

Robust growth guidance...

Somany Ceramics reported strong Q3FY21 numbers with sales volumes growth recovery faster than anticipated. Tiles sales volumes were up 11.8% YoY at 14.9 MSM with stable realisations (up 0.8% YoY at ₹ 288/SCM). Tiles revenues were up 12.6% YoY at ₹ 428.6 crore while bathware revenues were up 8.4% YoY at ₹ 50.9 crore. Overall revenues were up 12.9% YoY at ₹ 492 crore. EBITDA at ₹ 63.3 crore was up 10.4% YoY, driven by better product mix driving gross margins. Margins at 12.9% were up 363 bps YoY. PAT was at ₹ 28.2 crore, up 1.7x YoY, with growth aided by superior operating performance and lower interest costs.

Morbi exports traction boosts domestic organised players

Volume growth was led by strong traction in tier II, III and below cities, aiding capacity utilisation notwithstanding Metro cities demand still at ~80% of pre-Covid levels. **Exports by Morbi players driven by the anti-dumping duty levied by the US on Chinese players as well as other countries, has been absorbing the Morbi based unorganised volumes (~34-35% Morbi volumes exported now vs. ~21% earlier), thus improving the demand and pricing scenario for organised players.** Riding on demand traction, the company will chart out its capex plan in Q4. Overall, we expect tiles sales volumes and revenues to grow at 9.4% CAGR to 63.9 MSM and ₹ 1846 crore in FY20-23E.

Double digit volume growth & margin expansion in FY22

Margin expansion of 360 bps YoY to 12.9% was largely led by gross profit margins, which were up 375 bps YoY at 39.4%. Better product mix was the key driver as the company improved the mix of higher margin GVT (25% of revenues vs. 23% earlier). Gas prices have shot up sharply in Q4 but are expected to cool off from April, 2020 onwards. However, the company is likely to take price hike applicable from February, 2021 onwards to absorb majority of gas price increase. **Guidance for healthy double digit volume growth led by robust demand was given. They also expect margin improvement with higher operational efficiencies with plants running at 100% capacity, better product mix in tiles and strong bathware segment traction. Their medium term target is to reach margins of 14-15%. We expect EBITDA margins at 12.5% for both FY22E and FY23E vs. 10.5% in FY21E.**

Valuation & Outlook

Somany's working capital management and net debt reduction (down from ~₹ 444 crore in FY20 to ₹ 255 crore as on Q3FY21) has been the key positive. Given the robust demand traction, improved margins trajectory and balance sheet repair initiatives, we raise our target multiple to 17x now (vs. 14x) as we roll forward to FY23E. We maintain **BUY** with a revised target price of ₹ 500/share at 17x FY23E P/E (₹ 290/share, earlier).



Particulars	
Particular	Amount (₹ crore)
Market Capitalization	1,629
Total Debt (FY20)	498
Cash (FY20)	20
EV	2,107
52 week H/L (₹)	430 / 77
Equity capital	8.5
Face value	₹ 2

Key Highlights

- Sales volumes exhibited stronger growth recovery with volumes up 11.8% YoY at 14.9 MSM
- Maintain BUY with revised target price of ₹ 500/share (17x FY23E EPS)

Key Risk to our call

- Sharp rise in Gas Prices could impact margins
- Increased competitive intensity especially from Morbi players

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	1,708.3	1,600.2	1,618.7	1,867.6	2,155.9	10.4%
EBITDA	156.7	121.5	170.6	233.5	269.5	30.4%
EBITDA Margin (%)	9.2	7.6	10.5	12.5	12.5	
PAT *	46.3	15.0	63.2	103.6	124.8	
Adj. PAT	58.5	41.2	63.2	103.6	124.8	44.7%
EPS (₹) *	10.9	3.5	14.9	24.4	29.4	
Adj. EPS (₹)	13.8	9.7	14.9	24.4	29.4	
P/E (x)	35.2	108.6	25.8	15.7	13.1	
EV/EBITDA (x)	13.4	17.1	11.1	7.9	6.6	
RoNW (%)	7.6	2.5	9.4	13.8	14.6	
RoCE (%)	9.7	5.8	9.7	13.7	14.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particular	Q3FY21	Q3FY20	YoY (Chg %)	Q2FY21	QoQ (Chg %)	Comments
Net Sales	492.5	436.2	12.9	423.9	16.2	
Other Income	3.3	3.1	6.5	4.0	-18.6	
Raw Material Expense	136.6	99.6	37.1	106.4	28.3	
Purchase of Traded Goods	91.6	74.6	22.8	71.3	28.5	
Power & Fuel	88.5	76.9		75.6		
Employee benefit expenses	70.8	57.7	22.7	52.2	35.6	
Other Expenses	59.8	57.5	4.1	52.5	13.9	
EBITDA	63.3	40.3	57.3	49.4	28.0	EBITDA largely driven by operating leverage and better product mix driving gross margins
EBITDA Margin (%)	12.9	9.2	363 bps	11.7	119 bps	
Depreciation	15.4	14.3	7.8	15.0	2.3	
Interest	9.4	12.4	-24.2	9.8	-4.2	
PBT	41.8	16.7	151.0	28.6	46.0	
Taxes	10.7	4.1	158.9	7.3	46.0	
PAT	28.2	10.4	170.8	20.5	37.7	Operating level performance coupled with lower interest costs led to strong PAT growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

Particulars	FY19		FY20		FY21E			FY22E			FY23E	
			Old	New	Change	Old	New	Change	New	Change	New	Comments
Revenue	1708.3	1600.2	1518.0	1618.7	6.6	1794.1	1867.6	4.1	2155.9		2155.9	We incorporate management guidance
EBITDA	156.7	121.5	144.8	170.6	17.8	197.4	233.5	18.3	269.5		269.5	
EBITDA Margin (%)	9.2	7.6	9.5	10.5	100 bps	11.0	12.5	150 bps	12.5		12.5	We tweak our estimates
Adjusted PAT	46.3	15.0	50.8	63.2	24.4	87.9	103.6	17.8	124.8		124.8	
EPS	10.9	3.5	12.0	14.9	24.4	20.7	24.4	17.8	29.4		29.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	FY21E	FY22E	FY23E	Comments
Sales Volume Assumptions (MSM)						
Own Manufacturing	20.8	18.9	19.6	24.9	24.9	
JV	18.6	20.4	19.8	22.0	29.4	
Outsourcing/Imports	11.8	9.6	9.9	8.8	9.6	
Total	51.2	48.9	49.3	55.7	63.9	
Average Realisation (₹/SM)						
Own Manufacturing	303	291	291	291	291	
JV	304	291	291	291	291	
Outsourcing/Imports	257	277	277	277	277	
Blended realisation	293	288	289	289	289	

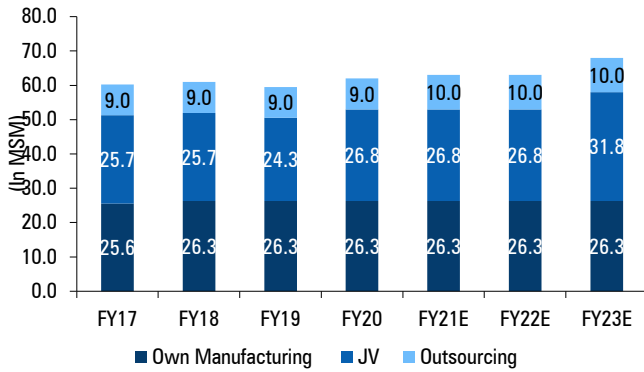
Source: Company, ICICI Direct Research

Conference call Highlights

- **Outlook and Guidance:** The company expects Morbi players to focus on exports, resulting in demand-supply mismatch in the domestic market and stable pricing. Guidance for healthy double digit volume growth led by robust demand was given for the tiles segment and 40-50% growth in bathware segment. Export revenues are likely to grow 20% in FY22, with contribution to overall revenue to remain at 6-7%
- **Gas prices:** Gas prices in the north-based Kassar plant (linked to three month's average of crude) saw an increase of ₹ 2/scm to ₹ 29-30/scm, Its Kadi, Morbi plant witnessed an increase of ₹ 6-8/scm to ₹ 34-35/scm while gas price in its south plant (spot linked) witnessed rise in gas prices from ₹ 28-29 to ₹ 33 in January, 2021 and ₹ 38 in February, 2021. However, the management expects it to be back at ₹ 33 in March, 2021
- **Margins:** The company indicated that during Q3 it rolled back the salary cuts while ad spends are back to 2.5-3% of sales (likely to remain same ahead). Thus, the margin expansion in Q3 was attributable to operating leverage and product mix of higher margin GVT (25% of revenues vs. 23% earlier). Gas prices have shot up sharply in Q4 but are expected to cool off from April, 2020 onwards. However, the company is likely to take a price hike applicable from February, 2021 onwards to absorb majority of the gas price increase. They also expect a margin improvement with higher operational efficiencies with plants running at 100% capacity, better product mix in tiles and strong bathware segment traction. Their medium term target is to reach margins of 14-15%
- **Dealers:** Dealers addition of 400 were made in 9MFY21 (of which 200 added in Q3). Incremental sales from new dealers were at ₹ 75 crore for 9MFY21
- **Product mix:** Ceramic, PVT, GVT contribution to volumes were at 40%, 35%, 25% for Q3FY21 (vs. 40%, 35%, 25% earlier), respectively
- **Capex:** Capex for FY21E is likely at ₹ 30-35 crore. The company indicated that it would announce future capex plans in Q4
- **Debt & working capital:** Net debt at the consolidated level was at ~₹ 255 crore, down from ₹ 280 crore in Q2. Somany's working capital has reduced from 63 days in Q3FY20 to 61 days currently given strict credit control measures and optimum management of inventories
- **ICD and other issues:** The ICD has reduced to single digit (in crore) vs. ₹ 35 crore in FY20 and is likely to reduce towards zero. The company also expects some partial recovery from employee default case in the near term

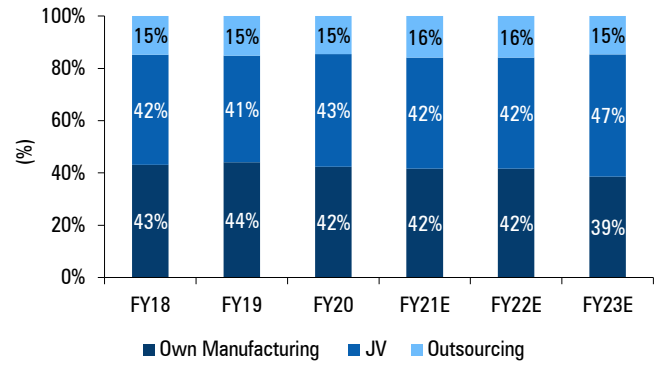
Company Analysis

Exhibit 4: Capacity break-up (in MSM)



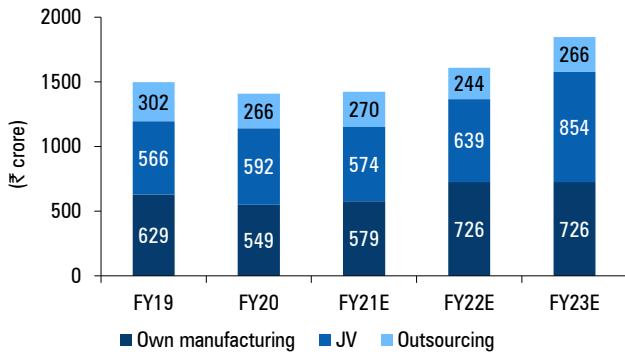
Source: Company, ICICI Direct Research

Exhibit 5: Capacity break-up (%)



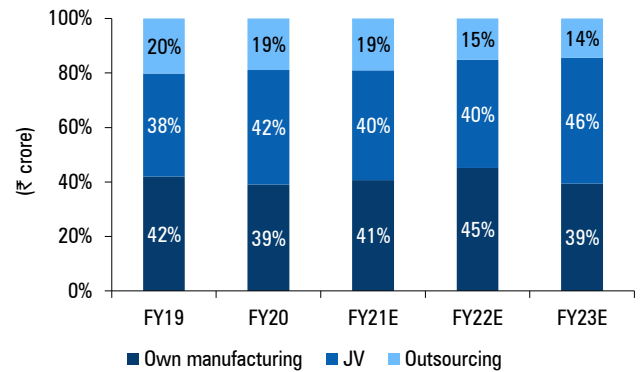
Source: Company, ICICI Direct Research

Exhibit 6: Revenue break-up (₹ crore)



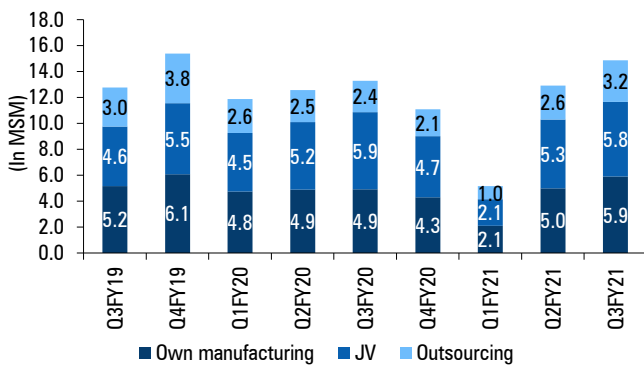
Source: Company, ICICI Direct Research

Exhibit 7: Revenue break-up (%)



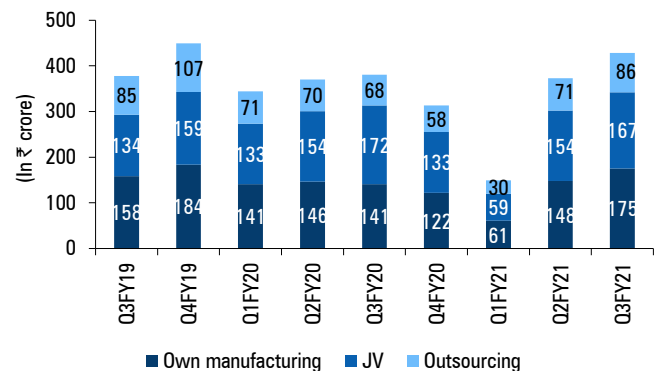
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly standalone sales volumes (in MSM)



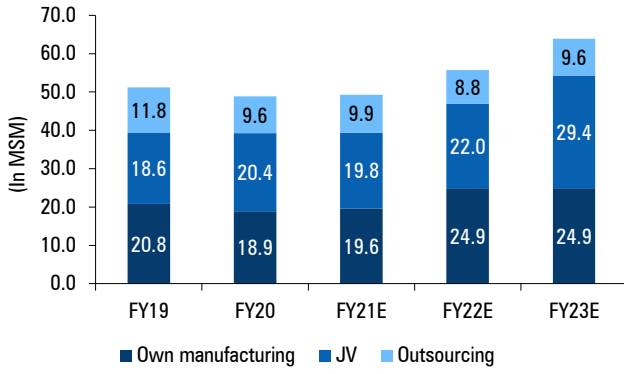
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly standalone sales value



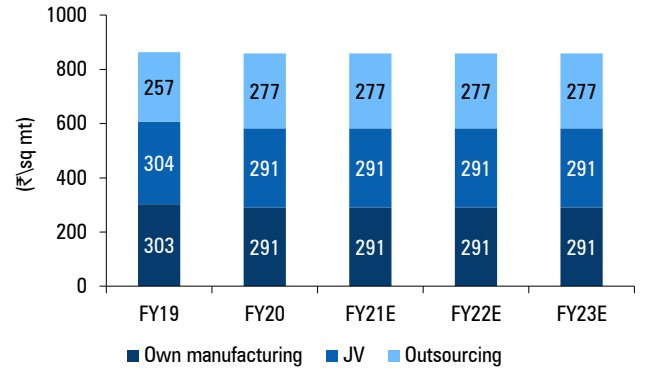
Source: Company, ICICI Direct Research

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



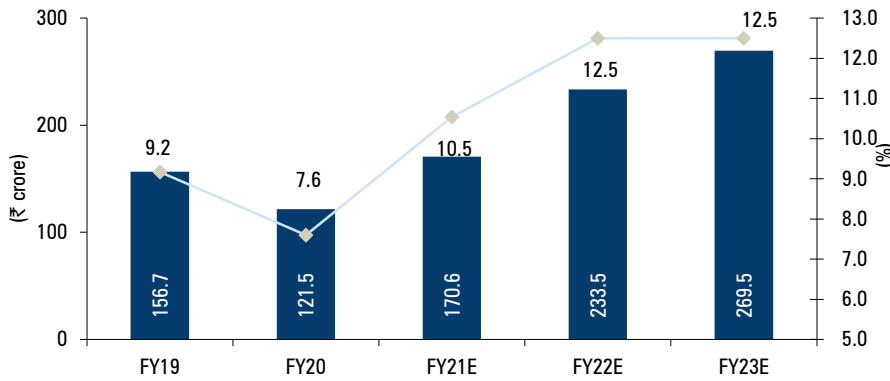
Source: Company, ICICI Direct Research

Exhibit 11: Average realisation break-up



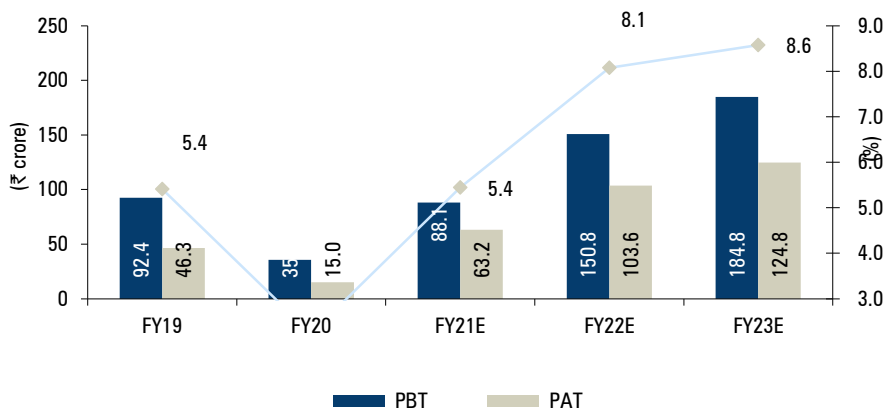
Source: Company, ICICI Direct Research

Exhibit 12: Consolidated EBITDA and EBITDA margin trend



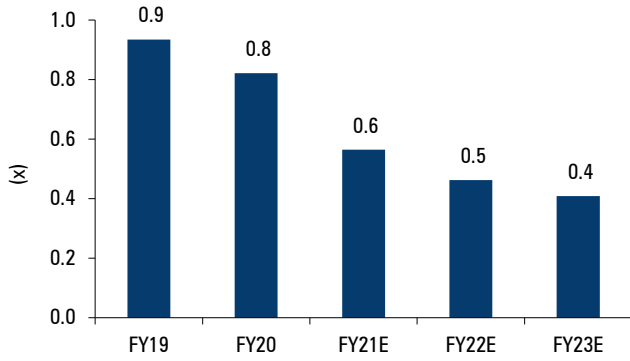
Source: Company, ICICI Direct Research

Exhibit 13: Consolidated PBT, PAT margin trend



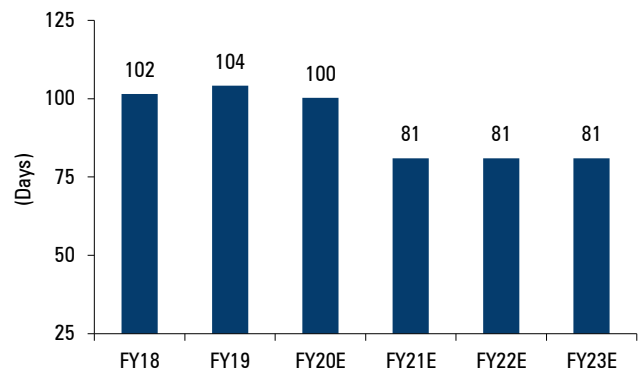
Source: Company, ICICI Direct Research

Exhibit 14: Consolidated leverage



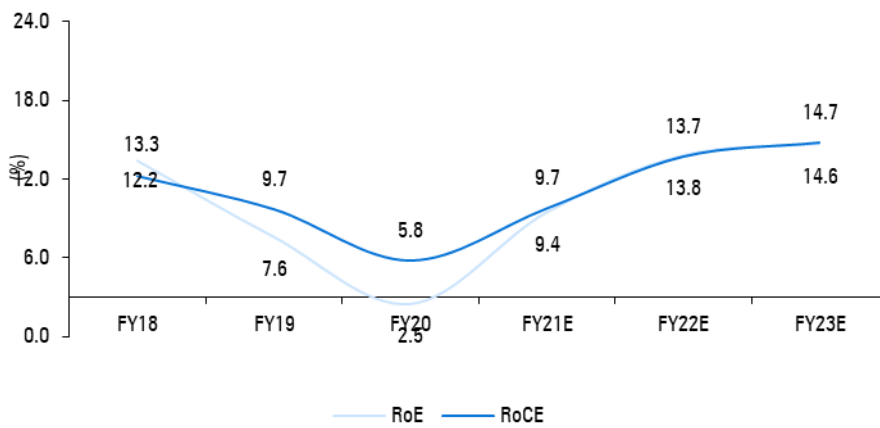
Source: Company, ICICI Direct Research

Exhibit 15: Consolidated working capital days



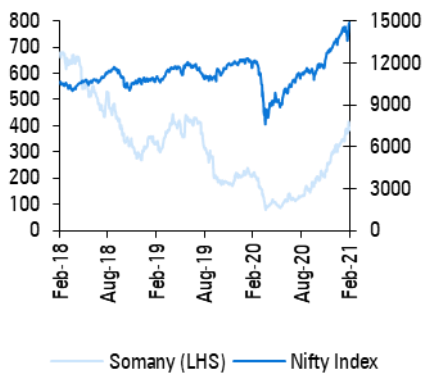
Source: Company, ICICI Direct Research

Exhibit 16: Return ratios to improve, going ahead



Source: Company, ICICI Direct Research

Exhibit 17: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 18: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	1,600.2	1,618.7	1,867.6	2,155.9
Other Income	12.7	12.5	12.0	12.0
Total Revenue	1,622.8	1,637.2	1,885.6	2,173.9
Raw Material Expense	447.0	409.5	476.2	549.8
Purchase of Traded Goods	282.6	285.9	336.2	388.1
(Increase)/Decrease in Inventories	(62.3)	32.4	(65.4)	(75.5)
Employee benefit expenses	239.1	226.6	261.5	301.8
Other Expenses	226.4	194.2	233.5	269.5
Total Operating Expenditure	1,478.7	1,448.1	1,634.2	1,886.5
EBITDA	121.5	170.6	233.5	269.5
Interest	49.4	39.7	34.8	31.3
Depreciation	59.0	61.3	65.9	71.4
PBT	35.8	88.1	150.8	184.8
Total Tax	(9.9)	22.9	39.2	48.0
PAT before MI	19.5	65.2	111.6	136.8
Minority Interest	4.5	2.0	8.0	12.0
PAT after MI	15.0	63.2	103.6	124.8
Profit from Associates	-	-	-	-
PAT	15.0	63.2	103.6	124.8
YoY growth	-86.6%	321.2%	NA	20.5%
EPS (Diluted)	3.5	14.9	24.4	29.4

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit after Tax	15.0	63.2	103.6	124.8
Depreciation	59.0	61.3	65.9	71.4
Interest Paid	49.4	39.7	34.8	31.3
Cash Flow before WC changes	141.3	153.7	200.3	227.4
Net Increase in Current Assets	95.6	74.8	(95.5)	(110.6)
Net Increase in Current Liabilities	(49.9)	12.4	40.2	46.6
Net CF from Op. Activities	187.0	240.9	145.0	163.5
(Purchase)/Sale of Fixed Assets	(78.0)	(35.0)	(50.0)	(50.0)
Intangible assets and CWIP	15.3	0.0	-	-
LT liability, provision, MI and DTL	27.2	2.0	8.0	12.0
Investments	5.3	-	5.0	5.0
Profit in Joint Venture	(4.5)	(2.0)	(8.0)	(12.0)
Net CF from Inv. Activities	(21.9)	(22.5)	(33.0)	(33.0)
Proceeds/Repayment of Debt	(75.0)	(120.0)	(30.0)	-
Dividend and Dividend Tax	-	-	(20.7)	(25.0)
Interest Paid	(49.4)	(39.7)	(34.8)	(31.3)
Net CF from Fin. Activities	(124.4)	(159.7)	(85.5)	(56.3)
Net Cash flow	40.7	58.7	26.5	74.2
Opening Cash/ Cash Equivalent	40.0	20.1	78.7	105.2
Cl. Cash/ Cash Equivalent	20.1	78.7	105.2	179.4

Source: Company, ICICI Direct Research

Exhibit 20: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	598.0	661.2	744.0	843.8
Total Shareholders funds	606.4	669.6	752.5	852.3
Secured Loan	336.6	216.6	186.6	186.6
Unsecured Loan	161.5	161.5	161.5	161.5
Total Debt	498.1	378.1	348.1	348.1
Deferred Tax Liability	41.3	41.3	41.3	41.3
Minority Interest	94.1	96.1	104.1	116.1
Other Long Term Liabilities	61.2	61.2	61.2	61.2
Long Term Provisions	6.9	6.9	6.9	6.9
Liability side total	1,308	1,253	1,314	1,426
Assets				
Gross Block	872.0	907.0	957.0	1,007.0
Net Block	733.9	706.6	691.0	669.9
Capital WIP	6.0	6.0	6.0	6.0
Non-current Investments	-	-	-	-
Long-term loans and advances	4.6	4.6	4.6	4.6
Inventories	328.2	243.9	281.4	324.9
Sundry Debtors	279.8	288.3	332.6	383.9
Loans and Advances	30.3	30.6	35.4	40.8
Other Current Assets	57.4	58.1	67.0	77.4
Cash	20.1	78.7	105.2	179.4
Total Current Assets	749.9	733.8	850.8	1,030.5
Creditors	172.9	177.4	204.7	236.3
Provisions	2.7	9.7	11.2	12.9
Other Current Liabilities	73.8	74.6	86.1	99.4
Total Current Liabilities	249.3	261.7	301.9	348.5
Net Current Assets	500.6	472.1	548.8	682.0
Assets side total	1,308	1,253	1,314	1,426

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per Share Data				
EPS	3.5	14.9	24.4	29.4
Cash EPS	17.4	29.4	40.0	46.3
BV	143.1	158.0	177.6	201.1
Revenue per Share	377.6	381.9	440.7	508.7
Dividend per share	-	-	4.1	4.9
Operating Ratios				
EBITDA / Total Operating Income	10.6	9.1	7.5	10.5
PAT / Total Operating Income	4.5	2.7	0.9	3.9
Inventory Days	75	55	55	55
Debtor Days	64	65	65	65
Creditor Days	39	40	40	40
Return Ratios				
RoE	2.5	9.4	13.8	14.6
RoCE	5.8	9.7	13.7	14.7
RoIC	5.0	9.6	14.3	16.3
Valuation Ratios				
EV / EBITDA	17.1	11.1	7.9	6.6
P/E	108.6	25.8	15.7	13.1
EV / Net Sales	1.3	1.2	1.0	0.8
Market Cap / Sales	1.0	1.0	0.9	0.8
Price to Book Value	2.7	2.4	2.2	1.9
Turnover Ratios				
Asset turnover	1.2	1.3	1.4	1.5
Gross Block Turnover	1.8	1.8	1.9	2.1
Solvency Ratios				
Net Debt / Equity	0.7	0.4	0.3	0.2
Current Ratio	2.8	2.4	2.4	2.4
Debt / EBITDA	3.7	1.6	0.9	0.5
Quick Ratio	1.5	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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