

21 October 2023

India | Equity Research | Q2FY24 Result Review

## Kajaria Ceramics

Tiles

### Tepid quarter; much stronger H2FY24 outlook

In Q2FY24, Kajaria Ceramics (KJC) reported in-line consol. revenue growth of 4.1% YoY driven by tiles volume growth of 6.3% YoY (4-year CAGR of 7.6%), while realisation declined 3.4% YoY (-1.2% QoQ). EBITDA margin expanded 402bps YoY (+12bps QoQ) to 16% on a low base due to lower RM cost (-616bps /-197bps YoY/QoQ, including power and fuel cost), resulting in EBITDA/APAT growth of 38.9%/48.9% YoY. As per management, demand was subdued in Q2FY24, but it remains optimistic of better volume growth in H2FY24 driven by an uptick in the real estate sector. Management guides for volume growth of 9–10% YoY (vs. 13–15% YoY earlier) and maintains its margin guidance of 14–16% with an upward bias in FY24. We cut our EBITDA estimates by ~4% each for FY24–26E and upgrade our rating from ADD to **BUY** with a rolled-over Dec'24E TP of INR 1,454 (from INR 1,487), set at an unchanged 38x P/E.

### Modest tile volume growth of 6.3% YoY

KJC reported Q2FY24 consolidated revenue growth of 4.1% YoY (4-year CAGR of 11.9%) to ~INR 11.2bn driven by tiles volume growth of 6.3% YoY (4-year CAGR of 7.6%), while realisation declined 3.4% YoY/1.2% QoQ. The bathware segment witnessed revenue growth of 14.6% YoY, while plywood revenue grew 21% YoY. Management indicated that demand was subdued in Q2, but has started improving Sep'23 onwards and expects better volume growth in H2FY24. As per management, many projects are now nearing completion and thus, demand for their products should be better going ahead. It guides for tile volume growth of 9–10% YoY (earlier 13–15% YoY) and revenue growth >20% YoY in FY24 for the bathware segment. Working capital days in Q2FY24 stood at 53 (-9 days YoY due to higher payable days) and it has cash surplus of ~INR 3.92bn. We have modelled 10.7% volume CAGR over FY23–FY26E driven by increasing geographical reach of KJC and healthy housing market.

### Lower gas cost YoY leads to EBITDA margin improvement

KJC's EBITDA margin in Q2FY24 expanded 402bps YoY to 16% (+12bps QoQ) on a low base, primarily due to lower RM cost (down 616bps YoY/197bps QoQ, including power and fuel cost), resulting in EBITDA/APAT growth of 38.9%/48.9% YoY. Average gas cost in Q2 was ~INR 38/scm (-2.6% QoQ) and is expected to be at similar levels going ahead due to use of bio-fuels despite rising natural gas/crude prices. Management maintains its EBITDA margin guidance range of 14–16% with an upward bias for FY24. We model margins of 16.2%–16.3% over FY23–FY26E (vs. FY12–23 average OPM of 16.5%).

### Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	43,819	47,757	53,843	60,149
EBITDA	5,934	7,749	8,795	9,831
EBITDA %	13.5	16.2	16.3	16.3
Net Profit	3,496	4,808	5,584	6,258
EPS (Rs)	22.0	30.2	35.1	39.3
EPS % Chg YoY	(7.4)	37.5	16.1	12.1
P/E (x)	56.0	40.7	35.1	31.3
EV/EBITDA (x)	32.7	24.8	21.7	19.3
RoCE (%)	13.7	16.9	17.9	18.4
RoE (%)	15.7	19.6	20.3	20.4

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#### Market Data

Market Cap (INR)	196bn
Market Cap (USD)	2,358mn
Bloomberg Code	KJC IN
Reuters Code	KAJR.BO
52-week Range (INR)	1,524 /1,006
Free Float (%)	52.0
ADTV-3M (mn) (USD)	3.8

Price Performance (%)	3m	6m	12m
Absolute	(15.8)	12.8	12.6
Relative to Sensex	(12.8)	2.0	0.7

ESG Disclosure	2021	2022	Change
ESG score	45.5	53.4	7.9
Environment	24.2	38.9	14.7
Social	31.1	40.1	9.1
Governance	81.1	81.1	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E	FY26E
Revenue	(3.2%)	(3.0%)	(3.0%)
EBITDA	(4.0%)	(4.3%)	(4.4%)
EPS	(6.4%)	(4.8%)	(5.1%)

#### Previous Reports

27-07-2023: [Q1FY24 results review](#)

18-05-2023: [Q4FY23 results review](#)

## Valuations and view

KJC's operating performance has been marginally below expectations and, going ahead, we believe it has volume and margin tailwinds stemming from the uptick in real estate activity. We continue to like KJC for its leadership in the domestic tiles market. We upgrade KJC to **BUY**, from **ADD**, due to a ~16% correction in its stock price over the past three months with a rolled-over Dec'24 target price of INR 1,454 (earlier INR 1,487), set at unchanged 38x PER (in line with its 5-year average/1-year forward P/E).

### Exhibit 1: Q2FY24 consolidated result review

INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
<b>Net Sales</b>	<b>11,216</b>	<b>10,778</b>	<b>4.1%</b>	<b>10,642</b>	<b>5.4%</b>	<b>21,859</b>	<b>20,860</b>	<b>4.8%</b>
Raw Materials	4,582	4,519	1.4%	4,717	-2.9%	9,299	8,259	12.6%
% of sales	40.8%	41.9%	-108 bps	44.3%	-348 bps	42.5%	39.6%	295 bps
Power & Fuel	2,211	2,672	-17.2%	1,937	14.1%	4,148	5,357	-22.6%
% of sales	19.7%	24.8%	-508 bps	18.2%	151 bps	19.0%	25.7%	-670 bps
Employee cost	1,300	1,138	14.2%	1,137	14.3%	2,436	2,282	6.8%
% of sales	11.6%	10.6%	103 bps	10.7%	91 bps	11.1%	10.9%	21 bps
Other expenses	1,327	1,154	15.0%	1,159	14.4%	2,486	2,132	16.6%
% of sales	11.8%	10.7%	112 bps	10.9%	94 bps	11.4%	10.2%	115 bps
<b>EBITDA</b>	<b>1,797</b>	<b>1,294</b>	<b>38.9%</b>	<b>1,692</b>	<b>6.2%</b>	<b>3,489</b>	<b>2,830</b>	<b>23.3%</b>
EBITDA Margin (%)	16.0%	12.0%	402 bps	15.9%	12 bps	16.0%	13.6%	240 bps
Depreciation and amortization	361	337	7.2%	305	18.2%	666	660	0.9%
<b>EBIT</b>	<b>1,436</b>	<b>958</b>	<b>50.0%</b>	<b>1,387</b>	<b>3.6%</b>	<b>2,823</b>	<b>2,170</b>	<b>30.1%</b>
EBIT Margin (%)	12.8%	8.9%	392 bps	13.0%	-23 bps	12.9%	10.4%	251 bps
Interest expenses	43	32	34.8%	53	-19.2%	95	68	40.8%
Other Income	81	76	5.5%	93	-13.3%	173	157	10.2%
<b>PBT</b>	<b>1,474</b>	<b>1,002</b>	<b>47.1%</b>	<b>1,427</b>	<b>3.3%</b>	<b>2,901</b>	<b>2,259</b>	<b>28.4%</b>
Income taxes	366	277	32.3%	336	9.0%	702	604	16.2%
<b>PAT before MI &amp; Extra ordinaries</b>	<b>1,108</b>	<b>726</b>	<b>52.7%</b>	<b>1,091</b>	<b>1.6%</b>	<b>2,199</b>	<b>1,655</b>	<b>32.9%</b>
Extraordinary items	0	37	-100.0%	0	n.m.	0	37	-100.0%
Minority interest	29	-10	nm	16	79.9%	45	-3	nm
<b>Reported PAT</b>	<b>1,080</b>	<b>699</b>	<b>54.5%</b>	<b>1,075</b>	<b>0.4%</b>	<b>2,155</b>	<b>1,622</b>	<b>32.9%</b>
<b>Adjusted PAT</b>	<b>1,080</b>	<b>725</b>	<b>48.9%</b>	<b>1,075</b>	<b>0.4%</b>	<b>2,155</b>	<b>1,648</b>	<b>30.7%</b>

Source: I-Sec research, Company data

### Exhibit 2: Q2FY24 segmental result review

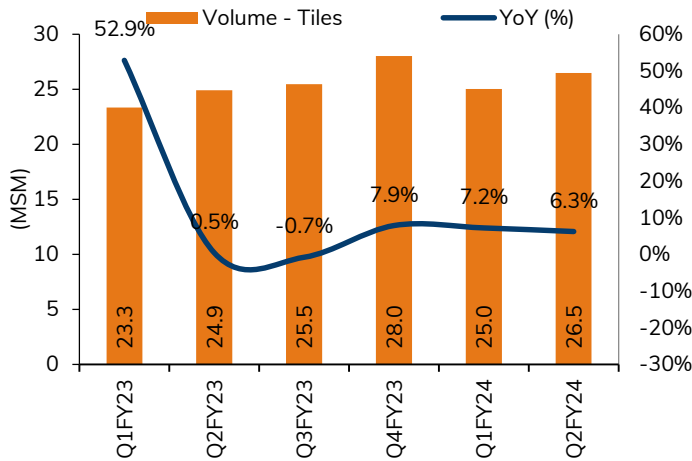
INR mn	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	H1FY24	H1FY23	YoY (%)
<b>Tiles Volume (in MSM)</b>								
Self-manufactured	14.8	14.8	0.1%	13.8	7.1%	28.6	28.2	1.4%
Subsidiaries	4.8	4.2	15.3%	4.8	0.4%	9.5	8.4	12.5%
Outsourcing	6.9	6.0	15.1%	6.4	7.0%	13.4	11.6	15.5%
<b>Total sales volume</b>	<b>26.5</b>	<b>24.9</b>	<b>6.3%</b>	<b>25.0</b>	<b>5.8%</b>	<b>51.5</b>	<b>48.2</b>	<b>6.7%</b>
<b>Segment Revenues</b>								
Tiles	10,129	9,839	2.9%	9,662	4.8%	19,791	19,004	4.1%
Other	1,088	938	15.9%	980	11.0%	2,068	1,856	11.4%
<b>Total revenues</b>	<b>11,216</b>	<b>10,778</b>	<b>4.1%</b>	<b>10,642</b>	<b>5.4%</b>	<b>21,859</b>	<b>20,860</b>	<b>4.8%</b>
<b>EBIT</b>								
Tiles	1429	954	49.9%	1330	7.5%	2759	2126	29.8%
Other	7	4	78.0%	57	-87.3%	65	44	46.4%
<b>Total</b>	<b>1,436</b>	<b>958</b>	<b>50.0%</b>	<b>1,387</b>	<b>3.6%</b>	<b>2,823</b>	<b>2,170</b>	<b>30.1%</b>
<b>EBIT Margins</b>								
Tiles	14.1%	9.7%	442 bps	13.8%	35 bps	13.9%	11.2%	275 bps
Other	0.7%	0.4%	23 bps	5.8%	-517 bps	3.1%	2.4%	75 bps

Source: I-Sec research, Company data

## Q2FY24 earnings conference call takeaways

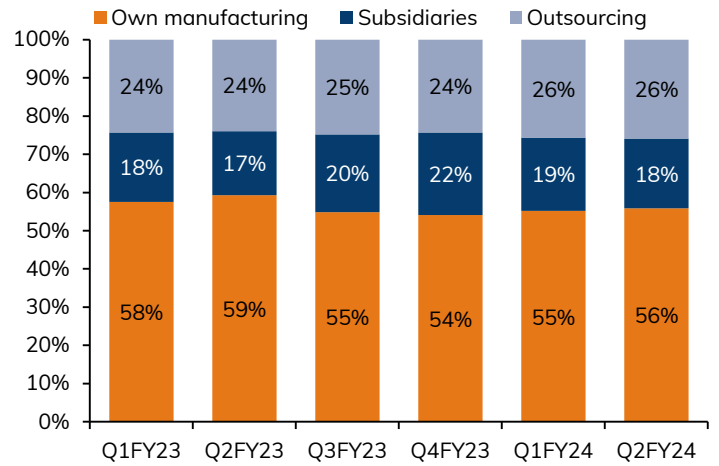
- **Tile exports** from India in H1FY24 are valued at >INR 100bn and expected to reach ~INR 210bn in FY24 (vs. INR 160bn in FY23).
- **Demand:** Management indicated that demand conditions in Q2 were subdued, but it is witnessing an improvement since Sep'23. Volume growth in Sep'23 was 9%. It expects better volume growth in H2FY24 as demand from real estate activity is also emerging. As per management, many real estate projects are now nearing completion and thus, demand for their products should be better going ahead. Currently KJC's plants are running at ~98% capacity utilisation.
- **Pricing:** There was no significant price changes in Q2, but management had offered certain incentives to dealers to encourage sales.
- **Gas cost:** Average gas consumption cost in Q2FY24 was down ~2.6% QoQ to INR 38/scm (north INR 40/scm, west INR 33/scm, south INR 38/scm). Power and gas cost (as a % of revenue) was higher QoQ despite lower gas consumption cost, due to higher power consumption at its Rajasthan plant in Q2. Gas prices in Morbi have risen by INR 5–6/scm in Sep'23, but management does not expect any significant impact on average gas cost for consumption.
- **Guidance:** Management has guided for 9–10% YoY volume growth and maintained margin guidance of 14–16% (with an upward bias) for FY24. It has guided for >20% YoY revenue growth for the bathware segment in FY24.
- **Capacity expansion:** KJC has completed modernisation at its Sikandrabad plant (Uttar Pradesh) with a capex of ~INR 1bn, resulting in GVT capacity expansion of 3MSM; modernisation at its Gailpur plant (Rajasthan) leading to a ceramic capacity expansion of 1.92 MSM for a capex of INR 572mn. KJC has not planned any major capacity expansion for FY25.
- **Capex:** Management has planned capex of INR 3.7bn in FY24 and INR 2.5bn capex for every year during FY25–27.
- **Branding** spends in H1FY24 were INR 600mn; management targets INR 1.4bn A&P spends in FY24.
- **Distribution:** KJC has 1,950 dealers at the end of Q2, after adding 110 dealers in H1FY24 (of which 35 are exclusive KJC dealers).
- Employee expenses were higher due to realisation of remuneration increments and will be largely maintained going forward.
- Sales mix stands at 15-16% for metro cities, 30% from tier-1, 30% from tier-2, 22-23% from tier-3 and ~2% from tier-4.
- KJC has also planned to increase the level of its investment in Kajaria Plywood Private Limited ('KPPL'), a wholly-owned subsidiary company, from INR 700mn to INR 800mn.
- KJC has announced an interim dividend of INR 6/share.

**Exhibit 3: Quarterly sales volume**



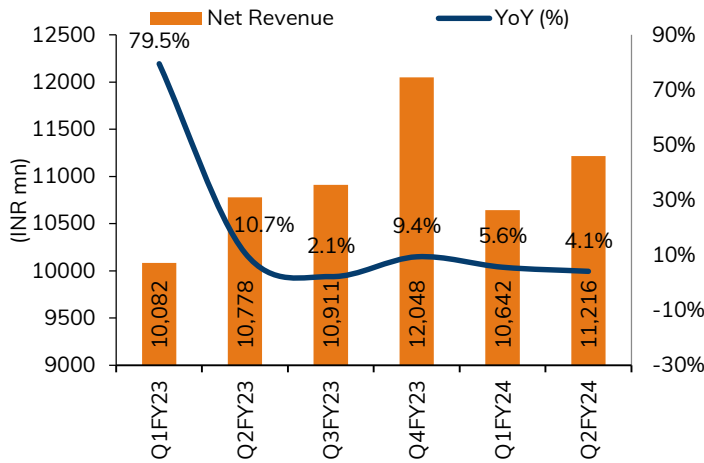
Source: Company data, I-Sec research

**Exhibit 4: Quarterly sales volume (tiles) breakup**



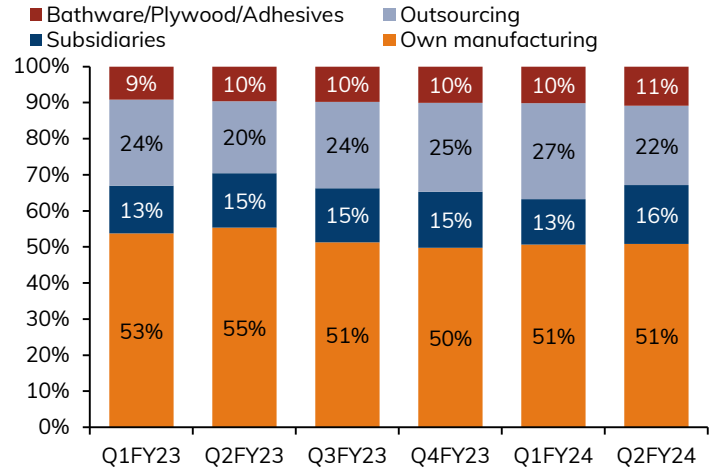
Source: Company data, I-Sec research

**Exhibit 5: Quarterly consolidated revenue**



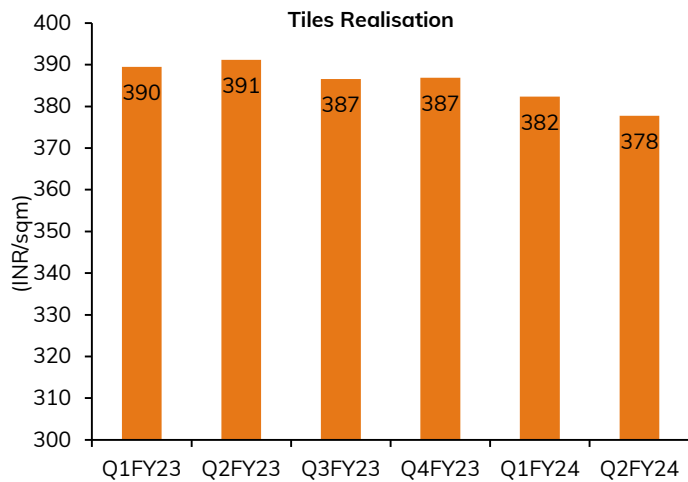
Source: Company data, I-Sec research

**Exhibit 6: Quarterly revenue breakup**



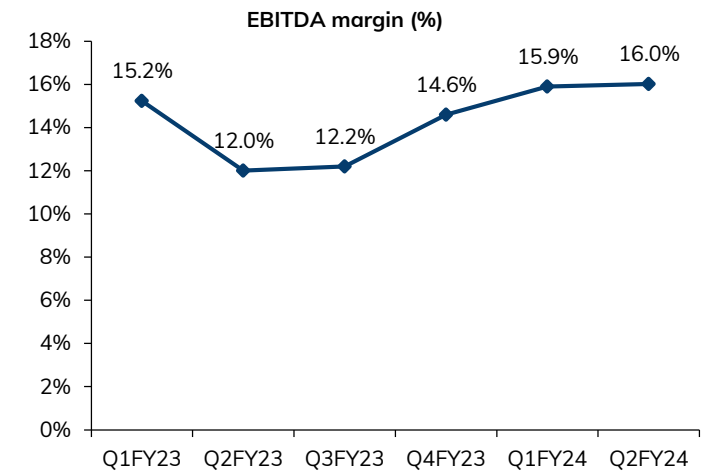
Source: Company data, I-Sec research

**Exhibit 7: Quarterly tiles realisation**



Source: Company data, I-Sec research

**Exhibit 8: Quarterly EBITDA margin**



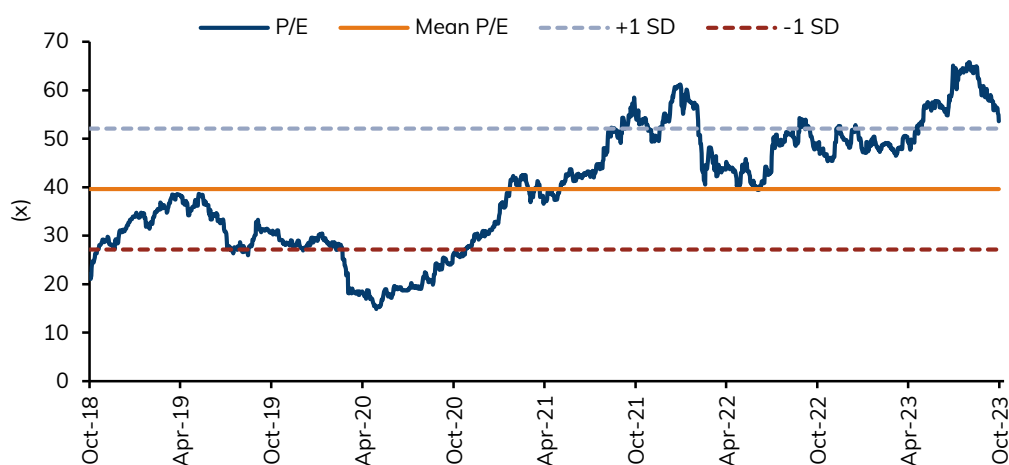
Source: Company data, I-Sec research

## Valuation

KJC is the leader in the Indian tiles market. It is a play on the growing market and a gradual shift from the unorganised market to organised players. It has a strong brand with wide distribution and comprehensive product portfolio.

KJC is likely to report EBIDTA/APAT CAGRs of 18.3%/21.4% over FY23-FY26E with tiles volume CAGR of 10.7% due to a pick-up in real estate and normalisation of input costs with a strong return ratio (RoE of 20.4% in FY26E) and continued net-debt-free balance sheet. We upgrade the stock to **BUY**, from ADD, with a rolled-over Dec'24 target price of INR 1,454 (earlier INR 1,487), set at unchanged 38x PER (in-line with 5-year average, 1-year forward P/E).

### Exhibit 9: 1-year forward P/E band



Source: Company data, I-Sec research

### Key downside risks

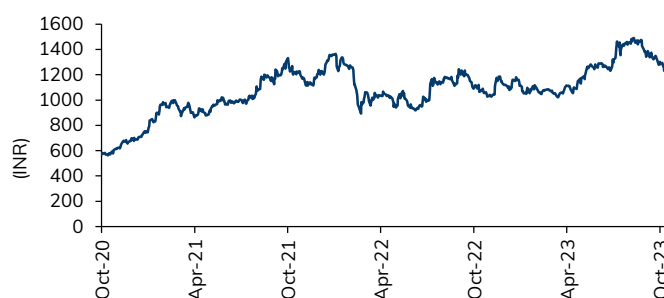
- **Slowdown in housing market:** The demand driver for tiles sector is the housing market. Unexpected slowdown in that market would adversely affect the tiles market.
- **Higher raw material prices:** Gas accounts for ~25% of the total production cost. Continuous increase in gas prices could adversely affect margins/demand for tiles.
- **Continuous slowdown in exports from Morbi:** A prolonged slowdown in exports from Morbi could lead to pressure on supply in domestic markets, and thus affect growth prospects for the company.

### Exhibit 10: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	47.5	47.5	47.5
Institutional investors	43.1	43.1	43.9
MFs and others	23.1	23.1	24.1
Insurance Cos	2.7	2.7	1.2
FIIIs	17.3	17.3	18.6
Others	9.4	9.4	8.6

Source: Bloomberg, I-Sec research

### Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

## Financial Summary

### Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>43,819</b>	<b>47,757</b>	<b>53,843</b>	<b>60,149</b>
Operating Expenses	37,886	40,008	45,048	50,319
<b>EBITDA</b>	<b>5,934</b>	<b>7,749</b>	<b>8,795</b>	<b>9,831</b>
EBITDA Margin (%)	13.5	16.2	16.3	16.3
Depreciation & Amortization	1,329	1,405	1,542	1,720
<b>EBIT</b>	<b>4,605</b>	<b>6,344</b>	<b>7,253</b>	<b>8,111</b>
Interest expenditure	223	188	109	47
Other Non-operating Income	311	390	435	430
<b>Recurring PBT</b>	<b>4,693</b>	<b>6,546</b>	<b>7,579</b>	<b>8,494</b>
Less: Taxes	(1,163)	(1,650)	(1,910)	(2,140)
<b>PAT</b>	<b>3,530</b>	<b>4,896</b>	<b>5,669</b>	<b>6,353</b>
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(17)	(88)	(85)	(95)
Extraordinaries (Net)	(67)	-	-	-
<b>Net Income (Reported)</b>	<b>3,445</b>	<b>4,808</b>	<b>5,584</b>	<b>6,258</b>
<b>Net Income (Adjusted)</b>	<b>3,496</b>	<b>4,808</b>	<b>5,584</b>	<b>6,258</b>

Source Company data, I-Sec research

### Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Assets</b>				
Inventories	5,647	5,919	6,665	7,444
Cash & cash eqv.	3,938	5,432	5,178	6,802
Sundry Debtors	6,012	6,542	7,376	8,240
Other Current Assets	1,626	1,308	1,475	1,648
Trade payables	3,104	3,400	3,848	4,303
Other Current Liabilities	2,894	3,573	4,041	4,519
<b>Net Current Assets</b>	<b>11,225</b>	<b>12,229</b>	<b>12,805</b>	<b>15,312</b>
Investments	19	19	19	19
Net Fixed Assets	15,276	16,804	18,012	19,042
Other Non Current Assets	761	761	761	761
<b>Total Assets</b>	<b>27,281</b>	<b>29,813</b>	<b>31,597</b>	<b>35,134</b>
<b>Liabilities</b>				
Borrowings	2,093	1,893	520	520
Other Non Current Liabilities	1,144	1,144	1,144	1,144
<b>Total Liabilities</b>	<b>3,236</b>	<b>3,036</b>	<b>1,664</b>	<b>1,664</b>
Equity Share Capital	159	159	159	159
Reserves & Surplus	23,109	25,753	28,825	32,267
<b>Total Net Worth</b>	<b>23,268</b>	<b>25,913</b>	<b>28,984</b>	<b>32,426</b>
Minority Interest	776	865	950	1,045
<b>Total Liabilities &amp; Net Worth</b>	<b>27,281</b>	<b>29,813</b>	<b>31,597</b>	<b>35,134</b>

Source Company data, I-Sec research

### Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Dec-22	Mar-23	Jun-23	Sep-23
Net Sales	10,911	12,048	10,642	11,216
% growth (YOY)	2.1	9.4	5.6	4.1
EBITDA	1,331	1,759	1,692	1,797
Margin %	12.2	14.6	15.9	16.0
Other Income	75	104	93	81
Extraordinaries	0	-43	0	0
Adjusted Net Profit	743	1,115	1,075	1,080

Source Company data, I-Sec research

### Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Operating Cashflow</b>	<b>3,519</b>	<b>6,879</b>	<b>6,466</b>	<b>7,286</b>
Working Capital Changes	(1,414)	490	(830)	(882)
Capital Commitments	(3,206)	(2,933)	(2,750)	(2,750)
<b>Free Cashflow</b>	<b>313</b>	<b>3,947</b>	<b>3,716</b>	<b>4,536</b>
Other investing cashflow	(19)	-	-	-
<b>Cashflow from Investing Activities</b>	<b>(3,225)</b>	<b>(2,933)</b>	<b>(2,750)</b>	<b>(2,750)</b>
Issue of Share Capital	0	-	-	-
Inc (Dec) in Borrowings	814	(200)	(1,373)	-
Dividend paid	(1,433)	(2,164)	(2,513)	(2,816)
Others	20	(88)	(85)	(95)
<b>Cash flow from Financing Activities</b>	<b>(600)</b>	<b>(2,452)</b>	<b>(3,971)</b>	<b>(2,911)</b>
Chg. in Cash & Bank balance	(306)	1,495	(255)	1,625
<b>Closing cash &amp; balance</b>	<b>3,938</b>	<b>5,432</b>	<b>5,178</b>	<b>6,802</b>

Source Company data, I-Sec research

### Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	21.6	30.2	35.1	39.3
Adjusted EPS (Diluted)	22.0	30.2	35.1	39.3
Cash EPS	30.3	39.0	44.8	50.1
Dividend per share (DPS)	9.0	13.6	15.8	17.7
Book Value per share (BV)	146.2	162.8	182.1	203.7
Dividend Payout (%)	41.0	45.0	45.0	45.0
<b>Growth (%)</b>				
Net Sales	18.3	9.0	12.7	11.7
EBITDA	(3.0)	30.6	13.5	11.8
EPS (INR)	(7.4)	37.5	16.1	12.1
<b>Valuation Ratios (x)</b>				
P/E	56.0	40.7	35.1	31.3
P/CEPS	40.6	31.5	27.5	24.5
P/BV	8.4	7.6	6.8	6.0
EV / EBITDA	32.7	24.8	21.7	19.3
EV / Sales	4.4	4.0	3.6	3.2
Dividend Yield (%)	0.7	1.1	1.3	1.4
<b>Operating Ratios</b>				
Gross Profit Margins (%)	58.8	58.8	58.6	58.5
EBITDA Margins (%)	13.5	16.2	16.3	16.3
Effective Tax Rate (%)	24.8	25.2	25.2	25.2
Net Profit Margins (%)	8.0	10.1	10.4	10.4
NWC / Total Assets (%)	21.9	18.5	19.3	19.4
Net Debt / Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.3)	(0.5)	(0.5)	(0.6)
<b>Profitability Ratios</b>				
RoCE (%)	13.7	16.9	17.9	18.4
RoE (%)	15.7	19.6	20.3	20.4
<b>Cash Conversion Cycle (on net sales)</b>				
Inventory Turnover Days	47	45	45	45
Receivables Days	50	50	50	50
Payables Days	26	26	26	26

Source Company data, I-Sec research

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