

## Kajaria Ceramics

HOLD

Green shoots in demand aided earnings growth

## Summary

Kajaria Ceramic Ltd.'s (Kajaria) Q1FY25 result was broadly in-line with our estimates on net sales/EBITDA, while PAT was a tad below estimate. The company reported healthy volume growth in a season lean quarter. Further, the management has guided improvement in volume off-take from Q2FY25 onwards. Net sales increased by 4.6% YoY to Rs11.1bn, while EBITDA came in at Rs1.6bn, declined by 1.3% YoY. The company reported net profit of Rs0.9bn, lower by 15.4% over Q1FY24. Given green shoots in demand and positive management commentary, we have marginally increased our earnings estimates over FY25E/FY26E. Post recent rally in the stock price, potential upside is capped from current level. We downgrade the stock to HOLD with a revised TP of Rs1,530 (earlier Rs1,473), assigning 40x PER on FY26E.

## Key Highlights and Investment Rationale

- **Encouraging sales volume growth, NSR remained under pressure:** The company reported 8% YoY increase in sales volume at 26.9MSM, while net sales realization was down by 4% over Q1FY24 to Rs367/Sqm. The management believes that Morbi players will remain focused on exports and that should benefit the domestic organized players. The company's capacity addition at Nepal, strengthening of distribution network and sales volume off-take bodes well for sustainable earnings growth in near term.
- **Sustainable earnings growth on cards, HOLD with a TP of Rs1,530:** Despite weak performance in FY24, Kajaria remains our preferred pick amongst the listed building material companies and we believe that it is poised to benefit from domestic demand uptrend, capacity expansion, extensive distribution network and strong branding. We believe the company will continue to outperform peers on sales volume as well as margins front in near term. HOLD with a TP of Rs1,530.

TP **Rs1,530**CMP **Rs1,440**Potential upside/downside **6%**Previous Rating **BUY**

## Price Performance (%)

	-1m	-3m	-12m
Absolute	6.7	19.7	0.6
Rel to Sensex	2.6	10.6	(20.0)

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	33.2	38.3
Consensus	31.7	38.4
% difference	4.7	(0.2)

## Key Stock Data

Bloomberg / Reuters	KJC IN / KAJR.BO
Sector	Building Material Product
Shares o/s (mn)	159
Market cap. (Rs mn)	229,284
3-m daily avg Trd value(Rs mn)	22.3
52-week high / low	Rs1,522 / 1,111
Sensex / Nifty	80,429 / 24,479

## Shareholding Pattern (%)

Promoters	47.5
FII	16.2
DII	26.7
Public	9.6

## Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	37,052	43,819	45,784	51,278	56,283
Change (yoy, %)	33	18	4	12	10
EBITDA	6,107	5,920	6,997	8,188	9,281
Change (yoy, %)	20.0	(3.1)	18.2	17.0	13.3
EBITDA Margin(%)	16.5	13.5	15.3	16.0	16.5
Adj.PAT	3,828	3,542	4,334	5,274	6,083
EPS (Rs)	24.1	22.3	27.3	33.2	38.3
Change (yoy, %)	23.9	(7.5)	22.4	21.7	15.3
PE(x)	59.9	64.7	52.9	43.5	37.7
Dividend Yield (%)	0.8	0.9	1.0	1.2	1.2
EV/EBITDA (x)	37.1	38.4	32.3	27.6	24.2
RoE (%)	19.2	15.9	17.5	19.4	20.6
RoCE (%)	21.2	17.6	19.1	21.5	22.9

Source: IDBI Capital Research

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## Concall highlights:

### Industry

- During the quarter the demand was subdued led by elections and extreme heat waves.
- During the quarter the freight cost has increased due to which the morbi players exports were down causing pressure in the domestic industry.
- The management is quite happy with the financial budget for FY25 as the government has guided the investment of Rs10 lakh crore towards urban housing which will create a good demand for the tiles segment.

### Segmental Performance

- In Q1FY25, sales volume grew by 8% YoY to 26.98 MSM. However, realization de-grew by 4% to Rs367/sqm.
- The company is setting up a manufacturing plant in in Nepal with a capacity 5.1MSM. The project has been got delayed due to extreme weather conditions in Nepal and the company expects the plant to get commissioned by the end of H1FY25.
- During the quarter tile segment grew by 3% YoY to Rs989cr, Bath ware segment grew by 8% YoY Rs91cr and Adhesive segment grew by 59% to Rs15cr.

### Capex

- The company will do the capex of Rs 2.5 bn every year FY25-27 towards maintenance of the plants.

### Guidance

- The company has guided the volume growth of 10-12% YoY in Q2FY25.
- The company has reiterated bathware/plywood and adhesive segment revenue to grow at CAGR of 23%/19% and 44% over FY25-27 to Rs6.7/1.7 and 1.5bn. The consolidated revenue to grow at 12% CAGR over FY25-27 to Rs65 bn.

**Exhibit 1: Financial snapshot**

Particulars (mn)	Q1FY25	Q4FY24	QoQ (%)	Q1FY24	YoY (%)
<b>Total revenues</b>	<b>11,137</b>	<b>12,408</b>	<b>(10.2)</b>	<b>10,642</b>	<b>4.6</b>
Total expenditure	9,466	10,688	(11.4)	8,950	5.8
<b>EBIDTA</b>	<b>1,671</b>	<b>1,720</b>	<b>(2.9)</b>	<b>1,692</b>	<b>(1.3)</b>
<i>EBIDTA margin(%)</i>	<i>15.0</i>	<i>13.9</i>	<i>114bps</i>	<i>15.9</i>	<i>-90bps</i>
Depreciation	421	425	(0.8)	305	38.1
Interest cost	47	66	(29.2)	53	(11.2)
Other income	102	174	(41.6)	93	10.0
PBT	1,304	1,403	(7.1)	1,427	(8.6)
Tax	358	354	1.2	336	6.6
<b>Adj. net profit</b>	<b>923</b>	<b>1,043</b>	<b>(11.4)</b>	<b>1,091</b>	<b>(15.4)</b>
Adj. EPS (INR)	5.8	6.5	(11.4)	6.8	(15.4)

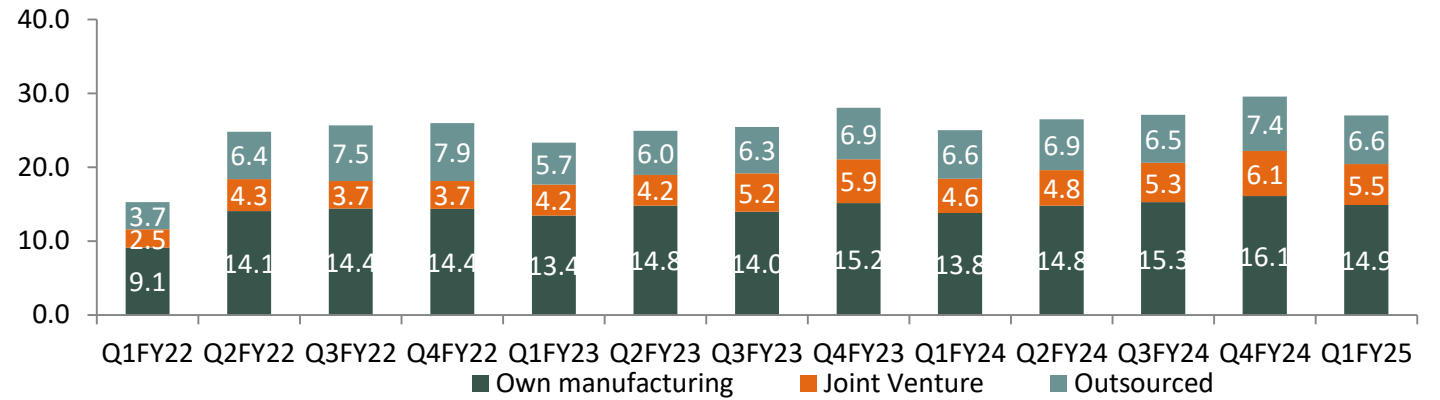
Source: Company; IDBI Capital Research

**Exhibit 2: Actual vs. Estimates**

Particulars (mn)	Q1FY25A	Q1FY25E	Variance (%)
<b>Net Sales</b>	<b>11,137</b>	<b>11,281</b>	<b>(1.3)</b>
<b>EBITDA</b>	<b>1,671</b>	<b>1,737</b>	<b>(3.8)</b>
<i>EBITDA Margin (%)</i>	<i>15.0</i>	<i>15.4</i>	<i>-40bps</i>
<b>Net Profit</b>	<b>923</b>	<b>1,061</b>	<b>(12.9)</b>
EPS, Rs	5.8	6.7	(12.9)

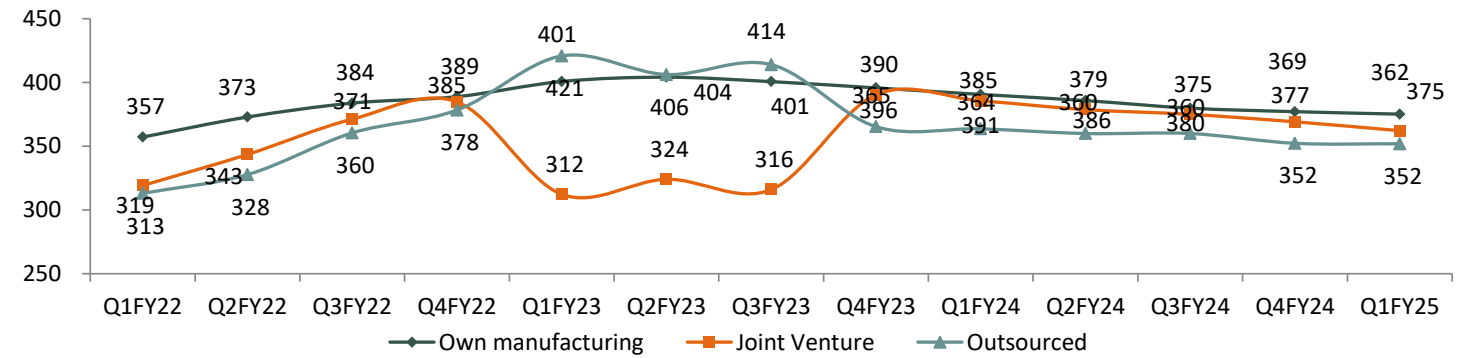
Source: Company; IDBI Capital Research

**Exhibit 3: Sales volume contribution (MSM)**



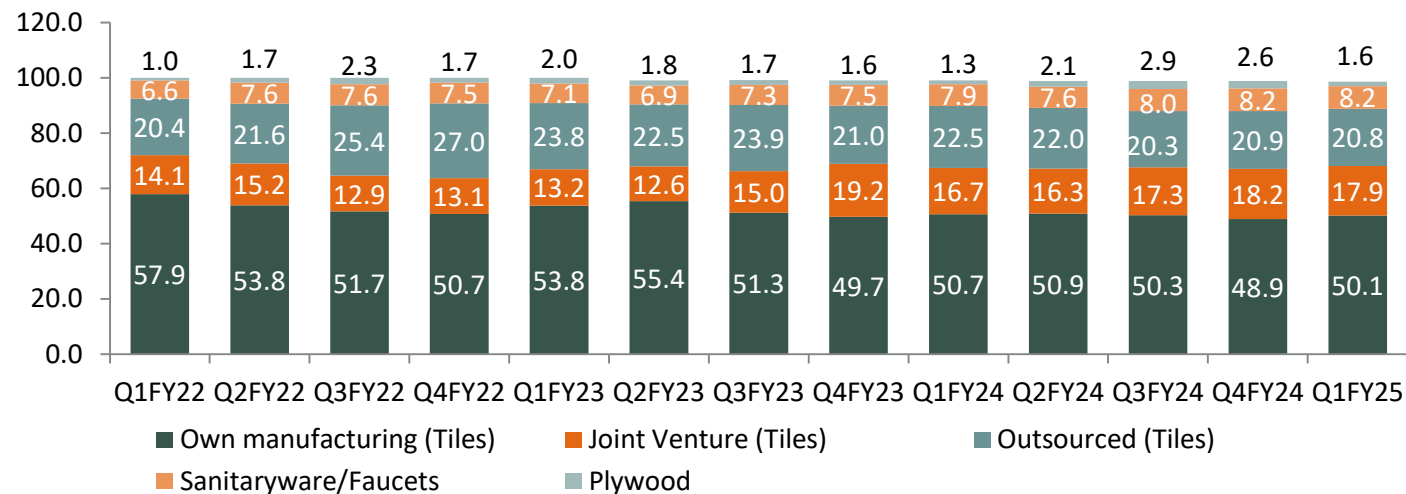
Source: Company; IDBI Capital Research

**Exhibit 4: Tile realization (Rs/sqmtr)**



Source: Company; IDBI Capital Research

**Exhibit 5: Revenue contribution (%)**



Source: Company; IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>27,809</b>	<b>37,052</b>	<b>43,819</b>	<b>45,784</b>	<b>51,278</b>	<b>56,283</b>
<i>Change (yoy, %)</i>	<i>(1.0)</i>	<i>33</i>	<i>18</i>	<i>4</i>	<i>12</i>	<i>10</i>
Operating expenses	(22,721)	(30,945)	(37,899)	(38,787)	(43,090)	(47,002)
<b>EBITDA</b>	<b>5,088</b>	<b>6,107</b>	<b>5,920</b>	<b>6,997</b>	<b>8,188</b>	<b>9,281</b>
<i>Change (yoy, %)</i>	<i>22.3</i>	<i>20</i>	<i>(3)</i>	<i>18</i>	<i>17</i>	<i>13</i>
<i>Margin (%)</i>	<i>18.3</i>	<i>16.5</i>	<i>13.5</i>	<i>15.3</i>	<i>16.0</i>	<i>16.5</i>
Depreciation	(1,067)	(1,154)	(1,329)	(1,480)	(1,517)	(1,617)
<b>EBIT</b>	<b>4,021</b>	<b>4,953</b>	<b>4,592</b>	<b>5,517</b>	<b>6,671</b>	<b>7,664</b>
Interest paid	(107)	(127)	(223)	(211)	(156)	(147)
Other income	213	276	336	462	532	612
<b>Pre-tax profit</b>	<b>4,127</b>	<b>5,102</b>	<b>4,784</b>	<b>5,768</b>	<b>7,048</b>	<b>8,129</b>
Tax	(1,038)	(1,274)	(1,163)	(1,435)	(1,774)	(2,046)
<i>Effective tax rate (%)</i>	<i>25.2</i>	<i>25.0</i>	<i>24.3</i>	<i>24.9</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>3,089</b>	<b>3,828</b>	<b>3,621</b>	<b>4,334</b>	<b>5,274</b>	<b>6,083</b>
Exceptional items	-	-	79	-	-	-
<b>Adjusted net profit</b>	<b>3,089</b>	<b>3,828</b>	<b>3,542</b>	<b>4,334</b>	<b>5,274</b>	<b>6,083</b>
<i>Change (yoy, %)</i>	<i>21.8</i>	<i>24</i>	<i>(7)</i>	<i>22</i>	<i>22</i>	<i>15</i>
EPS	19.4	24.1	22.3	27.3	33.2	38.3
Dividend per sh	10.0	11.0	13.0	15.0	17.0	18.0
<i>Dividend Payout %</i>	<i>61.8</i>	<i>54.8</i>	<i>70.0</i>	<i>66</i>	<i>62</i>	<i>56</i>

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Shareholders' funds</b>	<b>18,689</b>	<b>21,224</b>	<b>23,268</b>	<b>26,165</b>	<b>28,195</b>	<b>30,843</b>
Share capital	159	159	159	159	159	159
Reserves & surplus	18,530	21,065	23,109	26,006	28,036	30,684
<b>Total Debt</b>	<b>971</b>	<b>1,279</b>	<b>2,093</b>	<b>1,706</b>	<b>1,555</b>	<b>1,468</b>
Other liabilities	1,979	1,220	1,611	1,528	1,706	1,911
<b>Curr Liab &amp; prov</b>	<b>2,982</b>	<b>5,495</b>	<b>5,557</b>	<b>5,439</b>	<b>5,824</b>	<b>6,321</b>
Current liabilities	2,753	5,236	5,265	5,120	5,485	5,958
Provisions	229	259	293	320	339	362
<b>Total liabilities</b>	<b>5,931</b>	<b>7,994</b>	<b>9,261</b>	<b>8,673</b>	<b>9,085</b>	<b>9,699</b>
<b>Total equity &amp; liabilities</b>	<b>25,266</b>	<b>29,866</b>	<b>33,305</b>	<b>35,429</b>	<b>37,871</b>	<b>41,134</b>
Net fixed assets	11,673	13,632	14,522	16,015	17,026	17,444
Investments	50	-	-	-	-	-
Other non-curr assets	666	1,720	1,919	1,786	1,839	1,913
<b>Current assets</b>	<b>12,877</b>	<b>14,514</b>	<b>16,864</b>	<b>17,628</b>	<b>19,006</b>	<b>21,777</b>
Inventories	3,731	4,659	5,647	5,322	6,014	6,735
Sundry Debtors	4,317	5,133	6,012	6,194	6,938	7,631
Cash and Bank	4,428	4,244	3,938	5,141	4,991	6,233
Loans and advances	402	478	1,268	970	1,064	1,177
<b>Total assets</b>	<b>25,266</b>	<b>29,866</b>	<b>33,305</b>	<b>35,429</b>	<b>37,871</b>	<b>41,134</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	4,127	5,102	4,784	5,768	7,048	8,129
Depreciation	1,067	1,154	1,329	1,480	1,517	1,617
Tax paid	(1,082)	(1,228)	(1,131)	(1,361)	(1,596)	(1,841)
Chg in working capital	741	777	(1,744)	(505)	(1,113)	(995)
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>4,853</b>	<b>5,804</b>	<b>3,238</b>	<b>5,382</b>	<b>5,855</b>	<b>6,909</b>
Capital expenditure	(1,059)	(3,113)	(2,219)	(2,973)	(2,527)	(2,035)
Chg in investments	48	50	-	-	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(1,010)</b>	<b>(3,063)</b>	<b>(2,219)</b>	<b>(2,973)</b>	<b>(2,527)</b>	<b>(2,035)</b>
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(201)	309	814	(387)	(151)	(87)
Dividend (incl. tax)	(1,908)	(2,099)	(2,480)	(2,862)	(3,244)	(3,434)
Chg in minorities	9	2	129	(186)	-	-
Other financing activities	(1,475)	(3,235)	(2,267)	2,229	(83)	(111)
<b>Cash flow from financing (c)</b>	<b>(1,667)</b>	<b>(2,925)</b>	<b>(1,325)</b>	<b>(1,205)</b>	<b>(3,477)</b>	<b>(3,632)</b>
<b>Net chg in cash (a+b+c)</b>	<b>2,176</b>	<b>(183)</b>	<b>(306)</b>	<b>1,203</b>	<b>(150)</b>	<b>1,242</b>



### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	117.5	133	146	165	177	194
Adj EPS (Rs)	19.4	24.1	22.3	27.3	33.2	38.3
Adj EPS growth (%)	21.8	24	-7	22	22	15
EBITDA margin (%)	18.3	16.5	13.5	15.3	16.0	16.5
Pre-tax margin (%)	14.8	13.8	10.9	12.6	13.7	14.4
Net Debt/Equity (x)	-0.2	-0.1	-0.1	-0.1	-0.1	-0.2
ROCE (%)	18.5	21	18	19	22	23
ROE (%)	17.2	19	16	18	19	21

### DuPont Analysis

Asset turnover (x)	1.1	1.3	1.4	1.3	1.4	1.4
Leverage factor (x)	1.4	1.4	1.4	1.4	1.3	1.3
Net margin (%)	11.1	10.3	8.1	9.5	10.3	10.8

### Working Capital & Liquidity ratio

Inventory days	49	46	47	42	43	44
Receivable days	57	51	50	49	49	49
Payable days	33	35	30	28	26	25

### Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	74.2	59.9	64.7	52.9	43.5	37.7
Price/Book value (x)	12.3	10.8	9.9	8.8	8.1	7.4
EV/Net sales (x)	8.1	6.1	5.2	4.9	4.4	4.0
EV/EBITDA (x)	44.4	37.1	38.4	32.3	27.6	24.2
Dividend Yield (%)	0.7	0.8	0.9	1.0	1.2	1.2

Source: Company; IDBI Capital Research



# Notes

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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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