

BUY

TP: Rs 5,225 | ▲ 27%

CERA SANITARYWARE

Construction Materials

01 July 2022

Consistent Performer

- We expect CRS to clock revenue CAGR of ~16.5% during FY22-24E aided by growth in sanitaryware and faucetware segments
- Price hike of 3% in sanitaryware and 5% in faucetware in Q1 and cumulative price hike in FY22, will enable CRS to maintain margins
- Retain BUY rating with a revised TP of Rs 5,225 (revised PER from 35x to 32x on FY24E) to factor in likely stress in real estate market

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We interacted with Cera Executive Director, Ayush Bagla to gain a perspective on the company's growth prospects and sector outlook. Key takeaways:

Gas cost impact: About 40% of CRS's gas requirement is met by GAIL where gas price increased to Rs 25/scm in Q1FY23 from Rs 11.13/scm in FY22. The balance 60% is met via Sabarmati Gas where prices climbed to Rs 65/scm in Q1FY23 from Rs 59.46/scm in FY22. As per management, the company is procuring gas at a much lower rate than the market. Gas cost is just 2.8% of overall raw material cost for the company.

Capex of Rs 2bn by FY24 from internal accruals: CRS is expanding capacity by 1.2mn pieces each in sanitaryware (greenfield; 24-30 months) for Rs 1.3bn and in faucetware (brownfield; by Q2FY24) for Rs 0.7bn.

Price hikes in sanitaryware and faucetware: CRS took a price hike of 3% in sanitaryware and 5% in faucetware segment in mid-May 2022.

Healthy demand outlook with stable margin: Management expects to double the revenues at a faster rate 18-20% CAGR in the next three-four years. In addition, management is confident of doubling revenue within the next 3.5 years from 5 years earlier. CRS has guided a 50-75bps rise in EBITDA margin each year.

Healthy demand traction; retain BUY: The recent capacity de-bottlenecking and capacity expansion by 40-50% announced (which would commence operations in the next 12-36 months) would lead the next leg of growth. CRS' timely capacity expansion plan, focus on improving product mix, extensive distribution network, healthy balance sheet and rising return ratios bode well for sustainable earnings growth. While we like the company's a) leadership position in sanitaryware, b) scale-up in faucetware/sanitaryware and c) robust return profile, we are concerned about likely stress in the real estate market due to higher inflation and rising interest rate. Hence, to factor-in, we have reduced our target multiple by ~10%. We retain BUY rating with a revised TP of Rs 5,225 (revised PER from 35x to 32x on FY24E).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CRS IN/Rs 4,126
Market cap	US\$ 678.9mn
Free float	46%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 6,450/Rs 3,515
Promoter/FPI/DII	54%/20%/26%

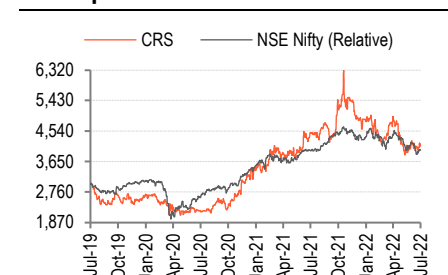
Source: NSE | Price as of 1 Jul 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	14,458	16,850	19,634
EBITDA (Rs mn)	2,287	2,694	3,202
Adj. net profit (Rs mn)	1,568	1,802	2,124
Adj. EPS (Rs)	120.6	138.5	163.3
Consensus EPS (Rs)	116.2	135.4	158.4
Adj. ROAE (%)	16.6	16.7	17.5
Adj. P/E (x)	34.2	29.8	25.3
EV/EBITDA (x)	23.1	19.7	16.8
Adj. EPS growth (%)	55.6	14.9	17.9

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE



Other management meet takeaways

- Per management, revenue target for FY23 is Rs 17.5-18.5bn with Rs 6.5-7bn revenue contribution from faucetware and Rs 9.5-10bn from sanitaryware segment.
- Capacity enhancement by 40-50% has been announced in Phase I which includes: 1.2mn pieces p.a. for sanitaryware (further expandable by 1.2mn pieces p.a. in Phase II) and 1.2mn pieces p.a. for faucets (further expandable to 2.4mn pieces p.a. in Phase II).
- Phase I expansion of sanitaryware (greenfield) likely to be completed in the next 24-30 months, faucets (brownfield) in the next 12 months. Total capex of Rs 2bn (Rs 1.3bn sanitaryware + Rs 0.7bn faucets) to be funded through internal accruals.
- The company will finalize the land bank for greenfield capacity expansion in sanitaryware before 30th Sept 22'.
- The new faucets facility will be majorly utilised towards making higher priced coloured/painted products which are seeing increased demand than the chrome-based SKUs. This would lead to higher revenues from the division. Overall, the new capacities have revenue potential of Rs 1.8-2.0 bn each for faucets and sanitaryware (2.5-3x asset turnover for faucets and 1.5-2x asset turnover for sanitaryware).
- The company has cash worth Rs 5.8bn as of Q4FY22. It has planned capex worth ~Rs 1.2bn in FY23 (Rs 0.7bn towards faucets plant + Rs 0.25bn towards land purchase for sanitaryware plant + Rs 0.25bn regular capex). Balance planned capex for sanitaryware to be incurred in FY24 since approvals would take time after acquisition of land. As per management, internal accruals would be adequate to fund these plans.
- Existing capacities: sanitaryware 2.5mn pieces p.a. and 3.0mn pieces for faucets.
- Outsourcing in sanitaryware has increased to 59%+ and faucetware 54%+ from ~50% historically to meet demand as in-house capacities are running at peak. Even for FY23 the outsourcing portion will be as high as 65%+ for both the segments as capex will commence sometime later.
- CRS is focused on maintaining higher share of retail mix at 68-72% (67-68% in Q4FY22). Management's objective is to increase the B2C contribution as the company can monetise its brand power and hike prices.
- Lower imports in India owing to macro challenges (higher freight cost from \$600 per container to currently \$7,000-8,000 per container and shortage of container availability) & ongoing stress of small size players have led to product availability as a key success factor and hence inventory days are expected to be elevated for CRS even in FY23.
- Import duty for sanitaryware is 11% and 15% for faucetware. Per management, even if import in India increases, will not impact CRS due to depreciating Indian currency and also Chinese currency have gone up.

- CRS has 4,700 distributors of which top 500 contributes 75% of sales and top 100 are 41% of the total sales.
- FY22 revenue break-up: Tier3 and below cities (below 10 lakh population) form 55% of the revenue, tier2 (10-25 lakh population) 15%, tier1 (+25 lakh population) 28% and exports form 2% of the total revenue. The contribution in FY23 will be largely same as FY22.
- FY22 Geographical break-up: North 30%, East 8%, West 20%, South 40%, Exports 2%. Per management, the geographical break-up will largely remain same for FY23.

Valuation methodology

CRS has remained a focused player in tier-II/III markets where it faces limited competition, enabling it to maintain pricing power.

The recent capacity de-bottlenecking and capacity expansion by 40-50% announced (which would commence operations in the next 12-36 months) would lead the next leg of growth. CRS' timely capacity expansion plan, focus on improving product mix, extensive distribution network, healthy balance sheet and rising return ratios bode well for sustainable earnings growth in future.

While we like the company's a) leadership position in sanitaryware, b) scale-up in faucetware/sanitaryware and c) robust return profile, we are concerned about expected stress in the real estate market due to higher inflation and rising interest rate. Hence, to factor-in, we have reduced our target multiple by ~10%. We retain BUY rating with a revised TP of Rs 5,225 vs. Rs 5,715 (revised PER from 35x to 32x on FY24E).

Key risks

Key downside risks to our estimates are:

- higher input prices which may dent demand/profitability,
- decline in real estate demand,
- slowdown in economic revival, and
- resurgence of Covid-19 which might adversely affect sales in the short term.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Century Plyboards	CPBI IN	1.4	513	735	BUY
Cera Sanitaryware	CRS IN	0.7	4,126	5,225	BUY
Greenpanel Industries	GREENP IN	0.7	441	595	BUY
Greenply Industries	MTLM IN	0.3	174	260	BUY
Kajaria Ceramics	KJC IN	1.9	960	1,460	BUY
Pidilite Industries	PIDI IN	13.9	2,158	1,870	SELL
Somany Ceramics	SOMC IN	0.3	577	835	BUY

Source: BOBCAPS Research, NSE | Price as of 1 Jul 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Total revenue	12,220	12,243	14,458	16,850	19,634
EBITDA	1,654	1,581	2,287	2,694	3,202
Depreciation	(388)	(396)	(324)	(408)	(486)
EBIT	1,266	1,185	1,963	2,286	2,716
Net interest inc./(exp.)	(101)	(97)	(53)	(70)	(62)
Other inc./(exp.)	65	252	236	222	220
Exceptional items	119	0	(57)	0	0
EBT	1,230	1,339	2,147	2,438	2,874
Income taxes	(243)	(340)	(560)	(636)	(750)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	27	9	(18)	0	0
Reported net profit	1,133	1,008	1,511	1,802	2,124
Adjustments	(119)	0	57	0	0
Adjusted net profit	1,013	1,008	1,568	1,802	2,124

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	953	1,554	1,335	1,616	1,883
Other current liabilities	2,102	2,186	2,968	3,001	3,496
Provisions	136	171	114	236	275
Debt funds	919	729	452	400	350
Other liabilities	299	303	354	386	418
Equity capital	65	65	65	65	65
Reserves & surplus	7,642	8,652	10,086	11,348	12,834
Shareholders' fund	7,707	8,717	10,152	11,413	12,899
Total liab. and equities	12,194	13,777	15,517	17,193	19,464
Cash and cash eq.	125	104	149	938	1,324
Accounts receivables	2,228	2,095	1,648	2,308	2,690
Inventories	2,430	1,997	2,937	3,001	3,496
Other current assets	737	670	1,785	1,293	1,506
Investments	2,283	4,743	5,621	5,500	5,500
Net fixed assets	4,373	4,147	3,362	4,139	4,933
CWIP	5	13	7	7	7
Intangible assets	12	8	8	8	8
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	12,194	13,777	15,517	17,193	19,464

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Cash flow from operations	1,517	2,858	838	2,516	2,415
Capital expenditures	(450)	(140)	468	(1,186)	(1,280)
Change in investments	(504)	(2,460)	(879)	121	0
Other investing cash flows	(45)	5	25	0	0
Cash flow from investing	(999)	(2,595)	(386)	(1,065)	(1,280)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	13	(191)	(277)	(52)	(50)
Interest expenses	(101)	(97)	(53)	(70)	(62)
Dividends paid	(396)	0	(153)	(541)	(637)
Other financing cash flows	(103)	5	25	0	0
Cash flow from financing	(586)	(283)	(457)	(663)	(749)
Chg in cash & cash eq.	(68)	(20)	(6)	789	386
Closing cash & cash eq.	125	104	98	938	1,324

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	87.1	77.5	116.2	138.5	163.3
Adjusted EPS	77.9	77.5	120.6	138.5	163.3
Dividend per share	13.0	13.0	35.0	34.6	40.8
Book value per share	592.6	670.3	780.5	877.5	991.8

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	4.3	4.3	3.7	3.2	2.7
EV/EBITDA	32.0	33.5	23.1	19.7	16.8
Adjusted P/E	52.9	53.2	34.2	29.8	25.3
P/BV	7.0	6.2	5.3	4.7	4.2

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	75.1	75.2	75.1	73.9	73.9
Interest burden (PBT/EBIT)	106.6	113.0	106.4	106.7	105.8
EBIT margin (EBIT/Revenue)	10.4	9.7	13.6	13.6	13.8
Asset turnover (Rev./Avg TA)	101.4	94.3	98.7	103.0	107.1
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.6	1.5	1.5
Adjusted ROAE	13.8	12.3	16.6	16.7	17.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
YoY growth (%)					
Revenue	(9.4)	0.2	18.1	16.5	16.5
EBITDA	(15.8)	(4.4)	44.7	17.8	18.8
Adjusted EPS	0.3	(0.6)	55.6	14.9	17.9
Profitability & Return ratios (%)					
EBITDA margin	13.5	12.9	15.8	16.0	16.3
EBIT margin	10.4	9.7	13.6	13.6	13.8
Adjusted profit margin	8.3	8.2	10.8	10.7	10.8
Adjusted ROAE	13.8	12.3	16.6	16.7	17.5
ROCE	12.4	9.7	14.2	14.9	15.8
Working capital days (days)					
Receivables	78	64	47	43	46
Inventory	152	129	132	142	133
Payables	36	43	43	38	39
Ratios (x)					
Gross asset turnover	2.1	2.0	2.4	2.6	2.5
Current ratio	1.5	1.2	1.4	1.5	1.6
Net interest coverage ratio	12.6	12.2	37.2	32.5	43.9
Adjusted debt/equity	0.1	0.1	0.0	0.0	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

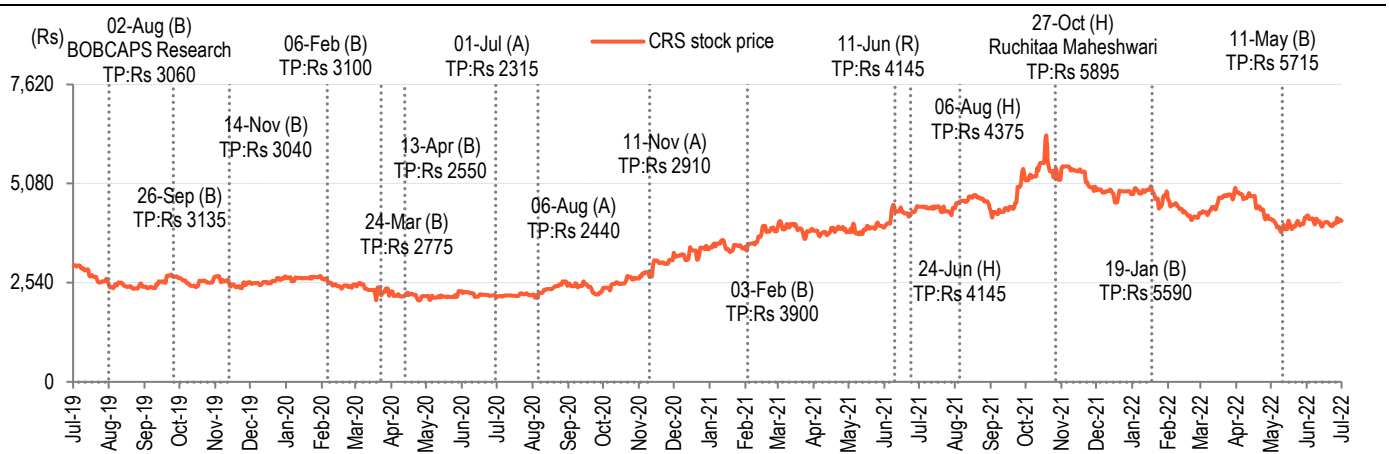
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): CERA SANITARYWARE (CRS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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