

BUY

TP: Rs 8,500 | ▲ 26%

CERA SANITARYWARE

Building Materials

13 November 2024

Q2 demand slow, management guides for stronger H2FY25

- CRS posted strong faucet revenue growth (+23% YoY) in a weak demand environment
- CRS maintains its revenue growth guidance of 16% CAGR over FY24-FY27 in anticipation of demand recovery from H2FY25
- Upgrade to BUY from SELL on positive outlook and reasonable valuations; cut TP by 6% to Rs 8,500

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In-line quarter: CRS's operating performance for Q2FY25 came broadly in line with our estimate, but there was a beat on PAT by 13.1% mainly due to the impact of lower tax rate (10.3% in Q2FY25 vs 25.6% in Q2FY24). Overall, CRS's revenue grew by 6.4% YoY, but EBITDA was down by 5.7% YoY in Q2FY25. Gross margin was down 24bps YoY to 52.6% in Q2FY25, but EBITDA margin fell sharply by 188bps YoY to 14.6% in Q2FY25 mainly due to a few one-off expense (ESOP expense: Rs 12.7mn; share buyback cost: Rs 18mn; showroom closure cost: Rs 115mn). On a five-year CAGR basis, CRS revenue/EBITDA grew at 8.4%/10.9% in Q2FY25.

Key highlights: Sanitaryware revenue de-grew by 3.4% YoY, but faucet revenue grew by 23% YoY in Q2FY25. Net cash position was down from Rs 8.64bn in Jun'24 to Rs 6.59bn in Sep'24 due to the completion of the share buyback programme of Rs 1.3bn (which has resulted in the reduction of the equity base by 0.8%).

Guidance intact: CRS maintained its revenue guidance of Rs 29bn in FY27. The company expects its revenue to grow at double-digit rate in anticipation of recovery in retail demand and margin to return to the normal level of 16-17% in H2FY25 due to the benefit of the price hike (faucet: +6%; sanitaryware: +1%) from Sep'24. The land acquisition for greenfield sanitaryware unit is completed and the decision to commence construction will be taken in Q4FY25. The cost of this project is expected to be Rs 1.3bn (including land acquisition cost of Rs 250mn-300mn).

Upgrade to BUY; cut TP by 6% to Rs 8,500: We upgrade our rating on the stock to BUY from SELL as (a) CRS has performed relatively better compared to its major peers in Q2FY25; (b) management shared a positive outlook as it expects retail demand to recover with margin normalisation from H2FY25; and (c) valuation has now become reasonable post the steep correction in its stock price (trades at 33.6x on 1Y forward PE – in line with its 5Y average multiple). We have cut our TP to Rs 8,500 (Rs 9,000 earlier) due to the downward revision of our EPS estimates (-3.5%/-8.3% for FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 40x on Sep'26 estimate (Jun'26 earlier).

Key changes

Target	Rating
▼	▲

Ticker/Price	CRS IN/Rs 6,765
Market cap	US\$ 1.0bn
Free float	46%
3M ADV	US\$ 1.9mn
52wk high/low	Rs 10,790/Rs 6,591
Promoter/FPI/DII	54%/23%/6%

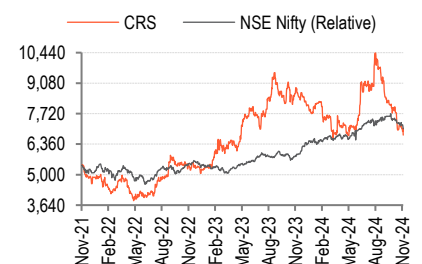
Source: NSE | Price as of 13 Nov 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	18,794	19,665	21,745
EBITDA (Rs mn)	3,038	2,992	3,358
Adj. net profit (Rs mn)	2,405	2,492	2,653
Adj. EPS (Rs)	185.0	193.2	205.7
Consensus EPS (Rs)	185.0	195.2	231.9
Adj. ROAE (%)	18.9	17.3	16.4
Adj. P/E (x)	36.6	35.0	32.9
EV/EBITDA (x)	30.7	31.5	28.6
Adj. EPS growth (%)	12.5	4.5	6.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance - Consolidated

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Total operating income	4,926	4,631	6.4	4,007	22.9	8,933	8,920	0.1	4,925	0.0
Raw-Material expense	2,337	2,186	6.9	1,812	29.0	4,149	4,123	0.6		
Gross Profit	2,589	2,445	5.9	2,195	17.9	4,784	4,797	(0.3)		
Employee expense	636	585	8.8	589	8.1	1,225	1,161	5.5		
Other expense	1,231	1,095	12.5	1,026	20.0	2,257	2,167	4.2		
EBITDA	721	765	(5.7)	581	24.2	1,302	1,469	(11.4)	747	(3.5)
D&A	107	89	20.2	90	19.4	197	172	14.2		
EBIT	614	676	(9.1)	491	25.0	1,105	1,296	(14.8)		
Interest cost	26	14	91.6	13	108.4	39	27	43.7		
Non-operating expense/(income)	(178)	(110)	61.8	(159)	11.7	(337)	(263)	28.2		
PBT	765	772	(0.8)	637	20.1	1,403	1,532	(8.4)		
Tax	79	198	(60.0)	163	(51.4)	242	391	(38.1)		
Reported PAT	686	574	19.6	475	44.6	1,161	1,141	1.7		
Adjusted PAT	680	581	17.1	471	44.5	1,150	1,143	0.6	601	13.1
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	52.6	52.8	(24)	54.8	(222)	53.6	53.8	(22)		
Employee cost	12.9	12.6	29	14.7	(177)	13.7	13.0	70		
Other cost	25.0	23.6	135	25.6	(60)	25.3	24.3	98		
EBITDA margin	14.6	16.5	(188)	14.5	15	14.6	16.5	(190)		
Tax rate	10.3	25.6	(1,529)	25.5	(1,521)	17.2	25.5	(828)		
APAT margin	13.8	12.5	126	11.7	206	12.9	12.8	6		

Source: Company, BOBCAPS Research

Fig 2 – Segment Financials

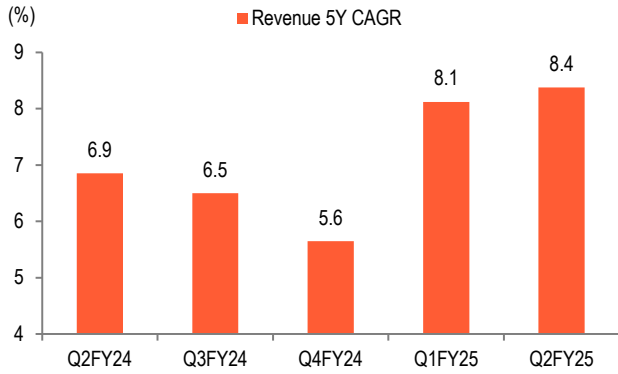
Revenue (Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sanitaryware	2,266	2,347	(3.4)	2,124	6.7	4,390	7,412	(40.8)
Faucetware	2,019	1,643	22.9	1,443	39.9	3,462	4,956	(30.2)
Tiles	493	523	(5.7)	361	36.6	854	1,537	(44.4)
Wellness	148	91	62.3	80	85.0	228	269	(15.3)
Others	0	27	(101.6)	(1)	(51.2)	(1)	101	(101.3)
Total	4,926	4,631	6.4	4,007	22.9	8,933	14,275	(37.4)

Source: Company, BOBCAPS Research

Earnings call highlights

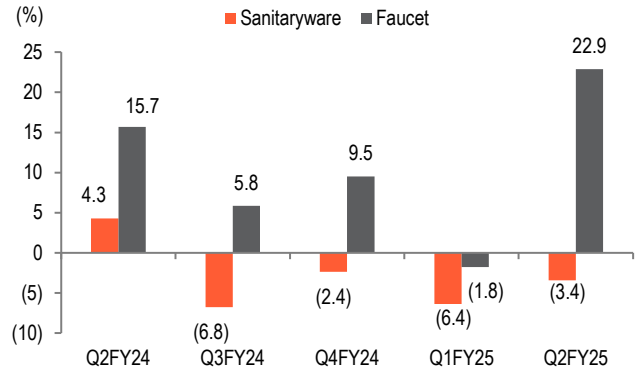
- **Demand:** Demand conditions remained challenging in Q2FY25 due to market pressure, heavy and extended monsoon. Management believes that the project business remained strong in Q2 and anticipates the retail sales to perform better in H2FY25. The company's project segment sales grew 15% in H1FY25. The company observed a pick-up in rural demand for faucets in Q2FY25 and sanitaryware demand is expected to pick-up in H2FY25.
- **Revenue outlook:** The company maintained its guidance of clocking Rs 29bn revenue in FY27. It expects to achieve high single-digit growth in FY25 and a growth rate of 20% for the next two years (FY26-FY27).
- **Margin:** The company expects its EBITDA margin to improve to 16-17% in H2FY25 due to the benefit of the price hike in Sep'24 (sanitaryware: +1%, faucet: +6%). Also, the company recently reduced the discounts offered to its dealers.
- **Product mix:** The revenue share of entry:mid:premium was 25%:34%:41% in Q2FY25 vs 25%:32%:43% in Q2FY24. New products accounted for 34% of CRS's sales in Q2FY25. Going ahead, the company plans to increase the contribution of its premium product portfolio by focusing on premiumisation in Tier-2 and -3 cities. The company anticipates the luxury segment accounting for 10% of its total sales in the next three to five years.
- **Sales distribution:** Sales in B2C accounted for 63% and B2B for 37% in Q2FY25. The sales breakdown for Q2FY25 – Tier 1 cities: 34%; Tier 2: 21%; Tier 3: 45%. Region-wise sales breakdown for Q2FY25 – North: 33%; West: 21%; South: 36%; East: 9%.
- **Gas cost:** Blended gas consumption cost per unit was up 2.9% YoY/7.3% QoQ in Q2FY25 due to higher gas prices and lower share of low-cost gas from GAIL (from 86% in Q1FY25 to 78% in Q2FY25).
- **Capacity utilisation:** Sanitaryware/faucet plant operated at 89%/93% in Q2FY25.
- **Sanitaryware capex:** CRS has completed the acquisition of the land bank for its greenfield sanitaryware unit in Gujarat. However, the decision to start construction is expected to be taken by the end of Q4FY25. Thereafter, the project will take 18 months for completion at an estimated cost of Rs 1.3bn (including the land cost) for the first phase. This unit (divided in two phases) will have a capacity of 1.2mn pieces in the first phase. The company expects to clock a revenue of Rs 3bn per annum from this unit from FY28. The company does not expect any capacity constraints in the medium term due to the high level of inventory and sourcing of products under outsourcing arrangements.
- **Maintenance capex:** The company maintained its capex guidance of Rs 250mn on routine capex for FY25 (Rs 110mn spent in H1FY25).

Fig 3 – CRS’s revenue grew by 6.4% YoY (5Y CAGR: +8.4%) in Q2FY25



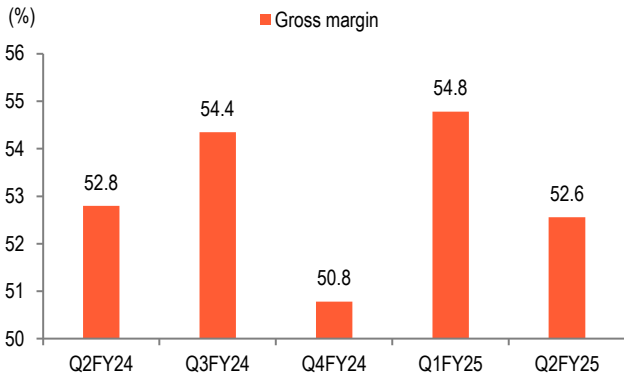
Source: Company, BOBCAPS Research

Fig 4 – Sanitaryware revenue fell by 3.4% YoY whereas faucet revenue grew sharply by 23.0% YoY in Q2FY25



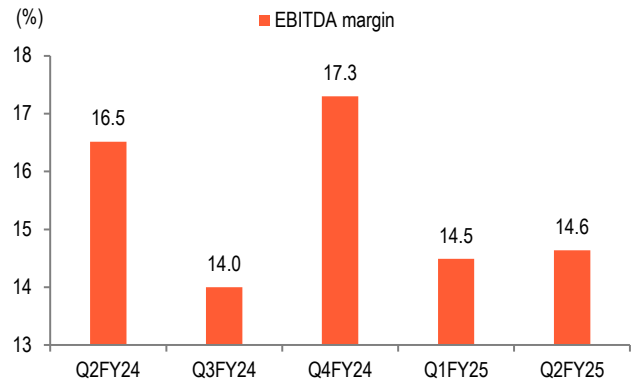
Source: Company, BOBCAPS Research

Fig 5 – Gross margin was down by 24bps YoY to 52.6% in Q2FY25 due to raw-material cost inflation pressure



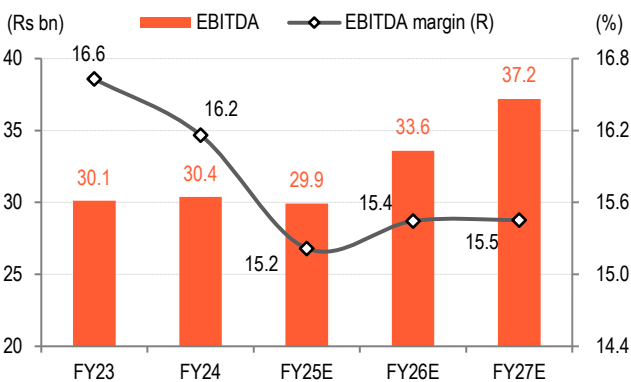
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin was down sharply by 188bps YoY to 14.6% in Q2FY25 due to various one-offs



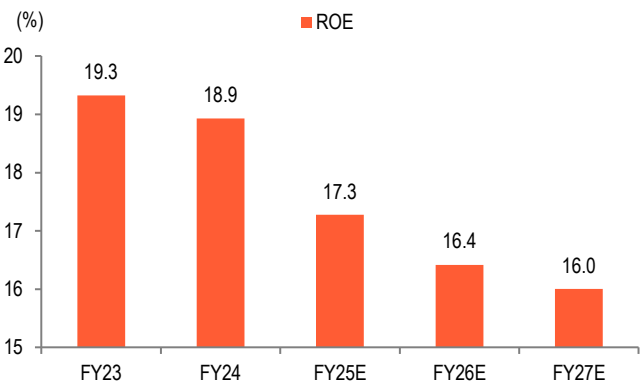
Source: Company, BOBCAPS Research

Fig 7 – CRS’s EBITDA forecast to clock 7.0% CAGR over FY24-FY27E



Source: Company, BOBCAPS Research

Fig 8 – CRS’s ROE profile is likely to remain healthy (>15%) over the medium term



Source: Company, BOBCAPS Research

Valuation methodology

We upgrade our rating on the stock to BUY from SELL as (a) CRS performed relatively better than its major peers in Q2FY25; (b) management shared a positive outlook as it expects retail demand to recover with margin normalisation from H2FY25; and (c) CRS’s valuation has now become reasonable post the steep correction in its stock price (trades at 33.6x on 1Y forward PE – in line with its 5Y average multiple).

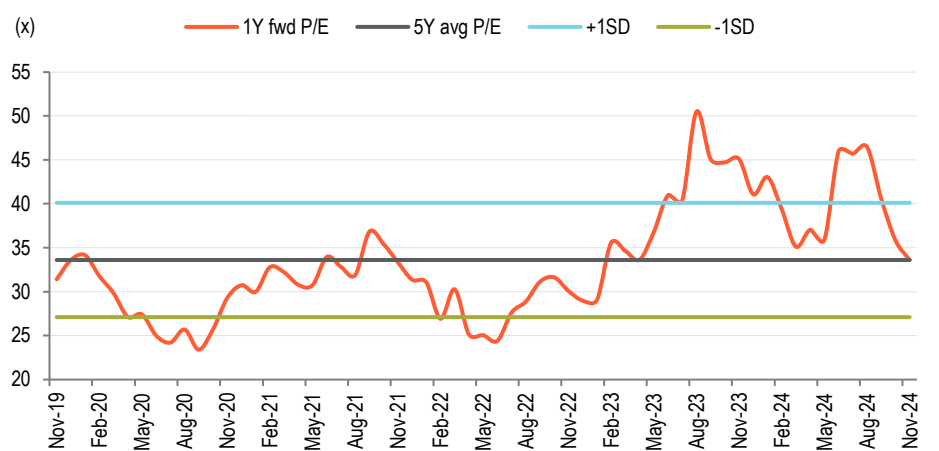
We have cut our TP to Rs 8,500 (Rs 9,000 earlier) and lowered our EPS estimates (- 3.5%/-8.3% for FY26E/FY27E) due to the weak Q2FY25 result. Our target P/E remains unchanged at 40x on Sep’26 estimate (Jun’26 earlier).

Fig 9 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	19.7	21.7	24.1	19.9	22.1	24.6	(1.0)	(1.5)	(2.2)
EBITDA	3.0	3.4	3.7	3.1	3.5	4.0	(2.4)	(4.9)	(8.0)
EBITDA Margin (%)	15.2	15.4	15.5	15.4	16.0	16.4	(21bps)	(56bps)	(96bps)
Adjusted PAT	2.5	2.7	2.9	2.5	2.8	3.2	1.7	(4.3)	(9.1)
EPS (Rs)	193.2	205.7	223.6	188.5	213.2	243.9	2.5	(3.5)	(8.3)

Source: BOBCAPS Research

Fig 10 – Trading at 33.6x on 1Y forward P/E – which is in line with its 5Y average



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue Mix (%)						
Sanitaryware	52.7	53.6	51.6	49.4	47.8	46.2
Faucetware	33.2	34.1	36.1	38.7	40.2	41.8
Tiles	12.2	10.6	10.3	9.7	9.6	9.5
Wellness	1.9	1.8	2.0	2.3	2.4	2.5
Revenue Growth (%)						
Sanitaryware	30.2	26.8	(0.3)	1.2	7.0	7.0
Faucetware	41.0	28.0	9.7	13.3	15.0	15.0
Tiles	(29.7)	8.4	0.7	(0.6)	10.0	10.0
Wellness	(6.9)	16.9	18.9	21.8	15.0	15.0
Total	18.1	25.2	3.8	4.6	10.6	10.7
EBITDA margin	16.1	16.6	16.2	15.2	15.4	15.5

Source: Company, BOBCAPS Research

Key risks

- Sharp slowdown in real estate activity.
- Market share loss in sanitaryware and faucet.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.2	501	550	HOLD
Astral	ASTRA IN	5.6	1,743	2,000	HOLD
Century Plyboards	CPBI IN	2.1	798	725	HOLD
Cera Sanitaryware	CRS IN	1.0	6,765	8,500	BUY
Finolex Industries	FNXP IN	2.0	275	300	HOLD
Greenlam Industries	GRLM IN	0.8	545	530	HOLD
Greenpanel Industries	GREENP IN	0.5	354	365	HOLD
Greenply Industries	MTLM IN	0.5	330	380	HOLD
Hindware Home Innovation	HINDWARE IN	0.2	261	500	BUY
Kajaria Ceramics	KJC IN	2.2	1,171	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.6	454	650	BUY
Somany Ceramics	SOMC IN	0.3	679	850	BUY
Supreme Industries	SI IN	6.9	4,615	5,250	BUY

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	18,105	18,794	19,665	21,745	24,071
EBITDA	3,011	3,038	2,992	3,358	3,720
Depreciation	326	365	412	435	458
EBIT	2,685	2,672	2,581	2,923	3,261
Net interest inc./(exp.)	(60)	(58)	(91)	(105)	(105)
Other inc./(exp.)	284	595	692	726	697
Exceptional items	9	5	0	0	0
EBT	2,899	3,204	3,181	3,545	3,854
Income taxes	738	775	690	892	970
Extraordinary items	50	16	0	0	0
Min. int./Inc. from assoc.	(16)	(23)	0	0	0
Reported net profit	2,094	2,390	2,492	2,653	2,884
Adjustments	44	15	0	0	0
Adjusted net profit	2,138	2,405	2,492	2,653	2,884

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,069	1,790	1,886	2,085	2,308
Other current liabilities	1,523	1,674	1,674	1,674	1,674
Provisions	131	161	170	188	208
Debt funds	253	205	186	204	225
Other liabilities	958	1,040	1,040	1,040	1,040
Equity capital	65	65	64	64	64
Reserves & surplus	11,661	13,393	15,071	16,858	18,800
Shareholders' fund	11,832	13,585	15,263	17,050	18,992
Total liab. and equities	16,766	18,455	20,219	22,241	24,447
Cash and cash eq.	6,607	8,141	9,686	10,731	11,572
Accounts receivables	1,892	2,026	2,120	2,344	2,595
Inventories	3,825	3,636	3,900	4,339	4,857
Other current assets	415	430	453	501	555
Investments	31	0	0	0	0
Net fixed assets	3,138	3,515	3,303	3,368	4,210
CWIP	169	130	180	380	80
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	20,219	22,241	24,447

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	1,802	2,367	2,026	1,972	2,170
Capital expenditures	(514)	(671)	(250)	(700)	(1,000)
Change in investments	52	31	0	0	0
Other investing cash flows	225	575	692	726	697
Cash flow from investing	(237)	(66)	442	26	(303)
Equities issued/Others	0	0	(1)	0	0
Debt raised/repaid	(13)	(49)	(18)	18	20
Interest expenses	(60)	(58)	(91)	(105)	(105)
Dividends paid	(650)	(785)	(814)	(866)	(942)
Other financing cash flows	78	125	0	0	0
Cash flow from financing	(646)	(767)	(924)	(953)	(1,026)
Chg in cash & cash eq.	919	1,534	1,544	1,045	841
Closing cash & cash eq.	6,607	8,141	9,686	10,731	11,572

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	161.0	183.8	193.2	205.7	223.6
Adjusted EPS	164.4	185.0	193.2	205.7	223.6
Dividend per share	50.0	60.0	63.1	67.2	73.0
Book value per share	901.6	1,034.8	1,173.5	1,312.0	1,462.6

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	5.1	5.0	4.8	4.4	4.0
EV/EBITDA	30.5	30.7	31.5	28.6	26.1
Adjusted P/E	41.2	36.6	35.0	32.9	30.3
P/BV	7.5	6.5	5.8	5.2	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.8	75.1	78.3	74.8	74.8
Interest burden (PBT/EBIT)	108.0	119.9	123.3	121.3	118.2
EBIT margin (EBIT/Revenue)	14.8	14.2	13.1	13.4	13.5
Asset turnover (Rev./Avg TA)	108.0	101.8	97.3	97.8	98.5
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.4	1.4
Adjusted ROAE	19.3	18.9	17.3	16.4	16.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	25.2	3.8	4.6	10.6	10.7
EBITDA	29.6	0.9	(1.5)	12.2	10.8
Adjusted EPS	35.4	12.5	4.5	6.5	8.7
Profitability & Return ratios (%)					
EBITDA margin	16.6	16.2	15.2	15.4	15.5
EBIT margin	14.8	14.2	13.1	13.4	13.5
Adjusted profit margin	11.8	12.8	12.7	12.2	12.0
Adjusted ROAE	19.3	18.9	17.3	16.4	16.0
ROCE	24.6	23.7	21.2	21.2	20.6
Working capital days (days)					
Receivables	38	39	39	39	39
Inventory	77	71	72	73	74
Payables	42	35	35	35	35
Ratios (x)					
Gross asset turnover	3.4	3.3	3.2	3.3	3.3
Current ratio	3.2	3.7	4.1	4.3	4.4
Net interest coverage ratio	44.4	45.9	28.2	27.8	31.1
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%

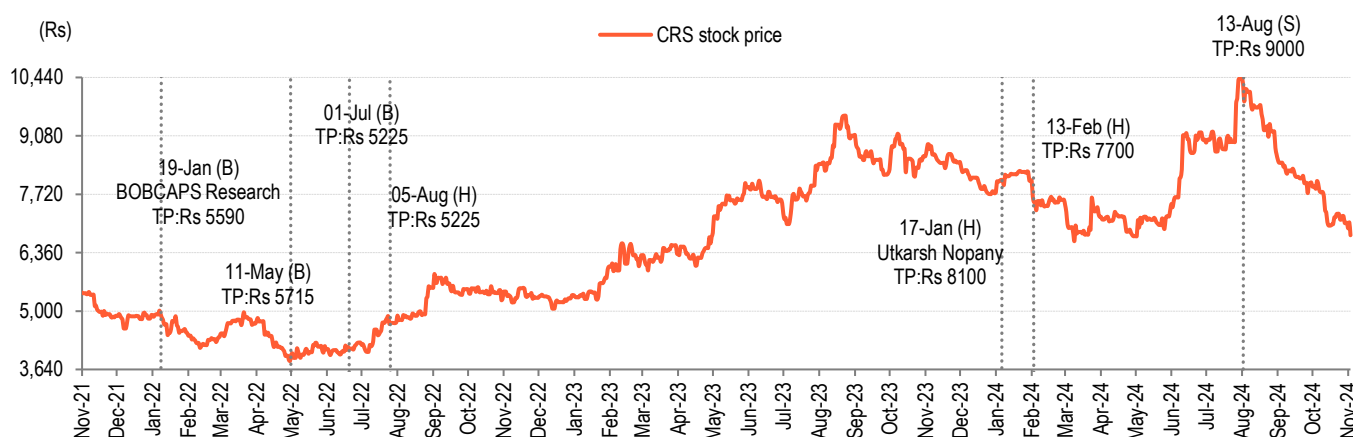
HOLD – Expected return from -6% to +15%

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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