

Kajaria Ceramics

Cost savings drive earnings rebound; volume to pick up

We upgraded Kajaria Ceramics (KJC) to BUY with a revised target price of INR 1,470/share (35x Sep-25 EPS). Kajaria's Q2FY24 tiles volume/consolidated revenue growth remained muted at 6/4% YoY on subdued demand. EBITDAM expanded 400bps YoY to 16% on a sharp 68% cool-off in gas prices (despite partial cost benefits passing through). Tiles/non-tiles revenue rose 3/18% YoY. Consolidated EBITDA/APAT rose 39/47% YoY. KJC expanded its tiles capacity by 4.9MSM in Q2FY24 and will be further adding 5.1MSM in Nepal next year. The company expects demand to accelerate H2FY24E. We estimate KJC to deliver 12/22/26% consolidated revenue/EBITDA/APAT CAGR during FY23-26E and its RoE/RoCE should remain robust at 20%+.

- Q2FY24 performance:** Revenue/EBITDA/APAT grew 4/39/47% YoY. Tiles demand remained weak (tiles revenue/volume rose 3/6% YoY, five-year CAGR 6/6%). A sharp fall in fuel prices YoY (fuel inflation peaked out in Q2FY23 at INR 38/SCM – down 3/68% QoQ/YoY) drove EBITDAM expansion by 400bps YoY to 16%, despite partial cost pass-through (NSR down 3/1% YoY/QoQ). On a QoQ basis, EBITDAM remained flat. Non-tiles revenue went up 18% YoY: five-year CAGR 26% as KJC's bathware/ply/adhesive revenues grew at a faster pace (on a low base). Capital charges went up YoY on recent expansions.
- Con call KTAs and outlook:** KJC remains upbeat on better demand in H2 (Sep volume growth was 9% vs ~5% in the preceding two months). It expects blended gas prices to remain flattish QoQ. KJC guided 9-10% tiles volume growth in FY24 (H1: +7% YoY) with consolidated EBITDAM at the upper end of 14-16% (H1: 16%). It expects its bathware revenue to grow at 20%+ in FY24. During Q2, it added 3MSM large-sized GVT capacity at Sikandarabad and 1.9MSM ceramics capacity at Gailpur. As per earlier guidance, it will expand its sanitaryware capacity by 0.6mn pcs pa by FY24 end (INR 0.8bn) and commission a 5.1MSM plant in Nepal (50% KJC share, total Capex 1.81bn) in H1FY25. KJC would spend INR 3.8/2.5/2.5bn in Capex during FY24/25/26E. We trim our FY24E EPS by 8%, factoring in lower volume. We maintain FY25E EPS and also introduce FY26E financials. We roll forward valuation to Sep-25E EPS vs Mar-25E earlier.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q2 FY24	Q2 FY23	YoY (%)	Q1 FY24	QoQ (%)	FY22	FY23	FY24E	FY25E	FY26E
Tiles sales (MSM)	26.5	24.9	6.3	25.0	5.8	91.7	101.7	113.0	125.7	138.3
NSR (Rs/Kg)	378	391	(3.4)	382	(1.2)	404	431	426	437	441
Tiles Revenue	9,998	9,745	2.6	9,566	4.5	33,432	39,511	43,462	49,121	54,033
Other Revenue	1,218	1,033	17.9	1,076	13.2	3,620	4,308	4,639	5,799	6,959
Net Sales	11,216	10,778	4.1	10,642	5.4	37,052	43,819	48,101	54,919	60,991
EBITDA	1,797	1,294	38.9	1,692	6.2	6,107	5,920	7,988	9,558	10,823
EBITDAM (%)	16.0	12.0		15.9		16.5	13.5	16.6	17.4	17.7
APAT	1,080	735	46.8	1,075	0.4	3,770	3,524	5,147	6,221	7,119
Diluted EPS (Rs)	6.8	4.6	47.1	6.8	0.4	23.7	22.1	32.3	39.1	44.7
EV / EBITDA (x)						31.7	33.1	24.3	20.1	17.6
P/E (x)						52.2	55.8	38.2	31.6	27.6
RoE (%)						18.3	15.4	20.1	21.3	21.3

Source: Company, HSIE Research, Other revenues comprise bathware, ply and adhesives

BUY

CMP (as on 20 Oct 2023) INR 1,230

Target Price INR 1,470

NIFTY 19,543

KEY CHANGES	OLD	NEW
Rating	ADD	BUY
Price Target	INR 1,310	INR 1,470
EPS revision %	FY24E (8.2)	FY25E 0.0

KEY STOCK DATA

Bloomberg code	KJC IN
No. of Shares (mn)	159
MCap (INR bn) / (\$ mn)	196/2,396
6m avg traded value (INR mn)	298
52 Week high / low	INR 1,524/1,007

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(15.9)	12.5	11.7
Relative (%)	(12.7)	2.9	1.3

SHAREHOLDING PATTERN (%)

	Jun-23	Sep-23
Promoters	47.49	47.49
FIs & Local MFs	25.22	25.45
FPIs	17.96	18.48
Public & Others	9.33	8.59

Pledged Shares - -

Source : BSE

Pledged shares as % of total shares

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Disclosure:

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