

# Kajaria Ceramics

BSE SENSEX  
72,748

S&P CNX  
22,056

## Kajaria

Bloomberg	KJC IN
Equity Shares (m)	159
M.Cap.(INRb)/(USD\$b)	191 / 2.3
52-Week Range (INR)	1524 / 1006
1, 6, 12 Rel. Per (%)	-5/-23/-16
12M Avg Val (INR M)	297
Free float (%)	52.5

### Financial Snapshot (INR b)

Y/E MARCH	FY24E	FY25E	FY26E
Sales	46.5	51.1	57.3
EBITDA	7.4	8.6	10.1
Adj. PAT	4.4	5.4	6.4
EBITDA Margin (%)	15.9	16.9	17.6
Cons. Adj. EPS (INR)	28.7	34.8	41.2
EPS Gr. (%)	34.1	21.5	18.3
BV/Sh. (INR)	159	173	193

### Ratios

Net D:E	(0.4)	(0.4)	(0.4)
RoE (%)	18.2	20.4	22.0
RoCE (%)	21.3	24.0	26.0
Payout (%)	52.3	57.4	48.5

### Valuations

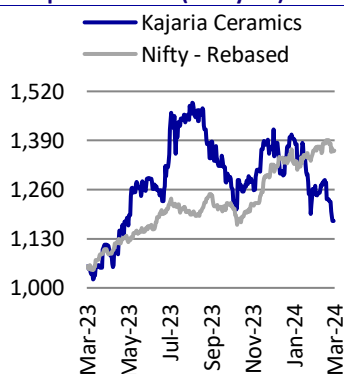
P/E (x)	41.6	34.3	29.0
P/BV (x)	7.5	6.9	6.2
EV/EBITDA(x)	25.3	21.7	18.5
EV/sales (x)	4.0	3.7	3.3

### Shareholding pattern (%)

As On	Dec-23	Sep-23	Dec-22
Promoter	47.5	47.5	47.5
DII	25.6	25.5	24.5
FII	18.3	18.5	18.6
Others	8.7	9.3	9.4

FII Includes depository receipts

### Stock's performance (one-year)



**CMP: INR1,199 TP: INR1,600 (+33%) Buy**

## Industry tailwinds and gas price reduction to benefit

Average energy price down ~7% as compared to 3QFY24 average

- Strong demand in the real estate sector and increased construction activity are anticipated to drive improvement in offtake for tiles in FY25. Domestic players should also benefit from Morbi players' higher focus on exports (Tiles exports from India grew ~40% YoY in 9MFY24). Kajaria Ceramics (KJC), as the largest player in the industry, should benefit when industry demand recovers.
- Spot LNG price is down ~44% as compared to 3QFY24, while the current Brent Crude is up 3.5% compared to 3QFY24. Recently, Gujarat Gas also reduced gas prices for ceramic manufacturers by ~8%. Based on the recent energy pricing trend, we estimate average fuel cost for KJC to decline ~7% QoQ in 4QFY24.
- KJC keeps on adding capacity and in FY24, the company expanded its tiles manufacturing capacity by ~6% to 86.47 msm. Further, it announced an acquisition of Tiles manufacturing facility at Morbi, Gujarat, having a capacity of 6 msm (likely to start contributing to revenues from Apr'24). It is also expanding capacities into bathware and plywood segments.
- While we maintain our earnings estimates for FY25-26, we expect 4QFY24 margins to be better than our earlier estimates (16.1% now vs. earlier assumption of 15.4%). We believe strong return ratios (RoE of 22%, ROCE of 26%, and RoIC of 31% in FY26E) and a healthy balance sheet will help KJC maintain premium multiple. We reiterate our BUY rating on the stock with a TP of INR1,600 premised on 40x FY26E EPS.

## Estimate double-digit volume growth of Tiles for KJC over FY24-26

- KJC's tiles volume grew at ~7% YoY in 9MFY24 and we estimate volume growth of ~6% in 4QFY24. However, given the continued strong demand for real estate and higher construction activities, tiles offtake should improve going forward. In the previous real-estate upcycle (FY08-12), KJC's volume CAGR stood at 17% over FY09-15. We estimate KJC's Tiles volume to register a CAGR of ~11% over FY24-26E. The management is confident of achieving 5-6pp higher volume growth than the industry.
- Tiles exports have slowed down in the past few months due to red sea crisis which led to increase in freight rates and transit time. Despite the red sea crisis, the monthly average tiles export at ~INR15.6b in Nov-Dec'23 (export data available till Dec'23) was ~17% higher than FY23 monthly average. During Apr-Dec'23, tiles exports from India grew 37% YoY to INR154b (export volume rose 40% YoY to 451m sq. mt. in this period).
- KJC's strong distribution network (1,840 operative dealers), supported by substantial branding and distribution initiatives should help it to achieve higher-than-industry volume growth.

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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](http://www.motilaloswal.com/Institutional-Equities), Bloomberg, Thomson Reuters, Factset and S&P Capital.

**LNG price reduction will help improve margins**

- Spot LNG price is down ~44% as compared to 3QFY24 average; however, the current Brent Crude price is up 3.5% as compared to 3QFY24 average. Gujarat Gas too reduced gas price for Morbi players by ~8% in Mar'24 beginning.
- Based on recent pricing trends, we estimate average fuel cost for KJC to decline ~7% QoQ in 4QFY24. This will drive improvement in OPM to 16.1% as compared to our earlier assumption of 15.4% in 4QFY24. However, we largely maintain our FY25-26 earnings estimates.
- We estimate revenue/EBITDA/PAT CAGR of 11%/17%/20% over FY24-26E. We estimate KJC's OPM to improve to 16.9%/17.6% in FY25/FY26 from 15.9% in FY24.

**Expansions in Tiles capacities to drive growth**

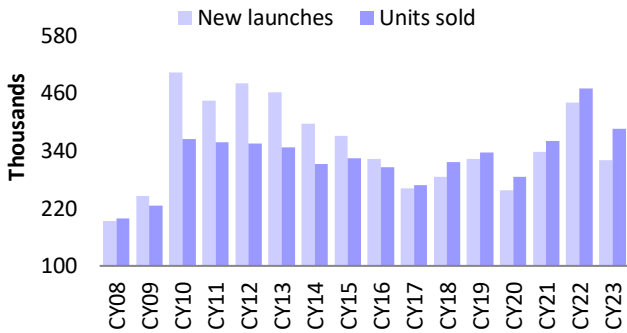
- KJC expanded its tiles manufacturing capacity by 6% to 86.47 msm in FY24. These expansions included: 1) a combined expansion and modernization effort for larger tile sizes at its Sikandrabad plant, elevating the total capacity of the plant to 11.40 msm from 8.4 msm, and 2) modernization of the Galipur plant by replacing the existing kilns for production of larger tiles. The capacity of this plant also got increased to 40.42 msm from 38.50 msm.
- The company is setting up a 5.1msm capacity in Nepal through a JV with Ramesh Corp, Nepal, that will require an investment of ~INR900 by KJC (total project cost of INR1.81b). The project got slightly delayed and is now expected to be operational by Jun'24.
- Recently, it announced an acquisition of Tiles manufacturing facility at Morbi, Gujarat, having a production capacity of 6 msm at an investment of INR500m (acquiring 90% stake). It is upgrading some machinery at this plant and expects to start sales from Apr'24. Also, it is investing up to INR300m in its subsidiary, Kajaria Ultima, to purchase land in Morbi. The management will share further details of expansion and capex at this location in the coming quarters.

**Valuations attractive; reiterate Buy**

- We estimate KJC revenue/EBITDA/PAT CAGR of 11%/17%/20% over FY24-26. We estimate its ROE/ROCE to improve to 22%/26% by FY26 vs. 18%/21% in FY24. KJC has been generating FCF since FY16, which is likely to continue going forward as well. The company turned net cash in FY19 and we expect it to remain so going ahead as well (net cash is estimated at INR3.8b in FY26 vs. INR1.8b in FY23) despite higher capex (INR10.2b over FY24-26).
- The stock is currently trading at an attractive valuation of 29x FY26E EPS (vs. 37x last five-year average one-year forward P/E). We reiterate our BUY rating on KJC with a TP of INR1,600 based on 40x FY26E EPS.

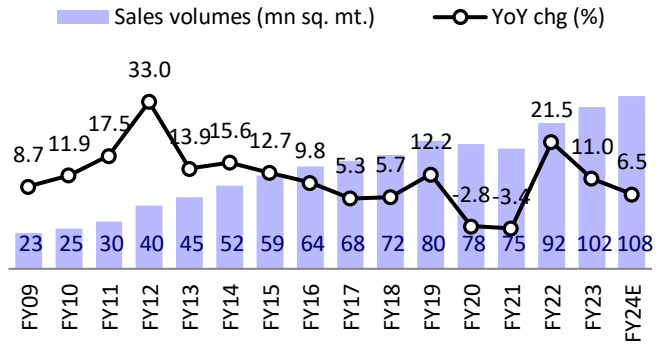
Story in charts

Exhibit 1: Preceding Real estate upcycle hit in CY08-12...



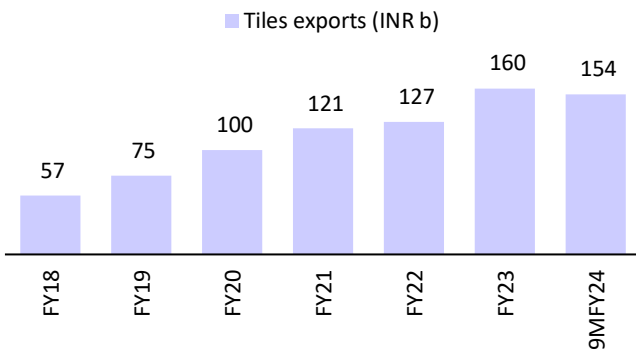
Source: Industry reports, MOFSL

Exhibit 2: ...KJC tiles volume clock CAGR of 17% over FY09-15



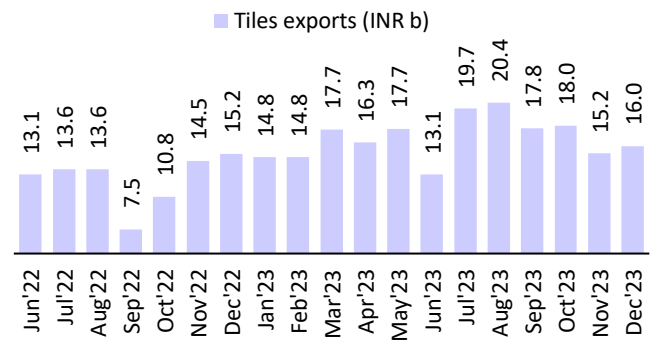
Source: Company, MOFSL

Exhibit 3: Tiles exports grew 37% YoY during 9MFY24



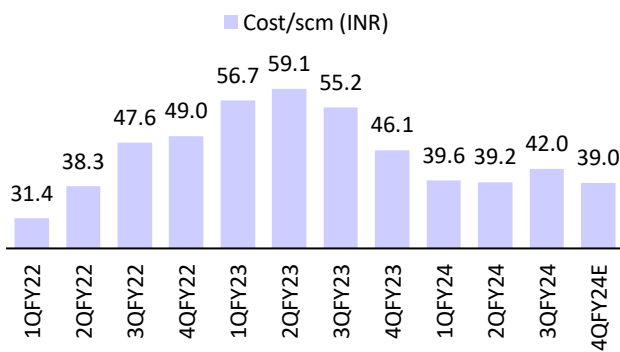
Source: Ministry of Commerce and Industry, MOFSL

Exhibit 4: Tiles exports monthly trend



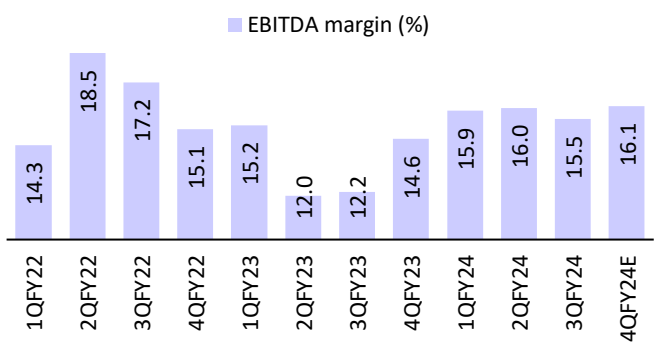
Source: Ministry of Commerce and Industry, MOFSL

Exhibit 5: KJC's quarterly average fuel cost/scm trend



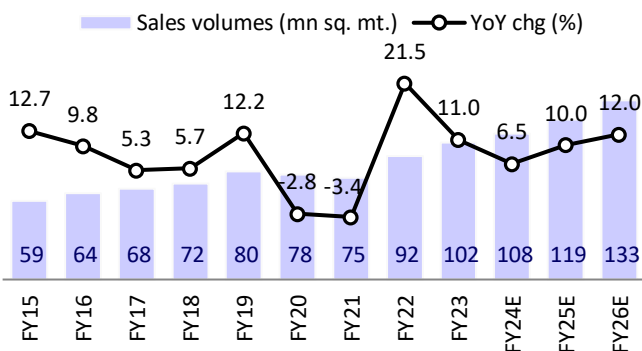
Source: Company, MOFSL

Exhibit 6: KJC's quarterly EBITDA margin trend



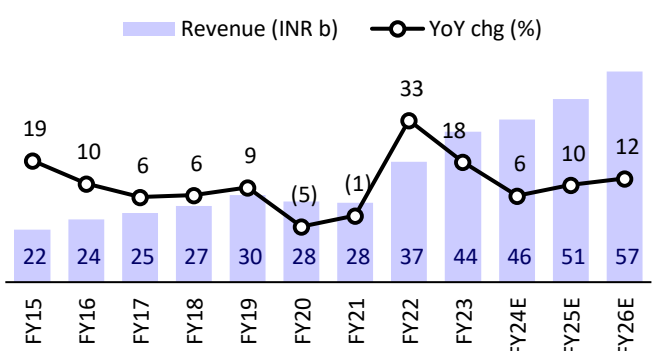
Source: Company, MOFSL

Exhibit 7: Expect 11% tiles volume CAGR over FY24-26



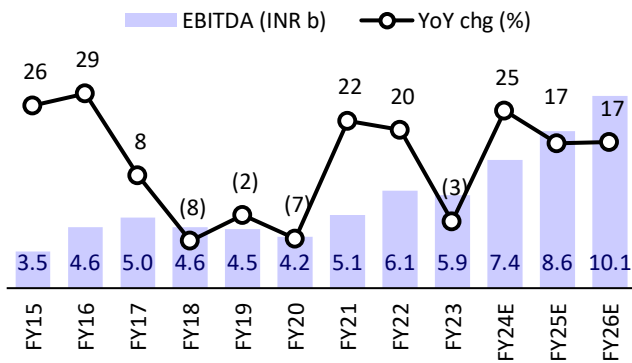
Source: Company, MOFSL

Exhibit 8: Revenue should clock 11% CAGR over FY24-26E



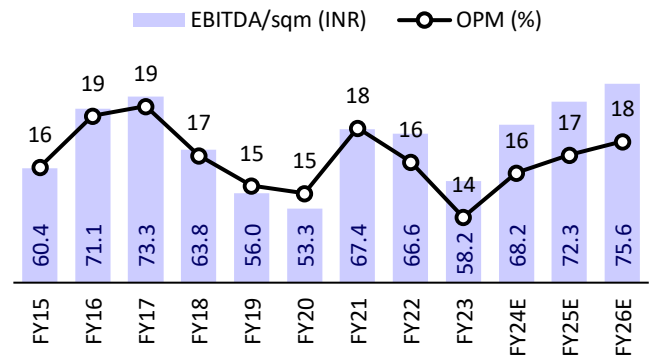
Source: Company, MOFSL

**Exhibit 9: EBITDA should post 17% CAGR over FY24-26E**



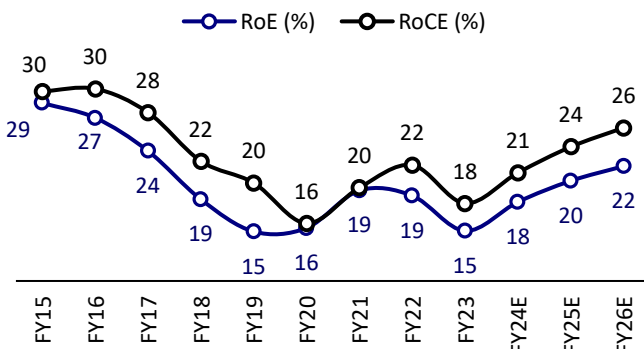
Source: Company, MOFSL

**Exhibit 10: OPM margin is estimated at 17-18% over FY25-26**



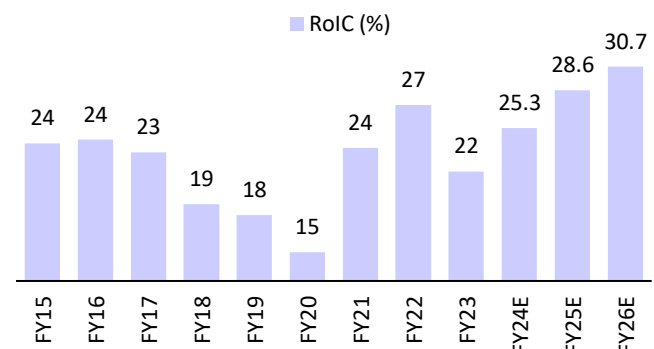
Source: Company, MOFSL

**Exhibit 11: RoE/ROCE to improve**



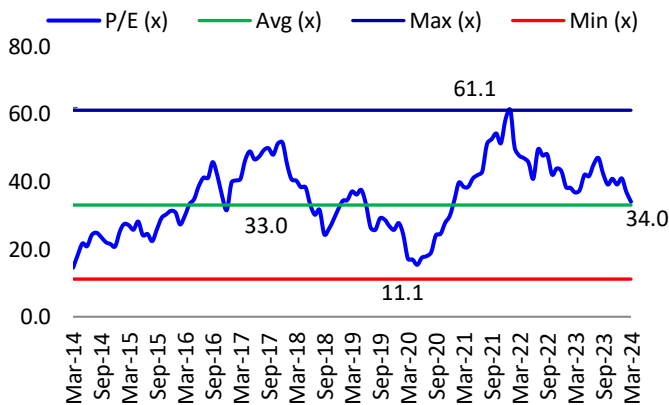
Source: Company, MOFSL

**Exhibit 12: RoIC is estimate to improve**



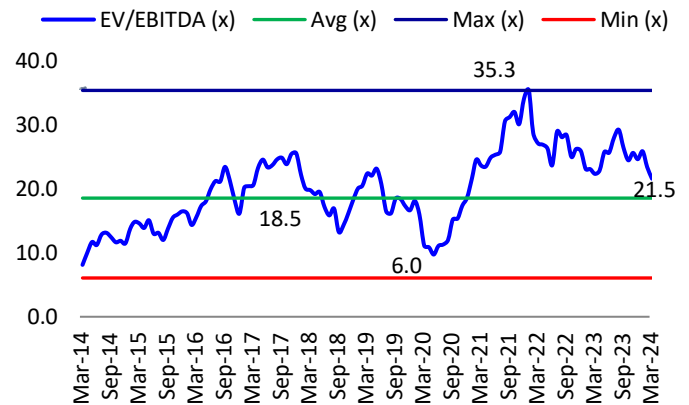
Source: Company, MOFSL

**Exhibit 13: One-year forward P/E (x) trend**



Sources: Company reports, MOFSL

**Exhibit 14: 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
<b>Net Sales</b>	<b>29,562</b>	<b>28,080</b>	<b>27,809</b>	<b>37,052</b>	<b>43,819</b>	<b>46,494</b>	<b>51,098</b>	<b>57,326</b>
Change (%)	9.1	-5.0	-1.0	33.2	18.3	6.1	9.9	12.2
<b>EBITDA</b>	<b>4,495</b>	<b>4,159</b>	<b>5,088</b>	<b>6,107</b>	<b>5,920</b>	<b>7,391</b>	<b>8,620</b>	<b>10,085</b>
Margin (%)	15.2	14.8	18.3	16.5	13.5	15.9	16.9	17.6
Depreciation	891	1,081	1,067	1,154	1,329	1,460	1,441	1,616
<b>EBIT</b>	<b>3,604</b>	<b>3,078</b>	<b>4,022</b>	<b>4,953</b>	<b>4,592</b>	<b>5,931</b>	<b>7,179</b>	<b>8,468</b>
Int. and Finance Charges	156	195	107	127	223	219	197	175
Other Income - Rec.	180	242	213	276	336	387	425	468
<b>PBT bef. EO Exp.</b>	<b>3,449</b>	<b>2,883</b>	<b>3,914</b>	<b>4,826</b>	<b>4,368</b>	<b>5,711</b>	<b>6,982</b>	<b>8,293</b>
EO Expense/(Income)	-48	0	0	0	79	0	0	0
<b>PBT after EO Exp.</b>	<b>3,580</b>	<b>3,125</b>	<b>4,127</b>	<b>5,102</b>	<b>4,625</b>	<b>6,098</b>	<b>7,407</b>	<b>8,761</b>
Current Tax	1,304	937	1,083	1,210	1,174	1,533	1,862	2,202
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
<b>Reported PAT</b>	<b>2,288</b>	<b>2,535</b>	<b>3,490</b>	<b>3,827</b>	<b>3,463</b>	<b>4,565</b>	<b>5,545</b>	<b>6,559</b>
<b>PAT Adj for EO items</b>	<b>2,239</b>	<b>2,535</b>	<b>3,490</b>	<b>3,827</b>	<b>3,404</b>	<b>4,565</b>	<b>5,545</b>	<b>6,559</b>
Change (%)	-1.7	13.2	37.7	9.7	-11.1	34.1	21.5	18.3
Margin (%)	7.6	9.0	12.6	10.3	7.8	9.8	10.9	11.4
Less: Minority Interest	22.3	-18.4	8.5	57.6	17.0	136.0	146.9	158.6
<b>Net Profit</b>	<b>2,217</b>	<b>2,554</b>	<b>3,482</b>	<b>3,770</b>	<b>3,387</b>	<b>4,429</b>	<b>5,398</b>	<b>6,400</b>

### 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	25,150	27,364	30,580
<b>Net Worth</b>	<b>15,749</b>	<b>17,143</b>	<b>18,689</b>	<b>21,224</b>	<b>23,268</b>	<b>25,309</b>	<b>27,523</b>	<b>30,740</b>
Deferred Liabilities	1,059	716	674	726	738	738	738	738
Minority Interest	659	637	646	648	776	912	1,059	1,218
Total Loans	1,203	1,281	987	1,279	2,093	1,893	1,693	1,493
<b>Capital Employed</b>	<b>18,671</b>	<b>19,777</b>	<b>20,996</b>	<b>23,877</b>	<b>26,875</b>	<b>28,852</b>	<b>31,013</b>	<b>34,188</b>
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	12,070	13,512	15,128
<b>Net Fixed Assets</b>	<b>10,778</b>	<b>11,948</b>	<b>11,924</b>	<b>11,496</b>	<b>14,466</b>	<b>15,005</b>	<b>17,064</b>	<b>18,948</b>
Capital WIP	934	266	149	2,634	817	2,000	2,000	2,000
<b>Total Investments</b>	<b>3</b>	<b>101</b>	<b>50</b>	<b>0</b>	<b>19</b>	<b>19</b>	<b>19</b>	<b>19</b>
<b>Curr. Assets, Loans&amp;Adv.</b>	<b>12,003</b>	<b>12,056</b>	<b>13,120</b>	<b>15,728</b>	<b>17,976</b>	<b>18,945</b>	<b>19,616</b>	<b>21,743</b>
Inventory	4,058	5,127	3,731	4,659	5,647	6,186	6,684	7,426
Account Receivables	4,751	3,967	4,317	5,133	6,012	6,433	6,684	7,426
Cash and Bank Balance	2,524	2,252	4,428	4,244	3,938	4,965	4,776	5,257
Loans and Advances	671	710	645	1,693	2,380	1,361	1,471	1,634
<b>Curr. Liability &amp; Prov.</b>	<b>5,048</b>	<b>4,594</b>	<b>4,248</b>	<b>5,981</b>	<b>6,403</b>	<b>7,117</b>	<b>7,686</b>	<b>8,522</b>
Account Payables	4,848	4,306	4,019	5,722	6,111	6,804	7,353	8,169
Provisions	200	288	229	259	293	313	333	353
<b>Net Current Assets</b>	<b>6,955</b>	<b>7,462</b>	<b>8,873</b>	<b>9,747</b>	<b>11,573</b>	<b>11,828</b>	<b>11,930</b>	<b>13,221</b>
<b>Appl. of Funds</b>	<b>18,671</b>	<b>19,777</b>	<b>20,996</b>	<b>23,877</b>	<b>26,875</b>	<b>28,852</b>	<b>31,013</b>	<b>34,188</b>

E: MOFSL estimates

## Financials and valuations

### Ratios

Y/E March	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Basic (INR)</b>								
<b>Consol EPS</b>	<b>14.1</b>	<b>15.9</b>	<b>21.9</b>	<b>24.0</b>	<b>21.4</b>	<b>28.7</b>	<b>34.8</b>	<b>41.2</b>
Cash EPS	19.7	22.7	28.6	31.3	29.7	37.8	43.9	51.4
BV/Share	99.1	107.8	117.5	133.3	146.2	159.0	172.9	193.1
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	52.3	57.4	48.5
<b>Valuation (x)</b>								
P/E	84.8	74.9	54.4	49.7	55.9	41.6	34.3	29.0
Cash P/E	60.7	52.5	41.7	38.2	40.2	31.6	27.2	23.3
P/BV	12.1	11.1	10.2	9.0	8.2	7.5	6.9	6.2
EV/Sales	6.4	6.7	6.7	5.1	4.3	4.0	3.7	3.3
EV/EBITDA	41.9	45.4	36.7	30.6	31.8	25.3	21.7	18.5
Dividend Yield (%)	0.3	0.3	0.8	0.9	0.8	1.3	1.7	1.7
<b>Return Ratios (%)</b>								
RoIC	17.7	14.5	23.6	27.4	21.6	25.3	28.6	30.7
RoE	15.2	15.5	19.4	18.9	15.2	18.2	20.4	22.0
RoCE	20.2	16.0	19.7	22.1	18.1	21.3	24.0	26.0
<b>Working Capital Ratios</b>								
Asset Turnover (x)	1.7	1.5	1.4	1.7	1.7	1.7	1.7	1.8
Working Capital (Days)	57	66	58	62	69	55	53	53
<b>Leverage Ratio (x)</b>								
Net Debt/Equity	(0.3)	(0.2)	(0.7)	(0.5)	(0.3)	(0.4)	(0.4)	(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	6,098	7,407	8,761
Depreciation	891	1,081	1,067	1,154	1,329	1,460	1,441	1,616
Interest & Finance Charges	156	195	107	127	223	219	197	175
Direct Taxes Paid	(1,327)	(1,005)	(980)	(1,285)	(1,265)	(1,533)	(1,862)	(2,202)
(Inc)/Dec in WC	(117)	(993)	868	(621)	(1,851)	773	(291)	(811)
<b>CF from Operations</b>	<b>3,183</b>	<b>2,403</b>	<b>5,189</b>	<b>4,476</b>	<b>3,061</b>	<b>7,017</b>	<b>6,893</b>	<b>7,540</b>
Others	(9)	(159)	(101)	(221)	(106)	-	-	-
<b>CF from Operating incl EO</b>	<b>3,174</b>	<b>2,244</b>	<b>5,088</b>	<b>4,255</b>	<b>2,955</b>	<b>7,017</b>	<b>6,893</b>	<b>7,540</b>
(Inc)/Dec in FA	(1,235)	(1,240)	(1,127)	(2,687)	(2,317)	(3,183)	(3,500)	(3,500)
<b>Free Cash Flow</b>	<b>1,938</b>	<b>1,004</b>	<b>3,961</b>	<b>1,568</b>	<b>639</b>	<b>3,834</b>	<b>3,393</b>	<b>4,040</b>
(Pur)/Sale of Investments	681	(88)	(41)	(51)	(363)	-	-	-
Others	(2,055)	427	(1,788)	(241)	842	-	-	-
<b>CF from Investments</b>	<b>(2,609)</b>	<b>(901)</b>	<b>(2,955)</b>	<b>(2,979)</b>	<b>(1,837)</b>	<b>(3,183)</b>	<b>(3,500)</b>	<b>(3,500)</b>
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)	(219)	(197)	(175)
Dividend Paid	(575)	(1,150)	(1,591)	(1,273)	(1,433)	(2,388)	(3,184)	(3,184)
Others	-	-	-	-	-	-	-	-
<b>CF from Fin. Activity</b>	<b>(1,141)</b>	<b>(1,404)</b>	<b>(2,045)</b>	<b>(1,201)</b>	<b>(1,348)</b>	<b>(2,807)</b>	<b>(3,581)</b>	<b>(3,559)</b>
<b>Inc/Dec of Cash</b>	<b>(576)</b>	<b>(60)</b>	<b>87</b>	<b>75</b>	<b>(230)</b>	<b>1,027</b>	<b>(189)</b>	<b>480</b>
Opening Balance	798	221	161	248	335	105	1,132	944
<b>Closing Balance</b>	<b>221</b>	<b>161</b>	<b>248</b>	<b>323</b>	<b>105</b>	<b>1,132</b>	<b>944</b>	<b>1,424</b>
Bank balance	2,303	2,091	4,179	3,921	3,832	3,832	3,832	3,832
<b>Total cash balance</b>	<b>2,524</b>	<b>2,252</b>	<b>4,428</b>	<b>4,244</b>	<b>3,938</b>	<b>4,965</b>	<b>4,776</b>	<b>5,257</b>

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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
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