

**BUY**

TP: Rs 5,225 | ▲ 27%

**CERA SANITARYWARE**

Construction Materials

01 July 2022

## Consistent Performer

- We expect CRS to clock revenue CAGR of ~16.5% during FY22-24E aided by growth in sanitaryware and faucetware segments
- Price hike of 3% in sanitaryware and 5% in faucetware in Q1 and cumulative price hike in FY22, will enable CRS to maintain margins
- Retain BUY rating with a revised TP of Rs 5,225 (revised PER from 35x to 32x on FY24E) to factor in likely stress in real estate market

Ruchitaa Maheshwari

research@bobcaps.in

We interacted with Cera Executive Director, Ayush Bagla to gain a perspective on the company's growth prospects and sector outlook. Key takeaways:

**Gas cost impact:** About 40% of CRS's gas requirement is met by GAIL where gas price increased to Rs 25/scm in Q1FY23 from Rs 11.13/scm in FY22. The balance 60% is met via Sabarmati Gas where prices climbed to Rs 65/scm in Q1FY23 from Rs 59.46/scm in FY22. As per management, the company is procuring gas at a much lower rate than the market. Gas cost is just 2.8% of overall raw material cost for the company.

**Capex of Rs 2bn by FY24 from internal accruals:** CRS is expanding capacity by 1.2mn pieces each in sanitaryware (greenfield; 24-30 months) for Rs 1.3bn and in faucetware (brownfield; by Q2FY24) for Rs 0.7bn.

**Price hikes in sanitaryware and faucetware:** CRS took a price hike of 3% in sanitaryware and 5% in faucetware segment in mid-May 2022.

**Healthy demand outlook with stable margin:** Management expects to double the revenues at a faster rate 18-20% CAGR in the next three-four years. In addition, management is confident of doubling revenue within the next 3.5 years from 5 years earlier. CRS has guided a 50-75bps rise in EBITDA margin each year.

**Healthy demand traction; retain BUY:** The recent capacity de-bottlenecking and capacity expansion by 40-50% announced (which would commence operations in the next 12-36 months) would lead the next leg of growth. CRS' timely capacity expansion plan, focus on improving product mix, extensive distribution network, healthy balance sheet and rising return ratios bode well for sustainable earnings growth. While we like the company's a) leadership position in sanitaryware, b) scale-up in faucetware/sanitaryware and c) robust return profile, we are concerned about likely stress in the real estate market due to higher inflation and rising interest rate. Hence, to factor-in, we have reduced our target multiple by ~10%. We retain BUY rating with a revised TP of Rs 5,225 (revised PER from 35x to 32x on FY24E).

## Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CRS IN/Rs 4,126
Market cap	US\$ 678.9mn
Free float	46%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 6,450/Rs 3,515
Promoter/FPI/DII	54%/20%/26%

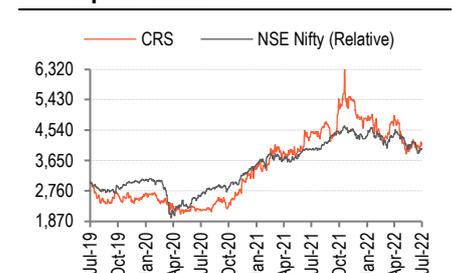
Source: NSE | Price as of 1 Jul 2022

## Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	14,458	16,850	19,634
EBITDA (Rs mn)	2,287	2,694	3,202
Adj. net profit (Rs mn)	1,568	1,802	2,124
Adj. EPS (Rs)	120.6	138.5	163.3
Consensus EPS (Rs)	116.2	135.4	158.4
Adj. ROAE (%)	16.6	16.7	17.5
Adj. P/E (x)	34.2	29.8	25.3
EV/EBITDA (x)	23.1	19.7	16.8
Adj. EPS growth (%)	55.6	14.9	17.9

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

## Stock performance



Source: NSE



## Other management meet takeaways

- Per management, revenue target for FY23 is Rs 17.5-18.5bn with Rs 6.5-7bn revenue contribution from faucetware and Rs 9.5-10bn from sanitaryware segment.
- Capacity enhancement by 40-50% has been announced in Phase I which includes: 1.2mn pieces p.a. for sanitaryware (further expandable by 1.2mn pieces p.a. in Phase II) and 1.2mn pieces p.a. for faucets (further expandable to 2.4mn pieces p.a. in Phase II).
- Phase I expansion of sanitaryware (greenfield) likely to be completed in the next 24-30 months, faucets (brownfield) in the next 12 months. Total capex of Rs 2bn (Rs 1.3bn sanitaryware + Rs 0.7bn faucets) to be funded through internal accruals.
- The company will finalize the land bank for greenfield capacity expansion in sanitaryware before 30<sup>th</sup> Sept 22'.
- The new faucets facility will be majorly utilised towards making higher priced coloured/painted products which are seeing increased demand than the chrome-based SKUs. This would lead to higher revenues from the division. Overall, the new capacities have revenue potential of Rs 1.8-2.0 bn each for faucets and sanitaryware (2.5-3x asset turnover for faucets and 1.5-2x asset turnover for sanitaryware).
- The company has cash worth Rs 5.8bn as of Q4FY22. It has planned capex worth ~Rs 1.2bn in FY23 (Rs 0.7bn towards faucets plant + Rs 0.25bn towards land purchase for sanitaryware plant + Rs 0.25bn regular capex). Balance planned capex for sanitaryware to be incurred in FY24 since approvals would take time after acquisition of land. As per management, internal accruals would be adequate to fund these plans.
- Existing capacities: sanitaryware 2.5mn pieces p.a. and 3.0mn pieces for faucets.
- Outsourcing in sanitaryware has increased to 59%+ and faucetware 54%+ from ~50% historically to meet demand as in-house capacities are running at peak. Even for FY23 the outsourcing portion will be as high as 65%+ for both the segments as capex will commence sometime later.
- CRS is focused on maintaining higher share of retail mix at 68-72% (67-68% in Q4FY22). Management's objective is to increase the B2C contribution as the company can monetise its brand power and hike prices.
- Lower imports in India owing to macro challenges (higher freight cost from \$600 per container to currently \$7,000-8,000 per container and shortage of container availability) & ongoing stress of small size players have led to product availability as a key success factor and hence inventory days are expected to be elevated for CRS even in FY23.
- Import duty for sanitaryware is 11% and 15% for faucetware. Per management, even if import in India increases, will not impact CRS due to depreciating Indian currency and also Chinese currency have gone up.

- CRS has 4,700 distributors of which top 500 contributes 75% of sales and top 100 are 41% of the total sales.
- FY22 revenue break-up: Tier3 and below cities (below 10 lakh population) form 55% of the revenue, tier2 (10-25 lakh population) 15%, tier1 (+25 lakh population) 28% and exports form 2% of the total revenue. The contribution in FY23 will be largely same as FY22.
- FY22 Geographical break-up: North 30%, East 8%, West 20%, South 40%, Exports 2%. Per management, the geographical break-up will largely remain same for FY23.

## Valuation methodology

CRS has remained a focused player in tier-II/III markets where it faces limited competition, enabling it to maintain pricing power.

The recent capacity de-bottlenecking and capacity expansion by 40-50% announced (which would commence operations in the next 12-36 months) would lead the next leg of growth. CRS' timely capacity expansion plan, focus on improving product mix, extensive distribution network, healthy balance sheet and rising return ratios bode well for sustainable earnings growth in future.

While we like the company's a) leadership position in sanitaryware, b) scale-up in faucetware/sanitaryware and c) robust return profile, we are concerned about expected stress in the real estate market due to higher inflation and rising interest rate. Hence, to factor-in, we have reduced our target multiple by ~10%. We retain BUY rating with a revised TP of Rs 5,225 vs. Rs 5,715 (revised PER from 35x to 32x on FY24E).

## Key risks

Key downside risks to our estimates are:

- higher input prices which may dent demand/profitability,
- decline in real estate demand,
- slowdown in economic revival, and
- resurgence of Covid-19 which might adversely affect sales in the short term.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Century Plyboards	CPBI IN	1.4	513	735	BUY
Cera Sanitaryware	CRS IN	0.7	4,126	5,225	BUY
Greenpanel Industries	GREENP IN	0.7	441	595	BUY
Greenply Industries	MTLM IN	0.3	174	260	BUY
Kajaria Ceramics	KJC IN	1.9	960	1,460	BUY
Pidilite Industries	PIDI IN	13.9	2,158	1,870	SELL
Somany Ceramics	SOMC IN	0.3	577	835	BUY

Source: BOBCAPS Research, NSE | Price as of 1 Jul 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>12,220</b>	<b>12,243</b>	<b>14,458</b>	<b>16,850</b>	<b>19,634</b>
EBITDA	1,654	1,581	2,287	2,694	3,202
Depreciation	(388)	(396)	(324)	(408)	(486)
EBIT	1,266	1,185	1,963	2,286	2,716
Net interest inc./(exp.)	(101)	(97)	(53)	(70)	(62)
Other inc./(exp.)	65	252	236	222	220
Exceptional items	119	0	(57)	0	0
EBT	1,230	1,339	2,147	2,438	2,874
Income taxes	(243)	(340)	(560)	(636)	(750)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	27	9	(18)	0	0
<b>Reported net profit</b>	<b>1,133</b>	<b>1,008</b>	<b>1,511</b>	<b>1,802</b>	<b>2,124</b>
Adjustments	(119)	0	57	0	0
<b>Adjusted net profit</b>	<b>1,013</b>	<b>1,008</b>	<b>1,568</b>	<b>1,802</b>	<b>2,124</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	953	1,554	1,335	1,616	1,883
Other current liabilities	2,102	2,186	2,968	3,001	3,496
Provisions	136	171	114	236	275
Debt funds	919	729	452	400	350
Other liabilities	299	303	354	386	418
Equity capital	65	65	65	65	65
Reserves & surplus	7,642	8,652	10,086	11,348	12,834
Shareholders' fund	7,707	8,717	10,152	11,413	12,899
<b>Total liab. and equities</b>	<b>12,194</b>	<b>13,777</b>	<b>15,517</b>	<b>17,193</b>	<b>19,464</b>
Cash and cash eq.	125	104	149	938	1,324
Accounts receivables	2,228	2,095	1,648	2,308	2,690
Inventories	2,430	1,997	2,937	3,001	3,496
Other current assets	737	670	1,785	1,293	1,506
Investments	2,283	4,743	5,621	5,500	5,500
Net fixed assets	4,373	4,147	3,362	4,139	4,933
CWIP	5	13	7	7	7
Intangible assets	12	8	8	8	8
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>12,194</b>	<b>13,777</b>	<b>15,517</b>	<b>17,193</b>	<b>19,464</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>1,517</b>	<b>2,858</b>	<b>838</b>	<b>2,516</b>	<b>2,415</b>
Capital expenditures	(450)	(140)	468	(1,186)	(1,280)
Change in investments	(504)	(2,460)	(879)	121	0
Other investing cash flows	(45)	5	25	0	0
<b>Cash flow from investing</b>	<b>(999)</b>	<b>(2,595)</b>	<b>(386)</b>	<b>(1,065)</b>	<b>(1,280)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	13	(191)	(277)	(52)	(50)
Interest expenses	(101)	(97)	(53)	(70)	(62)
Dividends paid	(396)	0	(153)	(541)	(637)
Other financing cash flows	(103)	5	25	0	0
<b>Cash flow from financing</b>	<b>(586)</b>	<b>(283)</b>	<b>(457)</b>	<b>(663)</b>	<b>(749)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(68)</b>	<b>(20)</b>	<b>(6)</b>	<b>789</b>	<b>386</b>
<b>Closing cash &amp; cash eq.</b>	<b>125</b>	<b>104</b>	<b>98</b>	<b>938</b>	<b>1,324</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	87.1	77.5	116.2	138.5	163.3
Adjusted EPS	77.9	77.5	120.6	138.5	163.3
Dividend per share	13.0	13.0	35.0	34.6	40.8
Book value per share	592.6	670.3	780.5	877.5	991.8

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	4.3	4.3	3.7	3.2	2.7
EV/EBITDA	32.0	33.5	23.1	19.7	16.8
Adjusted P/E	52.9	53.2	34.2	29.8	25.3
P/BV	7.0	6.2	5.3	4.7	4.2

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	75.1	75.2	75.1	73.9	73.9
Interest burden (PBT/EBIT)	106.6	113.0	106.4	106.7	105.8
EBIT margin (EBIT/Revenue)	10.4	9.7	13.6	13.6	13.8
Asset turnover (Rev./Avg TA)	101.4	94.3	98.7	103.0	107.1
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.6	1.5	1.5
<b>Adjusted ROAE</b>	<b>13.8</b>	<b>12.3</b>	<b>16.6</b>	<b>16.7</b>	<b>17.5</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(9.4)	0.2	18.1	16.5	16.5
EBITDA	(15.8)	(4.4)	44.7	17.8	18.8
Adjusted EPS	0.3	(0.6)	55.6	14.9	17.9
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.5	12.9	15.8	16.0	16.3
EBIT margin	10.4	9.7	13.6	13.6	13.8
Adjusted profit margin	8.3	8.2	10.8	10.7	10.8
Adjusted ROAE	13.8	12.3	16.6	16.7	17.5
ROCE	12.4	9.7	14.2	14.9	15.8
<b>Working capital days (days)</b>					
Receivables	78	64	47	43	46
Inventory	152	129	132	142	133
Payables	36	43	43	38	39
<b>Ratios (x)</b>					
Gross asset turnover	2.1	2.0	2.4	2.6	2.5
Current ratio	1.5	1.2	1.4	1.5	1.6
Net interest coverage ratio	12.6	12.2	37.2	32.5	43.9
<b>Adjusted debt/equity</b>	<b>0.1</b>	<b>0.1</b>	<b>0.0</b>	<b>0.0</b>	<b>(0.1)</b>

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

## Disclaimer

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

**BUY** – Expected return >+15%

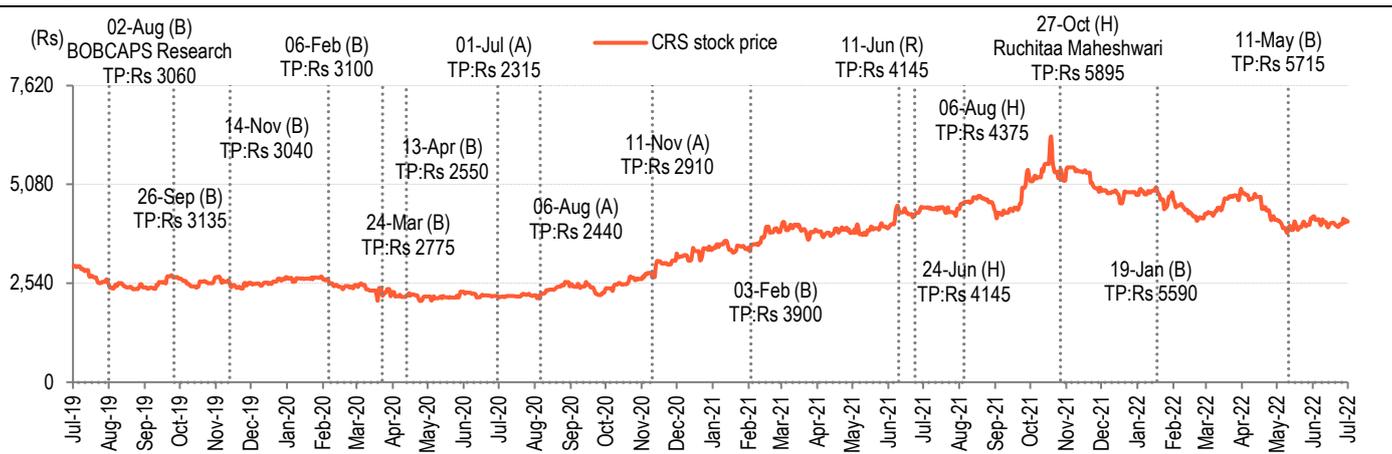
**HOLD** – Expected return from -6% to +15%

**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

### Rating distribution

As of 30 June 2022, out of 118 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 73 have BUY ratings, 23 have HOLD ratings, 5 are rated ADD\*, 1 is rated REDUCE\* and 16 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (\*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

### Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

### General disclaimers

BOBCAPS is engaged in the business of Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017. BOBCAPS CIN Number: U65999MH1996GOI098009.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation

or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

#### **Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014**

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.