

India

ADD (no change)

Consensus ratings*: Buy 13 Hold 3 Sell 0

Current price:	Rs5,482
Target price:	Rs6,172 ▲
Previous target:	Rs5,744
Up/downside:	12.6%
InCred Research / Consensus:	10.0%
Reuters:	
Bloomberg:	CRS IN
Market cap:	US\$982m Rs71,304m
Average daily turnover:	US\$1.3m Rs92.6m
Current shares o/s:	13.0m
Free float:	45.5%

*Source: Bloomberg

Key changes in this note

- FY23F/24F revenue up by 0.2%/1.9%.
- FY23F/24F EBITDA up by 3.6%/6.3%.
- FY23F/24F PAT up by 3.4%/7.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(0.5)	16.2	0.2
Relative (%)	(5.3)	11.7	(0.9)

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

Better sales mix with improving margins

- Cera Sanitaryware posted steady 2QFY23 revenue while EBITDA/PAT beat expectations owing to higher gross margin led by improvement in revenue mix.
- It gave guidance of keeping healthy in-house/outsourcing production mix. We estimate revenue/EBITDA/PAT CAGR of 13.5%/15%/16% over FY23F-25F.
- Market share retention, capacity constraints and employee attrition problems have been resolved. We retain ADD rating on it with a higher TP of Rs6,172.

Better sales mix, improvement in margins in 2QFY23

Cera Sanitaryware's (Cera) 2QFY23 revenue was at Rs4.2bn, +3% yoy, on a high-base quarter last year while EBITDA/PAT stood at Rs679m/Rs507m, +10%/18% yoy, respectively. Revenue largely met estimates while EBITDA/PAT beat was 4-14% to our /Bloomberg consensus estimates. Margins expanded, led by a better sales mix with gross/EBITDA margin at 55.8%/16.3%, +250bp/105bp yoy, respectively. Sanitaryware/faucet revenue was at Rs2.2bn/Rs1.4bn, +8.8%/+4% yoy, respectively. Tile revenue was at Rs416m, down 18% yoy. Inventory rose to Rs3.7bn or 83 days of sales as at end-Sep 2022 vs. 74 days as at end-Mar 2022 because of a wider product variety, SKU launches and improved trade channel product availability.

Existing manufacturing capacity fully utilized; mix shift to continue

Sanitaryware and faucet plants continue to operate at over 100% capacity. Cera has consistently moved premium product manufacturing in-house while the economy and standard range products have been outsourced to manufacturing partners. This shift would continue with the share of in-house product sales set to rise over the next two years. Faucet brownfield expansion project for 1.2m pieces (+40% incremental capacity) would start commercial production by Jun 2023F. Sanitaryware greenfield expansion of 1.2m pieces (+50% incremental capacity) would take 24-30 months to commence production.

Change in our estimates, rollout of FY25F

Our FY23F/24F revenue estimates largely remain unchanged while we raise EBITDA/PAT estimates by 3.6%/6.3% and by 3.4%/7.5% for FY23F/24F, respectively. We raise EBITDA margin estimates to 16.5%/16.8% for FY23F/24F, respectively, and estimate revenue/EBITDA/PAT CAGR of 13.5%/15%/16%, respectively, and cumulative FCF of Rs4.3bn over FY23F-25F.

Valuation and risks

Cera stock is up 17% since our last update in Aug 2022. We retain ADD rating on it with a higher target price of Rs6,172 (Rs5,744 earlier) based on a P/E of 33x (near its 5-year mean P/E of 32.5x) FY24F EPS. Market share retention, capacity constraints and employee attrition problems have been settled. Capacity expansion, product mix improving and a net cash balance sheet (Sep 2022: Rs5.3bn) are key positives. Downside risks: Competition from new players, and capex delay.

Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	12,177	14,458	17,808	20,454	22,939
Operating EBITDA (Rsm)	1,514	2,287	2,938	3,426	3,900
Net Profit (Rsm)	941	1,511	2,059	2,433	2,779
Core EPS (Rs)	72.4	119.4	158.3	187.0	213.6
Core EPS Growth	(6.8%)	65.0%	32.6%	18.1%	14.2%
FD Core P/E (x)	75.77	47.19	34.63	29.31	25.66
DPS (Rs)	13.0	35.0	22.5	27.5	32.5
Dividend Yield	0.24%	0.64%	0.41%	0.50%	0.59%
EV/EBITDA (x)	44.55	28.84	22.18	18.71	15.97
P/FCFE (x)	2,244.88	(1,145.06)	247.98	233.87	244.59
Net Gearing	(46.3%)	(53.3%)	(52.0%)	(52.0%)	(55.8%)
P/BV (x)	7.99	7.02	5.98	5.10	4.36
ROE	11.5%	16.5%	18.7%	18.8%	18.3%
% Change In Core EPS Estimates			3.43%	7.45%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

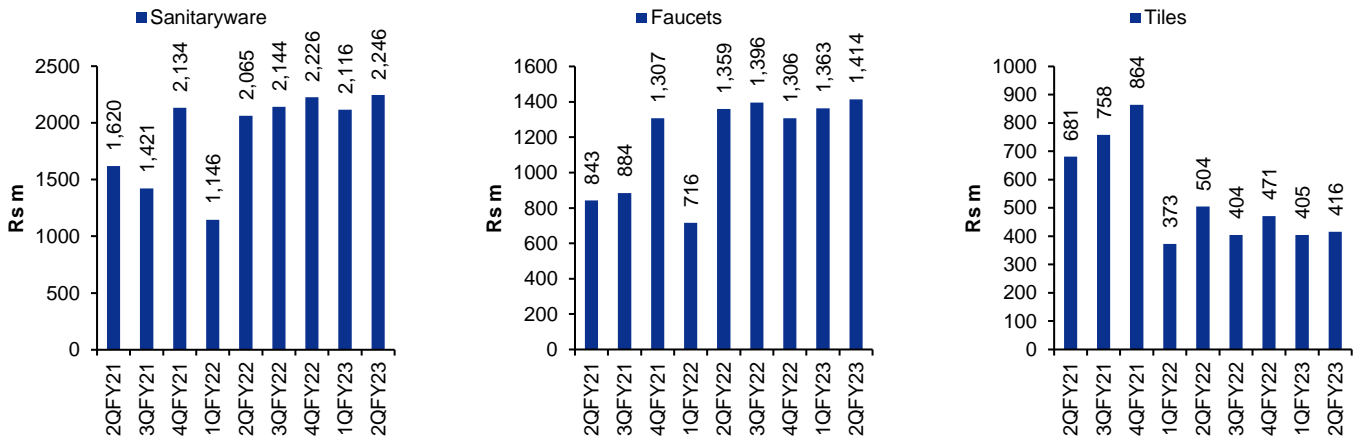
2QFY23 earnings-call takeaways

- **Growth guidance:** Cera's management maintained its guidance to double sales over FY22-26F (from ~Rs14bn to ~Rs28bn) with EBITDA margin expansion of 50bp every year up to FY26F.
- **Price hike:** Cera did not go for price hike in 2QFY23 - in sanitaryware as well as faucets. Most pricing-led revenue growth was on the back of improved premium product mix. Cera has been shifting premium product manufacturing in-house and moving out standard/economy product production to third-party vendors.
- **Capacity utilization:** The company operated its plants at 115% of their capacity in case of sanitaryware and 116% in case of faucet in 2Q. Similar levels of utilization are expected in 2HFY23F.
- **Reduced dependency on imports:** Imports from China stood at Rs276m in 1HFY23 (accounting for 3.4% of sales). The company has been reducing its imports from 4.71% of sales in FY22 and 4.76% of sales in FY21. This has been possible due to the shift to in-house manufacturing led by enhanced capability at existing factories to undertake shorter production runs for products that have a higher realization but low production volume. The share of in-house manufacturing stood at 40% for sanitaryware and at 48% for faucets in 2QFY23.
- **Competition:** Entry of Astral and Prince Pipes into the bathware segment has led to much of the success in B2B supplies. As per Cera's management, B2C brand building for bathware takes time and has a reasonable gestation period for gaining meaningful market share in the industry.
- **Retail reach:** Cera launched a loyalty program for retailers in 1QFY23 and has registered ~13k retailers. It targets 15k retailer registrations by Mar 2023F. Retailers routed ~Rs1.4bn of sales in 1HFY23 under this initiative to be eligible for incentive payouts.
- **New products:** The company added 59 new products in 1HFY23. Revenue share from new products (launched in the past two years) contributed 24% to total sales. For three-year-old products launched, the share was even higher at 36%. The company aims to add ~100 new sanitaryware SKUs annually (518 SKUs currently).
- **Input cost:** Gross margin stood at an all-time high of 55.8% in 2QFY23. Raw material prices softened (brass prices declined from Rs545/kg to Rs494/kg in 2Q), leading to savings of Rs38m, and lower zinc prices led to savings of Rs 3m during the quarter that supported the margins.
- **Power and fuel cost:** Natural gas cost accounted for ~3.1% of 2Q sales. GAIL meets ~46% of the sanitaryware segment's gas needs while the remaining 54% is sourced from Sabarmati (a joint venture between BPCL and GSPC). GAIL supplies gas at a price of Rs25.72/scm vs. Rs25.69/scm qoq. Sabarmati gas price is at Rs75.38/scm vs. Rs73.58/scm qoq in 2Q. Over 60% of the electricity is sourced from wind and solar power generation capacities and hence, electricity cost inflation impact has been lower for Cera vs. industry peers.
- **Other income fluctuation:** Reported other income was distorted in 1HFY23 due to mark-to-market adjustments under Ind-AS accounting laws relating to liquid investments. Cash and other income stood at Rs26m in 1HFY23.
- **Capex:** Cera gave capex guidance of Rs246m for FY23F which will be utilized towards Rs77m that is required for sanitaryware automation, Rs64m for faucet plant automation, Rs66m for land and buildings and Rs39m for logistics and IT. The total budgeted capex is ~Rs1bn/year for FY23F/24F with some spill-over of sanitaryware capex likely into FY25F. Cera expects to complete faucet brownfield plant expansion (1.2m pieces for Rs690m) by Jun 2023F. Land acquisition for sanitaryware greenfield plant expansion has been delayed and

would now be completed by Mar 2023F. It would take another 18-24 months to start commercial production after the land is acquired.

- **Net working capital:** It stood at 53 days of TTM sales (deterioration in inventory days to 83 vs. 74 days as at end-Mar 2022 and improvement in debtor days to 32 vs. 42 days as at end-Mar 2022) as at end-Sep 2022.
- **Cash flow:** OCF/FCF stood at Rs425m/Rs311m, respectively, in 1HFY23. Consolidated net cash (including cash equivalents) and bank balance as at end-Sep 2022 stood at Rs5.3bn (vs. Rs5.5bn as at end-Mar 2022).

Figure 1: Segment-wise revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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Figure 2: 2QFY23 results snapshot

YE Mar (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)	1HFY23	1HFY22	yoy(%)
Revenue	4,159	4,033	3.1	3,972	4.7	8,131	6,315	28.8
EBITDA	679	616	10.2	628	8.1	1,308	824	58.6
EBITDA margin (%)	16.3	15.3	105 bp	15.8	51 bp	16.1	13.1	302 bp
Adj. PAT	507	430	17.9	395	28.5	902	553	63.3
Diluted EPS (Rs)	39.0	33.1		30.4		69.4	42.5	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 2QFY23 segment-wise results snapshot

Revenue (Rs m)	2QFY23	2QFY22	yoy (%)	1QFY23	qoq (%)
Sanitaryware	2,246	2,065	8.8	2,116	6.1
Faucets	1,414	1,359	4.1	1,363	3.7
Tiles	416	504	(17.5)	405	2.8
Others	83	81	3.1	40	109.4
Sub-total	4,159	4,009	3.8	3,924	6.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

Rs m	2QFY23A	2QFY23A	Var (%)
Revenue	4,159	4,312	(3.5)
EBITDA	679	654	3.8
EBITDA margin (%)	16.3	15.2	116 bp
Adj. PAT	507	452	12.3

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs. Bloomberg consensus estimates

Rs m	2QFY23A	2QFY23C	Var (%)
Revenue	4,159	4,165	(0.1)
EBITDA	679	645	5.3
EBITDA margin (%)	16.3	15.5	85 bp
Adj. PAT	507	446	13.9

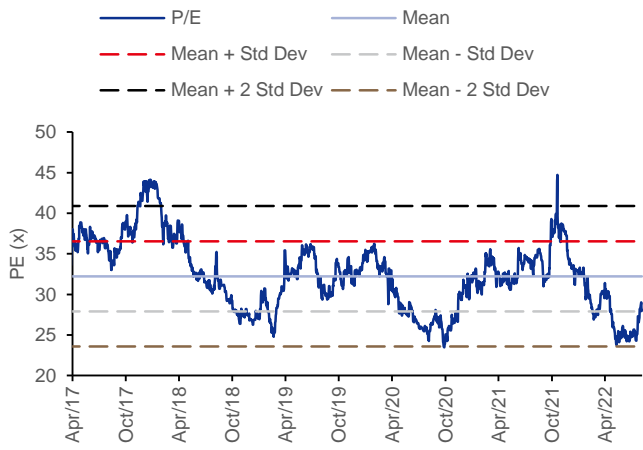
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Our revised estimates

	New estimates			Old estimates			Change (%)		
	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F	FY23F	FY24F	FY25F
Revenue	17,808	20,454	22,939	17,775	20,080	NA	0.2	1.9	NA
EBITDA	2,938	3,426	3,900	2,837	3,223	NA	3.6	6.3	NA
Adjusted consol. PAT	2,059	2,433	2,779	1,991	2,264	NA	3.4	7.5	NA
EPS	158.3	187.0	213.6	153.1	174.1	NA	3.4	7.5	NA
EBITDA margin (%)	16.5	16.75	17	16.0	16.1	NA	54 bp	70 bp	NA

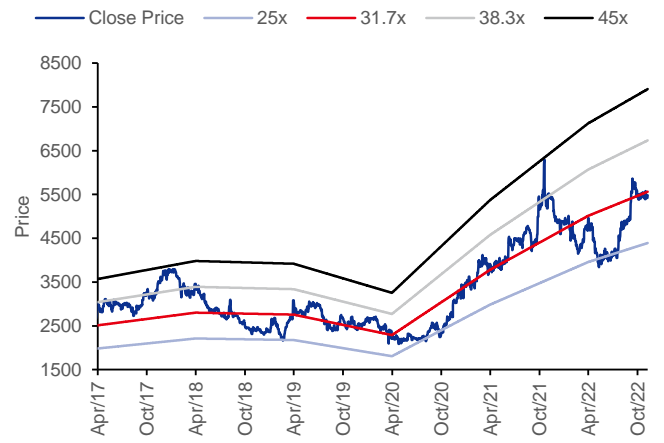
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



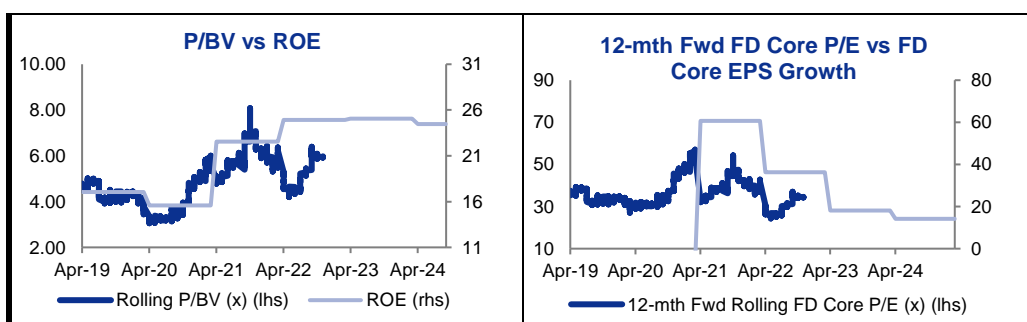
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	12,177	14,458	17,808	20,454	22,939
Gross Profit	5,909	7,622	9,572	11,148	12,616
Operating EBITDA	1,514	2,287	2,938	3,426	3,900
Depreciation And Amortisation	(396)	(324)	(339)	(391)	(453)
Operating EBIT	1,118	1,963	2,599	3,035	3,446
Financial Income/(Expense)	99	153	124	186	236
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	55	31	40	42	44
Profit Before Tax (pre-EI)	1,273	2,147	2,763	3,263	3,727
Exceptional Items		(57)			
Pre-tax Profit	1,273	2,090	2,763	3,263	3,727
Taxation	(340)	(560)	(689)	(814)	(930)
Exceptional Income - post-tax					
Profit After Tax	933	1,530	2,074	2,449	2,797
Minority Interests	8	(19)	(15)	(17)	(18)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	941	1,511	2,059	2,433	2,779
Recurring Net Profit	941	1,553	2,059	2,433	2,779
Fully Diluted Recurring Net Profit	941	1,553	2,059	2,433	2,779

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	1,514	2,287	2,938	3,426	3,900
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,316	(988)	(320)	(317)	(298)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	15	(175)	(164)	(228)	(280)
Net Interest (Paid)/Received	65	20	(124)	(186)	(236)
Tax Paid	(296)	(515)	(689)	(814)	(930)
Cashflow From Operations	2,613	629	1,642	1,880	2,155
Capex	(147)	(199)	(1,014)	(1,073)	(663)
Disposals Of FAs/subsidiaries	6	16			
Acq. Of Subsidiaries/investments	(2,313)	(668)	(500)	(750)	(1,500)
Other Investing Cashflow	30	32	184	247	299
Cash Flow From Investing	(2,423)	(818)	(1,329)	(1,575)	(1,863)
Debt Raised/(repaid)	(158)	126	(25)		
Proceeds From Issue Of Shares	49	8			
Shares Repurchased					
Dividends Paid		(169)	(293)	(358)	(423)
Preferred Dividends					
Other Financing Cashflow	(79)	(65)	(60)	(61)	(63)
Cash Flow From Financing	(188)	(100)	(378)	(419)	(485)
Total Cash Generated	2	(288)	(66)	(114)	(194)
Free Cashflow To Equity	32	(62)	288	305	292
Free Cashflow To Firm	93	(241)	252	244	229

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	4,814	5,758	6,520	7,613	9,480
Total Debtors	2,095	1,648	1,952	2,242	2,514
Inventories	1,997	2,937	3,415	3,923	4,399
Total Other Current Assets	475	349	430	493	553
Total Current Assets	9,380	10,691	12,316	14,271	16,946
Fixed Assets	4,009	3,207	3,120	3,669	4,728
Total Investments	82	350	350	350	350
Intangible Assets	8	5	5	5	5
Total Other Non-Current Assets	358	328	1,088	1,221	371
Total Non-current Assets	4,457	3,889	4,563	5,244	5,453
Short-term Debt	303	211	192	192	192
Current Portion of Long-Term Debt					
Total Creditors	1,554	1,335	1,464	1,681	1,885
Other Current Liabilities	1,767	1,784	2,198	2,524	2,831
Total Current Liabilities	3,623	3,330	3,853	4,397	4,908
Total Long-term Debt	327	55	50	50	50
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	542	547	547	547	547
Total Non-current Liabilities	869	602	597	597	597
Total Provisions	303	354	354	354	354
Total Liabilities	4,795	4,286	4,804	5,348	5,859
Shareholders Equity	8,925	10,152	11,918	13,993	16,349
Minority Interests	117	142	157	174	192
Total Equity	9,042	10,294	12,075	14,167	16,541

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	0.5%	18.7%	23.2%	14.9%	12.1%
Operating EBITDA Growth	(1.2%)	51.1%	28.5%	16.6%	13.8%
Operating EBITDA Margin	12.4%	15.8%	16.5%	16.8%	17.0%
Net Cash Per Share (Rs)	321.79	422.19	482.70	566.75	710.29
BVPS (Rs)	686.23	780.53	916.36	1,075.90	1,257.04
Gross Interest Cover	11.49	37.17	43.01	49.81	54.91
Effective Tax Rate	26.7%	26.8%	24.9%	24.9%	25.0%
Net Dividend Payout Ratio	13.2%	21.4%	10.6%	11.0%	11.4%
Accounts Receivables Days	64.79	47.24	36.88	37.41	37.83
Inventory Days	128.88	131.73	140.76	143.90	147.13
Accounts Payables Days	72.99	77.11	62.01	61.67	63.06
ROIC (%)	15.5%	34.9%	48.5%	47.8%	46.9%
ROCE (%)	13.9%	20.8%	23.6%	23.9%	23.5%
Return On Average Assets	9.0%	14.0%	16.8%	16.9%	16.7%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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