

05 February 2025

India | Equity Research | Results update

Kajaria Ceramics

Tiles

Insipid quarter; near-term outlook remains challenging

Kajaria Ceramics (KJC) reported Q3FY25 consol. revenue growth of 1% YoY with tile volume growth of 6.7% YoY (5-year CAGR of 7.2%) and realisation decline of 3.7% YoY (-1.9% QoQ). EBITDA margin shrunk 274bps YoY/69bps QoQ to 12.8% due to higher employee cost, other expenses and lower utilisation of new sanitaryware plant, resulting in 16.8%/25.4% YoY EBITDA/APAT dip. As per management, retail demand was subdued in Q3 and could pick up Q1FY26 onwards. It has guided for 8-9% YoY volume growth (9-10% earlier) in FY25 and OPM to improve going forward (driven by operating leverage and improved product mix). We cut EBITDA by 10-12% for FY25-27E and upgrade the stock to **BUY** (from *Add*) post 21.4% decline in stock price over the past 3 months with a rolled-over Dec'25E TP of INR 1,162.

Tile volume growth remains modest at 6.7% YoY

KJC reported Q3FY25 consolidated revenue growth of 1% YoY (5-year CAGR of 9.4%) to ~INR 11.6bn as tiles volume grew 6.7% YoY (5-year CAGR of 7.2%), while realisation declined 3.7% YoY/1.9% QoQ (due to higher sales from lower margin project segment). The bathware segment witnessed revenue growth of 2.5% YoY, while plywood revenue declined 76.2% YoY (on small base) due to high RM cost and competitive intensity. Management indicated demand was subdued in Q3 but could pick up from Q1FY26 driven by improved infra spending and increased liquidity. It guided for tile volume growth of 8-9% YoY (earlier 9-10% YoY) and bathware revenue growth of 10% YoY in FY25. Working capital days in Q3 stood at 59 (flat YoY / QoQ) and it has cash surplus of ~INR 3bn. We have modelled 9.7% volume CAGR over FY24-27E driven by increasing geographical reach of KJC and healthy housing market.

Margin fell 274bps YoY due to higher employee/other expense

KJC's EBITDA margin in Q3FY25 contracted 274bps YoY to 12.8% (-69bps QoQ) due to lower tile realisation, lower utilisation of sanitaryware plant and higher employee/other expenses (+149bps/88bps YoY), resulting in EBITDA/APAT decline of 16.8%/ 25.4% YoY, respectively. Management expects EBITDA margin to improve going forward driven by operating leverage (for both tiles and sanitaryware), better product mix (higher sales from retail network) and more controlled employee/other expenses. We model margin of 13.9-15.1% over FY25-27E (vs FY12-24 average OPM of 16.4%).

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	45,784	47,572	53,274	58,917
EBITDA	6,997	6,603	7,963	8,908
EBITDA %	15.3	13.9	14.9	15.1
Net Profit	4,146	3,755	4,827	5,443
EPS (INR)	26.0	23.6	30.3	34.2
EPS % Chg YoY	18.7	(9.4)	28.6	12.8
P/E (x)	36.9	40.7	31.7	28.1
EV/EBITDA (x)	21.4	22.3	18.3	16.2
RoCE (%)	14.7	12.4	14.5	15.0
RoE (%)	16.8	13.8	16.3	16.8

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Market Data

Market Cap (INR)	153bn
Market Cap (USD)	1,756mn
Bloomberg Code	KJC IN
Reuters Code	KAJR.BO
52-week Range (INR)	1,579 /956
Free Float (%)	52.0
ADTV-3M (mn) (USD)	2.3

Price Performance (%)	3m	6m	12m
Absolute	(21.4)	(34.3)	(28.6)
Relative to Sensex	(21.1)	(31.3)	(37.6)

ESG Score	2022	2023	Change
ESG score	67.7	66.0	(1.7)
Environment	46.7	46.8	0.1
Social	66.0	63.0	(3.0)
Governance	81.0	79.5	(1.5)

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue	(4.1)	(4.5)	(4.7)
EBITDA	(11.7)	(10.7)	(10.5)
EPS	(16.0)	(12.8)	(12.8)

Previous Reports

23-10-2024: [Q2FY25 results review](#)

23-07-2024: [Q1FY25 results review](#)

Valuation and view

KJC's operating performance has been much below expectations and we believe it has better growth prospects in medium term though near-term outlook remains challenging due to pressure on exports and subdued demand in domestic market. We like KJC for its leadership in domestic tiles market. We upgrade the stock to **BUY** (from **Add**) due to the recent correction in the stock price with a rolled-over Dec'25E target price of INR 1,162 (earlier INR 1,405), set at a revised 35x PER (earlier 38x PER) which is a ~10% discount to its 5-year average/1-year forward P/E due to near-term challenging environment.

Exhibit 1: Q3FY25 consolidated result review

INR mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Net Sales	11,637	11,518	1.0%	11,793	-1.3%	34,567	33,376	3.6%
Raw Materials	4,790	4,692	2.1%	5,115	-6.3%	14,627	13,990	4.5%
% of sales	41.2%	40.7%	43 bps	43.4%	-221 bps	42.3%	41.9%	40 bps
Power & Fuel	2,412	2,395	0.7%	2,244	7.5%	6,784	6,543	3.7%
% of sales	20.7%	20.8%	-7 bps	19.0%	170 bps	19.6%	19.6%	2 bps
Employee cost	1,507	1,319	14.2%	1,443	4.4%	4,344	3,756	15.7%
% of sales	12.9%	11.5%	149 bps	12.2%	71 bps	12.6%	11.3%	131 bps
Other expenses	1,440	1,324	8.8%	1,401	2.8%	4,065	3,810	6.7%
% of sales	12.4%	11.5%	88 bps	11.9%	49 bps	11.8%	11.4%	34 bps
EBITDA	1,487	1,788	-16.8%	1,589	-6.4%	4,747	5,277	-10.0%
EBITDA Margin (%)	12.8%	15.5%	-274 bps	13.5%	-69 bps	13.7%	15.8%	-208 bps
Depreciation and amortization	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%
EBIT Margin (%)	9.4%	12.1%	-279 bps	10.0%	-68 bps	10.2%	12.6%	-246 bps
Interest expenses	87	50	74.7%	47	83.9%	181	145	24.8%
Other 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%
Income taxes	307	379	-18.9%	350	-12.2%	1,015	1,081	-6.1%
PAT before MI & Extraordinaries	790	1,080	-26.8%	855	-7.7%	2,568	3,279	-21.7%
Extraordinary items	0	0	n.m.	0	n.m.	0	0	n.m.
Minority interest	12	38	nm	13	-2.4%	50	82	-39.1%
Reported PAT	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%

Source: I-Sec research, Company data

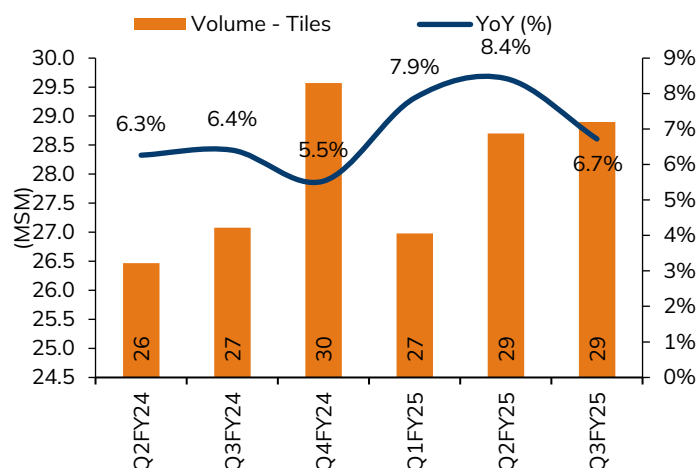
Exhibit 2: Q3FY25 segmental result review

INR mn	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Tiles Volume (in MSM)								
Self-manufactured	15.4	15.3	1.2%	15.6	-1.3%	46.0	43.9	4.8%
Subsidiaries	5.9	5.3	10.3%	5.4	8.1%	16.8	14.8	14.0%
Outsourcing	7.6	6.5	16.6%	7.6	-0.5%	21.8	20.0	9.2%
Total sales volume	28.9	27.1	6.7%	28.7	0.7%	84.6	78.6	7.7%
Segment Revenues								
Tiles	10,611	10,256	3.5%	10,717	-1.0%	31,376	30,047	4.4%
Other	1,026	1,262	-18.7%	1,076	-4.6%	3,191	3,330	-4.2%
Total revenues	11,637	11,518	1.0%	11,793	-1.3%	34,567	33,376	3.6%
EBIT								
Tiles	1154	1380	-16.4%	1290	-10.6%	3708	4139	-10.4%
Other	-65	19	-446.0%	-107	-39.4%	-187	83	-324.6%
Total	1,089	1,399	-22.2%	1,183	-8.0%	3,521	4,222	-16.6%
EBIT Margins								
Tiles	10.9%	13.5%	-258 bps	12.0%	-117 bps	11.8%	13.8%	-195 bps
Other	(6.3%)	1.5%	-779 bps	(9.9%)	362 bps	(5.9%)	2.5%	-837 bps

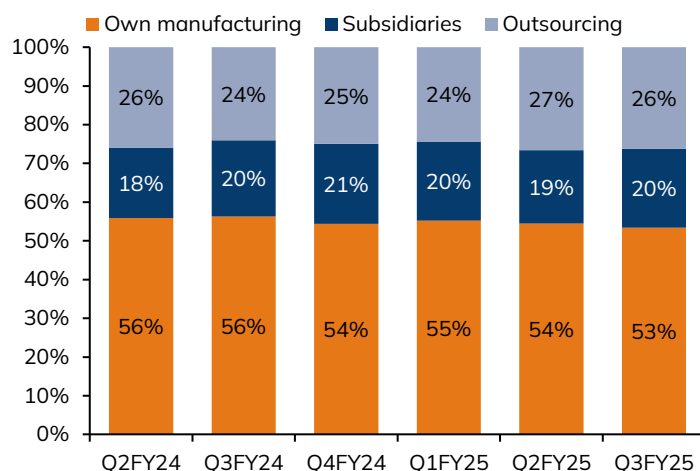
Source: I-Sec research, Company data

Q3FY25 earnings conference call takeaways

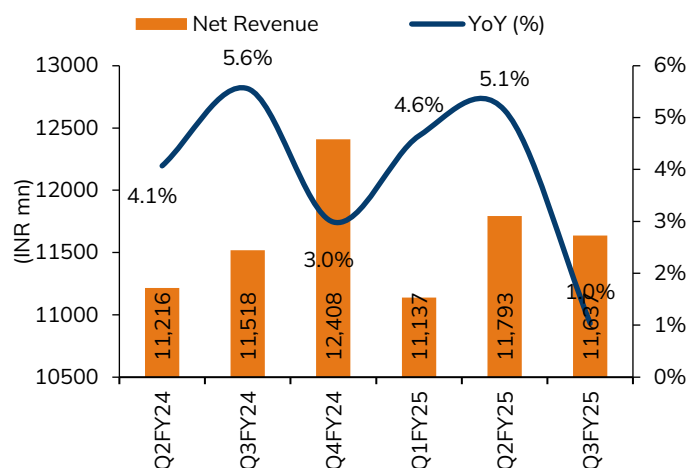
- **Tile exports** for Apr-Nov'24 declined 16% YoY in value terms to ~INR 116bn, primarily due to high ocean freight rates.
- **Demand** has been sluggish in Q3 for both tiles and sanitaryware. Management indicated that a lot of old plants in Morbi have shut down due to weak export demand. Project demand remains healthy while retail demand was muted (70-75% of KJC's sales are from retail segment). Management expects demand to improve Q1FY26 onwards driven by improved infra spending by the government, increased liquidity (further supported by likely RBI interest rate cut in Feb'25).
- **Plywood sales** were significantly impacted (down 76.2% YoY) due to high competitive intensity and elevated RM prices.
- **Impact on profitability:** Management indicated that profitability was impacted due to lower realisation and negative operating leverage from the new sanitaryware plant (in Morbi). Going forward, EBITDA margin is expected to increase as sanitaryware unit improves utilisation.
- Management indicated **employee expenses were elevated** (at 12.6% of revenue for 9MFY24) should return to levels seen in FY24 (~11% of revenue).
- **Pricing:** Management does not expect any price hikes in Q4FY25, but is hopeful for realisation to improve driven by an improved product mix.
- **Gas cost:** Average gas cost in Q3FY25 was flat QoQ at INR 37/scm (North: INR 38/scm; South: INR 38/scm; and West: INR 37/scm).
- **Guidance:** Management has guided for 8-9% YoY volume growth and bathware revenue growth of 10% YoY, in FY25.
- **Nepal plant** ran at ~70% utilisation during Q3 and management expects it to reach 80-85% during Q4FY25. KJC has acquired additional 1% equity share of the Nepal JVC to make JVC as a subsidiary of the company. Sales from Nepal plant will reflect in consolidated volume from Q1FY26.
- **Product mix:** For Q3FY25, in volume terms – ceramics (42%), PVT (25%), GVT (33%) and in value terms – ceramics (37%), PVT (26%), GVT (37%).
- **Branding:** Management indicated INR 300mn of branding cost for Q3FY25.
- **Distribution:** KJC has pan-India dealer network of 1,880 dealers of which 460 are exclusive KJC dealers.

Exhibit 3: Quarterly sales volume

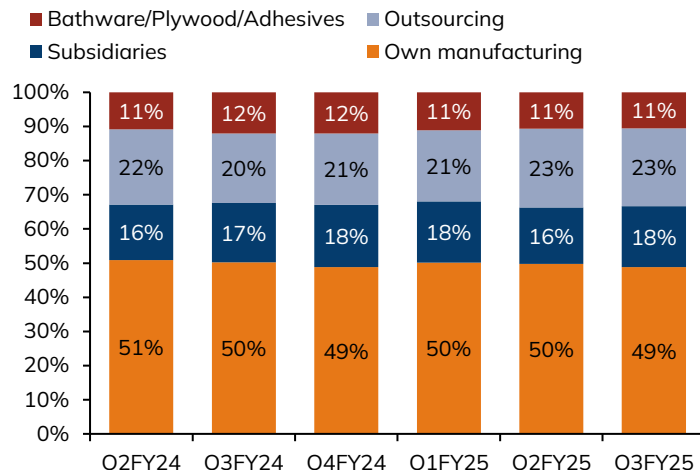
Source: Company data, I-Sec research

Exhibit 4: Quarterly sales volume (tiles) breakup

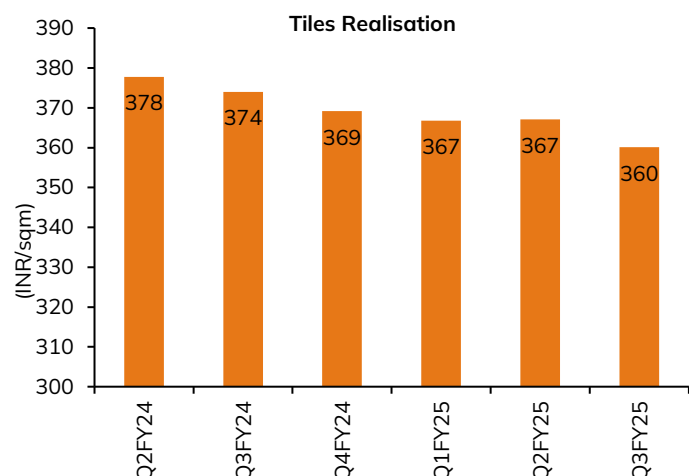
Source: Company data, I-Sec research

Exhibit 5: Quarterly consolidated revenue

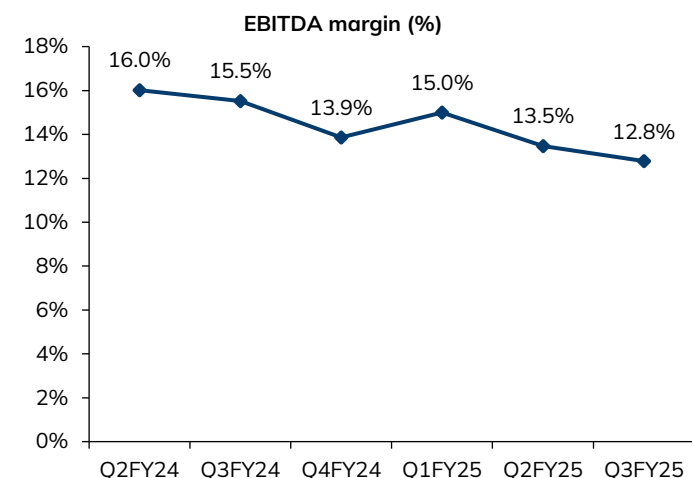
Source: Company data, I-Sec research

Exhibit 6: Quarterly revenue breakup

Source: Company data, I-Sec research

Exhibit 7: Quarterly tiles realisation

Source: Company data, I-Sec research

Exhibit 8: Quarterly EBITDA margin

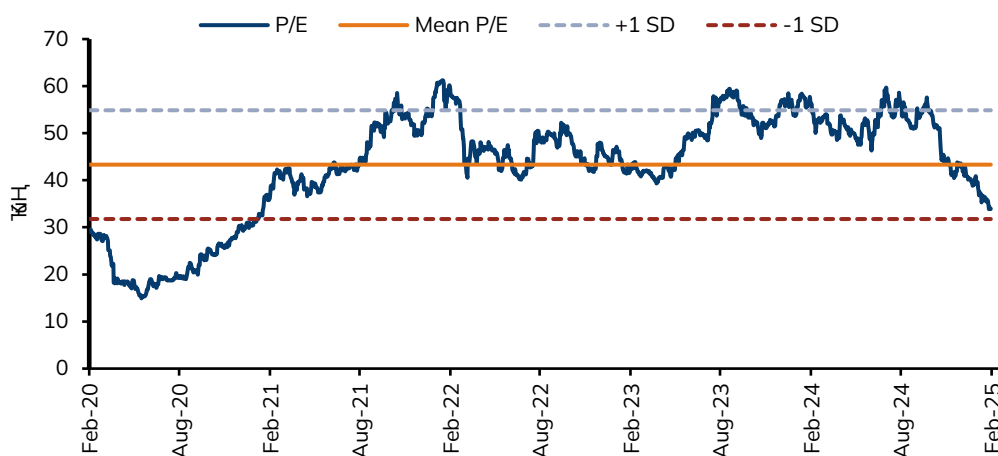
Source: Company data, I-Sec research

Valuation

KJC is the leader in the Indian tiles market. It is a play on the growing market and a gradual shift from the unorganised market to organised players. It has a strong brand with wide distribution and comprehensive product portfolio.

KJC is likely to report tiles volume CAGR of 9.7% over FY24-27E led by pick up in real estate with healthy return ratio (RoE of 16.8% in FY27E) and continued net-debt-free balance sheet. We upgrade to **BUY** (from Add) with a rolled-over Dec'25E target price of INR 1,162, set at a revised 35x PER (~10% discount to 5-year average, 1-year forward P/E).

Exhibit 9: 1-year forward P/E band



Source: Company data, I-Sec research

Key downside risks

- **Slowdown in housing market:** The demand driver for tiles sector is the housing market. Unexpected slowdown in that market would adversely affect the tiles market.
- **Higher raw material prices:** Gas accounts for ~25% of the total production cost. Continuous increase in gas prices could adversely affect margins/demand for tiles.
- **Continuous slowdown in exports from Morbi:** A prolonged slowdown in exports from Morbi could lead to pressure on supply in domestic markets, and thus affect growth prospects for the company.

Exhibit 10: Shareholding pattern

%	Jun'24	Sep'24	Dec'24
Promoters	47.5	47.5	47.5
Institutional investors	44.0	44.5	43.9
MFs and others	25.6	26.1	25.4
Insurance Cos	1.1	1.0	1.2
FIIIs	17.3	17.4	17.3
Others	8.5	8.0	8.6

Source: Bloomberg, I-Sec research

Exhibit 11: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	45,784	47,572	53,274	58,917
Operating Expenses	38,787	40,969	45,310	50,009
EBITDA	6,997	6,603	7,963	8,908
EBITDA Margin (%)	15.3	13.9	14.9	15.1
Depreciation & Amortization	1,480	1,646	1,800	1,979
EBIT	5,517	4,957	6,163	6,928
Interest expenditure	211	234	57	48
Other Non-operating Income	362	411	501	584
Recurring PBT	5,668	5,134	6,607	7,465
Less: Taxes	(1,435)	(1,314)	(1,691)	(1,911)
PAT	4,233	3,820	4,916	5,554
Profit / (Loss) from Associates	(12.0)	-	-	-
Less: Minority Interest	(101)	(65)	(88)	(111)
Extraordinaries (Net)	101	-	-	-
Net Income (Reported)	4,221	3,755	4,827	5,443
Net Income (Adjusted)	4,146	3,755	4,827	5,443

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Assets				
Inventories	5,322	5,724	6,331	6,988
Cash & cash eqv.	5,141	6,267	7,350	8,623
Sundry Debtors	6,194	6,386	7,152	7,909
Other Current Assets	1,493	1,434	1,460	1,614
Trade payables	2,933	3,032	3,396	3,755
Other Current Liabilities	2,512	2,814	3,151	3,485
Net Current Assets	12,706	13,965	15,746	17,893
Investments	185	185	185	185
Net Fixed Assets	16,015	15,690	16,640	17,410
Other Non Current Assets	1,041	1,041	1,041	1,041
Total Assets	29,947	30,881	33,611	36,529
Liabilities				
Borrowings	1,706	520	520	350
Other Non Current Liabilities	1,485	1,485	1,485	1,485
Total Liabilities	3,191	2,005	2,005	1,835
Equity Share Capital	159	159	159	159
Reserves & Surplus	26,006	28,061	30,703	33,680
Total Net Worth	26,165	28,220	30,862	33,839
Minority Interest	591	656	744	855
Total Liabilities & Net Worth	29,947	30,881	33,611	36,529

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Mar-24	Jun-24	Sep-24	Dec-24
Net Sales	12,408	11,137	11,793	11,637
% growth (YOY)	3.0	4.6	5.1	1.0
EBITDA	1,720	1,671	1,589	1,487
Margin %	13.9	15.0	13.5	12.8
Other Income	167	79	70	95
Extraordinaries	0	0	0	0
Adjusted Net Profit	1,024	898	843	777

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	5,413	5,397	6,107	6,769
Working Capital Changes	(278)	(134)	(697)	(875)
Capital Commitments	(2,215)	(1,321)	(2,750)	(2,750)
Free Cashflow	3,198	4,077	3,357	4,019
Other investing cashflow	(165)	-	-	-
Cashflow from Investing Activities	(2,380)	(1,321)	(2,750)	(2,750)
Issue of Share Capital	0	-	-	-
Inc (Dec) in Borrowings	(387)	(1,186)	-	(170)
Dividend paid	(1,911)	(1,700)	(2,186)	(2,466)
Others	468	(65)	(88)	(111)
Cash flow from Financing Activities	(1,830)	(2,951)	(2,274)	(2,747)
Chg. in Cash & Bank balance	1,204	1,126	1,083	1,272
Closing cash & balance	5,141	6,267	7,350	8,623

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	26.5	23.6	30.3	34.2
Adjusted EPS (Diluted)	26.0	23.6	30.3	34.2
Cash EPS	35.3	33.9	41.6	46.6
Dividend per share (DPS)	12.0	10.7	13.7	15.5
Book Value per share (BV)	164.3	177.2	193.8	212.5
Dividend Payout (%)	46.1	45.3	45.3	45.3
Growth (%)				
Net Sales	4.5	3.9	12.0	10.6
EBITDA	17.9	(5.6)	20.6	11.9
EPS (INR)	18.7	(9.4)	28.6	12.8
Valuation Ratios (x)				
P/E	36.9	40.7	31.7	28.1
P/CEPS	27.2	28.3	23.1	20.6
P/BV	5.8	5.4	5.0	4.5
EV / EBITDA	21.4	22.3	18.3	16.2
EV / Sales	3.3	3.1	2.7	2.5
Dividend Yield (%)	1.3	1.1	1.4	1.6
Operating Ratios				
Gross Profit Margins (%)	56.8	57.7	57.7	57.7
EBITDA Margins (%)	15.3	13.9	14.9	15.1
Effective Tax Rate (%)	25.3	25.6	25.6	25.6
Net Profit Margins (%)	9.1	7.9	9.1	9.2
NWC / Total Assets (%)	21.4	21.0	20.9	21.2
Net Debt / Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.5)	(0.9)	(0.9)	(0.9)
Profitability Ratios				
RoCE (%)	14.7	12.4	14.5	15.0
RoE (%)	16.8	13.8	16.3	16.8
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	42	44	43	43
Receivables Days	49	49	49	49
Payables Days	23	23	23	23

Source Company data, I-Sec research

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