

# BUILDING MATERIALS

Strong industry tailwinds should lead to robust demand over next 3-5 years !

◀ POST CONFERENCE NOTE ▶

**HOUSING ECOSYSTEM**  
CONFERENCE 2023

TIME FOR 'REALTY CHECK'

September 14, 2023

**CONFERENCE NOTE** | Sector: Building Materials

# Hindware Home Innovation Ltd.

## Confident on growth!

We hosted Hindware Home Innovation Ltd. at our conference wherein we interacted with Mr. Naveen Malik (CFO), following are the Key highlights from the same:

### Pipes & Fittings Segment

- Demand for CPVC products is sluggish in Q2FY24 (seasonality impact), however for PVC Pipes demand from both agri & plumbing remains robust. Due to lower revenue share of CPVC products in Q2FY24, management expects margin to remain under pressure.
- Management anticipates demand for CPVC products will recover in H2FY24. Company reiterated their guidance of delivering a Rs10Bn revenue from pipe segment by FY25E.
- Uttarakhand plant will have capacity of 25,000MTPA (12,500MTPA in Phase I & Phase II each). Phase-1 is expected to commence production from Oct'24.
- Capacity utilization for pipe segment is 80-85%.
- CPVC product prices & quality are at par with their peers.

### Bathware Segment

- Demand for premium segment products is healthy while for demand for mass market products continue to remain sluggish in Q2FY24.
- Company has revamped its distribution system in FY22 that has increased its reach. Company has also appointed separate sales team for sanitaryware & faucet division.
- Company is expecting higher growth for faucets in next-couple of years and expects revenue share of faucet to reach 50% of bathware segment.
- Sanitaryware biz has margin of ~19% while faucet has ~12%. Management expects margins to remain steady at ~16% for this segment.
- Capacity utilization for Sanitaryware/ Faucet was ~85%/~50% respectively.
- Mix between inhouse and outsourced manufacturing is ~50:50.

### Consumer Appliance & Retail Segment

- Demand for Kitchen appliances is healthy. Higher channel inventory impacted revenue for Fan's while sales of air coolers were lower in Q1.
- Company has gradually phased out air purifiers and plans to sell water purifiers only through online channel.
- Management plans to Sell-off the retail biz in near future.

### Others:

- HHIL has launched mobile based app for order placement for dealers/distributors and DMS to track secondary sales of inventory.
- Share of project biz is ~30% on blended revenue.
- HHIL plans to repay Rs1Bn debt every year via internal accruals.

Reco	: BUY
CMP	: Rs 571
Target Price	: Rs 803
Potential Return	: +41%

### Stock data (as on September 14, 2023)

Nifty	20,103
52 Week h/l (Rs)	664 / 325
Market cap (Rs/USD mn)	39759 / 479
Outstanding Shares (mn)	72
6m Avg t/o (Rs mn):	85
Div yield (%)	0.1
Bloomberg code:	HINDWARE IN
NSE code:	HINDWAREAP

### Stock performance



	1M	3M	1Y
Absolute return	10.0%	12.1%	43.6%

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

Promoter	51.3%
FII+DII	14.1%
Others	34.6%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	28,733	30,407	35,449
YoY Growth	25.3	5.8	16.6
EBIDTA	2,464	3,519	4,207
EBIDTA (%)	8.6	11.6	11.9
PAT	665	1,422	1,936
YoY Growth	(67.3)	114.0	36.1
ROE	12.1	22.0	23.9
EPS	8.0	19.7	26.8
P/E	44.6	29.0	21.3
BV/Share	79.6	98.8	125.1
P/BV	4.5	5.8	4.6

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## FINANCIALS

### Exhibit 1: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
Sales	22,936	28,733	30,407	35,449
COGS	15,645	16,374	15,807	18,831
COGS %sales	68.2	57.0	52.0	53.1
GP	7,291	12,359	14,600	16,618
GP%	31.8	43.0	48.0	46.9
Employee cost	2,310	4,023	4,506	5,047
Other cost	3,232	5,871	6,575	7,364
EBITDA	1,748	2,464	3,519	4,207
EBITDA%	7.6	8.6	11.6	11.9
Depreciation	393	1,010	1,082	1,172
Finance Cost	204	771	854	854
Other Income	293	346	340	401
PBT	2,452	1,030	1,922	2,581
Tax	417	365	500	645
PAT	2,035	665	1,422	1,936
PAT%	8.9	2.3	4.7	5.5

Source: Company, YES Sec

### Exhibit 2: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
Share Capital	145	145	145	145
Reserves	5,119	5,613	6,999	8,898
Equity	5,264	5,757	7,143	9,043
LT Borrowings	105	3,281	3,281	3,281
Other Non-current liab	2,640	2,812	2,812	2,812
Payables	2,524	2,972	2,869	3,418
Provisions	81	61	61	61
ST Borrowings	1,327	3,836	3,836	3,836
Other current Liab	9,517	4,234	4,234	4,234
<b>Total Equity &amp; Liab</b>	<b>21,457</b>	<b>23,027</b>	<b>24,310</b>	<b>26,758</b>
Gross Block	6,121	8,520	9,520	10,020
Acc Dep	984	1,993	3,076	4,248
Net Block	4,902	6,527	6,444	5,772
CWIP	579	358	358	358
Other Noncurrent	4,093	4,168	4,168	4,168
Inventory	6,753	6,838	6,601	7,864
Receivables	3,059	3,776	3,996	4,659
Cash & Bank	265	93	1,475	2,670
Other	1,806	1,267	1,267	1,267
<b>Total Assets</b>	<b>21,457</b>	<b>23,027</b>	<b>24,310</b>	<b>26,758</b>

Source: Company, YES Sec

## Exhibit 3: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
PBT	2,434	941	1,922	2,581
Depreciation & Amortization	393	1,010	1,082	1,172
Finance cost	204	771	854	854
(Incr)/Decr in Working Capital	913	101	(86)	(1,376)
Taxes	(611)	(361)	(500)	(645)
<b>Cash from ops.</b>	<b>2,260</b>	<b>2,208</b>	<b>3,272</b>	<b>2,586</b>
(Incr)/ Decr in PP&E	(396)	(1,956)	(1,000)	(500)
<b>Cash Flow from Investing</b>	<b>(1,240)</b>	<b>(7,047)</b>	<b>(1,000)</b>	<b>(500)</b>
(Decr)/Incr in Borrowings	(462)	5,685	-	-
Finance cost	(123)	(542)	(854)	(854)
<b>Cash Flow from Financing</b>	<b>(832)</b>	<b>4,667</b>	<b>(890)</b>	<b>(890)</b>
<b>Incr/(Decr) in cash</b>	<b>189</b>	<b>(173)</b>	<b>1,382</b>	<b>1,196</b>
Cash and cash equivalents at beginning of year	76	265	93	1,475
Cash and cash equivalents at end of year	265	92	1,475	2,670

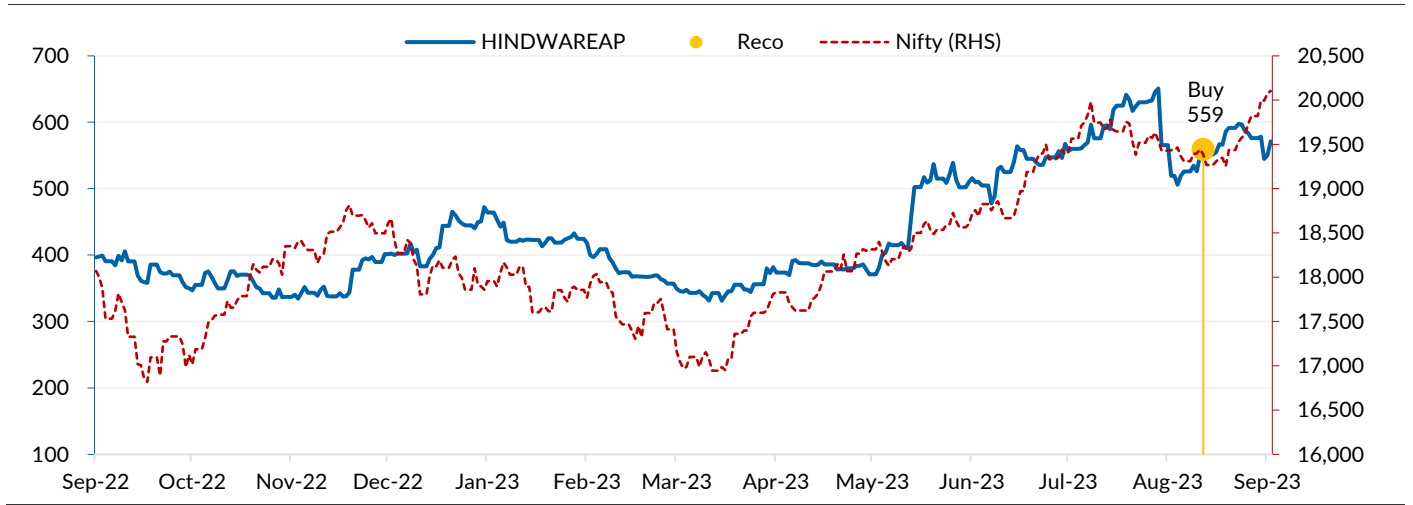
Source: Company, YES Sec

## Exhibit 4: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E
<b>Growth (%)</b>				
Total Sales	29.2	25.3	5.8	16.6
EBIDTA	22.2	41.0	42.8	19.5
EBIT	35.2	9.3	54.1	23.7
PAT	271.1	(67.3)	114.0	36.1
<b>Profitability (%)</b>				
EBIDTA Margins	7.6	8.6	11.6	11.9
EBIT Margins	7.2	6.3	9.1	9.7
PAT Margins	8.9	2.3	4.7	5.5
ROCE	26.2	18.1	22.1	24.2
ROE	47.5	12.1	22.0	23.9
<b>Per Share Data (Rs)</b>				
EPS	27.9	8.0	19.7	26.8
CEPS	33.3	21.9	34.6	43.0
BVPS	72.8	79.6	98.8	125.1
<b>Valuations (x)</b>				
P/E (x)	13.0	44.6	29.0	21.3
P/CEPS (x)	10.9	16.2	16.5	13.3
P/BV (x)	5.0	4.5	5.8	4.6
EV/EBIDTA	15.7	13.3	13.3	10.9
<b>Gearing Ratios</b>				
Debt/Equity	0.3	1.2	1.0	0.8
Net Debt/Equity	0.2	1.2	0.8	0.5
Net Debt/EBIDTA	0.7	2.9	1.6	1.1
Int Coverage	8.1	2.3	3.3	4.0
<b>WCC Days</b>				
Debtors	49	48	48	48
Inventory	158	152	152	152
Creditors	59	66	66	66

Source: Company, YES Sec

## Recommendation Tracker



# Cera Sanitaryware Ltd.

## Maintained their annual guidance!

We hosted Cera Sanitaryware Ltd. at our Conference wherein we interacted with Mr. Ayush Bagla, Executive Director of the company, following are the key highlights from the same:

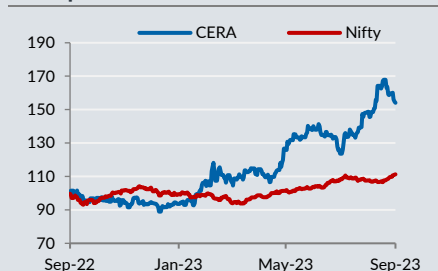
- The demand has been decent for Sanitaryware & Faucets. Management expects growth of 9-10% for sanitaryware industry and 10-11% for faucet industry.
- Management expects demand to shift materially towards organized players especially in faucets due to increase in demand for branded products.
- Company is targeting revenue of Rs28.8Bn in FY26E i.e. Rs3.5Bn incremental revenue p.a. with 50-75bps margin improvement every year.
- Management is focused on expanding its existing business segments and do not have any plans to enter adjacent product segments.
- ISVEA is a premium Italian Brands with price point of more than Rs70,000. Company imports ISVEA products directly from Italy. Senator brand has price point between Rs25,000-Rs70,000. Cera is the key brand for the company that contributes ~98% of revenue. Brand has price point in the range of Rs5,000 - Rs25,000. Jeet Brand offers commodity products with price point less than Rs5,000. Company supplies Jeet brand products majorly for project biz/tenders.
- For Sanitaryware, China clay and Feldspar are key raw material that accounts for 95% of COGS. Brass is the key raw material for Faucets. There has not been material changes in these input cost.
- Sanitaryware production is very labor intensive while Faucet manufacturing is more automated process. Company required ~2,000 skilled labors for manufacturing of sanitaryware products.
- Company has faucet production capacity of 4lac pcs per month that can be expanded upto 6lacs pcs per month at existing facility.
- Company has efficiently reduced its working capital days from 107 in FY18 to 69 in FY23. Now ~65% sales are on cash & carry basis that helps company to effectively manage its receivables.
- B2C segment contributes ~66% of revenue for the company, while for overall industry B2C sales are just ~15%.
- Generally, company introduces ~50-75 SKU's per quarter. Company has not introduced new products in Q1FY24 as 300 SKU's were launched in FY23 & the same will take time to penetrate in the market.
- CRS first develops a prototype for a new product using 3D printer and distributes it to dealers. Based of feedback company customizes new SKU range.
- New players that have recently entered sanitaryware & faucet market are yet to establish their brands. Management has not observed any dealer churning and expects dealers to remain loyal to CERA brand as they have promoted the brand over the years.
- Cera has seven large format display centers with avg size of 7,000 sq ft. Hyderabad display center is one of the largest showroom in the industry with more than 14,000 sq.ft. in size.
- Tiles biz is margin dilutive biz for the company. Management expects tiles industry to undergo a rough patch for next 5 years due to overcapacity.

Reco	: <b>REDUCE</b>
CMP	: Rs 8,760
Target Price	: Rs 8,471
Potential Return	: -3%

### Stock data (as on September 14, 2023)

Nifty	20,103
52 Week h/l (Rs)	9740 / 4963
Market cap (Rs/USD mn)	114510 / 1380
Outstanding Shares (mn)	13
6m Avg t/o (Rs mn):	181
Div yield (%)	0.7
Bloomberg code:	CRS IN
NSE code:	CERA

### Stock performance



	1M	3M	1Y
Absolute return	3.6%	10.0%	54.9%

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

Promoter	54.5%
FII+DII	28.5%
Others	17.0%

### Financial Summary

(Rs mn)	FY23	FY24E	FY25E
Net Revenue	18,035	21,112	24,754
YoY Growth	24.7	17.1	17.3
EBIDTA	2,930	3,483	4,208
EBIDTA(%)	16.2	16.5	17.0
PAT	2,111	2,557	3,146
YoY Growth	37.0	21.1	23.1
ROE	19.3	19.8	20.2
EPS	161.9	196.7	242.0
P/E	38.9	44.5	36.2
BV/Share	902	1,086	1,315
P/BV	7.0	8.1	6.7

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## FINANCIALS

### Exhibit 1: Income Statement

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
Sales	14,458	18,035	21,112	24,754
COGS	6,836	8,246	10,084	12,247
COGS %sales	47.3	45.7	47.8	49.5
GP	7,623	9,789	11,028	12,507
GP%	52.7	54.3	52.2	50.5
EBITDA	2,288	2,930	3,483	4,208
EBITDA%	15.8	16.2	16.5	17.0
Depreciation	324	326	346	365
Other Income	247	356	331	410
Finance Cost	53	60	59	59
PBT	2,159	2,899	3,409	4,195
Tax	560	738	852	1,049
PAT	1,541	2,111	2,557	3,146
PAT%	10.7	11.7	12.1	12.7

Source: Company, YES Sec

### Exhibit 2: Balance Sheet

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
Share Capital	65	65	65	65
Reserves	10,086	11,661	14,049	17,026
Equity	10,151	11,726	14,114	17,091
Payables	3,027	2,069	2,530	3,073
Provisions	24	131	131	131
Other current Liab	1,005	1,448	1,448	1,448
<b>Total Equity &amp; Liab</b>	<b>15,517</b>	<b>16,766</b>	<b>19,614</b>	<b>23,135</b>
Gross Block	5,645	5,903	6,253	6,753
Acc Dep	2,439	2,765	3,111	3,476
Net Block	3,207	3,138	3,142	3,277
CWIP	7	169	169	169
Other Noncurrent	517	469	469	469
Inventory	2,937	3,825	4,678	5,681
Investments	5,272	6,345	6,345	6,345
Receivables	1,648	1,892	2,214	2,596
Cash & Bank	149	262	1,932	3,932
Loans	48	40	40	40
Other	1,574	375	375	375
<b>Total Assets</b>	<b>15,517</b>	<b>16,766</b>	<b>19,615</b>	<b>23,135</b>

Source: Company, YES Sec

## Exhibit 3: Cash Flow

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24E	FY25E
PBT	2,090	2,849	3,409	4,195
Depreciation & Amortization	324	326	346	365
Finance cost	53	60	59	59
(Incr)/Decr in Working Capital	(988)	(770)	(714)	(843)
Taxes	(515)	(727)	(852)	(1,049)
<b>Cash from ops.</b>	<b>985</b>	<b>1,624</b>	<b>2,248</b>	<b>2,727</b>
(Incr)/ Decr in PP&E	(196)	(391)	(350)	(500)
<b>Cash Flow from Investing</b>	<b>(815)</b>	<b>(1,054)</b>	<b>(350)</b>	<b>(500)</b>
(Decr)/Incr in Borrowings	149	(13)	-	-
Finance cost	(33)	(36)	(59)	(59)
<b>Cash Flow from Financing</b>	<b>(100)</b>	<b>(596)</b>	<b>(228)</b>	<b>(228)</b>
<b>Incr/(Decr) in cash</b>	<b>71</b>	<b>(26)</b>	<b>1,670</b>	<b>1,999</b>
Cash and cash equivalents at beginning of year	104	139	262	1,932
Cash and cash equivalents at end of year	175	113	1,932	3,932

Source: Company, YES Sec

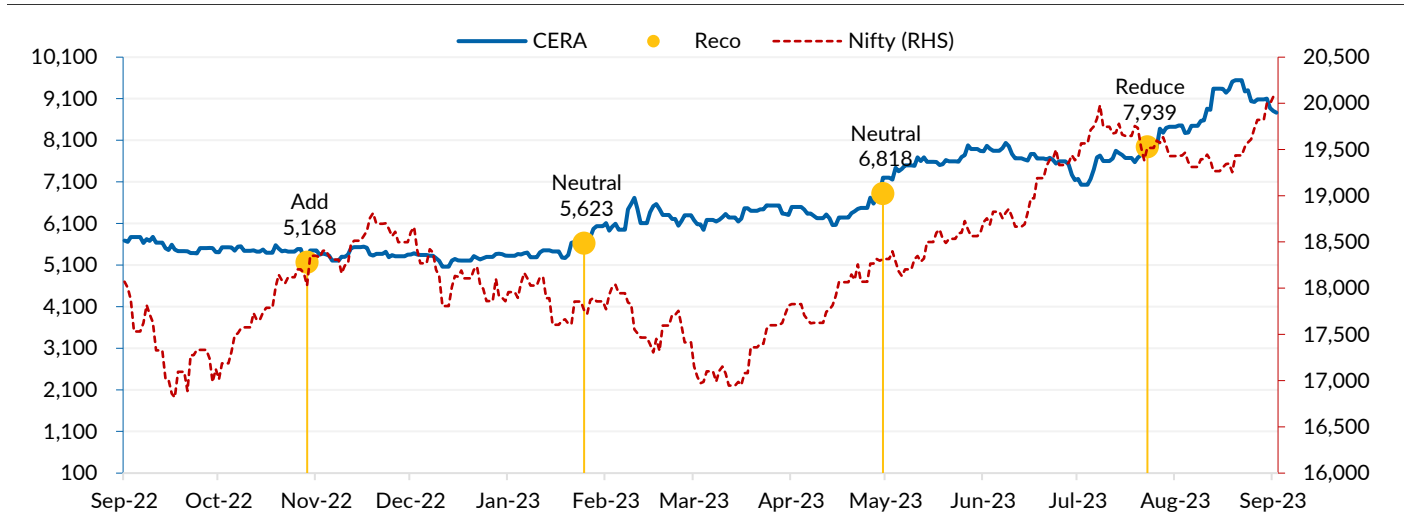
## Exhibit 4: Ratios

Key Ratios	FY22	FY23	FY24E	FY25E
<b>Growth (%)</b>				
Total Sales	18.1	24.7	17.1	17.3
EBIDTA	44.8	28.1	18.9	20.8
EBIT	53.9	33.9	17.2	22.7
PAT	54.2	37.0	21.1	23.1
<b>Profitability (%)</b>				
GP Margin	52.7	54.3	52.2	50.5
EBIDTA Margins	15.8	16.2	16.5	17.0
EBIT Margins	15.3	16.4	16.4	17.2
PAT Margins	10.7	11.7	12.1	12.7
ROCE	21.1	24.9	24.9	25.6
ROE	16.3	19.3	19.8	20.2
<b>Per Share Data (Rs)</b>				
EPS	117.7	161.9	196.7	242.0
CEPS	143.5	187.5	223.3	270.1
BVPS	780.9	902.0	1,085.7	1,314.7
<b>Valuations (x)</b>				
P/E (x)	33.6	38.9	44.5	36.2
P/CEPS (x)	27.6	33.6	39.2	32.4
P/BV (x)	5.1	7.0	8.1	6.7
EV/EBIDTA	22.6	27.9	32.2	26.2
<b>Gearing Ratios</b>				
Debt/Equity	0.0	0.0	0.0	0.0
Net Debt/Equity	0.0	(0.0)	(0.1)	(0.2)
Net Debt/EBIDTA	(4.3)	(3.9)	(4.0)	(4.0)
Int Coverage	42.1	49.1	59.0	72.4
<b>WCC Days</b>				
Debtors	42	38	38	38
Inventory	157	169	169	169
Creditors	162	92	92	92

Source: Company, YES Sec



## Recommendation Tracker



September 14, 2023

**CONFERENCE NOTE** | Sector: Building Materials

# Merino Industries Ltd.

## Largest Laminates capacity, expanding in Particle Boards!

We hosted Merino Industries Ltd. at our conference wherein we interacted with Mr. Madan Singhi (Western Region Head), following are the Key highlights from the same:

- Company has clocked revenue of Rs22Bn in FY23, out of which Laminates contributed ~Rs18Bn, while Furniture & Pre-lam Particle board contributed ~Rs2Bn & ~Rs1Bn respectively.
- Domestic sales were ~Rs13.5Bn while exports stood at ~Rs4.5Bn for laminates.
- Domestic laminate realizations are 4-5% higher as compared to exports, hence company enjoys better margins in domestic biz as compared to exports.
- Laminates market size was ~Rs170Bn in FY23, out of which domestic market was Rs120Bn. Unorganized domestic market was ~50Bn.
- Management expects laminate industry to grow at ~10-11% for next 2-3 years, which will be driven by renovation/home improvement trend.
- Organized Sector is expected to grow at 13%-15% while unorganized sector is anticipated to grow at 8%-10%.
- Company has largest laminates capacity of 21Mn sheets p a. and capacity of 0.5Mn boards for particle boards.
- Management stated that sustainable margins for laminates is ~13-14%.
- Company has a wide distribution reach in domestic market with 650 stock points, 22,000 dealers spread across ~1,000 towns.
- Company aims to hold dominant market position in B2C market that contributes ~65% of revenue.
- Merino has planned capex of Rs10Bn majorly for particle board segment, which will have an A/to of ~3x at full capacity utilization.
- Key raw materials are Paper, Compact Bond & Chemicals. Company sources Craft paper, Melamine from domestic market while company Bond & Phenol are imported. For Design paper, Merino procures 70% requirement from domestic markets.
- Few key clients of the company are IKEA, Steelcase, Hayworth, Godrej.

Reco	:	<b>NOT RATED</b>
CMP	:	-
Target Price	:	-
Potential Return	:	-

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## Our View

We reckon, the overall scenario is sluggish owing to seasonality impact in Q2. However, the consensus view from all managements was that building material segment is likely to witness structural uptick owing to strong real-estate demand, no slowdown in new construction activities, massive spends in infrastructure development. Though interim hiccups cannot be ruled out, in next 3-5 years the industry is set to witness robust demand. Hence, major companies are expanding capacities at rapid pace to cater the growing demand. We continue to remain positive on product categories which are more skewed towards new construction, i.e Plastic pipes, sanitaryware & faucets. Demand for woodpanels should also improve as the major dent created by higher interest rates seems to be behind & macro-data indicates decent pick-up in end-sales of real-estate. Incrementally with higher demand for branded products, organized manufacturers are likely to outperform industry growth. Also, with stability in input cost, we believe margins should remain largely stable & companies focusing on value added products should deliver better margins. **We continue to prefer Hindware Home Innovations Ltd, Apollo Pipes Ltd & Greenply Industries Ltd from this sector.**

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