

HOLD

TP: Rs 4,145 | ▼ 3%

CERA SANITARYWARE

Construction Materials

24 June 2021

Near-term headwinds but outlook improving

- CRS's management expects unlocking to rejuvenate demand led by tier-2-and-below cities and targets 17-18% revenue growth for FY22
- Operating margin is guided to hold in the range of 14.5-15.5% as price hikes in sanitaryware and faucetware likely offset higher RM cost
- We maintain estimates and keep our Mar'22 TP at Rs 4,145 while changing our rating to HOLD from REDUCE as per our new rating scale

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We recently interacted with the CRS management. Key takeaways:

- Despite a healthy Q4FY21, demand has been tepid in Q1FY22 due to the lockdown, especially in the month of May. Management believes sales lost in the ongoing quarter will be recouped during the rest of the year.
- The sanitaryware plant which faced labour issues in H2FY21 has become fully functional in Q1FY22 and is running on three shifts to meet the anticipated pent-up demand.
- The company is targeting 17-18% revenue growth in FY22 as it believes tier-2-and-below markets, which accounted for ~72% of FY21 sales, will remain strong.
- CRS took a price hike of 5-7% in sanitaryware and 8-10% in faucetware in Feb'21 to pass on the raw material price increase. Management indicated that it is open to further hikes and expects to sustain operating margin at 14.5-15.5%.
- The company will continue to monitor working capital discipline but expects an increase in inventory days as it builds up stock to meet the expected demand.
- Over the next five years, management aims to double revenues and have the share of sanitaryware at ~50%, faucetware at ~30% and tiles at ~20%.
- A total of ~420 dealers were added in FY21, taking the overall tally to 3,985. Retail business formed ~71% of revenue with ~50% of this on cash-&-carry.
- South India is a major market for the company (44% of FY21 revenue) followed by the north (29%), west (17%) and east (9%).

Our view: We continue to like CRS for its broad product portfolio, strong balance sheet, widespread distribution and potential demand upsides from a growing housing market. However, valuations look full at 31x FY23E EPS. We maintain our Mar'22 TP of Rs 4,145 set at 30x FY23E P/E (in line with the five-year average), but migrate from REDUCE to HOLD in keeping with our new rating scale.

Ticker/Price	CRS IN/Rs 4,293
Market cap	US\$ 751.7mn
Free float	46%
3M ADV	US\$ 1.0mn
52wk high/low	Rs 4,895/Rs 2,121
Promoter/FPI/DII	54%/15%/30%

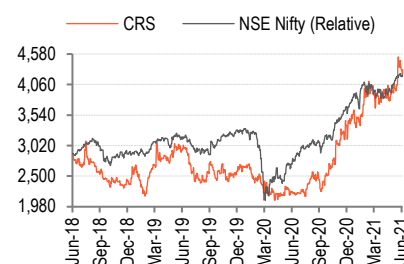
Source: NSE | Price as of 23 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	12,243	14,436	16,500
EBITDA (Rs mn)	1,581	2,178	2,538
Adj. net profit (Rs mn)	1,008	1,501	1,796
Adj. EPS (Rs)	77.5	115.4	138.1
Consensus EPS (Rs)	74.2	115.4	138.6
Adj. ROAE (%)	12.3	16.2	17.1
Adj. P/E (x)	55.4	37.2	31.1
EV/EBITDA (x)	34.8	25.3	21.8
Adj. EPS growth (%)	(0.6)	49.0	19.7

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

Stock performance



Source: NSE

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Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	13,491	12,220	12,243	14,436	16,500
EBITDA	1,964	1,654	1,581	2,178	2,538
Depreciation	(280)	(388)	(396)	(410)	(432)
EBIT	1,684	1,266	1,185	1,769	2,106
Net interest inc./(exp.)	(85)	(101)	(97)	(66)	(58)
Other inc./(exp.)	63	65	252	291	337
Exceptional items	141	119	0	0	0
EBT	1,662	1,230	1,339	1,993	2,386
Income taxes	(652)	(243)	(340)	(502)	(601)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	27	9	10	12
Reported net profit	1,151	1,133	1,008	1,501	1,796
Adjustments	(141)	(119)	0	0	0
Adjusted net profit	1,010	1,013	1,008	1,501	1,796

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	1,109	953	1,554	1,345	1,447
Other current liabilities	1,979	2,102	2,186	2,334	2,577
Provisions	365	136	171	202	231
Debt funds	906	919	729	600	500
Other liabilities	436	299	303	335	367
Equity capital	65	65	65	65	65
Reserves & surplus	6,944	7,642	8,652	9,786	11,035
Shareholders' fund	7,009	7,707	8,717	9,851	11,100
Total liab. and equities	11,908	12,194	13,777	14,773	16,316
Cash and cash eq.	193	125	104	140	99
Accounts receivables	2,984	2,228	2,095	2,531	2,984
Inventories	2,158	2,430	1,997	2,413	2,758
Other current assets	747	737	670	831	949
Investments	1,779	2,283	4,743	4,800	5,500
Net fixed assets	3,845	4,373	4,147	4,037	4,006
CWIP	195	5	13	13	13
Intangible assets	9	12	8	8	8
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	11,908	12,194	13,777	14,773	16,316

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Cash flow from operations	1,540	1,517	2,858	966	1,776
Capital expenditures	(678)	(450)	(140)	(300)	(400)
Change in investments	(693)	(504)	(2,460)	(57)	(700)
Other investing cash flows	(9)	(45)	5	(10)	(12)
Cash flow from investing	(1,380)	(999)	(2,595)	(367)	(1,112)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(56)	13	(191)	(129)	(100)
Interest expenses	(85)	(101)	(97)	(66)	(58)
Dividends paid	(188)	(396)	0	(358)	(535)
Other financing cash flows	36	(103)	5	(10)	(12)
Cash flow from financing	(293)	(586)	(283)	(563)	(705)
Chg in cash & cash eq.	(134)	(68)	(20)	36	(41)
Closing cash & cash eq.	193	125	104	140	99

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	88.5	87.1	77.5	115.4	138.1
Adjusted EPS	77.7	77.9	77.5	115.4	138.1
Dividend per share	13.0	13.0	13.0	22.9	34.3
Book value per share	538.9	592.6	670.3	757.4	853.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	4.1	4.5	4.5	3.8	3.4
EV/EBITDA	28.2	33.3	34.8	25.3	21.8
Adjusted P/E	55.3	55.1	55.4	37.2	31.1
P/BV	8.0	7.2	6.4	5.7	5.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	56.0	75.1	75.2	75.3	75.3
Interest burden (PBT/EBIT)	107.1	106.6	113.0	112.7	113.3
EBIT margin (EBIT/Revenue)	12.5	10.4	9.7	12.3	12.8
Asset turnover (Rev./Avg TA)	120.6	101.4	94.3	101.1	106.1
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.6	1.5	1.5
Adjusted ROAE	15.5	13.8	12.3	16.2	17.1

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	14.5	(9.4)	0.2	17.9	14.3
EBITDA	15.5	(15.8)	(4.4)	37.8	16.5
Adjusted EPS	4.1	0.3	(0.6)	49.0	19.7
Profitability & Return ratios (%)					
EBITDA margin	14.6	13.5	12.9	15.1	15.4
EBIT margin	12.5	10.4	9.7	12.3	12.8
Adjusted profit margin	7.5	8.3	8.2	10.4	10.9
Adjusted ROAE	15.5	13.8	12.3	16.2	17.1
ROCE	14.2	12.4	9.7	13.2	14.2
Working capital days (days)					
Receivables	77	78	64	58	61
Inventory	123	152	129	122	125
Payables	33	36	43	43	36
Ratios (x)					
Gross asset turnover	2.6	2.1	2.0	2.2	2.4
Current ratio	1.5	1.5	1.2	1.4	1.5
Net interest coverage ratio	19.7	12.6	12.2	26.6	36.5
Adjusted debt/equity	0.1	0.1	0.1	0.0	0.0

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

Disclaimer

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

BUY – Expected return >+15%

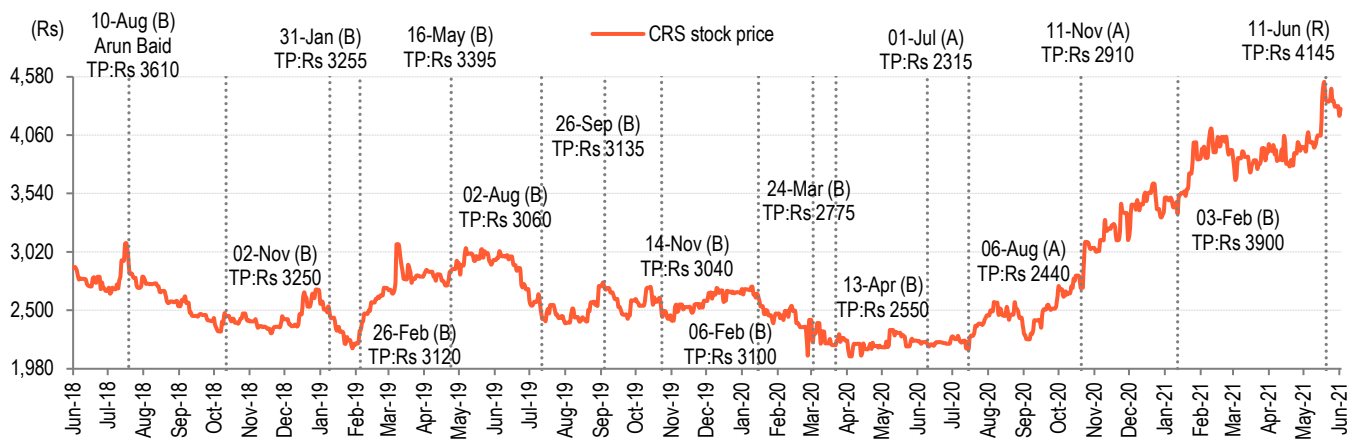
HOLD – Expected return from -6% to +15%

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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