NIRMAL BANG
a relationship beyond broking

Institutional Equities

Initiating Coverage

Cera Sanitaryware

28 September 2018

Reuters: CERA.NS; Bloomberg: CRS IN

Tough Times Don't Last, But Tough Companies Do

Cera Sanitaryware (Cera) is among the top 3 players in the Indian sanitaryware industry having a stronghold over the mid and premium segments. The company has travelled uphill, grabbing market share from established brands like Hindware (HSIL) and Parryware. Sharp focus on capital employed, high product quality and innovation have been the bedrock of Cera's success. As of today, Cera controls 28% of India's organised sanitaryware market, behind Parryware and HSIL at 33% and 31%, respectively. Recovering from the Goods and Services Tax or GST shock, the company is expected to increase its revenues/EBIT at 15%/23% CAGR, respectively, over FY18-FY21E. In the same period, we expect Cera to expand its EBIT margin from 12.7% in FY18 to 14.7% in FY21E, which is in reversion to its own 10-year median level. RoCE should improve from 22.7% in FY18 to 26.6% in FY21E. As the company continues to outsource manufacturing, its capex requirement remains limited. We have initiated coverage on the stock with a Buy rating and a target price of Rs3,483, up 30% from the CMP.

Sanitaryware industry expected to grow at 9%-10%: Indian sanitaryware market is expected to post a 9%-10% volume CAGR over FY18-FY21E, recovering from 6%-7% growth witnessed in the past two years. Luxury segment (15% of the market) is expected to grow at 15% while the mass and premium segments (40% and 45% of the market, respectively) are expected to grow 8% & 7%, respectively. The rising growth rate is the result of higher housing approval under Pradhan Mantri Awas Yojana and strong replacement demand among other factors.

20% CAGR likely in faucet and tile segments: We expect CERA to grow its faucet and tile business at 20% CAGR each over FY18-FY21E. Higher growth in these businesses is because of their low base and should help support growth in the sanitaryware segment. 85% of Cera's tile sale volume consists of low-margin soluble salt category, and the remaining is premium category PVT/GVT tiles. The company is working to reverse this ratio over which should result in margin expansion for the segment as well. Cera is well placed to deliver growth with ongoing tile capacity expansion, product diversification, premiumisation and distribution channel expansion. The company also enjoys tailwinds from growing urbanisation, better housing affordability and shrinking unorganised entities.

EBITDA margin to increase FY20 onwards: Power and fuel costs accounted for 4.6% of Cera's net revenues in FY18, up from 3.5% YoY. While the company meets 90% of its power requirement from captive windmills, it sources natural gas from GAIL and Sabarmati Gas. On the back of its strong brand, the company undertook price hike in November last year (without losing market share), which helped in mitigating cost pressure and increasing margins. We expect EBITDA margin to expand to 16.2% in FY21E as compared to 15.0% in FY18, while contracting a bit in the current year.

Consistent FCF generation; net cash B/S: Cera has consistently generated free cash flow or FCF which has resulted in a strong balance sheet and shareholder value generation. In the past 15 years, the company has increased its FCF at 17% CAGR after financing 25% revenue and 31% EPS growth. This is a stupendous feat considering that the company never breached the D/E ratio of 0.7x, indicating balanced and sustainable growth aspirations of the management. Since FY15, Cera has a strong net cash position with net cash equating to Rs27.6/share or 6% of the company's equity or BVPS of Rs463.8.

Y/E Mar (Rsmn) Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Net sales	10,085	11,853	13,679	15,601	18,127
EBITDA	1,756	1,774	2,023	2,477	2,945
EBIT	1,534	1,502	1,778	2,274	2,659
Adj. Net profit	921	915	1,123	1,439	1,698
Adj. EPS (Rs)	70.56	70.03	85.99	110.21	130.00
EPS growth (%)	*18.8*	*-0.8*	*22.8*	*28.2*	*17.9*
EBITDA margin (%)	*17.4*	*15.0*	*14.8*	*15.9*	*16.2*
EBIT margin (%)	*15.2*	*12.7*	*13.0*	*14.6*	*14.7*
PER (x)	42.70	49.20	31.11	24.27	20.58
FCF/Sales (%)	*2.9*	*1.8*	*4.5*	*3.8*	*4.3*
Net cash/Equity (%)	*5.3*	*6.0*	*12.5*	*15.9*	*19.7*
Pre-tax RoIC (%)	*35.1*	*28.2*	*30.0*	*34.6*	*35.7*
RoE (%)	*21.6*	*18.3*	*17.2*	*18.7*	*18.7*

Source: Company, Nirmal Bang Institutional Equities Research

BUY

Sector: Building Materials

CMP: Rs2,675

Target Price: Rs3,483

Upside: 30%

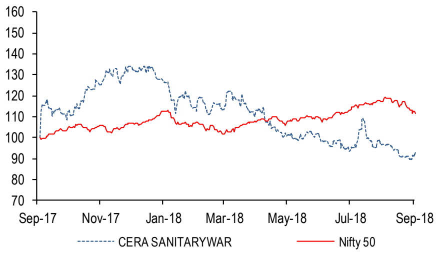
Mohit Khanna
Research Analyst
mohit.khanna@nirmalbang.com
+91-22-6273 8089

Key Data

Current Shares O/S (mn)	13.0
Mkt Cap (Rsbn/US$mn)	33.4/460.7
52 Wk H / L (Rs)	4,300/2,500
Daily Vol. (3M NSE Avg.)	10,292

Share holding (%)	3QFY18	4QFY18	1QFY19
Promoter	54.8	54.8	54.8
Public	27.4	28.0	28.5
DII	17.8	17.3	16.8
Others	-	-	-

One Year Indexed Stock Performance



Price Performance (%)

	1 M	6 M	1 Yr
Cera Sanitaryware	(6.2)	(25.7)	(19.4)
Nifty Index	(6.9)	8.1	11.9

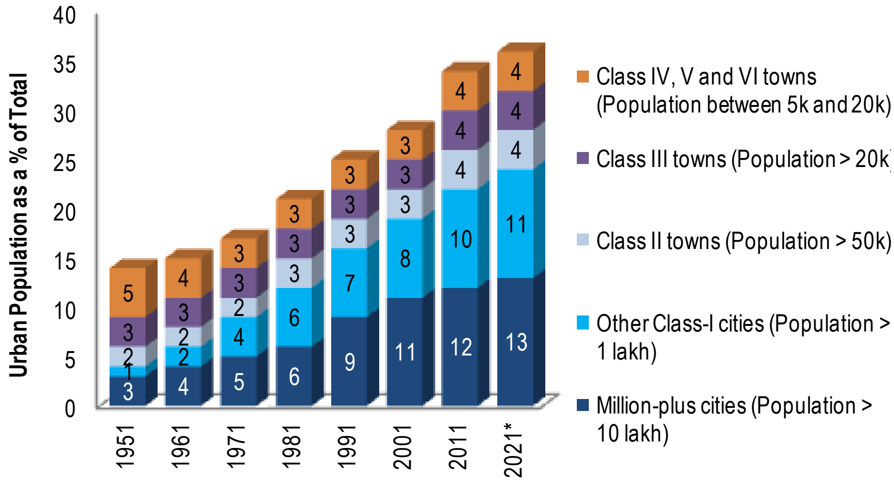
Source: Bloomberg

Long-term growth drivers remain intact

Rising urbanisation

64% of India's population still resides in villages with a population of 5,000 or lower. Data from 2011 Census and Indian Institute for Human Settlement (table below) suggests that in 1961 around 70mn people or 15% of the total population lived in Indian cities and towns, which increased to nearly 420mn (or 34%) in 2011. It is expected that 500mn people or 38% of the total population will live in cities and towns in 2021 which are major markets for sanitaryware and tile manufacturers. Importantly, the share of larger cities is increasing faster, underscoring rising demand for higher quality ceramic-ware and faucets.

Exhibit 1: India's urban population as a percentage of total population



Source: Census 2011 & Indian Institute for Human Settlement

Rising preference for aesthetics

India's per capita income is close to Rs100,000 (US$1,430) per annum and is expected to post a 7.5% CAGR over the next couple of years. This increase is expected to boost discretionary income which will benefit lifestyle products like sanitaryware and tiles. Washroom has come of age as being a 'necessity' to a 'status statement'. Today, a washroom is as important as other rooms in the house and is seen as a 'personal space'. The changing perception, lifestyle and rising disposable income is increasing the appetite for aesthetics and new designs/styles. This trend has resulted in more number of washrooms (benefitting sanitaryware and faucets) with larger floor area in newly built buildings. Therefore, the share of expenditure on washroom construction vis-a-vis the complete house continues to increase, pushing demand for high-quality sanitaryware, faucets and tiles. Technologically advanced and innovative products (water-saving EWCs, electronic flushing systems, sensors, decorative ceramic accessories, etc.) are helping drive the premiumisation strategy, resulting in higher ASP for companies.

Rising replacement market

Replacement demand in Indian sanitaryware industry continues to grow at a high pace. It has increased its share in the total market from 8% in FY14 to 15% in FY18. The remaining is primary demand. However, sanitaryware replacement demand in developed countries is close to 80% of the total market. Indians are gaining exposure to global trends and western styles which is prompting bathroom upgradation more frequently than before. Bathrooms in cities are now expected to be upgraded every 10-12 years, instead of 20 years earlier. We expect the trend to continue as there remains vast headroom for future growth.

Exhibit 2: Sanitaryware demand segments

	FY14	FY16	FY18	Global scenario
Primary	92%	88%	85%	20%
Replacement	8%	12%	15%	80%

Source: Nirmal Bang Institutional Equities Research

Huge potential for premiumisation

Ceramic industry is still miniscule as compared to the real estate sector. Cumulative market size of India's sanitaryware, tile and faucet industry at Rs390bn is lower than 4% of the real estate sector. Of this, organised players operate only in Rs180bn market (46% market share) and the rest is dominated by unorganised players. This indicates huge under-penetration of good quality building materials in the real estate sector and is a long-term opportunity for organised players. This under-penetration also explains the stellar growth witnessed by ceramic and faucet players in the past few years even when the real estate sector struggled. We expect the trend to continue as a major part of growth for ceramics and faucet business is generated by Tier 2, 3 & 4 cities and towns.

Cyclical base for real estate sector in 2018 with gradual recovery

In our view, demonetisation, Real Estate (Regulatory and Development) Act or RERA, Goods and Services Tax or GST, Bankruptcy Code and IndAS accounting have collectively changed the way the real estate industry operates. These disruptions have increased regulatory and customer scrutiny of developers, which in turn has hit their operating performance. The real estate sector is currently bouncing from its cyclical bottom and should now stabilise after years of turbulence. We are cautiously optimistic (when market is scared) because of the following reasons:

- Approval for REITs is already showing progress in attracting fresh investment in the sector. Developers have also started seizing this opportunity by selling large projects to PE funds and utilising proceeds by reducing debt and strengthening balance sheet. Median debt-equity ratio of BSE Realty Index companies has declined from 0.77x in FY15 to 0.56x in FY18.
- Liquidity crunch post demonetisation created intense working capital problems for developers which ultimately translated into slow project execution. The damage has been done and liquidity conditions are now easing.
- Rising FDI into the sector is also introducing higher level of accounting and operational transparency. Hiring professional management teams, centralised procurement processes, organised manpower, and effective management systems are a few examples of ongoing positive changes in the sector. These changes have been essential to meet high due diligence standards maintained by foreign investors.
- Terrible past experience has increased customers' preference for completed/ready-to-move-in projects rather than under- construction properties. This is also supported by GST-related tax savings in completed properties.
- Interest rate subsidy for consumers under Pradhan Mantri Awas Yojana has given the much-needed boost to demand, especially in the affordable housing segment.
- Price correction in the past few years has increased affordability. We believe that prices will continue to erode as unsold inventory remains high in the system.

PMAY-U disbursal to gain traction in an election year

The Union government launched Pradhan Mantri Awas Yojana - Urban (PMAY-U) in 2015 with a target to build 20mn homes by 2022. Since the start of the scheme, 5.4mn homes have been sanctioned (in urban areas only), but only 0.79mn homes have been completed so far. While 2.9mn homes are currently under construction, 1.7mn homes are yet to break ground. For this the government has only released 40% of the sanctioned Rs780bn. During 1QFY19, the government sanctioned nearly 1mn homes, indicating acceleration in social schemes in an election year. New launches in the affordable segment and fund disbursal from government should gain momentum, providing much-needed tailwind to the sector.

Entry barriers for new players

Organised sanitaryware industry has transformed into an oligopoly of sorts wherein top 3 players control 92% of the organised market. This has resulted in higher branding, advertising and sales promotion expenses. Parryware leads the organised market with a 33% share followed by HSIL and Cera at 31%/28% share, respectively. The combined sales of these three players are at Rs17,700mn which is higher than the total unorganised segment's sales of Rs17,000mn. This indicates that a new entrant is likely to face fierce competition to set up shop or grow to a meaningful level. Also, all the organised players have established a vast distribution network across India, which again acts as an entry barrier because it is difficult, time consuming and expensive to replicate the model.

There is fierce competition in the unorganised segment as well. Shrinking addressable market post-reforms is resulting in undercutting and margin compression. Over time, the unorganised segment should consolidate in the hands of a few large players, pushing the marginal entities out of business. The current RoE of unorganised players hovers below the cost of capital which in itself is a big deterrent for the entry of new players. We believe such players will move to contract manufacturing for the organised players, instead of completely moving out of business.

Exhibit 3: RoCE model of a sanitaryware factory/plant

	Case 1	Case 2
Product mix	100% mass market	50% mass & 50% premium
Capacity (units)	1,500,000	1,500,000
Blended ASP (Rs)	1,500	2,250
Revenues (Rsmn)	**2,250**	**3,375**
EBIT margin	10%	12%
EBIT (Rsmn)	**225**	**405**
Capital expenditure	1,500	2,200
Working capital (25% of revenues)	563	844
Capital employed	**2,063**	**3,044**
RoCE (%)	***11%***	***13%***
Assuming D/E of 50:50		
Debt (Rs mn)	1,031	1,522
Cost of debt @ 12%	(124)	(183)
Net profit (post 32% tax)	69	151
RoE (%)	***7%***	***10%***

Source: Nirmal Bang Institutional Equities Research

Rising share of organised players

Double-whammy for unorganised players - Sluggish demand and tight GST regulation

India's sanitaryware industry is currently valued at Rs36bn. Organised players held 53% of the market share as of March 2018. Contrary to the original belief, the demand shift from unorganised to organised players has been painfully slow till now. This was largely because of GST tax rate anomaly, delayed e-way bill provision and poor regulatory scrutiny. The tide is now turning in favour of organised players and they are all set to capture a higher share of the market pie. Reduction of GST rate from 28% to 18% has lowered pricing differential and e-way requirement for each consignment is also discouraging unlawful sales. Unorganised players also benefitted from high rural demand under Swachh Bharat Abhiyaan. With 82% of the targeted toilets already constructed and GST/e-way bill system being effectively implemented, we expect the organised players to recoup their market share.

Market share gain for the unorganised segment is largely because of the government's push for toilet construction, especially in the hinterlands.

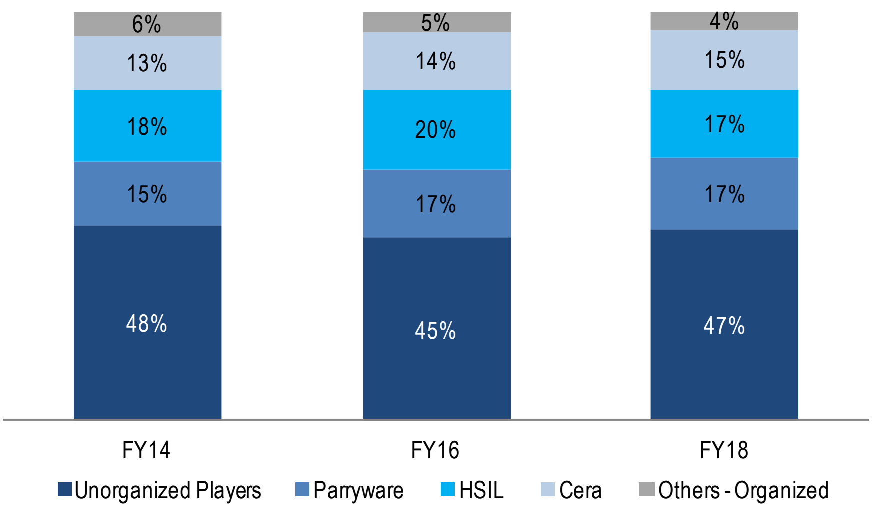
Indian government launched Swachh Bharat Mission in October 2014, and since then has built more than 78mn toilets across the country at an unprecedented pace. We expect the pace of the mission to reduce going forward as 87% of the targeted 90mn toilets (to be constructed by October 2019) are already complete. **Going forward, we expect the branded/organised players to regain lost market share as demand from rapid urbanisation takes over rural areas.**

Exhibit 4: Market share of sanitaryware players

Companies	FY14			FY16			FY18		
	size (Rsmn)	Organised mkt. share	Total mkt share	Size (Rsmn)	Organised mkt. share	Total mkt share	Size (Rsmn)	Organised mkt. share	Total mkt. share
HSIL	5,611	34%	18%	6,300	35%	20%	6,018	31%	17%
Parryware	4,800	29%	15%	5,500	31%	17%	6,300	33%	17%
Cera	4,200	26%	13%	4,500	25%	14%	5,389	28%	15%
Others - Organised	1,800	11%	6%	1,600	9%	5%	1,500	8%	4%
Total organised segment market size	**16,411**	-	**52%**	**17,900**	-	**55%**	**19,207**	-	**53%**
Unorganised players	15,100	-	48%	14,400	-	45%	17,000	-	47%
Total sanitaryware market	**31,511**	-	-	**32,300**	-	-	**36,207**	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 5: Market share of sanitaryware players



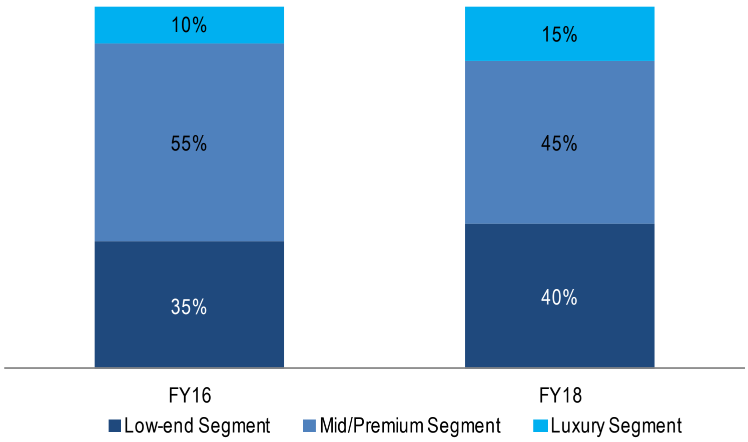
Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 6: Sanitaryware - Product segment & competition

	FY16	FY18	Price points (FY18)	Players	Market leader	Competition
Low-end segment	35%	40%	Rs500-2,000	Unorganised	-	-
Mid/premium segment	55%	45%	Rs2,000-10,000	Cera, HSIL, Parryware, Kerovit & Somany	Cera & HSIL	High
Luxury segment	10%	15%	Rs10,000-20,000+	Kohler, Duravit, Parryware, American Standard, Toto	Parryware	High

Source: Company, Nirmal Bang Institutional Equities Research

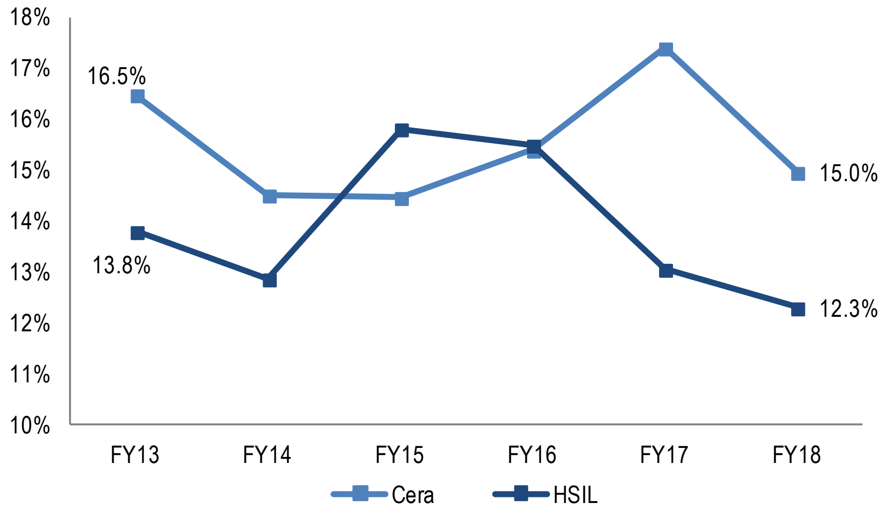
Exhibit 7: Sanitaryware industry - Product segment



Source: Company, Nirmal Bang Institutional Equities Research

Higher rural demand has increased the share of low-priced products in the overall market. While this suggests rising market penetration, it has also led to margin contraction for organised players. Cera & HSIL's EBITDA margin declined to 15.0% & 11.9% in FY18 as compared to 16.5% and 13.8% in FY13, respectively.

Exhibit 8: EBITDA margin



Source: Company, Nirmal Bang Institutional Equities Research

As the organised players regain lost ground because of relatively strong urban demand, industry should experience premiumisation.

This should lead to industry-wide margin improvement, given that gas/crude oil prices don't play spoil sport. **Cera, with its stronghold in the mid and premium product segments, captive power supply and ability to pass on cost inflation should lead the margin expansion theme across the industry.**

GST disruption over – Organised players to gain

GST regulation and ground level implementation for the sanitaryware/ceramic industry has been far from perfect. GST brought a new set of challenges for both organised and unorganised players. The new tax regime has failed to deliver the desired results till now. The biggest disappointment from the GST system has been that it could not effectively push the unorganised players to regularise their business and create a homogenised industry. Having said that, we believe recent developments and regulatory changes are the steps in the right direction. They should change legacy malpractices, benefitting the organised players as unorganised players consolidate.

GST regulations and their impact

- Initially (mid-2017) the government fixed 28% GST for the sanitaryware and tile industry, which was a revenue-neutral rate. But other building materials like faucets and laminates were being taxed at 18%. After continuous industry demand, this dichotomy was corrected and the tax rate for tiles and sanitaryware was reduced to 18% in November 2017. Lower tax rate combined with available input tax credit will help reduce the pricing gap between organised and unorganised players.
- Delayed e-way bill implementation greatly helped unorganised players to continue their business uninterrupted. The benefit was largely because of regulatory vacuum as inter-state border check posts were removed and e-way bill not implemented. This has now changed as the government has implemented e-way bill starting from April 2018. The e-way bill system is a check on tax-evaded goods being transported. Our ground check has revealed that under-invoicing and 'kuccha' bills are steadily declining as the authorities are tightening regulations and payment in 'black' is becoming difficult.
- Complicated tax filing, poor technology support and lack of proper training on documentation and procedures encouraged tax evasion. While the government has been continuously making efforts to ease the compliance, it is still far from being efficient. Additionally, regular changes have created confusion which has increased compliance costs for organised players. As workforce gain experience with GST compliance, we expect such operations issues to decline.
- Government has refrained from introducing crucial provisions like reverse charge mechanism, tax deducted at source and tax collected at source under the GST system. These provisions have been deferred till September 2018, and we expect them to be further kicked down the road. These stringent norms, when implemented, will sound a death knell for tax-evading business practices and hugely positive for the organised players, in our view.

On the one hand unorganised players are experiencing lower demand from largely completed Swachh Bharat Mission, while on the other they are fighting against tightening tax and regulations. This double whammy should result in consolidation among unorganised players. In order to regularise their business, unorganised players have two probable choices-either to launch their own brands or manufacture on behalf of organised players.

Faucet – Industry overview

The Rs85bn Indian faucet industry continues to grow at 15%, as compared to a 13% CAGR over FY14-FY16. The higher growth rate is supported by replacement demand which is more than 2x the institutional market. This immunes the business from cyclical nature of the real estate sector and provides a largely consistent earnings profile with better pricing power. However, the unorganised segment controls 50% of the total market and has gained a small share because of high rural demand in recent years. Jaquar continues to rule the market with over 60% share in the organised segment followed by fierce competition between Parryware, HSIL, Cera, Kohler, Grohe, etc.

Exhibit 9: Faucet industry growth

	FY10-FY14	FY14-FY16	FY16-FY18	FY18-FY21E
Faucet industry growth	17%	13%	15%	15%

Source: Nirmal Bang Institutional Equities Research

Exhibit 10: Faucet - Demand segments

Faucet - Demand segments	FY14	FY16	FY18
Retail	70%	70%	70%
Institutional	30%	30%	30%

Source: Nirmal Bang Institutional Equities Research

Cera entered the faucet business in 2011 with 0.9mn capacity. Today, the company has total capacity to manufacture 3.7mn units, 50% of which is outsourced. The company recently commissioned its zamac plant to manufacture faucets in-house which will reduce its dependence on outsourcing. With zamac plant, it seems the company is targeting mid-income consumers who seek quality assurance by buying a branded commodity at a slightly higher price.

Exhibit 11: Market share of faucet players

Companies	FY16 size (Rsbn)	Organised market share FY16	Total market share FY16	FY18 size (Rsbn)	Organised market share FY18	Total market share FY18
Jaquar	20.0	61%	31%	26.0	61%	31%
Cera	2.0	6%	3%	2.6	6%	3%
Others - Organised (HSIL, Cera, Kohler)	11.0	33%	17%	13.9	33%	16%
Total organised market size	**33.0**	-	**51%**	**42.5**	-	**50%**
Unorganised players	32.0	-	49%	42.5	-	50%
Total faucet market	**65.0**	-	-	**85.0**	-	-

Source: Company, Nirmal Bang Institutional Equities Research

Tile industry overview

Indian tile industry currently stands at Rs270bn or 785msm (million square meters). The unorganised segment currently has 50% and 69% share in terms of sales value and volume, respectively. The remaining portion is shared by the organised players. Kajaria Ceramics continues to be the de facto market leader with 20% value and 30% volume share in the organised market, respectively.

Exhibit 12: Market share: Tiles (sales value)

Market share: Tiles (sales value)	FY14			FY16			FY18		
Companies	**Size (Rsbn)**	**Organised market share**	**Total market share**	**Size (Rsmn)**	**Organised mkt share**	**Total market share**	**Size (Rsmn)**	**Organised market share**	**Total market share**
Kajaria Ceramics	19,930	21%	10%	26,960	22%	11%	27,110	20%	10%
Somany Ceramics	12,669	13%	6%	18,010	15%	8%	17,130	13%	6%
Prism Johnson	19,325	20%	10%	24,500	20%	10%	16,850	12%	6%
Cera Sanitaryware	557	1%	0%	1,249	1%	1%	2,375	2%	1%
Other organised players	44,519	46%	23%	53,361	43%	22%	71,535	53%	26%
Total organised market size	**97,000**		**51%**	**124,080**		**52%**	**135,000**		**50%**
Unorganised players	98,000		49%	115,920		48%	135,000		50%
Total tiles market	**195,000**			**240,000**			**270,000**		

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 13: Market share: Tiles (sales volume)

Market share: Tiles (sales volume)	FY14			FY16			FY18		
Companies	**Volume (msm)**	**Organised mkt .share**	**Total mkt. share**	**Volume (msm)**	**Organised mkt. share**	**Total mkt. share**	**Volume (msm)**	**Organised mkt. share**	**Total mkt. share**
Kajaria Ceramics	52	21%	7%	64	26%	8%	72	30%	9%
Somany Ceramics	38	15%	5%	46	18%	6%	64	27%	8%
Prism Johnson	38	15%	5%	43	17%	5%	39	16%	5%
Cera Sanitaryware	4	1%	0%	4	1%	0%	4	2%	0%
Otherorganised players	118	47%	16%	95	37%	11%	62	26%	8%
Total organised market size	**249**		**33%**	**252**		**31%**	**241**		**31%**
Unorganised players	507		67%	573		69%	545		69%
Total tiles market	**756**			**825**			**785**		

Source: Company, Nirmal Bang Institutional Equities Research

The unorganised players are largely concentrated in Morbi, Gujarat. This single location accommodates 610 ceramic units employing over 350,000 people directly. These unorganised players have largely survived by focusing on low-priced products, tax evasion and their manufacturing expertise. Increased regulatory and tax compliance in the recent past has forced these unorganised units to tweak their business model. While some are now looking at export markets more rigorously, others are either associating themselves with a bigger/organised player or trying to establish their own brand.

Exhibit 14: Tile industry - Product break-up (value)

	FY14		FY16		FY18	
	value (Rsmn)	*% mix*	value (Rsmn)	*% mix*	value (Rsmn)	*% mix*
Ceramic wall & floor tiles	93,000	*39*	105,000	*44*	120,000	*44*
PVT	77,000	*32*	105,000	*44*	110,000	*41*
GVT	25,000	*10*	30,000	*13*	40,000	*15*
Total	**195,000**		**240,000**		**270,000**	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 15: Tile Industry - Product break-up (volume)

	FY14		FY16		FY18	
	Volume (msm)	*% mix*	volume (msm)	*% mix*	volume (msm)	*% mix*
Ceramic wall & floor tiles	415	*61*	470	*57*	430	*55*
PVT	236	*35*	310	*38*	275	*35*
GVT	30	*4*	45	*5*	80	*10*
Total	**681**		**825**		**785**	

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 16: Indian tile industry growth

	FY10-14	FY15-18	FY18-21E
Tile industry value growth	15%	9%	10%

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 17: Indian tile industry (Rsmn)

Indian tile industry (Rsmn)	FY18
Domestic industry size	270,000
Export market	110,000
Total	**380,000**

Source: Company, Nirmal Bang Institutional Equities Research

Cera entered the tile business in FY13 by acquiring a 51% stake in Andhra-based Anjani Tiles. It currently has a small 3.7msm capacity and operated at 85% capacity utilisation level during FY18. Till now, Cera has focused itself on comparatively lower quality soluble salt ceramic vitrified tiles which form 85% of its production volume. The remaining 15% is contributed by higher quality polished and glazed vitrified tiles (PVT/GVT). Over the next few years, Cera is targeting to increase the share of PVT & GVT.

Cera: A strong challenger making the right move

Cera has come a long way from being a late entrant to claim a sizable market share in the sanitaryware industry. Focus on branding, capital allocation, distribution and product quality has been its pillars of success. The company continues to focus on these aspects while making an intelligent move in related diversification and grabbing additional sanitaryware market share.

New band launches

Jeet: GST, rising scrutiny over e-way bill and coal-based operators have reduced the pricing gap, creating a level-playing field for organised players. While the unorganised players are still exploiting the loopholes in policy implementation, it has not stopped Cera from launching an entry-level brand Jeet. Lower pricing gap between organised and unorganised players, especially in the entry-level segment, should attract quality-seeking first-time sanitaryware users. It is a potential Rs17bn opportunity, which till now was captured by the unorganised players (who have no distribution network). The company plans to meet its requirement in this segment by outsourcing production, thereby acting as a consolidator.

Senator: It is Cera's second brand offering in the luxury segment after it launched made-in-Italy brand 'ISVEA' a few years ago. The company has already tested the waters by exclusively distributing 'ISVEA' and SIAMP, Monaco-based concealed cistern over the past couple of years. The move is to change Cera's brand perception from 'value for money' to 'luxury'. The opportunity arises from lifestyle upgradation because of improvement in household income. The brand is expected to take shelf space next to Parryware's Roca and other international brands. The company has increased its advertising, sales promotion, commission and incentive costs to 9.5% of net sales as compared to 8.6% average during FY16 and FY17. We expect the company to maintain higher promotion expenditure to establish the new brands. The in-house capacity expansion for luxury product manufacturing will reduce imports for the company.

Growth backed by constant Innovation

Cera's cumulative R&D expense over the past five years is 2x (Rs83mn) as compared to HSIL even though its revenues are almost half as compared to the latter. To highlight Cera's relentless focus on technology and innovation – it was the first company in India to use natural gas for manufacturing sanitaryware. This helped the company to lower product defects (improved customer satisfaction) and save wastage. Use of natural gas is by and large an industry norm today. **Cera also introduced twin-flushing system in India in the year 2000**. To maintain technological edge, the company is upgrading its manufacturing and research capabilities by inducting new processes and automatic machines. It is also introducing new product designs focusing on aesthetics, convenience and superior functionality. The company has installed 3D printers which help in the launch of new designs from the concept stage in just a few weeks.

A major area of innovation and R&D is glazing which provides shine and colour to the product. Cera is upgrading to robotic glazing machines which results in better spread of glaze while reducing wastage and dependence on labour. The company is also testing dual glazes which have a spectacular aesthetic appeal and imparts premium halo to the product. Other important areas of innovation are anti-microbial glazes and recycling of glaze.

Automation for efficiency

To achieve greater level of manufacturing efficiency, better product quality and lower dependence on expensive labour, Cera plans to automate most of its production processes. After ramping up the robotic glazing system, it plans to introduce robotic plaster mould-making, automate casting and gas regulation systems. For testing the final product quality, the management is also planning to introduce automatic leakage detection and overflow test.

The company is also upgrading its manufacturing abilities to build more complex designs. To do so, it plans to replace the current bench-casting with more advanced battery-casting method/system. This is in line with global best manufacturing practices and will result in better efficiency and productivity.

Expanding to new geographies

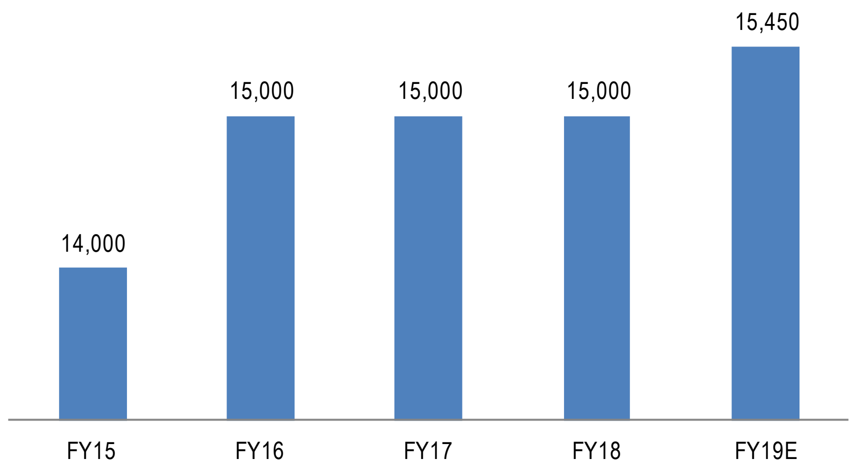
Cera has traditionally remained focused on Western and Southern Indian markets. Maharashtra, Gujarat, Rajasthan, Punjab, Haryana contribute 45% to its revenues while Kerala, Tamil Nadu, Karnataka, Andhra, Telangana add another 40%. NCR, Northern and Eastern states contribute the remaining 15% while the company has a limited presence in Central Indian states of Madhya Pradesh and Chhattisgarh. The company is now focusing to expand its dealer network in these Central Indian states. While Cera's success in these markets remains to be seen, it certainly boasts of a good track record in snatching away market share from established leaders.

Rising distribution network – a medium to sell multiple products

Over the past 40 years of its operations, Cera has built a strong distribution network spread across India. The network effectively acts as an entry barrier for new players entering the organised market because of its complexity and high costs. As of March 2018, Cera's distribution network consists 1,500 dealers and 15,000 retail points. There remains a scope for network expansion for Cera as its competitor has a reach comprising 3,200 dealers and 21,000 retailers. Interestingly, our ground check reveals that most dealers stock products from all companies with a preference for 1/2 suppliers.

Cera's management is working on a strategy to harness the existing network by distributing more products. It plans to occupy more shelf space in the same shop by offering a wide sanitaryware range (Jeet and Senator brands) and different products (faucets, tiles, kitchen and wellness products). The company is implementing this strategy under its flagship Cera brand.

Exhibit 18: Cera's retail distribution points

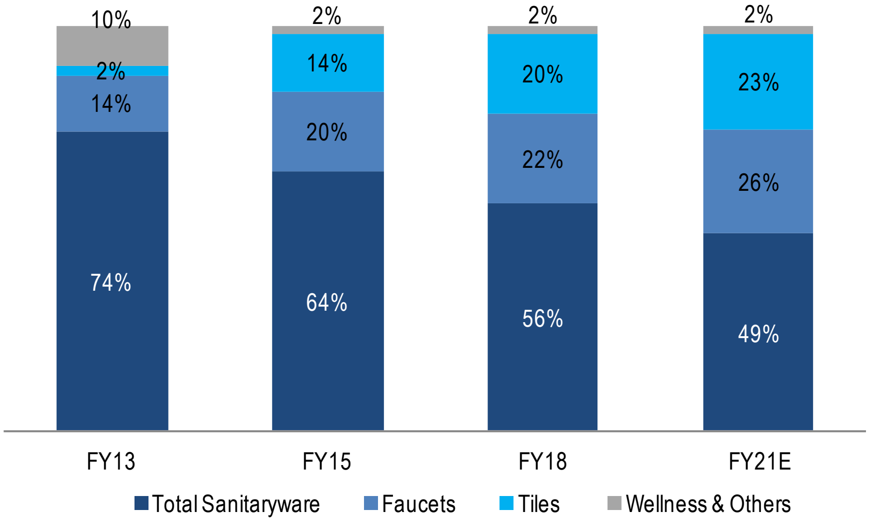


Source: Company, Nirmal Bang Institutional Equities Research

Creating multiple revenue streams

Cera started as a sanitaryware manufacturer, but now generates revenues from multiple products used in the washroom. After stabilising its share in sanitaryware, the company ventured into manufacturing faucets in FY11 and tiles via 51% JV in FY13. The company also markets (trading) sinks, customised shower partition/cubicle, bathtub/whirlpool and mirrors. The share of faucets and tiles has increased from 14%/2% in FY13 to 22%/20%, respectively, in FY18. As the faucet and tiles businesses continue to grow at a much higher rate, we expect revenue share of faucet and tiles to increase to 26% and 27%, respectively, by FY21E.

Exhibit 19: Cera's revenue break-up



Source: Company, Nirmal Bang Institutional Equities Research

Rising outsourcing – focus shifts to RoE expansion

Cera has been a pioneer in procuring finished goods via its outsourcing/JV partners. This strategy has helped the company to offer a bigger basket of products with minimal capital expenditure and a light balance sheet. It has also saved considerable time and R&D efforts for the company, which is best utilised for branding. As the focus shifts from manufacturing to marketing, return ratios gain importance over margins.

Outsourcing/JV strategy

Sanitaryware & Wellness: Under this segment, the management continues to outsource low and high-end products while it internally manufactures mid/premium category products. The idea behind the strategy is simple. Low-end products are sourced from local players and high-quality products are imported from China. This gives Cera a competitive advantage over peers who have lower levels of outsourcing.

Revenue share of outsourced products has increased from 30% in FY16 to 40% in FY18, but the volume share remained flat at 20%. This indicates higher imports from China to meet the fast-growing demand. Having acquired reasonable experience in marketing high-end products and being familiar to the relevant technologies, the company is now upgrading its facilities to manufacture a portion of high-end products internally. Reduced import dependence and exposure to currency fluctuations could add incremental value to the company as sales volume of high-end products continues to grow.

Faucets: Cera entered or diversified into faucet business in FY11 by establishing in-house manufacturing. Since then the company has expanded its business multifold. During FY18, the outsourced products contributed 50% - both in terms of revenues and volume share in the segment. The ratio has remained largely stable over the past few years. The company plans to increase capacity and focus on mid/premium quality products. The target customer for Cera's faucet offering is the first-time branded product user in Tier 2/3/4 towns.

Tiles: The company bought a 51% stake in Anjani Tiles, Andhra Pradesh, to enter the tiles business in FY13. The production started in FY17. Cera counts this JV as outsourced procurement because the JV partner is responsible for production with Cera only taking care of the marketing aspect. During the 4QFY18 analyst call, the management disclosed its vouching for two JV partners in Morbi to expand capacity. Given the distress among unorganised players, the bargains are plenty. We expect the management to exploit this opportunity and act as a consolidator.

Exhibit 20: Cera's revenue share

Revenue share	FY16		FY18	
	Internal	Outsourced/JV	Internal	Outsourced/JV
Sanitaryware	70%	30%	60%	40%
Faucets	50%	50%	50%	50%
Tiles	NA	100%	NA	100%

Source: Company, Nirmal Bang Institutional Equities Research

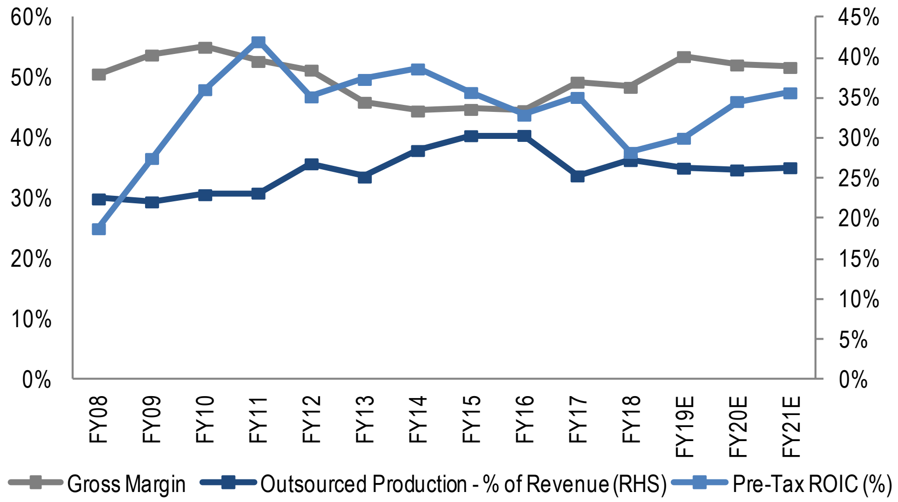
Exhibit 21: Cera's volume share

Volume share	FY16		FY18	
	Internal	Outsourced/JV	Internal	Outsourced/JV
Sanitaryware	80%	20%	80%	20%
Faucets	50%	50%	50%	50%
Tiles	NA	100%	NA	100%

Source: Company, Nirmal Bang Institutional Equities Research

Interestingly, Cera will gain bargaining power over its outsourcing partners as its volume requirement is much higher than the production volume of smaller outsourced partners. This is a fundamental change in the industry post GST and e-way bill regulations. Therefore, we expect to see Cera's gross margin increase even with a higher level of outsourcing. Having said that, as the share of outsourcing increases Cera should deliver a higher return on equity on a lighter balance sheet.

Exhibit 22: Expected increase in Cera's pre-tax RoIC



Source: Company, Nirmal Bang Institutional Equities Research

Backward integration – Controlling costs and quality

Cera's investment in its input supply chain has resulted in reduction in costs and maintaining industry-leading margins. **The company has increased its captive renewable power capacity from 5.0MW in FY13 to 13.8MW in FY18. This captive power meets Cera's 90% energy requirement which is offset against monthly energy consumption bill.**

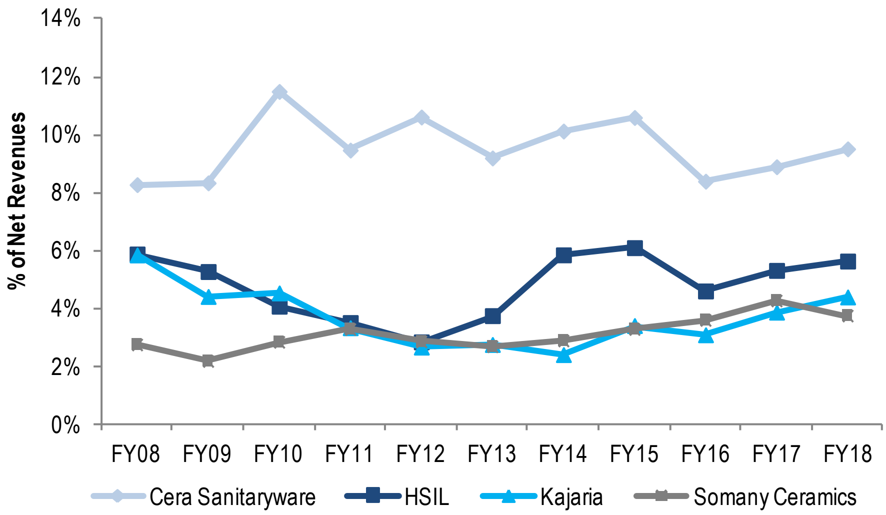
During FY18, the company commissioned a plant for manufacturing zamac handles which will reduce its dependence on imports. Zamac is a metal alloy made from zinc, aluminum, magnesium and copper. Zamac is a cheaper alternative to brass and is used to manufacture mid-quality faucets.

Cera has also invested in its packaging unit to manufacture corrugated boxes. It now plans to invest Rs220bn-Rs230bn in a JV to manufacture plastic seat covers and cisterns. The new R&D facility aims to develop input materials which produce less crack-prone ceramic body along with better glazes. These qualitative steps will not only strengthen Cera's input supply chain, but will also help it to control the quality of its products. In our view, the management's proactive approach towards product development and facility upgradation is a critical step to stay ahead of the curve and generate higher shareholder value.

Aggressive advertising spending: Branding the commodity

Cera has been a pioneer in introducing celebrity-based advertising campaign to establish its brand. This strategy largely works with low and mid-quality product customers in Tier 2/3 cities. As a result, despite being a late entrant in the industry, the company has established high brand recall for itself. Also, the company has established studios and galleries across its distribution network to showcase its products. It owns and manages nearly 15 style studios across major cities. Additionally, its dealers own and manage 200+ style galleries dedicated to showcase Cera's products. Over the last decade, Cera has spent an average of 9.5% of its net revenues on advertising, sales promotion, commissions & incentives. This is very aggressive considering HSIL's 4.8%, Kajaria Ceramics' 3.7% and Somany Ceramics' 3.1%.

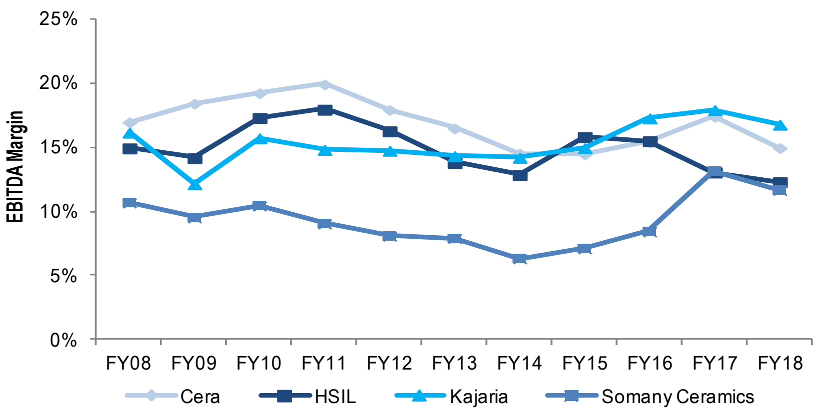
Exhibit 23: Industry's advertisement & promotion costs



Source: Company, Nirmal Bang Institutional Equities Research

Even with high advertising and sales promotion expenses, Cera has been able to maintain industry-leading EBITDA margin. In the same decade, Cera's EBITDA margin has averaged 16.9% as compared to HSIL's 14.9%, Kajaria Ceramics' 15.4% and Somany Ceramics' 9.3%. This is largely because of low cost of manufacturing and better cost management at administrative and general levels.

Exhibit 24: EBITDA margin of ceramic players

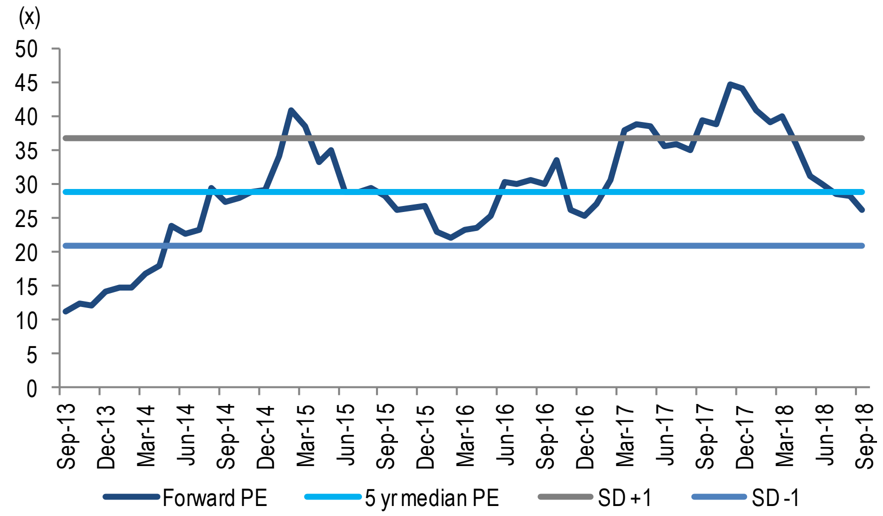


Source: Company, Nirmal Bang Institutional Equities Research

Valuation

Our target price for Cera stock is Rs3,483 which is based on 29x P/E multiple on September 2020 EPS estimate of Rs120. The exit P/E multiple of 29x is equal to Cera's five-year median forward P/E. Increasing margins, ROCE, revenue/EPS growth, diversifying revenues streams (de-risking business) and increasing business from the retail customers should keep the earnings multiple high for the stock, in our view.

Exhibit 25: Cera's forward P/E range



Source: Nirmal Bang Institutional Equities Research

Exhibit 26: Cera's valuation table

FY20E Sept. EPS		**120**
Target	at 29x P/E	3,483
Upside		30%

Source: Nirmal Bang Institutional Equities Research

Key risks

Undercutting by unorganised players

Cera's focus is on mid and premium quality products meant largely for first-time users in Tier2/3 cities. Therefore, it faces more competition from unorganised players rather than high-priced products. The unorganised players have resorted to undercutting to mitigate business loss from e-way bill implementation. This has resulted in slow transition of the industry from the unorganised to the organised segment.

Slowdown in real estate

Building material industry derives its demand from the real estate industry. Hence, any slowdown in the latter will also impact ceramic companies like Cera.

Gas cost may play spoil-sport

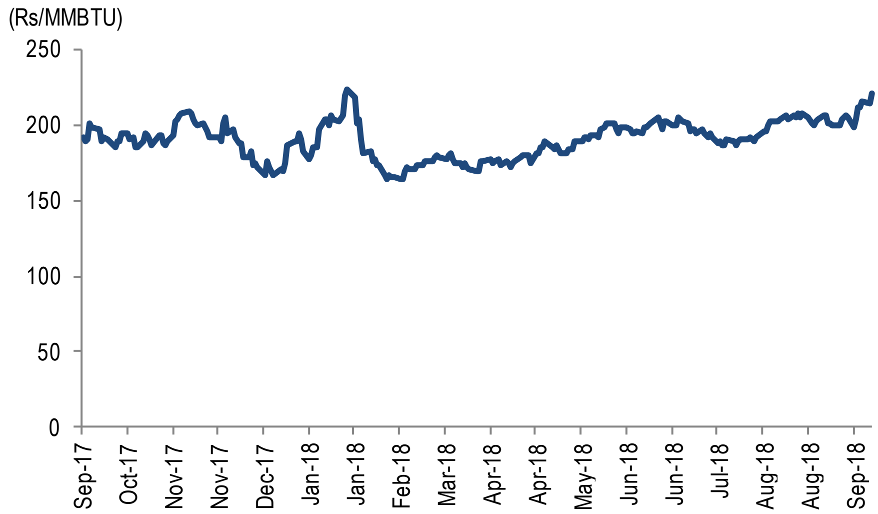
Cera is India's first company to use natural gas for manufacturing ceramic products. The gas in kilns is used to heat ceramic products to make them durable. Traditionally, the kilns were heated using coal which made ceramics dark because of carbon soot-loaded smoke inside the kiln. Gas, being a cleaner fuel as compared to coal, resulted in better product quality and cheaper cost of production at that time. Since then, gas has taken centre stage and is now being used by all leading manufacturers. During FY18, Cera procured 54% of its gas requirement from Sabarmati Gas at market price while the remaining 42% was supplied by GAIL at an administered or discounted price. This increased average gas input price for Cera by 23% from Rs15.0scm in FY17 to Rs18.5scm in FY18, even when natural gas price on MCX declined 15% to Rs176/mmBtu or Rs5.8scm in the same period.

Therefore, in FY18, 30% of Cera's manufacturing cost is attributed to gas as compared to 20% in FY17 and five-year average of 26%. The increase is attributable to higher share of gas sourcing at market rate and the rise in gas prices. The management has indicated that the trend is likely to continue as gas supply from GAIL is limited. To mitigate the recent rise in input costs, Cera has undertaken price hikes which should help it to maintain its EBITDA margin.

Exhibit 27: MCX natural gas spot price – Long-term trend

Source: MCX, Nirmal Bang Institutional Equities Research

Exhibit 28: MCX natural gas spot price - 1-year trend



Source: MCX, Nirmal Bang Institutional Equities Research

Business Description

Cera Sanitaryware (formerly Madhusudan Oils and Fats), is the third-largest sanitaryware company in India. It has a manufacturing plant located at Kadi, Gujarat, capable of manufacturing 3mn pieces of sanitaryware products per annum, making it the largest facility at a single location in India. It entered into manufacturing of faucets from FY11 with current manufacturing capacity at 7,200 pieces per day, scalable up to 10,000 pieces per day.

Cera has been trading in tiles through the vanilla outsourcing model since FY13. However, in 2016 it acquired a stake in Anjani Tiles in Andhra Pradesh which has capacity to manufacture 10,000sqm per day of vitrified tiles. The company also has a presence in wellness products (through vanilla outsourcing models) comprising bathtubs, jacuzzi, steam cubicles, shower partitions, shower panels and allied sanitaryware products like cisterns and seat covers. The company is now positioning itself as a complete bathroom solutions provider by leveraging its growth brand awareness and a widespread distribution network comprising 15,000 point of sales outlets.

- 2018: Launch of zamac plant to manufacture faucets.
- 2017: Cera launches a new sanitaryware brand ‘JEET’ for the affordable segment. Introduces clean rim EWCs.
- 2016: Acquires vitrified tiles unit, Anjani Tiles, through a 51% JV model.
- 2014: Expands faucet manufacturing production to 7,200 pieces per day.
- 2013: Capacity expansion in sanitaryware from 2mn to 2.7mn pieces.
- 2012: Unveils new logo and brand identity.
- 2011: Starts maiden faucet plant in Kadil having a capacity of 2,500 pieces per day.
- 2008-09: Increased sanitaryware capacity from 1.4mn to 2mn pieces per annum.
- 2002-03: Demerger of ceramic division from Madhusudan Industries. Incorporates Cera Sanitaryware.
- 1980: Sets up ceramic business in Madhusudan Industries. Edible oil business to be scaled down.

Management Team

Mr. Vikram Somany, chairman and promoter

Mr. Vikram Somany, 68, promoted Cera Sanitaryware in 1980 after a failed attempt to scale edible oil business under the Madhusudan brand. Following his family legacy, he ventured into ceramics business. His competitor HSIL (Hindware) is managed by his cousin and family. He continues to be involved in strategic planning process of the company.

Mrs. Deepshikha Khaitan, vice chairperson (non – executive)

Mrs. Deepshikha Khaitan,43, is the daughter of Mr. Vikram Somany. She joined Cera Sanitaryware after the demise of her brother Mr. Vidush Somany in 2012. She joined Cera Sanitaryware's board in 2014 and has expertise in legal and management areas. She is married to Mr. Abhishek Khaitan, the MD of liquor giant Radico Khaitan.

Mr. S.C. Kothari, chief executive officer

Mr. S.C. Kothari, 73, re-joined Cera Sanitaryware in September 2012, taking up operational responsibilities after the death of Mr. Vidush Somany in 2012. He has been associated with the company for nearly 30 years now.

Exhibit 29: Shareholding pattern

Shareholding Pattern	% of shared held
Promoter Group	54.8
HDFC Standard Life Insurance	5.3
Nalanda India Equity Fund	2.9
DSP Blackrock Small & Mid cap Fund	2.8
India 2020 Investors	2.3
Franklin India Smaller companies Fund	2.1
UTI Lifestyle Fund	1.9
AB Sun Life Pure Value & Resurgent Fund	1.1
Vijay Kedia	1.1

Source: Nirmal Bang Institutional Equities Research

Financials

Exhibit 30: Income statement

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Net Revenue	10,085	11,853	13,679	15,601	18,127
YoY (%)	*10.0*	*17.5*	*15.4*	*14.0*	*16.2*
Purchase of finished goods	(3,404)	(4,303)	(4,793)	(5,419)	(6,364)
% of sales	*33.7*	*36.3*	*35.0*	*34.7*	*35.1*
COGS	(1,709)	(1,808)	(1,562)	(2,045)	(2,383)
Gross Profit	4,973	5,743	7,325	8,137	9,380
Selling, General & Admin Expense	(1,478)	(1,990)	(2,859)	(3,024)	(3,390)
Other Operating & Employee exp.	(1,739)	(1,979)	(2,443)	(2,637)	(3,045)
EBITDA	1,756	1,774	2,023	2,477	2,945
Depreciation	(222)	(271)	(245)	(203)	(286)
EBIT	1,534	1,502	1,778	2,274	2,659
YoY (%)	*22.8*	*(2.1)*	*18.4*	*27.9*	*16.9*
Interest Expense	(98)	(98)	(85)	(101)	(101)
Interest income	38	19	24	27	34
Other Income	126	0	0	0	0
PBT (adjusted)	1,483	1,431	1,717	2,200	2,592
- Income Tax Expense	(580)	(488)	(594)	(761)	(894)
Effective tax rate (%)	*36.7*	*31.5*	*34.6*	*34.6*	*34.5*
- Minority Interests	19	(29)	-	-	-
PAT (adjusted)	921	915	1,123	1,439	1,698
Diluted EPS (adjusted)	*70.56*	*70.03*	*85.99*	*110.21*	*130.00*

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 31: Cash flow

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
PBT	1,582	1,549	1,717	2,200	2,592
Depreciation & Amortization	222	271	245	203	286
Other Non-Cash Adjustments	(551)	(558)	(594)	(761)	(894)
Changes in working Capital	(236)	(508)	(82)	(371)	(480)
Cash From Operating Activities	**1,016**	**754**	**1,286**	**1,271**	**1,503**
Disposal of Fixed Assets	7	38	0	0	0
Capital Expenditures	**(726)**	**(581)**	**(670)**	**(671)**	**(725)**
Increase in Investments & Subsidiaries	(774)	(1,457)	0	0	0
Decrease in Investments	426	1,563	0	0	0
Other Investing Activities	46	27	0	0	0
Cash From Investing Activities	**(1,023)**	**(410)**	**(670)**	**(671)**	**(725)**
Dividends Paid	(142)	(188)	(143)	(151)	(157)
Change in Short-Term Borrowings	171	(83)	0	0	0
Increase in Long-Term Borrowing	0	0	0	0	0
Decrease in Long-term Borrowing	0	0	0	0	0
Increase in Capital Stocks	77	25	0	0	0
Decrease in Capital Stocks	0	0	0	0	0
Other Financing Activities	(98)	(92)	0	0	0
Cash from Financing Activities	**8**	**(339)**	**(143)**	**(151)**	**(157)**
Net Changes in Cash	**2**	**5**	**473**	**449**	**621**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 32: Balance sheet

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Equity	65	65	65	65	65
Reserves	5,156	5,991	6,972	8,260	9,800
Net worth	**5,222**	**6,056**	**7,037**	**8,325**	**9,865**
Accounts payables	847	944	888	1,104	1,294
Other ST liabilities	1,811	1,847	1,847	1,847	1,847
Short-term loans	457	459	459	459	459
Total current liabilities	**3,115**	**3,250**	**3,194**	**3,411**	**3,601**
Long-term loans	478	459	459	459	459
Other LT liabilities	592	628	628	628	628
Minority interest	39	67	67	67	67
Total Equity & Liabilities	**9,446**	**10,461**	**11,385**	**12,890**	**14,620**
Gross block	4,507	4,910	5,580	6,251	6,976
Depreciation	(1,058)	(1,312)	(1,557)	(1,759)	(2,045)
Net block	3,449	3,598	4,023	4,492	4,931
Other LT assets + WIP	394	474	474	474	474
Long-term investments	1	0	0	0	0
Inventories	1,495	1,935	1,793	2,065	2,372
Debtors	2,208	2,680	2,848	3,163	3,526
Cash & ST Investments	1,297	1,322	1,795	2,244	2,865
Other current assets	603	452	452	452	452
Total current assets	5,602	6,389	6,888	7,924	9,215
Net current assets	2,486	3,139	3,694	4,514	5,615
Total assets	**9,446**	**10,461**	**11,385**	**12,890**	**14,620**

Source: Company, Nirmal Bang Institutional Equities Research

Exhibit 33: Key ratios

Y/E March (Rsmn): Consolidated	FY17	FY18	FY19E	FY20E	FY21E
Profitability & return ratios					
EBITDA margin (%)	17.4	15.0	14.8	15.9	16.2
EBIT margin (%)	15.2	12.7	13.0	14.6	14.7
Adj Net profit margin (%)	9.1	7.7	8.2	9.2	9.4
RoE (%)	21.6	18.3	17.2	18.7	18.7
RoCE (%)	27.6	22.7	23.8	26.4	26.6
Pre-tax RoIC (%)	35.1	28.2	30.0	34.6	35.7
Working capital ratios					
Receivables (days)	74	75	76	74	71
Inventory (days)	102	102	103	101	99
Payables (days)	54	53	51	54	54
Cash conversion cycle	122	124	128	121	116
Leverage and FCF ratios					
Net cash (debt) (Rsmn)	276	361	877	1,326	1,947
Net Debt (cash)/Equity (%)	5	6	12	16	20
Total debt/Equity (%)	0.20	0.16	0.13	0.11	0.09
FCF Yield (%)	0.8	0.5	1.8	1.7	2.2
FCF/Sales (%)	2.9	1.8	4.5	3.8	4.3
Valuation ratios					
EV/sales (x)	3.9	3.8	2.5	2.2	1.9
EV/EBITDA (x)	22.3	25.2	17.1	14.0	11.8
P/E (x)	42.7	49.2	31.1	24.3	20.6
P/BV (x)	7.5	7.4	5.0	4.2	3.5

Source: Company, Nirmal Bang Institutional Equities Research

DISCLOSURES

This Report is published by Nirmal Bang Equities Private Limited (hereinafter referred to as “NBEPL”) for private circulation. NBEPL is a registered Research Analyst under SEBI (Research Analyst) Regulations, 2014 having Registration no. INH000001436. NBEPL is also a registered Stock Broker with National Stock Exchange of India Limited and BSE Limited in cash and derivatives segments.

NBEPL has other business divisions with independent research teams separated by Chinese walls, and therefore may, at times, have different or contrary views on stocks and markets.

NBEPL or its associates have not been debarred / suspended by SEBI or any other regulatory authority for accessing / dealing in securities Market. NBEPL, its associates or analyst or his relatives do not hold any financial interest in the subject company. NBEPL or its associates or Analyst do not have any conflict or material conflict of interest at the time of publication of the research report with the subject company. NBEPL or its associates or Analyst or his relatives do not hold beneficial ownership of 1% or more in the subject company at the end of the month immediately preceding the date of publication of this research report.

NBEPL or its associates / analyst has not received any compensation / managed or co-managed public offering of securities of the company covered by Analyst during the past twelve months. NBEPL or its associates have not received any compensation or other benefits from the company covered by Analyst or third party in connection with the research report. Analyst has not served as an officer, director or employee of Subject Company and NBEPL / analyst has not been engaged in market making activity of the subject company.

Analyst Certification: I/We, Mohit Khanna, the research analysts are the authors of this report, hereby certify that the views expressed in this research report accurately reflects my/our personal views about the subject securities, issuers, products, sectors or industries. It is also certified that no part of the compensation of the analyst(s) was, is, or will be directly or indirectly related to the inclusion of specific recommendations or views in this research. The analyst(s) principally responsible for the preparation of this research report and has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations.

Disclaimer

Stock Ratings Absolute Returns

BUY > 15%

ACCUMULATE -5% to15%

SELL < -5%

This report is for the personal information of the authorized recipient and does not construe to be any investment, legal or taxation advice to you. NBEPL is not soliciting any action based upon it. Nothing in this research shall be construed as a solicitation to buy or sell any security or product, or to engage in or refrain from engaging in any such transaction. In preparing this research, we did not take into account the investment objectives, financial situation and particular needs of the reader.

This research has been prepared for the general use of the clients of NBEPL and must not be copied, either in whole or in part, or distributed or redistributed to any other person in any form. If you are not the intended recipient you must not use or disclose the information in this research in any way. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. NBEPL will not treat recipients as customers by virtue of their receiving this report. This report is not directed or intended for distribution to or use by any person or entity resident in a state, country or any jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject NBEPL & its group companies to registration or licensing requirements within such jurisdictions.

The report is based on the information obtained from sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. We accept no obligation to correct or update the information or opinions in it. NBEPL or any of its affiliates or employees shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. NBEPL or any of its affiliates or employees do not provide, at any time, any express or implied warranty of any kind, regarding any matter pertaining to this report, including without limitation the implied warranties of merchantability, fitness for a particular purpose, and non-infringement. The recipients of this report should rely on their own investigations.

This information is subject to change without any prior notice. NBEPL reserves its absolute discretion and right to make or refrain from making modifications and alterations to this statement from time to time. Nevertheless, NBEPL is committed to providing independent and transparent recommendations to its clients, and would be happy to provide information in response to specific client queries.

Before making an investment decision on the basis of this research, the reader needs to consider, with or without the assistance of an adviser, whether the advice is appropriate in light of their particular investment needs, objectives and financial circumstances. There are risks involved in securities trading. The price of securities can and does fluctuate, and an individual security may even become valueless. International investors are reminded of the additional risks inherent in international investments, such as currency fluctuations and international stock market or economic conditions, which may adversely affect the value of the investment. Opinions expressed are subject to change without any notice. Neither the company nor the director or the employees of NBEPL accept any liability whatsoever for any direct, indirect, consequential or other loss arising from any use of this research and/or further communication in relation to this research. Here it may be noted that neither NBEPL, nor its directors, employees, agents or representatives shall be liable for any damages whether direct or indirect, incidental, special or consequential including lost revenue or lost profit that may arise from or in connection with the use of the information contained in this report.

Our reports are also available on our website www.nirmalbang.com

Access all our reports on Bloomberg, Thomson Reuters and Factset.

Team Details:			
Name		**Email Id**	**Direct Line**
Rahul Arora	CEO	rahul.arora@nirmalbang.com	-
Girish Pai	Head of Research	girish.pai@nirmalbang.com	+91 22 6273 8017 / 18
Dealing			
Ravi Jagtiani	Dealing Desk	ravi.jagtiani@nirmalbang.com	+91 22 6273 8230, +91 22 6636 8833
Pradeep Kasat	Dealing Desk	pradeep.kasat@nirmalbang.com	+91 22 6273 8100/8101, +91 22 6636 8831
Michael Pillai	Dealing Desk	michael.pillai@nirmalbang.com	+91 22 6273 8102/8103, +91 22 6636 8830

Nirmal Bang Equities Pvt. Ltd.

Correspondence Address

B-2, 301/302, Marathon Innova,

Nr. Peninsula Corporate Park,

Lower Parel (W), Mumbai-400013.

Board No. : 91 22 6273 8000/1; Fax. : 022 6273 8010