

Cera Sanitaryware

BUY

Subdued demand weighed on earnings

Summary

Cera Sanitaryware Ltd.'s (Cera) Q2FY25 result was a mixed bag as net sales and PAT were higher than our estimates, while operating margin disappointed. Despite ongoing softness in demand and the impact of an extended monsoon season, the company reported healthy net sales growth over Q2FY24. Further, the company expects steady recovery in demand in H2FY25 led by increase in the retail sales and project sales. Despite near term challenges, we believe Cera is poised to clock healthy mid-teens top line growth with 15%-16% margins in mid-term. We have marginally cut of net sales/PAT estimates for FY25E/FY26E. With recent stock price correction, the stock is poised to deliver healthy returns over mid-long term horizon. We upgrade the stock to BUY with a revised TP of Rs8,395 (earlier Rs10,038), assigning 37xPER on FY26E.

Key Highlights and Investment Rationale

- Another quarter of subdued demand:** Despite challenging business environment, Cera's net profitability improved over Q2FY24. Net sales was up by 6.2% YoY to Rs4.9bn, while EBITDA came in at Rs721mn, lower by 5.7% YoY. PAT stood at Rs686mn, higher by 19.6% over Q2FY24. Sanitary ware/faucet ware/tiles and wellness contributed 46%/41%/10% and 3% in Q2FY25, while the contribution from tier1/tier2 and tier3 cities stood at 31%/24% and 45% respectively. The company's focus on increasing contribution from high end/premium products will drive operating margin improvement in near term.
- Valuation comfort post recent stock price correction, BUY with a TP of Rs8,395:** We like Cera for its strong brand recall, extensive distribution network and healthy balance sheet. With capacity addition on track, we anticipate sustainable earnings growth over mid-long term. BUY with a TP of Rs8,395.

TP	Rs8,395			Key Stock Data			
CMP	Rs6,771			Bloomberg / Reuters CRS IN / CERA.BO			
Potential upside/downside	24%				Sector Building Material Product		
Previous Rating	HOLD				Shares o/s (mn) 13		
Price Performance (%)							
	-1m	-3m	-12m				
Absolute	(14.3)	(31.5)	(23.8)	Market cap. (Rs mn) 87,323			
Rel to Sensex	(9.8)	(29.9)	(43.4)	3-m daily average Trd value (Rs mn) 9.2			
V/s Consensus							
EPS (Rs)	FY25E	FY26E	Shareholding Pattern (%)				
IDBI Capital	183	227	Promoters	54.4			
Consensus	195	230	FII	22.9			
% difference	(6.0)	(1.4)	DII	6.1			
			Public	16.6			

Year	Financial snapshot (Rs mn)					
	FY22	FY23	FY24	FY25E	FY26E	
Revenue	14,418	17,962	18,712	20,298	23,139	
Change (yoY, %)	20	25	4	8	14	
EBITDA	2,213	2,852	2,943	2,998	3,695	
Change (yoY, %)	48	29	1	(1)	23	
EBITDA Margin(%)	15.3	15.9	15.7	14.8	16.0	
Adj.PAT	1,553	2,158	2,414	2,379	2,951	
EPS (Rs)	119	166	186	183	227	
Change (yoY, %)	51.7	39.0	11.9	(2.6)	24.1	
PE(x)	56.7	40.4	36.0	37.0	29.8	
Dividend Yield (%)	0.5	0.7	0.9	1.0	1.0	
EV/EBITDA (x)	39.7	29.3	29.0	29.0	23.2	
RoE (%)	16.5	20.0	19.4	16.8	18.7	
RoCE (%)	17.2	22.1	19.1	16.6	18.9	

Source: IDBI Capital Research

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Concall Highlights

Industry:

- The company expects steady recovery in demand in H2FY25 led by increase in the retail sales and project sales.
- In H1FY25, brass prices increased by 18% which increased the pressure on the margins.
- In H1FY25, the discounts have been on the higher side due to subdued demand condition. However, the management guided that discounts to come down to 1.2%- 2% range.

Segment performance:

- In Q2FY25, Sanitary ware/faucet ware/tiles and wellness contributed 46%/41%/10% and 3% where Sanitary ware and tiles de-grew by 6% and 11%, whereas faucet ware and wellness grew by 20% and 38%.
- In Q2FY25, the contribution from tier1/tier2 and tier3 cities stood at 34%/21% and 45%.
- For Q2FY25, the contribution from premium/mid-level and entry-level products contributed 41%/34% and 25%.
- During the quarter the capacity utilization from Sanitaryware and faucetware stood at 93% and 89%.
- During the quarter, inventory days increased from 73 days to 80 days; Receivables days increased from 29 days to 33 days; Payables days decreased from 42 days to 41 days; working capital days increased to 72 days from 60 days YoY.
- In Q2FY25, the contribution from north/south/west and east cities stood at 33%/36%/21% and 9%.
- In Q2FY25, new product development contributed 34% to the total sales.
- In Q2FY25, B2B sales contributed 37 % to the total sales. The management has guided that they will selectively focus on project sales in H2FY25.
- During the quarter, the company took the price increase of 6% price increase in faucets and a 1% increase for sanitary ware in Sept'24, led by increase in the input cost. The price hike will aid to margin sustainability in H2FY25.

CAPEX:

- The company has guided the capex of Rs250 mn for FY25 towards plant maintenance. Also, the company has incurred the capex of Rs 110 m in H1FY25
- The acquisition of the land for new sanitary ware plant has been completed. The completion of the project will take 18 months. However, the management guided that expansion will not start in FY25 led by subdued demand condition.
- The new sanitaryware plant will be commissioned in 2 phases. In, Phase 1, the total capacity will be 1.2 mn pieces per annum with a capex of Rs1.3 bn and having a revenue potential of Rs3bn per annum.

Others:

- The company has enrolled over 3,000 retailers and accumulated more than 3 .6lakh invoices.
- The A&P expense during the quarter was at Rs160mn vs Rs150mn in Q2FY24.
- During the quarter, the gas prices from GAIL were at Rs28.4 per cubic meter vs 28.7 per cubic meter in Q2FY24 and Sabarmati gas prices were at Rs53.8 per cubic meter vs 44.5 per cubic meter in Q2FY24. The combined gas prices were at 33.9 per cubic meter. The increase in gas drawls of 78% from Gail vs 70% in Q2FY24. The cost of gas is 1.5% of the total revenue.

Guidance:

- The company reiterated the topline guidance to grow at a CAGR of 16% to Rs29bn till FY28. The margins to be in the range of 16-17% till FY28.
- For FY25, the company has guided higher single digit top-line growth with the EBITDA margin in the range of 16-17%.

Exhibit 1: Financial snapshot

Particulars (mn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)
Total revenues	4,926	4,007	22.9	4,637	6.2
Total expenditure	4,205	3,427	22.7	3,872	8.6
EBIDTA	721	581	24.2	765	(5.7)
<i>EBIDTA margin(%)</i>	14.6	14.5	15bps	16.5	-185bps
Depreciation	107	90	19.4	89	20.2
Interest cost	26	13	108.4	14	91.6
Other income	178	159	-	125	41.7
PBT	765	637	20.1	787	(2.8)
Tax	79	163	(51.4)	198	(60.0)
Adj. net profit	686	475	44.6	574	19.6
Adj. EPS (INR)	52.8	36.5	44.6	45.3	19.6

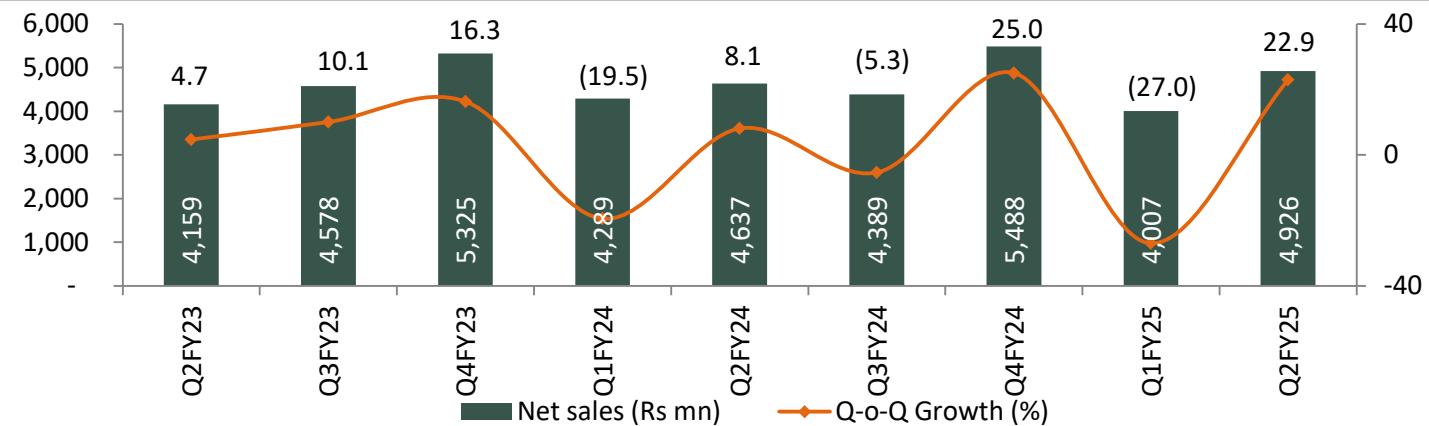
Source: Company; IDBI Capital Research

Exhibit 2: Actual Vs Estimates

Particulars	Q2FY25A	Q2FY25E	Variance (%)
Net Sales	4,926	4,310	14.3
EBITDA	721	673	7.2
<i>EBITDA Margin (%)</i>	15	16	-97bps
Net Profit	686	547	25.5
EPS (Rs)	52.8	42.0	25.5

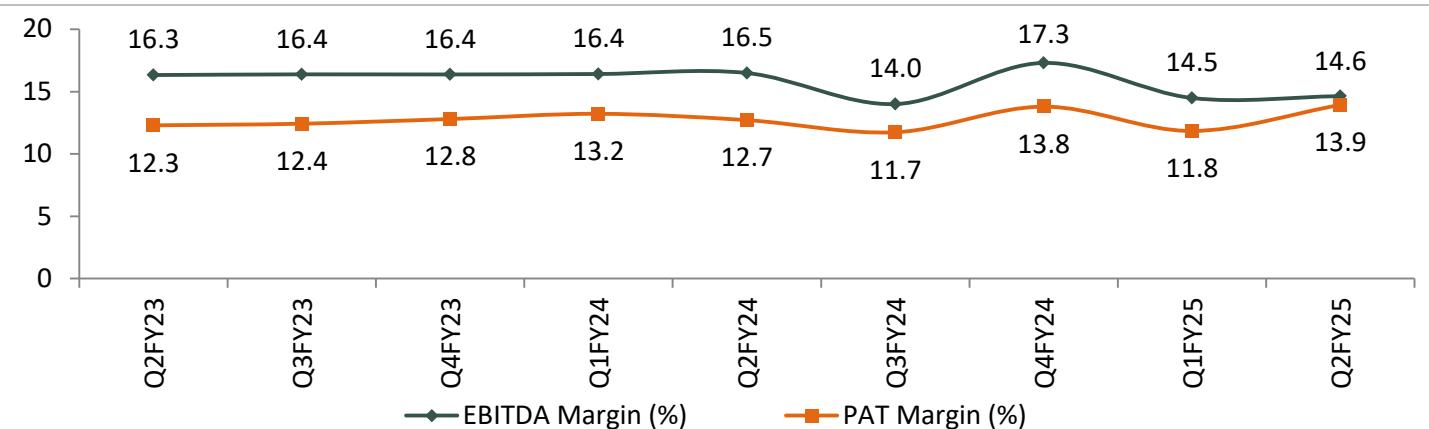
Source: Company; IDBI Capital Research

Exhibit 3: Quarterly Net sales Growth Analysis



Source: Company; IDBI Capital Research

Exhibit 4: Quarterly Margin Profile Analysis



Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	12,017	14,418	17,962	18,712	20,298	23,139
<i>Change (yoY, %)</i>	(0.6)	20	25	4	8	14
Operating expenses	(10,517)	(12,205)	(15,110)	(15,769)	(17,299)	(19,444)
EBITDA	1,500	2,213	2,852	2,943	2,998	3,695
<i>Change (yoY, %)</i>	-7.5	48	29	1	(1)	23
<i>Margin (%)</i>	12.5	15.3	15.9	15.7	14.8	16.0
Depreciation	(332)	(304)	(304)	(344)	(411)	(426)
EBIT	1,167	1,908	2,547	2,599	2,587	3,269
Interest paid	(32)	(44)	(43)	(46)	(61)	(58)
Other income	218	228	374	611	666	746
Pre-tax profit	1,353	2,035	2,829	3,149	3,192	3,957
Tax	(329)	(539)	(721)	(750)	(814)	(1,006)
<i>Effective tax rate (%)</i>	24.3	26.5	25.5	23.8	25.5	25.4
Minority Interest	-	-	-	-	-	-
Net profit	1,024	1,496	2,108	2,399	2,379	2,951
Exceptional items	-	(57)	(50)	(16)	-	-
Adjusted net profit	1,024	1,553	2,158	2,414	2,379	2,951
<i>Change (yoY, %)</i>	(11.1)	52	39	12	(3)	24
EPS	78.7	119.4	165.9	185.6	182.9	226.9
Dividend per sh	13.0	35.0	50.0	60.0	65.0	70.0
<i>Dividend Payout %</i>	19.8	35.2	36.2	39	43	37

Balance Sheet							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Shareholders' funds	8,744	10,057	11,692	13,425	14,863	16,761	
Share capital	65	65	65	65	65	65	65
Reserves & surplus	8,679	9,992	11,627	13,360	14,798	16,696	
Total Debt	124	192	183	163	196	187	
Other liabilities	2,170	853	978	997	1,114	1,230	
Curr Liab & prov	1,792	3,173	3,703	3,666	3,870	4,142	
Current liabilities	1,668	3,060	3,484	3,412	3,597	3,851	
Provisions	125	113	218	255	272	291	
Total liabilities	4,086	4,217	4,864	4,826	5,179	5,559	
Total equity & liabilities	12,830	14,274	16,556	18,252	20,169	22,448	
Net fixed assets	3,167	3,055	3,121	3,447	3,472	3,303	
Investments	5,131	5,673	6,688	8,090	8,917	9,797	
Other non-curr assets	197	231	429	318	244	245	
Current assets	4,334	5,315	6,318	6,396	7,536	9,103	
Inventories	1,697	2,877	3,764	3,586	3,817	4,046	
Sundry Debtors	2,067	1,641	1,883	2,013	2,168	2,276	
Cash and Bank	98	241	253	341	1,099	2,297	
Loans and advances	472	556	418	455	452	483	
Total assets	12,830	14,274	16,556	18,252	20,169	22,448	

Cash Flow Statement							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Pre-tax profit	1,353	2,035	2,867	3,201	3,192	3,957	
Depreciation	332	304	326	365	411	426	
Tax paid	(329)	(524)	(704)	(669)	(733)	(905)	
Chg in working capital	1,130	804	(689)	21	(102)	(65)	
Other operating activities	-	-	-	-	-	-	
Cash flow from operations (a)	2,487	2,619	1,799	2,918	2,769	3,413	
Capital expenditure	(166)	(192)	(579)	(686)	(255)	(257)	
Chg in investments	(2,507)	(542)	(924)	(1,523)	(797)	(879)	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(2,673)	(734)	(1,503)	(2,210)	(1,052)	(1,136)	
Equity raised/(repaid)	-	-	-	-	-	-	
Debt raised/(repaid)	(27)	68	61	(49)	(9)	(8)	
Dividend (incl. tax)	(203)	(546)	(780)	(936)	(1,014)	(1,093)	
Chg in minorities	-	-	106	21	-	-	
Other financing activities	499	(1,263)	337	365	33	22	
Cash flow from financing (c)	269	(1,742)	(276)	(599)	(990)	(1,079)	
Net chg in cash (a+b+c)	82	143	20	110	727	1,198	

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	672.3	773	902	1,035	1,143	1,289
Adj EPS (Rs)	78.7	119.4	167.5	187.7	182.9	226.9
Adj EPS growth (%)	-11.1	52	40	12	-3	24
EBITDA margin (%)	12.5	15.3	16.6	16.1	14.8	16.0
Pre-tax margin (%)	11.3	14.1	15.8	17.0	15.7	17.1
Net Debt/Equity (x)	0.0	0.0	0.0	0.0	-0.1	-0.1
ROCE (%)	11.0	17	22	19	17	19
ROE (%)	12.4	17	20	19	17	19
DuPont Analysis						
Asset turnover (x)	1.0	1.1	1.2	1.1	1.1	1.1
Leverage factor (x)	1.5	1.4	1.4	1.4	1.4	1.3
Net margin (%)	8.5	10.8	12.0	13.0	11.7	12.8
Working Capital & Liquidity ratio						
Inventory days	52	73	77	71	69	64
Receivable days	63	42	38	39	39	36
Payable days	50	58	50	41	40	39

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	86.0	56.7	40.4	36.0	37.0	29.8
Price/Book value (x)	10.1	8.7	7.5	6.5	5.9	5.2
EV/Net sales (x)	7.3	6.1	4.9	4.7	4.3	3.7
EV/EBITDA (x)	58.7	39.7	29.3	29.0	29.0	23.2
Dividend Yield (%)	0.2	0.5	0.7	0.9	1.0	1.0

Source: Company; IDBI Capital Research

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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