

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
- 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

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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%

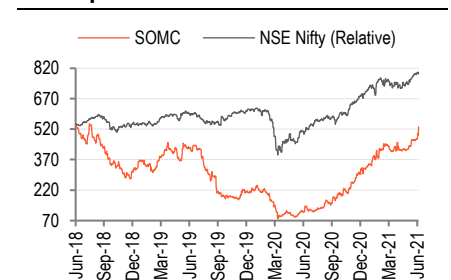
Source: NSE | Price as of 17 Jun 2021

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



Fig 1 – Consolidated quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	5,646	3,561	58.6	4,925	14.7	16,505	16,101	2.5
CQGS	3,618	2,219	63.1	2,986	21.2	10,575	10,132	4.4
% of sales	64.1	62.3	176bps	60.6	345bps	64.1	62.9	114bps
Employee expenses	645	619	4.3	708	(8.9)	2,248	2,391	(6.0)
% of sales	11.4	17.4	(595bps)	14.4	(295bps)	13.6	14.8	(123bps)
Other Expenses	487	585	(16.7)	598	(18.6)	1,774	2,264	(21.6)
% of sales	8.6	16.4	(780bps)	12.1	(352bps)	10.7	14.1	(331bps)
EBITDA	896	139	546.7	633	41.6	1,908	1,314	45.2
EBITDA Margin (%)	15.9	3.9	1,198bps	12.9	302bps	11.6	8.2	340bps
Depreciation/Amortisation	164	161	1.9	154	6.8	613	590	4.1
EBIT	732	(23)	(3,339.4)	479	52.7	1,294	724	78.7
EBIT Margin (%)	13.0	(0.6)	1,360bps	9.7	323bps	7.8	4.5	334bps
Net Interest Expenses	93	115	(18.7)	94	(0.7)	401	494	(18.8)
Other Income	36	30	18.7	33	8.2	128	127	0.3
PBT	674	(108)	(727.3)	418	61.3	1,021	358	185.5
Tax Expenses	142	(17)	(917.8)	107	32.7	229	(99)	(330.7)
Net Income before minority interest & extraordinary items	532	(90)	(690.5)	311	71.1	792	457	73.4
Minority Interest and Income from associates	(43)	(3)	1240.6	(29)	49.5	(36)	(45)	(20.7)
Exceptional items	(179)	0	(179,500.0)	0	NM	(180)	(262)	(31.4)
Reported Net Income	310	(93)	(432.3)	282	9.7	577	150	284.7

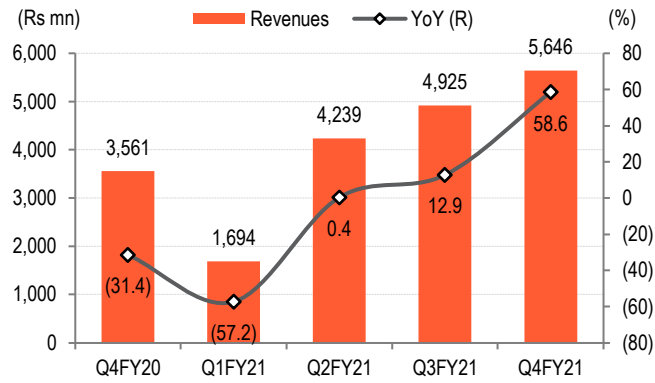
Source: Company, BOBCAPS Research

Fig 2 – Standalone quarterly performance

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
Net Revenue	5,552	3,525	57.5	4,854	14.4	16,302	15,953	2.2
CQGS	4,067	2,604	56.2	3,408	19.3	11,902	11,650	2.2
% of sales	73.2	73.9	(61bps)	70.2	303bps	73.0	73.0	(2bps)
Employee expenses	457	442	3.5	529	(13.6)	1,639	1,732	(5.4)
% of sales	8.2	12.5	(430bps)	10.9	(267bps)	10.1	10.9	(80bps)
Other Expenses	356	472	(24.6)	476	(25.3)	1,377	1,826	(24.6)
% of sales	6.4	13.4	(698bps)	9.8	(341bps)	8.4	11.4	(300bps)
EBITDA	672	7	8,983.8	440	52.8	1,384	745	85.8
EBITDA Margin (%)	12.1	0.2	1,190bps	9.1	304bps	8.5	4.7	382bps
Depreciation/Amortisation	122	116	5.4	111	10.1	443	424	4.3
EBIT	550	(108)	NA	329	67.2	942	321	193.7
EBIT Margin (%)	9.9	(3.1)	1,298bps	6.8	313bps	5.8	2.0	377bps
Net Interest Expenses	29	47	(38.6)	25	13.4	144	218	(34.0)
Other Income	43	41	5.7	40	6.5	152	171	(11.2)
PBT	564	(115)	NM	344	64.1	949	273	247.1
Tax Expenses	113	(25)	NM	87	30.0	211	(133)	(258.8)
Net Income before extraordinary items	451	(90)	NM	257	75.6	738	407	81.5
Exceptional items	(179)	0	NM	0	NM	(179)	(274)	(34.7)
Reported Net Income	272	(90)	(402.9)	257	5.9	559	133	321.6

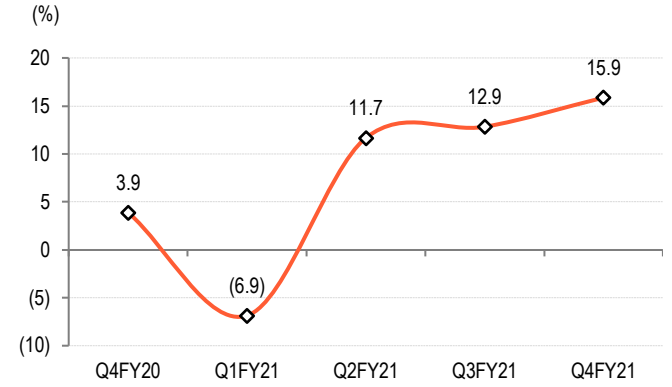
Source: Company, BOBCAPS Research

Fig 3 – Consolidated revenue growth



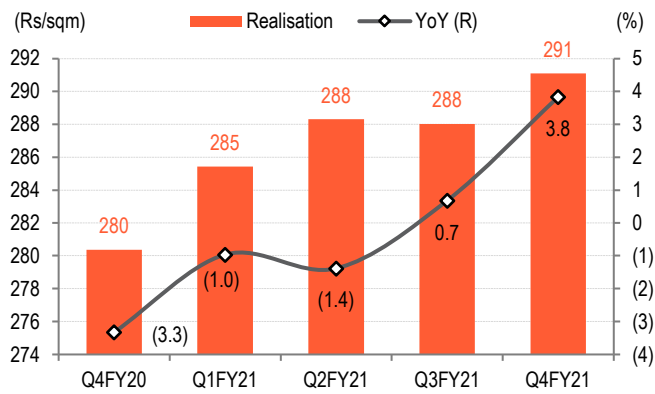
Source: Company, BOBCAPS Research

Fig 4 – Consolidated EBITDA margin



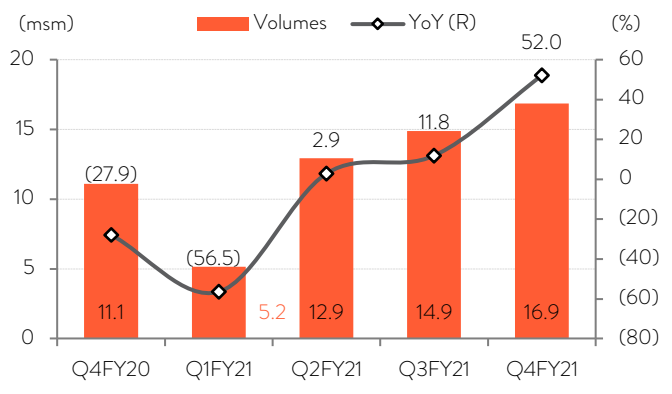
Source: Company, BOBCAPS Research

Fig 5 – Tile realisations



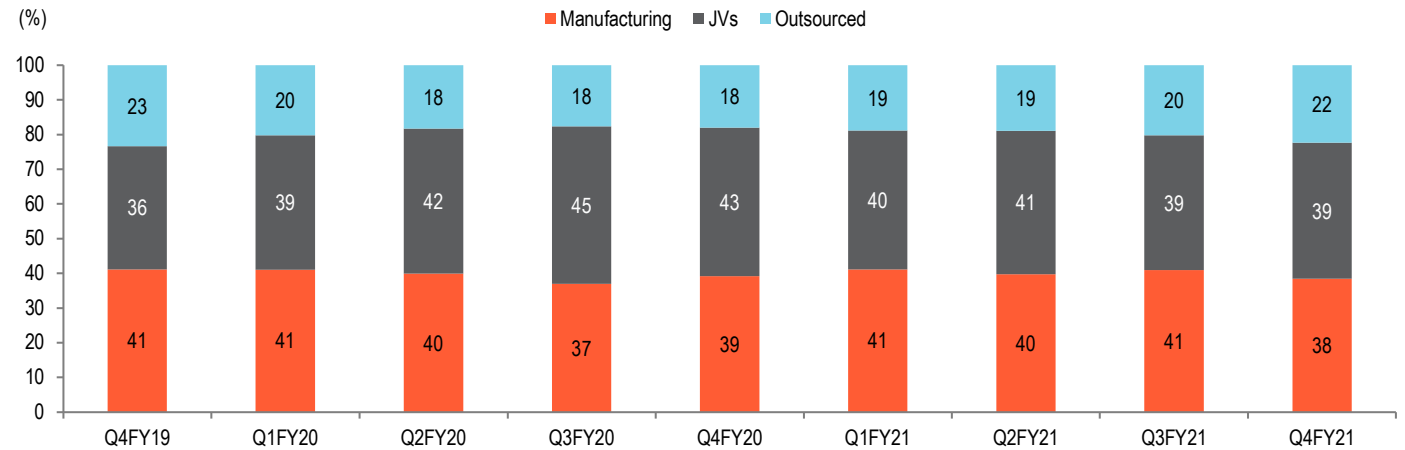
Source: Company, BOBCAPS Research

Fig 6 – Tile volume growth



Source: Company, BOBCAPS Research

Fig 7 – Revenue breakup



Source: Company, BOBCAPS Research

Earnings call highlights

- According to management, the demand climate was strong from October to mid-March but weakened thereafter as the pandemic resurfaced and lockdowns ensued. Plant utilisation was ~100% in Q4FY21.
- SOMC indicated that it has recorded 85% of targeted sales in April, 30-32% in May and expects June to be at ~75%. Management is hopeful of demand improvement as restrictions are lifted.
- For FY22, volume growth is guided to be in the mid-teens for the tiles segment despite sales lost in Q1. Bathware revenue is guided to grow 35-40% off a low base. SOMC expects a 12-13% consolidated EBITDA margin in FY22 despite the impact of the second Covid wave and believes margins can improve further in FY23 with the commissioning of new capacities.
- The company will increase its capacity from ~52msm to ~64msm by the end of Q4FY22 at a total capex of ~Rs 1.8bn. The expense will be funded by internal accruals and debt.
- Gas prices have increased further in Q1FY22 which SOMC believes can be covered by a 2-3% price hike. Per management, unorganised players in Morbi are also likely to take price hikes soon due to the rising gas cost.
- Working capital has been brought under control and management believes further improvement is possible, especially on the debtor days front. However, incremental reduction in inventory days will be difficult. As per policy, any surplus cash generated would be used to reduce debt or meet working capital needs.
- Management has conservatively provided for a debt instrument of Rs 184.5mn despite the timely receipt of all interest payments, as the investee company has gone to the NCLT.
- All inter-company deposit payments have been received by end-FY21, as guided.
- SOMC has recovered ~Rs 70mn from the employee fraud case and is working to recover the balance.
- In FY21, ~80% of revenues came from the retail segment and 12-13% from sales to the government.
- The company derives ~75% of revenues from tier-3-&-below cities. Exports are not a focus area and this segment would remain at 5% of turnover.
- During FY21, SOMC drew ~39% of its sales from ceramic tiles, 35% from PVT and 26% from GVT. Post expansion in FY23, the proportion of GVT is likely to increase while that of PVT should come down.
- The company added 400 dealers (net) in FY21.

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 10%/19% following the Q4FY21 margin beat and upgrade our target P/E to 22x (from 20x), in line with the stock's 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 and growth prospects. Maintain BUY.

Fig 8 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenues	19,211	22,360	19,351	21,730	(0.7)	2.9
EBIDTA	2,250	2,742	2,092	2,371	7.5	15.7
PAT	923	1,232	836	1,034	10.4	19.2

Source: BOBCAPS Research

Fig 9 – Key assumptions

Particulars	FY21A	FY22E	FY23E
Tile Volume (msm)	49.8	56.7	65.4
Growth (%)	2.0	14	15
Realisation (Rs/sqm)	288.9	292.2	292.7
Growth (%)	0.7	1.1	0.2
Tile Revenues (Rs mn)	14,397	16,574	19,146
Growth (%)	2.7	15	16
Bathware (Rs mn)	1648	2142	2678
Growth (%)	(3.3)	30.0	25.0

Source: BOBCAPS Research

Fig 10 – Peer comparison

Company	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
				FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	REDUCE	950	19	24.0	29.6	19.9	23.3	32
Somany Ceramics	BUY	640	16	21.8	29.1	13.2	15.3	22
Greenply Industries	ADD	230	19	9.2	11.3	23.0	22.9	20
Century Plyboard	SELL	370	19	11.9	14.7	19.1	19.6	25
Greenpanel Industries	BUY	295	24	12.1	16.3	18.4	20.4	18
Cera Sanitaryware	REDUCE	4145	16	115.4	138.1	16.2	17.1	30
Astral Ltd	SELL	1210	16	20.2	25.2	20.3	22.6	48
Finolex Industries	ADD	135	1	5.7	6.1	15.0	14.7	22
Supreme Industries	SELL	1805	8	52.8	60.1	20.2	20.8	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)	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue	17,110	16,030	16,505	19,211	22,360
EBITDA	1,576	1,299	1,908	2,250	2,742
Depreciation	(443)	(589)	(613)	(676)	(769)
EBIT	1,134	709	1,294	1,574	1,973
Net interest inc./(exp.)	(459)	(494)	(401)	(337)	(284)
Other inc./(exp.)	149	125	128	134	141
Exceptional items	0	0	0	0	0
EBT	824	339	1,021	1,371	1,831
Income taxes	(265)	112	(229)	(345)	(461)
Extraordinary items	(26)	(256)	(180)	0	0
Min. int./Inc. from assoc.	(69)	(45)	(36)	(103)	(137)
Reported net profit	463	150	577	923	1,232
Adjustments	26	70	134	0	0
Adjusted net profit	490	220	711	923	1,232

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	1,986	1,729	1,882	2,105	2,450
Other current liabilities	1,275	1,347	1,602	1,632	1,838
Provisions	59	98	120	134	157
Debt funds	5,731	4,981	4,120	3,550	2,750
Other liabilities	567	413	372	372	372
Equity capital	85	85	85	85	85
Reserves & surplus	6,045	5,980	6,469	7,354	8,535
Shareholders' fund	6,130	6,064	6,553	7,438	8,620
Total liab. and equities	16,615	15,573	15,646	16,331	17,423
Cash and cash eq.	460	173	1,491	216	328
Accounts receivables	4,179	2,798	2,307	2,895	3,369
Inventories	2,545	3,282	2,446	3,316	3,859
Other current assets	1,366	1,085	799	1,105	1,286
Investments	683	341	898	0	0
Net fixed assets	7,048	7,737	7,546	8,640	8,421
CWIP	247	60	86	86	86
Intangible assets	52	42	22	22	22
Deferred tax assets, net	35	54	50	50	50
Other assets	0	0	0	0	0
Total assets	16,615	15,573	15,646	16,331	17,423

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Cash flow from operations	1,009	1,447	3,634	543	1,796
Capital expenditures	(1,028)	(664)	(414)	(1,770)	(550)
Change in investments	459	341	(557)	898	0
Other investing cash flows	0	0	0	0	0
Cash flow from investing	(569)	(323)	(970)	(872)	(550)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	335	(750)	(861)	(570)	(800)
Interest expenses	(459)	(494)	(401)	(337)	(284)
Dividends paid	(138)	(204)	(102)	(140)	(187)
Other financing cash flows	96	38	17	103	137
Cash flow from financing	(167)	(1,411)	(1,347)	(945)	(1,134)
Chg in cash & cash eq.	274	(287)	1,317	(1,274)	112
Closing cash & cash eq.	460	173	1,491	216	328

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	10.9	3.5	13.6	21.8	29.1
Adjusted EPS	11.6	5.2	16.8	21.8	29.1
Dividend per share	2.0	2.0	2.4	2.8	3.8
Book value per share	144.6	143.1	154.6	175.5	203.4

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	1.6	1.7	1.6	1.3	1.1
EV/EBITDA	17.1	20.7	14.2	11.4	9.1
Adjusted P/E	46.0	102.4	31.7	24.4	18.3
P/BV	3.7	3.7	3.4	3.0	2.6

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	59.5	64.8	69.7	67.3	67.3
Interest burden (PBT/EBIT)	72.7	47.9	78.9	87.1	92.8
EBIT margin (EBIT/Revenue)	6.6	4.4	7.8	8.2	8.8
Asset turnover (Rev./Avg TA)	103.7	99.6	105.7	120.2	132.5
Leverage (Avg TA/Avg Equity)	2.8	2.6	2.5	2.3	2.1
Adjusted ROAE	8.2	3.6	11.3	13.2	15.3

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
YoY growth (%)					
Revenue	(0.1)	(6.3)	3.0	16.4	16.4
EBITDA	(16.0)	(17.6)	46.9	17.9	21.9
Adjusted EPS	(32.9)	(55.1)	223.3	29.7	33.6
Profitability & Return ratios (%)					
EBITDA margin	9.2	8.1	11.6	11.7	12.3
EBIT margin	6.6	4.4	7.8	8.2	8.8
Adjusted profit margin	2.9	1.4	4.3	4.8	5.5
Adjusted ROAE	8.2	3.6	11.3	13.2	15.3
ROCE	6.2	5.7	8.5	9.9	12.0
Working capital days (days)					
Receivables	98	79	56	49	51
Inventory	86	105	99	86	93
Payables	51	46	45	43	42
Ratios (x)					
Gross asset turnover	2.3	1.9	1.8	1.8	1.9
Current ratio	1.2	1.2	1.1	1.2	1.4
Net interest coverage ratio	2.5	1.4	3.2	4.7	7.0
Adjusted debt/equity	0.9	0.8	0.4	0.4	0.3

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

Disclaimer

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

BUY – Expected return >+15%

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

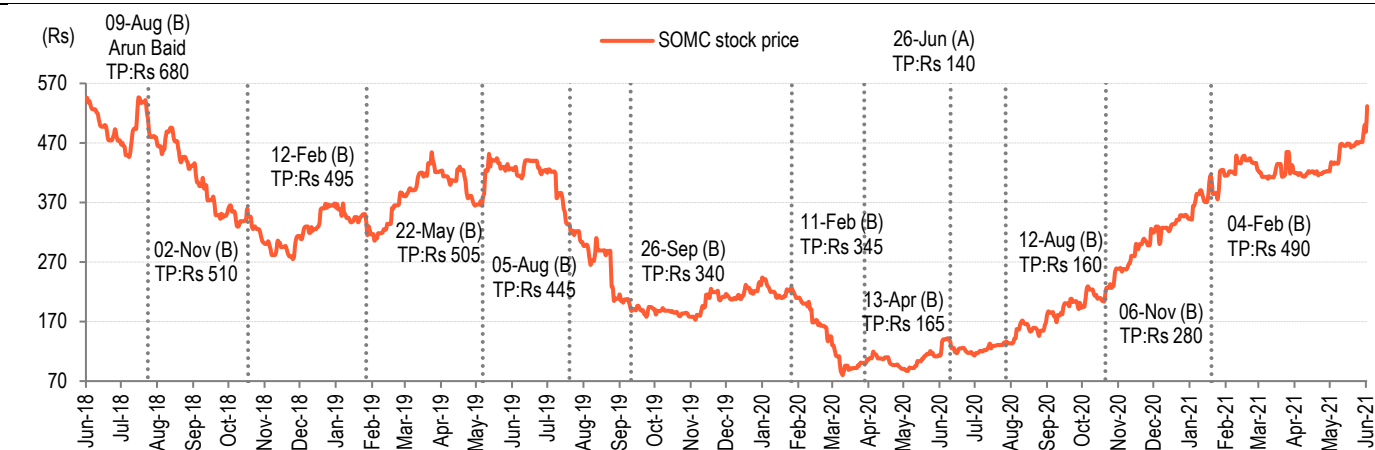
REDUCE – Expected return from -5% to +5%

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.

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



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

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