

BUY

TP: Rs 3,060 | ▲20%

CERA SANITARYWARE

Construction Materials

18 September 2019

Margins resilient despite soft demand

Key takeaways from our recent meeting with the Cera Sanitaryware (CRS) management: (1) Demand remains feeble and CRS expects some pickup only from H2. (2) Management stays committed to working capital discipline despite the tough business environment. (3) Operating margins have shown resilience and are targeted to expand from 14.3% to 14.5-15% in FY20. We continue to like CRS for its strong brand, diverse portfolio and sound balance sheet. Maintain BUY with an unchanged Jun'20 TP of Rs 3,060.

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Demand lacklustre: After a tepid Q1FY20 marked by sagging demand, CRS saw stronger growth in July before a return to weak numbers in August. The company expects H1FY20 to be flattish, followed by improvement in H2 as faucetware and tiles benefit from a lower base and an enlarged product portfolio, overtaking growth in sanitaryware. Management also highlighted its sustained focus on working capital discipline to ensure a sound balance sheet, despite the toll this takes on growth.

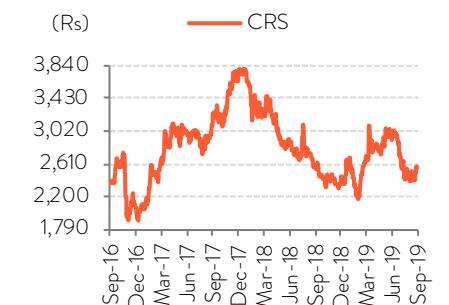
Operating margins resilient: Management stated the company has been able to retain the 3-5% sanitaryware price hikes taken in Q1FY20. With raw material costs at comfortable levels, CRS expects to have blended operating margins of 14.5-15% in FY20 (vs. ~14.3% in FY19). Faucetware margins have risen steadily over the past few years and are now higher than the company's blended margins.

Maintain BUY: We continue to like CRS for its wide distribution network, strong brand, comprehensive product portfolio, sound balance sheet and prudent working capital management. Our Jun'20 TP of Rs 3,060 is set at a one-year forward P/E of 26x, in line with the five-year average.

Ticker/Price	CRS IN/Rs 2,550
Market cap	US\$ 460.8mn
Shares o/s	13mn
3M ADV	US\$ 0.2mn
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	FY18A	FY19A	FY20E	FY21E	FY22E
Total Revenue (Rs mn)	11,776	13,444	14,806	16,537	18,772
EBITDA (Rs mn)	1,699	1,917	2,191	2,481	2,816
Adj. net profit (Rs mn)	970	1,010	1,274	1,478	1,678
Adj. EPS (Rs)	74.6	77.7	98.0	113.6	129.0
Adj. EPS growth (%)	0.9	4.1	26.1	16.0	13.6
Adj. ROAE (%)	17.2	15.5	16.9	17.1	16.9
Adj. P/E (x)	34.2	32.8	26.0	22.4	19.8
EV/EBITDA (x)	19.4	17.0	14.8	13.2	11.6

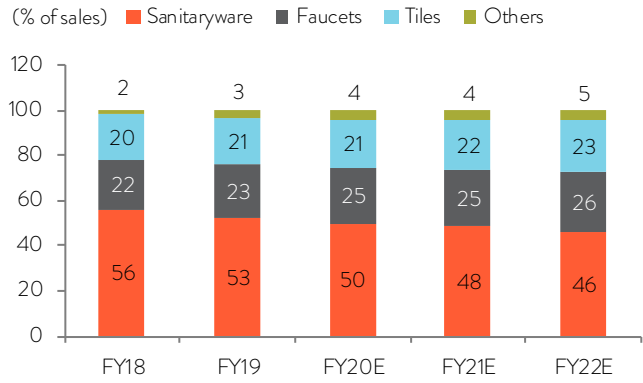
Source: Company, BOBCAPS Research

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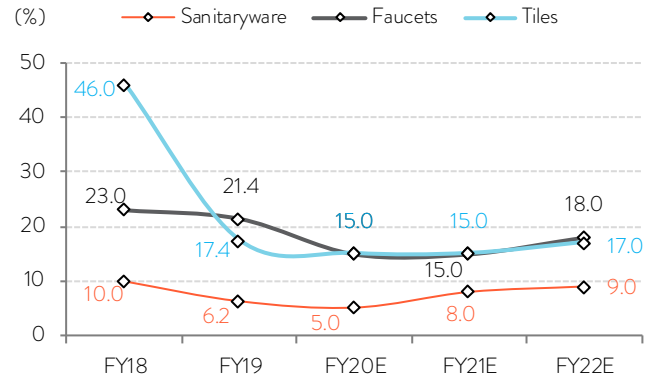


FIG 1 – REVENUE BREAKUP



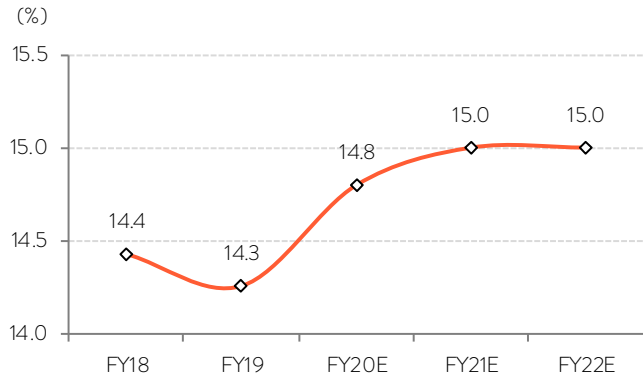
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL GROWTH



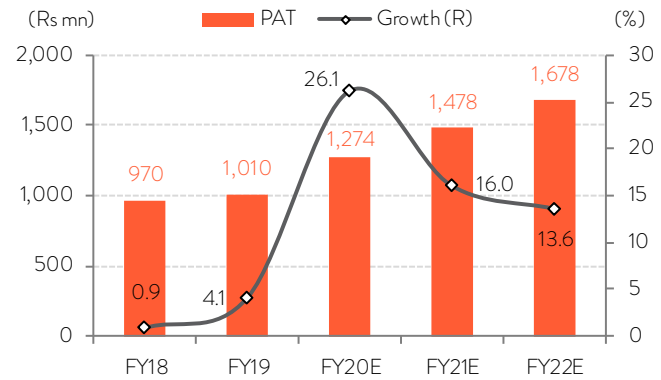
Source: Company, BOBCAPS Research

FIG 3 – EBITDA MARGIN



Source: Company, BOBCAPS Research

FIG 4 – PAT GROWTH



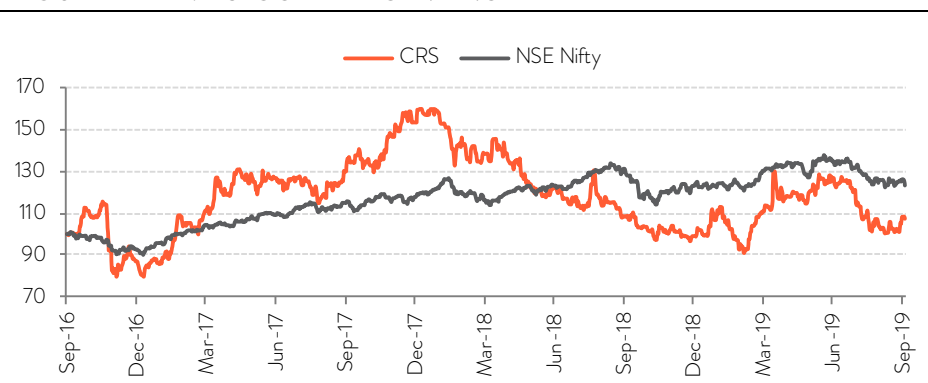
Source: Company, BOBCAPS Research

Valuation methodology

CRS is the largest organised sanitaryware player in India with ~22-23% organised market share and a pan-India presence through a network of 2,841 dealers and 11,306 retailers (as of FY19). 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.

CRS has a debt-free balance sheet with cash on books of ~Rs 1.8bn as of FY19. We expect the company to witness a revenue/PAT CAGR of 11%/21% over FY19-FY21, backed by its comprehensive portfolio, wide distribution reach and strong brand focus. We continue to value the stock at a one-year forward P/E multiple of 26x, in-line with the five-year average forward P/E. Maintain BUY with an unchanged Jun'20 target price of Rs 3,060.

FIG 5 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Sharp rise in raw material prices:** CRS's key raw material is natural gas in case of tiles; 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 (~30-50% 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)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	11,776	13,444	14,806	16,537	18,772
EBITDA	1,699	1,917	2,191	2,481	2,816
Depreciation	(271)	(280)	(307)	(345)	(393)
EBIT	1,428	1,637	1,884	2,135	2,423
Net interest income/(expenses)	(98)	(85)	(75)	(61)	(64)
Other income/(expenses)	129	110	147	184	208
Exceptional items	90	141	0	0	0
EBT	1,459	1,662	1,956	2,259	2,567
Income taxes	(488)	(652)	(684)	(790)	(898)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(1)	0	3	10	10
Reported net profit	1,061	1,151	1,274	1,478	1,678
Adjustments	(90)	(141)	0	0	0
Adjusted net profit	970	1,010	1,274	1,478	1,678

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	944	1,109	1,136	1,269	1,440
Other current liabilities	1,840	1,979	2,150	2,401	2,726
Provisions	201	365	222	248	282
Debt funds	962	906	590	700	650
Other liabilities	391	436	436	436	436
Equity capital	65	65	65	65	65
Reserves & surplus	5,991	6,944	7,986	9,190	10,558
Shareholders' fund	6,056	7,009	8,052	9,255	10,623
Total liabilities and equities	10,461	11,908	12,686	14,400	16,237
Cash and cash eq.	327	193	67	131	312
Accounts receivables	2,680	2,984	3,083	3,443	3,909
Inventories	1,935	2,158	2,272	2,537	2,880
Other current assets	782	747	933	1,042	1,183
Investments	1,086	1,779	1,890	2,450	2,750
Net fixed assets	3,584	3,840	4,232	4,587	4,994
CWIP	52	195	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	10,461	11,908	12,686	14,400	16,237

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,332	1,431	1,582	1,823	2,071
Interest expenses	98	85	75	61	64
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(648)	(22)	(345)	(325)	(419)
Other operating cash flows	(3)	45	0	0	0
Cash flow from operations	778	1,540	1,311	1,559	1,716
Capital expenditures	(470)	(678)	(700)	(700)	(800)
Change in investments	(215)	(693)	(111)	(560)	(300)
Other investing cash flows	(64)	(10)	(3)	(10)	(10)
Cash flow from investing	(749)	(1,381)	(814)	(1,270)	(1,110)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	124	(56)	(316)	110	(50)
Interest expenses	(98)	(85)	(75)	(61)	(64)
Dividends paid	(188)	(188)	(229)	(264)	(300)
Other financing cash flows	(107)	36	(3)	(10)	(10)
Cash flow from financing	(268)	(293)	(623)	(226)	(424)
Changes in cash and cash eq.	(239)	(134)	(126)	64	182
Closing cash and cash eq.	327	193	67	131	312

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	81.5	88.5	98.0	113.6	129.0
Adjusted EPS	74.6	77.7	98.0	113.6	129.0
Dividend per share	12.0	13.0	14.7	16.9	19.2
Book value per share	465.7	538.9	619.1	711.6	816.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.8	2.4	2.2	2.0	1.7
EV/EBITDA	19.4	17.0	14.8	13.2	11.6
Adjusted P/E	34.2	32.8	26.0	22.4	19.8
P/BV	5.5	4.7	4.1	3.6	3.1

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	62.6	56.0	65.2	65.4	65.4
Interest burden (PBT/EBIT)	108.5	110.1	103.8	105.8	105.9
EBIT margin (EBIT/Revenue)	12.1	12.2	12.7	12.9	12.9
Asset turnover (Revenue/Avg TA)	116.2	120.2	120.4	122.1	122.5
Leverage (Avg TA/Avg Equity)	1.8	1.7	1.6	1.6	1.5
Adjusted ROAE	17.2	15.5	16.9	17.1	16.9

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	17.0	14.2	10.1	11.7	13.5
EBITDA	(1.1)	12.8	14.3	13.2	13.5
Adjusted EPS	0.9	4.1	26.1	16.0	13.6
Profitability & Return ratios (%)					
EBITDA margin	14.4	14.3	14.8	15.0	15.0
EBIT margin	12.1	12.2	12.7	12.9	12.9
Adjusted profit margin	8.2	7.5	8.6	8.9	8.9
Adjusted ROAE	17.2	15.5	16.9	17.1	16.9
ROCE	14.7	13.8	14.6	14.8	14.7
Working capital days (days)					
Receivables	76	77	75	72	71
Inventory	121	123	122	119	118
Payables	32	33	32	31	31
Ratios (x)					
Gross asset turnover	2.5	2.6	2.6	2.6	2.6
Current ratio	1.6	1.5	1.6	1.7	1.7
Net interest coverage ratio	14.6	19.2	25.2	34.8	37.8
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.0

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

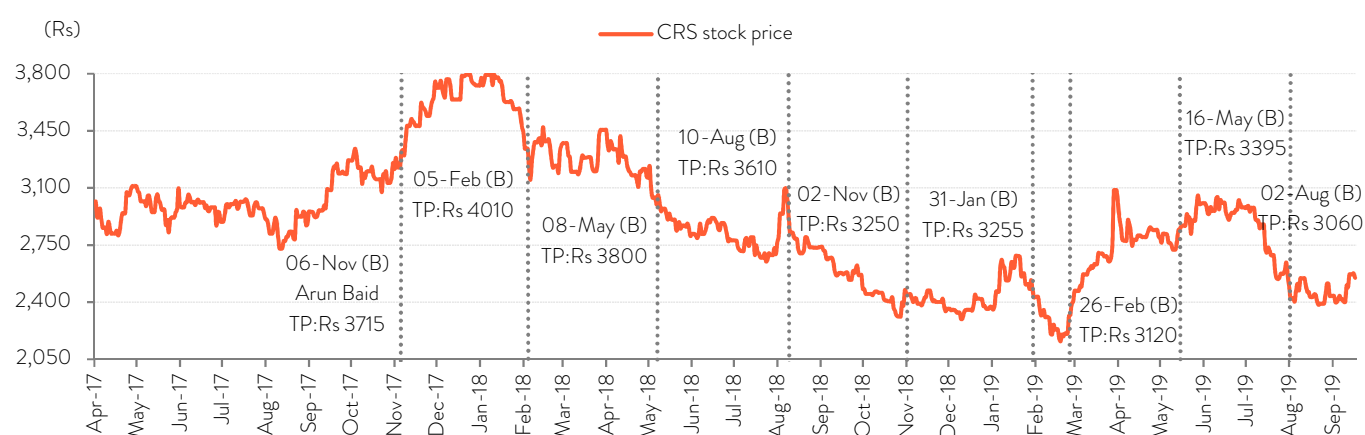
ADD – Expected return from >+5% to +15%

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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