

Kajaria Ceramics

BUY

Weak performance on key parameters

Summary

Kajaria Ceramic Ltd.'s (Kajaria) Q4FY24 result was below our estimates on key parameters. The company reported another quarter of weak performance on operational parameters viz sales volume and NSR, owing to muted demand. The management guided that as export from Morbi gets streamlined, growth in sales volume for organized players would be evident. Net sales increased by mere 3% YoY to Rs12.4bn, while EBITDA came in at Rs1.7bn, declined by 2.3% YoY. The company reported net profit of Rs1bn, lower by 9.4% over Q4FY23. We have cut our net sales/PAT estimates by 3.7%/4% and 6.2%/7.9% respectively over FY25E/FY26E. We believe post recent stock price correction; valuation is attractive at current level. Maintain BUY with a revised TP of Rs1,473 (from Rs1,600), assigning 40x PER on FY26E.

Key Highlights and Investment Rationale

- Another quarter of volume driven growth:** The company reported 5.5% YoY increase in sales volume at 29.5MSM, while net sales realization was down by 4.6% over Q4FY23 to Rs369/Sqm. Muted demand and increased competitive intensity from Morbi played a spoilsport on operational front. The management guided ~7% industry growth over FY25E-27E, which is encouraging. We believe the company's focus on capacity addition and thrust on branding bodes well for future earnings growth.
- Attractive valuation, BUY with a TP of Rs1,473:** Despite weak performance in FY24, Kajaria remains our preferred pick amongst the listed building material companies and we believe that it is poised to benefit from domestic demand uptrend, capacity expansion, extensive distribution network and strong branding. We believe the company will continue to outperform peers on sales volume as well as margins front in near term. BUY with a TP of Rs1,473.

TP	Rs1,473			Key Stock Data					
CMP	Rs1,163								
Potential upside/downside		27%							
Previous Rating		BUY							
Price Performance (%)									
	-1m	-3m	-12m						
Absolute	(7.0)	(9.2)	1.4						
Rel to Sensex	(5.3)	(12.1)	(17.6)						
V/s Consensus				Shareholding Pattern (%)					
EPS (Rs)	FY25E	FY26E							
IDBI Capital	31.4	36.8	Promoters						
Consensus	34.2	40.9	FII						
% difference	(8.1)	(9.9)	DII						
			Public						
Financial snapshot						(Rs mn)			
Year	FY22	FY23	FY24	FY25E	FY26E				
Revenue	37,052	43,819	45,784	49,883	54,752				
Change (yoY, %)	33	18	4	9	10				
EBITDA	6,107	5,920	6,997	7,815	8,978				
Change (yoY, %)	20.0	(3.1)	18.2	11.7	14.9				
EBITDA Margin(%)	16.5	13.5	15.3	15.7	16.4				
Adj.PAT	3,828	3,542	4,334	4,994	5,856				
EPS (Rs)	24.1	22.3	27.3	31.4	36.8				
Change (yoY, %)	23.9	(7.5)	22.4	15.3	17.3				
PE(x)	48.1	52.0	42.5	36.9	31.4				
Dividend Yield (%)	0.9	1.1	1.3	1.5	1.6				
EV/EBITDA (x)	35.5	36.9	25.8	23.2	20.0				
RoE (%)	19.2	15.9	17.5	18.5	20.1				
RoCE (%)	21.2	17.6	19.1	20.4	22.3				

Source: IDBI Capital Research

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Concall highlights:

Industry

- Company expects domestic tile industry to grow at ~7% CAGR over FY24-27E. According to the management, US market contributes 7% towards total tiles exports from the country. So, if anti-dumping induced on Indian tiles will not have much impact on the Indian tiles exports.
- The company expects Morbi players to focus more on exports that will limit competitive intensity in domestic space. In FY24, a domestic export in the tile industry has grown by 30% YoY majorly in US, Russia and Europe.

Tiles Segment

- In FY24, company's sales volume grew by 7%YoY to 108 MSM. Kajaria has 3,500 SKUs, 415 showrooms and 1,800+ dealer networks. Also, the company has 10% market share in domestic tile industry.
- The subsidiaries Kajaria Vitrified, Kajaria Infinity and South Asian Ceramics Ltd with a capacity of 8.90, 5.70 and 4.75 MSM operated at optimum capacity in Q4FY24.

Plywood Segment

- In FY24, the company has done the topline of Rs1 bn. The company expects the plywood segment to grow at 5% CAGR over FY24-27. Also, company is focusing on expanding the distribution network.
- Management has guided that plywood segment is facing significant headwinds from increased timber prices and expects the timber prices to come down by the end of H1FY26.

Bathware Segment

- In FY24, the company has done the revenue of Rs3.6 bn with EBITDA margin around 7.4%. The company has 2% market share in the bathware segment.
- Kajaria has 500+ dealers and 85 outlets. The company expects the bathware industry to grow in double-digit over FY24-27. Also, company is expanding its distribution network and focus premium products,

- Kajaria has recently commissioned production in its new sanitary ware plant in Morbi with a capacity of 7.5 lakh pieces per annum to drive volume and VAP growth and the plant operated at 71% capacity utilization in Q4FY24. In Q4FY24, KGPL plant in Morbi with a capacity of 4.50 lakh pcs per annum has commenced production from 30th march 2024.

Adhesive Segment

- In FY24, the company has done the top-line of Rs500 mn. Kajaria expects tile adhesive industry to grow at 12-15% CAGR over FY24-27.
- The company expects 30% growth in FY25 led by larger format tiles and slabs sales. The company will invest Rs150 mn to set-up a manufacturing facility in Galipur, Rajasthan and will commence production till Q2FY25.

Capex

- The company will do the capex of Rs 2.5 bn every year FY25-27 towards maintenance of the plants.
- The company is putting up a 5.1 MSM capacity plant in Nepal with a capex of Rs1.8 bn. It's a JV between company and various individual affiliated with Ramesh corp, Nepal. The project got delayed due to heavy rain in Q3FY24, however the project will commission in Q2FY25.

Guidance

- The company has guided tiles volumes to reach at ~150 MSM. Also, revenue to grow at CAGR of 11% over FY25-27 to Rs55 bn with EBITDA margin around 15-17%.
- The company has guided bathware/plywood and adhesive segment revenue to grow at CAGR of 23%/19% and 44% over FY25-27 to Rs6.7/1.7 and 1.5bn. The consolidated revenue to grow at 12% CAGR over FY25-27 to Rs65 bn.

Exhibit 1: Financial snapshot

Particulars (mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Total revenues	12,408	11,518	7.7	12,048	3.0
Total expenditure	10,688	9,730	9.9	10,289	3.9
EBIDTA	1,720	1,788	(3.8)	1,759	(2.3)
<i>EBIDTA margin(%)</i>	13.9	15.5	-166bps	14.6	-74bps
Depreciation	425	389	9.2	343	23.8
Interest cost	66	50	32.7	72	(8.7)
Other income	174	113	54.7	104	67.4
PBT	1,403	1,462	(4.0)	1,448	(3.1)
Tax	354	379	(6.7)	298	18.8
Adj. net profit	1,043	1,080	(3.4)	1,150	(9.4)
Adj. EPS (INR)	6.5	6.8	(3.4)	7.2	(9.4)

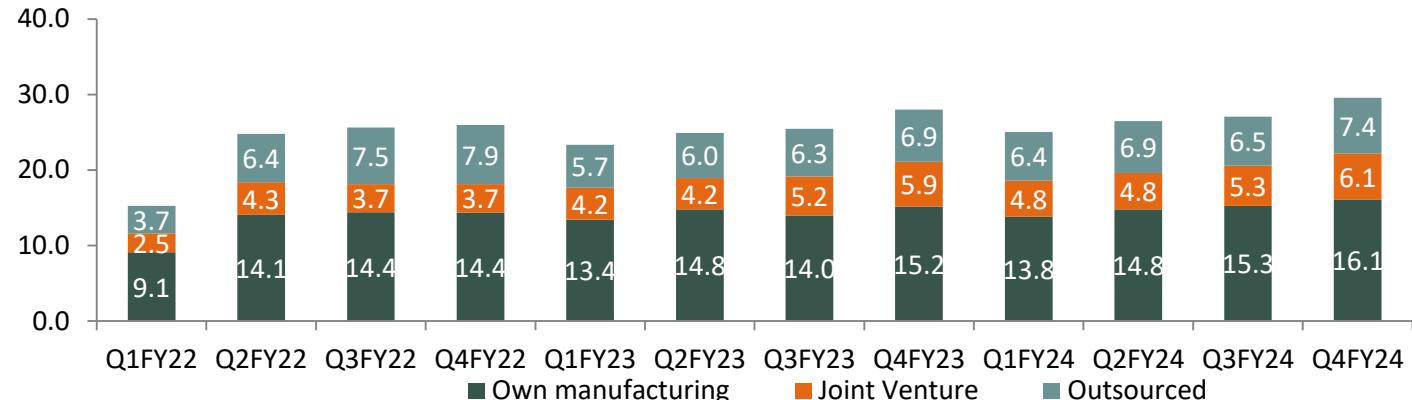
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

Particulars (mn)	Q4FY24A	Q4FY24E	Variance (%)
Net Sales	12,408	12,911	(3.9)
EBITDA	1,720	2,030	(15.3)
<i>EBITDA Margin (%)</i>	13.9	15.7	-186bps
Net Profit	1,043	1,269	(17.8)
EPS, Rs	6.5	8.0	(17.8)

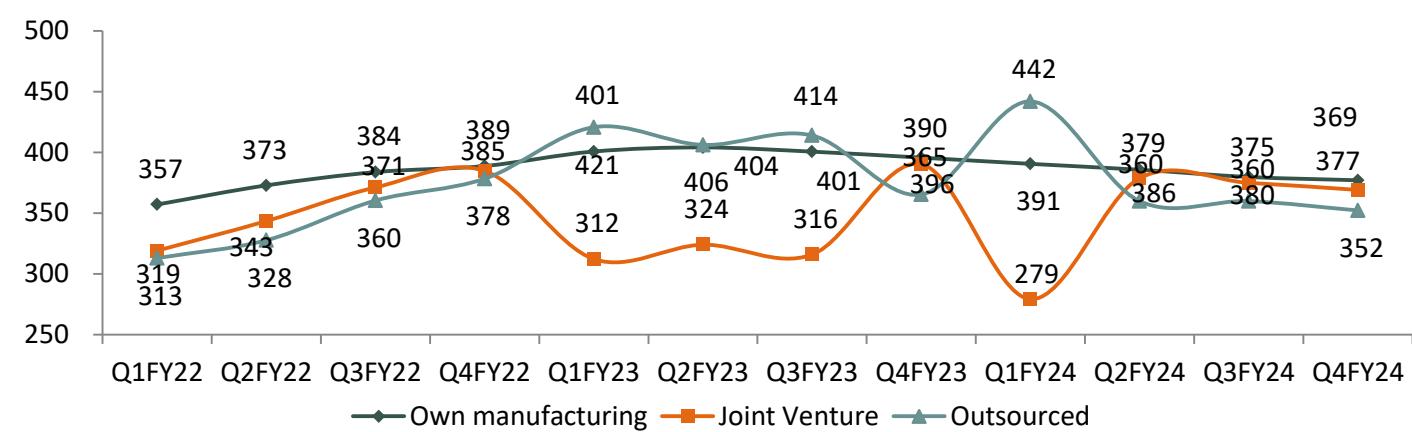
Source: Company; IDBI Capital Research

Exhibit 3: Sales volume contribution (MSM)

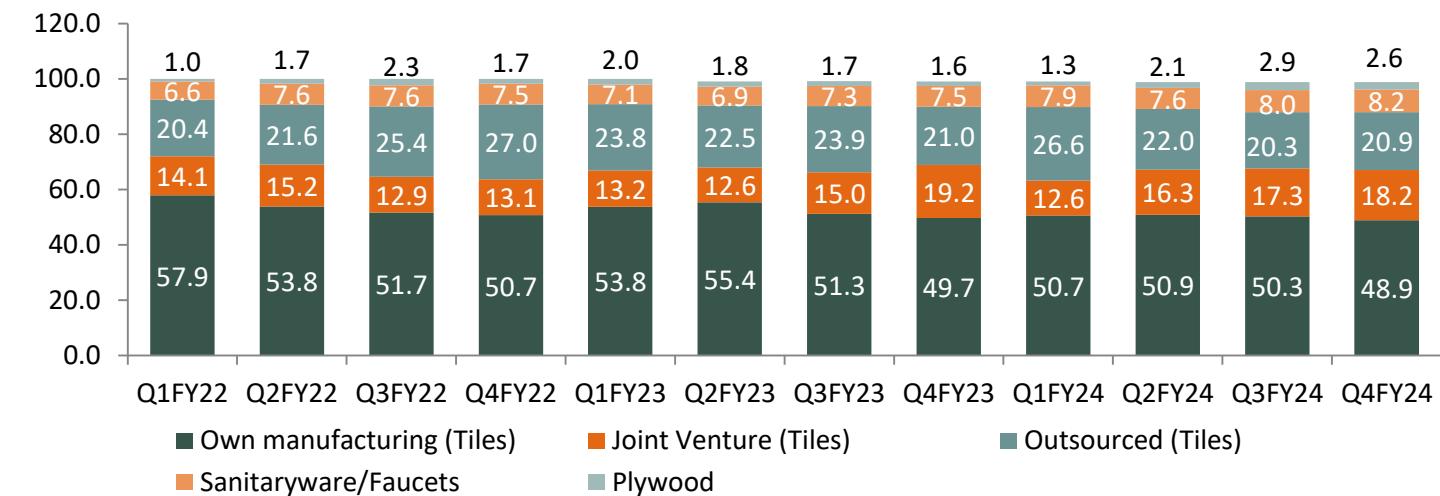


Source: Company; IDBI Capital Research

Exhibit 4: Tile realization (Rs/sqmtr)



Source: Company; IDBI Capital Research

Exhibit 5: Revenue contribution (%)

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	27,809	37,052	43,819	45,784	49,883	54,752
<i>Change (yoY, %)</i>	(1.0)	33	18	4	9	10
Operating expenses	(22,721)	(30,945)	(37,899)	(38,787)	(42,068)	(45,774)
EBITDA	5,088	6,107	5,920	6,997	7,815	8,978
<i>Change (yoY, %)</i>	22.3	20	(3)	18	12	15
<i>Margin (%)</i>	18.3	16.5	13.5	15.3	15.7	16.4
Depreciation	(1,067)	(1,154)	(1,329)	(1,480)	(1,517)	(1,617)
EBIT	4,021	4,953	4,592	5,517	6,298	7,361
Interest paid	(107)	(127)	(223)	(211)	(156)	(147)
Other income	213	276	336	462	532	612
Pre-tax profit	4,127	5,102	4,784	5,768	6,674	7,826
Tax	(1,038)	(1,274)	(1,163)	(1,435)	(1,680)	(1,970)
<i>Effective tax rate (%)</i>	25.2	25.0	24.3	24.9	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	3,089	3,828	3,621	4,334	4,994	5,856
Exceptional items	-	-	79	-	-	-
Adjusted net profit	3,089	3,828	3,542	4,334	4,994	5,856
<i>Change (yoY, %)</i>	21.8	24	(7)	22	15	17
EPS	19.4	24.1	22.3	27.3	31.4	36.8
Dividend per sh	10.0	11.0	13.0	15.0	17.0	18.0
<i>Dividend Payout %</i>	61.8	54.8	70.0	66	65	59

Balance Sheet							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Shareholders' funds	18,689	21,224	23,268	26,165	27,916	30,338	
Share capital	159	159	159	159	159	159	159
Reserves & surplus	18,530	21,065	23,109	26,006	27,757	30,179	
Total Debt	971	1,279	2,093	1,706	1,555	1,468	
Other liabilities	1,979	1,220	1,611	1,528	1,697	1,893	
Curr Liab & prov	2,982	5,495	5,557	5,439	5,824	6,321	
Current liabilities	2,753	5,236	5,265	5,120	5,485	5,958	
Provisions	229	259	293	320	339	362	
Total liabilities	5,931	7,994	9,261	8,673	9,075	9,682	
Total equity & liabilities	25,266	29,866	33,305	35,429	37,582	40,611	
Net fixed assets	11,673	13,632	14,522	16,015	17,026	17,444	
Investments	50	-	-	-	-	-	-
Other non-curr assets	666	1,720	1,919	1,786	1,839	1,913	
Current assets	12,877	14,514	16,864	17,628	18,718	21,254	
Inventories	3,731	4,659	5,647	5,322	6,014	6,735	
Sundry Debtors	4,317	5,133	6,012	6,194	6,938	7,631	
Cash and Bank	4,428	4,244	3,938	5,141	4,702	5,710	
Loans and advances	402	478	1,268	970	1,064	1,177	
Total assets	25,266	29,866	33,305	35,429	37,582	40,611	

Cash Flow Statement							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Pre-tax profit	4,127	5,102	4,784	5,768	6,674	7,826	
Depreciation	1,067	1,154	1,329	1,480	1,517	1,617	
Tax paid	(1,082)	(1,228)	(1,131)	(1,361)	(1,512)	(1,773)	
Chg in working capital	741	777	(1,744)	(505)	(1,113)	(995)	
Other operating activities	-	-	-	-	-	-	
Cash flow from operations (a)	4,853	5,804	3,238	5,382	5,566	6,675	
Capital expenditure	(1,059)	(3,113)	(2,219)	(2,973)	(2,527)	(2,035)	
Chg in investments	48	50	-	-	-	-	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(1,010)	(3,063)	(2,219)	(2,973)	(2,527)	(2,035)	
Equity raised/(repaid)	-	-	-	-	-	-	
Debt raised/(repaid)	(201)	309	814	(387)	(151)	(87)	
Dividend (incl. tax)	(1,908)	(2,099)	(2,480)	(2,862)	(3,244)	(3,434)	
Chg in minorities	9	2	129	(186)	-	-	
Other financing activities	(1,475)	(3,235)	(2,267)	2,229	(83)	(111)	
Cash flow from financing (c)	(1,667)	(2,925)	(1,325)	(1,205)	(3,477)	(3,632)	
Net chg in cash (a+b+c)	2,176	(183)	(306)	1,203	(439)	1,008	

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	117.5	133	146	165	176	191
<i>Adj EPS (Rs)</i>	<i>19.4</i>	<i>24.1</i>	<i>22.3</i>	<i>27.3</i>	<i>31.4</i>	<i>36.8</i>
<i>Adj EPS growth (%)</i>	<i>21.8</i>	<i>24</i>	<i>-7</i>	<i>22</i>	<i>15</i>	<i>17</i>
<i>EBITDA margin (%)</i>	<i>18.3</i>	<i>16.5</i>	<i>13.5</i>	<i>15.3</i>	<i>15.7</i>	<i>16.4</i>
<i>Pre-tax margin (%)</i>	<i>14.8</i>	<i>13.8</i>	<i>10.9</i>	<i>12.6</i>	<i>13.4</i>	<i>14.3</i>
<i>Net Debt/Equity (x)</i>	<i>-0.2</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>	<i>-0.1</i>
<i>ROCE (%)</i>	<i>18.5</i>	<i>21</i>	<i>18</i>	<i>19</i>	<i>20</i>	<i>22</i>
<i>ROE (%)</i>	<i>17.2</i>	<i>19</i>	<i>16</i>	<i>18</i>	<i>18</i>	<i>20</i>
DuPont Analysis						
Asset turnover (x)	1.1	1.3	1.4	1.3	1.4	1.4
Leverage factor (x)	1.4	1.4	1.4	1.4	1.4	1.3
<i>Net margin (%)</i>	<i>11.1</i>	<i>10.3</i>	<i>8.1</i>	<i>9.5</i>	<i>10.0</i>	<i>10.7</i>
Working Capital & Liquidity ratio						
Inventory days	49	46	47	42	44	45
Receivable days	57	51	50	49	51	51
Payable days	33	35	30	28	27	26

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	59.6	48.1	52.0	42.5	36.9	31.4
Price/Book value (x)	9.9	8.7	7.9	7.0	6.6	6.1
EV/Net sales (x)	6.5	4.9	4.2	3.9	3.6	3.3
EV/EBITDA (x)	35.5	29.7	30.8	25.8	23.2	20.0
<i>Dividend Yield (%)</i>	<i>0.9</i>	<i>0.9</i>	<i>1.1</i>	<i>1.3</i>	<i>1.5</i>	<i>1.6</i>

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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