

December 18, 2024

## Kajaria Ceramics Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based - Cash credit	160.00	145.00	[ICRA]AA(Stable); reaffirmed
Short-term - Non-fund based limits	330.00	260.00	[ICRA]A1+; reaffirmed
<b>Total</b>	<b>490.00</b>	<b>405.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of ratings for Kajaria Ceramics Limited (KCL) factors in its strong operational profile, with leadership position in the domestic ceramic tile market, supported by its well-recognised brand, long track record of operations, diversified manufacturing presence and product portfolio, as well as its robust pan-India distribution network. The ratings reflect KCL's large scale of operations (revenues of Rs. 4,578.4 crore in FY2024 and Rs. 2,293 crore in H1 FY2025) and robust financial profile, characterised by a conservative capital structure and strong debt protection metrics. Moreover, its liquidity position remains strong, with cash and liquid investments of ~Rs. 445 crore as on September 30, 2024, resulting in a negative net debt position.

The company's operating margins (OPM) moderated to 14.2% in H1 FY2025 (from 16% in H1 FY2024 and 15.3% in FY2024) on account of sluggish demand conditions, which impacted growth, coupled with losses in the newly commissioned (tiles and bathware) units. Going forward, the operating margins are expected to sustain at around 14-15% in FY2025e, while its revenue growth will be supported by the ramp-up of enhanced capacities [~10-11 msm (including JVs) operationalised in H1 FY2025], coupled with continued traction in the real estate sector. While KCL is likely to invest in capacity expansion through organic and inorganic means, ICRA expects it to maintain a net negative debt position over the medium term.

The long-term rating is, however, constrained by the intense competition in the tiles industry and the susceptibility of KCL's revenues and cash flows to the cyclicity of the real estate industry, which is the major end-user of tiles. The ratings factor in the vulnerability of the company's operations to fluctuations in input prices and limited ability to pass on the same to end-users amid stiff competition, resulting in volatile profitability margins. Nonetheless, the company is better placed to pass on the increased input prices to customers compared to other smaller and mid-sized players owing to its strong market position.

The Stable outlook on the long-term rating reflects ICRA's expectations that KCL will likely sustain its operating metrics and credit profile on back of its strong brand recall. ICRA expects that the entity will fund its incremental capex and investments in a manner that allows it to maintain low leverage and robust debt protection metrics.

### Key rating drivers and their description

#### Credit strengths

**Leading position in domestic tiles market; well-recognised brand with pan-India presence** – KCL 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 (1,800+ dealers). In terms of geographies, North India is the biggest market for the company, accounting for ~40% of its revenues, followed by the South (~30%), West (~18%) and East (~12%). Moreover, KCL has an established presence across both the retail and institutional segments, with retail constituting around 70% of the revenues.

**Large scale of operations with healthy return indicators** – KCL has reported steady revenue growth over the years, aided by its established position in the Indian tiles industry and strong brand recognition. A steady demand from the real estate sector and increasing penetration in tier-II and tier-III markets, resulted in revenues increasing to Rs. 4,578.4 crore in FY2024 (+4% YoY) and Rs. 2,293.0 crore (+5% YoY) in H1 FY2025, at a consolidated level. KCL's return indicators stood healthy in H1 FY2025, with the core RoCE at ~20%. The same is expected to remain above 20% in FY2025-2026. Overall, the company maintains a strong financial risk profile.

**Comfortable capital structure and strong debt protection metrics** – Healthy cash accrual over the years limited KCL's reliance on external debt to fund its capex requirements. This, coupled with a strong net worth (Rs. 2,698.3 crore as on September 30, 2024), reflects in a comfortable capital structure with a gearing of 0.1 times. Further, the low debt levels enable strong debt protection metrics, with total debt/OPBDITA of 0.4 times and interest coverage of 34.6 times as on September 30, 2024. KCL had a healthy cash surplus as on September 30, 2024, resulting in a continued net negative debt position. While KCL is expected to continue augmenting its capacity, organically and inorganically (through investments in JVs), ICRA expects it to maintain a net negative debt position over the medium term.

### Credit challenges

**Vulnerability of profitability to changes in raw material and fuel prices** – KCL's profitability remains vulnerable to adverse change in prices of key raw materials and natural gas, as these two components form a major part of the cost structure. ICRA notes that after recovering in FY2024 to 15.3%, the operating margins moderated to 14.2% in H1 FY2025, led by a decline in realisations (due to subdued domestic demand and weak exports) and additional overheads/losses pertaining to the recently commissioned units – in tiles and bathware. With ramp-up in demand and stabilisation of these new units, the margins are expected to improve from the current levels. Also, KCL remains better placed to pass on any hikes in input prices to customers, compared to other smaller and mid-sized players, given its leadership position in the domestic tiles industry and relatively higher share of retail sales.

**Intense competition from other branded and non-branded players; cyclicity in real estate industry** – The presence of a few large, branded players and numerous mid-to-small-sized non-branded players in the industry, along with significant capacity addition in the recent past and volatile export demand (subdued in the current year due to Red Sea crisis, container availability issues and proposed anti-dumping duty by the USA), result in stiff competition in the domestic tiles industry. Moreover, the real estate industry remains the major end-user, and hence, KCL's revenues and cash flows remain vulnerable to the cyclicity in the same.

### Environmental and social risks

**Environmental considerations** – Tile manufacturing is an energy-intensive process, requiring substantial quantities of fuel and resulting in greenhouse gas emissions, waste generation and pollution. Consequently, the industry's (and KCL's) exposure to litigation/penalties arising from issues related to waste and pollution management remains relatively high. However, as per the company's annual report of FY2024, it has taken initiatives towards the use of clean technology and energy efficiency. Its hazardous waste and emissions remained within the permissible limits of the CPCB/SPCB in FY2024. Nonetheless, KCL's cash flows remain exposed to increasing investment requirements to comply with the stringent pollution norms.

**Social considerations** – Social risks in the industry stem from the health and safety concerns of its employees involved in clay mining, among other things. Further, given the dependence on human capital, entities in the tiles industry are exposed to labour-related risks and risks of protests/social issues with local communities, which could impact expansion/modernisation plans or disrupt regular operations. While these issues have not hindered KCL's expansion plans in the past, a lack of sensitivity in managing these risks could potentially result in cost overruns for its large medium-term capacity expansion plans. KCL also remains exposed to any major shift in consumer preferences, which are a key driver for demand, and may need to make material investments to realign its product portfolio accordingly.

## Liquidity position: Strong

KCL's liquidity remains strong, with positive cash flows from operations and supported by cash and liquid investments of ~Rs. 445 crore as on September 30, 2024 and undrawn fund-based working capital lines of ~Rs. 142 crore at a standalone level. Additionally, healthy accruals from the business, coupled with marginal debt obligations and favourable working capital cycle drive the company's strong financial profile. KCL's capex and investment plans are estimated at ~Rs. 225-275 crore per annum in FY2025-FY2026, which are expected to be largely funded through internal accruals. Further, its low gearing and healthy net worth provide it financial flexibility to raise additional debt in case of any adverse business scenario.

## Rating sensitivities

**Positive factors** – The ratings may be upgraded, if the company is able to exhibit a significant improvement in its scale of operations and profitability, on a sustained basis, while maintaining a comfortable working capital cycle and strong liquidity.

**Negative factors** – Pressure on KCL's ratings could arise if there is a material decline in its revenues or profitability, which impacts the debt protection metrics on a sustained basis. Further, any significant debt-funded capex/investments, impacting its leverage profile or debt coverage metrics, or any stretch in the working capital cycle that adversely impacts its liquidity position, on a prolonged basis, may lead to downward pressure on its ratings.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KCL. As on September 30, 2024, KCL had seven subsidiaries, two step-down subsidiaries and three joint ventures (JV) which are enlisted in Annexure-II.

## About the company

Kajaria Ceramics Limited (KCL) was incorporated in 1985 as a manufacturer of floor and wall tiles by Mr. Ashok Kajaria, in technical collaboration with Spain-based Todagres SA. It started operations in 1988, with a capacity of 1 million sq. metre (msm) per annum at its ceramic tiles manufacturing facility at Sikandrabad (Uttar Pradesh). Since then, the company has expanded its production capacities as well as product range. At present, it manufactures, outsources, and trades ceramic and vitrified tiles under the brand name Kajaria. In addition, KCL sells sanitaryware, marketed under the Kerovit brand. The company's manufacturing facilities are in Sikandrabad (Uttar Pradesh), Gailpur and Malootana (Rajasthan) and Srikalahasti (Andhra Pradesh), with an aggregate capacity of 67.12 msm. It also has facilities under various subsidiaries/joint ventures (at Morbi (Gujarat) and Balanagar (Telangana)), making the cumulative capacity 93.10 msm. Apart from tiles, KCL has a sanitaryware plant at Morbi, Gujarat, and a faucet manufacturing facility at Gailpur, Rajasthan, under the ownership of its step-down subsidiary Kajaria Bathware Pvt Ltd. The company went public in 1988 and is listed on the Bombay Stock Exchange (BSE) and the National Stock Exchange (NSE).

### Key financial indicators (audited)

KCL Consolidated	FY2023	FY2024	H1FY2025
Operating income (Rs. crore)	4,381.9	4,578.4	2,293.0
PAT (Rs. crore)	346.3	433.4	183.1
OPBDIT/OI (%)	13.5%	15.3%	14.2%
PAT/OI (%)	7.9%	9.5%	8.0%
Total outside liabilities/Tangible net worth (times)	0.4	0.3	0.3
Total debt/OPBDIT (times)	0.4	0.3	0.4
Interest coverage (times)	26.5	33.1	34.6

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
				Dec 18, 2024	Oct 30, 2024	Mar 12, 2024	Jun 13, 2023	Dec 09, 2022	Feb 11, 2022
1	Fund-based – Cash credit	Long-term	145.00	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Positive)
2	Fund-based – Bill discounting	Short term	-	-	-	-	-	-	[ICRA]A1+
3	Non-fund based	Short term	260.00	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated	Short term	-	-	-	-	-	-	[ICRA]A1+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based – Cash credit	Simple
Short-term – Non-fund based	Very 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	Fund-based-Cash credit	NA	NA	NA	145.00	[ICRA]AA(Stable)
NA	Non-fund based	NA	NA	NA	260.00	[ICRA]A1+

Source: Company

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**Annexure II: List of entities considered for consolidated analysis**

Company Name	KCL Ownership	Consolidation Approach
Kajaria Vitrified Pvt Ltd (formerly Jaxx Vitrified Pvt. Ltd.)	95%	Full Consolidation
Kajaria Infinity Pvt Ltd (formerly Cosa Ceramics Pvt. Ltd.)	85%	Full Consolidation
Kajaria Plywood Pvt Ltd	100%	Full Consolidation
South Asian Ceramics Tiles Pvt Ltd	60%	Full Consolidation
Kajaria Bathware Pvt Ltd (KBPL)	85%	Full Consolidation
Kajaria Sanitaryware Pvt Ltd (subsidiary of KBPL, Step-down subsidiary of KCL)	69%	Full Consolidation
Kerovit Global Pvt Ltd (subsidiary of of KBPL, Step-down subsidiary of KCL)	85%	Full Consolidation
Keronite Tiles Private Limited	90%	Full Consolidation
Kajaria International DMCC, Dubai	100%	Full Consolidation
Kajaria RMF Trading LLC	50%	Equity Method
Kajaria Ramesh Tiles Limited	50%	Equity Method
Kajaria UKP Limited	50%	Equity Method

Source: Company disclosures

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