Cera Sanitaryware Limited

August 23, 2021

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings**	**Rating Action**
Long-term Bank Facilities	56.00 (Enhanced from 35.00)	CARE AA; Stable (Double A; Outlook: Stable)	Reaffirmed
Long-term / Short-term Bank Facilities	44.00 (Enhanced from 32.00)	CARE AA; Stable / CARE A1+ (Double A; Outlook: Stable/ A One Plus)	Reaffirmed
Total Bank Facilities	**100.00 (Rs. One hundred crore only)**		

Details of facilities in ***Annexure-1***

Detailed Rationale & 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 cognizance of the vast experience of its promoters in the sanitaryware and faucetware business, its strong financial risk profile with steady total operating income (TOI), healthy debt coverage indicators and strong liquidity profile. CSL's TOI is envisaged to grow at a moderate rate during FY22 (refers to the period April 1 to March 31) while maintaining its healthy operating profitability and strong leverage.

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 growth in the scale of operations with Compounded Annual Growth Rate (CAGR) of 20% resulting in significant increase in its market share, while maintaining PBILDT margin above 15% on a sustained basis along with comfortable leverage and strong liquidity

Negative Factors (Factors that could lead to negative rating action / downgrade)

- Decline in the scale of operations marked by TOI falling below Rs.1,000 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 leading to increase in overall gearing 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 organized 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 15,350 dealers and sub-dealers for retail market (increased from around 14,870 in FY20) 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 FY21, 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 FY21. CSL normally follows a policy of incurring advertisement expenditure between 3% and 4% of its net sales which it envisages to continue going forward after having reduced it during FY21 to counter the impact of the pandemic.

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 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 FY21 stood as follows: sanitaryware (including bathware; 50% of its TOI), faucetware (29% of its TOI) and tiles (21% 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 announced its plans to divest its entire 51% equity stake in Anjani Tiles Ltd. (ATL) and rely on other abundant outsourcing opportunities for tiles available in the market.

Strong financial risk profile with comfortable leverage and debt coverage indicators

Despite partial shutdown of its operations during Q1FY21 due to Covid-19 pandemic and subsequently due to labour strike for 83 days in Q3FY21 at its sanitaryware manufacturing division, the TOI of CSL stood steady during FY21 on the back of revival in demand in the balance part of FY21 and successful outsourcing of sanitaryware products during the labour strike period which was aided by its strong brand and marketing network. The PBILDT margin was maintained at 14.51% during FY21 on the back of various cost-rationalization measures undertaken by the company amidst the pandemic. CSL's financial risk profile continued to remain strong with comfortable capital structure marked by overall gearing of 0.11x as on March 31, 2021 (0.14x as on March 31, 2020). Debt coverage indicators also stood comfortable with PBILDT Interest coverage of 19.71x and TDGCA of 0.72x during FY21. CSL's TOI is envisaged to grow at a moderate rate during FY22 while maintaining its healthy operating profitability and strong leverage.

Liquidity: Strong

CSL's liquidity remained strong and improved further during FY21 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 Rs.470 crore as on July 31, 2021. With an overall gearing of 0.11x as on March 31, 2021, CSL has sufficient gearing headroom, to raise additional debt, if required, for its capex. Furthermore, with its average working capital limit utilization at around 16% for the trailing 12 months ended July 2021, its unutilized 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 FY21 to around 64 days; albeit it had Rs.33.10 crore of debtors (net of impaired) outstanding for more than six months as on March 31, 2021. Further, 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-FY22.

Key Rating Weaknesses

Susceptibility of profitability to volatility in fuel prices and raw material cost

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 large part of its power consumption. In order to counter the recent rise in raw material costs, CSL understood two price revisions in February 2021 and August 2021 in both sanitaryware and faucetware products which is likely to result in stable profitability margins in FY22.

Linkages to the cyclical real estate sector and presence in a competitive industry

The demand for CSL's products is linked to the cyclical real estate sector. On the back of Covid pandemic, there was significant decline in its scale of operations in Q1FY21 and during the second wave of Covid pandemic, its scale of operations was again impacted in Q1FY22 on the back of slowdown in the real estate sector. Any potential third wave of Covid could limit the expected growth in its scale of operations in FY22. Furthermore, on the back of demand slowdown and high competition from the other players in both organized and unorganized market, scale of operations of CSL has largely remained stagnant for the last three years ended FY21. However, its dominant presence in the Tier-III cities helped it to recover faster than envisaged from the impact of Covid from Q2FY21 onwards and demand from this segment is expected to remain robust in FY22. Additionally, factors such as increasing urbanization 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 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 unorganized 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 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. List of entities getting consolidated in CSL is placed at **Annexure-3**.

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

CSL was incorporated as Madhusudan Oils and Fats Ltd (MOFL) in 1998. MOFL was later acquired by Madhusudan Industries Limited under the scheme of arrangement in 2001 and subsequently its name was changed to CSL. It is promoted by Mr 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 30,000 metric tonnes per annum (MTPA)),* faucet ware (*installed capacity of 21 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.
CSL is also involved in the manufacturing of tiles through its 51% subsidiary Anjani Tiles Ltd (ATL; rated 'CARE BBB-; Stable/CARE A3') at Nellore district of Andhra Pradesh *(installed capacity of 10,000 square meters per day)* whereby it has now planned to divest its entire stake to the other 49% JV partner in ATL; albeit the transaction is yet to be concluded. Further, during FY19, CSL acquired 26% stake in Milo Tile LLP which is engaged in ceramic tile manufacturing since 2015 at Morbi, Gujarat *(installed capacity of 7,000 square meters per day)* for Rs.8.06 crore. Another majority-owned subsidiary (51%) entity, Packcart Packaging LLP (PPL), is involved in manufacturing corrugated boxes for meeting packaging requirements of CSL. During FY19, CSL incorporated Race Polymers Arts LLP as its 51% subsidiary for Rs.3.70 crore for manufacturing of polymer products made from polypropylene.

Brief Consolidated Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total Operating Income (TOI)	1,239.85	1,247.29
PBILDT	183.21	181.02
PAT	110.60	99.95
Overall gearing (times)*	0.14	0.11
Interest coverage (times)	18.45	19.71

*A: Audited; *considering lease liabilities as debt*

As per the published consolidated results for Q1FY22, CSL reported TOI of Rs.234.75 crore (Q1FY21: Rs.153.04 crore) with a PAT of Rs.11.56 crore (Q1FY21: Net loss of Rs.1.79 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**

Complexity level of various instruments rated for this company: Please refer **Annexure-4**

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC	-	-	-	44.00	CARE AA; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	56.00	CARE AA; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (27-Jul-18)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	44.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (27-Aug-20)	1)CARE AA; Stable / CARE A1+ (05-Aug-19)	1)CARE AA; Stable / CARE A1+ (27-Jul-18)
3.	Fund-based - LT-Cash Credit	LT	56.00	CARE AA; Stable	-	1)CARE AA; Stable (27-Aug-20)	1)CARE AA; Stable (05-Aug-19)	1)CARE AA; Stable (27-Jul-18)

Annexure-3: List of entities getting consolidated in CSL

Sr. No.	Name of the Entity	Subsidiary / Associate / Joint venture	% Shareholding by CSL as on March 31, 2021
1.	Anjani Tiles Ltd	Subsidiary	51.00
2.	Packcart Packaging LLP	Subsidiary	51.00
3.	Race Polymer Arts LLP	Subsidiary	51.00

Annexure 4: Complexity level of various instruments rated for this Company

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

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.*

Contact us

Media Contact
Name – Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Name: Hardik Shah
Contact Number: +91-79-4026 5620
Email ID- hardik.shah@careratings.com

Relationship Contact
Name - Deepak Prajapati
Contact no. - +91-79-4026 5656
Email ID- deepak.prajapati@careratings.com

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