

Kajaria Ceramics

Estimate change	↔
TP change	↔
Rating change	↔

Bloomberg	KJC IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	195.9 / 2.4
52-Week Range (INR)	1524 / 1006
1, 6, 12 Rel. Per (%)	-8/2/0
12M Avg Val (INR M)	246
Free float (%)	52.5

Financial Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	48.1	53.7	60.2
EBITDA	7.6	9.0	10.5
Adj. PAT	4.6	5.8	6.8
EBITDA Margin (%)	15.8	16.9	17.5
Cons. Adj. EPS (INR)	28.8	36.3	42.7
EPS Gr. (%)	34.7	26.1	17.7
BV/Sh. (INR)	160	176	199

Ratios

Net D:E	(0.4)	(0.3)	(0.4)
RoE (%)	18.8	21.6	22.7
RoCE (%)	21.8	25.3	27.0
Payout (%)	52.1	55.1	46.8

Valuations

P/E (x)	44.0	34.9	29.6
P/BV (x)	7.9	7.2	6.4
EV/EBITDA(x)	26.2	22.0	18.8
EV/Sales (x)	4.1	3.7	3.3

Shareholding pattern (%)

As On	Sep-23	Jun-23	Sep-22
Promoter	47.5	47.5	47.5
DII	25.5	25.2	22.8
FII	18.5	18.0	19.4
Others	8.6	9.3	10.3

FII Includes depository receipts

CMP: INR1,230 **TP: INR1,580 (+28%)** **Buy**

In-line performance; lower gas prices drive margins

Volume growth guidance cut to 9%-10% from 13-15% earlier

- Kajaria Ceramics (KJC) reported consolidated revenue/EBITDA growth of 4%/39% YoY to INR11.2b/INR1.8b (in line) in 2QFY24. OPM stood at 16% (vs. est. 16.2%). PAT came in at INR1.1b (vs. est. INR1.2b).
- The management has cut its FY24 volume growth guidance to 9-10% from 13-15% earlier due to weak demand in 1HFY24. However, it believes demand should pick up in 2HFY24, aided by good traction in the real estate sector. It has maintained margin guidance at 14%-16%. India's tile exports grew 25% YoY during Apr-Aug'23, and India is expected to become the largest exporter of tiles by FY25.
- In our [recent report](#), we highlighted that fuel prices for KJC could increase in 2HFY24 vs. 2QFY24 due to a rise in Brent crude/ LNG spot prices and we had reduced our volume growth estimate for FY24 to 9% from 11% earlier. We believe that a 26% earnings CAGR over FY23-26E, strong return ratios (RoE of 23%, ROCE of 27% and RoIC of 32% in FY26E), and a healthy balance sheet will help KJC maintain its premium multiples. We reiterate our BUY rating with a TP of INR1,580, based on 42x Jun'25E EPS.

Tile volume growth at ~6% YoY was in line with our estimate

- KJC's consol. revenue/EBITDA/PAT stood at INR11.2b/INR1.8b/INR1.1b (+4%/+39%/+61% YoY and -1%/-2%/-6% vs. our estimates). Tile sales volume rose 6% YoY to 26.5MSM, while realization dipped 3% YoY to INR383/sqm.
- Energy cost/scm of production declined 22% YoY, leading to a 6.2pp YoY improvement in gross margin to 39.4%. Employee costs increased 14% YoY (11.6% of revenue vs. 10.6% in 2QFY23). Other expenses rose 15% YoY (11.8% of revenue vs. 10.7% in 2QFY23). EBITDA grew 39% YoY and OPM was up 4pp YoY at 16.0% during the quarter.
- Interest costs grew 35% YoY, while other income rose 8% YoY in 2QFY24. Consolidated PAT (after MI) increased 61% YoY to INR1.1b in 2QFY24.
- In 1HFY24, revenue/EBITDA grew 5%/23% YoY to INR21.9b/INR3.5b. EBITDA margin was up 2.4pp YoY to 16.0%. PAT (after MI) grew 33% YoY to INR2.2b.

Highlights from the management commentary

- Domestic demand remained weaker than expected in 1HFY24, but it has been seeing a gradual pick-up since Sep'23 (9% YoY volume growth for KJC). Capacity utilization in 2Q stood at ~98%.
- Average fuel price stood at INR38/scm in 2QFY24. Blended gas cost is expected to remain range-bound as KJC is also using bio-fuels. Lower gas prices led to a savings of INR0.9b in 1HFY24.
- The dealer count increased to 1,950 from 1,840 in FY23, and KJC plans to increase its dealer network to 2,000 by FY24-end.

View and valuation

- We expect a 26% earnings CAGR over FY23-26 and improvement in return ratios (RoE to be at 21.6%/22.7% in FY25E/FY26E vs. 15% in FY23). We expect KJC to maintain its premium valuations. We value the stock at 42x Jun'25E EPS to arrive at a TP of INR1,580. **Reiterate BUY.**

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Motilal Oswal research is available on www.motilaloswal.com/Institutional-Equities, Bloomberg, Thomson Reuters, Factset and S&P Capital.

Consolidated quarterly performance

(INR m)

	FY23				FY24				FY23	FY24E	FY24	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net sales	10,082	10,778	10,911	12,048	10,642	11,216	11,813	18,400	43,819	48,081	11,317	-1
YoY change (%)	79.5	10.7	2.1	9.4	5.6	4.1	8.3	52.7	18.3	9.7	5.0	
Total expenditure	8,546	9,484	9,581	10,289	8,950	9,419	9,923	16,194	37,899	40,496	9,483	-1
EBITDA	1,536	1,294	1,331	1,759	1,692	1,797	1,890	2,206	5,920	7,586	1,833	-2
Margin (%)	15.2	12.0	12.2	14.6	15.9	16.0	16.0	12.0	13.5	15.8	16.2	-18
Depreciation	324	337	325	343	305	361	379	466	1,329	1,511	320	13
Interest	36	32	83	72	53	43	48	176	223	319	56	-24
Other income	81	76	75	104	93	83	88	107	336	370	88	-6
PBT before EO expense	1,257	1,002	997	1,448	1,427	1,477	1,552	1,671	4,705	6,125	1,545	-4
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	1,477	1,552	1,671	4,625	6,125	1,545	-4
Tax	328	277	261	298	336	366	389	448	1,163	1,540	388	-6
Rate (%)	26.1	27.6	26.1	20.6	23.5	24.8	25.1	26.8	24.7	25.1	25.1	
Reported PAT	930	661	737	1,076	1,091	1,110	1,162	1,222	3,404	4,586	1,157	-4
Minority interest	7	-10	-7	28	16	31	5	-33	17	18	4	
Adj. PAT	923	671	743	1,048	1,075	1,080	1,157	1,256	3,386	4,567	1,153	-6
YoY change (%)	114.4	-42.2	-39.1	9.5	16.5	60.8	55.7	19.8	-10.2	34.9	71.8	
Margin (%)	9.2	6.2	6.8	8.7	10.1	9.6	9.8	6.8	7.7	9.5	10.2	

Quarterly Summary	FY23				FY24		YoY (%)	QoQ (%)
	1Q	2Q	3Q	4Q	1Q	2Q		
Sales Volumes-mn sqm:								
Own Manufacturing	13.4	14.8	14.0	15.2	13.8	14.8	0	7
JVs	4.2	4.2	5.2	6.1	4.8	4.8	15	0
Trading	5.7	6.0	6.3	6.8	6.4	6.9	15	7
Total sales volumes	23.3	24.9	25.5	28.0	25.0	26.5	6	6
Revenue Mix (Rs mn)								
Own Manufacturing	5,381	5,968	5,592	5,994	5,393	5,705	(4)	6
JVs	1,321	1,354	1,640	1,867	1,340	1,825	35	36
Trading	2,387	2,421	2,608	2,980	2,833	2,469	2	(13)
Sanitaryware / faucets	714	744	795	904	837	853	15	2
Plywood	203	194	188	188	143	235	21	64
Adhesives	77	97	90	115	96	130	35	36
Revenue	10,082	10,778	10,911	12,048	10,642	11,216	4	5
Realization / sqm (Rs)								
Own Manufacturing	401	404	401	396	391	386	(5)	(1)
JVs	312	324	316	308	279	379	17	36
Trading	421	406	414	438	442	360	(11)	(19)
Blended Realization	393	395	390	391	386	383	(3)	(1)
Growth (% YoY)	15.4%	10.9%	4.0%	1.6%	-1.7%	-3.1%		
Growth (% QoQ)	2.0%	0.5%	-1.2%	0.2%	-1.2%	-0.9%		
Production Volumes-mn sqm:								
Own Manufacturing	14.7	15.0	13.7	14.7	14.1	14.9	(1)	6
JVs	5.1	3.9	4.5	5.9	4.7	5.1	31	9
Total Production volumes	19.8	18.9	18.2	20.5	18.7	20.0	6	7
Growth % YoY	41.2%	7.8%	-1.9%	12.7%	-5.3%	5.7%		
Growth % QoQ	8.3%	-4.2%	-3.7%	12.7%	-9.0%	7.0%		



Highlights from the management commentary

Demand and pricing

- Domestic demand remained weaker than expected in 1HFY24. The industry has been witnessing a gradual pick-up in volumes since Sep'23 (9% YoY volume growth for KJC). Demand improvement was led by growth in the real estate sector, which should result in better volume growth in 2HFY24. The real estate segment has reached at the post-construction stage (finishing stage), which should boost tile demand. Capacity utilization in 2Q stood at ~98%.
- Demand has been healthy from the sectors, though it is better in tier I and tier II cities. Sales break-up: ~30% from Metro/Tier I cities, 30% from tier II cities, 38% from tier III, and remaining from smaller towns. The company's expansion plan is to further penetrate in smaller cities.
- India's tile exports grew 25% in Apr-Aug'23, and India is expected to become the largest tile exporter by FY25. India accounts for ~15% of global tile exports. The total value of tile exports should reach INR200-210b in FY24 (INR100b as of 1HFY24) vs. INR160b in FY23. Low gas prices make India very competitive in the export markets. The company plans to increase its export share by opening stores in Dubai and London.
- FY24 volume growth guidance has been reduced to 9-10% from 13-15% earlier, while margin guidance has been maintained at 14%-16%. It targets INR1b revenue in the plywood segment in FY24. Bathware is expected to grow +20% YoY in FY24, supported by higher growth in 2HFY24.
- Prices are largely stable, but sometimes incentives are given to dealers for higher volume.

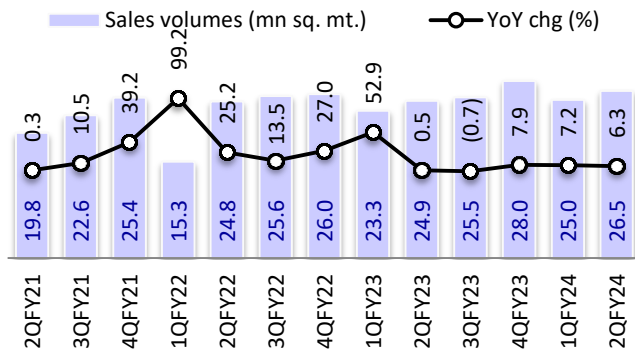
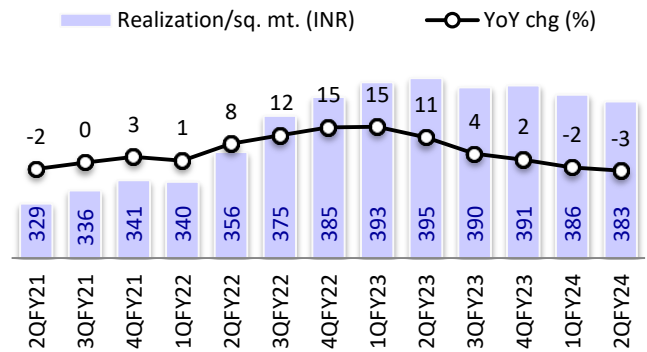
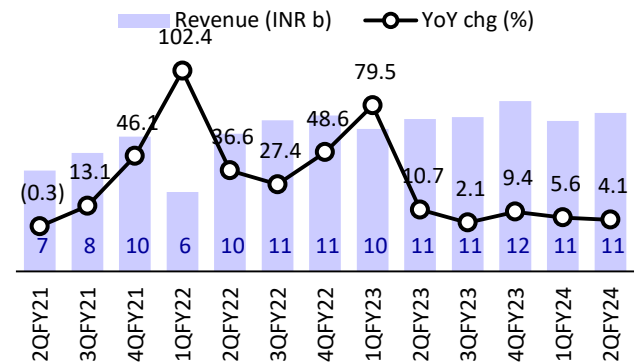
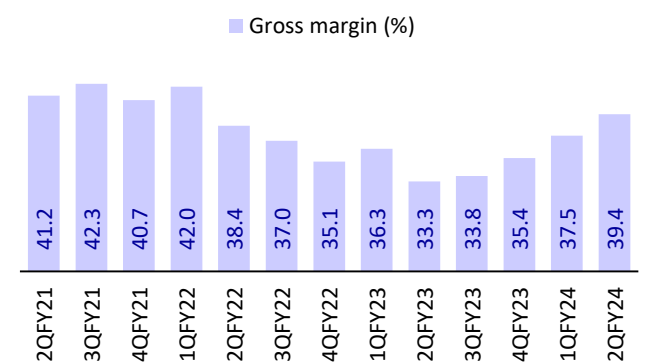
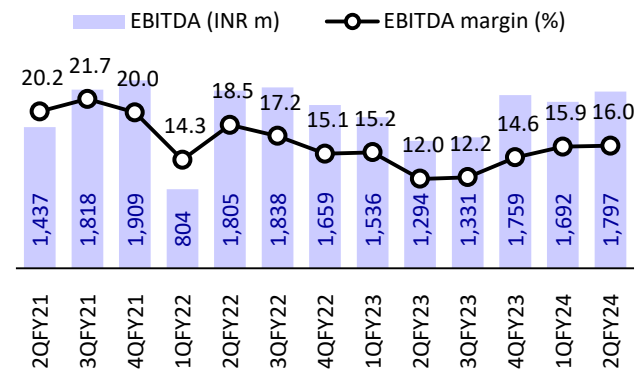
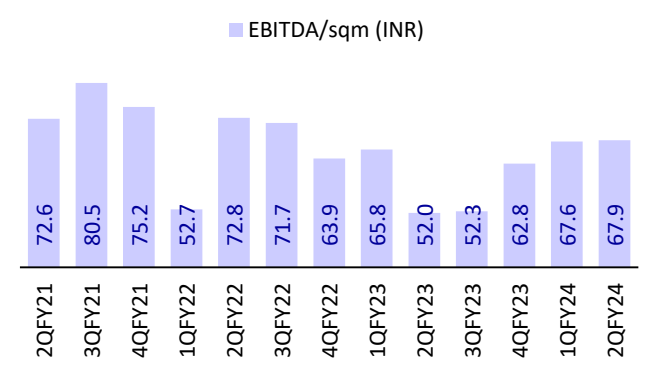
Operational highlights

- In 2QFY24, average fuel price stood at INR38/scm. Regional break-up: INR40 in North, INR38 in South and INR33 in West. Blended gas cost should remain range-bound as KJC is also using bio-fuels. Lower gas prices led to a saving of INR0.9b in 1HFY24.
- Employee costs increased in 2QFY24 due to increments, and this run rate will continue going forward.
- The company is considering aggressive ad spending in FY24 at INR1.3b-INR1.4b vs. INR1.1b in FY23. It has already spent INR0.6m in 1HFY24. Other expenses were higher due to higher advertisement and promotion expenses. This will continue at the current level for two more quarters.
- Its dealer count increased to 1,950 from 1,840. KJC plans to increase its dealer network to 2,000 by FY24-end, of which 500 will be exclusive.

Capex and expansion

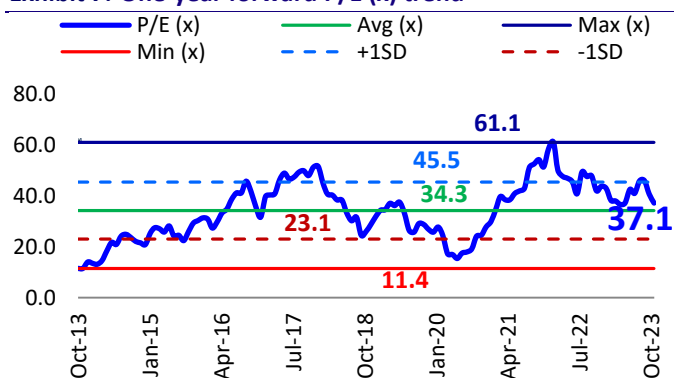
- KJC has recently commissioned the Sikandrabad and Gailpur modernization/expansion that will help in the manufacturing of large tiles and achieve energy efficiency.
- Capex in FY24 is estimated at INR3.7b. It has already incurred INR1.6b in 1HFY24 for the Sikandrabad and Gailpur expansions. The balance will be used in 2HFY24 for Nepal JV investment (INR0.9b), setting up sanitaryware capacity 0.6m pcs p.a. (INR0.8b) and maintenance and development of KJC's corporate office.

Story in charts

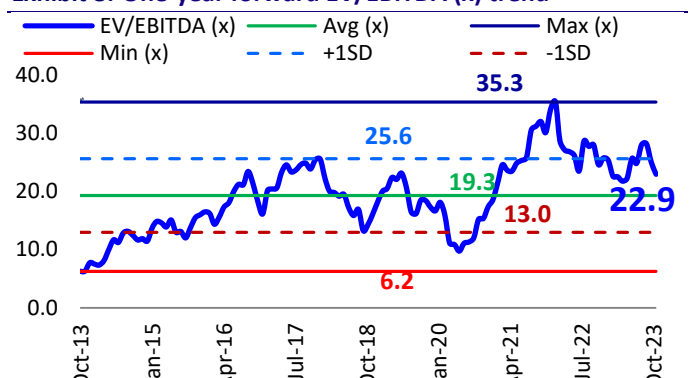
Exhibit 1: Sales volume grew ~6% YoY

Exhibit 2: Blended realization declined 3% YoY

Exhibit 3: Revenue increased 4% YoY

Exhibit 4: Gross margin improved 6.2pp YoY and 2pp QoQ

Exhibit 5: EBITDA increased 39% YoY, margin up 4pp YoY

Exhibit 6: EBITDA/sqm was up 31% YoY


Sources: Company reports, MOFSL

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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	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	29,562	28,080	27,809	37,052	43,819	48,081	53,677	60,170
Change (%)	9.1	-5.0	-1.0	33.2	18.3	9.7	11.6	12.1
EBITDA	4,495	4,159	5,088	6,107	5,920	7,586	9,045	10,514
Margin (%)	15.2	14.8	18.3	16.5	13.5	15.8	16.9	17.5
Depreciation	891	1,081	1,067	1,154	1,329	1,511	1,441	1,616
EBIT	3,604	3,078	4,022	4,953	4,592	6,074	7,604	8,898
Int. and Finance Charges	156	195	107	127	223	319	287	255
Other Income - Rec.	180	242	213	276	336	370	407	447
PBT bef. EO Exp.	3,449	2,883	3,914	4,826	4,368	5,756	7,317	8,643
EO Expense/(Income)	-48	0	0	0	79	0	0	0
PBT after EO Exp.	3,580	3,125	4,127	5,102	4,625	6,125	7,724	9,090
Current Tax	1,304	937	1,083	1,210	1,174	1,540	1,941	2,285
Deferred Tax	-12	-348	-446	65	-11	0	0	0
Tax Rate (%)	36.1	18.9	15.4	25.0	25.1	25.1	25.1	25.1
Reported PAT	2,288	2,535	3,490	3,827	3,463	4,586	5,783	6,805
PAT Adj for EO items	2,239	2,535	3,490	3,827	3,404	4,586	5,783	6,805
Change (%)	-1.7	13.2	37.7	9.7	-11.1	34.7	26.1	17.7
Margin (%)	7.6	9.0	12.6	10.3	7.8	9.5	10.8	11.3
Less: Minority Interest	22.3	-18.4	8.5	57.6	17.0	18.4	19.8	21.4
Net Profit	2,217	2,554	3,482	3,770	3,387	4,567	5,763	6,784

Consolidated Balance Sheet

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Equity Share Capital	159	159	159	159	159	159	159	159
Total Reserves	15,590	16,984	18,530	21,065	23,109	25,288	27,867	31,467
Net Worth	15,749	17,143	18,689	21,224	23,268	25,447	28,026	31,626
Deferred Liabilities	1,059	716	674	726	738	738	738	738
Minority Interest	659	637	646	648	776	795	815	836
Total Loans	1,203	1,281	987	1,279	2,093	1,893	1,693	1,493
Capital Employed	18,671	19,777	20,996	23,877	26,875	28,873	31,271	34,693
Gross Block	16,759	19,009	20,052	20,777	25,076	27,076	30,576	34,076
Less: Accum. Deprn.	5,980	7,061	8,128	9,282	10,610	12,121	13,562	15,179
Net Fixed Assets	10,778	11,948	11,924	11,496	14,466	14,955	17,013	18,897
Capital WIP	934	266	149	2,634	817	2,000	2,000	2,000
Total Investments	3	101	50	0	19	19	19	19
Curr. Assets, Loans&Adv.	12,003	12,056	13,120	15,728	17,976	19,136	20,238	22,707
Inventory	4,058	5,127	3,731	4,659	5,647	6,295	6,970	7,798
Account Receivables	4,751	3,967	4,317	5,133	6,012	6,546	6,970	7,798
Cash and Bank Balance	2,524	2,252	4,428	4,244	3,938	4,910	4,766	5,396
Loans and Advances	671	710	645	1,693	2,380	1,385	1,533	1,715
Curr. Liability & Prov.	5,048	4,594	4,248	5,981	6,403	7,237	8,000	8,930
Account Payables	4,848	4,306	4,019	5,722	6,111	6,924	7,667	8,577
Provisions	200	288	229	259	293	313	333	353
Net Current Assets	6,955	7,462	8,873	9,747	11,573	11,899	12,239	13,776
Appl. of Funds	18,671	19,777	20,996	23,877	26,875	28,873	31,271	34,693

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Basic (INR)								
Consol EPS	14.1	15.9	21.9	24.0	21.4	28.8	36.3	42.7
Cash EPS	19.7	22.7	28.6	31.3	29.7	38.3	45.4	52.9
BV/Share	99.1	107.8	117.5	133.3	146.2	159.8	176.0	198.7
DPS	3.0	3.0	10.0	11.0	9.0	15.0	20.0	20.0
Payout (%)	25.1	22.7	45.6	45.8	41.4	52.1	55.1	46.8
Valuation (x)								
P/E	90.0	79.5	57.8	52.7	59.3	44.0	34.9	29.6
Cash P/E	64.4	55.7	44.2	40.5	42.6	33.1	27.9	24.0
P/BV	12.8	11.8	10.8	9.5	8.7	7.9	7.2	6.4
EV/Sales	6.8	7.1	7.1	5.4	4.6	4.1	3.7	3.3
EV/EBITDA	44.5	48.2	38.9	32.5	33.8	26.2	22.0	18.8
Dividend Yield (%)	0.2	0.2	0.8	0.9	0.7	1.2	1.6	1.6
Return Ratios (%)								
RoIC	17.7	14.5	23.6	27.4	21.6	25.9	30.1	31.9
RoE	15.2	15.5	19.4	18.9	15.2	18.8	21.6	22.7
RoCE	20.2	16.0	19.7	22.1	18.1	21.8	25.3	27.0
Working Capital Ratios								
Asset Turnover (x)	1.7	1.5	1.4	1.7	1.7	1.7	1.8	1.8
Working Capital (Days)	57	66	58	62	69	55	53	53
Leverage Ratio (x)								
Net Debt/Equity	(0.3)	(0.2)	(0.7)	(0.5)	(0.3)	(0.4)	(0.3)	(0.4)

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
OP/(Loss) before Tax	3,580	3,125	4,127	5,102	4,625	6,125	7,724	9,090
Depreciation	891	1,081	1,067	1,154	1,329	1,511	1,441	1,616
Interest & Finance Charges	156	195	107	127	223	319	287	255
Direct Taxes Paid	(1,327)	(1,005)	(980)	(1,285)	(1,265)	(1,540)	(1,941)	(2,285)
(Inc)/Dec in WC	(117)	(993)	868	(621)	(1,851)	646	(484)	(907)
CF from Operations	3,183	2,403	5,189	4,476	3,061	7,062	7,026	7,769
Others	(9)	(159)	(101)	(221)	(106)	-	-	-
CF from Operating incl EO	3,174	2,244	5,088	4,255	2,955	7,062	7,026	7,769
(Inc)/Dec in FA	(1,235)	(1,240)	(1,127)	(2,687)	(2,317)	(3,183)	(3,500)	(3,500)
Free Cash Flow	1,938	1,004	3,961	1,568	639	3,879	3,526	4,269
(Pur)/Sale of Investments	681	(88)	(41)	(51)	(363)	-	-	-
Others	(2,055)	427	(1,788)	(241)	842	-	-	-
CF from Investments	(2,609)	(901)	(2,955)	(2,979)	(1,837)	(3,183)	(3,500)	(3,500)
Issue of Shares	(6)	3	53	52	12	-	-	-
Inc/(Dec) in Debt	(404)	(104)	(439)	112	239	(200)	(200)	(200)
Interest Paid	(156)	(153)	(68)	(92)	(166)	(319)	(287)	(255)
Dividend Paid	(575)	(1,150)	(1,591)	(1,273)	(1,433)	(2,388)	(3,184)	(3,184)
Others	-	-	-	-	-	-	-	-
CF from Fin. Activity	(1,141)	(1,404)	(2,045)	(1,201)	(1,348)	(2,907)	(3,671)	(3,639)
Inc/Dec of Cash	(576)	(60)	87	75	(230)	972	(145)	630
Opening Balance	798	221	161	248	335	105	1,078	933
Closing Balance	221	161	248	323	105	1,078	933	1,563
Bank balance	2,303	2,091	4,179	3,921	3,832	3,832	3,832	3,832
Total cash balance	2,524	2,252	4,428	4,244	3,938	4,910	4,766	5,396

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

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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