

HOLD

TP: Rs 7,700 | ▲ 11%

CERA SANITARYWARE

Building Materials

14 May 2024

Another lacklustre quarter on soft demand

- Sharp contraction in gross margin in Q4FY24 on higher discounts offered to dealers to push volumes in a weak demand environment
- CRS aims to grow its revenue at 16% CAGR over FY24-FY27, which appears to be quite optimistic based on historical performance
- Maintain HOLD with unchanged TP of Rs 7,700 on moderation in ROE profile amid poor capital allocation and expensive valuations

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Weak quarter: CRS missed our revenue estimate for Q4FY24 by 3.1%, but still managed to beat our EBITDA/APAT estimate by 3.2%/3.3% mainly due to a steep decline in advertising spend (-180bps YoY to 2.7%). Overall, CRS revenue/EBITDA/PAT grew by 2.5%/5.0%/12.7% YoY in Q4FY24. The company posted muted revenue growth for the past four consecutive quarters due to a weak demand environment. On a 5-year CAGR basis, CRS revenue/EBITDA grew at 5.6%/7.4% rate in Q4FY24.

Key highlights: CRS's gross margin fell sharply by 292bps YoY to 50.8% in Q4FY24 due to higher discounts offered to dealers to push volumes in a weak market. Sanitaryware revenue de-grew by 2.4% YoY whereas faucet revenue grew by 9.5% YoY in Q4FY24. CRS sanitaryware revenue was relatively flat (-0.3% YoY) for FY24. As per management, CRS has not lost market share in the sanitaryware segment in FY24.

Positive medium-term outlook: The company expects the demand environment to remain weak in Q1FY25, but to improve from Q2FY25 supported by an uptick in real estate activity. The company targets its revenue to grow at 16% CAGR over FY24-FY27, which appears to be over optimistic based on historical performance. The company also expects its margin profile to improve due to focus on increasing the contribution of premium and luxury products and increased cost efficiencies. The land acquisition for the proposed greenfield sanitaryware unit is expected to be completed by Jun-Jul'24 and then it would take another 18 months to complete the product at a cost of Rs 1.25bn-1.3bn.

Maintain HOLD: We maintain our HOLD rating on the stock due to moderation in ROE profile on the back of poor capital allocation (no concrete plan to use the rising cash balance) and expensive valuations (trades at 33.7x on 1Y forward P/E vs 5Y average of 32.4x). We have reduced our EPS estimates (-2.8%/-5.7% for FY25/FY26) based on the weak Q4FY24 result, but we have kept our TP unchanged at Rs 7,700 as we roll forward our valuation from Sep'25 to Mar'26. Our target P/E remains unchanged at 35x on Mar'26E EPS.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CRS IN/Rs 6,944
Market cap	US\$ 1.1bn
Free float	46%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 9,740/Rs 6,591
Promoter/FPI/DII	54%/21%/8%

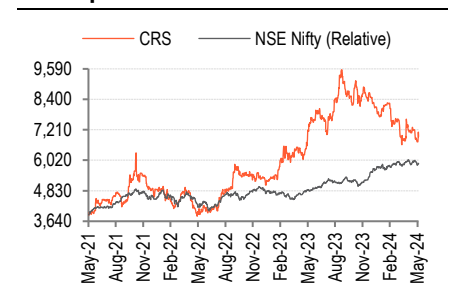
Source: NSE | Price as of 14 May 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	18,794	20,593	22,778
EBITDA (Rs mn)	3,033	3,317	3,668
Adj. net profit (Rs mn)	2,402	2,633	2,861
Adj. EPS (Rs)	184.7	202.5	220.0
Consensus EPS (Rs)	184.7	210.0	246.1
Adj. ROAE (%)	18.9	18.2	17.5
Adj. P/E (x)	37.6	34.3	31.6
EV/EBITDA (x)	31.7	29.4	26.9
Adj. EPS growth (%)	12.3	9.6	8.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Total operating income	5,488	5,356	2.5	4,389	25.0	18,803	18,066	4.1
Raw-Material expense	2,701	2,480	8.9	2,004	34.8	8,828	8,246	7.1
Gross Profit	2,787	2,876	(3.1)	2,386	16.8	9,975	9,819	1.6
Employee expense	581	554	4.9	567	2.6	2,309	2,147	7.6
Other expense	1,256	1,417	(11.4)	1,204	4.3	4,633	4,710	(1.6)
EBITDA	950	905	5.0	614	54.5	3,033	2,962	2.4
D&A	97	83	15.9	97	0.1	365	326	12.1
EBIT	853	821	3.9	518	64.7	2,667	2,636	1.2
Interest cost	15	21	(26.8)	16	(1.7)	58	60	(3.8)
Non-operating expense/(income)	(157)	(41)	279.9	(160)	(1.5)	(580)	(273)	112.1
PBT	995	841	18.2	662	50.3	3,188	2,849	11.9
Tax	238	210	13.3	147	62.1	775	738	5.0
Reported PAT	757	632	19.9	515	46.9	2,413	2,111	14.3
Adjusted PAT	749	665	12.7	509	47.3	2,402	2,132	12.7
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	50.8	53.7	(292)	54.4	(357)	53.1	54.4	(130)
Employee cost	10.6	10.3	24	12.9	(232)	12.3	11.9	40
Other cost	22.9	26.5	(357)	27.4	(455)	24.6	26.1	(143)
EBITDA margin	17.3	16.9	41	14.0	330	16.1	16.4	(27)
Tax rate	23.9	24.9	(104)	22.2	174	24.3	25.9	(160)
APAT margin	13.7	12.4	124	11.6	206	12.8	11.8	97

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

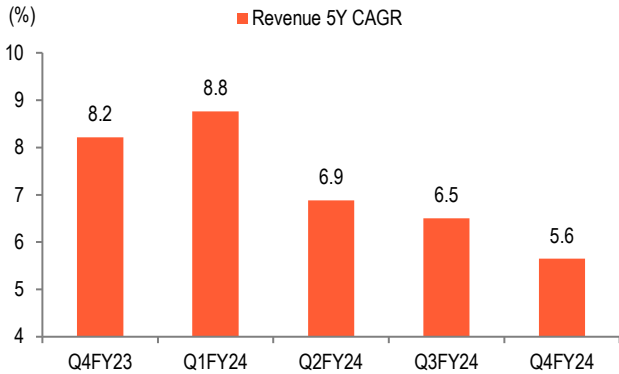
Revenue (Rs mn)	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Sanitaryware	2,730	2,797	(2.4)	2,252	21.2	9,597	9,614	(0.2)
Faucetware	2,020	1,845	9.5	1,567	28.9	6,699	6,118	9.5
Tiles	510	570	(10.5)	435	17.2	1,912	1,897	0.8
Wellness	111	92	21.0	95	17.2	384	316	21.5
Others	117	53	122.0	40	191.6	212	121	75.0
Total	5,488	5,356	2.5	4,389	25.0	18,803	18,066	4.1

Source: Company, BOBCAPS Research

Earnings call highlights

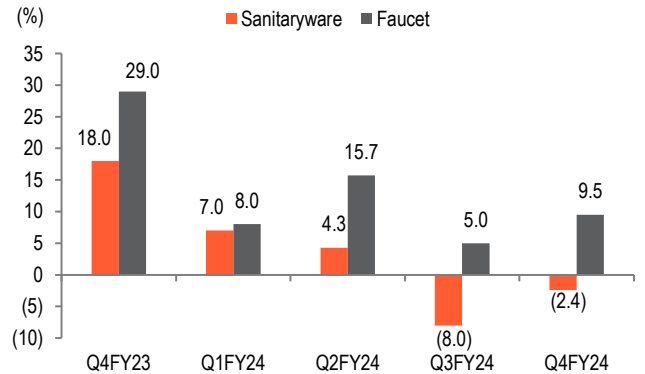
- **Demand:** The demand environment remained quite challenging on a QoQ basis in Q4FY24 and management expects it to remain weak in Q1FY25. However, management believes the demand environment may improve from Q2FY25 to be supported by an uptick in real estate activity.
- **Revenue outlook:** The company aims to grow its revenue at 16% CAGR over FY24-FY27 to be driven by higher volumes (+10-13%), better mix (4-6%) and improved realisation (+2-3%).
- **Pricing scenario:** The company took a 2% price hike for sanitaryware products in the month of Feb'24. Going ahead, the company sees limited opportunities to hike prices further in the near future due to a weak demand environment, but may raise prices if the demand situation improves.
- **Margin:** Gross margin fell sharply by 292bps YoY to 50.8% in Q4FY24 due to higher discounts offered to dealers to push volumes in a weak demand environment. However, EBITDA margin improved by 41bps YoY to 17.3% in Q4FY24 due to lower advertisement spend (to 2.7% in Q4FY24 from 4.5% in Q4FY23) and increased operating efficiencies. Going ahead, management expects its margin profile to remain stable in the near future and improve once the demand improves over the medium term.
- **Product mix:** The revenue share of entry:mid:premium rose to 24%:35%:41% in Q4FY24 from 26%:31%:43% in Q4FY23. The company has revamped its Senator brand and launched the Luxor brand in the luxury segment as it plans to increase the contribution from the luxury segment to 8-10% of sales by FY27. New products accounted for 30-35% of sales in Q4FY24.
- **Gas cost:** Blended gas cost rose by 1.3% QoQ to Rs 32.6/cbm in Q4FY24.
- **Faucet capex:** The company expanded its faucet capacity to 4.8mn pieces from 3.6mn pieces in Sep'23. The plant operated at 90% in Q4FY24.
- **Sanitaryware capex:** CRS acquired 80-85% of the land bank for its greenfield sanitaryware unit in Gujarat by Mar'24 and expects to buy the remaining land by Jun-Jul'24. Thereafter, it aims to start construction and complete the project over 18 months at an estimated cost of Rs 1.25bn-1.3bn.
- **Maintenance capex:** The company plans to spend Rs 254mn on routine capex in FY24.
- **Net cash:** The net cash position has gone up to Rs 8.28bn in Mar'24 from Rs 7.58bn in Dec'23.
- **ESOP scheme:** The company recently launched an ESOP scheme to retain key human resources.

Fig 3 – CRS’s revenue grew by 3.1% YoY and 5.6% on 5Y CAGR basis in Q4FY24



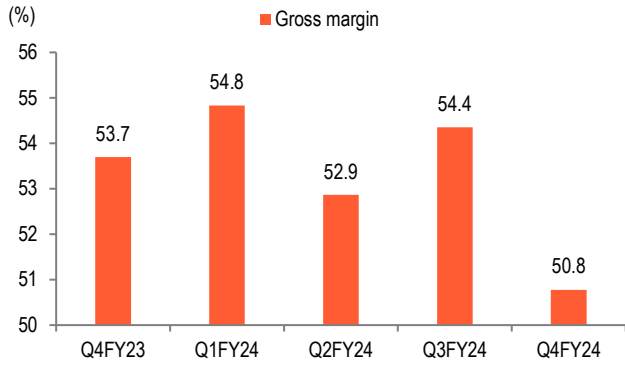
Source: Company, BOBCAPS Research

Fig 4 – Sanitaryware revenue fell by 2.4% YoY whereas faucet revenue grew by 9.5% YoY in Q4FY24



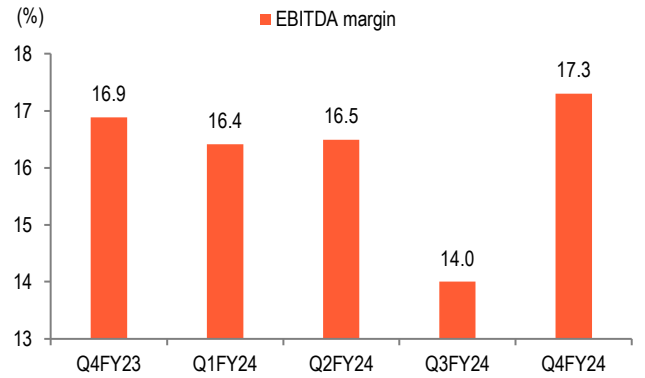
Source: Company, BOBCAPS Research

Fig 5 – Gross margin was down 292bps YoY to 50.8% in Q4FY24



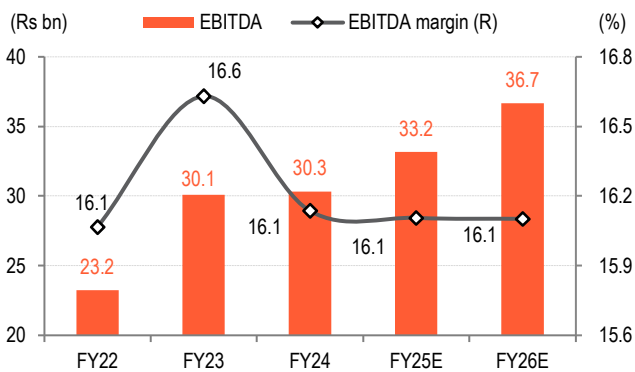
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin up by 41bps YoY to 17.3% in Q4FY24 on lower brand expense & improved efficiencies



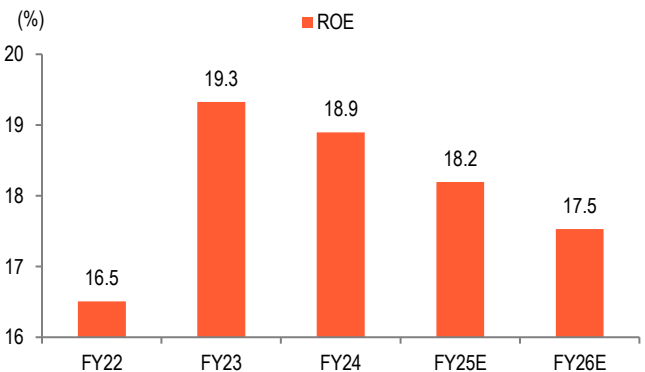
Source: Company, BOBCAPS Research

Fig 7 – CRS’s EBITDA forecast to clock 10.0% CAGR over FY24-FY26



Source: Company, BOBCAPS Research

Fig 8 – ROE profile likely to moderate on rising cash balance amid poor capital allocation policy



Source: Company, BOBCAPS Research

Valuation methodology

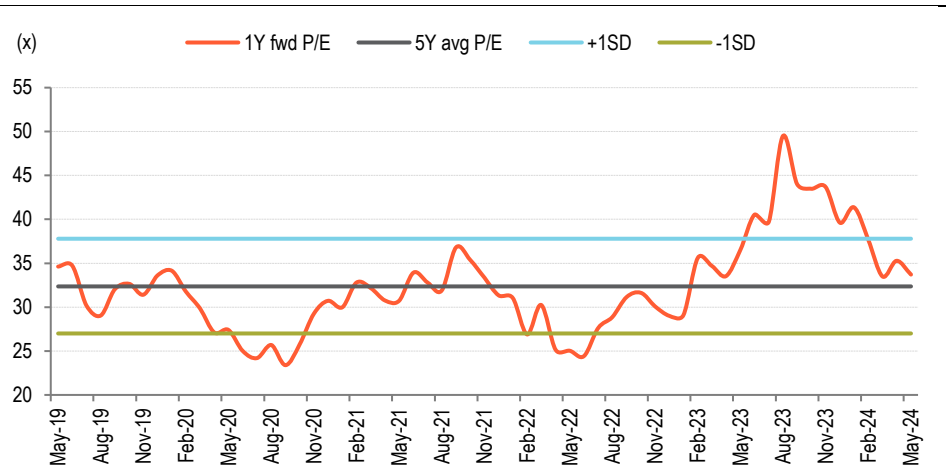
We maintain our HOLD rating on the stock due to moderation in ROE profile on the back of poor capital allocation (no concrete plan to use the rising cash balance) and expensive valuations (trades at 33.7x on 1Y forward P/E vs 5Y average of 32.4x). We have reduced our EPS estimates (-2.8%/-5.7% for FY25/FY26) based on a weak Q4FY24 result, but we have kept our TP unchanged at Rs 7,700 as we roll forward our valuation to Mar'26 from Sep'25. Our target P/E remains unchanged at 35x on Mar'26E EPS.

Fig 9 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	20.6	22.8	21.1	23.3	(2.5)	(2.2)
EBITDA	3.3	3.7	3.4	3.9	(3.0)	(5.2)
EBITDA Margin (%)	16.1	16.1	16.2	16.6	(8bps)	(50bps)
Adjusted PAT	2.6	2.9	2.7	3.0	(2.8)	(5.7)
EPS (Rs)	202.5	220.0	208.2	233.2	(2.8)	(5.7)

Source: BOBCAPS Research

Fig 10 – Trading at 33.7x on 1Y forward P/E vs 5Y average of 32.4x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars	FY21A	FY22A	FY23A	FY24A	FY25E	FY26E
Revenue Mix (%)						
Sanitaryware	48.5	52.7	53.6	51.6	50.0	48.4
Faucetware	28.3	33.2	34.1	36.1	37.2	38.7
Tiles	20.8	12.2	10.6	10.3	10.5	10.5
Wellness	2.4	1.9	1.8	2.0	2.3	2.5
Revenue Growth (%)						
Sanitaryware	(0.5)	30.2	26.8	(0.3)	7.4	7.0
Faucetware	10.4	41.0	28.0	9.7	14.2	15.0
Tiles	(6.7)	(29.7)	8.4	0.7	13.7	10.0
Wellness	(34.1)	(6.9)	16.9	18.9	23.6	21.0
Total	0.1	18.1	25.2	3.8	9.6	10.6
EBITDA margin	12.9	16.1	16.6	16.1	16.1	16.1

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	0.3	614	600	SELL
Astral	ASTRA IN	7.2	2,212	2,000	HOLD
Century Plyboards	CPBI IN	1.8	663	700	HOLD
Cera Sanitaryware	CRS IN	1.1	6,944	7,700	HOLD
Finolex Industries	FNXP IN	2.3	301	265	HOLD
Greenlam Industries	GRLM IN	0.9	601	500	HOLD
Greenpanel Industries	GREENP IN	0.4	293	340	HOLD
Greenply Industries	MTLM IN	0.4	239	300	BUY
Hindware Home Innovation	HINDWARE IN	0.3	354	600	BUY
Kajaria Ceramics	KJC IN	2.3	1,191	1,400	BUY
Prince Pipes & Fittings	PRINCEPIP IN	0.9	644	650	HOLD
Somany Ceramics	SOMC IN	0.3	619	900	BUY
Supreme Industries	SI IN	8.0	5,187	4,650	HOLD

Source: BOBCAPS Research, NSE | Price as of 14 May 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Total revenue	14,458	18,105	18,794	20,593	22,778
EBITDA	2,323	3,011	3,033	3,317	3,668
Depreciation	324	326	365	395	442
EBIT	1,999	2,685	2,667	2,922	3,225
Net interest inc./(exp.)	(53)	(60)	(58)	(62)	(62)
Other inc./(exp.)	236	284	595	659	660
Exceptional items	36	9	0	0	0
EBT	2,147	2,899	3,204	3,519	3,824
Income taxes	560	738	775	886	962
Extraordinary items	57	50	16	0	0
Min. int./Inc. from assoc.	(18)	(16)	(23)	0	0
Reported net profit	1,511	2,094	2,390	2,633	2,861
Adjustments	68	44	12	0	0
Adjusted net profit	1,579	2,138	2,402	2,633	2,861

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Accounts payables	1,335	2,069	1,790	1,961	2,169
Other current liabilities	2,762	1,523	1,674	1,674	1,674
Provisions	24	131	161	177	196
Debt funds	267	253	205	195	214
Other liabilities	836	958	1,040	1,040	1,040
Equity capital	65	65	65	65	65
Reserves & surplus	10,086	11,661	13,393	15,166	17,094
Shareholders' fund	10,294	11,832	13,585	15,359	17,286
Total liab. and equities	15,517	16,766	18,455	20,405	22,578
Cash and cash eq.	5,689	6,607	8,141	8,805	10,241
Accounts receivables	1,648	1,892	2,026	2,220	2,456
Inventories	2,937	3,825	3,636	4,182	4,576
Other current assets	1,622	415	430	471	521
Investments	82	31	0	0	0
Net fixed assets	3,207	3,138	3,515	3,320	4,177
CWIP	7	169	130	830	30
Intangible assets	163	256	225	225	225
Deferred tax assets, net	0	0	0	0	0
Other assets	163	433	353	353	353
Total assets	15,517	16,766	18,455	20,405	22,578

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24A	FY25E	FY26E
Cash flow from operations	988	1,785	2,339	1,836	2,253
Capital expenditures	468	(514)	(671)	(900)	(500)
Change in investments	0	52	31	0	0
Other investing cash flows	144	225	579	659	660
Cash flow from investing	611	(237)	(61)	(241)	160
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(570)	(13)	(49)	(10)	19
Interest expenses	(53)	(60)	(58)	(62)	(62)
Dividends paid	(455)	(650)	(784)	(860)	(934)
Other financing cash flows	385	78	124	0	0
Cash flow from financing	(693)	(646)	(767)	(932)	(977)
Chg in cash & cash eq.	905	902	1,511	664	1,436
Closing cash & cash eq.	5,264	7,461	10,997	15,565	22,158

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24A	FY25E	FY26E
Reported EPS	116.2	161.0	183.8	202.5	220.0
Adjusted EPS	121.4	164.4	184.7	202.5	220.0
Dividend per share	35.0	50.0	60.0	66.1	71.8
Book value per share	780.5	901.6	1,034.8	1,171.1	1,319.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24A	FY25E	FY26E
EV/Sales	6.4	5.2	5.1	4.7	4.3
EV/EBITDA	39.9	31.5	31.7	29.4	26.9
Adjusted P/E	57.2	42.2	37.6	34.3	31.6
P/BV	8.9	7.7	6.7	5.9	5.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24A	FY25E	FY26E
Tax burden (Net profit/PBT)	73.5	73.8	75.0	74.8	74.8
Interest burden (PBT/EBIT)	107.4	108.0	120.1	120.5	118.6
EBIT margin (EBIT/Revenue)	13.8	14.8	14.2	14.2	14.2
Asset turnover (Rev./Avg TA)	93.2	108.0	101.8	100.9	100.9
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.4
Adjusted ROAE	16.5	19.3	18.9	18.2	17.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24A	FY25E	FY26E
YoY growth (%)					
Revenue	18.1	25.2	3.8	9.6	10.6
EBITDA	46.9	29.6	0.7	9.4	10.6
Adjusted EPS	56.6	35.4	12.3	9.6	8.7
Profitability & Return ratios (%)					
EBITDA margin	16.1	16.6	16.1	16.1	16.1
EBIT margin	13.8	14.8	14.2	14.2	14.2
Adjusted profit margin	10.9	11.8	12.8	12.8	12.6
Adjusted ROAE	16.5	19.3	18.9	18.2	17.5
ROCE	21.2	24.6	23.7	23.0	22.2
Working capital days (days)					
Receivables	42	38	39	39	39
Inventory	74	77	71	74	73
Payables	34	42	35	35	35
Ratios (x)					
Gross asset turnover	2.5	3.4	3.2	3.3	3.2
Current ratio	2.7	3.2	3.7	3.9	4.2
Net interest coverage ratio	37.8	44.4	45.8	47.3	52.2
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

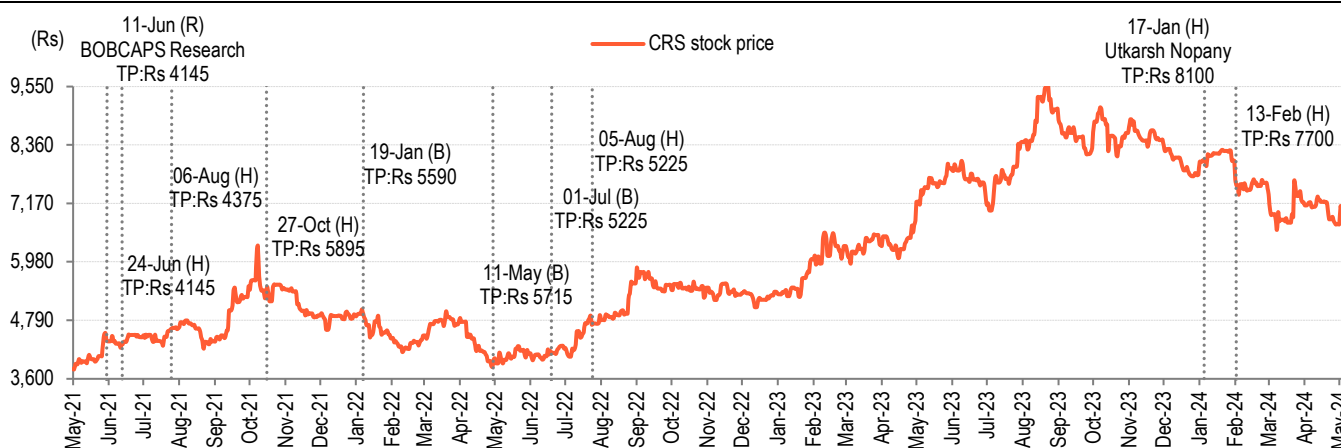
HOLD – Expected return from -6% to +15%

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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