

Company update and
earnings revision

Sanitaryware

Target price: Rs3,045

Earnings revision

(%)	FY21E	FY22E
Sales	↓ 0.1	↑ 2.2
EBITDA	↓ 5.0	↓ 1.3
PAT	↓ 6.0	0.0

Target price revision

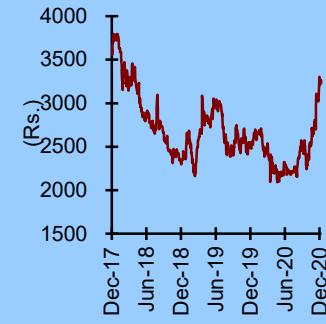
Rs3,045 from Rs2,700

Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	54.5	54.5	54.5
Institutional investors	24.4	25.3	25.5
MFs and UTI	10.2	10.1	10.2
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FII	14.2	15.2	15.3
Others	21.1	20.2	20.0

Source: NSE

Price chart



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INDIA

Cera Sanitaryware

HOLD

Maintained

Rs3,126

Balance sheet strengthens; growth recovery ahead!

Cera Sanitaryware (CRS) is well geared to stage a material recovery in volumes in its bathroom solutions segment on the back of: a) considerable strengthening of the balance sheet post Covid driven by stricter control on receivables, particularly in the faucet and tile segments (which is likely to continue in the near term); b) market share gains across the product portfolio driven by import substitution in sanitaryware and faucets, and Morbi's intensified focus on tile exports. Margins too are likely to improve considerably post-FY21 aided by: 1) change in sourcing mix in sanitaryware segment in particular, 2) operating leverage, 3) recent price hike in sanitaryware and tile segments, and 4) sustained cost rationalisation. The likely improvement in profitability, increasing FCF from operations (amid muted capex and strict working capital discipline) and sustained focus on outsourcing is likely to push consolidated RoCEs higher by ~500bps to >21.5% by FY23E from 16.6% in FY20. Maintain **HOLD**.

- ▶ **Valuation and outlook.** The ongoing strengthening of balance sheet and improving growth outlook in bathroom solutions business post Q3FY21 is expected to drive impressive earnings recovery in FY22E/FY23E. While we cut our earnings expectations for FY21E by 6% largely due to ongoing labour issues (resulting in lower productivity) at its Kadi plant, we expect the company to resolve it by end-Q3FY21. Rolling forward our estimates to FY23E, we expect CRS to report overall revenue/PAT CAGRs of 9.2%/15.9% over FY20-FY23E respectively. With the recent surge in the stock price, CRS trades at 25.7x Sep'22E earnings, which seems fairly valued. We thus maintain our **HOLD** rating with a revised target price of Rs3,045 (earlier: Rs2,700), valuing it at 25x Sep'22E earnings.
- ▶ **Material recovery across product segments likely post Q3FY21:** CRS' material volume recovery in sanitaryware segment (in particular) is now expected to start from Q4FY21 (as against our earlier expectation of Q3FY21). The delay is largely due to ongoing labour issues at the Kadi plant, which is likely to get resolved by end of the current quarter. We thus expect CRS to materially gain market share post FY21 driven by import substitution in sanitaryware and faucet segments and Morbi's intensified focus on tile exports. We expect CRS' revenues to thus grow at 9.2% CAGR over FY20-FY23E.
- ▶ **Margins to gain traction post FY21:** Consolidated margins are likely to improve considerably post FY21 driven by: 1) change in sourcing mix, particularly in sanitaryware segment (which is currently skewed towards outsourcing due to the ongoing labour issues at Kadi plant); 2) operating leverage; 3) recent price hikes in sanitaryware (3% in Aug'20) and tile segment (3% in Sep'20); and 4) sustained cost rationalisation measures. We expect margins to improve to 14.9% / 16% in FY22E / FY23E from 13.5% in FY20.
- ▶ **RoCEs likely to recover to >21.5% by FY23E led by sustained balance sheet improvement and strong traction in profitability.** We expect strong FCF generation over FY21E-FY23E on the back of: 1) stricter working capital discipline (focus on curtailing receivables, particularly in tile and faucet segments); 2) greater emphasis on the asset-light approach; 3) muted capex; and 4) likely traction in profitability. This is likely to drive a 500bps improvement in RoCEs to 21.5% in FY23E from 16.6% in FY20.

Market Cap	Rs40.6bn/US\$552mn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	CERA.BO / CRS IN	Revenue (Rs mn)	12,237	11,522	14,000	15,944
Shares Outstanding (mn)	13.0	Rec. Net Income (Rs mn)	1,133	873	1,405	1,763
52-week Range (Rs)	3323/2000	EPS (Rs)	87.1	67.1	108.0	135.6
Free Float (%)	45.5	% Chg YoY	(1.6)	(22.9)	60.8	25.5
FII (%)	15.3	P/E (x)	35.9	46.6	28.9	23.1
Daily Volume (US\$'000)	290	CEPS (Rs)	116.9	98.6	140.9	171.8
Absolute Return 3m (%)	26.1	EV/E (x)	25.1	28.4	18.9	15.2
Absolute Return 12m (%)	24.2	Dividend Yield (%)	0.4	0.5	0.5	0.5
Sensex Return 3m (%)	18.7	RoCE (%)	16.6	13.4	19.4	21.5
Sensex Return 12m (%)	14.1	RoE (%)	15.2	10.8	15.6	17.0

Please refer to important disclosures at the end of this report

Table 1: Change in estimates

(Rs mn)

	Old		New		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	11,538.0	13,695.9	11,522.0	14,000.0	-0.1%	2.2%
EBITDA	1,480.2	2,116.1	1,406.1	2,088.7	-5.0%	-1.3%
EBIDTA margin	12.8%	15.5%	12.2%	14.9%	-60bps	-60bps
PAT (adj)	928.6	1,404.6	873.3	1,404.7	-6.0%	0.0%
EPS (adj)	71.4	108.0	67.1	108.0	-6.0%	0.0%

Source: Company data, I-Sec research

Financial summary

Table 2: Profit & Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Net Revenues	12,237	11,522	14,000	15,944
Operating Expenses	10,582	10,154	11,981	13,488
EBITDA	1,655	1,406	2,089	2,559
% margins	13.5%	12.2%	14.9%	16.0%
Depreciation & Amortisation	388	409	427	471
Gross Interest	101	96	87	91
Other Income	182	228	272	344
Recurring PBT	1,349	1,130	1,846	2,342
Less: Taxes	243	284	465	590
Less: Minority Interest	(27)	(28)	(24)	(12)
Net Income (Reported)	1,133	873	1,405	1,763
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	1,133	873	1,405	1,763

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	5,520	6,079	7,560	9,037
of which cash & cash eqv.	21	1,328	1,844	2,482
Total Current Liabilities & Provisions	3,190	3,235	3,862	4,048
Net Current Assets	2,330	2,844	3,698	4,989
Investments	2,283	2,283	2,283	2,283
Net Fixed Assets	4,385	4,226	4,549	4,828
Capital Work-in-Progress	5	-	-	-
Goodwill	-	-	-	-
Total Assets	9,003	9,354	10,530	12,100
Liabilities				
Borrowings	919	625	625	675
Deferred Tax Liability	299	299	299	299
Minority Interest	77	77	77	77
Equity Share Capital	65	65	65	65
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	7,642	8,287	9,464	10,984
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	7,707	8,353	9,529	11,049
Total Liabilities	9,003	9,354	10,530	12,100

*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	1,213	1,282	1,832	2,234
Working Capital Changes	182	792	(338)	(653)
Capital Commitments	(659)	(245)	(750)	(750)
Free Cashflow	736	1,829	744	831
Cashflow from Investing Activities				
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	13	(294)	-	50
Dividend paid	(198)	(228)	(228)	(243)
Change in Deferred Tax Liability				
Chg. in Cash & Bank balance	(137)	-	-	-
	(89)	1,307	516	638

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
EPS	87.1	67.1	108.0	135.6
Cash EPS	116.9	98.6	140.9	171.8
Dividend per share (DPS)	13.0	15.0	15.0	16.0
Book Value per share (BV)	598.5	648.1	738.6	855.4
Growth (%)				
Net Sales	-9.5	-5.8	21.5	13.9
EBITDA	-16.5	-15.0	48.5	22.5
PAT	-1.6	-22.9	60.8	25.5
Cash EPS	6.2	-15.7	42.9	21.9
Valuation Ratios (x)				
P/E	35.9	46.6	28.9	23.1
P/CEPS	26.7	31.7	22.2	18.2
P/BV	5.2	4.8	4.2	3.7
EV / EBITDA	25.1	28.4	18.9	15.2
EV / Sales	3.4	3.5	2.8	2.4
Operating Ratios				
Raw Material / Sales (%)	45.0	49.6	47.5	46.5
Employee cost / Sales (%)	12.2	14.0	12.5	12.6
SG&A / Sales (%)	0.0	19.6	18.0	18.0
Other Income / PBT (%)	13.5	20.2	14.7	14.7
Effective Tax Rate (%)	18.0	25.2	25.2	25.2
Working Capital (days)	110.5	85.0	85.0	85.0
Inventory Turnover (days)	72.5	60.0	60.0	60.0
Receivables (days)	66.5	60.0	60.0	60.0
Payables (days)	28.4	35.0	35.0	35.0
Net D/E Ratio (x)	0.1	-0.1	-0.1	-0.2
Return/Profitability Ratios (%)				
Net Income Margins	9.0	7.3	9.9	11.0
RoACE	16.6	13.4	19.4	21.5
RoAE	15.2	10.8	15.6	17.0
Dividend Payout	17.5	26.1	16.2	13.8
Dividend Yield	0.4	0.5	0.5	0.5
EBITDA Margins	13.5	12.2	14.9	16.0

Source: Company data, I-Sec research

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