

September 23, 2024

Management meet update | Sector: Building Materials

Cera Sanitaryware Ltd

Performance likely to improve from H2, Upgrade to NEUTRAL!

We interacted with Mr. Vikas Kothari-CFO & Mr. Deepak Chaudhary-General Manager at CERA SANITARYWARE Ltd & following are the key highlights form the same:

- Though there are no material green shoots in demand yet, management is confident that demand should revive H2 onwards. Incrementally, FY26E & FY27E should be better owing to strong construction cycle.
- Project segment (35-36% of biz) has grown in double digits & management stated that this is a lead indicator for revival in demand from retail segment. Hence, company is confident of growing in single digit for FY25E.
- Management stated that construction works in Tier-2 & Tier-3 cities is growing at a similar pace as compared to Metro & Tier-1 cities, which should translate into demand for Sanitaryware & Faucets.
- CERA has taken price hike of 6% in faucets from 1st Sept 2024, and 1% in sanitaryware w.e.f. 15th Sept 2024, primarily to mitigate the rise in cost of brass. Similarly, peers have also taken price hikes.
- Margins in sanitaryware across product segments are similar however, margins in premium faucets are much better Vs margins in mass markets.
- For sanitaryware expansion, majority land has been acquired & balance (15%) acquisition has been slow due to multiple small parcels of land. This will be completed by Nov'24. In phase-1, company will set-up capacity of 1lac/month which will be doubled in phase-2.
- The construction on land will not commence in FY25 as currently demand is soft and there is inventory built-up in the system. This has resulted into marginal drop in utilization as well.
- Overall management reiterated their guidance achieving turnover of Rs29Bn by FY27E with EBITDA margins of 16-17%.

Real-estate industry has witnessed strong launches and new constructions which should ideally lead to healthy demand for CERA's products viz Sanitaryware and Faucets. Hence, we reckon CERA's performance to improve from H2FY25E. Incrementally, we believe that growth should accelerate over FY26E-FY27E owing to strong tailwinds of real-estate industry. We have maintained our Revenue/EBITDA/PAT growth estimate of 9%/10%/8% respectively over FY24-FY26E. With healthy topline growth and focus on premiumization, we believe CERA will deliver operating margins of 16%/16.5% for FY25E/FY26E, respectively. Notably, CERA has announced a buy-back of Rs1.3Bn (cash + current investment as on March'24 was Rs8.14Bn) at a price of Rs12,000/share.

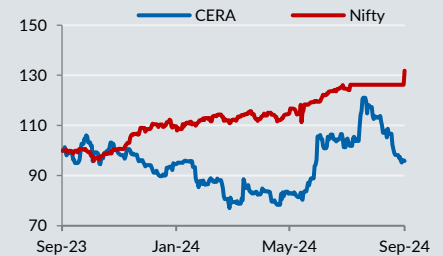
At CMP, CERA trades at P/E(x) of 37.5x on FY26E EPS of Rs220 (on FY27E EPS of Rs244, stock trades at P/E(x) of 33.8x). We continue to value the company at P/E(x) of 40x on FY26E EPS, maintaining our target price of Rs8,809. Given the recent correction in stock prices, we upgrade our rating from REDUCE TO NEUTRAL.

Reco	: NEUTRAL
CMP	: Rs 8,250
Target Price	: Rs 8,809
Potential Return	: +6.8%

Stock data (as on Sep 23, 2024)

Nifty	25,939
52 Week h/l (Rs)	10,790 / 6,591
Market cap (Rs/USD mn)	106,662 / 1,277
Outstanding Shares (mn)	13
6m Avg t/o (Rs mn):	252
Div yield (%):	0.7
Bloomberg code:	CRS IN
NSE code:	CERA

Stock performance



	1M	3M	1Y
Absolute return	-15.3%	-9.2%	-4.2%

Shareholding pattern (As of Jun'24 end)

Promoter	54.5%
FII+DII	28.7%
Others	16.8%

Δ in stance

(1-Yr)	New	Old
Rating	NEUTRAL	REDUCE
Target Price	8,809	8,809

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	190.0	220.2
EPS (Old)	190.0	220.2
% change	0.0%	0.0%

Financial Summary

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	18,803	19,457	22,146
YoY Growth	4.3	3.5	13.8
EBITDA	3,033	3,113	3,654
EBITDA (%)	16.1	16.0	16.5
PAT	2,445	2,470	2,863
YoY Growth	15.8	1.0	15.9
ROE	19.4	17.2	17.5
EPS	187.4	190.0	220.2
P/E	37.7	43.4	37.5
BV/Share	1,035	1,175	1,345
P/BV	6.8	7.0	6.1

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FINANCIALS

Exhibit 1: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Sales	14,458	18,035	18,803	19,457	22,146
COGS	6,836	8,246	8,828	8,800	10,193
COGS %sales	47.3	45.7	46.9	45.2	46.0
GP	7,623	9,789	9,976	10,657	11,952
GP%	52.7	54.3	53.1	54.8	54.0
EBITDA	2,288	2,930	3,033	3,113	3,654
EBITDA%	15.8	16.2	16.1	16.0	16.5
Depreciation	324	326	365	376	443
Other Income	247	356	595	609	658
Finance Cost	53	60	58	52	52
PBT	2,159	2,899	3,205	3,294	3,817
Tax	560	738	775	823	954
PAT	1,541	2,111	2,445	2,470	2,863
PAT%	10.7	11.7	13.0	12.7	12.9

Source: Company, YES Sec

Exhibit 2: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share Capital	65	65	65	65	65
Reserves	10,086	11,661	13,393	15,213	17,426
Equity	10,151	11,726	13,458	15,278	17,491
Borrowings	267	253	205	205	205
Payables	3,027	2,069	1,790	1,784	2,066
Provisions	114	220	256	256	256
Other current Liab	1,005	1,448	1,602	1,602	1,602
Total Equity & Liab	15,517	16,766	18,455	20,269	22,765
Gross Block	5,645	5,903	6,629	8,129	9,629
Acc Dep	2,439	2,765	3,130	3,506	3,949
Net Block	3,207	3,138	3,499	4,623	5,680
CWIP	7	169	130	130	130
Other Noncurrent	517	469	378	378	378
Inventory	2,937	3,825	3,636	3,624	4,198
Investments	5,272	6,345	7,769	7,769	7,769
Receivables	1,648	1,892	2,026	2,096	2,386
Cash & Bank	149	262	372	1,003	1,578
Loans	48	40	36	36	36
Other	1,574	375	394	394	394
Total Assets	15,517	16,766	18,455	20,269	22,765

Source: Company, YES Sec

Exhibit 3: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	2,090	2,849	3,188	3,294	3,817
Depreciation & Amortization	324	326	365	376	443
Finance cost	53	60	58	52	52
(Incr)/Decr in Working Capital	(988)	(768)	154	(65)	(581)
Taxes	(515)	(727)	(783)	(823)	(954)
Cash from ops.	985	1,624	2,361	2,834	2,777
(Incr)/ Decr in PP&E	(196)	(391)	(641)	(1,500)	(1,500)
Cash Flow from Investing	(815)	(1,054)	(1,429)	(1,500)	(1,500)
(Decr)/Incr in Borrowings	149	(13)	(49)	-	-
Finance cost	(33)	(36)	(32)	(52)	(52)
Cash Flow from Financing	(100)	(596)	(835)	(702)	(702)
Incr/(Decr) in cash	71	(26)	97	631	575
Cash and cash equivalents at beginning of year	104	139	113	372	1,003
Cash and cash equivalents at end of year	175	113	210	1,003	1,578

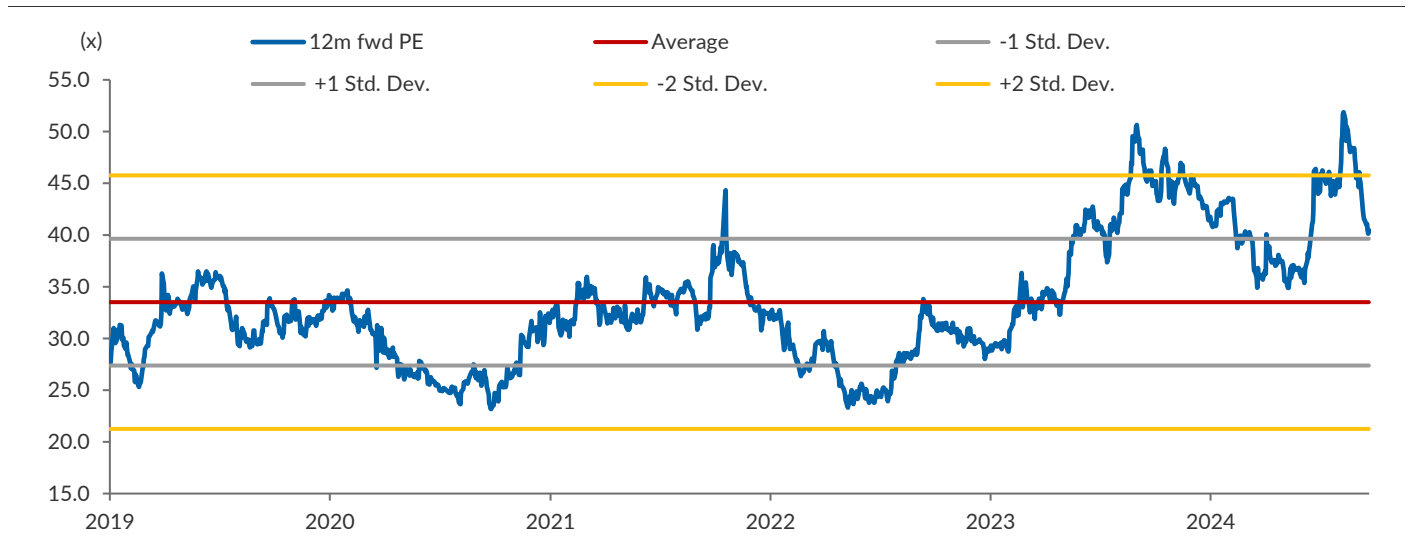
Source: Company, YES Sec

Exhibit 4: Ratios

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	18.1	24.7	4.3	3.5	13.8
EBITDA growth	44.8	28.1	3.5	2.6	17.4
EBIT growth	53.9	33.9	10.2	2.5	15.6
PAT growth	54.2	37.0	15.8	1.0	15.9
Profitability ratios (%)					
Gross margin	52.7	54.3	53.1	54.8	54.0
EBITDA margin	15.8	16.2	16.1	16.0	16.5
EBIT margin	15.3	16.4	17.4	17.2	17.5
PAT margin	10.7	11.7	13.0	12.7	12.9
RoCE	21.1	24.9	23.9	21.7	22.2
RoE	16.3	19.3	19.4	17.2	17.5
Per share values					
EPS	117.7	161.9	187.4	190.0	220.2
CEPS	143.5	187.5	216.2	219.0	254.3
BVPS	780.9	902.0	1,035.2	1,175.2	1,345.5
Valuation ratios (x)					
P/E	33.6	38.9	37.7	43.4	37.5
P/CEPS	27.6	33.6	32.7	37.7	32.4
P/B	5.1	7.0	6.8	7.0	6.1
EV/EBITDA	22.6	27.9	30.3	34.2	29.0
Leverage ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	0.0	(0.0)	(0.0)	(0.1)	(0.1)
Net debt/EBITDA	(4.3)	(3.9)	(4.4)	(4.8)	(4.7)
Int coverage	42.1	49.1	56.1	64.4	74.5
NWC days					
Receivables	42	38	39	39	39
Inventory	157	169	150	150	150
Payables	162	92	74	74	74

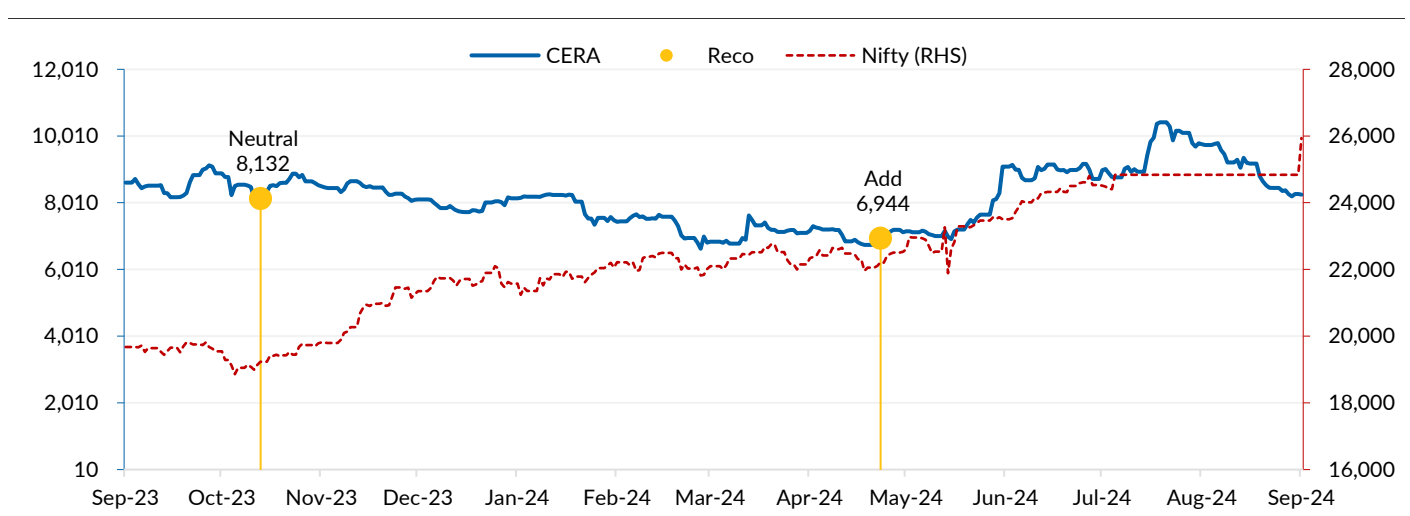
Source: Company, YES Sec

Exhibit 5: 1-year forward P/E (x) chart



Source: Company, YES Sec

Recommendation Tracker



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