

Cera Sanitaryware

Steady state quarter; maintains growth guidance

Cera's sales grew by 12% YoY to record its highest second quarterly sales of Rs4.6bn. 1H is seasonally a slow period for the company contributing ~45% to the annual sales. Sanitaryware/Faucetware grew by 4/16% YoY contributing 51/36% respectively. New products contributed 29% (in-line to 1QFY24). Gross margins declined by 300bps YoY (-200bps QoQ) at 52.9%. EBITDA margins, however improved marginally by 20bps YoY to 16.5%. For 1HFY24, sales/EBITDA/PAT grew by 10/12/25% with EBITDAM improvement of 40bps to 16.5%. We maintain our bullish stance on Cera on account of sustained growth in real estate market, market leadership of Cera and strong balance sheet. We roll forward to FY26 and revise our FY25 EPS estimates by +1% and maintain Buy rating on the stock with new TP of Rs10,886 valuing at 40x (earlier 38x) 1HFY26E EPS. We increase our TM given the consistency in its operating performance.

Continues to grow and expand margins as guided

Cera grew its sales by 18/25% in FY22/FY23. 1H growth stood at 10% due to seasonality and some moderation in demand in tier 2/3 towns led by persistent inflation. 2H usually contributes ~55% to total sales. Management remains confident of growing by 17-19% in FY24. This is led by 3 key factors – better product availability, higher contribution (29% in 2Q) from new products compared to industry average of 10% and Cera's Retail Loyalty Program. This program has completed more than a year of operation registering over 0.22mn invoices uploaded by over 16,500 retailers. It is first such program in the industry that is helping Cera improve stickiness with the retailers. Cera has now commenced similar loyalty program for plumbers.

Capacity expansion on track

The brownfield faucetware capacity has come on stream in September'23 and will reach at peak production (4L pcs/mo) by end of FY24. Management expects to clock peak sales of Rs2.5bn from this facility giving an asset turn of 4x+. Apart from this, Cera is doing Greenfield expansion in Sanitaryware with addition of 12L pieces per month over existing base of 25L. Cera is in final process of land acquisition in GJ and total deeds are expected to be executed in next three months. We believe this capacity will add to the sales by start of FY26 and will add Rs3.3bn to sales at peak.

Maintain guidance of doubling of sales in 3.5 years

Given the robust demand, management maintains its guidance of doubling the sales over FY22-1HFY26. Growth momentum is expected to continue with CAGR sales growth expectation of 17-19% over FY23-26E. The growth will be further aided by increasing contribution from new products (launched within last 3 years) and possible market share gains. Cera achieved higher contribution of 29% from its new products in this quarter (in-line to 1Q) which used to be in the range of 20-25% in last 2-3 years. Cera launched 1000 new products over the last 3 years.

Valuations remain attractive

We expect Cera's sales/EBITDA/PAT to grow at CAGR of 17/19/21% respectively over FY23-25E and EBITDA margins to expand from 16.2% in FY23 to 17.7% in FY26. We roll forward to FY26 and revise our FY25 EPS estimates by +1% and maintain Buy rating on the stock with new TP of Rs10,886 valuing at 40x (earlier 38x) 1HFY26E EPS.

Financial and valuation summary

YE Mar (Rs mn)	2QFY24A	2QFY23A	YoY (%)	1QFY24A	QoQ (%)	FY24E	FY25E	FY26E
Revenues	4,637	4,159	11.5	4,289	8.1	21,026	24,487	28,191
EBITDA	765	679	12.6	704	8.6	3,512	4,186	4,982
EBITDA margin (%)	16.5	16.3	1.0	16.4	0 bps	16.7	17.1	17.7
Adj. Net profit	589	511	15.3	567	4.0	2,541	3,083	3,721
Adj. EPS (Rs)	45.3	39.3	15.3	43.6	4.0	203.3	246.6	297.7
EPS growth (%)						17.6	21.3	20.7
PE (x)						40.1	33.1	27.4
EV/EBITDA (x)						28.9	23.9	0.0
PBV (x)						7.6	6.5	5.6
RoE (%)						20.2	21.2	21.9
RoCE (%)						20.0	21.0	21.8

Source: Company, Centrum Broking

Please see Disclaimer for analyst certifications and all other important disclosures.

Result Update

India I Building Materials

03 November, 2023

BUY

Price: Rs8,158
Target Price: Rs10,886
Forecast return: 33%

Institutional Research

Market Data

Bloomberg:	CRS IN
52 week H/L:	9,782/4,950
Market cap:	Rs106.1bn
Shares Outstanding:	13.0mn
Free float:	64.0%
Avg. daily vol. 3mth:	24,684

Source: Bloomberg

Changes in the report

Rating:	Unchanged
Target price:	+17%; Rs10,886 from Rs9,317
EPS:	FY24E: Unchanged; FY25E: +1%

Source: Centrum Broking

Shareholding pattern

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	54.5	54.5	54.5	54.5
FIIs	20.9	19.4	18.0	17.5
DIIIs	8.4	9.0	9.7	9.4
Public/other	16.2	17.1	17.8	18.6

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q2FY24	Actual Q2FY24	Variance (%)
Revenue	4,575	4,637	1.3
EBITDA	733	765	4.3
EBITDA margin (%)	16.0	16.5	50bps
PBT	789	772	-2.2
Adj. PAT	588	574	-2.4

Source: Bloomberg, Centrum Broking



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Building Materials

Thesis Snapshot

Estimate revision

YE Mar (Rs mn)	FY24E New	FY24E Old	% chg	FY25E New	FY25E Old	% chg
Revenue	21,026	21,026	0.0	24,487	24,487	0.0
EBITDA	3,512	3,512	0.0	4,186	4,162	0.6
EBITDA margin %	16.7	16.7	0bps	17.1	17.0	10bps
Adj. PAT	2,541	2,541	0.0	3,083	3,065	0.6
Diluted EPS (Rs)	203.3	203.3	0.0	246.6	245.2	0.6

Source: Centrum Broking

Cera Sanitaryware versus NIFTY Midcap 100

	1m	6m	1 year
CRS IN	(4.6)	28.1	49.7
NIFTY Midcap 100	(3.0)	22.5	24.1

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY24E	FY25E	FY26E
Segmental Growth (%)	16.6	16.5	15.1
Sanitaryware	15.0	17.0	14.0
Faucetware	20.0	18.0	18.0
Tiles	15.0	10.0	12.0
Wellness	8.0	8.0	8.0
Gross Margin (%)	54.5	54.7	54.8

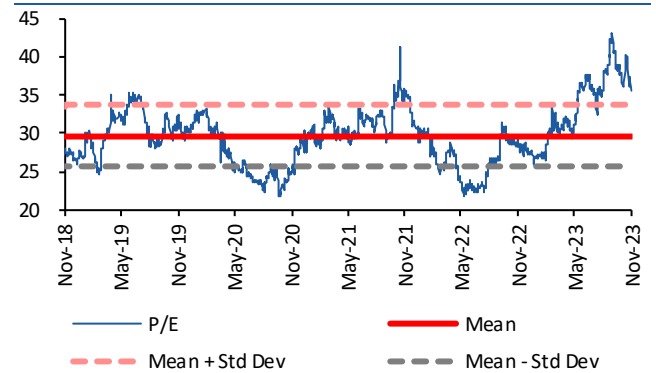
Source: Centrum Broking

Valuations

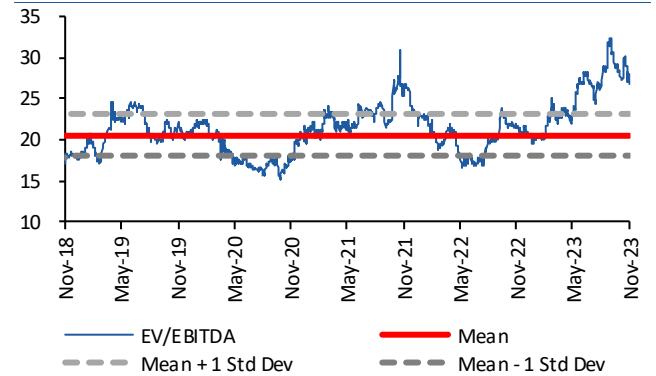
We expect Cera's sales/EBITDA/PAT to grow at CAGR of 16/19/21% respectively over FY23-26E and EBITDA margins to expand from 16.2% in FY23 to 17.7% in FY26. We maintain Buy rating on the stock with 40x (earlier 38x) 1HFY26E EPS to arrive at target price of Rs10,886. We increase our target multiple given the consistency in its growth and operating performance.

Valuations	Rs/share
1HFY26E EPS	272.1
Target Multiple (X)	40
Target Price	10,886

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

2QFY24 Earnings conference call KTAs

Introductory Remarks:

- **Key developments in 1HFY24**
 - Deepened its product reach with increased number of SKUs
 - Gained market share in B2C segment
 - Captured market efficiencies
 - Upgrade and refresh consumer perception of Cera brand
- No price hikes since May'22 – last 17 months
- Sanitaryware capacity utilization: 91%; cautiously reduced production of sanitaryware in 2Q
- Faucetware capacity expanded from 3L to 4L pieces in Sept'24; plant was running at 122% utilization rate before expansion
- GM: decline of 290bps (historically GM: 48-52%, last year was outlier in terms of GM of 55%)
- EBITDAM guidance: to expand 50-75bps every year; FY24 target achieved
- Ad spends: Rs32cr in FY22 to Rs57cr in FY23
- China imports: Rs18cr, 4% vs. Rs11cr in 2QFY23
- Land parcel in GJ under due diligence, execution of transfer to happen in next 1-2 months
- **RM for Sanitaryware:**
 - clay: +18%
 - Fled spar: +4%
 - Plaster of Paris: +2%
 - Glaze: -28%
- **RM for Faucetware:**
 - Brass: +2%
 - Zamak: -22%
- Gas prices:
 - Gail prices below market
 - gas prices by Gail: Rs29cbm vs. Rs26cbm in 2QFY23
 - 50% gas needs from Gail usually in 2Q it was 70%
 - Sabarmati gas: down from Rs75 to Rs45 YoY, 30% of gas supply
 - Weighted average gas price for Cera: Rs33cbm in 2QFY24, 1.5% of sales
- Renewable energy: 94% of energy met through solar
- **Loyalty program:**
 - 16,500 retailers now enrolled on the app
 - 2.22L invoices generated through app
 - Rs96cr sales eligible for loyalty in 2Q; 38% of retail sales
 - Plumbers program too launched given the success of retailer loyalty
- **New product launches:**
 - 72 new products launched in 2QFY24
 - 699 in FY23

- Usually in past company used to launch 100 new products every year
- **Ad spends guidance:**
 - Rs65cr in FY24; as % of sales in-line to FY23
- **Sales tier wise:**
 - Tier1 (17L+ population): 33%
 - Tier 2 (3-17L): 22%
 - Tier 3 (below 3L): 45%
- Contribution product wise:
 - Sanitaryware: 51%
 - Faucetware: 36%
 - Tiles: 11%
 - Wellness: 2%
- **Capex guidance:**
 - Rs35cr (Rs7cr spent in 2Q)
- Cash and Cash equivalent:
 - Rs750cr vs. Rs571cr in 2QFY23 (+Rs179cr)
- Sales premium mix:
 - Premium: 43%
 - Mid Premium: 32%
 - Entry: 25%

Demand scenario:

- Do not see headwinds
- Dramatic increase in sales trend in October
- 2Q sales growth was relatively low only because of seasonality
- Company's focus on new product introduction, production education to retailers, plumbers is helping them grow
- All engines are firing as of now
- Medium term growth: 19-21%; +18-19% in FY24

Faucetware segment sales:

- Like sanitaryware, capacity constraint was not a challenge even till the expansion happens
- Faucetware: Rs611cr +28% in FY23
- 2Q: Rs164cr +16%; can reach atleast Rs750cr in FY24

Tiles demand too strong:

- GVT (premium range): 41%
- Soluble salt: 3%
- Double charged (expensive, long slabs): 15%
- Wall tiles: 25%
- Premium product sales doing good but want to limit sales of tiles to 10-12%
- Avoiding temptation of growth over higher credit, lower margins etc.

Gross margin fluctuation:

- Can be because of no price hikes taken
- Can also do with product mix of sanitaryware and faucetware

Sanitaryware capacity:

- Enough capacity is available
- Vendor ecosystem not as developed as faucetware and tiles
- 10th straight quarters with no capacity constraint

Maintain sales guidance:

- Rs2550cr by FY25
- And Rs2900cr run-rate by 1HFY26

Channel margins:

- If MRP: Rs100 then cost of purchase for distributor is Rs70 while for retailer it will be Rs77. Retailer will keep some margins and will pass on some to end consumers.

Exhibit 1: 2QFY24 Financial Snapshot

Y/E March (Rsmn)	2QFY24	2QFY23	1QFY24	YoY(%)	QoQ %	1HFY23	1HFY24	YoY %
Revenues	4,637	4,159	4,289	11.5	8.1	8,131	8,926	9.8
Raw material	2,186	1,838	1,937	18.9	12.8	3,685	4,123	11.9
Gross Margins (%)	52.9	55.8	54.8	-300bps	-200bps	54.7	53.8	-90bps
Gross Profits	2,451	2,322	2,352	5.6	4.2	4,447	4,803	8.0
Staff costs	585	556	576	5.2	1.5	1,053	1,161	10.2
Other expenses	1,102	1,086	1,072	1.4	2.8	2,086	2,173	4.2
Total expenditure	3,872	3,480	3,585	11.3	8.0	6,824	7,457	9.3
EBITDA	765	679	704	12.6	8.6	1,308	1,469	12.3
EBITDAM (%)	16.5	16.3	16.4	20bps	10bps	16.1	16.5	40bps
Depreciation	89	82	83	8.1	7.0	157	172	9.4
Other Income	125	106	153	18.5	-18.0	99	278	179.6
Interest Expenses	14	14	13	-2.3	2.8	25	27	8.0
PBT	787	688	760	14.3	3.6	1,224	1,547	25.1
Tax	198	177	193	11.7	2.4	314	391	24.4
Net profit	574	511	567	12.2	1.2	910	1,141	25.4
EPS (Rs.)	43.7	39.1	43.5	11.8	0.5	69.5	87.1	25.3

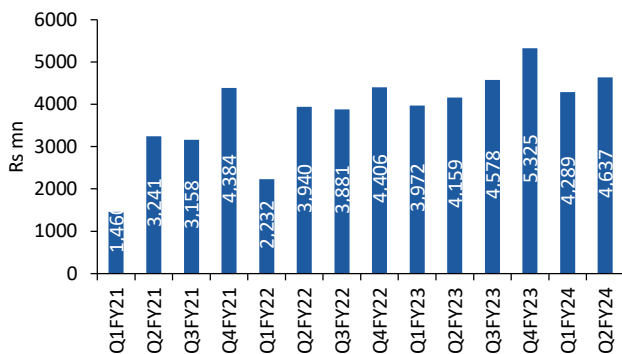
Source: Centrum Broking, Company Data

Exhibit 2: Quarterly P&L Trend

	3QFY21	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24
Sales	3,158	4,384	2,232	3,940	3,881	4,406	3,972	4,159	4,578	5,325	4,289	4,637
YoY(%)	-2.9	49.5	52.8	21.6	22.9	0.5	78.0	5.6	18.0	20.9	8.0	11.5
Cost of Goods Sold	1,694	2,164	989	1,944	1,846	2,056	1,847	1,838	2,082	2,480	1,937	2,186
Gross Profit	1,463	2,220	1,243	1,996	2,035	2,349	2,125	2,322	2,496	2,845	2,352	2,451
Gross Margins (%)	46.3	50.6	55.7	50.6	52.4	53.3	53.5	55.8	54.5	53.4	54.8	52.9
Employee Expenses	357	483	437	482	489	528	497	556	539	554	576	585
YoY(%)	-15.9	-	35.5	28.8	37.1	9.3	13.8	15.4	10.2	4.9	15.9	5.2
Other Expenses	675	1,036	594	916	915	974	1,000	1,086	1,207	1,419	1,072	1,102
%sales	21.4	22.5	26.6	23.2	23.6	22.1	25.2	26.1	26.4	26.6	25.0	23.8
Total Expenses	2,726	3,683	2,020	3,342	3,251	3,558	3,344	3,480	3,828	4,453	3,585	3,872
EBITDA	432	701	212	598	630	848	628	679	750	872	704	765
EBITDAM(%)	13.7	16.0	9.5	15.2	16.2	19.2	15.8	16.3	16.4	16.4	16.4	16.5
Depreciation	100	100	77	81	83	83	75	82	85	83	83	89
EBIT	332	601	134	517	547	765	553	597	665	789	621	676
EBIT(%)	10.5	13.7	6.0	13.1	14.1	17.4	13.9	14.3	14.5	14.8	14.5	14.6
Other Income	94	43	59	71	43	64	-6	106	132	124	153	125
Interest Cost	23	28	12	12	12	17	11	14	14	21	13	14
PBT	403	616	181	576	578	754	536	688	783	841	760	772
PBT(%)	12.8	14.0	8.1	14.6	14.9	17.1	13.5	16.6	17.1	15.8	17.7	16.6
PAT	307	477	135	430	431	534	399	511	569	632	567	574
PAT(%)	9.7	10.9	6.0	10.9	11.1	12.1	10.0	12.3	12.4	11.9	13.2	12.4
EPS	23.0	35.2	9.4	33.1	32.6	40.4	30.5	39.1	43.5	48.8	43.5	43.7

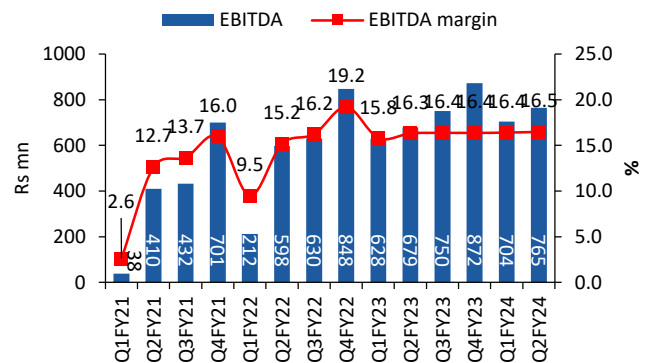
Source: Centrum Broking, Company Data

Exhibit 3: Quarterly Sales



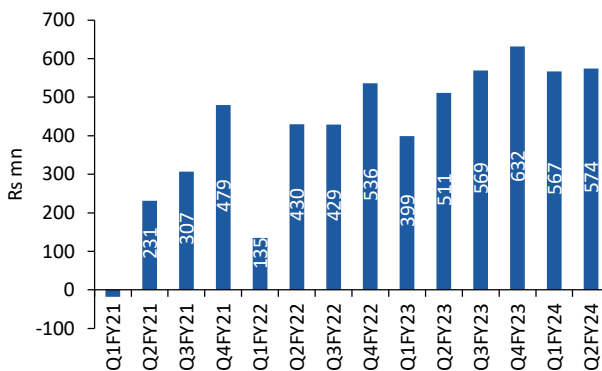
Source: Centrum Broking, Company Data

Exhibit 4: Quarterly EBITDA and margins



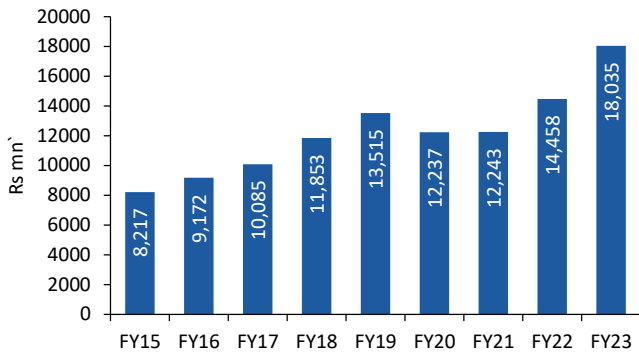
Source: Centrum Broking, Company Data

Exhibit 5: Quarterly PAT



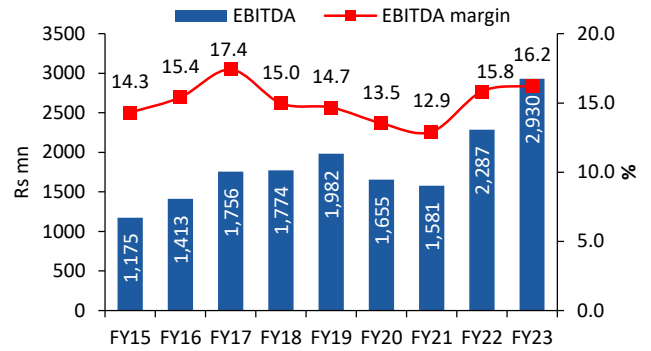
Source: Centrum Broking, Company Data

Exhibit 6: Annual Sales



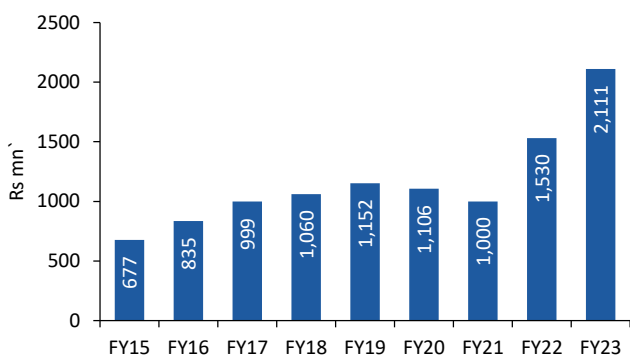
Source: Centrum Broking, Company Data

Exhibit 7: Annual EBITDA and margins



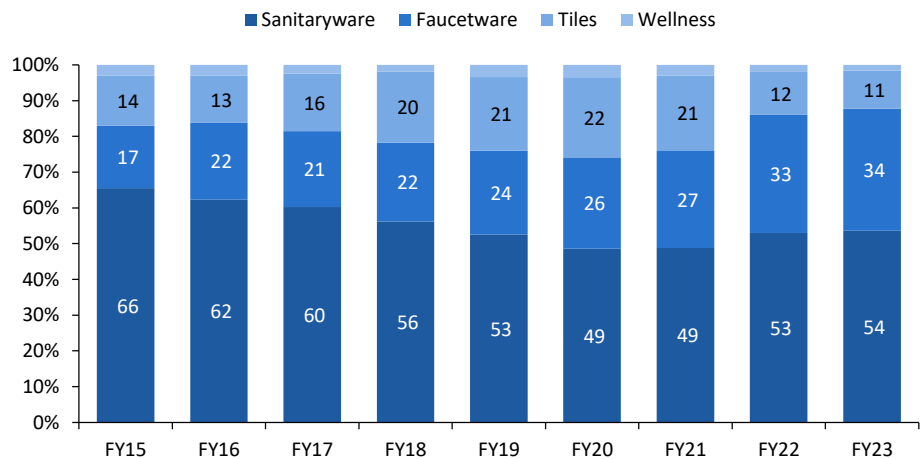
Source: Centrum Broking, Company Data

Exhibit 8: Annual PAT



Source: Centrum Broking, Company Data

Exhibit 9: Segmental movement



Source: Centrum Broking, Company Data

P&L					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenues	14,458	18,035	21,026	24,487	28,191
Operating Expense	6,836	8,246	9,567	11,093	12,743
Employee cost	1,936	2,147	2,447	2,814	3,321
Others	3,399	4,712	5,499	6,394	7,146
EBITDA	2,287	2,930	3,512	4,186	4,982
Depreciation & Amortisation	324	326	400	430	434
EBIT	1,963	2,604	3,113	3,757	4,547
Interest expenses	53	60	60	60	60
Other income	236	356	378	465	536
PBT	2,147	2,899	3,431	4,162	5,022
Taxes	560	738	889	1,079	1,302
Effective tax rate (%)	26.1	25.5	25.9	25.9	25.9
PAT	1,587	2,161	2,541	3,083	3,721
Minority/Associates	0	0	0	0	0
Recurring PAT	1,587	2,161	2,541	3,083	3,721
Extraordinary items	(57)	(50)	0	0	0
Reported PAT	1,530	2,111	2,541	3,083	3,721

Ratios					
YE Mar	FY22A	FY23A	FY24E	FY25E	FY26E
Growth (%)					
Revenue	18.1	24.7	16.6	16.5	15.1
EBITDA	44.7	28.1	19.9	19.2	19.0
Adj. EPS	58.8	36.1	17.6	21.3	20.7
Margins (%)					
Gross	52.7	54.3	54.5	54.7	54.8
EBITDA	15.8	16.2	16.7	17.1	17.7
EBIT	13.6	14.4	14.8	15.3	16.1
Adjusted PAT	10.6	11.7	12.1	12.6	13.2
Returns (%)					
ROE	16.8	19.8	20.2	21.2	21.9
ROCE	16.2	19.5	20.0	21.0	21.8
ROIC	24.7	30.1	30.5	32.8	45.7
Turnover (days)					
Gross block turnover ratio (x)	2.7	3.3	3.4	3.5	3.9
Debtors	47	36	36	37	37
Inventory	132	150	161	164	144
Creditors	92	88	86	86	87
Net working capital	53	49	52	52	32
Solvency (x)					
Net debt-equity	0.0	0.0	0.0	(0.1)	(0.3)
Interest coverage ratio	43.3	48.4	58.1	69.2	82.4
Net debt/EBITDA	0.0	0.0	(0.2)	(0.5)	(1.2)
Per share (Rs)					
Adjusted EPS	127.0	172.8	203.3	246.6	297.7
BVPS	812.1	938.1	1,075.3	1,249.4	1,466.8
CEPS	152.9	198.9	235.3	281.0	332.4
DPS	13.5	36.4	30.5	37.0	44.6
Dividend payout (%)	11.1	21.6	15.0	15.0	15.0
Valuation (x)					
P/E	64.3	47.2	40.1	33.1	27.4
P/BV	10.0	8.7	7.6	6.5	5.6
EV/EBITDA	44.6	34.8	28.9	23.9	0.0
Dividend yield (%)	0.2	0.4	0.4	0.5	0.5

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Equity share capital	65	65	65	65	65
Reserves & surplus	10,086	11,661	13,376	15,552	18,270
Shareholders fund	10,152	11,726	13,441	15,617	18,335
Minority Interest	142	106	106	106	106
Total debt	267	253	253	212	212
Non Current Liabilities	481	581	597	613	629
Def tax liab. (net)	354	376	376	376	376
Total liabilities	11,396	13,044	14,775	16,924	19,658
Gross block	5,304	5,441	6,241	7,041	7,241
Less: acc. Depreciation	(2,097)	(2,303)	(2,703)	(3,133)	(3,567)
Net block	3,207	3,138	3,538	3,909	3,674
Capital WIP	7	169	169	169	169
Net fixed assets	3,218	3,313	3,713	4,083	3,849
Non Current Assets	581	714	839	933	1,034
Investments	5,272	6,345	6,345	6,345	6,345
Inventories	2,937	3,825	4,608	5,367	4,711
Sundry debtors	1,648	1,892	2,304	2,683	3,089
Cash & Cash Equivalents	243	262	863	2,098	5,944
Loans & advances	48	40	40	40	40
Other current assets	1,571	375	375	375	375
Trade payables	1,893	2,069	2,419	2,818	3,244
Other current liab.	2,204	1,523	1,763	2,052	2,356
Provisions	24	131	131	131	131
Net current assets	2,325	2,671	3,878	5,562	8,430
Total assets	11,396	13,043	14,775	16,924	19,658

Cashflow					
YE Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Profit Before Tax	2,090	2,849	3,431	4,162	5,022
Depreciation & Amortisation	324	326	400	430	434
Net Interest	20	31	(318)	(405)	(475)
Net Change – WC	(933)	(770)	(606)	(462)	973
Direct taxes	(523)	(727)	(889)	(1,079)	(1,302)
Net cash from operations	890	1,624	2,018	2,646	4,653
Capital expenditure	(166)	(394)	(800)	(800)	(200)
Acquisitions, net	0	0	0	0	0
Investments	(697)	(816)	0	0	0
Others	113	264	254	371	435
Net cash from investing	(751)	(947)	(546)	(429)	235
FCF	139	677	1,472	2,217	4,888
Issue of share capital	8	6	(826)	(907)	(1,003)
Increase/(decrease) in debt	176	(13)	0	(42)	0
Dividend paid	(169)	(455)	(826)	(907)	(1,003)
Interest paid	(33)	(36)	(60)	(60)	(60)
Others	(87)	(98)	16	28	22
Net cash from financing	(106)	(596)	(1,697)	(1,889)	(2,045)
Net change in Cash	34	81	(225)	327	2,843

Source: Company, Centrum Broking

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Cera Sanitaryware



Source: Bloomberg

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