

February 11, 2022

Kajaria Ceramics Limited: Ratings reaffirmed; outlook revised to Positive from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based - Cash Credit	70.0	70.0	[ICRA]AA reaffirmed; outlook revised to Positive from Stable
Fund based - Bill Discounting	100.0	50.0	[ICRA]A1+ reaffirmed
Non-fund based	40.0	90.0	[ICRA]A1+ reaffirmed
Unallocated	15.0	15.0	[ICRA]A1+ reaffirmed
Total	225.0	225.0	

*Instrument details are provided in Annexure-1

Rationale

The revision in the outlook to Positive reflects ICRA's expectation that the credit profile of Kajaria Ceramics Limited (KCL) will improve over the near term in the backdrop of improved scale of operations with over 20% revenue growth expected in FY2022e, its healthy profitability indicators and negative net debt position¹. The ratings favourably factor in the company's robust credit profile due to its limited reliance on external debt, resulting in a comfortable capital structure and robust debt protection metrics. Moreover, KCL's liquidity position remains strong, reflected in its cash and liquid investments of around Rs. 560 crore as on September 30, 2021, resulting in a negative net debt position. While the company has capex plans of more than Rs. 550 crore over FY2022-23, it is likely to maintain its net negative debt position going forward. The ratings continue to favourably factor in the long track record of operations, KCL's leadership position in the domestic tile market due to its well-recognised brand presence and the company's pan-India distribution network.

The ratings, however, remain constrained by the intense competition in the tiles industry due to the presence of other large and organised players, apart from numerous medium to small-scale tile manufacturers, along with the susceptibility of KCL's revenues and cash flows to the cyclical nature in the real estate industry, which is the major end-user of tiles. Further, the ratings factor in the vulnerability of the company's operations to the fluctuations in input prices amid intense competition. ICRA notes that gas prices have more than doubled in the last few quarters, which along with the increase in other input costs, is likely to result in a moderation of the operating margins by around 100-200 bps in the current fiscal. Nevertheless, KCL's operating margin is likely to remain healthy at ~17-18%. Given its leadership position in the domestic ceramic tiles industry and the relatively high share of retail sales, the company is better placed to pass on the hike in input prices to customers compared to other smaller and mid-sized players.

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 presence and pan-India distribution network. In terms of geographies, North India is the biggest market for the company, accounting for 40% of its revenues, followed by the South (30-35%), West (25-30%) and East (10%). Moreover, KCL has an established presence across both the retail and institutional segments, with retail constituting around 70-80% of the revenues. A steady retail demand and

¹ Negative Net Debt reflects higher cash and liquid investments compared to total debt of the company

increasing penetration in tier-II and tier-III markets have supported a ~42% YoY growth in the company's revenues in 9M FY2022.

Healthy growth in operating income and profitability - KCL has reported steady revenue growth over the years, aided by its established position in the Indian tiles industry and strong brand recognition. This has resulted in a sizeable scale of operations with revenues of Rs. 2,781 crore in FY2021 and Rs. 2,603 crore in 9M FY2022 at a consolidated level. Moreover, the company's operating profitability improved by 340 bps to 18.3% in FY2021, supported by moderate gas prices in FY2021, stabilisation/scale-up of the sanitaryware and plywood segment and other cost-control measures. Consequently, its return indicators stood healthy, with core RoCE at 23.5% in FY2021

Comfortable capital structure and strong debt protection metrics - Healthy accrual generation over the years has limited KCL's reliance on external debt for funding its capex requirements. This, coupled with a strong net worth base (Rs. 2,031 crore as on September 30, 2021), has resulted in a comfortable capital structure with gearing of 0.1 times as on September 30, 2021. Further, low debt levels and healthy profitability have resulted in strong debt protection metrics as reflected in total debt/OPBDITA of 0.2 times and interest coverage of 45.5 times as on September 30, 2021. Additionally, the company has around Rs. 560-crore of cash and liquid investments as on September 30, 2021, resulting in a net negative debt position. While KCL has capex and investment plans in excess of Rs. 550 crore over FY2022-23, the company is likely to continue maintaining its net negative debt position going forward.

Credit challenges

Vulnerability of profitability to changes in raw material and fuel prices - KCL's profitability remains vulnerable to any increase in the prices of raw materials and natural gas as these two components form a major part of the cost structure. ICRA notes that gas prices have more than doubled in the last few quarters, which along with an increase in other input costs, are likely to result in a moderation in the operating margins by around 100-200 bps in the current fiscal. Given its leadership position in the domestic tiles industry and the relatively higher share of retail sales, KCL is better placed to pass on the hike in input prices to customers compared to other smaller and mid-sized players. While the company has undertaken an average price revision of around 8% in 9M FY2022, its ability to fully pass on the rise in input cost in a timely manner amid intense industry competition will remain key for the margin to improve going forward.

Intense competition and cyclicity in real estate industry - Presence of large organised players and numerous mid to small-sized players along with high pace of capacity addition in the recent past has intensified competition in the tiles industry. Moreover, the real estate industry remains the major end-user of tiles and hence, KCL's revenues and cash flows remain vulnerable to the cyclicity in the end-user industry.

Liquidity position: Strong

KCL's liquidity profile remains strong with cash and liquid investments of Rs. 560 crore as on September 30, 2021. Moreover, the average utilisation of working capital limits stood at ~57% from October 2020 to November 2021 (on a standalone basis). While KCL has capex and investment plans in excess of Rs. 550 crore over FY2022-23, the company's liquidity is likely to remain healthy in the absence of any major debt repayments and healthy expected cash accruals.

Rating sensitivities

Positive factors - The rating may be upgraded if the company is able to exhibit a higher-than-expected improvement in its scale of operations while maintaining profitability, working capital cycle and strong liquidity on a sustained basis.

Negative factors - Negative pressure on KCL's rating could arise if the revenue or profitability declines, causing the core RoCE to fall below 20% on a sustained basis. Further, any significant debt-funded capex/investments which impacts its leverage profile or debt coverage metrics, or any stretch in the working capital cycle that adversely impacts its liquidity position, may lead to a downward pressure on the company's ratings.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	ICRA has considered the consolidated financials of KCL. As on December 31, 2021, KCL had five subsidiaries and one step-down subsidiary (as per Annexure - 2)

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 Todagres SA, Spain. It started its operations in 1988 with a capacity of 1 million sq. metre (msm) per annum at its ceramic tiles manufacturing facility at Sikanderabad (Uttar Pradesh). Since then, the company has expanded its production capacities as well as product range. At present, the company manufactures, outsources and trades ceramic and vitrified tiles under its brand name, Kajaria. In addition, KCL sells sanitaryware marketed under the Kerovit brand. The company's manufacturing facilities are at Sikanderabad (Uttar Pradesh), Gailpur and Malootana (Rajasthan) and Srikalahasti (Andhra Pradesh) and have an aggregate capacity of 54.2 msm. In addition, the company has 16.2 msm capacity under various subsidiaries/joint ventures, which takes the cumulative capacity to 70.4 msm. Apart from tiles, KCL has a sanitaryware plant at Morbi, Gujarat, and a faucet manufacturing facility at Gailpur, Rajasthan, under its step-down subsidiary Kajaria Bathware Pvt Ltd.

Key financial indicators (audited) - Standalone

Standalone	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	2,571.8	2,523.2	2,312.4
PAT (Rs. crore)	278.8	301.8	264.7
OPBDIT/OI (%)	14.7%	17.2%	16.7%
PAT/OI (%)	10.8%	12.0%	11.4%
Total Outside Liabilities/Tangible Net Worth (times)	0.3	0.2	-
Total Debt/OPBDIT (times)	0.2	0.1	-
Interest Coverage (times)	44.3	86.0	97.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Limited Review

Key financial indicators (audited) - Consolidated

Consolidated	FY2020	FY2021	9M FY2022*
Operating Income (Rs. crore)	2,808.0	2,780.9	2,603.4
PAT (Rs. crore)	253.5	308.9	285.5
OPBDIT/OI (%)	14.9%	18.3%	17.1%
PAT/OI (%)	9.0%	11.1%	11.0%
Total Outside Liabilities/Tangible Net Worth (times)	0.4	0.3	-
Total Debt/OPBDIT (times)	0.4	0.2	-
Interest Coverage (times)	21.4	47.5	50.8

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; *Limited Review

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Sep 30, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019	
				Feb 11, 2022	Nov 27, 2020	Jan 27, 2020	Jan 2, 2019	
1 Fund based - Cash Credit	Long-term	70.0	NA	[ICRA]AA (Positive)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	
2 Fund based - Bill Discounting	Short-term	50.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-	
3 Non-fund based	Short-term	90.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	
4 Unallocated	Short-term	15.0	NA	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	

Amount in Rs. crore

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund based - Cash Credit	Simple
Short-term Fund based - Bill Discounting	Very Simple
Short-term Non-fund based	Very Simple
Short-term Unallocated	Not applicable

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: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based - Cash Credit	NA	NA	NA	70.0	[ICRA]AA (Positive)
NA	Fund based - Bill Discounting	NA	NA	NA	50.0	[ICRA]A1+
NA	Non-fund based	NA	NA	NA	90.0	[ICRA]A1+
NA	Unallocated	NA	NA	NA	15.0	[ICRA]A1+

Source: Kajaria Ceramics Limited

Annexure-2: List of entities considered for consolidated analysis

Company	Ownership	Consolidation Approach
Jaxx Vitrified Pvt Ltd	87%	Full Consolidation
Cosa Ceramics Pvt Ltd*	51%	Full Consolidation
Vennar Ceramics Ltd	51%	Full Consolidation
Kajaria Bathware Pvt Ltd	85%	Full Consolidation
Kajaria Plywood Pvt Ltd	98%	Full Consolidation
Kajaria Sanitaryware Pvt Ltd	100% (Step-down subsidiary)	Full Consolidation

*KCL has proposed to increase its stake in Cosa Ceramics Pvt Ltd to 77% from 51% at present

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