

India

HOLD (previously ADD)

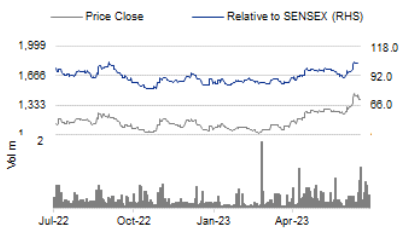
Consensus ratings*: Buy 29 Hold 5 Sell 0

Current price:	Rs1,393
Target price:	Rs1,462
Previous target:	Rs1,376
Up/downside:	5.0%
InCred Research / Consensus:	7.0%
Reuters:	KAJR.BO
Bloomberg:	KJC IN
Market cap:	US\$2,706m
	Rs221,877m
Average daily turnover:	US\$3.2m
	Rs265.6m
Current shares o/s:	159.2m
Free float:	52.5%

*Source: Bloomberg

Key changes in this note

- FY24F revenue cut by 0.3%.
- FY24F/25F EBITDA raised by 7.3%/5.1%.
- FY24F/25F PAT raised by 10.3%/6.2%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	10.3	26.5	25.2
Relative (%)	4.8	15.0	4.7

Major shareholders	% held
Promoters	47.5
Mirae Asset ETF	5.4
Kotak Fund	5.0

Brokers Poll 2023

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InCred Research

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Kajaria Ceramics

1Q energy cost drops; demand still weak

- Tile demand remained weak in 1QFY24. Sales volume stood at 25msm, +7% yoy. The 25%+ fall in energy cost yoy led to the EBITDA margin of ~16%.
- New real estate launches across major cities should help tile demand recovery in 2HFY24F, as per management. Public/private capex will contribute too.
- A lot depends on 2H tile demand recovery as falling energy cost and timely capex will aid cash flow. Downgrade rating to HOLD with a new TP of Rs1,462.

1QFY24 performance largely in line with expectations

Kajaria Ceramics' (KCL) revenue/EBITDA/PAT stood at Rs10.6bn/Rs1.7bn/Rs1.1bn, +6%/10%/16% yoy, respectively, in 1QFY24. Revenue/EBITDA were in line while PAT beat our estimate by 8%. 1Q was in line with Bloomberg consensus estimates. Consolidated gross/EBITDA margins stood at 55.7%/15.9%, down 700bp and up 70bp yoy, respectively. Power and fuel costs were at Rs1.9bn, down 28% yoy. Average fuel cost stood at Rs39/scm, down 25% yoy and 15% qoq. The tile and adhesive segment's revenue was at Rs9.7bn, +5.4% yoy, accounting for 91% of total revenue. Other segment's revenue, consisting of bathware and wood panels, was at Rs980m, +7% yoy. The tile sales volume was at 25msm, +7% yoy, while average realization stood at Rs382/sqm, down 3% yoy. Bathware segment's revenue stood at Rs837m +17% yoy. The wood panel segment's revenue stood at Rs143m, down 30% yoy. Adhesives revenue stood at Rs96m.

Tile demand recovery contingent on capex and real estate spending

Public/private capex trends and new real estate project launches in major cities in India have been good and should aid the recovery of weak discretionary building materials demand including tiles in 2HFY24F. Management maintained its FY24F sales volume growth guidance of 13-15% yoy. Most capex is on track with modernization and capacity expansion at Sikandrabad and Gailpur plants, which are likely to be completed by end-Aug 2023F. Nepal and bathware capex projects are likely to be completed by Mar 2024F. As capacity comes on stream and energy cost continues to decline, we feel demand recovery will be key for earnings and cash flow growth over FY24F-25F.

Change in our estimates

We largely maintain our revenue estimates while raising EBITDA estimates by 7%/5% and PAT by 10%/6% for FY24F/25F, respectively. Owing to the higher-than-expected decline in power and fuel costs, we raise EBITDA margin estimates to 16.2%/16.8% for FY24F/25F, respectively. We also account for a higher capex guidance of Rs3.7bn (Rs2.5bn earlier) for FY24F.

Valuation and risks

The stock price is up 22% since our last update in May 2023. We feel it is fairly valued and downgrade its rating to HOLD with a higher TP of Rs1,462 - P/E of 38x (5-year mean) FY25F EPS. Upside risks: Cheaper gas prices. Downside risks: Capex and demand delay.

Financial Summary

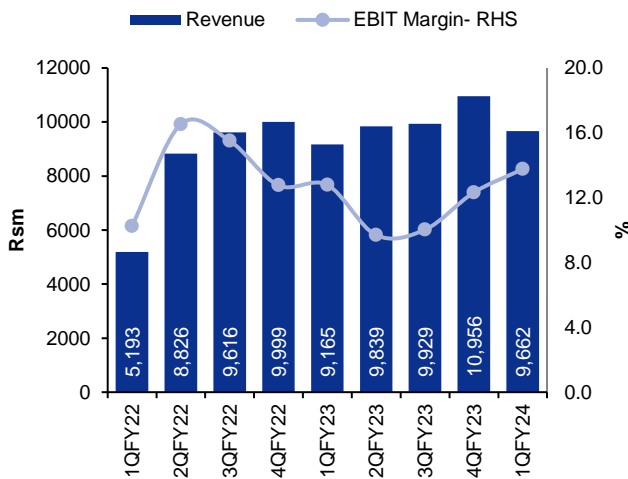
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	27,809	37,052	43,819	50,037	57,995
Operating EBITDA (Rsm)	5,088	6,107	5,920	8,081	9,743
Net Profit (Rsm)	3,081	3,770	3,446	4,848	6,125
Core EPS (Rs)	19.4	23.7	22.0	30.4	38.5
Core EPS Growth	20.6%	22.3%	(7.1%)	38.3%	26.3%
FD Core P/E (x)	71.94	58.82	64.38	45.76	36.22
DPS (Rs)	10.0	11.0	9.0	12.5	15.0
Dividend Yield	0.72%	0.79%	0.65%	0.90%	1.08%
EV/EBITDA (x)	42.99	35.93	37.29	27.40	22.40
P/FCFE (x)	121.08	(240.79)	143.03	84.09	46.25
Net Gearing	(18.1%)	(13.6%)	(7.7%)	(4.6%)	(14.6%)
P/BV (x)	11.86	10.45	9.53	8.49	7.43
ROE	17.2%	18.9%	15.8%	19.6%	21.9%
% Change In Core EPS Estimates				10.33%	6.22%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY24 earnings-call highlights

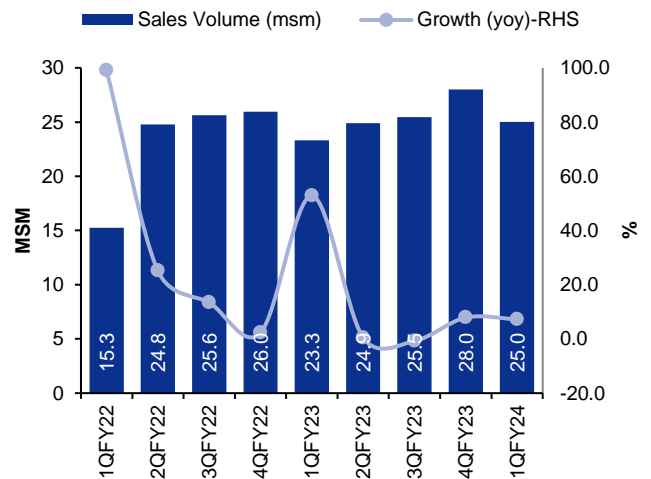
- **Guidance:** The company's management maintained its tile segment guidance of 13-15% sales volume growth yoy, consolidated revenue growth of 14-16% yoy and consolidated EBITDA margin of 14-16% for FY24F. Bathware and plywood segments' revenues are expected to touch Rs4bn+ and Rs1bn+, +30% yoy for each segment in FY24F, as per management. The adhesives business is expected to grow faster at a revenue CAGR of 40-50% and touch Rs1bn+ in FY25F.
- **India tile exports:** The tile industry's exports increased to Rs48bn, +23% yoy, in 1QFY24. USA, UK, Israel, Mexico, the UAE and Kuwait accounted for a major portion of India's exports. As per management, India's tile exports are likely to touch Rs210bn, +20% yoy, in FY24F.
- **Distribution network:** Kajaria Ceramics had a total of 1,840 dealers at the end of Jun 2023. The company aims to have 2,000 dealers by the end of FY24F, of which at least 500 would be exclusive dealers of Kajaria tiles.
- **Gas price:** The average gas price for North India plants was Rs39/scm, for South India plants it was Rs 44/scm, for West India plants it was Rs37/scm and the all-India average price across all plants was Rs39/scm in 1QFY24. The gas prices are expected to be at a similar level for the next two-to-three quarters, as per management. The average gas price for Morbi plants was Rs41/scm in 1Q.
- **Power and fuel cost savings:** Natural gas prices in India for KCL declined meaningfully and the company expects to save Rs1.5bn-Rs1.75bn yoy on power and fuel bills in FY24F. KCL intends to pass through nearly Rs500m-750m of these savings to the channel, in terms of price cuts or higher channel incentives, over the next 12 months, leading to net savings of Rs1bn for the company.
- **Biofuel mix:** North India-based plants had a bio-fuel mix of 33% in the total fuel mix while it was ~20% across all plants in 1QFY24. The cost of bio-fuel was Rs22/scm for the previous quarter.
- **Ad spends:** The advertising and sales promotion expenses in 1QFY24 stood at Rs240m and the budget for FY24 is Rs1.35bn, +25% yoy. The company plans to roll out a large advertising campaign from Aug 2023F.
- **Capex update:** The ceramics tiles modernization project at Gailpur (Rajasthan) and GVT capex at Sikandarabad plant are expected to be commercialized in Aug 2023F. KCL has budgeted a capex of Rs3.7bn for the current financial year to be spent towards Gailpur plant modernization (Rs500m), GVT expansion at Sikandarabad plant (Rs700m), Nepal JV (Rs900m), bathware (Rs800m), maintenance capex (Rs300m) and Rs500m towards the construction of a new corporate office.
- **Cash conversion cycle:** Core working capital days remained flat qoq at 71 days of TTM sales at the end of Jun 2023. Net cash (including equivalents) stood at Rs3.1bn at the end of Jun 2023 as compared to Rs1.8bn at the end of Mar 2023.

Figure 1: Tiles revenue and EBIT trend



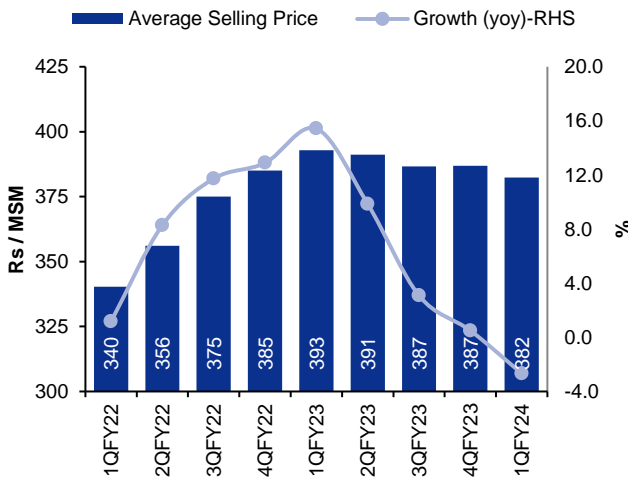
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Tiles volume trend



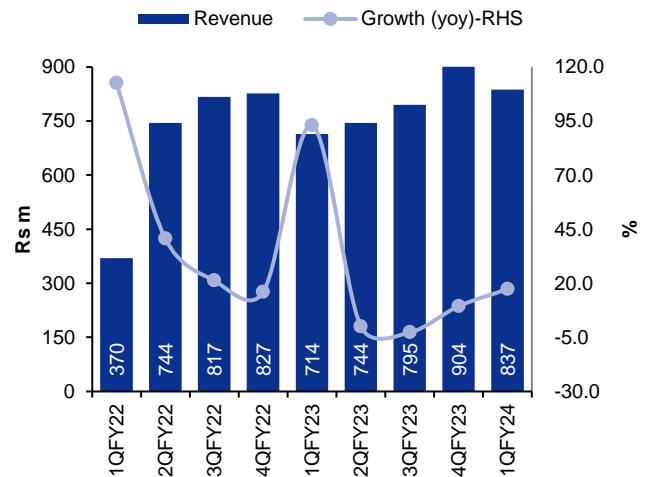
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Tiles ASP trend



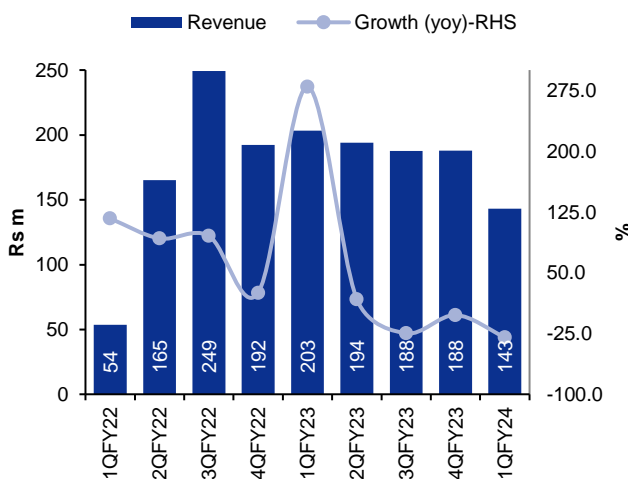
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Sanitaryware revenue trend



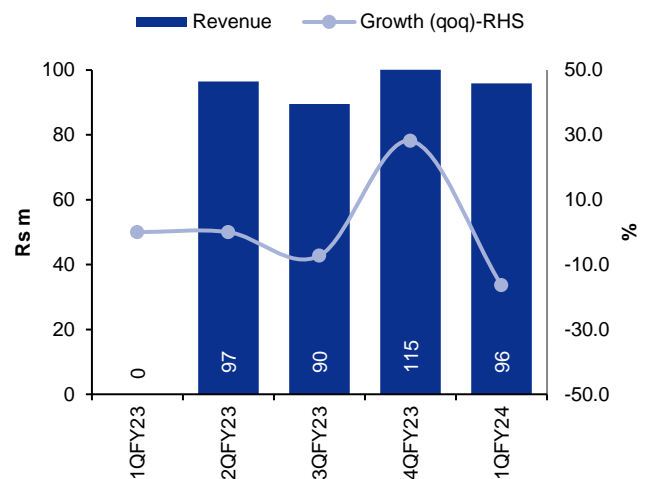
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Plywood revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Adhesives revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: 1QFY24 results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	10,642	10,082	5.6	12,048	(11.7)
EBITDA	1,692	1,536	10.2	1,759	(3.8)
EBITDA margin (%)	15.9	15.2	67 bps	14.6	130 bps
Adj. PAT	1,075	923	16.5	1,124	(4.3)
Diluted EPS (Rs)	6.8	5.8		7.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 1QFY24 segment-wise results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue					
Tiles	9,662	9,165	5.4	10,956	(11.8)
Others	980	917	6.9	1,092	(10.3)
Total	10,642	10,082	5.6	12,048	(11.7)
EBIT					
Tiles	1,330	1,172	13.4	1,350	(1.5)
Others	57	40	42.9	66	(13.3)
Total	1,387	1,212	14.4	1,416	(2.1)
EBIT margin (%)					
Tiles	13.8	12.8	97 bp	12.3	144 bp
Others	5.8	4.4	147 bp	6.1	-21 bp
Total	13.0	12.0	101 bp	11.8	128 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: Actuals vs. our estimates

Rs m	1QFY24	1QFY24F	Var (%)
Revenue	10,642	10,992	(3.2)
EBITDA	1,692	1,671	1.3
EBITDA margin (%)	15.9	15.2	70 bp
Adj. PAT	1,075	991	8.5

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 9: Actuals vs. Bloomberg consensus estimates

Rs m	1QFY24	1QFY24C	Var (%)
Revenue	10,642	11,053	(3.7)
EBITDA	1,692	1,730	(2.2)
EBITDA margin (%)	15.9	15.7	25 bp
Adj. PAT	1,075	1,042	3.2

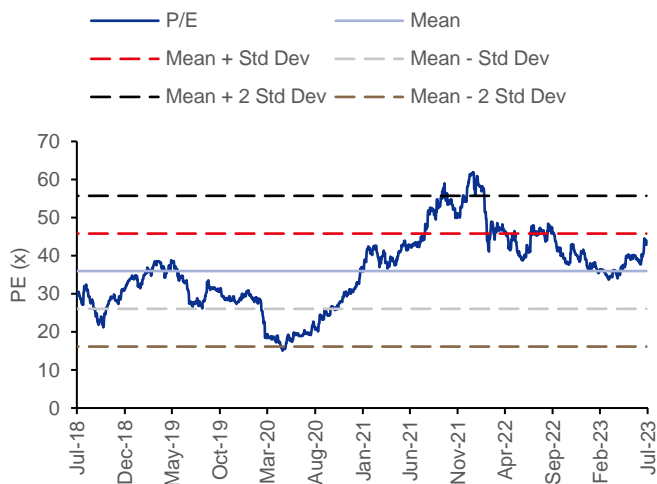
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 10: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	50,037	57,995	50,204	57,936	-0.3	0.1
EBITDA	8,081	9,743	7,531	9,270	7.3	5.1
Adjusted consol. PAT	4,848	6,125	4,394	5,766	10.3	6.2
EPS	30.4	38.5	27.6	36.2	10.3	6.2
EBITDA margin (%)	16.2	16.8	15.0	16.0	115 bp	80 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



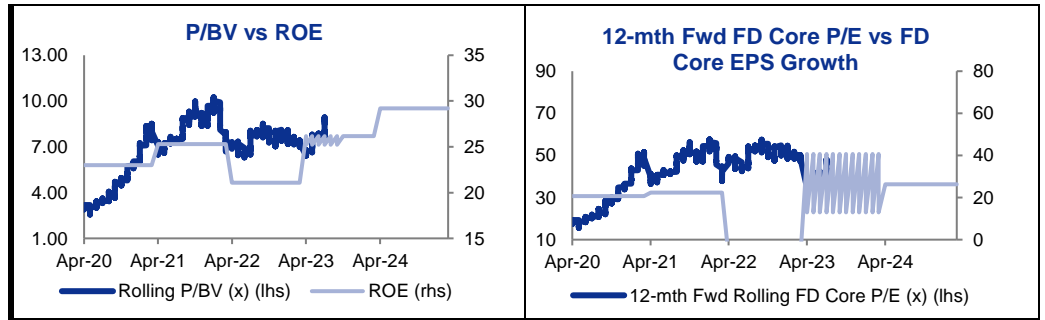
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	27,809	37,052	43,819	50,037	57,995
Gross Profit	15,340	21,501	25,749	27,771	32,187
Operating EBITDA	5,088	6,107	5,920	8,081	9,743
Depreciation And Amortisation	(1,067)	(1,154)	(1,329)	(1,546)	(1,714)
Operating EBIT	4,022	4,953	4,592	6,535	8,029
Financial Income/(Expense)	73	125	47	(63)	58
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	6,512	8,222
Exceptional Items			(79)		
Pre-tax Profit	4,127	5,102	4,625	6,512	8,222
Taxation	(1,038)	(1,274)	(1,163)	(1,614)	(2,042)
Exceptional Income - post-tax					
Profit After Tax	3,089	3,827	3,463	4,898	6,180
Minority Interests	(9)	(58)	(17)	(50)	(55)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	3,081	3,770	3,446	4,848	6,125
Recurring Net Profit	3,081	3,770	3,505	4,848	6,125
Fully Diluted Recurring Net Profit	3,081	3,770	3,505	4,848	6,125

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	5,088	6,107	5,920	8,081	9,743
Cash Flow from Invt. & Assoc.					
Change In Working Capital	868	(621)	(1,851)	(391)	(1,140)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	179	165	171	(23)	193
Net Interest (Paid)/Received	(67)	(111)	(20)	63	(58)
Tax Paid	(980)	(1,285)	(1,265)	(1,614)	(2,042)
Cashflow From Operations	5,088	4,255	2,955	6,116	6,696
Capex	(1,127)	(2,687)	(2,317)	(3,766)	(1,122)
Disposals Of FAs/subsidiaries	115	53	235		
Acq. Of Subsidiaries/investments	(2,119)	(491)	(20)	1,100	(500)
Other Investing Cashflow	176	215	270	188	222
Cash Flow From Investing	(2,955)	(2,910)	(1,832)	(2,478)	(1,399)
Debt Raised/(repaid)	(302)	(2,266)	427	(1,000)	(500)
Proceeds From Issue Of Shares	53	52	12		
Shares Repurchased					
Dividends Paid	(1,591)	1,273	(1,433)	(1,990)	(2,388)
Preferred Dividends					
Other Financing Cashflow	(68)	(92)	(166)	(251)	(164)
Cash Flow From Financing	(1,908)	(1,032)	(1,159)	(3,241)	(3,052)
Total Cash Generated	224	313	(36)	397	2,245
Free Cashflow To Equity	1,830	(921)	1,551	2,638	4,797
Free Cashflow To Firm	2,025	1,218	900	3,387	5,133

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	4,477	4,244	3,938	2,335	5,080
Total Debtors	4,317	5,133	6,012	7,540	8,739
Inventories	3,731	4,659	5,647	6,580	7,627
Total Other Current Assets	402	478	514	587	680
Total Current Assets	12,927	14,513	16,110	17,042	22,126
Fixed Assets	11,552	11,022	14,088	16,875	16,432
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	19,903	19,310
Short-term Debt	658	1,041	1,575	731	396
Current Portion of Long-Term Debt					
Total Creditors	2,072	2,981	3,104	4,113	4,767
Other Current Liabilities	1,748	2,441	2,293	3,427	3,972
Total Current Liabilities	4,478	6,464	6,972	8,271	9,135
Total Long-term Debt	313	238	518	362	196
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	454	559	621	621	621
Total Non-current Liabilities	767	797	1,139	983	818
Total Provisions	687	733	738	738	738
Total Liabilities	5,931	7,994	8,849	9,992	10,691
Shareholders Equity	18,689	21,224	23,268	26,126	29,863
Minority Interests	646	648	776	826	881
Total Equity	19,335	21,872	24,044	26,952	30,745

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	(1.0%)	33.2%	18.3%	14.2%	15.9%
Operating EBITDA Growth	22.3%	20.0%	(3.1%)	36.5%	20.6%
Operating EBITDA Margin	18.3%	16.5%	13.5%	16.2%	16.8%
Net Cash Per Share (Rs)	22.05	18.63	11.59	7.80	28.18
BVPS (Rs)	117.50	133.36	146.14	164.08	187.55
Gross Interest Cover	37.55	38.91	20.57	26.02	48.92
Effective Tax Rate	25.2%	25.0%	25.1%	24.8%	24.8%
Net Dividend Payout Ratio	38.6%	34.7%	30.6%	30.8%	29.2%
Accounts Receivables Days	54.36	46.54	46.42	49.43	51.23
Inventory Days	129.64	98.45	104.08	100.21	100.46
Accounts Payables Days	65.36	59.31	61.45	59.14	62.79
ROIC (%)	22.4%	29.2%	22.7%	27.8%	30.7%
ROCE (%)	20.7%	23.2%	19.2%	24.2%	27.1%
Return On Average Assets	16.3%	18.1%	14.8%	18.8%	20.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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any other material conflict of interest at the time of publication of the research report or at the time of public appearance	NO	NO
received any compensation from the subject company in the past twelve months for investment banking or merchant banking or brokerage services or investment advisory or depository or distribution from the subject company in the last twelve months for products/services other than investment banking or merchant banking or broker- age services or investment advisory or depository or distribution from the subject company in the last twelve months	NO	NO
managed or co-managed public offering of securities for the subject company in the last twelve months	NO	NO
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served as an officer, director or employee of the subject company	NO	NO
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