

HOLD

TP: Rs 4,375 | ▼ 5%

CERA SANITARYWARE

Construction Materials

06 August 2021

Growth picks up off a low base

- Q1 consolidated revenue grew 56% YoY due to a low base effect with the sanitaryware/faucet segments increasing 54%/66%
- Operating margin expanded 650bps YoY to 9.1%, resulting in EBITDA growth of 450% YoY
- We maintain estimates and have a new Jun'22 TP of Rs 4,375 on rollover (vs. Rs 4,145); maintain HOLD

Arun Baid

researchreport@bobcaps.in

Low base aids revenue growth: CRS reported a 56% YoY rise in consolidated Q1FY22 revenue to Rs 2.3bn due to a low base amid the lockdown last year. The sanitaryware segment grew 54% YoY, faucets 66% and tiles 54%. Management stated that demand was healthy till April but slowed thereafter due to renewed lockdowns, especially in its major markets in tier-3-and-below cities. Working capital days increased by 18 days QoQ to 70 as CRS built up inventory to meet future demand, and management expects this trend to continue.

Demand outlook healthy: Demand has started to pick up from mid-June post unlocking and July has been strong as well, per management. CRS expects to see strong demand traction in coming quarters. Also, some of its sanitaryware peers who were dependent on sourcing from China are now facing supply issues which should be beneficial for the company. CRS indicated that it is on track to achieve its aspirational revenue target of ~Rs14.5bn in FY22 despite a tepid Q1.

Operating margin expands: Gross margin expanded 1,140bps YoY and 835bps QoQ in Q1 due to a better product mix and benefits from price hikes taken earlier. Other expenses increased 740bps YoY owing to negative operating leverage. Overall, this translated to a 650bps YoY expansion in operating margin to 9.1% and EBITDA growth of 450% YoY. Management expects operating margin to revert to 13.5-14.5% going ahead as it has taken price hikes to cover the higher raw material cost.

Maintain HOLD: We roll forward to a revised Jun'22 TP of Rs 4,375 (earlier Rs 4,145) and continue to value the stock at 30x FY23E P/E, in line with the five-year average. Though we like CRS for its strong brand, wide distribution, comprehensive portfolio and robust balance sheet, current valuations appear full at 33.4x FY23E P/E. We thus continue with our HOLD rating on the stock.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CRS IN/Rs 4,616
Market cap	US\$ 809.4mn
Free float	46%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 4,895/Rs 2,121
Promoter/FPI/DII	54%/15%/30%

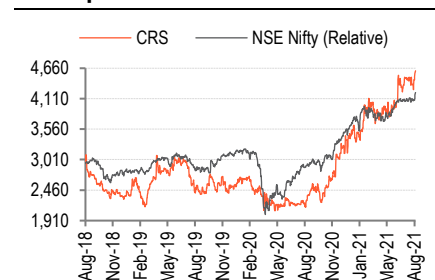
Source: NSE | Price as of 5 Aug 2021

Key financials

Y/E 31 Mar	FY21A	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)	77.5	113.7	141.6
Adj. ROAE (%)	12.3	16.2	17.1
Adj. P/E (x)	59.6	40.0	33.4
EV/EBITDA (x)	37.5	27.2	23.4
Adj. EPS growth (%)	(0.6)	49.0	19.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Consolidated quarterly performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Total revenues	2,282	1,460	56.3	4,384	(47.9)
Total raw material consumed	936	765	22.3	2,164	(56.8)
% of sales	41.0	52.4	(1,140bps)	49.4	(835bps)
Employee exps	446	322	38.4	483	(7.7)
% of sales	19.5	22.1	(252bps)	11.0	852bps
Other exp	692	335	106.5	1,036	(33.2)
% of sales	30.3	22.9	738bps	23.6	669bps
Total expenditure	2,074	1,422	45.8	3,683	(43.7)
% of sales	90.9	97.4	(653bps)	84.0	686bps
EBITDA	208	38	450.3	701	(70.3)
% of sales	9.1	2.6	653bps	16.0	(686bps)
Depreciation	89	97	(8.2)	100	(11.6)
Other income	65	70	(6.6)	43	52.3
Interest cost	21	23	(8.3)	28	(24.0)
PBT	164	(12)	(1,476.0)	616	(73.4)
Taxes	48.3	4.8	897.3	138.8	(65.2)
Effective tax rate (%)	29.5	(40.7)	7,015bps	22.5	693bps
PAT before minority interest/associates	115	(17)	(789.8)	477	(75.8)
Less: Minority interest	(6.5)	(22.5)	(71.2)	21.5	(130.1)
Add: share of profit in associate	0.1	(1.1)	(1.1)	2.4	(94.7)
RPAT	122	5	2,551.0	458	(73)

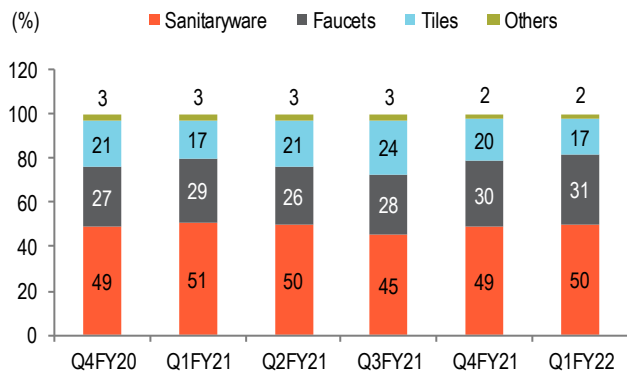
Source: BOBCAPS Research, Company

Fig 2 – Standalone performance

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Total revenues	2,228	1,426	56.3	4,314	(48.3)
Total raw material consumed	985	726	35.6	2,278	(56.7)
% of sales	44.2	50.9	(673bps)	52.8	(859bps)
Employee exps	430	313	37.6	428	0.5
% of sales	19.3	21.9	(262bps)	9.9	939bps
Other exp	614	320	91.8	976	(37.1)
% of sales	27.6	22.5	510bps	22.6	494bps
Total expenditure	2,030	1,360	49.3	3,682	(44.9)
% of sales	91	95.3	(425bps)	85.4	574bps
EBITDA	198	66	198.9	631	(68.6)
% of sales	8.9	4.7	425bps	14.6	(574bps)
Depreciation	72.9	81.2	(10.3)	83.9	(13.2)
Other income	57.5	68.8	(16.4)	24.7	133.1
Interest cost	10.4	10.0	4.1	13.8	(24.5)
PBT	173	44	292.6	558	(69.1)
Taxes	43.4	14.9	191.7	128.3	(66.1)
Effective tax rate (%)	25.2	33.9	(870bps)	23.0	220bps
APAT	129	29	344.2	430	(70.0)

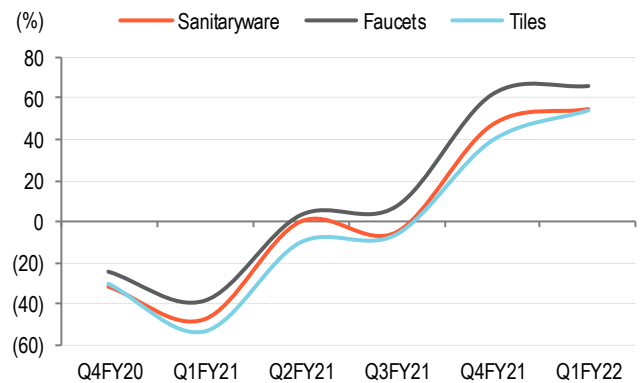
Source: Company, BOBCAPS Research

Fig 3 – Revenue break-up



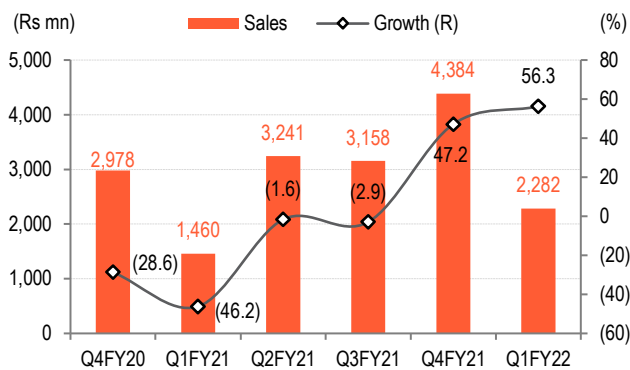
Source: Company, BOBCAPS Research

Fig 4 – Segmental growth YoY



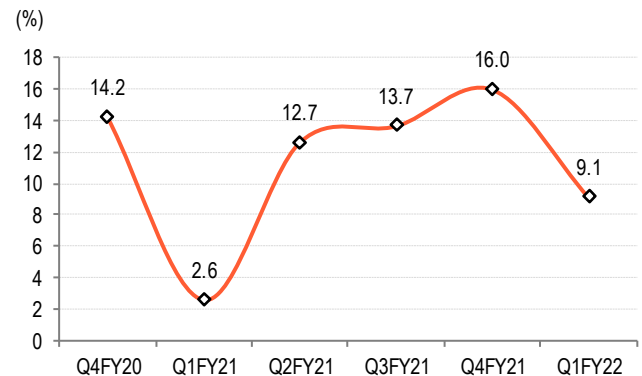
Source: Company, BOBCAPS Research

Fig 5 – Consolidated sales growth YoY



Source: Company, BOBCAPS Research

Fig 6 – Consolidated EBITDA margin



Source: Company, BOBCAPS Research

Earnings call highlights

- Demand trends were healthy till the pandemic resurfaced. Post unlocking from mid-June, demand has revived and July has been a strong month for CRS. Management expects healthy sales trends to sustain for the rest of FY22.
- Gross margin increased in Q1FY22 due to a better product mix and price hikes taken earlier. CRS has taken a further 4% price increase in sanitaryware in Aug'21 and an 8-10% hike in faucets due to the higher raw material prices.
- Management has guided for revenue of ~Rs 14.5bn with operating margin of 13.5-14.5% in FY22.
- CRS expects domestic manufacturers to gain market share in the near term as a major sanitaryware peer who was dependent on Chinese procurement is facing supply issues.
- The company is looking to exit its stake in the Anjani Tiles joint venture. This will not disrupt tile volume availability going ahead.
- CRS will continue to focus on outsourcing and will only make high-end value-added products at its own facility. During Q1, ~55% of sanitaryware and faucetware sales came from the outsourcing model.

- About 70% of total revenue comes from retail and 30% from the institutional segment.
- Capex planned for FY22 is ~Rs 180mn.
- Cash on books as of 31 Jul 2021 is ~Rs 4.7bn.

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, becoming a one-stop bathroom solution provider.

We maintain estimates and have a new Jun'22 TP of Rs 4,375 on rollover (vs. Rs 4,145), based on an unchanged 30x FY23E P/E multiple, which is in line with the stock's five-year average. Though we like CRS for its strong brand, wide distribution, comprehensive portfolio and robust balance sheet, current valuations appear full at 33.4x FY23E P/E. We thus continue with our HOLD rating on the stock and await a better entry point.

Fig 7 – Key assumptions

(Rs mn)	FY21	FY22E	FY23E	FY24E
Sanitaryware	5,830	6,937	7,631	8,394
Growth (%)	(0.4)	19.0	10.0	10.0
Tiles	3,398	4,146	4,934	5,871
Growth (%)	10.7	22.0	19.0	19.0
Faucets	2,500	2,949	3,451	4,037
Growth (%)	(6.4)	18.0	17.0	17.0
Wellness	288	404	485	581
Growth (%)	(34.9)	40.0	20.0	20.0

Source: BOBCAPS Research

Fig 8 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	HOLD	995	19.5	24.2	29.8	20.1	23.4	32
Somany Ceramics	SOMC IN	BUY	640	16.4	21.8	29.1	13.2	15.3	22
Greenply Industries	MTLM IN	HOLD	210	18.0	8.9	10.5	22.4	21.5	20
Century Plyboard	CPBI IN	SELL	370	19.5	11.9	14.7	19.1	19.6	25
Greenpanel Industries	GREENP IN	BUY	315	25.1	12.2	16.4	14.3	18.6	18
Cera Sanitaryware	CRS IN	HOLD	4375	16.1	115.4	138.1	16.2	17.1	30
Astral	ASTRA IN	SELL	1210	16.3	20.2	25.2	20.3	22.6	48
Finolex Industries	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Industries	SI IN	HOLD	1990	11.2	56.2	63.4	22.6	21.5	30

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- **Fall in raw material prices:** CRS's key raw material is natural gas; any sharp decrease in prices may positively affect near-term profitability.
- **Sharp increase in housing market:** A strong increase in housing activity may result in above-expected revenue growth

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Total revenue	12,220	12,243	14,436	16,500	18,884
EBITDA	1,654	1,581	2,178	2,538	2,987
Depreciation	(388)	(396)	(410)	(432)	(457)
EBIT	1,266	1,185	1,769	2,106	2,530
Net interest inc./(exp.)	(101)	(97)	(66)	(58)	(45)
Other inc./(exp.)	65	252	291	337	425
Exceptional items	119	0	0	0	0
EBT	1,230	1,339	1,993	2,386	2,910
Income taxes	(243)	(340)	(502)	(601)	(733)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	27	9	10	12	15
Reported net profit	1,133	1,008	1,501	1,796	2,192
Adjustments	(119)	0	0	0	0
Adjusted net profit	1,013	1,008	1,501	1,796	2,192

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	953	1,554	1,345	1,447	1,656
Other current liabilities	2,102	2,186	2,334	2,577	2,949
Provisions	136	171	202	231	264
Debt funds	919	729	600	500	350
Other liabilities	299	303	335	367	399
Equity capital	65	65	65	65	65
Reserves & surplus	7,642	8,652	9,786	11,035	12,558
Shareholders' fund	7,707	8,717	9,851	11,100	12,623
Total liab. and equities	12,194	13,777	14,773	16,316	18,321
Cash and cash eq.	125	104	140	99	64
Accounts receivables	2,228	2,095	2,531	2,984	3,415
Inventories	2,430	1,997	2,413	2,758	3,156
Other current assets	737	670	831	949	1,086
Investments	2,283	4,743	4,800	5,500	6,630
Net fixed assets	4,373	4,147	4,037	4,006	3,949
CWIP	5	13	13	13	13
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	14,773	16,316	18,321

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Cash flow from operations	1,517	2,858	966	1,776	2,373
Capital expenditures	(450)	(140)	(300)	(400)	(400)
Change in investments	(504)	(2,460)	(57)	(700)	(1,130)
Other investing cash flows	(45)	5	(10)	(12)	(15)
Cash flow from investing	(999)	(2,595)	(367)	(1,112)	(1,545)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	13	(191)	(129)	(100)	(150)
Interest expenses	(101)	(97)	(66)	(58)	(45)
Dividends paid	(396)	0	(358)	(535)	(653)
Other financing cash flows	(103)	5	(10)	(12)	(15)
Cash flow from financing	(586)	(283)	(563)	(705)	(863)
Chg in cash & cash eq.	(68)	(20)	36	(41)	(34)
Closing cash & cash eq.	125	104	140	99	64

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	87.1	77.5	115.4	138.1	168.5
Adjusted EPS	77.9	77.5	115.4	138.1	168.5
Dividend per share	13.0	13.0	22.9	34.3	41.8
Book value per share	592.6	670.3	757.4	853.4	970.6

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	4.9	4.8	4.1	3.6	3.2
EV/EBITDA	35.9	37.5	27.2	23.4	20.0
Adjusted P/E	59.2	59.6	40.0	33.4	27.4
P/BV	7.8	6.9	6.1	5.4	4.8

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	75.1	75.2	75.3	75.3	75.3
Interest burden (PBT/EBIT)	106.6	113.0	112.7	113.3	115.0
EBIT margin (EBIT/Revenue)	10.4	9.7	12.3	12.8	13.4
Asset turnover (Rev./Avg TA)	101.4	94.3	101.1	106.1	109.0
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.5	1.5	1.5
Adjusted ROAE	13.8	12.3	16.2	17.1	18.5

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
YoY growth (%)					
Revenue	(9.4)	0.2	17.9	14.3	14.4
EBITDA	(15.8)	(4.4)	37.8	16.5	17.7
Adjusted EPS	0.3	(0.6)	49.0	19.7	22.0
Profitability & Return ratios (%)					
EBITDA margin	13.5	12.9	15.1	15.4	15.8
EBIT margin	10.4	9.7	12.3	12.8	13.4
Adjusted profit margin	8.3	8.2	10.4	10.9	11.6
Adjusted ROAE	13.8	12.3	16.2	17.1	18.5
ROCE	12.4	9.7	13.2	14.2	15.3
Working capital days (days)					
Receivables	78	64	58	61	62
Inventory	152	129	122	125	125
Payables	36	43	43	36	36
Ratios (x)					
Gross asset turnover	2.1	2.0	2.2	2.4	2.6
Current ratio	1.5	1.2	1.4	1.5	1.5
Net interest coverage ratio	12.6	12.2	26.6	36.5	56.7
Adjusted debt/equity	0.1	0.1	0.0	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%

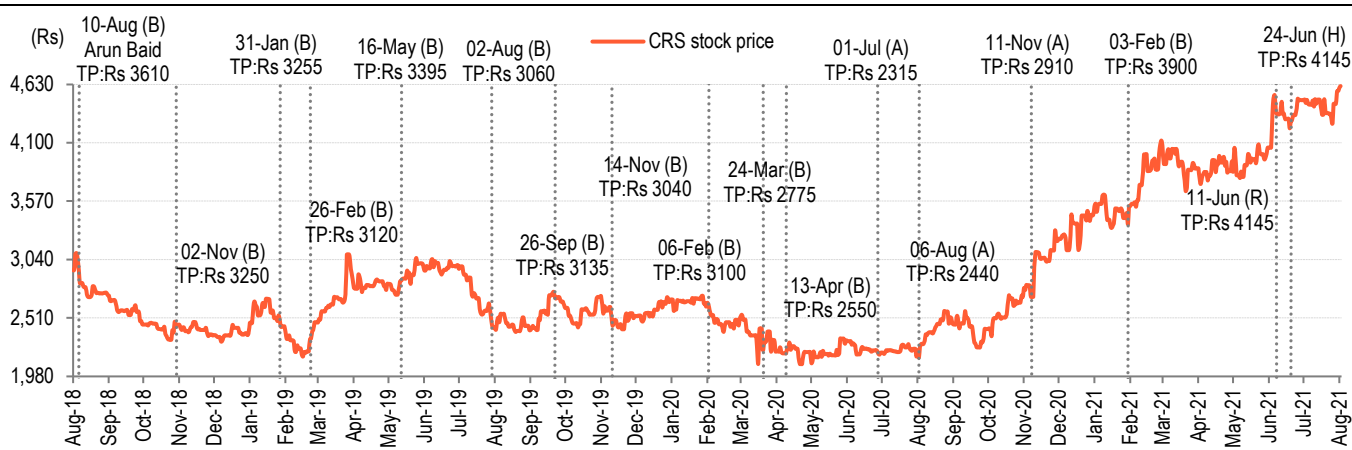
HOLD – Expected return from -6% to +15%

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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