

13 November 2024

India | Equity Research | Q2FY25 results review

Cera Sanitaryware

Sanitaryware

Muted quarter, H2FY25 to be better; upgrade to BUY on reasonable valuations

Cera Sanitaryware (CRS) reported Q2FY25 consol. revenue growth of 6.4% YoY with faucetware growing ~20% YoY and sanitaryware/tiles declining ~6%/11% YoY. OPM fell 188bps YoY (+15bps QoQ) due to higher operating expenses (+135bps YoY), resulting in EBIDTA/PBT decline of 5.7%/2.8% YoY. Management stated that demand was subdued in Q2FY25 and shall revive in H2FY25 – some green-shoots are already visible. Thus, it guides for high single-digit FY25 revenue growth (despite H1FY25 being flat) with OPM of ~16–17% (aided by operating leverage and price hikes taken of 6% in Sep'24 in the faucetware segment). We cut our PAT estimates by 5%-7% for FY25–27E and upgrade the stock to **BUY** (from *Hold*) due to reasonable valuations post a ~32% fall in stock price over the past three months. Our rolled over Sep'25E TP stands at INR 8,416 (earlier INR 8,637), set at unchanged 35x Sep'26E P/E.

Revenue growth of 6.4% YoY driven by faucetware segment

CRS' consol. revenue grew 6.4% YoY (5-year CAGR of 8.4%) with faucetware growing ~20% YoY (5-year CAGR of 7.2%), whereas sanitaryware/tile segment revenue declined ~6%/11% YoY. Management stated that demand was subdued in Q2 further impacted by heavy monsoons. It notes some green shoots and is hopeful of a recovery in H2FY25; thus, guides for high single-digit revenue growth in FY25 (vs. flat in H1FY25), partly aided by its focus on project sales. Management maintains its guidance of INR 29bn revenue by FY27, as it believes many real estate projects that were launched earlier shall see completion over the next two years, and thus, will likely generate demand for its products. Land for its new sanitaryware plant has been acquired, but work on it will start post FY25, as market conditions remain tepid. In Q2FY25, NWC stood at 72 (+12 days YoY), primarily due to higher inventory days (+7 days YoY). CRS has INR 6.59bn cash on books, as of Q2FY25.

OPM declines 188bps YoY on higher operating expenses

CRS' Q2FY25 consol. OPM contracted 188bps YoY (+15bps QoQ) to 14.6% due to higher operating expenses (+135bps YoY), leading to EBITDA/PBT decline of 5.7%/2.8% YoY. CRS has taken price hikes of 6% in faucets and 1% in sanitaryware in Sep'24 (to negate RM pressure). This, along with an improved product mix and operating leverage, may support margins. Management guides for 16-17% OPM in H2FY25. We model OPM of 15.4-16.4% for FY25–27E (vs. FY12–24 average EBIDTA margin of ~15.2%).

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	18,706	19,628	22,635	26,004
EBITDA	2,949	3,018	3,642	4,265
EBITDA %	15.8	15.4	16.1	16.4
Net Profit	1,967	2,378	2,873	3,329
EPS (INR)	152.5	184.3	222.8	258.1
EPS % Chg YoY	2.9	20.9	20.8	15.9
P/E (x)	44.4	36.7	30.4	26.2
EV/EBITDA (x)	26.8	26.1	21.4	18.2
RoCE (%)	13.5	13.5	15.5	16.4
RoE (%)	15.6	17.5	19.7	20.2

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Market Data

Market Cap (INR)	87bn
Market Cap (USD)	1,034mn
Bloomberg Code	CRS IN
Reuters Code	CERA.BO
52-week Range (INR)	11,500 /6,551
Free Float (%)	45.0
ADTV-3M (mn) (USD)	2.2

Price Performance (%)	3m	6m	12m
Absolute	(31.5)	(5.0)	(23.8)
Relative to Sensex	(29.9)	(11.7)	(43.5)

ESG Score	2023	2024	Change
ESG score	69.7	NA	NA
Environment	49.7	NA	NA
Social	70.6	NA	NA
Governance	81.6	NA	NA

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

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue	(3.8)	(5.1)	(5.3)
EBITDA	(7.1)	(7.1)	(7.1)
EPS	(6.8)	(6.5)	(5.3)

Previous Reports

23-09-2024: [Company Update](#)

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

Valuation and view

CRS' Q2FY25 operating margin have been lower than estimates. It has a strong net cash balance sheet with healthy growth prospects led by an uptick in housing market and increased demand from home improvement market. We continue to like the company for its comprehensive product portfolio, wide distribution reach and strong brand presence.

Upgrade the stock to **BUY** (from *Hold*) due to reasonable valuations (30.4x PER FY26E) post the ~32% correction in stock price with a Sep'25 target price of INR 8,416, set at unchanged 35xPER Sept'26E (in-line with 10-year average 1-year forward P/E)

Exhibit 1: Q2FY25 consolidated result review

INR mn	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Total revenues	4,926	4,631	6.4%	4,007	22.9%	8,933	8,917	0.2%
Raw Materials	2,337	2,186	6.9%	1,812	29.0%	4,149	4,123	0.6%
% of sales	47.4%	47.2%	24 bps	45.2%	222 bps	46.4%	46.2%	21 bps
Employee exp	636	585	8.8%	589	8.1%	1,225	1,161	5.5%
% of sales	12.9%	12.6%	29 bps	14.7%	-177 bps	13.7%	13.0%	69 bps
Other exp	1,231	1,095	12.5%	1,026	20.0%	2,257	2,164	4.3%
% of sales	25.0%	23.6%	135 bps	25.6%	-60 bps	25.3%	24.3%	100 bps
Total expenditure	4,205	3,866	8.8%	3,427	22.7%	7,631	7,448	2.5%
% of sales	85%	83.5%	188 bps	85.5%	-15 bps	85.4%	84%	190 bps
EBITDA	721	765	-5.7%	581	24.2%	1302	1469	-11.4%
margin (%)	14.6%	16.5%	-188 bps	14.5%	15 bps	14.6%	16.5%	-190 bps
Depreciation	107.0	89.1	20.2%	89.7	19.4%	196.7	172.3	14.2%
EBIT	614	676	(9.1%)	491	25.0%	1,105	1,296	(14.8%)
EBIT Margin (%)	12.5%	14.6%	-213 bps	12.3%	21 bps	12.4%	14.5%	-217 bps
Other income	177.6	125.3	41.7%	159.1	11.7%	336.6	278.1	21.1%
Interest cost	26.3	13.7	91.6%	12.6	108.4%	38.9	27.0	43.7%
PBT	765	787	-2.8%	637	20.1%	1403	1547	-9.4%
Taxes	79.1	197.8	-60.0%	162.8	-51.4%	241.9	391.0	-38.1%
PAT before minority interest/associates	686	589	16.4%	475	44.6%	1161	1156	0.4%
Less: Minority interest	6.3	4.9	29.5%	4.0	57.3%	10.3	9.1	13.7%
Less: Extraordinaries	0.0	15.6	nm	0.0	nm	0.0	15.6	nm
Reported PAT	680	569	19.5%	471	44.5%	1150	1132	1.6%
APAT	680	581	17.1%	471	44.5%	1150	1143	0.6%

Source: I-Sec research, Company data

Exhibit 2: Q2FY25 standalone result review

INR mn	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Total revenues	4,900	4,610	6.3%	3,980	23.1%	8,880	8,879	0.0%
Raw Materials	2,330	2,183	6.7%	1,804	29.1%	4,134	4,117	0.4%
% of sales	47.5%	47.4%	19 bps	45.3%	221 bps	46.6%	46.4%	18 bps
Employee exps	627	577	8.7%	580	8.1%	1,207	1,145	5.4%
% of sales	12.8%	12.5%	28 bps	14.6%	-178 bps	13.6%	12.9%	70 bps
Other exp	1,248	1,107	12.7%	1,034	20.6%	2,282	2,189	4.2%
% of sales	25.5%	24.0%	144 bps	26.0%	-53 bps	25.7%	24.7%	104 bps
Total expenditure	4,204	3,867	8.7%	3,419	23.0%	7,623	7,451	2.3%
% of sales	86%	83.9%	191 bps	85.9%	-10 bps	85.8%	83.9%	192 bps
EBITDA	696	743	-6.3%	561	24.0%	1257	1428	-11.9%
EBITDA margin (%)	14.2%	16.1%	-191 bps	14.1%	10 bps	14.2%	16.1%	-192 bps
Depreciation	101.4	83.3	21.8%	84.2	20.5%	185.6	161.0	15.3%
EBIT	595	659	-9.8%	477	24.6%	1,072	1,267	-15.4%
EBIT Margin (%)	12.1%	14.3%	-217 bps	12.0%	15 bps	12.1%	14.3%	-220 bps
Other income	183.7	130.1	41.2%	162.7	12.9%	346.4	287.2	20.6%
Interest cost	25.3	12.4	104.6%	11.6	118.7%	36.9	24.2	52.4%
PBT	753	777	-3.1%	628	19.8%	1381	1530	-9.7%
Taxes	72	193	-62.5%	159	-54.5%	231	381	-39.5%
PAT before extraordinary items	681	584	16.5%	470	45.0%	1150	1148	0.2%
Less: extraordinary items	0	16	-100.0%	0	#DIV/0!	0	16	-1
Reported PAT	681	569	19.7%	470	45.0%	1150	1133	1.6%
APAT	681	581	17.3%	470	45.0%	1150	1144	0.5%

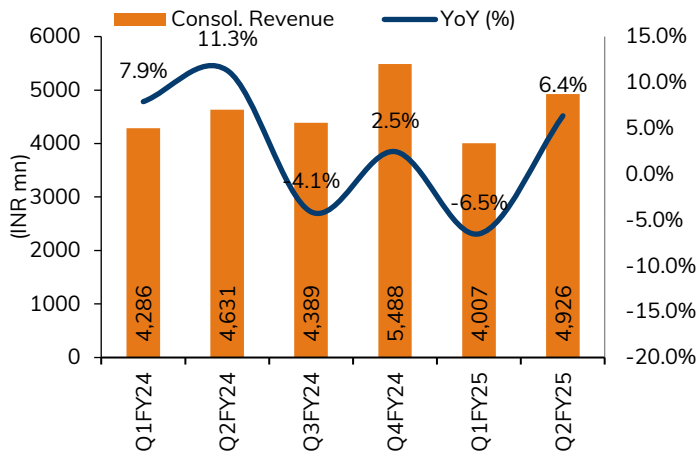
Source: I-Sec research, Company data

Takeaways from Q2FY25 earnings conference call

- **Demand:** Management stated that demand in Q2 was subdued (further impacted by extended monsoons). It sees green shoots in demand in Q3FY25 and hopes for an improved H2FY25. Project sales have started recovering faster than retail. Retail sales have started recovering for faucetware and management hopes the momentum trickles over to sanitaryware as well. Management believes many real estate projects launched earlier (post-covid) will likely get completed over FY25 and FY26, and shall thus generate demand for its products.
- **Higher operating expenses:** In Q2FY25, other operating expenses were higher due to ~INR 18mn of buy back expenses, additional ~INR 40mn YoY of power generation cost and showroom closure cost of ~INR 11.5mn.
- **Guidance:** Management maintains revenue guidance of ~INR 29bn by FY27 (high single-digit growth in FY25 and >20% YoY in FY26 and FY27) and guides for OPM of 16-17% for H2FY25 (driven by price hikes and operating leverage).
- **RM prices:** Brass prices went up by ~18% over Mar-Jun'24 and CRS took price hikes to negate it.
- **Pricing:** CRS took price hikes of 6% for faucetware and 1% for sanitaryware in mid-Sep'24. This is expected to result in margin improvement of ~150bps in H2FY25.
- **Gas Prices:** In Q2FY25, gas cost sourced from GAIL was INR 28.46/scm (down from ~INR 28.7/scm YoY) and contributed 78% of gas requirement, while gas cost from Sabarmati gas was INR 53.89/scm (up from INR 44.53/scm YoY). Average blended gas cost for Q2FY25 was INR33.95/scm and gas cost formed 1.55% of revenue.
- **Working capital days** increased to 72 days (vs. 60 days YoY) in Q2FY25, with inventory days at 80 (vs. 73 days YoY), receivable days at 33 (vs. 29 days YoY) and payable days at 41 (vs. 42 days YoY).

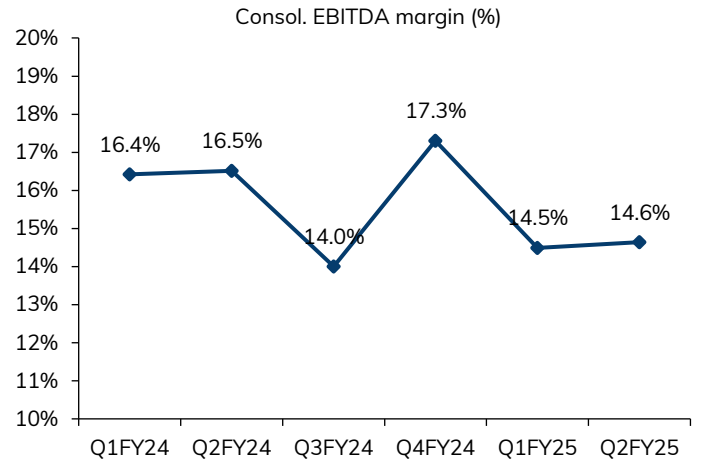
- CRS reported net cash balance on books of ~INR 6.59bn.
- **Capacity expansion and capex:** For greenfield expansion of sanitaryware plant, the company has completed land parcel acquisition in Gujarat at a cost of ~INR 250mn–300mn. Given subdued demand for sanitaryware, CRS' management may reconsider again by end-FY25 as to when to commence construction of plant. It will likely take 18 months for plant construction, which would involve a capex of ~INR 1bn. Management has indicated maintenance capex of INR 250mn planned for FY25, of which INR 110mn has been already spent in H1FY25.
- **Product Mix:** Sanitaryware formed 46% of revenue (-6% YoY), faucetware 41% (+20% YoY), tiles 10% (-11% YoY) and wellness 3% (+38% YoY) in Q2FY25.
- **Tier wise mix:** In Q2FY25, Tier-1 contributed 34%, tier-2 contributed 21% and tier-3 contributed 45% of revenue.
- **Segment mix:** Premium segment contributed 41% to revenue, mid-level 34% and entry segment 25%, in Q2FY25.
- **Utilisation:** Sanitaryware plant ran at 89% utilisation, while faucetware plant ran at 93% utilisation in Q2FY25. Management indicated that it has capability to run plants up to ~120% utilisation.
- **New products:** 34% of sales in Q2 were from new products launched in the past few years. CRS has been introducing new sanitaryware and complex faucetware products that cater to the growing luxury real estate market.
- **Branding:** A&P expense in Q2FY25 was INR 155mn (vs. INR 149mn YoY)
- **Buyback:** CRS completed buy back of INR1.3bn at a share price of INR 12,000/share.
- Imports from China amounted to ~INR 130mn in Q2FY25 (~3% of revenue).

Exhibit 3: Consolidated quarterly revenue



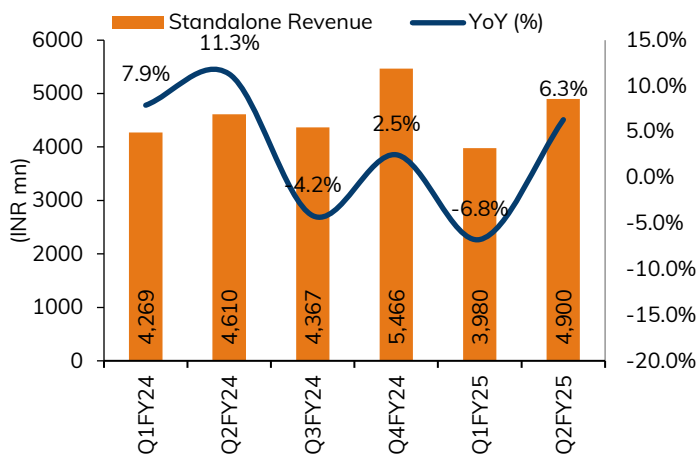
Source: I-Sec research, Company data

Exhibit 4: Consolidated quarterly EBITDA margin (%)



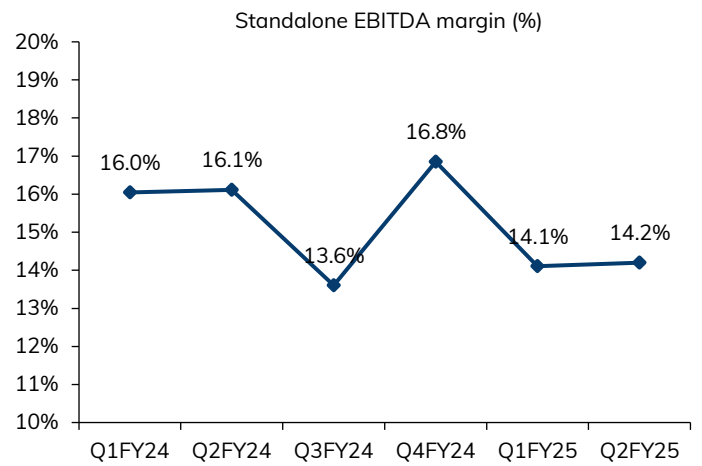
Source: I-Sec research, Company data

Exhibit 5: Standalone quarterly revenue



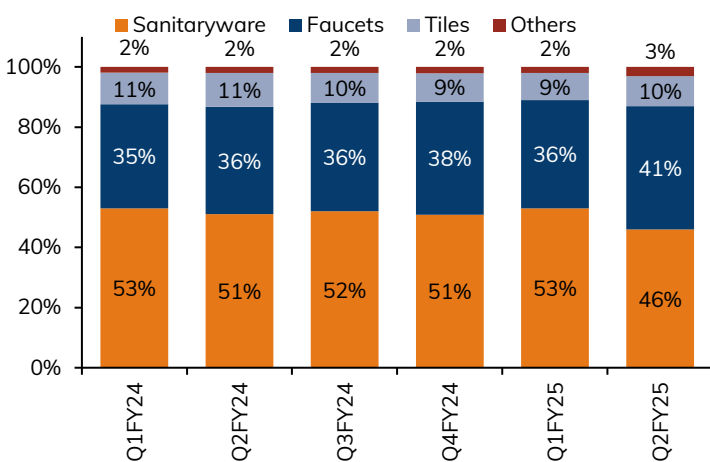
Source: I-Sec research, Company data

Exhibit 6: Standalone quarterly EBITDA margin (%)



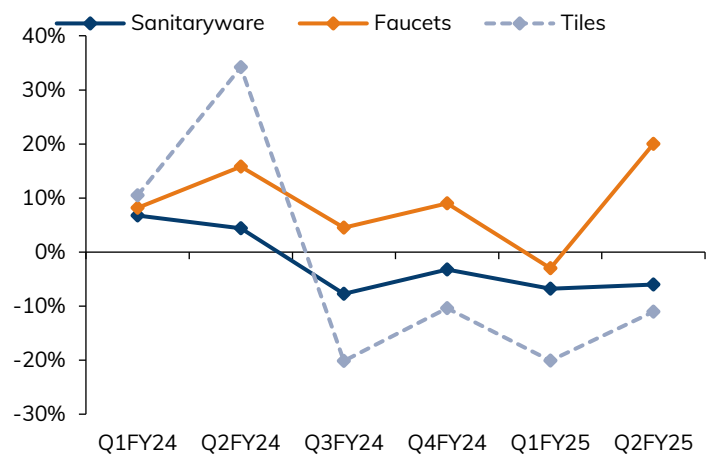
Source: I-Sec research, Company data

Exhibit 7: Quarterly revenue breakup



Source: I-Sec research, Company data

Exhibit 8: Segmental revenue growth



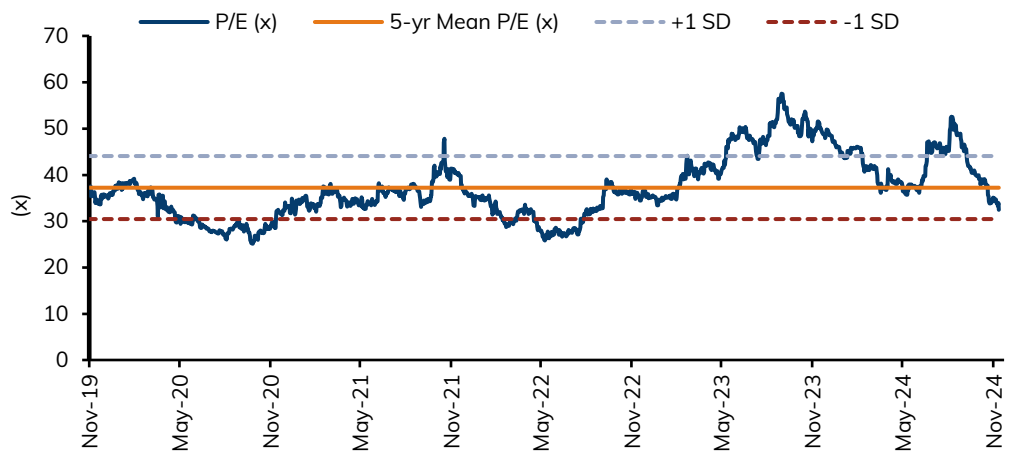
Source: I-Sec research, Company data

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 EBIDTA / APAT CAGR of 13.1%/19.2%, respectively, during FY24-FY27E, with continued strong balance sheet and healthy return ratios (RoE of 19.7% in FY26E). Upgrade the stock to BUY (from Hold) with a Sep'25 target price of INR 8,416 (earlier: INR8,637), set at an unchanged 35x Sep'26E P/E, in line with the historical 10-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.

Exhibit 10: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	54.5	54.5	54.4
Institutional investors	28.5	28.8	29.0
MFs and others	6.3	6.8	5.6
Insurance	0.3	0.5	0.5
FIIIs	21.9	21.5	22.9
Others	17.0	16.7	16.6

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	18,706	19,628	22,635	26,004
Operating Expenses	15,757	16,610	18,993	21,739
EBITDA	2,949	3,018	3,642	4,265
EBITDA Margin (%)	15.8	15.4	16.1	16.4
Depreciation & Amortization	365	395	422	462
EBIT	2,584	2,622	3,220	3,803
Interest expenditure	58	81	26	23
Other Non-operating Income	58	696	717	753
Recurring PBT	2,584	3,237	3,912	4,533
Less: Taxes	(775)	(829)	(1,001)	(1,160)
PAT	1,809	2,408	2,910	3,373
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(23)	(31)	(37)	(43)
Extraordinaries (Net)	605	-	-	-
Net Income (Reported)	2,390	2,378	2,873	3,329
Net Income (Adjusted)	1,967	2,378	2,873	3,329

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Assets				
Inventories	3,636	3,868	4,423	5,003
Cash & cash eqv.	8,382	8,535	9,407	9,618
Sundry Debtors	2,026	2,097	2,357	2,707
Other Current Assets	527	592	682	784
Trade payables	1,790	1,925	2,215	2,545
Other Current Liabilities	2,153	2,250	2,590	2,976
Net Current Assets	10,628	10,916	12,063	12,592
Investments	31	31	31	31
Net Fixed Assets	3,629	3,634	4,182	5,720
Other Non Current Assets	225	225	225	225
Total Assets	14,512	14,805	16,501	18,568
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	13,658	15,404	17,428
Total Net Worth	13,458	13,723	15,469	17,492
Minority Interest	128	158	196	239
Total Liabilities & Net Worth	14,512	14,805	16,501	18,568

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	4,389	5,488	4,007	4,926
% growth (YOY)	-4.1	2.5	-6.5	6.4
EBITDA	614	950	581	721
Margin %	14.0	17.3	14.5	14.6
Other Income	160	157	159	178
Extraordinaries	0	0	0	0
Adjusted Net Profit	509	749	471	680

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	2,946	2,731	3,126	3,560
Working Capital Changes	40	(135)	(275)	(317)
Capital Commitments	(691)	(400)	(970)	(2,000)
Free Cashflow	2,255	2,331	2,156	1,560
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)	(843)	(1,164)	(1,349)
Others	97	(1,300)	-	-
Cash flow from Financing Activities	(733)	(2,178)	(1,284)	(1,349)
Chg. in Cash & Bank balance	1,523	153	872	211
Closing cash & balance	8,382	8,535	9,407	9,618

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	185.3	184.3	222.8	258.1
Adjusted EPS (Diluted)	152.5	184.3	222.8	258.1
Cash EPS	180.8	215.0	255.4	293.9
Dividend per share (DPS)	60.0	65.4	90.3	104.6
Book Value per share (BV)	1,043.5	1,064.0	1,199.4	1,356.3
Dividend Payout (%)	39.3	35.5	40.5	40.5
Growth (%)				
Net Sales	3.7	4.9	15.3	14.9
EBITDA	0.4	2.3	20.7	17.1
EPS (INR)	2.9	20.9	20.8	15.9
Valuation Ratios (x)				
P/E	44.4	36.7	30.4	26.2
P/CEPS	37.4	31.5	26.5	23.0
P/BV	6.5	6.4	5.6	5.0
EV / EBITDA	26.8	26.1	21.4	18.2
EV / Sales	4.2	4.0	3.4	3.0
Dividend Yield (%)	0.9	1.0	1.3	1.5
Operating Ratios				
Gross Profit Margins (%)	52.8	52.9	53.0	53.0
EBITDA Margins (%)	15.8	15.4	16.1	16.4
Effective Tax Rate (%)	30.0	25.6	25.6	25.6
Net Profit Margins (%)	10.5	12.1	12.7	12.8
NWC / Total Assets (%)	12.2	12.5	12.5	12.3
Net Debt / Equity (x)	(0.6)	(0.6)	(0.6)	(0.5)
Net Debt / EBITDA (x)	(2.8)	(2.8)	(2.6)	(2.2)
Profitability Ratios				
RoCE (%) (post-tax)	13.5	13.5	15.5	16.4
RoE (%)	15.6	17.5	19.7	20.2
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	71	72	71	70
Receivables Days	40	39	38	38
Payables Days	35	36	36	36

Source Company data, I-Sec research

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