

ADD

TP: Rs 2,440 | ▲ 9%

CERA SANITARYWARE

Construction Materials

24 September 2020

Demand trends improving

We recently interacted with the management of Cera Sanitaryware (CRS). Following are the key takeaways:

- Demand has been reviving over the past few months alongside gradual unlocking of the economy. CRS's July-August sales were cumulatively at ~95% of year-ago levels vs. ~85% levels in June and 55-60% in May.
- Tier-3 cities and below, where the impact of Covid-19 has been limited, have been key demand drivers. These markets now account for ~65% of the company's turnover (vs. ~55% historically).
- CRS has a major presence in South India (~42% of FY20 revenue); this market continues to see better traction than other geographies even now.
- Sanitaryware revenue contribution has risen; share of tiles has declined due to stricter credit terms imposed by the company post Covid.
- In the sanitaryware segment, sale of entry-level products has increased due to higher demand from the affordable housing market.
- Demand for touch-free faucets has spiked after onset of the pandemic. These products have higher realisations and also better margins.
- CRS took price hikes of 3-5% in the sanitaryware segment in Aug'20, which will aid margins in H2FY21.
- Input prices remain benign, limiting margin pressure. Cost control initiatives should result in savings of at least Rs 100mn in FY21.
- Working capital has improved as cash collections remain robust despite challenges due to Covid-19. Also, inventory levels which had increased in FY20 due to the lockdown have now normalised and the company has negotiated its way to higher payable days.
- A focus on expanding the retail sales mix has seen its share rising to 73-75% of total turnover. About 50% of sales to retail dealers are on cash-and-carry mode.
- The company has added 550 dealers YoY, taking the count to 3,631 as of Jun'20.

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Ticker/Price	CRS IN/Rs 2,245
Market cap	US\$ 395.0mn
Shares o/s	13mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 2,790/Rs 1,986
Promoter/FPI/DII	54%/15%/30%

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY21E	FY22E	FY23E
Total revenue (Rs mn)	10,508	12,409	13,742
EBITDA (Rs mn)	1,132	1,772	1,974
Adj. net profit (Rs mn)	627	1,157	1,287
Adj. EPS (Rs)	48.2	89.0	98.9
Adj. EPS growth (%)	(44.6)	84.4	11.2
Adj. ROAE (%)	7.9	13.4	13.5
Adj. P/E (x)	46.6	25.2	22.7
EV/EBITDA (x)	25.1	16.1	14.5

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

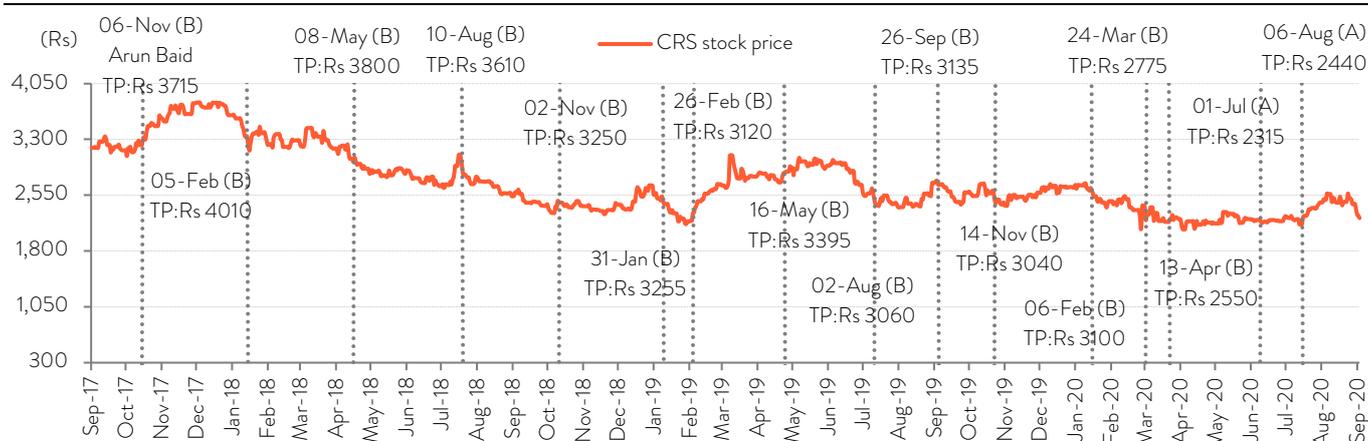
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): CERA SANITARYWARE (CRS IN)



Note: B – Buy, A – Add, R – Reduce, S – Sell

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