Cera Sanitaryware Limited

August 27, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	35.00 (Reduced from 50.00)	**CARE AA; Stable (Double A; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	22.00	**CARE AA; Stable / CARE A1+ (Double A ; Outlook: Stable /A One Plus)**	**Reaffirmed**
Short Term Bank Facilities	10.00	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Facilities	**67.00 (Rs. Sixty-Seven 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, long track record of operations of CSL along with its strong market position in the Indian sanitary ware industry especially in the retail segment, beneficial mix of own and outsourced manufacturing and vast experience of its promoters. The ratings continue to draw comfort from its healthy debt coverage and leverage indicators along with its strong liquidity profile. The ratings also factor in regular deployment of internal accruals by CSL for modernization of its facilities along with integration across value chain to improve operating efficiency and provide better control over cost structure.

The ratings also factor in de-growth in revenues and moderation in profitability in FY20 (refers to period April 1 to March 31) primarily on account of lost peak sales during March 2020 due to nationwide lockdown imposed to contain Covid-19 outbreak. CARE also takes cognizance of the fact that CSL has reported net loss of Rs.1.79 crore in Q1FY21 (refers to the period starting April 1 to June 30) on consolidated basis due to disruptions caused by lockdown and lower revenues leading to lower absorption of fixed costs. CARE also takes cognizance of increase in aged debtors in FY20 along with management articulation with focus on realization of the same. CARE expects subdued operating performance in FY21 with moderation in revenue and profitability due to disruptions caused by Covid-19 pandemic along with slower demand uptick from real estate industry.

The ratings, however, are 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. The ratings are also constrained by linkages to cyclical real estate industry alongwith presence of large number of unorganized players in the industry imparting high degree of competitive intensity.

Key Rating Sensitivities

Positive Factors

- Significant growth in scale of operations with CAGR of 20% while maintaining profitability above 15% on sustained basis along with comfortable leverage and strong liquidity

Negative Factors

- Higher than envisaged decline in scale of operations or profitability in case of slower than expected recovery in demand
- Any large debt funded capex/acquisition leading to increase in overall gearing beyond 0.5x
- Decline in operating profitability below 10% on a sustained basis

Detailed description of 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 14,870 dealers and sub-dealers for retail market (increased from around 14,200 in FY19) in addition to direct institutional sales to various construction companies. CSL's revenue mix was dominated by retail segment contributing around 75% of sales in FY20 while balance was from direct institutional sales. Further, CSL has setup centralised depots at 29 locations across India for efficient

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

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 around 55% of sales in FY20.

Diversified product portfolio with beneficial mix of own and outsourced manufacturing: 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. CSL's has changed its product mix in FY20 with increased share of high value products in sanitaryware division leading to improvement in sales realization. CSL's reserves its in-house capacity for manufacturing high value products requiring complex processes and robotics while low value products are outsourced. Income from outsourcing includes sale of bathware, faucetware, ceramic tiles and sanitary ware products. CSL's sales mix during FY20 stood as follows: sanitaryware (including bathware; 52% of its net sales), faucetware (26% of its net sales) and tiles (22% 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 JVs providing better cost control.

Strong financial risk profile with comfortable leverage and debt coverage indicators: CSL's financial risk profile continued to remain strong with comfortable capital structure marked by overall gearing of 0.14x as on March 31, 2020 (0.13x as on March 31, 2019). Debt coverage indicators were comfortable with PBILDT Interest coverage of 18.45x and Total Debt / GCA of 0.85x in FY20.

Regular investments funded through internal accruals to improve operating efficiency: CSL on consolidated basis has incurred capex of around Rs.70 crore in FY20 which was aimed at modernisation of CSL's manufacturing facilities (primarily for enhancing automation capabilities) in sanitary ware and faucet ware division along with building staff colony. Of this, some portion was incurred by its subsidiary Race Polymer Arts LLP (incorporated in FY19) during FY20 for setup of its manufacturing plant for manufacturing products like seat covers, cistern and fittings. Regular investments for increasing automation has resulted in developmental capabilities for CSL to use technologies like nano-technology, anti-bacterial glazing and no joint WC increasing its diversification in product portfolio. CSL has downsized its capex plan and envisages capex of Rs.21.8 crore to be incurred in FY21 for modernization of facilities and development of staff colony, customer touch points and logistics and IT systems which is expected to be funded entirely through internal accruals of the company.

Key Rating Weaknesses

Decline in TOI and profitability in FY20 and Q1FY21 primarily due to lockdown imposed to contain Covid-19 outbreak: CSL's consolidated TOI declined by 9% in FY20 and 44% on consolidated basis in Q1FY21 primarily due to lockdown imposed to contain Covid-19 outbreak. CSL was unable to book sizeable revenues during peak sales period of March 2020 due to lockdown which also led to moderation of PBILDT margin to 14.78% in FY20 (15.59% in FY19). As articulated by management, CSL's operations were impacted due to lockdown leading to lower capacity utilization and TOI in Q1FY21 which was ramped up to over 90% in July 2020. CSL reported net loss of Rs.1.79 crore on consolidated basis in Q1FY21 (net profit of Rs.2.94 crore on standalone basis) due to decline in TOI leading to lower absorption of costs along with no operations in its subsidiary, Anjani Tiles Limited (ATL; rated CARE BBB; Stable/ CARE A3+).

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 which has witnessed slowdown in recent years. Implementation of RERA has led to completion of stalled projects which has revived 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. With Covid-19 induced lockdown, the liquidity profile of many developers and customers would be affected adversely. However, recent boosts by RBI in the form of liquidity support of Rs.15,000 crore through National Housing Board (NHB) for affordable housing is expected to ease liquidity concerns for the sector. CARE expects slower demand recovery in the sector amid challenging economic scenario with deferral of purchases by customers even in favourable home lending rates especially in areas strongly affected by Covd-19 outbreak like Tier 1 cities. CARE expects subdued operating performance of CSL in FY21 with decline in revenues and moderation in operating margins on account of lost sales due to lockdown and expected slower uptick of demand from real estate industry. However, 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 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. 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.

Increase in highly aged debtors in FY20 along with expected deterioration in credit profile of dealers due to lockdown: CSL's operations continued to remain working capital intensive marked by an operating cycle of around 135 days during FY20 (122 days in FY19) on a consolidated basis. Elongation in operating cycle was primarily on account of unsold inventory at year end due to lockdown which was subsequently liquidated in Q1FY21. CSL's consolidated debtors having ageing more than 12 months have increased from Rs.17.98 crore as on March 31, 2019 (net debtors of Rs.15.91 crore) to Rs.43.88 crore as on March 31, 2020 (net debtors of Rs.37.78 crore) due to invocation of first loss default guarantee (FLDG) by lenders in some of debtors as indicated by management. CSL's management is actively engaged in realization of these debtors and is in possession of various securities against them. CARE expects deterioration in overall credit profile of dealers due to lost sales in lockdown and would continue to monitor the situation for further developments.

Susceptibility of profitability to volatility in fuel prices and raw material cost: CSL's profitability 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.

Liquidity: *Strong*
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.236.36 crore as on June 30, 2020. With a gearing of 0.14x on a consolidated level as on March 31, 2020, 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 19% for the trailing 12 months ended June 2020, its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year.

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-4**.

Applicable Criteria:
Criteria on assigning Outlook and Credit watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's Policy on Curing period
Criteria for Short Term Instruments
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology-Manufacturing Companies
Financial ratios – Non-Financial Sector
Liquidity Analysis of Non-Financial Sector Entities

About the Company
Cera Sanitaryware Limited (CSL) was incorporated as Madhusudan Oils and Fats Ltd (MOFL) in 1998. MOFL was later acquired by Madhusudan Industries Ltd 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. CSL is mainly engaged in manufacturing of ceramic sanitary ware *(installed capacity of 33000 metric tonne per annum (MTPA)),* faucet ware (*installed capacity of 21 lakh pieces per annum (LPPA))* as on March 31, 2020 and trading of sanitary ware, faucet ware, ceramic tiles, kitchen sinks and bath wellness products *(i. e. shower room, steam shower room, shower cubicles and bath tubs)*. Further, CSL has wind mills and solar power plant with installed power generation capacity aggregating 10.325 MW.
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 (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.

(Rs. Crore)

Brief Financials (Rs. crore)	Consolidated		Standalone	
	FY19 (A)	FY20 (A)	FY19 (A)	FY20 (A)
Total Operating Income (TOI)	1,366	1,240	1,355	1,223
PBILDT	212.84	183.21	202.47	177.25
PAT	115.15	110.61	115.05	115.94
Overall gearing (times)*	0.13	0.14	0.03	0.04
Interest coverage (times)	27.36	18.45	81.38	41.39

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

As per published consolidated results, CSL reported net loss of Rs.1.79 crore on TOI of Rs.153.04 crore in Q1FY21 against net profit of Rs.17.16 crore on TOI of Rs.274.44 crore in Q1FY20.

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 Bank Facilities	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	-	-	-	35.00	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 Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (27-Jul-18)	1)CARE AA; Stable (29-Jun-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	22.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (05-Aug-19)	1)CARE AA; Stable / CARE A1+ (27-Jul-18)	1)CARE AA; Stable / CARE A1+ (29-Jun-17)
3.	Fund-based - LT-Cash Credit	LT	35.00	CARE AA; Stable	-	1)CARE AA; Stable (05-Aug-19)	1)CARE AA; Stable (27-Jul-18)	1)CARE AA; Stable (29-Jun-17)
4.	Fund-based - ST-Vendor financing	ST	10.00	CARE A1+	-	1)CARE A1+ (05-Aug-19)	1)CARE A1+ (27-Jul-18)	1)CARE A1+ (29-Jun-17)

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

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

Annexure-4: List of entities getting consolidated in CSL

Sr. No.	Name of the Entity	Subsidiary / Associate / Joint venture	% Shareholding by CSL as on Mar. 31, 2020
1.	Anjani Tiles Limited	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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