

Somany Ceramics

HOLD

Subdued Q1 earnings, strong earnings recovery on card

Summary

Somany Ceramics Ltd.'s (SCL) Q1FY22 result was below our consensus estimates on key parameters. Statewide lockdown amid second wave of Covid-19 dented product off-take in April and May, which weighed on Q1FY22 earnings performance compared to Q4FY21. However, on a positive note, the demand is back from second half of June and the management expects it to rebound strongly going forward. Net sales increased by 95% YoY to Rs3,299mn, while EBITDA came in at Rs231mn compared to negative EBITDA of Rs116mn in Q1FY21. The company reported net profit of Rs44mn as against net loss of Rs220mn in the same quarter last year. Though the management has marginally cut net sales growth guidance from earlier 20% to higher mid-teens due to loss of business in Q1FY22, we believe strong demand traction in retail segment and better product mix will pave the way for faster earnings recovery. Further, capacity addition, thrust on strengthening brand recall and focus on improving product mix bodes well for sustainable earnings growth in future. We have marginally tweaked our net sales/PAT estimates for FY23E. Maintain HOLD with a revised TP of Rs779, assigning 25x PER on FY23E.

Key Highlights and Investment Rationale

Strong sales volume growth on a low base led to higher net sales

On a low base of Q1FY21, the company's sales volume increased by 94% YoY to 10MSM. Despite subdued demand due to lockdown, SCL took price hike of 1%-1.5% in April which resulted in NSR improvement by 2% YoY to Rs292/Sqm. Revenue Mix for tiles was at 39%/ 35%/26% for ceramic/PVT/GVT respectively. The management remained confident to grow at 35%-40% in bathware segment going forward, though Q1FY22 performance was below expectation. SCL's new capacity should be operational in Q4FY22 and would add Rs2,500mn-Rs3,000mn to net sales on annualized basis.

EBITDA margin improved led by operating leverage

SCL's EBITDA margin stood at 7% led by positive operating leverage and prudent cost cutting. Better product mix and price hike should further strengthen the EBITDA margin profile to 12%-13% in near term.

Long term outlook positive, HOLD with a TP of Rs779

We like SCL in organized tile space and believe the management's focus on expanding capacity, improve product mix, strengthen brand recall and managing working capital cycle in a prudent way will lead to valuation re-rating on the stock in future. HOLD with a TP of Rs779.

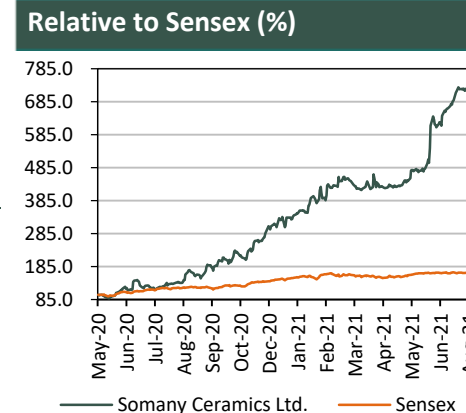
TP	Rs779	
CMP	Rs709	
Potential upside / downside	+10%	

V/s Consensus		
EPS (Rs)	FY22E	FY23E
IDBI Capital	23.6	31.2
Consensus	24.4	32.4
% difference	(3.1)	(3.8)

Shareholding Pattern (%)	
Promoters	54.8
FII	3.5
DII	17.1
Public	24.6

Price Performance (%)			
	-1m	-3m	-12m
Absolute	10.7	69.4	445.5
Rel to Sensex	8.0	58.5	402.7

Key Stock Data	
Bloomberg / Reuters	SOMC IN/SOCE.BO
Sector	Building Material Product
Shares o/s (mn)	42
Market cap. (Rs mn)	30,051
Market cap. (US\$ mn)	404
3-m daily avg Trd value (Rs mn)	82.9
52-week high / low	Rs748 / 129
Sensex / Nifty	54,278 / 16,238



Financial snapshot					
	(Rs mn)				
Year	FY19	FY20	FY21	FY22E	FY23E
Revenue	17,151	16,101	15,979	19,055	21,752
EBITDA	1,645	1,314	1,646	2,325	2,752
EBITDA (%)	9.6	8.2	10.3	12.2	12.7
Adj. PAT	586	400	587	1,000	1,321
EPS (Rs)	13.8	9.4	13.9	23.6	31.2
EPS Growth (%)	(21.8)	(31.7)	46.8	70.2	32.2
PE (x)	51.3	75.1	51.2	30.1	22.7
Dividend Yield (%)	0.3	0.1	0.1	0.1	0.2
EV/EBITDA (x)	21.1	26.1	20.2	14.2	11.5
RoE (%)	9.8	6.6	9.3	14.1	16.2
RoCE (%)	9.4	5.9	8.4	12.5	15.0

Source: IDBI Capital Research;

Concall Highlights:**Company Performance:**

- As per management, due to 2nd wave of covid demand witnessed sluggishness from May to mid-June. Demand started coming back aggressively from second half of June except in southern region where there was impact due to rising Covid cases.
- Management stated that they are in-line with what they envisaged. In July company was able to deliver 100% of what it could have done in a normal July month and were extremely poised to post even better growth but were impacted due to the strike in Morbi which started on 28th July, management is hoping that over the weekend the strike should end.
- Management is extremely confident that in bath fittings and sanitaryware it will manage to grow 35%-40% across the years though in current quarter sales were decent but did not meet company expectations. The tiles segment has performed better.
- **Capacity utilization** for tiles-65%, sanitaryware-40% and faucets -75%.
- **Revenue Mix:** Ceramics is 39% in Q1FY22 down from 42% in Q1FY21, PVT is 35% in Q1FY22 up from 34%, GVT is 26% in Q1FY22 compared to 24% in Q1FY21.
- Inventories increased from 31 days to 42 days. Collections have remained strong even in months of May to July.
- As per management brand spend was low below 2% in Q1FY22 and going forward they expect it to increase 2.5%-3% of revenue. They stated that brand spend are going to only enhance and will keep visibility high for the company.
- Gross margins improved with favorable product mix and price increase.
- Management indicated that one of the production line will be shut down for 2 months in Nov-Dec to make space for new double capacity plant. Company is building up stock to service market when outage happens.

Higher raw material price:

- Management stated that gas prices have risen considerably in July-21. In northern plant price is ~Rs40, in south it is ~Rs45 and in Morbi company is expecting a price hike which will bring gas price to ~Rs38-39 in next 10-15 days.
- Gas price, power and packaging paper cost have gone up the increase in April was more on front of rise in packaging paper price.

- **Price Hike:** Company increased prices by 1-1.5% in April-21 & 2.5%-3% in July-21 overall impact of ~3.5%-4.5% which will result in increase of ~2%-2.5% on overall basis. Decent portion of gas price increase has been passed on by the company.
- **CAPEX:** Management stated that all 3 projects should be commissioned by Jan-Feb-22. These new expansion will increase margins further with increased value added mix. The expansion will add ~2500 -3000mn on annualized basis and lead to margin expansion of ~200bps. In 6-9 months of operation company expects plants to achieve 100% capacity utilization.

Management Outlook:

- Management is hopeful that it should be able to grow extremely aggressively and had predicted growth of 20%+ but with May being impacted company is still looking to achieve high teen digit growth going forward and are hopeful to maintain margins in the range of 12-13% margins
- Company expects to have sales of ~Rs2500mn in sanitaryware & faucet segment, management mentioned that a small amount of products were coming from China and they were able to manage delivery cycles and in Faucets are reliant on own plant and some part is outsourced and rest materials company buys from India
- Company is expecting exports of ~1000mn in FY22
- Management expects Indian tile industry to more than double in next 5 years. There is a pickup seen in real-estate segment with new launches.

Exhibit 1: Financial snapshot

(Rs mn)

Particulars (mn)	Q1FY22	Q4FY21	QoQ (%)	Q1FY21	YoY (%)
Total revenues	3,299	5,646	(41.6)	1,694	94.7
Total expenditure	3,069	4,750	(35.4)	1,810	69.5
EBIDTA	231	896	(74.3)	(116)	298.5
EBIDTA margin (%)	7.0	15.9	(888) bps	(6.9)	1385bps
Depreciation	151	164	(8.2)	145	3.9
Interest cost	81	93	(13.1)	115	(29.9)
Other income	56	36	55.3	19	195.8
exceptional Item	-	(185)	-	-	-
PBT	55	490	(88.7)	(358)	115.4
Tax	21	137	(84.9)	(94)	122.0
Minority Interest	10	(43)		44	
Rep. net profit	44	310	(85.7)	(220)	120.2
EPS (INR)	1.0	7.3	(85.7)	(5.2)	120.2

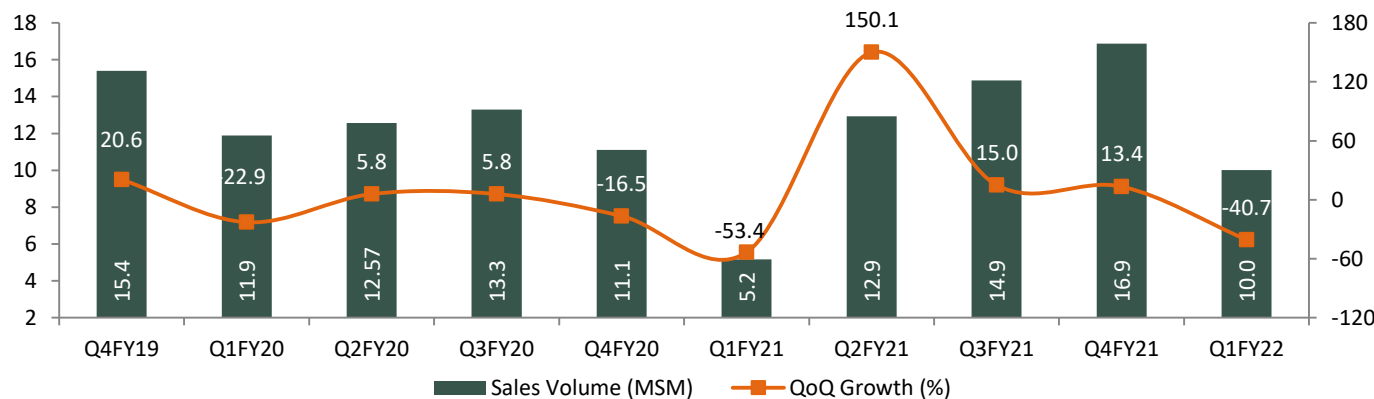
Source: Company; IDBI Capital Research

Exhibit 2: Actual Vs Expected

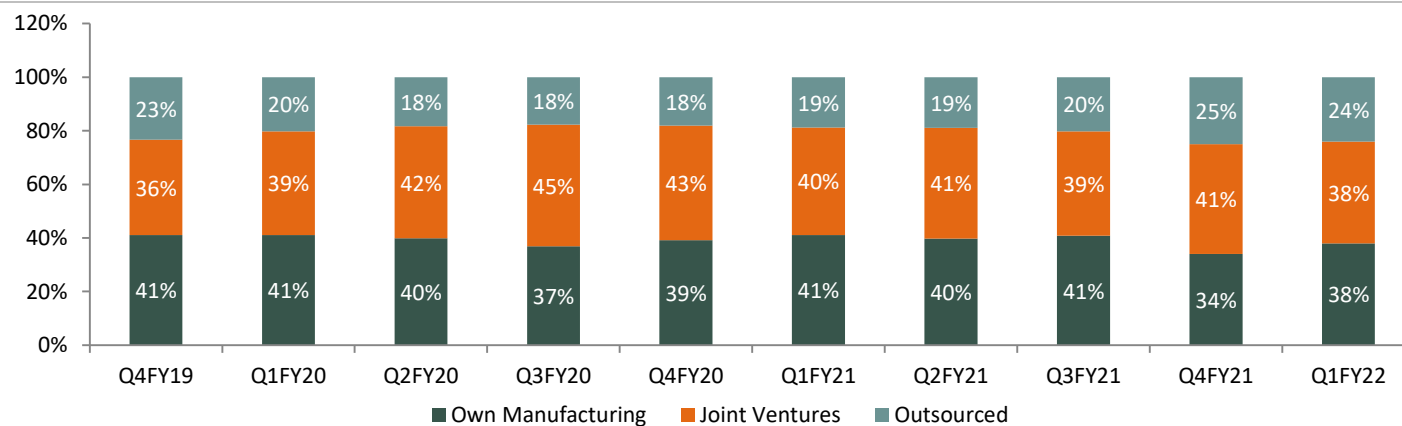
(Rs mn)

Particulars	Q1FY22A	Q1FY22E	Variance (%)
Net Sales	3,299	4,178	(21.0)
EBITDA	231	553	(58.3)
EBITDA Margin	7.0	13.2	(620) bps
Net Profit	44	249	(82.2)
EPS Rs	1.0	4.9	(78.6)

Source: Company; IDBI Capital Research

Exhibit 3: Sales volume analysis

Source: Company; IDBI Capital Research

Exhibit 4: Sales volume contribution (%)

Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net sales	16,101	15,979	19,055	21,752
<i>Growth (%)</i>	<i>(6.1)</i>	<i>(0.8)</i>	<i>19.3</i>	<i>14.2</i>
Operating expenses	(14,787)	(14,333)	(16,730)	(19,000)
EBITDA	1,314	1,646	2,325	2,752
<i>Growth (%)</i>	<i>(20.2)</i>	<i>25.3</i>	<i>41.2</i>	<i>18.4</i>
Depreciation	(590)	(614)	(731)	(766)
EBIT	724	1,031	1,594	1,986
Interest paid	(494)	(374)	(348)	(299)
Other income	127	147	110	99
Pre-tax profit	96	804	1,356	1,786
Tax	99	(203)	(341)	(450)
<i>Effective tax rate (%)</i>	<i>(103.5)</i>	<i>25.2</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	(56.7)	(14.2)	(14.9)	(15.6)
Net profit	138	587	1,000	1,321
Exceptional items	(262)	-	-	-
Adjusted net profit	400	587	1,000	1,321
<i>Growth (%)</i>	<i>(31.7)</i>	<i>46.8</i>	<i>70.2</i>	<i>32.2</i>
<i>Shares o/s (mn nos)</i>	<i>42</i>	<i>42</i>	<i>42</i>	<i>42</i>

Cash Flow Statement

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Pre-tax profit	96	804	1,356	1,786
Depreciation	590	614	731	766
Tax paid	(48)	(191)	(316)	(414)
Chg in working capital	660	(233)	(258)	(240)
Other operating activities	-	-	-	-
Cash flow from operations (a)	1,298	995	1,512	1,898
Capital expenditure	(749)	26	(1,403)	(503)
Chg in investments	341	85	128	(26)
Other investing activities	-	-	-	-
Cash flow from investing (b)	(408)	112	(1,275)	(529)
Equity raised/(repaid)	-	-	-	-
Debt raised/(repaid)	(656)	223	(804)	(552)
Dividend (incl. tax)	(51)	(51)	(51)	(68)
Chg in minorities	(12)	(0)	(0)	0
Other financing activities	(371)	69	(31)	(24)
Cash flow from financing (c)	(1,089)	241	(886)	(644)
Net chg in cash (a+b+c)	(199)	1,347	(649)	726

Balance Sheet

(Rs mn)

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Net fixed assets	7,478	6,838	7,510	7,248
Investments	341	256	128	154
Other non-curr assets	730	646	665	681
Current assets	7,024	8,884	8,749	9,942
Inventories	3,282	3,610	3,899	4,172
Sundry Debtors	2,798	2,938	3,114	3,270
Cash and Bank	201	1,548	898	1,624
Marketable Securities	-	-	-	-
Loans and advances	345	373	400	422
Total assets	15,573	16,624	17,052	18,025
Shareholders' funds	6,072	6,601	7,550	8,803
Share capital	85	85	85	85
Reserves & surplus	5,987	6,516	7,465	8,718
Total Debt	4,451	4,673	3,869	3,317
Secured loans	1,966	2,064	1,651	1,321
Unsecured loans	2,485	2,609	2,218	1,996
Other liabilities	414	435	469	514
Curr Liab & prov	3,696	3,960	4,194	4,405
Current liabilities	2,992	2,888	3,093	3,268
Provisions	705	1,072	1,101	1,137
Total liabilities	8,561	9,068	8,532	8,236
Total equity & liabilities	15,573	16,624	17,052	18,025
Book Value (Rs)	143	156	178	208

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: Dec.	FY20	FY21	FY22E	FY23E
Adj EPS (Rs)	9.4	13.9	23.6	31.2
Adj EPS growth (%)	(31.7)	46.8	70.2	32.2
EBITDA margin (%)	8.2	10.3	12.2	12.7
Pre-tax margin (%)	0.6	5.0	7.1	8.2
ROE (%)	6.6	9.3	14.1	16.2
ROCE (%)	5.9	8.4	12.5	15.0
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.0	1.0	1.1	1.2
Leverage factor (x)	2.6	2.5	2.4	2.1
Net margin (%)	2.5	3.7	5.2	6.1
Net Debt/Equity (x)	0.7	0.5	0.4	0.2
Working Capital & Liquidity ratio				
Inventory days	74	82	75	70
Receivable days	63	67	60	55
Payable days	43	48	45	42

Valuation

Year-end: Dec.	FY20	FY21	FY22E	FY23E
PER (x)	75.1	51.2	30.1	22.7
Price / Book value (x)	4.9	4.6	4.0	3.4
PCE (x)	30.4	25.0	17.4	14.4
EV / Net sales (x)	2.1	2.1	1.7	1.5
EV / EBITDA (x)	26.1	20.2	14.2	11.5
Dividend Yield (%)	0.1	0.1	0.1	0.2



Notes

Dealing

(91-22) 6836 1111

dealing@idbicapital.com

Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

SEBI Registration: BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907**Disclaimer**

This report has been published by IDBI Capital Markets & Securities Ltd.(hereinafter referred to as "IDBI Capital") for private circulation. This report should not be reproduced or copied or made available to others. No person associated with IDBI Capital is obligated to call or initiate contact with you for the purposes of elaborating or following up on the information contained in this report. The information contained herein is strictly confidential and meant for solely for the selected recipient and may not be altered in any way, transmitted to copied or distributed, in part or in whole, to any other person or to the media or reproduced in any form, without the prior written consent of IDBI Capital.

Recipients may not receive this report at the same time as other recipients. IDBI Capital will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is from the public domain or sources believed to be reliable, but we do not make any representation or warranty that it is accurate, complete or up-to-date and it should not be relied upon as such. While reasonable care has been taken to ensure that information given is at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the very nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. In so far as this report includes current or historical information, it is believed to be reliable, although its accuracy and completeness cannot be guaranteed.

Opinions expressed are current opinions as of the date appearing on this material only. While we endeavor to update on a reasonable basis, the information discussed in this material, IDBI Capital, its directors, employees are under no obligation to update or keep the information current. Further there may be regulatory, compliance, or other reasons that prevent us from doing so.

Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

IDBI Capital, its directors and employees and any person connected with it, will not in any way be responsible for the contents of this report or for any losses, costs, expenses, charges, including notional losses/lost opportunities incurred by a recipient as a result of acting or non-acting on any information/material contained in the report.

This is not an offer to sell or a solicitation to buy any securities or an attempt to influence the opinion or behavior of investors or recipients or provide any investment/tax advice.

This report is for information only and has not been prepared based on specific investment objectives. The securities discussed in this report may not be suitable for all investors. Investors must make their own investment decision based on their own investment objectives, goals and financial position and based on their own analysis.

Trading in stocks, stock derivatives, and other securities is inherently risky and the recipient agrees to assume complete and full responsibility for the outcomes of all trading decisions that the recipient makes, including but not limited to loss of capital.

Opinions, projections and estimates in this report solely constitute the current judgment of the author of this report as of the date of this report and do not in any way reflect the views of IDBI Capital, its directors, officers, or employees.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject IDBI Capital and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this report may come are required to inform themselves of and to observe such restriction.

E-mail is not a secure method of communication. IDBI Capital cannot accept responsibility for the accuracy or completeness of any e-mail message or any attachment(s).

This transmission could contain viruses, be corrupted, destroyed, incomplete, intercepted, lost or arrived late. IDBI Capital, its directors or employees or associates accept no liability for any damage caused, directly or indirectly, by this email.

Analyst Disclosures

We, Archana Gude and Jyoti Amonkar, hereby certify that the views expressed in this report accurately reflect my personal views about the subject companies and / or securities. I also certify that no part of our compensation was, is or will be directly or indirectly related to the specific recommendations or views expressed in this report. Principally, I will be responsible for the preparation of this research report and have taken reasonable care to achieve and maintain independence and objectivity in making any recommendations herein.

Other Disclosure

IDBI Capital Markets & Securities Ltd.(herein after referred to as “IDBI Capital”) was incorporated in the year 1993 under Companies Act, 1956 and is a wholly owned subsidiary of IDBI Bank Limited. IDBI Capital is one of India’s leading securities firm which offers a full suite of products and services to individual, institutional and corporate clients namely Stock broking (Institutional and Retail) , Distribution of financial products, Merchant Banking, Corporate Advisory Services, Debt Arranging & Underwriting, Portfolio Manager Services and providing Depository Services. IDBI Capital is a registered trading and clearing member of BSE Ltd. (BSE) and National Stock Exchange of India Limited (NSE). IDBI Capital is also a SEBI registered Merchant Banker, Portfolio Manager and Research Analyst. IDBI Capital is also a SEBI registered depository participant with National Securities Depository Limited (NSDL) and is also a Mutual Fund Advisor registered with Association of Mutual Funds in India (AMFI).

IDBI Capital and its associates IDBI Bank Ltd. (Holding Company), IDBI Intech Ltd. (Fellow Subsidiary), IDBI Asset Management Ltd. (Fellow Subsidiary) and IDBI Trusteeship Services Ltd. (Fellow Subsidiary).

IDBI Group is a full-serviced banking, integrated investment banking, investment management, brokerage and financing group. Details in respect of which are available on www.idbicapital.com IDBI Capital along with its associates are leading underwriter of securities and participants in virtually all securities trading markets in India. We and our associates have investment banking and other business relationships with a significant percentage of the companies covered by our Research Department. Investors should assume that IDBI Capital and/or its associates are seeking or will seek investment banking or other business from the company or companies that are the subject of this material. IDBI Capital generally prohibits its analysts, persons reporting to analysts, and their dependent family members having a financial conflict of interest in the securities or derivatives of any companies that the analysts cover. Additionally, IDBI Capital generally 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 sales people, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions that are 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. Directors of IDBI Capital or its associates may have interest in the Companies under recommendation in this report either as Director or shareholder. 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 clients of IDBI Capital. 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. We and our associates, 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. For the purpose of calculating whether IDBI Capital and its associates holds beneficially owns or controls, including the right to vote for directors, 1% or more of the equity shares of the subject issuer of a research report, the holdings does not include accounts managed by IDBI Asset Management Company/ IDBI Mutual Fund.

IDBI Capital hereby declares that our activities were neither suspended nor we have materially defaulted with any Stock Exchange authority with whom we are registered in last five years. However SEBI, Exchanges and Depositories have conducted the routine inspection and based on their observations have issued advice letters or levied minor penalty on IDBI Capital for certain operational deviations. We have not been debarred from doing business by any Stock Exchange / SEBI or any other authorities; nor has our certificate of registration been cancelled by SEBI at any point of time. IDBI Capital, its directors or employees or associates, may from time to time, have positions in, or options on, and buy and sell securities referred to herein. IDBI Capital or its associates, during the normal course of business, from time to time, may solicit from or perform investment banking or other services for any company mentioned in this document or their connected persons or be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or their affiliate companies or act as advisor or lender / borrower to such company(ies)/associates companies or have other potential conflict of interest. This report may provide hyperlinks to other websites. Except to the extent to which the report refers to the website of IDBI Capital, IDBI Capital states that it has not reviewed the linked site and takes no responsibility for the content contained in such other websites. Accessing such websites shall be at recipient's own risk. IDBI Capital encourages the practice of giving independent opinion in research report preparation by the analyst and thus strives to minimize the conflict in preparation of research report. Accordingly, neither IDBI Capital nor Research Analysts have any material conflict of interest at the time of publication of this report. We offer our research services to primarily institutional investors and their employees, directors, fund managers, advisors who are registered with us. The Research Analyst has not served as an officer, director or employee of Subject Company. We or our associates may have received compensation from the subject company in the past 12 months. We or our associates may have managed or co-managed public offering of securities for the subject company in the past 12 months. We or our associates may have received compensation for investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months. We or our associates may have received any compensation or other benefits from the Subject Company or third party in connection with the research report. Research Analyst or his/her relative's may have financial interest in the subject company. IDBI Capital or its associates may have financial interest in the subject company. Research Analyst or his/her relatives does not have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. IDBI Capital or its associates may have actual/beneficial ownership of 1% or more securities of the subject company at the end of the month immediately preceding the date of publication of Research Report. The Subject Company may have been a client during twelve months preceding the date of distribution of the research report. Price history of the daily closing price of the securities covered in this note is available at www.bseindia.com; www.nseindia.com and www.economictimes.indiatimes.com/markets/stocks/stock-quotes.