

**RESEARCH**
**BOB Economics Research | Weekly Wrap**

'Operation twist' to guide Indian bonds

**Cera Sanitaryware | Target: Rs 3,040 | +18% | BUY**

Near-term demand outlook remains challenging

**SUMMARY**
**India Economics: Weekly Wrap**

Global equities went up as macro data continued to be positive with improvement in industrial output in US and China. Consumer sentiment in US and Germany's IFO also improved. UK's GDP was better than estimates but GBP fell by (-) 2.5% on fears of chaotic Brexit. India's 10Y yield fell by 18bps as a result of RBI's special OMO announcement. Indian equities gained, while INR weakened owing to rising oil prices. RBI's minutes indicates MPC awaits Union Budget and easing of inflation before resuming rate cuts.

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**Cera Sanitaryware**

We recently hosted investor meetings with the Cera Sanitaryware (CRS) management. Key takeaways: (1) Demand continues to stagnate with no pick-up seen over the past two months. (2) CRS isn't facing cost pressures but an adverse product mix could be a drain on FY20 margins. (3) The company does not intend to chase growth at the expense of working capital discipline. We cut FY20-FY22 EPS by 3-4% considering the sustained demand slump. On rolling valuations forward, we have an unchanged Dec'20 TP of Rs 3,040. BUY.

[Click here for the full report.](#)
**TOP PICKS**
**LARGE-CAP IDEAS**

Company	Rating	Target
<a href="#">Cipla</a>	Buy	570
<a href="#">ONGC</a>	Buy	210
<a href="#">Petronet LNG</a>	Buy	400
<a href="#">Reliance Industries</a>	Buy	1,670
<a href="#">TCS</a>	Add	2,230

**MID-CAP IDEAS**

Company	Rating	Target
<a href="#">Alkem Labs</a>	Buy	2,290
<a href="#">Future Supply</a>	Buy	680
<a href="#">Greenply Industries</a>	Buy	210
<a href="#">Laurus Labs</a>	Buy	480
<a href="#">PNC Infratech</a>	Buy	245

Source: BOBCAPS Research

**DAILY MACRO INDICATORS**

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.92	0bps	13bps	(87bps)
India 10Y yield (%)	6.60	(15bps)	12bps	(68bps)
USD/INR	71.12	(0.1)	0.8	(1.3)
Brent Crude (US\$/bbl)	66.14	(0.6)	8.6	22.9
Dow	28,455	0.3	1.9	26.8
Shanghai	3,005	(0.4)	2.4	19.4
Sensex	41,682	0	3.0	16.6
India FII (US\$ mn)	19 Dec	MTD	CYTD	FYTD
FII-D	(204.6)	(546.6)	3,698.2	3,153.6
FII-E	117.7	594.9	13,967.3	7,122.1

Source: Bank of Baroda Economics Research

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## WEEKLY WRAP

23 December 2019

**'Operation twist' to guide Indian bonds**

Global equities went up as macro data continued to be positive with improvement in industrial output in US and China. Consumer sentiment in US and Germany's IFO also improved. UK's GDP was better than estimates but GBP fell by (-) 2.5% on fears of chaotic Brexit. India's 10Y yield fell by 18bps as a result of RBI's special OMO announcement. Indian equities gained, while INR weakened owing to rising oil prices. RBI's minutes indicates MPC awaits Union Budget and easing of inflation before resuming rate cuts.

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**Markets**

- **Bonds:** Except UK and India, global yields closed higher over likely resolution of Phase 1 US-China trade deal. US 10Y yield rose by 9bps (1.92%) supported by better than expected industrial production and GDP data. Crude prices rose by 1.4% (US\$ 66/bbl) over alleviating demand concerns. India's 10Y yield fell by 18bps (6.6%) supported by RBI's decision to buy long-end bonds and sell short-end ones. System liquidity surplus was at Rs 2.0tn as on 20 Dec 2019 vs Rs 2.8tn in the previous week.
- **Currency:** Global currencies ended mixed this week. DXY rose by 0.5% on the back of strong US macro data (Q3CY19 GDP, housing starts and industrial production) and easing of US-China trade tensions. After rising to its highest level since Mar'19, GBP fell by (-) 2.5% this week as fears of a chaotic Brexit resurfaced. INR depreciated by (-) 0.4% in the week as oil prices rose by 1.4%. FII inflows were US\$ 486mn.
- **Equity:** Barring Nikkei, other global indices ended higher this week led by renewed optimism after the signing of US-china trade deal (Phase-1) and global policy rate decisions. FTSE surged by 3.1%, followed by Sensex (1.6%) and Shanghai Comp (1.3%). Sensex continued its gains for second week in a row pushed up by tech and metal stocks.
- **Upcoming key events:** In a truncated trading week, markets will closely track US durable goods orders and new home sales data, Japan's retail sales and industrial production and China's industrial profits. On the domestic front, markets will await any fresh measures to kick start growth after review by PM.



**BUY**

TP: Rs 3,040 | ▲ 18%

**CERA SANITARYWARE**

Construction Materials

23 December 2019

## Near-term demand outlook remains challenging

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Arun Baid

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**Demand climate still sluggish:** Management indicated that demand conditions have been weak for the past two months as seen in 1HFY20, with its largest sanitaryware segment continuing to see muted sales. Tight liquidity at retailers is constraining demand across product categories and the company does not anticipate material improvement in the near term.

Ticker/Price	CRS IN/Rs 2,585
Market cap	US\$ 472.4mn
Shares o/s	13mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 3,195/Rs 2,144
Promoter/FPI/DII	55%/8%/37%

Source: NSE

**Steadfast focus on working capital discipline:** CRS intends to continue its practice of maintaining a disciplined working capital cycle. The company will not opt for growth at the expense of balance sheet health as ground conditions remain challenging.

## STOCK PERFORMANCE



Source: NSE

**Margin headwinds in FY20:** High-margin sanitaryware sales remain under pressure. Consequently, management indicated operating margins to see softness in FY20 despite benign raw material prices.

**Maintain BUY:** We cut our FY20-FY22 earnings estimates by 3-4% due to the continued adverse demand conditions. On rollover, our target price remains at Rs 3,040 – maintain BUY given CRS's robust portfolio, strong brand, wide distribution reach and sound balance sheet.

## KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	11,776	13,444	13,663	15,021	16,655
EBITDA (Rs mn)	1,699	1,917	1,845	2,088	2,348
Adj. net profit (Rs mn)	970	1,010	1,178	1,368	1,568
Adj. EPS (Rs)	74.6	77.7	90.6	105.2	120.6
Adj. EPS growth (%)	0.9	4.1	16.6	16.1	14.6
Adj. ROAE (%)	17.2	15.5	15.7	16.0	16.1
Adj. P/E (x)	34.6	33.3	28.5	24.6	21.4
EV/EBITDA (x)	19.7	17.3	17.9	15.8	14.1

Source: Company, BOBCAPS Research



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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)

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