

India

ADD (no change)

Consensus ratings*: Buy 27 Hold 4 Sell 0

Current price:	Rs1,192
Target price:	Rs1,376 ▲
Previous target:	Rs1,175
Up/downside:	15.4%
InCred Research / Consensus:	5.1%

Reuters:	
Bloomberg:	KJC IN
Market cap:	US\$2,614m
	Rs189,829m
Average daily turnover:	US\$2.6m
	Rs191.9m
Current shares o/s:	159.2m
Free float:	52.5%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 0.6%/4.4%
- FY24F/25 EBITDA cut by 5.7%/5.8%
- FY24F/25FF PAT cut by 10.7%/5.8%



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.3	11.7	24.7
Relative (%)	3.7	8.1	9.8

Major shareholders	% held
Promoters	47.5
Mirae Asset Nifty Manufacturing ETF	5.0
Kotak Infrastructure & Economic Reform Fund	5.0

Analyst(s)



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Kajaria Ceramics

4Q: Gas prices ease, margins improve

- 4Q revenue in line. EBITDA/PAT beat estimates by 5-15%. Tile sales volume up 8% yoy while realization flat yoy/qoq. Power & fuel cost fell by 13% qoq.
- Management gave guidance of sales volume growth of 12-14% yoy & EBITDA margin in the 14-16% range in FY24F. Tile/bathware/Nepal capex on track.
- We roll forward to FY25F. Retain ADD rating with a higher TP of Rs1,376 based on a P/E of 38x, 5-year mean, FY25F EPS. Expensive natural gas is a risk.

Cheaper natural gas prices lead to margin improvement qoq

Kajaria Ceramics' (KCL) revenue/EBITDA/PAT was at Rs12bn/Rs1.8bn/Rs1.1bn, +9%/6%/17% yoy and +10%/32%/51% qoq, in 4QFY23. Revenue was in line while EBITDA/PAT beat our/Bloomberg consensus estimates by 5-15%. Consolidated gross/EBITDA margins stood at 55.4%/14.6%, down 35bp/45bp yoy while down 400bp and up 240bp qoq, respectively. Power and fuel cost was at Rs2.4bn, +6% yoy while down 13% qoq. Tile and adhesives revenue was at Rs11bn, +9.6% yoy, accounting for 91% of total revenue. Others segment's revenue, consisting of bathware and plywood, was at Rs1.1bn, +7% yoy, 9% of total revenue. The tile sales volume was at 28msm, +8% yoy, while average realization stood at Rs387/sqm, flat yoy/qoq. KCL recognized Rs42.5m of one-time loss on balance equity stake sale of Vennar Ceramics (subsidiary) in 4Q. Net working capital cycle was stable yoy at 56 days of TTM sales. FY23 OCF/FCF was at Rs2.9bn/Rs873m, respectively. Net cash stood at Rs1.8bn at the end of Mar 2023.

FY24F guidance of 13-15% revenue growth at 14-16% EBITDA margin

KCL's management gave guidance of tile sales volume growth of 12-14% yoy, revenue growth of 13-15% yoy and EBITDA margin of 14-16% for FY24F. KCL plans to launch bigger size premium tiles and premium bathware products, implying better realization going ahead. ASPs may rise organically, driven by higher revenue share of premium products over the next one-to-two years. Margins may improve qoq in 1QFY24F, given natural gas prices are down 15% in Apr vs. Mar 2023. Sikandrabad & Gailpur plant modernization and expansion will be completed by Jul 2023F. The sanitaryware capacity expansion to 1.6m pieces/year and Nepal JV project (capacity/capex revised downwards to 5.1msm/Rs1.8bn, respectively) may be completed by Mar 2024F. We expect revenue/EBITDA CAGR of 15%/25%, respectively, over FY23-25F & FY25F EBITDA margin at 16%.

Change in our estimates, valuation and risks

We cut revenue/EBITDA/PAT by 1%/6%/11% and by 4%/6%/6% for FY24F and FY25F, respectively, largely on account of lower EBITDA margin assumptions. We feel there is enough scope for actuals to beat our base-case margin assumptions if gas prices continue to fall at a similar pace. We remain bullish on KCL as we find the risk-reward favourable. We now have a higher TP of Rs1,376 (from Rs1,175 earlier) as we roll forward the exit P/E of 38x (last five-years' mean) to FY25F EPS. We retain ADD rating on KCL. Downside risks: Expensive natural gas prices, persistent weak domestic demand and capex delay.

Financial Summary

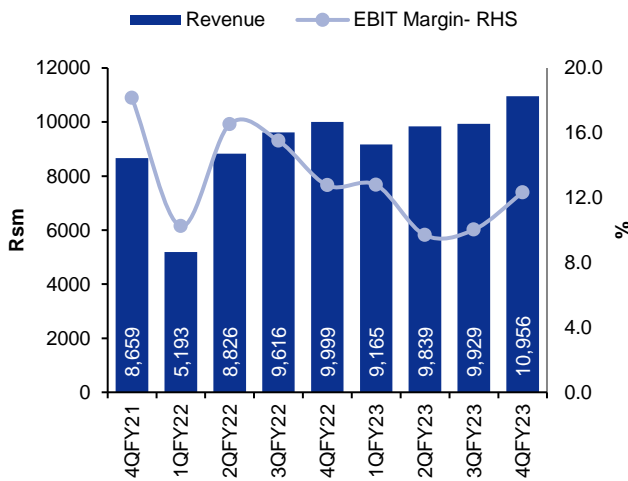
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	27,809	37,052	43,819	50,204	57,936
Operating EBITDA (Rsm)	5,088	6,107	5,920	7,531	9,270
Net Profit (Rsm)	3,081	3,770	3,446	4,394	5,766
Core EPS (Rs)	19.4	23.7	22.0	27.6	36.2
Core EPS Growth	20.6%	22.3%	(7.1%)	25.4%	31.2%
FD Core P/E (x)	61.55	50.33	55.08	43.20	32.92
DPS (Rs)	10.0	11.0	9.0	12.5	14.0
Dividend Yield	0.84%	0.92%	0.76%	1.05%	1.17%
EV/EBITDA (x)	36.70	30.69	31.88	25.06	19.97
P/FCFE (x)	103.60	(206.03)	122.39	66.02	37.34
Net Gearing	(18.1%)	(13.6%)	(7.7%)	(7.3%)	(18.5%)
P/BV (x)	10.15	8.94	8.16	7.39	6.50
ROE	17.2%	18.9%	15.8%	18.0%	21.0%
% Change In Core EPS Estimates				(10.77%)	(5.86%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

4QFY23 earnings-call highlights

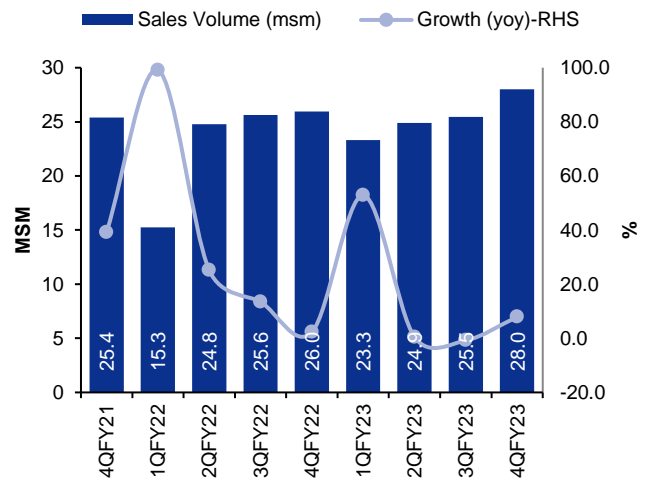
- **Tile industry:** The tile industry revenue is estimated to be around Rs600bn in FY23F, of which the domestic market accounted for Rs425bn and Rs175bn was export revenue. The largest export market for tiles was USA followed by Saudi Arabia and the UAE. Industry sales volume is believed to have grown in the range of 6-8% yoy. The price gap between Morbi regional tile brands and organized national brands is estimated at 15-20% (gap vs. KCL is even higher), as per KCL's management.
- **Tile exports:** India has seen a consistent increase in export market share, given cost of production in the EU region has increased disproportionately vs. India. KCL plans to ramp up exports from its South India plants and expects them to grow at a CAGR of 25% over the next three years.
- **Distribution network:** KCL had a total of 1,840 dealers at the end of Mar 2023. The company aims to add 100-150 dealers/year over the next three years.
- **Gas price:** The average gas price for North India plants was at Rs40/scm, for South India plants it was at Rs 55/scm, for Western region plants it was at Rs 42/scm and the all-India average price was at Rs46/scm in 4QFY23. The average gas price further dropped to Rs40/scm in Apr vs. Mar 2023 for KCL.
- **Power and fuel cost savings:** Based on current natural gas prices in India for KCL, the company expects to save Rs1.5bn on fuel cost in FY24F. KCL intends to pass through nearly Rs500m of these savings to customers, in terms of price cuts, over the next 12 months.
- **Ad spending:** The advertising expenditure in 4QFY23 was at Rs320m and in FY23 it was at Rs1.1bn. Management has an advertisement expenditure budget of Rs1.3bn for FY24F, of which digital/social media spending is planned at Rs70-80m.
- **Nepal JV update:** The project's annual capacity has been revised downwards from 8msm p.a. to 5.1msm p.a. at a cost of Rs1.8bn (vs Rs2.5bn earlier). The project will be operational, in phases, with phase-1 being operational by Mar/Apr 2024F. KCL has a 50% stake in the joint venture or JV.
- **Capex update:** The sanitaryware facility expansion with an annual capacity of 600,000 units p.a. in Gujarat is likely to be completed by Mar 2024F. Sikandrabad facility expansion and modernization of GVT capacity (also an increase from 8.4msm to 10.2msm p.a.) is likely to be completed by Jul 2023F. The ceramic tiles modernization project at Gailpur (Rajasthan) is likely to be operational by Jul 2023F at an estimated cost of Rs510m.
- **Cash flow:** Net working capital days increased to 56 days of TTM sales at the end of Mar 2023 as compared to 48 days yoy. Net cash (including equivalents) stood at Rs1.8bn at the end of Mar 2023 as compared to Rs2.9bn at the end of Mar 2022. The dividend payout recommended is 40%+, with Rs9/share as the total dividend for FY23.

Figure 1: Tiles - revenue and EBIT trend



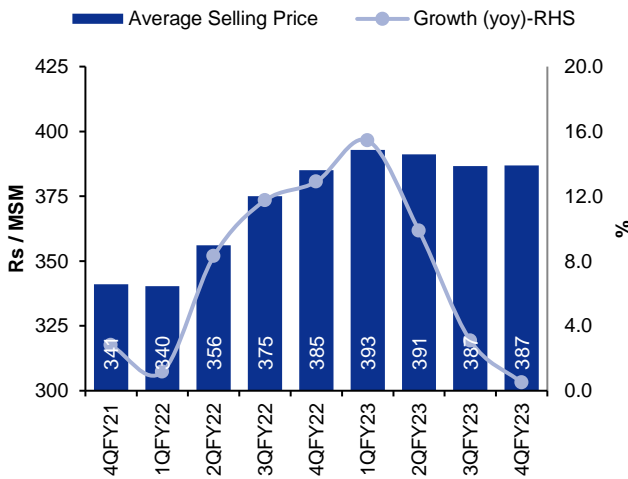
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Tiles - volume trend



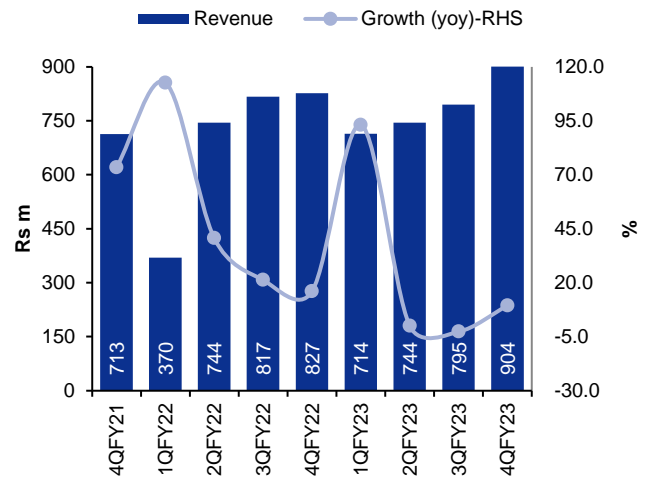
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Tiles - ASP trend



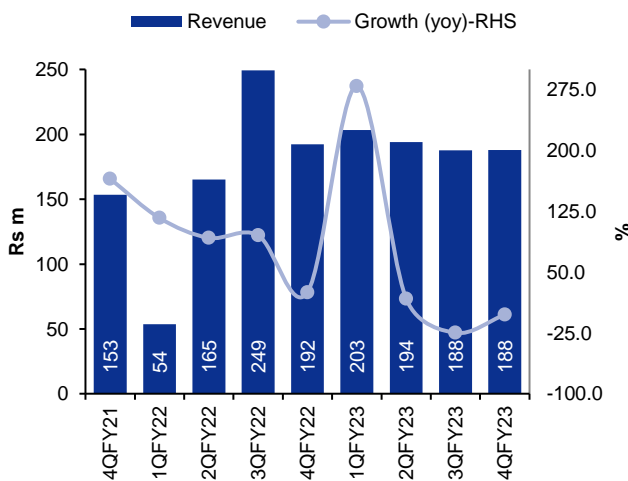
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Sanitaryware - revenue trend



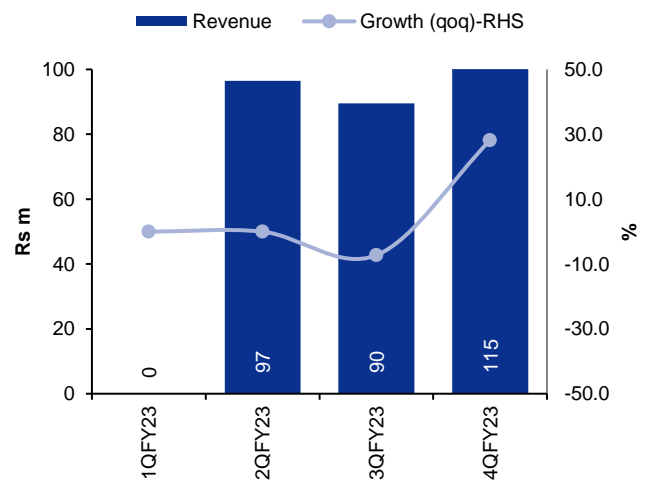
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Plywood - revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Adhesives - revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 4QFY23 results snapshot

YE Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	12,048	11,018	9.4	10,911	10.4	43,819	37,052	18.3
EBITDA	1,759	1,659	6.0	1,331	32.2	5,920	6,107	(3.1)
EBITDA margin (%)	14.6	15.1	-46 bp	12.2	241 bp	13.5	16.5	-297 bp
Adj. PAT	1,124	958	17.3	743	51.2	3,525	3,770	(6.5)
Diluted EPS (Rs)	7.1	6.0		4.7		22.1	23.7	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 4QFY23 segment-wise results snapshot

YE Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue								
Tiles	10,956	9,999	9.6	9,929	10.3	39,889	33,634	18.6
Others	1,092	1,019	7.2	983	11.2	3,930	3,418	15.0
Total	12,048	11,018	9.4	10,911	10.4	43,819	37,052	18.3
EBIT								
Tiles	1,350	1,276	5.8	996	35.6	4,472	4,758	(6.0)
Others	66	57	15.4	10	581.4	120	195	(38.4)
Total	1,416	1,333	6.2	1,005	40.9	4,592	4,953	(7.3)
EBIT margin (%)								
Tiles	12.3	12.8	-44 bp	10.0	229 bp	11.2	14.1	-294 bp
Others	6.1	5.6	43 bp	1.0	506 bp	3.1	5.7	-265 bp
Total	11.8	12.1	-35 bp	9.2	254 bp	10.5	13.4	-289 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	4QFY23	4QFY23F	Var (%)
Revenue	12,048	11,872	1.5
EBITDA	1,759	1,644	7.0
EBITDA margin (%)	14.6	13.8	76 bp
Adj. PAT	1,124	984	14.2

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus estimates

Rs m	4QFY23	4QFY23C	Var(%)
Revenue	12048	11,818	2.0
EBITDA	1759	1,683	4.5
EBITDA margin (%)	14.6	14.2	36 bp
Adj. PAT	1124	1,032	8.9

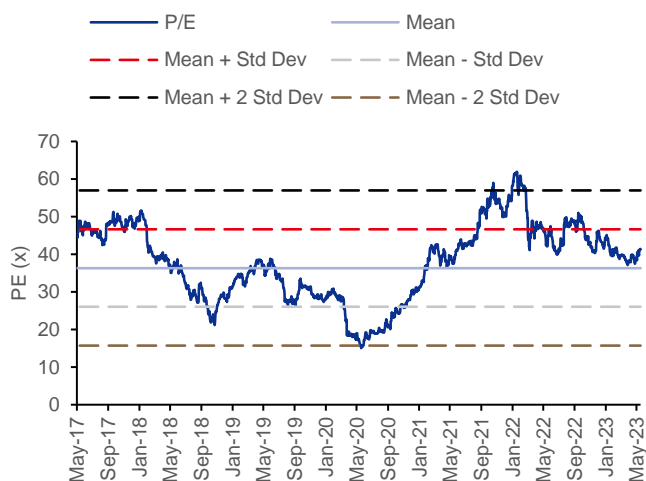
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	50,204	57,936	50,528	60,582	-0.6	-4.4
EBITDA	7,531	9,270	7,983	9,844	-5.7	-5.8
Adjusted consol. PAT	4,394	5,766	4,923	6,124	-10.7	-5.8
	27.6	36.2	30.9	38.5	-10.8	-5.9
EBITDA margin (%)	15.0	16.0	15.8	16.3	-80 bp	-25 bp

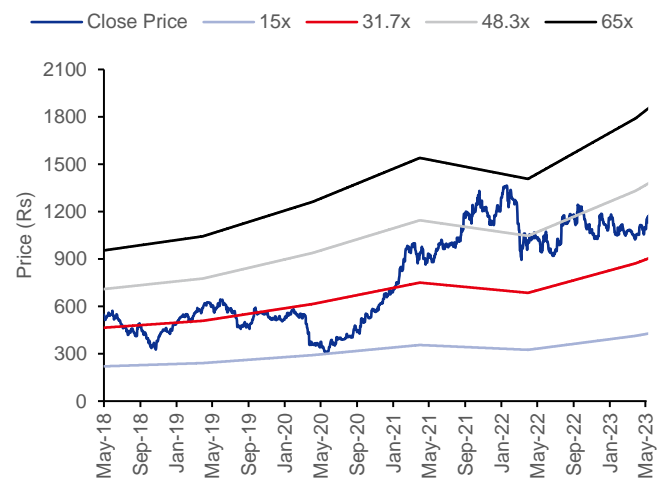
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: P/E standard deviation (five-year mean)



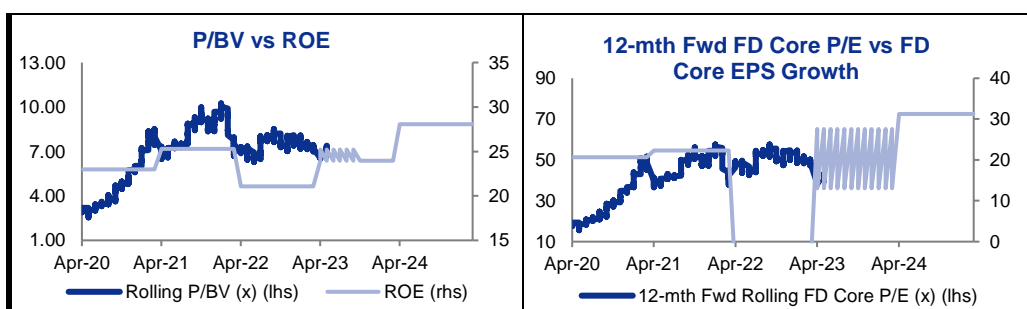
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs m)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenue	27,809	37,052	43,819	50,204	57,936
Gross Profit	15,340	21,501	25,749	29,620	34,472
Operating EBITDA	5,088	6,107	5,920	7,531	9,270
Depreciation And Amortisation	(1,067)	(1,154)	(1,329)	(1,587)	(1,723)
Operating EBIT	4,022	4,953	4,592	5,944	7,547
Financial Income/(Expense)	73	125	47	(99)	38
Pretax Income/(Loss) from Assoc.					93
Non-Operating Income/(Expense)	33	23	66	40	42
Profit Before Tax (pre-EI)	4,127	5,102	4,705	5,885	7,720
Exceptional Items			(79)		
Pre-tax Profit	4,127	5,102	4,625	5,885	7,720
Taxation	(1,038)	(1,274)	(1,163)	(1,472)	(1,933)
Exceptional Income - post-tax					
Profit After Tax	3,089	3,827	3,463	4,413	5,787
Minority Interests	(9)	(58)	(17)	(19)	(21)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,081	3,770	3,446	4,394	5,766
Recurring Net Profit	3,081	3,770	3,505	4,394	5,766
Fully Diluted Recurring Net Profit	3,081	3,770	3,505	4,394	5,766

Cash Flow

(Rs m)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	5,088	6,107	5,920	7,531	9,270
Cash Flow from Invt. & Assoc.					
Change In Working Capital	868	(621)	(1,851)	(13)	(1,046)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	179	165	171	(59)	173
Net Interest (Paid)/Received	(67)	(111)	(20)	99	(38)
Tax Paid	(980)	(1,285)	(1,265)	(1,472)	(1,933)
Cashflow From Operations	5,088	4,255	2,955	6,086	6,426
Capex	(1,127)	(2,687)	(2,317)	(3,016)	(622)
Disposals Of FAs/subsidiaries	115	53	235		
Acq. Of Subsidiaries/investments	(2,119)	(491)	(20)	100	(500)
Other Investing Cashflow	176	215	270	205	279
Cash Flow From Investing	(2,955)	(2,910)	(1,832)	(2,711)	(842)
Debt Raised/(repaid)	(302)	(2,266)	427	(500)	(500)
Proceeds From Issue Of Shares	53	52	12		
Shares Repurchased					
Dividends Paid	(1,591)	1,273	(1,433)	(1,990)	(2,229)
Preferred Dividends					
Other Financing Cashflow	(68)	(92)	(166)	(304)	(241)
Cash Flow From Financing	(1,908)	(1,032)	(1,159)	(2,794)	(2,970)
Total Cash Generated	224	313	(36)	581	2,614
Free Cashflow To Equity	1,830	(921)	1,551	2,875	5,084
Free Cashflow To Firm	2,025	1,218	900	3,071	5,343

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs m)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	4,477	4,244	3,938	3,519	6,633
Total Debtors	4,317	5,133	6,012	6,888	7,948
Inventories	3,731	4,659	5,647	6,190	7,143
Total Other Current Assets	402	478	514	589	680
Total Current Assets	12,927	14,513	16,110	17,185	22,404
Fixed Assets	11,552	11,022	14,088	16,084	15,132
Total Investments			19	919	919
Intangible Assets	85	85	327	327	327
Total Other Non-Current Assets	703	4,245	2,349	1,782	1,632
Total Non-current Assets	12,339	15,352	16,783	19,112	18,010
Short-term Debt	658	1,041	1,575	1,065	731
Current Portion of Long-Term Debt					
Total Creditors	2,072	2,981	3,104	4,126	4,762
Other Current Liabilities	1,748	2,441	2,293	2,751	3,175
Total Current Liabilities	4,478	6,464	6,972	7,942	8,667
Total Long-term Debt	313	238	518	528	362
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	454	559	621	621	621
Total Non-current Liabilities	767	797	1,139	1,149	983
Total Provisions	687	733	738	738	738
Total Liabilities	5,931	7,994	8,849	9,829	10,389
Shareholders' Equity	18,689	21,224	23,268	25,672	29,210
Minority Interests	646	648	776	795	816
Total Equity	19,335	21,872	24,044	26,467	30,025

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	(1.0%)	33.2%	18.3%	14.6%	15.4%
Operating EBITDA Growth	22.3%	20.0%	(3.1%)	27.2%	23.1%
Operating EBITDA Margin	18.3%	16.5%	13.5%	15.0%	16.0%
Net Cash Per Share (Rs)	22.05	18.63	11.59	12.10	34.79
BVPS (Rs)	117.50	133.36	146.14	161.22	183.44
Gross Interest Cover	37.55	38.91	20.57	19.54	31.33
Effective Tax Rate	25.2%	25.0%	25.1%	25.0%	25.0%
Net Dividend Payout Ratio	38.6%	34.7%	30.6%	33.9%	28.9%
Accounts Receivables Days	54.36	46.54	46.42	46.89	46.73
Inventory Days	129.64	98.45	104.08	104.94	103.70
Accounts Payables Days	65.36	59.31	61.45	64.10	69.13
ROIC (%)	22.4%	29.2%	22.7%	25.2%	30.2%
ROCE (%)	20.7%	23.2%	19.2%	22.1%	25.8%
Return On Average Assets	16.3%	18.1%	14.8%	17.3%	20.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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