

BUY

TP: Rs 490 | ▲ 22%

SOMANY CERAMICS

Construction Materials

04 February 2021

Strong operational performance, outlook improving

Somany Ceramics' (SOMC) consolidated revenue grew 13% YoY to Rs 4.9bn in Q3FY21 as tile volumes grew 12%. Operating margins expanded 365bps YoY to 12.9%, fuelling 57%/151% YoY growth in EBITDA/PBT. Management expects a better Q4 and high double-digit tile volume growth with at least 12% margins in FY22. We raise FY21-FY23 EBITDA estimates by 15-17% to bake in the faster-than-expected recovery and strong margin guidance. We also increase our target P/E to 20x (from 15x) and roll to a revised Mar'22 TP of Rs 490 (from Rs 280).

Arun Baid

research@bobcaps.in

Double-digit volume growth: SOMC reported Rs 4.9bn consolidated revenue in Q3, with tile volumes up 12% YoY. Bathware & allied revenue increased 6.5% YoY. Per management, demand continued to be driven by tier-2-and-below cities. The company expects a better Q4 as all plants are operating at 100% capacity and sanitaryware availability has normalised. Volume growth for FY22 is guided to be in the high double digits for tiles as Morbi players continue to focus on exports and 40-50% revenue growth in the bathware and allied segment (off a low base).

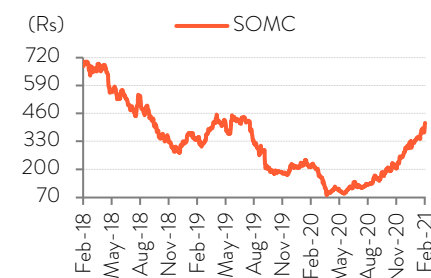
Robust margins: Gross margins increased 375bps YoY on account of a better product mix while higher employee cost (+115bps) was offset by lower other expenses (-103bps YoY). Consolidated EBITDA margin thus expanded 365bps YoY. EBITDA/PBT for the quarter grew 57%/151% YoY. Management believes it can deliver operating margins of at least ~12% in Q4 and FY22.

Maintain BUY: SOMC's result beat, swift recovery and strong margin guidance prompt us to hike FY21-FY23 PAT estimates by 24-47%. We raise our target one-year forward P/E to 20x (from 15x), in line with the 5Y average, given improving demand and a stronger balance sheet position. On rollover, we have a revised Mar'22 TP of Rs 490.

Ticker/Price	SOMC IN/Rs 403
Market cap	US\$ 233.9mn
Shares o/s	42mn
3M ADV	US\$ 0.7mn
52wk high/low	Rs 430/Rs 77
Promoter/FPI/DII	55%/2%/43%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	17,110	16,030	15,942	19,351	21,730
EBITDA (Rs mn)	1,576	1,299	1,579	2,092	2,371
Adj. net profit (Rs mn)	490	220	459	836	1,034
Adj. EPS (Rs)	11.6	5.2	10.8	19.7	24.4
Adj. EPS growth (%)	(32.9)	(55.1)	108.5	82.1	23.8
Adj. ROAE (%)	8.2	3.6	7.3	12.1	13.3
Adj. P/E (x)	34.9	77.6	37.2	20.4	16.5
EV/EBITDA (x)	13.6	16.5	13.7	9.9	8.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Revenue	4,925	4,362	12.9	4,239	16.2	10,858	12,540	(13.4)
CQGS	2,986	2,808	6.3	2,697	10.7	6,957	7,914	(12.1)
% of sales	60.6	64.4	(375bps)	64	(300bps)	64.1	63.1	96bps
Employee expenses	708	577	22.7	522	35.6	1,603	1,752	(8.5)
% of sales	14.4	13.2	115bps	12	206bps	14.8	14.0	80bps
Other Expenses	598	575	4.1	525	13.9	1,287	1,700	(24.3)
% of sales	12.1	13.2	(103bps)	12	(25bps)	11.9	13.6	(170bps)
EBITDA	633	403	57.3	494	28.0	1,011	1,175	(13.9)
EBITDA Margin	12.9	9.2	363bps	11.67	119bps	9.3	9.4	(6bps)
Depreciation/Amortisation	154	143	7.8	150	2.3	449	428	4.9
EBIT	479	260	84.4	344	39.3	562	747	(24.7)
EBIT Margin	9.7	6.0	377bps	8.1	161bps	5.2	6.0	(78bps)
Net Interest Expenses	94	124	(24.2)	98	(4.2)	308	379	(18.9)
Other Income	33	31	6.5	40	(18.6)	92	97	(5.3)
PBT	418	167	151.0	286	46.0	347	465	(25.4)
Tax Expenses	107	29	270.9	73	46.2	87	(94)	(191.9)
Net Income before minority interest & extraordinary items	311	138	125.8	213	46.0	260	559	(53.5)
Minority Interest and Income from associates	(29)	(21)	36.7	(8)	263.3	7	(42)	(117.2)
Exceptional items	0	(13)	NA	(0)	NA	(0)	(274)	NA
Reported Net Income	282	104	170.8	205	37.7	267	243	9.9
Adjusted PAT	282	115	146.4	205	37.6	267	631	(57.6)

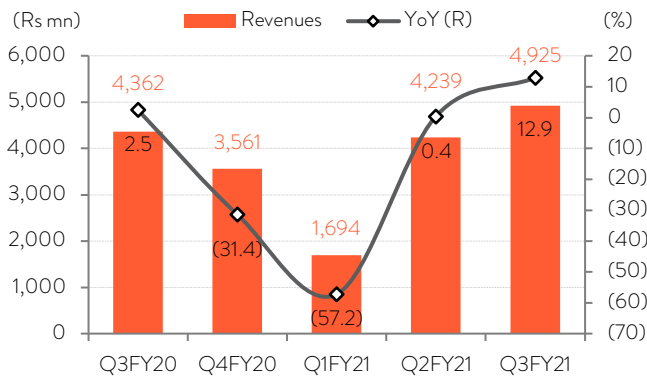
Source: Company, BOBCAPS Research

FIG 2 – STANDALONE QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Net Revenue	4,854	4,340	11.8	4,205	15.4	10,749	12,428	(13.5)
CQGS	3,408	3,233	5.4	3,067	11.1	7,835	9,047	(13.4)
% of sales	70	75	(429bps)	73	(272bps)	73	73	9bps
Employee expenses	529	414	27.9	359	47.5	1,181	1,270	(6.9)
% of sales	10.9	9.5	137bps	8.5	237bps	11.0	10.2	77bps
Other Expenses	476	464	2.6	407	17.0	1,021	1,374	(25.7)
% of sales	9.8	10.7	(88bps)	9.7	13bps	9.5	11.1	(155bps)
EBITDA	440	228	93.0	372	18.2	712	738	(3.5)
EBITDA Margin	9.06	5.25	381bps	8.85	22bps	6.62	5.94	69bps
Depreciation/Amortisation	111	103	8.0	108	3.0	321	309	3.9
EBIT	329	125	162.4	265	24.4	391	429	(8.8)
EBIT Margin	6.8	2.9	389bps	6.3	49bps	3.6	3.5	19bps
Net Interest Expenses	25	50	(49.6)	36	(28.5)	115	171	(32.8)
Other Income	40	42	(3.1)	42	(2.9)	109	130	(16.5)
PBT	344	117	195.0	271	27.2	385	388	(0.8)
Tax Expenses	87	17	401.1	69	26.2	98	(108)	(190.4)
Net Income before extraordinary items	257	99	158.9	201	27.5	287	496	(42.2)
Exceptional items	0	(12)	NA	0	NA	0	(274)	NA
Reported Net Income	257	87	195.2	201	27.5	287	222	29.0
Adjusted PAT	257	96	167.2	201	27.5	287	409	(29.9)

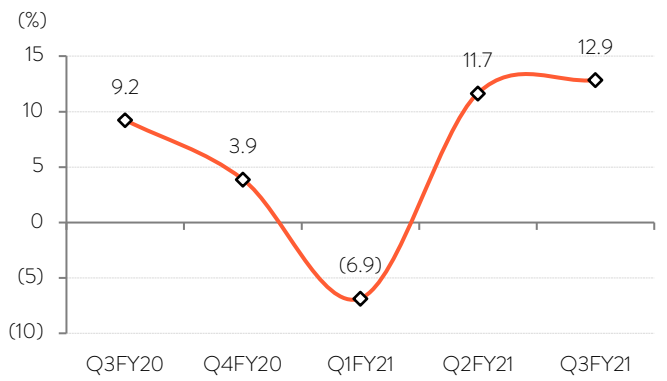
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GROWTH



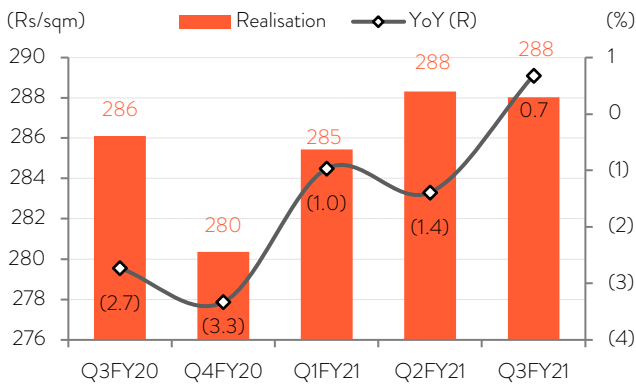
Source: Company, BOBCAPS Research

FIG 4 – CONSOLIDATED EBITDA MARGINS



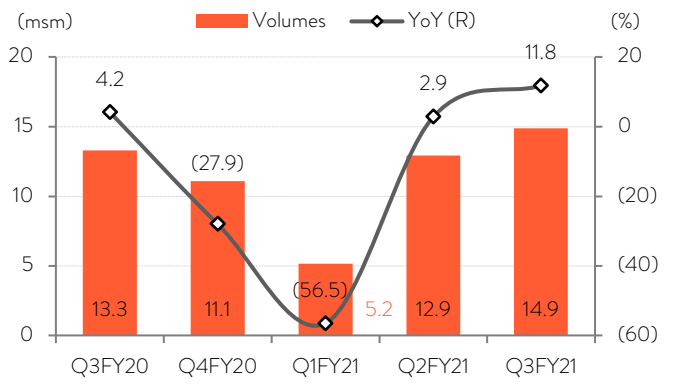
Source: Company, BOBCAPS Research

FIG 5 – TILE REALISATIONS



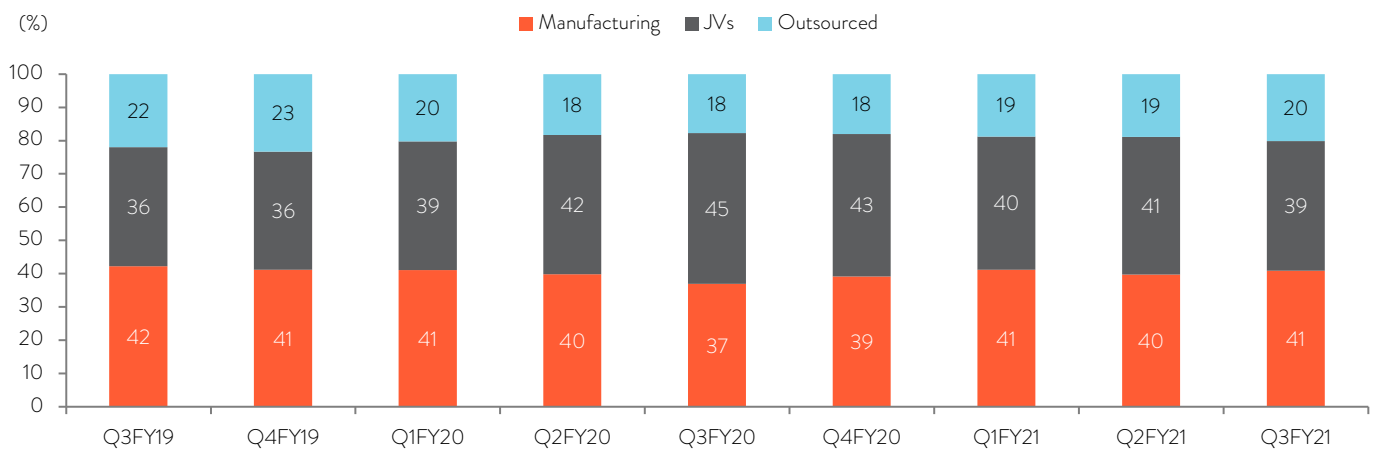
Source: Company, BOBCAPS Research

FIG 6 – TILE VOLUME GROWTH



Source: Company, BOBCAPS Research

FIG 7 – REVENUE BREAKUP



Source: Company, BOBCAPS Research

Earnings call highlights

- The demand climate has been strong and SOMC expects this momentum to continue in Q4FY21. Tier-2-and-below cities are seeing sustained demand traction and metro markets are improving gradually.
- Plant utilisation has now risen to 100% and thus management expects a strong Q4.
- Gas prices have increased in Q4 but the company is hopeful of maintaining current margins due to operating leverage and price increases (effective Feb'21). SOMC believes unorganised players in Morbi will also take price hikes soon due to the increased gas cost.
- Management expects gas prices to come down from Q1FY22 and could roll back the hikes once this happens.
- For FY22, growth is guided to be in the high double digits for the tiles segment and at 40-50% for bathware off a low base.
- Morbi exports remain robust which is aiding the sector. As per management, global players are looking to countries besides China as a secondary source of tiles supply and India is a beneficiary of this demand.
- Exports are not a focus area for SOMC and this segment would remain at 5-7% of its turnover.
- The company added 400 dealers in 9MFY21 and these have delivered revenue of ~Rs 750mn to date.
- SOMC is now net debt-free on a standalone basis and has consolidated net debt of Rs 3.9bn (including Rs 1.4bn of bills discounted).
- Working capital discipline remains in focus and as per policy, any surplus generated would be used to reduce debt or meet working capital needs.
- The company will soon disclose its capex plans for FY22.
- Management expects to have nil intercorporate deposits (ICD) by end-FY22.

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 270bn tiles market) to the formal market given lower GST rates.

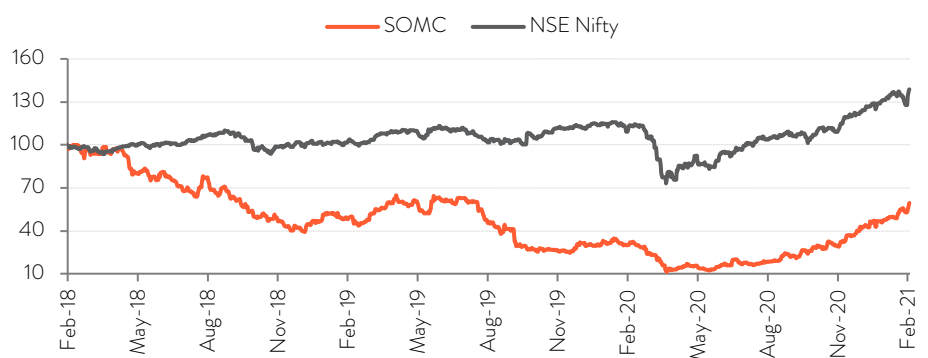
Factoring in the Q3FY21 performance and a stronger growth outlook on revenues and margins, we raise FY21-FY23 EBITDA estimates by 15-17% and hike PAT forecasts 24-47%. We reinstate our target one-year forward P/E to 20x (from 15x), in-line with the five-year average, given the robust demand outlook and significant balance sheet improvement. On rolling valuations forward, we move to a new Mar'22 target price of Rs 490 (vs. Rs 280). Maintain BUY.

FIG 8 – REVISED ESTIMATES

(Rs mn)	New			Old			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenues	15,942	19,351	21,730	15,093	17,862	20,025	5.6	8.3	8.5
EBITDA	1,579	2,092	2,371	1,354	1,797	2,063	16.6	16.5	14.9
PAT	459	836	1,034	311	636	836	47.4	31.4	23.8

Source: 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.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	17,110	16,030	15,942	19,351	21,730
EBITDA	1,576	1,299	1,579	2,092	2,371
Depreciation	(443)	(589)	(613)	(642)	(687)
EBIT	1,134	709	966	1,451	1,684
Net interest income/(expenses)	(459)	(494)	(398)	(315)	(258)
Other income/(expenses)	149	125	102	112	118
EBT	824	339	670	1,248	1,544
Income taxes	(265)	112	(172)	(319)	(395)
Extraordinary items	(26)	(256)	0	0	0
Min. int./Inc. from associates	(69)	(45)	(40)	(93)	(115)
Reported net profit	463	150	459	836	1,034
Adjustments	26	70	0	0	0
Adjusted net profit	490	220	459	836	1,034

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	1,986	1,729	1,878	2,280	2,560
Other current liabilities	1,275	1,347	1,179	1,431	1,607
Provisions	59	98	80	97	109
Debt funds	5,731	4,981	3,400	2,900	2,250
Other liabilities	532	358	358	358	358
Equity capital	85	85	85	85	85
Reserves & surplus	6,045	5,980	6,409	7,210	8,202
Shareholders' fund	6,130	6,064	6,493	7,295	8,287
Total liabilities and equities	16,580	15,519	14,370	15,435	16,360
Cash and cash eq.	460	173	391	331	486
Accounts receivables	4,179	2,798	2,621	3,181	3,572
Inventories	2,545	3,282	2,621	3,022	3,394
Other current assets	1,366	1,085	961	1,166	1,310
Investments	683	341	400	400	400
Net fixed assets	7,048	7,726	7,264	7,222	7,085
CWIP	247	60	60	60	60
Intangible assets	52	52	52	52	52
Total assets	16,580	15,519	14,370	15,435	16,360

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	906	739	1,071	1,477	1,721
Interest expenses	459	494	398	315	258
Changes in working capital	(174)	779	926	(496)	(438)
Other operating cash flows	(182)	(566)	40	93	115
Cash flow from operations	1,009	1,447	2,436	1,389	1,655
Capital expenditures	(1,028)	(664)	(150)	(600)	(550)
Change in investments	459	341	(59)	0	0
Cash flow from investing	(569)	(323)	(209)	(600)	(550)
Debt raised/repaid	335	(750)	(1,581)	(500)	(650)
Interest expenses	(459)	(494)	(398)	(315)	(258)
Dividends paid	(138)	(204)	(70)	(127)	(157)
Other financing cash flows	96	38	40	93	115
Cash flow from financing	(167)	(1,411)	(2,009)	(849)	(950)
Changes in cash and cash eq.	274	(287)	218	(60)	155
Closing cash and cash eq.	460	173	391	331	486

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	10.9	3.5	10.8	19.7	24.4
Adjusted EPS	11.6	5.2	10.8	19.7	24.4
Dividend per share	2.0	2.0	1.4	2.6	3.2
Book value per share	144.6	143.1	153.2	172.1	195.5

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	1.3	1.3	1.4	1.1	0.9
EV/EBITDA	13.6	16.5	13.7	9.9	8.2
Adjusted P/E	34.9	77.6	37.2	20.4	16.5
P/BV	2.8	2.8	2.6	2.3	2.1

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	59.5	64.8	68.4	67.0	67.0
Interest burden (PBT/EBIT)	72.7	47.9	69.4	86.0	91.7
EBIT margin (EBIT/Revenue)	6.6	4.4	6.1	7.5	7.7
Asset turnover (Revenue/Avg TA)	103.8	99.9	106.7	129.9	136.7
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.4	2.2	2.0
Adjusted ROAE	8.2	3.6	7.3	12.1	13.3

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	(0.1)	(6.3)	(0.5)	21.4	12.3
EBITDA	(16.0)	(17.6)	21.6	32.5	13.3
Adjusted EPS	(32.9)	(55.1)	108.5	82.1	23.8
Profitability & Return ratios (%)					
EBITDA margin	9.2	8.1	9.9	10.8	10.9
EBIT margin	6.6	4.4	6.1	7.5	7.7
Adjusted profit margin	2.9	1.4	2.9	4.3	4.8
Adjusted ROAE	8.2	3.6	7.3	12.1	13.3
ROCE	6.2	5.7	6.3	9.7	10.9
Working capital days (days)					
Receivables	98	79	62	55	57
Inventory	86	105	116	85	86
Payables	51	46	46	44	46
Ratios (x)					
Gross asset turnover	2.3	1.9	1.7	2.0	2.1
Current ratio	1.2	1.2	1.3	1.4	1.6
Net interest coverage ratio	2.5	1.4	2.4	4.6	6.5
Adjusted debt/equity	0.9	0.8	0.5	0.4	0.2

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

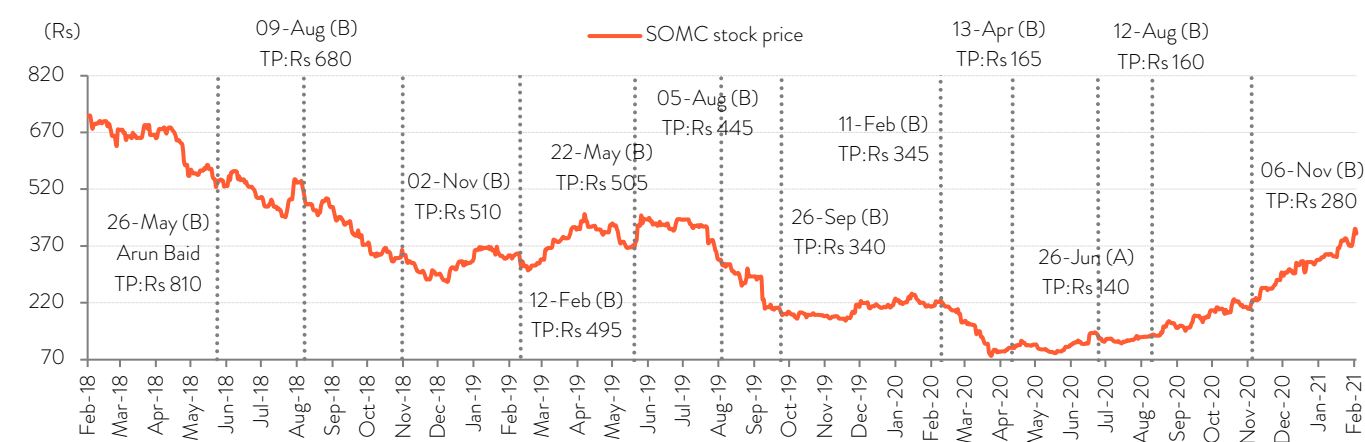
ADD – Expected return from >+5% to +15%

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

Rating distribution

As of 31 January 2021, out of 88 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 41 have BUY ratings, 13 have ADD ratings, 6 are rated REDUCE and 28 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance and wealth management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2025. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations

expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.