

CMP: ₹ 1441

Target: ₹ 1690 (17%)

Target Period: 12 months

BUY

July 26, 2024

Growth to pick up ahead!

About the stock: Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 88 mn. sq. meters (MSM)

- Riding on real estate strong cycle, the company has guided for 11.5% tiles volumes CAGR over FY24-27E.

Q1 Performance: Kajaria report muted set of numbers on expected lines. Overall topline at ₹ 1114 crore, were up 4.6% YoY. Tiles sales volumes were up ~7.8% YoY at 27 MSM. Tiles revenues were up 3.4% YoY at ₹ 990 crore, with pricing decline of ~3.6% YoY. Muted topline growth impacted margins which declined by 90 bps YoY to 15%, despite benign power costs. Given the muted topline and lower margins, the PAT declined by ~16.5% YoY to ₹ 89.8 crore.

Investment Rationale:

- Growth recovery ahead; Robust Medium growth aspirations;** For FY25, the company indicated that demand gradually improved over May and June with June witnessing double digit volume growth. It expects Tiles revenue growth of 8-9% in FY25 with volume growth of 11-12%. We highlight that the management has also outlined 3-year growth aspirations of 150 mn sqm tiles volume by FY27 (implying CAGR of 11.5%) and Tiles revenues CAGR of ~11% over FY24-27 to ₹ 5500 crore. It also expects non-tile portfolio to reach revenue of ₹ 1000 crore by FY27 (₹ 517 crore now), implying a CAGR of ~24.6% and contribute 15% of sales in FY27 (from 12% currently). We have baked in tiles volume and revenue CAGR over FY24-27E of ~11% to 147 MSM and ₹ 5492 crore, respectively. Overall topline is expected to grow at 11.8% CAGR over FY24-26 to ₹ 6406 crore.
- Operating leverage and benign gas prices to drive Margins improvement and earnings growth:** The gas prices are likely to remain stable and at benign levels. The company has guided for margins in the range of 15-17% over FY24-27E. Amid benign Gas prices and operating leverage led benefits, we expect EBITDA margins to reach ~16%/16.5%/17% in FY25/FY26/FY27, respectively from 15.3% in FY24. We expect ~18.7% earnings CAGR over FY24-27.

Rating and Target Price

- Kajaria, with a net cash balance sheet and superior brand, is a solid play on the tiles sector with expanding reach to tier II/III cities. With strong real estate completion cycle kicking in coupled with benign gas costs, we expect Kajaria to remain a key beneficiary of the same.
- We value Kajaria at ₹ 1690, at 38x FY27 P/E and maintain our BUY rating

Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	FY27E	3 yr CAGR (FY24-27E)
Net Sales	2,780.9	3,705.2	4,381.9	4,578.4	9.1%	5,025.0	5,727.5	6,405.6	11.8%
EBITDA	508.8	610.8	592.0	699.7	9.3%	802.5	942.6	1,091.6	16.0%
EBITDA Margin (%)	18.3	16.5	13.5	15.3		16.0	16.5	17.0	
PAT	308.1	377.1	344.5	422.1	13.3%	494.0	597.5	705.4	18.7%
EPS (₹)	19.4	23.7	21.7	26.5		31.1	37.6	44.4	
P/E (x)	74.4	60.8	66.5	54.3		46.4	38.3	32.5	
EV/EBITDA (x)	44.3	37.0	38.4	32.2		28.0	23.6	20.2	
RoCE (%)	19.7	21.5	17.7	20.0		21.0	22.6	23.7	
RoE	16.5	17.8	14.8	16.1		16.9	18.2	19.1	

Source: Company, ICICI Direct Research

Kajaria

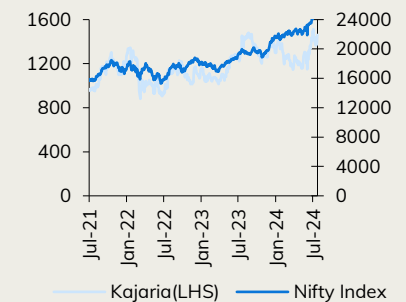
Particulars

Particular	Amount (₹ crore)
Market Cap	22,897
Total Debt (FY24)	128
Cash (FY24)	514
EV	22,511
52 week H/L (₹)	1524 / 1110
Equity capital	15.9
Face value (₹)	1.0

Shareholding pattern

	Sep-23	Dec-23	Mar-24	Jun-24
Promoters	47.5	47.5	47.5	47.5
DII	25.5	25.5	24.9	27.8
FII	18.5	18.3	19.2	16.2
Other	8.6	8.7	8.4	8.5

Price Chart



Key risks

- Slowdown in demand
- Any sharp rise in gas costs

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Performance highlights and outlook

- **Tiles segment performance:** Kajaria's tiles sales volumes were up ~7.8% YoY at 27 MSM. Tiles revenues were up 3.4% YoY at ₹ 990 crore, with pricing decline of ~3.6% YoY. The company indicated that while the demand was muted in April and gradually improved over May and June with June witnessing double digit volume growth.
- **Allied business Performance:**
 - The **Bathware segment** (faucets and sanitaryware) revenues were up 8% YoY at ₹ 91 crore, compared to ₹84 crore in Q1 FY24. The company indicated that margins were lower in bathware due to the launch of the new plant of Kerovit Global in March end wherein production took time to pick up. The company expects the same to pick up from Q2 onwards.
 - **Plywood segment** revenue stood at ₹ 18 crore, up ~25% YoY. The industry is currently grappling with rising timber prices which led to higher losses. The same is likely to ease over next 12-18 months.
 - **Adhesives segment** had revenues of ₹ 15.2 crore, up 59% YoY
- **Industry Commentary:** Tiles industry grew ~3-4% YoY in Q1FY25. Total tile exports in Apr-May'24 was flat at ₹ 3350 crore, due to high freight rates), while exports to USA increased 16% YoY. Despite USA likely to impose Anti-dumping duty on Indian tile export, Kajaria expects alternate export markets opening up and thus industry exports may not be impacted significantly.
- **Guidance: The company expects Tiles revenue growth of 8-9% in FY25 with volume growth of 11-12 % along with margins which are likely to remain stable at 15-16% going forward.** Overall, the company remained optimistic regarding the positive demand outlook for the tiles industry in FY25. With exports momentum likely to sustain and rub-off of strong real estate demand which is likely to drive improvement in off-take for tiles in FY25. The company expect the tiles industry to fare much better than it did in FY24
- **Gas price:** Gas prices was stable QoQ. Share of Biofuel (₹ 22-23/ SCM) was 30% in the North. Overall gas prices stood at ₹ 37/SCM (vs ₹ 39/scm QoQ). The management indicated that it expects gas prices to remain benign ahead.
- **Sales Mix**
 - **Region wise:** North 35%, South 30%, East and West - ~17% each.
 - **City/Town Tier-wise:** Metro 15%, tier-1 ~31%, tier-2 31-32%, tier-3 ~14-15%, tier- 4/5 ~7-8%.
- **Product mix:**
 - For Q1FY25, in volume terms – ceramics (43%), PVT (23%), GVT (34%) and in value terms – ceramics (38%), PVT (25%), GVT (37%).
 - For FY24, in volume terms – ceramics (44%), PVT (25%), GVT (31%) and in value terms – ceramics (38%), PVT (26%), GVT (36%).
- **Investment in Nepal:** The project has been delayed due to heavy rain, and the project commissioning is now expected by September 2024. The plant will be a mix of ceramic and GVT tile with Kajaria expected to capture 10-12% market share in Nepal tiles market (size being ₹ 2500 crore). The company has been exporting to Nepal ~ 70,000-80,000 square meters per month. The company has strengthened their team in Nepal, currently there are 50-60 dealers which are poised to increase to about 100 dealers in the next three months.

- **Dealer additions:** Kajaria had a dealer network of 1,800+ with 415 exclusive showrooms as of FY24. It expects to add 200 dealers every year.
- **Working capital:** Working capital has remained stable at 59 days (vs. 58 days in FY24)
- **Investment in Manufacturing facility for tile adhesives** – The company has approved an investment of ₹ 15 crore to setup a manufacture facility for tile adhesives in Gailpur, Rajasthan. The plant is likely to be operational by December 2024.

Exhibit 1: Quarter Performance

	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)	Comments
Net Sales	1,113.7	1,064.2	4.6	1,240.8	-10.2	Tiles sales volumes were up ~7.8% YoY at 27 MSM. Tiles revenues were up 3.4% YoY at ₹ 990 crore, with pricing decline of ~3.6% YoY.
Other Income	10.2	9.3	10.0	17.4	-41.6	
Net Purchase of Stock in Trade	219.6	247.0	-11.1	310.8	-29.3	
Cost of Materials Consumed	252.5	224.7	12.4	267.2	-5.5	
Staff cost	139.4	113.7	22.6	129.7	7.5	
Other expenditure	122.4	115.9	5.5	149.4	-18.1	
Power & Fuel cost	212.7	193.7	9.8	211.8	0.4	
EBITDA	167.1	169.2	-1.3	172.0	-2.9	Muted topline growth impacted margins
EBITDA Margin (%)	15.0	15.9	-90 bps	13.9	114 bps	
Depreciation	42.1	30.5	38.1	42.3	-0.4	
Interest	4.7	5.3	-11.2	6.6	-29.2	
PBT	130.4	142.7	-8.6	140.5	-7.2	
Taxes	35.8	33.6	6.6	35.4	1.2	
PAT	89.8	107.5	-16.5	102.6	-12.5	Given the muted topline and lower margins, the PAT declined YoY

Key Metrics

Sales Volume (in MSM)	27.0	25.0	7.8	29.6	-8.8
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY25E			FY26E			FY27E	Comments
	Old	New	% Change	Old	New	% Change		
Revenue	5,170.4	5,025.0	-2.8	5828.7	5,727.5	-1.7	6,405.6	Realign estimates
EBITDA	827.6	802.5	-3.0	963.9	942.6	-2.2	1,091.6	
EBITDA Margin (%)	16.0	16.0	-4 bps	16.5	16.5	-8 bps	17.0	
PAT	509.2	494.0	-3.0	602.5	597.5	-0.8	705.4	
EPS (₹)	32.0	31.1	-3.0	37.9	37.6	-0.8	44.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Volume in MSM	FY21	FY22	FY23	FY24	FY25	FY26	FY27	Comments
Sales	75.4	91.7	101.7	108.1	120.1	133.5	147.0	
YoY		22%	11%	6%	11%	11%	10%	
Realisation (₹/sqm)	336	367	388	376	370	374	374	
YoY		9%	6%	-3%	-2%	1%	0%	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Net Sales	4,578.4	5,025.0	5,727.5	6,405.6
Raw Material Exp	994.0	1,045.2	1,225.7	1,358.0
Cost of Materials	983.0	1,035.9	1,180.7	1,330.9
Emp Cost	505.3	542.7	589.9	650.2
Other Expenses	1,396.5	1,598.7	1,788.6	1,975.0
Total op. expenses	3,878.7	4,222.4	4,785.0	5,314.0
EBITDA	699.7	802.5	942.6	1,091.6
Interest	21.1	18.8	17.1	17.1
Depreciation	148.0	160.1	172.8	188.0
Other income	46.2	51.0	60.0	70.0
PBT	576.8	674.7	812.7	956.5
Taxes	143.5	168.7	203.2	239.1
PAT before MI	433.4	506.0	609.5	717.4
Minority Interest	11.3	12.0	12.0	12.0
PAT	422.1	494.0	597.5	705.4
Growth (%)	22.5	17.0	20.9	18.0
EPS (₹)	26.5	31.1	37.6	44.4

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Profit after Tax	422.1	494.0	597.5	705.4
Depreciation	148.0	160.1	172.8	188.0
Interest	21.1	18.8	17.1	17.1
Others	97.2	117.7	143.2	169.1
CF before wc changes	688.4	790.5	930.6	1,079.6
Net Increase in CA	101.8	(181.3)	(202.5)	(195.4)
Net Increase in CL	(9.6)	54.6	85.9	82.9
Net CF from op. activities	626.7	495.2	610.7	727.9
(Purchase)/Sale of FA	(325.4)	(250.1)	(250.0)	(300.0)
Net CF from Inv. activities	###	(199.1)	(190.0)	(230.0)
Inc / (Dec) in Equity Capital	11.0	(0.0)	(0.0)	-
Dividend	(143.3)	(190.8)	(238.5)	(286.2)
Interest paid	(21.1)	(18.8)	(17.1)	(17.1)
Inc / (Dec) in Loans	(38.7)	-	-	-
Net CF from Fin. activities	###	(197.6)	(243.6)	(291.3)
Net Cash flow	120.3	98.5	177.2	206.6
Opening Cash	393.8	514.1	612.7	789.8
Closing Cash/ Cash	514.1	612.7	789.8	996.5

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	2,600.6	2,903.8	3,262.9	3,682.0
Networth	2,616.5	2,919.8	3,278.8	3,698.0
Minority Interest	59.1	71.1	83.1	95.1
Total Debt	170.6	170.6	170.6	170.6
Other Liabilities	133.0	133.0	133.0	133.0
Total Liabilities	2,983.4	3,298.6	3,669.7	4,100.8
Assets				
Gross Block	2,583.0	2,808.0	3,058.0	3,358.0
Less Acc. Dep	979.0	1,139.0	1,311.8	1,499.9
Net Block	1,604.0	1,669.0	1,746.2	1,858.2
Intangibles Assets	33.7	33.7	33.7	33.7
Capital WIP	67.9	92.9	92.9	92.9
Total Fixed Assets	1,705.6	1,795.6	1,872.8	1,984.8
Investments	18.5	18.5	18.5	18.5
Inventory	532.2	633.3	721.8	807.3
Sundry Debtors	619.4	688.4	784.6	877.5
Loans & Advances	115.4	126.7	144.4	161.5
Cash & Bank	514.1	612.7	789.8	996.5
Other Current Assets	37.7	37.7	37.7	37.7
Total Current Assets	1,818.8	2,098.6	2,478.3	2,880.4
Trade Payable	293.3	321.9	366.9	410.3
Other CL	238.5	261.7	298.3	333.7
Provisions	27.8	30.5	34.7	38.8
Net Current Assets	1,259.3	1,484.5	1,778.4	2,097.6
Total Assets	2,983.4	3,298.6	3,669.7	4,100.8

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

	FY24	FY25E	FY26E	FY27E
Per Share Data (₹)				
EPS - Diluted	26.5	31.1	37.6	44.4
Cash EPS	35.9	41.1	48.4	56.2
Book Value	164.6	183.6	206.2	232.6
Dividend per share	9.0	12.0	15.0	18.0
Operating Ratios (%)				
EBITDA / Net Sales	15.3	16.0	16.5	17.0
PAT / Net Sales	9.2	9.8	10.4	11.0
Inventory Days	42	46	46	46
Debtor Days	49	50	50	50
Creditor Days	23	23	23	23
Return Ratios (%)				
RoNW	16.1	16.9	18.2	19.1
RoCE	20.0	21.0	22.6	23.7
RoIC	23.2	25.0	27.8	30.2
Valuation Ratios (x)				
EV / EBITDA	32.6	28.3	23.9	20.5
P/E (Diluted)	55.0	47.0	38.8	32.9
EV / Net Sales	5.0	4.5	3.9	3.5
Market Cap / Sales	5.1	4.6	4.1	3.6
Price to Book Value	8.9	8.0	7.1	6.3
Dividend Yield (%)	0.6	0.8	1.0	1.2
Solvency Ratios (x)				
Net Debt / Equity	(0.1)	(0.2)	(0.2)	(0.2)
Debt/EBITDA	0.2	0.2	0.2	0.2
Current Ratio	2.3	2.4	2.4	2.4
Quick Ratio	1.4	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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