

23 September 2024

India | Equity Research | Company Update

Cera Sanitaryware

Sanitaryware

Demand remains tepid; management guides for stronger H2FY25

We recently interacted with management of Cera Sanitaryware (CRS). Takeaways: 1) Demand scenario in Q2-TD has seen some improvement QoQ but still remains sluggish. CRS expects stronger demand in H2FY25 as demand from projects has been healthy. It has maintained its guidance of single-digit YoY revenue growth for FY25. 2) Margins to remain ~16-17% in FY25 as the company has taken some price increases in Sep'24 which would negate RM increases. 3) Management has maintained its guidance of INR 29bn revenue (15.7% CAGR over FY24-27) with growth being driven by sanitaryware and faucetware segments. Maintain estimates and Jun'25E TP of INR 8,637, but upgrade the stock to **HOLD** from Reduce due to 16% stock price correction over the past 1 month.

Demand trends remain tepid

As per our interaction with CRS' management, demand has seen some improvement QoQ, but remains sluggish in Q2FY25-TD. The demand from projects segment has seen healthy traction and it expects retail to follow suit in H2FY25. Management remains hopeful of achieving its guidance of single-digit growth in FY25 driven by likely better performance in H2FY25. The contribution of project business would be maintained YoY at ~35% in FY25 and CRS does not expect any drain on balance sheet as the credit terms given to builders are similar to dealers. The company is focusing on increasing its presence primarily in tier 1 markets in luxury segment through its three major brands: LUXE, SENATOR and LUSTRE. It has tied-up with influencers in major markets to penetrate in this segment and will launch more SKUs and targets to derive ~10% of revenue from this segment over the next 3-4 years. Management has maintained its target of ~INR 29bn revenue by FY27. We have modelled revenue CAGR of 13.7% over FY24-27E.

Margins to remain steady at ~16-17%

CRS has taken a price increase of ~5-6% in faucetware and ~1% in sanitaryware segments in Sep'24. The high increase in faucetware has been due to RM pressures which have now stabilised. Management believes it can achieve its guidance of ~16-17% OPM for FY25 with pick-up expected in H2FY25 and the benefit of recent price hikes undertaken. We have modelled OPM of 15.9-16.7% over FY25-27E (vs avg OPM of ~15.2% over FY12-FY24).

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	18,706	20,395	23,856	27,461
EBITDA	2,949	3,248	3,919	4,590
EBITDA %	15.8	15.9	16.4	16.7
Net Profit	1,967	2,552	3,072	3,516
EPS (INR)	152.5	197.8	238.2	272.6
EPS % Chg YoY	2.9	29.7	20.4	14.5
P/E (x)	54.2	41.8	34.7	30.3
EV/EBITDA (x)	33.4	30.2	24.8	21.1
RoCE (%)	13.5	14.7	16.8	17.3
RoE (%)	15.6	18.7	20.8	21.0

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Market Data

Market Cap (INR)	108bn
Market Cap (USD)	1,288mn
Bloomberg Code	CRS IN
Reuters Code	CERA.BO
52-week Range (INR)	11,500 /6,551
Free Float (%)	45.0
ADTV-3M (mn) (USD)	5.3

Price Performance (%)	3m	6m	12m
Absolute	(0.3)	18.3	(4.6)
Relative to Sensex	(9.4)	1.0	(31.2)

Previous Reports

14-08-2024: [Q1FY25 results review](#)

15-05-2024: [Q4FY24 results review](#)

Valuation and view

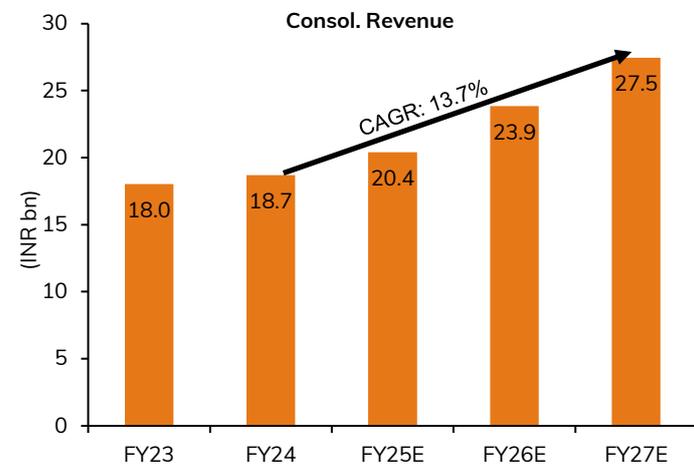
CRS' near-term demand outlook remains tepid but with real estate market expected to remain healthy as many real estate projects from CY25 (which were launched in CY22 and earlier) are expected to get completed, demand for bathware segment thus is expected to be buoyant. We believe CRS is well poised to benefit from the uptick in housing market due to its wide distribution, strong brand, comprehensive product portfolio and healthy balance sheet. Upgrade the stock to **HOLD** from Reduce due to 16% correction in stock price over the past 1 month with an unchanged Jun'25E TP of INR 8,637, set at an unchanged 35x Jun'26E PER.

Exhibit 1: Robust real estate launches in the past couple of years

City wise New Launches (Units)	CY19	CY20	CY21	CY22	CY23	H1CY23	H1CY24	YoY (%)
NCR	35,280	18,520	31,706	25,355	36,740	20,950	24,300	16.0%
MMR	77,990	30,290	56,883	1,24,652	1,57,700	80,700	77,900	-3.5%
Bengaluru	39,930	21,430	30,646	49,196	54,440	25,000	32,500	30.0%
Pune	46,100	23,930	39,869	64,343	83,630	40,700	37,700	-7.4%
Hyderabad	14,840	21,100	51,470	68,007	76,340	25,100	36,800	46.6%
Chennai	13,000	9,160	12,373	9,994	20,140	11,400	12,500	9.6%
Kolkata	9,420	3,530	13,746	16,088	16,790	8,350	6,450	-22.8%
Total	2,36,560	1,27,960	2,36,693	3,57,635	4,45,780	2,12,200	2,28,150	7.5%
YoY (%)	21.1%	-45.9%	85.0%	51.1%	24.6%			

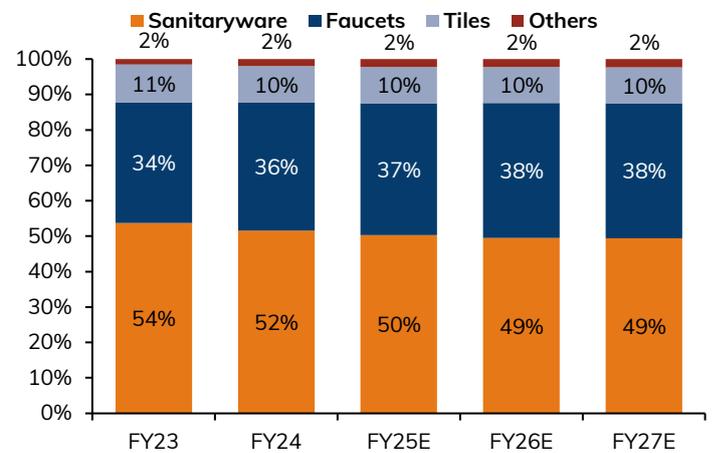
Source: I-Sec research, Anarock

Exhibit 2: Consol. revenue CAGR of 13.7% over FY24-27E aided by growth in sanitaryware and faucet-ware segments



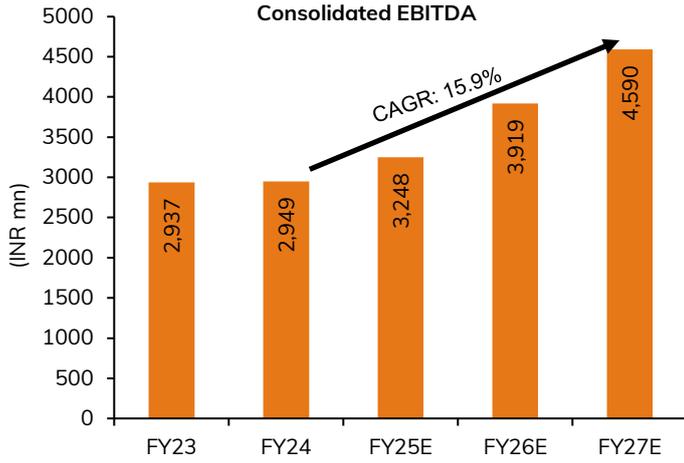
Source: I-Sec research, Company data

Exhibit 3: Sanitaryware to dominate revenue mix with ~50% share



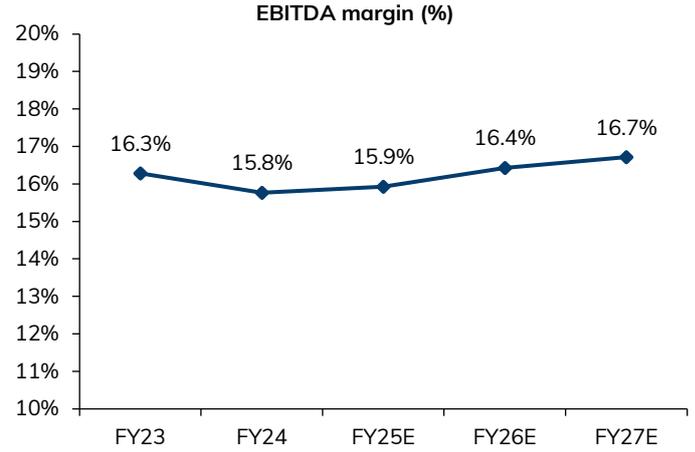
Source: I-Sec research, Company data

Exhibit 4: EBITDA CAGR at 15.9% over FY24-27E



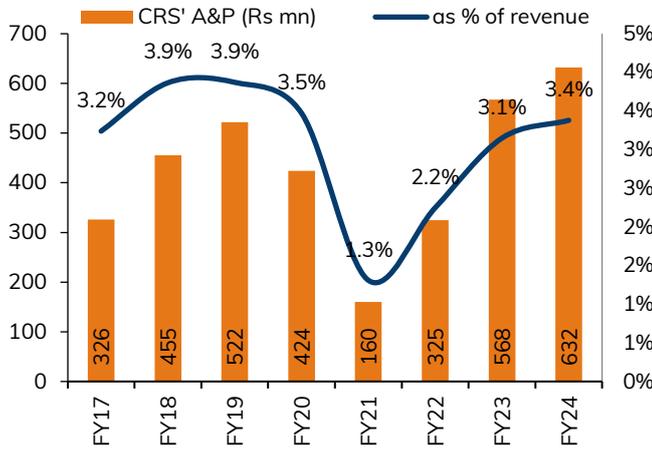
Source: I-Sec research, Company data

Exhibit 5: EBITDA margin to remain healthy



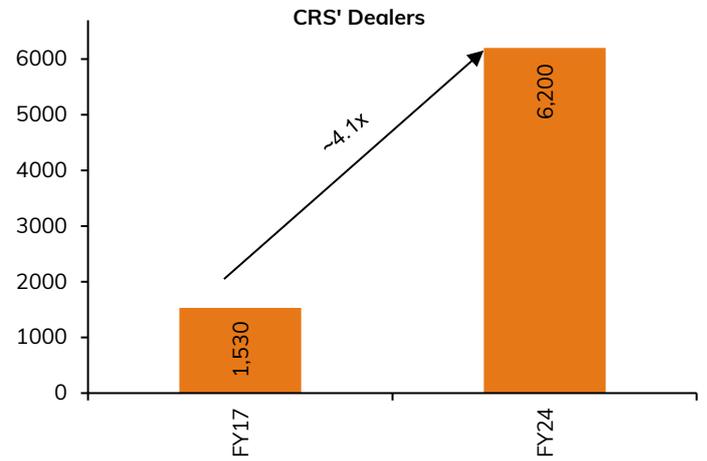
Source: I-Sec research, Company data

Exhibit 6: High A&P spends have enabled strong brand creation



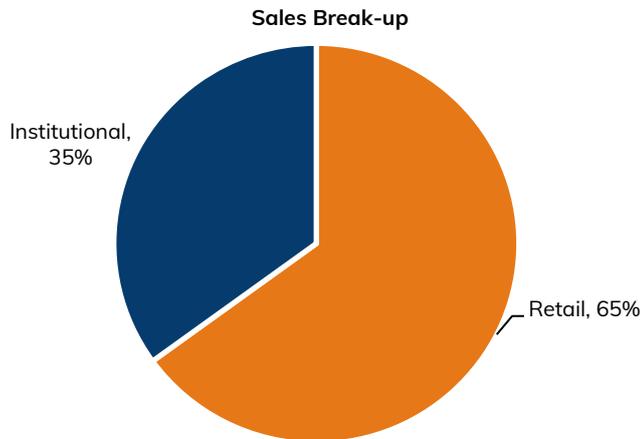
Source: I-Sec research, Company data

Exhibit 7: Dealer network grew ~4.1x over FY17-FY24



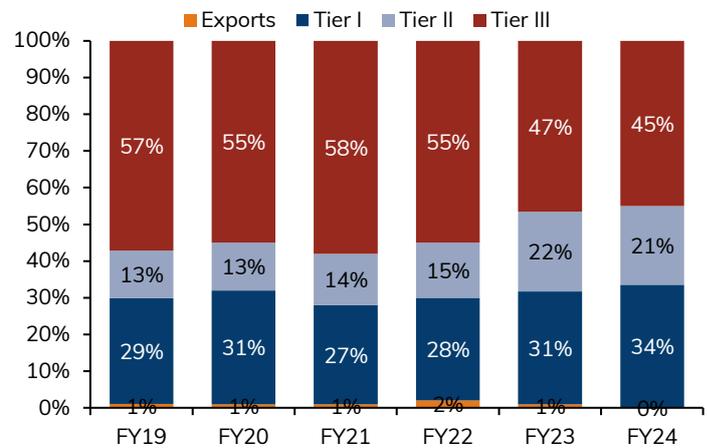
Source: I-Sec research, Company data

Exhibit 8: Retail dominates sales mix (FY24)



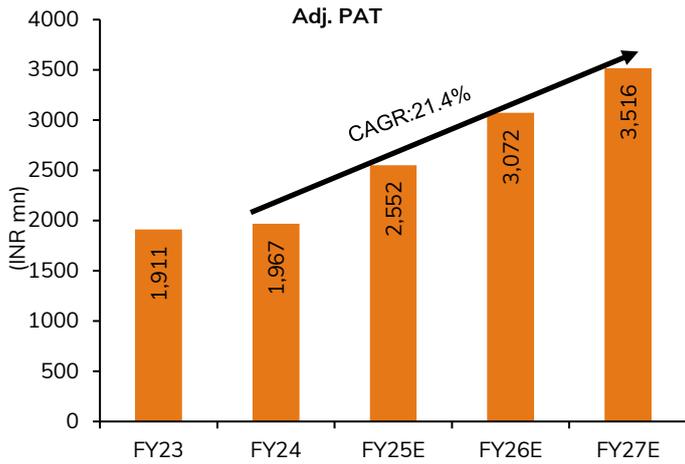
Source: I-Sec research, Company data

Exhibit 9: Strong presence in tier-3 and below markets



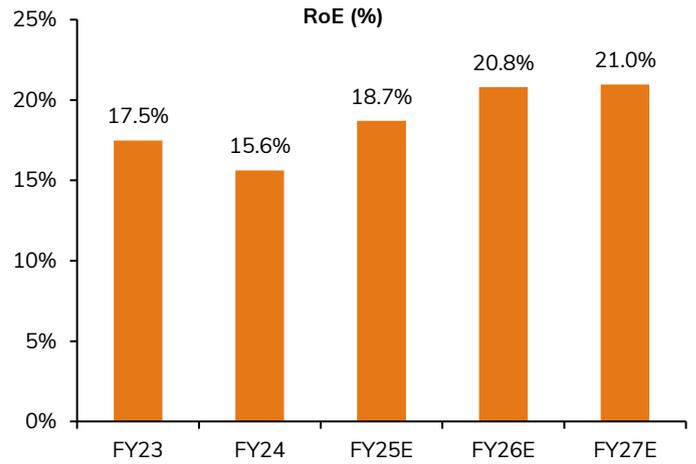
Source: I-Sec research, Company data

Exhibit 10: APAT CAGR likely at 21.4% over FY24-27E



Source: I-Sec research, Company data

Exhibit 11: RoE to remain healthy over FY25-27E



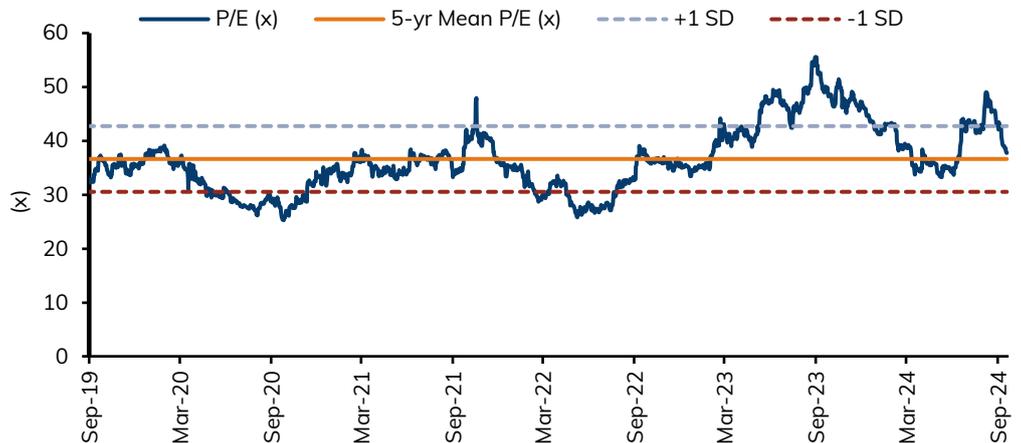
Source: I-Sec research, Company data

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 EBIDTA/APAT CAGR of 15.9%/21.4%, respectively, during FY24-27E, with continued strong balance sheet and healthy return ratios (RoE of 20.8% in FY26E). We upgrade the stock to **HOLD** (from Reduce) with an unchanged Jun'25E target price of INR 8,637, set at an unchanged 35x Jun'26E P/E, in line with the historical 5-year average, 1-year forward P/E.

Exhibit 12: 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 pickup in demand scenario.

Exhibit 13: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	54.5	54.5	54.5
Institutional investors	29.0	28.5	28.8
MFs and others	8.1	6.3	6.8
Insurance	0.3	0.3	0.5
FIIIs	20.6	21.9	21.5
Others	16.5	17.0	16.7

Source: Bloomberg

Exhibit 14: Price chart



Source: Bloomberg

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	18,706	20,395	23,856	27,461
Operating Expenses	15,757	17,147	19,937	22,872
EBITDA	2,949	3,248	3,919	4,590
EBITDA Margin (%)	15.8	15.9	16.4	16.7
Depreciation & Amortization	365	379	408	498
EBIT	2,584	2,869	3,511	4,092
Interest expenditure	58	49	26	23
Other Non-operating Income	58	654	697	717
Recurring PBT	2,584	3,474	4,182	4,787
Less: Taxes	(775)	(889)	(1,071)	(1,225)
PAT	1,809	2,585	3,112	3,561
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(23)	(33)	(40)	(46)
Extraordinaries (Net)	605	-	-	-
Net Income (Reported)	2,390	2,552	3,072	3,516
Net Income (Adjusted)	1,967	2,552	3,072	3,516

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Assets				
Inventories	3,636	3,993	4,643	5,264
Cash & cash eqv.	8,382	8,602	9,562	9,914
Sundry Debtors	2,026	2,179	2,484	2,859
Other Current Assets	527	615	719	828
Trade payables	1,790	2,017	2,369	2,727
Other Current Liabilities	2,153	2,356	2,766	3,184
Net Current Assets	10,628	11,016	12,273	12,953
Investments	31	31	31	31
Net Fixed Assets	3,629	3,650	4,213	5,715
Other Non Current Assets	225	225	225	225
Total Assets	14,512	14,922	16,741	18,924
Liabilities				
Borrowings	205	170	50	50
Other Non Current Liabilities	722	754	786	786
Total Liabilities	927	924	836	836
Equity Share Capital	65	64	64	64
Reserves & Surplus	13,393	13,773	15,640	17,777
Total Net Worth	13,458	13,837	15,704	17,841
Minority Interest	128	161	200	246
Total Liabilities & Net Worth	14,512	14,922	16,741	18,924

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	4,637	4,389	5,488	4,007
% growth (YOY)	11.5	-4.1	2.5	-6.5
EBITDA	765	614	950	581
Margin %	16.5	14.0	17.3	14.5
Other Income	125	160	157	159
Extraordinaries	16	0	0	0
Adjusted Net Profit	581	509	749	471

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,946	2,860	3,295	3,776
Working Capital Changes	40	(168)	(296)	(329)
Capital Commitments	(691)	(400)	(970)	(2,000)
Free Cashflow	2,255	2,460	2,325	1,776
Other investing cashflow	0	-	-	-
Cashflow from Investing Activities	(691)	(400)	(970)	(2,000)
Issue of Share Capital	-	(1)	-	-
Inc (Dec) in Borrowings	(49)	(35)	(120)	-
Dividend paid	(780)	(905)	(1,245)	(1,425)
Others	97	(1,300)	0	-
Cash flow from Financing Activities	(733)	(2,240)	(1,365)	(1,425)
Chg. in Cash & Bank balance	1,523	220	960	351
Closing cash & balance	8,382	8,602	9,562	9,914

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	185.3	197.8	238.2	272.6
Adjusted EPS (Diluted)	152.5	197.8	238.2	272.6
Cash EPS	180.8	227.2	269.8	311.2
Dividend per share (DPS)	60.0	70.1	96.5	110.5
Book Value per share (BV)	1,043.5	1,072.9	1,217.6	1,383.3
Dividend Payout (%)	39.3	35.5	40.5	40.5
Growth (%)				
Net Sales	3.7	9.0	17.0	15.1
EBITDA	0.4	10.1	20.7	17.1
EPS (INR)	2.9	29.7	20.4	14.5
Valuation Ratios (x)				
P/E	54.2	41.8	34.7	30.3
P/CEPS	45.7	36.4	30.7	26.6
P/BV	7.9	7.7	6.8	6.0
EV / EBITDA	33.4	30.2	24.8	21.1
EV / Sales	5.3	4.8	4.1	3.5
Dividend Yield (%)	0.7	0.8	1.2	1.3
Operating Ratios				
Gross Profit Margins (%)	52.8	52.5	52.3	52.3
EBITDA Margins (%)	15.8	15.9	16.4	16.7
Effective Tax Rate (%)	30.0	25.6	25.6	25.6
Net Profit Margins (%)	10.5	12.5	12.9	12.8
NWC / Total Assets (%)	12.2	12.5	12.4	12.2
Net Debt / Equity (x)	(0.6)	(0.6)	(0.6)	(0.6)
Net Debt / EBITDA (x)	(2.8)	(2.6)	(2.4)	(2.1)
Profitability Ratios				
RoCE (%) (post-tax)	13.5	14.7	16.8	17.3
RoE (%)	15.6	18.7	20.8	21.0
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	71	71	71	70
Receivables Days	40	39	38	38
Payables Days	35	36	36	36

Source Company data, I-Sec research

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