

BUY

TP: Rs 160 | ▲ 17%

SOMANY CERAMICS

Construction Materials

12 August 2020

Recovery expected in Q2; upgrade to BUY on cheap valuations

Somany Ceramics (SOMC) reported a dull Q1FY21 as consolidated revenue shrank 57% YoY to Rs 1.7bn, with tile volumes down 56% YoY. Negative operating leverage caused an EBITDA loss of Rs 116mn. Management did not put out FY21 guidance but expects Q2 to have ~85% of normal revenues. We raise FY21 EBITDA by 8% and hike our PAT forecast five-fold (on a low base); FY22E remains unchanged. On rollover, we arrive at a new Sep'21 TP of Rs 160 (vs. Rs 140). Valuations are reasonable at 11.9x FY22E EPS; raise from ADD to BUY.

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Volumes decline due to lockdown: SOMC's consolidated topline decreased 57% YoY, with tiles segment revenue dropping 57% (volumes/realisations down 56%/1% YoY) and sanitaryware & allied revenue down 49% due to the lockdown. Management stated that sales have improved MoM post easing of restrictions, particularly in tier-2 cities and below. Capacity utilisation has risen to 66% in July from 44% in June, and SOMC expects to retrace to pre-Covid levels by end-August/early-September. Management believes revenues would recover to ~85% of year-ago levels in Q2FY21.

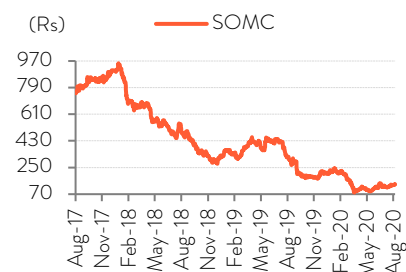
Operating and net losses: The company reported a consolidated operating loss of Rs 116mn due to negative operating leverage as sales declined, resulting in a pre-tax loss of Rs 358mn. Management expects margins to improve due to normalisation of sales, lower input cost, stable tile prices and benefit of cost control measures.

Upgrade to BUY on valuations: We raise our FY21 EBITDA estimate by 8% and PAT by 5x on a low base but keep FY22 projections unchanged. Upgrade to BUY from ADD given reasonable upside potential at current valuations of 11.9x FY22E P/E. Our new Sep'21 TP of Rs 160 is set at unchanged 12x one-year forward EPS.

Ticker/Price	SOMC IN/Rs 136
Market cap	US\$ 77.3mn
Shares o/s	42mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 324/Rs 77
Promoter/FPI/DII	51%/2%/47%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	17,110	16,101	13,859	16,485	18,396
EBITDA (Rs mn)	1,576	1,314	1,073	1,638	1,864
Adj. net profit (Rs mn)	490	234	71	485	632
Adj. EPS (Rs)	11.6	5.5	1.7	11.4	14.9
Adj. EPS growth (%)	(32.9)	(52.2)	(69.7)	583.1	30.3
Adj. ROAE (%)	8.2	3.8	1.2	7.6	9.2
Adj. P/E (x)	11.8	24.7	81.5	11.9	9.2
EV/EBITDA (x)	6.4	7.7	9.6	6.1	5.0

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY RESULTS

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Revenue	1,694	3,955	(57.2)	3,561	(52.4)
CQGS	1,274	2,525	(49.5)	2,219	(42.6)
% of sales	75.2	63.8	1,139bps	62	1,291bps
Employee expenses	373	585	(36.3)	619	(39.8)
% of sales	22.0	14.8	720bps	17	462bps
Other Expenses	163	542	(69.9)	585	(72.1)
% of sales	9.6	13.7	(406bps)	16	(678bps)
EBITDA	(116)	303	(138.3)	139	(183.8)
EBITDA Margin	(6.86)	7.67	(1,452bps)	3.89	(1,075bps)
Depreciation/Amortisation	145	121	19.9	161	(10.0)
EBIT	(261)	182	(243.3)	(23)	1,055.8
EBIT Margin	(15.4)	4.6	(2,003bps)	(0.6)	(1,478bps)
Net Interest Expenses	115	117	(1.4)	115	0.3
Other Income	19	48	(60.8)	30	(37.0)
PBT	(358)	114	(414.8)	(108)	232.7
Tax Expenses	(94)	42	(322.5)	(17)	439.7
Net Income before minority interest & extraordinary items	(264)	71	(469.3)	(90)	192.7
Minority Interest and Income from associates	44	3	1360.0	(3)	(1,468.8)
Reported Net Income	(220)	74	(395.6)	(93)	135.9

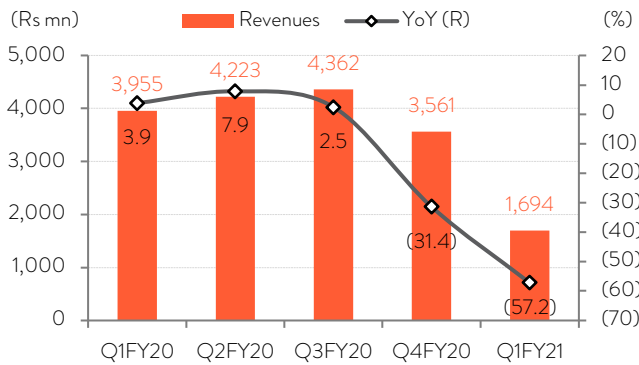
Source: Company, BOBCAPS Research

FIG 2 – STANDALONE QUARTERLY RESULTS

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Revenue	1,690	3,872	(56.3)	3,525	(52.0)
CQGS	1,359	2,781	(51.1)	2,604	(47.8)
% of sales	80	72	857bps	74	655bps
Employee expenses	293	433	(32.3)	442	(33.7)
% of sales	17.3	11.2	615bps	12.5	481bps
Other Expenses	138	426	(67.7)	472	(70.8)
% of sales	8.2	11.0	(286bps)	13.4	(524bps)
EBITDA	(100)	231	(143.3)	7	(1450.0)
EBITDA Margin	(5.91)	5.95	(1,186bps)	0.21	(612bps)
Depreciation/Amortisation	103	97	5.7	116	(11.3)
EBIT	(202)	134	(251.6)	(108)	87.1
EBIT Margin	(12.0)	3.4	(1,542bps)	(3.1)	(890bps)
Net Interest Expenses	54	57	(4.6)	47	15.6
Other Income	27	60	(54.5)	41	(33.3)
PBT	(230)	136	(268.5)	(115)	100.4
Tax Expenses	(58)	49	(219.5)	(25)	136.0
Net Income before extraordinary items	(171)	87	(295.9)	(90)	90.6
Reported Net Income	(171)	87	(295.9)	(90)	90.6

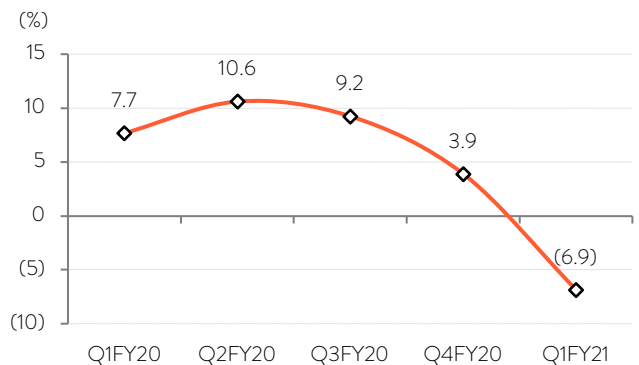
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GROWTH



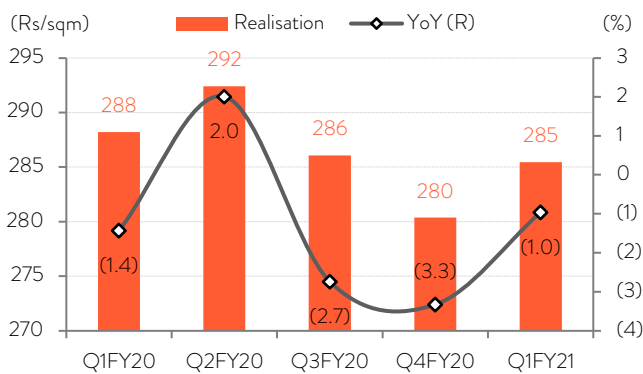
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED EBITDA MARGINS



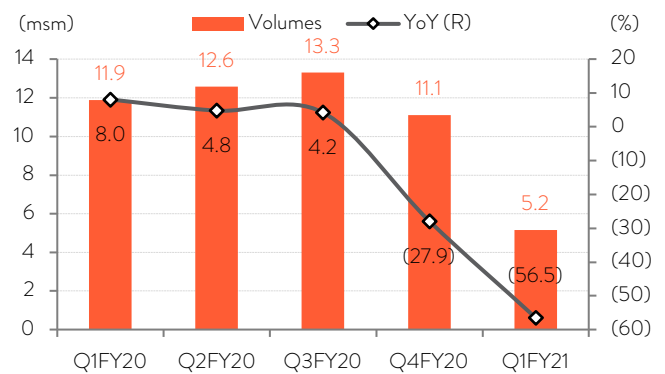
Source: Company, BOBCAPS Research

FIG 5 – TILE REALISATIONS



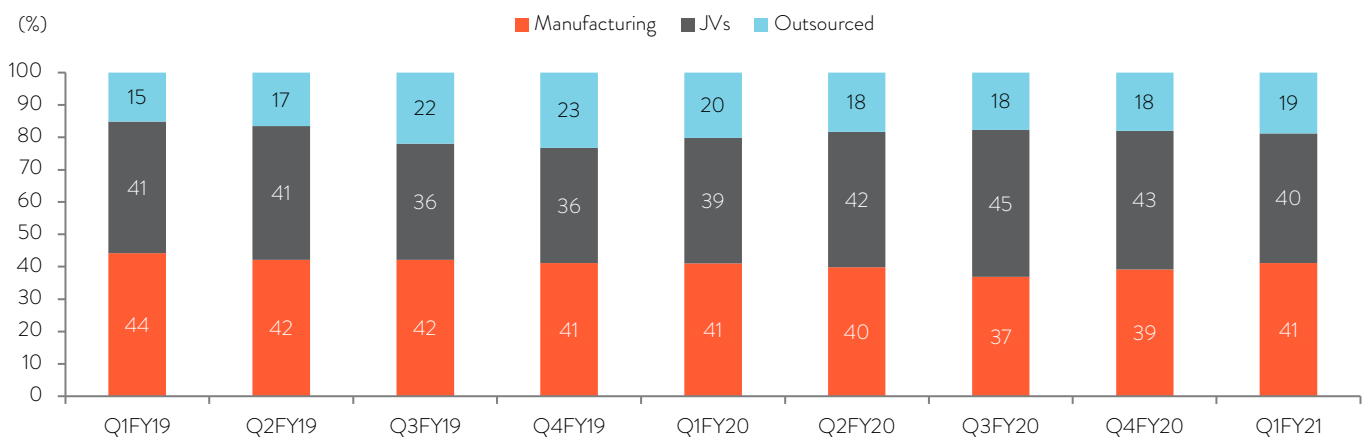
Source: Company, BOBCAPS Research

FIG 6 – TILE VOLUME GROWTH



Source: Company, BOBCAPS Research

FIG 7 – REVENUE BREAKUP



Source: Company, BOBCAPS Research

Earnings call highlights

- The Covid-19 lockdown hurt Q1FY21 sales, with April being a washout and May seeing negligible sales, followed by some pickup in June. The company also witnessed downtrading by dealers during the quarter.
- Sales have improved MoM in July and the trend is expected to continue.
- Tier-2 and below cities accounted for ~80% of revenues during the quarter.
- Plant utilisation rose from 44% in June to 66% in July and should reach pre-Covid levels by end-August/early-September as labour availability improves.
- While no guidance was proffered for FY21 due to Covid-19 volatility, management expects to do ~85% of year-ago revenues in Q2FY21.
- SOMC did not see pricing pressure in Q1 and does not foresee any such pressure going ahead.
- Gas prices have reduced during the quarter but SOMC does not intend to pass this benefit on to the market.
- A&P spend in FY21 is targeted to remain at ~3% of sales.
- Good cash collections in Q1 aided debt reduction of Rs 500mn-600mn QoQ.
- The company has seen increased interest from dealers who were earlier sourcing from unorganised players based in Morbi, Gujarat.
- Management estimates that of the 900 unorganised ceramic tile factories in Morbi, 60-70 plants will not resume operations due to liquidity issues post lockdown.
- SOMC will look for export opportunities in the near term due to challenges in the Indian market, but the long-term focus remains on domestic markets.
- The company is hopeful of receiving the remaining inter-corporate deposit of Rs 150mn over the next 12-15 months.
- No material capex is planned for FY21 and only maintenance capex will be incurred.

Valuation methodology

SOMC is the third largest organised player in the Indian tiles market with ~15% organised market share. We expect the company to be one of the prime beneficiaries of a shift in tiling demand from the unorganised segment (~50% of India's Rs 270bn tiles market) to the formal market given lower GST rates.

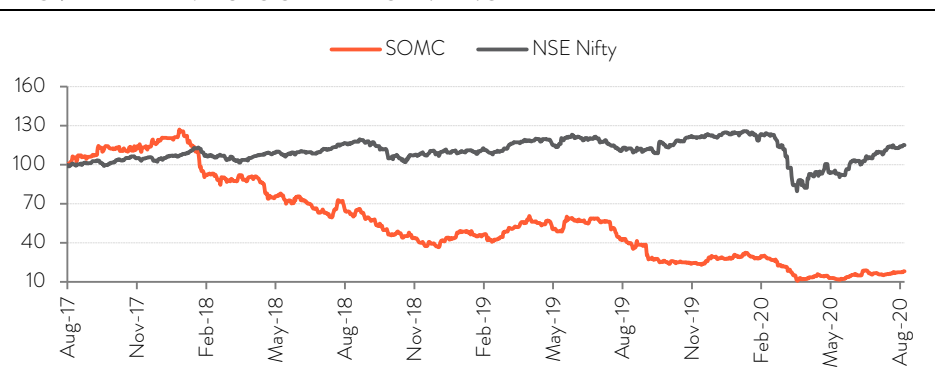
Factoring in the Q1FY21 performance, we raise our FY21 EBITDA estimate by 8% and hike our PAT forecast five-fold (on a low base). Our FY22 estimates remain unchanged. On rollover, we arrive at a new Sep'21 target price of Rs 160 (vs. Rs 140), valuing the stock at an unchanged one-year forward P/E multiple of 12x. Valuations look reasonable at 11.9x FY22E EPS – upgrade from ADD to BUY.

FIG 8 – REVISED ESTIMATES

(Rs mn)	New		Old		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenues	13,859	16,485	13,107	16,483	5.7	0.0
EBITDA	1,073	1,638	994	1,638	8.0	0.0
PAT	71	485	12	485	504.7	0.1

Source: Company, BOBCAPS Research

FIG 9 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

- **Higher raw material prices:** Any abnormal increase in prices of key raw materials, such as gas, coupled with an inability to pass these along could adversely affect SOMC's profitability.
- **Increased competition from informal sector:** E-way bill implementation, if executed poorly as is currently the case, may allow competition from the unorganised sector to increase, thereby affecting growth prospects.
- **Housing market slowdown:** A slowdown in the housing market will hinder demand for the company's products.
- **Continued Covid-19 effect:** If pandemic fears continue to prevail for a prolonged period of time, revenues will be adversely affected.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	17,110	16,101	13,859	16,485	18,396
EBITDA	1,576	1,314	1,073	1,638	1,864
Depreciation	(443)	(590)	(613)	(632)	(663)
EBIT	1,134	724	461	1,006	1,201
Net interest income/(expenses)	(459)	(494)	(441)	(404)	(368)
Other income/(expenses)	149	127	102	100	105
Exceptional items	0	0	0	0	0
EBT	824	358	122	702	939
Income taxes	(265)	99	(31)	(177)	(237)
Extraordinary items	(26)	(262)	0	0	0
Min. int./Inc. from associates	(69)	(45)	(20)	(40)	(70)
Reported net profit	463	150	71	485	632
Adjustments	26	84	0	0	0
Adjusted net profit	490	234	71	485	632

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	1,986	1,729	1,633	1,942	2,167
Other current liabilities	1,275	1,350	987	1,174	1,310
Provisions	59	96	69	82	92
Debt funds	5,731	4,981	4,300	3,950	3,550
Other liabilities	532	358	358	358	358
Equity capital	85	85	85	85	85
Reserves & surplus	6,045	5,980	6,060	6,511	7,117
Shareholders' fund	6,130	6,064	6,145	6,596	7,202
Total liabilities and equities	16,580	15,519	14,453	15,104	15,751
Cash and cash eq.	460	201	32	203	204
Accounts receivables	4,179	2,798	3,151	3,839	4,284
Inventories	2,545	3,282	2,658	2,574	2,873
Other current assets	1,366	1,058	835	994	1,109
Investments	683	341	400	400	400
Net fixed assets	7,048	7,727	7,264	6,982	6,769
CWIP	247	60	60	60	60
Intangible assets	52	52	52	52	52
Total assets	16,580	15,519	14,453	15,104	15,751

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	906	739	684	1,117	1,295
Interest expenses	459	494	441	404	368
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(174)	807	8	(253)	(488)
Other operating cash flows	(182)	(584)	20	40	70
Cash flow from operations	1,009	1,457	1,152	1,309	1,245
Capital expenditures	(1,028)	(664)	(150)	(350)	(450)
Change in investments	459	341	(59)	0	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(569)	(323)	(209)	(350)	(450)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	335	(751)	(681)	(350)	(400)
Interest expenses	(459)	(494)	(441)	(404)	(368)
Dividends paid	(138)	(204)	(11)	(74)	(96)
Other financing cash flows	96	56	20	40	70
Cash flow from financing	(167)	(1,393)	(1,112)	(788)	(793)
Changes in cash and cash eq.	274	(259)	(169)	171	2
Closing cash and cash eq.	460	201	32	203	204

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	10.9	3.5	1.7	11.4	14.9
Adjusted EPS	11.6	5.5	1.7	11.4	14.9
Dividend per share	2.0	2.0	0.2	1.5	1.9
Book value per share	144.6	143.1	145.0	155.6	169.9

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	0.6	0.6	0.7	0.6	0.5
EV/EBITDA	6.4	7.7	9.6	6.1	5.0
Adjusted P/E	11.8	24.7	81.5	11.9	9.2
P/BV	0.9	1.0	0.9	0.9	0.8

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	59.5	65.4	58.4	69.1	67.3
Interest burden (PBT/EBIT)	72.7	49.4	26.4	69.7	78.1
EBIT margin (EBIT/Revenue)	6.6	4.5	3.3	6.1	6.5
Asset turnover (Revenue/Avg TA)	103.8	100.3	92.5	111.5	119.2
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.5	2.3	2.2
Adjusted ROAE	8.2	3.8	1.2	7.6	9.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	(0.1)	(5.9)	(13.9)	18.9	11.6
EBITDA	(16.0)	(16.7)	(18.3)	52.7	13.8
Adjusted EPS	(32.9)	(52.2)	(69.7)	583.1	30.3
Profitability & Return ratios (%)					
EBITDA margin	9.2	8.2	7.7	9.9	10.1
EBIT margin	6.6	4.5	3.3	6.1	6.5
Adjusted profit margin	2.9	1.5	0.5	2.9	3.4
Adjusted ROAE	8.2	3.8	1.2	7.6	9.2
ROCE	6.2	5.9	2.9	6.6	7.7
Working capital days (days)					
Receivables	98	79	78	77	81
Inventory	86	105	125	92	86
Payables	51	46	48	44	45
Ratios (x)					
Gross asset turnover	2.3	1.9	1.5	1.7	1.8
Current ratio	1.2	1.2	1.3	1.4	1.5
Net interest coverage ratio	2.5	1.5	1.0	2.5	3.3
Adjusted debt/equity	0.9	0.8	0.7	0.6	0.5

Source: Company, BOBCAPS Research

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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

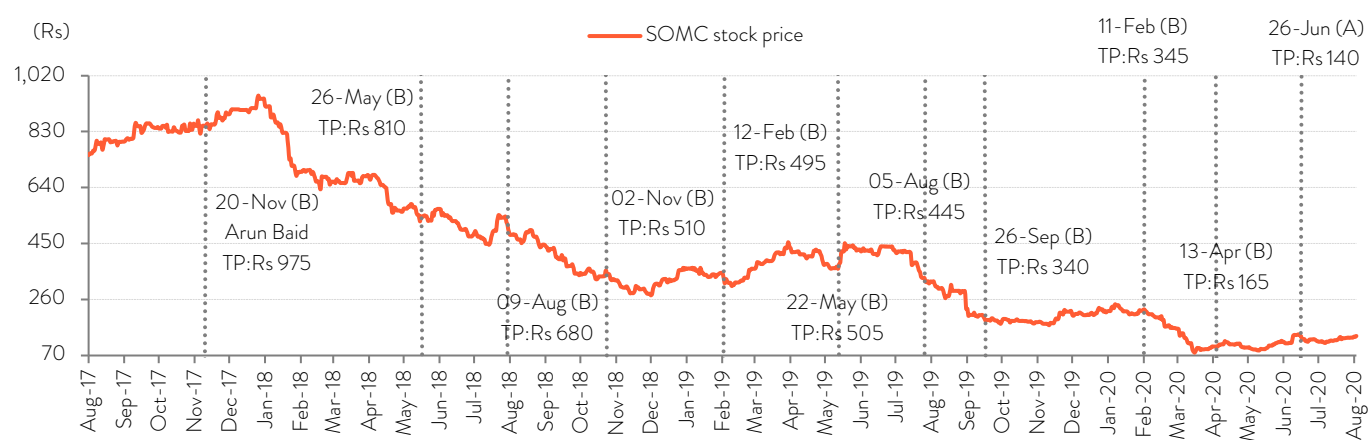
ADD – Expected return from >+5% to +15%

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)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): SOMANY CERAMICS (SOMC IN)



B – Buy, A – Add, R – Reduce, S – Sell

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