

**BUY**

TP: Rs 9,000 | ▲ 17%

**CERA SANITARYWARE**

| Building Materials

| 13 December 2024

## Management meet key takeaways

- The bathware industry slowed down from Q3FY24, but the company expects gradual pick-up in demand from H2FY25 onwards
- Maintained revenue guidance of Rs 29bn in FY27 to be driven by volume (+10-13%), better mix (+4-6%), higher realisation (+2-3%)
- Maintain BUY on positive outlook and reasonable valuations; raise TP by 6% to Rs 9,000 per share

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We hosted the management of CERA (Mr. Vikas Kothari, CFO, and Mr. Deepak Chaudhary, VP, Finance) to discuss the dynamics of the Indian bathware market.

**Industry demand scenario:** Demand has slowed down from Q3FY24, but the company expects improvement from H2FY25. However, the company has started witnessing pick-up in project demand in Q2FY25 and expects gradual pick-up in retail demand over the next few quarters.

**Guidance intact:** CRS has maintained its revenue growth guidance of Rs 29bn in FY27 on the assumption of high single-digit growth in FY25 and healthy double-digit rate in FY26 and FY27. This implies revenue growth of 15.6% CAGR over FY24-FY27 to be led by volume (+10-13%), improved mix (+4-6%) and higher realisation (+2-3%). Product-wise, sanitaryware revenue is targeted to grow at 13% CAGR, faucet at 20% CAGR, and tiles at 20-23% CAGR over FY24-FY27. Management expects its EBITDA margin to be in the range of 16-17% over the medium term.

**Premiumisation:** CRS targets increasing the share of luxury segment to 10% of its revenue in FY27. For this, it has revamped its product portfolio and plans to create a separate distribution network via the opening of 50 exclusive retail stores by Mar'26.

**Status of greenfield sanitaryware plant:** The land for the greenfield unit has been acquired and the decision to commence construction will be taken in Q4FY25. CRS expects the project to take 18 months for completion from the start of construction.

**Competitive edge:** CRS has an edge in the bathware industry in terms of pan-India distribution network, quality product, large warranty period offering of 10-15 years.

**Capital allocation:** Plans to distribute excess cash to shareholders in future via higher dividend or regular buyback of shares in future.

**Valuation:** We maintain our BUY rating on the stock with revised TP of Rs 9,000 (+6%) due to the change in our target P/E multiple (from 40x to 42x) on Sep'26 EPS.

## Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CRS IN/Rs 7,683
Market cap	US\$ 1.2bn
Free float	46%
3M ADV	US\$ 1.5mn
52wk high/low	Rs 10,790/Rs 6,591
Promoter/FPI/DII	54%/23%/6%

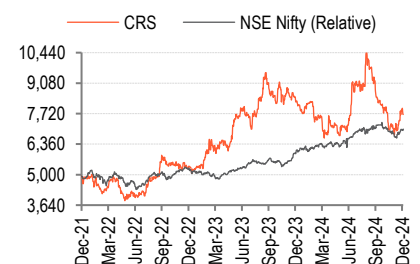
Source: NSE | Price as of 13 Dec 2024

## Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	18,794	19,665	21,745
EBITDA (Rs mn)	3,038	2,992	3,358
Adj. net profit (Rs mn)	2,405	2,492	2,653
Adj. EPS (Rs)	185.0	193.2	205.7
Consensus EPS (Rs)	185.0	189.0	219.2
Adj. ROAE (%)	18.9	17.3	16.4
Adj. P/E (x)	41.5	39.8	37.4
EV/EBITDA (x)	34.6	35.5	32.1
Adj. EPS growth (%)	12.5	4.5	6.5

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



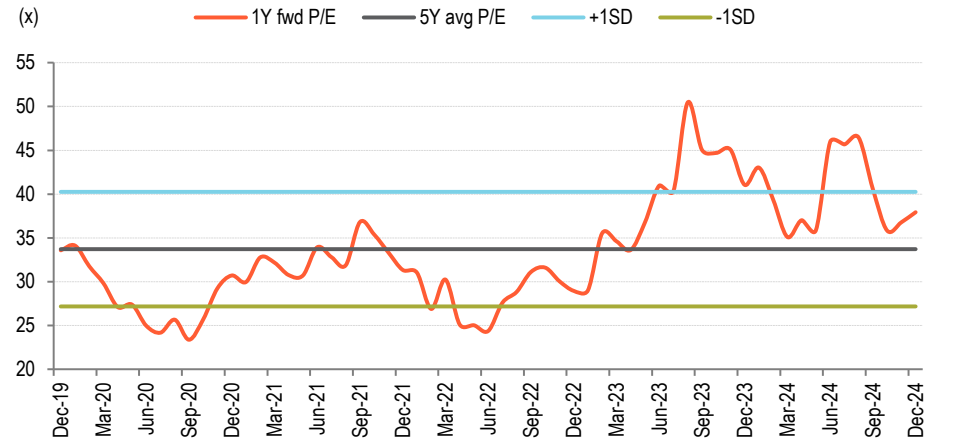
Source: NSE



### Valuation methodology

We maintain our BUY rating on the stock with revised TP of Rs 9,000 (earlier Rs 8,500) due to the change in our target P/E (from 40x to 42x) on Sep'26 EPS. At CMP, the stock trades at 37.9x on 1Y forward P/E multiple vs 5Y average of 33.7x.

**Fig 1 – Trading at 37.9x on 1Y forward P/E vs 5Y average of 33.7x**



Source: Bloomberg, BOBCAPS Research

### Key risks

Key downside risks to our estimates are:

- sharp slowdown in real estate activity, and
- market share loss in sanitaryware and faucet.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>18,105</b>	<b>18,794</b>	<b>19,665</b>	<b>21,745</b>	<b>24,071</b>
EBITDA	3,011	3,038	2,992	3,358	3,720
Depreciation	326	365	412	435	458
EBIT	2,685	2,672	2,581	2,923	3,261
Net interest inc./(exp.)	(60)	(58)	(91)	(105)	(105)
Other inc./(exp.)	284	595	692	726	697
Exceptional items	9	5	0	0	0
EBT	2,899	3,204	3,181	3,545	3,854
Income taxes	738	775	690	892	970
Extraordinary items	50	16	0	0	0
Min. int./Inc. from assoc.	(16)	(23)	0	0	0
<b>Reported net profit</b>	<b>2,094</b>	<b>2,390</b>	<b>2,492</b>	<b>2,653</b>	<b>2,884</b>
Adjustments	44	15	0	0	0
<b>Adjusted net profit</b>	<b>2,138</b>	<b>2,405</b>	<b>2,492</b>	<b>2,653</b>	<b>2,884</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,069	1,790	1,886	2,085	2,308
Other current liabilities	1,523	1,674	1,674	1,674	1,674
Provisions	131	161	170	188	208
Debt funds	253	205	186	204	225
Other liabilities	958	1,040	1,040	1,040	1,040
Equity capital	65	65	64	64	64
Reserves & surplus	11,661	13,393	15,071	16,858	18,800
Shareholders' fund	11,832	13,585	15,263	17,050	18,992
<b>Total liab. and equities</b>	<b>16,766</b>	<b>18,455</b>	<b>20,219</b>	<b>22,241</b>	<b>24,447</b>
Cash and cash eq.	6,607	8,141	9,686	10,731	11,572
Accounts receivables	1,892	2,026	2,120	2,344	2,595
Inventories	3,825	3,636	3,900	4,339	4,857
Other current assets	415	430	453	501	555
Investments	31	0	0	0	0
Net fixed assets	3,138	3,515	3,303	3,368	4,210
CWIP	169	130	180	380	80
Intangible assets	256	225	225	225	225
Deferred tax assets, net	0	0	0	0	0
Other assets	433	353	353	353	353
<b>Total assets</b>	<b>16,766</b>	<b>18,455</b>	<b>20,219</b>	<b>22,241</b>	<b>24,447</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>1,802</b>	<b>2,367</b>	<b>2,026</b>	<b>1,972</b>	<b>2,170</b>
Capital expenditures	(514)	(671)	(250)	(700)	(1,000)
Change in investments	52	31	0	0	0
Other investing cash flows	225	575	692	726	697
<b>Cash flow from investing</b>	<b>(237)</b>	<b>(66)</b>	<b>442</b>	<b>26</b>	<b>(303)</b>
Equities issued/Others	0	0	(1)	0	0
Debt raised/repaid	(13)	(49)	(18)	18	20
Interest expenses	(60)	(58)	(91)	(105)	(105)
Dividends paid	(650)	(785)	(814)	(866)	(942)
Other financing cash flows	78	125	0	0	0
<b>Cash flow from financing</b>	<b>(646)</b>	<b>(767)</b>	<b>(924)</b>	<b>(953)</b>	<b>(1,026)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>919</b>	<b>1,534</b>	<b>1,544</b>	<b>1,045</b>	<b>841</b>
<b>Closing cash &amp; cash eq.</b>	<b>6,607</b>	<b>8,141</b>	<b>9,686</b>	<b>10,731</b>	<b>11,572</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	161.0	183.8	193.2	205.7	223.6
Adjusted EPS	164.4	185.0	193.2	205.7	223.6
Dividend per share	50.0	60.0	63.1	67.2	73.0
Book value per share	901.6	1,034.8	1,173.5	1,312.0	1,462.6

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.7	5.6	5.4	5.0	4.5
EV/EBITDA	34.5	34.6	35.5	32.1	29.3
Adjusted P/E	46.7	41.5	39.8	37.4	34.4
P/BV	8.5	7.4	6.5	5.9	5.3

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.8	75.1	78.3	74.8	74.8
Interest burden (PBT/EBIT)	108.0	119.9	123.3	121.3	118.2
EBIT margin (EBIT/Revenue)	14.8	14.2	13.1	13.4	13.5
Asset turnover (Rev./Avg TA)	108.0	101.8	97.3	97.8	98.5
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.4	1.4
<b>Adjusted ROAE</b>	<b>19.3</b>	<b>18.9</b>	<b>17.3</b>	<b>16.4</b>	<b>16.0</b>

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	25.2	3.8	4.6	10.6	10.7
EBITDA	29.6	0.9	(1.5)	12.2	10.8
Adjusted EPS	35.4	12.5	4.5	6.5	8.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	16.6	16.2	15.2	15.4	15.5
EBIT margin	14.8	14.2	13.1	13.4	13.5
Adjusted profit margin	11.8	12.8	12.7	12.2	12.0
Adjusted ROAE	19.3	18.9	17.3	16.4	16.0
ROCE	24.6	23.7	21.2	21.2	20.6
<b>Working capital days (days)</b>					
Receivables	38	39	39	39	39
Inventory	77	71	72	73	74
Payables	42	35	35	35	35
<b>Ratios (x)</b>					
Gross asset turnover	3.4	3.3	3.2	3.3	3.3
Current ratio	3.2	3.7	4.1	4.3	4.4
Net interest coverage ratio	44.4	45.9	28.2	27.8	31.1
<b>Adjusted debt/equity</b>	<b>(0.5)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.6)</b>	<b>(0.6)</b>

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

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**BUY** – Expected return >+15%

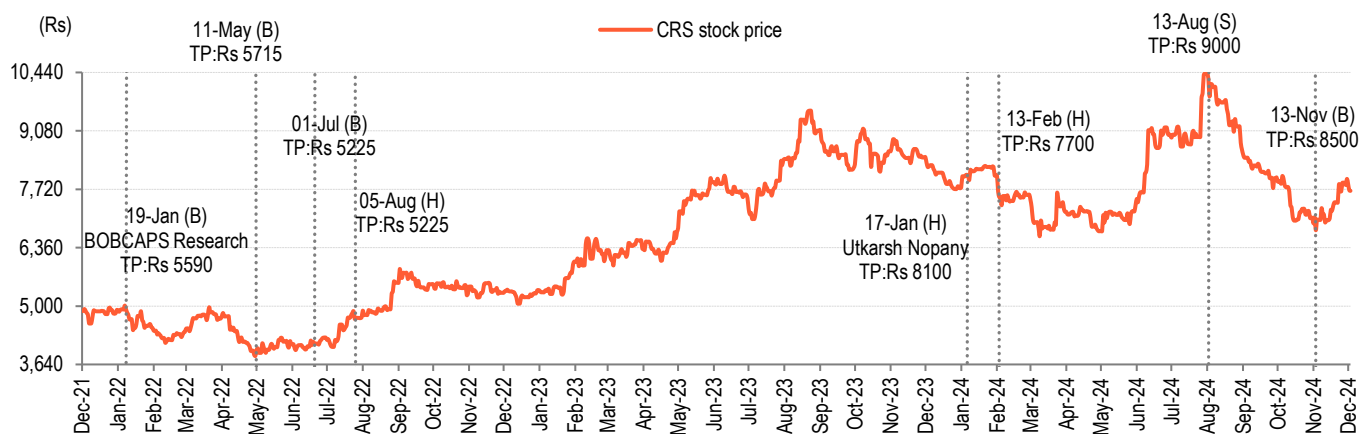
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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### 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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