

9 December 2024

Cera Sanitaryware

Soft H1, but management confident of better days ahead; retaining a Buy

Cera Sanitaryware's H1 remained soft as revenue was flat at Rs8.9bn. EBITDA declined 11.4% y/y, while PAT inched up 1.7% y/y to Rs1.2bn. Demand was subdued in H1, led by heatwaves in some regions, slowdown due to general elections in Q1 and prolonged rains in Q2. Input cost pressure hurt the gross margin, which fell 21bps y/y to 53.6%. Operating de-leverage hurt the EBITDA margin, which dipped 190bps y/y to 14.6%.

Products launched post 2021 contribute 1/3rd of revenue. Products launched post 2021 contributed 34% to revenue, demonstrating the company's focus on expanding offerings through innovation.

Price hikes, operational efficiency to aid margins. Price hikes of 1%/6% for sanitaryware/faucets in Sep'24, coupled with reduced discounts and operational efficiency would enhance margins gradually.

Strengthening capacity to expand market share. The company is enhancing utilization in sanitaryware to 120%, from 89% now. It plans to add 1.2m pieces in the first phase of greenfield expansion in Gujarat (expected by FY27), with Rs3bn revenue potential on optimal utilization. Faucet capacity is being expanded to 4,00,000 pieces pa, with utilization at 93% now.

Robust guidance for FY26 and beyond. Management expects retail demand revival in H2 FY25, with high single-digit growth in sanitaryware and faucets. The EBITDA margin is guided to 16-17% on cost optimization and price adjustments. Revenue growth guidance of 20%+ is retained for FY26, with revenue likely reaching Rs29bn by FY27. Management is focused on scaling revenue contribution from the luxury segment to 10% by FY30.

Outlook, Valuation. We expect 10%/13%/10% revenue/EBITDA/PAT CAGRs during FY24-27. Though the growth rate seems lower, the lean balance sheet with Rs7.9bn net cash surplus in FY24 (surplus of Rs11.9bn likely by FY27, despite capex of Rs1.7bn) made us retain our Buy rating, with a 12-mth TP of Rs9,899, 40.6x FY27e earnings (earlier Rs8,740, 35x FY26e earnings).

Key financials (YE Mar)	FY23	FY24	FY25e	FY26e	FY27e
Sales (Rs m)	18,105	18,794	19,969	22,215	25,339
Net profit (Rs m)	2,094	2,390	2,377	2,686	3,169
EPS (Rs)	161.0	183.8	182.8	206.5	243.7
PE (x)	48.9	42.8	43.1	38.1	32.3
EV / EBITDA (x)	32.0	31.1	30.0	25.5	20.8
P/BV (x)	8.7	7.6	7.0	6.6	5.5
RoE (%)	19.1	19.0	17.0	17.8	18.4
RoCE (%)	18.3	17.6	16.0	22.6	23.7
Dividend yield (%)	0.6	0.8	1.0	1.3	1.6
Net debt/ equity (x)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)

Source: Company, Anand Rathi Research

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Rating: **Buy**

Target Price (12-mth): Rs.9,899

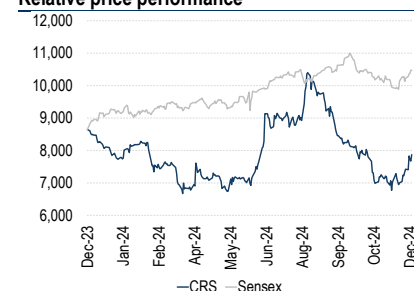
Share Price: Rs.7,870

Key data	CRS IN / CERA.BO
52-week high / low	Rs11500 / 6551
Sensex / Nifty	81766 / 24708
3-m average volume	\$1.9m
Market cap	Rs101bn / \$1198.7m
Shares outstanding	13m

Shareholding pattern (%)	Sep'24	Jun'24	Mar'24
Promoters	54.4	54.5	54.5
- of which, Pledged	-	-	-
Free float	45.6	45.5	45.5
- Foreign institutions	22.9	21.4	21.9
- Domestic institutions	6.1	7.3	6.6
- Public	16.6	16.8	17.0

Estimates revision (%)	FY25e	FY26e
Revenue	(6.4)	(9.2)
EBITDA	(8.5)	(8.2)
PAT	(15.1)	(17.3)

Relative price performance



Source: Bloomberg

Rishab Bothra
Research Analyst

Quick Glance – Financials and Valuations

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Net revenues	18,105	18,794	19,969	22,215	25,339
Growth (%)	25.2	3.8	6.3	11.3	14.1
Direct costs	8,246	8,828	9,672	10,587	11,878
SG&A	6,857	6,934	7,176	7,984	9,106
EBITDA	3,002	3,033	3,120	3,645	4,355
EBITDA margins (%)	16.6	16.1	15.6	16.4	17.2
- Depreciation	326	365	407	424	434
Other income	284	595	562	486	475
Interest expenses	60	58	63	59	55
PBT	2,849	3,188	3,211	3,648	4,342
Effective tax rate (%)	25.9	24.3	25.0	25.0	25.0
+ Associates / (Minorities)	-16	-23	-31	-50	-88
Net income	2,094	2,390	2,377	2,686	3,169
Adjusted income	2,094	2,390	2,377	2,686	3,169
WANS	13.0	13.0	13.0	13.0	13.0
FDEPS (Rs)	161.0	183.8	182.8	206.5	243.7
FDEPS growth (%)	36.9	14.1	-0.5	13.0	18.0
Gross Margin (%)	54.5	53.0	51.6	52.3	53.1

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
PBT (Ad. OI and interest)	2,849	3,188	3,211	3,648	4,342
+ Non-cash items	326	365	407	424	434
Oper. prof. before WC	3,175	3,554	3,619	4,072	4,776
- Incr. / (decr.) in WC	(283)	67	(87)	(320)	(479)
Others incl. taxes	(669)	(666)	(740)	(853)	(1,031)
Operating cash-flow	2,223	2,955	2,792	2,898	3,266
- Capex (tang. + intang.)	(514)	(655)	(628)	(586)	(534)
Free cash-flow	1,709	2,300	2,164	2,312	2,732
Acquisitions	-	-	-	-	-
- Div. (incl. buyback & taxes)	(650)	(780)	(975)	(1,301)	(1,626)
+ Equity raised	-	-	-	-	-
+ Debt raised	(13)	(49)	(3)	(13)	(14)
- Fin investments	(1,006)	(1,413)	-	-	-
- Misc. (CFI + CFF)	73	52	(431)	(425)	1,489
Net cash-flow	112	110	755	574	2,582

Source: Company, Anand Rathi Research

Fig 5 – Price movement

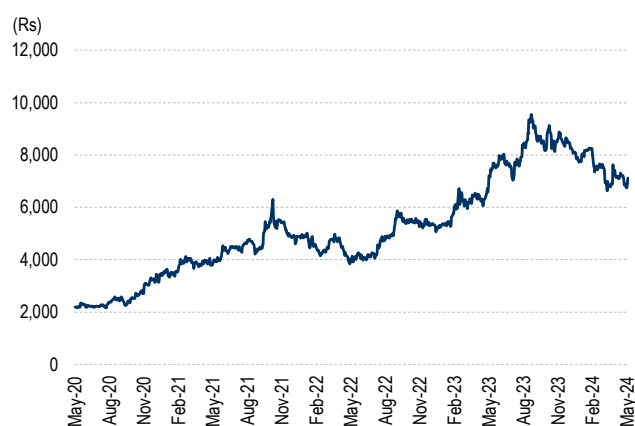


Fig 2 – Balance sheet (Rs m)

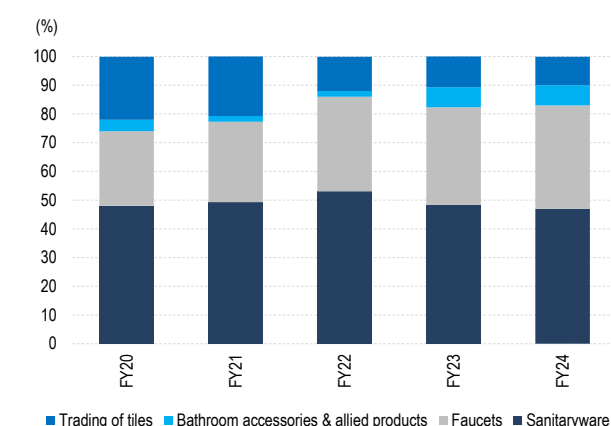
Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
Share capital	65	65	65	65	65
Net worth	11,661	13,393	14,470	15,530	18,699
Debt	253	205	201	188	175
Minority interest	106	128	156	188	219
DTL / (Assets)	376	482	482	482	482
Capital employed	12,462	14,272	15,374	16,453	19,640
Net tangible assets	3,138	3,499	3,749	3,937	4,062
Net intangible assets	251	215	215	215	215
Goodwill	5	10	10	10	10
CWIP (tang. & intang.)	169	130	100	75	50
Investments (strategic)	283	271	271	271	271
Investments (financial)	6,345	7,769	7,769	7,769	7,769
Current assets (excl. cash)	596	527	498	458	428
Cash	262	372	1,127	1,701	4,282
Current liabilities	2,235	2,393	2,502	2,586	2,698
Working capital	3,647	3,872	4,137	4,603	5,250
Capital deployed	12,462	14,273	15,374	16,453	19,640
Contingent liabilities	74	79	-	-	-

Fig 4 – Ratio analysis

Year-end: Mar	FY23	FY24	FY25e	FY26e	FY27e
P/E (x)	48.9	42.8	43.1	38.1	32.3
EV / EBITDA (x)	32.0	31.1	30.0	25.5	20.8
EV / Sales (x)	5.3	5.0	4.7	4.2	3.6
P/B (x)	8.7	7.6	7.0	6.6	5.5
RoE (%)	19.1	19.0	17.0	17.8	18.4
RoCE (%) - after tax	18.3	17.6	16.0	22.6	23.7
RoIC (%)	37.2	39.3	37.4	39.9	43.9
DPS (Rs)	50.0	60.0	75.0	100.0	125.0
Dividend yield (%)	0.6	0.8	1.0	1.3	1.6
Dividend payout (%) - incl. DDT	31.1	32.7	41.0	48.4	51.3
Net debt / equity (x)	(0.5)	(0.6)	(0.6)	(0.6)	(0.6)
Receivables (days)	38	39	40	40	40
Inventory (days)	77	71	70	70	70
Payables (days)	42	35	34	34	34
CFO : PAT %	106.2	123.6	117.4	107.9	103.1

Source: Company, Anand Rathi Research

Fig 6 – Revenue mix



Financial Highlights

Fig 7 – Quarterly trend

(Rs m)	Q2 FY24	Q1 FY25	Q2 FY25	% Y/Y	%Q/Q	H1 FY24	H1 FY25	% Y/Y	FY23	FY24	% Y/Y
Revenue	4,631	4,007	4,926	6.4	22.9	8,917	8,933	0.2	18,105	18,794	3.8
Raw material cost	2,186	1,812	2,337	6.9	29.0	4,123	4,149	0.6	8,246	8,828	7.1
Employee costs	585	589	636	8.8	8.1	1,161	1,225	5.5	2,147	2,309	7.6
Other expenses	1,095	1,026	1,231	12.5	20.0	2,164	2,257	4.3	4,710	4,624	(1.8)
EBITDA	765	581	721	(5.7)	24.2	1,469	1,302	(11.4)	3,002	3,033	1.0
Other income	125	159	178	41.7	11.7	278	337	21.1	284	595	109.7
Depreciation	89	90	107	20.2	19.4	172	197	14.2	326	365	12.1
Finance costs	14	13	26	91.6	108.4	27	39	43.7	60	58	(3.8)
PBT	772	637	765	(0.8)	20.1	1,532	1,403	(8.4)	2,849	3,188	11.9
Tax	198	163	79	(60.0)	(51.4)	391	242	(38.1)	738	775	5.0
PAT	569	471	680	19.5	44.5	1,132	1,150	1.6	2,094	2,390	14.1
EPS (Rs)	43.8	36.2	52.7	20.5	45.7	87.0	89.2	2.5	161.0	183.8	14.1

				bps y/y	bps q/q			bps y/y			bps y/y
Gross Margin	52.8	54.8	52.6	(24)	(222)	53.8	53.6	(21)	54.5	53.0	(142)
Employee Cost	12.6	14.7	12.9	29	(177)	13.0	13.7	69	11.9	12.3	43
Other Operating Cost	23.6	25.6	25.0	135	(60)	24.3	25.3	100	26.0	24.6	(141)
EBITDA Margin	16.5	14.5	14.6	(188)	15	16.5	14.6	(190)	16.6	16.1	(44)
Other Income	2.7	4.0	3.6	90	(36)	3.1	3.8	65	1.6	3.2	160
Depreciation	1.9	2.2	2.2	25	(6)	1.9	2.2	27	1.8	1.9	14
Interest Expenses	0.3	0.3	0.5	24	22	0.3	0.4	13	0.3	0.3	(2)
PBT	16.7	15.9	15.5	(113)	(37)	17.2	15.7	(148)	15.7	17.0	123
Tax Rate	25.6	25.5	10.3	(1,529)	(1,521)	25.5	17.2	(828)	25.9	24.3	(160)
PAT Margin	12.4	11.8	13.9	154	209	12.8	13.0	20	11.7	12.8	118

Source: Company, Anand Rath Research

Q2 FY25 Results highlights, analysis

- Revenue rose 6.4% y/y to Rs4.9bn.
- Input cost pressures persisted; however, the change in product mix restrained the contraction in gross margin at 24bps y/y to 52.6%, leading to gross profit of Rs2.6bn (up 5.9% y/y).
- Operating de-leverage led to EBITDA dropping 5.7% y/y to Rs721m, resulting in the EBITDA margin at 14.6%, down 188bps y/y. Employee/other operating expenses grew 8.8%/12.5% y/y.
- PAT rose at a healthy 19.6% y/y to Rs686m, owing to higher, 41.7% y/y, other income and a lower tax rate (10.3% vs. 25.6% in Q2 FY24, largely due to reversal of deferred tax), despite 20.2%/1.9x y/y higher depreciation/interest expenses.

Other details

- Net working capital increased 5% to Rs4.1bn vs. Mar'24. Net working capital requirement grew 8 days to 83, largely led by higher inventory days.
- Net cash surplus was 20.6% lower, compared to Mar'24, owing to increased working capital requirement, a marginal reduction in debt and payment made w.r.t buyback of shares.
- The company extinguished 108,333 shares, which were bought back at Rs12,000/piece under the tender route.

Q2 FY25 earnings call KTAs

- Revenue grew 6.4% y/y, despite Q2 being challenging owing to extended monsoons. Revenue growth was supported by faucets (up 23% y/y) as sanitaryware remained soft.
- Revenue derived from products launched in the last three years was 34%.
- Though retail demand has been subdued, management remains optimistic as it expects rural demand to pick up.
- Projects/B2B business to fare well as buoyancy in real estate continues and projects, which sold immediately post Covid are nearing completion.

Revenue mix

- **City-wise:** 34%/21%/45% for tier 1/2/3
- **Customer-wise:** 73%/27% for B2C/B2B
- **Brand category-wise:** 41%/34%/25% for premium/mid/entry
- **Geography-wise:** 33%/99%/21%/36% for north/west/east/south
- **Product-wise:** 46%/41%/10%/3% for sanitaryware (53% in Q2FY24) /faucets (36% in Q2FY24)/tiles/ wellness, -6%/+20%/-11%/+38% y/y.

Realisations, input cost and other operating costs

- The company hiked prices by 1%/6% in Sep'24 for sanitaryware/faucets and lowered discounts (granted earlier to boost sales in a challenging environment). The impact of price hikes would be seen ahead.
- The company receives gas at subsidized rates from GAIL vs. the market rate from Sabarmati. Gas procured from GAIL rose to 76% (70% in Q2 FY24), hence, management expects some easing in blended gas pricing.
- Average gas price from GAIL/Sabarmati were Rs28.5/Rs53.9 per cu.mtr vs. Rs28.7/Rs44.5 per cu.mtr same period last year. The blended gas price was Rs33.9/cu.mtr, which was lower than the industry average.
- Power & fuel cost constitute ~2% of revenue. ASP spends enhanced marginally to Rs160m.

Others

- Owing to increased demand for electronic, touch-free products, the company is enhancing its offerings in the premium segment.
- Management is strengthening its distribution reach in tier-3/-4 towns, considering the increase in demand.
- It is scaling the B2B business cautiously, keeping margins and cashflow as top priorities.
- Net working capital rose by 10 days to 70, led by increase of 7/4 in inventory/debtor days to 80/33 and creditor days falling by a day to 41.
- Cash surplus was lower by 12.3% to Rs6.6bn vs. Mar'24, owing to Rs1.3bn spent on buyback of 108,333 shares at Rs12,000 a piece.

Capacity and capex

- Utilization in sanitaryware at 89%, which can be enhanced to 120%.

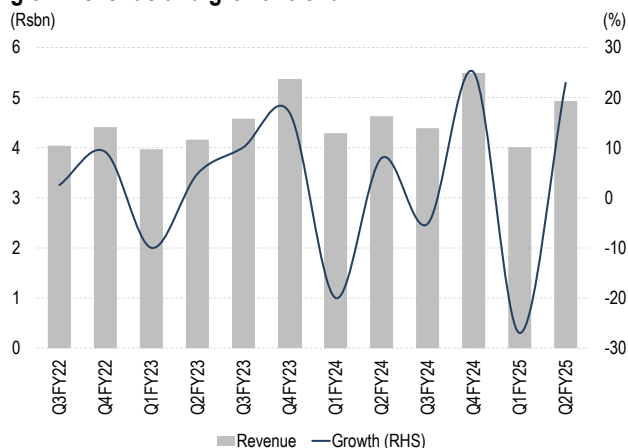
- Faucet capacity is being expanded by 100,000 pieces to 400,000; utilisation at 93% now.
- The company incurred capex of Rs110m in H1 and expects to close FY25 at Rs250m capex.
- It acquired land in Gujarat for a greenfield facility for sanitaryware. It would commence construction in Q1 FY26 (commissioning in 18 months; from thereon, in two phases. First phase to expand capacity by 1.2m pieces pa) as management hopes by then it will reach peak utilization in existing capacity. Capex required for the greenfield facility is Rs1.3bn; annual revenue potential is Rs3bn on optimal utilisation.

Outlook and guidance

- Retail business would see a pick-up post H2. Management expects high single digit growth in sanitaryware and faucets during FY25.
- It hiked prices and guided to 16-17% EBITDA margin.
- Management aims to scale up revenue from the luxury segment to 10% in the next five years.
- It maintained its revenue growth guidance of 20%+ for FY26 and aspires for Rs29bn revenue by FY27 (revenue from the greenfield expansion in sanitaryware is not considered).

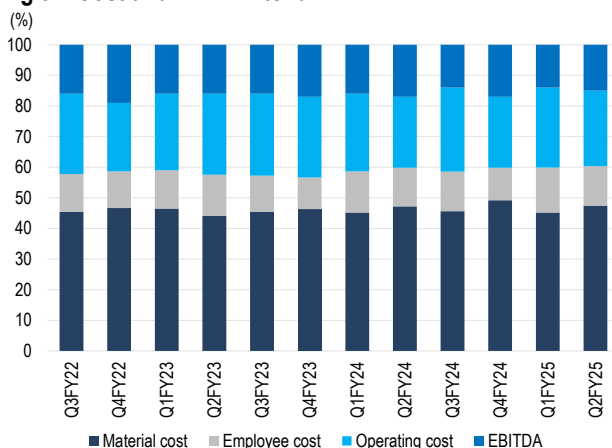
Story in charts

Fig 8 – Revenue and growth trend



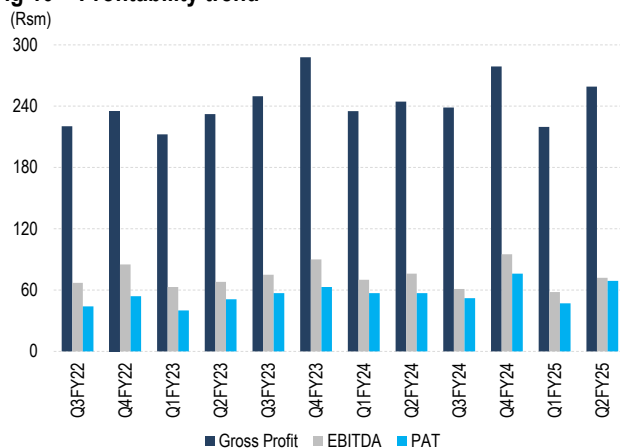
Source: Company, Anand Rathi Research

Fig 9 – Cost and EBITDA tend



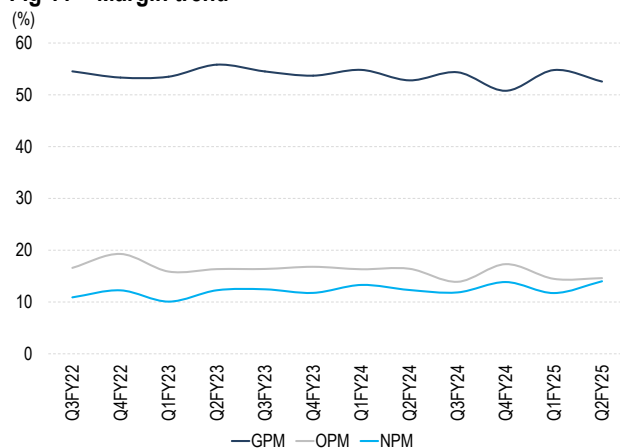
Source: Company, Anand Rathi Research

Fig 10 – Profitability trend



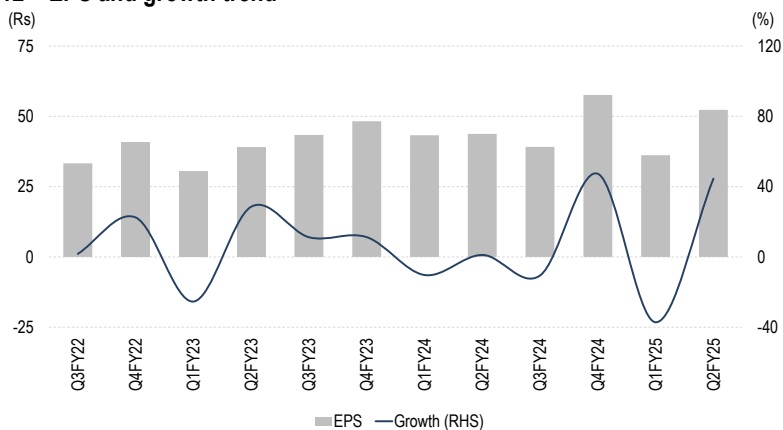
Source: Company, Anand Rathi Research

Fig 11 – Margin trend

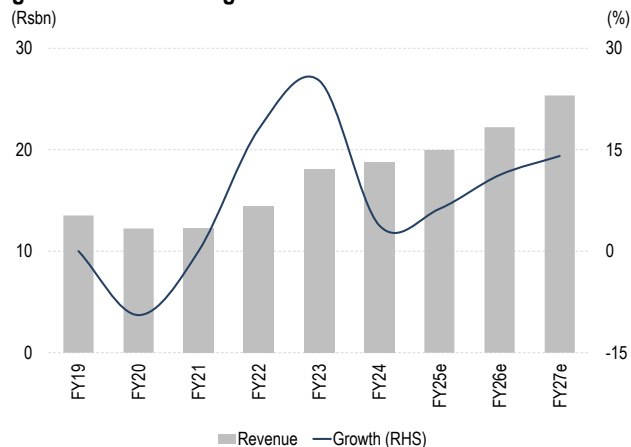


Source: Company, Anand Rathi Research

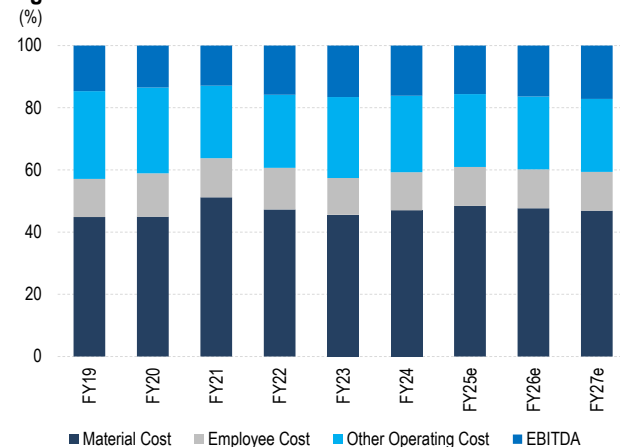
Fig 12 – EPS and growth trend



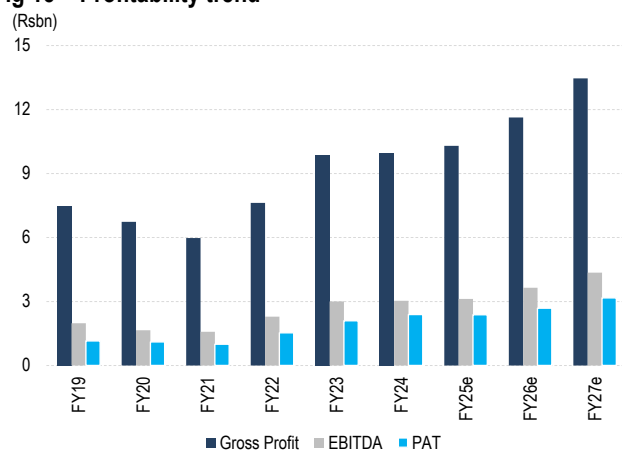
Source: Company, Anand Rathi Research

Fig 13 – Revenue and growth trend

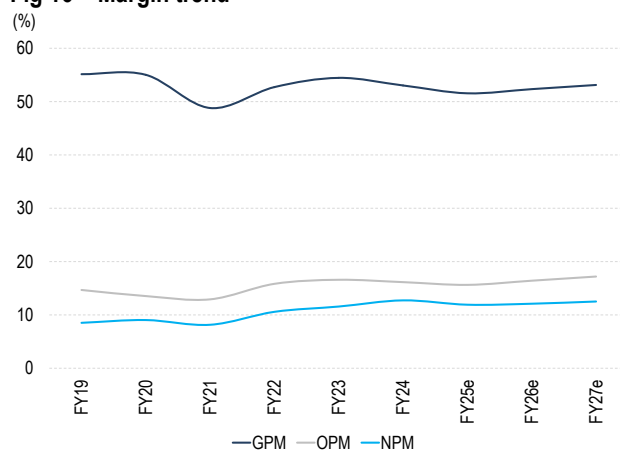
Source: Company, Anand Rathi Research

Fig 14 – Cost and EBITDA trend

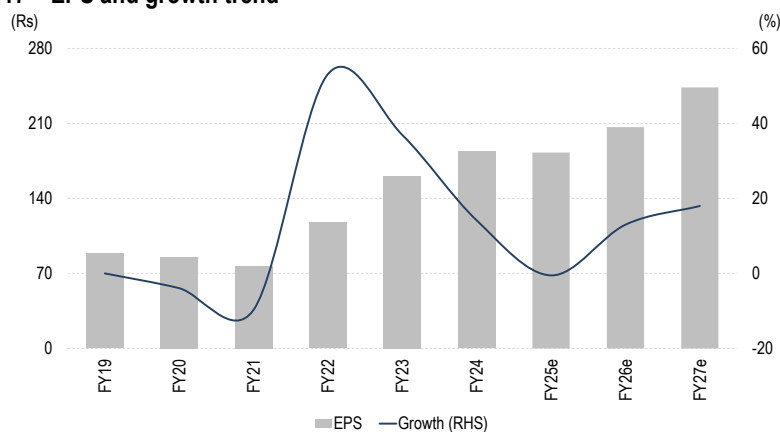
Source: Company, Anand Rathi Research

Fig 15 – Profitability trend

Source: Company, Anand Rathi Research

Fig 16 – Margin trend

Source: Company, Anand Rathi Research

Fig 17 – EPS and growth trend

Source: Company, Anand Rathi Research

Outlook & Valuations

Robust guidance for FY26 and beyond. Management expects retail demand revival in H2 FY25, with high single-digit growth in sanitaryware and faucets. The EBITDA margin is guided to 16-17%, supported by cost optimization and price adjustments. Management maintained its revenue growth guidance of 20%+ for FY26, with revenue likely reaching Rs29bn by FY27. It remains focused on scaling revenue contribution from the luxury segment to 10% by FY30.

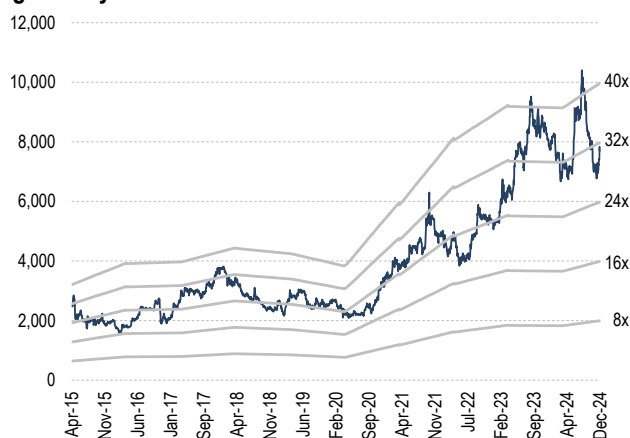
We expect revenue/EBITDA/PAT CAGRs of 10%/13%/10% during FY24-27. Though the growth rate seems lower, the lean balance sheet with net cash surplus of Rs7.9bn in FY24 (likely surplus of Rs11.9bn by FY27, despite capex of Rs1.7bn) made us retain our Buy rating, with a TP of Rs9,899, 40.6x FY27e earnings (earlier Rs8,740, 35x FY26e earnings).

Fig 18 – Change in estimates

(Rs m)	Old			New			Change (%)		
	FY25e	FY26e	FY27e	FY25e	FY26e	FY27e	FY25	FY26	FY27
Sales	21,329	24,474	-	19,969	22,215	25,339	(6.4)	(9.2)	-
EBITDA	3,409	3,971	-	3,120	3,645	4,355	(8.5)	(8.2)	-
EBITDA margin (%)	16.0	16.2	-	15.6	16.4	17.2	(36)	18	-
PAT	2,801	3,248	-	2,377	2,686	3,169	(15.1)	(17.3)	-
EPS (Rs)	215.4	249.7	-	182.8	206.5	243.7	(15.1)	(17.3)	-

Source: Anand Rathi Research

Fig 19 – 1 year forward PER band



Source: Company, Anand Rathi Research

Fig 20 – Mean and SD



Source: Company, Anand Rathi Research

Risks

- Slowdown in the economy, especially real estate, might impact offtake.
- Input cost pressure might dent margins, if not adequately managed.
- Increased competition might result in lower realisation, in a bid to maintain market share.

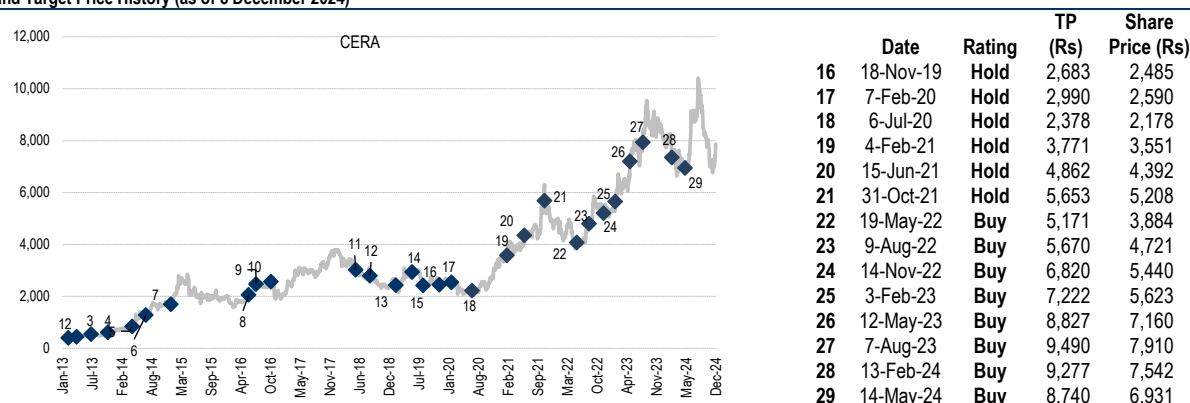
Appendix

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Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (Top 100 companies)	>15%	0-15%	<0%
Mid Caps (101st-250th company)	>20%	0-20%	<0%
Small Caps (251st company onwards)	>25%	0-25%	<0%

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