

CMP: ₹ 1183

Target: ₹ 1440 (22%)

Target Period: 12 months

BUY

May 10, 2024

Muted quarter; Healthy medium-term outlook!

About the stock: Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 86.5 mn. sq. meters (MSM) as of FY24

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

Q4 & FY24 Performance: Kajaria report muted set of numbers on expected lines. Tiles sales volumes were up ~5.5% YoY at 29.6 MSM in Q4FY24. Tiles revenues were up 0.9% YoY at ₹ 1092 crore, with pricing decline of ~4.4% YoY. Muted topline growth impacted margins which declined by 74 bps YoY, despite benign power costs. Given the muted topline and lower margins, the PAT declined by ~5% YoY. Margins for FY24 were up 177 bps YoY at 15.3%, aided by benign power costs. For FY24, Tiles revenues were up 2.8% YoY at ₹ 4061 crore, with volume growth of 6.3% YoY at 108.1 MSM. For FY24, Pat at ₹ 422 crore was up 22.5% YoY

Investment Rationale:

- Lays down 3-year growth aspirations; Growth recovery likely from Q2:** The management has 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). For FY25, the company indicated that demand should witness recovery post the election led impact in Q1. We have baked in tiles volume and revenue CAGR over FY24-26E of 11.9% to 135 MSM and ₹ 5083 crore, respectively. Overall topline is expected to grow at 12.8% CAGR over FY24-26 to ₹ 5829 crore.
- Operating leverage and benign gas prices to drive Margins improvement and earnings growth:** The gas prices have eased significantly in FY24 and 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% in FY25/FY26, respectively from 15.3% in FY24. We expect ~19.5% earnings CAGR over FY23-26.

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 **₹ 1440, at 38x FY26 P/E and maintain our BUY rating**

Key Financial Summary

(₹ crore)	FY21	FY22	FY23	FY24	5 yr CAGR (FY19-24)	FY25E	FY26E	2 yr CAGR (FY24-26E)
Net Sales	2,780.9	3,705.2	4,381.9	4,578.4	9.1%	5,170.4	5,828.7	12.8%
EBITDA	508.8	610.8	592.0	699.7	9.3%	827.6	963.9	17.4%
EBITDA Margin (%)	18.3	16.5	13.5	15.3		16.0	16.5	
PAT	308.1	377.1	344.5	422.1	13.3%	509.2	602.5	19.5%
EPS (₹)	19.4	23.7	21.7	26.5		32.0	37.9	
P/E (x)	61.1	49.9	54.6	44.6		36.9	31.2	
EV/EBITDA (x)	36.3	30.3	31.4	26.3		22.2	18.7	
RoCE (%)	19.7	21.5	17.7	20.0		21.6	22.8	
RoE	16.5	17.8	14.8	16.1		17.3	18.3	

Source: Company, ICICI Direct Research

Kajaria

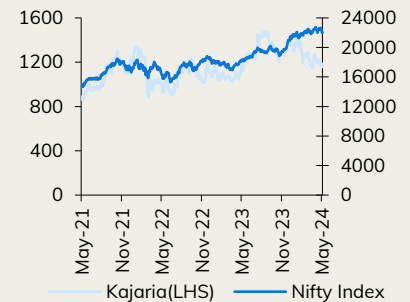
Particulars

Particular	Amount (₹ crore)
Market Cap	18,798
Total Debt (FY24)	128
Cash (FY24)	514
EV	18,412
52 week H/L (₹)	1524 / 1110
Equity capital	15.9
Face value (₹)	1.0

Shareholding pattern

	Jun-23	Sep-23	Dec-23	Mar-24
Promoters	47.5	47.5	47.5	47.5
DII	26.2	25.5	25.5	24.9
FII	16.9	18.5	18.3	19.2
Other	9.4	8.6	8.7	8.4

Price Chart



Key risks

- Slowdown in demand
- Any sharp rise in gas costs

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Q4/FY24 Performance highlights and outlook

- **Tiles segment performance:** Kajaria's tiles sales volumes were up ~5.5% YoY at 29.6 MSM in Q4FY24. Tiles revenues were up 0.9% YoY at ₹ 1092 crore, with pricing decline of ~4.4% YoY. For FY24, Tiles revenues were up 2.8% YoY at ₹ 4061 crore, with volume growth of 6.3% YoY at 108.1 MSM. 70% of its tile volumes in FY24 were from retail sales while the remaining was from institutional segment
- **Allied business Performance:**
 - The **Bathware segment** (faucets and sanitaryware) operates under the brand name 'Kerovit'. It has sanitaryware/faucets capacities of 1.2mn/1.6mn pieces. and it **generated revenue of ₹ 363 crore in FY24 and EBITDA margin of 7.4%**. This segment has a dealer network of 500+ with 85 premium outlets. The company has **~2% market share in the bathware segment**.
 - **Plywood segment** revenue stood at ₹ 104.4 crore in FY24. The industry is currently grappling with rising timber prices, which is likely to ease over next 12-18 months.
 - **Adhesives segment** has a brand name of 'Gresbond'. FY24 had revenues of ₹ 49.6 crore and operating margin of ~18-20%. The industry size of the same is ~₹ 5000 crore. It currently operates in an outsourced model for this segment, and is in the process of setting up a manufacturing plant in Gailpur. The company, however, will continue to operate in an outsourced model for east, west and south regions in India
- **Tiles Industry update:** As per the management, the overall size for tiles industry during FY24 was at ~₹ 61,500 crore (domestic: ₹ 42,000 crore; export: ~₹ 19,500 crore), up from ~₹ 60,000 crore (domestic: ₹ 42,400 crore; export: ~₹ 17,500 crore) in FY23, implying flattish domestic market in FY24. **It expects overall domestic industry to witness 6-8%. Exports are likely to grow ~15-20% in FY24**, largely from Morbi players. **Kajaria has ~10% market share in domestic tiles volumes.**
- **Long term Outlook:**
 - **Tiles:** Kajaria aspires for **150 mn sqm tiles volume by FY27 (implying CAGR of 11.5%) and Tiles revenues CAGR of ~11% over FY24-27 to ₹ 5500 crore**. The growth will be driven by higher dealer penetration in tier-2/3/4 towns and increasing presence to 2000 towns vs. 1000, currently. The company also indicated that the realisation has likely bottomed out in FY24 and is expected to go up driven by improving product mix.
 - **Non-Tiles Portfolio: The company 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). For the non-tile segment, guided for bathware/plywood/adhesives revenue CAGR of 23%/19%/45% over FY24-27 to ₹ 675/175/150 crore, respectively. The growth will be led by expanding distribution network.
 - **Margins:** Margins are expected to remain in 15-17% range given the operating leverage and benign gas prices.
- **The volume growth enablers and initiatives -**
 - **Capacity addition**, as demand increases. Management indicated that it is well equipped to scale up operations to meet the demand.
 - **Dealer penetration in tier 2,3, 4 cities.** There is great focus on adding more showrooms across more cities and penetrate deep by adding showrooms across 2000 towns all over India over the next 3 years (vs. 1000 towns currently).

- **Investment in technology by upgrading IT infrastructure** with recent introduction of SFA and DMS to aid in volume growth by bringing in greater efficiency in employee productivity and business efficiency.
- **Aggressive brand spending:** A&P spends stood at ₹ 131 crore where major spends across FY24 went towards premiumization of dealer showrooms, airport branding and IPL Womens' RCB team sponsorship.
- Establishment of pan India team to **focus on government/institutional projects.**
- **Upgradation of manufacturing units** in Sikandrabad and Srikalahastri to start manufacturing high quality and premium tiles. And introduction of cheaper bio-fuel in north India units to bring down manufacturing costs significantly.
- **Gas price:** Gas prices was stable QoQ in Q4FY24. Share of Biofuel was at 22% blended levels and 30% in the North. **It indicated that it expects gas prices to remain benign ahead.**
- **Working capital:** Working capital has remained stable to 58 days in FY24 (vs. 59 days in FY23)
- **Investment in Nepal:** The company is setting up a tile manufacturing facility in Nepal, with annual capacity of 5.1 MSM on JV basis between the company and various individuals affiliated with Ramesh Corp, Nepal at an overall outlay of ₹ 181.5 crore (Kajaria share will be 50% of the same). The plan will be a mix of ceramic and GVT tiles. **Due to severe rainfall the project was delayed hence the production is expected to start in July' 24 vs. March 2024 early.** Kajaria expects to capture 10% market share in Nepal tiles market (size being ₹ 2000 crore). The company will also be duties beneficiary to an extent of 50% for capex done in Nepal.
- **Investment in Morbi:** Kajaria had announced to acquire 90% stake for an investment of ₹ 50 crore in Keronite Tiles Private Limited (KTPL), which operates a plant of 6 MSM GVT capacity in Morbi. The proposed investment is now increased to ₹ 65 crore.
- **Dealer additions:** Kajaria had a dealer network of 1,800+ with 415 exclusive showrooms as of FY24. It added 200 dealers and removed 150 non-performing dealers during the year. It currently has a presence in 1,000 towns and targeting to reach 2,000 towns by FY27
- **Capex:** The company has guided for capex of ₹ 225-250 crore every year, going forward

Exhibit 1: Quarter Performance

	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	Comments
Net Sales	1,240.8	1,204.8	3.0	1,151.8	7.7	Tiles sales volumes were up ~5.5% YoY at 29.6 MSM. Tiles revenues were up 0.9% YoY at ₹ 1092 crore, with pricing decline of ~4.4% YoY. For FY24, Tiles revenues were up 2.8% YoY at ₹ 4061 crore, with volume growth of 6.3% YoY at 108.1 MSM
Other Income	17.4	10.4	67.4	11.3	54.7	
Net Purchase of Stock in Trade	310.8	294.2	5.6	223.4	39.1	
Cost of Materials Consumed	267.2	242.5	10.2	245.8	8.7	
Staff cost	129.7	116.4	11.4	131.9	-1.7	
Other expenditure	149.4	134.3	11.3	132.4	12.9	
Power & Fuel cost	211.8	241.4	-12.3	239.5	-11.6	
EBITDA	172.0	176.0	-2.2	178.8	-3.8	Muted topline growth impacted margins which declined by 74 bps YoY, despite benign power costs. Margins for FY24 were up 177 bps YoY at 15.3%
EBITDA Margin (%)	13.9	14.6	-74 bps	15.5	-166 bps	
Depreciation	42.3	34.3	23.2	38.9	8.7	
Interest	6.6	7.2	-8.7	5.0	32.7	
PBT	140.5	140.6	0.0	146.2	-3.8	
Taxes	35.4	29.8	18.8	37.9	-6.7	
PAT	102.6	108.1	-5.1	104.2	-1.5	Given the muted topline and lower margins, the PAT declined by ~5% YoY. For FY24, Pat at ₹ 422 crore was up 22.5% YoY.

Key Metrics

Sales Volume (in MSM)	29.6	28.0	5.5	27.1	9.2
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Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY25E			FY26E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,479.4	5,170.4	-5.6	6095.5	5,828.7	-4.4	Realign estimates
EBITDA	891.5	827.6	-7.2	1038.4	963.9	-7.2	
EBITDA Margin (%)	16.3	16.0	-31 bps	17.0	16.5	-50 bps	
PAT	557.4	509.2	-8.7	659.2	602.5	-8.6	
EPS (₹)	35.1	32.0	-8.7	41.5	37.9	-8.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

Volume in MSM	FY21	FY22	FY23	FY24	FY25	FY26	Comments
Sales	75.4	91.7	101.7	108.1	121.1	135.3	
YoY		22%	11%	6%	12%	12%	
Realisation (₹/sqm)	336	367	388	376	375	376	
YoY		9%	6%	-3%	0%	0%	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 4: Profit and loss statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Net Sales	4,381.9	4,578.4	5,170.4	5,828.7
Raw Material Exp	925.0	994.0	1,106.5	1,247.3
Cost of Materials	882.1	983.0	1,065.9	1,201.6
Emp Cost	461.2	505.3	532.5	600.4
Other Expenses	1,521.6	1,396.5	1,637.9	1,815.5
Total op. expenses	3,789.9	3,878.7	4,342.8	4,864.8
EBITDA	592.0	699.7	827.6	963.9
Interest	22.3	21.1	18.8	18.8
Depreciation	132.9	148.0	160.1	172.9
Other income	33.6	46.2	48.0	52.0
PBT	462.5	576.8	696.8	824.2
Taxes	116.3	143.5	175.6	207.7
PAT before MI	346.3	433.4	521.2	616.5
Minority Interest	1.8	11.3	12.0	14.0
PAT	344.5	422.1	509.2	602.5
Growth (%)	(8.6)	22.5	20.6	18.3
EPS (₹)	21.7	26.5	32.0	37.9

Source: Company, ICICI Direct Research

Exhibit 5: Cash flow statement ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Profit after Tax	344.5	422.1	509.2	602.5
Depreciation	132.9	148.0	160.1	172.9
Interest	22.3	21.1	18.8	18.8
Others	82.6	97.2	127.6	155.7
CF before wc changes	582.3	688.4	815.6	949.9
Net Increase in CA	(257.3)	101.8	(223.2)	(189.7)
Net Increase in CL	0.4	(9.6)	72.3	80.5
Net CF from op. activities	254.1	626.7	489.2	632.9
(Purchase)/Sale of FA	(248.2)	(325.4)	(250.1)	(150.0)
Net CF from Inv. activities	####	(295.6)	(202.1)	(98.0)
Inc / (Dec) in Equity Capital	3.2	11.0	(0.0)	(0.0)
Dividend	(143.3)	(143.3)	(190.8)	(238.5)
Interest paid	(22.3)	(21.1)	(18.8)	(18.8)
Inc / (Dec) in Loans	81.4	(38.7)	-	-
Net CF from Fin. activities	(68.2)	(210.7)	(197.6)	(243.3)
Net Cash flow	(30.6)	120.3	89.6	291.6
Opening Cash	424.4	393.8	514.1	603.7
Closing Cash/ Cash	393.8	514.1	603.7	895.3

Source: Company, ICICI Direct Research

Exhibit 6: Balance Sheet ₹ crore

(₹ Crore)	FY23	FY24	FY25E	FY26E
Liabilities				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	2,310.9	2,600.6	2,919.0	3,283.0
Networth	2,326.8	2,616.5	2,934.9	3,298.9
Minority Interest	77.6	59.1	71.1	85.1
Total Debt	209.3	170.6	170.6	170.6
Other Liabilities	143.5	133.0	133.0	133.0
Total Liabilities	2,778.3	2,983.4	3,313.8	3,691.8
Assets				
Gross Block	2,243.4	2,583.0	2,808.0	3,033.0
Less Acc. Dep	831.0	979.0	1,139.0	1,311.9
Net Block	1,412.4	1,604.0	1,669.0	1,721.1
Intangibles Assets	34.1	33.7	33.7	33.7
Capital WIP	81.7	67.9	92.9	17.9
Total Fixed Assets	1,528.3	1,705.6	1,795.6	1,772.7
Investments	1.9	18.5	18.5	18.5
Inventory	564.7	532.2	651.6	734.6
Sundry Debtors	601.2	619.4	708.3	798.5
Loans & Advances	123.9	115.4	130.3	146.9
Cash & Bank	393.8	514.1	603.7	895.3
Other Current Assets	116.8	37.7	37.7	37.7
Total Current Assets	1,800.3	1,818.8	2,131.6	2,612.9
Trade Payable	310.4	293.3	331.2	373.4
Other CL	233.7	238.5	269.3	303.6
Provisions	8.2	27.8	31.3	35.3
Net Current Assets	1,248.1	1,259.3	1,499.7	1,900.6
Total Assets	2,778.3	2,983.4	3,313.8	3,691.8

Source: Company, ICICI Direct Research

Exhibit 7: Key ratios

	FY23	FY24	FY25E	FY26E
Per Share Data (₹)				
EPS - Diluted	21.7	26.5	32.0	37.9
Cash EPS	30.0	35.9	42.1	48.8
Book Value	146.3	164.6	184.6	207.5
Dividend per share	9.0	9.0	12.0	15.0
Operating Ratios (%)				
EBITDA / Net Sales	13.5	15.3	16.0	16.5
PAT / Net Sales	7.9	9.2	9.8	10.3
Inventory Days	47	42	46	46
Debtor Days	50	49	50	50
Creditor Days	26	23	23	23
Return Ratios (%)				
RoNW	14.8	16.1	17.3	18.3
RoCE	17.7	20.0	21.6	22.8
RoIC	20.0	23.2	25.7	28.7
Valuation Ratios (x)				
EV / EBITDA	31.4	26.3	22.1	18.7
P/E (Diluted)	54.6	44.5	36.9	31.2
EV / Net Sales	4.2	4.0	3.5	3.1
Market Cap / Sales	4.3	4.1	3.6	3.2
Price to Book Value	8.1	7.2	6.4	5.7
Dividend Yield (%)	0.8	0.8	1.0	1.3
Solvency Ratios (x)				
Net Debt / Equity	(0.1)	(0.1)	(0.1)	(0.2)
Debt/EBITDA	0.4	0.2	0.2	0.2
Current Ratio	2.5	2.3	2.4	2.4
Quick Ratio	1.5	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

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