

11 December 2024

India | Equity Research | Company Update

Cera Sanitaryware

Sanitaryware

Medium-term outlook remains healthy; downgrade to ADD post sharp stock price rally

We downgrade Cera Sanitaryware (CRS) to **ADD** from Buy post the sharp ~13% stock price rally over the past 1 month, whereby, its valuation appears to be full (35.2x PER FY26E) and thus offers limited upside. We continue to believe CRS would be a major beneficiary of the ongoing traction in the real estate market due to its strong brand, widespread distribution and robust net-debt balance sheet. We estimate CRS to witness EBITDA/APAT CAGR of 13.1%/19.2% over FY24-27E driven primarily by the faucetware segment with superior return ratios (RoE of 19.7% in FY26E). We maintain our earnings estimate with an unchanged Sept'25E TP of INR 8,416, set at 35x PER 1-year forward (in line with historical 10-year average, 1-year forward P/E).

Revenue CAGR of 11.6% over FY24-27E driven by faucetware

We expect CRS to witness revenue CAGR of 11.6% over FY24-27E driven primarily by the faucetware segment (16.3% CAGR over FY24-27E). CRS management is now increasing its focus on projects segment (currently ~35% of revenue) as demand here remains healthy unlike the retail segment where temporarily demand has been soft which may aid near-term growth. Historically, management has been disciplined in managing working capital and has indicated that despite higher focus in near term on project segment, debtor days will stay under control. CRS is also focusing on increasing its presence in tier 1 markets in luxury segment through its three major brands: LUXE, SENATOR and LUSTRE. It has tied up with influencers in major markets to penetrate in this segment and will launch more SKUs. It targets ~10% of revenue from luxury segment over the next 3-4 years. Management aims to achieve total revenue of ~INR 29bn by FY27.

Margin to remain steady at ~16% over FY25-27E

CRS' operating margin may remain healthy going ahead as it has taken a price increase of ~6% in faucetware and ~1% in sanitaryware segments in Sep'24. The increase in faucetware has been due to RM pressures which have now stabilised. We believe the recent price hikes in faucetware and sanitaryware along with increased focus in luxury segment could enable the company to have steady margins. We have modelled in OPM of 15.4-16.4% over FY25-27E (vs avg. OPM of ~15.2% over FY12-FY24).

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	18,706	19,628	22,635	26,004
EBITDA	2,949	3,018	3,642	4,265
EBITDA %	15.8	15.4	16.1	16.4
Net Profit	1,967	2,378	2,873	3,329
EPS (INR)	152.5	184.3	222.8	258.1
EPS % Chg YoY	2.9	20.9	20.8	15.9
P/E (x)	51.4	42.5	35.2	30.3
EV/EBITDA (x)	31.5	30.7	25.2	21.4
RoCE (%)	13.5	13.5	15.5	16.4
RoE (%)	15.6	17.5	19.7	20.2

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Market Data

Market Cap (INR)	101bn
Market Cap (USD)	1,191mn
Bloomberg Code	CRS IN
Reuters Code	CERA.BO
52-week Range (INR)	11,500 /6,551
Free Float (%)	45.0
ADTV-3M (mn) (USD)	1.7

Price Performance (%)	3m	6m	12m
Absolute	(8.2)	4.5	(7.5)
Relative to Sensex	(8.2)	(2.1)	(24.1)

ESG Score	2023	2024	Change
ESG score	69.7	NA	NA
Environment	49.7	NA	NA
Social	70.6	NA	NA
Governance	81.6	NA	NA

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Previous Reports

13-11-2024: [Q2FY25 results review](#)

23-09-2024: [Company Update](#)

Valuation and view

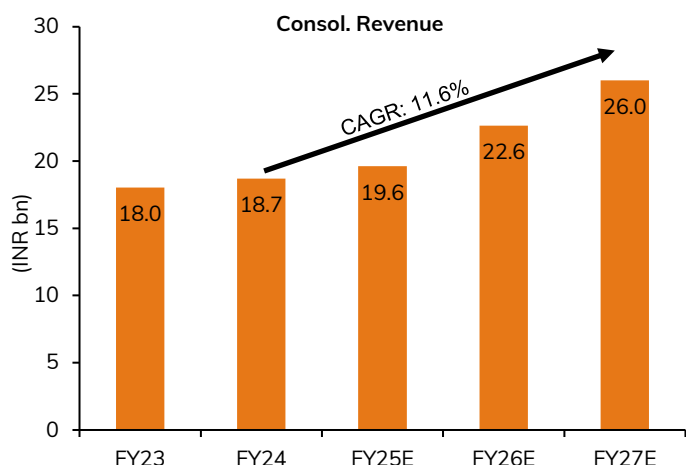
CRS' near-term demand outlook is tepid due to temporary slowdown in retail segment. However, demand is expected to pick up going ahead as many real estate projects (which were launched in CY22 and earlier) are expected to complete from CY25, and thus, demand for bathware segment is expected to be buoyant. We believe CRS is well poised to benefit from the uptick in housing market due to its wide distribution, strong brand, comprehensive product portfolio and healthy balance sheet. However, we downgrade the stock to **ADD** from Buy due to sharp rally of ~13% in the stock price over the past 1 month, resulting in limited upside with an unchanged Sept'25E TP of INR 8,416.

Exhibit 1: Robust real estate launches in the past couple of years

City wise New Launches (Units)	CY19	CY20	CY21	CY22	CY23	9MCY23	9MCY24	YoY (%)
NCR	35,280	18,520	31,706	25,355	36,740	30,150	38,400	27%
MMR	77,990	30,290	56,883	1,24,652	1,57,700	1,17,000	1,07,500	-8%
Bengaluru	39,930	21,430	30,646	49,196	54,440	39,800	48,400	22%
Pune	46,100	23,930	39,869	64,343	83,630	65,300	50,100	-23%
Hyderabad	14,840	21,100	51,470	68,007	76,340	50,000	50,700	1%
Chennai	13,000	9,160	12,373	9,994	20,140	14,500	17,100	18%
Kolkata	9,420	3,530	13,746	16,088	16,790	11,650	9,550	-18%
Total	2,36,560	1,27,960	2,36,693	3,57,635	4,45,780	3,28,400	3,21,750	-2%
YoY (%)	21%	-46%	85%	51%	25%			

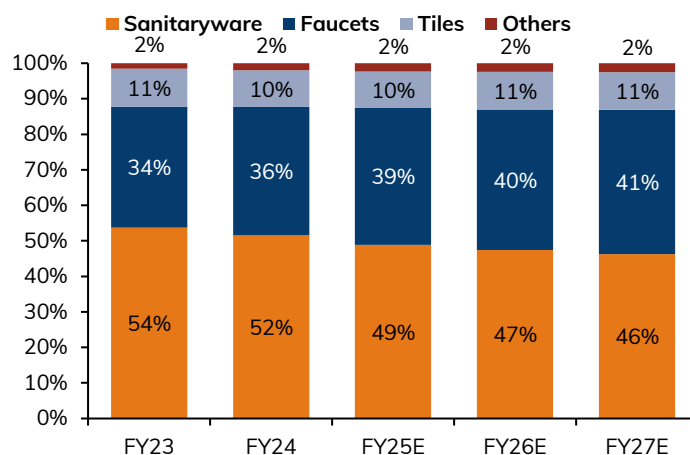
Source: I-Sec research

Exhibit 2: Consol. revenue CAGR of 11.6% over FY24-27E aided by growth in faucetware segment



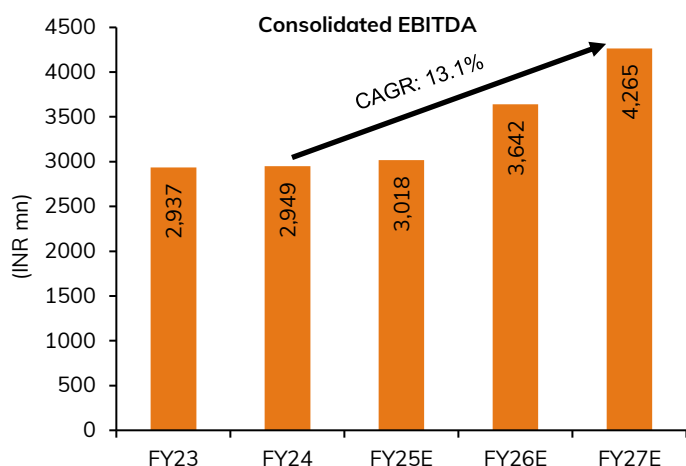
Source: I-Sec research, Company data

Exhibit 3: Sanitaryware dominates revenue mix; faucetware to improve share by 450bps over FY24-27E



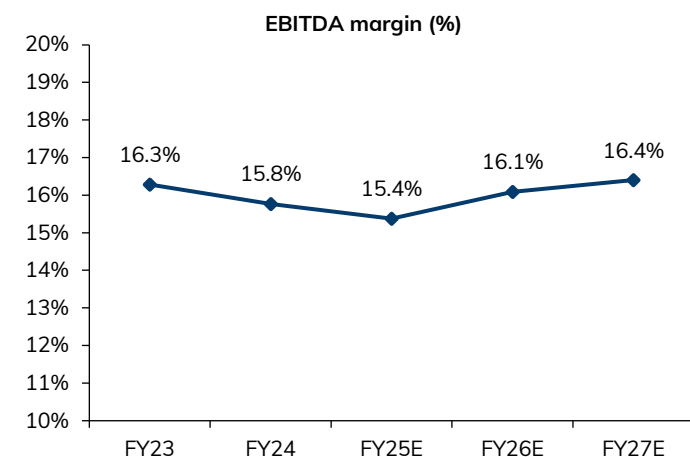
Source: I-Sec research, Company data

Exhibit 4: EBITDA CAGR at 13.1% over FY24-27E

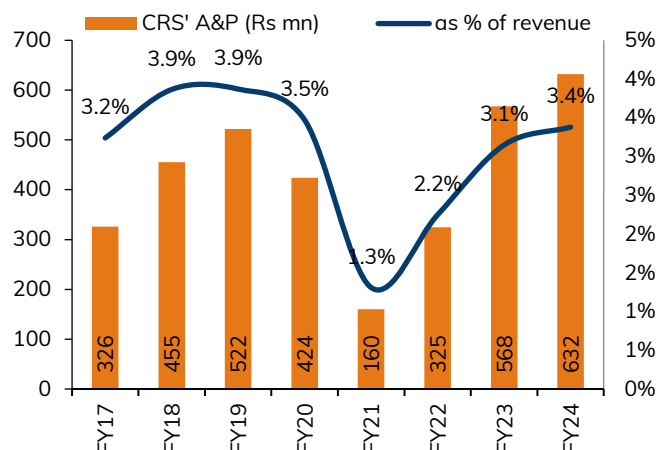


Source: I-Sec research, Company data

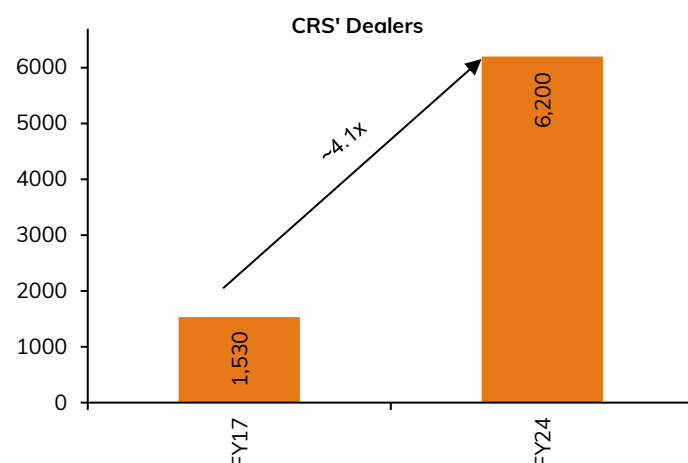
Exhibit 5: EBITDA margin to remain healthy



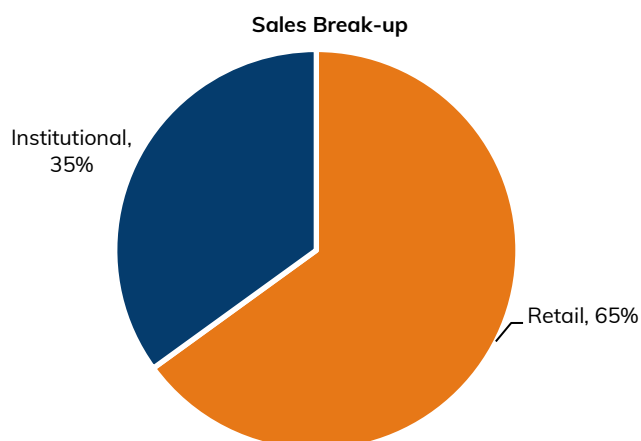
Source: I-Sec research, Company data

Exhibit 6: High A&P spends have enabled strong brand creation

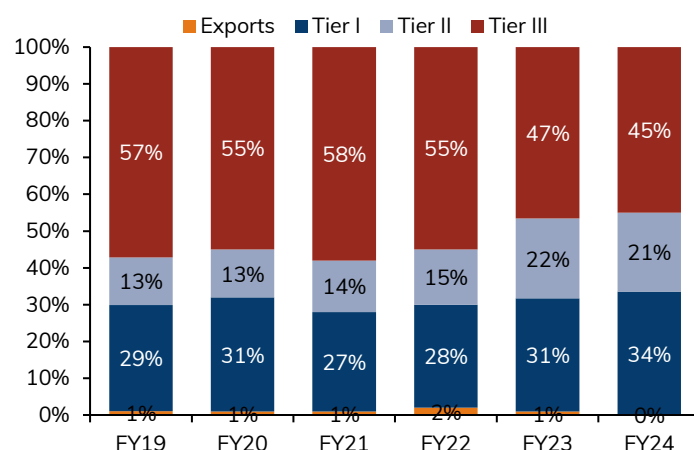
Source: I-Sec research, Company data

Exhibit 7: Dealer network grew ~4.1x over FY17-FY24

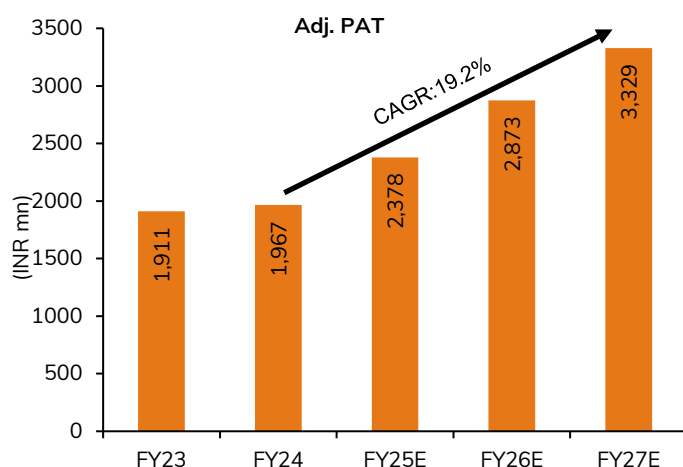
Source: I-Sec research, Company data

Exhibit 8: Retail dominates sales mix (FY24)

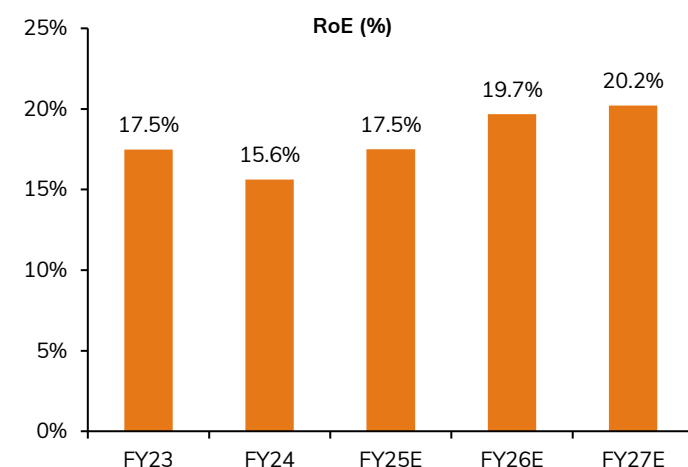
Source: I-Sec research, Company data

Exhibit 9: Strong presence in tier-3 and below markets

Source: I-Sec research, Company data

Exhibit 10: APAT CAGR likely at 19.2% over FY24-27E

Source: I-Sec research, Company data

Exhibit 11: RoE to remain healthy over FY25-27E

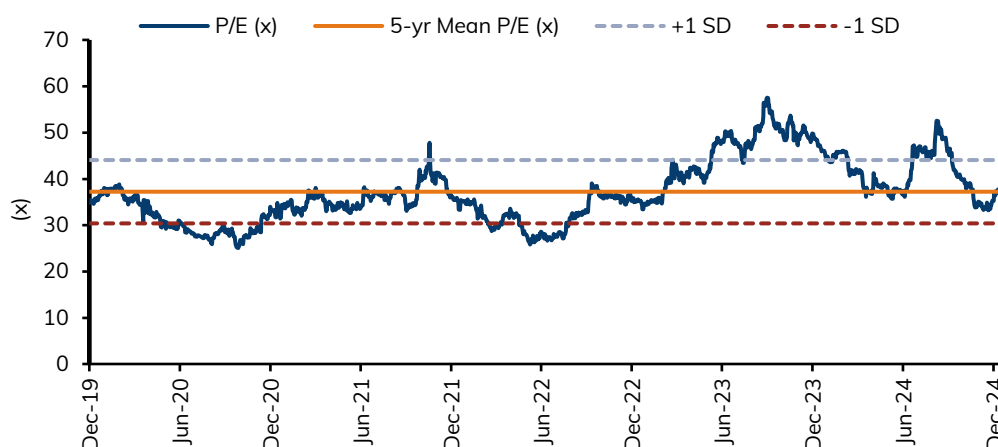
Source: I-Sec research, Company data

Valuation

CRS is one of the major organised sanitaryware players in India. Over the years, the company has expanded its product portfolio from sanitaryware to tiles, faucets and wellness goods, becoming a one-stop bathroom solution provider. It has significant presence in tier-2 and tier-3 markets with strong brand name and wide distribution.

CRS is expected to witness EBITDA/APAT CAGR of 13.1%/19.2%, respectively, during FY24-27E, with continued strong balance sheet and healthy return ratios (RoE of 19.7% in FY26E). We downgrade the stock to **ADD** (from Buy) with an unchanged Sept'25E target price of INR 8,416, set at an unchanged 35x Sept'26E P/E, in line with historical 10-year average, 1-year forward P/E.

Exhibit 12: 1-year forward PE band



Source: I-Sec research, Company data

Key downside risks

- Any unexpected slowdown in housing market would adversely affect business.
- Higher raw material prices may adversely affect profitability and demand.

Exhibit 13: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	54.5	54.5	54.4
Institutional investors	28.5	28.8	29.0
MFs and others	6.3	6.8	5.6
Insurance	0.3	0.5	0.5
FIIIs	21.9	21.5	22.9
Others	17.0	16.7	16.6

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	18,706	19,628	22,635	26,004
Operating Expenses	15,757	16,610	18,993	21,739
EBITDA	2,949	3,018	3,642	4,265
EBITDA Margin (%)	15.8	15.4	16.1	16.4
Depreciation & Amortization	365	395	422	462
EBIT	2,584	2,622	3,220	3,803
Interest expenditure	58	81	26	23
Other Non-operating Income	58	696	717	753
Recurring PBT	2,584	3,237	3,912	4,533
Less: Taxes	(775)	(829)	(1,001)	(1,160)
PAT	1,809	2,408	2,910	3,373
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(23)	(31)	(37)	(43)
Extraordinaries (Net)	605	-	-	-
Net Income (Reported)	2,390	2,378	2,873	3,329
Net Income (Adjusted)	1,967	2,378	2,873	3,329

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Assets				
Inventories	3,636	3,868	4,423	5,003
Cash & cash eqv.	8,382	8,535	9,407	9,618
Sundry Debtors	2,026	2,097	2,357	2,707
Other Current Assets	527	592	682	784
Trade payables	1,790	1,925	2,215	2,545
Other Current Liabilities	2,153	2,250	2,590	2,976
Net Current Assets	10,628	10,916	12,063	12,592
Investments	31	31	31	31
Net Fixed Assets	3,629	3,634	4,182	5,720
Other Non Current Assets	225	225	225	225
Total Assets	14,512	14,805	16,501	18,568
Liabilities				
Borrowings	205	170	50	50
Other Non Current Liabilities	722	754	786	786
Total Liabilities	927	924	836	836
Equity Share Capital	65	64	64	64
Reserves & Surplus	13,393	13,658	15,404	17,428
Total Net Worth	13,458	13,723	15,469	17,492
Minority Interest	128	158	196	239
Total Liabilities & Net Worth	14,512	14,805	16,501	18,568

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	4,389	5,488	4,007	4,926
% growth (YOY)	-4.1	2.5	-6.5	6.4
EBITDA	614	950	581	721
Margin %	14.0	17.3	14.5	14.6
Other Income	160	157	159	178
Extraordinaries	0	0	0	0
Adjusted Net Profit	509	749	471	680

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,946	2,731	3,126	3,560
Working Capital Changes	40	(135)	(275)	(317)
Capital Commitments	(691)	(400)	(970)	(2,000)
Free Cashflow	2,255	2,331	2,156	1,560
Other investing cashflow	0	-	-	-
Cashflow from Investing Activities	(691)	(400)	(970)	(2,000)
Issue of Share Capital	-	(1)	-	-
Inc (Dec) in Borrowings	(49)	(35)	(120)	-
Dividend paid	(780)	(843)	(1,164)	(1,349)
Others	97	(1,300)	-	-
Cash flow from Financing Activities	(733)	(2,178)	(1,284)	(1,349)
Chg. in Cash & Bank balance	1,523	153	872	211
Closing cash & balance	8,382	8,535	9,407	9,618

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	185.3	184.3	222.8	258.1
Adjusted EPS (Diluted)	152.5	184.3	222.8	258.1
Cash EPS	180.8	215.0	255.4	293.9
Dividend per share (DPS)	60.0	65.4	90.3	104.6
Book Value per share (BV)	1,043.5	1,064.0	1,199.4	1,356.3
Dividend Payout (%)	39.3	35.5	40.5	40.5
Growth (%)				
Net Sales	3.7	4.9	15.3	14.9
EBITDA	0.4	2.3	20.7	17.1
EPS (INR)	2.9	20.9	20.8	15.9
Valuation Ratios (x)				
P/E	51.4	42.5	35.2	30.3
P/CEPS	43.3	36.4	30.7	26.6
P/BV	7.5	7.4	6.5	5.8
EV / EBITDA	31.5	30.7	25.2	21.4
EV / Sales	5.0	4.7	4.0	3.5
Dividend Yield (%)	0.8	0.8	1.2	1.3
Operating Ratios				
Gross Profit Margins (%)	52.8	52.9	53.0	53.0
EBITDA Margins (%)	15.8	15.4	16.1	16.4
Effective Tax Rate (%)	30.0	25.6	25.6	25.6
Net Profit Margins (%)	10.5	12.1	12.7	12.8
NWC / Total Assets (%)	12.2	12.5	12.5	12.3
Net Debt / Equity (x)	(0.6)	(0.6)	(0.6)	(0.5)
Net Debt / EBITDA (x)	(2.8)	(2.8)	(2.6)	(2.2)
Profitability Ratios				
RoCE (%) (post-tax)	13.5	13.5	15.5	16.4
RoE (%)	15.6	17.5	19.7	20.2
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	71	72	71	70
Receivables Days	40	39	38	38
Payables Days	35	36	36	36

Source Company data, I-Sec research

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