

BUY

TP: Rs 1,460 | ▲ 55%

KAJARIA CERAMICS

Construction Materials

17 May 2022

Muted volume growth and higher gas prices play spoilsport

- Q4 revenue grew 16% YoY (+3% QoQ) spurred by a 13% rise in tile realisations; volume growth was subdued at 2%
- EBITDA margin declined 500bps YoY to 15.1% on higher power & fuel cost (+535bps)
- We retain BUY and our TP of Rs 1,460 given strong growth prospects and attractive valuations

Ruchitaa Maheshwari

researchreport@bobcaps.in

Higher realisation buoys topline: KJC's Q4FY22 revenue increased 16% YoY (+3% QoQ) to Rs 11bn, backed by a 13% rise in realisations to Rs 385/sqm. However, sale volumes grew just 2% to 26msm as the third Covid-19 wave hit demand in the months of January and February. Revenue from the tiles business rose 16% YoY to Rs 10bn, with the company's own manufacturing, subsidiaries and outsourcing businesses contributing Rs 5.6bn (+8% YoY), Rs 1.4bn (+9%) and Rs 2.9bn (+39%) respectively. Sanitaryware and plywood revenue climbed 18% YoY to Rs 1bn.

Margins contract: Due to higher power & fuel cost (+535bps YoY) – mainly high gas cost averaging Rs 49.79/scm – gross margin contracted 510bps YoY to 25.5%. EBITDA margin declined 500bps YoY and 215bps QoQ to 15.1%.

Revenue guided to grow 20-25% in FY23: Management expects volume growth to the tune of 15-20% and revenue growth of 20-25% in FY23. The company has avoided giving any outlook on margins as gas prices are at a peak and supply is erratic.

Expansion projects commissioned: In Apr'22, KJC commissioned 4.4msm of PVT capacity at subsidiary Kajaria Vitrified Pvt Ltd (formerly Jaxx Vitrified), 4.2msm of ceramic floor tiles at the Gailpur plant (Rajasthan) and 3.8msm of value-added glazed vitrified tiles at Srikalahasti (Andhra Pradesh).

Long-term value play; retain BUY: We believe that KJC has long-term structural growth drivers from improving real estate demand in tier-3-and-below towns, domestic market share gains from Morbi and an increasing focus on exports. The stock has corrected ~36% from its 52-week high (19 Jan 2022) and is trading at an FY24E P/E of 25.8x compared to its 5Y median of 41x, which is reasonable given its increasing volumes and healthy return ratios. We continue to value the stock at 40x FY24E EPS and retain our TP of Rs 1,460 with a BUY rating given strong growth prospects and attractive valuations.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	KJC IN/Rs 943
Market cap	US\$ 1.9bn
Free float	53%
3M ADV	US\$ 3.3mn
52wk high/low	Rs 1,375/Rs 885
Promoter/FPI/DII	48%/21%/31%

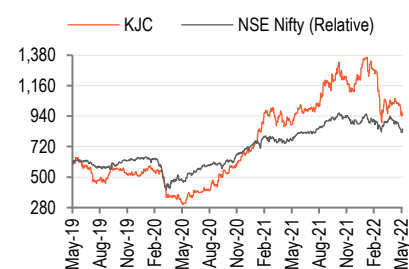
Source: NSE | Price as of 17 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	37,052	43,635	49,791
EBITDA (Rs mn)	6,107	7,643	9,225
Adj. net profit (Rs mn)	3,770	4,710	5,800
Adj. EPS (Rs)	23.7	29.6	36.5
Consensus EPS (Rs)	23.7	31.8	38.3
Adj. ROAE (%)	18.9	21.6	25.1
Adj. P/E (x)	39.8	31.8	25.8
EV/EBITDA (x)	24.2	19.2	16.1
Adj. EPS growth (%)	22.4	24.9	23.1

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

Stock performance



Source: NSE



Earnings call highlights

- **Sales:** Tier-3-and-below cities are witnessing a demand revival in the real estate sector, and management believes demand will come from these markets over the next three years.
- **Price hikes:** In order to offset the rise in gas price as well as higher transportation and packaging costs, KJC has increased prices of all products by ~2% since May'22. The last hike was to the tune of 4-5% at the end of December. During FY22, the company took cumulative price hikes of ~10% in tiles, ~15% in sanitaryware and 12-13% in bathware. Per management, KJC takes a price increase with a lag effect of 15-30 days and is thus able to protect margins.
- **Exports:** Exports currently stand at 2-3% of the topline and are targeted to rise to 5-8% in a couple of years. Management indicated that exports have become lucrative as costs in Europe, Italy and China have increased by 300%-400% owing to the higher gas and power costs. This will drive up exports from Morbi which, in turn, will vacate the space for domestic players.
- **Gas cost:** The average gas cost stood at Rs 49.79/scm in Q4FY22, Rs 52-53/scm in Q1FY23 and Rs 29/scm in Q4FY21.

Fig 1 – Gas prices

Avg Price (Rs/scm)	Q1FY23	Q4FY22	Q3FY22	FY22	FY21
North	52	45.5	43	41	26
South	59	60	55.5	44	12.5
West	60.5	62	58.17	49	28.5

Source: Company

- **Capex guidance:** KJC plans to invest Rs 3bn toward capex every year.
- **Gujarat project withdrawn:** The board has withdrawn a Rs 2.1bn investment in Kajaria Ultima for a slab manufacturing facility with a production capacity of 5msm p.a. in the state of Gujarat, as it has become unviable owing to the rising gas cost. The company will instead set up a plant in South India.
- **Working capital:** Working capital cycle improved to 50 days in Q4FY22 vs. 52 in Q4FY21.
- **Dealers:** KJC will add 400 dealers in FY23, of which 170-175 will be exclusively dedicated to the company.

Fig 2 – Consolidated quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Net Sales	11,018	9,525	15.7	10,682	3.1	37,052	27,809	33.2
COGS	7,153	5,645	26.7	6,731	6.3	23,141	16,619	39.2
Employee cost	1,058	964	9.7	1,066	(0.8)	4,077	3,247	25.6
Other expenses	1,148	1,006	14.0	1,047	9.6	3,727	2,856	30.5
EBITDA	1,659	1,909	(13.1)	1,838	(9.7)	6,107	5,088	20.0
EBITDA Margin (%)	15.1	20.0	(498bps)	17.2	(215bps)	16.5	18.3	(181bps)
Depreciation and amortization	326	265	23.0	281	16.2	1,154	1,067	8.1
EBIT	1,333	1,644	(18.9)	1,558	(14.4)	4,953	4,022	23.2
EBIT Margin (%)	12.1	17.3	(516bps)	14.6	(248bps)	13.4	14.5	(109bps)
Net Interest expenses	40	26	50.8	30	32.2	127	107	18.9
Other non-operating inc (exp), net	70	74	(5.5)	74	(5.3)	276	213	29.4
Earnings before tax	1,364	1,692	(19.4)	1,602	(14.9)	5,102	4,127	23.6
Income taxes	391	380	2.9	355	10.4	1,274	1,038	22.7
Earnings after tax	972	1,312	(25.9)	1,247	(22.0)	3,827	3,089	23.9
Extraordinary items	0	0	-	0	-	0	0	-
Minority interest (expense) income	15	41	(64.0)	27	(45.8)	58	9	577.6
APAT	958	1,271	(24.7)	1,220	(21.5)	3,770	3,081	22.4

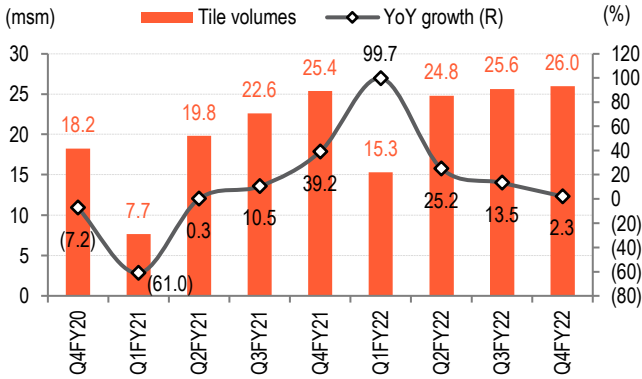
Source: Company, BOBCAPS Research

Fig 3 – Consolidated segmental performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Segment Revenues								
Tiles	9,999	8,659	15.5	9,616	4.0	33,634	25,328	32.8
Other	1,019	867	17.6	1,066	(4.4)	3,418	2,482	37.7
Total revenues	11,018	9,525	15.7	10,682	3.1	37,052	27,809	33.2
EBIT								
Tiles	1275.9	1571.7	(18.8)	1491.5	(14.5)	4758.4	3940.9	20.7
Other	57.3	72.3	(20.7)	66.2	(13.4)	194.9	80.6	141.8
Total	1,333	1,644	(18.9)	1,558	(14.4)	4,953	4,022	23.2
EBIT Margins (%)								
Tiles	12.8	18.2	(539bps)	15.5	(275bps)	14.1	15.6	(141bps)
Other	5.6	8.3	(272bps)	6.2	(59bps)	5.7	3.2	245bps

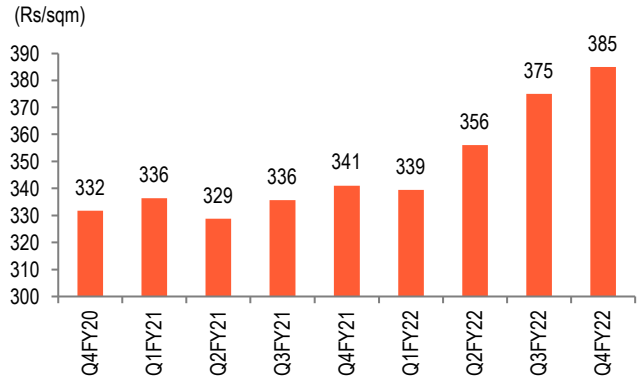
Source: Company, BOBCAPS Research

Fig 4 – Tile volumes



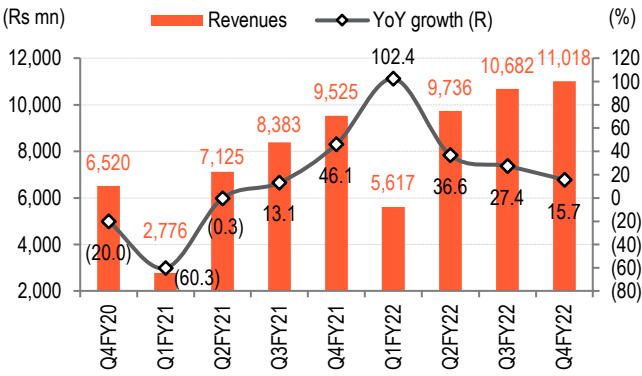
Source: Company, BOBCAPS Research

Fig 5 – Tile net realisations



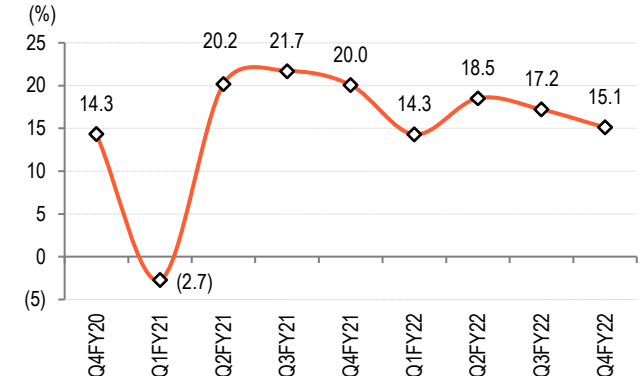
Source: Company, BOBCAPS Research

Fig 6 – Consolidated revenue trend



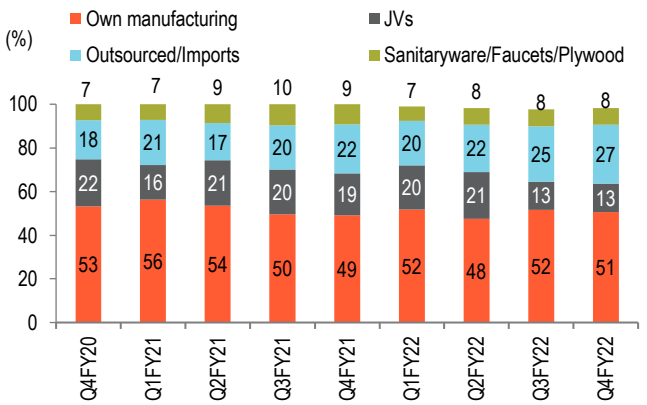
Source: Company, BOBCAPS Research

Fig 7 – Consolidated EBITDA margin trend



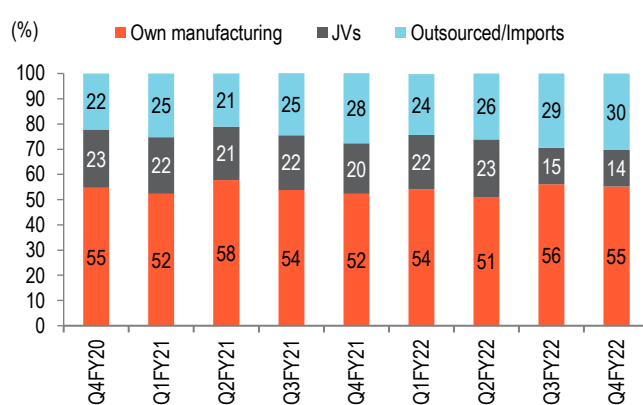
Source: Company, BOBCAPS Research

Fig 8 – Revenue breakup



Source: Company, BOBCAPS Research

Fig 9 – Tile volume breakup



Source: Company, BOBCAPS Research

Valuation methodology

We believe that KJC has long-term structural growth drivers from improving real estate demand in tier-3-and-below towns, domestic market share gains from Morbi and an increasing focus on exports. In our view, the company is in a sweet spot on the back of its leadership in the tile industry, strong growth prospects, pricing power, wide distribution reach, brand name, broad product profile, debt-free balance sheet and robust return ratios.

The stock has corrected ~36% from its 52-week high (19 Jan 2022) and is trading at an FY24E P/E of 25.8x compared to its five-year median of 41x, which is reasonable given its increasing volumes and healthy return ratios. We continue to value KJC at 40x FY24E EPS and retain our TP of Rs 1,460 with a BUY rating.

Key risks

Key downside risks to our estimates are:

- sharp uptick in raw material prices and gas costs,
- substantial decrease in exports from Morbi players,
- increasing competition from the informal sector, and
- slowdown in economic revival and in housing demand.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Century Plyboards	CPBI IN	1.5	538	735	BUY
Cera Sanitaryware	CRS IN	0.7	4,062	5,715	BUY
Greenpanel Industries	GREENP IN	0.8	498	595	HOLD
Greenply Industries	MTLM IN	0.3	186	260	BUY
Kajaria Ceramics	KJC IN	1.9	943	1,460	BUY
Pidilite Industries	PIDI IN	14.2	2,170	2,445	HOLD
Somany Ceramics	SOMC IN	0.3	604	1,140	BUY

Source: BOBCAPS Research, NSE | Price as of 17 May 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	28,080	27,809	37,052	43,635	49,791
EBITDA	4,159	5,088	6,107	7,643	9,225
Depreciation	(1,081)	(1,067)	(1,154)	(1,393)	(1,538)
EBIT	3,078	4,022	4,953	6,250	7,687
Net interest inc./(exp.)	(195)	(107)	(127)	(128)	(108)
Other inc./(exp.)	242	213	276	303	334
Exceptional items	0	0	0	0	0
EBT	3,125	4,127	5,102	6,426	7,913
Income taxes	(589)	(1,038)	(1,274)	(1,619)	(1,994)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	18	(9)	(58)	(96)	(118)
Reported net profit	2,553	3,081	3,770	4,710	5,800
Adjustments	0	0	0	0	0
Adjusted net profit	2,553	3,081	3,770	4,710	5,800

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	2,105	1,760	2,644	2,891	3,280
Other current liabilities	2,311	2,201	2,741	2,919	3,437
Provisions	288	313	338	363	388
Debt funds	1,171	971	1,279	1,079	879
Other liabilities	731	687	985	1,010	1,035
Equity capital	159	159	159	159	159
Reserves & surplus	16,984	18,530	21,065	22,242	23,692
Shareholders' fund	17,143	18,689	21,224	22,401	23,851
Total liab. and equities	24,386	25,266	29,858	31,407	33,733
Cash and cash eq.	2,350	4,477	4,244	1,464	1,251
Accounts receivables	3,967	4,317	5,133	6,575	7,503
Inventories	5,127	3,731	4,659	7,053	8,048
Other current assets	640	615	1,623	956	1,091
Investments	3	0	0	0	0
Net fixed assets	11,854	11,911	13,947	15,044	15,506
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	70	122	141
Total assets	24,386	25,266	29,858	31,407	33,733

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	2,472	4,963	3,524	3,634	6,433
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)	309	(200)	(200)
Interest expenses	(195)	(107)	(127)	(128)	(108)
Dividends paid	(1,150)	(1,591)	(2,827)	(3,533)	(4,350)
Other financing cash flows	(310)	72	1,389	(53)	12
Cash flow from financing	(1,433)	(1,827)	(1,257)	(3,914)	(4,646)
Chg in cash & cash eq.	(174)	2,127	(233)	(2,780)	(213)
Closing cash & cash eq.	2,350	4,477	4,244	1,464	1,251

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	16.1	19.4	23.7	29.6	36.5
Adjusted EPS	16.1	19.4	23.7	29.6	36.5
Dividend per share	3.0	10.0	14.2	17.8	21.9
Book value per share	107.9	117.6	133.5	140.9	150.1

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	5.3	5.3	4.0	3.4	3.0
EV/EBITDA	35.9	29.2	24.2	19.2	16.1
Adjusted P/E	58.7	48.6	39.8	31.8	25.8
P/BV	8.7	8.0	7.1	6.7	6.3

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	81.7	74.6	73.9	73.3	73.3
Interest burden (PBT/EBIT)	101.5	102.6	103.0	102.8	102.9
EBIT margin (EBIT/Revenue)	11.0	14.5	13.4	14.3	15.4
Asset turnover (Rev./Avg TA)	116.7	112.0	134.4	142.4	152.9
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	15.5	17.2	18.9	21.6	25.1

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	(5.0)	(1.0)	33.2	17.8	14.1
EBITDA	(7.5)	22.3	20.0	25.2	20.7
Adjusted EPS	10.3	20.6	22.4	24.9	23.1
Profitability & Return ratios (%)					
EBITDA margin	14.8	18.3	16.5	17.5	18.5
EBIT margin	11.0	14.5	13.4	14.3	15.4
Adjusted profit margin	9.1	11.1	10.2	10.8	11.6
Adjusted ROAE	15.5	17.2	18.9	21.6	25.1
ROCE	13.8	15.3	17.1	19.7	23.1
Working capital days (days)					
Receivables	57	54	47	49	52
Inventory	83	81	56	70	80
Payables	38	31	26	28	28
Ratios (x)					
Gross asset turnover	1.5	1.4	1.7	1.7	1.8
Current ratio	2.1	2.7	2.3	2.3	2.3
Net interest coverage ratio	15.8	37.5	38.9	48.9	71.2
Adjusted debt/equity	(0.1)	(0.2)	(0.1)	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%

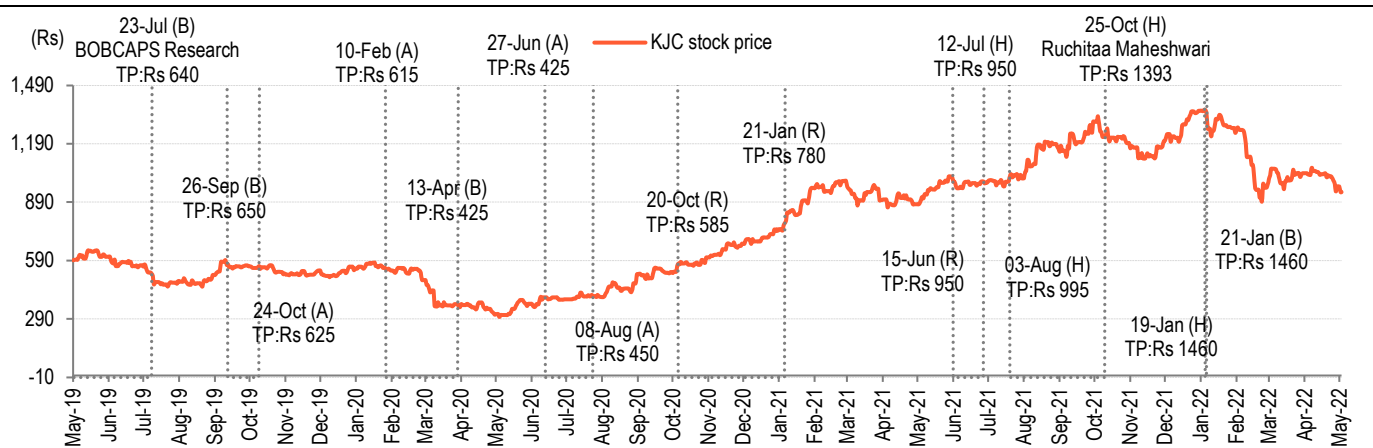
HOLD – Expected return from -6% to +15%

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

Rating distribution

As of 30 April 2022, out of 116 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 66 have BUY ratings, 30 have HOLD ratings, 5 are rated ADD*, 1 is rated REDUCE* and 14 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.