

BUY

TP: Rs 2,775 | ▲ 25%

CERA SANITARYWARE

Construction Materials

24 March 2020

Demand environment anaemic but margins steady

We recently met the management of Cera Sanitaryware (CRS). Key takeaways: (1) Demand for tiles and faucets improved slightly during Jan-Feb'20, though the sanitaryware segment was flattish. (2) The Covid-19 impact is difficult to predict at this early stage and will depend on duration of the outbreak. (3) With benign RM prices, margins are likely to improve. We cut FY20-FY22 PAT estimates by 2-10% to factor in Covid-linked demand headwinds. Maintain BUY with a revised Mar'21 TP of Rs 2,775 (vs. Rs 3,100).

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Demand remains anaemic: CRS posted marginal revenue growth during Jan-Feb'20, led by the tiles and faucet segments whereas sanitaryware was flattish. As per management, the impact of Covid-19 will depend on the length of the outbreak and hence is difficult to assess at this early stage. In our view, the recent lockdown across most parts of India and halting of construction activity will slow the company's revenue growth in the near term. Also, strict adherence to working capital discipline, as reiterated by management, will limit growth considering tight liquidity conditions in the market.

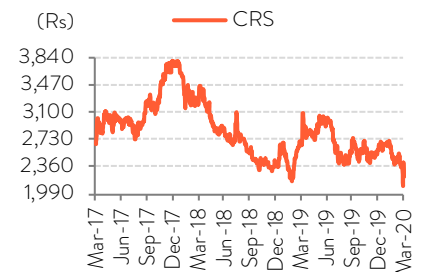
Margins steady: Management does not foresee margin headwinds as raw material prices remain benign. The company also plans to raise sanitaryware prices by 3-5% from Apr'20, which should aid profitability. As per management, margins would remain in the range of 13-14%.

Maintain BUY: CRS has a strong, cash-rich balance sheet with tight control over working capital, which should enable it to tide over the tepid demand climate. A widespread distribution network, comprehensive product portfolio and strong brand will hold it in good stead when demand improves. We continue to like the company but cut PAT estimates by 2-10% over FY20-FY22 to build in demand headwinds from the ongoing lockdowns and construction stoppages.

Ticker/Price	CRS IN/Rs 2,220
Market cap	US\$ 379.6mn
Shares o/s	13mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 3,195/Rs 1,986
Promoter/FPI/DII	54%/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	13,179	13,803	15,229
EBITDA (Rs mn)	1,699	1,917	1,779	1,863	2,102
Adj. net profit (Rs mn)	970	1,010	1,134	1,211	1,387
Adj. EPS (Rs)	74.6	77.7	87.2	93.1	106.6
Adj. EPS growth (%)	0.9	4.1	12.3	6.7	14.6
Adj. ROAE (%)	17.2	15.5	15.2	14.4	14.7
Adj. P/E (x)	29.7	28.6	25.5	23.8	20.8
EV/EBITDA (x)	16.9	14.8	15.8	15.2	13.5

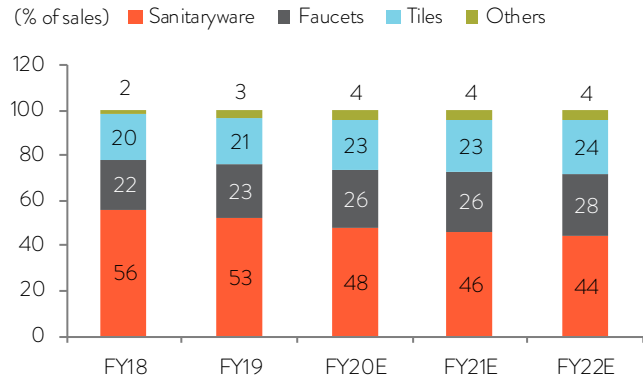
Source: Company, BOBCAPS Research

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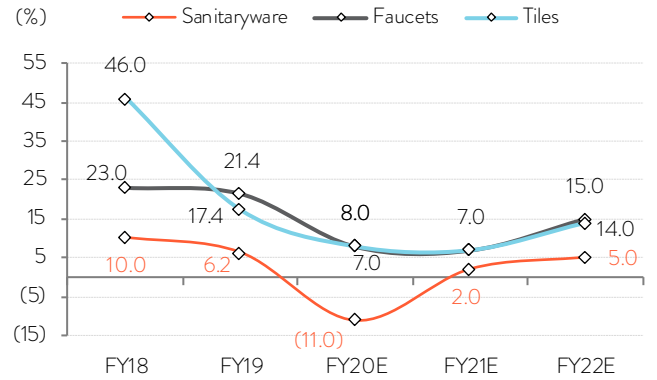


FIG 1 – REVENUE BREAKUP



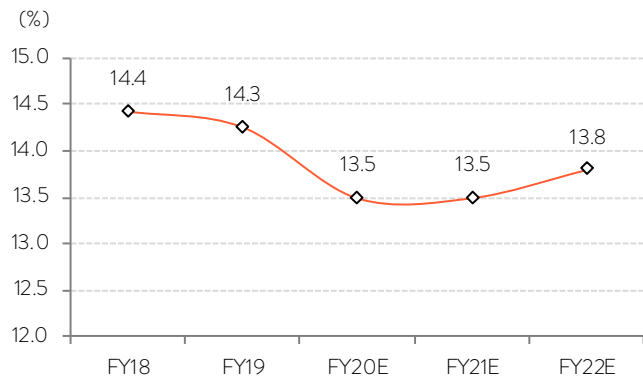
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL GROWTH



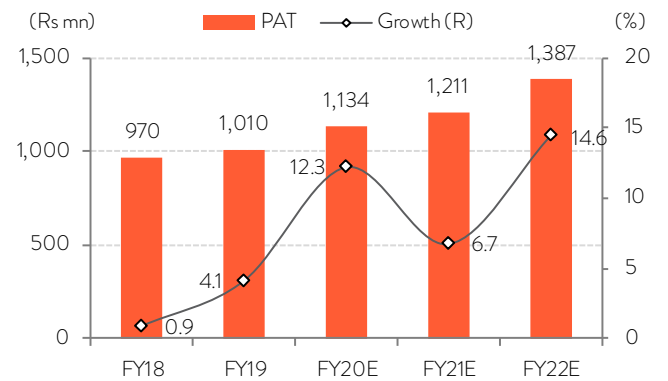
Source: Company, BOBCAPS Research

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 ~21-22% organised market share and a pan-India presence through a network of over 2,800 dealers and 11,300 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.

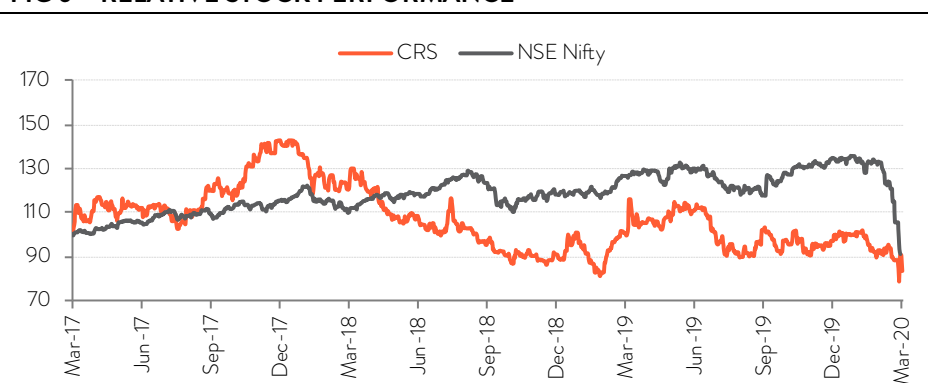
CRS has a debt-free balance sheet with cash on books of ~Rs 2.1bn as of Dec'19. Further, tight working capital control should hold it in good stead amid a weak business climate. Amidst demand headwinds from the widening lockdown in India and stalling of construction activities due to Covid-19, we lower our FY20-FY22 PAT estimates by 2-10%. We continue to value the stock at a one-year forward P/E multiple of 26x, in-line with the five-year average forward multiple. Maintain BUY with a revised Mar'21 target price of Rs 2,775 (earlier Rs 3,100).

FIG 5 – REVISED ESTIMATES

(Rs mn)	Old			New			% change		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	13,451	14,798	16419	13,179	13,803	15,229	(2.0)	(6.7)	(7.2)
EBITDA	1,816	2,057	2315	1,779	1,863	2,102	(2.0)	(9.4)	(9.2)
PAT	1,162	1,352	1548	1,134	1,211	1,387	(2.4)	(10.4)	(10.4)

Source: BOBCAPS Research

FIG 6 – 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	13,179	13,803	15,229
EBITDA	1,699	1,917	1,779	1,863	2,102
Depreciation	(271)	(280)	(375)	(408)	(451)
EBIT	1,428	1,637	1,404	1,456	1,650
Net interest income/(expenses)	(98)	(85)	(93)	(64)	(64)
Other income/(expenses)	129	110	187	200	235
Exceptional items	90	141	0	0	0
EBT	1,459	1,662	1,498	1,592	1,821
Income taxes	(488)	(652)	(377)	(401)	(459)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	(1)	0	14	20	25
Reported net profit	1,061	1,151	1,134	1,211	1,387
Adjustments	(90)	(141)	0	0	0
Adjusted net profit	970	1,010	1,134	1,211	1,387

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	944	1,109	1,011	1,059	1,168
Other current liabilities	1,840	1,979	1,878	1,966	2,170
Provisions	201	365	198	207	228
Debt funds	962	906	590	620	600
Other liabilities	391	436	436	436	436
Equity capital	65	65	65	65	65
Reserves & surplus	5,991	6,944	7,863	8,839	9,956
Shareholders' fund	6,056	7,009	7,928	8,904	10,021
Total liabilities and equities	10,461	11,908	12,129	13,262	14,668
Cash and cash eq.	327	193	50	10	39
Accounts receivables	2,680	2,984	2,744	2,874	3,171
Inventories	1,935	2,158	2,004	2,118	2,337
Other current assets	782	747	758	794	876
Investments	1,086	1,779	2,300	2,950	3,480
Net fixed assets	3,584	3,840	4,065	4,307	4,556
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	12,129	13,262	14,668

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	1,332	1,431	1,510	1,618	1,838
Interest expenses	98	85	93	64	64
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(648)	(22)	14	(133)	(264)
Other operating cash flows	(3)	45	0	0	0
Cash flow from operations	778	1,540	1,617	1,548	1,639
Capital expenditures	(470)	(678)	(600)	(650)	(700)
Change in investments	(215)	(693)	(521)	(650)	(530)
Other investing cash flows	(64)	(10)	(14)	(20)	(25)
Cash flow from investing	(749)	(1,381)	(1,135)	(1,320)	(1,255)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	124	(56)	(316)	30	(20)
Interest expenses	(98)	(85)	(93)	(64)	(64)
Dividends paid	(188)	(188)	(202)	(214)	(245)
Other financing cash flows	(107)	36	(14)	(20)	(25)
Cash flow from financing	(268)	(293)	(624)	(268)	(354)
Changes in cash and cash eq.	(239)	(134)	(143)	(40)	29
Closing cash and cash eq.	327	193	50	10	39

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	81.5	88.5	87.2	93.1	106.6
Adjusted EPS	74.6	77.7	87.2	93.1	106.6
Dividend per share	12.0	13.0	12.9	13.7	15.7
Book value per share	465.7	538.9	609.6	684.6	770.5

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.4	2.1	2.1	2.0	1.9
EV/EBITDA	16.9	14.8	15.8	15.2	13.5
Adjusted P/E	29.7	28.6	25.5	23.8	20.8
P/BV	4.8	4.1	3.6	3.2	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	62.6	56.0	75.7	76.1	76.2
Interest burden (PBT/EBIT)	108.5	110.1	106.7	109.3	110.3
EBIT margin (EBIT/Revenue)	12.1	12.2	10.7	10.5	10.8
Asset turnover (Revenue/Avg TA)	116.2	120.2	109.7	108.7	109.1
Leverage (Avg TA/Avg Equity)	1.8	1.7	1.6	1.5	1.5
Adjusted ROAE	17.2	15.5	15.2	14.4	14.7

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	(2.0)	4.7	10.3
EBITDA	(1.1)	12.8	(7.2)	4.7	12.8
Adjusted EPS	0.9	4.1	12.3	6.7	14.6
Profitability & Return ratios (%)					
EBITDA margin	14.4	14.3	13.5	13.5	13.8
EBIT margin	12.1	12.2	10.7	10.5	10.8
Adjusted profit margin	8.2	7.5	8.6	8.8	9.1
Adjusted ROAE	17.2	15.5	15.2	14.4	14.7
ROCE	14.7	13.8	12.6	12.0	12.2
Working capital days (days)					
Receivables	76	77	79	74	72
Inventory	121	123	126	119	117
Payables	32	33	34	32	31
Ratios (x)					
Gross asset turnover	2.5	2.6	2.3	2.2	2.2
Current ratio	1.6	1.5	1.6	1.6	1.7
Net interest coverage ratio	14.6	19.2	15.1	22.9	25.8
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.1

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

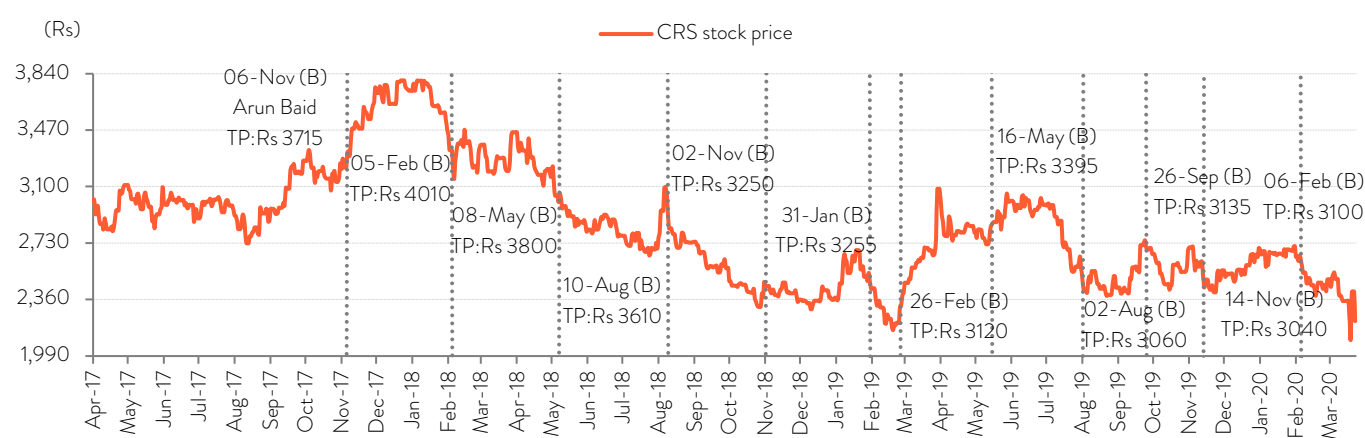
ADD – Expected return from >+5% to +15%

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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