

India

ADD (no change)

Consensus ratings*: Buy 14 Hold 2 Sell 0

Current price:	Rs4,701
Target price:	Rs5,744 ▲
Previous target:	Rs5,350
Up/downside:	22.2%
InCred Research / Consensus:	12.1%
Reuters:	CERA.NS
Bloomberg:	CRS IN
Market cap:	US\$769m Rs61,135m
Average daily turnover:	US\$1.2m Rs92.1m
Current shares o/s:	13.0m
Free float:	45.5%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue up 9.2%.
- FY23F/24F EBITDA up 9.2%.
- FY23F/24F APAT up 7.6%/7.4%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	12.3	16.2	2.2
Relative (%)	2.4	11.0	(4.5)

Major shareholders	% held
Promoters	54.5
Nalanda India Equity Fund	10.0
L&T Mutual Fund Trustee Limited	2.5

Analyst(s)



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Cera Sanitaryware

Focuses on growing higher than the industry

- 1QFY23 revenue beats our estimate by 15%. SW up 85% and FW 90%. Operating leverage leads to a 670bp yoy EBITDA margin (15.8%) expansion.
- Subdued imports continue to benefit domestic SW manufacturers. Capacity expansion plan is on track. Cera added 50k pieces FW capacity in 1QFY23.
- Market share stability, capacity constraints and employee attrition have been addressed. Retain Add rating on the stock with a higher TP of Rs5,744.

1QFY23 results beat ours and Bloomberg consensus estimates

Cera posted robust 1QFY23 results. Revenue/EBITDA/APAT grew 74%/201%/223% yoy on a low base (Covid-19 impact), beating our and Bloomberg consensus estimates by 16%/16%/5% and 14%/12%/0%, respectively. Sanitaryware (SW), faucetware (FW) and tile segments contributed 54%, 35% and 10% to total sales, registering a growth of 85%,90% and 9% yoy, respectively. Gross margin expanded 670bp qoq (-550bp yoy) led by price hikes in FY22 (SW 21%, FW 26%) and 1QFY23 (SW 3%, FW 5%). EBITDA margin expanded ~670bp yoy to 15.8% led by operating leverage benefits. EBITDA/APAT stood at Rs628m/395m, respectively. Net working capital stood at 61 days of sales. Cash balance as at end-Jun 2022 stood at Rs5.7bn. OCF came in at Rs490m.

Robust demand and subdued imports continue to favour Cera

Encouraging demand for home improvement continued to favour demand for SW and faucetware during 1Q. Simultaneously, high freight cost for imports from China favoured domestically produced SW products. This helped Cera to pass on bulk of the price increase to consumers, while maintaining its volume growth (indicating low price elasticity). We expect this robust demand to continue and Cera to meet incremental demand by outsourcing products, as in-house capacity utilization remains high (110% for SW and 103% for FW). We expect gross and EBITDA margins to improve from 2QFY23F led by easing commodity prices and operating leverage benefits. Cera's capex plans are on schedule. 1,00,000 pieces faucet capacity (Rs690m) will be added in 1QFY24F. Cera is in the process of buying land for its greenfield SW plant (budgeted capex: Rs1.3bn).

Change in estimates

We account for price hikes and adjust our revenue estimates to the strong 1QFY23 performance. FY23F/24F revenue and EBITDA estimates have been raised by 9.2% each. FY23F/24F APAT estimates have been increased by 7.6%/7.4%, respectively, culminating into 13%/18%/19% revenue/EBITDA/APAT CAGR, respectively, over FY20-FY24F.

Valuation

Market share stability, capacity constraints and employee attrition concerns have been addressed, in our view. Robust demand outlook and healthy cash flow are positives. Retain Add rating on Cera with a higher target price of Rs5,744 (33x FY24F EPS). Downside risk: Capex execution delay.

Financial Summary

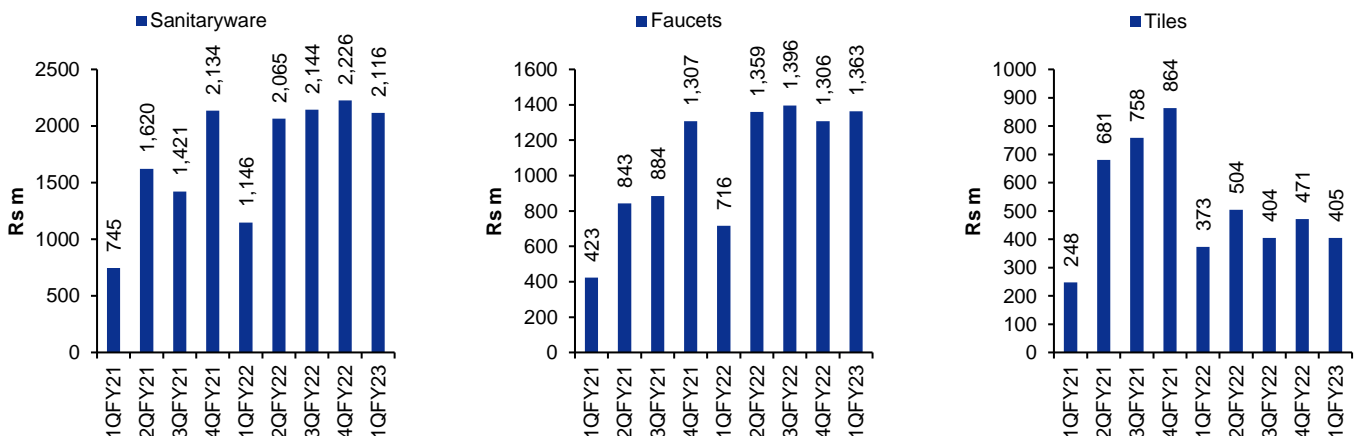
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue (Rsm)	12,114	12,177	14,458	17,775	20,080
Operating EBITDA (Rsm)	1,532	1,514	2,287	2,837	3,223
Net Profit (Rsm)	1,010	941	1,511	1,991	2,264
Core EPS (Rs)	77.6	72.4	119.4	153.1	174.1
Core EPS Growth	(6.0%)	(6.8%)	65.0%	28.2%	13.7%
FD Core P/E (x)	60.54	64.97	40.46	30.71	27.00
DPS (Rs)	13.0	13.0	35.0	24.0	28.0
Dividend Yield	0.33%	0.28%	0.74%	0.51%	0.60%
EV/EBITDA (x)	39.06	37.83	24.39	19.48	16.87
P/FCFE (x)	200.74	1,924.74	(1,023.56)	1,522.13	159.72
Net Gearing	(19.6%)	(46.3%)	(53.3%)	(50.4%)	(49.8%)
P/BV (x)	7.72	6.85	6.02	5.17	4.45
ROE	13.7%	11.5%	16.5%	18.1%	17.7%
% Change In Core EPS Estimates					
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

1QFY23 earnings-call takeaways

- Guidance:** Management gave guidance of industry-leading growth and potential 50-75bp yoy EBITDA margin expansion per year from FY23F. Further price hikes will not be required as raw material prices have started to cool off. Capacity utilization for the year is expected to be maintained at 1QFY23F levels i.e., SW 110% and FW 103%.
- Revenue:** Product-wise mix: SW segment accounted for 54% of sales, faucets 35%, tiles 10% and wellness 1%. Geographical mix: exports stood at 1% of sales, Tier-1 (population >2.5m) 30%, Tier-2 (population 1-2.5m) 13% and Tier-3 (up to 1m population) 56%. New products introduced in the last three years contributed 22% to sales (vs. ~10% of industry sales).
- Distribution:** Cera has introduced a retail loyalty programme, where it incentivizes retailers and dealers based on volume and revenue throughput. This enables the company to have better visibility on its last mile retailer network. Around 11.5k channel partners have registered on its mobile app.
- Cost:** China clay, feldspar, Plaster of Paris (PoP) which account for ~95% of the SW segment's raw material cost, saw a 2% price inflation. Glazing raw material, which accounts for ~5% of raw materials required, witnessed a 11% price increase. Cost of transportation is up 2-3% and corrugated box cost up 6% yoy.
- Natural gas price:** Gas cost accounts for ~3% of the topline. GAIL supplies ~49% of the SW segment's gas requirement and the remaining 51% is sourced from Sabarmati. GAIL's gas price was at Rs25.69/scm vs. 13.26/scm qoq. Sabarmati (JV between GSPC and BPCL) gas price was at Rs73.58/scm vs. Rs75.01/scm qoq. Cera meets 65% of its electricity requirement captively.
- Capex and Capacity:** Cera's FW automation initiatives enabled it to increase average production from 0.18m pieces in Sep 2021 to 0.25m pieces in Mar 2022 and further to 0.30m pieces in Jun 2022. Capex for faucet capacity is on track and a capacity of 0.1m pieces is expected to be added in 1QFY24F. In the SW segment, the company is in the process of finalizing land for the greenfield expansion planned at a budgeted capex of Rs1.3bn.
- Working capital:** Debtor days improved to 26 days of sales (vs. 39 days yoy), inventory days stood at 73 days (vs. 61 days yoy) and creditor days stood at 39 days (vs. 29 days yoy) in 1QFY23. Net working capital improved to 60 days (vs. 70 days yoy).
- Cash:** Net cash as at end-Jun 2022 stood at Rs5.7bn (vs. Rs4.3bn yoy). OCF for the quarter came in at Rs490m.

Figure 1: Segment-wise revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 1QFY23 results snapshot

Quarter Review					
YE Mar (Rs m)	1QFY23	1QFY22	yoy (%)	4QFY22	qoq (%)
Revenue	3,972	2,282	74.1	4,099	(3.1)
EBITDA	628	208	201.5	797	(21.2)
EBITDA margin (%)	15.8	9.1	669 bp	19.4	-363 bp
Adj. PAT	395	122	223.3	583	(32.3)
Diluted EPS (Rs)	30.4	9.4		44.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 1QFY23 segment results snapshot

Quarterly Segmental Review					
Revenue (Rs m)	1QFY23	1QFY22	yoy (%)	4QFY22	qoq (%)
Sanitaryware	2,116	1,146	84.7	2,226	(4.9)
Faucets	1,363	716	90.4	1,306	4.3
Tiles	405	373	8.6	471	(14.1)
Others	40	48	(17.1)	59	(32.3)
Sub-total	3,924	2,282	71.9	4,062	(3.4)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

Rs m	1QFY23A	1QFY23F	Var (%)
Revenue	3,972	3,416	16.3
EBITDA	628	544	15.5
EBITDA margin (%)	15.8	15.9	-11 bp
Adj. PAT	395	377	4.8

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs. Bloomberg consensus

Rs m	1QFY23A	1QFY23C	Var (%)
Revenue	3,972	3,486	14.0
EBITDA	628	560	12.2
EBITDA margin (%)	15.8	16.1	-25 bp
Adj. PAT	395	393	0.4

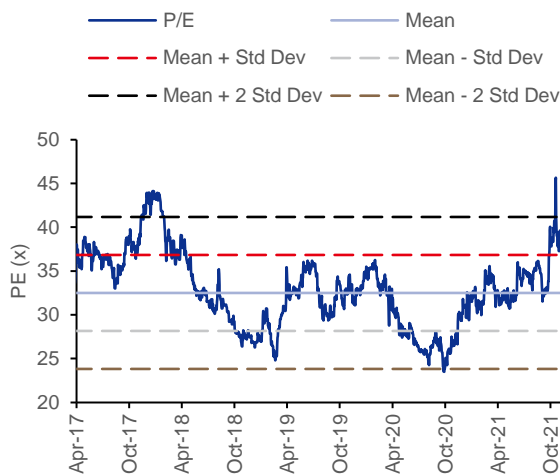
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Our revised estimates

	New estimates		Old estimates		Change (%)	
	FY23F	FY24F	FY23F	FY24F	FY23F	FY24F
Revenue	17,775	20,080	16,277	18,383	9.2	9.2
EBITDA	2,837	3,223	2,598	2,950	9.2	9.2
Adjusted consol. PAT	1,991	2,264	1,851	2,109	7.6	7.4
EPS	153.1	174.1	142.3	162.1	7.6	7.4
EBITDA margin (%)	16.0	16.1	16.0	16.1	0 bp	0 bp

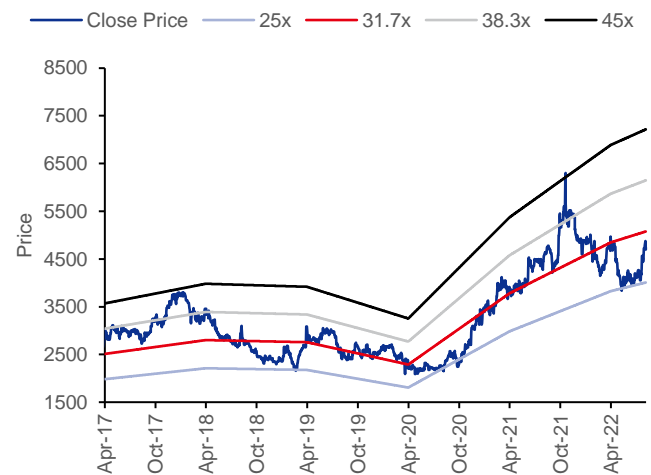
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 7: P/E SD (five-year mean P/E)



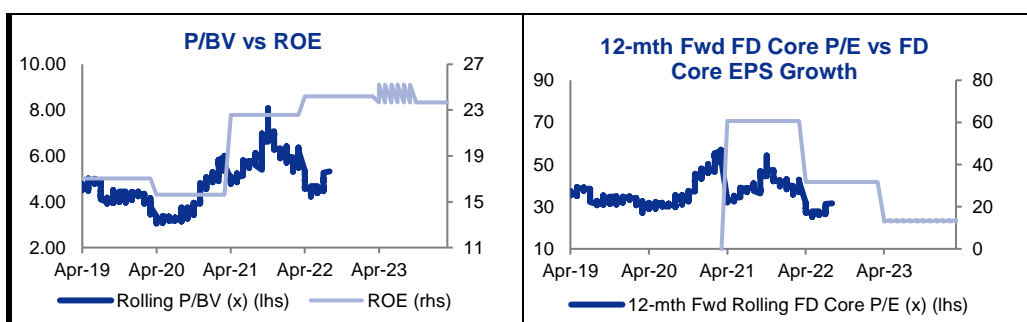
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Net Revenues	12,114	12,177	14,458	17,775	20,080
Gross Profit	6,612	5,909	7,622	9,439	10,743
Operating EBITDA	1,532	1,514	2,287	2,837	3,223
Depreciation And Amortisation	(388)	(396)	(324)	(344)	(388)
Operating EBIT	1,144	1,118	1,963	2,492	2,835
Financial Income/(Expense)	36	99	153	144	165
Pretax Income/(Loss) from Assoc.	1				
Non-Operating Income/(Expense)	46	55	31	32	34
Profit Before Tax (pre-EI)	1,227	1,273	2,147	2,668	3,034
Exceptional Items			(57)		
Pre-tax Profit	1,227	1,273	2,090	2,668	3,034
Taxation	(243)	(340)	(560)	(667)	(759)
Exceptional Income - post-tax					
Profit After Tax	983	933	1,530	2,001	2,275
Minority Interests	27	8	(19)	(10)	(11)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,010	941	1,511	1,991	2,264
Recurring Net Profit	1,010	941	1,553	1,991	2,264
Fully Diluted Recurring Net Profit	1,010	941	1,553	1,991	2,264

Cash Flow

(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
EBITDA	1,532	1,514	2,287	2,837	3,223
Cash Flow from Invt. & Assoc.					
Change In Working Capital	47	1,316	(988)	(477)	(297)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	16	15	(175)	(176)	(199)
Net Interest (Paid)/Received	79	65	20	(144)	(165)
Tax Paid	(504)	(296)	(515)	(667)	(759)
Cashflow From Operations	1,171	2,613	629	1,373	1,803
Capex	(461)	(147)	(199)	(1,014)	(1,123)
Disposals Of FAs/subsidiaries	9	6	16		
Acq. Of Subsidiaries/investments	(351)	(2,313)	(665)	(500)	(500)
Other Investing Cashflow	3	30	32	181	202
Cash Flow From Investing	(800)	(2,423)	(815)	(1,333)	(1,420)
Debt Raised/(repaid)	(66)	(158)	126		
Proceeds From Issue Of Shares		49	8		
Shares Repurchased					
Dividends Paid	(411)		(169)	(312)	(364)
Preferred Dividends					
Other Financing Cashflow	(75)	(79)	(65)	(37)	(37)
Cash Flow From Financing	(552)	(188)	(100)	(349)	(402)
Total Cash Generated	(181)	2	(286)	(309)	(19)
Free Cashflow To Equity	305	32	(60)	40	383
Free Cashflow To Firm	270	93	(239)	3	345

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Total Cash And Equivalents	2,282	4,814	5,758	6,303	7,181
Total Debtors	2,228	2,095	1,648	2,435	2,751
Inventories	2,430	1,997	2,937	3,263	3,686
Total Other Current Assets	642	475	349	429	484
Total Current Assets	7,582	9,380	10,691	12,429	14,102
Fixed Assets	4,197	4,009	3,207	3,365	3,867
Total Investments	82	82	350	350	350
Intangible Assets	12	8	5	5	5
Total Other Non-Current Assets	392	358	328	838	1,071
Total Non-current Assets	4,683	4,457	3,889	4,558	5,293
Short-term Debt	410	303	211	211	211
Current Portion of Long-Term Debt					
Total Creditors	953	1,554	1,335	1,641	1,854
Other Current Liabilities	1,742	1,767	1,785	2,194	2,479
Total Current Liabilities	3,105	3,623	3,331	4,046	4,544
Total Long-term Debt	302	327	55	55	55
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	567	542	547	547	547
Total Non-current Liabilities	868	869	602	602	602
Total Provisions	299	303	354	354	354
Total Liabilities	4,273	4,795	4,287	5,003	5,500
Shareholders Equity	7,915	8,925	10,152	11,830	13,730
Minority Interests	77	117	142	152	163
Total Equity	7,992	9,042	10,294	11,983	13,893

Key Ratios					
	Mar-20A	Mar-21A	Mar-22A	Mar-23F	Mar-24F
Revenue Growth	(9.9%)	0.5%	18.7%	22.9%	13.0%
Operating EBITDA Growth	(19.6%)	(1.2%)	51.1%	24.0%	13.6%
Operating EBITDA Margin	12.6%	12.4%	15.8%	16.0%	16.1%
Net Cash Per Share (Rs)	120.70	321.79	422.19	464.09	531.66
BVPS (Rs)	608.58	686.23	780.53	909.61	1,055.68
Gross Interest Cover	11.39	11.49	37.17	66.72	75.90
Effective Tax Rate	19.8%	26.7%	26.8%	25.0%	25.0%
Net Dividend Payout Ratio	16.3%	13.2%	21.4%	11.7%	12.0%
Accounts Receivables Days	78.52	64.79	47.24	41.92	47.13
Inventory Days	152.15	128.88	131.73	135.73	135.82
Accounts Payables Days	68.41	72.99	77.11	65.14	68.30
ROIC (%)	16.8%	15.5%	34.9%	46.6%	43.6%
ROCE (%)	14.7%	13.9%	20.8%	22.7%	22.4%
Return On Average Assets	9.8%	9.0%	14.0%	16.0%	15.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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