Cera Sanitaryware HOLD

Subdued earnings owing to lockdown

TP	Rs4,431
CMP	Rs4,640
Potential upside / downside	-5%

V/s Consensus

EPS (Rs)	FY22E	FY23E
IDBI Capital	112.4	138.5
Consensus	113.7	141.6
% difference	*(1.1)*	*(2.2)*

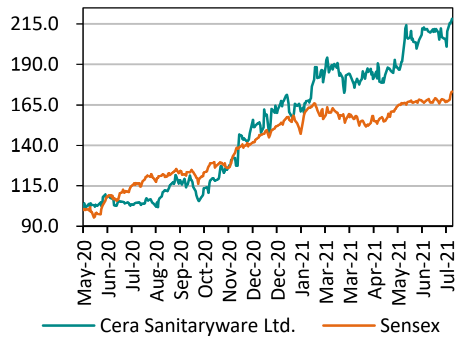
Key Stock Data

Bloomberg / Reuters	CRS IN / CERA.BO
Sector	Building Material Product
Shares o/s (mn)	13
Market cap. (Rs mn)	60,347
Market cap. (US$ mn)	811
3-m daily average Trd value (Rs mn)	65.3
52-week high / low	Rs4,892 / 2,100
Sensex / Nifty	54,278 / 16,238

Shareholding Pattern (%)

Promoters	54.5
FII	15.3
DII	11.1
Public	19.1

Relative to Sensex (%)



Price Performance (%)

	-1m	-3m	-12m
Absolute	3.3	14.8	115.1
Rel to Sensex	0.7	3.3	71.0

Summary

Cera Sanitaryware Ltd.'s (Cera) Q1FY22 results was below our and consensus estimates. Statewide lockdown amid second wave of Covid-19 weighed on demand for building material products, which dented earnings in the quarter. On a low base of Q1FY21, current quarter performance is encouraging, however on a sequential quarter, result has been subdued. Net sales increased by 56% YoY to Rs2,282mn, while EBITDA came in at Rs208mn, a robust growth of 450% YoY. The company reported net profit of Rs116mn, up by 792% YoY. Our interaction with the management suggests that demand has picked up from June onwards and business loss should get covered in upcoming quarters. The company remains focused on higher sales by new products launching and strengthening distribution reach in future. We have marginally increased our net sales/PAT estimates for FY22E/FY23E. We tweak our PE rating given healthy earnings growth and margin improvement in near. HOLD with a revised TP of Rs4,431, assigning 32x PER on FY23E.

Key Highlights and Investment Rationale

- **Net sales marred by lower demand amid lockdown**
  Cera's net sales for the quarter was disappointing as statewide lockdown impacted sales off-take during April and May. As per management, 2nd wave of covid did not impact operations at manufacturing facility but it had an impact on inter-state travel and market closures which resulted in drop of volumes. Sales were impacted due to lower volumes and deferred purchase decisions. The company's sanitaryware plant had capacity utilization of 88% while faucet ware plant capacity utilization was at 72%. The management reiterated net sales to get back to earlier growth track as things have normalized from June, 21.

- **Positive operating leverage supported EBITDA margin expansion**
  The company's EBITDA margin expanded by 650bps YoY to 9.1%. The management attributed better EBITDA margin to cost reduction and better product mix. The company has guided sustainable EBITDA margin to be ~14%-15% in future.

- **Healthy earnings growth on card, HOLD with a TP of Rs4,431**
  We like Cera owing to its healthy market share in domestic sanitaryware and faucets industry, extensive reach, healthy balance sheet and pedigree of management level. HOLD with a TP of Rs4,431.

Financial snapshot **(Rs mn)**

Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	13,436	12,092	12,017	14,670	17,310
EBITDA	1,906	1,621	1,500	2,083	2,535
EBITDA (%)	14.2	13.4	12.5	14.2	14.6
Adj. PAT	1,151	1,160	1,013	1,462	1,801
EPS (Rs)	88.5	89.2	77.9	112.4	138.5
EPS Growth (%)	14.8	0.8	(12.6)	44.3	23.2
PE (x)	49.6	49.2	56.3	39.0	31.7
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.4
EV/EBITDA (x)	30.0	35.3	38.0	27.0	21.7
RoE (%)	17.6	15.7	12.3	15.6	16.8
RoCE (%)	21.0	13.5	11.3	15.4	17.0

Source: IDBI Capital Research;

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Concall Highlights

Company Performance:

- As per management, 2nd wave of covid did not impact operations at manufacturing facility but it had an impact on inter-state travel and market closures which resulted in drop of volumes. Sales were impacted due to lower volumes and deferred purchase decisions.
- Management mentioned than July-21 has exceeded the July-19 numbers.
- In Q1FY22 new products development program contributed 21% to revenue.
- Capacity utilization of sanitaryware -88% , faucetware – 72%.
- Gross margins which are traditionally in the range of 47%-51% were 56% in Q1FY22 as there was lot of emphasis on negotiating with vendors,raw material suppliers and with outsourcing partners which helped the company in maintaining costs.

Working Capital: It reduced from 3410mn to 2340mn in the absence of availability of product and channel inventory remaining dry. Channel inventory has replenished with increased utilization at plants and responsiveness of vendors. Management mentioned that capital deployed in inventory is expected to rise as company has established localized warehouses across establishments to serve market due to which there will be an increase in working capital in FY22.

Revenue mix:

- **Segment wise Breakup in Q1FY22**
  - Sanitaryware contributed 50% ,Faucetware contributed 31% , Tiles contributed 17% & Wellness 2%.
  - Sanitaryware was 50% of which outsourced is 55% and own manufacturing was 45%.
  - Faucetware was 31% of which outsourcing 55% was and own manufacturing was 46%.
  - Tiles & Wellness were entirely outsourced.
  - Exports in Q1FY22 is 4% as compared to 2% in previous year.
- **Tier Wise Breakup:** Tier I sales were 27% in Q1FY22 as compared to 24%Q1FY21, Tier II sales were 14% in Q1FY22 as compared to 10% Q1FY21 & Tier III sales 55% in Q1FY22 as compared to 64% Q1FY21.

- **Entry/Mid/Premium Breakup:** In **Sanitaryware** entry products are 34% in Q1FY22 as compared to 41%,In mid products they remained constant at 13%,Premium products are at 53% in Q1FY22 as compared to 46% in Q1FY21 & in **Faucetware** entry products are 29% in Q1FY22 as compared to 32%,In mid products they remained constant at 15%,Premium products are at 56% in Q1FY22 as compared to 53% in Q1FY21.

Raw Material Dynamics:

- As per management, company has witnessed an inflationary environment in raw material prices.
- Sanitaryware had smaller price increases in transport cost and packaging.
- Clay and feldspar which contributes 95% to raw materials in sanitaryware raw material mix have remained relatively stable with clay having a 3-5% hike from April-21, Feldspar having a price hike of 3% from April-21& Zinc oxide having a 7% price hike from April-21
- Gas from Gail dropped further to Rs9.63 per cubic meter as against Rs40.5 from Sabarmati which is market driven prices
- Faucetware has seen increase in price of brass which is important raw material in the segment
- Management mentioned that it has own manufacturing excellence with a strong vendor base & low end products as well whereas certain industry players are facing issues and have no product to offer to the market for next 90 days as they were dependent on imports from China for their sanitaryware segment.Cera has ~5% imports of its overall topline compared to competitors who have ~50-60% imports

Price Hike

- Sanitaryware took price hike in August-2020 of 3%-5% and in February-2021 of 5%-7%. In Augst-2021 company has again taken a price hike of 4%
- In faucetware price hike was taken in February-2021 of 8-10% and from August-2021 company has again taken a price hike of 10%

Divestment of Anjali Tiles: Company had partnered and provided equity to setup a manufacturing base in Andhra Pradesh it even had an obligation to buy tiles from that venture. Now with buoyancy in the market the company has received indicative interest from JV to buyout Cera’s equity. Company is in the process of releasing equity from the JV. Post divestment obligation to buy from JV will become an option to buy. Management mentioned that only 1/3rd tiles are bought from Anjani tiles and rest is bought from 3rd party vendors.

CAPEX: For FY22 CAPEX is Rs171.9mn of which Rs66.9mn is towards sanitaryware automation, Rs49.7mn is towards faucetware automation, Rs55.3mn is for logistic & IT

Management outlook:

- Management assumes that a topline growth of 15 and EBITDA margins of 14%+ is possible
- As per management, demand has been robust since August 2020 with reduced interest rate, reduced monthly home loan payments and as markets remain strong company will focus on getting products to market with timely availability.
- Management stated that since July -2021 demand has returned to positive trajectory which was noticed from August-2020 to March-2021
- As per management with continued affordable housing & low interest rate for housing loan the long term growth dynamics for company remains intact and are optimistic of the outlook.
- The management mentioned that they are on the cusp of festive season and will see demand in next 2 quarters
- Management expects that its market share would be better as competitors are facing issues

Exhibit 1: Financial snapshot **(Rs mn)**

Particulars (mn)	Q1FY22	Q4FY21	*QoQ (%)*	Q1FY21	*YoY (%)*
Total revenues	**2,282**	**4,384**	***(47.9)***	**1,460**	***56.3***
Total expenditure	2,074	3,683	*(43.7)*	1,422	*45.8*
EBIDTA	**208**	**701**	***(70.3)***	**38**	***450.1***
EBIDTA margin(%)	***9.1***	***16.0***	***(690)bps***	***2.6***	***650bps***
Depreciation	89	100	*(11.5)*	97	*(8.2)*
Interest cost	21	28	*(23.9)*	23	*(8.4)*
Other income	66	43	*53.8*	70	*(5.8)*
PBT	164	616	*(73.3)*	(12)	*1,479.7*
Tax	34	139	*(75.3)*	5	*608.5*
Adj. net profit	**116**	**477**	***(75.7)***	**(17)**	***792.3***
Adj. EPS (INR)	9.4	35.2	*(73.3)*	0.4	*2,582.9*

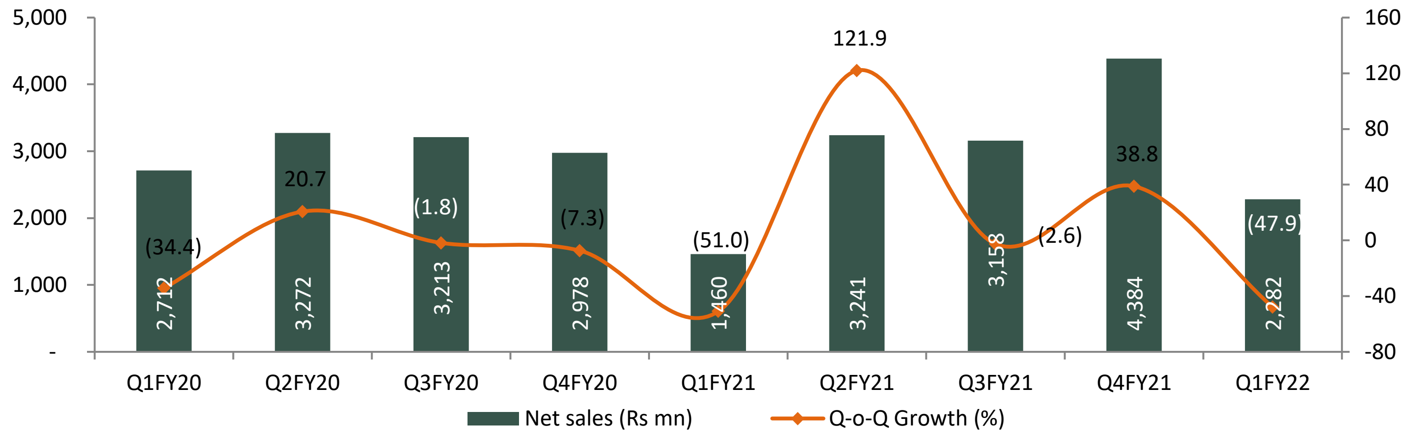
Source: Company; IDBI Capital Research

Exhibit 2: Actual Vs Estimates **(Rs mn)**

Particulars	**Q1FY22A**	**Q1FY22E**	***Variance (%)***
Net Sales	2,282	2,674	*(15)*
EBITDA	208	335	*(38)*
EBITDA Margin (%)	*9.1*	*12.5*	*(340)bps*
Net Profit	116	195	*(41)*
EPS (Rs)	9.4	15.0	*(41)*

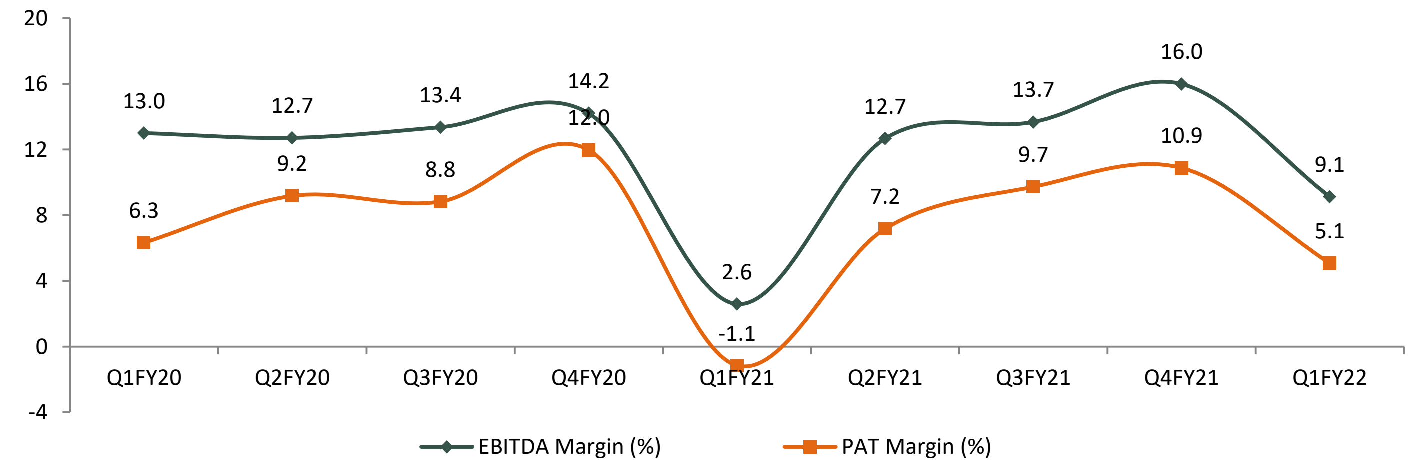
Source: Company; IDBI Capital Research

Exhibit 3: Quarterly Net sales Growth Analysis



Source: Company; IDBI Capital Research

Exhibit 4: Quarterly Margin Profile Analysis



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account (Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net sales	**12,092**	**12,017**	**14,670**	**17,310**
Growth (%)	*(10.0)*	*(0.6)*	*22.1*	*18.0*
Operating expenses	(10,470)	(10,517)	(12,587)	(14,775)
EBITDA	**1,621**	**1,500**	**2,083**	**2,535**
Growth (%)	*-14.9*	*-7.5*	*38.9*	*21.7*
Depreciation	(327)	(332)	(334)	(355)
EBIT	**1,295**	**1,167**	**1,749**	**2,180**
Interest paid	(44)	(43)	(24)	(13)
Other income	156	218	229	240
Pre-tax profit	**1,406**	**1,343**	**1,954**	**2,407**
Tax	(247)	(329)	(492)	(606)
Effective tax rate (%)	*17.5*	*24.5*	*25.2*	*25.2*
Minority Interest	-	-	-	-
Net profit	**1,160**	**1,013**	**1,462**	**1,801**
Exceptional items	-	-	-	-
Adjusted net profit	**1,160**	**1,013**	**1,462**	**1,801**
Growth (%)	*0.8*	*(12.6)*	*44.3*	*23.2*
Shares o/s (mn nos)	*13*	*13*	*13*	*13*

Cash Flow Statement (Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Pre-tax profit	1,406	1,343	1,954	2,407
Depreciation	327	332	334	355
Tax paid	(379)	(329)	(443)	(545)
Chg in working capital	262	1,177	(102)	(145)
Other operating activities	-	-	-	-
Cash flow from operations (a)	**1,616**	**2,523**	**1,744**	**2,072**
Capital expenditure	(511)	(166)	(300)	(350)
Chg in investments	(504)	(2,507)	(375)	(293)
Other investing activities	-	-	-	-
Cash flow from investing (b)	**(1,015)**	**(2,673)**	**(675)**	**(643)**
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(29)	(28)	(5)	(6)
Dividend (incl. tax)	(218)	(203)	(234)	(265)
Chg in minorities	-	-	-	-
Other financing activities	(441)	463	(22)	(19)
Cash flow from financing (c)	(689)	232	(261)	(290)
Net chg in cash (a+b+c)	(88)	82	807	1,139

Balance Sheet

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net fixed assets	3,333	3,167	3,133	3,128
Investments	2,624	5,131	5,506	5,799
Other non-curr assets	247	197	202	205
Current assets	**5,053**	**4,334**	**5,416**	**6,845**
Inventories	2,045	1,697	1,833	1,961
Sundry Debtors	2,209	2,067	2,170	2,301
Cash and Bank	16	98	906	2,045
Marketable Securities	-	-	-	-
Loans and advances	164	178	195	211
Total assets	**11,258**	**12,830**	**14,257**	**15,977**
Shareholders' funds	**7,729**	**8,744**	**9,972**	**11,508**
Share capital	65	65	65	65
Reserves & surplus	7,664	8,679	9,907	11,443
Total Debt	**153**	**124**	**119**	**113**
Secured loans	-	-	-	-
Unsecured loans	153	124	119	113
Other liabilities	1,975	1,859	1,908	1,969
Curr Liab & prov	**1,402**	**2,103**	**2,258**	**2,387**
Current liabilities	1,274	1,978	2,127	2,250
Provisions	128	125	130	137
Total liabilities	**3,529**	**4,086**	**4,285**	**4,469**
Total equity & liabilities	**11,258**	**12,830**	**14,257**	**15,977**
Book Value (Rs)	**594**	**672**	**767**	**885**

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj. EPS (Rs)	89.2	77.9	112.4	138.5
Adj. EPS growth (%)	*0.8*	*(12.6)*	*44.3*	*23.2*
EBITDA margin (%)	*13.4*	*12.5*	*14.2*	*14.6*
Pre-tax margin (%)	*11.6*	*11.2*	*13.3*	*13.9*
ROE (%)	*15.7*	*12.3*	*15.6*	*16.8*
ROCE (%)	*13.5*	*11.3*	*15.4*	*17.0*
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.1	1.0	1.1	1.1
Leverage factor (x)	1.5	1.5	1.4	1.4
Net margin (%)	*9.6*	*8.4*	*10.0*	*10.4*
Net Debt/Equity (x)	0.0	0.0	(0.1)	(0.2)
Working Capital & Liquidity ratio				
Inventory days	62	52	46	41
Receivable days	67	63	54	49
Payable days	29	50	45	40

Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	49.2	56.3	39.0	31.7
Price / Book value (x)	7.4	6.5	5.7	5.0
PCE (x)	38.4	42.4	31.7	26.5
EV / Net sales (x)	4.7	4.7	3.8	3.2
EV / EBITDA (x)	35.3	38.0	27.0	21.7
Dividend Yield (%)	*0.3*	*0.3*	*0.3*	*0.4*

Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com

Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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Analyst Disclosures

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