

## Kajaria Ceramics

BUY

Highest ever sales volume, however margins disappointed

## Summary

Kajaria Ceramic's (Kajaria) Q4FY22 result was in-line with our estimate on net sales front, however, margins were subdued owing to sharp increase in raw material prices. The company reported highest ever net sales volume of 25.9MSM. Further, NSR too improved by 12.9% YoY to Rs367/Sqm. We believe with new capacity at place and healthy demand traction, Kajaria's net sales growth would be encouraging, however, inflationary raw material prices trend would weigh on margins in near term. Net sales increased by 15.7% YoY to Rs11.1bn, while EBITDA came in at Rs1.6bn, down by 13.1% over Q4FY21. The company reported net profit of Rs0.9bn, lower by 25.9% YoY. We have trimmed our EBITDA margin estimates by 170bps/150bps over FY23E/FY24E respectively. Maintain BUY with a revised TP of Rs1,303, assigning 35x PER on FY24E.

## Key Highlights and Investment Rationale

- Healthy net sales growth supported by volume as well as NSR:** Kajaria reported another quarter of healthy net sales growth driven by higher volume (2.3% YoY) and improved NSR (12.9% YoY). As per management the demand scenario continues to be healthy given traction in real estate sector, rapid urbanization, consumer preference shifts and increased application of tiles in replacement and renovation projects. It is witnessing good demand from Tier III & IV market and expects further demand to come from these markets. Retail & Project mix is 75%/25%, Product mix – Ceramics-38%, PVT is 32% & GVT is 50%.
- Attractive valuation, BUY with a TP of Rs1,303:** We like Kajaria 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. After recent fall in the stock price, valuation looks attractive. BUY with a TP of Rs1,303.

<b>TP</b>	<b>Rs1,303</b>
<b>CMP</b>	<b>Rs943</b>
Potential upside/downside	38%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(28.5)	(20.9)	(16.7)
Rel to Sensex	(23.5)	(15.8)	(28.2)

V/s Consensus		
EPS (Rs)	FY23E	FY24E
IDBI Capital	29.3	37.2
Consensus	31.3	38.8
% difference	(6.5)	(4.2)

Key Stock Data	
Bloomberg / Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	150,145
3-m daily avg Trd value(Rs mn)	56.8
52-week high / low	Rs1,379 / 877
Sensex / Nifty	54,318 / 16,259

Shareholding Pattern (%)	
Promoters	47.5
FII	21.3
DII	19.7
Public	11.5

## Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	28,080	27,809	37,052	45,266	53,866
Change (yoy, %)	(5)	(1)	33	22	19
EBITDA	4,159	5,088	6,107	7,288	9,050
Change (yoy, %)	(7)	22	20	19	24
EBITDA Margin(%)	14.8	18.3	16.5	16.1	16.8
Adj.PAT	2,535	3,089	3,827	4,665	5,919
EPS (Rs)	16	19.4	24.1	29.3	37.2
Change (yoy, %)	8.5	21.8	23.9	21.9	26.9
PE(x)	59.1	48.5	39.1	32.1	25.3
Dividend Yield (%)	0.3	1.1	1.2	1.4	1.5
EV/EBITDA (x)	36	29	24	20	16
RoE (%)	15.4	17.2	19.2	20.9	23.6
RoCE (%)	15	19	21	22	25

Source: IDBI Capital Research

**Concall Highlights:**

- Company in Q4FY22 posted highest ever sales volumes of 25.97MSM, as per management the demand scenario continues to be healthy given traction in real estate sector, rapid urbanization, consumer preference shifts and increased application of tiles in replacement and renovation projects. It is witnessing good demand from Tier III & IV market and expects further demand to come from these markets. In April company witnessed decent demand. EBITDA margins were impacted due to higher gas cost , higher paper prices and freight cost
- Bathware segment grew by 16% to Rs830mn in Q4FY22 and the monthly sales runrate is Rs300mn for the segment. Revenue in plywood segment grew 25% to Rs190mn
- Retail & Project mix is 75%/25%, Product mix – Ceramics-38%, PVT is 32% & GVT is 50%
- Cumulative price hikes taken for FY22 in Tiles – 10%, Bathware – 12-13%, Sanitaryware – 15%. Company took price hike of 2% as on 1<sup>st</sup> May 2022
- Average gas cost in Q4FY22 is Rs50.30 scm, Gas cost in FY22 for North/South/West are Rs41scm/Rs44 scm/Rs49 scm and are currently at Rs52 scm/Rs59 scm/Rs68.5 scm respectively. Internationally gas price have softened from \$33 to \$21
- Company mentioned it will spend on an average ~Rs3,000-3,500mn on CAPEX every year. Company commissioned JAXX Vitrified plant ,Gailpur and Srikalahasti. The Greenfield 5mn sqmt slab manufacturing capacity in Gujarat with investment of ~Rs2100mn is put on hold due to high gas cost and erratic movement in gas price. The Greenfield project at Gujarat for 7 lac pieces of sanitaryware with investment of Rs800mn is expected to commission by July-23 and expects revenue Rs~1,750 – 1,800mn
- Company expects 15-20% volume growth and 20-25% sales growth in FY23. In Bathware company expects 30-35% volume growth every year for next 3 years. Company expects to achieve capacity utilization of 95-96%
- Company expects to add 400 dealers over next 3 years of which 175 exclusive dealers. A& P spend for FY22 were ~Rs800mn and expect it to be higher going forward

**Exhibit 1: Financial snapshot**

Particulars (Rs mn)	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY (%)
<b>Total revenues</b>	<b>11,018</b>	<b>10,682</b>	<b>3.1</b>	<b>9,525</b>	<b>15.7</b>
Total expenditure	9,358	8,844	5.8	7,616	22.9
EBIDTA	1,659	1,838	(9.7)	1,909	(13.1)
<i>EBIDTA margin (%)</i>	<i>15.1</i>	<i>17</i>	<i>(190)bps</i>	<i>20.0</i>	<i>(490)bps</i>
Depreciation	326	281	16.2	265	23.0
Interest cost	40	30	32.2	26	50.8
Other income	70	74	(5.3)	74	(5.5)
PBT	1,364	1,602	(14.9)	1,692	(19.4)
Tax	391	355	10.4	380	2.9
<b>Adj. net profit</b>	<b>972</b>	<b>1,247</b>	<b>(22.0)</b>	<b>1,312</b>	<b>(25.9)</b>
Adj. EPS (INR)	6.1	7.8	(22.0)	8.2	(25.9)

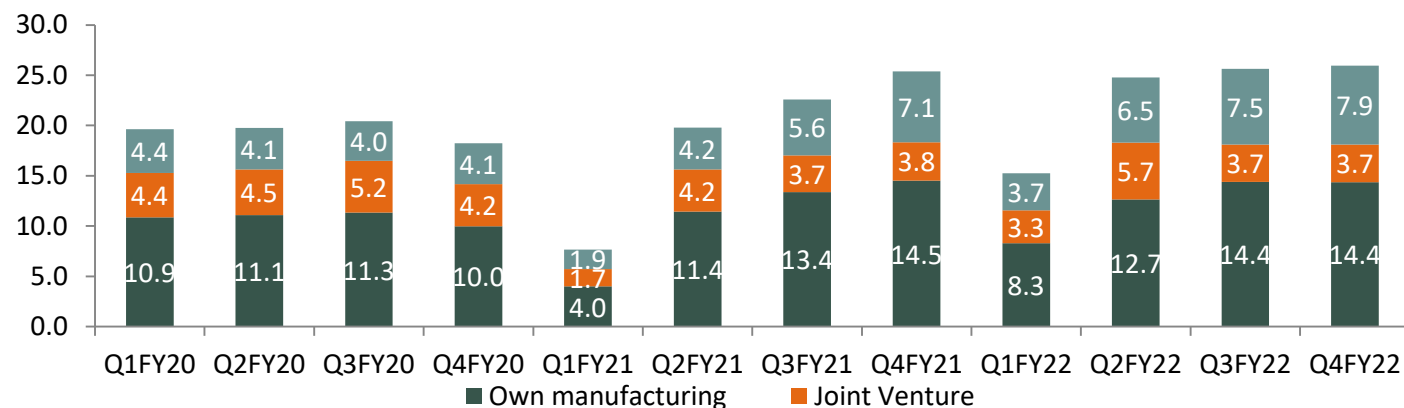
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

Particulars (Rs mn)	Q4FY22A	Q4FY22E	Variance (%)
<b>Net Sales</b>	<b>11,018</b>	<b>11,377</b>	<b>(3.2)</b>
<b>EBITDA</b>	<b>1,659</b>	<b>1,866</b>	<b>(11.1)</b>
<i>EBITDA Margin (%)</i>	<i>15.1</i>	<i>16.4</i>	<i>(130)bps</i>
<b>Net Profit</b>	<b>972</b>	<b>1,220</b>	<b>(20.3)</b>
EPS, Rs	6.1	7.7	(20.3)

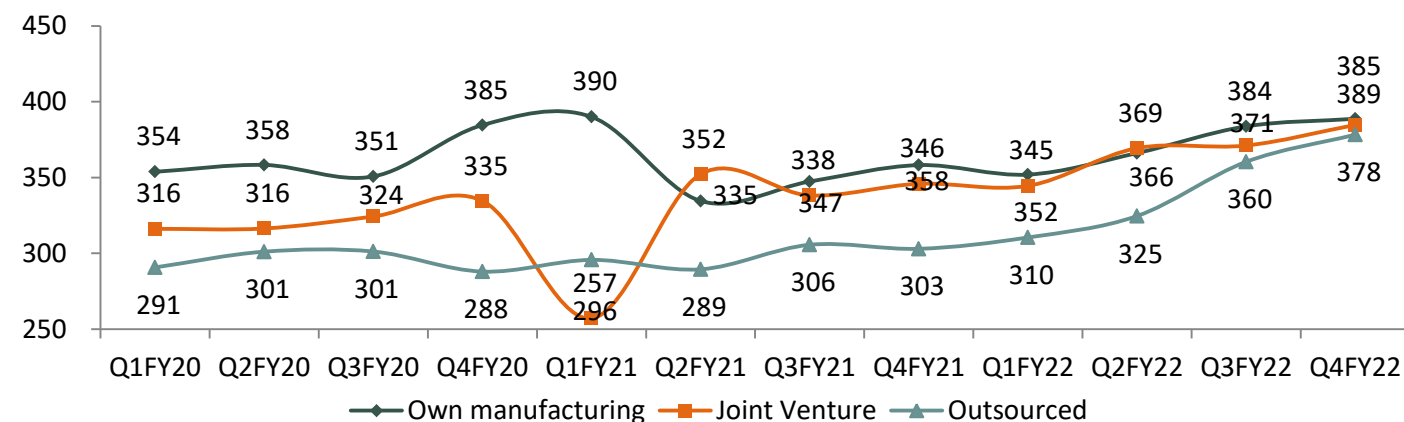
Source: Company; IDBI Capital Research

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



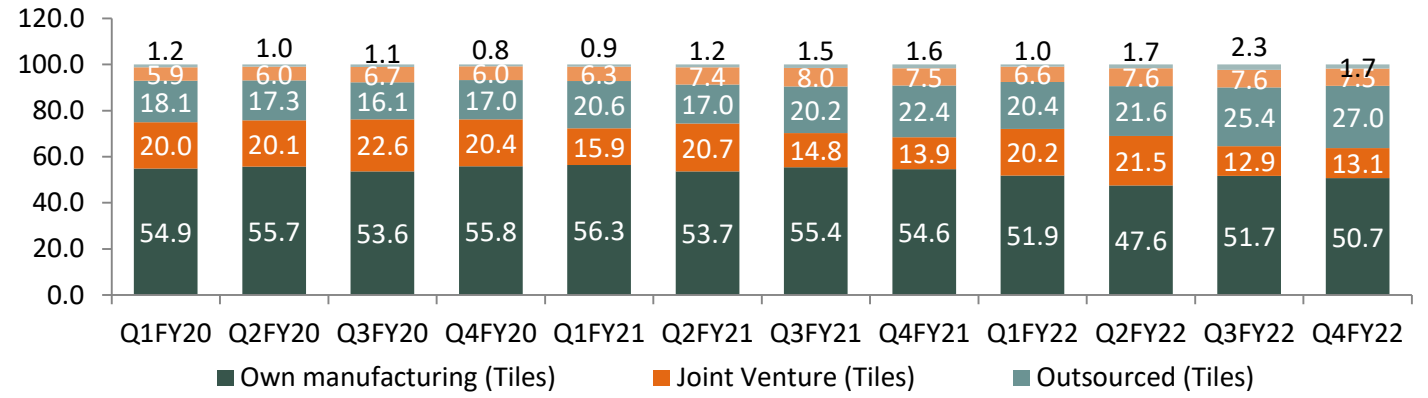
Source: Company; IDBI Capital Research

**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)

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>45,266</b>	<b>53,866</b>
<i>Change (yoy, %)</i>	9	(5)	(1)	33	22	19
Operating expenses	(25,067)	(23,921)	(22,721)	(30,945)	(37,978)	(44,817)
<b>EBITDA</b>	<b>4,495</b>	<b>4,159</b>	<b>5,088</b>	<b>6,107</b>	<b>7,288</b>	<b>9,050</b>
<i>Change (yoy, %)</i>	(2)	(7)	22	20	19	24
<i>Margin (%)</i>	15.2	14.8	18.3	16.5	16.1	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>6,056</b>	<b>7,688</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>6,235</b>	<b>7,910</b>
Tax	(1,293)	(589)	(1,038)	(1,274)	(1,569)	(1,991)
<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>4,665</b>	<b>5,919</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>4,665</b>	<b>5,919</b>
<i>Change (yoy, %)</i>	3	9	22	24	22	27
EPS	14.7	15.9	19.4	24.1	29.3	37.2
Dividend per sh	3	3	10	11	13	14
<i>Dividend Payout %</i>	25	23	62	55	53	45

**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>23,409</b>	<b>26,656</b>
Share capital	159	159	159	159	159	159
Reserves & surplus	15,590	16,984	18,530	21,065	23,250	26,497
<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	3,735	4,298
<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>9,019</b>	<b>10,020</b>
<b>Total equity &amp; liabilities</b>	<b>24,037</b>	<b>24,386</b>	<b>25,266</b>	<b>29,866</b>	<b>33,076</b>	<b>37,324</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>17,072</b>	<b>20,044</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	4,036	5,271
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>33,076</b>	<b>37,324</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	6,235	7,910
Depreciation	891	1,081	1,067	1,154	1,232	1,362
Tax paid	(1,319)	(932)	(1,082)	(1,228)	(1,412)	(1,792)
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>4,898</b>	<b>6,045</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	66	92	101
<b>Cash flow from financing (c)</b>	<b>(290)</b>	<b>(1,561)</b>	<b>(1,387)</b>	<b>(1,722)</b>	<b>(2,144)</b>	<b>(2,342)</b>
<b>Net chg in cash (a+b+c)</b>	<b>1,699</b>	<b>(272)</b>	<b>2,176</b>	<b>(1,188)</b>	<b>(353)</b>	<b>1,064</b>



### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	101	110	119	135	149	169
Adj EPS (Rs)	14.7	15.9	19.4	24.1	29.3	37.2
Adj EPS growth (%)	3	9	22	24	22	27
EBITDA margin (%)	15.2	14.8	18.3	16.5	16.1	16.8
Pre-tax margin (%)	12.4	11.1	14.8	13.8	13.8	14.7
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	20	15	19	21	22	25
ROE (%)	16.0	15.4	17.2	19.2	20.9	23.6

### 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	10.3	11.0

### Working Capital & Liquidity ratio

Inventory days	50	67	49	46	43	42
Receivable days	59	52	57	51	47	45
Payable days	45	37	33	35	31	28

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	64.1	59.1	48.5	39.1	32.1	25.3
Price/Book value (x)	9.3	8.6	7.9	7.0	6.3	5.6
EV/Net sales (x)	5.0	5.3	5.3	4.0	3.3	2.7
EV/EBITDA (x)	33	36	29	24	20	16
Dividend Yield (%)	0	0	1	1	1	1

Source: Company; IDBI Capital Research



# Notes

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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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