

FIRST LIGHT

25 March 2020

RESEARCH

Cera Sanitaryware (CRS IN) | Target: Rs 2,775 | +25% | BUY

Demand environment anaemic but margins steady

SUMMARY

Cera Sanitaryware

We recently met the management of Cera Sanitaryware (CRS). Key takeaways: (1) Demand for tiles and faucets improved slightly during Jan-Feb'20, though the sanitaryware segment was flattish. (2) The Covid-19 impact is difficult to predict at this early stage and will depend on duration of the outbreak. (3) With benign RM prices, margins are likely to improve. We cut FY20-FY22 PAT estimates by 2-10% to factor in Covid-linked demand headwinds. Maintain BUY with a revised Mar'21 TP of Rs 2,775 (vs. Rs 3,100).

[Click here for the full report.](#)

TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	5,200
Cipla	Buy	570
Eicher Motors	Buy	25,000
Petrojet LNG	Buy	330
Reliance Industries	Buy	1,500

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	2,870
Greenply Industries	Buy	205
Laurus Labs	Buy	510
Transport Corp	Buy	355
Ashok Leyland	Sell	64

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.79	(6bps)	(69bps)	(161bps)
India 10Y yield (%)	6.38	12bps	(4bps)	(94bps)
USD/INR	76.28	(1.4)	(6.5)	(10.6)
Brent Crude (US\$/bbl)	27.03	0.2	(53.8)	(59.8)
Dow	18,592	(3.0)	(35.9)	(27.1)
Shanghai	2,660	(3.1)	(12.5)	(12.6)
Sensex	25,981	(13.2)	(36.9)	(31.3)
India FII (US\$ mn)	20Mar	MTD	CYTD	FYTD
FII-D	(459.0)	(6,796.2)	(8,363.3)	(5,419.2)
FII-E	(460.4)	(6,698.1)	(4,911.2)	2,478.0

Source: Bank of Baroda Economics Research

BOBCAPS Research

research@bobcaps.in



BUY

TP: Rs 2,775 | ▲ 25%

CERA SANITARYWARE

| Construction Materials

| 24 March 2020

Demand environment anaemic but margins steady

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Arun Baid

research@bobcaps.in

Demand remains anaemic: CRS posted marginal revenue growth during Jan-Feb'20, led by the tiles and faucet segments whereas sanitaryware was flattish. As per management, the impact of Covid-19 will depend on the length of the outbreak and hence is difficult to assess at this early stage. In our view, the recent lockdown across most parts of India and halting of construction activity will slow the company's revenue growth in the near term. Also, strict adherence to working capital discipline, as reiterated by management, will limit growth considering tight liquidity conditions in the market.

Margins steady: Management does not foresee margin headwinds as raw material prices remain benign. The company also plans to raise sanitaryware prices by 3-5% from Apr'20, which should aid profitability. As per management, margins would remain in the range of 13-14%.

Maintain BUY: CRS has a strong, cash-rich balance sheet with tight control over working capital, which should enable it to tide over the tepid demand climate. A widespread distribution network, comprehensive product portfolio and strong brand will hold it in good stead when demand improves. We continue to like the company but cut PAT estimates by 2-10% over FY20-FY22 to build in demand headwinds from the ongoing lockdowns and construction stoppages.

Ticker/Price	CRS IN/Rs 2,220
Market cap	US\$ 379.6mn
Shares o/s	13mn
3M ADV	US\$ 0.5mn
52wk high/low	Rs 3,195/Rs 1,986
Promoter/FPI/DII	54%/8%/38%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	11,776	13,444	13,179	13,803	15,229
EBITDA (Rs mn)	1,699	1,917	1,779	1,863	2,102
Adj. net profit (Rs mn)	970	1,010	1,134	1,211	1,387
Adj. EPS (Rs)	74.6	77.7	87.2	93.1	106.6
Adj. EPS growth (%)	0.9	4.1	12.3	6.7	14.6
Adj. ROAE (%)	17.2	15.5	15.2	14.4	14.7
Adj. P/E (x)	29.7	28.6	25.5	23.8	20.8
EV/EBITDA (x)	16.9	14.8	15.8	15.2	13.5

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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