

CFA Research Challenge



CORPORATE FINANCE ANALYSIS & VALUATION OF

Kajaria

INDIA'S NO.1
TILE COMPANY

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Investment Summary

Investment Summary

- Kajaria is the biggest Indian player in the tile manufacturing industry, with the rise in real estate market and infrastructure push from the government, the company would benefit
- Company looks overvalued at current levels based on relative and DCF valuation. Since the capital structure and market cap of peers is different vastly, we weight more on DCF valuation
- The recent rally has pushed the share price to all time high, however, the current financials and the future expected growth doesn't support the valuation at current level

Key takeaways from management commentary

- The company has a **planned Capex of 370 Cr.** For FY'24, plans for future Capex was not disclosed when investors asked. The company will be investing the money for new plant in Sikandrabad, **Nepal is INR 90Cr**, bathware in INR 80, maintenance capex is INR 30Cr,
- The company has promised 13%-15% volume growth, 14-16% revenue growth for the year. And EBITDA margins at 14% - 16%
- The company is expecting **30% growth in revenue in plywood** business, and revenue is expected to be INR 100 Cr
- The company is expecting **INR 15Cr profit from Nepal** from FY'25
- Strong demand is real estate and push from the government are triggers for the company.

Valuation

Scenario	Assumptions	Target Price
DCF	Assuming a terminal growth rate of 3.50%	₹ 1050
Relative Valuation	Considering EV/EBITDA and PE multiple because different capital structure of peers	₹756.96
Target Price	Taking the weighted average of value computed as per DCF & relative valuation	₹1050

Key Strengths

- Strong Distribution network
- Strong Product portfolio
- Innovation driven approach
- Well-known brand in Industry

Key Risks

- Rising competition in premium segment
- Slowdown in consumption
- High dependency on suppliers
- Pricing pressure

Recommendation

CMP	Target	Downside
₹ 1436	₹ 1050	27%

Earnings Estimates

	FY24E	FY25E
EPS (₹)	20.82	23.34

Stock Details

Ticker	KAJARIACER
Face Value (₹)	1.00
Shares Outstanding (Crores)	15.92
52 Week High	1490.00
52 Week Low	1006.50
Market Cap (₹ Crores)	23,017

Shareholding Pattern

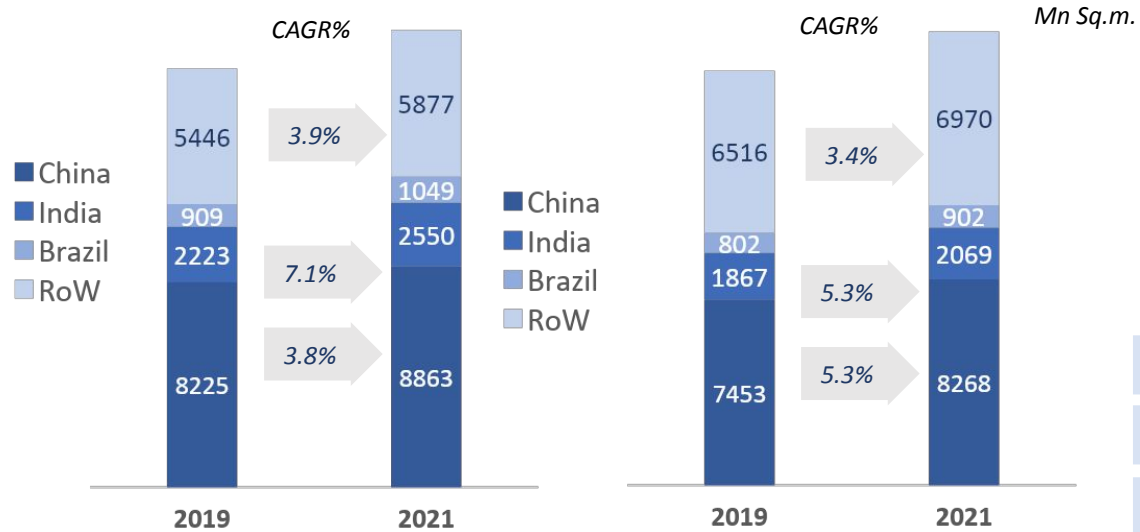
Promoter	47.49%
Retail	9.33
FII	17.96%
DII	21.23%
Mutual Funds	23.10%

Share Price Performance last 1 year

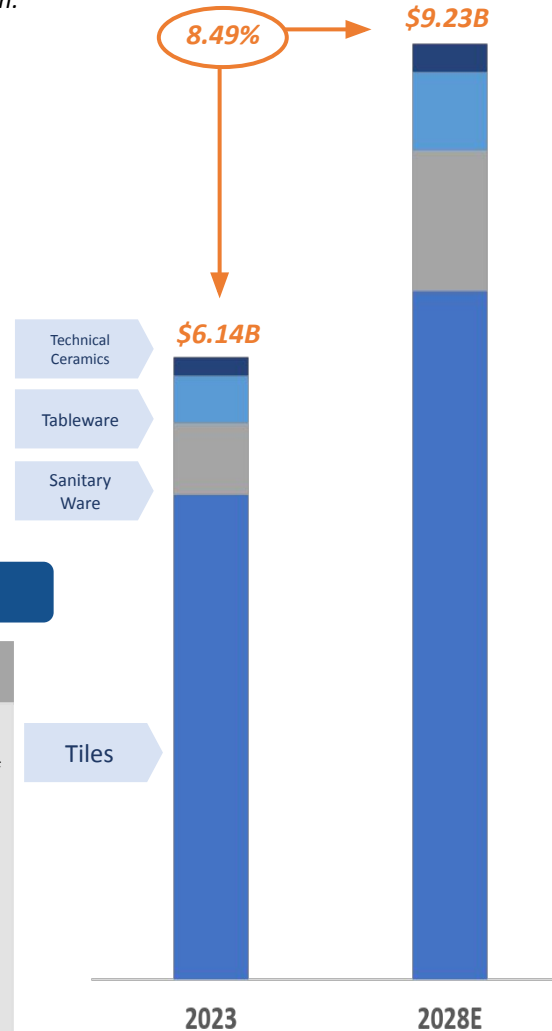


Industry Analysis – Ceramics (1/2)

GLOBAL PRODUCTION & CONSUMPTION TRENDS FOR TOP 3 COUNTRIES



INDIAN CERAMICS INDUSTRY EXPECTED TO GROW @ 8.49% CAGR



- India is **2nd largest** ceramic tiles producer and consumer in the world. Accounts for 7% (~1120 Mn Sqm) of global production.
- Morbi, a small industrial town near Rajkot, is the second largest tiles manufacturing cluster in the world accounting for ~90% of total production in India.

Market Segmentation, 2021

Ceramic	45%	Vitrified	55%	Tile Type
Wall Tiles	40%	Floor Tiles	60%	Application
Infra	15%	Commercial	30%	End User
		Residential	55%	

Source: MaKreo Research & Consulting, Student Research

GROWTH DRIVERS & CHALLENGES

Rising Urbanization

- Urban population has been growing at CAGR 2.1% and is expected to increase from 34.3% to 50% by 2050 (UN) thereby boosting the ceramics industry

Growing Construction Market

- By 2025, India is expected to have a USD 1 trillion construction sector, ranking 3rd in the world (KPMG). The new project launches grew by about 40% in CY22 and 30% in H2CY22 YOY.

Government Initiatives

- Initiatives taken by the government for affordable housing such as PMAY will further accelerate the demand in the industry - An outlay of Rs. 79,000 crores (Rs. 54,487 crores for rural & Rs. 25,103 crores for urban) has been announced in the Budget 2023-24.

Rising Raw material Prices

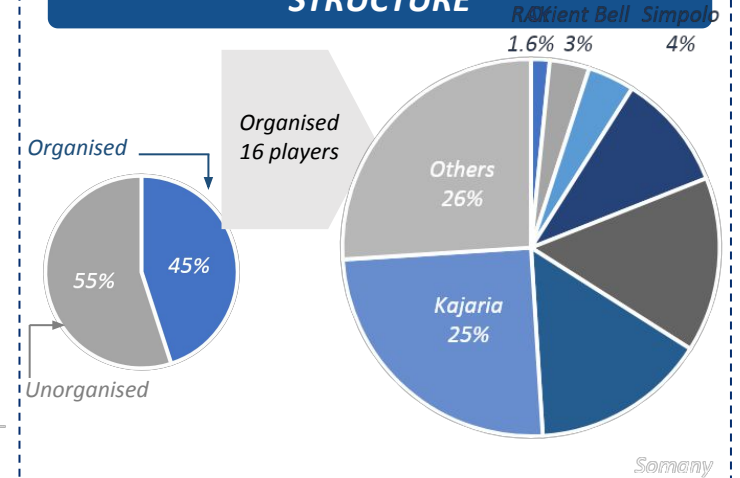
- The tile business is centered on power. To fire kilns, enormous amounts of natural gas must be obtained. These same elements also have the greatest influence on the total cost of the finished good, raising the final product pricing.

Cheap Imports from China

- Significant increase in volume of dumped imports of Vitrified tiles from China at 25% below normal value

Tiles

STRUCTURE



Source: Mordor Intelligence, Student Research

Source: CMIE, Student Research

Industry Analysis – Ceramics (2/2)

Competitor Analysis:

1

Tiles

Competitors Market Cap (₹ Cr)

Somany	3131
OrientBells	691
Exxaro Tiles	546

Strong Market position, Intense competition, Falling margins.

Company response: Focus on building brand to create more switching cost for

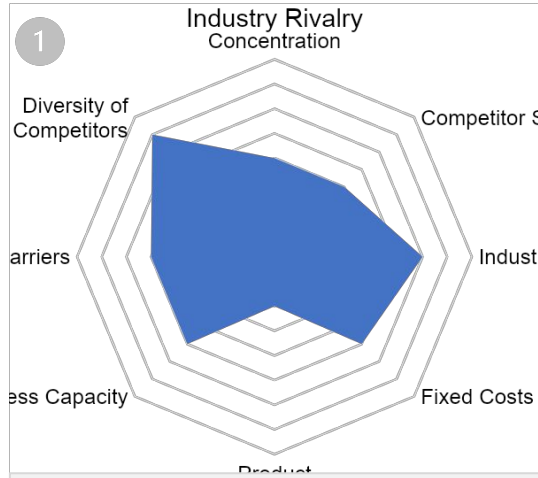
2

Sanitary Ware

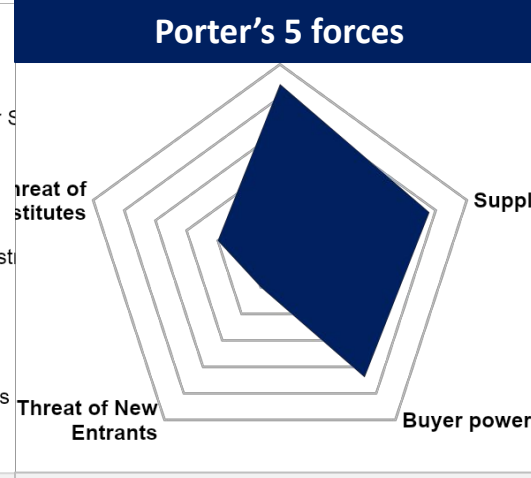
Competitors Market Cap (₹ Cr)

Cera	1,00.95
Somany	3131
Hindware	46.550

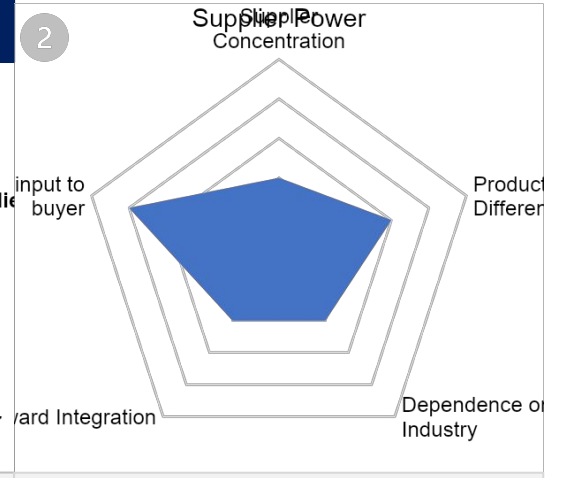
Small Market position and right to win the bathware space through brand building and product innovation. Intense competition from existing players.



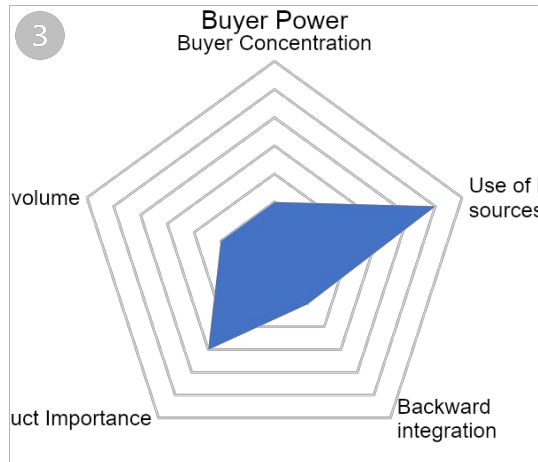
Industry rivalry is majorly driven by domestic, int'l & numerous small players engaging into price wars and marketing campaigns.



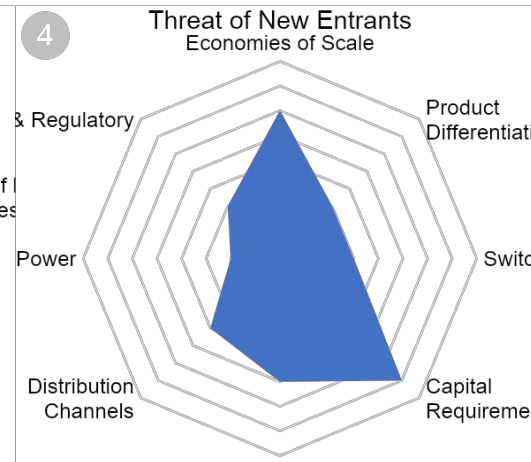
Industry Rivalry and **Buyer Power** are the strongest forces in the sector which reflect in avg. **EBIT** margins (12%)



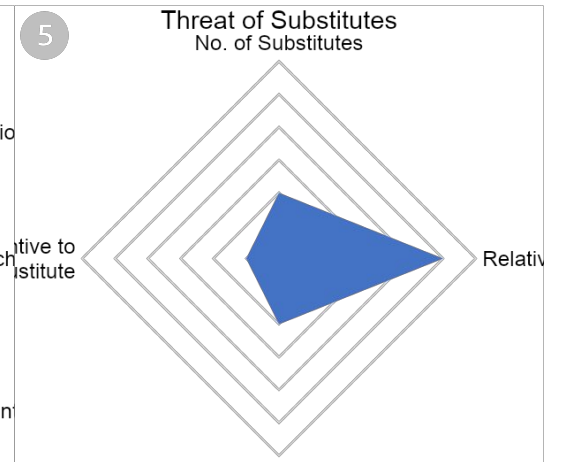
The availability of numerous suppliers and the ability of manufacturers to switch suppliers help mitigate unique resource possession.



Buyers derive power due to the presence of multiple mfg. & low switching cost. Mitigation measures like product quality, design etc.



High capital investments and fixed costs, exit barriers and requirement of technical expertise result in low threat of new entrants.



Substitutes are forms of Vinyl, wood, laminate etc. Though these have a price advantage, customers have low incentive to substitute.

Company Overview (1/3)

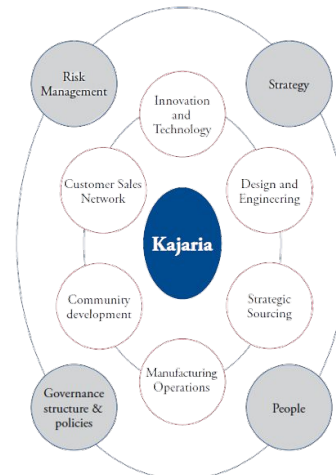
ABOUT KAJARIA

An enterprise that catalyzed the tile space – transforming its position from a commodity into an aspirational solution.

- Founded 34 years ago, Kajaria is the **#1** manufacturer of vitrified tiles and ceramics in India and the **7th largest** manufacturers of tile in the world.
- Headquartered in New Delhi and pan India manufacturing presence.
- Kajaria deals in **3000+** varieties of floor and wall tiles. The Company has 8 manufacturing sites (81.55 MSM capacity) for tile and 2 for bath-ware (10L pieces) across India.
- Total employee headcount of **~7034** including **~2654** contract workers with **attrition** rate of **7%** (below industry average)
- Only Indian tile company to receive **“Asia’s Most Promising Brand”** in the premium tile category.

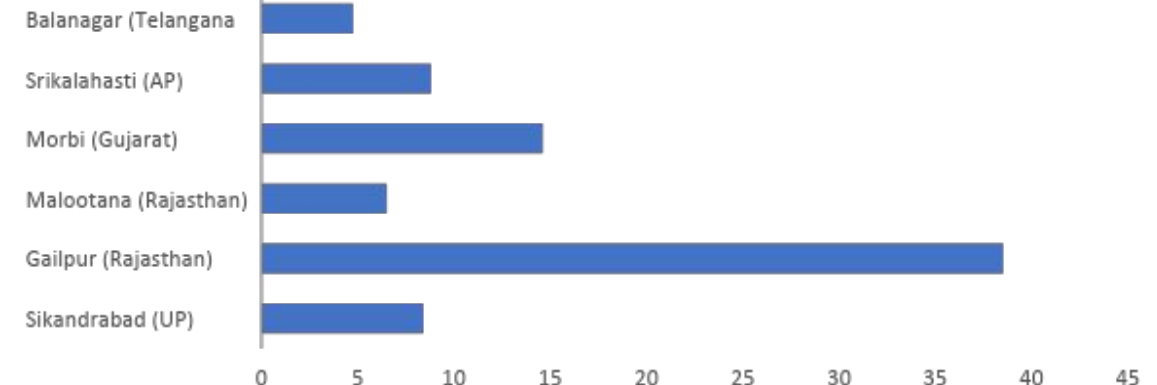


Exports to more than 35 countries round the globe



Business processes at Kajaria

KAJARIA SHARE OUT-PERFORMANCE – FY'13-FY'23



Company Overview - Business Segments (2/3)

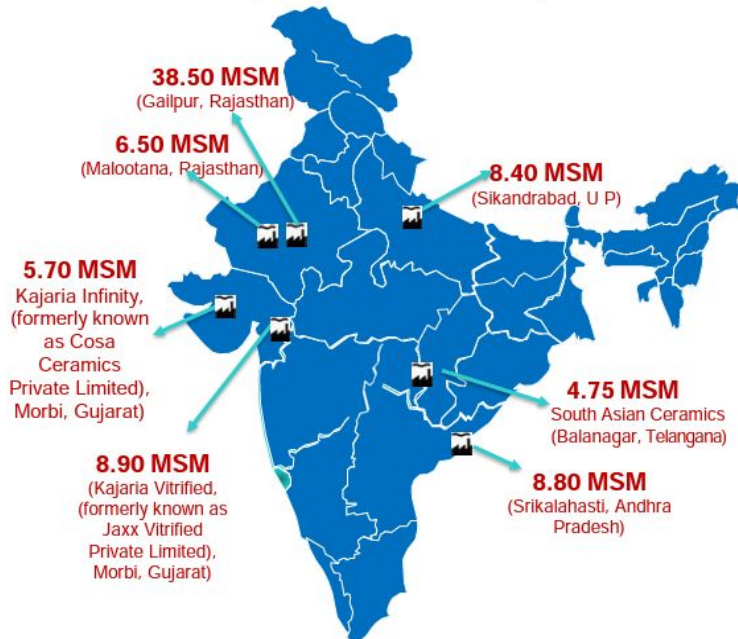
1 Ceramic Wall & Floor Tiles

- Bathroom
- Kitchen
- Outdoor
- Living Room
- Bedroom
- Commercial areas

Added 25 new Kajaria exclusive showrooms making it total of 149 showrooms in India.
16% growth in sales volume over FY2020-21

ASSET OVERVIEW

Total Tile Capacity 81.55 MSM at present



2 Glazed Vitrified Tiles

19% growth in sales volume over FY2020-21

3 Polished Vitrified Tiles

35% growth in sales volume over FY2020-21

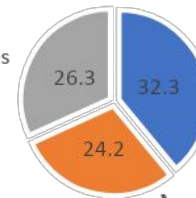
FY23 Revenue in Cr.

■ Tiles ■ others

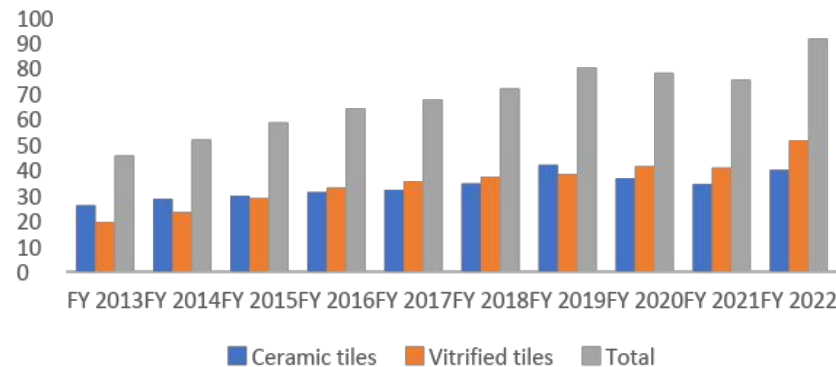
Product Verticals
(Production in MSM)

3989.9

- Ceramic Wall & Floor Tiles
- Polished Vitrified Tile
- Glazed Vitrified Tiles



Tile Sale Growth (MSM per annum)



4 Bath-ware Solutions

- Sanitaryware – Capacity of 7.5 lakh pieces p.a.
- Faucets – Capacity of 10 lakh pieces p.a.

32% growth in sales volume over FY2020-21

Kerovit
By Kajaria



5 Plywood & Laminates

- Plyboard
- Blockboard
- Flush door

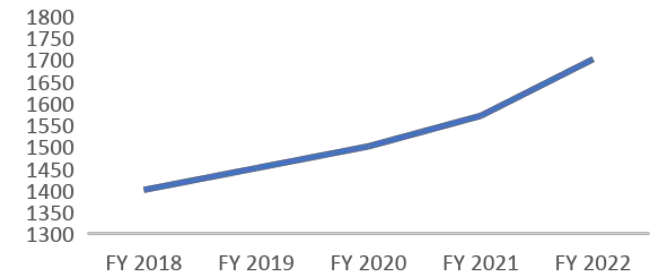
123% growth in sales volume over FY2020-21

Kajaria LAMINATES
STRENGTH IN BEAUTY

Kajaria PLY



Number of operative dealers



Company Overview (3/3)

Key Executives



Ashok Kajaria
Chairman & MD



Chetan Kajaria
Joint MD



Rishi Kajaria
Joint MD



Dev Datt Rishi
Non-executive director



Sanjeev Agarwal
CFO

Growth Drivers



Commercial Office Space



Tier 2 & 3 Residential space



Infra push by Govt.



Morbi Cluster



Preference for Brands



Home Renovation Uptick

STOCK OVERVIEW

As of 1 Aug 2021

Ticker	KAJARIACER/500233
Market Cap (₹ Cr)	22847
Debt	250
D/E	0.11
P/E & P/B	62.8 & 9.81
Minority Interest	77.64
EV	22705

SHAREHOLDING PATTERN

Sep 2022

Dec 2022

Mar 2023

Jun 2023

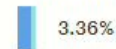
Total Promoter Holding



Mutual Funds



Other Domestic Institutions



Foreign Institutions



Retail and Others



- The promoter holding at 47.49% has stayed constant over the last 8 years.
- Domestic Institutional investors have increased stake from 5.76% in 2017 to 25.22% in 2023
- Foreign institutes have reduced their holding from 23.38% in 2017 to 17.95% in 2023
- Pledged promotor holding is insignificant
- In last 3 months, Foreign institution holding has increased by 1.06%

FINANCIAL PERFORMANCE

In ₹ Crore	FY2019	FY2020	FY2021	FY2022	FY2023
Revenue	2956.2	2808	2780.9	3705.2	4381.9
Revenue Growth (%)	-	-5.01%	-0.97%	33.24%	18.26%
EBITDA	449.5	415.9	508.82	610.7	592
EBITDA Margin (%)	15.21%	14.81%	18.30%	16.48%	13.51%
EBIT	360.43	307.8	402.15	495.33	459.15
EBIT Margin (%)	12.19%	10.96%	14.46%	13.37%	10.48%

COMPANY PERFORMANCE



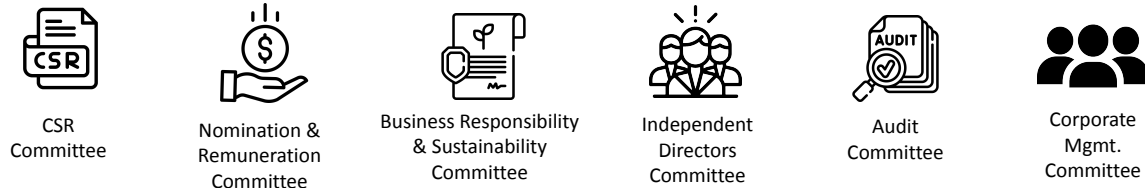
65th

Out of 149 Building Product Companies

Kajaria's Business Responsibility and Sustainability (BRS) Committee is responsible for ensuring that the Company operates as a responsible corporate citizen by adhering to governance aspects, applicable regulations, respect for the environment, engaging with the community and maintaining profitability.

Source: Sustainalytics, Student Research

INDEPENDENT COMMITTEES



COMPANY'S STEPS & POLICIES

Environment	Social	Governance
Decreased absolute emissions	Adoption leaves, flexible working hours, sabbatical	Independent committees for CSR, Safety, Risk Management etc.
Performed better in energy and water conservation	Training and development in performance and knowledge	Integrated governance structure for subsidiaries
Improved waste management	Health and Safety	Stakeholder engagement
Circular economy and resource efficiency	Employee Vaccination	Adhere to global best practices for transparency and disclosures
Efficiency in water management	Distributed masks, sanitizers, to hospitals, police etc.	

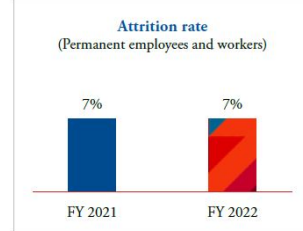
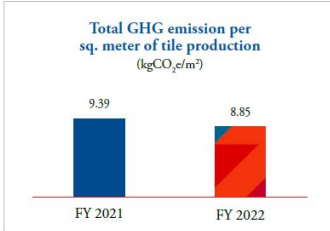
BUSINESS RESPONSIBILITY POLICY



VALUE CREATION MODEL OF KAJARIA

Financial Capital <i>EPS: INR 23.69</i> <i>EBIDTA: INR 611 Cr</i> <i>Turnover: INR 3705 Cr</i> <i>Inc in Mkt Cap: 11.8% CAGR</i>	Manufacturing Capital <i>Capacity Utilisation: 97%</i> <i>Production of tiles: 68.37 MSM</i> <i>Installed Capacity: 82.8MSM</i>	Intellectual Capital <i>New products & designs developed: ~750 SKUs</i>
Human Capital <i>Attrition rate of permanent employees: 7%</i> <i>LTIFR for employees: 0.7 per 1Mn manhours worked</i>	Natural Capital <i>GHG Emission (Scope1 & 2): 0.61 Mn tCO2e</i> <i>Zero liquid discharge plants</i> <i>Indian Green Building Council Member</i>	Social Capital <i>No. of CSR Programmes: 78</i> <i>Increase in Dealers: 200+</i> <i>CSR Spending: INR 6.96 Cr</i>

COMPANY INITIATIVES



Climate Management

- Ensured that emissions released from our operating units are well below those mandated by Pollution Control Board
- Created large landscaped gardens in the facilities
- For controlling air pollution, they have gone a step beyond their operating facilities – they also look at clean logistics.

Waste Management

- Most of the broken tiles are reused post grinding. They are used along with the body's raw materials.
- Waste heat is captured and used in dryers.
- Waste water is treated in the ETP units at the plant campus and reused in the manufacturing process and landscaping.
- To minimise human handling of finished tiles (which could lead to breakage) the Company has invested in automation solutions.
- E-waste: All e-waste is sold to Government authorised vendors.

Team Development

- 20,000+ hours of health & safety training given to the permanent and contractual workforce
- Safety committee ensures that all SOPs are strictly adhered to. Safety audits of facilities are a regular feature that helps in improving practices.
- Strict adherence to the Equal Remuneration Act

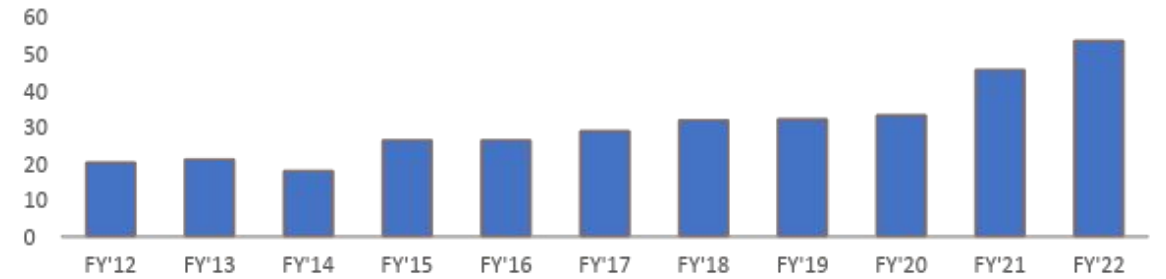
Thematic Area for CSR activities for social and relationship capital

All of our CSR actions are guided by Corporate Social Responsibility (CSR) Policy

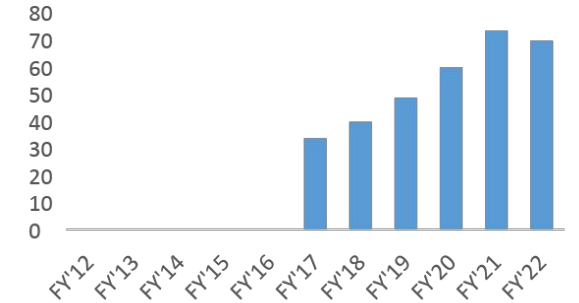
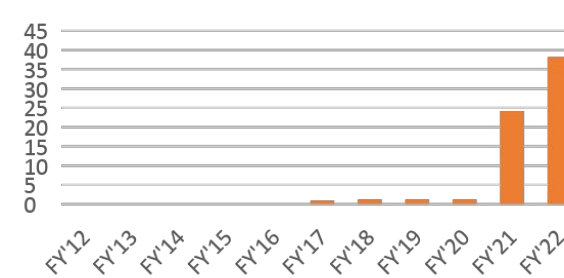
QUALITY EDUCATION 	CLEAN WATER AND SANITATION 	GOOD HEALTH AND WELL-BEING 	SUSTAINABLE CITIES AND COMMUNITIES 	CLIMATE ACTION
Education	Sanitation & Hygiene	Health	Community Development	Environment

ESG DISCLOSURE SCORE (on 10th Aug 2023)

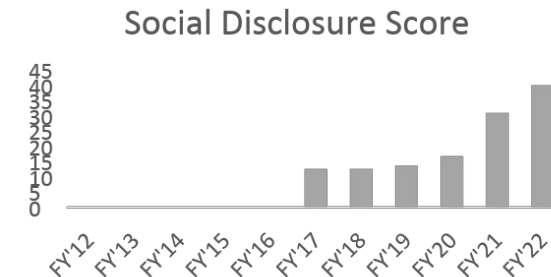
ESG Disclosure Score



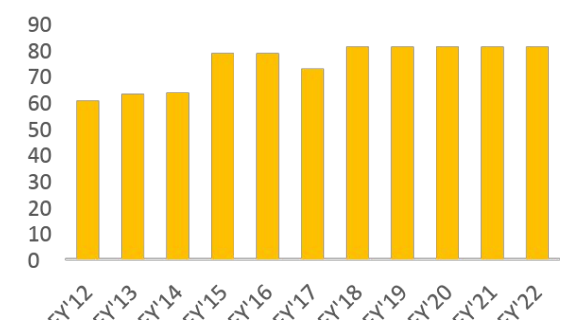
Environmental Disclosure score



Social Disclosure Score



Governance Disclosure Score

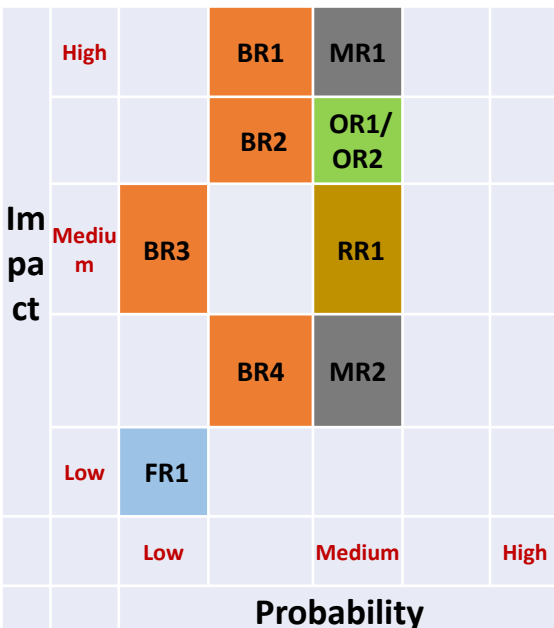


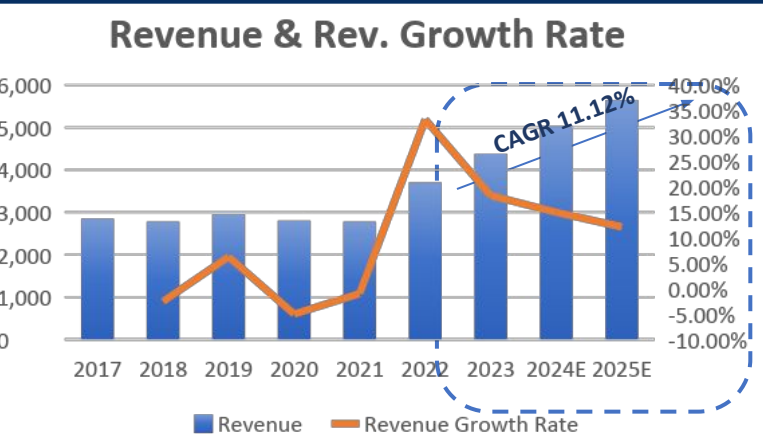
Risk Analysis

Investment Risks

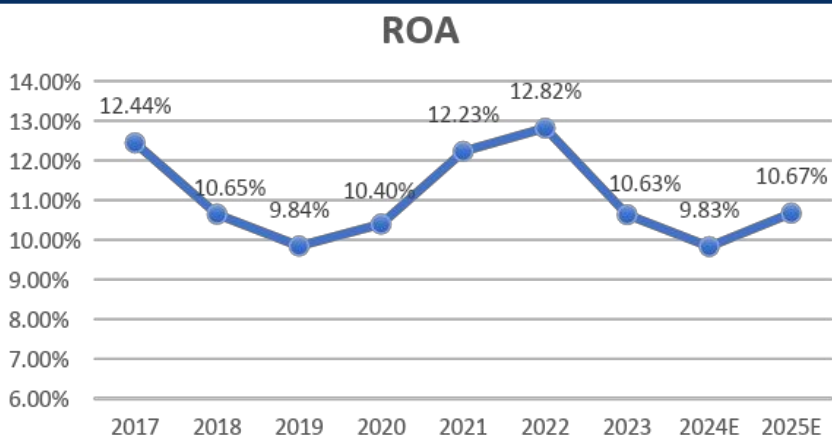
1. Market Risk
2. Business Risk
3. Financial Risk
4. Operations Risk
5. Regulations Risk

Risk	Impact	Mitigation
Stagnant volume growth (BR1)	Kajaria has not been able to penetrate deeper into the value segment as the management has been continuously focusing on premiumization. Achieving higher revenue growth without adequate volume growth may not sustain a higher margin in the long term.	Focus on value segment by new store and distribution openings in tier III/IV cities
Strong competition in premium (BR2)	While Kajaria has been focusing on changing its brand perception, the competition in the premium segment has been increasing.Brands like Cera and Somani pose a great threat in the premium tiles and bathware segment. The competitors may also strike back with aggressive prices, raising the marketing spending, launch of new products etc.	Gradual increase in its product collection in the premium segment and building a brand for customer loyalty.
Competition from unorganized players (BR3)	Currently, the tiles and bathware industry is dominated by unorganized players comprising of approximately 55% of the market share. We believe that Kajaria will face strong competition in the value segment since it is steering gears towards premiumization over the last few years.	Increase spending on advertising and sales promotion
Outsourcing risks (BR4)	Kajaria outsources the manufacturing of 24.7% of the products that are sold. This poses the risk of dependency on suppliers, loss of control, quality deterioration and increased cost of holding inventory.	Keep a check on quality standards and performance measures
Raw material price risk (MR1)	Raw material expense is ~22% of revenue. Main RM being white clay, talc, sand, feldspar, illitic and kaolinitic clay, dolomite and calcite can be sourced from multiple vendors.	Maintaining adequate inventory levels, partnership with vendors.
Uncertainty in government policies (RR1)	ESG and compliance regulations expected to increase as governments look to be more environment friendly. Another are of risk are the tax policy by the government.	Being proactive in ESG measures and financial compliances.
Slowdown in consumption (MR2)	The uses of infra goods are correlated with GDP and inflation rise. The revenue for Kajaria have seen to be moving in a cycle with the realty and infra cycle with periods of stagnant revenue.	Building a robust brand and innovative products both in value as well as premium segment.
Risk from exclusive store model (OR1) & Distribution/Retailer underperformance (OR2)	Though Kajaria's focus on opening new exclusive stores would increase pressure on the balance sheet, it does carry along with itself a high reputational risk, risk of deterioration of benchmarked quality, higher repositioning costs.	Focus on profitability of each store with expansion plan in a phased manner.
Exchange rate risks (FR1)	Foreign exchange risk accrues mainly on the account of secondary raw material import, and exports to 35+ countries but this does not amount to a significant cost and revenue for Kajaria	Kajaria has a well-structured exchange risk management policy through hedging contract

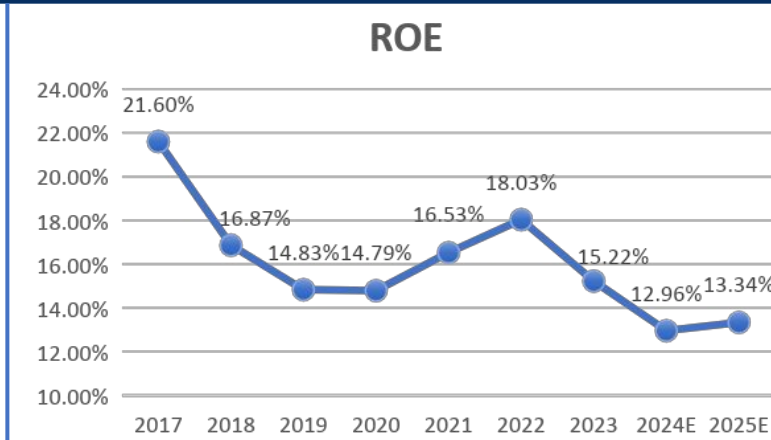




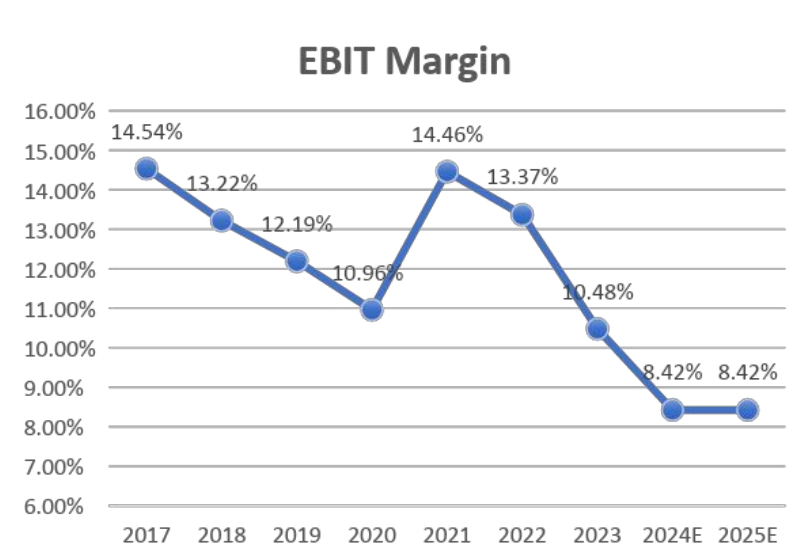
After several years of near stagnant revenue, Kajaria’s revenue is showing signs of double-digit growth at 11.12% CAGR over 2022-2025E.



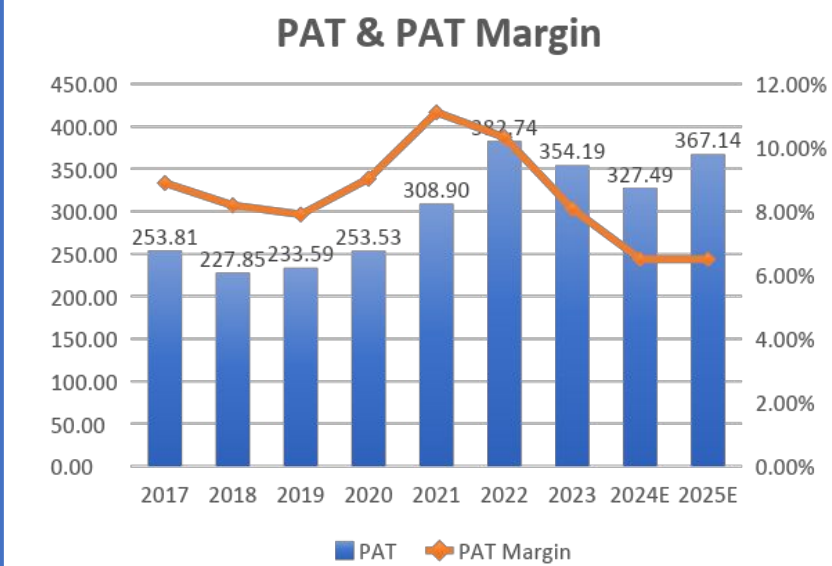
With Asset Utilisation on a constant upward trend since 2021, this decrease in ROA can be explained by the decrease in PAT Margin for the firm over the past 2 years.



ROE expected to fall at a CAGR of -7.25% between 2022 and 2025E. Attributed to profitability decline and in efficiencies in asset utilization.

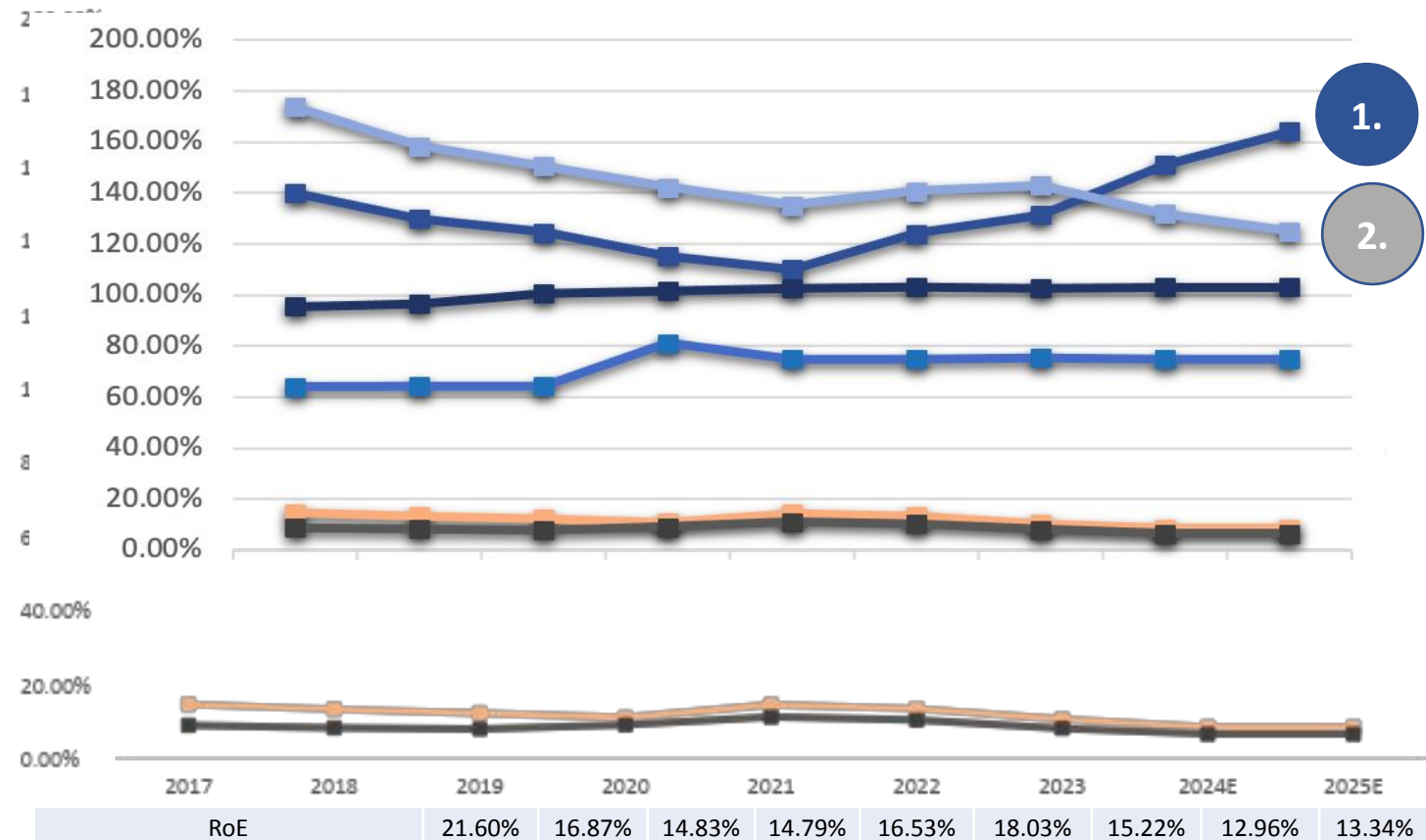


Except for the Covid year, EBIT margin has shown a declining trend and was at its lowest at 10.48% in FY2023. This is estimated to further fall to 8.42% over the coming periods and points to increasing sales costs for increasing revenue.



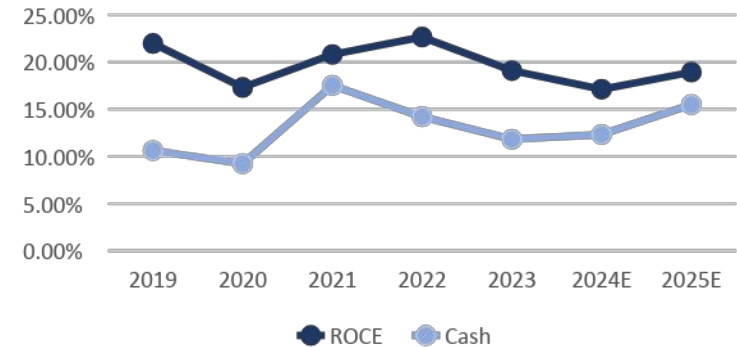
In the post Covid era, while revenue has shown consistent growth, both PAT and PAT margin have decreased in 2023 and are estimated to fall further before recovering. This indicates towards increased expenses per dollar of revenue earned.

DUPONT ANALYSIS(CONSOLIDATED)

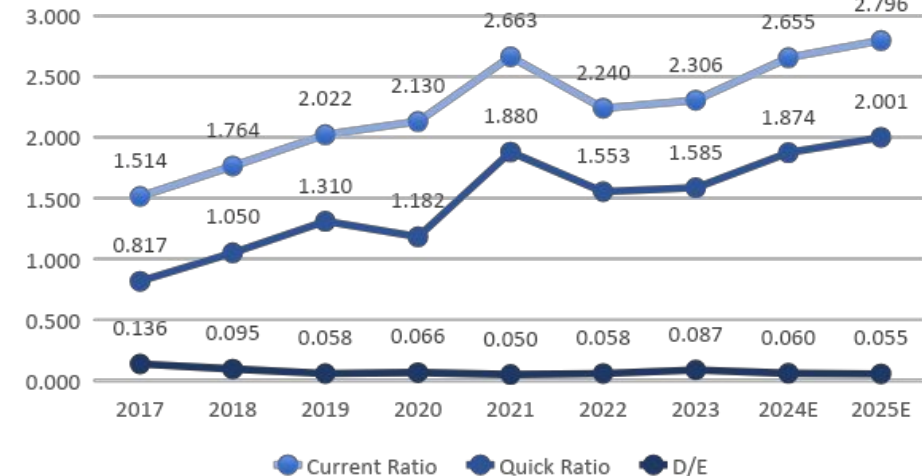


1. Asset turnover ratio is expected to grow at a CAGR of 10% since Covid years hinting towards growing efficiency of firm to use its current assets to generate revenues.
2. Financial Leverage ratio on a clear downward trend with a CAGR of -2% between 2021 to 2025E. Indicates that firm focusing more on equity financing and inefficient use of debt financing to enhance returns.

ROCE & CASH(as % of TOTAL ASSETS)



SOLVENCY & LIQUIDITY



- The liquidity and financial stability of Kajaria is improving as pointed out by a constant upward trend in Current Ratio and Quick ratio.
- A decreasing D/E ratio indicates a reduced focus on using the cheaper debt financing to fund growth.

COMPARABLES

Company	EBITDA Margin (%)	EV/EBITDA	EV/EBIT	ROCE
CERA	17.59	29.36	32.65x	22.67
SOMANI	8.07	17.79	26.85	11.97
Global Surfaces	21.17	21.73	28.84	15.40
Exxaro Tiles	11.00	18.09	32.78	6.22
Average	14.46	21.74	29.49	14.07
Kajaria	13.99	36.54	46.55	20.84

Lower margins because of higher administrative and raw material costs

Lower than industry average debt leading to higher ROCE and multiples

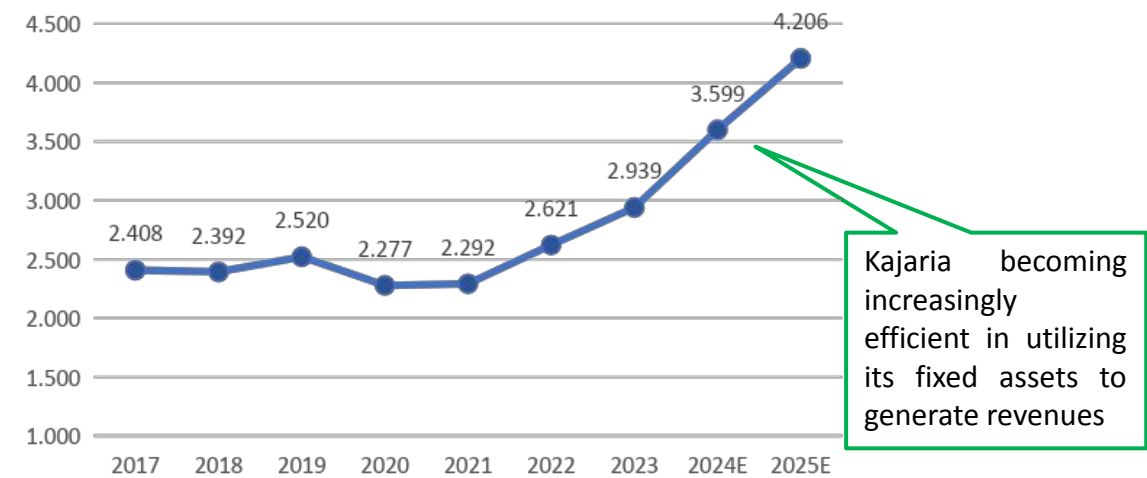
PAST TRACK RECORD

Credit Rating

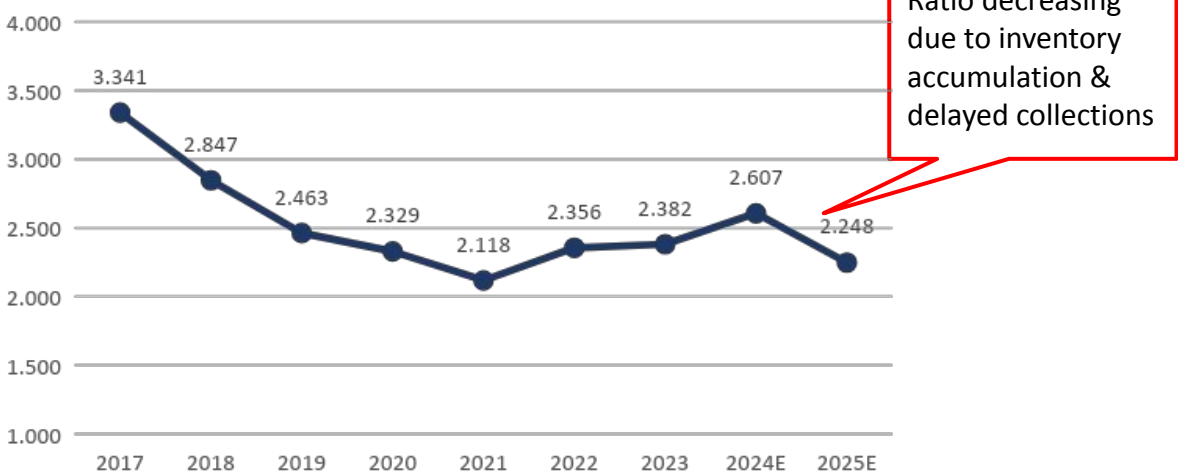
Rating Agency	Short Term	Long Term
ICRA	A1+	AA

ACTIVITY RATIOS

Fixed Asset Turnover



Working Capital Turnover



DCF Valuation

FCFF Valuation	2024E	2025E	2026E	2027E	2028E
PBT	437	490	550	616	691
Finance cost	25	28	31	35	39
EBIT	462	518	581	651	730
Tax 25.14%	116	130	146	164	184
EBIT*(1-T)	346	388	435	488	547
ADD: Depreciation	461.31	517.15	579.75	649.93	728.60
LESS: Capital Expenditure	370	315	354	396	444
LESS: Changes in Working Capital	83.49	112.73	123.59	138.55	151.39
FCFF	354	477	537	602	679
Discounting factor (WACC)	0.90	0.80	0.72	0.64	0.58
PV of FCFF	316.88	382.41	385.88	387.36	391.11

WACC	11.68%
Terminal Growth Rate	3.50%
PV of Discrete Year CF	1,863.64
PV of Terminal Year	14,938.46
Enterprise value	16,802.10
Add: CASH	393.78
Less: Minoriry Interest	-77.64
Less: Debt	-209.27
Consolidated Value	16,908.97
Less Adjustment for sub	-173.08
Equity value	16,735.89
Number of shares	16
Value per share in INR	1,050.41

WACC Calculation	
Debt	209.27
Equity	2404.42
Tax Rate	25.14%
Calculating Cost of Debt	
Short Term Debt	157.49
Long term Debt	51.78
Cost of Debt	7.33%
Calculating Cost of Equity	
Beta	0.60
Risk Free Rate	7.18%
Equity Risk Premium	8.33%

Sensitivity Analysis										
Termianl Growth Rate										
	3.1%	3.2%	3.3%	3.4%	3.5%	3.6%	3.7%	3.8%	3.9%	4.0%
9.5%	1201.489	1219.718	1238.535	1257.969	1278.051	1298.814	1320.293	1342.525	1365.551	1389.415
10.0%	1144.489	1160.588	1177.168	1194.25	1211.857	1230.015	1248.75	1268.088	1288.061	1308.7
10.5%	1095.387	1109.756	1124.524	1139.708	1155.326	1171.397	1187.94	1204.977	1222.53	1240.623
11.0%	1052.696	1065.638	1078.917	1092.545	1106.537	1120.907	1135.67	1150.843	1166.444	1182.491
11.7%	1002.926	1014.296	1025.938	1037.861	1050.075	1062.592	1075.423	1088.579	1102.073	1115.919
12.0%	982.2602	993.006	1003.999	1015.247	1026.76	1038.548	1050.619	1062.985	1075.656	1088.644
12.5%	952.9439	962.8319	972.9348	983.2598	993.8142	1004.606	1015.643	1026.933	1038.486	1050.311
13.0%	926.7783	935.9282	945.2666	954.7997	964.5334	974.4742	984.6288	995.0042	1005.608	1016.447

CMP 1436



Microsoft Excel Worksheet

Ke (Cost of equity)	12.21%
Kd (Cost of Debt)	7.33%
Wd	8%
We	92%
WACC	11.68%

Subsidiaries	% Share owned	P/B Ratio	Book Value	Mkt Cap
Kajaria Vitrified Private Limited	87.37%	3.38	23.15	78.247
Vennar Ceramics Limited	51%	3.38	34.23	115.6974
Kajaria Infinity Private Limited	51%	3.38	64.31	217.3678
Kajaria Bathware Private Limited	100%	3.38	89.58	302.7804
Kajaria Plywood Private Limited	97.89%	3.38	-27.47	-92.8486

Relative Valuation & Football Field Analysis

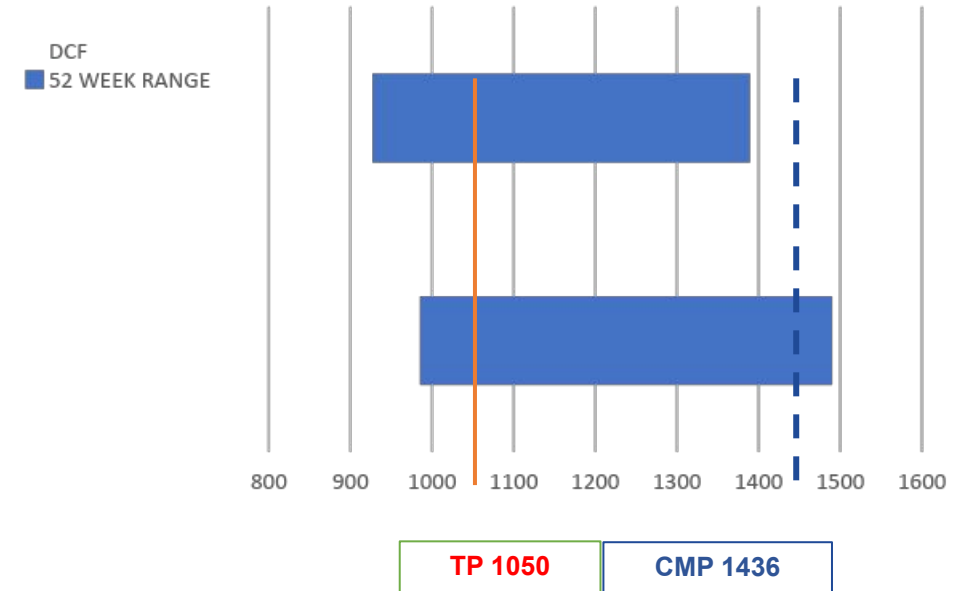
Company (Data as of FY'23)	MarketCap (INR Cr)	P/E	D/E	EV/EBITDA
Kajaria	22761	66.07	0.11	36.54
CERA	10095	48.21	0.05	29.36
SOMANI	3131	43.79	0.68	17.79
Global Surfaces	766	31.62	0.64	21.73
OrientBells	691	30.75	0.03	13.05
Exxaro Tiles	546	75.22	0.34	18.09
Murdeswar Ceramics	241	35.21	0.34	9.99
Mean		44.13		18.34
Median		39.50		17.94

- We have considered companies listed in India in similar businesses and revenue breakdowns from similar operations.
- Kajaria is the biggest player in terms of market capitalization. The next nearest competitor is less than half in term of Kajaria's Mcap.
- The capital structure (D/E ratio) of the companies is different from others.
- Considering the above two point we are taking the **average of values arrived by median EV/EBITDA multiple and median P/E multiple** for relative valuation

Relative Valuation of Kajaria using Median PE multiple

- Earnings of Kajaria = 344.5 (FY23)
- No of shares = 15.933
- EPS = 21.55
- Intrinsic value per share as per industry PE multiple = 851.55**

FOOTBALL FIELD ANALYSIS



Relative Valuation of Kajaria using Median EV/EBITDA

- EBITDA of Kajaria = 592 (FY23)
- EV using median industry multiple = 10620.5
- Less:Debt&Minority Interest = 209.27 + 77.64
- Add:Cash = 393.78
- Adjust:Subsidiary valuation = (173.08)
- Intrinsic value of equity = 10553.8**
- No of shares outstanding = 15.933
- Intrinsic value as per industry EV/EBITDA multiple = 662.38**

Intrinsic value per share as per relative valuation is **INR 756.96**

THANK YOU