

November 24, 2017

Kajaria Ceramics Ltd.

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Fund-based Limits	50.00	[ICRA]AA (Stable) reaffirmed
Non-fund based Limits	125.00	[ICRA]A1+ reaffirmed
Unallocated	125.00 (enhanced from 30.00)	[ICRA]A1+ reaffirmed
Short Term Loan	0.00 (revised from 20.00)	-

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed ratings of [ICRA]AA (pronounced ICRA double A)¹ on the Rs. 50-crore fund-based limits and [ICRA]A1+ (pronounced ICRA A one plus) on the Rs.125-crore non-fund based limits and Rs. 125 crore unallocated limits of Kajaria Ceramics Ltd. (Kajaria). The outlook on the long term rating is Stable.

Rationale

The rating action factors in Kajaria's dominant position in the Indian tile industry and the healthy scale-up of its operations over the past few years. The company's operating income (OI) on a standalone basis over the period from 2011–2012 to 2015–2017 has increased at an annual CAGR of ~14%. Over the mentioned time period, the company's financial profile has strengthened as reflected by improvement in profitability margins, growth in return indicators, deleveraging of capital structure and strengthening of coverage indicators and debt-protection metrics. One of the reasons for improvement in profitability margins has been the declining share of outsourcing (non-JV) sale in the overall sales mix of the company.

The ratings continue to factor in the extensive experience of the promoters in the ceramic tile industry and Kajaria's established brand and strong market presence. Over the last few years, Kajaria has undertaken capacity expansions, both in-house as well as under joint ventures (JVs), wherein the investments have been funded primarily through internal cash accruals. Over the last few years, Kajaria has made acquisitions in Gujarat and Andhra Pradesh that have increased its installed capacity on a consolidated basis and improved its access to western and southern regions of the country. In H1 FY2018, the company has even commenced operations at its 3.5 MSM (million sq meter) vitrified tile greenfield facility at Gailpur, Rajasthan taking the standalone capacity of the company to 45.9 MSM. Along with this, the company has an installed capacity of 22.5 MSM under various JVs.

Over the last 12 months, the gas prices along with raw material prices have witnessed a significant increase. However, owing to the company's strong brand name and dominant position in the tile industry, the realisations have improved, thereby absorbing a large portion of the increase in direct costs. The ratings continue to be supported by the company's widespread distribution network.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

However, the ratings remain constrained by the competitive nature of tile industry, which has witnessed some moderation in overall growth over the last couple of years. Kajaria's profitability continues to be vulnerable to increase in the prices of raw materials and fuel as the combination of these two categories forms a major part of the cost structure.

Going forward, the OI of the company is expected to witness moderate growth and profitability margins are expected to remain in line with the previous years. No further capacity additions are envisaged at the standalone level. However, Kajaria may need to infuse funds to support some of its subsidiaries/JVs. The ability of the company to increase its market share and maintain a healthy financial profile would be the key rating sensitivities.

Key rating drivers

Credit strengths

- **Established presence and extensive experience of promoters in the tile industry** - Kajaria was incorporated in 1985 and its promoters have an experience of over three decades in the Indian tile industry. The well-established track record of the promoters has helped the company grow significantly as reflected by Kajaria's installed capacity of 45.9 MSM on a standalone basis and 68.4 MSM on a consolidated basis.
- **Established brand and strong presence in the Indian tile industry** - Kajaria is the largest player in the Indian tile industry and accounts for approximately 10% of the Indian tile market, wherein the share of the organised players is expected to be close to 50%. The company also enjoys a widespread distribution network, which enhances its market presence.
- **Robust realisations have aided in maintaining healthy profitability margins** - Despite the increase in gas and raw material prices, Kajaria has been able to maintain healthy profitability margins. This is because it has been able to pass on the increase in these cost heads to a certain extent by improving its realisations.
- **Strong financial profile** - Kajaria's financial profile is characterised by healthy growth in OI, high profitability margins, comfortable capital structure and strong debt-protection metrics. Despite significant capacity addition over the last few years, the capital structure has improved as Kajaria has funded a major proportion of its requirements through internal accruals and has relied on external debt to a very limited extent (mainly in JVs). As a result, the debt outstanding of its books remains very small in comparison to its net worth.

Credit weaknesses

- **Exposure to intense competition** - The tile industry continues to remain competitive with presence of numerous un-organised players and several large players in the organised segment. Moderation in demand, especially from the real estate companies, may result in pricing pressure and low offtake for various manufacturers, including Kajaria.
- **Vulnerability of profitability to changes in raw material and fuel prices** - Kajaria's profitability continues to be vulnerable to any increase in the prices of raw materials and fuels as the combination of these two categories forms a major part of the cost structure. However, in the past Kajaria has been able to pass on any increase in raw material and power and fuel costs to its customers as reflected by growth in realisations.

Analytical approach

For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

[Corporate Credit Ratings: A Note on Methodology](#)

About the company

Kajaria was incorporated in 1985 as a manufacturer and trader of ceramic tiles by Mr. Ashok Kajaria in technical collaboration with Todagres SA, Spain. The company started operations in 1988 with a capacity of 1 MSM per annum at its ceramic tiles manufacturing facility at Sikanderabad (District Bulandshahr), UP. Since then, the company has extended production capacities as well as the product range. It is mainly involved in manufacturing ceramic glazed wall and floor tiles and vitrified tiles. It also imports vitrified tiles from China and various high-end tiles from leading European brands, which are marketed under the brand name of Kajaria. The manufacturing facilities of the company are located in Sikanderabad (Uttar Pradesh), Gailpur (Rajasthan) and Malootana (Rajasthan) apart from five manufacturing facilities (JVs) of ceramic and vitrified tiles in Gujarat and one facility (JV) in Andhra Pradesh. Kajaria has a majority stake in each of these entities. With these acquisitions and expansions carried out both in-house and through subsidiaries, the total tile manufacturing capacity of the company has increased to 68.4 MSM on a consolidated basis.

Key financial indicators (Standalone)

Particulars	FY2016	FY2017
Operating Income (Rs. crore)	2443.0	2527.9
Net Profit (Rs. crore)	237.0	270.0
OPBITDA/OI (%)	15.9%	17.5%
RoCE (%)	37.30%	34.84%
Total Debt / Tangible Net worth (times)	0.05	0.01
Total Debt / OPBITDA (times)	0.11	0.02
Interest Coverage (times)	57.7	125.0
NWC/OI (%)	8%	11%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);

NWC: Net Working Capital

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable

**Rating history for last three years
Table**

S. No.	Name of Instrument	Current Rating (FY2018)			Chronology of Rating History for the past 3 years		
		Type	Amount rated (Rs. crore)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
1	Fund based bank limits	Long Term		November 2017	January 2017	January 2017	November 2014
			50.0	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA-(Stable)
2	Non fund based limits	Short Term	250.0	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Short term loan	Short Term			[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

Name of the instrument	Date of Issuance/ Sanction	Coupon rate	Maturity Date	Size of the issue (Rs. crore)	Current Rating and Outlook
Fund-based Limits				50.0	[ICRA]AA(Stable)
Non-fund Based Limits				250.0	[ICRA]A1+

Source: Kajaria

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