

CMP: ₹ 1280

Target: ₹ 1500 (17%)

Target Period: 12 months

BUY

October 23, 2024

Weak Quarter; Growth to pick up in H2!

About the stock: Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 93 mn. sq. meters (MSM) spread across India and Nepal

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

Q2 Performance: Kajaria reported weak performance on margins front. Overall topline at ₹ 1179 crore, were up 5.1% YoY. Tiles sales volumes were up ~8.4% YoY at 28.7 MSM. Tiles revenues were up 5.4% YoY at ₹ 1054 crore, with pricing decline of ~2.4% YoY. EBITDA margins declined by 255 bps YoY to 13.5%. Margin decline was owing to muted margins reported by the bathware division which was largely attributable to losses incurred in the recently commissioned sanitaryware unit in Morbi and additional overheads incurred by Keronite unit in the tiles division which commenced operations during the quarter. Given the muted topline and lower margins, the PAT declined by ~22% YoY to ₹ 84 crore.

Investment Rationale:

- Growth recovery ahead; Medium growth aspirations retained;** The company expects demand recovery from H2FY25. It has guided for **Tiles volume growth of 9-10 % in FY25 vs. 11-12%, guided earlier.** Nonetheless, the management has retained 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. **We marginally lower our topline estimates. We have baked in tiles volume and revenue CAGR over FY24-27E of ~10% to 144 MSM and ₹ 5383 crore, respectively. Overall topline is expected to grow at 10.9% CAGR over FY24-27 to ₹ 6248 crore.**
- Operating leverage and benign gas prices to drive Margins improvement and earnings growth over medium term:** 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, with FY25 being at lower band. **Amid benign Gas prices and operating leverage, we expect EBITDA margins of ~15%/15.8%/16.5% in FY25/FY26/FY27, respectively from 15.3% in FY24. We expect ~16.2% 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. Overall demand recovery will drive healthy earnings growth recovery
- We value Kajaria at **₹ 1500, at 36x FY27 P/E (vs. 38x, earlier) 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%	4,898.2	5,542.6	6,248.2	10.9%
EBITDA	508.8	610.8	592.0	699.7	9.3%	737.0	875.9	1,029.8	13.8%
EBITDA Margin (%)	18.3	16.5	13.5	15.3		15.0	15.8	16.5	
PAT	308.1	377.1	344.5	422.1	13.3%	442.8	547.5	662.8	16.2%
EPS (₹)	19.4	23.7	21.7	26.5		27.8	34.4	41.7	
P/E (x)	66.1	54.0	59.1	48.2		46.0	37.2	30.7	
EV/EBITDA (x)	39.3	32.8	34.0	28.6		27.0	22.6	19.0	
RoCE (%)	19.7	21.5	17.7	20.0		19.3	21.4	23.2	
RoE	16.5	17.8	14.8	16.1		15.4	17.2	18.6	

Source: Company, ICICI Direct Research

Kajaria

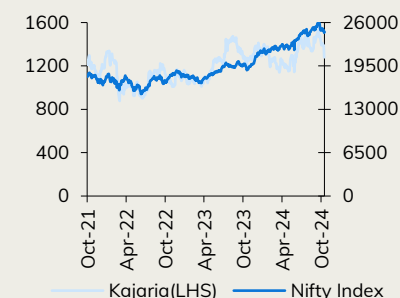
Particulars

Particular	Amount (₹ crore)
Market Cap	20,339
Total Debt (FY24)	128
Cash (FY24)	514
EV	19,953
52 week H/L (₹)	1579 / 1110
Equity capital	15.9
Face value (₹)	1.0

Shareholding pattern

	Dec-23	Mar-24	Jun-24	Sep-24
Promoters	47.5	47.5	47.5	47.5
DII	25.5	24.9	27.8	28.4
FII	18.3	19.2	16.2	16.1
Other	8.7	8.4	8.5	8.1

Price Chart



Key risks

- Slowdown in demand
- Any sharp rise in gas costs

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Performance highlights and outlook

- **Q2 Performance:** Tiles sales volumes were up ~8.4% YoY at 28.7 MSM. Tiles revenues were up 5.4% YoY at ₹ 1054 crore, with pricing decline of ~2.4% YoY. Margin decline was owing to muted margins reported by the bathware division which was largely attributed to the losses incurred in the recently commissioned sanitary unit in Morbi and additional overheads incurred by Keronite unit in the tiles division which commenced operations in Q2. Given the muted topline and lower margins, the PAT declined by ~22% YoY to ₹ 84 crore.
- **Allied business Performance:**
 - **The Bathware segment (faucets and sanitaryware) revenues were up 6% YoY at ₹ 90 crore,** The company indicated that **margins were lower in bathware segment which was largely attributed to losses incurred in the recently commissioned sanitaryware unit in Morbi.** Sanitaryware business had a lower growth rate due to very heavy rainfall. **Management hopes for a much better H2 with revenue growth guidance pegged at 15% for the segment.**
 - **Plywood segment revenue stood at ₹ 17.5 crore, down ~26% 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 reported revenues of ₹ 18 crore, up 40% YoY.
- **Industry Commentary:** Domestic Tiles industry **grew ~2-3% YoY in Q2FY25. India's tile exports were down 15% fall in the first five months of the current year, totalling to ₹7400 crore versus ₹8700 crore in the same period last year.** This was **largely attributed to significant jump in ocean freight rates due to ongoing Red Sea crisis and lack of container availability.** Management stated that industry demand was weak in Q2, further impacted by adverse weather conditions. **However, the management maintained a positive demand outlook for the tile industry. With the rub-off of strong real estate demand likely to drive improvement in off-take for tiles in H2FY25.**
- **Margins commentary and outlook:** Management stated that there was **an impact of 90–100bps on OPM due to the lower utilisation at the bathware plant. Gross margins were down by 90–100bps QoQ which is largely owing to higher mix of outsourcing, which has gone up from 23% to 26%.** Going forward, the management is confident of margins improving as utilisation at both plants will likely ramp up. **Management expects the Keronite tiles plant to stabilise by Q4. For FY25, EBITDA margins of 15% is expected.**
- **Guidance:** The company expects **Tiles volume growth of 9-10 % in FY25 vs. 11-12%, guided earlier. The EBITDA margins are likely to remain at the lower band of 15-17% going forward.**
- **Realisations:** Realisation was **flat QoQ in Q2FY25 and management does not expect any further decline in realisation going forward.** Any realization growth will only come when more value-added tiles are infused into the market.
- **Gas price:** Gas prices remained flat QoQ. Average gas cost in Q2FY25 was ₹ 37/scm (north: ₹ 38/scm; south: ₹ 37/scm; and west: ₹ 35/scm). The company uses mix of gas and bio fuel with ~20-22% bio fuel with ~30%+ bio fuel in the North. It expects Gas prices to remain benign.
- **Investment in Nepal:** The Nepal plant (5.1 MSM capacity plant of ceramics and GVT in JV) is operational now with commercial production commenced from 8th Sep. 2024 selling at about 60000-

70000 square meters. Sales are expected to increase as management plans to gradually ramp up production.

- **Capex:** Management has guided for total capex of ₹ 200 crore in FY25 (including ₹ 44 crore for Nepal plant). It has already spent ₹ 135 crore in H1FY25 (including ₹34 crore for Nepal plant).
- **Working capital:** Working capital has remained stable at 59 days (vs. 58 days in FY24). The company have guided for reduction in Working Capital to 50 days driven by both receivables and inventory management.
- **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.
- **Investment in Kajaria Ultima Private Limited (KUPL)** – The management approved an investment upto ₹ 30 crore in KUPL to purchase land in Morbi. KUPL plans to put up a large format tile manufacturing facility in Morbi at a later date. After the proposed investment, KUPL will become a wholly owned subsidiary of the company.
- **Expansion of Government projects team:** The company has expanded its government projects team from north to south with real sales expected to commence from next year. Government projects contributed 10% to total volume in FY24. They're expected to contribute about 12.5-13% overall sales volume in FY25.

Exhibit 1: Quarterly Variance

	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	Comments
Net Sales	1,179.3	1,121.6	5.1	1,113.7	5.9	Tiles sales volumes were up ~8.4% YoY at 28.7 MSM. Tiles revenues were up 5.4% YoY at ₹ 1054 crore, with pricing decline of ~2.4% YoY.
Other Income	9.9	8.3	19.3	10.2	-3.1	
Net Purchase of Stock in Trade	247.7	212.9	16.3	219.6	12.8	
Cost of Materials Consumed	263.8	245.3	7.6	252.5	4.5	
Staff cost	144.3	130.0	11.1	139.4	3.6	
Other expenditure	140.1	132.7	5.6	122.4	14.5	
Power & Fuel cost	224.4	221.1	1.5	212.7	5.5	
EBITDA	158.9	179.7	-11.6	167.1	-4.9	
EBITDA Margin (%)	13.5	16.0	-255 bps	15.0	-153 bps	
Depreciation	40.6	36.1	12.5	42.1	-3.7	
Interest	4.7	4.3	11.0	4.7	1.1	
PBT	123.5	147.7	-16.4	130.4	-5.3	
Taxes	35.0	36.6	-4.4	35.8	-2.2	
PAT	84.3	108.0	-21.9	89.8	-6.2	Given the lower margins, the PAT declined YoY

Key Metrics

Sales Volume (in MSM)	28.7	26.5	8.4	27.0	6.4
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Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

Volume in MSM	FY21	FY22	FY23	FY24	FY25	FY26	FY27	Comments
Sales	75.4	91.7	101.7	108.1	117.8	129.5	144.0	
YoY		22%	11%	6%	9%	10%	11%	
Realisation (₹/sqm)	336	367	388	376	367	374	374	
YoY		9%	6%	-3%	-2%	2%	0%	

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 3: Profit and loss statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Net Sales	4,578.4	4,898.2	5,542.6	6,248.2
Raw Material Exp	994.0	1,058.0	1,208.3	1,349.6
Cost of Materials	983.0	1,009.7	1,142.6	1,298.2
Emp Cost	505.3	529.0	576.4	637.3
Other Expenses	1,396.5	1,564.4	1,739.5	1,933.3
Total op. expenses	3,878.7	4,161.2	4,666.8	5,218.4
EBITDA	699.7	737.0	875.9	1,029.8
Interest	21.1	18.8	17.1	17.1
Depreciation	148.0	162.9	172.8	188.0
Other income	46.2	51.0	60.0	75.0
PBT	576.8	606.4	746.0	899.7
Taxes	143.5	151.6	186.5	224.9
PAT before MI	433.4	454.8	559.5	674.8
Minority Interest	11.3	12.0	12.0	12.0
PAT	422.1	442.8	547.5	662.8
Growth (%)	22.5	4.9	23.7	21.1
EPS (₹)	26.5	27.8	34.4	41.7

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement ₹ crore

(₹ Crore)	FY24	FY25E	FY26E	FY27E
Profit after Tax	422.1	442.8	547.5	662.8
Depreciation	148.0	162.9	172.8	188.0
Interest	21.1	18.8	17.1	17.1
Others	97.2	100.6	126.5	149.9
CF before wc changes	688.4	725.0	863.9	1,017.8
Net Increase in CA	101.8	(144.7)	(185.7)	(203.4)
Net Increase in CL	(9.6)	39.1	78.8	86.2
Net CF from op. activities	626.7	467.8	570.4	675.8
(Purchase)/Sale of FA	(325.4)	(250.1)	(250.0)	(300.0)
Net CF from Inv. activities	(295.6)	(199.1)	(190.0)	(225.0)
Inc / (Dec) in Equity Capital	11.0	(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	(210.7)	(197.6)	(243.6)	(291.3)
Net Cash flow	120.3	71.1	136.8	159.5
Opening Cash	393.8	514.1	585.2	722.1
Closing Cash/ Cash	514.1	585.2	722.1	881.6

Source: Company, ICICI Direct Research

Exhibit 5: 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	2,852.6	3,161.6	3,538.2
Networth	2,616.5	2,868.5	3,177.5	3,554.1
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	3,247.4	3,568.4	3,957.0
Assets				
Gross Block	2,583.0	2,808.0	3,058.0	3,358.0
Less Acc. Dep	979.0	1,141.9	1,314.6	1,502.7
Net Block	1,604.0	1,666.2	1,743.4	1,855.3
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	1,792.8	1,870.0	1,982.0
Investments	18.5	18.5	18.5	18.5
Inventory	532.2	617.3	698.5	787.5
Sundry Debtors	619.4	671.0	759.3	855.9
Loans & Advances	115.4	123.5	139.7	157.5
Cash & Bank	514.1	585.2	722.1	881.6
Other Current Assets	37.7	37.7	37.7	37.7
Total Current Assets	1,818.8	2,034.7	2,357.2	2,720.1
Trade Payable	293.3	313.8	355.1	400.3
Other CL	238.5	255.1	288.7	325.5
Provisions	27.8	29.7	33.6	37.9
Net Current Assets	1,259.3	1,436.1	1,679.9	1,956.5
Total Assets	2,983.4	3,247.4	3,568.4	3,957.0

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios

	FY24	FY25E	FY26E	FY27E
Per Share Data (₹)				
EPS - Diluted	26.5	27.8	34.4	41.7
Cash EPS	35.9	38.1	45.3	53.5
Book Value	164.6	180.4	199.8	223.5
Dividend per share	9.0	12.0	15.0	18.0
Operating Ratios (%)				
EBITDA / Net Sales	15.3	15.0	15.8	16.5
PAT / Net Sales	9.2	9.0	9.9	10.6
Inventory Days	42	46	46	46
Debtor Days	49	50	50	50
Creditor Days	23	23	23	23
Return Ratios (%)				
RoNW	16.1	15.4	17.2	18.6
RoCE	20.0	19.3	21.4	23.2
RoC	23.2	22.5	25.7	28.4
Valuation Ratios (x)				
EV / EBITDA	28.6	27.0	22.6	19.0
P/E (Diluted)	48.2	46.0	37.2	30.7
EV / Net Sales	4.4	4.1	3.6	3.1
Market Cap / Sales	4.4	4.2	3.7	3.3
Price to Book Value	7.8	7.1	6.4	5.7
Dividend Yield (%)	0.7	0.9	1.2	1.4
Solvency Ratios (x)				
Net Debt / Equity	(0.1)	(0.1)	(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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