

October 17, 2025

## Margins surprise positively; Volume growth awaited...

**About the stock:** Kajaria Ceramics is the largest manufacturer of ceramic/vitrified tiles in India with current annual capacity of 87.8 mn. sq. meters (MSM) spread across India and Nepal

- The company enjoys industry leading margins and returns ratios.

**Q2FY26 Performance:** Kajaria reported a muted topline of ₹1,186.0 crore, up 0.6% YoY. Tile sales volumes rose 1% YoY to 28.9 MSM, while tile revenues expanded slightly by 1.1% YoY to ₹1,083.6 crore. EBITDA stood at ₹213.5 crore, up 34.3% YoY, with EBITDA margins improving by 447 bps YoY to 17.9% driven by the company's focus on cost rationalization. Despite the muted topline, margins expansion led to a 57.8% YoY increase in PAT, which rose to ₹133 crore.

## Investment Rationale

- Demand muted; likely to improve ahead:** On the demand front, management indicated that tiles demand was subdued in H1FY26, while it remained hopeful of demand recovery ahead. Nonetheless, it continued to refrain from guiding for tile volume growth for FY26. As per the management in H1 Morbi exports were ~ ₹8,300 Crore. It expects Morbi exports reaching ~ ₹18000 crore in FY26 vs. ~ ₹16000 crore in FY25. We expect Tiles revenues CAGR of ~8% over FY25-27 to ₹4835 crore, with volume CAGR of ~6.2% over the same period to 129.3 MSM, largely being back ended.
- Cost rationalisation measures boost margins:** We highlight the company has taken various measures including staff rationalisation, promoters forgoing salary, unification of sales and packaging re-engineering etc. to control cost, which has boosted operating margins. The company's cost optimization measures included the unification of sales and procurement functions for bulk purchasing, packaging re-engineering resulting in annual savings of ₹30-35 crore, workforce rationalization, a hiring freeze, and stringent control over advertising expenditures. Management expects Profitability to improve on account of above initiatives along with volume growth recovery. Nonetheless, we expect some cost items including advertisement/promotions to rise as volumes recover. **We expect EBITDA margins of ~16.8 in FY26 and FY27, respectively vs 13.5% in FY25. We expect earnings CAGR of ~40% over FY25-27E, largely led by margins improvement and volume recovery which will be back ended.**

## Rating and Target Price

- Kajaria, with a net cash balance sheet and superior brand, is a solid play on the tiles sector with expanding reach to tier 2/3 cities. Overall demand recovery will be key for earnings growth recovery
- We value Kajaria at ₹1450, at 40x FY27 P/E and maintain our BUY rating**

## Key Financial Summary

(₹ crore)	FY22	FY23	FY24	FY25	5 yr CAGR (FY20-25)	FY26E	FY27E	2 yr CAGR (FY25-27E)
Net Sales	3,705	4,382	4,578	4,635	10.5%	4,824	5,486	8.8%
EBITDA	611	592	700	626	8.5%	812	921	21.3%
EBITDA Margin (%)	16.5	13.5	15.3	13.5		16.8	16.8	
PAT	377	345	422	294	2.9%	496	577	40.0%
EPS (₹)	23.7	21.6	26.5	18.5		31.2	36.2	
P/E (x)	52.5	57.5	46.9	67.3		39.9	34.3	
EV/EBITDA (x)	31.9	33.0	27.7	30.8		23.7	20.8	
RoCE (%)	21.5	17.7	20.0	16.0		20.2	21.3	
RoE	17.8	14.8	16.1	10.7		16.4	17.3	

Source: Company, ICICI Direct Research

**Kajaria**

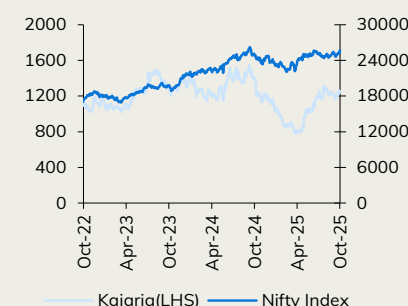
## Particulars

Particular	Amount (₹ crore)
Market Cap	19,863
Total Debt (FY25)	209
Cash (FY25)	583
EV	19,489
52 week H/L (₹)	1412 / 759
Equity capital	15.9
Face value (₹)	1.0

## Shareholding pattern

	Dec-24	Mar-25	Jun-25	Sep-25
Promoters	47.5	47.5	47.5	47.6%
DII	27.9	27.7	27.4	26.0%
FII	16.0	15.8	12.6	11.6%
Other	8.6	9.0	12.6	14.8%

## Price Chart



## Key risks

- Sustained slowdown in demand;
- Any sharp rise in gas prices

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## Performance highlights and outlook

- **Guidance – Kajaria Ceramics' management refrained from giving guidance but remained cautiously optimistic, expecting volume growth in H2FY26 as market conditions improve and internal restructuring benefits materialize.** Margins are projected to strengthen gradually through ongoing cost optimization. The company will focus on full capacity utilization, increased brand investment, and disciplined execution without immediate capacity expansion.
- **Allied business performance:**
  1. The **Bathware** segment revenues stood at ₹ 102.4 Crore, up 13.6% YoY from ₹ 90.1 Crore in Q2FY25.
  2. The **Adhesives** segment reported revenues of ₹ 32.2 Crore, up 77.3% YoY vs. ₹ 18.2 Crore in Q1 FY25
- **Exports:** As per the management in H1FY26 exports were ~ ₹ 8300 Crore against ~₹7600 in H1FY25 and It considers exports to be in line to reach ~₹18000 crore in FY26 with growth rate ~10% YoY.
- **Demand Commentary:** Management observed that the building materials sector has remained sluggish over the past few years, apart from cement and steel. It further highlighted that Q2FY26 performance was adversely affected by heavy rains and flooding across Northern and Eastern India, which disrupted construction activities. **However, the management expressed confidence in a pickup in volume growth during the second H2FY26, as construction activity resumes.**
- **Operational Restructuring Influences First-Half Performance:** The company's internal focus on the unification of its business verticals contributed to subdued volume growth during the first half of the fiscal year. Management acknowledged that the organizational restructuring and process alignment associated with this transition may have temporarily impacted sales performance.
- **White Spaces Expansion Strategy under 'Kajaria 2.0':** As part of its transformation under the "Kajaria 2.0" initiative, **the company is actively pursuing a white spaces strategy to identify and capture untapped market potential.** With the assistance of a management consulting partner, it is conducting a detailed, state-by-state mapping exercise to pinpoint regions and dealer territories where its presence is limited or underperforming. **The company currently operates 450 exclusive showrooms and 1,850 dealers; its objective is to strengthen distribution depth, enhance market penetration, and drive incremental growth by appointing new dealers in high-potential areas while rationalizing non-performing ones.** This data-driven approach aims to optimize coverage, improve dealer productivity, and expand company's market share across both retail and project segments.
- **Margin expansion driven by cost rationalization and other measures –** Kajaria Ceramics achieved a notable margin expansion in Q2FY26, with EBITDA margin rising to 17.9%, up 447 bps YoY and 122 bps sequentially, driven by structural and sustainable cost efficiencies. The company's cost optimization measures included the unification of sales and procurement functions for bulk purchasing, packaging re-engineering resulting in annual savings of ₹30–35 crore, workforce rationalization, a hiring freeze, and stringent control over advertising expenditures. These broad-based savings encompassed raw materials, finished goods, payroll, and administrative overheads. Management anticipates these benefits will sustain over the upcoming two to three quarters, thereby strengthening profitability and enhancing operational resilience.

- **Nepal Plant** – Kajaria's Nepal JV (50% stake) sold 0.7 million sq. m in Q2 and turned marginally profitable. However, management emphasized that profitability is not the current focus. The plant's near-term priorities are inventory liquidation and market penetration amid local turmoil. JV results remain below the EBITDA line and immaterial to consolidated earnings.
- **Working capital** – The working capital days stood at 56 days vs. 58 days in Q1.

**Exhibit 1: Quarter Performance**

	Q2FY26	Q2FY25	YoY (%)	Q1FY26	QoQ (%)	Comments
Net Sales	1,186.0	1,179.3	0.6	1,102.7	7.6	Tile sales volumes rose 0.6% YoY to 28.9 MSM, while tile revenues declined slightly by 0.2% YoY to 1051 Crore.
Other Income	15.5	9.9	56.7	13.2	16.8	
Net Purchase of Stock in Trade	256.4	247.7	3.5	183.1	40.1	
Cost of Materials Consumed	253.9	263.8	-3.8	259.4	-2.1	
Staff cost	130.5	144.3	-9.6	136.0	-4.0	
Other expenditure	116.7	140.1	-16.7	113.5	2.8	
Power & Fuel cost	215.1	224.4	-4.2	224.0	-4.0	
EBITDA	213.5	158.9	34.3	186.9	14.2	
EBITDA Margin (%)	18.0	13.5	452 bps	16.9	105 bps	The margin expansion was driven by the company's focus on cost rationalisation and lack of plywood losses (which shut down last year).
Depreciation	41.9	40.6	3.2	43.6	-4.0	
Interest	5.8	4.7	22.2	5.2	11.4	
PBT	180.7	123.5	46.3	149.0	21.2	
Taxes	47.2	35.0	34.8	39.6	19.1	
PAT	133.0	84.3	57.8	109.0	22.0	Margins expansion led to a 57.8% YoY increase in PAT

**Key Metrics**

Sales Volume (in MSM)	28.9	28.7	0.6	27.2	6.2
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Source: Company, ICICI Direct Research

**Exhibit 2: Change in Estimates**

(₹ Crore)	FY26E			FY27E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	4912	4824	-1.8	5572	5486	-1.6	Marginally tweak estimates
EBITDA	787	812	3.2	907	921	1.6	
EBITDA Margin (%)	16.0	16.8	82 bps	16.3	16.8	52 bps	Margin raised on cost rationalisation
PAT	473	496	4.9	562	577	2.6	
EPS (₹)	29.7	31.2	4.9	35.3	36.2	2.6	

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 3: Profit and loss statement ₹ Crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
<b>Net Sales</b>	<b>4,578</b>	<b>4,635</b>	<b>4,824</b>	<b>5,486</b>
Raw Material Exp	994	898	970	1,152
Cost of Materials	983	1,068	1,039	1,207
Emp Cost	505	566	540	570
Other Expenses	1,397	1,477	1,463	1,635
Total op. expenses	3,879	4,009	4,012	4,564
<b>EBITDA</b>	<b>700</b>	<b>626</b>	<b>812</b>	<b>921</b>
Interest	21	20	21	18
Depreciation	148	165	174	188
Other income	46	43	56	68
PBT	577	435	673	784
Taxes	143	136	173	202
PAT before MI	433	299	500	583
Minority Interest	11	5	4	6
<b>PAT</b>	<b>422</b>	<b>294</b>	<b>496</b>	<b>577</b>
Growth (%)	22.5	(30.3)	68.6	16.2
<b>EPS (₹)</b>	<b>26.5</b>	<b>18.5</b>	<b>31.2</b>	<b>36.2</b>

Source: Company, ICICI Direct Research

### Exhibit 4: Cash flow statement ₹ Crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
<b>Profit after Tax</b>	<b>422</b>	<b>294</b>	<b>496</b>	<b>577</b>
Depreciation	148	165	174	188
Interest	21	20	21	18
Others	97	93	117	134
CF before wc changes	688	573	808	915
Net Increase in CA	102	(9)	(118)	(191)
Net Increase in CL	(10)	44	(18)	80
<b>Net CF from op. activities</b>	<b>627</b>	<b>502</b>	<b>500</b>	<b>603</b>
(Purchase)/Sale of FA	(325)	(286)	(250)	(300)
<b>Net CF from Inv. activities</b>	<b>(296)</b>	<b>(259)</b>	<b>(194)</b>	<b>(232)</b>
Inc / (Dec) in Equity Capital	59	(23)	-	-
Dividend	(191)	(143)	(223)	(255)
Interest paid	(21)	(20)	(21)	(18)
Inc / (Dec) in Loans	(39)	5	-	-
<b>Net CF from Fin. activities</b>	<b>(211)</b>	<b>(175)</b>	<b>(240)</b>	<b>(266)</b>
Net Cash flow	120	69	65	105
Opening Cash	394	514	583	648
<b>Closing Cash/ Cash</b>	<b>514</b>	<b>583</b>	<b>648</b>	<b>753</b>

Source: Company, ICICI Direct Research

### Exhibit 5: Balance Sheet ₹ Crore

(₹ Crore)	FY24	FY25	FY26E	FY27E
<b>Liabilities</b>				
Equity Capital	15.9	15.9	15.9	15.9
Reserve and Surplus	2,600.6	2,728.4	3,001.7	3,323.6
Networth	2,616.5	2,744.3	3,017.6	3,339.5
Minority Interest	59.1	65.8	69.8	75.8
Total Debt	170.6	175.9	175.9	175.9
Other Liabilities	133.0	162.0	162.0	162.0
<b>Total Liabilities</b>	<b>2,983.4</b>	<b>3,153.1</b>	<b>3,430.4</b>	<b>3,758.2</b>
<b>Assets</b>				
Gross Block	2,583.0	2,829.1	3,079.1	3,379.1
Less Acc. Dep	979.0	1,144.4	1,318.4	1,505.9
Net Block	1,604.0	1,684.7	1,760.7	1,873.2
Intangibles Assets	33.7	32.7	32.7	32.7
Capital WIP	67.9	108.7	108.7	108.7
Total Fixed Assets	1,705.6	1,826.2	1,902.2	2,014.6
Investments	18.5	33.9	33.9	33.9
Inventory	532.2	618.1	608.0	691.3
Sundry Debtors	619.4	570.2	660.8	751.4
Loans & Advances	115.4	84.5	121.6	138.3
Cash & Bank	514.1	582.9	648.3	753.3
Other Current Assets	37.7	40.5	40.5	40.5
Total Current Assets	1,818.8	1,896.2	2,079.2	2,374.8
Trade Payable	293.3	338.1	309.0	351.4
Other CL	238.5	235.2	244.8	278.4
Provisions	27.8	29.9	31.1	35.3
Net Current Assets	1,259.3	1,293.1	1,494.3	1,709.7
<b>Total Assets</b>	<b>2,983.4</b>	<b>3,153.1</b>	<b>3,430.4</b>	<b>3,758.2</b>

Source: Company, ICICI Direct Research

### Exhibit 6: Key ratios

	FY24	FY25	FY26E	FY27E
<b>Per Share Data (₹)</b>				
EPS - Diluted	26.5	18.5	31.2	36.2
Cash EPS	35.8	28.9	42.1	48.0
Book Value	164.3	172.3	189.4	209.6
Dividend per share	12.0	9.0	14.0	16.0
<b>Operating Ratios (%)</b>				
EBITDA / Net Sales	15.3	13.5	16.8	16.8
PAT / Net Sales	9.2	6.4	10.3	10.5
Inventory Days	42	49	46	46
Debtor Days	49	45	50	50
Creditor Days	23	27	23	23
<b>Return Ratios (%)</b>				
RoNW	16.1	10.7	16.4	17.3
RoCE	20.0	16.0	20.2	21.3
RoIC	23.2	19.0	24.2	25.6
<b>Valuation Ratios (x)</b>				
EV / EBITDA	27.7	30.8	23.7	20.8
P/E (Diluted)	46.9	67.3	39.9	34.3
EV / Net Sales	4.2	4.2	4.0	3.5
Market Cap / Sales	4.3	4.3	4.1	3.6
Price to Book Value	7.6	7.2	6.6	5.9
Dividend Yield (%)	1.0	0.7	1.1	1.3
<b>Solvency Ratios (x)</b>				
Net Debt / Equity	(0.1)	(0.2)	(0.2)	(0.2)
Debt/EBITDA	0.2	0.3	0.2	0.2
Current Ratio	2.3	2.2	2.4	2.4
<b>Quick Ratio</b>	<b>1.4</b>	<b>1.2</b>	<b>1.4</b>	<b>1.4</b>

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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