

HOLD

TP: Rs 7,700 | ▲ 2%

CERA SANITARYWARE

Building Materials

13 February 2024

Weak quarter on soft demand, marketing expense

- Q3 EBITDA fell 18% YoY and missed our estimate by 28% on subdued demand and higher brand & sales promotion expense
- Management sees demand blip as temporary and expects improvement over next two quarters due to uptick in real estate cycle
- TP cut by 5% to Rs 7,700 on 5-6% reduction in our EPS estimates for FY24-FY26; maintain HOLD

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Weak quarter: CRS’s revenue/EBITDA/PAT fell by 4%/18%/10% YoY in Q3FY24. The company missed our EBITDA estimate by 28% due to below-expected revenue growth (-4% vs. +11% estimated) and a weak EBITDA margin (-240bps YoY to 14% vs. 16.8% estimated) that stemmed from higher brand spend (+120bps) and an increase in sales promotion expense (+70bps). However, on a 4Y CAGR basis, revenue/EBITDA grew 7.8%/8.2% in Q3.

Key highlights: CRS appears to have lost market share as it posted inferior bathware revenue growth (-3.1% YoY) compared to HINDWARE (+5.6%) for the quarter. Its sanitaryware revenue fell 8% YoY whereas faucet revenue grew 5%.

Demand guided to improve: Management believes that the slowdown in demand over the past three months (November-January) is temporary in nature and expects a pickup over the next couple of quarters, supported by an uptick in real estate activity.

Greenfield unit in land acquisition phase: For the greenfield sanitaryware unit in Gujarat, CRS acquired 75% of the land bank in Jan’24 and expects to buy the remainder by June. Thereafter, it aims to start construction and complete the project over 18 months at a cost of Rs 1.25bn-1.3bn, funded from internal accruals.

Maintain HOLD, TP cut by 5%: CRS is currently trading at 36.5x on 1Y forward P/E vs. the 5Y average of 32.1x. We reiterate HOLD due to the company’s poor capital allocation (high cash balance of Rs 7.6bn as of Dec’23 with no concrete usage plan) and expensive valuations. Our TP stands reduced to Rs 7,700 (from Rs 8,100) following a 5-6% cut in our FY24-FY26 EPS estimates as we factor in the weak Q3 result. Our target P/E remains unchanged at 35x on Sep’25E EPS – a slight premium to the stock’s historical multiple due to the rerating of valuation multiples across building materials stocks over the past few months.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CRS IN/Rs 7,535
Market cap	US\$ 1.2bn
Free float	46%
3M ADV	US\$ 1.6mn
52wk high/low	Rs 9,740/Rs 5,873
Promoter/FPI/DII	54%/21%/8%

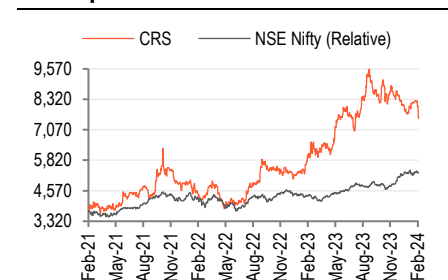
Source: NSE | Price as of 13 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,035	19,034	21,122
EBITDA (Rs mn)	2,939	3,048	3,419
Adj. net profit (Rs mn)	2,138	2,432	2,708
Adj. EPS (Rs)	164.4	187.0	208.2
Consensus EPS (Rs)	164.4	199.0	234.7
Adj. ROAE (%)	19.3	19.2	18.7
Adj. P/E (x)	45.8	40.3	36.2
EV/EBITDA (x)	34.9	34.1	30.7
Adj. EPS growth (%)	35.4	13.8	11.3

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total operating income	4,389	4,578	(4.1)	4,637	(5.3)	13,315	12,710	4.8
Raw-Material expense	2,004	2,082	(3.8)	2,186	(8.3)	6,127	5,766	6.2
Gross Profit	2,386	2,496	(4.4)	2,451	(2.7)	7,189	6,943	3.5
Employee expense	567	539	5.2	585	(3.1)	1,728	1,592	8.5
Other expense	1,204	1,207	(0.3)	1,102	9.3	3,378	3,293	2.6
EBITDA	614	750	(18.1)	765	(19.6)	2,083	2,058	1.2
D&A	97	85	13.4	89	8.4	269	243	10.8
EBIT	518	665	(22.1)	676	(23.3)	1,814	1,815	(0.0)
Interest cost	16	14	9.6	14	14.7	43	39	8.6
Non-operating expense/(income)	(160)	(132)	20.6	(110)	45.5	(422)	(438)	(3.6)
PBT	662	783	(15.5)	772	(14.2)	2,194	2,213	(0.9)
Tax	147	214	(31.5)	198	(25.9)	538	529	1.7
Reported PAT	515	569	(9.4)	574	(10.2)	1,656	1,685	(1.7)
Adjusted PAT	509	564	(9.8)	581	(12.4)	1,652	1,467	12.7
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	54.4	54.5	(18)	52.9	149	54.0	54.6	(64)
Employee cost	12.9	11.8	114	12.6	30	13.0	12.5	45
Other cost	27.4	26.4	107	23.8	368	25.4	25.9	(55)
EBITDA margin	14.0	16.4	(238)	16.5	(249)	15.6	16.2	(54)
Tax rate	22.2	27.3	(519)	25.6	(348)	24.5	23.9	63
APAT margin	11.6	12.3	(73)	12.5	(93)	12.4	11.5	87

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

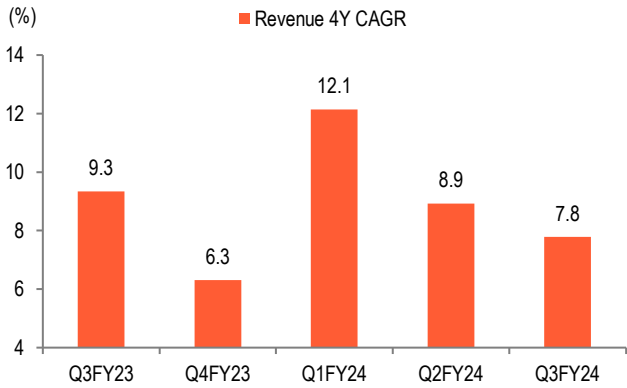
Segment (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Sanitaryware	2,252	2,448	(8.0)	2,347	(4.0)	6,867	6,818	0.7
Faucetware	1,567	1,493	5.0	1,643	(4.6)	4,679	4,273	9.5
Tiles	435	537	(19.0)	523	(16.8)	1,402	1,327	5.6
Wellness	95	74	29.0	91	4.1	272	224	21.8
Others	40	27	47.4	34	19.2	95	69	39.0
Total	4,389	4,578	(4.1)	4,637	(5.3)	13,315	12,710	4.8

Source: Company, BOBCAPS Research

Earnings call highlights

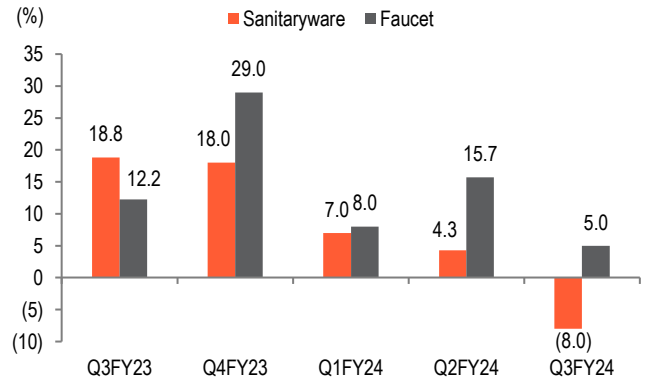
- **Demand:** CRS witnessed healthy growth in the month of Oct'23, but the demand environment slowed thereafter over the three months from November to January. Management believes the slowdown is temporary in nature and expects demand to pick up over the next couple of quarters, supported by an uptick in real estate and home renovation activity.
- **Pricing:** The company took a 2% price hike for sanitaryware products in the month of February.
- **Launches:** A total of 74 new products were launched in Q3FY24. Products introduced over the past three years accounted for 32% of the quarter's sales.
- **EBITDA margin:** The Q3 operating margin contracted by 240bps YoY to 14% due to higher advertising spend (from 3.8% of sales in Q3FY23 to 5%) and sales promotion expense on account of schemes provided to dealers in response to weak market conditions.
- **Gas cost:** Blended gas cost reduced from Rs 33/cbm in Q2FY24 to Rs 32/cbm in Q3FY24 due to an increase in share of subsidised gas from GAIL (from 70% in Q2FY24 to 82% in Q3FY24).
- **Faucet capex:** The company expanded its faucet capacity from 3.6mn pieces to 4.8mn pieces in Sep'23. It also completed civil construction work in Q3FY24 that would enable it to expand capacity to 7.2mn pieces in future at minimal cost.
- **Sanitaryware capex:** CRS acquired 75% of the land bank for its greenfield sanitaryware unit in Gujarat in Jan'24 and expects to buy the remaining land by June. Thereafter, it aims to start construction and complete the project over 18 months at an estimated cost of Rs 1.25bn-1.3bn, funded from internal accruals.
- **Working capital:** The company's working capital cycle remained stable QoQ at 60 days in Q3FY24.
- **Net cash:** The net cash position has gone up from Rs 7.51bn in Sep'23 to Rs 7.58bn in Dec'23.
- **Capital allocation:** CRS may explore a buyback to return excess cash to shareholders.

Fig 3 – CRS’s revenue fell 4.1% YoY but grew at 7.8% on 4Y CAGR basis in Q3FY24



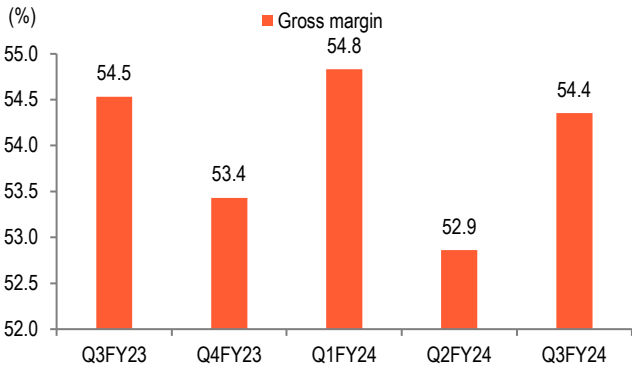
Source: Company, BOBCAPS Research

Fig 4 – Sanitaryware revenue declined 8% YoY whereas faucet revenue grew 5%



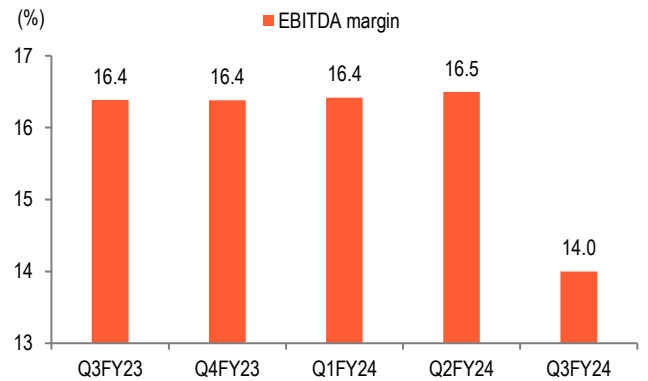
Source: Company, BOBCAPS Research

Fig 5 – Gross margin was relatively stable (-18bps YoY)...



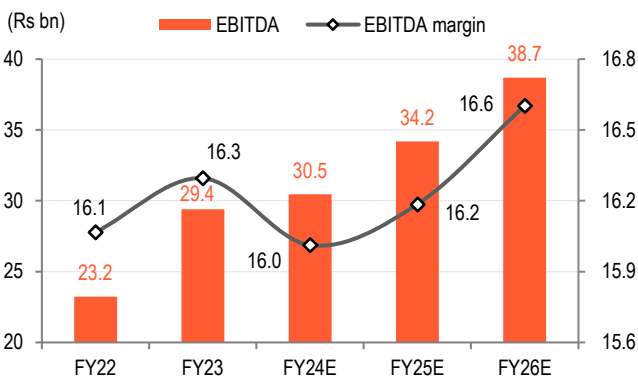
Source: Company, BOBCAPS Research

Fig 6 – ...but EBITDA margin fell sharply by 240bps YoY on higher A&P spend



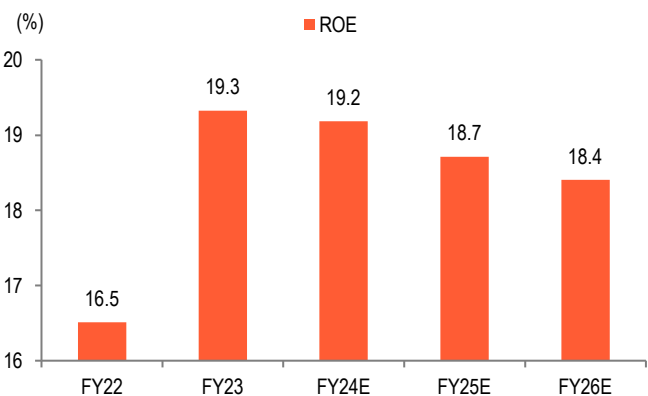
Source: Company, BOBCAPS Research

Fig 7 – CRS’s EBITDA is forecast to clock a 9.6% CAGR over FY23-FY26E



Source: Company, BOBCAPS Research

Fig 8 – ROE profile is likely to moderate on a rising cash balance, but will still remain healthy



Source: Company, BOBCAPS Research

Valuation methodology

CRS is currently trading at 36.5x one-year forward P/E as against its five-year average of 32.1x. We reiterate our HOLD rating due to the company’s poor capital allocation (high cash balance of Rs 7.6bn as of Dec’23 with no concrete usage plan) and expensive valuations.

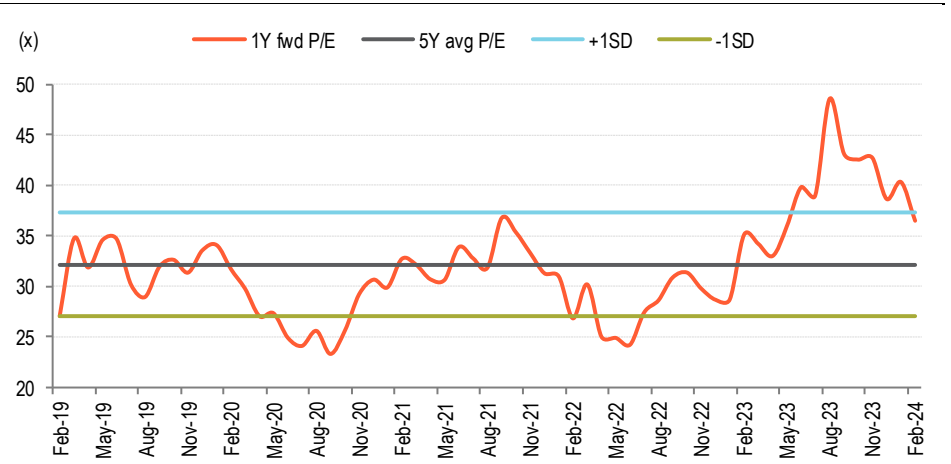
Our TP stands reduced to Rs 7,700 (from Rs 8,100) following a 5-6% cut in our FY24-FY26 EPS estimates as we factor in the weak Q3FY24 result. Our target P/E remains unchanged at 35x on Sep’25E EPS – a slight premium to the stock’s historical multiple due to the rerating of valuation multiples across building materials stocks over the past few months. For a detailed sector view, see our report of 17 January: [Strong foundations](#).

Fig 9 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	19.0	21.1	23.3	19.9	22.3	25.1	(4.6)	(5.5)	(7.3)
EBITDA	3.0	3.4	3.9	3.3	3.7	4.2	(8.3)	(7.7)	(7.9)
EBITDA Margin (%)	16.0	16.2	16.6	16.7	16.6	16.7	(66bps)	(39bps)	(12bps)
Adjusted PAT	2.4	2.7	3.0	2.6	2.8	3.2	(5.3)	(4.5)	(6.0)
EPS (Rs)	187.0	208.2	233.2	197.5	218.1	248.2	(5.3)	(4.5)	(6.0)

Source: BOBCAPS Research

Fig 10 – Trading at 36.5x on 1Y forward P/E vs 5Y average of 32.1x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue Mix (%)						
Sanitaryware	48.5	52.7	53.6	52.0	50.8	49.3
Faucetware	28.3	33.2	34.1	35.4	36.5	38.1
Tiles	20.8	12.2	10.6	10.6	10.7	10.7
Wellness	2.4	1.9	1.8	2.0	1.9	1.9
Revenue Growth (%)						
Sanitaryware	(0.5)	30.2	26.8	2.5	8.8	7.0
Faucetware	10.4	41.0	28.0	9.7	15.0	15.0
Tiles	(6.7)	(29.7)	8.4	5.4	13.5	10.0
Wellness	(34.1)	(6.9)	16.9	18.3	10.0	10.0
Total	0.1	18.1	24.7	5.5	11.0	10.3
EBITDA margin	12.9	16.1	16.3	16.0	16.2	16.6

Source: Company, BOBCAPS Research

Key risks

- Market share gains in sanitaryware and better utilisation of surplus cash would be key upside risks to our estimates.
- Market share loss in faucetware would be a key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.4	737	600	SELL
Astral	ASTRA IN	6.2	1,900	2,000	HOLD
Century Plyboards	CPBI IN	2.0	748	700	HOLD
Cera Sanitaryware	CRS IN	1.2	7,535	7,700	HOLD
Finolex Industries	FNXP IN	1.6	219	230	HOLD
Greenlam Industries	GRLM IN	0.8	520	500	HOLD
Greenpanel Industries	GREENP IN	0.6	369	400	HOLD
Greenply Industries	MTLM IN	0.3	232	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	430	700	BUY
Kajaria Ceramics	KJC IN	2.4	1,219	1,400	HOLD
Prince Pipes & Fittings	PRINCEPIP IN	0.8	596	650	HOLD
Somany Ceramics	SOMC IN	0.3	687	900	BUY
Supreme Industries	SI IN	6.1	3,914	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	14,458	18,035	19,034	21,122	23,298
EBITDA	2,323	2,939	3,048	3,419	3,868
Depreciation	324	326	358	393	438
EBIT	1,999	2,613	2,689	3,026	3,430
Net interest inc./(exp.)	(53)	(60)	(53)	(40)	(40)
Other inc./(exp.)	236	356	595	633	664
Exceptional items	36	9	0	0	0
EBT	2,147	2,899	3,231	3,619	4,054
Income taxes	560	738	795	911	1,020
Extraordinary items	57	50	16	0	0
Min. int./Inc. from assoc.	(18)	(16)	0	0	0
Reported net profit	1,511	2,094	2,421	2,708	3,034
Adjustments	68	44	12	0	0
Adjusted net profit	1,579	2,138	2,432	2,708	3,034

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	1,335	2,069	2,188	2,428	2,678
Other current liabilities	2,762	1,523	1,523	1,523	1,523
Provisions	24	131	138	154	169
Debt funds	267	253	212	233	256
Other liabilities	836	958	958	958	958
Equity capital	65	65	65	65	65
Reserves & surplus	10,086	11,661	13,352	15,248	17,371
Shareholders' fund	10,294	11,832	13,524	15,419	17,543
Total liab. and equities	15,517	16,766	18,542	20,714	23,126
Cash and cash eq.	5,689	6,607	7,813	8,855	10,518
Accounts receivables	1,648	1,892	1,996	2,215	2,443
Inventories	2,937	3,825	3,614	3,970	4,379
Other current assets	1,622	415	439	487	537
Investments	82	31	31	31	31
Net fixed assets	3,207	3,138	3,710	3,517	4,379
CWIP	7	169	250	950	150
Intangible assets	163	256	256	256	256
Deferred tax assets, net	0	0	0	0	0
Other assets	163	433	433	433	433
Total assets	15,517	16,766	18,542	20,714	23,126

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	988	1,713	2,461	2,140	2,426
Capital expenditures	468	(514)	(1,011)	(900)	(500)
Change in investments	0	52	0	0	0
Other investing cash flows	144	296	579	633	664
Cash flow from investing	611	(165)	(432)	(267)	164
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(570)	(13)	(42)	22	23
Interest expenses	(53)	(60)	(53)	(40)	(40)
Dividends paid	(455)	(650)	(730)	(812)	(910)
Other financing cash flows	385	78	0	0	0
Cash flow from financing	(693)	(646)	(824)	(831)	(927)
Chg in cash & cash eq.	905	902	1,206	1,042	1,663
Closing cash & cash eq.	5,264	7,461	10,997	15,565	22,158

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	116.2	161.0	186.1	208.2	233.2
Adjusted EPS	121.4	164.4	187.0	208.2	233.2
Dividend per share	35.0	50.0	56.1	62.5	70.0
Book value per share	780.5	901.6	1,031.6	1,177.4	1,340.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.9	5.7	5.5	5.0	4.6
EV/EBITDA	43.2	34.9	34.1	30.7	27.4
Adjusted P/E	62.1	45.8	40.3	36.2	32.3
P/BV	9.7	8.4	7.3	6.4	5.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	73.5	73.8	75.3	74.8	74.8
Interest burden (PBT/EBIT)	107.4	110.9	120.1	119.6	118.2
EBIT margin (EBIT/Revenue)	13.8	14.5	14.1	14.3	14.7
Asset turnover (Rev./Avg TA)	93.2	107.6	102.7	102.0	100.7
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.4
Adjusted ROAE	16.5	19.3	19.2	18.7	18.4

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	18.1	24.7	5.5	11.0	10.3
EBITDA	46.9	26.5	3.7	12.2	13.1
Adjusted EPS	56.6	35.4	13.8	11.3	12.0
Profitability & Return ratios (%)					
EBITDA margin	16.1	16.3	16.0	16.2	16.6
EBIT margin	13.8	14.5	14.1	14.3	14.7
Adjusted profit margin	10.9	11.9	12.8	12.8	13.0
Adjusted ROAE	16.5	19.3	19.2	18.7	18.4
ROCE	21.2	24.6	23.9	23.4	23.0
Working capital days (days)					
Receivables	42	38	38	38	38
Inventory	74	77	69	69	69
Payables	34	42	42	42	42
Ratios (x)					
Gross asset turnover	2.5	3.4	3.2	3.3	3.2
Current ratio	2.7	3.2	3.4	3.6	3.9
Net interest coverage ratio	37.8	43.2	51.0	75.6	85.7
Adjusted debt/equity	(0.5)	(0.5)	(0.6)	(0.6)	(0.6)

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

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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

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

BUY – Expected return >+15%

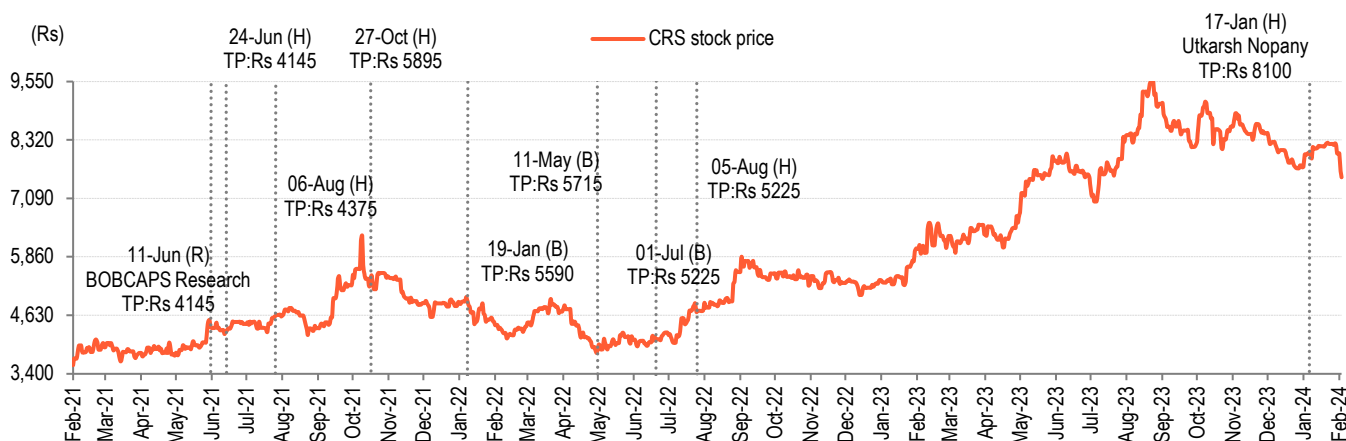
HOLD – Expected return from -6% to +15%

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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