

SELL

TP: Rs 9,000 | ▼ 9%

CERA SANITARYWARE

Building Materials

13 August 2024

Another lacklustre quarter on soft demand

- Dull Q1 due to weak demand environment on account of the extreme heatwave and impact of general elections across India
- CRS maintains its revenue growth guidance of 16% CAGR over FY24-FY27 in anticipation of demand recovery from Q3FY25
- Downgrade to SELL on expensive valuations; raise TP by 17% to Rs 9,000

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Weak quarter: CRS's Q1FY25 result was below our estimates due to lower-than-expected revenue (-6.6% YoY vs +6.7% estimated) on account of weak demand conditions. CRS's gross margin was relatively flat at 54.8% in Q1FY25, but EBITDA margin fell sharply by 192bps YoY to 14.5% due to higher discounts offered to dealers and negative operating leverage. Overall, CRS's APAT was down 16.4% YoY, but it has grown at a healthy 21% rate on a 5Y CAGR basis in Q1FY25.

Key highlights: Product-wise, sanitaryware/faucet/tiles revenue degrew by 9%/5%/20% YoY, but wellness revenue grew by 16% YoY in Q1FY25. Blended gas consumption cost per unit fell 6.7% YoY/3.0% QoQ in Q1FY25. Advertisement spend as a percentage of sales was up 30bps YoY to 2.9% in Q1FY25. Net cash position improved from Rs 7.9bn in Mar'24 to Rs 8.6bn in Jun'24.

Guidance intact: While CRS expects the demand environment to remain weak in Q2FY25, it has maintained its revenue growth guidance of 16% CAGR over FY24-FY27 on expectation of single-digit growth in FY25 and higher growth in FY26 and FY27. Management is seeing signs of uptick in project sales from Jun'24 and expects retail sales to gain momentum from Q3FY25. CRS expects its EBITDA margin to be 16-17% for the remaining 9MFY25 and it is likely to further improve over the medium term. The land acquisition for the proposed greenfield sanitaryware unit is expected to be completed by Sep-Oct'24 (vs Jun-Jul'24) and then it would take another 18 months to complete the project at a cost of Rs 1.25bn-1.3bn.

Downgrade to SELL; raise TP by 17% to Rs 9,000: We downgrade our rating on the stock from HOLD to SELL due to (a) no concrete plan to use the rising cash balance for growth capex purposes; and (b) expensive valuations (trades at 49.7x on 1Y forward P/E vs the 5Y average of 33.6x). We have reduced our EPS estimates (-6.9%/-3.1% for FY25E/FY26E) based on the weak Q1FY25 result, but we have raised our TP to Rs 9,000 (Rs 7,700 earlier) due to the increase in our target P/E (from 35x to 40x) and roll forward our valuation from Mar'26 to Jun'26.

Key changes

Target	Rating
▲	▼

Ticker/Price	CRS IN/Rs 9,880
Market cap	US\$ 1.5bn
Free float	46%
3M ADV	US\$ 4.4mn
52wk high/low	Rs 10,790/Rs 6,591
Promoter/FPI/DII	54%/21%/7%

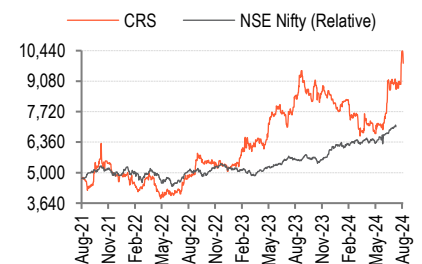
Source: NSE | Price as of 13 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	18,794	19,864	22,072
EBITDA (Rs mn)	3,033	3,065	3,532
Adj. net profit (Rs mn)	2,402	2,451	2,773
Adj. EPS (Rs)	184.7	188.5	213.2
Consensus EPS (Rs)	184.7	202.8	234.3
Adj. ROAE (%)	18.9	17.0	17.1
Adj. P/E (x)	53.5	52.4	46.3
EV/EBITDA (x)	44.3	44.3	38.7
Adj. EPS growth (%)	12.3	2.1	13.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total operating income	4,007	4,289	(6.6)	5,488	(27.0)
Raw-Material expense	1,812	1,937	(6.5)	2,701	(32.9)
Gross Profit	2,195	2,352	(6.7)	2,787	(21.2)
Employee expense	589	576	2.2	581	1.3
Other expense	1,026	1,072	(4.3)	1,256	(18.3)
EBITDA	581	704	(17.5)	950	(38.9)
D&A	90	83	7.8	97	(7.2)
EBIT	491	621	(20.9)	853	(42.4)
Interest cost	13	13	(5.5)	15	(18.5)
Non-operating expense/(income)	(159)	(153)	4.1	(157)	1.1
PBT	637	760	(16.2)	995	(35.9)
Tax	163	193	(15.7)	238	(31.5)
Reported PAT	475	567	(16.3)	757	(37.3)
Adjusted PAT	471	563	(16.4)	749	(37.2)
As % of net revenues			(bps)		(bps)
Gross margin	54.8	54.8	(5)	50.8	400
Employee cost	14.7	13.4	126	10.6	410
Other cost	25.6	25.0	61	22.9	272
EBITDA margin	14.5	16.4	(192)	17.3	(281)
Tax rate	25.5	25.4	13	23.9	165
APAT margin	11.7	13.1	(138)	13.7	(191)

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

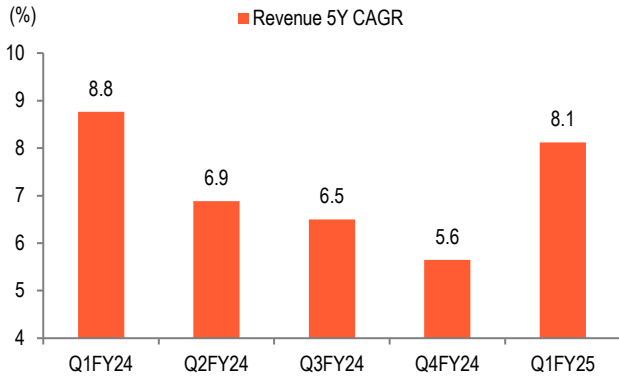
Revenue (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Sanitaryware	2,064	2,268	(9.0)	2,730	(24.4)
Faucetware	1,395	1,469	(5.0)	2,020	(30.9)
Tiles	355	444	(20.0)	510	(30.4)
Wellness	100	86	16.0	111	(10.3)
Others	92	22	324.6	117	(20.8)
Total	4,007	4,289	(6.6)	5,488	(27.0)

Source: Company, BOBCAPS Research

Earnings call highlights

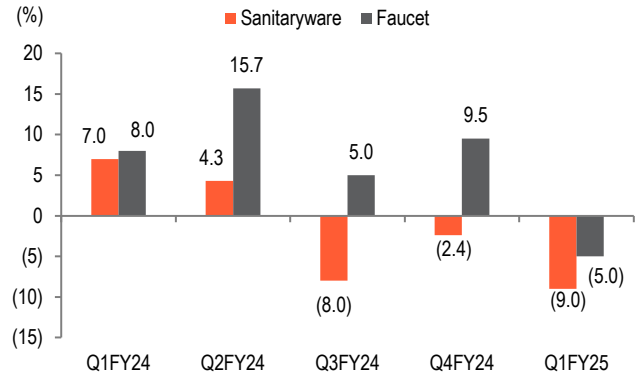
- **Market size:** As per management, the market size of sanitaryware is estimated to be Rs 90bn (organised share: 55%) and faucetware is Rs 140bn (organised share: 57%). According to management, the market is slowly shifting from unorganised to organised.
- **Demand:** The demand environment remained challenging from Q3FY24. Extreme heatwave conditions and general elections in the country further impacted demand in Q1FY25. Management believes project sales started picking up from Jun'24 and expects retail sales to gain momentum from Q3FY25.
- **Revenue outlook:** The company maintains its guidance of growing its revenue at 16% CAGR over FY24-FY27, to be driven by a single-digit rate in FY25 and higher growth rate in FY26 and FY27.
- **Margin:** Going ahead, the company expects its EBITDA margin to be 16-17% for the remaining 9MFY25 and to improve further over the medium term.
- **Product mix:** The revenue share of entry:mid:premium was 24%:32%:44% in Q1FY25 vs 24%:31%:45% in Q1FY24. New products accounted for 32% of CRS's sales in Q1FY25. Going ahead, the company plans to increase the contribution of its premium product portfolio by focusing on premiumisation in tier-2 and -3 cities.
- **Gas cost:** Blended gas consumption cost per unit was down 6.7% YoY/3.0% QoQ in Q1FY25 due to lower gas prices and higher share of low-cost gas from GAIL (from 77% in Q1FY24 to 86% in Q1FY25).
- **Capacity utilisation:** Sanitaryware/faucet plant operated at 76%/84% rate in Q1FY25.
- **Sanitaryware capex:** CRS acquired 80-85% of the land bank for its greenfield sanitaryware unit in Gujarat by Mar'24 and expects to buy the remaining land by Sep-Oct'24 (Jun-Jul'24 earlier). Thereafter, it aims to start construction and complete the project over 18 months at an estimated cost of Rs 1.25bn-1.3bn. The company does not expect any capacity constraints for its sanitaryware segment for the next two years due to high level of inventory, sourcing of products under outsourcing arrangements and ability to change the product mix based on demand conditions.
- **Maintenance capex:** The company maintained its capex guidance of Rs 254mn on routine capex for FY25.

Fig 3 – Fig 3 – CRS’s revenue degrew by 6.6% YoY, but it has grown at 8.1% on a 5Y CAGR basis in Q1FY25



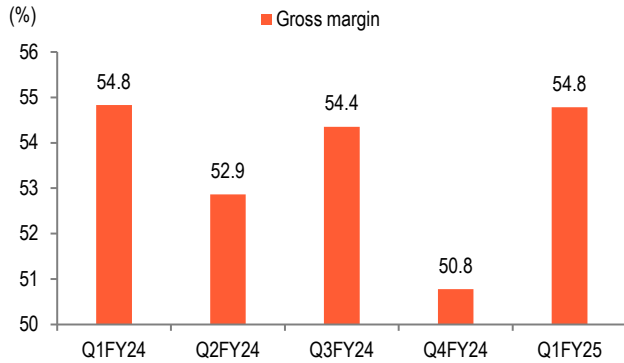
Source: Company, BOBCAPS Research

Fig 4 – Fig 4 – Sanitaryware revenue fell by 9.0% YoY and faucet revenue also degrew by 5.0% YoY in Q1FY25



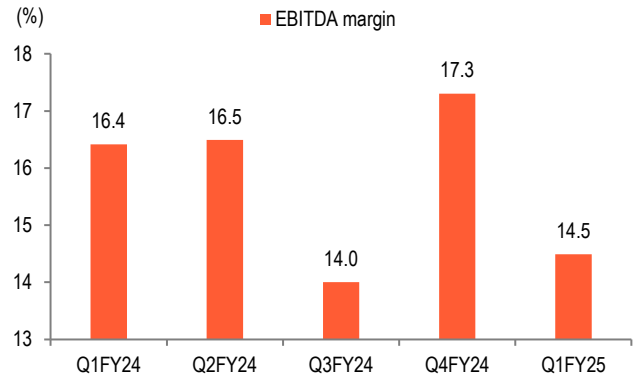
Source: Company, BOBCAPS Research

Fig 5 – Gross margin was relatively flat at 54.8% in Q1FY25



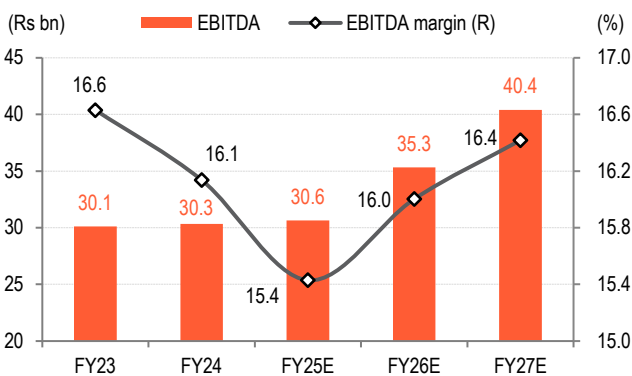
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin was down sharply in Q1FY25 on higher discounts offered & negative operating leverage



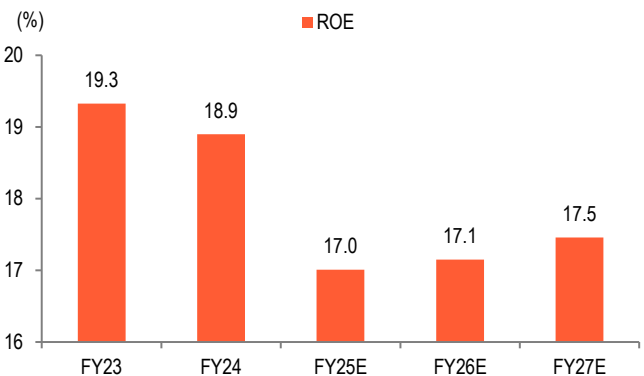
Source: Company, BOBCAPS Research

Fig 7 – CRS’s EBITDA forecast to clock 10.0% CAGR over FY24-FY27E



Source: Company, BOBCAPS Research

Fig 8 – ROE profile likely to moderate on no concrete usage of rising cash balance for growth capex purpose



Source: Company, BOBCAPS Research

Valuation methodology

We downgrade our rating on the stock from HOLD to SELL due to (a) no concrete plan to use the rising cash balance for growth capex purpose; and (b) expensive valuations (trades at 49.7x on 1Y forward P/E vs the 5Y average of 33.6x).

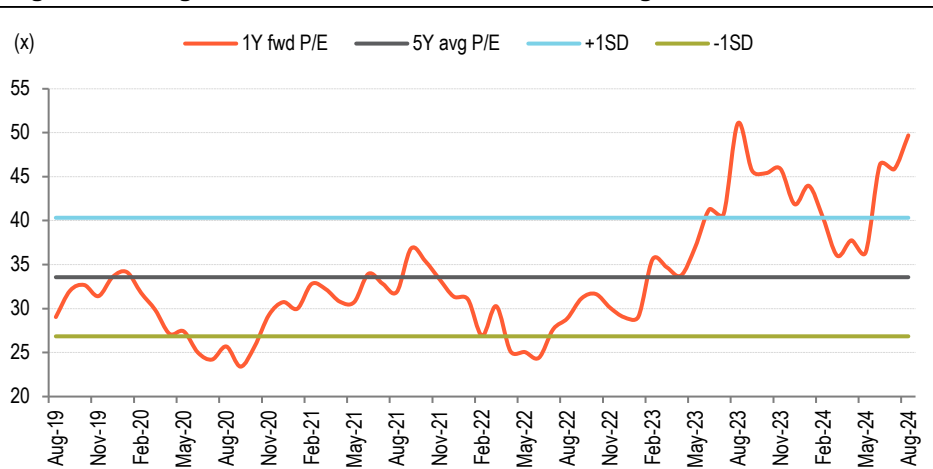
We have reduced our EPS estimates (-6.9%/-3.1% for FY25E/FY26E) based on the weak Q1FY25 result, but we have raised our TP to Rs 9,000 (Rs 7,700 earlier) as we increase our target P/E (from 35x to 40x) and roll forward our valuation from Mar'26 to Jun'26 .

Fig 9 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Revenue	19.9	22.1	20.6	22.8	(3.5)	(3.1)
EBITDA	3.1	3.5	3.3	3.7	(7.6)	(3.7)
EBITDA Margin (%)	15.4	16.0	16.1	16.1	(68bps)	(10bps)
Adjusted PAT	2.5	2.8	2.6	2.9	(6.9)	(3.1)
EPS (Rs)	188.5	213.2	202.5	220.0	(6.9)	(3.1)

Source: BOBCAPS Research

Fig 10 – Trading at 49.7x on 1Y forward P/E vs 5Y average of 33.6x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue Mix (%)						
Sanitaryware	52.7	53.6	51.6	50.4	49.2	48.1
Faucetware	33.2	34.1	36.1	37.0	38.1	39.3
Tiles	12.2	10.6	10.3	10.4	10.4	10.3
Wellness	1.9	1.8	2.0	2.2	2.3	2.4
Revenue Growth (%)						
Sanitaryware	30.2	26.8	(0.3)	3.8	9.0	9.0
Faucetware	41.0	28.0	9.7	8.9	15.0	15.0
Tiles	(29.7)	8.4	0.7	8.1	11.7	10.0
Wellness	(6.9)	16.9	18.9	17.7	15.0	15.0
Total	18.1	25.2	3.8	5.7	11.1	11.5
EBITDA margin (%)	16.1	16.6	16.1	15.4	16.0	16.4

Source: Company, BOBCAPS Research

Key risks

- Sharp uptick in real estate activity.
- Market share gains in sanitaryware.
- Better utilisation of surplus cash for growth capex purpose.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	563	650	HOLD
Astral	ASTRA IN	6.1	1,910	2,200	HOLD
Century Plyboards	CPBI IN	1.9	730	725	HOLD
Cera Sanitaryware	CRS IN	1.5	9,880	9,000	SELL
Finolex Industries	FNXP IN	2.1	283	325	HOLD
Greenlam Industries	GRLM IN	0.9	570	560	HOLD
Greenpanel Industries	GREENP IN	0.5	347	365	HOLD
Greenply Industries	MTLM IN	0.5	368	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.3	380	500	BUY
Kajaria Ceramics	KJC IN	2.7	1,411	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.8	588	750	BUY
Somany Ceramics	SOMC IN	0.3	705	900	BUY
Supreme Industries	SI IN	7.7	5,095	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 13 Aug 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	18,105	18,794	19,864	22,072	24,616
EBITDA	3,011	3,033	3,065	3,532	4,041
Depreciation	326	365	395	442	524
EBIT	2,685	2,667	2,670	3,090	3,517
Net interest inc./(exp.)	(60)	(58)	(50)	(50)	(50)
Other inc./(exp.)	284	595	659	666	773
Exceptional items	9	0	0	0	0
EBT	2,899	3,204	3,279	3,705	4,240
Income taxes	738	775	828	933	1,067
Extraordinary items	50	16	0	0	0
Min. int./Inc. from assoc.	(16)	(23)	0	0	0
Reported net profit	2,094	2,390	2,451	2,773	3,173
Adjustments	44	12	0	0	0
Adjusted net profit	2,138	2,402	2,451	2,773	3,173

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,069	1,790	1,892	2,102	2,344
Other current liabilities	1,523	1,674	1,674	1,674	1,674
Provisions	131	161	171	190	211
Debt funds	253	205	188	207	230
Other liabilities	958	1,040	1,040	1,040	1,040
Equity capital	65	65	65	65	65
Reserves & surplus	11,661	13,393	15,044	16,911	19,048
Shareholders' fund	11,832	13,585	15,236	17,104	19,240
Total liab. and equities	16,766	18,455	20,201	22,317	24,740
Cash and cash eq.	6,607	8,141	8,880	10,303	11,898
Accounts receivables	1,892	2,026	2,141	2,379	2,654
Inventories	3,825	3,636	3,997	4,344	4,863
Other current assets	415	430	455	505	563
Investments	31	0	0	0	0
Net fixed assets	3,138	3,515	3,320	4,177	4,953
CWIP	169	130	830	30	(770)
Intangible assets	256	225	225	225	225
Deferred tax assets, net	0	0	0	0	0
Other assets	433	353	353	353	353
Total assets	16,766	18,455	20,201	22,317	24,740

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	1,802	2,362	1,847	2,193	2,387
Capital expenditures	(514)	(671)	(900)	(500)	(500)
Change in investments	52	31	0	0	0
Other investing cash flows	225	579	659	666	773
Cash flow from investing	(237)	(61)	(241)	166	273
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(13)	(49)	(16)	19	22
Interest expenses	(60)	(58)	(50)	(50)	(50)
Dividends paid	(650)	(784)	(800)	(905)	(1,036)
Other financing cash flows	78	124	0	0	0
Cash flow from financing	(646)	(767)	(867)	(936)	(1,064)
Chg in cash & cash eq.	919	1,534	739	1,423	1,595
Closing cash & cash eq.	6,607	8,141	8,880	10,303	11,898

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	161.0	183.8	188.5	213.2	243.9
Adjusted EPS	164.4	184.7	188.5	213.2	243.9
Dividend per share	50.0	60.0	61.5	69.6	79.6
Book value per share	901.6	1,034.8	1,161.7	1,305.3	1,469.6

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	7.4	7.2	6.8	6.2	5.6
EV/EBITDA	44.2	44.3	44.3	38.7	34.1
Adjusted P/E	60.1	53.5	52.4	46.3	40.5
P/BV	11.0	9.5	8.5	7.6	6.7

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.8	75.0	74.8	74.8	74.8
Interest burden (PBT/EBIT)	108.0	120.1	122.8	119.9	120.5
EBIT margin (EBIT/Revenue)	14.8	14.2	13.4	14.0	14.3
Asset turnover (Rev./Avg TA)	108.0	101.8	98.3	98.9	99.5
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.4	1.4
Adjusted ROAE	19.3	18.9	17.0	17.1	17.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	25.2	3.8	5.7	11.1	11.5
EBITDA	29.6	0.7	1.1	15.2	14.4
Adjusted EPS	35.4	12.3	2.1	13.1	14.4
Profitability & Return ratios (%)					
EBITDA margin	16.6	16.1	15.4	16.0	16.4
EBIT margin	14.8	14.2	13.4	14.0	14.3
Adjusted profit margin	11.8	12.8	12.3	12.6	12.9
Adjusted ROAE	19.3	18.9	17.0	17.1	17.5
ROCE	24.6	23.7	21.6	21.7	22.0
Working capital days (days)					
Receivables	38	39	39	39	39
Inventory	77	71	73	72	72
Payables	42	35	35	35	35
Ratios (x)					
Gross asset turnover	3.4	3.2	3.2	3.1	3.0
Current ratio	3.2	3.7	3.9	4.2	4.5
Net interest coverage ratio	44.4	45.8	53.0	61.3	69.8
Adjusted debt/equity	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)

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

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

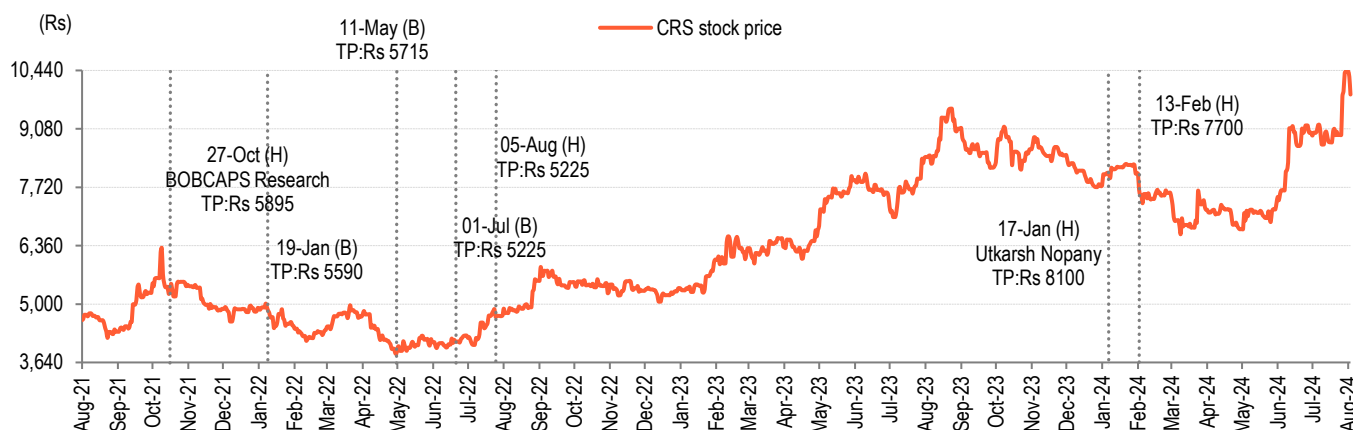
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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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