FIRST LIGHT

18 June 2021

RESEARCH

Somany Ceramics | Target: Rs 640 | +20% | BUY

Strong operational performance, BUY remains

Ceat | Target: Rs 840 | –39% | SELL

Endeavouring to gain market share in non-core segments

SUMMARY

Somany Ceramics

- SOMC reported consolidated Q4FY21 revenue growth of 59% YoY with tile volumes up 52% off a low base due to the national lockdown last year
- Operating margin surged 12ppt YoY to 15.9% as employee/other expense reduced 595bps/780bps owing to operating leverage
- We raise FY22/FY23 PAT 10%/19% to bake in the beat on margins, and increase our Mar'22 TP to Rs 640 (earlier Rs 490) – retain BUY

Click here for the full report.

Ceat

- At its annual investor event, CEAT outlined plans for market share gains and capacity adds underpinned by an upbeat long-term demand outlook
- We believe CEAT's market share aspirations are stretched given intense competition from peers with comparable product & balance sheet strength
- We maintain SELL with a TP of Rs 840 due to competitive headwinds, rising RM cost and stress on FCF amid the planned expansion drive

Click here for the full report.

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.58	8bps	(5bps)	84bps
India 10Y yield (%)	6.05	0bps	6bps	21bps
USD/INR	73.33	0.0	0.0	3.7
Brent Crude (US$/bbl)	74.39	0.5	8.3	82.7
Dow	34,034	(0.8)	(1.0)	30.3
Shanghai	3,518	(1.1)	0.8	19.8
Sensex	52,502	(0.5)	7.7	56.7
India FII (US$ mn)	**15-Jun**	**MTD**	**CYTD**	**FYTD**
FII-D	23.3	(264.5)	(2,845.1)	(817.8)
FII-E	92.8	1,636.9	8,223.0	896.7

Source: Bank of Baroda Economics Research

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BUY
TP: Rs 640 | ⮝ 20%

SOMANY CERAMICS | Construction Materials | 17 June 2021

Strong operational performance, BUY remains

- **SOMC reported consolidated Q4FY21 revenue growth of 59% YoY with tile volumes up 52% off a low base due to the national lockdown last year**
- **Operating margin surged 12ppt YoY to 15.9% as employee/other expense reduced 595bps/780bps owing to operating leverage**
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Volume-led revenue growth: SOMC reported consolidated revenue growth of 59% YoY to Rs 5.6bn with tile volumes rising 52% YoY aided by a weak lockdown-hit base quarter. Bathware segment revenue grew 58% YoY. For FY21, consolidated topline inched up 2.5% as the tiles segment grew 2% but bathware dipped 3%. The company pared its consolidated net debt by Rs 2.7bn to Rs 1.7bn during the year.

Healthy FY22 outlook: Management stated that Q4 was strong but Q1FY22 has been lacklustre as the pandemic resurfaced – SOMC clocked 85% of targeted revenue in April, 30-32% in May and expects June to be at ~70%. Management believes demand will pick up after unlocking and has guided for tile volume growth in the mid-teens for FY22. Bathware growth guidance is at 35-40% due to corrective actions taken earlier. SOMC expects FY23 to be a better year with expansion at all three tile plants to become operational by end-Q4FY22 (at a cost of ~Rs 1.8bn).

Sharp margin expansion: Operating margin surged 12ppt YoY to 15.9% YoY despite gross margin contraction of 175bps, as employee/other expenses reduced 595bps/780bps on the back of better operating leverage. EBITDA jumped six-fold and pre-tax earnings turned profitable at Rs 674mn from a loss of Rs 108mn in Q4 last year. For FY21, the company reported a 340bps YoY increase in operating margin to 11.6%, translating to EBITDA/PBT growth of 45%/185% YoY. Management has guided for 12-13% margins in FY22 and improvement in FY23.

Investment write-off: During FY21, SOMC provided for diminution in the value of a Rs 184.5mn debt investment despite the timely receipt of all interest payments, as the investee has gone to NCLT. Management highlighted that it will continue to deploy cash surplus only to meet working capital needs or invest the same in debt mutual funds and bank fixed deposits.

Maintain BUY: We raise FY22/FY23 PAT estimates 10%/19% due to the Q4 margin beat and upgrade our target P/E to 22x (from 20x), in line with the five-year average, given sharp balance sheet improvement. This yields a new Mar'22 TP of Rs 640 (vs. Rs 490). We continue to like SOMC for its improving balance sheet. BUY.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SOMC IN/Rs 532
Market cap	US$ 304.3mn
Free float	45%
3M ADV	US$ 0.7mn
52wk high/low	Rs 565/Rs 111
Promoter/FPI/DII	55%/3%/43%

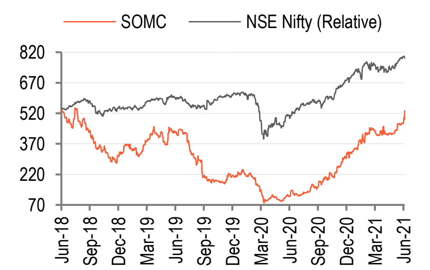
Source: NSE | Price as of 17 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	16,505	19,211	22,360
EBITDA (Rs mn)	1,908	2,250	2,742
Adj. net profit (Rs mn)	711	923	1,232
Adj. EPS (Rs)	16.8	21.8	29.1
Consensus EPS (Rs)	13.0	21.0	27.7
Adj. ROAE (%)	11.3	13.2	15.3
Adj. P/E (x)	31.7	24.4	18.3
EV/EBITDA (x)	14.2	11.4	9.1
Adj. EPS growth (%)	223.3	29.7	33.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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TRUST | INNOVATION | EXCELLENCE

SELL
TP: Rs 840 | ∀ 39%

CEAT | Auto Components | 17 June 2021

Endeavouring to gain market share in non-core segments

- **At its annual investor event, CEAT outlined plans for market share gains and capacity adds underpinned by an upbeat long-term demand outlook**
- **We believe CEAT's market share aspirations are stretched given intense competition from peers with comparable product & balance sheet strength**
- **We maintain SELL with a TP of Rs 840 due to competitive headwinds, rising RM cost and stress on FCF amid the planned expansion drive**

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Upbeat demand outlook: The last five years have been challenging for the auto industry, marked by flattish sales due to various macro shocks (GST, demonetisation, BSVI, Covid-19), but CEAT is optimistic that demand will rebound as the current situation normalises and expects upcoming capacity additions to be utilised effectively. In the shorter term, the company noted that the pandemic has weakened demand and that it does not anticipate the swift sales uptick seen post last year's unlocking due to the greater damage in rural areas this time around.

Commodity prices up 8-10% QoQ in Q1FY22: Lower sale volumes and higher input costs are likely to impact the Q1FY22 operating margin. Management expects raw material prices to stabilise at Q1 exit levels. CEAT has been taking prices hikes (3-4% in Apr-May) but it will need more in order to mitigate the rising costs.

High market share aspirations: CEAT remains a leader in the 2W segment with 28-30% market share and aims to reach 30-35% over the longer term. In PVs, it has clocked rapid share gains of 3-4% over the last year to 14% currently as Michelin lost ground amid import stoppage due to the pandemic. CEAT aims to expand PV share to 20% by leveraging brand equity, increasing OEM sales and rolling out new products.

In the truck & bus radial (TBR) and bias segments, the company commands 7% and 13% share respectively. Management aims to reach 13% market share in TBRs led by a planned capacity increase. It is also looking to cater to demand for TBRs in Europe, off-highway tyres in Europe and North America, and 2Ws in South Asia.

Leader in 2W EVs: CEAT supplies to all electric 2W OEMs and has ~50% market share. While these tyres are priced similar to conventional products, the requirements include lower noise levels and the ability to sustain greater wear and tear.

Our view: CEAT's market share gains appear ambitious amid stiff competition from peers, even as rising input cost pressure and the ability to generate FCF amid aggressive expansion would be key monitorables. We maintain SELL with a Mar'22 TP of Rs 840 set at 14x FY23E EPS – in line with its long-term average.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	CEAT IN/Rs 1,380
Market cap	US$ 753.6mn
Free float	53%
3M ADV	US$ 4.7mn
52wk high/low	Rs 1,763/Rs 835
Promoter/FPI/DII	47%/28%/9%

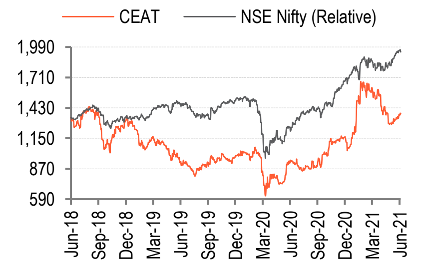
Source: NSE | Price as of 17 Jun 2021

Key financials

Y/E 31 Mar	FY21P	FY22E	FY23E
Total revenue (Rs mn)	75,728	90,149	101,298
EBITDA (Rs mn)	9,738	8,901	10,438
Adj. net profit (Rs mn)	4,477	2,327	2,422
Adj. EPS (Rs)	110.7	57.5	59.9
Consensus EPS (Rs)	110.7	82.3	113.3
Adj. ROAE (%)	14.5	7.0	6.8
Adj. P/E (x)	12.5	24.0	23.0
EV/EBITDA (x)	7.1	7.9	6.9
Adj. EPS growth (%)	49.0	(48.0)	4.1

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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