

HOLD
 TP: Rs 1,400 | ▲ 1%

KAJARIA CERAMICS

Building Materials

31 January 2024

Soft demand, intense competition mar quarter

- Q3 revenue/PAT short of our estimates by 4%/13% on tepid demand climate and intense competition from Morbi players
- Demand likely to improve from FY25 but KJC’s high operating rate (101% in Q3) limits volume growth visibility
- Maintain HOLD; TP cut by 3% to Rs 1,400 on lack of growth catalysts and expensive valuation

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Weak quarter: KJC’s Q3FY24 revenue/EBITDA/adj. PAT grew 6%/34%/40% YoY off a weak base but missed our estimates by 4%/10%/13% due to weak tile volumes (+6% YoY vs. +11% estimated) and sequential margin contraction (-50bps to 15.5% vs. 16.4% estimated). The company’s net cash position has reduced from Rs 3.9bn in Sep’23 to Rs 2.8bn in Dec’23.

Key result highlights: KJC has gained market share as tile industry volumes were flat in Q3. However, tile EBIT per unit fell 5.6% QoQ to Rs 51/sqm due to (a) weak realisations (-1%) owing to a rise in competitive intensity as exports plunged amid the Red Sea crisis and (b) higher fuel prices. The company’s tile plants (own plus subsidiaries) operated at 101% during the quarter, and we see limited volume growth visibility over the next 12-15 months due to the meagre capacity increase (ex-Nepal) by 7% YoY in FY25. Non-tile revenue grew at a healthy 28% YoY, but EBIT margin remained weak at 1.5% in Q3 due to continued losses in plywood business.

Muted volume guidance for Q4: The company expects its tile volumes to grow just 6-7% YoY in Q4FY24 as demand conditions remain weak. However, management believes demand will improve from FY25 due to a pickup in real estate cycle and large government spending on rail, metros, hospitals and educational institutions. EBITDA margin is guided at 14-16% for FY24 and 15-17% for FY25. The company plans to acquire a 90% stake in a 6msm glazed vitrified tile (GVT) manufacturing facility in Morbi at a cost of Rs 500mn and a 51% stake in a north-based plywood company with 2.1mn sqm of capacity at a cost of Rs 420mn.

Maintain HOLD, TP cut 3% to Rs 1,400: The stock is trading at 44.2x on 1Y forward P/E vs. its 5Y average of 38.4x We maintain our HOLD rating given a lack of growth catalysts and expensive valuations. Our TP reduces to Rs 1,400 (Rs 1,450 earlier) as we lower FY24/FY25/FY26 EPS estimates by 6%/5%/3% based on the poor Q3FY24 result. Our target P/E multiple remains unchanged at 40x on Sep’25E EPS – at a slight premium to its historical average multiple.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	KJC IN/Rs 1,384
Market cap	US\$ 2.7bn
Free float	53%
3M ADV	US\$ 3.2mn
52wk high/low	Rs 1,524/Rs 1,007
Promoter/FPI/DII	47%/18%/25%

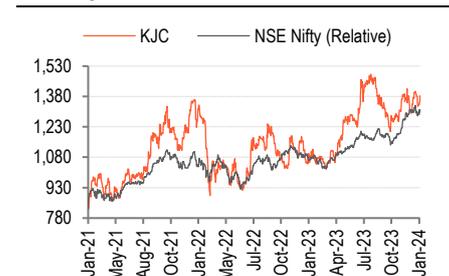
Source: NSE | Price as of 31 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	43,819	46,002	51,980
EBITDA (Rs mn)	5,934	7,246	8,390
Adj. net profit (Rs mn)	3,514	4,392	5,105
Adj. EPS (Rs)	22.1	27.6	32.1
Consensus EPS (Rs)	22.1	30.1	36.9
Adj. ROAE (%)	15.3	17.4	18.2
Adj. P/E (x)	62.7	50.2	43.2
EV/EBITDA (x)	37.6	30.7	26.4
Adj. EPS growth (%)	(7.0)	25.0	16.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total operating income	11,518	10,911	5.6	11,216	2.7	33,376	31,771	5.1
Raw Material expense	4,692	4,444	5.6	4,582	2.4	13,990	12,703	10.1
Gross Profit	6,826	6,467	5.5	6,635	2.9	19,386	19,068	1.7
Employee expense	1,319	1,166	13.2	1,300	1.5	3,756	3,448	8.9
Energy costs	2,395	2,783	(13.9)	2,211	8.3	6,543	8,140	(19.6)
Other expense	1,324	1,188	11.4	1,327	(0.2)	3,810	3,320	14.8
EBITDA	1,788	1,331	34.3	1,797	(0.5)	5,277	4,161	26.8
D&A	389	325	19.6	361	7.9	1,055	985	7.1
EBIT	1,399	1,005	39.1	1,436	(2.6)	4,222	3,175	33.0
Interest cost	50	83	(40.1)	43	16.9	145	151	(3.8)
Non-operating expense/(income)	(110)	(75)	46.7	(85)	29.2	283	269	5.4
PBT	1,459	997	46.3	1,479	(1.4)	3,794	2,756	37.7
Tax	379	261	45.5	366	3.5	1,081	232	365.9
Reported PAT	1,080	737	46.6	1,113	(3.0)	2,713	2,524	7.5
Adjusted PAT	1,042	743	40.2	1,080	(3.5)	3,197	2,391	33.7
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	59.3	59.3	0	59.2	11	58.1	60.0	(193)
Employee cost	11.5	10.7	77	11.6	(13)	11.3	10.9	40
Power costs	20.8	25.5	(471)	19.7	108	19.6	25.6	(601)
Other cost	11.5	10.9	61	11.8	(34)	11.4	10.4	97
EBITDA margin	15.5	12.2	333	16.0	(50)	15.8	13.1	271
Tax rate	26.0	26.1	(15)	24.8	122	28.5	8.4	2007
APAT margin	9.0	6.8	223	9.6	(58)	9.6	7.5	205

Source: Company, BOBCAPS Research

Fig 2 – Segment performance

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue								
Tile	10,256	9,929	3.3	10,129	1.3	30,047	28,933	3.8
- Own Manufacturing	5,791	5,592	3.6	5,705	1.5	1,689	1,694	(0.3)
- Subsidiaries	1,995	1,640	21.7	1,825	9.3	516	439	17.5
- Outsourced	2,343	2,608	(10.2)	2,469	(5.1)	764	741	3.1
Non-Tile	1,262	983	28.4	1,088	16.0	3,330	2,838	17.3
- Bathware	922	795	16.0	853	8.1	261	225	15.9
- Plywood	340	188	80.8	235	44.7	72	59	22.6
- Adhesives	128	90	42.5	130	(2.1)	35	26	34.1
Total	11,518	10,911	5.6	11,216	2.7	33,376	31,771	5.1
EBIT margin (%)								
Tile	13.5	10.0	343bps	14.1	(65bps)	13.8	10.8	299bps
Non-Tile	1.5	1.0	49bps	0.7	81bps	2.5	1.9	60bps
Total	12.1	9.2	293bps	12.8	(66bps)	12.6	10.0	266bps
Operational Data								
Tiles Sales Volume (mt)	27.1	25.5	6.4	26.5	2.3	78.6	73.7	6.6
Tiles Realisation (Rs/sqm)	374	387	(3.3)	378	(1.0)	378	390	(3.1)
Tiles EBIT per unit (Rs/sqm)	51	39	30.2	54	(5.6)	53	42	24.4

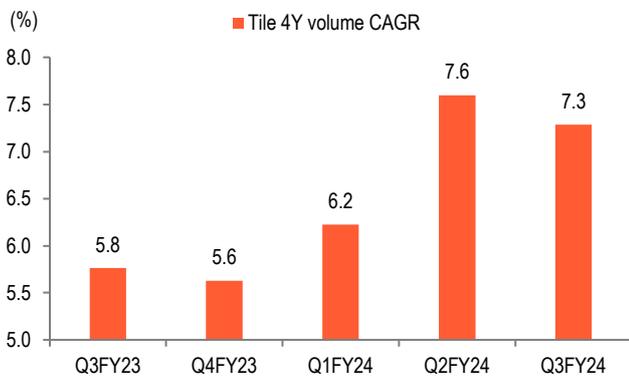
Source: Company, BOBCAPS Research

Earnings call highlights

- **Demand:** KJC pointed to a poor tile demand climate in the domestic market during Q3FY24 and expects the weakness to continue in Q4. However, management believes demand will improve sharply from FY25 onward due to a pickup in the real estate cycle and large government spending on rail, metros, hospitals and educational institutions.
- **Realisations:** Despite a 17% rise in gas prices since Aug'23, tile realisations in the domestic market fell by 2-3% due to weak demand and a rise in competitive intensity from Morbi players as their exports dropped amid the Red Sea crisis. The industry's monthly tile export run-rate has fallen from Rs 17bn-18bn in Apr-Oct'23 to Rs 12bn-13bn during Nov'23-Jan'24. KJC does not anticipate any price hikes from competitors in the near future.
- **Guidance:** The company expects its tile volumes to grow at 6-7% YoY in Q4FY24 and has set an aspirational target of growing 5-6% ahead of the industry. EBITDA margin is guided to be in the range of 14-16% for FY24 and 15-17% for FY25.
- **Market share:** As per management, KJC gained market share in Q3FY24 as it posted tile volume growth of 6% YoY vs. flat industry volumes.
- **Capacity utilisation:** KJC tile plants (own plus subsidiaries) operated at 101% during the quarter. As the company plans to increase its domestic capacity by only 7% from Apr'24 onward with the help of a planned acquisition of a 6msm GVT facility in Morbi, we see limited volume growth visibility for KJC over the next 12-15 months.
- **Advertisement spend:** Management's target is to spend 3% of sales on advertisement & sales promotion.
- **Fuel prices:** Average fuel price has gone up from Rs 38/scm in Q2FY24 to Rs 39/scm in Q3 and is expected to remain stable in Q4.
- **Tiles:** Segment EBIT grew 39% YoY in Q3 driven by higher volumes (+6.4%) as well as sharp improvement in EBIT margin off a weak base (+340bps to 13.5%). However, tile EBIT per unit fell by 5.6% QoQ to Rs 51/sqm due to weak realisations (-1%) and higher fuel prices.
- **Bathware:** Segment revenue grew 16% YoY in Q3. Management expects the bathware EBITDA margin to be in the range of 9-10% for FY24 (vs. 8% in 9MFY24). The company is targeting an increase in sanitaryware capacity from 0.75mn pieces at present to 1.35mn pieces by Mar'24.
- **Plywood:** Segment revenue grew 81% YoY in Q3 and management aims to increase revenue from Rs 770mn in FY23 to Rs 1bn in FY24 and Rs 1.5bn in FY25. The division is expected to incur an operating loss of Rs 60mn-70mn in FY25 and break even in FY26. KJC plans to acquire a 51% stake in a north-based plywood company (with 2.1mn sqm capacity) due to quality and supply issues with outsourced products. Laminate volumes will remain under the outsourced model.

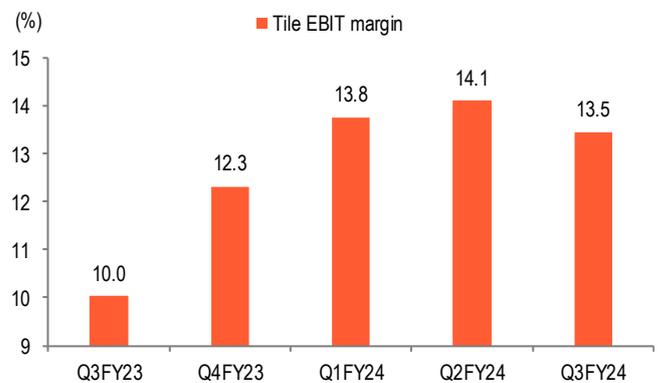
- Adhesives:** Segment revenue grew 42.5% in Q3. The company is targeting an increase in division revenue from Rs 380mn in FY23 to Rs 500mn in FY24, Rs 750mn in FY25, and Rs 2bn over the next three years.
- Capex:** KJC maintained its capex guidance of Rs 3.7bn for FY24. The Nepal greenfield tile joint venture project (5.1msm) is expected to be completed by Jun'24 (vs. Mar'24 earlier) at a cost of Rs 1.8bn. The company plans to acquire a 90% stake in a 6msm GVT manufacturing facility in Morbi at a cost of Rs 500mn, which would become operational from Apr'24 onwards. It also intends to acquire land in Morbi for Rs 300mn to set up a large tile slab plant.
- Net cash:** The net cash position has reduced from Rs 3.9bn in Sep'23 to Rs 2.8bn in Dec'23.

Fig 3 – KJC’s tile volumes grew at 6.4% YoY and 7.3% on 4Y CAGR basis in Q3FY24



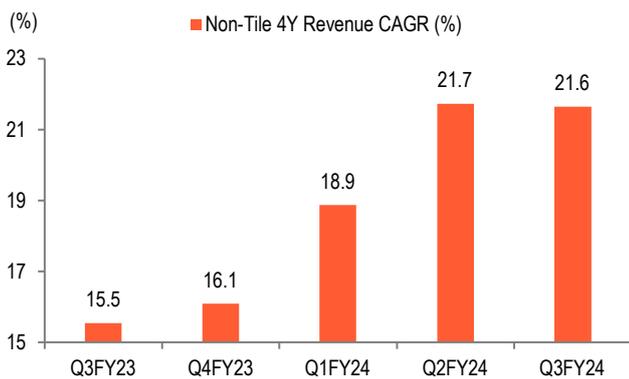
Source: Company, BOBCAPS Research

Fig 4 – Tile EBIT margin fell 65bps QoQ on intense competition from Morbi and higher fuel prices



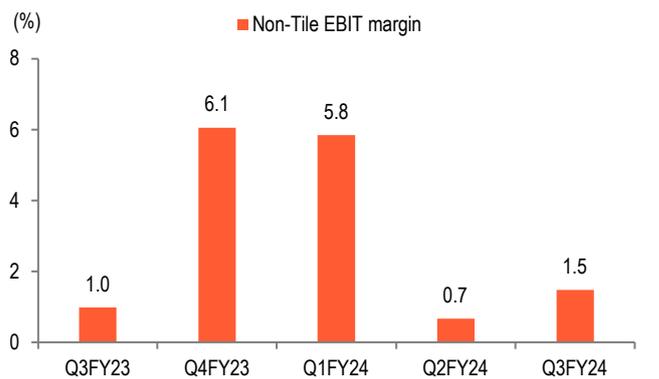
Source: Company, BOBCAPS Research

Fig 5 – Non-tile segment continues to grow at a healthy 28.4% YoY and 21.6% on 4Y CAGR basis...



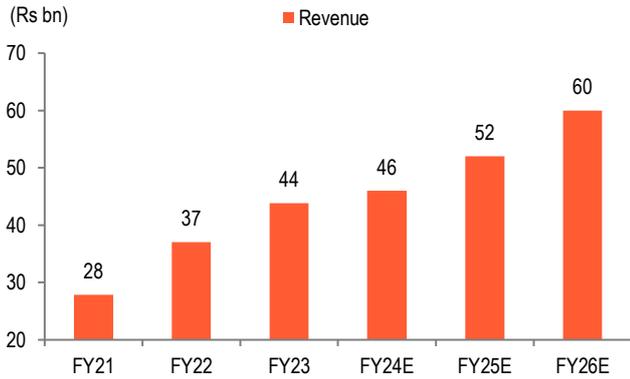
Source: Company, BOBCAPS Research

Fig 6 – ...but EBIT margin remained weak due to continued losses in new plywood business



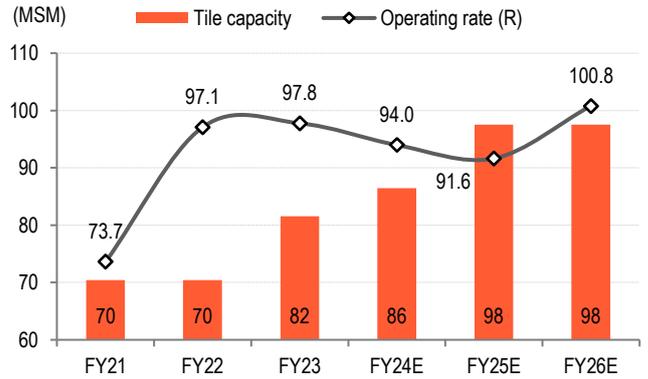
Source: Company, BOBCAPS Research

Fig 7 – KJC’s revenue projected to grow at a nominal 11% CAGR over FY23-FY26E...



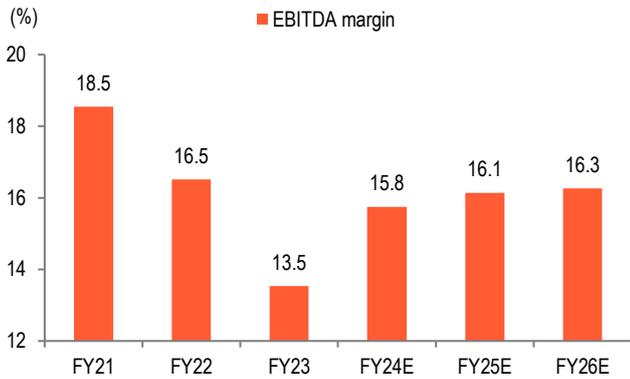
Source: Company, BOBCAPS Research

Fig 8 – ...due to limited volume growth visibility as existing plants are fully utilised



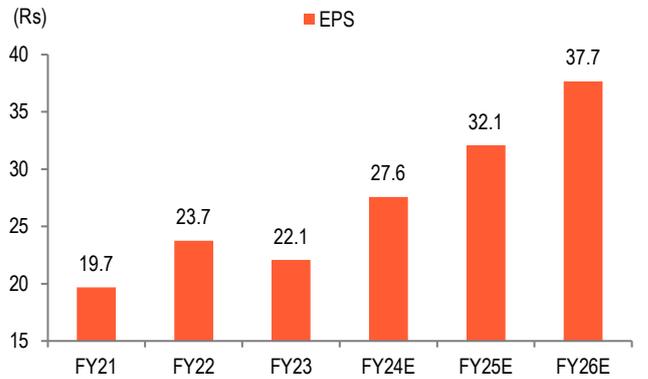
Source: Company, BOBCAPS Research

Fig 9 – EBITDA margin projected to improve from 15.5% in Q3FY24 to 16.3% in FY26E on a better mix



Source: Company, BOBCAPS Research

Fig 10 – EPS forecast to grow at nominal 12.2% CAGR over FY22-FY26E



Source: Company, BOBCAPS Research

Valuation methodology

We see limited volume growth visibility for KJC considering a high operating rate at existing facilities (+101% in Q3FY24) and limited capacity addition in the domestic market over the next 12-15 months. Further, current valuations look expensive at 44.2x on one-year forward P/E vs. the stock's five-year average of 38.4x, leading us to maintain our HOLD rating.

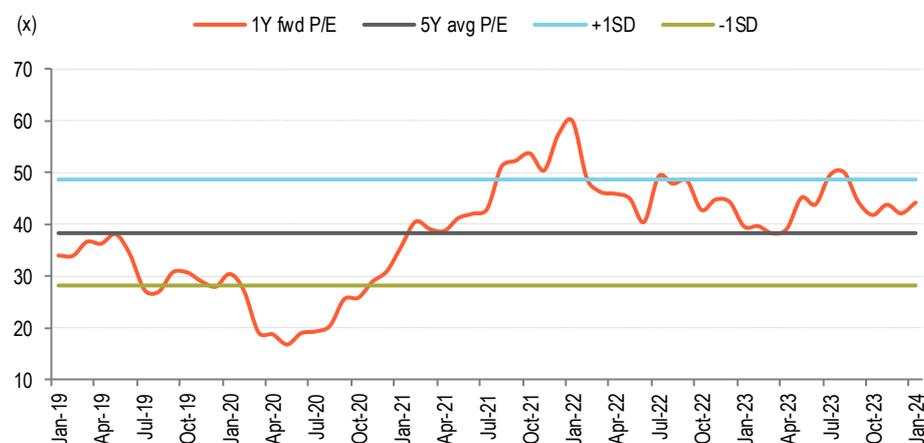
Our TP reduces to Rs 1,400 (Rs 1,450 earlier) as we lower FY24/FY25/FY26 EPS estimates by 6%/5%/3% based on the poor Q3FY24 result. Our target P/E multiple remains unchanged at 40x on Sep'25E EPS – at a slight premium to its historical average multiple. For a detailed sector view, see our report of 17 January: [Strong foundations](#).

Fig 11 – Revised estimates – Consolidated

(Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total operating income	46.0	52.0	60.0	47.1	54.2	62.1	(2.3)	(4.1)	(3.4)
EBITDA	7.2	8.4	9.8	7.6	8.9	10.2	(4.6)	(5.6)	(4.5)
EBITDA Margin	15.8	16.1	16.3	16.1	16.4	16.4	(38bps)	(26bps)	(18bps)
Adjusted PAT	4.4	5.1	6.0	4.6	5.4	6.2	(5.6)	(5.4)	(3.4)
EPS (Rs)	27.6	32.1	37.7	29.2	33.9	39.0	(5.6)	(5.4)	(3.4)

Source: BOBCAPS Research

Fig 12 – Trading at 44.2x on 1Y forward P/E vs. 5Y average of 38.4x



Source: Bloomberg, BOBCAPS Research

Fig 13 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Tile Volume Growth	(3.4)	21.5	11.0	6.5	9.8	10.0
Tile Realisation Growth	0.6	9.3	5.9	(3.0)	0.3	2.0
Tile Revenue Growth	(2.8)	32.8	17.5	3.3	10.1	12.2
Non-Tile Revenue Growth	22.1	37.7	26.0	20.3	35.7	36.3
Non-Tile Revenue Share	8.9	9.2	9.8	11.3	13.5	16.0

Source: Company, BOBCAPS Research

Key risks

- Better-than-expected recovery in real estate demand and sharp improvement in non-tile segment margins are key upside risks to our estimates.
- Market share loss in tiles and a steep decline in tile exports from India are key downside risks.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	682	600	SELL
Astral	ASTRA IN	6.0	1,830	2,000	HOLD
Century Plyboards	CPBI IN	2.1	785	800	HOLD
Cera Sanitaryware	CRS IN	1.3	8,254	8,100	HOLD
Finolex Industries	FNXP IN	1.7	222	230	HOLD
Greenlam Industries	GRLM IN	0.8	538	600	HOLD
Greenpanel Industries	GREENP IN	0.6	400	400	HOLD
Greenply Industries	MTLM IN	0.4	246	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	483	700	BUY
Kajaria Ceramics	KJC IN	2.7	1,384	1,400	HOLD
Prince Pipes & Fittings	PRINCP IN	1.0	711	800	HOLD
Somany Ceramics	SOMC IN	0.4	709	900	BUY
Supreme Industries	SI IN	6.4	4,130	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	37,052	43,819	46,002	51,980	60,018
EBITDA	6,120	5,934	7,246	8,390	9,761
Depreciation	1,154	1,329	1,432	1,648	1,858
EBIT	4,966	4,605	5,814	6,742	7,903
Net interest inc./(exp.)	(127)	(223)	(195)	(199)	(199)
Other inc./(exp.)	276	336	401	525	600
Exceptional items	13	14	0	0	0
EBT	5,102	4,705	6,019	7,068	8,304
Income taxes	1,274	1,163	1,497	1,779	2,090
Extraordinary items	0	79	0	0	0
Min. int./Inc. from assoc.	(58)	(18)	(130)	(185)	(217)
Reported net profit	3,770	3,445	4,392	5,105	5,997
Adjustments	10	69	0	0	0
Adjusted net profit	3,780	3,514	4,392	5,105	5,997

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,981	3,104	3,258	3,681	4,251
Other current liabilities	2,382	2,723	2,723	2,723	2,723
Provisions	80	82	86	97	112
Debt funds	1,386	2,093	1,575	1,772	2,037
Other liabilities	1,165	1,261	1,261	1,261	1,261
Equity capital	159	159	159	159	159
Reserves & surplus	21,065	23,109	25,744	28,806	32,404
Shareholders' fund	21,872	24,044	26,554	29,432	32,813
Total liab. and equities	29,865	33,305	35,456	38,965	43,195
Cash and cash eq.	4,244	3,938	3,572	3,431	3,359
Accounts receivables	5,133	6,012	6,311	7,131	8,234
Inventories	4,659	5,647	5,537	6,356	7,699
Other current assets	478	1,268	1,326	1,486	1,700
Investments	0	19	19	19	19
Net fixed assets	10,998	13,705	15,973	17,825	19,467
CWIP	2,634	817	817	817	817
Intangible assets	498	761	761	761	761
Deferred tax assets, net	152	207	207	207	207
Other assets	1,071	932	932	932	932
Total assets	29,865	33,305	35,456	38,965	43,195

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	4,178	2,978	5,765	5,299	5,615
Capital expenditures	(3,498)	(2,482)	(3,700)	(3,500)	(3,500)
Change in investments	0	(19)	0	0	0
Other investing cash flows	31	7	164	288	363
Cash flow from investing	(3,467)	(2,495)	(3,536)	(3,212)	(3,137)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	416	707	(518)	197	265
Interest expenses	(127)	(223)	(195)	(199)	(199)
Dividends paid	(1,751)	(1,433)	(1,757)	(2,042)	(2,399)
Other financing cash flows	461	143	(251)	(369)	(434)
Cash flow from financing	(1,002)	(806)	(2,720)	(2,414)	(2,767)
Chg in cash & cash eq.	(291)	(323)	(491)	(326)	(289)
Closing cash & cash eq.	4,244	3,938	3,572	3,431	3,359

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	23.7	21.6	27.6	32.1	37.7
Adjusted EPS	23.7	22.1	27.6	32.1	37.7
Dividend per share	11.0	9.0	11.0	12.8	15.1
Book value per share	133.3	146.2	162.7	181.9	204.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.0	5.1	4.8	4.3	3.7
EV/EBITDA	36.3	37.6	30.7	26.4	22.7
Adjusted P/E	58.3	62.7	50.2	43.2	36.7
P/BV	10.4	9.5	8.5	7.6	6.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	74.7	73.0	72.2	72.2
Interest burden (PBT/EBIT)	102.7	102.2	103.5	104.8	105.1
EBIT margin (EBIT/Revenue)	13.4	10.5	12.6	13.0	13.2
Asset turnover (Rev./Avg TA)	124.1	131.6	129.7	133.4	138.9
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.4
Adjusted ROAE	18.3	15.3	17.4	18.2	19.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	33.2	18.3	5.0	13.0	15.5
EBITDA	18.7	(3.0)	22.1	15.8	16.3
Adjusted EPS	20.6	(7.0)	25.0	16.2	17.5
Profitability & Return ratios (%)					
EBITDA margin	16.5	13.5	15.8	16.1	16.3
EBIT margin	13.4	10.5	12.6	13.0	13.2
Adjusted profit margin	10.2	8.0	9.5	9.8	10.0
Adjusted ROAE	18.3	15.3	17.4	18.2	19.3
ROCE	22.5	18.9	22.1	23.3	24.4
Working capital days (days)					
Receivables	51	50	50	50	50
Inventory	46	47	44	45	47
Payables	29	26	26	26	26
Ratios (x)					
Gross asset turnover	1.9	2.1	1.9	1.9	1.9
Current ratio	2.2	2.3	2.2	2.2	2.3
Net interest coverage ratio	39.0	20.6	29.8	33.8	39.7
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.1)	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

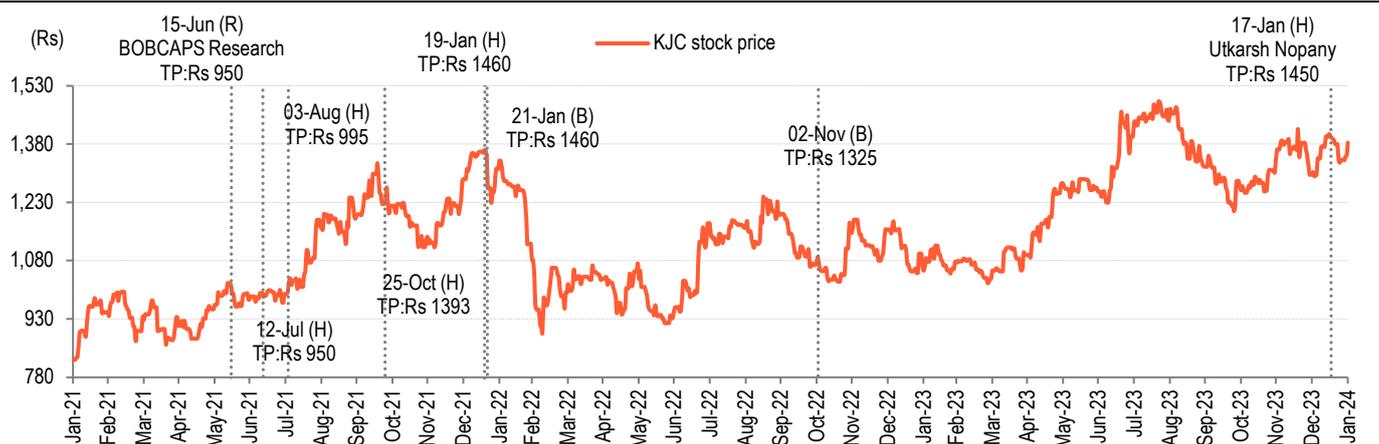
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): KAJARIA CERAMICS (KJC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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