

**BUY**

TP: Rs 820 | ▲ 16%

**SOMANY CERAMICS**

| Construction Materials

| 06 August 2021

**In-line quarter; outlook stronger**

- Consolidated Q1 revenue grew 95% YoY with tile volumes up 94% due to a low base.
- Operating margin stood at 7% with EBITDA of Rs 231mn (vs. Rs 116mn loss YoY)
- We raise FY22/FY23 PAT 5%/16% to bake in strong margin guidance and roll to a Jun'22 TP of Rs 820 (vs. Rs 640) – retain BUY

**Arun Baid**

researchreport@bobcaps.in

**Strong growth aided by a soft base:** SOMC reported consolidated Q1FY22 revenue growth of 95% YoY to Rs 3.3bn with tile volumes rising 94% aided by a lockdown-hit base quarter. Bathware segment revenue grew 52% YoY due to the soft base. Management stated that the quarter began well but demand was severely affected in May due to renewed lockdowns, with an estimated loss of Rs 1.4bn-1.5bn in sales during the month.

**Healthy FY22 outlook:** Per management, demand trends have started to improve since mid-June and the company achieved 100% of its sales target in July. Management has guided for tile volume growth in the high-teens for FY22. Bathware growth guidance remains at 35-40%. SOMC expects FY23 to be a better year as expanded capacities at all three tile plants will become operational by end-Q4FY22 (at a total cost of ~Rs 1.8bn).

**Operating margin at 7%:** Consolidated Q1 operating margin stood at 7% with an operating profit of Rs 231mn (vs. a Rs 116mn loss YoY). Management has maintained guidance of 12-13% margins in FY22 despite a tepid first quarter based on the price increase of 1-1.5% taken in Q1 and a further hike of 3-3.5% in July that will offset the higher raw material prices. For FY23, SOMC believes margins can increase by a further 150-200bps due to the commissioning of new facilities that will have higher value-added sales.

**Maintain BUY:** We raise FY22/FY23 PAT estimates by 5%/16% due to the above-expected margin guidance and roll over to a revised Jun'22 TP of Rs 820 (earlier Rs 640), set at an unchanged 22x one-year forward P/E, in line with the stock's five-year average. We continue to like SOMC for its improving balance sheet, rising return ratios and strong growth prospects. BUY.

**Key changes**

Target	Rating
▲	◀ ▶

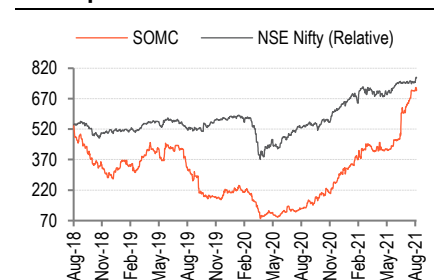
Ticker/Price	SOMC IN/Rs 709
Market cap	US\$ 405.4mn
Free float	45%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 745/Rs 129
Promoter/FPI/DII	55%/3%/42%

Source: NSE | Price as of 6 Aug 2021

**Key financials**

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	16,505	19,467	22,781
EBITDA (Rs mn)	1,908	2,315	3,031
Adj. net profit (Rs mn)	711	966	1,436
Adj. EPS (Rs)	16.8	22.8	33.9
Consensus EPS (Rs)	16.8	24.3	32.2
Adj. ROAE (%)	11.3	13.8	17.6
Adj. P/E (x)	42.3	31.1	20.9
EV/EBITDA (x)	18.1	14.3	10.8
Adj. EPS growth (%)	223.3	35.9	48.5

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**

Source: NSE



**Fig 1 – Consolidated quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Net Revenue</b>	<b>3,299</b>	<b>1,694</b>	<b>94.7</b>	<b>5,646</b>	<b>(41.6)</b>
CQGS	2,031	1,274	59.4	3,618	(43.9)
% of sales	61.6	75.2	(1,367bps)	64.1	(252bps)
Employee expenses	601	373	61.2	645	(6.9)
% of sales	18.2	22.0	(379bps)	11.4	678bps
Other Expenses	437	163	167.3	487	(10.3)
% of sales	13.2	9.6	359bps	8.6	461bps
<b>EBITDA</b>	<b>231</b>	<b>(116)</b>	<b>(298.8)</b>	<b>896</b>	<b>(74.2)</b>
EBITDA Margin (%)	7.0	(6.9)	1,386bps	15.87	(887bps)
Depreciation/Amortisation	151	145	3.9	164	(8.3)
<b>EBIT</b>	<b>80</b>	<b>(261)</b>	<b>(130.8)</b>	<b>732</b>	<b>(89.0)</b>
EBIT Margin (%)	2.4	(15.4)	1,785bps	13.0	(1,053bps)
Net Interest Expenses	81	115	(29.9)	93	(13.5)
Other Income	56	19	195.8	36	57.0
<b>PBT</b>	<b>56</b>	<b>(358)</b>	<b>(115.5)</b>	<b>674</b>	<b>(91.8)</b>
Tax Expenses	16	(94)	(117.4)	142	(88.5)
Net Income before minority interest & extraordinary items	39	(264)	(114.9)	532	(92.6)
Minority Interest and Income from associates	10	44	(77.4)	(43)	(123.1)
Exceptional items	(4)	0	NA	(179)	(97.5)
<b>Reported Net Income</b>	<b>45</b>	<b>(220)</b>	<b>(120.3)</b>	<b>310</b>	<b>(85.6)</b>

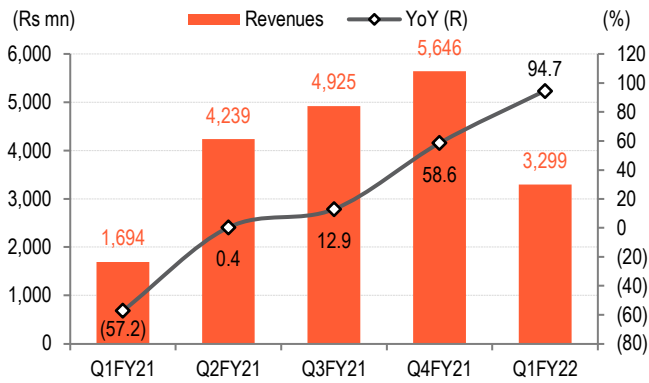
Source: Company, BOBCAPS Research

**Fig 2 – Standalone quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Net Revenue</b>	<b>3,255</b>	<b>1,690</b>	<b>92.6</b>	<b>5,552</b>	<b>(41.4)</b>
CQGS	2,343	1,359	72.3	4,067	(42.4)
% of sales	72.0	80.4	(845bps)	73.2	(129bps)
Employee expenses	441	293	50.3	457	(3.6)
% of sales	13.5	17.3	(380bps)	8.2	531bps
Other Expenses	328	138	137.7	356	(7.9)
% of sales	10.1	8.2	191bps	6.4	366bps
<b>EBITDA</b>	<b>144</b>	<b>(100)</b>	<b>(244.4)</b>	<b>672</b>	<b>(78.5)</b>
EBITDA Margin	4.43	(5.91)	1,034bps	12.11	(767bps)
Depreciation/Amortisation	108	103	5.8	122	(11.1)
<b>EBIT</b>	<b>36</b>	<b>(202)</b>	<b>(117.7)</b>	<b>550</b>	<b>(93.5)</b>
EBIT Margin	1.1	(12.0)	1,308bps	9.9	(881bps)
Net Interest Expenses	23	54	(58.3)	29	(21.5)
Other Income	65	27	138.4	43	50.6
<b>PBT</b>	<b>78</b>	<b>(230)</b>	<b>(133.9)</b>	<b>564</b>	<b>(86.2)</b>
Tax Expenses	20	(58)	(134.3)	113	(82.4)
Net Income before extraordinary items	58	(171)	(133.8)	451	(87.2)
Exceptional items	0	0	NA	(179)	(100.0)
<b>Reported Net Income</b>	<b>58</b>	<b>(171)</b>	<b>(133.8)</b>	<b>272</b>	<b>(78.7)</b>

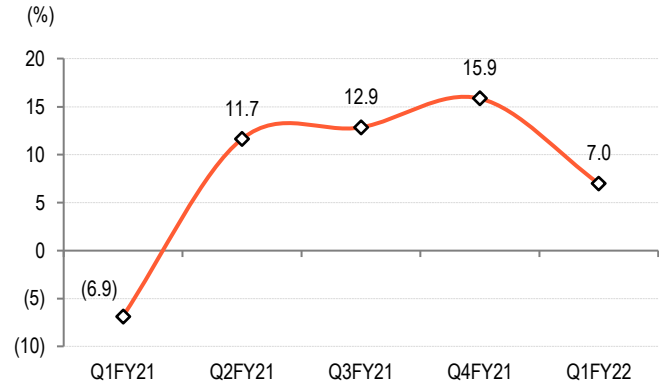
Source: Company, BOBCAPS Research

**Fig 3 – Consolidated revenue growth**



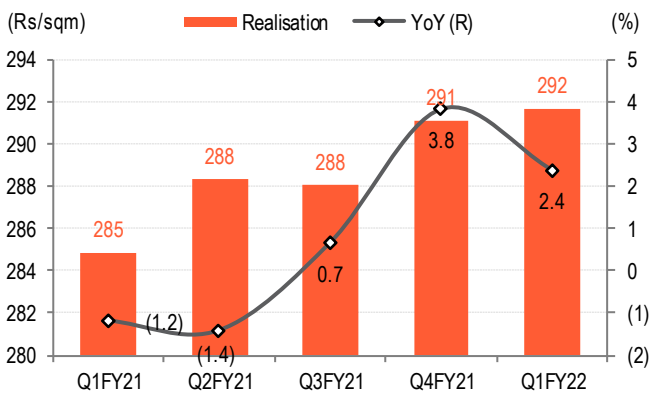
Source: Company, BOBCAPS Research

**Fig 4 – Consolidated EBITDA margin**



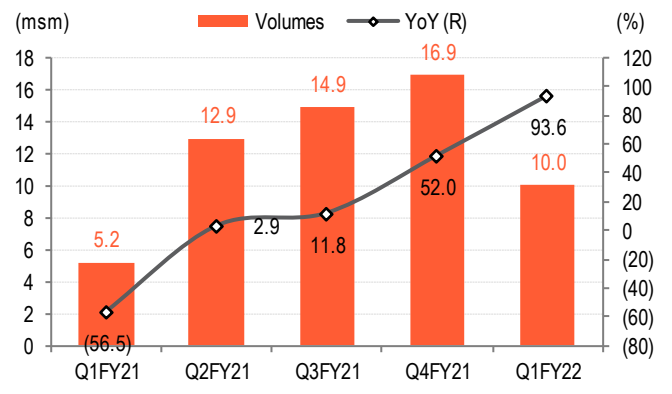
Source: Company, BOBCAPS Research

**Fig 5 – Tile realisations**



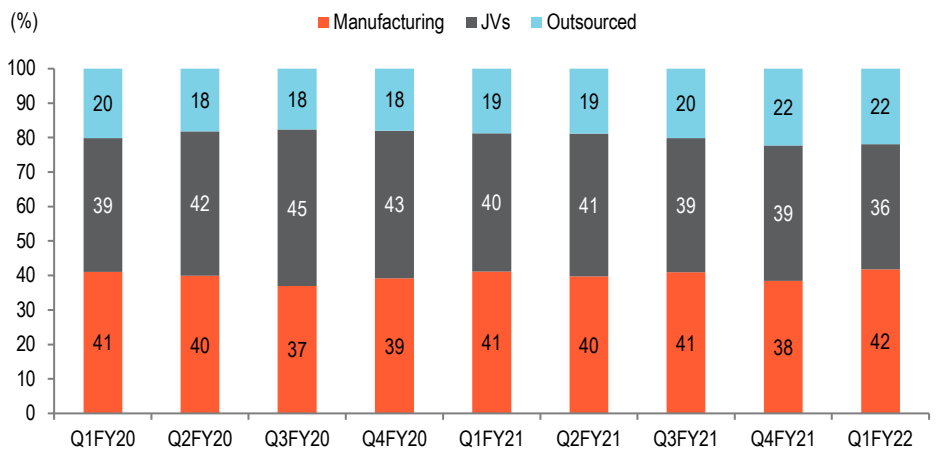
Source: Company, BOBCAPS Research

**Fig 6 – Tile volume growth**



Source: Company, BOBCAPS Research

**Fig 7 – Revenue breakup**



Source: Company, BOBCAPS Research

## Earnings call highlights

- Management stated that the demand climate was healthy till April but May was a washout due to resurgence of the pandemic. Demand has improved from mid-June and sales in July have been as per expectation.
- SOMC believes demand should improve in the coming months and has guided for high-teens volume growth in FY22. The bathware segment is guided to grow at 35-40%.
- Gas prices have increased further in Q2FY22 and the company has taken a price hike of 3-3.5% on the heels of a 1-1.5% hike taken in Q1.
- Management expects a 12-13% operating margin for FY22 with a further increase by ~200bps in FY23 as new facilities manufacturing higher value-added products get commissioned.
- Expansion at the three plants is on track for commissioning by end-Q4FY22. These facilities can generate cumulative turnover of Rs 2.5bn-3bn.
- Working capital remained under control in Q1 and was flat YoY.
- During Q1, SOMC drew ~39% of its sales from ceramic tiles (vs. 42% YoY), 35% (vs. 34%) from PVT and 26% (vs. 24%) from GVT.

## Valuation methodology

SOMC is the third largest organised player in the Indian tiles market. 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 300bn tiles market) to the formal market given lower GST rates.

We raise FY22/FY23 PAT estimates by 5%/16% due to the above-expected margin guidance and roll over to a revised Jun'22 TP of Rs 820 (earlier Rs 640), set at an unchanged 22x one-year forward P/E, in line with the stock's five-year average. We continue to like SOMC for its improving balance sheet, rising return ratios and strong growth prospects. Maintain BUY.

**Fig 8 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	19,467	22,781	19,211	22,360	1.3	1.9
EBITDA	2,315	3,031	2,250	2,742	2.9	10.5
PAT	966	1,436	923	1,232	4.7	16.0

Source: BOBCAPS Research

**Fig 9 – Key assumptions**

Particulars	FY21	FY22E	FY23E	FY24E
Tile Volume (msm)	49.8	57.3	66.1	75.5
Growth (%)	2.0	15	15	14
Realisation (Rs/sqm)	288.9	292.2	292.7	295.7
Growth (%)	0.7	1.2	0.2	1.0
Tile Revenues (Rs mn)	14397	16748	19352	22317
Growth (%)	2.7	16	16	15
Bathware (Rs mn)	1648	2224	2892	3470
Growth (%)	(3.3)	35.0	30.0	20.0

Source: Company, BOBCAPS Research

**Fig 10 – Peer comparison**

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	HOLD	995	19.5	24.2	29.8	20.1	23.4	32
Somany Ceramics	SOMC IN	BUY	820	17.5	22.8	33.9	13.8	17.6	22
Greenply Industries	MTLM IN	HOLD	210	18.0	8.9	10.5	22.4	21.5	20
Century Plyboard	CPBI IN	SELL	370	19.5	11.9	14.7	19.1	19.6	25
Greenpanel Industries	GREENP IN	BUY	315	25.1	12.2	16.4	14.3	18.6	18
Cera Sanitaryware	CRS IN	HOLD	4,375	16.1	115.4	138.1	16.2	17.1	30
Astral Ltd	ASTRA IN	SELL	1,210	16.3	20.2	25.2	20.3	22.6	48
Finolex Industries	FNXP IN	HOLD	185	4.2	7.3	7.5	13.9	13.2	24
Supreme Industries	SI IN	HOLD	1,990	11.2	56.2	63.4	22.6	21.5	30

Source: BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- **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, affecting growth prospects.
- **Housing market slowdown:** A slowdown in the housing market will hinder demand for the company's products.
- **Prolonged pandemic:** If the pandemic continues for a protracted period, it will adversely affect growth prospects

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>16,030</b>	<b>16,505</b>	<b>19,467</b>	<b>22,781</b>	<b>26,374</b>
EBITDA	1,299	1,908	2,315	3,031	3,781
Depreciation	(589)	(613)	(676)	(769)	(813)
EBIT	709	1,294	1,639	2,262	2,968
Net interest inc./(exp.)	(494)	(401)	(337)	(284)	(227)
Other inc./(exp.)	125	128	134	154	216
Exceptional items	0	0	0	0	0
EBT	339	1,021	1,436	2,132	2,957
Income taxes	112	(229)	(362)	(537)	(745)
Extraordinary items	(256)	(180)	0	0	0
Min. int./Inc. from assoc.	(45)	(36)	(107)	(160)	(221)
<b>Reported net profit</b>	<b>150</b>	<b>577</b>	<b>966</b>	<b>1,436</b>	<b>1,991</b>
Adjustments	70	134	0	0	0
<b>Adjusted net profit</b>	<b>220</b>	<b>711</b>	<b>966</b>	<b>1,436</b>	<b>1,991</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	1,729	1,882	2,133	2,497	2,890
Other current liabilities	1,347	1,602	1,653	1,872	2,168
Provisions	98	120	136	159	185
Debt funds	4,981	4,120	3,550	2,750	2,300
Other liabilities	413	372	372	372	372
Equity capital	85	85	85	85	85
Reserves & surplus	5,980	6,469	7,395	8,772	10,681
Shareholders' fund	6,064	6,553	7,480	8,857	10,766
<b>Total liab. and equities</b>	<b>15,573</b>	<b>15,646</b>	<b>16,429</b>	<b>17,771</b>	<b>20,165</b>
Cash and cash eq.	173	1,491	217	516	1,805
Accounts receivables	2,798	2,307	2,933	3,433	3,974
Inventories	3,282	2,446	3,360	3,932	4,552
Other current assets	1,085	799	1,120	1,311	1,517
Investments	341	898	0	0	0
Net fixed assets	7,737	7,546	8,640	8,421	8,158
CWIP	60	86	86	86	86
Intangible assets	42	22	22	22	22
Deferred tax assets, net	54	50	50	50	50
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>15,573</b>	<b>15,646</b>	<b>16,429</b>	<b>17,771</b>	<b>20,165</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>1,447</b>	<b>3,634</b>	<b>546</b>	<b>1,991</b>	<b>2,598</b>
Capital expenditures	(664)	(414)	(1,770)	(550)	(550)
Change in investments	341	(557)	898	0	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(323)</b>	<b>(970)</b>	<b>(872)</b>	<b>(550)</b>	<b>(550)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(750)	(861)	(570)	(800)	(450)
Interest expenses	(494)	(401)	(337)	(284)	(227)
Dividends paid	(204)	(102)	(147)	(218)	(303)
Other financing cash flows	38	17	107	160	221
<b>Cash flow from financing</b>	<b>(1,411)</b>	<b>(1,347)</b>	<b>(947)</b>	<b>(1,142)</b>	<b>(759)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(287)</b>	<b>1,317</b>	<b>(1,274)</b>	<b>299</b>	<b>1,289</b>
<b>Closing cash &amp; cash eq.</b>	<b>173</b>	<b>1,491</b>	<b>217</b>	<b>516</b>	<b>1,805</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	3.5	13.6	22.8	33.9	47.0
Adjusted EPS	5.2	16.8	22.8	33.9	47.0
Dividend per share	2.0	2.4	3.0	4.4	6.1
Book value per share	143.1	154.6	176.5	209.0	254.0

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	2.1	2.1	1.7	1.4	1.2
EV/EBITDA	26.5	18.1	14.3	10.8	8.7
Adjusted P/E	136.6	42.3	31.1	20.9	15.1
P/BV	5.0	4.6	4.0	3.4	2.8

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	64.8	69.7	67.3	67.3	67.3
Interest burden (PBT/EBIT)	47.9	78.9	87.6	94.3	99.6
EBIT margin (EBIT/Revenue)	4.4	7.8	8.4	9.9	11.3
Asset turnover (Rev./Avg TA)	99.6	105.7	121.4	133.2	139.0
Leverage (Avg TA/Avg Equity)	2.6	2.5	2.3	2.1	1.9
Adjusted ROAE	3.6	11.3	13.8	17.6	20.3

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(6.3)	3.0	17.9	17.0	15.8
EBITDA	(17.6)	46.9	21.4	30.9	24.8
Adjusted EPS	(55.1)	223.3	35.9	48.5	38.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.1	11.6	11.9	13.3	14.3
EBIT margin	4.4	7.8	8.4	9.9	11.3
Adjusted profit margin	1.4	4.3	5.0	6.3	7.5
Adjusted ROAE	3.6	11.3	13.8	17.6	20.3
ROCE	5.7	8.5	10.3	13.5	16.2
<b>Working capital days (days)</b>					
Receivables	79	56	49	51	51
Inventory	105	99	86	92	93
Payables	46	45	43	43	44
<b>Ratios (x)</b>					
Gross asset turnover	1.9	1.8	1.9	2.0	2.2
Current ratio	1.2	1.1	1.2	1.4	1.7
Net interest coverage ratio	1.4	3.2	4.9	8.0	13.1
Adjusted debt/equity	0.8	0.4	0.4	0.3	0.0

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

## Disclaimer

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

**BUY** – Expected return >+15%

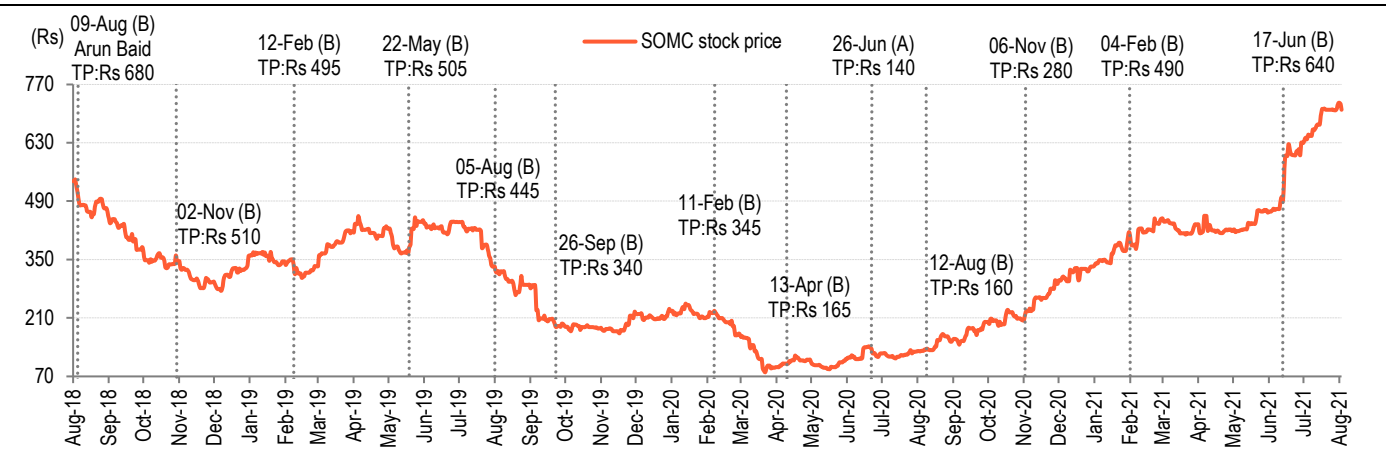
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

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.

### Ratings and Target Price (3-year history): SOMANY CERAMICS (SOMC IN)



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

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