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CARE ASSIGNS 'CARE A- (SO)/CARE A2+ (SO)' RATINGS TO THE BANK FACILITIES OF KAJARIA SANITARYWARE PRIVATE LIMITED

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Remarks
Long-term Bank Facilities	25.50	CARE A- (SO) [Single A Minus (Structured Obligation)]	Assigned
Short-term Bank Facilities	1	CARE A2+ (SO) [A Two Plus (Structured Obligation)]	Assigned
Total @	26.50		

@ Backed by the unconditional and irrevocable corporate guarantee extended by Kajaria Ceramics Limited for the bank facilities of Kajaria Sanitaryware Private Limited (KSPL) to the extent of its shareholding in KSPL, i.e. 64%

Rating Rationale

The ratings assigned to the bank facilities of Kajaria Sanitaryware Private Limited (KSPL) take into account the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by Kajaria Ceramics Limited (KCL) for the bank facilities of KSPL to the extent of KCL's shareholding in KSPL, i.e. 64%.

The ratings of KSPL take into account its experienced and resourceful promoters with presence in the entire ceramic industry value chain, access to the established marketing and distribution network of its parent company and advanced stage of completion of KSPL's green-field sanitaryware manufacturing project.

The ratings are, however, constrained by KSPL's presence in an industry with low entry barriers, susceptibility of its margins to volatile raw material prices, elevated fuel prices and its demand being linked to the cyclical and competitive real estate sector.

KSPL's ability to achieve envisaged capacity utilization and grow its scale of operations by establishing its brand in the sanitaryware segment, successfully manage raw material and fuel price volatility in a competitive industry are the key rating sensitivities.

The credit profile of KCL takes into consideration its established presence in the ceramic tile industry with a diversified product portfolio, widespread marketing and distribution network across the country, consistent growth in the scale of operations, healthy profitability margins and comfortable capital structure. The credit profile of KCL is, however, tempered by the susceptibility of its profitability margins to volatile raw material and fuel prices along with its presence in the fragmented ceramic industry whose prospects are linked to the cyclical real estate industry.

Background

KSPL was incorporated in May 2012, to set up a green-field sanitaryware manufacturing project with an installed capacity of 891,000 pieces per annum. The company is implementing the project at an estimated cost of Rs.31.26 crore at Morbi, Gujarat. The project is being funded through a mix of term loan of Rs.17.50 crore (63%) and equity / quasi equity of Rs.13.76 crore (37%) and is in the advanced stage of completion. As on March 31, 2014, KSPL had incurred a cost of Rs.19.42 crore -

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications

funded through a term loan of Rs.10.66 crore, equity capital of Rs.4.96 crore and the balance from unsecured loans from the promoters. KSPL conducted a trial-run during January 2014 and commenced commercial operations in a part of its facility from April 2014. The remaining project is expected to be completed by H1FY15 (refers to the period April 01 to March 31).

KSPL is promoted by KCL (64% shareholding in KSPL) along with some Morbi-based industrialists - Mr Ajaybhai Marvaniya (10%), Mr Nileshbhai Marvaniya (10%) and others (16%). Going forward, KCL plans to acquire 100% stake in Kajaria Bathware Pvt. Ltd. (KBPL), which was incorporated by the promoters of KCL in May 2013 to put up a faucet manufacturing plant having a capacity of 1.5 million pieces in Gailpur, Rajasthan. After this acquisition, KCL plans to transfer its entire stake in KSPL to KBPL, which would make KSPL a step-down subsidiary of KCL. However, the operational support and corporate guarantee extended by KCL for the bank facilities of KSPL are expected to remain in force.

About the key promoter/guarantor - (KCL)

Incorporated in 1985, KCL is one of the largest manufacturers of ceramic/vitrified tiles in India having a pan-India presence through manufacturing facilities spread across multiple locations. The product portfolio of the company includes ceramic tiles, polished vitrified tiles and glazed vitrified tiles etc, sold under the brand name of 'Kajaria'. As on March 31, 2014, KCL (on a consolidated basis) had a manufacturing capacity of 45.20 Million Square Meter (MSM) spread across seven manufacturing plants.

On a standalone basis, KCL reported a PAT of Rs.101 crore on a Total Operating Income (TOI) of Rs.1,587 crore in FY13 as against a PAT of Rs.81 crore on a TOI of Rs.1,310 crore in FY12. As per the provisional results for 9MFY14, KCL reported a PAT of Rs.77 crore on a TOI of Rs.1,347 crore.

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CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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