



CERA Sanitary ware Ltd (NSE Scrip Code – CERA)

Your Bathroom is your room too !!

*Alpha/Alpha Plus stock recommendation for Jan'11
An Updated report – 15th Oct'11*

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Cera Sanitaryware Ltd – An Introduction

Cera Sanitaryware – The third largest company !!



Cera, a Gujarat-based company, was established in 1980 as Madhusudan Industries Ltd. As a part of restructuring of the business in November 2002, the sanitaryware division was demerged and was named Cera Sanitaryware Ltd.

Cera is the third largest sanitary ware company in India and has a 20%+ market share. The company is engaged in the manufacturing of ceramic wash basins, wash basin pedestals, bidets, water closet pans, flushing cisterns, urinals and similar sanitary fixtures etc.

The company has a plant at Kadi (Gujarat) with a production capacity of 2.2 mn pieces (24,000 tonnes) per annum. It is India's largest sanitaryware plant. It also has wind farms located at Jamnagar and Kutch in Gujarat

The company has also ventured into bathroom products, extending its range to shower panels, shower cubicles, shower temples, bath tubs, whirlpools, bath fittings, glass bowls, PVC seat covers and PVC cisterns.

Cera has also launched its Cera Bath Studios and Galleries in various parts of the country to cater to the premium sanitaryware segment. The company's marketing activities take place through regional offices at Bangalore, Mumbai, Pune, Chandigarh, Chennai, Cochin, Delhi, Hyderabad, and Kolkata; **it has a marketing network of 500 dealers and 5,000 retailers spread across the country.**

Cera Sanitaryware – Investment Snapshot (As on October 15, 2011)

Recommendation :- BUY

Accumulation Range :- 180-190

1st Profit Booking :- Sell 30% at Rs 430

2nd Profit Booking :- Hold remaining for further updates through Alpha Weekly

Current Market Price – Rs. 199.80

BSE Scrip Code – 532443

NSE Scrip Code – CERA

Bloomberg Code – CRS IN

Market Cap (INR Crores) – Rs 252 crores

Total Equity Shares [Mn]– 12.65

Face Value – Rs. 5

52 Week High / Low – Rs. 245.75 / Rs. 127.50

Promoter's Holding – 55.00%

Company Size (Standalone)	
Market Cap(Rs Crore)	253.1
EV (Rs Crore)	254.52
Latest no. of shares	12654874
Share holding pattern as on 201109	
Promoter No of shares	6960180
Promoter %	55
FII No of Shares	307053
FII %	2.43
Total No of Shares	12654874
Free Float %	45

Key Market Ratio (Standalone)	
Latest EPS (Rs)	22.46
Latest CEPS (Rs)	27.81
Price/TTM CEPS(x)	7.19
TTM PE (x)	8.9
Price/BV(x)	2.14
EV/TTM EBIDTA(x)	4.87
EV/TTM Sales(x)	0.99
Dividend Yield%	1.25
MCap/TTM Sales(x)	0.99
Latest Book Value (Rs)	93.57

Financial Highlights (Standalone)		(Rs. in Crore)				
Description	201103	201003	200903	200803	200703	
Equity Paid Up	6.33	3.15	3.11	3.09	3.04	
Reserve	105.23	85.02	65.94	54.14	43.88	
Total Debt	37.89	27.21	35.56	39.1	29.54	
Gross Block	113.11	98.82	98.78	94.2	63.33	
Net Sales	242.95	191.37	159.52	128.05	106.67	
PBIDT	50.77	38.53	31.43	23.65	19.8	
PAT	26.54	19.61	13.11	10.05	9.07	
Dividend %	50	50	40	30	22	
Adj. EPS(Rs)	20.97	15.59	10.55	8.12	7.46	
Adj. Book Value(Rs)	88.12	70.03	55.52	46.18	38.51	

Cera Sanitaryware – Key Investment highlights

Strong Brand Equity – In the sanitary ware segment, there's strong brand identity against that in Tiles segment. At present there are only three major players i.e. HSIL, Parryware Roca and Cera. Cera's achievement of 20% + market share is commendable in the light of the fact that Cera started almost 20 years later than HSIL and 30 years later than Parryware.

Strong Marketing & Distribution network – Cera sells its products through a marketing network of 500 dealers and 5000 retailers spread across the country. It's difficult to replicate such a network and is one of the major business moats for Cera against the onslaught from foreign players and other local players.

Relatively slowly changing industry - It's a relatively slow changing business (makes it easier for us to hold it for long term in comparison to education or technology stocks where the trends change very fast and thus a company doing well today may end up on a losing side in a very short period of time).

No Institutional holding - There's no institutional holding in Cera, probably because of low liquidity. We believe the company is still out of sight of smart investors. Once they come to the party, the stock can get re-rated to higher PE multiples. At present the stock is quoting at 8.5 times trailing twelve months earnings.

In a sweet spot – We find Cera in a very sweet spot where they have been generating good cash flows from operations (almost in line with earnings) and have been able to deploy capital at good returns.

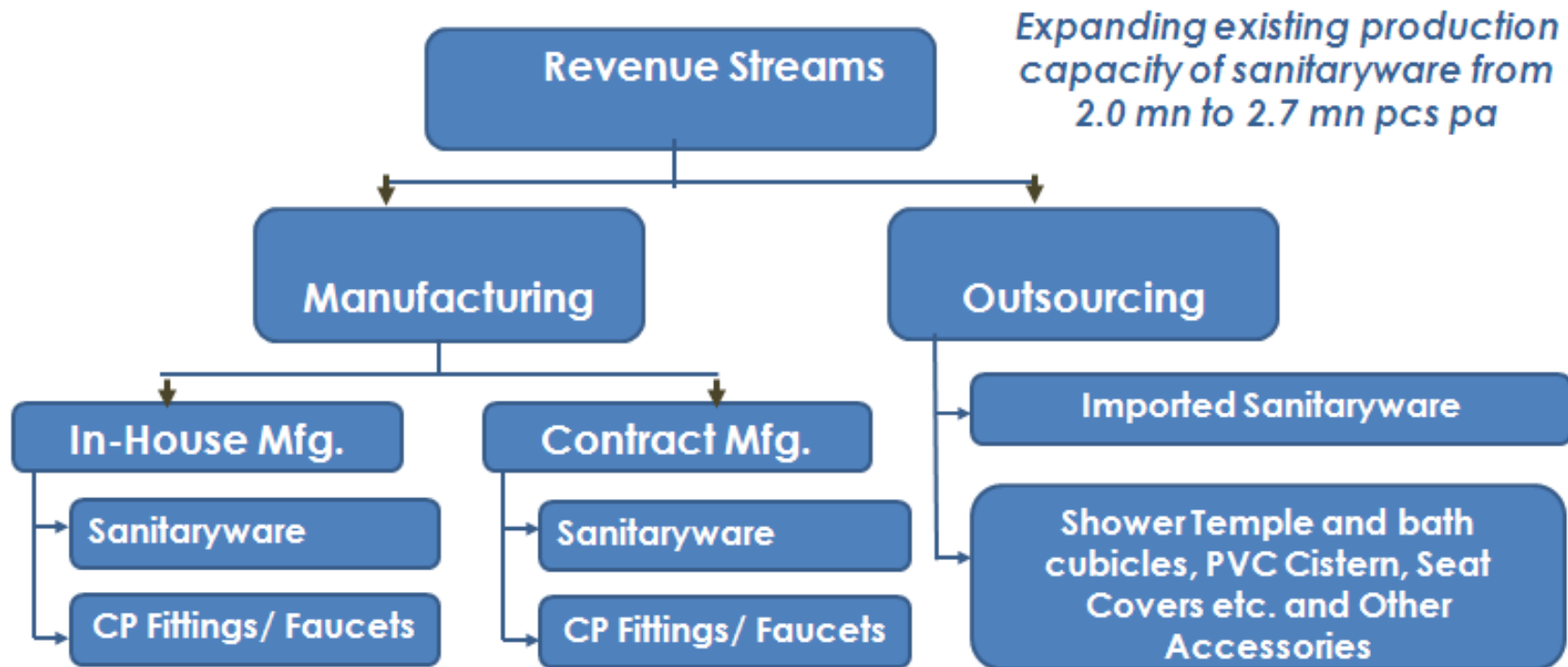
Very attractive valuations – Murugappa group sold of their 47% stake in Parryware-Roca joint venture in 2008 for a sum of Rs 720 crore while the company had recorded a turnover of Rs 360 crore for FY 08, thus valuing the company at 4 times its annual turnover. Cera's market cap is approximately equal to its annual sales. Though not 4 times, however Cera can still get re-rated to twice the annual sales considering its efficiency and growth.

Cera Sanitaryware Ltd – Business Overview

- Revenue Streams
- Sanitary ware segment – Pricing Power
- Outsourced Products – Pricing Power
- Marketing & Distribution network – Strong business moat
- Advertisement spends & Distributors commission
- Efficient capacity build up & utilization !!
- Expansion & Acquisition plans
- Management Profile & Shareholding pattern
- Un-matched dividend history

Revenue Streams

Cera test markets outsourced products before local manufacturing

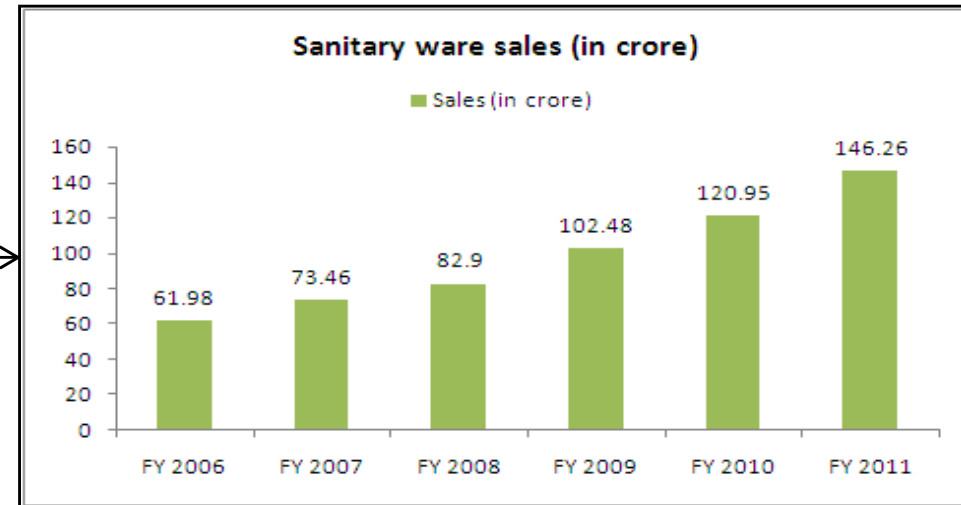
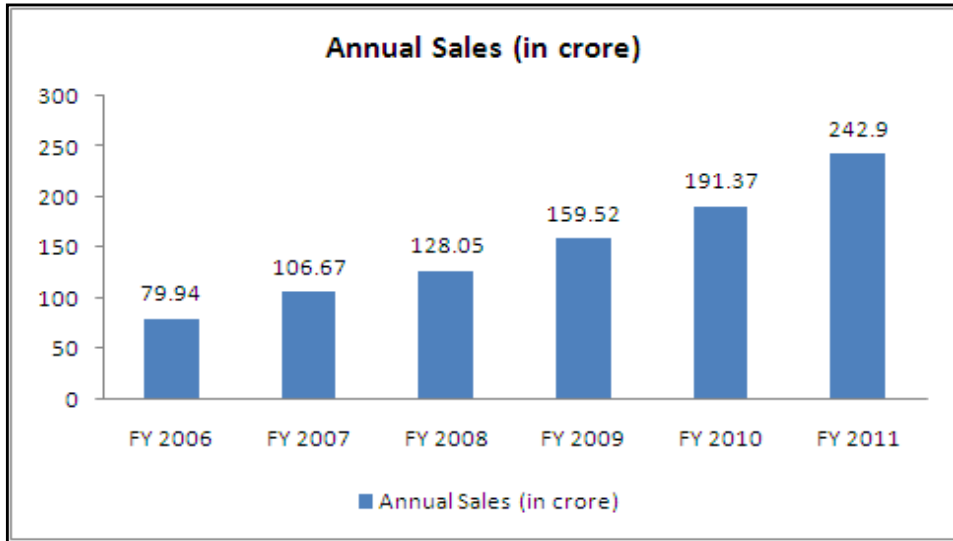


Expanding existing production capacity of sanitaryware from 2.0 mn to 2.7 mn pcs pa

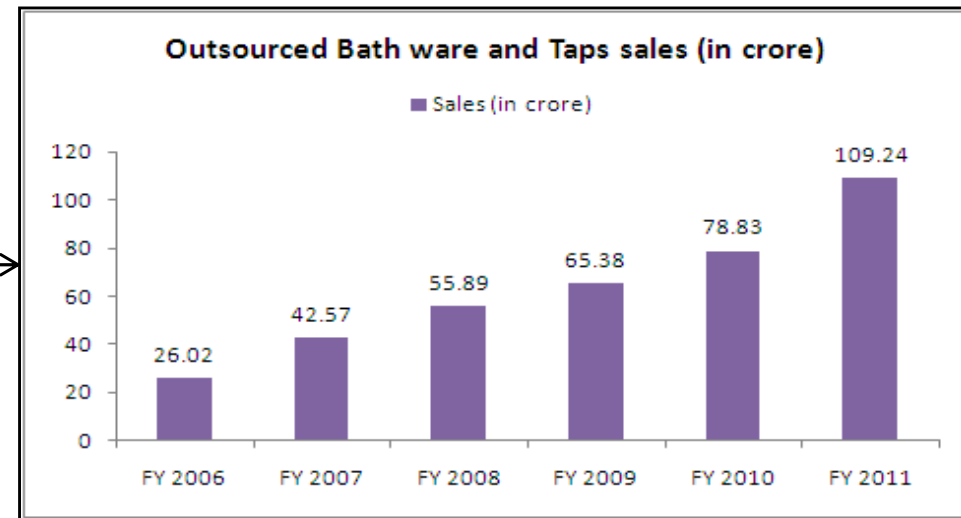
Commissioned a state-of-art manufacturing plant for faucet ware. Initial capacity of 2,500 pcs per day

Cera – Revenue streams

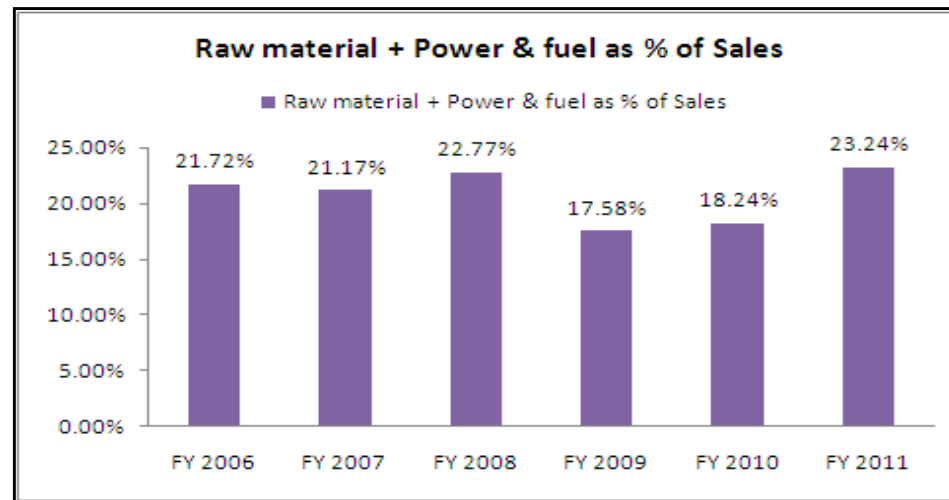
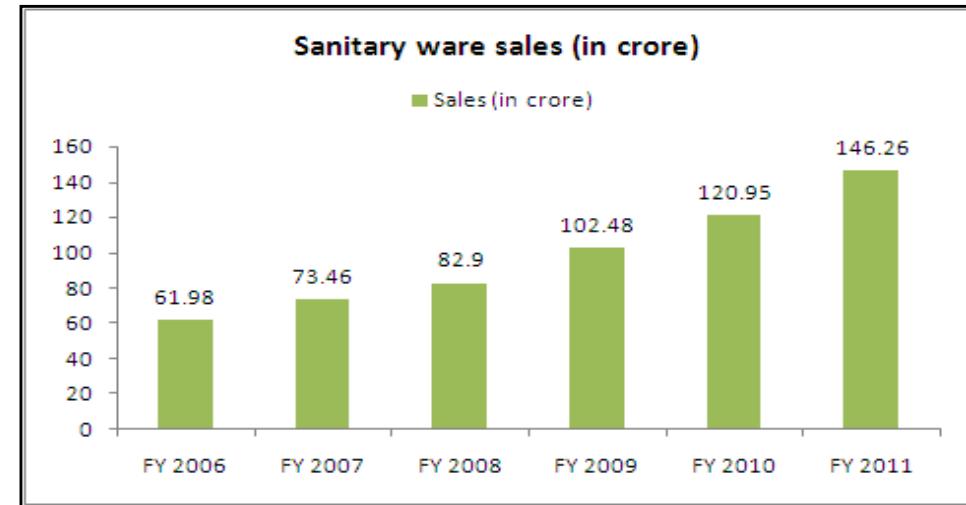
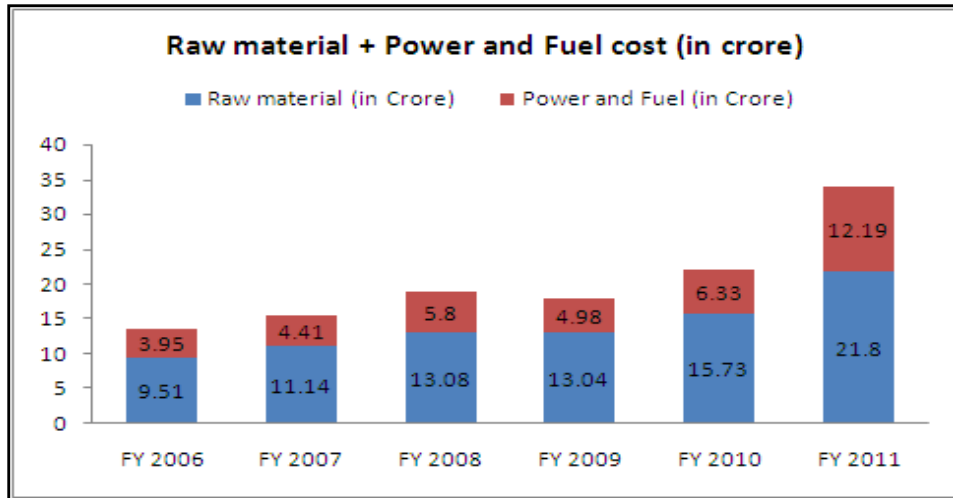
- For Cera there are two revenue streams. Manufacturing and Outsourcing. The company manufactures sanitary ware locally, while it outsources bath ware and faucet ware (until now).



- The company has registered a good growth of 19% CAGR over the last 5 years in the Sanitary ware segment. This is well above 12-13% industry growth.
- In the Outsourced premium segment, the growth has been more spectacular at 33% CAGR over the last 5 years. Outsourcing doesn't require the company to set up a plant and therefore it's relatively easier to scale up and test market the products.



Sanitary ware – Pricing power with the company

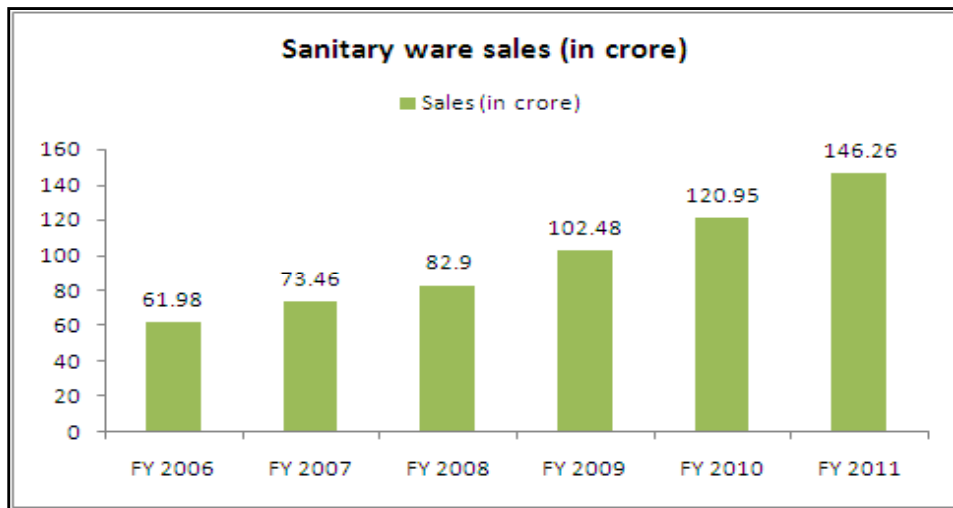


- In the Sanitary ware segment both the raw materials and the Power and fuel are the major inputs.
- Over the last 5 years, while the cost of raw materials hasn't increased much, the energy cost has gone up substantially.

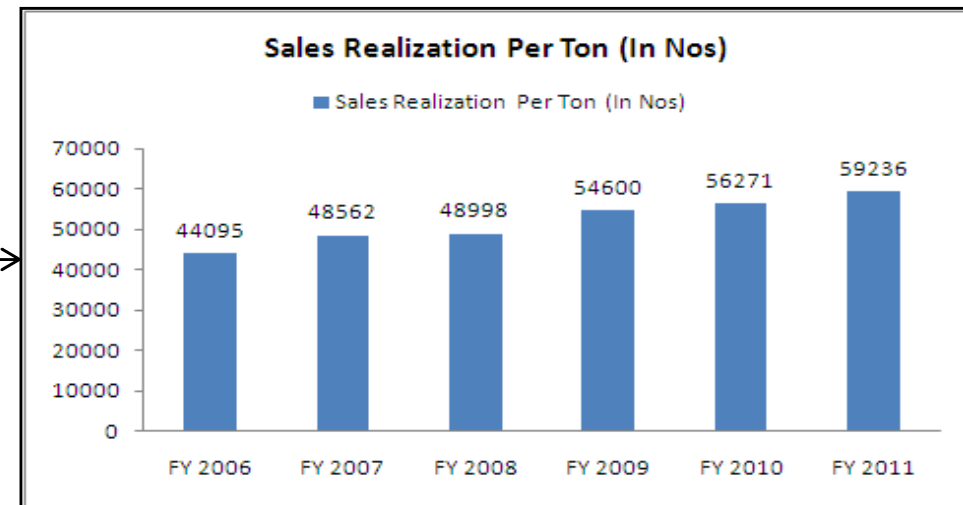
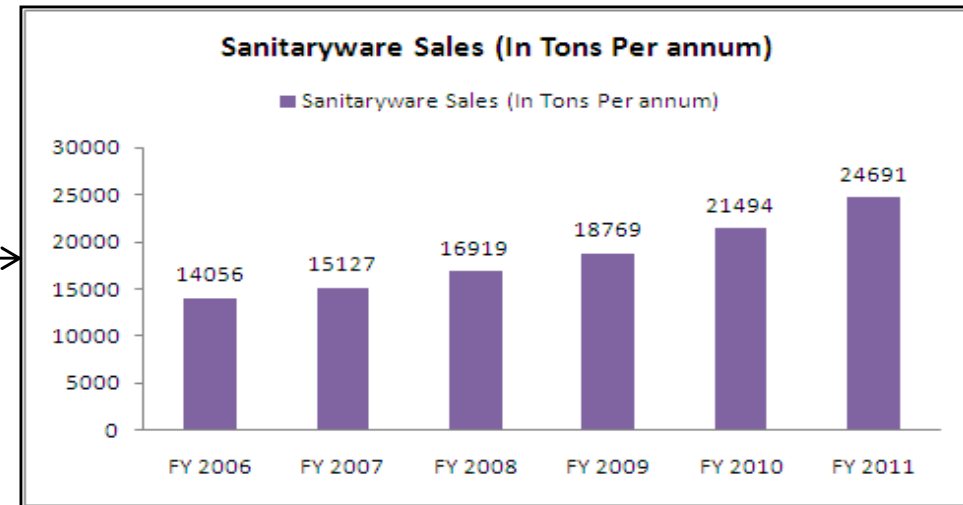
- In case of Cera the company has been able to pass on any major increase in input price without much lag, while it doesn't have to reduce the prices in case the commodity prices go down (Read 2009 and 2010)
- A sign of both the branding power and efficient management.

Sanitary ware – Volume + Value driven growth

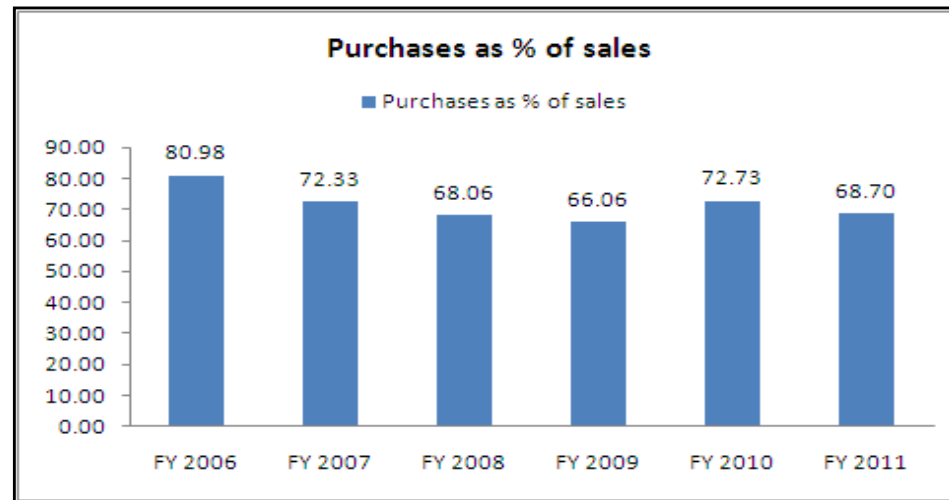
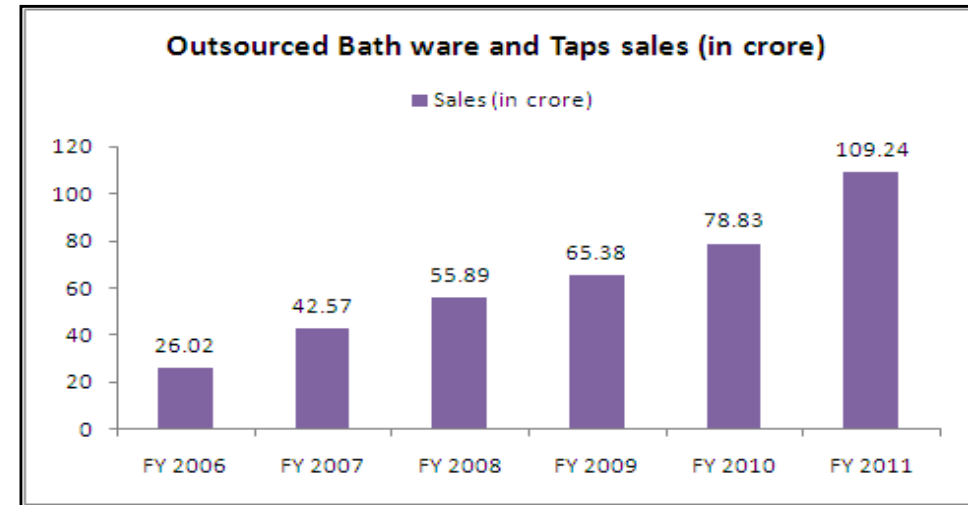
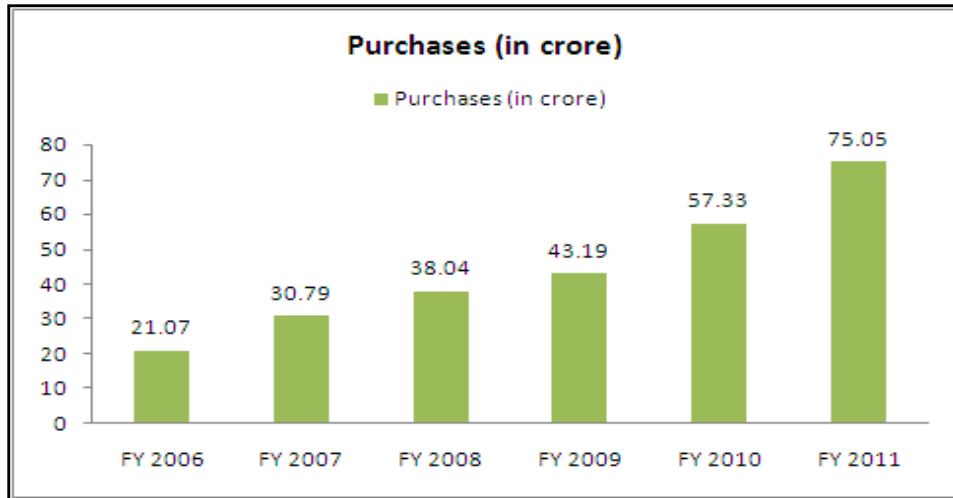
- The 19% CAGR growth in Sanitary ware sales is driven by a combination of volume and value.
- The company has recorded a sales volume growth of 12% on an annualized basis.



- For FY 2009, there was a dip in Raw material and Power and Fuel cost (refer previous page) on account of global recession, however the company could still increase the prices of its Sanitary ware pointing towards the strong branding power and business moat for the company.



Outsourced Premium Products – Stronger pricing power



- Outsourced Products segment has witnessed a stupendous growth of 33% on annualized basis over the last 5 years.
- The company outsources Premium bath ware and here too it commands a strong pricing power and has rather been able to command a premium .

- Outsourced Products segment serves as a good ground for the company to test market the various products through it's large and loyal distribution n/w.
- The company recently started with the manufacturing of faucet ware while before that it test marketed the same by outsourcing.

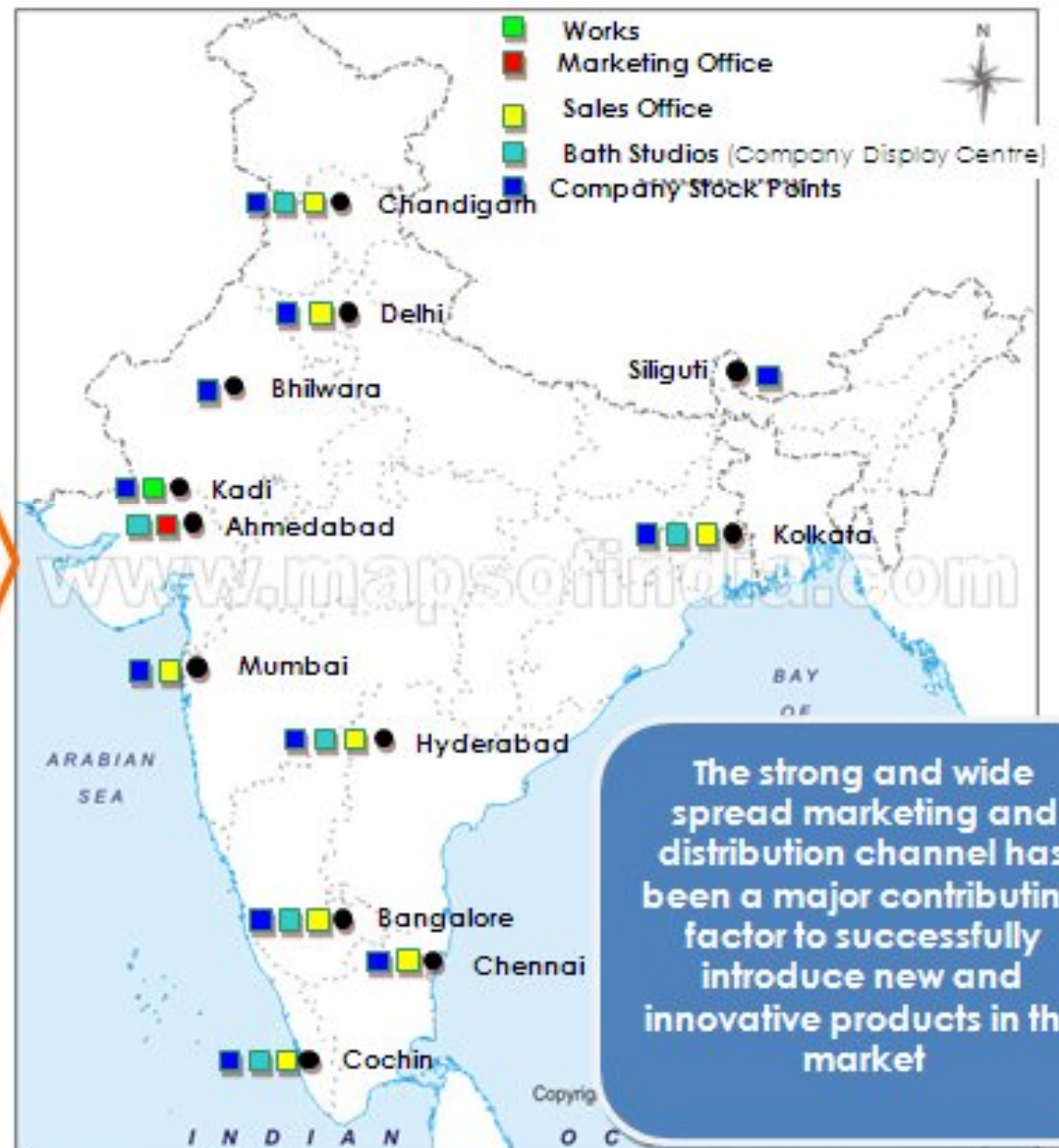
Strong Marketing and Distribution Network

A strong moat against onslaught from local & foreign competitors

Cera enjoys a strong distribution network with **500 Distributors / Dealers** (authorized stockiest) and **5000 retailers**.

To supplement the distribution network, the company has **12 major stock points** all over India. Cera also has **10 Zonal Sales, Service offices**, & **07 Bath studios** across the country.

A major marketing exercise of expanding dealer and retailer network is in progress. The company has also been sponsoring TV programs, arranging architect and plumber meets on regular intervals etc. to create its brand image in the market.



The strong and wide spread marketing and distribution channel has been a major contributing factor to successfully introduce new and innovative products in the market

Cera – Bath studio & Bath gallery !!

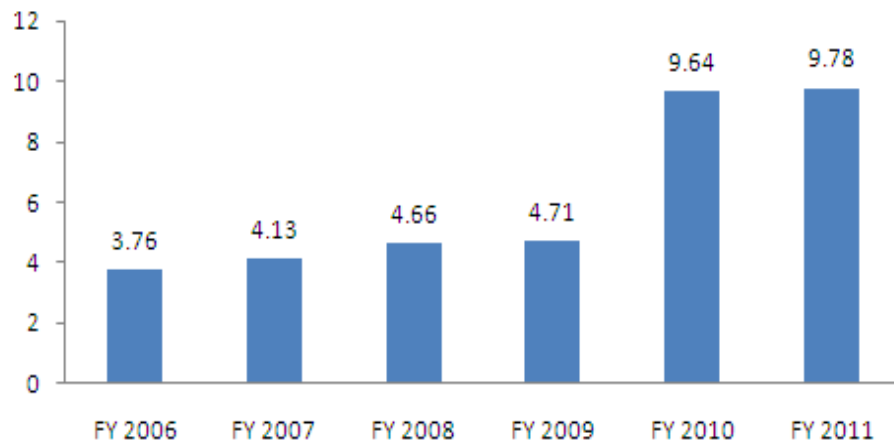


Cera pioneered the concept of **Cera Bath Studios**, the company owned company display centers, where architects, interior designers, builders, consultants, customers, etc. can touch and feel its range of sanitary wares, shower cubicles, steam cubicles, whirlpools, faucets, sinks, mirrors, sensors, etc.

Cera – Advertisement spends & Distributors commission

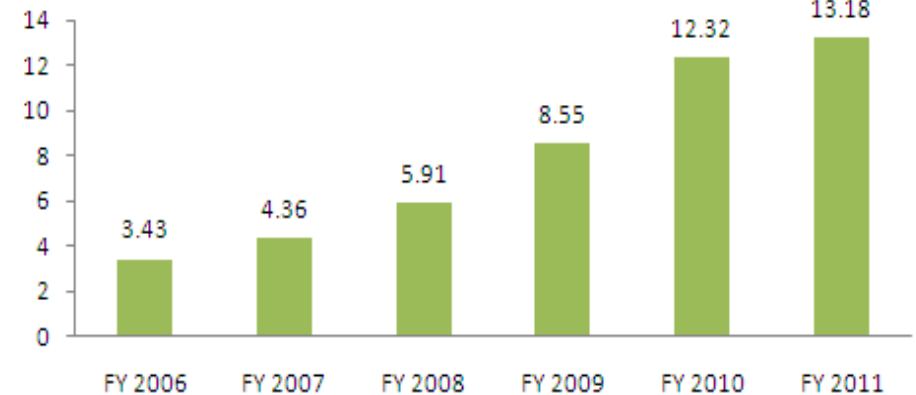
Publicity & Advertisement (in crore)

■ Publicity & Advertisement (in crore)



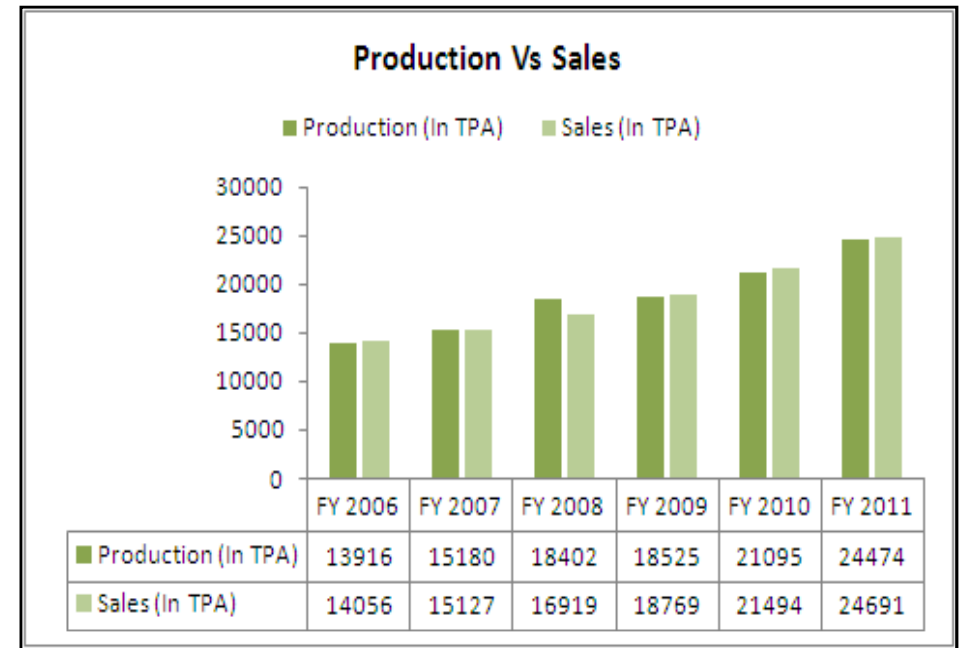
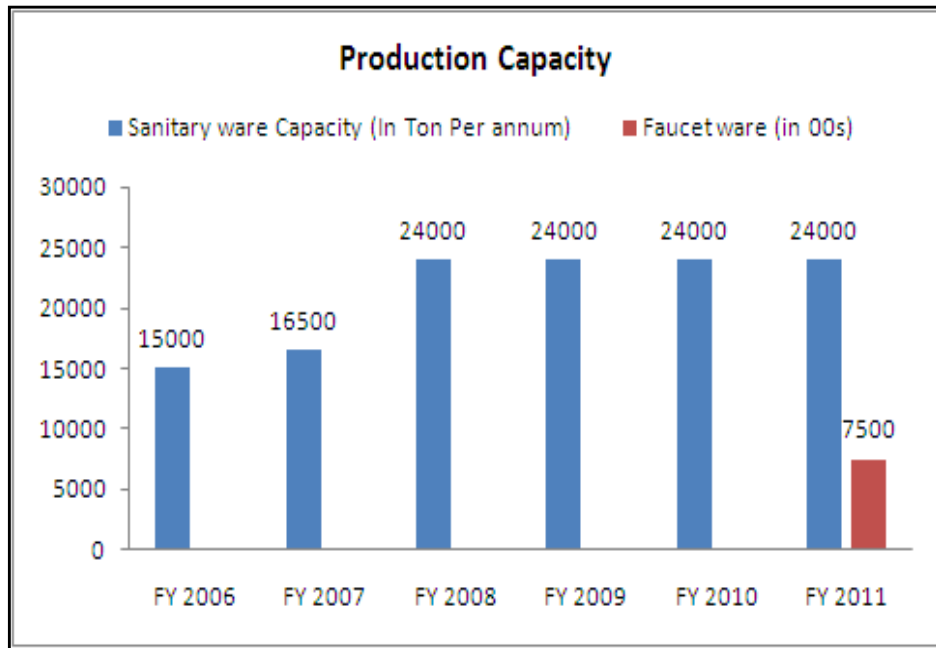
Brokerage Commission & Discount on sales (in crore)

■ Brokerage Commission & Discount on sales (in crore)



- The wide and loyal distribution network of the company helps it to launch and test various products before actually start manufacturing them. If the company finds good demand for the product under the branding of “Cera”, they start with the local manufacturing.
- Distributors and Retailers are the front ends for the sale of the products of the company. Besides building a brand name through adequate spends on Publicity and Advertisement, the company has also ensured a good rapport with Distributors and dealers through sequential and proportional (in line with the sales) increase in Brokerage, Commission and Discount on sales.

Cera – Efficient capacity build up and utilization



- As can be observed above, the management has been very efficient with capacity build up and its utilization. In the sanitary ware segment, the company ensures that there's not much idle capacity at all times with the production catching up on the built up capacity.
- For FY 11, the company achieved 101% capacity utilization and in view of the strong demand is increasing the production capacity of its sanitary ware division at Kadi facility from current 2 million pieces to 2.7 million pieces. The expansion is slated to be completed by April 2012.
- In addition to this, the faucetware manufacturing division will see its capacity going up almost three times to 2 million pieces from current 0.7 million pieces over the period of next 12 to 18 months.

Cera – Expansion & Acquisition plans

Cera Sanitaryware looks at acquisition in Italy

BS Reporter / Mumbai/ Ahmedabad October 13, 2011, 0:17 IST

Company is expanding its production capacity at Kadi in North Gujarat.

Cera Sanitaryware Ltd, the third largest sanitaryware maker in India, is in talks with a number of companies to acquire a brand and a factory in Italy. Cera's board of directors is likely to take a decision on this by next year. Apart from this, the company is also in the process of expanding its manufacturing facility at Kadi in North Gujarat involving an investment of Rs 100 crore over the next couple of years.

BSE | NSE Price



"With a view to catering to high end sanitaryware segment in India, we are looking at acquisition in Italy. This would be the first acquisition by Cera outside India," said Vidush Somany, executive director, Cera Sanitaryware Ltd. However, he did not disclose the size of the acquisition and the names of the Italian companies that Cera is in dialogue with.

According to Somany, the company is looking at acquiring either a brand or a factory or brand and factory both. Apart from this, the company may also buy out a research and development (R&D) studio. Cera has been scouting for a suitable company for almost a year.

Cera, which currently enjoys 21-22 per cent share in Rs 1500 to Rs 1800 crore organised sanitaryware market in India, is increasing the production capacity of its sanitaryware division at Kadi facility from current 2 million pieces to 2.7 million pieces. The expansion is slated to be completed by April 2012.

In addition to this, the taps manufacturing division will see its capacity going up almost three times to 2 million pieces from current 0.7 million pieces over the period of next 12 to 18 months.

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- This could be a good time to scout for companies in Italy considering the dire state of the economy.
- We believe this is an opportunistic step by the management as the target companies will be available at better valuations.

Management profile & Shareholding pattern

Cera Sanitaryware Ltd - Shareholding Pattern	Sep'11	Jun'11	Mar'11	Dec'10	Sep'10
Promoter and Promoter Group	55.00%	55.00%	55.00%	53.70%	53.70%
Indian	55.00%	55.00%	55.00%	53.70%	53.70%
Foreign					
Public	45.00%	45.00%	45.00%	46.30%	46.30%
Institutions	2.47%	2.09%	1.99%	0.84%	0.32%
FII	2.43%	2.04%	1.94%	0.79%	0.27%
DII	0.04%	0.05%	0.05%	0.05%	0.05%
Non-Institutions	42.53%	42.91%	43.01%	45.46%	45.98%
Bodies Corporate	5.72%	4.76%	4.85%	6.01%	6.04%
Custodians					
Total No. of Shares	1,26,54,874	1,26,54,874	1,26,54,874	1,26,54,874	1,26,54,874

- **Vidush Somany, Executive Director, Cera Sanitaryware**, graduated in Bachelor of Business Administration from Franklin & Marshal College - U S A. He, along with SC Kothari, is actively involved in expanding the organization in a multi-throng manner. Vidush Somany compliments the vision set by Mr. Vikram Somany, Chairman & Managing Director to make Cera Sanitaryware Limited the most successful home solutions company in the coming years.
- The company has also appointed Dr. Kedar Nath Maiti, M.Tech, Ph.D., FIMMM, Chartered Scientist (UK), a well known ceramic scientist having rich experience in ceramic industry due to his long tenure in Central Glass and Ceramic Research institute (CGCRI)
- The Promoter's recently hiked their stake to 55% from 53.80% and in an exchange of letters with SEBI (regarding regulatory issues), they expressed willingness to increase it up to 60%.

Cera – Un-matched Dividend history

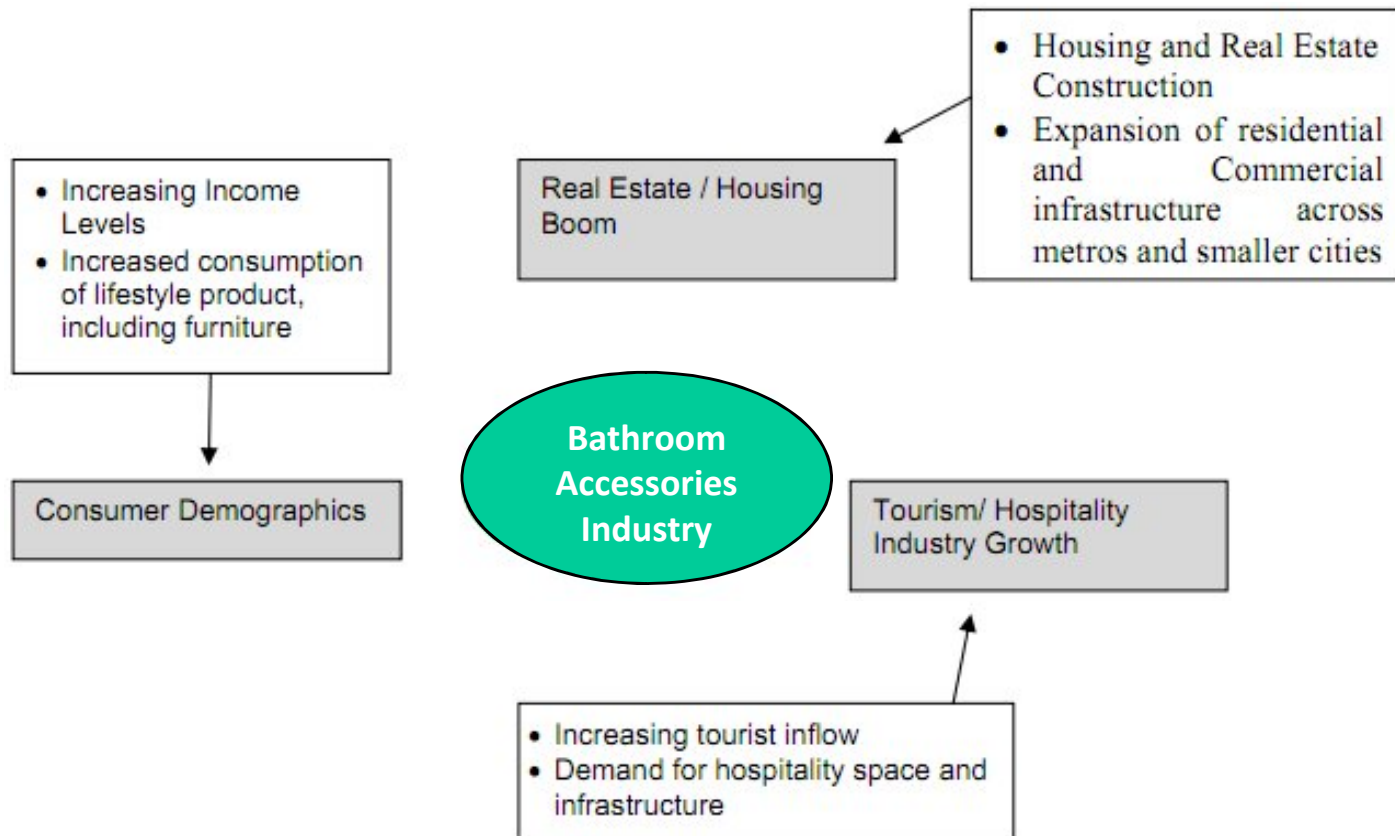
Dividends Declared			
Year End	Dividend Amount (In Crore)	Dividend per Share(Rs) adjusted for bonus	Face Value(Rs)
Mar-2011	3.16	2.50	5.00
Mar-2010	1.57	1.25	5.00
Mar-2009	1.24	1.00	5.00
Mar-2008	0.93	0.75	5.00
Mar-2007	0.67	0.55	5.00
Mar-2006	0.48	0.45	5.00
Mar-2005	0.43	0.40	5.00
Mar-2004	0.40	0.38	5.00
Mar-2003	0.32	0.30	5.00
Mar-2002	0.32	0.30	5.00

- Cera has an un-matched dividend history. Since 2002, there's not been a single year when they have not rewarded their shareholders.
- Most importantly, since 2003 they have increased the dividend pay out every year. The same speaks volumes of the Management's integrity and their attitude towards the minority shareholders of the company.
- For FY 2011, the company increased the dividend payout by 100% over FY 10.

Industry Overview

- Bath fittings sector – Poised to grow exponentially
- Sanitary ware & Bath fittings – Industry Overview
- Lack of Sanitation facilities in India
- Growth in Real estate sector !!
- Bathing Luxuries – Defining & showcasing lifestyle

Bath fittings sector – Poised to grow exponentially !!



The Indian sanitary ware industry has witnessed a sea-change. With India emerging as the second largest in the baths and sanitary market in Asia Pacific, the sanitary ware market is poised to grow exponentially.

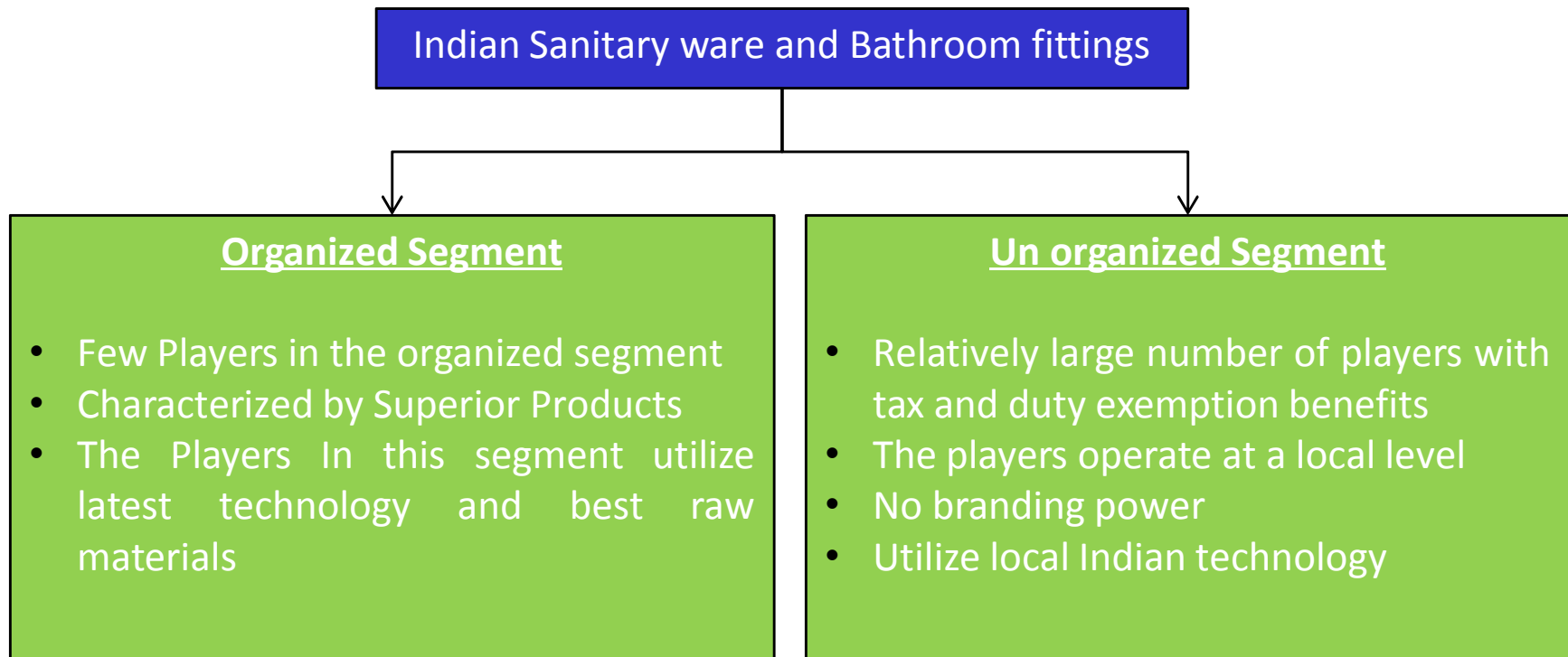
The real estate and construction boom in India has helped in the increasing demand for bathroom products. Secondly, buying homes has become more 'affordable' to Indian customer with several housing finance companies offering attractive home loan packages.

The average age of an Indian youth buying his first house is in the early thirties or late twenties. They are willing to spend on their houses and demand the latest international trends and products for their new homes. And thirdly, the 'replacement' market, comprising renovations, home improvements and refurbishments in bathrooms is growing significantly.

Sanitary ware & Bath fittings – Industry Overview

The Bathroom accessories and sanitary ware market in India has grown exponentially in the recent past. The current sanitary ware market size in India is approximately Rs 1700 crores while the Bathroom fittings market size is around Rs 3500 crores and are growing annually at a sustained rate of 15-16%. India is expected to become one of the largest consuming countries of sanitary ware in the near future.

The Sanitary ware and the bathroom fittings industry in India can be classified as follows:



Sanitary ware & Bath fittings – Industry Overview

Competition Overview

Market is fragmented with many organized and unorganized players

- Share of unorganized sector is gradually declining
- People are increasingly opting for branded bath fittings because of the guarantee in quality and after sales service

Cera commands a market share of 21-22% in the organized sector

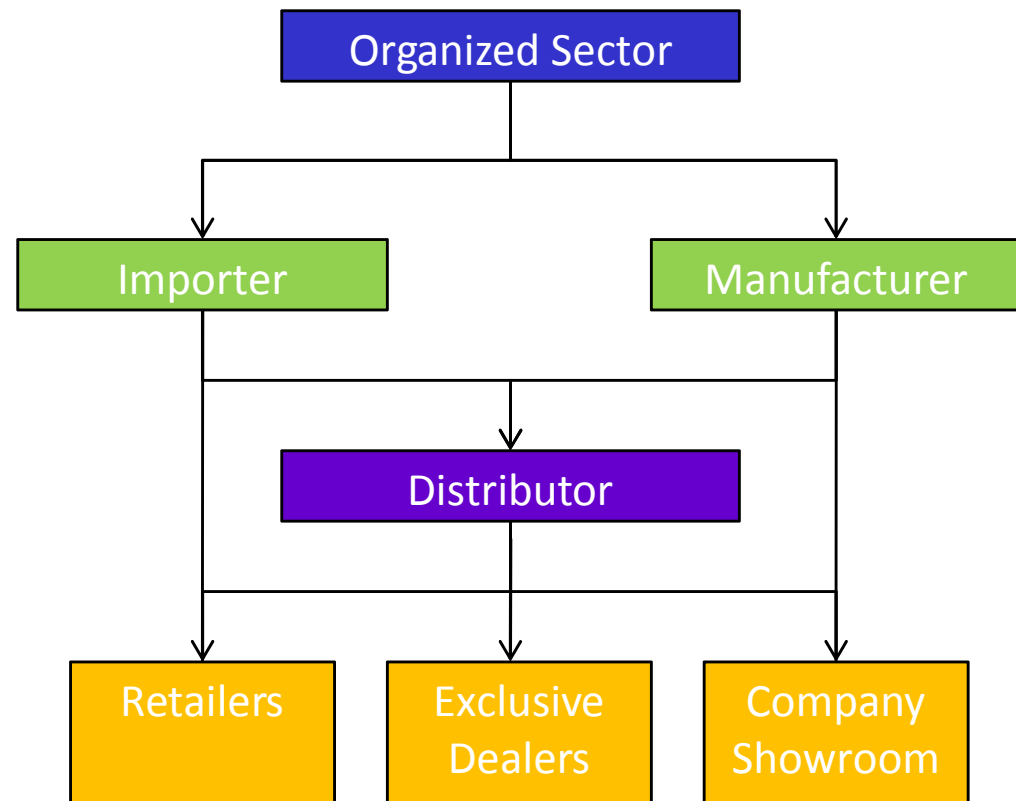
Both domestic and the foreign manufacturers are supplying products in Indian Market

- Foreign players either have distribution partnerships with Indian players or have established their own subsidiaries

Companies are opening dedicated showrooms complete with concept bathrooms for providing better product demonstrations

Companies operate both, through direct selling in the market and through retailers

- Companies also market directly to builders, architects and corporate without involving retailers.



Lack of Sanitation facilities in India

India is a highly populated country with about 72% living in rural areas and the remaining 28% in urban areas. Around 58% of India's urban population has access to improved sanitation and in rural areas, the coverage is considerably lower at 18%.

India's sanitation coverage in urban and rural areas is much less than other neighboring South-Asian countries.

Sanitation Coverage in South-Asian Countries		
Country	Sanitation Coverage	
	Urban	Rural
India	58%	18%
Bhutan	65%	70%
Pakistan	92%	35%
Nepal	68%	20%

Poor sanitation coverage in India reflects vast potential for growth opportunities for the sanitary ware industry. The lack of proper sanitary ware conditions in India compared to the other countries, provide this industry with immediate upside growth.

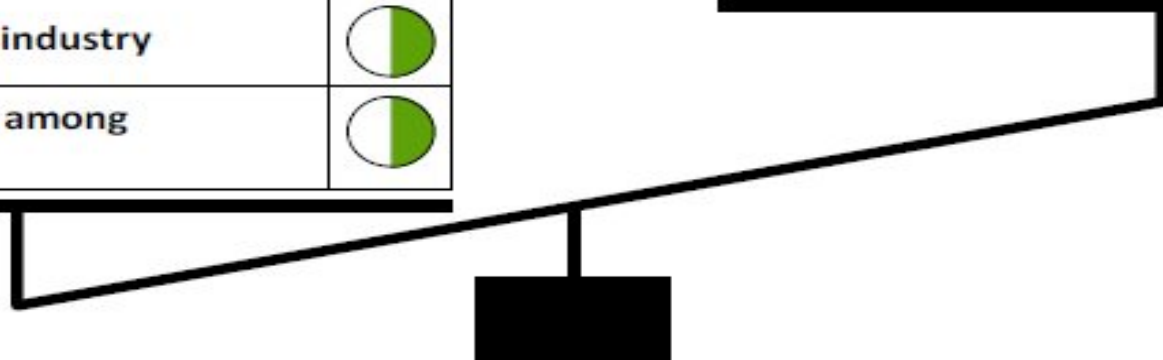
Growth in Real estate sector

The growth in sanitary ware industry is directly proportional to the growth in the real estate sector. The 2011-12 Union Budget has extended proposals with focus on affordable housing which are expected to benefit the sanitary ware industry in India.

With robust growth in real estate sector, strong demand for sanitary ware products is expected from commercial and residential segments.

Drivers	
Increasing urbanization	
Increase in disposable income	
Growth in real estate sector	
Growth in hospitality industry	
Increasing awareness among consumers	

Challenges	
Market restricted to urban areas	
Low replacement demand and small bathroom sizes	



Bathing Luxuries – Defining & showcasing lifestyle



A customized bathing experience is fast gaining currency and the presence of multiple international brands is making the market a competitive one.

In a developing market like India, these brands translate into more options for the luxury consumer. People are aspiring to a better life and they are spending money to get it.

An average household today is ready to invest more than Rs 15,000 on bathing luxuries. Three years ago, the average spend was just Rs 5,000.

The high-end products are targeted at the 3 million households and affordable products at the 6 million segment.

These days, consumers are visiting global destinations regularly and are aware of the fashion and changing trends. Therefore, they seek global brands for their kitchens or bathrooms for their flaunt value.

Cera Sanitary ware Ltd – Financials

Cera – Annual Performance

DESCRIPTION	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06	Mar-05
No Of Months	12.00	12.00	12.00	12.00	12.00	12.00	12.00
Gross Sales	255.55	200.28	170.55	128.05	116.71	88.43	60.94
Less: Excise Duty	12.60	8.92	11.02	0.00	10.04	8.48	0.00
Net Sales & Other Operating Income	242.95	191.37	159.52	128.05	106.67	79.95	60.94
Total Expenditure	197.25	155.30	130.00	106.77	87.78	67.60	54.24
(Increase) / Decrease In Stocks	-10.42	-7.68	-0.90	-4.56	-2.97	-3.49	-1.23
Purchase of Finished Goods	75.06	58.63	46.96	38.32	31.71	21.44	12.35
Cost of Services & Raw Materials	21.80	15.73	13.05	13.09	11.15	9.52	9.11
Excise Duty	0.00	0.00	0.00	0.00	0.00	0.00	0.00
Operating & Manufacturing Expenses	66.22	56.82	42.26	33.97	28.32	24.36	19.92
Electricity, Power & Fuel Cost	12.30	6.34	4.98	5.80	4.42	3.95	4.02
Employee Cost	32.30	25.47	23.65	20.15	15.16	11.82	10.08
PBIDT (Excl OI)	45.71	36.06	29.53	21.28	18.89	12.34	6.70
Other Income	5.07	2.47	1.90	2.37	0.92	0.69	0.44
Operating Profit	50.77	38.53	31.43	23.65	19.80	13.03	7.13
Interest	2.72	2.53	3.97	3.17	2.28	1.39	1.04
PBDT	48.05	36.00	25.83	20.48	17.52	11.65	6.09
Depreciation	6.53	6.10	5.93	4.94	3.54	2.68	2.11
PBT	41.52	29.90	19.90	15.54	13.98	8.97	3.99
Tax	14.98	10.29	6.80	5.49	4.92	3.07	1.59
Profit After Tax	26.54	19.61	13.11	10.05	9.07	5.90	2.39
Equity Capital	6.33	3.15	3.11	3.09	3.04	2.69	2.69
Reserves	105.23	85.37	67.51	58.82	47.71	25.58	0.00
Adj Calculated EPS (Unit.Curr.)	20.97	15.59	10.55	8.12	7.46	5.49	2.22
PBIDTM%	19.87	19.24	17.47	18.47	16.97	14.74	11.71
PATM%	10.39	9.79	7.69	7.85	7.77	6.67	3.92

- Over the last 6 years, the net sales of the company have grown at a rate of 26% annualized, while during the same period the industry growth averaged around 12-13%.
- By the standards of a manufacturing company, CERA commands very good margins with operating margins at approximately 20% and PAT margins in excess of 10%.
- Economies of scale and efficient capital employment has resulted in drastic improvement in margins over the years.

Cera – Quarterly Performance

Cera Sanitaryware Ltd. Quarterly-Y-O-Y(%)-Standalone- [INR-Crore]												
DESCRIPTION	Jun-11	Jun-10	Var%	Mar-11	Mar-10	Var%	Dec-10	Dec-09	Var%	Sep-10	Sep-09	Var%
Gross Sales	68.05	53.50	27.21	79.43	61.45	29.27	62.80	47.76	31.49	59.71	49.07	21.69
Less: Excise Duty	3.41	2.72	25.67	3.96	2.99	32.62	3.01	2.12	42.46	2.85	2.02	41.33
Net Sales & Other Operating Income	64.64	50.78	27.29	75.47	58.46	29.10	59.79	45.64	30.98	56.86	47.05	20.85
Total Expenditure	52.51	40.44	29.86	63.11	47.40	33.14	47.47	36.62	29.65	46.60	38.34	21.54
PBIDT (Excl OI)	12.13	10.35	17.22	12.36	11.06	11.80	12.31	9.03	36.40	10.26	8.71	17.83
Other Income	0.94	0.76	23.65	2.48	0.43	470.97	0.80	1.11	-27.70	0.98	0.58	70.49
Operating Profit	13.06	11.10	17.66	14.84	11.49	29.14	13.12	10.14	29.37	11.24	9.29	21.10
Interest	0.72	0.62	16.61	0.72	0.51	40.35	0.76	0.69	10.30	0.61	0.63	-3.96
PBDT	12.34	10.48	17.72	14.12	10.98	28.62	12.36	9.45	30.76	10.64	8.65	22.93
Depreciation	1.88	1.52	24.11	1.85	1.61	15.10	1.52	1.53	-0.52	1.52	1.48	2.71
PBT	10.46	8.97	16.64	12.27	9.37	30.94	10.84	7.92	36.79	9.12	7.18	27.09
Tax	3.56	2.98	19.44	4.07	3.19	27.85	3.60	2.69	33.72	3.03	2.41	25.52
Profit After Tax	6.90	5.99	15.25	8.20	6.19	32.53	7.24	5.23	38.37	6.09	4.76	27.89

- In case of Cera, the business is seasonal with higher contribution to sales during the 3rd and the 4th quarter of the financial year and therefore the quarterly numbers and the growth should be compared on Year on Year basis.
- As can be observed above, Cera has maintained consistent growth on the quarterly basis and the profit growth too has been in line with the sales growth. For the quarter ending Jun'11, the margins got hurt (though PAT margin still in excess of 10%) in comparison to Jun'10 on account of inflationary pressures across both the raw materials and Power segment.
- In AR 2011, the management acknowledged the fact that cost has gone up and they termed FY 2012 as “**COST AWARENESS YEAR**”. It's good to know that the management is prepared in advance and have the foresight to implement the requisite strategic decisions.

Cera – Sustainable Cash Flows

DESCRIPTION	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06	Mar-05
Profit Before Tax	41.18	28.55	19.04	14.38	14.03	9.09	4.05
Adjustment	9.05	8.53	9.97	8.42	5.74	3.94	3.05
Depreciation	6.53	6.10	5.93	4.94	3.54	2.68	2.11
Interest Expenses	2.72	2.53	3.97	3.17	2.28	1.39	1.04
Changes In working Capital	-14.04	-2.06	-3.26	-5.95	-3.75	-2.72	-0.76
Trade & Other receivables	-8.98	-5.25	-5.01	-2.69	-11.31	-0.22	-1.99
Inventories	-13.67	-9.51	-0.25	-6.26	-3.13	-3.82	-1.40
Trade & Other payables	8.62	12.70	2.00	3.00	10.69	1.32	2.62
Cash Flow after changes in Working Capital	36.20	35.02	25.74	16.85	16.02	10.31	6.33
Interest Paid	-2.72	-2.53	-3.97	-3.17	-2.28	-1.39	-1.04
Tax Paid	-13.04	-9.03	-4.27	-2.93	-3.59	-2.05	-1.26
Cash From Operating Activities	20.86	22.98	17.56	10.20	10.09	6.92	4.06
Cash Flow from Investing Activities	-27.51	-1.25	-3.63	-21.08	-22.08	-12.98	-3.01
Purchase of Fixed Assets	-22.01	-4.35	-4.50	-22.07	-22.38	-13.48	-3.15
Purchase of Investment	-7.77				0.00		-0.01
Interest received	1.81	1.44	0.79	0.80	0.07	0.03	0.04
Cash from Financing Activities	9.07	-9.32	-3.02	10.92	20.07	6.04	-0.59
Increase / (Decrease) in Loan Funds	10.68	-8.35	-2.50	9.56	9.45	6.53	-0.13
Equity Dividend Paid	-1.84	-1.45	-1.09	-0.78	-0.55	-0.49	-0.45

- Cera has come across as one of the best managed companies and the same also reflects from the cash flows of the company.
- There's been not a single year when their cash flows from operations have been negative.
- Secondly and most importantly, their cash flows have more or less been in line with their earnings, reflecting non-aggressive accounting practices.

- We consider taxes paid as an important metric and for Cera the effective tax rate has consistently been 32%. The same lends immense comfort regarding the accounting practices of the company.

Cera – Balance Sheet

DESCRIPTION	Mar-11	Mar-10	Mar-09	Mar-08	Mar-07	Mar-06	Mar-05
SOURCES OF FUNDS:							
Share Capital	6.33	3.14	3.11	3.09	3.04	2.69	2.69
Total Reserves	105.23	85.02	65.94	54.14	43.88	25.58	20.23
Shareholder's Funds	111.56	88.51	70.62	58.82	47.71	28.26	22.92
Secured Loans	37.65	25.64	33.67	31.62	24.42	16.70	8.36
Unsecured Loans	0.24	1.58	1.89	7.47	5.12	3.38	5.19
Total Debts	37.89	27.21	35.56	39.10	29.54	20.08	13.55
APPLICATION OF FUNDS :							
Gross Block	113.11	98.82	98.78	94.20	63.33	51.03	37.49
Less: Accumulated Depreciation	34.77	30.22	24.46	18.64	13.89	10.44	7.80
Less: Impairment of Assets							
Net Block	78.33	68.60	74.31	75.55	49.45	40.59	29.69
Capital Work in Progress	6.12	2.16	0.21	0.89	10.01	0.31	0.89
Investments	7.77	0.00	0.00	0.00	0.00	0.00	0.01
Mutual Funds Units	7.77						
Current Assets, Loans & Advances							
Inventories	50.03	36.36	26.85	26.60	20.34	17.21	13.39
Sundry Debtors	38.79	33.14	30.69	25.70	22.36	13.59	12.58
Cash and Bank	36.47	34.05	21.64	10.73	10.69	2.61	2.62
Other Current Assets	0.69	1.09	0.59	0.62	0.03	0.02	0.02
Loans and Advances	20.47	15.69	9.01	7.63	9.35	6.70	5.44
Total Current Assets	146.46	120.34	88.78	71.28	62.78	40.14	34.06
Less: Current Liabilities and Provisions							
Current Liabilities	52.69	45.26	32.69	31.19	28.62	20.34	19.01
Provisions	22.73	16.97	10.86	6.47	7.40	4.14	2.11
Total Current Liabilities	75.42	62.24	43.55	37.65	36.02	24.48	21.12
Net Current Assets	71.04	58.10	45.23	33.63	26.76	15.66	12.93
Contingent Liabilities	4.15	2.08	3.38	4.51	5.59	5.33	10.90
Adjusted Book Value	88.12	70.03	55.52	46.18	38.51	26.22	21.20

- Though company has achieved 26% annualized growth over the last 6 years, there wasn't any major equity dilution nor substantial debt funding by the company.
- For the last two years, the company has effectively been a debt free company.
- Moreover the company is keeping it's coffers ready for an acquisition opportunity in Italy.
- The working capital management has been excellent with working capital as a % of sales remaining more or less same.

Concerns

Concerns

- Over the last 1 year the raw material prices and the prices of other key inputs have increased, while on the same hand the global economy is slowing down. The company could be in for some tough times over the short term.
- In view of the inflationary environment, the RBI has continued with its monetary tightening. The same is hurting the growth and more specifically that of Real estate. The sales of Bath fittings is directly proportional to growth in real estate as replacement demand commands a very small share.
- **Jaguar and other local and foreign brands are trying their hands at Indian Sanitary ware market.** Jaguar has a very strong brand identity and distribution network. We believe it could come across as a major competitor to the established players.
- **The company is looking for Acquisitions in Italy.** If completed successfully, this would be their first acquisition outside India. Being not so experienced with foreign acquisitions, there are obvious acquisition risks.

Conclusion

Price chart



- Despite turbulent market conditions, the stock has done extremely. Since our first recommendation in Jan'11 at Rs 165, the stock has appreciated by 21% against SENSEX return of negative 7.14%
- Considering the strong performance of the company and the market's polarization in rewarding good companies, we believe there's a strong support at Rs 185. Thus a good level for further accumulation from both technical and valuations point of view.

Katalyst Wealth – Alpha Portfolio



Katalyst Wealth Alpha Portfolio service is focused on helping individual investors/institutions beat market returns by a wide margin without taking large risks through in-depth research, analysis and follow up on the stock.

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