

HOLD

TP: Rs 995 | ▼ 3%

KAJARIA CERAMICS

Construction Materials

03 August 2021

In-line quarter

- Consolidated Q1 revenue grew 102% YoY as tile volumes doubled, aided by a soft lockdown-hit base quarter
- Operating profit stood at Rs 804mn vs. a loss of Rs 76mn in Q1FY21, with EBITDA margin at 14.3%
- We broadly maintain estimates and roll over to a new Jun'22 TP of Rs 995 (vs. Rs 950). Retain HOLD

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Low base aids strong revenue growth: KJC reported consolidated Q1FY22 revenue growth of 102% YoY to Rs 5.6bn with tile volumes rising 99% YoY off a soft base. Sanitary & faucetware grew 113% YoY. As per management, demand in Q1 was affected due to resurfacing of the pandemic but has improved in Q2 alongside unlocking across major markets. Working capital days increased by 38 days QoQ to 88 as lower sales led to buildup of inventory. Management expects inventory to normalise by end-Q2. KJC aims to increase tile market share from ~12% in FY21 to ~15% over the next three years.

Demand trends improving: Per management, demand was decent till mid-April after which it tapered down till May but subsequently recovered in June as unlocking began. July has been normal with KJC achieving 100% of its sales target during the month. The company anticipates sustained demand revival in Q2. Management has now guided for 15-16% tile volume growth in FY22 (earlier guidance of 20-25% withdrawn in mid-June) and value growth of 18-20%, which translates to a 6-7% uptick in tile volumes in 9MFY22, assuming the pandemic doesn't resurface. KJC has also guided for ~50% growth in bathware and ~100% in plywood in FY22 off a low base.

Operating margin at 14.3%: Consolidated operating margin stood at 14.3% (vs. -2.7% in Q1FY21) and EBITDA at Rs 804mn (vs. -Rs 76mn). Management did not put out margin guidance for FY22 but stated that it has hiked tile prices by 1-1.5% in Q1 and another ~3% in July to negate some part of the higher raw material cost. KJC expects to cut losses in the plywood business from Rs 110mn in FY21 to Rs 50mn in FY22 and also anticipates positive contribution from the bathware segment.

Maintain HOLD: We broadly maintain FY22/FY23 PAT estimates and roll forward to a revised Jun'22 TP of Rs 995 (earlier Rs 950), set at an unchanged 32x one-year forward P/E, in line with the stock's five-year average. Though we like the company for its leadership in tiles, strong balance sheet and robust return ratios, valuations look full at 34.5x FY23E EPS – retain HOLD.

Key changes

Target	Rating
▲	◀ ▶

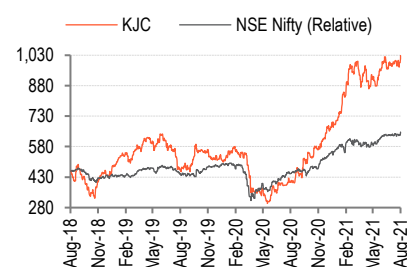
Ticker/Price	KJC IN/Rs 1,028
Market cap	US\$ 2.2bn
Free float	52%
3M ADV	US\$ 2.8mn
52wk high/low	Rs 1,055/Rs 397
Promoter/FPI/DII	48%/25%/27%

Source: NSE | Price as of 3 Aug 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	27,809	34,273	39,720
EBITDA (Rs mn)	5,088	6,308	7,648
Adj. net profit (Rs mn)	3,081	3,848	4,743
Adj. EPS (Rs)	19.4	24.2	29.8
Consensus EPS (Rs)	19.4	24.1	30.9
Adj. ROAE (%)	17.2	20.1	23.4
Adj. P/E (x)	53.1	42.5	34.5
EV/EBITDA (x)	31.9	25.5	21.1
Adj. EPS growth (%)	20.6	24.9	23.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Fig 1 – Consolidated quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Net Sales	5,617	2,776	102.4	9,525	(41.0)
COGS	3,259	1,940	68.0	5,645	(42.3)
Employee cost	933	608	53.3	964	(3.3)
Other expenses	621	303	104.9	1,006	(38.3)
EBITDA	804	(76)	(1,162.4)	1,909	(57.9)
EBITDA Margin (%)	14.3	(2.7)	1,705bps	20.0	(573bps)
Depreciation and amortization	265	252	5.2	265	0.0
EBIT	539	(328)	(264.4)	1,644	(67.2)
EBIT Margin (%)	9.6	(11.8)	2141bps	17.3	(766bps)
Net Interest expenses	30	34	(10.7)	26	14.4
Other non-operating inc (exp), net	60	26	129.0	74	(19.4)
Earnings before tax	569	(336)	(269.5)	1,692	(66.4)
Income taxes	154	(6)	(2,627.9)	380	(59.5)
Earnings after tax	415	(329)	(225.9)	1,312	(68.4)
Minority interest (expense) income	(16)	(58)	(72.6)	41	(139.2)
Reported Net income (loss)	431	(271)	(258.9)	1,271	(66.1)

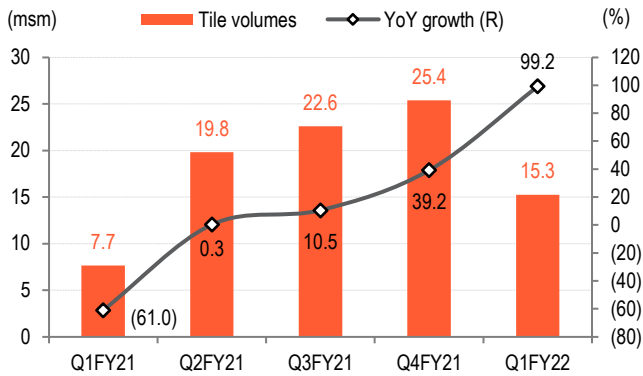
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Segment Revenues					
Tiles	5,193	2,577	101.5	8,659	(40.0)
Other	423	199	113.1	867	(51.1)
Total revenues	5,617	2,776	102.4	9,525	(41.0)
EBIT					
Tiles	531.9	(261.8)	(303.2)	1,571.7	(66.2)
Other	7.1	(66.1)	(110.7)	72.3	(90.2)
Total	539	(328)	(264.4)	1,644	(67.2)
EBIT Margins (%)					
Tiles	10.2	(10.2)	2,040bps	18.2	(791bps)
Other	1.7	(33.3)	3,496bps	8.3	(667bps)

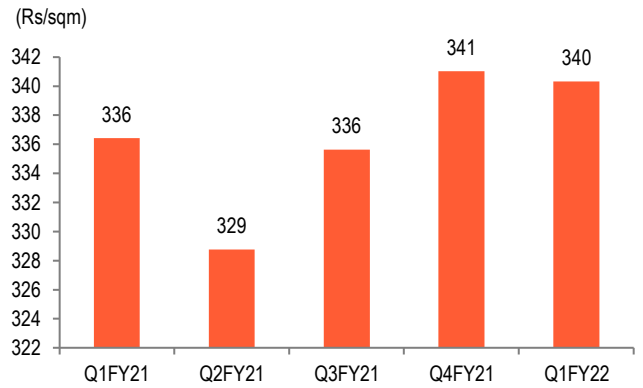
Source: Company, BOBCAPS Research

Fig 3 – Tile volumes



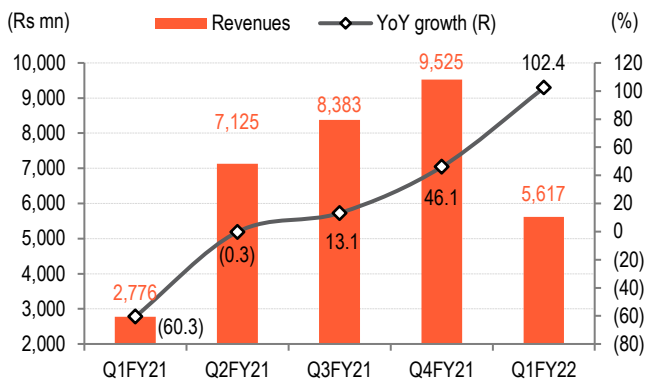
Source: Company, BOBCAPS Research

Fig 4 – Tile net realisations



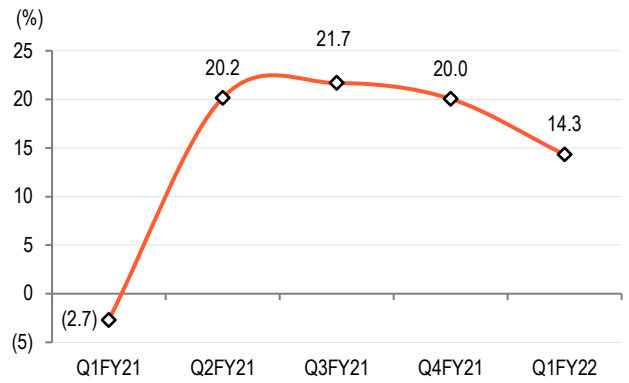
Source: Company, BOBCAPS Research

Fig 5 – Consolidated revenue



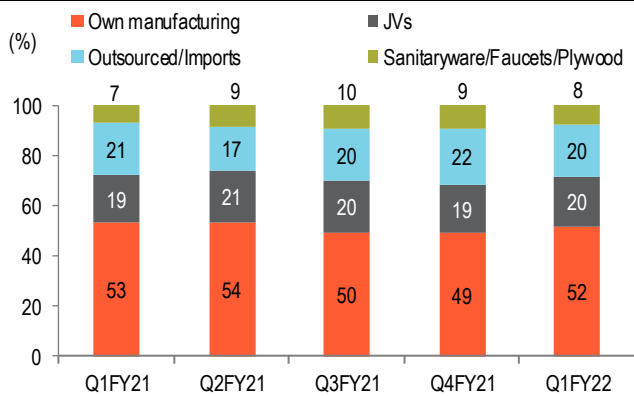
Source: Company, BOBCAPS Research

Fig 6 – Consolidated EBITDA margin



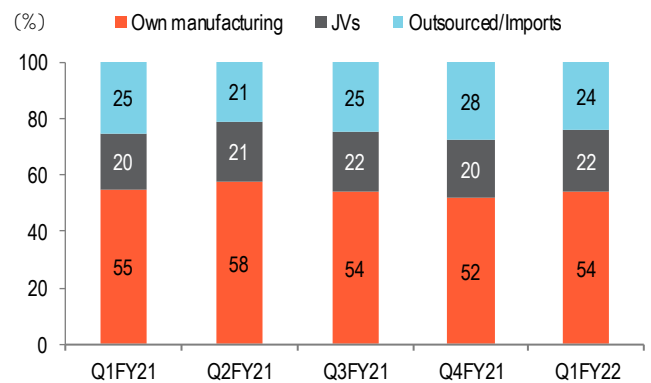
Source: Company, BOBCAPS Research

Fig 7 – Revenue breakup



Source: Company, BOBCAPS Research

Fig 8 – Tile volume breakup



Source: Company, BOBCAPS Research

Earnings call highlights

- KJC saw decent demand until mid-April but thereafter sales faltered till May due to the second wave of the pandemic. However, the month of June was better followed by a return to normal in July. Average plant utilisation in Q1FY22 was at 75%.
- Management expects to see 15-16% tile volume growth in FY22 assuming the pandemic does not resurface. Its other two businesses, namely plywood and bathware, are guided to clock strong growth of ~100% and 50% respectively due to a low base.
- Gas prices increased from ~Rs 28.5/scm in Q4FY21 to ~Rs 32/scm in Q1FY22 and currently stand at ~Rs 35/scm.
- KJC took price increases of 1-1.5% in tiles during Q1 and ~3% in July due to the rising raw material cost.
- India's total tile capacity is ~1,150msm, of which 70% is based out of Morbi (Gujarat). Exports from unorganised players in Morbi touched ~Rs 100bn in FY21 (vs. ~Rs 77bn in FY20) and could grow to ~Rs 120bn in FY22. In contrast, management estimates the domestic tiles market will decline by ~10% in FY22 due to pandemic.
- Tile exports from India are likely to remain strong due to the country's cost edge (ex-China). Also, India's freight cost is lower and hence demand remains robust even from markets such as Saudi Arabia which have imposed anti-dumping duty.
- Management plans to remain focused on the domestic market and to cap exports at a maximum of 5% of total turnover. KJC is targeting an increase in tile segment market share from ~12% in FY21 to ~15% over the next three years. It plans to expand volumes by ~15% a year for the next three years.
- Plywood business revenue stood at ~Rs 390mn in FY21 and is guided to reach Rs 800mn in FY22. Management expects to halve losses in this division from ~Rs 110mn in FY21 to ~Rs 50mn in FY22 and thereafter break even or be marginally profitable by FY23. It also plans to enter laminates in Q2FY22.
- KJC is net debt-free and intends to pay out 40-50% of profits going ahead.

Valuation methodology

KJC is the largest organised player in the ~Rs 310bn Indian tiles market (~50% unorganised). We expect the company to benefit from the gradual formalisation of demand post-GST and e-way bill implementation, given its strong brand, wide distribution reach and market leadership.

We broadly maintain estimates and roll forward to a revised Jun'22 TP of Rs 995 (earlier Rs 950), set at an unchanged one-year forward P/E of 32x – in line with the stock's five-year average. We like KJC for its leadership position in the tiles business, strong branding and robust balance sheet, but current valuations appear full at 34.5x FY23E EPS – we thus maintain our HOLD rating.

Fig 9 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	34,273	39,720	33,905	39,411	1.1	0.8
EBIDTA	6,308	7,648	6,268	7,596	0.6	0.7
PAT	3,848	4,743	3,818	4,705	0.8	0.8

Source: BOBCAPS Research

Fig 10 – Key assumptions

Parameter	FY21	FY22E	FY23E	FY24E
Tiles volumes (msm)	75.4	89.0	102.4	115.7
Growth (%)	(3.37)	18.0	15.0	13.0
Tiles revenues (Rs mn)	25,328	30,547	35,129	40,093
Growth (%)	(2.8)	20.6	15.0	14.1
Sanitaryware/Faucetware revenues (Rs mn)	2,090	2,926	3,511	4,213
Growth (%)	19.9	40.0	20.0	20.0
Plywood revenues (Rs mn)	392	800	1,080	1,458
Growth (%)	35.4	104.3	35.0	35.0

Source: Company, BOBCAPS Research

Fig 11 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	HOLD	995	19.5	24.2	29.8	20.1	23.4	32
Somany Ceramics	SOMC IN	BUY	640	16.4	21.8	29.1	13.2	15.3	22
Greenply Industries	MTLM IN	HOLD	230	18.7	9.2	11.3	23.0	22.9	20
Century Plyboard	CPBI IN	SELL	370	19.5	11.9	14.7	19.1	19.6	25
Greenpanel Industries	GREENP IN	BUY	315	25.1	12.2	16.4	14.3	18.6	18
Cera Sanitaryware	CRS IN	HOLD	4,145	16.1	115.4	138.1	16.2	17.1	30
Astral	ASTRA IN	SELL	1,210	16.3	20.2	25.2	20.3	22.6	48
Finolex Industries	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Industries	SI IN	HOLD	1,990	11.2	56.2	63.4	22.6	21.5	30

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- **Benign raw material prices:** Any abnormal decrease in prices of key raw materials (such as gas) which are not passed along will result in above-expected profitability.
- **Lower competition from informal sector:** A decline in competitive intensity from the unorganised market of Morbi will result in better profitability for KJC.
- **Sharp improvement in housing demand:** A better-than-anticipated revival in the housing sector may result in above-expected revenue and profitability.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	28,080	27,809	34,273	39,720	45,764
EBITDA	4,159	5,088	6,308	7,648	8,882
Depreciation	(1,081)	(1,067)	(1,186)	(1,352)	(1,497)
EBIT	3,078	4,022	5,122	6,296	7,385
Net interest inc./(exp.)	(195)	(107)	(97)	(72)	(52)
Other inc./(exp.)	242	213	224	246	271
Exceptional items	0	0	0	0	0
EBT	3,125	4,127	5,249	6,470	7,603
Income taxes	(589)	(1,038)	(1,323)	(1,630)	(1,916)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	18	(9)	(79)	(97)	(114)
Reported net profit	2,553	3,081	3,848	4,743	5,573
Adjustments	0	0	0	0	0
Adjusted net profit	2,553	3,081	3,848	4,743	5,573

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	2,105	1,760	2,190	2,537	2,947
Other current liabilities	2,311	2,201	2,191	2,700	3,129
Provisions	288	313	338	363	388
Debt funds	1,171	971	721	521	321
Other liabilities	731	687	712	737	762
Equity capital	159	159	159	159	159
Reserves & surplus	16,984	18,530	19,491	20,677	22,070
Shareholders' fund	17,143	18,689	19,650	20,836	22,229
Total liab. and equities	24,386	25,266	26,527	28,515	30,711
Cash and cash eq.	2,350	4,477	1,496	592	247
Accounts receivables	3,967	4,317	5,164	5,985	6,896
Inventories	5,127	3,731	5,634	6,421	7,397
Other current assets	640	615	751	871	1,003
Investments	3	0	0	0	0
Net fixed assets	11,854	11,911	13,205	14,343	14,846
CWIP	257	50	70	80	80
Intangible assets	103	112	112	112	112
Deferred tax assets, net	15	13	0	0	0
Other assets	70	40	94	111	129
Total assets	24,386	25,266	26,527	28,515	30,711

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	2,472	4,963	2,783	5,410	6,072
Capital expenditures	(1,213)	(1,012)	(2,500)	(2,500)	(2,000)
Change in investments	0	0	0	0	0
Other investing cash flows	0	3	0	0	0
Cash flow from investing	(1,213)	(1,009)	(2,500)	(2,500)	(2,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	222	(201)	(250)	(200)	(200)
Interest expenses	(195)	(107)	(97)	(72)	(52)
Dividends paid	(1,150)	(1,591)	(2,886)	(3,557)	(4,180)
Other financing cash flows	(310)	72	(31)	14	15
Cash flow from financing	(1,433)	(1,827)	(3,264)	(3,815)	(4,417)
Chg in cash & cash eq.	(174)	2,127	(2,981)	(905)	(344)
Closing cash & cash eq.	2,350	4,477	1,496	592	247

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	16.1	19.4	24.2	29.8	35.1
Adjusted EPS	16.1	19.4	24.2	29.8	35.1
Dividend per share	3.0	10.0	14.5	17.9	21.0
Book value per share	107.9	117.6	123.6	131.1	139.9

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	5.8	5.8	4.7	4.1	3.6
EV/EBITDA	39.2	31.9	25.5	21.1	18.4
Adjusted P/E	64.0	53.1	42.5	34.5	29.3
P/BV	9.5	8.7	8.3	7.8	7.4

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	81.7	74.6	73.3	73.3	73.3
Interest burden (PBT/EBIT)	101.5	102.6	102.5	102.8	103.0
EBIT margin (EBIT/Revenue)	11.0	14.5	14.9	15.9	16.1
Asset turnover (Rev./Avg TA)	116.7	112.0	132.3	144.3	154.5
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	15.5	17.2	20.1	23.4	25.9

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(5.0)	(1.0)	23.2	15.9	15.2
EBITDA	(7.5)	22.3	24.0	21.2	16.1
Adjusted EPS	10.3	20.6	24.9	23.3	17.5
Profitability & Return ratios (%)					
EBITDA margin	14.8	18.3	18.4	19.3	19.4
EBIT margin	11.0	14.5	14.9	15.9	16.1
Adjusted profit margin	9.1	11.1	11.2	11.9	12.2
Adjusted ROAE	15.5	17.2	20.1	23.4	25.9
ROCE	13.8	15.3	18.5	21.8	24.2
Working capital days (days)					
Receivables	57	54	50	51	51
Inventory	83	81	72	81	81
Payables	38	31	26	27	27
Ratios (x)					
Gross asset turnover	1.5	1.4	1.6	1.6	1.7
Current ratio	2.1	2.7	2.5	2.3	2.3
Net interest coverage ratio	15.8	37.5	52.8	87.4	141.8
Adjusted debt/equity	(0.1)	(0.2)	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

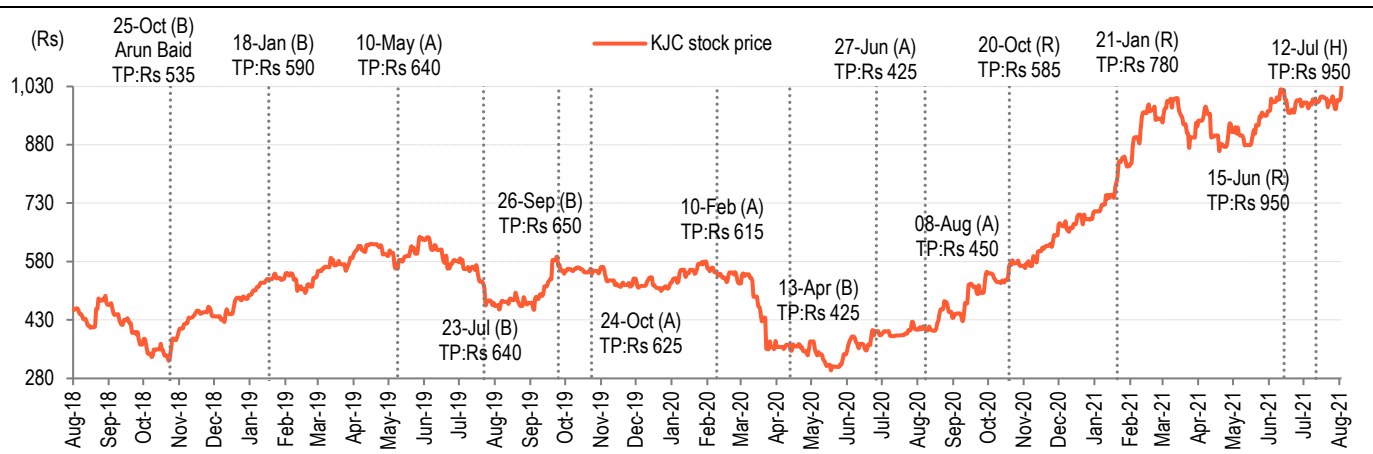
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): KAJARIA CERAMICS (KJC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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