofuel, the sharp focus on adding dealers and its strong brand positioning are key positives.

The focus on cash collection, lower working capital and a net-debt-free balance sheet would be positives. Its market-leading position and capacity additions would give it an edge in the coming upswing in demand.

Kajaria is aiming at good volume growth, and talked of the strong performance of the "others" division, backed by introducing products and more higher-value-added products.

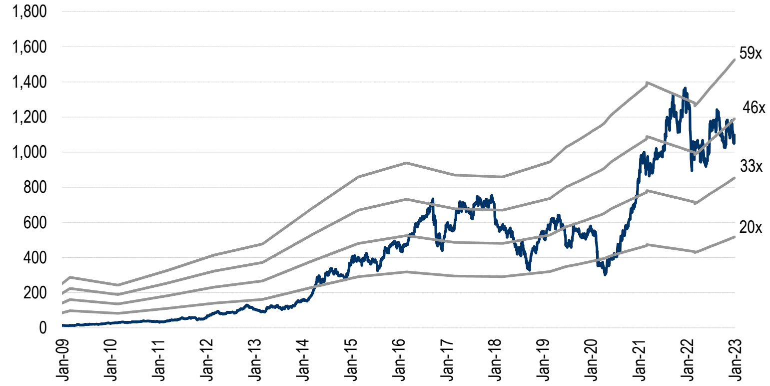
We expect revenue and EBITDA to register respectively 16% and 12% CAGRs over FY22-25. We upgrade our rating to a Buy, at a higher TP of Rs.1,231 (earlier Rs.1,200).

Fig 13 – Change in estimates

(Rs m)	Old			New			Variance (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Sales	44,129	50,592	58098	43,710	50,481	58,376	*(1.0)*	*(0.2)*	*0.5*
EBITDA	6,329	7,558	8640	5,825	7,153	8,674	*(8.0)*	*(5.4)*	*0.4*
PAT	3,808	4,653	5450	3,407	4,385	5,519	*(10.5)*	*(5.8)*	*1.3*

Source: Anand Rathi Research

Fig 14 – One-year-forward PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Demand slowdown.
- High fuel and gas prices.

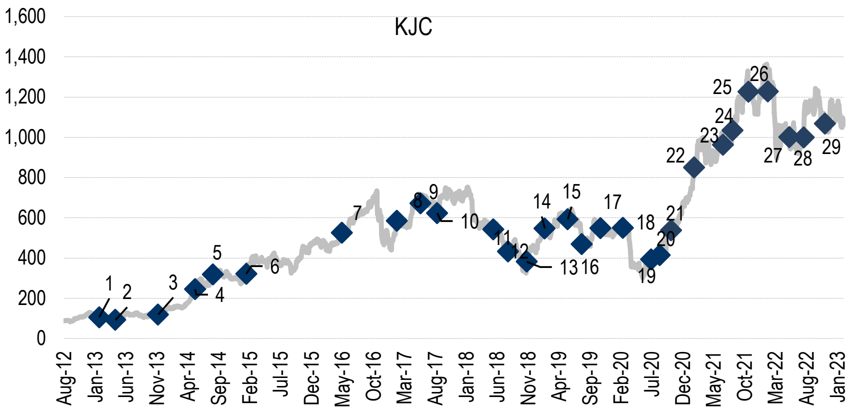
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 31 January 2023)



	Date	Rating	TP (Rs)	Share Price (Rs)
14	22-Jan-19	**Hold**	575	535
15	16-May-19	**Hold**	638	592
16	24-Jul-19	**Hold**	564	470
17	24-Oct-19	**Hold**	605	547
18	12-Feb-20	**Hold**	610	545
19	30-Jun-20	**Hold**	452	395
20	12-Aug-20	**Hold**	445	408
21	24-Oct-20	**Hold**	614	565
22	22-Jan-21	**Hold**	913	838
23	17-Jun-21	**Hold**	1047	974
24	8-Aug-21	**Hold**	1116	1029
25	25-Oct-21	**Hold**	1341	1227
26	22-Jan-22	**Hold**	1356	1267
27	18-May-22	**Hold**	1090	955
28	22-Jul-22	**Hold**	1184	1109
29	4-Nov-22	**Hold**	1200	1050

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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