March 12, 2024

Kajaria Ceramics Limited: Ratings reaffirmed; rated amount enhanced

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	160.00	[ICRA]AA(Stable) reaffirmed
Short-term - Non-fund based limits	255.00	330.00	[ICRA]A1+ reaffirmed/assigned for enhanced amount
Total	**415.00**	**490.00**	

**Instrument details are provided in Annexure-I*

Rationale

The reaffirmed ratings factor in Kajaria Ceramics Limited's (KCL) leadership position in the domestic 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. ICRA notes that despite sluggish demand the company witnessed a 5% YoY revenue growth in 9M FY2024. Moreover, moderation in gas prices led to a 270-bps recovery in its operating margins to 15.8%. Going forward, the operating margins are expected to sustain at around 15-16% in FY2025e, while the company's revenue growth will be supported by the ramp-up of enhanced capacities [~5 MSM capacity operationalised in YTD FY2024 and ~10-11 MSM (including JVs) planned to be made operational in FY2025], coupled with continued traction in the real estate sector and reconstruction/renovation demand from Tier-II and III cities.

The ratings continue to reflect KCL's large scale of operations 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. 500 crore as on September 30, 2023, resulting in a negative net-debt position. While the company is expected to continue investing in capacity expansions through organic and inorganic means, ICRA expects it to maintain a net-negative debt position over the medium term.

The strength of the ratings is partially offset by the intense competition in the tiles industry and the susceptibility of KCL's revenues and cash flows to the cyclicality 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, making its profitability margins volatile.

Nonetheless, owing to a strong market position, ICRA believes that the company is better placed to pass on the increased input prices to customers compared to other smaller and mid-sized players, given its leadership position in the domestic ceramic tiles industry and the relatively higher share of retail sales. The decline in exports of ceramics tiles, particularly by unorganised players in H2 FY2024 due to the Red-sea crisis, may create an oversupply situation in the domestic market and lead to pricing pressure in the near-term (partly reflected in decline in average realisations in YTD FY2024).

The Stable outlook on the long-term rating reflects ICRA's expectations that KCL will likely sustain its operating metrics even as revenue growth may moderate. Further, the outlook underlines ICRA's expectation that the entity will fund its incremental capex and investments to further expand its capacity in a manner that allows it to maintain low leverage and robust debt protection metrics, commensurate with the existing rating.

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 with 400 exclusive showrooms). 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.

Sizeable scale of operations with healthy return indicators: KCL 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 sizeable scale of operations with revenues increasing to Rs. 4,381.9 crore in FY2023 (+18% YoY) at a consolidated level. ICRA notes that despite sluggish demand, the company reported a 5% YoY revenue growth in 9M FY2024. Additionally, moderation in gas prices aided the improvement in its profit margin to 15.8% from 13.1% in 9M FY2023. KCL's return indicators stood healthy, with the core RoCE at 23.9% in FY2023 and 25.7% in H1 FY2024, expected to remain above 20% in FY2024-25. Overall, the company continues to maintain a strong financial risk profile.

Comfortable capital structure and strong debt protection metrics: Healthy accrual generation over the years limited KCL's reliance on external debt to fund its capex requirements. This, coupled with a strong net worth base (Rs. 2,503.0 crore as on September 30, 2023), resulted in a comfortable capital structure with a gearing of 0.1 times as on September 30, 2023. Further, the low debt levels led to strong debt protection metrics as reflected in the total debt/OPBDITA of 0.2 times and interest coverage of 36.6 times as on September 30, 2023 (interest cover of 36.4 times as on December 31, 2023). Additionally, it had a healthy cash surplus as on December 31, 2023, resulting in a net negative debt position. Going forward, while KCL is expected to continue augmenting its capacity, organically and inorganically (through investments in JVs), ICRA expects the company to continue maintaining 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 increase in prices of raw materials and natural gas, as these two components form a major part of the cost structure. ICRA notes that gas prices escalated sharply in H1 FY2023 (before easing in H2), which along with an increase in other input costs, resulted in a moderation in the company's operating margins to 13.5% before improving to 15.8% in 9M FY2024. Given the decline in unit realisations (due to subdued domestic demand) and increase in gas prices (since August-September 2023), there may be some moderation in operating margins over the next few quarters. However, given its leadership position in the domestic tiles industry and relatively higher share of retail sales, KCL has been better placed to pass on the hikes in input prices to customers, compared to other smaller and mid-sized players. Consequently, margins are expected to remain in the range of 14%-16% in FY2024-25. Going forward, KCL's continued ability to fully and timely pass on the rise in input costs to its customers, amid intense industry competition, will remain the key for its margin improvement.

Intense competition from other organised and unorganised players; cyclicality in real estate industry: The presence of a few large, organised and numerous mid-to small-sized players, along with high-paced capacity additions in the recent past, has intensified the competition in the tiles industry. Moreover, the real estate industry remains the major end-user, and hence, KCL's revenues and cash flows remain vulnerable to the cyclicality of the end-user industry.

Environmental and social risk

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 FY2023, 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 FY2023. Nonetheless, KCL's cash flows remain exposed to increasing investment requirements to comply with stringent pollution norms.

Social considerations - Social risks in the industry stem from the health and safety concerns of 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 is strong, which is evident from cash and liquid investments of ~Rs. 500 crore as on September 30, 2023 and undrawn fund-based working capital lines of ~Rs. 135 crore at a standalone level. ICRA notes that most of these surplus investments is parked in fixed deposits with reputed and financially strong banks. Additionally, healthy accruals from the business, coupled with negligible debt obligations and favourable working capital cycle, drive the company's strong financial profile. KCL's capex and investment plans are estimated at ~Rs. 200-250 crore over FY2025, which are expected to be largely funded through internal accruals. Further, its low gearing and healthy net worth support its 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 any 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 the revenue or profitability declines, causing the core RoCE to fall below 20% 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, may lead to a downward trigger on the company's ratings.

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 December 31, 2023, KCL had six 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 86.47 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	FY2022	FY2023	9M FY2024
Operating income	3,705.2	4,381.9	3,337.6
PAT	382.7	346.3	336.5
OPBDIT/OI	16.5%	13.5%	15.8%
PAT/OI	10.3%	7.9%	10.1%
Total outside liabilities/Tangible net worth (times)	0.4	0.4	-
Total debt/OPBDIT (times)	0.3	0.4	-
Interest coverage (times)	48.0	26.5	36.4

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 (FY2024)					Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Mar 12, 2024	Jun 13, 2023	Dec 09, 2022	Feb 11, 2022	Nov 27, 2020
1	**Fund-based – Cash credit**	Long-term	160.0	5.40	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Stable)**	**[ICRA]AA (Positive)**	**[ICRA]AA (Stable)**
2	**Fund-based – Bill discounting**	Short term	-	NA	-	-	-	**[ICRA]A1+**	**[ICRA]A1+**
3	**Non-fund based**	Short term	330.0	NA	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**	**[ICRA]A1+**
4	**Unallocated**	Short term	-	NA	-	-	-	**[ICRA]A1+**	**[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	160.00	[ICRA]AA(Stable)
NA	Non fund based	NA	NA	NA	330.00	[ICRA]A1+

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA]

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.)	81%	Full Consolidation
Kajaria Plywood Pvt Ltd	100%	Full Consolidation
Kajaria International DMCC, Dubai	100%	Full Consolidation
South Asian Ceramic Tiles Private Limited	51%	Full Consolidation
Kajaria Bathware Private Limited	85%	Full Consolidation
Kajaria Sanitaryware Private Limited	100% (Step-down subsidiary)	Full Consolidation
Kerovit Global Private Limited	100% (Step-down subsidiary)	Full Consolidation
Kajaria RMF Trading LLC	50%	Equity Method
Kajaria Ramesh Tiles Limited	50%	Equity Method
Kajaria UKP Limited*	50%	Equity Method

*Source: Company Results 9M FY2024/ Stock exchange filings *w.e.f. November 08, 2023*

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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