

Kajaria Ceramics

BUY

Good show in challenging times

Summary

Kajaria Ceramic's (Kajaria) Q1FY23 result was in-line with our estimate on net sales front, however, margins were marginally higher than our estimates. The challenges on natural gas front continued for the industry and the company in Q1FY23. Further, the industry is facing higher prices/unavailability of gas, which is weighing on the operations, leading to production cut down as well as complete shutdown of operations. The management refrained from giving any margin outlook for near term, while they reiterated sales volume growth of ~20% for FY23E. Net sales increased by 79.5% YoY to Rs10.1bn, while EBITDA came in at Rs1.5bn, robust growth of 91% over Q1FY22. The company reported net profit of Rs0.9bn, higher by 124.3% YoY. We maintain our net sales/EBITDA/ PAT estimates for FY23E/FY24E. BUY with TP of Rs1,303, assigning 35x PER on FY24E.

Key Highlights and Investment Rationale

- Another quarter of strong volume growth:** The company reported 53% YoY growth in sales volume at 23.3MSM, while net sales realization improved by 15% YoY to Rs393/Sqm. Strong demand traction in retail sales continues, particularly in Tier-II and smaller cities, while metros are witnessing healthy replacement demand. The management guided that Kajaria will continue to report healthy sales volume growth aided by both strong demand and higher production led by capacity addition. The company's strong brand recall and better product mix will drive healthy NSR growth.
- On a strong footing, BUY with a TP of Rs1,303:** Kajaria remains our preferred pick 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. BUY with a TP of Rs1,303.

TP **Rs1,303**
CMP **Rs1,073**

Potential upside/downside 21%

Previous Rating BUY

Price Performance (%)

	-1m	-3m	-12m
Absolute	15.6	3.8	7.9
Rel to Sensex	7.7	6.2	1.2

V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	29.3	37.2
Consensus	28.9	36.7
% difference	1.5	1.5

Key Stock Data

Bloomberg / Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	170,857
3-m daily avg Trd value(Rs mn)	7.1
52-week high / low	Rs1,379 / 886
Sensex / Nifty	55,682 / 16,605

Shareholding Pattern (%)

Promoters	47.5
FII	19.6
DII	21.8
Public	11.1

Financial snapshot

Year	FY20	FY21	FY22	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)	67.3	55.2	44.6	36.6	28.8
Dividend Yield (%)	0.3	0.9	1.0	1.2	1.3
EV/EBITDA (x)	41	33	27	23	18
RoE (%)	15.4	17.2	19.2	20.9	23.6
RoCE (%)	15	19	21	22	25

Source: IDBI Capital Research

Concall Highlights:

- In Q1FY23 the company operated at full capacity utilisation, it delivered a volume growth of 53% YoY at 23.3MSM, even though there was geopolitical volatility and high commodity prices. The industry struggled to pass on higher prices to customers while Kajaria took a price hike of 2% in Q1FY23.
- Management stated the demand scenario remains healthy given traction from real estate sector. The company is witnessing a good momentum in Tier-2 and below markets vs metros which is more of a replacement market.
- Working capital days increased by 5 days at 57 days in Q1FY23 due to build-up of inventory at 3 new plants.
- Average gas price in Q1FY23 for North is Rs52scm, South is Rs60scm, West is Rs67scm and average cost for the company was Rs55scm, management stated there is high volatility in gas prices.
- Due to current market scenario the Sanitaryware and Plywood segment have witnessed low volume and raw material prices remained higher in the segment which have corrected in Q2FY23.
- Adspends in Q1FY23 stood at Rs190mn vs Rs320mn in Q4FY22, the company aims to spend Rs1,000mn+ towards adspends in FY23 vs Rs800mn.
- The management approved acquisition of 51% equity shares of South Asian Ceramic Tiles Pvt Ltd in Hyderabad for a consideration of Rs285mn. The plant has an installed capacity of 4.8MSM and is located at a distance of 1 hour from Hyderabad, it manufactures ceramic floor tiles of 2 size 60*60 and 60*120. The aim of the acquisition is to penetrate in southern markets and the company expects to generate a revenue of Rs1,300mn in FY23 and Rs1,800mn in FY24.
- Morbi shutdown for 1 month period in August is positive for organised players, ~80% of Morbi plants will remain closed and ~85% capacity will be non-operational. For Kajaria 70% of its outsourced capacity will be operational and the company is even increasing stocks for the period.
- The company aims to deliver 15-20% growth in volumes in FY23 and +15% for next 2 years. Management stated the +15% volume growth it will incur a capex of Rs2,000mn-Rs2,500mn every year, which will be funded through internal accruals.

Exhibit 1: Financial snapshot

Particulars (Rs mn)	Q1FY23	Q4FY22	QoQ (%)	Q1FY22	YoY (%)
Total revenues	10,082	11,018	(8.5)	5,617	79.5
Total expenditure	8,546	9,358	(8.7)	4,813	77.6
EBIDTA	1,536	1,659	(7.4)	804	91.0
<i>EBIDTA margin (%)</i>	<i>15.2</i>	<i>15</i>	<i>20bps</i>	<i>14</i>	<i>120bps</i>
Depreciation	324	326	(0.8)	265	22.0
Interest cost	36	40	(9.3)	30	19.5
Other income	81	70	15.1	60	34.8
PBT	1,257	1,364	(7.8)	569	121.0
Tax	328	391	(16.3)	154	112.4
Adj. net profit	930	972	(4.4)	415	124.3
Adj. EPS (INR)	5.8	6.1	(4.4)	2.6	124.3

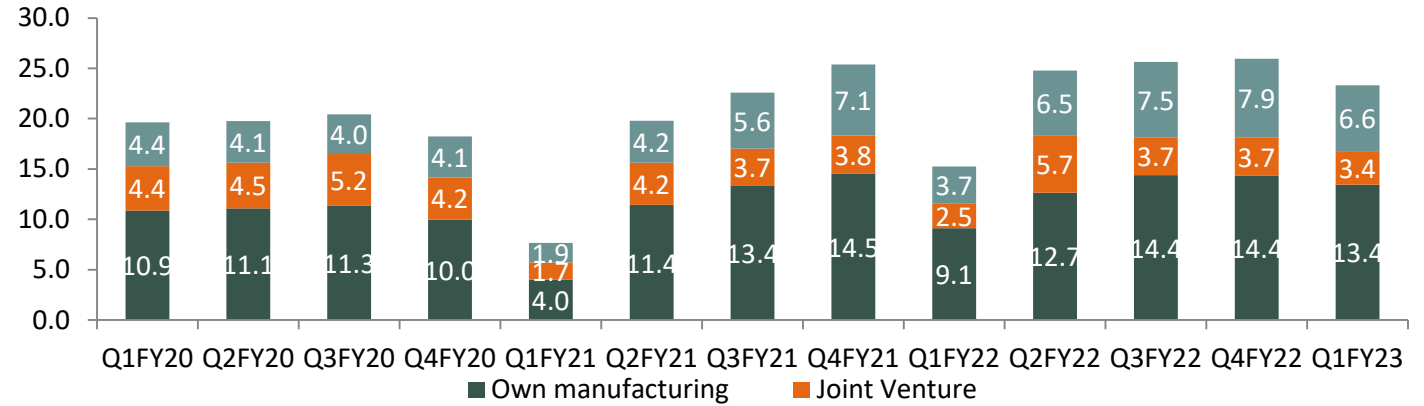
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

Particulars (Rs mn)	Q1FY23A	Q1FY23E	Variance (%)
Net Sales	10,082	9,640	4.6
EBITDA	1,536	1,424	7.9
<i>EBITDA Margin (%)</i>	<i>15.2</i>	<i>14.8</i>	<i>40bps</i>
Net Profit	930	848	9.6
EPS, Rs	5.8	5.3	9.6

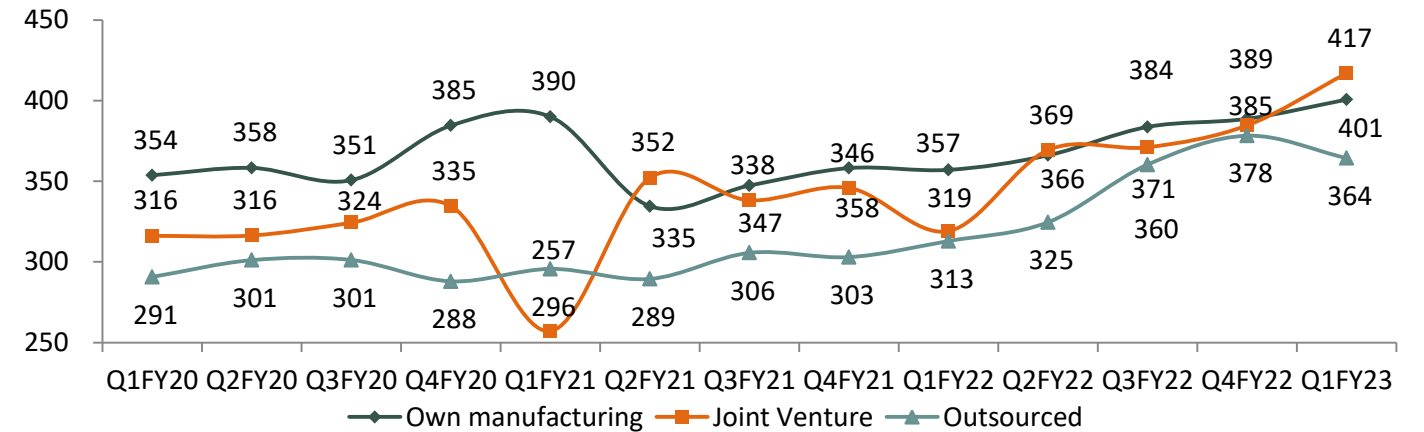
Source: Company; IDBI Capital Research

Exhibit 3: Sales volume contribution (MSM)



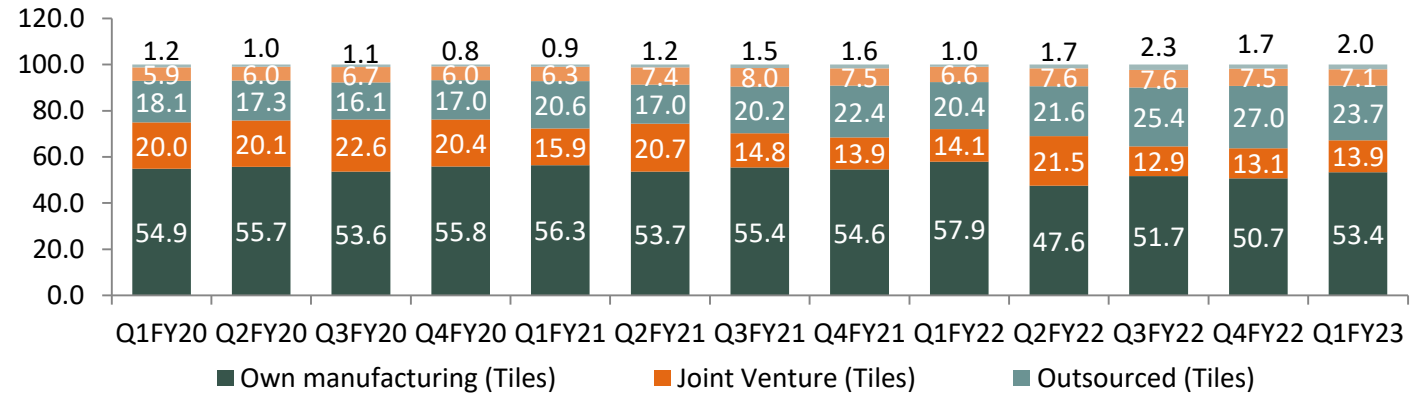
Source: Company; IDBI Capital Research

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
Net sales	29,562	28,080	27,809	37,052	45,266	53,866
<i>Change (yoy, %)</i>	9	(5)	(1)	33	22	19
Operating expenses	(25,067)	(23,921)	(22,721)	(30,945)	(37,978)	(44,817)
EBITDA	4,495	4,159	5,088	6,107	7,288	9,050
<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)
EBIT	3,604	3,078	4,021	4,953	6,056	7,688
Interest paid	(156)	(195)	(107)	(127)	(152)	(175)
Other income	180	242	213	276	331	397
Pre-tax profit	3,677	3,124	4,127	5,102	6,235	7,910
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	-	-	-	-	-	-
Net profit	2,384	2,535	3,089	3,827	4,665	5,919
Exceptional items	48	-	-	-	-	-
Adjusted net profit	2,336	2,535	3,089	3,827	4,665	5,919
<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
Shareholders' funds	15,749	17,143	18,689	21,224	23,409	26,656
Share capital	159	159	159	159	159	159
Reserves & surplus	15,590	16,984	18,530	21,065	23,250	26,497
Total Debt	949	1,171	971	1,279	1,523	1,752
Other liabilities	1,964	1,504	1,537	3,240	3,735	4,298
Curr Liab & prov	4,716	3,931	3,424	3,475	3,761	3,971
Current liabilities	4,515	3,643	3,195	3,216	3,479	3,669
Provisions	200	288	229	259	282	302
Total liabilities	7,629	6,606	5,931	7,994	9,019	10,020
Total equity & liabilities	24,037	24,386	25,266	29,866	33,076	37,324
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
Current assets	12,020	12,074	13,143	15,736	17,072	20,044
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
Total assets	24,037	24,386	25,266	29,866	33,076	37,324

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	-	-	-	-	-	-
Cash flow from operations (a)	3,244	2,150	4,582	3,593	4,898	6,045
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	-	-	-	-	-	-
Cash flow from investing (b)	(1,255)	(862)	(1,019)	(3,059)	(3,107)	(2,638)
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
Cash flow from financing (c)	(290)	(1,561)	(1,387)	(1,722)	(2,144)	(2,342)
Net chg in cash (a+b+c)	1,699	(272)	2,176	(1,188)	(353)	1,064

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)	73.0	67.3	55.2	44.6	36.6	28.8
Price/Book value (x)	10.6	9.8	9.0	7.9	7.2	6.3
EV/Net sales (x)	5.7	6.0	6.0	4.5	3.7	3.1
EV/EBITDA (x)	38	41	33	27	23	18
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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