

Cera Sanitaryware

REDUCE

Operational disruption weighed on quarterly results

Summary

Cera Sanitaryware Ltd. (Cera) reported a muted Q3FY21 performance led by operational disruption in one of the plant due to labour issues. As per the management commentary, lower production due to one of the plant shut down for 82 days led to lower net sales by ~Rs650mn and EBITDA by ~Rs100mn. On a positive note, the company guided that all the plants are operational at 100% capacity from January, 2021. Net sales declined by 1.7% YoY to Rs3,158mn, while EBITDA came in at Rs432mn, marginally up by 0.6% YoY. The company reported net profit of Rs307mn, up by 8.3% YoY. The management reiterated positive outlook on strong demand in both retail and institutional segments. Cera's focus on improving product mix, reducing working capital cycle and strengthening distribution reach bodes well for future earnings growth. We have revised our net sales and PAT estimates by 16.1%/4.3%/3.4% and 17.7%/4.1%/5.4% over FY21E/FY22E/FY23E respectively. Though we like Cera in building material space, we believe current valuations are expensive. We downgrade the stock to REDUCE (from ACCUMULATE) with a revised TP of Rs3,088 (earlier Rs2,930) assigning 27x PER (unchanged) on FY23E.

Key Highlights and Investment Rationale

Operational disruption weighed on net sales

After a smart recovery in net sales in Q2FY21 despite pandemic woes, Cera's Q3FY21 result was marred by operational disruption caused by one of the plant shut down. Though the company managed to divert demand to vendors and outsourcing partners, sanitaryware sales was down by 5% YoY. Except faucet ware which grew by 7.6% YoY, tiles and well products sales too declined by 6.5% and 37% over Q3FY20 respectively. However, we believe strong demand and 3%-8% price hike in sanitaryware/faucet ware from February, 2021 paves the way for healthy sales revival in future.

Tight cost control and favourable raw material prices supported EBITDA margin

The company's EBITDA margin was at 13.7%, marginally up by 30bps YoY. Cera's prudent cost cutting initiatives from the beginning of Q1FY21 and benign raw material prices supported EBITDA margin expansion.

Expensive valuation, downgrade to REDUCE with a TP of Rs3,088

We like Cera amongst our building material products coverage owing to its healthy market share in domestic sanitaryware and faucets industry, extensive reach, healthy balance sheet and pedigree of management. However, current valuations are expensive and we will wait for a better entry point. REDUCE with a TP of Rs3,088.

Q3FY21 Result Review

TP	Rs3,088
CMP	Rs3,520
Potential upside / downside	-12%
Previous Rating	ACCUMULATE

V/s Consensus

EPS (Rs)	FY21E	FY22E	FY23E
IDBI Capital	71.6	91.2	114.4
Consensus	69.4	98.2	120.0
% difference	3.2	(6.7)	(4.6)

Shareholding Pattern (%)

Promoters	54.5
FII	15.0
DII	10.8
Public	19.7

Price Performance (%)

	-1m	-3m	-12m
Absolute	(1.3)	25.3	28.4
Rel to Sensex	(5.3)	0.1	3.1

Key Stock Data

Bloomberg/Reuters	CRS IN / CERA.BO
Sector	Building Material Product
Shares o/s (mn)	13
Market cap. (Rs mn)	44,141
Market cap. (US\$ mn)	605
3-m daily average Trd value (Rs mn)	30.6
52-week high / low	Rs3,746 / 2,001
Nifty / Sensex	14,860 / 50,461

Relative to Sensex (%)



Financial snapshot

Year	FY19	FY20	FY21E	FY22E	FY23E
Revenue	13,436	12,092	11,807	14,043	16,009
EBITDA	1,906	1,621	1,429	1,802	2,229
EBITDA (%)	14.2	13.4	12.1	12.8	13.9
Adj. PAT	1,151	1,160	931	1,186	1,488
EPS (Rs)	88.5	89.2	71.6	91.2	114.4
EPS Growth (%)	14.8	0.8	(19.7)	27.4	25.4
PE (x)	39.7	39.4	49.0	38.5	30.7
Dividend Yield (%)	0.3	0.4	0.1	0.3	0.3
EV/EBITDA (x)	24.0	28.3	31.6	24.9	19.9
RoE (%)	17.6	15.7	11.4	13.0	14.5
RoCE (%)	21.0	13.5	10.8	12.8	14.6

Source: Company; IDBI Capital Research

Exhibit 1: Financial snapshot

(Rs mn)

Particulars (mn)	Q3FY21	Q2FY21	QoQ (%)	Q3FY20	YoY (%)
Total revenues	3,158	3,241	(2.6)	3,213	(1.7)
Total expenditure	2,726	2,830	(3.7)	2,784	(2.1)
EBIDTA	432	411	5.2	429	0.6
EBIDTA margin(%)	13.7	12.7	100bps	13.4	30bps
Depreciation	100	99	0.8	80	24.5
Interest cost	23	23	(0.4)	11	114.9
Other income	94	45	111.2	43	118.5
PBT	403	333	21.1	381	5.7
Tax	96	100	(4.5)	98	(1.9)
Adj. net profit	307	233	32.1	284	8.3
Adj. EPS (INR)	23.6	17.9	32.1	21.8	8.3

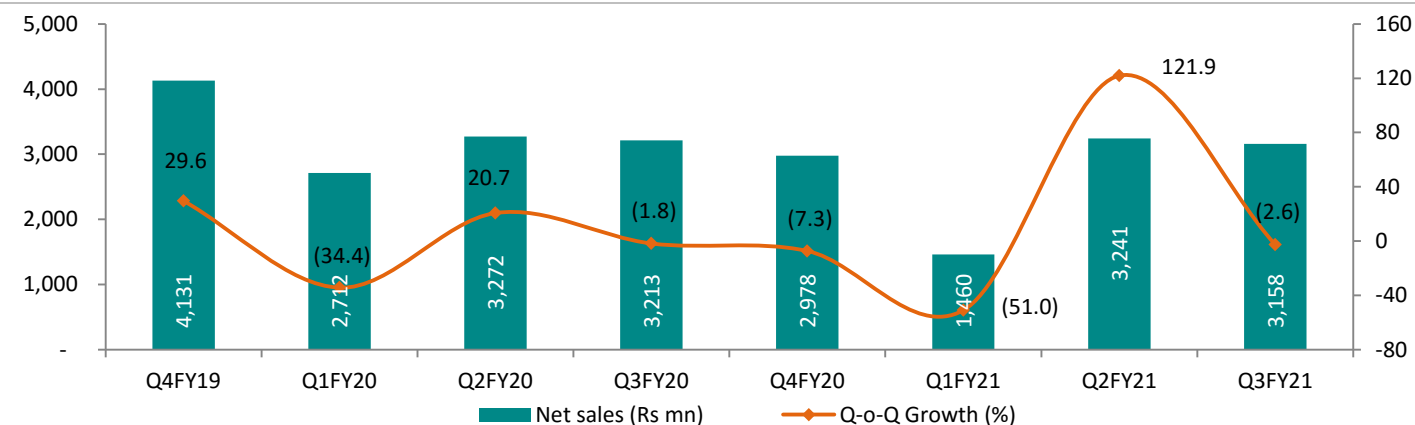
Source: Company; IDBI Capital Research

Exhibit 2: Actual Vs Estimates

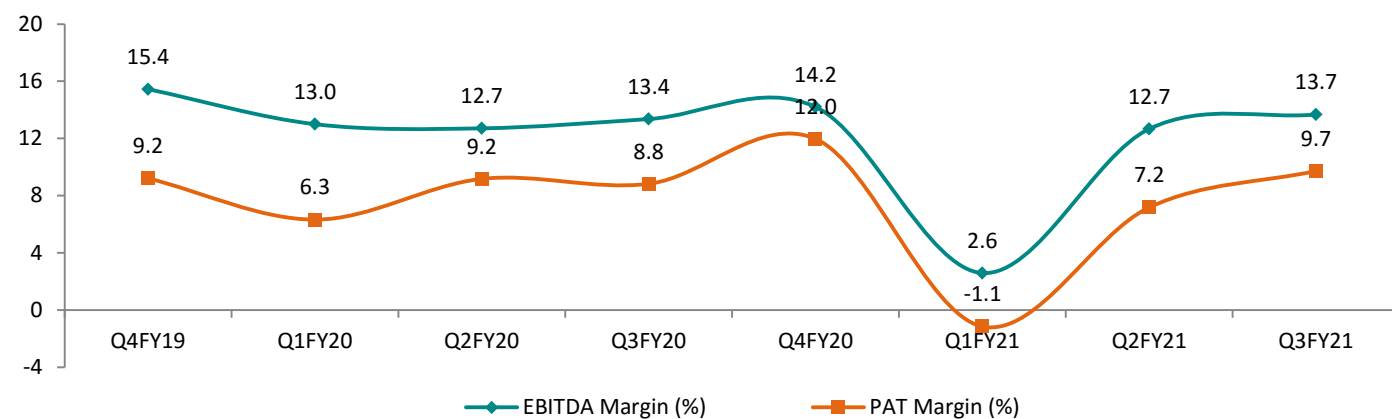
(Rs mn)

Particulars	Q3FY21A	Q3FY21E	Variance (%)
Net Sales	3,158	3,378	(7)
EBITDA	432	422	2
<i>EBITDA Margin (%)</i>	<i>13.7</i>	<i>12.5</i>	<i>120bps</i>
Net Profit	307	258	19
EPS (Rs)	23.6	19.8	19

Source: Company; IDBI Capital Research

Exhibit 3: Quarterly Net sales Growth Analysis


Source: Company; IDBI Capital Research

Exhibit 4: Quarterly Margin Profile Analysis


Source: Company; IDBI Capital Research

Exhibit 5: Change in estimates

Particulars	FY21E			FY22E			FY23E		
	Earlier	New	% Chg	Earlier	New	% Chg	Earlier	New	% Chg
Net sales	10,172	11,807	16.1	13,466	14,043	4.3	15,485	16,009	3.4
EBITDA	1,241	1,429	15.1	1,738	1,802	3.7	2,127	2,229	4.8
EBITDA Margin (%)	12.2	12.1	(10)bps	12.9	12.8	(10)bps	13.7	13.9	20bps
PAT	791	931	17.7	1,139	1,186	4.1	1,411	1,488	5.4
EPS (Rs)	60.8	71.6	17.7	87.5	91.2	4.1	108.5	114.4	5.4

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net sales	12,092	11,807	14,043	16,009
<i>Growth (%)</i>	<i>(10.0)</i>	<i>(2.4)</i>	<i>18.9</i>	<i>14.0</i>
Operating expenses	(10,470)	(10,378)	(12,241)	(13,780)
EBITDA	1,621	1,429	1,802	2,229
<i>Growth (%)</i>	<i>-14.9</i>	<i>-11.9</i>	<i>26.1</i>	<i>23.7</i>
Depreciation	(327)	(318)	(360)	(405)
EBIT	1,295	1,110	1,441	1,824
Interest paid	(44)	(29)	(27)	(16)
Other income	156	163	171	180
Pre-tax profit	1,406	1,245	1,585	1,988
Tax	(247)	(313)	(399)	(500)
<i>Effective tax rate (%)</i>	<i>17.5</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-
Net profit	1,160	931	1,186	1,488
Exceptional items	-	-	-	-
Adjusted net profit	1,160	931	1,186	1,488
<i>Growth (%)</i>	<i>0.8</i>	<i>(19.7)</i>	<i>27.4</i>	<i>25.4</i>
<i>Shares o/s (mn nos)</i>	<i>13</i>	<i>13</i>	<i>13</i>	<i>13</i>

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Pre-tax profit	1,406	1,245	1,585	1,988
Depreciation	327	318	360	405
Tax paid	(379)	(282)	(359)	(450)
Chg in working capital	263	(111)	(194)	(230)
Other operating activities	-	-	-	-
Cash flow from operations (a)	1,616	1,170	1,392	1,713
Capital expenditure	(511)	(200)	(700)	(750)
Chg in investments	(504)	(172)	(211)	(168)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(1,015)	(372)	(912)	(918)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(29)	(8)	(7)	(7)
Dividend (incl. tax)	(218)	(78)	(156)	(172)
Chg in minorities	-	-	-	-
Other financing activities	(442)	(31)	(44)	(38)
Cash flow from financing (c)	(690)	(117)	(207)	(217)
Net chg in cash (a+b+c)	(88)	681	274	578

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21E	FY22E	FY23E
Net fixed assets	3,333	3,215	3,555	3,899
Investments	2,624	2,796	3,008	3,175
Other non-curr assets	247	253	259	263
Current assets	5,053	5,986	6,604	7,541
Inventories	2,045	2,168	2,341	2,505
Sundry Debtors	2,209	2,297	2,412	2,557
Cash and Bank	16	697	971	1,549
Marketable Securities	-	-	-	-
Loans and advances	164	179	197	213
Total assets	11,257	12,250	13,425	14,878
Shareholders' funds	7,729	8,582	9,612	10,928
Share capital	65	65	65	65
Reserves & surplus	7,664	8,517	9,547	10,863
Total Debt	153	145	138	131
Secured loans	-	-	-	-
Unsecured loans	153	145	138	131
Other liabilities	1,973	2,005	2,044	2,094
Curr Liab & prov	1,403	1,518	1,630	1,724
Current liabilities	1,275	1,386	1,492	1,579
Provisions	128	132	139	145
Total liabilities	3,528	3,668	3,812	3,950
Total equity & liabilities	11,257	12,250	13,425	14,878
Book Value (Rs)	594	660	739	840

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY20	FY21E	FY22E	FY23E
Adj. EPS (Rs)	89.2	71.6	91.2	114.4
Adj. EPS growth (%)	0.8	(19.7)	27.4	25.4
EBITDA margin (%)	13.4	12.1	12.8	13.9
Pre-tax margin (%)	11.6	10.5	11.3	12.4
ROE (%)	15.7	11.4	13.0	14.5
ROCE (%)	13.5	10.8	12.8	14.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.1	1.0	1.1	1.1
Leverage factor (x)	1.5	1.4	1.4	1.4
Net margin (%)	9.6	7.9	8.4	9.3
Net Debt/Equity (x)	0.0	(0.1)	(0.1)	(0.1)
Working Capital & Liquidity ratio				
Inventory days	62	67	61	57
Receivable days	67	71	63	58
Payable days	29	32	30	28

Valuation

Year-end: March	FY20	FY21E	FY22E	FY23E
P/E (x)	39.4	49.0	38.5	30.7
Price / Book value (x)	5.9	5.3	4.8	4.2
PCE (x)	30.7	36.5	29.5	24.1
EV / Net sales (x)	3.8	3.8	3.2	2.8
EV / EBITDA (x)	28.3	31.6	24.9	19.9
Dividend Yield (%)	0.4	0.1	0.3	0.3



Notes

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Key to Ratings Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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