

## KAJARIA CERAMICS

## RESULT UPDATE

## KEY DATA

<b>Rating</b>	<b>HOLD</b>
Sector relative	Neutral
Price (INR)	1,211
12 month price target (INR)	1,175
52 Week High/Low	1,579/745
Market cap (INR bn/USD bn)	198/2.3
Free float (%)	52.51
Avg. daily value traded (INR mn)	670.0

## SHAREHOLDING PATTERN

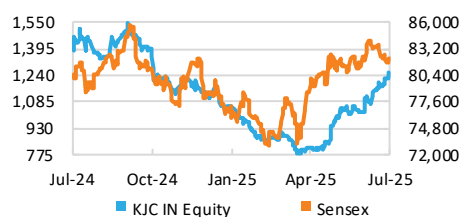
	Jun-25	Mar-25	Dec-24
Promoter	47.49%	47.49%	47.49%
FII	12.55%	15.79%	16.04%
DII	27.39%	27.68%	27.91%
Pledge	0%	0%	0%

## FINANCIALS

(INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Revenue	46,351	48,885	52,875	57,130
EBITDA	6,262	8,271	8,853	9,515
Adjusted profit	2,911	5,088	5,543	6,055
Diluted EPS (INR)	18.3	31.9	34.8	38.0
EPS growth (%)	13.1	74.8	8.9	9.3
RoAE (%)	12.7	17.9	18.2	18.5
P/E (x)	66.3	37.9	34.8	31.9
EV/EBITDA (x)	30.3	22.6	20.8	19.1
Dividend yield (%)	0.9	1.3	1.5	1.6

## PRICE PERFORMANCE



## Margins surprise; volumes undershoot

Kajaria (KJC) reported mixed Q1FY26 results with tile volume growth of merely 1% YoY (estimate: 5% YoY); EBITDA margin at 16.9% though beat our estimate (of 14%). The margin improved due to: i) reduced employee cost given integration of the PVT, GVT and Ceramic teams; ii) closure of loss-making UK and plywood operations; and iii) significant cost control measures on every front.

Given the surprise on margins, we are raising FY26E/27E/28E EPS by 18%/10%/8% and the target PE from 25x to 33x (back to its 10-year average PE), yielding a TP of INR1,175 (earlier INR790) based on Q1FY27E EPS; maintain 'HOLD'. While profitability is strong, we await the hitherto elusive pickup in demand to drive volumes.

## Muted volume growth; Keronite brand discontinued

Volume grew 1% YoY (estimate 5% YoY), whereas realisation edged down ~1% YoY, restricting revenue growth to just 1% YoY, below our 6% estimate. Management once again withheld FY26 guidance due to the sharpened focus on cost optimisation. Sanitaryware growth remained muted at 0.5% YoY, generating revenue of INR915mn. However, adhesives' growth came in strong at 63.52% YoY, generating revenue of INR249mn; the company is therefore setting up a plant in Erode, which should be operational in a few months. While management has taken a corrective action of discontinuing its plywood business, the key challenge remains the hitherto elusive pickup in demand—both overseas and in domestic market. Furthermore, KJC discontinued its more affordable 'Keronite' brand as this experiment did not work out; the focus has hence shifted solely to the 'Kajaria' brand. While FY25 industry exports fell INR40bn to INR160bn, Q1FY26 exports held steady at INR40bn.

## Cost optimisation drives margin improvement

EBITDA margin expanded 200bp YoY/550bp QoQ to 16.95%, beating our estimate of 14%. The improvement was driven by lower employee cost owing to team integration (PVT, GVT, Ceramic), reduced marketing spends, discontinuation of loss-making plywood and UK operations, and various other cost control measures. KJC aims to sustain its cost optimisation efforts to support margins, assuming fuel costs and selling prices remain stable.

## Adhesive facility in the works; sanitaryware yet to pick up

Management expects to clock INR1.2bn in revenue in FY26 with a new facility coming up in Erode over next few months. The division's focus continues to be on tile adhesives. The sanitaryware segment too is facing a demand slowdown. But, with revenue increasing and costs being optimised, margins are expected to expand.

## Financials

Year to March	Q1FY26	Q1FY25	% Change	Q4FY25	% Change
Net Revenue	12,657	11,137	13.6	11,027	14.8
EBITDA	12,657	1,671	657.7	1,869	577.4
Adjusted Profit	11,852	923	1,183.8	1,103	974.4
Diluted EPS (INR)	74.4	5.8	1,183.8	6.9	974.4

## Financial Statements

### Income Statement (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Total operating income	46,351	48,885	52,875	57,130
Gross profit	26,695	29,087	31,196	33,707
Employee costs	5,661	5,661	6,057	6,482
Other expenses	14,772	15,154	16,286	17,710
EBITDA	6,262	8,271	8,853	9,515
Depreciation	1,654	1,738	1,799	1,860
Less: Interest expense	200	219	219	219
Add: Other income	427	470	555	638
Profit before tax	4,835	6,784	7,390	8,074
Prov for tax	1,441	1,696	1,848	2,018
Less: Other adj	0	0	0	0
Reported profit	3,394	5,088	5,543	6,055
Less: Excp.item (net)	(483)	0	0	0
Adjusted profit	2,911	5,088	5,543	6,055
Diluted shares o/s	159	159	159	159
Adjusted diluted EPS	18.3	31.9	34.8	38.0
DPS (INR)	10.9	16.0	17.7	19.8
Tax rate (%)	29.8	25.0	25.0	25.0

### Important Ratios (%)

Year to March	FY25A	FY26E	FY27E	FY28E
Volume Growth (%)	6.1	5.0	8.0	8.0
Realisation Growth	(3.1)	(1.0)	(1.0)	(1.0)
Capex (INR mn)	3,720.5	1,000.0	1,000.0	1,000.0
EBITDA margin (%)	13.5	16.9	16.7	16.7
Net profit margin (%)	6.3	10.4	10.5	10.6
Revenue growth (% YoY)	3.6	5.5	8.2	8.0
EBITDA growth (% YoY)	16.1	32.1	7.0	7.5
Adj. profit growth (%)	13.1	74.8	8.9	9.3

### Assumptions (%)

Year to March	FY25A	FY26E	FY27E	FY28E
GDP (YoY %)	6.3	6.3	7.3	8.3
Repo rate (%)	5.3	5.3	6.3	7.3
USD/INR (average)	82.0	82.0	83.0	84.0
Packing % of Sales	0	0	0	0
Fuel cost % of Sales	19.7	19.0	19.0	19.0
Manuf expns % Sales	12.2	12.0	11.8	12.0
Employee % of Sales	12.2	11.6	11.5	11.3
Promotion % of Sales	0	0	0	0
Admini % of Sales	0	0	0	0

### Valuation Metrics

Year to March	FY25A	FY26E	FY27E	FY28E
Diluted P/E (x)	66.3	37.9	34.8	31.9
Price/BV (x)	7.0	6.5	6.1	5.7
EV/EBITDA (x)	30.3	22.6	20.8	19.1
Dividend yield (%)	0.9	1.3	1.5	1.6

Source: Company and Nuvama estimates

### Balance Sheet (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Share capital	159	159	159	159
Reserves	27,284	29,308	31,417	33,620
Shareholders funds	27,443	29,468	31,577	33,779
Minority interest	658	658	658	658
Borrowings	2,739	2,739	2,739	2,739
Trade payables	3,381	2,983	3,267	3,594
Other liabs & prov	3,291	4,005	4,235	4,584
Total liabilities	37,562	39,902	42,525	45,403
Net block	16,847	16,109	15,310	14,450
Intangible assets	327	327	327	327
Capital WIP	1,087	1,087	1,087	1,087
Total fixed assets	18,262	17,524	16,725	15,865
Non current inv	339	339	339	339
Cash/cash equivalent	5,829	8,591	10,865	13,386
Sundry debtors	5,702	6,697	7,243	7,826
Loans & advances	776	854	939	1,033
Other assets	6,655	5,898	6,413	6,954
Total assets	37,562	39,902	42,525	45,403

### Free Cash Flow (INR mn)

Year to March	FY25A	FY26E	FY27E	FY28E
Reported profit	3,394	5,088	5,543	6,055
Add: Depreciation	1,654	1,738	1,799	1,860
Interest (net of tax)	134	147	147	147
Others	(184)	(145)	(1,414)	(1,232)
Less: Changes in WC	(12)	1	(634)	(543)
Operating cash flow	5,010	6,827	6,708	7,372
Less: Capex	(1,955)	(1,000)	(1,000)	(1,000)
Free cash flow	3,055	5,827	5,708	6,372

### Key Ratios

Year to March	FY25A	FY26E	FY27E	FY28E
RoE (%)	12.7	17.9	18.2	18.5
RoCE (%)	16.8	22.0	22.4	23.0
Inventory days	107	107	96	97
Receivable days	47	46	48	48
Payable days	59	59	53	53
Working cap (% sales)	28.4	32.6	35.7	38.4
Gross debt/equity (x)	0.1	0.1	0.1	0.1
Net debt/equity (x)	(0.1)	(0.2)	(0.3)	(0.3)
Interest coverage (x)	23.0	29.8	32.2	34.9

### Valuation Drivers

Year to March	FY25A	FY26E	FY27E	FY28E
EPS growth (%)	13.1	74.8	8.9	9.3
RoE (%)	12.7	17.9	18.2	18.5
EBITDA growth (%)	16.1	32.1	7.0	7.5
Payout ratio (%)	51.3	50.0	51.0	52.0

## Q1FY26 conference call highlights

### Opening remarks

- Overall market demand remains soft.
- The company has made significant progress in implementing its new marketing strategy.
- Ceramic and vitrified tiles are largely interchangeable, leading to the unification of these teams. This integration is expected to optimise costs and enhance customer service. The strategy has been rolled out in select states, with encouraging feedback so far.
- In regions where large dealers operate, there may be some resistance to having a single point of contact (POC) for all product categories. However, the majority of dealers appear satisfied with the change.
- Promoters have voluntarily foregone their salaries until the company's EBITDA touches INR10bn.
- The unification of the PVT, GVT, and Ceramic divisions is expected to positively impact volumes going forward.

### Guidance

- If gas prices and selling prices remain stable, cost rationalisation should support margin expansion.
- While volume growth may remain modest this year, a sharper focus on cost control could drive EBITDA margin improvement. In the medium term, volume growth is also expected to pick up.
- The current network comprises 1,850 dealers, with 450 exclusively selling Kajaria products.

### Product mix – Geographic segmentation

- Tier 1: 15%
- Tier 2: 30%
- Tier 3: 30%
- Tier 4: 15%

### Industry trends

- The domestic market remains subdued, but is expected to improve. Exports dipped from INR200bn to INR160bn in FY25; however, Q1 exports touched INR40bn, indicating steady demand.
- Demand is expected to pick up after Q2FY26E.
- Showroom footfalls have been significantly low.
- Price hikes have not yet been implemented in Morbi.
- Kajaria's strategy remains focused on gaining market share through volumes; hence, price hikes are unlikely.
- Simpolo is the only player currently expanding in South India.

## Nepal operations

- Nepal volumes are not included in the company's reported volumes; profits are recorded below the line.
- Some inventory build-up has occurred in the region. While operations are currently profitable, future conditions may vary.
- Q1FY26 volumes from Nepal stood at 0.87MSM.

## Operational and financial highlights

- Other expenses
  - Expenses of INR220mn in Q4FY25 from plywood and London reduced to INR40mn in Q1FY26.
  - INR50mn incurred this quarter due to the sale of machinery.
  - Travel and advertising costs fell due to the focus on optimisation.
  - Other expenses are expected to range from INR1.1–1.2bn.
- Cost initiatives
  - Packaging costs have been reduced.
  - Raw material prices are being reviewed.
  - The key strategic shift is to operate as a lean and efficient organisation.
- Capex
  - Planned capital expenditure for the year is INR1–1.5bn.
  - The company may retain cash but is open to returning it to shareholders subject to board approval.
  - The company is not exploring acquisitions at present and remains conservatively positioned.

## Management's focus areas

- Mr Chetan Kajaria and Mr Rishi Kajaria will oversee the Ceramic, PVT and GVT divisions, divided by region.
- Mr Kartik Kajaria will handle the Adhesives business.
- Mr Rishi Kajaria will continue overseeing the Kerovit (bathware) business.
- The Keronite brand, which focused on lower-priced tiles, has been discontinued due to underperformance. The focus is now solely on the Kajaria brand.
- Infra.Market has had no material impact on the company's operations.

## Adhesives

- Expected to generate INR1.2bn-plus in revenue this year.
- Current margin stands at 17% supported by better manpower utilisation.
- A new plant in Erode is expected to become operational over next few months.

## Bathware

- The bathware segment is also facing a demand slowdown.
- As revenue scales up, margins are likely to improve.
- Cost optimisation initiatives are also being pursued in this segment.

**Exhibit 1: Financial snapshot (INR mn)**

Year to March	Q1FY26	Q1FY25	% change	Q4FY25	% change
Revenues	11,027	11,137	(1.0)	12,219	(9.7)
Raw material	4,425	4,722	(6.3)	5,395	(18.0)
Staff costs	1,360	1,394	(2.4)	1,433	(5.1)
Others	3,374	3,351	0.7	4,007	(15.8)
Total expenditure	9,159	9,466	(3.2)	10,835	(15.5)
EBITDA	1,869	1,671	11.9	1,384	35.0
Depreciation	436	421	3.6	434	0.5
EBIT	1,432	1,249	14.7	949	
Less: Interest Expense	52	47	10.9	60	(13.4)
Add: Other income	132	102	29.9	125	6.3
Profit Before Tax	1,513	1,304	16.0	1,014	49.2
Less: Provision for Tax	396	358	10.6	344	15.1
Less: Minority Interest	-9	23	(139.1)	-70	(87.1)
Add: Share of profit from associates	-23				
Add: Exceptional items (net of tax)	0	0		-308	NA
Reported Profit	1,103	923	19.4	432	155.3
Adjusted net profit	1,142	923	23.7	943	21.1
No. of Diluted shares outstanding (mn)	159	159		159	
Adjusted Diluted EPS	7.2	5.8	23.7	5.9	21.1
P/E (x)					
EV/EBITDA (x)					
ROE(%)					
As % of net revenues					
Raw material	40.1	42.4		44.2	
Staff expenses	12.3	12.5		11.7	
Other expenses	30.6	30.1		32.8	
EBITDA	16.9	15.0		11.3	
Net profit	10.4	8.3		7.7	

Source: Company, Nuvama Research

## Exhibit 2: Operational details

Consolidated Gross Sales (INR mn)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Manufactured	5,705	5,791	6,062	5,585	5,873	5,688	5,855	5,439
JV	2,678	2,917	3,278	2,909	2,847	3,012	3,378	2,958
Others	2,469	2,343	2,599	2,312	2,717	2,651	2,755	2,381
Total	10,851	11,050	11,939	10,806	11,437	11,352	11,989	10,778
Consolidated YoY Sales growth (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Manufactured	(4.4)	3.6	1.1	3.6	3.0	(1.8)	(3.4)	(2.6)
JV	27.6	6.3	18.3	28.0	6.3	3.3	3.1	1.7
Others	2.0	1.9	(12.8)	(18.4)	10.1	13.1	6.0	3.0
Total	3.5	3.9	1.6	2.9	5.4	2.7	0.4	(0.3)
Consolidated Sales Volume (MSM)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Manufactured	14.79	15.25	16.08	14.89	15.64	15.44	15.80	14.75
JV	4.82	5.32	6.11	5.52	5.43	5.82	6.46	5.74
Others	6.86	6.51	7.38	6.58	7.63	7.59	7.85	6.69
Total	26.5	27.1	29.6	27.0	28.7	28.9	30.1	27.2
Consolidated Sales Volume growth YoY	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Manufactured	0.1	9.2	6.1	7.8	5.7	1.2	(1.7)	(0.9)
JV	15.3	2.5	0.7	15.0	12.7	9.4	5.7	4.0
Others	15.1	3.3	8.5	2.7	11.2	16.6	6.4	1.7
Total	6.3	6.4	5.5	7.9	8.4	6.5	1.8	0.7
Realization (INR/MSM)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Manufactured	386	380	377	375	376	368	371	369
JV	556	548	536	527	524	518	523	515
Others	360	360	352	351	356	349	351	356
Total	410	408	404	400	398	393	398	397
Realization growth YoY (%)	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
Manufactured	(4.5)	(5.2)	(4.7)	(4.0)	(2.6)	(3.0)	(1.7)	(1.7)
JV	10.7	3.7	17.5	11.3	(5.6)	(5.6)	(2.5)	(2.2)
Others	(11.4)	(1.4)	(19.6)	(20.5)	(1.0)	(3.0)	(0.4)	1.3
Total	(2.6)	(2.3)	(3.7)	(4.6)	(2.8)	(3.6)	(1.4)	(0.9)

Source: Company, Nuvama Research

## Company Description

KJC is India's leading manufacturer of ceramic and vitrified tiles. The company was incorporated in 1985 by Mr. Ashok Kajaria in technical collaboration with the world's second largest tiles manufacturer Todagres. KJC's current aggregate tile manufacturing capacity of 81.55MSM is distributed across six plants. The company has recently ventured into the sanitary segment and faucet segment, adhesives and plywood. The company has an in-house R&D facility, which focuses on developing new designs and creating cost-effective products. KJC sells tiles of different size and is present across a wide range of size and prices ranging from affordable tiles to high-end designer products. The company has been picking up 51% equity in JVs, which has helped improve returns. Currently, KJC has three such JVs. Retail and institutional businesses contribute 75% and 25% to total revenue, respectively. It also caters to brand enhancing names under institutional sales.

## Investment Theme

KJC has, over the years, developed a comprehensive range of products. A vibrant product range, aggressive brand spending, extensive distribution network of 1,600 dealers and sustained capacity expansion have and will continue to anchor the company's outperformance versus peers. Unwavering focus on brands (>30% ad spend CAGR versus peers' 12-13%; 2.5-3% of sales) and strengthening of the value chain are bound to catapult market share gain. Hence, we estimate the company to clock revenue and PAT CAGR of 15% and 32% over FY23-26, respectively, with strong RoE/pre-tax RoCE of >20%.

## Key Risks

**Slowdown in real estate sector:** The tile industry's growth is highly dependent on overall economic development and the real estate sector. Any slowdown in the real estate sector will dampen KJC's growth prospects.

**Intensifying competition:** The tile industry is highly fragmented with the unorganised sector, accounting for more than 50% value share and ~60% volume share. While Morbi players are currently focussing on exports, any slowdown in exports or over capacity addition could intensify competition in domestic market and may have detrimental effects on KJC's revenue.

**Fuel prices volatility:** Natural gas forms one of the key inputs for the tile industry. Availability and pricing of natural gas remains a concern as increase in gas price could increase operating costs, adversely impacting margins. However, KJC has entered into long-term agreements with GAIL and other suppliers, which will provide some hedge against volatility.

**Threat of Chinese imports:** China is the largest producer of tiles globally. Import of cheap Chinese tiles poses a threat to KJC.

## Additional Data

### Management

Chairman & MD	Mr. Ashok Kajaria
Joint MD	Mr. Chetan Kajaria
Joint MD	Mr. Rishi Kajaria
CFO	Mr. Sanjeev Agarwal
Auditor	M/s. Walker Chandio & Co.

### Holdings – Top 10\*

	% Holding		% Holding
Kotak AMC	4.69	Vanguard Group	2.11
SBI Funds	4.69	FundRock	2.09
Nippon Life	2.94	Mirae Asset	1.76
Norges Bank	2.86	TATA AMC	1.26
UTI AMC	2.38	ICICI Prudentia	1.19

\*Latest public data

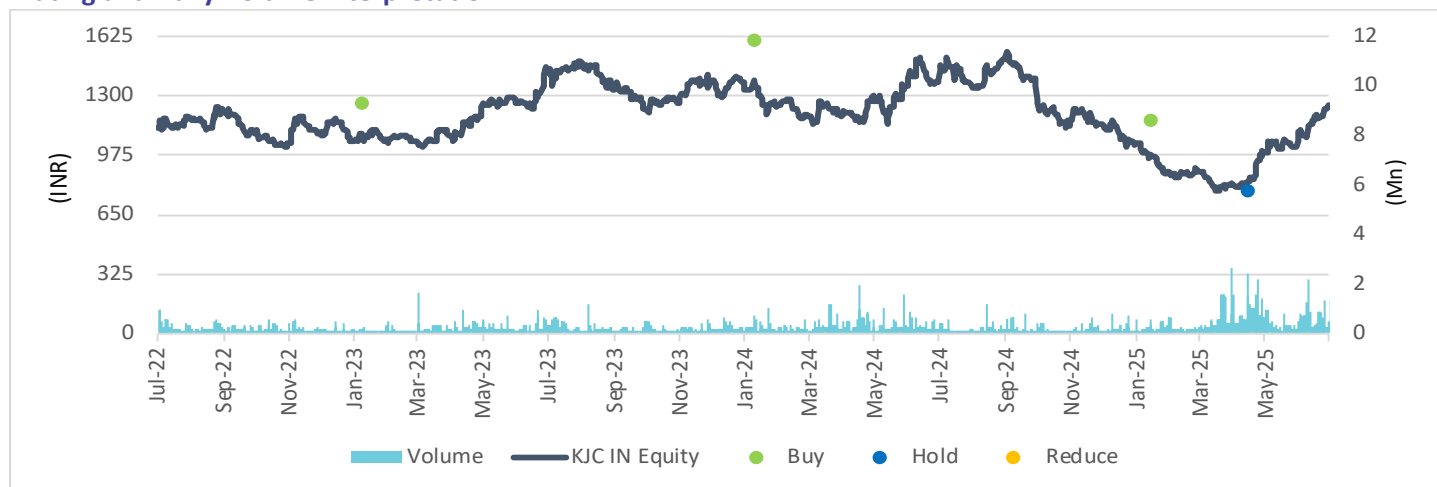
### Recent Company Research

Date	Title	Price	Reco
06-May-25	Performance weak; scenario bleak; <i>Result Update</i>	798	Hold
04-Feb-25	Demand subdued; margins deteriorate; <i>Result Update</i>	960	Buy
22-Oct-24	Volume growth intact; margins hurt; <i>Result Update</i>	1,287	Buy

### Recent Sector Research

Date	Name of Co./Sector	Title
17-Jul-25	JTL	EBITDA/ton slides; H1 volume miss likely; <i>Result Update</i>
04-Jul-25	Home Decor	Demand subdued; margins to take a hit; <i>Sector Update</i>
01-Jul-25	Venus Pipes	Booster shot for welded pipes exports; <i>Company Update</i>

### Rating and Daily Volume Interpretation



### Rating Rationale & Distribution: Nuvama Research

Rating	Expected absolute returns over 12 months	Rating Distribution
Buy	15%	202
Hold	<15% and >-5%	66
Reduce	<-5%	36



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