

India

ADD (no change)

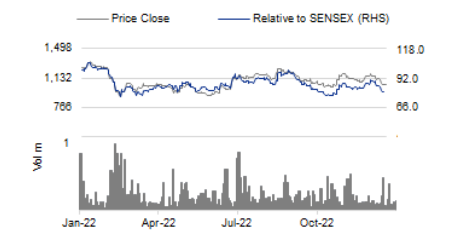
Consensus ratings*: Buy 24 Hold 5 Sell 0

Current price:	Rs1,098
Target price:	Rs1,175
Previous target:	Rs1,227
Up/downside:	7.0%
InCred Research / Consensus:	-6.0%
Reuters:	KAJR.BO
Bloomberg:	KJC IN
Market cap:	US\$2,144m Rs174,766m
Average daily turnover:	US\$2.5m Rs205.1m
Current shares o/s:	159.2m
Free float:	52.5%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue cut by 2.8%/1.2%.
- FY23F/24F EBITDA cut by 7.3%/2.2%.
- FY23F/24F PAT cut by 10.5%/4.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.4)	2.6	(16.7)
Relative (%)	(3.0)	3.7	(19.6)

Major shareholders	% held
Promoters	47.5
Kotak Mahindra Trustee Co Ltd A/c	4.7
Government Pension Fund Global	4.6

Analyst(s)



Rahul AGARWAL

T (91) 22 4161 1553
E rahul.agarwal@incredcapital.com

Harshit SARAWAGI

T (91) 22 4161 0000
E harshit.sarawagi@incredcapital.com

Kajaria Ceramics

A bit delayed, but margins to get better qoq

- Low demand & high gas cost led to 15-20% miss vs. our/Bloomberg consensus EBITDA/PAT 3Q estimates. Tile sales volume flat yoy. Margins were flat qoq.
- Jan 2023 has been weak. Management expects FY24F sales volume growth of 13-15% yoy and better EBITDA margin going ahead (4Q guidance: 14%+).
- We remain optimistic of margin improvement. Margins bottomed out in 2Q and may improve in 4QFY23F. Demand recovery is key. Retain ADD rating.

Led by weak demand and high gas cost, 3Q was below expectations

Kajaria Ceramics or KCL posted 3QFY23 revenue/EBITDA/PAT of Rs10.9bn/Rs1.3bn/Rs743m, +2%/-28%/-39% yoy, respectively, significantly below expectations. EBITDA and PAT were down by 15-30% vs. our/Bloomberg consensus estimates. Tile sales volume was at 25.5msm, down 1% yoy, while tile average realization stood at Rs387/mqm, up 3% yoy. Overall volume was weak due to a prolonged monsoon season and bunching up of regional festivals in Oct 2022. Consolidated gross margin improved to 59.3%, +135bp yoy, while EBITDA margin declined to 12.2%, down 500bp yoy. The decline was due to irregular natural gas supply and unprecedented high gas cost. Bathware and plywood segments' revenue too fell to Rs795m and Rs188m, down 3% and 25% yoy, respectively. The recently launched tile adhesives segment clocked a revenue of Rs90m, down 7% qoq. Net working cycle cycle deteriorated to 66 days of TTM sales at the end of Dec 2022 vs. 52 days at the end of Mar 2022 due to unsold inventory amid lower-than-anticipated demand. Net cash stood at Rs1.9bn as end-Dec 2022. KCL's board declared an interim dividend of Rs6/share (600% of equity capital).

A bit delayed, but we see higher volume/margins in 4QFY23F/FY24F

After a weak Oct performance, demand in Nov/Dec 2022 recovered. As per KCL, Jan 2023 began on a weak note again. However, residential/commercial real estate demand and government infrastructure spending intensity continued to hold good, despite a slight impact on private consumption due to the hike in interest rates over the last six months. Management intends to offer higher channel discounts/incentives to boost sales. KCL gave tile sales volume growth guidance of 13-15% yoy for FY24F. Blended fuel cost fell since Dec 2022, primarily due to the increased use of alternative fuels (bio-mass based fuel made from mustard husk) and some fall in gas prices qoq. KCL gave EBITDA margin guidance of 14%+ for 4QFY23F based on the alternate fuel mix rising to 30%+ (~10% savings qoq) from nil in Nov 2022. Bio-fuel prices are at Rs30/scm vs. Rs57-58/scm for natural gas.

Change in our estimates; valuation and risks

KCL to improve future performance led by new capacity, cost savings, improved sales mix and lower blended fuel cost. We expect strong FY25F performance as Nepal capacity comes on stream. Retain ADD rating with a new target price of Rs1,175 (Rs1,227 earlier), retaining exit P/E of 38x (five-year mean). Delayed demand recovery and a rise in gas prices are key downside risks.

Financial Summary	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	27,809	37,052	43,643	50,528	60,582
Operating EBITDA (Rsm)	5,088	6,107	5,805	7,983	9,844
Net Profit (Rsm)	3,081	3,770	3,349	4,923	6,124
Core EPS (Rs)	19.4	23.7	21.2	30.9	38.5
Core EPS Growth	20.6%	22.3%	(10.5%)	45.9%	24.4%
FD Core P/E (x)	56.67	46.34	52.18	35.49	28.53
DPS (Rs)	10.0	11.0	12.0	15.0	18.5
Dividend Yield	0.91%	1.00%	1.09%	1.37%	1.69%
EV/EBITDA (x)	33.75	28.22	29.72	21.60	17.38
P/FCFE (x)	95.38	(189.68)	57.35	82.31	43.26
Net Gearing	(18.1%)	(13.6%)	(12.3%)	(11.1%)	(14.7%)
P/BV (x)	9.34	8.23	7.71	6.93	6.16
ROE	17.2%	18.9%	15.4%	20.6%	22.9%
% Change In Core EPS Estimates			(10.55%)	(4.20%)	(0.66%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

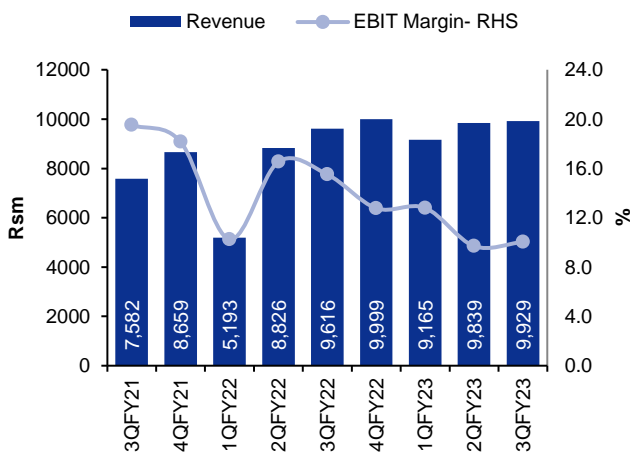
3QFY23 earnings-call highlights

- **Weak demand trend:** The tile industry had a bad Oct 2022 due to the festival season. Though Nov/Dec 2022 witnessed a recovery, KCL's management shared that the start to Jan 2023 has been weak again. For KCL, floor/wall tiles, bathware and plywood witnessed a weak demand trend and lower-than-expected revenue in 3QFY23. KCL offered higher channel incentives and discounts to boost sales volume in Nov/Dec 2022 and intends to continue with the same in 4QFY23F in case the weak demand trend sustains across the industry.
- **Growth and margin guidance:** KCL expects tile sales volume growth of 13-15% yoy in FY24F and EBITDA margin to revert to 14%+ in 4QFY23F.
- **Sales mix:** Sales volume mix in 3QFY23 in the tile segment was ceramics 45%, GVT 29%, and PVT 26%. In revenue terms, ceramics contributed 40%, GVT 33%, and PVT 27%.
- **Gas price:** Average gas price in North India plants was at Rs57/scm, South at Rs44/scm, and West at Rs48/scm. The all-India average price was at Rs53/scm. This compares to 2QFY23 gas prices for North India at Rs59/scm, South at Rs48/scm, and West at Rs53/scm. The all-India average price stood at Rs56/scm.
- **Fuel price:** As KCL has started fuel mixing, it is important to track the blended fuel price paid across all fuel types. The average fuel price was at Rs56/scm in 2Q and Rs53/scm in 3Q. Management expects it to decline further to Rs47-48/scm in 4QFY23F.
- **Distribution network:** KCL had a total 1,825 dealers at the end of Dec 2022. It added 125 dealers in 9MFY23, of which 35 are exclusive KCL dealers. The company maintained its target to add 450-500 dealers over the next three years. Most of the addition will happen in new geographies having a low channel penetration, as per management.
- **Usage of alternative fuels:** Since Dec 2022, KCL started meaningful blending of natural gas with alternate fuels like biofuel, coal, LPG and propane to reduce the blended fuel cost for tile manufacturing, given the unprecedented rise in natural gas prices. West and South India plants are allowed to use coal for heating purposes in case of spray dryers. However, North India plants have been restricted from using coal completely. These plants have started using mustard husk-based biofuel. The landed price of biofuel is Rs30/scm vs. natural gas price of Rs57-58/scm for KCL. The company intends to achieve a fuel-mix of 65% from natural gas and 35% from alternate fuels by Mar 2023F, at an aggregate level, across all its manufacturing locations. The supply of mustard husk is ample in North India, with Rajasthan being the largest producer of the crop in the country.
- **Subsidiary divestment:** KCL intends to divest from its 51% subsidiary Vennar Ceramics, which operates a 2.9msm ceramic wall tile plant at Vijayawada in Andhra Pradesh. Due to regulatory and environmental constraints, there is no future expansion possible at this location and hence, KCL has decided to exit. Existing promoters, who hold the balance 49% equity stake, will acquire KCL's stake for Rs182.5m in five equal instalments between 1 Apr 2023 to 31 Mar 2024. The capacity vacuum will be met through outsourcing from Morbi manufacturers and there will no impact on end-dealers and customer servicing in the region.
- **Nepal expansion update:** The construction of the 8msm tile manufacturing plant under a joint venture with Ramesh Corp, Nepal, got delayed due to general elections in that country. The company expects to start construction in Mar 2023F and commence commercial production by Apr 2024F. It's a Rs2.5bn project with KCL's equity share at 50% (Rs1.25bn).
- **Capex:** KCL spent Rs750m on capex in 9MFY23 and will incur ~Rs150-200m more in 4QFY23F. The company has budgeted Rs3bn+ capex for FY24F that

includes faucet plant brownfield expansion, Nepal greenfield plant, Sikandrabad plant expansion and Gailpur plant modernization. The capex relating to enabling North India plants (Gailpur in Rajasthan, and Sikandrabad in Uttar Pradesh) to use biomass fuel is Rs70-75m that has been incurred in FY23.

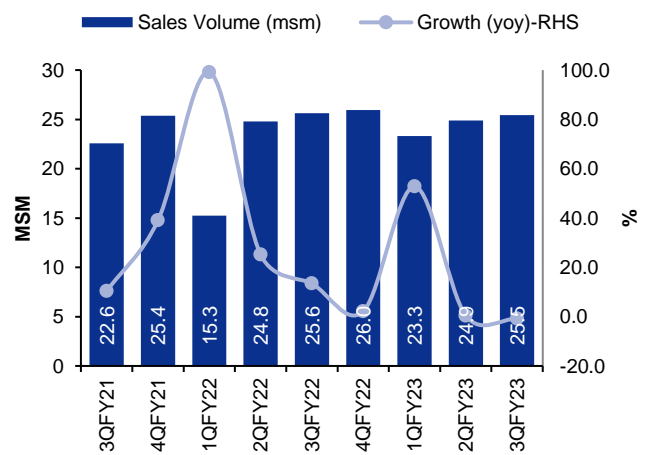
- Cash conversion cycle:** Net working capital days increased to 66 days of TTM sales at the end of Dec 2022 as compared to 62 days qoq and 52 days as at the end of Mar 2022. Weak demand has resulted in unsold inventory being higher than normal. Management expects additional channel incentives and discounts to help get back to the normal inventory level of ~50 days of sales by the end of Mar 2023F. Net cash (including equivalents) stood at Rs1.9bn at the end of Dec 2022.

Figure 1: Tile revenue and EBIT trend



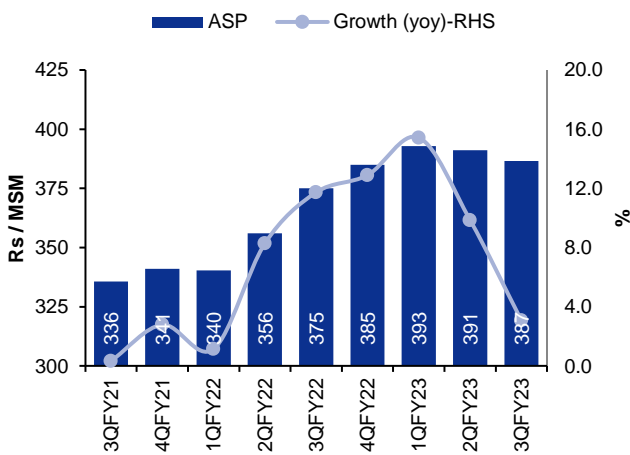
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Tile volume trend



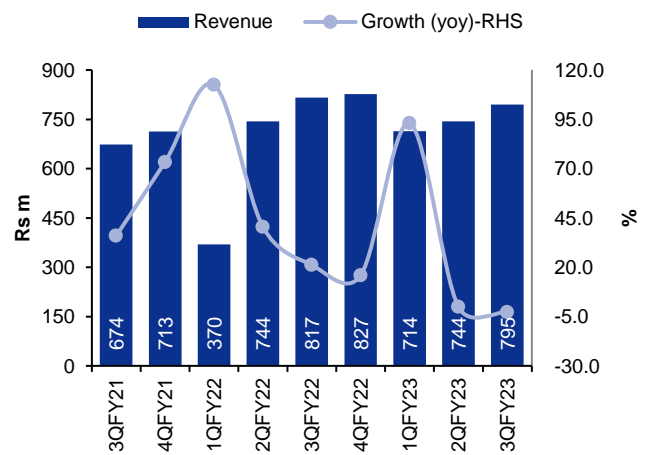
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Tile average realisation



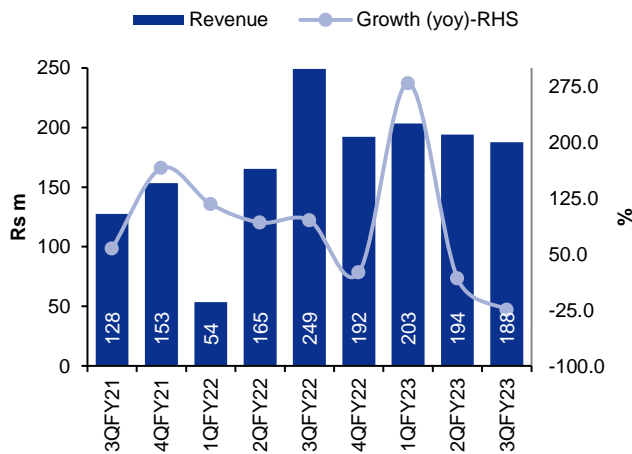
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Bathware revenue trend



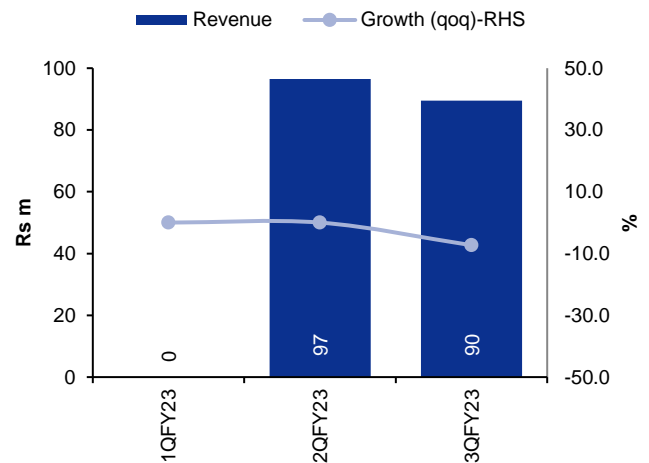
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Plywood revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Adhesive revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 3QFY23 results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue	10,911	10,682	2.1	10,778	1.2	31,771	26,034	22.0
EBITDA	1,331	1,838	(27.6)	1,294	2.8	4,161	4,448	(6.4)
EBITDA margin (%)	12.2	17.2	-501 bp	12.0	19 bp	13.1	17.1	-399 bp
Adj. PAT	743	1,220	(39.1)	735	1.1	2,401	2,812	(14.6)
Diluted EPS (Rs)	4.7	7.7		4.6		15.1	17.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 3QFY23 segment-wise results snapshot

YE Mar (Rs m)	3QFY23	3QFY22	yoy (%)	2QFY23	qoq (%)	9MFY23	9MFY22	yoy (%)
Revenue								
Tile	9,929	9,616	3.2	9,839	0.9	28,933	23,635	22.4
Others	983	1,066	(7.8)	938	4.7	2,838	2,399	18.3
Total	10,911	10,682	2.1	10,778	1.2	31,771	26,034	22.0
EBIT								
Tile	996	1,492	(33.2)	954	4.4	3,121	3,483	(10.4)
Others	10	66	(85.3)	4	136.6	54	137	(60.8)
Total	1,005	1,558	(35.5)	958	5.0	3,175	3,620	(12.3)
EBIT margin (%)								
Tile	10.0	15.5	-548 bp	9.7	34 bp	10.8	14.7	-395 bp
Others	1.0	6.2	-522 bp	0.4	55 bp	1.9	5.7	-384 bp
Total	9.2	14.6	-537 bp	8.9	33 bp	10.0	13.9	-391 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	3QFY23A	3QFY23F	Var (%)
Revenue	10,911	11,518	(5.3)
EBITDA	1,331	1,684	(21.0)
EBITDA margin (%)	12.2	14.6	-242 bp
Adj. PAT	743	1,018	(27.0)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus estimates

Rs m	3QFY23A	3QFY23C	Var(%)
Revenue	10,911	11,302	(3.5)
EBITDA	1,331	1,574	(15.5)
EBITDA margin (%)	12.2	13.9	-173 bp
Adj. PAT	743	948	(21.6)

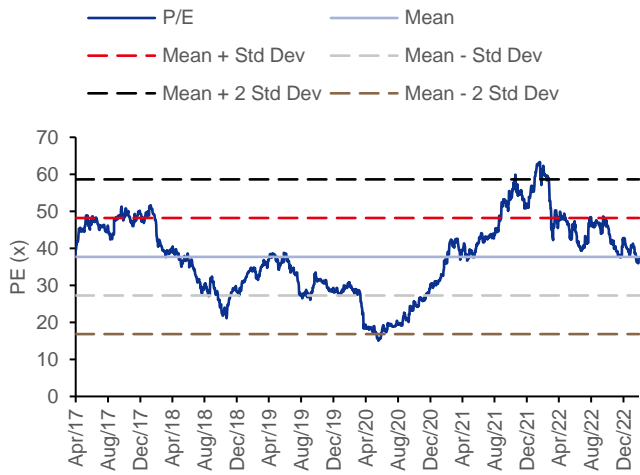
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	43,643	50,528	60,582	44,897	51,162	59,069	-2.8	-1.2	2.6
EBITDA	5,805	7,983	9,844	6,263	8,160	9,717	-7.3	-2.2	1.3
Adjusted consol. PAT	3,385	4,923	6,124	3,783	5,139	6,165	-10.5	-4.2	-0.7
EPS	21.3	30.9	38.5	23.8	32.3	39	-10.5	-4.2	-0.7
EBITDA margin (%)	13.3	15.8	16.3	14.0	16.0	16.4	-65 bp	-15 bp	-20 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: P/E SD (five-year mean P/E)



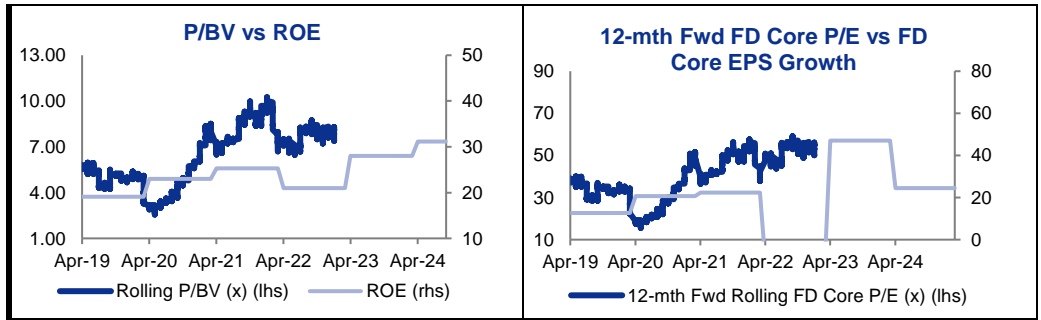
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	27,809	37,052	43,643	50,528	60,582
Gross Profit	15,340	21,501	26,186	29,812	35,743
Operating EBITDA	5,088	6,107	5,805	7,983	9,844
Depreciation And Amortisation	(1,067)	(1,154)	(1,330)	(1,421)	(1,704)
Operating EBIT	4,022	4,953	4,475	6,562	8,141
Financial Income/(Expense)	73	125	61	77	129
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	33	23	50	53	55
Profit Before Tax (pre-EI)	4,127	5,102	4,586	6,692	8,324
Exceptional Items			(37)		
Pre-tax Profit	4,127	5,102	4,549	6,692	8,324
Taxation	(1,038)	(1,274)	(1,211)	(1,779)	(2,212)
Exceptional Income - post-tax					
Profit After Tax	3,089	3,827	3,339	4,912	6,112
Minority Interests	(9)	(58)	10	11	12
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,081	3,770	3,349	4,923	6,124
Recurring Net Profit	3,081	3,770	3,375	4,923	6,124
Fully Diluted Recurring Net Profit	3,081	3,770	3,375	4,923	6,124

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	5,088	6,107	5,805	7,983	9,844
Cash Flow from Invt. & Assoc.					
Change In Working Capital	868	(621)	(1,440)	(576)	(1,366)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	179	165	75	129	184
Net Interest (Paid)/Received	(67)	(111)	(61)	(77)	(129)
Tax Paid	(980)	(1,285)	(1,211)	(1,779)	(2,212)
Cashflow From Operations	5,088	4,255	3,167	5,680	6,322
Capex	(1,127)	(2,687)	(1,410)	(3,366)	(2,122)
Disposals Of FAs/subsidiaries	115	53			
Acq. Of Subsidiaries/investments	(2,119)	(491)	500		(500)
Other Investing Cashflow	176	215	289	308	339
Cash Flow From Investing	(2,955)	(2,910)	(621)	(3,058)	(2,282)
Debt Raised/(repaid)	(302)	(2,266)	500	(500)	
Proceeds From Issue Of Shares	53	52			
Shares Repurchased					
Dividends Paid	(1,591)	1,273	(1,910)	(2,388)	(2,945)
Preferred Dividends					
Other Financing Cashflow	(68)	(92)	(228)	(232)	(211)
Cash Flow From Financing	(1,908)	(1,032)	(1,638)	(3,120)	(3,156)
Total Cash Generated	224	313	908	(497)	884
Free Cashflow To Equity	1,830	(921)	3,046	2,123	4,039
Free Cashflow To Firm	2,025	1,218	2,318	2,391	3,829

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	4,477	4,244	4,652	4,155	5,538
Total Debtors	4,317	5,133	6,218	7,199	8,631
Inventories	3,731	4,659	6,218	7,199	8,631
Total Other Current Assets	402	478	667	772	926
Total Current Assets	12,927	14,513	17,754	19,324	23,726
Fixed Assets	11,552	11,022	12,836	14,481	15,999
Total Investments					
Intangible Assets	85	85	85	85	85
Total Other Non-Current Assets	703	4,245	2,512	2,812	1,712
Total Non-current Assets	12,339	15,352	15,432	17,377	17,795
Short-term Debt	658	1,041	1,190	855	855
Current Portion of Long-Term Debt					
Total Creditors	2,072	2,981	3,826	4,845	5,809
Other Current Liabilities	1,748	2,441	2,989	3,461	4,149
Total Current Liabilities	4,478	6,464	8,005	9,161	10,814
Total Long-term Debt	313	238	589	424	424
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	454	559	559	559	559
Total Non-current Liabilities	767	797	1,148	983	983
Total Provisions	687	733	733	733	733
Total Liabilities	5,931	7,994	9,887	10,877	12,530
Shareholders Equity	18,689	21,224	22,662	25,197	28,376
Minority Interests	646	648	638	627	615
Total Equity	19,335	21,872	23,300	25,824	28,991

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(1.0%)	33.2%	17.8%	15.8%	19.9%
Operating EBITDA Growth	22.3%	20.0%	(5.0%)	37.5%	23.3%
Operating EBITDA Margin	18.3%	16.5%	13.3%	15.8%	16.2%
Net Cash Per Share (Rs)	22.05	18.63	18.04	18.06	26.75
BVPS (Rs)	117.50	133.36	142.35	158.27	178.24
Gross Interest Cover	37.55	38.91	19.63	28.33	38.65
Effective Tax Rate	25.2%	25.0%	26.6%	26.6%	26.6%
Net Dividend Payout Ratio	38.6%	34.7%	41.6%	35.6%	35.3%
Accounts Receivables Days	54.36	46.54	47.46	48.46	47.69
Inventory Days	129.64	98.45	113.70	118.19	116.31
Accounts Payables Days	65.36	59.31	71.17	76.39	78.28
ROIC (%)	22.4%	29.2%	22.2%	30.2%	33.6%
ROCE (%)	20.7%	23.2%	19.2%	25.6%	28.8%
Return On Average Assets	16.3%	18.1%	14.4%	18.9%	21.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS