



3R MATRIX

	+	=	-
Right Sector (RS)	✓	✗	✗
Right Quality (RQ)	✓	✗	✗
Right Valuation (RV)	✓	✓	✗

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	✓	↔	✓
RQ	✓	↔	✓
RV	✗	↔	✗

Company details

Market cap:	Rs. 22,928 cr
52-week high/low:	Rs. 1,522/1,111
NSE volume: (No of shares)	4.3 lakh
BSE code:	500233
NSE code:	KAJARIACER
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	47
FII	16
Institutions	28
Public & others	8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.9	19.7	8.3	1.2
Relative to Sensex	-1.1	10.6	-6.0	-20.0

Sharekhan Research, Bloomberg

Kajaria Ceramics Ltd

OPM positively surprises; business outlook healthy

Building Materials

Sharekhan code: KAJARIACER

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 1,440

Price Target: Rs. 1,700



Summary

- We maintain BUY on Kajaria Ceramics with a revised PT of Rs. 1,700, rolling forward our valuation to H1FY2027E earnings and considering a healthy earnings growth trajectory over the next three years.
- Consolidated revenue stayed in-line, although tile volumes came in above expectations. Consolidated OPM surprised positively, aided by expansion in gross profit margins.
- Management expects tile volume growth of 11-12% y-o-y and overall consolidated revenue growth of 8-9% y-o-y and consolidated OPM at 15-16% for FY2025. It expects 11-12% y-o-y volume growth for Q2FY2025.
- Nepal JV plant commissioning delayed to September 2024 from earlier June 2024. Eye 10-12% market share over the long term.

Kajaria Ceramics Limited (Kajaria) reported in-line consolidated revenue at Rs. 1,114 crore (up 4.6% y-o-y) although tile volume growth of 7.9% y-o-y (our estimate of 6% y-o-y) and tile realisations (marginal drop of 0.7% q-o-q) surprised positively. Consolidated OPM, at 15%, (down 90 bps y-o-y) came in higher than our estimate of 14.3% owing to high-than-estimated gross margin (up 193bps y-o-y at 57.6%). Consequently, consolidated operating profit was 4% higher than our estimate at Rs. 167 crore (down 1.3% y-o-y). Increased depreciation (up 38% y-o-y) and higher effective tax rate (27.4% vs. 23.5% in Q1FY2024) led to a 16.5% y-o-y decline in consolidated net profit at Rs. 89.8 crore (3% below our estimate). Management expects tile volume growth of 11-12% y-o-y (the industry is expected to grow at 5-6% y-o-y) for FY2025 with consolidated OPM of 15-16%. The company remains broadly on track to achieve consolidated revenue of Rs. 6,500 crore for FY2027 (12% CAGR over FY2024-FY2027) along with maintaining OPM at 15-17%.

Key positives

- Tile volume growth of 8% y-o-y as against industry growth rate estimated at 5-6% y-o-y in Q1FY2025. Tile realisations came in higher than estimates.
- Consolidated OPM at 15% surprised positively, led by strong y-o-y and q-o-q expansion in gross profit margins.
- The company expects Q2FY2025 volume growth of 11-12% y-o-y, led by strong m-o-m improvement in demand from April to June.

Key negatives

- Revenue from the sanitaryware and plywood segments declined by 11% q-o-q and 45% q-o-q to Rs. 91 crore and Rs. 18 crore, respectively.
- Commissioning of 5.1 msm Nepal plant has been delayed to September 2024 from June 2024 on account of heavy rains in the region.

Management Commentary

- The company expects tile volume growth of 11-12% y-o-y and revenue growth of 8-9% y-o-y for FY2025. The tile industry is expected to grow at 5-6% y-o-y in FY2025. OPM is expected at 15-16%.
- Tile exports grew by 26% y-o-y to Rs. 20,175 crore in FY2024. For the first two months of FY2025, tile exports stayed flat y-o-y at Rs. 3,350 crore due to a steep rise in global freight rates. During the same period, exports to U.S. grew 16% y-o-y to Rs. 335 despite the imposition of anti-dumping duty.
- Currently, it is exporting 70,000-80,000 per month to Nepal. The Nepal market is estimated at Rs. 2,500 crore and it targets 10-12% market share. Currently, its dealer network is 50-60, which will be increased to 100 dealers over the next three months.

Revision in estimates – We have fine-tuned our net earnings estimates for FY2025-FY2026E.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 1,700: Kajaria is expected to benefit from healthy domestic demand, led by strong demand tailwinds from the realty sector and rising exports over the next 2-3 years. The company targets to grow at higher-than-industry growth rates over the medium term. The company continues to invest in branding, sales and distribution, and scaling up the non-tile businesses. We have introduced our FY2027E earnings in this note. We expect Kajaria to report a revenue/operating profit/net profit CAGR of 13%/15%/16% over FY2024-FY2027E. The stock trades at a P/E of 41x/35x its FY2026E/FY2027E earnings. We retain BUY on the stock with a revised PT of Rs. 1,700, rolling forward our valuation to H1FY2027E earnings and considering a healthy earnings growth trajectory over the next three years.

Key Risks

Weak macroeconomic environment, pressure on realisations, and higher gas prices are key risks to our call.

Valuation (Consolidated)

	Rs cr			
Particulars	FY24	FY25E	FY26E	FY27E
Revenue	4,578.4	5,030.5	5,734.5	6,521.7
OPM (%)	15.3	15.3	15.9	16.4
Adjusted PAT	422.1	453.7	553.2	663.7
y-o-y growth (%)	19.8	7.5	21.9	20.0
Adjusted EPS (Rs.)	26.5	28.5	34.7	41.7
P/E (x)	54.3	50.5	41.4	34.5
P/B (x)	8.7	8.0	7.2	6.3
EV/EBITDA (x)	30.6	27.8	23.5	20.0
RoNW (%)	17.1	16.6	18.4	19.6
RoCE (%)	16.5	16.2	17.9	19.1

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- ♦ **Guidance:** The company expects tile volume growth of 11-12% y-o-y and revenue growth of 8-9% y-o-y for FY2025. The tile industry is expected to grow at 5-6% y-o-y in FY2025. OPM is expected at 15-16%. The company expects tile volume growth of 11-12% y-o-y for Q2FY2025 owing to an improving demand environment (volume growth was weak in April; it improved in May and registered double-digit growth in June).
- ♦ **Q1FY2025 performance:** Despite demand softness and election period, the company reported 8% y-o-y tile volume growth for Q1FY2025. Consolidated revenue grew 5% y-o-y to Rs. 1,114 crore, OPM stood at 15% while net profit declined by 16% y-o-y to Rs. 90 crore for Q1FY2025. Tile revenue grew 3% y-o-y to Rs. 990 crore, bathware grew by 8% y-o-y to Rs. 91 crore, plywood grew by 25% y-o-y to Rs. 18 crore, and adhesives increased 59% y-o-y to Rs. 15 crore. The company has reduced its working capital days by 1 day q-o-q to 59 days. Bathware margins were lower as Kerovit Global plant commenced operations on March 30, 2024. It may remain muted in Q2FY2025 due to continued loss at the new plant. Plywood loss was higher due to the rise in timber price. The company took a price increase of 3% in July.
- ♦ **Budget 2024 view:** It expects a lot of business to come from Bihar and A.P. The investment of Rs. 10 lakh crore to address the needs of 1 crore urban poor and middle-class families under PMAY (Urban) 2 is positive for the sector.
- ♦ **Exports:** Tile exports grew by 26% y-o-y to Rs. 20,175 crore in FY2024. For the first two months of FY2025, tile exports stayed flat y-o-y at Rs. 3,350 crore due to a steep rise in global freight rates. During the same period, exports to the U.S. grew 16% y-o-y to Rs. 335 despite the imposition of anti-dumping duty. Russia overtook U.S. in exports during June. India is exporting to 178 countries globally.
- ♦ **Power and fuel prices:** Gas prices stayed more or less the same in Q1FY2025, as in Q3FY2024 and Q4FY2024. The average fuel consumption price for the company region-wise is Rs. 37/scm in North, Rs. 36/scm in South, and Rs. 36/scm in West. Overall, average fuel consumption cost for Q1FY2025 was Rs. 37/scm as against Rs. 39/scm in Q4FY2024.
- ♦ **Sales mix:** The region-wise sales mix is North – 35%, South – 30%, and East and West – 17%. City-wise mix was Metro – 15%, Tier I – 31-32%, Tier II – 31-32%, Tier III – 14-15%, and Tier IV and below 7-8%.
- ♦ **Channel financing:** Currently, 170 dealers are under channel financing and the company will be adding another 300 dealers under channel financing over the next 2-3 months.
- ♦ **Fuel mix:** Biofuel is 30% plus in North plant; while in the South plant, it has a mix of biofuel and coal. Biofuel consumption price is Rs. 22-23/scm.
- ♦ **Tile mix:** For FY2024, volume-wise mix was Ceramics – 44%, PVT – 25%, and GVT – 31%. Revenue-wise mix was Ceramics – 38%, PVT – 26%, and GVT – 36%.
- ♦ **Nepal venture:** Currently, the company is exporting 70,000-80,000 per month to Nepal. It is putting up a 5.1 msm plant, which is expected to be operational by September 2024 (delayed from earlier June 2024 due to heavy rains). Nepal market is estimated at Rs. 2,500 crore and it targets 10-12% market share. In Nepal, Galaxy dealers are exclusive company dealers. Currently, its dealer network is 50-60, which will be increased to 100 dealers over the next three months.
- ♦ **Dealers:** As of FY2024, the company had 1,800 dealers. The company targets to increase its dealer network by 10% each year. Exclusive dealers stand at 450, which will be its focus area to increase.

Results (Consolidated)

Rs cr

Particulars	Q1FY2025	Q1FY2024	y-o-y (%)	Q4FY2024	q-o-q (%)
Net sales	1113.7	1064.2	4.6%	1240.8	-10.2%
other income	10.2	9.3	10.0%	17.4	-41.6%
Total income	1123.9	1073.5	4.7%	1258.3	-10.7%
Total expenses	946.6	895.0	5.8%	1068.8	-11.4%
Operating profit	167.1	169.2	-1.3%	172.0	-2.9%
Depreciation	42.1	30.5	38.1%	42.5	-0.8%
Interest	4.7	5.3	-11.2%	6.6	-29.2%
Exceptional items	0.0	0.0	-	0.0	-
Profit Before Tax	130.4	142.7	-8.6%	140.3	-7.1%
Taxes	35.8	33.6	6.6%	35.4	1.2%
Minority Interest	2.5	1.6	-	1.8	-
PAT	89.8	107.5	-16.5%	102.4	-12.3%
Adjusted PAT	89.8	107.5	-16.5%	102.4	-12.3%
EPS (Rs.)	5.7	6.8	-16.5%	6.4	-12.3%
Margins					
OPM (%)	15.0%	15.9%	-90 bps	13.9%	114 bps
NPM (%)	8.1%	10.1%	-204 bps	8.3%	-19 bps
Tax rate (%)	27.4%	23.5%	391 bps	25.2%	225 bps

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector Outlook – Healthy demand environment to sustain:

The building materials industry was severely affected by COVID-19-led lockdown during Q1FY2021, which affected its peak sales period of the year. Additionally, its high fixed-cost structure affected OPM, dragging down its net earnings. However, since June 2023, the sector has been one of the fastest in recovery with easing of lockdowns domestically. The sector has seen resumption of dealer and distribution networks and a sharp improvement in capacity utilisation. Most players have begun to see demand and revenue run-rate reaching 80-90% as compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding a recovery in net earnings.

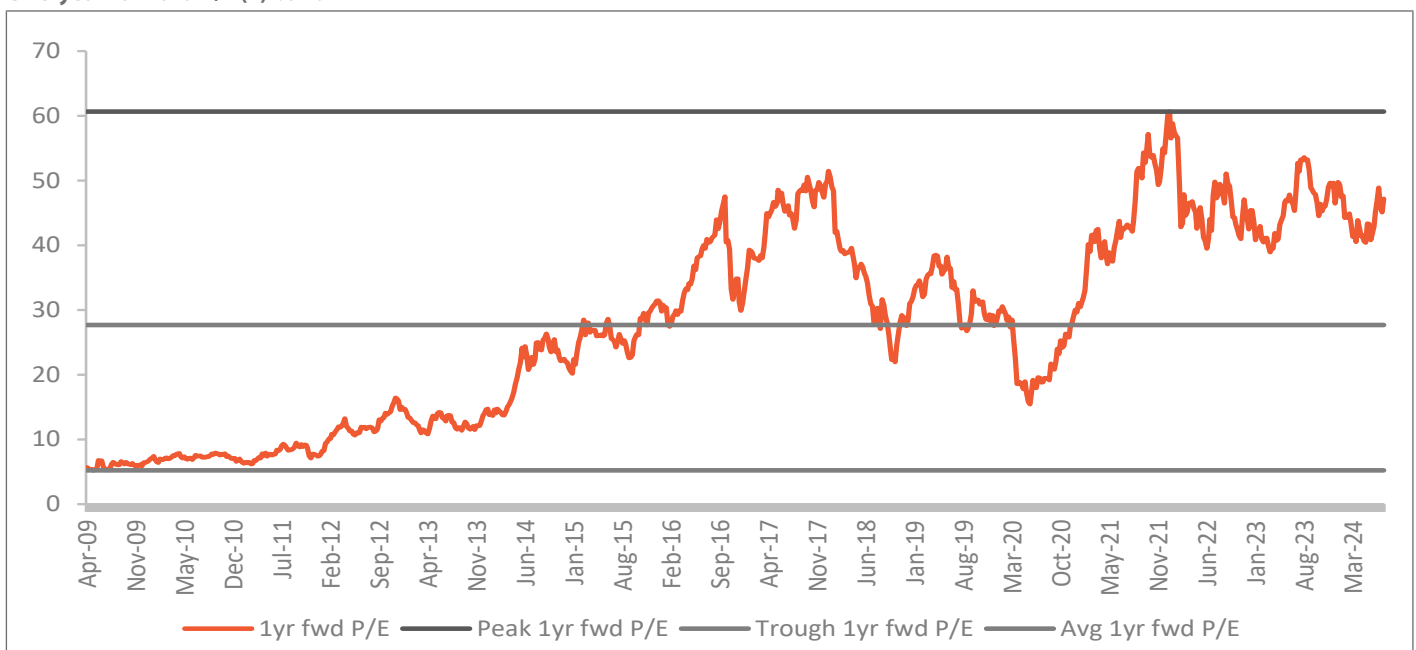
■ Company Outlook – Demand environment to remain strong over the long term:

Kajaria is expected to see improved operations and demand going ahead. The company's asset utilisation has been improving and is expected to grow further. Anti-China sentiments in the U.S. and European countries have boosted exports for the Morbi cluster, which houses ~850 manufacturing units. This has led to an improved pricing environment for organised players such as Kajaria and a higher market share domestically. The company targets to grow its consolidated revenue at a 12% CAGR over FY2024-FY2027 to Rs. 6,500 crore. Segment-wise revenue targets are Tiles – Rs. 5500 crore, Bathware – Rs. 675 crore, Plywood – Rs. 175 crore, and Adhesives – Rs. 150 crore. EBITDA margins are expected to be in the range of 15-17% in FY2027.

■ Valuation – Retain BUY with a revised PT of Rs. 1,700:

Kajaria is expected to benefit from healthy domestic demand, led by strong demand tailwinds from the realty sector and rising exports over the next 2-3 years. The company targets to grow at higher-than-industry growth rates over the medium term. The company continues to invest in branding, sales and distribution, and scaling up the non-tile businesses. We have introduced our FY2027E earnings in this note. We expect Kajaria to report a revenue/operating profit/net profit CAGR of 13%/15%/16% over FY2024-FY2027E. The stock trades at a P/E of 41x/35x its FY2026E/FY2027E earnings. We retain BUY on the stock with a revised PT of Rs. 1,700, rolling forward our valuation to H1FY2027E earnings and considering a healthy earnings growth trajectory over the next three years.

One-year forward P/E (x) band



Source: Sharekhan Research

About the company

Kajaria is India's largest manufacturer of ceramic/vitrified tiles and the world's eighth-largest tile manufacturer. The company has an annual capacity of 86.47 mn. sq. meters presently, distributed across eight plants – one at Sikandrabad in Uttar Pradesh, one at Gailpur, one at Malootana in Rajasthan, two at Morbi in Gujarat, one at Vijayawada, one at Srikalahasti in Andhra Pradesh, and one at Balanagar in Telangana.

Investment theme

Kajaria like other building material players is expected to witness benefits arising from improving demand in the housing sector. Further, anti-China sentiments in the U.S. and European countries, along with soft gas prices, have boosted exports for the Morbi cluster, which has led to an improved pricing environment for organised players such as Kajaria and an increase in market share domestically. Given the strong demand outlook over the next two to three years, the company is undertaking brownfield expansion. The company's rising free cash flow generation and high cash surplus would aid in expansion plans without leveraging the balance sheet.

Key Risks

- ◆ Increased crude oil prices followed by higher gas prices.
- ◆ Pressure on the pan-India residential housing market leading to overall lower volume offtake for the industry.

Additional Data

Key management personnel

ASHOK KUMAR KAJARIA	Executive Director-Chairperson related to Promoter
Sanjeev Agarwal	Chief Financial Officer
R.C. Rawat	Company Secretary and Compliance Officer
CHETAN KAJARIA	Executive Director
RISHI KAJARIA	Executive Director

Source: Company

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	RISHI KAJARIA FAMILY TRUST	16.27
2	CHETAN KAJARIA FAMILY TRST	16.27
3	CK TRUSTEES PVT. LTD.	16.27
4	RK TRUSTEES PVT. LTD.	16.27
5	VERSHA KAJARIA FAMILY TRST	8.14
6	VK TRUSTEES PVT. LTD.	8.14
7	Norges Bank	4.73
8	GOVERNMENT PENSION FUND - GLOBAL	4.63
9	Mirae Asset Global Investments Co. Ltd.	4.24
10	Franklin Resources Inc.	3.73

Source: Bloomberg

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Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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