

October 30, 2024

Kajaria Sanitaryware Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based – Cash credit	10.00	10.00	[ICRA]BBB+ (Stable); Reaffirmed
Total	10.00	10.00	

Rationale

The rating reaffirmation for Kajaria Sanitaryware Private Limited (KSPL) factor in the expectation of continued operational, managerial and financial support from its ultimate parent – i.e., Kajaria Ceramics Limited (KCL), [rated [ICRA]AA (Stable)/[ICRA]A1+], as reflected in demonstrated track record of providing financial assistance to KSPL in the form of unsecured loans and corporate guarantee (covering KSPL's entire debt). The rating notes its comfortable leverage and debt coverage metrics, as evident from adjusted gearing and interest cover 0.1 times and 4.0 times, respectively, as on March 31, 2024. KSPL has a location-specific advantage, by virtue of its presence in the Morbi region of Gujarat, which provides easy access to quality raw materials and power.

The rating is, however, constrained by KSPL's modest scale of operations (Rs. 140 crore in FY2024, despite a YoY growth of 14.4%) and average profit margins (8.1% in FY2024 Vs. 9.5% in FY2023), which remain vulnerable to volatility in raw material and fuel prices and highly working capital-intensive nature of operations. The rating is constrained by the stiff competition within the industry (which restricts pricing power) and exposure of the company's operations to the cyclicality in the real estate industry, which is the main end-user sector. Nonetheless, ICRA expects factors such as increasing urbanisation, shift towards better hygiene facilities will support the demand for sanitaryware and help KSPL grow its scale of operations over the medium term.

The Stable outlook on the long-term rating reflects ICRA's opinion that the company will benefit from the operational and financial linkages with its parent, KCL, and expected improvement in its scale of operations.

Key rating drivers and their description

Credit strengths

Financial and operational support from KCL – KSPL is a step-down subsidiary of KCL, which is the largest player in the domestic tiles industry with a track record of over three decades. It has a well-recognised brand and an extensive pan-India distribution network (1,840 dealers, 10,000 touchpoints). KCL supports KSPL in its day-to-day operations and has provided it access to its large distribution network. Moreover, KCL has strong operational, managerial, and financial linkages with KSPL. There has been a demonstrated track record of providing financial assistance in the form of interest-bearing unsecured loans and corporate guarantees covering KSPL's entire debt, which is expected to continue going forward as well.

Satisfactory debt protection metrics – KSPL's capital structure is comfortable with the adjusted gearing of 0.1 times and adjusted TOL/TNW of 0.8 times as on March 31, 2024. Financial support from KCL, at favourable interest rate and flexible repayment terms, translate into comfortable debt coverage metrics (interest cover of above 4.0 times and adjusted TD/OPBDITA of 0.2 times) as on March 31, 2024. ICRA expects KSPL's credit metrics to remain strong over the medium term, backed by moderate debt levels and ramp-up in operational performance.

Location-specific advantage – The company benefits in terms of low transportation cost and easy access to quality raw materials as well as power and fuel sources due to the plant’s strategic location in the Morbi region of Gujarat, which is considered the ceramic hub of India.

Credit challenges

Modest scale of operation – KSPL’s scale is relatively modest with standalone operating income of Rs. 140.0 crore in FY2024, despite a CAGR of ~21% over the last 5 years. The operating profitability margins declined for the second consecutive year in FY2024 to 8.1% (9.5% in FY2023) and have remained volatile ranging within 6-18% (over the last 5 years). The company’s ability to sustainably scale up its operations and stabilise the margins at healthy levels remains a key monitorable.

Vulnerability of profitability to changes in raw material and fuel prices – Raw material and fuel are the two key cost components in sanitaryware production. Both have exhibited large volatility over the last two years. Further, intense competition in the industry restricts the company’s pricing flexibility. Hence, its profitability remains susceptible to raw material and fuel price fluctuations.

Intense competition and cyclicality in real estate industry – The sanitaryware industry is highly competitive and largely unorganised. KSPL faces stiff competition from already established players such as Cera, Kohler Co., Hindware, etc, and many other unorganised players. Additionally, the industry is vulnerable to the cyclicality in the real estate sector as it accounts for majority of the uptake of sanitaryware items. However, factors such as increasing urbanisation, shift towards better hygiene facilities, etc, are expected to support the demand.

Liquidity position: Adequate

The liquidity position is adequate, with positive cash flows from operations, supported by undrawn working capital lines (~Rs. 6 crore as on August 31, 2024 with average utilisation of FB limits at 16% in the trailing 13 months). The company does not have any major external debt on books. In absence of any major capex plans and debt repayment obligations, and expectation of timely need-based support from parent, the liquidity position is expected to continue remaining adequate.

Rating sensitivities

Positive factors – ICRA could upgrade KSPL’s rating if the company demonstrates substantial growth in revenue, and profitability leading to an improvement in liquidity on a sustained basis.

Negative factors – Pressure on KSPL’s rating could arise if there is a material decline in revenues or profitability margins or stretching in the working capital cycle or material increase in debt levels impacting its liquidity position or debt metrics. Pressure on the rating could also arise if the likelihood of support from the ultimate parent company weakens, or the credit profile of the parent company deteriorates.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Parent company: Kajaria Ceramics Limited. The rating assigned to KSPL factors in the operational and financial support from its ultimate parent, KCL [rated [ICRA]AA (Stable)/A1+] because of the close business linkages between them. ICRA expects KCL to be willing to extend financial support to KBPL out of their need to protect their reputation from the consequences of a Group entity’s distress. There also exists a consistent track record of parent extending timely financial support to the company, whenever a need has arisen.
Consolidation/Standalone	Standalone

About the company

Kajaria Sanitaryware Private Limited is an 82% subsidiary of Kajaria Bathware Private Limited and a step-down subsidiary of Kajaria Ceramics Limited (diluted stake of 69%). It is involved in manufacturing and trading of sanitaryware items. It started operations in 2014 and has a manufacturing capacity of 7.8 lakhs pieces/annum. The company's sole manufacturing plant is in Morbi, Gujarat.

Key financial indicators (audited)

Standalone KSPL	FY2023	FY2024
Operating income	125.0	140.0
PAT	5.2	4.2
OPBDIT/OI	9.5%	8.1%
PAT/OI	4.1%	3.0%
Total outside liabilities/Tangible net worth (times)	2.3	1.7
Total debt/OPBDIT (times)	3.4	2.5
Interest coverage (times)	3.8	4.0

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)			Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				October 30, 2024	July 26, 2023	-	-	
1	Fund-based – Cash credit	Long term	10.0	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	-	-	

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	Mar 31, 2023	NA	NA	10.00	[ICRA]BBB+ (Stable)

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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