

Kajaria Ceramics (KJC) has reported fraud in its step-down subsidiary Kerovit Global (Kerovit) following investigations; the Rs200mn fraud is substantial, considering that it is 13% of Kerovit's total assets as of FY25. The embezzlement, spanning the last two years, reflects the company's weak practices earlier. While the event has negative implications for the overall governance and controls, the management has handled it effectively; we do not see this event impacting valuations. Further, the fraud was detected during the exercise of strengthening the company's IT/internal systems, including the vendor onboarding process. KJC has taken necessary action, involving termination of the CFO of the subsidiary and filing a police complaint. Internal controls have been made more stringent, with implementation of more such measures lined up, to avoid a repeat of such instances of fraud. The status on full recovery of the fund amount is unclear currently, and would be taken as an 'exceptional loss' in FY26. We maintain our estimates for FY27/28 and retain BUY on the stock along with TP of Rs1,550.

Internal process upgradations lead to fraud detection in a step-down subsidiary
KJC recently notified about a fraud amounting to Rs200mn by Dilip Kumar Maliwal, CFO of Kajaria Bathware (KBPL; its subsidiary) in Kerovit Global—a wholly-owned subsidiary (WoS) of KBPL. Further, it highlighted that the fraud detection was an outcome of internal process upgradation/MIS audit processes that KJC had put in place in the last 1-2Y. The misappropriation of funds happened at the capex stage through forgery of signature of the senior management and creation of a fake vendor entity, wherein Maliwal was the beneficiary. The fraud amount was substantial (~13% of Kerovit's total assets in FY25). The MIS audit for vendor onboarding detected discrepancies, bringing the fraud to light. So far, Rs6mn has been recovered, though the company does not expect full recovery. Net loss (ie Rs200mn less the money recovered) due to the fraud would be taken as an 'exceptional item' in H2FY26.

Making internal processes stronger

In the last 1-2Y, measures taken by the company on upgrading its IT system/MIS have made the process of vendor onboarding largely automated; this mostly eliminates manual intervention. The process has been completed for Kajaria Ceramics (parent company); all subsidiaries coming on board this platform are likely to take another 3-4 months. KJC aims to implement more such measures, which would ensure that stringent checks are in place, and avoid a repeat of such instances of fraud in the future.

Remain vigilant on future events; maintain BUY

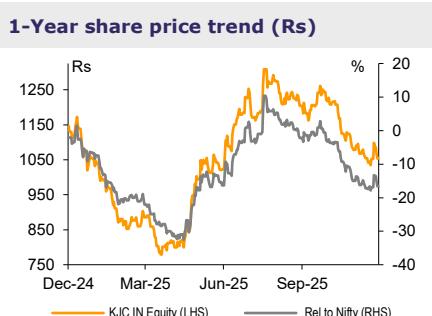
Further to this fraud, we assume exceptional loss of Rs194mn for FY26E (ex Rs6mn already recovered; this amount could be less, depending on the extent of recovery in the current year). We maintain our estimates for FY27/28. Also, while we retain our target multiple for Kajaria, a repeat of such events in future could pose a risk and lead to de-rating. We maintain BUY on Kajaria and our TP of Rs1,550 (at 42x; 10Y average PER).

Target Price – 12M	Sep-26
Change in TP (%)	6.9
Current Reco.	BUY
Previous Reco.	BUY
Upside/(Downside) (%)	52.6

Stock Data	KJC IN
52-week High (Rs)	1,322
52-week Low (Rs)	745
Shares outstanding (mn)	159.3
Market-cap (Rs bn)	162
Market-cap (USD mn)	1,804
Net-debt, FY26E (Rs mn)	(3,781.4)
ADTV-3M (mn shares)	0.4
ADTV-3M (Rs mn)	241.5
ADTV-3M (USD mn)	2.7
Free float (%)	51.3
Nifty-50	26,177.2
INR/USD	89.7

Shareholding, Sep-25	
Promoters (%)	47.6
FPIs/MFs (%)	11.6/26.0

Price Performance	1M	3M	12M
(%)			
Absolute	(5.8)	(14.2)	(10.3)
Rel. to Nifty	(6.2)	(17.5)	(18.6)



Kajaria Ceramics: Financial Snapshot (Consolidated)

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	45,784	46,351	48,969	52,854	57,919
EBITDA	6,997	6,262	8,267	9,109	10,147
Adj. PAT	4,221	3,426	5,007	5,556	6,255
Adj. EPS (Rs)	26.5	21.5	31.4	34.9	39.3
EBITDA margin (%)	15.3	13.5	16.9	17.2	17.5
EBITDA growth (%)	18.2	(10.5)	32.0	10.2	11.4
Adj. EPS growth (%)	19.7	(18.8)	46.1	11.0	12.6
RoE (%)	17.1	12.8	17.6	18.0	18.6
RoIC (%)	19.0	14.7	20.9	22.0	23.8
P/E (x)	38.3	55.0	33.8	29.1	25.9
EV/EBITDA (x)	22.6	25.3	19.2	17.4	15.6
P/B (x)	6.2	5.9	5.5	5.0	4.6
FCFF yield (%)	1.9	1.5	3.5	3.7	4.4

Source: Company, Emkay Research

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Kerovit Global Pvt – Company Overview

Kerovit Global Pvt (Kerovit), incorporated in Jan-22, is a WoS of KBPL and is engaged in the manufacture of high-end sanitaryware products. The company operates a sanitaryware plant at Morbi, with production capacity of ~0.5mnpa pieces; the plant commenced commercial production in Q4FY24. The Board of Kerovit comprises Rishi Kajaria, Ashok Kajaria, and Vishal Rastogi; the statutory auditor is OP Bagla & Co LLP.

In FY25, Kerovit reported revenue of Rs108mn (~0.2% of KJC's consolidated sales), while EBITDA and PAT remained negative (Exhibit 2).

Exhibit 1: Kerovit Global – Key line-items from its income statement

Kerovit Global (Rs mn)	FY23	FY24	FY25
Equity	89	87	-132
Borrowings	38	700	1,563
Cash & Cash equivalents	0	101	43
Net debt	37	598	1,520
Gross block	111	608	1,094
Accumulated depreciation	-	0	59
Net block	111	607	1,035
CWIP	15	131	85

Borrowings from Related Parties

Borrowings from Kajaria Ceramics	490	990
Borrowings from Kajaria Bathware	38	

Source: Company, Emkay Research; Note: Kerovit was incorporated on 18-Jan-2022

Exhibit 2: Kerovit Global – Key line-items from its balance sheet

Kerovit Global (Rs mn)	18-Jan-22 to 31-Mar-23	FY24	FY25
Revenue	-	0	108
EBITDA	-2	-1	-77
PBT	-2	-2	-219
PAT	-2	-2	-219

Source: Company, Emkay Research; Note: Kerovit was incorporated on 18-Jan-2022

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KTAs from the analyst call on the recent fraud detection

- The fraud detection has been an outcome of the internal process upgradation/MIS audit processes that the company had put in place in the last 1-2 years.
- The fraud of Rs200mn by Dilip Kumar Maliwal, CFO of Kajaria Bathware (KBPL), was done at the capex stage via fake vendor creation, wherein Maliwal was the beneficiary.
- The money was taken out from the company as an advance payment for capex, by forgery of signatures of senior management (CWIP was inflated). The advance payment was thereafter routed to the fake vendor (Rs60mn in FY25 + Rs140mn in YTDFY26).
- The recently implemented IT systems (MIS audit) for vendor onboarding detected discrepancies, which brought the fraud to light.
- KJC has terminated the services of Maliwal and filed a complaint with the Deputy Commissioner of Police, Economic Offence Wing (Delhi Police).
- Currently, Rs6mn has been recovered, but the company does not expect full recovery.
- If needed, KJC may go ahead with a forensic audit of Kerovit Global (WoS of KBPL) – where the fraud took place.
- Net loss (ie Rs200mn less the money recovered) due to the fraud would be taken as an 'exceptional item' in H2FY26.

Internal processes already being strengthened

- KJC has, since the last 1-2 years, already started strengthening its internal processes with enhanced IT systems for vendor onboarding, MIS audits, internal reviews, etc, which involves an automated system with almost no manual intervention.
- Processes from vendor onboarding to direct payment will all be managed through this platform.
- The benefits are already visible, with the Rs200mn fraud detection in Kerovit Global (KJC's step-down subsidiary).
- The process has been completed for Kajaria Ceramics (parent company) and is likely to take another 3-4 months for all subsidiaries to come on board this platform.
- Further, the unification process, along with the cost-saving initiative that started in Apr-24, is now yielding Rs1.5bn annualized cost savings through reduction of manpower, cut in travel expenses, lower cost of packaging material, and cost negotiations for raw materials, etc.

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Kajaria Ceramics: Consolidated Financials and Valuations

Profit & Loss

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue	45,784	46,351	48,969	52,854	57,919
Revenue growth (%)	4.5	1.2	5.6	7.9	9.6
EBITDA	6,997	6,262	8,267	9,109	10,147
EBITDA growth (%)	18.2	(10.5)	32.0	10.2	11.4
Depreciation & Amortization	1,480	1,654	1,754	1,813	1,941
EBIT	5,517	4,608	6,513	7,297	8,205
EBIT growth (%)	20.2	(16.5)	41.4	12.0	12.5
Other operating income	-	-	-	-	-
Other income	462	427	457	480	504
Financial expense	211	200	172	161	149
PBT	5,768	4,835	6,798	7,616	8,560
Extraordinary items	0	(483)	(217)	0	0
Taxes	1,435	1,360	1,711	1,980	2,226
Minority interest	(113)	(49)	(80)	(80)	(80)
Income from JV/Associates	-	-	-	-	-
Reported PAT	4,221	2,943	4,790	5,556	6,255
PAT growth (%)	22.5	(30.3)	62.7	16.0	12.6
Adjusted PAT	4,221	3,426	5,007	5,556	6,255
Diluted EPS (Rs)	26.5	21.5	31.4	34.9	39.3
Diluted EPS growth (%)	19.7	(18.8)	46.1	11.0	12.6
DPS (Rs)	12.0	9.0	12.0	15.0	18.0
Dividend payout (%)	45.3	48.7	39.9	43.0	45.8
EBITDA margin (%)	15.3	13.5	16.9	17.2	17.5
EBIT margin (%)	12.0	9.9	13.3	13.8	14.2
Effective tax rate (%)	24.9	28.1	25.2	26.0	26.0
NOPLAT (pre-IndAS)	4,145	3,312	4,874	5,400	6,072
Shares outstanding (mn)	159	159	159	159	159

Source: Company, Emkay Research

Balance Sheet

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
Share capital	159	159	159	159	159
Reserves & Surplus	26,006	27,284	29,334	32,010	34,808
Net worth	26,165	27,443	29,494	32,169	34,967
Minority interests	591	658	738	818	898
Non-current liab. & prov.	839	891	891	891	891
Total debt	1,706	1,759	1,723	1,608	1,493
Total liabilities & equity	29,834	31,531	32,901	35,547	38,316
Net tangible fixed assets	16,040	16,847	17,377	17,649	17,742
Net intangible assets	10	8	9	9	10
Net ROU assets	704	1,008	1,058	1,108	1,158
Capital WIP	679	1,087	900	900	900
Goodwill	327	319	319	319	319
Investments [JV/Associates]	185	339	339	339	339
Cash & equivalents	5,141	5,829	5,505	7,080	8,728
Current assets (ex-cash)	12,487	12,357	13,318	14,434	15,863
Current Liab. & Prov.	5,595	6,031	5,918	6,303	6,778
NWC (ex-cash)	6,891	6,326	7,400	8,130	9,084
Total assets	29,834	31,531	32,901	35,547	38,316
Net debt	(3,435)	(4,069)	(3,781)	(5,472)	(7,235)
Capital employed	29,834	31,531	32,901	35,547	38,316
Invested capital	22,564	22,492	24,047	25,000	25,998
BVPS (Rs)	164.3	172.3	185.1	201.9	219.5
Net Debt/Equity (x)	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)
Net Debt/EBITDA (x)	(0.5)	(0.6)	(0.5)	(0.6)	(0.7)
Interest coverage (x)	28.3	25.1	40.4	48.4	58.3
RoCE (%)	21.9	17.3	22.6	23.4	24.2

Source: Company, Emkay Research

Cash flows

Y/E Mar (Rs mn)	FY24	FY25	FY26E	FY27E	FY28E
PBT (ex-other income)	5,756	4,360	6,341	7,136	8,056
Others (non-cash items)	2	364	2,148	1,462	1,907
Taxes paid	(1,385)	(1,172)	(1,711)	(1,980)	(2,226)
Change in NWC	260	(12)	(1,074)	(731)	(954)
Operating cash flow	6,014	5,010	7,630	7,860	8,875
Capital expenditure	(2,969)	(2,556)	(2,048)	(2,035)	(1,985)
Acquisition of business	(165)	(154)	0	0	0
Interest & dividend income	303	390	428	471	518
Investing cash flow	(2,976)	(3,721)	(4,090)	(4,055)	(3,981)
Equity raised/(repaid)	11	14	0	0	0
Debt raised/(repaid)	(393)	100	(36)	(115)	(115)
Payment of lease liabilities	(182)	(249)	(50)	(50)	(50)
Interest paid	(205)	(145)	(172)	(161)	(149)
Dividend paid (incl tax)	(1,433)	0	(2,304)	(2,880)	(3,457)
Others	39	(1,805)	(1,301)	977	525
Financing cash flow	(2,163)	(2,086)	(3,863)	(2,230)	(3,246)
Net chg in Cash	876	(796)	(324)	1,576	1,648
OCF	6,014	5,010	7,630	7,860	8,875
Adj. OCF (w/o NWC chg.)	5,754	5,022	8,704	8,591	9,828
FCFF	3,045	2,454	5,582	5,825	6,890
FCFE	3,137	2,644	5,838	6,135	7,259
OCF/EBITDA (%)	86.0	80.0	92.3	86.3	87.5
FCFE/PAT (%)	74.3	89.8	121.9	110.4	116.1
FCFF/NOPLAT (%)	73.5	74.1	114.5	107.9	113.5

Source: Company, Emkay Research

Valuations and key Ratios

Y/E Mar	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	38.3	55.0	33.8	29.1	25.9
EV/CE(x)	5.6	5.3	5.0	4.6	4.2
P/B (x)	6.2	5.9	5.5	5.0	4.6
EV/Sales (x)	3.5	3.4	3.2	3.0	2.7
EV/EBITDA (x)	22.6	25.3	19.2	17.4	15.6
EV/EBIT(x)	28.7	34.4	24.3	21.7	19.3
EV/IC (x)	7.0	7.0	6.6	6.3	6.1
FCFF yield (%)	1.9	1.5	3.5	3.7	4.4
FCFE yield (%)	1.9	1.6	3.6	3.8	4.5
Dividend yield (%)	1.2	0.9	1.2	1.5	1.8
DuPont-RoE split					
Net profit margin (%)	9.2	7.4	10.2	10.5	10.8
Total asset turnover (x)	1.6	1.6	1.6	1.6	1.6
Assets/Equity (x)	1.1	1.1	1.1	1.1	1.1
RoE (%)	17.1	12.8	17.6	18.0	18.6
DuPont-RoIC					
NOPLAT margin (%)	9.1	7.1	10.0	10.2	10.5
IC turnover (x)	2.1	2.1	2.1	2.2	2.3
RoIC (%)	19.0	14.7	20.9	22.0	23.8
Operating metrics					
Core NWC days	54.9	49.8	55.2	56.1	57.2
Total NWC days	54.9	49.8	55.2	56.1	57.2
Fixed asset turnover	1.9	1.9	1.8	1.8	1.9
Opex-to-revenue (%)	41.5	44.1	41.1	41.2	41.2

Source: Company, Emkay Research

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RECOMMENDATION HISTORY - DETAILS

Date	Closing Price (Rs)	TP (Rs)	Rating	Analyst
16-Oct-25	1,251	1,550	Buy	Harsh Pathak
22-Jul-25	1,242	1,450	Buy	Harsh Pathak
07-May-25	829	1,050	Buy	Harsh Pathak
05-Feb-25	980	1,250	Buy	Harsh Pathak

Source: Company, Emkay Research

RECOMMENDATION HISTORY - TREND



Source: Company, Bloomberg, Emkay Research

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Ratings	Expected Return within the next 12-18 months.
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ADD	5-15% upside
REDUCE	5% upside to 15% downside
SELL	>15% downside

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