

October 30, 2024

## Kajaria Bathware 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	20.00	20.00	[ICRA]BBB+(Stable); Rating Reaffirmed
<b>Total</b>	<b>20.00</b>	<b>20.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The rating reaffirmation for Kajaria Bathware Private Limited (KBPL) continues to factor in the strong parentage by virtue of 85% ownership by Kajaria Ceramics Limited (KCL), rated [ICRA]AA(Stable)/[ICRA]A1+ and its continued operational and financial support. The company has also posted ramp-up in its operations with ~15% YoY growth in FY2024 (provisional nos.), coupled with comfortable capital structure and debt coverage metrics, as reflected in the adjusted gearing and interest cover of 0.3 times and 4.4 times as on March 31, 2024 on a consolidated basis. The growth is expected to continue in near to medium term, while there may be some moderation in debt protection in FY2025 on account of incremental debt being availed in its subsidiary Kerovit Global Pvt Ltd (KGPL), post that the metrics are expected to improve, with growing operations. ICRA notes that the day-to-day operations of KBPL (and its subsidiaries - Kajaria Sanitaryware Private Limited (KSPL) and KGPL) are managed by KCL, wherein it has also provided unsecured loans (Rs. 83 crore as on March 31, 2024 Vs. Rs. 57 crore as on March 31, 2023) and corporate guarantees covering their entire debt.

The company is also amid capex of ~Rs. 110 crore to set up a new plant, of 4.5 million pcs p.a. capacity, for premium sanitaryware under KGPL. Of the same, ~Rs. 75 crore had been incurred till March 31, 2024 and the plant was partly commissioned. The residual capex, related to civil works – e.g. staff quarters etc., is expected to be completed by December 2024. As the project debt repayment has commenced, pending stabilisation of plant operations, the company's coverage and leverage indicators are expected to moderate in the medium-term. Nonetheless, incremental revenues and synergies with the existing KCL business is likely to keep these indicators at comfortable levels.

The rating strengths are offset by KBPL's increasing albeit moderate scale of operations (compared to other organised peers), susceptibility of its margins to volatile raw material prices (operating margins declined to 7.3% in FY2024 from 9.0% in FY2023) and cyclical and competitive end user industry viz. real estate. KBPL's ability to achieve the optimum capacity utilisation and achieve reasonable level of scale of operations, while successfully managing raw material and fuel price volatility in a competitive industry will be crucial from the credit perspective.

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 ramp-up in its scale of operations is expected to keep the debt coverage metrics commensurate with rating levels.

### Key rating drivers and their description

#### Credit strengths

**Financial and operational support from KCL** – KBPL is a ~85% subsidiary of KCL, the largest player in the domestic tiles industry with a track record of over three decades. KCL has a well-recognised brand and an extensive pan-India distribution network (1,840 dealers, 10,000 touchpoints). KCL supports KBPL by providing access to its large distribution network. It has provided financial support to KBPL in the form of unsecured loans, advances and corporate guarantee covering its entire debt. Moreover,

being the holding company for the Group's sanitaryware and bathware-related businesses, KBPL has strategic importance for KCL.

**Comfortable leverage and adequate coverage metrics** – KBPL's capital structure is comfortable with adjusted gearing of 0.3 times and adjusted TOL<sup>1</sup>/TNW of 0.9 times as on March 31, 2024. The coverage metrics also remains adequate with interest coverage at 4.4 times as of FY2024. Financial support in the form of loans from KCL, at a favourable interest rate and flexible repayment terms, translates to healthy debt coverage metrics. As KGPL project loan debt servicing has commenced from FY2025, ICRA expects KBPL's leverage and coverage metrics to moderate YoY in the current fiscal. However, the same is expected to remain comfortable over the medium term, backed by ramp-up in operational performance.

**Location specific advantages** – 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 KSPL and KGPL plant's strategic location in the Morbi region of Gujarat, which is considered the ceramic hub of India as well as KBPL's plant in Gailpur, Rajasthan which has access to quality raw materials.

### Credit challenges

**Moderate scale of operation and vulnerability to raw material prices** – Despite a ~15% YoY growth, KBPL's scale of operations remained relatively moderate, with a consolidated operating income of ~Rs. 364 crore in FY2024. Also, given the stiff competition in the industry, the pricing flexibility is limited. Hence, its profitability remains susceptible to fluctuation in raw material prices, as evident from operating margins ranging within 4-13% over the past five years (and more recently, declined to 7.3% from 9.0% in FY2023). The company's ability to sustainably scale up its operations and stabilise margins, given the recent commercialisation of KGPL plant, remains a key monitorable.

**Residual capex and plant stabilisation risk** – KBPL is undertaking a sizeable capex of ~Rs. 110 crore (over FY2024-FY2025) and has set-up a new plant in the sanitaryware segment under its subsidiary – KGPL. The plant (kiln) became operational in March 2024; however project capex is expected to be completed by December 2024. It is being funded by term debt of Rs. 60 crore and rest through funding support of Rs. 50 crore from KCL. The debt repayment has commenced, and pending stabilisation, the company's coverage and leverage indicators will moderate in near term and start improving from FY2026 onwards. Hence, sustained ramp-up in scale and profitability will be critical from the credit perspective.

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

### Liquidity position: Adequate

The liquidity is expected to remain adequate, with healthy cash accruals and supported by undrawn working capital lines (~Rs. 15 crore as on August 31, 2024 with average utilisation of FB limits at 4% in the trailing 13 months) and term loan of Rs. 25 crore (as on Sep 30, 2024). The company has cumulative estimated debt repayment of Rs. 20-25 crore over FY2025-26 with pending project capex of Rs. 35 crore. Given its strategic importance, KCL is expected to provide timely financial support to KBPL, in case of any exigencies.

### Rating sensitivities

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

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<sup>1</sup> TOL less unsecured parent loan of ~Rs. 83.0 crore

**Negative factors** – Pressure on KBPL’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
<b>Applicable rating methodologies</b>	<a href="#">Corporate Credit Rating Methodology</a>
<b>Parent/Group support</b>	Parent Company: Kajaria Ceramics Limited. The rating assigned to KBPL factors in the operational and financial support from its 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 the parent extending timely financial support to the company, whenever a need has arisen.
<b>Consolidation/Standalone</b>	For arriving at the rating, ICRA has consolidated the financials of KBPL with its two subsidiaries, given the close business, financial and managerial linkages between the entities.

## About the company

Kajaria Bathware Private Limited is a subsidiary of Kajaria Ceramics Limited (KCL, rated [ICRA]AA(Stable)/A1+). Incorporated in May 2013, it manufactures bathware fittings and trades in sanitaryware items. It started operations in 2015 and currently has a capacity of 16.0 lakh bathware fitting pieces per annum. The company’s sole manufacturing plant is in Gailpur, Rajasthan.

The company has two subsidiaries – Kajaria Sanitaryware Private Limited and Kerovit Global Private Limited. Kajaria Sanitaryware Private Limited is an 82% subsidiary of Kajaria Bathware Private Limited and a step-down subsidiary of KCL (diluted stake of 69%). It is involved in manufacturing and trading of sanitaryware items and has a manufacturing capacity of 7.5 lakhs pieces/annum. Kerovit Global Private Limited is a 100% subsidiary of KBPL and a step-down subsidiary of KCL (diluted stake of 85%). It is engaged in manufacturing and trading of premium sanitaryware items. The company commenced commercial operations from March 2024.

## Key financial indicators (audited)

Consolidated	FY2023	FY2024
<b>Operating income</b>	315.7	363.5
<b>PAT</b>	13.0	13.7
<b>OPBDIT/OI</b>	9.0%	7.3%
<b>PAT/OI</b>	4.1%	3.8%
<b>Total outside liabilities/Tangible net worth (times)</b>	1.2	1.7
<b>Total debt/OPBDIT (times)</b>	2.3	4.3
<b>Interest coverage (times)</b>	4.5	4.4

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	20.0	[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	Sep 19, 2022	NA	NA	20.0	[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**

Company Name	KBPL's Ownership	Consolidation Approach
Kerovit Global Private Limited	100%	Full Consolidation
Kajaria Sanitaryware Private Limited	82%	Full Consolidation

Source: Company, ICRA Research

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