

Kajaria Ceramics

BUY
An impressive beat on EBITDA margin

Summary

Kajaria Ceramics Ltd (Kajaria) reported another strong quarterly performance, particularly on operating margin front. Robust demand in retail market of from tier-I and smaller cities aided sales volume growth, while opening up of metros further strengthened demand trajectory. We believe with an all-round Q3FY21 performance, Kajaria has once again proved its leadership position in the domestic tile industry. Net sales increased by 13.1% YoY to Rs8,383mn, while EBITDA came in at Rs1,818mn, up by 63.3% YoY. The company reported net profit of Rs1,210mn, a robust growth of 98.8% over Q3FY20. While reiterating healthy volume growth outlook of higher mid-teens, the management has revised EBITDA margin guidance from earlier ~18% to 20% in near future. Kajaria will remain focused on increasing distribution reach, particularly in smaller untapped markets. To factor in a strong beat on EBITDA and positive management commentary, we increase our EBITDA estimate by 20.7%/16%/19.4% over FY21E/FY22E/FY23E respectively. Maintain BUY with a revised TP of Rs910 (from Rs670), assigning 35x PER (from 30x) on FY23E.

Key Highlights and Investment Rationale

- Healthy sales volume growth aided net sales**
 Kajaria reported healthy 11% sales volume growth to 22.6MSMS. The management attributed this to 100% capacity utilization (except Kosa plant) and robust demand in retail market. After a lull in H1FY21, metros have come back well and were at 75% of earlier demand for Kajaria. Despite higher sales volume, the company's net sales realization was up by 1% YoY at Rs336/sqm. Considering strong demand in the domestic market, Kajaria is planning to expand capacity through green field/brown field/outsourced capacity expansion in FY22E.
- Lower raw material cost and cost saving led to EBITDA margin expansion**
 Despite reinstating employee cost in Q3, benign raw material prices, lower fuel cost and prudent cost cutting on advertising and other expenses led to 670bps EBITDA margin expansion to 21.7%. However, the management cautioned that EBITDA margin to decline by 100-150bps in Q4FY21E owing to marginal hike in fuel price and raw material cost. On a positive note, the company has revised near-term EBITDA margin guidance by 200bps to ~20%.
- Remains our preferred pick in building material segment, Buy with a TP of Rs910**
 Kajaria remains our preferred pick amongst our building material products coverage owing to its scale of operation, balance sheet strength, extensive distribution network and strong brand recall. Maintain BUY with a TP of Rs910.

TP	Rs910		
CMP	Rs795		
Potential upside / downside	+15%		
Previous Rating	BUY		
V/s Consensus			
EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	17.1	21.4	26.0
Consensus	14.9	19.9	23.7
% difference	14.9	7.7	9.7

Shareholding Pattern (%)

Promoters	47.5
FII	23.7
DII	14.7
Public	14.1

Price Performance (%)

	-1m	-3m	-12m
Absolute	13.7	38.4	42.9
Rel to Sensex	8.1	16.0	23.4

Key Stock Data

Bloomberg/Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	126,501
Market cap. (US\$ mn)	1,733
3-m daily avg Trd value(Rs mn)	261.7
52-week high / low	Rs788 / 295
Nifty / Sensex	49,625 / 14,590

Relative to Sensex (%)



Financial snapshot

	(Rs mn)				
Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	29,562	28,080	26,438	30,932	34,954
EBITDA	4,495	4,159	4,805	5,784	6,746
EBITDA (%)	15.2	14.8	18.2	18.7	19.3
Adj. PAT	2,336	2,535	2,721	3,399	4,095
EPS (Rs)	14.7	15.9	17.1	21.4	26.0
EPS Growth (%)	2.5	8.5	7.3	24.9	20.5
PE (x)	54.1	49.9	46.5	37.2	30.4
Dividend Yield (%)	0.4	0.4	1.3	1.6	1.9
EV/EBITDA (x)	27.8	30.1	25.8	21.4	18.2
RoE (%)	16.0	15.4	15.5	18.5	21.0
RoCE (%)	19.7	15.5	17.0	20.3	23.2

Source: Company; IDBI Capital Research

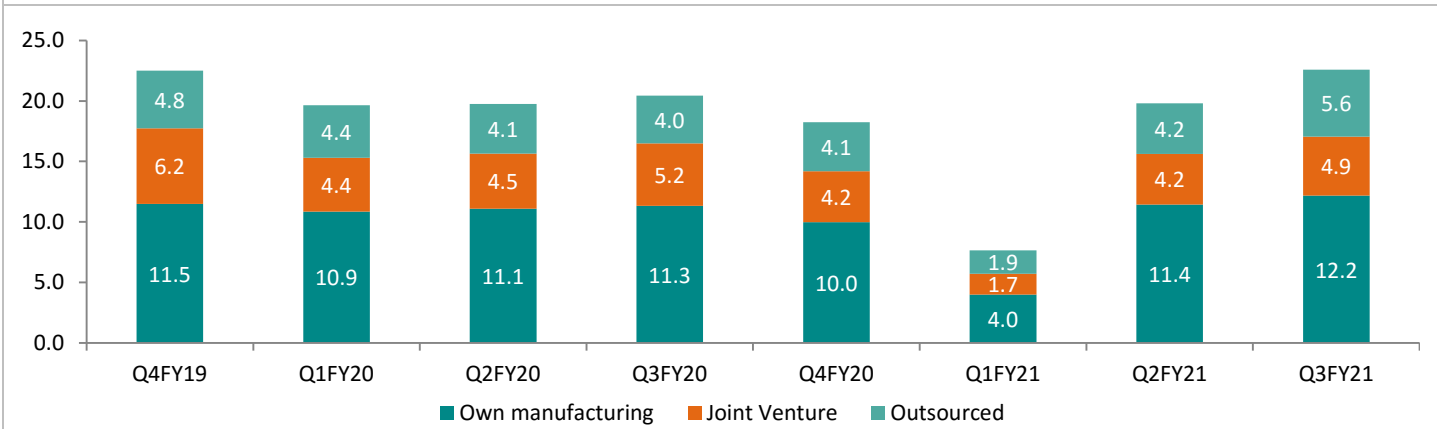
Exhibit 1: Financial snapshot					(Rs mn)
Particulars (mn)	Q3FY21	Q2FY21	QoQ (%)	Q3FY20	YoY (%)
Total revenues	8,383	7,125	17.7	7,413	13.1
Total expenditure	6,566	5,688	15.4	6,300	4.2
EBIDTA	1,818	1,437	26.5	1,113	63.4
<i>EBIDTA margin (%)</i>	<i>21.7</i>	<i>20.2</i>	<i>150bps</i>	<i>15.0</i>	<i>670bps</i>
Depreciation	276	274	0.7	278	(0.8)
Interest cost	26	21	25.5	48	(46.1)
Other income	65	48	34.7	51	25.7
PBT	1,581	1,190	32.8	838	88.6
Tax	370	294	25.9	226	64.0
Adj. net profit	1,210	896	35.0	608	99.0
Adj. EPS (INR)	7.6	5.6	35.0	3.8	99.0

Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates				(Rs mn)
Particulars (mn)	Q3FY21A	Q3FY21E	Variance (%)	
Net Sales	8,383	7,893	6.2	
EBITDA	1,818	1,487	22.2	
<i>EBITDA Margin (%)</i>	<i>21.7</i>	<i>18.8</i>	<i>290bps</i>	
Net Profit	1,210	930	30.1	
EPS, Rs	7.6	5.8	30.1	

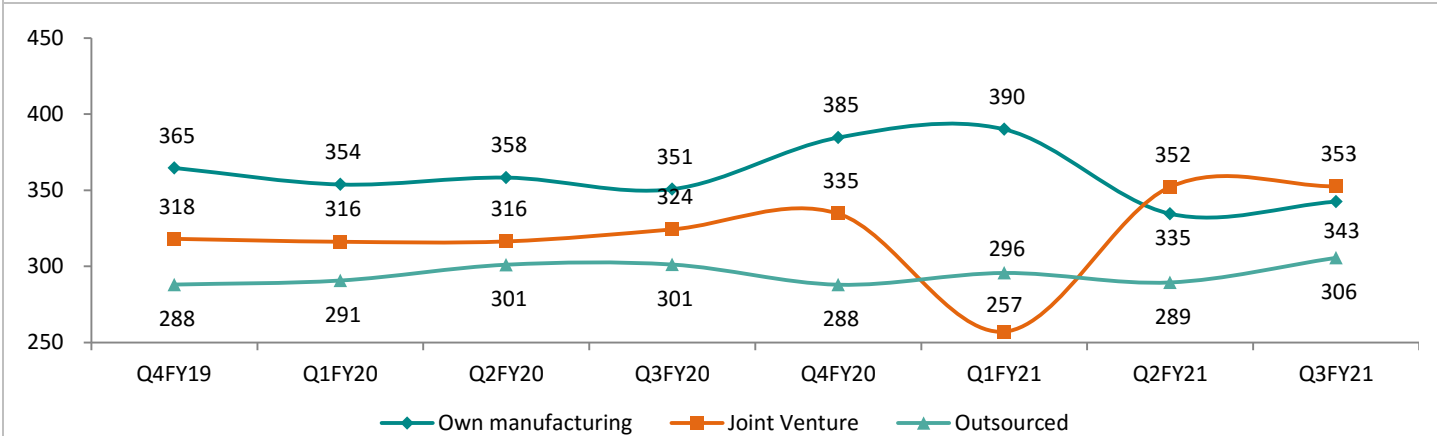
Source: Company; IDBI Capital Research

Exhibit 3: Sales volume contribution (MSM)

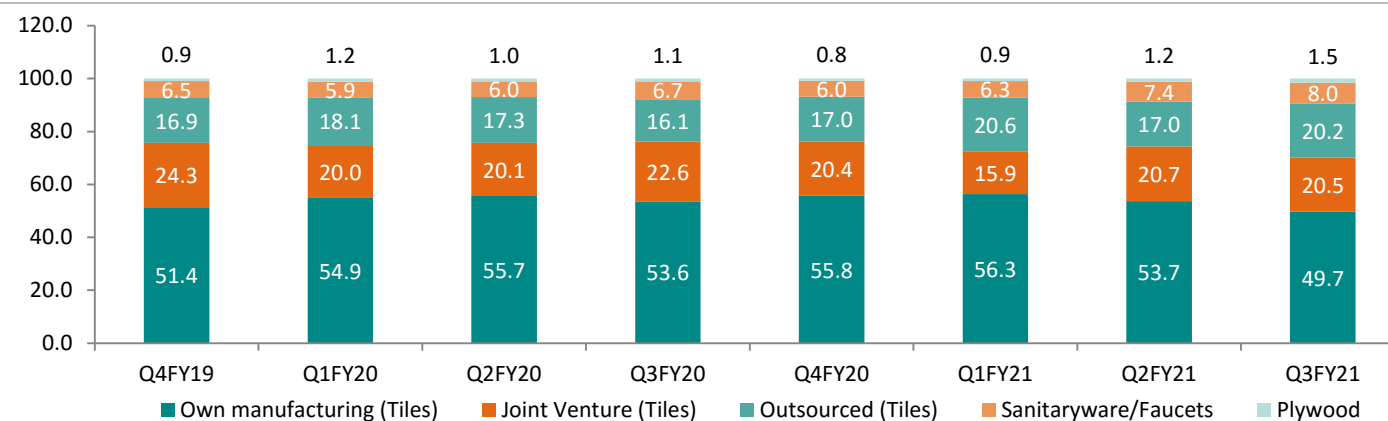


Source: Company; IDBI Capital Research

Exhibit 4: Tile realization (Rs/sqmtr)



Source: Company; IDBI Capital Research

Exhibit 5: Revenue contribution (%)


Source: Company; IDBI Capital Research

Exhibit 6: Change in estimates

Particulars (Rs mn)	FY21E			FY22E			FY23E		
	New	Old	% Change	New	Old	% Change	New	Old	% Change
Revenue	26,438	25,765	2.6	30,932	30,653	0.9	34,954	33,156	5.4
EBITDA	4,805	3,981	20.7	5,784	4,987	16.0	6,746	5,651	19.4
EBITDA Margin (%)	18.2	15.5	270bps	18.7	16.3	240bps	19.3	17.0	230bps
Net Profit	2,721	2,191	24.0	3,399	3,020	12.5	4,095	3,554	16.5
EPS (Rs)	17.1	13.8	24.0	21.4	19.0	12.5	26.0	22.3	16.5

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	28,080	26,438	30,932	34,954
<i>Growth (%)</i>	(5.0)	(5.8)	17.0	13.0
Operating expenses	(23,921)	(21,633)	(25,148)	(28,208)
EBITDA	4,159	4,805	5,784	6,746
<i>Growth (%)</i>	(7.5)	15.5	20.4	16.6
Depreciation	(1,081)	(1,261)	(1,358)	(1,423)
EBIT	3,078	3,544	4,426	5,323
Interest paid	(195)	(112)	(110)	(99)
Other income	242	205	226	248
Pre-tax profit	3,124	3,638	4,542	5,473
Tax	(589)	(917)	(1,143)	(1,377)
<i>Effective tax rate (%)</i>	18.9	25.2	25.2	25.2
Minority Interest	-	-	-	-
Net profit	2,535	2,721	3,399	4,095
Exceptional items	-	-	-	-
Adjusted net profit	2,535	2,721	3,399	4,095
<i>Growth (%)</i>	8.5	7.3	24.9	20.5
<i>Shares o/s (mn nos)</i>	159	159	159	159

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	3,124	3,638	4,542	5,473
Depreciation	1,081	1,261	1,358	1,423
Tax paid	(932)	(825)	(1,029)	(1,240)
Chg in working capital	(1,124)	(409)	(600)	(864)
Other operating activities	-	-	-	-
Cash flow from operations (a)	2,150	3,665	4,271	4,792
Capital expenditure	(768)	(510)	(1,513)	(1,011)
Chg in investments	(94)	(16)	(24)	(35)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(862)	(526)	(1,537)	(1,046)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	222	(154)	(102)	(92)
Dividend (incl. tax)	(572)	(1,908)	(2,480)	(2,862)
Chg in minorities	(22)	-	-	-
Other financing activities	(1,189)	33	43	60
Cash flow from financing (c)	(1,561)	(2,029)	(2,539)	(2,894)
Net chg in cash (a+b+c)	(272)	1,109	195	852

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	11,682	10,931	11,087	10,675
Investments	116	132	156	191
Other non-curr assets	514	514	514	514
Current assets	12,074	13,966	15,210	17,441
Inventories	5,127	5,537	6,091	6,822
Sundry Debtors	3,967	4,284	4,713	5,278
Cash and Bank	2,252	3,361	3,556	4,409
Marketable Securities	-	-	-	-
Loans and advances	350	385	425	469
Total assets	24,386	25,543	26,967	28,821
Shareholders' funds	17,143	17,956	18,874	20,107
Share capital	159	159	159	159
Reserves & surplus	16,984	17,797	18,715	19,948
Total Debt	1,171	1,017	915	824
Secured loans	215	204	184	166
Unsecured loans	956	813	732	658
Other liabilities	1,504	1,648	1,833	2,068
Curr Liab & prov	3,931	4,285	4,707	5,184
Current liabilities	3,643	3,986	4,388	4,835
Provisions	288	299	319	349
Total liabilities	6,606	6,950	7,456	8,076
Total equity & liabilities	24,386	25,543	26,967	28,821
Book Value (Rs)	110	115	120	128

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	15.9	17.1	21.4	26.0
Adj. EPS growth (%)	8.5	7.3	24.9	20.5
EBITDA margin (%)	14.8	18.2	18.7	19.3
Pre-tax margin (%)	11.1	13.8	14.7	15.7
ROE (%)	15.4	15.5	18.5	21.0
ROCE (%)	15.5	17.0	20.3	23.2
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.2	1.1	1.2	1.3
Leverage factor (x)	1.5	1.4	1.4	1.4
Net margin (%)	9.0	10.3	11.0	11.7
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	67	76	72	71
Receivable days	52	59	56	55
Payable days	37	45	44	44

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	49.9	46.5	37.2	30.4
Price / Book value (x)	7.3	6.9	6.6	6.2
PCE (x)	35.0	31.8	26.6	22.9
EV / Net sales (x)	4.5	4.7	4.0	3.5
EV / EBITDA (x)	30.1	25.8	21.4	18.2
Dividend Yield (%)	0.4	1.3	1.6	1.9



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto ±5%; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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