

Industry **Building Materials**  
 Bloomberg **CRS IN**  
 BSE CODE **532443**

## Revenue growth impacted due to subdued demand

RATING	BUY
CMP	2505
Price Target	2977
Potential Upside	19%

Rating Change	↔
Estimate Change	↓
Target Change	↓

STOCK INFO	
52wk Range H/L	3180/2151
Mkt Capital (Rs Cr)	3177
Free float (%)	45%
Avg. Vol 1M (,000)	8
No. of Shares (Crs)	1
Promoters Pledged %	0%

### RESEARCH ANALYST

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### 2QFY20 Result update

- CERA result remained mixed; the company reported sales de-growth of 1.1% with Sales figure of Rs 327 cr (vs. expect. Rs 342 cr). The revenue got impacted on account of the subdued demand and liquidity stress.
- In 2QFY20, Sanitary ware was down by 9.3% (contri. 48.6% to revenue), Faucets was up by 5.47% (contri. 24.4% to revenue), Tiles was up by 4.64% (contri. 22.8% to revenue), and Wellness up by 43.02% (contri. 4.17% to revenue).
- Gross margin declined by 62 bps on YoY basis to 51.2% due to increased share of tiles (i.e. outsourced business) in total sales.
- EBITDA margin also contracted by 106 bps on YoY basis to 12.7% led by decline in gross margin and increased employee expenses by 52 bps to 12.4% although other expenses declined by 9 bps to 26.1% in the quarter.
- PAT stood at Rs 30 cr (vs. expect. Rs 32 cr) reflecting a growth of 6.7% on YoY basis.
- The company has added 91 SKUs in 2QFY20. It has 360 SKUs in Sanitary ware, 882 SKUs in Faucets and 3000 SKUs in Tiles.
- The company's market share in Sanitary ware is ~21-22% of overall organized market; In Faucets it has 6-7% of the organized market & 10% incremental market share and in Tiles it has 325 cr of market share out of domestic industry of 28,000 cr.

### View and Valuation

2QFY20 had been a challenging quarter for the whole industry impacted by the slowdown and tight liquidity condition in market. Government initiative of infusing 25,000 cr fund for reviving select projects in the real estate sector has served to improve sentiments and should begin to give better growth going ahead. The company is well poised for growth with comprehensive product offering, wide distribution and broad brand presence in market. We have slightly reduced our estimates after factoring current market condition and value CERA at 26x FY21e EPS and give BUY rating with a price target of Rs 2977.

### Key Risks to our rating and target

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

Stand./Fig in Rs Cr

KEY FINANCIAL/VALUATIONS	FY17	FY18	FY19	FY20E	FY21E
Net Sales	1011	1182	1344	1369	1583
EBITDA	171	171	191	189	212
EBIT	153	148	168	163	182
PAT	104.0	100.3	115.1	131.7	149.2
EPS (Rs)	79	76	88	101	114
EPS growth (%)	23%	-3%	15%	15%	14%
ROE (%)	21%	18%	17%	18%	18%
ROCE (%)	27%	23%	23%	20%	20%
BV	403	465	539	580	675
EV/EBITDA (x)	7.5	7.4	5.7	4.5	3.9
P/E (x)	38.1	45.1	35.2	26.1	23.0

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## 2QFY20 Results Mixed Result

Stand./Fig in Rs Cr

FINANCIALS	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	331	319	413	267	327	-1.1%	22.4%	1,182	1,344	13.7%
Other Income	4	4	6	3	4	2.7%	39.6%	11	16	38.7%
Total Revenue	335	323	419	270	331	-1.1%	22.6%	1,193	1,359	13.9%
COGS	159	150	207	123	160	0.1%	29.6%	563	646	14.6%
Gross Margin	52%	53%	50%	54%	51%	-0.6%	-2.7%	52%	52%	-0.4%
Employee Cost	39	40	39	40	41	3.2%	2.0%	140	156	11.5%
Other Expenses	87	83	103	69	85	-1.5%	23.5%	308	351	14.0%
EBITDA	46	46	64	35	42	-8.7%	18.1%	171	191	11.6%
EBITDA Mar.	14%	14%	15%	13%	13%	-1.1%	-0.5%	14%	14%	-0.3%
Depreciation	6	6	7	8	8	41.6%	3.3%	22	23	2.2%
EBIT	40	40	57	28	34	-15.8%	22.2%	148	168	13.0%
Interest	1	1	1	1	1	106.8%	-9.5%	5	3	-38.2%
PBT	43	44	61	29	37	-15.5%	25.2%	154	180	16.7%
Excpt Item	-	-	-	-	-	0.0%	0.0%	-	-	0%
Tax	15	15	23	10	7	-56%	-34.9%	54	65	20.2%
PAT	28	28	38	19	30	7%	57.4%	100	115	14.8%
PAT Margin	9%	9%	9%	7%	9%	0.7%	2.0%	8%	9%	0.1%

Stand./Fig in Rs Cr

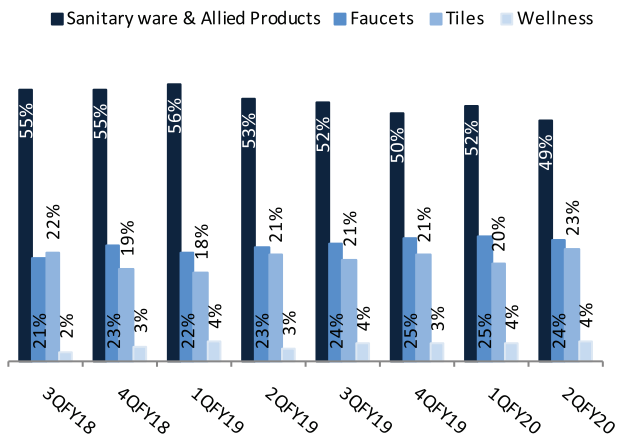
REVENUE MIX	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20
Sanitary ware & Allied	55%	55%	55%	56%	53%	52%	50%	52%	49%
Faucets	22%	21%	23%	22%	23%	24%	25%	25%	24%
Tiles	20%	22%	19%	18%	21%	21%	21%	20%	23%
Wellness	3%	2%	3%	4%	3%	4%	3%	4%	4%

## Concall Highlights

- The company has added 2 large format company-owned stores in Morbi & Bangalore of 12000 sq.ft. & 8000 sq.ft. respectively.
- The working capital days of the company are 80 days with Inventory, receivable and payable of 52 days, 60 days and 32 days respectively.
- Its Sales from tier III towns (population of 10 lacs & below) is 55% of total sales.
- The company has 360 SKUs in Sanitary ware, 882 SKUs in Faucets and 3000 SKUs in Tiles.
- Distribution: The Company has total 3289 dealers; it has increased by 13% since March 2019. It has total 11306 retailers.
- Outsourced share in sanitary ware is 53.53%, faucet ware is 54.96% and Tiles & wellness are 100% outsourced.
- Capacity utilization (owned plant) in sanitary ware is 83% and 77% in faucet ware.
- The company has adopted the new corporate tax rate; FY20 it is 25.17% (vs. previously it was 36.14%).
- There is momentum in company's faucet ware business and company expects to benefit from the improved industry dynamics.
- In faucet ware, if additional capacity required then company will increase share of outsourced business of low end products.
- Capex of FY20 is Rs 56 cr; this includes Rs 20 cr sanitary ware automation, 9 cr faucet automation cost, 6 cr for customer touch points, 17 cr for completion of staff colony at the plant, 4 cr for logistics & IT. In 1HFY20, company did capex of Rs 19.56 cr and remaining Rs 37 cr, the company would spend in 2HFY20

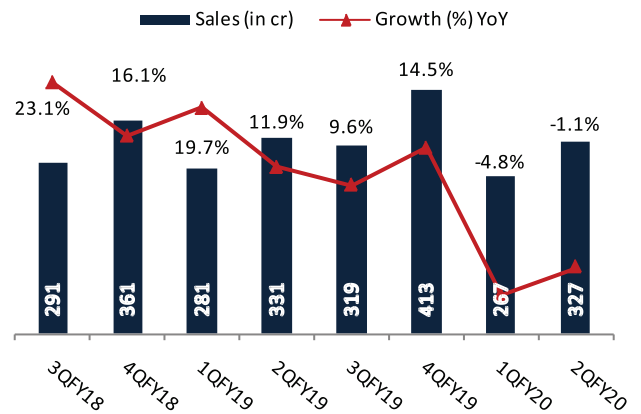
## Exhibit: Revenue Mix %

Strong Volume growth fueled by higher outsourcing share.



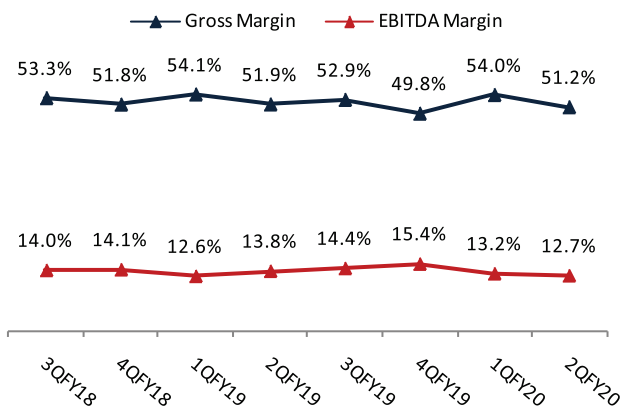
## Exhibit: Sales and Sales Growth (%)

Sales got impacted by low demand environment.



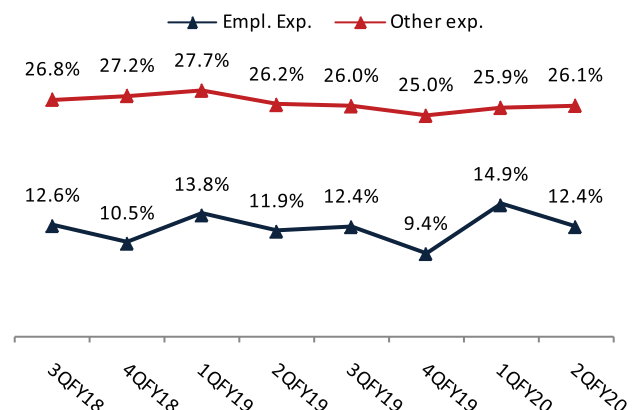
## Exhibit: Gross and EBITDA Margin (%)

GM% declined due to increased share of Tiles (outsrd. Business).



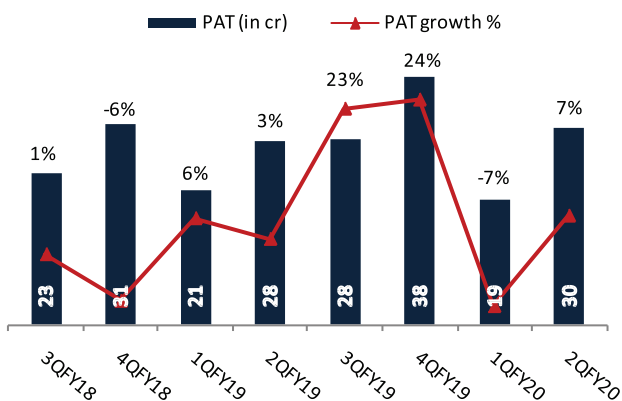
## Exhibit: Expenses as % of Sales

New staff colony near plant led to 52 bps increase in Emp. exp.



## Exhibit: PAT and PAT Growth (%)

PAT stood at Rs 30 cr reflecting a growth of 6.7% on YoY basis.



## Financial Details

### Balance Sheet

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<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>	<b>7</b>
Reserves	218	345	429	518	598	694	747	872
<b>Net Worth</b>	<b>224</b>	<b>352</b>	<b>436</b>	<b>524</b>	<b>605</b>	<b>701</b>	<b>754</b>	<b>878</b>
Debt	42	59	26	29	24	18	15	8
Other Non Current Liab	56	63	49	56	65	75	75	75
<b>Total Capital Employed</b>	<b>322</b>	<b>474</b>	<b>511</b>	<b>609</b>	<b>694</b>	<b>794</b>	<b>844</b>	<b>961</b>
Net Fixed Assets (incl CWIP)	157	222	230	267	285	316	355	396
Investment in Subsidiaries	-	-	19.6	28.0	30.6	55.0	55.0	55.0
Other non-current assets	28	32	39	39	40	24	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>434</b>	<b>475</b>
Inventory	105	126	132	129	161	179	183	212
Debtors	107	161	188	221	268	297	303	350
Cash & Bank	31	30	20	20	21	6	14	54
Other Current Assets	26	73	91	158	144	212	213	221
<b>Current Assets</b>	<b>268</b>	<b>390</b>	<b>432</b>	<b>527</b>	<b>594</b>	<b>694</b>	<b>712</b>	<b>836</b>
Creditors	38	49	57	76	78	94	96	111
Provisions	18	22	2	3	4	3	4	4
Other Current Liabilities	76	100	150	173	174	199	203	235
<b>Curr Liabilities</b>	<b>131</b>	<b>171</b>	<b>210</b>	<b>252</b>	<b>255</b>	<b>296</b>	<b>303</b>	<b>350</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>410</b>	<b>486</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>1,147</b>	<b>1,311</b>

### Income Statement

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<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>1,369</b>	<b>1,583</b>
Change (%)	0	24%	12%	10%	17%	14%	2%	16%
Other Income	6	7	10	11	11	16	16	19
<b>EBITDA</b>	<b>95</b>	<b>118</b>	<b>141</b>	<b>171</b>	<b>171</b>	<b>191</b>	<b>189</b>	<b>212</b>
Change (%)	0	24%	20%	21%	0%	12%	-1%	12%
Margin (%)	0	14%	15%	17%	14%	14%	14%	13%
Depr & Amor.	12	15	16	18	22	23	26	30
<b>EBIT</b>	<b>83</b>	<b>102</b>	<b>125</b>	<b>153</b>	<b>148</b>	<b>168</b>	<b>163</b>	<b>182</b>
Int. & other fin. Cost	6	8	5	5	5	3	3	1
<b>EBT</b>	<b>82</b>	<b>101</b>	<b>129</b>	<b>158</b>	<b>154</b>	<b>180</b>	<b>176</b>	<b>199</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	30	33	46	54	54	65	44	50
Reported PAT	52	68	83	104	100	115	132	149
<b>Adjusted PAT</b>	<b>52</b>	<b>68</b>	<b>83</b>	<b>104</b>	<b>100</b>	<b>115</b>	<b>132</b>	<b>149</b>
Change (%)	0	30%	23%	25%	-4%	15%	14%	13%
Margin(%)	0	8%	9%	10%	8%	9%	10%	9%

## Financial Details

### Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Current Ratio	2	2.3	2.1	2.1	2.3	2.3	2.4	2.4
Debt-Equity Ratio	0	0.2	0.1	0.1	0.0	0.0	0.0	0.0
Interest Coverage Ratio	13	13	22.9	28.4	28.3	51.8	60.2	126.4
Capital Turnover Ratio	2.8	2	2.1	1.9	2.0	1.9	1.8	1.8
Fixed Asset Turnover Ratio	4.2	4	4.1	4.1	4.3	4.5	4.1	4.2
Inventory Days outstanding	125.0	120	109	98	104	101	101	101
Accounts Receivable Days outstanding	58.6	72	75	80	83	81	81	81
Accounts Payable Days outstanding	45.0	46	48	58	50	53	53	53
ROCE	0.3	26%	25%	27%	23%	23%	20%	20%
ROE	0.2	24%	21%	21%	18%	17%	18%	18%
FCF per Share	12	(59)	75.0	18.8	27.0	8.9	26.5	56.1
Price / EPS	22	48	28.7	38.1	45.1	35.2	26.1	23.0
Price / Book Value	5	9	5.5	7.5	7.4	5.7	4.5	3.9
EV/EBITDA	12	27	16.6	22.3	25.6	20.3	17.2	15.2
EV/Sales	1.7	3.9	2.5	3.8	3.7	2.9	2.4	2.0
Div Yield	0.0	0.3%	0.5%	0.4%	0.3%	0.4%	0.6%	0.6%

### Cash Flow Statement

Stand./Fig in Rs Cr

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
<b>PBT</b>	<b>82.4</b>	<b>101</b>	<b>129</b>	<b>158</b>	<b>154</b>	<b>180</b>	<b>176</b>	<b>199</b>
(inc)/Dec in Working Capital	(12)	(53)	0	(7)	(48)	(21)	(4)	(37)
Non Cash Op Exp	9.9	15	11	7	13	9	(56)	11
Int Paid (+)	6	7	5	6	6	2	3	1
Tax Paid	(23.3)	(30)	(30)	(52)	(53)	(56)	(44)	(50)
<b>CF from Op. Activities</b>	<b>63.4</b>	<b>41</b>	<b>116</b>	<b>112</b>	<b>71</b>	<b>114</b>	<b>75</b>	<b>125</b>
(inc)/Dec in FA & CWIP	(48.1)	(117)	(18)	(88)	(36)	(103)	(40)	(52)
Free Cashflow	15.4	(77)	97	24	35	12	34	73
(Pur)/Sale of Inv	(10.8)	(36)	(15)	(43)	8	(37)	-	-
others	10.8	36	(5)	38	(8)	38	-	-
<b>CF from Inv. Activities</b>	<b>(48.1)</b>	<b>(117)</b>	<b>(38)</b>	<b>(92)</b>	<b>(36)</b>	<b>(102)</b>	<b>(40)</b>	<b>(52)</b>
inc/(dec) in NW	-	71	-	-	-	-	-	-
inc/(dec) in Debt	(12.8)	20	(33)	(1)	(10)	(6)	(3)	(7)
Int. Paid	(6.3)	(8)	(5)	(5)	(5)	(2)	(3)	(1)
Div Paid (inc tax)	(5.9)	(7)	(10)	(14)	(19)	(16)	(20)	(25)
others	-	-	-	-	(0)	(3)	-	-
<b>CF from Fin. Activities</b>	<b>(25.0)</b>	<b>76</b>	<b>(48)</b>	<b>(20)</b>	<b>(34)</b>	<b>(27)</b>	<b>(26)</b>	<b>(33)</b>
<b>Inc(Dec) in Cash</b>	<b>(9.6)</b>	<b>(1)</b>	<b>30</b>	<b>(0)</b>	<b>1</b>	<b>(15)</b>	<b>8</b>	<b>39</b>
Add: Opening Balance	40.4	31	30	20	20	21	6	14
<b>Closing Balance</b>	<b>30.7</b>	<b>30</b>	<b>59</b>	<b>20</b>	<b>21</b>	<b>6</b>	<b>14</b>	<b>54</b>

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