

# Cera Sanitaryware

## BUY

Healthy margin improvement encouraging

### Summary

Cera Sanitaryware Ltd.'s (Cera) Q4FY22 result was above our and consensus estimates on key parameters. Strong demand traction and consistent price hike taken aided healthy net sales growth and supported margin improvement. Net sales marginally declined by 6.5% YoY to Rs4,099mn, while EBITDA came in at Rs797mn, a healthy growth of 13.7% YoY. The company reported net profit of Rs584mn, up by 22.4% over Q4FY21. Cera's timely capacity expansion plan, focus on improving product mix, extensive distribution network, healthy balance sheet bodes well for sustainable earnings growth in future. We have maintained our earnings estimates for FY23E/FY24E. After a recent correction in stock price the valuation is looking attractive. Maintain BUY with TP of Rs5,447.

### Key Highlights and Investment Rationale

- Consistent price hike across the products:** Cera took price hike of 5%-7% in sanitaryware and 8%-10% in faucetware in February, 2022. The management reiterated that demand is buoyant aided by strong retail demand. In Q4FY22 capacity utilisation for sanitaryware was 112% & faucetware was 117%. Sanitaryware/Faucetware/Tiles/Wellness contributed 54%/33%/11%/2%.
- On a strong footing, BUY with a TP of Rs5,447:** Cera remains our preferred pick in building material products segment given its consistent track record of earnings growth and strong foothold in domestic bathware segment. The company's extensive distribution reach, focus on product premiumization and healthy balance sheet bodes well for future earnings growth. Further, Cera's timely capacity addition will further strengthen the growth prospects. BUY with a TP of Rs5,447.

TP **Rs5,447**

CMP **Rs3,978**

Potential upside/downside **+37%**

Previous Rating **BUY**

### Price Performance (%)

	-1m	-3m	-12m
Absolute	(15.0)	(11.4)	5.2
Rel to Sensex	(6.0)	(3.2)	(4.1)

### V/s Consensus

EPS (Rs)	FY23E	FY24E
IDBI Capital	134.2	161.9
Consensus	141.2	166.7
% difference	(4.9)	(2.9)

### Key Stock Data

Bloomberg / Reuters	CRS IN / CERA.BO
Sector	Building Material Product
Shares o/s (mn)	13
Market cap. (Rs mn)	51,739
3-m daily average Trd value (Rs mn)	34.9
52-week high / low	Rs6,430 / 3,519
Sensex / Nifty	54,088 / 16,167

### Shareholding Pattern (%)

Promoters	54.5
FII	19.9
DII	10.0
Public	15.6

### Financial snapshot

(Rs mn)

Year	FY20	FY21	FY22	FY23E	FY24E
Revenue	12,092	12,017	14,418	17,266	20,029
Change (yoy, %)	(10)	(1)	20	20	16
EBITDA	1,621	1,500	2,213	2,529	2,992
Change (yoy, %)	(15)	(8)	48	14	18
EBITDA Margin(%)	13.4	12.5	15.3	14.6	14.9
Adj.PAT	1,160	1,013	1,551	1,746	2,105
EPS (Rs)	89.2	77.9	119.3	134.2	161.9
Change (yoy, %)	1	(13)	53	13	21
PE(x)	44.6	51.0	33.3	29.6	24.5
Dividend Yield (%)	0.4	0.3	0.9	0.6	0.7
EV/EBITDA (x)	32	34	23	20	16
RoE (%)	15.7	12.3	16.5	16.2	17.1
RoCE (%)	14	11	18	18	20

Source: IDBI Capital Research

### Concall Highlights

- In Q4FY22 Capacity utilization for Sanitaryware was 112% & Faucetware was 117%. Company expects to double the topline in next 3-3.5 years. On EBITDA margin company expects 50-75bps increase.
- **Revenue Breakup:** Sanitaryware contributed 54%, Faucetware contributed 33%, Tiles contributed 11% & Wellness contributed 2%. B2C sales contributed ~68%. In the last 3 years new product development contributed 23% of the total revenue. **Outsourced/Own Manufacturing Breakup:** Sanitaryware-59% Faucetware- 54-% Tiles & Wellness were entirely outsourced.
- **Raw material scenario:** Company did not see material impact of higher raw material cost. It stated China clay, feldspar and POP are 95% of Sanitaryware raw material mix and had combined impact of +6%. Gas from Gail is below market ~Rs13.26 per cubic meter, Gail supplied 44% of gas requirement for sanitaryware segment. In Sabarmati price was at Rs70.82 per cubic meter in Dec21 which increased to Rs75.1 per cubic meter in Mar-22, supplying 56% needs of gas to the plant. Transportation price increased to 3% and cost of corrugated boxes grew by 15%.
- **Price Hike:** Price hike in Sanitaryware: 5-7% in Feb'21, 4% in Aug'21 and 10% in Nov'21 (overall 21%) and in Faucetware: 8-10% in Feb'21, 10% in Aug'21 and 5.5% in Dec'21 (overall 26%). Further price hike in May'22 is under finalization.
- **CAPEX:** In Faucetware 1<sup>st</sup> Phase of expansion is to increase capacity from 2.7lakhs SKUs per month to 4lakhs SKUs per month at the cost of Rs690mn in the span of 1 year i.e by June 23, the revenue post expansion will reflect in Q2FY24. In Sanitaryware company is setting up new Greenfield plant which will be in 100Km range of the current manufacturing plant, size of the plant will be 1Lakh SKUs per month it is expected to commission in next 24-30months at the cost of Rs1280mn (Rs250mn is estimated for purchase of land in current year). Post expansion the revenue will increase by 30-35%. Internal accruals will be used to fund the expansion.
- During FY21-22 total capex was Rs111.2mn against the capex budget of Rs171.9mn. Rs61.2mn was spent on Sanitaryware automation, Rs19.9mn on faucetware automation and Rs30.1mn on logistic and IT. Capex plan for FY22-23, Rs690mn will be utilized for faucetware expansion, Rs1290mn for Sanitaryware greenfield plant and Rs246mn for Sanitaryware automation, faucetware automation and logistic and IT.

**Exhibit 1: Financial snapshot**

Particulars(Rs mn)	Q4FY22	Q3FY22	QoQ (%)	Q4FY21	YoY (%)
<b>Total revenues</b>	<b>4,099</b>	<b>4,045</b>	<b>1.3</b>	<b>4,384</b>	<b>(6.5)</b>
Total expenditure	3,302	3,379	(2.3)	3,683	(10.4)
<b>EBIDTA</b>	<b>797</b>	<b>666</b>	<b>19.7</b>	<b>701</b>	<b>13.7</b>
<i>EBIDTA margin(%)</i>	<i>19.4</i>	<i>16.5</i>	<i>290bps</i>	<i>16.0</i>	<i>340bps</i>
Depreciation	48	95	(49.4)	100	(52.1)
Interest cost	(8)	20	(139.5)	28	(127.5)
Other income	38	53	(28.0)	43	(10.5)
PBT	795	605	31.5	616	29.2
Tax	232	141	64.2	139	67.1
<b>Adj. net profit</b>	<b>584</b>	<b>448</b>	<b>30.3</b>	<b>477</b>	<b>22.4</b>
Adj. EPS (INR)	40	33.3	30.3	35	22.4

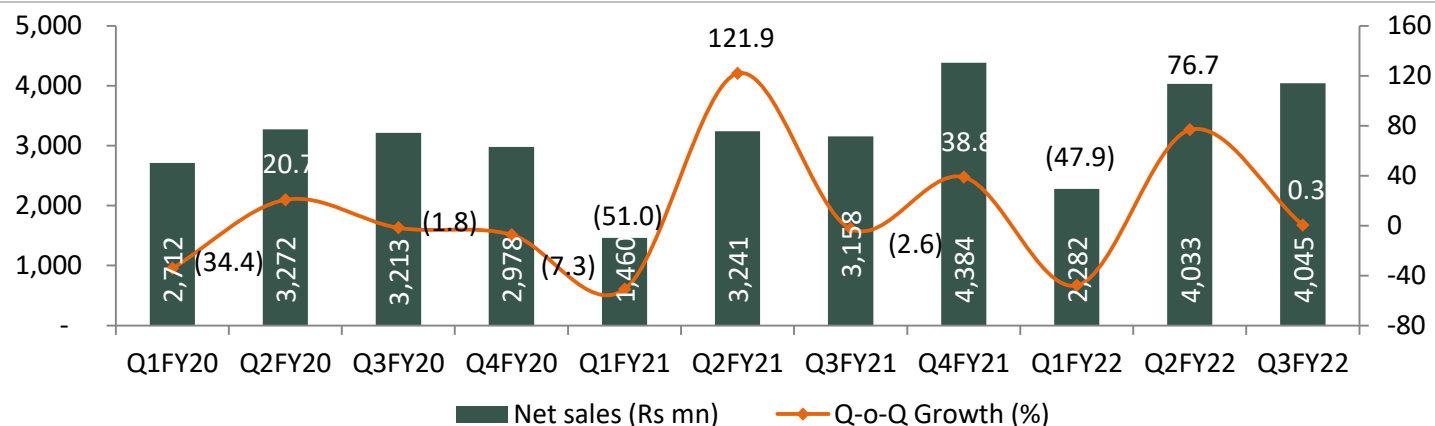
Source: Company; IDBI Capital Research

**Exhibit 2: Actual Vs Estimates**

Particulars(Rs mn)	Q4FY22A	Q4FY22E	Variance (%)
<b>Net Sales</b>	<b>4,099</b>	<b>4,510</b>	<b>(9)</b>
<b>EBITDA</b>	<b>797</b>	<b>686</b>	<b>16</b>
<i>EBITDA Margin (%)</i>	<i>19.4</i>	<i>15.2</i>	<i>420bps</i>
<b>Net Profit</b>	<b>584</b>	<b>468</b>	<b>25</b>
EPS (Rs)	40.4	36.0	25

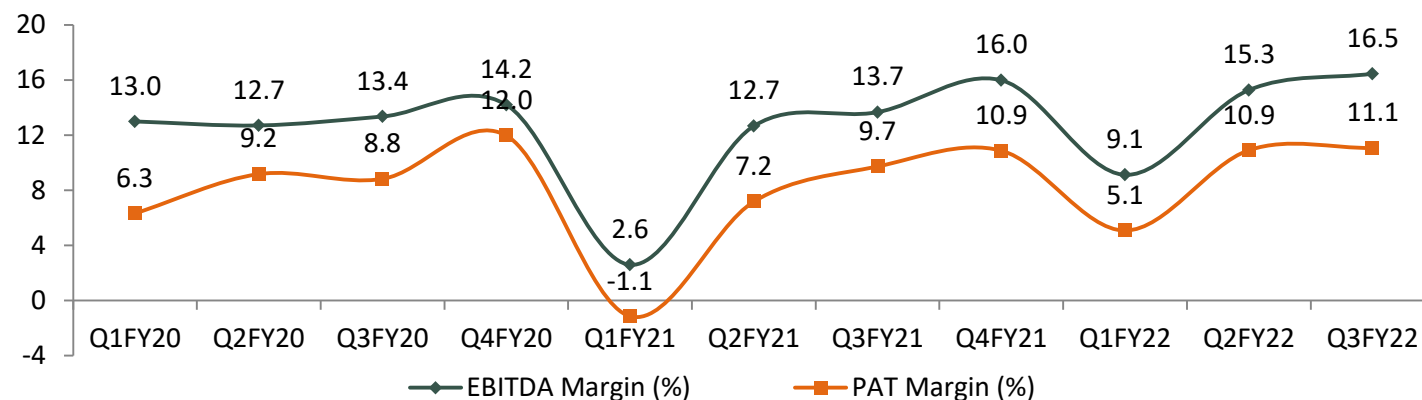
Source: Company; IDBI Capital Research

**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: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Net sales</b>	<b>13,436</b>	<b>12,092</b>	<b>12,017</b>	<b>14,418</b>	<b>17,266</b>	<b>20,029</b>
<i>Change (yoy, %)</i>	14	(10)	(1)	20	20	16
Operating expenses	(11,530)	(10,470)	(10,517)	(12,205)	(14,737)	(17,037)
<b>EBITDA</b>	<b>1,906</b>	<b>1,621</b>	<b>1,500</b>	<b>2,213</b>	<b>2,529</b>	<b>2,992</b>
<i>Change (yoy, %)</i>	12	(15)	(8)	48	14	18
<i>Margin (%)</i>	14.2	13.4	12.5	15.3	14.6	14.9
Depreciation	(228)	(327)	(332)	(304)	(425)	(436)
<b>EBIT</b>	<b>1,678</b>	<b>1,295</b>	<b>1,167</b>	<b>1,908</b>	<b>2,104</b>	<b>2,556</b>
Interest paid	(32)	(44)	(43)	(46)	(22)	(18)
Other income	156	156	218	228	251	276
<b>Pre-tax profit</b>	<b>1,802</b>	<b>1,406</b>	<b>1,343</b>	<b>2,148</b>	<b>2,333</b>	<b>2,814</b>
Tax	(651)	(247)	(329)	(539)	(587)	(708)
<i>Effective tax rate (%)</i>	36	18	25	25	25	25
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>1,151</b>	<b>1,160</b>	<b>1,013</b>	<b>1,608</b>	<b>1,746</b>	<b>2,105</b>
Exceptional items	-	-	-	57	-	-
<b>Adjusted net profit</b>	<b>1,151</b>	<b>1,160</b>	<b>1,013</b>	<b>1,551</b>	<b>1,746</b>	<b>2,105</b>
<i>Change (yoy, %)</i>	15	1	(13)	53	13	21
EPS	88.5	89.2	77.9	119.3	134.2	161.9
Dividend per sh	12	14	13	35	22	27
<i>Dividend Payout %</i>	16	19	20	35	20	20

**Balance Sheet**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
<b>Shareholders' funds</b>	<b>7,002</b>	<b>7,729</b>	<b>8,744</b>	<b>10,057</b>	<b>11,460</b>	<b>13,144</b>
Share capital	65	65	65	65	65	65
Reserves & surplus	6,937	7,664	8,679	9,992	11,395	13,079
<b>Total Debt</b>	<b>182</b>	<b>153</b>	<b>124</b>	<b>193</b>	<b>183</b>	<b>180</b>
Other liabilities	2,082	1,975	1,859	520	579	650
<b>Curr Liab &amp; prov</b>	<b>1,627</b>	<b>1,402</b>	<b>2,103</b>	<b>3,504</b>	<b>3,693</b>	<b>3,899</b>
Current liabilities	1,535	1,274	1,978	3,392	3,575	3,774
Provisions	92	128	125	113	118	125
<b>Total liabilities</b>	<b>3,890</b>	<b>3,529</b>	<b>4,086</b>	<b>4,217</b>	<b>4,455</b>	<b>4,728</b>
<b>Total equity &amp; liabilities</b>	<b>10,892</b>	<b>11,258</b>	<b>12,830</b>	<b>14,275</b>	<b>15,915</b>	<b>17,872</b>
Net fixed assets	3,149	3,333	3,167	3,055	2,830	2,544
Investments	2,121	2,624	5,131	5,673	5,965	6,272
Other non-curr assets	147	247	197	542	327	338
<b>Current assets</b>	<b>5,476</b>	<b>5,053</b>	<b>4,334</b>	<b>5,005</b>	<b>6,792</b>	<b>8,718</b>
Inventories	1,792	2,045	1,697	2,877	3,078	3,325
Sundry Debtors	2,970	2,209	2,067	1,641	1,739	1,826
Cash and Bank	104	16	98	148	1,619	3,190
Loans and advances	142	164	178	-	-	-
<b>Total assets</b>	<b>10,892</b>	<b>11,258</b>	<b>12,830</b>	<b>14,275</b>	<b>15,915</b>	<b>17,872</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	1,802	1,406	1,343	2,148	2,333	2,814
Depreciation	228	327	332	304	425	436
Tax paid	(605)	(379)	(329)	(524)	(528)	(637)
Chg in working capital	(1,199)	262	1,177	825	(111)	(127)
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>226</b>	<b>1,616</b>	<b>2,523</b>	<b>2,754</b>	<b>2,118</b>	<b>2,485</b>
Capital expenditure	(534)	(511)	(166)	(192)	(200)	(150)
Chg in investments	(725)	(504)	(2,507)	(542)	(292)	(307)
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(1,259)</b>	<b>(1,015)</b>	<b>(2,673)</b>	<b>(734)</b>	<b>(492)</b>	<b>(457)</b>
Equity raised/(repaid)	-	-	-	0	-	-
Debt raised/(repaid)	(62)	(29)	(28)	69	(10)	(4)
Dividend (incl. tax)	(187)	(218)	(203)	(546)	(343)	(421)
Chg in minorities	-	-	-	-	-	-
Other financing activities	1,155	(441)	463	(1,757)	198	(32)
<b>Cash flow from financing (c)</b>	<b>906</b>	<b>(689)</b>	<b>232</b>	<b>(2,235)</b>	<b>(155)</b>	<b>(457)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(127)</b>	<b>(88)</b>	<b>82</b>	<b>(215)</b>	<b>1,471</b>	<b>1,571</b>

### Financial Ratios

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
Book Value (Rs)	538	594	672	773	881	1,011
Adj EPS (Rs)	88.5	89.2	77.9	119.3	134.2	161.9
Adj EPS growth (%)	15	1	-13	53	13	21
EBITDA margin (%)	14.2	13.4	12.5	15.3	14.6	14.9
Pre-tax margin (%)	13.4	11.6	11.2	14.9	13.5	14.0
Net Debt/Equity (x)	0	0	0	0	0	0
ROCE (%)	21	14	11	18	18	20
ROE (%)	17.6	15.7	12.3	16.5	16.2	17.1

### DuPont Analysis

Asset turnover (x)	1.3	1.1	1.0	1.1	1.1	1.2
Leverage factor (x)	1.6	1.5	1.5	1.4	1.4	1.4
Net margin (%)	8.6	9.6	8.4	10.8	10.1	10.5

### Working Capital & Liquidity ratio

Inventory days	49	62	52	73	65	61
Receivable days	81	67	63	42	37	33
Payable days	30	29	50	41	36	33

### Valuations

Year-end: March	FY19	FY20	FY21	FY22	FY23E	FY24E
PER (x)	44.9	44.6	51.0	33.3	29.6	24.5
Price/Book value (x)	7.4	6.7	5.9	5.1	4.5	3.9
EV/Net sales (x)	3.9	4.3	4.3	3.6	2.9	2.4
EV/EBITDA (x)	27	32	34	23	20	16
Dividend Yield (%)	0	0	0	1	1	1

Source: Company; IDBI Capital Research





# Notes

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Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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**Key to Ratings Stocks:**

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

**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

**SEBI Registration:** BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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