



*Presents To You A*

RESEARCH REPORT ON

CERA  
SANITARYWARE

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**COMPANY NAME**

*Analysed By: Alok Daiya's Trading Desk*

## PROFILE

**Cera sanitaryware Ltd is engaged in manufacturing, marketing and distribution of sanitaryware, faucetware and trading in tiles and other bathroom products.**

**CERA is positioned amongst Top-3 organized players in sanitaryware market owing to its presence across product segments at various price points and unique designs. The Company has more than 3,600 dealers and 12000+ retail touch points.**

# INDUSTRY

The Indian tiles, sanitary ware and bathroom fittings market was worth US\$ 7220 Million in 2019-20.

With sustained public and private measures in recent years, coupled with improving standards of living, the level of sanitation in India has increased manifolds. These measures have created a huge market for products utilized in the construction of public sanitation facilities as well as domestic bathrooms and toilets, namely, tiles, bathroom fittings and sanitary ware. Looking forward, we expect the Indian tiles, sanitary ware and bathroom fittings market to continue its moderate growth during the next five years. Over the past few years, bathrooms incorporate functionality along with convenience and have started to reflect the lifestyle of a person. In order to enhance the appearance of bathrooms, the demand for tiles, sanitary ware and bathroom fittings has proliferated across the country. These products are also undergoing rapid transformation due to numerous innovations in the industry. For instance, motion sensors are being incorporated in taps, flushes and toilets so as to assist in making bathrooms hygienic and hassle-free. Another type of new generation bathroom fitting includes faucets with sensors which employ short-term timers for efficient water usage.

# INDUSTRY

## Indian Tiles, Sanitary Ware and Indian Bathroom Fittings Market: Trends

- Due to a rise in the popularity of concept washrooms, some of the manufacturers are catering a one-stop shop solution for all the sanitary-ware and fittings requirements. Moreover, as in-store experience has acquired tremendous importance, the manufacturers are establishing experience-centers wherein customers can see a virtual version of the bathroom after it undergoes a complete renovation. The growing number of these experience-centers acts as one of the vital factors which is enticing the consumers to invest in premium products for bathrooms, therefore strengthening the growth of the Indian tiles, sanitary ware and bathroom fittings market.
- An increase in the budget of drinking water and sanitation programs, like the Swachh Bharat Abhiyaan, by the Indian Government has given impetus to the construction of toilets in rural regions. The implementation of the aforementioned scheme has proliferated the demand for tiles, sanitary wares and bathroom fittings in the country.
- The introduction of nanotechnology has revolutionized the market as it helps in enhancing the shelf-life of tiles and making them resistant towards dirt and bacteria. Currently, these tiles are gaining traction in areas such as clinics, hospitals, laboratories and food processing plants, where hygiene plays an important role. In addition to this, they are becoming a style statement for consumers which are expanding their applications in the domestic sector.

# INDUSTRY

## Indian Tiles, Sanitary Ware and Indian Bathroom Fittings Market: Trends

- The real estate sector in India is undergoing a phase of revival after witnessing a slump in recent years. This revival is catalyzed by improved buyer sentiment, restricted new launches, improving sales, declining unsold units and consolidation in the Indian real estate sector. Moreover, macro factors such as increasing urbanisation, nuclear family concept, low per capita consumption, rising disposable incomes, and the government's push for housing for all, smart cities and improvement of sanitation are further expected to drive this market.

# INVESTMENT RATIONALE

## Right outsourcing mix

CERA has been able to strike a prudent balance between in-house manufacturing and outsourcing. This strategy helps company to be asset light and improves overall return ratios like ROE/ROCE. The company has a track record of nearly three decades, strong brand image, and a large retail network in the sanitary ware industry. This segment has been one of the largest revenue contributors over the years.

## Use of high tech in manufacturing

Cera has been an innovator in the use of technology and automation in design and process. The company has indigenously developed robotic glazing machines which results in better spread of glaze while reducing wastage and dependence on labour. It has also developed 3D printing which allows reduction in SKUs since the mould is designed very fast and focus is on production on faster selling products.

# INVESTMENT RATIONALE

## Well-diversified revenue with value proposition of complete bathroom solutions provider

Over the past six years, Cera has been leveraging its strong market position in the domestic sanitaryware industry by venturing into related business segments, such as faucets, tiles, and wellness and allied products, thus becoming a complete bathroom solutions provider. Successful diversification into related businesses has helped scale up operations and lower dependence on the sanitaryware business.

## Recovery in Real Estate

Cera is best-positioned to ride on real estate recovery due to focus on product positioning, brand-building. Recently housing demand has surged, resulting in growth opportunities for the Cera. The government's emphasis on affordable housing has provided a demand boost in the segment and the benefits have been accruing to the Company. Implementation of GST also helps your Company as it provides a level playing field in price sensitive products.



# FINANCIALS

Cera's operating performance in fiscal 2020 will be constrained by muted revenue growth due to the economic slowdown. However, operating margin is likely to remain healthy at over 13%.

Revenue growth is expected to gradually revive and clock compound annual growth rate of 8-10% over the medium term as demand recovers, while the operating margin should remain healthy, leading to steady cash accrual of over Rs 140 crore per annum. Cera plans moderate capital expenditure (capex) of Rs 50-70 crore per annum, which is expected to be comfortably funded through internal accrual.

Operating Expenses Annual Cr	₹	961.2	1,058.2	1,153.3	1,008	832.9	792.4
Operating Profit Annual in Cr	₹	132	165.5	198.3	177.4	175.6	141.3
Operating Profit Margin Annual %	₹		13.32%	14.47%	14.78%	17.16%	14.97%
Total Expenses Annual Cr	₹		1,107	1,189.8	1,044.9	864.9	814.2
EBIT Annual Cr	₹		183.7	216.8	191.8	190.2	151.2
EBIT margin Annual %	₹		14.79%	15.82%	15.99%	18.59%	16.03%
Interest Annual Cr	₹		9.8	10.1	8.5	9.8	5.5
Depreciation Cr	₹		39.7	38.8	28	27.1	16.3
Profit Before Tax Annual Cr	₹		104.2	134.9	180.3	154.9	129.5
Tax Annual Cr	₹		18.8	24.3	65.2	48.8	46
PAT Before Extraordinary Items Annual Cr	₹			110.5	115.1	106.1	83.5
Net Profit Annual Cr	₹		90.7	113.3	115.1	103.2	83.5
Net Profit Margin Annual %	₹			9.03%	8.51%	8.93%	8.93%



# FINANCIALS

The CRISIL A1+ rating continues to reflect the company's established position in the domestic sanitaryware industry, backed by a well-diversified revenue profile and a wide distribution network. The financial risk profile is healthy because of comfortable capital structure, strong debt protection metrics, and adequate liquid surplus. These strengths are partially offset by vulnerability of business performance to intensifying competition in the building products industry and exposure to the real estate sector.

## Long Term Debt To Equity Annual Analysis

Annual (in cr ₹)

Graph View



Actuals	Changes	Average
Long Term Debt To Equity Annual		Value
Mar-2016	<div><div></div></div>	0.09
Mar-2017	<div><div></div></div>	0.09
Mar-2018	<div><div></div></div>	0.08
Mar-2019	<div><div></div></div>	0.03
Mar-2020	<div><div></div></div>	0.03

Average Long Term Debt To Equity Annual (Annual | in cr ₹)

1 Yr	3 Yrs	5 Yrs	7 Yrs
0.03	0.04	0.06	-

## RISKS & CONCERN

### Susceptibility to intense competition

Cera operates in the highly fragmented mass and mid-market sanitaryware segment. Competition is also intense in the premium segment, where foreign players cater to brand-conscious customers with higher spending power. Lack of a well-entrenched premium brand may impact Cera's positioning among brand-conscious customers. Though Cera is taking initiatives to enhance its retail reach and product offerings, the competitive landscape will remain a challenge over the medium term, given the entry of international players and expansion of domestic players at a rapid pace.

### Exposure to the real estate sector

Growth prospects of the sanitary ware and faucet segments are linked to the macroeconomic scenario in general and the real estate industry in particular, thus exposing the company to demand cyclicity.

# OUTLOOK & VALUATION

Cera is likely to see the healthy traction in the coming times due to strong product portfolio at a varied price points, robust distribution network, rising brand awareness in Tier-II and Tier-III cities, Imminent recovery in individual house building and thrust on low-cost housing projects, cost savings initiatives and strong balance sheet with consistent free cash flow generation. The Company has been a preferred partner of CREDAI (Confederation of Real Estate Developers Associations of India), the apex body of developers, for the last seven years. They also work closely with influencers and their associations like IIA (Indian Institute of Architects), IIID (Institute of Indian Interior Designers) and IPA (Indian Plumbing Association).



*DIWALI PICK*

**NEXT GENERATION CALL**

**13TH NOVEMBER 2020**



**CERA SANITARYWARE**

**CMP 2840 BUYING RANGE 2790-2850 TGT 4200 DURATION 2 YRS**



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