

August 13, 2024

RESULT REPORT Q1 FY25 | Sector: Building Materials

Cera Sanitaryware Ltd

Tepid topline growth, demanding valuations compel rating downgrade!

Result Synopsis

Cera Sanitaryware Ltd (CRS), reported a topline of Rs4Bn, reporting a degrowth of 7%YoY. Sanitaryware & Faucets (89% of sales) registered a decline of 6%YoY (2-year CAGR remained flattish) owing to soft demand environment. Sanitaryware (53% of sales), degrew by 7%YoY (2-year CAGR was flattish) and Faucets (36% of sales) reported a decline of 4%YoY (2-year CAGR stood at 2%). Other biz combined registered a revenue degrowth of 14% in Q1FY25. Owing to subdued topline and higher discounts, operating margins contracted to 14.5% Vs 16.4%/17.3% in Q1FY24/Q4FY24 respectively. With surplus cash on balance sheet and major capex behind, CRS has announced share buyback of up to Rs1.3Bn, which is ~9.68%/9.66% of equity share capital/free reserves respectively.

Management stated that demand has started to improve & and momentum should improve from H2FY25E onwards. Company has maintained their turnover guidance of Rs29Bn by FY27E (16% CAGR over FY24-FY27E) and for FY25E, topline should grow in single digit. For rest of 9MFY25E, management is confident of maintaining 16-17% EBITDA margins.

We reckon FY25E topline growth to be muted at 5%YoY, wherein sanitaryware & faucets (88% of sales) should grow by 5%YoY. With improving demand scenario, we reckon FY26E's revenue to increase by 14%YoY and sanitaryware & faucets is likely to grow by 15%YoY. Going ahead, with healthy topline growth we expect margins to normalize to 16%/16.5% for FY25E/FY26E respectively. Moreover, higher contribution of value-added products should cushion the operating margins. We have revised our FY25E/FY26E EPS downwards by 8%/4% respectively to Rs190/Rs220 respectively. Owing to recent run-up in stock price, at CMP, the stock trades at premium P/E(x) of 45x on FY26E EPS. Hence, we have revised our rating to **REDUCE**.

Result Highlights

- Revenue stood at Rs4Bn, a decline of 7%YoY (Vs est of Rs4.5Bn).
- Operating margins came in at 14.5% (Vs est of 16.8%) Vs 16.4%/17.3% in Q1FY24/Q4FY24 respectively. Absolute EBITDA declined by 17.5%YoY to Rs581Mn.
- Net profit stood at Rs475Mn, a degrowth of 16%YoY.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	4,007	4,546	4,629	-11.9%	-13.4%	Miss on all fronts
EBITDA	581	764	760	-24.0%	-23.6%	
EBITDA Margin (%)	14.5	16.8	16.4	-231 bps	-192 bps	
Adjusted PAT	475	607	596	-21.8%	-20.4%	

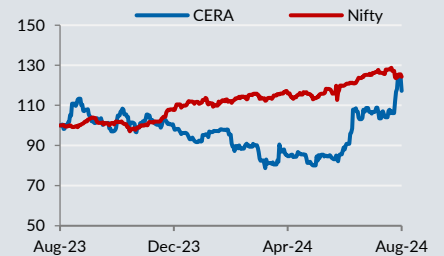
Source: Company, YES Sec

Reco	: REDUCE
CMP	: Rs 9.875
Target Price	: Rs 8,809
Potential Return	: -10.8%

Stock data (as on Aug 13, 2024)

Nifty	24,131
52 Week h/l (Rs)	10,790 / 6,591
Market cap (Rs/USD mn)	135,527 / 1,615
Outstanding Shares (mn)	13
6m Avg t/o (Rs mn):	231
Div yield (%):	0.7
Bloomberg code:	CRS IN
NSE code:	CERA

Stock performance



	1M	3M	1Y
Absolute return	9.9%	38.7%	17.2%

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	ADD
Target Price	8,809	8,026

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	190.0	220.2
EPS (Old)	205.8	229.3
% change	-7.7%	-4.0%

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	52.0	44.8
BV/Share	1,035	1,175	1,345
P/BV	6.8	8.4	7.3

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Exhibit 2: Quarterly Snapshot:

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Revenue	5,325	4,289	4,637	4,389	5,488	4,007	(6.6)	(27.0)
Expenditure	4,453	3,585	3,872	3,775	4,538	3,426	(4.4)	(24.5)
- RM	2,480	1,937	2,186	2,004	2,701	1,812	(6.5)	(32.9)
- Staff Cost	554	576	585	567	581	589	2.2	1.3
- Other Cost	1,419	1,072	1,102	1,204	1,256	1,026	(4.3)	(18.3)
Operating Profit	872	704	765	614	950	581	(17.5)	(38.9)
OPM(%)	16.4	16.4	16.5	14.0	17.3	14.5	-192 bps	-281 bps
Other Income	124	153	125	160	157	159	4.1	1.1
Depreciation	83	83	89	97	97	90	7.7	(7.2)
Interest	21	13	14	16	15	13	(6.0)	(18.8)
Exceptional	(50)	-	(16)	-	-	-	-	-
PBT	842	760	772	662	995	638	(16.1)	(35.9)
Tax	210	193	198	147	238	163	(15.7)	(31.5)
PAT	632	567	574	515	757	475	(16.3)	(37.3)
OCI	3	(2)	(6)	(2)	1	(2)	5.6	(235.7)
Reported PAT	634	565	568	513	759	473	(16.3)	(37.7)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Sales (Rs mn)								
Sanitary	2,822	2,273	2,365	2,282	2,799	2,124	(6.6)	(24.1)
Faucets	1,864	1,501	1,669	1,580	2,085	1,443	(3.9)	(30.8)
Tiles	586	472	510	483	494	361	(23.6)	(27.0)
Wellness	53	43	93	44	110	80	86.9	(27.0)
Sales-Mix (%)								
Sanitary	53	53	51	52	51	53	0 bps	200 bps
Faucets	35	35	36	36	38	36	100 bps	-200 bps
Tiles	11	11	11	11	9	9	-200 bps	0 bps
Wellness	1	1	2	1	2	2	100 bps	0 bps

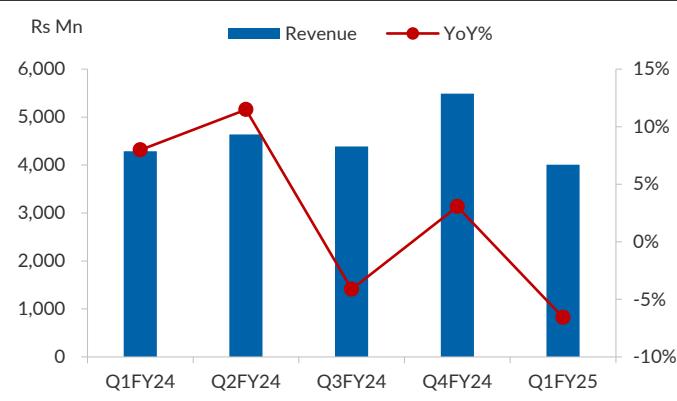
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Revenue was impacted due to challenging demand scenario driven by heat wave and general elections. Management maintained their guidance of Rs29Bn turnover by FY27E.
- Management expects softness to continue in Q2FY25E however, demand should improve considerably by H2FY25E. Company is already witnessing demand pick-up from B2B segment (Project order is up 15-20% in Jun'24 Vs Dec'23) and the same should be reflective on retail segment from Q3FY25E.
- Project biz constitutes ~36% of revenue. Discounts in projects is ~5-6% higher Vs retail biz. Even if project biz constitutes ~40% of revenue, the margins will not be impacted materially.
- Margins contracted due to lower sales and higher discounts offered in Q1FY25. However, management is confident of maintaining 16-17% margins for rest of FY25E.
- Contribution of new products stood at 32%. Imports from China constituted 2% of sales.
- Faucets/Sanitaryware operated at 84%/76% utilization respectively.
- Capex for FY25E will be Rs354Mn barring the capex for new Sanitaryware plant where the due diligence should conclude by Sept'24 (Vs earlier target of Jun'24). This plant will take 18-months from 0-date to commission operations.
- Adv spends for FY24 was Rs632Mn (3.4% of sales), the same in Q1FY25 was Rs115Mn Vs Rs110Mn in Q1FY24.
- B2C constituted 65% of revenue.
- Premium/Mid/Entry level segment constituted 44%/32%/24% respectively during Q1FY25 as compared to 45%/31%/24% respectively in Q1FY24.
- Inventory/Payable/Receivable days stood at 75/37/28 Vs 74/30/28 as on Mar'24. Consequently NWC-days stood at 66 Vs 72 in Mar'24.
- Tier1/2/3 constituted 35%/22%/43% Vs 33%/22%/45% in Q1FY24 respectively. Management stated that all tiers are witnessing slowdown currently.
- Cash and cash equivalence stood at Rs8.64Bn as on June'24.
- **Gas cost:** GAIL (86% of gas) prices were at Rs28.38/cbm Vs Rs29.31/cbm in Q1FY24. Sabarmati prices were at Rs51.40/cbm Vs Rs50.01/cbm in Q1FY24. Avg gas cost/cbm stood at Rs31.64 Vs Rs33.91 in Q1FY24.
- **Industry size:** Sanitaryware is ~Rs90Bn of which organized is Rs50Bn, Faucets is valued at Rs140Bn of which organized is ~Rs80Bn.

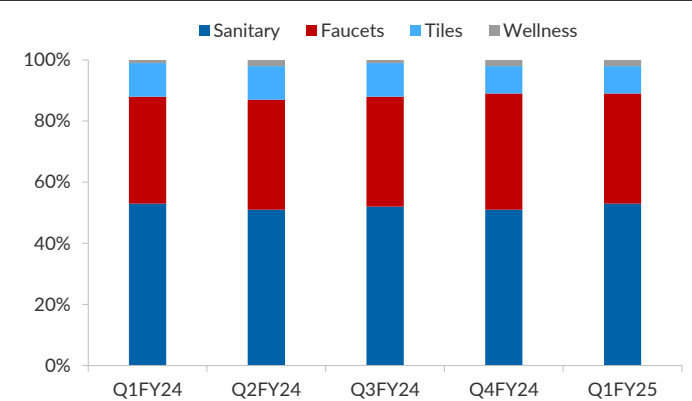
QUARTERLY TRENDS

Exhibit 4: Revenue decreased by 7%YoY...



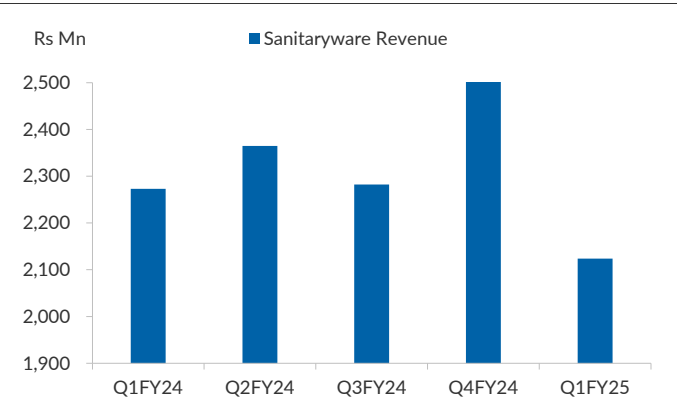
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Exhibit 5: Sanitary & Faucets contributes 89% of sales...



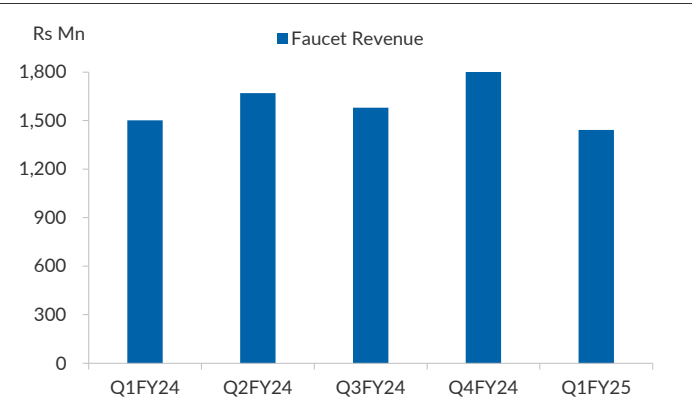
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Exhibit 6: Sanitaryware revenue down by 7%YoY...



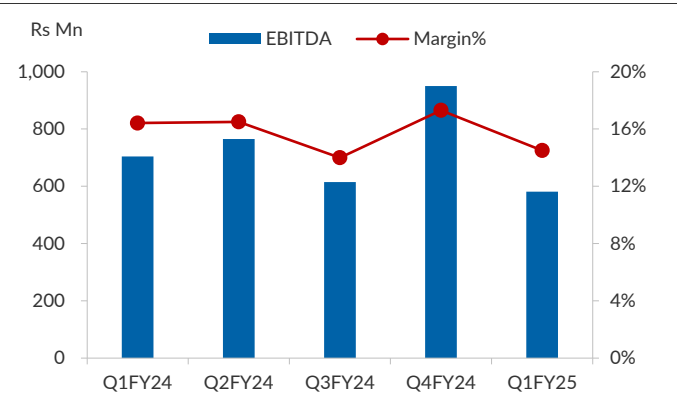
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Exhibit 7: Faucet revenue degrew by 4%YoY...



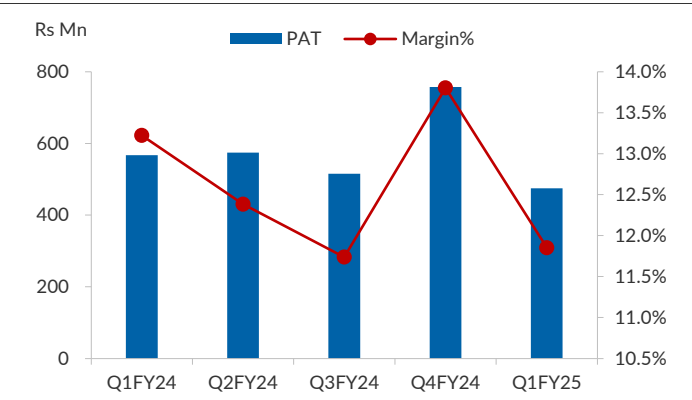
Source: Company, YES Sec

Exhibit 8: Operating margin came in at 14.5%...



Source: Company, YES Sec

Exhibit 9: Net profit stood at Rs475Mn...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: 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 11: 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 12: 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

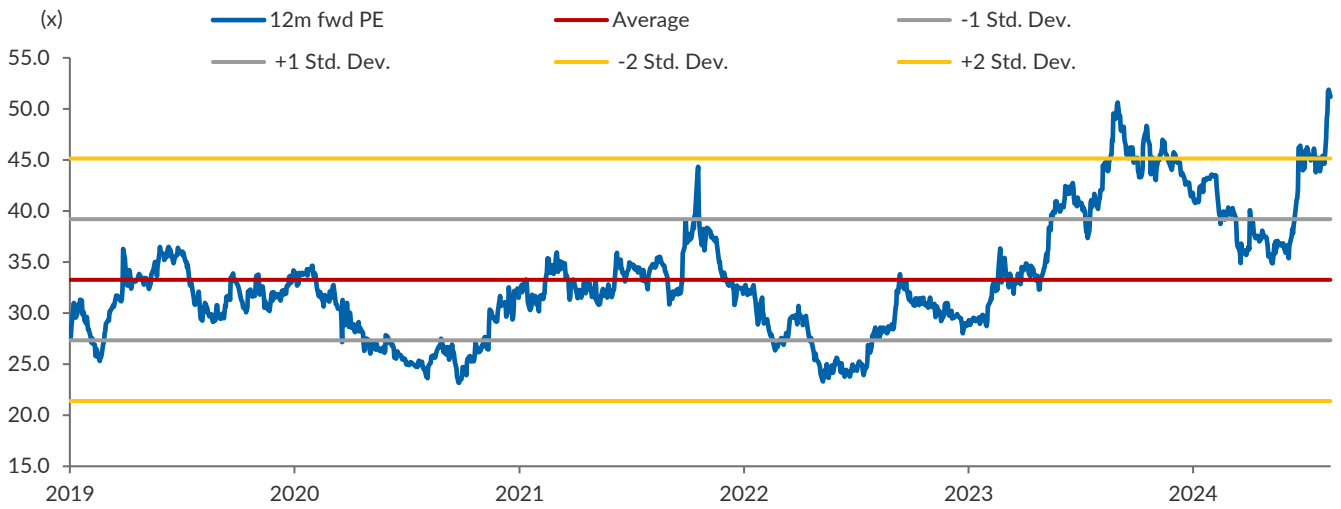
Source: Company, YES Sec

Exhibit 13: 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	52.0	44.8
P/CEPS	27.6	33.6	32.7	45.1	38.8
P/B	5.1	7.0	6.8	8.4	7.3
EV/EBITDA	22.6	27.9	30.3	41.0	34.8
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

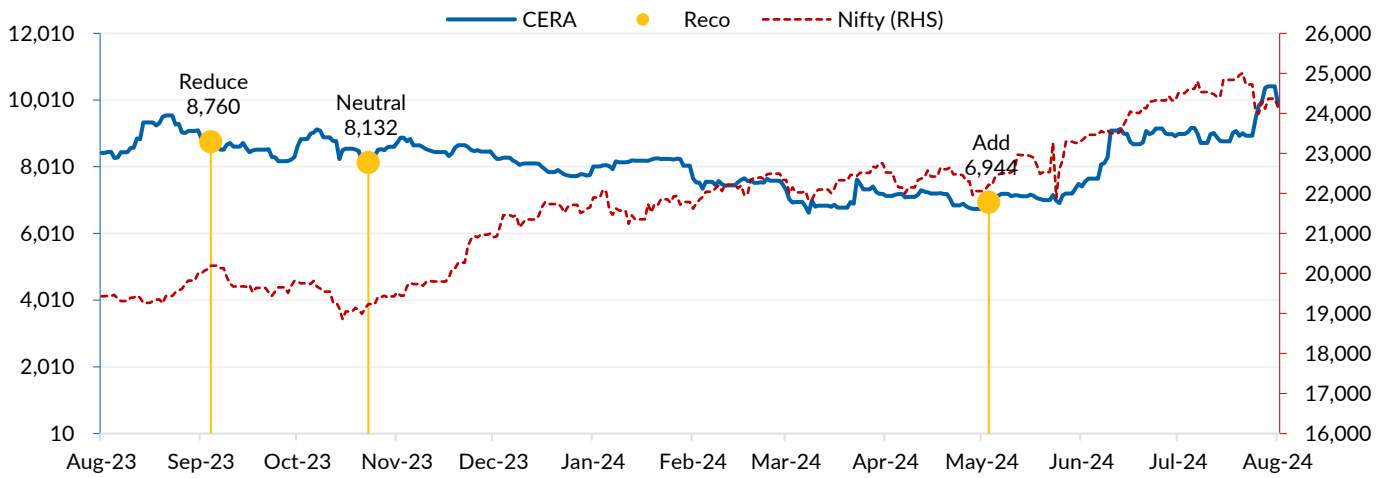
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



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Analyst signature

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