

# Cera Sanitaryware

## HOLD

Disappointing results, challenges persist

### Summary

Cera Sanitaryware Ltd.'s (Cera) Q3FY24 result was below our estimates on key parameters. Subdued demand and challenges in key markets weighed on net sales, while incremental advertising cost dented margins. With strategic objectives focused on expanding market share and enhancing the B2C segment, the company refrained from implementing price hikes since May, 2022 with price adjustments for sanitaryware increase of 2% and no price hikes in faucetware division. Sanitaryware and faucetware divisions, which contributed 52% and 36% to Q3FY24 revenue, witnessed a decrease of 8% and increase of 5% respectively. Given subdued demand and cost pressure, we expect earnings to be muted in near term. We introduce FY26E and maintain HOLD with a revised TP of Rs8,003 (earlier Rs8,333), assigning 37x PER on FY26E.

### Key Highlights and Investment Rationale

- Degrowth in sanitaryware weighed on net sales:** Cera's Q3FY24 results were disappointing on key parameters as sanitaryware segment reported 8% YoY decline in sales. Net sales increased by 4.1% YoY to Rs4.3bn, while EBITDA came in at Rs614mn, down by 18.1% YoY. PAT stood at Rs515mn, degrowth of 9.4% over Q3FY23. In wake of muted demand and pricing pressure, the management reiterated focus to be on cost optimization to support operating margin.
- Near term outlook bleak, HOLD with a TP of Rs8,003:** We anticipate Cera's earnings to moderate in near term given weak 9MFY24 and challenging business environment. On a positive side, capacity addition in faucetware is encouraging and paves the way for long term growth story. We would be watchful on management strategies for growth revival. HOLD with a TP of Rs8,003.

TP **Rs8,003**

CMP **Rs7,531**

Potential upside/downside **6%**

Previous Rating **HOLD**

### Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.0)	(15.2)	23.7
Rel to Sensex	(4.6)	(25.4)	5.3

### V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	153	181	216
Consensus	190	223	257
% difference	-19.5	-18.8	-21.5

### Key Stock Data

Bloomberg / Reuters	CRS IN / CERA.BO
Sector	Building Material Product
Shares o/s (mn)	13
Market cap. (Rs mn)	97,952
3-m daily average Trd value (Rs mn)	8.7
52-week high / low	Rs9,782 / 5,879
Sensex / Nifty	71,555 / 21,743

### Shareholding Pattern (%)

Promoters	54.5
FII	20.6
DII	8.4
Public	16.5

### Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	14,418	17,962	18,501	20,721	23,207
Change (yoy, %)	20	25	3	12	12
EBITDA	2,213	2,852	2,814	3,285	3,887
Change (yoy, %)	48	29	(1)	17	18
EBITDA Margin(%)	15.3	15.9	15.2	15.9	16.7
Adj.PAT	1,553	2,158	1,996	2,350	2,814
EPS (Rs)	119	166	153	181	216
Change (yoy, %)	51.7	39.0	(7.5)	18	20
PE(x)	63.1	45.4	49.1	42	35
Dividend Yield (%)	0.5	0.7	0.8	1	1
EV/EBITDA (x)	44.3	34.3	34.8	29.6	24.8
RoE (%)	16.5	19.8	16.3	18	19
RoCE (%)	17.2	21.3	17	19	20

Source: IDBI Capital Research

### Archana Gude

archana.gude@idbicapital.com  
+91-22-2217 1938

### Concall Highlights

- This quarter's performance was marked by a challenging market-led slowdown characterized by subdued demand across key markets.
- The slowdown was caused by reduced discretionary consumption, which was impacted by increased inflation, a hike in interest rates, and challenging climatic conditions across the country.
- The company's advertising spend has increased to Rs219m in Q3FY24, which constituted 5% of sales attributing to a 1.3% change in EBITDA due to this increase in spend.
- Furthermore, sanitaryware and faucetware divisions, which contributed 52% and 36% to Q3FY24 revenue, witnessed a decrease of 8% and increase of 5%, respectively.
- Whereas Tiles and wellness segments contributed 10% and 2%, experiencing a significant decrease of 19% and increase of 29%, respectively.
- The sanitaryware and faucetware verticals remain the bedrock of the company and contributing 88% of overall revenue.
- With strategic objectives focused on expanding market share and enhancing the B2C segment, the company refrained from implementing price hikes since May, 2022 with price adjustments for sanitaryware increase of 2% and no price hikes in faucetware division.
- Sales promotion expenses increased due to higher product schemes offered by the company in response to challenging demand conditions.
- The company's sales largely comprised 43% in the premium category, 34% in the mid-category, and 23% in the entry category.
- The company's recently commissioned brownfield faucetware capacity, operational since the previous quarter, is demonstrating positive performance enhancing the monthly capacity to 3 Lakh units.
- In Q3FY24, process-by-capacity utilization reached 82% after considering the augmented capacity from the brownfield expansion.

- Furthermore, construction of civil facilities to accommodate a future increase in capacity from 4 lakh to 6 lakh units per month has been successfully completed. With this completion, no major capital expenditure for this division is anticipated for the next 3 to 5 years.
- The acquisition of a substantial portion of land for upcoming sanitaryware facility in Gujarat will broaden portfolio of value-added products with an estimated cost of Rs1250-1300mn and is expected to be operational within 18 months from the zero date.
- In Sanitaryware raw material prices for chinaclay, plaster of paris & glaze went up by 19% and down by 1% & 2%, respectively in Q3FY24 as compared to Q3FY23. Whereas, zinc experienced a decrease of 26% in cost.
- In faucetware raw material prices for brass went up by 4% and remax prices went down by 17% as compared to Q3FY24.
- The company implemented cost optimization programs to offset the impact of increased input and labor costs.
- Raw material prices for Sanitaryware and Faucetware witnessed varied fluctuations, impacting production costs. Notably, 85% of energy needs were met through renewable sources, emphasizing a commitment to sustainability.
- Q3FY24 80% of the energy needs of the two plants was supplied from renewable energy facilities like wind energy farm and solar plant which was added in 2014.
- Consumer demand is expected to increase in financial year '25, driven by real estate market improvements, retail market improvements, and increasing home renovation.
- The company is experiencing a temporary phase of ups and downs in demand pattern, but is optimistic that the situation will improve from financial year '25 onwards.
- The company sees no major challenges as far as products demand is concerned, given the positive macroeconomic factors such as GDP growth.

**Exhibit 1: Financial snapshot**

Particulars (mn)	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
<b>Total revenues</b>	<b>4,389</b>	<b>4,637</b>	<b>(5.3)</b>	<b>4,578</b>	<b>(4.1)</b>
Total expenditure	3,775	3,872	(2.5)	3,828	(1.4)
<b>EBIDTA</b>	<b>614</b>	<b>765</b>	<b>(19.6)</b>	<b>750</b>	<b>(18.1)</b>
<b>EBIDTA margin(%)</b>	<b>14.0</b>	<b>16.5</b>	<b>-249bps</b>	<b>16.4</b>	<b>-238bps</b>
Depreciation	97	89	8.4	85	13.4
Interest cost	16	14	14.7	14	9.6
Other income	160	125	-	132	20.6
PBT	662	787	(15.9)	783	(15.5)
Tax	147	198	(25.9)	214	(31.5)
<b>Adj. net profit</b>	<b>515</b>	<b>574</b>	<b>(10.2)</b>	<b>569</b>	<b>(9.4)</b>
Adj. EPS (INR)	39.6	45.3	(10.2)	43.7	(9.4)

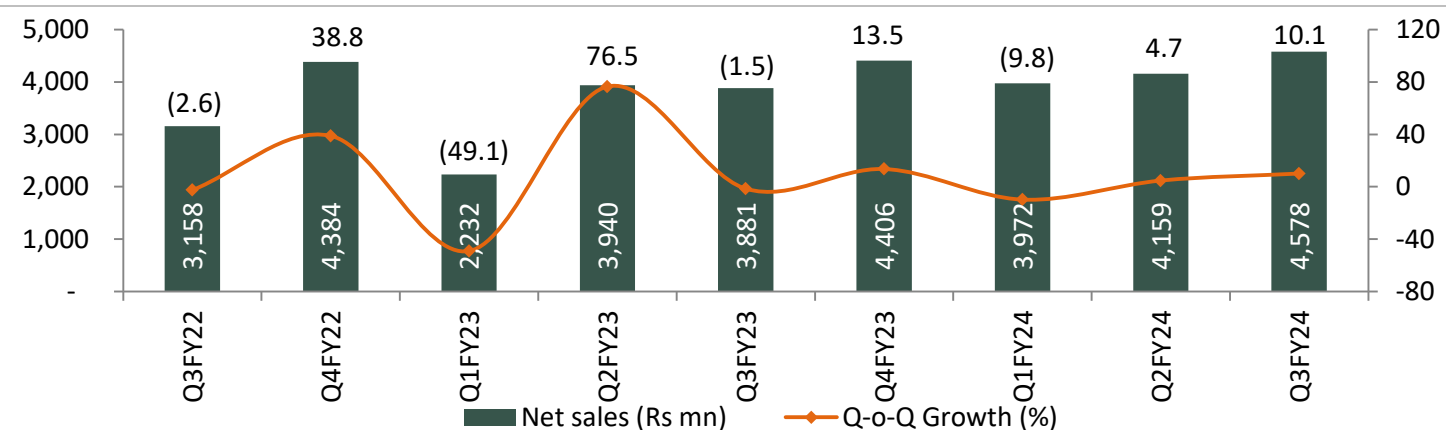
Source: Company; IDBI Capital Research

**Exhibit 2: Actual Vs Estimates**

Particulars	Q3FY24A	Q3FY24E	Variance (%)
Net Sales	4,389	5,034	(12.8)
EBITDA	614	845	(27.3)
<i>EBITDA Margin (%)</i>	<i>14</i>	<i>17</i>	<i>-278bps</i>
Net Profit	515	643	(19.9)
EPS (Rs)	39.6	49.5	(19.9)

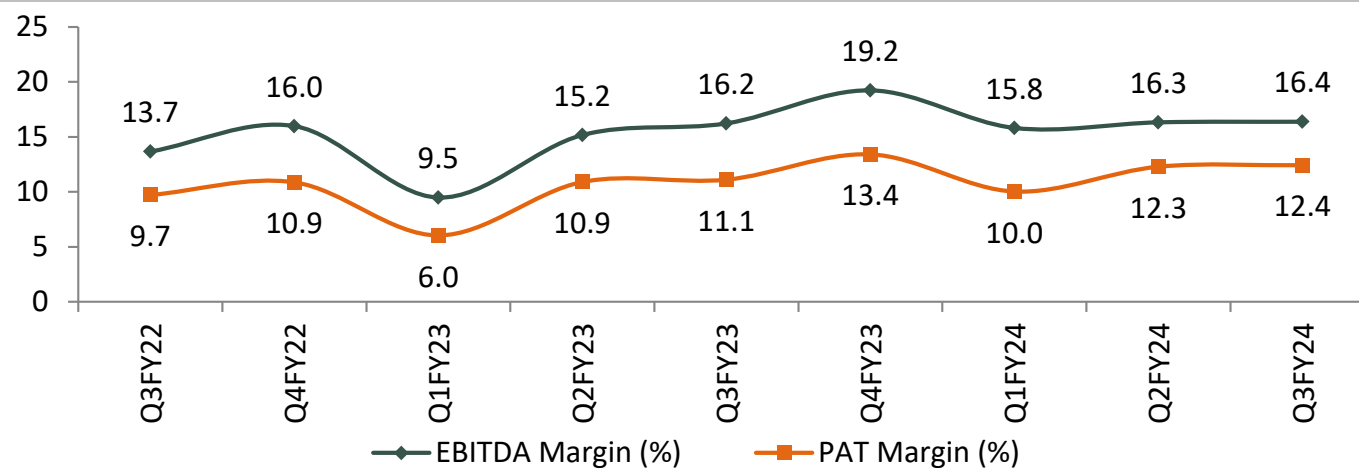
Source: Company; IDBI Capital Research

**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	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Net sales</b>	<b>12,017</b>	<b>14,418</b>	<b>17,962</b>	<b>18,501</b>	<b>20,721</b>	<b>23,207</b>
<i>Change (yoy, %)</i>	<i>(0.6)</i>	<i>20</i>	<i>25</i>	<i>3</i>	<i>12</i>	<i>12</i>
Operating expenses	(10,517)	(12,205)	(15,110)	(15,687)	(17,435)	(19,320)
<b>EBITDA</b>	<b>1,500</b>	<b>2,213</b>	<b>2,852</b>	<b>2,814</b>	<b>3,285</b>	<b>3,887</b>
<i>Change (yoy, %)</i>	<i>-7.5</i>	<i>48</i>	<i>29</i>	<i>(1)</i>	<i>17</i>	<i>18</i>
<i>Margin (%)</i>	<i>12.5</i>	<i>15.3</i>	<i>15.9</i>	<i>15.2</i>	<i>15.9</i>	<i>16.7</i>
Depreciation	(332)	(304)	(304)	(502)	(540)	(615)
<b>EBIT</b>	<b>1,167</b>	<b>1,908</b>	<b>2,547</b>	<b>2,312</b>	<b>2,746</b>	<b>3,272</b>
Interest paid	(32)	(44)	(43)	(46)	(54)	(18)
Other income	218	228	374	412	461	507
<b>Pre-tax profit</b>	<b>1,353</b>	<b>2,035</b>	<b>2,829</b>	<b>2,677</b>	<b>3,153</b>	<b>3,761</b>
Tax	(329)	(539)	(721)	(681)	(803)	(947)
<i>Effective tax rate (%)</i>	<i>24.3</i>	<i>26.5</i>	<i>25.5</i>	<i>25.4</i>	<i>25.5</i>	<i>25.2</i>
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>1,024</b>	<b>1,496</b>	<b>2,108</b>	<b>1,996</b>	<b>2,350</b>	<b>2,814</b>
Exceptional items	-	(57)	(50)	-	-	-
<b>Adjusted net profit</b>	<b>1,024</b>	<b>1,553</b>	<b>2,158</b>	<b>1,996</b>	<b>2,350</b>	<b>2,814</b>
<i>Change (yoy, %)</i>	<i>(11.1)</i>	<i>52</i>	<i>39</i>	<i>(7)</i>	<i>18</i>	<i>20</i>
EPS	78.7	119.4	165.9	153.5	180.7	216.3
Dividend per sh	13.0	35.0	50.0	60.0	70.0	75.0
<i>Dividend Payout %</i>	<i>19.8</i>	<i>35.2</i>	<i>36.2</i>	<i>47</i>	<i>46</i>	<i>42</i>

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
<b>Shareholders' funds</b>	<b>8,744</b>	<b>10,057</b>	<b>11,692</b>	<b>12,780</b>	<b>14,074</b>	<b>15,719</b>
Share capital	65	65	65	65	65	65
Reserves & surplus	8,679	9,992	11,627	12,715	14,009	15,654
<b>Total Debt</b>	<b>124</b>	<b>192</b>	<b>183</b>	<b>180</b>	<b>171</b>	<b>162</b>
Other liabilities	2,170	853	978	1,066	1,162	1,273
<b>Curr Liab &amp; prov</b>	<b>1,792</b>	<b>3,173</b>	<b>3,703</b>	<b>3,903</b>	<b>4,145</b>	<b>4,443</b>
Current liabilities	1,668	3,060	3,484	3,672	3,900	4,181
Provisions	125	113	218	230	245	262
<b>Total liabilities</b>	<b>4,086</b>	<b>4,217</b>	<b>4,864</b>	<b>5,148</b>	<b>5,477</b>	<b>5,878</b>
<b>Total equity &amp; liabilities</b>	<b>12,830</b>	<b>14,274</b>	<b>16,556</b>	<b>17,928</b>	<b>19,552</b>	<b>21,597</b>
Net fixed assets	3,167	3,055	3,121	3,624	3,592	3,485
Investments	5,131	5,673	6,688	7,029	7,717	8,477
Other non-curr assets	197	231	429	439	453	465
<b>Current assets</b>	<b>4,334</b>	<b>5,315</b>	<b>6,318</b>	<b>6,835</b>	<b>7,790</b>	<b>9,169</b>
Inventories	1,697	2,877	3,764	4,065	4,268	4,525
Sundry Debtors	2,067	1,641	1,883	1,977	2,115	2,221
Cash and Bank	98	241	253	350	941	1,926
Loans and advances	472	556	418	443	465	498
<b>Total assets</b>	<b>12,830</b>	<b>14,274</b>	<b>16,556</b>	<b>17,928</b>	<b>19,552</b>	<b>21,597</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	1,353	2,035	2,829	2,677	3,153	3,761
Depreciation	332	304	326	502	540	615
Tax paid	(329)	(524)	(702)	(613)	(723)	(852)
Chg in working capital	1,130	804	(599)	(195)	(99)	(64)
Other operating activities	-	-	-	-	-	-
<b>Cash flow from operations (a)</b>	<b>2,487</b>	<b>2,619</b>	<b>1,855</b>	<b>2,371</b>	<b>2,871</b>	<b>3,460</b>
Capital expenditure	(166)	(192)	(393)	(1,005)	(507)	(509)
Chg in investments	(2,507)	(542)	(1,014)	(341)	(688)	(760)
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(2,673)</b>	<b>(734)</b>	<b>(1,407)</b>	<b>(1,346)</b>	<b>(1,195)</b>	<b>(1,269)</b>
Equity raised/(repaid)	-	-	-	-	-	-
Debt raised/(repaid)	(27)	68	(9)	(4)	(9)	(9)
Dividend (incl. tax)	(203)	(546)	(780)	(936)	(1,093)	(1,171)
Chg in minorities	-	-	-	-	-	-
Other financing activities	499	(1,263)	353	12	17	(27)
<b>Cash flow from financing (c)</b>	<b>269</b>	<b>(1,742)</b>	<b>(436)</b>	<b>(928)</b>	<b>(1,084)</b>	<b>(1,206)</b>
<b>Net chg in cash (a+b+c)</b>	<b>82</b>	<b>143</b>	<b>12</b>	<b>97</b>	<b>591</b>	<b>985</b>



### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	672.3	773	899	983	1,082	1,209
Adj EPS (Rs)	78.7	119.4	165.9	153.5	180.7	216.3
Adj EPS growth (%)	-11.1	52	39	-7	18	20
EBITDA margin (%)	12.5	15.3	15.9	15.2	15.9	16.7
Pre-tax margin (%)	11.3	14.1	15.7	14.5	15.2	16.2
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	-0.1	-0.1
ROCE (%)	11.0	17	21	17	19	20
ROE (%)	12.4	17	20	16	18	19

### DuPont Analysis

Asset turnover (x)	1.0	1.1	1.2	1.1	1.1	1.1
Leverage factor (x)	1.5	1.4	1.4	1.4	1.4	1.4
Net margin (%)	8.5	10.8	12.0	10.8	11.3	12.1

### Working Capital & Liquidity ratio

Inventory days	52	73	76	80	75	71
Receivable days	63	42	38	39	37	35
Payable days	50	58	51	51	49	48

### Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	95.7	63.1	45.4	49.1	41.7	34.8
Price/Book value (x)	11.2	9.7	8.4	7.7	7.0	6.2
EV/Net sales (x)	8.2	6.8	5.5	5.3	4.7	4.1
EV/EBITDA (x)	65.4	44.3	34.3	34.8	29.6	24.8
Dividend Yield (%)	0.2	0.5	0.7	0.8	0.9	1.0

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:** Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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