

Kajaria Ceramics

Estimate change

TP change

Rating change



CMP: INR1,287

TP: INR1,500 (+17%)

Buy

Weak results amid muted demand and margin pressure

Lower volume growth guidance of 9-10% (vs. 11-12% guided earlier)

- Kajaria Ceramics (KJC)'s 2QFY25 earnings were below our estimate due to lower-than-estimated gross margin and higher-than-estimated other expenses. EBITDA dipped 12% YoY to INR1.6b (12% miss) and OPM contracted 2.5pp YoY to ~13% (vs. estimated ~15%). PAT fell ~22% YoY to INR843m (22% miss).
- The management highlighted that persistent weakness in domestic demand and excessive rainfalls led to subdued demand for the tile industry. Tile export also declined due to global headwinds. KJC reduced volume growth guidance to ~9-10% YoY (from ~11-12% earlier) in FY25. OPM was also weak partly due to the commissioning of new units during the quarter (in tiles and bathware segment), which led to additional overheads and losses in the initial period.
- We cut our EPS estimates by ~12-13% for FY25/FY26 and ~9% for FY27 due to a slower-than-expected demand recovery and consistent price corrections. We **maintain our BUY rating** on KJC with a revised TP of INR1,500 (earlier INR1,750), based on 42x Sep'26E EPS.

Volume up 8% YoY; EBITDA margin contracts 2.5pp YoY to ~13%

- Consol. revenue/EBITDA/PAT stood at INR11.8b/INR1.6b/INR843m (+5%/-12%/-22% YoY and in line/-12%/-22% vs. our estimate). Tile volume rose 8% YoY to 28.7msm, while realization declined 2% YoY to INR373/sqm.
- Gross margin decreased 1.8pp YoY to ~38%. Employee costs increased 11% YoY (12.2% of revenue vs. 11.6% in 2QFY24). Other expenses rose 6% YoY (11.9% of revenue vs. 11.8% in 2QFY24). OPM contracted 2.5pp YoY to 13%.
- In 1HFY25, revenue grew ~5% YoY, while EBITDA/PAT declined by ~7%/19% YoY. Based on our estimate, the implied revenue/EBITDA/PAT growth is ~9%/8%/16% YoY in 2HFY25 and EBITDA margin flat YoY at ~15%. OCF declined ~64% YoY to INR2.1b due to weak profitability and surge in working capital.

Highlights from the management commentary

- Expects outlook to improve for the tiles industry in 2HFY25 as dealers' feedback is positive and as demand is coming from real estate projects.
- Gas prices remained unchanged QoQ in 2QFY25, with the average price of ~INR37/scm. Regional gas prices stood at INR38/INR37/INR35 in North/South/West.
- Plywood revenue declined 26% YoY to INR175m, bathware revenue rose 6% YoY to INR901m, and adhesives revenue was up 39% YoY at INR182m.

View and valuation

- We estimate KJC's to post a CAGR of 11%/13%/15% in revenue/EBITDA/PAT over FY24-27. We estimate tile volume to clock an 11% CAGR over FY24-27. Volume and EBITDA growth will be driven by capacity addition, increase in dealer count, increase in government projects as it sets up a pan-India project team, and positive operating leverage.
- The stock is currently trading at 39x/31x FY26E/FY27E EPS. We **maintain our BUY rating** with a revised TP of INR1,500 (earlier INR1,750), based on 42x Sep'26E EPS.

Bloomberg	KJC IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	204.9 / 2.4
52-Week Range (INR)	1579 / 1110
1, 6, 12 Rel. Per (%)	-9/-1/-21
12M Avg Val (INR M)	352
Free float (%)	52.5

Financial Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	48.9	55.3	63.3
EBITDA	7.0	8.4	10.1
Adj. PAT	4.1	5.1	6.3
EBITDA Margin (%)	14.4	15.2	16.0
Cons. Adj. EPS (INR)	27.0	33.1	40.9
EPS Gr. (%)	-0.7	22.6	23.4
BV/Sh. (INR)	176	193	214

Ratios

Net D:E	(0.1)	(0.2)	(0.2)
RoE (%)	15.3	17.4	19.6
RoCE (%)	17.8	20.3	22.9
Payout (%)	51.8	48.3	44.0

Valuations

P/E (x)	47.6	38.8	31.5
P/BV (x)	7.3	6.7	6.0
EV/EBITDA(x)	28.5	23.6	19.5
EV/Sales (x)	4.1	3.6	3.1

Shareholding pattern (%)

As On	Sep-24	Jun-24	Sep-23
Promoter	47.5	47.5	47.5
DII	28.4	27.8	25.5
FII	16.1	16.2	18.5
Others	8.1	8.5	8.6

FII Includes depository receipts

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Investors are advised to refer through important disclosures made at the last page of the Research Report.

Consolidated quarterly performance

(INR m)

	FY24				FY25				FY24	FY25E	FY25	Var.
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE			2QE	(%)
Net sales	10,642	11,216	11,518	12,408	11,137	11,793	12,393	13,624	45,784	48,947	11,800	(0)
YoY change (%)	5.6	4.1	5.6	3.0	4.6	5.1	7.6	9.8	4.5	6.9	5.2	
Total expenditure	8,950	9,419	9,730	10,688	9,466	10,204	10,621	11,613	38,787	41,905	9,995	2
EBITDA	1,692	1,797	1,788	1,720	1,671	1,589	1,772	2,011	6,997	7,042	1,805	(12)
Margin (%)	15.9	16.0	15.5	13.9	15.0	13.5	14.3	14.8	15.3	14.4	15.3	(183)
Depreciation	305	361	389	425	421	406	413	424	1,480	1,664	428	(5)
Interest	53	43	50	66	47	47	48	43	211	185	40	18
Other income	93	83	113	174	102	99	135	196	462	532	125	(21)
PBT before EO expense	1,427	1,477	1,462	1,403	1,304	1,235	1,447	1,740	5,768	5,725	1,462	(16)
Extra-ord expenses	0	0	0	0	0	0	0	0	0	0	0	
PBT after EO Expense	1,427	1,477	1,462	1,403	1,304	1,235	1,447	1,740	5,768	5,725	1,462	(16)
Tax	336	366	379	354	327	341	360	396	1,435	1,424	364	
Rate (%)	23.5	24.8	25.9	25.2	25.0	27.6	24.9	22.8	24.9	24.9	24.9	
Reported PAT	1,091	1,110	1,083	1,050	978	893	1,086	1,344	4,334	4,301	1,098	(19)
Minority interest	16	31	41	25	48	42	25	26	113	141	20	110
Adj. PAT	1,075	1,080	1,042	1,024	898	843	1,061	1,318	4,221	4,120	1,078	(22)
YoY change (%)	16.5	60.8	40.2	-2.3	-16.4	-21.9	1.9	28.7	24.7	-1.4	(0.1)	
Margin (%)	10.1	9.6	9.0	8.3	8.1	7.1	8.6	9.7	9.2	8.5	9.1	

Quarterly summary

	FY24				FY25E				YoY (%)	QoQ (%)
	1Q	2Q	3Q	4Q	1Q	2Q	3QE	4QE		
Sales Volumes-mn sqm:										
Own Manufacturing	13.8	14.8	15.3	16.1	14.9	15.6	16.6	18.6	6	5
JVs	4.8	4.8	5.3	6.1	5.5	5.4	5.8	6.7	13	(2)
Trading	6.4	6.9	6.5	7.4	6.6	7.6	7.1	6.9	11	16
Total sales volumes	25.0	26.5	27.1	29.6	27.0	28.7	29.5	32.1	8	6
Revenue Mix (INR m)										
Own Manufacturing	5,393	5,705	5,791	6,062	5,585	5,873	6,180	6,771	3	5
JVs	1,340	1,825	1,995	2,255	1,999	1,945	2,056	2,431	7	(3)
Trading	2,833	2,469	2,343	2,599	2,312	2,717	2,502	2,347	10	18
Sanitaryware / faucets	837.1	853	922	1,023	910	901	1,125	1,425	6	(1)
Plywood	143.1	235	340	327	179	175	391	519	(26)	(2)
Adhesives	96	130	128	143	152	182	140	131	39	19
Total	10,642	11,216	11,518	12,408	11,137	11,793	12,393	13,624	5	6
Realization/sqm (INR)										
Own Manufacturing	391	386	380	377	375	376	372	365	(3)	0
JVs	279	379	375	369	362	358	355	362	(5)	(1)
Trading	442	360	360	352	352	356	353	342	(1)	1
Blended Realization	386	383	379	374	372	373	369	363	(2)	0
Growth (% YoY)	-1.7%	-3.1%	-2.9%	-4.4%	-3.6%	-2.4%	-2.7%	-2.8%		
Growth (% QoQ)	-1.2%	-0.9%	-1.0%	-1.2%	-0.4%	0.3%	-1.3%	-1.4%		



Highlights from the management commentary

Demand trend and sector outlook

- The quarter was weak due to excessive rainfalls in Aug-Sep'24. KJC expects demand to revive in 2HFY25. Dealers have responded favorably, and demand from the real estate sector is gradually increasing. So the company is positive about 2H and expects to clock higher revenue than the industry by ~5-6%.
- EBITDA margins remained soft due to muted margins in the bathware division, which was largely attributable to losses incurred in the recently commissioned sanitaryware unit in Morbi and additional overheads incurred by Keronite unit in the tiles division, which commenced operations during the quarter.
- KJC expects volume growth of ~9-10% and margin guidance of ~15% in FY25.
- The company is positive about its sanitaryware segment in 2H compared to its subpar performance in 1H, as it has done a lot of work at ground level and increased in the number of showrooms.
- Exports fell by 15% in 1HFY25 due to the conflicts in the Middle East. A jump in ocean freight was due to the ongoing Red Sea crisis and container unavailability.

Other operational highlights

- KJC is using 30% biofuel in the north plant and the overall mix of biofuel is ~22-23%. Gas prices remained unchanged QoQ in 2QFY25, with the average price at around INR37/scm. Regional gas prices stood at INR38/ INR37/INR35 in North/South/West.
- The company anticipates a ~25% increase in government-related orders compared to last year, supported by the expansion of its team to cover pan-India, as opposed to having only one team in the North previously. It expects ~12-13% of its total sales to come from government orders.
- It expects to cover 300 more dealers by FY25 end.
- In 2Q, plywood revenue declined 26% YoY to INR175m, bathware revenue rose 6% YoY to INR901m, and adhesives revenue was up 39% YoY at INR182m.
- Channel inventory has declined after the GST implementation. It has gone down to 45-60 days, with the delivery time falling drastically.

Expansions and debt position

- The Nepal project was commissioned in Sep'24 and KJC expects a gradual ramp-up in 2H. KJC has commissioned a 5.1msm capacity of ceramics and GVT in Nepal. The total market size of Nepal is INR25b and in volume terms market size is between 22msm to 25msm. The company is looking to ramp up in the next three to six months as the plant is stabilized and dealer showrooms are established.
- The company incurred a capex of INR1.35b in 1H, including INR1.01b for the Nepal project. Capex is pegged at INR2.0b for full year FY25.
- The company remains net cash positive, with net cash balance of INR3.4b vs. INR3.5b as of Mar'24.

Story in charts

Exhibit 1: Sales volume grew 8.4% YoY

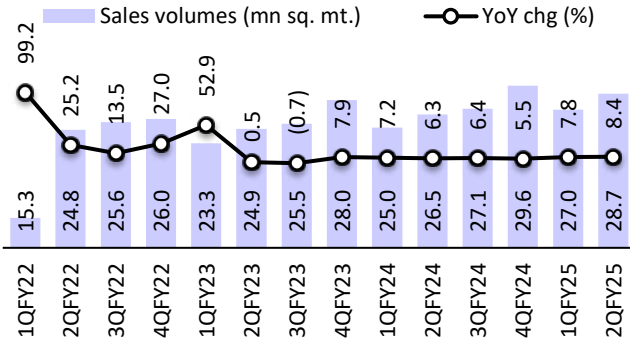


Exhibit 2: Blended realization declined 3% YoY

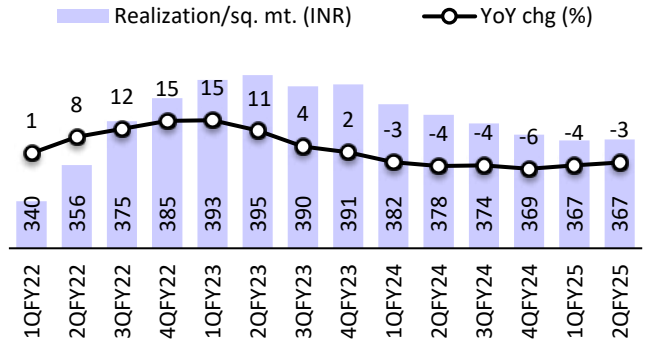


Exhibit 3: Revenue increased 5% YoY

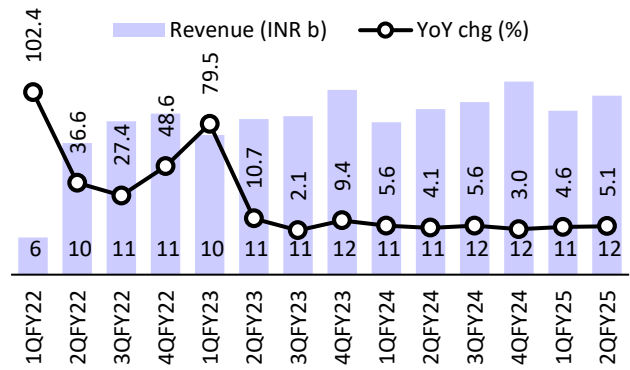


Exhibit 4: Gross margin down 184bp YoY

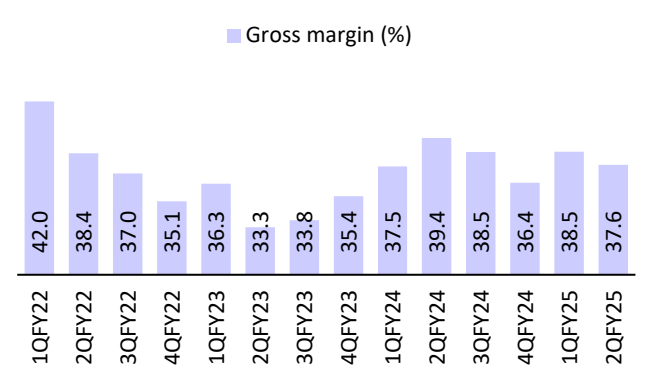


Exhibit 5: EBITDA declined 12% YoY, margin down 255bp YoY

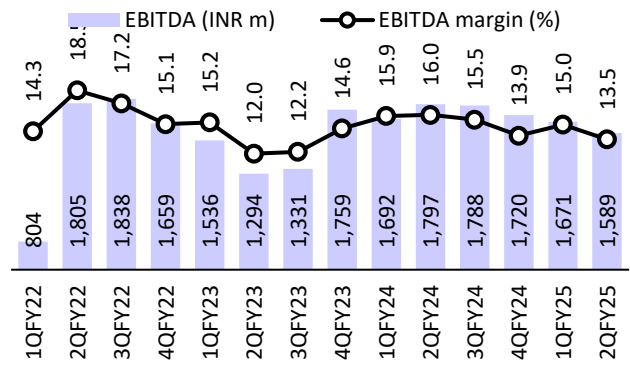
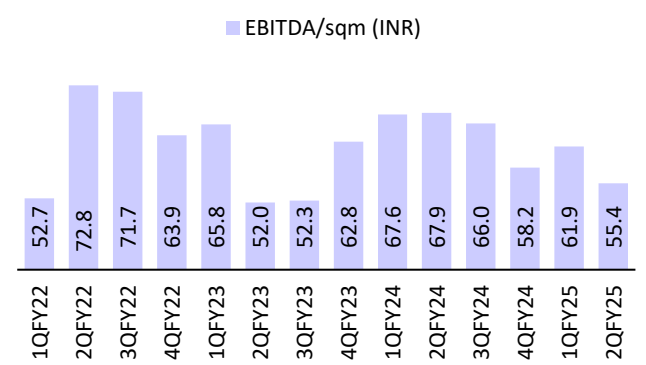


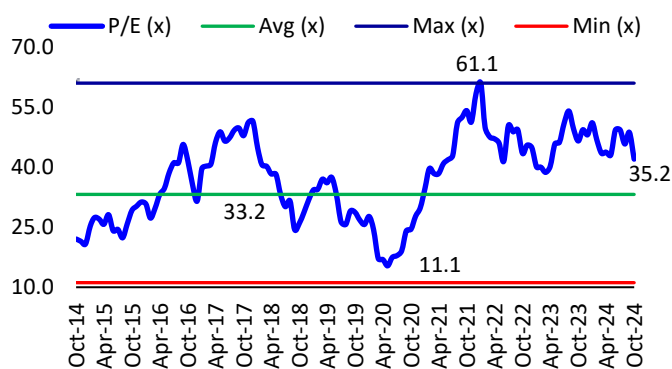
Exhibit 6: EBITDA/sqm down 19% YoY



Sources: Company reports, MOFSL

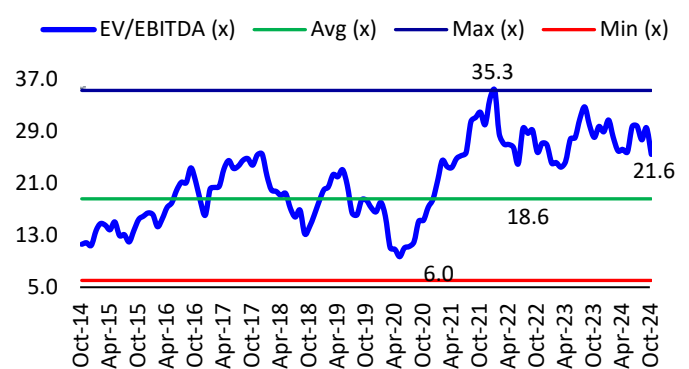
Sources: Company reports, MOFSL

Exhibit 7: One-year forward P/E (x) trend



Sources: Company reports, MOFSL

Exhibit 8: One-year forward EV/EBITDA (x) trend



Sources: Company reports, MOFSL

Financials and valuations

Consolidated Income Statement								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	28,080	27,809	37,052	43,819	45,784	48,947	55,290	63,284
Change (%)	-5.0	-1.0	33.2	18.3	4.5	6.9	13.0	14.5
EBITDA	4,159	5,088	6,107	5,920	6,997	7,042	8,424	10,145
Margin (%)	14.8	18.3	16.5	13.5	15.3	14.4	15.2	16.0
Depreciation	1,081	1,067	1,154	1,329	1,480	1,664	1,832	2,028
EBIT	3,078	4,022	4,953	4,592	5,517	5,378	6,591	8,117
Int. and Finance Charges	195	107	127	223	211	185	183	157
Other Income - Rec.	242	213	276	336	462	532	612	703
PBT bef. EO Exp.	2,883	3,914	4,826	4,368	5,306	5,193	6,409	7,961
EO Expense/(Income)	0	0	0	79	0	0	0	0
PBT after EO Exp.	3,125	4,127	5,102	4,625	5,768	5,725	7,020	8,664
Current Tax	937	1,083	1,210	1,174	1,349	1,424	1,746	2,155
Deferred Tax	-348	-446	65	-11	86	0	0	0
Tax Rate (%)	18.9	15.4	25.0	25.1	24.9	24.9	24.9	24.9
Reported PAT	2,535	3,490	3,827	3,463	4,334	4,301	5,274	6,509
PAT Adj for EO items	2,535	3,490	3,827	3,404	4,334	4,301	5,274	6,509
Change (%)	13.2	37.7	9.7	-11.1	27.3	-0.7	22.6	23.4
Margin (%)	9.0	12.6	10.3	7.8	9.5	8.8	9.5	10.3
Less: Minority Interest	-18.4	8.5	57.6	17.8	112.5	140.6	151.9	164.0
Net Profit	2,554	3,482	3,770	3,386	4,221	4,161	5,122	6,345

Consolidated Balance Sheet								(INR m)
Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Equity Share Capital	159	159	159	159	159	159	159	159
Total Reserves	16,984	18,530	21,065	23,109	26,006	27,938	30,513	33,992
Net Worth	17,143	18,689	21,224	23,268	26,165	28,097	30,672	34,152
Deferred Liabilities	716	674	726	738	801	801	801	801
Minority Interest	637	646	648	776	591	731	883	1,047
Total Loans	1,281	987	1,279	2,093	1,706	1,506	1,306	1,106
Capital Employed	19,777	20,996	23,877	26,875	29,263	31,136	33,663	37,106
Gross Block	19,009	20,052	20,777	25,076	28,467	30,967	34,467	37,967
Less: Accum. Deprn.	7,061	8,128	9,282	10,610	12,090	13,754	15,586	17,614
Net Fixed Assets	11,948	11,924	11,496	14,466	16,377	17,213	18,881	20,353
Capital WIP	266	149	2,634	817	679	2,000	1,000	1,000
Total Investments	101	50	0	19	185	185	185	185
Curr. Assets, Loans&Adv.	12,056	13,120	15,728	17,976	18,151	19,215	21,810	24,882
Inventory	5,127	3,731	4,659	5,647	5,322	5,840	6,426	7,309
Account Receivables	3,967	4,317	5,133	6,012	6,194	6,488	7,139	8,121
Cash and Bank Balance	2,252	4,428	4,244	3,938	5,141	5,589	6,817	7,827
Loans and Advances	710	645	1,693	2,380	1,494	1,298	1,428	1,624
Curr. Liability & Prov.	4,594	4,248	5,981	6,403	6,129	7,477	8,213	9,313
Account Payables	4,306	4,019	5,722	6,111	5,809	7,137	7,853	8,934
Provisions	288	229	259	293	320	340	360	380
Net Current Assets	7,462	8,873	9,747	11,573	12,022	11,738	13,597	15,569
Appl. of Funds	19,777	20,996	23,877	26,875	29,263	31,136	33,663	37,106

E: MOFSL estimates

Financials and valuations

Ratios

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Basic (INR)								
Consol EPS	15.9	21.9	24.0	21.4	27.2	27.0	33.1	40.9
Cash EPS	22.7	28.6	31.3	29.7	36.5	37.4	44.6	53.6
BV/Share	107.8	117.5	133.3	146.2	164.3	176.4	192.5	214.4
DPS	3.0	10.0	11.0	9.0	12.0	14.0	16.0	18.0
Payout (%)	22.7	45.6	45.8	41.4	44.1	51.8	48.3	44.0
Valuation (x)								
P/E	80.6	58.6	53.5	60.1	47.3	47.6	38.8	31.5
Cash P/E	56.5	44.9	41.1	43.2	35.2	34.3	28.8	24.0
P/BV	11.9	10.9	9.6	8.8	7.8	7.3	6.7	6.0
EV/Sales	7.2	7.2	5.4	4.6	4.4	4.1	3.6	3.1
EV/EBITDA	48.9	39.5	33.0	34.3	28.7	28.5	23.6	19.5
Dividend Yield (%)	0.2	0.8	0.9	0.7	0.9	1.1	1.2	1.4
Return Ratios (%)								
RoIC	14.5	23.6	27.4	21.6	23.4	21.7	25.2	28.9
RoE	15.5	19.4	18.9	15.2	17.1	15.3	17.4	19.6
RoCE	16.0	19.7	22.1	18.1	19.7	17.8	20.3	22.9
Working Capital Ratios								
Asset Turnover (x)	1.5	1.4	1.7	1.7	1.6	1.6	1.7	1.8
Working Capital (Days)	66	58	62	69	56	47	47	47
Leverage Ratio (x)								
Net Debt/Equity	(0.2)	(0.7)	(0.5)	(0.3)	(0.5)	(0.6)	(0.7)	(0.7)

Consolidated Cash Flow Statement

(INR m)

Y/E March	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
OP/(Loss) before Tax	3,125	4,127	5,102	4,625	5,756	5,725	7,020	8,664
Depreciation	1,081	1,067	1,154	1,329	1,480	1,664	1,832	2,028
Interest & Finance Charges	195	107	127	223	211	185	183	157
Direct Taxes Paid	(1,005)	(980)	(1,285)	(1,265)	(1,385)	(1,424)	(1,746)	(2,155)
(Inc)/Dec in WC	(993)	868	(621)	(1,851)	260	732	(631)	(962)
CF from Operations	2,403	5,189	4,476	3,061	6,323	6,882	6,658	7,732
Others	(159)	(101)	(221)	(106)	(307)	-	-	-
CF from Operating incl EO	2,244	5,088	4,255	2,955	6,017	6,882	6,658	7,732
(Inc)/Dec in FA	(1,240)	(1,127)	(2,687)	(2,317)	(3,004)	(3,821)	(2,500)	(3,500)
Free Cash Flow	1,004	3,961	1,568	639	3,013	3,062	4,158	4,232
(Pur)/Sale of Investments	(88)	(41)	(51)	(363)	(628)	-	-	-
Others	427	(1,788)	(241)	842	655	-	-	-
CF from Investments	(901)	(2,955)	(2,979)	(1,837)	(2,976)	(3,821)	(2,500)	(3,500)
Issue of Shares	3	53	52	12	11	-	-	-
Inc/(Dec) in Debt	(104)	(439)	112	239	(575)	(200)	(200)	(200)
Interest Paid	(153)	(68)	(92)	(166)	(205)	(185)	(183)	(157)
Dividend Paid	(1,150)	(1,591)	(1,273)	(1,433)	(1,394)	(2,229)	(2,547)	(2,866)
Others	-	-	-	-	-	-	-	-
CF from Fin. Activity	(1,404)	(2,045)	(1,201)	(1,348)	(2,163)	(2,613)	(2,930)	(3,222)
Inc/Dec of Cash	(60)	87	75	(230)	878	448	1,228	1,010
Opening Balance	221	161	248	335	105	983	1,431	2,659
Closing Balance	161	248	323	105	983	1,431	2,659	3,669
Bank balance	2,091	4,179	3,921	3,832	4,158	4,158	4,158	4,158
Total cash balance	2,252	4,428	4,244	3,938	5,141	5,589	6,817	7,827

Investment in securities market are subject to market risks. Read all the related documents carefully before investing

Explanation of Investment Rating	
Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall be within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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