

ICICI Securities Limited
is the author and
distributor of this report

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

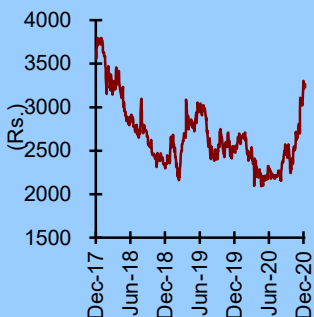
Rs3,045 from Rs2,700

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
Fls/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIs	14.2	15.2	15.3
Others	21.1	20.2	20.0

Source: NSE

Price chart



Research Analysts:

Nehal Shah

nehal.shah@icicisecurities.com
+91 22 6637 7235

Jigar Shah

jigar.shah@icicisecurities.com
+91 22 6637 7416

INDIA

ICICI Securities

Cera Sanitaryware

HOLD

Maintained

Balance sheet strengthens; growth recovery ahead!

Rs3,126

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	(504)	-	-	-
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	13	(294)	-	50
Dividend paid	(198)	(228)	(228)	(243)
Change in Deferred Tax Liability	(137)	-	-	-
Chg. in Cash & Bank balance	(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

This report may be distributed in Singapore by ICICI Securities, Inc. (Singapore branch). Any recipients of this report in Singapore should contact ICICI Securities, Inc. (Singapore branch) in respect of any matters arising from, or in connection with, this report. The contact details of ICICI Securities, Inc. (Singapore branch) are as follows: Address: 10 Collyer Quay, #40-92 Ocean Financial Tower, Singapore - 049315, Tel: +65 6232 2451 and email: navneet_babbar@icicisecuritiesinc.com, Rishi_agrawal@icicisecuritiesinc.com.

"In case of eligible investors based in Japan, charges for brokerage services on execution of transactions do not in substance constitute charge for research reports and no charges are levied for providing research reports to such investors."

*New I-Sec investment ratings (all ratings based on absolute return; All ratings and target price refers to 12-month performance horizon, unless mentioned otherwise)
BUY: >15% return; ADD: 5% to 15% return; HOLD: Negative 5% to Positive 5% return; REDUCE: Negative 5% to Negative 15% return; SELL: < negative 15% return*

ANALYST CERTIFICATION

I/We, **Nehal Shah, CA; Jigar Shah, CA**; authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of the ICICI Securities Inc. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products. ICICI Securities Limited is a SEBI registered Research Analyst with SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities generally prohibits its analysts, persons reporting to analysts and their relatives from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Institutional Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, target price of the Retail Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant solely for the selected recipient and may not be altered in any way, transmitted to, copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities or its associates might have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the companies mentioned in the report in the past twelve months.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject ICICI Securities and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

This report has not been prepared by ICICI Securities, Inc. However, ICICI Securities, Inc. has reviewed the report and, in so far as it includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.