

July 23, 2024

RESULT REPORT Q1 FY25 | Sector: Building Materials

Kajaria Ceramics Ltd

Expect 10% volume CAGR; maintain NEUTRAL!

Result Synopsis

Kajaria Ceramics Ltd (KJC) reported better than expected volume growth of 8%YoY (Vs est of 6%) but realizations contracted by 4%YoY which led to 5% growth in tiles revenue (in-line with our estimates) over similar period. Improvement in demand scenario reignited the growth trajectory for the company & management is optimistic of achieving a 11-12% volume growth for FY25E. However, lower realizations Vs FY24 will keep revenue growth at 8-9% for FY25E. EBITDA margins came in at 15% as compared to 15.9% in Q1FY24 & 13.9% in Q4FY24 which was dented by higher inventory cost. Management reiterated their margin guidance of 15-15.5% for FY25E. The mix of Own/JV/Outsourced in volume terms stood at 55%/20%/24% Vs 55%/18%/26% in Q1FY24 and the same in value terms stood at 56%/20%/23% during Q1FY25 as against 56%/19%/25% in Q1FY24 respectively. In other segments, sanitaryware revenue increased by 9%YoY, plywood growth was at 25%YoY while adhesives grew by 59%YoY. Margins for plywoods were lower due to higher timber cost and for sanitaryware, higher overhead of new plant impacted margins. During the quarter company commenced KERONITE TILES GVT capacity of 6msqm which will operate at peak utilization by Q4FY25E. Commencement of NEPAL JV has been postponed to Sept'24 from June'24 earlier largely due to excessive rains.

We expect demand for tiles to improve on account of healthy growth in real-estate industry & hence we believe KJC's volumes to grow by 10%CAGR over FY24-FY26E. New up-coming plants and expansion into Tier-2&3 cities will enable the company to outperform industry growth. We reckon tiles revenue to grow by 10%CAGR over FY24-FY26E. Performance of other segments viz. sanitaryware, plywoods & adhesives should also improve, hence we expect a cumulative growth of 19%CAGR for these segments. Consequently, overall top-line is expected to grow by 11%CAGR over FY24-FY26E. Operating margins should come in at 15.5%/16.1% in FY25E/FY26E respectively, resulting into EBITDA growth of 14%CAGR over FY24-FY26E. We have valued the company at P/E(x) of 40x on FY26E EPS of Rs35.5 (unchanged), arriving at a target price of Rs1,420. Hence owing to capped upside, we maintain our NEUTRAL rating on the stock.

Result Highlights

- Revenue for the quarter stood at Rs11.14Bn (in-line with est), a growth of 5%YoY & a decline of 10%QoQ.
- EBITDA margins came in at 15% (Vs est of 15%) as compared to 15.9%/13.9% in Q1FY24/Q4FY24 respectively, Absolute EBITDA remained flattish YoY & decreased marginally by 3% QoQ to Rs1.67Bn.
- Net profit stood at 923Mn, a decline of 15%YoY & 11%QoQ.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	11,137	11,107	11,152	0.3	(0.1)	In-line with estimates
EBITDA	1,671	1,666	1,663	0.3	0.5	
EBITDA Margin (%)	15.0	15.0	14.9	0 bps	9 bps	
Adjusted PAT	923	976	980	(5.5)	(5.8)	

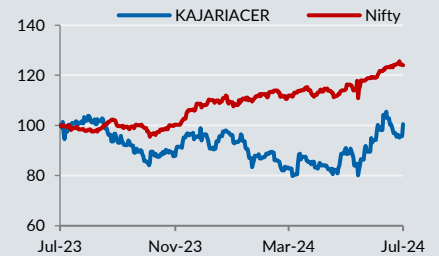
Source: Company, YES Sec

Reco	: NEUTRAL
CMP	: Rs 1,420
Target Price	: Rs 1,420
Potential Return	: 0.0%

Stock data (as on Jul 23, 2024)

Nifty	24,479
52 Week h/l (Rs)	1,524 / 1,110
Market cap (Rs/USD mn)	221,274 / 2,644
Outstanding Shares (mn)	159
6m Avg t/o (Rs mn):	348
Div yield (%):	0.8
Bloomberg code:	KJC IN
NSE code:	KAJARIACER

Stock performance



	1M	3M	1Y
Absolute return	6.7%	20.0%	0.5%

Shareholding pattern (As of Jun'24 end)

Promoter	47.5%
FII+DII	44.1%
Others	8.4%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	NEUTRAL
Target Price	1,420	1,241

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	30.2	35.5
EPS (Old)	30.2	35.5
% change	0.0%	0.0%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	45,784	50,603	56,540
YoY Growth	4.5	10.5	11.7
EBIDTA	6,997	7,839	9,093
EBIDTA (%)	15.3	15.5	16.1
PAT	4,322	4,808	5,648
YoY Growth	24.8	11.3	17.5
ROE	17.5	17.3	17.8
EPS	26.5	30.2	35.5
P/E	43.6	47.0	40.1
BV/Share	164.3	185.4	211.9
P/BV	7.0	7.7	6.7

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Segmental Highlights for Q4FY24:

Tiles:

- Overall volumes stood at 26.98msm, a growth of 8%YoY & degrowth of 9%QoQ (2-year CAGR 8%). Own volumes (55% of total) stood at 14.89msm, up by 8% YoY & down by 7%QoQ. JVs (20% of total) registered a growth of 19%YoY & declined by 10% QoQ to 5.52msm. Lastly, outsourced vols (24% of total), stood at 6.57msm, flattish YoY & a decrease 11%QoQ.
- Revenue of tiles stood at Rs9.90Bn, an increase of 3%YoY & a decline of 9%QoQ. Own tile revenue (56% of tile revenue), stood at Rs5.58Bn, a growth of 4%YoY & degrowth of 8%QoQ. JVs sales (20% of tile revenue) improved by 12%YoY & decreased by 11%QoQ to Rs2.00Bn, and Outsourced sales (23% of tile revenue) stood at Rs2.31Bn, lower by 3%YoY & 11%QoQ.
- Blended ASP came in at Rs367/sqm Vs Rs382/Rs369 in Q1FY24/Q4FY24, respectively. Own manufacturing's ASP stood at Rs375/sqm Vs Rs391/Rs377 in Q1FY24/Q4FY24, respectively. JVs realization came in at Rs362/sqm, a decline of 6%YoY & 2%QoQ. Outsourced ASP declined from Rs364 in Q1FY24 & remained flattish sequentially at Rs352 Q1FY25.

Others:

- Bathware sales stood at Rs910Mn, Vs Rs837Mn/Rs1,023Mn in Q1FY24/Q4FY24, respectively.
- Plywood revenue came in at Rs179Mn, a growth of 25%YoY & a decline of 45%QoQ.
- Adhesives grew by 59%YoY & 7%QoQ to Rs152Mn.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Revenue	12,048	10,642	11,216	11,518	12,408	11,137	4.6	(10.2)
Expenditure	10,289	8,950	9,419	9,730	10,688	9,466	5.8	(11.4)
- RM	5,368	4,717	4,582	4,692	5,779	4,722	0.1	(18.3)
- Staff Cost	1,164	1,137	1,300	1,319	1,297	1,394	22.6	7.5
- Power Cost	2,414	1,937	2,211	2,395	2,118	2,127	9.8	0.4
- Other Cost	1,343	1,159	1,327	1,324	1,494	1,224	5.5	(18.1)
Operating Profit	1,759	1,692	1,797	1,788	1,720	1,671	(1.3)	(2.9)
OPM (%)	14.6	15.9	16.0	15.5	13.9	15.0	-90 bps	114 bps
Other Income	104	93	83	113	174	102	10.0	(41.6)
Depreciation	343	305	361	389	425	421	38.1	(0.8)
Interest	72	53	43	50	66	47	(11.2)	(29.2)
PBT	1,405	1,427	1,474	1,459	1,396	1,281	(10.2)	(8.2)
Tax	298	336	366	379	354	358	6.6	1.2
PAT	1,107	1,091	1,108	1,080	1,043	923	(15.4)	(11.5)
OCI	(2)	(1)	(1)	(2)	6	1	(178.6)	(82.3)
Reported PAT	1,105	1,090	1,107	1,078	1,049	924	(15.2)	(11.9)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	% yoy	% qoq
Revenue Split (Rs mn)								
Tiles	10,843	9,566	9,998	10,128	10,917	9,895	3.4	(9.4)
Bathware	902	837	853	922	1,023	910	8.7	(11.0)
Plywood	188	143	235	340	327	179	25.1	(45.2)
Adhesives	115	96	130	128	143	152	58.8	6.9
Tiles Volumes (msm)								
Own	15.2	13.8	14.8	15.3	16.1	14.9	7.8	(7.4)
JV/ Subsidiary	5.9	4.6	4.8	5.3	6.1	5.5	19.5	(9.7)
Outsources	6.9	6.6	6.9	6.5	7.4	6.6	(0.2)	(11.0)
Tiles Revenue (Rs mn)								
Own	5,994	5,393	5,705	5,791	6,062	5,585	3.6	(7.9)
JV/ Subsidiary	2,315	1,781	1,825	1,995	2,255	1,999	12.2	(11.4)
Outsources	2,535	2,392	2,469	2,343	2,599	2,312	(3.4)	(11.1)

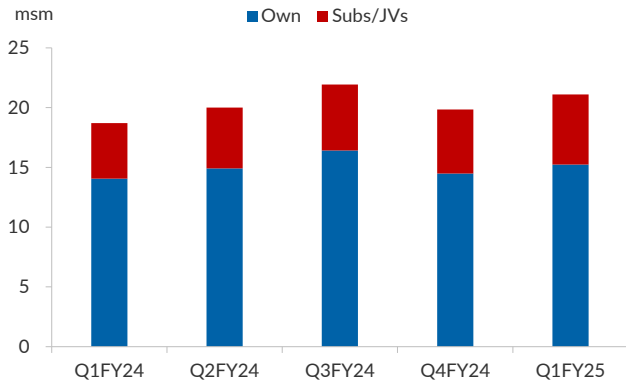
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- **Guidance:** Volume/Value growth of 11-12%/8-9% for FY25E respectively. EBITDA margins should be ~15-16%.
- Management remains bullish on tiles industry growth which is expected to grow by 5-6% in FY25E (in Q1FY25 industry grew by ~3-4%). Incrementally, company stated that Q2FY25E volumes will grow by 11-12%YoY.
- During the quarter company commenced KERONITE TILES GVT capacity of 6msqm which will operate at peak utilization by Q4FY25E. Commencement of NEPAL JV has been postponed to Sept'24 from June'24 earlier largely due to excessive rains in Nepal.
- Export from Morbi in FY24 stood at Rs200Bn, a growth of 26%YoY. For 2MFY25, exports were flat at Rs30Bn & exports to USA was up by 16%YoY to Rs3.35Bn.
- Management clarified that incase export demand is weak, Morbi manufacturers do not dump products in domestic markets, but they resort to shutdowns.
- Fuel cost was at Rs37/scm Vs Rs39 in Q4FY24. The fuel cost in North/South/West was Rs37/36/36 respectively in Q1FY25. Currently, the price of propane is similar to natural gas. The price hike by Gujarat gas was mere Rs2 which will not impact operating margins.
- In North, bio-fuel constitutes 35% & in south there is a mix of bio-fuel and coal.
- North/South/West/East constitutes 35%/30%/17%/17% respectively to sales. Metro/Tier-1/Tier-2/Tier-3/Others constitutes 15%/31-32%/31-32%/14-15%/7-8% respectively to sales.
- Margins of plywoods was lower due to higher timber cost. Sanitaryware margins were dented due to commencement of new plant.
- Net working capital days stood at 59 Vs 58 in March'24.
- For Q1FY25, PVT/GVT/Ceramics mix in volume terms was 23%/34%/43% and in value terms the same was 25%/37%/38% respectively.

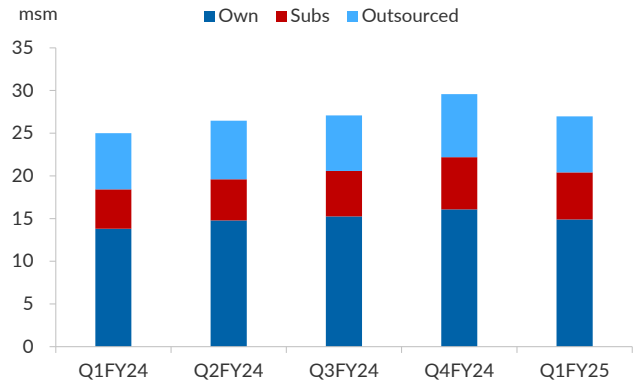
QUARTERLY TRENDS

Exhibit 4: Tiles production increased by 13%YoY...



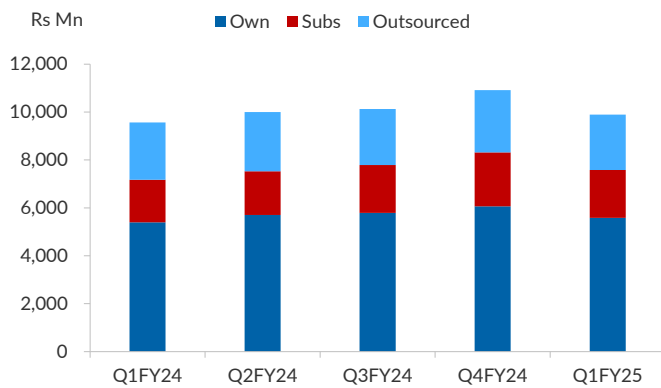
Source: Company, YES Sec

Exhibit 5: Sales volumes improved by 8%YoY...



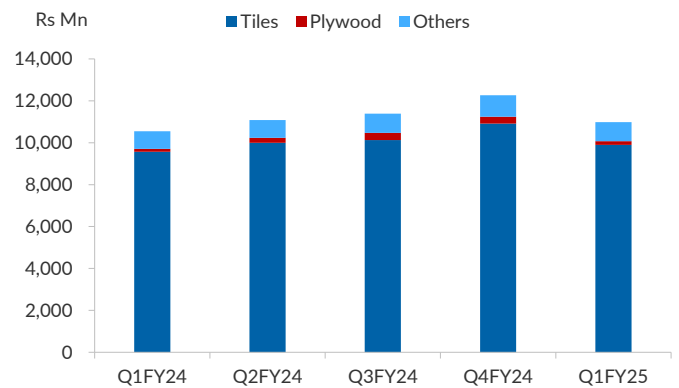
Source: Company, YES Sec

Exhibit 6: Tile revenues grew marginally by 3%YoY...



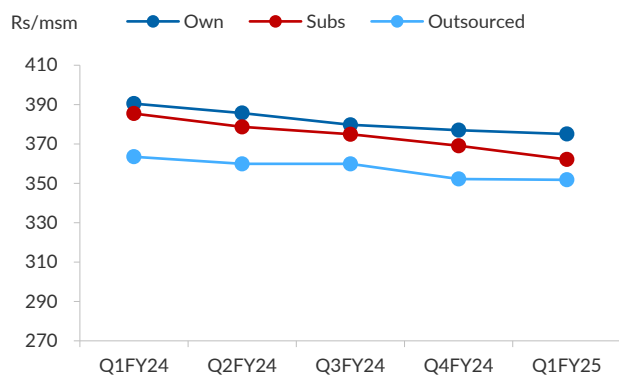
Source: Company, YES Sec

Exhibit 7: Tiles contributed 90% to total revenues...



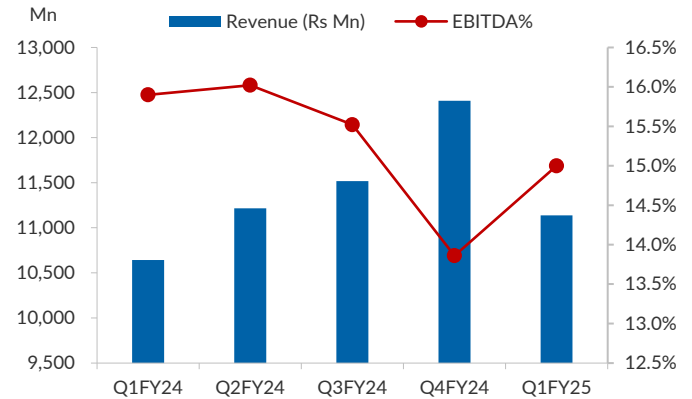
Source: Company, YES Sec

Exhibit 8: Blended realization declined to Rs367/sqm...



Source: Company, YES Sec

Exhibit 9: EBITDA margin stood at 15%...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Sales	37,052	43,819	45,784	50,603	56,540
COGS	15,551	18,070	19,770	21,759	23,747
COGS %sales	42.0	41.2	43.2	43.0	42.0
GP	21,501	25,749	26,015	28,844	32,793
GP%	58.0	58.8	56.8	57.0	58.0
Employee cost	4,077	4,612	5,053	5,810	6,682
Power & Fuel	7,590	10,554	8,661	9,094	10,003
Other cost	3,727	4,663	5,304	6,100	7,015
EBITDA	6,107	5,920	6,997	7,839	9,093
EBITDA%	16.5	13.5	15.3	15.5	16.1
Depreciation	1,154	1,329	1,480	1,789	1,949
Finance Cost	127	223	211	184	173
Other Income	276	336	462	545	560
PBT	5,102	4,625	5,756	6,411	7,530
Tax	1,274	1,163	1,435	1,603	1,883
PAT	3,827	3,462	4,322	4,808	5,648
PAT%	10.3	7.9	9.4	9.5	10.0

Source: Company, YES Sec

Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	159	159	159	159	159
Reserves	21,065	23,109	26,006	29,381	33,596
Total Shareholders' Funds	21,224	23,268	26,165	29,540	33,755
Non-current liabilities	1,403	1,779	2,006	1,854	1,824
Current liabilities					
Trade payables	2,981	3,104	2,933	3,228	3,523
Provisions	80	82	278	278	278
Other current liabilities	3,530	3,912	3,456	3,509	3,439
Total equity and liabilities	29,865	33,305	35,429	38,999	43,409
Non-current assets					
PPE	10,998	13,705	15,336	16,047	16,597
CWIP	2,634	817	679	679	679
Other non-current assets	1,636	1,592	1,459	1,459	1,459
Current assets					
Inventories	4,659	5,647	5,322	5,858	6,393
Trade receivables	5,133	6,012	6,194	6,846	7,649
Cash and cash equivalents	4,244	3,938	5,141	6,813	9,333
Loans and advances	160	93	594	594	594
Other current assets	318	421	377	377	377
Total assets	29,865	33,305	35,429	38,999	43,409

Source: Company, YES Sec

Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	5,102	4,625	5,756	6,411	7,530
Depreciation & Amortization	1,154	1,329	1,480	1,789	1,949
Finance cost	127	223	211	184	173
(Incr)/Decr in Working Capital	(621)	(1,875)	260	(892)	(1,043)
Taxes	(1,285)	(1,265)	(1,385)	(1,603)	(1,883)
Cash from ops.	4,255	2,955	6,017	5,889	6,727
(Incr)/ Decr in PP&E	(2,634)	(2,082)	(2,785)	(2,500)	(2,500)
Cash Flow from Investing	(2,975)	(1,837)	(2,976)	(2,500)	(2,500)
(Decr)/Incr in Borrowings	352	427	(393)	(100)	(100)
Finance cost	(92)	(166)	(168)	(184)	(173)
Cash Flow from Financing	(1,130)	(1,348)	(2,163)	(1,717)	(1,706)
Incr/(Decr) in cash	151	(230)	878	1,672	2,520
Cash and cash equivalents at beginning of year	4,428	335	105	5,141	6,813
Cash and cash equivalents at end of year	4,578	105	983	6,813	9,333

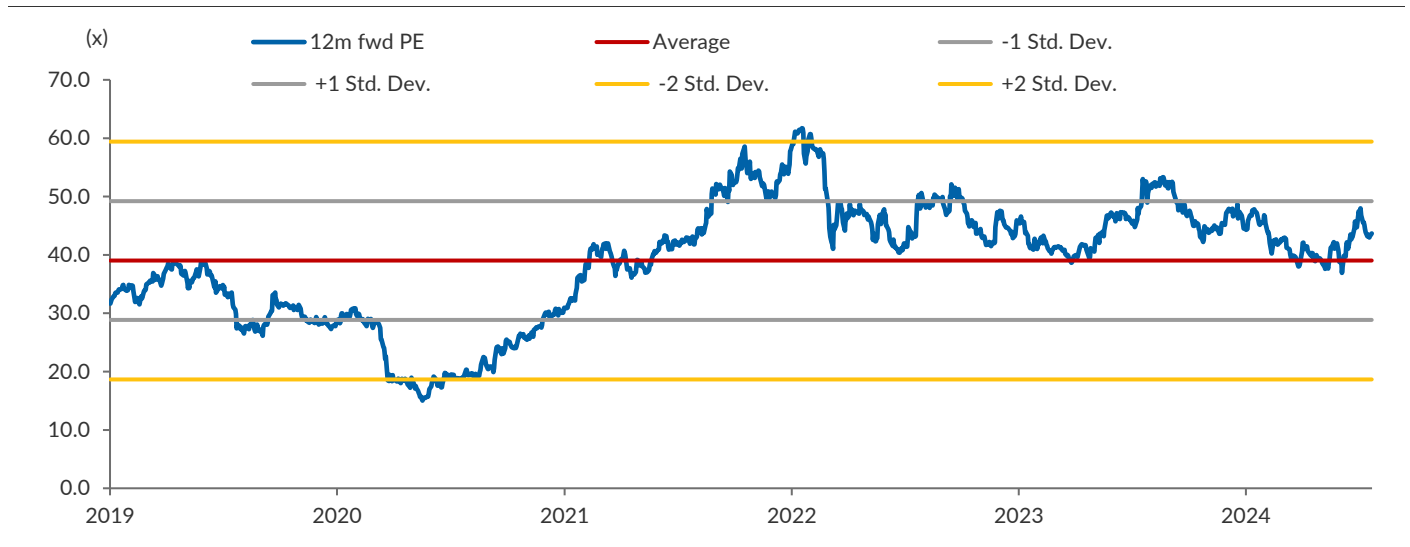
Source: Company, YES Sec

Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	33.2	18.3	4.5	10.5	11.7
EBITDA growth	20.0	(3.1)	18.2	12.0	16.0
EBIT growth	23.5	(5.8)	21.3	10.3	16.8
PAT growth	23.9	(9.5)	24.8	11.3	17.5
Profitability ratios (%)					
EBITDA margin	16.5	13.5	15.3	15.5	16.1
EBIT margin	14.1	11.2	13.1	13.0	13.6
PAT margin	10.3	7.9	9.4	9.5	10.0
RoCE	24.5	20.7	22.5	22.1	23.0
RoE	19.2	15.6	17.5	17.3	17.8
Per share values					
EPS	24.1	21.6	26.5	30.2	35.5
CEPS	31.3	30.1	36.4	41.4	47.7
BVPS	133.4	146.2	164.3	185.4	211.9
Valuation ratios (x)					
P/E	40.7	49.2	43.6	47.0	40.1
P/CEPS	31.3	35.4	31.7	34.3	29.8
P/B	7.3	7.3	7.0	7.7	6.7
EV/EBITDA	25.0	28.3	25.8	28.2	24.0
Leverage ratios (x)					
Debt/Equity	0.1	0.1	0.1	0.1	0.0
Net debt/Equity	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Net debt/EBITDA	(0.5)	(0.3)	(0.5)	(0.7)	(0.9)
Int coverage	41.1	22.1	28.3	35.8	44.5
NWC days					
Receivables	51	50	49	49	49
Inventory	109	114	98	98	98
Payables	70	63	54	54	54

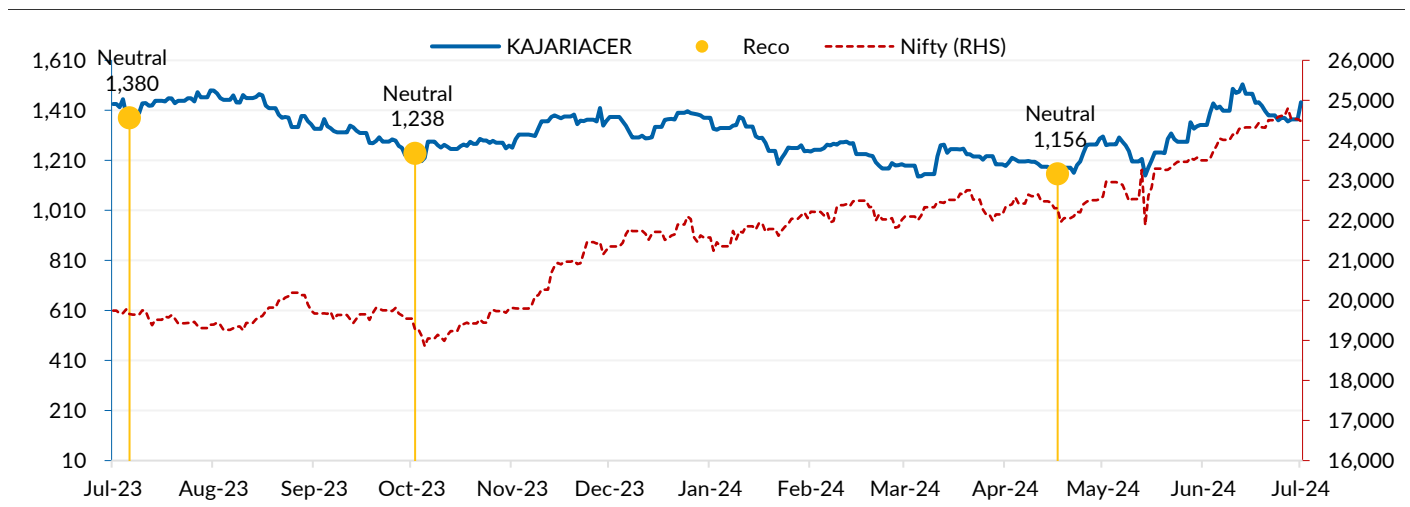
Source: Company, YES Sec

Exhibit 14: 1-year forward P/E (x) chart



Source: Company, YES Sec

Recommendation Tracker



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