

India

**HOLD** (previously ADD)

Consensus ratings\*: Buy 13 Hold 6 Sell 0

Current price: Rs6,818  
 Target price: ▲ Rs6,929  
 Previous target: Rs6,172  
 Up/downside: 1.6%  
 InCred Research / Consensus: 2.7%

Reuters:  
 Bloomberg: CRS IN  
 Market cap: US\$1,221m  
 Rs88,675m  
 Average daily turnover: US\$2.3m  
 Rs170.0m  
 Current shares o/s: 13.0m  
 Free float: 45.5%

\*Source: Bloomberg

**Key changes in this note**

- FY24F/25F revenue raised by 4.3%/8.3%.
- FY24F EBITDA/PAT cut by 1.6%/1.7%.
- FY25F EBITDA/PAT raised by 2.5%/3.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	7.8	13.0	72.3
Relative (%)	5.2	10.7	47.3

Major shareholders	% held
Promoters	54.5
Nalanda India Equity Fund	10.0
Tata Flexi Cap Fund	3.1

**Analyst(s)**



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# Cera Sanitaryware

## Recovery in market share fully priced in

- Cera continued to gain market share, with 1.5-2x industry revenue growth over the past two years. Even in 4QFY23, revenue grew by 30% yoy to Rs5.3bn.
- Management gave revenue guidance of >Rs30bn for FY26F with a potential to improve EBITDA margin by 100-150bp over this period.
- We see no upside after the stock price rose 70%+ in the last 12 months. The risk-reward is now unfavourable. Roll forward to FY25F. Downgrade to HOLD.

### Yet another quarter of industry-leading revenue growth

Cera Sanitaryware's (Cera) 4QFY23 revenue was at Rs5.3bn, +29.9% yoy and +16.3% qoq, while EBITDA/PAT stood at Rs872m/678m, +9.4%/+16.2% yoy and +16.3%/+20.1% qoq. 4Q revenue/EBITDA/PAT beat our/Bloomberg consensus estimates by 5-15%. Consolidated EBITDA margin was at 16.4%, down 300bp yoy and flat qoq, due to higher sales promotion and publicity expenses. As per management, Cera has a highest market share in the sanitaryware segment (FY23 sales: Rs9.7bn) and stands at No.2 in the faucet segment (FY23 sales: Rs6.2bn) based on revenue market share as of end-Mar 2023. Sanitaryware and faucet revenue stood at Rs2.8bn/1.9bn, +27%/43% yoy and 14%/23% qoq, contributing 88% to total sales. Tiles revenue grew to Rs586m, +24% yoy and 7% qoq. An impairment provision of Rs50m was created, related to discontinuation of tile manufacturing outsourcing with its joint venture partner - M/s Milo Tiles LLP in 4QFY23. Net working capital was stable at 50 days of net sales. FY23 FCF was at Rs1.2bn while net cash (including equivalents) stood at Rs6.4bn at the end of Mar 2023.

### Capex on track to capture industry upcycle and capacity constraints

Cera continued to operate its bathware manufacturing facilities at over 115% in 4QFY23. Premiumization of product portfolio continued, with new products (launched between FY21-23) accounting for 34% of total sales in 4QFY23. Cera's management is confident of gaining further market share and delivering higher-than-industry revenue growth over the next two-to-three years. Cera targets a revenue of Rs30bn+ in FY26F, with margins to improve by 100-150bp over FY24F-26F. The brownfield faucet expansion (Rs690m, 1.2m pieces/year) will be completed by Jul 2023F. The land due diligence for the greenfield sanitaryware plant (Rs1.3bn, 1.2m pieces) is underway and is expected to be completed by Oct/Nov 2023F. We expect revenue and EBITDA CAGR of 17-18% over FY23F-25F.

### Change in our estimates, valuation and risks

We raise FY24F-25F revenue estimates by 4-8%. Our FY24F-25F EBITDA/PAT estimates have been altered by -2% to 3% due to minor changes in assumptions to EBITDA margin, capex spend timelines and treasury yields. We expect an EPS CAGR of 16% over FY23F-25F. Cera rose 70%+ in the past 12 months and trades close to its 5-year mean P/E of 30-31x 1-year forward EPS. Downgrade Cera to a HOLD rating with a higher TP of Rs6,929 (Rs6,172 earlier), rolling forward to a P/E of 31x FY25F EPS. Upside risks: Better sales mix & lower opex for new units. Downside risks: Capex delay & adverse capital allocation.

### Financial Summary

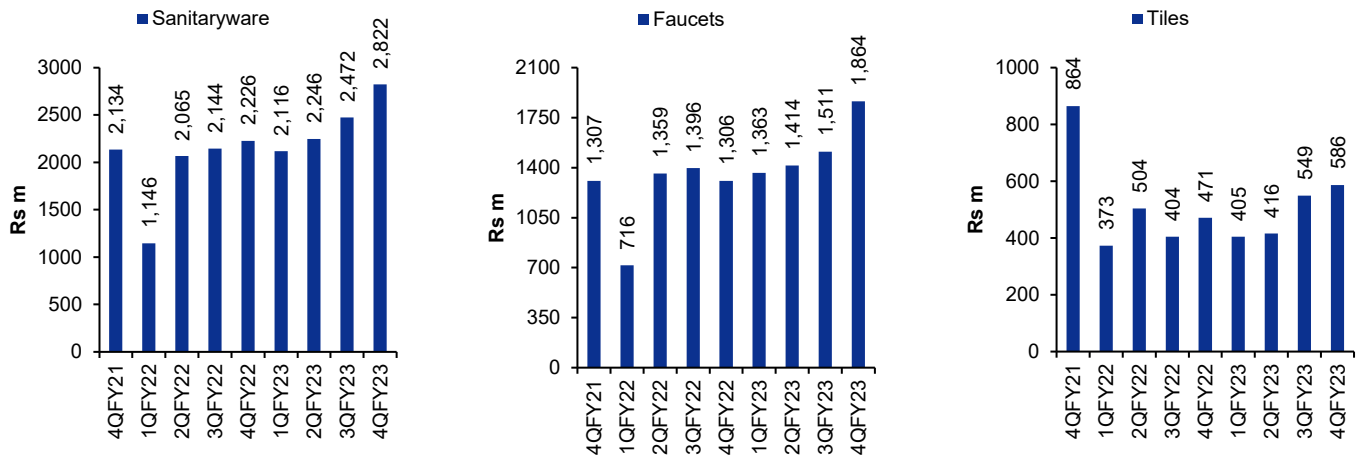
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	12,177	14,458	18,035	21,593	25,116
Operating EBITDA (Rsm)	1,514	2,287	2,930	3,400	4,030
Net Profit (Rsm)	941	1,511	2,111	2,430	2,907
Core EPS (Rs)	72.4	119.4	165.1	186.8	223.5
Core EPS Growth	(6.8%)	65.0%	38.3%	13.2%	19.6%
FD Core P/E (x)	94.23	58.69	42.01	36.49	30.50
DPS (Rs)	13.0	35.0	50.0	55.0	65.0
Dividend Yield	0.19%	0.51%	0.73%	0.81%	0.95%
EV/EBITDA (x)	56.03	36.43	28.14	24.13	20.12
P/FCFE (x)	2,791.76	(1,424.01)	4,238.75	178.69	216.73
Net Gearing	(46.3%)	(53.3%)	(53.7%)	(49.7%)	(49.3%)
P/BV (x)	9.94	8.74	7.56	6.60	5.72
ROE	11.5%	16.5%	19.6%	19.3%	20.1%
% Change In Core EPS Estimates			4.30%	(0.10%)	4.62%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 4QFY23 earnings-call takeaways

- **Growth guidance:** Cera's management expects to clock a revenue of Rs29bn by Sep 2025F (Rs30bn+ in FY26F) with EBITDA margin expansion potential of 50bp-75bp every year during this period.
- **Price hikes:** Cera did not take any price hike since May 2022 for either sanitaryware or faucets. Cera now has a uniform selling price policy across products, across all states in India, effective Jan 2023.
- **Capacity utilization and mix:** Cera operated plants at 115% for sanitaryware and 118% for faucets in 4QFY23. In-house production accounted for 40% of total sales while outsourced capacities stood at 60% in 4Q. Revenue from Tier-1 cities (population of 1.7m and above) was 31%, from Tier-2 cities (population between 300,000 to 1.7m) it was 22%, and from Tier-3 cities (population below 300,000) it was 47% of total sales during the quarter. Entry and mid-price range products accounted for 57% of total sales while premium products stood at 43% of total sales in FY23.
- **Reduced dependency on imports:** Chinese imports for Cera stood at Rs550m, 3% of total sales in FY23 vs. Rs690m yoy, and 5% of total sales in FY22. The company has completely de-risked its business from Chinese supplies and foresees no capacity constraint problems with its Indian outsourcing manufacturing partners.
- **Retail reach:** Cera had 5,462 dealers and 14,600 retailers as at end-Mar 2023, +30% yoy. Dealer throughput increased meaningfully with large dealers achieving Rs200-400m in annual sales. The retailer loyalty program made considerable progress with over 1,46,000 invoices uploaded by retailers providing the company with rich data and insights into end-consumer buying patterns. Cera launched a similar reward program for plumbers on 1 May 2023.
- **New products:** The company added 104 new stock-keeping units or SKUs in 4QFY23. New product sales (launched between Apr 2021-Mar 2023) accounted for 34% of total sales in 4Q and 22-24% of total sales in FY23.
- **Publicity and advertisement spending:** Cera spent Rs570m, or 3.2% of total sales, on advertising and publicity in FY23. The company intends to maintain 3.5-4% of advertisement spending going ahead with a focus on improving the share of voice that is lower than its share of the market.
- **Power and fuel cost:** Natural gas cost accounted for ~2.7% of 4QFY23 sales. GAIL met ~65% of the gas needs while the remaining 35% was sourced from Sabarmati (JV between BPCL and GSPC). GAIL's gas prices declined to Rs31/scm vs. Rs36/scm while Sabarmati gas prices fell to Rs41/scm vs. Rs58/scm from Apr 2023.
- **One-off expenses provision:** Cera has provided for an impairment loss of Rs50m in the P&L relating to investment of a 26% equity stake in its tile vendor, M/s Milo Tiles LLP, due to discontinuation of the tile sourcing agreement with them.
- **Capex:** Cera has budgeted a capex of Rs350m in FY24F to be incurred as follows: a) Rs110m on sanitaryware automation, b) Rs40m on faucet automation, c) Rs70m on customer touchpoints, d) Rs70m on land and building at its existing plants, and e) Rs40m on logistics and IT capex.
- **Net working capital:** It stood at 50 days of sales vs. 46 days yoy at the end of Mar 2023.
- **Cash flow:** FCF stood at Rs1.2bn in FY23. Consolidated net cash (including cash equivalents) and bank balances as at end-Mar 2023 was at Rs6.4bn (vs. Rs5.3bn as at end-Sep 2022).

Figure 1: Segment-wise revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Figure 2: 4QFY23 results snapshot

YE Mar (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Revenue	5,325	4,099	29.9	4,578	16.3	18,035	14,458	24.7
EBITDA	872	797	9.4	750	16.3	2,930	2,287	28.1
EBITDA margin (%)	16.4	19.4	-307 bp	16.4	-1 bp	16.2	15.8	42 bp
Adj. PAT	678	583	16.2	564	20.1	2,161	1,568	37.8
Diluted EPS (Rs)	52.1	44.8		43.4		166.1	120.6	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 4QFY23 segment results snapshot

Revenue (Rs m)	4QFY23	4QFY22	yoy (%)	3QFY23	qoq (%)	FY23	FY22	yoy (%)
Sanitaryware	2,822	2,226	26.8	2,472	14.2	9,657	7,580	27.4
Faucets	1,864	1,306	42.7	1,511	23.4	6,152	4,778	28.8
Tiles	586	471	24.4	549	6.6	1,956	1,753	11.6
Others	53	59	(9.2)	46	16.3	222	268	(17.2)
Sub-total	5,325	4,062	31.1	4,578	16.3	17,987	14,378	25.1

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

Rs m	4QFY23	4QFY23F	Var (%)
Revenue	5,325	5,066	5.1
EBITDA	872	866	0.6
EBITDA margin (%)	16.4	17.1	-73 bp
Adj. PAT	678	597	13.5

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs. Bloomberg consensus

Rs m	4QFY23	4QFY23C	Var (%)
Revenue	5325	4,891	8.9
EBITDA	872	796	9.6
EBITDA margin (%)	16.4	16.3	10 bp
Adj. PAT	678	617	9.8

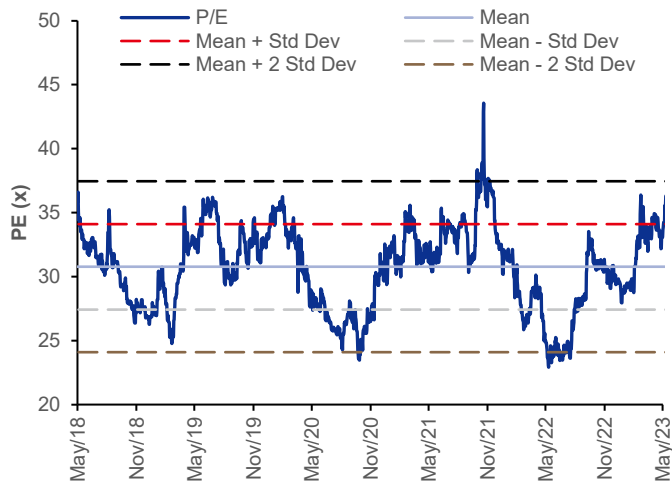
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	21,593	25,116	20,695	23,192	4.3	8.3
EBITDA	3,400	4,030	3,456	3,931	-1.6	2.5
Adjusted consol. PAT	2,430	2,907	2,471	2,820	-1.7	3.1
EPS	186.8	223.5	190.0	216.9	-1.7	3.1
EBITDA margin (%)	15.7	16.0	16.7	16.95	-95 bp	-90 bp

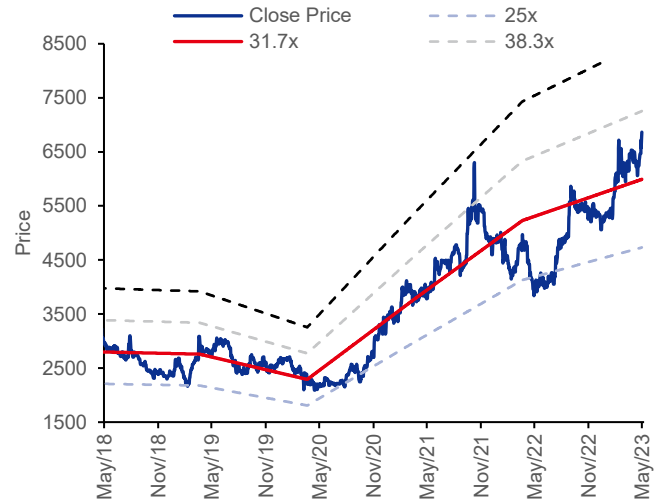
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



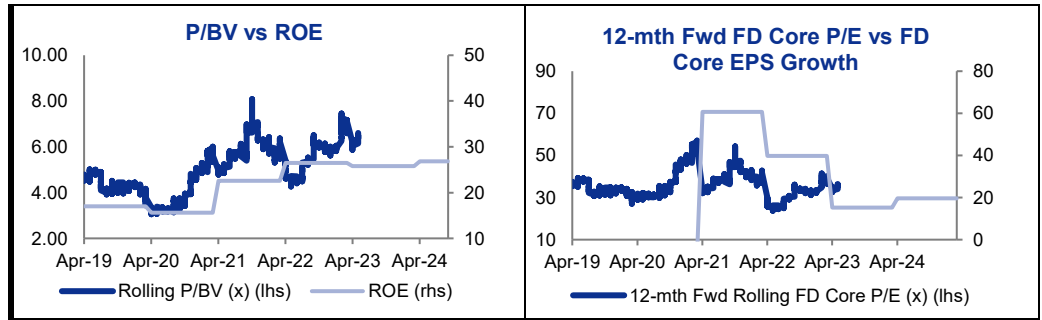
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>Total Net Revenues</b>	<b>12,177</b>	<b>14,458</b>	<b>18,035</b>	<b>21,593</b>	<b>25,116</b>
<b>Gross Profit</b>	<b>5,909</b>	<b>7,622</b>	<b>9,789</b>	<b>11,552</b>	<b>13,437</b>
<b>Operating EBITDA</b>	<b>1,514</b>	<b>2,287</b>	<b>2,930</b>	<b>3,400</b>	<b>4,030</b>
Depreciation And Amortisation	(396)	(324)	(326)	(366)	(383)
<b>Operating EBIT</b>	<b>1,118</b>	<b>1,963</b>	<b>2,604</b>	<b>3,034</b>	<b>3,647</b>
Financial Income/(Expense)	99	153	(31)	163	185
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	55	31	326	50	53
<b>Profit Before Tax (pre-EI)</b>	<b>1,273</b>	<b>2,147</b>	<b>2,899</b>	<b>3,247</b>	<b>3,885</b>
Exceptional Items	(57)	(50)			
<b>Pre-tax Profit</b>	<b>1,273</b>	<b>2,090</b>	<b>2,849</b>	<b>3,247</b>	<b>3,885</b>
Taxation	(340)	(560)	(738)	(817)	(978)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>933</b>	<b>1,530</b>	<b>2,111</b>	<b>2,430</b>	<b>2,907</b>
Minority Interests	8	(19)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>941</b>	<b>1,511</b>	<b>2,111</b>	<b>2,430</b>	<b>2,907</b>
Recurring Net Profit	941	1,553	2,148	2,430	2,907
<b>Fully Diluted Recurring Net Profit</b>	<b>941</b>	<b>1,553</b>	<b>2,148</b>	<b>2,430</b>	<b>2,907</b>

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
<b>EBITDA</b>	<b>1,514</b>	<b>2,287</b>	<b>2,930</b>	<b>3,400</b>	<b>4,030</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,316	(988)	(770)	(676)	(515)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	15	(175)	(219)	(214)	(237)
Net Interest (Paid)/Received	65	20	(28)	(163)	(185)
Tax Paid	(296)	(515)	(727)	(817)	(978)
<b>Cashflow From Operations</b>	<b>2,613</b>	<b>629</b>	<b>1,186</b>	<b>1,531</b>	<b>2,115</b>
Capex	(147)	(199)	(387)	(1,023)	(968)
Disposals Of FAs/subsidiaries	6	16	12		
Acq. Of Subsidiaries/investments	(2,313)	(668)	(708)	(250)	(1,000)
Other Investing Cashflow	30	32	29	238	261
<b>Cash Flow From Investing</b>	<b>(2,423)</b>	<b>(818)</b>	<b>(1,054)</b>	<b>(1,035)</b>	<b>(1,706)</b>
Debt Raised/(repaid)	(158)	126	(111)		
Proceeds From Issue Of Shares	49	8	6		
Shares Repurchased					
Dividends Paid		(169)	(455)	(715)	(845)
Preferred Dividends					
Other Financing Cashflow	(79)	(65)	(36)	(75)	(77)
<b>Cash Flow From Financing</b>	<b>(188)</b>	<b>(100)</b>	<b>(596)</b>	<b>(790)</b>	<b>(922)</b>
Total Cash Generated	2	(288)	(464)	(294)	(513)
<b>Free Cashflow To Equity</b>	<b>32</b>	<b>(62)</b>	<b>21</b>	<b>496</b>	<b>409</b>
<b>Free Cashflow To Firm</b>	<b>93</b>	<b>(241)</b>	<b>132</b>	<b>421</b>	<b>333</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Total Cash And Equivalents	4,814	5,758	6,607	6,990	7,952
Total Debtors	2,095	1,648	1,892	2,366	2,752
Inventories	1,997	2,937	3,825	4,437	5,161
Total Other Current Assets	475	349	415	497	578
<b>Total Current Assets</b>	<b>9,380</b>	<b>10,691</b>	<b>12,739</b>	<b>14,290</b>	<b>16,443</b>
Fixed Assets	4,009	3,207	3,138	3,364	3,448
Total Investments	82	350	252	252	252
Intangible Assets	8	5	5	5	5
Total Other Non-Current Assets	358	328	632	1,062	1,562
<b>Total Non-current Assets</b>	<b>4,457</b>	<b>3,889</b>	<b>4,028</b>	<b>4,684</b>	<b>5,268</b>
Short-term Debt	303	211	212	212	212
Current Portion of Long-Term Debt					
Total Creditors	1,554	1,335	2,069	2,071	2,408
Other Current Liabilities	1,767	1,784	1,579	2,071	2,408
<b>Total Current Liabilities</b>	<b>3,623</b>	<b>3,330</b>	<b>3,860</b>	<b>4,353</b>	<b>5,029</b>
Total Long-term Debt	327	55	42	42	42
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	542	547	656	656	656
<b>Total Non-current Liabilities</b>	<b>869</b>	<b>602</b>	<b>698</b>	<b>698</b>	<b>698</b>
Total Provisions	303	354	376	376	376
<b>Total Liabilities</b>	<b>4,795</b>	<b>4,286</b>	<b>4,934</b>	<b>5,427</b>	<b>6,102</b>
Shareholders Equity	8,925	10,152	11,726	13,441	15,503
Minority Interests	117	142	106	106	106
<b>Total Equity</b>	<b>9,042</b>	<b>10,294</b>	<b>11,832</b>	<b>13,547</b>	<b>15,609</b>

<b>Key Ratios</b>					
	<b>Mar-21A</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>
Revenue Growth	0.5%	18.7%	24.7%	19.7%	16.3%
Operating EBITDA Growth	(1.2%)	51.1%	28.1%	16.1%	18.5%
Operating EBITDA Margin	12.4%	15.8%	16.2%	15.7%	16.0%
Net Cash Per Share (Rs)	321.79	422.19	488.52	517.98	591.94
BVPS (Rs)	686.23	780.53	901.62	1,033.47	1,191.98
Gross Interest Cover	11.49	37.17	43.05	40.58	47.61
Effective Tax Rate	26.7%	26.8%	25.9%	25.2%	25.2%
Net Dividend Payout Ratio	13.2%	21.4%	22.4%	22.0%	21.8%
Accounts Receivables Days	64.79	47.24	35.81	35.99	37.19
Inventory Days	128.88	131.73	149.66	150.17	149.98
Accounts Payables Days	72.99	77.11	75.33	75.25	69.99
ROIC (%)	15.5%	34.9%	48.6%	48.5%	48.0%
ROCE (%)	13.9%	20.8%	22.5%	24.6%	25.7%
Return On Average Assets	9.0%	14.0%	18.7%	17.3%	18.2%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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