

23 September 2023

India | Equity Research | Company Update

Cera Sanitaryware

Sanitaryware

Near-term demand tepidness, 2HFY24 to be much better

We recently interacted with the management of Cera Sanitaryware (CRS). Key takeaways: 1) Demand scenario in Q2-TD has been tepid as higher overall inflationary conditions have resulted in some temporary slackness. CRS expects demand to be much stronger in H2FY24 and has reiterated its ~20% YoY revenue growth guidance for FY24. 2) Margins to remain steady at ~16% as raw material costs remain benign. 3) Brownfield expansion of faucetware facility has commenced production from Sep'23 and will likely be a major growth driver. 4) Land acquisition for the sanitaryware facility is in final stages; will likely happen in Q3FY24. We continue to like CRS, as it could potentially be a significant beneficiary of the ongoing uptick in the housing market, and model revenue/PAT CAGR of 16.4%/22.3%, over FY23-26E with healthy return ratios (ROE of 20.2% in FY25E). We maintain our estimates and **HOLD** rating with a rolled over Dec'24E TP of INR 8,262 (earlier INR 7,928), set at unchanged 32x Dec'25E PER.

Near-term demand sluggish

As per our interaction with CRS's management, demand for faucetware and sanitaryware has been sluggish in Q2FY24-TD as overall inflationary conditions have temporarily resulted in some slackness. Management believes the current lethargy in demand is temporary and H2FY24 will be much stronger, still guiding for ~20% revenue growth in FY24. The drivers of this demand will likely be uptick in housing market and continuous demand from home improvement market. Also, the commencement of the brownfield faucetware facility in Sep'23 will likely enable the company to see better growth due to favourable product mix. CRS management indicated that it is on track to achieve its guidance of doubling turnover in 40 months (from FY22) – aided primarily by growth in sanitaryware and faucetware segments. We have modelled revenue CAGR of 16.4% over FY23-26E. The land for the new greenfield sanitaryware plant should be finalised by Q3FY24, post which it will take ~18 months for the facility to commence production.

Margins to remain steady at ~16%

CRS has taken no price hikes across segments in the ongoing quarter (Q2FY24) as raw material costs continue to be benign and the company does not foresee any pressure on margins. Management indicated that current margins of ~16% are sustainable going ahead too, led by operating leverage and improved product mix. We have modelled margins of ~16.3%-16.5% over FY23-26E (vs. reported average operating margin of ~15.1% over FY12-FY23).

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	18,033	21,123	24,510	28,460
EBITDA	2,937	3,447	4,020	4,685
EBITDA %	16.3	16.3	16.4	16.5
Net Profit	1,911	2,571	2,951	3,494
EPS (Rs)	146.9	197.7	226.9	268.6
EPS % Chg YoY	32.7	34.6	14.8	18.4
P/E (x)	58.6	43.6	37.9	32.1
EV/EBITDA (x)	35.9	30.6	25.7	21.5
RoCE (%)	16.0	17.0	17.2	17.6
RoE (%)	17.5	20.4	20.2	20.7

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Market Data

Market Cap (INR)	112bn
Market Cap (USD)	1,350mn
Bloomberg Code	CRS IN
Reuters Code	CERA.BO
52-week Range (INR)	9,782 /4,950
Free Float (%)	45.0
ADTV-3M (mn) (USD)	2.7

Price Performance (%)	3m	6m	12m
Absolute	10.8	38.6	49.9
Relative to Sensex	4.7	14.5	13.1

ESG Disclosure	2021	2022	Change
ESG score	-	-	-
Environment	-	-	-
Social	-	-	-
Governance	-	-	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Previous Reports

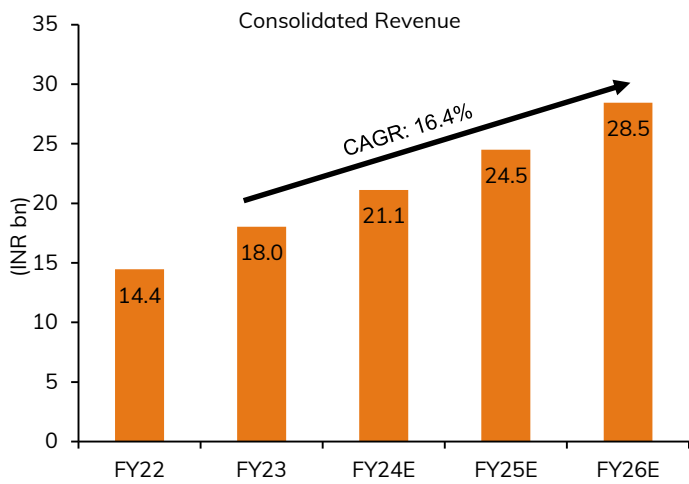
05-08-2023: [Q1FY24 results review](#)

26-05-2023: [Company update](#)

Valuation and view

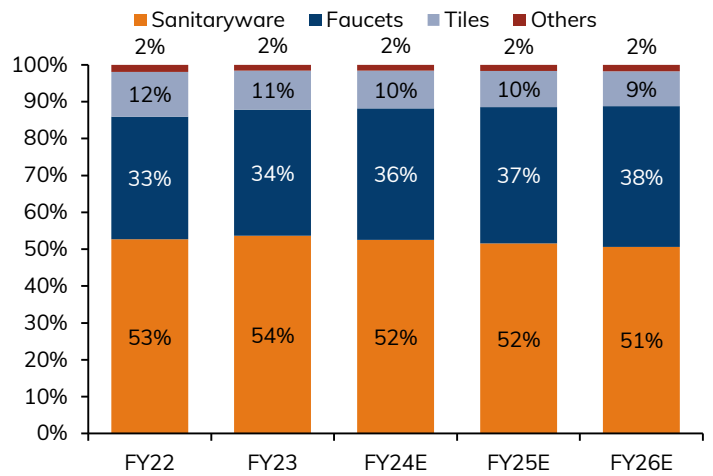
We continue to like CRS due to its net cash balance sheet, wide distribution, strong brand and comprehensive product portfolio. These could strengthen its position to deliver high growth led by the ongoing uptick in housing market and increased demand from home improvement market. Maintain **HOLD** and await a better entry opportunity with a rolled over Dec'24E target price of INR 8,262 (earlier INR 7,928), set at unchanged 32x Dec'25E PER.

Exhibit 1: Consol. revenue CAGR of 16.4% over FY23-FY26E aided by growth in sanitaryware and faucet-ware segments



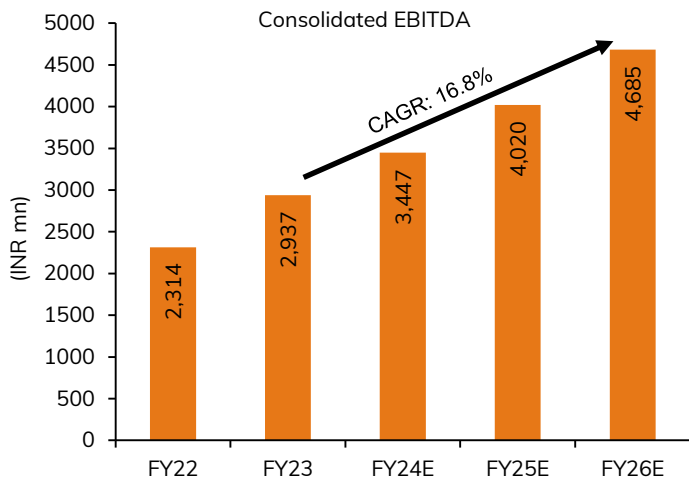
Source: I-Sec research, Company data

Exhibit 2: Sanitaryware dominates revenue mix with more than 50% share



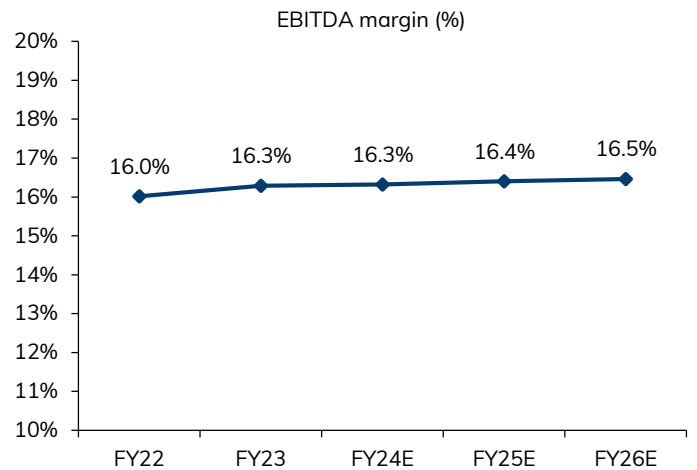
Source: I-Sec research, Company data

Exhibit 3: EBITDA CAGR at 16.8% over FY23-FY26E



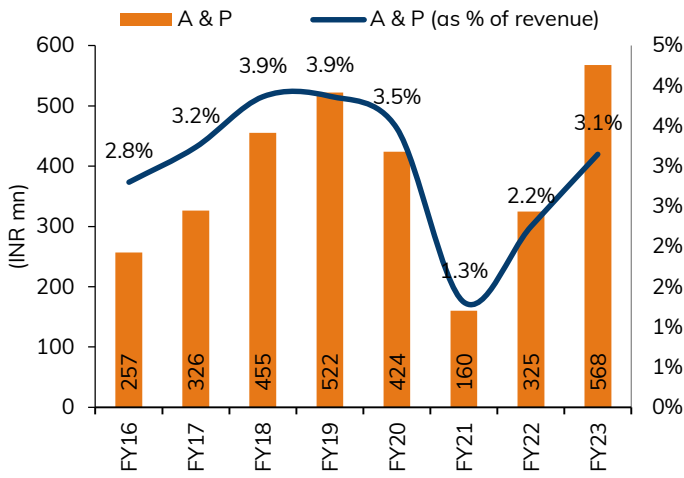
Source: I-Sec research, Company data

Exhibit 4: EBITDA margin to remain stable



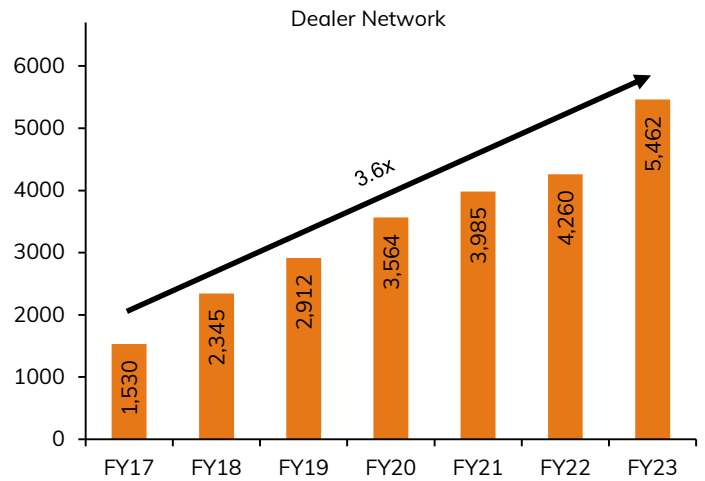
Source: I-Sec research, Company data

Exhibit 5: High A&P spends have enabled strong brand creation



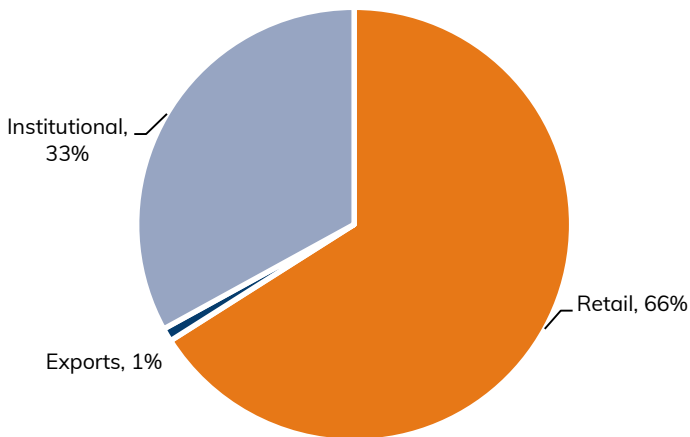
Source: I-Sec research, Company data

Exhibit 6: Dealer network grew 3.6x over FY17-FY23



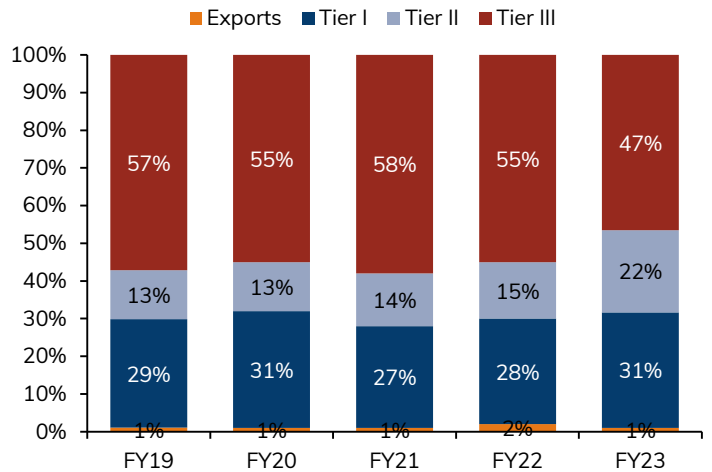
Source: I-Sec research, Company data

Exhibit 7: Retail dominates sales mix (FY23)



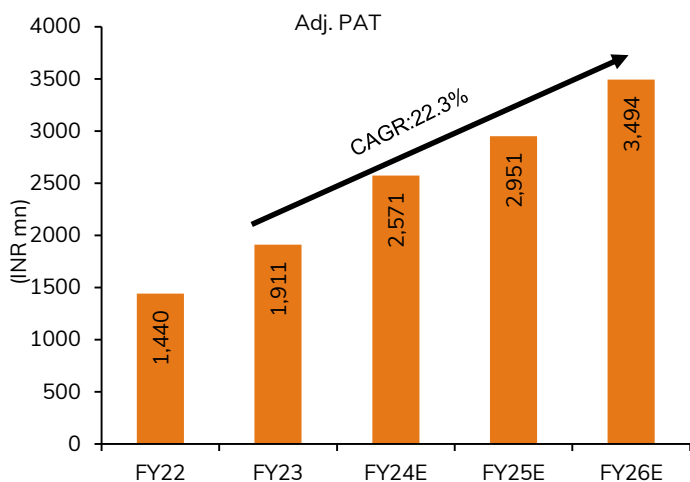
Source: I-Sec research, Company data

Exhibit 8: Strong presence in tier-3 and below markets



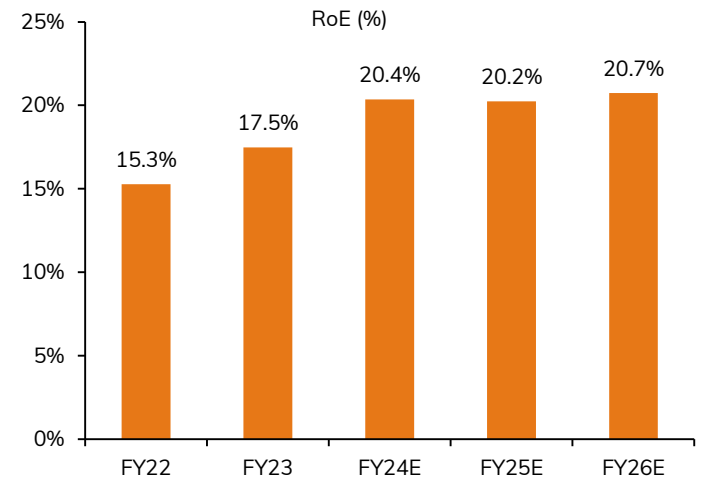
Source: I-Sec research, Company data

Exhibit 9: APAT CAGR likely at 22.3% over FY23-FY26E



Source: I-Sec research, Company data

Exhibit 10: RoE to remain healthy over FY24-FY26E



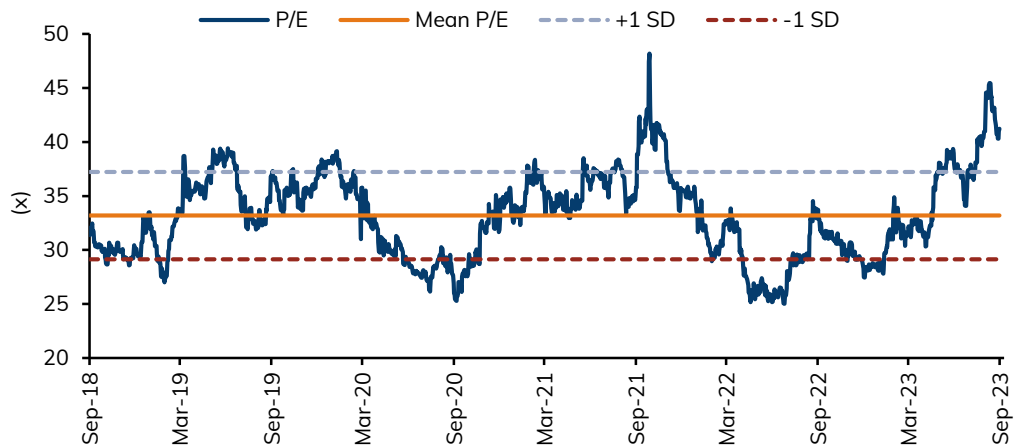
Source: I-Sec research, Company data

Valuation

CRS is one of the major organised sanitaryware players in India. Over the years, the company has expanded its product portfolio from sanitaryware to tiles, faucets and wellness goods, becoming a one-stop bathroom solution provider. It has significant presence in tier-2 and tier-3 markets with strong brand name and wide distribution.

CRS is expected to witness revenue/EBIDTA CAGR of 16.4%/16.8%, respectively, during FY23-FY26E, with continued strong balance sheet and healthy return ratios (RoE of 20.7% in FY26E). We maintain HOLD rating on the stock with a rolled over Dec'24E target price of INR8,262 (earlier: INR7,928), set at an unchanged 32x Dec'25E P/E, in line with the historical 5-year average, 1-year forward P/E.

Exhibit 11: 1-year forward PE band



Source: I-Sec research, Company data

Key downside risks

- Unexpected slowdown in housing market would adversely affect business.
- Higher raw material prices may adversely affect profitability and demand.

Key upside risks

- Sharp decline in raw material prices could result in better-than-expected profitability.
- Better than expected pickup in demand scenario.

Exhibit 12: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	54.5	54.5	54.5
Institutional investors	26.9	27.8	28.5
MFs and others	9.3	9.6	8.9
Insurance	0.1	0.1	0.1
FIs	17.5	18.1	19.5
Others	18.6	17.7	17.0

Source: Bloomberg

Exhibit 13: Price chart



Source: Bloomberg

Financial Summary

Exhibit 14: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	18,033	21,123	24,510	28,460
Operating Expenses	15,096	17,675	20,489	23,775
EBITDA	2,937	3,447	4,020	4,685
EBITDA Margin (%)	16.3	16.3	16.4	16.5
Depreciation & Amortization	326	379	454	509
EBIT	2,611	3,069	3,566	4,175
Interest expenditure	60	54	30	17
Other Non-operating Income	43	494	491	618
Recurring PBT	2,593	3,508	4,027	4,776
Less: Taxes	(738)	(919)	(1,055)	(1,251)
PAT	1,855	2,589	2,972	3,525
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(16)	(18)	(22)	(31)
Extraordinaries (Net)	256	-	-	-
Net Income (Reported)	2,094	2,571	2,951	3,494
Net Income (Adjusted)	1,911	2,571	2,951	3,494

Source Company data, I-Sec research

Exhibit 15: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	3,825	4,455	5,164	5,993
Cash & cash eqv.	6,859	6,725	8,815	11,123
Sundry Debtors	1,892	2,199	2,552	2,963
Other Current Assets	596	694	806	936
Trade payables	2,069	2,433	2,823	3,278
Other Current Liabilities	1,958	2,528	2,933	3,406
Net Current Assets	9,145	9,113	11,580	14,330
Investments	31	31	31	31
Net Fixed Assets	3,308	5,129	4,735	4,446
Other Non Current Assets	256	256	256	256
Total Assets	12,739	14,528	16,603	19,063
Liabilities				
Borrowings	253	180	120	50
Other Non Current Liabilities	654	686	718	750
Total Liabilities	907	866	838	800
Equity Share Capital	65	65	65	65
Reserves & Surplus	11,661	13,474	15,554	18,022
Total Net Worth	11,726	13,539	15,619	18,087
Minority Interest	106	124	146	177
Total Liabilities & Net Worth	12,739	14,528	16,603	19,063

Source Company data, I-Sec research

Exhibit 16: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	4,159	4,578	5,325	4,289
% growth (YOY)	5.6	18.0	20.9	8.0
EBITDA	679	750	872	704
Margin %	16.3	16.4	16.4	16.4
Other Income	106	132	124	153
Extraordinaries	0	0	50	0
Adjusted Net Profit	507	564	666	563

Source Company data, I-Sec research

Exhibit 17: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	724	2,916	3,102	3,656
Working Capital Changes	(1,698)	(102)	(378)	(442)
Capital Commitments	852	(2,200)	(61)	(220)
Free Cashflow	1,577	716	3,042	3,436
Other investing cashflow	50	-	-	-
Cashflow from Investing Activities	902	(2,200)	(61)	(220)
Issue of Share Capital	0	-	-	-
Inc (Dec) in Borrowings	(13)	(73)	(60)	(70)
Dividend paid	(650)	(777)	(892)	(1,057)
Others	114	0	-	-
Cash flow from Financing Activities	(549)	(850)	(952)	(1,127)
Chg. in Cash & Bank balance	1,077	(134)	2,090	2,309
Closing cash & balance	6,859	6,725	8,815	11,123

Source Company data, I-Sec research

Exhibit 18: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	161.0	197.7	226.9	268.6
Adjusted EPS (Diluted)	146.9	197.7	226.9	268.6
Cash EPS	172.0	226.8	261.8	307.8
Dividend per share (DPS)	50.0	59.7	68.6	81.3
Book Value per share (BV)	901.6	1,041.0	1,200.9	1,390.7
Dividend Payout (%)	34.0	30.2	30.2	30.3
Growth (%)				
Net Sales	24.8	17.1	16.0	16.1
EBITDA	26.9	17.4	16.6	16.5
EPS (INR)	32.7	34.6	14.8	18.4
Valuation Ratios (x)				
P/E	58.6	43.6	37.9	32.1
P/CEPS	50.1	38.0	32.9	28.0
P/BV	9.5	8.3	7.2	6.2
EV / EBITDA	35.9	30.6	25.7	21.5
EV / Sales	5.8	5.0	4.2	3.5
Dividend Yield (%)	0.6	0.7	0.8	0.9
Operating Ratios				
Gross Profit Margins (%)	89.4	54.3	54.3	54.3
EBITDA Margins (%)	16.3	16.3	16.4	16.5
Effective Tax Rate (%)	28.5	26.2	26.2	26.2
Net Profit Margins (%)	10.6	12.2	12.0	12.3
NWC / Total Assets (%)	13.6	12.3	12.4	12.5
Net Debt / Equity (x)	(0.6)	(0.5)	(0.6)	(0.6)
Net Debt / EBITDA (x)	(2.2)	(1.9)	(2.2)	(2.4)
Profitability Ratios				
RoCE (%) (post-tax)	16.0	17.0	17.2	17.6
RoE (%)	17.5	20.4	20.2	20.7
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	77	77	77	77
Receivables Days	38	38	38	38
Payables Days	42	42	42	42

Source Company data, I-Sec research

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