

Kajaria Ceramics

BUY

Healthy volume growth aided quarterly earnings

Summary

Kajaria Ceramic Ltd.'s (Kajaria) Q2FY24 result was broadly in-line with our estimates on all key parameters. The company reported second consecutive quarter of volume growth in a seasonally weak quarter. Despite lower NSR, fuel cost saving was a breather during the quarter, which aided EBITDA margin. The management reiterated operating margin of 14%-16% for FY24E primarily driven by higher sales volume. Net sales increased by 4.1% YoY to Rs11.2bn, while EBITDA came in at Rs1.7bn, higher by 38.9% YoY. The company reported net profit of Rs1.1bn, improved by 52.7% over same quarter last year. We have broadly maintained our FY24E/FY25E earnings estimates. After recent stock price correction, valuation looks lucrative at current level. We upgrade the stock to BUY with a revised TP of Rs1,522 (earlier Rs1,508), assigning 40x PER on FY25E.

Key Highlights and Investment Rationale

- Another quarter of volume driven growth:** The company reported 6.3% YoY increase in sales volume at 26.4MSM, while net sales realization was down by 3% over Q2FY23 to Rs377.7/Sqm. Softening of gas prices came in as a breather, however, in order to keep the sales off-take higher, the management passed on the benefits to the dealers. Bathware segment is doing well and the management anticipates healthy growth of 20% YoY.
- Key beneficiary of industry tailwinds, BUY with a TP of Rs1,522:** We like Kajaria 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. The company's bathware segment too has picked up well and is expected to contribute to overall earnings in a meaningful way. We expect healthy operating margin improvement aided by lower gas prices and improved product mix for FY24E/25E. BUY with a TP of Rs1,522.

TP	Rs1,522
CMP	Rs1,232
Potential upside/downside	23%
Previous Rating	HOLD

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(11.1)	(13.1)	10.9
Rel to Sensex	(7.9)	(10.6)	0.3

V/s Consensus		
EPS (Rs)	FY24E	FY25E
IDBI Capital	31	38
Consensus	31	39
% difference	(0.7)	(2.4)

Key Stock Data	
Bloomberg / Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	196,278
3-m daily avg Trd value(Rs mn)	12.0
52-week high / low	Rs1,522 / 1,006
Sensex / Nifty	65,398 / 19,625

Shareholding Pattern (%)	
Promoters	47.5
FII	18.5
DII	25.2
Public	8.8

Financial snapshot

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	27,809	37,052	43,819	49,078	56,439
Change (yoy, %)	(1)	33	18	12	15
EBITDA	5,088	6,107	5,920	7,904	9,377
Change (yoy, %)	22	20	(3)	34	19
EBITDA Margin(%)	18.3	16.5	13.5	16.1	16.6
Adj.PAT	3,089	3,828	3,542	4,990	6,048
EPS (Rs)	19	24	22	31	38
Change (yoy, %)	21.8	23.9	(7.5)	41	21
PE(x)	63.3	51.1	55.2	39	32
Dividend Yield (%)	-	-	-	-	-
EV/EBITDA (x)	37.8	31.5	32.7	24.7	20.7
RoE (%)	17.2	19.2	15.9	21	23
RoCE (%)	18.5	21.2	18	22	25

Source: IDBI Capital Research

Archana Gude

archana.gude@idbicaapital.com
+91-22-2217 1938

Analysts meet highlights:

- In Q2FY24, there was a 6.2% YoY growth in volume, totaling 26.7 mn sq MT, with consolidated revenue of Rs1122 Cr, reflecting a 4% YoY increase. The EBITDA margin exceeded 16%, mainly due to reduced fuel costs, resulting in savings of roughly Rs80 Cr.
- Despite challenging conditions, the bathware segment showed a significant 15% increase in revenue on YoY basis, reaching 85 Cr compared to 74 Cr. Plywood revenue also saw a 21% increase, reaching Rs23 Cr compared to Rs19 Cr on YoY basis, and Adhesive revenue grew by 35% to Rs13 Cr compared to Rs10 Cr YoY.
- The PAT for the quarter increased by 55% to 108 Cr, compared to 70 Cr YoY along with the working capital days reduced from 62 to 53 days YoY.
- Despite lower demand in the first two quarters, the company remains optimistic about the next two quarters, with a guidance of 14-16% margins and a 9-10% increase in volume in the tiles segment.
- The company anticipates a 20% growth in bathware revenue for the entire year and has observed a 9% increase in volume since September, expecting healthy growth in the coming quarters, driven by increased demand in the real estate sector.
- Segment-wise revenue distribution for H1FY24 is as follows: Tiles - 90%, Bathware - 7%, and Plywood - 3%.
- For the plywood segment, the company is targeting Rs100 Cr in revenue for FY24, mainly due to an increase in market share from unorganized to organized players.
- Notably, the company successfully commissioned the Sikandrabad plant for 3 million square meters and initiated modernization projects at the Galipur plant for ceramics and tiles, totaling 1.92 million square meters in Q2FY24.
- The company's capital expenditure guidance for the current year is Rs370 Cr, with an additional Rs250 Cr over the next three years. The breakdown for FY24 is as follows: Rs51 Cr for the Galipur plant, Rs91 Cr for the Nepal project, Rs50 Cr for the corporate office, Rs80 Cr for Kerovit Sanitaryware, Rs26 Cr for capex maintenance, Rs25 Cr as miscellaneous, and Rs100 Cr for Sikandrabad plant.

- Average fuel prices were around Rs38, with Rs40 in the North, Rs38 in the South, and Rs33 in the West for Q2FY24. The company emphasizes its reliance on biofuel.
- Increased employee costs are expected to persist in the next quarter, with advertisement spending targeted at around Rs140 Cr for FY24.
- Initiatives have been launched to expand exports and establish a presence in countries such as Dubai and the United Kingdom.
- Total capacity utilization stands at an impressive 98% for Q2FY24.
- The company has increased its number of dealers from 1840 to 1950 across the country, with a majority in metro cities. Importantly, there will be no price changes in the coming quarters, despite a slight increase in fuel prices.

Exhibit 1: Financial snapshot

Particulars (mn)	Q2FY24	Q1FY24	QoQ (%)	Q2FY23	YoY (%)
Total revenues	11,216	10,642	5.4	10,778	4.1
Total expenditure	9,419	8,950	5.2	9,484	(0.7)
EBIDTA	1,797	1,692	6.2	1,294	38.9
<i>EBIDTA margin(%)</i>	16	16	<i>12bps</i>	12	<i>402bps</i>
Depreciation	361	305	18.2	337	7.2
Interest cost	43	53	(19.2)	32	34.8
Other income	83	93	(10.7)	76	8.4
PBT	1,477	1,427	3.5	1,002	47.3
Tax	356	336	6.0	277	28.6
Adj. net profit	1,108	1,091	1.6	726	52.7
Adj. EPS (INR)	7	7	1.6	5	52.7

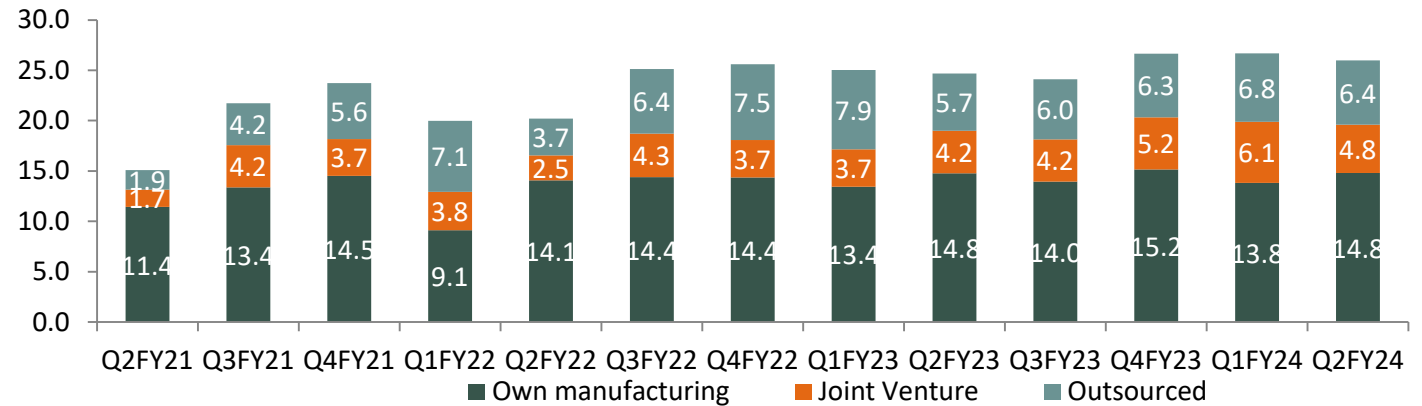
Source: Company; IDBI Capital Research

Exhibit 2: Actual vs. Estimates

Particulars (mn)	Q1FY24A	Q2FY24E	Variance (%)
Net Sales	11,216	11,547	(2.9)
EBITDA	1,797	1,888	(4.8)
<i>EBITDA Margin (%)</i>	<i>16.0</i>	<i>16.4</i>	<i>-33bps</i>
Net Profit	1,108	1,212	(8.6)
EPS, Rs	7.0	7.6	(8.6)

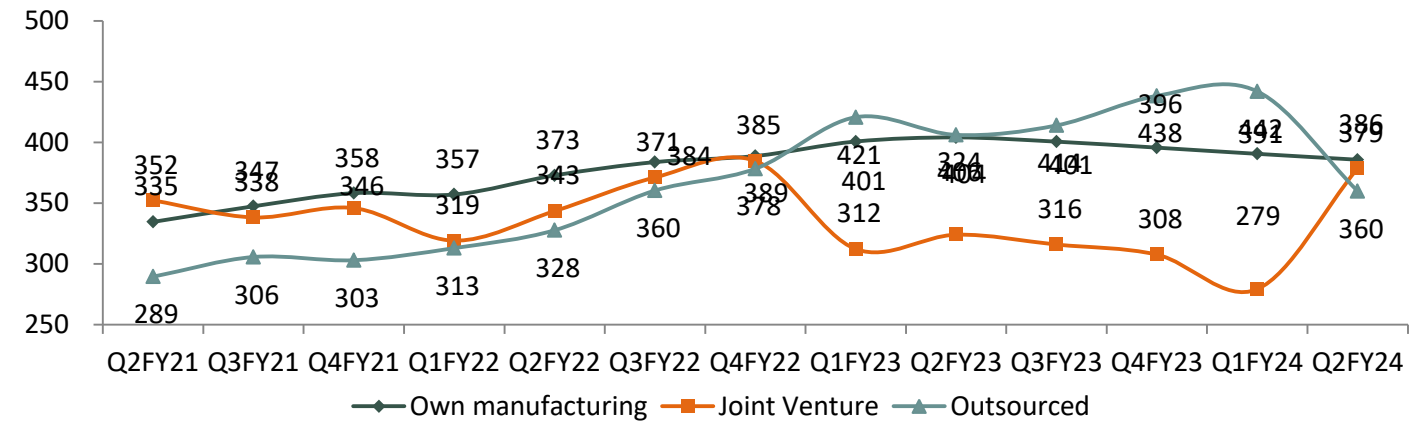
Source: Company; IDBI Capital Research

Exhibit 3: Sales volume contribution (MSM)



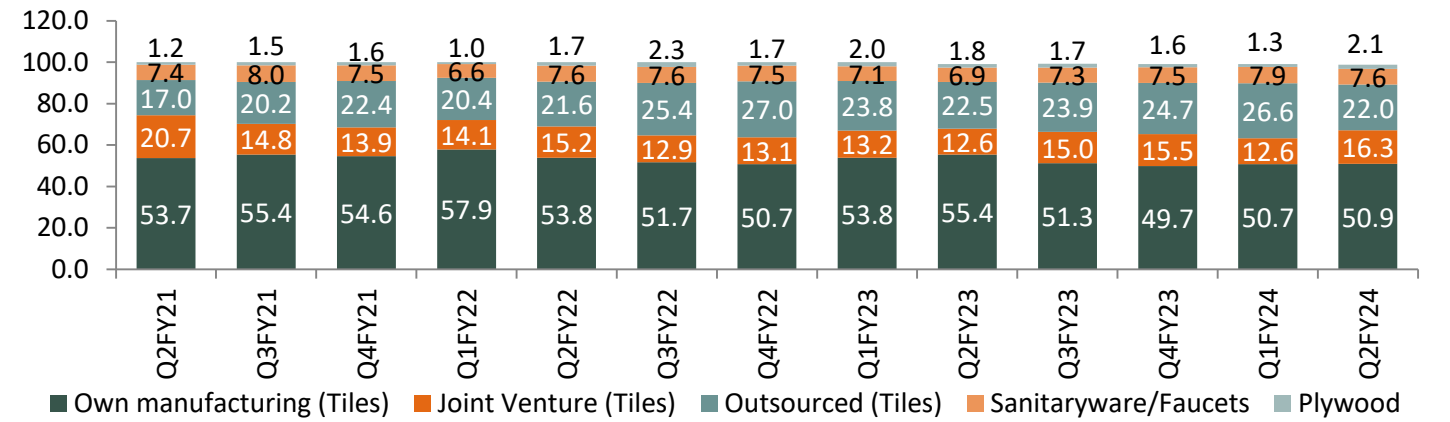
Source: Company; IDBI Capital Research

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	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	28,080	27,809	37,052	43,819	49,078	56,439
<i>Change (yoy, %)</i>	(5.0)	(1)	33	18	12	15
Operating expenses	(23,921)	(22,721)	(30,945)	(37,899)	(41,173)	(47,062)
EBITDA	4,159	5,088	6,107	5,920	7,904	9,377
<i>Change (yoy, %)</i>	-7.5	22	20	(3)	34	19
<i>Margin (%)</i>	14.8	18.3	16.5	13.5	16.1	16.6
Depreciation	(1,081)	(1,067)	(1,154)	(1,329)	(1,421)	(1,546)
EBIT	3,078	4,021	4,953	4,592	6,483	7,831
Interest paid	(195)	(107)	(127)	(223)	(201)	(193)
Other income	242	213	276	336	387	445
Pre-tax profit	3,124	4,127	5,102	4,784	6,668	8,083
Tax	(589)	(1,038)	(1,274)	(1,163)	(1,678)	(2,034)
<i>Effective tax rate (%)</i>	18.9	25.2	25.0	24.3	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	2,535	3,089	3,828	3,621	4,990	6,048
Exceptional items	-	-	-	79	-	-
Adjusted net profit	2,535	3,089	3,828	3,542	4,990	6,048
<i>Change (yoy, %)</i>	8.5	22	24	(7)	41	21
EPS	15.9	19.4	24.1	22.3	31.4	38.0
Dividend per sh	-	-	-	-	-	-
<i>Dividend Payout %</i>	-	-	-	-	-	-

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	17,143	18,689	21,224	23,268	25,396	28,200
Share capital	159	159	159	159	159	159
Reserves & surplus	16,984	18,530	21,065	23,109	25,237	28,041
Total Debt	1,171	971	1,279	2,093	2,013	1,931
Other liabilities	2,235	1,979	1,220	1,611	1,782	1,990
Curr Liab & prov	3,200	2,982	5,495	5,557	6,067	6,499
Current liabilities	2,912	2,753	5,236	5,265	5,753	6,164
Provisions	288	229	259	293	314	335
Total liabilities	6,606	5,931	7,994	9,261	9,862	10,419
Total equity & liabilities	24,386	25,266	29,866	33,305	36,034	39,396
Net fixed assets	11,681	11,673	13,632	14,522	16,842	17,830
Investments	98	50	-	-	-	-
Other non-curr assets	829	666	1,720	1,919	1,978	2,064
Current assets	11,778	12,877	14,514	16,864	17,215	19,502
Inventories	5,127	3,731	4,659	5,647	6,494	7,338
Sundry Debtors	3,967	4,317	5,133	6,012	6,853	7,676
Cash and Bank	2,252	4,428	4,244	3,938	2,555	3,124
Loans and advances	432	402	478	1,268	1,313	1,365
Total assets	24,386	25,266	29,866	33,305	36,034	39,396

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	3,124	4,127	5,102	4,784	6,668	8,083
Depreciation	1,081	1,067	1,154	1,329	1,421	1,546
Tax paid	(932)	(1,082)	(1,228)	(1,131)	(1,511)	(1,831)
Chg in working capital	(926)	741	777	(1,744)	(1,191)	(1,246)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	2,348	4,853	5,804	3,238	5,388	6,552
Capital expenditure	(1,157)	(1,059)	(3,113)	(2,219)	(3,741)	(2,534)
Chg in investments	(98)	48	50	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(1,255)	(1,010)	(3,063)	(2,219)	(3,741)	(2,534)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	222	(201)	309	814	(80)	(82)
Dividend (incl. tax)	-	-	-	-	-	-
Chg in minorities	(22)	9	2	129	-	-
Other financing activities	(1,565)	(1,475)	(3,235)	(2,267)	(2,951)	(3,366)
Cash flow from financing (c)	(1,365)	(1,667)	(2,925)	(1,325)	(3,031)	(3,448)
Net chg in cash (a+b+c)	(272)	2,176	(183)	(306)	(1,384)	570

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	107.8	118	133	146	160	177
Adj EPS (Rs)	15.9	19.4	24.1	22.3	31.4	38.0
Adj EPS growth (%)	8.5	22	24	-7	41	21
EBITDA margin (%)	14.8	18.3	16.5	13.5	16.1	16.6
Pre-tax margin (%)	11.1	14.8	13.8	10.9	13.6	14.3
Net Debt/Equity (x)	-0.1	-0.2	-0.1	-0.1	0.0	0.0
ROCE (%)	15.0	19	21	18	22	25
ROE (%)	15.4	17	19	16	21	23

DuPont Analysis

Asset turnover (x)	1.2	1.1	1.3	1.4	1.4	1.5
Leverage factor (x)	1.5	1.4	1.4	1.4	1.4	1.4
Net margin (%)	9.0	11.1	10.3	8.1	10.2	10.7

Working Capital & Liquidity ratio

Inventory days	67	49	46	47	48	47
Receivable days	52	57	51	50	51	50
Payable days	37	33	35	30	29	27

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	77.1	63.3	51.1	55.2	39.2	32.3
Price/Book value (x)	11.4	10.5	9.2	8.4	7.7	6.9
EV/Net sales (x)	6.9	6.9	5.2	4.4	4.0	3.4
EV/EBITDA (x)	46.8	37.8	31.5	32.7	24.7	20.7
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0	0.0

Source: Company; IDBI Capital Research



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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