



Kajaria | Re-Instating Coverage

KAJARIA CERAMICS LTD. (KCL)

Market Cap.

Rs. 23,539 Cr

52 Week H/L

Rs. 1543/1111

CMP

Rs. 1,478

Target Price

Rs. 1,792

CONS.

BUY

Reuters Code **KAJR.BO**
Bloomberg Code **KJC IN**

BSE Code **500233**

NSE Symbol **KAJARIACER**

Face Value **Rs. 1**

Shares Outstanding **16 Cr.**

Avg. Daily Vol. (6m) **290,508**

Price Performance (%)

1M	3M	6M
7	8	24

200 Days EMA Rs.1336

SHARE HOLDING (%)

Promoters	47.49
FII	16.21
FI/MF	26.72
Body Corporate	0.54
Public & Others	9.04

RESEARCH ANALYST

Umesh Matkar | +91 22 4093 4082

Umesh.Matkar@sushilfinance.com

SALES:

Devang Shah | +91 22 4093 6060/61

devang.shah@sushilfinance.com

Favourable industry tailwinds and capex to support growth: The Russia-Ukraine war had major repercussions, resulting in a surge in gas prices due to its unavailability. This impacted the margins of all the tile manufacturers, including KCL. However, in CY24, gas prices have reduced substantially with an improvement in the supply and it should result in an improvement in the margins in FY24-25. With the improvement in the real estate sector in India and favourable industry dynamics for the tile industry, KCL announced a capex of Rs.250cr in the current fiscal to support growth.

Strong brand recall & wide distribution network help maintain a leadership position: KCL probably enjoys the best brand recall in the industry, which can be characterised as a highly price-sensitive industry. This is built over the years through consistent investments in branding & marketing which helps the company in maintaining its dominant market share in the industry. The company has made significant investments in advertisements in print media as well as television commercials. KCL has successfully been able to create strong visibility through massive advertising in airports, social media, newspapers & magazines as well. With such strong brand visibility and dealer network (1800), KCL is the market leader in tiles in the domestic market.

Robust fundamentals & superior financial position as against peers make a good base for growth, going forward: Apart from leading market share, KCL also enjoys superior profitability than its peers; it is net debt free with a gross debt-equity ratio of 0.07x; Furthermore, KCL has witnessed strong cash generation over the years resulting into strong balance sheet. Lower debt-equity & healthy profits have resulted in comfortable interest coverage and robust return ratios.

OUTLOOK & VALUATION

KCL enjoys the highest market share in the Indian tiles industry & also occupies a prominent position in the world. This leadership has been maintained over the years with consistent investments in branding & marketing and establishing a robust distribution network. In light of the anticipated switch from an unorganized to an organized industry, we expect KCL to be the key beneficiary. In addition, KCL is well placed as compared to its peers in terms of fundamentals. The net debt-free company has been reporting stable return ratios, strong cash generation & has been paying dividends consistently for years. Going forward, we expect the company to deliver an EPS of Rs.34.8 in FY27; assigning a target multiple of 51x (which is the median P/E of the last 5 years) we arrive at a target price of Rs.1,792 showcasing an upside potential of 21% from current levels with an investment horizon of 18-24 months.

Y/E Mar	Revenue (Rs. Cr)	EBITDA (Rs. Cr)	EBITDA Margin (%)	PAT (Rs. Cr)	NPM (%)	A-EPS (Rs.)	P/E (x)	P/S (x)	P/B (x)
FY24	4,578	699	15.3%	427	9.3%	26.8	55.6	5.2	9.1
FY25 E	4,922	759	15.4%	468	9.5%	29.4	50.7	4.8	8.2
FY26 E	5,365	835	15.6%	520	9.7%	32.7	45.6	4.4	7.5
FY27 E	5,767	892	15.5%	554	9.6%	34.8	42.8	4.1	6.8

COMPANY OVERVIEW

Kajaria

Incorporated in 1985 and headquartered in New Delhi, Kajaria Ceramics Limited (KCL) came out with a public issue in 1988, around the same time when the commercial production at its first plant at Sikandrabad (Uttar Pradesh) started with a mere 12,000 Tonnes Per Annum (TPA) or 1 Million Square Meters (MSM) of production capacity. Today, KCL is the largest manufacturer of ceramic/vitrified tiles in the country and eight largest in the world with an annual aggregate production capacity of 92.5 MSM (Investor Presentation – Q1FY25), spanning across seven plants - Sikandrabad (Uttar Pradesh), Gailpur & Malootana (Rajasthan), Balanagar & Srikalahasti (Andhra Pradesh) and two plants in Gujarat.

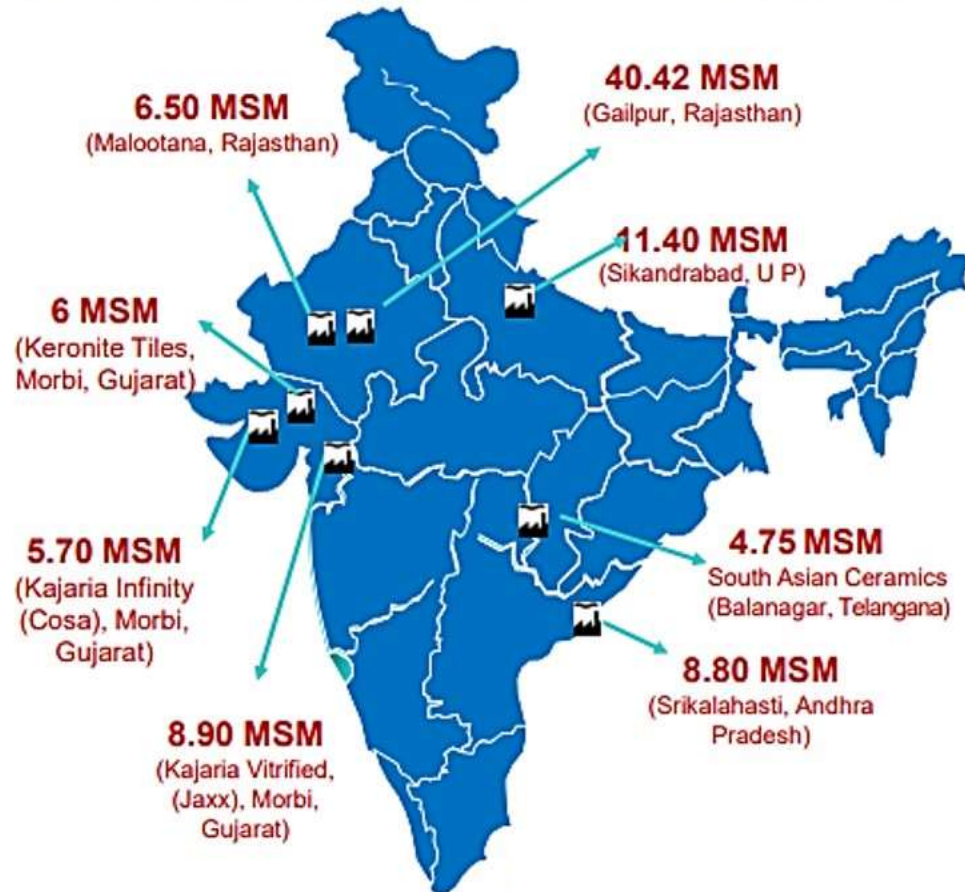
The company offers more than 2,800 options in ceramic wall and floor tiles, vitrified tiles, designer tile, etc. In these products, the company offers a wide range of colors and textures to complement bathrooms, living rooms, corridors, study rooms & kitchen. The Management states that KCL is present across the entire tile value chain – ceramic wall and floor tiles, polished and glazed vitrified tiles. The company showcases its tiles pan-India, through its extensive network of more than 1,800 dealers, providing customers with the widest choice in tiles across all price points. The company competes with Somany Ceramics, Asian Granito, Prism Cement, Simpolo, Varmora, Sun Heart, Nitco Tiles, etc.

During the year ended March 31, 2024, the company recorded sales of Rs.4,578 cr with an EBITDA margin of 15.0% and a net margin of 9.0% resulting in an EPS of Rs.26.5. The company is net-debt free and has been a consistent dividend paying company. Of the total 15.9 cr shares outstanding, the promoters hold 47.5% while another 44% is owned by institutions. Among the key names are Mirae Asset, Kotak, DSP Mutual Fund, SBI, UTI, etc. The remaining % stake is owned by the public.

BUSINESS OVERVIEW

ASSET OVERVIEW

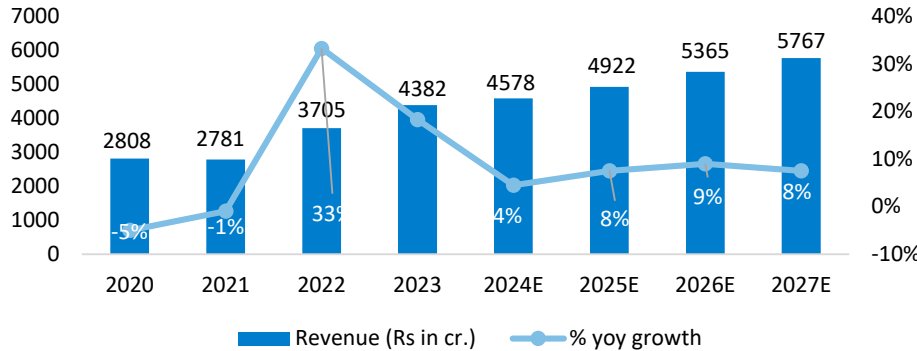
Total Tile Capacity 92.47 MSM as on 30th June 2024



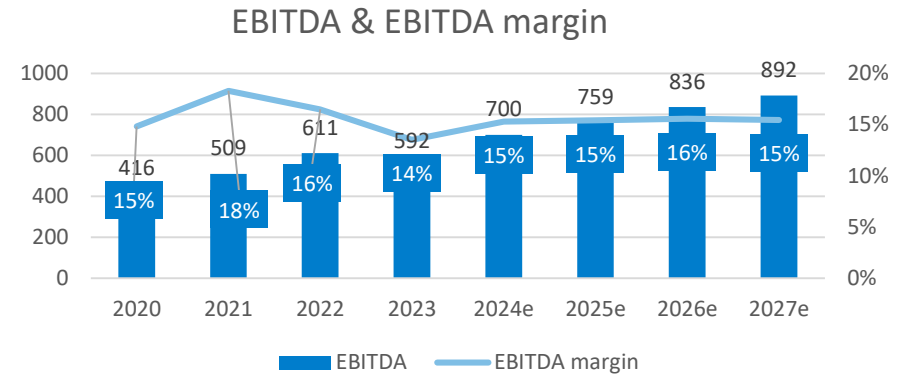
Plant	Production Capacity (MSM)			Total
	Ceramic Wall & Floor Tiles	Polished Vitrified Tiles	Glazed Vitrified Tiles	
1. Sikandrabad (UP)	-	-	11.40	11.40
2. Gailpur (Rajasthan)	31.32	-	9.10	40.42
3. Malootana (Rajasthan)	-	6.50	-	6.50
4. Morbi (Gujarat)	-	8.90	11.70	20.60
5. Srikalahasti (AP)	-	-	8.80	8.80
6. Balanagar (Telangana)	4.75	-	-	4.75
Total	36.07	15.40	41.00	92.47

BUSINESS OVERVIEW

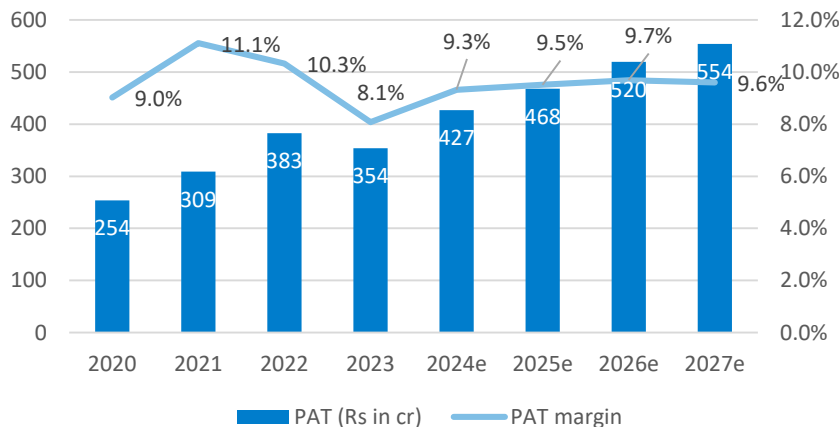
Revenue & Revenue Growth



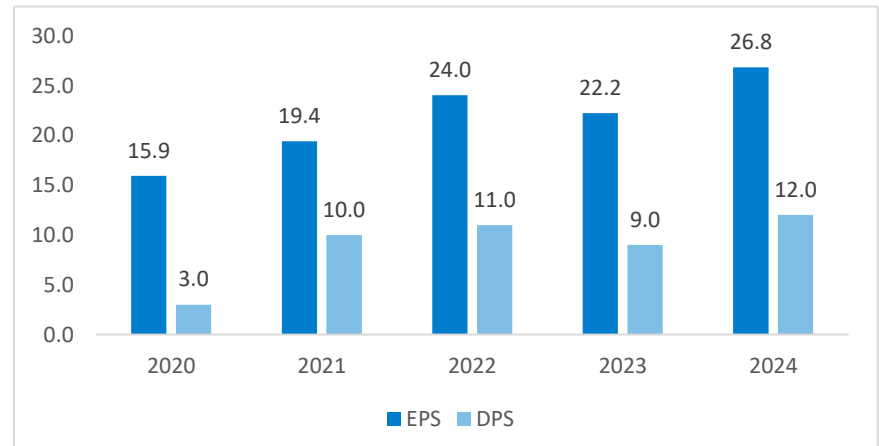
EBITDA & EBITDA Margin



Net Profit & Net Margin



Earnings & Dividend Per Share



Source: Company Data, Sushil Finance

KEY INVESTMENT RATIONALE

Strong brand recall and wide distribution network helps in maintaining leadership position

KCL probably enjoys the best brand recall in the industry which can be characterized as highly price sensitive industry. This is built over the years through consistent investments in branding, marketing, and supply chain which helps the company in maintaining its dominant market share and leadership position in the industry. The company has made significant investments in heavy advertisements in print media as well as television commercials – further, leading and popular actors Akshay Kumar (Kajaria Tiles), Anushka Sharma (Kerovit) and Ranveer Singh (Kajaria Plywood) are its brand ambassadors that helps in building a strong connect with the consumer. Further, ad campaigns like ‘Desh ki Mitti’ which focuses on ‘Make in India’ indicates their consistently renewing thoughts in advertising and brand building. The company has successfully been able to create strong visibility through massive advertising on airports, social media, newspapers and magazines as well. KCL has spent ~3% of the revenue on advertisement and the company has guided that it will increase the spending going ahead. We believe with such strong brand visibility, the company would be a key beneficiary once the growth resumes in the industry.

Advertising Expenses (FY24)	
Kajaria	131 Cr
Somany	59.2 Cr
Murudeshwar Ceramics	1.3 Cr
Cera	63.2 Cr
Asian Granito	25.3 Cr
<i>Source: Companies Data, Sushil Finance</i>	



KEY INVESTMENT RATIONALE

Favorable industry tailwinds and capex to support growth :

KCL is in expansion mode as it foresees higher demand for the tiles due to the strong real estate market. In Jan 2024, the company acquired a manufacturing facility at Morbi (Gujarat) having an annual production capacity of 6 MSM of GVT by way of acquiring up to 90% stake in KTPL for Rs.50 cr. This plant will be operational from April 2024. Also, a joint venture between KCL and Ramesh Corp, Nepal would be live from September 2024, with a capacity of 5.1 MSM at a total cost of Rs.181.5 cr. This would increase its capacity from 86.5 MSM to 97.6 MSM in FY25 (13% increase) and the company is confident it to grow 4-5% higher than the domestic tile industry. Apart from this, recent capex undertaken by the company is as follows:

- Modernization of Gailpur plant resulting value added bigger tiles for Rs.50 cr
- Addition of 2.4 MSM GVT (Galvanized Vitrified tiles) for Rs.70 cr in Sikandrabad
- Capex for construction of corporate office of Rs.50 cr

With the capex, we can expect consistent revenue growth with margin improvement, as bigger tiles should result in better margins in the future, according to the management.

Robust fundamentals & superior financial position as against peers make a good base to growth, going forward:

Apart from leading market share, KCL also enjoys superior profitability than its peers. For the year ended March 31, 2024, the company recorded an EBITDA margin of 15% as against 10% by Somany Ceramics and 3% by Asian Granito. Furthermore, the company is net debt free - with a gross debt-equity ratio of 0.07x as on March 31, 2024 which is better than most of the other competitors (barring Cera Sanitaryware which had a debt-equity ratio of 0.03x as of the same date). Furthermore, KCL has witnessed strong cash generation over the years resulting in a strong balance sheet – the company has managed to reduce its debt-equity from 0.5x in FY14 to 0.2x in FY17 to less than 0.1x in FY24. Lower debt-equity and healthy profits have resulted in comfortable interest coverage of 26.9x as of March 31, 2024. The company also has consistently generated positive operating cash-flows for the last ten consecutive years. Relative to its peers, the company has a better working capital cycle. Provided the healthy growth in sales and profits along with modest working capital pressure and low debt repayment obligations, the company has been able to strengthen its liquidity position. Accordingly, the company can take chances to grow aggressively if the need arises.

KCL has been able to strengthen its liquidity position over the last several years, with cash and cash equivalents to tune of rupees 573 cr.

KEY RISKS

- ❖ Higher gas price impacts the margins of the company. To counter the impact of high prices, the company have started to use biogas as a fuel. The difference in the gas prices and biogas price would be ~15-40%, which is beneficial to the company.
- ❖ If the general economic **slowdown** extends further, it may impact the economy which may have negative implications for the company.
- ❖ Any unfavorable changes in the existing duties, levies and taxes may result in downsides to our estimates and target price.

PEER COMPARISON

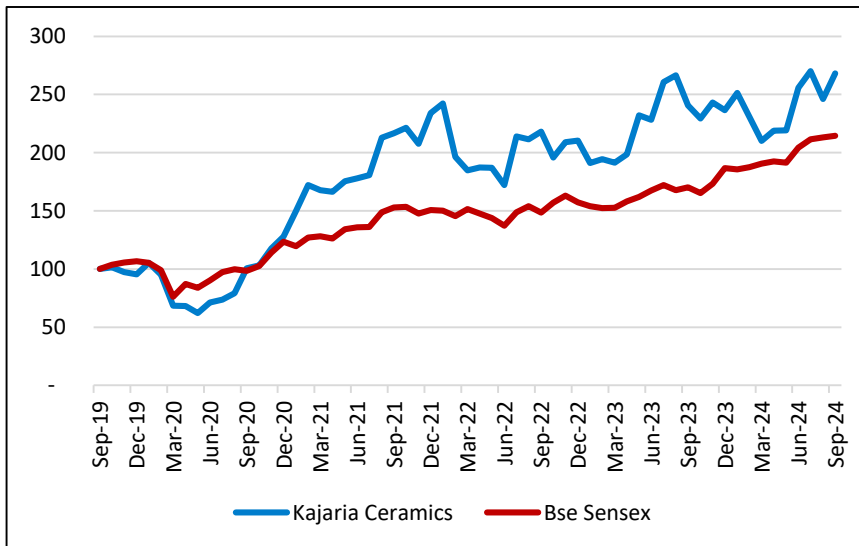
Company	Sales (Rs. Cr)	EBITDA Margin (%)	Net Margin (%)	D/E (x)	CMP* (Rs.)	52 Week H/L (Rs.)	Mkt Cap (Rs. Cr)	P/E (x) TTM	P/S (x) TTM	EV/EBITDA (x) TTM
Kajaria Ceramics	4,578	15%	9.3%	0.07	1,490	1,545/1,110	23,729	56	5.2	33.7
Cera Sanitaryware	1,871	16%	12.8%	0.03	8,225	11,500/6,551	10,713	46	5.8	31.2
Asian Granito	1,530	3%	(1.3%)	0.2	83	98/51	1,060	NM	0.7	19.3
Somany Ceramics	2,605	10%	3.8%	0.5	723	873/561	2,968	32.3	1.2	12.5
Nitco	325	(12%)	NM	-	66	95/18	594	NM	2.0	NM
Murudeshwar Ceramics	184	17%	2.7%	0.33	60	72/38	365	62	1.9	13.0

The peers included here may not be directly comparable but have been included here as these or segments of these companies are indulged into similar businesses

Source: Company Data, Sushil Finance

OUTLOOK & VALUATION

KCL enjoys the highest market share in the Indian tiles industry & also occupies a prominent position in the world. This leadership has been maintained over the years with consistent investments in branding & marketing and establishing a robust distribution network. In light of the anticipated switch from an unorganized to an organized industry, we expect KCL to be the key beneficiary. In addition, KCL is well placed as compared to its peers in terms of fundamentals. The net debt-free company has been reporting stable return ratios, strong cash generation & has been paying dividends consistently for years. **Going forward, we expect the company to deliver an EPS of Rs.34.8 in FY27; assigning a target multiple of 51x (which is the median P/E of the last 5 years) we arrive at a target price of Rs.1,792 showcasing an upside potential of 21% from current levels with an investment horizon of 18-24 months.**



PROFIT & LOSS STATEMENT
(Rs. Cr.)

Y/E Mar.	FY24	FY25E	FY26E	FY27E
Revenue	4,578.4	4,921.8	5,364.8	5,767.1
Raw Material Cost	1,977.0	2,110.2	2,286.6	2,464.8
Employee Cost	505.3	541.4	579.4	622.8
Other Expenses	1,396.5	1,511.0	1,663.1	1,787.8
EBITDA	699.7	759.2	835.7	891.6
<i>EBITDA Margin (%)</i>	<i>15.3%</i>	<i>15.4%</i>	<i>15.6%</i>	<i>15.5%</i>
Depreciation	148.0	152.6	160.9	173.0
EBIT	551.7	606.6	674.8	718.6
Finance Costs	21.1	22.0	23.0	25.0
Other Income	46.2	48.0	51.0	55.0
Profit before Tax	576.8	632.6	702.8	748.6
Tax Expense	150.0	164.5	182.7	194.6
Net Profit (Core Operations)	426.8	468.1	520.0	554.0
<i>Net Margin (%)</i>	<i>9.3%</i>	<i>9.5%</i>	<i>9.7%</i>	<i>9.6%</i>
EPS (Core Operations)	26.8	29.4	32.7	34.8

Source: Company, Sushil Finance Research

BALANCE SHEET STATEMENT
(Rs. Cr.)

Y/E Mar.	FY24	FY25E	FY26E	FY27E
Net block	1,533.6	1,627.1	1,707.6	1,765.2
Capital WIP	67.9	246.1	241.4	230.7
Right of use of asset	104.1	97.0	90.4	83.9
Investments	3.7	-	-	-
Sundry debtors	619.4	665.9	725.8	780.3
Inventories	532.2	561.2	608.1	655.5
Cash and bank	514.1	443.9	557.7	737.5
Loans and advances	59.4	65.0	70.0	80.0
Others	75.2	109.0	135.0	161.0
Total Assets	3,543.4	3,849.4	4,183.3	4,550.3
Equity Share Capital	15.9	15.9	15.9	15.9
Reserves	2,600.6	2,861.8	3,159.0	3,474.1
Net worth	2,675.6	2,936.7	3,234.9	3,553.1
Total loans	170.6	201.4	190.5	209.4
Other Current Liabilities	697.2	711.3	757.9	787.9
Total Liabilities	3,543.4	3,849.4	4,183.3	4,550.3

Source: Company, Sushil Finance Research

CASH FLOW STATEMENT

(Rs. Cr)

Y/E Mar.	FY24	FY25E	FY26E	FY27E
PAT	426.8	468.1	520.0	554.0
Depreciation	148.0	152.6	160.9	173.0
Taxes	150.0	164.5	182.7	194.6
Interest	21.1	22.0	23.0	25.0
CFO before Working Cap chg	745.9	807.2	886.7	946.6
Chg in Inventories	32.5	(29.0)	(46.9)	(47.4)
Chg in Trade Payables	(17.1)	19.8	26.2	26.4
Chg in Trade Receivables	(18.3)	(46.5)	(59.9)	(54.4)
Chg in Other Current Assets	79.2	(19.3)	(11.0)	(16.0)
Chg in Other Current Liabilities	(33.8)	6.1	11.0	2.0
Cash Flow from Operations	788.5	738.3	806.0	857.2
Capex	(311.1)	(246.1)	(241.4)	(230.7)
Intangible	0.4	1.7	1.6	1.5
WIP	13.8	(178.2)	4.7	10.7
Non current Investments	(3.7)	3.7	0.0	0.0
Other Non current assets	30.4	(9.3)	(18.0)	(8.0)
Cash Flow from Investing	(270.1)	(428.2)	(253.1)	(226.4)
Borrowings	(38.7)	30.9	(10.9)	18.9
Others	22.8	2.8	17.6	7.7
Cash Flow from Financing	(398.0)	(380.3)	(439.1)	(451.0)
Opening Cash	393.8	514.1	443.9	557.7
Total Cash Flow	120.3	(70.2)	113.8	179.8
Closing Cash	514.1	443.9	557.7	737.5

Source: Company, Sushil Finance Research

FINANCIAL RATIO STATEMENT

Y/E Mar.	FY24	FY25E	FY26E	FY27E
<u>Growth (%)</u>				
Revenue	4.5%	7.5%	9.0%	7.5%
EBITDA	18.2%	8.5%	10.1%	6.7%
Net Profit	20.5%	9.7%	11.1%	6.5%
<u>Profitability (%)</u>				
EBITDA Margin	15.3%	15.4%	15.6%	15.5%
Net Profit Margin	9.3%	9.5%	9.7%	9.6%
ROCE	20.2%	20.2%	20.5%	20.0%
ROE	17.3%	17.0%	17.2%	16.6%
<u>Per Share Data (Rs.)</u>				
EPS	26.8	29.4	32.7	34.8
CEPS	36.1	39.0	42.8	45.7
BVPS	164.4	180.8	199.4	219.2
<u>Valuation (x)</u>				
P/E	55.2	50.3	45.3	42.5
P/BV	9.0	8.2	7.4	6.7
EV/EBITDA	33.4	30.8	28.0	26.2
P/S	5.1	4.8	4.4	4.1
<u>Turnover</u>				
Inventory days	98	97	97	97
Debtor days	49	49	49	49
Creditor days	54	54	54	54
<u>Gearing (x)</u>				
D/E	0.1	0.1	0.1	0.1

Source: Company, Sushil Finance Research

Rating Scale : This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of three rating categories.

Total Expected Return Matrix (Rating and Return)

BUY : Over 12%

HOLD : -12% to 12%

SELL : Below -12%

Disclaimer & Disclosures

<https://www.sushilfinance.com/Disclaimer/research>

<https://www.sushilfinance.com/InvestorGrievances/researchanalystinvestorgrievancecell>

This report has been furnished to you for your general information only and should not be reproduced, re-circulated, published in any media, website or otherwise, in any form or manner, in part or as a whole, without the express consent in writing of Sushil Financial Services Private Limited. This Research Report is meant solely for use by the original recipient to whom it is sent and is not for circulation. Any unauthorized use, disclosure or public dissemination or copying of information (either whole or partial) contained herein is prohibited.

This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice/offer for the purpose of purchase or sale of any securities mentioned herein. Past performance is not a guide for future performance, future returns are not guaranteed. Opinions expressed herein are subject to change without notice. Investor should rely on information/data arising out of their own investigations. The Sushil Equity Universe is marked as # and the fundamental reports are marked as ##.

Investors are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. The price and value of the investments referred to in this material and the income from them may go down as well as up, and investor may realize losses on any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by us to be reliable. A graph of daily closing prices of securities is available at www.nseindia.com, www.bseindia.com Research Analyst views on Subject Company may vary based on Fundamental and Technical Research. Sushil Financial Services Private Limited or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. None of the directors, employees, affiliates or representatives of company shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages/loss etc whatsoever from the information/opinions/views contained in this Report and investors are requested to use the information contained at their risk.

Sushil Financial Services Private Limited (SFSP) and its connected companies, and their respective Directors, Officers and employees or their relative, may have a long or short position in the subject companies mentioned in the report and it may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Reports based on technical and derivative analysis centre on studying charts company's price movement, outstanding positions and trading volume, as opposed to focusing on a company's fundamentals and, as such, may not match with a report on a company's fundamental analysis. SFSP has different business segments/Divisions with independent research and maintains arm's length distance catering to different set of customers having various objectives, risk profiles, investment horizon, etc. and therefore may at times have different contrary views on stocks sector and markets. Research Report may differ between SFSP's RAs on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold - SFSP, its employees and associates responsible for any losses, damages of any type whatsoever.

This Report is not intended to be a complete statement or summary of the securities, market or developments referred to in this document. SFSP or its affiliates or employees are under no obligation to update the information. SFSP or its affiliates or employees shall not be in any way responsible and liable for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report.

SFSP or its affiliates and/or its employees/its associates or his relative does not have financial interest in the subject companies. SFSP or its affiliates and/ or its employees/its associates or his relative may or may not have beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report. SFSP/its Associates/ Research Analyst have not received any compensation from the subject company in the past twelve months. Further the subject company is/was not a client during twelve months preceding the date of distribution of the research report and the types of services provided. SFSP or its research analyst has not served as an officer, director or employee of the subject company. SFSP or its affiliates and/or its research analysts have not been engaged in market making activity for the subject company. SFSP or its associates or its Research Analyst have not received any compensation from the subject companies or third party in connection with the research report. SFSP/its Associates/ Research Analyst/ his Relatives not have any other material conflict of interest at the time of publication of the research report.

SFSP/its Associates/ Research Analyst have not managed or co-managed public offering of securities, have not received compensation for investment banking or merchant banking or brokerage services, have not received any compensation for product or services other than investment banking or merchant banking or brokerage services from the subject companies in the last twelve months. There is no material disciplinary action that been taken by any regulatory authority impacting equity research analysis activities.

Research Disclaimer: Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors. Investment in securities market are subject to market risks. Read all the related documents carefully before investing.

Sushil Financial Services Private Limited

Member : BSE / NSE - SEBI Regn. No. INZ000165135

Research Analyst – SEBI Registration No. INH000000867

Compliance officer / Grievance Officer : Mr. Suresh Nemani – Phone : +91 22-40935000 |

Email : suresh.nemani@sushilfinance.com | Grievance Email - compliance@sushilfinance.com

Regd. Office : 12, Homji Street, Fort, Mumbai 400 001.

Phone: +91 22 40936000 Fax: +91 22 22665758 | Email : info@sushilfinance.com

Analyst Stock Ownership	No
Stock Recommended to Clients	Yes
Remuneration/Benefits received from company in 12 months	No
Merchant Banking Market Making activities / projects	No
Sushil Financial Services Pvt. Ltd and Group Companies Holding	No
Sushil Financial Services Pvt. Ltd and Group Directors Holding	No
Broking Relationship with the company covered	No