

Industry	Building Materials
Bloomberg	CRS IN
BSE CODE	532443

In line revenue; reliability on outsourcing to be higher

RATING	HOLD
CMP	2864
Price Target	2782
Potential Upside	-3%

Rating Change	↔
Estimate Change	↓
Target Change	↓

**Stock Info**

52wk Range H/L	3195/2144
Mkt Capital (Rs Cr)	3725
Free float (%)	45%
Avg. Vol 1M (,000)	11
No. of Shares (Cr)	1
Promoters Pledged %	0%

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**4QFY19 Result Update**

- ❑ Cera Sanitaryware reported 14.5% YoY growth in revenue to Rs 413 crores.
- ❑ Sanitary ware & Allied segment continues to grow at 4% YoY while Faucets & Tiles segment grew by strong 22.5% YoY & 31.3% YoY respectively.
- ❑ The revenue mix in Q4 stands as sanitary ware & Allied segment at 50.1%, Faucets at 25%, Tiles at 21.5% and wellness at 3.4%.
- ❑ The gross margins came in at 49.8%, lower by 200 bps YoY with the growing share of outsourcing in the overall topline
- ❑ EBITDA margins improved 130bps to 15.4% due to combination of strategic interventions, network growth and product recalibration.
- ❑ The company reported PAT of Rs 38 cores, up 24.3% YoY and indicating a margin of 9.2%.
- ❑ Capex guidance for FY20 stands at Rs 75 crores.

**View and Valuation**

CERA reported a revenue growth of 13.7% YoY in FY19 even in a rough demand environment on the back of strong brand recall and dealer network. With the faucets and tiles business growing at a faster rate than the legacy sanitary ware business, sanitary ware accounts for only 52.8% of total revenue in FY19 while rest is divided between Faucets (23.4%), Tiles (20.4%) and Wellness (3.4%). Going ahead, the company plans go through outsource route with strict quality control for topline growth. The company has guided for no capex for new plants, however automation at existing plants may help for higher throughput. The company would continue to focus on premium category of products and expects strong brand players to benefit on the upturn of industry. With the automation at the existing plants and more importantly higher share of outsource in sales would result in lower employee expenses as a % of sales. We expect the FY20 margins to improve with the cost pressures cooled down, reduced pricing pressure and operational efficiency. We reduce our FY20 Sales and PAT estimates by -2.8% and -6.6% respectively. We continue to value CERA at 26x FY20e EPS and maintain HOLD with a price target of Rs 2782.

**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	FY19	FY20E
Net Sales	917	1011	1182	1344	1512
EBITDA	141	171	171	191	228
EBIT	125	153	148	168	202
PAT	83	104	100	115	139
EPS (Rs)	64	79	76	88	107
EPS growth (%)	23%	23%	-3%	15%	22%
ROE (%)	21%	21%	18%	17%	18%
ROCE (%)	25%	27%	23%	23%	24%
BV	335	403	465	538	630
P/B (X)	5.5	7.5	7.4	5.7	4.5
P/E (x)	28.7	38.1	45.1	35.2	26.8

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## 4QFY19 Results

## Sales in line, Margins miss

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	361	281	331	319	413	14.5%	29.6%	1,182	1,344	13.7%
Other Income	5	2	4	4	6	20.9%	39.9%	11	16	38.7%
Total Revenue	366	283	335	323	419	14.5%	29.7%	1,193	1,359	13.9%
COGS	174	129	159	150	207	19.3%	38.0%	563	646	14.6%
Gross Margin	52%	54%	52%	53%	50%	-2.0%	-3.1%	52%	52%	-0.4%
Employee Cost	38	39	39	40	39	1.7%	-2.4%	140	156	11.5%
Other Expenses	98	78	87	83	103	5.3%	24.4%	308	351	14.0%
EBITDA	51	35	46	46	64	25.2%	38.8%	171	191	11.6%
EBITDA Mar.	14%	13%	14%	14%	15%	1.3%	1.0%	14%	14%	-0.3%
Depreciation	7	5	6	6	7	1.5%	19.5%	22	23	2.2%
EBIT	44	30	40	40	57	28.7%	41.5%	148	168	13.0%
Interest	2	1	1	1	1	-23.2%	129.2%	5	3	-38.2%
PBT	47	32	43	44	61	30.1%	40.0%	154	180	16.7%
Excpt Item	-	-	-	-	-	0%	0%	-	-	0.0%
Tax	17	11	15	15	23	40.7%	50.9%	54	65	20.2%
PAT	31	21	28	28	38	24.3%	34.1%	100	115	14.8%
PAT Margin	8%	7%	9%	9%	9%	0.7%	0.3%	8%	9%	0.1%
<b>Revenue Mix</b>	<b>4QFY17</b>	<b>1QFY18</b>	<b>2QFY18</b>	<b>3QFY18</b>	<b>4QFY18</b>	<b>1QFY19</b>	<b>2QFY19</b>	<b>3QFY19</b>	<b>4QFY19</b>	
Sanitary ware & Allied	58%	58%	55%	55%	55%	56%	53%	52%	50%	
Faucets	22%	21%	22%	21%	23%	22%	23%	24%	25%	
Tiles	18%	19%	20%	22%	19%	18%	21%	21%	21%	
Wellness	2%	2%	3%	2%	3%	4%	3%	4%	3%	

**Faucets and Tiles segment growth drive revenue growth**

Cera Sanitaryware reported 14.5% YoY growth in revenue to Rs 413 crores, in-line with our expectation of Rs 419 crores. Sanitary ware & Allied segment continues to grow at 4% YoY while Faucets & Tiles segment grew by strong 22.5% YoY & 31.3% YoY respectively. The revenue mix in Q4 stands as sanitary ware & Allied segment at 50.1%, Faucets at 25%, Tiles at 21.5% and wellness at 3.4%. Sanitary ware is expected to continue to grow at slower pace compared to other segments and it's share in the revenue mix would continue to fall further.

**EBITDA Margins at 15.4%**

The gross margins came in at 49.8% (expected 51.7%), down 200bps YoY on rising share of outsourcing in the revenue. EBITDA margins improved 130bps to 15.4% (est. 16%) due to combination of strategic interventions, network growth and product recalibration. The margins were lower than our estimates primarily due to lower gross margins, partly offset by lower other expenses.

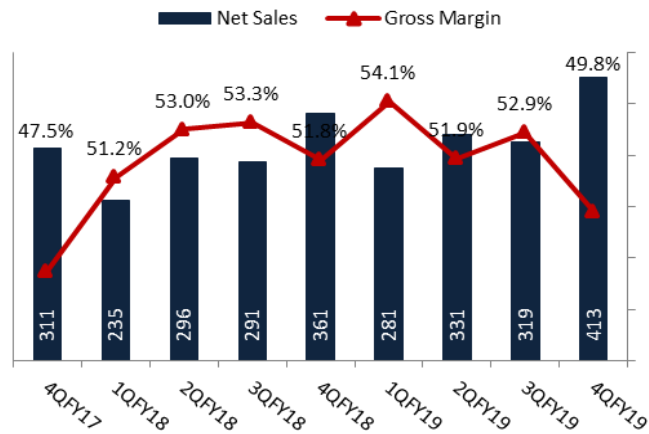
The company reported PAT of Rs 38 cores (est. Rs 40 crores), up 24.3% YoY and indicating a margin of 9.2%.

**Concall Highlights**

- Inventory days in FY19 were 48.83 vs. 49.63 in FY18, receivables days were 68.57 vs. 70.18 in FY18 and total working capital days were 117.4 vs. 119.86 days in FY18.
- The products launched during the year received good response from the market.
- Ground report at Morbi: About 450 units were affected from NGT order. 250 units continue to be affected. Cost structure for Morbi has changed by total of 29-35%. Of which, 11-15% is due to higher input costs and the rest for GST.
- Tiles post NGT order: Pricing power and supply constraint to auger well for branded players like CERA
- Customer Touch points in FY19 stood at 14218 vs. 13161 in FY18. See 6-10% YoY increase every year
- Capex: FY19 spend at Rs 70 crores. FY20 should be Rs 75 crores and breakup is Rs7.5 crores for customer touch points, Rs 19 crores for staff quarters near Kadi plant, Rs 12 crores for automation in faucet business, Rs 28 crores for automation in Sanitary ware business and Rs 8.5 crores for logistics, warehousing and IT spends.
- Sanitary ware: the company has taken price hikes of 3-5% w.e.f. 1st April. Have also taken 5-7% in few products
- Capacity Utilization for Milo is 95% since taking up JV. Anjani's utilization is at 90%+.

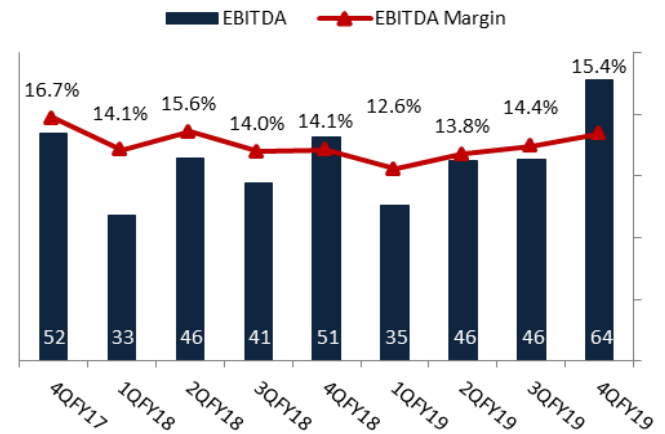
## Exhibit: Sales and Gross Margin %

Sales grew 14.5% YoY driven by higher sales in Faucets and Tiles



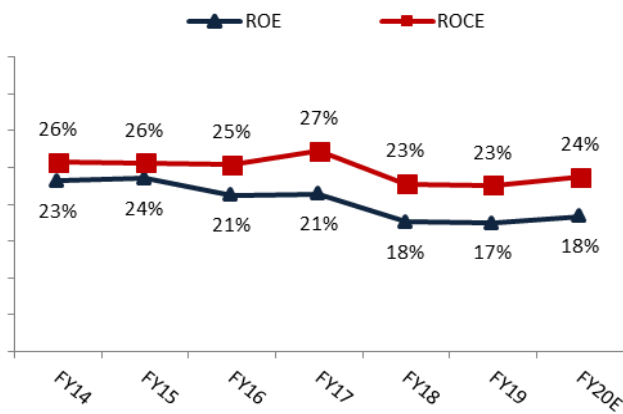
## Exhibit: EBITDA and EBITDA margin %

Network growth and product recalibration aid margins



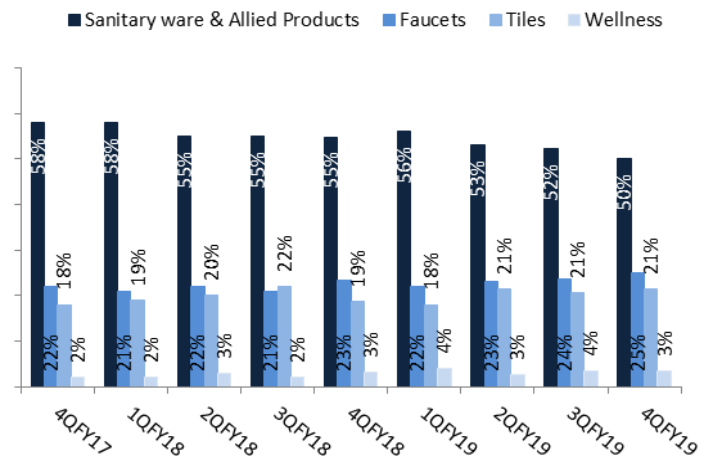
## Exhibit: Return Ratios %

Strong profitability to drive return ratios higher after hit in FY19



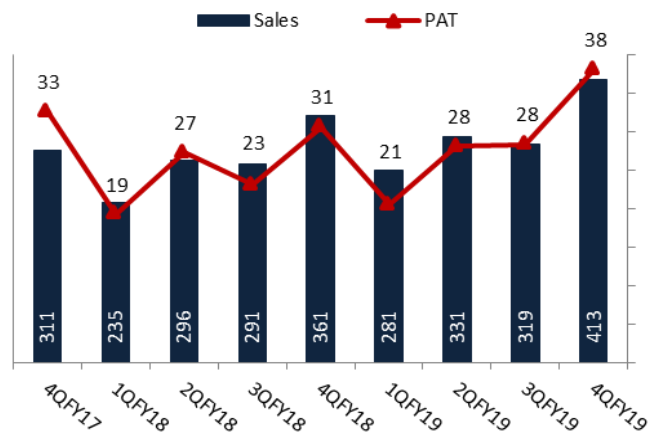
## Exhibit: Revenue Mix %

Share of Sanitaryware to reduce in overall mix to 50% in FY20



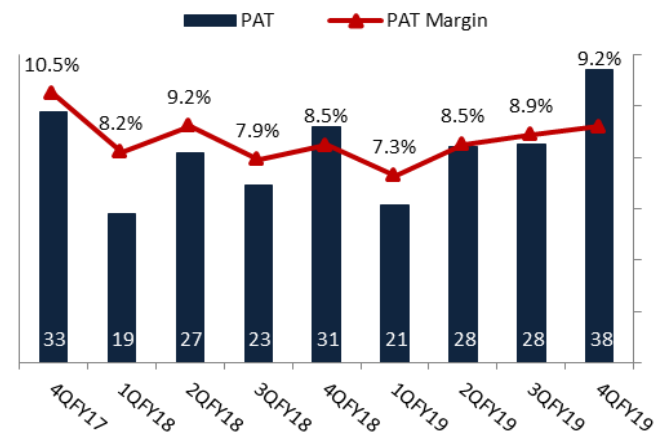
## Exhibit: Sales & PAT

Strong PAT growth on strong sale growth and higher EBITDAM



## Exhibit: PAT and PAT Margin

Strong operational performance leads to higher PAT margin



## Financial Details

## Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Share Capital</b>	<b>6</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>	<b>7</b>
Reserves	218	345	429	518	598	694	812
<b>Net Worth</b>	<b>224</b>	<b>352</b>	<b>436</b>	<b>524</b>	<b>605</b>	<b>700</b>	<b>819</b>
Debt	42	59	26	29	24	18	16
Other Non Current Liab	56	63	49	56	65	75	75
<b>Total Capital Employed</b>	<b>322</b>	<b>474</b>	<b>511</b>	<b>609</b>	<b>694</b>	<b>793</b>	<b>910</b>
Net Fixed Assets (incl CWIP)	157	222	230	267	285	316	360
Non-current Investment	-	-	19.6	28.0	30.6	55.0	55.0
Other non-current assets	28	32	39	39	40	24	24
<b>Non Current Assets</b>	<b>185</b>	<b>254</b>	<b>289</b>	<b>333</b>	<b>356</b>	<b>395</b>	<b>439</b>
Inventory	105	126	132	129	161	179	202
Debtors	107	161	188	221	268	297	334
Cash & Bank	31	30	20	20	21	6	52
Other Current Assets	26	73	91	158	144	212	218
<b>Current Assets</b>	<b>268</b>	<b>390</b>	<b>432</b>	<b>527</b>	<b>594</b>	<b>694</b>	<b>805</b>
Creditors	38	49	57	76	78	94	106
Provisions	18	22	2	3	4	3	4
Other Current Liabilities	76	100	150	173	174	199	224
<b>Curr Liabilities</b>	<b>131</b>	<b>171</b>	<b>210</b>	<b>252</b>	<b>255</b>	<b>296</b>	<b>334</b>
<b>Net Current Assets</b>	<b>137</b>	<b>219</b>	<b>223</b>	<b>276</b>	<b>338</b>	<b>398</b>	<b>471</b>
<b>Total Assets</b>	<b>453</b>	<b>644</b>	<b>721</b>	<b>861</b>	<b>949</b>	<b>1,089</b>	<b>1,244</b>

## Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Revenue from Operation</b>	<b>664</b>	<b>822</b>	<b>917</b>	<b>1,011</b>	<b>1,182</b>	<b>1,344</b>	<b>1,512</b>
Change (%)	36%	24%	12%	10%	17%	14%	13%
Other Income	6	7	10	11	11	16	19
<b>EBITDA</b>	<b>95</b>	<b>118</b>	<b>141</b>	<b>171</b>	<b>171</b>	<b>191</b>	<b>228</b>
Change (%)	26%	24%	20%	21%	0%	12%	20%
Margin (%)	14%	14%	15%	17%	14%	14%	15%
Depr & Amor.	12	15	16	18	22	23	26
<b>EBIT</b>	<b>83</b>	<b>102</b>	<b>125</b>	<b>153</b>	<b>148</b>	<b>168</b>	<b>202</b>
Int. & other fin. Cost	6	8	5	5	5	3	3
<b>EBT</b>	<b>82</b>	<b>101</b>	<b>129</b>	<b>158</b>	<b>154</b>	<b>180</b>	<b>218</b>
Exp Item	-	-	-	-	-	-	-
Tax	30	33	46	54	54	65	79
Reported PAT	52	68	83	104	100	115	139
<b>Adjusted PAT</b>	<b>52</b>	<b>68</b>	<b>83</b>	<b>104</b>	<b>100</b>	<b>115</b>	<b>139</b>
Change (%)	12%	30%	23%	25%	-4%	15%	21%
Margin(%)	8%	8%	9%	10%	8%	9%	9%

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	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	51.8	77.5
Capital Turnover Ratio	2.8	2.2	2.1	1.9	2.0	1.9	1.8
Fixed Asset Turnover Ratio	4.2	4.3	4.1	4.1	4.3	4.5	4.5
Inventory Days outstanding	125.0	119.6	109.5	98.0	104.3	101.3	101.3
Accounts Receivable Days outstanding	58.6	71.6	75.0	79.6	82.6	80.7	80.7
Accounts Payable Days outstanding	45.0	46.2	47.5	58.0	50.4	53.2	53.2
ROCE	25.7%	25.7%	25.4%	27.3%	22.8%	22.6%	23.7%
ROE	23.2%	23.5%	21.2%	21.4%	17.6%	17.5%	18.3%
FCF per Share	18.1	(32.8)	70.5	44.7	18.2	56.0	39.4
Price / EPS	22.3	47.8	28.7	38.1	45.1	35.2	26.8
Price / Book Value	5.2	9.2	5.5	7.5	7.4	5.7	4.5
EV/EBITDA	11.9	27.4	16.6	22.3	25.6	20.3	15.5
EV/Sales	1.7	3.9	2.5	3.8	3.7	2.9	2.3
Div Yield	0.6%	0.3%	0.5%	0.4%	0.3%	0.4%	0.6%

## Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>82</b>	<b>101</b>	<b>129</b>	<b>158</b>	<b>154</b>	<b>180</b>	<b>218</b>
(inc)/Dec in Working Capital	(12)	(53)	0	(7)	(48)	(3)	(28)
Non Cash Op Exp	10	15	11	7	13	12	7
Int Paid (+)	6	7	5	6	6	3	3
Tax Paid	(23)	(30)	(30)	(52)	(53)	(65)	(79)
<b>CF from Op. Activities</b>	<b>63</b>	<b>41</b>	<b>116</b>	<b>112</b>	<b>71</b>	<b>127</b>	<b>121</b>
(inc)/Dec in FA & CWIP	(40)	(83)	(24)	(54)	(48)	(54)	(70)
Free Cashflow	24	(43)	92	58	24	73	51
(Pur)/Sale of Inv	(11)	(36)	(15)	(43)	8	(73)	-
others	3	2	1	5	3	13	19
<b>CF from Inv. Activities</b>	<b>(48)</b>	<b>(117)</b>	<b>(38)</b>	<b>(92)</b>	<b>(36)</b>	<b>(114)</b>	<b>(51)</b>
inc/(dec) in NW	-	71	-	-	-	-	-
inc/(dec) in Debt	(13)	20	(33)	(1)	(10)	(6)	(2)
Int. Paid	(6)	(8)	(5)	(5)	(5)	(3)	(3)
Div Paid (inc tax)	(6)	(7)	(10)	(14)	(19)	(19)	(20)
others	-	-	-	-	(0)	-	-
<b>CF from Fin. Activities</b>	<b>(25)</b>	<b>76</b>	<b>(48)</b>	<b>(20)</b>	<b>(34)</b>	<b>(28)</b>	<b>(25)</b>
<b>Inc(Dec) in Cash</b>	<b>(10)</b>	<b>(1)</b>	<b>30</b>	<b>(0)</b>	<b>1</b>	<b>(15)</b>	<b>46</b>
Add: Opening Balance	40	31	30	20	20	21	6
<b>Closing Balance</b>	<b>31</b>	<b>30</b>	<b>59</b>	<b>20</b>	<b>21</b>	<b>6</b>	<b>52</b>

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