Sharekhan by BNP PARIBAS

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Stock Update

Result Update

Kajaria Ceramics Ltd

Resilient volume growth spoiled by OPM miss; business outlook positive

Building Materials	Sharekhan code: KAJARIACER
Reco/View: Buy ↔	CMP: Rs. 1,260
Price Target: Rs. 1,600 ↓	

↑ Upgrade ↔ Maintain ↓ Downgrade

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		↔	

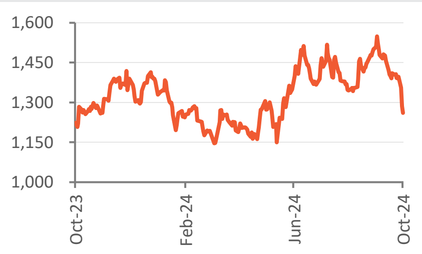
Company details

Market cap:	Rs. 20,067 cr
52-week high/low:	Rs. 1,578 / 1,111
NSE volume: (No of shares)	4.39 lakh
BSE code:	500233
NSE code:	KAJARIACER
Free float: (No of shares)	8.4 cr

Shareholding (%)

Promoters	47
FII	16
DII	28
Others	8

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-16.5	-12.5	4.8	3.0
Relative to Sensex	-10.8	-12.1	-3.8	-21.0

Sharekhan Research, Bloomberg

Summary

- We maintain a Buy on Kajaria Ceramics with a revised PT of Rs. 1,600, factoring downwardly revised estimates and considering a healthy earnings growth trajectory in the next three years.
- Consolidated revenue stayed in-line, with resilient tile volume growth. Consolidated OPM was hit by Bathware unit losses. OPM and PAT lagged estimates.
- Management marginally lowered tile volume growth guidance to 9-10% y-o-y, while it expects to meet lower end of OPM guidance of 15-17% for FY2025.
- It retained its three-year growth guidance as of now with a consolidated revenue target of Rs. 6500 crore for FY2027 and OPM of 15-17%.

Kajaria Ceramics Limited (Kajaria) reported in-line consolidated revenue of Rs. 1,179 crore (up 5.1% y-o-y) aided by tile volume growth of 8.5% y-o-y (versus estimate of 8% y-o-y) and tile realisations decline of 2.8% y-o-y (flat q-o-q). However, consolidated OPM, at 13.5%, (down 255 bps y-o-y) lagged our estimate of 15.2%, owing to losses incurred on newly commissioned Bathware unit (90-100 bps impact) and additional overheads for Keronite tile unit. Consequently, consolidated operating profit (down 12% y-o-y at Rs. 159 crore) and net profit (down 22% y-o-y at Rs. 84 crore) missed our estimates by 11% and 17%, respectively. Management marginally trimmed down tile volume growth guidance for FY2025 to 9-10% y-o-y (from 11-12% y-o-y earlier) and expects to achieve lower end of consolidated OPM guidance of 15-17%. It retained its three target to achieve consolidated revenue of Rs. 6,500 crore for FY2027 (12% CAGR over FY2024-FY2027) along with OPM at 15-17%.

Key positives

- Tile volume growth stood at 8.5% y-o-y as against industry growth rate estimated at 2-3% y-o-y in Q2FY2025. Tile realisations stayed flattish q-o-q.
- Gas prices stayed flat q-o-q. Average fuel consumption cost stayed flat at Rs. 37/scm in Q2FY2025.
- Working capital cycle stayed flat q-o-q at 59 days.

Key negatives

- Consolidated OPM at 13.5% lagged estimates owing to 90-100 bps impact of losses incurred in newly commissioned sanitaryware unit in Morbi.
- Revenue from the plywood segment declined by 26% y-o-y and 2% q-o-q to Rs. 90 crore.
- Marginal downward revision in volume growth guidance for FY2025 and meeting lower end of OPM range guidance.

Management Commentary

- Management lowered tile volume growth guidance marginally to 9-10% y-o-y as against 11-12% y-o-y earlier for FY2025. It expects to achieve lower end of its OPM guidance for FY2025 at 15-17% for FY2025. Bathware segment to grow its revenues by over 15% y-o-y for FY2025.
- Tile industry is estimated to have grown by 2-3% y-o-y during Q2FY2025 and H1FY2025, while the company has grown higher by 5-6% y-o-y. It expects to continue to grow at this rate, higher than industry growth, going ahead.
- Tile exports from Morbi reported 15% y-o-y decline in the first five months of the current fiscal year to Rs. 7400 crore as against Rs. 8700 crore last year same period.

Revision in estimates – We have marginally revised our net earnings estimates downwards for FY2025-FY2027E factoring marginally lower volumes and OPMs.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 1,600: 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 outpace industry growth rates in the medium term. The company continues to invest in branding, sales and distribution, and scaling up the non-tile businesses. We expect Kajaria to report a revenue/operating profit/net profit CAGR of 12%/14%/15% over FY2024-FY2027E. The stock trades at a P/E of 38x/31x its FY2026E/FY2027E earnings. We retain BUY on the stock with a revised PT of Rs. 1,600, factoring downwardly revised estimates 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	4,946.3	5,675.7	6,449.7
OPM (%)	15.3	14.8	15.4	16.2
Adjusted PAT	422.1	424.0	527.1	642.9
y-o-y growth (%)	19.8	0.4	24.3	22.0
Adjusted EPS (Rs.)	26.5	26.6	33.1	40.4
P/E (x)	47.5	47.3	38.1	31.2
P/B (x)	7.6	7.1	6.4	5.7
EV/EBITDA (x)	26.7	25.6	21.3	17.9
RoNW (%)	17.1	15.6	17.8	19.4
RoCE (%)	16.5	15.3	17.4	18.9

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- **Guidance:** The management lowered tile volume growth guidance marginally to 9-10% y-o-y as against 11-12% y-o-y earlier for FY2025. It expects to achieve lower end of its OPM guidance for FY2025 at 15-17% for FY2025. Bathware segment is expected to grow its revenues at 15% y-o-y for FY2025. The company maintains the three year guidance as of now.
- **Industry performance:** The tile industry is estimated to have grown by 2-3% y-o-y during Q2FY2025 and H1FY2025 while the company has grown higher by 5-6% y-o-y. It expects to continue to grow at this rate, higher than industry growth, going ahead.
- **Realisations:** They have remained flat in H1FY2025 and are expected to stay so.
- **Q2FY2025 performance:** Despite the weakness in the domestic market and extended monsoons, it was able to achieve 8.5% y-o-y tile volume growth in Q2FY2025 to 28.07 msm. Consolidated revenues rose by 5% y-o-y to Rs. 1179 crore. OPMs declined by 255 bps y-o-y to 13.5% on account of losses incurred in the recently commissioned sanitary ware unit in Morbi and additional overheads incurred by Keronite unit in tiles division which commenced operations during the quarter. PAT declined by 22% y-o-y to Rs. 84 crore. Working capital cycle stayed flat at 59 days compared to Q4FY2024.
- **Segment-wise performance:** Tile revenues were up 5% y-o-y to Rs. 1053 crore, bathware revenues were up 6% y-o-y to Rs. 90 crore, plywood revenues were down 26% y-o-y to Rs. 17.5 crore and adhesives revenues were up 40% y-o-y to Rs. 18 crore.
- **Gross margins:** Gross margins were lower y-o-y on account of drop in realisations y-o-y while the reduction q-o-q is attributable to increased outsourcing from 23% in Q1FY2025 to 26% in Q2FY2025.
- **Morbi exports:** Tile exports fell 15% y-o-y decline in the first five months of the current fiscal year to Rs. 7400 crore as against Rs. 8700 crore last year same period. The decline is attributable to high ocean freight rates and shutdown of 250 plants before Janmashtami.
- **Gas prices:** Gas prices remained unchanged in Q2FY2025, as in Q1FY2025. The average fuel consumption price for the company stayed at Rs. 37/scm in Q2FY25 and Q1FY25. Region-wise is Rs. 38/scm in the North, Rs. 37/scm in the South, and Rs. 35/scm in the West.
- **Channel financing:** Currently, 175 dealers are under channel financing out of 1850 dealers and the company will be adding another 300 dealers under channel financing by March 2025.
- **Nepal venture:** Commercial production of 5.1 msm plant started from September 8, 2024. Nepal market is estimated at Rs. 2,500 crore and it targets 10-12% market share.
- **Government projects:** The team is now in place to focus on government orders. It expects government order volumes to increase from 10% in FY2024 to 12.5-13% in FY2025 and 15% in FY2026.
- **Capex:** It incurred Rs. 135 crore capex in H1FY2025 (includes Rs. 34 crore towards Nepal unit) and expects to incur Rs. 200 crore (including Rs. 44 crore for Nepal unit) in FY2025.

Results (Consolidated) **Rs cr**

Particulars	Q2FY2025	Q2FY2024	Y-o-Y (%)	Q1FY2025	Q-o-Q (%)
Net sales	**1179.3**	**1121.6**	**5.1%**	**1113.7**	**5.9%**
other income	9.9	8.3	19.3%	10.2	-3.1%
Total income	1189.1	1129.9	5.2%	1123.9	5.8%
Total expenses	1020.4	941.9	8.3%	946.6	7.8%
Operating profit	**158.9**	**179.7**	**-11.6%**	**167.1**	**-4.9%**
Depreciation	40.6	36.1	12.5%	42.1	-3.7%
Interest	4.7	4.3	11.0%	4.7	1.1%
Exceptional items	0.0	0.0	-	0.0	-
Profit Before Tax	**123.5**	**147.6**	**-16.4%**	**130.4**	**-5.3%**
Taxes	35.0	36.6	-4.4%	35.8	-2.2%
Minority Interest	1.3	2.9	-	2.5	-
PAT	84.3	108.0	-21.9%	89.8	-6.2%
Adjusted PAT	**84.3**	**108.0**	**-21.9%**	**89.8**	**-6.2%**
EPS (Rs.)	5.3	6.8	-21.9%	5.7	-6.2%
Margins			**bps**		**bps**
OPM (%)	13.5%	16.0%	-255	15.0%	-153
NPM (%)	7.1%	9.6%	-248	8.1%	-92
Tax rate (%)	28.3%	24.8%	355	27.4%	90

Source: Company; Sharekhan Research

Outlook and Valuation

■ Sector View – 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.

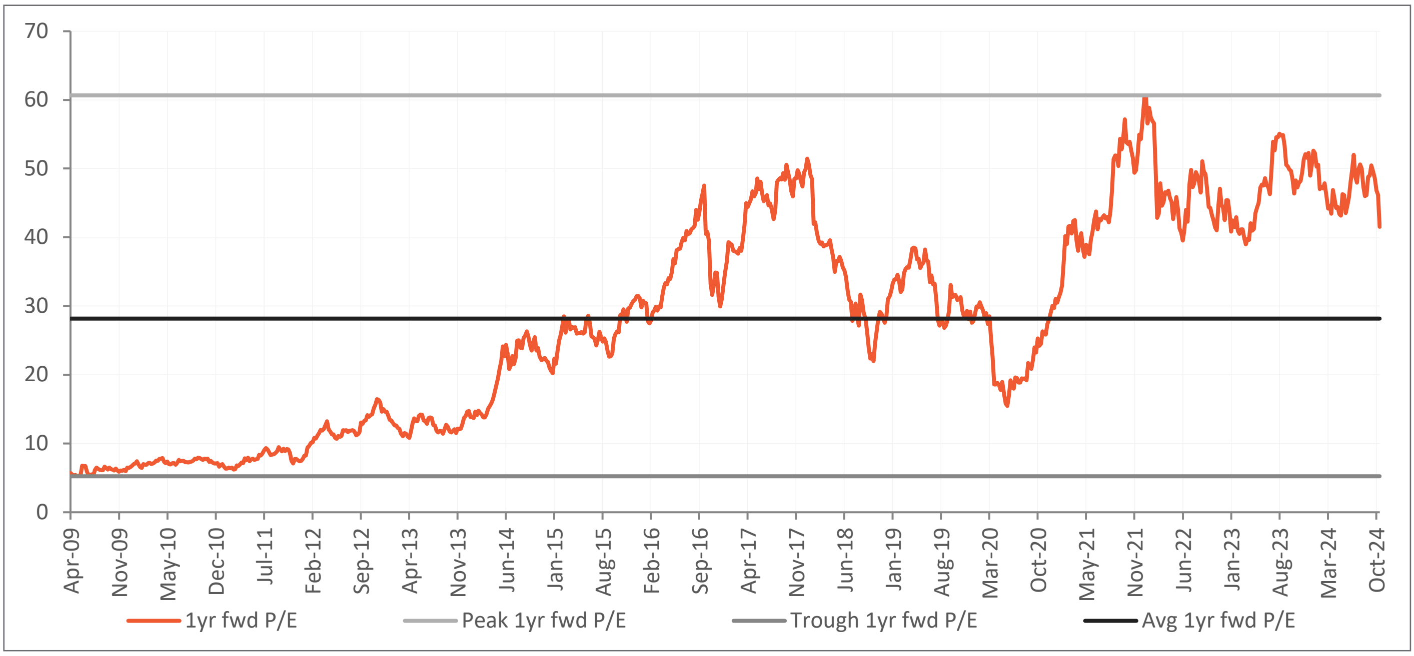
■ Company Outlook – Demand to remain strong over the long term

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 US 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. 1,600

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 outpace industry growth rates in the medium term. The company continues to invest in branding, sales and distribution, and scaling up the non-tile businesses. We expect Kajaria to report a revenue/operating profit/net profit CAGR of 12%/14%/15% over FY2024-FY2027E. The stock trades at a P/E of 38x/31x its FY2026E/FY2027E earnings. We retain BUY on the stock with a revised PT of Rs. 1,600, factoring downwardly revised estimates and considering a healthy earnings growth trajectory over the next three years.

One-year forward P/E (x) band



Source: Sharekhan Research

About 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 Website

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

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 detoriating 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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