

Tiles

Tiles| Initiating Coverage

POSITIVE

October 6, 2023

Indian tiles industry – Tiles apart

Investment Rationale:

- **Industry overview:** India's ceramic tiles market offers enormous growth opportunities for sustained development over the medium term (2x the global industry growth rate), propelled by the government's push for bolstering domestic production and inherent demand from associated sectors. In the housing sector, tiles make up between 2% - 4% of the construction costs.
- **Consolidation:** The tiles industry is dominated by the unorganised sector (60% share), although 14 organised players (40%) have gained market share by offering high-quality products at competitive rates.
- **Export Opportunity:** Exports have increased by 30% YoY in FY23, in part because of a global shift away from China and partly because European nations like Italy and Spain are becoming less competitive amid high energy prices.
- **Outlook and Stock Picks:** We expect the tiles sector in India to grow at a healthy rate of 12-13% over FY24E-FY25E, aided by well-established brands, rising demand in export markets and domestic market tailwinds. We initiate coverage on Kajaria Ceramics and Somany Ceramics with a BUY rating.

India is the 2nd largest producer and consumer of tiles in the world after China, with annual consumption quantum pegged at ~2,069msm as of CY21, accounting for ~14%/11% of the global production/consumption. Yet, it has the lowest per capita consumption of tiles at ~0.6sqm vs the global average of 1.4sqm, indicating significant room for growth going ahead.

The market size for ceramic tiles in India is estimated at Rs595bn for CY2023 and the same is anticipated to reach Rs707bn by 2025-end, implying a CAGR of 13.6% during CY2023E-2025E. Of this, 30% is exports at ~Rs179bn, which is expected to almost double by 2025-end to ~Rs304bn.

Factors supporting Indian tiles industry: Domestic tiles industry is expected to grow at 13.6% CAGR over FY23-FY25E vs 5-6% CAGR for the global tiles industry. This would be driven by multiple factors such as: (1) demand for housing (led by rising disposable income, rapid urbanisation, housing shortage etc). (2) government's persistent focus on policy framework and ecosystem support e.g - expansion of metro cities. (3) demand emanating from the Services sector for real estate, warehousing and commercial properties. (4) ability to provide quality products at competitive rates due to technological efficiency, modernisation of plants and low-cost labour supporting exports.

Please refer to the disclaimer towards the end of the document.

Company Name (Rsmn)	Rating	Market Cap (Rs bn)	CMP* (Rs)	Target Price (Rs)	Upside / Downside (%)	Revenue		EBITDA		EPS (Rs)		P/E (x)	
						FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Kajaria Ceramics	BUY	211.6	1,330	1,885	42%	58,947	68,517	9,694	12,274	36.8	47.4	40.1	31.1
Somany Ceramics	BUY	30.2	700	1,072	53%	33,027	36,579	3,265	3,807	40.7	50.5	17.2	13.9

Source: Companies, Nirmal Bang Institutional Equities Research

Exports market is expected to double in two years: India is the 4th largest exporter of tiles globally, with the annual volume pegged at 483MSM as on CY21. Exports market size was estimated at Rs165bn as of FY23 (30% of overall market), growing at a CAGR of ~15% during FY19-FY23. The exports segment is expected to grow at 40%+ CAGR over FY23-FY25E, led by the 'China +1' factor.

- Morbi - 90% of the tiles in India are manufactured in Morbi, Gujarat and are exported through the Mundra port, of which 80% is exported to USA (60-70%), Saudi Arabia (20%) and remaining 10% to the UAE. In contrast to the domestic market, which yields higher realisation of Rs323/MSM, the exports market commands higher volume at lower realisation of Rs263/MSM for Morbi manufacturers. This encourages players like Kajaria Ceramics and Somany Ceramics to give primacy to domestic market while maintaining visibility in the exports- Kajaria (2%) and Somany (4%).

Industry consolidation: The fact that ~60% of the tiles industry is unorganised, including Morbi, Rajkot and other clusters, presents a tremendous opportunity for sector consolidation. In Morbi, companies are set up (merged, demerged and shut down) at a very rapid pace, often by the members of the same family. This leaves enormous scope for inorganic expansion. Our impression is that the Indian tiles sector is nearing a tipping point where at least 100+ facilities will close (in Morbi) in the near future, unable to overcome competition from companies such as Simpolo, Varmora, Qutone, Colortile and Sunheart, which are far more advanced in terms of innovation, quality and technological advancement (*Source: NBIE interaction with market participants*).

Cost Levers- Freight, power supply and LNG gas/propane continue to be the primary cost-related issues affecting the industry. To improve productivity and reduce energy consumption, the industry has implemented a shortened firing cycle, lower firing temperatures and a variety of novel designs & operational strategies in ceramic tunnel kilns. The expansion of the ceramic tiles industry going forward is highly dependent on accessibility, consistent supply and reasonable prices.

Favourable impact of the GST regime: The implementation of GST improved industry's transparency and accountability, reducing cash transactions by ~50%. Similarly, GST on natural gas will enable tiles manufacturers to claim input tax credits and improve margins, which is not currently the case.

In the organized tiles space, Kajaria is the market leader, with 11% share of the overall market and 25% of the organized market. Somany and Prism Johnson have 6% share each of the overall market and 15% share each of the organized pie. Other players in the organized tiles market are – AGL, Orient Bell, Nitco, RAK, Simpolo, Varmora, Qutone, Colortile and Sunheart. The sheer market size and the razor-thin operating margin of ~10–12% are two factors that would deter a new company to enter the space.

Initiating Coverage:

Kajaria – We initiate coverage with a BUY rating and a target price (TP) of Rs1,885, valuing it at 40x Sept'25E EPS. We like the company mainly due to its extensive distribution reach, industry tailwinds, domestic product mix into margin-accretive segments and strong financials.

Somany – We initiate coverage with a BUY rating and a TP of Rs1,072, valuing it at 22x Sept'25E EPS. We like the company for its innovation & technical knowhow, product mix (govt & real estate combined ~60% and housing ~40%), ability to benefit from growing export opportunity and stable financials.

Key risks:

- Lack of trained masons/ Tilers: Despite the fact that India produces top-notch tiles, our tilers are appallingly undertrained, which results in poor quality laying, shoddy finishing, and time and material waste.
- Non-usage of right equipment resulting into bad workmanship and very long delivery time.
- Non-availability of standard and uniform quality raw materials and nonavailability of materials like Ukraine clay in the domestic market, which have to be imported.

- Logistical competence: Logistics – be it inbound or outbound – is very big challenge. This is critical for success in Indian markets where high value is attached to time & quality.
- Availability of gas(Gujarat Gas Ltd) and propane at competitive rates.(Petroleum refineries)

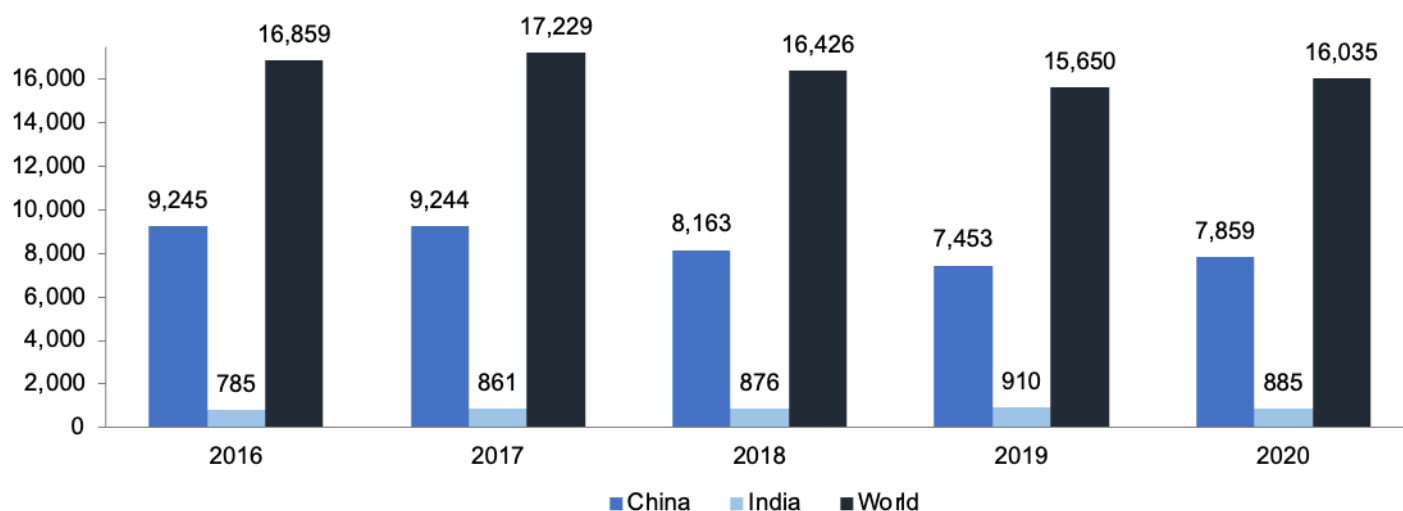
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Industry Overview:

Global tiles industry is expected to grow at 5-6% CAGR over FY24E-FY25E:

Exhibit 1: Volume (MSM) in global tiles industry



Source: Nirmal Bang Institutional Equities Research, ICCTAS

The global ceramic tiles market, estimated at US\$355.31bn in 2021, is poised for substantial growth with a projected CAGR of 7.1% over 2022-2030E. This positive outlook is underpinned by the ongoing surge in construction activities spanning office spaces, shopping complexes, lodging facilities, residential housing and other essential utility spaces on a global scale. However, it's crucial to acknowledge the impact of the COVID-19 pandemic, which dealt a severe blow to the tiles market in 2020. Govt-imposed lockdowns worldwide brought construction activities to a standstill while major ceramic tiles-producing nations grappled with disruptions in their supply chains.

Nevertheless, the latter part of 2020 witnessed a substantial recovery, a trend that is expected to persist in the coming years. This resurgence can be attributed to the expansion of the construction industry, primarily driven by the rapid growth of the housing sector and increased construction spending globally. Rapid urbanization and population growth are additional contributing factors poised to fuel the expansion of the ceramic tiles market globally.

Also notable is that China's share in the global tiles market has been impacted in the aftermath of the pandemic, resulting in a significant slump in both production as well as consumption. Several factors contributed to this downturn.

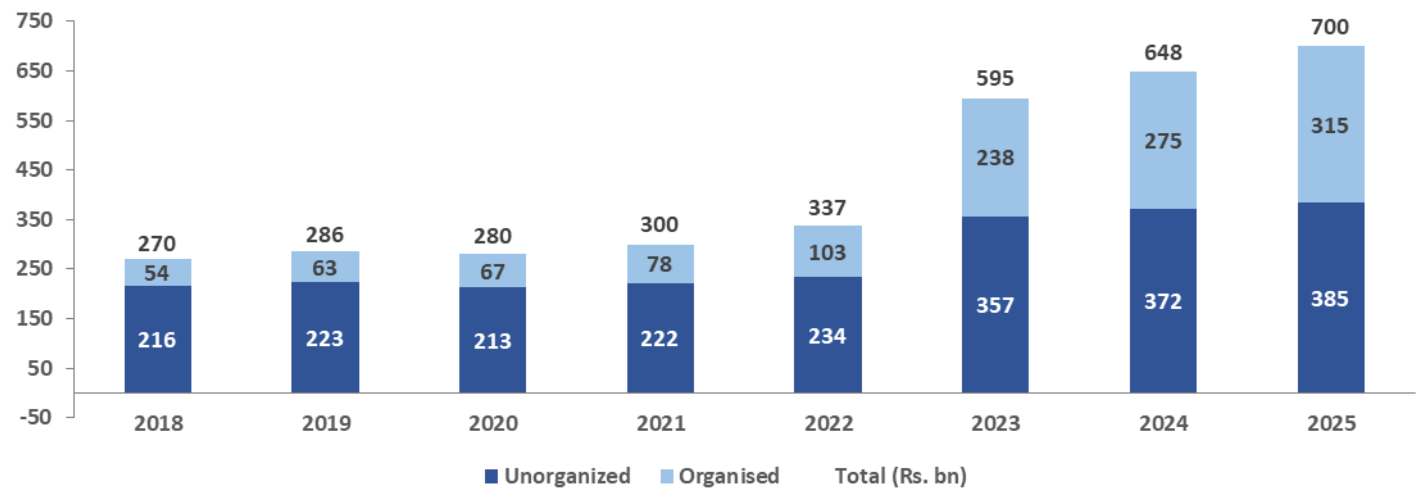
- Firstly, the world's decreasing dependence on China as a primary supplier of tiles disrupted the traditional supply chains.
- The trade war with the USA led to redirection of imports to alternative sources, most notably Morbi in India, which emerged as a formidable competitor.
 - Easy availability of large tracts of land for establishing huge factories,
 - Availability of skilled labour, access to bank loans, investment support from state as well as central government.
 - Abundant supply of raw materials, high-quality raw materials, access to the seaports of Kandla & Mundra, paving the way for exports
 - Adequate power supply & industrial gas lines and easy accessibility to nearby cities of Ahmedabad (230 kms), Rajkot (65 kms) and Wankaner (30 kms) are some of the factors that contributed to Morbi becoming an export hub.

- Internally, China grappled with a whole host of issues such as labour shortages, increasing production costs and stricter visa regulations for foreign buyers. Unlike Morbi, which has a centralized and efficient tiles manufacturing cluster,
- China's industry is fragmented across three main regions (over 1,000+ ceramics tiles suppliers spread across Guangdong, Fujian, Shandong and Jiangxi provinces), causing inefficiencies in production as well as distribution.
- Furthermore, buyers find it challenging to secure tiles at competitive prices, impacting the industry's overall competitiveness globally. These challenges faced by the Chinese tiles industry in the post-COVID era have significantly shifted demand to Morbi.
- Morbi's embrace of the latest manufacturing technologies has led to more efficient production processes, resulting in lower cost of production. Additionally, Morbi benefits from a centralized cluster of tiles manufacturers, fostering collaboration, innovation, and economies of scale, which Chinese tiles-producing regions lack due to their fragmentation across three regions.
- In parallel, the ceramic tiles production is witnessing a notable shift towards adoption of digital inkjet printing technology for tiles decoration. This new technology is gaining traction and further advancements in print head design & ink formulation are anticipated to deepen its penetration in the market over the foreseeable future. This innovation not only augments the aesthetic appeal of ceramic tiles but also presents opportunities for cost-effective and customizable designs, aligning well with evolving consumer preferences and market dynamics.

Indian Tiles Industry:

Indian tiles industry has demonstrated strong growth:

Exhibit 2: Market Size of the Indian Tiles Industry (Rs Bn)

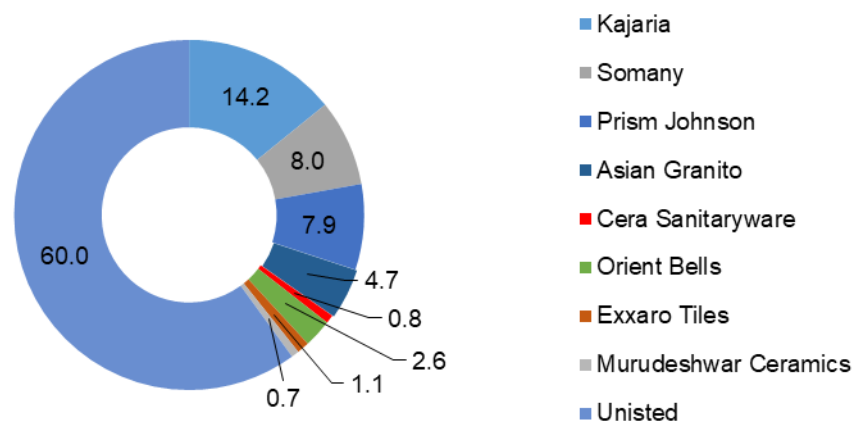


Source: Nirmal Bang Institutional Equities Research, ICCTAS, Company sources

The Indian tiles market size increased from Rs270bn in 2018 to Rs595bn in 2023, recording a CAGR of 17%. We expect the domestic tiles industry to grow by 9%/8% in FY24/FY25. Growth should accelerate on the back of a pick-up in home sales, rapid urbanization, rising discretionary income and growing preference towards tiles for flooring. In the domestic market, the organized sector has demonstrated strong FY18-FY23 CAGR of 35% while the unorganized sector has expanded by 12%. Going forward, the organized sector is expected to maintain robust growth at 15% CAGR until 2025 while the unorganized sector is predicted to grow at a slower rate of 4%. Growth is primarily driven by leading organized players like Kajaria and Somany as well as export-oriented, unlisted companies like Simpolo, Qutone and Varmora, which are now intensifying their efforts to expand their presence in the domestic market through aggressive brand promotion and capturing market share from the unorganized players.

Kajaria leads Indian tiles industry in organized space with 14% market share:

Exhibit 3: Market Share (%) of Players in India



Source: Nirmal Bang Institutional Equities Research

In CY22, the organized tiles market stood at ~41%. Kajaria is the largest ceramic tiles manufacturer in India with ~14% of market share followed by Somany with 8.0% market share. The unorganized sector still accounts for 60% of India's total tiles market. However, a significant transformation is underway, with a shift towards the organized sector, driven by several key factors. Firstly, rapid urbanization and expanding middle-class population have led to a surge in demand for high-quality and visually appealing tiles. This has prompted consumers to gravitate towards organized retailers and trusted brands known for their product quality and reliability. Secondly, the implementation of GST has simplified tax structures and logistics, providing organized players with a more conducive environment for efficient and competitive operations. Thirdly, enhanced distribution networks and a sharp focus on customer-centric services have boosted the reach and visibility of organized tiles companies. As a result, the established organized tiles players are gaining market share while the unorganized players are facing challenges in meeting evolving consumer expectations and regulatory compliance. This trend is likely to continue going forward and we expect the unorganized sector's share to drop to 55% by FY25-end.

Key Cost Drivers:

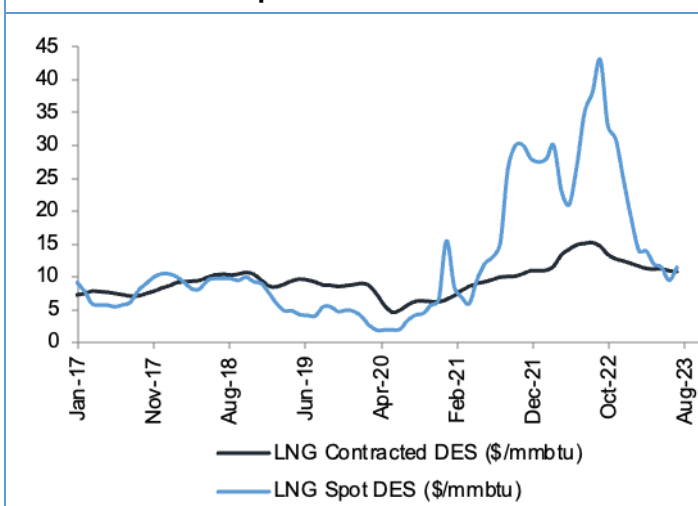
Natural Gas and Propane Gas rates in a downward spiral:

Natural Gas and Propane Gas play a pivotal role as a cost driver in the manufacturing of ceramic tiles. Natural Gas typically constitutes a substantial portion of ~10-12% of the total production costs for tiles and ceramic companies. As such, fluctuations in international gas prices can exert pressure on the margins of these companies.

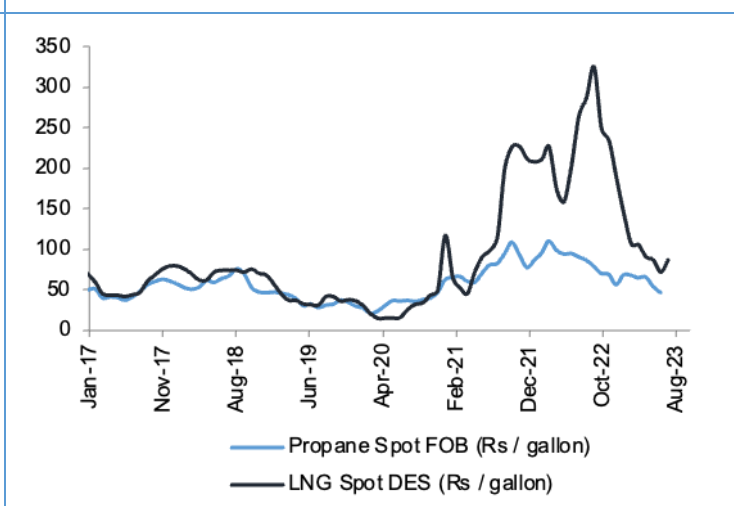
CY21 and CY22 witnessed a global trend where gas prices doubled, presenting a formidable challenge for India tiles business, especially those already operating on razor thin margins. The surge in gas prices posed a substantial cost burden, impacting the overall cost structure and profitability of tiles manufacturers.

However, there has been a notable shift in recent times. Gas prices have shown a cooling trend lately following their peak level of US\$43/mmbtu in September 2022. By August 2023, these prices have moderated to a more favorable level of US\$11.5/mmbtu. This decline in gas prices signifies a positive development for tiles companies, alleviating some of the cost pressures that had been eroding their margins in the past few years. It is likely to result in a more stable and potentially improved cost structure, contributing to the restoration of healthier profit margins for the industry.

Exhibit 4 & 5: Comparison of Gas Prices



Source: Index Mundi, Nirmal Bang Institutional Equities Research



Source: Index Mundi, Nirmal Bang Institutional Equities Research

Availability of raw materials is not a concern.

Sufficient clay available to support industrial expansion

China clay reserves/resources as per NMI data based on UNFC system as on April 1, 2015 have been placed at 2,941.24mn tonnes. The reserves constitute only ~8% of the resources at 229.47mn tonnes. Out of the total reserves, 61% (~140.46mn tonnes) is under proved category whereas 39% (89mn tonnes) reserves fall under probable category. The reserves/resources are spread over a number of states, of which Kerala holds ~23% followed by Rajasthan (19%), West Bengal (14%), Odisha (10%) and Karnataka (9%). Out of the total reserves/resources, ~26% or 771.42mn tonnes fall under Ceramic/Pottery grade, ~4% is classified under Chemical, Filler and Cement grades and ~70% or 2,039mn tonnes resources fall under Mixed Grade, Others, Unclassified & Not-known categories (*Source: Indian Bureau of Mines 2019, Part- III: Mineral Reviews*)

Feldspar: Easy availability of Feldspar

In India, the availability of Feldspar mines (Rajasthan is the chief producer of Feldspar in the country, accounting for ~66% of the total. The mineral is found in association with mica-bearing pegmatites) has played a pivotal role in sustaining the robust growth of the tiles manufacturing industry, particularly in the ceramic hub of Morbi, Gujarat. Feldspar, a key RM for tiles production, is abundant in various regions across the country. However, the proximity of Morbi to Feldspar-rich deposits in Rajasthan and Gujarat has conferred a strategic advantage to the local tiles manufacturing plants. This proximity not only ensures a steady supply of Feldspar but also helps in reducing transportation costs. As per our estimates, the cost of transporting Feldspar to manufacturing units in Morbi is Rs700/T, which is lower than the transportation cost in the Southern region (estimated at Rs2,000/T). This contributes to the overall cost-efficiency of the production process. Furthermore, the quality and consistency of Feldspar from these mines are instrumental in achieving the desired characteristics in tile glazes and ceramic bodies. As such, the symbiotic relationship between Feldspar mines in India and tiles manufacturing units, especially in Morbi, remains a critical factor in the continued success and competitiveness of the domestic tiles industry. The current Feldspar cost is Rs2,400/T in Aug'23. We expect the Feldspar cost to hover ~Rs2,400/T – Rs3,000/T.

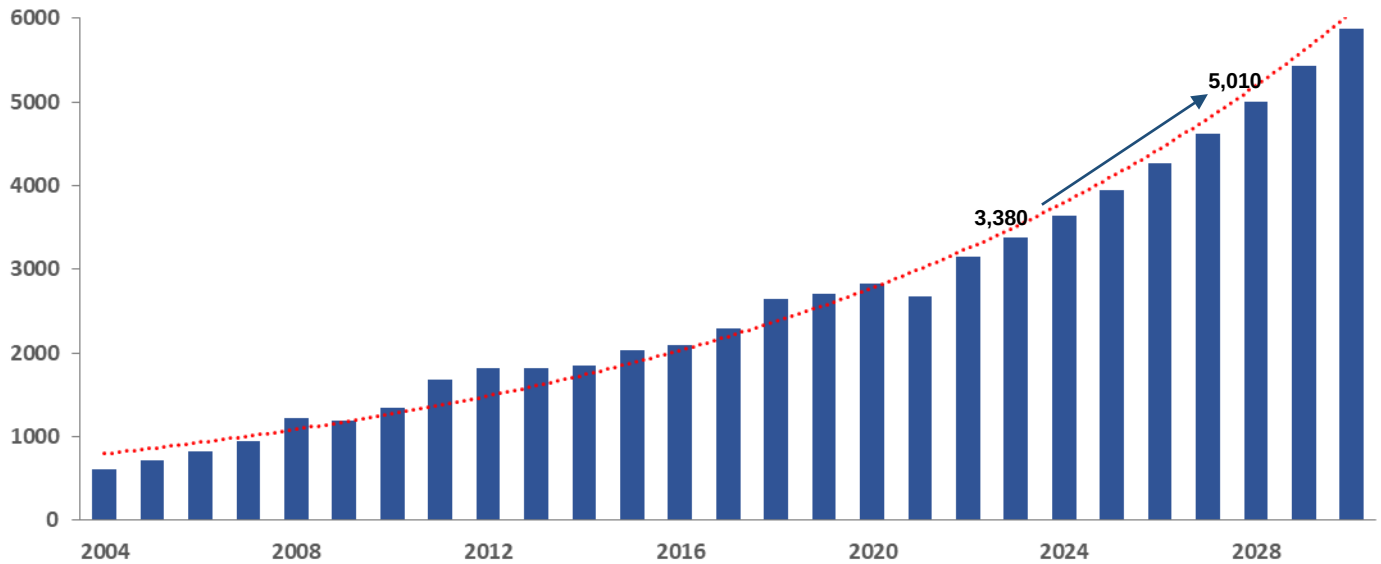
Exhibit 6: Feldspar Mines in India



Source: Map of India

Domestic Drivers of Indian Tiles Industry:

Exhibit 7: Indian GDP (\$bn) poised to cross US\$5,000Bn by 2028



Source: CEIC, Nirmal Bang Institutional Equities Research

India is among the world's fastest growing economies with estimated nominal GDP expected to cross US\$5,000Bn by 2028. Some of the major drivers of India's growth include:

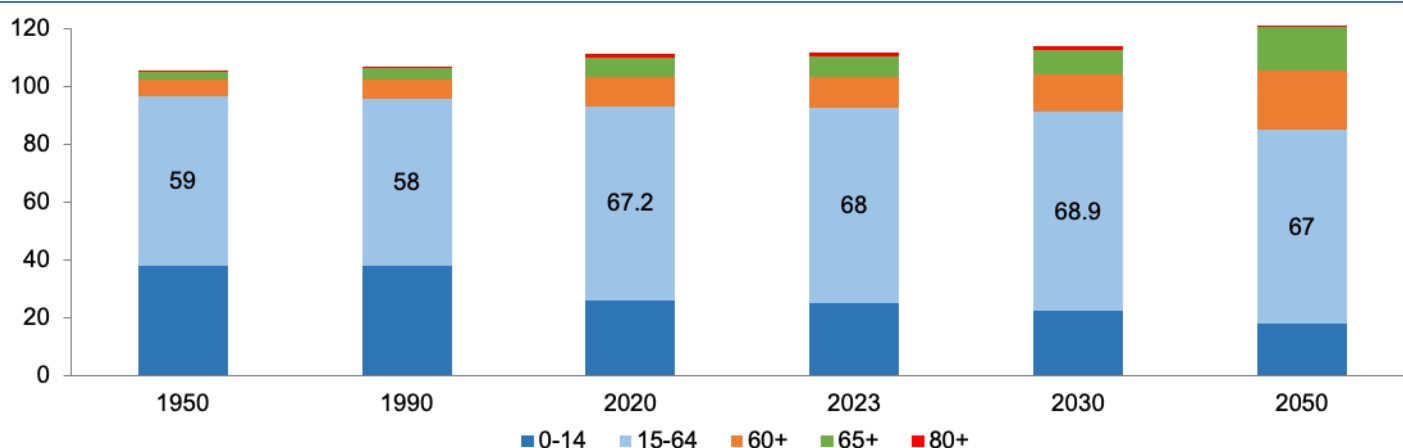
1. A young and growing population with a median age of 28 years, which brings along with it a larger pool of potential workers, ideas, innovation and efficiency.
2. A rising middle class population, which brings an influx of demand for housing in the range of Rs1.5-3cr. This means that these houses require a cheaper alternative to marble and rely mainly on tiles.
3. Increasing capex allocation towards infrastructure, manufacturing and services, which is in turn driving exports and foreign direct investments.
4. Growing digitalisation has enabled the tiles industry to simplify and ease the purchasing process for the consumer, improving the shopping experience at all touch points. The tiles manufacturers utilise their specialised software, Quicklook and other apps at their most remote Tile Boutiques to show customers various tiles combinations or other tiles layout.

Exhibit 8: The middle-class population is growing rapidly and will play a major role in India's growth

Class	Income Group (Rs.000) at 2021-2022 Prices	Population (million)			Population (%)			Annual Growth	
		2020-2021	2030-2031	2046-2047	2020-2021	2030-2031	2046-2047	2021-2031	2031-2047
Destitute	<125	196	79	25	14	5	2	-8.6	-6.9
Aspirer	125-500	732	568	184	51	37	11	-2.5	-6.8
Middle Class	500-3000	432	715	1015	31	47	61	5.2	2.2
Rich	>3000	56	169	437	4	11	26	11.7	6.1
Total		1416	1531	1661	100	100	100	8.1	8.5

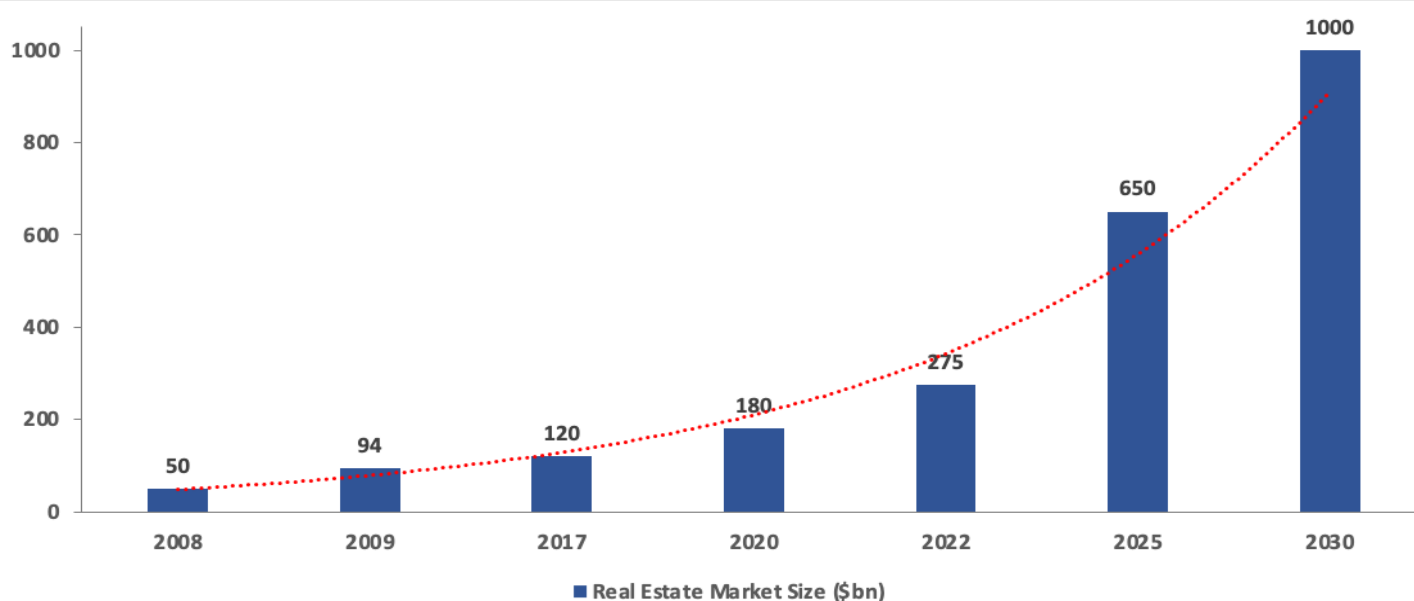
Source: PRICE, Nirmal Bang Institutional Equities Research

Exhibit 9: India has the greatest proportion of aspiring middle-aged population



Source: World Bank, Nirmal Bang Institutional Equities Research

Exhibit 10: Burgeoning Indian Real Estate industry

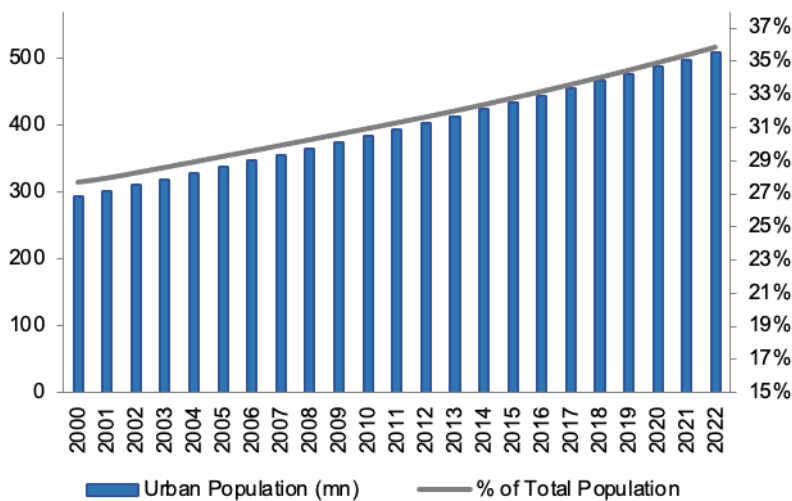


Source: Anarock, Nirmal Bang Institutional Equities Research

Real Estate contributed ~14% to India's GDP in 2023 and hence it doesn't come as a surprise that the RE industry is expected to grow at a ~9% CAGR during 2023-2028 (source: NBIE research, Anarock). This growth is being driven by several factors, including increasing urbanization, rising disposable incomes and government policies (like the Real Estate Act and the smart cities mission), creating a favourable environment for expansion.

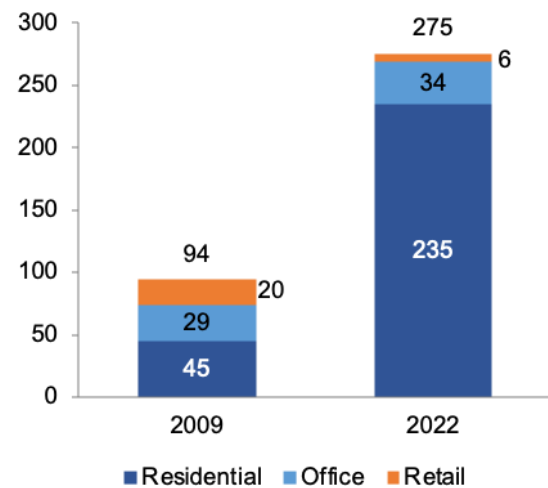
In 2009, 49% of the RE industry catered to residential projects while office projects accounted for 31% of the market and retail projects' share stood at 20%. In 2022, the scenario improved further in favour of residential projects with a share of 85% of the market while office and retail segments' share stood at 12% and 3%, respectively. This trend is expected to continue and is favourable for the tiles industry – most of the residential projects in India are expected to target the growing middle-class population, for which tiles is the major flooring of choice. Our research suggests that houses above Rs50mn tend to choose Italian marbles and other high-end luxury alternatives but their bathrooms are still adorned with tiles (source: NBIE industry interactions). However, a combination of ceramic and vitrified tiles is used in houses valued at Rs15-30mn. Technological developments such as tile-based kitchen tops and walls are also expected to be used in such residential projects and are slowly becoming a popular product among luxury consumers.

Exhibit 11: Housing requirement to grow in tandem with steady increase in urbanisation



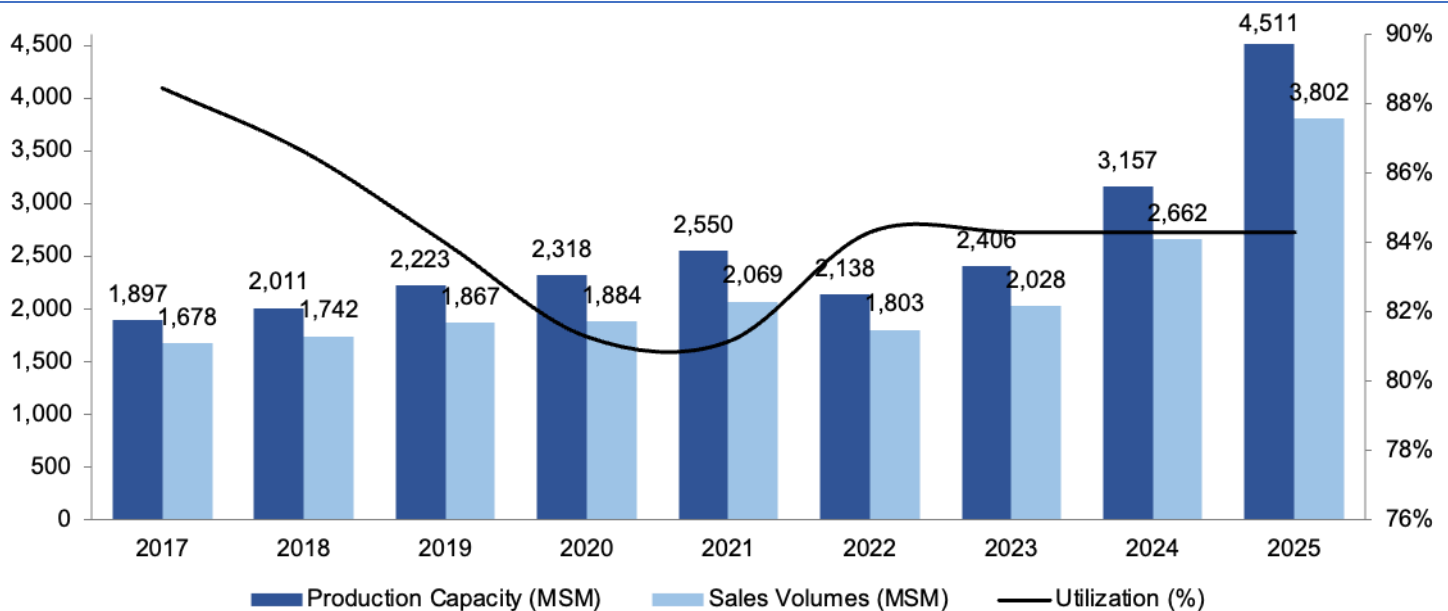
Source: World Bank, Nirmal Bang Institutional Equities Research

Exhibit 12: Breakdown of RE Market



Source: Anarock Nirmal Bang Institutional Equities Research

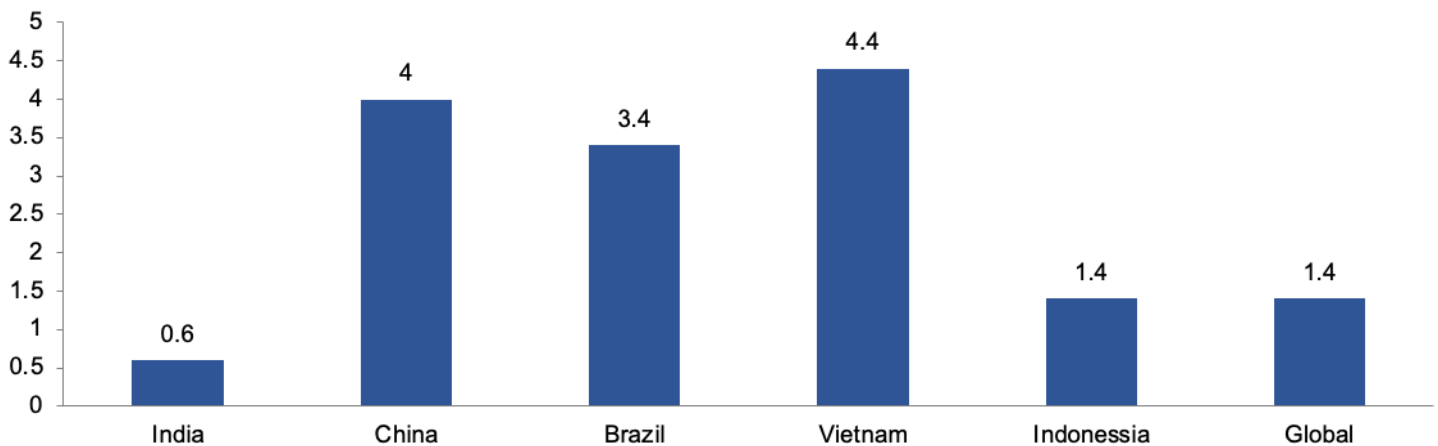
Exhibit 13: India is witnessing an increase in its production capacity and volume in the tiles industry



Source: Nirmal Bang Institutional Equities Research

The total production capacity for the Indian ceramic tiles industry is accepted to be more than 3.1bn sqm up until 2024, increasing at a CAGR of 8.6%, doubling since in 2012 and reaching 2.5bn sqm in 2021, it is estimated to have moderated due to soaring energy costs, which forced several Gujarat tiles producers to turn off their kilns for several months. However, the industry has more than 900 increasingly large and efficient production lines. According to estimates, India will reach a production volume of more than 3.8bn sqm by 2025, thereby maintaining growth rate of ~8%.

Exhibit 14: Per capita consumption of ceramic tiles (sqm) lowest in India among peers

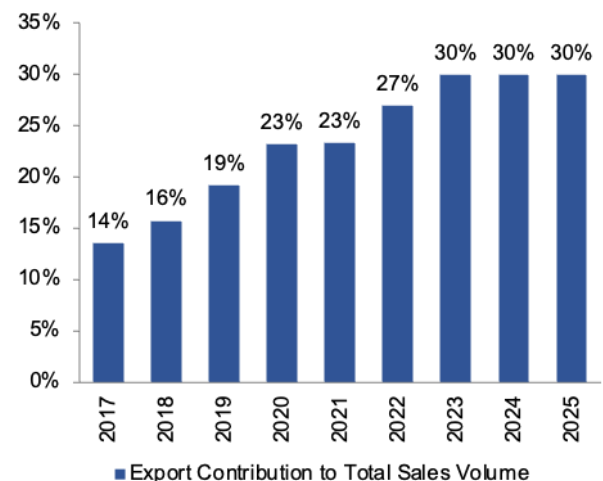
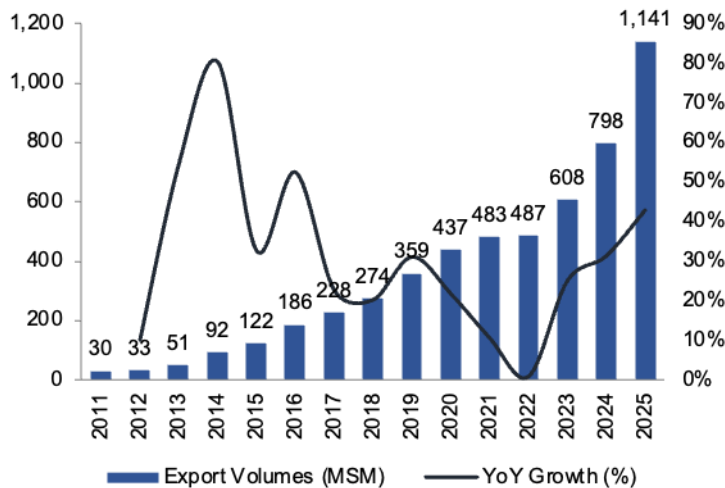


Source: Company, Nirmal Bang Institutional Equities Research

India currently holds one of the lowest per capita consumption rates of ceramic tiles, standing at just 0.6sqm, in stark contrast to the global average of 1.4sqm and China's impressive 4sqm. This low per capita consumption presents significant growth opportunities for the industry. Improvement in consumers' living standards, coupled with government initiatives like Smart City and Pradhan Mantri Awas Yojana are expected to serve as catalysts for driving industry growth.

Growth in Indian Tiles Exports:

Exhibit 15 & 16: Industry volume boosted by increasing exports



Source: Company, Nirmal Bang Institutional Equities Research

Source: Company, Nirmal Bang Institutional Equities Research

Domestic tiles demand absorbs ~70% of total output while exports are set to exceed 1bn sqm. Exports have witnessed dramatic growth in the last decade, increasing by 15x from just over 33MSM in 2012 to more than 487MSM in 2022.

This extraordinary development continued last year in 2022, with the export share estimated to have already reached 30% of total. Much will depend on the dynamism of the domestic construction market, where total investments increased by 18% in 2021 and 10.8% in 2022.

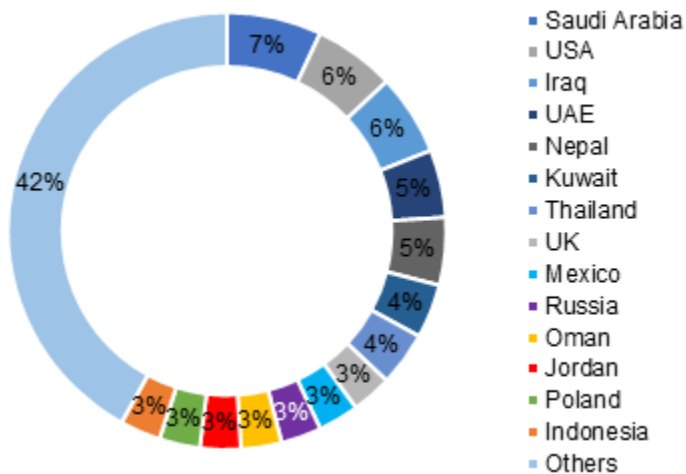
The Indian ceramic tiles industry exhibits a pronounced concentration, with Morbi in Gujarat contributing a significant 90% to India's overall production. As of CY23, India holds its position as the world's second-largest tiles producer, boasting a substantial market share of ~14% and

an impressive production of 2,550MSM. Additionally, India ranks as the second-largest consumer of ceramic tiles globally, commanding over 11% of the market share and consuming 2,069MSM annually, registering a notable 12.5% increase in consumption during CY21. Within this context, the Indian tiles industry's total value stands at ~Rs595bn in 2023, with exports constituting ~30% of the sector's revenue.

Over the past 4-5 years, the domestic ceramic tiles industry has encountered challenges, including a real estate slowdown, demonetization, implementation of the RERA, GST rollout, NBFC funding crisis and the impact of the COVID-19 pandemic. However, amidst these obstacles, exports have demonstrated a robust performance, with a remarkable 22% growth in volume in CY20. The sector's success in exports can be partially attributed to the "China+1" strategy, China's regulatory issues, China's fragmented tiles industry vs Morbi's strong cluster approach (which has led to increased reliance on Indian exports), accounting for over 30% of the industry's overall size. Notably, Indian ceramic tiles industry achieved an impressive 27% export volume CAGR over FY18-FY23, significantly outpacing the 9% CAGR observed in production. Concerns surrounding exports to GCC countries due to the imposition of anti-dumping duties in CY20 were alleviated by the opening of new markets in Europe and North America, driven by sentiments favoring non-Chinese sources. Indian ceramic tiles production and exports have grown at a healthy pace in the last three years even when global production declined.

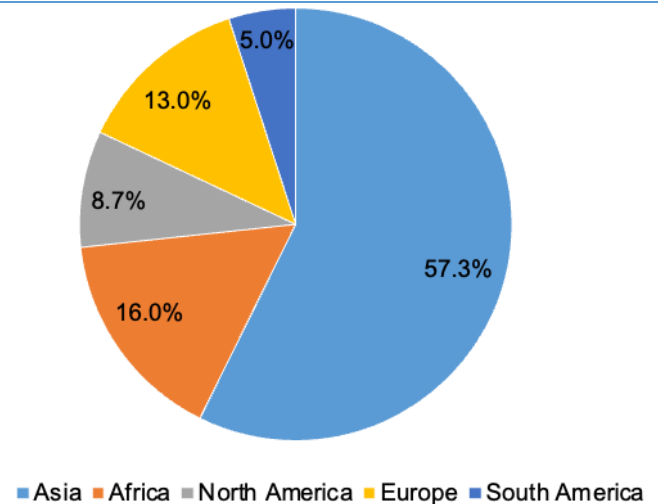
Tiles exports from India have seen substantial increase over the past few years, from Rs2.4bn in FY14 to Rs165bn in FY23 on the back India's cost competitive advantages in areas like energy and labor costs and the right manufacturing ecosystem built in and around Morbi. Going forward, we anticipate the share of exports in Morbi's total tiles sales to continue its upward trajectory, especially as any incremental capacity additions are likely to be export oriented.

Exhibit 17: Country-wise split of Indian exports



Source: Nirmal Bang Institutional Equities Research

Exhibit 18: Continent-wise split of Indian exports

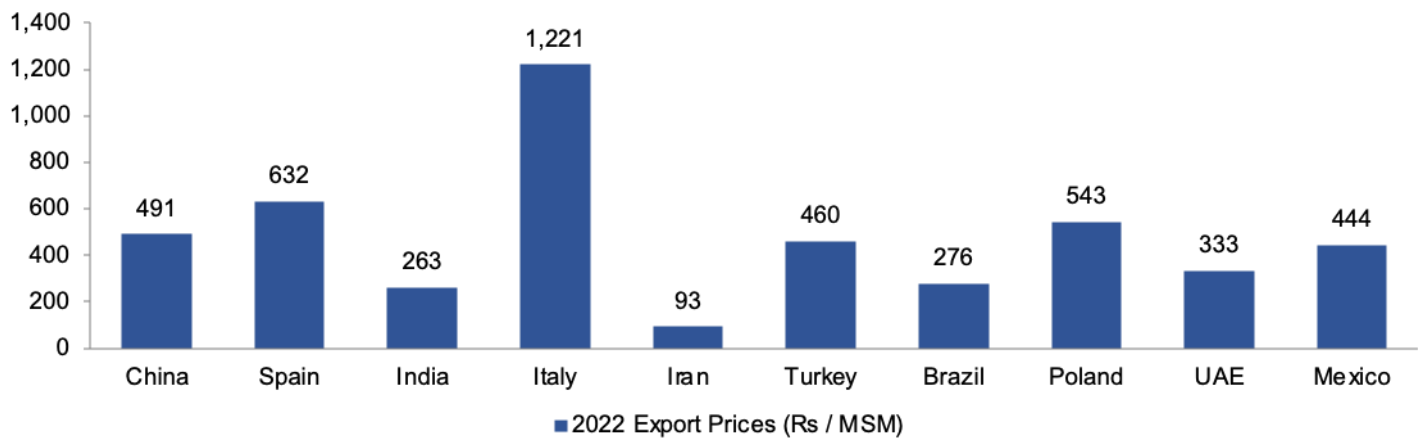


Source: Nirmal Bang Institutional Equities Research

In FY22, Saudi Arabia emerged as the primary importer of Indian tiles, with imports valued at Rs9.3bn, reflecting an impressive 20% growth. This surge in demand propelled Saudi Arabia to the top spot, displacing China from its previous position as the leading exporter. However, the dynamics of tiles exports evolved in FY23, with notable shifts in destination markets. Presently, the most prominent markets for Indian tiles exports include the US, Saudi Arabia and the UAE. In FY23, Indian tiles exports to the USA reached a substantial Rs11.93bn, representing a remarkable 28% growth over FY22.

Asian countries continue to be a dominant export destination, accounting for 57% of India's total exports. Africa follows close behind with a 16% share while Europe and North America each constitute 13% and 9% of India's tile exports, respectively. South America rounds out the distribution, comprising 5% of India's overall tiles export market.

Exhibit 19: India has a competitive advantage being among the lowest priced exporter of tiles

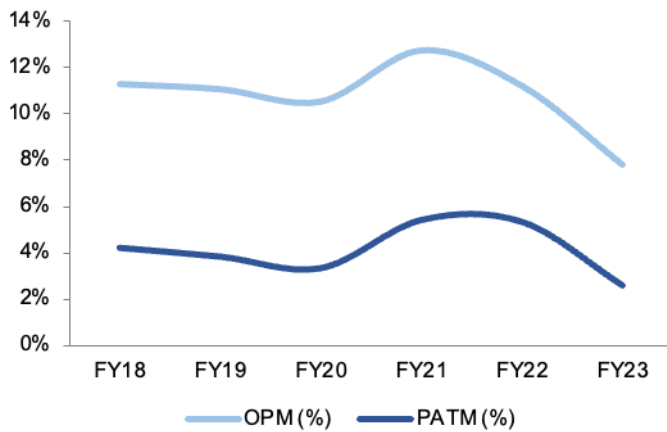


Source: Nirmal Bang Institutional Equities Research

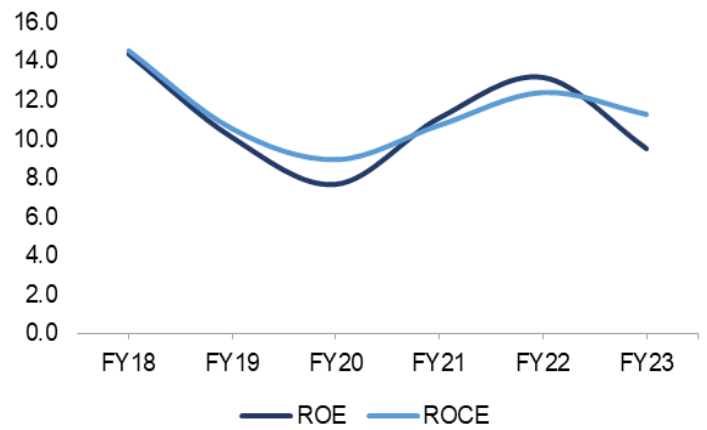
In CY22, highest MSM (Rs) was achieved by Italy at Rs1,221/MSM followed by Spain at Rs632/MSM. Their dominance in high realization can be attributed to a combination of historical industry expertise, design excellence, quality focus, global reach, branding efforts and relatively lower volume. India's realization in the exports market stood at an average of Rs263/MSM in CY22 as it is more of a volume player. This provides the Indian tiles manufacturers the opportunity to command a higher price in the international markets through effective branding, innovation and aesthetic designs.

The industry encountered substantial challenges during FY22-FY23, attributable to global economic turmoil and escalating energy costs precipitated by geopolitical conflicts. These macroeconomic factors imparted significant constraints on the ability of companies within the industry to pass on cost increases to customers, primarily due to stagnant demand. Consequently, industry-wide operating margin contracted from a robust 12.7% in FY21 to a more modest 8% in FY23.

Looking ahead to FY24, the industry is poised for a resurgence. Factors such as robust demand, lower energy costs (flexibility to switch from LNG to Propane as and when need arises), anticipated higher utilization rate, judicious management of fixed costs and a strategic shift towards a more substantial share of GVT (70%+) and value-added products are projected to improve margins across the board. These favorable factors collectively signal a promising trajectory for the industry, suggesting a potential return to and even surpass historical margin levels in FY24.

Exhibit 20: Average Industry Margins (FY18-FY23)


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Average Industry Return Ratios (FY18-FY23)


Source: Company, Nirmal Bang Institutional Equities Research

Peer Valuation Multiples (FY18-FY23)

The 5-year median P/E of tiles industry is at at 30.8x.

	FY18		FY20		FY23		Median (FY18-23)	
	P/E	EV/EBITDA	P/E	EV/EBITDA	P/E	EV/EBITDA	P/E	EV/EBITDA
Kajaria Ceramics Ltd	36.1	20.2	21.4	14.3	66.3	39.5	41.4	23.3
Somany Ceramics Ltd	43.2	17.2	29.4	7.1	23.0	13.4	35.6	14.9
Asian Granito India Ltd	41.3	12.2	16.5	7.5	3.0	5.8	13.2	6.6
Prism Johnson Ltd	77.5	17.2	60.5	5.6	39.4	18.9	41.4	13.6
Orient Bell Ltd	9.7	9.7	11.4	5.1	33.6	15.6	25.6	9.6
					Industry Median (FY18-23)		30.8	13.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 22: City-wise cost of average wall tilling in India as on FY23

City	Wall tiles	Cost of material	Labour charges	Grouting charges	Total cost per sq ft
Kolkata, West Bengal					
Tiles size up to 24X18"	65	35	45	25	170
Tiles size> 24X18"	100	45	55	25	225
Delhi NCR					
Tiles size up to 24X18"	70	45	50	30	195
Tiles size> 24X18"	115	50	60	30	255
Chandigarh					
Tiles size up to 24X18"	65	35	45	25	170
Tiles size> 24X18"	105	45	55	25	230
Lucknow, UP					
Tiles size up to 24X18"	60	35	40	30	165
Tiles size> 24X18"	110	45	55	25	235
Hyderabad, Telangana					
Tiles size up to 24X18"	70	35	45	25	175
Tiles size> 24X18"	115	45	55	25	240
Bangalore, Karnataka					
Tiles size up to 24X18"	75	35	45	25	180
Tiles size> 24X18"	120	55	45	25	245
Ahmedabad, Gujarat					
Tiles size up to 24X18"	55	35	45	25	160
Tiles size> 24X18"	105	45	55	25	230
Vadodara, Gujarat					
Tiles size up to 24X18"	55	35	45	25	160
Tiles size> 24X18"	105	45	55	25	230
Mumbai, Maharashtra					
Tiles size up to 24X18"	65	35	50	25	175
Tiles size> 24X18"	110	45	60	25	230

Source: Houseyog, Nirmal Bang Institutional Equities Research

Company Section

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Kajaria Ceramics

Tiles | Initiating Coverage

BUY

CMP: Rs1,330 | Target Price (TP): Rs1,885 | Upside: 42%

October 6, 2023

Capable and scalable

Investment Argument:

- Kajaria Ceramics (KAJARIACER.NS) is the largest manufacturer of ceramic/vitrified tiles in India and the 7th* largest in the world, with an annual capacity of 86.07 mn sq. meters. It has a portfolio of 2800+ SKUs of fast-moving products in all 3 categories.
- It is the market leader with an 11% share of the overall market and 25% share of the organized market with a distribution network of 1,840 dealers.
- We like the company due to its strong retail presence in the domestic market -Tier I, II, III & IV, 90%+ utilization levels, industry tailwinds and dominant market share in its respective categories. We believe that consistent supplies - 60% or more of its production caters to key commercial & residential projects - is the primary cause of the company's stable financials. We initiate coverage on Kajaria with a BUY rating and Rs1,885 target price (TP).

Industry tailwinds: Domestic tiles industry is estimated to grow at 10-12% CAGR during FY20-FY25 on account of increased traction in the Real Estate sector, rapid urbanization, shift in consumer preference and enhanced application of tiles in replacement and renovation projects. In addition, government support is likely to boost both domestic consumption as well as exports of tiles. Indian manufacturers have several favourable supply-side factors in the export markets, including technological advancement and low-cost labour.

Leading domestic player: Kajaria is the leading tiles company in India with well-established brands mainly all segments. Owing to the favourable macro environment and industry tailwinds, the domestic market alongside exports (maintain or incrementally increase – exports is 2% of total sales) will remain a key focus area for the company. Kajaria has a pan-India presence through 1,840 dealers with presence across Pan India and state-of-the-art showrooms. The company is planning to add ~150 dealers every year till 2026. It is consistently looking to increase geographical penetration in Tier III and Tier IV markets by leveraging on increased consumer awareness about price, brand and quality post implementation of GST for the sector. Kajaria is the major supplier to key commercial & residential projects.

Initiate with BUY: We initiate coverage on Kajaria with a BUY rating and a TP of Rs1,885, valuing it at 40x Sept'25E EPS. While the company's historical FY18-FY23 median forward PE ratio is ~41x, we assign a higher multiple due to: (1) industry tailwinds along with government initiatives to support tiles industry and (2) strong growth prospects in both domestic as well as export markets. 3) Increase in scale, better visibility and improving return ratios

Est Change	-
TP Change	-
Rating Change	-

Company Data and Valuation Summary

Reuters	KAJR.BO
Bloomberg	KJC IN Equity
Market Cap (Rsbn / US\$bn)	211.6 / 2.5
52 Wk H / L (Rs)	1,524 / 1,007
ADTV-3M (mn) (Rs / US\$)	364.6 / 4.4
Stock performance (%) 1M/6M/1yr	(9.9) / 25.8 / 12.0
Nifty 50 performance (%) 1M/6M/1yr	1.5 / 1.1 / 12.9

Shareholding	3QFY23	4QFY23	1QFY24
Promoters	47.5	47.5	47.5
DII's	24.5	26.2	25.2
FII's	18.6	16.9	18.0
Others	9.4	9.4	9.3
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Revenue	43,819	50,840	58,947	68,517
% Growth	18%	16%	16%	16%
EBITDA	5,920	7,589	9,694	12,274
EBITDA margin (%)	13.5%	14.9%	16.4%	17.9%
% growth	-3%	28%	28%	27%
Reported PAT	3,463	4,578	5,833	7,525
Adjusted PAT	3,464	4,558	5,813	7,505
APAT margin (%)	8%	9%	10%	11%
% growth	-8%	30%	27%	29%
RoE (%)	15.9	18.5	20.5	22.7
RoCE (%)	15.0	17.6	20.2	22.6
P/E (x)	66.3	51.1	40.1	31.1
EV/EBITDA (x)	39.5	30.3	23.6	18.4

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links :

[FY23 Annual Report](#) | [1QFY24Result](#)

Please refer to the disclaimer towards the end of the document.

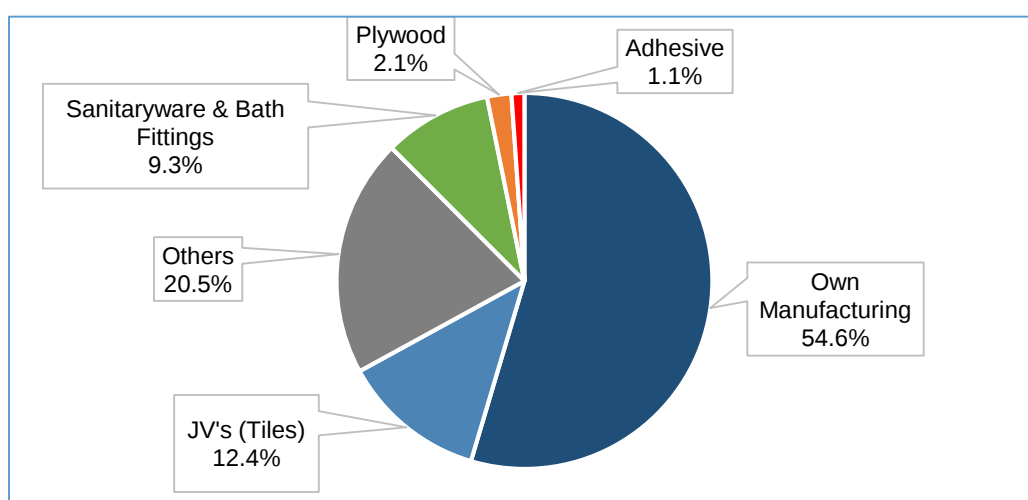
Company background

Kajaria Ceramics Ltd manufactures and sells ceramic and vitrified tiles, bathware, plywood and adhesives under the brands of Kajaria ceramics limited, Kerovit, Gresbond, and Kajaria Plywood in India. The company's products include ceramic wall & floor tiles, polished vitrified tiles, glazed vitrified tiles, sanitary ware & faucets and plywood & laminates besides tile adhesives, epoxy, non-sanded grout and tile cleaner. It also exports its products to ~35 countries.

The company has a well-established dealer network with 1,800+ dealers, including a net addition of 100+ dealers in FY23.

It has undertaken brownfield expansion at three different units, expanding its capacity from ~70MSM p.a. to ~83MSM in FY23. Its production capacity had remained stagnant from FY18 up until this expansion.

Exhibit 1: Revenue breakdown for FY23



Source: Company, Nirmal Bang Institutional Equities Research

History in India:

Kajaria was launched in 1985 by Ashok Kajaria in collaboration with Todagres of Spain (for transfer of technical know-how, training and assistance in setting up its plant). It was incorporated at Kanpur the same year. In 1988, the company set up its first plant at Sikandarabad in Uttar Pradesh.

Thereafter, it witnessed steady growth, taking the organic route to success, gradually increasing the number of plants and capacity over the years. Ashok Kajaria's sons joined him in the business in 2000. Around the same time, recognizing the shift in consumer preference from ceramic to vitrified tiles, Kajaria started importing vitrified tiles from countries like China, Italy and Spain and later it expanded its production capacity to meet domestic demand.

Key milestones of the company:

1988: Started production at Sikandrabad (UP) with 1 MSM p.a.

1998: Commissioned 2nd plant at Gailpur (Rajasthan) with a capacity of 6 MSM p.a.

2012: Kajaria Vitrified (formerly known as Jaxx Vatified Pvt Ltd) (95% stake), Morbi (Gujarat) : 8.90 MSM p.a.PVT

2012: Kajaria Infinity (formerly known as Cosa Ceramics Pvt Ltd) (stake increased from 51% to 77% during FY23), Morbi (Gujarat): 5.70 MSM p.a. GVT.

2016: Commissioned 3rd plant at Malootana (Rajasthan) with a capacity of 6.50 MSM p.a. of PVT.

2019: Commissioned 4th Plant at Srikalahasti (Andhra Pradesh) with a capacity of 5 MSM p.a. of GVT.

2022: Commissioned another unit at Kajaria Vitrified (Morbi, Gujarat) with a capacity of 4.40 MSM p.a. of PVT and sold one unit having capacity of 3.10 MSM p.a. in 2QFY23, total capacity changed to 8.90 MSM p.a.

2022: Commissioned another unit at Srikalahasti (Andhra Pradesh) with a capacity of 3.80 MSM p.a. of value added GVT, taking total capacity to 8.80 MSM p.a.

2022: Commissioned another unit at Gailpur (Rajasthan) with a capacity of 4.20 MSM p.a. of ceramic floor tiles, taking total capacity to 38.50 MSM p.a. (ceramic 29.40 MSM and GVT 9.10 MSM).

2022: South Asian Ceramics (51% stake acquired in July 22), Balanagar, (Telangana) :4.75 MSM p.a. ceramic wall & floor tiles.

Management Team

Mr. Ashok Kajaria, CMD

Mr. Ashok Kajaria is the founder Chairman and Managing Director (CMD) of the company. He holds a bachelor's in science (BSc.) and pursued engineering (BSME) at UCLA (California), USA. He has seen the rise of Kajaria Ceramics from what started as a 1MSM tile fledging in 1988 into industry leader and most respected tile brand in India.

Mr. Chetan Kajaria, Joint MD

Mr. Chetan Kajaria has a Bachelor in Petrochemical Engineering (B.E) degree from the Pune University and MBA degree from the Boston College, USA. He joined Kajaria Ceramics in 2000 and heads the Ceramic Tile vertical. He also oversees the group's acquisitions.

Mr. Rishi Kajaria, Joint MD

Mr. Rishi Kajaria holds a B.Sc. in Business Administration degree from Boston University, USA. He joined Kajaria Ceramics in 2003 and looks after the Vitrified Tile vertical and the Bathware business.

Exhibit 2: Plant capacity and product mix:

Plant Locations	Ceramic Tiles (MSM)	PVT (MSM)	GVT (MSM)	Total (MSM)
Sikandrabad, Uttar Pradesh	-	-	11	11
Gailpur, Rajasthan	31.32	-	9.1	40.42
Malootana, Rajasthan	-	6.5	-	6.5
Srikalahasti, Andhra Pradesh	-	-	8.8	8.8
Balanagar, Telangana	4.75	-	-	4.75
Morbi, Gujarat (2 Plants)	-	8.9	5.7	14.6
Total	36.07	15.4	34.6	86.07

Source: Company, Nirmal Bang Institutional Equities Research

Investment Argument:

Kajaria is capable, scalable and is well positioned to face challenges and leverage opportunities:

Kajaria has a tile production capacity of 86.07mn sqm/year, consisting of 32.3mn sqm of ceramic tiles produced in 2 factories in Rajasthan and Andhra Pradesh, 24.2mn sqm of polished vitrified tiles produced in 2 factories in Gujarat and Rajasthan and 26.3mn sqm of glazed vitrified tiles produced in 3 facilities in Rajasthan & Uttar Pradesh and Andhra Pradesh (South India). Kajaria distributes its products throughout India via a network of 1,800+ dealers. The group continues to maintain its focus on the domestic market (exports account for just 2% of volume). Against a backdrop of geopolitical uncertainties and high commodity prices, the company has posted its highest-ever sales volume of 101.71mn sqm (up 11% YoY) and 18% growth in revenue to more than Rs43bn in FY23. Focus will remain on increasing sales & marketing efforts, expanding dealer network and introducing new products. We continue to believe that the business momentum is going to be very strong on the back of increased traction in the government's push for infrastructure development, accelerated growth in the Real Estate sector, rapid urbanization, shift in consumer preference and increased application of tiles in replacement & renovation projects.

Revenue Break-up:

Exhibit 3: GVT share in revenue mix increasing.

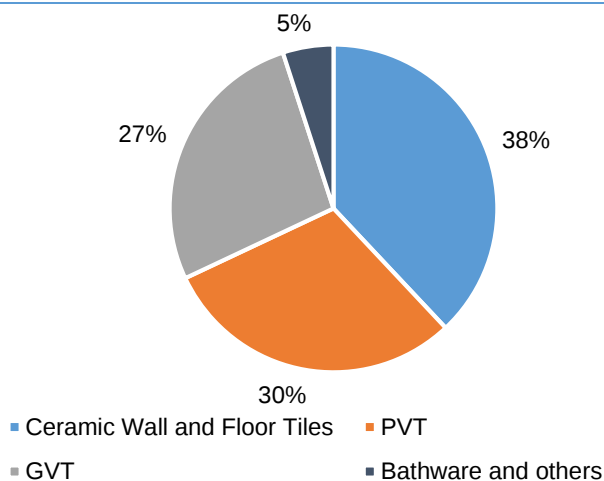
Revenue Break-up	FY2018		FY2023	
	% of Total	MSM	% of Total	MSM
Ceramic Wall and Floor Tiles	38%	34.7	36%	45.6
PVT (Polished Vitrified Tiles)	30%	22.74	25%	26.87
GVT (Glazed Vitrified Tiles)	27%	14.54	30%	29.23
Bathware and others	5%	-	7%	-

Source: Company, Nirmal Bang Institutional Equities Research

For Kajaria, revenue contribution from relatively lower-priced ceramic tiles has been declining from 38% in 2018 to 36% in 2023 as higher-priced GVT has increased its share from 27% to 30%. Additionally, Bathware has also increased its revenue contribution from 5% in FY18 to 7% in FY23 and is likely to remain close to the same range as per the management's view.

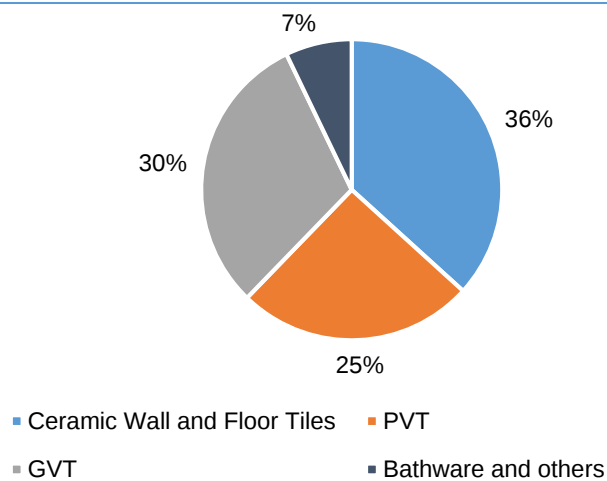
The same is reflected in the volume sales mix of Kajaria, which shows GVT share. GVT volume doubled in FY23 in comparison to FY18.

Exhibit 4: FY18 revenue breakdown by product



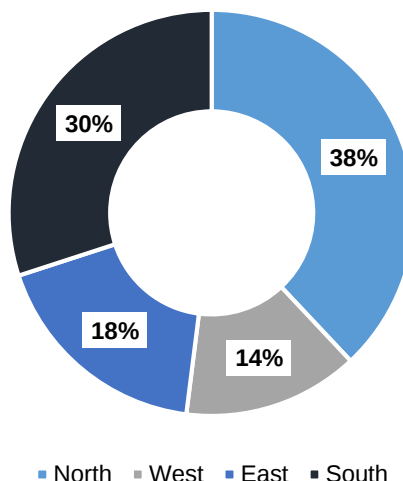
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: FY23 revenue breakdown by product



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: FY23 region-wise revenue break-up



Source: Company, Nirmal Bang Institutional Equities Research

In FY23, Kajaria generated much of its revenue from the Northern region, accounting for 38% of the total revenue followed by the Southern region at 30%, the Eastern region at 18% and the Western region contributing just 14%. Looking ahead, as the company expands its capacity in the northern region, it is poised to increase its share of the regional mix in total revenue. This expansion is expected to boost volume and contribute to higher price stability for the company.

Due to stiff competition from players in the Morbi region in the West, Kajaria is strategically focusing on expanding in other regions.

Higher volumes and lower costs to support margins:

In 1QFY24, Kajaria demonstrated an impressive expansion in its EBITDA margin, which increased by 67bps YoY, reaching 15.9%. This improvement can primarily be attributed to reduction in raw material costs, which decreased by 120bps YoY and power & fuel costs also saw reduction. As a result of these positive factors, Kajaria witnessed EBITDA growth of 10.2% YoY and PAT growth of 16.5% YoY. The company's EBITDA margin temporarily dipped below its historical average of 16.5% after FY22, primarily due to the impact of the Russia-Ukraine war and associated supply chain disruptions. In 1QFY24, the average gas cost was ~Rs39/scm, reflecting a 14% QoQ fall and remaining stable through Sept'23. In Morbi, the local gas prices stood at Rs45/scm. These developments have contributed to the anticipation of continued lower gas costs, which in turn are expected to facilitate return to normalized margins. The company's management has reiterated its guidance for FY24, targeting EBITDA margin of 14-16%. As we look forward, we expect Kajaria to witness further margin expansion. This optimism is based on the expectation of sustained lower gas prices and the company's strong volume growth performance, which should yield economies of scale. We project a margin improvement of 350bps by FY25-end.

Roadmap to grow by 15%+ during FY24-FY27:

To meet these growth targets, the company completed 3 brownfield expansions-modernizations worth a total of 12.4MSM/year. At Rajasthan (Gailpur) plant, additional line was added with a capacity of 4.2MSM of floor tiles; at the Andhra Pradesh (Sri Kalahasti) plant, the company commissioned 3.8MSM capacity of value-added glazed vitrified tiles; a further 4.4MSM capacity of polished porcelain stoneware was added at the Kajaria vitrified tiles plant in Gujarat (Morbi). The company acquired a 51% stake in South Asian Ceramics Pvt. Ltd. Telangana, which has an annual production capacity of 4.75MSM of ceramic floor tiles, to further strengthen its base in South India, taking the overall capacity to 86.07MSM.

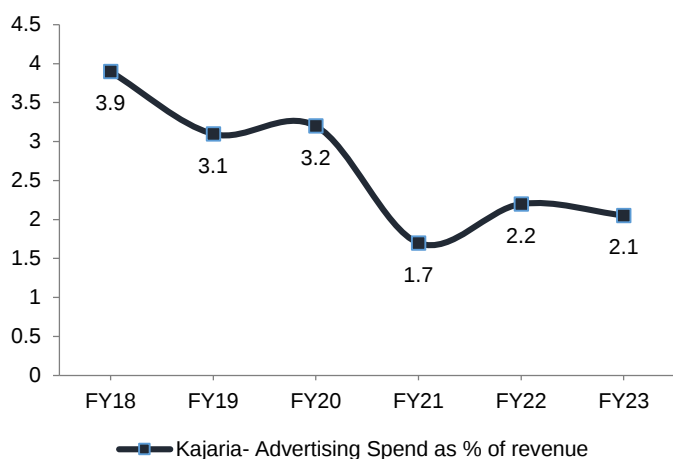
Kajaria boasts the highest brand recall among all ceramic companies in India:

The company has the highest brand recall among all ceramic companies in India. This distinction is the outcome of substantial investments in marketing, distribution and product innovation made over the past several years. Kajaria has successfully cultivated its brand recognition through a combination of factors, including a diverse product range, commitment to quality and consistent product availability.

The company dedicates ~2.1% of its total revenue to advertising & promotion, which is expected to remain consistent in FY24. This commitment to marketing activities underscores Kajaria's proactive approach to maintaining and enhancing its brand visibility and customer engagement.

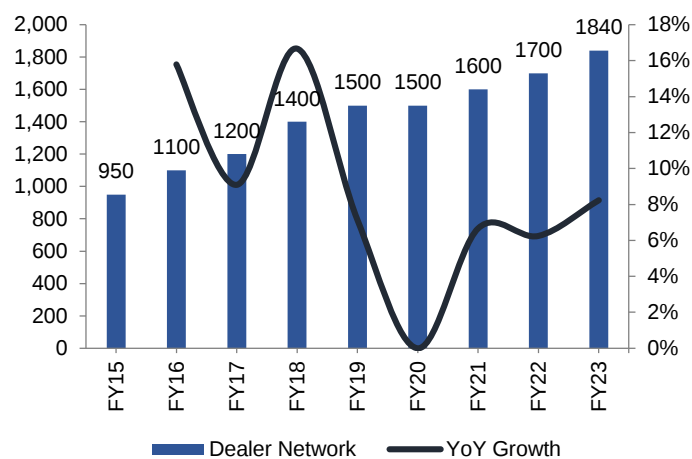
Kajaria has nurtured strong relationships with its dealers, yielding several advantages such as shorter receivable periods, prime shelf space and an exemplary level of customer service. As of FY23, Kajaria has a network of 1,840 dealers, which has been increasing at 7% CAGR in the last five years. This extensive dealer network further solidifies Kajaria's market presence and serves as a testament to the company's effective distribution strategies and customer-centric approach.

Exhibit 7: Advertising spend to remain stable in FY24



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 8: Dealer network grew at 5 year CAGR of 7%



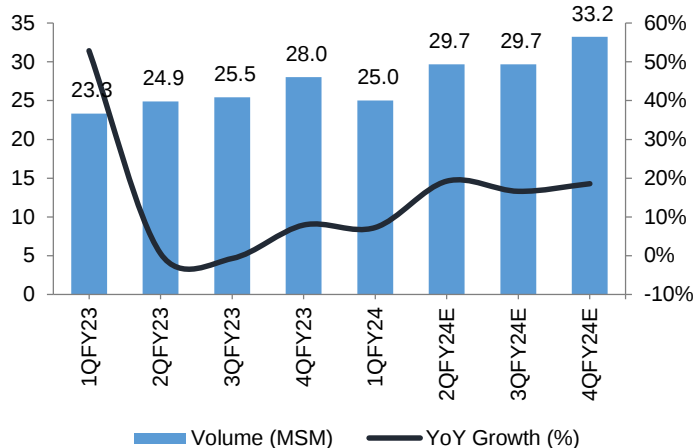
Source: Company, Nirmal Bang Institutional Equities Research

Strong capex on cards:

Kajaria has planned a capex of Rs3.7bn for FY24, which includes a capex of Rs900mn for a 5.1MSM capacity plant in Nepal, upgradation of Sikandrabad facility, maintenance capex of Rs300mn and others. The company has earmarked Rs500mn towards a new corporate office. By FY25-end, due to commissioning of the Nepal plant and the Sikandrabad facility, the total capacity can touch 89MSM from the current level of 86.07MSM.

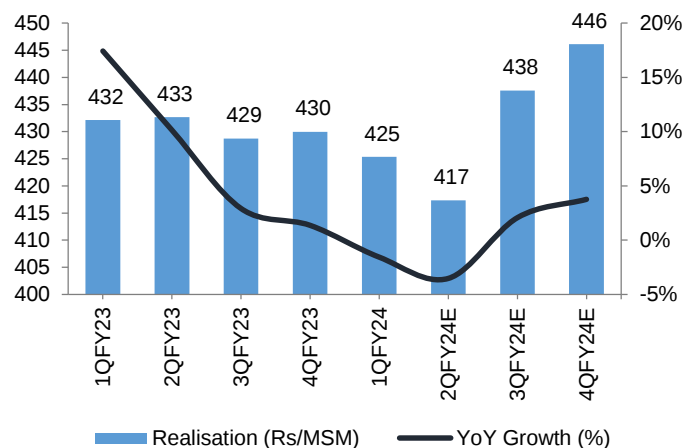
Exhibit 9: Kajaria's Key Performance Indicators

Exhibit 9: Volume to grow 16% YoY in FY24E



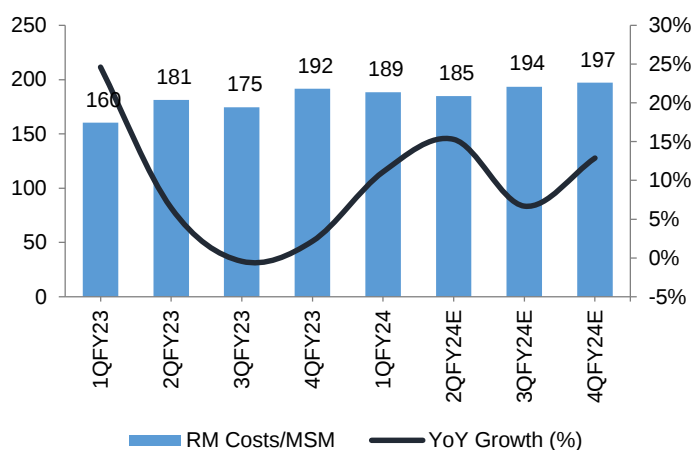
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: Average realisations to remain stable YoY in FY24E



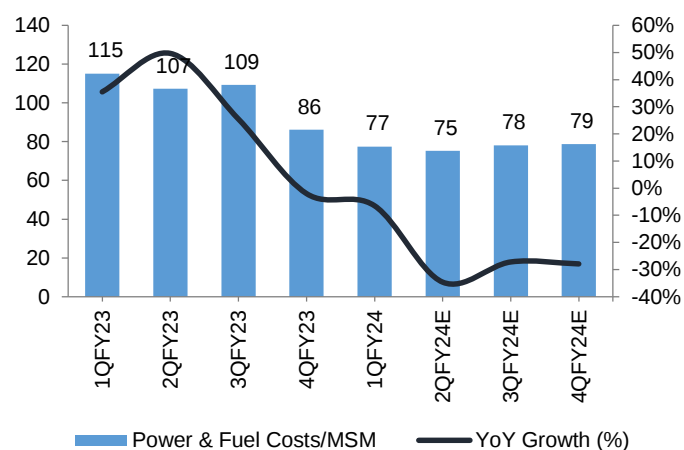
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Expect marginal increase in RM Cost by 8% YoY in FY24E



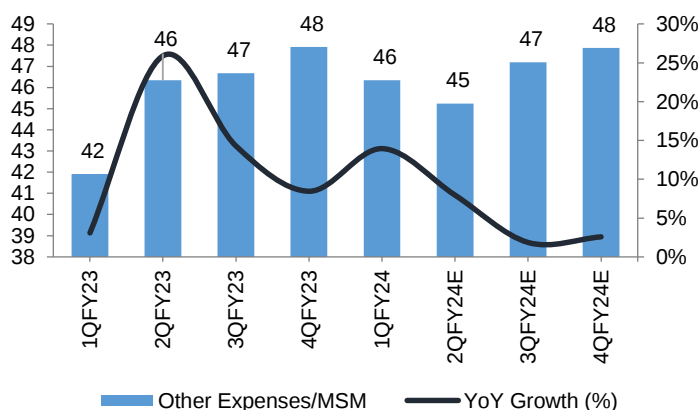
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: Power and fuel to remain stable in FY24E



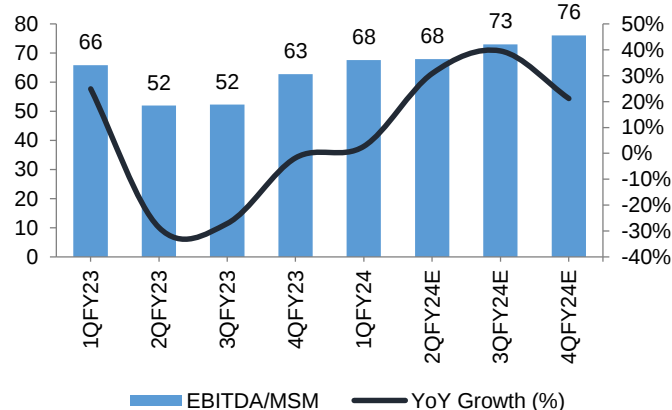
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Other Expenses to remain stable YoY in FY24E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Expect Strong growth of 20% in EBITDA/MSM by FY24E



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Gradual decline in receivable days, in line with industry average

Cash Conversion Cycle	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Receivable Days	43	59	59	52	57	51	50
Inventory Days	148	130	129	170	109	98	104
Payable Days	106	89	98	79	61	70	63
CCC	85	101	89	142	105	107	121

Source: Company, Nirmal Bang Institutional Equities Research

View and Valuation:

Kajaria continues to maintain its margin leadership position within the tiles industry, consistently outperforming its peers. Over the past half-decade, Kajaria has maintained an impressive EBITDA margin average of 16%, whereas, in contrast to the industry's average of 10.7%. Several key factors underpin Kajaria's superior margin performance, including a well-calibrated product mix, rural market reach, major supplier 60%+ of its production caters to key commercial & residential projects, high proportion of in-house produced tiles and technologically advanced manufacturing process.

Consistently operating at >90%+ capacity utilization levels, strong retail presence in the domestic market (exports account for only 2% of total volume), cost efficient operations and a robust balance sheet are key positives for Kajaria. With over 2800+ SKUs and 1,840-strong dealer network, direct sales and setting up of exclusive showrooms will only result in better margins. We expect healthy revenue growth during CY24-CY26E despite a high base. NBIE estimates 13-15% volume growth during FY24-FY26E, revenue growth of 16% and EBITDA growth of 30%. The company has historically traded at a 5-year median PE multiple of 41. Therefore, we initiate BUY rating on Kajaria with a TP of Rs1,885 based on 40x on Sept'25E EPS.

Exhibit 16: Valuation summary.

Particulars	(Rs mn)
September'25E EPS	47.1
Target multiple (x)	40.0
Target price (Rs)	1,885
CMP (Rs)	1,330
Upside / (downside) %	42%

Source: Company, Nirmal Bang Institutional Equities Research

Key Risks:
Volatility in Prices of Raw Materials

The company is not insulated to changes in global commodity prices, specifically fuel.

Regulations:

Unforeseen and stringent environmental and economic regulations may affect the company's operations and profit. Any sudden changes in regulatory requirements could create financial and operational challenges for the company, potentially leading to a decline in profitability. It is important for the company to stay vigilant and closely monitor any regulatory developments to proactively adapt its operations and strategies in response to changing market conditions.

Competition:

Kajaria's strength lies in its foothold in rural and remote areas. Consequently, NBIE believes that companies such as Simpolo, Varmora, Qutone, Colortile, and Sunheart, which currently export 90% of their production, do not pose an immediate threat in the current landscape. However, looking ahead, these companies are likely to pivot towards the domestic market with the aim of increasing market share and profit margins through organic or inorganic growth strategies.

Morbi provides an opportunity for consolidation as companies are setup (merged, demerged and shut down at a very rapid pace by the members of the same family. Thus, making production system highly fluid and flexible.

Macro Factors:

Pressure on pan-India residential housing market, leading to overall lower volume off-take for the industry.

Technological:

The company must consistently stay abreast of the latest technological advancements and developments to mitigate potential risks related to operational efficiency and enhance the quality of its products. Failure to do so could have adverse effects on its profitability.

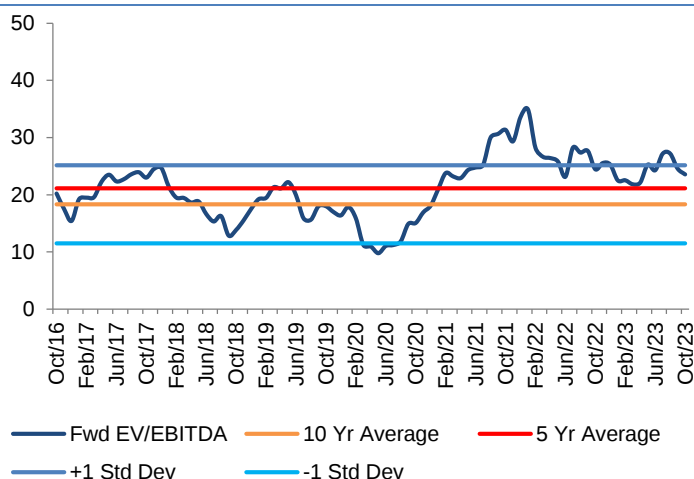
Inflation:

The company's operations may be impacted by inflationary pressures that cannot be passed on to consumers.

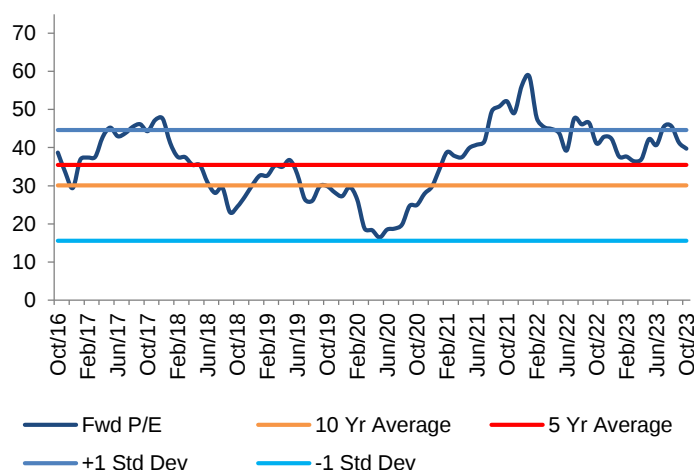
Brand Risk:

The company needs to build stronger visibility and brand equity in Tier I and Metro cities.

Exhibit 17: Rolling valuation charts



Source: Company, Nirmal Bang Institutional Equities Research



Source: Company, Nirmal Bang Institutional Equities Research

Kajaria's Financials

Exhibit 18: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	37,052	43,819	50,840	58,947	68,517
Raw Material Consumed	15551	18070	22497	25980	30077
Power & Fuel Cost	7590	10554	9104	10138	11317
Employee Cost	4077	4612	5342	5949	6641
Freight and forwarding	579	763	813	943	1096
Other expenses	3148	3899	5494	6243	7111
Total Expenditure	30945	37899	43251	49253	56243
Operating profit	6,107	5,920	7,589	9,694	12,274
Operating profit margin (%)	16%	14%	15%	16%	18%
Other Income	276	336	353	346	340
Interest	127	223	262	251	242
Depreciation	1,154	1,329	1,464	1,698	1,973
PBT	5,102	4,704	6,216	8,091	10,399
Tax	1,274	1,163	1,638	2,259	2,874
Tax rate (%)	25%	25%	26%	28%	28%
Exceptional Items Post Tax	0	-79.1	0	0	0
PAT exc. Minorities	3,827	3,463	4,578	5,833	7,525
Minorities	(10)	1	(20)	(20)	(20)
PAT	3,817	3,464	4,558	5,813	7,505
EPS (Rs)	24.1	22.2	28.9	36.8	47.4

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	159	159	159	159	159
Reserves and Surplus	21,065	23,109	26,327	30,424	35,706
Minorities	648	776	756	736	716
Networth	21,872	24,044	27,243	31,320	36,582
Debt	1,279	2,093	1,743	1,443	1,043
Deferred tax liability	726	738	738	738	738
Trade Payables	2,981	3,104	4,623	5,338	6,180
Other Current Liabilities	2,741	3,007	3,479	4,087	4,811
Provisions	259	293	293	293	293
Total Current Liabilities	5,981	6,403	8,395	9,718	11,284
Total liabilities	29,858	33,278	38,118	43,219	49,647
Net Block	11,411	14,139	14,304	15,263	16,757
CWIP	2,634	817	1,659	2,579	3,290
Investment	0	19	19	19	19
Goodwill	85	327	327	327	327
Inventories	4,659	5,647	6,907	7,834	9,069
Debtors	5,133	6,012	6,836	7,764	9,025
Cash and Bank	4,244	3,938	7,359	8,614	10,212
Other current assets	1,693	2,380	708	818	949
Total Current Assets	15,728	17,976	21,809	25,030	29,254
Total Assets	29,858	33,278	38,118	43,219	49,647

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19 Cash flow

Y/E June (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	5,102	4,704	6,216	8,091	10,399
Add: Depreciation & Impairment	1,154	1,329	1,464	1,698	1,973
Less: Interest Income	(249)	(269)	(353)	(346)	(340)
Add: Interest Exp	127	223	262	251	242
Other Adjustments	27	83	-	-	-
Cash flow from operations b4 WC	6,161	6,071	7,589	9,694	12,274
Net change in Working capital	(621)	(1,851)	1,580	(642)	(1,061)
Tax paid	(1,285)	(1,265)	(1,638)	(2,259)	(2,874)
Net cash from operations	4,256	2,955	7,531	6,794	8,340
Capital expenditure	(2,687)	(2,317)	(2,500)	(3,500)	(4,000)
Sale of Fixed Assets	53	235	-	-	-
Changes in investments	51	(20)	-	-	-
Loans to related parties	-	61	-	-	-
Deposits & interest accrued	-	338	-	-	-
Interest & other income	215	270	353	346	340
Others	(611)	(404)	29	(78)	(177)
Net cash from investing	(2,979)	(1,837)	(2,119)	(3,232)	(3,837)
Issue of shares	52	12	-	-	-
Proceeds from / (repayments) of debt	281	427	(350)	(300)	(400)
Dividends Paid incl tax	(1,273)	(1,433)	(1,379)	(1,756)	(2,264)
Interest paid	(92)	(166)	(262)	(251)	(242)
Others	(169)	(189)	(0)	-	(0)
Net cash from financing	(1,201)	(1,348)	(1,991)	(2,307)	(2,905)
Net Cash	75	(230)	3,421	1,255	1,597
Opening Cash	4,169	4,168	3,938	7,359	8,614
Closing Cash	4,244	3,938	7,359	8,614	10,212

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 21: Key ratios

Y/E June	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)					
Sales	33.2	18.3	16.0	15.9	16.2
Operating Profits	20.0	-3.1	28.2	27.7	26.6
Net Profits	23.9	-9.3	31.6	27.5	29.1
Leverage (x)					
Net Debt: Equity	-0.1	-0.1	-0.2	-0.2	-0.3
Interest Cover(x)	38.9	20.6	23.4	31.9	42.6
Total Debt/EBITDA	0.2	0.4	0.2	0.1	0.1
Profitability (%)					
OPM	16.5	13.5	14.9	16.4	17.9
NPM	10.3	7.9	9.0	9.9	11.0
ROE	19.2	15.9	18.5	20.5	22.7
ROCE	18.0	15.0	17.6	20.2	22.6
Turnover ratios (x)					
Inventory Days	98	104	102	104	103
Debtors Days	51	50	49	48	48
WC days	107	121	96	97	96
Valuation (x)					
P/E	61.2	66.3	51.1	40.1	31.1
P/B	11.1	10.1	8.9	7.7	6.5
EV/EBIDTA	38.1	39.5	30.3	23.6	18.4

Source: Company, Nirmal Bang Institutional Equities Research

Somany Ceramics Limited

Tiles | Initiating Coverage

BUY

CMP: Rs700 | Target Price (TP): Rs1,072 | Upside: 53%

October 6, 2023

Tiles ahead of competition

Investment Rationale:

- Somany Ceramics is India's 2nd largest tiles company with a market share of 8.0% (14% of organized share). Over FY16-FY23, it reported revenue CAGR of 20%. As of FY23, the company has a dealer network of 3,000+ dealers with ~12,000 touchpoints and ~450 exclusive showrooms across India. The company aims to expand its reach to Tier-II, III and IV cities amid rapid urbanization through enhanced branding & marketing activities.
- Somany is currently present in 70 countries, primarily in Europe, Africa and the Middle East, with exports accounting for 4-5% of total revenue.
- The company aims to grow steadily in foreign markets by leveraging on its quality, product innovation and reliability. We like the company for its strong domestic presence given the favourable industry tailwinds, growing export opportunity and robust financials. We initiate coverage on Somany with BUY rating and a target price (TP) of Rs1,072.

Growing from strength to strength: The company is focused on enhancing its production capabilities, strengthening its supply chain and meeting the evolving demands of its customers. By establishing a strong presence in Tier-2, Tier-3 & below cities across India, it aims to tap into new markets and serve a wider customer base. Additionally, the company's commitment to technological upgradation ensures that it stays ahead of competition, delivers innovative solutions and meets the expectations of the modern Indian consumer.

Strong domestic presence: A comprehensive product range, innovative products, aggressive brand spends and an extensive distribution network have stood Somany in good stead over the years.

Expanding exports business: Somany has a good presence in the export markets as well with products being sold across >70 countries. It is further looking to leverage its strengths to enter more geographies over the long term. Moreover, it will look to benefit from the 'China +1' strategy in the Developed Markets (DM). We expect the exports business to grow at a CAGR of 15%+ over FY24-FY25E.

Initiate with BUY: We expect revenue to grow at 13.9% CAGR over FY23-FY26E with EBITDA/PAT CAGR of 26.4%/47.4%. EBITDA margin is expected to remain in the vicinity of 9-11%. We expect RoE/RoCE of 17.5%/19.2% in FY26E. We initiate coverage on Somany with a BUY rating and TP of Rs1,072 based on 22x Sept'25E EPS.

Est Change	-
TP Change	-
Rating Change	-

Company Data and Valuation Summary

Reuters	SOCE.BO
Bloomberg	SOMC IN Equity
Mkt Cap (Rsbn/US\$mn)	30.2 / 362.7
52 Wk H / L (Rs)	819 / 446
ADTV-3M (mn) (Rs/US\$)	72.2 / 0.9
Stock performance (%) 1M/6M/1yr	(3.7) / 47.8 / 29.2
Nifty 50 performance (%) 1M/6M/1yr	1.5 / 1.1 / 12.9

Shareholding	3QFY23	4QFY23	1QFY24
Promoters	54.8	54.8	54.8
DII's	21.5	22.0	21.9
FII's	1.7	1.4	1.6
Others	22.0	21.8	21.7
Pro pledge	0.0	0.0	0.0

Financial and Valuation Summary

Particulars (Rsmn)	FY23	FY24E	FY25E	FY26E
Revenue	24,785	28,449	33,027	36,579
% Growth	18%	15%	16%	11%
EBITDA	1,887	2,559	3,265	3,807
EBITDA margin (%)	7.6%	9.0%	9.9%	10.4%
% growth	-9%	36%	28%	17%
Reported PAT	669	1,086	1,725	2,142
Adjusted PAT	664	1,086	1,725	2,142
APAT margin (%)	3%	4%	5%	6%
% growth	-29%	64%	59%	24%
RoE (%)	8.2	12.1	16.6	17.5
RoCE (%)	9.1	12.8	17.0	19.2
P/E (x)	44.9	27.4	17.2	13.9
EV/EBITDA (x)	18.4	12.9	9.7	7.9

Source: Bloomberg, Company, Nirmal Bang Institutional Equities Research

Key Links-[Annual Report FY23](#) | [1QFY24 Result](#)

Please refer to the disclaimer towards the end of the document.

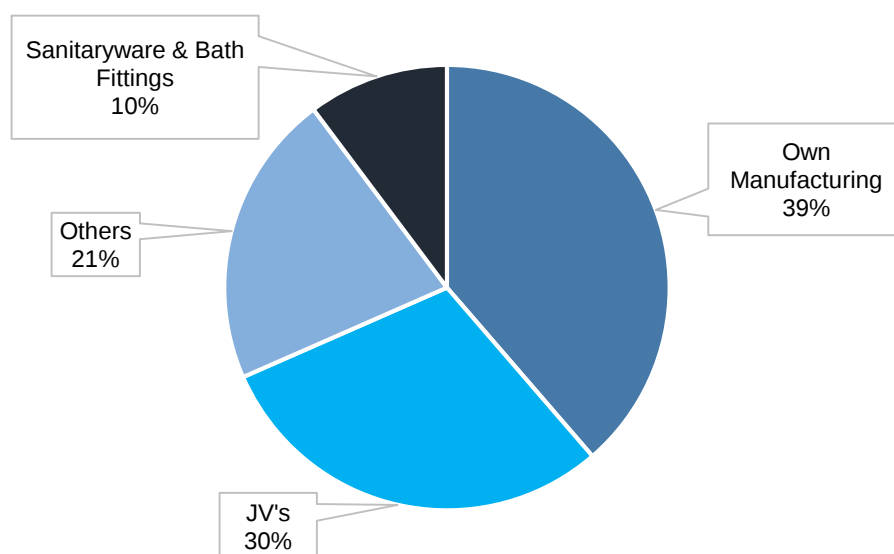
Company background

Somany Ceramics Ltd engages in the manufacture and sale of ceramic tiles and related products in India. It offers ceramic wall & floor tiles, polished vitrified tiles, glazed vitrified tiles, sanitaryware, bath fittings, adhesives as well as tile laying solutions. The company provides its products under the Somany Duragress, Somany Durastone, Somany Glostra, Somany Vistoso, Somany Vitro, Somany Slipshield, Somany VC Shield, Somany Signature and Somany French Collection brand names. It serves banks, corporates, defense, developers, educational institutions, hospitals, hotels, IT, malls, residential complexes and retail stores. The company also exports its products to ~70+ countries worldwide. It operates through a network of dealers and showrooms.

As of FY23, the company has a dealer network of 3,000+ dealers with ~12,000 touchpoints and ~450 exclusive showrooms across India. It aims to expand its reach to Tier-II, III and IV cities, fueled by rapid urbanization and enhanced branding & marketing activities.

The North Indian region is the strongest market for the company, accounting for 44% of its revenue followed by South (26%), East (18%), West (9%) while the balance 3% revenue comes from exports.

Exhibit 1: Revenue breakdown for FY23



Source: Company, Nirmal Bang Institutional Equities Research

History in India:

Somany was incorporated in 1968 in Kolkata, India by the Somany Group in collaboration with the UK-based Pilkington Tiles. The company's first manufacturing unit was set up in Kassar, Haryana in 1971. In 1981, Somany set up its second manufacturing unit in Kadi, Gujarat. In 1994, the Somany Group acquired the entire stake in Somany Ceramics from Pilkington Tiles. The company went public in 1995 and is now listed on the Bombay Stock Exchange (BSE).

Key milestones of the company:

1968: Founded by late Shri Hira Lall Somany in partnership with Pilkington Tile Holding (UK).

1971: Established the inaugural manufacturing facility of Somany Pilkington Limited in Kassar, Haryana.

2001: Established a new state-of-the-art floor tiles manufacturing plant at Kadi, equipped with advanced technology and a production capacity of 6,000 sqm/day.

2009: Obtained a patent for VC Shield, India's highest abrasion-resistant tile, a first in the industry.

2010: Established its first Glazed Vitrified Tiles manufacturing facility and expanded the Bathware vertical.

2014: Acquired a subsidiary and initiated the manufacturing of Sanitaryware.

2018: Acquired a subsidiary and started manufacturing bath fittings.

2019: Inaugurated first manufacturing facility in South India.

2022: Commissioned an expansion of 11 msm – the largest ever in the Company's existence. enhancing the Company's capabilities to meet the growing demand for high quality floor tiles.

Management Team

Mr. Shreekant Somany, Chairman and MD

Mr. Shreekant Somany, has exhibited exemplary leadership in establishing the brand as a prominent household name both in India and abroad. Under his astute guidance, the Company has emerged as a leading manufacturer of Tiles, Sanitary ware, and Bath fittings. Notably, he has pioneered a revolutionary 'VC SHIELD' technology, which has revolutionized the industry by significantly enhancing tile durability. This noteworthy achievement has made Somany Ceramics Limited the first Indian ceramic tile company to secure a patent under the Indian Patent Act. He has also contributed significantly to various industry bodies, holding esteemed positions such as Founder & Past Chairman of the Confederation of Construction Products and Services (CCPS), Past Chairman of Indian Council for Ceramic Tiles and Sanitary Ware (ICCTAS), and Past Chairman of the Confederation of Indian Industry Northern Region. Additionally, he served as the Past President of the Indian Ceramic Society and is an active member of the CII National Council. He also served as the Chairman of the CII National SME Council. He is presently the Chairman of CII Centre for Excellence for Competitiveness for SMEs.

Mr. Abhishek Somany, MD

Mr. Abhishek Somany –With extensive industry experience, he underwent training at Kanoria Chemicals in Uttar Pradesh and M/s. Pilkington Tiles in the UK between 1993- 1995. Joining Somany Ceramics Limited in 1995. He assumed the role of Executive Director before assuming the mantle of Managing Director. In his present capacity, Mr. Somany bears the weight of operational responsibility and oversees the day-to-day functioning of the Company. He also actively contributes to the strategic domains of product designing, sales, and marketing. Under his esteemed leadership, Somany Ceramics has achieved a prominent position in the industry, earning prestigious awards and global recognition. Mr. Somany's exceptional contributions were honoured with induction into the Power Brand Hall of Fame as a Corporate Leader of the Ceramics Industry (2011-2012).

Exhibit 2: Plant capacity (MSM):

Plant	Capacity (MSM)
Kassar, Haryana	23.32
Kadi, Gujarat	6.65
Somany Piastrelle Pvt Ltd	3.48
Sudha Somany Ceramics Pvt Ltd	7.08
Amora Tiles Pvt Ltd	6.3
Somany Fine Vitrified Pvt Ltd	4.29
Vintage Tile Pvt Ltd	4.8
Acer Granito Pvt Ltd	3.3
Vicon Ceramics Pvt Ltd	2.64

Source: Company, Nirmal Bang Institutional Equities Research

Investment Argument:

Somany is well positioned to leverage on domestic and export markets:

The company is focused on enhancing its production capabilities, strengthening its supply chain and meeting the evolving demands of its customers. By establishing a strong presence in Tier-2, Tier-3 & below cities across India, it aims to tap into new markets and serve a wider customer base. Additionally, the company's commitment to technological upgradation ensures that it stays ahead of competition, delivers innovative solutions and meets the expectations of the modern Indian consumer. Somany currently has a presence in 70 countries, mostly in Europe, Africa and the Middle East, with an export share of 4-5% of total turnover. It aims to grow steadily in overseas markets by leveraging on its quality, product innovation, reliability and strength.

Revenue Break-up:

Exhibit 3: GVT share in revenue mix increasing

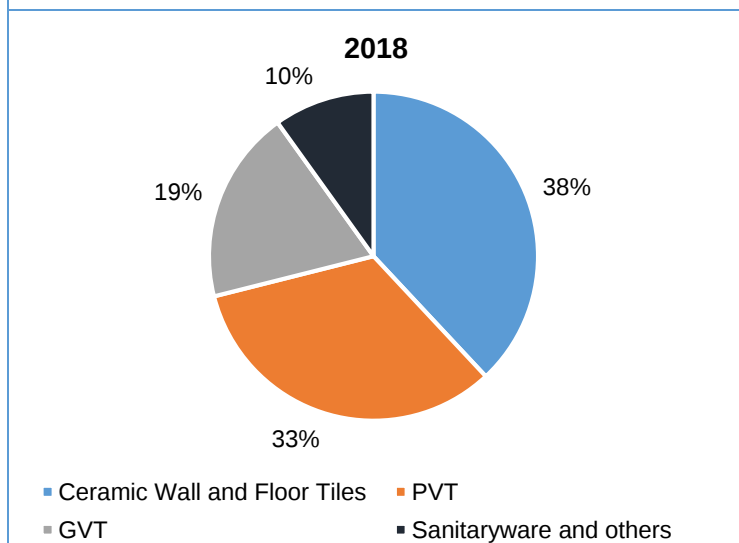
Revenue Break-up	FY2018	FY2023
	% of Total	% of Total
Ceramic Wall and Floor Tiles	38%	34%
PVT (Polished Vitrified Tiles)	33%	26%
GVT (Glazed Vitrified Tiles)	19%	29%
Sanitaryware and others	10%	11%

Source: Company, Nirmal Bang Institutional Equities Research

For Somany, revenue contribution from relatively lower-priced ceramic tiles has declined from 38% in 2018 to 34% in 2023 as higher-priced GVT share has increased from 19% in FY18 to 29% in FY23. Additionally, Sanitaryware & other Non-tile business has increased its revenue contribution from 10% in FY18 to 11% in FY23.

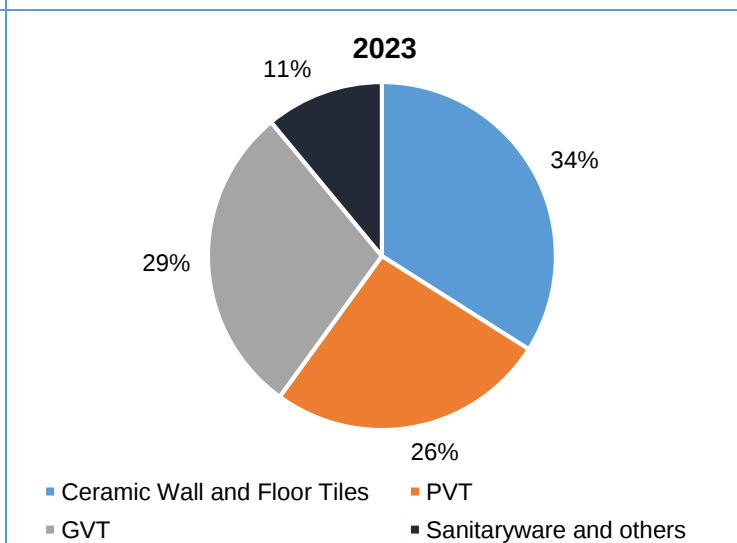
The same is reflected in the volume sales mix of Somany which shows in GVT share. GVT volume doubled in FY23 compared to FY18.

Exhibit 4: FY18 revenue breakdown by product



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: FY23 revenue breakdown by product



Source: Company, Nirmal Bang Institutional Equities Research

Positive Business Environment:

The government has also played an important role through schemes aimed at making the overall business environment more investment friendly. One of these schemes is the Production Linked Incentive (PLI) scheme, a 5-year multi-billion-dollar programme to boost growth of the country's industry in both domestic as well as export-oriented sectors. In light of this, NBIE is convinced that India has the potential to become the world's largest ceramic tile exporter over the next decade.

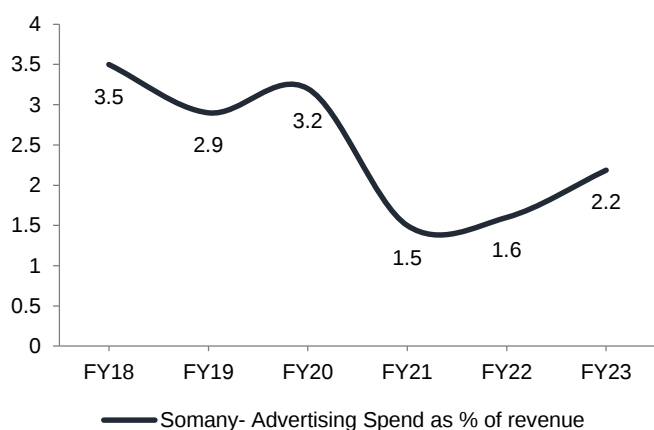
Stable EBITDA margin

In 1QFY24, Somany delivered a noteworthy improvement in its EBITDA margin, expanding by 59bps YoY to 8.6%. This positive trend was primarily attributed to a reduction in raw material expenses, which decreased by 97bps YoY. According to the management, the blended gas cost saw a decline of 9% QoQ in 1QFY24. This reduction, combined with enhanced capacity utilization, is expected to be a key driver of further margin enhancement in the coming quarters. The company's management has reaffirmed its guidance for FY24, aiming for an EBITDA margin of 9.5-10%. This target represents a significant improvement of 190bps over the 7.6% EBITDA margin achieved in FY23. This strategic goal underscores the management's confidence in the measures taken to optimize operational efficiency and cost management, leading to improved profitability and financial performance in FY24.

Somany's brand position & dealer network: Somany has embarked upon a determined journey to establish a robust brand presence and is positioning itself as a formidable competitor to industry leader Kajaria Ceramics. The company's strategic emphasis on branding is evident through its consistent increase in total advertising & promotion expenditure as a proportion of its revenue post the covid pandemic. Currently, this expenditure stands at 2.2% of revenue, mirroring the industry leader Kajaria's spends. The management has expressed its intent to allocate an even higher proportion of revenue to further enhance its brand positioning.

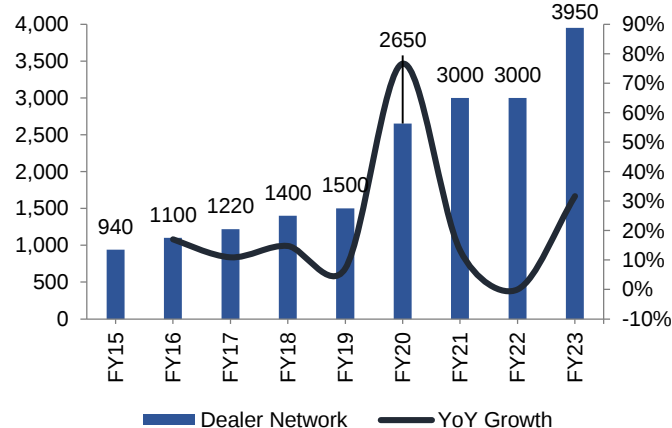
Another significant aspect of Somany's strategy is the aggressive expansion of its dealer network. The company has made remarkable strides in this regard, with the dealer network nearly tripling in size from FY17 to FY23, growing at an impressive 30% 5-year CAGR. As of FY23, Somany boasts a dealer network of 3,950. This extensive dealer network positions Somany as a leader in this aspect, with twice the number of dealers compared to its peer. However, revenue/dealer is relatively lower than Kajaria Ceramics due to low utilization levels. However this is expected to improve in the subsequent years as company scales to utilisation levels of 90%+. This vast reach allows Somany to tap into a wider market and ensure that its products are readily accessible by a broader customer base, strengthening its competitive edge in the industry.

Exhibit 6: Advertising spend increasing consistently



Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 7: Strong Dealer network growth of 2.6x in FY18-- FY23



Source: Company, Nirmal Bang Institutional Equities Research

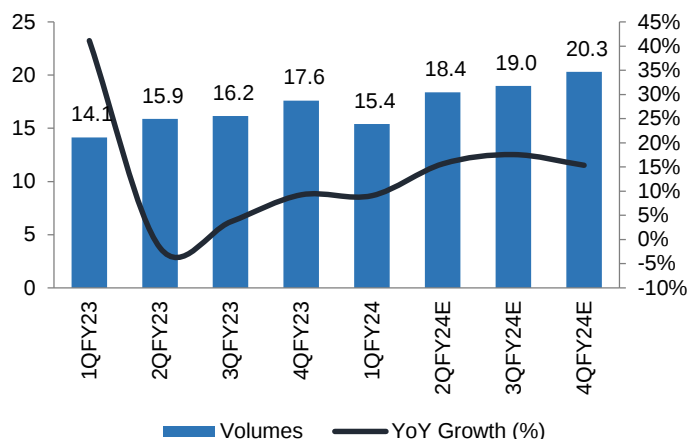
Strong brand presence underpinned by quality and efficiency:

The company has put in meaningful efforts to position itself prominently in the high-value-added segment. More specifically, the Somany Max project draws on Sacmi's experience with Continua+ solutions in India (over a dozen have been installed in recent years). These plants have clearly demonstrated an ability to combine high quality and performance with unmatched speed and fuel efficiency, crucial competitiveness factors in this market. This first investment in Continua+ by Somany thus unlocks the benefits of that experience and further strengthens the long-standing alliance between Somany and Sacmi, Italy.

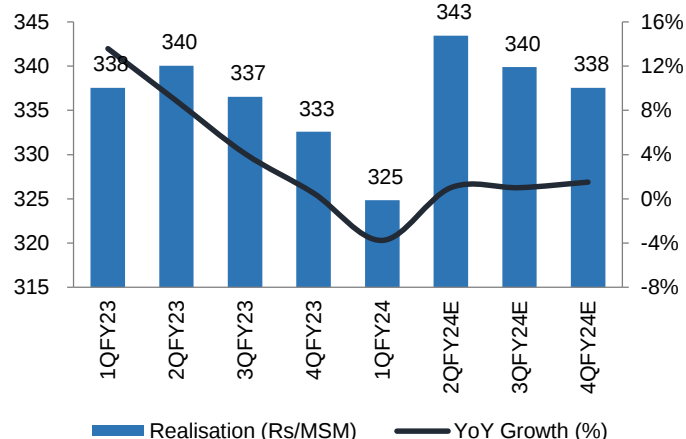
Export potential:

Freight costs to some destinations like Latin America and Europe are still quite high, but may decrease due to weaker global demand, which would make it easier to achieve the above-mentioned targets. Currently, it has presence in 70 countries, mostly in Europe, Africa and the Middle East, with an export share of 4-5% of total turnover.

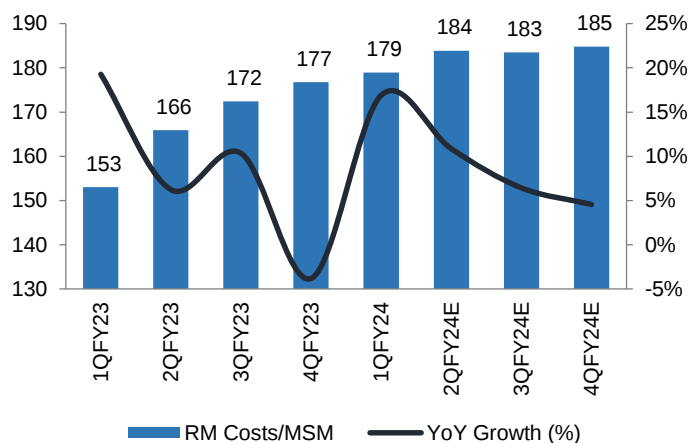
Key Performance Indicators

Exhibit 8: Strong Volume growth of 16% YoY in FY24E


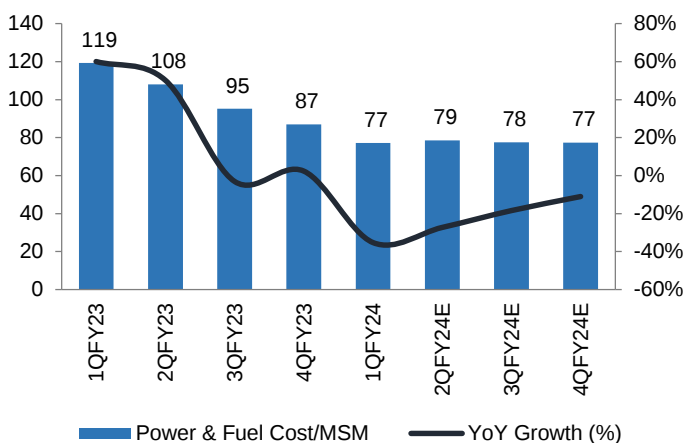
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 9: Average realisations to remain stable at Rs337/MSM


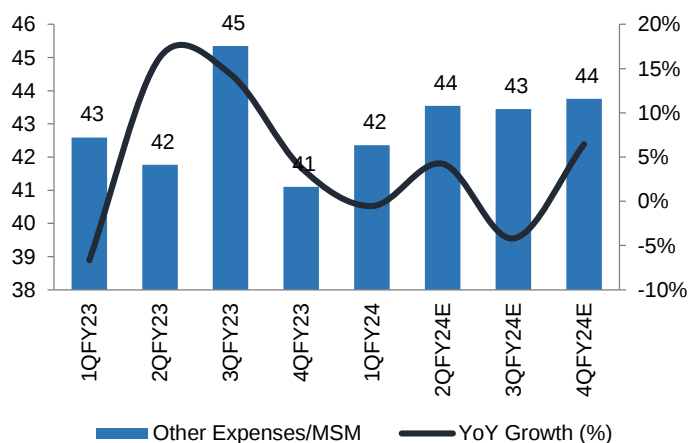
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 10: RM cost to increase in the range of 5-6% YoY


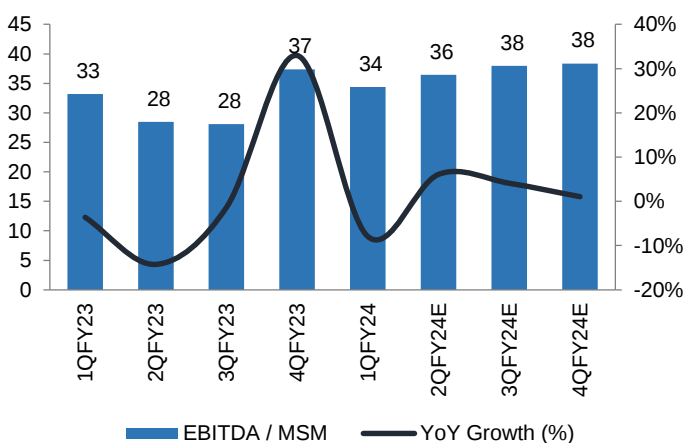
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 11: Lower power and fuel cost at 77/MSM to in FY24E


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 12: No significant increase in other expenses expected in FY24E


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: EBITDA/MSM to remain stable in FY24E


Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 14: Gradual decline in receivable days with overall working capital cycle improving, a strong positive for the company.

Cash Conversion Cycle	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Receivable Days	90	107	89	63	49	41	39
Inventory Days	114	148	142	200	125	119	147
Payable Days	84	133	113	105	94	114	142
CCC	119	123	118	158	80	47	45

Source: Nirmal Bang Institutional Equities Research

View and Valuation:

Improving capacity utilization level to ~100% from ~70% in FY23, strong brand equity with an expanding export presence (exports account for only 4-5% of total volume), cost efficient operations and a stable balance sheet are key positives for Somany. With over 3,000+ strong dealer network, direct sales and setting up of exclusive showrooms will only result in better margins. We expect healthy revenue growth during CY24-CY26E despite a high base. We expect revenue to grow at 13.9% CAGR over FY23-FY26E, with EBITDA/PAT CAGR of 26.4%/47.4%. EBITDA margin is expected to remain in the vicinity of 9-11%. We expect RoE/RoCE of 17.5%/ 19.2% in FY26E. We initiate coverage on Somany Ceramics with a BUY rating and TP of Rs1,072 based on 22x Sept'25E EPS (5-year median PE – 35.6x).

Exhibit 15: Valuation summary

Particulars	(Rs mn)
September'25E EPS	48.7
Target multiple (x)	22
Target price (Rs)	1,072
CMP (Rs)	700
Upside / (downside) %	53%

Source: Company, Nirmal Bang Institutional Equities Research

Key Risks:

Volatility in price of Raw Materials

The company is not insulated to changes in global commodity prices, specifically fuel.

Regulations:

Unforeseen and stringent environmental as well as economic regulations may affect the company's operations and profit. Any sudden changes in regulatory requirements could create financial as well as operational challenges for the company, potentially leading to a decline in its profitability. It is important for the company to stay vigilant and closely monitor any regulatory developments to proactively adapt its operations and strategies in response to changing market conditions.

Competition:

Somany ceramics has well diversified revenue portfolio spread across urban and rural segment. It is also gradually scaling up in the export market catering to specific requirements. NBIE believes that companies such as Simpolo, Varmora, Qutone, Colortile, and Sunheart, which currently export 90% of their production, do not pose an immediate threat in the current landscape. However, looking ahead, these companies are likely to pivot towards the domestic market with the aim of increasing market share and profit margins through organic or inorganic growth strategies.

Morbi provides an opportunity for consolidation as companies are setup (merged, demerged and shut down at a very rapid pace by the members of the same family. Thus, making production system highly fluid and flexible.

Macro Factors:

Pressure on pan-India residential housing market, leading to overall lower volume off-take for the industry.

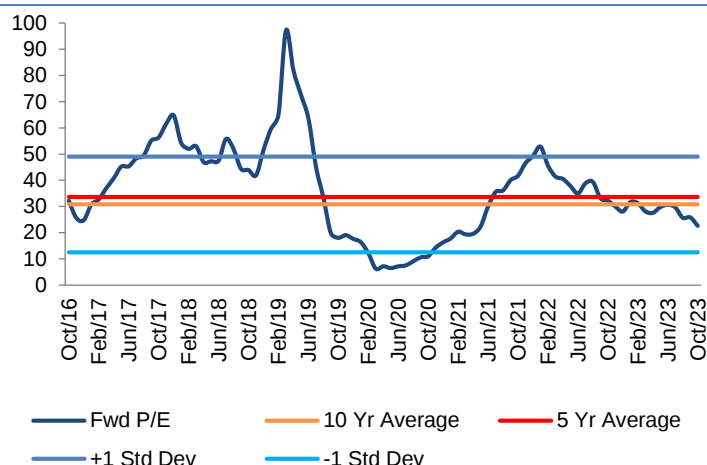
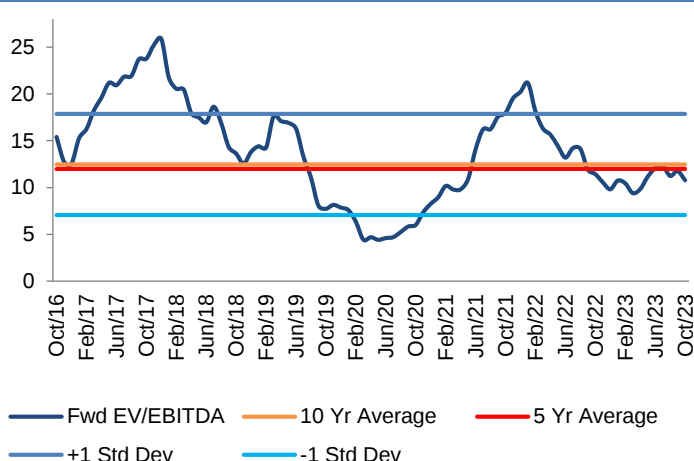
Technological Factors:

The company must consistently stay abreast of the latest technological advancements and developments to mitigate potential risks related to operational efficiency and enhance the quality of its products. Failure to do so could have adverse effects on its profitability.

Inflation:

The company's operations may be impacted by inflationary pressures that cannot be passed on to consumers.

Exhibit 16: Rolling valuation charts



Source: Company, Nirmal Bang Institutional Equities Research

Financials

Exhibit 17: Income statement

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	20,945	24,785	28,449	33,027	36,579
Increase/Decrease in Stock	(145)	(1,107)	1,210	1,405	1,562
Raw Material Consumed	4,878	6,376	6,047	7,021	7,804
Purchases of Finished Goods	4,472	5,425	6,115	7,100	7,892
Power & Fuel Cost	4,810	6,471	5,676	6,329	6,760
Employee Costs	2,571	3,012	3,675	4,233	4,668
Other Expenses	2,293	2,721	3,166	3,676	4,086
Total Expenditure	18,879	22,898	25,890	29,763	32,772
Operating profit	2,066	1,887	2,559	3,265	3,807
Operating profit margin (%)	10%	8%	9%	10%	10%
Other Income	134	145	141	152	162
Interest	296	404	351	271	199
Depreciation	640	679	800	814	827
Exceptional Items	0	(22)	(66)	0	0
PBT	1,263	929	1,482	2,332	2,942
Tax	328	259	396	606	800
Tax rate (%)	26%	28%	27%	26%	27%
PAT	934	669	1,086	1,725	2,142
Extraordinary Income	2	(6)	0	0	0
Adj. PAT	937	664	1,086	1,725	2,142
EPS (Rs)	22.1	15.7	25.6	40.7	50.5

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 18: Cash flow

Y/E June (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Profit before tax	1,263	929	1,482	2,332	2,942
Add: Depreciation & Impairment	640	679	800	814	827
Less: Interest Income	(134)	(145)	(141)	(152)	(162)
Add: Interest Exp	296	404	351	271	199
Other Adjustments	46	101	-	-	-
Cash flow from operations b4 WC	2,111	1,966	2,493	3,265	3,807
Net change in Working capital	-327	-90	607	-835	-867
Tax paid	(353)	(247)	(396)	(606)	(800)
Net cash from operations	1,431	1,630	2,704	1,823	2,140
Capital expenditure	(2,680)	(1,720)	(219)	(223)	(227)
Changes in investments	52	666	(287)	97	0
Interest & other income	134	145	141	152	162
Net cash from investing	(2,495)	(909)	(365)	26	(66)
Issue of shares	-	-	-	-	-
Proceeds from / (repayments) of debt	1,018	266	(1,000)	(1,000)	(800)
Dividends Paid incl tax	0	(127)	(206)	(276)	(321)
Interest paid	(312)	(385)	(351)	(271)	(199)
Others	(66)	33	-	-	-
Net cash from financing	639	(213)	(1,557)	(1,547)	(1,320)
Net Cash	(425)	508	782	303	754
Opening Cash	1,426	1,001	1,509	2,291	2,593
Closing Cash	1,001	1,509	2,291	2,593	3,348

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 19: Balance sheet

Y/E March (Rsmn)	FY22	FY23	FY24E	FY25E	FY26E
Equity Capital	85	85	85	85	85
Reserves and Surplus	7,178	7,785	8,665	10,114	11,935
Minorities	1,076	1,076	1,076	1,076	1,076
Networth	8,339	8,945	9,825	11,274	13,095
Debt	4,765	4,884	3,884	2,884	2,084
Deferred tax liability	363	327	427	427	427
Trade Payables	260	3,776	5,456	6,334	7,015
Provisions	105	156	262	362	362
Total Current Liabilities	3,823	5,210	6,996	7,974	8,655
Total liabilities	17,923	20,111	21,876	23,304	25,006
Net Block	7,448	10,079	10,297	10,520	10,717
CWIP	2,267	473	473	473	473
Investments	600	319	606	508	508
Inventories	2,737	3,915	4,287	4,977	5,512
Debtors	2,368	2,683	2,962	3,438	3,808
Cash and Bank	1,486	1,545	2,291	2,593	3,348
Other current assets	1,269	532	708	708	708
Total Current Assets	7,860	8,676	10,247	11,717	13,376
Total Assets	17,923	20,111	21,876	23,304	25,006

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 20: Key ratios

Y/E June	FY22	FY23	FY24E	FY25E	FY26E
Growth (%)					
Sales	26.9	18.3	14.8	16.1	10.8
Operating Profits	57.2	-1.1	23.9	73.0	48.8
Net Profits	49.6	-29.2	63.7	58.9	24.1
Leverage (x)					
Net Debt: Equity	0.7	0.6	0.4	0.3	0.2
Interest Cover(x)	6.3	4.3	6.4	10.4	15.9
Total Debt/EBITDA	2.3	2.6	1.5	0.9	0.5
Profitability (%)					
OPM	9.9	7.6	9.0	9.9	10.4
NPM	4.5	2.7	3.8	5.2	6%
ROE	11.3	8.2	12.1	16.6	17.5
ROCE	11.1	9.1	12.8	17.0	19.2
Turnover ratios (x)					
Inventory Days	52	62	55	55	55
Debtors Days	41	39	38	38	38
WC days	88	41	23	23	23
Valuation (x)					
P/E	31.8	44.9	27.4	17.2	13.9
P/B	4.1	3.8	3.4	2.9	2.5
EV/EBIDTA	16.8	18.4	12.9	9.7	7.9

Source: Company, Nirmal Bang Institutional Equities Research

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