CENTRUM

Cera Sanitaryware

Troika – Growth, leadership & capital discipline

Initiating Coverage

India I Building Materials

29 March, 2022

Institutional Research

BUY

Price: Rs4,746
Target Price: Rs6,371
Forecast return: 34%

Cera Sanitaryware (CRS) has come a long way from a single product company to a multi-product company with market leadership in sanitaryware and one of the key players in faucetware. In sanitaryware segment, Cera holds 17% of organized market share while 4% in faucetware. Sharp focus on capital employed, working capital and high product quality coupled with technology-based innovation are the key drivers for Cera's success. Given low interest rate cycle, GoI's focus on affordable housing and conducive industry conditions we expect Cera's sales/EBITDA/PAT to grow at CAGR of 18%/24%/32%, respectively. We estimate margins to reach 15.1% in FY24E. We initiate with a Buy rating on the stock with target price of Rs6,371. We value the stock at 35x FY24E, in-line to its last three year's PE multiple.

Well established strategies in place to keep the pricing power high

CRS has remained a focused player in tier III/II markets where it faces limited competition, which has led to maintain its pricing power. Projects in small cities usually need no external financing and most of the projects are G+4 or G+7. Hence, the delivery time is less than 12 months keeping the demand less lumpy. Lastly, these markets have buyers for high end products since the cost of land and land approval is relatively low. For Cera, tier III market contributes ~54% while tier II and tier III combined contributes ~69% to the total sales as of 9MFY22. Secondly, Cera's ~75% of sales is from retail channel while rest from institution. Higher contribution from retail allows Cera to maintain healthy gross margins of ~55%.

Diversified product portfolio to hedge risk

CRS diversified into faucetware post establishing its leadership in sanitaryware by 2011. In 2013, it further diversified its revenue stream by venturing out in tiles through JVs. CRS also markets sinks (trading) and customised shower partition/cubicle, bathtub/whirlpool and mirrors. Over FY14-21, contribution from sanitaryware has gone down from 72% to 49% while at the same time contribution from faucetware and tiles have inched up from 16% to 28% and 8% to 21%, respectively.

Judicious use of capital

Over FY11-21, CRS has grown its sales at CAGR of 18% while EBITDA and PAT at CAGR of 13% and 14%, respectively. Despite scaling the business by 5x over the last decade, CRS' balance sheet remains lean. D/E stood at 0.1x with cash and current investments of Rs4.4bn. Cera remains a free cash flow throwing business with cumulative FCF generation of Rs4.5bn over FY17-21.

Valuation

With uptick in real estate cycle, we expect CRS' sales/EBITDA/PAT to grow at CAGR of 18%/24%/32%, respectively. We expect EBITDA margins to improve to 15.1% by FY24E. We initiate with a Buy rating on the stock with target price of Rs6,371. We value the stock at 35x FY24E, in-line to its last three year's PE multiple.

Financial and valuation summary

YE Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenues	12,237	12,243	14,880	17,349	20,151
EBITDA	1,655	1,581	2,175	2,494	3,038
EBITDA margin (%)	13.5	12.9	14.6	14.4	15.1
Adj. Net profit	1,106	1,000	1,544	1,823	2,275
Adj. EPS (Rs)	88.5	80.0	123.6	145.8	182.0
EPS growth (%)	(0.9)	(9.6)	54.5	18.0	24.8
PE (x)	53.6	59.3	38.4	32.5	26.0
EV/EBITDA (x)	37.5	39.1	28.2	23.4	18.8
PBV (x)	7.7	6.8	6.3	5.7	5.1
RoE (%)	15.0	12.2	17.0	18.4	20.6
RoCE (%)	14.3	11.8	16.7	18.3	20.5

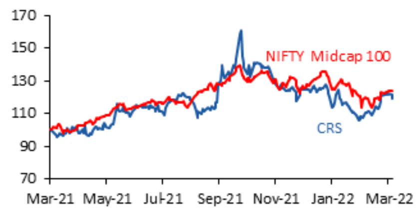
Source: Company, Centrum Broking

Market Data

Bloomberg:	CRS IN
52 week H/L:	6,450/3,650
Market cap:	Rs61.7bn
Shares Outstanding:	13.0mn
Free float:	41.9%
Avg. daily vol. 3mth:	16,763

Source: Bloomberg

CRS relative to Nifty Midcap 100



Source: Bloomberg

Shareholding pattern

	Dec-21	Sep-21	Jun-21	Mar-21
Promoter	54.5	54.5	54.5	54.5
FIIs	18.8	18.0	15.3	15.4
DIIs	11.0	11.8	11.1	10.4
Public/other	15.8	15.7	19.1	19.7

Source: BSE

Mid Cap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Thesis Snapshot

Centrum vs. consensus

YE Mar (Rs mn)	Centrum FY22E	Consensus FY22E	Variance (%)	Centrum FY23E	Consensus FY23E	Variance (%)
Revenue	14,880	14,872	0.1	17,349	17,023	1.9
EBITDA	2,175	2,186	-0.5	2,494	2,575	-3.1
PBT	2,064	2,029	1.7	2,436	2,424	0.5
PAT	1,544	1,509	2.3	1,823	1,840	-0.9

Source: Bloomberg, Centrum Broking

CRS vs. NIFTY midcap 100

	1m	6m	1 year
CRS IN	9.8	(13.0)	23.1
NIFTY midcap 100	3.7	(3.3)	26.1

Source: Bloomberg, NSE

Key assumptions

YE Mar	FY22E	FY23E	FY24E
Segmental Growth (%)	22.0	14.0	14.0
Sanitaryware	27.0	23.0	21.0
Faucetware	15.0	15.0	15.0
Tiles	10.0	8.0	8.0
Wellness	22.0	14.0	14.0
Gross Margin (%)	54.5	55.5	56.5

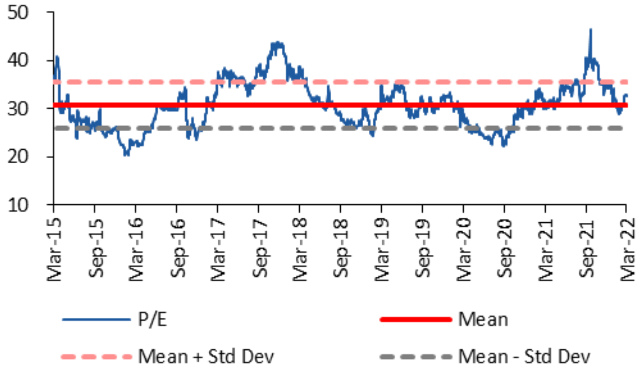
Source: Centrum Broking

Valuations

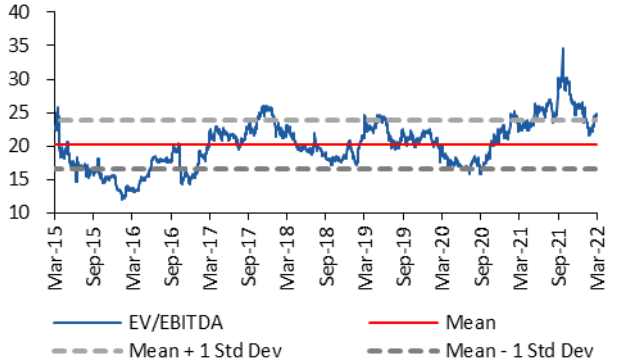
We initiate with a Buy rating and TP of Rs6,371. We assign a target multiple of 35x FY24E. This is largely in-line to its last three year's forward PE multiple.

Valuations	Rs/share
FY24E EPS	182
Target Multiple (X)	35
Target Price	**6,371**

P/E mean and standard deviation



EV/EBITDA mean and standard deviation



Source: Bloomberg, Centrum Broking

Peer comparison

Company	Mkt Cap (Rs mn)	CAGR (FY21-24E) Sales	EBITDA	EPS	P/E (x) FY22E	FY23E	FY24E	EV/EBITDA (x) FY22E	FY23E	FY24E	ROE (%) FY22E	FY23E	FY24E
CERA Sanitaryware	**59,264**	**18.1**	**24.3**	**32.9**	**38.4**	**32.5**	**26.0**	**28.2**	**23.4**	**18.8**	**17.0**	**18.4**	**20.6**
Kajaria Ceramics	1,52,279	22.1	22.5	26.0	37.6	30.4	24.7	23.4	19.2	16.0	20.2	22.2	23.9

Source: Company, Centrum Broking

Sanitaryware market in India

India is world's second largest sanitaryware manufacturer after China with capacity of ~40 million pieces/year. The Indian sanitaryware market is concentrated in Gujarat, contributing 75% of the total sanitaryware output of India. Gujarat has an installed capacity of 30 million pieces/year manufactured at two locations i.e., Morbi and Thangadh. Emergence of the sanitaryware hub in these two towns of Gujarat is attributable to proximity to highways, seaports & airports, the availability of raw material i.e., clay in Gujarat and Rajasthan and the easy availability of manual and skilled labour. According to Morbi Ceramic Association, there are currently 76 sanitaryware manufacturing units in Morbi with an annual production of ~9 million pieces/year. Total annual output at Thangadh is in the range of 14-16 million pieces/year catering to lower end of the market; and are mainly used in government projects in rural areas or exported to Africa.

Share of major players in the India sanitaryware industry

Exhibit 1: Indian sanitaryware and faucet industry (FY21)

Sanitaryware market in India	Rs48bn
Organised market	75%
Share of players in total market	
CERA sanitaryware	17%
HSIL	16%
Faucetware market in India	**Rs90bn**
Organised market	~60%
Share of players in total market	
CERA sanitaryware	4%
HSIL	4%

Source: Company Annual Report, Presentation, Centrum Broking

The Indian sanitaryware industry was worth Rs48bn in FY21, of which 75% is the organised market. Parryware India is the leader with the highest capacity in sanitaryware followed by HSIL and CERA Sanitaryware. CERA has a share of 17% in the total market of sanitaryware in India.

Exhibit 2: Capacity of the leading manufacturers of sanitaryware in India

Company	Location	Installed capacity (pcs/year)
Parryware India (Roca Group)	4 plants in Ranipet, Perundurai, Dewas, Alwar	6,300,000
HSIL Hindustan Sanitaryware Industries Limited	2 plants in Bibinagar and Bhahdurgarh	3,800,000
Cera Sanitary Ware	Mehsana – Gujarat	3,200,000
Jaquar India	Bhachau – Gujarat	1,800,000
Anchor Sanitaryware	Thangadh – Gujarat	1,800,000
Simpolo Vitrified Pvt Limited	Morbi – Gujarat	1,600,000
Kohler India	Jhagadia – Gujarat	1,500,000
Bell Sanitarywares	Morbi – Gujarat	1,200,000
Rak Ceramics India	Samalkot - Andhra Pradesh	1,100,000
Somany	Morbi – Gujarat	1,100,000

Source: World Ceramic Review, Centrum Broking

Import/Export dynamics for sanitaryware market

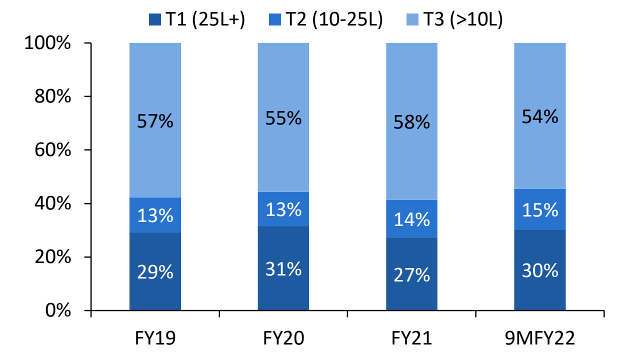
World ceramic sanitaryware import/export flows grew at CAGR of 6% from 2mn tons to 3.5mn tons over the period 2009-2019. In 2019, sanitaryware exports continued to rise with 4.6% growth on 2018 levels. Asia further consolidated its position as the largest world sanitaryware exporter, with an increase in its share of world exports from 60% to 62.8%, thanks to strong growth in 2019 (2.2 million tons, +9.1%). This was largely due to Chinese exports, although other main Asian exporters (India, and Vietnam) also registered good export growth. China alone accounted for 79% of Asian and 60.6% of world exports. Mexico, the second largest exporter country, registered 11.7% share of global exports.

Key Investment Thesis

Focused player in Tier II and III towns

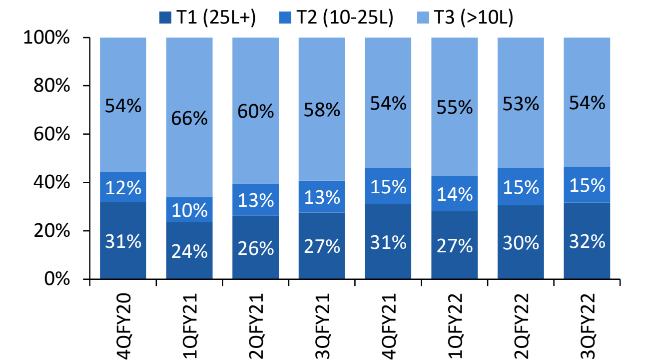
Cera Sanitaryware's 55-60% of sales come from tier III towns (population below 1mn) while tier I cities (population above 2.5mn) contribute 25-30% to the total sales; rest is from tier II towns. Going forward, Cera will continue to remain focused on tier II and tier III towns, which will contribute ~75% to the total sales.

Exhibit 3: Revenue mix by geographies (%)



Source: Company, Centrum Broking

Exhibit 4: Revenue mix by geographies (%)



Source: Company, Centrum Broking

There are multiple reasons for Cera to remain focused on smaller pockets of tier II and tier III towns. First, competition in metros and tier I cities is high mainly from MNC and pan India players. Second, tier II/III markets do not depend on external financing for real estate projects. These projects are largely self-funded by the builders. As a result, delivery time is very fast compared to projects in metros and tier I cities. Also, most of the projects in tier II and tier III towns are either G+4 or G+7 unlike the ones in metros and tier I which are usually multi units multi building projects. Smaller the project sizes faster the completion. Third, the myth is that in tier II and tier III towns consumers don't buy high end products. However, the observation has been different, given the spending on land and land approval process is relatively low in smaller towns, purchasing power of consumers for high end products is high. Fourth, Cera's dealer network has deep penetration in tier III towns. Key influencers in these pockets are usually plumbers and contractors who consult dealers for making their purchases. With high dealer network penetration, Cera's dealers are able to influence the plumbers and contractors. Company's lot of marketing activities are focused on tier III towns. Fifth, in tier III market, Cera is represented via dealers rather than direct sales officers. Wherever company is present through direct sales officers there is always scope of price negotiations between the consumer and the company. With no direct sales force, price negotiations is negligible in tier III towns for Cera. As per the management, 70% of inventory is in affordable housing segment which is largely catering to smaller towns.

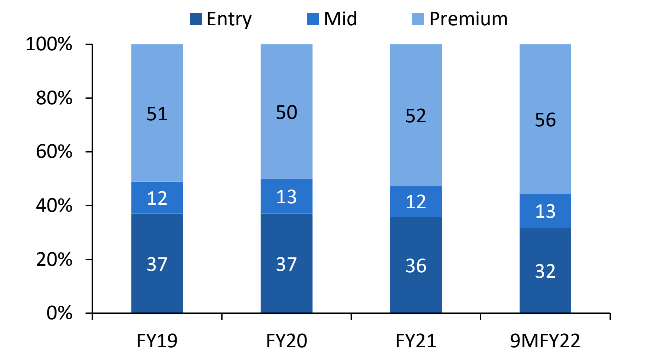
The rising income in the rural segment has helped Cera to broaden its market size, which in turn, has helped the company to maintain its revenue mix in the mass market, despite the company increasing its presence in the niche premium category. Further, the rising rural income that has started gaining pace since the middle of the previous decade (2000-2010) helped Cera to tap the aspirational rural and semi-urban population of the country. This was contributed by many factors including higher minimum support prices (MSP), increased wage rates in the rural segment and revised pay scales of the working population in the rural/semi urban segment.

Prudent mix of premiumization helps keep leadership in sanitaryware

Cera has maintained a judicious mix of focus on the mass market and presence in the premium segment. Despite it having a dominant presence in the mass market, the company has not lost sight on the premium segment. It has nearly 55% of the sanitaryware revenues coming from the premium category.

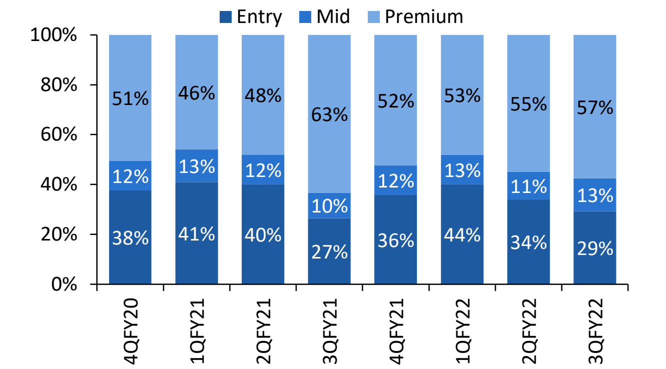
The largely unchanged real estate pricing in the premium category coupled with the increasing affordability and changing taste of the rural population has further helped Cera in addressing the changing requirements in the premium category.

Exhibit 5: Sanitaryware revenue mix by product range (%)



Source: Company, Centrum Broking

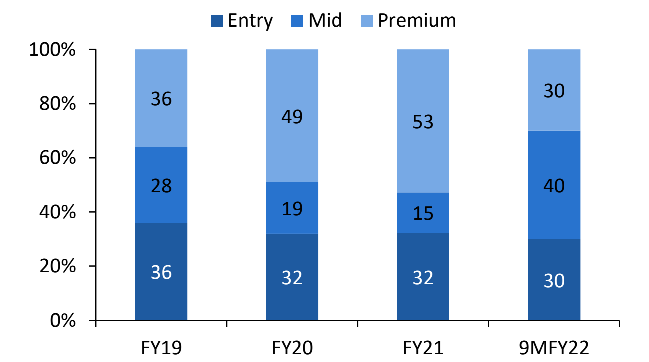
Exhibit 6: Sanitaryware revenue mix by product range (%)



Source: Company, Centrum Broking

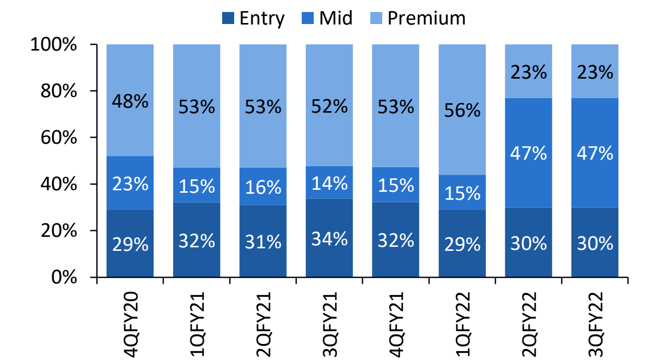
This has helped CRS to increase its market share (~17%) in the organised sanitaryware segment and gain leadership by overtaking market leaders like HSIL and Parryware. Nevertheless, critical balancing of prudent advertisement spending and check on the capital expenditure aiding healthy balance sheet has helped CRS to retain the market share, while the leaders lost their leadership position.

Exhibit 7: Faucetware revenue mix by product range (%)



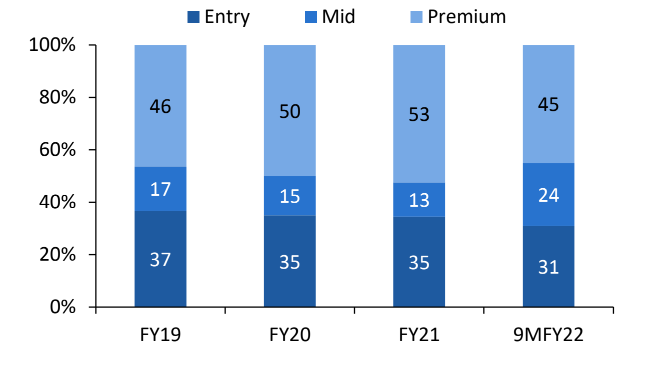
Source: Company, Centrum Broking

Exhibit 8: Faucetware revenue mix by product range (%)



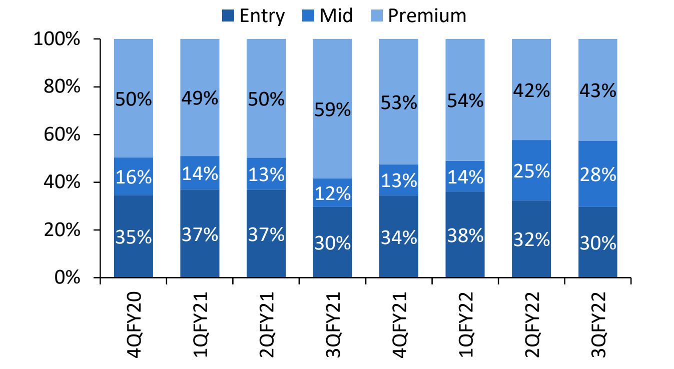
Source: Company, Centrum Broking

Exhibit 9: Blended revenue mix by product range (%)



Source: Company, Centrum Broking

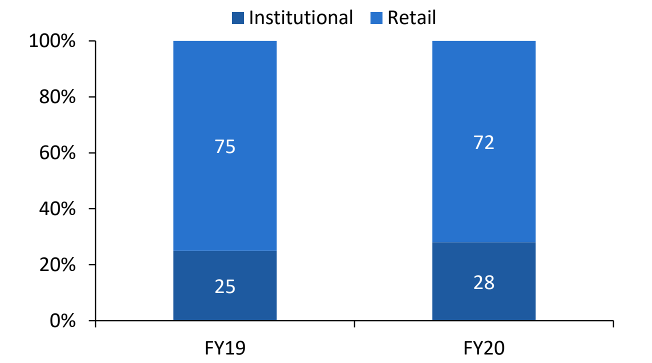
Exhibit 10: Blended revenue mix by product range (%)



Source: Company, Centrum Broking

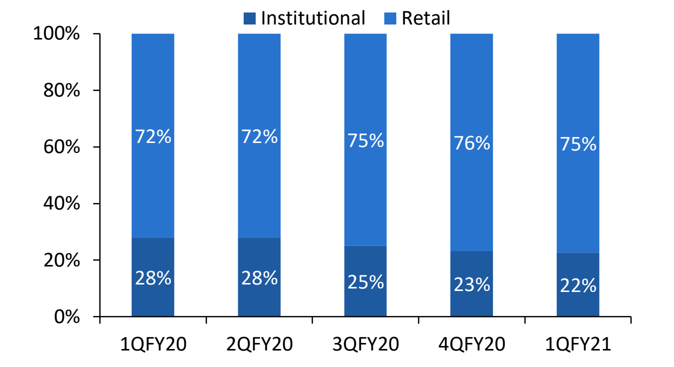
Apart from being focused on tier II and tier III towns, Cera has focused on retail sales over institutional sales. In retail sales, Cera commands better pricing and margins compared to institution.

Exhibit 11: Institutional vs. Retail (%)



Note: FY21 and 9MFY22 data not available; Source: Company, Centrum Broking

Exhibit 12: Institutional vs. Retail (%)

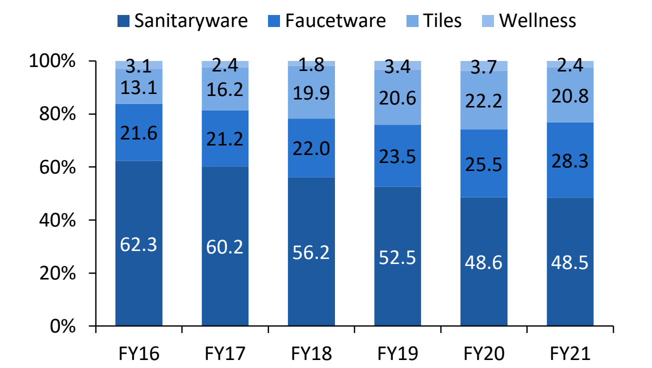


Note: 2QFY21 onwards data not available; Source: Company, Centrum Broking

Widening product portfolio to de-risk earnings concentration

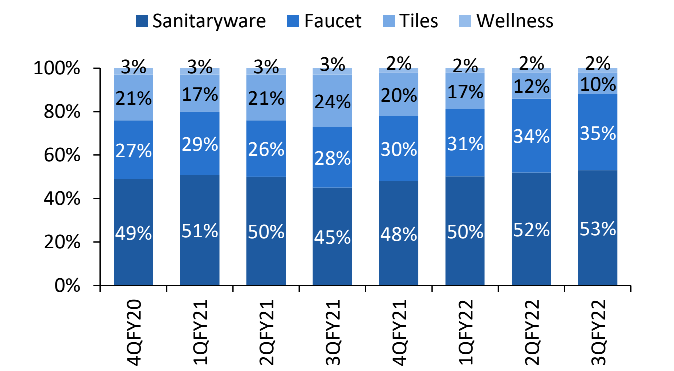
Cera started as a sanitaryware manufacturer, but now generates revenues from multiple products used in the washroom. After stabilising its share in sanitaryware, the company ventured into manufacturing faucets in FY11 and tiles via 51% JV in FY13. Cera also markets (trading) sinks, customised shower partition/cubicle, bathtub/whirlpool and mirrors. The share of faucets/tiles has increased from 16%/8% in FY14 to 28%/21%, respectively in FY21.

Exhibit 13: Revenue mix by product categories (%)



Source: Company, Centrum Broking

Exhibit 14: Revenue mix by product categories (%)



Source: Company, Centrum Broking

Going forward, we expect sales contribution from sanitaryware and faucetware combined to remain at 80-85%. Management has guided that it wants to reduce the contribution from tiles segment in coming years given the low margins the segment makes.

The widening of the product mix has helped Cera de-risk its revenue concentration from a single revenue stream to multiple revenue streams. Further, Cera has emerged from a sanitaryware product company to a complete bathroom solutions provider. This was after a meticulous and one-step at a time strategy. Cera focused on the sanitaryware products for over two decades, ventured into the faucet business over a decade ago and post tasting success, ventured into the tiles business. This helped the company to transform itself from a challenger in the sanitaryware business to a business leader in the industry. This journey, however, was steady with calculated risks that helped the company to expand into various business segments without foregoing its basic business module of being conservative in balance sheet expansion.

Optimized outsourcing vs. in-house manufacturing mix

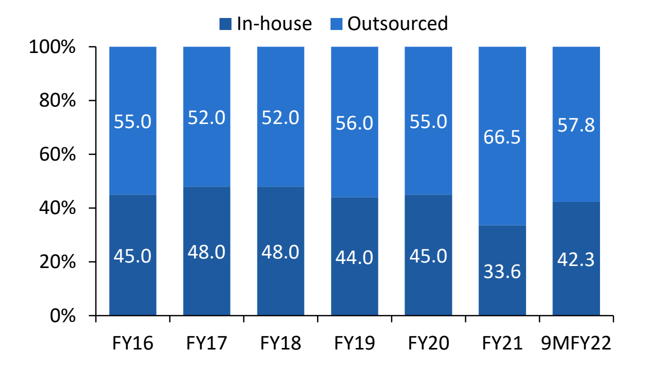
Cera has been a pioneer in procuring finished goods through its outsourcing/JV partners. This strategy has helped it to offer a bigger basket of products with minimal capital expenditure and a lean balance sheet. It has also saved considerable time and R&D efforts for Cera, which is best utilised for branding. As the focus shifts from manufacturing to marketing, return ratios gain importance over margins.

Sanitaryware & Wellness

Under this segment, the management continues to outsource low and mid-end products while it internally manufactures high/premium category products. The idea behind this strategy is that low-end products, which are technologically easy to manufacture are outsourced while technologically complex products are made in-house.

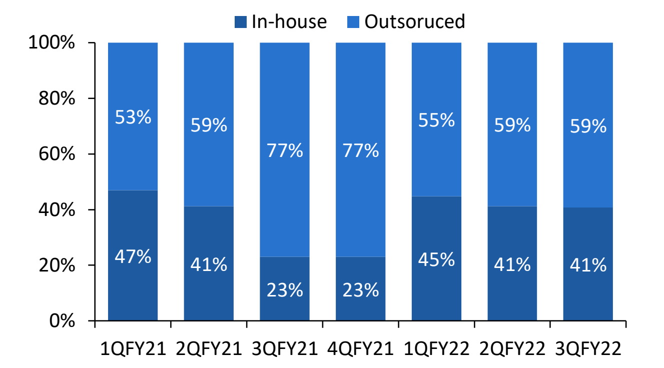
Revenue share of outsourced products has increased from 40% in FY17 to 55% in FY20 (excluded FY21 year given the strikes at plant that had led to sharp increase in outsourcing in 3Q/4Q). In-house manufacturing and local sourcing have allowed the company to remain supple even during the pandemic when the supply chain was heavily disturbed. Since 2HFY21, ocean freight cost has gone up multi-fold. Some of Cera's peers which were heavily dependent upon the imports suffered during last 4-5 quarters. This allowed Cera to gain market share in sanitaryware segment.

Exhibit 15: Healthy mix of in-house vs. outsourcing (%)



Source: Company, Centrum Broking

Exhibit 16: Healthy mix of in-house vs. outsourcing (%)

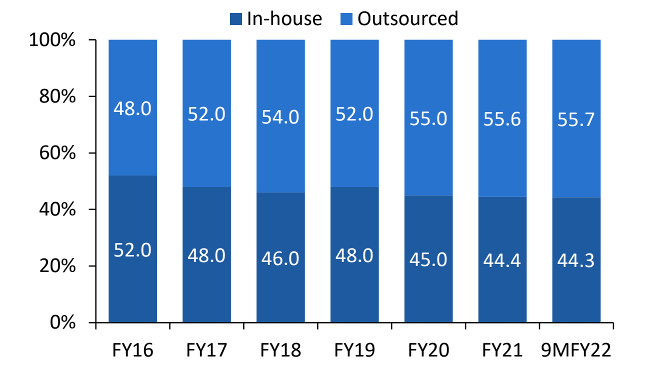


Source: Company, Centrum Broking

Faucets

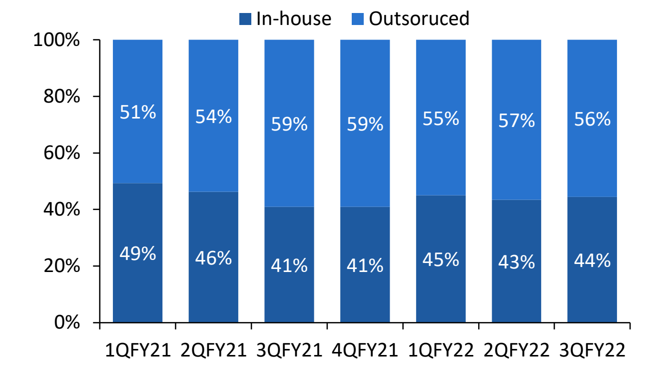
Cera entered or diversified into faucet business in FY11 by establishing in-house manufacturing. Since then, the company has expanded its business multifold. Over the last few years, in-house vs. outsourcing mix has remained range bound with 45-48% contribution from in-house while 52-55% coming from outsourcing.

Exhibit 17: Healthy mix of in-house vs. outsourcing (%)



Source: Company, Centrum Broking

Exhibit 18: Healthy mix of in-house vs. outsourcing (%)

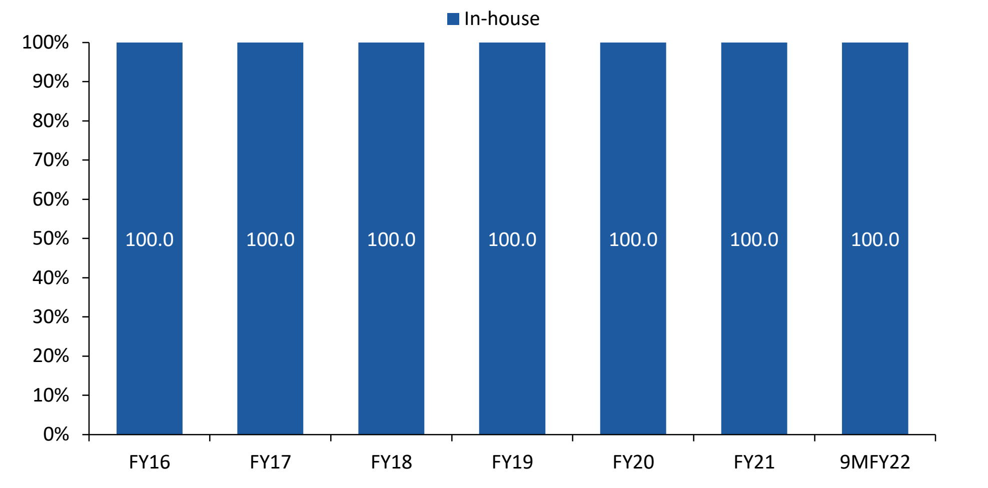


Source: Company, Centrum Broking

Tiles

The company bought a 51% stake in Anjani Tiles, Andhra Pradesh, to enter the tiles business in FY13. The production started in FY17. Apart from this company has JV with Milo. These two JVs make up 35% of the total production while rest 65% of the tiles are outsourced through vendors. JVs make only high end GVT tiles.

Exhibit 19: Tiles manufacturing is completely outsourced

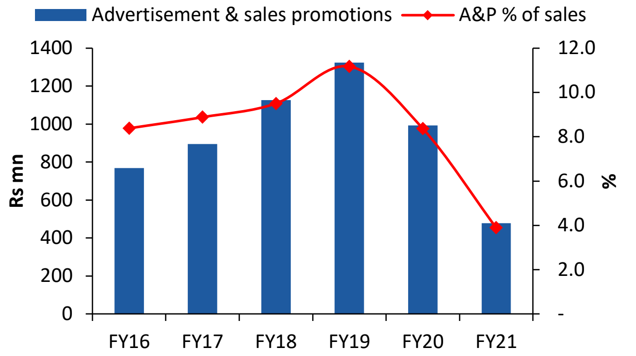


Source: Company, Centrum Broking

Multi-layered marketing infrastructure

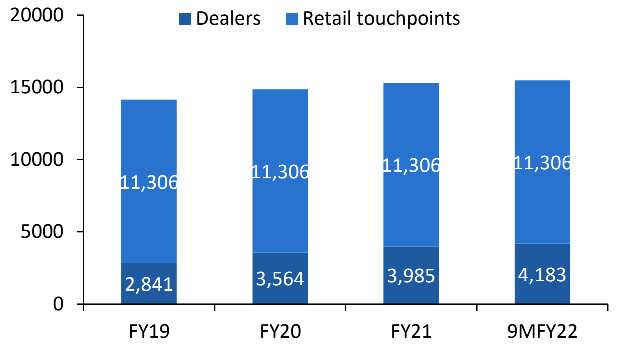
Cera has been a pioneer in introducing celebrity-based advertising campaign to establish its brand. This strategy largely works with low and mid-quality product customers in Tier 2/3 cities. As a result, despite being a late entrant in the industry, Cera has established high brand recall for itself. Moreover, it has established studios and galleries across its distribution network to showcase its products. It owns and manages nearly 8 style studios across major cities. Additionally, its dealers own and manage 153 style galleries dedicated to showcase Cera's products. Company boasts of 15,000 channel partners with 4,183 dealers and 11, 306 retail touch points. Company also has after sales team strength of 328 people as of 9MFY22. Over the last decade, Cera spent an average of 9.5% of its net revenues on advertising, sales promotion, commissions & incentives.

Exhibit 20: Consistent A&P spends



Source: Company, Centrum Broking

Exhibit 21: Increase in total touch points (nos.)



Source: Company, Centrum Broking

Exhibit 22: 3QFY22 – Financial Snapshot

Y/E March (Rs mn)	3QFY22	3QFY21	YoY(%)	2QFY22	QoQ %	9MFY21	9MFY22	YoY %
Revenues	**4,045**	**3,158**	**28.1**	**4,033**	**0.3**	**7,859**	**10,359**	**31.8**
Raw material	1,839	1,694	8.5	1,881	2.3	4,104	4,655	13.4
Gross Margins (%)	54.5	46.3	820.0	53.4	118.9	47.8	55.1	728.5
Staff costs	499	357	39.7	491	-1.6	1,053	1,436	36.3
Other expenses	1,042	675	54.4	1,045	0.3	1,822	2,778	52.5
Total expenditure	3,379	2,726	23.9	3,416	1.1	6,979	8,869	27.1
EBITDA	**666**	**432**	**54.2**	**616**	**8.0**	**880**	**1,490**	**69.4**
EBITDAM (%)	**16.5**	**13.7**	**278.8**	**15.3**	**117.9**	**11.2**	**14.4**	**319.0**
Depreciation	95	100	-4.9	92	-2.6	295	276	-6.6
Interest	19	23	-15.2	20	1.6	69	61	-12.5
Other income	53	94	-43.3	79	48.8	209	198	-5.1
PBT	**605**	**403**	**50.0**	**583**	**3.7**	**724**	**1,352**	**86.8**
Tax	157	96	63.5	143	-8.8	201	349	73.1
Net profit	**448**	**307**	**45.8**	**440**	**1.7**	**520**	**1,001**	**92.0**
EPS (Rs.)	33.25	23.01	44.5	33.10	-0.5	42.3	75.7	79.1

Source: Company, Centrum Broking

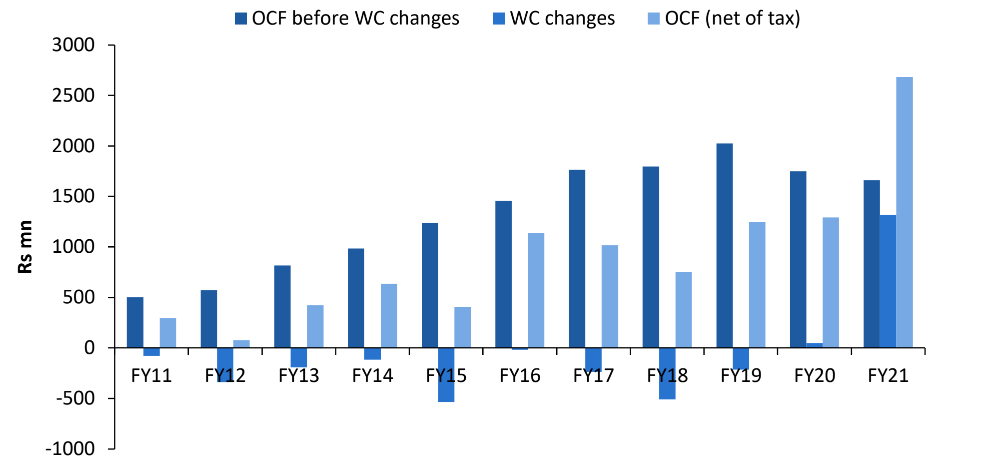
Exhibit 23: Exhibit 23: Recent price hikes taken by Cera

Month/Year	Product category	Price hike
August'20	Sanitaryware	3-5%
Feb'21	Sanitaryware	5-7%
August'21	Sanitaryware	4%
November'21	Sanitaryware	10%
Total	**Sanitaryware**	**26%**
Feb'21	Faucetware	10-12%
August'21	Faucetware	10%
Dec'21	Faucetware	5.5%
Total	**Faucetware**	**27%**

Source: Company, Centrum Broking

Healthy cash flow from operations, 9x in 10 years

Exhibit 24: OCF grew strongly over the decade



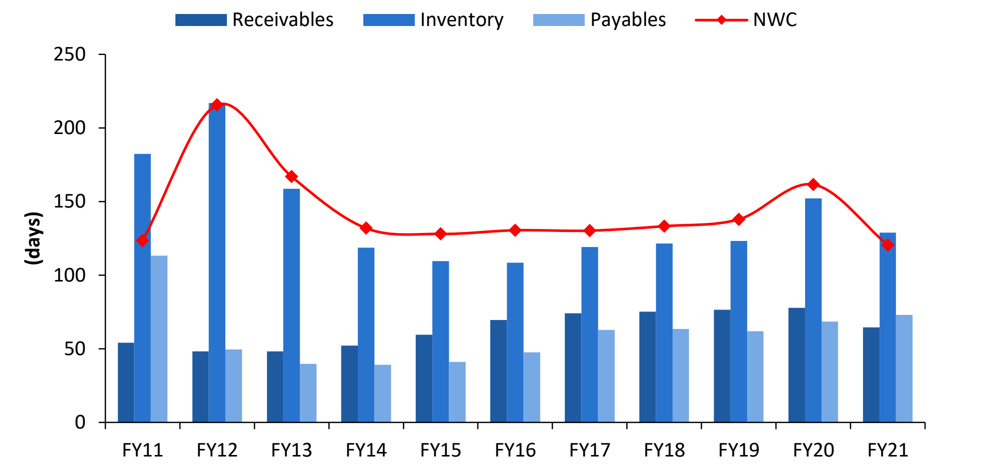
Source: Company, Centrum Broking

CRS has shown consistent growth in its operating profits over the decade, multiplying nearly four times with the help of expansions. However, the Covid pandemic led to a decline in FY20 operating profits. CRS has faced working capital challenges throughout the decade with increased capex intensity. This also led to a proportionate lowering of operating cash conversion, though cash flows remained positive and improved over the decade.

Room for improvement in working capital days

The overall working capital strength has been stable over the last few years however, FY20 was an anomaly due to sudden lockdown in 4QFY20 leading to sharp rise in inventory days. NWC days has been ~120-130 days over last 4-5 years. Management however, has guided for some increase in inventory days to ensure optimum production as well as product availability.

Exhibit 25: Extended receivable and higher inventory days caused higher NWC

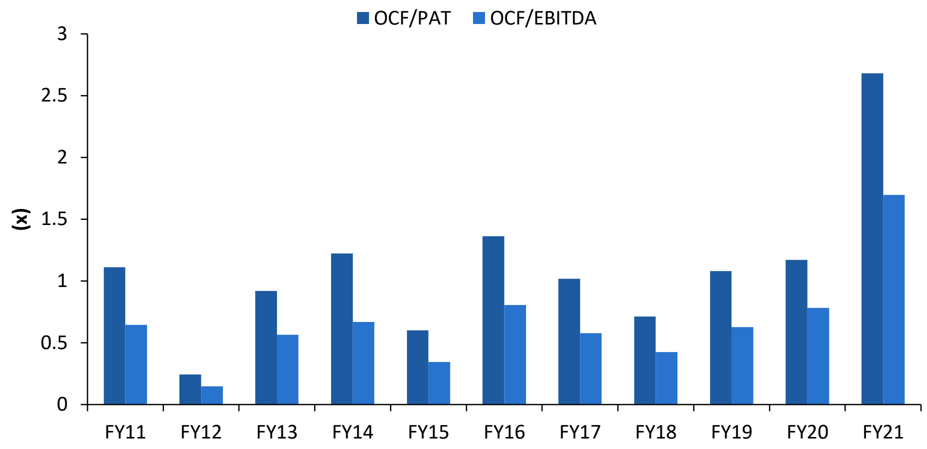


Source: Company, Centrum Broking

Conversion of OCF to EBITDA

Conversion of OCF to EBITDA has stayed at ~70% on an average over the decade though rose abnormally to 170% in FY21 owing to favorable working capital movement led by covid.

Exhibit 26: EBITDA to OCF conversion has remained stable for most of decade at 60-80%

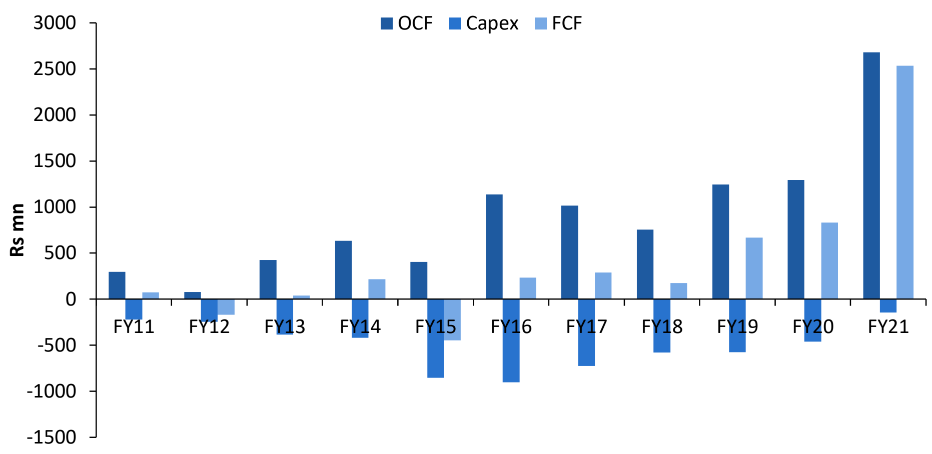


Source: Company, Centrum Broking

Sharp improvement in FCF generation over the last two years

As a consequence of significant improvement in working capital efficiency, Cera's FCF generation improved dramatically over the last two years. As capex was incurred in the mid-decade period, when profits were stronger, FCF remained positive over the last 10 years, cumulative FCF generation stood at Rs4.45bn.

Exhibit 27: Positive FCF generation helped by healthy profitability and moderate capex intensity

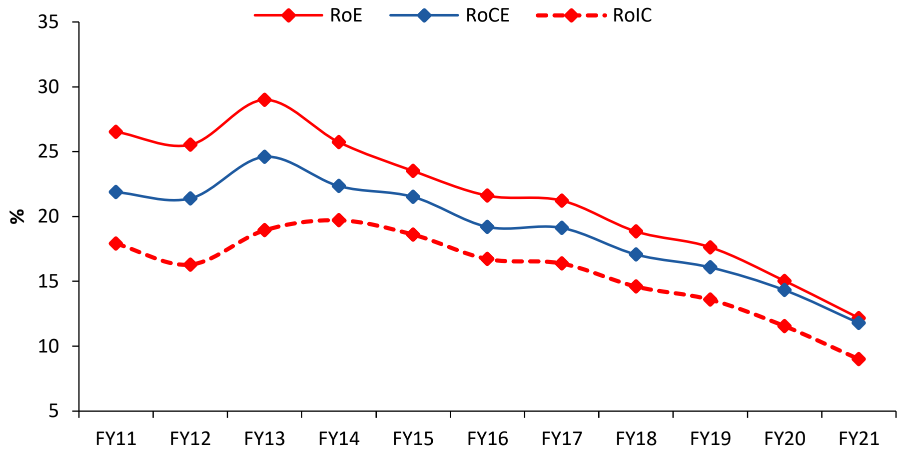


Source: Company, Centrum Broking

Return ratios stabilizing from highs

Over the last five years, average RoCE for CRS stood at 16% and RoE at 17%. Return on Invested Capital (RoIC) on an average over FY17-21 stood at 13%.

Exhibit 28: Decline in return ratios led by margin pressure



Source: Company, Centrum Broking

Company Background

CERA Sanitaryware Ltd. (CRS) is the leading manufacturer of sanitaryware and faucetware in India with capacity of 3.2mn pieces per annum of sanitaryware and 2.34mn pieces per annum of faucetware based in Mehsana, Gujarat. It was founded by Mr. Vikram Somany in 1980 and incorporated in 1988. Currently, promoters' shareholding in the company stands at 54.75%. CRS ventured into the tiles business in FY14 when its entire tile requirement was outsourced. It eventually started manufacturing tiles through its joint venture with Milo Tiles LLP (capacity: 7,000sq.mt per day) in FY17 and Anjani Tiles (capacity: 10,000sq.mt per day) in FY19. CRS also sells bathroom cubicles, bathroom partitions and shower panels recognized in the wellness segment. To cater to the complete range of bathware products, CRS has also launched water heaters in FY19. CRS sources 10.33MW i.e., 90% of its total power requirement through the captive wind and solar power plants located in Gujarat. The premium sanitaryware products are sold under the 'Senator' brand while the affordable range of bathware products are sold under the 'JEET' brand.

Cera has a highly penetrated distribution network with 15,000+ touchpoints across the country including 4,183 dealers and 11,306 retailers as of September 2021. CRS has four different store formats to markets its products depending upon size, ownership and purpose of the store as classified in the following table.

Exhibit 29: Judicious spending by CRS is reflected in addition of new studios and galleries in the recent past

Store Name	No. of stores in India (as of December 2021)	Size of the store	Owner of the store	Purpose of the store	Expansion plans
CERA Style Studio	8	~7,000sq ft	Company owned	Just a Showroom Not a sales outlet	Plans to open 3 stores/year in next 3 years (FY20-22)
CERA Style Galleries	153	~1,000sq ft	Dealer owned	Showroom and a sales outlet	Plans to open 25 stores/year in next 3 years (FY20-22)
CERA Style centres	2,700	<1,000sq ft	Retailer owned	Showroom and a sales outlet	Plans to open 100 stores/year in next 3 years (FY20-22)
CERA Tile centres	9	-	Retailer owned	Showroom and a sales outlet	-

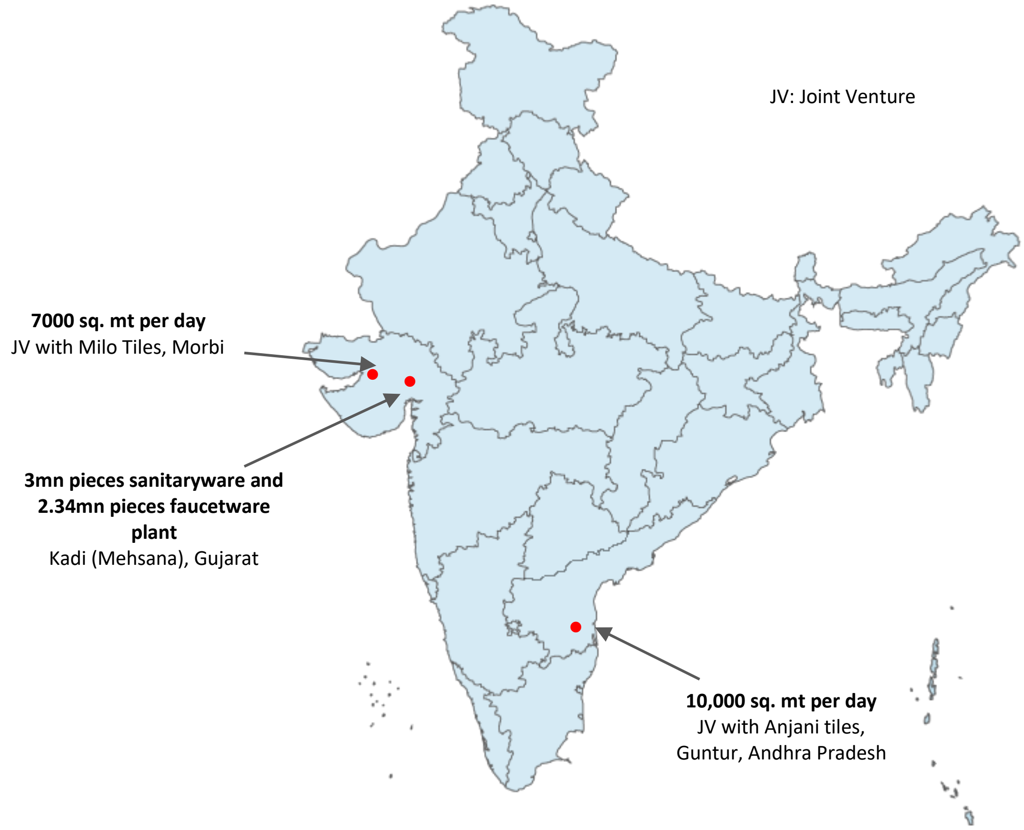
Source: Company, Centrum Broking

Exhibit 30: Profile of the Board of directors

Name of the Director	Designation	Profile
Mr. Vikram Somany	Founder & CMD	Mr. Vikram Somany founded the business in 1980. He has in-depth knowledge and experience of the sanitaryware industry. His responsibilities include initiation and execution of strategy and ensuring high governance standards.
Ms. Deepshikha Khaitan	Joint Managing Director	Ms. Deepshikha Khaitan has completed her B.Sc. in Economics and LLB. She is actively associated with CERA for over 7yrs. Her responsibilities include product designing and innovation, R&D, Channel outreach and sales with equal focus on profitability and product development.
Mr. Anupam Gupta	Executive Director (Technical)	Mr. Anupam Gupta has completed his BE in Electrical Engineering and MBA and has over 30 years of experience in the industry. He has been part of industries like Cement, Textiles, Chemicals and Ceramics and was with Aditya Birla Group for last 17 years. He is in-charge of all aspects of manufacturing at Cera.
Mr. Ayush Baghla	Executive Director	He is a graduate from Franklin Marshall College, USA. He has been involved in capital markets, investment banking and mergers and acquisitions for the last 23 years. He joined the Board of Directors last year and is involved in Investor Relations, Equity value creation, and capital allocation.
Mr. Rajesh B Shah	CFO / COO (Fin. & Comm.)	Mr. Rajesh B Shah has completed his B.Com and is an ACA having 34 years of experience with CERA. He leads Finance, commercial, banking, budgeting and cost control functions at Cera.
Mr. Mahesh Kumar Taparia	Dy. CFO	Mr Mahesh Kumar Taparia has completed his M.Com, LLB, ACS and ACA and has experience of 20 years in Corporate Banking, Risk, Treasury, Capital Market, Compliance. He has been a part of Corporate Banking team of HDFC Bank for 18 years.
Ms. V Krishnamurthy	President - Marketing	Mr. V Krishnamurthy has over 25 years of industry experience and was conferred with the "Most Influential Global Marketing Leader" award in Nov. 2019 by the World Marketing Congress. At Cera, he is responsible for all procurement, vendor relations, devising and execution of media, marketing and positioning strategies.
Mr. Rahul Jain	Vice President - Marketing	Mr. Rahul Jain has an extensive experience in the Sanitaryware and Faucetware industry. He is responsible for the marketing function and other consumer relevant innovations that deliver measurable improvement in brand equity and market share at Cera.
Mr. Ajay Jain	Vice President (Faucetware)	Mr. Ajay Jain has completed his BE Mechanical Engineering and has 23 years of experience being a part of companies like HSIL, Kohler India and Hindalco. He is responsible for all aspects of Faucetware manufacturing at Cera.

Source: Company, Centrum Broking

Exhibit 31: CRS has ~ 3.2mn pieces of sanitaryware capacity and ~ 2.3mn pieces of faucetware capacity based in Mehsana, Gujarat



Source: Company, Centrum Broking Ltd

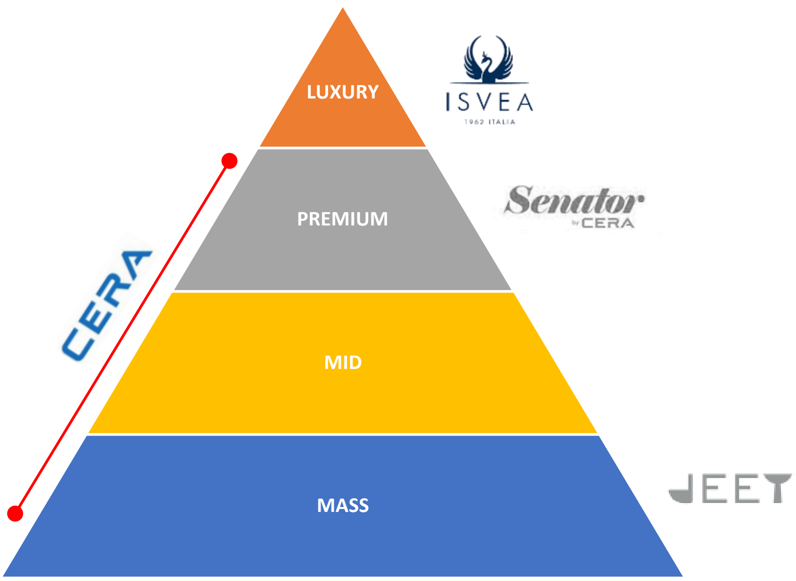
Exhibit 32: CRS plans 25 more galleries in next three years

Source: Company, Centrum Broking

Exhibit 33: Glimpse of CRS Studio

Source: Company, Centrum Broking

Exhibit 34: Sub brands present across the price range



Source: Company, Centrum Broking

Exhibit 35: SKUs across the product segments

Sanitaryware	**450**
Faucetware	850
Kitchen Sinks	56
Wellness (bath cubicles, etc)	52
Mirrors	44
Water heaters	12

Source: Company, Centrum Broking

Exhibit 36: Dealer network as on Sep'21

Sanitaryware	2,747
Faucetware	2,133
Tiles	1,549

Source: Company, Centrum Broking

P&L

YE Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Revenues	**12,237**	**12,243**	**14,880**	**17,349**	**20,151**
Operating Expense	5,503	6,268	6,770	7,721	8,766
Employee cost	1,707	1,537	1,813	2,140	2,525
Others	3,372	2,858	4,122	4,995	5,822
EBITDA	**1,655**	**1,581**	**2,175**	**2,494**	**3,038**
Depreciation & Amortisation	388	396	408	421	434
EBIT	**1,267**	**1,185**	**1,767**	**2,074**	**2,604**
Interest expenses	101	97	97	97	97
Other income	182	252	394	460	534
PBT	**1,349**	**1,339**	**2,064**	**2,436**	**3,041**
Taxes	243	340	519	613	765
Effective tax rate (%)	18.0	25.4	25.2	25.2	25.2
PAT	**1,105**	**999**	**1,544**	**1,823**	**2,275**
Minority/Associates	1	0	0	0	0
Recurring PAT	**1,106**	**1,000**	**1,544**	**1,823**	**2,275**
Extraordinary items	0	0	0	0	0
Reported PAT	**1,106**	**1,000**	**1,544**	**1,823**	**2,275**

Ratios

YE Mar	FY20A	FY21A	FY22E	FY23E	FY24E
Growth (%)					
Revenue	(9.5)	0.1	21.5	16.6	16.1
EBITDA	(16.5)	(4.5)	37.6	14.7	21.8
Adj. EPS	(0.9)	(9.6)	54.5	18.0	24.8
Margins (%)					
Gross	55.0	48.8	54.5	55.5	56.5
EBITDA	13.5	12.9	14.6	14.4	15.1
EBIT	10.4	9.7	11.9	12.0	12.9
Adjusted PAT	9.0	8.2	10.4	10.5	11.3
Returns (%)					
ROE	15.0	12.2	17.0	18.4	20.6
ROCE	14.3	11.8	16.7	18.3	20.5
ROIC	11.5	9.0	12.6	14.8	18.3
Turnover (days)					
Gross block turnover ratio (x)	2.0	2.0	2.4	2.7	3.0
Debtors	78	64	56	56	55
Inventory	152	129	125	131	130
Creditors	68	73	73	59	61
Net working capital	76	37	59	72	88
Solvency (x)					
Net debt-equity	0.1	0.1	0.0	(0.1)	(0.2)
Interest coverage ratio	16.5	16.2	22.4	25.6	31.2
Net debt/EBITDA	0.5	0.4	0.1	(0.3)	(0.7)
Per share (Rs)					
Adjusted EPS	88.5	80.0	123.6	145.8	182.0
BVPS	616.6	697.4	755.1	831.0	936.6
CEPS	119.5	111.6	156.2	179.5	216.7
DPS	27.1	0.0	18.5	21.9	27.3
Dividend payout (%)	30.6	0.0	15.0	15.0	15.0
Valuation (x)					
P/E	53.6	59.3	38.4	32.5	26.0
P/BV	7.7	6.8	6.3	5.7	5.1
EV/EBITDA	37.5	39.1	28.2	23.4	18.8
Dividend yield (%)	0.6	0.0	0.4	0.5	0.6

Source: Company, Centrum Broking

Balance sheet

YE Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Equity share capital	65	65	65	65	65
Reserves & surplus	7,642	8,652	9,373	10,323	11,642
Shareholders fund	7,707	8,717	9,438	10,388	11,707
Minority Interest	77	117	117	117	117
Total debt	844	729	303	303	303
Non Current Liabilities	510	488	499	509	519
Def tax liab. (net)	299	303	303	303	303
Total liabilities	**9,438**	**10,354**	**10,659**	**11,619**	**12,948**
Gross block	5,999	6,124	6,274	6,474	6,674
Less: acc. Depreciation	(1,802)	(2,115)	(2,523)	(2,943)	(3,377)
Net block	4,197	4,009	3,751	3,531	3,297
Capital WIP	5	13	13	13	13
Net fixed assets	4,215	4,030	3,772	3,552	3,318
Non Current Assets	774	747	1,140	1,282	1,438
Investments	1,895	4,340	3,340	3,340	3,340
Inventories	2,430	1,997	2,650	2,900	3,368
Sundry debtors	2,228	2,095	2,446	2,852	3,202
Cash & Cash Equivalents	21	104	181	1,108	2,315
Loans & advances	227	266	266	266	266
Other current assets	403	198	198	198	198
Trade payables	953	1,554	1,159	1,351	1,570
Other current liab.	1,776	1,844	2,150	2,503	2,901
Provisions	26	25	25	25	25
Net current assets	2,555	1,237	2,406	3,444	4,852
Total assets	**9,438**	**10,354**	**10,659**	**11,619**	**12,948**

Cashflow

YE Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Profit Before Tax	1,349	1,339	2,064	2,436	3,041
Depreciation & Amortisation	388	396	408	421	434
Net Interest	80	65	(297)	(362)	(437)
Net Change – WC	47	1,316	(1,098)	(116)	(206)
Direct taxes	(504)	(296)	(519)	(613)	(765)
Net cash from operations	**1,294**	**2,680**	**557**	**1,765**	**2,066**
Capital expenditure	(461)	(147)	(150)	(200)	(200)
Acquisitions, net	0	0	0	0	0
Investments	(351)	(2,313)	1,000	0	0
Others	12	37	14	330	391
Net cash from investing	**(800)**	**(2,423)**	**864**	**130**	**191**
FCF	**494**	**257**	**1,421**	**1,895**	**2,257**
Issue of share capital	0	49	(823)	(874)	(956)
Increase/(decrease) in debt	8	(83)	(426)	0	0
Dividend paid	(411)	0	0	0	0
Interest paid	(75)	0	(97)	(97)	(97)
Others	(106)	(155)	30	2	3
Net cash from financing	**(583)**	**(188)**	**(1,317)**	**(969)**	**(1,050)**
Net change in Cash	(89)	68	104	926	1,208

Source: Company, Centrum Broking

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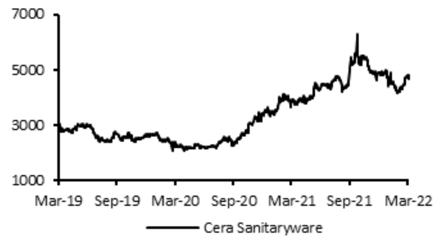
Sell – The stock is expected to deliver <-5% returns.

Cera Sanitaryware



Source: Bloomberg

Disclosure of Interest Statement

1	Business activities of Centrum Broking Limited (CBL)	Centrum Broking Limited (hereinafter referred to as "CBL") is a registered member of NSE (Cash, F&O and Currency Derivatives Segments), MCX-SX (Currency Derivatives Segment) and BSE (Cash segment), Depository Participant of CDSL and a SEBI registered Portfolio Manager.
2	Details of Disciplinary History of CBL	CBL has not been debarred/ suspended by SEBI or any other regulatory authority from accessing /dealing in securities market.
3	Registration status of CBL:	CBL is registered with SEBI as a Research Analyst (SEBI Registration No. INH000001469)

		Cera Sanitaryware
4	Whether Research analyst's or relatives' have any financial interest in the subject company and nature of such financial interest	No
5	Whether Research analyst or relatives have actual / beneficial ownership of 1% or more in securities of the subject company at the end of the month immediately preceding the date of publication of the document.	No
6	Whether the research analyst or his relatives has any other material conflict of interest	No
7	Whether research analyst has received any compensation from the subject company in the past 12 months and nature of products / services for which such compensation is received	No
8	Whether the Research Analyst has received any compensation or any other benefits from the subject company or third party in connection with the research report	No
9	Whether Research Analysts has served as an officer, director or employee of the subject company	No
10	Whether the Research Analyst has been engaged in market making activity of the subject company.	No
11	Whether it or its associates have managed or co-managed public offering of securities for the subject company in the past twelve months;	No
12	Whether it or its associates have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months;	No
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Member (NSE and BSE). Member MSEI (Inactive)

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Depository Participant (DP)
CDSL DP ID: 120 – 12200
SEBI REGD NO.: CDSL: IN-DP-CDSL-661-2012

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