

Kajaria Ceramics Limited

January 02, 2019

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits - Cash Credit	50.0	70.0	[ICRA]AA (Stable) reaffirmed
Non-fund Based Limits	125.0	175.5	[ICRA]A1+ reaffirmed
Unallocated	125.0	54.5	[ICRA]A1+ reaffirmed
Total	300.0	300.0	

Rationale

The ratings reaffirmation takes into account Kajaria Ceramics Limited's (Kajaria) 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 consolidated basis over FY2013–FY2018 has increased at an annual CAGR of ~11%. Over the mentioned period, its financial profile has strengthened as reflected by an increase in cash accruals, sustainability of profitability margins, return indicators, deleveraging of capital structure and strengthening of coverage indicators and debt-protection metrics. However, the profitability margins declined in FY2018 and H1 FY2019 because of an increase in raw material and gas costs, which were not passed onto the consumers as average realisations remained flat. The company could not increase its realisations because of various factors such as dampened consumer sentiment with promulgation of GST resulting in postponement of sales, overcapacity in certain pockets, especially in the vitrified tile segment, floods in Kerala which is a key end-user market impacting consumer demand in YTD FY2019 etc.

The ratings continue to factor in the extensive experience of the promoters in the ceramic tile industry and Kajaria's established brand, widespread dealership network and strong market presence. ICRA also takes into account the high capacity utilisation levels of the company, the increasing share of its manufacturing sales in the overall sales which has been primarily driven by an increase in in-house installed capacity and reduction in capacities under subsidiaries. ICRA notes that Kajaria has divested its stake in a couple of subsidiaries (Taurus Tiles and Soriso Ceramics). In spite of this exit, its installed capacity stands at 68 million square meters (MSM), comprising own capacity of 49.2 MSM and capacity under subsidiaries of 18.8 MSM.

However, the ratings remain constrained by the highly competitive nature of the tile industry, marked by both large and organised players as well as numerous small-scale tile manufacturers (mostly in and around Morbi, which operate with a leaner cost structure). Intense competition and oversupply have resulted in continued pressure on tile realisation in the last few quarters. This has increased Kajaria's vulnerability to an increase in input costs as its ability to pass on the same to customers is limited, given the present market dynamics. Given the rising input costs and modest demand outlook, revenue growth and profitability will be key monitorables going forward.

Outlook: Stable

A Stable outlook reflects ICRA's expectation that Kajaria will continue to report steady operational and financial performance. The company is likely to include an additional capacity of 5 MSM (expected to be commissioned in FY2020) in Andhra Pradesh in one of its subsidiaries. It is also expected to increase its presence in the faucets, sanitaryware and plywood segments going forward. The outlook may be revised to Positive in case of an improvement in demand from the real estate segment, market share gains and sustainable improvement in profitability. The outlook may be revised to Negative in case the market share declines, and there is an adverse movement in profitability and working capital cycle.

Key rating drivers

Credit strengths

Established presence and extensive experience of promoters in tile industry - Kajaria was incorporated in 1985 and its promoters have more than four decades of experience and the management includes personnel with extensive experience in the tile industry.

Manufacturing facilities spread in West, North and South India - Kajaria has a total of nine manufacturing plants in the country, comprising seven tile plants, one faucet plant and one sanitaryware plant. The overall tile manufacturing capacity of Kajaria is 68 MSM, out of which 49.2 MSM is its own capacity and 18.8 MSM is under subsidiaries. Kajaria's own manufacturing units are located at Sikandrabad (UP), Gailpur (Rajasthan) and Malootana (Rajasthan), whereas the subsidiary facilities are located in Morbi (Gujarat) and Vijaywada (Andhra Pradesh). Kajaria also has a sanitaryware plant (6 lakh capacity) in Morbi, Gujarat and a faucet manufacturing facility (1 million capacity) in Gailpur, Rajasthan.

Established brand and strong presence in the Indian tile industry - Kajaria is the largest player in the Indian tile industry and accounts for approximately 11-12% of the Indian tile market, wherein the share of the organised players is close to 50%. The company also enjoys a widespread distribution network, which enhances its market presence.

High capacity utilisation levels and increasing share of manufacturing sales in overall sales – The overall capacity utilisation level for the company remains high at around 90-95%, which results in higher efficiency. The share of manufacturing sales in overall sales for Kajaria has been increasing, primarily driven by an increase in in-house installed capacity and reduction in capacities under subsidiaries. Kajaria has divested its stake in a couple of subsidiaries (Taurus Tiles and Soriso Ceramics), which has resulted in a reduction in the share of subsidiary sales.

Strong financial profile - Kajaria's financial profile is characterised by healthy OI growth, 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 subsidiaries). As a result, the debt outstanding of its books remains much less than its net worth.

Credit challenges

Exposure to intense competition - The tile industry remains competitive with the presence of numerous unorganised 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. Previously, Kajaria used to pass on any increase in raw material and power and fuel costs to its customers. However, owing to the dampened consumer sentiment over the last 12-18 months, it was unable to pass on the increase to its customers, which in turn deteriorated its profitability margins.

Liquidity position

The robust liquidity profile of the company is reflected by the presence of surplus cash as on H1 FY2019 and availability of working capital limits which have adequate cushion. The net debt of the company in H1 FY2019 was negative as reflected by cash balances of Rs. 164 crore and overall debt of Rs. 125 crore. Going forward, the company does not

envisage any debt-funded capex and its free cash flows are expected to be adequate to service debt obligations. However, the company envisages a capex of Rs. 100 crore, which would be mostly utilised for setting up a 5-MSM capacity in Andhra Pradesh. This capex is expected to be funded through internal accruals.

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 Kajaria Ceramics Limited; as on March 31, 2018 the company had six subsidiaries and one step-down subsidiary (Details in Annexure -2)

About the company

Kajaria was incorporated in 1985 and manufactures and markets floor and wall tiles (under its brand name Kajaria). It also sells sanitaryware products and faucets under its brand Kerovit. The company is one of the leading floor and wall tile manufacturers in India. Kajaria was promoted by Mr. Ashok Kajaria in technical collaboration with Todagres SA, Spain and started its operations in 1988 with a capacity of 1 MSM per annum at its ceramic tiles manufacturing facility at Sikandrabad, UP. The present capacity of this unit is 8.4 MSM. Later, the company set up a wall tiles manufacturing plant in Gailpur (Rajasthan) in 1998 with a capacity of 6 MSM per annum. The present capacity of this Gailpur unit is 34.3 MSM. The company also has one other plant in Malootana, Rajasthan, which commenced operations in FY2016 and has a capacity of 6.5 MSM. Thus, the aggregate capacity of own plants of Kajaria is 49.2 MSM. The company also has 18.8 MSM capacity under various subsidiaries/joint ventures, taking the cumulative capacity to 68 MSM.

Key financial indicators (Consolidated, Audited)

	FY2016	FY2017	FY2018	H1 FY2019*
Operating Income (Rs. crore)	2413.5	2549.6	2710.6	1382.3
PAT (Rs. crore)	236.1	253.8	228.6	96.0
OPBDIT/OI (%)	19.2%	19.6%	16.9%	14.9%
RoCE (%)	32.1%	28.8%	23.4%	19.3%
Total Debt/TNW (times)	0.28	0.17	0.12	0.08
Total Debt/OPBDIT (times)	0.63	0.43	0.37	0.30
Interest Coverage (times)	13.43	14.71	18.98	23.67

*Unaudited

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

S. No.	Name of Instrument	Type	Rated amount (Rs. crore)	Amount Outstanding (Rs. crore)	Current Rating Month - year & rating In FY2019	Chronology of Rating History for the past 3 years		
						Month - year & Rating in FY2018	Month - year & Rating in FY2017	Month - year & Rating in FY2016
					Jan-19	Nov-17	Jan-17	Jan-16
1	Fund-based Bank Facilities	Long Term	70.0	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)
2	Non-fund Based Bank Facilities	Short term	175.5	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+
3	Unallocated	Short term	54.5	-	[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 Bank Facilities	-	-	-	70	[ICRA]AA (Stable)
NA	Non-fund Based Limits	-	-	-	175.5	[ICRA]A1+
NA	Non-fund Based Bank Facilities	-	-	-	54.5	[ICRA]A1+

Source: Kajaria

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Soriso Ceramic Private Limited	51%	Full Consolidation
Jaxx Vitrified Private Limited	82%	Full Consolidation
Vennar Ceramics Limited	51%	Full Consolidation
Cosa Ceramics Private Limited	51%	Full Consolidation
Kajaria Floera Ceramics Private Limited	70%	Full Consolidation
Kajaria Bathware Private Limited	100%	Full Consolidation
Kajaria Sanitaryware Private Limited*	82%	Full Consolidation

*Step-down subsidiary

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