



PHOTOS: SAMI ROSE

Leadership initiatives

Ashok Kajaria with sons Chetan and Rishi: enjoying the leadership position

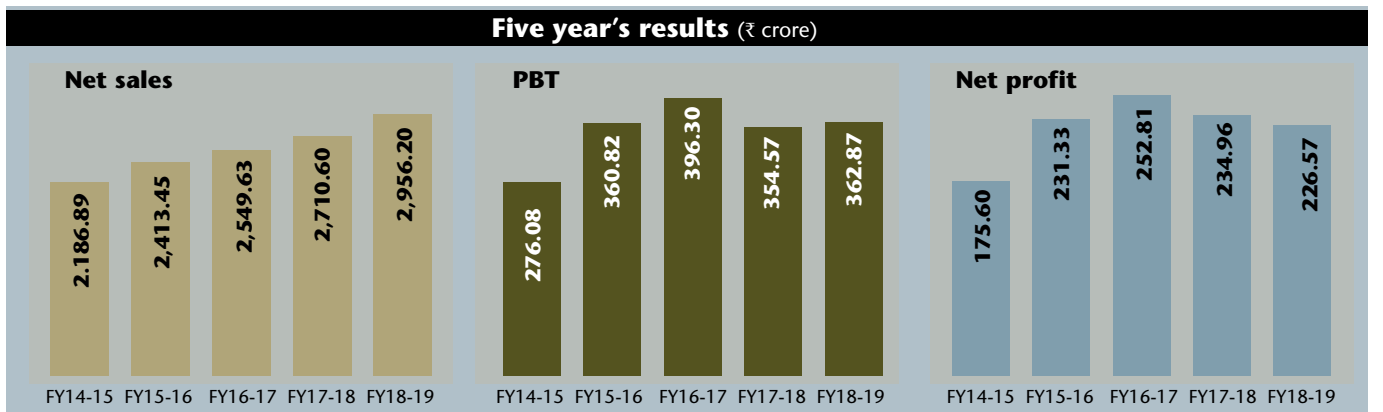
Kajaria, the leader in the tile industry, is expanding its marketing reach

The tile industry's growth is dependent on the growth of the real estate sector, which has experienced many ups and downs in the past decade. In boom times, the tile industry had put up myriad plants and in times of slowdown the demand remained subdued. Many had to operate at lower utilisation and this affected the margin. Notwithstanding

the slowdown, the Delhi-based Kajaria Ceramics Limited has grown steadily. With an annual capacity of 73 million sq m Kajaria is the largest manufacturer of ceramic/vitrified tiles in the country and the 9th largest globally. "Our USP lies in a focussed approach, good dealer network, branding and being close to the markets across the country. It is important to have sustainable

growth and we make steady moves to achieve that," says Ashok Kajaria founder and chairman of the company.

The market size of the tile industry in India is roughly ₹28,000 crore, of which organised brands constitute 45 per cent. The remaining 55 per cent are unbranded. "We are the market leader and hold 20 per cent of the organised market," says Chetan Kajaria, joint managing director. The ₹3,000 crore Kajaria Ceramics with a market cap of ₹8,400 crore, achieved a CAGR of 7 per



cent in the past three years when the industry witnessed a flat or negative growth. The company reflects a mindset where manufacturing is accompanied by large investments in research, branding and services. To strengthen its market share, Kajaria has recently set up a new manufacturing facility in the south.

Multi-location presence

The new plant at Srikalahasti, Chittoor district in Andhra Pradesh was commissioned in September this year at a cost of ₹150 crore. The funding was met through internal accruals. This green-field project is spread across 150 acres of land. The plant was built on 40 acres; the rest is for future expansion. The fully automatic state-of-the-art facility can produce 5 million sq m of Glazed Vitrified Tiles (GVT). The machine has been imported from Sacmi of Italy, a world leader in tile manufacturing machines. The modern kiln saves almost 15 per cent of the fuel, compared to the industry. The polishing lines from Keda China give the final surface of the tile. The well-equipped laboratory does the raw material analysis and monitors the production. Kajaria uses LNG, a clean technology from Ennore port. The plant is capable of producing several sizes ranging from 600/600 mm to 800/1600 mm.

“The new GVT plant reflects our strategy of multi-location presence. This will not only bring us closer to the market but also improve our logistics for the southern markets, to which currently we are supplying GVT from the north,” says Rishi Kajaria, joint managing director. The company is increasing the dealer strength. The south is the second largest market for tiles, with 30 per cent share, after the north. Kajaria claims to have 25 per cent share in the south. The new plant will benefit the company. Andhra has abundant raw materials like clay, talc, potash feldspar, etc. Rishi, who spent several nights at the site during construction, expects the Srikalahasti GVT plant to add ₹250 crore to the company's topline, when it reaches its full production capacity next year.

Ashok Kajaria, a veteran in the tile industry, has seen the revolution through his journey. His family in Kolkata was in trading, exporting



Agarwal: presenting a creditable report card

engineering goods to the Middle East. Kajaria shifted to Delhi in 1982, with an ambition to set up his own business. He explored the opportunity in the tile industry and moved into the segment. In 1988, he tied up with Todagres of Spain for technical collaboration and set up his first ceramic tile plant at Sikandrabad in Uttar Pradesh, with a capacity of 1 million sq m per annum with an investment of ₹14 crore. “Todagres was one of the top global tile manufacturers of ceramic glazed tiles. They helped us in design, drawing and training,” recalls the 70-year-old Kajaria.

From 1 million sq m per annum in 1988 to 73 million sq m at present with multi-location plants employing 2,600 people, the company has

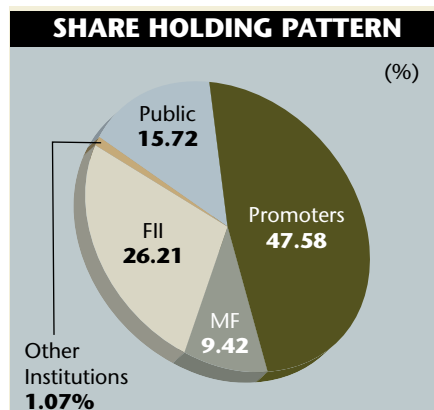
grown tremendously. Ashok Kajaria is actively involved in the business and has a hands-on approach at the macro level. His sons Chetan (45) and Rishi (41) – joint managing directors – are now taking the company to the next level. The promoter holds 47.58 per cent of the company, 15.72 per cent is held by the public, FIIs hold 26.22 per cent; MFS 9.42 per cent and 1.07 per cent is with other institutions.

The company had witnessed several upturns and downturns but always remained profitable for the past 30 years. “Our EBITDA margin of above 15 per cent is the highest in the industry. We are a cash surplus company,” says Sanjeev Agarwal, CFO, Kajaria Ceramics. H&R Johnson and Somany Ceramics are the second and third largest players in the segment. But in terms of profitability, Somany commands second position.

“Kajaria Ceramics is built around proactive management, brand visibility, distribution network and investing in efficient logistics management, which has defined its success. It maintained an impressive growth even in the toughest phase of the industry,” says Girish Choudhary, vice president, Spark Capital Advisors.

After consolidating its position as leader in the tile industry, Kajaria diversified into the plywood business last year. It formed Kajaria Plywood, a wholly-owned subsidiary offering wood panel products under the brand Kajaria PLY. “Today, 80 per cent of the plywood industry (estimated at ₹30,000 crore) is in the hands of unorganised/unbranded players. So we found there is huge opportunity in the segment. We leverage our brand and market knowledge,” says Chetan who had convinced the board to venture into plywood. However, the company adopted an asset light model. Kajaria has tied up with some manufacturers with good production facilities and technology in Rudrapur in Uttarakhand and in Gandhidham, Gujarat for outsourcing. There are several hundred small plywood units in the country struggling with the GST regime. Kajaria is taking advantages of the disruption in the market. Currently there are only two large national players in the segment – Centuryply and Greenply.

Though Kajaria is a new entrant





Srikalahasti plant will strengthen the southern market

in the plywood business, its performance proves it is here to stay. The company has hired industry experts from Centuryply and Greenply. It has built a strong marketing and distribution network. Kajaria PLY roped in Bollywood star Ranveer Singh as brand ambassador. “We have received a good response from the market. We want to progress steadily. We have started with plywood and flush doors; once we have an in-depth understanding, we might go for in for laminate MDF in the future,” explains Chetan. In FY19 the business clocked ₹17 crore, which is likely double by the end of this fiscal. Chetan expects a revenue of ₹200 crore from plywood, in the next five years. While Kajaria plans for growth in plywood, tiles will always remain the core business of the company.

There has been a major evolution in the ceramic tile industry. Two decades ago one would choose a marble, mosaic or wooden floor. Today with a wide range of designs, textures and colours available, as well as aesthetic finishes the tile industry in India has witnessed a sea change in flooring and wall decorative solutions. Not only are they used in bathrooms and kitchens but also in drawing rooms, bedrooms, on stairs, terraces as well as in commercial areas. Ceramic tiles help increase surface lifespan and make it easy to clean. The usage of tiles has grown multifold. With technological advancements, the ceramic tile industry has not only grown but many

value-added products like glazed vitrified tiles, polished vitrified tiles, large-size slabs, wall ceramic tiles, etc., have also been launched.

India has retained its position as the second largest producer and consumer in the industry after China. India’s production increased from 1,080 to 1,145 million sq m, while domestic consumption fell marginally to 750 million sq m, down by 10 million sq m. Morbi, an industrial town in Rajkot, is the second largest manufacturer of

tiles in the world and, with 800 units, accounts for 50 per cent of India’s production. They are mostly unbranded and unorganised. These low cost producers compete with organised brands. But the GST regime is set to change the game. It will gradually shift the unorganised to the organised sector due to tax compliance. India, once dependent on China, has now almost stopped importing tiles. “A mere two per cent of tiles now come from China. Today, India is the most cost-efficient tile producer. With several countries imposing anti-dumping duty on China, it is no longer competitive and the industry is struggling. There are about 1,600 tile manufacturing plants in China of which many have closed down due to lack of domestic demand,” explains Ashok Kajaria.

Consumer preferences

Kajaria has 8 tile manufacturing facilities across the country with a capacity to produce 73 million sq m (msm) of ceramic wall & floor tiles, polished vitrified tiles and glazed vitrified tiles. Its plants are situated in Sikan-drabad, with a capacity of 8.40 msm, Gailpur (34.30 msm), Malutna (6.50 msm), Srikalahasti (5 msm), three units at Morbi with a total capacity of 18.80 msm and Vijayawada (2.90 msm capacity). The units at Morbi and Vijayawada are joint ventures, where Kajaria holds majority shares. All the plants run at 95 per cent capacity as opposed to the typical 70 per cent utilisation in the industry.

The company’s Gailpur plant in Rajasthan – set up in 1998 – with

SEGMENT-WISE REVENUE (₹ crore)		
TILES	BATHWARE	PLYWOOD
2,752	185	16

PEER COMPARISON					
For the financial year ended 2018-19 (₹ crore)					
	Kajaria	H&R Johnson	Somany	Asian Granito	Orient Bell
Net Turnover	2,956	1,827	1,715	1,187	571.00
EBITDA	449	60	163	87	37.00
EBITDA Margin (%)	15.20	3.28	9.53	7.29	6.48
Depreciation	89	NA	44	27	7.00
EBIT	378	5	138	63	22.00
Interest	16	NA	46	35	9.00
PBT	358	NA	80	29	14.00
Tax	129	NA	27	10	5.00
PAT	227	NA	46	21	9.00
PAT (%)	7.66	NA	2.70	1.76	1.63

34.30 msm, is the largest single-location ceramic tile unit in the country. It produces 25.20 msm of ceramic wall and floor tiles and 9.10 msm of glazed vitrified tiles. Gailpur produces almost half the company's total production.

While ceramic tiles continue to be the highest selling category for the company, vitrified tiles are the major growth driver. In the past decade revenue from glazed vitrified tiles rose from zero to ₹775 crore. Ceramic, glazed vitrified tiles and polished vitrified tiles contribute 36 per cent, 25 per cent and 33 per cent respectively to the company's net sales. A vitrified tile has zero water absorption, which makes it relatively harder than ceramic tiles.

"Indian consumers have developed an appetite for style and aesthetics and we are continuously working to keep up with their aspirations. We have to move with the times to retain our leadership position," says Vivek Goyal, vice president, marketing, ceramics division. The company's tiles are produced in a wide range of colours, designs and textures for home architecture and commercial usage, at all price points. It offers 2,400 types of products showcased pan-India through its 1,700 dealer network. "Our target is to spread our dealership network in all the 543 constituencies in the country in the next one year. Currently we have a presence in 343 constituencies," says Chetan. Kajaria has designed four templates – Galaxy, Star, Prima Plus and Ambience – for brand display at dealers' showrooms. The company also has 30 large experience centres across the country, that display all the products of the company.

While manufacturers in the segment largely depend on the real estate market, Kajaria has changed the trend and focused more on the retail sale by strengthening the branding exercise. "The strategy pays dividends. Today, the company's retail and project ratio is 70:30 as against 50:50 among its peers. The retail margin is 5-6 per cent higher than the projects," clarifies Agarwal, CFO. The company claims to enjoy a premium on its brand.

Kajaria is aggressive in branding to increase its visibility whether it is through print media, TV commercials, cinema commercials, airports or in cricket stadia. Visit any airport in the



Glazed Vitrified Tiles: growing faster

country and it is certain that almost 70 per cent of them will have the Kajaria brand visible on luggage trolleys or displays above baggage carousels. "Branding is important and we have been doing it for years. We always had our brand endorsed by celebrities from the film industry; now others are copying us. We spend close to ₹100 crore on branding," says Rishi. Bollywood hero Akshay Kumar is the current brand ambassador for the Kajaria tile.

Government initiatives

"Kajaria is an excellent company, which has been growing well. It has large network and wide product ranges. But quality-wise we are superior in the industry," says Abhisekh Somany managing director Somany Ceramics, a competitor. Six months ago, Somany had put up a new facility of 3.5 msm capacity in Srikalahasti.

Lakshmi Ceramics, an exclusive dealer in Coimbatore for Kajaria, has 12 stores across Tamil Nadu. It has been associated with Kajaria for the last 18 years. "Kajaria has stronger brand recall in the industry than any other players," says S. Muthuraman, who owns the dealership. "Its large product basket meets customer requirements. The management's policy is to allow loyal dealers to grow with the company," he adds. However, Muthuraman wants Kajaria to focus more on product innovation in this fiercely competitive market.

For the past 2-3 years, the industry

has been through a tough time due to the challenging phase of the economy and tight liquidity which has led to a slowdown in the real estate sector. The tile industry's growth is highly dependent on the real estate sector. Chetan, who is also the present chairman, ICC-TAS (Indian Council of Ceramics Tiles and Sanitaryware) believes the market has touched bottom and it is now only going to go up due to some positive initiatives by the government. "The GST and e-way bill compliances are set to create a level playing field for the industry. Besides, the government's various initiatives to leg up the real-estate segment and the expected personal income tax reduction will bring positive sentiments," says Chetan.

"GST has done wonders for the industry. It has made the movement of goods easy and reduced delivery time significantly," remarks Ashok Kajaria. "Today our dealers are happy as they do not need to pile up a huge inventory. The supply is much faster now," says he.

In a recent development, the Gujarat High Court put an end to using coal-based gasifiers for tile manufacturing in Morbi. The verdict came after some 100 small manufacturers had filed a petition in the high court to allow them to use coal gasifiers. Earlier in March, the National Tribunal Bench directed all units to stop using coal gasifiers as they cause pollution. It suggests the use of LNG/PNG. The judgement ensured the move to clean technology.



New plant is close to the raw material



Kajaria gets the benefit of multi-location plants

Gas is more expensive than coal, but a kiln fired by gas lasts more than ten years. However, a coal-fired kiln needs to be replaced every three years. Though the cost for setting up gas-based kilns is greater, it has long-term benefits and less pollution. In Morbi, out of 800 units, 500 unorganised units were buying coals in credit from local suppliers. The arrangement was dubious as the transactions were mostly in cash. These units now have to pay in advance to GSPC (Gujarat State Petroleum Corporation) to get their gas supply. This triggered a liquidity crisis and many of them have closed down their units. Welcoming the Gujarat High Court order, Chetan says, "Inequality does not create a

clean business environment. The verdict is good for the industry."

Redefining the bathroom experience

Kajaria entered the bathware segment with a brand called Kerovit in 2014 by setting up a plant in Morbi. It is a natural extension of the segment. Kajaria Bathware is a subsidiary of Kajaria Ceramics, which owns the Kerovit brand. Kajaria owns 85 per cent of the company and the remaining 15 per cent is with Aravali Investment Holdings, Mauritius. "Initially we started importing sanitaryware and faucets from Victra, a leading company in Turkey in 2011, and this continued for three years. Then we decided to set up our own manufacturing facility that

improved the margin," recalls Rishi. The Morbi unit's capacity expanded from 5.40 lakh pieces to 7.50 lakh pieces per annum of sanitaryware. In 2015, Kajaria set up a faucet plant at Gailpur adjacent to the company's tile manufacturing unit with an investment of ₹43 crore. The faucet unit has the capacity to produce 10 lakh units per annum. The company uses Kajaria and non-Kajaria dealerships to sell its bathware brand Kerovit.

With the changing tide of bathware requirements, Kerovit is focussed on completely redefining the bathroom experience of Indian consumers. Their contemporary design and elegant aesthetic are suitable for modern living spaces. The company has signed on Bollywood actor Anushka Sharma as its brand ambassador. "Kerovit received overwhelming response in the market. Last year we grew almost 35 per cent," says Rishi. In FY19 the bathware segment clocked a turnover of ₹185 crore. Jaquar is the leader of the ₹12,000 crore segment. Rishi claims the company will become a significant player in bathware within the next four years.

Kajaria reported a net sales of ₹2,956 crore in March 2019 as against ₹2,711 crore in March 2018 – a growth of 9 per cent. The net profit marginally decreased to ₹227 crore in 2019 from ₹235 crore in March 2018. The current stock price is hovering around ₹537 on the bourses. "Our growth is consistent. The company has not made any losses since inception," claims Agarwal.

For the six months ended September 2019, the company achieved a revenue of ₹1,426 crore as against ₹1,389 crore during the corresponding previous period. The net profit till September 2019 is ₹143 crore as against ₹96 crore in September 2018.

Commenting on the company, Rohan Gupta, Research Analyst of Edelweiss Securities says, "Kajaria's sustained gain in market share, higher than industry margins and return ratios, has led to continuous rerating of the stock that attracts more investors."

Kajaria has established markets, newer markets, new business, and immense scope to leverage. With all these favourable factors, the company is expected to retain its leadership position.

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