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Company update and  
earnings revision

## Sanitaryware

Target price: Rs2,446

### Earnings Revision

(%)	FY20E	FY21E
Sales	-	↓ 4.7
EBITDA	-	↓ 8.4
PAT	-	↓ 10.1

### Target price revision

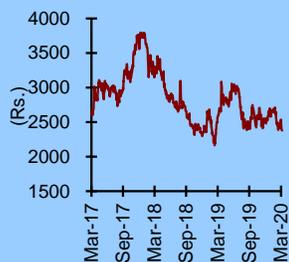
Rs2,446 from Rs2,662

### Shareholding pattern

	Jun '19	Sep '19	Dec '19
Promoters	54.8	54.8	54.8
Institutional investors	19.9	19.9	19.9
MFs and UTI	12.2	12.2	12.2
FIs/Banks	0.1	0.1	0.1
Insurance	0.0	0.0	0.0
FII	7.6	7.6	7.6
Others	25.3	25.3	25.3

Source: NSE

### Price chart



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INDIA

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## Cera Sanitaryware

**HOLD**

**Maintained**

Core segment underperformance likely to continue **Rs2,381**

After rapid revenue growth at 30% CAGR over FY05-FY15, Cera Sanitaryware (CRS) has seen a sharp decline in its growth curve in the subsequent four years (FY15-FY19) to 13% CAGR. The growth however is likely to slip in negative terrain in FY20 – for the first in two decades. This would be largely due to severe demand woes in the company's core sanitaryware segment. With no signs of demand recovery in Q4FY20-TD (which is usually the peak demand quarter) and the unlikelihood of trend reversal in the near term, we lower our growth expectations for FY21E. Overall EBIDTA margin too is likely to remain under pressure due to operating deleverage in the sanitaryware segment and inferior product mix. **Maintain HOLD.**

- ▶ **Cut earnings estimates for FY21E and introduce FY22E numbers.** With muted demand continuing in the core sanitaryware segment even in the current peak demand quarter, we lower our FY21E growth assumptions. We cut our revenue / earnings estimates for CRS by 4.7% / 10% for FY21E. Rolling forward our numbers and valuation to FY22E, we **retain HOLD** on the stock with a revised target price of Rs2,446 (vs Rs2,662 earlier) valuing it at 22x FY22E earnings.
- ▶ **Core segment likely to witness continued underperformance amid muted demand and stiff competition.** Sanitaryware category derives significantly high percentage of its growth from expansion in the new construction / real estate sector. With growth in this sector likely to remain sluggish over the medium term, prospects for the sanitaryware segment are limited to market share gains with limited scope for growth from replacement demand and shift from unorganised to organised brands. We have thus trimmed our growth estimates for CRS in the core segment to 1.9% vs 5% earlier for FY21E.
- ▶ **Allied products likely to gain traction.** We expect the revenue size of allied products (tiles and faucets) division to reach Rs6.2bn by FY20E, which would then constitute 47% of the company's overall revenues. With CRS consistently expanding its product range and increasing its distribution network for allied products, we expect the segmental share to further increase. We estimate allied products revenues to grow at a double-digit CAGR over FY20-FY22E.
- ▶ **Inferior product mix and operating deleverage in core segment to drive muted EBIDTA margins.** Expected operating deleverage and high competitive intensity in the sanitaryware segment is likely to put pressure on CRS's core margins. Also, higher growth expectation in the allied products segment would be margin-dilutive due to inferior product mix. We have modelled consolidated EBIDTA margins of 13.9%/14%/14.9% for FY20/FY21/FY22, respectively.
- ▶ **RoCEs to remain in 18-20% range – at decade-low levels.** CRS posted impressive RoCEs in the 26-32% range over FY10-FY17, which declined to 23.3%/23.7% in FY18/FY19 respectively. However, sub-optimal utilisation across product categories and likely margin pressures are expected to push RoCEs lower to the 18-20% range over next two years.

Market Cap	Rs30.9bn/US\$419mn	Year to Mar	FY19	FY20E	FY21E	FY22E
Reuters/Bloomberg	CERA.BO / CRS IN	Revenue (Rs mn)	13,515	13,139	13,797	15,301
Shares Outstanding (mn)	13.0	Rec. Net Income (Rs mn)	1,151	1,159	1,244	1,446
52-week Range (Rs)	3195/2200	EPS (Rs)	88.5	89.1	95.6	111.2
Free Float (%)	45.2	% Chg YoY	11.6	0.6	7.4	16.3
FII (%)	7.6	P/E (x)	26.9	26.7	24.9	21.4
Daily Volume (US\$/000)	325	CEPS (Rs)	110.0	118.9	127.9	147.0
Absolute Return 3m (%)	(4.9)	EV/E (x)	16.0	17.0	16.0	13.6
Absolute Return 12m (%)	(8.5)	Dividend Yield (%)	0.5	0.6	0.6	0.6
Sensex Return 3m (%)	(11.6)	RoCE (%)	23.7	18.5	18.0	19.0
Sensex Return 12m (%)	(2.6)	RoE (%)	17.4	15.3	14.5	15.0

Please refer to important disclosures at the end of this report

**Table 1: Earnings revision***(Rs mn, year ending March 31)*

	Old		New		% change	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	13,139.3	14,473.7	13,139.3	13,796.6	0.0%	-4.7%
EBITDA	1,823.5	2,107.4	1,823.5	1,930.4	0.0%	-8.4%
PAT	1,158.6	1,383.4	1,158.6	1,243.8	0.0%	-10.1%
EPS (Rs)	89.1	106.4	89.1	95.6	0.0%	-10.1%

Source: Company data, I-Sec research

## Financial summary

Table 1: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
<b>Net Revenues</b>	<b>13,515</b>	<b>13,139</b>	<b>13,797</b>	<b>15,301</b>
<b>Operating Expenses</b>	<b>11,533</b>	<b>11,362</b>	<b>11,941</b>	<b>13,177</b>
<b>EBITDA</b>	<b>1,983</b>	<b>1,823</b>	<b>1,930</b>	<b>2,279</b>
% margins	14.7%	13.9%	14.0%	14.9%
Depreciation & Amortisation	280	388	419	466
Gross Interest	85	97	88	96
Other Income	186	191	218	221
<b>Recurring PBT</b>	<b>1,803</b>	<b>1,529</b>	<b>1,641</b>	<b>1,938</b>
Less: Taxes	652	387	413	488
Less: Minority Interest	(0)	(16)	(16)	4
<b>Net Income (Reported)</b>	<b>1,151</b>	<b>1,159</b>	<b>1,244</b>	<b>1,446</b>
Extraordinaries (Net)	-	-	-	-
<b>Recurring Net Income</b>	<b>1,151</b>	<b>1,159</b>	<b>1,244</b>	<b>1,446</b>

Source: Company data, I-Sec research

Table 2: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	6,081	6,688	7,217	7,974
of which cash & cash eqv.	110	572	628	558
Total Current Liabilities & Provisions	3,454	3,889	4,033	4,157
<b>Net Current Assets</b>	<b>2,627</b>	<b>2,799</b>	<b>3,183</b>	<b>3,817</b>
Investments	1,779	2,079	2,379	2,679
Net Fixed Assets	3,853	4,215	4,546	4,830
Capital Work-in-Progress	195	-	-	-
Goodwill	-	-	-	-
<b>Total Assets</b>	<b>8,455</b>	<b>9,092</b>	<b>10,108</b>	<b>11,326</b>
<b>Liabilities</b>				
Borrowings	906	614	614	614
Deferred Tax Liability	436	436	436	436
Minority Interest	103	103	103	103
Equity Share Capital	65	65	65	65
Face Value per share (Rs)	5	5	5	5
Reserves & Surplus*	6,944	7,875	8,890	10,108
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>7,009</b>	<b>7,940</b>	<b>8,955</b>	<b>10,173</b>
<b>Total Liabilities</b>	<b>8,455</b>	<b>9,092</b>	<b>10,108</b>	<b>11,326</b>

\*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 3: Quarterly trend

(Rs mn, year ending March 31)

	Mar-19	Jun-19	Sep-19	Dec-19
Net revenues	4,131	2,674	3,272	3,213
% growth (YoY)	14.5	(4.8)	(1.1)	0.8
EBITDA	638	352	416	429
Margin (%)	15.4	13.2	12.7	13.4
Other income	57	29	41	43
Extraordinaries (Net)	-	-	-	-
Net profit	380	191	300	284

Source: Company data, I-Sec research

Table 4: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20E	FY21E	FY22E
<b>Operating Cashflow</b>	<b>1,373</b>	<b>1,547</b>	<b>1,663</b>	<b>1,912</b>
Working Capital Changes	22	290	(328)	(704)
Capital Commitments	(621)	(555)	(750)	(750)
<b>Free Cashflow</b>	<b>774</b>	<b>1,282</b>	<b>585</b>	<b>458</b>
<b>Cashflow from Investing Activities</b>	<b>(693)</b>	<b>(300)</b>	<b>(300)</b>	<b>(300)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(56)	(292)	-	-
Dividend paid	(198)	(228)	(228)	(228)
<b>Change in Deferred Tax Liability</b>	<b>45</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(126)</b>	<b>462</b>	<b>57</b>	<b>(70)</b>

Source: Company data, I-Sec research

Table 5: Key ratios

(Year ending March 31)

	FY19	FY20E	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS	88.5	89.1	95.6	111.2
Cash EPS	110.0	118.9	127.9	147.0
Dividend per share (DPS)	13.0	15.0	15.0	15.0
Book Value per share (BV)	546.9	618.4	696.5	790.1
<b>Growth (%)</b>				
Net Sales	14.0	-2.8	5.0	10.9
EBITDA	11.8	-8.0	5.9	18.1
PAT	11.6	0.6	7.4	16.3
Cash EPS	9.8	8.1	7.5	15.0
<b>Valuation Ratios (x)</b>				
P/E	26.9	26.7	24.9	21.4
P/CEPS	21.6	20.0	18.6	16.2
P/BV	4.4	3.8	3.4	3.0
EV / EBITDA	16.0	17.0	16.0	13.6
EV / Sales	2.3	2.4	2.2	2.0
<b>Operating Ratios</b>				
Raw Material / Sales (%)	44.8	45.8	46.1	45.9
Employee cost / Sales (%)	12.6	12.2	13.0	13.0
SG&A / Sales (%)	0.0	0.0	19.5	19.5
Other Income / PBT (%)	10.3	12.5	13.3	11.4
Effective Tax Rate (%)	36.2	25.3	25.2	25.2
Working Capital (days)	108.9	102.0	98.0	98.0
Inventory Turnover (days)	58.3	54.0	53.0	53.0
Receivables (days)	80.6	77.0	75.0	75.0
Payables (days)	30.0	29.0	30.0	30.0
Net D/E Ratio (x)	0.1	0.0	0.0	0.0
<b>Profitability Ratios (%)</b>				
Net Income Margins	8.5	8.7	8.9	9.5
RoACE	23.7	18.5	18.0	19.0
RoAE	17.4	15.3	14.5	15.0
Dividend Payout	17.2	19.7	18.4	15.8
Dividend Yield	0.5	0.6	0.6	0.6
EBITDA Margins	14.7	13.9	14.0	14.9

Source: Company data, I-Sec research

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