

Gas price to be a key determinant of margins!

About the stock: Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 82.8 mn. sq. meters.(MSM)

- Apart from completed capex of ₹ 250 crore on tiles, it is adding 80 crore capex in sanitaryware segment and has acquired 51% stake in 4.8 MSM plant in Telangana with FY24 revenues potential of ₹ 180 crore.

Q1FY23 Results: Performance was marked by resilient margins.

- The topline was up 79.5% YoY at ₹ 1008.2 crore. Tiles sales volumes were up ~52.9% YoY at 23.3 MSM. Three-year volume CAGR stood at 6%. Tiles Revenues were up 76.5% YoY at ₹ 916.5 crore, with pricing growth contributing 15.4% YoY, undertaken owing to sharp rise in power costs.
- EBITDA was at ₹ 153.6 crore with resultant margins, flattish QoQ at 15.2%, aided by price hike and benefit of new wall tiles plant.
- PAT was at ₹ 92.3 crore, up 113.9% YoY

What should investors do? Kajaria's share price has grown at ~10% CAGR over the past five years (from ~₹660 in July, 2017 to ~₹ 1074 levels in July, 2022).

- Kajaria is a solid play on Tiles. We believe gas price uncertainty is fully built in. Thus, we maintain BUY

Target Price and Valuation: We value Kajaria at ₹ 1250/share, at 35x FY24 P/E.

Key triggers for future price performance:

- We expect 16% CAGR in tiles volume and realisations CAGR of 3.5%, resulting in tiles revenues CAGR of ~20% over FY22-24 to ₹ 4857 crore.
- The increased dividend payout (~45% vs. 20-25%, earlier) is likely to improve return ratios (RoCEs likely at 25%+ in FY24E vs ~21% in FY22)
- Directional movement of gas prices will be key determinant of overall margins trajectory

Alternate Stock Idea: Besides Kajaria, we like Brigade Enterprises in Real Estate space

- A play on Bengaluru real estate market
- BUY with a target price of ₹ 550

Kajaria

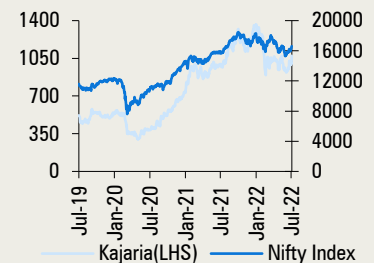
Particulars

Particular	Amount (₹ crore)
Market Capitalization	17,060
Total Debt (FY22)	128
Cash (FY22)	424
EV	16,764
52 week H/L (₹)	1375 / 885
Equity capital	15.9
Face value (₹)	1.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	47.5	47.5	47.5	47.5
DII	14.7	16.8	19.7	21.8
FII	24.9	22.5	21.3	19.6
Other	12.9	13.3	11.5	11.2

Price Chart



Key Risks

Key Risk: (i) Slowdown in demand; (ii) Gas price rise

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Key Financial Summary

(₹ crore)	FY20	FY21	FY22	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR (FY22-24E)
Net Sales	2,808.0	2,780.9	3,705.2	7.8%	4,642.9	5,351.6	20.2%
EBITDA	415.9	508.8	610.8	4.2%	740.8	880.7	20.1%
EBITDA Margin (%)	14.8	18.3	16.5		16.0	16.5	
PAT	255.3	308.1	377.1	8.3%	457.7	553.6	21.2%
EPS (₹)	16.1	19.4	23.7		28.8	34.8	
P/E (x)	66.9	55.4	45.3		37.3	30.8	
P/B (x)	10.0	9.1	8.0		7.3	6.5	
EV/EBITDA (x)	40.8	32.8	27.4		23.1	19.3	
RoCE (%)	16.3	19.7	21.5		23.9	25.7	
RoE	14.9	16.5	17.8		19.5	21.0	

Key business highlight and outlook

- Volume driver and current volume traction:** Kajaria has clocked robust sales volume, revenue in the tiles segment which improved to 23.3 MSM (up 53% YoY), ₹ 916.5 crore (up 76.5% YoY) respectively during Q1 FY23, albeit on the lower base. The healthy traction in tiles sales/volume (despite high input costs and increasing interest rates scenario) is primarily driven by revived customer sentiments, improved real-estate demands in Tier-II and below cities, and upped re-construction/renovation activities in metro regions.
- Gas price rise:** Gas prices for industry have continued to surge during Q1 FY23. For Kajaria, **average gas prices for Q1 FY23 in its northern, southern and Morbi plants stood at ~₹ 52/SCM, ~₹ 60/SCM and ₹ 67/SCM respectively (vs average gas prices in its northern, southern and Morbi plants Q4 FY22 stood at ~₹ 45.5/SCM, ~₹ 60/SCM and ₹ 62/SCM respectively). At present, prices at Morbi plants remains at ~₹67/SCM while prices at southern plant has increased to 72/SCM.** However, for north based plants, the prices remain quite volatile as company requires to outsource from spot market with frequent interruptions from existing gas sources.
- Price hike:** In order to offset the rise in input costs, **Kajaria has undertaken 2% price hike across its product portfolio during May'22**
- Capacity utilization:** Kajaria operated at almost peak capacity utilization during Q1 FY23 backed by healthy sales volume. **Going forward, the management expects utilization to remain at an elevated level with robust tiles and sanitaryware demand due to pick-up in construction activities.**
- Allied business:** Kajaria's subsidiaries and allied businesses reported 2.1 x YoY growth (to ₹ 91.7 crore) in Q1 FY23. Faucet and Sanitaryware revenues were up 93% YoY at ₹ 71.4 crore. The management expects segmental revenue to improve at decent pace over next few years to be led by introduction of newer products, strengthened distribution network and larger acceptance by consumers. In the plywood business, revenues improved 3.8x YoY and were at ₹ 20.3 crore, on the lower base.
- Guidance:** The management has **guided for 15-20% YoY volume growth in the tiles segment during FY23 likely to be driven by a) expected rise in demand from Tier II and below cities, b) healthy capacity utilizations, c) expected increase in Kajaria's capacity, d) enhanced distribution network and e) strong brand recall.** However, **the management has refrained from providing margin guidance with on-going volatility in gas prices, increased global uncertainty, and higher freight and packaging cost.**
- Industry update:** As per the management, the overall size for tiles industry during FY22 stood at ~₹ 33,700 crore (domestic: ₹ 21,000 crore; export: ~₹ 12,700 crore). Exports opportunity for Indian players, however, remained muted in FY22 due to Covid-19 disruptions, significant rise in gas prices, higher freight costs, and unavailability of containers at desired levels. Going forward, the management expects healthy demand revival for Indian tiles in the foreign territory to be aided by competitive price advantage with significant rise in electricity and gas costs for European and Chinese players. With these, **exports from Indian manufacturers is likely to reach ₹ 16,000+ crore during FY23. Demand in domestic market is expected to improve 5-6% during FY23 with rise in real-estate consumption. However, the margin on pressure remains on tiles manufacturers due to drastic surge in key input and gas costs. Further, cut-throat competitive landscape limits passing-on of increased costs to end-users.**
- Update on Morbi players.** Inflated raw material costs, increased freight rates and shortage of containers have resulted in a fall in demand for tiles products. The shutdown is also likely because of high gas prices and inadequate working capital. Therefore, tiles makers located at Morbi have huge unsold inventory at their warehouses. With a view to clear that inventory, units in Morbi have collectively decided to shut production for 30 days from August 10. However, majority of Kajaria' JVs manufacturing unit located at Morbi would be operational (except units of small JV players).
- Working capital:** Working capital improved to 57 days at Q1 FY23-end (vs 52 days at FY22-end) due to build-up in inventories for newly commissioned plant. Going forward, the management expects working capital days to hover at current levels to 50-60 days.

- **Ad spends:** Kajaria has spent ~₹ 19 crore towards marketing and advertisement during Q1 FY23. The spend is likely to remain at an elevated level going forward (expects to be at ₹ 100+ crore in FY23 vs ~₹ 80 crore in FY22)
- **Expansions:** Kajaria had commissioned 4.4 MSM of PVT capacity at its Morbi (Gujarat) plant during April'22. The other two projects i.e 4.2 MSM of ceramic floor tiles at Gailpur plant (Rajasthan) and 3.8 MSM of value added glazed vitrified tiles at Srikalahasti Plant (Andhra Pradesh) have also been commissioned during May'22. Additionally, the company is expected to invest ₹ 80 crores to set up a 8 lakh pcs per annum sanitaryware manufacturing facility in Gujarat (revenue potential: ~₹ 175-180 crore at full capacity utilization). The expansion is expected to be completed by December' 23. Further, the company is adding new capacity of 6 lakh pieces/annum in their faucet plant at Gailpur, which will take the total the capacity to 16 lakh pieces/ annum. Estimated cost for this expansion is ~₹ 5 crore and expected to be completed by October'22.
- **Acquisition:** Kajaria has approved **acquisition of 51% equity shares of South Asian Ceramic Tiles Pvt Ltd at a consideration of ₹ 28.5 crore and will have capital employed of ~₹ 60 crore.** It has a facility at Balanagar, Telangana and manufactures 60 x 60 cm and 60 x 120 cm ceramic floor tiles (annual capacity of 4.8 MSM). **The acquisition is mainly targeted to strengthen its foothold in South India thereby enlarging Kajaria's tiles markets to make more dealers,** by reducing the transit time and by increasing the rotation of re-ordering by the dealers of the company. **Capex at greenfield unit of such capacity would have been ~₹ 120 crore and would have taken 24 months to commission the plant. The company is targeting revenue of ₹ 130 crore, ₹ 180 crore in FY23, FY24 respectively from the plant.**
- **Capex:** The management has guided for ₹ 200-250 crore of capex each over the next few years to be incurred for expansion and maintenance purpose. These would be funded primarily funded by internal accruals.

Kajaria with a net cash balance sheet and superior brand, is a quasi-play on improved scenario of real estate and expanding reach to tier 2/3 cities. We believe gas price uncertainty is fully built in We maintain BUY. We value it at multiple at 35x FY24E P/E to ascribe revised target price of ₹ 1250/share.

Peer Comparison

Kajaria enjoys superior realisations (~10-15% premium to other listed peers) owing to better brand recall, has a strong balance sheet (net cash of ~₹340 crore) and commands superior margins range (~15-17% vs. 8-12% for peers) resulting in stronger return ratio of 20+% vs (10-11% for peers)

Exhibit 1: Variance Analysis

	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ (%)	Comments
Net Sales	1,008.2	1,024.2	561.7	79.5	1,101.8	-8.5	Tiles sales volumes were up ~52.9% YoY at 23.3 MSM. Three-year volume CAGR stood at 6%. Tiles Revenues were up 76.5% YoY at ₹ 916.5 crore, with pricing growth contributing 15.4% YoY, undertaken owing to sharp rise in power costs Faucet and Sanitaryware revenues were up ~95% YoY at ₹ 71.4 crore. Plywood revenues were up 2.8x YoY at ₹ 20.3 crore
Other Income	8.1	8.0	6.0	34.8	7.0	15.1	
Net Purchase of Stock in Trad	120.6	171.0	27.6	336.3	223.8	-46.1	
Cost of Materials Consumed	253.4	245.0	168.7	50.2	263.2	-3.7	
Staff cost	114.4	108.0	93.3	22.6	105.8	8.1	
Other expenditure	97.8	107.0	62.1	57.6	114.8	-14.8	
Power & Fuel cost	268.5	250.0	129.6	107.1	228.3	17.6	
EBITDA	153.6	143.2	80.4	91.0	165.9	-7.4	
EBITDA Margin (%)	15.2	14.0	14.3	92 bps	15.1	17 bps	
Depreciation	32.4	33.0	26.5	22.0	32.6	-0.8	
Interest	3.6	3.5	3.0	19.5	4.0	-9.3	
PBT	125.7	114.7	56.9	121.0	136.4	-7.8	
Taxes	32.8	29.0	15.3	113.8	39.1	-16.3	
PAT	92.3	84.7	43.2	113.9	95.8	-3.6	

Key Metrics

Sales Volume (in MSM)	23.3	27.8	15.3	52.9	26.0	-10.2
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY22		FY23E			FY24E			Comments
	Old	New	% Change	Old	New	% Change			
Revenue	3,705.2	4,542.2	4,656.1	2.5	5,086.5	5,351.6	5.2	Realign estimates	
EBITDA	610.8	725.6	720.1	-0.8	837.7	880.7	5.1		
EBITDA Margin (%)	16.5	16.0	15.5	-51 bps	16.5	16.5	-1 bps		
PAT	377.1	452.0	442.2	-2.2	528.4	553.6	4.8		
EPS (₹)	23.7	28.4	27.8	-2.2	33.2	34.8	4.8		

Source: Company, ICICI Direct Research

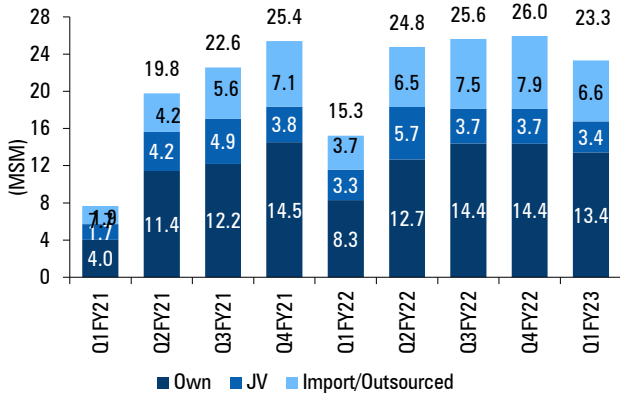
Exhibit 3: Assumptions

Volume in MSM	FY21	FY22	Current	Earlier	New	Earlier	Comments
			FY23E	FY23E	FY24E	FY24E	
Production	52.0	68.4	84.3	77.9	89.4	85.2	
Own	37.7	50.4	63.0	61.1	67.8	68.3	
JV	14.3	17.9	21.3	16.8	21.6	16.8	
Sales	75.4	91.7	107.6	107.0	123.4	119.2	
Own	44.6	51.9	61.8	61.1	67.8	68.3	
JV	12.1	14.3	15.4	15.0	21.6	16.8	
Import/Outsourced	18.7	25.4	30.5	30.9	34.0	34.0	

Source: Company, ICICI Direct Research

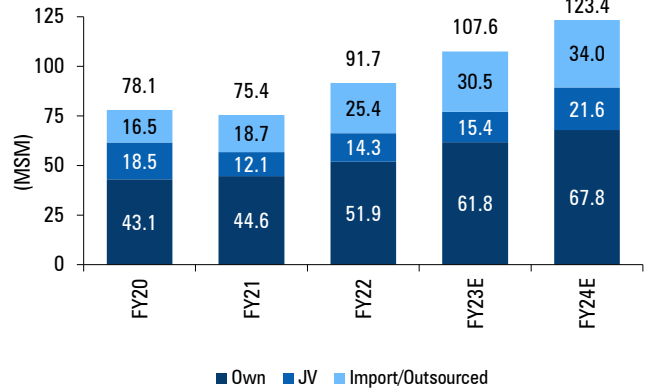
Company Analysis

Exhibit 4: Quarterly sales volume trend



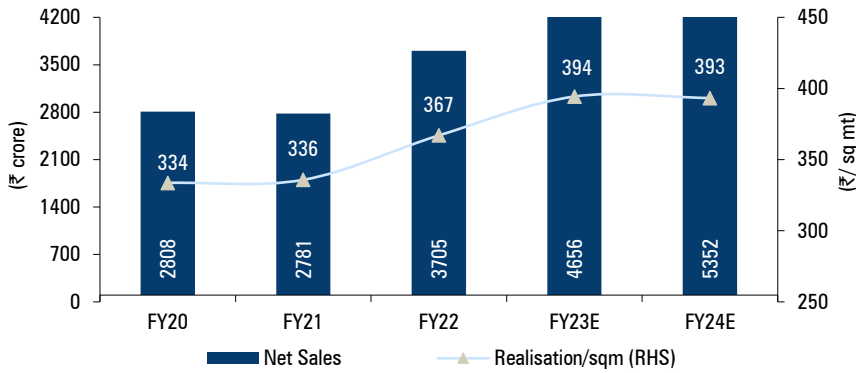
Source: Company, ICICI Direct Research

Exhibit 5: Annual sales volume trend



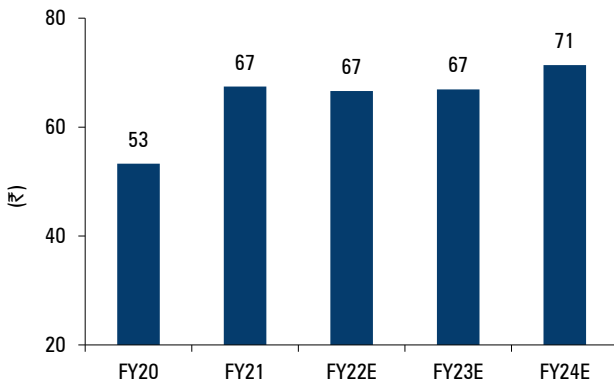
Source: Company, ICICI Direct Research

Exhibit 6: Revenue, realisation trend



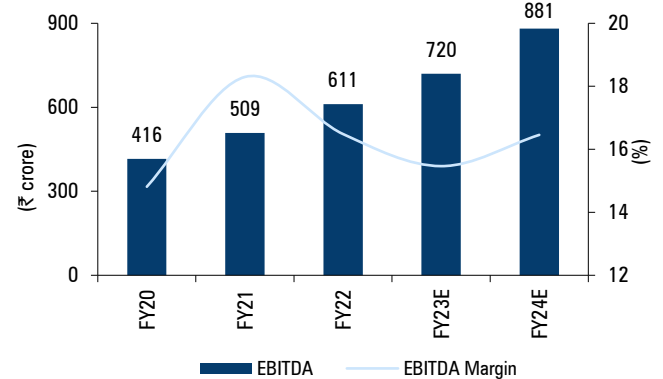
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/sq metre trend



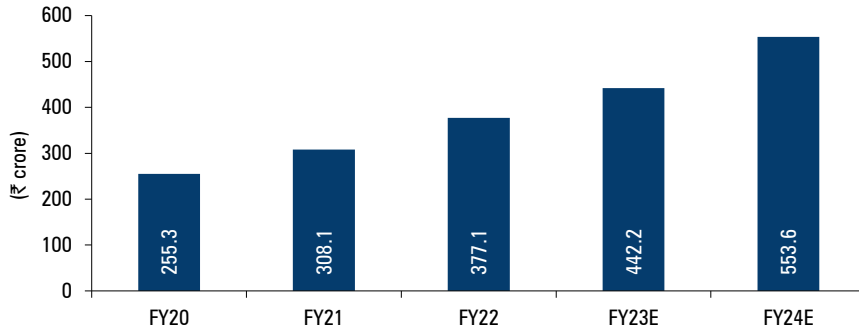
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



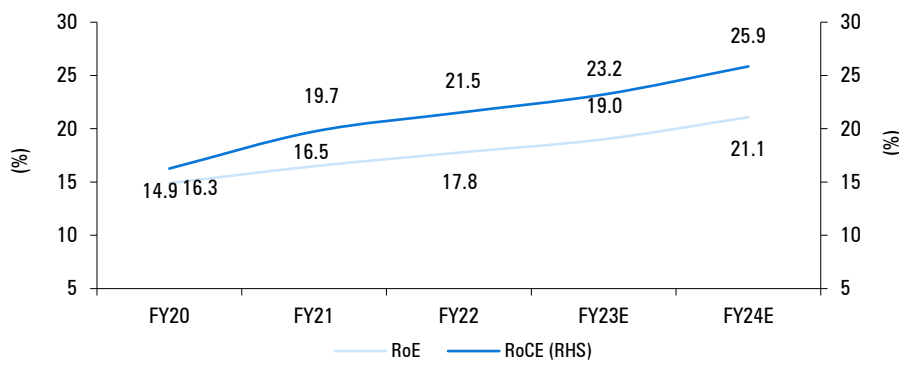
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Net Sales	2,780.9	3,705.2	4,656.1	5,351.6
Other Operating Income	-	-	-	-
Total operating income	2,780.9	3,705.2	4,656.1	5,351.6
Raw Material Expenses	656.6	730.3	819.5	936.5
Cost of Materials Consumed	590.4	824.8	1,094.2	1,236.2
Employee benefit expenses	324.7	407.7	470.3	535.2
Other Expenses	700.5	1,131.7	1,552.1	1,763.0
Total operating expenses	2,272.1	3,094.4	3,936.0	4,470.9
EBITDA	508.8	610.8	720.1	880.7
Interest	10.7	12.7	12.8	12.8
Depreciation	106.7	115.4	138.7	152.5
Other income	21.3	27.6	32.0	34.0
PBT	412.7	510.2	600.6	749.5
Taxes	103.8	127.4	151.3	188.9
PAT before MI	308.9	382.8	449.2	560.6
Minority Interest	0.9	5.8	7.0	7.0
PAT	308.1	377.1	442.2	553.6
Growth (%)	20.6	22.4	17.3	25.2
EPS (₹)	19.4	23.7	27.8	34.8

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Profit after Tax	308.1	377.1	442.2	553.6
Depreciation	106.7	115.4	138.7	152.5
Interest	10.7	12.7	12.8	12.8
Others	82.5	99.9	119.3	154.9
Cash Flow before wc changes	508.0	605.0	713.1	873.7
Net Increase in Current Assets	110.4	(277.7)	(306.4)	(212.7)
Net Increase in Current Liabilities	(23.1)	174.6	142.4	104.2
Net CF from operating activities	476.3	377.1	397.8	576.3
(Purchase)/Sale of Fixed Assets	(92.6)	(321.0)	(532.2)	(250.0)
Net CF from Investing activities	(66.1)	(288.4)	(500.2)	(216.0)
Inc / (Dec) in Equity Capital	5.6	3.8	-	(0.0)
Dividend	(159.1)	(127.3)	(238.5)	(254.4)
Interest paid	(10.7)	(12.7)	(12.8)	(12.8)
Inc / (Dec) in Secured Loans	(17.6)	30.9	-	-
Inc / (Dec) in Unsecured Loans	(11.7)	(1.8)	-	-
Net CF from Financing activities	(192.6)	(107.0)	(244.3)	(260.2)
Net Cash flow	217.6	(18.4)	(346.8)	100.1
Opening Cash	225.2	442.7	424.4	77.6
Closing Cash/ Cash Equivalent	442.7	424.4	77.6	177.8

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
₹ crore				
(₹ Crore)	FY21	FY22	FY23E	FY24E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,853.0	2,106.5	2,310.2	2,609.4
Total Shareholders funds	1,868.9	2,122.4	2,326.1	2,625.3
Minority Interest	64.6	64.8	71.8	78.8
Total Debt	98.8	127.9	127.9	127.9
Other Liabilities	95.9	98.5	98.5	98.5
Total Liabilities	2,144.8	2,431.5	2,642.3	2,948.5
Assets				
Gross Block	1,917.1	1,990.0	2,522.2	2,772.2
Less Acc. Dep	735.9	851.2	989.9	1,142.4
Net Block	1,181.2	1,138.8	1,532.2	1,629.8
Net Intangibles Assets	11.2	10.8	10.8	10.8
Capital WIP	14.9	263.4	263.4	263.4
Total Fixed Assets	1,207.3	1,413.0	1,806.4	1,904.0
Investments	5.0	-	-	-
Inventory	373.1	465.9	586.8	674.5
Sundry Debtors	431.7	513.3	663.3	762.4
Loans & Advances	39.5	138.3	173.8	199.7
Cash & Bank Balances	442.7	424.4	77.6	177.8
Other Current Assets	27.3	31.8	31.8	31.8
Total Current Assets	1,314.3	1,573.6	1,533.3	1,846.1
Trade Payable	207.2	298.1	374.7	430.6
Other Current Liabilities	168.3	248.9	312.8	359.5
Provisions	6.2	8.0	10.0	11.5
Net Current Assets	932.5	1,018.6	835.8	1,044.5
Total Assets	2,144.8	2,431.5	2,642.3	2,948.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data (₹)				
EPS - Diluted	19.4	23.7	27.8	34.8
Cash EPS	26.1	31.0	36.5	44.4
Book Value	117.5	133.5	146.3	165.1
Dividend per share	10.0	11.0	14.0	16.0
Operating Ratios (%)				
EBITDA / Net Sales	18.3	16.5	15.5	16.5
PAT / Net Sales	11.1	10.2	9.5	10.3
Inventory Days	49	46	46	46
Debtor Days	57	51	52	52
Creditor Days	27	29	29	29
Return Ratios (%)				
RoNW	16.5	17.8	19.0	21.1
RoCE	19.7	21.5	23.2	25.9
RoC	23.9	28.6	25.4	29.2
Valuation Ratios (x)				
EV / EBITDA	32.8	27.4	23.8	19.3
P/E (Diluted)	55.4	45.3	38.6	30.8
EV / Net Sales	6.0	4.5	3.7	3.2
Market Cap / Sales	6.1	4.6	3.7	3.2
Price to Book Value	9.1	8.0	7.3	6.5
Dividend Yield (%)	0.9	1.0	1.3	1.5
Solvency Ratios (x)				
Net Debt / Equity	(0.2)	(0.1)	0.0	(0.0)
Debt/EBITDA	0.2	0.2	0.2	0.1
Current Ratio	2.3	2.1	2.1	2.1
Quick Ratio	1.3	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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