

October 22, 2023

## Q2FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY24E	FY25E	FY24E	FY25E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	1,368		1,445	
Sales (Rs. m)	46,776	54,259	49,173	56,880
% Chng.	(4.9)	(4.6)		
EBITDA (Rs. m)	7,531	9,007	7,917	9,442
% Chng.	(4.9)	(4.6)		
EPS (Rs.)	29.5	36.3	31.3	38.3
% Chng.	(5.8)	(5.3)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	43,819	46,776	54,259	61,605
EBITDA (Rs. m)	5,920	7,531	9,007	10,226
Margin (%)	13.5	16.1	16.6	16.6
PAT (Rs. m)	3,445	4,694	5,772	6,622
EPS (Rs.)	21.6	29.5	36.3	41.6
Gr. (%)	(8.6)	36.3	23.0	14.7
DPS (Rs.)	3.0	6.5	8.0	9.2
Yield (%)	0.2	0.5	0.6	0.7
RoE (%)	15.5	18.8	20.0	19.8
RoCE (%)	20.6	24.2	25.9	25.9
EV/Sales (x)	4.4	4.1	3.5	3.0
EV/EBITDA (x)	32.8	25.6	21.1	18.2
PE (x)	56.8	41.7	33.9	29.6
P/BV (x)	8.4	7.3	6.3	5.5

### Key Data

KAJR.BO | KJC IN

52-W High / Low	Rs.1,524 / Rs.1,006
Sensex / Nifty	65,398 / 19,543
Market Cap	Rs.196bn/ \$ 2,357m
Shares Outstanding	159m
3M Avg. Daily Value	Rs.313.48m

### Shareholding Pattern (%)

Promoter's	47.49
Foreign	17.96
Domestic Institution	25.22
Public & Others	9.33
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(10.0)	12.5	11.7
Relative	(8.1)	2.6	1.2

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## Kajaria Ceramics (KJC IN)

Rating: ACCUMULATE | CMP: Rs1,230 | TP: Rs1,368

### Lower volume guidance, margin improved

Quick pointers:

- KJC reported tiles volume growth of 6.3% YoY in Q2FY24.
- EBITDA margin improved by 400bps YoY, with fuel cost correction as % rev.

**Kajaria Ceramics (KJC) downward revised its volume growth guidance between 9-10% (earlier 13-15%) and maintained higher EBITDA margin (around 16.0%) with lower power and fuel costs for FY24, while expecting sequential improvement in volume growth in coming quarters. Management indicated gradual pick-up in volumes post Sep-23 and expected improvement in demand environment emanating from rub-off of strong growth in real estate sector to drive better volume growth in H2FY24. The company reported improvement in EBITDA margin (+400bps YoY) with reduction in fuel expenses through decrease in gas prices and use of alternate fuel. KJC reiterated that off gas price reduction benefits will be used for a) promotions/discounts to drive volume, b) passing it on to JV partners, and c) margin improvement.**

**We are cautiously optimistic on the company for long term given 1) its largest player positioning in domestic tiles market, 2) focus on brand building (adv. spends at 3% sales), 3) expanding distribution network (1,840 active dealers in FY23 & expected to touch 2000 in FY24), 4) reduction in fuel expenses with gas price correction & alternate fuel uses, and 5) exponential growth in Bathware/Plywood/Adhesive businesses. We expect Revenue/EBITDA/PAT CAGR of 12.0%/20.0%/24.3% over FY23-26E and downward revise our FY24/FY25E/FY26E earnings estimate by 5.8%/5.3%/5.3%. Maintain 'Accumulate' rating, as we value the stock at 35x FY25 EPS to arrive at revised TP of Rs1,368 (earlier Rs 1,445).**

**Revenues grew by 4.1%, PAT up by 52.9%:** Revenues grew by 4.1% YoY to Rs11.2bn (PLe:Rs11.4bn), on back of 6.3% YoY tiles volume growth. Tiles segment revenues grew by 2.6% YoY (contributes 89%sales) and other segment revenues grew by 17.9% YoY. Bathware (cont. 8%rev.) grew by 12.0% YoY. Gross margin expanded by 110bps YoY to 59.2%. EBITDA grew by 38.9% YoY to Rs1.8bn (PLe: Rs1.9bn). EBITDA margin improved by 400bps YoY to 16.0% (PLe: 16.6%). Fuel expenses % sales reported 19.7% in Q2FY24 from 24.8% in Q2FY23. PBT grew 47.3% YoY to Rs1.5bn (PLe: Rs1.6bn). PAT grew 52.9% YoY to Rs1.1bn (PLe: Rs1.2bn). Reported working capital of 53days by Sep-23 vs 62days in Jun-23.

**Con-Call highlights: 1)** Mgmt lowered down its guidance for volume growth to 9-10% from 13%-15% and EBITDA margins of around 16% for FY24, **2)** Mgmt guided sequential improvement in volume in coming quarters, which was visible with pick-up in volumes since Sep-23, **3)** Mgmt indicated that the recent commissioning of Sikandrabad and Gailpur modernization/expansion projects augurs well for its future growth, **4)** Mgmt. also communicated that KJC remain committed to its growth strategy, which entails continued emphasis on expanding reach in smaller towns and introducing innovative products, **5)** Avg. fuel prices were at Rs38/SCM with North/South/West at Rs40/38/33 per SCM, **6)** Capex will be around Rs6.7bn for FY24 and Rs 2.0-2.5bn per year for next couple of years.

**Exhibit 1: Q2FY24 Result Overview: Sales grew by 4.1% YoY; Adj. PAT grew by 52.9% YoY**

Y/e March (Rs mn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
<b>Net Sales</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>Expenditure</b>								
Operating & Manufacturing Expenses	4,582	4,519	1.4	4,717	(2.9)	9,299	8,259	12.6
% of Net Sales	40.8	41.9		44.3		42.5	39.6	
<b>Gross Profit</b>	<b>6,635</b>	<b>6,258</b>	<b>6.0</b>	<b>5,925</b>	<b>12.0</b>	<b>12,560</b>	<b>12,601</b>	<b>(0.3)</b>
% of Net Sales	59.2	58.1		55.7		57.5	60.4	
Personnel Cost	1,300	1,138	14.2	1,137	14.3	2,436	2,282	6.8
% of Net Sales	11.6	10.6		10.7		11.1	10.9	
Other Expenses	3,538	3,826	(7.5)	3,097	14.3	6,634	7,489	(11.4)
% of Net Sales	31.5	35.5		29.1		30.4	35.9	
Total Expenditure	9,419	9,484	(0.7)	8,950	5.2	18,369	18,030	1.9
<b>EBITDA</b>	<b>1,797</b>	<b>1,294</b>	<b>38.9</b>	<b>1,692</b>	<b>6.2</b>	<b>3,489</b>	<b>2,830</b>	<b>23.3</b>
Margin (%)	16.0	12.0		15.9		16.0	13.6	
Other income	83	76	8.4	93	(10.7)	175	157	11.5
Depreciation	361	337	7.2	305	18.2	666	660	0.9
<b>EBIT</b>	<b>1,519</b>	<b>1,034</b>	<b>46.9</b>	<b>1,480</b>	<b>2.7</b>	<b>2,999</b>	<b>2,327</b>	<b>28.9</b>
Interest	43	32	34.8	53	(19.2)	95	68	40.8
<b>PBT</b>	<b>1,477</b>	<b>1,002</b>	<b>47.3</b>	<b>1,427</b>	<b>3.5</b>	<b>2,903</b>	<b>2,259</b>	<b>28.5</b>
Total Taxes	366	277	32.3	336	9.0	702	604	16.2
ETR (%)	24.8	27.6		23.5		24.2	26.7	
<b>Adjusted PAT</b>	<b>1,083</b>	<b>709</b>	<b>52.9</b>	<b>1,075</b>	<b>0.8</b>	<b>2,158</b>	<b>1,632</b>	<b>32.3</b>

Source: Company, PL

**Exhibit 2: Segmental Breakup: Tiles revenues grew by 2.6% YoY, with volume growth of 6.3YoY**

Y/e March (Rs mn)	Q2FY24	Q2FY23	YoY gr. (%)	Q1FY24	QoQ gr. (%)	H1FY24	H1FY23	YoY gr. (%)
<b>Revenues</b>								
Tiles	9,998	9,745	2.6	9,566	4.5	19,565	18,831	3.9
Others	1,218	1,033	17.9	1,076	13.2	2,294	2,029	13.1
<b>Sales Volumes (Tiles in mn sq. m)</b>								
Own Manufacturing	14.8	14.8	0.1	13.8	7.1	28.6	28	1.4
Subsidiaries	4.8	4.2	15.3	4.8	157.1	9.6	8	14.4
Outsource	6.9	6.0	15.1	6.4	7.0	13.3	12	14.1
<b>Realisation (Rs/Sqm)</b>								
Own Manufacturing	386	404	(4.5)	391	(1.2)	388	402	(3.5)
Subsidiaries	379	388	(2.4)	279	(0.8)	329	318	3.3
Outsource	360	362	(0.5)	442	(18.6)	401	415	(3.3)

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>43,819</b>	<b>46,776</b>	<b>54,259</b>	<b>61,605</b>
YoY gr. (%)	18.3	6.7	16.0	13.5
Cost of Goods Sold	18,070	19,272	22,246	25,258
Gross Profit	25,749	27,504	32,013	36,347
Margin (%)	58.8	58.8	59.0	59.0
Employee Cost	4,612	4,678	5,263	5,976
Other Expenses	-	-	-	-
<b>EBITDA</b>	<b>5,920</b>	<b>7,531</b>	<b>9,007</b>	<b>10,226</b>
YoY gr. (%)	(3.1)	27.2	19.6	13.5
Margin (%)	13.5	16.1	16.6	16.6
Depreciation and Amortization	1,329	1,379	1,527	1,631
<b>EBIT</b>	<b>4,592</b>	<b>6,152</b>	<b>7,480</b>	<b>8,595</b>
Margin (%)	10.5	13.2	13.8	14.0
Net Interest	223	199	179	159
Other Income	336	370	460	460
<b>Profit Before Tax</b>	<b>4,625</b>	<b>6,320</b>	<b>7,760</b>	<b>8,896</b>
Margin (%)	10.6	13.5	14.3	14.4
Total Tax	1,163	1,591	1,953	2,239
Effective tax rate (%)	25.1	25.2	25.2	25.2
<b>Profit after tax</b>	<b>3,463</b>	<b>4,729</b>	<b>5,807</b>	<b>6,657</b>
Minority interest	17	35	35	35
Share Profit from Associate	(1)	-	-	-
<b>Adjusted PAT</b>	<b>3,445</b>	<b>4,694</b>	<b>5,772</b>	<b>6,622</b>
YoY gr. (%)	(8.6)	36.3	23.0	14.7
Margin (%)	7.9	10.0	10.6	10.7
Extra Ord. Income / (Exp)	79	(2)	-	-
<b>Reported PAT</b>	<b>3,524</b>	<b>4,692</b>	<b>5,772</b>	<b>6,622</b>
YoY gr. (%)	(6.5)	33.1	23.0	14.7
Margin (%)	8.0	10.0	10.6	10.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,524	4,692	5,772	6,622
<b>Equity Shares O/s (m)</b>	<b>159</b>	<b>159</b>	<b>159</b>	<b>159</b>
<b>EPS (Rs)</b>	<b>21.6</b>	<b>29.5</b>	<b>36.3</b>	<b>41.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>24,686</b>	<b>28,386</b>	<b>30,386</b>	<b>32,386</b>
Tangibles	24,672	28,372	30,372	32,372
Intangibles	15	15	15	15
<b>Acc: Dep / Amortization</b>	<b>10,547</b>	<b>11,926</b>	<b>13,454</b>	<b>15,085</b>
Tangibles	10,547	11,926	13,454	15,085
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>14,139</b>	<b>16,460</b>	<b>16,932</b>	<b>17,301</b>
Tangibles	14,124	16,445	16,918	17,287
Intangibles	15	15	15	15
Capital Work In Progress	817	500	500	500
Goodwill	327	-	-	-
Non-Current Investments	19	19	19	19
Net Deferred tax assets	(765)	(765)	(765)	(765)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	-	-	-	-
Inventories	5,647	6,022	6,952	7,893
Trade receivables	6,012	6,417	7,444	8,452
Cash & Bank Balance	3,938	4,984	7,494	10,748
Other Current Assets	1,550	1,550	1,550	1,550
<b>Total Assets</b>	<b>33,305</b>	<b>36,868</b>	<b>41,952</b>	<b>47,667</b>
<b>Equity</b>				
Equity Share Capital	159	159	159	159
Other Equity	23,109	26,559	30,802	35,670
<b>Total Network</b>	<b>23,268</b>	<b>26,718</b>	<b>30,961</b>	<b>35,829</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	518	518	518	518
Provisions	-	-	-	-
Other non current liabilities	496	529	614	697
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	1,575	1,375	1,175	975
Trade payables	3,104	3,310	3,821	4,338
Other current liabilities	2,804	2,877	3,323	3,770
<b>Total Equity &amp; Liabilities</b>	<b>33,305</b>	<b>36,868</b>	<b>41,952</b>	<b>47,667</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	3,614	4,694	5,772	6,622
Add. Depreciation	1,329	1,379	1,527	1,631
Add. Interest	150	134	120	107
Less Financial Other Income	336	370	460	460
Add. Other	(4,749)	(1,251)	(2,411)	(2,364)
Op. profit before WC changes	344	4,956	5,008	5,996
Net Changes-WC	2,216	560	1,146	1,129
Direct tax	(1,163)	(1,591)	(1,953)	(2,239)
<b>Net cash from Op. activities</b>	<b>2,560</b>	<b>5,515</b>	<b>6,154</b>	<b>7,125</b>
Capital expenditures	(2,240)	(3,383)	(2,000)	(2,000)
Interest / Dividend Income	-	-	-	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(2,240)</b>	<b>(3,383)</b>	<b>(2,000)</b>	<b>(2,000)</b>
Issue of share cap. / premium	(697)	(2)	-	-
Debt changes	814	(200)	(200)	(200)
Dividend paid	(575)	(1,244)	(1,529)	(1,754)
Interest paid	-	-	-	-
Others	-	-	-	-
<b>Net cash from Fin. activities</b>	<b>(459)</b>	<b>(1,446)</b>	<b>(1,729)</b>	<b>(1,954)</b>
<b>Net change in cash</b>	<b>(139)</b>	<b>686</b>	<b>2,425</b>	<b>3,171</b>
Free Cash Flow	320	2,132	4,154	5,125

Source: Company Data, PL Research

## Key Financial Metrics

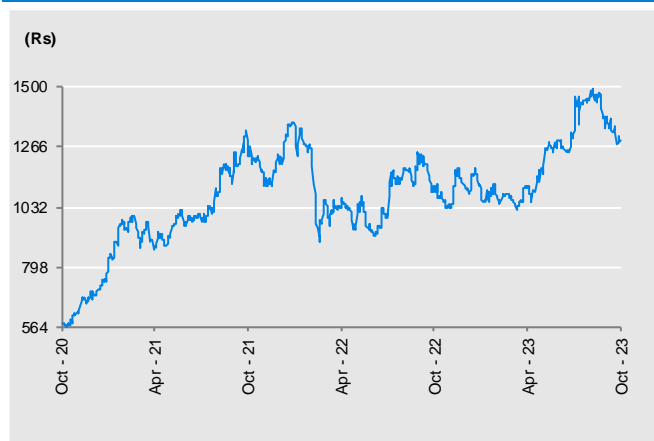
Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	21.6	29.5	36.3	41.6
CEPS	30.0	38.1	45.9	51.8
BVPS	146.2	167.8	194.5	225.1
FCF	2.0	13.4	26.1	32.2
DPS	3.0	6.5	8.0	9.2
<b>Return Ratio(%)</b>				
RoCE	20.6	24.2	25.9	25.9
ROIC	17.2	20.9	24.2	26.5
RoE	15.5	18.8	20.0	19.8
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.1)	(0.1)	(0.2)	(0.3)
Net Working Capital (Days)	71	71	71	71
<b>Valuation(x)</b>				
PER	56.8	41.7	33.9	29.6
P/B	8.4	7.3	6.3	5.5
P/CEPS	41.0	32.2	26.8	23.7
EV/EBITDA	32.8	25.6	21.1	18.2
EV/Sales	4.4	4.1	3.5	3.0
Dividend Yield (%)	0.2	0.5	0.6	0.7

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q3FY23	Q4FY23	Q1FY24	Q2FY24
<b>Net Revenue</b>	<b>10,911</b>	<b>12,048</b>	<b>10,642</b>	<b>11,216</b>
YoY gr. (%)	2.1	9.4	5.6	4.1
Raw Material Expenses	4,444	5,368	4,717	4,582
Gross Profit	6,467	6,681	5,925	6,635
Margin (%)	59.3	55.4	55.7	59.2
<b>EBITDA</b>	<b>1,331</b>	<b>1,759</b>	<b>1,692</b>	<b>1,797</b>
YoY gr. (%)	(27.6)	6.0	10.2	38.9
Margin (%)	12.2	14.6	15.9	16.0
Depreciation / Depletion	325	343	305	361
<b>EBIT</b>	<b>1,005</b>	<b>1,416</b>	<b>1,387</b>	<b>1,436</b>
Margin (%)	9.2	11.8	13.0	12.8
Net Interest	83	72	53	43
Other Income	75	104	93	83
<b>Profit before Tax</b>	<b>997</b>	<b>1,406</b>	<b>1,427</b>	<b>1,474</b>
Margin (%)	9.1	11.7	13.4	13.1
Total Tax	261	298	336	366
Effective tax rate (%)	26.1	21.2	23.5	24.8
<b>Profit after Tax</b>	<b>737</b>	<b>1,108</b>	<b>1,091</b>	<b>1,108</b>
Minority interest	(7)	26	16	29
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>743</b>	<b>1,124</b>	<b>1,075</b>	<b>1,082</b>
YoY gr. (%)	(39.1)	17.4	16.5	47.1
Margin (%)	6.8	9.3	10.1	9.6
Extra Ord. Income / (Exp)	-	(43)	-	(2)
<b>Reported PAT</b>	<b>743</b>	<b>1,082</b>	<b>1,075</b>	<b>1,080</b>
YoY gr. (%)	(39.1)	13.0	16.5	39.9
Margin (%)	6.8	9.0	10.1	9.6
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>743</b>	<b>1,082</b>	<b>1,075</b>	<b>1,080</b>
Avg. Shares O/s (m)	159	159	159	159
<b>EPS (Rs)</b>	<b>4.7</b>	<b>7.1</b>	<b>6.8</b>	<b>6.8</b>

Source: Company Data, PL Research

**Price Chart**
**Recommendation History**


No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	09-Oct-23	Accumulate	1,445	1,319
2	26-Jul-23	Hold	1,363	1,393
3	04-Jul-23	Hold	1,264	1,255
4	18-May-23	Accumulate	1,264	1,185
5	06-Apr-23	BUY	1,302	1,055
6	20-Mar-23	BUY	1,302	1,057

**Analyst Coverage Universe**

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Hold	1,983	1,844
2	Bajaj Electricals	BUY	1,421	1,056
3	Century Plyboard (I)	BUY	855	653
4	Cera Sanitaryware	Accumulate	8,857	8,176
5	Crompton Greaves Consumer Electricals	BUY	401	301
6	Finolex Industries	Accumulate	243	227
7	Greenpanel Industries	BUY	495	374
8	Havells India	Accumulate	1,538	1,363
9	Kajaria Ceramics	Accumulate	1,445	1,319
10	KEI Industries	BUY	2,908	2,726
11	Polycab India	Accumulate	5,943	5,339
12	R R Kabel	BUY	1,624	1,503
13	Supreme Industries	Accumulate	4,225	3,925
14	Voltas	Hold	909	819

**PL's Recommendation Nomenclature (Absolute Performance)**

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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