

## Volume growth recovery likely in FY25...

About the stock: Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 84.5 mn. sq. meters (MSM)

- The company setting up a plant of 5.1 MSM in Nepal in JV. It has also announced acquisition of 90% stake for an investment of ₹ 50 crore in Keronite Tiles Private Limited (KTPL), which has a GVT plant with a capacity of 6 MSM

Q3FY24 Performance: Topline was up 5.6% YoY at ₹ 1152 crore. Tiles sales volumes were up ~6.4% YoY at 27.1 MSM with demand being muted. Tiles revenues were up 2.9% YoY at ₹ 1013 crore, with pricing decline of ~2.9% YoY. EBITDA was at ₹ 179 crore, up 34% YoY, with resultant margins at 15.5%, up 333 bps YoY, on account of decline in gas prices and benefits of alternate fuel in the overall mix. PAT was at ₹ 104 crore, up 40.2% YoY, given the operating margin expansion

### Investment Rationale

- Real Estate completion cycle to drive recovery from FY25 onwards: We highlight that overall domestic demand of Tiles have been muted (flattish in M9FY24, while Kajaria has grown at ~6%. The modest growth has been further exacerbated by weakness in exports (impacted by Suez Canal issues). Going ahead, company expects the demand to pick up in FY25 driven by the completion cycle of real estate kicking in along with demand from government for infrastructure projects. Kajaria expects to beat industry growth by 6-7% in FY25. We have baked in ~10.3% volume CAGR over FY23-26 to 136.6 MSM. Overall Revenue CAGR is likely at 11.6%.
- Margin improvement & higher return ratios ahead: Driven by operating leverage, likely benign gas prices, we expect margins to reach 17% in FY26 (at the upper end of 15-17% guidance). We expect ~24% earnings CAGR over FY23-26. The strong earnings growth and healthy dividend payout is likely to improve return ratios (RoCEs likely at 25.6% in FY26E vs ~17.7% in FY23)

### Rating and Target Price

- The real estate completion cycle and continued focus on infrastructure is likely to drive a medium to long term demand trajectory of Building Materials space including tiles. Kajaria with a net cash balance sheet and superior brand, is a solid play on Tiles sector with expanding reach to tier 2/3 cities. We maintain BUY rating on Kajaria Ceramics. We value Kajaria at target price of ₹ 1580 (38x FY26 P/E).

### Key Financial Summary

(₹ crore)	FY21	FY22	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	FY26E	3 yr CAGR (FY23-26E)
Net Sales	2,780.9	3,705.2	4,381.9	10.1%	4,588.0	5,479.4	6,095.5	11.6%
EBITDA	508.8	610.8	592.0	5.3%	723.4	891.5	1,038.4	20.6%
EBITDA Margin (%)	18.3	16.5	13.5		15.8	16.3	17.0	
PAT	308.1	377.1	344.5	7.9%	434.8	557.4	659.2	24.1%
EPS (₹)	19.4	23.7	21.7		27.3	35.1	41.5	
P/E (x)	69.4	56.7	62.1		49.2	38.4	32.4	
P/B (x)	11.4	10.1	9.2		8.4	7.4	6.5	
EV/EBITDA (x)	41.3	34.5	35.8		29.3	23.7	20.0	
RoCE (%)	19.7	21.5	17.7		20.7	23.7	25.2	
RoE	16.5	17.8	14.8		17.0	19.4	20.0	

Source: Company, ICICI Direct Research;

## Kajaria

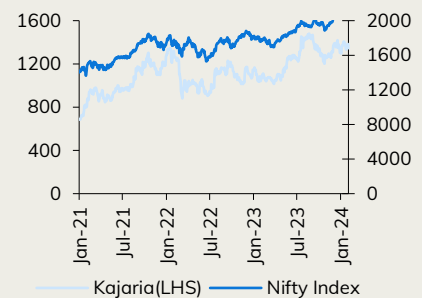
### Particulars

Particular	Amount (₹ crore)
Market Cap	21,388
Total Debt (FY23)	209
Cash (FY23)	394
EV	21,203
52 week H/L (₹)	1524 / 1006
Equity capital	15.9
Face value (₹)	1.0

### Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	47.5	47.5	47.5	47.5
DII	24.0	26.2	25.5	25.5
FII	18.6	16.9	18.5	18.3
Other	9.9	9.4	8.6	8.7

### Price Chart



### Key risks

- Weakness in demand impacting volumes
- Any sharp rise in Gas prices

### Research Analyst

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## Q3FY24 Performance highlights and outlook

- **Commentary on Demand and Outlook ahead:** The company indicated that quarter saw subdued demand environment. The North demand was also impacted due to cold weather. Tile exports were impacted by higher ocean freight and increase in transit time due to issues at Suez Canal. The average monthly run-rate of tile exports from Morbi came down to ~ ₹ 1300 crore vs. ₹ 1800 crore earlier. Going ahead, the company expects the demand to pick up in FY25 driven by the completion cycle of real estate kicking in along with demand from government for infrastructure projects.
- **Guidance:** The company guided for similar volume growth (~6-7%) in Q4FY24 with margin likely at upper end of 14-16% for FY24. For FY25, it has guided for tiles volume growth of 5-6% over the industry growth rate and expects EBITDA margins in the band of 15-17%. It also expects Plywood segment revenue of INR ₹ 110 crore in FY24 and ₹ 150 crore in FY25.
- **Pricing:** The company indicated that owing to weakness in exports, Morbi region has been unable to take price hikes despite ~17% increase in gas costs since August, 2023. Kajaria, thus, has also not taken any price hikes, while it has given discounts to dealers to incentivise higher sales.
- **Gas cost:** Average gas price in Q3 was ₹39/scm (North: ₹ 41/scm; South: ₹42/scm; West: ₹ 34/scm) and is expected to remain at similar levels in Q4FY24 as per the company.
- **Capex and Investment Plans:** Overall Capex for FY24 is likely at ₹ 370 crore.
  - The company indicated that greenfield expansion in Nepal of 5.1MSM has been delayed due to unfavourable weather and is now expected to commission by June, 2024
  - The company has planned to acquire 100% stake for an investment of ₹ 30 crore in Kajaria Ultima Private Limited (KUPL), through which it plans to purchase a land in Morbi to setup a GVT manufacturing plant later
  - It has also planned to acquire 90% stake for an investment of ₹ 50 crore in Keronite Tiles Private Limited (KTPL), which has a GVT plant with a capacity of 6 MSM. The plant is currently undergoing maintenance/machinery upgrade and is expected to resume operations in April, 2024

**Exhibit 1: Q3FY24 Earnings Table**

	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	Comments
Net Sales	1,151.8	1,091.1	5.6	1,121.6	2.7	Tiles sales volumes were up ~6.4% YoY at 27.1 MSM. Four-year volume CAGR was at ~10%. Tiles revenues were up 2.9% YoY at ₹ 1013 crore, with pricing decline of ~2.9% YoY
Other Income	11.3	7.5	50.7	8.3	36.3	
Net Purchase of Stock in	223.4	180.2	23.9	212.9	4.9	
Cost of Materials Consumed	245.8	264.2	-7.0	245.3	0.2	
Staff cost	131.9	116.6	13.2	130.0	1.5	
Other expenditure	132.4	118.8	11.4	132.7	-0.2	
Power & Fuel cost	239.5	278.3	-13.9	221.1	8.3	
EBITDA	178.8	133.1	34.3	179.7	-0.5	
EBITDA Margin (%)	15.5	12.2	333 bps	16.0	-50 bps	Margin expansion owing to lower power and fuel costs
Depreciation	38.9	32.5	19.6	36.1	7.9	
Interest	5.0	8.3	-40.1	4.3	16.9	
PBT	146.2	99.7	46.6	147.7	-1.0	
Taxes	37.9	26.1	45.5	36.6	3.5	
PAT	104.2	74.3	40.2	108.0	-3.5	

Source: Company, ICICI Direct Research

**Exhibit 2: Key Assumptions**

Volume in MSM	FY21	FY22	FY23	FY24E	FY25	FY26	Comments
Sales	75.4	91.7	101.7	108.2	126.7	136.6	
YoY		22%	11%	6%	17%	8%	
Realisation (₹/sqm)	336	367	390	375	381	391	
YoY		9%	6%	-4%	2%	2%	

Source: Company, ICICI Direct Research

## Financial Summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>4,381.9</b>	<b>4,588.0</b>	<b>5,479.4</b>	<b>6,095.5</b>
Raw Material Exp	925.0	968.1	1,172.6	1,298.3
Cost of Materials	882.1	968.1	1,129.6	1,256.6
Emp Cost	461.2	511.1	564.4	627.8
Other Expenses	1,521.6	1,417.4	1,721.4	1,874.3
Total op. expenses	3,789.9	3,864.7	4,587.9	5,057.1
<b>EBITDA</b>	<b>592.0</b>	<b>723.4</b>	<b>891.5</b>	<b>1,038.4</b>
Interest	22.3	19.1	12.0	10.1
Depreciation	132.9	146.5	163.0	171.2
Other income	33.6	37.0	42.0	46.0
PBT	462.5	594.7	758.5	903.1
Taxes	116.3	149.9	191.1	233.9
PAT before MI	346.3	444.8	567.4	669.2
Minority Interest	1.8	10.0	10.0	10.0
<b>PAT</b>	<b>344.5</b>	<b>434.8</b>	<b>557.4</b>	<b>659.2</b>
Growth (%)	(8.6)	26.2	28.2	18.3
<b>EPS (₹)</b>	<b>21.7</b>	<b>27.3</b>	<b>35.1</b>	<b>41.5</b>

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(₹ Crore)	FY23	FY24E	FY25E	FY26E
<b>Profit after Tax</b>	<b>344.5</b>	<b>434.8</b>	<b>557.4</b>	<b>659.2</b>
Depreciation	132.9	146.5	163.0	171.2
Interest	22.3	19.1	12.0	10.1
Others	82.6	112.9	149.1	187.9
CF before wc changes	582.3	713.4	881.5	1,028.4
Net Increase in CA	(257.3)	(59.3)	(262.1)	(181.1)
Net Increase in CL	0.4	26.0	112.3	77.6
<b>Net CF from op. activities</b>	<b>254.1</b>	<b>530.2</b>	<b>540.6</b>	<b>691.0</b>
(Purchase)/Sale of FA	(248.2)	(370.0)	(250.0)	(150.0)
<b>Net CF from Inv. activities</b>	<b>####</b>	<b>(333.0)</b>	<b>(208.0)</b>	<b>(104.0)</b>
Inc / (Dec) in Equity Capital	3.0	-	(0.0)	-
Dividend	(143.1)	(206.7)	(238.5)	(238.5)
Interest paid	(22.3)	(19.1)	(12.0)	(10.1)
Inc / (Dec) in Loans	81.4	(50.0)	(50.0)	(50.0)
<b>Net CF from Fin. activities</b>	<b>(68.2)</b>	<b>(265.8)</b>	<b>(290.5)</b>	<b>(288.6)</b>
Net Cash flow	(30.6)	(68.6)	42.1	298.4
Opening Cash	424.4	393.8	325.2	367.3
<b>Closing Cash/ Cash</b>	<b>393.8</b>	<b>325.2</b>	<b>367.3</b>	<b>665.7</b>

Source: Company, ICICI Direct Research

Exhibit 5: Balance Sheet				
	₹ crore			
(₹ Crore)	FY23	FY24E	FY25E	FY26E
<b>Liabilities</b>				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	2,310.9	2,539.0	2,857.9	3,278.5
Networth	2,326.8	2,554.9	2,873.8	3,294.5
Minority Interest	77.6	87.6	97.6	107.6
Total Debt	209.3	159.3	109.3	59.3
Other Liabilities	143.5	143.5	143.5	143.5
<b>Total Liabilities</b>	<b>2,778.3</b>	<b>2,966.5</b>	<b>3,245.3</b>	<b>3,626.0</b>
<b>Assets</b>				
Gross Block	2,363.6	2,713.6	2,963.6	3,113.6
Less Acc. Dep	951.1	1,097.7	1,260.7	1,431.9
Net Block	1,412.4	1,615.9	1,702.9	1,681.7
Intangibles Assets	34.1	34.1	34.1	34.1
Capital WIP	81.7	101.7	101.7	101.7
Total Fixed Assets	1,528.3	1,751.7	1,838.7	1,817.5
Investments	1.9	1.9	1.9	1.9
Inventory	564.7	590.8	705.6	784.9
Sundry Debtors	601.2	628.5	750.6	835.0
Loans & Advances	123.9	129.7	154.9	172.3
Cash & Bank	393.8	325.2	367.3	665.7
Other Current Assets	116.8	116.8	116.8	116.8
Total Current Assets	1,800.3	1,791.0	2,095.2	2,574.7
Trade Payable	310.4	324.9	388.1	431.7
Other CL	233.7	244.7	292.2	325.1
Provisions	8.2	8.5	10.2	11.4
Net Current Assets	1,248.1	1,212.8	1,404.6	1,806.6
<b>Total Assets</b>	<b>2,778.3</b>	<b>2,966.5</b>	<b>3,245.3</b>	<b>3,626.0</b>

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	FY23	FY24E	FY25E	FY26E
<b>Per Share Data (₹)</b>				
EPS - Diluted	21.7	27.3	35.1	41.5
Cash EPS	30.0	36.6	45.3	52.2
Book Value	146.3	160.7	180.7	207.2
Dividend per share	9.0	13.0	15.0	15.0
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	13.5	15.8	16.3	17.0
PAT / Net Sales	7.9	9.5	10.2	10.8
Inventory Days	47	47	47	47
Debtor Days	50	50	50	50
Creditor Days	26	26	26	26
<b>Return Ratios (%)</b>				
RoNW	14.8	17.0	19.4	20.0
RoCE	17.7	20.7	23.7	25.2
RoIC	20.0	22.7	26.3	30.4
<b>Valuation Ratios (x)</b>				
EV / EBITDA	35.8	29.3	23.7	20.0
P/E (Diluted)	62.1	49.2	38.4	32.4
EV / Net Sales	4.8	4.6	3.9	3.4
Market Cap / Sales	4.9	4.7	3.9	3.5
Price to Book Value	9.2	8.4	7.4	6.5
Dividend Yield (%)	0.7	1.0	1.1	1.1
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	(0.1)	(0.1)	(0.1)	(0.2)
Debt/EBITDA	0.4	0.2	0.1	0.1
Current Ratio	2.5	2.5	2.5	2.5
<b>Quick Ratio</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>	<b>1.5</b>

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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