Cera Sanitaryware Limited (Revised)

September 02, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	56.00	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term / Short-term bank facilities	44.00	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Total bank facilities	**100.00 (₹ One hundred crore only)**		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Cera Sanitaryware Limited (CSL) continue to derive strength from its diversified product portfolio in the building product segment aided by the strong brand name of 'CERA', its robust distribution network and long track record of operations along-with strong market position in the Indian sanitaryware industry especially in the retail segment. Additionally, the ratings take cognisance of the vast experience of its promoters in the sanitaryware and faucetware business, its strong financial risk profile with growth in total operating income (TOI), healthy debt coverage indicators and strong liquidity profile.

The ratings are, however, constrained by susceptibility of its profitability margins to volatility in fuel prices, raw material cost and foreign exchange rate fluctuations. The ratings are also constrained by its linkages to the cyclical real estate industry along with presence of large number of unorganized players in the industry, imparting high degree of competitive intensity.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Significant increase in its scale of operations with total operating income (TOI) growing at a compounded annual growth rate (CAGR) of 20% leading to significant increase in its market share, while achieving return on capital employed (ROCE) above 25% on a sustained basis, along with comfortable leverage and strong liquidity.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations marked by TOI at less than ₹1,200 crore
- Decline in PBILDT margin below 12% on a sustained basis due to increased competitive intensity and/or adverse movement in raw material prices
- Any large debt-funded capex/acquisition or significant stretch in working capital requirement leading to increase in TOL/TNW (net of cash and liquid investments) beyond 0.5x

Detailed description of the key rating drivers

Key rating strengths

Established presence of 'CERA' in the sanitaryware industry on the back of its strong distribution and marketing network: CSL has established presence in the sanitaryware industry through its 'CERA' brand and is positioned as the second-largest player (around 25% market share) in the organised domestic sanitaryware industry; its growth has been aided by its strong marketing and distribution setup. CSL has a pan-India marketing and distribution network consisting of around 15,566 dealers and sub-dealers for retail market (increased from around 15,350 a year ago) in addition to direct institutional sales to various construction companies. CSL's revenue mix was dominated by retail segment contributing around 70% of sales in FY22 (FY refers to the period April 1 to March 31), while balance was from direct institutional sales. Furthermore, the company has setup centralised depots at 29 locations across India for efficient distribution of its products. Geographically, south India is the largest contributor in CSL's revenues, while Tier-3 areas (semi-urban and rural areas) contributed more than half of CSL's revenue in FY22. CSL normally follows a policy of incurring advertisement expenditure between 3% to 4% of its net sales which it envisages to continue going forward after demand returned to normalcy in FY22.

Diversified product portfolio with beneficial mix of own and outsourced manufacturing: CSL has an established presence in the sanitaryware industry while its market share in the faucetware industry is also increasing gradually. CSL expanded

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

its product offering to include bath accessories, kitchen sinks, mirrors and modular kitchens with an aim to establish the brand "CERA" as a one-stop solution for all household lifestyle products. CSL reserves its in-house capacity for manufacturing higher value-added products requiring complex processes and robotics while lower value products are outsourced. Income from outsourcing includes sale of bathware, faucetware, ceramic tiles and sanitaryware products. CSL's sales mix during FY22; stood as follows: sanitaryware (including bathware; 55% of its TOI), faucetware (33% of its TOI) and tiles (12% of its TOI). Over the years, CSL has integrated its operations by venturing into manufacturing of tiles, plastic products and packaging through its subsidiaries and joint venture (JV) for providing better quality and cost control. However, recently, CSL has decided to divest its entire 51% equity stake in Anjani Tiles Limited (ATL). Furthermore, the company has served a legal notice to Milo Tile LLP (associate company) for non-compliance with the terms of agreement, consequently Milo Tiles LLP has stopped supplying to CSL. So, its tiles business is now largely reliant on other abundant outsourcing opportunities available in the market. To further expand its business, CSL has planned to undertake a capacity expansion project comprising of a greenfield sanitaryware project at a cost of around ₹129 crore to be completed over a period of 24 months from 'zero date', and a brownfield expansion of its faucetware capacity entailing a cost of ₹69 crore which is expected to be completed by Q1FY24. The entire capex is planned to be funded from its internal accruals/available liquidity.

Strong financial risk profile with comfortable leverage and debt coverage indicators: During FY22, TOI of CSL increased to ₹1445.08 crore from ₹1,225.64 crore in FY21. The significant improvement in TOI was on the back of strong replacement demand post COVID-19 disruptions and accelerating real estate demand. PBILDT margin also improved to 15.79% during FY22 vis-à-vis 13.00% during FY21 on the back of better economies of scale and various yield-improvement measures undertaken by the company. CSL's financial risk profile continued to remain strong with comfortable capital structure marked by an overall gearing of 0.04x as on March 31, 2022 (0.11x as on March 31, 2021). Debt coverage indicators also stood comfortable with PBILDT interest coverage of 48.06x and TDGCA of 0.24x during FY22. Its overall gearing and TOL/TNW (net of cash and liquid investments) is expected to remain comfortably below 0.10x during next two years-ended FY24.

Liquidity: Strong
CSL's liquidity remained strong and improved further during FY22 marked by strong internal accruals against low debt repayment obligations and presence of unencumbered cash and bank balance/liquid investments to the tune of around ₹541 crore as on March 31, 2022. With an overall gearing of 0.04x as on March 31, 2022, CSL has sufficient gearing headroom, to raise additional debt, if required, for its capex. Furthermore, with its average working capital limit utilisation at around 15% for the trailing 12 months ended May 2022, its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year. Its average collection period has also improved during FY22 to around 47 days; albeit it had ₹20.40 crore of debtors (net of impaired) outstanding for more than six months as on March 31, 2022. Furthermore, CSL's management has articulated that it has now largely discontinued its first loss default guarantee (FLDG) facility programme for its dealers and the entire outstanding FLDG is expected to become 'Nil' by end-FY23, which is slightly delayed compared to the previously envisaged timeline of end-FY22.

Key rating weaknesses
Susceptibility of profitability to volatility in fuel prices and raw material cost; albeit benefit from cheaper sources for meeting part requirement: CSL's profitability is susceptible to volatility in fuel prices (primarily natural gas) and other key raw materials (various types of clay, brass and chrome plating). However, CSL has been largely able to pass on, though with some time lag, increase in raw material and other operating costs to the customers due to its strong brand name in the mid and mass market segment. It also has captive sources of renewable energy for meeting around 70% of its power consumption apart from availability of natural gas at subsidised rates from nearby isolated fields for meeting around 50% of its total natural gas requirement which supports its operating profitability. To counter the rise in raw material costs (including natural gas), CSL undertook few price revisions in sanitaryware and faucetware products which has resulted in stable profitability margins in FY22 and Q1FY23.

Linkages to cyclical real estate sector and presence in a competitive building product industry: The demand for CSL's products is linked to the cyclical real estate sector. On the back of COVID-19 pandemic, its scale of operations had largely remained stagnant in FY21. However, after sub-optimal performance of real estate sector in FY21, the sector is witnessing good momentum driven by new project launches across regions. This along with good replacement demand, the overall demand for sanitaryware and faucetware is expected to remain good in the medium term. Furthermore, dominant presence of CSL in the Tier-III cities helped it to recover faster-than-envisaged from the impact of COVID-19 and demand from this segment is expected to remain robust in FY23. Additionally, factors such as increasing urbanisation with the government's plan to develop at least 100 smart cities, renewed focus on infrastructure growth, better demographic profile and increasing awareness towards better sanitation facilities, etc., would be beneficial for the industry in the long term. The sanitaryware market is also witnessing shifting of consumer preference towards branded products thereby presenting growth opportunities for established players like CSL in the industry. However, there are many unorganised players in the ceramic products and faucetware market apart from well-established brands like 'Hindware', 'Roca', 'Jaquar' in faucet ware and 'Kajaria', 'Somany' in tiles thus putting competitive pressure on CSL and restricting its scale of operations.

Analytical approach: Consolidated
CARE Ratings Ltd. (CARE Ratings) has considered consolidated financials of CSL for its rating approach as its subsidiaries/JVs are either in similar line of business with geographic extension or in related diversification with operational linkages and have common management platform. The list of entities getting consolidated in CSL is placed at **Annexure-4**.

Applicable criteria
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology: Consolidation
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the company
Madhusudan Oils and Fats Limited was incorporated in the year 1998. Further, ceramic division of Madhusudan Industries Ltd was transferred to Madhusudan Oil & Fats Limited under the scheme of arrangement with effect from 1.04.2001 and subsequently the name of the Madhusudan Oils and Fats Limited was changed to Cera Sanitaryware Limited. It is promoted by Vikram Somany and has its manufacturing facility located at Kadi in Mehsana district of Gujarat. The company is mainly engaged in the manufacturing of ceramic sanitaryware *(installed capacity of 33,750 metric tonnes per annum (MTPA)),* faucet ware (*installed capacity of 28 lakh pieces per annum (LPPA))* and trading of sanitaryware, faucet ware, ceramic tiles, kitchen sinks and bath wellness products *(i.e., shower room, steam shower room, shower cubicles and bath-tubs)*. Most of its goods (including traded goods) are sold under the 'Cera' brand. Furthermore, CSL has wind-mills and solar power plant with installed power generation capacity aggregating 10.325 MW for meeting its captive power requirement.

Brief Financials – Consolidated (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (UA)
Total operating income	1,225.64	1,445.08	396.58
PBILDT	159.37	228.20	62.21
PAT	99.95	152.95	39.87
Overall gearing (times)	0.11	0.04	NA
Interest coverage (times)	17.35	48.06	56.55

A: Audited; UA: Unaudited; NA: Not available; Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC		-	-	-	35.00	CARE AA; Stable / CARE A1+
Fund-based - LT-Cash Credit		-	-	-	56.00	CARE AA; Stable

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC		-	-	-	9.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history (Last three years)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	35.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (23-Aug-21)	1)CARE AA; Stable / CARE A1+ (27-Aug-20)	1)CARE AA; Stable / CARE A1+ (05-Aug-19)
2	Fund-based - LT-Cash Credit	LT	56.00	CARE AA; Stable	-	1)CARE AA; Stable (23-Aug-21)	1)CARE AA; Stable (27-Aug-20)	1)CARE AA; Stable (05-Aug-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	9.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (23-Aug-21)	1)CARE A1+ (27-Aug-20)	1)CARE A1+ (05-Aug-19)

*Long term/Short term.

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-4: List of entities getting consolidated in Cera Sanitaryware Limited

Sr. No.	Name of the entity	% stake of Cera as on March 31, 2022
1	Packcart Packaging LLP	51.00
2	Race Polymers Arts LLP	51.00
3	Anjani Tiles Limited*	51.00

*CSL has decided to divest its entire 51% equity stake in Anjani Tiles Limited (ATL)

Annexure-5: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please click here

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst Contact
Name: Hardik Shah
Phone: +91-79-4026 5620
E-mail: hardik.shah@careedge.in

Relationship Contact
Name: Deepak Prajapati
Phone: +91-79-4026 5602
E-mail: deepak.prajapati@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

Disclaimer:
The ratings issued by CARE Ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse, or recall the concerned bank facilities or to buy, sell, or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings has based its ratings/outlook based on information obtained from reliable and credible sources. CARE Ratings does not, however, guarantee the accuracy, adequacy, or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating/outlook assigned by CARE Ratings is, inter-alia, based on the capital deployed by the partners/proprietors and the current financial strength of the firm. The ratings/outlook may change in case of withdrawal of capital, or the unsecured loans brought in by the partners/proprietors in addition to the financial performance and other relevant factors. CARE Ratings is not responsible for any errors and states that it has no financial liability whatsoever to the users of the ratings of CARE Ratings. The ratings of CARE Ratings do not factor in any rating-related trigger clauses as per the terms of the facilities/instruments, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and triggered, the ratings may see volatility and sharp downgrades.

For the detailed Rationale Report and subscription information, please visit www.careedge.in