

## Stupendous performance yet again!

Kajaria Ceramics' performance was strong across topline & bottomline. Tiles sales volumes were up 39.2% YoY at 25.4 MSM, driven by a stellar rebound in demand and benign base (Q4FY20 had 19% volume decline). The topline was up 46.1% YoY at ₹ 952.5 crore, driven by strong volume growth and realisations (up 2.8% YoY). Tiles revenues were up 43.1% YoY to ₹ 865.8 crore. Faucet and sanitaryware revenues were up 73% YoY at ₹ 71.3 crore. Plywood revenues were up 165% YoY at ₹ 15.3 crore, on a low base. EBITDA was at ₹ 190.9 crore with margins at 20%, up 573 bps YoY driven by operating leverage. PAT at ₹ 127.1 crore was up 156.3% YoY.

## Q1 to witness Covid impact; recovery likely from Q2 onwards

The management indicated that Covid has impacted overall operations with closure at dealership levels. It indicated that in April 2021, the company achieved ~75% of the internally projected topline while for May 2021, it was ~35%. It also indicated that June, 2021 demand has been recovering well with unlocking in many states. It is likely to achieve 75% of the estimated topline. Owing to Covid impact, it refrained from providing guidance (earlier guided for 20-25% topline growth with 20%+ margins in FY21). However, the management indicated a recovery is likely to be swift and expects normalisation by Q2FY22, post which they would revisit the guidance.

## Expansion outlined; demand traction to remain robust

Kajaria has outlined three brownfield expansion (to be funded from internal accruals), which includes **a) Gailpur (Rajasthan):** 4.2 MSM of ceramic tiles with capex of ₹ 60 crore; expected to be completed by March 2022 with likely annual turnover: ₹ 135-140 crore), **b) Srikalahasthi Plant:** 3.8 MSM of large sized GVT tiles at a capex of ₹ 110 crore; expected to be completed by December 2021 with likely annual turnover: ₹ 200 crore) and **c) Jaxx plant, Morbi (Gujarat):** 4.4 MSM of PVT tiles for capex of ₹ 80 crore; expected to be completed by January 2022 (likely annual turnover: ₹ 165-175 crore). The company expects medium term demand traction to remain robust driven by a) export driven volume diversion from Morbi, b) stronger market share through exclusive dealers and c) overall strong demand traction in home improvement segment. Driven by demand tailwinds and capacity expansion, we bake in 18% CAGR in tiles volume in FY21-23 and realisations CAGR of ~2%, resulting in tiles revenues of ₹ 3641 crore.

## Valuation & Outlook

The outlining of capex clearly reflects the strong growth tailwind sustenance. Domestic market is also likely to continue robust growth with diversion of Morbi volumes to exports. Kajaria with a net cash balance sheet and superior brand, is a quasi-play on improved scenario. We maintain **BUY** and assign higher multiple at 36x P/E (vs. 29x FY23E P/E, earlier) to ascribe revised target price of ₹ 1175/share (earlier ₹ 950).

### Key Financial Summary

(₹ crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales	2,956.2	2,808.0	2,780.9	3,321.4	4,046.4	20.6%
EBITDA	449.5	415.9	508.8	664.8	814.0	26.5%
EBITDA Margin (%)	15.2	14.8	18.3	20.0	20.1	
PAT	226.6	255.3	308.1	419.4	519.5	29.9%
EPS (₹)	14.2	16.1	19.4	26.4	32.7	
P/E (x)	71.4	63.4	52.5	38.6	31.1	
P/B (x)	10.3	9.4	8.7	7.8	6.9	
EV/EBITDA (x)	35.7	38.6	31.1	23.9	19.3	
RoCE (%)	20.2	16.3	19.7	24.5	27.0	
RoE	14.4	14.9	16.5	20.1	22.1	

Source: Company, ICICI Direct Research

# Kajaria

### Particulars

Particular	Amount (₹ crore)
Market Capitalization	16,169.7
Total Debt (FY21)	99.1
Cash (FY21)	442.7
EV	15,826.0
52 week H/L (₹)	1031 / 345
Equity capital	15.9
Face value (₹)	1.0

### Key Highlights

- We maintain BUY with revised target price of ₹ 1175/share

### Key risks to our call

- One of the key catalysts for strong domestic growth assumption is expectations of strong Morbi based players. Any change to this condition could impact earnings
- Any sharp rise in gas prices could impact our margins assumption negatively

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**Exhibit 1: Variance Analysis**

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Net Sales	952.5	841.8	652.0	46.1	838.3	13.6	Strong all round performance with superior volumes driving the topline beat
Other Income	7.4	7.0	6.9	7.5	6.5	15.3	
Net Purchase of Stock in Trad	217.7	15.1	68.2	219.1	158.5	37.3	
Cost of Materials Consumed	200.6	269.7	172.4	16.4	193.8	3.5	
Staff cost	96.4	92.2	86.9	11.0	89.5	7.8	
Other expenditure	100.6	153.3	89.6	12.3	83.0	21.2	
EBITDA	190.9	168.4	93.4	104.5	181.8	5.0	EBITDA beat on account of operating leverage and lower other expenses
EBITDA Margin (%)	20.0	20.0	14.3	573 bps	21.7	-164 bps	
Depreciation	26.5	29.6	28.3	-6.4	27.6	-3.7	
Interest	2.6	3.6	4.9	-46.5	2.6	1.1	
PBT	169.2	142.1	67.0	152.5	158.1	7.1	
Taxes	38.0	33.0	18.2	109.0	37.0	2.7	
PAT	127.1	107.1	49.6	156.3	118.9	6.9	

**Key Metrics**

Sales Volume (in MSM)	25.4	22.6	18.2	39.2	22.6	12.4
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Source: Company, ICICI Direct Research

**Exhibit 2: Change in estimates**

(₹ Crore)	FY21	FY22E			FY23E			Comments
	Old	New	% Change	Old	New	% Change		
Revenue	2,780.9	3,407.3	3,321.4	-2.5	3,969.5	4,046.4	1.9	Realign our estimates
EBITDA	508.8	681.4	664.8	-2.4	795.9	814.0	2.3	
EBITDA Margin (%)	18.3	20.0	20.0	2 bps	20.0	20.1	7 bps	
PAT	308.1	431.8	419.4	-2.9	521.4	519.5	-0.4	
EPS (₹)	19.4	27.2	26.4	-2.9	32.8	32.7	-0.4	

Source: Company, ICICI Direct Research

**Exhibit 3: Assumptions**

Volume in MSM	FY20	FY21	Current FY22E	Earlier	Current FY23E	Earlier	Comments
	<b>Production</b>	<b>67.0</b>	<b>52.0</b>	<b>66.0</b>	<b>68.5</b>	<b>76.5</b>	
Own	45.6	37.7	46.4	48.9	55.8	60.0	
JV	21.4	14.3	19.6	19.6	20.7	20.1	
<b>Sales</b>	<b>86.1</b>	<b>75.4</b>	<b>89.0</b>	<b>90.5</b>	<b>104.5</b>	<b>103.2</b>	
Own	45.6	40.9	46.4	48.9	55.8	60.0	
JV	20.6	15.9	19.6	19.6	20.7	20.1	
Import/Outsourced	19.9	18.7	23.0	22.0	28.0	23.1	

Source: Company, ICICI Direct Research

## Other Highlights

### Allied-businesses remain strong; expected to improve further

Kajaria's allied businesses reported strong growth in Q4FY21. Faucet and sanitaryware revenues were up 73.3% (to ₹ 71.3 crore), mainly led by introduction of new products, strengthened distribution network and larger acceptance by consumers. Additionally, profitability has improved in the segment with improved realisations and healthy volume growth, which are expected to continue, going forward. Going forward, the company endeavours to reach ₹ 500 crore of sales over the next three years (vs. ₹ 210 crore in FY21). In the plywood business, revenues improved 2.7x YoY and were at ₹ 15.4 crore, on the lower base. The company is targeting ~₹ 80 crore of revenue in the plywood business during FY22.

### Organised players focusing on domestic markets to benefit from Morbi export led volume diversion

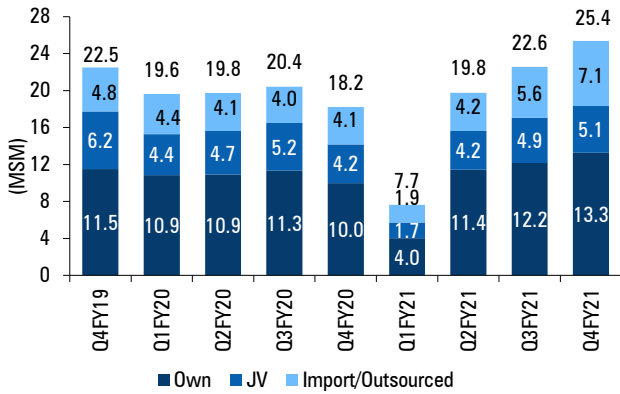
The tiles industry witnessed a stronger demand recovery from July 2020, which continued in Q4FY21 mainly driven by Tier-II/II/III cities and smaller towns. Also, exports from Morbi are growing with benefits arising to Indian competitive players on foreign territory with a) anti-dumping duty applied by the US on Chinese players and anti-Chinese sentiments across major countries, b) Indian players' competitive prices, c) lower transportation cost due to proximity to ports and d) established markets abroad. As per the management, exports improved to ₹ 11,000 crore in FY21 (vis-à-vis ₹ 9,000 crore reported in FY20) and is likely to improve 20%+ during FY22E. This, in turn, provides better opportunity to organised players like Kajaria largely focusing on domestic markets.

### Other highlights

- Average capacity utilisation during Q4FY21 was at ~98%
- Average gas prices in January 2021 have increased ~20% YoY at an industry level and still remains on the higher side. On an average, gas prices for a) Kajaria's north plant was at ₹ 32/SCM in Q4FY21 (vs. ₹ 28.46/SCM in Q4FY20) and b) Morbi plant: prices were at 33.62/SCM during Q4FY21 (vs. 36.13/SCM in Q4FY20)
- Kajaria has increased prices of PVT and GVT by 2.5-3% during Q4FY21 due to a surge in gas prices. Similarly, the company has hiked prices of bathware products by ~10% effective May 2021 mainly due to increase in brass prices. Also, prices of sanitaryware products have increased by 6%, mainly owing to increase in gas prices and higher transportation cost. It indicated that, going ahead, given the acceptance of the new pricing, it would continue to pass on gas price hike impact, if any
- Working capital at the end of FY21 was at 50 days (vs. 73 days at FY20-end). Going forward, the management expects working capital days to remain at 50-55 days
- Kajaria's dealer strength as on March 31, 2021 was at 1,700 (~1500 active), backed by net addition of 50 dealers during FY21. Annual dealers' addition target is ~150. Going forward, the management endeavours to expand its dealer strength across India over the medium term to all Lok Sabha constituencies (~150 remaining). It has exclusive dealer's strength of ~300. It intends to double this over the next three years
- Ceramic, PVT, GVT was in the ratio of 40:32:28, respectively. The company indicated that, going ahead, also it would remain similar post expansion

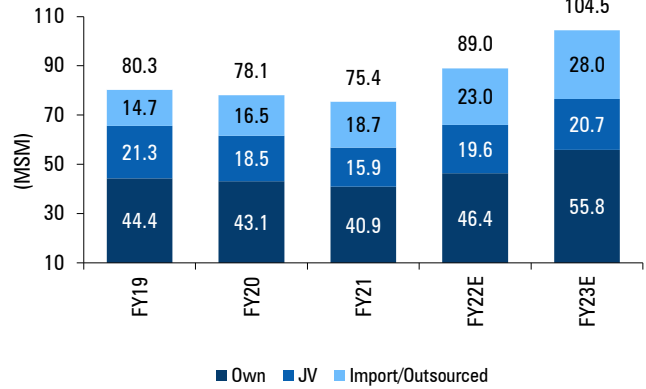
## Company Analysis

Exhibit 4: Quarterly sales volume trend



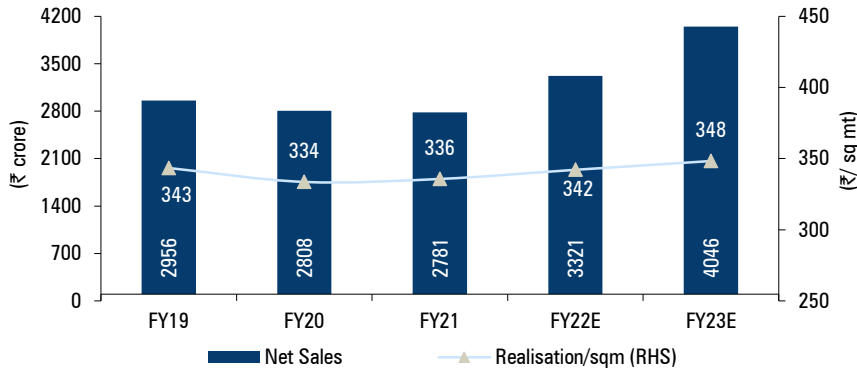
Source: Company, ICICI Direct Research

Exhibit 5: Annual sales volume trend



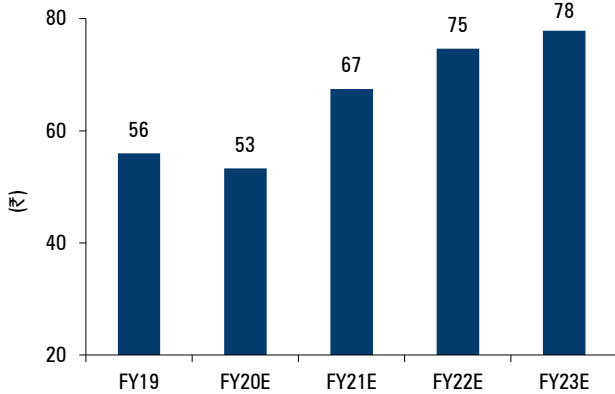
Source: Company, ICICI Direct Research

Exhibit 6: Revenue, realisation trend



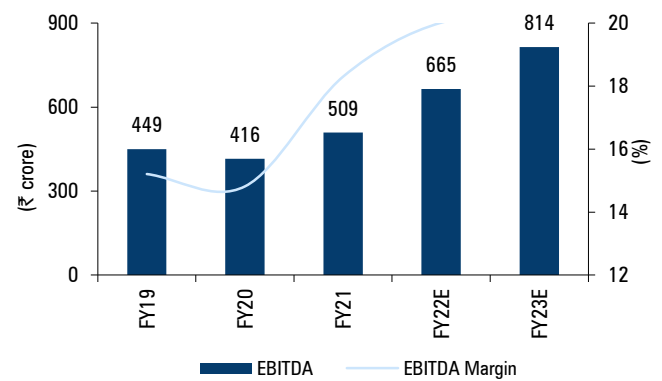
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/sq metre trend



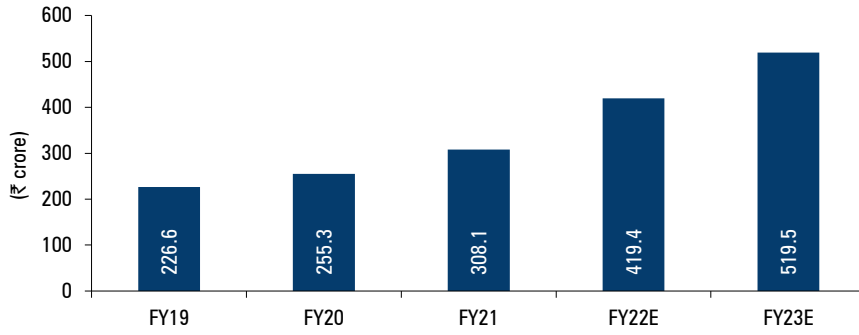
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



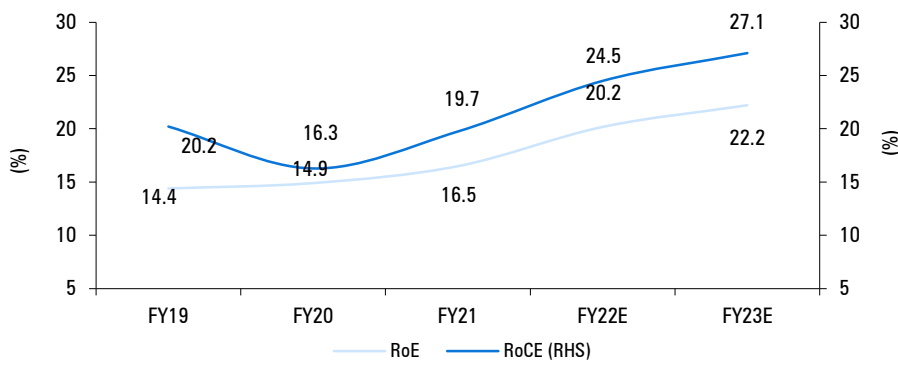
Source: Company, ICICI Direct Research

Exhibit 9: PAT growth trend



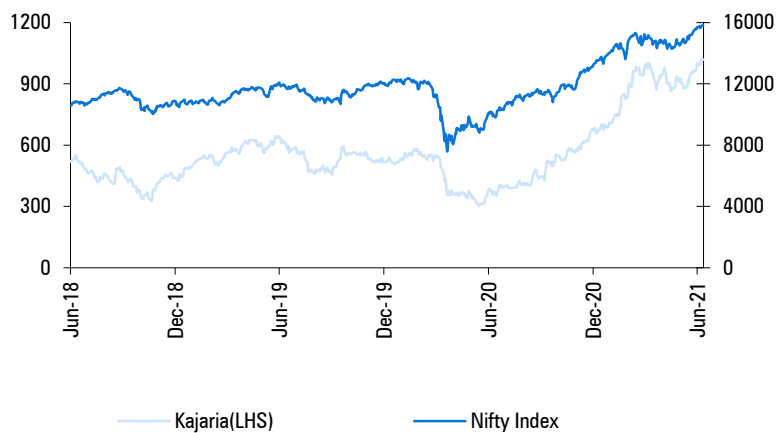
Source: Company, ICICI Direct Research

Exhibit 10: Return ratios trend



Source: Company, ICICI Direct Research

Exhibit 11: Price Performance



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 12: Profit and loss statement				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
<b>Net Sales</b>	<b>2,808.0</b>	<b>2,780.9</b>	<b>3,321.4</b>	<b>4,046.4</b>
Other Operating Income	-	-	-	-
Total operating income	2,808.0	2,780.9	3,321.4	4,046.4
Raw Material Expenses	364.7	656.6	398.6	485.6
Cost of Materials Consumed	736.4	590.4	863.6	1,052.1
Employee benefit expenses	356.9	324.7	382.0	465.3
Other Expenses	934.2	700.5	1,012.5	1,229.4
Total operating expenses	2,392.1	2,272.1	2,656.6	3,232.4
<b>EBITDA</b>	<b>415.9</b>	<b>508.8</b>	<b>664.8</b>	<b>814.0</b>
Interest	19.5	10.7	9.7	9.7
Depreciation	108.1	106.7	116.4	133.8
Other income	24.2	21.3	30.0	32.0
PBT	312.5	412.7	568.7	702.5
Taxes	58.9	103.8	143.3	177.0
PAT before MI	253.5	308.9	425.4	525.5
Minority Interest	(1.8)	0.9	6.0	6.0
<b>PAT</b>	<b>255.3</b>	<b>308.1</b>	<b>419.4</b>	<b>519.5</b>
Growth (%)	12.7	20.6	36.1	23.9
<b>EPS (₹)</b>	<b>16.1</b>	<b>19.4</b>	<b>26.4</b>	<b>32.7</b>

Source: Company, ICICI Direct Research

Exhibit 13: Cash flow statement				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
<b>Profit after Tax</b>	<b>255.3</b>	<b>308.1</b>	<b>419.4</b>	<b>519.5</b>
Depreciation	108.1	106.7	116.4	133.8
Interest	19.5	10.7	9.7	9.7
Others	34.8	82.5	113.3	145.0
Cash Flow before wc changes	417.7	508.0	658.8	808.0
Net Increase in Current Assets	(32.6)	110.4	(176.6)	(222.8)
Net Increase in Current Liabilities	(83.3)	(23.4)	74.2	99.5
<b>Net CF from operating activities</b>	<b>246.5</b>	<b>476.1</b>	<b>413.0</b>	<b>507.6</b>
(Purchase)/Sale of Fixed Assets	(158.3)	(92.6)	(275.0)	(150.0)
<b>Net CF from Investing activities</b>	<b>(143.9)</b>	<b>(66.1)</b>	<b>(245.0)</b>	<b>(118.0)</b>
Inc / (Dec) in Equity Capital	(58.5)	5.6	-	-
Dividend	(57.4)	(159.1)	(206.3)	(254.6)
Interest paid	(19.5)	(10.7)	(9.7)	(9.7)
Inc / (Dec) in Secured Loans	7.7	(17.6)	-	-
Inc / (Dec) in Unsecured Loans	0.1	(11.5)	-	-
<b>Net CF from Financing activities</b>	<b>(129.8)</b>	<b>(192.4)</b>	<b>(210.0)</b>	<b>(258.3)</b>
Net Cash flow	(27.2)	217.6	(42.0)	131.4
Opening Cash	252.4	225.2	442.7	400.7
<b>Closing Cash/ Cash Equivalent</b>	<b>225.2</b>	<b>442.7</b>	<b>400.7</b>	<b>532.1</b>

Source: Company, ICICI Direct Research

Exhibit 14: Balance sheet				
₹ crore				
(₹ Crore)	FY20	FY21	FY22E	FY23E
<b>Liabilities</b>				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	1,698.4	1,853.0	2,066.0	2,330.9
Total Shareholders funds	1,714.3	1,868.9	2,081.9	2,346.8
Minority Interest	63.7	64.6	70.6	76.6
Total Debt	128.1	99.1	99.1	99.1
Other Liabilities	110.9	95.9	95.9	95.9
<b>Total Liabilities</b>	<b>2,040.9</b>	<b>2,145.1</b>	<b>2,364.1</b>	<b>2,635.0</b>
<b>Assets</b>				
Gross Block	1,860.4	1,963.7	2,238.8	2,388.8
Less Acc. Dep	675.9	782.6	899.0	1,032.7
Net Block	1,184.5	1,181.2	1,339.8	1,356.0
Net Intangibles Assets	10.3	11.2	11.2	11.2
Capital WIP	26.6	14.9	14.9	14.9
Total Fixed Assets	1,221.4	1,207.3	1,365.9	1,382.2
Investments	10.1	5.0	5.0	5.0
Inventory	512.7	373.1	500.5	609.7
Sundry Debtors	396.7	431.7	473.2	576.5
Loans & Advances	33.2	39.5	47.1	57.4
Cash & Bank Balances	225.2	442.7	400.7	532.1
Other Current Assets	39.3	27.3	27.3	27.3
Total Current Assets	1,207.1	1,314.3	1,448.9	1,803.0
Trade Payable	239.3	207.2	247.5	301.5
Other Current Liabilities	153.4	168.1	200.7	244.6
Provisions	5.0	6.2	7.4	9.0
Net Current Assets	809.4	932.8	993.2	1,247.9
<b>Total Assets</b>	<b>2,040.9</b>	<b>2,145.1</b>	<b>2,364.1</b>	<b>2,635.0</b>

Source: Company, ICICI Direct Research

Exhibit 15: Key ratios				
	FY20	FY21	FY22E	FY23E
<b>Per Share Data (₹)</b>				
EPS - Diluted	16.1	19.4	26.4	32.7
Cash EPS	22.9	26.1	33.7	41.1
Book Value	107.8	117.5	130.9	147.6
Dividend per share	3.0	10.0	13.0	16.0
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	14.8	18.3	20.0	20.1
PAT / Net Sales	9.1	11.1	12.6	12.8
Inventory Days	67	49	55	55
Debtor Days	52	57	52	52
Creditor Days	31	27	27	27
<b>Return Ratios (%)</b>				
RoNW	14.9	16.5	20.1	22.1
RoCE	16.3	19.7	24.5	27.0
RoC	17.3	23.9	28.2	32.7
<b>Valuation Ratios (x)</b>				
EV / EBITDA	38.6	31.1	23.9	19.3
P/E (Diluted)	63.4	52.5	38.6	31.1
EV / Net Sales	5.7	5.7	4.8	3.9
Market Cap / Sales	5.8	5.8	4.9	4.0
Price to Book Value	9.4	8.7	7.8	6.9
Dividend Yield (%)	0.3	1.0	1.3	1.6
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	(0.1)	(0.2)	(0.1)	(0.2)
Debt/EBITDA	0.3	0.2	0.1	0.1
Current Ratio	2.5	2.3	2.3	2.3
<b>Quick Ratio</b>	<b>1.2</b>	<b>1.3</b>	<b>1.2</b>	<b>1.2</b>

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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## ANALYST CERTIFICATION

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