

Cera Sanitaryware

BUY

A positive surprise on margins front

Summary

Cera Sanitaryware Ltd.'s (Cera) Q3FY22 result was in-line with our estimates on key parameters. Strong demand traction and consistent price hike taken aided healthy net sales growth and supported margin improvement. Net sales increased by 28.1% YoY to Rs4,045mn, while EBITDA came in at Rs666mn, a robust growth of 54.3% YoY. The company reported net profit of Rs448mn, up by 45.8% over Q3FY21. Our interaction with the management suggest that the company is poised to benefit from healthy industry demand and better product mix and improved NSR will drive sustainable earnings growth in future. We have broadly maintained our earnings estimates for FY23E/FY24E. After a recent correction in stock price the valuation are looking attractive. We upgrade the stock to BUY with TP of Rs5,447.

Key Highlights and Investment Rationale

■ Another quarter of healthy net sales growth

Cera reported another quarter of healthy sales growth in Q3FY22 primarily driven by improved NSR aided by price hike taken in earlier quarters. Housing market has been buoyant in key markets which resulted in healthy demand for bathware products. The company's sanitaryware plant had capacity utilization of 103% while faucetware plant capacity utilization was at 99%. In terms of segment revenue, sanitaryware/faucetware/tiles/wellness contributed 53%/35%/10%/2% respectively.

■ Sustainable earnings growth encouraging, BUT with a TP of Rs5,447

We like Cera given its consistent track record of earnings growth and strong foothold in domestic bathware segment. The company's extensive distribution reach, focus on product premiumization and healthy balance sheet bodes well for future earnings growth. BUY with a TP of Rs5,447.

TP	Rs5,447
CMP	Rs4,450
Potential upside/downside	+22%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(8.7)	(17.9)	26.7
Rel to Sensex	(9.3)	(12.4)	9.1

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	117.8	141.8	170.2
Consensus	115.3	145.4	174.4
% difference	2.2	(2.5)	(2.4)

Key Stock Data

Bloomberg / Reuters	CRS IN / CERA.BO
Sector	Building Material Product
Shares o/s (mn)	13
Market cap. (Rs mn)	57,876
3-m daily average Trd value (Rs mn)	34.9
52-week high / low	Rs6,430 / 3,315
Sensex / Nifty	57,492 / 17,149

Shareholding Pattern (%)

Promoters	54.5
FII	18.8
DII	11.0
Public	15.7

Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	12,092	12,017	15,085	17,574	20,386
Change (yoy, %)	(10)	(1)	26	17	16
EBITDA	1,621	1,500	2,214	2,609	3,085
Change (yoy, %)	(15)	(8)	48	18	18
EBITDA Margin(%)	13.4	12.5	14.7	14.8	15.1
Adj.PAT	1,160	1,013	1,533	1,844	2,214
EPS (Rs)	89.2	77.9	117.8	141.8	170.2
Change (yoy, %)	1	(13)	51	20	20
PE(x)	49.9	57.1	37.8	31.4	26.1
Dividend Yield (%)	0.3	0.3	0.4	0.5	0.6
EV/EBITDA (x)	36	39	26	21	17
RoE (%)	15.7	12.3	16.4	17.2	17.9
RoCE (%)	14	11	16	17	18

Source: IDBI Capital Research

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Concall Highlights

- As per management demand remained buoyant as customers undertook home upgradation and home renovation as a result of benign interest rates and favorable government incentives.
- In Q3FY22 Capacity utilisation for Sanitaryware was 103% & Faucetware was 99%
- **Revenue Breakup:** Sanitaryware contributed 53.28%, Faucetware contributed 34.52%, Tiles contributed 10.36% & Wellness contributed 1.84%. B2C is 70% and B2B is 30% of sales. The new products introduced in last 18-24 months contributed 20% to topline
- **Outsourced/Own Manufacturing Breakup:** Sanitaryware- Outsourcing - 40.76% and Own manufacturing - 59.24%.Faucetware- Outsourcing - 55.51% and Own manufacturing -44.49%.Tiles & Wellness were entirely outsourced.
- **Tier Wise Breakup:** Tier I sales were 30% in Q3FY22 as compared to 27%, Tier II sales were 15% in Q3FY22 as compared to 14% Tier III sales 54% in Q3FY22 as compared to 58%
- **Entry/Mid/Premium Breakup:** In Sanitaryware Entry products were 29%, Mid products were 13 % and Premium products were 57% in Q3FY22 in Faucetware Entry products were 30%, Mid products were 47% and Premium products were 23% in Q3FY22.
- **Raw material scenario :** 1)Clay and feldspar has increased 1% which contributes 95% to raw materials mix of sanitaryware2)Freight cost has remained stable and corrugated boxes price increased by 3% 3)Gas from Gail is below market and is ~Rs13.3 per cubic meter as against Rs9.5 per cubic meter in September 2021, Gail supplied 44% of gas requirement for sanitaryware segment and from Sabarmati price stands at ~Rs70 per cubic meter in November-2021, supplying 56% needs of gas to the plant, the combined impact of gas increase has been Rs18.5mn per month.
- **Price Hike:** The increase in costs of certain raw materials, inputs costs including freight and logistics have been material to the company therefore it implemented price hikes across key products / verticals, the price hikes have been average ~26% in Sanitaryware & ~27% in faucet ware till date and in Q3FY22, 10% hike in sanitaryware in November-2021 and 5% hike in Faucetware in December-2021
- Company stated it will aim to maintain EBITDA margin in range of~14.5%-15%

Exhibit 1: Financial snapshot

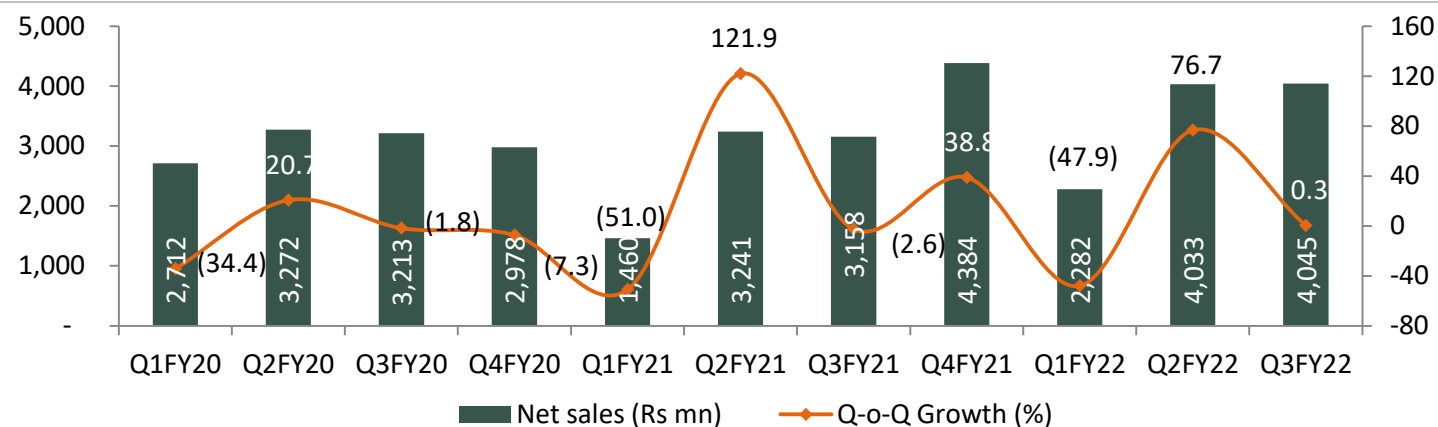
Particulars(Rs mn)	Q3FY22	Q2FY22	QoQ (%)	Q3FY21	YoY (%)
Total revenues	4,045	4,033	0.3	3,158	28.1
Total expenditure	3,379	3,416	(1.1)	2,726	24.0
EBIDTA	666	616	8.1	432	54.3
<i>EBIDTA margin(%)</i>	<i>16.5</i>	<i>15.3</i>	<i>120bps</i>	<i>13.7</i>	<i>280bps</i>
Depreciation	95	93	2.6	100	(4.9)
Interest cost	20	20	(1.5)	23	(14.8)
Other income	53	79	(32.8)	94	(43.3)
PBT	605	583	3.8	403	50.1
Tax	141	132	7.1	96	47.2
Adj. net profit	448	440	1.8	307	45.8
Adj. EPS (INR)	34	33.8	1.8	24	45.8

Source: Company; IDBI Capital Research

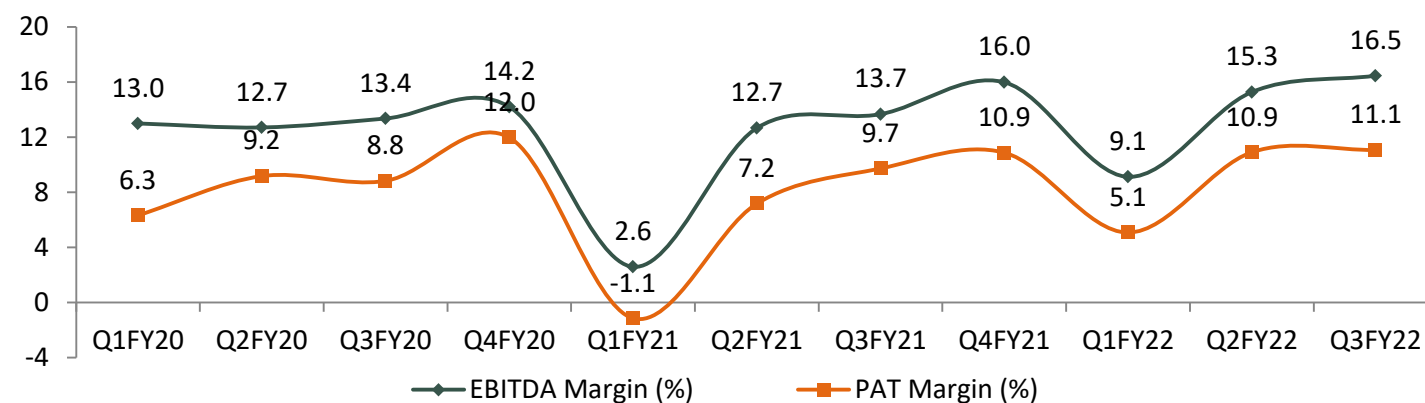
Exhibit 2: Actual Vs Estimates

Particulars(Rs mn)	Q3FY22A	Q3FY22E	Variance (%)
Net Sales	4,045	4,325	(6)
EBITDA	666	653	2
<i>EBITDA Margin (%)</i>	<i>16.5</i>	<i>15.1</i>	<i>140bps</i>
Net Profit	448	452	(1)
EPS (Rs)	34.5	34.8	(1)

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

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Net sales	13,436	12,092	12,017	15,085	17,574	20,386
<i>Change (yoy, %)</i>	14	(10)	(1)	26	17	16
Operating expenses	(11,530)	(10,470)	(10,517)	(12,872)	(14,965)	(17,302)
EBITDA	1,906	1,621	1,500	2,214	2,609	3,085
<i>Change (yoy, %)</i>	12	(15)	(8)	48	18	18
<i>Margin (%)</i>	14.2	13.4	12.5	14.7	14.8	15.1
Depreciation	(228)	(327)	(332)	(397)	(412)	(423)
EBIT	1,678	1,295	1,167	1,817	2,197	2,661
Interest paid	(32)	(44)	(43)	(24)	(13)	(11)
Other income	156	156	218	255	280	308
Pre-tax profit	1,802	1,406	1,343	2,048	2,464	2,959
Tax	(651)	(247)	(329)	(515)	(620)	(745)
<i>Effective tax rate (%)</i>	36	18	25	25	25	25
Minority Interest	-	-	-	-	-	-
Net profit	1,151	1,160	1,013	1,533	1,844	2,214
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,151	1,160	1,013	1,533	1,844	2,214
<i>Change (yoy, %)</i>	15	1	(13)	51	20	20
EPS	88.5	89.2	77.9	117.8	141.8	170.2
Dividend per sh	12	14	13	18	22	27
<i>Dividend Payout %</i>	16	19	20	18	19	19

Balance Sheet

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Shareholders' funds	7,002	7,729	8,744	9,996	11,496	13,289
Share capital	65	65	65	65	65	65
Reserves & surplus	6,937	7,664	8,679	9,930	11,431	13,224
Total Debt	182	153	124	119	113	111
Other liabilities	2,082	1,975	1,859	1,911	1,973	2,047
Curr Liab & prov	1,627	1,402	2,103	2,258	2,387	2,515
Current liabilities	1,535	1,274	1,978	2,127	2,250	2,370
Provisions	92	128	125	130	137	145
Total liabilities	3,890	3,529	4,086	4,288	4,473	4,673
Total equity & liabilities	10,892	11,258	12,830	14,283	15,969	17,961
Net fixed assets	3,149	3,333	3,167	2,790	2,579	2,306
Investments	2,121	2,624	5,131	5,506	5,799	6,107
Other non-curr assets	147	247	197	202	205	209
Current assets	5,476	5,053	4,334	5,785	7,386	9,339
Inventories	1,792	2,045	1,697	1,833	1,961	2,118
Sundry Debtors	2,970	2,209	2,067	2,170	2,301	2,416
Cash and Bank	104	16	98	1,274	2,586	4,233
Loans and advances	142	164	178	195	211	226
Total assets	10,892	11,258	12,830	14,283	15,969	17,961

Cash Flow Statement

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Pre-tax profit	1,802	1,406	1,343	2,048	2,464	2,959
Depreciation	228	327	332	397	412	423
Tax paid	(605)	(379)	(329)	(464)	(558)	(670)
Chg in working capital	(1,199)	262	1,177	(102)	(145)	(159)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	226	1,616	2,523	1,879	2,173	2,553
Capital expenditure	(534)	(511)	(166)	(20)	(200)	(150)
Chg in investments	(725)	(504)	(2,507)	(375)	(293)	(308)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(1,259)	(1,015)	(2,673)	(395)	(493)	(459)
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(62)	(29)	(28)	(5)	(6)	(2)
Dividend (incl. tax)	(187)	(218)	(203)	(281)	(343)	(421)
Chg in minorities	-	-	-	-	-	-
Other financing activities	1,155	(441)	463	(22)	(19)	(24)
Cash flow from financing (c)	906	(689)	232	(308)	(368)	(448)
Net chg in cash (a+b+c)	(127)	(88)	82	1,176	1,312	1,646

Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22E	FY23E	FY24E
Book Value (Rs)	538	594	672	769	884	1,022
Adj EPS (Rs)	88.5	89.2	77.9	117.8	141.8	170.2
Adj EPS growth (%)	15	1	-13	51	20	20
EBITDA margin (%)	14.2	13.4	12.5	14.7	14.8	15.1
Pre-tax margin (%)	13.4	11.6	11.2	13.6	14.0	14.5
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	21	14	11	16	17	18
ROE (%)	17.6	15.7	12.3	16.4	17.2	17.9
DuPont Analysis						
Asset turnover (x)	1.3	1.1	1.0	1.1	1.2	1.2
Leverage factor (x)	1.6	1.5	1.5	1.4	1.4	1.4
Net margin (%)	8.6	9.6	8.4	10.2	10.5	10.9
Working Capital & Liquidity ratio						
Inventory days	49	62	52	44	41	38
Receivable days	81	67	63	53	48	43
Payable days	30	29	50	44	40	36

Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	50.3	49.9	57.1	37.8	31.4	26.1
Price/Book value (x)	8.3	7.5	6.6	5.8	5.0	4.4
EV/Net sales (x)	4.3	4.8	4.8	3.8	3.2	2.6
EV/EBITDA (x)	30	36	39	26	21	17
Dividend Yield (%)	0	0	0	0	0	1

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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