

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 R3,299mn, 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 CMP	Rs779 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)

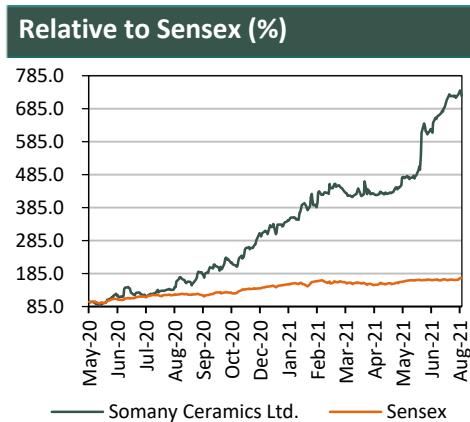
Shareholding Pattern (%)	
Promoters	54.8
FII	3.5
DII	17.1
Public	24.6

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

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;

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



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 10-15days.
- 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:

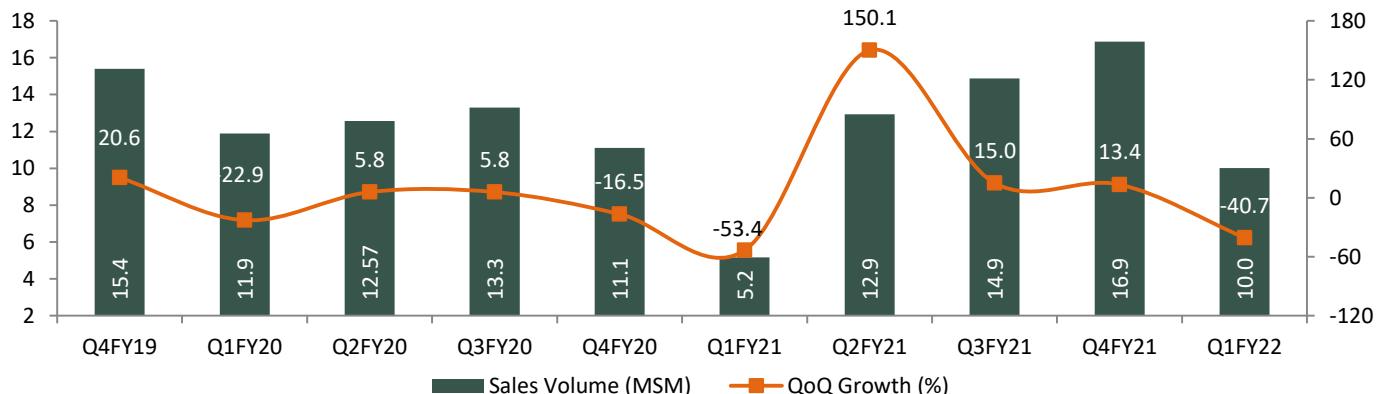
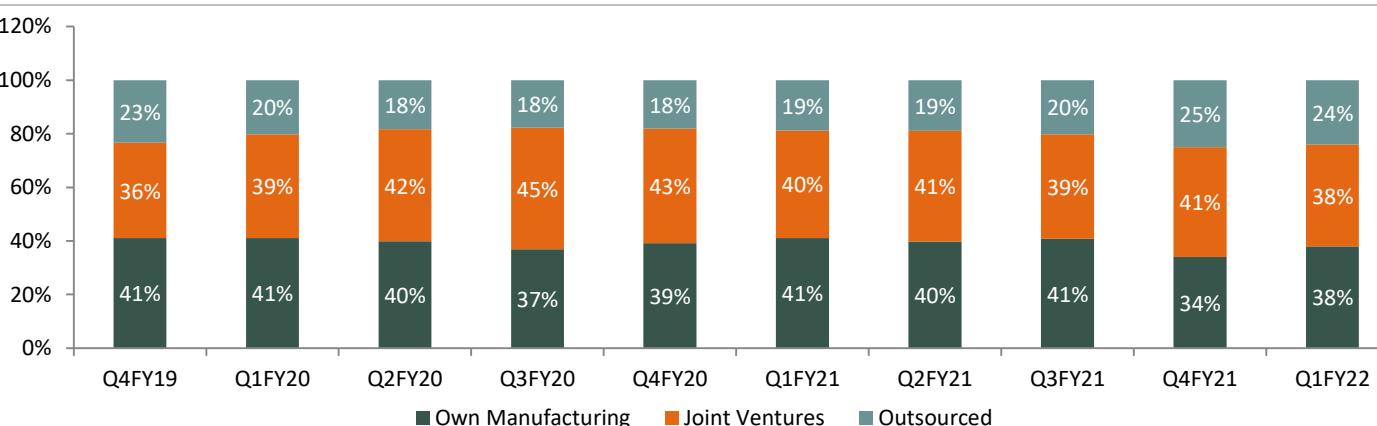
- Management is hopeful that it should be able to grow extremely aggressively and had predicted growth of 20%+ but with May being impacted company is still looking to achieve high teen digit growth going forward and are hopeful to maintain margins in the range of 12-13% margins
- Company expects to have 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)	
<i>EBITDA Margin</i>	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>	(6.1)	(0.8)	19.3	14.2
Operating expenses	(14,787)	(14,333)	(16,730)	(19,000)
EBITDA	1,314	1,646	2,325	2,752
<i>Growth (%)</i>	(20.2)	25.3	41.2	18.4
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>	(103.5)	25.2	25.2	25.2
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>	(31.7)	46.8	70.2	32.2
<i>Shares o/s (mn nos)</i>	42	42	42	42

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

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

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