

Kajaria Ceramics (KAJ CER)

CMP: ₹ 1165

Target: ₹ 1350 (16%)

Target Period: 12 months

May 19, 2023

BUY

Gas price relief brings margins cheer!

About the stock: Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 84.5 mn. sq. meters (MSM).

- Apart from completed capex of ₹ 250 crore on tiles, it is adding 2.4 MSM brownfield capex in Sikandrabad and setting up a plant of 5.1 MSM in Nepal in a JV

Q4FY23 Results: Healthy performance with robust QoQ margin recovery.

- Topline was up 9.4% YoY at ₹ 1205 crore. Tiles sales volumes were up ~8% YoY at 28 MSM. Three-year volume CAGR was at ~15%. Tiles revenues were up 8.4% YoY at ₹ 1084 crore, with pricing growth of ~1.6% YoY
- EBITDA was at ₹ 176 crore, up 6% YoY, with resultant margins at 14.6%, down 46 bps YoY but up 241 bps QoQ, on account of a sequential decline in gas prices and benefits of alternate fuel in the overall mix
- PAT was at ₹ 108.1 crore, up 12.9% YoY and 45.5% QoQ

What should investors do? Kajaria's share price has grown at ~16% CAGR over the past five years (from ~₹ 551 in May, 2018 to ~₹ 1165 currently).

- Kajaria, with a net cash balance sheet and superior brand, is a solid play on the tiles sector with expanding reach to tier II/III cities. With gas price, sharp margin recovery will be seen. Thus, we maintain **BUY**

Target Price and Valuation: We value Kajaria at ₹ 1350/share, at 36x FY25 P/E.

Key triggers for future price performance:

- We expect ~12% CAGR in tiles volume with tiles revenues CAGR of ~14% over FY23-25 to ₹ 5127 crore
- The earnings growth and increased dividend payout is likely to improve return ratios (RoCEs likely at 24.4% in FY25E vs. ~17.7% in FY23)
- With respite in gas prices, we expect margins to reach ~16%, 16.3% in FY24, FY25, respectively, from 13.5% in FY22

Alternate Stock Idea: Besides Kajaria, we like Century Ply in Buildings materials

- A play on leadership in woodpanel industry
- BUY with a target price of ₹ 670

Kajaria

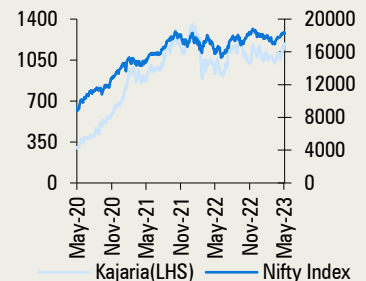
Particulars

Particular	Amount (₹ crore)
Market Capitalization	18,517
Total Debt (FY22)	209
Cash (FY22)	394
EV	18,332
52 week H/L (₹)	1282 / 898
Equity capital	15.9
Face value (₹)	1.0

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	47.5	47.5	47.5	47.5
DII	21.8	22.2	24.0	26.2
FII	19.6	19.4	18.6	16.9
Other	11.2	10.9	9.9	9.4

Price Chart



Key Risks

Key Risk: (i) Slowdown in demand; (ii) Increase in competitive scenario

Research Analyst

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Key Financial Summary

(₹ crore)	FY20	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR (FY23-25E)
Net Sales	2,808.0	2,780.9	3,705.2	4,381.9	10.1%	5,026.3	5,725.2	14.3%
EBITDA	415.9	508.8	610.8	592.0	5.3%	803.9	933.9	25.6%
EBITDA Margin (%)	14.8	18.3	16.5	13.5		16.0	16.3	
PAT	255.3	308.1	377.1	344.5	7.9%	504.9	597.7	31.7%
EPS (₹)	16.1	19.4	23.7	21.7		31.8	37.6	
P/E (x)	72.6	60.1	49.1	53.8		36.7	31.0	
P/B (x)	10.8	9.9	8.7	8.0		7.1	6.2	
EV/EBITDA (x)	44.3	35.7	29.8	31.0		22.7	19.4	
RoCE (%)	16.3	19.7	21.5	17.7		23.0	24.4	
RoE	14.9	16.5	17.8	14.8		19.2	20.0	

Key business highlight and outlook

- Volume driver and current volume traction:** Kajaria's tiles sales volumes were up ~8% YoY at 28 MSM. Three-year volume CAGR was at ~15%. Tiles revenues were 8.4% YoY at ₹ 1084 crore, with pricing growth of ~1.6% YoY and change in product mix. Going forward, the management is confident of healthy demand with continued traction in the real estate sector, stepped up re-construction/renovation and demand from tier 2/3 towns. For FY23, tiles volumes were up 11% at 101.7 MSM
- Industry update:** As per the management, the overall size for tiles industry during FY23 was at ~₹ 60,000 crore (domestic: ₹ 42,400 crore; export: ~₹ 17,500 crore), up from ~₹ 52,700 crore (domestic: ₹ 40,000 crore; export: ~₹ 12,700 crore) in FY22. **It expects domestic industry growth of 6-8% in FY23 and expects overall domestic industry to double in five to six years. Exports are likely to grow ~25% in FY24**, largely from Morbi players
- Guidance:** The management has **guided for ~13-15% YoY volume growth in the tiles segment during FY24** likely to be driven by a) expected rise in demand from Tier II and below cities, b) healthy capacity utilisation, c) expected increase in Kajaria's capacity, d) enhanced distribution network and e) strong brand recall. **Overall tiles revenues guidance is ~14-16%, led by product mix with no price hike next year. Also, the company conservatively expects margins in the range of 14-16%**
- Gas price:** Gas prices for industry have seen easing in the last few months. **For Kajaria**, average gas prices for Q4FY23 in its northern, southern and Morbi plants were at ~₹ 43/SCM, ~₹ 55/SCM and ₹ 42/SCM, respectively, **with overall average of ₹ 45/ SCM** (vs. average gas prices in its northern, southern and Morbi plants during Q3FY23 was at ~₹ 57/SCM, ~₹ 44/SCM and ₹ 48/SCM respectively **with overall average of ₹ 53/ SCM in Q3**). In April, the average gas prices have further come down to ₹ 40/SCM. Going forward, the management expects gas prices to soften further. **The company expects an overall benefit of ₹ 150 crore on gas (on own plants) and expects to pass on net benefits of ₹ 50 crore to dealers as trade discounts. Further, it will gain ₹ 30-40 crore from JV partners. Thus, net gains of ₹ 130-140 crore is likely in power and fuel costs on account of lower gas prices.**
- Allied business:** In the faucet and sanitaryware segment, revenues were up 9.4% YoY at ₹ 90.4 crore. For the sanitaryware segment, the management has guided for revenue of ₹ 440-450 crore in FY24, post which it expects this segment to have ~30% CAGR every year. In the plywood business, revenues were down 2.2% YoY and were at ₹ 18.8 crore, while adhesive business contributed ₹ 11.5 crore to the overall topline
- Working capital:** Working capital has increased to 59 days (vs. 66 days at Q3FY23-end) due to easing of inventories amid demand recovery
- Expansions:** Kajaria has announced expansion for large sized glazed vitrified tiles capacity of 2.4 MSM/annum at Sikandrabad plant recently, which will increase the total capacity of the plant from 8.4 MSM/annum to 10.8 MSM/annum at the capex of ₹ 70 crore. Furthermore, it is undertaking modernisation of its ceramic tile manufacturing capacity at Gailpur (Rajasthan) for a capex of ~₹ 51 crore. The modernised capacity will produce tiles of larger size (and will have higher realisation). Both these expansion/monetisation to come on ground in Q2FY24
- Investment in Nepal:** The company is setting up a tile manufacturing facility in Nepal, with annual capacity of 5.1 MSM/annum (earlier envisaged 8 MSM), on JV basis between the company and various individuals affiliated with Ramesh Corp, Nepal at an overall outlay of ₹ 181.5 crore (Kajaria share will be 50% of the same). **The plant is likely to get commissioned by March 2024.** Kajaria expects production of tiles with plant at Nepal to benefit them largely with Nepal market size being ₹ 2000 crore, largely served by imports, currently. Margins would be better compared with Indian plant as it will be coal fired

ESG Disclosure Score*			
ESG Disclosure Score			
Score	FY20	FY21	FY22
Environmental	1.2	24.2	38.9
Social	16.9	31.1	40.2
Governance	81.0	81.0	81.0
Overall ESG Score	33.1	45.5	53.4

Source: Bloomberg, ICICI Direct Research, *Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures

- **Allied business expansion:** The company is investing ₹ 70 crore to set up a 6 lakh pieces per annum sanitaryware manufacturing facility in Gujarat (revenue potential: ~₹ 150 crore at full capacity utilisation). The expansion is expected to be completed by December, 2023
- **Dealer additions:** Kajaria had a base of 1,840 dealers across India at FY23-end. Overall, the company is targeting to add 150 dealers, every year over the next two to three years
- **Capex:** The company has guided for capex of ₹ 250 crore every year, going forward

Kajaria with a net cash balance sheet and superior brand, is a solid play on tiles sector with expanding reach to tier 2/3 cities. With gas price, sharp margin recovery will be seen. Thus, we maintain BUY. We value it at multiple at 36x FY25E P/E to ascribe revised target price of ₹ 1350/share.

Exhibit 1: Variance Analysis

	Q4FY23	Q4FY23	Q4FY22	YoY (%)	Q3FY23	QoQ (%)	Comments
Net Sales	1,204.8	1,144.3	1,101.8	9.4	1,091.1	10.4	Tiles sales volumes were up ~8% YoY at 28 MSM. Three-year volume CAGR was at ~15%. Tiles revenues were up 8.4% YoY at ₹ 1084 crore, with pricing growth of ~1.6% YoY
Other Income	10.4	8.2	7.0	48.2	7.5	39.3	
Net Purchase of Stock in Trad	294.2	231.0	223.8	31.5	180.2	63.3	
Cost of Materials Consumed	242.5	287.0	263.2	-7.9	264.2	-8.2	
Staff cost	116.4	117.6	105.8	10.1	116.6	-0.1	
Other expenditure	134.3	110.0	114.8	17.0	118.8	13.0	
Power & Fuel cost	241.4	238.0	228.3	5.7	278.3	-13.2	
EBITDA	176.0	160.7	165.9	6.0	133.1	32.2	
EBITDA Margin (%)	14.6	14.0	15.1	-46 bps	12.2	241 bps	
Depreciation	34.3	31.5	32.6	5.2	32.5	5.5	
Interest	7.2	3.1	4.0	81.9	8.3	-12.9	
PBT	140.6	134.3	136.4	3.1	99.7	41.0	
Taxes	29.8	35.0	39.1	-23.9	26.1	14.3	
PAT	108.1	98.3	95.8	12.9	74.3	45.5	

Key Metrics

Sales Volume (in MSM)	28.0	26.5	26.0	7.9	25.5	10.1
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY23E		FY24E			FY25E		Comments
	Old	New	% Change	Old	New	% Change		
Revenue	4,381.9	5,006.0	5,026.3	0.4	5,691.0	5,725.2	0.6	Realign estimates
EBITDA	592.0	801.8	803.9	0.3	911.8	933.9	2.4	
EBITDA Margin (%)	13.5	16.0	16.0	0 bps	16.0	16.3	29 bps	
PAT	344.5	498.6	504.9	1.3	577.3	597.7	3.5	
EPS (₹)	21.7	31.4	31.8	1.3	36.3	37.6	3.5	

Source: Company, ICICI Direct Research

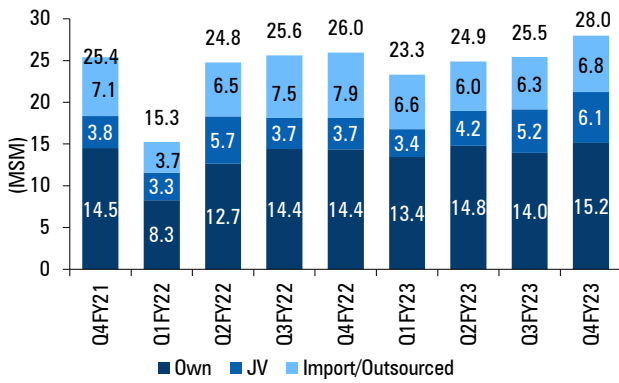
Exhibit 3: Assumptions

Volume in MSM	Comments				
	FY21	FY22	FY23E	FY24E	FY25
Sales	75.4	91.7	101.7	115.0	127.8
Realisation (₹/sqm)	336	367	390	393	401

Source: Company, ICICI Direct Research

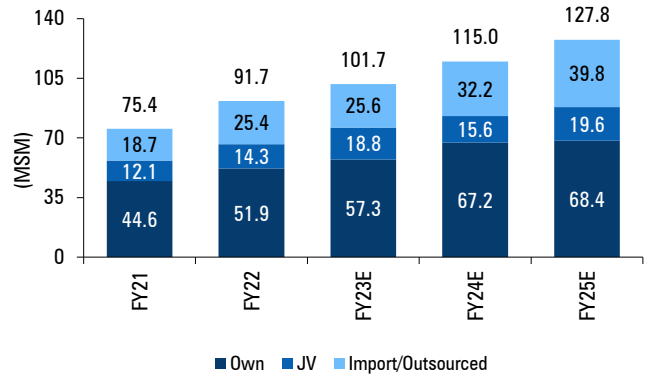
Company Analysis

Exhibit 4: Quarterly sales volume trend



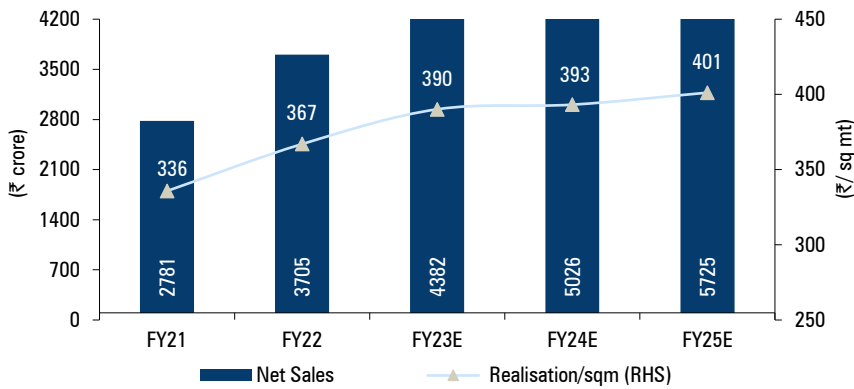
Source: Company, ICICI Direct Research

Exhibit 5: Annual sales volume trend



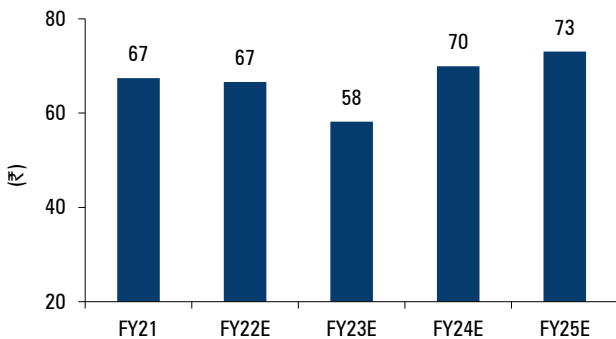
Source: Company, ICICI Direct Research

Exhibit 6: Revenue, realisation trend



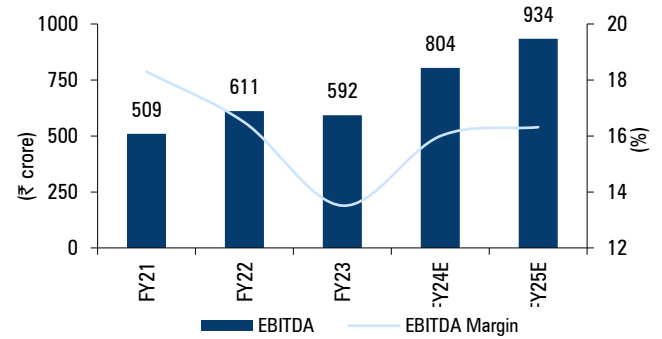
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA/sq metre trend



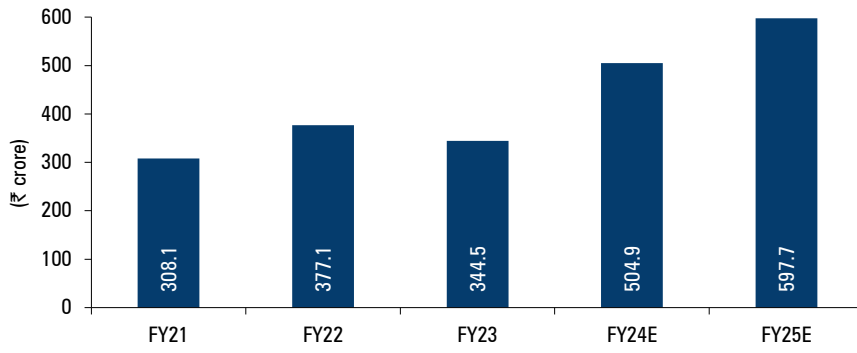
Source: Company, ICICI Direct Research

Exhibit 8: EBITDA and EBITDA margin trend



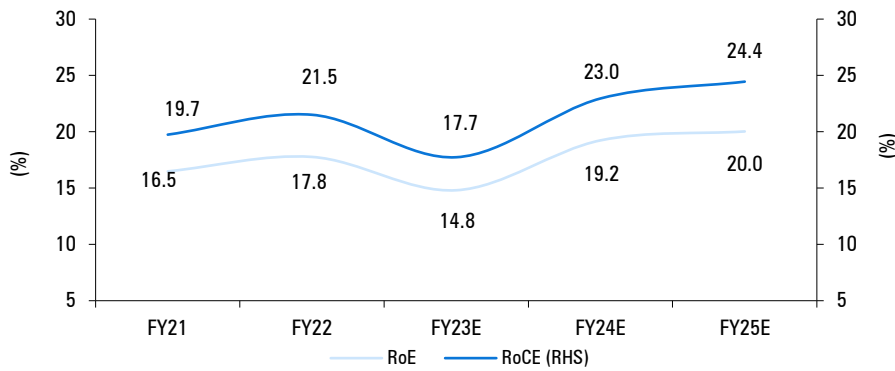
Source: Company, ICICI Direct Research

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)	FY22	FY23	FY24E	FY25E
Net Sales	3,705.2	4,381.9	5,026.3	5,725.2
Other Operating Income	-	-	-	-
Total operating income	3,705.2	4,381.9	5,026.3	5,725.2
Raw Material Expenses	730.3	925.0	1,095.7	1,230.9
Cost of Materials Consumed	824.8	882.1	1,065.3	1,182.9
Employee benefit expenses	407.7	461.2	527.8	589.7
Other Expenses	1,131.7	1,521.6	1,533.6	1,787.7
Total operating expenses	3,094.4	3,789.9	4,222.3	4,791.3
EBITDA	610.8	592.0	803.9	933.9
Interest	12.7	22.3	17.5	14.8
Depreciation	115.4	132.9	143.7	157.5
Other income	27.6	33.6	35.0	40.0
PBT	510.2	462.5	677.7	801.7
Taxes	127.4	116.3	170.8	202.0
PAT before MI	382.8	346.3	506.9	599.7
Minority Interest	5.8	1.8	2.0	2.0
PAT	377.1	344.5	504.9	597.7
Growth (%)	22.4	(8.6)	46.6	18.4
EPS (₹)	23.7	21.7	31.8	37.6

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Profit after Tax	377.1	344.5	504.9	597.7
Depreciation	115.4	132.9	143.7	157.5
Interest	12.7	22.3	17.5	14.8
Others	99.9	82.6	135.8	162.0
Cash Flow before wc changes	605.0	582.3	801.9	931.9
Net Increase in Current Assets	(277.7)	(257.3)	(188.1)	(205.5)
Net Increase in Current Liabilities	174.6	0.4	81.2	88.1
Net CF from operating activities	377.1	254.1	524.3	612.5
(Purchase)/Sale of Fixed Assets	(321.0)	(248.2)	(250.0)	(250.0)
Net CF from Investing activities	(288.4)	(216.5)	(215.0)	(210.0)
Inc / (Dec) in Equity Capital	3.8	3.0	0.0	-
Dividend	(127.3)	(143.1)	(206.7)	(238.5)
Interest paid	(12.7)	(22.3)	(17.5)	(14.8)
Inc / (Dec) in Secured Loans	30.9	81.4	(50.0)	(50.0)
Inc / (Dec) in Unsecured Loans	(1.8)	-	-	-
Net CF from Financing activities	(107.0)	(68.2)	(272.2)	(301.3)
Net Cash flow	(18.4)	(30.6)	37.0	101.2
Opening Cash	442.7	424.4	393.8	430.8
Closing Cash/ Cash Equivalent	424.4	393.8	430.8	532.0

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet ₹ crore

(₹ Crore)	FY22	FY23	FY24E	FY25E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	2,106.5	2,310.9	2,609.1	2,968.2
Total Shareholders funds	2,122.4	2,326.8	2,625.0	2,984.1
Minority Interest	64.8	77.6	79.6	81.6
Total Debt	127.9	209.3	159.3	109.3
Other Liabilities	98.5	143.5	143.5	143.5
Total Liabilities	2,431.5	2,778.3	3,028.5	3,339.7
Assets				
Gross Block	1,957.0	2,363.6	2,613.6	2,863.6
Less Acc. Dep	818.3	951.1	1,094.9	1,252.4
Net Block	1,138.8	1,412.4	1,518.7	1,611.2
Net Intangibles Assets	10.8	34.1	34.1	34.1
Capital WIP	263.4	81.7	81.7	81.7
Total Fixed Assets	1,413.0	1,528.3	1,634.5	1,727.0
Investments	-	1.9	1.9	1.9
Inventory	465.9	564.7	647.2	737.2
Sundry Debtors	513.3	601.2	688.5	784.3
Loans & Advances	138.3	123.9	142.1	161.8
Cash & Bank Balances	424.4	393.8	430.8	532.0
Other Current Assets	31.8	116.8	116.8	116.8
Total Current Assets	1,573.6	1,800.3	2,025.5	2,332.2
Trade Payable	298.1	310.4	356.0	405.5
Other Current Liabilities	248.9	233.7	268.1	305.4
Provisions	8.0	8.2	9.4	10.7
Net Current Assets	1,018.6	1,248.1	1,392.0	1,610.7
Total Assets	2,431.5	2,778.3	3,028.5	3,339.7

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios

	FY22	FY23	FY24E	FY25E
Per Share Data (₹)				
EPS - Diluted	23.7	21.7	31.8	37.6
Cash EPS	31.0	30.0	40.8	47.5
Book Value	133.5	146.3	165.1	187.7
Dividend per share	11.0	9.0	13.0	15.0
Operating Ratios (%)				
EBITDA / Net Sales	16.5	13.5	16.0	16.3
PAT / Net Sales	10.2	7.9	10.0	10.4
Inventory Days	46	47	47	47
Debtor Days	51	50	50	50
Creditor Days	29	26	26	26
Return Ratios (%)				
RoNW	17.8	14.8	19.2	20.0
RoCE	21.5	17.7	23.0	24.4
RoC	28.4	20.0	26.3	28.5
Valuation Ratios (x)				
EV / EBITDA	29.8	31.0	22.7	19.4
P/E (Diluted)	49.1	53.8	36.7	31.0
EV / Net Sales	4.9	4.2	3.6	3.2
Market Cap / Sales	5.0	4.2	3.7	3.2
Price to Book Value	8.7	8.0	7.1	6.2
Dividend Yield (%)	0.9	0.8	1.1	1.3
Solvency Ratios (x)				
Net Debt / Equity	(0.1)	(0.1)	(0.1)	(0.1)
Debt/EBITDA	0.2	0.4	0.2	0.1
Current Ratio	2.1	2.5	2.5	2.5
Quick Ratio	1.2	1.5	1.5	1.5

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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