

February 13, 2024

## Q3FY24 Result Update

☑ Change in Estimates | ☑ Target | ■ Reco

### Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	8,486		8,597	
Sales (Rs. m)	22,817	26,901	23,895	28,170
% Chng.	(4.5)	(4.5)		
EBITDA (Rs. m)	3,655	4,444	3,947	4,654
% Chng.	(7.4)	(4.5)		
EPS (Rs.)	209.7	254.6	226.3	266.6
% Chng.	(7.4)	(4.5)		

### Key Financials - Consolidated

Y/e Mar	FY23	FY24E	FY25E	FY26E
Sales (Rs. m)	18,035	19,247	22,817	26,901
EBITDA (Rs. m)	2,930	2,973	3,655	4,444
Margin (%)	16.2	15.4	16.0	16.5
PAT (Rs. m)	2,161	2,265	2,727	3,311
EPS (Rs.)	166.1	174.2	209.7	254.6
Gr. (%)	36.2	4.9	20.4	21.4
DPS (Rs.)	25.0	25.0	28.0	-
Yield (%)	0.3	0.3	0.4	-
RoE (%)	19.8	17.9	18.5	18.9
RoCE (%)	26.4	24.4	24.9	25.4
EV/Sales (x)	5.1	4.7	4.0	3.3
EV/EBITDA (x)	31.3	30.5	24.7	20.0
PE (x)	45.4	43.3	36.0	29.6
P/BV (x)	8.4	7.2	6.2	5.1

### Key Data

### CERA.BO | CRS IN

52-W High / Low	Rs.9,782 / Rs.5,873
Sensex / Nifty	71,555 / 21,743
Market Cap	Rs.98bn/ \$ 1,181m
Shares Outstanding	13m
3M Avg. Daily Value	Rs.141.66m

### Shareholding Pattern (%)

Promoter's	54.48
Foreign	18.03
Domestic Institution	9.73
Public & Others	17.77
Promoter Pledge (Rs bn)	-

### Stock Performance (%)

	1M	6M	12M
Absolute	(6.0)	(10.5)	23.5
Relative	(4.6)	(18.3)	4.3

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## Cera Sanitaryware (CRS IN)

Rating: ACCUMULATE | CMP: Rs7,540 | TP: Rs8,486

### Suboptimal performance, focus on growth cont.

We downward revise our FY24/FY25/FY26E earnings estimate by 10.5%/7.4%/4.5% and maintain 'Accumulate' rating, as we value the stock at 35x Dec'25 EPS to arrive at revised TP of Rs8,486 (earlier Rs 8,597). Cera Sanitaryware (CRS) reported below estimates results on all fronts with demand slowdown and business disruption in certain parts of India e.g Kerala increased local tax on houses (accounts ~10% CRS sales) & Delhi banned construction activity for 40-45days (earlier 15-20days) impacting sales and margins (due to increase in adv./promotion expenses, which expected to normalize in coming year). However, CRS maintained its revenue guidance of Rs25bn/Rs29bn by Mar-25/Sep-25 with ~16%+ sustainability in EBITDA margin. We believe demand scenario will continue to remain subdued in the near term and revive by Q1FY25 with recent capacity expansion in faucetware division. Accordingly, we expect positive momentum to continue but with a lag. We estimate Revenue/ EBITDA /PAT CAGR of 14.3%/14.9%/15.3% over FY23-26E. Maintain 'Accumulate' rating.

**Revenue decline by 4.1%, PAT decline by 9.4%:** Revenue decline by 4.1% YoY to Rs4.4bn (PLe:Rs4.8bn). Sanitaryware/Faucetware segment declined 8.0%/5.0% YoY. EBITDA declined by 18.1% YoY to Rs614mn (PLe: Rs781mn) and EBITDA margin contracted 240bps YoY to 14.0%. (PLe:16.4%) due to higher overhead mainly with increase in adv/promotional expenses which impacted margins by 1.2%/0.7%. PBT declined by 15.5% YoY to Rs662mn (PLe:Rs799mn). PAT declined by 9.4% YoY to Rs515mn (PLe:Rs598mn). Sanitaryware/Faucetware capacity utilization increased to 85%/82%. The cash conversion cycle improved to 60days in Q3FY24, against 76days in Q3FY24. Cash and cash equivalents were Rs 7.7bn in Q3FY24.

**Con call highlights:** 1) Company maintains its near term revenue target to reach Rs 25bn/FY27bn by Mar'25/Sep'25 and EBITDA margin of ~16.5%; may change it by FY24 end, 2) Company introduced 72/699/202 new products in FY22/FY23/9MFY24 and products launched within 3 years constituted 32% of the total revenue, 3) China imports reduced from Rs 196mn or 4.3% of sales in Q3FY23 to Rs156mn or 3.6% of Sales in Q3FY24, 4) Average price increase in case of sanitary-ware was 2% effective from Feb'24 and there was no price increase in case of faucetware, 5) 43% of total sales came from premium category, 34% from mid-category and 23% from entry-level category, 6) 75% of total land required for new project (Sanitaryware facility, Gujarat) is acquired; company targets acquisition of rest 25% by Jun'24. Total capex expected for the project is in the range of Rs 1.25-1.3bn, 7) Recently commissioned brownfield faucetware capacity, operational since Q2FY24, is demonstrating positive performance, 8) Company expects subdued Q4FY24, but sees a good growth from 1QFY25 due to completion of a lot of real-estate projects, 9) Company believes that macro-economic factors were not conducive in Q3FY24 which led to slowdown in overall demand; apart from that increase in stamp-duty in Kerala also contributed to slowdown, as it contributes 10% of total revenue, 10) Company is planning to increase dividend pay-out ratio going forward and is also exploring buy-back option, 11) Advertisement spent was at Rs 219.1mn in Q3FY24(5% of sales, vs. 173.4mn in Q3FY23 (3.8% of sales). Total advertisement spend for 9MFY24 stands at 480mn (650mn guided for FY24), 12) Retailer loyalty program accounts for ~34% revenue.

**Exhibit 1: Q3FY24 Result Overview: Revenue decline by 4.1% YoY; PAT decline by 9.4% YoY**

Y/e March (Rs mn)	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
<b>Net Sales</b>	<b>4,389</b>	<b>4,578</b>	<b>(4.1)</b>	<b>4,631</b>	<b>(5.2)</b>	<b>13,309</b>	<b>12,693</b>	<b>4.9</b>
<b>Expenditure</b>								
Operating & Manufacturing Expenses	2,004	2,082	(3.8)	2,186	(8.3)	6,127	5,760	6.4
% of Net Sales	45.6	45.5	0.2	47.2		46.0	45.4	0.7
Gross Profit	2,386	2,496	(4.4)	2,445	(2.4)	7,182	6,932	3.6
% of Net Sales	54.4	54.5	(0.2)	52.8		54.0	54.6	(0.7)
Personnel Cost	567	539	5.2	585	(3.1)	1,728	1,584	9.1
% of Net Sales	12.9	11.8	1.1	12.6		13.0	12.5	0.5
Other Expenses	1,487	1,381	7.7	1,245	19.4	3,943	3,643	8.2
% of Net Sales	33.9	30.2	3.7	26.9		29.6	28.7	0.9
Total Expenditure	3,775	3,828	(1.4)	3,866	(2.4)	11,226	10,654	5.4
<b>EBITDA</b>	<b>614</b>	<b>750</b>	<b>(18.1)</b>	<b>765</b>	<b>(19.7)</b>	<b>2,083</b>	<b>2,039</b>	<b>2.2</b>
Margin (%)	14.0	16.4	(2.4)	16.5		15.7	16.1	(0.4)
Other income	160	132		125	27.4	438	236	85.8
Depreciation	97	85	13.4	89	8.4	269	237	13.3
<b>EBIT</b>	<b>678</b>	<b>797</b>	<b>(15.0)</b>	<b>801</b>	<b>(15.4)</b>	<b>2,252</b>	<b>2,037</b>	<b>10.5</b>
Interest	16	14	9.6	14	14.7	43	38	12.5
<b>PBT</b>	<b>662</b>	<b>783</b>	<b>(15.5)</b>	<b>787</b>	<b>(15.9)</b>	<b>2,209</b>	<b>1,999</b>	<b>10.5</b>
Total Taxes	147	214	(31.5)	198	(25.9)	538	524	2.5
ETR (%)	22.2	27.3	(5.2)	25.1		24.3	26.2	(1.9)
<b>Adj. PAT</b>	<b>515</b>	<b>569</b>	<b>(9.4)</b>	<b>590</b>	<b>(12.6)</b>	<b>1,672</b>	<b>1,475</b>	<b>13.4</b>

Source: Company, PL

**Exhibit 2: Segmental Breakup: Sanitaryware revenues decline by ~8% & faucetware revenues up ~5% YoY in Q3FY24**

Y/e March (Rs mn)	3QFY24	3QFY23	YoY gr. (%)	2QFY24	QoQ gr. (%)	9MFY24	9MFY23	YoY gr. (%)
Sanitaryware (SW)	2,282	2,472	(7.7)	2,349	(2.8)	6,921	6,842	1.2
Faucets (FW)	1,580	1,511	4.6	1,640	(3.7)	4,748	4,291	10.7
Tiles	439	549	(20.1)	513	(14.5)	1,402	1,339	4.7
Wellness	88	46	91.7	89	(1.3)	237	196	20.9
<b>Total</b>	<b>4,389</b>	<b>4,578</b>	<b>(4.1)</b>	<b>4,631</b>	<b>(5.2)</b>	<b>13,309</b>	<b>12,693</b>	<b>4.9</b>

Source: Company, PL

## Financials

### Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Net Revenues</b>	<b>18,035</b>	<b>19,247</b>	<b>22,817</b>	<b>26,901</b>
YoY gr. (%)	24.7	6.7	18.5	17.9
Cost of Goods Sold	8,246	8,858	10,514	12,396
Gross Profit	9,789	10,389	12,303	14,505
Margin (%)	54.3	54.0	53.9	53.9
Employee Cost	2,147	2,418	2,715	3,040
Other Expenses	3,179	3,362	4,027	4,775
<b>EBITDA</b>	<b>2,930</b>	<b>2,973</b>	<b>3,655</b>	<b>4,444</b>
YoY gr. (%)	28.1	1.5	23.0	21.6
Margin (%)	16.2	15.4	16.0	16.5
Depreciation and Amortization	326	365	415	415
<b>EBIT</b>	<b>2,604</b>	<b>2,607</b>	<b>3,240</b>	<b>4,029</b>
Margin (%)	14.4	13.5	14.2	15.0
Net Interest	60	64	62	62
Other Income	356	549	500	500
<b>Profit Before Tax</b>	<b>2,849</b>	<b>3,077</b>	<b>3,678</b>	<b>4,467</b>
Margin (%)	15.8	16.0	16.1	16.6
Total Tax	738	796	952	1,156
Effective tax rate (%)	25.9	25.9	25.9	25.9
<b>Profit after tax</b>	<b>2,111</b>	<b>2,281</b>	<b>2,727</b>	<b>3,311</b>
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
<b>Adjusted PAT</b>	<b>2,161</b>	<b>2,265</b>	<b>2,727</b>	<b>3,311</b>
YoY gr. (%)	36.2	4.9	20.4	21.4
Margin (%)	12.0	11.8	12.0	12.3
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>2,161</b>	<b>2,265</b>	<b>2,727</b>	<b>3,311</b>
YoY gr. (%)	36.2	4.9	20.4	21.4
Margin (%)	12.0	11.8	12.0	12.3
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	2,161	2,265	2,727	3,311
<b>Equity Shares O/s (m)</b>	<b>13</b>	<b>13</b>	<b>13</b>	<b>13</b>
<b>EPS (Rs)</b>	<b>166.1</b>	<b>174.2</b>	<b>209.7</b>	<b>254.6</b>

Source: Company Data, PL Research

### Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Non-Current Assets</b>				
<b>Gross Block</b>	<b>5,562</b>	<b>6,320</b>	<b>7,720</b>	<b>9,120</b>
Tangibles	5,562	6,320	7,720	9,120
Intangibles	-	-	-	-
<b>Acc: Dep / Amortization</b>	<b>2,423</b>	<b>2,789</b>	<b>3,204</b>	<b>3,619</b>
Tangibles	2,423	2,789	3,204	3,619
Intangibles	-	-	-	-
<b>Net fixed assets</b>	<b>3,143</b>	<b>3,543</b>	<b>4,528</b>	<b>5,513</b>
Tangibles	3,138	3,531	4,516	5,501
Intangibles	5	12	12	12
Capital Work In Progress	170	5	5	5
Goodwill	-	-	-	-
Non-Current Investments	714	784	816	851
Net Deferred tax assets	(376)	(376)	(376)	(376)
Other Non-Current Assets	-	-	-	-
<b>Current Assets</b>				
Investments	6,345	6,345	6,345	6,345
Inventories	3,825	3,955	4,688	5,528
Trade receivables	1,892	2,004	2,375	2,801
Cash & Bank Balance	262	1,208	1,647	2,979
Other Current Assets	375	422	500	590
<b>Total Assets</b>	<b>16,766</b>	<b>18,345</b>	<b>20,999</b>	<b>24,722</b>
<b>Equity</b>				
Equity Share Capital	65	65	65	65
Other Equity	11,661	13,550	15,838	19,149
<b>Total Network</b>	<b>11,726</b>	<b>13,615</b>	<b>15,903</b>	<b>19,214</b>
<b>Non-Current Liabilities</b>				
Long Term borrowings	42	42	42	42
Provisions	89	89	89	89
Other non current liabilities	203	203	203	203
<b>Current Liabilities</b>				
ST Debt / Current of LT Debt	212	212	212	212
Trade payables	2,069	1,784	2,100	2,461
Other current liabilities	1,654	1,629	1,679	1,729
<b>Total Equity &amp; Liabilities</b>	<b>16,766</b>	<b>18,345</b>	<b>20,999</b>	<b>24,722</b>

Source: Company Data, PL Research



## Cash Flow (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
PBT	(2,756)	3,092	3,678	26,840
Add. Depreciation	326	365	415	-
Add. Interest	60	64	62	-
Less Financial Other Income	356	549	500	500
Add. Other	-	-	-	-
Op. profit before WC changes	(2,369)	3,522	4,155	26,840
Net Changes-WC	640	(704)	(859)	-
Direct tax	(716)	(796)	(952)	-
<b>Net cash from Op. activities</b>	<b>(2,446)</b>	<b>2,022</b>	<b>2,345</b>	<b>26,840</b>
Capital expenditures	(513)	(600)	(1,400)	-
Interest / Dividend Income	(46)	(4)	(4)	-
Others	-	-	-	-
<b>Net Cash from Invt. activities</b>	<b>(559)</b>	<b>(604)</b>	<b>(1,404)</b>	-
Issue of share cap. / premium	-	-	-	-
Debt changes	1	-	-	-
Dividend paid	(392)	(392)	(439)	-
Interest paid	(60)	(64)	(62)	-
Others	5,461	(16)	-	-
<b>Net cash from Fin. activities</b>	<b>5,009</b>	<b>(471)</b>	<b>(501)</b>	-
<b>Net change in cash</b>	<b>2,004</b>	<b>946</b>	<b>440</b>	<b>26,840</b>
Free Cash Flow	(2,959)	1,421	945	26,840

Source: Company Data, PL Research

## Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
<b>Net Revenue</b>	<b>5,325</b>	<b>4,289</b>	<b>4,631</b>	<b>4,389</b>
YoY gr. (%)	21.4	8.0	11.8	(4.1)
Raw Material Expenses	2,480	1,937	2,186	2,004
Gross Profit	2,845	2,352	2,445	2,386
Margin (%)	53.4	54.8	52.8	54.4
<b>EBITDA</b>	<b>872</b>	<b>704</b>	<b>765</b>	<b>614</b>
YoY gr. (%)	5.8	12.0	15.8	(18.1)
Margin (%)	16.4	16.4	16.5	14.0
Depreciation / Depletion	83	83	89	97
<b>EBIT</b>	<b>789</b>	<b>621</b>	<b>676</b>	<b>518</b>
Margin (%)	14.8	14.5	14.6	11.8
Net Interest	21	13	14	16
Other Income	124	153	125	160
<b>Profit before Tax</b>	<b>891</b>	<b>760</b>	<b>787</b>	<b>662</b>
Margin (%)	16.7	17.7	17.0	15.1
Total Tax	210	193	198	147
Effective tax rate (%)	23.5	25.4	25.1	22.2
<b>Profit after Tax</b>	<b>682</b>	<b>567</b>	<b>590</b>	<b>515</b>
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
<b>Adjusted PAT</b>	<b>632</b>	<b>567</b>	<b>574</b>	<b>515</b>
YoY gr. (%)	21.3	42.2	13.1	(9.4)
Margin (%)	11.9	13.2	12.4	11.7
Extra Ord. Income / (Exp)	-	-	-	-
<b>Reported PAT</b>	<b>632</b>	<b>567</b>	<b>574</b>	<b>515</b>
YoY gr. (%)	21.3	42.2	13.1	(9.4)
Margin (%)	11.9	13.2	12.4	11.7
Other Comprehensive Income	-	-	-	-
<b>Total Comprehensive Income</b>	<b>632</b>	<b>567</b>	<b>574</b>	<b>515</b>
Avg. Shares O/s (m)	13	13	13	13
<b>EPS (Rs)</b>	<b>48.6</b>	<b>43.6</b>	<b>44.1</b>	<b>39.6</b>

Source: Company Data, PL Research

## Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
<b>Per Share(Rs)</b>				
EPS	166.1	174.2	209.7	254.6
CEPS	191.2	202.3	241.6	286.5
BVPS	901.6	1,046.9	1,222.8	1,477.4
FCF	(227.5)	109.3	72.6	2,063.7
DPS	25.0	25.0	28.0	-
<b>Return Ratio(%)</b>				
RoCE	26.4	24.4	24.9	25.4
ROIC	42.0	36.0	34.2	35.2
RoE	19.8	17.9	18.5	18.9
<b>Balance Sheet</b>				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	74	79	79	80
<b>Valuation(x)</b>				
PER	45.4	43.3	36.0	29.6
P/B	8.4	7.2	6.2	5.1
P/CEPS	39.4	37.3	31.2	26.3
EV/EBITDA	31.3	30.5	24.7	20.0
EV/Sales	5.1	4.7	4.0	3.3
Dividend Yield (%)	0.3	0.3	0.4	-

Source: Company Data, PL Research

## Key Operating Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
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Source: Company Data, PL Research



## Price Chart

## Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	02-Jan-24	Accumulate	8,597	7,842
2	03-Nov-23	Accumulate	8,926	8,132
3	09-Oct-23	Accumulate	8,857	8,176
4	04-Aug-23	Hold	8,224	7,917
5	04-Jul-23	Hold	7,805	7,690
6	11-May-23	BUY	7,706	6,690
7	06-Apr-23	BUY	7,280	6,535
8	20-Mar-23	BUY	7,280	6,184

## Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Accumulate	2,064	1,830
2	Bajaj Electricals	Hold	997	1,065
3	Century Plyboard (I)	BUY	848	748
4	Cera Sanitaryware	Accumulate	8,597	7,842
5	Crompton Greaves Consumer Electricals	BUY	397	313
6	Finolex Industries	Accumulate	247	234
7	Greenpanel Industries	BUY	481	388
8	Havells India	Accumulate	1,538	1,306
9	Kajaria Ceramics	Accumulate	1,445	1,375
10	KEI Industries	Hold	3,268	3,315
11	Polycab India	BUY	6,021	4,335
12	R R Kabel	BUY	1,857	1,435
13	Supreme Industries	Accumulate	4,823	4,070
14	Voltas	Hold	1,017	1,058

## PL's Recommendation Nomenclature (Absolute Performance)

<b>Buy</b>	: > 15%
<b>Accumulate</b>	: 5% to 15%
<b>Hold</b>	: +5% to -5%
<b>Reduce</b>	: -5% to -15%
<b>Sell</b>	: < -15%
<b>Not Rated (NR)</b>	: No specific call on the stock
<b>Under Review (UR)</b>	: Rating likely to change shortly

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