

BUY
 TP: Rs 7,500 | ▲ 18%

CERA SANITARYWARE | Building Materials | 12 February 2025

Weak Q3 on subdued retail demand

- Misses PAT estimates by 20% in Q3 due to lower-than-expected revenue on account of weak retail demand
- CRS expects recovery in retail demand environment and its margin to improve to 16-17% level over the next couple of quarters
- Maintain BUY on healthy earnings growth profile with reasonable valuations; TP down by 12% to Rs 7,500 due to cut in our P/E multiple

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Weak quarter: CRS’s Q3FY25 PAT was 20% below our estimate mainly due to lower-than-expected revenue (+3% YoY vs +9% estimated) on the back of a subdued demand environment in the retail segment. Overall, CRS’s EBITDA was relatively flat (+0.2%), but APAT was down 10.0% YoY in Q3FY25 due to lower other income.

Key highlights: Sanitaryware revenue de-grew by 1% YoY, but faucet revenue grew by 6% YoY in Q3FY25. EBITDA margin was down 39bps YoY to 13.6% in Q3FY25 due to lower gross margin (-104bps YoY) due to high discounts offered to its dealers and high share of B2B sales (at 35% vs normal level of 30%). Net cash position was stable at Rs 6bn in Dec’24 over Sep’24.

Guidance: CRS expects its revenue to grow at low-single-digit growth in FY25. The company still maintains its revenue guidance of Rs 29bn for FY27, but it would be contingent on the recovery in retail demand (which is expected to happen over the next couple of quarters). The company expects its EBITDA margin to improve to 16-17% over the next one to two quarters in anticipation of roll back of excess discounts to dealers once demand conditions improve. The decision to start construction of the greenfield sanitaryware plant will be taken by Mar’25.

Maintain BUY; TP cut by 12% to Rs 7,500: We maintain our BUY rating on the stock as (a) we expect CRS’s EPS to grow at 11.6% CAGR over FY25-FY27E over a weak base with healthy ROE profile of 16.0%; and (b) reasonable valuation (trades at 32.8x on 1Y forward P/E vs 5Y average of 34.5x). We have cut our TP to Rs 7,500 (Rs 8,500 earlier) due to the downward revision of our EPS estimates (-7.5%/-5.5%/-0.4% for FY25/FY26/FY27) based on the weak Q3FY25 result as well as cut in our target P/E multiple (from 40x to 35x) on Dec’26 estimate (Sep’26 earlier).

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	CRS IN/Rs 6,333
Market cap	US\$ 939.7mn
Free float	46%
3M ADV	US\$ 1.4mn
52wk high/low	Rs 10,790/Rs 6,105
Promoter/FPI/DII	54%/22%/6%

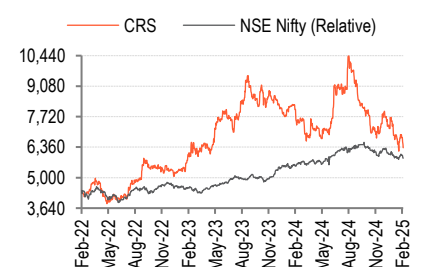
Source: NSE | Price as of 12 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	18,794	19,234	21,263
EBITDA (Rs mn)	3,038	2,803	3,195
Adj. net profit (Rs mn)	2,405	2,305	2,507
Adj. EPS (Rs)	185.0	178.7	194.4
Consensus EPS (Rs)	185.0	188.7	218.3
Adj. ROAE (%)	18.9	16.1	15.7
Adj. P/E (x)	34.2	35.4	32.6
EV/EBITDA (x)	28.8	31.7	28.3
Adj. EPS growth (%)	12.5	(3.4)	8.7

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	BOBCAPS Q3FY25E	Variance (%)
Total operating income	4,523	4,389	3.1	4,926	(8.2)	13,456	13,309	1.1	4,797	(5.7)
Raw-Material expense	2,112	2,004	5.4	2,337	(9.6)	6,260	6,127	2.2		
Gross Profit	2,412	2,386	1.1	2,589	(6.8)	7,196	7,182	0.2		
Employee expense	614	567	8.2	636	(3.6)	1,839	1,728	6.4		
Other expense	1,183	1,204	(1.8)	1,231	(4.0)	3,440	3,371	2.0		
EBITDA	615	614	0.2	721	(14.6)	1,917	2,083	(8.0)	732	(15.9)
D&A	104	97	7.2	107	(3.3)	300	269	11.7		
EBIT	512	518	(1.1)	614	(16.6)	1,617	1,814	(10.9)		
Interest cost	19	16	22.1	26	(26.9)	58	43	35.8		
Non-operating expense/(income)	(117)	(160)	(26.7)	(178)	(34.1)	(454)	(422)	7.5		
PBT	610	662	(7.9)	765	(20.3)	2,013	2,194	(8.3)		
Tax	146	147	(0.3)	79	84.8	388	538	(27.8)		
Reported PAT	464	515	(10.0)	686	(32.4)	1,624	1,656	(1.9)		
Adjusted PAT	458	509	(10.0)	680	(32.6)	1,609	1,652	(2.6)	576	(20.4)
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	53.3	54.4	(104)	52.6	76	53.5	54.0	(49)		
Employee cost	13.6	12.9	65	12.9	65	13.7	13.0	68		
Other cost	26.1	27.4	(129)	25.0	114	25.6	25.3	24		
EBITDA margin	13.6	14.0	(39)	14.6	(103)	14.2	15.7	(141)		
Tax rate	24.0	22.2	182	10.3	1363	19.3	24.5	(522)		
APAT margin	10.1	11.6	(146)	13.8	(367)	12.0	12.4	(46)		

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

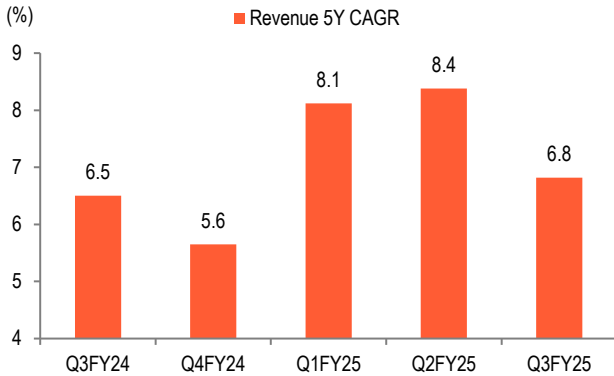
(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Revenue								
Sanitaryware	2,262	2,282	(0.9)	2,266	(0.2)	6,652	9,694	(31.4)
Faucetware	1,674	1,580	5.9	2,019	(17.1)	5,136	6,536	(21.4)
Tiles	498	439	13.3	493	0.9	1,352	1,976	(31.6)
Wellness	90	88	2.8	148	(38.9)	318	357	(10.9)
Others	0	0	(100.0)	0	(100.0)	(1)	102	(101.3)
Total	4,523	4,389	3.1	4,926	(8.2)	13,456	18,665	(27.9)
Revenue-mix								
Sanitaryware	50.0	52.0	(199)	46.0	400	49.4	51.9	(250)
Faucetware	37.0	36.0	100	41.0	(399)	38.2	35.0	315
Tiles	11.0	10.0	100	10.0	99	10.0	10.6	(54)
Wellness	2.0	2.0	(0)	3.0	(100)	2.4	1.9	45
Others	-	0.0	(1)	(0.0)	1	(0.0)	0.5	(55)
Total	100.0	100.0		100.0		100.0	100.0	

Source: Company, BOBCAPS Research

Earnings call highlights

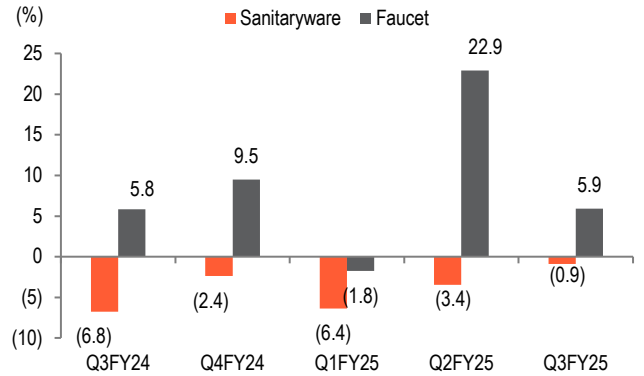
- **Demand:** Demand conditions remained challenging in Q3FY25. The company has seen slow signs of improvement in demand in the months of Jan'25 and Feb'25 on a YoY basis. Management believes retail demand is expected to pick up over the next couple of quarters due to the favourable government budget in Feb'25.
- **Revenue outlook:** The company expects to achieve low single-digit growth in FY25. The company still maintains its revenue guidance of Rs 29bn for FY27, but it would be contingent on the recovery in retail demand in FY26.
- **Margin:** Gross margin was down 104bps YoY to 53.3% in Q3FY25 due to high discount offers to its dealers and high share of B2B sales, but it improved by 76bps QoQ in Q3FY25 due to benefit of implementation of price hike for its product portfolio (sanitaryware: +1%, faucet: +6% in Q2FY25). However, EBITDA margin was down 39bps YoY/ 103bps QoQ to 13.6% in Q3FY25 due to the impact of negative operating leverage. The company expects its EBITDA margin to improve to 16-17% in the next 1-2 quarters in anticipation of roll back of excess discounts to dealers once demand conditions improve.
- **Product mix:** The revenue share of entry:mid:premium was 22%:34%:44% in Q3FY25 vs 25%:34%:41% in Q2FY25. Going ahead, the company anticipates its luxury segment's (i.e. Lux and Senator) revenue contribution to go up to 10% of its total sales in FY27. For this, the company plans to put up 20-25 Senator stores by Mar'25 and 75 stores by Mar'26. It also plans to put up 100 Lux stores by Mar'26.
- **Sales distribution:** The B2C:B2B mix for Q3FY25 was 65:35 (vs normal level of 70:30 due to weak retail demand). Overall, the mix stood at 62:37 and remaining 1% were exports for 9MFY25. The sales breakdown for Q3FY25 – Tier-1 cities: 35%; Tier-2: 21%; Tier-3: 43%.
- **Captive vs Outsourcing:** Sanitaryware segment had a ratio of 42:58 in Q3FY25 and 43:57 in 9MFY25. Faucet segment had a ratio of 52:48 in Q3FY25 and 52:48 for 9MFY25. Sanitaryware/faucet plant operated at 90%/91% in Q3FY25.
- **Gas cost:** Blended gas consumption cost per unit was up 10.3% YoY/4.7% QoQ in Q3FY25 due to higher gas prices and lower share of low-cost gas from GAIL (from 86% in Q1FY25 to 81% in Q3FY25).
- **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. 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 150mn spent in 9MFY25).
- **Net cash** was stable at Rs 6.6bn in Dec'24 vs Sep'24.

Fig 3 – CRS’s revenue grew by 3.1% YoY (5Y CAGR: +6.8%) in Q3FY25



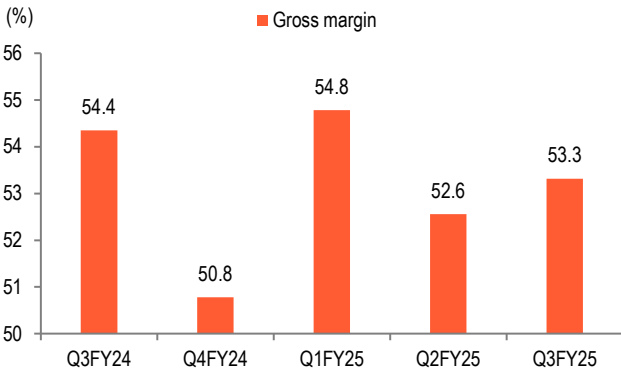
Source: Company, BOBCAPS Research

Fig 4 – Sanitaryware revenue fell by 0.9% YoY whereas faucet revenue grew by 5.9% YoY in Q3FY25



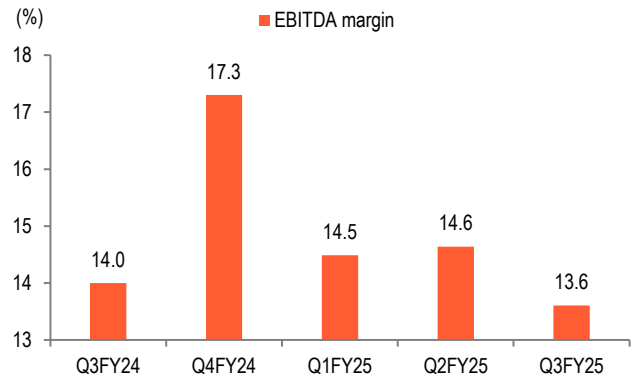
Source: Company, BOBCAPS Research

Fig 5 – Gross margin was down by 104bps YoY to 53.3% in Q3FY25 due to high discounts offered to its dealers



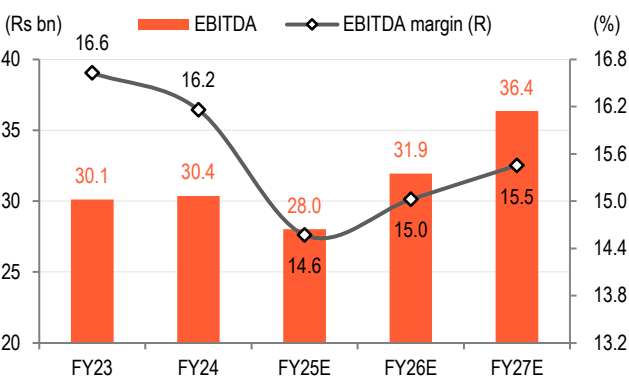
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin was down 39bps YoY in Q3FY25, despite lower brand spend (-190bps YoY to 3.1% of sales)



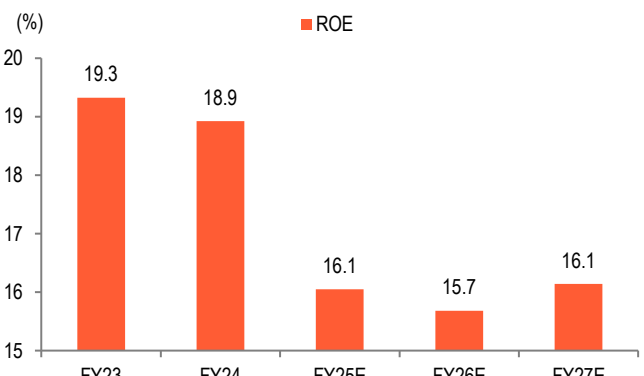
Source: Company, BOBCAPS Research

Fig 7 – CRS’s EBITDA forecast to grow at 6.2% CAGR over FY24-FY27E in anticipation of margin recovery



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 maintain our BUY rating on the stock as (a) we expect CRS's EPS to grow at 11.6% CAGR over FY25-FY27E over a weak base with healthy ROE profile of 16.0%; and (b) reasonable valuation (trades at 32.8x on 1Y forward PE vs 5Y average of 34.5x).

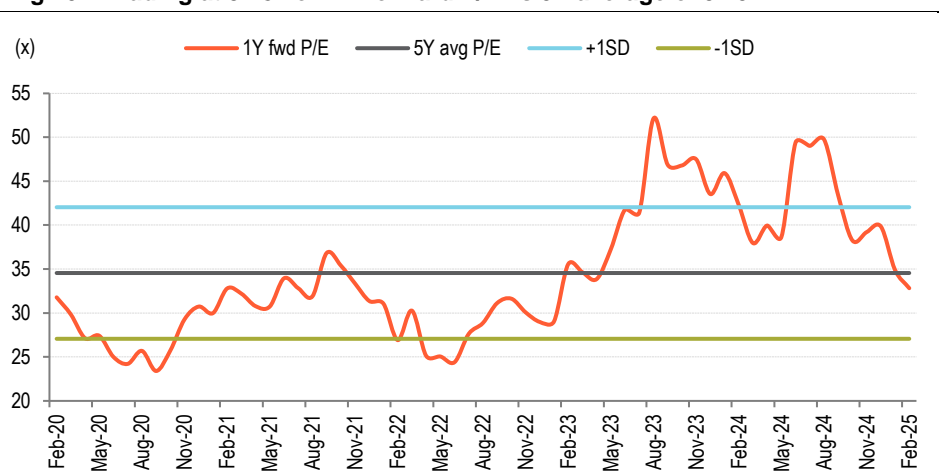
We have cut our TP to Rs 7,500 (Rs 8,500 earlier) due to the downward revision of our EPS estimates (-7.5%/-5.5%/-0.4% for FY25/FY26/FY27) based on the weak Q3FY25 result as well as cut in our target P/E multiple (from 40x to 35x) on Dec'26 estimate (Sep'26 earlier).

Fig 9 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	19.2	21.3	23.5	19.7	21.7	24.1	(2.2)	(2.2)	(2.2)
EBITDA	2.8	3.2	3.6	3.0	3.4	3.7	(6.3)	(4.9)	(2.2)
EBITDA Margin (%)	14.6	15.0	15.5	15.2	15.4	15.5	(64bps)	(42bps)	-
Adjusted PAT	2.3	2.5	2.9	2.5	2.7	2.9	(7.5)	(5.5)	(0.4)
EPS (Rs)	178.7	194.4	222.7	193.2	205.7	223.6	(7.5)	(5.5)	(0.4)

Source: BOBCAPS Research

Fig 10 – Trading at 32.8x on 1Y forward P/E vs 5Y average of 34.5x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue mix (%)						
Sanitaryware	52.7	53.6	51.6	49.5	47.9	46.3
Faucetware	33.2	34.1	36.1	38.3	39.8	41.3
Tiles	12.2	10.6	10.3	9.9	9.9	9.8
Wellness	1.9	1.8	2.0	2.3	2.4	2.5
Revenue growth (%)						
Sanitaryware	30.2	26.8	(0.3)	(0.7)	7.0	7.0
Faucetware	41.0	28.0	9.7	9.7	15.0	15.0
Tiles	(29.7)	8.4	0.7	0.1	10.0	10.0
Wellness	(6.9)	16.9	18.9	18.9	15.0	15.0
Total	18.1	25.2	3.8	2.3	10.6	10.7
EBITDA margin	16.1	16.6	16.2	14.6	15.0	15.5

Source: Company, BOBCAPS Research

Key risks

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	18,105	18,794	19,234	21,263	23,533
EBITDA	3,011	3,038	2,803	3,195	3,637
Depreciation	326	365	412	435	458
EBIT	2,685	2,672	2,391	2,760	3,179
Net interest inc./(exp.)	(60)	(58)	(79)	(85)	(85)
Other inc./(exp.)	284	595	611	675	745
Exceptional items	9	5	0	0	0
EBT	2,899	3,204	2,922	3,350	3,838
Income taxes	738	775	617	843	966
Extraordinary items	50	16	0	0	0
Min. int./Inc. from assoc.	(16)	(23)	0	0	0
Reported net profit	2,094	2,390	2,305	2,507	2,872
Adjustments	44	15	0	0	0
Adjusted net profit	2,138	2,405	2,305	2,507	2,872

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	2,069	1,790	1,844	2,039	2,256
Other current liabilities	1,523	1,674	1,674	1,674	1,674
Provisions	131	161	166	184	203
Debt funds	253	205	183	200	220
Other liabilities	958	1,040	1,040	1,040	1,040
Equity capital	65	65	64	64	64
Reserves & surplus	11,661	13,393	14,945	16,634	18,568
Shareholders' fund	11,832	13,585	15,137	16,826	18,760
Total liab. and equities	16,766	18,455	20,045	21,963	24,154
Cash and cash eq.	6,607	8,141	9,650	10,640	11,533
Accounts receivables	1,892	2,026	2,073	2,292	2,537
Inventories	3,825	3,636	3,817	4,215	4,674
Other current assets	415	430	443	490	542
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	20,045	21,963	24,154

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	1,802	2,367	2,003	1,901	2,152
Capital expenditures	(514)	(671)	(250)	(700)	(1,000)
Change in investments	52	31	0	0	0
Other investing cash flows	225	575	611	675	745
Cash flow from investing	(237)	(66)	361	(25)	(255)
Equities issued/Others	0	0	(1)	0	0
Debt raised/repaid	(13)	(49)	(22)	18	20
Interest expenses	(60)	(58)	(79)	(85)	(85)
Dividends paid	(650)	(785)	(753)	(818)	(938)
Other financing cash flows	78	125	0	0	0
Cash flow from financing	(646)	(767)	(855)	(886)	(1,003)
Chg in cash & cash eq.	919	1,534	1,509	990	893
Closing cash & cash eq.	6,607	8,141	9,650	10,640	11,533

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	161.0	183.8	178.7	194.4	222.7
Adjusted EPS	164.4	185.0	178.7	194.4	222.7
Dividend per share	50.0	60.0	58.4	63.5	72.7
Book value per share	901.6	1,034.8	1,163.8	1,294.7	1,444.7

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	4.8	4.7	4.6	4.3	3.9
EV/EBITDA	28.7	28.8	31.7	28.3	25.2
Adjusted P/E	38.5	34.2	35.4	32.6	28.4
P/BV	7.0	6.1	5.4	4.9	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	73.8	75.1	78.9	74.8	74.8
Interest burden (PBT/EBIT)	108.0	119.9	122.2	121.4	120.8
EBIT margin (EBIT/Revenue)	14.8	14.2	12.4	13.0	13.5
Asset turnover (Rev./Avg TA)	108.0	101.8	96.0	96.8	97.4
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.4	1.4
Adjusted ROAE	19.3	18.9	16.1	15.7	16.1

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	25.2	3.8	2.3	10.6	10.7
EBITDA	29.6	0.9	(7.7)	14.0	13.8
Adjusted EPS	35.4	12.5	(3.4)	8.7	14.6
Profitability & Return ratios (%)					
EBITDA margin	16.6	16.2	14.6	15.0	15.5
EBIT margin	14.8	14.2	12.4	13.0	13.5
Adjusted profit margin	11.8	12.8	12.0	11.8	12.2
Adjusted ROAE	19.3	18.9	16.1	15.7	16.1
ROCE	24.6	23.7	19.6	20.2	20.7
Working capital days (days)					
Receivables	38	39	39	39	39
Inventory	77	71	72	72	72
Payables	42	35	35	35	35
Ratios (x)					
Gross asset turnover	3.4	3.3	3.1	3.3	3.2
Current ratio	3.2	3.7	4.1	4.3	4.4
Net interest coverage ratio	44.4	45.9	30.1	32.4	37.3
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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SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

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CIN: **U65999MH1996GOI098009**



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

BUY – Expected return >+15%

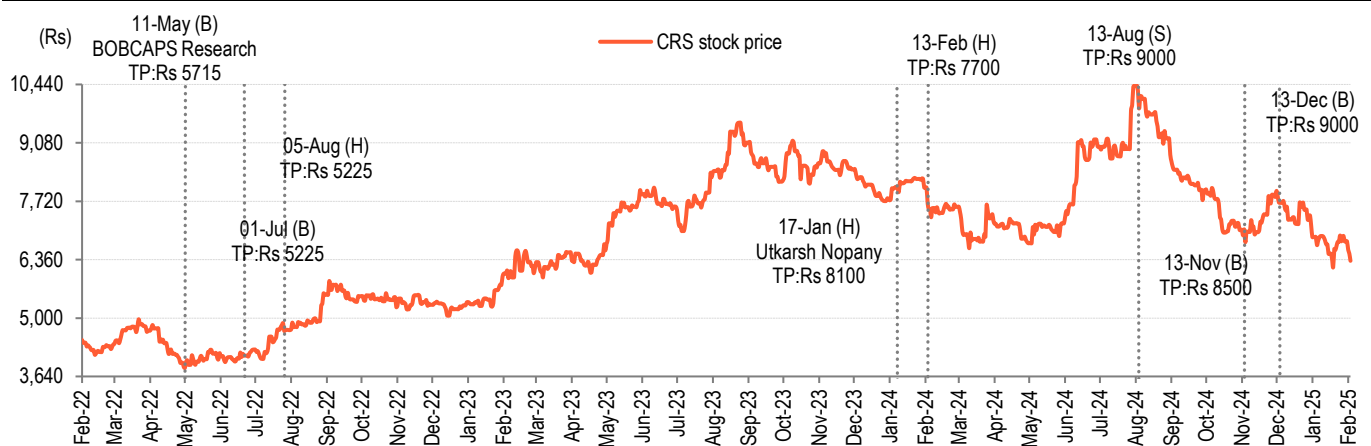
HOLD – Expected return from -6% to +15%

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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