

01 February 2024

India | Equity Research | Q3FY24 results review

Kajaria Ceramics

Tiles

Inspid quarter; near-term demand environment still tepid

Kajaria Ceramics (KJC) reported in-line Q3FY24 consol. revenue growth of 5.6% YoY to INR 11.5bn, driven by modest tiles volume growth of 6.4% YoY (4-year CAGR of 7.3%), while realisation declined 3.3% YoY (-1% QoQ). EBITDA margin expanded 333bps YoY (-50bps QoQ) to 15.5% on a low base as RM costs (including power & fuel cost) declined 470bps YoY (+97bps QoQ), resulting in EBITDA/APAT growth of 34.3%/40.2% YoY. As per management, demand was subdued in Q3FY24 and continues to be so even in Jan'24. It expects better volume growth in FY25 on the back of completion in real estate projects that were launched earlier. Management guided for tepid volume growth of 6-7% YoY in Q4FY24 and for FY25 it targets to grow 5-6% above industry growth with OPM of 15-17%. We cut our EBITDA estimates by ~4%/2% for FY24-26 and downgrade KJC to **HOLD** (from BUY), due to limited upside with a rolled-over Mar'25 TP of INR 1,438 (from INR 1,454), set at an unchanged 38x P/E.

Modest tile volume growth of 6.4% YoY

KJC reported Q3FY24 consol. revenue growth of 5.6% YoY (4-year CAGR of 11.6%) to ~INR 11.5bn driven by tiles volume growth of 6.4% YoY (4-year CAGR of 7.3%), while realisation declined 3.3% YoY/1.0% QoQ due to adverse product mix and higher discounts to dealers. The bathware segment witnessed revenue growth of 16% YoY, while plywood revenue grew ~81% YoY. Management indicated that demand was subdued in Q3 and remains so in Jan'24 too. Since Nov'23, exports have been feeling the pinch of higher freight rates/transit time (due to instability at Suez Canal); should this persist, domestic competition from Morbi manufacturers may intensify. Management remains optimistic of demand improvement in FY25 due to completion of real estate projects that were launched in the past few years. It guides for volume growth of 6-7% YoY in Q4FY24 and 5-6% growth above the industry's in FY25. Working capital days in Q3FY24 stood at 59 (up 6 days QoQ due to higher inventory days); KJC has a cash surplus of ~INR 2.8bn. We model 10.1% volume CAGR over FY23-FY26E.

Margin improves due to lower power/fuel costs YoY

KJC's EBITDA margin in Q3FY24 expanded 333bps YoY to 15.5% (-50bps QoQ) on a low base, primarily due to lower RM costs (down 470bps YoY/+97bps QoQ, including power & fuel cost), resulting in EBITDA/APAT growth of 34.3%/40.2% YoY. Average gas cost in Q3 was ~INR 39/scm (up ~3% QoQ) and is expected to be at similar levels going ahead. Management guides for EBITDA margin range of 15-17% for FY25. We model margins of 15.9%-16.3% over FY24-FY26E (vs. FY12-23 average OPM of 16.5%).

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	43,819	46,536	52,576	58,935
EBITDA	5,934	7,421	8,509	9,597
EBITDA %	13.5	15.9	16.2	16.3
Net Profit	3,497	4,523	5,270	6,023
EPS (INR)	22.0	28.4	33.1	37.8
EPS % Chg YoY	(7.4)	29.4	16.5	14.3
P/E (x)	63.0	48.7	41.8	36.6
EV/EBITDA (x)	36.8	29.3	25.4	22.3
RoCE (%)	13.7	15.8	16.9	17.6
RoE (%)	15.7	18.4	19.1	19.5

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Market Data

Market Cap (INR)	220bn
Market Cap (USD)	2,654mn
Bloomberg Code	KJC IN
Reuters Code	KAJR.BO
52-week Range (INR)	1,524 /1,006
Free Float (%)	52.0
ADTV-3M (mn) (USD)	3.2

Price Performance (%)	3m	6m	12m
Absolute	9.7	(3.7)	31.2
Relative to Sensex	(2.6)	(11.6)	10.8

Earnings Revisions (%)	FY24E	FY25E	FY26E
Revenue	(2.6)	(2.4)	(2.0)
EBITDA	(4.2)	(3.3)	(2.4)
EPS	(5.9)	(5.6)	(3.8)

Previous Reports

21-10-2023: [Q2FY24 results review](#)
27-07-2023: [Q1FY24 results review](#)

Valuation and view

KJC's operating performance has been below expectations and, going ahead, we believe it has volume and margin tailwinds stemming from the uptick in real estate activity. However, a key risk is slowdown in exports due to geopolitical situation, which can result in increased competitive intensity in the domestic markets from Morbi manufactures; and thus, hurt profitability adversely. Downgrade KJC to **HOLD** from Buy, with a rolled-over Mar'25 target price of INR 1,438 (earlier INR 1,454), set at unchanged 38x PER (in line with its 10-year average/1-year forward P/E).

Exhibit 1: Q3FY24 consolidated result review

INR mn	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Net Sales	11,518	10,911	5.6%	11,216	2.7%	33,376	31,771	5.1%
Raw Materials	4,692	4,444	5.6%	4,582	2.4%	13,990	12,703	10.1%
% of sales	40.7%	40.7%	0 bps	40.8%	-11 bps	41.9%	40.0%	193 bps
Power & Fuel	2,395	2,783	-13.9%	2,211	8.3%	6,543	8,140	-19.6%
% of sales	20.8%	25.5%	-471 bps	19.7%	108 bps	19.6%	25.6%	-601 bps
Employee cost	1,319	1,166	13.2%	1,300	1.5%	3,756	3,448	8.9%
% of sales	11.5%	10.7%	77 bps	11.6%	-13 bps	11.3%	10.9%	40 bps
Other expenses	1,324	1,188	11.4%	1,327	-0.2%	3,810	3,320	14.8%
% of sales	11.5%	10.9%	61 bps	11.8%	-34 bps	11.4%	10.4%	97 bps
EBITDA	1,788	1,331	34.3%	1,797	-0.5%	5,277	4,161	26.8%
EBITDA Margin (%)	15.5%	12.2%	333 bps	16.0%	-50 bps	15.8%	13.1%	271 bps
Depreciation and amortization	389	325	19.6%	361	7.9%	1,055	985	7.1%
EBIT	1,399	1,005	39.1%	1,436	-2.6%	4,222	3,175	33.0%
EBIT Margin (%)	12.1%	9.2%	293 bps	12.8%	-66 bps	12.6%	10.0%	266 bps
Interest expenses	50	83	-40.1%	43	16.9%	145	151	-3.8%
Other Income	110	75	46.7%	81	36.3%	283	232	22.0%
PBT	1,459	997	46.3%	1,474	-1.1%	4,360	3,257	33.9%
Income taxes	379	261	45.5%	366	3.5%	1,081	865	25.0%
PAT before MI & Extraordinaries	1,080	737	46.6%	1,108	-2.6%	3,279	2,392	37.1%
Extraordinary items	0	0	n.m.	0	n.m.	0	37	-100.0%
Minority interest	38	-7	nm	29	31.8%	82	-10	-947.4%
Reported PAT	1,042	743	40.2%	1,080	-3.5%	3,197	2,365	35.2%
Adjusted PAT	1,042	743	40.2%	1,080	-3.5%	3,197	2,392	33.7%

Source: I-Sec research, Company data

Exhibit 2: Q3FY24 segmental result review

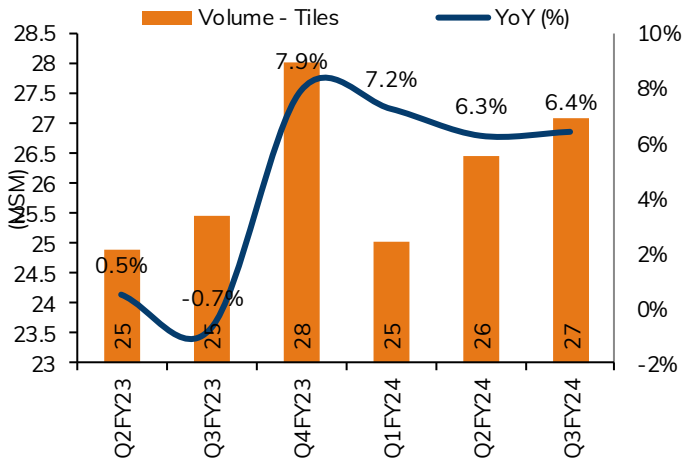
INR mn	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Tiles Volume (in MSM)								
Self-manufactured	15.3	14.0	9.2%	14.8	3.1%	43.9	42.2	4.0%
Subsidiaries	5.3	5.0	6.2%	4.8	10.4%	14.8	13.6	8.5%
Outsourcing	6.5	6.5	0.5%	6.9	-5.1%	20.0	17.9	11.3%
Total sales volume	27.1	25.5	6.4%	26.5	2.3%	78.6	73.7	6.6%
Segment Revenues								
Tiles	10,256	9,929	3.3%	10,129	1.3%	30,047	28,933	3.8%
Other	1,262	983	28.4%	1,088	16.0%	3,330	2,838	17.3%
Total revenues	11,518	10,911	5.6%	11,216	2.7%	33,376	31,771	5.1%
EBIT								
Tiles	1380	996	38.6%	1429	-3.4%	4139	3121	32.6%
Other	19	10	92.8%	7	156.2%	83	54	54.7%
Total	1,399	1,005	39.1%	1,436	-2.6%	4,222	3,175	33.0%
EBIT Margins								
Tiles	13.5%	10.0%	343 bps	14.1%	-65 bps	13.8%	10.8%	299 bps
Other	1.5%	1.0%	49 bps	0.7%	81 bps	2.5%	1.9%	61 bps

Source: I-Sec research, Company data

Q3FY24 earnings conference call takeaways

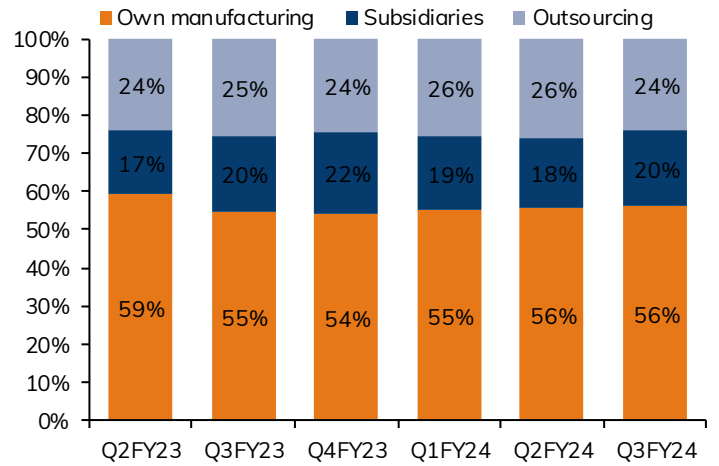
- **Demand:** Management indicated a subdued demand environment for both domestic and export markets. Tile exports were impacted by higher freight rates and larger transit times due to instability at Suez Canal. Management indicated average monthly run-rate of tile exports to be ~INR 13bn for Nov'23-Jan'24.
- **Outlook:** Management remains **optimistic for good demand in FY25**, which will be driven from the expected completion of real estate projects (were launched in the past few years). There is also good demand expected from government infrastructure spending.
- **Pricing:** Due to weakness in exports, **Morbi region has been unable to take price hikes despite 17% rise in gas costs since Aug'23**. KJC has also not taken any price hikes, it has given discounts to dealers to incentivise higher sales.
- **Gas cost:** Average gas price in **Q3 was INR39/scm** (North: INR 41/scm; South: INR42/scm; West: INR 34/scm) and is expected to remain at similar levels in Q4FY24 as well.
- **Adhesives segment:** KJC utilises existing dealer network to generate adhesives sales. It is also hiring a team to expand distribution for this segment.
- **Guidance:** Management has guided for **6-7% YoY volume growth in Q4FY24** and for margins to remain in higher end of 14-16% for FY24. For FY25, it has guided for **tiles volume growth of 5-6% over the industry growth** and for EBITDA margins of **15-17%**. Plywood segment is expected to generate revenue of INR 1.1bn in FY24 and INR 1.5bn in FY25. Adhesives segment is expected to generate revenue of INR 500mn in FY24.
- **Capacity expansion:** The greenfield expansion in Nepal of 5.1MSM has been delayed due to unfavourable weather and is now expected to commission by Jun'24. The company has planned to acquire 100% stake for an investment of INR 300mn in Kajaria Ultima Private Limited (KUPL), through which it plans to purchase a land in Morbi to setup a GVT manufacturing plant a later date. KJC has also planned to acquire 90% stake for an investment of INR 500mn in Keronite Tiles Private Limited (KTPL), which operates a plant of 6MSM GVT capacity. The plant is currently undergoing maintenance and is expected to resume operations in Apr'24.
- **Capex:** Management indicated capex of INR 3.7bn for FY24.
- **Sales Mix:** Metro forms 20%, tier-1 30%, tier2 30%, tier3 15% and tier4 5% of sales.
- **Regional sales mix:** North 40%, South 30%, West 18% and East 12%.
- **Product Mix (Revenue):** Ceramics 39%, PVT 26%, GVT 36%
- **Product Mix (Volume):** Ceramics 43%, PVT 25%, GVT 32%

Exhibit 3: Quarterly sales volume



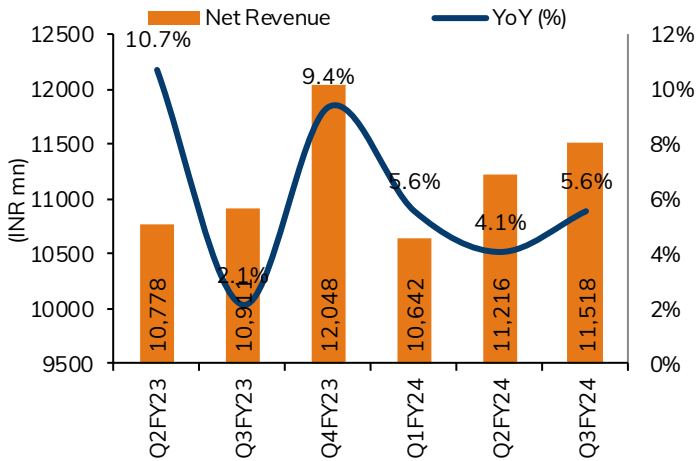
Source: Company data, I-Sec research

Exhibit 4: Quarterly sales volume (tiles) breakup



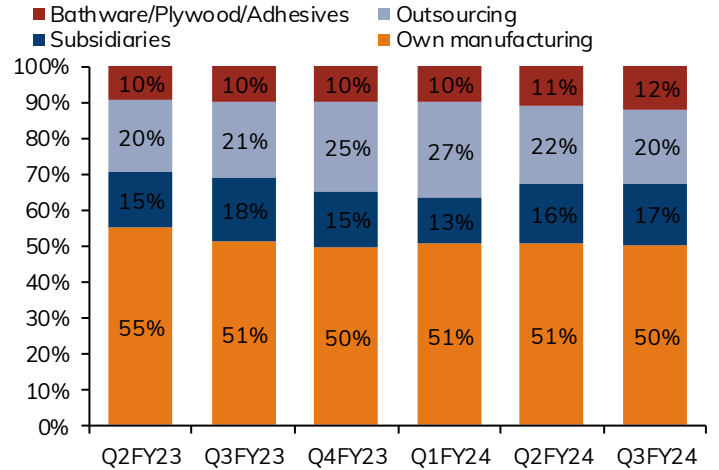
Source: Company data, I-Sec research

Exhibit 5: Quarterly consolidated revenue



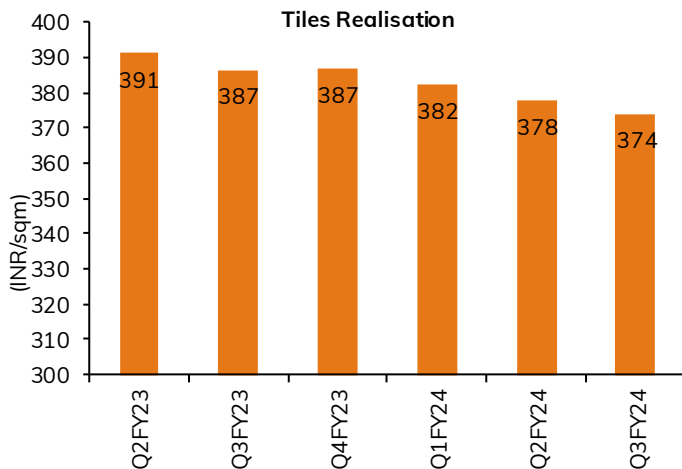
Source: Company data, I-Sec research

Exhibit 6: Quarterly revenue breakup



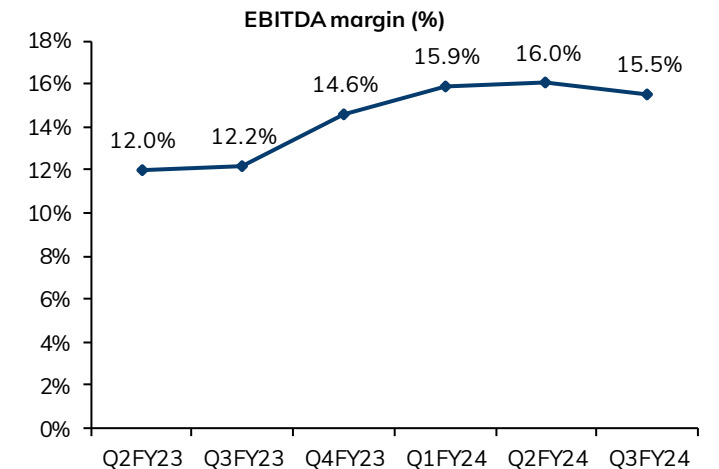
Source: Company data, I-Sec research

Exhibit 7: Quarterly tiles realisation



Source: Company data, I-Sec research

Exhibit 8: Quarterly EBITDA margin



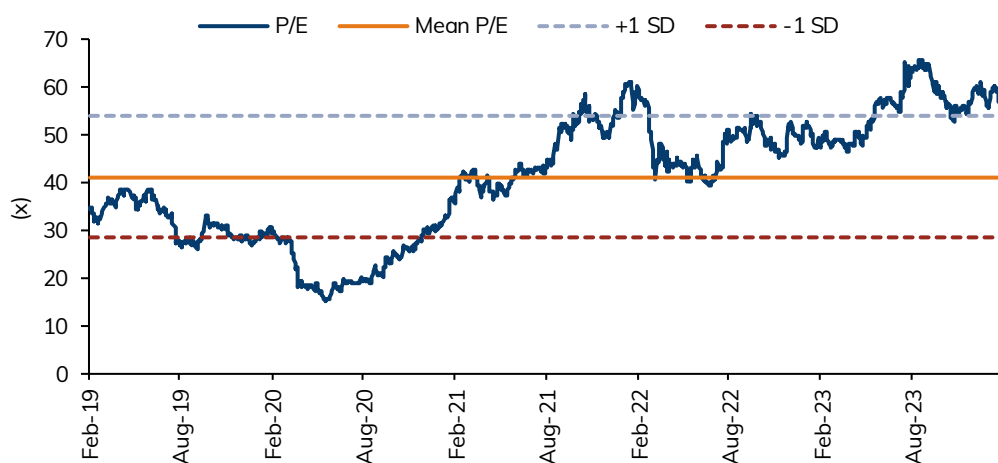
Source: Company data, I-Sec research

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 17.4%/19.9% over FY23-FY26E with tiles volume CAGR of 10.1% due to a pick-up in real estate and normalisation of input costs with a strong return ratio (RoE of 19.5% in FY26E) and continued net-debt-free balance sheet. We downgrade the stock to **HOLD** from BUY, with a rolled-over Mar'25 target price of INR 1,438, set at unchanged 38x PER (in-line with 10-year average, 1-year forward P/E).

Exhibit 9: One-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.
- **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.

Key upside risks

- **Better-than-expected pick-up in housing market:** A better-than-expected pick-up in housing and infrastructure market can result in higher than modelled volume growth.
- **Lower raw material prices:** If gas prices stay lower than expected this would result in better than modelled profitability.
- **Uptick in exports from Morbi:** A strong pick-up in exports from Morbi could result in low pressure on domestic availability and thus aid higher margins.

Exhibit 10: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	47.5	47.5	47.5
Institutional investors	43.9	43.9	43.9
MFs and others	24.1	24.1	24.4
Insurance Cos	1.2	1.2	1.0
FII's	18.6	18.7	18.6
Others	8.6	8.6	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
Net Sales	43,819	46,536	52,576	58,935
Operating Expenses	37,886	39,114	44,067	49,339
EBITDA	5,934	7,421	8,509	9,597
EBITDA Margin (%)	13.5	15.9	16.2	16.3
Depreciation & Amortization	1,329	1,451	1,633	1,762
EBIT	4,605	5,970	6,877	7,835
Interest expenditure	223	193	109	47
Other Non-operating Income	311	394	421	428
Recurring PBT	4,693	6,171	7,189	8,216
Less: Taxes	(1,163)	(1,555)	(1,812)	(2,070)
PAT	3,530	4,616	5,378	6,146
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(17)	(92)	(108)	(123)
Extraordinaries (Net)	(67)	-	-	-
Net Income (Reported)	3,446	4,523	5,270	6,023
Net Income (Adjusted)	3,497	4,523	5,270	6,023

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	5,647	5,787	6,519	7,299
Cash & cash eqv.	3,938	4,957	4,920	6,784
Sundry Debtors	6,012	6,375	7,202	8,073
Other Current Assets	1,626	1,275	1,440	1,615
Trade payables	3,104	3,313	3,757	4,216
Other Current Liabilities	2,894	3,481	3,946	4,428
Net Current Assets	11,225	11,599	12,379	15,127
Investments	19	19	19	19
Net Fixed Assets	15,276	17,508	18,625	19,613
Other Non Current Assets	761	761	761	761
Total Assets	27,281	29,887	31,784	35,521
Liabilities				
Borrowings	2,093	1,893	520	520
Other Non Current Liabilities	1,144	1,144	1,144	1,144
Total Liabilities	3,236	3,036	1,664	1,664
Equity Share Capital	159	159	159	159
Reserves & Surplus	23,109	25,823	28,985	32,598
Total Net Worth	23,268	25,982	29,144	32,758
Minority Interest	776	869	976	1,099
Total Liabilities & Net Worth	27,281	29,887	31,784	35,521

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	12,048	10,642	11,216	11,518
% growth (YOY)	9.4	5.6	4.1	5.6
EBITDA	1,759	1,692	1,797	1,788
Margin %	14.6	15.9	16.0	15.5
Other Income	104	93	81	110
Extraordinaries	-43	0	0	0
Adjusted Net Profit	1,115	1,075	1,080	1,042

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	3,519	6,804	6,301	7,147
Working Capital Changes	(1,414)	645	(817)	(884)
Capital Commitments	(3,206)	(3,683)	(2,750)	(2,750)
Free Cashflow	313	3,121	3,551	4,397
Other investing cashflow	(19)	-	-	-
Cashflow from Investing Activities	(3,225)	(3,683)	(2,750)	(2,750)
Issue of Share Capital	0	-	-	-
Inc (Dec) in Borrowings	814	(200)	(1,373)	-
Dividend paid	(1,433)	(1,809)	(2,108)	(2,409)
Others	20	(92)	(108)	(123)
Cash flow from Financing Activities	(600)	(2,102)	(3,588)	(2,532)
Chg. in Cash & Bank balance	(306)	1,019	(37)	1,865
Closing cash & balance	3,938	4,957	4,920	6,784

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	21.6	28.4	33.1	37.8
Adjusted EPS (Diluted)	22.0	28.4	33.1	37.8
Cash EPS	30.3	37.5	43.4	48.9
Dividend per share (DPS)	9.0	11.4	13.2	15.1
Book Value per share (BV)	146.2	163.2	183.1	205.8
Dividend Payout (%)	41.0	40.0	40.0	40.0
Growth (%)				
Net Sales	18.3	6.2	13.0	12.1
EBITDA	(3.0)	25.1	14.7	12.8
EPS (INR)	(7.4)	29.4	16.5	14.3
Valuation Ratios (x)				
P/E	63.0	48.7	41.8	36.6
P/CEPS	45.7	36.9	31.9	28.3
P/BV	9.5	8.5	7.6	6.7
EV / EBITDA	36.8	29.3	25.4	22.3
EV / Sales	5.0	4.7	4.1	3.6
Dividend Yield (%)	0.7	0.8	1.0	1.1
Operating Ratios				
Gross Profit Margins (%)	58.8	58.8	58.6	58.5
EBITDA Margins (%)	13.5	15.9	16.2	16.3
Effective Tax Rate (%)	24.8	25.2	25.2	25.2
Net Profit Margins (%)	8.0	9.7	10.0	10.2
NWC / Total Assets (%)	21.9	18.1	18.9	18.9
Net Debt / Equity (x)	(0.1)	(0.1)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.3)	(0.4)	(0.5)	(0.7)
Profitability Ratios				
RoCE (%)	13.7	15.8	16.9	17.6
RoE (%)	15.7	18.4	19.1	19.5
Cash Conversion Cycle (on net sales)				
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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