

**HOLD**

TP: Rs 1,450 | ▲ 13%

**KAJARIA CERAMICS**

Building Materials

22 October 2024

**Miss estimates on sharp margin contraction; maintain HOLD**

- **Weak Q2 on sharp margin contraction due to high share of outsourced sales volume and high overhead costs of new commissioned units**
- **Guidance for volume growth revised down to 9-10% (vs 11-12%) and margin to 15% (vs 15-17%) for FY25 based on the weak Q2 result**
- **Maintain HOLD with unchanged TP of Rs 1,450 as the future earnings potential is well captured in the current valuation**

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**Weak Q2:** KJC's Q2FY25 result came below our expectation (Revenue: -2%; EBITDA: -13%; APAT: -23%) mainly due to the sharp contraction in EBITDA margin (-255bps YoY to 13.5% vs +15.1% estimate). Overall, KJC revenue grew by 5.1% YoY, but EBITDA/APAT de-grew by 11.6%/21.9% in Q2FY25. However, KJC EBITDA grew at a nominal pace of 8.6% on a 5Y CAGR basis in Q2FY25.

**Key highlights:** KJC gained market share as its tiles volume (+8.4% YoY) grew at a better pace than the industry (~2-3%) in Q2FY25. However, tile segment EBIT was down 9.7% YoY in Q2FY25 due to margin contraction (-207bps YoY to 12.0%) on account of higher outsourced sales volume mix and high overhead of the newly-acquired Keronite unit. Non-tile segment revenue de-grew by 1.1% YoY in Q2FY25 as weak plywood sales (-25.6%) more than offset the impact of increased sales of bathware (+5.7%)/adhesives (+39.4%). Non-tile segment reported EBIT loss of Rs 107mn in Q2FY25 (vs profit of Rs 7.3mn in Q2FY24) largely attributable to losses incurred in the recently commissioned sanitaryware unit in Morbi.

**Guidance downgrade:** The company has lowered its tiles volume growth guidance to 9-10% (+11-12% earlier) and consolidated EBITDA margin guidance is expected to be around 15% (15-17% earlier) for FY25. The company aims to bring down the net working capital from 59 days in Mar'24 to 50 days by Mar'25. Tiles realisation is expected to remain stable over the next two quarters. The company plans to spend Rs 2.0bn in FY25 (H1FY25: Rs 1.35bn).

**Maintain HOLD with unchanged TP of Rs 1,450:** We maintain our HOLD rating on the stock as we believe strong earnings growth prospects (EPS to grow at 14% CAGR over FY24-FY27E) is quite well baked into the current valuations (the stock trades at 42.9x on 1Y forward P/E vs 5Y average of 41.7x). We have revised down our EPS estimates (-11.4%/-6.5%/-4.9% for FY25E/FY26E/FY27E) based on the weak Q2 result, but our TP remains at Rs 1,450 as we roll forward our valuation from Jun'26 to Sep'26. Our target P/E remains unchanged at 40x.

**Key changes**

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	KJC IN/Rs 1,287
Market cap	US\$ 2.4bn
Free float	53%
3M ADV	US\$ 3.4mn
52wk high/low	Rs 1,579/Rs 1,110
Promoter/FPI/DII	47%/16%/28%

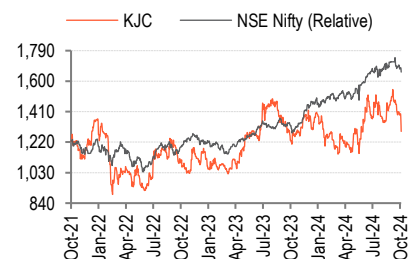
Source: NSE | Price as of 22 Oct 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	45,784	49,853	57,649
EBITDA (Rs mn)	6,997	7,138	8,622
Adj. net profit (Rs mn)	4,221	4,133	5,233
Adj. EPS (Rs)	26.5	25.9	32.9
Consensus EPS (Rs)	26.5	30.5	37.5
Adj. ROAE (%)	16.6	14.8	17.3
Adj. P/E (x)	48.6	49.6	39.2
EV/EBITDA (x)	29.6	29.0	24.1
Adj. EPS growth (%)	20.0	(2.1)	26.6

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Total operating income	11,793	11,216	5.1	11,137	5.9	22,930	21,859	4.9	12,079	(286)
Raw-Material expense	5,115	4,582	11.6	4,722	8.3	9,837	9,299	5.8		
Gross Profit	6,678	6,635	0.7	6,415	4.1	13,093	12,560	4.2		
Employee expense	1,443	1,300	11.1	1,394	3.6	2,837	2,436	16.5		
Energy costs	2,244	2,211	1.5	2,127	5.5	4,372	4,148	5.4		
Other expense	1,401	1,327	5.6	1,224	14.5	2,625	2,486	5.6		
EBITDA	1,589	1,797	(11.6)	1,671	(4.9)	3,260	3,489	(6.6)	1,827	(238)
D&A	406	361	12.5	421	(3.7)	827	666	24.2		
EBIT	1,183	1,436	(17.6)	1,249	(5.3)	2,432	2,823	(13.8)		
Interest cost	47	43	11.0	47	1.1	94	95	(1.3)		
Non-operating expense/(income)	(70)	(81)	(13.7)	(79)	(11.9)	(148)	(173)	(14.4)		
PBT	1,205	1,474	(18.2)	1,281	(5.9)	2,487	2,901	(14.3)		
Tax	350	366	(4.4)	358	(2.2)	708	702	0.9		
Reported PAT	855	1,108	(22.8)	923	(7.3)	1,779	2,199	(19.1)		
Minority Interest	13	29	(55.6)	25	(49.2)	38	45	(15.3)		
Reported PAT after Minority Interest	843	1,080	(21.9)	898	(6.2)	1,741	2,155	(19.2)	1,099	(256)
Adjusted PAT	843	1,080	(21.9)	898	(6.2)	1,741	2,155	(19.2)		
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>		
Gross margin	56.6	59.2	(252)	57.6	(97)	57.1	57.5	(36)		
Employee cost	12.2	11.6	65	12.5	(28)	12.4	11.1	123		
Power costs	19.0	19.7	(68)	19.1	(7)	19.1	19.0	9		
Other cost	11.9	11.8	5	11.0	90	11.4	11.4	7		
EBITDA margin	13.5	16.0	(255)	15.0	(153)	14.2	16.0	(175)		
Tax rate	29.0	24.8	420	27.9	109	28.5	24.2	428		
APAT margin	7.1	9.6	(248)	8.1	(92)	7.6	9.9	(227)		

Source: Company, BOBCAPS Research

**Fig 2 – Segment Performance**

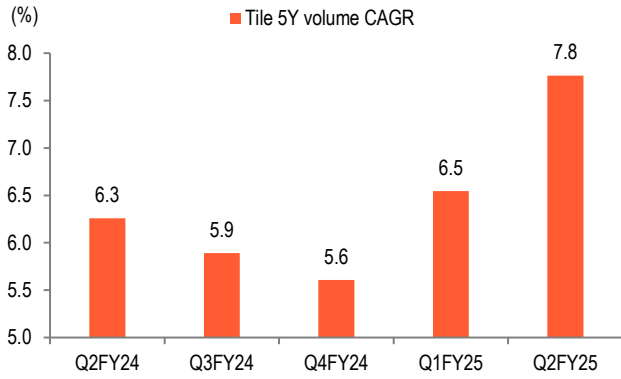
(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
<b>Revenue</b>								
<b>Tiles</b>	<b>10,717</b>	<b>10,129</b>	<b>5.8</b>	<b>10,048</b>	<b>6.7</b>	<b>20,764</b>	<b>19,791</b>	<b>4.9</b>
- Own Manufacturing	5,873	5,705	3.0	5,585	5.2	1,146	1,110	3.2
- Subsidiaries	1,945	1,825	6.6	1,999	(2.7)	394	361	9.4
- Outsourcing	2,717	2,469	10.1	2,312	17.5	503	486	3.4
<b>Non-Tile</b>	<b>1,076</b>	<b>1,088</b>	<b>(1.1)</b>	<b>1,089</b>	<b>(1.2)</b>	<b>2,165</b>	<b>2,068</b>	<b>4.7</b>
- Bathware	901	853	5.7	910	(1.0)	181	169	7.2
- Plywood	175	235	(25.6)	179	(2.5)	35	38	(6.4)
- Adhesives	182	130	39.4	152	19.2	33	23	47.6
<b>Total</b>	<b>11,793</b>	<b>11,216</b>	<b>5.1</b>	<b>11,137</b>	<b>5.9</b>	<b>22,930</b>	<b>21,859</b>	<b>4.9</b>
<b>EBIT margin (%)</b>								
- Tile	12.0	14.1	(207)	12.6	(55)	12.3	13.9	(164)
- Non-Tile	(9.9)	0.7	(1060)	(1.5)	(848)	(5.7)	3.1	(879)
<b>Total</b>	<b>10.0</b>	<b>12.8</b>	<b>(277)</b>	<b>11.2</b>	<b>(118)</b>	<b>10.6</b>	<b>12.9</b>	<b>(231)</b>
<b>Operational Data</b>								
Tiles Sales Volume (msm)	28.7	26.5	8.4	27.0	6.4	55.7	51.5	8.2
Tiles Realisation (Rs/sqm)	367	378	(2.8)	367	0.1	367	380	(3.5)
Tiles EBIT per unit (Rs/sqm)	45	54	(16.7)	47	(4.1)	46	54	(14.4)

Source: Company, BOBCAPS Research

## Earnings call highlights

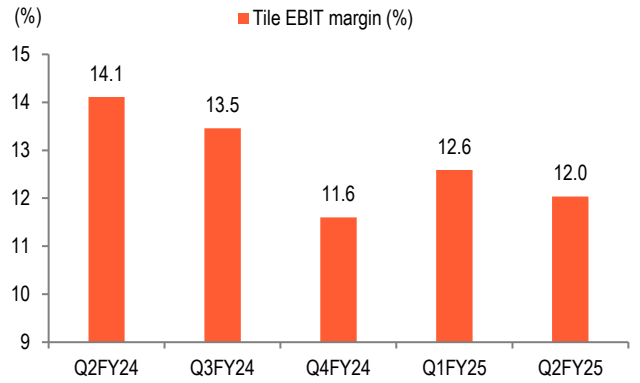
- **Tiles industry scenario:** Tiles demand in the domestic market grew at a muted pace of 2-3% in Q2FY25 due to heavy rainfall in the months of Aug and Sep'24 and sustained weakness in the domestic market. Tiles exports de-grew by 15% YoY in 5MFY25 due to the steep rise in ocean freight. The company expects demand conditions for the tile industry to improve in H2FY25 over H1FY25.
- **Outlook:** The company has lowered its tiles volume growth guidance to 9-10% (+11-12% earlier) and consolidated EBITDA margin guidance is expected to be around 15% (15-17% earlier) for FY25. The company aims to bring down the net working capital from 59 days in Mar'24 to 50 days by Mar'25. Tiles realisation is expected to remain stable over the next two quarters.
- **Tiles market share:** KJC has gained market share as its tile sales volume grew by 8.4% YoY (vs industry growth of 2-3%) in Q2FY25. Going ahead, the company aims to grow its tiles volume by 5-6% more than the industry. The company is selling at a lower price point (5-7%) in Kerala with two different names Primera and Technica under Kajaria's brand name to expand distribution network.
- **Margin:** Gross margin was down 98bps QoQ to 56.6% in Q2FY25 due to increase in share of outsourced volumes (+233bps QoQ to 26.6%). EBITDA margin contracted by 153bps QoQ to 13.5% in Q2FY25 due to lower gross margin, and higher overhead cost of newly-acquired Keronite tiles facility and newly commissioned sanitaryware facility.
- **B2C:B2B mix:** The company expects to increase the share of government project sales from 12% in FY24 to 12.5-13.0% in FY25 and 15% in FY26 as new project teams have been set up in the East, West and South regions.
- **Nepal plant:** KJC's greenfield 50:50 JV project in Nepal, of 5.1msm capacity was commissioned in Sep'24 at a cost of Rs 1.8bn. Nepal's tile industry's size is estimated to be Rs 25bn. The company expects the Nepal plant to be ramped up over the next 2-3 quarter period.
- **Capex:** The company plans to spend Rs 2.0bn in FY25 (H1FY25: Rs 1.35bn).
- **Bathware:** Revenue grew at a muted pace of 5.7% YoY in Q2FY25. Bathware margin came under pressure in Q2FY25 due to costs associated with the newly commenced sanitaryware plant in Morbi. Going ahead, the company expects bathware revenue to grow at 15% rate in FY25 and margin is also expected to improve from Q4FY25 with the ramp up of the new facility.
- **Plywood:** Revenue de-grew by 26% YoY in Q2FY25.
- **Adhesive:** Revenue grew by 26% YoY in Q2FY25. The company plans to set up an adhesives facility in Gailpur, Rajasthan, by Dec'24 at a cost of Rs 150mn.
- **Fuel:** Blended fuel price declined from Rs 38/SCM in Q2FY24 to Rs 37/SCM in Q2FY25 and it is expected to remain stable in the near future.

**Fig 3 – KJC’s tile volumes grew at 8.4% YoY (5Y CAGR: +7.8%) in Q2FY25**



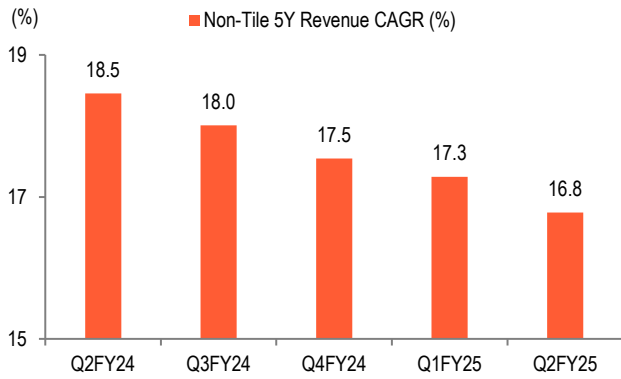
Source: Company, BOBCAPS Research

**Fig 4 – Tile EBIT margin fell 207bps YoY to 12.0% in Q2FY25 on high overhead of newly acquired unit**



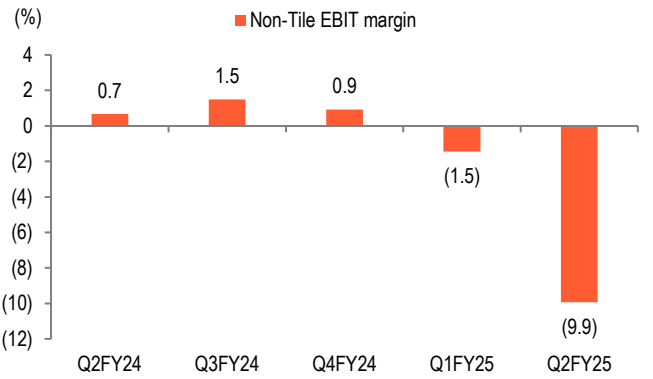
Source: Company, BOBCAPS Research

**Fig 5 – Non-tile segment de-grew by 1.1% YoY (5Y CAGR: +16.8%) in Q2FY25 and...**



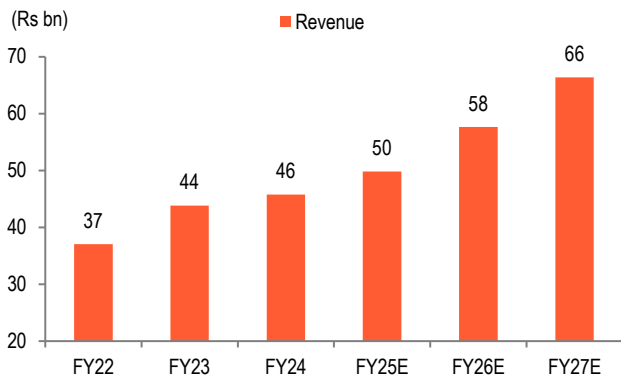
Source: Company, BOBCAPS Research

**Fig 6 – ... EBIT margin was down sharply due to high overhead of newly-commissioned sanitaryware unit**



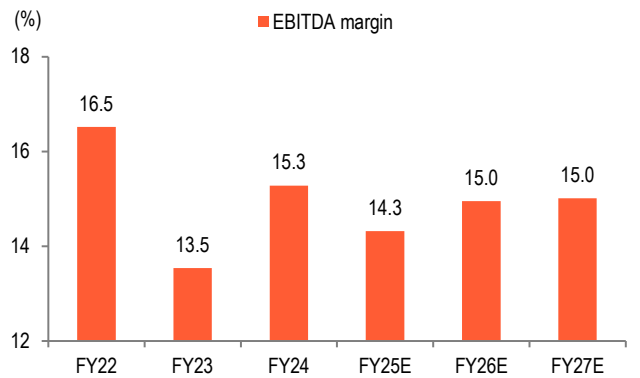
Source: Company, BOBCAPS Research

**Fig 7 – KJC’s revenue projected to grow at 13% CAGR over FY24-FY27E**



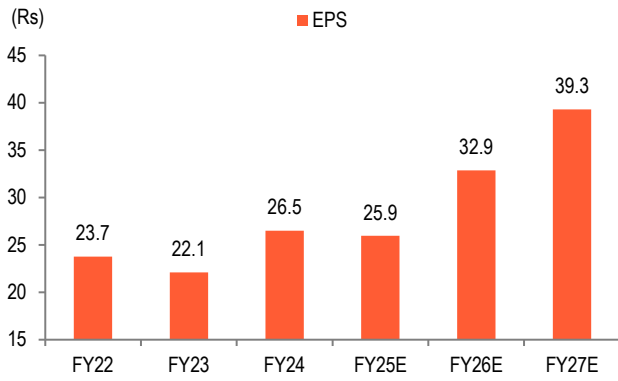
Source: Company, BOBCAPS Research

**Fig 8 – KJC EBITDA margin is projected to be relatively stable at around 15.0% over medium term**



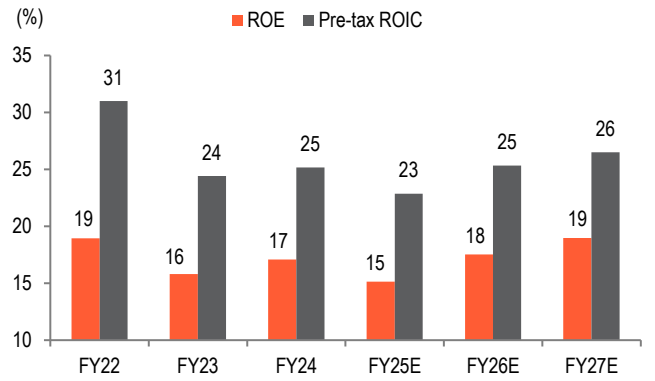
Source: Company, BOBCAPS Research

**Fig 9 – EPS forecast to grow at 14.0% CAGR over FY24-FY27E**



Source: Company, BOBCAPS Research

**Fig 10 – KJC is likely to generate healthy return ratio over FY24-FY27E**



Source: Company, BOBCAPS Research

## Valuation methodology

We maintain our HOLD rating on the stock as we believe the strong earnings growth prospect (EPS to grow at 14% CAGR over FY24-FY27E) is quite well baked into the current valuations (KJC trades at 42.9x on 1Y forward P/E vs 5Y average of 41.7x).

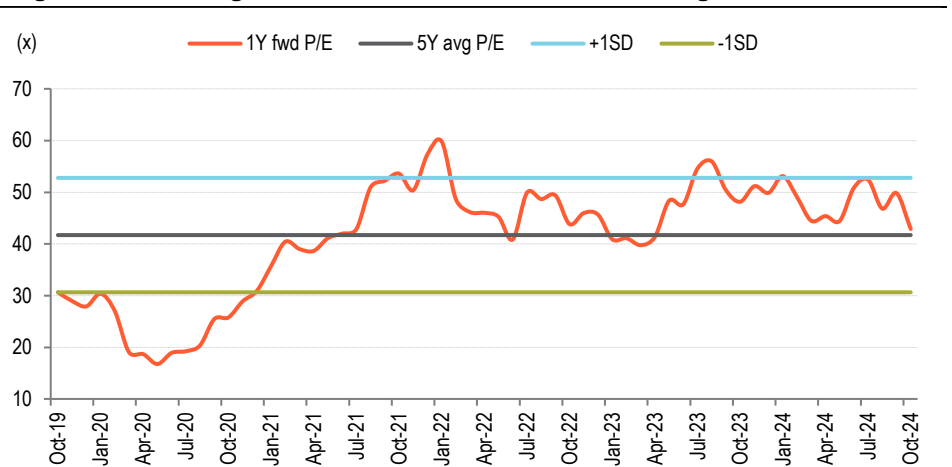
We have revised down our EPS estimates (-11.4%/-6.5%/-4.9% for FY25E/FY26E/FY27E) based on the weak Q2 result, but our TP remains at Rs 1,450 as we roll forward our valuation from Jun'26 to Sep'26. Our target P/E remains unchanged at 40x.

**Fig 11 – Revised Estimates**

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Total operating income	49.9	57.6	66.4	50.9	58.9	67.9	(2.2)	(2.2)	(2.2)
EBITDA	7.1	8.6	10.0	7.8	9.2	10.6	(8.5)	(6.5)	(5.6)
EBITDA Margin	14.3	15.0	15.0	15.3	15.7	15.6	(99bps)	(69bps)	(55bps)
Adjusted PAT	4.1	5.2	6.3	4.7	5.6	6.6	(11.4)	(6.5)	(4.9)
EPS (Rs)	25.9	32.9	39.3	29.3	35.2	41.3	(11.4)	(6.5)	(4.9)

Source: BOBCAPS Research

**Fig 12 – KJC trading at 42.9x on 1Y forward P/E vs. 5Y average of 41.7x**



Source: Bloomberg, BOBCAPS Research

**Fig 13 – Key assumptions**

(%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tile Volume Growth	11.0	6.3	9.0	12.0	12.0
Tile Realisation Growth	5.9	(3.3)	(1.2)	2.0	2.0
Tile Revenue Growth	17.5	2.8	7.7	14.3	14.2
Non-Tile Revenue Growth	26.0	20.2	18.5	25.4	21.3
Non-Tile Revenue Share	9.8	11.3	12.3	13.3	14.1

Source: Bloomberg, 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	0.2	512	650	HOLD
Astral	ASTRA IN	5.7	1,790	2,200	HOLD
Century Plyboards	CPBI IN	2.3	879	725	HOLD
Finolex Industries	FNXP IN	2.2	297	325	HOLD
Greenlam Industries	GRLM IN	0.8	500	560	HOLD
Greenpanel Industries	GREENP IN	0.6	378	365	HOLD
Greenply Industries	MTLM IN	0.5	364	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.3	313	500	BUY
Kajaria Ceramics	KJC IN	2.4	1,287	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.7	524	750	BUY
Somany Ceramics	SOMC IN	0.3	682	900	BUY
Supreme Industries	SI IN	6.8	4,486	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 22 Oct 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>49,853</b>	<b>57,649</b>	<b>66,405</b>
EBITDA	5,934	6,997	7,138	8,622	9,968
Depreciation	1,329	1,480	1,665	1,774	1,885
EBIT	4,605	5,517	5,472	6,848	8,083
Net interest inc./(exp.)	(223)	(211)	(189)	(189)	(189)
Other inc./(exp.)	336	462	501	480	600
Exceptional items	14	0	0	0	0
EBT	4,705	5,768	5,784	7,139	8,493
Income taxes	1,163	1,435	1,525	1,797	2,138
Extraordinary items	79	0	0	0	0
Min. int./Inc. from assoc.	(18)	(113)	(126)	(109)	(94)
<b>Reported net profit</b>	<b>3,445</b>	<b>4,221</b>	<b>4,133</b>	<b>5,233</b>	<b>6,261</b>
Adjustments	69	0	0	0	0
<b>Adjusted net profit</b>	<b>3,514</b>	<b>4,221</b>	<b>4,133</b>	<b>5,233</b>	<b>6,261</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,104	2,933	3,194	3,693	4,254
Other current liabilities	2,723	2,385	2,385	2,385	2,385
Provisions	82	278	302	350	403
Debt funds	2,093	1,706	1,700	1,773	1,868
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	28,268	31,131	34,557
Shareholders' fund	24,044	26,756	28,944	31,728	35,059
<b>Total liab. and equities</b>	<b>33,305</b>	<b>35,429</b>	<b>37,896</b>	<b>41,300</b>	<b>45,340</b>
Cash and cash eq.	3,938	5,141	4,441	3,957	3,800
Accounts receivables	6,012	6,194	6,745	7,800	8,984
Inventories	5,647	5,322	6,070	7,115	8,440
Other current assets	1,268	970	1,004	1,068	1,140
Investments	19	148	148	148	148
Net fixed assets	13,705	15,336	17,170	18,896	20,511
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>37,896</b>	<b>41,300</b>	<b>45,340</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>2,995</b>	<b>6,568</b>	<b>4,751</b>	<b>5,417</b>	<b>6,100</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	264	243	363
<b>Cash flow from investing</b>	<b>(2,495)</b>	<b>(3,157)</b>	<b>(3,236)</b>	<b>(3,257)</b>	<b>(3,137)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	707	(387)	(6)	74	94
Interest expenses	(223)	(211)	(189)	(189)	(189)
Dividends paid	(1,433)	(1,912)	(1,872)	(2,370)	(2,836)
Other financing cash flows	143	302	(148)	(159)	(189)
<b>Cash flow from financing</b>	<b>(806)</b>	<b>(2,208)</b>	<b>(2,214)</b>	<b>(2,644)</b>	<b>(3,119)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(306)</b>	<b>1,203</b>	<b>(700)</b>	<b>(485)</b>	<b>(157)</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,938</b>	<b>5,141</b>	<b>4,441</b>	<b>3,957</b>	<b>3,800</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	21.6	26.5	25.9	32.9	39.3
Adjusted EPS	22.1	26.5	25.9	32.9	39.3
Dividend per share	9.0	12.0	11.8	14.9	17.8
Book value per share	146.2	164.3	178.4	196.4	217.9

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.7	4.5	4.2	3.6	3.1
EV/EBITDA	35.0	29.6	29.0	24.1	20.8
Adjusted P/E	58.3	48.6	49.6	39.2	32.7
P/BV	8.8	7.8	7.2	6.6	5.9

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.7	73.2	71.5	73.3	73.7
Interest burden (PBT/EBIT)	102.2	104.6	105.7	104.2	105.1
EBIT margin (EBIT/Revenue)	10.5	12.1	11.0	11.9	12.2
Asset turnover (Rev./Avg TA)	131.6	129.2	131.6	139.6	146.5
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.4	1.4
Adjusted ROAE	15.3	16.6	14.8	17.3	18.7

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	18.3	4.5	8.9	15.6	15.2
EBITDA	(3.0)	17.9	2.0	20.8	15.6
Adjusted EPS	(7.0)	20.0	(2.1)	26.6	19.6
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.5	15.3	14.3	15.0	15.0
EBIT margin	10.5	12.1	11.0	11.9	12.2
Adjusted profit margin	8.0	9.2	8.3	9.1	9.4
Adjusted ROAE	15.3	16.6	14.8	17.3	18.7
ROCE	18.9	21.0	19.5	21.9	23.5
<b>Working capital days (days)</b>					
Receivables	50	49	49	49	49
Inventory	47	42	44	45	46
Payables	26	23	23	23	23
<b>Ratios (x)</b>					
Gross asset turnover	2.1	2.0	1.9	1.9	2.0
Current ratio	2.3	2.6	2.6	2.6	2.6
Net interest coverage ratio	20.6	26.1	29.0	36.2	42.7
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.1)	(0.1)

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



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**BUY** – Expected return >+15%

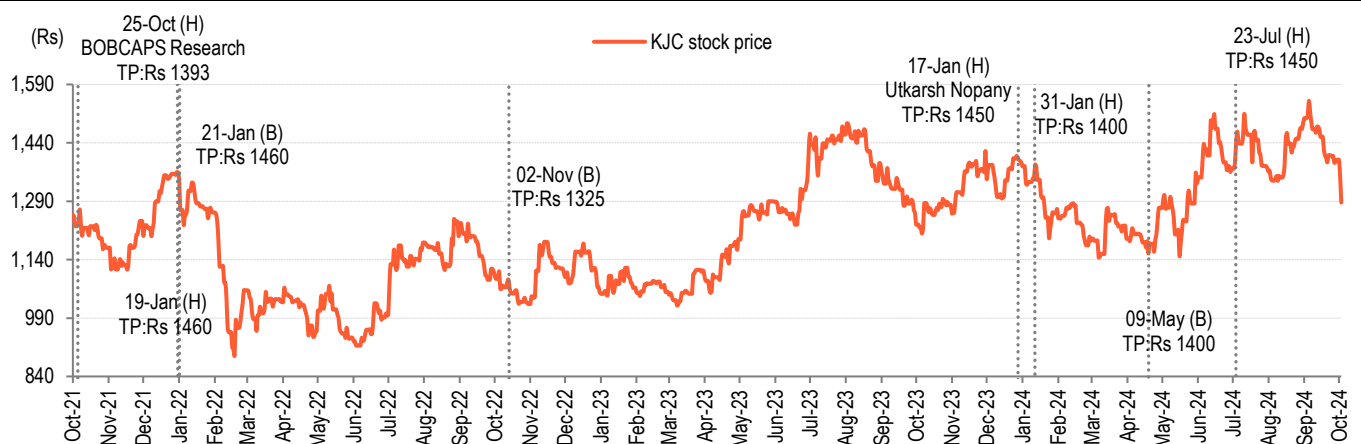
**HOLD** – Expected return from -6% to +15%

**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)



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