

March 21, 2024

Management Meet Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY25E	FY26E	FY25E	FY26E
Rating	ACCUMULATE		ACCUMULATE	
Target Price	8,486		8,486	
Sales (Rs. m)	22,817	26,901	22,817	26,901
% Chng.	-	-	-	-
EBITDA (Rs. m)	3,655	4,444	3,655	4,444
% Chng.	-	-	-	-
EPS (Rs.)	209.7	254.6	209.7	254.6
% Chng.	-	-	-	-

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 (%)	0.4	0.4	0.4	-
RoE (%)	19.8	17.9	18.5	18.9
RoCE (%)	26.4	24.4	24.9	25.4
EV/Sales (x)	4.7	4.3	3.6	3.0
EV/EBITDA (x)	28.9	28.1	22.8	18.4
PE (x)	42.1	40.1	33.4	27.5
P/BV (x)	7.8	6.7	5.7	4.7

Key Data

CERA.BO | CRS IN

52-W High / Low	Rs.9,782 / Rs.5,989
Sensex / Nifty	72,102 / 21,839
Market Cap	Rs.91bn/ \$ 1,093m
Shares Outstanding	13m
3M Avg. Daily Value	Rs.161.42m

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	(7.8)	(19.4)	13.8
Relative	(6.5)	(25.3)	(9.0)

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Cera Sanitaryware (CRS IN)

Rating: ACCUMULATE | CMP: Rs6,993 | TP: Rs8,486

Focus on premiumisation & expansion

We met with the management of Cera Sanitaryware Ltd. (CRS) to assess the demand, competition, pricing, and capacity expansion. Management continues to observe a slowdown in demand in the near term and is expected to review its revenue guidance of Rs25bn/Rs29bn by Mar-25/Sep-25 with ~16%+ EBITDA margin, following the conclusion of FY24. We also believe demand scenario will continue to remain subdued in the near term, while CRS expected some improvement with recent capacity expansion in faucetware division in FY25. We estimate Revenue/ EBITDA /PAT CAGR of 18.2%/22.3%/20.9% over FY24-26E. We maintain 'Accumulate' rating, as we value the stock at 35x Dec'25 EPS to arrive at TP of Rs8,486.

- **Subdued demand continues in Jan-24:** CRS reported subdued revenue in the bathware segment during Q3FY24, a trend continued into Q4FY24 due to a slowdown in demand. However, there are signs of sequential improvement, typical fourth quarter is better quarter in year, as indicated by management.
- **Company will review guidance:** CRS previously guided revenue of Rs 25bn/Rs27bn by Mar-25/Sep-25 with 16%+ EBITDA margin. However, management is reassessing these targets and timelines, with plans to potentially revise them post the end of FY24.
- **Capacity expansion:** The capacity expansion initiatives are progressing smoothly. In Gujarat, sanitaryware greenfield facility's land acquisition completed and construction has started, targeting commissioning in FY25. The total projected capex for this project falls within the range of Rs 1.25-1.3bn. Meanwhile, faucetware brownfield capacity, operational since Q2FY24, is demonstrating strong performance with a utilization surpassing 90%. Initially, the company is focusing on maximizing plant utilization, utilizing to manufacture some outsourced products to meet demand. As sales of premium and luxury products increase, there are plans to gradually phase out these outsourced products. CRS is expected to increase faucetware capacity to 0.6mn pieces per month from current 0.4mn pieces per month, with minimal capex, as the company possesses sufficient land and building space to accommodate this expansion in line with demand. Currently, the mix of outsourced and in-house manufacturing for both products stands at 50:50 in volume terms, a ratio that is expected to be maintained in the future.
- **Building distribution network:** In 9MFY24, CRS has incorporated 500 new dealers and further emphasis on enhancing revenue per dealer. Additionally, the company is keen on geographical expansion, with South India presently contributing 35-40% of revenue, followed by North and West regions. However, CRS currently maintains minimal presence in East India, where expansion efforts are anticipated in the upcoming years.
- **Luxury & premium product expansion:** CRS is strategically prioritizing the expansion of premium and luxury products while maintaining its existing product positioning, as the luxury market within the segment shows notable growth, according to management. To facilitate this expansion, CRS is

focusing on several key strategies: a) Enhancing its product basket, b) Increasing influencer connections for luxury projects, c) Implementing targeted advertising strategies for optimal market positioning. Additionally, the company also aims to broaden its product SKUs by elevating the price point of existing brand products.

- The average price increase for sanitaryware was 2%, effective from Feb-24, while there has been no price increase for faucetware. CRS has refrained from implementing any price hikes for the last 22 months in faucetware.
- **Utilisation of Cash:** In addition to the ongoing capacity expansion in faucetware, CRS currently has no plans for capacity expansion in any other products. Furthermore, there are no intentions to diversify its business into other building products segments. CRS anticipates distributing its cash to investors through dividend/buyback in the coming years. As of the end of 9MFY24, the company holds cash and cash equivalents amounting to Rs 7.7bn.



Financials

Income Statement (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Net Revenues	18,035	19,247	22,817	26,901
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
EBITDA	2,930	2,973	3,655	4,444
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
EBIT	2,604	2,607	3,240	4,029
Margin (%)	14.4	13.5	14.2	15.0
Net Interest	60	64	62	62
Other Income	356	549	500	500
Profit Before Tax	2,849	3,077	3,678	4,467
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
Profit after tax	2,111	2,281	2,727	3,311
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	2,161	2,265	2,727	3,311
YoY gr. (%)	36.2	4.9	20.4	21.4
Margin (%)	12.0	11.8	12.0	12.3
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	2,161	2,265	2,727	3,311
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
Equity Shares O/s (m)	13	13	13	13
EPS (Rs)	166.1	174.2	209.7	254.6

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY23	FY24E	FY25E	FY26E
Non-Current Assets				
Gross Block	5,562	6,320	7,720	9,120
Tangibles	5,562	6,320	7,720	9,120
Intangibles	-	-	-	-
Acc: Dep / Amortization	2,423	2,789	3,204	3,619
Tangibles	2,423	2,789	3,204	3,619
Intangibles	-	-	-	-
Net fixed assets	3,143	3,543	4,528	5,513
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	-	-	-	-
Current Assets				
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
Total Assets	16,766	18,345	20,999	24,722
Equity				
Equity Share Capital	65	65	65	65
Other Equity	11,661	13,550	15,838	19,149
Total Network	11,726	13,615	15,903	19,214
Non-Current Liabilities				
Long Term borrowings	42	42	42	42
Provisions	89	89	89	89
Other non current liabilities	203	203	203	203
Current Liabilities				
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
Total Equity & Liabilities	16,766	18,345	20,999	24,722

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)	-
Net cash from Op. activities	(2,446)	2,022	2,345	26,840
Capital expenditures	(513)	(600)	(1,400)	-
Interest / Dividend Income	(46)	(4)	(4)	-
Others	-	-	-	-
Net Cash from Invt. activities	(559)	(604)	(1,404)	-
Issue of share cap. / premium	-	-	-	-
Debt changes	1	-	-	-
Dividend paid	(392)	(392)	(439)	-
Interest paid	(60)	(64)	(62)	-
Others	5,461	(16)	-	-
Net cash from Fin. activities	5,009	(471)	(501)	-
Net change in cash	2,004	946	440	26,840
Free Cash Flow	(2,959)	1,421	945	26,840

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY23	FY24E	FY25E	FY26E
Per Share(Rs)				
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	-
Return Ratio(%)				
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
Balance Sheet				
Net Debt : Equity (x)	(0.5)	(0.5)	(0.5)	(0.5)
Net Working Capital (Days)	74	79	79	80
Valuation(x)				
PER	42.1	40.1	33.4	27.5
P/B	7.8	6.7	5.7	4.7
P/CEPS	36.6	34.6	28.9	24.4
EV/EBITDA	28.9	28.1	22.8	18.4
EV/Sales	4.7	4.3	3.6	3.0
Dividend Yield (%)	0.4	0.4	0.4	-

Source: Company Data, PL Research

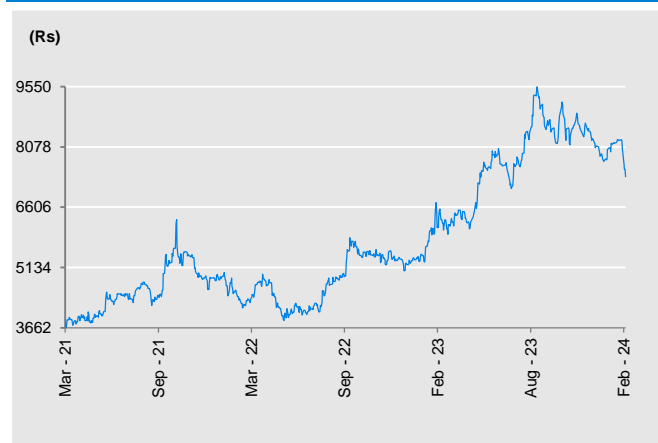
Quarterly Financials (Rs m)

Y/e Mar	Q4FY23	Q1FY24	Q2FY24	Q3FY24
Net Revenue	5,325	4,289	4,631	4,389
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
EBITDA	872	704	765	614
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
EBIT	789	621	676	518
Margin (%)	14.8	14.5	14.6	11.8
Net Interest	21	13	14	16
Other Income	124	153	125	160
Profit before Tax	891	760	787	662
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
Profit after Tax	682	567	590	515
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	632	567	574	515
YoY gr. (%)	21.3	42.2	13.1	(9.4)
Margin (%)	11.9	13.2	12.4	11.7
Extra Ord. Income / (Exp)	-	-	-	-
Reported PAT	632	567	574	515
YoY gr. (%)	21.3	42.2	13.1	(9.4)
Margin (%)	11.9	13.2	12.4	11.7
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	632	567	574	515
Avg. Shares O/s (m)	13	13	13	13
EPS (Rs)	48.6	43.6	44.1	39.6

Source: Company Data, PL Research

Price Chart

Recommendation History



No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	13-Feb-24	Accumulate	8,486	7,540
2	02-Jan-24	Accumulate	8,597	7,842
3	03-Nov-23	Accumulate	8,926	8,132
4	09-Oct-23	Accumulate	8,857	8,176
5	04-Aug-23	Hold	8,224	7,917
6	04-Jul-23	Hold	7,805	7,690
7	11-May-23	BUY	7,706	6,690
8	06-Apr-23	BUY	7,280	6,535

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	Accumulate	2,244	2,044
2	Bajaj Electricals	Hold	997	1,065
3	Century Plyboard (I)	BUY	848	748
4	Cera Sanitaryware	Accumulate	8,486	7,540
5	Crompton Greaves Consumer Electricals	BUY	384	283
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)

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

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