

REDUCE

TP: Rs 4,145 | ▼ 5%

CERA SANITARYWARE

Construction Materials

11 June 2021

Good quarter; cut to REDUCE on limited upside

- CRS reported Q4FY21 consolidated revenue growth of 47% YoY off a tepid base, with the sanitaryware/faucet segments increasing 47%/62%
- Despite gross margin contraction, operating margin expanded 180bps YoY to 16% due to lower employee/other expenses
- We raise FY22/FY23 PAT 2%/6% and revise our TP to Rs 4,145 (vs. Rs 3,900) – cut to REDUCE from BUY as upside looks limited post the recent rally

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Strong revenue growth aided by tepid base: CRS reported a 47% YoY increase in consolidated revenue to Rs 4.4bn in Q4 aided by a tepid base due to the lockdown last year. The sanitaryware segment grew 47% YoY, faucets 62% and tiles 39%. For FY21, CRS has reported flat revenue with faucets growing ~10% whereas the tiles segment declined 7% and sanitaryware was flat YoY. As per management, sanitaryware revenue growth could have been ~Rs 350mn higher but was hampered by labour issues in Q3. The plant ran at ~85% utilisation in Q4 and is now fully operational.

Management outlook upbeat: Management believes demand will remain strong and has guided for 17-18% revenue growth in FY22, with sales lost in April-May due to the second pandemic wave likely to be recouped during the rest of the year. The company has a target of doubling the topline over the next five years. Working capital improved by 22 days YoY to 52 days during FY21 but may increase going ahead due to build-up of inventory to meet the strong demand.

Operating margin expands: Despite gross margin shrinkage of 490bps YoY, CRS's consolidated EBITDA margin increased 180bps YoY to 16% due to lower employee/ other expenses (-411bps/-255bps YoY) – this aided EBITDA and PBT growth of 66% and 79% YoY respectively. Gross margin contracted due to higher raw material prices and also due to costs incurred on moulds in the sanitaryware plant. Other expenses declined on the back of cost rationalisation measures. Management expects operating margin to hold at 14.5-15.5% as it has taken price hikes to cover the higher RM cost.

Downgrade to REDUCE on limited upside: CRS's Q4 results have been better than our expectations – we raise FY22/FY23 PAT estimates by 2%/6%, which translates to a new Mar'22 TP of Rs 4,145 (vs. Rs 3,900). We 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, we downgrade the stock from BUY to REDUCE as upsides look capped following the 30% run-up in stock price over the past 4 months. CRS is currently trading at 31.6x FY23E EPS.

Key changes

Target	Rating
▲	▼

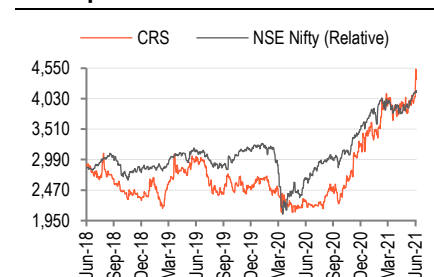
Ticker/Price	CRS IN/Rs 4,360
Market cap	US\$ 776.1mn
Free float	46%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 4,895/Rs 2,121
Promoter/FPI/DII	54%/15%/30%

Source: NSE | Price as of 11 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
Cons. EPS (Rs)	74.2	112.9	135.4
Adj. ROAE (%)	12.3	16.2	17.1
Adj. P/E (x)	56.3	37.8	31.6
EV/EBITDA (x)	35.4	25.7	22.1
Adj. EPS growth (%)	(0.6)	49.0	19.7

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

Stock performance

Source: NSE



Fig 1 – Consolidated quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Total revenues	4,384	2,978	47.2	3,158	38.8	12,243	12,237	0.1
Total raw material consumed	2,164	1,325	63.3	1,694	27.7	6,268	5,503	13.9
% of sales	49.4	44.5	488bps	53.7	(430bps)	52.2	45.5	665bps
Employee exps	483	451	7.3	357	35.4	1,537	1,707	(10.0)
% of sales	11.0	15.1	(411bps)	11.3	(28bps)	12.8	14.1	(133bps)
Other exp	1,036	780	32.8	675	53.6	2,858	3,372	(15.3)
% of sales	23.6	26.2	(255bps)	21.4	227bps	23.8	27.9	(411bps)
Total expenditure	3,683	2,555	44.1	2,726	35.1	10,663	10,582	0.8
% of sales	84.0	85.8	(178bps)	86.3	(232bps)	88.7	87.5	121bps
EBITDA	701	423	65.7	432	62.4	1,581	1,655	(4.5)
% of sales	16.0	14.2	178bps	13.7	232bps	13.2	13.7	(53bps)
Depreciation	100	106	(5.0)	100	0.5	396	388	2.1
Other income	43	52	(17.9)	94	(54.3)	252	182	38.1
Interest cost	28	27	5.8	23	22.2	97	101	(3.2)
PBT	616	343	79.3	403	52.8	1,339	1,349	(0.7)
Taxes	139	(13.3)	(1,144)	96.1	44.5	340	243	39.7
Effective tax rate (%)	22.5	(3.9)	NM	23.8	(129bps)	25.4	18.0	735bps
PAT before minority interest/associates	477	357	33.7	307	55.4	999	1105	(9.6)
Less: Minority interest	22	(14)	(255.6)	8	174.5	(8)	(27)	(69)
Add: Share of profit in associate	2.4	2.0	0.2	0.2	1050.5	0.5	0.6	(0.3)
RPAT	458	372	22.9	299	53	1,008	1,133	(11.0)

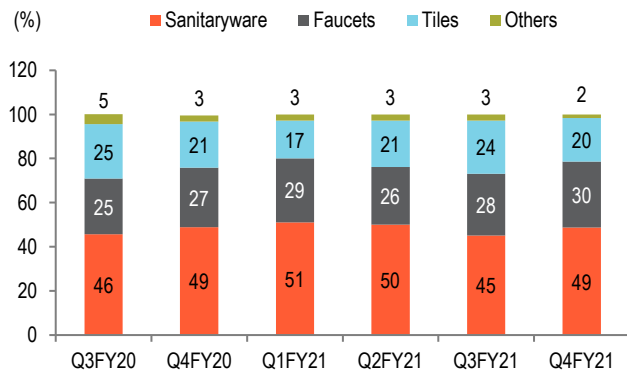
Source: Company, BOBCAPS Research

Fig 2 – Standalone quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Total revenues	4,314	2,932	47.1	3,098	39.2	12,017	12,092	(0.6)
Total raw material consumed	2,278	1,391	63.8	1,801	26.5	6,473	5,852	10.6
% of sales	52.8	47.4	537bps	58.1	(532bps)	53.9	48.4	547bps
Employee exps	428	387	10.8	342	25.3	1,443	1,604	(10.0)
% of sales	9.9	13.2	(326bps)	11.0	(111bps)	12.0	13.3	(125bps)
Other exp	976	731	33.6	559	74.7	2,601	3,015	(13.7)
% of sales	22.6	24.9	(229bps)	18.0	460bps	21.6	24.9	(329bps)
Total expenditure	3,682	2,508	46.8	2,701	36.3	10,518	10,470	0.5
% of sales	85	85.5	(18bps)	87.2	(182bps)	88	86.6	93bps
EBITDA	631	424	48.9	397	59.0	1,500	1,621	(7.5)
% of sales	14.6	14.5	18bps	12.8	182bps	12.5	13.4	(93bps)
Depreciation	83.9	90.5	(7.3)	83.9	0.1	332.3	326.7	1.7
Other income	24.7	42.5	(42.0)	85.0	(71.0)	217.9	155.6	40.1
Interest cost	13.8	11.6	19.1	9.5	45.2	42.7	44.0	(3.1)
PBT	558	364	53.2	389	43.6	1,342	1,406	(4.5)
Taxes	128.3	(20.3)	(732.2)	97.8	31.1	329.4	246.7	33.5
Effective tax rate (%)	23.0	(5.6)	NM	25.2	(220bps)	24.5	17.5	700bps
APAT	430	385	11.8	291	47.9	1,013	1,159	(12.6)

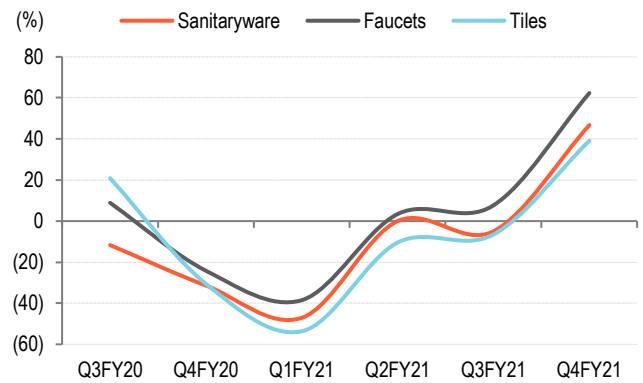
Source: Company, BOBCAPS Research

Fig 3 – Consolidated revenue break-up



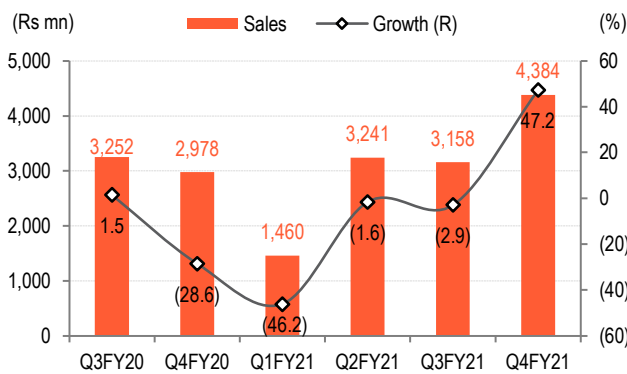
Source: Company, BOBCAPS Research

Fig 4 – Segmental growth YoY



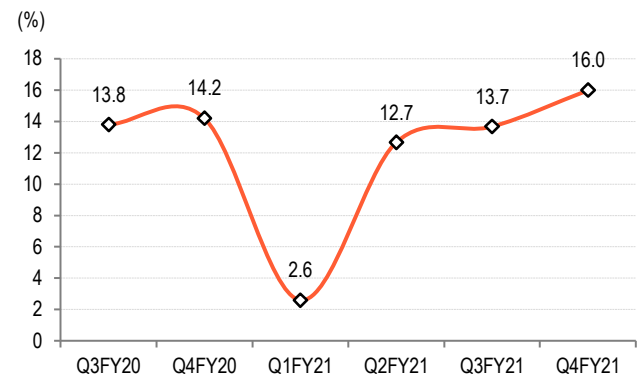
Source: Company, BOBCAPS Research

Fig 5 – Consolidated sales growth



Source: Company, BOBCAPS Research

Fig 6 – Consolidated EBITDA margin



Source: Company, BOBCAPS Research

Earnings call highlights

- CRS saw good demand across the sanitaryware and faucet segments in Q4FY21, especially in tier-2-and-below cities. As per management, lower interest rates have created strong demand for housing which is aiding growth.
- The company’s Kadi sanitaryware plant took time to ramp-up after labour issues were sorted in Q3 – management estimates this caused a sales loss of ~Rs 350mn from the segment in Q4. CRS also had to reinvest in moulds and thus plant utilisation was lower at ~85%. The plant now is running at full capacity and will be able to cater to demand going ahead.
- As per management, the demand environment should remain robust in both sanitaryware and faucets. It expects to recoup sales lost in the first two months of FY22 due to lockdowns, with growth for the year guided at 17-18% and operating margin to hold in the range of 14.5-15.5%.
- CRS aims to double revenue over the next five years. Tier-2 and tier-3 remain focus markets. These contributed 72% of revenue in FY21.
- The company took a 5-7% price increase in sanitaryware from Feb’21 and an 8-10% hike in faucets due to higher RM prices.

- CRS will continue to focus on outsourcing and will only make high-end value-added products at its own facility.
- About 50% of sales in tiles have been migrated to the cash-and-carry model. Also, all incremental dealers added in the segment are on cash-and-carry.
- Tiles segment profitability should improve as 55% of sales are from high-margin products such as GVT and double charged tiles.
- About 70% of total revenue comes from retail and 30% from institutional segment.
- Capex planned for FY22 is ~Rs 250mn.

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 raise our FY22-FY23 earnings estimates by 2-6% due to continued demand tailwinds and revise our Mar'22 TP to Rs 4,145 (vs. Rs 3,900), set at an unchanged 30x FY23E P/E – in line with the five-year average. While we continue to like CRS for its strong brand, wide distribution, comprehensive portfolio and robust balance sheet, we downgrade our rating from BUY to REDUCE due to limited upside following the 30% run-up in stock price over the past 4 months.

Fig 7 – Revised estimates

(Rs mn)	Old		New		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	14,392	16,135	14,436	16,500	0.3	2.3
EBITDA	2,154	2,450	2,178	2,538	1.1	3.6
PAT	1,476	1,691	1,501	1,796	1.7	6.2

Source: BOBCAPS Research

Fig 8 – Peer comparison

Company	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
				FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	REDUCE	780	18	21.8	25.9	19.1	21.6	30
Somany Ceramics	BUY	490	17	19.7	24.4	12.1	13.3	20
Greenply Industries	BUY	195	17	9.2	10.8	23.5	22.9	18
Century Plyboard	SELL	370	19	11.9	14.7	19.1	19.6	25
Greenpanel Industries	BUY	295	24	12.1	16.3	18.4	20.4	18
Cera Sanitaryware	REDUCE	4145	16	115.4	138.1	16.2	17.1	30
Astral Ltd	SELL	1210	16	20.2	25.2	20.3	22.6	48
Finolex Industries	ADD	135	1	5.7	6.1	15.0	14.7	22
Supreme Industries	SELL	1805	8	52.8	60.1	20.2	20.8	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)	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	4.2	4.6	4.6	3.9	3.4
EV/EBITDA	28.6	33.9	35.4	25.7	22.1
Adjusted P/E	56.1	56.0	56.3	37.8	31.6
P/BV	8.1	7.4	6.5	5.8	5.1

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%

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

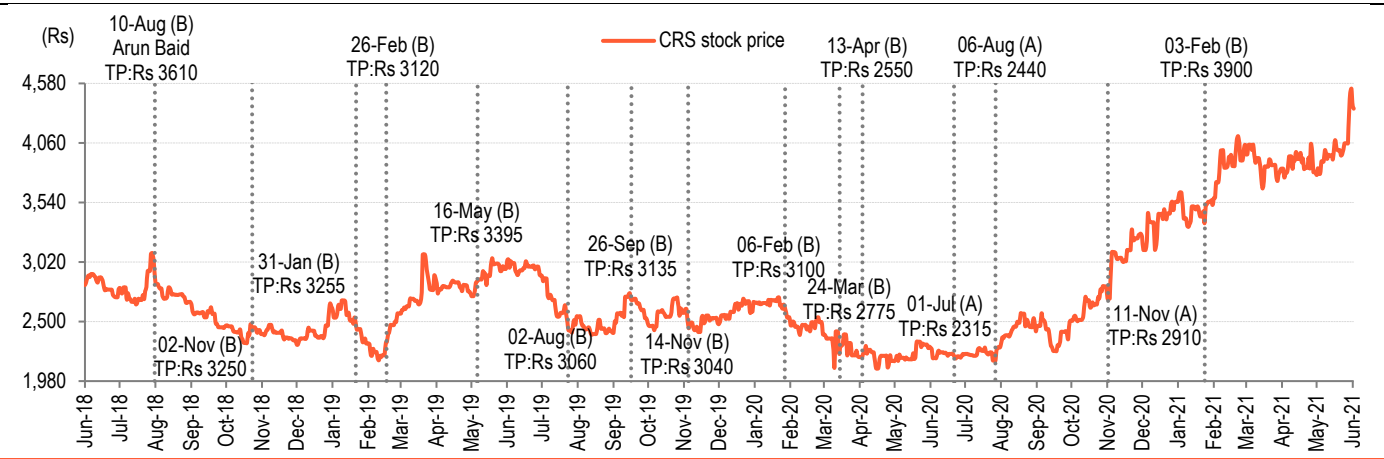
REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

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

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, A – Add, R – Reduce, S – Sell

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