

ADD

TP: Rs 2,440 | ▲ 9%

CERA SANITARYWARE

Construction Materials

06 August 2020

Weak Q1 due to lockdown, but ahead of estimates

Cera Sanitaryware's (CRS) Q1FY21 consolidated revenue declined 46% YoY, bettering our estimate of a 62% drop. Operating margins shrank 10ppt YoY to 2.6%, triggering an 89% YoY downside in EBITDA and a PBT loss of Rs 11.9mn. Management stated that demand has improved in July to ~95% of year-ago levels vs. ~85% in June. We increase FY21 earnings by 5% (FY22 unchanged) and roll over to a revised Sep'21 TP of Rs 2,440 (from Rs 2,315). Maintain ADD.

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Revenue declines due to lockdown: CRS reported a 46% YoY decline in Q1 consolidated revenue to Rs 1.5bn. The sanitaryware segment plunged 47% YoY and faucets/tiles dropped 38%/54% YoY. As per management, the nationwide lockdown eroded sales during the quarter. The company has seen improvement in July sales to ~95% of year-ago levels as compared to ~85% in June. Management highlighted the continued thrust on working capital discipline which has resulted in a reduction of ~3 days YoY. Cash on books has increased by Rs 0.4bn QoQ to Rs 2.7bn as of 30 June.

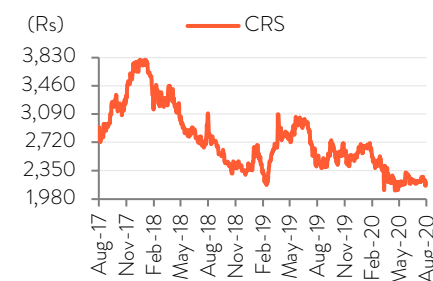
Consolidated EBITDA slump: Operating margins contracted 1,040bps YoY as gross margins slumped 1,015bps and employee cost increased 690bps YoY – this was partly offset by a 665bps YoY reduction in other expense. EBITDA declined 89% YoY and the company suffered a PBT loss of Rs 11.9mn. Management expects various cost-cutting measures, benign commodity prices and price increases of 3-5% in August in the sanitaryware segment to cushion margins in a challenging demand environment.

Maintain ADD: We increase our FY21 PAT estimate by 5% (FY22E unchanged) given the above-expected Q1 and roll over to a new Sep'21 TP of Rs 2,440 (from Rs 2,315), set at an unchanged 26x one-year forward P/E.

Ticker/Price	CRS IN/Rs 2,246
Market cap	US\$ 389.8mn
Shares o/s	13mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 2,900/Rs 1,986
Promoter/FPI/DII	54%/15%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	13,444	12,237	10,508	12,409	13,742
EBITDA (Rs mn)	1,917	1,655	1,132	1,772	1,974
Adj. net profit (Rs mn)	1,010	1,133	627	1,157	1,287
Adj. EPS (Rs)	77.7	87.1	48.2	89.0	98.9
Adj. EPS growth (%)	4.1	12.1	(44.6)	84.4	11.2
Adj. ROAE (%)	15.5	15.4	7.9	13.4	13.5
Adj. P/E (x)	28.9	25.8	46.6	25.2	22.7
EV/EBITDA (x)	15.0	17.2	25.1	16.1	14.5

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	1,460	2,712	(46.2)	2,978	(51.0)
Total raw material consumed	765	1,146	(33.2)	1,325	(42.2)
% of sales	52.4	42.2	1,016bps	44.5	792bps
Employee expense	322	411	(21.7)	451	(28.5)
% of sales	22.1	15.2	690bps	15.1	693bps
Other expense	335	803	(58.2)	780	(57.0)
% of sales	22.9	29.6	(665bps)	26.2	(324bps)
Total expenditure	1,422	2,359	(39.7)	2,555	(44.3)
% of sales	97.4	87.0	1,041bps	85.8	1,161bps
EBITDA	37.8	352.5	(89.3)	423.1	(91.1)
% of sales	2.6	13.0	(1,041bps)	14.2	(1,161bps)
Depreciation	97	91	6.0	106	(8.5)
Other income	70	33	115.2	52	33.9
Interest cost	23	25	(7.3)	27	(12.4)
PBT	(11.9)	268.9	NA	343.3	NA
Taxes	4.8	97.3	(95.0)	(13.3)	(136.4)
Effective tax rate (%)	(40.7)	36.2	NA	(3.9)	NA
PAT before minority interest/associates	(16.7)	171.6	(109.8)	356.6	(104.7)
Less: Minority interest	(22.5)	(9.4)	139.2	(13.8)	62.7
Add: share of profit in associate	(1.1)	0.0	(36.7)	2.0	(155.1)
RPAT	4.6	181.0	(97.5)	372.4	(99)

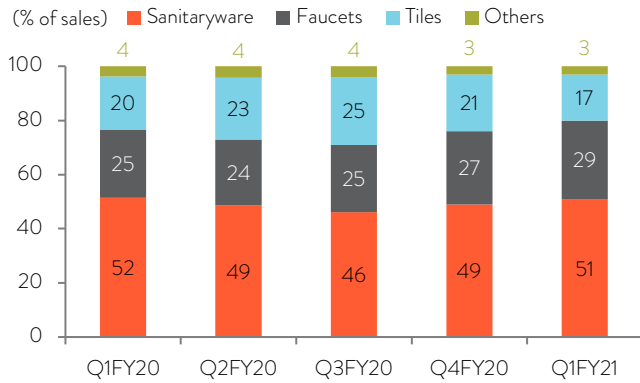
Source: Company, BOBCAPS Research

FIG 2 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	1,426	2,674	(46.7)	2,932	(51.4)
Total raw material consumed	726	1,231	(41.0)	1,391	(47.8)
% of sales	50.9	46.0	491bps	47.4	351bps
Employee expense	313	399	(21.6)	387	(19.1)
% of sales	21.9	14.9	702bps	13.2	875bps
Other expense	320	692	(53.7)	731	(56.2)
% of sales	22.5	25.9	(341bps)	24.9	(245bps)
Total expenditure	1,360	2,321	(41.4)	2,508	(45.8)
% of sales	95	86.8	852bps	85.5	980bps
EBITDA	66.4	352.2	(81.2)	424.0	(84.3)
% of sales	4.7	13.2	(852bps)	14.5	(980bps)
Depreciation	81.2	76.8	5.8	90.5	(10.3)
Other income	68.8	29.2	135.6	42.5	61.7
Interest cost	10.0	11.4	(12.3)	11.6	(13.7)
PBT	44.0	293.2	(85.0)	364.4	(87.9)
Taxes	14.9	102.5	(85.5)	(20.3)	(173.4)
Effective tax rate (%)	33.9	34.9	(108bps)	(5.6)	3,943bps
RPAT	29.1	190.8	(84.8)	384.7	(92.4)

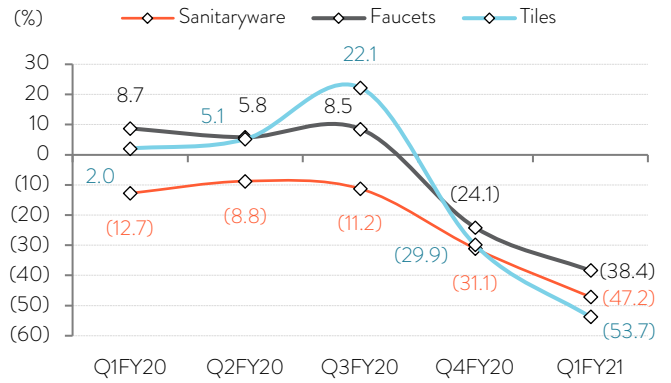
Source: Company, BOBCAPS Research

FIG 3 – STANDALONE REVENUE BREAKUP



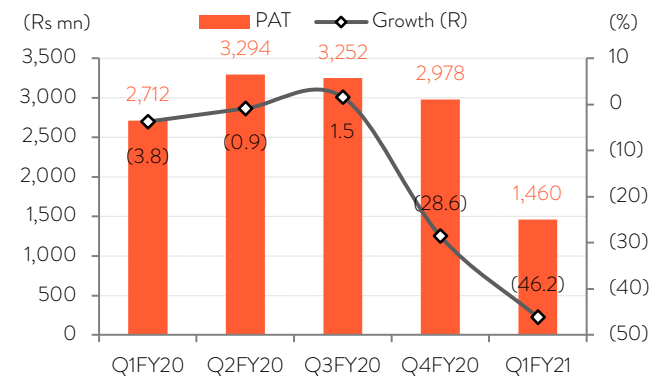
Source: Company, BOBCAPS Research

FIG 4 – STANDALONE SEGMENTAL GROWTH YOY



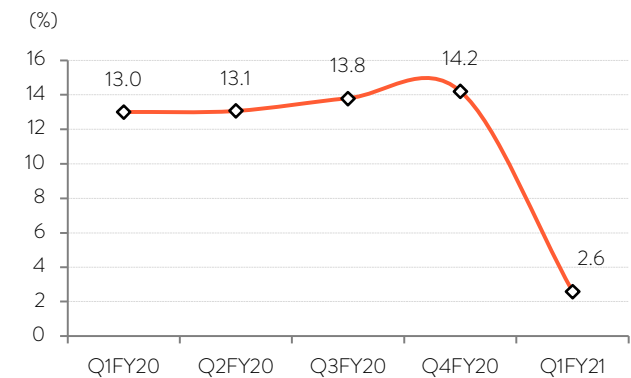
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED REVENUE & GROWTH



Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED OPERATING MARGIN



Source: Company, BOBCAPS Research

Earnings call highlights

- Sales have been improving MoM, with May recovering to 55-60% of YoY sales, June to 85% and July to ~95% of year-ago levels.
- CRS derives 4-5% of its sales from goods procured sourced from China.
- Post Covid-19, the demand for sensor-based products has surged – sales of the company’s touchless faucets have swelled from 100 units/month to 6,000 units/month.
- CRS’s Kadi plant in Gujarat became operational in early May. The plant ran at ~30% utilisation in May, ~60% in June and ~80% in July.
- The raw material price environment is benign. Also, a planned 3-5% price increase in sanitaryware this August should aid margins.
- In order to reduce costs, management has renegotiated pricing with vendors. Rentals have also been renegotiated for warehouses and offices.
- Working capital days have reduced by ~3 days YoY in the quarter.

- CRS derived 65% of sales from tier-3 cities in Q1FY21 whereas tier-1 cities accounted for 24% share.
- The company's top 100 dealers contributed 23% of total sales while the top 500 accounted for 79% of sales.
- CRS has 3,631 dealers as of 30 June vs. 3,086 YoY.
- Capex planned for FY21 totals ~Rs 220mn. Cash & cash equivalents on the books stood at ~Rs 2.7bn as of 30 June.

Valuation methodology

CRS is one of the largest organised sanitaryware players in India. Over the years, the company has expanded its product portfolio from sanitaryware to tiles, faucets and wellness goods, to become a one-stop bathroom solution provider. We like CRS for its strong balance sheet and working capital discipline.

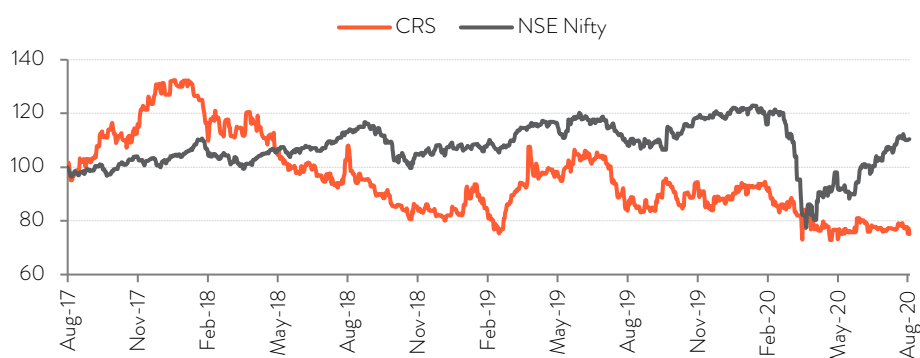
Given the better-than-expected Q1FY21, we raise our FY21 earnings estimate by 5% while keeping FY22 numbers unchanged. Rolling valuations forward, we move to a revised Sep'21 target price of Rs 2,440 (from Rs 2,315), set at an unchanged 26x one-year forward P/E. Maintain ADD.

FIG 7 – REVISED ESTIMATES

(Rs mn)	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	9,925	12,368	10,508	12,409	5.9	0.3
EBITDA	1,093	1,766	1,132	1,772	3.6	0.3
PAT	596	1,157	627	1,157	5.2	0.0

Source: BOBCAPS Research

FIG 8 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Sharp rise in raw material prices:** CRS's key raw material is natural gas; any sharp increase in prices may affect near-term profitability.
- **Increased competition from unorganised players:** All of CRS's business segments have a large unorganised presence (~50% of the total market). An inability to compete effectively may affect the company's profitability.
- **Prolonged slowdown in housing market:** A continued slowdown in the housing market would hit growth prospects.
- **Prolonged Covid-19 outbreak:** If pandemic fears prevail for a prolonged period of time, revenues will be adversely affected.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	13,444	12,237	10,508	12,409	13,742
EBITDA	1,917	1,655	1,132	1,772	1,974
Depreciation	(280)	(388)	(405)	(421)	(467)
EBIT	1,637	1,267	728	1,351	1,507
Net interest income/(expenses)	(85)	(101)	(103)	(61)	(58)
Other income/(expenses)	110	183	193	244	268
Exceptional items	141	0	0	0	0
EBT	1,662	1,349	818	1,533	1,718
Income taxes	(652)	(243)	(206)	(386)	(433)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	0	27	15	10	2
Reported net profit	1,151	1,133	627	1,157	1,287
Adjustments	(141)	0	0	0	0
Adjusted net profit	1,010	1,133	627	1,157	1,287

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	1,109	953	835	918	1,017
Other current liabilities	1,979	2,180	1,526	1,768	1,920
Provisions	365	132	158	174	192
Debt funds	906	844	620	600	500
Other liabilities	436	299	319	351	383
Equity capital	65	65	65	65	65
Reserves & surplus	6,944	7,642	8,144	9,016	9,915
Shareholders' fund	7,009	7,707	8,209	9,081	9,980
Total liabilities and equities	11,908	12,194	11,728	12,943	14,042
Cash and cash eq.	193	21	17	25	190
Accounts receivables	2,984	2,228	2,303	2,414	2,673
Inventories	2,158	2,430	1,641	2,006	2,221
Other current assets	747	840	662	714	791
Investments	1,779	2,283	2,900	3,600	3,850
Net fixed assets	3,845	4,373	4,188	4,167	4,300
CWIP	195	5	5	5	5
Intangible assets	9	12	12	12	12
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	11,908	12,194	11,728	12,943	14,042

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	1,431	1,520	1,032	1,578	1,754
Interest expenses	85	101	103	61	58
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(22)	4	145	(186)	(282)
Other operating cash flows	45	(137)	20	32	32
Cash flow from operations	1,540	1,489	1,300	1,485	1,562
Capital expenditures	(678)	(450)	(220)	(400)	(600)
Change in investments	(693)	(504)	(617)	(700)	(250)
Other investing cash flows	(10)	(45)	(15)	(10)	(2)
Cash flow from investing	(1,381)	(999)	(852)	(1,110)	(852)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(56)	(62)	(224)	(20)	(100)
Interest expenses	(85)	(101)	(103)	(61)	(58)
Dividends paid	(188)	(396)	(110)	(275)	(385)
Other financing cash flows	36	(103)	(15)	(10)	(2)
Cash flow from financing	(293)	(661)	(452)	(366)	(545)
Changes in cash and cash eq.	(134)	(171)	(5)	8	164
Closing cash and cash eq.	193	21	17	25	190

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	88.5	87.1	48.2	89.0	98.9
Adjusted EPS	77.7	87.1	48.2	89.0	98.9
Dividend per share	13.0	13.0	7.1	17.6	24.7
Book value per share	538.9	592.6	631.2	698.2	767.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	2.1	2.3	2.7	2.3	2.1
EV/EBITDA	15.0	17.2	25.1	16.1	14.5
Adjusted P/E	28.9	25.8	46.6	25.2	22.7
P/BV	4.2	3.8	3.6	3.2	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	56.0	83.9	76.7	75.5	74.9
Interest burden (PBT/EBIT)	110.1	106.5	112.4	113.5	114.0
EBIT margin (EBIT/Revenue)	12.2	10.4	6.9	10.9	11.0
Asset turnover (Revenue/Avg TA)	120.2	101.5	87.8	100.6	101.8
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.5	1.4	1.4
Adjusted ROAE	15.5	15.4	7.9	13.4	13.5

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	14.2	(9.0)	(14.1)	18.1	10.7
EBITDA	12.8	(13.7)	(31.6)	56.5	11.4
Adjusted EPS	4.1	12.1	(44.6)	84.4	11.2
Profitability & Return ratios (%)					
EBITDA margin	14.3	13.5	10.8	14.3	14.4
EBIT margin	12.2	10.4	6.9	10.9	11.0
Adjusted profit margin	7.5	9.3	6.0	9.3	9.4
Adjusted ROAE	15.5	15.4	7.9	13.4	13.5
ROCE	13.8	12.5	6.2	10.8	11.1
Working capital days (days)					
Receivables	77	78	79	69	68
Inventory	123	152	154	120	126
Payables	33	36	35	30	30
Ratios (x)					
Gross asset turnover	2.6	2.1	1.7	1.9	1.9
Current ratio	1.5	1.5	1.6	1.6	1.8
Net interest coverage ratio	19.2	12.6	7.1	22.1	26.1
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

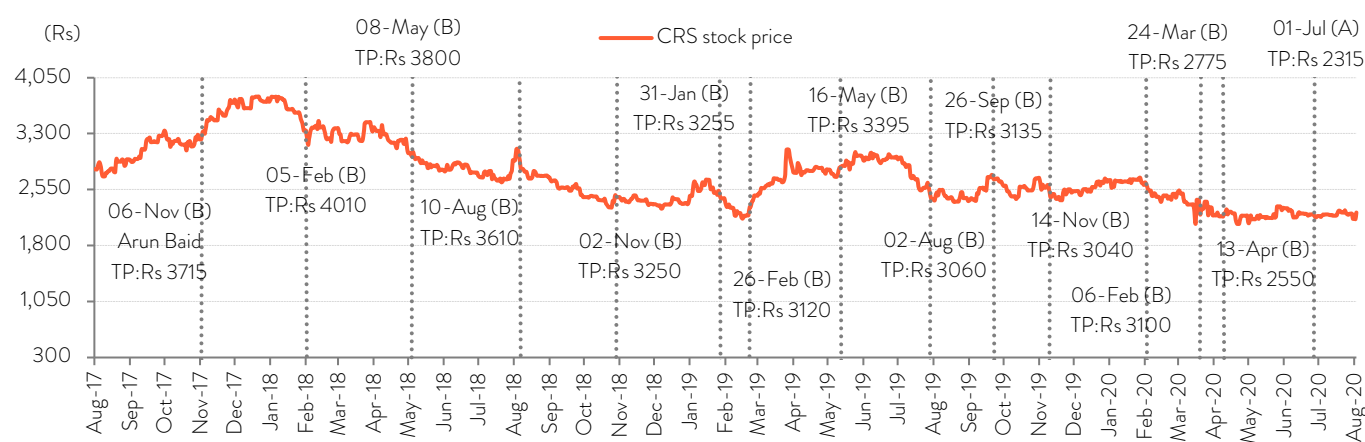
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): CERA SANITARYWARE (CRS IN)



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

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