

# Kajaria Ceramics

# HOLD

Lower sales volume dented Q1 earnings, long term outlook positive

## Summary

Kajaria Ceramics Ltd's (Kajaria) Q1FY22 result was in-line with our estimate on net sales front, however, margins disappointed. Statewide lockdown amid second wave of Covid-19 dented sales volume in the quarter. On a positive note, healthy demand recovery was witnessed from early June, 21 and it further improved in July, 21. Net sales increased by 102% YoY to Rs5,617mn, while EBITDA came in at Rs804mn compared to negative EBITDA of Rs76mn in Q1FY21. The company reported net profit of Rs415mn. The management has guided robust sales volume growth of 15%-16% and net sales growth of 20% for FY22E. The company's capacity expansion plans will further strengthen Kajaria's positioning in the domestic tile segment taking its market share from 12% currently to 15%-17% in next 3 years. Higher sales volume and improved NSR would pave the way for sustainable healthy earnings growth in near term. We have marginally increased our net sales/PAT estimates for FY22E/FY23E. We recommend HOLD on the stock with a revised TP of Rs1,163, assigning 40x PER on FY23E.

## Key Highlights and Investment Rationale

### ■ Another quarter of robust sales volume growth

On a low base of Q1FY21, Kajaria reported 99% YoY sales volume growth to 15.3MSM. Overall capacity utilization was at 75%. Statewide lockdown amid second wave of Covid-19 played a spoilsport on demand in April and May. However, healthy recovery was seen in June, which further strengthened in July. Retail demand in Tier-I, II and III has been encouraging in Q1FY22 and the management guided it to remain strong in near term. The company's capacity expansion plan bodes well for increasing market share in the domestic tile market. Bathware and plywood segment too reported robust net sales growth of 113%/117% respectively over Q1F21.

### ■ Prudent cost cutting led to EBITDA margin improvement

The company's EBITDA margin expanded by 1,700bps YoY to 14.3%. Kajaria's improved operating efficiencies and prudent cost management resulted in improved margin profile in Q1FY22.

### ■ A long term value play, HOLD with a TP of Rs1,163

We like Kajaria in our building material products coverage owing to its scale of operation, balance sheet strength, extensive distribution network and strong brand recall. The company's capacity expansion, improved NSR, better product mix would drive sustainable earnings growth in near term. HOLD with a TP of Rs1,163.

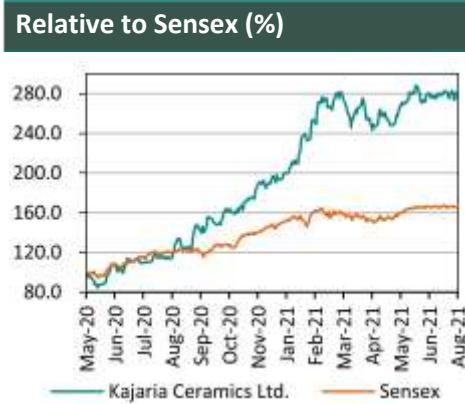
TP CMP	Rs1,163 Rs1,027
Potential upside / downside	+13%

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	23.4	29.1
Consensus	24.1	31.0
% difference	(3.0)	(6.0)

Shareholding Pattern (%)	
Promoters	47.5
FII	25.1
DII	14.4
Public	13.0

Price Performance (%)			
	-1m	-3m	-12m
Absolute	4.0	12.2	153.3
Rel to Sensex	1.4	1.9	110.2

Key Stock Data	
Bloomberg / Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	163,529
Market cap. (US\$ mn)	2,198
3-m daily avg Trd value(Rs mn)	155.5
52-week high / low	Rs1,054 / 397
Sensex / Nifty	53,823 / 16,131



Year	FY19	FY20	FY21	FY22E	FY23E	(Rs mn)
Revenue	29,562	28,080	27,809	32,783	38,684	
EBITDA	4,495	4,159	5,088	6,229	7,466	
EBITDA (%)	15.2	14.8	18.3	19.0	19.3	
Adj. PAT	2,336	2,535	3,089	3,721	4,624	
EPS (Rs)	14.7	15.9	19.4	23.4	29.1	
EPS Growth (%)	2.5	8.5	21.8	20.5	24.3	
PE (x)	67.4	62.1	51.0	42.3	34.1	
Dividend Yield (%)	0.3	0.3	1.0	1.2	1.4	
EV/EBITDA (x)	34.7	37.6	30.3	24.5	20.2	
RoE (%)	16.0	15.4	17.2	19.2	21.9	
RoCE (%)	19.7	15.5	19.0	21.4	24.6	

Source: IDBI Capital Research;

### Concall Highlights:

#### Company performance:

- As per management, Q1FY22 performance was hit by second wave of Covid-19 due to which the off take in tiles segment has tapered off .Post gradual unlocking company witnessed traction since June & in July it was able to meet 100% of its targeted sales.
- As per management sales in Tier I, II, III cities have come back in full swing from June onwards.
- Average capacity utilization of plants for Q1FY22 was ~75%. In July capacity utilization including outsourcing was 95% and it sold 100% of it.
- Working capital days of the company were impacted due to lower sales & higher production. Management expects inventory levels to come down by September.
- Kajaria's retail sales is 70%-75% and WFH has led to increased demand from retail segment, management stated that exports for Kajaria will be less than 5%.

#### Price Hike due to higher raw material cost:

- Company has taken price hike of 1-1.5% for all products & it took price hike of 3% as on July 1<sup>st</sup> for tiles.
- For sanitaryware division in last 6 months company has taken 7% price hike.
- Management stated that gas price have increased substantially to Rs35.
- For bathware company has taken 5% price hike in December & 10% price hike as on 1st may which is due to increased brass price from Rs320 to Rs480.
- Management stated that cost of boxes increase as on 15<sup>th</sup> March which was partly rolled back on 1<sup>st</sup> July and any further price reduction will be good for margins.
- **CAPEX:** Company has 3 planned CAPEX of Rs2,500mn and all are brownfield which will be operational by Q4FY22.
- **Product mix:** 40% ceramics tiles, 31% GVT & 29% PVT.
- **Market Share:** Kajaria's current market share in domestic market is 12% and management guided to increase it to 15%-17% in next 2-3 years; they expect that if company grows at 15%+ for 3 years they should be able to attain it.
- **Solar Power Plant:** As per management in the particular SPV of 8 megawatt company has agreed to buy 1.5megawatt so as per conditions they need to hold 26% equity in the company which will be recovered in 14

months. From the SPV company will get power at 30% lesser price than what UP government is charging to the Secunderabad plant.

#### Industry Dynamics:

- Management expects that the industry should grow by 10% for domestic & 20% for exports in FY23E.
- As per management, Morbi exports increased substantially and the capacity utilization is ~80-85%. In country total capacity is 1,150mn sqmts and Morbi is 70% of total capacity in India. Expansions in Morbi have been delayed by 6 months
- As per management, last year industry size was close to Rs30,000Cr out of which Rs20,000Cr is domestic and Rs10,000Cr is exports ,inspite of pandemic when plants were closed in Morbi for 3 months they were able to do exports of Rs10,000Cr. India is second most competitive producer after China.
- Management stated that domestic industry won't grow due to pandemic and should be around Rs18,000Cr. It expects exports to grow to Rs12,000 Cr+ as there is lot of focus on exports
- Management mentioned that container freights are lower in India. Freight from Morbi to Saudi Arabia is around \$1100 & China to Saudi Arabia is \$4000 therefore making India competitive in export market.

#### Management Outlook:

- Management expects Q2FY22 to be better as compared to Q1FY22 which was impacted due to statewide lockdowns. They expect to see strong recovery with demand coming from real-estate sector, basic infrastructure in metro and urban areas.
- Management for FY22E guided volume growth of 15%-16% and revenue growth of 20%. Revenue target for plywood is Rs800mn sales of laminates will be included in plywood which was introduced in last week of June & revenue target of Rs3,000mn in sanitaryware & faucets.
- Management will be focusing on volume growth inspite of pandemic & has stated that it will not increase headcount for next 3 years.
- Company plans to add 50-70 exclusive dealers (Oct-2021 to March-2022).

**Exhibit 1: Financial snapshot**

Particulars (Rs mn)	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	(Rs mn)
Total revenues	5,617	9,525	(41.0)	2,776	102.4
Total expenditure	4,813	7,616	(36.8)	2,851	68.8
EBIDTA	804	1,909	(57.9)	(76)	-
<i>EBIDTA margin (%)</i>	<i>14.3</i>	<i>20</i>	<i>(570)bps</i>	<i>(2.7)</i>	<i>1,700bps</i>
Depreciation	265	265	(0.0)	252	5.2
Interest cost	30	26	14.4	34	(10.7)
Other income	60	74	(19.4)	26	129.0
PBT	569	1,692	(66.4)	(336)	-
Tax	154	380	(59.5)	(6)	-
Adj. net profit	415	1,312	(68.4)	(329)	-
Adj. EPS (INR)	2.6	8.2	(68.4)	(2.1)	-

Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

Particulars (mn)	Q1FY22A	Q1FY22E	Variance (%)
Net Sales	5,617	5,586	0.6
EBITDA	804	1,024	(21.5)
<i>EBITDA Margin (%)</i>	<i>14.3</i>	<i>18.3</i>	<i>(400)bps</i>
Net Profit	415	603	(31.3)
EPS, Rs	2.6	3.8	(31.3)

Source: Company; IDBI Capital Research

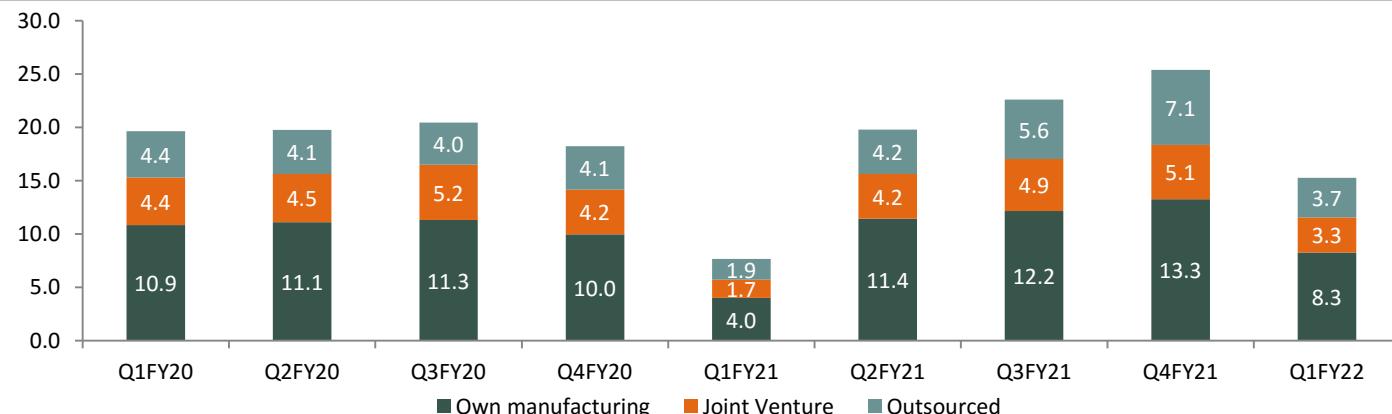
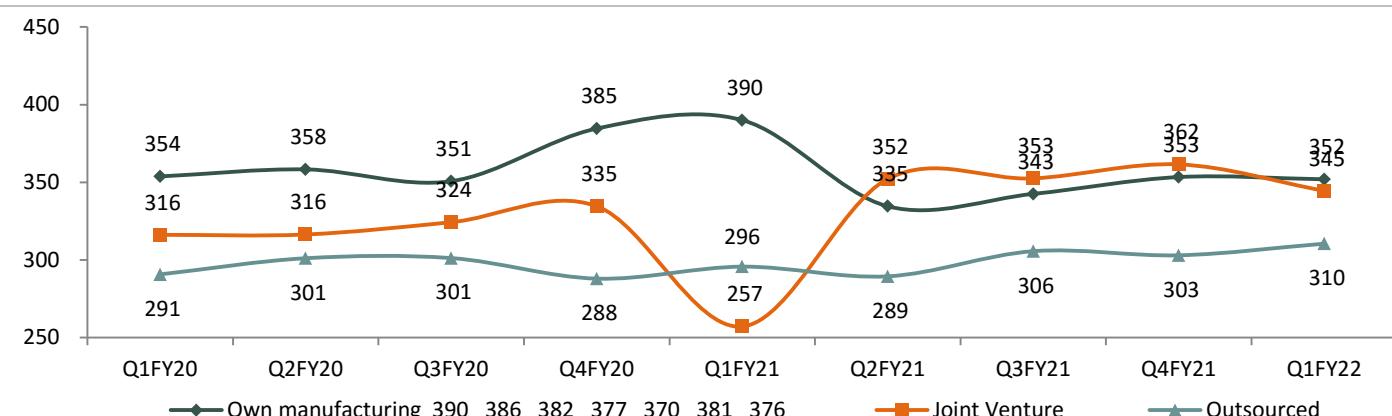
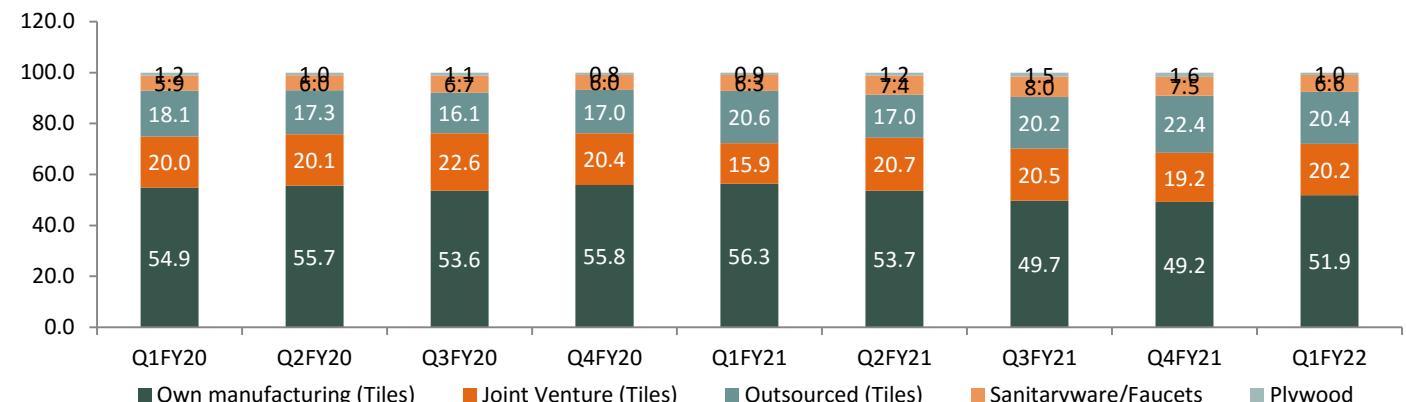
**Exhibit 3: Sales volume contribution (MSM)**

*Source: Company; IDBI Capital Research*
**Exhibit 4: Tile realization (Rs/sqmtr)**

*Source: Company; IDBI Capital Research*

Exhibit 5: Revenue contribution (%)



Source: Company; IDBI Capital Research

## Financial Summary

Profit & Loss Account		(Rs mn)			Cash Flow Statement		(Rs mn)			
Year-end: Dec.		FY20	FY21	FY22E	FY23E		FY20	FY21	FY22E	FY23E
<b>Net sales</b>		<b>28,080</b>	<b>27,809</b>	<b>32,783</b>	<b>38,684</b>	Pre-tax profit	3,124	4,127	4,973	6,179
<i>Growth (%)</i>		(5.0)	(1.0)	17.9	18.0	Depreciation	1,081	1,067	1,385	1,450
Operating expenses		(23,921)	(22,721)	(26,554)	(31,218)	Tax paid	(932)	(1,082)	(1,127)	(1,400)
<b>EBITDA</b>		<b>4,159</b>	<b>5,088</b>	<b>6,229</b>	<b>7,466</b>	Chg in working capital	(1,124)	470	(579)	(744)
<i>Growth (%)</i>		(7.5)	22.3	22.4	19.9	Other operating activities	-	-	-	-
Depreciation		(1,081)	(1,067)	(1,385)	(1,450)	<b>Cash flow from operations (a)</b>	<b>2,150</b>	<b>4,582</b>	<b>4,653</b>	<b>5,486</b>
<b>EBIT</b>		<b>3,078</b>	<b>4,021</b>	<b>4,844</b>	<b>6,016</b>	Capital expenditure	(768)	(1,058)	(1,257)	(1,006)
Interest paid		(195)	(107)	(105)	(94)	Chg in investments	(94)	39	(12)	(16)
Other income		242	213	234	258	Other investing activities	-	-	-	-
<b>Pre-tax profit</b>		<b>3,124</b>	<b>4,127</b>	<b>4,973</b>	<b>6,179</b>	<b>Cash flow from investing (b)</b>	<b>(862)</b>	<b>(1,019)</b>	<b>(1,269)</b>	<b>(1,023)</b>
Tax		(589)	(1,038)	(1,252)	(1,555)	Equity raised/(repaid)	-	-	-	-
<i>Effective tax rate (%)</i>		18.9	25.2	25.2	25.2	Debt raised/(repaid)	222	(201)	(97)	(87)
<b>Net profit</b>		<b>2,535</b>	<b>3,089</b>	<b>3,721</b>	<b>4,624</b>	Dividend (incl. tax)	(572)	(1,908)	(2,290)	(2,671)
<b>Adjusted net profit</b>		<b>2,535</b>	<b>3,089</b>	<b>3,721</b>	<b>4,624</b>	Other financing activities	(22)	9	-	-
<i>Growth (%)</i>		8.5	21.8	20.5	24.3	<b>Cash flow from financing (c)</b>	<b>(1,189)</b>	<b>33</b>	<b>43</b>	<b>60</b>
<i>Shares o/s (mn nos)</i>		159	159	159	159	<b>Net chg in cash (a+b+c)</b>	<b>(1,561)</b>	<b>(2,067)</b>	<b>(2,344)</b>	<b>(2,699)</b>

Balance Sheet					(Rs mn)
Year-end: Dec.	FY20	FY21	FY22E	FY23E	
Net fixed assets	11,682	11,673	11,545	11,102	
Investments	116	78	89	106	
Other non-curr assets	514	372	372	372	
<b>Current assets</b>	<b>12,074</b>	<b>13,143</b>	<b>15,073</b>	<b>18,009</b>	
Inventories	5,127	3,731	4,104	4,596	
Sundry Debtors	3,967	4,317	4,748	5,318	
Cash and Bank	2,252	4,428	5,490	7,287	
Marketable Securities	-	-	-	-	
Loans and advances	350	419	464	517	
<b>Total assets</b>	<b>24,386</b>	<b>25,266</b>	<b>27,080</b>	<b>29,588</b>	
 <b>Shareholders' funds</b>	 <b>17,143</b>	 <b>18,689</b>	 <b>20,120</b>	 <b>22,073</b>	
Share capital	159	159	159	159	
Reserves & surplus	16,984	18,530	19,961	21,914	
<b>Total Debt</b>	<b>1,171</b>	<b>971</b>	<b>874</b>	<b>786</b>	
Secured loans	215	313	282	254	
Unsecured loans	956	658	592	533	
Other liabilities	1,504	1,537	1,745	2,016	
<b>Curr Liab &amp; prov</b>	<b>3,931</b>	<b>3,424</b>	<b>3,695</b>	<b>4,067</b>	
Current liabilities	3,643	3,195	3,514	3,868	
Provisions	288	229	181	199	
<b>Total liabilities</b>	<b>6,606</b>	<b>5,931</b>	<b>6,314</b>	<b>6,869</b>	
<b>Total equity &amp; liabilities</b>	<b>24,386</b>	<b>25,266</b>	<b>27,080</b>	<b>29,588</b>	
<b>Book Value (Rs)</b>	<b>110</b>	<b>119</b>	<b>128</b>	<b>141</b>	

Source: Company; IDBI Capital Research

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	15.9	19.4	23.4	29.1
Adj EPS growth (%)	8.5	21.8	20.5	24.3
EBITDA margin (%)	14.8	18.3	19.0	19.3
Pre-tax margin (%)	11.1	14.8	15.2	16.0
ROE (%)	15.4	17.2	19.2	21.9
ROCE (%)	15.5	19.0	21.4	24.6
<b>Turnover &amp; Leverage ratios (x)</b>				
Asset turnover (x)	1.2	1.1	1.3	1.4
Leverage factor (x)	1.5	1.4	1.3	1.3
Net margin (%)	9.0	11.1	11.4	12.0
Net Debt/Equity (x)	(0.1)	(0.2)	(0.2)	(0.3)
<b>Working Capital &amp; Liquidity ratio</b>				
Inventory days	66.6	49	46	43
Receivable days	51.6	57	53	50
Payable days	36.5	33	32	30

### Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	62.1	51.0	42.3	34.1
Price / Book value (x)	9.0	8.3	7.7	7.0
PCE (x)	43.6	37.9	30.8	25.9
EV / Net sales (x)	5.6	5.5	4.7	3.9
EV / EBITDA (x)	37.6	30.3	24.5	20.2
Dividend Yield (%)	0.3	1.0	1.2	1.4



# Notes

Dealing

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