

Kajaria Ceramics

BUY

Better than expected demand recovery and higher NSR encouraging

Summary

Kajaria Ceramic's (Kajaria) Q2FY22 result was beat to our and consensus estimates on key parameters. After a subdued performance in Q1FY22 owing to second wave of Covid-19, the company reported encouraging sales volume growth as well as higher NSR in Q2FY22. Net sales increased by 36.6% YoY to Rs9,736mn, while EBITDA came in at Rs1,805mn, an impressive growth of 25.6% over Q2FY21. The company reported net profit of Rs1,193mn. The management reiterated 15% sales volume growth and ~20% net sales growth in H2FY22E. We believe Kajaria is poised to benefit from strong demand as the company's 3 new plants are expected to be completed by year end and would drive higher earnings growth in future. We have introduced FY24E in this report and have marginally tweaked our FY23E/FY24E estimates upwards. We upgrade the stock to BUY with a revised TP of Rs1,477, assigning 40x PER on FY24E.

Key Highlights and Investment Rationale

Higher sales volume and improved NSR aided net sales growth

After a demand slump in Q1FY22, the industry bounced back as economies activities picked and consumer sentiments improved in Q2FY22. Kajaria's tile segment reported 35.6% YoY sales growth led by 25% higher sales volume and 8% improvement in NSR compared to Q2FY21. Overall capacity utilization was at 100%. Bathware and plywood division too reported strong rebound in net sales with 41%/92% increase over Q2FY21 respectively.

Higher gas price dented EBITDA margin

The company's EBITDA margin deteriorated by 170bps YoY to 18.5% owing to higher gas prices. Further, brass prices too have increased sharply. Though the company is increasing prices with a lag of 15 days, we believe margin would remain subdued as further increase in gas price is expected in near future.

Bright outlook, BUY with a TP of Rs1,477

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. Though higher gas price poses a threat to margins in near term, we believe long term earnings growth story remains intact. BUY with a TP of Rs1,477.

TP	Rs1,477		
CMP	Rs1,227		
Potential upside / downside	+20%		
Previous Rating	HOLD		

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	24.0	30.1	36.9
Consensus	23.9	31.2	36.8
% difference	0.3	(3.4)	0.2

Shareholding Pattern (%)

Promoters	47.5
FII	25.1
DII	14.4
Public	13.0

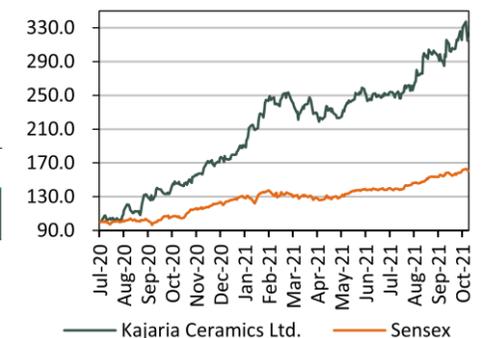
Price Performance (%)

	-1m	-3m	-12m
Absolute	4.2	25.6	110.2
Rel to Sensex	1.0	10.5	60.3

Key Stock Data

Bloomberg / Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	1,95,267
Market cap. (US\$ mn)	2,592
3-m daily avg Trd value(Rs mn)	54.7
52-week high / low	Rs1,358 / 554
Sensex / Nifty	60,822 / 18,115

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	28,080	27,809	33,312	39,308	46,187
EBITDA	4,159	5,088	6,163	7,508	9,006
EBITDA (%)	14.8	18.3	18.5	19.1	19.5
Adj. PAT	2,535	3,089	3,821	4,788	5,872
EPS (Rs)	16	19.4	24.0	30.1	36.9
EPS Growth (%)	8.5	21.8	23.7	25.3	22.6
PE (x)	78.5	64.4	52.1	41.6	33.9
Dividend Yield (%)	0.2	0.8	1.0	1.0	1.1
EV/EBITDA (x)	47.6	38.4	31.7	25.8	21.3
RoE (%)	15.4	17.2	19.6	22.4	24.3
RoCE (%)	15.5	19.0	21.9	24.9	27.1

Source: IDBI Capital Research;

Concall Highlights:**Company performance:**

- As per management the current quarter witnessed a sharp turnaround with revival in economic activities and positive consumer sentiments. Currently company is operating at 100% capacity utilization.
- Demand is witnessed from smaller towns and Tier II & III cities and though big builders are struggling with payment issues they are expected to normalize in 6-9 months.
- Increased government focus on infrastructure to aid growth in the industry.
- WCD has reduced to 56 days in Q2FY22 as compared to 73 days in Q4FY21

Price Hike due to higher raw material cost:

- Tiles segment took 3 price hikes one in April of ~2-3%, July of ~3% & October of ~1% on an average ~4% price hike is taken in tiles segment. Gas price hike is passed on with a lag of ~15 days
- Bathware segment witnessed overall ~20%-25% price hike in current year owing to sharp increase in brass price.
- Sanitaryware also took a price hike of ~8-10%
- Currently gas prices: Northern region Rs38, Morbi ~Rs50 & Southern region Rs60. The gas cost is expected to rise further in Morbi by Rs15
- **CAPEX:** Rs ~2,750mn Capex towards 3 plants. The plants are expected to complete by year end
- **Industry Dynamics:** Exports in Morbi have been impacted due to higher cost on freight

Management Outlook:

- Management guided a 15% volume growth and 20% revenue growth for the second half of FY22 and for the overall industry growth is estimated at ~7-9%. Management has a vision to have exports contribution of ~5-8% in total sales.
- Management guided the margins to remain ~18% as ~80%-85% of overall cost increase is passed on. Kajaria is currently benefiting on gas cost front as in northern plants it has 70% long term contracts and 30% is spot purchase.
- Management stated that A&P cost is budgeted to be ~700mn and was ~170mn in Q2FY22.

Exhibit 1: Financial snapshot

(Rs mn)

Particulars (Rs mn)	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Total revenues	9,736	5,617	73.3	7,125	36.6
Total expenditure	7,931	4,813	64.8	5,688	39.4
EBIDTA	1,805	804	124.5	1,437	25.6
<i>EBIDTA margin (%)</i>	<i>18.5</i>	<i>14</i>	<i>450bps</i>	<i>20.2</i>	<i>(170)bps</i>
Depreciation	282	265	6.1	274	2.9
Interest cost	27	30	(9.9)	21	30.8
Other income	71	60	18.7	48	48.6
PBT	1,567	569	175.6	1,190	31.7
Tax	374	154	142.7	294	27.3
Adj. net profit	1,193	415	187.9	896	33.1
Adj. EPS (INR)	7.5	2.6	187.5	5.6	32.9

Source: Company; IDBI Capital Research

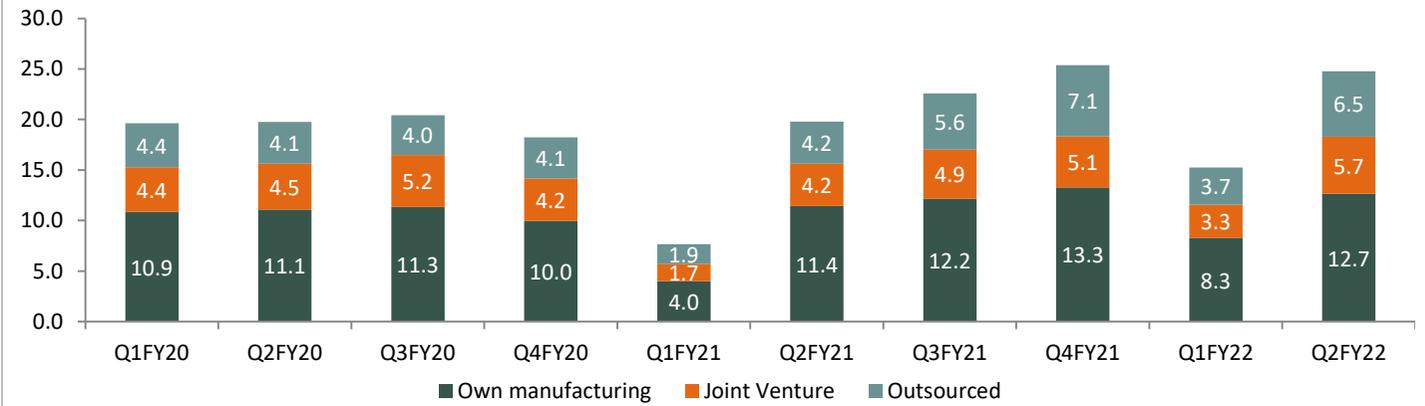
Exhibit 2: Actual vs. Estimates

(Rs mn)

Particulars (mn)	Q2FY22A	Q2FY22E	Variance (%)
Net Sales	9,736	7,639	27.4
EBITDA	1,805	1,344	34.3
<i>EBITDA Margin (%)</i>	<i>18.5</i>	<i>17.6</i>	<i>90bps</i>
Net Profit	1,193	830	43.8
EPS, Rs	7.5	5.2	43.8

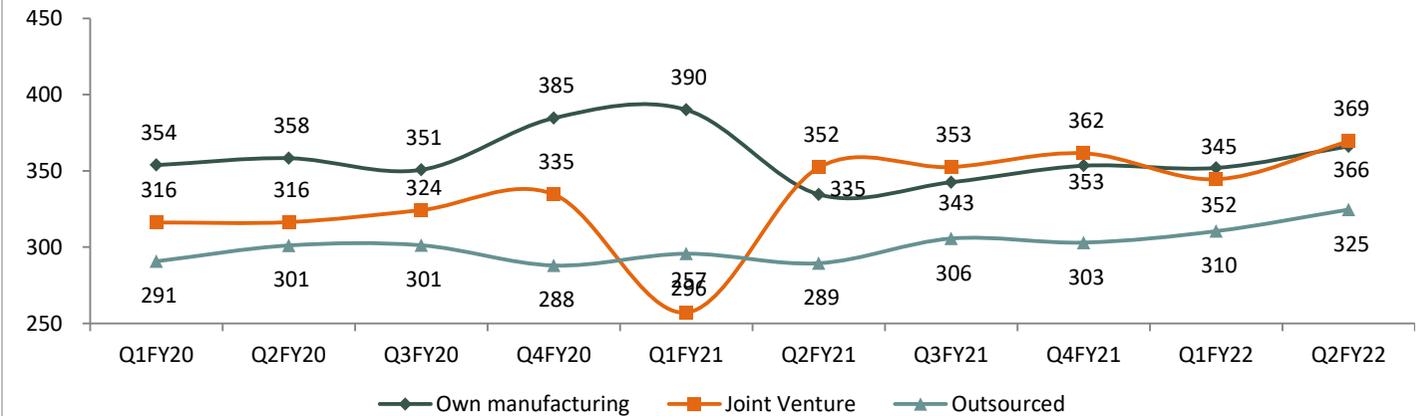
Source: Company; IDBI Capital Research

Exhibit 3: Sales volume contribution (MSM)



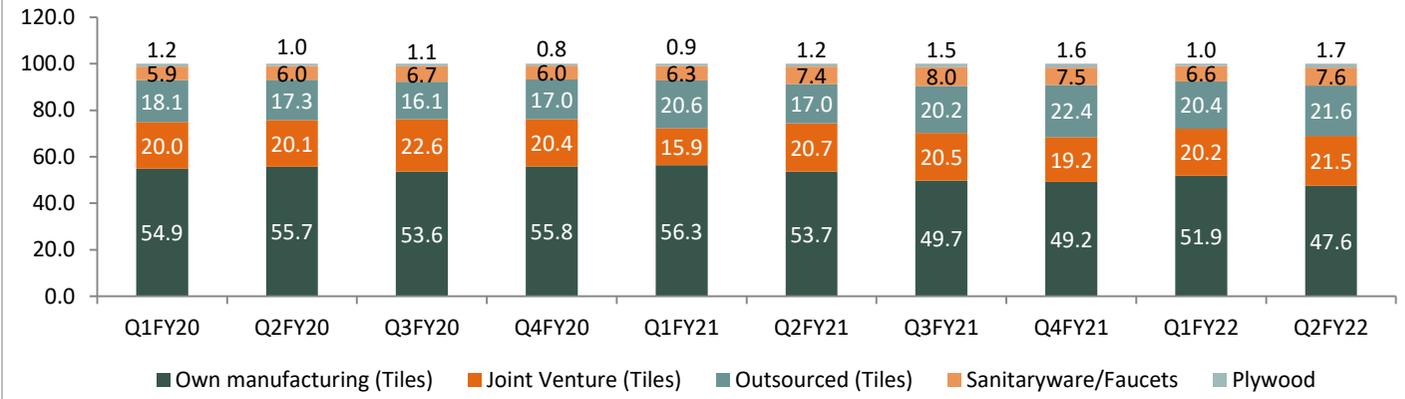
Source: Company; IDBI Capital Research

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: Mar.	FY21	FY22E	FY23E	FY24E
Net sales	27,809	33,312	39,308	46,187
<i>Growth (%)</i>	-	19.8	18.0	17.5
Operating expenses	(22,721)	(27,149)	(31,800)	(37,180)
EBITDA	5,088	6,163	7,508	9,006
<i>Growth (%)</i>	22.3	21.1	21.8	20.0
Depreciation	(1,067)	(1,172)	(1,227)	(1,282)
EBIT	4,021	4,991	6,281	7,724
Interest paid	(107)	(118)	(140)	(161)
Other income	213	234	258	284
Pre-tax profit	4,127	5,107	6,399	7,847
Tax	(1,038)	(1,285)	(1,611)	(1,975)
<i>Effective tax rate (%)</i>	25.2	25.2	25.2	25.2
Net profit	3,089	3,821	4,788	5,872
Adjusted net profit	3,089	3,821	4,788	5,872
<i>Growth (%)</i>	21.8	23.7	25.3	22.6
<i>Shares o/s (mn nos)</i>	159	159	159	159

Cash Flow Statement

(Rs mn)

Year-end: Mar.	FY21	FY22E	FY23E	FY24E
Pre-tax profit	4,127	5,107	6,399	7,847
Depreciation	1,067	1,172	1,227	1,282
Tax paid	(1,082)	(1,157)	(1,449)	(1,778)
Chg in working capital	470	(1,119)	(1,229)	(1,482)
Other operating activities	-	-	-	-
Cash flow from operations (a)	4,582	4,003	4,947	5,869
Capital expenditure	(1,058)	(1,257)	(1,006)	(1,008)
Chg in investments	39	(52)	(101)	(201)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(1,019)	(1,309)	(1,107)	(1,209)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(201)	211	218	210
Dividend (incl. tax)	(1,908)	(2,290)	(2,480)	(2,671)
Chg in minorities	9	-	-	-
Other financing activities	713	66	92	101
Cash flow from financing (c)	(1,387)	(2,012)	(2,170)	(2,360)
Net chg in cash (a+b+c)	2,176	682	1,670	2,300

Balance Sheet		(Rs mn)			
Year-end: Mar.	FY21	FY22E	FY23E	FY24E	
Net fixed assets	11,673	11,758	11,538	11,264	
Investments	78	129	230	431	
Other non-curr assets	372	372	372	372	
Current assets	13,143	15,070	18,168	22,092	
Inventories	3,731	4,253	4,891	5,625	
Sundry Debtors	4,317	4,964	5,659	6,451	
Cash and Bank	4,428	5,110	6,779	9,080	
Marketable Securities	-	-	-	-	
Loans and advances	419	477	548	624	
Total assets	25,266	27,330	30,308	34,159	
Shareholders' funds	18,689	20,220	22,528	25,729	
Share capital	159	159	159	159	
Reserves & surplus	18,530	20,061	22,369	25,570	
Total Debt	971	1,182	1,400	1,610	
Secured loans	313	360	414	476	
Unsecured loans	658	822	986	1,134	
Other liabilities	1,537	1,749	2,025	2,346	
Curr Liab & prov	3,424	3,533	3,708	3,828	
Current liabilities	3,195	3,352	3,510	3,613	
Provisions	229	181	199	214	
Total liabilities	5,931	6,464	7,134	7,785	
Total equity & liabilities	25,266	27,330	30,308	34,159	
Book Value (Rs)	119	129	143	164	

Source: Company; IDBI Capital Research

Financial Ratios		FY21	FY22E	FY23E	FY24E
Year-end: Mar.					
Adj EPS (Rs)		19.4	24.0	30.1	36.9
Adj EPS growth (%)		21.8	23.7	25.3	22.6
EBITDA margin (%)		18.3	18.5	19.1	19.5
Pre-tax margin (%)		14.8	15.3	16.3	17.0
ROE (%)		17.2	19.6	22.4	24.3
ROCE (%)		19.0	21.9	24.9	27.1
Turnover & Leverage ratios (x)					
Asset turnover (x)		1.1	1.3	1.4	1.4
Leverage factor (x)		1.4	1.4	1.3	1.3
Net margin (%)		11.1	11.5	12.2	12.7
Net Debt/Equity (x)		-0.2	(0.2)	(0.2)	(0.3)
Working Capital & Liquidity ratio					
Inventory days		49.0	47	45	44
Receivable days		56.7	54	53	51
Payable days		33.3	31	29	26

Valuation		FY21	FY22E	FY23E	FY24E
Year-end: Mar.					
PER (x)		64.4	52.1	41.6	33.9
Price / Book value (x)		10.5	9.7	8.7	7.7
PCE (x)		47.9	39.9	33.1	27.8
EV / Net sales (x)		7.0	5.9	4.9	4.1
EV / EBITDA (x)		38.4	31.7	25.8	21.3
Dividend Yield (%)		0.8	1.0	1.0	1.1



Notes

Dealing

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

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