

Industry  
Bloomberg  
BSE CODE

Building Materials  
CRS IN  
532443

RATING	BUY
CMP	2477
Price Target	2932
Potential Upside	18%

Rating Change	↑
Estimate Change	↔
Target Change	↔

STOCK INFO	
52wk Range H/L	3180/2151
Mkt Capital (Rs Cr)	3212
Free float (%)	45%
Avg. Vol 1M (,000)	5
No. of Shares (Crs)	1
Promoters Pledged %	0%

## RESEARCH ANALYST

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## Uptick in commercial real estate to drive Sales growth

### 3QFY20 Result update

- CERA reported result in line with estimates; Sales remained muted YoY at Rs 321 crs (vs. expect. Rs 329 crs) impacted by subdued demand environment.
- In 3QFY20, Sanitary ware de-grew by 11.3% YoY (contri. 46% to revenue), Faucets grew by 8.5% YoY (contri. 25% to revenue), Tiles grew by 22% YoY (contri. 25% to revenue) and Wellness grew 11% YoY (contri. 4% to revenue).
- Gross margin declined by 376 bps to 49.1% YoY.
- EBITDA margin declined by 106 bps to 13.4% YoY in the quarter, lower decline led by decreased in other expenses by 307 bps YoY though employee expenses were up by 37 bps.
- PAT stood at Rs 28 crs (vs. expect. Rs 29 crs) and PAT margin remained flat at 8.8% YoY.
- The company has 387 SKUs in Sanitary ware, 905 SKUs in Faucets. 50 SKUs increased in total (sanitary+ faucets) in 3QFY20.
- Total exports are Rs 15 crs, majorly from GCC countries.
- In 9MFY20, company did capex of Rs 31.8 cr in sanitary ware (Rs 6.2 cr), faucet ware (Rs 3.4 cr), customer touch points (Rs 4.3 cr), completion of staff colony (Rs 11.1 cr) and logistics & IT (Rs 6.7cr).

### View and Valuation

CERA posted stable performance amidst challenging demand environment. The company is facing slowdown in the retail sales. However, commercial real estate has shown the demand uptick and we expect the company's business for coming period will be driven by growing demand in commercial real estate sector. The company's continuous focus on revenues and conservative credit policy makes us to have a positive view on the stock. We value the stock at 26x FY21e EPS, with a target price of Rs.2900 and give BUY.

### 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	1358	1593
EBITDA	171	171	191	188	209
EBIT	153	148	168	162	180
PAT	104.0	100.3	115.1	131.1	147.0
EPS (Rs)	79	76	88	100	113
EPS growth (%)	23%	-3%	15%	14%	12%
ROE (%)	21%	18%	17%	18%	18%
ROCE (%)	27%	23%	23%	20%	20%
BV	403	465	539	579	673
EV/EBITDA (x)	7.5	7.4	5.7	4.4	3.8
P/E (x)	38.1	45.1	35.2	25.2	22.5

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## 3QFY20 Results

### Result in line with estimates

Stand./Fig in Rs Cr

FINANCIALS	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	319	413	267	327	321	0.8%	-1.8%	1,182	1,344	13.7%
Other Income	4	6	3	4	4	5.9%	5.4%	11	16	38.7%
COGS	150	207	123	160	163	8.8%	2.5%	563	646	14.6%
Gross Margin	53%	50%	54%	51%	49%	-3.8%	-2.1%	52%	52%	-0.4%
Employee Cost	40	39	40	41	41	3.8%	1.1%	140	156	11.5%
Other Expenses	83	103	69	85	74	-11.1%	-13.6%	308	351	14.0%
EBITDA	46	64	35	42	43	-6.6%	3.2%	171	191	11.6%
EBITDA Mar.	14%	15%	13%	13%	13%	-1.1%	0.6%	14%	14%	-0.3%
Depreciation	6	7	8	8	8	43.3%	1.0%	22	23	2.2%
EBIT	40	57	28	34	35	-13.5%	3.7%	148	168	13.0%
Interest	1	1	1	1	1	63.9%	3.1%	5	3	-38.2%
PBT	44	61	29	37	38	-12.9%	3.9%	154	180	16.7%
Excpt Item	-	-	-	-	-	0.0%	0.0%	-	-	0%
Tax	15	23	10	7	10	-37%	46.5%	54	65	20.2%
PAT	28	38	19	30	28	0%	-5.5%	100	115	14.8%
PAT Margin	9%	9%	7%	9%	9%	-0.1%	-0.3%	8%	9%	0.1%

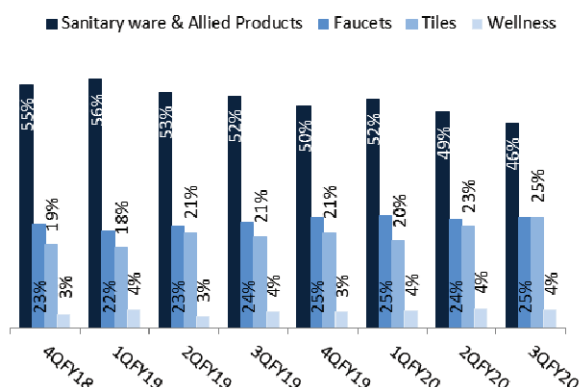
REVENUE MIX	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	1QFY20	2QFY20	3QFY20
Sanitary ware & Allied	55%	55%	55%	56%	53%	52%	50%	52%	49%	46%
Faucets	22%	21%	23%	22%	23%	24%	25%	25%	24%	25%
Tiles	20%	22%	19%	18%	21%	21%	21%	20%	23%	25%
Wellness	3%	2%	3%	4%	3%	4%	3%	4%	4%	4%

## Concall Highlights

- Company is witnessing growth in commercial real estate led by co-working, co-living and hospitality industry.
- Consumer demand sentiment is there, still they are postponing purchase. Dealers with too many outlets are right seizing now.
- Sanitary ware Industry is expected to grow by 7-8% & Faucets would grow by 6-7% in FY21.
- Its sales comprises (sanitary+ faucets) of 35%, 15% & 50% in entry, mid & premium segment.
- Tiles business mix: GVT & soluble salt is 20% & 13% of sales.
- In 3QFY20 the total working capital days of the company are 78 days with Inventory, receivable and payable of 52 days, 58 days and 33 days respectively. Out of the total receivable, tiles receivable were 39 days.
- Capacity utilization (owned plant) in sanitary ware & faucet ware in 3QFY20/9MFY20 is 76%/81% and 79%/69% respectively.
- Company's retail business share is 75% (through dealers) and institutional is 25%.
- Sales in 3QFY20 were from Tier 1, Tier 2 & Tier 3 in 39%, 6% & 55% respectively.
- Ad spends were 4% of sales in 3QFY20.
- Tiles business margins are lower in comparison to sanitary & faucets business.
- New SKUs: 20% of total SKUs were launched in last 18 months and they constitute ~10% of its topline.
- Increased customer touch points with 9 dealers owned Cera exclusive showrooms and added 172 dealers in 3QFY20.
- Return to positive growth expected by company on account of incremental real estate project is largely affordable housing. The company has a large portfolio of products focused on affordable housing and has further segmented on basis of market needs.

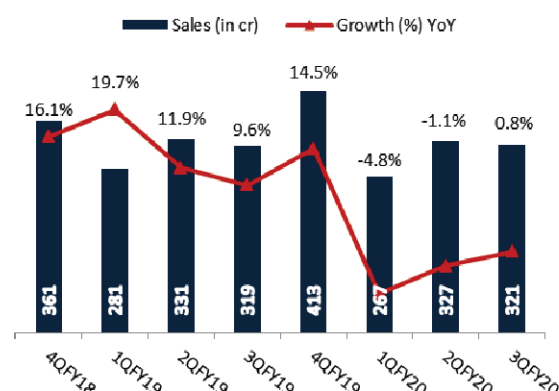
## Exhibit: Revenue Mix %

Strong Volume growth fueled by higher outsourcing share.



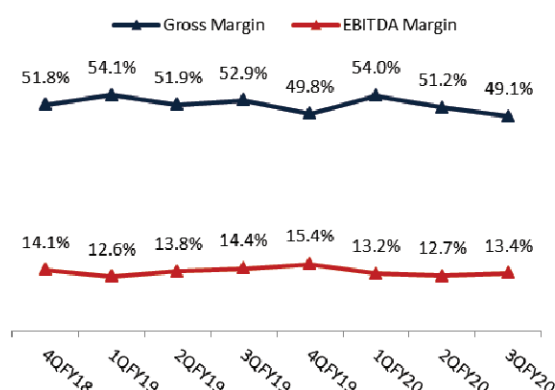
## Exhibit: Sales and Sales Growth (%)

Sales remained flat for 3QFY20, got impacted by low demand environment.



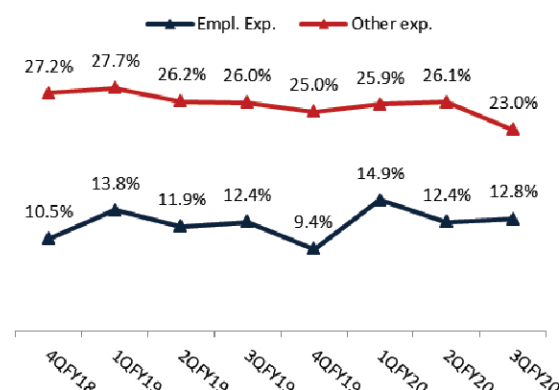
## Exhibit: Gross and EBITDA Margin (%)

G.M. % declined due to decline in outsourced business's gross margin.



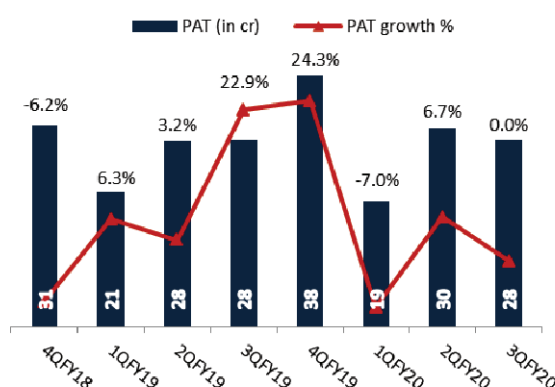
## Exhibit: Expenses as % of Sales

Employee expense increased by 37 bps however, other expenses declined by 307 bps.



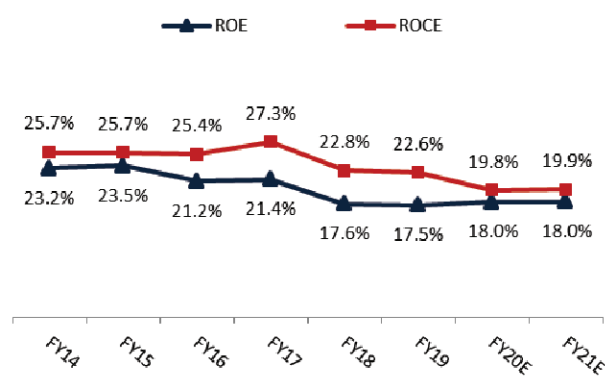
## Exhibit: PAT and PAT Growth (%)

PAT remained muted at Rs 28 crs (vs. expect. Rs 29 crs) and PAT margin remained flat at 8.8% YoY.



## Exhibit: Return Ratios

Return ratios is expected to improve going ahead as the profitability improves.



## 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	869
<b>Net Worth</b>	<b>224</b>	<b>352</b>	<b>436</b>	<b>524</b>	<b>605</b>	<b>701</b>	<b>753</b>	<b>875</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>843</b>	<b>958</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	187	221
Debtors	107	161	188	221	268	297	300	352
Cash & Bank	31	30	20	20	21	6	13	46
Other Current Assets	26	73	91	158	144	212	212	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>839</b>
Creditors	38	49	57	76	78	94	98	116
Provisions	18	22	2	3	4	3	4	4
Other Current Liabilities	76	100	150	173	174	199	201	236
<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>356</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>409</b>	<b>483</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>1,146</b>	<b>1,314</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>1,358</b>	<b>1,593</b>
Change (%)	0	24%	12%	10%	17%	14%	1%	17%
Other Income	6	7	10	11	11	16	16	18
<b>EBITDA</b>	<b>95</b>	<b>118</b>	<b>141</b>	<b>171</b>	<b>171</b>	<b>191</b>	<b>188</b>	<b>209</b>
Change (%)	0	24%	20%	21%	0%	12%	-1%	11%
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>162</b>	<b>180</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>175</b>	<b>196</b>
Exp Item	-	-	-	-	-	-	-	-
Tax	30	33	46	54	54	65	44	49
Reported PAT	52	68	83	104	100	115	131	147
<b>Adjusted PAT</b>	<b>52</b>	<b>68</b>	<b>83</b>	<b>104</b>	<b>100</b>	<b>115</b>	<b>131</b>	<b>147</b>
Change (%)	0	30%	23%	25%	-4%	15%	14%	12%
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	2.3	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	60.4	124.0
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	4.0	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	25.4	50.9
Price / EPS	22	48	28.7	38.1	45.1	35.2	25.2	22.5
Price / Book Value	5	9	5.5	7.5	7.4	5.7	4.4	3.8
EV/EBITDA	12	27	16.6	22.3	25.6	20.3	16.6	14.8
EV/Sales	1.7	3.9	2.5	3.8	3.7	2.9	2.3	1.9
Div Yield	0.0	0.3%	0.5%	0.4%	0.3%	0.4%	0.6%	0.7%

### 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>175</b>	<b>196</b>
(inc)/Dec in Working Capital	(12)	(53)	0	(7)	(48)	(21)	(5)	(41)
Non Cash Op Exp	9.9	15	11	7	13	9	(56)	12
Int Paid (+)	6	7	5	6	6	2	3	1
Tax Paid	(23.3)	(30)	(30)	(52)	(53)	(56)	(44)	(49)
<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>73</b>	<b>119</b>
(inc)/Dec in FA & CWIP	(48.1)	(117)	(18)	(88)	(36)	(103)	(40)	(53)
Free Cashflow	15.4	(77)	97	24	35	12	33	66
(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>(53)</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>7</b>	<b>33</b>
Add: Opening Balance	40.4	31	30	20	20	21	6	13
<b>Closing Balance</b>	<b>30.7</b>	<b>30</b>	<b>59</b>	<b>20</b>	<b>21</b>	<b>6</b>	<b>13</b>	<b>46</b>

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