

BUY

TP: Rs 3,395 | ▲ 19%

CERA SANITARYWARE

Construction Materials

16 May 2019

Above-expected performance

Cera Sanitaryware (CRS) reported above-estimated revenue growth of 14.5% YoY in Q4FY19 driven by 30%/22% growth in the tiles/faucet segments. Operating margins expanded 132bps YoY to 15.4% primarily due to lower other/employee expenses 217bps/118bps YoY, resulting in EBITDA/PAT growth of 25%/24% YoY. Management has guided for 13-14% revenue growth and ~15% margins in FY20. We increase FY20-FY21 PAT estimates by 4-5% and maintain BUY, rolling over to a Mar'20 TP of Rs 3,395 (from Rs 3,120).

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Robust revenue growth: CRS reported revenue growth of 14.5% YoY to Rs 4.1bn in Q4, with the faucet segment growing at 22%, sanitaryware at 4% and tiles at 30%. As per management, sanitaryware which accounts for ~53% of total revenues will grow at 7-10% in FY20 whereas blended growth for the company is guided at 13-14%.

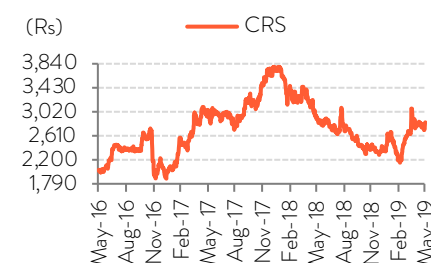
EBITDA margins expand 130bps: Gross margins declined YoY owing to lower revenue contribution from sanitaryware (~50% vs. 55% YoY) which has higher margins. However, CRS's operating margins increased by 132bps YoY to 15.4% as lower other expenditure (-217bps) and employee cost (-118bps) offset higher raw material cost (+202bps). Q4 EBITDA/PAT thus grew 25%/24% YoY. Management indicated that operating margins of ~15% are sustainable as the company is not seeing raw material cost pressures and has also taken some price hikes from Apr'19 in the sanitaryware segment.

Maintain BUY: CRS's Q4 results have beaten expectations, leading us to raise FY20/FY21 PAT estimates by 4%/5%. Rolling valuations forward, we have a revised Mar'20 TP of Rs 3,395 (earlier Rs 3,120), set at an unchanged one-year forward P/E multiple of 28x. We continue to like CRS for its comprehensive product portfolio, strong brand and wide distribution reach.

Ticker/Price	CRS IN/Rs 2,850
Market cap	US\$ 527.0mn
Shares o/s	13mn
3M ADV	US\$ 0.4mn
52wk high/low	Rs 3,195/Rs 2,144
Promoter/FPI/DII	55%/8%/38%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY17A	FY18A	FY19P	FY20E	FY21E
Adj. net profit (Rs mn)	947	960	1,151	1,355	1,578
Adj. EPS (Rs)	72.8	73.8	88.5	104.2	121.3
Adj. EPS growth (%)	20.4	1.4	19.9	17.7	16.5
Adj. ROAE (%)	20.1	17.1	17.6	17.9	18.0
Adj. P/E (x)	39.1	38.6	32.2	27.4	23.5
EV/EBITDA (x)	21.8	22.2	18.9	16.7	14.6

Source: Company, BOBCAPS Research

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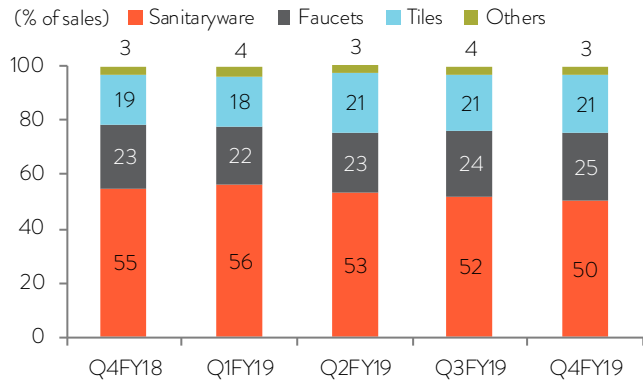
FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q4FY19	Q4FY18	YoY (%)	Q3FY19	QoQ (%)
Total revenues	4,131	3,609	14.5	3,188	29.6
Total raw material consumed	2,073	1,739	19.3	1,502	38.0
% of sales	50.2	48.2	202bps	47.1	307bps
Employee expenses	387	380	1.7	396	(2.4)
% of sales	9.4	10.5	(118bps)	12.4	(307bps)
Other exp	1,033	981	5.3	830	24.4
% of sales	25.0	27.2	(217bps)	26.0	(104bps)
Total expenditure	3,493	3,100	12.7	2,729	28.0
% of sales	85	85.9	(132bps)	85.6	(103bps)
EBITDA	637.9	509.6	25.2	459.5	38.8
% of sales	15.4	14.1	132bps	14.4	103bps
Depreciation	66.8	65.8	1.4	55.9	19.4
Other income	56.8	47.0	21.0	40.6	40.1
Interest cost	14.9	19.4	(23.0)	6.5	130.0
PBT	613.0	471.3	30.1	437.6	40.1
Taxes	232.6	165.3	40.8	154.0	51.0
Effective tax rate (%)	37.9	35.1	289bps	35.2	275bps
APAT	380.4	306.1	24.3	283.6	34.1

Source: Company, BOBCAPS Research

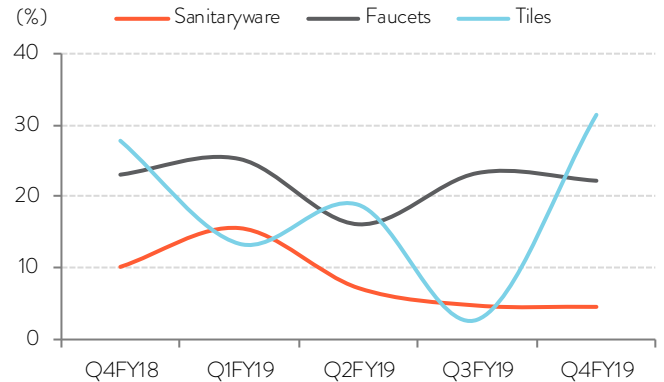
QUARTERLY TRENDS

FIG 2 – REVENUE BREAK-UP



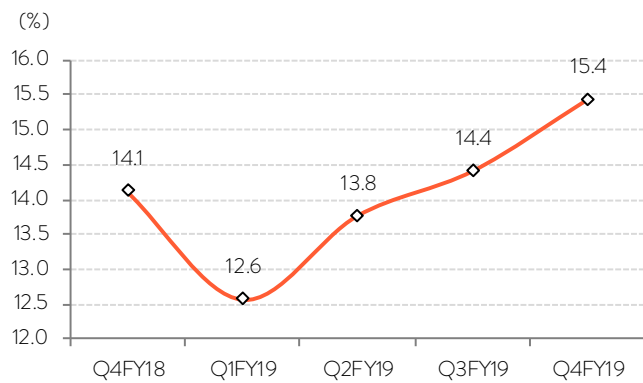
Source: Company, BOBCAPS Research

FIG 3 – SEGMENTAL GROWTH



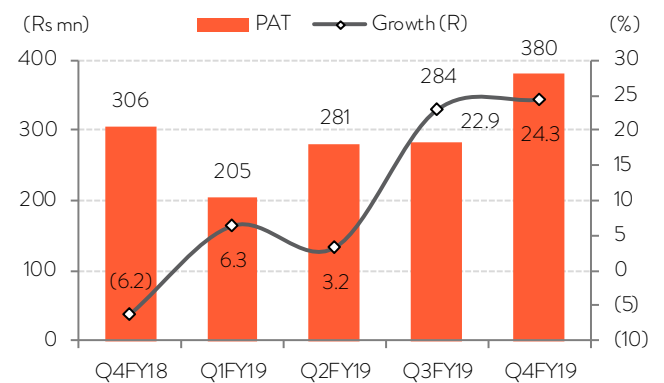
Source: Company, BOBCAPS Research

FIG 4 – EBITDA MARGIN



Source: Company, BOBCAPS Research

FIG 5 – PAT GROWTH



Source: Company, BOBCAPS Research

Earnings call highlights

- Management expects the sanitaryware segment to grow at only 7-10% in FY20 due to challenging market conditions whereas overall revenue growth is guided at 13-14%. The company indicated that operating margins of ~15% are sustainable in FY20 as well.
- CRS derived 44% of Q4FY19 revenues from South India, 25% from North India, 22% from West India and 9% from East India.
- The company took price hikes of 3-5% in sanitaryware and 5-8% in some niche products in Apr'19.
- CRS is the third largest player in the sanitaryware segment and believes the top 3 players (together 50-60% of market share) command pricing power. Management does not see any significant threat to this market despite the advent of several new entrants.
- The National Green Tribunal (NGT) order in Morbi (Gujarat) directing the shutdown of all ceramic units that run on coal gasifiers has resulted in pricing power with manufacturers, the benefits of which should play out over the next 12-24 months.
- Gas cost is ~2% of revenues. About 90% of the company's power requirement is met from in-house solar/wind assets.
- CRS has increased its customer touch points by 8% in FY19 to 14,218. The plan is to increase this by 6-10% every year.
- The company has ~250 technicians on the rolls who provide aftersales service to customers, and believes this gives it a unique edge over competition.
- The working capital cycle has been brought down by ~5 days to 114 days during the quarter.
- Capex planned for FY20 is ~Rs 750mn, of which Rs 400mn is earmarked for automation.
- About 72% of revenue typically comes from the retail segment and 28% from the institutional segment (including from government tenders).
- About 50% of sanitaryware, tiles and faucet revenues are from outsourced manufacturing.
- The Anjani Tiles JV posted Rs 1bn in revenue and EBITDA of Rs 110mn in FY19, whereas the Milo Tiles JV which had only six months of operations did Rs 350mn in revenue and Rs 50mn in EBITDA.

Valuation methodology

CRS is the third largest organised sanitaryware player in India with ~24% organised market share. 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.

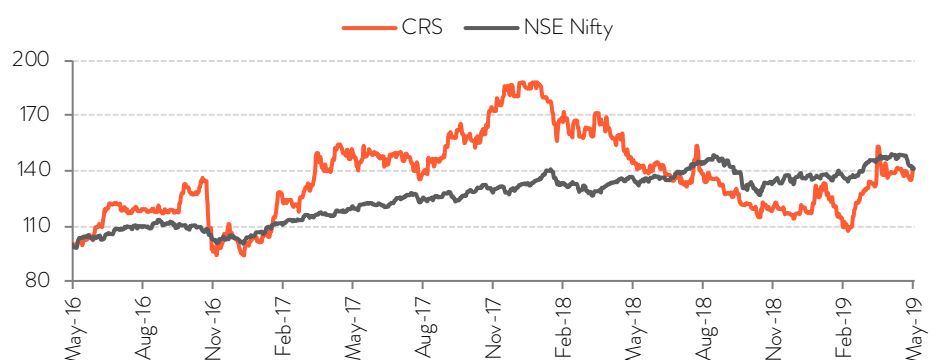
Post the Q4FY19 beat, we raise FY20/FY21 PAT estimates by 4%/5% and now expect CRS to deliver a robust 13%/17% revenue/earnings CAGR over FY19-FY21, backed by its comprehensive portfolio, wide distribution reach and strong brand focus. We continue to value the stock at 28x one-year forward P/E, and roll over to a revised Mar'20 target price of Rs 3,395 (from Rs 3,120). Maintain BUY.

FIG 6 – REVISED ESTIMATES

(Rs mn)	Old		New		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	14,880	16,909	15,189	17,299	2.1	2.3
EBITDA	2,232	2,562	2,278	2,621	2.1	2.3
PAT	1,306	1,497	1,355	1,578	3.8	5.4

Source: Company, BOBCAPS Research

FIG 7 – 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.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19P	FY20E	FY21E
Total revenue	10,066	11,776	13,515	15,189	17,299
EBITDA	1,719	1,699	1,983	2,278	2,621
EBIT	1,497	1,428	1,703	1,968	2,272
Net interest income/(expenses)	(78)	(98)	(85)	(72)	(61)
Other income/(expenses)	91	119	186	212	248
Exceptional items	45	100	0	0	0
EBT	1,510	1,449	1,803	2,107	2,459
Income taxes	(582)	(488)	(652)	(738)	(861)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	19	(1)	0	(15)	(20)
Reported net profit	992	1,061	1,151	1,355	1,578
Adjustments	(45)	(100)	0	0	0
Adjusted net profit	947	960	1,151	1,355	1,578

Balance Sheet

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19P	FY20E	FY21E
Accounts payables	847	944	1,109	1,165	1,327
Other current liabilities	1,604	1,840	2,313	2,206	2,512
Provisions	708	201	95	152	173
Debt funds	837	962	842	590	700
Other liabilities	394	391	436	436	436
Equity capital	65	65	65	65	65
Reserves & surplus	5,136	5,991	6,944	8,067	9,378
Shareholders' fund	5,201	6,056	7,009	8,132	9,443
Total liabilities and equities	9,812	10,461	11,908	12,799	14,729
Cash and cash eq.	1,438	1,413	1,889	1,911	2,594
Accounts receivables	2,207	2,680	2,984	3,163	3,602
Inventories	1,495	1,935	2,158	2,330	2,654
Other current assets	1,221	782	829	957	1,090
Investments	0	0	0	0	0
Net fixed assets	3,436	3,584	3,840	4,229	4,580
CWIP	2	52	195	195	195
Intangible assets	13	13	13	13	13
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	9,812	10,461	11,908	12,799	14,729

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY17A	FY18A	FY19P	FY20E	FY21E
Net income + Depreciation	1,214	1,332	1,431	1,666	1,927
Interest expenses	78	98	85	72	61
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(404)	(648)	(41)	(474)	(407)
Other operating cash flows	50	(3)	45	0	0
Cash flow from operations	938	778	1,521	1,263	1,582
Capital expenditures	(724)	(470)	(678)	(700)	(700)
Change in investments	(397)	(215)	(693)	(121)	(550)
Other investing cash flows	140	(64)	4	15	20
Cash flow from investing	(981)	(749)	(1,366)	(806)	(1,230)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	171	124	(119)	(252)	110
Interest expenses	(78)	(98)	(85)	(72)	(61)
Dividends paid	(141)	(141)	(203)	(247)	(288)
Other financing cash flows	58	(154)	36	15	20
Cash flow from financing	9	(268)	(372)	(556)	(219)
Changes in cash and cash eq.	(34)	(239)	(217)	(99)	133
Closing cash and cash eq.	566	327	110	11	144

Per Share

Y/E 31 Mar (Rs)	FY17A	FY18A	FY19P	FY20E	FY21E
Reported EPS	76.3	81.5	88.5	104.2	121.3
Adjusted EPS	72.8	73.8	88.5	104.2	121.3
Dividend per share	12.0	12.0	13.0	15.8	18.4
Book value per share	399.9	465.7	538.9	625.3	726.1

Valuations Ratios

Y/E 31 Mar (x)	FY17A	FY18A	FY19P	FY20E	FY21E
EV/Sales	3.7	3.2	2.8	2.5	2.2
EV/EBITDA	21.8	22.2	18.9	16.7	14.6
Adjusted P/E	39.1	38.6	32.2	27.4	23.5
P/BV	7.1	6.1	5.3	4.6	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY17A	FY18A	FY19P	FY20E	FY21E
Tax burden (Net profit/PBT)	60.9	62.0	63.9	64.3	64.2
Interest burden (PBT/EBIT)	103.9	108.5	105.9	107.1	108.2
EBIT margin (EBIT/Revenue)	14.9	12.1	12.6	13.0	13.1
Asset turnover (Revenue/Avg TA)	112.8	116.2	120.8	123.0	125.7
Leverage (Avg TA/Avg Equity)	1.9	1.8	1.7	1.6	1.6
Adjusted ROAE	20.1	17.1	17.6	17.9	18.0

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

Ratio Analysis

Y/E 31 Mar	FY17A	FY18A	FY19P	FY20E	FY21E
YoY growth (%)					
Revenue	9.7	17.0	14.8	12.4	13.9
EBITDA	21.5	(1.1)	16.7	14.9	15.0
Adjusted EPS	20.4	1.4	19.9	17.7	16.5
Profitability & Return ratios (%)					
EBITDA margin	17.1	14.4	14.7	15.0	15.2
EBIT margin	14.9	12.1	12.6	13.0	13.1
Adjusted profit margin	9.4	8.2	8.5	8.9	9.1
Adjusted ROAE	20.1	17.1	17.6	17.9	18.0
ROCE	16.6	14.7	14.5	15.2	15.4
Working capital days (days)					
Receivables	74	76	76	74	71
Inventory	119	121	123	121	118
Payables	33	32	32	32	31
Ratios (x)					
Gross asset turnover	2.7	2.5	2.6	2.6	2.7
Current ratio	1.7	2.0	2.0	2.2	2.3
Net interest coverage ratio	19.1	14.6	19.9	27.5	37.1
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.2)	(0.2)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

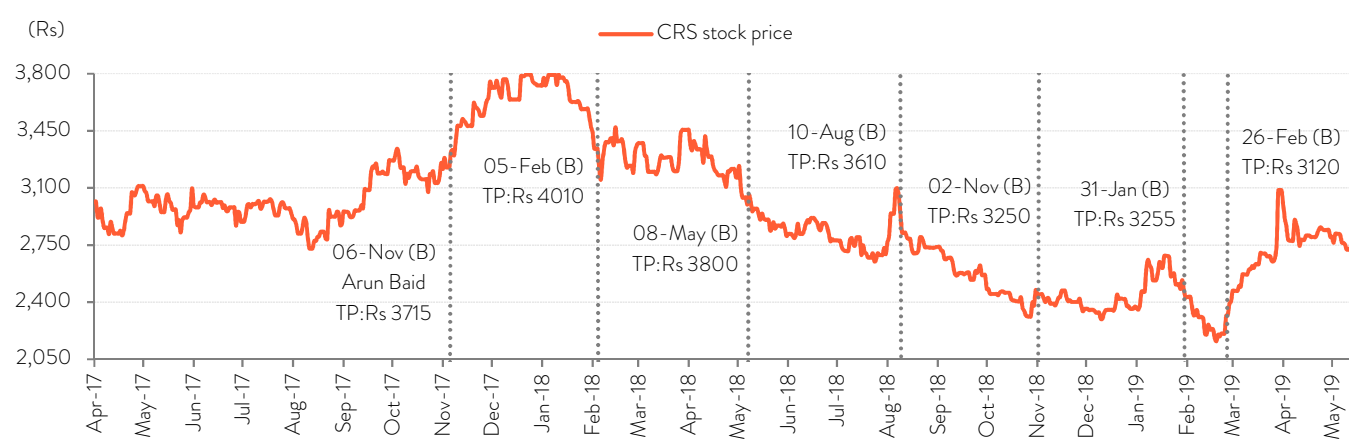
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: CERA SANITARYWARE (CRS IN)



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

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