

Kajaria Ramesh Tiles Limited: [ICRANP] LBB/A4+; assigned

November 20, 2023

Summary of rating action

Instrument*	Rated Amount (NPR million)	Rating Action
Fund based; long-term limits	2,180.0	[ICRANP] LBB; assigned
Fund based; short-term limits	90.0	[ICRANP] A4+; assigned
Non-fund based; short-term limits	770.0	
Total	3,040.0	

Instrument details are provided in [Annexure-1](#)

Rating action

ICRA Nepal has assigned a long-term rating of [ICRANP] LBB (pronounced ICRA NP L double B) to the long-term bank loan limits of Kajaria Ramesh Tiles Limited (KRT), and a short-term rating of [ICRANP] A4+ (pronounced ICRA NP A four plus) to the company's short-term limits.

Rationale

The assigned ratings factor in the strong promoter profile with a 50% equity stake from Kajaria Ceramics Limited (India) (KCL) and the remaining stake from the individuals related to Ramesh Corp, a Nepalese business house with established presence in the manufacturing and trading businesses. Technical expertise of the Indian JV partner and established brand recall of Kajaria in Nepal (so far through imports) remain positives for production and demand while the presence of local promoters and their traction in the local market remains a positive for the distribution aspects of KRT, which cumulatively offers some cushion against the offtake risk for the company. High duty protection accorded to local tile manufacturers through import duty of up to 40%, protects the industry against cheaper imports which remains a rating positive. The rising demand for flooring/wall tiles driven by an uptick in urbanisation has also been positively factored into the ratings.

Nonetheless, the ratings remain constrained by the execution risk associated with KRT's project, as it is in the early developmental stages (~16% of project cost incurred till September 30, 2023). Rating concerns also arise from the high proportion of debt financing (75% of project cost) for the project. A highly leveraged capital structure, coupled with moderate revenue expectation during the stabilisation phase, is likely to result in modest coverage indicators over the near to medium term. Initial offtake could be challenged by the ongoing slowdown in the construction and real estate sector activities amid the slowdown in banking sector credit. The inherent cyclical nature of the construction sector remains a concern, as it exposes the company to cash flow volatility and could potentially pose liquidity challenges, especially during periods of weak demand. This, coupled with the fast-growing number of domestic competitors and resulting industry fragmentation, increases stabilisation risk for KRT. The company's ability to timely commission the project, achieve stabilisation and operational/financial self-sufficiency will remain key rating monitorable, going forward.

Key rating drivers

Credit strengths

Strong brand recall and promoters with good experience/expertise – The promoters of KRT include Kajaria Ceramics Limited (India) and individuals associated with the Nepalese business house viz., the Ramesh Corp. Kajaria Ceramics Limited (KCL), the Indian JV partner, is a strong player in ceramic tile manufacturing industry in India with over 35 years of track record. KCL also has strong export operations in multiple countries including Nepal, under the brand name Kajaria. The experience/expertise of KCL is expected to support efficient commissioning and operations for KRT while the established brand name of Kajaria, a pre-existing dealer network and additional support from the traction of Ramesh Corp in supply/distribution are expected to support the demand/distribution aspects of the business.

Good demand prospects supported by increased urbanisation – The gradual modernisation in construction practices has led to a rising demand for wall/flooring tiles, especially in the urban areas. The long-term demand prospects of tile manufacturing companies remain good due to the ongoing urbanisation trend in Nepal.

Duty protection against imports – Until recent past, the Nepalese market was entirely dependent on imported tiles. Following the commissioning of first domestic tile manufacturing unit, the Government of Nepal has increased the import duty on imported tiles (~40% for finished product and 5% for raw material at present). High duty protection and current market demand are positive factors for the domestic manufacturers.

Credit challenges

Execution risks – The manufacturing unit of KRT is under construction at present, with targeted commercial operations towards the end of FY2024. As on September 30, 2023, the project achieved ~16% financial progress vis-à-vis the estimated project capex. Timely commissioning of the project within the budgeted estimates will remain essential for ensuring timely debt servicing. Any delays could lead to cost escalations and create a funding gap, which could affect the financial profile of the company.

High gearing; coverage indicators to depend on scalability – Given the 75% debt financing on project capex, KRT is expected to have a leveraged capital structure. Any challenges in revenue growth during the early stages could moderate the operational cash flows and stretch the coverage indicators in the early years of operations. KRT's incremental financial profile and debt coverage indicators will depend on its ability to commission the project within time and cost estimates and meet the targeted revenues.

Growing industry competition and cyclical associated with the construction industry – The number of players in the domestic ceramic tile space has grown swiftly in the last 12-18 months, following the commissioning of the first Nepalese manufacturing unit in early 2022. Most of these new players, including KRT, are likely to commence operations soon, which is likely to increase the industry fragmentation and competition. Although Kajaria's brand recall remains a strong comfort vis-à-vis other players, the ability of KRT to achieve scalability amid the competition and given the fact that major demand for ceramic tiles in Nepal is generated in the non-premium segment, remains to be seen.

The demand for KRT's product is likely to remain driven by the overall sentiment within the construction/real-estate sector, which remains lukewarm at present with moderate-to-weak future outlook. This could have an impact on KRT's capacity utilisation, revenue, working capital cycle and profit margins. Resulting volatility in the cash flow could pose liquidity challenges, especially during any periods of weak demand.

Analytical approach

For arriving at the ratings, ICRA Nepal has applied its rating methodology as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

Incorporated in 2023, Kajaria Ramesh Tiles Limited (KRT) is a 50:50 joint venture between Kajaria Ceramics Limited (India) and promoters from the Nepalese business house viz., Ramesh Corp. The company is in the process of setting up its production plant in Bardaghat in Nawalparasi District with the production capacity of ~25.6 million square feet of Glazed Vitrified Tiles (GVT) and 29.3 million square feet of wall tiles per annum. The tiles manufactured will be sold under the brand of Kajaria.

Kajaria Ceramics Limited is the largest shareholder of KRT with a 50% stake with the remaining held by seven members related to Ramesh Corp.

Annexure-1: Instrument details

Instrument	Rated Amount (NPR million)	Rating Action
Long-term limits		
Fund-based; Term Loans	2,180.0	[ICRANP] LBB; assigned
Total long-term limits - A	2,180.0	
Short-term limits		
Fund-based; Bridge Gap Loan (within LTL)	(300.0)	[ICRANP] A4+; assigned
Fund-based; Cash Credit	90.0	
Fund-based; Cash Credit, Demand Loan, Trust Receipt (within LC)	(410.0)	
Non-fund-based; Letter of Credit	470.0	
Non-fund-based; Bank Guarantee	300.0	
Total short-term limits - B		
Grand Total (A+B)	3,040.0	

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