



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗
	+ Positive	= Neutral	- Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✗	↔	✗

ESG Disclosure Score

NEW

ESG RISK RATING

Updated Jul 08, 2023

25.38

Medium Risk

NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

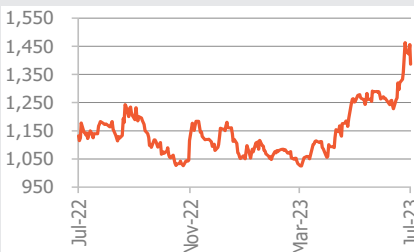
Company details

Market cap:	Rs. 22,075 cr
52-week high/low:	Rs. 1,490/1,006
NSE volume: (No of shares)	438690
BSE code:	500233
NSE code:	KAJARIACER
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	47
FII	18
Institutions	25
Public & others	9

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	9.0	30.9	26.3	22.4
Relative to Sensex	3.1	20.3	13.9	1.7

Sharekhan Research, Bloomberg

Kajaria Ceramics Ltd

Growth acceleration on the way; Retain Buy

Building Materials

Sharekhan code: KAJARIACER

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,386

Price Target: Rs. 1,600



Summary

- We retain Buy on Kajaria Ceramics with a revised PT of Rs. 1,600 increasing our valuation multiple considering strong demand tailwinds from realty sector upcycle and favourable industry exports outlook.
- For Q1FY2024, operational performance broadly remained in-line with marginally lower volume growth was offset by higher-than-expected OPMs. Net cash surplus rise q-o-q.
- Management retained 14-16% y-o-y consolidated revenue growth supported by 13-15% y-o-y tile volume growth and 14-16% OPMs for FY2024. H2 to show strong demand growth.
- Commercial production at Sikandrabad and modernized production from Gailpur to commence from August. Nepal JV project remain on track to commission by March 2024.

Kajaria Ceramics Limited (Kajaria) reported broadly in-line operational performance for Q1FY2024 as marginally lower volume growth was offset by higher-than-expected OPMs. The Consolidated revenues grew by 5.6% y-o-y at Rs. 1064 crore led by tile volume growth of 7.3% y-o-y, while blended tile realisation declined 1.8% y-o-y. Bathware/Adhesives segment revenues grew by 17%/23% y-o-y while Plywood declined by 30% y-o-y. Consolidated OPM at 15.9% (up 67 bps y-o-y) came in higher than our estimate, of 15.3% driven by lower power & fuel costs. Consequently, consolidated operating profit/adjusted net profit rose 10%/16.5% y-o-y. Despite slower volume growth in Q1, management remained optimistic on strong demand pick up from September onwards, led by realty sector demand kicking in. Hence, it retained 13-15% y-o-y tile volume growth, consolidated revenue growth of 14-16% y-o-y and 14-16% OPM for FY2024. Sikandrabad 2.4 MSM commercial production and Gailpur modernisation for bigger ceramic tile production are expected to start from August 2023, while Nepal 5.1 MSM JV unit remains on track to be commissioned by March 2024. Strong demand tailwinds and fuel cost savings (major part being retained) are expected to drive earnings growth over the next two years.

Key positives

- OPM improved 67 bps y-o-y and 130 bps q-o-q to 15.9% aided by lower power & fuel costs.
- Net cash surplus increased to Rs. 307 crore from Rs. 236 crore in Q4FY2023.
- Despite weak tile volume growth in Q1, management remained confident of achieving 13-15% y-o-y tile volume growth in FY2024.

Key negatives

- Tile volume growth of 7.3% y-o-y came in lower than expected due to subdued demand in April and May.
- Plywood revenues dipped 30% y-o-y and 24% q-o-q to just Rs. 10 crore.
- Working capital days marginally increased to 62 days from 59 days in Q4FY2023.

Management Commentary

- The management retained tile volume growth guidance of 13-15% y-o-y, consolidated revenue growth of 14-16% y-o-y and consolidated EBITDA margins of 14-16% for FY2024. The profit from JVs is expected at Rs. 40-50 crores as against Rs. 2 crore in FY2023.
- It retained bathware segment revenue growth of 30%+ for FY2024. Plywood segment revenue is expected at Rs. 100 crore in FY2024 as against Rs. 77 crore in FY2023. Revenues from Adhesives are expected to rise to Rs. 65 crore and Rs. 100 crore in FY2024 and FY2025 as against Rs. 38 crore in FY2023.
- Indian tile exports were up 23% y-o-y at Rs. 4803 crore in Q1FY2024. The same is estimated at Rs. 21,000 crore in FY2024 from Rs. 17,500 crore in FY2023.

Revision in estimates – We have fine-tuned our earnings estimates for FY2024-FY2025E.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,600: Kajaria is expected to benefit from healthy domestic demand led by strong demand tailwinds from the realty sector and rising exports over the next 2-3 years. Further, decline in gas prices has provided OPM expansion with a major part of the savings being retained by the company. We expect Kajaria to report revenues/operating profit/net profit CAGR of 14%/27%/32% over FY2023-FY2025E. The stock touched its 52-week high (up 25%) post our upgrade to Buy in our report dated May 18, 2023. It is currently trading at a P/E of 36x its FY2025E earnings. There are short term demand headwinds, Kajaria provides an opportunity to ride the realty upcycle in the mid to long term. Hence, we have upwardly revised our PT to Rs. 1,600 increasing our valuation multiple and retain Buy on the stock.

Key Risks

Weak macroeconomic environments, pressure on realisations and increased gas prices are key risks to our call.

Valuation (Consolidated)

Particulars	FY22	FY23	FY24E	FY25E
Revenue	3,705.2	4,381.9	4,915.8	5,642.3
OPM (%)	16.5	13.5	16.3	16.8
Adjusted PAT	377.0	352.4	505.5	609.9
% y-o-y growth	22.4	(6.5)	43.4	20.7
Adjusted EPS (Rs.)	23.7	22.1	31.7	38.3
P/E (x)	58.5	62.6	43.7	36.2
P/B (x)	10.3	9.4	8.3	7.2
EV/EBITDA (x)	34.7	35.8	26.4	22.3
RoNW (%)	18.9	15.8	20.4	21.4
RoCE (%)	18.3	15.4	19.4	20.5

Source: Company Data; Sharekhan Estimates

Operationally in-line performance

Kajaria Ceramics reported consolidated net revenues growth of 5.6% y-o-y (down 11.7% q-o-q) at Rs. 1064 crore, which was 3% below our estimate. The revenues from tiles segment grew by 5% y-o-y (down 12% q-o-q) to Rs. 957 crore. Sanitary ware/faucets revenues grew by 17% y-o-y (down 7% q-o-q) to Rs. 84 crores. Plywood revenues were down 30% y-o-y (down 24% q-o-q) at Rs. 14 crores. Adhesives revenues were up 23% y-o-y (down 16% q-o-q) at Rs. 10 crore. The tiles volumes grew by 7.2% y-o-y (down 10.7% q-o-q) at 25msm which was lower than our estimate. Blended tile realization were down 1.8% y-o-y (down 1.2% q-o-q) at Rs. 382/sq mt. Consolidated OPM at 15.9% (up 67 bps y-o-y, up 130 bps q-o-q) was higher than our estimate of 15.3%. Consolidated operating profit stood at Rs. 169.2 crore (up 10% y-o-y, down 4% q-o-q, which aligned with our estimate. Consolidated net profit of Rs. 107.5 crore (up 16.5% y-o-y, down 4% q-o-q) was 9% higher than our estimate. Beat in net profit was due to lower-than-expected depreciation and interest expense.

Key conference call highlights

- ♦ **Guidance:** The management retained tile volume growth guidance of 13-15% y-o-y, consolidated revenue growth of 14-16% y-o-y and consolidated EBITDA margins of 14-16% for FY2024. The management expects pick up in demand from September onwards led by real estate demand starting to kick in. The profit from JVs is expected at Rs. 40-50 crores as against Rs. 2 crore in FY2023. It retained bath ware segment revenue growth of 30%+ for FY2024. Plywood segment revenue is expected at Rs. 100 crore in FY2024 as against Rs. 77 crore in FY2023. Revenues from Adhesives are expected to rise to Rs. 65 crore and Rs. 100 crore in FY2024 and FY2025 as against Rs. 38 crore in FY2023. The PBT of adhesives is expected to increase to Rs. 12-13 crore in FY2024 from Rs. 7 crore in FY2023.
- ♦ **Q1FY2024 highlights:** The volume growth of 7.25% y-o-y in tile for Q1 was lower than expected due to subdued demand in April and May. Consolidated revenues grew 6% y-o-y at Rs. 1064 crores, Bathware segment revenues grew by 17% y-o-y at Rs. 84 crores, Plywood revenues declined to Rs. 14 crores from Rs. 21 crore a year ago. Consolidated EBITDA margins stood at 13.9%, higher by 130 bps y-o-y and 67 bps q-o-q led by fuel cost reductions. Working capital days increased to 62 days from 59 days.
- ♦ **Fuel costs:** The average fuel consumption cost for the company for Q1FY2024 stood at Rs. 39/scm. Region-wise average fuel cost is as follows North – Rs. 39/scm, South – Rs. 44/scm and West – Rs. 37/scm. For morbi players, the gas price including taxes is Rs. 41/scm with propane at similar price level. The company estimates Rs. 150-170 crore savings in fuel costs in FY2024 out of which Rs. 50-75 crore would be passes on to dealers for pushing volumes while balance savings would be retained.
- ♦ **Capacity expansion:** The Sikandrabad expansion would add 2.6 msm capacity and Nepal JV 5.1 msm capacity taking overall tile capacity to 89 msm by FY2025 end. Further, outsourcing will be increased to cater to higher demand.
- ♦ **Capex:** It would be incurring capex of Rs. 370 crores in FY2024. The break up of the same is as follows Gailpur balance capex – Rs. 50 crore, Sikandrabad capex – Rs. 70 crore, Nepal – Rs. 90 crore, Bathware – Rs. 80 crore, Corporate office – Rs. 50 crore and maintenance capex – Rs. 30 crore plus.
- ♦ **Ad spends:** The company would incur advertising expenses of Rs. 135 crore in FY2024 (Rs. 26 crore spent in Q1) as against Rs. 108 crore spent in FY2023.
- ♦ **Biofuel mix:** Biofuel comprises 33% in its North plant and 20% overall. The biofuel price is Rs. 22/scm. South-based plants are all on LNG by road.
- ♦ **Exports:** Indian exports were up 23% y-o-y at Rs. 4803 crore in Q1FY2024. The same is estimated at Rs. 21,000 crore in FY2024 from Rs. 17,500 crore in FY2023.
- ♦ **Nepal:** Its 5.1 msm JV project in Nepal is expected to commission by March 2024. The company may get Rs. 15 crore profit as its share from the annualised profit estimate of Rs. 30 crore in FY2025.

Results (Consolidated)

					Rs cr
Particulars	Q1FY2024	Q1FY2023	y-o-y%	Q4FY2023	q-o-q%
Net sales	1064.2	1008.2	5.6%	1204.8	-11.7%
other income	9.3	8.1	14.5%	10.4	-11.1%
Total income	1073.5	1016.3	5.6%	1215.2	-11.7%
Total expenses	895.0	854.6	4.7%	1028.9	-13.0%
Operating profit	169.2	153.6	10.2%	175.9	-3.8%
Depreciation	30.5	32.4	-5.7%	34.3	-11.1%
Interest	5.3	3.6	46.0%	7.2	-27.2%
Exceptional items	0.0	0.0		-4.3	
Profit Before Tax	142.7	125.7	13.5%	140.6	1.5%
Taxes	33.6	32.8	2.6%	29.8	12.8%
Minority Interest	1.6	0.7		2.7	
PAT	107.5	92.3	16.5%	108.0	-0.5%
Adjusted PAT	107.5	92.3	16.5%	112.3	-4.2%
EPS (Rs.)	6.8	5.8	16.5%	7.1	-4.2%
Margins					
OPM (%)	15.9%	15.2%	67 bps	14.6%	130 bps
NPM (%)	10.1%	9.2%	95 bps	9.0%	114 bps
Tax rate (%)	23.5%	26.1%	-251 bps	21.2%	235 bps

Source: Company, SharekhanResearch

Outlook and Valuation

■ Sector View – Healthy demand environment to sustain

The building materials industry was severely affected by the COVID-19-led lockdown during Q1FY2021, which affected its peak sales period of the year. Additionally, its high fixed-cost structure affected OPM, dragging down its net earnings. However, since June, the sector has been one of the fastest in recovery with the easing of lockdowns domestically. The sector has seen resumption of dealer and distribution networks and a sharp improvement in capacity utilisation. Most players have begun to see demand and revenue run-rate reaching 80-90% as compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding a recovery in net earnings.

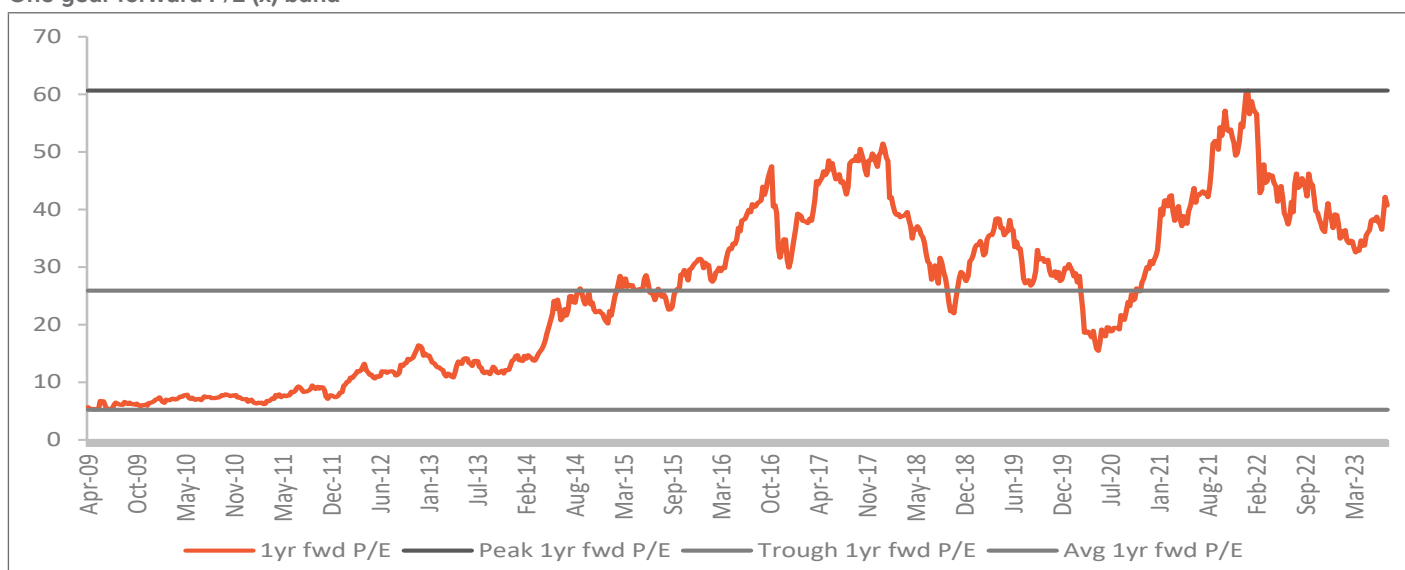
■ Company Outlook – Demand environment to remain strong over long term

Kajaria is expected to see an improvement in operations and demand going ahead. The company's asset utilisation has been improving and is expected to grow further. Anti-China sentiments in the US and European countries have boosted exports for the Morbi cluster, which houses ~850 manufacturing units. This has led to an improved pricing environment for organised players such as Kajaria and an increase in market share domestically. The management has guided for 14-16% y-o-y consolidated revenue growth aided by 13-15% y-o-y tile volume growth and 14-16% OPMs for FY2024. The company would invest in expanding capacities in its Sikandrabad plant and unit in Nepal.

■ Valuation – Retain Buy with a revised PT of Rs. 1,600

Kajaria is expected to benefit from healthy domestic demand led by strong demand tailwinds from the realty sector and rising exports over the next 2-3 years. Further, decline in gas prices has provided OPM expansion with major part of the savings being retained by the company. We expect Kajaria to report revenues/operating profit/net profit CAGR of 14%/27%/32% over FY2023-FY2025E. The stock touched its 52-week high (up 25%) post our upgrade to Buy in our May 18, 2023 report. It is currently trading at a P/E of 36x its FY2025E earnings. We believe that although there are short-term demand headwinds, Kajaria provides an opportunity to ride the realty upcycle in the mid to long term. Hence, we have upwardly revised our PT to Rs. 1,600 increasing our valuation multiple and retaining Buy on the stock.

One-year forward P/E (x) band



Source: Company Data; Sharekhan Research

About the company

Kajaria Ceramics is India's largest manufacturer of ceramic/vitrified tiles and the world's eighth largest tile manufacturer. The company has an annual capacity of 84.45 mn. sq. meters presently, distributed across eight plants - one at Sikandrabad in Uttar Pradesh, one at Gailpur, one at Malootana in Rajasthan, two at Morbi in Gujarat, one at Vijayawada, one at Srikalahasti in Andhra Pradesh and one at Balanagar in Telangana.

Investment theme

Kajaria like other building material players is expected to witness benefits arising from improving demand in the housing sector. Further, anti-China sentiments in the US and European countries, along with soft gas prices, have boosted exports for the Morbi cluster, which has led to an improved pricing environment for organised players such as Kajaria and an increase in market share domestically. Given the strong demand outlook over the next two to three years, the company is undertaking brownfield expansion. Its rising free cash flow generation and high cash surplus would aid in expansion plans without leveraging the balance sheet.

Key Risks

- ♦ Increased crude oil prices followed by higher gas prices.
- ♦ Pressure on pan-India residential housing market leading to overall lower volume offtake for the industry.

Additional Data

Key management personnel

Mr. ASHOK KUMAR KAJARIA	Executive Director-Chairperson related to Promoter
Sanjeev Agarwal	Chief Financial Officer
R C Rawat	Company Secretary & Compliance Officer
Mr. CHETAN KAJARIA	Executive Director
Mr. RISHI KAJARIA	Executive Director

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	RISHI KAJARIA FAMILY TRUST	16.3
2	CHETAN KAJARIA FAMILY TRST	16.3
3	CK TRUSTEES PVT LTD	16.3
4	RK TRUSTEES PVT LTD	16.3
5	VERSHA KAJARIA FAMILY TRST	8.1
6	VK TRUSTEES PVT LTD	8.1
7	Norges Bank	4.7
8	GOVERNMENT PENSION FUND - GLOBAL	4.6
9	Mirae Asset Global Investments Co Ltd	4.2
10	Franklin Resources Inc	3.7

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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