

November 2, 2023

RESULT REPORT Q2 FY24 | Sector: Building Materials

# Cera Sanitaryware Ltd

Steady performance to continue, assign **NEUTRAL!**

## Result Synopsis

Cera Sanitaryware Ltd (CRS) registered a steady performance in Q2FY24 wherein revenue grew by 11.5%YoY & 8%QoQ to Rs4.63Bn. Gross margin contracted sequentially by 296bps & 197bps YoY to 52.9%. However, due to lower employee cost & other expenses EBITDA margin remained steady at 16.5% as compared to 16.3%/16.4% in Q2FY23/Q1FY24 respectively. Sanitaryware sales (51% of revenue) grew by 5.3%YoY & 4%QoQ to Rs2.36Bn (5-year CAGR came in at 8%), faucet sales (36% of revenue) registered a growth of 18%YoY & 11.2%QoQ to Rs1.67Bn (5-year CAGR came in at 22%). Other segment revenue stood at Rs603mn, a growth of 21% YoY & 17% QoQ. Mix of Entry/Medium/Premium segment stood at 25%/32%/43% respectively during the quarter. Sanitaryware & Faucets plant operated at 91% & 122% respectively.

Company has expanded its faucet capacity to 4lac pcs/month from 3lac pcs/month during the quarter. For new Sanitaryware unit, title deed would be executed in next 1-2 months and unit will be commissioning in 24 months from 0-date. Management expects sanitaryware segment to grow by 12-17%YoY & has guided overall revenue growth of 19-25%CAGR for medium-term.

Overall, we remain positive on Cera's growth trajectory, given the healthy industry tailwinds & strong presence in Tier II & III towns (which account for ~66% of revenue). Moreover, company's wide product offering & constant innovation will enable Cera to expand the share of premium products to its overall revenue. Thus, we expect topline to grow by 13%CAGR over FY23-25E with marginal improvement in its margins to 16.5%/17% in FY24E/FY25E respectively. Consequently, EBITDA/PAT is likely to grow by 16%/20% CAGR over FY23-25E. Cera continues to maintain a robust balance sheet with healthy cash balance of Rs7.51Bn as on Sep'23 & the same is likely to strengthen as we expect company to generate FCF of Rs4Bn over FY24-FY25E. At, CMP stock trades at P/E(x) of 41x/35x on FY24E/FY25E EPS of Rs 197/Rs233 respectively. We continue to value the company at P/E(x) of 35x on FY25E EPS, arriving at a target price of Rs8,139, assigning a NEUTRAL rating.

## Result Highlights

- Consol revenue stood at Rs4.63bn (our est of Rs4.49bn), registering a growth of 12%YoY & 8%QoQ.
- EBITDA Margin came in at 16.5% (our est 16.5%) as compared to 16.3%/16.4% in Q2FY23/Q1FY24 respectively.
- Net Profit increased by 12%YoY & remained flat QoQ to Rs574Mn.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	4,637	4,492	4,707	3.2%	-1.5%	
EBITDA	765	741	776	3.2%	-1.5%	
EBITDA Margin (%)	16.5	16.5	16.5	0 bps	0 bps	Revenue higher than expectations, margin was in-line.
Adjusted PAT	574	598	597	-4.0%	-3.8%	

Source: Company, YES Sec

Reco	: <b>NEUTRAL</b>
CMP	: Rs 8,132
Target Price	: Rs 8,139
Potential Upside	: -

## Stock data (as on Nov 2, 2023)

Nifty	19,133
52 Week h/l (Rs)	9740 / 4963
Market cap (Rs/USD mn)	106107 / 1275
Outstanding Shares (mn)	13
6m Avg t/o (Rs mn):	203
Div yield (%):	0.6
Bloomberg code:	CRS IN
NSE code:	CERA

## Stock performance



	1M	3M	1Y
Absolute return	-4.4%	5.2%	50.1%

## Shareholding pattern (As of Sep'23 end)

Promoter	54.5%
FII+DII	29.3%
Others	16.2%

## Δ in stance

	New	Old
Rating	NEUTRAL	REDUCE
Target Price	8,139	8,471

## Δ in earnings estimates

	FY24E	FY25E	FY26E
EPS (New)	196.9	232.6	269.1
EPS (Old)	196.7	242.0	-
% change	0.1%	-3.9%	-

## Financial Summary

(Rs mn)	FY24E	FY25E	FY26E
Net Revenue	20,034	23,157	26,382
YoY Growth	11.1	15.6	13.9
EBIDTA	3,306	3,937	4,485
EBIDTA (%)	16.5	17.0	17.0
PAT	2,559	3,023	3,499
YoY Growth	21.2	18.1	15.7
ROE	19.8	19.4	18.8
EPS	196.9	232.6	269.1
P/E	41.3	35.0	30.2
BV/Share	1,086	1,305	1,562
P/BV	7.5	6.2	5.2

## UDIT GAJIWALA

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## Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
Revenue	3,972	4,159	4,578	5,325	4,289	4,637	11.5	8.1	8,131	8,926	9.8
Expenditure	3,344	3,480	3,828	4,453	3,585	3,872	11.3	8.0	6,824	7,457	9.3
- RM	1,847	1,838	2,082	2,480	1,937	2,186	18.9	12.8	3,685	4,123	11.9
- Staff Cost	497	556	539	554	576	585	5.1	1.5	1,053	1,161	10.2
- Other Cost	1,000	1,086	1,207	1,419	1,072	1,102	1.4	2.8	2,086	2,173	4.2
Operating Profit	628	679	750	872	704	765	12.6	8.7	1,308	1,469	12.3
OPM(%)	15.8	16.3	16.4	16.4	16.4	16.5	17 bps	8 bps	16.1	16.5	38 bps
Other Income	(6)	106	132	124	153	125	18.5	(17.9)	100	278	179.4
Depreciation	75	82	85	83	83	89	8.1	7.1	157	172	9.5
Interest	11	14	14	21	13	14	(2.4)	3.0	25	27	8.3
PBT	536	688	783	842	760	772	12.1	1.5	1,225	1,532	25.1
Tax	137	177	214	210	193	198	11.6	2.4	314	391	24.3
PAT	399	511	569	632	567	574	12.3	1.3	910	1,141	25.4

Source: Company, YES Sec

## Exhibit 3: Operational Numbers:

Revenue (Rs Mn)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
Sanitary	2,145	2,246	2,472	2,822	2,273	2,365	5.3	4.0	4,391	4,638	5.6
Faucets	1,390	1,414	1,511	1,864	1,501	1,669	18.0	11.2	2,804	3,170	13.1
Tiles	397	416	549	586	472	510	22.6	8.1	813	982	20.7
Wellness	40	83	46	53	43	93	11.5	116.2	123	136	10.4
Sales-Mix (%)	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	Q1 FY24	Q2 FY24	% yoy	% qoq	H1FY23	H1FY24	% yoy
Sanitary	54	54	54	53	53	51	-300 bps	-200 bps	54%	52%	-2 bps
Faucets	35	34	33	35	35	36	200 bps	100 bps	34%	36%	1 bps
Tiles	10	10	12	11	11	11	100 bps	0 bps	10%	11%	1 bps
Wellness	1	2	1	1	1	2	0 bps	100 bps	2%	2%	0 bps

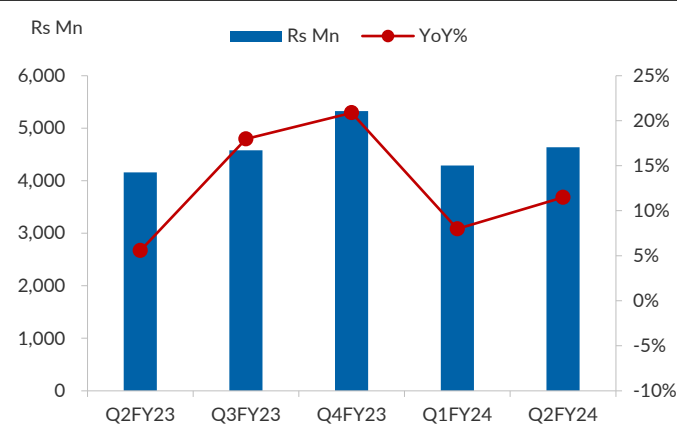
Source: Company, YES Sec

## KEY HIGHLIGHTS FROM CONCALL

- Management stated that demand was sluggish in Tier-II&III cities during the quarter. However there has been robust pick-up in demand from Oct'23. Company expects to grow topline to Rs25Bn by March'25. For sanitaryware the management expects this biz to grow by 12-17%YoY. Overall management guided for 19-25%CAGR for medium-term.
- Company has not taken any price hikes since May'22 (17 months).
- **Utilization:** Sanitaryware plant operated at 91%. In Faucets, company expanded capacity to 4lac pcs/month from 3lac pcs/month. For Q2FY24, the utilization stood at 122%. The expanded capacity will manufacture coloured SKUs, PVD SKUs and company will bring-in some of the outsourced products to inhouse.
- Imports from China stood at 2.4% of sales Vs 4.3% in Q2FY23.
- Gas cost for the quarter stood at Rs33/cbm constituting 1.5% of topline. GAIL contributed 70% of gas requirement wherein prices were Rs29/cbm Vs Rs26/cbm in Q2FY23. Sabarmati Gas contributed 30% of gas requirement & the cost was Rs45/cbm Vs Rs75/cbm in Q2FY23.
- **Raw material:** Cost of China clay/Feldspar/PoP/Glaze went up by 18%/4%/1%/3% respectively. Cost of zinc reduced by 28%YoY while brass cost went up by 2%.
- In Q2FY24, 94% of energy needs were met by in-house renewable sources.
- **Capex:** For sanitaryware company is in process of getting title clearance for a land in next 1-2months. The plant will be commissioning in 24 months from 0-date. Capex cost for FY24 excluding the expansion of sanitaryware will be Rs340Mn of which Rs70Mn was spent in Q2FY24.
- More than 16,500 dealers uploaded over 2.2lac invoices on company's dealer loyalty app. This data will enable company to oversee the geographic SKUs and understand consumer preferences.
- Company launched ~1,000 new products in past 3-years & the same constituted 29%of revenue for Q2FY24.
- Advertisement cost for Q2FY24 stood at Rs150Mn Vs Rs40Mn in Q2FY23. Company estimates add spends would be around Rs650Mn for FY24.
- The mix of T1/T2/T3 cities to total revenue stood at 33%/22%/45% respectively.
- Mix of Entry/Medium/Premium segment stood at 25%/32%/43% respectively.
- Working capital days stood at 60-days Vs 71-days in Q2FY23. The Inventory/Debtors/Creditor days stood at 72/29/42 in Q2FY24 Vs 81/26/36 in Q2FY23 respectively.
- GVT constituted 41% of total tile sales. Management does not intend to have more than 10-12% of total revenue from Tiles biz.
- Top-100 dealers constitute 42% of sales while top-500 dealers form ~77%.

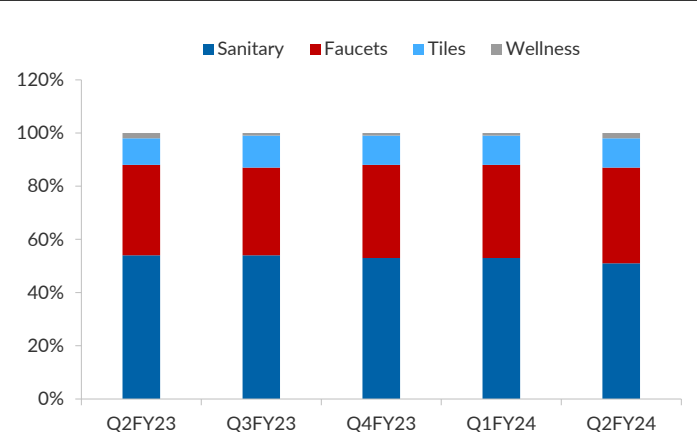
## QUARTERLY TRENDS

**Exhibit 4: Revenue up by 11%YoY...**



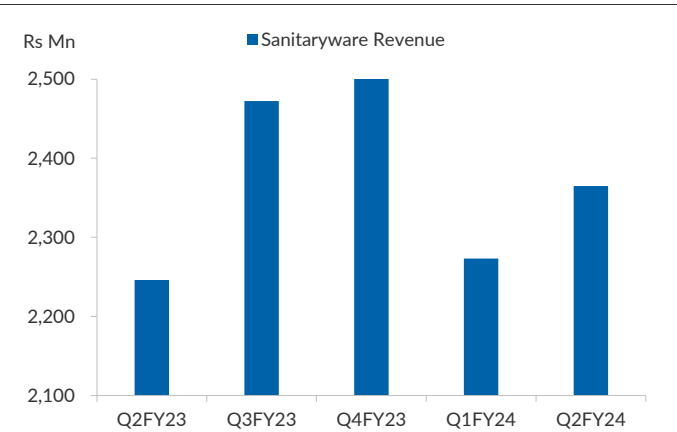
Source: Company, YES Sec

**Exhibit 5: Sanitary constitutes 51% of revenue ...**



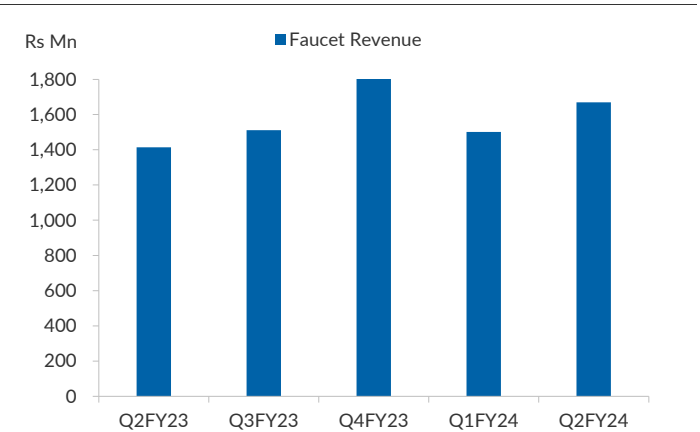
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**Exhibit 6: Sanitaryware revenue grew by 5%YoY...**



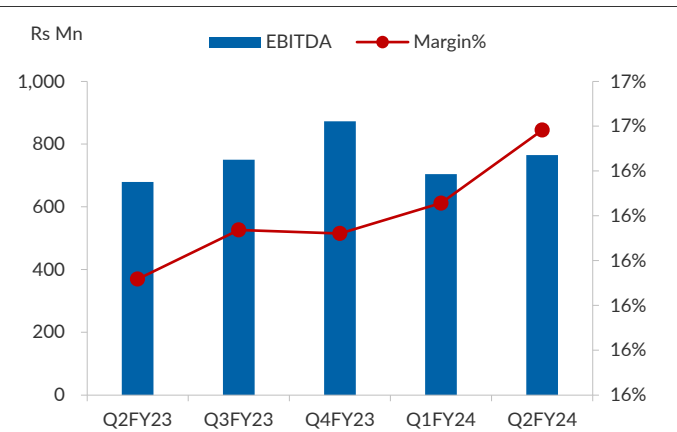
Source: Company, YES Sec

**Exhibit 7: Faucet revenue increased by 18%YoY ...**



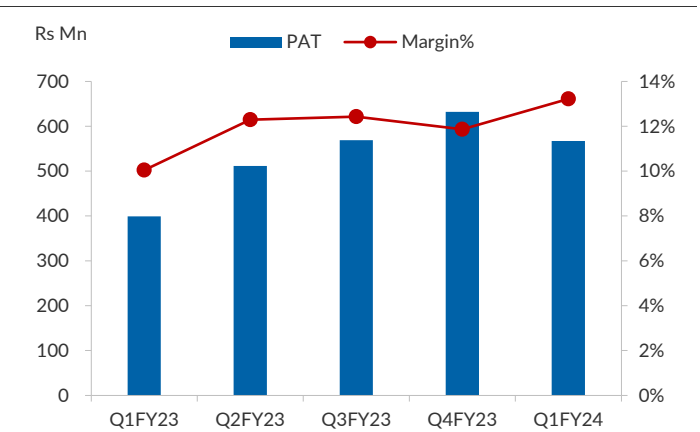
Source: Company, YES Sec

**Exhibit 8: Blended margin came in at 16.5%...**



Source: Company, YES Sec

**Exhibit 9: Net profit stood at Rs574mn...**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Sales	14,458	18,035	20,034	23,157	26,382
COGS	6,836	8,246	9,173	10,609	11,865
COGS %sales	47.3	45.7	45.8	45.8	45.0
GP	7,623	9,789	10,860	12,548	14,517
GP%	52.7	54.3	54.2	54.2	55.0
EBITDA	2,288	2,930	3,306	3,937	4,485
EBITDA%	15.8	16.2	16.5	17.0	17.0
Depreciation	324	326	346	380	420
Other Income	247	356	512	533	659
Finance Cost	53	60	59	59	59
PBT	2,159	2,899	3,412	4,031	4,665
Tax	560	738	853	1,008	1,166
PAT	1,541	2,111	2,559	3,023	3,499
PAT%	10.7	11.7	12.8	13.1	13.3

Source: Company, YES Sec

### Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Share Capital	65	65	65	65	65
Reserves	10,086	11,661	14,052	16,906	20,236
Equity	10,151	11,726	14,117	16,971	20,301
Payables	3,027	2,069	2,302	2,662	2,977
Provisions	24	131	131	131	131
Other current Liab	1,005	1,448	1,448	1,448	1,448
<b>Total Equity &amp; Liab</b>	<b>15,517</b>	<b>16,766</b>	<b>19,389</b>	<b>22,603</b>	<b>26,248</b>
Gross Block	5,645	5,903	6,753	7,253	7,753
Acc Dep	2,439	2,765	3,111	3,491	3,911
Net Block	3,207	3,138	3,642	3,762	3,842
CWIP	7	169	169	169	169
Other Noncurrent	517	469	469	469	469
Inventory	2,937	3,825	4,255	4,921	5,504
Investments	5,272	6,345	6,345	6,345	6,345
Receivables	1,648	1,892	2,101	2,429	2,767
Cash & Bank	149	262	1,742	3,842	6,487
Loans	48	40	40	40	40
Other	1,574	375	375	375	375
<b>Total Assets</b>	<b>15,517</b>	<b>16,766</b>	<b>19,389</b>	<b>22,603</b>	<b>26,248</b>

Source: Company, YES Sec

## Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
PBT	2,090	2,849	3,412	4,031	4,665
Depreciation & Amortization	324	326	346	380	420
Finance cost	53	60	59	59	59
(Incr)/Decr in Working Capital	(988)	(770)	(407)	(633)	(606)
Taxes	(515)	(727)	(853)	(1,008)	(1,166)
<b>Cash from ops.</b>	<b>985</b>	<b>1,624</b>	<b>2,558</b>	<b>2,828</b>	<b>3,372</b>
(Incr)/ Decr in PP&E	(196)	(391)	(850)	(500)	(500)
<b>Cash Flow from Investing</b>	<b>(815)</b>	<b>(1,054)</b>	<b>(850)</b>	<b>(500)</b>	<b>(500)</b>
(Decr)/Incr in Borrowings	149	(13)	-	-	-
Finance cost	(33)	(36)	(59)	(59)	(59)
<b>Cash Flow from Financing</b>	<b>(100)</b>	<b>(596)</b>	<b>(228)</b>	<b>(228)</b>	<b>(228)</b>
<b>Incr/(Decr) in cash</b>	<b>71</b>	<b>(26)</b>	<b>1,480</b>	<b>2,101</b>	<b>2,644</b>
Cash and cash equivalents at beginning of year	104	139	262	1,742	3,842
Cash and cash equivalents at end of year	175	113	1,742	3,842	6,487

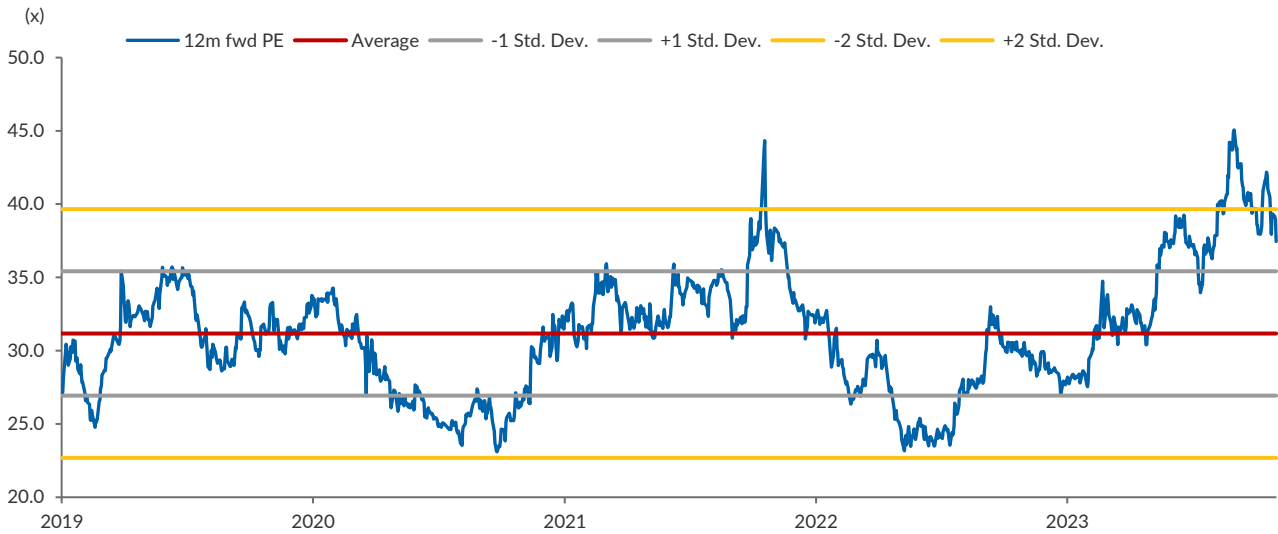
Source: Company, YES Sec

## Exhibit 13: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E	FY26E
<b>Growth (%)</b>					
Total Sales	18.1	24.7	11.1	15.6	13.9
EBIDTA	44.8	28.1	12.8	19.1	13.9
EBIT	53.9	33.9	17.3	17.8	15.5
PAT	54.2	37.0	21.2	18.1	15.7
<b>Profitability (%)</b>					
GP Margin	52.7	54.3	54.2	54.2	55.0
EBIDTA Margins	15.8	16.2	16.5	17.0	17.0
EBIT Margins	15.3	16.4	17.3	17.7	17.9
PAT Margins	10.7	11.7	12.8	13.1	13.3
ROCE	21.1	24.9	24.9	24.7	24.1
ROE	16.3	19.3	19.8	19.4	18.8
<b>Per Share Data (Rs)</b>					
EPS	117.7	161.9	196.9	232.6	269.1
CEPS	143.5	187.5	223.5	261.8	301.5
BVPS	780.9	902.0	1,085.9	1,305.4	1,561.6
<b>Valuations (x)</b>					
P/E (x)	33.6	38.9	41.3	35.0	30.2
P/CEPS (x)	27.6	33.6	36.4	31.1	27.0
P/BV (x)	5.1	7.0	7.5	6.2	5.2
EV/EBIDTA	22.6	27.9	31.5	25.9	22.2
<b>Gearing Ratios</b>					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net Debt/Equity	0.0	(0.0)	(0.1)	(0.2)	(0.3)
Net Debt/EBIDTA	(4.3)	(3.9)	(4.2)	(4.2)	(4.5)
Int Coverage	42.1	49.1	59.0	69.6	80.4
<b>WCC Days</b>					
Debtors	42	38	38	38	38
Inventory	157	169	169	169	169
Creditors	162	92	92	92	92

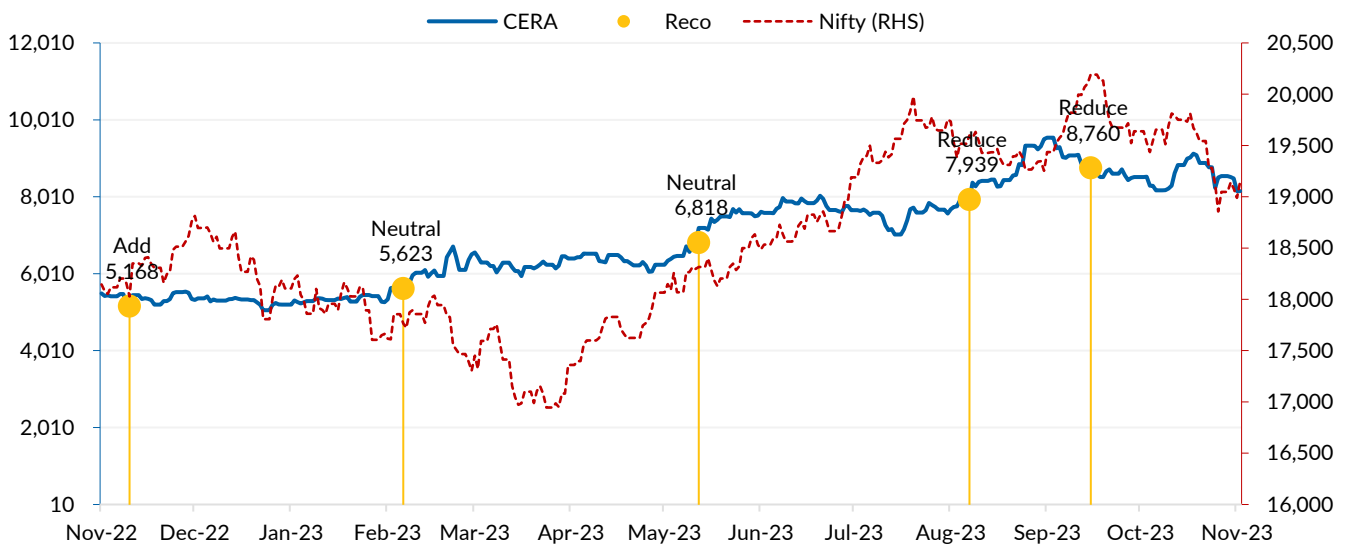
Source: Company, YES Sec

**Exhibit 14: 1-year forward P/E (x) chart**



Source: Company, YES Sec

## Recommendation Tracker



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**Grievances Redressal Cell:** customer.service@ysil.in/igc@ysil.in



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Name of the Research Analyst : Udit Gajiwala, Vicky Waghvani

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5	YSL has received any compensation from the subject company in the past twelve months	No
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8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

**BUY:** Upside greater than 20% over 12 months

**ADD:** Upside between 10% to 20% over 12 months

**NEUTRAL:** Upside between 0% to 10% over 12 months

**REDUCE:** Downside between 0% to -10% over 12 months

**SELL:** Downside greater than -10% over 12 months

**NOT RATED / UNDER REVIEW**

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