

November 28, 2011

BUY

MEDIUM RISK

PRICE Rs.176

TARGET Rs.250

CONSUMER

EARLIER RECO

Buy	
Price	Rs. 197
Target	Rs. 250
Date	Sep. 13, 2011

SHARE HOLDING (%)

Promoters	55.0
FII	3.6
FI	0.1
Body Corporates	5.7
Public & Others	35.6

STOCK DATA

Reuters Code	CERA.BO	
Bloomberg Code	CRS IN	
BSE Code	532443	
NSE Symbol	CERA	
Market Capitalization*	Rs.2235.2 mn US \$ 42.8 mn	
Shares Outstanding*	12.7 mn	
52 Weeks (H/L)	Rs.246/ 128	
Avg. Daily Volume (6m)	5194	
Price Performance (%)		
1M	3M	6M
(12)	(11)	(3)
200 Days EMA: Rs. 188		

*On fully diluted equity shares

Part of  Bonanza



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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 from 2 mn pcs to 2.7 mn pcs to meet the increasing demand for its products. It has recently commissioned its Faucetsware Plant to manufacture faucets popularly known as CP fittings and also plans a second faucetsware plant with three times the capacity of the present one. 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 met with the Management of the Company to discuss its financial performance during Q2FY12 and outlook for ensuing period. We present key takeaways of the meeting hereunder:**

- CSL has delivered a good set of numbers in Q2FY12. It has posted net sales of Rs. 732.9 mn, registering a growth of 29% YoY. Its EBIDTA increased by 14% to Rs.117 mn, while the EBIDTA margins decreased by 200 bps to 16%. It's APAT increased by 26% at Rs. 76.5 mn. It registered an AEPS of Rs. 6.05 during Q2FY12.
- During H1FY12, CSL has posted net sales of Rs. 1379.3 mn, registering a growth of 28% YoY. Its EBIDTA increased by 16% to Rs.238.3 mn, while the EBIDTA margins decreased by 190 bps to 17.3%. It's APAT increased by 21% at Rs. 145.5 mn. It registered an AEPS of Rs. 11.5 during H1FY12.
- The major reason for fall in margins was due to increase in other cost. The increase in other cost was contributed mainly by high media & advertising costs. Moreover, its cost of inputs has also increased along with labour costs and the company was not able to pass on the cost increase.
- 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 performance during Q2FY12 we have tweaked our numbers slightly but have retained the top line & the bottom line. We expect its FY12 and FY13 revenues to grow 20% & 18% respectively, we expect its EBIDTA Margins to decrease by 100 bps & 30 bps in FY12E & FY13E respectively and its APAT to grow by 20.6% & 15.8% in FY12E & FY13E respectively. At the CMP of Rs.176, the stock is available at an attractive valuation of 6.3x 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	APAT	APAT	AEPS	P/E	ROCE	ROE	P/BV
Mar.	(Rs mn)	(Rs mn)	(% Ch.)	(Rs.)	(x)	(%)	(%)	(x)
FY10	1913.6	195.5	49.1	31.1	5.7	26.9	24.6	1.3
FY11	2429.5	251.9	28.9	19.9*	8.8	29.5	25.2	2.0
FY12E	2914.8	303.9	20.6	24.0	7.3	26.2	24.3	1.6
FY13E	3439.4	352.0	15.8	27.8	6.3	24.2	22.7	1.3

*Post 1:1 Bonus Issue

QUARTERLY STATEMENT

Rs.mn

Y/E March	Q2FY11	Q2FY12	H1FY11	H1FY12
Net sales	568.6	732.9	1076.4	1379.3
Growth %	21%	29%	23%	28%
Total Expense	466.0	615.9	870.3	1141.0
EBITDA	102.6	117.0	206.1	238.3
Growth %	18%	14%	34%	16%
Margin %	18.0	16.0	19.1	17.3
Interest	6.1	8.2	12.3	15.4
Depreciation	15.2	18.8	30.4	37.7
Other Income	9.8	23.3	17.4	32.6
PBT	91.2	113.3	180.8	217.8
Margin %	16.0	15.5	16.8	15.8
Tax	30.3	36.7	60.1	72.3
Rate %	33.2	32.4	33.2	33.2
RPAT	60.9	76.5	120.8	145.5
Non-Recurring Items	0.0	0.0	0.0	0.0
APAT	60.9	76.5	120.8	145.5
Margin %	10.7	10.4	11.2	10.6

PROFIT & LOSS STATEMENT

Rs.mn

Y/E March	FY10	FY11	FY12E	FY13E
Total Sales	1913.6	2429.5	2914.8	3439.4
Total Raw Material Cost	666.8	864.4	1078.5	1282.9
Power and Fuel Cost	63.3	123.0	141.4	166.9
Personnel Cost	254.7	323.0	395.6	466.8
Other Cost	568.2	662.2	781.3	923.5
EBITDA	360.6	457.1	517.9	599.2
Interest	25.3	27.2	32.6	37.5
Depreciation	61.0	65.3	80.0	98.0
Other Income	24.7	50.7	55.7	66.6
PBT incl OI	299.0	415.2	461.0	530.3
Tax	102.9	149.8	157.2	178.3
RPAT	196.1	265.4	303.9	352.0
Non-Recurring Items	0.6	13.5	0.0	0.0
APAT	195.5	251.9	303.9	352.0

BALANCE SHEET STATEMENT

Rs.mn

As on 31 st 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
Net worth	885.1	1115.6	1390.2	1705.4
Total loans	272.1	378.9	454.5	590.8
Deferred tax liab (Net)	131.9	138.5	145.5	152.7
Capital Employed	1289.2	1633.0	1990.1	2448.9
Gross Block	988.2	1131.1	1502.2	1852.2
Depreciation	302.2	347.7	427.7	525.7
Net block	686.0	783.3	1074.5	1326.5
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	592.5
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	1780.0	2149.5
Total Current liabilities	622.4	754.2	904.8	1067.7
Net Current assets	581.0	710.4	875.1	1081.8
Misc Exp	0.6	0.4	0.5	0.6
Capital Deployed	1289.2	1633.0	1990.1	2448.9

FINANCIAL RATIO STATEMENT

Y/E March	FY10	FY11	FY12E	FY13E
Growth (%)				
Net Sales	20.0	27.0	20.0	18.0
APAT	49.1	28.9	20.6	15.8
EBITDA	22.1	26.7	13.3	15.7
Profitability (%)				
EBITDA Margin	18.8	18.8	17.8	17.4
Adj. PAT Margin	10.2	10.4	10.4	10.2
ROCE	26.9	29.5	26.2	24.2
ROE	24.6	25.2	24.3	22.7
Per Share Data (Rs.)				
Adj. EPS	31.1	19.9	24.0	27.8
Adj. CEPS	40.9	26.7	30.5	35.6
BVPS	140.7	88.2	109.9	134.8
Valuations (X)				
PER	5.7	8.8	7.3	6.3
PEG	0.1	(0.2)	0.4	0.4
P/BV	1.3	2.0	1.6	1.3
EV / EBITDA	3.8	5.7	5.2	4.7
EV / Net sales	0.7	1.1	0.9	0.8
Dividend Yield (%)	1.4	1.4	1.1	1.4
Turnover Days				
Debtors days	61	54	53	54
Creditors days	101	103	104	105
Gearing Ratio				
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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