Cera Sanitaryware Limited

August 5, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	50.00	**CARE AA; Stable [Double A; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	10.00	**CARE A1+ [A One Plus]**	Reaffirmed
Long-term/ Short-term Bank Facilities	22.00	**CARE AA; Stable/ CARE A1+ [Double A; Outlook: Stable/ A One Plus]**	Reaffirmed
Total Facilities	**82.00 (Rupees Eighty two crore only)**		

Details of facilities in Annexure - I

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, long track record of operations of CSL along with its strong market position in the Indian sanitary ware industry especially in the retail segment and vast experience of its promoters. Further, there was significant growth (22% y-o-y) in sales from the faucet ware segment and tile segment (16% y-o-y) during FY19 which led to overall growth in sales. The ratings continue to draw comfort from its healthy debt coverage, leverage and liquidity indicators; and stabilization of operations of its tiles manufacturing subsidiary and joint venture. The ratings also take cognizance of the fact that CSL has forayed into manufacturing of PVC Cistern and seat covers (which was earlier outsourced) by way of incorporation of Race Polymers Arts LLP as its 51% subsidiary which is expected to result in better control over cost structure.

The ratings, however, continue to remain constrained by the inherent working capital intensity of its operations, susceptibility of its margins to volatility in fuel prices, raw material cost and foreign exchange rate fluctuations, its linkages to the cyclical real estate sector and presence of large number of unorganized players in the industry imparting high degree of competitive intensity.

CSL's ability to significantly improve its market share in the sanitary ware and faucetware market amidst high competition and realize envisaged returns from the highly competitive tiles business while maintaining its profitability, capital structure and liquidity would be the key rating sensitivities. Any major debt funded capex or investment plans shall also be a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths:

Established presence of 'CERA' in the sanitary ware industry on the back of its strong distribution and marketing network: CSL has established presence in the sanitary ware industry through its 'CERA' brand and is positioned as the second largest player (around 25% market share) in the organized domestic sanitary ware industry; its growth has been aided by its strong marketing & distribution setup. CSL has a pan-India marketing and distribution network comprising of around 1,400 dealers and 14,000 sub-dealers for the retail market in addition to direct institutional sales to various construction companies. Geographically, South India is the largest contributor in CSL's revenues followed by northern, western and eastern regions.

Diversified product portfolio: CSL has an established presence in the sanitary ware industry while its market share in the faucetware industry is also increasing gradually. CSL has 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. Income from outsourcing includes sale of bathware, faucetware, ceramic tiles as well as high-end sanitary ware products. CSL's sales mix during FY19 stood as follows: sanitaryware (including bathware; 55% of its total operating income (TOI)), faucetware (24% of its TOI) and tiles (21% of its TOI). During FY19, CSL entered into manufacturing of high margin premium tiles viz. glazed vitrifies tiles (GVT) through acquisition of 26% stake in Milo Tiles LLP for Rs.8.06 crore. Milo has established production facility at Morbi, Gujarat with production capacity of 7,000 Sq. Mtr. of GVT Per day. Further during FY19, CSL also entered into manufacturing of polymer products like seat cover, cistern and fittings through incorporation of Race Polymers Arts LLP as its 51% subsidiary for Rs.3.70 crore. Earlier the company used to outsource this.

Growth in total operating income along with comfortable leverage and debt coverage indicators: CSL's total operating income grew by 14.56% y-o-y during FY19 at a consolidated level and by 12.87% y-o-y at a standalone level. Further, CSL's

[1] *Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

PBILDT margin improved marginally by 44 bps y-o-y on consolidated basis and 36 bps y-o-y on standalone basis in FY19. However, the margins remained affected by increase in power and fuel expenses along with increase in raw materials prices especially in faucetware segment, viz. brass and chromium. Further, its selling expense also increased with CSL's focus on strong marketing and distribution network. Further, PAT margin has remained stable during FY19 at 8.43% on consolidated basis and 8.49% on standalone basis. Its debt coverage indicators also remained comfortable with PBILDT interest coverage at 27.36x and total Debt/GCA of 0.61 years in FY19.

Liquidity analysis: CSL's liquidity remained comfortable as marked by strong accruals against low repayment obligations and presence of unencumbered cash & bank balance/liquid investments to the tune of Rs.167.06 crore as on March 31, 2019. With a gearing of 0.13x on a consolidated level as on March 31, 2019, CSL has sufficient gearing headroom, to raise additional debt, if required, for its capex. Further, with its average working capital utilization being low at around 23% for the trailing 12 months ended April 2019, its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year.

Key Rating Weaknesses

Linkages to cyclical real estate sector and presence in a competitive industry: Demand for CSL's products is linked to the cyclical real estate sector. There has been a dip in construction activities post implementation of RERA in FY17. Launch of new projects were deferred as the players sought to gauge the impact RERA could have on the on-going and upcoming projects, before making new announcements. However RERA has led to completion of the stalled construction projects which has revived the demand for building and construction materials to some extent. Further, the demand for ceramics has risen in the recent past owing to the initiatives under the Swachh Bharat Abhiyan (SBA) and the Pradhan Mantri Awas Yojana (PMAY) along with higher replacement demand. These policies have had direct effect on the demand for the building and construction materials industry and consequently, there has been an uptick in the consumption of ceramic tiles and sanitaryware. The market for both these ceramic products is growing on the back of upcoming real estate projects in affordable housing, especially in the Tier II cities. There is a substantial shortage of housing and sanitation facilities in India, which is expected to result in steady demand for sanitary ware products. Further, 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. augurs well for the industry. 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. CSL maintains strong presence in the mass and mid-market segments of the sanitaryware industry. However, there are many unorganized players in the ceramic products and faucet market and established brands like *'Hindware', 'Roca'*, *'Jaquar'* in faucet ware and *'Kajaria', 'Somany'* in tiles thus increasing competition.

Inherent working capital intensity of operations and susceptibility of profitability to volatility in fuel prices and raw material cost: CSL's operations continued to remain working capital intensive marked by an operating cycle of around 122 days during FY19 on a consolidated basis. It is also 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.

Analytical approach: Consolidated

CARE has considered consolidated financials of CSL for its rating approach as its subsidiaries 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 to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company

CSL (CIN: L26910GJ1998PLC034400) was incorporated as Madhusudan Oils and Fats Ltd (MOFL) in 1998. Pursuant to a scheme of arrangement between Madhusudan Industries Ltd (MIL) and MOFL, the ceramic division of MIL was transferred to MOFL 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.

CSL is mainly engaged in the manufacturing of ceramic sanitaryware (installed capacity to make 3 million pieces per annum, i.e., 36,000 metric tonne per annum (MTPA)), faucetware (installed capacity of 21 lakh pieces per annum) as on March 31, 2019, and outsourcing of sanitaryware, faucetware, ceramic tiles, kitchen sinks and bath wellness products (this business includes products like shower room, steam shower room, shower cubicles and bath tubs). Also, CSL has total installed renewable power generation capacity of 10.325 MW (reduced from 13.825 MW on account of sale of 3.5 MW wind power unit due to completion of its useful life).
CSL is also involved in 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) which commenced operations from April 1, 2016. Further, during FY19, CSL also 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 is involved in manufacturing corrugated boxes for meeting packaging requirements of CSL. During FY19, CSL also entered into manufacturing of polymer products like seat cover, cistern and fittings through incorporation of Race Polymers Arts LLP as its 51% subsidiary for Rs.3.70 crore.

Brief Financials (Rs. crore)	Consolidated		Standalone	
	FY18 (A)	FY19 (A)	FY18 (A)	FY19 (A)
Total operating income	1,191.99	1,365.51	1,200.39	1,354.83
PBILDT	180.61	212.84	175.07	202.47
PAT	106.06	115.15	100.25	115.05
Overall gearing (times)	0.16	0.13	0.04	0.03
Interest coverage (times)	19.89	27.36	38.40	81.38

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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	-	-	-	22.00	CARE AA; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	50.00	CARE AA; Stable
Fund-based - ST-Vendor financing	-	-	-	10.00	CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (27-Jul-18)	1)CARE AA; Stable (29-Jun-17)	1)CARE AA (15-Jul-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	22.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (27-Jul-18)	1)CARE AA; Stable / CARE A1+ (29-Jun-17)	1)CARE AA / CARE A1+ (15-Jul-16)
3.	Fund-based - LT-Cash Credit	LT	50.00	CARE AA; Stable	-	1)CARE AA; Stable (27-Jul-18)	1)CARE AA; Stable (29-Jun-17)	1)CARE AA (15-Jul-16)
4.	Fund-based - ST-Vendor	ST	10.00	CARE	-	1)CARE A1+	1)CARE A1+	1)CARE A1+

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
	financing			A1+		(27-Jul-18)	(29-Jun-17)	(15-Jul-16)

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, 2019
1.	Anjani Tiles Ltd	Subsidiary	51.00
2.	Packcart Packaging LLP	Subsidiary	51.00
3.	Race Polymer Arts LLP	Subsidiary	51.00

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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About CARE Ratings:

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