

BUY

TP: Rs 3,040 | ▲ 18%

CERA SANITARYWARE

Construction Materials

23 December 2019

Near-term demand outlook remains challenging

We recently hosted investor meetings with the Cera Sanitaryware (CRS) management. Key takeaways: (1) Demand continues to stagnate with no pick-up seen over the past two months. (2) CRS isn't facing cost pressures but an adverse product mix could be a drain on FY20 margins. (3) The company does not intend to chase growth at the expense of working capital discipline. We cut FY20-FY22 EPS by 3-4% considering the sustained demand slump. On rolling valuations forward, we have an unchanged Dec'20 TP of Rs 3,040. **BUY.**

Arun Baid

research@bobcaps.in

Demand climate still sluggish: Management indicated that demand conditions have been weak for the past two months as seen in 1HFY20, with its largest sanitaryware segment continuing to see muted sales. Tight liquidity at retailers is constraining demand across product categories and the company does not anticipate material improvement in the near term.

Ticker/Price CRS IN/Rs 2,585

Market cap US\$ 472.4mn

Shares o/s 13mn

3M ADV US\$ 0.2mn

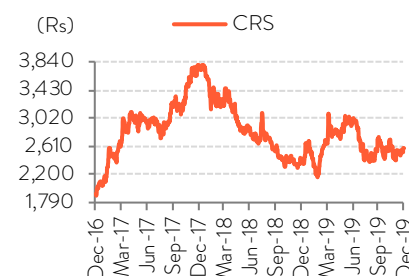
52wk high/low Rs 3,195/Rs 2,144

Promoter/FPI/DII 55%/8%/37%

Source: NSE

Steadfast focus on working capital discipline: CRS intends to continue its practice of maintaining a disciplined working capital cycle. The company will not opt for growth at the expense of balance sheet health as ground conditions remain challenging.

STOCK PERFORMANCE



Source: NSE

Margin headwinds in FY20: High-margin sanitaryware sales remain under pressure. Consequently, management indicated operating margins to see softness in FY20 despite benign raw material prices.

Maintain BUY: We cut our FY20-FY22 earnings estimates by 3-4% due to the continued adverse demand conditions. On rollover, our target price remains at Rs 3,040 – maintain BUY given CRS's robust portfolio, strong brand, wide distribution reach and sound balance sheet.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	11,776	13,444	13,663	15,021	16,655
EBITDA (Rs mn)	1,699	1,917	1,845	2,088	2,348
Adj. net profit (Rs mn)	970	1,010	1,178	1,368	1,568
Adj. EPS (Rs)	74.6	77.7	90.6	105.2	120.6
Adj. EPS growth (%)	0.9	4.1	16.6	16.1	14.6
Adj. ROAE (%)	17.2	15.5	15.7	16.0	16.1
Adj. P/E (x)	34.6	33.3	28.5	24.6	21.4
EV/EBITDA (x)	19.7	17.3	17.9	15.8	14.1

Source: Company, BOBCAPS Research

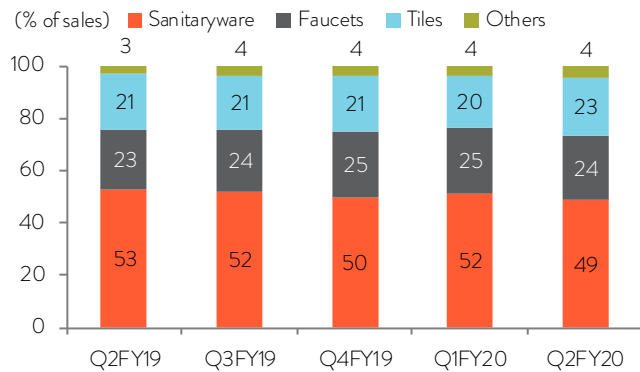
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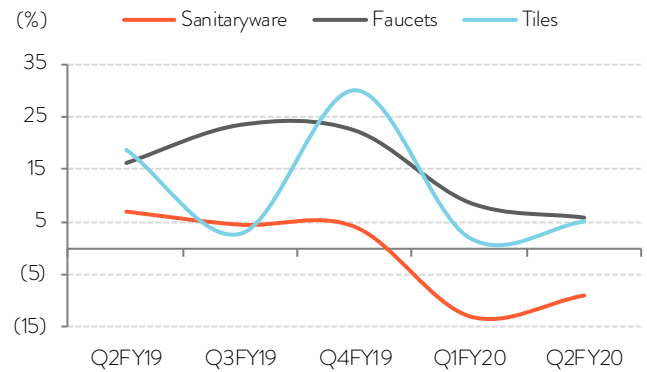
STANDALONE QUARTERLY TRENDS

FIG 1 – REVENUE BREAKUP



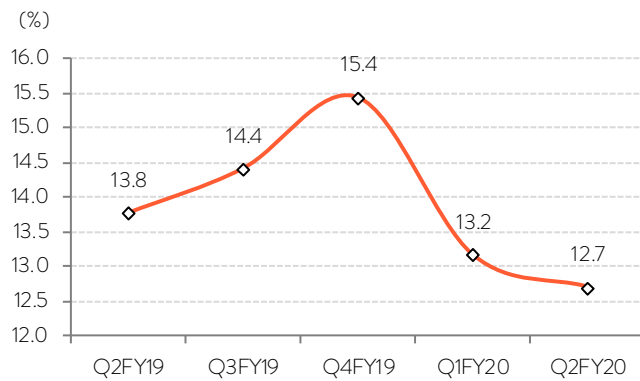
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL GROWTH



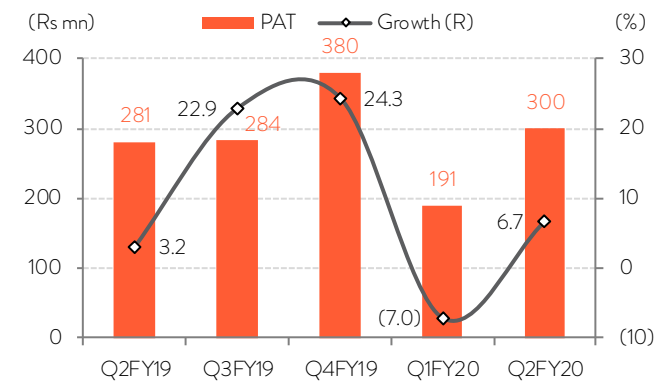
Source: Company, BOBCAPS Research

FIG 3 – EBITDA MARGIN



Source: Company, BOBCAPS Research

FIG 4 – PAT GROWTH YOY



Source: Company, BOBCAPS Research

Other key takeaways

- CRS continues to derive 72% of sales from retail and 28% from the institutional segment.
- Tier-3 towns (population <1mn) account for 55% of the company’s revenue.
- CRS’s top 100 dealers bring in 37% of revenues whereas the top 500 account for 67% share.
- Management has no plans to add new business segments but will continue to launch new products in its existing portfolios.
- In sanitaryware, the Cera brand remains the main contributor; ISVEA and Senator continue to have a miniscule contribution.
- Over the past five years, the dealer count has risen ~22% to ~3,200.

Valuation methodology

CRS is one of the leading organised sanitaryware players in India with 21-22% 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.

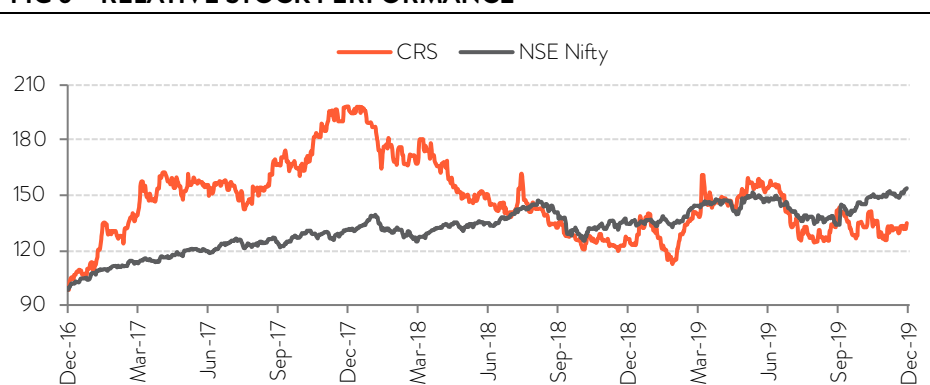
Due to continued tepid demand conditions, we reduce our PAT estimates for FY20-FY22 by 3-4%. On rolling valuations forward, our Dec'20 target price remains at Rs 3,040, set at an unchanged 26x one-year forward P/E. Maintain BUY.

FIG 5 – REVISED ESTIMATES

(Rs mn)	Old			New			% change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	14,016	15,391	17,047	13,663	15,021	16,655	(2.5)	(2.4)	(2.3)
EBITDA	1,920	2,155	2,421	1,845	2,088	2,348	(3.9)	(3.1)	(3.0)
PAT	1,233	1,418	1,622	1,178	1,368	1,568	(4.4)	(3.5)	(3.3)

Source: Company

FIG 6 – 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)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	11,776	13,444	13,663	15,021	16,655
EBITDA	1,699	1,917	1,845	2,088	2,348
Depreciation	(271)	(280)	(373)	(408)	(451)
EBIT	1,428	1,637	1,472	1,680	1,897
Net interest income/(expenses)	(98)	(85)	(75)	(61)	(64)
Other income/(expenses)	129	110	174	197	244
Exceptional items	90	141	0	0	0
EBT	1,459	1,662	1,571	1,816	2,077
Income taxes	(488)	(652)	(396)	(458)	(523)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(1)	0	3	10	15
Reported net profit	1,061	1,151	1,178	1,368	1,568
Adjustments	(90)	(141)	0	0	0
Adjusted net profit	970	1,010	1,178	1,368	1,568

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	944	1,109	1,048	1,152	1,278
Other current liabilities	1,840	1,979	1,947	2,140	2,373
Provisions	201	365	205	225	250
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	7,908	9,022	10,295
Shareholders' fund	6,056	7,009	7,973	9,087	10,360
Total liabilities and equities	10,461	11,908	12,299	13,831	15,422
Cash and cash eq.	327	193	45	16	173
Accounts receivables	2,680	2,984	2,845	3,128	3,468
Inventories	1,935	2,158	2,096	2,305	2,555
Other current assets	782	747	786	864	958
Investments	1,086	1,779	2,250	3,000	3,500
Net fixed assets	3,584	3,840	4,067	4,310	4,559
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	12,299	13,831	15,422

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,332	1,431	1,551	1,776	2,020
Interest expenses	98	85	75	61	64
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(648)	(22)	(93)	(251)	(302)
Other operating cash flows	(3)	45	0	0	0
Cash flow from operations	778	1,540	1,533	1,586	1,782
Capital expenditures	(470)	(678)	(600)	(650)	(700)
Change in investments	(215)	(693)	(471)	(750)	(500)
Other investing cash flows	(64)	(10)	(3)	(10)	(15)
Cash flow from investing	(749)	(1,381)	(1,074)	(1,410)	(1,215)
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)	(212)	(245)	(280)
Other financing cash flows	(107)	36	(3)	(10)	(15)
Cash flow from financing	(268)	(293)	(605)	(206)	(409)
Changes in cash and cash eq.	(239)	(134)	(147)	(30)	158
Closing cash and cash eq.	327	193	45	16	173

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	81.5	88.5	90.6	105.2	120.6
Adjusted EPS	74.6	77.7	90.6	105.2	120.6
Dividend per share	12.0	13.0	13.6	15.7	17.9
Book value per share	465.7	538.9	613.0	698.7	796.6

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.8	2.5	2.4	2.2	2.0
EV/EBITDA	19.7	17.3	17.9	15.8	14.1
Adjusted P/E	34.6	33.3	28.5	24.6	21.4
P/BV	5.6	4.8	4.2	3.7	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	62.6	56.0	75.0	75.4	75.5
Interest burden (PBT/EBIT)	108.5	110.1	106.8	108.1	109.5
EBIT margin (EBIT/Revenue)	12.1	12.2	10.8	11.2	11.4
Asset turnover (Revenue/Avg TA)	116.2	120.2	112.9	115.0	113.9
Leverage (Avg TA/Avg Equity)	1.8	1.7	1.6	1.5	1.5
Adjusted ROAE	17.2	15.5	15.7	16.0	16.1

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	1.6	9.9	10.9
EBITDA	(1.1)	12.8	(3.8)	13.2	12.5
Adjusted EPS	0.9	4.1	16.6	16.1	14.6
Profitability & Return ratios (%)					
EBITDA margin	14.4	14.3	13.5	13.9	14.1
EBIT margin	12.1	12.2	10.8	11.2	11.4
Adjusted profit margin	8.2	7.5	8.6	9.1	9.4
Adjusted ROAE	17.2	15.5	15.7	16.0	16.1
ROCE	14.7	13.8	13.2	13.6	13.5
Working capital days (days)					
Receivables	76	77	78	73	72
Inventory	121	123	124	118	117
Payables	32	33	33	31	31
Ratios (x)					
Gross asset turnover	2.5	2.6	2.4	2.4	2.4
Current ratio	1.6	1.5	1.6	1.6	1.7
Net interest coverage ratio	14.6	19.2	19.7	27.4	29.6
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%

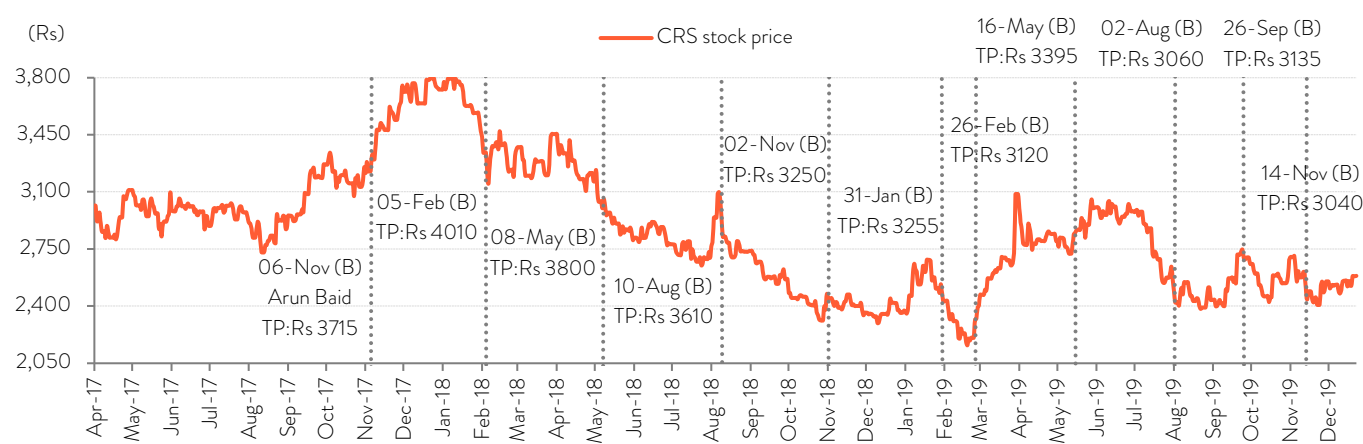
ADD – Expected return from >+5% to +15%

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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