

Strong volume recovery...

Somany Ceramics (Somany), like its key peer, reported resilient Q2FY21 reported numbers as organised tiles players exhibited stronger recovery back to pre-Covid volumes. The tiles sales volume was up 2.7% YoY at 12.9 MSM with realisations down 1.9% YoY, owing to sales mix. Overall revenues were up 0.4% YoY. EBITDA at ₹ 49.4 crore was up 10.4% YoY, (margins 11.7%, up 110 bps), largely driven by cost rationalisation initiatives (employee and other expenses down ~12% YoY) along with benign power & fuel expenses that was down 12% YoY due to lower gas prices. PAT was at ₹ 20.5 crore, up 2.2x YoY, with growth aided by superior operating performance, lower interest costs as well as some one-offs in base quarter.

Benefits from exports led Morbi volume diversion...

Anti-dumping duty levied on China by many countries (including the US, Brazil, Indonesia) along with "China plus one" strategy have favoured Indian tiles and sanitaryware manufacturers, due to which Morbi has become an export hub for unorganised units there. Also, dealers are favouring organised players in the domestic market with a) better stock availability, b) convenience to customers at its exclusive showrooms in uncertain times of Covid-19 pandemic, and c) absence of deep discounts/better pricing from Morbi players. The sustainability of these key trend will be the key monitorable, going ahead. Overall, we expect tiles sales volumes and revenues to grow at 4.7% CAGR to 53.5 MSM and ₹ 1548 crore in FY20-22E.

EBITDA margins expected to remain healthy...

We highlight that while gross profit margins at 36.4% were down 250 bps YoY, margin expansion was largely driven by lower power & fuel costs coupled with cost rationalisation across admin/ employee costs, lower marketing and travelling expenses. While some of these costs will return over the next couple of quarters, the management expects margin improvement with a) gas prices likely to come down from the current level by ~ ₹ 0.5-1.0/SCM in the coming months, b) higher operational efficiencies with plants running at 100% capacities, and c) better product mix. Overall, we expect EBITDA margins at 9.5%, 11% in FY21E, FY22E, respectively.

Valuation & Outlook

Somany has become prudent with credit control measures aiding working capital management and debt reduction. Consolidated debt was down ₹ 84 crore in H1FY21 to ₹ 382 crore, driven by working capital optimisation. It will be important to monitor how the sales traction pick up from here coupled with cost rationalisation sustainability. Given the alluring valuations, improved margins trajectory and balance sheet repair initiatives, we upgrade to **BUY** recommendation (vs. HOLD, earlier) a revised target price of ₹ 290/share (14x FY22E EPS).

Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	1,708.2	1,708.3	1,600.2	1,518.0	1,794.2	5.9%
EBITDA	181.4	156.7	121.5	144.8	197.4	27.4%
EBITDA Margin (%)	10.6	9.2	7.6	9.5	11.0	
PAT *	77.5	46.3	15.0	50.8	87.9	
Adj. PAT	77.5	58.5	41.2	50.8	87.9	46.0%
EPS (₹) *	18.3	10.9	3.5	12.0	20.7	
Adj. EPS (₹)	19.3	13.8	9.7	12.0	20.7	
P/E (x)	12.9	21.5	66.4	19.6	11.3	
EV/EBITDA (x)	7.8	9.3	11.8	8.7	6.3	
RoNW (%)	13.3	7.6	2.5	7.7	12.1	
RoCE (%)	12.2	9.7	5.8	7.9	11.6	

Source: Company, ICICI Direct Research

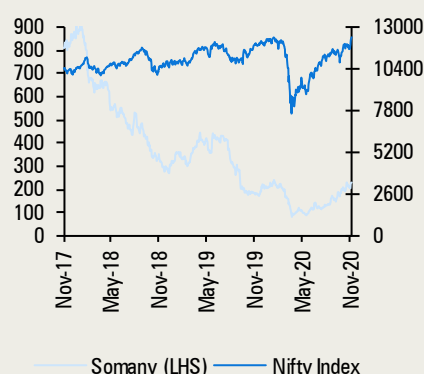


Particulars	
Particular	Amount (₹ crore)
Market Capitalization	975
Total Debt (FY20)	498
Cash (FY20)	20
EV	1,453
52 week H/L (₹)	253 / 77
Equity capital	8.5
Face value	₹ 2

Key Highlights

- Sales volumes exhibited stronger recovery back to pre-Covid volumes, up 2.7% YoY at 12.9 MSM
- Upgrade to BUY (vs. HOLD, earlier) with a target price of ₹ 290/share (14x FY22E EPS)

Price performance



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Exhibit 1: Variance Analysis

Particular	Q2FY21	Q2FY20	YoY (Chg %)	Q1FY21	QoQ (Chg %)	Comments
Net Sales	423.9	422.3	0.4	169.4	150.2	
Other Income	4.0	1.8	120.8	1.9	113.8	
Raw Material Expense	106.4	113.5	-6.3	13.1	713.5	
Purchase of Traded Goods	71.3	73.0	-2.3	26.0	174.4	
Power & Fuel	75.6	85.8		10.6		
Employee benefit expenses	52.2	59.6	-12.3	37.3	40.2	
Other Expenses	52.5	59.8	-12.2	16.3	221.5	
EBITDA	49.4	44.8	10.4	-11.6	-525.6	EBITDA largely driven by cost rationalisation initiatives (employee and other expenses) along with benign power & fuel expenses due to lower gas prices
EBITDA Margin (%)	11.7	10.6	106 bps	-6.9	1852 bps	
Depreciation	15.0	14.9	0.9	14.5	3.7	
Interest	9.8	13.2	-25.7	11.5	-14.8	
PBT	28.6	18.5	54.8	-35.8	-180.1	
Taxes	7.3	-16.5	-144.4	-9.4	-178.2	
PAT	20.5	6.5	217.3	-22.0	-193.2	Operating level performance coupled with lower interest costs and tax credit in base quarter led to strong PAT growth

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

	FY18	FY19	FY20	FY21E	FY22E	Comments
Sales Volume Assumptions (MSM)						
Own Manufacturing	20.3	20.8	18.9	18.3	22.3	
JV	19.6	18.6	20.4	18.7	22.0	
Outsourcing/Imports	9.6	11.8	9.6	8.8	9.2	
Total	49.5	51.2	48.9	45.8	53.5	
Average Realisation (₹/SM)						
Own Manufacturing	311	303	291	291	291	
JV	355	304	291	291	291	
Outsourcing/Imports	209	257	281	281	281	
Blended realisation	309	293	289	289	289	

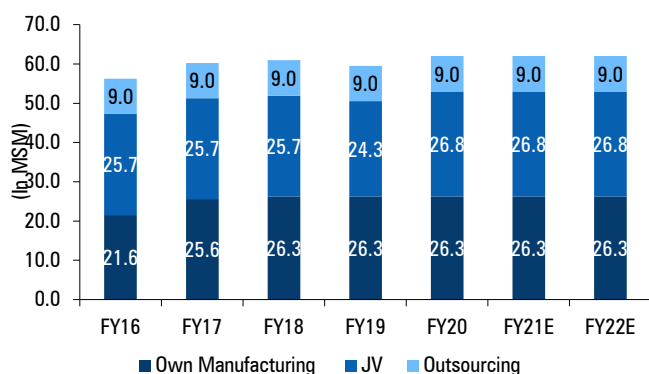
Source: Company, ICICI Direct Research

Conference call Highlights

- Q2FY20 operating performance & outlook:** Sales volume in the tiles product segment have improved 3% YoY (to 12.9 MSM). Its capacity utilisation in tiles has reached ~80% in Q2FY21, largely backed by sharp demand recovery arising from tier-II, III cities, and rural areas (together contributed ~85% to total sales). However, sales in sanitaryware and bathware division were muted mainly on account of unavailability of raw material and desired level of labours (lost sales of ~₹ 6-7 crore due to disruptions). Currently, the company is witnessing demand pickup for most of its product portfolio and all of its plants (including JVs) are running at ~100% capacity utilisation. Also, supply chain problems and issues pertaining to labour availabilities have been sorted out
- Margin:** Going forward, the management expects margin improvement with a) gas prices likely to come down from the current level by ~ ₹ 0.5-1.0/SCM in the coming months, b) higher operational efficiencies with plants running at 100% capacities, and c) better product mix
- Capacity:** Somany's entire product portfolio is spread across a) tiles: capacity of 63mn sq. metre/annum (including dedicated outsource tie ups), b) Sanitaryware: 1.15mn pcs/annum (excluding outsource tie ups) and c) bath fitting: 0.65 mn pcs/annum (excluding outsource tie ups). Though its plants are operating at 100% utilisations currently, the company would wait and watch before major capacity expansion
- Sudha Somany Plant:** The plant was commissioned ~18 months back. Since then, it has witnessed major ramp-up in operations and was operating at ~85% capacity utilisation during Q2FY21. With a further pick-up in demand, capacity utilisation has reached 100% currently
- Export:** Anti-dumping duty levied on China by many countries (including the US, Brazil, Indonesia) have favoured Indian tiles and sanitaryware manufacturers, due to which Morbi has become an export hub. Management estimates monthly sales of ₹ 1300-1400 crore from Morbi region. This has led to diversion of volumes, creating bigger market for organised players in India. Also, as per the management, dealers are favouring organised players in the domestic market with a) better stock availability, b) convenience to customers at its exclusive showrooms in uncertain times of Covid-19 pandemic, and c) absence of deep discounts/better pricing from Morbi players. Somany is not a major exporter in tiles and sanitary ware segment and foreign market contributes merely ~5-7% to its overall topline
- Dealers:** Dealers count for the company has improved continuously from ~1,500 a couple of year back to 2,300 currently (billable: 1,500 in numbers). The management expects the numbers to increase by ~200 in FY21
- Marketing and ad expense:** The company has not incurred major expenses towards advertisement and marketing during YTD FY21 with lockdown and ongoing IPL. However, the management has indicated towards strong building exercise, going forward, and guided for 3-3.5% as a percentage of revenues for FY21E
- Debt & working capital:** Somany at a standalone level is net debt free. However, debt at consolidated level is at ~₹ 280 crore. Somany's working capital has reduced significantly with strict credit control measures, and optimum management of inventories. The current working capital days are sustainable, going forward

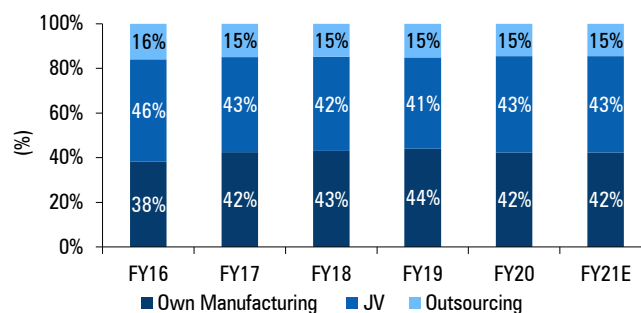
Company Analysis

Exhibit 3: Capacity break-up (in MSM)



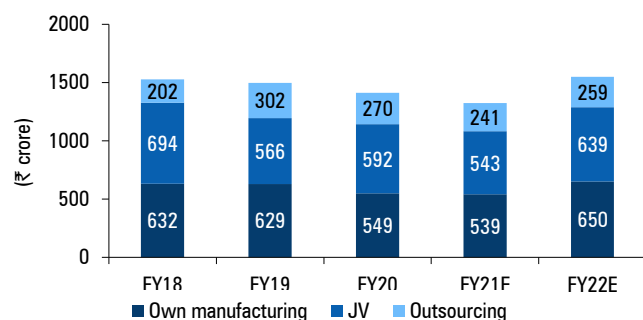
Source: Company, ICICI Direct Research

Exhibit 4: Capacity break-up (%)



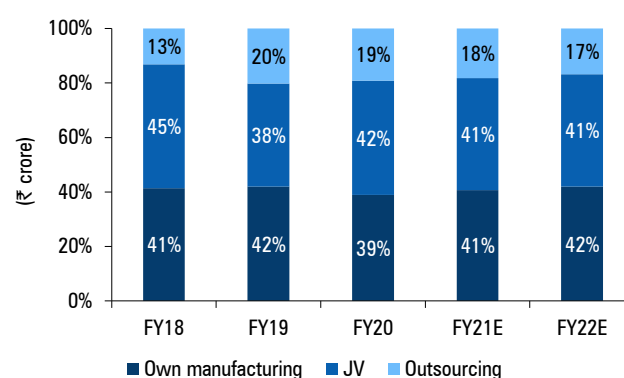
Source: Company, ICICI Direct Research

Exhibit 5: Revenue break-up (₹ crore)



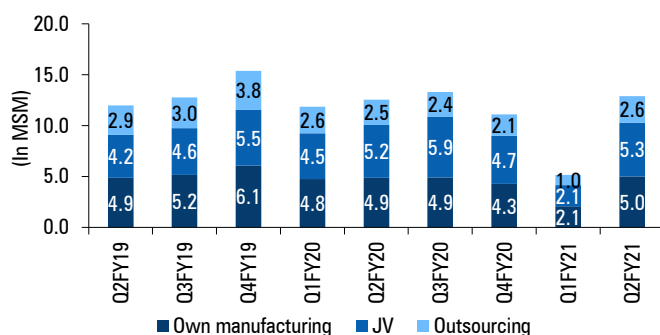
Source: Company, ICICI Direct Research

Exhibit 6: Revenue break-up (%)



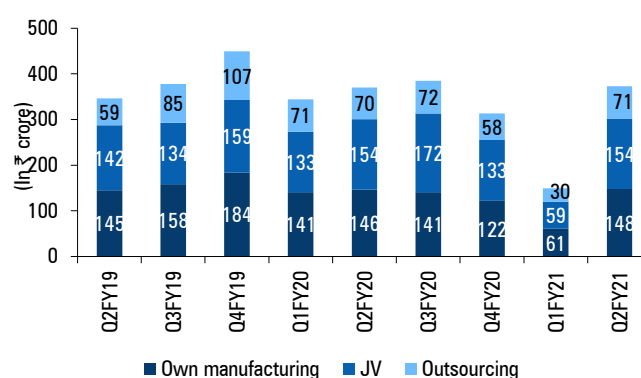
Source: Company, ICICI Direct Research

Exhibit 7: Quarterly standalone sales volumes (in MSM)



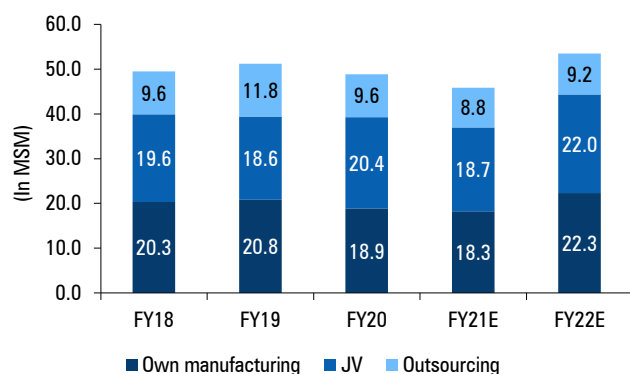
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly standalone sales value



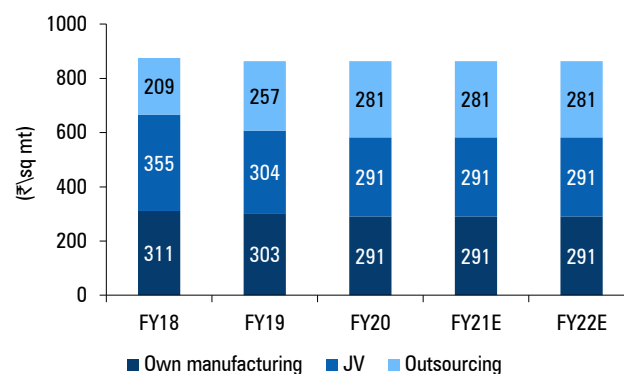
Source: Company, ICICI Direct Research

Exhibit 9: Model-wise standalone sales volumes break-up



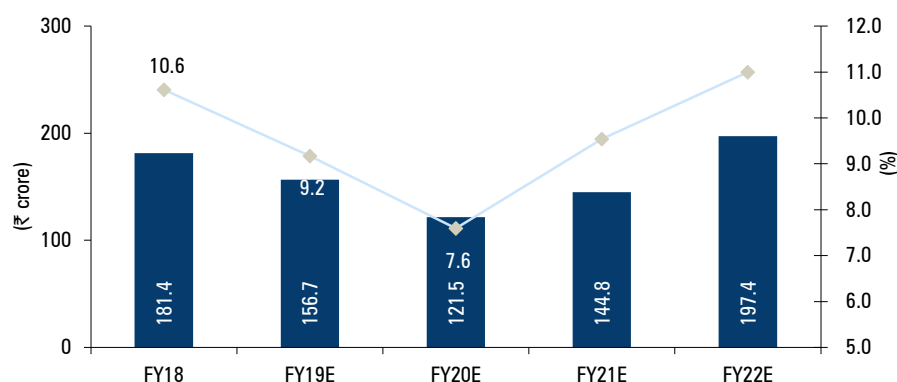
Source: Company, ICICI Direct Research

Exhibit 10: Average realisation break-up



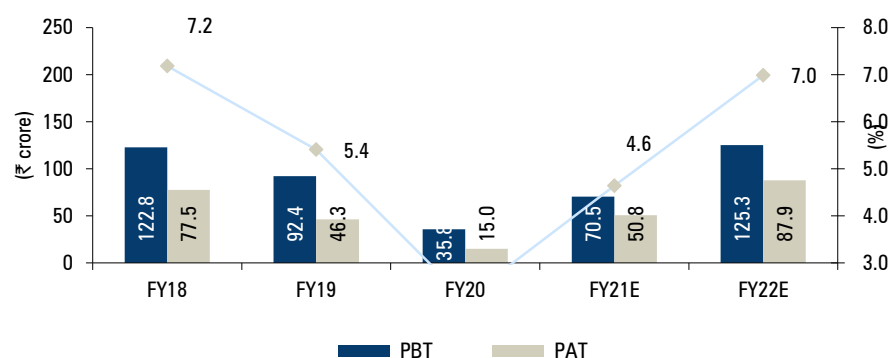
Source: Company, ICICI Direct Research

Exhibit 11: Consolidated EBITDA and EBITDA margin trend



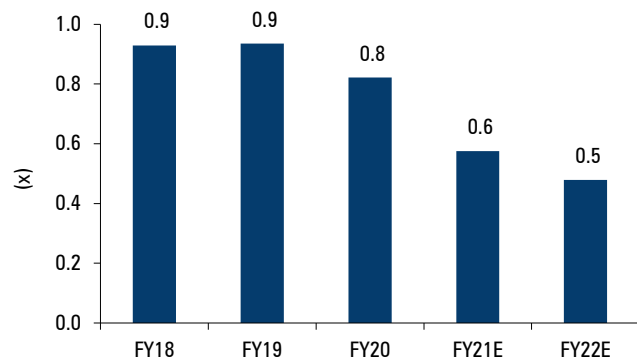
Source: Company, ICICI Direct Research

Exhibit 12: Consolidated PBT, PAT margin trend



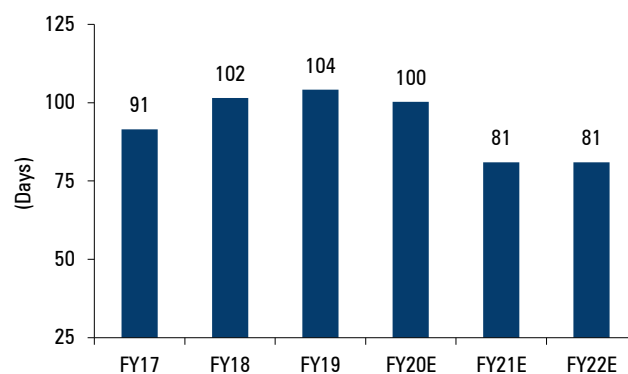
Source: Company, ICICI Direct Research

Exhibit 13: Consolidated leverage



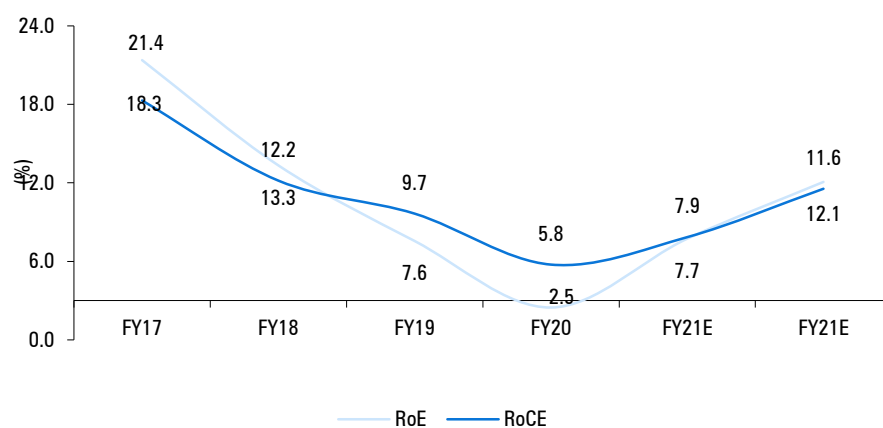
Source: Company, ICICI Direct Research

Exhibit 14: Consolidated working capital days



Source: Company, ICICI Direct Research

Exhibit 15: Return ratios to improve, going ahead



Source: Company, ICICI Direct Research

Financial summary

Exhibit 16: Profit and loss statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Net Sales	1,708.3	1,600.2	1,518.0	1,794.2
Other Income	19.2	12.7	15.0	17.0
Total Revenue	1,727.5	1,622.8	1,540.0	1,819.2
Raw Material Expense	433.5	447.0	384.1	457.5
Purchase of Traded Goods	324.1	282.6	268.1	323.0
(Increase)/Decrease in Inventories	(35.8)	(62.3)	30.4	(62.8)
Employee benefit expenses	226.2	239.1	212.5	251.2
Other Expenses	233.7	226.4	197.3	251.2
Total Operating Expenditure	1,551.7	1,478.7	1,373.2	1,596.9
EBITDA	156.7	121.5	144.8	197.4
Interest	45.9	49.4	34.0	31.3
Depreciation	44.3	59.0	62.3	65.7
PBT	92.4	35.8	70.5	125.3
Total Tax	26.8	(9.9)	17.6	32.5
PAT before MI	53.3	19.5	52.8	92.9
Minority Interest	6.9	4.5	2.0	5.0
PAT after MI	46.3	15.0	50.8	87.9
Profit from Associates	-	-	-	-
PAT	46.3	15.0	50.8	87.9
YoY growth	-58.7%	-67.6%	NA	72.8%
EPS (Diluted)	10.9	3.5	12.0	20.7

Source: Company, ICICI Direct Research

Exhibit 17: Cash flow statement ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit after Tax	46.3	15.0	50.8	87.9
Depreciation	44.3	59.0	62.3	65.7
Interest Paid	45.9	49.4	34.0	31.3
Cash Flow before WC chan	136.5	141.3	134.2	172.9
Net Increase in Current Assets	29.2	95.6	113.4	(106.0)
Net Increase in Current Liabilities	(41.4)	(49.9)	(3.9)	44.7
Net CF from Op. Activities	124.4	187.0	243.7	111.6
(Purchase)/Sale of Fixed Assets	(98.0)	(78.0)	(50.0)	(50.0)
Intangible assets and CWIP	2.9	15.3	0.0	-
LT liability, provision, MI and DTL	(2.0)	27.2	2.0	5.0
Investments	33.4	5.3	-	5.0
Profit in Joint Venture	(6.9)	(4.5)	(2.0)	(5.0)
Net CF from Inv. Activities	(51.5)	(21.9)	(35.0)	(28.0)
Proceeds/Repayment of Debt	33.5	(75.0)	(120.0)	(30.0)
Dividend and Dividend Tax	(8.2)	-	-	(17.6)
Interest Paid	(45.9)	(49.4)	(34.0)	(31.3)
Net CF from Fin. Activities	(20.7)	(124.4)	(154.0)	(78.9)
Net Cash flow	52.2	40.7	54.7	4.7
Opening Cash/ Cash Equivalent	13.6	40.0	20.1	74.7
Cl. Cash/ Cash Equivalent	40.0	20.1	74.7	79.4

Source: Company, ICICI Direct Research

Exhibit 18: Balance sheet ₹ crore				
(Year-end March)	FY19	FY20	FY21E	FY22E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	604.5	598.0	648.8	719.1
Total Shareholders funds	613.0	606.4	657.3	727.6
Secured Loan	393.3	336.6	216.6	186.6
Unsecured Loan	179.8	161.5	161.5	161.5
Total Debt	573.1	498.1	378.1	348.1
Deferred Tax Liability	56.7	41.3	41.3	41.3
Minority Interest	86.7	94.1	96.1	101.1
Other Long Term Liabilities	28.1	61.2	61.2	61.2
Long Term Provisions	4.7	6.9	6.9	6.9
Liability side total	1,362	1,308	1,241	1,286
Assets				
Gross Block	793.6	872.0	922.0	972.0
Net Block	699.9	733.9	720.6	705.2
Capital WIP	24.7	6.0	6.0	6.0
Non-current Investments	-	-	-	-
Long-term loans and advances	5.0	4.6	4.6	4.6
Inventories	254.5	328.2	228.7	270.4
Sundry Debtors	417.9	279.8	270.3	319.5
Loans and Advances	58.4	30.3	28.7	34.0
Other Current Assets	60.5	57.4	54.5	64.4
Cash	40.0	20.1	74.7	79.4
Total Current Assets	899.6	749.9	691.2	796.8
Creditors	198.6	172.9	166.4	196.6
Provisions	0.9	2.7	9.1	10.7
Other Current Liabilities	99.7	73.8	70.0	82.7
Total Current Liabilities	299.2	249.3	245.4	290.1
Net Current Assets	600.4	500.6	445.8	506.8
Assets side total	1,362	1,308	1,241	1,286

Source: Company, ICICI Direct Research

Exhibit 19: Key ratios				
(Year-end March)	FY19	FY20	FY21E	FY22E
Per Share Data				
EPS	10.9	3.5	12.0	20.7
Cash EPS	21.4	17.4	26.7	36.2
BV	144.6	143.1	155.1	171.7
Revenue per Share	403.1	377.6	358.2	423.4
Dividend per share	1.6	-	-	3.4
Operating Ratios				
EBITDA / Total Operating Income	10.6	9.1	7.5	9.5
PAT / Total Operating Income	4.5	2.7	0.9	3.3
Inventory Days	54	75	55	55
Debtor Days	89	64	65	65
Creditor Days	42	39	40	40
Return Ratios				
RoE	7.6	2.5	7.7	12.1
RoCE	9.7	5.8	7.9	11.6
RoIC	9.1	5.0	7.3	11.2
Valuation Ratios				
EV / EBITDA	9.3	11.8	8.7	6.3
P/E	21.5	66.4	19.6	11.3
EV / Net Sales	0.9	0.9	0.8	0.7
Market Cap / Sales	0.6	0.6	0.7	0.6
Price to Book Value	1.6	1.6	1.5	1.4
Turnover Ratios				
Asset turnover	1.3	1.2	1.2	1.4
Gross Block Turnover	2.1	1.8	1.6	1.8
Solvency Ratios				
Net Debt / Equity	0.8	0.7	0.4	0.3
Current Ratio	2.7	2.8	2.4	2.4
Debt / EBITDA	3.0	3.7	1.9	1.2
Quick Ratio	1.8	1.5	1.5	1.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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