

Kajaria Ceramics

Operational lapse; strengthening processes

We attended Kajaria Ceramics' analyst con call today. Management launched "Project Manthan" in Apr–May 2025 to unify sales teams across divisions, streamline processes, and boost cost efficiency via manpower rationalization, optimized raw material use, lower travel expenses, and forgone promoter salaries. During the rollout of a new vendor onboarding system under this initiative, the company found that there was an embezzlement amounting to ~INR 200mn as advance payments for a capex for a new plant at Kerovit Global Pvt Ltd— a wholly owned subsidiary of Kajaria Bathware Pvt Ltd— perpetrated by the subsidiary's CFO in the past two years. The CFO forged management approvals to divert payments to personal accounts in the name of fake vendor accounts; shown payment as capital WIP in books. The company has filed complaints with authorities, initiated recovery, and noted the individual's admission of fraud. Management expects some recovery from the person involved in fraud and plans to show the amount in the books as an exceptional loss. In our view, the amount involved in funds will have no major impact on company financials. However, the incident highlights weaknesses in process controls, given that the capex was fully incurred, the plant was operational, yet the CFO was able to siphon off funds for the last two years. Management has indicated that more robust control systems will be put in place and has assured that such incidents will be prevented, going forward. We maintain our estimates for FY26E/27E/28E. We have modelled 5/6/17/21% volume/revenue/EBITDA/APAT CAGR for FY25-28E. We roll forward our valuation to Mar-28E from Sep-27E. We maintain REDUCE on company with a revised target price of INR 1,160/share (30x its Mar'28E consolidated EPS).

- **Background:** Management indicated that in Apr–May 2025 it initiated "Project Manthan", aimed at unifying sales teams across divisions and group entities, streamlining business processes, and enhancing cost efficiency. As a part of this exercise, the company rolled out a new vendor onboarding system, during which it detected embezzlement and siphoning off of funds in a vendor account related to advance payments for capex for a new plant at Kerovit Global, a wholly owned subsidiary of Kajaria Bathware and a step-down wholly owned subsidiary of the company, perpetrated by the subsidiary's CFO over the last two years. The CFO forged management approvals to divert payments to personal accounts in the name of fake vendor accounts; shown payment as capital WIP in books. The company has filed complaints with authorities, initiated recovery, and noted the individual's admission of fraud. Management expects some recovery from the person involved in fraud and plans to show it as an expense (exceptional loss) in the books in the upcoming quarter.
- **Outlook and valuation:** In our view, the amount involved in the funds will have no major impact on the company's financials. However, the incident highlights weaknesses in process controls, given that the capex was fully incurred, the plant was operational, yet CFO was able to siphon off funds. Management has indicated that more robust control systems are being put in place and has assured that such incidents will be prevented, going forward. We maintain our estimates for FY26E/27E/28E. We have modelled 5/6/17/21% volume/revenue/EBITDA/APAT CAGR for FY25-28E. We roll forward our valuation to Mar-28E from Sep-27E. We maintain REDUCE with a revised target price of INR 1,160/share (30x its Mar'28E consolidated EPS).

REDUCE

CMP (as on 22 Dec 2025) INR 1,048

Target Price INR 1,160

NIFTY 26,172

KEY CHANGES	OLD	NEW
Rating	REDUCE	REDUCE
Price Target	INR 1,130	INR 1,160
EPS	FY27E	FY28E
revision %	-	-

KEY STOCK DATA

Bloomberg code	KJC IN
No. of Shares (mn)	159
MCap (INR bn) / (\$ mn)	167/1,863
6m avg traded value (INR mn)	520
52 Week high / low	INR 1,322/745

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(12.6)	2.6	(8.6)
Relative (%)	(16.7)	(1.3)	(18.2)

SHAREHOLDING PATTERN (%)

	Jun-25	Sep-25
Promoters	47.48	47.24
FIs & Local MFs	27.39	26.00
FPIs	12.55	11.57
Public & Others	12.58	15.19
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Financial summary

YE Mar (INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Tiles sales (MSM)	101.7	108.1	114.7	118.8	126.0	133.8
NSR (Rs/Kg)	431	414	404	409	415	418
Tiles Revenue	39,515	40,609	41,720	43,193	46,221	49,096
Other Revenue	4,305	4,131	4,630	5,439	6,102	6,855
Net Sales	43,819	44,740	46,351	48,632	52,323	55,951
EBITDA	5,920	7,068	6,262	8,679	9,493	9,992
EBITDAM (%)	13.5	15.8	13.5	17.8	18.1	17.9
APAT	3,524	4,435	3,483	5,397	5,888	6,165
Diluted EPS (Rs)	22.1	27.8	21.9	33.9	37.0	38.8
EV / EBITDA (x)	28.0	23.3	26.1	18.5	16.8	15.7
P/E (x)	47.3	37.6	47.8	30.9	28.3	27.0
RoE (%)	15.4	17.5	12.7	18.3	18.2	17.5

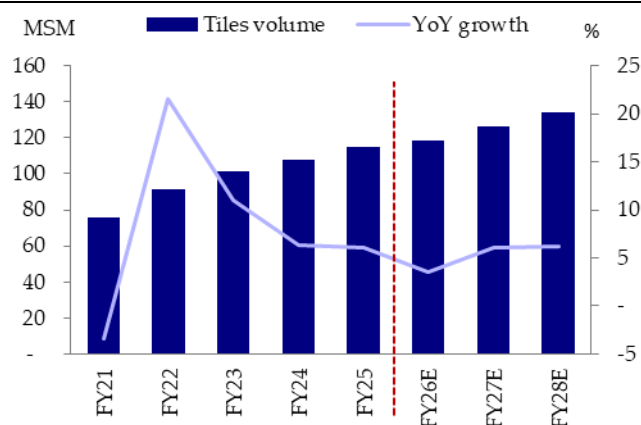
Source: Company, HSIE Research

Change in estimates

	Old			New			Change %		
Year End (March) - INR mn	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	48,632	52,323	55,951	48,632	52,323	55,951	-	-	-
EBITDA	8,679	9,493	9,992	8,679	9,493	9,992	-	-	-
EBITDAM %	17.8	18.1	17.9	17.8	18.1	17.9	-	-	-
APAT	5,397	5,888	6,165	5,397	5,888	6,165	-	-	-
EPS (INR)	33.9	37.0	38.8	33.9	37.0	38.8	-	-	-

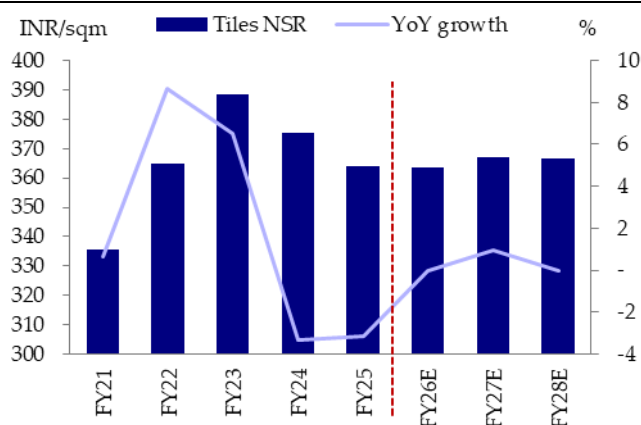
Source: Company, HSIE Research

We expect 5% tiles volume CAGR during FY25-28E



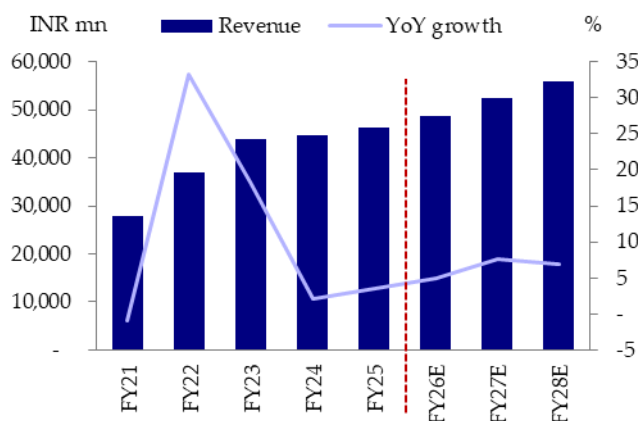
Source: Company, HSIE Research

Tiles realization will marginally improve in upcoming years



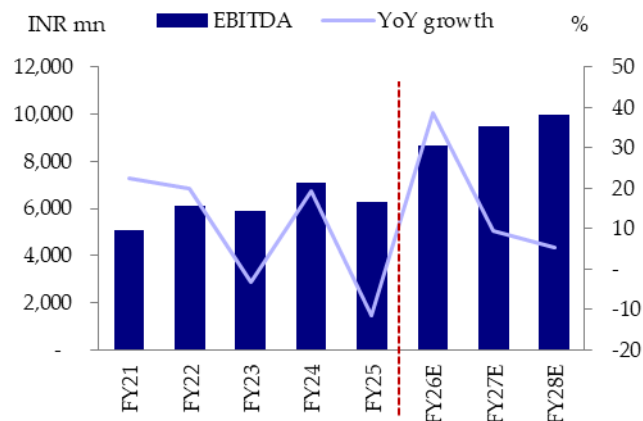
Source: Company, HSIE Research

We expect 6% revenue CAGR over FY25-28E (volume-led)



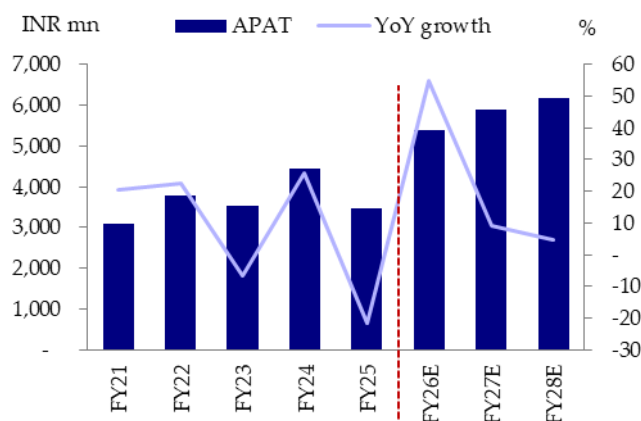
Source: Company, HSIE Research

We project 17% EBITDA CAGR for FY25-28E



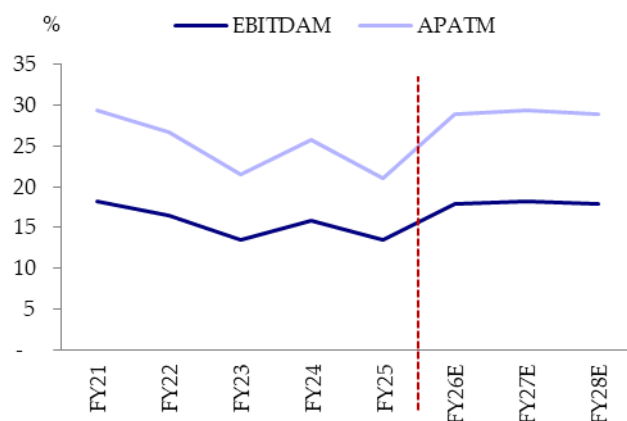
Source: Company, HSIE Research

Owing to higher EBITDA, we build 21% APAT CAGR for FY25-28E



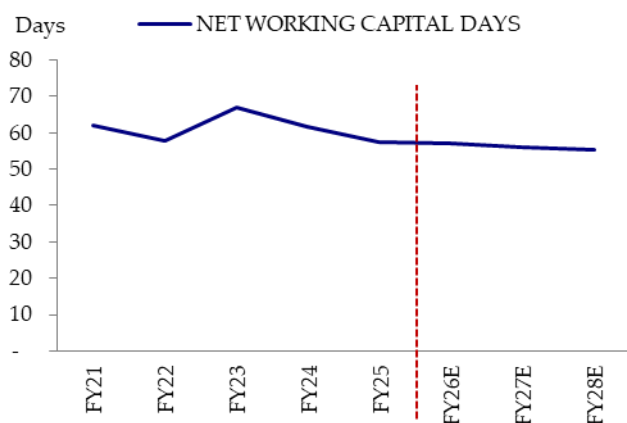
Source: Company, HSIE Research

We expect margins to improve from FY26E



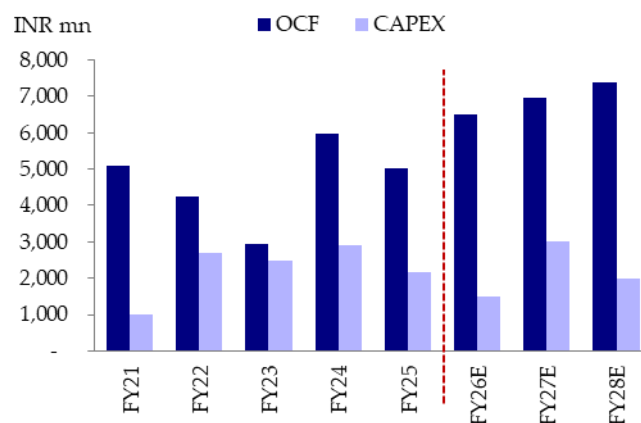
Source: Company, HSIE Research

Working capital to remain at similar levels ahead



Source: Company, HSIE Research

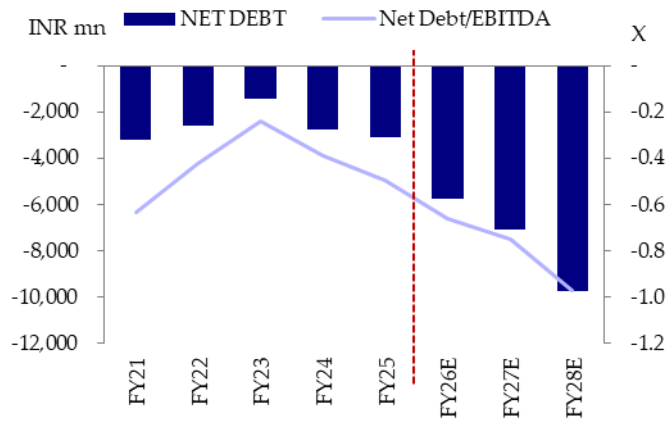
Capex to be funded internally owing to high OCF



Source: Company, HSIE Research

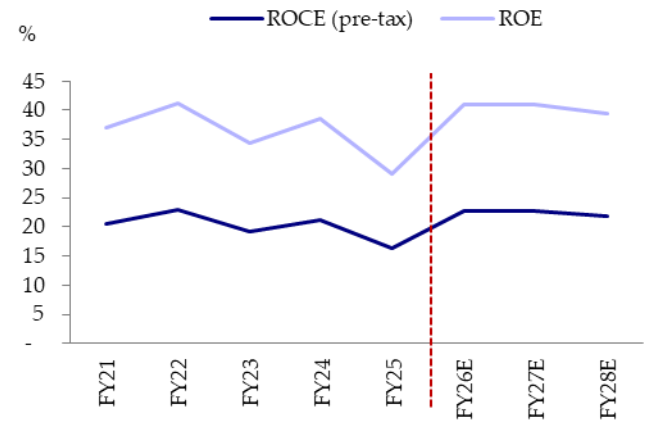
Kajaria Ceramics: Company Update

Company to remain cash surplus



Source: Company, HSIE Research

Return ratios to remain healthy at similar levels



Source: Company, HSIE Research

Financials (consolidated)

Income Statement

YE Mar (INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Revenues	43,819	44,740	46,351	48,632	52,323	55,951
Growth %	18.3	2.1	3.6	4.9	7.6	6.9
Raw Material	18,070	18,945	19,655	20,360	21,695	23,283
Power & Fuel	10,554	8,661	9,124	8,978	9,710	10,317
Freight Expense	763	704	623	581	622	668
Employee cost	4,612	4,916	5,661	5,322	5,747	6,207
Other Expenses	3,899	4,446	5,025	4,713	5,057	5,484
EBITDA	5,920	7,068	6,262	8,679	9,493	9,992
EBITDA Margin (%)	13.5	15.8	13.5	17.8	18.1	17.9
EBITDA Growth %	(3.1)	19.4	(11.4)	38.6	9.4	5.3
Depreciation	1,329	1,476	1,654	1,774	1,866	1,958
EBIT	4,592	5,593	4,608	6,904	7,627	8,033
Other Income	336	462	427	580	522	496
Interest	223	173	200	192	192	199
PBT	4,705	5,882	4,835	7,293	7,957	8,331
Tax	1,163	1,435	1,360	1,896	2,069	2,166
Minority Int	18	12	(8)	-	-	-
RPAT	3,445	4,435	3,483	5,397	5,888	6,165
EO (Loss) / Profit (Net Of Tax)	(79)	-	-	-	-	-
APAT	3,524	4,435	3,483	5,397	5,888	6,165
APAT Growth (%)	(6.5)	25.9	(21.5)	54.9	9.1	4.7
AEPS	22.1	27.8	21.9	33.9	37.0	38.8
AEPS Growth %	(6.5)	25.8	(21.3)	54.9	9.1	4.7

Source: Company, HSIE Research

Balance Sheet

YE Mar (INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
SOURCES OF FUNDS						
Share Capital	159	159	159	159	159	159
Reserves And Surplus	23,109	26,006	27,284	29,982	32,927	36,009
Total Equity	23,268	26,165	27,443	30,141	33,086	36,168
Minority Int	776	591	658	658	658	658
Long-term Debt	798	1,126	1,443	1,443	1,443	1,588
Short-term Debt	1,700	1,264	1,296	1,296	1,296	1,346
Total Debt	2,498	2,389	2,739	2,739	2,739	2,935
Deferred Tax Liability	738	801	884	884	884	884
Long-term Liab+ Provisions	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	27,281	29,947	31,723	34,421	37,365	40,644
APPLICATION OF FUNDS						
Net Block	14,466	16,377	17,174	16,900	18,534	18,576
Capital WIP	817	679	1,087	1,087	587	587
Goodwill	-	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-	-
Total Non-current Investments	19	185	339	339	339	339
Total Non-current Assets	15,302	17,241	18,600	18,326	19,460	19,502
Inventories	5,647	5,322	6,181	6,322	6,802	7,274
Debtors	6,012	6,194	5,702	6,322	6,802	7,274
Cash and Cash Equivalents	3,938	5,141	5,829	8,510	9,861	12,673
Other Current Assets (& Loans/adv)	2,380	1,494	1,242	1,248	1,254	1,260
Total Current Assets	17,976	18,151	18,954	22,402	24,719	28,480
Creditors	3,104	2,933	3,381	3,647	3,924	4,196
Other Current Liabilities & Provns	2,894	2,512	2,451	2,660	2,890	3,142
Total Current Liabilities	5,998	5,445	5,831	6,307	6,814	7,339
Net Current Assets	11,979	12,706	13,123	16,095	17,905	21,141
TOTAL APPLICATION OF FUNDS	27,281	29,947	31,723	34,421	37,365	40,644

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY23	FY24	FY25	FY26E	FY27E	FY28E
Reported PBT	4,625	5,756	4,360	7,293	7,957	8,331
Non-operating & EO Items	(106)	(307)	(20)	(580)	(522)	(496)
Interest Expenses	223	173	200	192	192	199
Depreciation	1,329	1,480	1,654	1,774	1,866	1,958
Working Capital Change	(1,851)	260	(12)	(291)	(459)	(424)
Tax Paid	(1,265)	(1,385)	(1,172)	(1,896)	(2,069)	(2,166)
OPERATING CASH FLOW (a)	2,955	5,978	5,010	6,491	6,965	7,401
Capex	(2,486)	(2,902)	(2,150)	(1,500)	(3,000)	(2,000)
Free Cash Flow (FCF)	469	3,076	2,860	4,991	3,965	5,401
Investments	379	(377)	(1,960)	-	-	-
Non-operating Income	270	303	390	580	522	496
Others						
INVESTING CASH FLOW (b)	(1,837)	(2,976)	(3,721)	(920)	(2,478)	(1,504)
Debt Issuance/(Repaid)	239	(612)	(203)	-	-	196
Interest Expenses	(166)	(129)	(145)	(192)	(192)	(199)
FCFE	542	2,335	2,512	4,800	3,773	5,398
Share Capital Issuance	12	11	14	-	-	-
Dividend	(1,433)	(1,394)	(1,752)	(2,698)	(2,944)	(3,082)
FINANCING CASH FLOW (c)	(1,348)	(2,124)	(2,086)	(2,890)	(3,136)	(3,085)
NET CASH FLOW (a+b+c)	(230)	878	(796)	2,681	1,351	2,812
Closing Cash & Equivalents	4,014	4,816	4,345	8,510	9,861	12,673

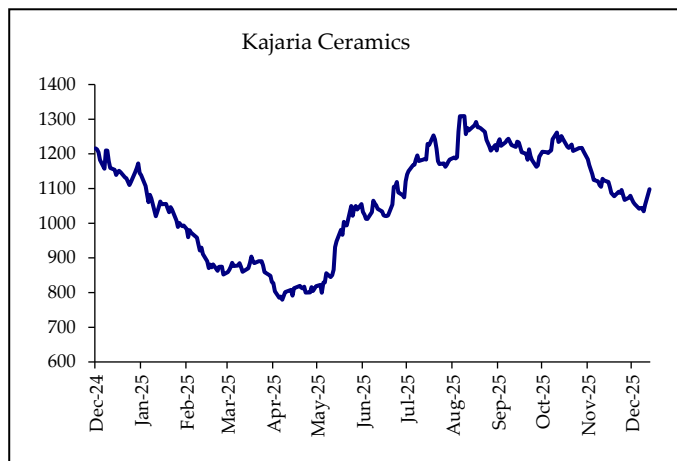
Source: Company, HSIE Research

Key Ratios

	FY23	FY24	FY25	FY26E	FY27E	FY28E
Profitability %						
EBITDA Margin	13.5	15.8	13.5	17.8	18.1	17.9
EBIT Margin	10.5	12.5	9.9	14.2	14.6	14.4
APAT Margin	8.0	9.9	7.5	11.1	11.3	11.0
RoE	15.4	17.5	12.7	18.3	18.2	17.5
RoIC (pretax)	23.0	23.9	18.8	27.8	29.5	29.6
RoCE (pretax)	19.1	21.1	16.3	22.6	22.7	21.9
Efficiency						
Tax Rate %	24.7	24.4	28.1	26.0	26.0	26.0
Fixed Asset Turnover (x)	2.1	1.9	1.9	1.9	1.9	1.8
Inventory (days)	47	43	49	47	47	47
Debtors (days)	50	51	45	47	47	47
Other Current Assets (days)	20	12	10	9	9	8
Payables (days)	26	24	27	27	27	27
Other Current Liab & Provns (days)	24	20	19	20	20	20
Cash Conversion Cycle (days)	67	62	57	57	56	55
Net Debt/EBITDA (x)	(0.2)	(0.4)	(0.5)	(0.7)	(0.8)	(1.0)
Net D/E	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)	(0.3)
Interest Coverage	20.6	32.3	23.0	36.0	39.8	40.5
PER SHARE DATA (Rs)						
EPS	22.1	27.8	21.9	33.9	37.0	38.8
CEPS	30.5	37.1	32.3	45.1	48.8	51.1
Dividend	9.0	12.0	9.0	17.0	18.5	19.4
Book Value	151.0	168.0	176.7	193.7	212.2	231.6
Valuation						
P/E (x)	47.3	37.6	47.8	30.9	28.3	27.0
P/Cash EPS (x)	35.0	28.2	32.4	23.2	21.5	20.5
P/BV (x)	7.2	6.4	6.1	5.5	5.0	4.6
EV/EBITDA (x)	28.0	23.3	26.1	18.5	16.8	15.7
Dividend Yield (%)	0.9	1.1	0.9	1.6	1.8	1.8
OCF/EV (%)	1.8	3.6	3.1	4.0	4.4	4.7
FCFF/EV (%)	0.3	1.9	1.7	3.1	2.5	3.4
FCFE/M Cap (%)	0.3	1.4	1.5	2.9	2.3	3.2

Source: Company, HSIE Research

Price history



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:

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