January 27, 2020

Kajaria Ceramics Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits - Cash Credit	70.0	70.0	[ICRA]AA (Stable); reaffirmed
Fund-based Limits - Bill Discounting	-	125.0	[ICRA]A1+; reaffirmed
Non-fund Based Limits	175.5	55.5	[ICRA]A1+; reaffirmed
Unallocated	54.5	49.5	[ICRA]A1+; reaffirmed
Total	**300.0**	**300.0**	

**Instrument details are provided in Annexure-1*

Rationale

The rating continues to take into account Kajaria Ceramics Limited's (KCL) established position in the domestic tiles market with a long track record of operations, well-recognised brand, significant manufacturing presence, pan-India distribution reach and a well-diversified customer base with presence across both retail and institutional segments. KCL continues to be the largest player in the organised segment of the Indian tiles industry and has reported steady revenue growth (CAGR of 8% from FY2015-FY2019), which has resulted in a sizeable scale of operations (revenues of Rs. 2,956 crore in FY2019). Further, KCL's reliance on external debt has remained limited, aided by strong internal accrual generation over the years for funding its capital investment and working capital requirements. This coupled with a strong net worth base (Rs. 1,575 crore as on March 31, 2019) has resulted in a comfortable capital structure with gearing of 0.07 times as on March 31, 2019. Moreover, healthy profitability coupled with relatively low debt levels has resulted in robust debt protection metrics as reflected by total debt/OPBDITA of 0.26 times and interest coverage of 29.2 times as on March 31, 2019. The ratings also factor in KCL's strong liquidity position marked by steady cash flow generation from business along with healthy surplus cash balances of Rs. 187 crore as on March 31, 2019.

At the same time, ICRA takes note of the intense competition in the tiles industry, marked by both large and organised players as well as numerous small-scale tile manufacturers. Intense competition in the backdrop of muted end-user demand, has limited KCL's ability to pass on the increase in input costs to customers, which is reflected in the decline in its average realisations and operating margins over the last two years. Going forward as well, the company's profitability is expected to remain vulnerable to an increase in input costs, especially given the present sluggish demand scenario, which has restricted its ability to pass on the price increase. Further, KCL's operations remain susceptible to muted growth prospects of the real estate industry.

Notwithstanding the stiff competition in the industry, the recent regulatory developments such as the ban by National Green Tribunal (NGT) on captive coal gasifier plants in the Morbi region along with stricter implementation of GST/e-way bill are expected to increase compliance costs for unorganised players. These augur well for the demand prospects of organised players like KCL.

The Stable outlook on the [ICRA]AA rating reflects ICRA's expectation that KCL will continue to benefit from its established position as a market leader in the Indian domestic tiles industry, its strong brand recognition and pan-India distribution reach, which is expected to aid its revenue growth. Further, the company's financial profile is expected to remain comfortable, marked by low leverage, robust debt protection metrics and strong liquidity position.

Key rating drivers

Credit strengths

Leading position in domestic tiles market; well-recognised brand with pan-India presence in distribution and manufacturing - KCL is the largest player in the domestic tiles industry, with over three-decade-long track record of operations, well-recognised brand and pan-India distribution reach. The company has widespread distribution network comprising around 5,000 touch points, including dealers, sub-dealers and franchisee-managed showrooms/display centres. With presence across multiple price points and products, significant distribution reach as well as strong brand recognition, the company has been able to maintain a leading position in the tiles industry.

Large scale of operations with well-diversified customer base - 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 sizeable scale of operations for the company with revenues of Rs. 2,956 crore in FY2019. Moreover, KCL has a well-diversified customer base with established presence across both retail and institutional segments, with retail constituting around 70% of the revenues.

Comfortable capital structure and strong debt protection metrics - Strong internal 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. 1,575 crore as on March 31, 2019) has resulted in a comfortable capital structure with gearing of 0.07 times as on March 31, 2019. Further, low debt levels and healthy profitability have resulted in strong debt protection metrics as reflected by total debt/OPBDITA of 0.26 times and interest coverage of 29.2 times as on March 31, 2019.

Strong liquidity position with sizeable surplus cash balances - Given the robust growth in KCL's turnover, healthy profitability levels, modest working capital intensity and relatively low debt repayment obligations, its liquidity position has remained strong. This is further supported by surplus cash balances to the tune of Rs. 187 crore as of March 31, 2019.

Favourable demand prospects for organised tile manufacturers following stricter regulatory requirements - The tiles industry is characterised by significant presence of the unorganised sector that has kept the competition in the industry high. However, the recent regulatory developments, including the ban on captive coal gasifier plants in the Morbi region by NGT in March 2019 and stricter implementation of GST/e-way bill, are expected to increase the compliance costs for unorganised players and augur well for the demand prospects of organised players like KCL.

Credit challenges

Exposure to intense competition leads to pricing pressures - Presence of large organised players and numerous small-sized players along with high pace of capacity additions in the recent past, has intensified competition in the tiles industry. This, coupled with subdued demand scenario has resulted in pricing pressures for various players, including KCL, which is reflected in the decline in its realisations over the last two years.

Vulnerability of profitability to changes in raw material and fuel prices - KCL's profitability continues to be vulnerable to any increase in the prices of raw materials and natural gas as the combination of these two categories forms a major part of the cost structure. Given the low prevailing demand from end-user segment, KCL may not be able to fully pass on the increase in input prices, which may impact its profitability, as witnessed over the last two years.

Liquidity position

KCL's liquidity profile remains **strong,** as evident from free cash balance of Rs. 187 crore as on March 31, 2019. Moreover, over the last 12 months, KCL has maintained an average utilisation of 15% of its fund-based sanctioned limits with cushion of Rs. 60 crore with respect to the sanctioned limits (on standalone basis). The company has annual debt repayment commitments to the tune of Rs. 10-25 crore each year over the next three years, which are expected to be comfortably met through its internal accruals.

Rating sensitivities

Positive triggers: An upward movement in rating could happen if the company demonstrates higher-than-anticipated improvement in scale of operations along with significant improvement in its operating profitability on a sustained basis, while maintaining its strong liquidity profile and low leverage and if there is significant improvement in business outlook for the tiles industry on a sustained basis.

Negative triggers: Negative pressures on KCL's rating could arise if there is deterioration in its financial metrics, including muted/negative revenue growth, decline in profitability (Core RoCE falling below 20% on a sustained basis), any significant debt-funded capex/investments that impacts its leverage profile and debt coverage metrics or any stretch in its receivables cycle leading to increase in working capital cycle that adversely impacts its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	[Corporate Credit Rating Methodology](#)
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of KCL; As on March 31, 2019, the company had six subsidiaries and one step-down subsidiary, that are enlisted in Annexure-2

About the company

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 sqm (MSM) per annum at its ceramic tiles manufacturing facility at Sikanderabad (UP). 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 in-house manufacturing facilities are located at Sikanderabad (UP), Gailpur (Rajasthan) and Malootana (Rajasthan), and have an aggregate capacity of 49.2 msm. In addition, the company has 23.8 msm capacity under various subsidiaries/joint ventures, which takes the cumulative capacity to 73 msm.

Apart from tiles, KCL has a sanitaryware plant in Morbi, Gujarat and a faucet manufacturing facility in Gailpur, Rajasthan under its step-down subsidiary Kajaria Bathware Pvt. Ltd. The capacity of the sanitaryware plant is 7.5 lakh pieces and that of the faucet plant is 1 million pieces.

For FY2019, the company reported a net profit of Rs. 228.8 crore on an OI of Rs. 2,956.2 crore against a net profit of Rs. 228.6 crore on an OI of Rs. 2,710.6 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	2,710.6	2,956.2
PAT (Rs. crore)	228.6	228.8
OPBDIT/ OI (%)	16.9%	15.4%
RoCE (%)	23.4%	21.7%
Total Outside Liabilities/Tangible Net Worth (times)	0.5	0.4
Total Debt/OPBDITA (times)	0.4	0.3
Interest Coverage (times)	19.0	29.2
DSCR	5.1	6.5

Source: *KCL*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)				Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Rating 27 Jan 2020	FY2019 02 Jan 2019	FY2018 24 Nov 2017	FY2017 30 Jan 2017
1	Fund based limits	Long Term	70.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Fund based limits	Short Term	125.0	-	[ICRA]A1+	-	-	-
3	Non-fund based limits	Short Term	55.5	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
4	Unallocated limits	Short term	49.5		[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the 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 limits	-	-	-	70.0	[ICRA]AA(Stable)
NA	Fund based limits	-	-	-	125.0	[ICRA]A1+
NA	Non-fund based limits	-	-	-	55.5	[ICRA]A1+
NA	Unallocated limits	-	-	-	49.5	[ICRA]A1+

Source: KCL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Jaxx Vitrified Private Limited	82.37%	Full Consolidation
Vennar Ceramics Limited	51.00%	Full Consolidation
Cosa Ceramics Private Limited	51.00%	Full Consolidation
Kajaria Tiles Private Limited*	100.00%	Full Consolidation
Kajaria Bathware Private Limited	85.00%	Full Consolidation
Kajaria Plywood Private Limited	96.25%	Full Consolidation
Kajaria Sanitaryware Private Limited	69.70%	Full Consolidation

*Source: KCL,*formerly Kajaria Floera Ceramics Private Limited*

ANALYST CONTACTS

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Anupama Arora
+91-124-4545303
anupama@icraindia.com

Rajat Jain
+91-124-4545844
rajat.jain@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
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Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 2556 0194/ 6606 9999