

CRISIL IER Independent Equity Research



Enhancing investment decisions



Explanation of CRISIL Fundamental and Valuation (CFV) matrix

The CFV Matrix (CRISIL Fundamental and Valuation Matrix) addresses the two important analysis of an investment making process – Analysis of Fundamentals (addressed through Fundamental Grade) and Analysis of Returns (Valuation Grade) The fundamental grade is assigned on a five-point scale from grade 5 (indicating Excellent fundamentals) to grade 1 (Poor fundamentals) The valuation grade is assigned on a five-point scale from grade 5 (indicating strong upside from the current market price (CMP)) to grade 1 (strong downside from the CMP).

CRISIL Fundamental Grade	Assessment	CRISIL Valuation Grade	Assessment
5/5	Excellent fundamentals	5/5	Strong upside (>25% from CMP)
4/5	Superior fundamentals	4/5	Upside (10-25% from CMP)
3/5	Good fundamentals	3/5	Align (+-10% from CMP)
2/5	Moderate fundamentals	2/5	Downside (negative 10-25% from CMP)
1/5	Poor fundamentals	1/5	Strong downside (<-25% from CMP)

About CRISIL Limited

CRISIL is a global analytical company providing ratings, research, and risk and policy advisory services. We are India's leading ratings agency. We are also the foremost provider of high-end research to the world's largest banks and leading corporations.

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Analyst Disclosure

Each member of the team involved in the preparation of the grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.

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Cera Sanitaryware Ltd

Q3FY14 results first cut: Profitability under pressure

Fundamental Grade 4/5 (Superior fundamentals)

Valuation Grade 2/5 (CMP has downside)

Industry Sanitary ware

The above grades are outstanding ones and are currently under review

Cera Sanitaryware Ltd's (Cera's) Q3FY14 revenues were in line while profitability was below CRISIL Research's expectation. Highlights of the results are mentioned below; this will be followed by a detailed quarterly update. Our outstanding fundamental grade is 4/5 and the fair value is ₹615 per share. We may revise our assessment post our discussion with the management.

Q3FY14 result analysis

- Consolidated revenues grew 25.1% y-o-y to ₹1,601 mn compared to ₹1,280 mn in Q3FY13.
- EBITDA margin contracted by 318 bps y-o-y to 12.9% from 16.0% during the same quarter last year as material, employee, and power and fuel costs increased y-o-y as a percentage of sales.
- Subsequently, adjusted PAT declined by 10.4% y-o-y to ₹108 mn during the quarter against ₹120 mn in Q3FY13.

Valuations: The current market price has downside

Our discounted cash flow (DCF)-based outstanding fair value estimate is ₹615 per share. At the current market price of ₹751, the valuation grade is 2/5.

KEY FORECAST

(₹ mn)	FY11	FY12	FY13	FY14E	FY15E
Operating income	2,440	3,209	4,893	6,463	7,900
EBITDA	489	561	793	935	1,213
Adj net income	252	308	434	526	670
Adj EPS (₹)	20	24	34	42	53
EPS growth (%)	(36)	22	41	21	27
Dividend yield (%)	0.3	0.4	0.5	0.6	0.8
RoCE (%)	32.0	28.8	32.7	29.8	32.0
RoE (%)	25.2	24.5	27.3	26.0	26.2
PE (x)	37.7	30.9	21.9	18.1	14.2
P/BV (x)	8.5	6.8	5.3	4.2	3.3
EV/EBITDA (x)	19.3	17.2	12.3	10.3	8.0

CMP: Current market price

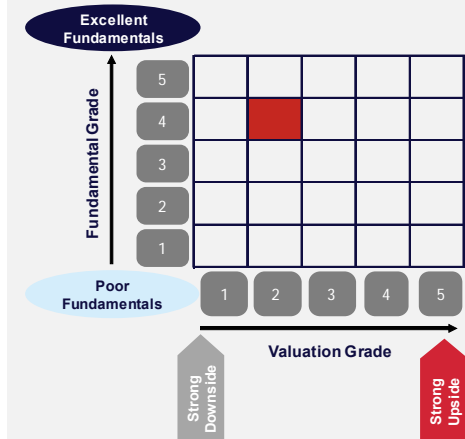
Source: Company, CRISIL Research estimates

February 13, 2014

Fair Value ₹615

CMP ₹751

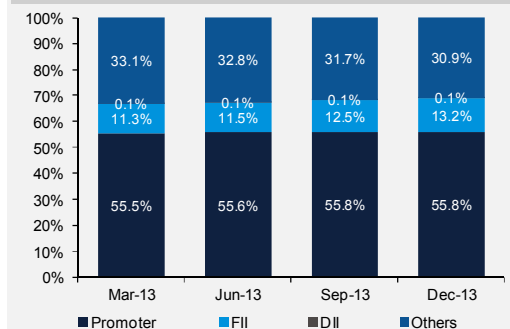
CFV MATRIX



KEY STOCK STATISTICS

NIFTY/SENSEX	6001/20193
NSE/BSE ticker	CERA/CERAS AN
Face value (₹ per share)	5
Shares outstanding (mn)	12.7
Market cap (₹ mn)/(US\$ mn)	9,499/153
Enterprise value (₹ mn)/(US\$ mn)	9,670/155
52-week range (₹)/(H/L)	783/398
Beta	0.6
Free float (%)	44.2%
Avg daily volumes (30-days)	6,394
Avg daily value (30-days) (₹ mn)	4.7

SHAREHOLDING PATTERN



PERFORMANCE VIS-À-VIS MARKET

	Returns			
	1-m	3-m	6-m	12-m
Cera	7%	37%	48%	88%
CNX 500	-2%	0%	11%	0%

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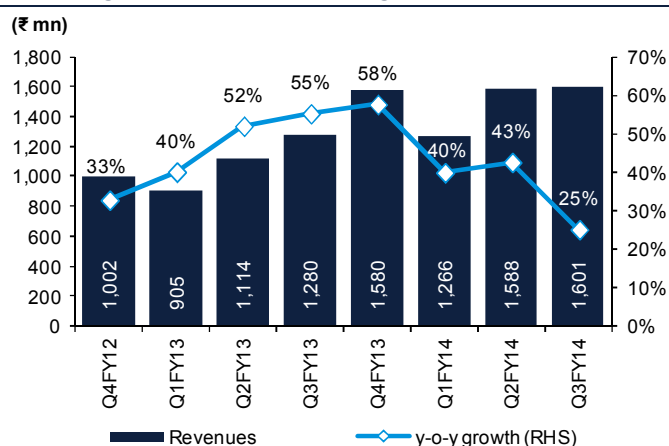
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Q3FY14 Results Summary (Consolidated)

(₹ mn)	Q3FY14	Q2FY14	Q3FY13	q-o-q (%)	y-o-y (%)	9MFY14	9MFY13	y-o-y (%)
Net sales	1,601	1,588	1,280	0.9	25.1	4,455	3,299	35.0
Raw materials cost	705	769	541	(8.3)	30.3	2,024	1,349	50.0
Raw materials cost (% of net sales)	44.0%	48.4%	42.3%	-439bps	176bps	45.4%	40.9%	453bps
Employee cost	195	180	147	7.9	32.4	542	418	29.5
Other expenses	496	446	387	11.1	28.2	1,292	986	31.0
EBITDA	206	193	205	7.0	0.3	598	546	9.5
EBITDA margin	12.9%	12.1%	16.0%	74bps	-318bps	13.4%	16.5%	-313bps
Depreciation	35	31	26	11.5	34.8	94	67	38.9
EBIT	172	162	180	6.1	(4.6)	504	479	5.3
Interest and finance charges	17	16	20	6.1	(14.8)	48	49	(2.8)
Operating PBT	154	145	160	6.2	(3.3)	457	430	6.2
Other income	12	17	20	(31.5)	(42.3)	42	52	(19.2)
Extraordinary income/(expense)	-	-	-	NM	NM	-	-	NM
PBT	166	162	180	2.3	(7.7)	499	482	3.5
Tax	58	56	60	4.1	(2.2)	173	159	8.7
PAT	108	106	120	1.3	(10.4)	326	323	0.9
Adj PAT	108	106	120	1.3	(10.4)	326	323	0.9
Adj PAT margin	6.7%	6.7%	9.4%	3bps	-266bps	7.3%	9.8%	-247bps
No of equity shares (mn)	13	13	13	-	-	13	13	-
Adj EPS (₹)	8.5	8.4	9.5	1.3	(10.4)	25.7	25.5	0.9

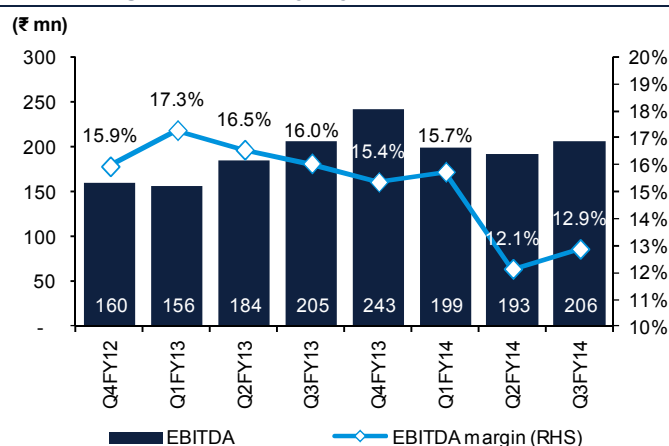
Source: Company, CRISIL Research

Revenue growth moderated during the quarter



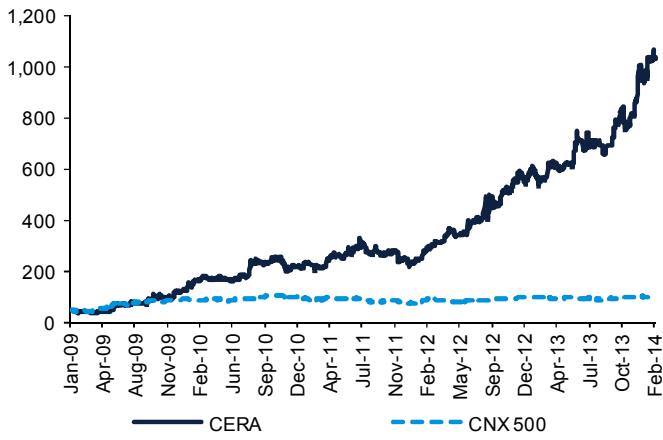
Source: Company, CRISIL Research

EBITDA margin contracted y-o-y



Source: Company, CRISIL Research

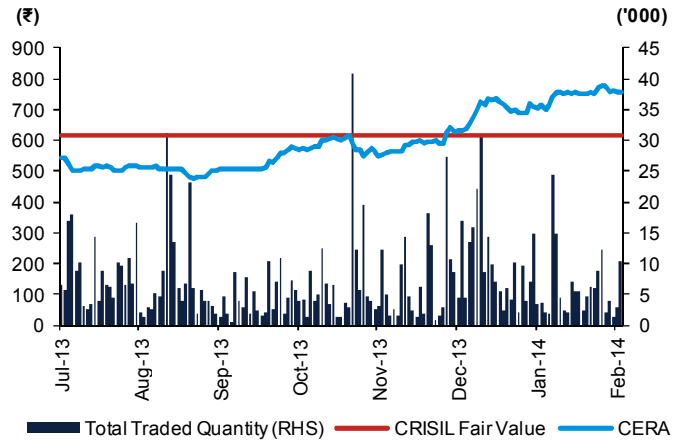
Share price movement



-Indexed to 100

Source: BSE, CRISIL Research

Fair value movement since initiation



Source: NSE, BSE, CRISIL Research

Annexure: Financials

Income statement

(₹ mn)	FY11	FY12	FY13
Operating income	2,440	3,209	4,893
EBITDA	489	561	793
EBITDA margin	20.1%	17.5%	16.2%
Depreciation	65	77	94
EBIT	424	484	699
Interest	27	40	71
Operating PBT	397	444	628
Other income	5	28	23
Exceptional inc/(exp)	13	13	28
PBT	415	485	678
Tax provision	150	165	216
Minority interest	-	-	-
PAT (Reported)	265	320	462
Less: Exceptionals	13	13	28
Adjusted PAT	252	308	434

Ratios

	FY11	FY12	FY13
Growth			
Operating income (%)	26.9	31.5	52.5
EBITDA (%)	30.9	14.7	41.3
Adj PAT (%)	29.0	22.0	41.2
Adj EPS (%)	(35.9)	22.0	41.2

Profitability

EBITDA margin (%)	20.1	17.5	16.2
Adj PAT Margin (%)	10.3	9.6	8.9
RoE (%)	25.2	24.5	27.3
RoCE (%)	32.0	28.8	32.7
RoIC (%)	29.2	28.0	29.7

Valuations

Price-earnings (x)	37.7	30.9	21.9
Price-book (x)	8.5	6.8	5.3
EV/EBITDA (x)	19.3	17.2	12.3
EV/Sales (x)	3.9	3.0	2.0
Dividend payout ratio (%)	11.9	11.9	10.9

B/S ratios

Inventory days	75	105	71
Creditors days	99	93	80
Debtor days	58	50	60
Working capital days	44	56	55
Gross asset turnover (x)	2.3	2.6	3.2
Net asset turnover (x)	3.3	3.8	4.5
Sales/operating assets (x)	3.1	3.4	4.1
Current ratio (x)	2.0	2.0	1.9
Debt-equity (x)	0.3	0.3	0.3
Net debt/equity (x)	(0.1)	0.1	0.1
Interest coverage	15.6	12.1	9.8

Per share

	FY11	FY12	FY13
Adj EPS (₹)	19.9	24.3	34.3
CEPS	25.1	30.4	41.8
Book value	88.1	110.0	141.8
Dividend (₹)	2.5	3.0	4.0
Actual o/s shares (mn)	12.7	12.7	12.7

Balance Sheet

(₹ mn)	FY11	FY12	FY13
Liabilities			
Equity share capital	63	63	63
Reserves	1,052	1,328	1,732
Minorities	-	-	-
Net worth	1,115	1,391	1,795
Convertible debt	-	-	-
Other debt	379	476	610
Total debt	379	476	610
Deferred tax liability (net)	139	136	162
Total liabilities	1,633	2,004	2,567
Assets			
Net fixed assets	783	903	1,251
Capital WIP	61	132	82
Total fixed assets	844	1,035	1,333
Investments	0	13	67
Current assets			
Inventory	500	918	940
Sundry debtors	389	459	836
Loans and advances	211	210	270
Cash & bank balance	365	300	336
Marketable securities	78	11	14
Total current assets	1,542	1,898	2,396
Total current liabilities	754	942	1,229
Net current assets	788	956	1,167
Intangibles/Misc. expenditure	-	-	-
Total assets	1,633	2,004	2,567

Cash flow

(₹ mn)	FY11	FY12	FY13
Pre-tax profit	402	472	651
Total tax paid	(143)	(167)	(190)
Depreciation	65	77	94
Working capital changes	(105)	(299)	(173)
Net cash from operations	219	83	382
Cash from investments			
Capital expenditure	(202)	(267)	(392)
Investments and others	(78)	54	(57)
Net cash from investments	(280)	(214)	(449)
Cash from financing			
Equity raised/(repaid)	5	-	-
Debt raised/(repaid)	107	97	134
Dividend (incl. tax)	(37)	(44)	(59)
Others (incl extraordinary)	10	13	28
Net cash from financing	85	66	103
Change in cash position	24	(65)	36
Closing cash	365	300	336

Quarterly financials

(₹ mn)	Q3FY13	Q4FY13	Q1FY14	Q2FY14	Q3FY14
Net Sales	1,280	1,580	1,266	1,588	1,601
Change (q-o-q)	15%	23%	-20%	25%	1%
EBITDA	205	243	199	193	206
Change (q-o-q)	11%	18%	-18%	-3%	7%
EBITDA margin	16.0%	15.4%	15.7%	12.1%	12.9%
PAT	120	174	112	106	108
Adj PAT	120	174	112	106	108
Change (q-o-q)	9%	45%	-36%	-5%	1%
Adj PAT margin	9.4%	11.0%	8.8%	6.7%	6.7%
Adj EPS	9.5	13.8	8.8	8.4	8.5

Source: CRISIL Research

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- First research house to release exchange-commissioned equity research reports in India
- Assigned the first IPO grade in India

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