

Kajaria Ceramics

BSE SENSEX 78,042 S&P CNX 23,588

Kajaria

Bloomberg	KJC IN
Equity Shares (m)	159
M.Cap.(INRb)/(USDb)	182.7 / 2.1
52-Week Range (INR)	1579 / 1110
1, 6, 12 Rel. Per (%)	-2/-15/-26
12M Avg Val (INR M)	348
Free float (%)	52.5

Financial Snapshot (INR b)

Y/E MARCH	FY25E	FY26E	FY27E
Sales	48.7	54.1	61.3
EBITDA	7.0	8.2	9.7
Adj. PAT	4.1	4.9	6.1
EBITDA Margin (%)	14.4	15.1	15.9
Cons. Adj. EPS (INR)	26.8	31.9	39.0
EPS Gr. (%)	-1.5	19.2	22.2
BV/Sh. (INR)	176	191	211

Ratios

Net D:E	(0.1)	(0.2)	(0.2)
RoE (%)	15.2	16.9	18.9
RoCE (%)	17.7	19.7	22.1
Payout (%)	52.2	50.1	46.1

Valuations

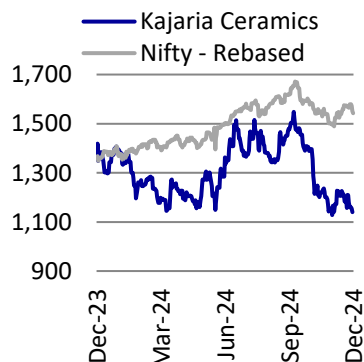
P/E (x)	42.8	35.9	29.4
P/BV (x)	6.5	6.0	5.4
EV/EBITDA(x)	25.5	21.6	18.1
EV/sales (x)	3.7	3.3	2.9

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

Stock's performance (one-year)



CMP: INR1,147 TP: INR1,450 (+26%) Buy

Subdued growth; lower fuel cost offers respite

Volumes and margins in 2H likely to be similar to 1H

We hosted the management of Kajaria Ceramics (KJC) in our 10th India Ideation Conference. The management highlighted that KJC gained market share in 1HFY25, aided by strong distribution network and brand positioning. Industry demand remained subdued, with minor improvement seen after the festive season. Management expects margin in 2HFY25 to be similar to 1HFY25. The company is focusing on government projects and targeting to increase the share of those projects in its total revenue to ~15% in the next two years from ~10% in FY24.

Tiles demand muted, though KJC gaining market share

- There has not been much change in the industry dynamics, though demand has improved marginally after the festive season. KJC has gained market share in 1HFY25 thanks to its focus on strengthening its distribution network. KJC reported ~8% YoY volume growth in 1HFY25, whereas the industry is likely to have posted flat volume growth.
- In 2HFY25, volume is expected to grow ~7-8% YoY. In FY26, volume growth is estimated to be ~11-12% YoY, led by improvement in real estate demand. KJC, being the largest player in the industry, should benefit when industry demand recovers.
- KJC generates ~30% of its revenues from the project business, with ~7-10% coming from government-related works, ~10-13% from small projects, and ~7-8% from large builders. The company is building a pan-India sales team, which will focus on getting government orders, as it aims to increase the revenue contribution from those projects to ~15% of total revenue in the next two years.

Lower exports leading to higher competitive intensity

- Tile exports have slowed in the past few months, with 1HFY25 exports (available data so far) falling ~17% YoY to INR87.7b (export volume fell ~18% YoY to 250msm during this period). The monthly average tile export at ~INR14.6b in 1HFY25 was ~13% lower than FY24 monthly average.
- Management highlighted that exports have been impacted by rising freight rates and the Red Sea conflicts. As a result, Morbi-based unorganized players are pushing volume in the domestic markets. Morbi players have become aggressive in the project business, as they do not have a better distribution network for retail sales. However, realization is under pressure due to higher competitive intensity.

Fuel cost under control despite recent price increase by Gujarat Gas

- Recently, Gujarat Gas hiked prices for ceramic players in the Morbi region by ~5% to INR47.0/scm from mid-Dec'24. However, we estimate the average fuel cost for KJC to decline 1.4% QoQ in 3QFY25 (down 0.7% on spot basis over 3QFY25 average) based on fuel mix optimization by KJC.

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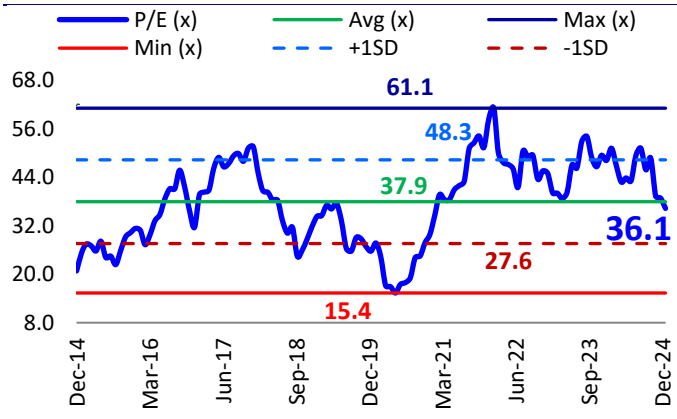
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- Management expects margin in 2HFY25 to be similar to 1HFY25 (OPM at ~14%). Margin in FY26 should be around 15-17%, led by 1) better volume growth which would drive positive operating leverage and improve realization, and 2) improvement in the bathware segment’s margin (~10-11% post plant ramp-up).
- We reduce our FY26/FY27 EBITDA estimates by ~3%/4%, leading to a ~4% cut in EPS estimates for FY26/FY27 each, factoring in lower volumes.

Valuation and view: Slow recovery priced in; reiterate BUY

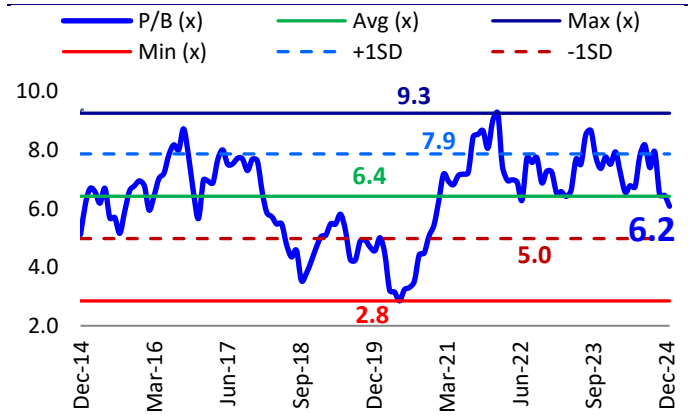
- We estimate KJC to deliver a CAGR of 12%/18%/21% in revenue/EBITDA/PAT over FY25-27. We estimate EBITDA margin at ~15%/16% in FY26/FY27 vs. ~15%/14% in FY24/FY25E (historical average at ~16% over last 10 years). We estimate its ROE/ROCE to improve to 19%/22% by FY27 vs. 15%/18% in FY25E. KJC has been generating FCF since FY16, which is likely to continue going forward as well. We expect net cash to increase to INR5.4b/INR6.4b in FY26/FY27 from INR4.1b in FY25E, despite high capex (INR10.0b over FY25-27).
- In the last three months, the stock has corrected more than 25% due to lower demand, increased supply from Morbi-based players (limiting realization growth), and margin pressure. The stock is currently trading at 36x/29x FY26E/FY27E EPS (vs. 10-year average of 38x). We reiterate our BUY rating on KJC with a TP of INR1,450, based on 40x Dec’26E EPS.

Exhibit 1: One-year forward P/E (x) trend



Sources: Company reports, MOFSL

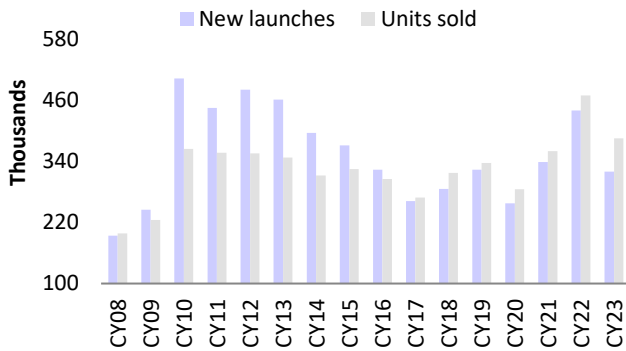
Exhibit 2: One-year forward P/B (x) trend



Sources: Company reports, MOFSL

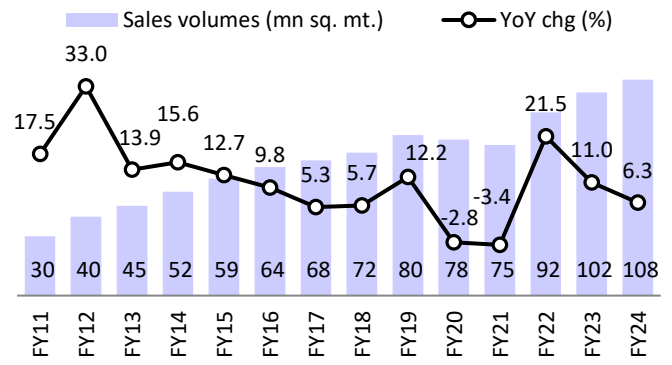
Story in charts

Exhibit 3: Previous real estate upcycle was in CY08-12



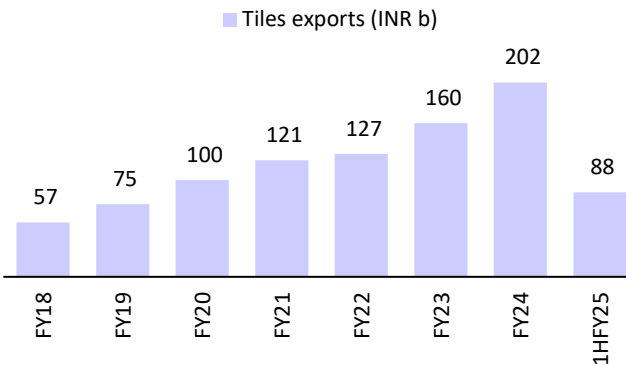
Source: Ministry of Commerce and Industry, MOFSL

Exhibit 4: KJC reported volume CAGR of 18.5% over FY11-15



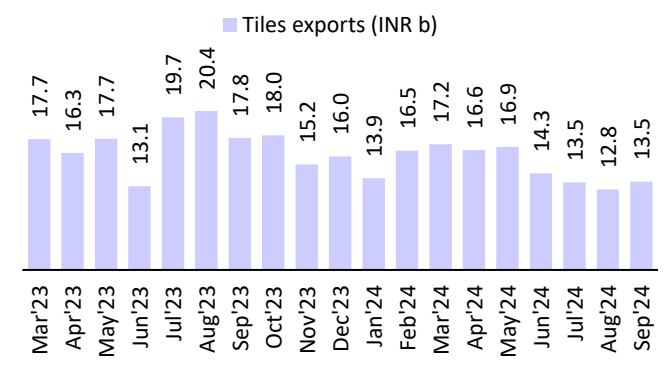
Source: Ministry of Commerce and Industry, MOFSL

Exhibit 5: Tile exports declined 17% YoY during 1HFY25



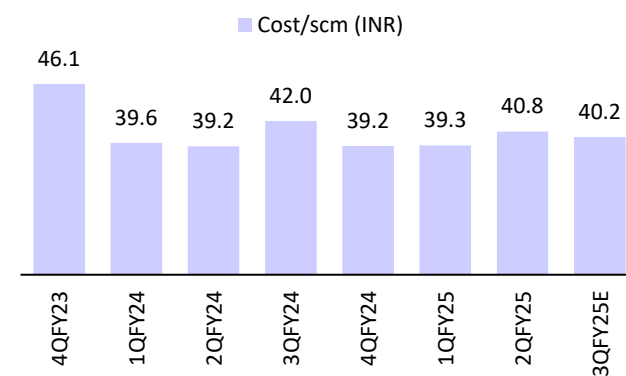
Source: Ministry of Commerce and Industry, MOFSL

Exhibit 6: Tile exports declined in past few months



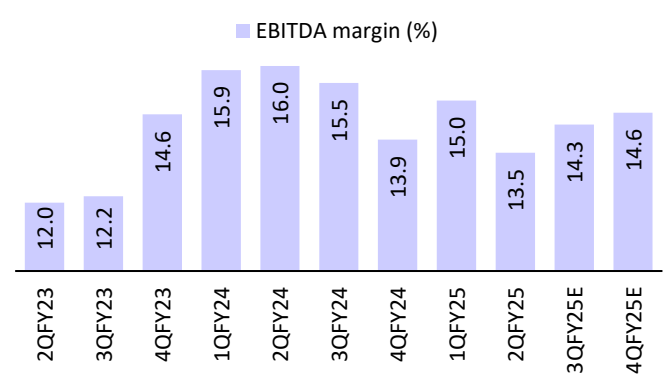
Source: Ministry of Commerce and Industry, MOFSL

Exhibit 7: KJC's quarterly average fuel cost/scm trend



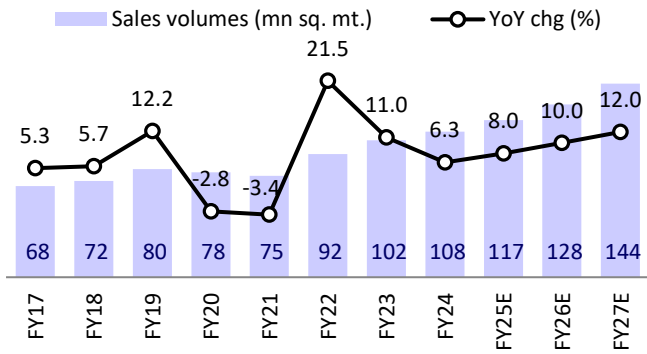
Source: Company, MOFSL

Exhibit 8: Estimate KJC's quarterly EBITDA to improve QoQ



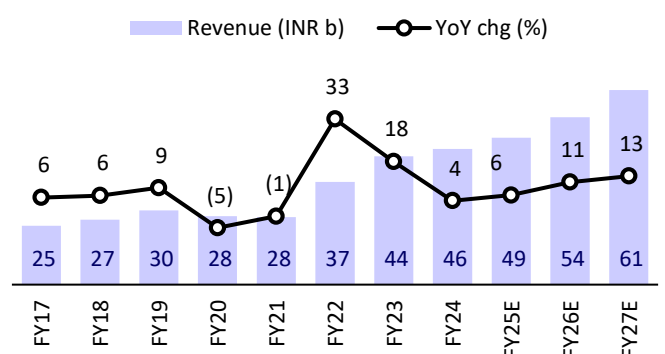
Source: Company, MOFSL

Exhibit 9: Expect 11% tiles volume CAGR over FY25-27



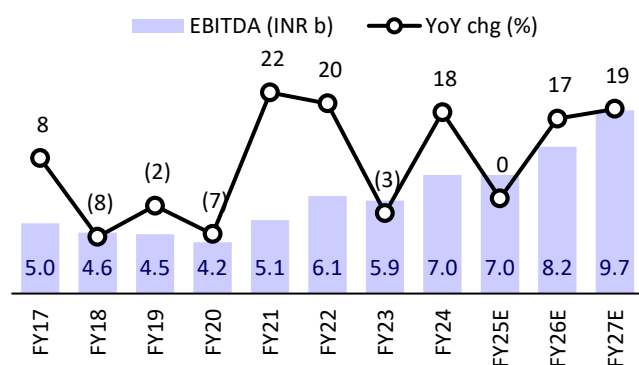
Source: Company, MOFSL

Exhibit 10: Revenue should clock ~12% CAGR over FY25-27E



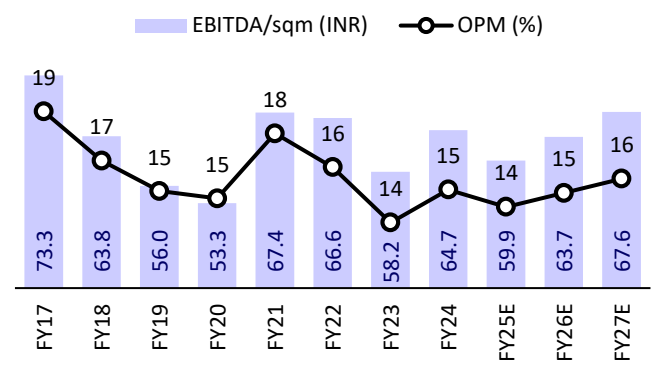
Source: Company, MOFSL

Exhibit 11: EBITDA should post 18% CAGR over FY25-27E



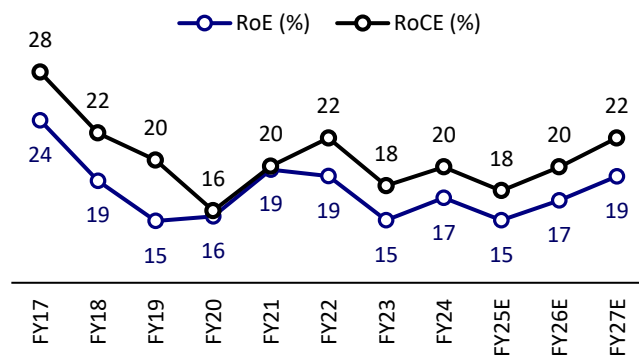
Source: Company, MOFSL

Exhibit 12: OPM margin is estimated at 15-16% over FY26-27



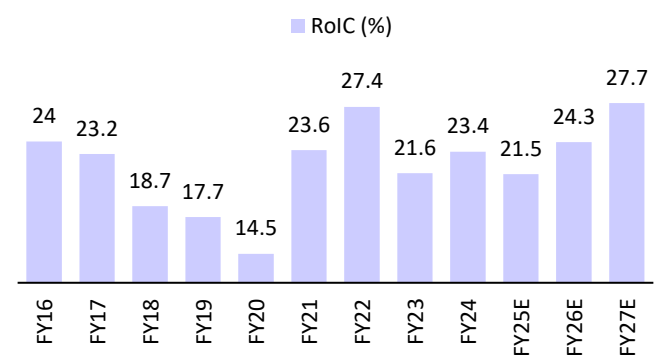
Source: Company, MOFSL

Exhibit 13: RoE/ROCE to improve



Source: Company, MOFSL

Exhibit 14: ROIC should also improve



Source: Company, MOFSL

Financials and valuations

Consolidated Income Statement

	(INR m)							
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Net Sales	28,080	27,809	37,052	43,819	45,784	48,750	54,143	61,290
Change (%)	-5.0	-1.0	33.2	18.3	4.5	6.5	11.1	13.2
EBITDA	4,159	5,088	6,107	5,920	6,997	6,999	8,177	9,721
Margin (%)	14.8	18.3	16.5	13.5	15.3	14.4	15.1	15.9
Depreciation	1,081	1,067	1,154	1,329	1,480	1,664	1,832	1,992
EBIT	3,078	4,022	4,953	4,592	5,517	5,335	6,345	7,729
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	5,150	6,162	7,572
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	5,682	6,774	8,275
Current Tax	937	1,083	1,210	1,174	1,349	1,413	1,685	2,058
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	4,269	5,089	6,217
PAT Adj for EO items	2,535	3,490	3,827	3,404	4,334	4,269	5,089	6,217
Change (%)	13.2	37.7	9.7	-11.1	27.3	-1.5	19.2	22.2
Margin (%)	9.0	12.6	10.3	7.8	9.5	8.8	9.4	10.1
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	4,128	4,937	6,053

Consolidated Balance Sheet

	(INR m)							
Y/E March	FY20	FY21	FY22	FY23	FY24E	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	27,905	30,295	33,483
Net Worth	17,143	18,689	21,224	23,268	26,165	28,065	30,455	33,642
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	31,103	33,445	36,597
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	17,578
Net Fixed Assets	11,948	11,924	11,496	14,466	16,377	17,213	18,881	20,389
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	19,168	21,492	24,100
Inventory	5,127	3,731	4,659	5,647	5,322	5,827	6,343	7,116
Account Receivables	3,967	4,317	5,133	6,012	6,194	6,475	7,047	7,906
Cash and Bank Balance	2,252	4,428	4,244	3,938	5,141	5,570	6,692	7,496
Loans and Advances	710	645	1,693	2,380	1,494	1,295	1,409	1,581
Curr. Liability & Prov.	4,594	4,248	5,981	6,403	6,129	7,462	8,112	9,077
Account Payables	4,306	4,019	5,722	6,111	5,809	7,122	7,752	8,697
Provisions	288	229	259	293	320	340	360	380
Net Current Assets	7,462	8,873	9,747	11,573	12,022	11,706	13,380	15,023
Appl. of Funds	19,777	20,996	23,877	26,875	29,263	31,103	33,445	36,597

E: MOFSL estimates

Financials and valuations

Ratios								
Y/E March	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	FY27E
Basic (INR)								
Consol EPS	15.9	21.9	24.0	21.4	27.2	26.8	31.9	39.0
Cash EPS	22.7	28.6	31.3	29.7	36.5	37.2	43.4	51.5
BV/Share	107.8	117.5	133.3	146.2	164.3	176.2	191.2	211.2
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	52.2	50.1	46.1
Valuation (x)								
P/E	71.9	52.3	47.7	53.7	42.2	42.8	35.9	29.4
Cash P/E	50.4	40.0	36.7	38.6	31.4	30.8	26.4	22.3
P/BV	10.6	9.8	8.6	7.8	7.0	6.5	6.0	5.4
EV/Sales	6.5	6.4	4.8	4.1	3.9	3.7	3.3	2.9
EV/EBITDA	43.6	35.2	29.4	30.5	25.6	25.5	21.6	18.1
Dividend Yield (%)	0.3	0.9	1.0	0.8	1.0	1.2	1.4	1.6
Return Ratios (%)								
RoIC	14.5	23.6	27.4	21.6	23.4	21.5	24.3	27.7
RoE	15.5	19.4	18.9	15.2	17.1	15.2	16.9	18.9
RoCE	16.0	19.7	22.1	18.1	19.7	17.7	19.7	22.1
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	FY24E	FY25E	FY26E	FY27E
OP/(Loss) before Tax	3,125	4,127	5,102	4,625	5,756	5,682	6,774	8,275
Depreciation	1,081	1,067	1,154	1,329	1,480	1,664	1,832	1,992
Interest & Finance Charges	195	107	127	223	211	185	183	157
Direct Taxes Paid	(1,005)	(980)	(1,285)	(1,265)	(1,385)	(1,413)	(1,685)	(2,058)
(Inc)/Dec in WC	(993)	868	(621)	(1,851)	260	746	(553)	(839)
CF from Operations	2,403	5,189	4,476	3,061	6,323	6,864	6,551	7,527
Others	(159)	(101)	(221)	(106)	(307)	-	-	-
CF from Operating incl EO	2,244	5,088	4,255	2,955	6,017	6,864	6,551	7,527
(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	3,043	4,051	4,027
(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	429	1,122	804
Opening Balance	221	161	248	335	105	983	1,413	2,534
Closing Balance	161	248	323	105	983	1,413	2,534	3,339
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	5,570	6,692	7,496

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Investment Rating	Expected return (over 12-month)
BUY	>=15%
SELL	< - 10%
NEUTRAL	> - 10 % to 15%
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