

**BUY**

TP: Rs 835 | ▲ 40%

**SOMANY CERAMICS**

Construction Materials

20 May 2022

### Another quarter of weak performance

- Q4 revenue growth muted at 9.7% YoY due to a 5% decline in tile volumes, though blended realisation rose 14% to Rs 333/msm
- EBITDA margin contracted 665bps YoY to 5.5% as RM cost increased by 510bps and other expenses by 205bps
- We lower FY23/FY24 PAT by 28%/21% on weak volumes and gas cost inflation; retain BUY with a reduced TP of Rs 835 (vs. Rs 1,140)

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**Revenue growth muted; margins contract:** SOMC's Q4FY22 revenue grew 9.7% YoY to Rs 6.1bn. EBITDA declined 51% YoY with 665bps margin contraction to 5.5%, which was deeper than the 500bps contraction (to 15.1%) and revenue growth of 15.7% reported by peer KJC. Consolidated revenue increased 9.2% YoY to Rs 6.2bn and gross margin declined 615bps YoY to 30%. Fuel cost as a percentage of sales rose 400bps YoY to 22% due to rising gas prices. EBITDA margin thus declined 765bps YoY to 8.2%.

**Gas cost a growing concern:** Rising gas cost is putting pressure on margins – prices in the north have risen from Rs 32-33/scm in Q4FY21 to Rs 48/scm in Q4FY22 and Rs 58/scm currently, in the south from Rs 30/scm to Rs 90/scm and Rs 92/scm, and in the west from ~Rs 35/scm to Rs 62/scm and Rs 68/scm now. The company could not take price hikes in Q4 as Morbi players decided not to do so. Morbi players did take hikes in Oct-Nov'21 but later rolled these back in anticipation of demand moderation. SOMC effected a cumulative ~8% price increase in FY22 which was not sufficient to cover the cost inflation. It has taken a ~2% hike in April.

**Tiles – volume decline due to loss of 2.5mn sqm tiles:** SOMC reported 5% YoY volume decline in tiles as company loss of 2.5mn sqm tiles amounting to Rs 700-800mn. In addition, the company could not get the capacity in South plant as KJC cornered those capacities. The company could not source the loss volumes from Morbi due to high freight cost. The Blended realisations rose 14.2% YoY Rs 333 in Q4.

**Maintain BUY, TP cut to Rs 835:** We lower our FY23/FY24 PAT estimates by 28%/21% to factor in the high gas costs and SOMC's inability to take price hikes. Further, management indicated that Q1FY23 will be a subdued quarter, although it is guiding for 15-20% volume growth in FY23. The stock is trading at 25.3x/16.5x FY23E/FY24E EPS compared to its 5Y median of 27.5x. To bake in the gas cost inflation and subdued performance vs. KJC, we reduce our target FY24E P/E multiple from 25x to 23x, translating to a lower TP of Rs 835 (vs. Rs 1,140). Retain BUY given an improving mix, demand tailwinds and capital allocation towards the core business.

### Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SOMC IN/Rs 596
Market cap	US\$ 325.1mn
Free float	45%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 970/Rs 430
Promoter/FPI/DII	55%/3%/43%

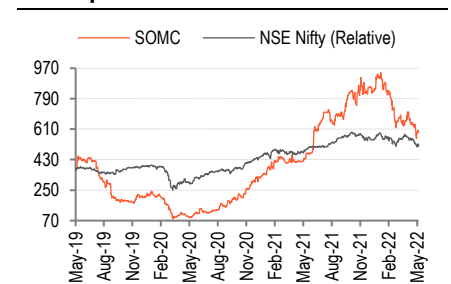
Source: NSE | Price as of 19 May 2022

### Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	20,945	23,167	27,140
EBITDA (Rs mn)	2,065	2,442	3,212
Adj. net profit (Rs mn)	888	1,000	1,530
Adj. EPS (Rs)	21.0	23.6	36.1
Consensus EPS (Rs)	21.0	34.7	45.2
Adj. ROAE (%)	13.0	13.0	17.3
Adj. P/E (x)	28.5	25.3	16.5
EV/EBITDA (x)	13.8	11.5	8.8
Adj. EPS growth (%)	24.8	12.6	53.0

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

### Stock performance



Source: NSE



## Earnings call highlights

- Out of the three ongoing expansion projects, SOMC has successfully commissioned its northern plant and the other two are likely to come online this month. This will add capacity of ~11mn sqm per year.
- The company's greenfield expansion in Gujarat for manufacturing large size tiles is expected to have 4.5mn sqm capacity, will incur capex of Rs 1.7bn-1.8bn and can be commissioned in the next 13-14 months. Per management, the project has revenue potential of ~Rs 2.5bn.
- Management indicated that exports have become lucrative as costs in Europe, Italy and China have increased by 300-400% owing to the higher gas and power prices. This will drive up exports from Morbi which, in turn, will vacate the space for domestic players. Exports are guided to increase from Rs 140bn in FY22 to Rs 160bn-190bn in FY23.
- Volume growth is guided at 15-20% for FY23. Management has avoided giving any margin guidance owing to the unpredictable gas prices. For bathware, management expects 30-35% revenue growth to Rs 2.8bn-3bn.
- Capex in FY23 will be routine spends of ~Rs 400mn for a period of 18 months.
- The company is aggressively working on branding initiatives and expects brand spends at 2.5-2.6% of revenue in FY23 vs. 2.5% in FY22.
- SOMC has added 200 dealers (net), of which 100 are exclusive to the company; it aims to add 200 more (net) in FY23.

**Fig 1 – Consolidated quarterly performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Net Revenue</b>	<b>6,168</b>	<b>5,646</b>	<b>9.2</b>	<b>5,870</b>	<b>5.1</b>	<b>20,945</b>	<b>16,505</b>	<b>26.9</b>
CQGS	4,330	3,618	19.7	3,965	9.2	14,015	10,575	32.5
% of sales	70.2	64.1	613bps	67.5	266bps	66.9	64.1	284bps
Employee expenses	660	645	2.2	664	(0.6)	2,571	2,248	14.4
% of sales	10.7	11.4	(73bps)	11.3	(62bps)	12.3	13.6	(135bps)
Other Expenses	672	487	37.9	618	8.8	2,293	1,774	29.3
% of sales	10.9	8.6	226bps	10.5	37bps	10.9	10.7	20bps
<b>EBITDA</b>	<b>507</b>	<b>896</b>	<b>(43.5)</b>	<b>624</b>	<b>(18.8)</b>	<b>2,065</b>	<b>1,908</b>	<b>8.3</b>
EBITDA Margin (%)	8.2	15.9	(766bps)	10.6	(241bps)	9.9	11.6	(170bps)
Depreciation/Amortisation	171	164	3.8	156	9.5	640	613	4.3
<b>EBIT</b>	<b>336</b>	<b>732</b>	<b>(54.1)</b>	<b>468</b>	<b>(28.2)</b>	<b>1,426</b>	<b>1,294</b>	<b>10.2</b>
EBIT Margin (%)	5.4	13.0	(752bps)	8.0	(253bps)	6.8	7.8	(103bps)
Net Interest Expenses	64	93	(31.7)	74	(13.6)	296	401	(26.1)
Other Income	15	36	(59.3)	48	(69.9)	134	128	5.0
<b>PBT</b>	<b>287</b>	<b>674</b>	<b>(57.5)</b>	<b>442</b>	<b>(35.2)</b>	<b>1,264</b>	<b>1,021</b>	<b>23.7</b>
Tax Expenses	60	142	(58.2)	101	(40.9)	328	229	43.4
Net Income before minority interest & extraordinary items	227	532	(57.3)	342	(33.5)	935	792	18.1
Minority Interest and Income from associates	(34)	(43)	(21.0)	(20)	69.5	(47)	(36)	32.5
Exceptional items	0	(179)	-	0	-	0	(180)	-
<b>Reported Net Income</b>	<b>193</b>	<b>310</b>	<b>(37.6)</b>	<b>322</b>	<b>(39.9)</b>	<b>888</b>	<b>577</b>	<b>53.9</b>

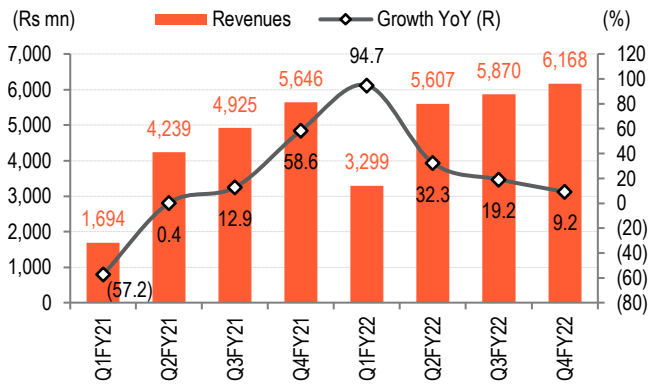
Source: Company, BOBCAPS Research

**Fig 2 – Standalone quarterly performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Net Revenue</b>	<b>6,093</b>	<b>5,552</b>	<b>9.7</b>	<b>5,815</b>	<b>4.8</b>	<b>20,738</b>	<b>16,302</b>	<b>27.2</b>
CQGS	4,775	4,067	17.4	4,387	8.8	15,577	11,902	30.9
% of sales	78.4	73.2	511bps	75.4	291bps	75.1	73.0	210bps
Employee expenses	470	457	2.9	475	(1.0)	1,858	1,639	13.4
% of sales	7.7	8.2	(52bps)	8.2	(45bps)	9.0	10.1	(109bps)
Other Expenses	516	356	44.9	491	4.9	1,801	1,377	30.8
% of sales	8.5	6.4	205bps	8.4	1bps	8.7	8.4	24bps
<b>EBITDA</b>	<b>333</b>	<b>672</b>	<b>(50.5)</b>	<b>461</b>	<b>(27.8)</b>	<b>1,502</b>	<b>1,384</b>	<b>8.5</b>
EBITDA Margin (%)	5.46	12.11	(664bps)	7.93	(247bps)	7.24	8.49	(125bps)
Depreciation/Amortisation	128	122	4.8	112	13.7	468	443	5.8
<b>EBIT</b>	<b>205</b>	<b>550</b>	<b>(62.7)</b>	<b>349</b>	<b>(41.2)</b>	<b>1,034</b>	<b>942</b>	<b>9.8</b>
EBIT Margin (%)	3.4	9.9	(654bps)	6.0	(263bps)	5.0	5.8	(79bps)
Net Interest Expenses	21	29	(26.0)	20	8.7	86	144	(40.4)
Other Income	36	43	(15.6)	66	(45.3)	221	152	45.7
<b>PBT</b>	<b>220</b>	<b>564</b>	<b>(61.0)</b>	<b>395</b>	<b>(44.3)</b>	<b>1,170</b>	<b>949</b>	<b>23.2</b>
Tax Expenses	51	113	(55.1)	88	(42.0)	305	211	44.1
Net Income before extraordinary items	169	451	(62.5)	308	(45.0)	865	738	17.2
Exceptional items	0	(179)	(100.0)	0	-	0	(179)	(100.0)
<b>Reported Net Income</b>	<b>169</b>	<b>272</b>	<b>(37.8)</b>	<b>308</b>	<b>(45.0)</b>	<b>865</b>	<b>559</b>	<b>54.7</b>
<b>Adjusted Net Income</b>	<b>169</b>	<b>406</b>	<b>(58.3)</b>	<b>308</b>	<b>(45.0)</b>	<b>865</b>	<b>681</b>	<b>27.0</b>

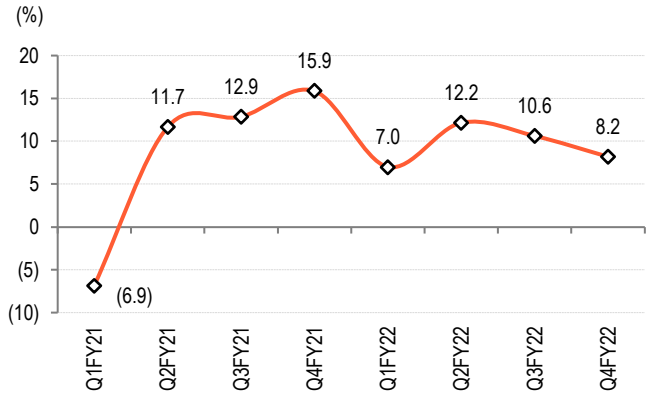
Source: Company, BOBCAPS Research

**Fig 3 – Consolidated revenue growth**



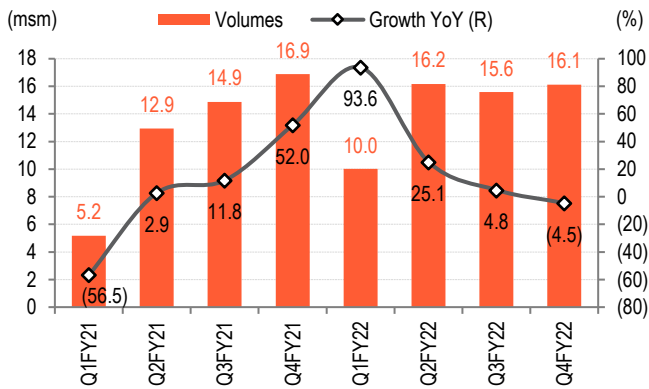
Source: Company, BOBCAPS Research

**Fig 4 – Consolidated EBITDA margin**



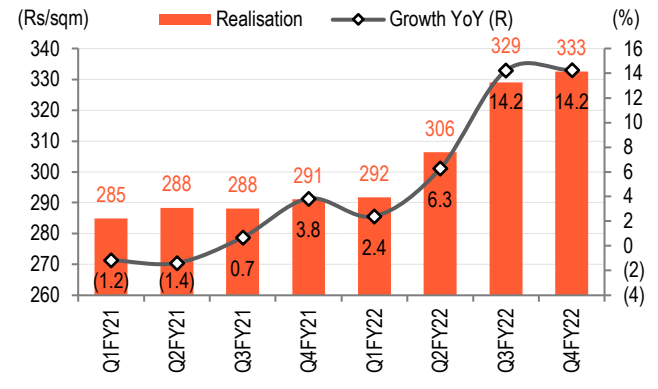
Source: Company, BOBCAPS Research

**Fig 5 – Tile volume growth**



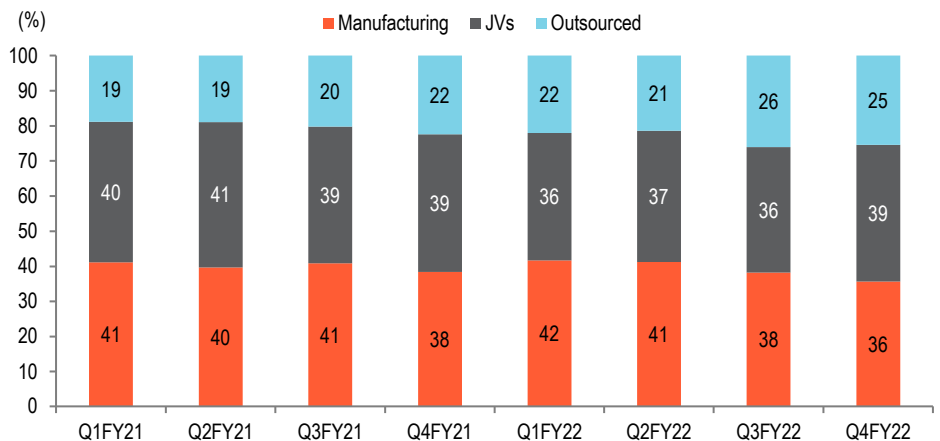
Source: Company, BOBCAPS Research

**Fig 6 – Tile realisation growth**



Source: Company, BOBCAPS Research

**Fig 7 – Revenue breakup**



Source: Company, BOBCAPS Research

## Valuation methodology

We lower our FY23/FY24 PAT estimates by 28%/21% to factor in the high gas costs and SOMC's inability to take price hikes. Further, management indicated that Q1FY23 will be a subdued quarter, although it is guiding for 15-20% volume growth in FY23.

The stock is trading at 25.3x/16.5x FY23E/FY24E EPS compared to its five-year median of 27.5x. To bake in the gas cost inflation and subdued performance vs. KJC, we reduce our target FY24E P/E multiple from 25x to 23x, translating to a lower TP of Rs 835 (vs. Rs 1,140). Retain BUY given an improving mix, demand tailwinds and capital allocation towards the core business.

**Fig 8 – Revised estimates**

(Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	23,167	27,140	23,385	27,426	(0.9)	(1.0)
EBITDA	2,442	3,212	3,012	3,796	(18.9)	(15.4)
EBITDA (%)	10.5	11.8	12.9	13.8	(240bps)	(200bps)
PAT	1,000	1,530	1,392	1,930	(28.2)	(20.7)

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.

## Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Century Plyboards	CPBI IN	1.5	535	735	BUY
Cera Sanitaryware	CRS IN	0.7	3,910	5,715	BUY
Greenpanel Industries	GREENP IN	0.8	490	595	HOLD
Greenply Industries	MTLM IN	0.3	177	260	BUY
Kajaria Ceramics	KJC IN	2.0	956	1,460	BUY
Pidilite Industries	PIDI IN	13.8	2,118	1,870	SELL
Somany Ceramics	SOMC IN	0.3	596	835	BUY

Source: BOBCAPS Research, NSE | Price as of 19 May 2022

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>16,030</b>	<b>16,505</b>	<b>20,945</b>	<b>23,167</b>	<b>27,140</b>
EBITDA	1,299	1,908	2,065	2,442	3,212
Depreciation	(589)	(613)	(640)	(771)	(815)
EBIT	709	1,294	1,426	1,672	2,398
Net interest inc./(exp.)	(494)	(401)	(296)	(327)	(273)
Other inc./(exp.)	125	128	134	141	148
Exceptional items	0	0	0	0	0
EBT	339	1,021	1,264	1,485	2,273
Income taxes	112	(229)	(328)	(374)	(573)
Extraordinary items	(256)	(180)	0	0	0
Min. int./Inc. from assoc.	(45)	(36)	(47)	(111)	(170)
<b>Reported net profit</b>	<b>150</b>	<b>577</b>	<b>888</b>	<b>1,000</b>	<b>1,530</b>
Adjustments	70	134	0	0	0
<b>Adjusted net profit</b>	<b>220</b>	<b>711</b>	<b>888</b>	<b>1,000</b>	<b>1,530</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	1,729	1,839	2,255	2,475	2,900
Other current liabilities	1,347	1,641	1,749	1,904	2,231
Provisions	98	96	105	162	190
Debt funds	4,981	4,235	5,112	3,335	2,735
Other liabilities	413	371	373	373	373
Equity capital	85	85	85	85	85
Reserves & surplus	5,980	6,323	7,178	8,071	9,468
Shareholders' fund	6,064	6,407	7,263	8,156	9,553
<b>Total liab. and equities</b>	<b>15,573</b>	<b>15,586</b>	<b>17,933</b>	<b>17,370</b>	<b>18,776</b>
Cash and cash eq.	173	1,491	1,486	771	1,245
Accounts receivables	2,798	2,211	2,368	2,856	3,346
Inventories	3,282	2,455	2,737	3,174	3,718
Other current assets	1,085	806	903	952	1,115
Investments	341	898	600	0	0
Net fixed assets	7,737	7,626	7,584	7,364	7,099
CWIP	60	86	2,267	2,267	2,267
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>18,019</b>	<b>17,457</b>	<b>18,863</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>1,447</b>	<b>3,686</b>	<b>1,967</b>	<b>1,447</b>	<b>2,029</b>
Capital expenditures	(664)	(414)	(2,779)	(550)	(550)
Change in investments	341	(557)	298	600	0
Other investing cash flows	0	0	0	0	0
<b>Cash flow from investing</b>	<b>(323)</b>	<b>(970)</b>	<b>(2,481)</b>	<b>50</b>	<b>(550)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(750)	(747)	878	(1,778)	(600)
Interest expenses	(494)	(401)	(296)	(327)	(273)
Dividends paid	(204)	(102)	(119)	(218)	(303)
Other financing cash flows	38	17	79	(111)	(170)
<b>Cash flow from financing</b>	<b>(1,411)</b>	<b>(1,232)</b>	<b>541</b>	<b>(2,434)</b>	<b>(1,346)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>(287)</b>	<b>1,484</b>	<b>27</b>	<b>(937)</b>	<b>133</b>
<b>Closing cash &amp; cash eq.</b>	<b>173</b>	<b>1,657</b>	<b>1,518</b>	<b>549</b>	<b>905</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	3.5	13.6	21.0	23.6	36.1
Adjusted EPS	5.2	16.8	21.0	23.6	36.1
Dividend per share	2.0	2.4	2.4	4.4	6.1
Book value per share	143.1	150.9	171.1	192.1	225.0

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	1.8	1.8	1.4	1.2	1.0
EV/EBITDA	22.8	15.6	13.8	11.5	8.8
Adjusted P/E	114.9	35.5	28.5	25.3	16.5
P/BV	4.2	4.0	3.5	3.1	2.7

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	64.8	69.7	70.3	67.3	67.3
Interest burden (PBT/EBIT)	47.9	78.9	88.6	88.9	94.8
EBIT margin (EBIT/Revenue)	4.4	7.8	6.8	7.2	8.8
Asset turnover (Rev./Avg TA)	99.6	105.7	124.4	130.6	149.5
Leverage (Avg TA/Avg Equity)	2.6	2.5	2.5	2.3	2.1
Adjusted ROAE	3.6	11.4	13.0	13.0	17.3

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(6.3)	3.0	26.9	10.6	17.1
EBITDA	(17.6)	46.9	8.3	18.3	31.5
Adjusted EPS	(55.1)	223.3	24.8	12.6	53.0
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	8.1	11.6	9.9	10.5	11.8
EBIT margin	4.4	7.8	6.8	7.2	8.8
Adjusted profit margin	1.4	4.3	4.2	4.3	5.6
Adjusted ROAE	3.6	11.4	13.0	13.0	17.3
ROCE	5.7	8.5	8.4	9.7	14.0
<b>Working capital days (days)</b>					
Receivables	79	55	40	41	42
Inventory	105	99	68	69	69
Payables	46	45	40	42	41
<b>Ratios (x)</b>					
Gross asset turnover	1.9	1.8	2.1	2.2	2.5
Current ratio	1.2	1.1	1.0	1.1	1.3
Net interest coverage ratio	1.4	3.2	4.8	5.1	8.8
Adjusted debt/equity	0.8	0.4	0.5	0.3	0.2

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

## Disclaimer

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

**BUY** – Expected return >+15%

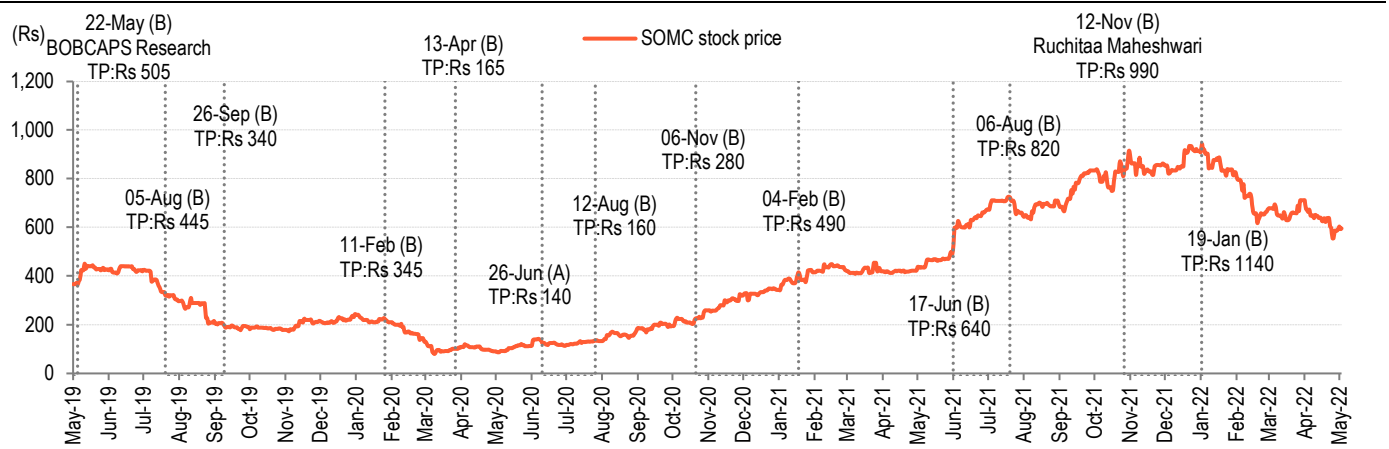
**HOLD** – Expected return from -6% to +15%

**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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As of 30 April 2022, out of 116 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 66 have BUY ratings, 30 have HOLD ratings, 5 are rated ADD\*, 1 is rated REDUCE\* and 14 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (\*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

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