

## Kajaria Ceramics

BUY

Higher gas prices weighed on operating margin

## Summary

Kajaria Ceramic (Kajaria) had another quarter of subdued margins, weighed by higher gas prices. The company's Q2FY23 result was in-line with our estimate on net sales front, however, margins disappointed. The industry players had double whammy of higher gas prices as well as slightly subdued demand in Q2FY23. The management guided that near term there could be challenges on margins, however, the demand dynamics over mid-long term remain positive. Net sales increased by 10.7% YoY to Rs10.7bn, while EBITDA came in at Rs1.2bn, down by 28.3% over Q2FY22. The company reported net profit of Rs0.7bn, declined by 42.3% YoY. We have trimmed our estimates owing to near term challenges. Maintain BUY with a revised TP of Rs1,254, assigning 35x PER on FY24E.

## Key Highlights and Investment Rationale

- Higher realization supported net sales growth:** The company reported flattish sales volume at 24.9MT over Q2FY22, while net sales realization improved by ~10% YoY to Rs391/Sqm. The management guided that sales volume was subdued due to inflationary environment and softening in demand in October due to festive season and they expect industry to witness gradual demand pick up post festive season. The company maintained their guidance of ~15% volume growth for FY23E.
- Near term challenges persist, BUY with a TP of Rs1,254:** We like Kajaria amongst our building material coverage stocks owing to its scale of operation, balance sheet strength, extensive distribution network and strong brand recall. The company's capacity expansion, higher NSR, better product mix would be key driver of future growth. We believe the company is poised to bounce back with improved margins as gas prices soften in near term. BUY with a TP of Rs1,254.

TP Rs1,254

CMP Rs1,064

Potential upside/downside 18%

Previous Rating BUY

## Price Performance (%)

	-1m	-3m	-12m
Absolute	(11.4)	(7.0)	(12.9)
Rel to Sensex	(17.4)	(11.8)	(14.1)

## V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	26.4	35.8
Consensus	27.5	36.3
% difference	(4.1)	(1.4)

## Key Stock Data

Bloomberg / Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	169,431
3-m daily avg Trd value(Rs mn)	20.3
52-week high / low	Rs1,379 / 886
Sensex / Nifty	60,906 / 18,083

## Shareholding Pattern (%)

Promoters	47.5
FII	19.4
DII	22.2
Public	10.9

## Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	28,080	27,809	37,052	44,144	52,089
Change (yoy, %)	(5)	(1)	33	19	18
EBITDA	4,159	5,088	6,107	6,666	8,751
Change (yoy, %)	(7)	22	20	9	31
EBITDA Margin(%)	14.8	18.3	16.5	15.1	16.8
Adj.PAT	2,535	3,089	3,827	4,200	5,695
EPS (Rs)	16	19.4	24.1	26.4	35.8
Change (yoy, %)	8.5	21.8	23.9	9.7	35.6
PE(x)	67.0	55.0	44.4	40.4	29.8
Dividend Yield (%)	0.3	0.9	1.0	1.2	1.3
EV/EBITDA (x)	41	33	27	25	19
RoE (%)	15.4	17.2	19.2	19.0	23.3
RoCE (%)	15	19	21	20	24

Source: IDBI Capital Research

**Concall Highlights:**

- In Q2FY23 revenue increased by 10.7% YoY though volume growth was flattish at 0.5% YoY due to inflationary environment and softening in demand in October due to festive season. Management expects industry to witness gradual demand pick up post festive season.
- Volume/Revenue mix: Ceramic -46%/40%, PVT-26%/27%, GVT-28%/33%.
- Price hike of only 2% was taken in May and September'2022 which is well absorbed. Average gas price in Q2FY23 was ~Rs62 per scm and in Q3FY23 average price with combination of LPG should come down to ~Rs55 per scm. Relaxation in gas price from hereon and the use of alternative fuel i.e LPG from November onwards at Srikalahasti, Morbi and Gailpur plants to support margins going forward.
- In Bathware current capacity utilization is 85%, there are no price hike as the brass prices are coming down. As per management next 2 quarters are expected to be good and for FY23 the segment should achieve Rs3,700mn revenues.
- CAPEX: 1) Adding 3MSM GVT capacity at existing Sikandrabad plant with investment of Rs800mn it is expected to be commissioned by Sept-23 2) Setting up 8MSM manufacturing facility for GVT and Vitrified tiles in Nepal through JV with investment of Rs1,250mn and is expected to be commissioned by March-24. Nepal currently has exports of Rs5,000mn from India and is a market of ~25MSM currently Kajaria sales account to ~250mn in Nepal.3) Faucet capacity expansion to commence by Jan-23 and Sanitaryware capacity to commence by March-24.
- Adspends in 1HYFY23 were ~Rs500mn, estimate for FY23 is ~Rs1,000mn.
- The company maintains volume guidance of 15%.
- Management stated it plans to add 400-450 dealers in next 3 years. In FY22-23 it should add 200 dealers and for next 2 years should add 125 each year. In 1HYFY23 added 75 dealers.
- Exports improved in Morbi and for FY23 are expected to be ~Rs1,70,000 to 1,80,000mn.

**Exhibit 1: Financial snapshot**

Particulars (Rs mn)	Q2FY23	Q1FY23	QoQ (%)	Q2FY22	YoY (%)
<b>Total revenues</b>	<b>10,778</b>	<b>10,082</b>	<b>6.9</b>	<b>9,736</b>	<b>10.7</b>
Total expenditure	9,484	8,546	11.0	7,931	19.6
EBIDTA	1,294	1,536	(15.7)	1,805	(28.3)
<i>EBIDTA margin (%)</i>	<i>12.0</i>	<i>15.2</i>	<i>(320)bps</i>	<i>18.5</i>	<i>(650)bps</i>
Depreciation	337	324	4.0	282	19.5
Interest cost	32	36	(12.5)	27	16.2
Other income	76	81	(5.7)	71	7.2
PBT	1,002	1,257	(20.3)	1,567	(36.1)
Tax	277	328	(15.5)	374	(26.0)
<b>Adj. net profit</b>	<b>689</b>	<b>930</b>	<b>(25.9)</b>	<b>1,193</b>	<b>(42.3)</b>
Adj. EPS (INR)	4.3	5.8	(25.9)	7.5	(42.3)

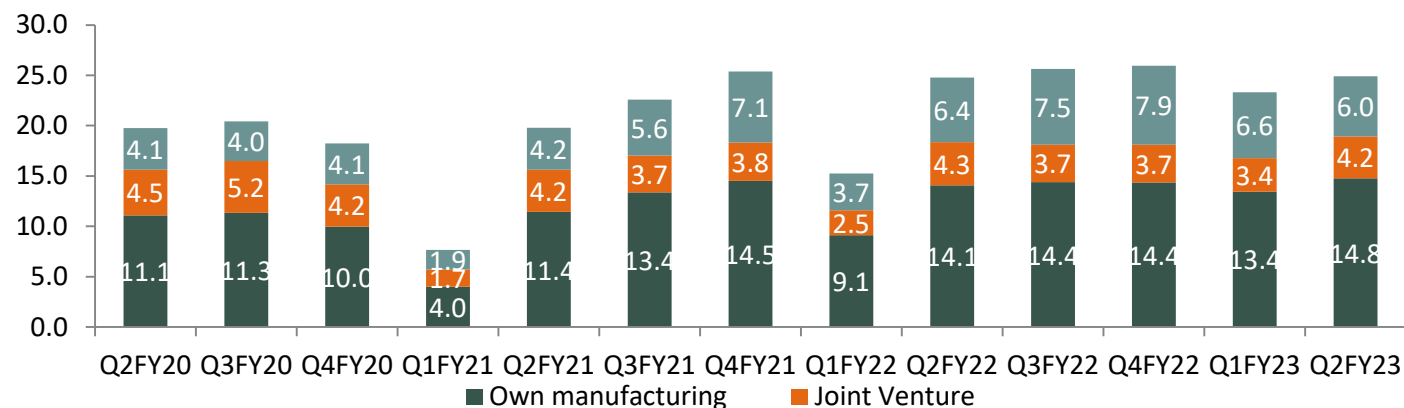
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

Particulars (Rs mn)	Q2FY23A	Q2FY23E	Variance (%)
<b>Net Sales</b>	<b>10,778</b>	<b>11,292</b>	<b>(4.6)</b>
<b>EBITDA</b>	<b>1,294</b>	<b>1,611</b>	<b>(19.7)</b>
<i>EBITDA Margin (%)</i>	<i>12.0</i>	<i>14.3</i>	<i>(230)bps</i>
<b>Net Profit</b>	<b>689</b>	<b>996</b>	<b>(30.8)</b>
EPS, Rs	4.3	6.3	(30.8)

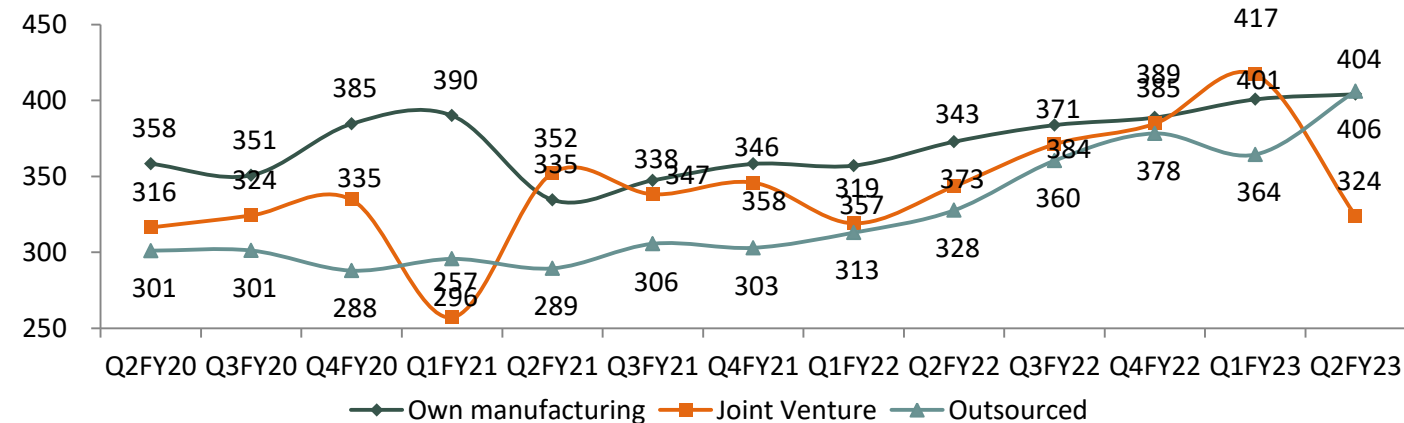
Source: Company; IDBI Capital Research

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



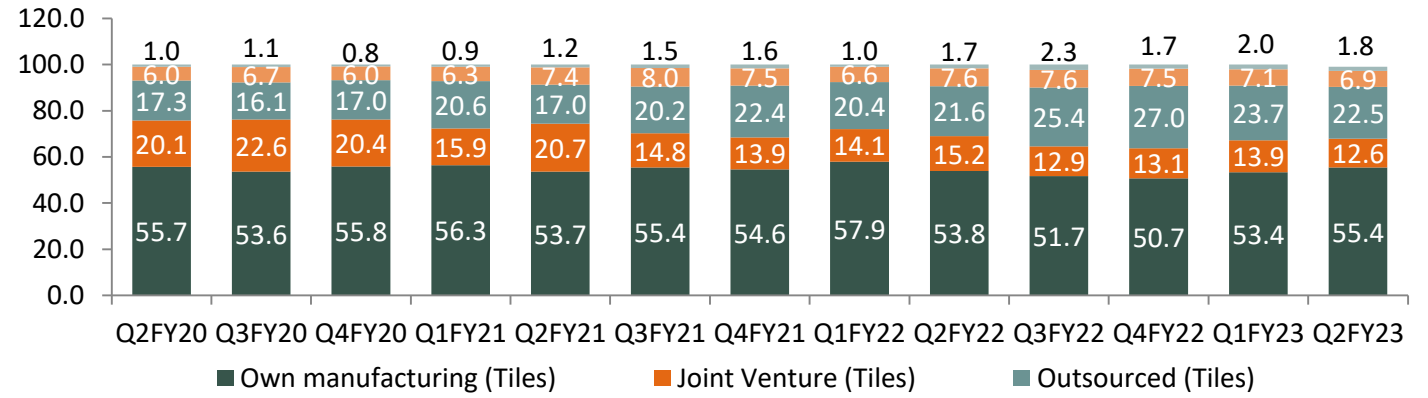
Source: Company; IDBI Capital Research

**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)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>29,562</b>	<b>28,080</b>	<b>27,809</b>	<b>37,052</b>	<b>44,144</b>	<b>52,089</b>
<i>Change (yoy, %)</i>	9	(5)	(1)	33	19	18
Operating expenses	(25,067)	(23,921)	(22,721)	(30,945)	(37,478)	(43,338)
<b>EBITDA</b>	<b>4,495</b>	<b>4,159</b>	<b>5,088</b>	<b>6,107</b>	<b>6,666</b>	<b>8,751</b>
<i>Change (yoy, %)</i>	(2)	(7)	22	20	9	31
<i>Margin (%)</i>	15.2	14.8	18.3	16.5	15.1	16.8
Depreciation	(891)	(1,081)	(1,067)	(1,154)	(1,232)	(1,362)
<b>EBIT</b>	<b>3,604</b>	<b>3,078</b>	<b>4,021</b>	<b>4,953</b>	<b>5,434</b>	<b>7,389</b>
Interest paid	(156)	(195)	(107)	(127)	(152)	(175)
Other income	180	242	213	276	331	397
<b>Pre-tax profit</b>	<b>3,677</b>	<b>3,124</b>	<b>4,127</b>	<b>5,102</b>	<b>5,612</b>	<b>7,611</b>
Tax	(1,293)	(589)	(1,038)	(1,274)	(1,413)	(1,916)
<i>Effective tax rate (%)</i>	35	19	25	25	25	25
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>2,384</b>	<b>2,535</b>	<b>3,089</b>	<b>3,827</b>	<b>4,200</b>	<b>5,695</b>
Exceptional items	48	-	-	-	-	-
<b>Adjusted net profit</b>	<b>2,336</b>	<b>2,535</b>	<b>3,089</b>	<b>3,827</b>	<b>4,200</b>	<b>5,695</b>
<i>Change (yoy, %)</i>	3	9	22	24	10	36
EPS	14.7	15.9	19.4	24.1	26.4	35.8
Dividend per sh	3	3	10	11	13	14
<i>Dividend Payout %</i>	25	23	62	55	59	47

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Shareholders' funds</b>	<b>15,749</b>	<b>17,143</b>	<b>18,689</b>	<b>21,224</b>	<b>22,943</b>	<b>25,967</b>
Share capital	159	159	159	159	159	159
Reserves & surplus	15,590	16,984	18,530	21,065	22,784	25,808
<b>Total Debt</b>	<b>949</b>	<b>1,171</b>	<b>971</b>	<b>1,279</b>	<b>1,523</b>	<b>1,752</b>
Other liabilities	1,964	1,504	1,537	3,240	3,720	4,275
<b>Curr Liab &amp; prov</b>	<b>4,716</b>	<b>3,931</b>	<b>3,424</b>	<b>3,475</b>	<b>3,761</b>	<b>3,971</b>
Current liabilities	4,515	3,643	3,195	3,216	3,479	3,669
Provisions	200	288	229	259	282	302
<b>Total liabilities</b>	<b>7,629</b>	<b>6,606</b>	<b>5,931</b>	<b>7,994</b>	<b>9,004</b>	<b>9,997</b>
<b>Total equity &amp; liabilities</b>	<b>24,037</b>	<b>24,386</b>	<b>25,266</b>	<b>29,866</b>	<b>32,595</b>	<b>36,612</b>
Net fixed assets	11,994	11,682	11,673	13,632	15,506	16,781
Investments	23	116	78	24	25	27
Other non-curr assets	-	514	372	474	474	474
<b>Current assets</b>	<b>12,020</b>	<b>12,074</b>	<b>13,143</b>	<b>15,736</b>	<b>16,590</b>	<b>19,331</b>
Inventories	4,058	5,127	3,731	4,659	5,358	6,161
Sundry Debtors	4,751	3,967	4,317	5,133	5,852	6,671
Cash and Bank	2,524	2,252	4,428	4,244	3,555	4,558
Loans and advances	296	350	419	160	184	206
<b>Total assets</b>	<b>24,037</b>	<b>24,386</b>	<b>25,266</b>	<b>29,866</b>	<b>32,595</b>	<b>36,612</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	3,677	3,124	4,127	5,102	5,612	7,611
Depreciation	891	1,081	1,067	1,154	1,232	1,362
Tax paid	(1,319)	(932)	(1,082)	(1,228)	(1,271)	(1,724)
Chg in working capital	(5)	(1,124)	470	(1,434)	(1,156)	(1,435)
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>3,244</b>	<b>2,150</b>	<b>4,582</b>	<b>3,593</b>	<b>4,417</b>	<b>5,814</b>
Capital expenditure	(1,258)	(768)	(1,058)	(3,113)	(3,105)	(2,637)
Chg in investments	3	(94)	39	54	(1)	(2)
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(1,255)</b>	<b>(862)</b>	<b>(1,019)</b>	<b>(3,059)</b>	<b>(3,107)</b>	<b>(2,638)</b>
Equity raised/(repaid)	(49)	-	-	-	-	-
Debt raised/(repaid)	(402)	222	(201)	309	244	228
Dividend (incl. tax)	(572)	(572)	(1,908)	(2,099)	(2,480)	(2,671)
Chg in minorities	(2)	(22)	9	2	-	-
Other financing activities	735	(1,189)	713	1,071	237	271
<b>Cash flow from financing (c)</b>	<b>(290)</b>	<b>(1,561)</b>	<b>(1,387)</b>	<b>(717)</b>	<b>(1,999)</b>	<b>(2,172)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,699</b>	<b>(272)</b>	<b>2,176</b>	<b>(183)</b>	<b>(689)</b>	<b>1,003</b>



### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	101	110	119	135	146	165
Adj EPS (Rs)	14.7	15.9	19.4	24.1	26.4	35.8
Adj EPS growth (%)	3	9	22	24	10	36
EBITDA margin (%)	15.2	14.8	18.3	16.5	15.1	16.8
Pre-tax margin (%)	12.4	11.1	14.8	13.8	12.7	14.6
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	20	15	19	21	20	24
ROE (%)	16.0	15.4	17.2	19.2	19.0	23.3

### DuPont Analysis

Asset turnover (x)	1.3	1.2	1.1	1.3	1.4	1.5
Leverage factor (x)	1.6	1.5	1.4	1.4	1.4	1.4
Net margin (%)	7.9	9.0	11.1	10.3	9.5	10.9

### Working Capital & Liquidity ratio

Inventory days	50	67	49	46	44	43
Receivable days	59	52	57	51	48	47
Payable days	45	37	33	35	32	29

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	72.7	67.0	55.0	44.4	40.4	29.8
Price/Book value (x)	10.6	9.8	9.0	7.9	7.3	6.5
EV/Net sales (x)	5.7	6.0	6.0	4.5	3.8	3.2
EV/EBITDA (x)	37	41	33	27	25	19
Dividend Yield (%)	0	0	1	1	1	1

Source: Company; IDBI Capital Research



# Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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