

**BUY**  
 TP: Rs 1,130 | ▲ 18%

**KAJARIA CERAMICS**

Building Materials

04 February 2025

**Weak Q3; upgrade to BUY on reasonable valuations**

- **Weak Q3 on sharp margin contraction due to weak demand in the retail market and high overhead costs of new bathware unit**
- **Tiles volume growth guidance revised down to +8-9% (vs +9-10%) for FY25; tiles margin to improve in near term once retail demand picks up**
- **Upgrade from HOLD to BUY on revised TP of Rs 1,130 on healthy return ratio and reasonable valuations**

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**Weak Q3:** KJC's Q3FY25 result came below our estimate (Revenue: -6%; EBITDA: -17%; APAT: -27%) due to sharp margin contraction in the tiles segment and weak performance of the non-tiles segment. Overall, KJC's revenue grew by 1.0% YoY, but EBITDA/APAT de-grew by 16.8%/25.4% in Q3FY25.

**Key highlights:** KJC's tiles segment sales volume grew by 6.7% YoY (5Y CAGR: +7.2%) in Q3FY25 on account of higher outsourced sales volume (+16.6% YoY), but segment EBIT de-grew by 16.4% YoY in Q3FY25 due to margin contraction (-258bps YoY to 10.9%) on account of weak demand in the retail market. 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%). The non-tile segment reported EBIT loss of Rs 65mn in Q2FY25 (vs profit of Rs 19mn in Q3FY24) largely attributable to losses incurred in the recently commissioned sanitaryware unit in Morbi.

**Guidance:** KJC has lowered its tiles volume growth guidance to +8-9% (+9-10% earlier) for FY25. Management expects margins to improve by 2-3% in FY26 (vs 12.8% in Q3FY25) on expectation of improvement in retail demand conditions and operating leverage benefits. The company does not plan to expand its own tiles manufacturing capacity in the near future. The Nepal plant's operating rate is expected to improve from 70% in Q3FY25 to 80%-85% by Mar-Apr'25.

**Upgrade from HOLD to BUY; TP cut by 22% to Rs 1,130:** We expect KJC's EPS to grow at a moderate pace of 7.8% CAGR over FY24-FY27E. However, we have upgraded our rating on the stock from HOLD to BUY due to (a) healthy return ratio with strong balance sheet; and (b) reasonable valuation (trades at 35.6x on 1Y forward P/E vs 5Y average of 44.4x) post steep correction in its stock price by 34% since Sep'24. We have cut our TP to Rs 1,130 (Rs 1,450 earlier) due to earnings downgrade (-14.7%/-16.5%/-15.4% for FY25E/FY26E/ FY27E) based on the weak Q3 result as well as downward revision of our target P/E multiple (from 40x to 35x) on Dec'26 estimates.

**Key changes**

Target	Rating
▼	▲

Ticker/Price	KJC IN/Rs 960
Market cap	US\$ 1.8bn
Free float	53%
3M ADV	US\$ 2.2mn
52wk high/low	Rs 1,579/Rs 956
Promoter/FPI/DII	47%/16%/28%

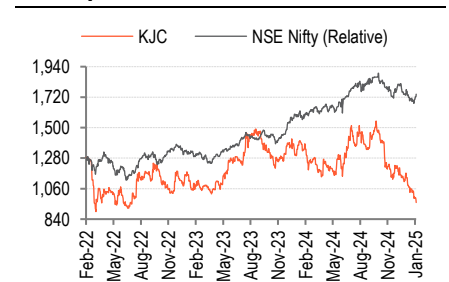
Source: NSE | Price as of 4 Feb 2025

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	45,784	47,816	52,881
EBITDA (Rs mn)	6,997	6,549	7,642
Adj. net profit (Rs mn)	4,221	3,528	4,372
Adj. EPS (Rs)	26.5	22.1	27.4
Consensus EPS (Rs)	26.5	27.6	34.8
Adj. ROAE (%)	16.6	12.7	14.7
Adj. P/E (x)	36.2	43.3	35.0
EV/EBITDA (x)	22.1	23.7	20.4
Adj. EPS growth (%)	20.0	(16.4)	23.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance – Consolidated**

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	BOBCAPS Q3FY25E	Variance (%)
Total operating income	11,637	11,518	1.0	11,793	(1.3)	34,567	33,376	3.6	12,332	(5.6)
Raw-Material expense	4,790	4,692	2.1	5,115	(6.3)	14,627	13,990	4.5		
Gross Profit	6,847	6,826	0.3	6,678	2.5	19,940	19,386	2.9		
Employee expense	1,507	1,319	14.2	1,443	4.4	4,344	3,756	15.7		
Energy costs	2,412	2,395	0.7	2,244	7.5	6,784	6,543	3.7		
Other expense	1,440	1,324	8.8	1,401	2.8	4,065	3,810	6.7		
EBITDA	1,487	1,788	(16.8)	1,589	(6.4)	4,747	5,277	(10.0)	1,784	(16.6)
D&A	399	389	2.4	406	(1.8)	1,226	1,055	16.2		
EBIT	1,089	1,399	(22.2)	1,183	(8.0)	3,521	4,222	(16.6)		
Interest cost	87	50	74.7	47	83.9	181	145	24.8		
Non-operating expense/(income)	(95)	(110)	(13.1)	(70)	37.1	(244)	(283)	(13.9)		
PBT	1,097	1,459	(24.8)	1,205	(9.0)	3,584	4,360	(17.8)		
Tax	307	379	(18.9)	350	(12.2)	1,015	1,081	(6.1)		
Reported PAT	790	1,080	(26.8)	855	(7.7)	2,568	3,279	(21.7)		
Minority Interest	12	38	(67.1)	13	(2.4)	50	82	(39.1)		
Reported PAT after Minority Interest	777	1,042	(25.4)	843	(7.7)	2,518	3,197	(21.2)		
Adjusted PAT	777	1,042	(25.4)	843	(7.7)	2,518	3,197	(21.2)	1,070	(27.4)
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>		
Gross margin	58.8	59.3	(43)	56.6	221	57.7	58.1	(40)		
Employee cost	12.9	11.5	149	12.2	71	12.6	11.3	131		
Power costs	20.7	20.8	(7)	19.0	170	19.6	19.6	2		
Other cost	12.4	11.5	88	11.9	49	11.8	11.4	34		
EBITDA margin	12.8	15.5	(274)	13.5	(69)	13.7	15.8	(208)		
Tax rate	28.0	26.0	203	29.0	(103)	28.3	24.8	354		
APAT margin	6.7	9.0	(237)	7.1	(47)	7.3	9.6	(229)		

Source: Company, BOBCAPS Research

**Fig 2 – Segment performance**

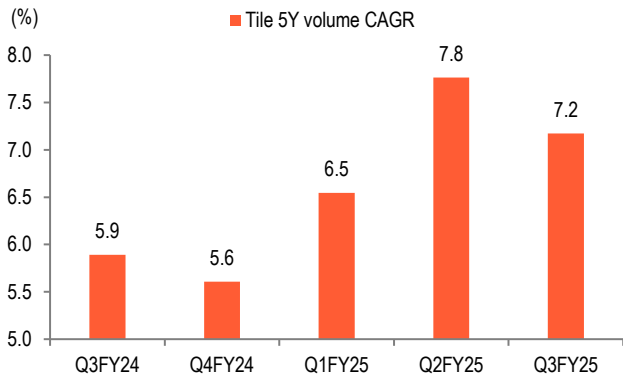
	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
<b>Revenue (Rs mn)</b>								
Tiles	10,611	10,256	3.5	10,717	(1.0)	31,376	30,047	4.4
- Own Manufacturing	5,688	5,791	(1.8)	5,873	(3.1)	1,715	1,689	1.5
- Subsidiaries	2,067	1,995	3.7	1,945	6.3	601	560	7.3
- Outsourcing	2,651	2,343	13.2	2,717	(2.4)	768	720	6.6
Non-Tile	1,026	1,262	(18.7)	1,076	(4.6)	3,191	3,330	(4.2)
- Bathware	945	922	2.5	901	4.8	276	261	5.5
- Plywood	81	340	(76.2)	175	(53.7)	43	72	(39.4)
- Adhesives	205	128	60.5	182	12.7	54	35	52.2
<b>Total</b>	<b>11,637</b>	<b>11,518</b>	<b>1.0</b>	<b>11,793</b>	<b>(1.3)</b>	<b>34,567</b>	<b>33,376</b>	<b>3.6</b>
<b>EBIT margin (%)</b>								
- Tile	10.9	13.5	(258bps)	12.0	(117bps)	11.8	13.8	(195bps)
- Non-Tile	(6.3)	1.5	(779bps)	(9.9)	362bps	(5.9)	2.5	(837bps)
<b>Total</b>	<b>9.4</b>	<b>12.1</b>	<b>(279bps)</b>	<b>10.0</b>	<b>(68bps)</b>	<b>10.2</b>	<b>12.6</b>	<b>(246bps)</b>
<b>Operational Data</b>								
Tiles Sales Volume (msm)	28.9	27.1	6.7	28.7	0.7	84.6	78.6	7.7
Tiles Realization (Rs/sqm)	360.1	374.0	(3.7)	367.1	(1.9)	365	378	(3.5)
Tiles EBIT per unit (Rs/sqm)	40	51	(21.7)	45	(11.2)	44	53	(16.8)

Source: Company, BOBCAPS Research

## Earnings call highlights

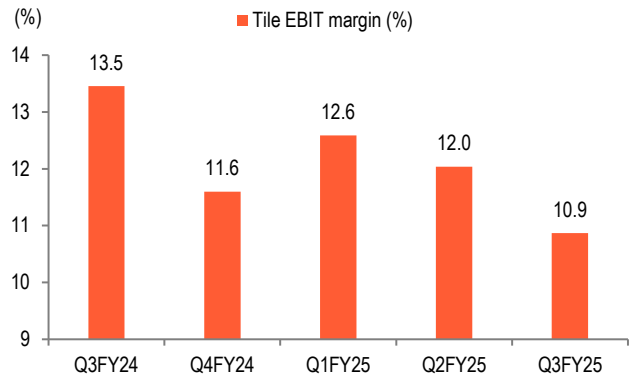
- **Tiles industry scenario:** Tiles demand in the domestic market continued to remain weak in Q3FY25 due to sustained weakness in domestic market and sluggishness in exports. Tiles exports de-grew by 16% YoY in in 8MFY25 (Rs 11.6bn) due to the steep rise in ocean freight. The company expects demand conditions for the tile industry to improve in the near to medium term.
- **Tiles segment:** revenue grew by 3.5% YoY in Q3FY25 driven by higher volumes (6.7% YoY; 5Y CAGR: +7.2%) on account of higher outsourced volume (+16.6% YoY). Segment EBIT margin contracted by 258bps YoY/ 117bps QoQ to 10.9% in Q3FY25 on account of lower realisations (-3.7% YoY). Employee expenses as a % of sales is expected to come down from 12.9% in Q3FY25 to 11.0-11.5% in FY26.
- **Dealers:** The company has 1,880 dealers across India, out of which 460 are exclusive Kajaria brand dealers.
- **B2C:B2B mix:** The share of B2B sales has gone up in Q3FY25 due to weak retail demand, but management expects the B2C share to be in the range of 70-75% once retail demand picks up.
- **Nepal plant:** KJC's greenfield JV project in Nepal, of 5.1msm capacity, was commissioned in Sep'24 at a cost of Rs 2.1bn (vs Rs1.8bn earlier). The company has already invested Rs 1.1bn till Dec'24 and plans to invest a further Rs 0.6bn to increase its share in the Nepal project from 50% to 51% (which is expected to happen by Q1FY26) and to meet higher project cost and working capital requirements. The share of loss from the JV has come down from Rs 29mn in Q2FY25 to Rs 10mn in Q3FY25. The plant operated at 70% in Q3FY25 and management expects it to improve to 80%-85% by Mar-Apr'25.
- **Bathware:** Revenue grew at a muted pace of 2.5% YoY in Q3FY25. Bathware margin came under pressure in Q3FY25 due to costs associated with the newly commenced sanitaryware plant in Morbi. Going ahead, the company expects bathware revenue to grow at 10% rate (vs 15% earlier) in FY25 and margin is expected to improve from Q4FY25 with the ramp up of the new facility.
- **Plywood:** Revenue de-grew by 76% YoY in Q3FY25.
- **Adhesive:** Revenue grew by 60% YoY in Q3FY25. The company plans to acquire 75% stake in a group entity (Kajaria Adhesives) to set up a tiles adhesives manufacturing facility in Erode, Tamil Nadu (25% is owned by Lakshmi Ceramics based in Coimbatore). The company also plans to put a tiles adhesives manufacturing facility in Gailpur, Rajasthan, by Apr'25 at a cost of Rs 150mn.
- **Fuel:** Blended fuel price was stable on a QoQ basis at Rs 37/SCM in Q3FY25 and it is expected to remain stable in the near future.
- **Working capital:** The net working capital cycle has remained relatively stable at 69 days in Q3FY25. Net cash position has gone down from Rs 3.37bn in Sep'24 to Rs 2.98bn in Dec'24.

**Fig 3 – KJC’s tile volumes grew at 6.7% YoY (5Y CAGR: +7.2%) in Q3FY25**



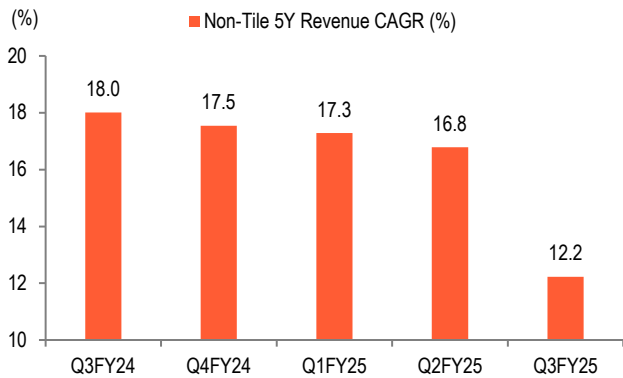
Source: Company, BOBCAPS Research

**Fig 4 – Tile EBIT margin fell 258bps YoY to 10.9% in Q3FY25 on weak retail demand**



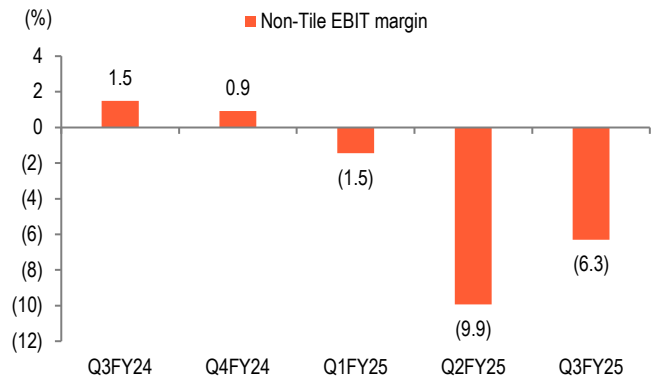
Source: Company, BOBCAPS Research

**Fig 5 – Non-tile segment de-grew by 18.7% YoY (5Y CAGR: +12.2%) in Q3FY25 and...**



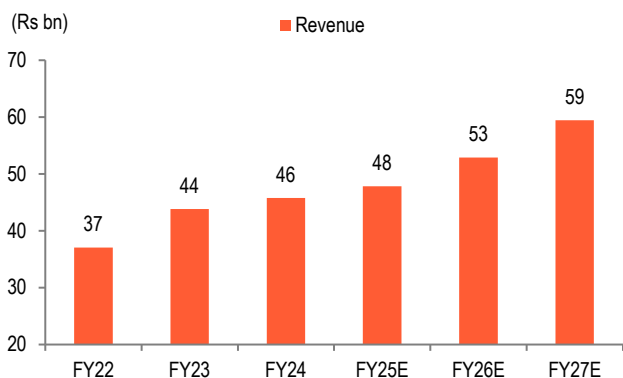
Source: Company, BOBCAPS Research

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



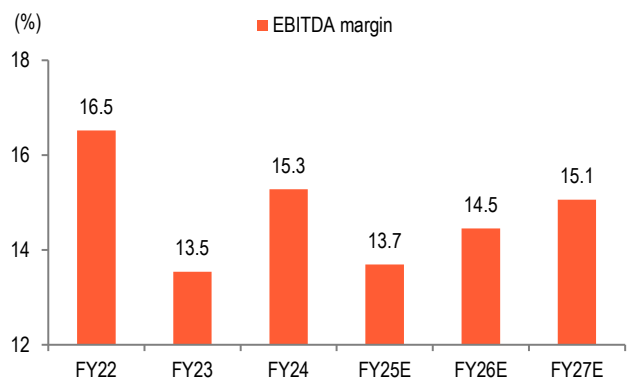
Source: Company, BOBCAPS Research

**Fig 7 – KJC’s revenue projected to grow at 9% CAGR over FY24-FY27E**



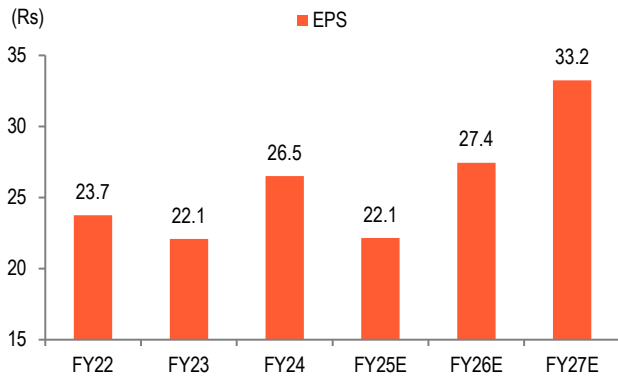
Source: Company, BOBCAPS Research

**Fig 8 – KJC EBITDA margin is projected to improve over medium term with pick-up in retail demand**



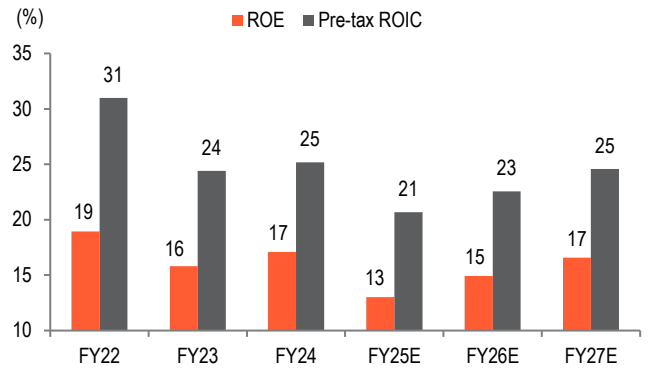
Source: Company, BOBCAPS Research

**Fig 9 – EPS forecast to grow at 7.8% 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 expect KJC's EPS to grow at a moderate pace of 7.8% CAGR over FY24-FY27E. However, we have upgraded our rating on the stock from HOLD to BUY due to (a) healthy return ratio with strong balance sheet; and (b) reasonable valuation (trades at 35.6x on 1Y forward P/E vs 5Y average of 44.4x) post steep correction in its stock price by 34% since Sep'24.

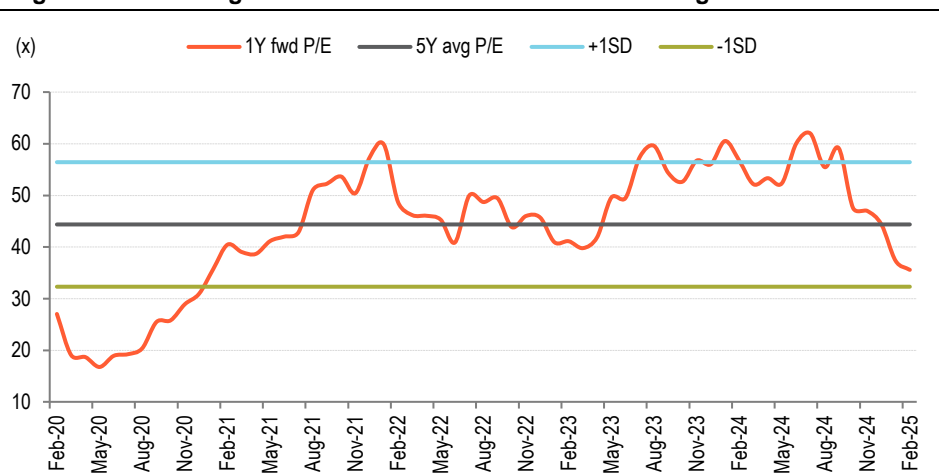
We have cut our TP to Rs 1,130 (vs Rs 1,450 earlier) due to earnings downgrade (-14.7%/-16.5%/-15.4% for FY25E/FY26E/ FY27E) based on the weak Q3 result as well as downward revision of our target P/E multiple (from 40x to 35x) on Dec'26 estimates.

**Fig 11 – Revised estimates**

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Total operating income	47.8	52.9	59.4	49.9	57.6	66.4	(4.1)	(8.3)	(10.5)
EBITDA	6.5	7.6	8.9	7.1	8.6	10.0	(8.3)	(11.4)	(10.2)
EBITDA Margin	13.7	14.5	15.1	14.3	15.0	15.0	(62bps)	(51bps)	5bps
Adjusted PAT	3.5	4.4	5.3	4.1	5.2	6.3	(14.7)	(16.5)	(15.4)
EPS (Rs)	22.1	27.4	33.2	25.9	32.9	39.3	(14.7)	(16.5)	(15.4)

Source: BOBCAPS Research

**Fig 12 – KJC trading at 35.6x on 1Y forward P/E vs. 5Y average of 44.4x**



Source: Bloomberg, BOBCAPS Research

**Fig 13 – Key assumptions**

(%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tile Volume Growth	11.0	6.3	7.9	8.9	8.9
Tile Realisation Growth	5.9	(3.3)	(3.3)	0.1	2.0
Tile Revenue Growth	17.5	2.8	4.4	9.0	11.1
Non-Tile Revenue Growth	26.0	20.2	4.9	22.8	21.6
Non-Tile Revenue Share	9.8	11.3	11.4	12.6	13.6

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- market share loss in tiles and a steep decline in tile exports from India, and
- slower-than-expected recovery in real estate demand.

## 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>47,816</b>	<b>52,881</b>	<b>59,436</b>
EBITDA	5,934	6,997	6,549	7,642	8,949
Depreciation	1,329	1,480	1,665	1,774	1,885
EBIT	4,605	5,517	4,883	5,867	7,064
Net interest inc./(exp.)	(223)	(211)	(268)	(268)	(268)
Other inc./(exp.)	336	462	411	421	441
Exceptional items	14	0	0	0	0
EBT	4,705	5,768	5,026	6,021	7,237
Income taxes	1,163	1,435	1,360	1,528	1,847
Extraordinary items	79	0	0	0	0
Min. int./Inc. from assoc.	(18)	(113)	(138)	(121)	(96)
<b>Reported net profit</b>	<b>3,445</b>	<b>4,221</b>	<b>3,528</b>	<b>4,372</b>	<b>5,294</b>
Adjustments	69	0	0	0	0
<b>Adjusted net profit</b>	<b>3,514</b>	<b>4,221</b>	<b>3,528</b>	<b>4,372</b>	<b>5,294</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,104	2,933	3,063	3,388	3,807
Other current liabilities	2,723	2,385	2,385	2,385	2,385
Provisions	82	278	290	321	360
Debt funds	2,093	1,706	1,656	1,672	1,719
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	27,936	30,328	33,225
Shareholders' fund	24,044	26,756	28,620	30,941	33,751
<b>Total liab. and equities</b>	<b>33,305</b>	<b>35,429</b>	<b>37,386</b>	<b>40,077</b>	<b>43,394</b>
Cash and cash eq.	3,938	5,141	4,678	4,501	4,420
Accounts receivables	6,012	6,194	6,469	7,154	8,041
Inventories	5,647	5,322	5,615	6,032	6,874
Other current assets	1,268	970	987	1,029	1,083
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>37,386</b>	<b>40,077</b>	<b>43,394</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>4,911</b>	<b>5,513</b>	<b>6,006</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	174	184	204
<b>Cash flow from investing</b>	<b>(2,495)</b>	<b>(3,157)</b>	<b>(3,326)</b>	<b>(3,316)</b>	<b>(3,296)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	707	(387)	(50)	15	47
Interest expenses	(223)	(211)	(268)	(268)	(268)
Dividends paid	(1,433)	(1,912)	(1,598)	(1,980)	(2,398)
Other financing cash flows	143	302	(132)	(143)	(172)
<b>Cash flow from financing</b>	<b>(806)</b>	<b>(2,208)</b>	<b>(2,048)</b>	<b>(2,375)</b>	<b>(2,791)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(306)</b>	<b>1,203</b>	<b>(463)</b>	<b>(178)</b>	<b>(80)</b>
<b>Closing cash &amp; cash eq.</b>	<b>3,938</b>	<b>5,141</b>	<b>4,678</b>	<b>4,501</b>	<b>4,420</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	21.6	26.5	22.1	27.4	33.2
Adjusted EPS	22.1	26.5	22.1	27.4	33.2
Dividend per share	9.0	12.0	10.0	12.4	15.1
Book value per share	146.2	164.3	176.4	191.4	209.6

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	3.6	3.4	3.2	2.9	2.6
EV/EBITDA	26.2	22.1	23.7	20.4	17.4
Adjusted P/E	43.5	36.2	43.3	35.0	28.9
P/BV	6.6	5.8	5.4	5.0	4.6

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.7	73.2	70.2	72.6	73.2
Interest burden (PBT/EBIT)	102.2	104.6	102.9	102.6	102.5
EBIT margin (EBIT/Revenue)	10.5	12.1	10.2	11.1	11.9
Asset turnover (Rev./Avg TA)	131.6	129.2	127.9	131.9	137.0
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.4	1.3	1.3
Adjusted ROAE	15.3	16.6	12.7	14.7	16.4

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	18.3	4.5	4.4	10.6	12.4
EBITDA	(3.0)	17.9	(6.4)	16.7	17.1
Adjusted EPS	(7.0)	20.0	(16.4)	23.9	21.1
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.5	15.3	13.7	14.5	15.1
EBIT margin	10.5	12.1	10.2	11.1	11.9
Adjusted profit margin	8.0	9.2	7.4	8.3	8.9
Adjusted ROAE	15.3	16.6	12.7	14.7	16.4
ROCE	18.9	21.0	17.5	19.3	21.2
<b>Working capital days (days)</b>					
Receivables	50	49	49	49	49
Inventory	47	42	43	42	42
Payables	26	23	23	23	23
<b>Ratios (x)</b>					
Gross asset turnover	2.1	2.0	1.8	1.8	1.8
Current ratio	2.3	2.6	2.6	2.6	2.6
Net interest coverage ratio	20.6	26.1	18.2	21.9	26.4
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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**Recommendation scale: Recommendations and Absolute returns (%) over 12 months**

**BUY** – Expected return >+15%

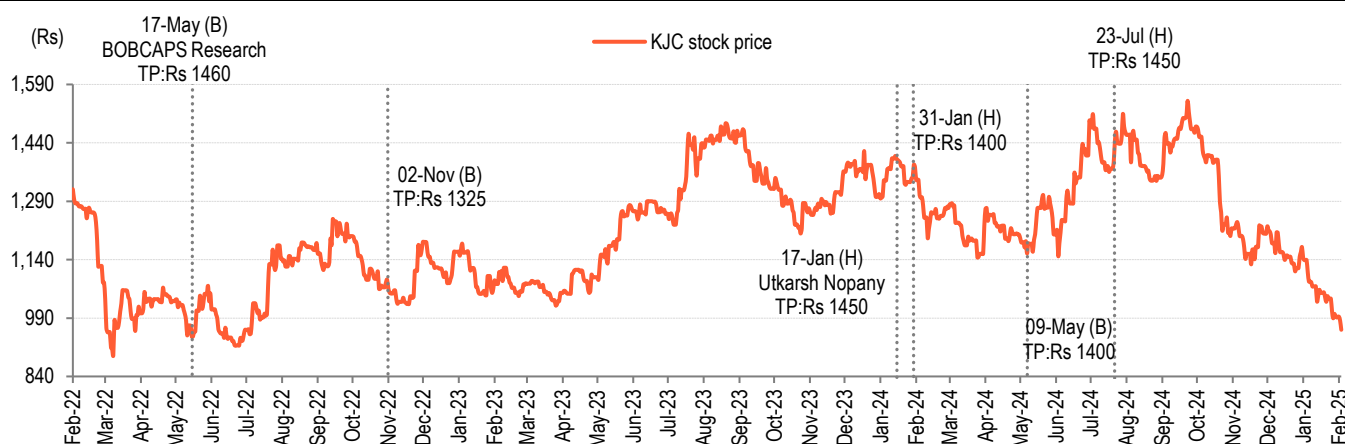
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

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

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