

Industry	Building Materials
Bloomberg	CRS IN
BSE CODE	532443

Better product mix drives EBITDA margin

RATING	ACCUMULATE
CMP	2430
Price Target	2726
Potential Upside	12%

Rating Change	↔
Estimate Change	↔
Target Change	↔

Stock Info

52wk Range H/L	3641/2290
Mkt Capital (Rs Cr)	3160
Free float (%)	45%
Avg. Vol 1M (,000)	6
No. of Shares	1
Promoters Pledged %	0%

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3QFY19 Result Update

- ❑ Cera Sanitaryware reported 9.6% YoY growth in revenue to Rs 319 crores lower than our expectation of Rs 333 crores.
- ❑ The major contribution to the miss came from sanitaryware segment which grew by only 4.1% in a quarter where the company took 4% price hike to support margins. The other segment to perform poorly has been tiles segment growing by only 2.8% breaking its strong growth performance since FY16.
- ❑ The gross margins came in at 52.9% (expected 53.1%), up 100bps QoQ on premiumisation of product mix and price hikes taken in the quarter.
- ❑ 20bps lower than expected gross margins and 45bps higher employee expenses to sales impacted EBITDA. However, operational efficiency seen in other expenses which came 25bps lower than estimates helped EBITDA margins to come at 14.4%, 40bps lower than our expectation and up 40bps YoY.
- ❑ The company reported PAT of Rs 28.37 cores (28.85 estimated), up 22.9% YoY. The PAT was partially helped by lower than expected depreciation expense.
- ❑ Capex guidance for FY19 stands at Rs 70 crores.

View and Valuation

Over the past two financial years, the company's strong revenue growth in faucets and tiles has led to reduction of Sanitary ware and Allied share in revenue mix from 60% in Q3FY17 to 52% in Q3FY19. This has helped the company to diversify its revenue and find better stability in the topline for future growth. Going ahead, we expect this revenue mix to be continued with the hyper-growth phase of faucets and tiles coming to end and the sanitary ware segment performing better on lower base. While the management stated the housing segment environment continues to be challenging, they continue to believe that the sanitary ware industry will grow by 10% going ahead and the company's faucet business is small in the Rs 9000 crore market, leaving enough head room for growth. They also believe that the company would be able to achieve sales growth going ahead on the premiumisation and strong brand recall. The recent price hikes and operational efficiency along with better product mix will help achieve better margins going ahead. We expect Revenue and PAT to grow at CAGR of 14.7% and 21.9% over FY18-20 respectively. We largely maintain our estimates after factoring in the quarter three results and value CERA at 24x FY20e EPS and maintain ACCUMULATE with a price target of Rs 2726.

Key Risks to our rating and target

- ❑ Untimely slowdown in real estate lobby and liquidity crunch impacting demand.
- ❑ Strong pricing competition faced in faucets and tiles.

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19E	FY20E
Net Sales	917	1011	1182	1349	1556
EBITDA	141	171	171	202	242
EBIT	125	153	148	180	216
PAT	83	104	100	123	149
EPS (Rs)	64	79	76	94	115
EPS growth (%)	23%	23%	-3%	24%	21%
ROE (%)	21%	21%	18%	19%	19%
ROCE (%)	25%	27%	23%	24%	25%
BV	335	403	465	545	643
P/B (X)	5.5	7.5	7.4	4.5	3.8
P/E (x)	28.7	38.1	45.1	25.7	21.2

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3Q FY19 Results

PAT in line with our estimates

Financials	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	YoY %	QoQ%	FY17	FY18	YoY %
Net Sales	291	361	281	331	319	9.6%	-3.7%	1,011	1,182	16.9%
Other Income	2	5	2	4	4	113.7%	2.3%	11	11	2.3%
Total Revenue	293	366	283	335	323	10.3%	-3.6%	1,023	1,193	16.7%
COGS	136	174	129	159	150	10.5%	-5.7%	481	563	17.1%
Gross Margin	53%	52%	54%	52%	53%	-0.4%	1.0%	52%	52%	-0.1%
Employee Cost	37	38	39	39	40	8.5%	0.5%	118	140	18.7%
Other Expenses	78	98	78	87	83	6.7%	-4.2%	241	308	27.5%
EBITDA	41	51	35	46	46	13.2%	0.9%	171	171	-0.1%
EBITDA Mar.	14%	14%	13%	14%	14%	0.5%	0.7%	17%	14%	-2.5%
Depreciation	5	7	5	6	6	3.3%	-0.2%	18	22	23.4%
EBIT	35	44	30	40	40	14.7%	1.0%	153	148	-2.9%
Interest	1	2	1	1	1	-48.4%	30.0%	5	5	-2.6%
PBT	36	47	32	43	44	22.2%	0.8%	158	154	-2.5%
Exceptional	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	13	17	11	15	15	20.9%	0.8%	54	54	-0.5%
PAT	23	31	21	28	28	22.9%	0.8%	104	100	-3.6%
PAT Margin	8%	8%	7%	9%	9%	1.0%	0.4%	10%	8%	-1.8%

Revenue Mix	3QFY17	4QFY17	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19
Sanitary ware & Allied	60%	58%	58%	55%	55%	55%	56%	53%	52%
Faucets	21%	22%	21%	22%	21%	23%	22%	23%	24%
Tiles	16%	18%	19%	20%	22%	19%	18%	21%	21%
Wellness	3%	2%	2%	3%	2%	3%	4%	3%	4%

Price hikes and faucets growth leads revenue growth

Cera Sanitaryware reported 9.6% YoY growth in revenue to Rs 319 crores lower than our expectation of Rs 333 crores. The major contribution to the miss came from sanitaryware segment which grew by only 4.1% in a quarter where the company took 4% price hike to support margins. The other segment to perform poorly has been tiles segment growing by only 2.8% breaking its strong growth performance since FY16. Going ahead, better product mix and sales volume will drive the sales higher with these two segments performing better.

Better product mix, operational efficiency and price hikes help margins

The gross margins came in at 52.9% (expected 53.1%), up 100bps QoQ on premiumisation of product mix and price hikes taken in the quarter. 20bps lower than expected gross margins and 45bps higher employee expenses to sales impacted EBITDA. However, operational efficiency seen in other expenses which came 25bps lower than estimates helped EBITDA margins to come at 14.4%, 40bps lower than our expectation and up 40bps YoY.

The company reported PAT of Rs 28.37 cores (28.85 estimated), up 22.9% YoY. The PAT was partially helped by lower than expected depreciation expense.

Concall Highlights

- Inventory days in Q3 reduced from 52.93 to 48.03, receivables days from 65.62 to 58.35 and total working capital days reduced from 118.55 to 106.38
- The overall housing segment environment continues to be muted. The hit in the tier 2 and tier 3 cities are not as much as in the metros
- The capex plan for FY19 continues to be Rs 70 crores of which Rs 41.72 crores have already been spent in the 9 months period.
- The company has recently taken a 26% stake for Rs 4 crores in Milo Tiles (EBITDA positive company). Its capacity is 7250 sq. meters per day and is running at 95% utilization.
- As on September 2018, company had 14000 dealers (10900 were sanitary ware, 7000 faucets, 1100 tiles), 9 large showrooms in metros, 139 dealer owned CERA style galleries and 2700 retailer CERA style centers. Plan to open 3 large showrooms, 25 style galleries and 100 style centers over next three years each.
- The company has acquired 51% stake for Rs 3.4 crores in a polymer plant to gain the quality control over the supplies (wellness segment) outsourced from the plant.
- The company expects 15% revenue contribution from Senator and ISVEA brand over next 3-5 years
- M2M impact of the investments led to higher other income in the quarter

Exhibit: Sales and Gross Margin %

Sales grew 14.9% YoY on the back of strong volumes growth

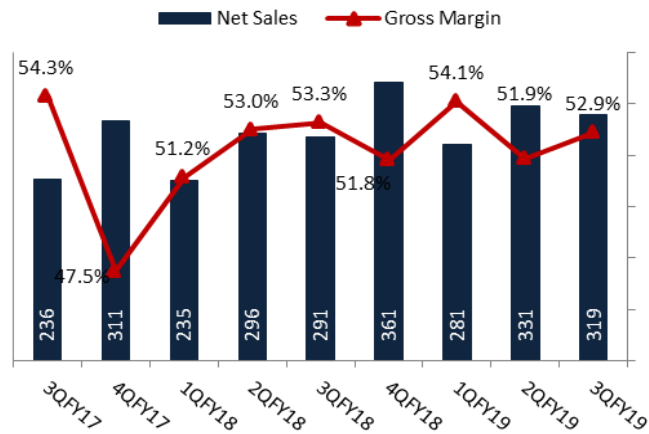


Exhibit: EBITDA and EBITDA margin %

Strong EBITDA margins on the back of lower gas costs

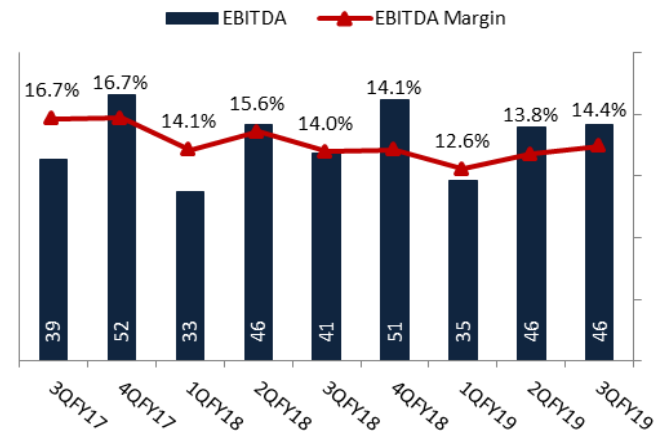


Exhibit: Return Ratios %

Strong profitability to drive return ratios higher after hit in FY19

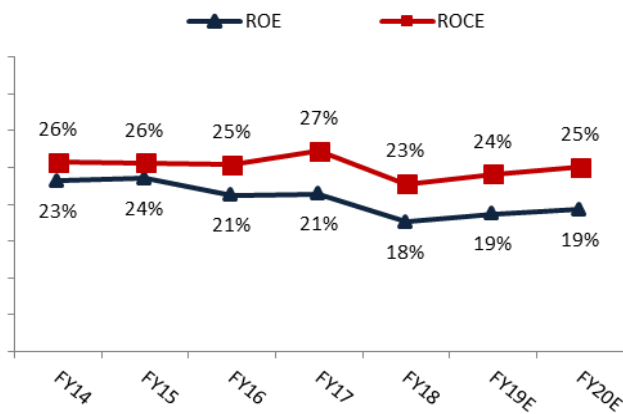


Exhibit: Revenue Mix %

Strong Volume growth fueled by higher outsourcing share

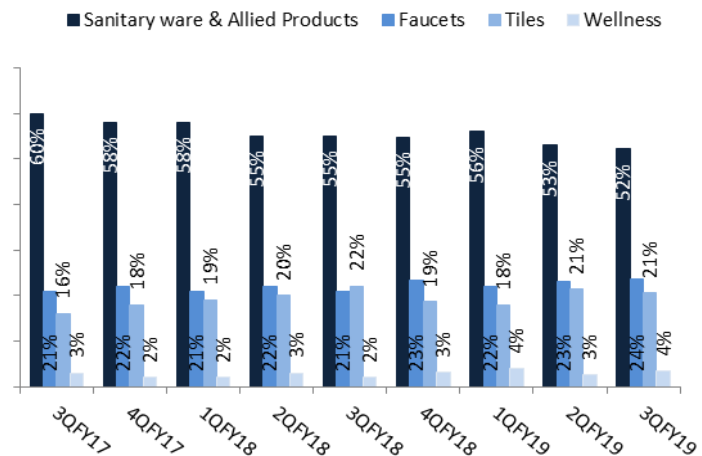


Exhibit: Tiles Volume Growth

Strong volume growth over last 2 quarters indicate improved demand

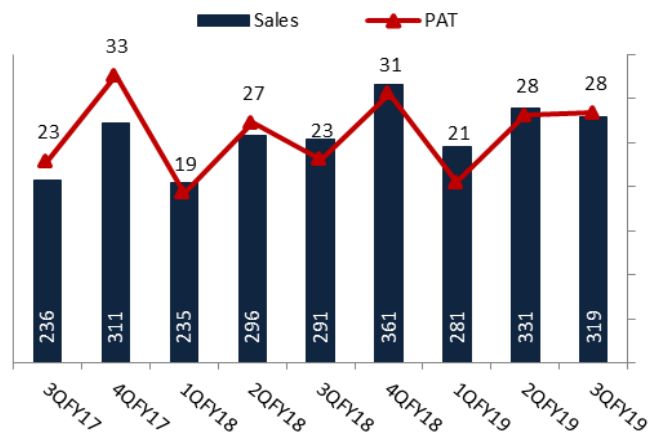
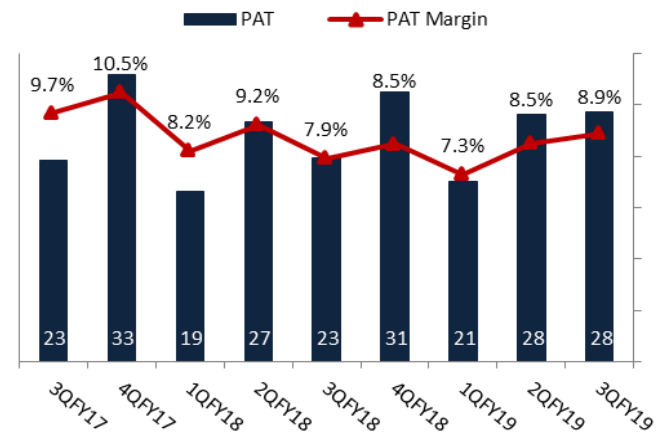


Exhibit: PAT and PAT Margin

Strong PAT growth on back of higher volumes and EBITDAM



Financial Details

Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Share Capital	6	7	7	7	7	7	7
Reserves	218	345	429	518	598	702	830
Net Worth	224	352	436	524	605	709	836
Debt	42	59	26	29	24	26	28
Other Non Current Liab	56	63	49	56	65	65	65
Total Capital Employed	322	474	511	609	694	799	928
Net Fixed Assets (incl CWIP)	157	222	230	267	285	312	356
Non-current Investment	-	-	19.6	28.0	30.6	52.1	52.1
Other non-current assets	28	32	39	39	40	40	40
Non Current Assets	185	254	289	333	356	405	449
Inventory	105	126	132	129	161	169	195
Debtors	107	161	188	221	268	276	318
Cash & Bank	31	30	20	20	21	30	85
Other Current Assets	26	73	91	158	145	215	223
Current Assets	268	390	432	527	595	690	821
Creditors	38	49	57	76	78	88	102
Provisions	18	22	2	3	4	4	4
Other Current Liabilities	76	100	150	173	175	203	234
Curr Liabilities	131	171	210	252	256	296	341
Net Current Assets	137	219	223	276	338	395	480
Total Assets	453	644	721	861	950	1,095	1,269

Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Revenue from Operation	664	822	917	1,011	1,182	1,349	1,556
Change (%)	36%	24%	12%	10%	17%	14%	15%
Other Income	6	7	10	11	11	12	16
EBITDA	95	118	141	171	171	202	242
Change (%)	26%	24%	20%	21%	0%	18%	20%
Margin (%)	14%	14%	15%	17%	14%	15%	16%
Depr & Amor.	12	15	16	18	22	22	26
EBIT	83	102	125	153	148	180	216
Int. & other fin. Cost	6	8	5	5	5	2	2
EBT	82	101	129	158	154	190	230
Exp Item	-	-	-	-	-	-	-
Tax	30	33	46	54	54	67	81
Reported PAT	52	68	83	104	100	123	149
Adjusted PAT	52	68	83	104	100	123	149
Change (%)	12%	30%	23%	25%	-4%	23%	21%
Margin(%)	8%	8%	9%	10%	8%	9%	10%

Financial Details

Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
Current Ratio	2.0	2.3	2.1	2.1	2.3	2.3	2.4
Debt-Equity Ratio	0.2	0.2	0.1	0.1	0.0	0.0	0.0
Interest Coverage Ratio	12.8	13.2	22.9	28.4	28.3	80.1	90.6
Capital Turnover Ratio	2.8	2.2	2.1	1.9	2.0	1.9	1.9
Fixed Asset Turnover Ratio	4.2	4.3	4.1	4.1	4.3	4.5	4.7
Inventory Days outstanding	125.0	119.6	109.5	98.0	104.3	96.3	96.3
Accounts Receivable Days outstanding	58.6	71.6	75.0	79.6	82.6	74.6	74.6
Accounts Payable Days outstanding	45.0	46.2	47.5	58.0	50.4	50.4	50.4
ROCE	25.7%	25.7%	25.4%	27.3%	22.8%	24.1%	25.1%
ROE	23.2%	23.5%	21.2%	21.4%	17.6%	18.7%	19.3%
FCF per Share	18.1	(32.8)	70.5	44.7	18.2	71.2	46.8
Price / EPS	22.3	47.8	28.7	38.1	45.1	25.7	21.2
Price / Book Value	5.2	9.2	5.5	7.5	7.4	4.5	3.8
EV/EBITDA	11.9	27.4	16.6	22.3	25.6	14.8	12.1
EV/Sales	1.7	3.9	2.5	3.8	3.7	2.2	1.9
Div Yield	0.6%	0.3%	0.5%	0.4%	0.3%	0.5%	0.5%

Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
PBT	82	101	129	158	154	190	230
(inc)/Dec in Working Capital	(12)	(53)	0	(7)	(48)	7	(31)
Non Cash Op Exp	10	15	11	7	13	10	10
Int Paid (+)	6	7	5	6	6	2	2
Tax Paid	(23)	(30)	(30)	(52)	(53)	(67)	(81)
CF from Op. Activities	63	41	116	112	71	143	131
(inc)/Dec in FA & CWIP	(40)	(83)	(24)	(54)	(48)	(50)	(70)
Free Cashflow	24	(43)	92	58	24	93	61
(Pur)/Sale of Inv	(11)	(36)	(15)	(43)	8	(75)	-
others	3	2	1	5	3	11	16
CF from Inv. Activities	(48)	(117)	(38)	(92)	(36)	(114)	(54)
inc/(dec) in NW	-	71	-	-	-	-	-
inc/(dec) in Debt	(13)	20	(33)	(1)	(10)	1	2
Int. Paid	(6)	(8)	(5)	(5)	(5)	(2)	(2)
Div Paid (inc tax)	(6)	(7)	(10)	(14)	(19)	(19)	(22)
others	-	-	-	-	(0)	-	-
CF from Fin. Activities	(25)	76	(48)	(20)	(34)	(20)	(22)
Inc(Dec) in Cash	(10)	(1)	30	(0)	1	9	55
Add: Opening Balance	40	31	30	20	20	21	30
Closing Balance	31	30	59	20	21	30	85

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