

18 July 2023

Kajaria Ceramics Ltd. – BUY

CMP : Rs. 1,351.0
Target Price : Rs. 1,635.0
Upside : 21 %+
Stop Loss : Rs. 1,156.0 (Closing basis)

Investment Thesis

- Kajaria Ceramics has increased its production capacity by 16% to 81.55msm in FY23 (ex-Vennar Ceramics). Post expansion, installed capacity became 84.45msm in Mar-23, however, the company has decided to divest its stake in Vennar Ceramics (capacity-2.9msm). It has planned to further increase capacity by 8.5% to 88.50msm by FY25E. Capacity expansion plans are following:
 - Capacity addition by 1.8msm (from 8.4msm to 10.2msm) at its Sikandrabad (Uttar Pradesh) to be completed by July 2023 with capex of Rs.80Cr.
 - Plans to set up a 5.1msm capacity in Nepal through a JV with Ramesh Corp, Nepal with a capex of ~Rs.90Cr by Kajaria Ceramics (total project cost of Rs.181Cr).
 - Modernization of Gailpur (Rajasthan) plant by replacing existing kilns (25 years old kiln) with the latest model kilns with a capex of Rs.51Cr. Modernization will help to produce bigger sized tiles which will have better margins with higher realization and lower costs (saving in fuel consumption as the new kilns are energy efficient).
 - Capacity of faucet/sanitaryware segments by 0.6m pieces each.

We believe, capacity addition plans will help Kajaria Ceramics to report over 10% CAGR tiles volume over FY23-25E.

- In FY22, the EBITDA margin of Kajaria Ceramics declined to 16.5% mainly due to rising gas prices and higher commodity cost inflation. To mitigate this, Kajaria Ceramics had undertaken 3-4 price hike in FY22 and cumulative price hike in FY22 towards tile was ~10%, sanitaryware at ~15% and bath & fittings ~12%-13%. In May 2022 also, Kajaria Ceramics undertook price hike of ~2% across its product portfolio, but EBITDA margin came down to 13.5% in FY23. However, gas prices was cooled down to Rs.46/scm in Q4FY23 from Rs.53/scm in Q3FY23. We believe, gas prices will further cooled off in the subsequent quarters as in April 2023, gas prices was Rs.40/scm in North, Rs.44/scm in South and Rs.41/scm in West and average of Rs.40/scm. We expect, lower gas price and raw material cost, Kajaria Ceramics is expected to report higher margins.
- Kajaria Ceramics has developed a strong pan-India dealer network of 1,840 operative dealers, which grew by 7% CAGR over FY12-23 (750 dealers in FY12). In FY23 also, it has added 140 dealers and targets to increase the dealer count by 450 in the next three years (150 dealers every year), which will help Kajaria Ceramics generate higher volumes.
- During FY24, Kajaria Ceramics will modernizing its Rajasthan plant and expanding its capacity in UP plant and also produce more valued added tiles from these plants. At the start of FY25E, it is expected to commission a 5.1MSM plant in Nepal (50% Kajaria Ceramics share). Kajaria Ceramics is targeting to double its consolidated revenue in the next 5-6 years and it will invest ~Rs.250Cr every year to drive this growth.

Financials

- In FY23, Kajaria Ceramics has reported 18.3% YoY growth in revenue at Rs.37,052mn mainly led by 11% YoY sales volume growth of tiles business. However, EBITDA margin was declined by 182bps to 16.5% in FY23 due to higher gas prices.

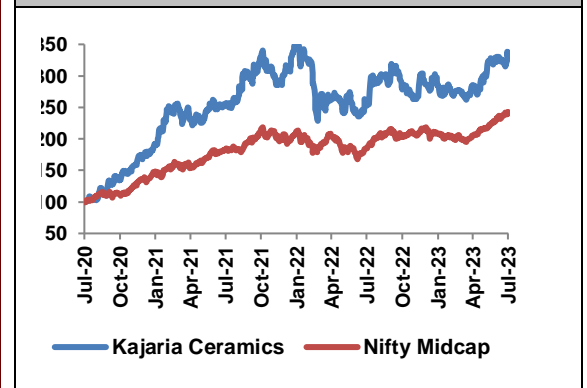
ConsoL. (Rs.Mn.)	FY21	FY22	FY23	FY24E	FY25E
Revenue	27,809	37,052	43,819	50,392	57,749
EBITDA	5,088	6,107	5,920	6,749	7,734
% growth	22.3	20.0	-3.1	14.0	14.6
PAT	3,081	3,770	3,445	3,927	4,489
EPS (INR)	19.4	23.7	21.6	24.7	28.2
P/E (x)	69.7	57.0	62.4	54.7	47.9
RoE (%)	16.5%	17.9%	14.8%	15.4%	16.0%

Stock Data	
Market Cap (Rs. Mn)	2,15,230
Market Cap (\$ Mn)	2,623.15
Shares O/S (in Mn)	159.2
Avg. Volume (3 month)	2,46,000
52-Week Range (Rs.)	1,350 / 970

Shareholding Pattern	
Promoters	47.49%
FII's	16.89%
Institutions	26.23%
Others (incl. body corporate)	9.39%

Key Ratios	
Div Yield	0.7%
TTM PE	61.8x
ROE	14.8%
TTM EPS (Rs.)	21.6/-

Stock Performance			
Performance (%)	1M	6M	1Yr
ABSOLUTE	2.3	18.4	33.7
NIFTY MIDCAP	4.9	18.3	31.4



- Kajaria Ceramics has reported 10.4% QoQ and 9.4% YoY growth in consolidated revenue to Rs.12,048mn in Q4FY23 due to growth witnessed across segments (except plywood segment). Kajaria Ceramics has reported tiles sales volume growth of 10.1% QoQ and 7.9% YoY, after two quarters of sluggish demand, tiles sales witnessed an improved performance in Q4FY23.
- Sanitaryware and Faucet revenue grew by 9.4% YoY and 13.8% QoQ while Plywood segment revenue growth was muted in Q4FY23. Tiles average selling price (ASP) saw a marginal growth of 1% YoY and was flat QoQ.
- Consolidated EBITDA of Kajaria Ceramics grew by 6% YoY and 32.2% QoQ, as a result, EBITDA margin came in at 14.6% as against 15.1% in Q4FY22 and 12.2% in Q3FY23. Sequential improvement in EBITDA margin was largely led by correction in gas prices in Q4FY23.

Key Business Highlights

- Kajaria Ceramics is primarily engaged in manufacturing and trading of ceramic and vitrified tiles in India. It offers more than 3,000 options in ceramic wall & floor tiles, vitrified tiles, designer tiles, etc. in a wide range of colors and textures. Kajaria Ceramics has seven manufacturing plants, located in Sikandrabad (UP), Gailpur & Malootana (Rajasthan), Srikalahasti (Andhra Pradesh), Balanagar (Telangana) and 2 plants in Morbi (Gujarat).
- Kajaria Ceramics has developed total manufacturing capacity of 81.55msm (million square meters), out of which 34.15msm of Ceramic Tiles, 32.00msm of Glazed Vitrified Tiles and 15.40msm of Polished Vitrified Tiles. It also has a sanitaryware plant in Morbi (Gujarat) with an annual capacity of 7.5 lakh pieces P.A. and a faucet plant in Gailpur (Rajasthan) with an annual capacity of 1 million pieces P.A.
- Kajaria Ceramics sells its products under 3 main brands i.e. Kajaria (for tiles), Kerovit (for sanitaryware and bathware solutions) and Kajaria Ply (for plywood and laminates).
- Kajaria Ceramics is a leading tiles manufacturer in India with ~6% revenue share in the domestic market. It has gained market share steadily underpinned by superior distribution network (7% CAGR over FY12-23), improved geographical reach and premium/new tile launches (~750 SKUs in FY23).

Valuation

Kajaria Ceramics remains confident of gaining market share by delivering 13-15% tiles volume growth in FY24 on account of expected rise in demand from tier-II and below cities, healthy capacity utilizations, expected increase in Kajaria's capacity, enhanced distribution network and strong brand recall. It will be adding ~150 dealers each year for the next 2-3 years. Management has also mentioned that Indian tiles exports surged to Rs.175bn in FY23 and it expects to further increase to Rs.200bn in FY24E (+14% YoY). Management said that gas prices continue to fall further, down ~10% QoQ in Q1FY24 and they are confident of delivering a 14-16% EBITDA margin in FY24E.

We are assigning BUY rating to Kajaria Ceramics and value at 58.0x FY25E EPS of Rs.28.20 to arrive at target price of Rs.1,635.00, an upside of ~21%.

Risk & Concern

- Gas prices constitutes major part of the raw material of Kajaria Ceramics and when gas prices started rising from Q1FY22, its consumption cost cumulative increased by over 85% during Q1FY22-Q2FY23. As a result, gross margin decline by 870bps over this period to 33.3% in Q2FY23 against 42% in Q1FY22. However, gas prices started softening post Q2FY23 and average gas consumption cost for the company fell to INR46/scm in 4QFY23. So, any higher than expected gas prices may put pressure on margin of Kajaria Ceramics.
- Rise in commodity prices over last 5-6 quarters has led to an increase in the prices of the entire building material products. Any further increase in product prices may lead to weak demand in the near term.
- During the last few years, unorganized players have shifted to exports (which reported a 23% CAGR over FY18-23 in value terms). A slowdown in exports can force unorganized players to shift their focus into domestic markets, which may lead to pressure on tiles prices.
- Third parties outsourcing and forming joint venture has evolved amongst large players as capacity is available quickly at lower overheads. Any issue arises with maintaining relations with JV partners and third-party sourcing players may be a challenge for the company.

Graphs & Charts

Figure 1: Net Sales Trend

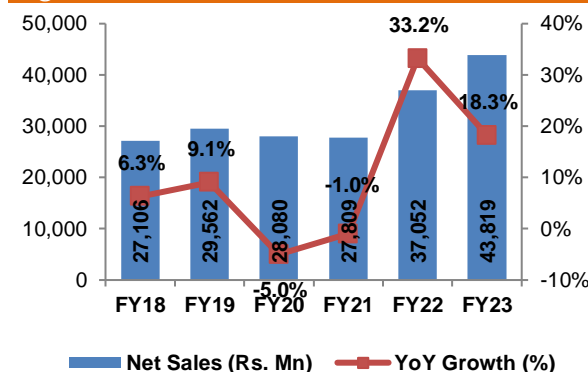


Figure 2: EBITDA & EBITDA Margin Trend

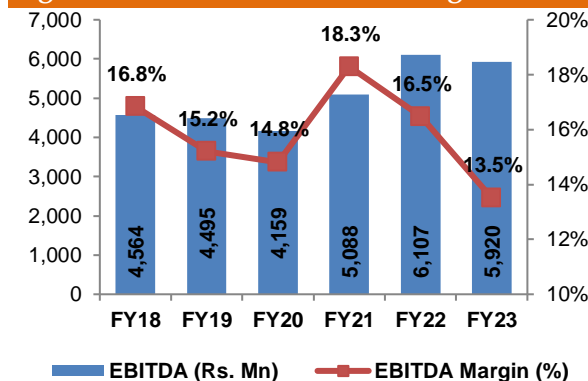


Figure 3: PAT Trend

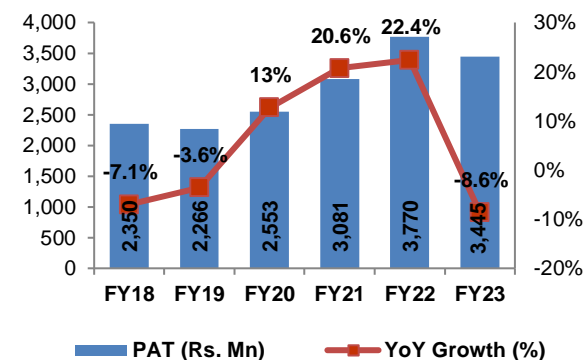
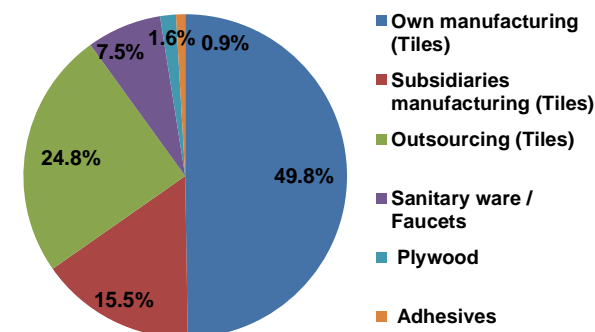


Figure 4: Segment-wise Revenue (Q4FY23)



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