

15 May 2024

India | Equity Research | Q4FY24 results review

Cera Sanitaryware

Sanitaryware

Margin surprises positively; near-term demand environment remains tepid

Cera Sanitaryware (CRS) has reported Q4FY24 consolidated revenue growth of 2.5% YoY (+25% QoQ; 3-year CAGR of 7.8%) with sanitaryware revenue declining 2% YoY, faucetware growing 10% YoY, while tiles revenue declined 10% YoY. OPM increased 41bps YoY (+330bps QoQ) driven by lower A&P expenses and other cost optimisation measures (other expenses declining 357bps YoY) resulting in EBITDA/APAT growth of 5.0%/12.6% YoY, respectively. Management stated demand is likely to revive post Q1FY25 and has revised revenue guidance of ~INR 29bn to Mar'27 (from Sep'25 earlier). It expects FY25 to be stronger driven by uptick in real estate demand and retail segment. We like CRS led by its significant presence in sanitaryware and faucetware segments, demand for which is set to rise led by an improving housing market. We broadly maintain our PAT estimates and upgrade the stock to **ADD** from **Hold** with an unchanged Mar'25E TP of INR 7,827, set at 32x Mar'26E P/E.

Revenue growth of 2.5% YoY

CRS' consolidated revenue increased 2.5% YoY (+25% QoQ; 3-year CAGR of 7.8%) with sanitaryware revenue declining ~2% YoY and faucetware growing ~10% YoY (3-year CAGR of ~9% and ~16% respectively), whereas tile segment revenue declined ~10% YoY. Management stated demand was subdued in Q4 and remains so in Q1FY25-TD (due to manpower shortage on account of elections and extreme hot weather conditions), but it may revive post Q1FY25. The company believes its growth trajectory will remain strong as it continues to focus on enhancing the share of luxury SKUs in its product mix. It has now guided for revenue of ~INR 29bn to be achieved by Mar'27 (vs Sep'25 earlier) due to current tepid demand environment, implying a revenue CAGR of ~16% over FY24-27. Its capex plans are on track with complete land acquisition for sanitaryware plant likely to be finalised by Jul'24. In Q4FY24, NWC stood at 59 (-10 days YoY) primarily due to lower inventory days (-7 days YoY). CRS had net cash of ~INR 8.2bn as on FY24.

Operating margin improves on lower A&P and cost efficiencies

CRS's Q4FY24 consolidated OPM increased 41bps YoY (+330bps QoQ) to 17.3% due to lower A&P expense and cost optimisation measures (other expenses down 357bps/455bps YoY/QoQ), while gross margin fell 292bps YoY (-357bps QoQ) due to discount schemes offered to trade. Management refrained from guiding on margins due to uncertain near-term demand and inflationary environment. We have modelled operating margin of 16-16.3% for FY25-26E (vs FY12-FY24 average EBITDA margin of ~15.2%).

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	18,033	18,794	21,248	24,682
EBITDA	2,937	3,033	3,392	4,019
EBITDA %	16.3	16.1	16.0	16.3
Net Profit	1,911	2,402	2,667	3,181
EPS (INR)	146.9	184.7	205.1	244.6
EPS % Chg YoY	32.7	25.7	11.0	19.3
P/E (x)	47.3	37.6	33.9	28.4
EV/EBITDA (x)	28.5	27.1	23.7	19.8
RoCE (%)	16.0	15.1	14.8	15.8
RoE (%)	17.5	19.1	18.6	19.7

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Market Data

Market Cap (INR)	90bn
Market Cap (USD)	1,082mn
Bloomberg Code	CRS IN
Reuters Code	CERA.BO
52-week Range (INR)	9,782 /6,551
Free Float (%)	45.0
ADTV-3M (mn) (USD)	2.0

Price Performance (%)	3m	6m	12m
Absolute	(7.8)	(21.8)	(3.6)
Relative to Sensex	(9.3)	(33.1)	(20.8)

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.1	0.2
EBITDA	(3.2)	(2.4)
EPS	0.0	0.0

Previous Reports

14-02-2024: [Q3FY24 results review](#)

06-12-2023: [Company Update](#)

Valuation and views

CRS' Q4FY24 operating result has been better than consensus estimates. It has strong net cash balance sheet with healthy growth prospects led by an uptick in housing market and increased demand from home improvement market. We like the company for its comprehensive product portfolio, wide distribution reach and strong brand presence. Upgrade the stock to **ADD** from **Hold** post ~8% correction in the stock price over the last 3 months with an unchanged Mar'25E target price of INR 7,827.

Exhibit 1: Q4FY24 consolidated result review

INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Total revenues	5,488	5,356	2.5%	4,389	25.0%	18,794	18,105	3.8%
Raw Materials	2,701	2,480	8.9%	2,004	34.8%	8,828	8,246	7.1%
% of sales	49.2%	46.3%	292 bps	45.6%	357 bps	47.0%	45.5%	142 bps
Employee exps	581	554	4.9%	567	2.6%	2,309	2,147	7.6%
% of sales	10.6%	10.3%	24 bps	12.9%	-232 bps	12.3%	11.9%	43 bps
Other exp	1,256	1,417	-11.4%	1,204	4.3%	4,624	4,710	-1.8%
% of sales	22.9%	26.5%	-357 bps	27.4%	-455 bps	24.6%	26.0%	-141 bps
Total expenditure	4,538	4,451	2.0%	3,775	20.2%	15,761	15,103	4.4%
% of sales	83%	83.1%	-41 bps	86.0%	-330 bps	83.9%	83%	44 bps
EBITDA	950	905	5.0%	614	54.5%	3033	3002	1.0%
margin (%)	17.3%	16.9%	41 bps	14.0%	330 bps	16.1%	16.6%	-44 bps
Depreciation	96.6	83.4	15.9%	96.6	0.1%	365.5	326.1	12.1%
EBIT	853	821	3.9%	518	64.7%	2,667	2,676	(0.3%)
EBIT Margin (%)	15.5%	15.3%	21 bps	11.8%	374 bps	14.2%	14.8%	-59 bps
Other income	157.3	91.4	72.1%	159.7	-1.5%	595.0	283.8	109.7%
Interest cost	15.5	21.1	-26.8%	15.7	-1.7%	58.2	60.5	-3.8%
PBT	995	891	11.6%	662	50.3%	3204	2899	10.5%
Taxes	237.7	209.8	13.3%	146.6	62.1%	775.3	738.3	5.0%
PAT before minority interest/associates	757	682	11.1%	515	46.9%	2429	2161	12.4%
Less: Minority interest	7.7	4.1	87.9%	6.4	19.7%	23.2	16.5	40.7%
Add: share of profit in associate	0.0	0.0	nm	0.0	nm	0.0	0.0	#DIV/0!
Less: Extraordinaries	0.0	50.0	nm	0.0	nm	15.6	50.0	nm
Reported PAT	749	628	19.4%	509	47.3%	2390	2094	14.1%
APAT	749	666	12.6%	509	47.3%	2402	2131	12.7%

Source: I-Sec research, Company data

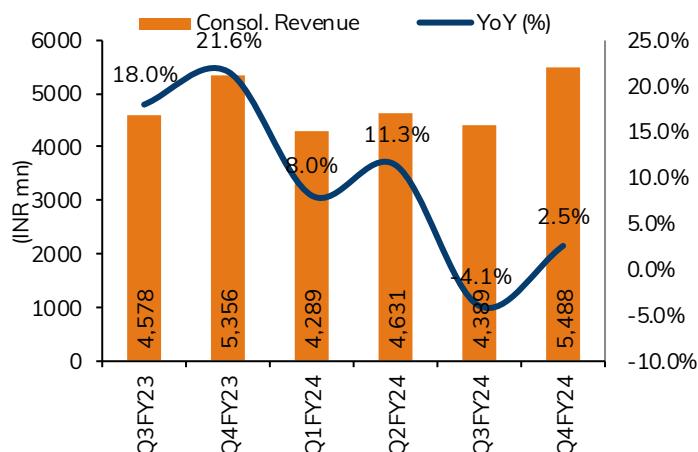
Exhibit 2: Q4FY24 standalone result review

INR mn	Q4FY24	Q4FY23	YoY (%)	Q3FY24	QoQ (%)	FY24	FY23	YoY (%)
Total revenues	5,466	5,334	2.5%	4,367	25.2%	18,712	18,032	3.8%
Raw Materials	2,704	2,479	9.1%	2,000	35.2%	8,822	8,218	7.4%
% of sales	49.5%	46.5%	300 bps	45.8%	367 bps	47.1%	45.6%	157 bps
Employee exps	573	545	5.0%	558	2.6%	2,275	2,113	7.7%
% of sales	10.5%	10.2%	25 bps	12.8%	-230 bps	12.2%	11.7%	44 bps
Other exp	1,268	1,426	-11.1%	1,215	4.4%	4,672	4,778	-2.2%
% of sales	23.2%	26.7%	-354 bps	27.8%	-461 bps	25.0%	26.5%	-153 bps
Total expenditure	4,545	4,451	2.1%	3,773	20.5%	15,769	15,108	4.4%
% of sales	83%	83.4%	-29 bps	86.4%	-324 bps	84.3%	83.8%	49 bps
EBITDA	921	883	4.2%	594	55.0%	2943	2923	0.7%
EBITDA margin (%)	16.8%	16.6%	29 bps	13.6%	324 bps	15.7%	16.2%	-49 bps
Depreciation	91.5	77.9	17.5%	91.2	0.4%	343.7	304.4	12.9%
EBIT	829	806	3.0%	503	64.9%	2,599	2,619	-0.8%
EBIT Margin (%)	15.2%	15.1%	7 bps	11.5%	365 bps	13.9%	14.5%	-63 bps
Other income	164.4	97.9	67.9%	159.9	2.9%	611.5	302.3	102.3%
Interest cost	14.3	19.0	-24.8%	14.5	-1.2%	53.0	54.0	-1.9%
PBT	980	884	10.8%	648	51.0%	3158	2867	10.1%
Taxes	229	205	11.8%	140	64.1%	750	721	4.1%
PAT before extraordinary items	750	679	10.4%	509	47.5%	2407	2147	12.1%
Less: extraordinary items	0	50	-100.0%	0	#DIV/0!	16	50	-0.68886
Reported PAT	750	629	19.2%	509	47.5%	2392	2097	14.1%
APAT	750	668	12.4%	509	47.5%	2404	2134	12.6%

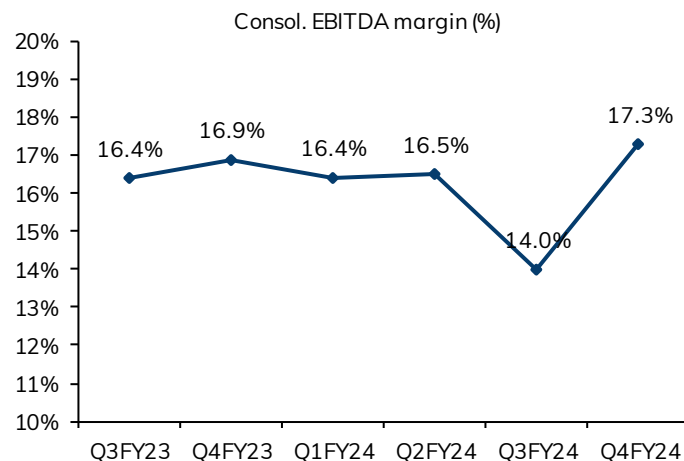
Source: I-Sec research, Company data

Takeaways from Q4FY24 earnings conference call

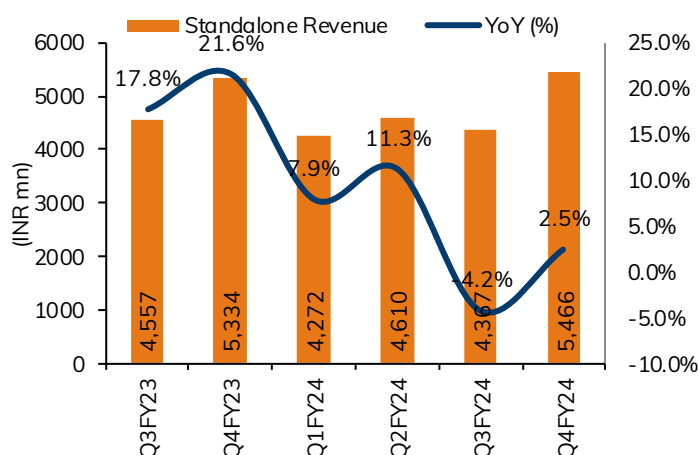
- **Industry size:** Management indicated sanitaryware industry size of ~INR 90-100bn and faucetware industry size of ~INR 140bn.
- **Demand** environment was challenging in Q4FY24 and may remain slightly subdued in Q1FY25 as well due to manpower movement from elections and extreme weather conditions. Post Q1FY25, overall demand should improve.
- **Margin improvement:** Lower A&P expense and other cost optimisation led to lower other expenses which aided margins, despite fall in gross margins (as CRS offered higher discounts to incentivise sales). It expects pricing to roll back to normal levels after Q1FY25.
- **Outlook:** Company has observed a growing consumer trend for luxury property and application of high value products in bathrooms. Also, with higher share of luxury real estate launches coming up, CRS sees good growth opportunities
- CRS will focus on growing its luxury brands like 'Luster' and 'Senator' to cater to customers in luxury segments. It expects 8-10% revenue contribution from these brands by FY27.
- **Pricing:** CRS took 2% price hike in sanitaryware to offset RM inflation in Feb'24.
- **Guidance:** Management has guided for INR 29bn revenue by FY27, at 16% CAGR FY24-27.
- **Gas prices:** In Q4FY24, gas cost sourced from GAIL was INR 28.35/scm (down from ~INR 35.67/scm YoY) and contributed 80% of gas requirement. However, gas cost from Sabarmati gas was INR 50.12/scm (down from INR 57.4/scm YoY) and contributed 20% of gas requirement. **Average blended gas cost for Q4FY24 was INR 32.63/scm.**
- **Working capital days decreased by 10 days YoY to 59 in Q4FY24**, with inventory days at 70 (-7 days YoY), receivable days at 34 (+2 days YoY) and payable days at 45 (+5 days YoY).
- **Capacity expansion and capex:** For greenfield expansion of sanitaryware plant, the company has completed 80% of land acquisition at a cost of INR 250mn in Mar'24 and the remaining land acquisition is likely in Jul'24, post which it will take 18 months for the plant to operationalise. Management has indicated additional maintenance capex of INR 254mn planned for FY25 for maintenance activities.
- **Product mix:** Sanitaryware formed 51% of revenue (-2% YoY) with faucetware at 38% (+10% YoY), tiles at 9% (-10% YoY) and wellness at 2% (+21% YoY) in Q4FY24. Sanitaryware reported revenue of INR 9.59bn (flat YoY) with faucetware at INR 6.71bn (+9.8% YoY), tiles at INR 1.91bn (+0.8% YoY) and wellness at INR 0.38bn (+21.1% YoY) in FY24.
- **Tier-wise mix:** In Q4FY24, tier-1 contributed 34%, tier-2 contributed 21% and tier-3 contributed 45% of revenue.
- **Segment mix:** Premium segment contributed 41% (vs 43% YoY) of revenue with mid-level at 35% (vs 31% YoY) and entry segment at 24% (vs 26% YoY) in Q4FY24. Premium segment contributed 43% (vs 43% YoY) of revenue with mid-level at 33% (vs 30% YoY) and entry segment at 24% (vs 27% YoY) in FY24.
- **Utilisation:** Sanitaryware plant ran at 82% utilisation, while faucetware plant ran at 90% utilisation in Q4FY24.
- **Branding:** A&P expenses stood at INR 632mn in FY24 (vs INR 570mn YoY) and INR 154mn in Q4FY24 (vs INR 240mn YoY). Management expects INR 630-650mn as A&P expenses in FY25.
- **Distribution:** Management reported 6,200 dealers in FY24 (vs 5,400 dealers YoY) and 19,300 retailers in FY24 vs 14,550 in FY23.

Exhibit 3: Consolidated quarterly revenue

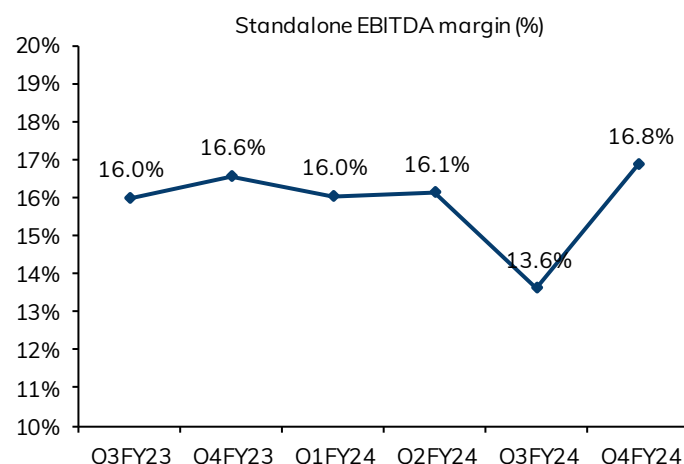
Source: I-Sec research, Company data

Exhibit 4: Consolidated quarterly EBITDA margin (%)

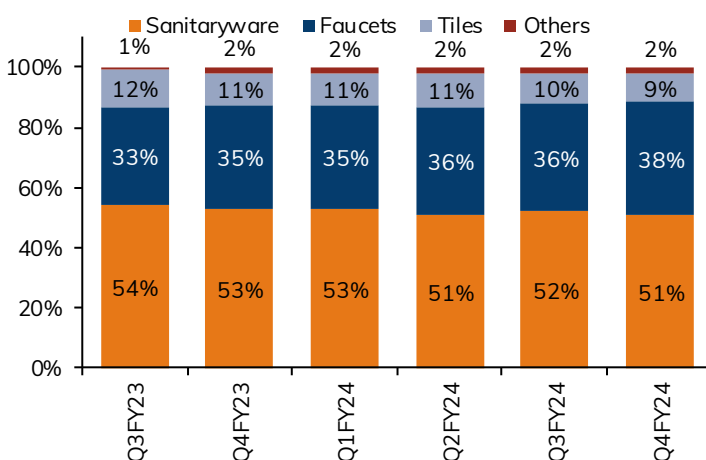
Source: I-Sec research, Company data

Exhibit 5: Standalone quarterly revenue

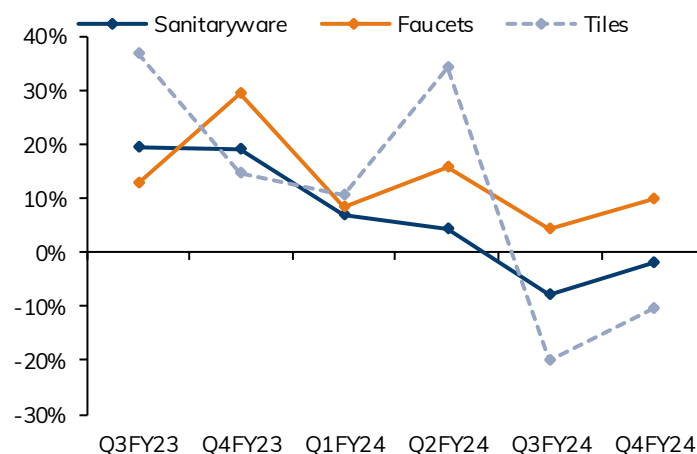
Source: I-Sec research, Company data

Exhibit 6: Standalone quarterly EBITDA margin (%)

Source: I-Sec research, Company data

Exhibit 7: Quarterly revenue breakup

Source: I-Sec research, Company data

Exhibit 8: Segmental revenue growth

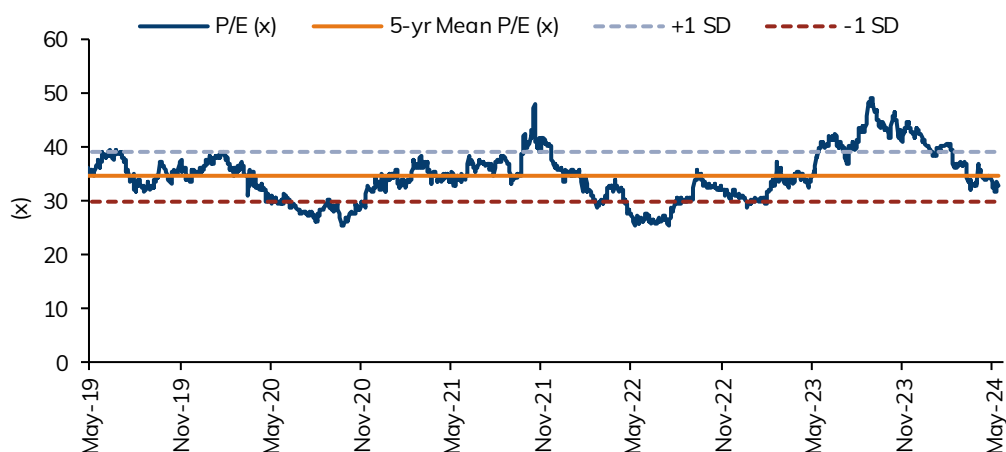
Source: I-Sec research, Company data

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 with strong brand name and wide distribution.

CRS is expected to witness revenue/EBIDTA CAGR of 14.6%/15.1%, respectively, during FY24-26E, with continued strong balance sheet and healthy return ratios (RoE of 19.7% in FY26E). We upgrade CRS to **ADD** (from Hold) with an unchanged Mar'25E target price of INR 7,827, set at 32x Mar'26E P/E, in line with the historical 5-year average, 1-year forward P/E.

Exhibit 9: 1-year forward PE band



Source: I-Sec research, Company data

Key downside risks

- Unexpected slowdown in housing market would adversely affect business.
- Higher raw material prices may adversely affect profitability and demand.

Key upside risks

- Sharp decline in raw material prices could result in better-than-expected profitability.
- Better than expected pick-up in demand scenario.

Exhibit 10: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	54.5	54.5	54.5
Institutional investors	29.3	29.0	28.5
MFs and others	8.2	8.1	6.3
Insurance	0.2	0.3	0.3
FIIIs	20.9	20.6	21.9
Others	16.2	16.5	17.0

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	18,033	18,794	21,248	24,682
Operating Expenses	15,096	15,761	17,857	20,663
EBITDA	2,937	3,033	3,392	4,019
EBITDA Margin (%)	16.3	16.1	16.0	16.3
Depreciation & Amortization	326	365	379	409
EBIT	2,611	2,667	3,013	3,611
Interest expenditure	60	58	32	22
Other Non-operating Income	43	595	638	728
Recurring PBT	2,593	3,204	3,619	4,317
Less: Taxes	(738)	(775)	(926)	(1,105)
PAT	1,855	2,429	2,693	3,212
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(16)	(23)	(26)	(31)
Extraordinaries (Net)	256	(16)	-	-
Net Income (Reported)	2,094	2,390	2,667	3,181
Net Income (Adjusted)	1,911	2,402	2,667	3,181

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Assets				
Inventories	3,825	3,636	4,158	4,812
Cash & cash eqv.	6,859	8,397	9,971	10,943
Sundry Debtors	1,892	2,026	2,270	2,570
Other Current Assets	596	527	640	744
Trade payables	2,069	1,790	2,146	2,477
Other Current Liabilities	1,958	2,153	2,500	2,888
Net Current Assets	9,145	10,643	12,395	13,703
Investments	31	16	16	16
Net Fixed Assets	3,308	3,629	3,650	4,212
Other Non Current Assets	256	225	225	225
Total Assets	12,739	14,512	16,286	18,155
Liabilities				
Borrowings	253	205	170	50
Other Non Current Liabilities	654	722	754	786
Total Liabilities	907	927	924	836
Equity Share Capital	65	65	65	65
Reserves & Surplus	11,661	13,393	15,143	17,070
Total Net Worth	11,726	13,458	15,208	17,135
Minority Interest	106	128	153	184
Total Liabilities & Net Worth	12,739	14,512	16,286	18,155

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	4,289	4,637	4,389	5,488
% growth (YOY)	8.0	11.5	-4.1	2.5
EBITDA	704	765	614	950
Margin %	16.4	16.5	14.0	17.3
Other Income	153	125	160	157
Extraordinaries	0	16	0	0
Adjusted Net Profit	563	581	509	749

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	724	2,946	2,951	3,346
Working Capital Changes	(1,698)	40	(177)	(337)
Capital Commitments	852	(691)	(400)	(970)
Free Cashflow	1,577	2,255	2,551	2,376
Other investing cashflow	50	15	-	-
Cashflow from Investing Activities	902	(676)	(400)	(970)
Issue of Share Capital	0	-	-	-
Inc (Dec) in Borrowings	(13)	(49)	(35)	(120)
Dividend paid	(650)	(780)	(942)	(1,285)
Others	114	97	-	0
Cash flow from Financing Activities	(549)	(733)	(977)	(1,405)
Chg. in Cash & Bank balance	1,077	1,538	1,574	972
Closing cash & balance	6,859	8,397	9,971	10,943

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	161.0	183.8	205.1	244.6
Adjusted EPS (Diluted)	146.9	184.7	205.1	244.6
Cash EPS	172.0	212.8	234.2	276.0
Dividend per share (DPS)	50.0	60.0	72.5	98.8
Book Value per share (BV)	901.6	1,034.8	1,169.3	1,317.5
Dividend Payout (%)	34.0	32.5	35.3	40.4
Growth (%)				
Net Sales	24.8	4.2	13.1	16.2
EBITDA	26.9	3.3	11.8	18.5
EPS (INR)	32.7	25.7	11.0	19.3
Valuation Ratios (x)				
P/E	47.3	37.6	33.9	28.4
P/CEPS	40.4	32.6	29.7	25.2
P/BV	7.7	6.7	5.9	5.3
EV / EBITDA	28.5	27.1	23.7	19.8
EV / Sales	4.6	4.4	3.8	3.2
Dividend Yield (%)	0.7	0.9	1.0	1.4
Operating Ratios				
Gross Profit Margins (%)	54.3	53.0	51.5	51.8
EBITDA Margins (%)	16.3	16.1	16.0	16.3
Effective Tax Rate (%)	28.5	24.2	25.6	25.6
Net Profit Margins (%)	10.6	12.8	12.6	12.9
NWC / Total Assets (%)	13.6	12.2	11.6	11.7
Net Debt / Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
Net Debt / EBITDA (x)	(2.2)	(2.7)	(2.9)	(2.7)
Profitability Ratios				
RoCE (%) (post-tax)	16.0	15.1	14.8	15.8
RoE (%)	17.5	19.1	18.6	19.7
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	77	71	71	71
Receivables Days	38	39	39	38
Payables Days	42	35	37	37

Source Company data, I-Sec research

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