INSTITUTIONAL RESEARCH

Kajaria Ceramics

Galloping ahead

We initiate coverage on Kajaria Ceramics (KJC) with a BUY rating and target price of Rs 1,010/sh. Continued focus on premium tiles launches and expanding distribution have helped the company (market leader) double its market share to 10% in the last 10 years. These factors have also boosted KJC's pricing power, driving its industry-leading margin. KJC has been generating FCF continuously since FY16. We expect it to deliver 13% revenue CAGR during FY20-23E, riding on demand rebound since mid-2QFY21, and strong ramp-up in its bathware and plywood segments. Better pricing power and lower operating costs should lead to 25/22% EBITDA/APAT CAGRs. In FY21, KJC doubled its dividend payout ratio to ~40%, owing to a net cash balance and surge in FCF. We value it at 19x its Mar'23E consolidated EBITDA.

- **Continued market share gains:** KJC's market share doubled over the past 10 years to 10% currently, as its volume grew at a solid 12% CAGR, outpacing industry's 5% CAGR. KJC's large and premium product portfolio and expanding pan-India distribution helped it achieve this and establish itself as a premium brand in the domestic market. We expect these factors to drive KJC's 10% volume CAGR during FY20-23E, accelerating its market share gains. KJC's aggressive expansion in bathware and plywood segments should further boost its consolidated revenues CAGR of 13%.

- **Stronger outlook for KJC's industry-leading margins:** KJC has been continuously delivering industry-leading EBITDAM. During FY21E, we expect its EBITDAM to rebound to 19% on lower channel discounts (demand recovery 2QFY21 onwards), lower long-term gas prices (linked to subdued crude prices), fixed cost controls and improvement in bathware profitability. KJC's continued market share gain and cost controls should further boost its EBITDAM to 20% by FY23E, in our view.

- **FCF generation to accelerate:** KJC has been consistently generating FCF since FY16, owing to healthy margin, working capital control, and low capex. We expect strong revenue growth and margin expansion to bolster KJC's cumulative FCF during FY21-23E to Rs 9.2bn, much ahead of Rs 7bn it generated during FY11-20! As KJC is already a net cash company, it has doubled its dividend payout ratio to ~40% in FY21E.

- **Valuation and outlook:** We value KJC at 19x (5-year mean multiple) its Mar'23E consolidated EBITDA, leading to a target price of Rs 1,010/sh. Thus, we initiate coverage on KJC with a BUY rating. Robust growth and margin outlook, along with its solid balance sheet should sustain this valuation.

Consolidated Financial Summary

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	24,185	25,496	27,106	29,562	28,080	27,609	34,614	40,105
EBITDA	4,634	4,963	4,564	4,495	4,159	5,242	6,633	8,081
EBITAM (%)	*19.2*	*19.5*	*16.8*	*15.2*	*14.8*	*19.0*	*19.2*	*20.1*
APAT	2,292	2,528	2,342	2,314	2,553	2,967	3,845	4,580
AEPS (Rs)	19.2	15.9	14.7	14.6	16.1	18.7	24.2	28.8
EV/EBITDA (x)	29.7	27.5	29.7	29.7	32.1	24.9	19.6	15.9
P/E (x)	58.5	53.0	57.2	57.9	52.5	45.2	34.9	29.3
RoE (%)	*33.0*	*22.0*	*17.6*	*15.1*	*14.9*	*16.1*	*19.0*	*20.2*

Source: Company, HSIE Research

BUY

CMP *(as on 22 Jan 2021)*	Rs 843
Target Price	Rs 1,010
NIFTY	Rs 14,372

KEY STOCK DATA	
Bloomberg code	KJC IN
No. of Shares (mn)	159
MCap (Rs bn) / ($ mn)	133/1,824
6m avg traded value (Rs mn)	273
52 Week high / low	Rs 855/295

STOCK PERFORMANCE (%)	3M	6M	12M
Absolute (%)	43.4	111.7	51.7
Relative (%)	22.9	82.7	32.8

SHAREHOLDING PATTERN (%)	Sep-20	Dec-20
Promoters	47.58	47.54
FIs & Local MFs	16.72	15.33
FPIs	23.31	23.68
Public & Others	12.39	13.45
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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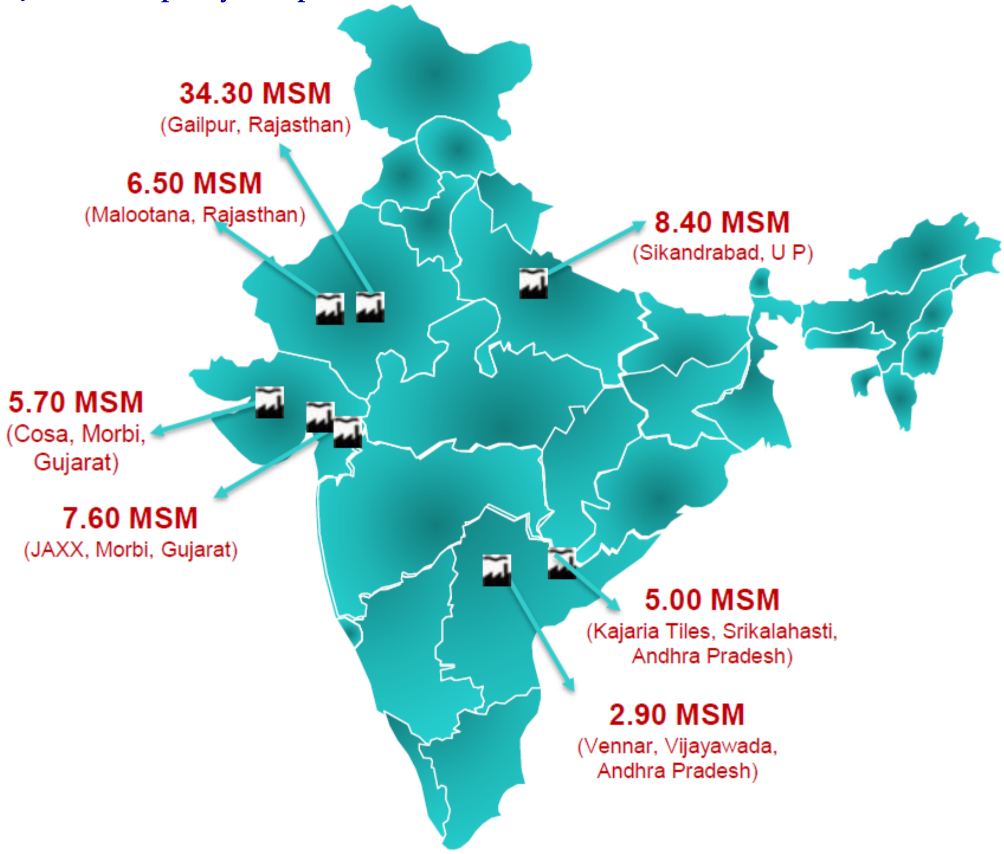
Content

India's largest and the fastest-growing tiles manufacturer

With a total installed capacity of 70.4 MSM on a consolidated basis, Kajaria Ceramics is the largest tiles manufacturer in India. Its capacities are spread across UP, Rajasthan, AP, and Gujarat. Premium tiles (PVT and GVT) comprise 60% of its total installed capacity. Kajaria's capacity has grown at 9% CAGR over the past ten years.

KJC's tiles capacity are spread across seven locations in India

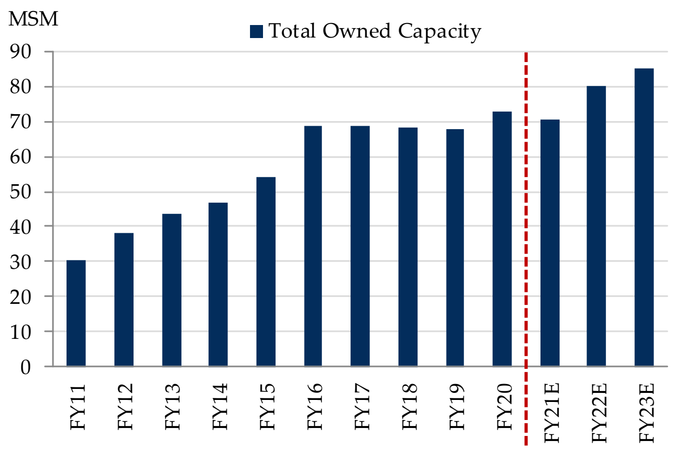


Source: Company

In addition to ramping up production from its own capacities, Kajaria has also been selling outsourced and imported tiles, which has augmented its sales and market share. In the past 10/5 years, Kajaria's total sales volumes have grown at 12/6% respectively, much ahead of the domestic tiles industry growth of 5/1% respectively. In the past ten years, its market share has doubled to 10% currently.

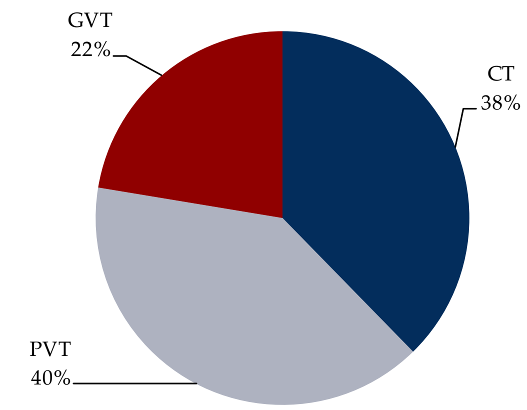
Kajaria is majorly a domestic player with almost 98% of its total sales in India. Further, it is active across both retail network (trade) and institutional segment (non-trade). Trade sales currently account for ~70-75% of Kajaria's total tiles sales.

KJC's capacity has grown at 9% CAGR during FY11-21



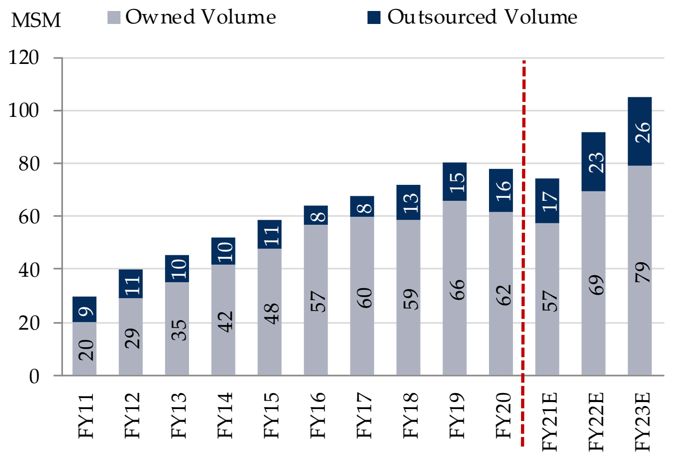
Source: Company, HSIE Research

Premium tiles (PVT, GVT) comprise 60% of its installed capacity



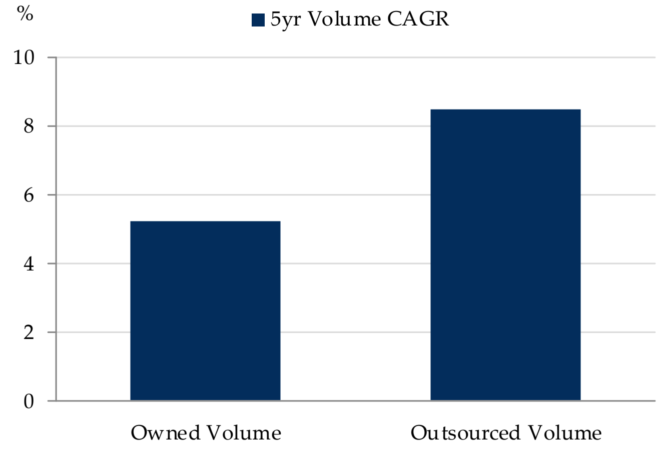
Source: Company, HSIE Research

KJC recorded 12% volume CAGR in the past 10 years



Source: Company, HSIE Research

In the past five years, KJC's outsourced tiles volumes grew at a faster pace thereby boosting total sales growth

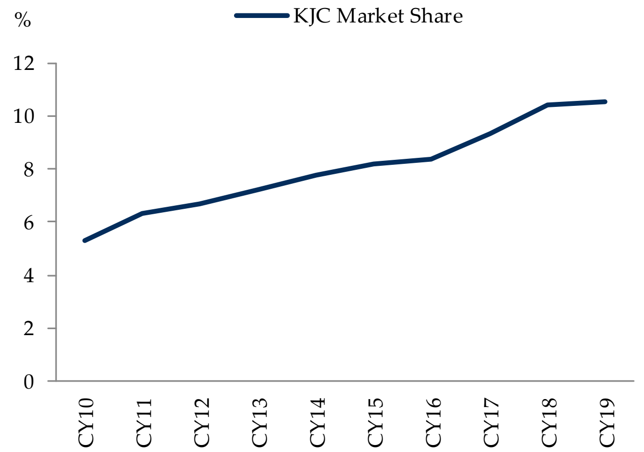


Source: Company, HSIE Research

KJC has been continuously growing ahead of the industry growth

Source: Industry, Company, HSIE Research

Thereby leading to doubling of its market share in the past 10 years



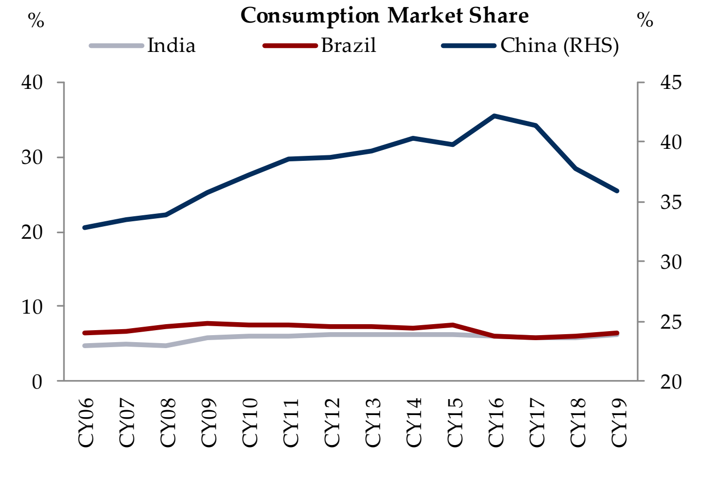
Source: Industry, Company, HSIE Research

Indian tiles market has outpaced global demand growth

India is the third-largest tiles consumer market globally after China, sharing rank with Brazil. While China accounts for 38% of global demand, India and Brazil both account for 6% each. Over the past 10 years, the Indian market has grown at 5% CAGR, ahead of 4% CAGR for global and China's tiles demand. Even during the past three years, while global and Chinese market witnessed demand contraction at 2% and 7% rate, the Indian market grew at 1% CAGR.

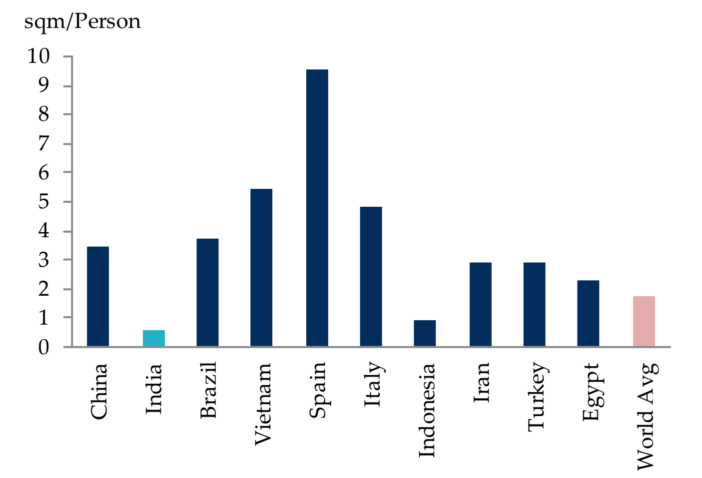
Despite growing at a faster pace globally, India lags considerably on per capita consumption basis. This implies growth opportunities still abound for India. Residential sector accounts for ~60% of total tiles demand while commercial constructions consume the rest. A slowdown in real estate sector during the past few years has moderated domestic demand. With sentiment recovering in the real estate markets, domestic tiles consumption should pick up.

India is third largest tiles consumer and growing at a faster pace vs global average



Source: Industry, HSIE Research

Despite being the third-largest market globally, India's per capita consumption is very low

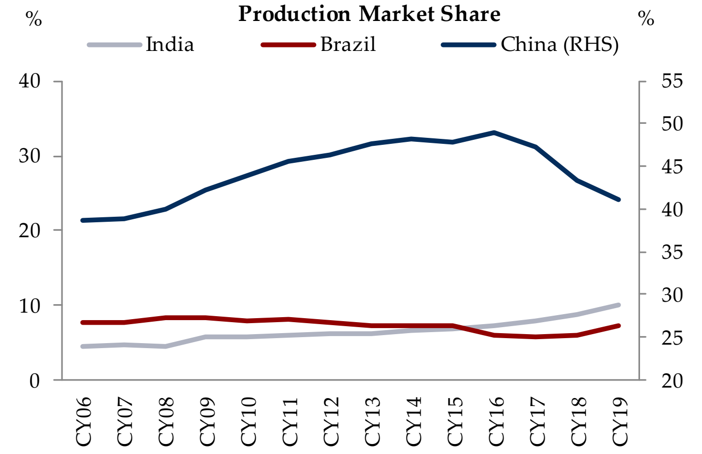


Source: Industry, HSIE Research

Buoyancy in exports market positive for domestic players

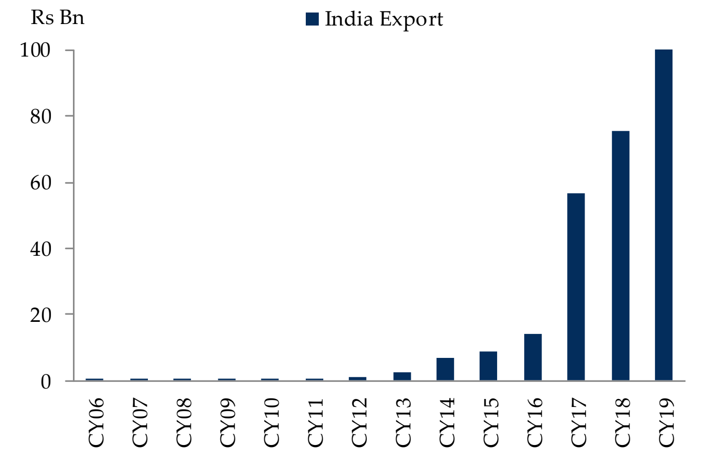
In terms of production, India is the second-largest tiles supplier globally. During the past 10 years, tiles production in India has consistently grown at a solid 10% CAGR, as against 4% CAGR for China global tiles production. India is benefitting from a surge in exports demand. Tiles export from India has grown multi-fold over the past decade. From FY10-20, Indian exports (in value terms) soared to Rs 100bn in FY20 (15x jump in past 5 years), owing to increasing product quality and improving cost competitiveness. Thus, from being an insignificant player in the export market, India has become the fourth-largest exporter globally with ~10% market share.

India has become the 2nd largest tiles producer, owing to its cost advantages and technological advancements



Source: Industry, HSIE Research

Exports from India has been growing in leaps and bounds, mostly coming from the Morbi cluster



Source: Industry, HSIE Research

During FY21, anti-Chinese sentiments (post-COVID) have further given a big boost to Indian exports. Various anti-dumping duties levied on Chinese tiles by some of the European and North and South American countries have turned the tide in favour of the world's second-largest manufacturer – India. The GCC countries are a major export destination for the Indian companies, accounting for more than 30% of the country's total exports. While the recent anti-dumping duty (~41%) by GCC on imports from India has impacted the sales to these markets, overall anti-Chinese sentiments and pent-up global demand (post-lockdown) is more than offsetting the impact. Thus, Indian exports are expected to continue to grow in double digits.

A buoyant export market is a positive for the Indian tiles industry as manufacturers from Morbi clusters (largely export dependant) are seeing a recovery in sales. This, in turn, works favourably for the bigger domestic-focused players like Kajaria, owing to lower competitive pressure in domestic markets from Morbi.

Tiles imports in India form a tiny portion of total demand and have been reducing over the past five years – from ~Rs 12bn in FY16 to ~Rs 1bn in FY20 – owing to the imposition of anti-dumping duty on Chinese tiles, which comprise ~35% of total imports in FY20 vs ~90% in FY16.

Kajaria's strong product and distribution focus

Kajaria has continuously worked on its value-added tile launches over the years – both in the form of new products and designs. While the company sells tiles across all the three categories – ceramics, PVT and GVT – it has been able to increase the share of sales of the latter two to 60% currently vs 55% seven years back. It has increased premium tiles offering in larger sizes, which is helping it gain market share and drive volume growth. Kajaria has more than 2,800 different options in ceramic wall & floor tiles, vitrified tiles, and designer tiles.

KJC has been continuously adding more value-added products, designs and sizes to augment its sales

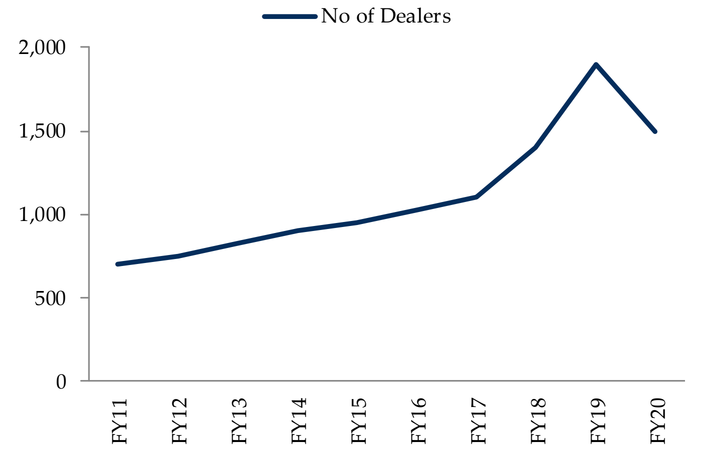
Product launches	Ceramics	PVT	GVT
FY20		Focused on growing the Duratech outdoor tiles, Introduced Amazon series, Introduced more sizes in value-plus basket	Eternity and Ultima series for premium showrooms, Launched 15-mm thick, high-strength tiles for outdoor applications
FY19	60cm X 120cm Ceramic floor tile size in contemporary design and finishes	Value plus range 1000x1000 mm, 800x1600 mm & full body vitrified tiles	Launched larger format tiles (1 mtr x 2 mtr and 40 x 120 cm) in multiple designs and finishes.
FY18	Designer Collection & Impression Series, in the 30x60 cms size with 70 new concepts. New Luxury Collection, consisting of 98 concepts in multiple sizes. New bigger sizes namely Grestough slabs, a replacement to high-end marble (80 x 120 cm range) and Grestough planks (authentic wood finish) in 20 x 120 cm and 20 x 100 cm sizes.	60x120 cm double-charge tile for indoor applications. Entire range of penetrative products (different sizes and designs). Introduced Stone Art to complement its existing product Sandune.	Increased Ultima offerings to 181 designs in five sizes, as it added two new sizes (80x160 cm, 20x180 cm) Introduced large planks with a wooden appeal (20x180 cm and 29x180 cm) as flooring tiles.
FY17	Launched 80x80cm Digital polished ceramic floor tiles for the first time in the country. Developed and launched more than 100+ designs within the existing product ranges.	Largest product range in the industry. Added more designs in the large tile formats.	Launched large format sizes (120 x 120cm, 120 x 180cm, 29 x 180cm) under Ultima brand name
FY16	Added 231 more designs and two more sizes. Launched 25x75 cm and 40x80 cm size in ceramic wall tiles. Introduced two new floor tile sizes (60x60 cm and 80x80 cm) in polished ceramic body for the first time in the country.	Increased production of double charge tiles.	Added 108 designs and one size to its large tiles format

Source: Company, HSIE Research

Robust pan India distribution and brand presence

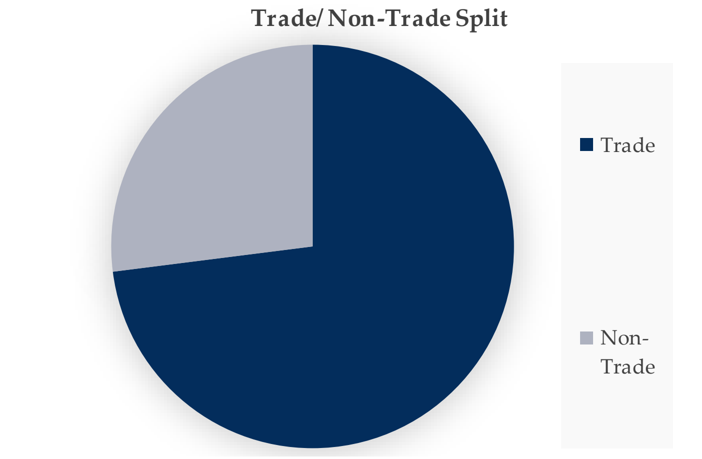
Kajaria has set up a strong distribution footprint, well-spread across India. It has become more aggressive in the past five years, by growing its distribution network by 60% to 1,500 currently. As it has scaled up value-added offerings in the PVT and GVT segments, it is ably supported by the company's increased distribution focus towards these.

KJC has grown its dealers network by 60% in past 5 years



Source: Company, HSIE Research

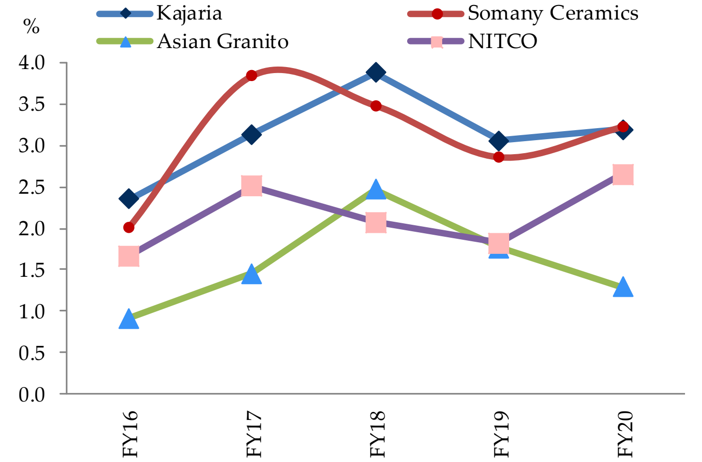
KJC is well present across both trade and non-trade segments



Source: Company, HSIE Research

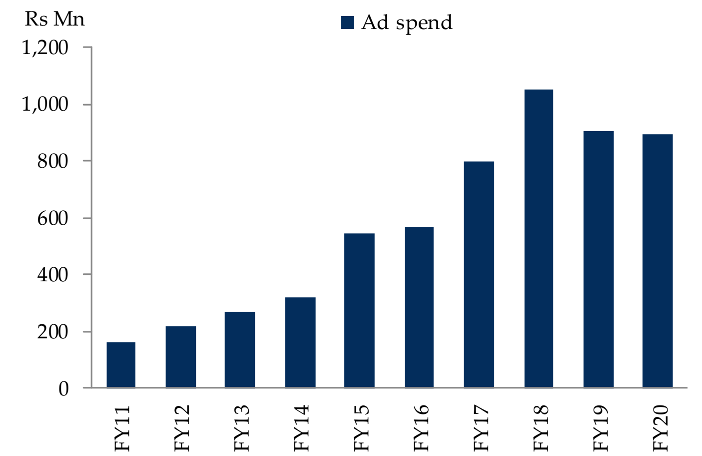
Kajaria has accelerated its brand promotion and advertisement expenses in the past five years. This expense currently accounts for ~3.2% of net sales in FY20 as against 1.7% in FY14. As a percentage of sales, Kajaria also spends the highest (among competitors) on brand promotions. Continued high brand spend has helped the company position itself as a premium brand in the tiles segment. This, in turn, has supported Kajaria's industry-leading volume growth momentum in the past five years. While the industry sales volume rose at a flattish 1% CAGR during CY14-19, Kajaria reported 7% volume CAGR in the same period. During FY21, Kajaria has considerably scaled down its brand expenses (down ~45% YoY) to combat the impact of COVID on business. It expects to recover this expense by 35% in FY22E, to bolster sales.

As a % of net sales, KJC continues to spend ahead of the other major tiles player in the industry



Source: Company, HSIE Research

KJC has been spending aggressively on brand promotions



Source: Company, HSIE Research

Diversification into bathware and plywood segments

Kajaria entered the sanitary ware and faucet segment six years ago by setting up plants with sanitaryware/ faucet capacity of 0.60/1mn units pa respectively. In FY20, Kajaria expanded the sanitaryware capacity to 0.75mn units pa. It has been offering premium products in this category under the brand name Kerovit. Kajaria's robust pan-India tiles distribution network and its strong branding and marketing efforts have helped the segment revenues to grow at a very fast pace. It currently accounts for 6% of Kajaria's consolidated revenues and should scale up to 8% by FY23E.

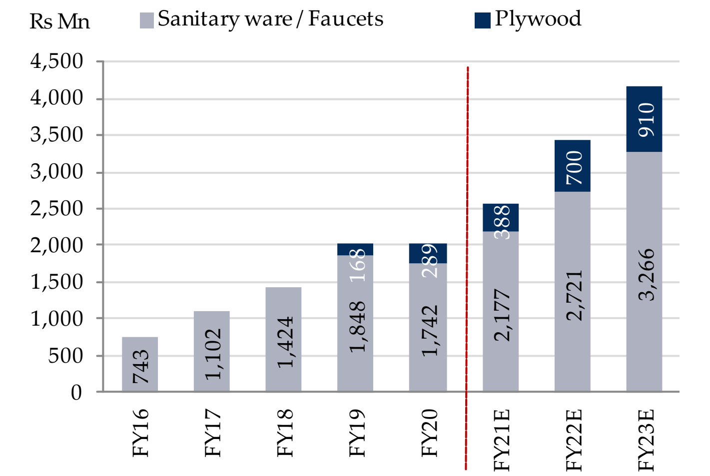
Two years back, Kajaria also entered the plywood segment, under the brand name KajariaPLY. The company is currently selling outsourced products, capitalising on its brand and distribution. The division is small currently, comprising just 1% of Kajaria's total revenue. However, Kajaria expects strong market penetration (on a low base). We expect this segment to comprise ~2.3% of Kajaria's revenue by FY23E.

KJC's scaling up of bathware and plywood segment

Product launches	Bathware (Faucets and Sanitaryware)	Plywood
FY20	Launched Rain showers and thermostats to control water temperature at diverters.	Entered the Flush Doors segment with 4 sub-brands viz. Premier, Select, Superior & Classic to widen its portfolio.
FY19	Launched single-piece toilet in multiple variants (tornado flushing system, Symphonic flushing system). Smart WC at a competitive price. Four new product ranges added (each comprising 20 SKUs)	Metallic (all weather application) and Pro (for price sensitive markets) series - both plywood and block-boards. 12 product offerings currently. Roped in Ranveer Singh as brand ambassador.
FY18	Product offerings expanded to 250+ SKUs under 15 product categories. Started captive production of single piece toilets. Roped in Anushka Sharma as brand ambassador.	
FY17	Launched 4 new faucet ranges in bathware. It also launched new ranges in basins and vanity with mirror.	
FY16	Increased SKUs from 11 in FY15 to 200 in FY16 to complete the whole basket of bathroom products.	

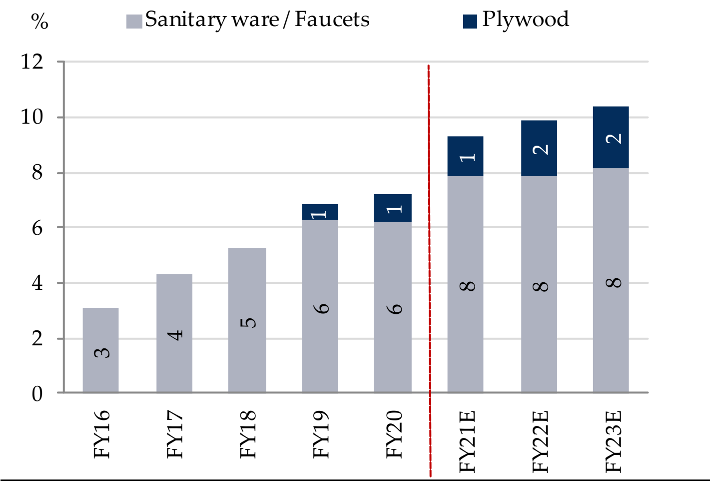
Source: Company, HSIE Research

KJC's non-tiles (Bathware and Plywood) revenue has been growing at ~30% CAGR



Source: Company, HSIE Research

The share of these segments will increase to 10% in FY23E



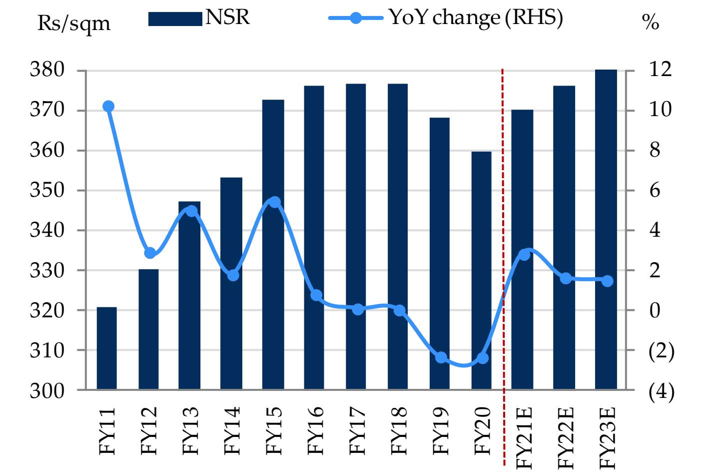
Source: Company, HSIE Research

Sharp rebound in its industry leading margin

Kajaria has been able to deliver industry leading margins, driven by rising share of high-margin PVT and GVT sales and increased offering of value-added products across all categories. Further, its expanding distribution and marketing efforts have helped the company report industry-leading volume growth and pass on a large chunk of the cost inflation (in the form of lower discounts and hence better retention).

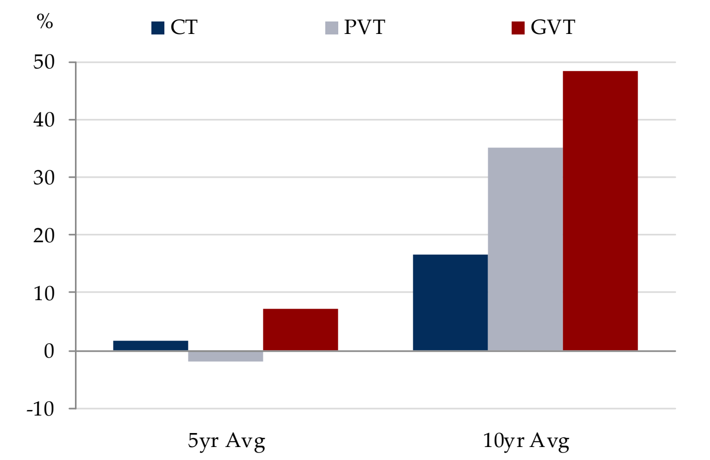
During the past three years, with pressure on domestic tiles' prices due to supply pressure from Morbi players (otherwise export focused) in domestic markets, Kajaria's operating margin contracted. The rising fuel and input cost inflation at the same time further pulled down margins for all the tiles players. During these years, Kajaria's margin also suffered owing to ramp-up in faucets/ sanitaryware and plywood segments, as owing to its low-scale currently, segmental operating margin has been in a single digit. Despite these factors, Kajaria managed to maintain its overall margin superiority vs peers.

While pricing suffered in the past two years, the trend is reversing in FY21E, as discounts have narrowed



Source: Company, HSIE Research

KJC has been thrusting premium tiles sales, ably aided by its large product range and strong distribution

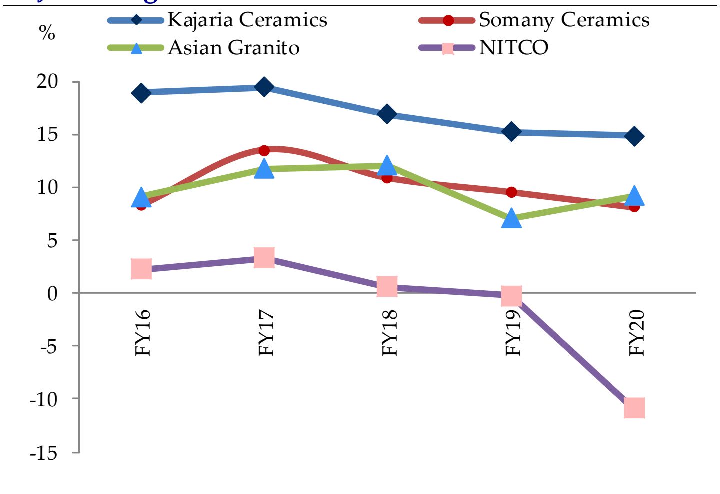


Source: Company, HSIE Research

During 2Q/3QFY21, Kajaria's margin rebound to 20% led by lower gas prices, fixed cost controls, and reduction of channel discounts. The surge in export demand has eased the competition in the domestic market, thus leading to major players reducing sales discounts, which, in turn, has boosted net realisation. Also, Kajaria has been able to deliver robust volume growth in the past 4-5 months, led by its strong market penetration in the smaller towns.

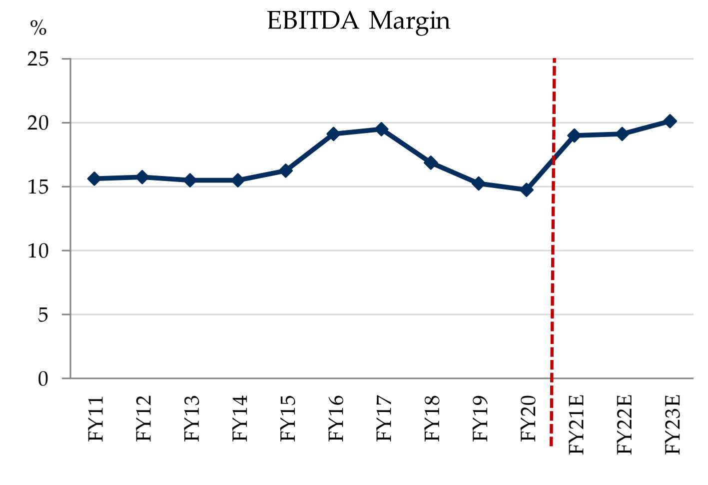
The management has guided that the recent spike in spot LNG prices will lead to its blended gas price rising by ~5% QoQ in 4QFY21. The impact is lower as a large part of its gas purchase in on long-term contract basis. However, it expects the margin impact to be lower, owing to the industry further scaling down channel discounts in the tiles segment. In the faucet/sanitaryware, the industry has taken 6-8% price increase in October to pass on input cost inflation. Kajaria's margin in this segment has improved to ~13% in 3QFY21 (and expected to be stable) on account of the price hike and on rising sales contribution. These should aid Kajaria's operating margin to sustain at 19-20% during FY21-23E.

KJC's Margin vs Peers



Source: Company, HSIE Research

EBITDAM trend

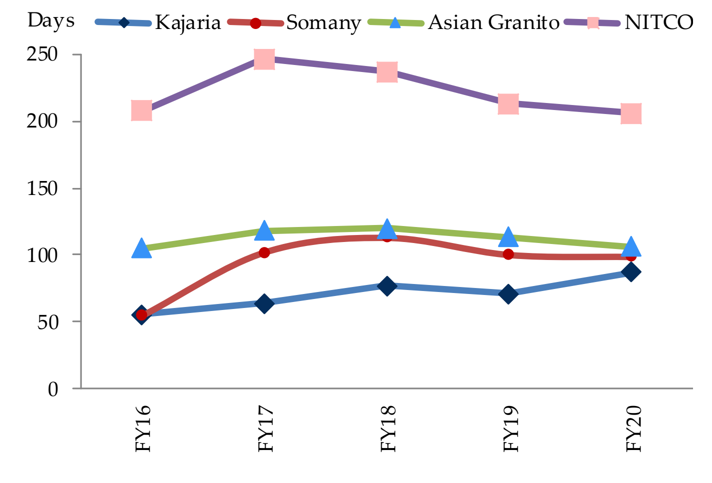


Source: Company, HSIE Research

Agile working capital profile

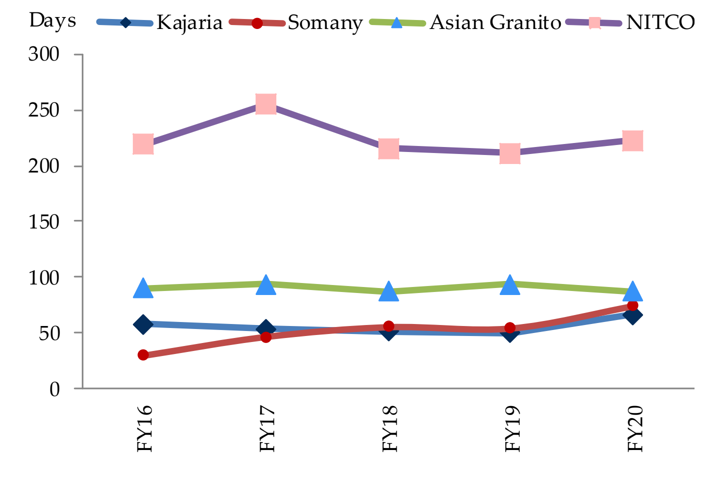
Kajaria's sales have grown ahead of industry growth rate, thereby gaining market share. Furthermore, the company has been able to maintain strong working capital discipline. Its cash conversion cycle of 87 days in FY20 is the best among the larger-sized peers. Despite a large bouquet of product offerings (3000+ designs), its inventory days (67 days) are the lowest among these peers. Its debtor days are also the best (52 days), driven by its strong distribution and brand positioning. Kajaria has also been ahead of peers in terms of keeping its payables low (33 days) as it has been using its healthy balance sheet to pay its suppliers on time.

WC Cycle for KJC vs Peers



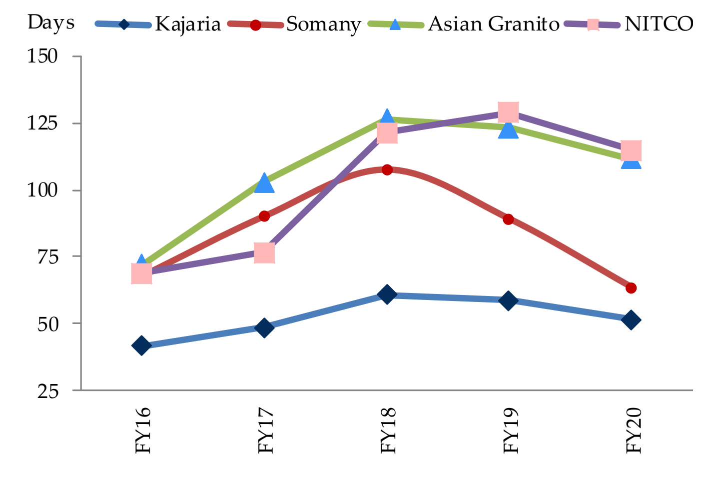
Source: Company, HSIE Research

Inventory days for KJC vs Peers



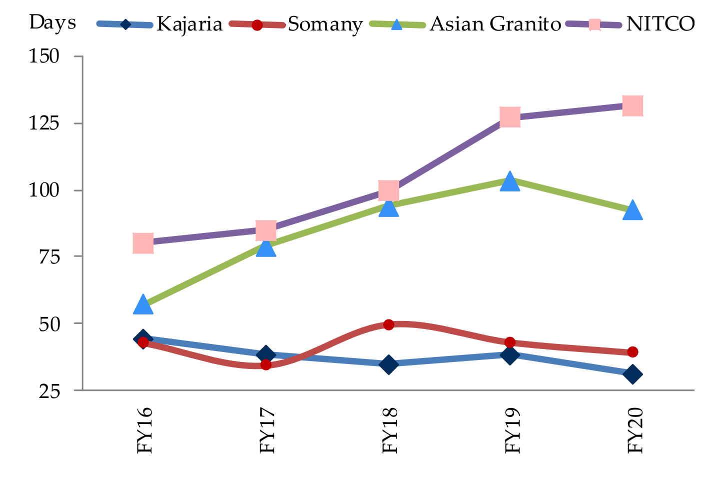
Source: Company, HSIE Research

Debtor days for KJC vs Peers



Source: Company, HSIE Research

Creditor days for KJC vs Peers



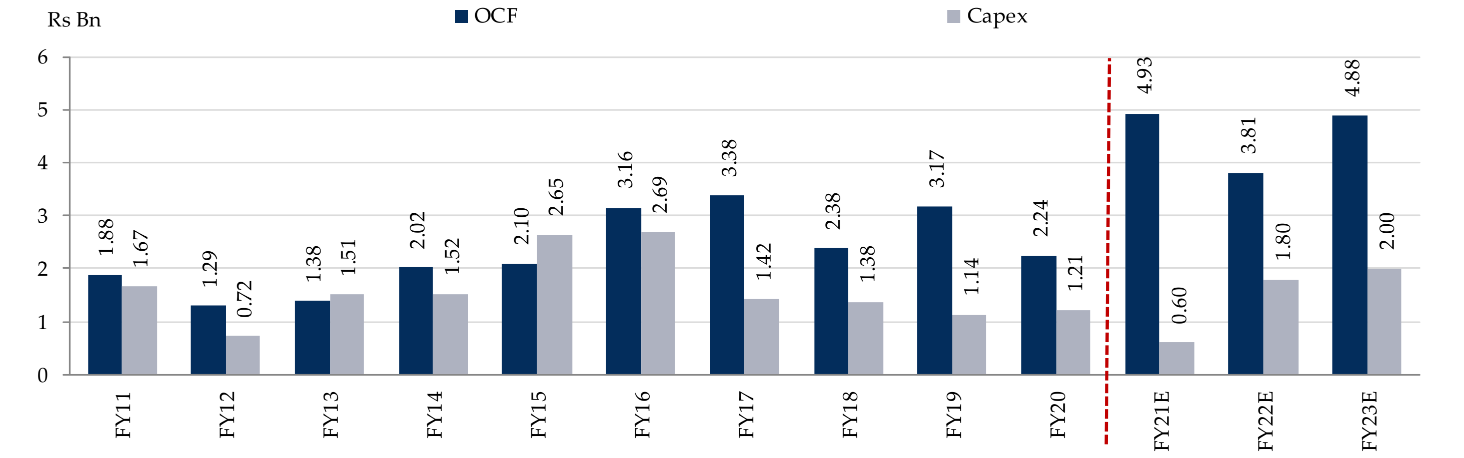
Source: Company, HSIE Research

Net cash balance rising on robust free cash flows

Strong margin and working capital performance have resulted in healthy operating cash flows. These along with low Capex outgo, has resulted in continuous free cash generation for the past five years. As a result, Kajaria's balance sheet has turned net cash since FY19. The net cash position has further strengthened to Rs 4.3bn in Dec'20, led by strong operating profits, healthy working capital release, and lower Capex outgo during 9MFY21.

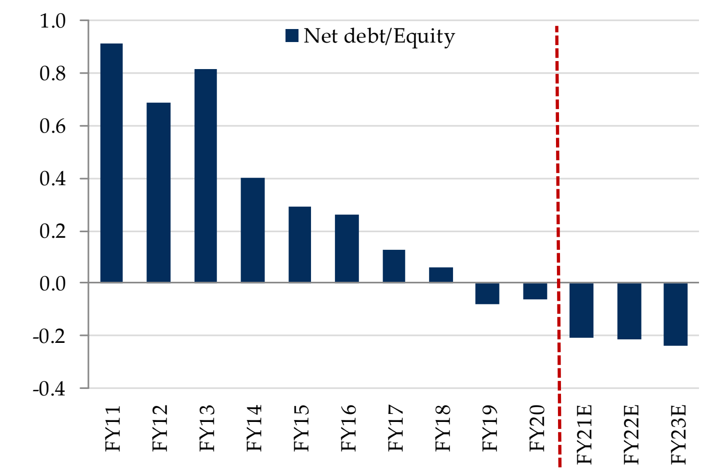
During FY21, Kajaria slowed its Capex spend to assess the COVID impact. However, with strong demand recovery, the company will accelerate Capex spending during FY22E to expand its tiles capacity by ~10MSM by early FY23E. It is planning brownfield expansions at Srikalahasti (Telangana) and Gailpur (Rajasthan). We expect the company to continue to pursue further expansions (a mix of brownfield and greenfield), as it is confident of delivering 20-25% volume growth in FY22 (on a low base of FY21) and 15% CAGR during the subsequent two years.

We estimate KJC's free cash flow generation to accelerate during FY21-23



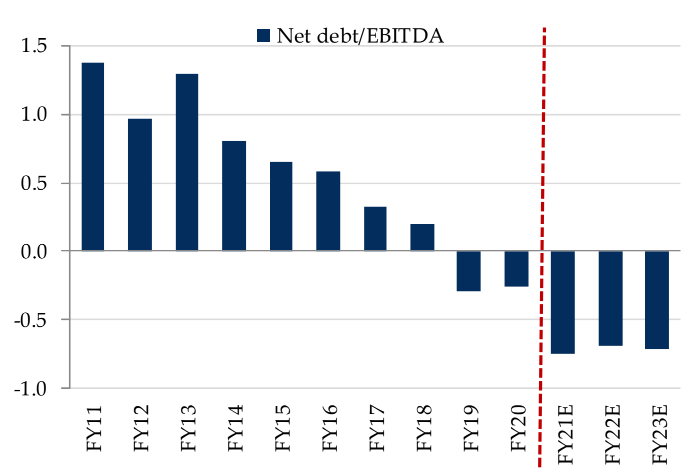
Source: Company, HSIE Research

We expect net cash balance to continue to rise



Source: Company, HSIE Research

Net debt/EBITDA trend



Source: Company, HSIE Research

DuPont Analysis

While Kajaria's PAT margin has been stable over the past five years, the fall in asset turn and rising cash balance have cooled off its RoE. Going ahead, we estimate its RoE to expand, driven by firming up of NPM and on recovery in asset turn ratio. We expect the leverage factor to remain unchanged at 1.1x.

Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net margin (%)	9.5	9.9	8.6	7.8	9.1	10.7	11.1	11.4
Asset turnover (x)	2.5	1.7	1.7	1.7	1.5	1.4	1.6	1.7
Leverage factor (x)	1.4	1.3	1.2	1.2	1.1	1.1	1.1	1.1
RoE (%)	**33.0**	**22.0**	**17.6**	**15.1**	**14.9**	**16.1**	**19.0**	**20.2**

Source: Company, HSIE Research

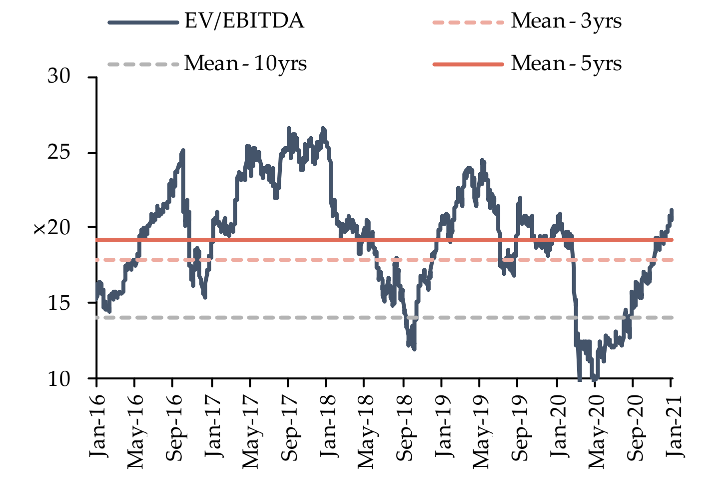
Valuations and recommendation

During the past 5/10 years, Kajaria has traded at a one-year forward mean valuation of 19/13x (on EV/EBITDA basis). On a P/E basis, the average 5/10 years' multiple stands at 35/24x. In our view, the following factors have driven this strong valuation re-rating in the past five years: Kajaria has just not been the market leader in India, but it has also continuously gained market share (despite sluggish market conditions) and has maintained its industry-leading margin profile. Further, it has also kept its working capital under control, boosting its free cashflow generation. The company has consistently generated positive free cash flow during FY16-20, thus turning it into a net cash company.

For FY21-23E, Kajaria is confident of growing much ahead of the industry. This, along with the estimated EBITDAM rebound to 20%, should bolster return ratio expansions and free cash generations. The company has also increased its dividend payout ratio to 40% vs 20% previously, owing to strong FCF outlook. Thus, we expect its high valuation multiple to sustain.

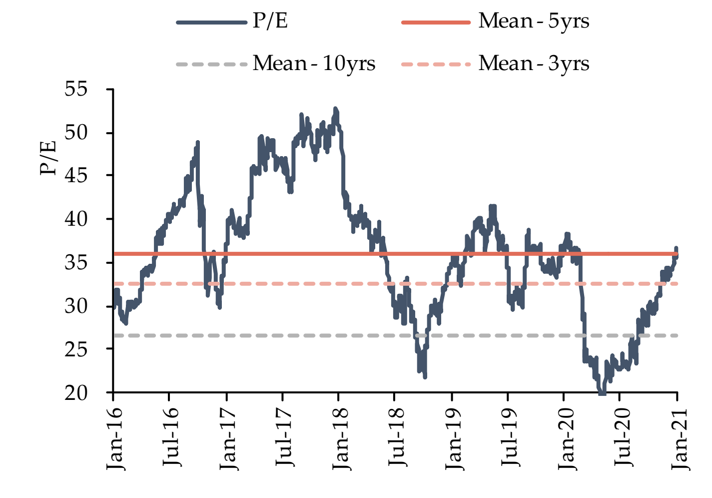
We value Kajaria at 19x (5-yr mean multiple) its Mar'23E consolidated EBITDA, leading to a target price of Rs 1,010/share. Thus, we initiate coverage on Kajaria with a BUY rating. Robust growth and margin outlook, along with its solid balance sheet should sustain this valuation.

KJC's 1 yr forward EV/EBITDA valuation trend



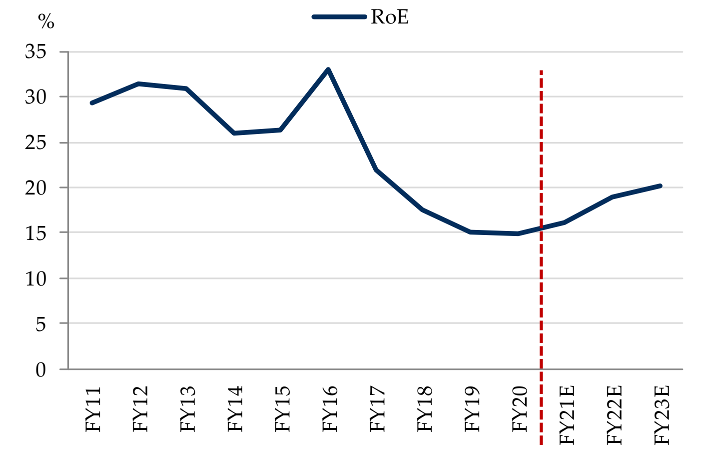
Source: Company, HSIE Research

KJC's 1 yr forward P/E valuation trend



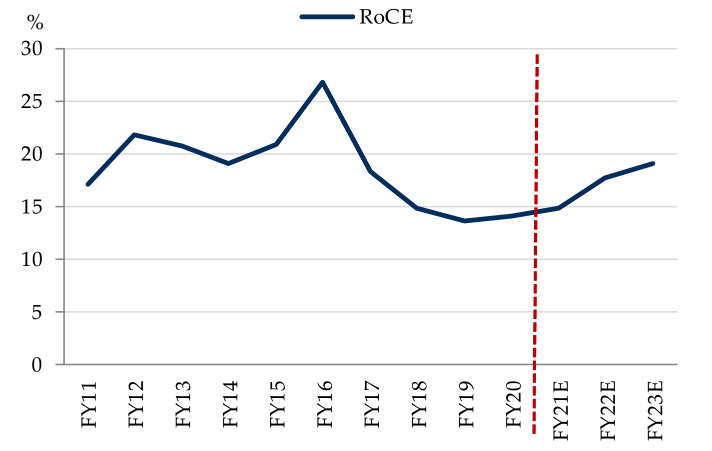
Source: Company, HSIE Research

We expect RoE to rebound to 20% on robust earnings outlook and despite cash pile up



Source: Company, HSIE Research

Even RoCE should firm up as core profitability is on a rise



Source: Company, HSIE Research

Key Risks

- Slow down in the demand recovery seen currently can moderate the volume growth for the industry and for Kajaria and reduce pricing power, impacting profitability
- Gas prices volatility: Recently spot prices have spiked up, which industry players expect to normalise over next 2-3 months. If the prices remain elevated, the blended gas price for Kajaria will go up, pulling down operating margin.
- Moderation in export demand: Any major slowdown in export demand for Indian tiles can lead to increased supply in domestic markets from Morbi players. This can lead to lower realisation and margin.

3QFY21 performance

During the quarter, its consolidated tiles sales volume rebound 11% YoY, as retail demand remained strong in the non-metro cities. Despite covid, tiles demand had started to grow from Aug'20 and this trend continues into 3Q. Trade sales comprised 80% of total revenues, as institutional demand in the metros remain weak YoY (though recovering). Strong pick up in outsourced tiles (+41% YoY) propelled the total volume and segmental revenue growth by 11% each. Even the bathware and plywood segments soared 36/58% YoY respectively on increased market penetration. Thus, consolidated revenue in 3QFY21 rose 13% YoY.

EBITDAM firmed up both YoY and QoQ to 21.7%. Tiles segment margin firmed up on lower channel discounts (owing to strong demand in non-metros), and benefits from lower gas prices. Strong sales ramp-up and windfall from 5-8% price hike across bathware industry in Oct, led to segmental OPM expanding to ~13% vs single digit YoY. Subsequently, consolidated EBITDA/APAT soared 63/93% YoY.

Management expects recent spike up in spot gas prices to inflate its blended fuel prices in 4Q by ~5% QoQ. However, as demand outlook remains strong, it expects channel discounts to reduce further, thus moderating the impact on profitability.

Quarterly Financial Snapshot

Particulars	Dec-20	Dec-19	YoY %	Sep-20	QoQ %	9M FY21	9M FY20	YoY %
Net Sales	**8,383**	**7,413**	***13.1***	**7,125**	***17.7***	**18,284**	**21,560**	***(15.2)***
Raw Materials	3,523	2,893	*21.8*	2,988	*17.9*	8,287	8,605	*(3.7)*
Power and Fuel	1,318	1,511	*(12.8)*	1,205	*9.4*	2,687	4,228	*(36.5)*
Employee	895	930	*(3.7)*	779	*14.9*	2,282	2,700	*(15.5)*
Other Exp	830	967	*(14.1)*	717	*15.9*	1,849	2,802	*(34.0)*
EBITDA	**1,818**	**1,113**	***63.3***	**1,437**	***26.5***	**3,179**	**3,225**	***(1.4)***
EBITDA margin (%)	*21.7*	*15.0*		*20.2*		*17.4*	*15.0*	
Depreciation	276	278	*(0.8)*	274	*0.7*	801	798	*0.5*
EBIT	**1,542**	**835**	*84.6*	**1,163**	*32.6*	**2,378**	**2,428**	*(2.1)*
Other Income	65	51	*25.7*	48	*34.7*	139	172	*(19.6)*
Interest Cost	26	48	*(46.1)*	21	*25.5*	81	146	*(44.7)*
PBT - Reported	**1,581**	**838**	***88.5***	**1,190**	***32.8***	**2,435**	**2,454**	***(0.8)***
Tax	370	226	*64.0*	294	*25.9*	658	407	*61.6*
Tax rate (%)	*23.4*	*26.9*		*24.7*		*27.0*	*16.6*	
(Minority Interest)	(21)	3		(5)		32	10	
RPAT	**1,189**	**615**	***93.3***	**891**	***33.5***	**1,810**	**2,057**	***(12.0)***
EO (Loss) / Profit (Net Of Tax)	-	-		-		-	-	
APAT	**1,189**	**615**	***93.3***	**891**	***33.5***	**1,810**	**2,057**	***(12.0)***
Adj PAT margin (%)	*14.2*	*8.3*		*12.5*		*9.9*	*9.5*	

Source: Company, HSIE Research

	Dec-20	Dec-19	YoY %	Sep-20	QoQ %	9MFY21	9MFY20	YoY %
Total Tiles Production (MSM)	17.19	17.37	*(1.0)*	15.88	*8.2*	34.60	49.14	*(29.6)*
Total Tiles Sales (MSM)	**22.59**	**20.44**	***10.5***	**19.80**	***14.1***	**50.05**	**59.84**	***(16.4)***
Own	17.04	16.49	*3.3*	15.62	*9.1*	38.37	47.43	*(19.1)*
Outsourced	5.55	3.95	*40.5*	4.18	*32.8*	11.68	12.41	*(5.9)*
Revenue Break up (Rs mn)	**8,256**	**7,332**	***12.6***	**7,039**	***17.3***	**18,046**	**21,328**	***(15.4)***
Tiles (own)	5,886	5,647	*4.2*	5,300	*11.1*	13,192	16,305	*(19.1)*
Tiles (outsourced)	1,696	1,190	*42.6*	1,210	*40.2*	3,477	3,692	*(5.8)*
Others (sanitary, faucets, plywood)	674	495	*36.0*	530	*27.2*	1,377	1,331	*3.5*

Source: Company, HSIE Research

Operational assumptions and summary

Strong volume rebound during 2HFY21E should moderate the impact of sharp sales loss in 1Q, leading to a 4% total tiles volume decline in FY21. Thereafter, we have built in robust growth for FY22/23E - factoring in sustenance of current demand trend and as Kajaria will expanding capacity ~15% to 80 MSM by early FY23E. We have also built in continued strong growth in the bathware and plywood segments (on a low base).

We have built in EBITDAM to sustain through at 19-20% during FY21-23E owing to the industry's recovery in pricing power, ramp-up in the bathware performance and on overall fixed cost control.

We have built in higher capex outgo during FY21-23E, as Kajaria is looking to add 10MSM capacity across south and Rajasthan, initially, and later on take up other expansions.

Operational Trends and Assumptions

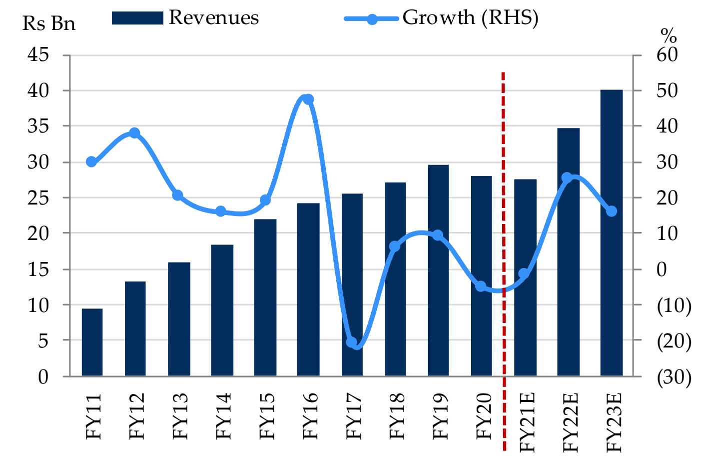
	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Tiles volumes (Owned) MSM	56.78	59.62	58.60	65.62	61.61	57.18	69.33	78.90
YoY (%)	*19.0*	*5.0*	*(1.7)*	*12.0*	*(6.1)*	*(7.2)*	*21.3*	*13.8*
Tiles volumes (outsourced) MSM	7.56	8.12	13.36	14.68	16.46	17.45	22.68	26.08
YoY (%)	*(31.0)*	*7.4*	*64.5*	*9.9*	*12.1*	*6.0*	*30.0*	*15.0*
Total tiles volume (MSM)	64.34	67.74	71.96	80.30	78.07	74.63	92.01	104.99
YoY (%)	*9.7*	*5.3*	*6.2*	*11.6*	*(2.8)*	*(4.4)*	*23.3*	*14.1*
Total tiles Revenue (Rs mn)	23,343	24,354	25,682	27,545	26,049	25,044	31,193	35,929
YoY (%)	*7.2*	*4.3*	*5.5*	*7.3*	*(5.4)*	*(3.9)*	*24.6*	*15.2*
Bathware and plywood Revenue (Rs mn)	743	1,102	1,424	2,017	2,032	2,565	3,421	4,176
YoY (%)		*48.4*	*29.2*	*41.6*	*0.7*	*26.3*	*33.4*	*22.0*
Consolidated EBITDAM (%)	*19.2*	*19.5*	*16.8*	*15.2*	*14.8*	*19.0*	*19.2*	*20.1*
Capex spend (Rs mn)	2,686	1,425	1,382	1,139	1,213	600	1,800	2,000
Free cashflow (Rs mn)	470	1,952	1,000	2,034	1,031	4,331	2,008	2,880
Net debt (Rs mn)	2,721	1,612	879	(1,321)	(1,068)	(3,937)	(4,603)	(5,765)

Source: Company, HSIE Research

Financial summary

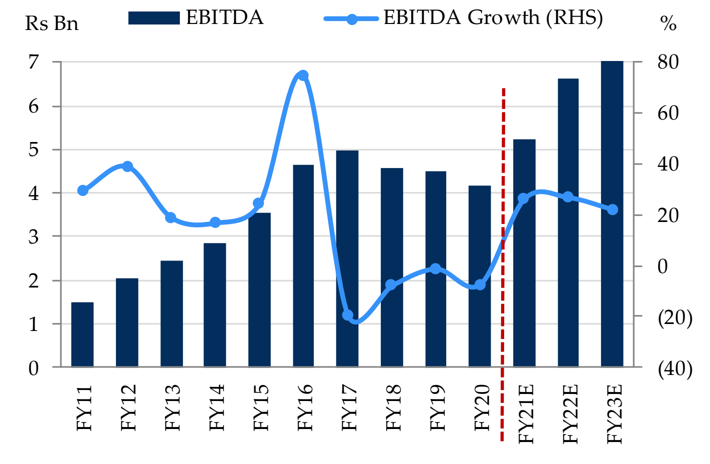
During FY20-23E, we estimate Kajaria's consolidated revenue to grow at 13% CAGR as we expect tiles/bathware/plywood segments to grow at 11/23/47% respectively. A strong margin uptick in tiles and margin recovery in bathware/plywood should lead to 26% consolidated EBITDA CAGR.

We expect consolidated revenue CAGR of 13% during FY20-23E



Source: Company, HSIE Research

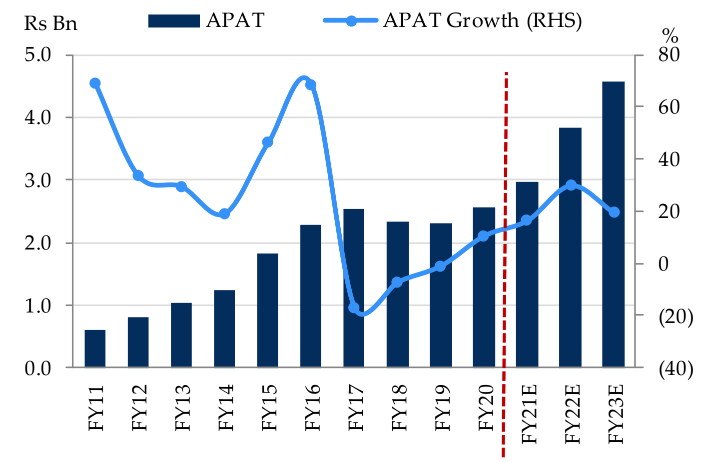
And consolidated EBITDA CAGR of 26%



Source: Company, HSIE Research

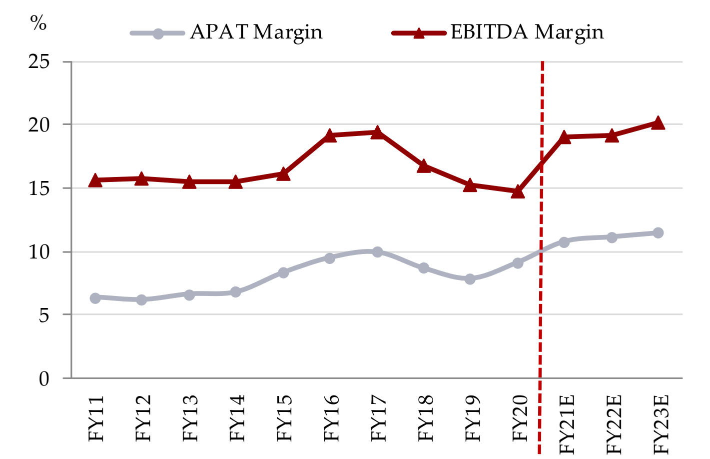
We estimate EBITDAM to firm up to 19-20% during FY21-23E, driven by expansion across all three business segments. However, we factor in a higher tax rate of 30-35%, and see slower expansion in NPM. Thus, even though we expect PBT to grow at 31% CAGR, we estimate APAT CAGR to be slower at 22%.

While we expect PBT to grow at 31% CAGR, we estimate APAT CAGR to be lower at 22% owing to



Source: Company, HSIE Research

EBITDAM, NPM trends



Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Revenues	**24,185**	**25,496**	**27,106**	**29,562**	**28,080**	**27,609**	**34,614**	**40,105**
Growth %	***47.5***	***(20.9)***	***6.3***	***9.1***	***(5.0)***	***(1.7)***	***25.4***	***15.9***
Raw Material	8,464	9,194	10,603	11,464	11,011	12,104	15,670	18,631
Power & Fuel	4,805	4,480	5,194	6,162	5,644	4,047	5,239	5,798
Freight Expense	910	860	508	470	470	458	581	673
Employee cost	2,527	2,887	3,177	3,455	3,569	3,283	3,546	3,794
Other Expenses	2,847	3,112	3,061	3,517	3,228	2,475	2,945	3,128
EBITDA	**4,634**	**4,963**	**4,564**	**4,495**	**4,159**	**5,242**	**6,633**	**8,081**
EBIDTA Margin (%)	***19.2***	***19.5***	***16.8***	***15.2***	***14.8***	***19.0***	***19.2***	***20.1***
EBITDA Growth %	***74.5***	***(19.7)***	***(8.1)***	***(1.5)***	***(7.5)***	***26.1***	***26.5***	***21.8***
Depreciation	726	814	885	891	1,081	1,161	1,172	1,360
EBIT	**3,907**	**4,149**	**3,678**	**3,604**	**3,078**	**4,082**	**5,461**	**6,720**
Other Income (Including EO Items)	38	154	116	132	242	200	300	400
Interest	368	340	241	156	195	72	52	50
PBT	**3,577**	**3,963**	**3,553**	**3,580**	**3,125**	**4,210**	**5,709**	**7,070**
Tax	1,237	1,425	1,267	1,293	589	1,263	1,884	2,510
Minority Interest	48	10	(64)	22	(18)	(20)	(20)	(20)
RPAT	**2,292**	**2,528**	**2,350**	**2,266**	**2,553**	**2,967**	**3,845**	**4,580**
EO (Loss) / Profit (Net Of Tax)	-	-	8	(48)	-	-	-	-
APAT	**2,292**	**2,528**	**2,342**	**2,314**	**2,553**	**2,967**	**3,845**	**4,580**
APAT Growth (%)	***68.5***	***(17.3)***	***(7.4)***	***(1.2)***	***10.3***	***16.2***	***29.6***	***19.1***
AEPS	**19.2**	**15.9**	**14.7**	**14.6**	**16.1**	**18.7**	**24.2**	**28.8**
AEPS Growth %	**68.5**	**(17.3)**	**(7.4)**	**(1.2)**	**10.3**	**16.2**	**29.6**	**19.1**

Source: Company, HSIE Research

Consolidated Balance Sheet

YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
SOURCES OF FUNDS								
Share Capital	159	159	159	159	159	159	159	159
Reserves And Surplus	9,560	11,592	13,351	15,590	16,984	18,361	20,616	23,129
Total Equity	**9,719**	**11,751**	**13,510**	**15,749**	**17,143**	**18,520**	**20,775**	**23,288**
Minority Interest	**761**	**760**	**661**	**659**	**637**	**617**	**597**	**577**
Long-term Debt	1,832	1,581	947	568	325	315	265	265
Short-term Debt	1,105	551	757	635	956	456	456	456
Total Debt	**2,937**	**2,132**	**1,703**	**1,203**	**1,281**	**771**	**721**	**721**
Deferred Tax Liability	949	1,092	1,099	1,059	716	716	716	716
Long-term Liab+ Provisions	-	-	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**14,366**	**15,735**	**16,973**	**18,671**	**19,777**	**20,624**	**22,809**	**25,302**
APPLICATION OF FUNDS								
Net Block	11,205	11,773	11,451	10,778	11,948	11,387	10,516	11,655
Capital WIP	78	83	176	934	266	266	1,766	1,266
Goodwill	-	-	-	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-	-	-	-
Total Non-current Investments	1	1	3	3	3	3	3	3
Total Non-current Assets	**11,284**	**11,856**	**11,631**	**11,716**	**12,217**	**11,657**	**12,285**	**12,925**
Inventories	3,842	3,720	3,785	4,058	5,127	4,141	5,192	6,016
Debtors	2,741	3,389	4,507	4,751	3,967	3,589	4,673	5,414
Cash and Cash Equivalents	215	520	825	2,524	2,350	4,709	5,325	6,487
Other Current Assets (& Loans/adv)	2,105	916	656	671	710	667	706	727
Total Current Assets	**8,903**	**8,545**	**9,772**	**12,003**	**12,154**	**13,106**	**15,895**	**18,644**
Creditors	2,928	2,677	2,578	3,091	2,393	1,933	3,115	4,010
Other Current Liabilities & Provns	2,894	1,990	1,853	1,957	2,201	2,206	2,256	2,256
Total Current Liabilities	**5,821**	**4,667**	**4,430**	**5,048**	**4,594**	**4,139**	**5,371**	**6,266**
Net Current Assets	**3,082**	**3,878**	**5,342**	**6,955**	**7,560**	**8,967**	**10,524**	**12,377**
TOTAL APPLICATION OF FUNDS	**14,366**	**15,735**	**16,973**	**18,671**	**19,777**	**20,624**	**22,809**	**25,302**

Source: Company, HSIE Research

Consolidated Cash Flow

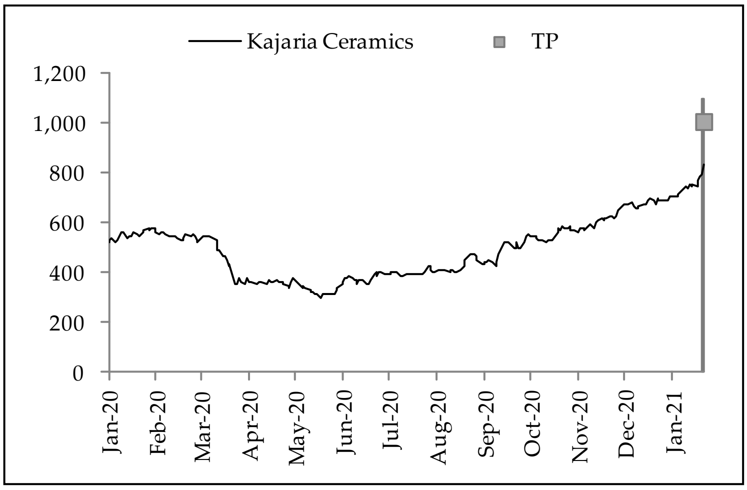
YE Mar (Rs mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	3,608	3,963	3,553	3,580	3,125	4,210	5,709	7,070
Non-operating & EO Items	45	34	(14)	(9)	(159)	(200)	(300)	(400)
Interest Expenses	345	340	241	156	195	72	52	50
Depreciation	726	814	885	891	1,081	1,161	1,172	1,360
Working Capital Change	(534)	(485)	(1,009)	(117)	(993)	951	(941)	(691)
Tax Paid	(1,034)	(1,289)	(1,275)	(1,327)	(1,005)	(1,263)	(1,884)	(2,510)
OPERATING CASH FLOW (a)	**3,156**	**3,377**	**2,382**	**3,174**	**2,244**	**4,931**	**3,808**	**4,880**
Capex	(2,686)	(1,425)	(1,382)	(1,139)	(1,213)	(600)	(1,800)	(2,000)
Free Cash Flow (FCF)	470	1,952	1,000	2,034	1,031	4,331	2,008	2,880
Investments	-	(0)	(24)	679	127	-	-	-
Non-operating Income	17	28	38	132	186	200	300	400
Others								
INVESTING CASH FLOW (b)	**(2,670)**	**(1,397)**	**(1,368)**	**(329)**	**(901)**	**(400)**	**(1,500)**	**(1,600)**
Debt Issuance/(Repaid)	223	(820)	81	(404)	(104)	(510)	(50)	-
Interest Expenses	(345)	(340)	(241)	(156)	(153)	(72)	(52)	(50)
FCFE	348	792	840	1,474	775	3,749	1,906	2,829
Share Capital Issuance	116	(28)	13	(6)	3	-	-	-
Dividend	(382)	(491)	(572)	(575)	(1,150)	(1,590)	(1,590)	(2,067)
FINANCING CASH FLOW (c)	**(387)**	**(1,679)**	**(718)**	**(1,141)**	**(1,404)**	**(2,172)**	**(1,692)**	**(2,117)**
NET CASH FLOW (a+b+c)	**99**	**301**	**295**	**1,704**	**(60)**	**2,359**	**616**	**1,162**
EO Items, Others								
Closing Cash & Equivalents	**211**	**516**	**815**	**2,528**	**2,464**	**4,709**	**5,325**	**6,487**

Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
PROFITABILITY %								
EBITDA Margin	19.2	19.5	16.8	15.2	14.8	19.0	19.2	20.1
EBIT Margin	16.2	16.3	13.6	12.2	11.0	14.8	15.8	16.8
APAT Margin	9.5	9.9	8.6	7.8	9.1	10.7	11.1	11.4
RoE	33.0	22.0	17.6	15.1	14.9	16.1	19.0	20.2
RoIC	26.9	18.1	15.1	14.3	14.9	17.1	21.9	23.9
RoCE	26.9	18.3	14.9	13.6	14.0	14.8	17.8	19.1
EFFICIENCY								
Tax Rate %	34.6	36.0	35.7	36.1	18.9	30.0	33.0	35.5
Fixed Asset Turnover (x)	2.3	1.6	1.6	1.8	1.6	1.4	1.8	1.9
Inventory (days)	43	53	51	50	67	55	55	55
Debtors (days)	31	49	61	59	52	47	49	49
Other Current Assets (days)	32	13	9	8	9	9	7	7
Payables (days)	33	38	35	38	31	26	33	37
Other Current Liab & Provns (days)	44	28	25	24	29	29	24	21
Cash Conversion Cycle (days)	29	48	61	55	68	56	55	54
Net Debt/EBITDA (x)	0.6	0.3	0.2	(0.3)	(0.3)	(0.8)	(0.7)	(0.7)
Net D/E	0.3	0.1	0.1	(0.1)	(0.1)	(0.2)	(0.2)	(0.2)
Interest Coverage	10.6	12.2	15.3	23.1	15.8	56.8	104.5	133.1
PER SHARE DATA (Rs)								
EPS	19.2	15.9	14.7	14.6	16.1	18.7	24.2	28.8
CEPS	25.3	21.0	20.3	20.2	22.9	26.0	31.6	37.4
Dividend	3.3	3.0	3.0	3.0	3.0	10.0	10.0	13.0
Book Value	66.0	78.7	89.1	103.2	111.8	120.4	134.4	150.1
VALUATION								
P/E (x)	58.5	53.0	57.2	57.9	52.5	45.2	34.9	29.3
P/Cash EPS (x)	44.4	40.1	41.4	42.5	36.9	32.5	26.7	22.6
P/BV (x)	13.8	11.4	9.9	8.5	7.8	7.2	6.5	5.8
EV/EBITDA (x)	29.7	27.5	29.7	29.7	32.1	24.9	19.6	15.9
Dividend Yield (%)	0.4	0.4	0.4	0.4	0.4	1.2	1.2	1.5
OCF/EV (%)	2.3	2.5	1.8	2.4	1.7	3.8	2.9	3.8
FCFF/EV (%)	0.3	1.4	0.7	1.5	0.8	3.3	1.5	2.2
FCFE/M Cap (%)	0.3	0.6	0.6	1.1	0.6	2.8	1.4	2.1

Source: Company, HSIE Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
23-Jan-21	843	BUY	1,010

Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

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