Dated: 22nd August 2024

To,	To,
BSE Limited Corporate Relations Department Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 **Security Code: 543327**	**National Stock Exchange of India Ltd.** Corporate Relations Department Exchange Plaza, Block G,C/1, Bandra Kurla Complex, Bandra (E), Mumbai –400 051 **Symbol: EXXARO**

Dear Sir/Madam,

Subject: Intimation in respect of Credit Ratings under the Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, as amended ("SEBI Listing Regulations")

Pursuant to the provisions of Regulation 30 (read with Schedule III) of the SEBI Listing Regulations, we wish to inform you that, after due consideration, CRISIL Ratings Limited **("CRISIL")** has assigned as below rating.

Facilities	**Amount (Rs. Cr)**	**Rating Assigned**	**Rating Action**
Long Term/short term Bank Facilities (Fund Based)	106	**CRISIL BBB/Negative**	**Downgraded from 'CRISIL BBB+ / Stable' and outlook revised to 'Negative'**
Short Term Bank Facilities (Non Fund Based)	16	**CRISIL A3+**	**Downgraded from CRISIL A2**
Total	**122**		

Company has received the same on 21st August 2024 at 02:51 PM.

Thanking You

Yours Faithfully

For Exxaro Tiles Limited

Mukeshkumar Babubhai Patel
Digitally signed by Mukeshkumar Babubhai Patel
Date: 2024.08.22 11:57:06 +05'30'

Mr. Mukeshkumar B. Patel
Managing Director
DIN: 01944968

Encl: Rating Letter from CRISIL

Exxaro Tiles Limited

Ratings downgraded to 'CRISIL BBB / CRISIL A3+ '; outlook revised to 'Negative'

Rating Action

Total Bank Loan Facilities Rated	**Rs.122 Crore**
Long Term Rating	**CRISIL BBB/Negative (Downgraded from 'CRISIL BBB+ / Stable' and outlook revised to 'Negative')**
Short Term Rating	**CRISIL A3+ (Downgraded from 'CRISIL A2 ')**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.

1 crore = 10 million
Refer to annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has downgraded its ratings on the bank facilities of Exxaro Tiles Ltd (ETL) to **'CRISIL BBB/Negative/CRISIL A3+'** from 'CRISIL BBB+/Stable/CRISIL A2'

The downgrade in the ratings factors in the significant moderation in its overall business risk profile is reflected in its overall revenue and profitability over the years as well as over the past several quarters (ending June 30, 2024). Revenue of the company remained at Rs 301.68 crores with an operating margin of 8.8% in FY24 from Rs 314.89 crores with an operating margin of 11.03% in FY23. This further declined to 0.25% in the first quarter of fiscal 2025 (Q1FY25); this resulted in negative profit after tax (PAT) of Rs 4.27 crore and negative net cash accrual (NCA) of Rs 1.92 crore in Q1FY25. This was a result of high marketing expenditure incurred, closure of the plant for 3-4 weeks for its upgradation, low offtake and high competition in the market resulting in lower realisation of few of its product range, impacting cost efficiency, which weakened the debt coverage metrics.

CRISIL believes that the business risk profile of ETL, particularly its operating profitability, will see a moderation in fiscal 2025 (as against previous fiscals) and the recovery thereafter shall remain stable. Operating profitability is expected at 7-8% for fiscal 2025 due to lower-than-expected profitability of reported during Q1FY25. This in turn narrowed the cushion between net cash accruals (NCA) and repayment obligation (RO) for Q1FY25 and this will lead to adequate though stretched liquidity as BLU too remained high over the last 12 months ended June 2024. While operating performance is expected to improve over the medium term amidst strategic decision undertaken by the management with further management's expectation of normalisation in operating performance from the second quarter of fiscal 2025 onwards and low impact of aforesaid reasons over the medium term, its timely recovery and sustenance thereafter will remain monitorable. Any delay in recovery of the operating margin or further decline shall impact on the business risk profile and its liquidity, hence it will be closely monitored.

The ratings consider comfortable financial risk profile owing to sizeable networth and moderate debt on books. Resultantly, gearing is estimated at 0.35 time and total outside liabilities to tangible networth (TOL/TNW) ratio at 0.76 time as on March 31, 2024. While NCA declined in fiscal 2024, and further declined to negative Rs 1.92 crore in Q1FY25, narrowing the cushion in NCA/RO, liquidity for Q1FY25 shall remain supported by available balance in the bank limit and cash and bank balance of Rs 2.74 crore as on June 30, 2024.

The ratings continue to reflect an established market presence and comfortable financial risk profile. These strengths are partially offset by declining scale of operations, large working capital requirement, susceptibility of profitability to volatile raw material and gas prices and vulnerability to intense competition and cyclicality in the end-user industry.

Key Rating Drivers & Detailed Description

Strengths:

Established market presence

ETL has an established market presence, benefiting from the two-decade experience of the promoters, their strong understanding of market dynamics and healthy distribution network. The company has a network of over 800 dealers and 2000+ touch points where its products are sold under the Exxaro brand. It benefits from its production being almost totally in house and sales in its own brand with presence in large-sized tiles. Revenue stood at Rs 301.68 crore in fiscal 2024 and is expected to improve with capacity utilisation and new arrangements made by the company; however, it will remain a key monitorable.

Comfortable financial risk profile

Networth stood at Rs 276.8 crore with gearing at 0.35 time and TOL/TNW ratio at 0.76 time as on March 31, 2024. In the past few fiscals through 2024, the company had moderate debt protection metrics supported by steady profitability and leverage; interest coverage ratio is estimated at 1.89 times and NCA to adjusted debt ratio at 0.12 time for fiscal 2024. High borrowing and interest costs/burden restrained interest coverage. The capital structure is expected to remain comfortable going forward. Peak leverage is expected to remain below 0.7 time over the medium term. In the absence of any large, debt-funded capital expenditure (capex) over the medium term, the financial risk profile is expected to improve further with accretion to reserve and scheduled debt repayment.

Weaknesses:

Declining scale of operations and large working capital requirement

ETL had clocked revenue of Rs 301.68 crore in fiscal 2024 (registering on-year degrowth of 5%), reflecting average scale of operations. In Q1FY25, revenue remained Rs 59.83 crore, which is lower than the average of its past five quarters on account of overall decline in demand for its double charge vitrified tiles and lesser offtake of its glazed vitrified tiles.

Further, gross current assets have been 270-350 days for the past three fiscals and were 350 days as on March 31, 2024, driven by huge inventory of 195 days on account of a wide range of designs and continuous changes in the same with production being largely in-house. Also, the company had debtors of around 120-150 days, led by extension of large credit to dealers. The working capital is partially supported by extended credit received from suppliers 200-300 days. While ETL is undertaking measures to control the working capital cycle, the extent and sustenance of the improvement remains a key monitorable.

Susceptibility of its profitability to volatile raw material and gas prices

Raw materials (different types of clay, feldspar, silica, kaolin and carbonates) comprise 35-40% of the total operating cost, while cost of gas and power forms 35-40%. Hence, even a slight variation in input prices will drastically impact profitability.

Operating margin declined to 8.8% in fiscal 2024 from 20.25% in fiscal 2021 and further to 0.25% in Q1FY25. This led to a negative PAT of Rs 4.27 crore in Q1FY25. Profitability was also impacted by sizeable marketing expenditures incurred in Q1FY25 for its advertising campaign. Improvement and sustenance of the margin will remain monitorable.

Vulnerability to intense competition and cyclicality in the end-user industry
ETL caters to the real estate, construction and infrastructure industries, whose performance is strongly correlated with economic cycles. Due to economic recessions in the past, the construction sector faced a slowdown, with several projects getting delayed or cancelled, restraining the performance of ceramic tile manufacturers. Besides, the industry is intensely competitive and dominated by unorganised entities. However, with changes such as closure of ceramic units running on coal gasifiers, and implementation of the Goods and Services Tax and Real Estate (Regulation and Development) Act, 2016, organised players have gained market share in value terms.

Despite being a leading player in the ceramic tiles industry, the company faces intense competition from unorganised entities and reputed brands. The ability to pass on any increase in raw material cost, amidst the competitive scenario, remains a key rating sensitivity factor. Any moderation in demand from the real estate sector and its impact on pricing and offtake will be closely monitored.

Liquidity: Adequate
Bank limit utilisation was around 89.47% (fund-based + non-fund-based) for the 12 months through June 2024. Cash accrual is projected at more than Rs 11 crore, against yearly debt obligation of Rs 7.5 crore over the medium term. Unencumbered fixed deposit/cash and bank balance stood at Rs 3.4 crore and current ratio at 1.62 times on March 31, 2024. Low gearing and moderate networth also support financial flexibility.

Outlook: Negative
The business risk profile of ETL will continue to weaken, marked by lower-than-expected operating performance, leading to lower cash accrual and stretched liquidity.

Rating Sensitivity factors
Upward factors
- Considerable rise in revenue with operating margin over 11-12% leading to higher net cash accruals
- Decline in working capital intensity and subsequently improvement in financial risk profile, especially liquidity

Downward factors
- Decline in revenue or operating profitability declining below 7% over the next few quarters, resulting in lower-than-expected NCA.
- Further stretch in the working capital cycle, constraining the debt servicing ability of the company.
- Any large, debt-funded capex

About the Company
ETL is engaged in the manufacturing and marketing of vitrified tiles that are primarily used as flooring solutions. It was set up fiscal 2008 as a partnership firm that manufactured frit, a raw material used in tile manufacturing and have over the years, diversified, expanded and evolved into a manufacturer of vitrified tiles. It has two manufacturing units in Gujarat (Unit 1 - Padra in Vadodara and Unit 2- Talod in Sabarkantha) and has total installed capacity of 146 lakh square metre. The company is listed on the Bombay Stock Exchange and National Stock Exchange.

Key Financial Indicators

As on / for the period ended March 31		**2024**	**2023**
Operating income	Rs crore	303.96	318.54
Reported profit after tax	Rs crore	2.28	7.30
PAT margins	%	0.75	2.29
Adjusted Debt/Adjusted Net worth	Times	0.35	0.34
Interest coverage	Times	1.89	3.79

Status of non-cooperation with previous CRA: ETL had previously not cooperated with Brickwork Ratings India Pvt Ltd, which had published its ratings as an issuer not cooperating vide a release since June 15, 2023. The reason provided by Brickwork Ratings India Pvt Ltd was non furnishing of information by ETL for monitoring the ratings.

Any other information: Not applicable

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments

Annexure - Details of Instrument(s)

ISIN	**Name of instrument**	**Date of allotment**	**Coupon rate (%)**	**Maturity date**	**Issue size (Rs.Crore)**	**Complexity level**	**Rating assigned and outlook**
NA	Cash Credit	NA	NA	NA	70	NA	CRISIL BBB/Negative
NA	Term Loan	NA	NA	Feb-2028	7.83	NA	CRISIL BBB/Negative
NA	Bank Guarantee	NA	NA	NA	11.4	NA	CRISIL A3+
NA	Letter of Credit	NA	NA	NA	4.6	NA	CRISIL A3+
NA	Working Capital Term Loan	NA	NA	Feb-2028	22.0	NA	CRISIL BBB/Negative
NA	Proposed Fund-Based Bank Limits	NA	NA	NA	5.67	NA	CRISIL BBB/Negative
NA	Credit Exposure Limits / Loan Exposure Risk Limits	NA	NA	NA	0.5	NA	CRISIL A3+

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	ST/LT	106.0	CRISIL A3+ / CRISIL BBB/Negative		--	20-11-23	CRISIL BBB+/Stable / CRISIL A2	10-08-22	CRISIL BBB+/Positive / CRISIL A2	12-11-21	CRISIL BBB+/Stable	Suspended
			--		--	13-10-23	CRISIL BBB+/Stable		--		--	--
Non-Fund Based Facilities	ST	16.0	CRISIL A3+		--	20-11-23	CRISIL A2	10-08-22	CRISIL A2	12-11-21	CRISIL A2	Suspended
			--		--	13-10-23	CRISIL A2		--		--	--

All amounts are in Rs.Cr.

Annexure – Details of Bank Lenders/Facilities

Facility	Amount (Rs. Crore)	Name of Lender	Rating
Bank Guarantee	11.4	State Bank of India	CRISIL A3+
Cash Credit	35	State Bank of India	CRISIL BBB/Negative
Cash Credit	35	Axis Bank Limited	CRISIL BBB/Negative
Credit Exposure Limits / Loan Exposure Risk Limits	0.5	State Bank of India	CRISIL A3+
Letter of Credit	4.6	State Bank of India	CRISIL A3+
Proposed Fund-Based Bank Limits	5.67	Not Applicable	CRISIL BBB/Negative
Term Loan	7.83	Axis Bank Limited	CRISIL BBB/Negative
Working Capital Term Loan	22	Axis Bank Limited	CRISIL BBB/Negative

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For more information, visit www.crisilratings.com

About CRISIL Limited

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It is India’s foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

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