

BUY

TP: Rs 5,715 | ▲ 44%

CERA SANITARYWARE

Construction Materials

11 May 2022

Highest-ever EBITDA margin with healthy demand outlook

- Consolidated Q4 revenue up 7% YoY ex-one-offs of Anjani Tiles divestment and Ind AS-105 application; amounted to Rs 525mn
- EBITDA margin expanded 350bps YoY to a record 19.5%; EBITDA up 14% YoY to Rs 797mn
- We raise FY23/FY24 EPS by ~2% each and retain BUY with a revised TP of Rs 5,715 (vs. Rs 5,590)

Ruchitaa Maheshwari

researchreport@bobcaps.in

Consolidated revenue down 6.5% YoY due to one-offs: CRS reported a 6.5% YoY decline in Q4FY22 consolidated revenue to Rs 4.1bn owing to the divestment of its stake in Anjani Tiles and application of Ind AS-105. The accounting change lowered revenue by Rs 525mn. Adjusted for both factors, revenue would have risen by 6.8% YoY. Standalone revenue grew 1.7% YoY to Rs 4.4bn.

Operating margin expands: Consolidated gross margin declined by 385bps YoY to 53.2%. However, a higher revenue contribution of sanitaryware and faucetware at 87% in Q4FY22 vs. 78% in Q4FY21 had a positive bearing on operating margin. This coupled with price hike benefits and lower other expenses spurred EBITDA margin gains of 350bps YoY (+300bps QoQ) to 19.5%. Standalone gross margin expanded by 630bps YoY to 53.5% and EBITDA margin by 415bps YoY (+300bps QoQ) to 18.8%.

Healthy demand outlook: CRS has guided for 18-20% of topline growth in FY23 and FY24 with a 50-75bps rise in EBITDA margin each year. In addition, management is confident of doubling revenue within the next 3.5 years from 5 years earlier.

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 Jun'23) for Rs 0.7bn.

In a sweet spot: We believe CRS is in a sweet spot as it continues to witness growth in its bathroom solutions segment aided by (a) market share gains across the portfolio amid a sizeable shift from the unorganised to organised sector, and (b) demand pickup in the housing sector (both new construction and replacement).

TP raised, maintain BUY: To incorporate the capacity expansion and cost efficiencies, we raise our FY23/FY24 PAT estimates by 2.7%/2.3%. Our TP stands revised to Rs 5,715 (earlier Rs 5,590), based on an unchanged 35x FY24E EPS. CRS is trading at 24.3x FY24E EPS which is reasonable compared to its 5Y median of 37.6x. We retain BUY given the company's strong growth prospects, lean balance sheet, capacity expansion, high asset turnover and rising return ratios.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CRS IN/Rs 3,972
Market cap	US\$ 668.8mn
Free float	46%
3M ADV	US\$ 1.3mn
52wk high/low	Rs 6,450/Rs 3,515
Promoter/FPI/DII	54%/20%/26%

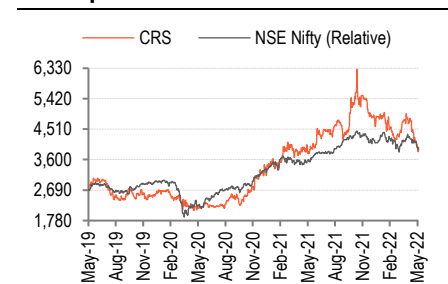
Source: NSE | Price as of 11 May 2022

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)	32.9	28.7	24.3
EV/EBITDA (x)	22.3	19.0	16.2
Adj. EPS growth (%)	55.6	14.9	17.9

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

Stock performance



Source: NSE



Earnings call highlights

- **Gas cost impact:** About 44% of CRS's gas requirement is met by GAIL where gas price increased to Rs 13.26/cbm in Mar'22 from Rs 13.25/cbm in Dec'21 and Rs 9.5/cbm in Sep'21. The balance 56% is met via Sabarmati Gas where prices climbed to Rs 75.01/cbm in Mar'22 from Rs 70.92/cbm in Dec'21 and Rs 45/cbm in Sep'21. The company's gas cost from Sabarmati thus rose to Rs 6.3mn in Q4FY22 though the impact on financials was minimal. CRS also uses renewable energy (93% of requirement) such as wind and solar, keeping the cost basket stable.
- **Demand outlook:** Demand has been robust and the sanitaryware/faucet segments ran at optimal capacity utilisation of 112%/117% in Q4. Management expects healthy sales trends to sustain in the medium term led by home upgrades and improvement (given changing needs and trends), benign interest rates, government incentives and growing real estate sales.
- **Revenue share:** Sanitaryware contributed 54% of Q4FY22 revenue (49% in Q4FY21/53% in Q3FY22), faucetware 33% (30%/35%), tiles 11% (20%/10%) and wellness 2% (2%/2%). Sanitaryware and faucetware together formed 87% of the topline in Q4FY22 vs. 78% in Q4FY21. Management's objective is to increase the B2C contribution as the company can monetise its brand power and hike prices.
- **Price hikes in sanitaryware and faucetware:** CRS is highly dependent on outsourcing. Its vendors have been unable to absorb the increasing prices of gas, corrugated boxes (+15% YoY), and freight (+3%). Thus, despite ~95% of raw material costs remaining stable, the company took a cumulative price hike of 26% in sanitaryware over Aug'20-Dec'21 (10% in Nov'21) and 27% in faucetware (5.5% in Dec'21). CRS is scheduled for another round of price hikes in May'22.
- **SKU:** Faucetware SKU increased from 189,000 units per month in 9MFY22 to 250,000 per month in Q4FY22. Post capacity expansion, SKUs will increase from the current 275,000 per month to 400,000 units.
- **Running at full utilisation:** CRS intends to continue focusing on outsourcing and will only make high-end, value-added products at its own facility. During Q4, the sanitaryware (112%) and faucetware (117%) plants ran at optimal capacity utilisation. To avoid a capacity crunch, CRS has chalked out a capex plan to expand capacity by 1.2mn pieces each in sanitaryware (greenfield; 24-30 months) for Rs 1.3bn and in faucetware (brownfield; by Jun'23) for Rs 0.7bn.
- **Working capital cycle:** Management expects the working capital cycle to increase in coming quarters due to growing demand and the need to rebuild inventory. Inventory days rose to 73 in Q4FY22 vs. 52 days in Q4FY21. Receivable days stood at 35 vs. 53 and payable days stood at 49 vs. 52. Net working capital days stood at 59 vs. 53 days in Q4FY21.
- **Capex:** Capex for FY23 is planned at ~Rs 1.2bn, broken up as follows: sanitaryware ~Rs 250mn (mainly for land purchase), faucetware: ~Rs 690mn and logistics & IT enabled: ~Rs 250mn.
- **Cash & cash equivalents:** Mar'22: Rs 5.8bn, Mar'21: Rs 4.8bn, Dec'21: Rs 5.2bn.

Fig 1 – Consolidated quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Total revenues	4,099	4,384	(6.5)	4,045	1.3	14,458	12,243	18.1
Total raw material consumed	2,181	2,164	0.8	1,839	18.6	6,836	6,268	9.1
% of sales	53.2	49.4	384bps	45.5	774bps	47.3	51.2	(392bps)
Employee exps	501	483	3.6	499	0.4	1,936	1,537	26.0
% of sales	12.2	11.0	119bps	12.3	(11bps)	13.4	12.6	84bps
Other exp	621	1,036	(40.1)	1,042	(40.4)	3,399	2,858	18.9
% of sales	15.1	23.6	(850bps)	25.8	(1,062bps)	23.5	23.3	17bps
Total expenditure	3,302	3,683	(10.4)	3,379	(2.3)	12,171	10,663	14.1
% of sales	80.5	84.0	(347bps)	83.5	(299bps)	84.2	87.1	(291bps)
EBITDA	797	701	13.8	666	19.8	2287	1581	44.7
EBITDA margin (%)	19.5	16.0	347bps	16.5	299bps	15.8	12.9	291bps
Depreciation	48	100	(52.1)	95	(49.4)	324	396	(18.1)
Other income	38	43	(10.7)	53	(28.0)	236	252	(6.0)
Interest cost	(8)	28	(127.6)	19	(139.7)	53	97	(45.7)
PBT	795	616	29.2	605	31.6	2147	1339	60.3
Taxes	211.5	138.8	52.4	157.1	34.7	560.1	340.1	64.7
Effective tax rate (%)	26.6	22.5	405bps	26.0	61bps	26.1	25.4	69bps
PAT before minority interest/associates	584	477	22.5	448	30.5	1587	999	58.8
Less: extraordinary profit/(loss)	(57)	0	-	0	-	(57)	0	-
Less: Minority interest	3.1	21.5	(85.7)	12.4	(75.2)	18.6	(8.2)	(326.7)
Add: Share of profit in associate	2.5	2.4	2.3	(2.6)	(195.0)	0.1	0.5	(84.0)
RPAT	526	458	14.9	432	21.6	1511	1008	49.9

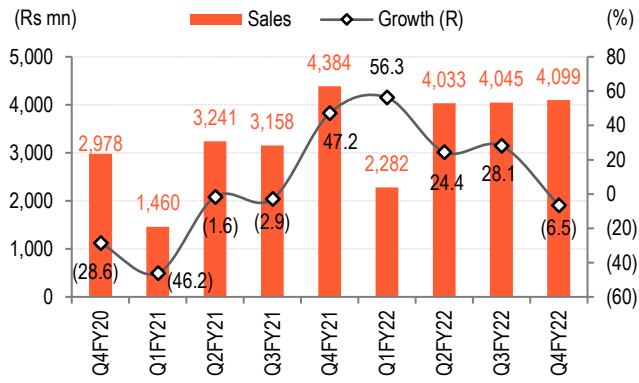
Source: Company, BOBCAPS Research

Fig 2 – Standalone quarterly performance

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
Total revenues	4,387	4,314	1.7	3,870	13.4	14,418	12,017	20.0
Total raw material consumed	2,041	2,278	(10.4)	1,839	11.0	6,810	6,473	5.2
% of sales	46.5	52.8	(627bps)	47.5	(99bps)	47.2	53.9	(663bps)
Employee exps	521	428	21.6	482	8.2	1,907	1,443	32.2
% of sales	11.9	9.9	195bps	12.4	(57bps)	13.2	12.0	122bps
Other exp	1,000	976	2.5	938	6.6	3,488	2,601	34.1
% of sales	22.8	22.6	18bps	24.2	(144bps)	24.2	21.6	254bps
Total expenditure	3,563	3,682	(3.2)	3,259	9.3	12,205	10,518	16.0
% of sales	81	85	(415bps)	84	(300bps)	85	88	(287bps)
EBITDA	824	631	30.5	611	34.9	2212	1500	47.5
EBITDA margin (%)	18.8	14.6	415bps	15.8	300bps	15.3	12.5	287bps
Depreciation	77.7	83.9	(7.4)	77.7	0.0	304.3	332.3	(8.4)
Other income	58.9	24.7	138.6	41.7	41.3	227.8	217.9	4.5
Interest cost	15.2	13.8	10.0	10.0	52.6	45.9	42.7	7.5
PBT	790	558	41.5	565	39.9	2090	1342	55.7
Taxes	211.9	128.3	65.2	142.2	49.1	539.1	329.4	63.7
Effective tax rate (%)	26.8	23.0	386bps	25.2	166bps	25.8	24.5	126bps
APAT	578	430	34.4	423	36.8	1551	1013	53.1
Less: Extraordinary items	(57)	0	-	0	-	(57)	0	-
RPAT	521	430	21.1	423	23.2	1494	1013	47.4

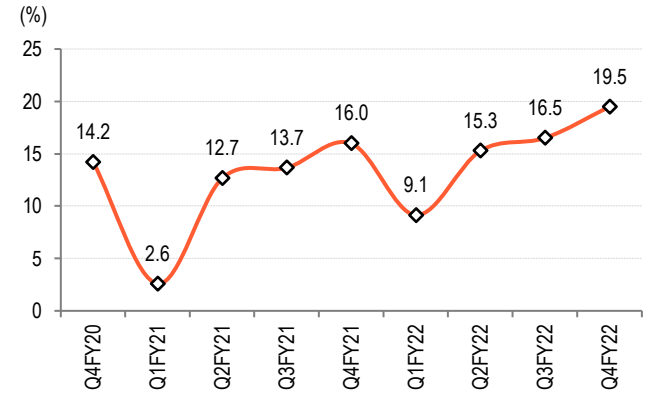
Source: Company, BOBCAPS Research

Fig 3 – Consolidated revenue growth



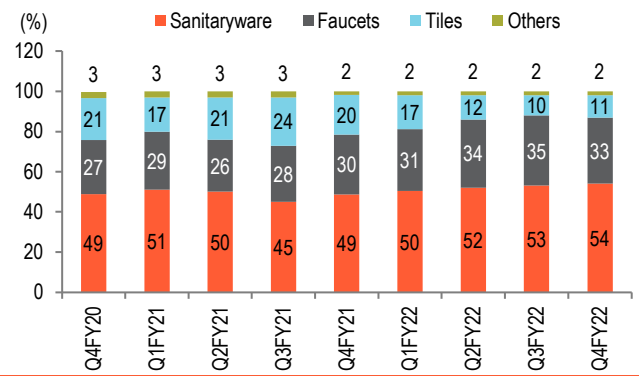
Source: Company, BOBCAPS Research

Fig 4 – EBITDA margin trend



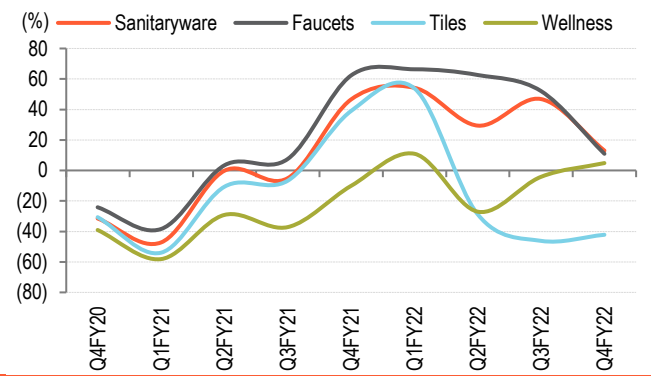
Source: Company, BOBCAPS Research

Fig 5 – Segmental revenue contribution



Source: Company, BOBCAPS Research

Fig 6 – Segmental growth



Source: Company, BOBCAPS Research

Valuation methodology

CRS has remained a focused player in tier-II/III markets where it faces limited competition, enabling it to maintain pricing power. About 75% of the company's sales are from the retail channel while the balance is from institutions, which supports a healthy gross margin of ~55%.

We believe CRS is in a sweet spot as it continues to witness robust growth in its bathroom solutions segment backed by (a) market share gains across the product portfolio from import substitution in the sanitaryware and faucet segments, which has opened up untapped potential, (b) a sizeable shift in demand from the unorganised to organised sector, and (c) demand pickup in the housing sector (new construction and replacement).

To incorporate the planned capacity expansion and resulting cost efficiencies, we raise our FY23/FY24 PAT estimates by 2.7%/2.3%. Our TP stands revised to Rs 5,715 (earlier Rs 5,590), based on an unchanged FY24E P/E multiple of 35x. CRS is trading at 24.3x FY24E EPS which is reasonable compared to its five-year median of 37.6x. We retain BUY given the company's strong growth prospects, improving balance sheet driven by stricter control on receivables, capacity expansion in faucets and sanitaryware, and rising return ratios.

Fig 7 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	16,850	19,634	16,780	19,025	0.4	3.2
EBITDA	2,694	3,202	2,482	2,899	8.6	10.5
EBITDA (%)	16.0	16.3	14.8	15.2	120bps	110bps
PAT	1,802	2,124	1,754	2,077	2.7	2.3

Source: BOBCAPS Research

Fig 8 – Key assumptions

(Rs mn)	FY21	FY22	FY23E	FY24E
Sanitaryware	5,830	7,580	9,096	10,733
Growth (%)	(0.4)	30.0	20.0	18.0
Faucets	3,398	4,778	5,733	6,880
Growth (%)	10.7	40.6	20.0	20.0
Tiles	2,500	1,753	1,753	1,753
Growth (%)	(6.4)	(30.0)	0.0	0.0
Wellness	288	268	268	268
Growth (%)	(34.9)	(7.0)	0.0	0.0

Source: Company, BOBCAPS Research

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	1.5	506	735	HOLD
Cera Sanitaryware	CRS IN	0.7	3,972	5,715	BUY
Greenpanel Industries	GREENP IN	0.8	495	595	HOLD
Greenply Industries	MTLM IN	0.3	182	260	BUY
Kajaria Ceramics	KJC IN	2.0	984	1,460	BUY
Pidilite Industries	PIDI IN	14.2	2,164	2,445	HOLD
Somany Ceramics	SOMC IN	0.3	556	1,140	BUY

Source: BOBCAPS Research, NSE | Price as of 11 May 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	1,077	1,485
Accounts receivables	2,228	2,095	1,648	2,308	2,690
Inventories	2,430	1,997	2,937	2,862	3,335
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	2,655	2,438
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)	927	409
Closing cash & cash eq.	125	104	98	1,077	1,485

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	4.2	4.2	3.5	3.0	2.6
EV/EBITDA	30.8	32.2	22.3	19.0	16.2
Adjusted P/E	51.0	51.3	32.9	28.7	24.3
P/BV	6.7	5.9	5.1	4.5	4.0

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	138	127
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	(0.1)	(0.1)

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

Disclaimer

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

BUY – Expected return >+15%

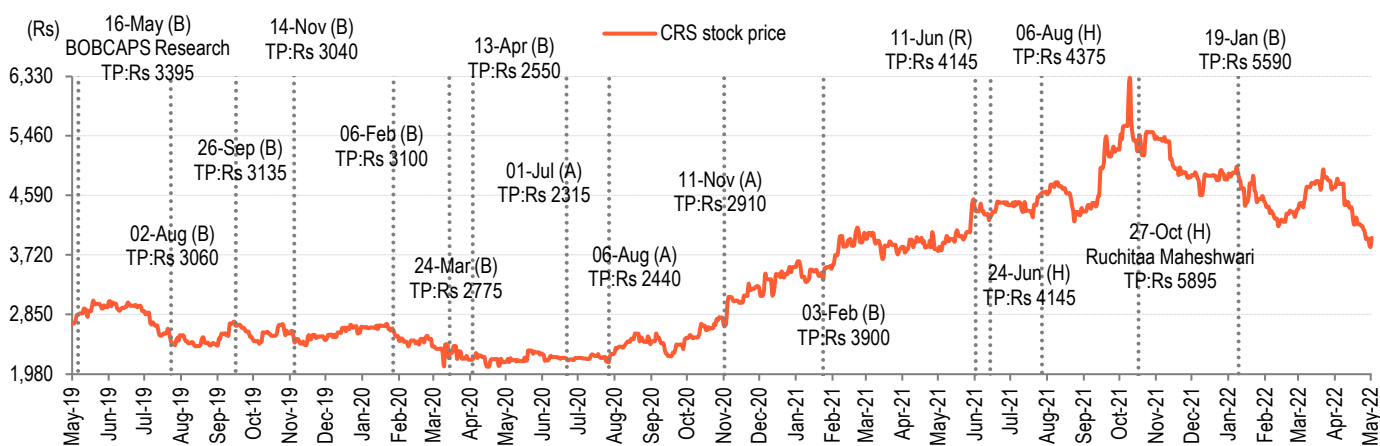
HOLD – Expected return from -6% to +15%

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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