

CMP: ₹ 1322

Target: ₹ 1680 (27%)

Target Period: 12 months

BUY

July 13, 2023

## Poised for a healthy Growth and margin expansion!

**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) as of FY23

- 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 JV.

### Key Investment Thesis:

- Healthy Tiles volume growth with supportive catalyst:** 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 utilizations, c) expected increase in Kajaria's capacity, d) enhanced distribution network and e) strong brand recall. Exports are likely to grow by ~25% in FY24, largely from Morbi players, which implies that domestic branded players will continue to benefit with lesser concern over supply. We expect ~11% CAGR in tiles volume with tiles revenues CAGR of ~13.2% over FY23-26 to ₹ 5739 crore. Overall Revenues CAGR of 13.8% is expected over FY23-26 at ₹ 6431 crore
- Lower Gas prices led Margins improvement and earnings growth:** The gas prices have eased significantly over the last 2 quarters. The company expects net gains of ₹ 130-140 crore in power and fuel costs on account of lower gas prices in FY24 and thus conservatively has guided for margins in the range of 14-16% in FY24. With respite in Gas prices, we expect EBITDA margins to reach ~16%/16.3%/17% in FY24/FY25/FY26, respectively from 13.5% in FY22. We expect ~27% earnings CAGR over FY23-26.
- Return ratios to inch up ahead:** The strong earnings growth and healthy dividend payout is likely to improve return ratios (RoCEs likely at 25.6% in FY26E vs ~17.7% in FY23)

### Rating and Target Price

- 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 decline, sharp margin recovery will be seen in FY24 driving strong earnings growth.
- We maintain our **BUY** rating
- We value Kajaria at ₹ 1680 per share (based on 38x FY26 P/E)

### Key Financial Summary

(₹ crore)	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	FY26E	3 yr CAGR (FY23-26E)
Net Sales	2,780.9	3,705.2	4,381.9	10.1%	5,026.3	5,725.2	6,431.2	13.6%
EBITDA	508.8	610.8	592.0	5.3%	803.9	933.9	1,094.3	22.7%
EBITDA Margin (%)	18.3	16.5	13.5		16.0	16.3	17.0	
PAT	308.1	377.1	344.5	7.9%	504.9	599.7	704.8	26.9%
EPS (₹)	19.4	23.7	21.7		31.8	37.7	44.3	
P/E (x)	68.2	55.7	61.0		41.6	35.0	29.8	
P/B (x)	11.2	9.9	9.0		8.0	7.0	6.1	
EV/EBITDA (x)	40.6	33.9	35.2		25.8	22.0	18.6	
RoCE (%)	19.7	21.5	17.7		23.0	24.4	25.6	
RoE	16.5	17.8	14.8		19.2	20.1	20.4	

Source: Company, ICICI Direct Research

# Kajaria

### Particulars

Particular	Amount (₹ crore)
Market Capitalization	21,006
Total Debt (FY23)	209
Cash (FY23)	394
EV	20,821
52 week H/L (₹)	1339 / 970
Equity capital	15.9
Face value (₹)	1.0

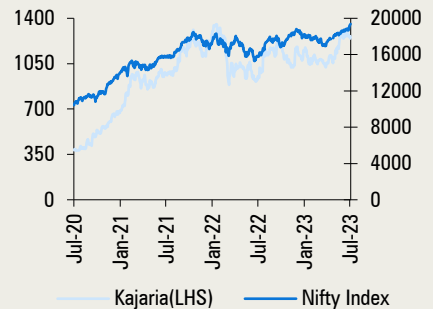
### Shareholding Pattern

	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

### Risks to our call

- Slowdown in demand;
- Any volatility in gas prices

### Price Performance



### Research Analyst

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## Company Background

Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 84.5 mn. sq. meters (MSM) 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 2-3 years.

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 JV. The company is also investing ₹ 70 crores to set up a 6 lakh pcs per annum sanitaryware manufacturing facility in Gujarat (revenue potential: ~₹ 150 crore at full capacity utilization). The expansion is expected to be completed by December, 2023. The company has committed to spend atleast ₹ 250 crore of capex every year to expand capacity.

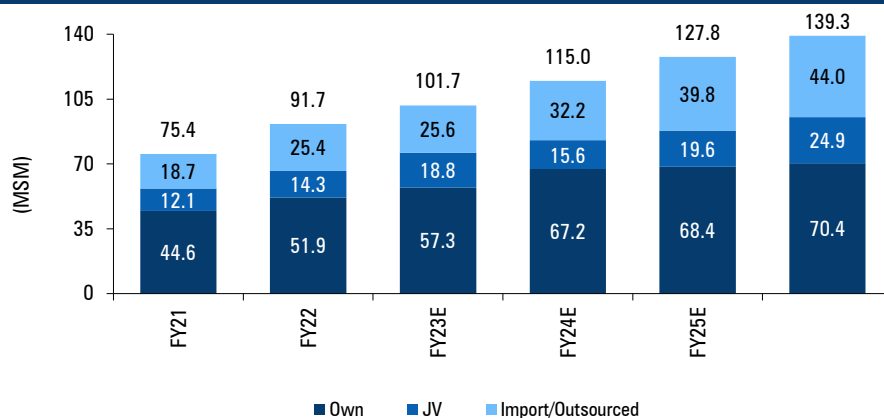
## Investment Rationale

### Healthy Morbi exports implies organised domestic players to benefit

The overall size for tiles industry during FY23 stood 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. **The company expects the domestic industry growth of 6-8% in FY23 and expects overall domestic industry to double in 5-6 years. Exports are likely to grow by ~25% in FY24**, largely from Morbi players, which implies that domestic branded players will continue to benefit.

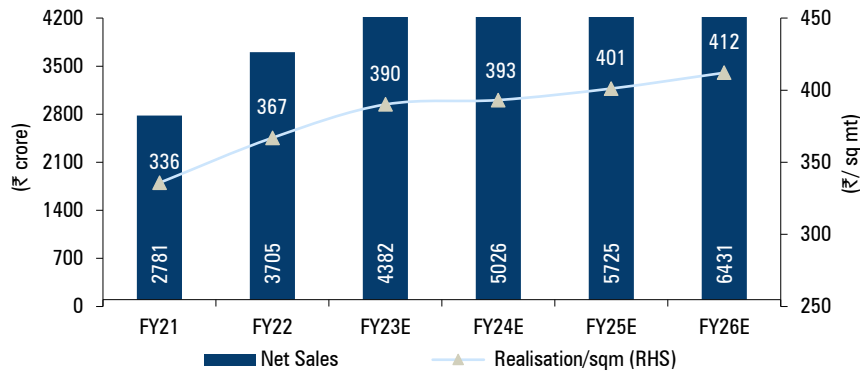
The management has **guided for ~13-15% YoY volume growth in the tiles segment during FY24** likely to be driven by a) expected rise in demand from Tier II and below cities, b) healthy capacity utilizations, c) expected increase in Kajaria's capacity, d) enhanced distribution network and e) strong brand recall. **Overall tiles revenues guidance is ~14-16%, led by product mix with no price hike next year.** We expect ~11% CAGR in tiles volume with tiles revenues CAGR of ~13.2% over FY23-26 to ₹ 5739 crore. Overall Revenues CAGR of 13.8% over FY23-26 is expected to ₹ 6431 crore.

Exhibit 1: Tiles volume trend



Source: Company, ICICI Direct Research

Exhibit 2: Healthy revenue growth ahead



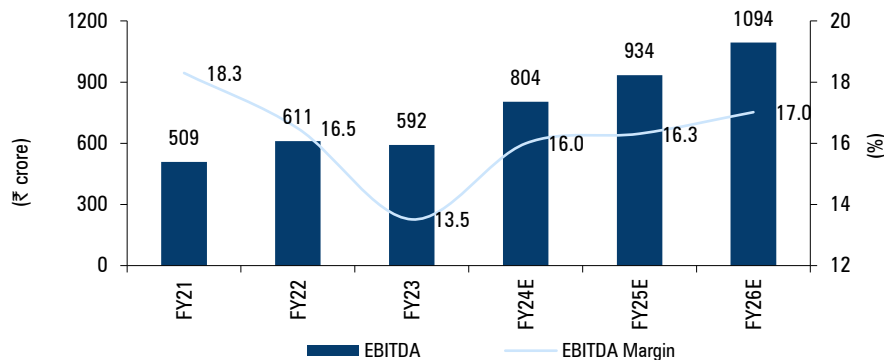
Source: Company, ICICI Direct Research

### Gas price benefits to boost margins recovery

Gas prices for industry has seen easing in the last few months. For Kajaria, average gas prices for Q4FY23 in its northern, southern and Morbi plants stood 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 stood at ~₹ 57/SCM, ~₹ 44/SCM and ₹ 48/SCM respectively with overall average of ₹ 53/ SCM in Q3). In April, the average gas prices further came down to ₹ 40/SCM.

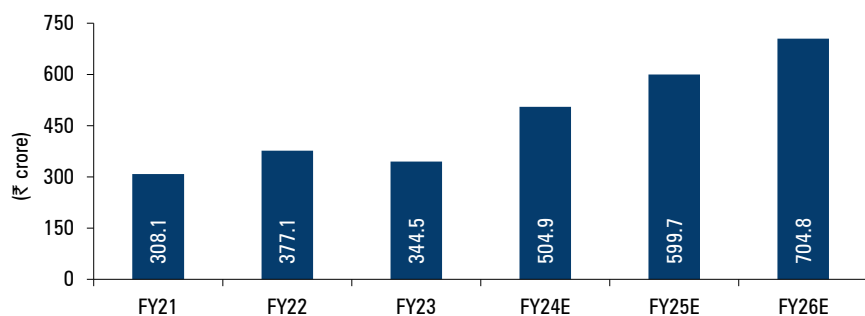
Going forward, the management expects gas prices to soften further. The company expects an overall benefit of ₹ 150 crore on gas (on own plants) and expects to pass on net benefits of ₹ 50 crore to dealers as trade discounts. Further, it will gain ₹ 30-40 crore from JV partners. Thus, net gains of ₹ 130-140 crore is likely in power and fuel costs on account of lower gas prices in FY24. The company conservatively expects margins in the range of 14-16% in FY24. With respite in Gas prices, we expect margins to reach ~16%/16.3%/17% in FY24/FY25/FY26, respectively from 13.5% in FY22

Exhibit 3: Gas price benefits to boost margins



Source: Company, ICICI Direct Research

Exhibit 4: PAT trend



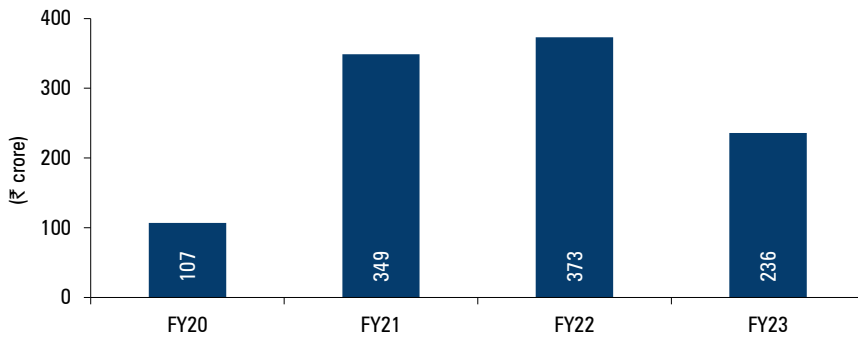
Source: Company, ICICI Direct Research

## Healthy Balance Sheet and Payout drives further comfort

Kajaria enjoys a healthy balance sheet and is a net cash company (net cash of ₹ 236 crore in FY23). Furthermore, the company also intends to payout 40-50% of PAT as Dividend.

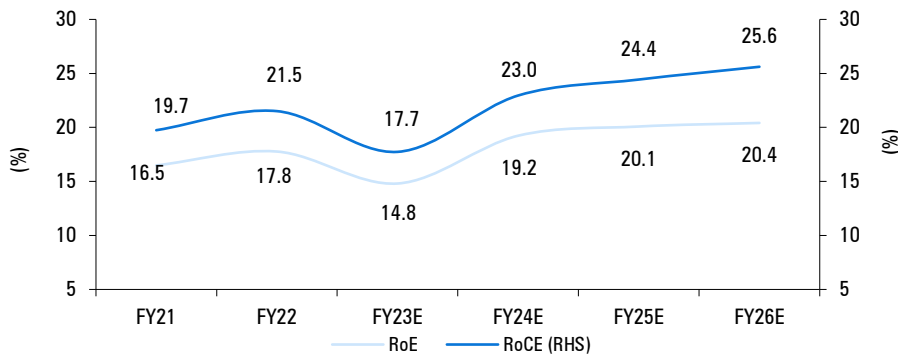
The strong earnings growth and healthy dividend payout is likely to improve return ratios (RoCEs likely at 25.6% in FY26E vs ~17.7% in FY23)

Exhibit 5: Net cash balance sheet



Source: Company, ICICI Direct Research

Exhibit 6: Return ratios trend



Source: Company, ICICI Direct Research

## Key risk and concerns

### Slowdown in demand

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Slower than expected demand remain a key risk. While currently, Morbi volumes have a strong visibility of exports, any reversal of the trend could lead to supply in domestic market. Furthermore, real estate demand momentum will also be a key monitorable for growth visibility.

### Any sharp volatility in gas prices

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While, the gas prices have trended downwards in last 6-8 months, any sharp volatility in prices remain a risk.

## Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>4,381.9</b>	<b>5,026.3</b>	<b>5,725.2</b>	<b>6,431.2</b>
Other Operating Income	-	-	-	-
Total operating income	4,381.9	5,026.3	5,725.2	6,431.2
Raw Material Expenses	925.0	1,095.7	1,230.9	1,382.7
Cost of Materials Consumed	882.1	1,065.3	1,182.9	1,328.8
Employee benefit expenses	461.2	527.8	589.7	656.0
Other Expenses	1,521.6	1,533.6	1,787.7	1,969.4
Total operating expenses	3,789.9	4,222.3	4,791.3	5,336.9
<b>EBITDA</b>	<b>592.0</b>	<b>803.9</b>	<b>933.9</b>	<b>1,094.3</b>
Interest	22.3	17.5	12.0	9.3
Depreciation	132.9	143.7	157.5	171.2
Other income	33.6	35.0	40.0	40.0
PBT	462.5	677.7	804.4	953.8
Taxes	116.3	170.8	202.7	247.0
PAT before MI	346.3	506.9	601.7	706.8
Minority Interest	1.8	2.0	2.0	2.0
<b>PAT</b>	<b>344.5</b>	<b>504.9</b>	<b>599.7</b>	<b>704.8</b>
Growth (%)	(8.6)	46.6	18.8	17.5
<b>EPS (₹)</b>	<b>21.7</b>	<b>31.8</b>	<b>37.7</b>	<b>44.3</b>

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
(₹ Crore)	FY23	FY24E	FY25E	FY26E
<b>Profit after Tax</b>	<b>344.5</b>	<b>504.9</b>	<b>599.7</b>	<b>704.8</b>
Depreciation	132.9	143.7	157.5	171.2
Interest	22.3	17.5	12.0	9.3
Others	82.6	135.8	162.7	207.0
Cash Flow before wc changes	582.3	801.9	931.9	1,092.3
Net Increase in Current Assets	(257.3)	(188.1)	(205.5)	(207.6)
Net Increase in Current Liabilities	0.4	81.2	88.1	89.0
<b>Net CF from operating activities</b>	<b>254.1</b>	<b>524.3</b>	<b>611.8</b>	<b>726.7</b>
(Purchase)/Sale of Fixed Assets	(248.2)	(250.0)	(250.0)	(250.0)
<b>Net CF from Investing activities</b>	<b>(216.5)</b>	<b>(215.0)</b>	<b>(210.0)</b>	<b>(210.0)</b>
Inc / (Dec) in Equity Capital	3.0	0.0	0.0	-
Dividend	(143.1)	(206.7)	(238.5)	(238.5)
Interest paid	(22.3)	(17.5)	(12.0)	(9.3)
Inc / (Dec) in Secured Loans	81.4	(50.0)	(50.0)	(50.0)
Inc / (Dec) in Unsecured Loans	-	-	-	-
<b>Net CF from Financing activities</b>	<b>(68.2)</b>	<b>(272.2)</b>	<b>(298.5)</b>	<b>(295.8)</b>
Net Cash flow	(30.6)	37.0	103.3	220.9
Opening Cash	424.4	393.8	430.8	534.1
<b>Closing Cash/ Cash Equivalent</b>	<b>393.8</b>	<b>430.8</b>	<b>534.1</b>	<b>755.0</b>

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
(₹ Crore)	FY23	FY24E	FY25E	FY26E
<b>Liabilities</b>				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	2,310.9	2,609.1	2,970.3	3,436.5
Total Shareholders funds	2,326.8	2,625.0	2,986.2	3,452.5
Minority Interest	77.6	79.6	81.6	83.6
Total Debt	209.3	159.3	109.3	59.3
Other Liabilities	143.5	143.5	143.5	143.5
<b>Total Liabilities</b>	<b>2,778.3</b>	<b>3,028.5</b>	<b>3,341.7</b>	<b>3,760.0</b>
<b>Assets</b>				
Gross Block	2,363.6	2,613.6	2,863.6	3,113.6
Less Acc. Dep	951.1	1,094.9	1,252.4	1,423.6
Net Block	1,412.4	1,518.7	1,611.2	1,689.9
Net Intangibles Assets	34.1	34.1	34.1	34.1
Capital WIP	81.7	81.7	81.7	81.7
Total Fixed Assets	1,528.3	1,634.5	1,727.0	1,805.8
Investments	1.9	1.9	1.9	1.9
Inventory	564.7	647.2	737.2	828.1
Sundry Debtors	601.2	688.5	784.3	881.0
Loans & Advances	123.9	142.1	161.8	181.8
Cash & Bank Balances	393.8	430.8	534.1	755.0
Other Current Assets	116.8	116.8	116.8	116.8
Total Current Assets	1,800.3	2,025.5	2,334.3	2,762.7
Trade Payable	310.4	356.0	405.5	455.5
Other Current Liabilities	233.7	268.1	305.4	343.0
Provisions	8.2	9.4	10.7	12.0
Net Current Assets	1,248.1	1,392.0	1,612.7	1,952.3
<b>Total Assets</b>	<b>2,778.3</b>	<b>3,028.5</b>	<b>3,341.7</b>	<b>3,760.0</b>

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	FY23	FY24E	FY25E	FY26E
<b>Per Share Data (₹)</b>				
EPS - Diluted	21.7	31.8	37.7	44.3
Cash EPS	30.0	40.8	47.6	55.1
Book Value	146.3	165.1	187.8	217.1
Dividend per share	9.0	13.0	15.0	15.0
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	13.5	16.0	16.3	17.0
PAT / Net Sales	7.9	10.0	10.5	11.0
Inventory Days	47	47	47	47
Debtor Days	50	50	50	50
Creditor Days	26	26	26	26
<b>Return Ratios (%)</b>				
RoNW	14.8	19.2	20.1	20.4
RoCE	17.7	23.0	24.4	25.6
RoIC	20.0	26.3	28.5	31.6
<b>Valuation Ratios (x)</b>				
EV / EBITDA	35.2	25.8	22.0	18.6
P/E (Diluted)	61.0	41.6	35.0	29.8
EV / Net Sales	4.8	4.1	3.6	3.2
Market Cap / Sales	4.8	4.2	3.7	3.3
Price to Book Value	9.0	8.0	7.0	6.1
Dividend Yield (%)	0.7	1.0	1.1	1.1
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	(0.1)	(0.1)	(0.1)	(0.2)
Debt/EBITDA	0.4	0.2	0.1	0.1
Current Ratio	2.5	2.5	2.5	2.5
<b>Quick Ratio</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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