

Covid-19 to impact FY21 sharply...

Kajaria Ceramics posted a weak set of Q4FY20 numbers on the topline front with steep volume decline due to Covid-19. Sales volumes fell 20% YoY to 18.2 MSM on account of Covid-19 impact, specifically in the second of March. However, it is pertinent to note that the volume decline was relatively lower than ~28% decline reported by its key peer Somany Ceramics. The topline de-grew 20% YoY to ₹ 652 crore. The EBITDA margin contracted 76 bps YoY to 14.3% and was higher than our expectation of 13.2%, largely on account of lower other expenses. EBITDA at ₹ 93.4 crore fell 24.1% YoY. Weakness at the operating level percolated to PAT, which fell 24.9% YoY to ₹ 49.6 crore.

Washout FY21 likely; sharp recovery in FY22 expected

Kajaria's sales volume decline of ~20% YoY was largely attributable to disruption in logistics and closure of plants due to lockdown. In terms of resumption, the company restarted its Gailpur plant (partially), Malootana & Jaxx plants (in full capacity) in June and plans to open more plants gradually. However, overall weakness in the real estate sector and slowdown in the economy implies that volume growth would only be back by FY22. The management has refrained from giving guidance for FY21E. We believe we are staring at a steep decline in volumes with the only solace being a sharp cut in operating costs. Overall, we expect sales volumes to fall 19% YoY in FY21 with a sharp recovery in the form of 25% volume growth on a distressed base in FY22. Therefore, we expect muted 0.7% revenue CAGR in FY20-22E to ₹ 2848 crore. Cost cutting measures are expected to restrict the margin decline at 120 bps to 13.6% in FY21E and then recover to a normalised margin of 14.5% in FY22E.

Balance sheet remains strong

Amid a challenging operational environment, Kajaria has been able to maintain a strong balance sheet. The company reported - 0.1x net D/E and has a net cash of ₹ 107 crore on its books as of Q4FY20. WC days did face some stress at 73 days in Q4FY20 (65 days in Q3FY20). We expect this situation to prevail for FY21.

Valuation & Outlook

While it is likely to be a washout FY21 for the tiles industry, as a whole, with discretionary nature of demand and real estate pressure, Kajaria with a net cash balance sheet and relatively resilient performance, given superior brand, is likely to tide over the challenging times. However, we would turn constructive once a volume recovery is seen (likely only by FY22). Hence, we maintain our **HOLD** recommendation on the stock with a revised target price of ₹ 395/share, at 27x FY22E P/E.

Kajaria

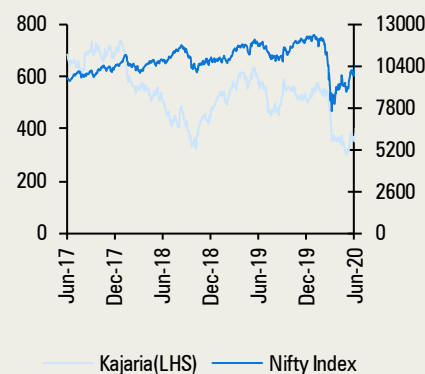
Particulars

Particular	Amount (₹ crore)
Market Capitalization	6,219.3
Total Debt	118.1
Cash	225.2
EV	6,112.3
52 week H/L (₹)	606 / 295
Equity capital	15.9
Face value (₹)	1.0

Key Highlights

- We believe we are staring at a steep decline in volumes with the only solace being a sharp cut in operating costs. Overall, we expect sales volumes to fall 19% YoY in FY21 with a sharp recovery in the form of 25% volume growth on a distressed base in FY22k
- Maintain HOLD with revised target price of ₹ 395/share

Price Chart



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Key Financial Summary

(₹ crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	2,710.6	2,956.2	2,808.0	2,271.8	2,848.1	0.7%
EBITDA	456.4	449.5	415.9	309.2	413.9	-0.2%
EBITDA Margin (%)	16.8	15.2	14.8	13.6	14.5	
PAT	235.3	226.6	255.3	148.4	232.9	-4.5%
EPS (₹)	14.8	14.2	16.1	9.3	14.6	
P/E (x)	26.5	27.5	24.4	41.9	26.7	
P/B (x)	4.6	4.0	3.6	3.4	3.1	
EV/EBITDA (x)	13.7	13.5	14.7	19.2	14.0	
RoCE (%)	22.7	20.2	16.3	10.4	14.5	
RoE	17.4	14.4	14.9	8.1	11.6	

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Net Sales	652.0	723.4	815.3	-20.0	741.3	-12.0	Topline de-growth on account of Covid-19 impact
Other Income	6.9	5.9	6.5	6.0	5.1	34.9	
Net Purchase of Stock in Trad	68.2	97.7	148.9	-54.2	94.2	-27.6	
Cost of Materials Consumed	172.4	190.4	205.7	-16.2	195.1	-11.6	
Staff cost	86.9	97.7	88.8	-2.2	93.0	-6.6	
Other expenditure	89.6	104.9	103.4	-13.4	96.7	-7.3	
EBITDA	93.4	95.3	122.9	-24.1	111.3	-16.1	Better than expected margins on account of lower other expenses
EBITDA Margin (%)	14.3	13.2	15.1	-76 bps	15.0	-70 bps	
Depreciation	28.3	27.8	21.7	30.7	27.8	2.0	
Interest	4.9	5.0	3.3	50.8	4.8	1.9	
PBT	67.0	68.5	103.1	-35.0	83.8	-20.1	
Taxes	18.2	22.6	36.2	-49.8	22.6	-19.4	
PAT	49.6	45.9	66.0	-24.9	61.5	-19.4	PAT de-growth mainly on account of topline de-growth

Key Metrics							
Sales Volume (in MSM)	18.2	19.5	22.5	-19.0	20.4	-10.8	Volume de-growth on account of Covid-19 impact

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY19	FY20	FY21E			FY22E	Comments
			Old	New	% Change	New	
Revenue	2,956.2	2,808.0	2,952.5	2,271.8	-23.1	2,848.1	
EBITDA	449.5	415.9	436.8	309.2	-29.2	413.9	
EBITDA Margin (%)	15.2	14.8	14.8	13.6	-118 bps	14.5	
PAT	226.6	255.3	254.0	148.4	-41.6	232.9	
EPS (₹)	14.2	16.1	16.0	9.3	-41.6	14.6	

Source: Company, ICICI Direct Research

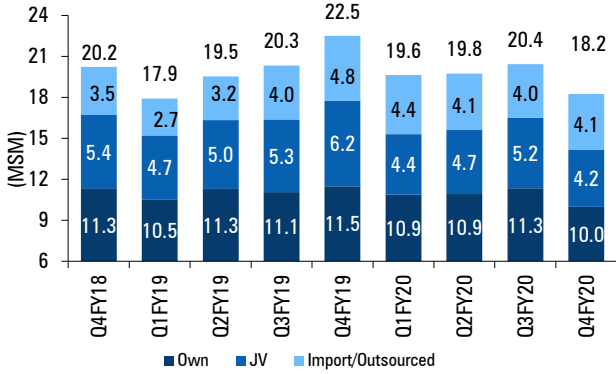
Exhibit 3: Assumptions

Volume in MSM	FY18	FY19	FY20	Current	Earlier	Current	Comments
				FY21E		FY22E	
Production	60.2	67.4	67.0	46.8	61.9	61.5	
Own	40.8	46.0	45.6	31.5	41.5	42.0	
JV	19.4	21.4	21.4	15.3	20.4	19.5	
Sales	71.9	80.3	86.1	61.8	79.2	77.3	
Own	39.8	44.4	45.6	31.5	41.5	42.0	
JV	19.0	21.3	20.6	15.3	20.4	19.5	
Import/Outsourced	13.1	14.7	19.9	15.0	17.3	15.7	

Source: Company, ICICI Direct Research

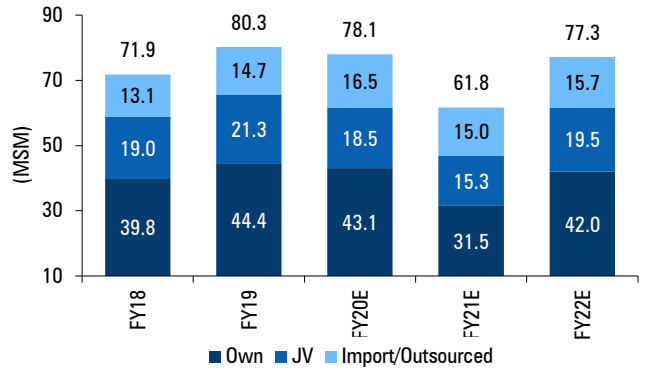
Company Analysis

Exhibit 4: Quarterly sales volume trend



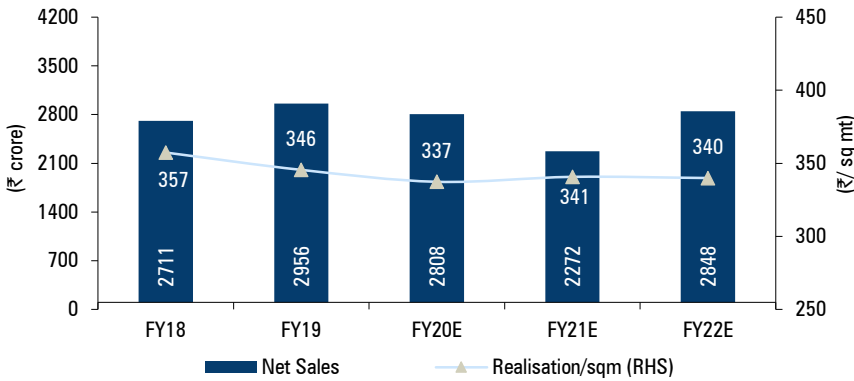
Source: Company, ICICI Direct Research

Exhibit 5: Annual sales value trend



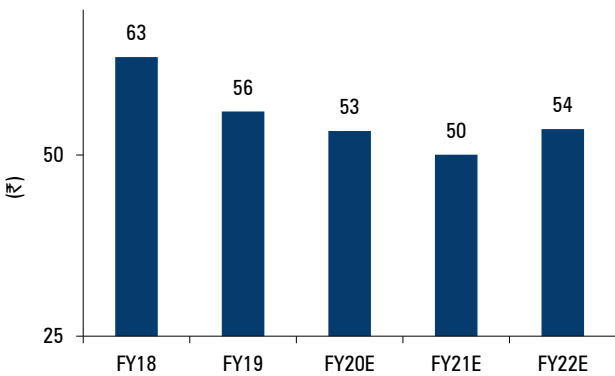
Source: Company, ICICI Direct Research

Exhibit 6: Revenue, realisation trend



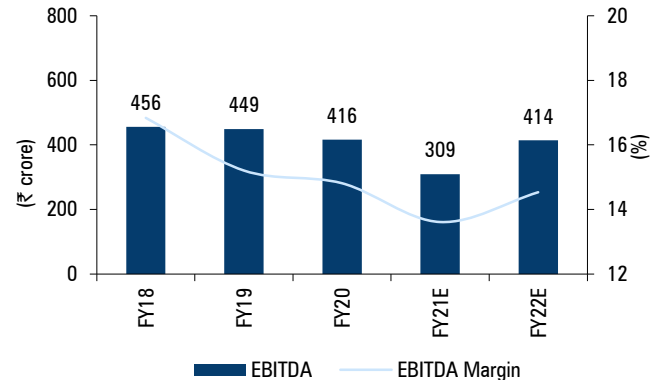
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/sq metre trend



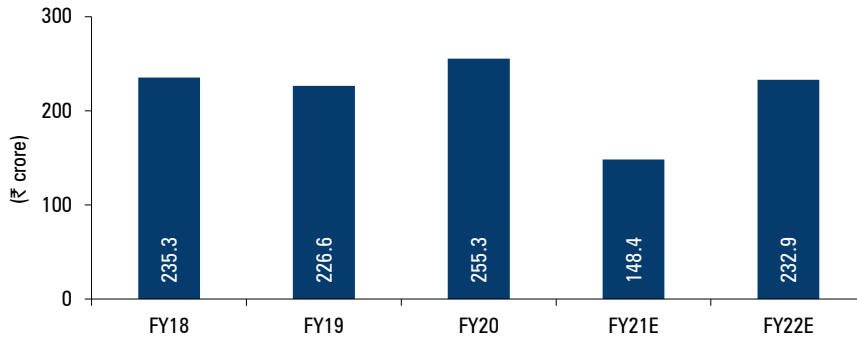
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



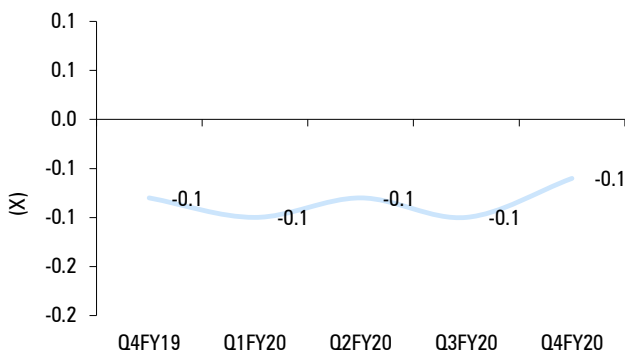
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



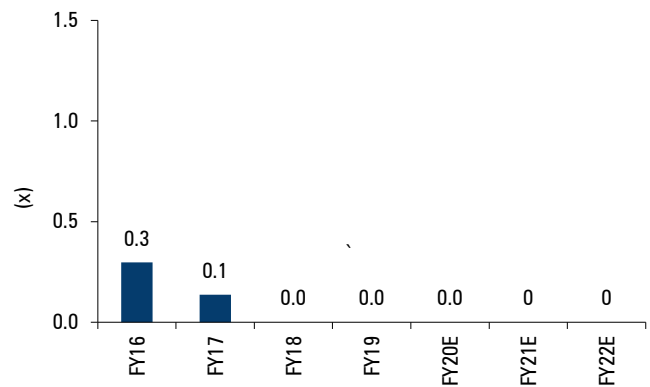
Source: Company, ICICI Direct Research

Exhibit 10: Quarterly debt to equity trend



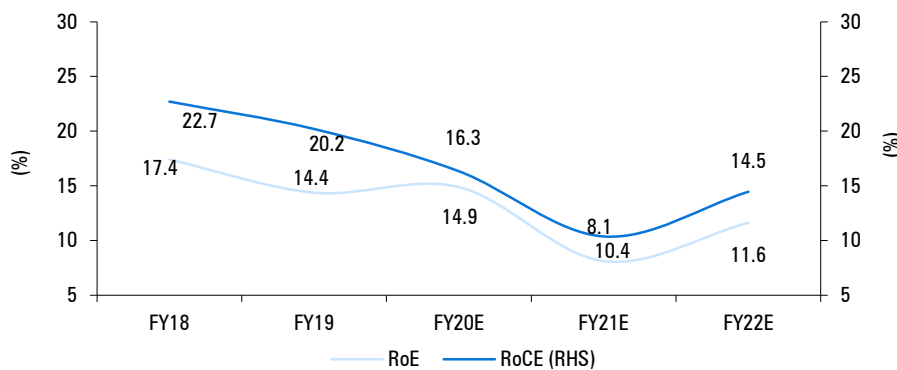
Source: Company, ICICI Direct Research

Exhibit 11: Annual net debt to equity trend



Source: Company, ICICI Direct Research

Exhibit 12: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 13: Valuation

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBIT (x)	RoNW (%)	RoCE (%)
FY18	2710.6	6.5	14.8	-7.0	26.3	13.7	17.4	22.7
FY19	2956.2	9.1	14.2	-3.7	27.4	13.5	14.4	20.2
FY20	2808.0	-5.0	16.1	12.7	24.3	14.6	14.9	16.3
FY21E	2271.8	-19.1	9.3	-41.9	41.8	19.2	8.1	10.4
FY22E	2848.1	25.4	14.6	56.9	26.6	14.0	11.6	14.5

Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
₹ crore				
(₹ Crore)	FY19	FY20	FY21E	FY22E
Net Sales	2,956.2	2,808.0	2,271.8	2,848.1
Other Operating Income	-	-	-	-
Total operating income	2,956.2	2,808.0	2,271.8	2,848.1
Raw Material Expenses	354.6	364.7	263.5	330.4
Cost of Materials Consumed	791.8	736.4	568.0	740.5
Employee benefit expenses	345.5	356.9	295.3	323.3
Other Expenses	1,014.9	934.2	835.8	1,040.0
Total operating expenses	2,506.7	2,392.1	1,962.6	2,434.2
EBITDA	449.5	415.9	309.2	413.9
Interest	15.6	19.5	24.1	24.1
Depreciation	89.1	108.1	112.7	114.9
Other income	18.0	24.2	25.9	36.5
PBT	358.0	312.5	198.4	311.4
Taxes	129.3	58.9	50.0	78.5
PAT before MI	228.8	253.5	148.4	232.9
Minority Interest	2.2	(1.8)	-	-
PAT	226.6	255.3	148.4	232.9
Growth (%)	(3.7)	12.7	(41.9)	56.9
EPS (₹)	14.2	16.1	9.3	14.6

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
₹ crore				
(₹ Crore)	FY19	FY20	FY21E	FY22E
Profit after Tax	226.6	255.3	148.4	232.9
Depreciation	89.1	108.1	112.7	114.9
Interest	15.6	19.5	24.1	24.1
Others	111.3	34.8	24.1	42.0
Cash Flow before wc changes	442.5	417.7	309.2	413.9
Net Increase in Current Assets	(54.5)	(74.6)	158.6	(198.9)
Net Increase in Current Liabilities	26.6	(73.3)	(77.9)	83.7
Net CF from operating activit	282.7	214.5	339.9	220.2
(Purchase)/Sale of Fixed Assets	(97.6)	(116.3)	(152.0)	(40.0)
Net CF from Investing activit	(79.5)	(101.9)	(126.1)	(3.5)
Inc / (Dec) in Equity Capital	54.0	(58.5)	-	(0.0)
Dividend	(56.6)	(57.4)	(37.1)	(57.1)
Interest paid	(15.6)	(19.5)	(24.1)	(24.1)
Inc / (Dec) in Secured Loans	(11.0)	10.2	-	-
Inc / (Dec) in Unsecured Loans	(3.7)	(12.3)	-	-
Net CF from Financing activit	(33.2)	(139.8)	(61.2)	(81.1)
Net Cash flow	170.0	(27.2)	152.7	135.6
Opening Cash	82.4	252.4	225.2	377.9
Closing Cash/ Cash Equivaler	252.4	225.2	377.9	513.5

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
₹ crore				
(₹ Crore)	FY19	FY20	FY21E	FY22E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,559.0	1,698.4	1,809.7	1,985.5
Total Shareholders funds	1,574.9	1,714.3	1,825.6	2,001.4
Minority Interest	65.9	63.7	63.7	63.7
Total Debt	120.3	118.1	118.1	118.1
Other Liabilities	107.3	110.9	110.9	110.9
Total Liabilities	1,873.0	2,030.9	2,142.2	2,318.0
Assets				
Gross Block	1,658.9	1,842.3	1,994.3	2,034.3
Less Acc. Dep	591.7	699.8	812.5	927.5
Net Block	1,067.1	1,142.5	1,181.8	1,106.9
Net Intangibles Assets	10.7	11.2	11.2	11.2
Capital WIP	93.4	25.7	25.7	25.7
Total Fixed Assets	1,171.2	1,179.4	1,218.7	1,143.8
Investments	0.3	10.1	10.1	10.1
Inventory	405.8	512.7	414.8	520.0
Sundry Debtors	475.1	396.7	342.3	429.2
Loans & Advances	35.4	33.2	26.8	33.6
Cash & Bank Balances	252.4	225.2	377.9	513.5
Other Current Assets	33.0	81.3	81.3	81.3
Total Current Assets	1,201.7	1,249.1	1,243.2	1,577.6
Trade Payable	309.1	239.3	193.6	242.7
Other Current Liabilities	175.7	163.4	132.2	165.8
Provisions	15.5	5.0	4.0	5.1
Net Current Assets	701.4	841.4	913.3	1,164.1
Total Assets	1,873.0	2,030.9	2,142.2	2,318.0

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
	FY19	FY20	FY21E	FY22E
Per Share Data (₹)				
EPS - Diluted	14.2	16.1	9.3	14.6
Cash EPS	19.9	22.9	16.4	21.9
Book Value	99.1	107.8	114.8	125.9
Dividend per share	3.6	3.6	2.3	3.6
Operating Ratios (%)				
EBITDA / Net Sales	15.2	14.8	13.6	14.5
PAT / Net Sales	7.7	9.1	6.5	8.2
Inventory Days	50	67	67	67
Debtor Days	59	52	55	55
Creditor Days	38	31	31	31
Return Ratios (%)				
RoNW	14.4	14.9	8.1	11.6
RoCE	20.2	16.3	10.4	14.5
RoC	23.6	17.4	11.4	16.9
Valuation Ratios (x)				
EV / EBITDA	13.5	14.7	19.2	14.0
P/E (Diluted)	27.5	24.4	41.9	26.7
EV / Net Sales	2.1	2.2	2.6	2.0
Market Cap / Sales	2.1	2.2	2.7	2.2
Price to Book Value	4.0	3.6	3.4	3.1
Dividend Yield (%)	0.9	0.9	0.6	0.9
Solvency Ratios (x)				
Net Debt / Equity	(0.1)	(0.1)	(0.1)	(0.2)
Debt/EBITDA	0.3	0.3	0.4	0.3
Current Ratio	1.9	2.5	2.6	2.6
Quick Ratio	1.1	1.3	1.4	1.3

Source: Company, ICICI Direct Research

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