

**CMP: INR 1044**

**Rating: BUY**

**Target Price: INR 1450**

#### Stock Info

BSE	500233
NSE	KAJARIACER
Bloomberg	KJC:IN
Sector	Ceramics
Face Value (INR)	1
Equity Capital (INR Mn)	163
Mkt Cap (INR Bn)	166
52w H/L (INR)	1579/745
Avg Yearly Volume (in 000')	306

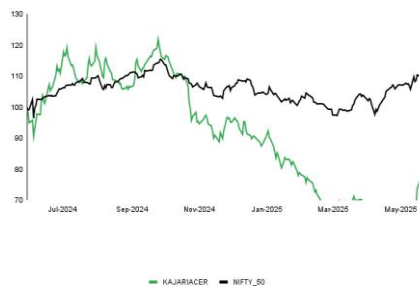
#### Shareholding Pattern %

(As on Mar, 2025)

Promoters	47.49
FIIIs	15.79
DIIIs	27.68
Public & Others	9.06

Stock Performance (%)	1m	6m	12m
Kajaria Ceramics	28.8	(13.0)	(17.3)
NIFTY	2.0	2.9	9.4

#### Kajaria Ceramics vs Nifty 50



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#### Operational Performance

Kajaria's Q4FY25 performance was impacted by weak earnings, muted domestic demand and subdued exports, driving competitive intensity and margin pressure. However, we believe demand recovery is underway, supported by new real estate launches, expected rate cuts, and increased infrastructure investments along with a potential export rebound.

Despite industry challenges in FY25, Kajaria gained market share with tile volumes up ~2% YoY in Q4 and 6% YoY for the full year (vs. 2–3% industry growth). The company remains focused on its core retail segment (~70–75% of sales, higher margins). A temporary shift to project sales occurred amid weak retail demand, but realizations are expected to improve for KJC as retail strengthens.

#### Asset Light Expansion

With sufficient manufacturing capacity, Kajaria is leveraging outsourcing (20–25% of sales, up 17% YoY) to cater to future growth, avoiding major capex and maintaining a lean balance sheet.

The 5 MSM Nepal plant (commissioned Sept'24) is operating at 50% utilization. With a market size of INR 25 Bn, Kajaria aims to expand its share. Bathware and Adhesives segments grew at 13.3% and 90% CAGR over FY22–25. The company is scaling up adhesives via a TN plant in partnership with a local dealer. Strategic investments in UAE and Nepal (with favorable interest rates) are expected to support long-term profitability across these geographies.

#### Prices of Natural Gas have stabilized:

Gas is a major input cost for Kajaria, used across operations including spray dryers. Power & Fuel expenses peaked at ~25% of sales due to Red Sea conflict-driven gas price spikes but have since eased to ~20% as global conditions improved. In Q4FY25, the average gas price stood at INR 38/scm across all plants. With potential inclusion of gas under GST, we expect this cost to further decline to ~18–19% of sales.

#### Outlook and Valuation:

We expect tile volumes to accelerate from FY26E onwards, with margin recovery aided by easing gas and freight costs. Alongside, we expect adhesives and bathware segment to augur well for KJC and make-up higher % share of its topline. We believe margins to improve from 13.5% to 15.3% in FY26E.

**We recommend a BUY with a target price of INR 1,450, based on 32x PE on FY28E EPS of INR 45.3.**

Summary (INR Mn)	FY25	FY26E	FY27E	FY28E
Revenue	46,351	52,189	59,509	67,940
EBITDA	6,262	7,777	9,062	11,394
Net Profit	3,000	4,591	5,495	7,202
EPS	18.9	28.9	34.5	45.3
P/E (x)	55.3	36.2	30.2	23.1
EV/EBITDA (x)	9.9	7.2	5.9	4.8
ROIC(%)	11.3%	17.7%	21.3%	22.7%
RoE (%)	7.7%	14.4%	16.6%	18.8%
Debt/Equity (x)	0.32	0.23	0.16	0.12

Source: Arihant Research, Company Filings

## Industry Overview: Indian Ceramic Tile Industry

The Indian ceramic tile industry, one of the largest globally, stands at the intersection of growing domestic demand and expanding export opportunities. With a market size of over \$7.2 billion and a CAGR of 8–10% over the past decade, the industry has evolved from a fragmented, largely unorganized sector to a more structured, semi-consolidated market.

India is the **second-largest tile producer globally**, with Morbi, Gujarat accounting for ~70–80% of domestic production. The industry enjoys several structural advantages: abundant raw materials, low labour costs, strong manufacturing ecosystem, and access to export markets in the Middle East, U.S., and Europe. Recent trade restrictions on Chinese imports in Western markets have opened up incremental opportunities for Indian exporters. On the domestic front, rising urbanization, growth in residential and commercial real estate, higher disposable incomes, and government-led housing initiatives (e.g., PMAY, Smart Cities Mission) are supporting sustained volume growth. Increasing consumer preference for value-added and aesthetic tiles also bodes well for **premiumization** trends within the sector.

However, the industry is not without its challenges. It remains highly competitive and price-sensitive, particularly in the lower-end product categories, where unorganized players exert pricing pressure. Volatility in **gas prices**, a key input cost, materially impacts profitability, especially for Morbi-based manufacturers reliant on imported LNG. Export realizations are vulnerable to freight rate fluctuations and currency movements, while anti-dumping duties in key markets (e.g., GCC) also pose a risk.

Furthermore, the lack of significant brand differentiation and high working capital requirements act as structural drags. While larger players are focusing on increasing retail presence, automation, and backward integration to enhance competitiveness, the road to industry-wide consolidation remains gradual.

Overall, the Indian ceramic tile industry is entering a **multi-year growth cycle**, supported by favorable domestic demographics, shifting consumer preferences and global trade shifts. Companies that are focused on capacity optimization, product innovation, and deeper distribution networks are likely to outperform.

Metric	Somany Ceramics Ltd	Kajaria Ceramics Ltd	Orient Bell Ltd	Asian Granito Ltd
ROCE (%)	~12%	~20%	~7–9%	~5–6%
Capacity (MSM/year)	~65+	~85+	~35+	~35+
Exports as % of Revenue	~8–10%	~5–6%	~10–12%	~30%+
Retail/Showroom Strength	Expanding	Strong (over 1,500 dealers, exclusive showrooms)	Focused on Tier 2/3 reach	Moderate
Debt-to-Equity (x)	~0.3x	<0.1x	~0.2x	~0.6x

### Q4FY25 – Kajaria Ceramics Ltd Key Concall Highlights

#### Future Outlook and Guidance

- Management expects to outperform industry growth in FY26.
- Demand expected from all regions.
- Growth drivers include branding, technology, and distribution—not reliant on any one factor.

#### Capital Expenditure (Capex)

- FY26 capex planned at INR 2,000 mn: INR 1,000 mn for maintenance, INR 750 mn for corporate office, INR 250 mn for Adhesives, INR 150 mn tentatively for Nepal. Proposed large slab GVT plant in Morbi scrapped due to outsourcing availability, muted demand, and adequate capacity.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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