

India

ADD (no change)

Consensus ratings*: Buy 12 Hold 8 Sell 1

Current price:	Rs8,132
Target price: ▲	Rs9,523
Previous target:	Rs8,780
Up/downside:	17.1%
InCred Research / Consensus:	11.9%
Reuters:	CERA.NS
Bloomberg:	CRS IN
Market cap:	US\$1,270m Rs105,764m
Average daily turnover:	US\$2.7m Rs227.5m
Current shares o/s:	13.0m
Free float:	45.5%

*Source: Bloomberg

Key changes in this note

- FY24F/25F revenue cut by 1.5%/1.4%.
- FY24F EBITDA/PAT raised by 1.5%/3.7%.
- FY25F EBITDA cut by 1.7%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(4.6)	5.0	49.7
Relative (%)	(2.4)	6.9	42.2

Major shareholders	% held
Promoters	54.5
Nalanda India Equity Fund	10.0
HSBC Small Cap Fund	2.3

Analyst(s)



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Cera Sanitaryware

Growth rate to pick up in 2HFY24F

- 2Q results largely in line with expectations. The faucet business did well while sanitaryware sales growth was soft. The EBITDA margin was steady at 16.5%.
- We expect a better 2H (sales growth of 21% yoy) & see the bathware demand growth sustaining. We expect a revenue CAGR of 15.6% over FY23-26F.
- Market share gains, brand perception improving, healthy balance sheet and cumulative FCF of Rs5.5bn over FY23-26F are the key positives. Retain ADD.

Sanitaryware growth slower vs. faucets; margins steady

Cera Sanitaryware's 2QFY24 consol. revenue was at Rs4.6bn, +11% yoy, while EBITDA/PAT stood at Rs765m/Rs585m, +13%/+15% yoy, respectively, and in line with Incred/Bloomberg consensus estimates. Consol. gross/EBITDA margins stood at 52.9%/16.5%, down 296bp/+16bp yoy, respectively. Sanitaryware & faucet revenue stood at Rs2.4bn/Rs1.7bn, +5%/18% yoy, respectively, contributing 87% to total sales. Management cited unseasonal rains and a high base effect for slower revenue growth in 2Q yoy. Tiles revenue grew to Rs510m, +23% yoy, with GVT tiles accounting for 40%+ of total sales. In line with the strategy of improving brand perception and premiumizing the sales mix, new products (launched in the past three years) mix improved to 29% of total sales in 2Q. Project sales stood at 33% of total sales. Cera made a full provision for impairment of its investment in Milo Tile LLP (26% equity stake) to the tune of Rs15.6m in 2QFY24. Net working capital cycle was stable at 46 days of TTM sales while net cash (incl. equivalents) stood at Rs7.5bn as of end-Sep 2023.

Bathware demand momentum to sustain going ahead

Management indicated a strong start to 2H in Oct 2023 for bathware and tiles. New real estate project launches have sustained their strong momentum, and we expect the demand for building material products to pick up in 2HFY24F. The first phase of the faucet brownfield expansion was completed in Sep 2023, adding ~30%+ to its existing capacity (peak sales potential of ~Rs1.5bn). Land acquisition for the greenfield sanitaryware plant is ongoing and may be completed by the end of Dec 2023F. We expect a revenue growth of 21% yoy in 2HFY24F vs. 10% in 1HFY24. On the back of the success of 1) new premium products, and 2) retailer and plumber loyalty programs, combined with new capacity creation, we expect a revenue CAGR of 15.6% over FY23-26F. We build in a capex outlay of Rs2.7bn over FY24F-26F, which includes phase-I expansion in sanitaryware (Rs1.3bn) & faucets (~Rs600m) and annual recurring spending on fixed assets.

We find the risk-reward ratio attractive at current valuation

We account for 1H actuals and marginally tweak our inter-segment growth assumptions, largely retaining our FY24F-25F estimates and introduce FY26F. Market share gains, improving brand perception, healthy balance sheet & cumulative FCF of Rs5.5bn over FY23-26F are the key positives. Retain ADD rating with a higher target price of Rs9,523 (Rs8,780 earlier) based on a higher exit P/E of 39x (five-year mean at +2SD) FY25F EPS. Downside risk: Capex delay.

Financial Summary

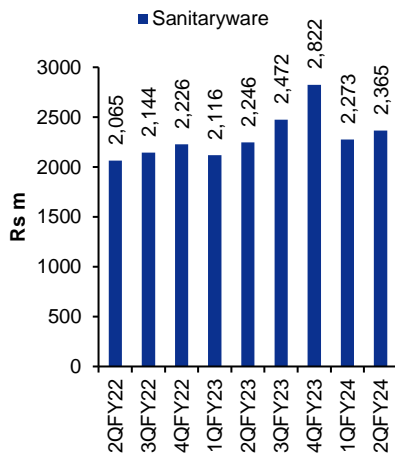
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	14,458	18,035	20,939	24,341	27,846
Operating EBITDA (Rsm)	2,287	2,930	3,560	4,174	4,859
Net Profit (Rsm)	1,511	2,095	2,679	3,176	3,689
Core EPS (Rs)	119.4	163.9	206.9	244.2	283.7
Core EPS Growth	65.0%	37.3%	26.2%	18.0%	16.2%
FD Core P/E (x)	70.00	50.49	39.47	33.30	28.67
DPS (Rs)	35.0	50.0	60.0	75.0	85.0
Dividend Yield	0.43%	0.61%	0.74%	0.92%	1.05%
EV/EBITDA (x)	43.90	33.97	27.79	23.40	19.71
P/FCFE (x)	(1,698.44)	5,055.63	271.00	386.96	72.75
Net Gearing	(53.3%)	(53.7%)	(50.8%)	(51.4%)	(54.8%)
P/BV (x)	10.42	9.02	7.76	6.68	5.75
ROE	16.5%	19.5%	21.2%	21.6%	21.6%
% Change In Core EPS Estimates			3.52%	0.12%	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

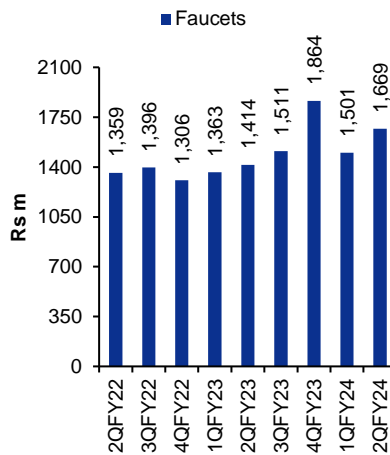
2QFY24 earnings-call highlights

- **Growth and margin guidance:** Cera Sanitaryware's management does not foresee permanent headwinds to the bathware demand trend and expects the growth to bounce back in 2HFY24F, supported by a strong start in Oct 2023. The company expects to sustain sanitaryware revenue CAGR of 12-17% over FY24F-26F. Management is confident of doubling FY22 consolidated revenue by FY26F. The long-term gross margin would be in the range of 48-52%, as per management.
- **Capacity utilization and mix:** The company operated its plants at 91% of their capacity for sanitaryware and 122% for faucets in 2QFY24. Revenue from Tier-1 cities (population of 1.7m and above) was 33%, 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 45% of total sales during the quarter.
- **Price hikes:** The company has not taken any price hike since May 2022 and continued to premiumize the sales mix and control costs, leading to stable margins.
- **Loyalty program:** The retailer loyalty program made considerable progress, with over 2,20,000 invoices uploaded by 15,500 retailers to avail reward points and aided the company with insights into end-consumer buying patterns. The recently launched plumber loyalty program received an encouraging response.
- **Advertising expenses:** Cera Sanitaryware's advertising and publicity budget is likely to be Rs650m in FY24F. The company intends to equal the share of voice (SOV) and share of market (SOM) by Mar 2024F.
- **Fuel costs:** Average weighted natural gas price stood at Rs33/scm and accounted for ~1.5% of 2QFY24 sales. GAIL supplied ~70% of the gas requirement while the remaining 30% was sourced from Sabarmati (joint venture between Bharat Petroleum Corporation or BPCL and GSPC). Prices of gas supplied by GAIL have risen, after declining continuously earlier, and stood at Rs29/scm vs. Rs26/scm yoy while Sabarmati gas price has been reduced to Rs45/scm vs. Rs75/scm yoy.
- **Tiles segment update:** The segment remains a 100% trading business for Cera Sanitaryware, with minimal working capital investment. Of the total tile sales, 41% comprised GVT, 3% soluble salt, 15% double-charged tiles and 25% wall tiles. There has been a consistent improvement of the sales mix in favour of premium tiles, leading to higher revenue growth rates for Cera Sanitaryware vs. peers in 1HFY24. Management indicated that it would restrict tile sales mix to 10-12% of the total sales.
- **Capex:** The company has budgeted a capex of Rs350m for FY24F, excluding the recently completed brownfield faucet expansion and greenfield sanitaryware project. 1HFY24 had a capex outlay of Rs198m. As regards the greenfield sanitaryware project, the company is undergoing due diligence of the land bought in Gujarat (owned by a single owner) and it expects the title deed to be transferred in the next one-to-two months.
- **Net working capital:** It stood at 46 days of TTM sales at the end of Sep 2023 vs. 50 days at end of Mar 2023.
- **Cash flow:** OCF stood at Rs1.3bn and FCF at Rs1.1bn in 1HFY24. Consolidated net cash (including cash equivalents) stood at Rs7.5bn (flat qoq).

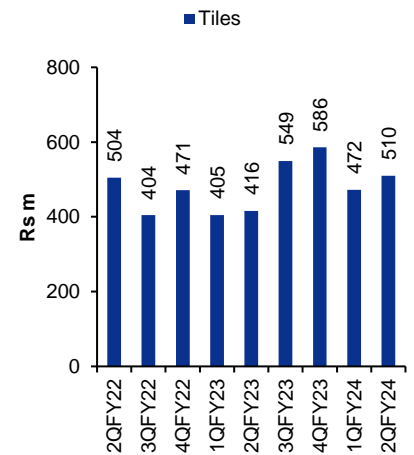
Figure 1: Segment-wise revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: 2QFY24 results snapshot

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy(%)
Revenue	4,637	4,159	11.5	4,289	8.1	8,926	8,131	9.8
EBITDA	765	679	12.6	704	8.6	1,469	1,308	12.3
EBITDA margin (%)	16.5	16.3	16 bp	16.4	8 bp	16.5	16.1	37 bp
Adj. PAT	585	507	15.2	563	3.9	1,147	902	27.2
Diluted EPS (Rs)	44.9	39.0		43.3		88.2	69.4	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: 2QFY24 segment-wise results snapshot

Revenue (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy(%)
Sanitaryware	2,365	2,246	5.3	2,273	4.0	4,638	4,362	6.3
Faucet	1,669	1,414	18.0	1,501	11.2	3,171	2,777	14.2
Tile	510	416	22.6	472	8.1	982	821	19.6
Others	93	83	11.5	43	116.6	136	123	10.3
Sub-total	4,637	4,159	11.5	4,289	8.1	8,926	8,083	10.4

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

Rs m	2QFY24	2QFY24F	Var (%)
Revenue	4,637	4,870	(4.8)
EBITDA	765	791	(3.4)
EBITDA margin (%)	16.5	16.3	24 bp
Adj. PAT	585	609	(4.0)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs. Bloomberg consensus

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	4637	4,707	(1.5)
EBITDA	765	776	(1.5)
EBITDA margin (%)	16.5	16.5	-1 bp
Adj. PAT	585	597	(2.1)

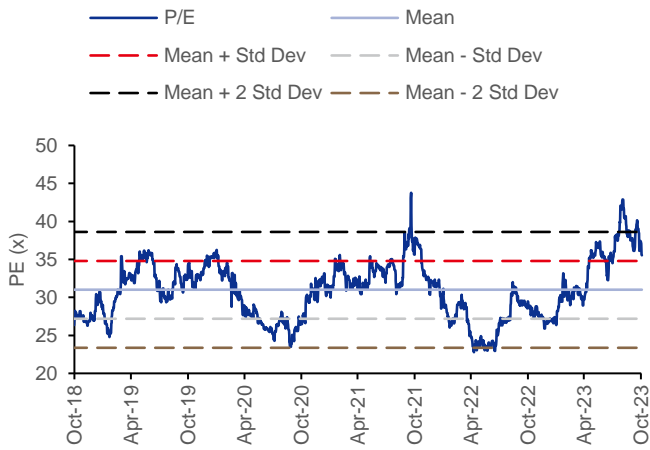
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	20,939	24,341	27,846	21,255	24,699	NA	-1.5	-1.4	NA
EBITDA	3,560	4,174	4,859	3,507	4,248	NA	1.5	-1.7	NA
Adjusted consol. PAT	2,695	3,176	3,689	2,600	3,172	NA	3.7	0.1	NA
EPS	207.2	244.2	283.7	199.9	243.9	NA	3.7	0.1	NA
EBITDA margin (%)	17.0	17.2	17.5	16.5	17.2	NA	50 bp	-5 bp	NA

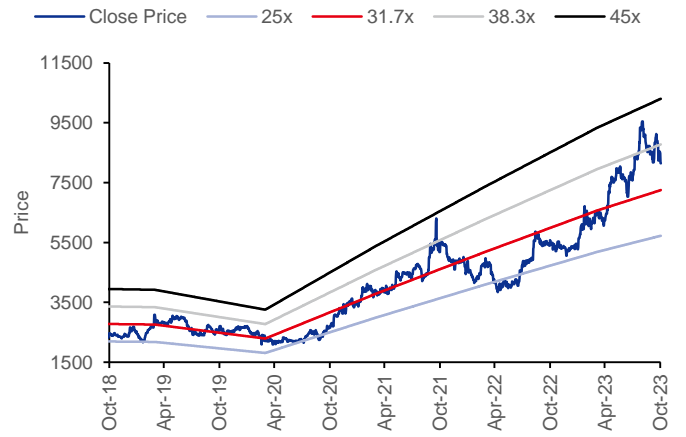
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



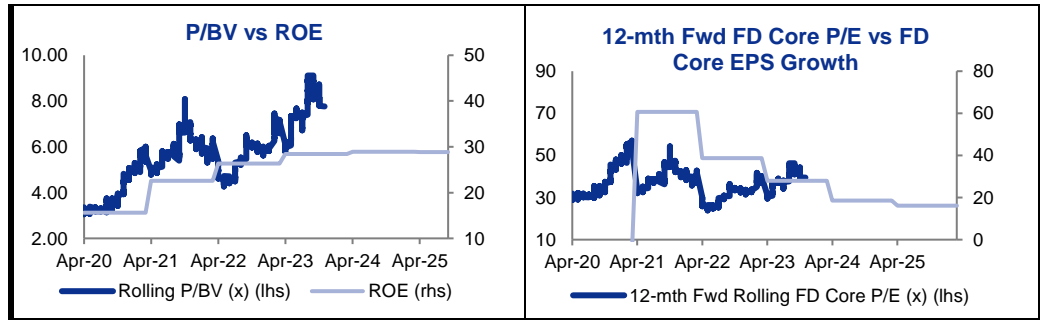
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	14,458	18,035	20,939	24,341	27,846
Gross Profit	7,622	9,789	10,783	12,596	14,410
Operating EBITDA	2,287	2,930	3,560	4,174	4,859
Depreciation And Amortisation	(324)	(326)	(373)	(399)	(492)
Operating EBIT	1,963	2,604	3,187	3,775	4,367
Financial Income/(Expense)	153	200	310	398	492
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	31	95	125	100	105
Profit Before Tax (pre-EI)	2,147	2,899	3,622	4,274	4,964
Exceptional Items	(57)	(50)	(16)		
Pre-tax Profit	2,090	2,849	3,607	4,274	4,964
Taxation	(560)	(738)	(910)	(1,079)	(1,253)
Exceptional Income - post-tax					
Profit After Tax	1,530	2,111	2,697	3,195	3,711
Minority Interests	(19)	(16)	(18)	(19)	(21)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	1,511	2,095	2,679	3,176	3,689
Recurring Net Profit	1,553	2,132	2,691	3,176	3,689
Fully Diluted Recurring Net Profit	1,553	2,132	2,691	3,176	3,689

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	2,287	2,930	3,560	4,174	4,859
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(988)	(770)	(465)	(479)	(494)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(175)	(219)	(420)	(498)	(597)
Net Interest (Paid)/Received	20	(28)	(310)	(398)	(492)
Tax Paid	(515)	(727)	(910)	(1,079)	(1,253)
Cashflow From Operations	629	1,186	1,455	1,720	2,023
Capex	(199)	(387)	(1,195)	(918)	(636)
Disposals Of FAs/subsidiaries	16	12			
Acq. Of Subsidiaries/Investments	(668)	(708)	(250)	(1,000)	(500)
Other Investing Cashflow	32	29	381	471	567
Cash Flow From Investing	(818)	(1,054)	(1,064)	(1,447)	(569)
Debt Raised/(repaid)	126	(111)			
Proceeds From Issue Of Shares	8	6			
Shares Repurchased					
Dividends Paid	(169)	(455)	(780)	(975)	(1,105)
Preferred Dividends					
Other Financing Cashflow	(65)	(36)	(70)	(72)	(75)
Cash Flow From Financing	(100)	(596)	(851)	(1,048)	(1,180)
Total Cash Generated	(288)	(464)	(460)	(775)	274
Free Cashflow To Equity	(62)	21	390	273	1,454
Free Cashflow To Firm	(241)	132	320	201	1,379

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	5,758	6,607	7,237	8,459	10,427
Total Debtors	1,648	1,892	2,180	2,534	2,899
Inventories	2,937	3,825	4,302	5,002	5,722
Total Other Current Assets	349	415	482	560	641
Total Current Assets	10,691	12,739	14,201	16,555	19,688
Fixed Assets	3,207	3,138	3,530	3,498	4,742
Total Investments	350	252	252	252	252
Intangible Assets	5	5	5	5	5
Total Other Non-Current Assets	328	632	1,062	1,612	512
Total Non-current Assets	3,889	4,028	4,850	5,368	5,511
Short-term Debt	211	212	212	212	212
Current Portion of Long-Term Debt					
Total Creditors	1,335	2,069	2,008	2,334	2,670
Other Current Liabilities	1,784	1,579	2,008	2,334	2,670
Total Current Liabilities	3,330	3,860	4,227	4,880	5,552
Total Long-term Debt	55	42	42	42	42
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	547	656	656	656	656
Total Non-current Liabilities	602	698	698	698	698
Total Provisions	354	376	376	376	376
Total Liabilities	4,286	4,934	5,301	5,954	6,626
Shareholders Equity	10,152	11,726	13,625	15,826	18,410
Minority Interests	142	106	124	143	164
Total Equity	10,294	11,832	13,749	15,969	18,574

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	18.7%	24.7%	16.1%	16.2%	14.4%
Operating EBITDA Growth	51.1%	28.1%	21.5%	17.3%	16.4%
Operating EBITDA Margin	15.8%	16.2%	17.0%	17.1%	17.5%
Net Cash Per Share (Rs)	422.19	488.52	536.93	630.91	782.22
BVPS (Rs)	780.53	901.62	1,047.64	1,216.81	1,415.48
Gross Interest Cover	37.17	43.05	45.26	52.13	58.60
Effective Tax Rate	26.8%	25.9%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	21.4%	22.6%	21.6%	22.9%	22.4%
Accounts Receivables Days	47.24	35.81	35.49	35.34	35.61
Inventory Days	131.73	149.66	146.06	144.58	145.66
Accounts Payables Days	77.11	75.33	73.27	67.47	67.97
ROIC (%)	34.9%	48.6%	50.9%	50.0%	51.1%
ROCE (%)	20.8%	24.5%	26.6%	27.4%	27.6%
Return On Average Assets	14.0%	17.2%	18.5%	18.9%	19.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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