

3 February 2022

## Cera Sanitaryware

*Highest quarterly revenue; retaining a Buy*

Rating: **Buy**

Target Price: Rs.7,222

Share Price: Rs.5,623

With its highest quarterly revenue and good operating margins, Cera Sanitaryware's strong performance in Q3 continues. While it continues to operate at 100%, it continues to gain market share. The ongoing expansions are on track and the B/S is robust with healthy cash generation. The higher retail share, high SKU-addition focus, price rationalisation, etc., are key positives. We retain our Buy rating, with a higher TP of Rs7,222 (earlier Rs6,820), at a PE of 33x FY25e.

**Highest quarterly revenue.** Consistent efforts in improving efficiency, product development, higher B2C-sales focus, etc., helped revenue grow to its highest of Rs4.6bn, up 17.8% y/y. Utilisation continues at a high 105% (sanitaryware) and 115% (faucets). EBITDA expanded 19.3% y/y to Rs729m with a ~16% EBITDA margin on softening costs and low-priced gas. With a leading position in sanitaryware and second in faucets, Cera continues to gain market share while peers are struggling due to high manufacturing costs, huge Chinese imports, and a commoditised business.

**Expansion update.** De-bottlenecking led to faucet capacity rising to 300,000 a month in Q1 FY23. Capacity expansion of 100,000 faucets a month would be complete by FY24. Land due-diligence for the sanitaryware expansion, and gas & water approvals are ongoing, expected to be complete in 6-9 months. Capex would be via internal accruals (faucets ~Rs690m, sanitaryware ~Rs1.29bn).

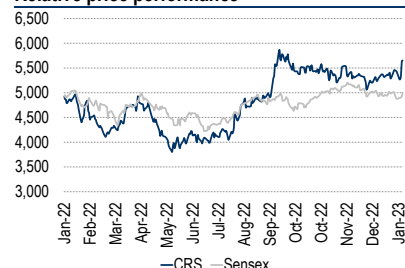
**Business outlook, Valuation.** The guidance of higher utilisation, doubling revenue every 3.5 years and expanding the EBITDA margin 50-75bps annually were retained. Having a Just-in-Time purchase system with dealers, inventory days rose to targeted levels of 80-90 days. The B/S continue to be firm where cash & equivalents increased to Rs5.97bn (Rs5.8bn in Mar'22). We expect 18%/20% revenue/EBITDA CAGRs over FY22-25. We retain a Buy, with a TP of Rs7,222, at 33x FY25e PE. **Risks:** Slowdown in demand; higher input costs

Key data	CRS IN / CERA.BO
52-week high / low	Rs.6,077 / 3,502
Sensex / Nifty	60842 / 17854
3-m average volume	\$1.7m
Market cap	Rs.74bn / \$898.3m
Shares outstanding	13m

Shareholding pattern (%)	Dec'22	Sep'22	Jun'22
Promoters	54.5	54.5	54.5
- of which, Pledged	-	-	-
Free float	45.5	45.5	45.5
- Foreign institutions	17.5	17.9	18.3
- Domestic institutions	9.4	9.7	10.6
- Public	18.6	17.9	16.6

Estimates revision (%)	FY23e	FY24e	FY25e
Revenue	3.4	0.6	0.6
EBITDA	6.1	3.9	4.3
PAT	8.0	5.4	6.6

### Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	12,017	14,418	17,576	19,796	23,425
Net profit (Rs m)	1,013	1,551	2,048	2,351	2,846
EPS (Rs)	77.9	119.3	157.5	180.8	218.9
PE (x)	50.1	47.2	35.7	31.1	25.7
EV / EBITDA (x)	30.6	30.6	23.9	20.6	16.8
PBV (x)	5.8	7.3	6.1	5.2	4.4
RoE (%)	12.3	16.5	18.6	18.1	18.5
RoCE (%)	9.8	13.8	15.9	15.6	16.1
Dividend yield (%)	0.3	0.6	0.3	0.3	0.3
Net gearing (x)	-0.6	-0.5	-0.5	-0.5	-0.5

Source: Company, Anand Rath Research

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## Quick Glance – Financials and Valuations

**Fig 1 – Income statement (Rs m)**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	12,017	14,418	17,576	19,796	23,425
Growth (%)	-0.6	20.0	21.9	12.6	18.3
Direct costs	6,473	6,810	8,200	9,348	11,327
SG&A	4,044	5,395	6,562	7,219	8,232
<b>EBITDA</b>	<b>1,500</b>	<b>2,212</b>	<b>2,814</b>	<b>3,229</b>	<b>3,867</b>
EBITDA margins (%)	12.5	15.3	16.0	16.3	16.5
- Depreciation	332	304	308	354	388
Other income	218	228	281	317	375
Interest expenses	43	46	50	50	50
PBT	1,342	2,090	2,737	3,142	3,804
Effective tax rate (%)	25	27	25	25	25
+ Associates / (Minorities)					
Net income	1,013	1,494	2,048	2,351	2,846
Adjusted income	1,013	1,551	2,048	2,351	2,846
WANS	13	13	13	13	13
FDEPS (Rs / sh)	78	119	157	181	219
FDEPS growth (%)	-12.6	53.1	32.1	14.8	21.1

**Fig 3 – Cash-flow statement (Rs m)**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
PBT (ad. OI and interest)	1,167	1,908	2,506	2,875	3,479
+ Non-cash items	332	304	308	354	388
Oper. prof. before WC	1,500	2,212	2,814	3,229	3,867
- Incr. / (decr.) in WC	-1,382	892	1,446	414	676
Others incl. taxes	328	520	689	791	957
Operating cash-flow	2,554	800	679	2,025	2,233
- Capex (tang. + intang.)	127	212	250	1,190	750
Free cash-flow	2,427	588	429	835	1,483
Acquisitions					
- Div.(incl. buyback & taxes)	169	455	195	195	195
+ Equity raised	-	-	-	-	-
+ Debt raised	-14	63	-	-	-
- Fin investments	2,507	542	-	-	-
- Misc. (CFI + CFF)	-346	-396	-231	-267	-325
Net cash-flow	82	50	465	907	1,613

Source: Company, Anand Rath Research

**Fig 5 – Price movement**



Source: Bloomberg

**Fig 2 – Balance sheet (Rs m)**

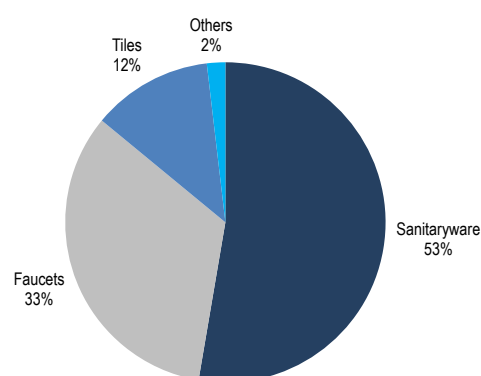
Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	65	65	65	65	65
Net worth	8,744	10,057	11,911	14,067	16,718
Debt	399	462	462	462	462
Minority interest					
DTL / (Assets)	327	342	342	342	342
<b>Capital employed</b>	<b>9,470</b>	<b>10,862</b>	<b>12,715</b>	<b>14,871</b>	<b>17,523</b>
Net tangible assets	3,290	3,201	2,949	3,735	3,347
Net intangible assets	8	5	5	5	5
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	6	6	200	250	1,000
Investments (strategic)	790.9	402.0	402.0	402.0	402.0
Investments (financial)	4,340	5,272	5,272	5,272	5,272
Current assets (excl. cash)	4,297	5,242	7,801	8,786	10,397
Cash	98	148	613	1,520	3,133
Current liabilities	3,361	3,413	4,526	5,098	6,033
Working capital	936	1,829	3,274	3,688	4,364
<b>Capital deployed</b>	<b>9,470</b>	<b>10,862</b>	<b>12,715</b>	<b>14,871</b>	<b>17,523</b>
Contingent liabilities	-	-	-	-	-

**Fig 4 – Ratio analysis**

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	50.1	47.2	35.7	31.1	25.7
EV / EBITDA (x)	30.6	30.6	23.9	20.6	16.8
EV / Sales (x)	3.8	4.7	3.8	3.4	2.8
P/B (x)	5.8	7.3	6.1	5.2	4.4
RoE (%)	12.3	16.5	18.6	18.1	18.5
RoCE (%) - after tax	9.8	13.8	15.9	15.6	16.1
Fixed asset T/O (x)	2.3	2.7	3.3	3.3	3.6
DPS (Rs / sh)	13.0	35.0	15.0	15.0	15.0
Dividend yield (%)	0.3	0.6	0.3	0.3	0.3
Dividend payout (%) - incl. DDT	16.7	30.5	9.5	8.3	6.9
Net debt / equity (x)	-0.6	-0.5	-0.5	-0.5	-0.5
Receivables (days)	63	42	64	64	64
Inventory (days)	52	73	75	75	75
Payables (days)	98	84	90	90	90
CFO :PAT %	252.1	51.6	33.2	86.1	78.4

Source: Company, Anand Rath Research

**Fig 6 – Revenue-mix (FY22)**



Source: Company

## Company update

Cera manufactures, markets and distributes sanitaryware and faucets, and trades in tiles and other bathroom products.

Its extensive product range (high-end shower systems, steam cubicles and whirlpools, besides sanitaryware and faucets) has made it the primary choice of customers looking for stylish contemporary lifestyle products. Some of its innovations have become benchmarks, such as water-saving twin-flush WCs, four-litre-flush WCs and one-piece WCs.

Advanced technology has been Cera's forte. Its state-of-the-art manufacturing plant has the highest standards since its inception in 1980, emphasising sustainability. The Cera plant was the first to use natural gas, the purest fuel, which gives an extra sheen to products. The company plans to maintain its leading position in the industry, while satisfyingly addressing mounting demand.

Its sanitaryware and faucet plants are located at Kadi district (Gujarat), and its wind-farms at six places in Gujarat, India. Its businesses and operations cover the country.

Making a foray into a new arena, Cera launched an array of stylish wall and floor tiles. The range includes HD-digital wall tiles with matching floor tiles; digital glazed vitrified tiles and vitrified tiles with nano-technology.

### **The sanitaryware division**

Its near 3m piece-a-year sanitaryware division brought ~54% to revenue in Q3 FY23, up 19% y/y on firm demand. Capacity utilisation was 105% despite 15 days maintenance shutdown. In the Rs40bn sanitaryware sector, the top-three manufacturers address ~50-60% of sanitaryware demand, with Cera enjoying ~22% of the formal (or regulated) market.

### **The faucets division**

The faucets division brought 33% to revenue in Q3 FY23, rising ~12% y/y. Capacity utilisation was 115%. The Rs90bn segment is more fragmented: non-regulated/regulated manufacturers hold 40%/60% shares. The company's faucet plant capacity was expanded to 300,000 pieces a month by Jun'22 via more extensive use of production lines. Technology upgrading has helped in both quality and productivity. Further the 100,000 piece a month capacity expansion is expected to be complete by FY24.

### **The tiles division**

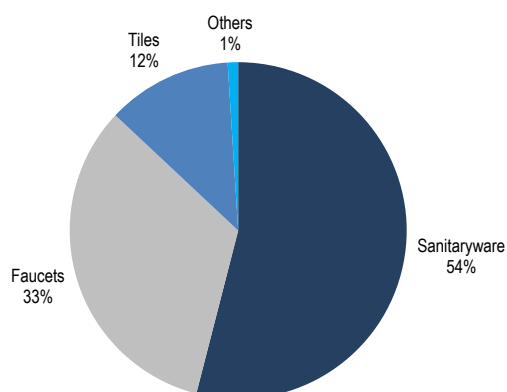
The tiles division brought ~12% to revenue in Q3 FY23, up 34% y/y. The company's focus is to enhance the tile division's margins up to the company level with more B2C sales.

Fig 7 – Quarterly trend

(Rs m)	Q1 FY21	Q2 FY21	Q3 FY21	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	% Y/Y	% Q/Q
Sales	1,426	3,179	3,098	4,314	2,228	3,932	3,870	4,387	3,958	4,143	4,558	17.8	10.0
EBITDA	66	405	397	631	198	579	611	824	612	660	729	19.3	10.3
EBITDA margins (%)	4.7	12.7	12.8	14.6	8.9	14.7	15.8	18.8	15.5	15.9	16.0	20bps	4bps
Interest	10	9	10	14	10	10	10	15	9	13	13	29.5	1.8
Depreciation	81	83	84	84	73	76	78	78	70	77	80	2.5	3.3
Other income	69	39	85	25	58	70	42	59	-3	110	137	228.5	25.0
PBT	44	351	389	558	173	562	565	733	530	680	773	36.8	13.6
Tax	15	88	98	128	43	142	142	212	133	173	209	47.2	20.9
Adj. PAT	29	263	291	430	129	421	423	578	396	507	564	33.3	11.2

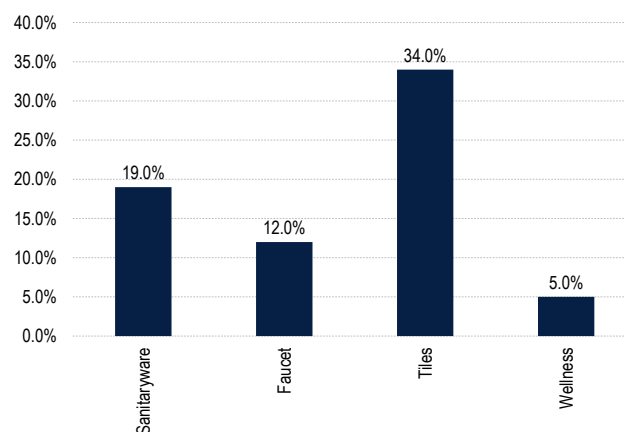
Source: Company, Anand Rathi Research

Fig 8 – Revenue mix (Q3 FY23)



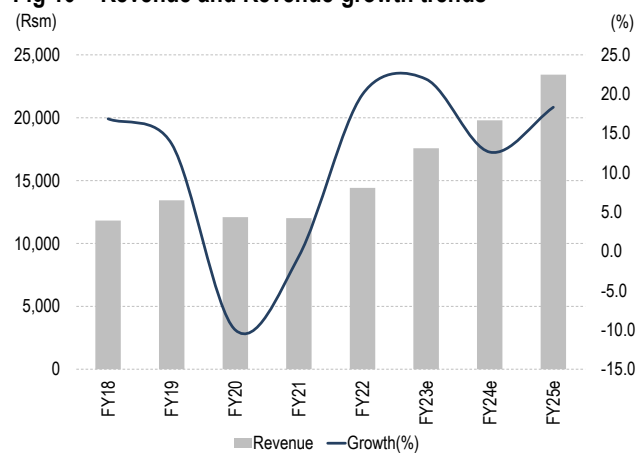
Source: Company, Anand Rathi Research

Fig 9 – Revenue growth (Q3 FY23)



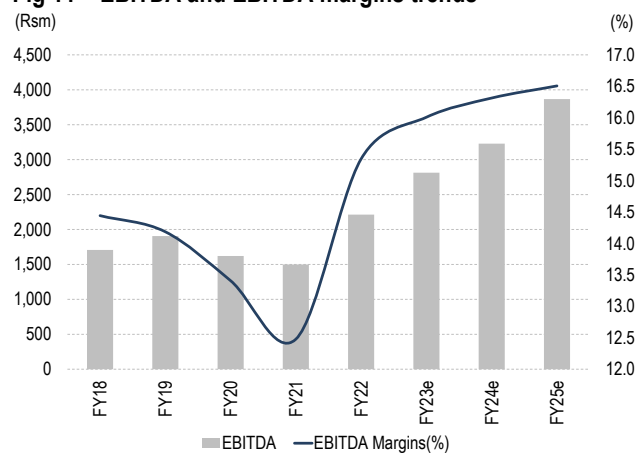
Source: Company, Anand Rathi Research

Fig 10 – Revenue and Revenue-growth trends



Source: Company, Anand Rathi Research

Fig 11 – EBITDA and EBITDA margins trends



Source: Company, Anand Rathi Research

## Concall Highlights

- Q3 FY23 sanitaryware capacity utilisation was 105% despite 15 days maintenance shutdown; faucets, ~115%, expected to hold at these levels in FY23.
- The share of Chinese imports declined to 3.7% of overall sales in Q3 FY23 vs 4.71% in FY22.
- Revenue from product launches has grown to 39% vs 24% earlier (industry ~10%). In 9M FY23, the company launched 673 products (sanitaryware ~72, faucets ~573).
- Faucet capacity in Mar'22 was 250,000 pieces (180,000 in H1 FY22). By Jun'22, it rose to 300,000 pieces p.m. via more extensive use of production lines. Capacity expansions would lead to 400,000 pieces p.m. by FY24 at Rs690m capex. The asset turnover would be 2x-3x.
- A greenfield 100,000 SKU p.m. sanitaryware manufacturing plant will be set up at Rs1.29bn capex. Land acquisition and gas & water approvals are expected to be complete in 6-9 months. It takes 24-30 months to construct a greenfield plant. The asset turnover would be 2x.
- Cash and equivalents were Rs5.97bn (Rs5.23bn at 31<sup>st</sup> Mar'22).
- On declining/stable raw material prices, prices were not hiked in Q3 also, whereas peers hiked prices in Oct/Nov. Earlier, prices were hiked in Nov'21 and May'22: sanitaryware 10%/3%, faucets ~5.5%/5%.
- Cera has rationalised prices from 1<sup>st</sup> Feb'23 to a single MRP across country. Due to this, sanitaryware prices would increase 0.5-1% and faucet prices decline 0.5%.
- 65% of the energy needed was from wind/solar power, keeping costs in control. Gas cost as percent of sales in Q3 was 2.53% (FY22~ 2.43%).
- As GAIL discovered gas at isolated wells near the plant, its prices were sub-market (Rs35/cu.mtr in Dec'22; Rs11.13 in FY22). Prices of Sabarmati gas were ~Rs67/cu.mtr. in Dec'22 (Rs59.46 in FY22) where in Jan'23, prices reduced to Rs59/cu.mtr. Overall gas consumption cost was Rs47/cu.mtr. in Dec'22 (Rs32.93 in FY22).
- For sanitaryware, the shares of gas from GAIL/Sabarmati was 67:33 in Q3 FY23. Normally, the shares are 55:45.
- Q3 FY23 revenue mix: sanitaryware 54%, faucets 33%, tiles 12%, others 1%. Segment-wise, Q3 FY23 revenue rose: sanitaryware 19%, faucets 12%, tiles 34%, others 5%. Region-wise, Q3 FY23 revenue mix: tier-I 27%, tier-II 11%, tier-III 62%. The retail-institutional mix was 64:36.
- Besides expansion capex (sanitaryware and faucets), maintenance capex is estimated at Rs240m, vs Rs111.2m in FY22 (automation: sanitaryware ~Rs77m, faucets ~Rs64m; land ~Rs66m, IT and logistics ~Rs40m).
- Of the Rs240m estimated maintenance capex, Rs30m was spent in 9M FY23. In FY24, besides maintenance capex, expansion capex of Rs690m for faucets and Rs250m for land for the sanitaryware expansion will be spent.
- Advertising expenses have been guided to at Rs550m in FY23 vs Rs320m in FY22.

- The sanitaryware outsourcing share in overall revenue was ~ 63%; for faucets ~ 51%.
- Q3 FY23 inventory days were 83 (67 a year ago); receivables were 30 (30), whereas payables were 37 (36). Working-capital days rose to 76 (from 61). The company guided to maintain inventory days of 80-90. 55-60% of Cera's sales are on a cash & carry model.
- Revenue was guided to double every 3.5 years (1.8x industry growth), with PAT rising 2.5x. Further, margins were guided to grow 50-70bps annually. The gross margins expanded to 52-54% vs 48-49% normally.
- Cera had invested Rs80.6m for a 26% stake in Milo Tiles. However, due to its inability to maintain Cera's quality parameters, it halted the transaction with Milo since Jun'22 and has served legal notices to Milo and the other LLP Partners for non-compliance with the terms of the agreement.

## Valuations

Healthy demand, its strong brand position and higher B2C sales would continue to aid Cera's industry-beating performances. Aided by a demand upswing and capacity expansion, revenue was guided to 2x and PAT 2.5x every 3.5 years, and margins to grow 50bps-70bps p.a. While the balance sheet continues to be net cash, Cera's coming sanitaryware and faucet expansions would help address the mounting demand.

We retain our Buy rating, with a higher target price of Rs.7222, assigning a PE of 33x FY25e. At the ruling price, the stock quotes at a P/E of 25.7x FY25e and an EV/EBITDA of 16.8x.

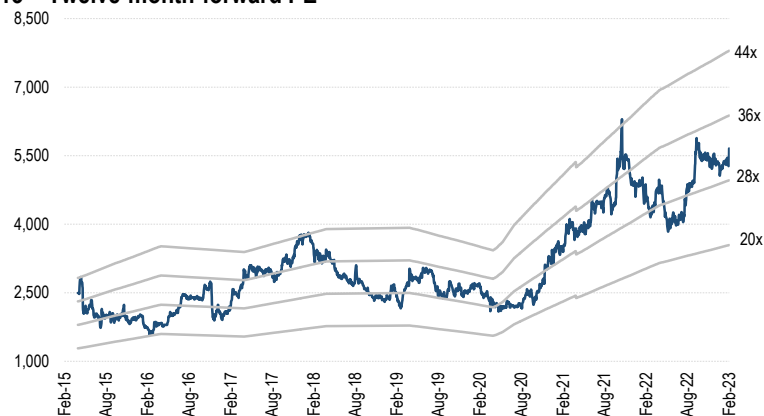
### Change in estimates

Fig 12 – Change in estimates

(Rs m)	Old			New			Change (%)		
	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23	FY24	FY25
Sales	17,004	19,680	23,281	17,576	19,796	23,425	3.4	0.6	0.6
EBITDA	2,653	3,108	3,707	2,814	3,229	3,867	6.1	3.9	4.3
PAT	1,896	2,231	2,671	2,048	2,351	2,846	8.0	5.4	6.6

Source: Anand Rath Research

Fig 13 – Twelve-month-forward PE



Source: Bloomberg, Anand Rath Research

### Risks

- Slowdown in demand.
- Higher input costs.

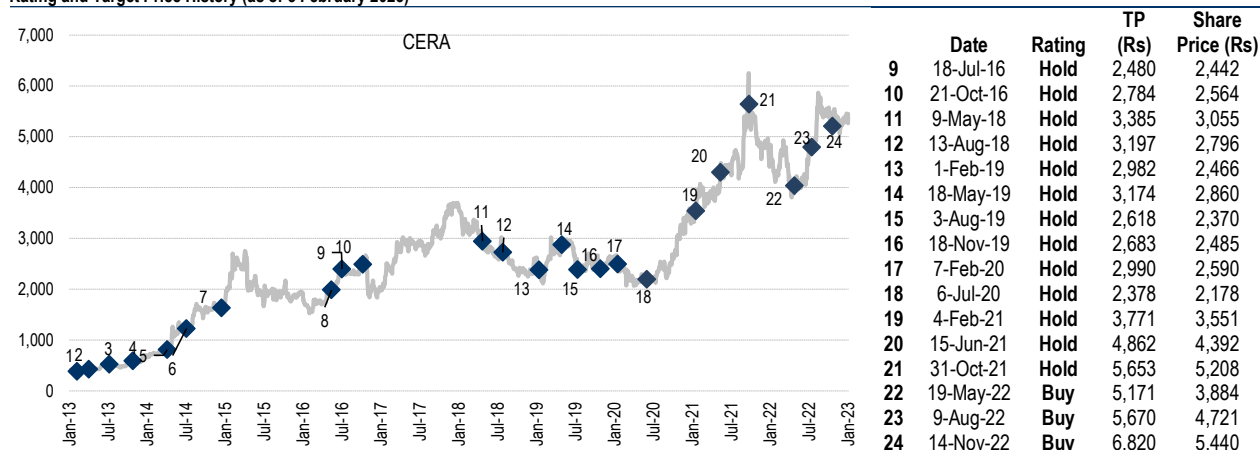
## Appendix

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