Research

CRISIL
An S&P Global Company

CRISIL IER

Independent **E**quity **R**esearch

Enhancing investment decisions

Cera Sanitaryware Ltd

Q1FY18 Results Update

Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

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Cera Sanitaryware Ltd

September 27, 2017

Growth impacted by GST

Fundamental Grade: 4/5 (Superior Fundamentals) | **Valuation Grade: 3/5 (CMP is aligned)**

Industry: Building products | **Fair Value: ₹2,862** | **CMP: ₹3,177**

Cera Sanitaryware Ltd's (Cera's) Q1FY18 results were below CRISIL Research's estimates. Revenue grew 9.8% y-o-y to ₹2,346 mn owing to inventory destocking by dealers in June, prior to implementation of GST. EBITDA margin contracted 285 bps y-o-y to 14.1% owing to 506 bps y-o-y increase in material cost. Following a decline in EBITDA (down 8.6% y-o-y), adjusted PAT fell 9.8% y-o-y to ₹193 mn. Despite a subdued environment, Cera's growth was better than peers' - Kajaria (6% y-o-y growth), HSIL (1% y-o-y for building products) and Somany Ceramics (-18% y-o-y). For the remaining year, demand is expected to improve as the company and dealers start adjusting to GST system. Although the building products industry is going through a lean phase, we remain positive on its long-term prospects. We expect Cera to benefit from the revival based on 1) diversification from a traditional sanitaryware player to a complete bathroom solutions provider, 2) strong market positioning, 3) focus on new product launches and 4) wide geographic reach. We maintain our fundamental grade of **4/5**.

Inventory destocking led to de-growth in June

According to management, while the sales momentum was strong in April and May (up 17-20%), GST-led disruption dragged down sales in June (down ~15% y-o-y). Revenue growth was mainly driven by double-digit growth in faucets (after two quarters of single-digit growth) and tiles, but low growth in sanitaryware impacted overall revenue. This is indicated by fall in contribution of sanitaryware to 46% from 51% in Q1FY17, while contribution of faucets and tiles increased to 21% and 19%, respectively, from 20% and 14% in Q1FY17.

EBITDA margin contracted owing to higher raw material cost

Cera's EBITDA margin contracted, for the second consecutive quarter, by 285 bps y-o-y to 14.1%. This was owing to a 506 bps y-o-y rise in material cost led by an increase in the share of low-margin products. We expect margin to stabilise in the remainder of the year driven by - 1) price hike taken by the company in July (2-2.5% across categories), 2) operating leverage benefits led by higher sales and 3) premiumisation of the sanitaryware product portfolio. We expect the company to register EBITDA margin of 16.5% in FY18.

Launched home upgrade segment

Cera launched the home upgrade segment focused on providing end-to-end bathroom renovation solutions. The company's USP for the segment is to renovate a bathroom in five-seven working days and is priced 50-80% higher than usual cost. According to management, it has received positive response in the initial launch in selective cities – Ahmedabad, Pune and Chandigarh - and plans to expand to more cities.

Fair value maintained at ₹2,862 per share

We have lowered our earnings estimates for FY18-19. However, we remain positive on the long-term prospects of the company and maintain our earnings estimates beyond the explicit projection period. Consequently, we maintain the discounted cash flow (DCF)-based fair value at ₹2,862 per share. At the current market price of ₹3,177 per share, our valuation grade is **3/5**.

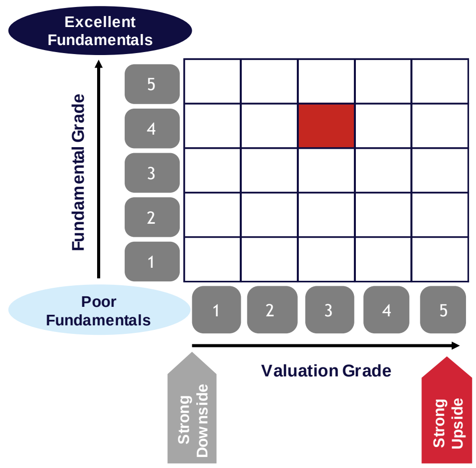
KEY FORECAST

(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Operating income	8,234	9,358	10,117	11,631	13,584
EBITDA	1,225	1,439	1,695	1,925	2,248
Adj net income	668	815	1,001	1,162	1,365
Adj EPS (₹)	51.4	62.7	77.0	89.3	105.0
EPS growth (%)	27.6	21.9	22.9	16.0	17.5
Dividend yield (%)	0.2	0.3	-	0.4	0.5
RoCE (%)	30.9	29.1	29.9	29.0	29.2
RoE (%)	23.2	21.1	21.2	20.3	20.1
PE (x)	61.0	50.0	40.7	35.1	29.9
P/BV (x)	11.6	9.7	7.8	6.6	5.6
EV/EBITDA (x)	33.3	27.8	23.4	20.5	17.6

Note: above are standalone figures

Source: Company, CRISIL Research estimates

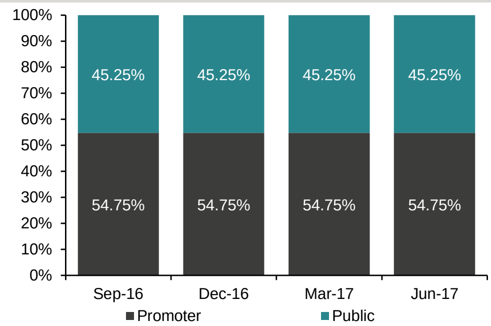
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	9872/31626
NSE/BSE ticker	CERA
Face value (₹ per share)	5
Shares outstanding (mn)	13.0
Market cap (₹ mn)/(US$ mn)	41,487/641
Enterprise value (₹ mn)/(US$ mn)	41,221/637
52-week range (₹)/(H/L)	3,315/1,852
Beta	1.2
Free float (%)	45.3%
Avg daily volumes (30-days)	14,812
Avg daily value (30-days) (₹ mn)	45

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Cera	14%	8%	22%	33%
Nifty 500	3%	4%	12%	15%

For detailed initiating coverage report please visit: www.crisil.com

CRISIL Independent Equity Research reports are also available on Bloomberg (CRI <go>) and Thomson Reuters.

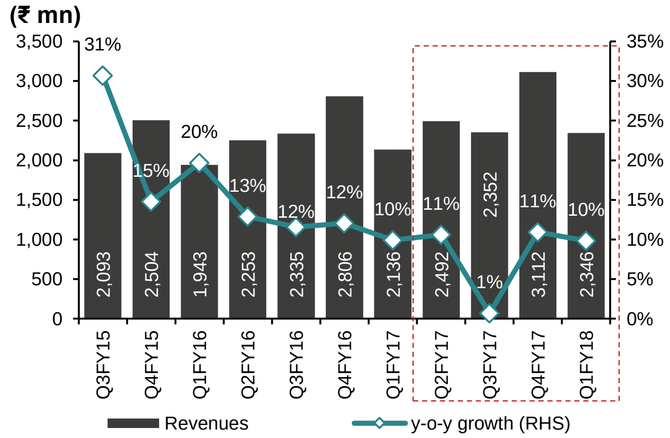
Q1FY18 Results Summary (standalone)

(₹ mn)	Q1FY18	Q4FY17	Q1FY17	q-o-q (%)	y-o-y (%)
Net sales	**2,346**	**3,112**	**2,136**	**(24.6)**	**9.8**
Raw materials cost	1,146	1,632	935	(29.8)	22.5
Raw materials cost (% of net sales)	**48.8%**	**52.4%**	**43.8%**	**-361 bps**	**506 bps**
Employees cost	307	295	293	4.0	4.7
Other expenses	562	668	545	(15.8)	3.1
EBITDA	**331**	**517**	**362**	**(36.0)**	**(8.6)**
EBITDA margin	**14.1%**	**16.6%**	**17.0%**	**-251 bps**	**-285 bps**
Depreciation	51	59	40	(12.1)	29.3
EBIT	**279**	**459**	**322**	**(39.1)**	**(13.3)**
Interest and finance charges	9	9	7	(0.8)	20.1
Operating PBT	**271**	**450**	**315**	**(39.9)**	**(14.1)**
Other Income	25	40	13	(37.3)	95.8
Extraordinary Income/(expense)	-	-	-	NM	NM
PBT	**295**	**489**	**328**	**(39.6)**	**(9.8)**
Tax	103	166	114	(38.3)	(9.8)
PAT	193	323	214	(40.3)	(9.8)
Adj PAT	**193**	**323**	**214**	**(40.3)**	**(9.8)**
Adj PAT margin	**8.2%**	**10.4%**	**10.0%**	**-216 bps**	**-180 bps**
No of equity shares (mn)	13.0	13.0	13.0	-	-
Adj EPS (₹)	**14.8**	**24.9**	**16.5**	**(40.3)**	**(9.8)**

Note: above are standalone figures

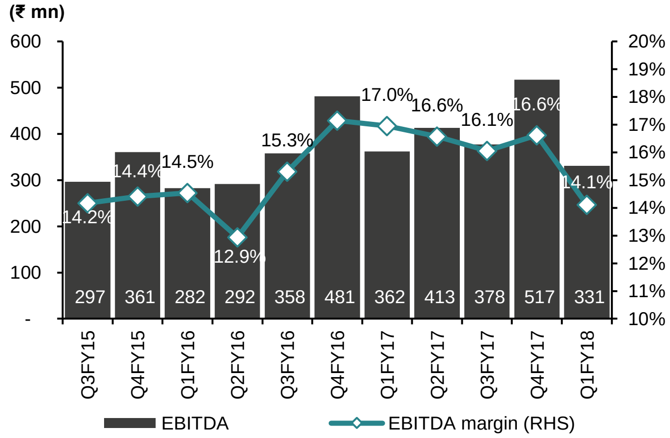
Source: Company, CRISIL Research

Revenue up ~10% y-o-y



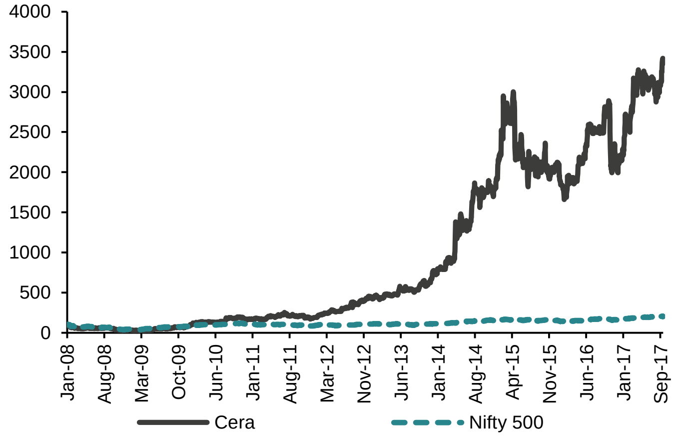
Source: Company, CRISIL Research

EBITDA margin contracted 285 bps to 14.1%



Source: Company, CRISIL Research

Share price movement



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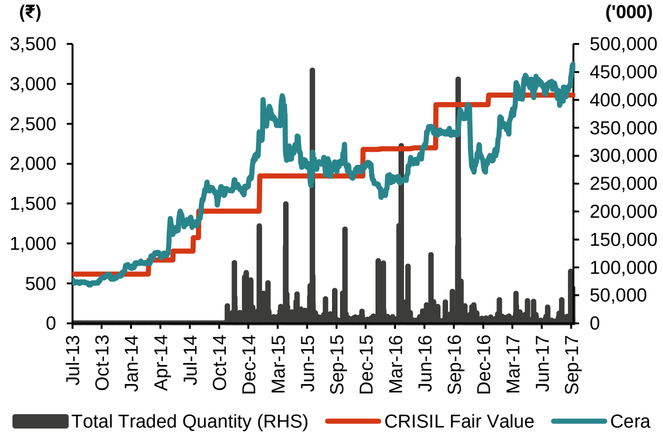
Source: NSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

Earnings estimates revised downwards

Particulars	Unit	FY18E			FY19E		
		Old	**New**	**% change**	**Old**	**New**	**% change**
Operating income	(₹ mn)	11,924	11,631	-2.5%	14,390	13,584	-5.6%
EBITDA	(₹ mn)	1,973	1,925	-2.4%	2,381	2,248	-5.6%
EBITDA margin*	%	16.5%	16.5%	0bps	16.5%	16.5%	0bps
PAT	(₹ mn)	1,233	1,162	-5.8%	1,519	1,365	-10.1%
PAT margin	%	10.3%	10.0%	-35bps	10.6%	10.0%	-51bps
EPS	₹	94.8	89.3	-5.8%	116.8	105.0	-10.1%

Source: CRISIL Research estimates

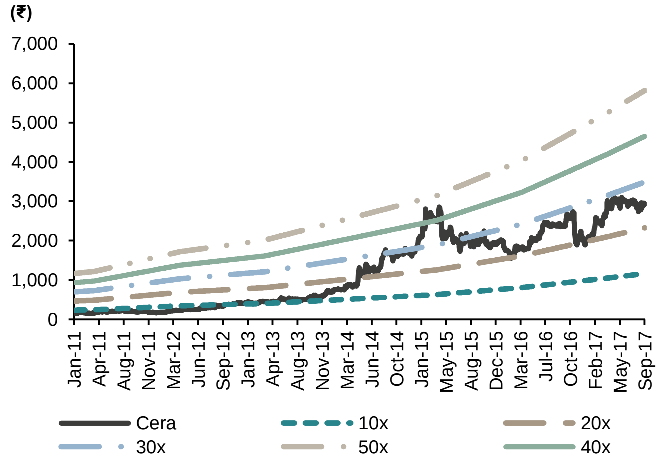
Reasons for changes in estimates

Line item	FY18E-19E
Operating income	Lowered to factor in slower-than-expected pick-up in demand
EBITDA margin	No change
PAT	Lowered in line with revenue

Valuation Grade: 3/5

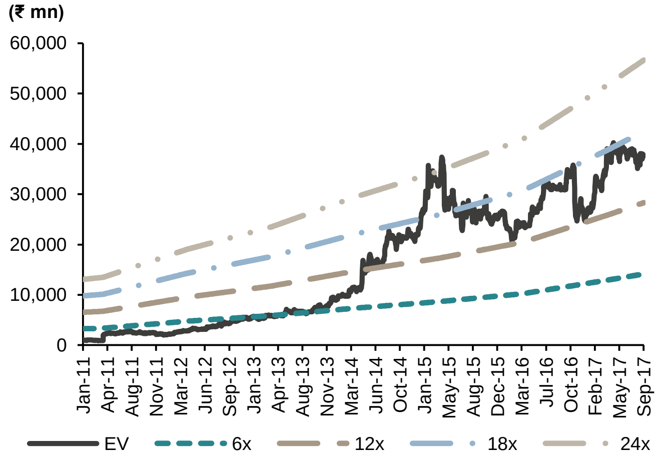
We have lowered our earnings estimates for FY18-19. However, we remain positive on the long-term prospects of the company and maintain our earnings estimates for the explicit projection period (FY18-27E). Hence, the impact of earnings revision in FY18-19 is minimal. Consequently, we maintain our DCF-based fair value at ₹2,862 per share. This fair value implies P/E multiples of 32.2x and 27.4x on FY18E and FY19E EPS, respectively. The stock is currently trading at ₹3,177, implying P/E multiples of 35.1x FY18E and 29.9x FY19E EPS. At the current market price, our valuation grade is **3/5**.

One-year forward P/E band



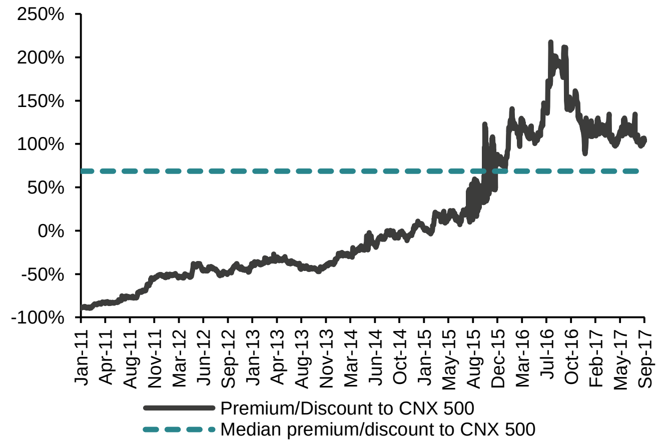
Source: NSE, CRISIL Research

One-year forward EV/EBITDA band



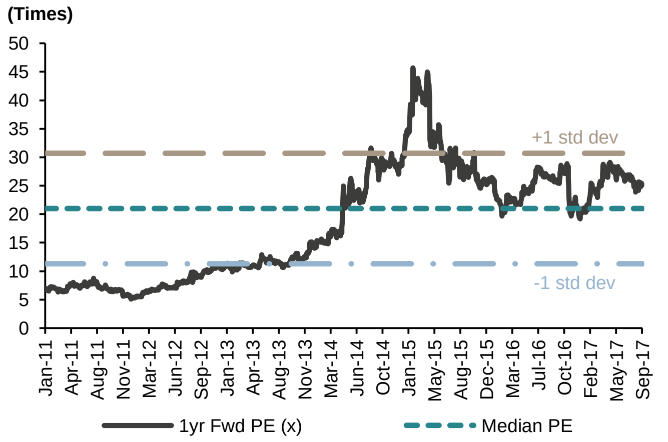
Source: NSE, CRISIL Research

P/E – premium / discount to CNX 500



Source: NSE, CRISIL Research

P/E movement



Source: NSE, CRISIL Research

CRISIL IER reports released on Cera Sanitaryware Ltd

Date	Nature of report	Fundamental grade	Fair value	Valuation grade	CMP
07-Aug-13	Initiating coverage	4/5	₹615	4/5	₹511
11-Nov-13	Q2FY14 result update	4/5	₹615	3/5	₹563
28-Feb-14	Q3FY14 result update	4/5	₹794	3/5	₹756
15-May-14	Q4FY14 result update	4/5	₹903	2/5	₹1,139
31-Jul-14	Q1FY15 result update	4/5	₹1,075	2/5	₹1,317
12-Aug-14	Detailed report	4/5	₹1,406	3/5	₹1,543
27-Oct-14	Q2FY15 result update	4/5	₹1,406	2/5	₹1,682
13-Feb-15	Q3FY15 result update	4/5	₹1,846	1/5	₹2,804
05-May-15	Q4FY15 result update	4/5	₹1,846	2/5	₹2,185
06-Aug-15	Q1FY16 result update	4/5	₹1,846	3/5	₹2,004
01-Dec-15	Q2FY16 result update	4/5	₹1,846	3/5	₹1,945
17-Dec-15	Detailed Report	4/5	₹2,181	4/5	₹1,943
12-Feb-16	Q3FY16 result update	4/5	₹2,181	5/5	₹1,578
23-May-16	Q4FY16 result update	4/5	₹2,181	3/5	₹1,954
27-Jul-16	Q1FY17 result update	4/5	₹2,742	4/5	₹2,379
07-Nov-16	Q2FY17 result update	4/5	₹2,742	3/5	₹2,706
06-Jan-17	Detailed Report	4/5	₹2,862	5/5	₹2,093
20-Feb-17	Q3FY17 result update	4/5	₹2,862	4/5	₹2,528
12-Jun-17	Q4FY17 result update	4/5	₹2,862	4/5	₹2,828
27-Sep-17	Q1FY18 result update	4/5	₹2,862	3/5	₹3,177

Annexure: Financials (standalone)

Income Statement

(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Operating income	**8,234**	**9,358**	**10,117**	**11,631**	**13,584**
EBITDA	**1,225**	**1,439**	**1,695**	**1,925**	**2,248**
EBITDA margin	**14.9%**	**15.4%**	**16.8%**	**16.5%**	**16.5%**
Depreciation	155	163	181	217	268
EBIT	**1,071**	**1,276**	**1,514**	**1,707**	**1,980**
Interest	77	55	34	26	0
Operating PBT	**993**	**1,221**	**1,480**	**1,682**	**1,980**
Other income	4	54	67	79	57
Exceptional inc/(exp)	1	20	12	-	-
PBT	**998**	**1,295**	**1,558**	**1,760**	**2,038**
Tax provision	329	460	545	599	672
Minority interest	-	-	-	-	-
PAT (Reported)	**669**	**835**	**1,013**	**1,162**	**1,365**
Less: Exceptionals	1	20	12	-	-
Adjusted PAT	**668**	**815**	**1,001**	**1,162**	**1,365**

Ratios

	FY15	FY16	FY17	FY18E	FY19E
Growth					
Operating income (%)	23.8	13.7	8.1	15.0	16.8
EBITDA (%)	25.5	17.4	17.8	13.5	16.8
Adj PAT (%)	31.1	21.9	22.9	16.0	17.5
Adj EPS (%)	27.6	21.9	22.9	16.0	17.5
Profitability					
EBITDA margin (%)	14.9	15.4	16.8	16.5	16.5
Adj PAT Margin (%)	8.1	8.7	9.9	10.0	10.0
RoE (%)	23.2	21.1	21.2	20.3	20.1
RoCE (%)	30.9	29.1	29.9	29.0	29.2
RoIC (%)	23.7	24.1	25.9	24.7	23.4
Valuations					
Price-earnings (x)	61.0	50.0	40.7	35.1	29.9
Price-book (x)	11.6	9.7	7.8	6.6	5.6
EV/EBITDA (x)	33.3	27.8	23.4	20.5	17.6
EV/Sales (x)	5.0	4.3	3.9	3.4	2.9
Dividend payout ratio (%)	12.1	14.0	-	13.3	15.0
Dividend yield (%)	0.2	0.3	-	0.4	0.5
B/S ratios					
Inventory days	56	52	47	47	47
Creditors days	78	86	102	85	85
Debtor days	69	70	76	70	70
Working capital days	50	52	48	50	52
Gross asset turnover (x)	3.3	3.1	3.0	2.9	2.7
Net asset turnover (x)	4.5	4.3	4.1	4.0	3.8
Sales/operating assets (x)	4.2	4.0	3.9	3.9	3.8
Current ratio (x)	2.1	1.9	1.9	2.0	1.9
Debt-equity (x)	0.2	0.1	0.1	0.0	0.0
Net debt/equity (x)	(0.0)	(0.2)	(0.2)	(0.2)	(0.2)
Interest coverage					
EBITDA/Interest	15.9	26.3	49.3	75.0	NM
EBIT/Interest	13.9	23.4	44.0	66.5	NM

Per share

	FY15	FY16	FY17	FY18E	FY19E
Adj EPS (₹)	51.4	62.7	77.0	89.3	105.0
CEPS	63.3	75.2	90.9	106.0	125.5
Book value	270.4	323.7	401.7	477.5	564.7
Dividend (₹)	6.3	9.0	-	11.9	15.8
Actual o/s shares (mn)	13.0	13.0	13.0	13.0	13.0

Balance Sheet

(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Liabilities					
Equity share capital	65	65	65	65	65
Reserves	3,452	4,145	5,159	6,146	7,279
Minorities	-	-	-	-	-
Net worth	**3,517**	**4,210**	**5,224**	**6,211**	**7,344**
Convertible debt	-	-	-	-	-
Other debt	682	351	342	0	0
Total debt	**682**	**351**	**342**	**0**	**0**
Deferred tax liability (net)	278	344	357	357	357
Total liabilities	**4,477**	**4,905**	**5,923**	**6,568**	**7,701**
Assets					
Net fixed assets	2,147	2,253	2,651	3,214	4,022
Capital WIP	157	117	169	-	-
Total fixed assets	**2,304**	**2,370**	**2,820**	**3,214**	**4,022**
Investments	73	224	310	310	310
Current assets					
Inventory	1,259	1,322	1,292	1,485	1,735
Sundry debtors	1,614	1,886	2,209	2,307	2,691
Loans and advances	493	617	935	1,075	1,255
Cash & bank balance	222	566	524	381	410
Marketable securities	478	475	871	871	871
Total current assets	**4,065**	**4,867**	**5,830**	**6,118**	**6,962**
Total current liabilities	**1,965**	**2,561**	**3,051**	**3,088**	**3,606**
Net current assets	**2,100**	**2,306**	**2,779**	**3,031**	**3,356**
Intangibles/Misc. expenditure	**-**	**5**	**13**	**13**	**13**
Total assets	**4,477**	**4,905**	**5,923**	**6,568**	**7,701**

Cash flow

(₹ mn)	FY15	FY16	FY17	FY18E	FY19E
Pre-tax profit	997	1,275	1,546	1,760	2,038
Total tax paid	(253)	(394)	(532)	(599)	(672)
Depreciation	155	163	181	217	268
Working capital changes	(544)	135	(120)	(394)	(296)
Net cash from operations	**355**	**1,179**	**1,076**	**985**	**1,337**
Cash from investments					
Capital expenditure	(819)	(234)	(639)	(612)	(1,075)
Investments and others	(360)	(148)	(482)	-	-
Net cash from investments	**(1,179)**	**(382)**	**(1,122)**	**(612)**	**(1,075)**
Cash from financing					
Equity raised/(repaid)	706	0	(0)	-	-
Debt raised/(repaid)	199	(331)	(9)	(341)	-
Dividend (incl. tax)	(98)	(142)	-	(174)	(232)
Others (incl extraordinaries)	1	20	12	(1)	-
Net cash from financing	**808**	**(453)**	**3**	**(516)**	**(232)**
Change in cash position	(16)	344	(42)	(143)	29
Closing cash	222	566	524	381	410

Quarterly financials

(₹ mn)	Q1FY17	Q2FY17	Q3FY17	Q4FY17	Q1FY18
Net Sales	**2,136**	**2,492**	**2,352**	**3,112**	**2,346**
Change (q-o-q)	-24%	17%	-6%	32%	-25%
EBITDA	**362**	**413**	**378**	**517**	**331**
Change (q-o-q)	-25%	14%	-9%	37%	-36%
EBITDA margin	**17.0%**	**16.6%**	**16.1%**	**16.6%**	**14.1%**
PAT	214	251	225	323	193
Adj PAT	**214**	**251**	**225**	**323**	**193**
Change (q-o-q)	-28%	18%	-11%	44%	-40%
Adj PAT margin	**10.0%**	**10.1%**	**9.6%**	**10.4%**	**8.2%**
Adj EPS	**16.5**	**19.3**	**17.3**	**24.9**	**14.8**

Source: CRISIL Research

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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