

India

ADD (previously HOLD)

Consensus ratings*: Buy 10 Hold 11 Sell 0

Current price:	Rs7,917
Target price: ▲	Rs8,780
Previous target:	Rs6,929
Up/downside:	10.9%
InCred Research / Consensus:	13.9%
Reuters:	
Bloomberg:	CRS IN
Market cap:	US\$1,418m Rs102,969m
Average daily turnover:	US\$2.9m Rs212.6m
Current shares o/s:	13.0m
Free float:	45.5%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 1.6%/1.7%.
- FY24F/25F EBITDA raised by 3.1%/5.4%.
- FY24F/25F PAT raised by 7%/9.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	3.1	22.8	68.4
Relative (%)	2.5	14.1	49.6

Major shareholders	% held
Promoters	54.5
Nalanda India Equity Fund	10.0
Tata Flexi Cap Fund	2.7

Analyst(s)



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Cera Sanitaryware

New products drive market share gains

- High base effect led to SW/faucet revenue growth of 7-10% yoy while tiles grew 17% yoy in 1Q. New premium products & cheaper input prices aided GM.
- Market share gains led by premiumization strategy yielded strong results. Faucet plant starts in Aug. Land for SW greenfield plant to be ready by Dec.
- On track to achieve a revenue of Rs30bn+ over FY23-26F. Strong regain of market share over the past two years is a key positive. Upgrade to ADD rating.

Revenue growth moderates on a high base; GM expands further

Cera Sanitaryware's (Cera) 1QFY24 consol. revenue stood at Rs4.3bn, +8% yoy, while EBITDA/PAT were at Rs704m/Rs563m, +12%/+43% yoy, respectively, albeit on a high base quarter last fiscal. Revenue & EBITDA missed our/consensus estimates by 6-8% and by 4-6%, respectively. Very high other income (Rs153m, +23% qoq) led to PAT beat of 6% vs. our estimate while it was in line with consensus estimate. Consolidated gross/EBITDA margins stood at 54.8%/16.4%, +130bp/+60bp yoy, respectively. Better sales mix, cost efficiency and cheaper input prices led to gross margin expansion. New premium products launched over the past three years accounted for 29% (industry standard: 10-12%) of total sales in 1Q. Sanitaryware and faucet revenue stood at Rs2.3bn/1.5bn, +7%/10% yoy, respectively, contributing 88% to total sales. Tiles revenue grew to Rs472m, +17% yoy. Project sales accounted for 35% of total sales. Net working capital rose to 72 days of TTM sales vs. 60 days yoy, largely due to prepayment of creditors.

Capex on track; management confident of 18-20% revenue CAGR

The brownfield faucet expansion (budgeted: Rs690m, actual: Rs580m, 1.2m pieces/year) is almost complete and will start trial production this month. It is expected to reach optimum capacity utilization level by Mar 2024F. Land due diligence for the greenfield sanitaryware plant (Rs1.3bn, 1.2m pieces) is underway and is expected to be completed by Dec 2023F. With sanitaryware or SW plants consistently operating at 100% of their capacity for the past four-to-five quarters, management is confident of achieving its stated objective of a revenue CAGR of 18-20% to garner a revenue of Rs30bn+ in FY26F. Premiumization of product portfolio driven by captive production of premium products, we feel, would continue to enable incremental market share gains at 1.5x of existing market share in SW/faucets.

Change in our estimates, valuation and risks

Our revenue estimates largely remain unchanged. We raised EBITDA and PAT by 3-5% and 7-9% on the back of higher EBITDA margin (16.5-17%) in FY24F & FY25F, respectively. Market share gains, premiumization leading to higher margins, efficient working capital management & high FCF are key positives. Stock price is reflective of the same (+70% over the past 12 months). Cera has regained a major portion of its lost ground during FY15-20. Strong comeback and healthy demand led to stock outperformance. Upgrade to ADD rating (from HOLD) with a higher target price of Rs8,780 (Rs6,929 earlier) based on a P/E of 36x (5-year mean+1sd) FY25F EPS. Downside risk: Capex delay.

Financial Summary

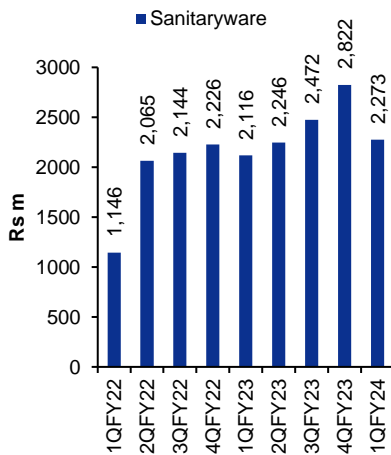
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	12,177	14,458	18,035	21,255	24,699
Operating EBITDA (Rsm)	1,514	2,287	2,930	3,507	4,248
Net Profit (Rsm)	941	1,511	2,111	2,600	3,172
Core EPS (Rs)	72.4	119.4	165.1	199.9	243.9
Core EPS Growth	(6.8%)	65.0%	38.3%	21.0%	22.0%
FD Core P/E (x)	109.43	68.15	48.79	39.61	32.46
DPS (Rs)	13.0	35.0	50.0	60.0	75.0
Dividend Yield	0.16%	0.44%	0.63%	0.76%	0.95%
EV/EBITDA (x)	65.47	42.68	33.02	27.39	22.32
P/FCFE (x)	3,241.78	(1,653.56)	4,922.03	183.61	198.71
Net Gearing	(46.3%)	(53.3%)	(53.7%)	(51.3%)	(52.1%)
P/BV (x)	11.54	10.14	8.78	7.60	6.54
ROE	11.5%	16.5%	19.6%	20.6%	21.7%
% Change In Core EPS Estimates				6.97%	9.12%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

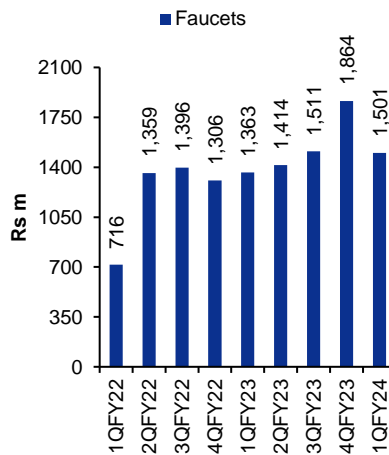
1QFY24 earnings-call highlights

- **Growth guidance:** Cera's management expects to achieve a 18-20% revenue CAGR, with EBITDA margin expansion of 50bp-75bp every year over the next two-to-three years.
- **Capacity utilization and mix:** The company operated its plants at 100% of their capacity in case of sanitaryware and 126% in case of faucets in 1QFY24. Revenue from Tier-1 cities (population of 1.7m and above) was at 33%, from Tier-2 cities (population between 300,000 to 1.7m) was at 22% and from Tier-3 cities (population below 300,000) was at 45% of total sales during the quarter. Entry-range products accounted for 31% of its total sales, mid-category products accounted for 24% of total sales while premium products' sales stood at 45% of total sales in 1QFY24.
- **Loyalty program:** The retailer loyalty program made considerable progress with over 1,85,000 invoices uploaded by 15,300 retailers providing the company with insights into end-consumers' buying patterns. Witnessing the encouraging response from retailers, Cera launched the loyalty program for plumbers recently.
- **New product sales:** Products launched over the past three years accounted for 29% of total sales in 1Q vs. industry average at 10-12% of total sales. The company has 572 product stock-keeping units or SKUs for sanitaryware and 1,584 product SKUs in the faucet category.
- **Advertising expenses:** Cera has budgeted advertisement and publicity expenditure of Rs650m for FY24F. The company spent Rs110m in 1QFY24 vs. Rs118m yoy.
- **Fuel cost:** Average weighted natural gas prices stood at Rs34/scm and accounted for ~1.8% of 1QFY24 sales. GAIL supplied ~77% of the gas needs while the remaining 23% was sourced from Sabarmati (JV between BPCL and GSPC). Prices of gas supplied by GAIL have been continuously declining and stood at Rs29/scm vs. Rs36/scm while Sabarmati gas prices fell to Rs46/scm vs. Rs58/scm between Mar and Jun 2023.
- **Capex:** The company has budgeted a capex of Rs350m for FY24F, excluding the ongoing brownfield faucet expansion and greenfield sanitaryware capacity. 1Q saw a capex of Rs50m. For its greenfield sanitaryware plant, the company is in the process of due diligence for a parcel of land in Gujarat owned by a single owner and has budgeted ~Rs250m for land purchase and Rs1.05bn for the remaining capex to be incurred over FY24F-26F. The SW plant would take about 18-24 months for construction once the land acquisition is completed.
- **Net working capital:** It stood at 72 days of sales vs. 60 days yoy at the end of Jun 2023, largely due to prepayment of creditors.
- **Cash flow:** OCF stood at Rs540m at the end of Jun 2023. Consolidated net cash (including cash equivalents) and bank balance as of Jun 2023-end stood at Rs7.5bn.

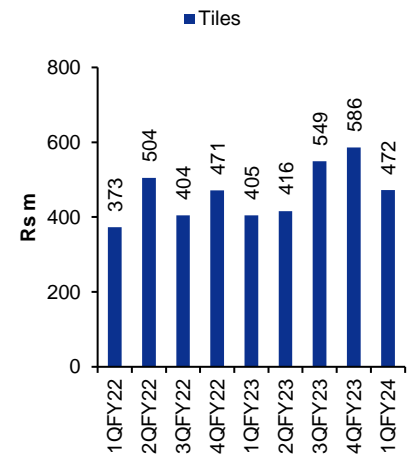
Figure 1: Segment-wise revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 1QFY24 results snapshot

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	4,289	3,972	8.0	5,325	(19.5)
EBITDA	704	628	12.0	872	(19.3)
EBITDA margin (%)	16.4	15.8	59 bp	16.4	4 bp
Adj. PAT	563	395	42.5	678	(16.9)
Diluted EPS (Rs)	43.3	30.4		52.1	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 1QFY24 segment-wise results snapshot

Revenue (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Sanitaryware	2,273	2,116	7.4	2,822	(19.5)
Faucet	1,501	1,363	10.1	1,864	(19.5)
Tile	472	405	16.6	586	(19.5)
Others	43	40	7.8	53	(19.6)
Sub-total	4,289	3,924	9.3	5,325	(19.5)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

Rs m	1QFY24	4QFY23F	Var (%)
Revenue	4,289	4,578	(6.3)
EBITDA	704	732	(3.9)
EBITDA margin (%)	16.4	16.0	41 bp
Adj. PAT	563	527	6.9

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs. Bloomberg consensus

Rs m	1QFY24	4QFY23C	Var (%)
Revenue	4,289	4,688	(8.5)
EBITDA	704	752	(6.4)
EBITDA margin (%)	16.4	16.0	37 bp
Adj. PAT	563	567	(0.7)

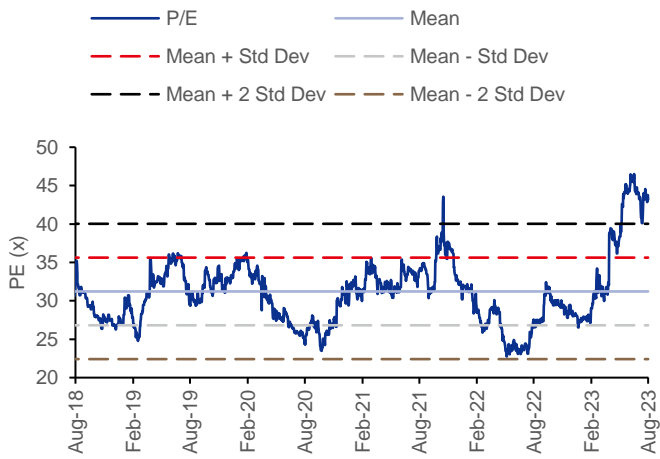
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	21,255	24,699	21,593	25,116	-1.6	-1.7
EBITDA	3,507	4,248	3,400	4,030	3.1	5.4
Adjusted consol. PAT	2,600	3,172	2,430	2,907	7.0	9.1
EPS	199.9	243.9	186.8	223.5	7.0	9.1
EBITDA margin (%)	16.5	17.2	15.7	16.0	75 bp	115 bp

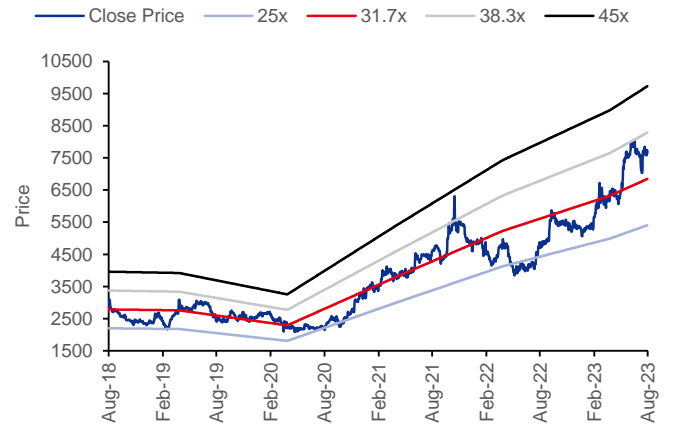
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



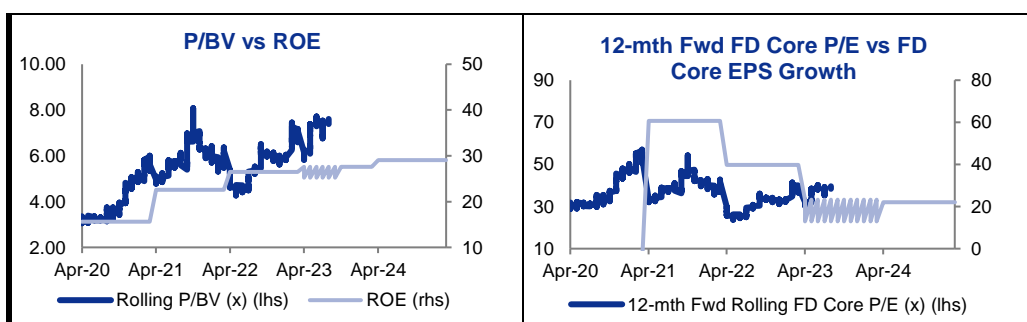
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

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
Total Net Revenues	12,177	14,458	18,035	21,255	24,699
Gross Profit	5,909	7,622	9,789	11,371	13,338
Operating EBITDA	1,514	2,287	2,930	3,507	4,248
Depreciation And Amortisation	(396)	(324)	(326)	(364)	(383)
Operating EBIT	1,118	1,963	2,604	3,143	3,865
Financial Income/(Expense)	99	153	200	245	286
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	55	31	95	100	105
Profit Before Tax (pre-EI)	1,273	2,147	2,899	3,488	4,256
Exceptional Items	(57)	(57)	(50)		
Pre-tax Profit	1,273	2,090	2,849	3,488	4,256
Taxation	(340)	(560)	(738)	(888)	(1,084)
Exceptional Income - post-tax					
Profit After Tax	933	1,530	2,111	2,600	3,172
Minority Interests	8	(19)			
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	941	1,511	2,111	2,600	3,172
Recurring Net Profit	941	1,553	2,148	2,600	3,172
Fully Diluted Recurring Net Profit	941	1,553	2,148	2,600	3,172

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	1,514	2,287	2,930	3,507	4,248
Cash Flow from Invt. & Assoc.					
Change In Working Capital	1,316	(988)	(770)	(335)	(457)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	15	(175)	(219)	(345)	(391)
Net Interest (Paid)/Received	65	20	(28)	(245)	(286)
Tax Paid	(296)	(515)	(727)	(888)	(1,084)
Cashflow From Operations	2,613	629	1,186	1,694	2,031
Capex	(147)	(199)	(387)	(1,195)	(868)
Disposals Of FAs/subsidiaries	6	16	12		
Acq. Of Subsidiaries/Investments	(2,313)	(668)	(708)	(250)	(1,000)
Other Investing Cashflow	30	32	29	312	355
Cash Flow From Investing	(2,423)	(818)	(1,054)	(1,133)	(1,513)
Debt Raised/(repaid)	(158)	126	(111)		
Proceeds From Issue Of Shares	49	8	6		
Shares Repurchased					
Dividends Paid		(169)	(455)	(780)	(975)
Preferred Dividends					
Other Financing Cashflow	(79)	(65)	(36)	(67)	(69)
Cash Flow From Financing	(188)	(100)	(596)	(848)	(1,044)
Total Cash Generated	2	(288)	(464)	(287)	(526)
Free Cashflow To Equity	32	(62)	21	561	518
Free Cashflow To Firm	93	(241)	132	494	449

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	4,814	5,758	6,607	7,261	8,516
Total Debtors	2,095	1,648	1,892	2,038	2,368
Inventories	1,997	2,937	3,825	4,367	5,075
Total Other Current Assets	475	349	415	489	568
Total Current Assets	9,380	10,691	12,739	14,155	16,528
Fixed Assets	4,009	3,207	3,138	3,539	3,523
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
Total Non-current Assets	4,457	3,889	4,028	4,858	5,342
Short-term Debt	303	211	212	212	212
Current Portion of Long-Term Debt					
Total Creditors	1,554	1,335	2,069	2,038	2,368
Other Current Liabilities	1,767	1,784	1,579	2,038	2,368
Total Current Liabilities	3,623	3,330	3,860	4,288	4,949
Total Long-term Debt	327	55	42	42	42
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	542	547	656	656	656
Total Non-current Liabilities	869	602	698	698	698
Total Provisions	303	354	376	376	376
Total Liabilities	4,795	4,286	4,934	5,362	6,023
Shareholders Equity	8,925	10,152	11,726	13,546	15,742
Minority Interests	117	142	106	106	106
Total Equity	9,042	10,294	11,832	13,652	15,848

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	0.5%	18.7%	24.7%	17.9%	16.2%
Operating EBITDA Growth	(1.2%)	51.1%	28.1%	19.7%	21.1%
Operating EBITDA Margin	12.4%	15.8%	16.2%	16.5%	17.2%
Net Cash Per Share (Rs)	321.79	422.19	488.52	538.77	635.32
BVPS (Rs)	686.23	780.53	901.62	1,041.50	1,210.40
Gross Interest Cover	11.49	37.17	43.05	46.79	56.01
Effective Tax Rate	26.7%	26.8%	25.9%	25.5%	25.5%
Net Dividend Payout Ratio	13.2%	21.4%	22.4%	22.4%	22.9%
Accounts Receivables Days	64.79	47.24	35.81	33.74	32.56
Inventory Days	128.88	131.73	149.66	151.28	151.67
Accounts Payables Days	72.99	77.11	75.33	75.84	70.78
ROIC (%)	15.5%	34.9%	48.6%	50.2%	52.1%
ROCE (%)	13.9%	20.8%	24.5%	25.8%	27.4%
Return On Average Assets	9.0%	14.0%	17.2%	18.1%	19.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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