



TM

Cera Sanitaryware

13 August 2024

RESULT UPDATE

Sector: Building Materials Rating: SELL

CMP: Rs 10,000 Target Price: Rs 8,334

Stock Info

Sensex/Nifty	79,452/24,290
Bloomberg	CRS IN
Equity shares (mn)	13.0
52-wk High/Low	10,402/6,672
Face value	Rs 5
M-Cap	Rs 130bn/USD 1.56bn
3-m Avg turnover	USD 1.9mn

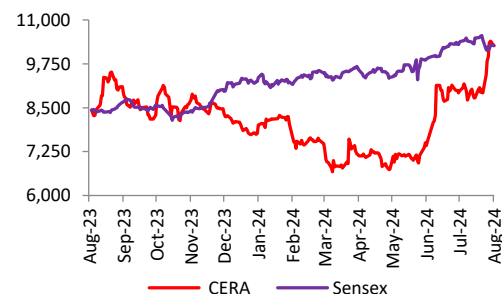
Financial Snapshot (Rs mn)

Y/E Mar	FY24	FY25E	FY26E
Net sales	18,794	21,042	23,767
EBITDA	3,033	3,341	3,786
OPM (%)	16.1	15.9	15.9
PAT (adj.)	2,390	2,547	2,852
EPS (Rs)	184	196	219
PE (x)	54.4	51.1	45.6
P/B (x)	9.7	8.6	7.6
EV/EBITDA (x)	40.4	36.3	31.8
RoE (%)	17.8	16.8	16.7
RoCE (%)	23.6	22.5	22.5
Net-D/E (x)	(0.6)	(0.6)	(0.6)

Shareholding Pattern (%)

	Jun'24	Mar'24	Dec'23
Promoter	54.5	54.5	54.5
- Pledged			
FII	21.5	21.9	20.6
DII	7.3	6.6	8.4
Others	16.8	17.0	16.5

Stock Performance (1-year)



A soft 1QFY25; demand pickup likely in 2H

Cera Sanitaryware's (CRS) 1Q was soft (revenue/EBITDA/PAT down 7%/18%/16% YoY; 14.5% EBITDA margin) as elections and heatwaves impacted demand in all categories and markets. Lower volume and higher discounts impacted margins and PAT. Capacity utilization in sanitaryware (S/w) stood at 76% and 84% in faucet ware (F/w). However, CRS sees initial signs of improving demand for the project which should reflect in B2C in 1-2 quarters. Margins would also improve with a rise in sales. Despite softness in the near term, CRS has maintained its guidance of 16% revenue CAGR over 4 years with EBITDA margin ranging 15-17%. Of the cash pile up of Rs 8.6bn, a Rs 1.3bn will be utilized for the buyback (at Rs 12,000 /share). Greenfield S/w plant in Gujarat (Rs 1.3bn capex) is likely to be operational in FY26 end (land acquisition to be done by Sep'24). We retain our earnings estimates post a soft 1Q and expect a 13%/12%/9% CAGR in revenue/EBITDA/PAT over FY24-26E (FY19-24: 7%/9%/16%). While strong OCFs (Rs 2.3bn annually), FCFs (Rs 1.6bn annually) and high ~50% RoIC should be maintained, we see low margin of safety at 46x FY26E P/E. Thus, we downgrade CRS to SELL (from HOLD) with an unchanged target price of Rs 8,334 (38x FY26 P/E). Prolonged demand slowdown and intensifying competition pose key risks to high valuation. ([concall KTAs](#))

1Q – a soft quarter: Revenue fell 7% YoY driven by decline in all the key segments. Gross margin, at 54.8%, was flat YoY (down 400bps QoQ). EBITDA margin, at 14.5%, contracted 192bps YoY and 281bps QoQ. Consequently, EBITDA and PAT declined 18% and 16%, respectively. Lower volume and higher discounts impacted margins and PAT. Capacity utilization in S/w stood at 76% and 84% in F/w. NWC cycle stood at 66 days (72 in 1Q'24). Cash balance is strong at Rs 8.64bn.

Revenue mix 1Q'25 (1Q'24): S/w 53%, F/w 36%; Tier-1 35% (33%), Tier-2 22% (22%), Tier-3 43% (45%); Premium 44% (45%), Mid 32% (31%), Entry 24% (24%)

1Q demand soft in all categories and markets; initial signs of recovery visible:

Demand in 1Q was soft in all categories and markets, impacted by elections and heatwaves. However, there are initial signs of improving demand for the project which should reflect in B2C in 1-2 quarters. Thus, demand pick up is likely in 2HFY25. Margins would also improve with a rise in sales. Despite softness in the near term, CRS has maintained its guidance of 16% revenue CAGR over 4 years with EBITDA margin ranging from 15-17%. Of the cash pile up of Rs 8.6bn, Rs 1.3bn will be utilized for the buyback (at Rs 12,000 /share). After achieving strong positioning in B2C market (74% revenue mix), it is now expanding into Project segment selectively having healthy margins orders. Gas prices remained low and favourable. S/w margins are similar across product ranges; the premium range has better margins in F/w.

Increased F/w capacity to 0.4mn pieces p.a.; S/w greenfield plant likely operational by FY26 end:

From an asset light business model, CRS has turned focus on in-house manufacturing of value-added products. Capex in FY25 stood at Rs 622mn. Its expanded F/w capacity (by 100k units to 0.4mn; expandable to 0.6mn) has Rs 2.4bn incremental revenue potential. Greenfield S/w plant in Gujarat (Rs 1.3bn capex) is likely to be operational in FY26 end (land acquisition to be done by Sep'24).

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Concall key highlights (1QFY25)

1QFY25 – a soft quarter

- Revenue down 7% YoY driven by decline in all key segments
- Gross margin 54.8%, flat YoY and down 400bps QoQ
- EBITDA margin 14.5%, down 192bps YoY and 281bps QoQ
- CU: S/w 76%, F/w 84%
- NWC stood at 66 days (72 in 1Q'24)
- Cash balance strong at Rs 8.64bn, up by Rs 1.1bn in a year

Revenue mix (1QFY25)

- S/w 53%, F/w 36%
- Tier-1 35% (33%), Tier-2 22% (22%), Tier-3 43% (45%)
- Premium 44% (45%), Mid 32% (31%), Entry 24% (24%)

Business development & Outlook

- Demand in 1Q was soft in all categories and markets
- Lower volume and higher discounts impacted margins and PAT in 1Q
- Initial signs of improving demand in project which will reflect in B2C in 1-2 quarter
- Expects demand to pick up in 2HFY25; margins will improve with rise in sales
- Maintains guidance of 16% revenue CAGR over 4 years with EBITDA margin ranging 15-17%
- Announced buyback at Rs 12,000 /share totaling Rs 1.3bn
- Strong positioning in B2C market (74% revenue mix)
- Also expanding into Project segment selectively having healthy margins
- Gas price remained low and favourable
- Margin profile: S/w - same in all range; F/w - higher in premium range
- Industry size: F/w 140bn (80bn org, 60bn unorg), S/w Rs 90bn (50bn org, 40bn unorg)

Capex plans

- F/w - 100k added capacity on stream
- S/w – land acquisition to be completed by Sep'24; will take 18 months to start production

Exhibit 1: Cera Sanitaryware – Quarterly performance

(Rs mn)	1QFY24	2QFY24	3QFY24	4QFY24	1QFY25	YoY (%)	QoQ (%)
Total Income	4,289	4,631	4,389	5,488	4,007	(7)	(27)
Raw material costs	1,937	2,186	2,004	2,701	1,812	(6)	(33)
Employee costs	576	585	567	581	589	2	1
Other expenses	1,072	1,095	1,204	1,256	1,026	(4)	(18)
EBITDA	704	765	614	950	581	(18)	(39)
Depreciation	83	89	97	97	90	8	(7)
Finance costs	13	14	16	15	13	(5)	(19)
Other income	153	125	160	157	159	4	1
Exceptional (loss)/ gain	-	(16)	-	-	-		
PBT	760	772	662	995	637	(16)	(36)
Tax	193	198	147	238	163	(16)	(31)
PAT after JV/asso.	563	569	509	749	471	(16)	(37)
EPS (Rs)	43.3	43.8	39.1	57.6	36.2	(16)	(37)
As % Total Income						YoY (bps)	QoQ (bps)
Gross margin	54.8	52.8	54.4	50.8	54.8	(5)	400
Employee costs	13.4	12.6	12.9	10.6	14.7	126	410
Other expenses	25.0	23.6	27.4	22.9	25.6	61	272
EBITDA margin	16.4	16.5	14.0	17.3	14.5	(192)	(281)
Depreciation	1.9	1.9	2.2	1.8	2.2	30	48
Finance costs	0.3	0.3	0.4	0.3	0.3	0	3
Other income	3.6	2.7	3.6	2.9	4.0	41	110
PBT	17.7	16.7	15.1	18.1	15.9	(182)	(222)
Effective tax rate	25.4	25.6	22.2	23.9	25.5	13	165
PAT	13.2	12.4	11.7	13.8	11.8	(138)	(195)
Revenue break-up (Rs mn)						YoY (%)	QoQ (%)
Sanitaryware	2,277	2,350	2,267	2,771	2,109	(7)	(24)
Faucetware	1,478	1,639	1,594	2,072	1,433	(3)	(31)
Wellness	68	102	59	109	60	(13)	(45)
Tiles	449	526	445	510	378	(16)	(26)
Revenue Mix (%)							
Sanitaryware	53	51	52	51	53		
Faucetware	35	36	37	38	36		
Wellness	2	2	1	2	2		
Tiles	11	11	10	9	10		

Source: Company, Systematix Institutional Research

Exhibit 2: Revenue mix – 1QFY25

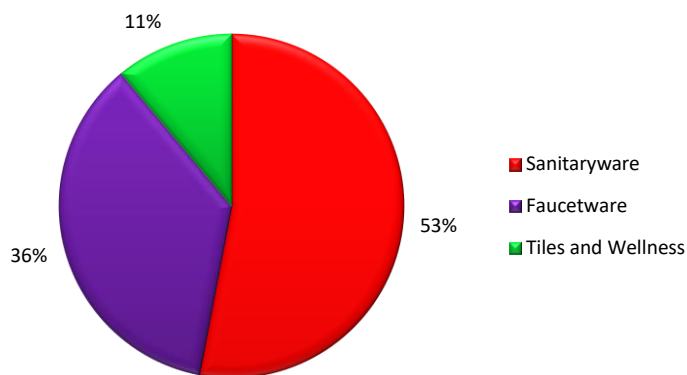


Exhibit 3: Revenue mix – quarterly trend

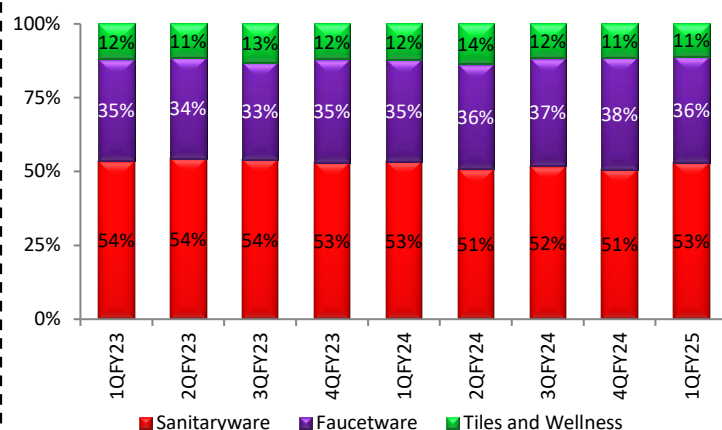


Exhibit 4: Revenue trend

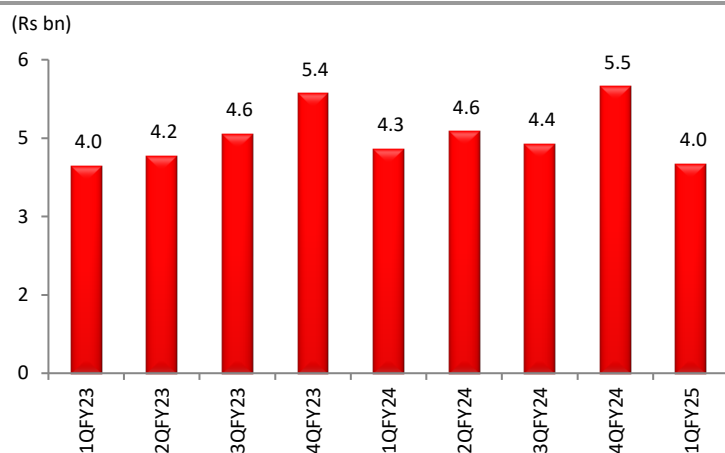


Exhibit 5: Expenses as percentage of revenue

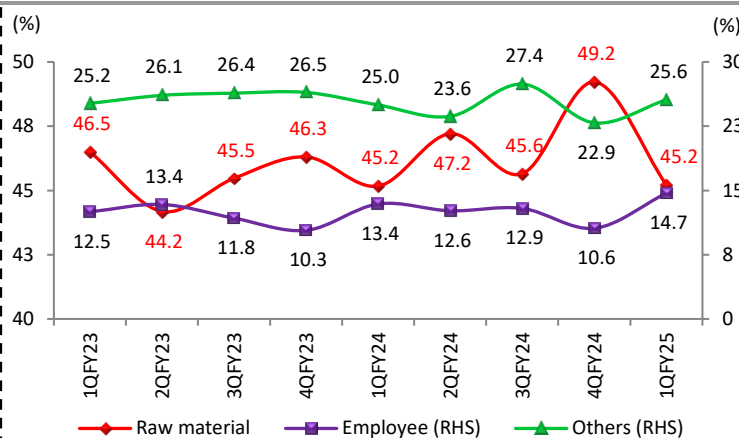


Exhibit 6: EBITDA, PAT and margin trend

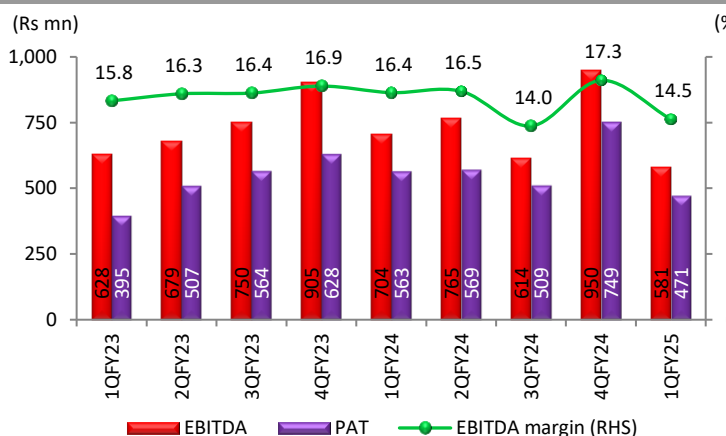
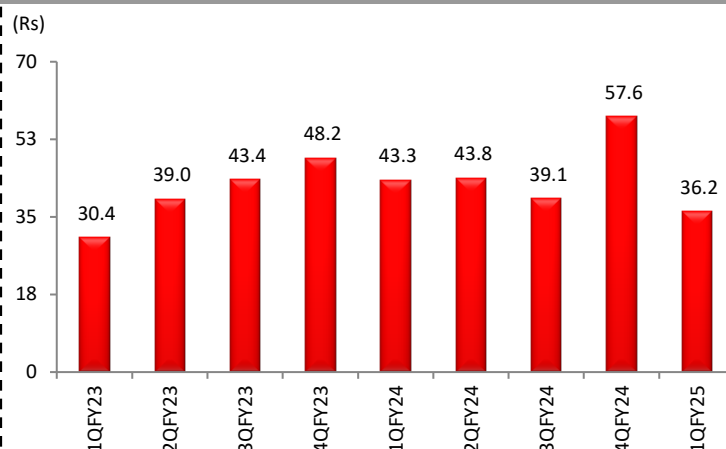


Exhibit 7: EPS - growth trend



Source: Company, Systematix Institutional Research

Exhibit 8: Sanitaryware - Revenue trend

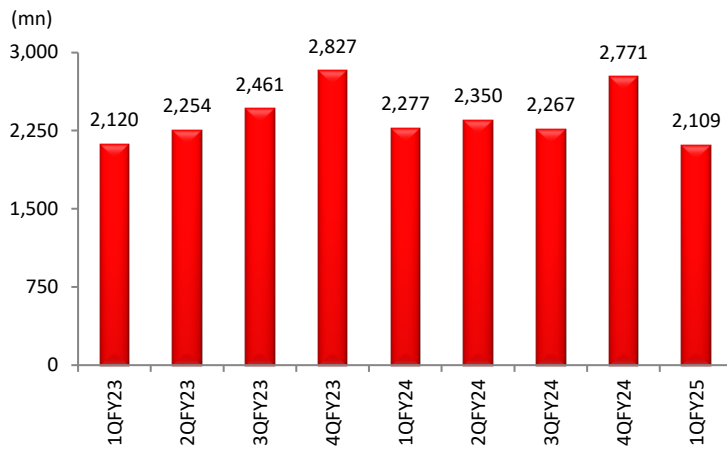


Exhibit 9: Faucetware - Revenue trend

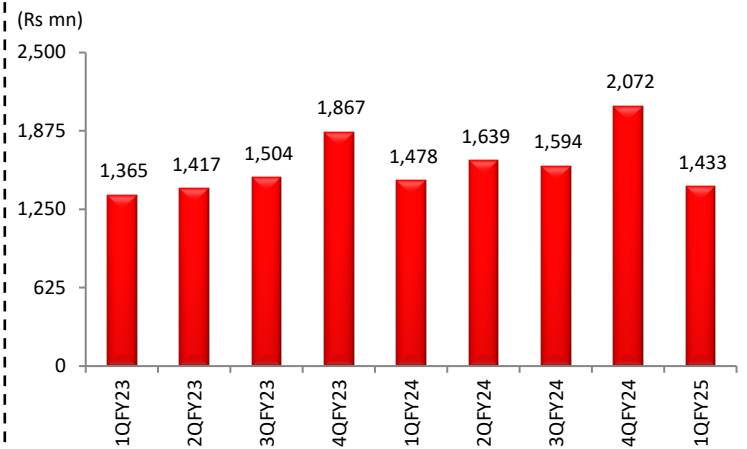


Exhibit 10: Revenue mix – annual trend

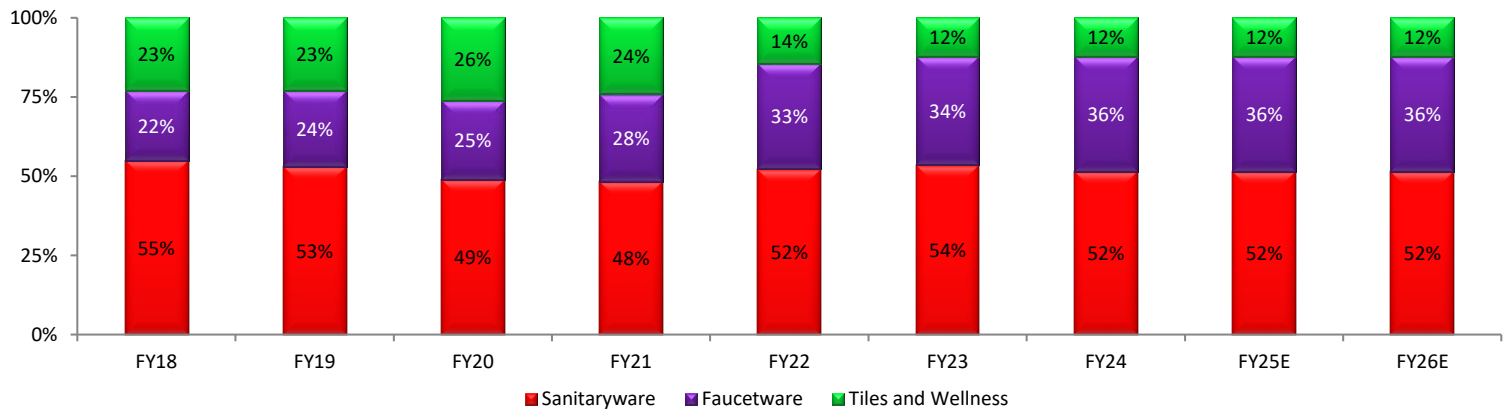
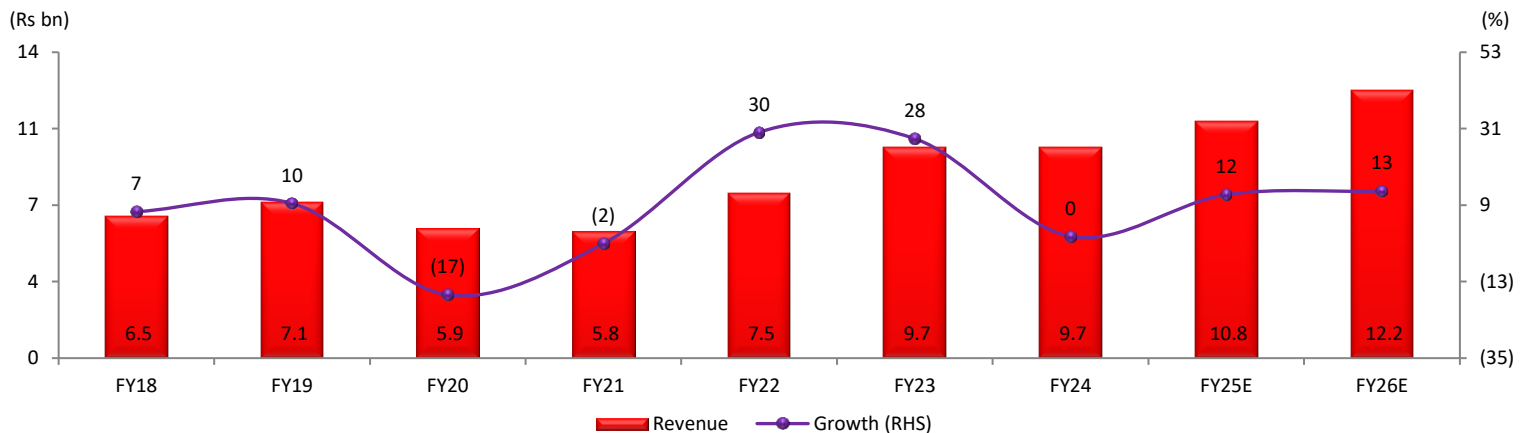
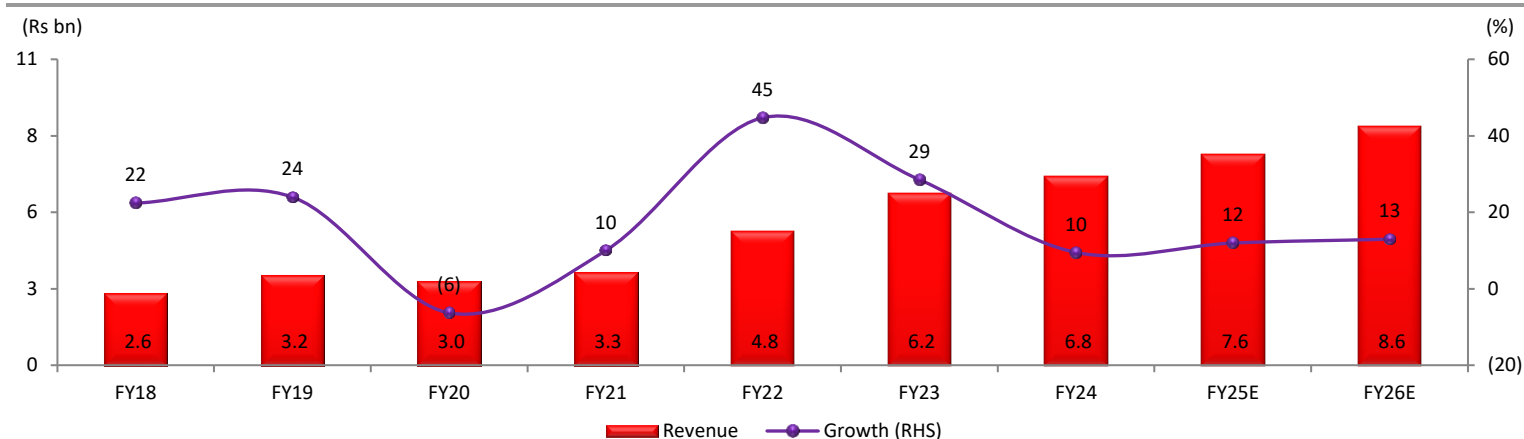
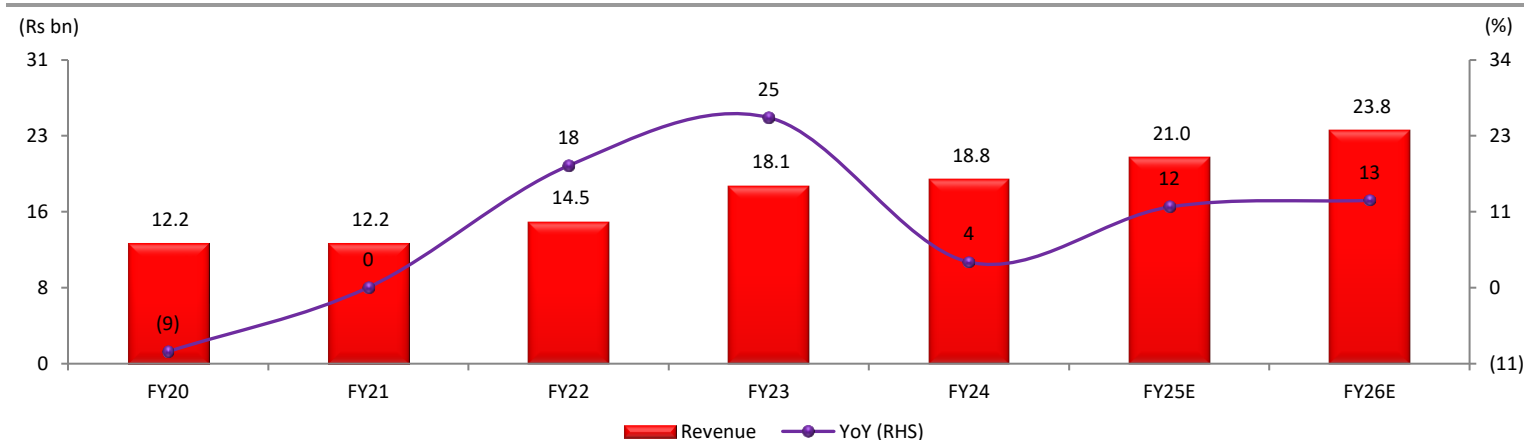
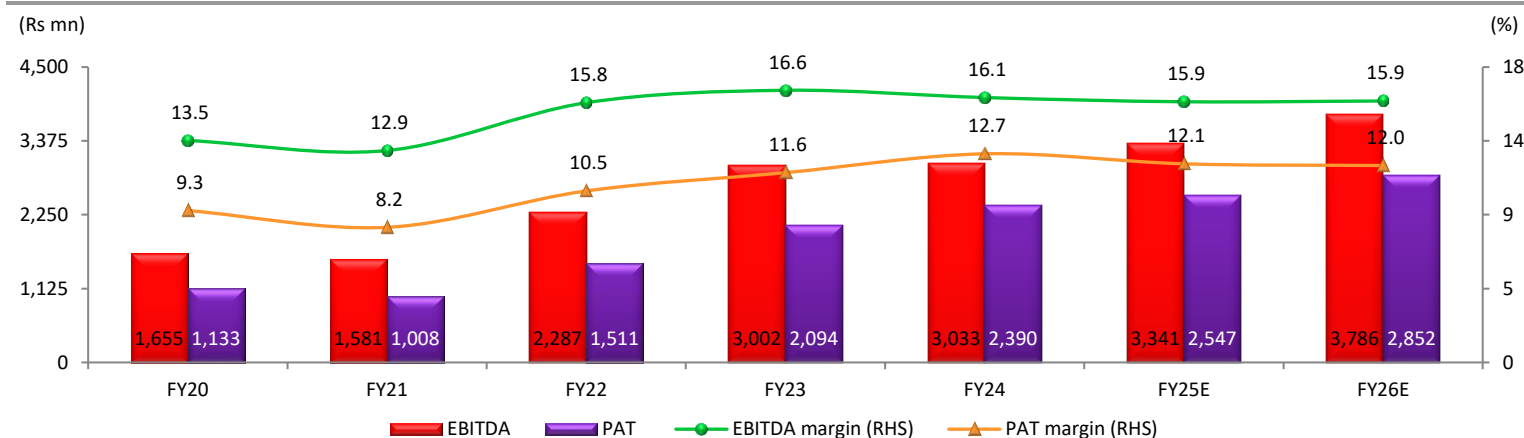


Exhibit 11: Sanitaryware - Revenue and growth trend



Source: Company, Systematix Institutional Research

Exhibit 12: Faucetware - Revenue and growth trend**Exhibit 13: Total income – Annual growth trend****Exhibit 14: EBITDA, PAT – Annual growth, margin trends**

Source: Company, Systematix Institutional Research

Valuation and View

We like CRS for its leading position in sanitaryware (3rd largest in India) and faucets, comprehensive product portfolio, wide distribution reach and strong brand presence. Healthy FCF generation even during demand slowdown reflects its brand power and the company's financial discipline.

From an asset light business model, CRS has turned focus on in-house manufacturing of value-added products. Faucets capacity expanded by 1 lakh units to 4 lakhs (expandable to 6 lakh units when needed) at Rs 410mn capex having Rs 2.4bn incremental revenue. Greenfield Sanitaryware plant in Gujarat (Rs 1.3bn capex) is likely to be operational by FY26 end. Cash balance of Rs 8.64bn will support capex plans. A Rs 29bn revenue target in FY27E at a 16% CAGR looks ambitious.

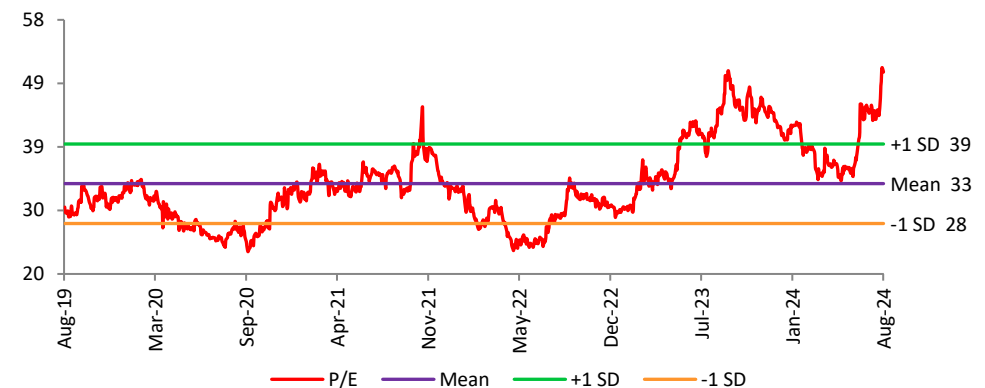
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Exhibit 15: Change in estimates

(Rs mn)	Old estimates		New estimates		% Var	
	FY25	FY26	FY25	FY26	FY25	FY26
Revenue	21,042	23,767	21,042	23,767	-	-
EBITDA	3,341	3,786	3,341	3,786	-	-
EBITDA margin (%)	15.9	15.9	15.9	15.9	-	-
PAT	2,547	2,852	2,547	2,852	-	-
EPS (Rs)	196	219	196	219	-	-

Source: Systematix Institutional Research

Exhibit 16: P/E band – 1-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Risks

- Prolonged slowdown in demand of its products owing to weakness in real estate activities
- Intensifying competition from the organized as well as the non-regulated (informal) sector

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Net revenues (Rs mn)	14,458	18,105	18,794	21,042	23,767
<i>Growth (%)</i>	18	25	4	12	13
Direct costs	6,836	8,246	8,828	9,742	11,007
<i>Gross margin (%)</i>	52.7	54.5	53.0	53.7	53.7
SG&A	5,335	6,857	6,934	7,959	8,974
EBITDA	2,287	3,002	3,033	3,341	3,786
<i>EBITDA margins (%)</i>	15.8	16.6	16.1	15.9	15.9
- Depreciation	324	326	365	410	460
Other income	236	284	595	571	576
Interest Exp	53	60	58	47	41
PBT	2,090	2,849	3,188	3,455	3,860
<i>Effective tax rate (%)</i>	26.8	25.9	24.3	25.5	25.4
+ Associates/(Minorities)	(18)	(16)	(23)	(25)	(28)
Net Income	1,511	2,094	2,390	2,547	2,852
Adjusted income	1,511	2,094	2,390	2,547	2,852
WANS	13	13	13	13	13
FDEPS (Rs)	116.2	161.0	183.8	195.9	219.3
<i>FDEPS growth (%)</i>	50	39	14	7	12

Balance Sheet

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Share capital	65	65	65	65	65
Net worth	10,152	11,726	13,458	15,160	17,037
Total debt (incl. Pref)	657	745	667	637	607
Minority interest	142	106	128	138	148
DT Liability/(Asset)	354	376	482	488	494
Capital Employed	11,305	12,953	14,735	16,423	18,286
Net tangible assets	3,365	3,389	3,730	4,121	4,460
Net Intangible assets	5	5	10	10	10
Goodwill	-	-	-	-	-
CWIP	7	169	130	140	150
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	5,620	6,628	8,025	9,025	10,025
Current Assets	5,342	6,313	6,189	6,814	7,567
Cash	243	262	372	251	258
Current Liabilities	3,276	3,813	3,720	3,937	4,184
Working capital	2,066	2,500	2,469	2,877	3,383
Capital Deployed	11,305	12,953	14,735	16,423	18,286
Contingent Liabilities	258	75	79	-	-

Cash Flow

YE: Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
EBIT (incl other income)	2,021	2,795	2,624	2,932	3,325
+ Non-cash items	324	326	365	410	460
OCF before WC changes	2,345	3,121	2,990	3,341	3,786
- Incr./ (decr.) in WC	849	1,018	217	408	506
Others including taxes	606	479	412	776	873
Operating cash-flow	890	1,624	2,361	2,157	2,406
- Capex	150	383	622	810	810
Free cash-flow	740	1,241	1,738	1,347	1,596
Acquisitions					
- Dividend	169	455	650	845	975
+ Equity raised	-	-	-	-	-
+ Debt raised	214	(13)	(49)	(30)	(30)
- Fin Investments	601	701	843	1,000	1,000
- Misc. Items (CFI + CFF)	118	98	99	(408)	(417)
Net cash-flow	65	(26)	97	(121)	7

Ratios @ Rs 10,000

YE: Mar	FY22	FY23	FY24	FY25E	FY26E
P/E (x)	86.1	62.1	54.4	51.1	45.6
EV/EBITDA (x)	54.7	41.4	40.4	36.3	31.8
EV/sales (x)	8.7	6.9	6.5	5.8	5.1
P/B (x)	12.8	11.1	9.7	8.6	7.6
RoE (%)	14.9	17.9	17.8	16.8	16.7
RoCE (%)	20.3	24.4	23.6	22.5	22.5
RoIC	37.0	48.3	49.8	50.2	50.7
DPS (Rs per share)	35.0	50.0	60.0	65.0	75.0
Dividend yield (%)	0.4	0.5	0.6	0.7	0.8
Dividend payout (%)	30.1	31.1	32.7	33.2	34.2
Net debt/equity (x)	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)
Receivables (days)	42	38	39	39	39
Inventory (days)	74	77	71	70	69
Payables (days)	48	42	35	34	33
CFO:PAT (%)	59	78	99	85	84

Source: Company, Systematix Institutional Research

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