

Company update

Sanitaryware

Target price Rs6,280

Shareholding pattern

	Mar '22	Jun '22	Sep '22
Promoters	54.5	54.5	54.5
Institutional investors	29.9	28.9	27.6
MFs and others	10.0	10.6	9.7
Insurance Cos.	0.0	0.0	0.0
FII	19.9	18.3	17.9
Others	15.6	16.6	17.9

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	NA	NA	NA
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

INDIA

Cera Sanitaryware

BUY

Maintain

Rs5,309

We reiterate our **BUY** rating on Cera Sanitaryware (CRS) driven by the sustained healthy demand environment aided by pick-up in the residential housing market as well as in home improvement market. Our interaction with dealers and industry participants indicates continued demand tailwinds even in Q3FY23E-TD in the segments of sanitaryware and faucetware (except in NCR region, where construction has been banned since Nov'22 to combat pollution). CRS's operating margin for FY23E should be ~16% as there are no additional cost pressures, though high A&P spend on the new brand campaign launched in H2FY23, if accounted for entirely in H2 itself, may result in lower margins. Management had earlier guided for doubling of revenue over next ~3.5 years with margin improvement of at least 50bps-75bps YoY in FY23. We expect CRS to witness revenue/PAT CAGRs of 16.6%/24.4% respectively, over FY22-FY25E led by faucetware and sanitaryware segments with strong return ratios. Maintain **BUY** with an unchanged Sep'23E target price of Rs6,280.

- **Revenue CAGR of 16.6% during FY22-FY25E:** We expect CRS to witness a revenue CAGR of 16.6% during FY22-FY25E aided by growth in its core segments of sanitaryware and faucetware. Both these businesses are witnessing healthy demand due to pick-up in the residential housing market as well as in the home improvement market (barring the NCR region, which has seen construction activity ban since Nov'22 to combat pollution). As per industry participants, the potential Q3 demand in NCR will spill over to Q4 due to the current construction ban. We believe CRS has <10% of its revenues coming from NCR, hence the near-term impact of the ban will be limited. Company derives ~55% of its revenue from tier-3 and below markets (population <1mn), which continues to witness healthy demand. The sanitaryware segment is likely to witness revenue CAGR of 15.2% over FY22-FY25E with incremental volumes being catered to from outsourcing until the new in-house facility commences production. The greenfield sanitaryware facility is expected to go on-stream in 24-30 months post finalisation of land purchase, at a capex of ~Rs1.3bn. In the faucetware segment, we expect revenue CAGR of 21.6% during FY22-FY25E, aided by commencement of enhanced manufacturing capacity of 1.2mn pieces (current capacity: 3.6mn) in Q2FY24. Total capex planned for the brownfield expansion of faucetware facility is ~Rs700mn. Capex for both the projects will be funded from internal accruals.
- **Margins to remain at ~16%:** CRS's margins should remain stable at ~16% over FY22-FY25E as there are no incremental inflationary cost pressures. Company however launched an aggressive brand campaign in H2FY23 (starring Kiara Advani and Vijay Deverakonda) and if the total cost is accounted for in H2 itself, then, there may be a near-term downside risk to margins. We have modelled margins of 15.95% in H2FY23E (vs 16.1% reported in H1FY23) and EBITDA/PAT CAGRs of 17.4%/24.4% for FY22-FY25E. Management has guided for margin improvement of at least 50bps-75bps in FY23.
- **Valuations and view:** We continue to like CRS for its comprehensive product portfolio, wide distribution reach, strong brand presence and robust balance sheet. Maintain **BUY** with an unchanged Sep'23E target price of Rs6,280. Key risks: 1) Slowdown in demand from housing, and 2) higher input prices, which may dent demand / profitability.

Market Cap	Rs69.1bn/US\$839mn	Year to Mar	FY22	FY23E	FY24E	FY25E
Reuters/Bloomberg	CERA.BO/CRS IN	Revenue (Rs mn)	14,450	17,544	20,178	22,916
Shares Outstanding (mn)	13.0	EBITDA (Rs mn)	2,282	2,809	3,236	3,691
52-week Range (Rs)	5864/3839	Net Income (Rs mn)	1,417	2,006	2,374	2,731
Free Float (%)	45.5	EPS (Rs)	109.0	154.3	182.5	210.0
FII (%)	17.9	% Chg YoY	62.2	41.5	18.3	15.0
Daily Volume (US\$'000)	1,487	P/E (x)	48.7	34.4	29.1	25.3
Absolute Return 3m (%)	(4.2)	EV/E (x)	27.8	22.6	19.4	16.4
Absolute Return 12m (%)	10.0	Dividend Yield	0.7	0.7	0.9	1.0
Sensex Return 3m (%)	5.0	RoCE (%)	13.4	15.7	15.7	15.6
Sensex Return 12m (%)	8.1	RoE (%)	15.0	18.4	18.9	18.8

Key charts

Chart 1: Consolidated revenue CAGR of 16.6% (FY22-FY25E) driven by sanitaryware & faucetware

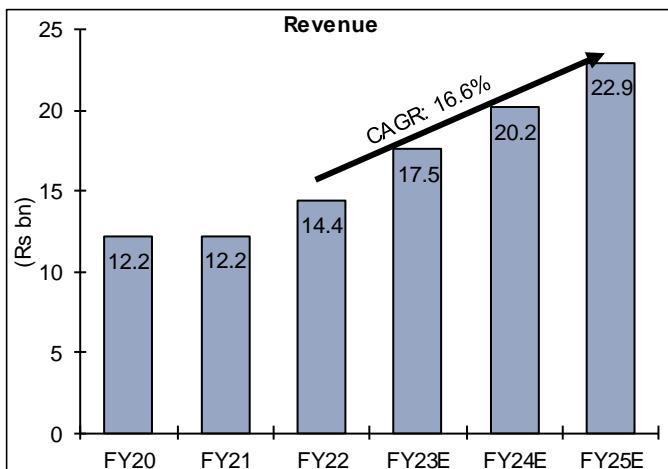


Chart 2: Sanitaryware dominates the revenue mix

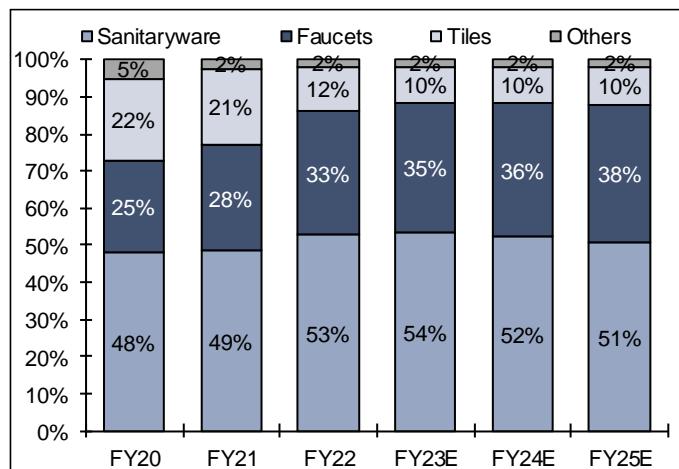


Chart 3: EBITDA CAGR at 17.4% over FY22-FY25E

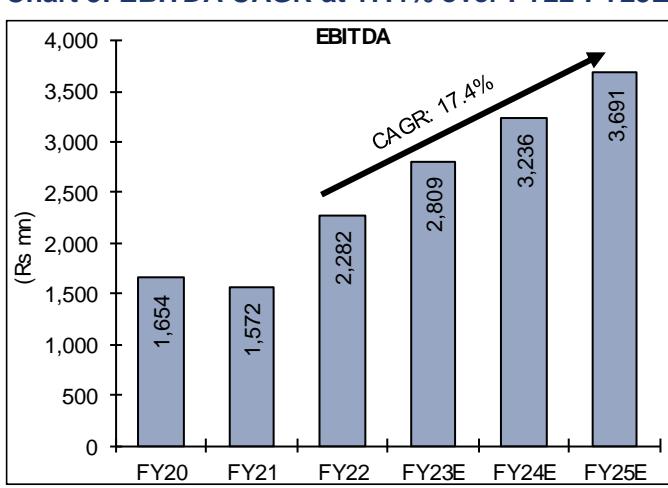


Chart 4: EBITDA margin to remain stable

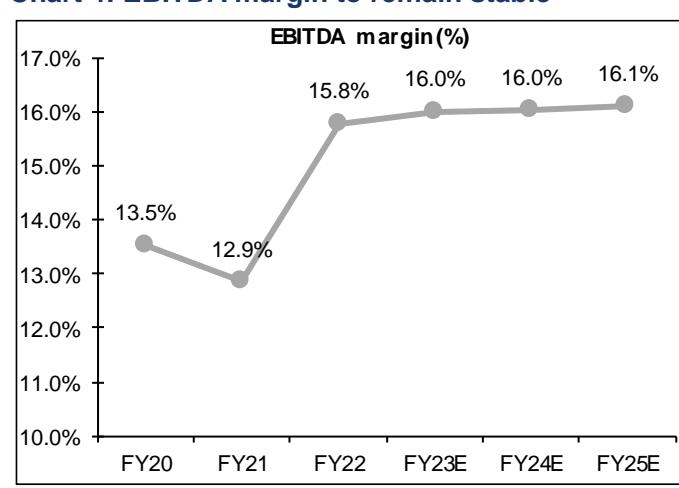


Chart 5: High A&P spends have enabled strong brand creation

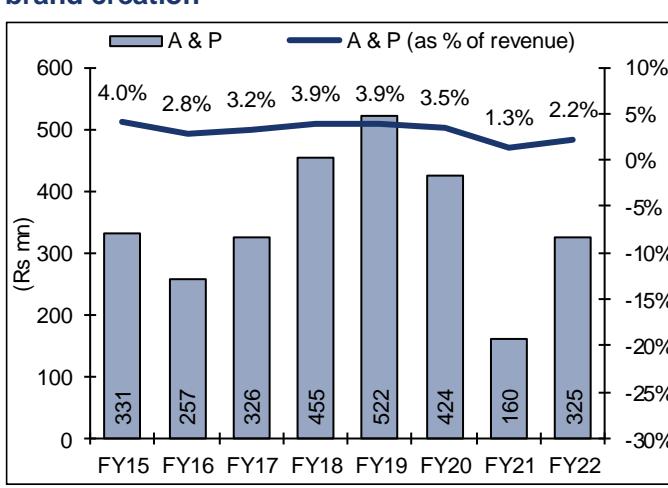


Chart 6: Dealer network grew 2.8x over FY17-FY22

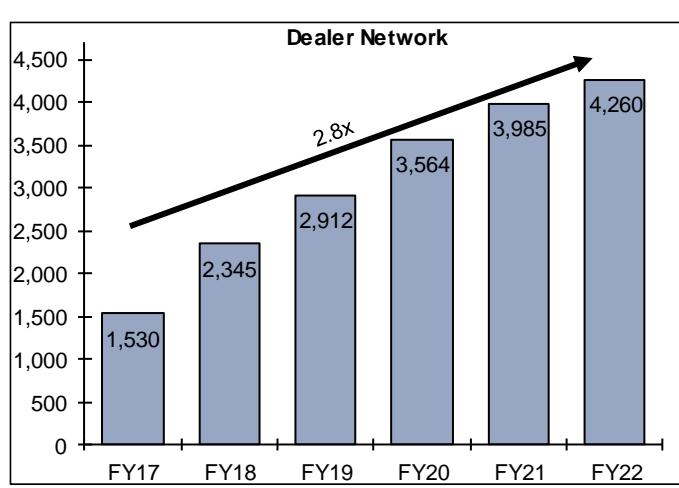
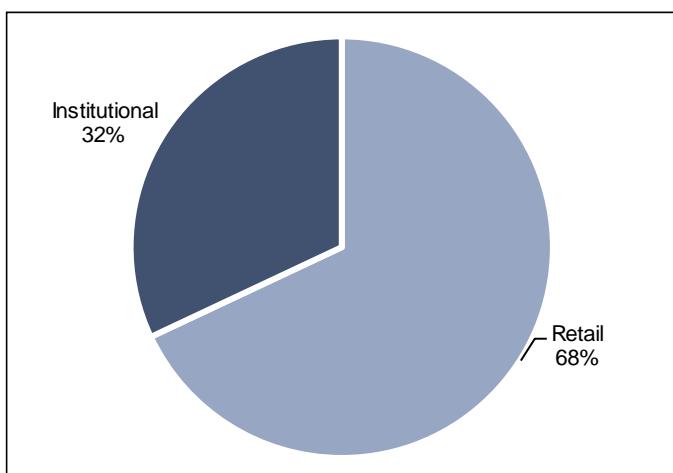
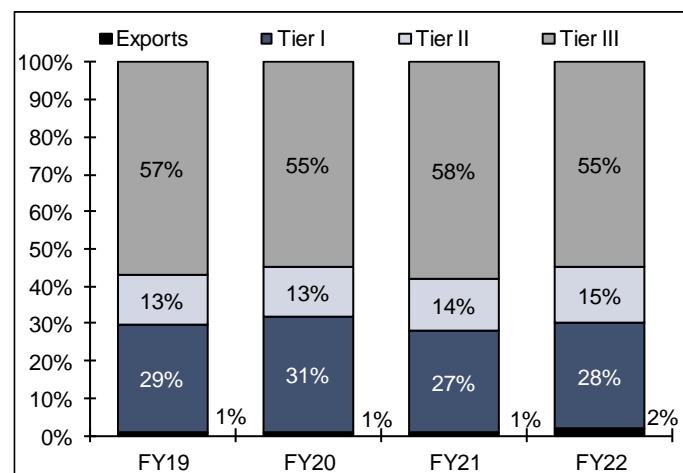
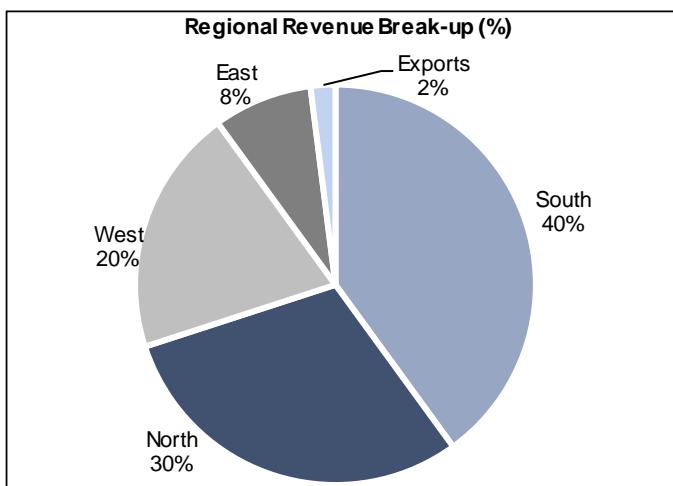


Chart 7: Retail dominates sales mix (FY22)

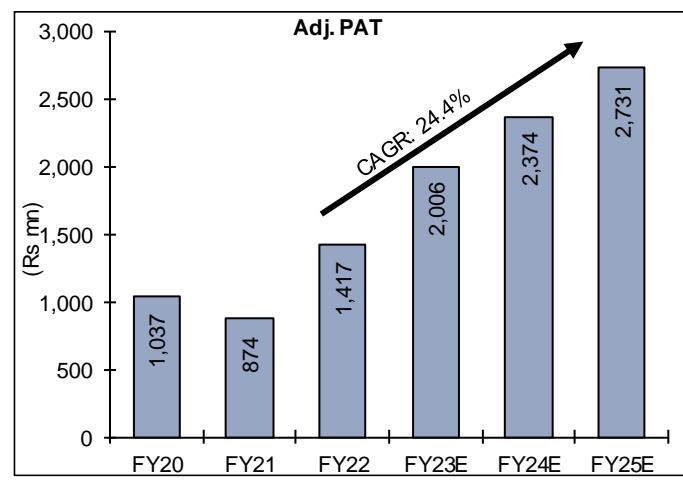
Source: Company data, I-Sec research

Chart 8: Strong presence in tier-3 and below markets

Source: Company data, I-Sec research

Chart 9: South contributes the highest share to revenue (FY22)

Source: Company data, I-Sec research

Chart 10: APAT to grow at 24.4% CAGR over FY22-FY25E

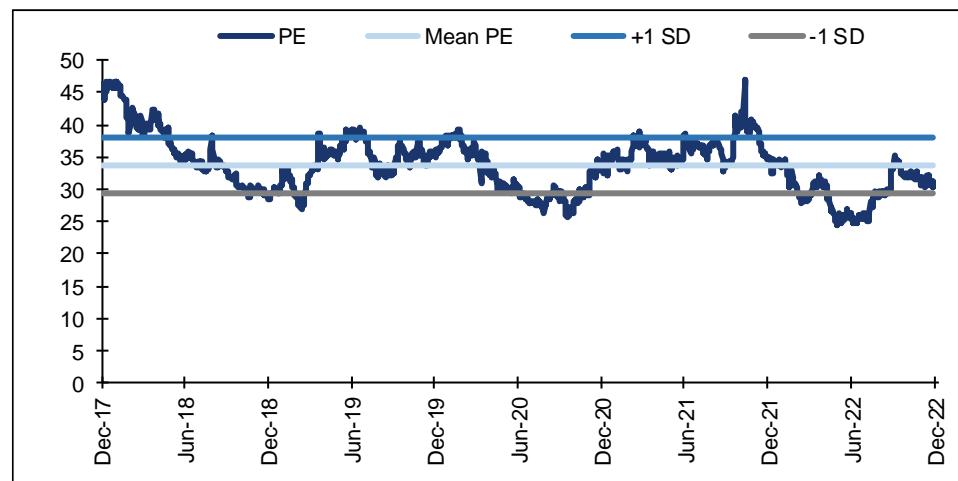
Source: Company data, I-Sec research

Valuation

CRS is one of the major organised sanitaryware players in India. Over the years, the company has expanded its product portfolio from sanitaryware to tiles, faucets and wellness goods, becoming a one-stop bathroom solution provider. It has significant presence in tier-2 and tier-3 markets aided by its strong brand name and wide distribution.

Company is expected to witness revenue/PAT CAGRs of 16.6%/24.4% respectively during FY22-FY25E given its continued strong balance sheet and healthy return ratios. Maintain **BUY** with an unchanged Sep'23E target price of Rs6,280 set at 32x FY24E P/E, in line with historical 5-year average, 1-year forward P/E.

Chart 11: 1-year forward P/E band



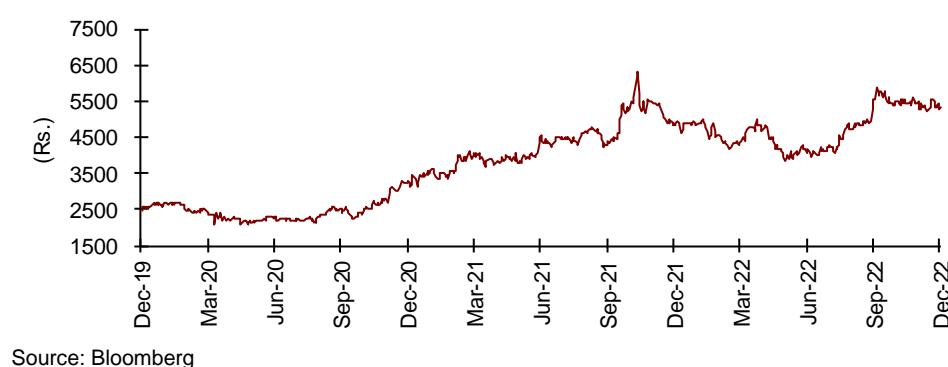
Key risks

Slowdown in housing market: Housing market is the demand driver for sanitaryware and tile segments. Unexpected slowdown in housing would therefore adversely affect sanitaryware and tile markets.

Higher raw material prices: Any sudden and significant increase in raw material prices may negatively impact profitability and demand.

Resurgence of pandemic: A resurgence of the covid pandemic will adversely affect the company's growth markets.

Price chart



Financial summary

Table 1: Profit and Loss statement

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Operating Income (Sales)	14,450	17,544	20,178	22,916
Operating Expenses	12,168	14,735	16,942	19,226
EBITDA	2,282	2,809	3,236	3,691
% margins	15.8	16.0	16.0	16.1
Depreciation & Amortisation	324	339	411	483
Interest Cost	53	52	24	18
Other Income	54	309	423	519
Recurring PBT	1,959	2,727	3,224	3,709
Less: Taxes	560	698	825	949
Less: Minority				
Interest/Extraordinary Items	-112	23	25	28
Net Income (Reported)	1,511	2,006	2,374	2,731
Net Income (Adjusted)	1,417	2,006	2,374	2,731

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY22	FY23E	FY24E	FY25E
Assets				
Total Current Assets	10,785	11,756	13,493	16,470
of which cash & cash eqv.	244	21	98	132
Total Current Liabilities	4,417	4,789	5,508	6,255
Net Current Assets	6,368	6,967	7,985	10,214
Investments	5,621	5,750	6,500	8,500
Net Fixed Assets	4,650	5,611	6,399	6,239
Total Assets	15,517	17,449	19,974	22,791
Liabilities				
Borrowings	267	250	200	140
Total Liabilities	5,223	5,610	6,311	7,031
Equity Share Capital	65	65	65	65
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus	10,086	11,608	13,408	15,477
Net Worth	10,152	11,673	13,473	15,542
Minority Interest	142	165	190	218
Total Liabilities & Shareholders' Equity	15,517	17,449	19,974	22,791

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Dec'21	Mar'22	Jun'22	Sep'22
Net sales	4,045	4,406	3,972	4,159
% growth (YoY)	28.1	0.5	78.0	5.6
EBITDA	666	848	628	679
EBITDA Margin (%)	16.5	19.2	15.8	16.3
Other Income	53	64	-6	106
Extraordinary Items	0	57	0	0
Net profit	457	686	395	507

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

Cash Flow	FY22	FY23E	FY24E	FY25E
Operating Cashflow	2,356	1,729	2,677	3,107
Working Capital				
Changes	426	-694	-191	-196
Capex	-785	-1,300	-1,200	-323
Free Cashflow	1,571	429	1,477	2,784
Cashflow from Investing Activities	-1,664	-1,429	-1,950	-2,323
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	-570	-17	-50	-60
Dividend paid	-455	-507	-600	-690
Chg. In Cash & Cash equivalents	28	-224	77	34

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

Ratios	FY22	FY23E	FY24E	FY25E
Per Share Data (Rs)				
EPS (Diluted Adjusted)	109.0	154.3	182.5	210.0
CEPS (Cash EPS)	133.9	180.3	214.2	247.2
Dividend per share (DPS)	35.0	39.0	46.1	53.0
Book Value per share (BV)	780.5	897.6	1,035.9	1,195.0
Growth Ratios (%)				
Operating Income	18.1	21.4	15.0	13.6
EBITDA	45.1	23.1	15.2	14.0
Adjusted Net Income	62.2	41.5	18.3	15.0
EPS (Diluted Adjusted)	62.2	41.5	18.3	15.0
Valuation Ratios (x)				
P/E	48.7	34.4	29.1	25.3
P/CEPS	39.7	29.4	24.8	21.5
P/BV	6.8	5.9	5.1	4.4
EV / EBITDA	27.8	22.6	19.4	16.4
EV / Operating Income	4.4	3.6	3.1	2.6
Operating Ratios				
Other Income / PBT (%)	2.8	11.3	13.1	14.0
Effective Tax Rate (%)	28.6	25.6	25.6	25.6
NWC / Total Assets (%)	3.8	7.3	7.4	7.3
Net D/E Ratio (x)	-0.5	-0.5	-0.5	-0.5
Return/Profitability Ratios (%)				
Adjusted Net Income Margins	9.8	11.4	11.8	11.9
RoCE	13.4	15.7	15.7	15.6
RoE	15.0	18.4	18.9	18.8
Dividend Yield	0.7	0.7	0.9	1.0
EBITDA margins	15.8	16.0	16.0	16.1

Source: Company data, I-Sec research

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