

REDUCE

TP: Rs 950 | ▼ 5%

KAJARIA CERAMICS

Construction Materials

15 June 2021

Strong quarter; maintain REDUCE due to rich valuations

- KJC reported consolidated Q4FY21 revenue growth of 46% YoY as tile volumes grew 39%, aided by a soft lockdown-hit base quarter
- Operating margin swelled 575bps YoY as employee/other expenses reduced by 320bps/315bps YoY
- We raise FY22/FY23 PAT 10%/14% and revise our Mar'22 TP to Rs 950 (vs. Rs 780). Retain REDUCE on current rich valuations of 34x FY23E

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Strong revenue growth aided by low base: KJC reported consolidated Q4 revenue growth of 46% YoY to Rs 9.5bn with tile volumes rising 39% YoY off a soft base. Sanitaryware & faucetware grew 73% YoY. Demand was broad-based across markets during the quarter with good traction in metros, tier-1 cities and tier-2-and-below markets. For FY21, revenue dipped 1% YoY and tile volumes fell 3% whereas the sanitaryware & faucet segment grew 20%. Working capital days improved by 23 days to 50 in FY21, and management expects a return to pre-Covid levels of 50-55 days going ahead.

Near-term headwinds: Per management, demand in Q1FY22 has been affected by renewed Covid lockdowns, with April at 75% of targeted revenue, May at 35% and June likely to be at 75%. The company anticipates demand revival from Q2 as unlocking gets underway. Management refrained from giving FY22 volume guidance for the tiles business but said it aims to achieve the earlier guided 20-25% growth rate on a low base of FY21 if the external situation normalises. KJC plans to incur capex of Rs 2.5bn in FY22 toward brownfield capacity expansion to meet the expected demand.

Sharp rise in margin: Consolidated operating margin expanded 575bps YoY to 20% despite gross margin declining 65bps as employee/other expenses reduced by 320bps/315bps YoY – this yielded EBITDA/PBT growth of 105%/153% YoY. Gross margin declined due to higher raw material cost whereas higher operating leverage helped bring down employee/other expenses as a percentage of sales. For FY21, KJC reported a 350bps increase in operating margin to 18.3% and 22%/32% YoY growth in EBITDA/ PBT. Management did not put out margin guidance for FY22 (vs. 20% guided last quarter) but highlighted that it would continue to keep a tight leash on cost.

Maintain REDUCE: We increase FY22/FY23 PAT estimates by 10%/14% due to better-than-expected FY21 margins and raise our target FY23E P/E multiple to 32x (vs. 30x), in line with the stock's five-year average. Our Mar'22 TP thus rises to Rs 950 (from Rs 780). KJC is currently trading at 33.6x FY23E EPS. Though we like the company for its leadership in tiles, strong balance sheet and robust return ratios, we maintain our REDUCE rating due to full valuations and await a better entry point.

Key changes

Target	Rating
▲	◀ ▶

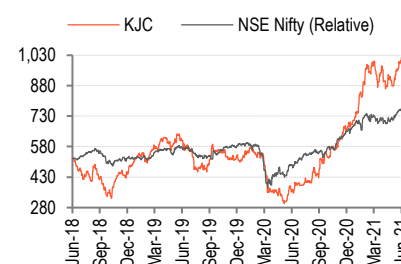
Ticker/Price	KJC IN/Rs 995
Market cap	US\$ 2.2bn
Free float	52%
3M ADV	US\$ 3.2mn
52wk high/low	Rs 1,055/Rs 350
Promoter/FPI/DII	48%/25%/27%

Source: NSE | Price as of 15 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	27,809	33,905	39,411
EBITDA (Rs mn)	5,088	6,268	7,596
Adj. net profit (Rs mn)	3,081	3,818	4,705
Adj. EPS (Rs)	19.4	24.0	29.6
Consensus EPS (Rs)	17.9	24.3	30.0
Adj. ROAE (%)	17.2	19.9	23.3
Adj. P/E (x)	51.3	41.4	33.6
EV/EBITDA (x)	30.8	24.9	20.5
Adj. EPS growth (%)	20.6	24.0	23.2

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance

Source: NSE



Fig 1 – Consolidated quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Sales	9,525	6,520	46.1	8,383	13.6	27,809	28,080	(1.0)
COGS	5,645	3,822	47.7	4,840	16.6	16,619	16,655	(0.2)
Employee cost	964	869	11.0	895	7.8	3,247	3,569	(9.0)
Other expenses	1,006	896	12.3	830	21.2	2,856	3,698	(22.8)
EBITDA	1,909	934	104.5	1,818	5.0	5,088	4,159	22.3
EBITDA Margin (%)	20.0	14.3	573bps	21.7	(164bps)	18.3	14.8	349bps
Depreciation and amortization	265	283	(6.4)	276	(3.7)	1,067	1,081	(1.3)
EBIT	1,644	650	152.8	1,542	6.6	4,022	3,078	30.6
EBIT Margin (%)	17.3	10.0	729bps	18.4	(114bps)	14.5	11.0	350bps
Net Interest expenses	26	49	(46.5)	26	1.1	107	195	(45.1)
Other non-operating inc (exp), net	74	69	7.5	65	15.3	213	242	(11.8)
Earnings before tax	1,692	670	152.5	1,580.5	7.1	4,127	3,125	32.1
Income taxes	380	182	109.0	370	2.7	1,038	589	76.2
Earnings after tax	1,312	488	168.7	1,210	8.4	3,089	2,535	21.8
Minority interest (expense) income	41	(8)	(629.9)	21	95.2	9	(18)	(147.2)
Reported Net income (loss)	1,271	496	156.3	1,189.4	6.9	3,081	2,553	20.6

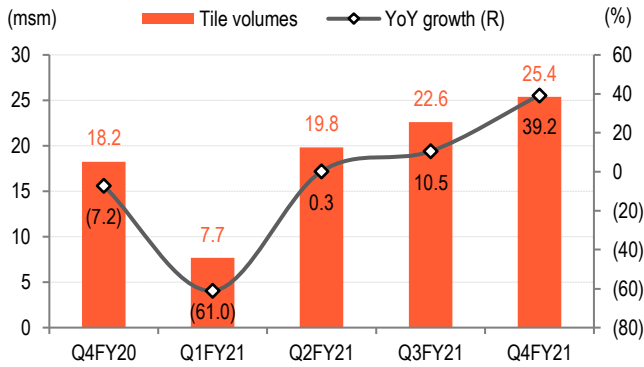
Source: Company, BOBCAPS Research

Fig 2 – Consolidated segmental performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Segment Revenues								
Tiles	8,659	6,051	43.1	7,582	14.2	25,328	26,049	(2.8)
Other	867	469	84.7	801	8.2	2,482	2,032	22.1
Total revenues	9,525	6,520	46.1	8,383	13.6	27,809	28,080	(1.0)
EBIT								
Tiles	1,572	670	134.7	1,480	6.2	3,941	3,157	24.8
Other	72	(19)	(472.7)	62	16.6	81	(79)	(202.4)
Total	1,644	650	152.8	1,542	6.6	4,022	3,078	30.6
EBIT Margins								
Tiles	18.2	11.1	708bps	19.5	(137bps)	15.6	12.1	344bps
Other	8.3	(4.1%)	1,248bps	7.7	60bps	3.2	(3.9%)	712bps

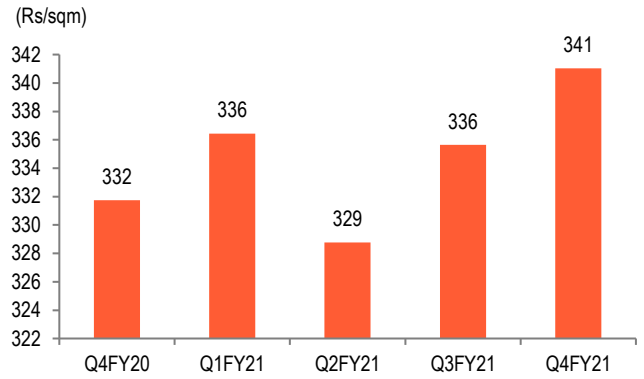
Source: Company, BOBCAPS Research

Fig 3 – Tile volumes



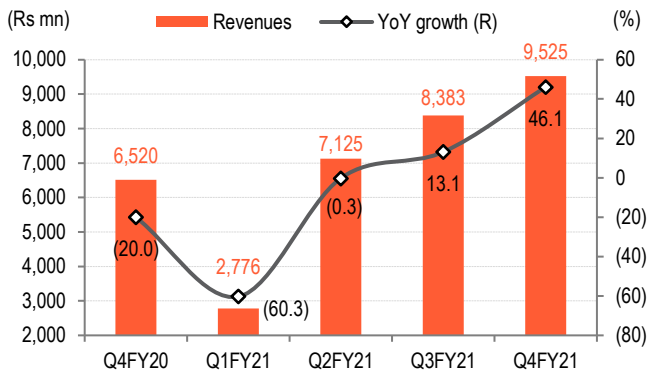
Source: Company, BOBCAPS Research

Fig 4 – Tile net realisations



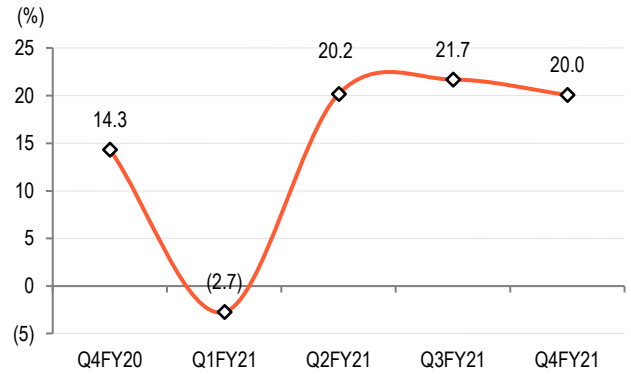
Source: Company, BOBCAPS Research

Fig 5 – Consolidated revenue



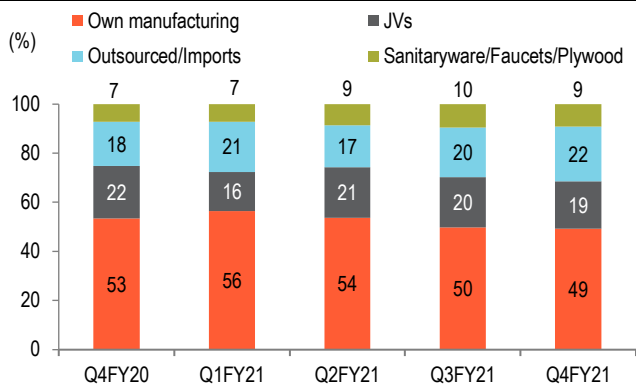
Source: Company, BOBCAPS Research

Fig 6 – Consolidated EBITDA margin



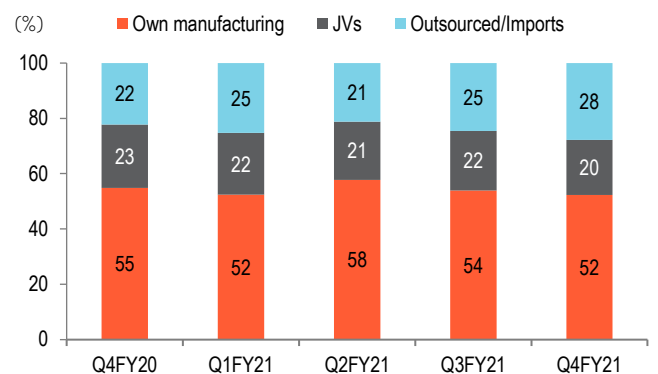
Source: Company, BOBCAPS Research

Fig 7 – Revenue breakup



Source: Company, BOBCAPS Research

Fig 8 – Tile volume breakup



Source: Company, BOBCAPS Research

Earnings call highlights

- KJC saw good demand from metro/tier-1 markets as well as tier-2-and-below cities in Q4FY21. Average plant utilisation for the quarter was at 98%.
- Demand in Q1FY22 has been affected by Covid-19 lockdowns with April at 75% of targeted revenues, May at ~35% and June likely to be at ~75%. Management is hopeful of demand revival from Q2.
- Gas prices increased ~20% YoY in Q4 and the company took price hikes of 2.5-3% across its tiles portfolio to negate the burden. In Q1FY22, gas prices have once again risen ~10%.
- KJC believes both organised and unorganised players are currently on a level playing field given the usage of gas, as any increase in prices will impact all players equally, leading to price hikes across the board.
- Exports from unorganised players in Morbi (Gujarat) touched ~Rs 110bn in FY21 (from ~Rs 90bn in FY20) and could continue to grow in FY22 as well. In contrast, management estimates the domestic tiles market declined by ~20% in FY21.
- The company has reduced A&P spend to Rs 460mn in FY21 from Rs 900mn in FY20 and plans to incur a sum of Rs 700mn in FY22.
- KJC did not give out volume or margin guidance for FY22 due to the ongoing lockdowns. However, the company aims to achieve its earlier volume growth guidance of 20-25% if normalcy is swiftly restored and also intends to keep a tight leash on costs to cushion margins.
- Management expects the sanitaryware & faucet segment to earn revenues of Rs 5bn over the next three years.
- Plywood business revenue was at ~Rs 390mn in FY21 and is guided to reach Rs 800mn-900mn in FY22. The division had a loss of ~Rs 100mn in Q4 which management estimates should halve to ~Rs 50mn in FY22 and thereafter break even or be marginally profitable by FY23. KJC plans to enter into laminates in FY22.
- The company intends to incur capex of ~Rs 2.5bn on brownfield expansion in three of its locations as it expects a strong rebound in the home improvement market. All these projects will be operational by end-Q4FY22.

Valuation methodology

KJC is the largest organised player in the ~Rs 300bn 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.

In light of the above-expected FY21 operating performance, we increase FY22/ FY23 PAT estimates by 10%/14% and raise our target FY23E P/E multiple from 30x to 32x, in line with the stock's five-year average. This translates to a revised Mar'22 TP of Rs 950 (earlier Rs 780). We like KJC for its leadership position in the tiles business, strong branding and robust balance sheet, but current valuations appear full at 33.6x FY23E EPS – we thus maintain REDUCE and await a better entry point.

Fig 9 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	33,905	39,411	32,220	37,095	5.2	6.2
EBIDTA	6,268	7,596	5,811	6,838	7.9	11.1
PAT	3,818	4,705	3,470	4,121	10.0	14.2

Source: BOBCAPS Research

Fig 10 – Key assumptions

	FY21P	FY22E	FY23E
Tiles volumes (msm)	75	89	102
Growth (%)	(3.4)	18.0	15.0
Tiles revenues (Rs mn)	25,328	30,547	35,129
Growth (%)	(2.8)	20.6	15.0
Sanitaryware/Faucetware revenues (Rs mn)	2,090	2,508	3,135
Growth (%)	19.9	20.0	25.0
Plywood revenues (Rs mn)	392	850	1148
Growth (%)	35.4	117.1	35.0

Source: BOBCAPS Research

Fig 11 – Peer comparison

Company	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
				FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	REDUCE	950	19	24.0	29.6	19.9	23.3	32
Somany Ceramics	BUY	490	17	19.7	24.4	12.1	13.3	20
Greenply Industries	ADD	230	19	9.2	11.3	23.0	22.9	20
Century Plyboard	SELL	370	19	11.9	14.7	19.1	19.6	25
Greenpanel Industries	BUY	295	24	12.1	16.3	18.4	20.4	18
Cera Sanitaryware	REDUCE	4,145	16	115.4	138.1	16.2	17.1	30
Astral Ltd	SELL	1,210	16	20.2	25.2	20.3	22.6	48
Finolex Industries	ADD	135	1	5.7	6.1	15.0	14.7	22
Supreme Industries	SELL	1,805	8	52.8	60.1	20.2	20.8	30

Source: BOBCAPS Research

Key risks

Key upside risks to our view 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)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	29,562	28,080	27,809	33,905	39,411
EBITDA	4,495	4,159	5,088	6,268	7,596
Depreciation	(891)	(1,081)	(1,067)	(1,186)	(1,352)
EBIT	3,604	3,078	4,022	5,082	6,244
Net interest inc./(exp.)	(156)	(195)	(107)	(97)	(72)
Other inc./(exp.)	180	242	213	224	246
Exceptional items	(48)	0	0	0	0
EBT	3,629	3,125	4,127	5,209	6,418
Income taxes	(1,293)	(589)	(1,038)	(1,313)	(1,617)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(22)	18	(9)	(78)	(96)
Reported net profit	2,266	2,553	3,081	3,818	4,705
Adjustments	48	0	0	0	0
Adjusted net profit	2,314	2,553	3,081	3,818	4,705

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	2,890	2,105	1,760	2,161	2,514
Other current liabilities	2,211	2,311	2,201	2,191	2,671
Provisions	200	288	313	338	363
Debt funds	949	1,171	971	721	521
Other liabilities	1,073	731	687	712	737
Equity capital	159	159	159	159	159
Reserves & surplus	15,590	16,984	18,530	19,484	20,660
Shareholders' fund	15,749	17,143	18,689	19,643	20,819
Total liab. and equities	23,732	24,386	25,266	26,489	28,444
Cash and cash eq.	2,524	2,350	4,477	1,583	625
Accounts receivables	4,751	3,967	4,317	5,109	5,939
Inventories	4,058	5,127	3,731	5,573	6,371
Other current assets	581	640	615	743	864
Investments	3	3	0	0	0
Net fixed assets	10,671	11,854	11,911	13,205	14,343
CWIP	934	257	50	70	80
Intangible assets	107	103	112	112	112
Deferred tax assets, net	14	15	13	0	0
Other assets	90	70	40	93	110
Total assets	23,732	24,386	25,266	26,489	28,444

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Cash flow from operations	3,508	2,472	4,963	2,847	5,328
Capital expenditures	(976)	(1,213)	(1,012)	(2,500)	(2,500)
Change in investments	0	0	0	0	0
Other investing cash flows	1	0	3	0	0
Cash flow from investing	(975)	(1,213)	(1,009)	(2,500)	(2,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(402)	222	(201)	(250)	(200)
Interest expenses	(156)	(195)	(107)	(97)	(72)
Dividends paid	(570)	(1,150)	(1,591)	(2,864)	(3,529)
Other financing cash flows	294	(310)	72	(30)	15
Cash flow from financing	(833)	(1,433)	(1,827)	(3,241)	(3,786)
Chg in cash & cash eq.	1,700	(174)	2,127	(2,894)	(958)
Closing cash & cash eq.	2,524	2,350	4,477	1,583	625

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	14.3	16.1	19.4	24.0	29.6
Adjusted EPS	14.6	16.1	19.4	24.0	29.6
Dividend per share	3.0	3.0	10.0	14.4	17.8
Book value per share	99.1	107.9	117.6	123.6	131.0

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	5.4	5.6	5.6	4.6	4.0
EV/EBITDA	35.4	37.9	30.8	24.9	20.5
Adjusted P/E	68.3	61.9	51.3	41.4	33.6
P/BV	10.0	9.2	8.5	8.0	7.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	64.6	81.7	74.6	73.3	73.3
Interest burden (PBT/EBIT)	99.3	101.5	102.6	102.5	102.8
EBIT margin (EBIT/Revenue)	12.2	11.0	14.5	15.0	15.8
Asset turnover (Rev./Avg TA)	131.0	116.7	112.0	131.0	143.5
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.4	1.4
Adjusted ROAE	15.8	15.5	17.2	19.9	23.3

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	9.1	(5.0)	(1.0)	21.9	16.2
EBITDA	(1.5)	(7.5)	22.3	23.2	21.2
Adjusted EPS	(1.2)	10.3	20.6	24.0	23.2
Profitability & Return ratios (%)					
EBITDA margin	15.2	14.8	18.3	18.5	19.3
EBIT margin	12.2	11.0	14.5	15.0	15.8
Adjusted profit margin	7.8	9.1	11.1	11.3	11.9
Adjusted ROAE	15.8	15.5	17.2	19.9	23.3
ROCE	14.0	13.8	15.3	18.4	21.6
Working capital days (days)					
Receivables	57	57	54	51	51
Inventory	68	83	81	73	81
Payables	39	38	31	26	27
Ratios (x)					
Gross asset turnover	1.7	1.5	1.4	1.5	1.6
Current ratio	2.0	2.1	2.7	2.5	2.3
Net interest coverage ratio	23.1	15.8	37.5	52.4	86.7
Adjusted debt/equity	(0.1)	(0.1)	(0.2)	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%

ADD – Expected return from >+5% to +15%

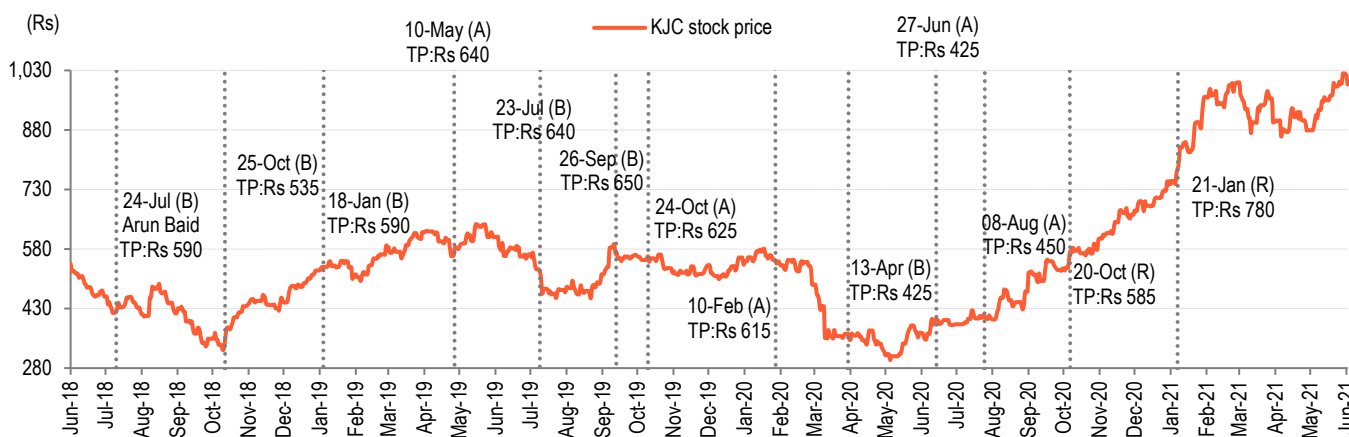
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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, A – Add, R – Reduce, S – Sell

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