

Kajaria Sanitaryware Private Limited

February 08, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹ @	Rating Action
Long-term Bank Facilities	19.07	CARE A (SO); Stable [Single A (Structured Obligation); Outlook: Stable]	Revised from CARE A-(SO) [Single A Minus (Structured Obligation)]
Long-term/Short-term Bank Facilities	1.00	CARE A (SO); Stable /CARE A1 (SO) [Single A (Structured Obligation); Outlook: Stable / A One (Structured Obligation); Outlook: Stable]	Revised from CARE A- (SO)/CARE A2+(SO) [Single A Minus (Structured Obligation)/ A Two Plus (Structured Obligation)]
Total	20.07 (Rupees Twenty crore and seven lakh only)		

@backed by the unconditional and irrevocable corporate guarantee extended by Kajaria Ceramics Limited for 82% of the sanctioned bank facilities of Kajaria Sanitaryware Private Limited (KSPL).

Details of instruments/facilities in Annexure-1

Detailed Rationale

The above ratings of Kajaria Sanitaryware Private Limited (KSPL) are based on the credit enhancement in the form of an unconditional and irrevocable corporate guarantee extended by Kajaria Ceramics Limited (KCL) for 82% of the sanctioned bank facilities of KSPL; which is equal to KCL's shareholding in KSPL through its wholly owned subsidiary, Kajaria Bathware Private Limited (KBPL).

The revision in ratings factors in increase in the credit enhancement by way of extension of corporate guarantee by KCL from 64% to 82% of sanctioned bank facilities of KSPL in proportion to increase in KBPL's shareholding in KSPL. Furthermore, the ratings revision also take into account sustained growth in scale of operations of KCL along with improvement in profitability margins as well as leverage and debt coverage indicators during FY16 (refers to the period April 1 to March 31) and 9MFY17.

The ratings of KSPL continue to derive strength from its experienced and resourceful promoters with presence in the entire ceramic industry value chain and access to the established marketing and distribution network of KCL.

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

KSPL's ability to significantly grow its scale of operations and profitability margins by establishing its brand in the sanitaryware segment while successfully managing 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, continuous growth in the scale of operations, healthy profitability margins and very comfortable capital structure as well as debt protection indicators.

The credit profile of KCL is, however, tempered by the fragmented nature of the ceramic tile industry with prospects linked to the cyclical real estate industry and susceptibility of its operating margins to volatile raw material and fuel prices which remain areas of concern for all the ceramic tile players.

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

Detailed description of the key rating drivers

During Q1FY16, KBPL (wholly owned subsidiary of KCL) bought additional 18% stake of KSPL from others shareholders (Morbi-based promoters) and increased its stake to 82%. Consequently, the corporate guarantee extended by KCL for the bank facilities of KSPL also enhanced from 64% to 82% during September 2016, proportionate to its present shareholding. KCL promoted by Mr Ashok Kajaria, is one of the largest manufacturers of ceramic/vitrified tiles in India having a pan-India presence through manufacturing facilities spread across multiple locations. KCL has installed capacity of 68.60 MSM as on September 30, 2016.

The Total Operating Income (TOI) of KCL grew by 10% during FY16 on a y-o-y basis on back of increase in sales volume from 58.67 MSM to 64.34 MSM. KCL's PBILDT margin improved and remained healthy at 16.61% in FY16, further the PAT margin also improved by 202 bps during FY16 to 9.53%. The overall gearing of KCL improved further and remained very low at 0.05x as on March 31, 2016 backed by reduced debt level coupled with the healthy profitability accretion to the net worth.

KSPL reported net loss of Rs.1.58 crore on TOI of Rs.33.87 crore during FY16 as against net loss of Rs.0.03 crore on TOI of Rs.14.14 crore during FY15 primarily due to dip in PBILDT margin owing to higher amount of product promotion and marketing expenses and operational overheads during the initial period coupled with higher amount of interest and depreciation charges.

Analytical approach:

Guarantor's Assessment. The rating assigned to bank facilities of KSPL are backed by the unconditional and irrevocable corporate guarantee extended by KCL to the extent of its holding in KSPL through its wholly owned subsidiary KBPL.

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy of Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Rating Methodology - Manufacturing Companies](#)

[Financial ratios - Non Financial Sector](#)

[Rating Methodology: Factoring Linkages in Ratings](#)

About the Company

KSPL, promoted by KCL, was incorporated in May 2012 for implementing a green field sanitaryware manufacturing project with an installed capacity of 891,000 pieces per annum at Morbi, Gujarat. The project was funded through a mix of term debt and equity in the ratio of 2:1. KSPL started commenced commercial operations from April, 2014. As on December 31, 2016, KCL holds 82% through its wholly owned subsidiary, KBPL and balance is held by Morbi based promoters. The Morbi-based ceramic industrialists, Mr Ajaybhai Marvaniya and Mr Nileshbhai Marvaniya are in-charge of production while KCL is at the helm of marketing and distribution for KSPL.

KSPL reported net loss of Rs.1.58 crore on TOI of Rs.33.87 crore in FY16 as against a net loss of Rs.0.03 crore on TOI of Rs.14.14 crore in FY16. As per unaudited results for H1FY17, KSPL reported TOI of Rs.23.83 crore with net loss of Rs.1.92 crore.

About the 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 September 30, 2016, KCL (on consolidated basis) had a tile manufacturing capacity of 68.60 MSM spread across eight manufacturing units located in Sikanderabad (Uttar Pradesh), Gailpur (Rajasthan), Morbi (Gujarat) and Vijayawada (Andhra Pradesh).

On a standalone basis, KCL reported a PAT of Rs.234.89 crore on a TOI of Rs.2465.65 crore in FY16 as against a PAT of Rs.168.36 crore on a TOI of Rs.2241.63 crore in FY15. As per the unaudited results for 9MFY17, KCL reported a PAT of Rs.199.77 crore on a TOI of Rs.1971.91 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: 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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****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	FY20	11.07	CARE A (SO); Stable
Fund-based - LT-Cash Credit	-	-	-	8.00	CARE A (SO); Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	1.00	CARE A (SO); Stable / CARE A1 (SO)

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Term Loan-Long Term	LT	11.07	CARE A (SO); Stable	-	1) CARE A- (SO) (09-Nov-15)	1) CARE A- (SO) (26-Mar-15) 2) CARE A- (SO) (09-May-14)	-
2.	Fund-based - LT-Cash Credit	LT	8.00	CARE A (SO); Stable	-	1) CARE A- (SO) (09-Nov-15)	1) CARE A- (SO) (26-Mar-15) 2) CARE A- (SO) (09-May-14)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	1.00	CARE A (SO); Stable / CARE A1 (SO)	-	1) CARE A- (SO) / CARE A2+ (SO) (09-Nov-15)	1) CARE A2+ (SO) (26-Mar-15) 2) CARE A2+ (SO) (09-May-14)	-

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