

CERA SANITARYWARE LTD.

16th Nov 2019

Initiating Coverage (BUY)

CMP INR 2,441

Target Price INR 3,077

Stock Details

Industry	Furniture, Furnishing, Paints
Bloomberg Code	CRS:IN
BSE Code	532443
Face Value (Rs.)	5.00
Market Cap. (Rs. Cr.)	3,174.80
52wk. Low/High (Adjusted) (Rs.)	2,151.00 / 3,180.00

Shareholding Pattern Mar '19

Promoter (%)	54.74
FII (%)	7.77
DII (%)	13.27
Public - Other (%)	24.10
No. of Share Outstanding (Cr.)	1.30

Valuation Summary

	FY 18A	FY 19A	FY 20P	FY 21P
P/E (x)*	42.41	27.58	26.00	25.00
EV/EBITDA (x)	23.02	14.90	14.99	14.34
P/BV (x)	7.22	4.53	4.34	4.23

*TTM for Current Year

 Based on Market Price as on 1st Apr is taken for Each FY

Key Financial

Rs. Lakhs	FY 18A	FY 19A	FY 20P	FY 21P
Net Sales	119,982	137,011	154,252	176,262
EBITDA	19,183	21,681	23,630	27,031
Net Profit	10,606	11,515	13,617	16,010
EPS (Rs.)*	79.3	88.5	104.7	123.1

*Un adjusted

Key Ratios

	FY 18A	FY 19A	FY 20P	FY 21P
EBITDA Margin (%)	12.8	14.3	13.8	13.0
EBIT Margin (%)	10.5	12.2	11.8	11.2
Net Pro. Margin (%)	5.4	6.7	6.8	6.4
Debt/Equity (x)	0.79	0.65	0.54	0.46
RoNW (%)	24.9	28.3	26.4	24.1
RoCE (%)	12.3	14.7	14.8	14.4

One Year Price / Volume



We recommend 'BUY' on CERA SANITARYWARE LTD for a target of INR 3077 - valuing the company at P/E 25x of FY21E Earning.

INVESTMENT RATIONALE:

- Largest Market Share, Deep Customer Connect and Elevated Brand Promise
- Robust Financial Position
- Wide Product Portfolio incorporating Design Excellence and Deep Technology Imprint
- Wide Distribution Network and Comprehensive Marketing Infrastructure
- Experienced Proficient Leadership with zero attrition in Senior Management over last decade
- Zero Debt Company, Free Cash Flow Positive with Robust Cash Position
- Industry leading RoCE, Consistent cash generation each year
- Currently 2,700 Style Centre operational, 136 CERA Style Galleries and 14,000 + Trade Partners. Over 600 CSCs planned in the next 2 financial years

VALUATIONS AND VIEW:

CERA is an attractive stock for growth-seeking investors, with an expected double digit earnings growth in the upcoming year which is expected to flow into an impressive return on equity of 24% over the next couple of years. The stock price is available at a discount value compared to industry average. We value the business at 25x FY21E EPS and recommend a BUY rating on the stock with a target price of INR 3077 per share.

RISK & CONCERNS:

- **High Competition from other players:** The company remains exposed to stiff competition from larger established companies and small regional players which have mushroomed across the country and has added to competitive intensity of the industry. Hence, the biggest challenge for the industry players would be scaling up their regional presence to a national level while maintaining highest quality standards. However, an established brand name enables CERA to have an edge over its competition.
- **Impact of Overall Real Estate Market Downtrend:** Currently the real estate market in India is going through a touch time and as the inventory level is its high, new launch of projects are in its low peace. The future growth in Indian real estate market will have some bearings on the overall demands of the CERA's product.
- **Change in Government Policy:** Any drastic change in Government policy may affect the Company.

COMPANY BACKGROUND:

CERA Sanitaryware Limited, India's fastest growing company in the segment. Cera Sanitaryware (Cera) is among the top 3 players in the Indian sanitaryware industry having a stronghold over the mid and premium segments. An extensive product portfolio that includes high end showers, steam cubicles, and whirlpools, besides sanitaryware and faucets, has made CERA the primary choice of customers looking for stylish products in a contemporary lifestyle.

Advanced technology has been the forte of CERA. Its state-of-the-art manufacturing plant has been following the highest standards of quality with an emphasis on sustainability since its inception in 1980. The CERA plant was the first to use natural gas – the purest fuel that gives extra sheen on products. Production capacity of sanitaryware has raised from 2.70 million pieces to 3.0 million pieces per annum. CERA plans to maintain its leadership status in the industry, while catering to increasing demands with satisfaction.

Businesses

- Manufacturing, selling, and marketing of Sanitaryware, faucets, Tiles, Water heaters, BIM Products and Others

INDUSTRY OVERVIEW:

Sanitaryware industry expected to grow at 10%-12%: Indian sanitaryware market is expected to post a 10%-12% volume CAGR over FY20-FY22E, recovering from 7%-8% growth witnessed in the past two years. Luxury segment (15% of the market) is expected to grow at 15% while the mass and premium segments (40% and 45% of the market, respectively) are expected to grow 8% & 7%, respectively. The rising growth rate is the result of higher housing approval under Pradhan Mantri Awas Yojana and strong replacement demand among other factors.

22% CAGR likely in faucet and tile segments: We expect CERA to grow its faucet and tile business at 22% CAGR each over FY20-FY22E. Higher growth in these businesses is because of their low base and should help support growth in the sanitaryware segment. 85% of Cera's tile sale volume consists of low-margin soluble salt category, and the remaining is premium category PVT/GVT tiles. The company is working to reverse this ratio over which should result in margin expansion for the segment as well. Cera is well placed to deliver growth with ongoing tile capacity expansion, product diversification, premiumisation and distribution channel expansion. The company also enjoys tailwinds from growing urbanization, better housing affordability and shrinking unorganized entities.

PEER COMPARISON

Company	CMP (Rs)	P/E*	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Kajaria Ceramics	524	30.1	8,335.4	0.57	93.2	78.25	714.7	(1.47)	5.02
Somany Ceramics	179	9.0	757.5	1.12	8.8	536.73	422.3	7.90	1.23
Asian Granito	230	20.1	693.1	0.26	12.7	186.71	356.9	26.33	1.38
Orient Bell	118	29.4	168.1	0.42	1.1	(76.19)	122.8	(16.85)	0.72
Nitco	23	-	164.9	-	(27.8)	(82.81)	128.5	(4.43)	2.34
Murudesh Ceramic	16	8.1	76.8	-	6.2	680.00	22.9	(11.54)	0.23
Restile Ceramics	2	-	24.5	-	(1.8)	(16.56)	0.8	(15.79)	-
Cera Sanitary.	2,441	27.6	3,174.8	0.53	29.6	3.58	329.4	(0.90)	4.53

*TTM

FINANCIAL OVERVIEW

(in Cr.)						Q1 FY20 Performance Highlight	
	Jun FY19	Sep FY19	Dec FY19	Mar FY19	Jun FY20	YoY (%)	QoQ (%)
Revenue	330.98	318.83	413.09	267.35	327.23	-1.13%	22.40%
Other Income	3.97	4.06	5.68	2.92	4.08		
Total Income	334.95	322.88	418.78	270.27	331.31	-1.09%	22.58%
Expenditure	-285.91	-273.53	-350.79	-233.28	-286.67		
As a % of Sales	86.38%	85.79%	84.92%	87.26%	87.61%		
Interest	-0.5	-0.65	-1.49	-1.14	-1.03	106.00%	-9.65%
PBDT	49.04	49.36	67.98	37	44.63		
As a % of Sales	14.82%	15.48%	16.46%	13.84%	13.64%		
Depreciation	-5.61	-5.59	-6.68	-7.68	-7.93		
PBT	43.44	43.76	61.3	29.32	36.7	-15.52%	25.17%
As a % of Sales	13.12%	13.73%	14.84%	10.97%	11.22%		
Tax	-15.29	-15.4	-23.26	-10.25	-6.67	-56.38%	-34.93%
Net Profit	28.14	28.36	38.04	19.08	30.03	6.72%	57.39%
As a % of Sales	8.50%	8.90%	9.21%	7.14%	9.18%		
Equity	6.5	6.5	6.5	6.5	6.5	0.00%	0.00%
EPS (Rs)	21.64	21.8	29.25	14.67	23.09	6.70%	57.40%
CEPS (Rs)	25.95	26.1	34.38	20.57	29.19		
OPM %	14.82	15.48	16.46	13.84	13.64		
NPM %	8.5	8.89	9.21	7.13	9.18		

Income Statement (Consolidated)

Y/E Mar (Rs Lakhs)	FY 16A	FY 17A	FY 18A	FY 19A	FY 20P	FY 21P	FY 22P
Net Sales	93,369	100,853	118,534	135,155	152,725	174,107	198,481
Other Operating Income	997	1,457	1,448	1,856	1,527	2,156	2,392
Expenditure	79,241	83,294	100,799	115,330	130,622	149,231	168,972
EBITDA	15,125	19,016	19,183	21,681	23,630	27,031	31,901
Depreciation	1,632	2,215	2,714	2,798	2,929	2,932	2,934
EBIT	13,493	16,801	16,469	18,883	20,701	24,099	28,967
Interest Expenses	546	985	976	854	1,109	1,183	1,396
PBT	12,946	15,816	15,492	18,029	19,592	22,916	27,571
Tax	4,600	5,802	4,880	6,519	5,976	6,906	8,210
Other Income	-	-	-	-	-	-	-
Extraordinary Items	-	-	-	-	-	-	-
Net Income Before Adjustment	8,346	10,014	10,612	11,510	13,617	16,010	19,361
Minority Int./Income from Assoc.	-	27	7	(5)	-	-	-
Adjusted PAT	8,346	9,987	10,606	11,515	13,617	16,010	19,361

Balance Sheet (Consolidated)

Y/E Mar (Rs Lakhs)	FY 16A	FY 17A	FY 18A	FY 19A	FY 20P	FY 21P	FY 22P
Equity share capita	650	650	650	650	650	650	650
Reserves & surplus	41,448	51,565	59,912	69,441	80,905	94,020	109,880
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	42,098	52,215	60,562	70,091	81,556	94,670	110,531
Minority Interest	1,640	388	674	1,033	1,069	1,069	1,070
Share Application Money	-	-	-	-	-	-	-
Loan Funds	3,691	5,941	6,261	6,207	6,207	6,207	6,207
Net deferred tax liability	3,439	4,091	3,905	4,360	4,360	4,360	4,360
Other Long-term Liabilities	983	-	17	16	18	20	23
Long-term Provisions	4,024	670	686	667	753	859	979
Total Liabilities	55,876	63,307	72,106	82,376	93,963	107,187	123,171
Net block	29,489	34,507	36,503	40,487	37,555	34,962	32,410
Investment, Loan & Adv.	3,716	3,934	4,211	4,585	5,370	8,447	11,335
Total Current Assets	47,153	56,019	63,893	74,009	90,944	117,089	143,111
Current Liabilities & Provisions	24,482	31,154	32,501	36,707	39,906	53,313	63,687
Net Current Assets	22,671	24,864	31,392	37,302	51,037	63,776	79,424
Total Assets	55,876	63,307	72,107	82,376	93,963	107,187	123,171

Cash Flow (Consolidated)

Y/E Mar (Rs Lakhs)	FY 19A	FY 20P	FY 21P	FY 22P
Operating Cash Flow	12,442	4,358	14,735	14,585
Cash Flow from Investments	(11,042)	(1,119)	(3,417)	(3,270)
Cash Flow from Financing	(2,901)	2,095	1,565	1,019
Net Changes in Cash	(1,501)	5,333	12,884	12,334
Opening Cash	2,168	667	6,001	18,884
Closing Cash Balance	667	6,001	18,884	31,218

Research Analyst Details

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