

12 September 2012

## Cera Sanitaryware

### Key takeaways from management meet

We recently met the management of Cera to understand the company's business model and growth prospects. The company targets to extend growth momentum of the past three years (revenue CAGR of 26%) going forward, backed by capacity expansion, rising demand and widening product portfolio. Key positives include de-leveraged balance sheet, strong return ratios and free cash flows.

- **Established presence, strong brand value.** Cera ranks third in the ₹12bn Indian organized sanitaryware industry, holding 22%. It offers a complete range of bathware products across price points, backed by a wide network of distributors and retailers. Its continued focus on the steady growing Tier 2 & 3 towns is an added advantage.
- **Growth momentum likely to continue.** Cera's FY13-15 revenues and profit are likely to retain past three years' momentum, backed by enhanced sanitaryware capacity (from 2m pcs to 2.7m pcs) and ramp-up in faucets production (FY12: 33% utilisation). Revenue growth will be further aided by likelihood of robust demand growth in sanitary ware, faucets, wellness (shower, pools, tubs) and personal products (hand/hair dryer). To become a complete bathroom solutions provider, Cera is also venturing into tiles through the outsourcing/JV model. The company has, however, shelved its plans for expansion in the faucets division for now.
- **Focus on +25% RoCE and de-leveraged balance sheet.** Cera's industry leading OPM of 17% (driven by availability of low-cost natural gas), high asset-turnover ratio and de-leveraged balance sheet helps it post strong return ratios of 25-30%. With no major capex over next two years, we expect strong free cash flows and lower gearing for the company.
- **Valuation.** At current market price, the stock is trading at 10.7x FY13 and 8.8x FY14 Bloomberg consensus estimates.

Key financials (YE Mar)	FY08	FY09	FY10	FY11	FY12
Sales (₹m)	1,281	1,595	1,914	2,430	3,194
Net profit (₹m)	100	147	196	265	320
EPS (₹)	16.2	23.7	31.2	21.0	25.3
Growth (%)	10.8	46.1	31.4	(32.7)	20.7
PE (x)	20.3	13.9	10.6	15.7	13.0
EV/EBITDA (x)	10.9	7.4	5.6	9.0	8.1
PBV (x)	3.5	2.9	2.3	3.7	3.0
RoE (%)	17.2	22.9	24.7	26.5	25.6
RoCE (%)	19.2	26.6	30.7	32.9	29.7
Dividend yield (%)	0.5	0.6	0.8	0.8	0.9
Net gearing (x)	0.5	0.2	(0.1)	(0.1)	0.1

Source: Company, Anand Rathi Research

Rating: **Not rated**

Target Price: NA

Share Price: ₹330

Key data	CRS IN / CERA.BO
52-week high / low	₹374 / ₹158
Sensex / Nifty	17852 / 5390
3-m average volume	US\$0.25m
Market cap	₹4.2bn / US\$83m
Shares outstanding	12.7m

Shareholding pattern (%)	Jun '12	Mar '12	Dec '11
Promoters	55.4	55.4	55.0
- of which, Pledged	-	-	-
Free Float	44.6	44.6	45.0
- Foreign Institutions	3.0	2.4	2.5
- Domestic Institutions	0.1	0.1	0.1
- Public	41.5	42.1	42.4

### Relative price performance



Source: Bloomberg

Anand Rathi Share and Stock Brokers Limited does and seeks to do business with companies covered in its research reports. Thus, investors should be aware that the firm may have a conflict of interest that could affect the objectivity of this report. Investors should consider this report as only a single factor in making their investment decision. Disclosures and analyst certifications are present in Appendix.

## Appendix

### Analyst Certification

The views expressed in this research report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi Research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors, firm revenues and overall investment banking revenues.

### Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US\$1bn) and Mid/Small Caps (<US\$1bn) as described in the Ratings Table below.

Ratings Guide	Buy	Hold	Sell
Large Caps (>US\$1bn)	>20%	5-20%	<5%
Mid/Small Caps (<US\$1bn)	>30%	10-30%	<10%

### Anand Rathi Research Ratings Distribution (as of 10 Aug 2012)

	Buy	Hold	Sell
Anand Rathi Research stock coverage (127)	74%	13%	13%
% who are investment banking clients	5%	6%	0%

### Other Disclosures

This report has been issued by Anand Rathi Share & Stock Brokers Limited (ARSSBL), which is regulated by SEBI.

The information herein was obtained from various sources; we do not guarantee its accuracy or completeness. Neither the information nor any opinion expressed constitutes an offer, or an invitation to make an offer, to buy or sell any securities or any options, futures or other derivatives related to such securities ("related investments"). ARFSL and its affiliates may trade for their own accounts as market maker / jobber and/or arbitrageur in any securities of this issuer(s) or in related investments, and may be on the opposite side of public orders. ARSSBL, its affiliates, directors, officers, and employees may have a long or short position in any securities of this issuer(s) or in related investments. ARSSBL or its affiliates may from time to time perform investment banking or other services for, or solicit investment banking or other business from, any entity mentioned in this report. This research report is prepared for private circulation. It does not have regard to the specific investment objectives, financial situation and the particular needs of any specific person who may receive this report. Investors should seek financial advice regarding the appropriateness of investing in any securities or investment strategies discussed or recommended in this report and should understand that statements regarding future prospects may not be realized. Investors should note that income from such securities, if any, may fluctuate and that each security's price or value may rise or fall. Past performance is not necessarily a guide to future performance. Foreign currency rates of exchange may adversely affect the value, price or income of any security or related investment mentioned in this report.

This document is intended only for professional investors as defined under the relevant laws of Hong Kong and is not intended for the public in Hong Kong. The contents of this document have not been reviewed by any regulatory authority in Hong Kong. No action has been taken in Hong Kong to permit the distribution of this document. This document is distributed on a confidential basis. This document may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed.

If this report is made available in Hong Kong by, or on behalf of, Anand Rathi Financial Services (HK) Limited., it is attributable to Anand Rathi Financial Services (HK) Limited., Unit 1211, Bank of America Tower, 12 Harcourt Road, Central, Hong Kong. Anand Rathi Financial Services (HK) Limited. is regulated by the Hong Kong Securities and Futures Commission.

Anand Rathi Financial Services Limited and Anand Rathi Share & Stock Brokers Limited are members of The Bombay Stock Exchange Limited, and the National Stock Exchange of India.

© 2012 Anand Rathi Share & Stock Brokers Limited. All rights reserved. This report or any portion hereof may not be reprinted, sold or redistributed without the written consent of Anand Rathi Financial Services Limited.

Additional information on recommended securities/instruments is available on request.