

CMP: ₹ 710

Target: ₹ 750 (6%)

Target Period: 12 months

HOLD

August 8, 2021

Growth priced in...

About the stock: Somany Ceramics is the second largest tiles manufacturers in the domestic tiles market having ~63 MSM capacity (own and JV) and sanitaryware & faucets capacity of 1.15 million (mn) pieces and 0.65 mn pieces, respectively.

- Somany has announced a large capex of ₹ 160-170 crore (seeing strong demand and higher utilisation) in FY22, which will increase its overall capacity by 10 MSM and generate ~₹ 250-300 crore worth of additional revenue (at full capacity) and incremental margin of 200 bps

Q1FY22 Results: Somany reported weak Q1FY22 sequential results.

- The topline was up 95% YoY, down 41% QoQ at ₹ 329.9 crore. Tiles revenues were up 98% YoY, down 41% QoQ at ₹ 292 crore
- EBITDA was at ₹ 23.1 crore vs. loss in Q1FY21 but decline of ~74% QoQ. The resultant margins were at 7%
- PAT was at ₹ 4.5 crore vs. loss in Q1FY21 but down 85% QoQ

What should investors do? Somany's share price has grown by 20% over the past five years (from ~₹ 592 in August 2016 to ~₹ 710 levels in August 2021).

- We downgrade from BUY to HOLD after the sharp price run up (up 84% in six months) as we believe the growth outlook is largely priced in

Target Price and Valuation: We value Somany at ₹ 750/share.

Key triggers for future price performance:

- Increased exports demand for Morbi based unorganised players provide better opportunity to organised players focusing on domestic markets
- Somany has announced a large capex of ₹ 160-170 crore (seeing strong demand and higher utilisation) in FY22, which will increase its overall capacity by 10 MSM and generate ~₹ 250-300 crore worth of additional revenue (at full capacity) and incremental margin of 200 bps
- We expect 14% CAGR in tiles volume and realisations CAGR of ~2%, resulting in tiles revenues CAGR of 16% over FY21-23 to ₹ 1948 crore

Alternate Stock Idea: Besides Somany, we like Kajaria Ceramics in the tiles space.

- Quality on improving growth potential of tiles sector
- BUY with a target price of ₹ 1185



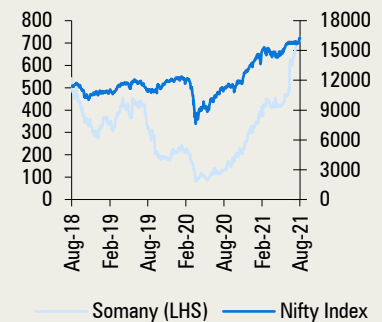
Particulars

Particular	Amount (₹ crore)
Market Capitalization	3,009
Total Debt (FY21)	412
Cash (FY21)	149
EV	3,272
52 week H/L (₹)	745 / 128
Equity capital	8.5
Face value	₹ 2

Shareholding pattern

	Sep-20	Dec-20	Mar-21	Jun-21
Promoters	54.7	54.8	54.8	54.8
DII	14.6	15.0	18.1	17.1
FII	1.6	1.9	2.7	3.5
Other	29.1	28.4	24.5	24.6

Price Chart



Key Risks

Key Risk: (i) Slowdown in demand; (ii) Sharper pickup in margins

Research Analyst

Bhupendra Tiwary, CFA
bhupendra.tiwary@icicisecurities.com

Lokesh Kashikar
lokesh.kashikar@icicisecurities.com

Key Financial Summary

₹ crore	FY19	FY20	FY21	5 yr CAGR (FY26-21)	FY22E	FY23E	2 yr CAGR FY21-23E
Net Sales	1,708.3	1,600.2	1,643.7	-2.0%	1,916.9	2,264.6	17.4%
EBITDA	163.4	131.4	190.8	15.5%	238.9	283.3	21.9%
EBITDA Margin (%)	9.6	8.2	11.6		12.5	12.5	
PAT	46.3	15.0	57.7	-5.6%	107.0	127.6	48.7%
EPS (₹) *	10.9	3.5	13.6		25.3	30.1	
P/E (x)	64.9	200.6	52.1		28.1	23.6	
EV/EBITDA (x)	21.3	26.3	16.7		13.7	11.3	
RoNW (%)	7.6	2.5	8.8		14.4	15.1	
RoCE (%)	10.2	6.5	11.1		14.2	15.4	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- **Second wave impact:** Sales in April, May 2021 were largely impacted by the disruptions caused by the Covid-19 pandemic (sales loss of ~₹ 150 crore). However, demand has started improving from mid-June 2021 onwards backed by reopening of economies. Going forward, the company expects high-teens volume growth in tiles business during FY22 with sharp demand recovery expected during normalcy period and benefits accruing to large organised players with consumers preferring branded products
- **Utilisation:** Tiles' capacity utilisation declined to 65% in Q1FY22 (vs. 97% in Q4FY21) owing to lower demand
- **Sanitaryware division:** In the sanitaryware division, the company has witnessed 49% YoY decline in sales value during Q1FY22. Despite benign Q1, the management has guided for 35-40% YoY growth in FY22E
- **Margin Guidance:** Going forward, the management expects margins to hover in the range of 12-13% for FY22 with a) higher volumes and sales, b) expected decline in gas prices, c) higher operational efficiencies with plants running at ~100% capacities, d) better product mix and e) continuance of cost rationalisation exercise
- **Gas prices:** Gas prices have increased drastically over the past few quarters. For north-based Kassar plant, gas prices (linked to three month's average of crude) were at ~₹ 36/SCM during Q1FY22. It has increased further to ~₹ 39.5/SCM currently. Similarly, prices for Kadi, Morbi plant and southern plant have climbed up from ~₹ 33/SCM and ~₹ 34/SCM to ~₹ 38/SCM and ~₹ 45/SCM, respectively, at present. As per the management, the current prices are not sustainable and are likely to decline in the near-term
- **Price hike:** The company has taken price hikes of ~1-1.5%, ~2.5-3% in product prices in April, July 2021, respectively, to partially offset the increase in input and gas prices
- **A&P spends:** The company has reduced its advertisement and promotion (A&P) spend during Q1FY22 mainly due to Covid-19 pandemic to lower levels (~2% of Q1FY22 sales). Going forward, the management expects A&P spends to increase to ~3% of estimated sales in order to continue on its brand building exercise
- **Working capital:** With strict credit control measures, working capital was at 54 days at Q1FY22-end (debtor: 49 days, inventory: 42 days, creditors: 37 days). Going forward, the management expects working capital to increase slightly during FY22 mainly due to higher level of inventories and initial teething effect at proposed plants (expected to get commissioned during Q4FY22)
- **Morbi:** Exports from Morbi are currently impacted by transportation strike, container unavailability at desired level and higher freight rates. Thus, expected consumption of export-oriented products to the Indian market could impact the domestic-focused player, to some extent. However, as per the management, Somany being a retail and corporates focused player is unlikely to witness much impact

Given the robust demand traction, improved margins trajectory and balance sheet repair, we raise our target P/E multiple to 25x (at ~30% discount to Kajaria), vs. 22x, earlier. We downgrade to HOLD after the sharp run up of ~84% in the last six months and would wait for better entry price to turn constructive. We ascribe a revised target price of ₹ 750/share (vs. ₹ 615, earlier).

Exhibit 1: Variance Analysis

Particular	Q1FY22	Q1FY21	YoY (Chg %)	Q4FY21	QoQ (Chg %)	Comments
Net Sales	329.9	169.4	94.7	564.0	-41.5	Tiles Revenues were up 98% YoY /down 41% QoQ at ₹ 292 crore
Other Income	5.6	1.9	195.8	3.6	57.0	
Raw Material Expense	91.0	13.1	595.3	137.7	-34.0	
Purchase of Traded Goods	64.7	26.0	148.9	119.1	-45.7	
Power & Fuel	74.6	10.6		102.6		
Employee benefit expenses	60.1	37.3	61.2	64.5	-6.9	
Other Expenses	43.7	16.3	167.3	48.7	-10.3	
EBITDA	23.1	-11.6	-298.8	88.9	-74.0	
EBITDA Margin (%)	7.0	-6.9	1386 bps	15.8	-877 bps	
Depreciation	15.1	14.5	3.9	16.4	-8.3	
Interest	8.1	11.5	-29.9	9.3	-13.5	
PBT	5.5	-35.8	-115.5	66.7	-91.7	
Taxes	2.1	-9.4	-122.0	13.7	-84.9	
PAT	4.5	-22.0	-120.3	30.3	-85.2	

Source: Company, ICICI Direct Research

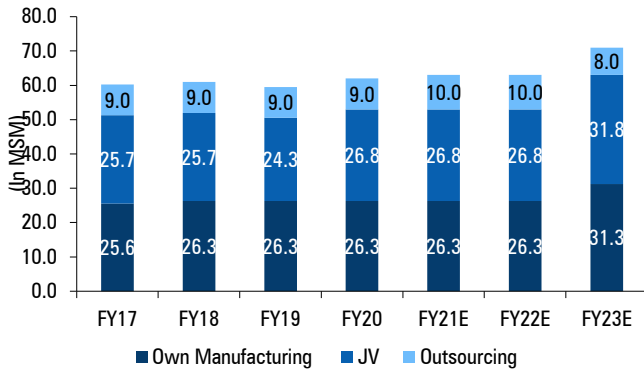
Exhibit 2: Change in estimates

Particulars	FY20	FY21	FY22E			FY23E			Comments
			Old	New	Change	Old	New	Change	
Revenue	1600.2	1643.7	1860.6	1916.9	3.0	2167.8	2264.6	4.5	Realign estimates
EBITDA	131.4	190.8	232.1	238.9	3.0	271.5	283.3	4.3	
EBITDA Margin (%)	8.2	11.6	12.5	12.5	00 bps	12.5	12.5	00 bps	
Adjusted PAT	15.0	57.7	103.0	107.0	3.9	118.4	127.6	7.8	
EPS	3.5	13.6	24.3	25.3	3.9	27.9	30.1	7.8	

Source: Company, ICICI Direct Research

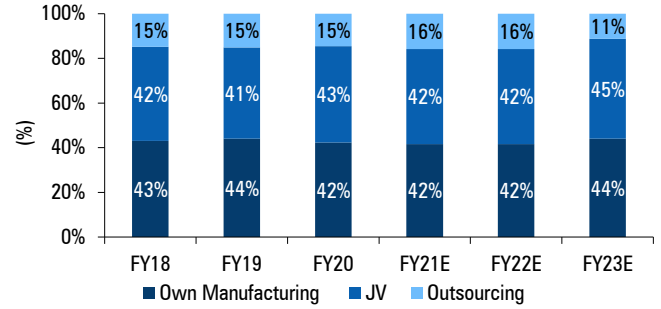
Company Analysis

Exhibit 4: Capacity break-up (in MSM)



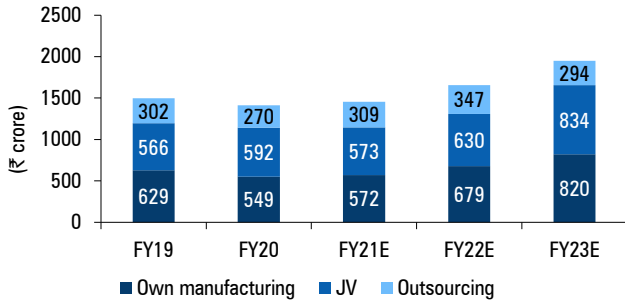
Source: Company, ICICI Direct Research

Exhibit 5: Capacity break-up (%)



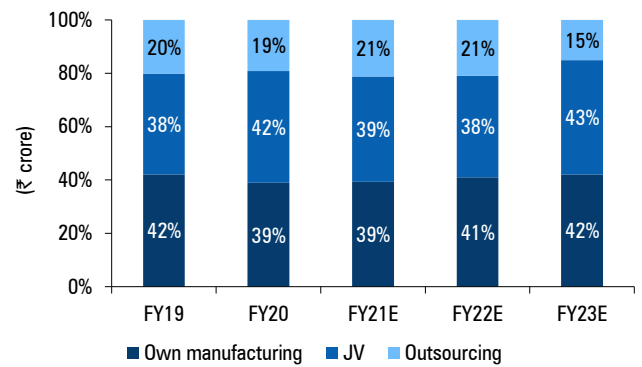
Source: Company, ICICI Direct Research

Exhibit 6: Revenue break-up (₹ crore)



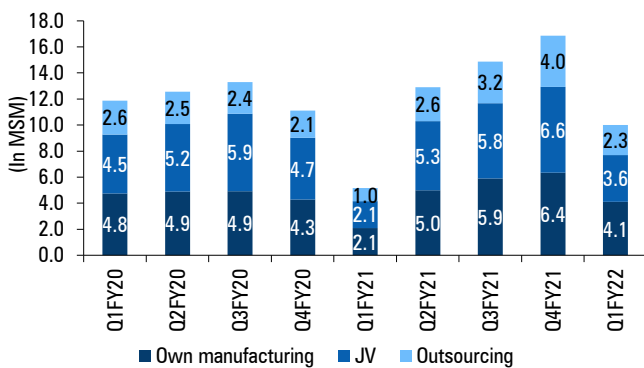
Source: Company, ICICI Direct Research

Exhibit 7: Revenue break-up (%)



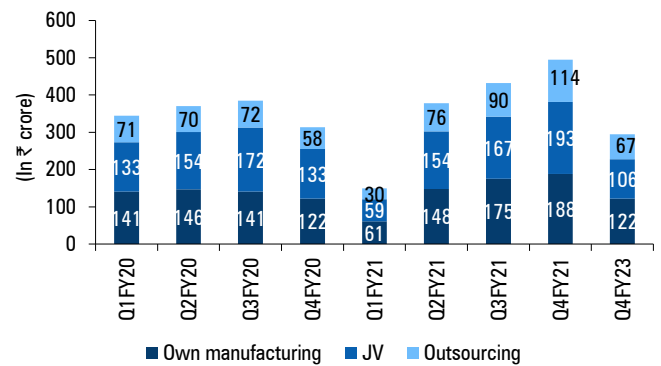
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly standalone sales volumes (in MSM)



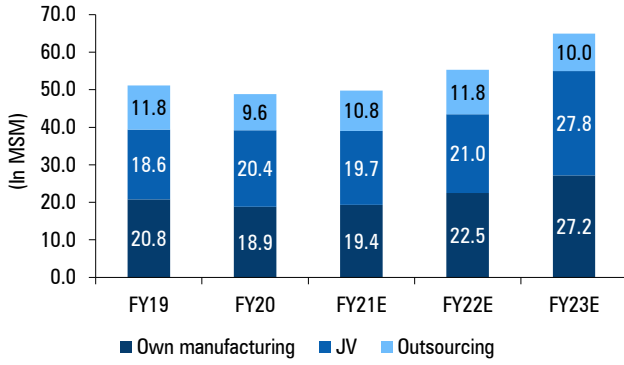
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly standalone sales value



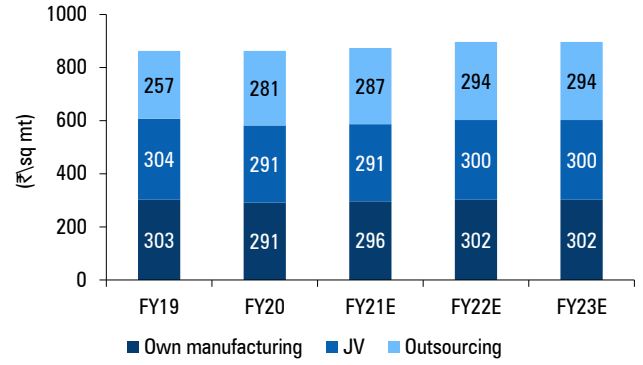
Source: Company, ICICI Direct Research

Exhibit 10: Model-wise standalone sales volumes break-up



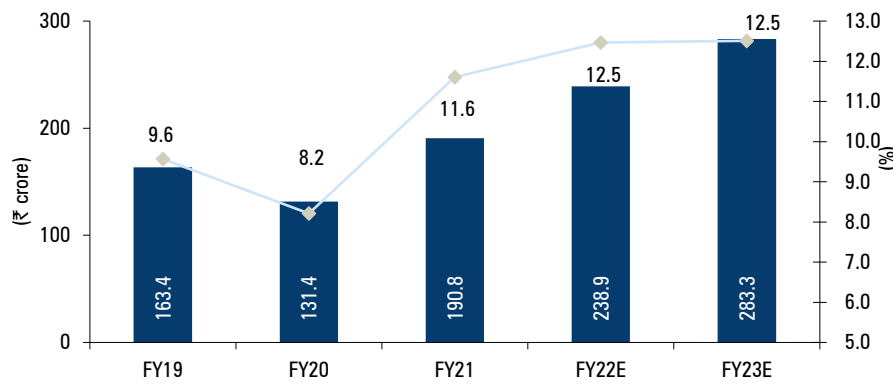
Source: Company, ICICI Direct Research

Exhibit 11: Average realisation break-up



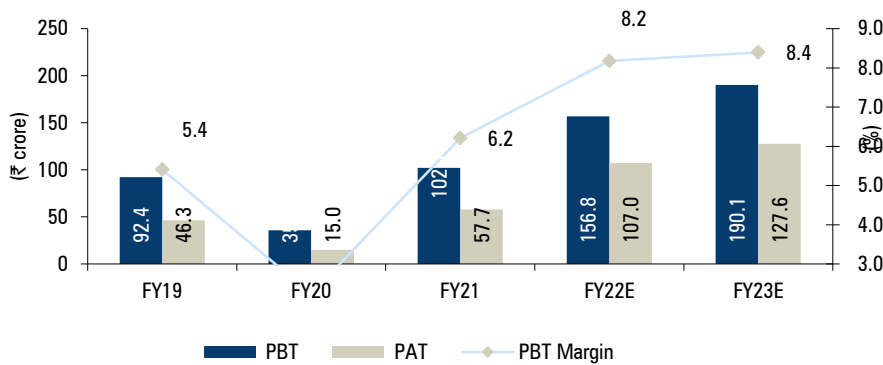
Source: Company, ICICI Direct Research

Exhibit 12: Consolidated EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 13: Consolidated PBT, PAT margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Net Sales	1,600.2	1,643.7	1,916.9	2,264.6
Other Income	12.7	12.8	15.0	15.0
Total Revenue	1,622.8	1,663.2	1,938.9	2,286.6
Raw Material Expense	447.0	393.7	440.9	520.9
Purchase of Traded Goods	282.6	308.0	343.1	405.4
(Increase)/Decrease in Inventories	(62.3)	78.5	57.5	67.9
Employee benefit expenses	239.1	224.8	253.0	294.4
Other Expenses	226.4	177.4	222.4	269.5
Total Operating Expenditure	1,478.7	1,459.7	1,685.0	1,988.3
EBITDA	131.4	190.8	238.9	283.3
Interest	49.4	40.1	33.5	32.6
Depreciation	59.0	61.3	63.6	75.6
PBT	35.8	102.1	156.8	190.1
Total Tax	(9.9)	22.4	40.8	49.4
PAT before MI	19.5	61.3	116.0	140.6
Minority Interest	4.5	3.6	9.0	13.0
PAT	15.0	57.7	107.0	127.6
YoY growth	-86.6%	284.7%	85.5%	19.3%
EPS (Diluted)	3.5	13.6	25.3	30.1

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	598.0	646.9	732.5	834.6
Total Shareholders funds	606.4	655.3	741.0	843.1
Secured Loan	336.6	250.6	210.6	200.6
Unsecured Loan	161.5	161.5	161.5	161.5
Total Debt	498.1	412.1	372.1	362.1
Deferred Tax Liability	41.3	37.2	37.2	37.2
Minority Interest	94.1	99.7	108.7	121.7
Other Long Term Liabilities	61.2	70.1	70.1	70.1
Long Term Provisions	6.9	7.9	7.9	7.9
Liability side total	1,308	1,282	1,337	1,442
Assets				
Gross Block	872.0	909.9	1,069.9	1,119.9
Net Block	733.9	710.4	806.8	781.1
Capital WIP	6.0	8.6	38.6	38.6
Current Investments	34.1	89.8	89.8	89.8
Long-term loans and advances	4.6	4.6	4.6	4.6
Inventories	328.2	244.6	283.6	335.0
Sundry Debtors	279.8	230.7	288.9	341.2
Loans and Advances	30.3	10.9	12.7	14.9
Other Current Assets	57.4	48.4	68.3	80.7
Cash	20.1	149.1	6.3	78.1
Total Current Assets	749.9	773.4	749.5	939.8
Creditors	172.9	188.2	220.6	260.6
Provisions	2.7	1.6	1.6	1.6
Other Current Liabilities	73.8	92.6	108.0	127.6
Total Current Liabilities	249.3	282.4	330.2	389.7
Net Current Assets	500.6	491.1	419.3	550.1
Assets side total	1,308	1,282	1,337	1,442

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	15.0	57.7	107.0	127.6
Depreciation	59.0	61.3	63.6	75.6
Interest Paid	49.4	40.1	33.5	32.6
Cash Flow before WC changes	141.3	168.4	198.2	233.9
Net Increase in Current Assets	95.6	161.1	(118.8)	(118.5)
Net Increase in Current Liabilities	(49.9)	33.0	47.8	59.6
Net CF from Op. Activities	187.0	362.6	127.2	175.0
(Purchase)/Sale of Fixed Assets	(62.7)	(38.5)	(190.0)	(50.0)
Others	40.8	(41.7)	15.0	15.0
Net CF from Inv. Activities	(21.9)	(80.2)	(175.0)	(35.0)
Proceeds/Repayment of Debt	(75.0)	(86.0)	(40.0)	(10.0)
Dividend and Dividend Tax	(20.4)	(10.2)	(21.4)	(25.5)
Interest Paid	(49.4)	(40.1)	(33.5)	(32.6)
Net CF from Fin. Activities	(144.9)	(136.3)	(94.9)	(68.1)
Net Cash flow	20.3	129.0	(142.7)	71.8
Opening Cash/ Cash Equivalent	40.0	20.1	149.1	6.3
Cl. Cash/ Cash Equivalent	20.1	149.1	6.3	78.1

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
EPS	3.5	13.6	25.3	30.1
Cash EPS	17.4	28.1	40.3	48.0
BV	143.1	154.6	174.8	198.9
Revenue per Share	377.6	387.9	452.3	534.4
Dividend per share	4.8	2.4	5.0	5.0
Operating Ratios				
EBITDA / Total Operating Income	10.9	9.5	8.2	11.6
PAT / Total Operating Income	4.5	2.7	0.9	3.5
Inventory Days	75	54	54	54
Debtor Days	64	51	55	55
Creditor Days	39	42	42	42
Return Ratios				
RoE	2.5	8.8	14.4	15.1
RoCE	6.5	11.1	14.2	15.4
RoC	5.8	12.5	14.6	16.8
Valuation Ratios				
EV / EBITDA	26.3	16.7	13.7	11.3
P/E	200.6	52.1	28.1	23.6
EV / Net Sales	2.2	1.9	1.7	1.4
Market Cap / Sales	1.9	1.8	1.6	1.3
Price to Book Value	5.0	4.6	4.1	3.6
Turnover Ratios				
Asset turnover	1.2	1.3	1.4	1.6
Gross Block Turnover	1.8	1.8	1.8	2.0
Solvency Ratios				
Net Debt / Equity	0.7	0.3	0.4	0.2
Current Ratio	2.8	1.9	2.0	2.0
Debt / EBITDA	3.4	0.9	1.2	0.7
Quick Ratio				
	1.5	1.0	1.1	1.1

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

**ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruiti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com**

ANALYST CERTIFICATION

I/We, Bhopendra Tiwary, CFA, MBA, Lokesh Kashikar, MMS, Research Analysts, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report. It is also confirmed that above mentioned Analysts of this report have not received any compensation from the companies mentioned in the report in the preceding twelve months and do not serve as an officer, director or employee of the companies mentioned in the report.

Terms & conditions and other disclosures:

ICICI Securities Limited (ICICI Securities) is a full-service, integrated investment banking and is, inter alia, engaged in the business of stock brokering and distribution of financial products.

ICICI Securities is Sebi registered stock broker, merchant banker, investment adviser, portfolio manager and Research Analyst. ICICI Securities is registered with Insurance Regulatory Development Authority of India Limited (IRDAI) as a composite corporate agent and with PFRDA as a Point of Presence. ICICI Securities Limited Research Analyst SEBI Registration Number – INH000000990. ICICI Securities Limited SEBI Registration is INZ000183631 for stock broker. ICICI Securities is a subsidiary of ICICI Bank which is India's largest private sector bank and has its various subsidiaries engaged in businesses of housing finance, asset management, life insurance, general insurance, venture capital fund management, etc. ("associates"), the details in respect of which are available on www.icicibank.com.

ICICI Securities is one of the leading merchant bankers/ underwriters of securities and participate in virtually all securities trading markets in India. We and our associates might have investment banking and other business relationship with a significant percentage of companies covered by our Investment Research Department. ICICI Securities and its analysts, persons reporting to analysts and their relatives are generally prohibited from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover.

Recommendation in reports based on technical and derivative analysis centre on studying charts of a stock's price movement, outstanding positions, trading volume etc as opposed to focusing on a company's fundamentals and, as such, may not match with the recommendation in fundamental reports. Investors may visit icicidirect.com to view the Fundamental and Technical Research Reports.

Our proprietary trading and investment businesses may make investment decisions that are inconsistent with the recommendations expressed herein.

ICICI Securities Limited has two independent equity research groups: Institutional Research and Retail Research. This report has been prepared by the Retail Research. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating, and target price of the Institutional Research.

The information and opinions in this report have been prepared by ICICI Securities and are subject to change without any notice. The report and information contained herein is strictly confidential and meant 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 prior written consent of ICICI Securities. While we would endeavour to update the information herein on a reasonable basis, ICICI Securities is under no obligation to update or keep the information current. Also, there may be regulatory, compliance or other reasons that may prevent ICICI Securities from doing so. Non-rated securities indicate that rating on a particular security has been suspended temporarily and such suspension is in compliance with applicable regulations and/or ICICI Securities policies, in circumstances where ICICI Securities might be acting in an advisory capacity to this company, or in certain other circumstances.

This report is based on information obtained from public sources and sources believed to be reliable, but no independent verification has been made nor is its accuracy or completeness guaranteed. This report and information herein is solely for informational purpose and shall not be used or considered as an offer document or solicitation of offer to buy or sell or subscribe for securities or other financial instruments. Though disseminated to all the customers simultaneously, not all customers may receive this report at the same time. ICICI Securities will not treat recipients as customers by virtue of their receiving this report. Nothing in this report constitutes investment, legal, accounting and tax advice or a representation that any investment or strategy is suitable or appropriate to your specific circumstances. The securities discussed and opinions expressed in this report may not be suitable for all investors, who must make their own investment decisions, based on their own investment objectives, financial positions and needs of specific recipient. This may not be taken in substitution for the exercise of independent judgment by any recipient. The recipient should independently evaluate the investment risks. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. ICICI Securities accepts no liabilities whatsoever for any loss or damage of any kind arising out of the use of this report. Past performance is not necessarily a guide to future performance. Investors are advised to see Risk Disclosure Document to understand the risks associated before investing in the securities markets. Actual results may differ materially from those set forth in projections. Forward-looking statements are not predictions and may be subject to change without notice.

ICICI Securities or its associates might have managed or co-managed public offering of securities for the subject company or might have been mandated by the subject company for any other assignment in the past twelve months.

ICICI Securities or its associates might have received any compensation from the companies mentioned in the report during the period preceding twelve months from the date of this report for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory service in a merger or specific transaction.

ICICI Securities encourages independence in research report preparation and strives to minimize conflict in preparation of research report. ICICI Securities or its associates or its analysts did not receive any compensation or other benefits from the companies mentioned in the report or third party in connection with preparation of the research report. Accordingly, neither ICICI Securities nor Research Analysts and their relatives have any material conflict of interest at the time of publication of this report.

Compensation of our Research Analysts is not based on any specific merchant banking, investment banking or brokerage service transactions.

ICICI Securities or its subsidiaries collectively or Research Analysts or their relatives do not own 1% or more of the equity securities of the Company mentioned in the report as of the last day of the month preceding the publication of the research report.

Since associates of ICICI Securities and ICICI Securities as a entity are engaged in various financial service businesses, they might have financial interests or beneficial ownership in various companies including the subject company/companies mentioned in this report.

ICICI Securities may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

Neither the Research Analysts nor ICICI Securities have been engaged in market making activity for the companies mentioned in the report.

We submit that no material disciplinary action has been taken on ICICI Securities by any Regulatory Authority impacting Equity Research Analysis activities.

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 ICICI Securities and affiliates 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 document may come are required to inform themselves of and to observe such restriction.