



COUNTER RESEARCH

ROYAL CERAMICS LANKA PLC

(RCL.N)

SENFIN RESEARCH

07 OCTOBER 2026

Company snapshot

SHARE PRICE

Rs. 44.00

6 Oct 2026 ·

52-WEEK RANGE

39.70–54.00

Lower half

MARKET CAP

Rs. 76.8 Bn

approx. US\$ 149 Mn

SHARES IN ISSUE

1,107.9 Mn

31 Mar 2026

P/E (FY26 EPS 6.29)

6.8x

TTM EPS 6.88 → 6.4x

P/BV (NAV 49.9)

0.88x

Jun-26 NAV 50.56 → 0.87x

EV / CORE EBITDA

5.6x

Excl. associates

DIVIDEND YIELD

5.0%

FY26 DPS Rs. 2.00

FY26 REVENUE

Rs. 68.1 Bn

+14% YoY

FY26 PROFIT TO OWNERS

Rs. 6.97 Bn

+38% YoY

ROE FY26

11%

FY25: 9%

DEBT / EQUITY

36%

Total debt Rs. 26.6 Bn

PUBLIC FLOAT

43.54%

Float mkt cap Rs. 20.7 Bn (Mar-26)

PARENT

55.96%

Vallibel One PLC

LB FINANCE STAKE

26.08%

approx. Rs. 19 per RCL share*

Q1 FY27 PROFIT

Rs. 2.10 Bn

To owners, +56% YoY

Key observations

RCL trades below book value and at about 7x earnings, but almost half of its profit now comes from its LB Finance stake. The tile business is recovering from a sharp FY25 trough, with a strong first quarter.

What has improved

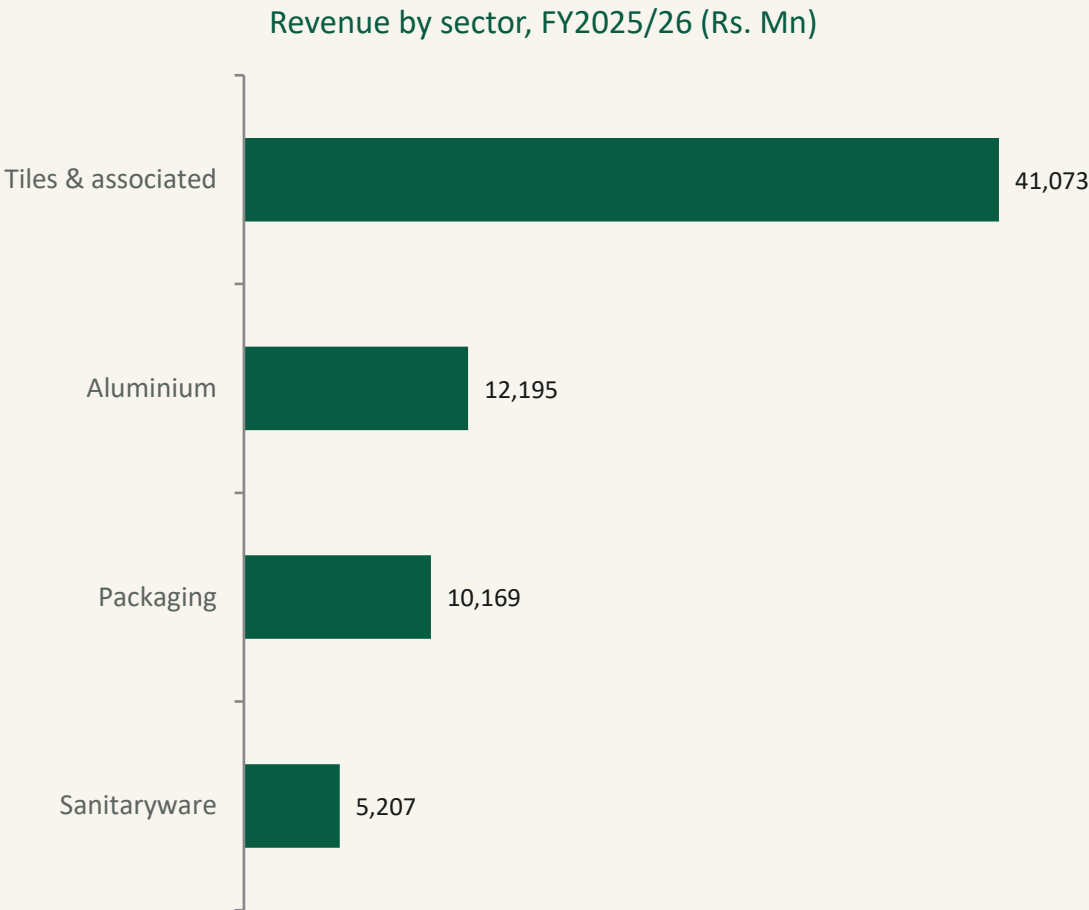
- **FY26 recovery:** revenue +14%, gross margin 33.7% (FY25 32.0%), profit to owners +38% to Rs. 6.97 Bn.
- **Sanitaryware turned around:** PBT Rs. 316 Mn vs a Rs. 468 Mn loss in FY25.
- **Cash flow:** operating cash flow Rs. 9.6 Bn vs Rs. 0.3 Bn in FY25; debt fell 13%.
- **Q1 FY27:** revenue +15%, gross margin 34.9%, profit to owners +56% to Rs. 1.80 Bn.

What needs watching

- **Earnings mix:** associates (mainly LB Finance) gave Rs. 3.9 Bn, 48% of FY26 profit after tax, and are largely non-cash.
- **Core profit below peak:** PAT excl. associates was Rs. 4.3 Bn in FY26 vs Rs. 11.4 Bn in FY22.
- **Inventory:** Rs. 33.1 Bn at Mar-26 (49% of revenue) and Rs. 34.8 Bn at Jun-26.
- **Outlook:** the Chairman expects moderation in revenue and earnings growth because of the Middle East conflict and energy costs.

Business overview

- **Holding company and tile maker:** Royal Ceramics (Rocell) manufactures tiles and owns Lanka Tiles, Lanka Walltiles, Rocell Bathware, Swisstek Aluminium and Uni-Dil Packaging.
- **Associates:** 26.08% of LB Finance PLC and 21% of Delmege Ltd, equity-accounted.
- **Reach:** 262 customer touchpoints; 4,974 group employees, 70% in tiles. Uni-Dil opened in Kenya; aluminium has an India operation.
- **Parent:** Vallibel One PLC owns 55.96%; EPF owns 13.79%.



Sector performance, FY26

Rs. Mn	Revenue	Change	Gross margin	Op. profit	PBT FY26	PBT FY25
Tiles & associated items	41,073	+14%	40%	5,658	4,227	3,777
Aluminium (Swisstek)	12,195	+2%	23%	1,284	810	669
Packaging (Uni-Dil)	10,169	+17%	20%	1,100	822	1,025
Sanitaryware (Rocell Bathware)	5,207	+31%	33%	591	316	(468)
Share of associates (mainly LB Finance)	—	—	—	—	3,933	3,035
Group (continuing operations)	68,096	+14%	34%	12,749*	10,302	8,256

- Tiles produced 71% of group gross profit and 41% of PBT; associates 38% of PBT.
- Packaging PBT fell 20% on start-up costs of the Kenya operation.
- Management chose to optimise existing tile and bathware capacity rather than expand, citing a rise in imports.

Four operating businesses

40%

FY26 gross margin

Tiles

Rocell and Lanka Tiles. 300+ new designs; porcelain and large-format growth. Two new showrooms. Revenue Rs. 41.1 Bn (+14%).

+2%

FY26 revenue growth

Aluminium

Swisstek leads domestic extrusion; moving to architectural systems. Low-cost competition held growth back. India operation building.

+17%

FY26 revenue growth

Packaging

Uni-Dil serves FMCG, tea, apparel and exports. First overseas branch opened in Kenya; start-up costs cut PBT.

+31%

FY26 revenue growth

Sanitaryware

Rocell Bathware right-sized; turned to profit (PBT Rs. 316 Mn). Plans to substitute sanitaryware imports through Lanka Tiles.

The LB Finance stake

26.08%

RCL's stake in LB Finance PLC

Rs. 3.64 Bn

LB Finance share of profit, FY26
(+29%)

Rs. 21.7 Bn

Associates at book value, Mar-26

Rs. 21.2 Bn

Approx. market value of the stake,
6 Oct 2026*

- **Weight in earnings:** the MD says LB Finance contributed 44% of FY26 profit after tax. Associates were 16–22% of PAT in FY21–FY23 but 48–50% in FY25–FY26.
- **Cash vs accounting:** only Rs. 836 Mn of dividends were received from associates against Rs. 3.9 Bn of equity-accounted profit.
- **Look-through:** the stake's market value (approx. Rs. 19 per RCL share) is about 43% of RCL's market cap, before tax and any holding-company discount.
- **Exposure:** RCL shareholders carry NBFI credit and interest-rate risk, which is different from a building-materials business.

Operating environment

Indicator	Latest	Period	Source
Sri Lanka			
Real GDP growth	4.2%	Q2 2026 (Q1: 5.1%)	DCS
Industry sector growth	7.3%	Q2 2026	DCS
Construction growth	9.2%	Per Chairman	AR 2025/26
CCPI headline inflation	8.0%	Sep 2026	CBSL
Overnight Policy Rate	8.75%	Held 30 Sep 2026	CBSL
12-month T-bill yield	9.95%	30 Sep 2026	PDMO
LKR / US\$ (buying)	326.09	5 Oct 2026	CBSL

What it means for RCL

- Tile and bathware demand follows housing and renovation; management says housing demand remains high and started projects should continue.
- Energy is a large share of factory costs; management warns that sustained high oil prices would push costs beyond what can be absorbed.
- Imports of tiles and bathware are rising, and low-cost aluminium competes on price.
- With Rs. 26.6 Bn of borrowings, rising rates feed through to a Rs. 2.6 Bn finance cost line.

Six-year financial performance

Group, Rs. Mn (year to 31 March)	FY21	FY22	FY23	FY24	FY25	FY26
Revenue	44,972	54,981	63,206	61,192	59,987	68,096
Gross profit	16,803	22,405	25,530	23,488	19,167	22,924
Share of associates	1,814	2,328	1,708	2,707	3,035	3,933
Profit after tax	8,418	13,690	10,594	9,234	6,051	8,274
· to owners of the parent	6,135	9,790	7,747	7,216	5,054	6,971
PAT excl. associates (calc)	6,604	11,362	8,886	6,527	3,016	4,341
EPS (Rs.)	5.54	8.84	6.99	6.51	4.56	6.29
Margins and mix						
Gross margin (calc)	37.4%	40.8%	40.4%	38.4%	32.0%	33.7%
Associates / PAT (calc)	22%	17%	16%	29%	50%	48%
ROE (reported)	20.1%	26.7%	19.8%	15.4%	9.3%	11%

FY26 VS FY22 PEAK

+24%

Revenue

+2%

Gross profit

-29%

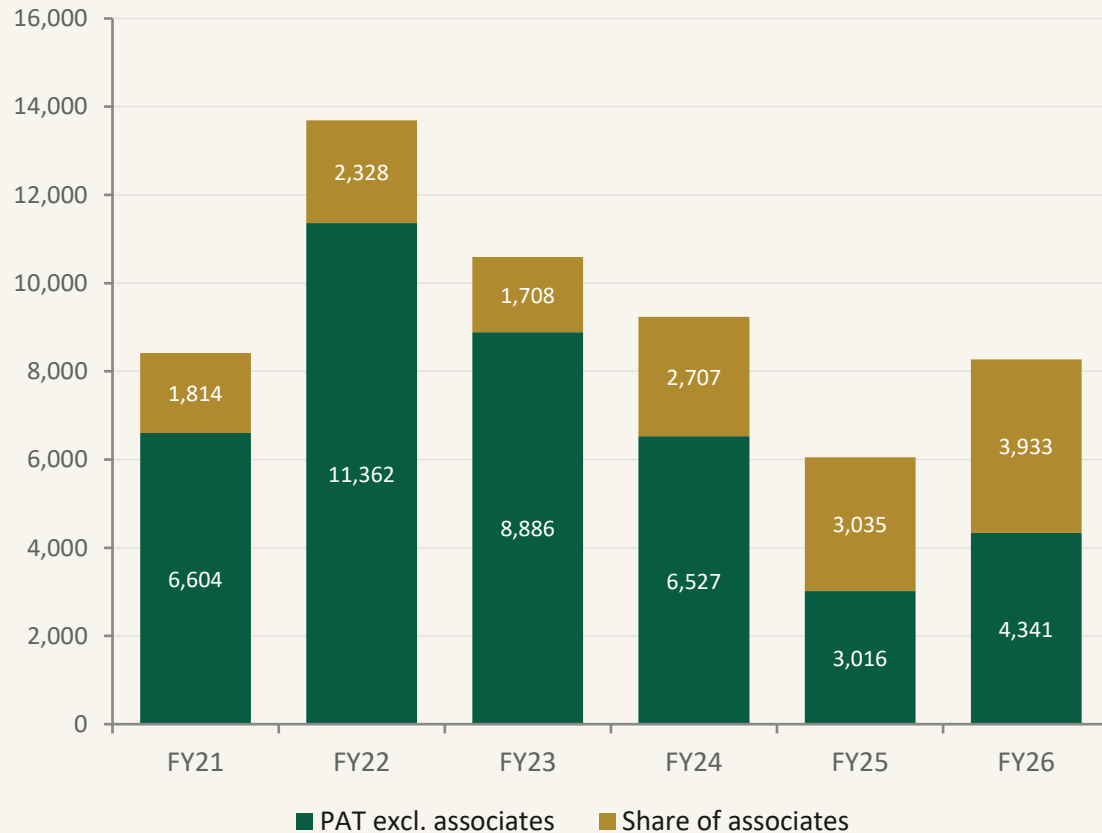
Profit to owners

-62%

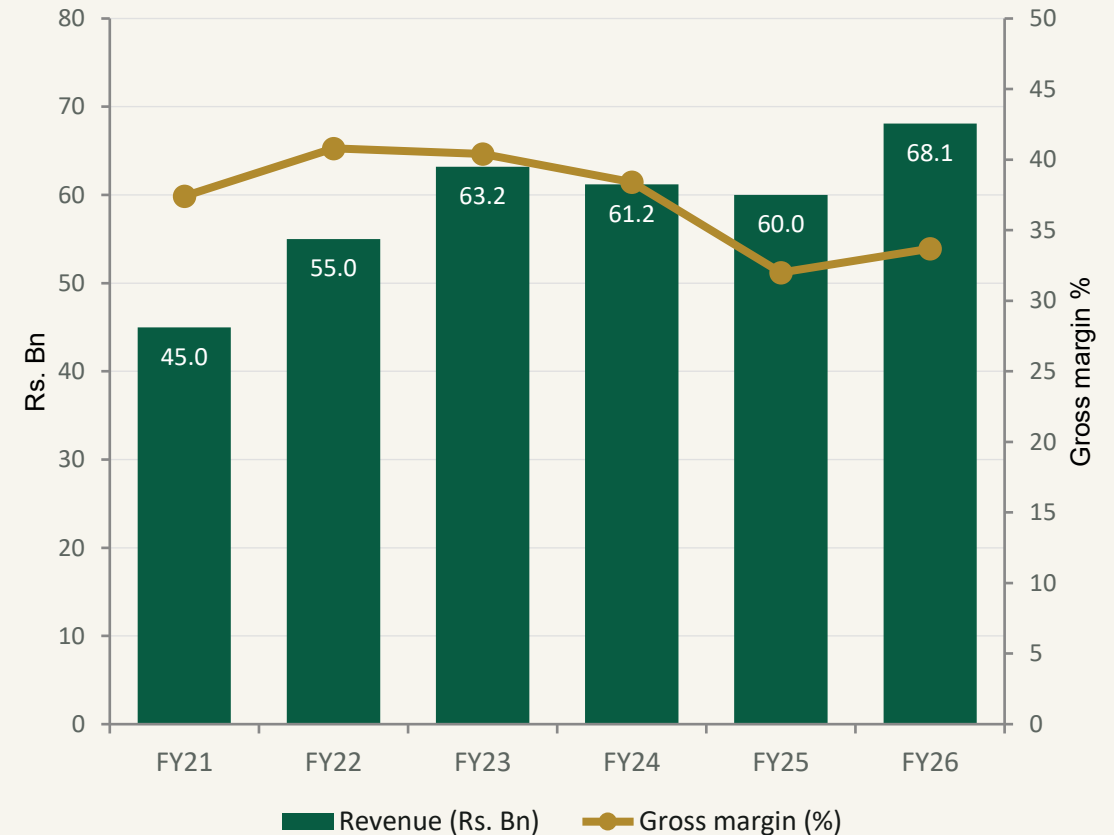
PAT excl. associates

Core profit vs associate profit

Profit after tax split (Rs. Mn)



Revenue (Rs. Bn) and gross margin (% , right axis)



Reading the FY26 result

Volume-led recovery

Revenue +14% on higher volumes with stable prices, helped by a recovering construction market and low inflation.

Margins partly rebuilt

Gross margin 33.7% vs 32.0%, still below the 38–41% of FY21–FY24. Tiles 40% (38%), Sanitaryware 33% (23%).

Overheads and interest grew

Operating expenses +19% to Rs. 14.9 Bn (distribution +16%, admin +24%); finance cost +16% to Rs. 2.64 Bn.

Associates did the heavy lifting

Associate profit rose Rs. 0.9 Bn, about 44% of the Rs. 2.0 Bn rise in PBT; discontinued-operation losses shrank.

Latest quarter: Q1 FY2026/27

Group, quarter to 30 June, Rs. Mn	Q1 FY27	Q1 FY26	YoY
Revenue	16,182	14,096	+15%
Gross profit	5,643	4,372	+29%
Gross margin	34.9%	31.0%	+3.9 pts
Distribution + admin	(3,787)	(3,133)	+21%
Finance cost	(703)	(639)	+10%
Share of associates	1,022	766	+33%
Profit before tax	2,583	1,595	+62%
Profit to owners	1,798	1,151	+56%
EPS (Rs.)	1.62	1.04	+56%

TILES Q1 PBT

Rs. 975 Mn

Revenue Rs. 9.66 Bn

TTM EPS

Rs. 6.88

Analyst calculation

- Other sector PBT: Packaging Rs. 226 Mn, Aluminium Rs. 168 Mn, Sanitaryware Rs. 141 Mn.
- Associates were 40% of Q1 PBT, similar to FY26.
- Inventory rose to Rs. 34.8 Bn and borrowings to Rs. 28.0 Bn; cash fell to Rs. 1.9 Bn. NAV/share Rs. 50.56.

Balance sheet and working capital

Group, Rs. Mn	Mar-25	Mar-26	Jun-26
Property, plant & equipment	44,612	45,898	n/a
Investments in associates	17,465	21,746	n/a
Inventories	32,935	33,103	34,808
Trade & other receivables	7,722	8,474	n/a
Cash & equivalents	3,772	4,965	1,899
Total debt	30,679	26,589	27,978
Equity to owners	48,652	55,235	56,012
Non-controlling interest	16,387	17,804	18,077
NAV per share (Rs.)	43.9	49.9	50.56
Debt / equity (reported)	47%	36%	—

Strengths

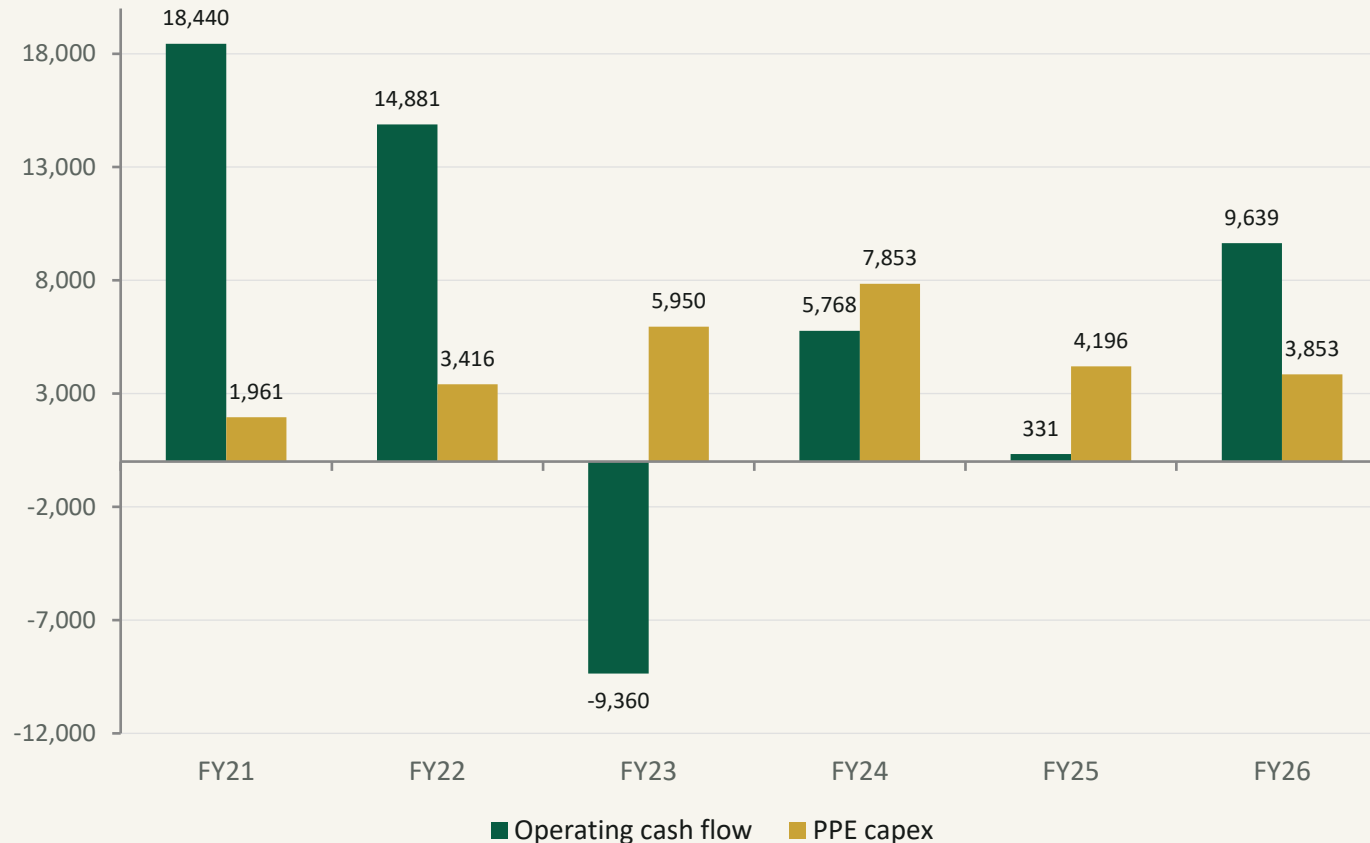
- Debt down 13% in FY26; net debt approx. Rs. 21.6 Bn = 1.8x core EBITDA.
- Interest cover 5x; current ratio 1.5x.
- Rs. 6 Bn revaluation surplus lifted equity in FY26.

Pressure points

- Inventory of Rs. 33–35 Bn is about half a year's revenue; quick ratio 0.5x.
- Inventory tripled from Rs. 11.1 Bn (FY21), partly deliberate stock-building of imported raw materials.

Cash flow has been volatile

Operating cash flow vs PPE capex (Rs. Mn)



FY26 FREE CASH FLOW

Rs. 5.4 Bn

Approx., after capex and leases

6-YR OCF / PAT

0.71x

Rs. 39.7 / 56.3 Bn

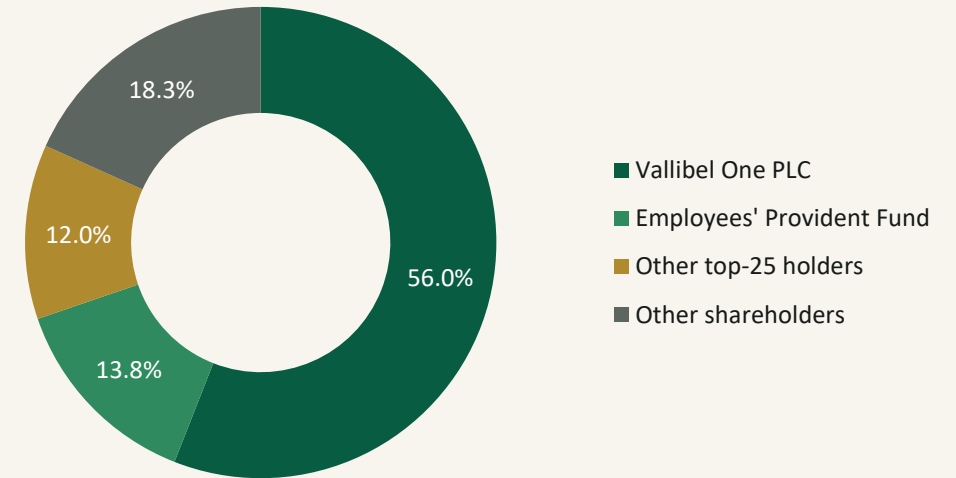
- FY26: OCF Rs. 9,639 Mn less PPE Rs. 3,853 Mn, intangibles Rs. 32 Mn and lease payments Rs. 360 Mn.
- Dividends paid Rs. 2.03 Bn incl. Rs. 274 Mn to minorities; FY26 cash covered dividends and cut debt.
- FY23 and FY25 show how fast inventory build-ups absorb cash in this business.

Dividends and ownership

Dividends	FY22	FY23	FY24	FY25	FY26
DPS declared, group basis (Rs.)	3.75	2.90	2.90	1.60	2.00
Payout on group EPS (calc)	42%	41%	45%	35%	32%
Year-end price (Rs.)	40.70	27.60	31.10	37.00	43.00
Year-end yield (calc)	9.2%	10.5%	9.3%	4.3%	4.7%

- FY26 dividends: Rs. 1.00 interim (Mar-26) and Rs. 1.00 final (ex-date 1 Jul 2026), total Rs. 2.2 Bn.
- Yield at Rs. 44.00: 4.5%.
- The payout is now lower relative to group EPS than in FY22–FY24, while debt was being reduced.

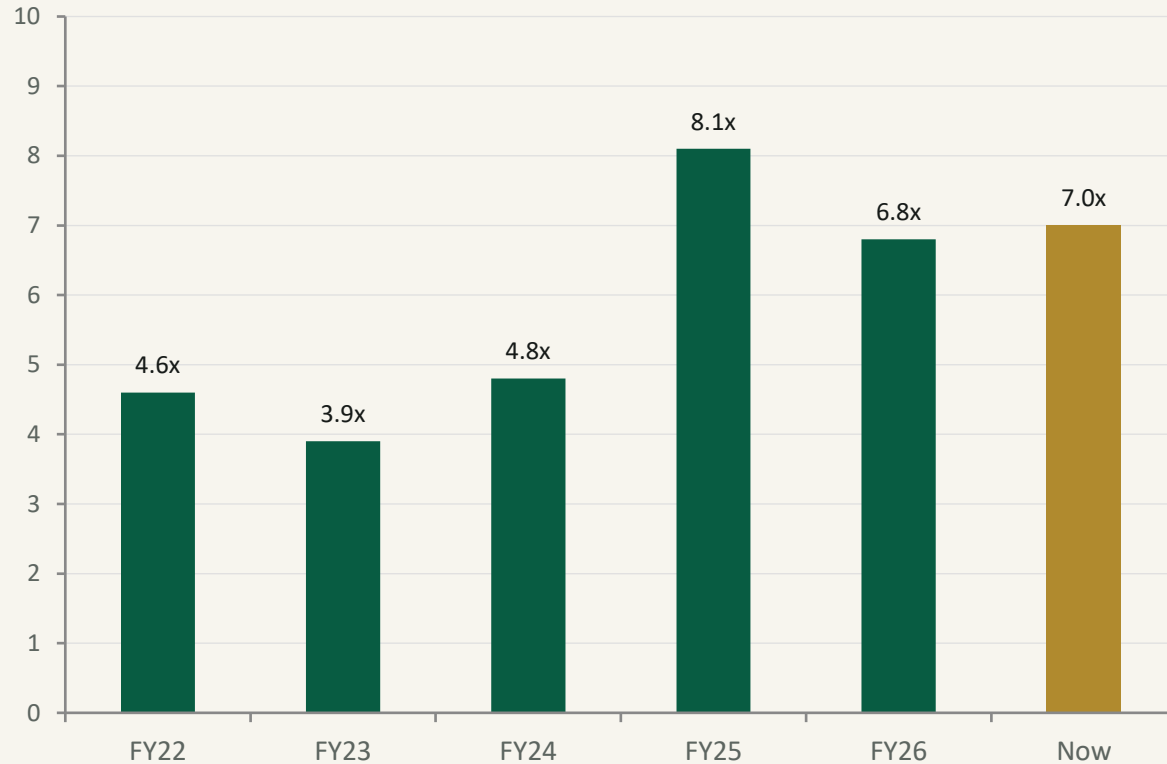
Shareholding, 31 Mar 2026 (%)



- Public float 43.54%; 21,566 shareholders; foreign holding only 0.7%.
- Group controlled by Vallibel One PLC (55.96%); Chairman Dhammika Perera.

Valuation context

P/E: year-end price ÷ that year's group EPS (x)



Metric at Rs. 44.00	Value
P/E on FY26 EPS (6.29)	7.0x
P/E on TTM EPS (6.88)	6.4x
Earnings yield (TTM)	15.6%
12-month T-bill yield (30 Sep 2026)	9.95%
P/BV (NAV 49.9 / Jun 50.56)	0.88x / 0.87x
EV / core EBITDA FY26	5.6x
Dividend yield	4.5%
LB Finance stake per RCL share*	approx. Rs. 19
ROE FY26	11%

The stock has traded at 4–8x earnings for five years. A discount to book is common for Sri Lankan holding-type companies with controlled boards and associate-heavy earnings.

Earnings sensitivity at today's price

How the P/E at Rs. 44.00 changes under different FY27 earnings outcomes. These are illustrations, not forecasts.

Energy shock

FY27 EPS Rs. 5.00

8.8x

implied P/E

Fuel and power costs hit margins; construction slows

Flat on FY26

FY27 EPS Rs. 6.30

7.0x

implied P/E

Moderation as the Chairman expects

Q1 pace holds

FY27 EPS Rs. 7.50

5.9x

implied P/E

Margins stay near 35%; associates keep growing

Strong year

FY27 EPS Rs. 8.50

5.2x

implied P/E

Construction boom plus LB Finance growth

Opportunities and catalysts

1 Construction upcycle

The Chairman cites 9.2% construction growth; management says housing demand remains high and started projects continue.

2 Margin rebuild

Q1 FY27 gross margin of 34.9% is above the FY25 (32.0%) and FY26 (33.7%) full-year levels; tiles at 42%.

3 Import substitution

Plans to make sanitaryware at Lanka Tiles to replace imports; robotics to cut costs.

4 Overseas growth

Uni-Dil Kenya and the aluminium India operation open markets beyond Sri Lanka.

5 LB Finance growth

Associate profit has risen every year since FY23 (Rs. 1.7 Bn → 3.9 Bn).

6 Inventory release

Cutting stock from about half a year of sales would free cash; Horana stock was already reduced in FY26.

Key risks

HIGH

Energy and input costs

Energy is a major cost; the MD warns sustained high oil prices could raise factory overheads beyond what prices can absorb. Raw-material supply disruptions (Hormuz).

HIGH

Construction cycle

Tiles and bathware depend on housing and renovation; FY25 showed how fast margins fall when demand weakens.

MEDIUM

Associate concentration

Nearly half of PAT comes from LB Finance, exposed to NBFI credit quality, rates and regulation.

MEDIUM

Inventory and working capital

Rs. 34.8 Bn of inventory at Jun-26; risk of write-downs and cash strain if demand slows.

MEDIUM

Imports and competition

Rising tile and bathware imports and low-cost aluminium pressure prices and volumes.

MEDIUM

Debt and interest rates

Borrowings Rs. 28.0 Bn at Jun-26; finance cost Rs. 2.6 Bn in FY26 (+16%).

LOWER

Governance and control

Vallibel One controls 56%; complex group with listed subsidiaries and minorities (NCI Rs. 17.8 Bn).

LOWER

Raw-material permits

Local raw materials face availability, quality and mining-permit issues.

Outlook and what to monitor

Management's stated direction

- Expect moderation in revenue and earnings growth given the Middle East conflict
- Optimise tile production and sales rather than add capacity
- Niche markets for bathware; substitute imports via Lanka Tiles
- Grow packaging in Kenya; lead the local packaging market
- Robotics and automation to drive efficiency
- Keep a strong balance sheet and disciplined finances

Checklist for the next results

- **Q2 FY27** (due by mid-November): does the gross margin hold near 35%?
- **Core profit:** PBT excl. associates vs Q1's approx. Rs. 1.56 Bn.
- **Inventory:** does it fall from Rs. 34.8 Bn as sales rise?
- **Energy:** impact of fuel and electricity costs on factory margins.
- **LB Finance:** its own quarterly results drive 40%+ of RCL's profit.
- **Debt:** borrowings vs Rs. 28.0 Bn at June; next CBSL review 20 Nov 2026.



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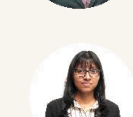
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