

September 13, 2011

BUY

MEDIUM RISK

PRICE Rs.197

TARGET Rs.250

## CONSUMER

### EARLIER RECO

Buy	
Price	Rs. 190
Target	Rs. 250
Date	Apr. 25, 2011

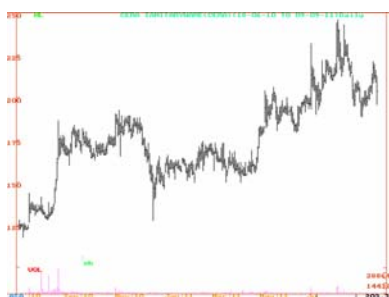
### SHARE HOLDING (%)

Promoters	55.0
FII	3.1
FI	0.1
Body Corporates	4.8
Public & Others	37.0

### STOCK DATA

Reuters Code	CERA.BO	
Bloomberg Code	CRS IN	
BSE Code	532443	
NSE Symbol	CERA	
Market Capitalization*	Rs.2501.9 mn US \$ 53 .2 mn	
Shares Outstanding*	12.7 mn	
52 Weeks (H/L)	Rs.246/ 128	
Avg. Daily Volume (6m)	7942	
Price Performance (%)		
1M	3M	6M
(1)	0	25
200 Days EMA: Rs. 185		

\*On fully diluted equity shares

 Part of  Bonanza


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## Decent Q1 FY12 Performance

Cera Sanitaryware Ltd. (CSL) is a pioneer in the sanitaryware segment in India. CSL is mainly engaged in manufacturing & marketing of sanitaryware & wellness products. The company is currently expanding its existing capacities in sanitaryware and has recently commissioned its Faucetsware Plant to manufacture faucets popularly known as CP fittings. It has a strong brand recognition and distribution network of 6000 dealers. Its Revenues have grown at a CAGR of more than 25% since last 4 years making it one of the fastest growing sanitaryware companies in India. **We recently had a telecon with the Management of the Company to discuss its financial performance during Q1FY12 and outlook for ensuing period. We present key takeaways of the Telecon hereunder:**

- CSL has delivered a decent set of numbers in Q1FY12. It has posted net sales of Rs. 646.4 mn, registering a growth of 27% YoY, mainly driven by a 17% growth in volumes & 10% growth in realization. Its EBIDTA increased by 17% to Rs.121 mn, while the EBIDTA margins decreased by 160 bps to 18.8%. Its Profit before Tax (including Other Income) increased by 17% to Rs.104.6 mn. It's APAT increased by 15% at Rs. 69 mn. It registered an AEPS of Rs.5.5 during Q1FY12.
- The Company is expanding its sanitaryware production capacity from 2 million pieces to 2.7 million pieces to meet the increasing demand for its products. Its faucetsware plant was commissioned in January, 2011 and during Q1FY12, about 50% of the plant capacity was utilized. The plant is expected to reach 100% utilization level by December, 2011. Cera is also planning a second faucetsware plant with three times the capacity of the present one, which could be commissioned by end of December 2012.
- Cera markets its other Bathware & wellness range of products consisting of shower cubicles, shower panels, steam cubicles, etc under the brand name CERA. It has also added other products like kitchen sinks, mirrors and sensor products to its range under Bathware. Most of these products are imported or outsourced, and given the strong market response, growth could further accelerate going forward.
- In order to expand its market reach & increase visibility, Cera has been focusing on expanding its distribution network to reach even in smaller towns and fortifying its relationship with housing developers and influencers like architects, interior designers and plumbing consultants to leverage India's huge untapped growth potential and is confident of increasing its growth numbers significantly in the coming years.

## OUTLOOK & VALUATION

Cera is a leading player in the sanitaryware segment in India. It has been expanding its capacities & product portfolio continually and has delivered impressive growth in its Revenues & Profits over the past few years. Going ahead, we believe that the company's Strong Brand, wide distribution network, strategy to introduce new products, capacity expansion & increased demand will lead to strong growth in Revenues & APAT.

Considering its decent performance during Q1FY12, we retain our FY12 and FY13 estimates and expect its FY12 & FY13 revenues to grow 20% & 18% and APAT to grow at 20.6% & 15.8% respectively. At the CMP of Rs.197, the stock is available at an attractive valuation of 7.1x its FY13E earnings of Rs.27.8. We retain our "BUY" Rating on the stock with the Target price of Rs.250 (9x FY13E Earnings).

## KEY FINANCIALS

Y/E	Revenue (Rs mn)	APAT (Rs mn)	APAT (% Ch.)	AEPS (Rs.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
Mar.								
FY10	1913.6	195.5	49.1	31.1	6.3	26.9	24.6	1.4
FY11	2429.5	251.9	28.9	19.9*	9.9	29.5	25.2	2.2
<b>FY12E</b>	<b>2914.8</b>	<b>303.9</b>	<b>20.6</b>	<b>24.0</b>	<b>8.2</b>	<b>28.1</b>	<b>24.3</b>	<b>1.8</b>
<b>FY13E</b>	<b>3439.4</b>	<b>352.0</b>	<b>15.8</b>	<b>27.8</b>	<b>7.1</b>	<b>26.4</b>	<b>22.7</b>	<b>1.5</b>

\*Post 1:1 Bonus Issue

### QUARTERLY STATEMENT

Rs.mn

Y/E March	Q4FY10	Q4FY11	Q1FY11	Q1FY12
<b>Net sales</b>	<b>584.6</b>	<b>755.3</b>	<b>507.8</b>	<b>646.4</b>
Growth %	27%	29%	26%	27%
Total Expense	474.0	627.4	404.4	525.1
<b>EBITDA</b>	<b>110.6</b>	<b>127.9</b>	<b>103.5</b>	<b>121.3</b>
Growth %	18%	16%	54%	17%
Margin %	18.9	16.9	20.4	18.8
Interest	5.1	7.3	6.2	7.2
Depreciation	16.1	19.8	15.2	18.8
Other Income	4.3	25.2	7.6	9.4
<b>PBT</b>	<b>93.7</b>	<b>126.0</b>	<b>89.6</b>	<b>104.6</b>
Margin %	16.0	16.7	17.7	16.2
Tax	31.8	53.7	29.8	35.6
Rate %	34.0	42.6	33.2	34.0
<b>RPAT</b>	<b>61.9</b>	<b>72.3</b>	<b>59.9</b>	<b>69.0</b>
Non-Recurring Items	0.0	13.5	0.0	0.0
<b>APAT</b>	<b>61.9</b>	<b>58.8</b>	<b>59.9</b>	<b>69.0</b>
Margin %	10.6	7.8	11.8	10.7

### PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY10	FY11	FY12E	FY13E
<b>Total Sales</b>	<b>1913.6</b>	<b>2429.5</b>	<b>2914.8</b>	<b>3439.4</b>
Total Raw Material Cost	666.8	864.4	1061.0	1289.8
Power and Fuel Cost	63.3	123.0	147.6	180.8
Personnel Cost	254.7	323.0	395.6	468.8
Other Cost	568.2	662.2	761.5	852.9
<b>EBITDA</b>	<b>360.6</b>	<b>457.1</b>	<b>549.1</b>	<b>647.2</b>
Interest	25.3	27.2	32.6	37.5
Depreciation	61.0	65.3	80.0	100.0
Other Income	24.7	50.7	31.7	34.8
PBT incl OI	<b>299.0</b>	<b>415.2</b>	<b>468.2</b>	<b>544.5</b>
Tax	102.9	149.8	164.3	192.5
<b>RPAT</b>	<b>196.1</b>	<b>265.4</b>	<b>303.9</b>	<b>352.0</b>
Non-Recurring Items	0.6	13.5	0.0	0.0
<b>APAT</b>	<b>195.5</b>	<b>251.9</b>	<b>303.9</b>	<b>352.0</b>

### BALANCE SHEET STATEMENT

Rs.mn

As on 31 <sup>st</sup> March	FY10	FY11	FY12E	FY13E
Equity Share Capital	31.4	63.3	63.3	63.3
Reserves	853.7	1052.3	1326.9	1642.1
<b>Net worth</b>	<b>885.1</b>	<b>1115.6</b>	<b>1390.2</b>	<b>1705.4</b>
<b>Total loans</b>	<b>272.1</b>	<b>378.9</b>	<b>454.5</b>	<b>590.8</b>
Deferred tax liab (Net)	131.9	138.5	145.5	152.7
<b>Capital Employed</b>	<b>1289.2</b>	<b>1633.0</b>	<b>1990.1</b>	<b>2448.9</b>
Gross Block	988.2	1131.1	1502.2	1852.2
Depreciation	302.2	347.7	427.7	527.7
Net block	686.0	783.3	1074.5	1324.5
CWIP	21.6	61.2	40.0	40.0
Investments	0.0	77.7	0.0	0.0
Inventories	363.6	500.3	600.3	708.3
Sundry debtors	331.4	387.9	465.4	549.1
Cash and bank	340.5	364.7	460.4	594.5
Loans and advances	156.9	204.7	245.6	289.8
Other Current Assets	10.9	6.9	8.3	9.8
Total Current assets	1203.4	1464.6	1779.9	2151.5
Total Current liabilities	622.4	754.2	904.8	1067.7
<b>Net Current assets</b>	<b>581.0</b>	<b>710.4</b>	<b>875.1</b>	<b>1083.9</b>
<b>Misc Exp</b>	<b>0.6</b>	<b>0.4</b>	<b>0.5</b>	<b>0.6</b>
<b>Capital Deployed</b>	<b>1289.2</b>	<b>1633.0</b>	<b>1990.1</b>	<b>2448.9</b>

### FINANCIAL RATIO STATEMENT

Y/E March	FY10	FY11	FY12E	FY13E
<b>Growth (%)</b>				
Net Sales	20.0	27.0	20.0	18.0
APAT	49.1	28.9	20.6	15.8
EBITDA	22.1	26.7	20.2	17.9
<b>Profitability (%)</b>				
EBITDA Margin	18.8	18.8	18.8	18.8
Adj. PAT Margin	10.2	10.4	10.4	10.2
ROCE	26.9	29.5	28.1	26.4
ROE	24.6	25.2	24.3	22.7
<b>Per Share Data (Rs.)</b>				
Adj. EPS	31.1	19.9	24.0	27.8
Adj. CEPS	40.9	26.7	30.6	36.0
BVPS	140.7	88.2	109.9	134.8
<b>Valuations (X)</b>				
PER	6.3	9.9	8.2	7.1
PEG	0.1	(0.3)	0.4	0.4
P/BV	1.4	2.2	1.8	1.5
EV / EBITDA	4.2	6.3	5.4	4.8
EV / Net sales	0.8	1.2	1.0	0.9
Dividend Yield (%)	1.3	1.3	1.0	1.3
<b>Turnover Days</b>				
Debtors days	61	54	53	54
Creditors days	101	103	104	105
<b>Gearing Ratio</b>				
Total Debt to Equity	0.3	0.3	0.3	0.3

Source: Company, Sushil Finance Research Estimates

## Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

### Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

#### Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- \*\* Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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