

ADD

TP: Rs 2,910 | ▲ 7%

CERA SANITARYWARE

Construction Materials

11 November 2020

Decent performance in a tough environment

Cera Sanitaryware (CRS) reported a 1.6% decline in consolidated revenue for Q2FY21, with the sanitaryware segment being flat YoY. Operating margins contracted 40bps YoY to 12.7%, fuelling EBITDA/PBT declines of 5%/7% YoY. Management expects a better H2 with a possible increase in margins. We raise FY21-FY23 EBITDA estimates by 6-18% to bake in the swift demand recovery and reset our target P/E from 26x to 28x, in line with the 5Y average. On rollover, we arrive at a revised Dec'21 TP of Rs 2,910 (vs. Rs 2,440).

Arun Baid

research@bobcaps.in

Flattish revenue YoY: CRS reported a 1.6% YoY decline in consolidated revenue to Rs 3.2bn in Q2. The sanitaryware segment was flat YoY, faucets grew ~3% and tiles declined ~11%. As per management, revenue growth was driven by tier-2-and-below markets during the quarter. CRS is hopeful of improvement in H2 over H1 due to the opening up of markets. The company has reduced its working capital cycle by 16 days to 68 days and plans to keep it under tight control.

Margins declined: CRS's consolidated operating margins decreased 40bps YoY to 12.7% as gross margin shrinkage of 550bps neutralised lower employee/other expenses (-125bps/-385bps YoY) – this caused EBITDA/PBT to decrease 5%/7% YoY. Gross margins contracted due to an adverse product mix whereas other expenses declined on the back of cost rationalisation measures. Management indicated that margins could improve if revenue growth increases, as the absence of raw material cost pressure would aid operating leverage.

Maintain ADD: We raise FY21-FY23 EBITDA estimates by 6-18% and PAT estimates by 7-26% due to the swifter demand recovery than expected. Maintain ADD as we roll to a revised Dec'21 target price of Rs 2,910, set at 28x (earlier 26x), in-line with the stock's 5Y average forward P/E.

Ticker/Price	CRS IN/Rs 2,710
Market cap	US\$ 474.2mn
Shares o/s	13mn
3M ADV	US\$ 0.3mn
52wk high/low	Rs 2,843/Rs 1,986
Promoter/FPI/DII	54%/15%/30%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	13,491	12,220	11,628	13,278	14,711
EBITDA (Rs mn)	1,964	1,654	1,335	1,886	2,102
Adj. net profit (Rs mn)	1,010	1,013	789	1,240	1,386
Adj. EPS (Rs)	77.7	77.9	60.6	95.4	106.6
Adj. EPS growth (%)	4.1	0.3	(22.2)	57.2	11.8
Adj. ROAE (%)	15.5	13.8	9.8	14.1	14.2
Adj. P/E (x)	34.9	34.8	44.7	28.4	25.4
EV/EBITDA (x)	17.7	20.9	25.8	18.3	16.5

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	3,241	3,294	(1.6)	1,460	121.9	6,006	4,701	(21.7)
Total raw material consumed	1,645	1,491	10.3	765	114.9	2,636	2,410	(8.6)
% of sales	50.7	45.2	550bps	52.4	(165bps)	44.3	52.3	800bps
Employee exp	374	421	(11.1)	322	16.2	832	696	(16.3)
% of sales	11.5	12.8	(123bps)	22.1	(1,051bps)	14.0	15.1	113bps
Other exp	812	952	(14.7)	335	142.3	1,755	1,147	(34.6)
% of sales	25.0	28.9	(386bps)	22.9	210bps	29.5	24.9	(461bps)
Total expenditure	2,831	2,864	(1.2)	1,422	99.0	5,223	4,253	(18.6)
% of sales	87.3	86.9	41bps	97.4	(1,007bps)	87.8	92.4	452bps
EBITDA	410	431	(4.7)	38	983.8	783	448	(42.8)
% of sales	12.7	13.1	(41bps)	2.6	1,007bps	13.2	9.7	(344bps)
Depreciation	99	95	4.1	97	2.5	186	196	5.0
Other income	45	47	(5.3)	70	(36.4)	80	115	44.0
Interest cost	23	24	(4.3)	23	(0.8)	49	46	(5.9)
PBT	333	358	(7.2)	(12)	(2,895.1)	627	321	(48.9)
Taxes	100	63	58.5	5	1975.4	161	105	(34.5)
Effective tax rate (%)	30.2	17.7	1,251bps	(40.7)	7,087bps	25.6	32.8	721bps
PAT before minority interest/associates	232	295	(21.3)	(17)	(1,486.9)	467	215	(53.8)
Less: Minority interest	(15)	(3)	470.3	(22)	(33.0)	(12)	(37)	212
Add: share of profit in associate	(1)	(2)	(0.5)	(1)	(3.5)	(2)	(2)	0.1
RPAT	246	296	(16.7)	5	5246	477	251	(47.4)

Source: Company, BOBCAPS Research

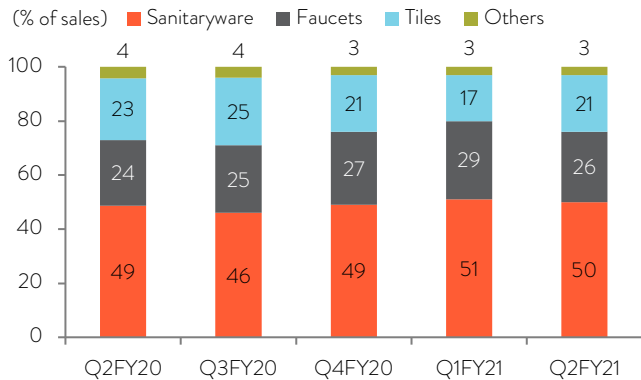
FIG 2 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q2FY21	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	H1FY21	H1FY20	YoY (%)
Total revenues	3,179	3,272	(2.8)	1,426	123.0	5,946	4,605	(22.6)
Total raw material consumed	1,668	1,595	4.6	726	129.7	2,826	2,395	(15.3)
% of sales	52.5	48.8	372bps	50.9	154bps	47.5	52.0	447bps
Employee exps	360	407	(11.5)	313	15.1	806	673	(16.5)
% of sales	11.3	12.4	(111bps)	21.9	(1,061bps)	13.6	14.6	106bps
Other exp	746	854	(12.6)	320	132.9	1,546	1,066	(31.0)
% of sales	23.5	26.1	(263bps)	22.5	100bps	26.0	23.2	(284bps)
Total expenditure	2,774	2,856	(2.9)	1,360	104.1	5,178	4,134	(20.2)
% of sales	87	87.3	(2bps)	95.3	(807bps)	87.1	90	269bps
EBITDA	405	416	(2.7)	66	509.6	768	471	(38.7)
% of sales	12.7	12.7	2bps	4.7	807bps	12.9	10.2	(269bps)
Depreciation	83	79	5.1	81	2.6	156	165	5.4
Other income	39	41	(3.5)	69	(42.8)	70	108	54.5
Interest cost	9	10	(9.9)	10	(7.1)	22	19	(11.2)
PBT	351	367	(4.3)	44	698.9	660	395	(40.1)
Taxes	88	67	32.5	15	493.7	169	103	(38.9)
Effective tax rate (%)	25.2	18.2	699bps	33.9	(870bps)	25.6	26.1	51bps
APAT	263	300	(12.5)	29	803.9	491	292	(40.5)

Source: Company, BOBCAPS Research

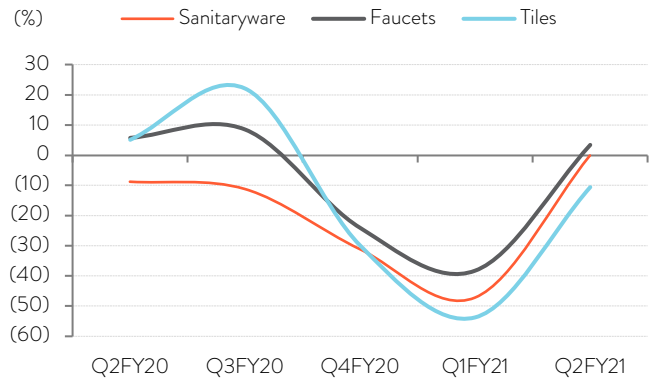
CONSOLIDATED QUARTERLY TRENDS

FIG 3 – REVENUE BREAKUP



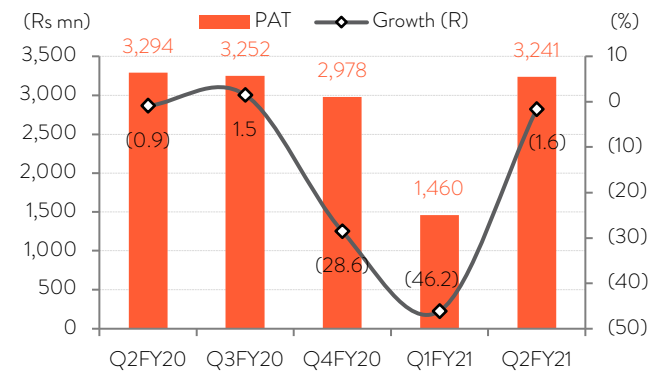
Source: Company, BOBCAPS Research

FIG 4 – SEGMENTAL GROWTH YOY



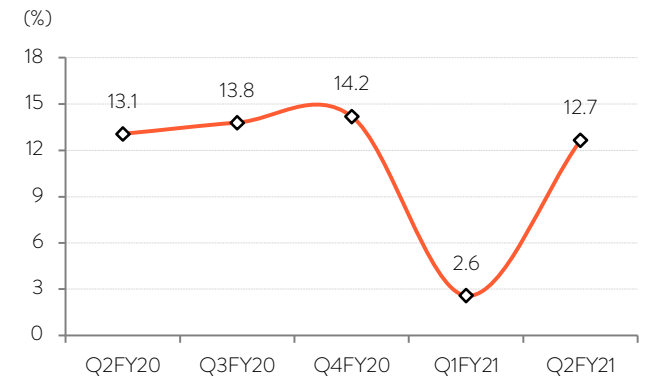
Source: Company, BOBCAPS Research

FIG 5 – CONSOLIDATED SALES & GROWTH



Source: Company, BOBCAPS Research

FIG 6 – CONSOLIDATED EBIDTA MARGINS



Source: Company, BOBCAPS Research

Earnings call highlights

- CRS saw good demand across the sanitaryware and faucet segments in Q2FY21. Tier-2-and-below cities accounted for 73% of the company’s revenue during the quarter.
- As per management, 70% of work-in-progress in the real estate sector is in the affordable market and CRS is a beneficiary by dint of its strong presence.
- Sanitaryware and faucets are core segments of the company and have high profitability. Tiles are less profitable and the company intends to cap this segment at 18-20% of total turnover.
- The raw material price environment is benign. Also, the company has taken a 3% price increase in sanitaryware this August.

- CRS's Kadi sanitaryware plant had some labour issues which has affected production to some extent. However, sales have not been materially impacted.
- The company is focusing on cash-and-carry sales, increasing payable days which has resulted in working capital improvement. Net working capital days declined by 16 days YoY to 68 days.
- In tiles, the company has moved incrementally to cash-and-carry basis, which is aiding overall working capital.
- CRS has 3,670 dealers as of 30 September. The top 100 dealers contributed 37% of sales in Q2 and the top 500 accounted for 68%.
- Capex planned for FY21 totals ~Rs 210mn. Cash & cash equivalents on the books stood at ~Rs 3.6bn as of 30 September.

Valuation methodology

CRS is one of the largest organised sanitaryware players in India. 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. We like CRS for its strong balance sheet and working capital discipline.

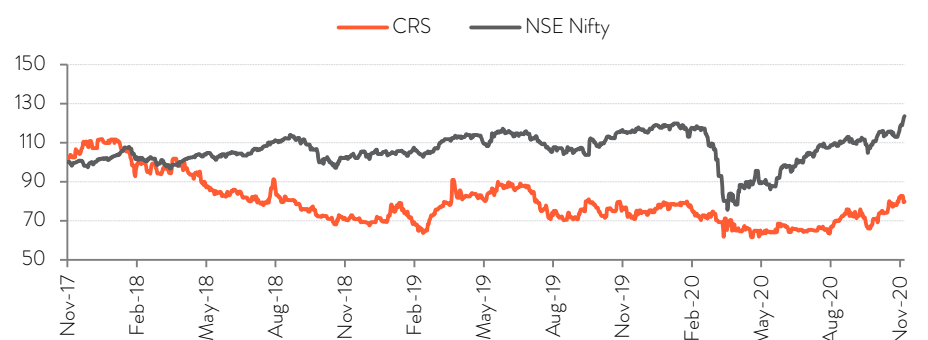
Given the swifter recovery in demand than expected, we raise our FY21-FY23 earnings estimates by 7-26% and also upgrade our target P/E from 26x to 28x, in-line with the five-year average forward multiple. Rolling valuations over, we move to a revised Dec'21 target price of Rs 2,910 (vs. Rs 2,440). Maintain ADD.

FIG 7 – REVISED ESTIMATES

(Rs mn)	Old			New			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	10,508	12,409	13,742	11,628	13,278	14,711	10.7	7.0	7.1
EBITDA	1,132	1,772	1,974	1,335	1,886	2,102	17.9	6.4	6.5
PAT	627	1,157	1,287	789	1,240	1,386	25.8	7.2	7.7

Source: BOBCAPS Research

FIG 8 – 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.
- **Prolonged Covid-19 outbreak:** If pandemic fears prevail for a prolonged period of time, revenues will be adversely affected.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	13,491	12,220	11,628	13,278	14,711
EBITDA	1,964	1,654	1,335	1,886	2,102
Depreciation	(280)	(388)	(400)	(416)	(462)
EBIT	1,684	1,266	936	1,469	1,640
Net interest income/(expenses)	(85)	(101)	(92)	(61)	(58)
Other income/(expenses)	63	65	186	236	268
Exceptional items	141	119	0	0	0
EBT	1,662	1,230	1,029	1,645	1,851
Income taxes	(652)	(243)	(259)	(414)	(466)
Min. int./Inc. from associates	0	27	19	10	2
Reported net profit	1,151	1,133	789	1,240	1,386
Adjustments	(141)	(119)	0	0	0
Adjusted net profit	1,010	1,013	789	1,240	1,386

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,109	953	924	982	1,088
Other current liabilities	1,979	2,102	1,688	1,892	2,055
Provisions	365	136	174	186	206
Debt funds	906	919	620	600	500
Other liabilities	436	299	319	351	383
Equity capital	65	65	65	65	65
Reserves & surplus	6,944	7,642	8,273	9,208	10,177
Shareholders' fund	7,009	7,707	8,338	9,273	10,242
Total liabilities and equities	11,908	12,194	12,122	13,332	14,521
Cash and cash eq.	193	125	114	45	253
Accounts receivables	2,984	2,228	2,549	2,583	2,862
Inventories	2,158	2,430	1,816	2,146	2,378
Other current assets	747	737	733	764	846
Investments	1,779	2,283	2,700	3,600	3,850
Net fixed assets	3,845	4,373	4,194	4,177	4,315
CWIP	195	5	5	5	5
Intangible assets	9	12	12	12	12
Total assets	11,908	12,194	12,122	13,332	14,521

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	1,431	1,520	1,189	1,656	1,848
Interest expenses	85	101	92	61	58
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(22)	33	(105)	(123)	(303)
Other operating cash flows	45	(137)	20	32	32
Cash flow from operations	1,540	1,517	1,196	1,627	1,635
Capital expenditures	(678)	(450)	(220)	(400)	(600)
Change in investments	(693)	(504)	(417)	(900)	(250)
Other investing cash flows	(9)	(45)	(19)	(10)	(2)
Cash flow from investing	(1,380)	(999)	(656)	(1,310)	(852)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(56)	13	(299)	(20)	(100)
Interest expenses	(85)	(101)	(92)	(61)	(58)
Dividends paid	(188)	(396)	(139)	(295)	(415)
Other financing cash flows	36	(103)	(19)	(10)	(2)
Cash flow from financing	(293)	(586)	(550)	(386)	(575)
Changes in cash and cash eq.	(134)	(68)	(10)	(70)	208
Closing cash and cash eq.	193	125	114	45	253

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	88.5	87.1	60.6	95.4	106.6
Adjusted EPS	77.7	77.9	60.6	95.4	106.6
Dividend per share	13.0	13.0	8.9	18.9	26.6
Book value per share	538.9	592.6	641.1	713.0	787.5

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	2.6	2.8	3.0	2.6	2.4
EV/EBITDA	17.7	20.9	25.8	18.3	16.5
Adjusted P/E	34.9	34.8	44.7	28.4	25.4
P/BV	5.0	4.6	4.2	3.8	3.4

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	56.0	75.1	76.7	75.4	74.9
Interest burden (PBT/EBIT)	107.1	106.6	110.0	111.9	112.8
EBIT margin (EBIT/Revenue)	12.5	10.4	8.0	11.1	11.2
Asset turnover (Revenue/Avg TA)	120.6	101.4	95.6	104.3	105.6
Leverage (Avg TA/Avg Equity)	1.7	1.6	1.5	1.4	1.4
Adjusted ROAE	15.5	13.8	9.8	14.1	14.2

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	14.5	(9.4)	(4.8)	14.2	10.8
EBITDA	15.5	(15.8)	(19.3)	41.2	11.5
Adjusted EPS	4.1	0.3	(22.2)	57.2	11.8
Profitability & Return ratios (%)					
EBITDA margin	14.6	13.5	11.5	14.2	14.3
EBIT margin	12.5	10.4	8.0	11.1	11.2
Adjusted profit margin	7.5	8.3	6.8	9.3	9.4
Adjusted ROAE	15.5	13.8	9.8	14.1	14.2
ROCE	14.2	12.4	7.9	11.6	11.8
Working capital days (days)					
Receivables	77	78	75	71	68
Inventory	123	152	142	120	123
Payables	33	36	33	31	30
Ratios (x)					
Gross asset turnover	2.6	2.1	1.9	2.0	2.1
Current ratio	1.5	1.5	1.7	1.6	1.8
Net interest coverage ratio	19.7	12.6	10.1	24.1	28.4
Adjusted debt/equity	0.1	0.1	0.1	0.1	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

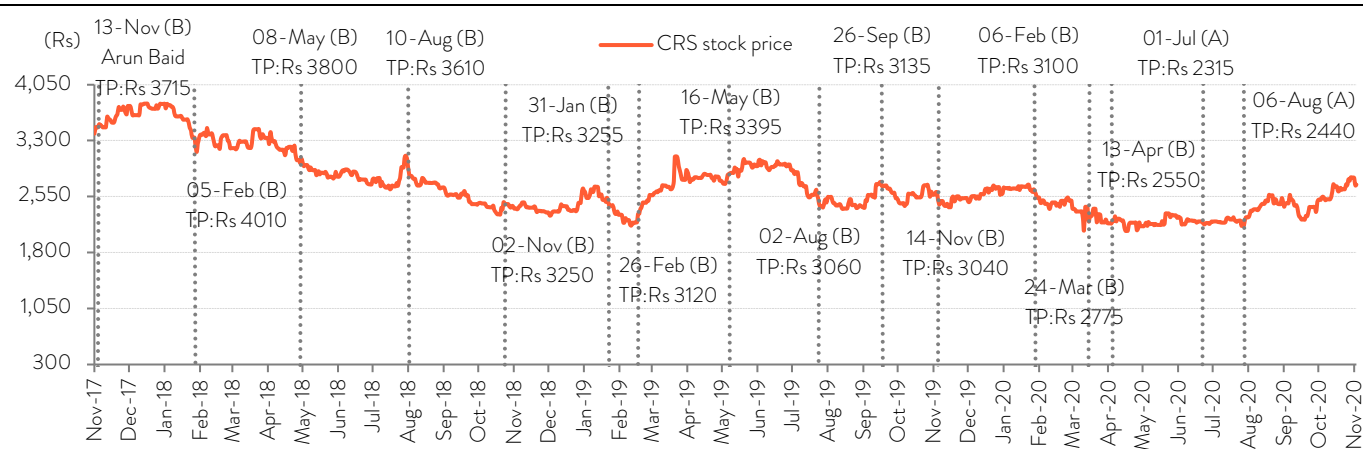
ADD – Expected return from >+5% to +15%

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)



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

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