



India

**HOLD** (previously ADD)

Consensus ratings\*: Buy 12 Hold 9 Sell 0

Current price:	Rs7,535
Target price:	Rs7,903
Previous target:	Rs9,523
Up/downside:	4.9%
InCred Research / Consensus:	-9.8%
Reuters:	CERA.NS
Bloomberg:	CRS IN
Market cap:	US\$1,181m
	Rs98,003m
Average daily turnover:	US\$2.1m
	Rs177.8m
Current shares o/s:	13.0m
Free float:	45.5%

\*Source: Bloomberg

**Key changes in this note**

- Cut revenue by 11-13% for FY24F-26F.
- Cut EBITDA by 17-19% for FY24F-26F.
- Cut PAT by 14-17% for FY24F-26F.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(6.0)	(15.1)	23.4
Relative (%)	(4.7)	(23.0)	4.2

**Major shareholders**

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

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# Cera Sanitaryware

## Weak demand is a problem

- 3QFY24 results missed estimates due to pan-India weakness in consumer demand, adverse weather conditions & some new regulations in key markets.
- Management expects a back-ended recovery in sales/margins from 2QFY25F. Faucet plant is ramping up & the sanitaryware plant to be ready in 2HFY26F.
- Cut our estimates sharply by 10-20% over FY24F-26F. Downgrade the stock's rating to HOLD (from ADD) with a lower target price of Rs7,903.

**Decline in sales and margins yoy impact 3QFY24 performance**

Cera Sanitaryware reported a weak 3QFY24 performance, with revenue/EBITDA/PAT declining by 4%/18%/10% yoy, respectively. Pan-India weakness in consumer demand, adverse weather conditions and some new regulations impacted sales in key markets of North and South India. Gross margin was largely stable yoy at 54.4% but higher advertising expenses and operating deleverage impacted the EBITDA margin, which fell to 14%, down 240bp yoy. Publicity and advertisement expenses stood at 5% of sales vs. 3.8% yoy in 3Q. Within segments, sanitaryware sales stood at Rs2.3bn, down 8% yoy and faucet sales were at Rs1.6bn, +5% yoy. Tile revenue fell to Rs439m, down 20% yoy. Product premiumization continued with new product SKUs launched over the past 36 months accounting for 32-35% of total sales in 3Q. Tier-3 and smaller cities accounted for 45% of total sales. Premium and mid-level product SKUs accounted for 75%+ of total sales in 3Q.

**New capacities to support back-ended demand recovery**

Cera's management cautioned about the weak demand trend, given a slow start in Jan 2024, & it expects a lower-than-budgeted 4QFY24F performance. The capacity utilization averaged 80-85% for in-house bathware manufacturing units in 3QFY24. The recent faucet brownfield expansion project (1.2m pieces per year) is expected to achieve 90%+ utilization by 1QFY25F. The company has acquired most of the land for its greenfield sanitaryware plant (1.2m pieces per year) and expects it to be completed in 2HFY26F. We expect a gradual and back-ended demand recovery and see consol. sales/EBITDA CAGRs at 14%/16% over FY24F-26F led by sanitaryware/faucet sales CAGR of 12%/18%, respectively.

**Change in our earnings estimates**

We sharply cut financial estimates in the wake of a significant miss in 9MFY24 performance and delayed recovery in sales growth and margins over the next two years. We cut revenue by 11-13% and EBITDA/PAT by 14-20% over FY24F-26F. We expect cumulative FCF of Rs4.5bn and RoCE to be largely stable in the range of 22-24% over FY24F-26F.

**Valuation and risks**

We expect an EPS CAGR of 14%, vs. 17% earlier, over FY24F-26F. We lower our target price to Rs7,903 (Rs9,523 earlier), retaining our exit P/E of 39x (five-year mean + 1SD) FY25F EPS. Downgrade the stock's rating to HOLD (from ADD). Upside risks: Market share gains and faster demand recovery. Downside risk: Capex delay.

**Financial Summary**

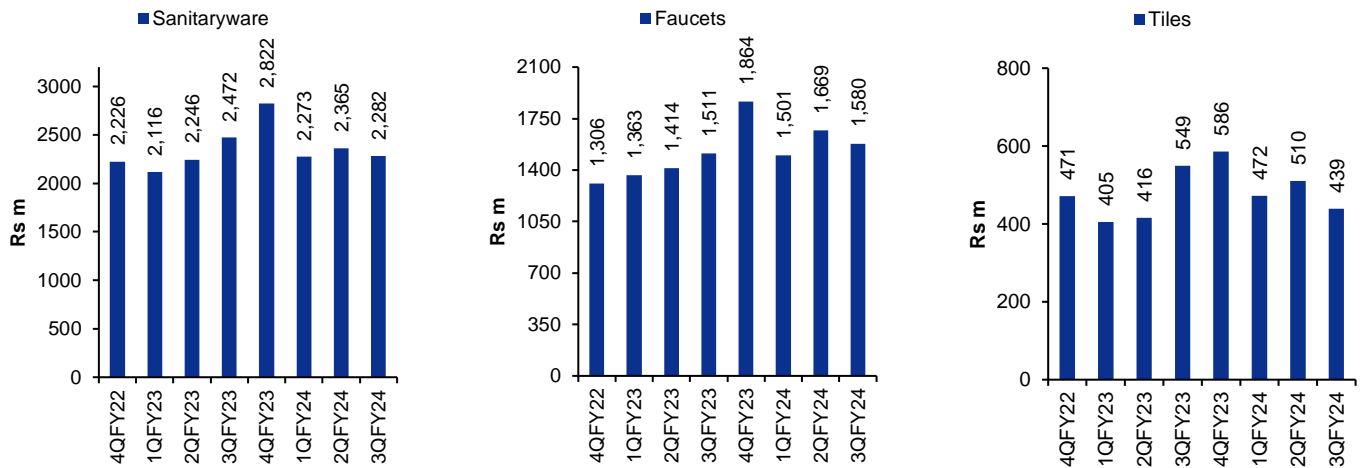
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	14,458	18,035	18,636	21,235	24,255
Operating EBITDA (Rsm)	2,287	2,930	2,945	3,419	3,954
Net Profit (Rsm)	1,511	2,095	2,306	2,636	3,080
Core EPS (Rs)	119.4	163.9	178.2	202.6	236.8
Core EPS Growth	65.0%	37.3%	8.7%	13.7%	16.9%
FD Core P/E (x)	64.86	46.79	42.50	37.19	31.82
DPS (Rs)	35.0	50.0	55.0	65.0	75.0
Dividend Yield	0.46%	0.66%	0.73%	0.86%	1.00%
EV/EBITDA (x)	40.51	31.32	30.85	26.28	22.40
P/FCFE (x)	(1,573.81)	4,684.63	226.41	(718.51)	149.70
Net Gearing	(53.3%)	(53.7%)	(54.3%)	(54.5%)	(55.4%)
P/BV (x)	9.65	8.36	7.36	6.49	5.69
ROE	16.5%	19.5%	18.5%	18.5%	19.1%
% Change In Core EPS Estimates			(13.87%)	(17.01%)	(16.51%)
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

## 3QFY24 earnings-call highlights

- **Demand trend:** North and South India, which account for 65%+ of total sales for Cera, saw slower demand in 3QFY24. Adverse weather conditions in North India (construction activity temporarily halted in Delhi-NCR to control air pollution every winter), delayed regulatory clearance for three-floor individual housing units in Delhi-NCR and the levy of a higher local body tax on individual housing construction in Kerala (10% of total sales) were some of the reasons for sub-par sales in 3QFY24. Management indicated that new real estate project launches and individual housing development trend remain healthy on the back of which demand for bathware products should pick up close to completion of these units from 2QFY25F.
- **Growth and margin guidance:** Given the extremely weak consumer demand since Nov 2023 and a soft 1HFY24, Cera's management indicated a moderate 4QFY24F and would miss its earlier guidance of 15%+ sales growth for FY24F (9MFY24: +5% yoy). Management is also revisiting its mid-term sales guidance of Rs29-30bn by Sep 2025F and would update on the same after the 4QFY24 results. As regards the EBITDA margin, improving sales mix in favour of premium products for both sanitaryware and faucets continues and the company should be able to expand its margins by 25-50bp each fiscal year over the next two years, in our view.
- **Capacity utilization and product mix:** The company operated sanitaryware plants at 85% of their capacity and faucet plants at 82% (post expansion) in 3QFY24. Revenue from Tier-1 cities (population of 1.7m and above) was 34%, from Tier-2 (population between 300,000 to 1.7m) was 21% and from Tier-3 cities (population below 300,000) was 45% of total sales during the quarter. Premium products accounted for 43%, mid-level stood at 34% while entry-level product SKUs accounted for the remaining 33% of total sales in 3QFY24.
- **Price hikes:** The company did not take any price hike since May 2022, given benign input costs. From Feb 2024, sanitaryware prices have been hiked by 2% while no price hike has been taken for faucetware.
- **Product innovation:** Cera launched over 200 new product SKUs in 9MFY24. SKUs launched over the past 36 months accounted for 32-35% of total sales in 9MFY24.
- **Advertising expenses:** Cera spent Rs220m (5% of total sales vs. 3.8% yoy) and Rs490m (3.7% of sales) on publicity and advertisements in 3Q and 9MFY24.
- **Capex:** The faucet brownfield expansion from 3.6m pieces to 4.8m pieces per annum (Phase 1: 1.2m pieces per annum) was completed in Sep 2023 at a lower-than-budgeted capex of Rs410m vs. Rs700m planned earlier. The company expects a peak revenue potential of Rs2.4bn from the Phase-1 expansion due to launch of premium products. The civil work for the Phase-2 expansion of 2.4m faucet pieces per year has been completed and orders for machinery would be placed once the Phase-1 stabilizes and achieves optimum capacity utilization. Around 75% of land acquisition of the sanitaryware greenfield plant has been completed and the due diligence is ongoing for the remaining 25% of the land requirement. Management expects 100% possession of the total land area by Sep 2024F and about 18 months of plant construction time before trial production begins. The budgeted total project capex for the greenfield plant is Rs1.25-1.3bn.
- **Cash balance:** Consolidated gross cash balance (including cash equivalents) was Rs7.6bn (flattish qoq) at the end of Dec 2023.

Figure 1: Segment-wise revenue trend



SOURCE: INCRED RESEARCH, COMPANY REPORTS

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SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Results snapshot

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	4,389	4,578	(4.1)	4,637	(5.3)	13,315	12,710	4.8
EBITDA	614	750	(18.1)	765	(19.6)	2,083	2,058	1.2
EBITDA margin (%)	14.0	16.4	-238 bp	16.5	-249 bp	15.6	16.2	-54 bp
Adj. PAT	509	564	(9.8)	585	(13.0)	1,656	1,467	12.9
Diluted EPS (Rs)	39.1	43.4		44.9		127.3	112.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Segment-wise revenue

Revenue (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Sanitaryware	2,282	2,472	(7.7)	2,365	(3.5)	6,921	6,835	1.3
Faucets	1,580	1,511	4.6	1,669	(5.3)	4,751	4,288	10.8
Tiles	483	549	(12.1)	510	(5.3)	1,465	1,370	6.9
Others (Wellness)	44	46	(4.1)	93	(52.7)	179	169	6.4
Sub-total	4,389	4,578	(4.1)	4,637	(5.3)	13,315	12,662	5.2

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Actuals vs. our estimates

Rs m	3QFY24	3QFY24F	Var (%)
Revenue	4,389	4,853	(9.6)
EBITDA	614	798	(23.0)
EBITDA margin (%)	14.0	16.5	-245 bp
Adj. PAT	509	616	(17.5)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Actuals vs. Bloomberg consensus

Rs m	3QFY24	3QFY24C	Var (%)
Revenue	4,389	4,984	(11.9)
EBITDA	614	825	(25.5)
EBITDA margin (%)	14.0	16.6	-256 bp
Adj. PAT	509	620	(17.9)

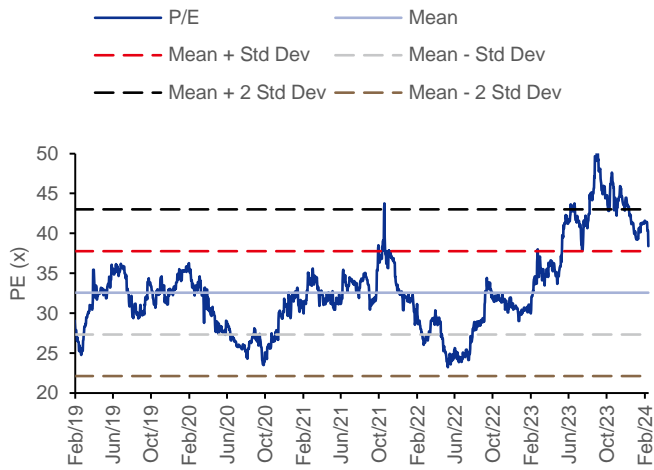
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 6: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	18,636	21,235	24,255	20,939	24,341	27,846	-11.0	-12.8	-12.9
EBITDA	2,945	3,419	3,954	3,560	4,174	4,859	-17.3	-18.1	-18.6
Adjusted consol. PAT	2,322	2,636	3,080	2,695	3,176	3,689	-13.9	-17.0	-16.5
EPS	178.5	202.6	236.8	207.2	244.2	283.7	-13.9	-17.0	-16.5
EBITDA margin (%)	15.8	16.1	16.3	17.0	17.2	17.5	-120 bp	-105 bp	-115 bp

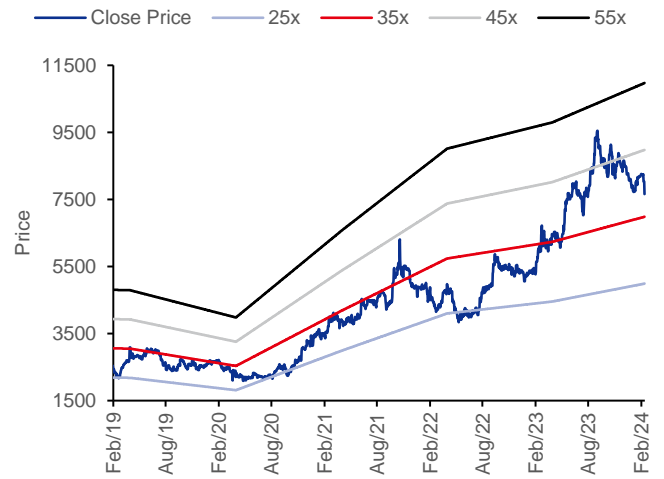
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



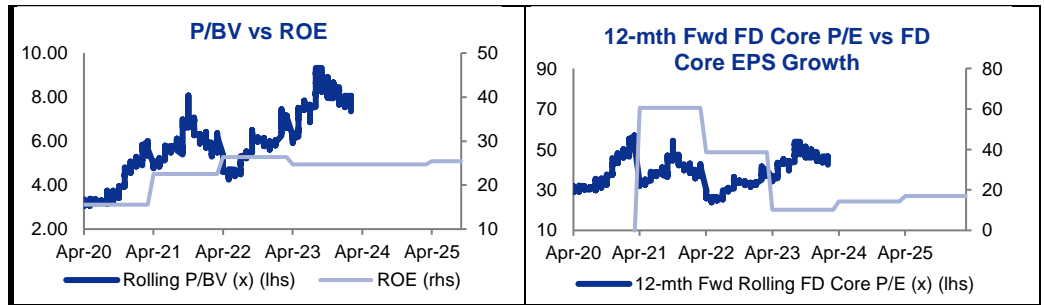
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 8: P/E band (one-year forward EPS)



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>14,458</b>	<b>18,035</b>	<b>18,636</b>	<b>21,235</b>	<b>24,255</b>
<b>Gross Profit</b>	<b>7,622</b>	<b>9,789</b>	<b>9,998</b>	<b>11,467</b>	<b>13,183</b>
<b>Operating EBITDA</b>	<b>2,287</b>	<b>2,930</b>	<b>2,945</b>	<b>3,419</b>	<b>3,954</b>
Depreciation And Amortisation	(324)	(326)	(370)	(409)	(420)
<b>Operating EBIT</b>	<b>1,963</b>	<b>2,604</b>	<b>2,575</b>	<b>3,010</b>	<b>3,533</b>
Financial Income/(Expense)	153	200	435	421	489
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	31	95	100	105	110
<b>Profit Before Tax (pre-EI)</b>	<b>2,147</b>	<b>2,899</b>	<b>3,110</b>	<b>3,536</b>	<b>4,132</b>
Exceptional Items	(57)	(50)	(16)		
<b>Pre-tax Profit</b>	<b>2,090</b>	<b>2,849</b>	<b>3,094</b>	<b>3,536</b>	<b>4,132</b>
Taxation	(560)	(738)	(769)	(879)	(1,028)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>1,530</b>	<b>2,111</b>	<b>2,325</b>	<b>2,657</b>	<b>3,104</b>
Minority Interests	(19)	(16)	(19)	(22)	(24)
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>1,511</b>	<b>2,095</b>	<b>2,306</b>	<b>2,636</b>	<b>3,080</b>
Recurring Net Profit	1,553	2,132	2,318	2,636	3,080
<b>Fully Diluted Recurring Net Profit</b>	<b>1,553</b>	<b>2,132</b>	<b>2,318</b>	<b>2,636</b>	<b>3,080</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>2,287</b>	<b>2,930</b>	<b>2,945</b>	<b>3,419</b>	<b>3,954</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(988)	(770)	12	(345)	(400)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	(175)	(219)	(520)	(526)	(599)
Net Interest (Paid)/Received	20	(28)	(435)	(421)	(489)
Tax Paid	(515)	(727)	(769)	(879)	(1,028)
<b>Cashflow From Operations</b>	<b>629</b>	<b>1,186</b>	<b>1,232</b>	<b>1,248</b>	<b>1,437</b>
Capex	(199)	(387)	(1,045)	(868)	(836)
Disposals Of FAs/subsidiaries	16	12			
Acq. Of Subsidiaries/investments	(668)	(708)	(250)	(1,000)	(500)
Other Investing Cashflow	32	29	496	484	553
<b>Cash Flow From Investing</b>	<b>(818)</b>	<b>(1,054)</b>	<b>(799)</b>	<b>(1,384)</b>	<b>(783)</b>
Debt Raised/(repaid)	126	(111)			
Proceeds From Issue Of Shares	8	6			
Shares Repurchased					
Dividends Paid	(169)	(455)	(715)	(845)	(975)
Preferred Dividends					
Other Financing Cashflow	(65)	(36)	(60)	(62)	(64)
<b>Cash Flow From Financing</b>	<b>(100)</b>	<b>(596)</b>	<b>(776)</b>	<b>(908)</b>	<b>(1,040)</b>
Total Cash Generated	(288)	(464)	(343)	(1,044)	(385)
<b>Free Cashflow To Equity</b>	<b>(62)</b>	<b>21</b>	<b>433</b>	<b>(136)</b>	<b>655</b>
<b>Free Cashflow To Firm</b>	<b>(241)</b>	<b>132</b>	<b>373</b>	<b>(199)</b>	<b>590</b>

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	7,555	8,563	9,876
Total Debtors	1,648	1,892	1,940	2,211	2,525
Inventories	2,937	3,825	3,829	4,363	4,984
Total Other Current Assets	349	415	429	489	558
<b>Total Current Assets</b>	<b>10,691</b>	<b>12,739</b>	<b>13,753</b>	<b>15,626</b>	<b>17,943</b>
Fixed Assets	3,207	3,138	3,633	3,591	4,807
Total Investments	350	252	252	252	252
Intangible Assets	5	5	5	5	5
Total Other Non-Current Assets	328	632	812	1,312	512
<b>Total Non-current Assets</b>	<b>3,889</b>	<b>4,028</b>	<b>4,702</b>	<b>5,161</b>	<b>5,576</b>
Short-term Debt	211	212	212	212	212
Current Portion of Long-Term Debt					
Total Creditors	1,335	2,069	1,787	2,036	2,326
Other Current Liabilities	1,784	1,579	1,940	2,211	2,525
<b>Total Current Liabilities</b>	<b>3,330</b>	<b>3,860</b>	<b>3,939</b>	<b>4,459</b>	<b>5,063</b>
Total Long-term Debt	55	42	42	42	42
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	547	656	656	656	656
<b>Total Non-current Liabilities</b>	<b>602</b>	<b>698</b>	<b>698</b>	<b>698</b>	<b>698</b>
Total Provisions	354	376	376	376	376
<b>Total Liabilities</b>	<b>4,286</b>	<b>4,934</b>	<b>5,013</b>	<b>5,533</b>	<b>6,137</b>
Shareholders Equity	10,152	11,726	13,317	15,107	17,212
Minority Interests	142	106	125	147	171
<b>Total Equity</b>	<b>10,294</b>	<b>11,832</b>	<b>13,442</b>	<b>15,254</b>	<b>17,383</b>

**Key Ratios**

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	18.7%	24.7%	3.3%	13.9%	14.2%
Operating EBITDA Growth	51.1%	28.1%	0.5%	16.1%	15.6%
Operating EBITDA Margin	15.8%	16.2%	15.8%	16.1%	16.3%
Net Cash Per Share (Rs)	422.19	488.52	561.37	638.91	739.86
BVPS (Rs)	780.53	901.62	1,023.93	1,161.57	1,323.40
Gross Interest Cover	37.17	43.05	42.71	48.33	54.88
Effective Tax Rate	26.8%	25.9%	24.9%	24.9%	24.9%
Net Dividend Payout Ratio	21.4%	22.6%	23.1%	24.1%	23.7%
Accounts Receivables Days	47.24	35.81	37.52	35.67	35.63
Inventory Days	131.73	149.66	161.73	153.07	154.06
Accounts Payables Days	77.11	75.33	81.48	71.43	71.90
ROIC (%)	34.9%	48.6%	41.1%	43.5%	45.7%
ROCE (%)	20.8%	24.5%	23.1%	23.3%	24.1%
Return On Average Assets	14.0%	17.2%	15.2%	15.9%	16.4%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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