

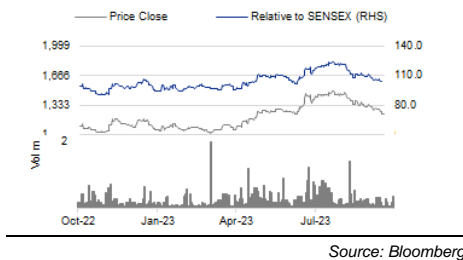
India

**ADD** (previously HOLD)

Consensus ratings*: Buy 26 Hold 8 Sell 1	
Current price:	Rs1,230
Target price:	Rs1,379
Previous target:	Rs1,462
Up/downside:	12.1%
InCred Research / Consensus:	-6.3%
Reuters:	KAJR.BO
Bloomberg:	KJC IN
Market cap:	US\$2,357m
	Rs195,912m
Average daily turnover:	US\$3.8m
	Rs313.8m
Current shares o/s:	159.2m
Free float:	52.5%
*Source: Bloomberg	

**Key changes in this note**

- FY24F revenue/EBITDA/PAT cut by 4.5%/4.5%/3.5%, respectively.
- FY25F revenue/EBITDA/PAT cut by 2.7%/3.6%/5.7%, respectively.



<b>Price performance</b>	1M	3M	12M
Absolute (%)	(7.9)	(14.3)	12.7
Relative (%)	(7.1)	(12.6)	2.2

<b>Major shareholders</b>	% held
Promoters	47.5
Kotak Fund	5.0
Government Pension Fund Global	4.7

**Analyst(s)**



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# Kajaria Ceramics

## Demand recovery likely from 2HFY24F

- 2QFY24 remained weak like 1Q. 1HFY24 tile sales volume stood at 51.5m msm, +6.7% yoy. Stable fuel costs led to an EBITDA margin of 16%, flat qoq.
- EBITDA/PAT miss was 4-7% in 2Q. Management expects FY24F tile sales volume growth of 9-10% yoy. Bathware/plywood/adhesive sales to grow faster.
- All eyes on 2H recovery & sales mix benefits from new capacity. Stock price down 11% since our Jul 2023 update. Cut TP to Rs1,379. Upgrade to ADD.

### Tile sales volume growth at 6-7% yoy; margins steady at 16%

Kajaria Ceramics' (KCL) revenue/EBITDA/PAT stood at Rs11.2bn/Rs1.8bn/Rs1.1bn, +4%/39%/47% yoy, respectively, in 2QFY24. Revenue/EBITDA/PAT missed our/Bloomberg consensus estimates by 3-11%. Consol. gross/EBITDA margins were at 59.2%/16%, +108bp/402bp yoy, respectively. Tile sales volume was at 26.5msm, +6% yoy and qoq, while avg. realization stood at Rs378/sqm, down 3% yoy. Avg. fuel costs stood at Rs38/scm for tile output, down 39% yoy & flat qoq. The tiles and adhesives segment revenue was at Rs10.1bn, +3% yoy. The others segment's revenue, comprising bathware & wood panels, was at Rs1.1bn, +16% yoy. Bathware revenue stood at Rs853m, +15% yoy, while wood panel revenue was at Rs235m, +21% yoy. Adhesives revenue was at Rs130m, +35% yoy. Net working capital cycle stood at 49 days of TTM sales & net cash was at Rs3.9bn as of Sep 2023-end. 1H OCF/FCF stood at Rs3.6bn/Rs2bn, respectively.

### Steady real estate new launches should lead to better tile demand

Management is hopeful of achieving tile sales volume growth of 9-10% yoy in FY24F. Bathware, wood panel and adhesives revenue should grow much faster at 20-40% yoy, albeit on a lower base. New real estate inventory ready for wall and floor tile installations should pick up from 2HFY24F, given robust new project launches over the past 12-18 months across metro and T-1 cities in India. KCL has been strengthening its in-house manufacturing capabilities, with Gailpur plant modernization (ceramic tiles: 1.9msm) and Sikandrabad unit expansion (GVT tiles: 3msm) completed in Aug-Sep 2023. New sanitaryware facility (6m pieces) and Nepal JV should start operations by Mar 2024F. We expect tile sales volume CAGR at 16% over FY23-26F (2HFY24: 59.6msm, +11.5% yoy).

### Change in our earnings estimates

We account for 1HFY24 actuals. We have cut our revenue/EBITDA/PAT estimates by 2.5-6% for FY24F-25F and introduced FY26F estimates. We also expect capacity addition for joint ventures in FY25F-26F owing to these JVs close to maximum capacity utilization. We expect revenue/EBITDA/PAT CAGR at 14%/ 24%/ 27%, respectively, over FY23-26F.

### Upgrade to ADD rating with a lower target price of Rs1,379

We expect better sales mix and operating leverage to expand margins as volume picks up over FY25-26F. We upgraded to ADD rating (HOLD earlier) with a lower target price of Rs1,379 (Rs1,462 earlier), retaining exit P/E of 38x (5-year mean) FY25F EPS. Downside risks: Capex/demand delay.

Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	37,052	43,819	47,804	56,411	65,464
Operating EBITDA (Rsm)	6,107	5,920	7,720	9,392	11,260
Net Profit (Rsm)	3,770	3,446	4,681	5,779	7,205
Core EPS (Rs)	23.7	22.0	29.4	36.3	45.2
Core EPS Growth		(7.1%)	33.5%	23.5%	24.7%
FD Core P/E (x)	51.93	56.84	41.85	33.89	27.19
DPS (Rs)	11.0	9.0	12.0	15.0	20.0
Dividend Yield	0.89%	0.73%	0.98%	1.22%	1.63%
EV/EBITDA (x)	31.68	32.90	25.29	20.72	17.12
P/FCFE (x)	(212.60)	126.29	64.23	76.00	23.70
Net Gearing	(13.6%)	(7.7%)	(5.5%)	(7.3%)	(12.2%)
P/BV (x)	9.22	8.42	7.52	6.66	5.86
ROE	18.9%	15.8%	19.0%	20.8%	22.9%
% Change In Core EPS Estimates			(3.46%)	(5.65%)	
InCred Research/Consensus EPS (x)					

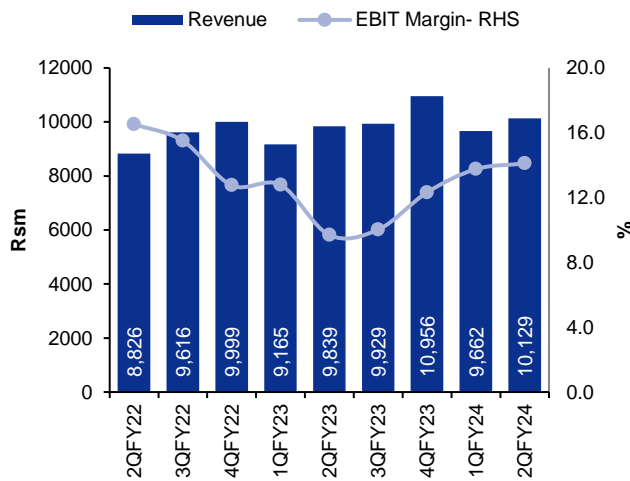
SOURCES: INCRED RESEARCH, COMPANY REPORTS

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## 2QFY24 earnings-call highlights

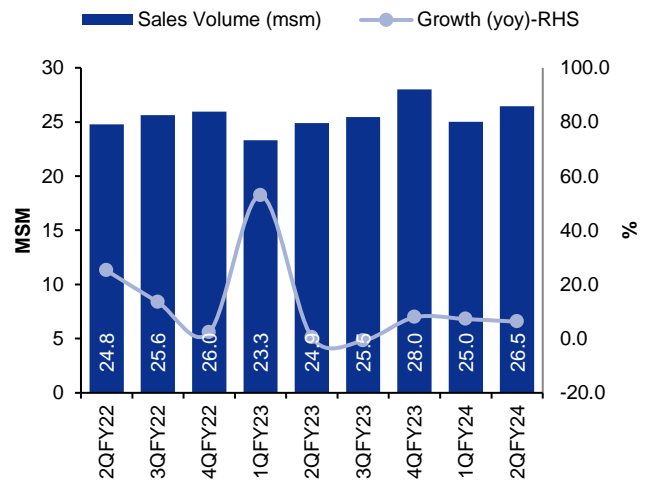
- **Guidance:** KCL's management reduced the tile segment's sales volume growth guidance to 9-10% yoy while maintaining consolidated EBITDA margin guidance at the upper end of 14-16% for FY24F.
- **India tile exports:** As per KCL's management, India tile exports will touch Rs210bn in FY24F, as compared to Rs175bn yoy. USA, UK, Israel, Mexico, UAE and Kuwait accounted for a major of India's exports.
- **Ancillary segment:** We expect the ancillary segment's revenue to account for 12.5% of total sales by FY26F. Bathware and plywood segments' revenue CAGR expected at 25%+ over FY23-26F and their sales to touch Rs5.5bn+ and Rs1.2bn+, respectively, by FY26F. The adhesives business is expected to grow faster and touch Rs1bn+ by FY26F.
- **Distribution network:** KCL had a total of 1,950 dealers at the end of Sep 2023 as compared to 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 Rs40/scm, for South India plants it was Rs 38/scm, for the western region it was Rs33/scm and the all-India average price across all its plants was Rs38/scm in 2QFY24. Gas prices are expected to be at a similar level in 2HFY24F, as per management, despite the rise in crude oil prices, as only 20% of fuel costs of the company is linked to short-term crude oil price movement.
- **Power and fuel costs:** KCL expects to save around Rs1.5-1.75bn (1H: ~Rs900m) in power and fuel costs, of which ~Rs500m will be passed to the channel as an additional incentive to boost tile sales.
- **Advertising expenses:** The company spent Rs600m in 1HFY24 and has a capex budget of Rs1.3-1.4bn for the full year.
- **Nepal JV update:** The Nepal plant (capacity: 5.1msm) is expected to be operational by the end of FY24F. We expect the JV's share of profit at Rs90-100m/year in FY24F-25F.
- **Capex update:** KCL has budgeted a capex of Rs3.7bn for the current financial year, of which Rs1.6bn was incurred in 1HFY24.
- **Cash conversion:** Net working capital days improved to 49 days of TTM sales at the end of Sep 2023. Net cash (including equivalents) stood at Rs3.9bn at the end of Sep 2023, as compared to Rs1.8bn at the end of Mar 2023.

Figure 1: Tiles revenue and EBIT trend



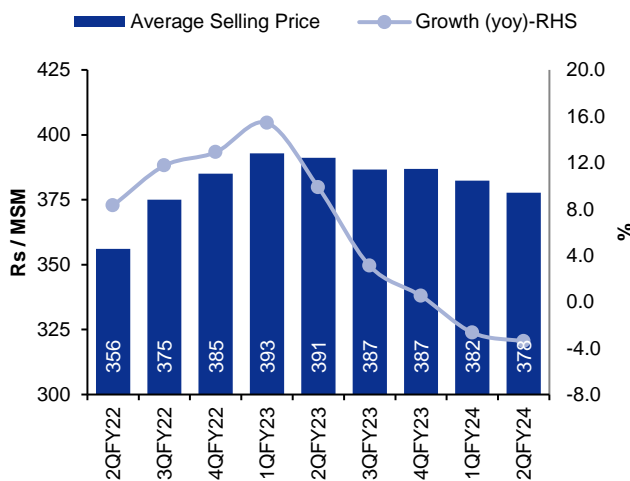
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Tiles volume trend



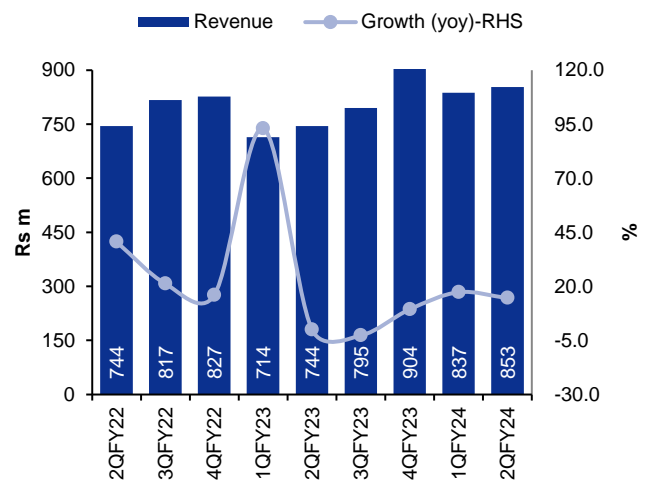
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Tiles ASP trend



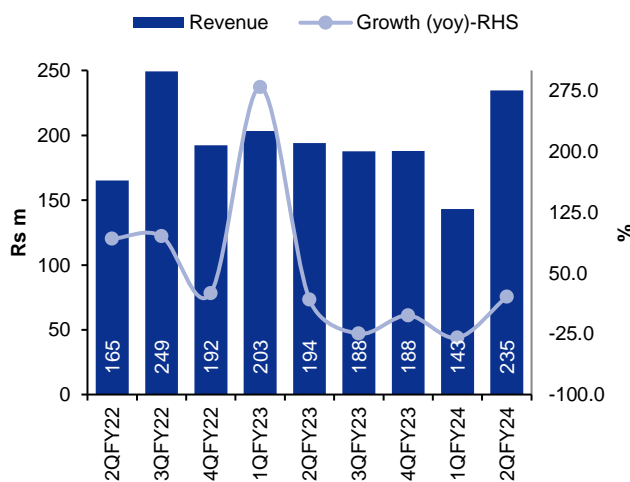
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Sanitaryware revenue trend



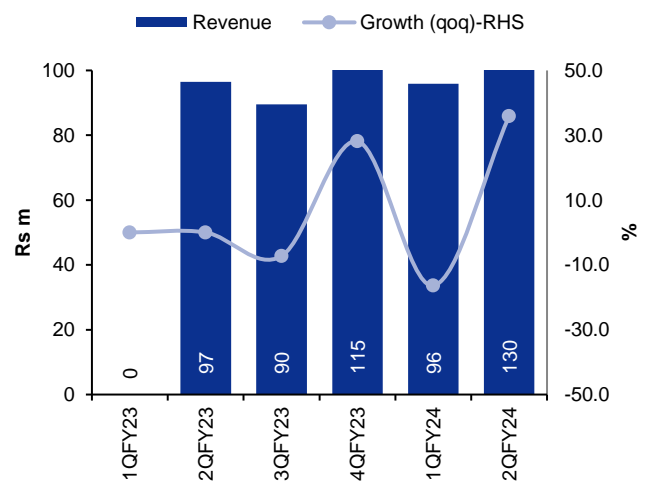
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: Plywood revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: Adhesives revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 7: 2QFY24 results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
Revenue	11,216	10,778	4.1	10,642	5.4	21,859	20,860	4.8
EBITDA	1,797	1,294	38.9	1,692	6.2	3,489	2,830	23.3
EBITDA margin (%)	16.0	12.0	402 bp	15.9	12 bp	16.0	13.6	240 bp
Adj. PAT	1,080	735	46.8	1,075	0.4	2,155	1,658	29.9
Diluted EPS (Rs)	6.8	4.6		6.8		13.5	10.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 2QFY24 segment-wise results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	1HFY24	1HFY23	yoy (%)
<b>Revenue</b>								
Tiles	10,129	9,839	2.9	9,662	4.8	19,791	19,004	4.1
Others	1,088	938	15.9	980	11.0	2,068	1,856	11.4
<b>Total</b>	<b>11,216</b>	<b>10,778</b>	<b>4.1</b>	<b>10,642</b>	<b>5.4</b>	<b>21,859</b>	<b>20,860</b>	<b>4.8</b>
<b>EBIT</b>								
Tiles	1,429	954	49.9	1,330	7.5	2,759	2,126	29.8
Others	7	4	78.0	57	(87.3)	65	44	46.2
<b>Total</b>	<b>1,436</b>	<b>958</b>	<b>50.0</b>	<b>1,387</b>	<b>3.6</b>	<b>2,823</b>	<b>2,170</b>	<b>30.1</b>
<b>EBIT margin (%)</b>								
Tiles	14.1	9.7	442 bp	13.8	35 bp	13.9	11.2	275 bp
Others	0.7	0.4	23 bp	5.8	-517 bp	3.1	2.4	74 bp
<b>Total</b>	<b>12.8</b>	<b>8.9</b>	<b>392 bp</b>	<b>13.0</b>	<b>-23 bp</b>	<b>12.9</b>	<b>10.4</b>	<b>251 bp</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

Rs m	2QFY24	2QFY24F	Var (%)
Revenue	11,216	11,626	(3.5)
EBITDA	1,797	1,872	(4.0)
EBITDA margin (%)	16.0	16.1	-8 bp
Adj. PAT	1,080	1,166	(7.4)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus estimates

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	11,216	11,637	(3.6)
EBITDA	1,797	1,869	(3.8)
EBITDA margin (%)	16.0	16.1	-3 bp
Adj. PAT	1,080	1,216	(11.2)

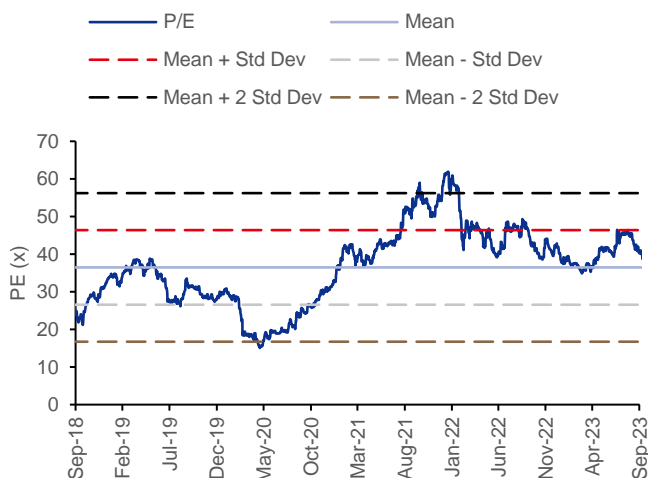
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 11: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	47,804	56,411	65,464	50,037	57,995	NA	-4.5	-2.7	NA
EBITDA	7,720	9,392	11,260	8,081	9,743	NA	-4.5	-3.6	NA
<b>Adjusted consol. PAT</b>	<b>4,681</b>	<b>5,779</b>	<b>7,205</b>	<b>4,848</b>	<b>6,125</b>	<b>NA</b>	<b>-3.5</b>	<b>-5.7</b>	<b>NA</b>
EPS	29.4	36.3	45.2	30.4	38.5	NA	-3.5	-5.7	NA
EBITDA margin (%)	16.2	16.7	17.2	16.2	16.8	NA	0 bp	-15 bp	NA

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



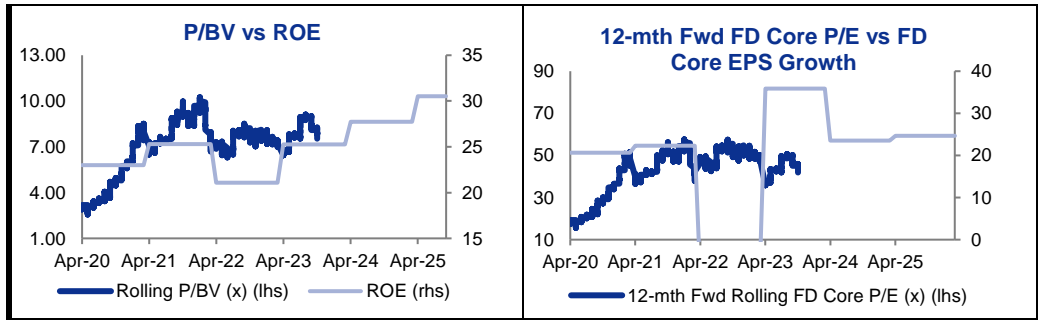
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>37,052</b>	<b>43,819</b>	<b>47,804</b>	<b>56,411</b>	<b>65,464</b>
<b>Gross Profit</b>	<b>21,501</b>	<b>25,749</b>	<b>26,890</b>	<b>31,731</b>	<b>36,823</b>
<b>Operating EBITDA</b>	<b>6,107</b>	<b>5,920</b>	<b>7,720</b>	<b>9,392</b>	<b>11,260</b>
Depreciation And Amortisation	(1,154)	(1,329)	(1,513)	(1,742)	(1,931)
<b>Operating EBIT</b>	<b>4,953</b>	<b>4,592</b>	<b>6,207</b>	<b>7,651</b>	<b>9,328</b>
Financial Income/(Expense)	125	47	(38)	(4)	154
Pretax Income/(Loss) from Assoc.			(5)	92	166
Non-Operating Income/(Expense)	23	66	150	50	53
<b>Profit Before Tax (pre-EI)</b>	<b>5,102</b>	<b>4,705</b>	<b>6,315</b>	<b>7,789</b>	<b>9,700</b>
Exceptional Items		(79)			
<b>Pre-tax Profit</b>	<b>5,102</b>	<b>4,625</b>	<b>6,315</b>	<b>7,789</b>	<b>9,700</b>
Taxation	(1,274)	(1,163)	(1,544)	(1,910)	(2,387)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>3,827</b>	<b>3,463</b>	<b>4,771</b>	<b>5,878</b>	<b>7,314</b>
Minority Interests	(58)	(17)	(90)	(99)	(109)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>3,770</b>	<b>3,446</b>	<b>4,681</b>	<b>5,779</b>	<b>7,205</b>
Recurring Net Profit	3,770	3,505	4,681	5,779	7,205
<b>Fully Diluted Recurring Net Profit</b>	<b>3,770</b>	<b>3,505</b>	<b>4,681</b>	<b>5,779</b>	<b>7,205</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>6,107</b>	<b>5,920</b>	<b>7,720</b>	<b>9,392</b>	<b>11,260</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(621)	(1,851)	(72)	(1,233)	
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	165	171	107	138	
Net Interest (Paid)/Received	(111)	(20)	38	4	
Tax Paid	(1,285)	(1,265)	(1,544)	(1,910)	
<b>Cashflow From Operations</b>	<b>4,255</b>	<b>2,955</b>	<b>6,250</b>	<b>6,391</b>	<b>11,260</b>
Capex	(2,687)	(2,317)	(3,770)	(3,263)	(2,776)
Disposals Of FAs/subsidiaries	53	235			
Acq. Of Subsidiaries/investments	(491)	(20)	1,100	(500)	(500)
Other Investing Cashflow	215	270	220	199	280
<b>Cash Flow From Investing</b>	<b>(2,910)</b>	<b>(1,832)</b>	<b>(2,450)</b>	<b>(3,563)</b>	<b>(2,996)</b>
Debt Raised/(repaid)	(2,266)	427	(750)	(250)	
Proceeds From Issue Of Shares	52	12			
Shares Repurchased					
Dividends Paid	1,273	(1,433)	(1,910)	(2,388)	(3,184)
Preferred Dividends					
Other Financing Cashflow	(92)	(166)	(258)	(203)	(126)
<b>Cash Flow From Financing</b>	<b>(1,032)</b>	<b>(1,159)</b>	<b>(2,918)</b>	<b>(2,841)</b>	<b>(3,310)</b>
Total Cash Generated	313	(36)	882	(14)	4,954
<b>Free Cashflow To Equity</b>	<b>(921)</b>	<b>1,551</b>	<b>3,050</b>	<b>2,577</b>	<b>8,264</b>
<b>Free Cashflow To Firm</b>	<b>1,218</b>	<b>900</b>	<b>3,542</b>	<b>2,624</b>	<b>8,264</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	4,244	3,938	2,819	3,306	5,295
Total Debtors	5,133	6,012	7,203	8,500	9,864
Inventories	4,659	5,647	6,287	7,418	8,609
Total Other Current Assets	478	514	561	662	768
<b>Total Current Assets</b>	<b>14,513</b>	<b>16,110</b>	<b>16,870</b>	<b>19,886</b>	<b>24,536</b>
Fixed Assets	11,022	14,088	16,662	18,583	19,427
Total Investments		19	919	919	919
Intangible Assets	85	327	327	327	327
Total Other Non-Current Assets	4,245	2,349	2,032	1,632	1,632
<b>Total Non-current Assets</b>	<b>15,352</b>	<b>16,783</b>	<b>19,940</b>	<b>21,461</b>	<b>22,305</b>
Short-term Debt	1,041	1,575	898	731	731
Current Portion of Long-Term Debt					
Total Creditors	2,981	3,104	3,929	4,637	5,381
Other Current Liabilities	2,441	2,293	3,274	3,864	4,484
<b>Total Current Liabilities</b>	<b>6,464</b>	<b>6,972</b>	<b>8,101</b>	<b>9,231</b>	<b>10,595</b>
Total Long-term Debt	238	518	445	362	362
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	559	621	621	621	621
<b>Total Non-current Liabilities</b>	<b>797</b>	<b>1,139</b>	<b>1,066</b>	<b>983</b>	<b>983</b>
Total Provisions	733	738	738	738	738
<b>Total Liabilities</b>	<b>7,994</b>	<b>8,849</b>	<b>9,906</b>	<b>10,953</b>	<b>12,317</b>
Shareholders Equity	21,224	23,268	26,038	29,429	33,450
Minority Interests	648	776	866	965	1,074
<b>Total Equity</b>	<b>21,872</b>	<b>24,044</b>	<b>26,904</b>	<b>30,395</b>	<b>34,524</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	33.2%	18.3%	9.1%	18.0%	16.0%
Operating EBITDA Growth	20.0%	(3.1%)	30.4%	21.7%	19.9%
Operating EBITDA Margin	16.5%	13.5%	16.2%	16.7%	17.2%
Net Cash Per Share (Rs)	18.63	11.59	9.27	13.90	26.39
BVPS (Rs)	133.36	146.14	163.52	184.82	210.07
Gross Interest Cover	38.91	20.57	24.10	37.68	74.23
Effective Tax Rate	25.0%	25.1%	24.5%	24.5%	24.6%
Net Dividend Payout Ratio	34.7%	30.6%	30.7%	31.1%	33.2%
Accounts Receivables Days	46.54	46.42	50.45	50.80	51.20
Inventory Days	98.45	104.08	104.13	101.34	102.13
Accounts Payables Days	59.31	61.45	61.37	63.34	63.83
ROIC (%)	29.2%	22.7%	26.4%	29.6%	32.6%
ROCE (%)	23.2%	19.2%	23.0%	25.6%	28.0%
Return On Average Assets	18.1%	14.8%	18.2%	19.9%	21.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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