

**HOLD**

TP: Rs 1,450 | ▲ 1%

**KAJARIA CERAMICS**

Building Materials

23 July 2024

**In-line Q1; downgrade to HOLD on expensive valuations**

- Q1 operating profit came broadly in line with our estimates, but missed our APAT estimate by 11.5% on lower other income and higher tax rate
- Maintained volume growth guidance of 11-12% for FY25, which appears to be optimistic based on current high operating rate and Q1
- Downgrade to HOLD from BUY on expensive valuation (trades at 46.2x on 1Y forward P/E vs 5Y average of 39.9x); raise TP by 4% to Rs 1,450

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**Broadly in-line Q1:** KJC's Q1FY25 operating result came broadly in line with our estimate (Revenue: +0.9%; EBITDA: -1.5%), but there was a miss in APAT by 11.5% due to lower other income and higher tax rate. Overall, KJC revenue grew by 4.6% YoY, but EBITDA/APAT de-grew by 1.3%/16.5% in Q1FY25 due to margin compression for both tiles/non-tile segments.

**Key highlights:** KJC gained market share in Q1FY25 as its tiles volume (+7.9% YoY) grew at a better pace than the industry (~3-4%) in Q1. However, tile segment EBIT was down 4.9% YoY in Q1FY25 due to margin contraction (-117bps YoY to 12.6%). Non-tile segment revenue grew by 11.1% YoY in Q1FY25 driven by all the products (bathware: +8.7%; plywood: +25.1%; adhesives: +58.8%), but the segment posted EBIT loss of Rs 16mn in Q1FY25 (Rs 57mn profit in Q4FY24) because of severe margin pressure (-730bps YoY to -1.5%) in bathware (due to initial cost associated with the newly commissioned plant) and plywood (higher timber prices).

**Guidance intact:** KJC has witnessed gradual recovery in tiles demand (low double-digit) in the domestic market over the past two months (i.e. Jun-Jul'24). Thus, management has maintained its guidance of tiles volume growth of 11-12% and consolidated EBITDA margin of 15-17% for FY25. However, we believe there is a risk attached to the company's volume growth guidance due to (a) existing tile plant operating at high rate (91% in Q1FY25), (b) reduction in tile capacity by 4.8% (due to disposal of two old lines at Gailpur from Jul'24), and (c) no major capex programme for the domestic market over the next one year.

**Downgrade to HOLD, raise TP by 4% to Rs 1,450:** KJC is now trading at an expensive valuation (46.2x on 1Y forward P/E vs. 5Y average of 39.9x) post a sharp rise in its stock price by 22% since the Q4 results. Hence, we downgrade our rating on the stock from BUY to HOLD. We have revised our EPS estimates (-4.2%/+0.5% for FY25E/FY26E) based on the Q1 result and introduced FY27 estimates. We have increased our TP to Rs 1,450 (Rs 1,400 earlier) as we roll forward our valuation from Mar'26 to Jun'26. Our target P/E remains unchanged at 40x.

**Key changes**

Target	Rating
▲	▼

Ticker/Price	KJC IN/Rs 1,442
Market cap	US\$ 2.7bn
Free float	53%
3M ADV	US\$ 5.7mn
52wk high/low	Rs 1,524/Rs 1,110
Promoter/FPI/DII	47%/18%/25%

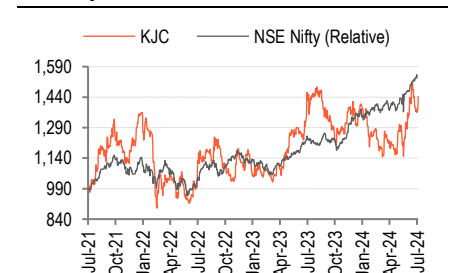
Source: NSE | Price as of 23 Jul 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	45,784	50,950	58,921
EBITDA (Rs mn)	6,997	7,799	9,222
Adj. net profit (Rs mn)	4,221	4,663	5,600
Adj. EPS (Rs)	26.5	29.3	35.2
Consensus EPS (Rs)	26.5	31.9	38.5
Adj. ROAE (%)	16.6	16.7	18.3
Adj. P/E (x)	54.4	49.3	41.0
EV/EBITDA (x)	33.1	29.7	25.2
Adj. EPS growth (%)	20.0	10.5	20.1

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

(Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total operating income	11,137	10,642	4.6	12,408	(10.2)
Raw-Material expense	4,722	4,717	0.1	5,779	(18.3)
Gross Profit	6,415	5,925	8.3	6,629	(3.2)
Employee expense	1,394	1,137	22.6	1,297	7.5
Energy costs	2,127	1,937	9.8	2,118	0.4
Other expense	1,224	1,159	5.5	1,494	(18.1)
EBITDA	1,671	1,692	(1.3)	1,720	(2.9)
D&A	421	305	38.1	425	(0.8)
EBIT	1,249	1,387	(9.9)	1,295	(3.6)
Interest cost	47	53	(11.2)	66	(29.2)
Non-operating expense/(income)	(79)	(93)	(15.0)	(181)	(56.5)
PBT	1,281	1,427	(10.2)	1,410	(9.2)
Tax	358	336	6.6	354	1.2
Reported PAT	923	1,091	(15.4)	1,057	(12.6)
Adjusted PAT	898	1,075	(16.5)	1,024	(12.3)
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>
Gross margin	57.6	55.7	193	53.4	418
Employee cost	12.5	10.7	183	10.5	206
Power costs	19.1	18.2	90	17.1	203
Other cost	11.0	10.9	9	12.0	(106)
EBITDA margin	15.0	15.9	(90)	13.9	114
Tax rate	27.9	23.5	440	25.1	286
APAT margin	8.1	10.1	(204)	8.3	(19)

Source: Company, BOBCAPS Research

**Fig 2 – Segment performance**

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
<b>Revenue (Rs mn)</b>					
<b>Tiles</b>	<b>10,048</b>	<b>9,662</b>	<b>4.0</b>	<b>11,059</b>	<b>(9.1)</b>
- Own Manufacturing	5,585	5,393	3.6	6,062	(7.9)
- Subsidiaries	1,999	1,781	12.2	2,255	(11.4)
- Outsourcing	2,312	2,392	(3.4)	2,599	(11.1)
<b>Non-Tile</b>	<b>1,089</b>	<b>980</b>	<b>11.1</b>	<b>1,349</b>	<b>(19.3)</b>
- Bathware	910	837	8.7	1,023	(11.0)
- Plywood	179	143	25.1	327	(45.2)
- Adhesives	152	96	58.8	143	6.9
<b>Total</b>	<b>11,137</b>	<b>10,642</b>	<b>4.6</b>	<b>12,408</b>	<b>(10.2)</b>
<b>EBIT margin (%)</b>			<b>(bps)</b>		<b>(bps)</b>
Tile	12.6	13.8	(117)	11.6	99
Non-Tile	(1.5)	5.8	(730)	0.9	(237)
<b>Total</b>	<b>11.2</b>	<b>13.0</b>	<b>(182)</b>	<b>10.4</b>	<b>78</b>
<b>Operational data</b>					
Tiles Sales Volume (MT)	27.0	25.0	7.9	29.6	(8.8)
Tiles Realization (Rs/sqm)	367	382	(4.1)	369	(0.7)
Tiles EBIT per unit (Rs/sqm)	47	53	(11.8)	43	8.1

Source: Company, BOBCAPS Research

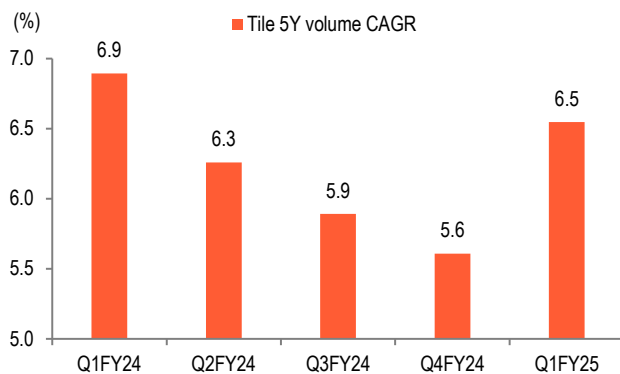
## Earnings call highlights

- **Tiles industry scenario:** Tiles exports from India were impacted in 4MFY25 due to a steep rise in ocean freight rates. However, management believes it is not likely to increase competitive intensity from Morbi players in the domestic tiles market. The company has witnessed good recovery in tiles demand (low double digit) in the months of Jun-Jul'24 and expects the demand momentum to sustain for the remaining 8MFY25 due to revival in the real estate sector as well as steep increase in government spending on infrastructure. Management believes the tiles realisation in the domestic market has now stabilised and does not expect any further pricing pressure going ahead.
- **Outlook:** The company has maintained its guidance of tiles volume growth of 11-12% and consolidated EBITDA margin of 15-17% for FY25. Tiles revenue is projected to grow at 8-9% in FY25. Over the medium term, the company aims to grow its revenue at 12% CAGR over FY24-FY27 which would be driven by tiles (at 11% CAGR) as well as non-tiles (at 24.6% CAGR – Plywood: 19%; Bathware: +23%; Adhesives: +44%). Management expects tiles revenue share to be ~85% by FY27. It projects tiles volume to grow at 11.5% CAGR with consolidated EBITDA margin of 15-17% over FY25-FY27.
- **Tiles market share:** The company gained market share as its tiles volume grew by 7.9% in Q1FY25 vs ~3-4% growth for the domestic tiles market. Going ahead, the company aims to grow its volume at 11-12% rate (vs industry growth rate of 5-6%) for FY25 due to deeper distribution penetration, investment in fast-growing high-margin products, increased contribution of government project sales, and increased spending on branding & IT upgradation (on implementation of sales force automation and dealer management system).
- **Dealer network:** The company aims to increase its dealer network annually by 10% (i.e. net addition of 200 dealers) in FY25 to increase its presence in Tier-3 and -4 cities. Management hopes to mainly open exclusive showrooms in future.
- **B2C:B2B mix:** The company expects to increase the share of government project sales from 12% in FY24 to 15% over the next three to four years by expanding its geographical coverage from North India to pan-India. Margin on B2B sales is normally 5-6% lower than B2C sales.
- **Tiles product mix:** The volume mix of ceramic/ polished vitrified tiles (PVT)/ glazed vitrified tiles (GVT) was 43:23:34 in Q1FY25 vs 44:25:31 in Q1FY24.
- **Tiles capex:** The company has disposed of two old ceramic lines at its Gailpur plant in Jul'24, which has resulted in annual production capacity of ceramic tiles/aggregate capacity reducing from 31.3 MSM/92.5 MSM to 26.9 MSM/88.0 MSM. Going ahead, the company plans to increase its capacity through the brownfield route – on which a decision will be taken shortly. Management expects to complete its brownfield projects in six to seven months.
- **Nepal plant:** KJC's greenfield 50:50 JV project in Nepal, of 5.1MSM capacity, is expected to be commissioned by Sep'24 (vs Jun'24 earlier, delayed due to heavy rain) at a cost of Rs 1.8bn. The tile industry's size is expected to be Rs 25bn and the company aims to control 10% of this market share with the help of this plant. It

expects this plant to operate at a better margin due to the high duty imposed on Indian products.

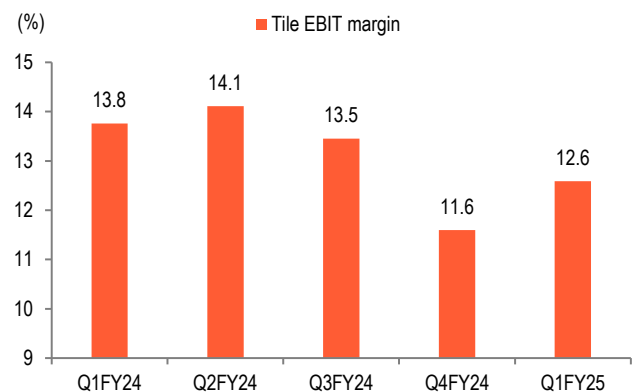
- **Bathware:** Revenue grew at a moderate pace of 8.7% rate (vs targeted growth of 23% CAGR over FY24-FY27) in Q1FY25. The division margin came under pressure in Q1FY25 due to start-up cost associated with the newly commissioned sanitaryware plant. Management expects the division margin to improve from Q3FY25.
- **Plywood:** Revenue grew by 25% YoY in Q1FY25, better than the targeted revenue growth of 19% CAGR over FY24-FY27. However, the division margin came under severe pressure in Q1FY25 due to higher timber prices, but it is expected to improve from Q2FY25 as the company has hiked prices by 3% from Jul'24 to offset the impact of higher timber prices.
- **Adhesive:** Revenue grew by 58.8% YoY in Q1FY25, which is better than targeted revenue growth of 44% CAGR over FY24-FY27. The company plans to set up an adhesives facility in Gailpur, Rajasthan, by Dec'24 at a cost of Rs 150mn. It would continue to source the product through an outsourcing model for the East, West and South India markets. The company plans to set up adhesives facilities in other regions as well in future.
- **Fuel:** Blended fuel prices declined from Rs 39/SCM in Q4FY24 to Rs 37/SCM in Q1FY25 and it is expected to remain stable in the near future.

**Fig 3 – KJC's tile volumes grew at 7.9% YoY and 6.5% on 5Y CAGR basis in Q1FY25**



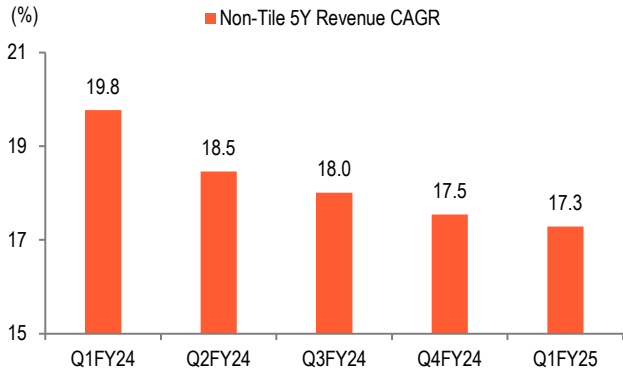
Source: Company, BOBCAPS Research

**Fig 4 – Tile EBIT margin fell 117bps YoY to 12.6% in Q1FY25 on intense competition and weak demand**



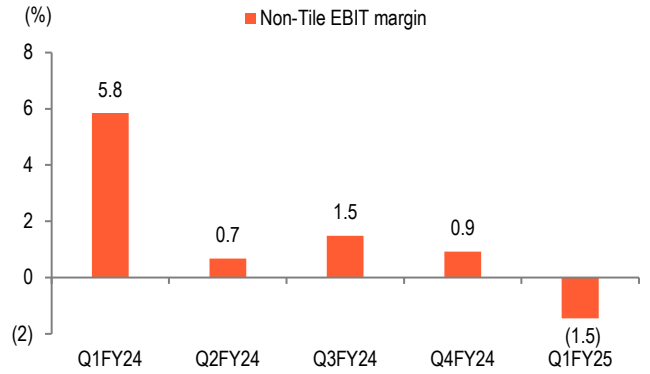
Source: Company, BOBCAPS Research

**Fig 5 – Non-tile segment continues to grow at a healthy 11.1% YoY and 17.3% on 5Y CAGR basis in Q1FY25...**



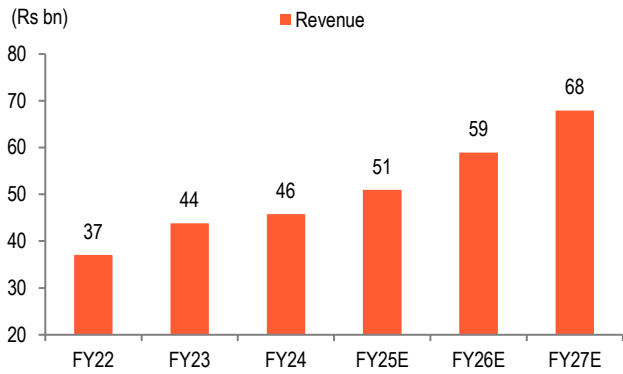
Source: Company, BOBCAPS Research

**Fig 6 – ... but EBIT margin was down sharply due to margin contraction in bathware and plywood division**



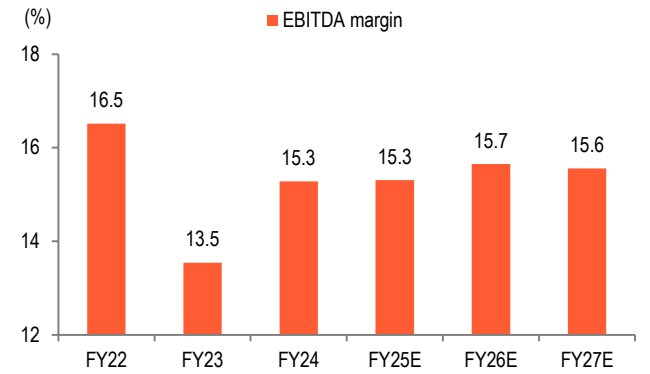
Source: Company, BOBCAPS Research

**Fig 7 – KJC’s revenue projected to grow at 14% CAGR over FY24-FY27E**



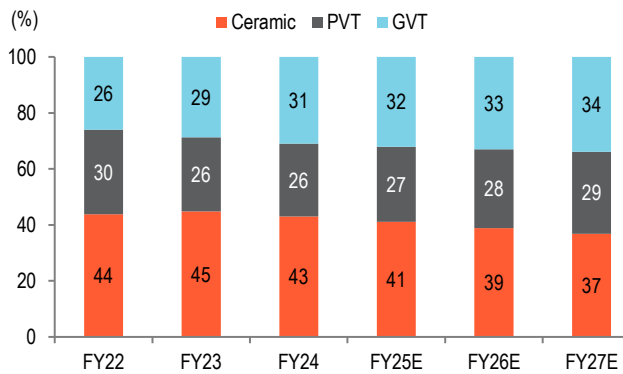
Source: Company, BOBCAPS Research

**Fig 8 – KJC EBITDA margin is projected to marginally improve over medium term...**



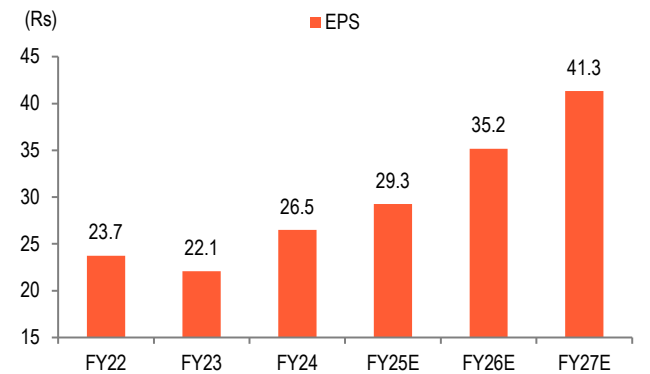
Source: Company, BOBCAPS Research

**Fig 9 – ... due to rising share of high-margin GVT sales and operating leverage benefits**



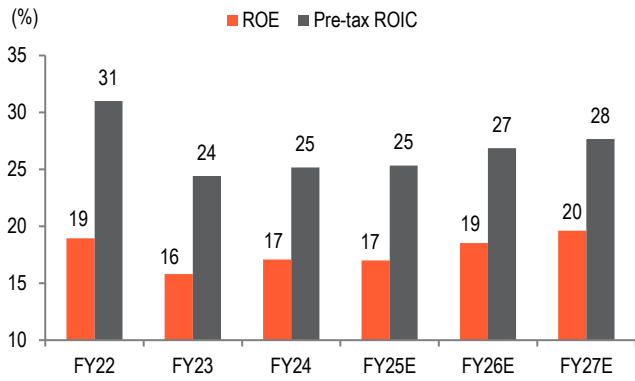
Source: Company, BOBCAPS Research

**Fig 10 – EPS forecast to grow at 16.0% CAGR over FY24-FY27E**



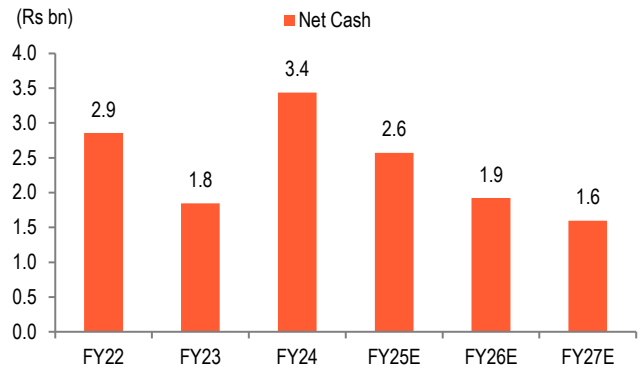
Source: Company, BOBCAPS Research

**Fig 11 – KJC is likely to generate healthy return ratio over FY24-FY27E**



Source: Company, BOBCAPS Research

**Fig 12 – KJC is also likely to remain net debt free over FY24-FY26**



Source: Company, BOBCAPS Research

## Valuation methodology

KJC is now trading at an expensive valuation (46.2x on 1Y forward P/E vs. 5Y average of 39.9x) post the 22% rise in its stock price since the Q4 result. Hence, we downgrade our rating on the stock from BUY to HOLD.

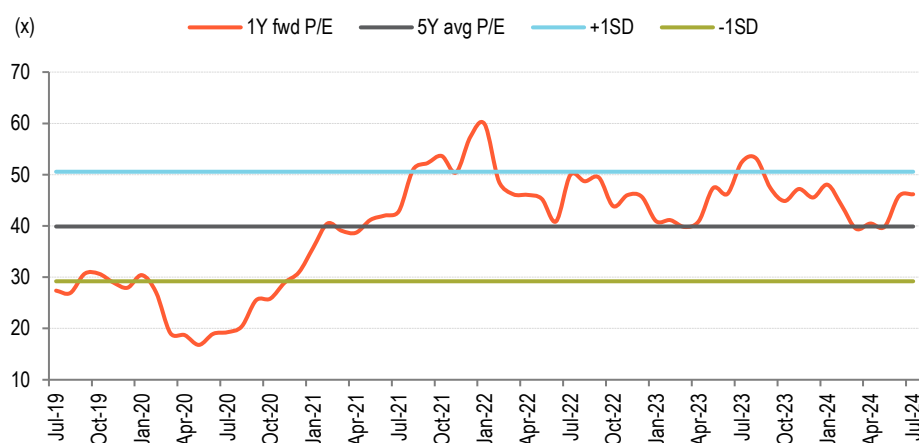
We have revised our EPS estimates (-4.2%/+0.5% for FY25E/FY26E) based on the Q1 result and introduced FY27 estimates. We have increased our TP to Rs 1,450 (Rs 1,400 earlier) as we roll forward our valuation from Mar'26 to Jun'26. Our target P/E remains unchanged at 40x.

**Fig 13 – Revised estimates**

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	50.9	58.9	50.7	57.8	0.5	2.0
EBITDA	7.8	9.2	7.9	9.1	(1.6)	0.8
EBITDA Margin	15.3	15.7	15.6	15.8	(32bps)	(19bps)
Adjusted PAT	4.7	5.6	4.9	5.6	(4.2)	0.5
EPS (Rs)	29.3	35.2	30.5	35.0	(4.2)	0.5

Source: BOBCAPS Research

**Fig 14 – Trading at 46.2x on 1Y forward P/E vs. 5Y average of 39.9x**



Source: Bloomberg, BOBCAPS Research

**Fig 15 – Key assumptions**

Particulars (%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Tile Volume Growth	21.5	11.0	6.3	11.0	12.0	12.0
Tile Realisation Growth	9.3	5.9	(3.3)	(1.3)	2.0	2.0
Tile Revenue Growth	32.8	17.5	2.8	9.6	14.2	14.2
Non-Tile Revenue Growth	37.7	26.0	20.2	24.6	25.3	21.3
Non-Tile Revenue Share	9.2	9.8	11.3	12.7	13.7	14.4

Source: Company, BOBCAPS Research

## Key risks

- Better-than-expected recovery in real estate demand and sharp improvement in non-tile segment margins are key upside risks to our estimates.
- Market share loss in tiles and a steep decline in tile exports from India are key downside risks.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	615	650	HOLD
Astral	ASTRA IN	7.2	2,237	2,200	HOLD
Century Plyboards	CPBI IN	1.8	677	700	HOLD
Cera Sanitaryware	CRS IN	1.4	9,017	7,700	HOLD
Finolex Industries	FNXP IN	2.4	320	265	HOLD
Greenlam Industries	GRLM IN	0.9	571	550	HOLD
Greenpanel Industries	GREENP IN	0.5	317	340	HOLD
Greenply Industries	MTLM IN	0.5	308	320	BUY
Hindware Home Innovation	HINDWARE IN	0.4	436	600	BUY
Kajaria Ceramics	KJC IN	2.7	1,442	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	676	750	HOLD
Somany Ceramics	SOMC IN	0.4	739	900	BUY
Supreme Industries	SI IN	8.4	5,509	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 23 Jul 2024



## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>43,819</b>	<b>45,784</b>	<b>50,950</b>	<b>58,921</b>	<b>67,882</b>
EBITDA	5,934	6,997	7,799	9,222	10,560
Depreciation	1,329	1,480	1,687	1,823	1,931
EBIT	4,605	5,517	6,111	7,399	8,629
Net interest inc./(exp.)	(223)	(211)	(187)	(187)	(187)
Other inc./(exp.)	336	462	552	480	600
Exceptional items	14	0	0	0	0
EBT	4,705	5,768	6,476	7,692	9,042
Income taxes	1,163	1,435	1,660	1,936	2,276
Extraordinary items	79	0	0	0	0
Min. int./Inc. from assoc.	(18)	(113)	(153)	(156)	(183)
<b>Reported net profit</b>	<b>3,445</b>	<b>4,221</b>	<b>4,663</b>	<b>5,600</b>	<b>6,583</b>
Adjustments	69	0	0	0	0
<b>Adjusted net profit</b>	<b>3,514</b>	<b>4,221</b>	<b>4,663</b>	<b>5,600</b>	<b>6,583</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,104	2,933	3,264	3,774	4,348
Other current liabilities	2,723	2,385	2,385	2,385	2,385
Provisions	82	278	309	357	412
Debt funds	2,093	1,706	1,760	1,877	2,015
Other liabilities	1,261	1,372	1,372	1,372	1,372
Equity capital	159	159	159	159	159
Reserves & surplus	23,109	26,006	28,558	31,621	35,223
Shareholders' fund	24,044	26,756	29,178	32,086	35,504
<b>Total liab. and equities</b>	<b>33,305</b>	<b>35,429</b>	<b>38,268</b>	<b>41,851</b>	<b>46,036</b>
Cash and cash eq.	3,938	5,141	4,333	3,801	3,614
Accounts receivables	6,012	6,194	6,893	7,972	9,184
Inventories	5,647	5,322	6,415	7,709	9,225
Other current assets	1,268	970	1,013	1,079	1,152
Investments	19	148	148	148	148
Net fixed assets	13,705	15,336	17,148	18,826	20,395
CWIP	817	679	679	679	679
Intangible assets	761	1,041	1,041	1,041	1,041
Deferred tax assets, net	207	185	185	185	185
Other assets	932	412	412	412	412
<b>Total assets</b>	<b>33,305</b>	<b>35,429</b>	<b>38,268</b>	<b>41,851</b>	<b>46,036</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>2,978</b>	<b>6,467</b>	<b>4,751</b>	<b>5,488</b>	<b>6,164</b>
Capital expenditures	(2,482)	(3,254)	(3,500)	(3,500)	(3,500)
Change in investments	(19)	(129)	0	0	0
Other investing cash flows	7	225	315	243	363
<b>Cash flow from investing</b>	<b>(2,495)</b>	<b>(3,157)</b>	<b>(3,185)</b>	<b>(3,257)</b>	<b>(3,137)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	707	(387)	55	117	138
Interest expenses	(223)	(211)	(187)	(187)	(187)
Dividends paid	(1,433)	(1,912)	(2,112)	(2,536)	(2,981)
Other financing cash flows	143	302	(260)	(312)	(366)
<b>Cash flow from financing</b>	<b>(806)</b>	<b>(2,208)</b>	<b>(2,504)</b>	<b>(2,918)</b>	<b>(3,396)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(323)</b>	<b>1,103</b>	<b>(938)</b>	<b>(688)</b>	<b>(370)</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,938</b>	<b>5,141</b>	<b>4,333</b>	<b>3,801</b>	<b>3,614</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	21.6	26.5	29.3	35.2	41.3
Adjusted EPS	22.1	26.5	29.3	35.2	41.3
Dividend per share	9.0	12.0	13.3	15.9	18.7
Book value per share	146.2	164.3	180.3	199.5	222.1

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.3	5.1	4.5	3.9	3.4
EV/EBITDA	39.2	33.1	29.7	25.2	21.9
Adjusted P/E	65.3	54.4	49.3	41.0	34.9
P/BV	9.9	8.8	8.0	7.2	6.5

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.7	73.2	72.0	72.8	72.8
Interest burden (PBT/EBIT)	102.2	104.6	106.0	104.0	104.8
EBIT margin (EBIT/Revenue)	10.5	12.1	12.0	12.6	12.7
Asset turnover (Rev./Avg TA)	131.6	129.2	133.1	140.8	147.5
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	15.3	16.6	16.7	18.3	19.5

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	18.3	4.5	11.3	15.6	15.2
EBITDA	(3.0)	17.9	11.5	18.2	14.5
Adjusted EPS	(7.0)	20.0	10.5	20.1	17.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.5	15.3	15.3	15.7	15.6
EBIT margin	10.5	12.1	12.0	12.6	12.7
Adjusted profit margin	8.0	9.2	9.2	9.5	9.7
Adjusted ROAE	15.3	16.6	16.7	18.3	19.5
ROCE	18.9	21.0	21.5	23.2	24.6
<b>Working capital days (days)</b>					
Receivables	50	49	49	49	49
Inventory	47	42	46	48	50
Payables	26	23	23	23	23
<b>Ratios (x)</b>					
Gross asset turnover	2.1	1.9	1.9	1.9	2.0
Current ratio	2.3	2.6	2.6	2.6	2.7
Net interest coverage ratio	20.6	26.1	32.6	39.5	46.1
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.1)	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

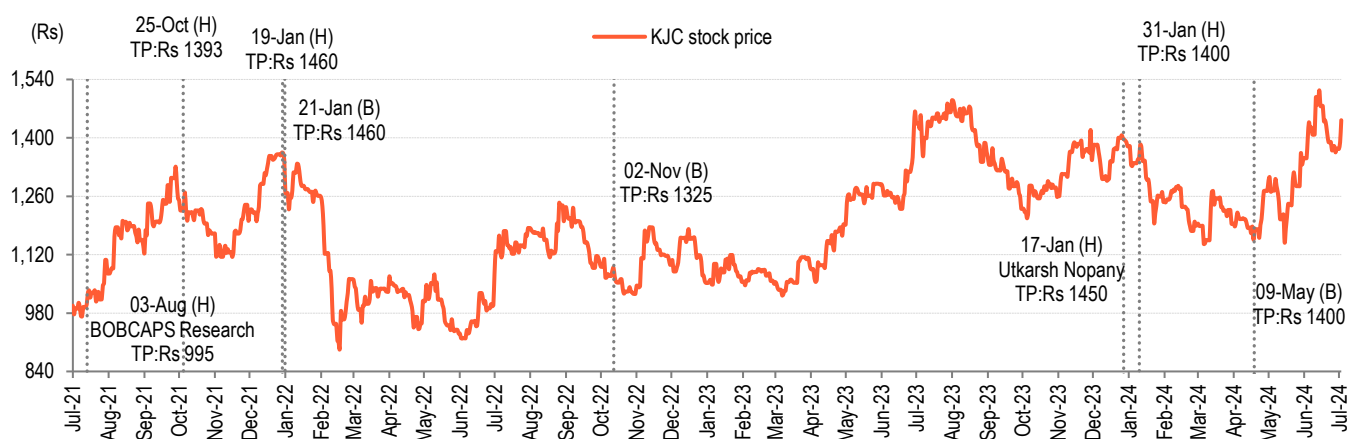
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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### Ratings and Target Price (3-year history): KAJARIA CERAMICS (KJC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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