MOTILAL OSWAL FINANCIAL SERVICES

26 July 2023

1QFY24 Results Update | Sector: Cement

Kajaria Ceramics

Estimate change	↔
TP change	↑
Rating change	↔

Motilal Oswal values your support in the Asiamoney Brokers Poll 2023 for India Research, Sales, Corporate Access and Trading team. We request your ballot.

Bloomberg	KJC IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	220.7 / 2.7
52-Week Range (INR)	1490 / 1006
1, 6, 12 Rel. Per (%)	3/21/2
12M Avg Val (INR M)	233
Free float (%)	52.5

Financial Snapshot (INR b)

Y/E MARCH	FY23	FY24E	FY25E
Sales	43.8	48.8	54.5
EBITDA	5.9	7.9	9.4
Adj. PAT	3.5	4.8	6.0
EBITDA Margin (%)	13.5	16.3	17.2
Cons. Adj. EPS (INR)	22.0	30.5	37.8
EPS Gr. (%)	-8.4	38.6	23.8
BV/Sh. (INR)	146	162	179
Ratios			
Net D:E	(0.3)	(0.4)	(0.4)
RoE (%)	15.2	19.8	22.1
RoCE (%)	18.1	23.0	26.0
Payout (%)	41.6	49.2	52.9
Valuations			
P/E (x)	63.0	45.4	36.7
P/BV (x)	9.5	8.6	7.7
EV/EBITDA(x)	37.0	27.4	23.2
EV/Sales (x)	5.0	4.5	4.0

Shareholding pattern (%)

As On	Jun-23	Mar-23	Jun-22
Promoter	47.5	47.5	47.5
DII	25.2	26.2	22.4
FII	18.0	16.9	19.6
Others	9.3	9.4	10.5

FII Includes depository receipts

CMP: INR1,386 TP: INR1,580 (+14%) Buy

In-line performance aided by lower gas prices

Guided for 14-16% revenue growth in FY24 to be led by higher volume growth

- Kajaria Ceramics (KJC) reported consolidated revenue/EBITDA growth of 6%/10% YoY to INR10.6b/INR1.7b (in line) in 1QFY24. OPM stood at 15.9% (vs. est. 15.5%). PAT was at INR1.1b (vs. est. INR1.0b) driven by lower-than-estimated depreciation and finance costs during the quarter.
- Management expects demand to pick up from Sep'23 and guided for 14-16% YoY revenue growth along with an EBITDA margin of 14-16% in FY24. Exports of tiles have picked up from India and are likely to grow 20% YoY in FY24. Higher exports will ease pressure in domestic markets from Morbi-based players.
- We initiated coverage on KJC with a **BUY** rating. We believe that 33% earnings CAGR over FY23-25E, strong return ratios (RoE of 22%, ROCE of 26% and RoIC of 31% in FY25E), and healthy balance sheet will help KJC maintain its premium multiples. We reiterate our BUY rating with a revised TP of INR1,580.

Tiles volume reports better-than-industry growth at 7% YoY

- KJC's consol. revenue/EBITDA/PAT stood at INR10.6b/INR1.7b/INR1.1b (+6%/+10%/+16% YoY and -2%/+1%/+7% vs. our estimates). Tiles sales volume rose 7% YoY to 25.0MSM while realization dipped 2% YoY to INR386/sqm.
- Energy cost/scm of production declined 24% YoY and led to 120bp YoY improvement in gross margin to 37.5%. Employee cost declined 1% YoY (10.7% of revenue vs. 11.3% in 1QFY23). Other expenses rose 19% YoY (10.9% of revenue vs. 9.7% in 1QFY23). EBITDA increased 10% YoY and OPM was up 70bp YoY to 15.9% during the quarter.
- Depreciation declined 6% YoY, while finance cost was up 46% YoY. Other income rose 14% YoY in 1QFY24. Effective tax rate stood at 23.5% vs. 26.1% YoY. Consolidated PAT (after MI) increased 16% YoY to INR1.1b in 1QFY24.

Highlights from the management commentary

- Lots of positive triggers are being witnessed on the ground, which should help a strong demand pick-up. Demand should improve from Sep'23 led by demand growth from real estate and infra segments. Prices were largely stable and should remain steady going forward.
- Lower gas prices to result in savings of INR1.5-1.75b, of which KJC will pass on INR500m to the dealers and will retain the balance of ~INR1b.
- Ad spends in FY24 will be at INR1.3b-INR1.35b as against INR1.1b in FY23. It spent INR250m in 1QFY24 and will increase spends from early-Aug'23.

View and valuation

- Tiles exports have seen green shoots with ~23% YoY growth in 1QFY24. Higher exports should ease pressure in the domestic markets and we believe KJC, being the leading domestic player, should benefit.
- We expect 33% earnings CAGR over FY23-25 and project improvement in return ratios (RoE to be at 22% in FY25E v/s 15% in FY23). We expect KJC to maintain its premium valuations. We value the stock at 42x FY25E EPS to arrive at our TP of INR1,580. **Reiterate BUY.**

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Consolidated quarterly performance (INR m)

	FY23				FY24E				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2QE	3QE	4QE			1QE	(%)
Net sales	**10,082**	**10,778**	**10,911**	**12,048**	**10,642**	**11,413**	**11,796**	**14,968**	**43,819**	**48,819**	**10,854**	-2
YoY change (%)	79.5	10.7	2.1	9.4	5.6	5.9	8.1	24.2	18.3	11.4	7.7	
Total expenditure	8,546	9,484	9,581	10,289	8,950	9,587	9,885	12,448	37,899	40,870	9,172	-2
EBITDA	**1,536**	**1,294**	**1,331**	**1,759**	**1,692**	**1,826**	**1,911**	**2,520**	**5,920**	**7,950**	**1,682**	1
Margin (%)	15.2	12.0	12.2	14.6	15.9	16.0	16.2	16.8	13.5	16.3	15.5	40
Depreciation	324	337	325	343	305	320	338	547	1,329	1,511	353	-14
Interest	36	32	83	72	53	56	61	150	223	319	74	-29
Other income	81	76	75	104	93	88	93	97	336	370	90	3
PBT before EO expense	**1,257**	**1,002**	**997**	**1,448**	**1,427**	**1,538**	**1,605**	**1,920**	**4,705**	**6,489**	**1,345**	6
Extra-ord expenses	0	37	0	43	0	0	0	0	79	0	0	
PBT after EO Expense	**1,257**	**966**	**997**	**1,406**	**1,427**	**1,538**	**1,605**	**1,920**	**4,625**	**6,489**	**1,345**	6
Tax	328	277	261	298	336	386	403	506	1,163	1,631	338	-0
Rate (%)	26.1	27.6	26.1	20.6	23.5	25.1	25.1	26.4	24.7	25.1	25.1	
Reported PAT	**930**	**726**	**737**	**1,150**	**1,091**	**1,152**	**1,202**	**1,414**	**3,542**	**4,858**	**1,007**	8
Minority interest	7	-10	-7	28	16	4	5	-7	17	18	2	
Adj. PAT	**923**	**725**	**743**	**1,114**	**1,075**	**1,148**	**1,197**	**1,420**	**3,505**	**4,840**	**1,005**	7
YoY change (%)	114.4	-37.6	-39.1	16.3	16.5	58.4	61.1	27.5	-6.5	37.3	8.9	
Margin (%)	9.2	6.7	6.8	9.2	10.1	10.1	10.1	9.5	8.0	9.9	9.3	

Quarterly Summary

	FY23				FY24	YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	(%)	(%)
Sales Volumes- MSM:							
Own Manufacturing	13.4	14.8	14.0	15.2	13.8	3	(9)
JVs	4.2	4.2	5.2	6.1	4.8	13	(21)
Trading	5.7	6.0	6.3	6.8	6.4	13	(6)
Total sales volumes	**23.3**	**24.9**	**25.5**	**28.0**	**25.0**	7	(11)
Revenue Mix (INR m)							
Own Manufacturing	5,381	5,968	5,592	5,994	5,393	0	(10)
JVs	1,321	1,354	1,640	1,867	1,340	1	(28)
Trading	2,387	2,421	2,608	2,980	2,833	19	(5)
Sanitaryware / faucets	714	744	795	904	837	17	(7)
Plywood	203	194	188	188	143	(30)	(24)
Adhesives	77	97	90	115	96	25	(16)
Revenue	**10,082**	**10,778**	**10,911**	**12,048**	**10,642**	6	(12)
Realization/sqm (INR)							
Own Manufacturing	401	404	401	396	391	(3)	(1)
JVs	312	324	316	308	279	(11)	(9)
Trading	421	406	414	438	442	5	1
Blended Realization	**393**	**395**	**390**	**391**	**386**	(2)	(1)
Growth (% YoY)	*15.4%*	*10.9%*	*4.0%*	*1.6%*	*-1.7%*		
Growth (% QoQ)	*2.0%*	*0.5%*	*-1.2%*	*0.2%*	*-1.2%*		
Production Volumes- MSM:							
Own Manufacturing	14.7	15.0	13.7	14.7	14.1	(4)	(4)
JVs	5.1	3.9	4.5	5.9	4.7	(8)	(21)
Total Production volumes	**19.8**	**18.9**	**18.2**	**20.5**	**18.7**	(5)	(9)
Growth % YoY	41.2%	7.8%	-1.9%	12.7%	-5.3%		
Growth % QoQ	8.3%	-4.2%	-3.7%	12.7%	-9.0%		

CONFERENCE CALL

Highlights from the management commentary

Demand and pricing

- Demand was subdued in Apr-May'23 while it improved in Jun'23. In Jul'23, however, demand has been hit by excessive rainfalls (transport issues). Industry volume is estimated to remain flat in 1QFY24; however, KJC's volume grew 7% YoY. Demand should pick up from Sep'23 led by real estate growth and infra demand as lots of positive triggers are being witnessed on the ground. Volume growth should be at 13-14% YoY and value growth should be at 14-16% YoY in FY24. EBITDA margin is expected to be between 14-16% in FY24.
- Exports of tiles from India remained very strong and grew 23% YoY to INR48b in 1QFY24. Presently, the US, the UK, Israel, Mexico, Kuwait and the UAE are the countries where export is seeing improved traction. Export market is expected to grow 20% YoY to INR210b in FY24 led by rising global demand for Indian tiles. Higher exports will also ease pressure in domestic market from the Morbi-based players.
- Prices were largely stable in 1QFY24 and should remain steady; though, the company is offering some discounts to dealers for gaining market share. KJC's price is higher by 6-7% from the number 2 player and 20-25% (~45% pre-GST) from Morbi players.

Operational highlights

- The 1QFY24 average fuel price stood at INR39/scm. Regional break-up was: INR39 in North, INR44 in South and INR37 in West. In Morbi, landed gas price was INR41/scm and Propane price was also at similar level. Bio-fuel share in North stood at ~33% and 20% at an overall company level in 1QFY24.
- Lower gas prices should lead to a savings of INR1.5-1.75b in FY24, of which INR500m will be passed on to the dealers and the balance INR1b will be retained by KJC.
- The company is looking for aggressive Ad spends in FY24 and expects Ad spends to be at INR1.3b-INR1.35b v/s INR1.1b in FY23. The company spent INR250m in 1QFY24 and will start aggressive advertising from the 1st week of Aug'23.
- Reduction in depreciation YoY/QoQ was due to the divestment of entire stake in Vennar Ceramics (subsidiary company in 4QFY23).

Capex and expansion

- Expansion-cum-modernization for bigger size Glazed Vitrified Tiles with latest technology at Sikandrabad plant is completed and is expected to commence production in early-Aug'23. The total capacity of the plant has increased to 11 MSM from 8.40 MSM.
- Modernization of Galipur, Rajasthan facility by replacing two of the exiting kilns with latest kilns having capacity to produce bigger size tiles is expected to be completed by Aug'23.
- Expansion in Kajaria Bathware, which will raise the sanitaryware capacity by 0.6m pcs p.a. is likely to be completed by Mar'24.
- Capex in FY24 should be at INR3.7b which will be incurred for expansions (tiles and bathware), and maintenance and development of KJC's corporate office.

Other highlights

- Revenue from plywood segment is estimated to be INR1b in FY24 vs. INR77m in FY23. An experienced professional has joined the company and is in the process of strengthening the sales team.
- The aim is to increase dealers' network to +2,000 out of which 500 will be exclusive.

Story in charts

Exhibit 1: Sales volume grew ~7% YoY

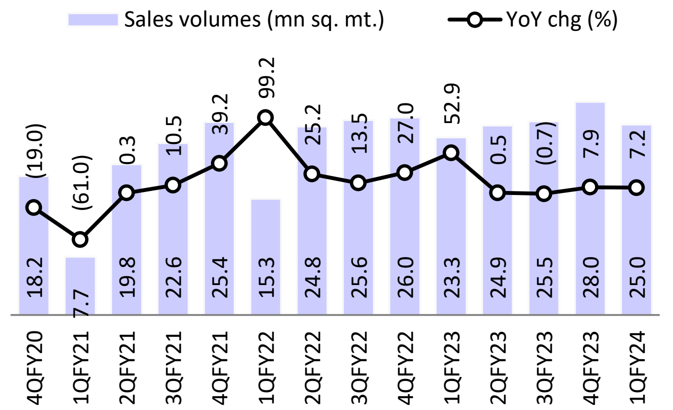


Exhibit 2: Blended realization declined ~2% YoY

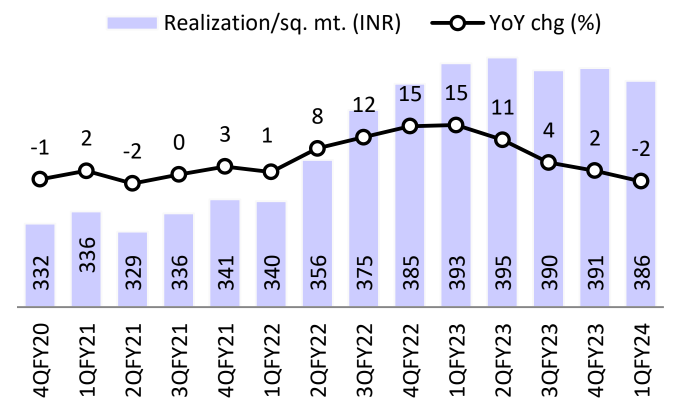


Exhibit 3: Revenue increased 6% YoY

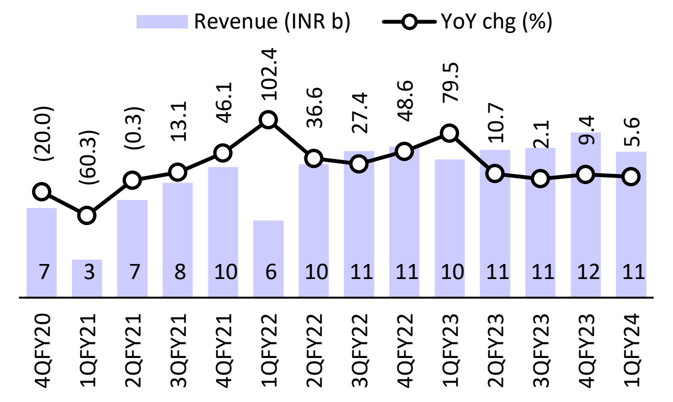


Exhibit 4: Gross margin improved 1.2pp YoY and 2.1pp QoQ

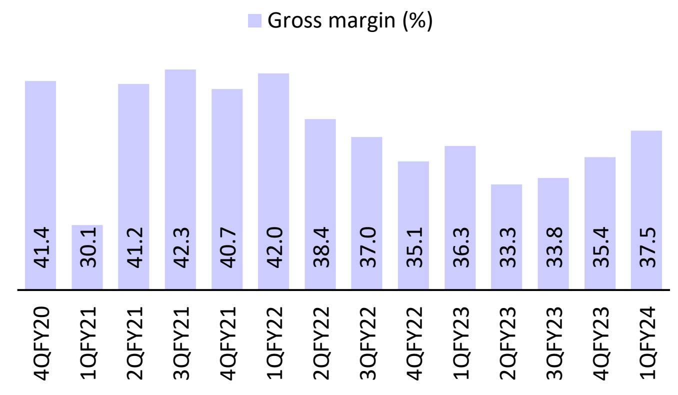
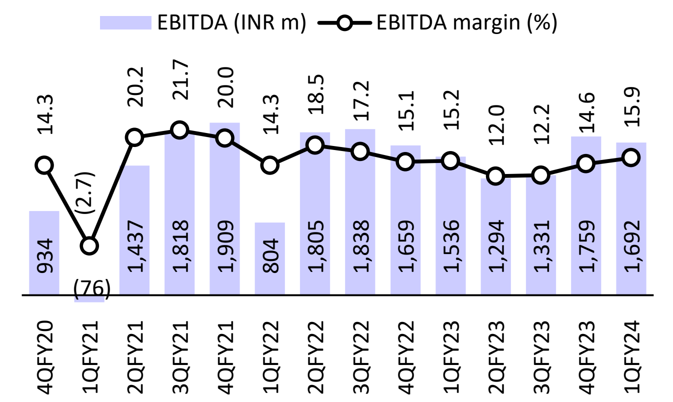
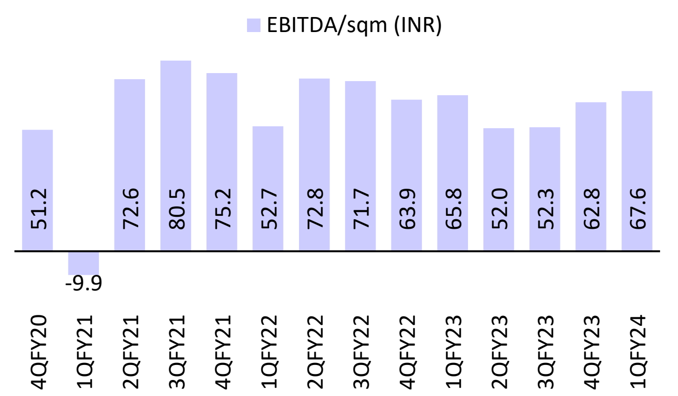


Exhibit 5: EBITDA increased 10% YoY, margin up 67bp YoY



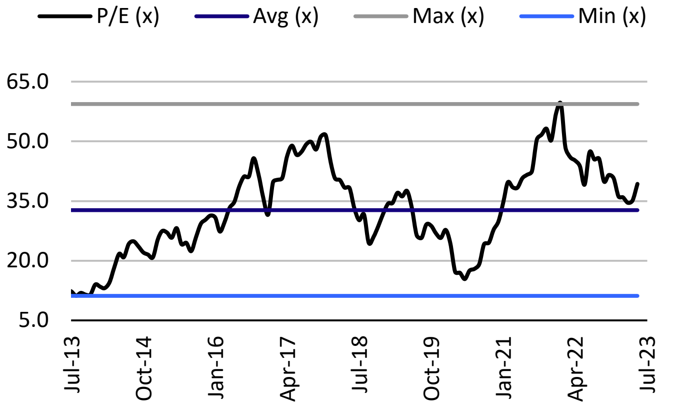
Sources: Company reports, MOFSL

Exhibit 6: EBITDA/sqm was up 3% YoY



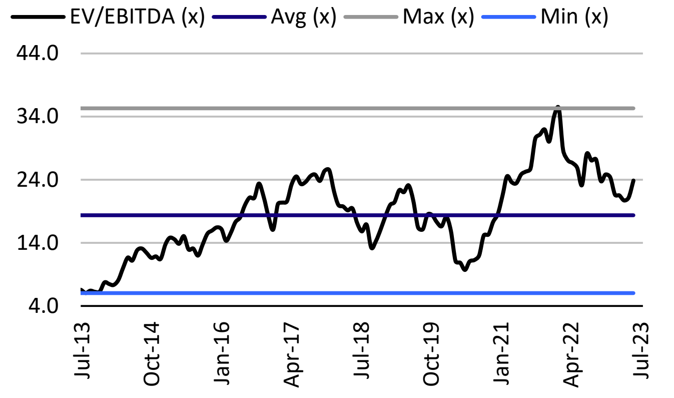
Sources: Company reports, MOFSL

Exhibit 7: One-year forward P/E (x) trend



Sources: Company reports, MOFSL

Exhibit 8: One-year forward EV/EBITDA (x) trend



Sources: Company reports, MOFSL

Financials and valuations

Consolidated Income Statement								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Net Sales	**27,106**	**29,562**	**28,080**	**27,809**	**37,052**	**43,819**	**48,819**	**54,467**
Change (%)	6.3	9.1	-5.0	-1.0	33.2	18.3	11.4	11.6
EBITDA	**4,564**	**4,495**	**4,159**	**5,088**	**6,107**	**5,920**	**7,950**	**9,354**
Margin (%)	16.8	15.2	14.8	18.3	16.5	13.5	16.3	17.2
Depreciation	885	891	1,081	1,067	1,154	1,329	1,511	1,441
EBIT	**3,678**	**3,604**	**3,078**	**4,022**	**4,953**	**4,592**	**6,438**	**7,913**
Int. and Finance Charges	241	156	195	107	127	223	319	287
Other Income - Rec.	108	180	242	213	276	336	370	407
PBT bef. EO Exp.	**3,437**	**3,449**	**2,883**	**3,914**	**4,826**	**4,368**	**6,120**	**7,626**
EO Expense/(Income)	-8	-48	0	0	0	79	0	0
PBT after EO Exp.	**3,553**	**3,580**	**3,125**	**4,127**	**5,102**	**4,625**	**6,489**	**8,033**
Current Tax	1,259	1,304	937	1,083	1,210	1,174	1,631	2,019
Deferred Tax	8	-12	-348	-446	65	-11	0	0
Tax Rate (%)	35.7	36.1	18.9	15.4	25.0	25.1	25.1	25.1
Reported PAT	**2,286**	**2,288**	**2,535**	**3,490**	**3,827**	**3,445**	**4,858**	**6,014**
PAT Adj for EO items	**2,279**	**2,239**	**2,535**	**3,490**	**3,827**	**3,505**	**4,858**	**6,014**
Change (%)	-10.2	-1.7	13.2	37.7	9.7	-8.4	38.6	23.8
Margin (%)	8.4	7.6	9.0	12.6	10.3	8.0	10.0	11.0
Less: Minority Interest	-58.8	22.3	-18.4	8.5	57.6	17.0	18.4	19.8
Net Profit	**2,337**	**2,217**	**2,554**	**3,482**	**3,770**	**3,387**	**4,840**	**5,994**

Consolidated Balance Sheet								(INR m)
Y/E March	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**	**FY23**	**FY24E**	**FY25E**
Equity Share Capital	159	159	159	159	159	159	159	159
Total Reserves	13,351	15,590	16,984	18,530	21,065	23,109	25,561	28,371
Net Worth	**13,510**	**15,749**	**17,143**	**18,689**	**21,224**	**23,268**	**25,720**	**28,530**
Deferred Liabilities	1,099	1,059	716	674	726	738	738	738
Minority Interest	661	659	637	646	648	776	795	815
Total Loans	1,703	1,203	1,281	987	1,279	2,093	1,893	1,693
Capital Employed	**16,973**	**18,671**	**19,777**	**20,996**	**23,877**	**26,875**	**29,145**	**31,775**
Gross Block	16,891	16,759	19,009	20,052	20,777	25,076	27,076	30,576
Less: Accum. Deprn.	5,440	5,980	7,061	8,128	9,282	10,610	12,121	13,562
Net Fixed Assets	**11,451**	**10,778**	**11,948**	**11,924**	**11,496**	**14,466**	**14,955**	**17,013**
Capital WIP	176	934	266	149	2,634	817	2,000	2,000
Total Investments	**4**	**3**	**101**	**50**	**0**	**19**	**19**	**19**
Curr. Assets, Loans&Adv.	**9,772**	**12,003**	**12,056**	**13,120**	**15,728**	**17,976**	**19,464**	**20,857**
Inventory	3,785	4,058	5,127	3,731	4,659	5,647	6,345	7,074
Account Receivables	4,507	4,751	3,967	4,317	5,133	6,012	6,599	7,074
Cash and Bank Balance	824	2,524	2,252	4,428	4,244	3,938	5,124	5,152
Loans and Advances	656	671	710	645	1,693	2,380	1,396	1,556
Curr. Liability & Prov.	**4,430**	**5,048**	**4,594**	**4,248**	**5,981**	**6,403**	**7,293**	**8,115**
Account Payables	4,251	4,848	4,306	4,019	5,722	6,111	6,980	7,782
Provisions	179	200	288	229	259	293	313	333
Net Current Assets	**5,342**	**6,955**	**7,462**	**8,873**	**9,747**	**11,573**	**12,172**	**12,743**
Appl. of Funds	**16,973**	**18,671**	**19,777**	**20,996**	**23,877**	**26,875**	**29,145**	**31,775**

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Basic (INR)								
Consol EPS	**14.3**	**14.1**	**15.9**	**21.9**	**24.0**	**22.0**	**30.5**	**37.8**
Cash EPS	19.9	19.7	22.7	28.6	31.3	30.4	40.0	46.8
BV/Share	85.0	99.1	107.8	117.5	133.3	146.2	161.6	179.2
DPS	3.0	3.0	3.0	10.0	11.0	9.0	15.0	20.0
Payout (%)	25.1	25.1	22.7	45.6	45.8	41.6	49.2	52.9
Valuation (x)								
P/E		98.4	86.9	63.2	57.7	63.0	45.4	36.7
Cash P/E		70.4	60.9	48.4	44.3	45.7	34.6	29.6
P/BV		14.0	12.9	11.8	10.4	9.5	8.6	7.7
EV/Sales		7.4	7.8	7.8	5.9	5.0	4.5	4.0
EV/EBITDA		48.7	52.7	42.7	35.6	37.0	27.4	23.2
Dividend Yield (%)		0.2	0.2	0.7	0.8	0.6	1.1	1.4
Return Ratios (%)								
RoIC	18.7	17.7	14.5	23.6	27.4	21.6	27.4	31.2
RoE	18.5	15.2	15.5	19.4	18.9	15.2	19.8	22.1
RoCE	22.5	20.2	16.0	19.7	22.1	18.1	23.0	26.0
Working Capital Ratios								
Asset Turnover (x)	1.7	1.7	1.5	1.4	1.7	1.7	1.7	1.8
Working Capital (Days)	63	57	66	58	62	69	55	53
Leverage Ratio (x)								
Net Debt/Equity	0.2	(0.3)	(0.2)	(0.7)	(0.5)	(0.3)	(0.4)	(0.4)

Consolidated Cash Flow Statement (INR m)

Y/E March	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
OP/(Loss) before Tax	3,553	3,580	3,125	4,127	5,102	4,625	6,489	8,033
Depreciation	885	891	1,081	1,067	1,154	1,329	1,511	1,441
Interest & Finance Charges	241	156	195	107	127	223	319	287
Direct Taxes Paid	(1,275)	(1,327)	(1,005)	(980)	(1,285)	(1,265)	(1,631)	(2,019)
(Inc)/Dec in WC	(1,009)	(117)	(993)	868	(621)	(1,851)	588	(543)
CF from Operations	**2,395**	**3,183**	**2,403**	**5,189**	**4,476**	**3,061**	**7,276**	**7,199**
Others	(14)	(9)	(159)	(101)	(221)	(106)	-	-
CF from Operating incl EO	**2,382**	**3,174**	**2,244**	**5,088**	**4,255**	**2,955**	**7,276**	**7,199**
(Inc)/Dec in FA	(1,527)	(1,235)	(1,240)	(1,127)	(2,687)	(2,317)	(3,183)	(3,500)
Free Cash Flow	**855**	**1,938**	**1,004**	**3,961**	**1,568**	**639**	**4,093**	**3,699**
(Pur)/Sale of Investments	(18)	681	(88)	(41)	(51)	(363)	-	-
Others	177	(2,055)	427	(1,788)	(241)	842	-	-
CF from Investments	**(1,368)**	**(2,609)**	**(901)**	**(2,955)**	**(2,979)**	**(1,837)**	**(3,183)**	**(3,500)**
Issue of Shares	13	(6)	3	53	52	12	-	-
Inc/(Dec) in Debt	81	(404)	(104)	(439)	112	239	(200)	(200)
Interest Paid	(241)	(156)	(153)	(68)	(92)	(166)	(319)	(287)
Dividend Paid	(572)	(575)	(1,150)	(1,591)	(1,273)	(1,433)	(2,388)	(3,184)
Others	-	-	-	-	-	-	-	-
CF from Fin. Activity	**(718)**	**(1,141)**	**(1,404)**	**(2,045)**	**(1,201)**	**(1,348)**	**(2,907)**	**(3,671)**
Inc/Dec of Cash	**295**	**(576)**	**(60)**	**87**	**75**	**(230)**	**1,186**	**28**
Opening Balance	502	798	221	161	248	335	105	1,292
Closing Balance	**798**	**221**	**161**	**248**	**323**	**105**	**1,292**	**1,320**
Bank balance	26	2,303	2,091	4,179	3,921	3,832	3,832	3,832
Total cash balance	**824**	**2,524**	**2,252**	**4,428**	**4,244**	**3,938**	**5,124**	**5,152**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

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