

Strong all-round show...

Somany Ceramics reported strong growth on a benign base (~31% decline in Q4FY20). Tiles sales volumes were up 52% YoY at 16.9 MSM with realisations up 4% YoY at ₹ 293/SCM. Tiles revenues were up 57.8% YoY at ₹ 491.1 crore while bathware revenues were up 58% YoY at ₹ 57 crore. EBITDA, at ₹ 88.9 crore, was up 5.4x YoY, driven by operating leverage and lower other costs. Margins at 15.8%, were up 12 percentage points on a depressed base. PAT was at ₹ 30.3 crore. PAT would have been higher but for a write-off of investments in NCDs of ₹ 18.5 crore in Srei Infra.

Covid to impact Q1; mid teen growth guidance for FY22

Volume growth was led by strong traction in tier II, III and below cities, aiding capacity utilisation (at ~97% in Q4) and now contributes 75% to revenues. Furthermore, volume diversion towards exports by Morbi players (~40% Morbi volumes exported now vs. ~25% earlier), is also improving the demand and pricing scenario for organised player. Going forward, the company expects 60-70% of overall targeted sales during Q1FY22 owing to the second wave. April 2021 sales were at ~85% of the company's internal target, May 2021: 32-33%, June 2021: 70%. Despite this, the company expects mid teen volume growth in tiles business in FY22E with sharp demand recovery expected during normalcy period. In bathware division, the management has guided for 35-40% YoY in FY22E. Going forward, the management expects margins to hover in the range of 12-13% in FY22.

Capex plans in place to meet anticipated demand

Somany's entire product portfolio is spread across a) tiles: capacity of 63 MSM/annum (including dedicated outsourced tie ups), b) sanitaryware: 1.15mn pieces/annum (excluding outsource tie ups) and c) bath fitting: 0.65 mn pieces/annum (excluding outsource tie ups). Additionally, the company has announced capacity expansion plans worth ~₹ 160-170 crore to be spread across a) southern India plant: joint venture with total estimated capex of ~₹ 75 crore (60% to be spent by Somany), b) western region plant: estimated capex of ~₹ 90 crore and c) northern region plant: ₹ 40 crore. The proposed capex is likely to increase Somany's capacity to 70-71 MSM. The management expects commissioning of all plants by FY22-end. We expect overall revenues to grow at ~15% CAGR in FY21-23 to ₹ 2168 crore.

Valuation & Outlook

Somany's working capital management and net debt reduction (down from ~₹ 444 crore in FY20 to ₹ 173 crore in FY21) has been the key positive. Given the robust demand traction, improved margins trajectory and balance sheet repair, we raise our target P/E multiple to 22x (vs. 17x). We maintain **BUY** rating with a revised target price of ₹ 615/share (earlier ₹ 500/share).



Particulars

Particular	Amount (₹ crore)
Market Capitalization	2,254
Total Debt (FY21)	412
Cash (FY21)	149
EV	2,517
52 week H/L (₹)	565 / 110
Equity capital	8.5
Face value	₹ 2

Key Highlights

- Sales volumes exhibited strong growth recovery with volumes up 52% YoY at 16.9 MSM
- Maintain BUY with revised target price of ₹ 615/share

Key risk to our calls

- 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	FY21	FY22E	FY23E	CAGR FY21-23E
Net Sales	1,708.3	1,600.2	1,643.7	1,860.6	2,167.8	14.8%
EBITDA	163.4	131.4	190.8	232.1	271.5	19.3%
EBITDA Margin (%)	9.6	8.2	11.6	12.5	12.5	
PAT	46.3	15.0	57.7	103.0	118.4	43.3%
EPS (₹) *	10.9	3.5	13.6	24.3	27.9	
P/E (x)	48.6	150.3	39.1	21.9	19.0	
EV/EBITDA (x)	16.6	20.5	12.7	10.3	8.6	
RoNW (%)	7.6	2.5	8.8	14.0	14.2	
RoCE (%)	10.2	6.5	11.1	13.8	14.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particular	Q4FY21	Q4FY20	YoY (Chg %)	Q3FY21	QoQ (Chg %)	Comments
Net Sales	564.0	356.1	58.4	492.5	14.5	
Other Income	3.6	3.0	18.7	3.3	8.2	
Raw Material Expense	137.7	116.2	18.5	136.6	0.8	
Purchase of Traded Goods	119.1	65.0	83.3	91.6	29.9	
Power & Fuel	102.6	95.2		88.5		
Employee benefit expenses	64.5	61.9	4.3	70.8	-8.9	
Other Expenses	48.7	58.5	-16.7	59.8	-18.6	
EBITDA	88.9	13.9	541.7	63.3	40.5	EBITDA largely driven by operating leverage
EBITDA Margin (%)	15.8	3.9	1188 bps	12.9	292 bps	
Depreciation	16.4	16.1	1.9	15.4	6.8	
Interest	9.3	11.5	-18.7	9.4	-0.7	
PBT	66.7	-10.8	-720.8	41.8	59.6	
Taxes	13.7	-1.8	-884.0	10.7	28.0	
PAT	30.3	-9.3	-424.9	28.2	7.3	

Source: Company, ICICI Direct Research

Exhibit 2: Change in Estimates

Particulars	FY20		FY22E			FY23E			Comments
	FY20	FY21	Old	New	Change	Old	New	Change	
Revenue	1600.2	1643.7	1867.6	1860.6	-0.4	2155.9	2167.8	0.6	
EBITDA	131.4	190.8	233.5	232.1	-0.6	269.5	271.5	0.7	
EBITDA Margin (%)	8.2	11.6	12.5	12.5	-03 bps	12.5	12.5	02 bps	
Adjusted PAT	15.0	57.7	103.6	103.0	-0.6	124.8	118.4	-5.1	Build in higher depreciation for new capacities
EPS	3.5	13.6	24.4	24.3	-0.6	29.4	27.9	-5.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY19	FY20	FY21E	FY22E	FY23E	Comments
Sales Volume Assumptions (MSM)						
Own Manufacturing	20.8	18.9	19.4	23.0	27.2	
JV	18.6	20.4	19.7	22.0	27.8	
Outsourcing/Imports	11.8	9.6	10.8	9.8	8.0	
Total	51.2	48.9	49.8	54.8	62.9	
Average Realisation (₹/SM)						
Own Manufacturing	303	291	296	297	297	
JV	304	291	291	294	294	
Outsourcing/Imports	257	281	287	288	288	
Blended realisation	293	289	292	294	294	

Source: Company, ICICI Direct Research

Conference call Highlights

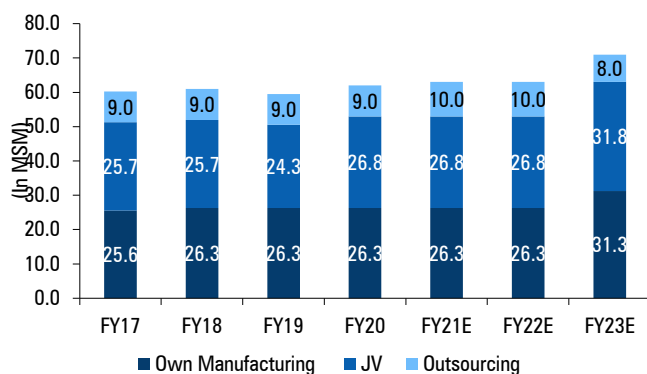
- **Gas prices:** Average gas prices for Somany during Q4FY21 were at ₹ 26/SCM. For north-based Kassar plant, gas prices (linked to three month's average of crude) were at ₹ 29/SCM in Q4FY21 and currently is at ₹ 37/SCM. For Kadi, Morbi plant and south plant (spot linked), prices are at ₹ 33/SCM at present. As per the management, current prices are unsustainable and are likely to decline in the near-term. However, the management has indicated at ~2-3% hike in product prices in order to partially offset increase in input and gas prices
- **Margin:** Despite increase in blended gas prices, EBITDA margin on standalone, consolidated basis have improved to 12.2%, 16%, respectively, in Q4FY21. EBITDA margin in FY21 was at 11.6%. Going forward, the management expects margins to hover in the range of 12-13% for FY22 with a) expected decline in gas prices, b) higher operational efficiencies with plants running at ~100% capacity, c) better product mix and d) continuance of cost rationalisation exercise
- **Marketing and ad expense:** Despite muted expense incurred towards advertisement and marketing in H1FY21 due to Covid-19 pandemic, the company has significantly increased their media and digital presence in H2FY21 and incurred an expense of ₹ 40 crore in FY21 (vs. ₹ 60 crore in FY20). Going forward, the management expects ad spends to remain at ~3-3.5% of estimated FY22 sales in order to continue on its brand building exercise
- **Debt:** As on March 31, 2021, net debt at standalone, consolidated level was at ₹ 56 crore, ₹ 172 crore, respectively (down from ₹ 242 crore, ₹ 444 crore, respectively, as on March 31, 2020). The management expects debt to decline by ₹ 50 crore in FY22 at the consolidated level
- **Working capital days:** With strict credit control measures, working capital was at ~54 days at FY21-end. 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).

Other

- The company has added ~400 net dealers during FY21
- Exports contribute merely ~5% to its overall topline

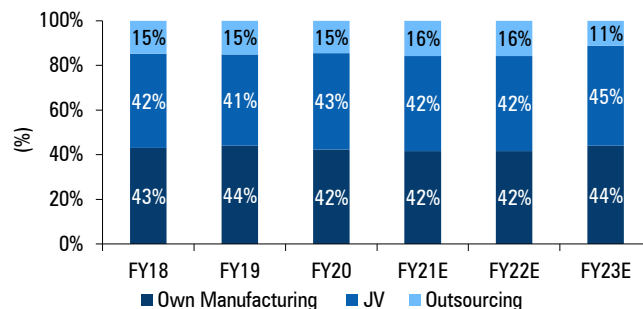
Company Analysis

Exhibit 4: Capacity break-up (in MSM)



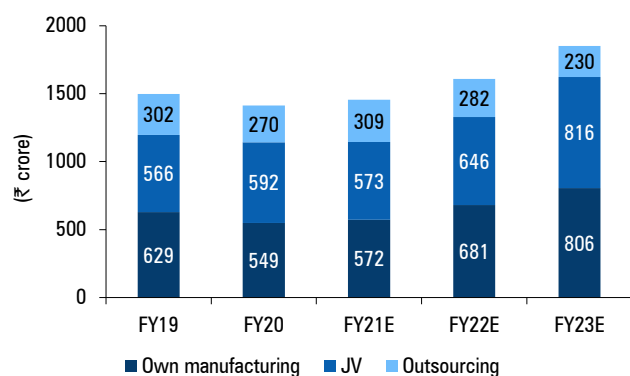
Source: Company, ICICI Direct Research

Exhibit 5: Capacity break-up (%)



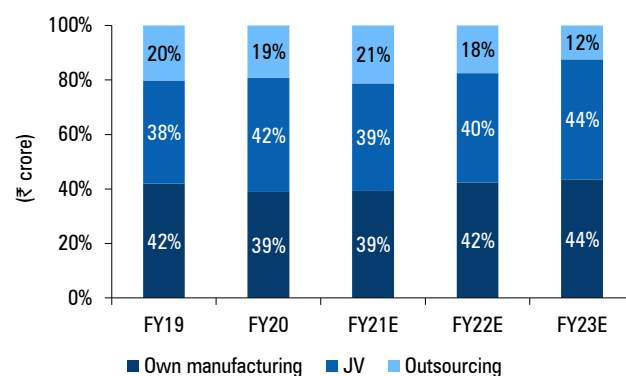
Source: Company, ICICI Direct Research

Exhibit 6: Revenue break-up (₹ crore)



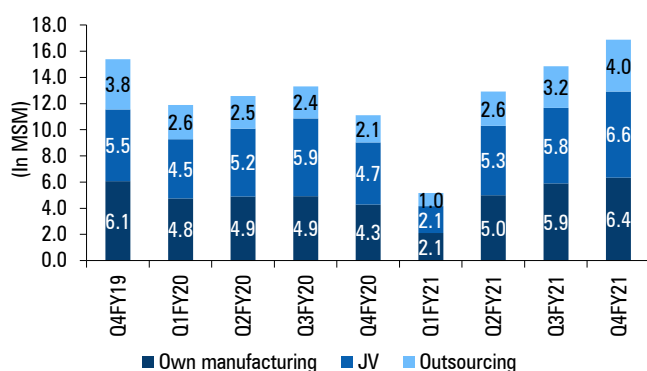
Source: Company, ICICI Direct Research

Exhibit 7: Revenue break-up (%)



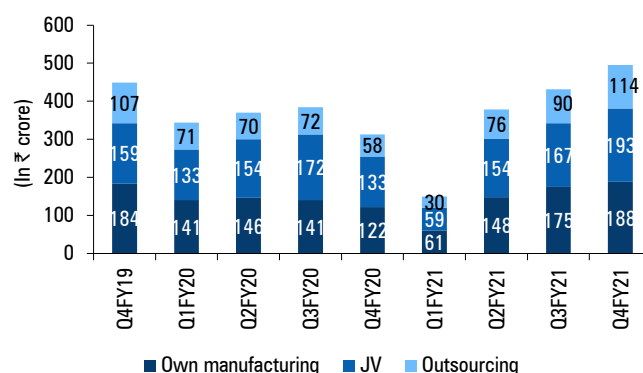
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly standalone sales volumes (in MSM)



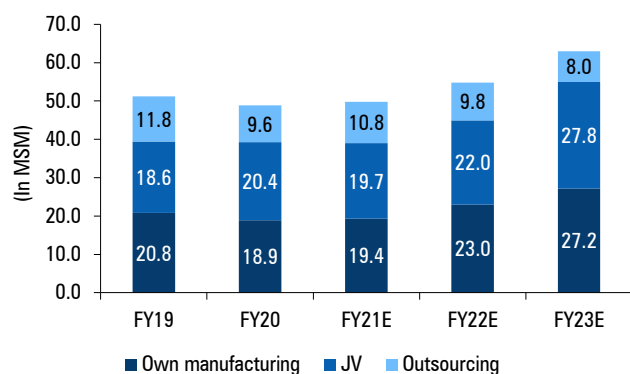
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly standalone sales value



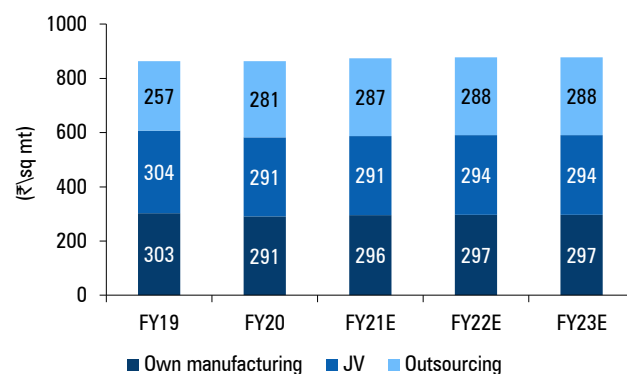
Source: Company, ICICI Direct Research

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



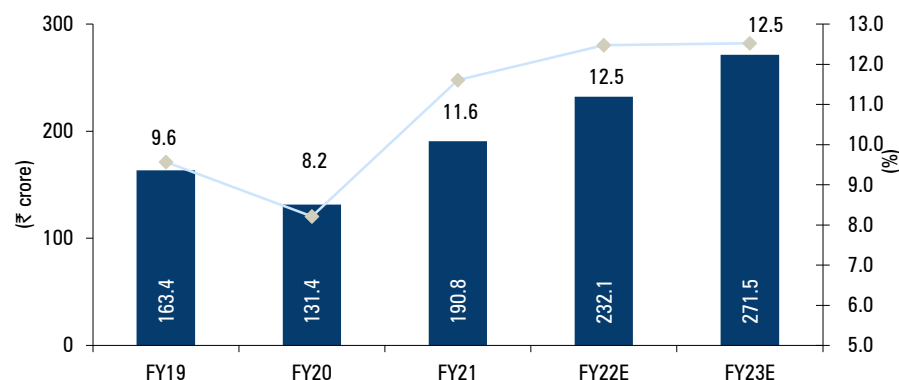
Source: Company, ICICI Direct Research

Exhibit 11: Average realisation break-up



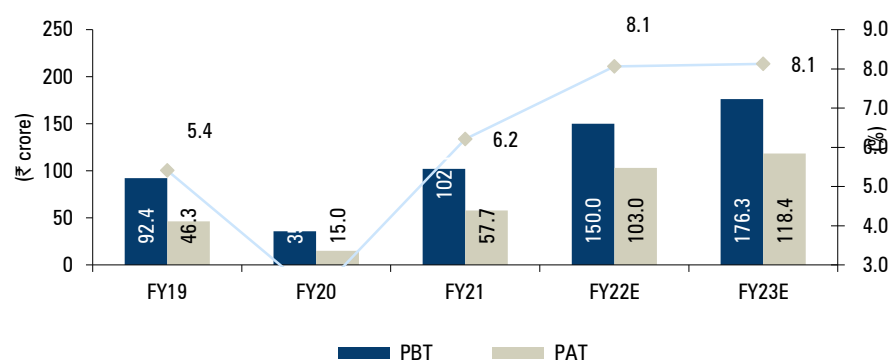
Source: Company, ICICI Direct Research

Exhibit 12: Consolidated EBITDA and EBITDA margin trend



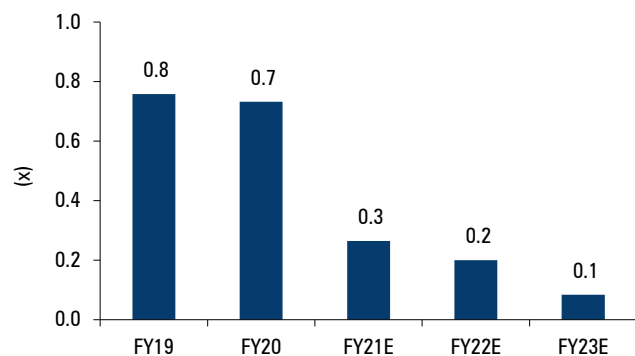
Source: Company, ICICI Direct Research

Exhibit 13: Consolidated PBT, PAT margin trend



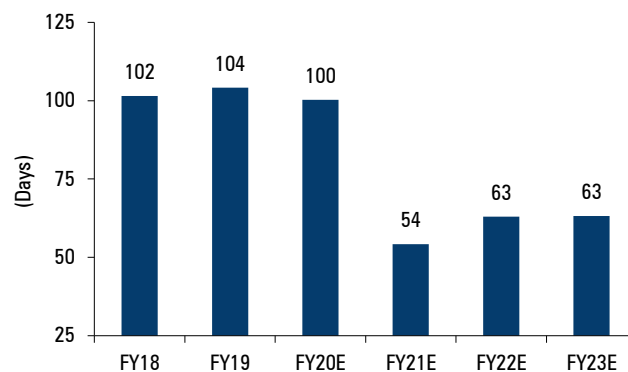
Source: Company, ICICI Direct Research

Exhibit 14: Consolidated leverage (net debt to equity)



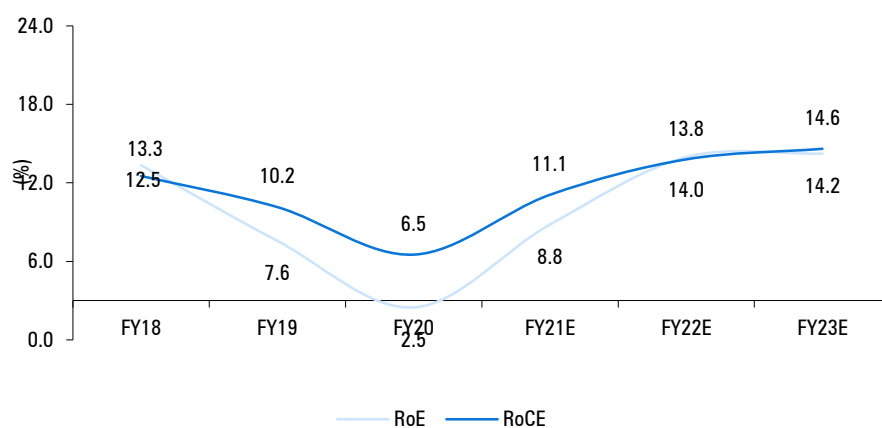
Source: Company, ICICI Direct Research

Exhibit 15: Consolidated working capital days



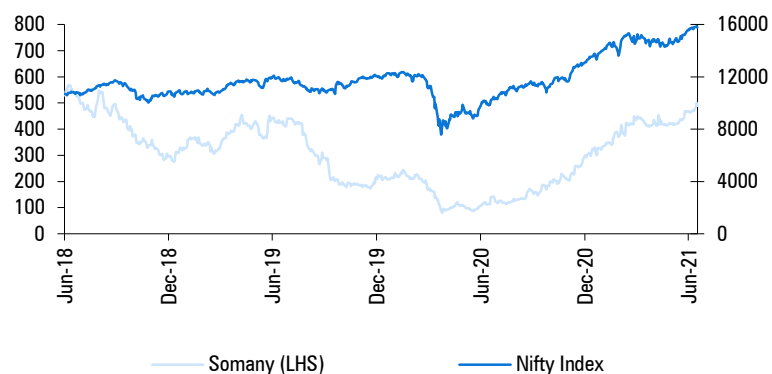
Source: Company, ICICI Direct Research

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	FY21	FY22E	FY23E
Net Sales	1,600.2	1,643.7	1,860.6	2,167.8
Other Income	12.7	12.8	13.0	13.0
Total Revenue	1,622.8	1,663.2	1,880.6	2,187.8
Raw Material Expense	447.0	393.7	427.9	498.6
Purchase of Traded Goods	282.6	308.0	333.0	388.0
(Increase)/Decrease in Inventories	(62.3)	78.5	55.8	65.0
Employee benefit expenses	239.1	224.8	241.9	281.8
Other Expenses	226.4	177.4	223.3	258.0
Total Operating Expenditure	1,478.7	1,459.7	1,635.5	1,903.3
EBITDA	131.4	190.8	232.1	271.5
Interest	49.4	40.1	32.6	32.6
Depreciation	59.0	61.3	62.6	75.6
PBT	35.8	102.1	150.0	176.3
Total Tax	(9.9)	22.4	39.0	45.8
PAT before MI	19.5	61.3	111.0	130.4
Minority Interest	4.5	3.6	8.0	12.0
PAT after MI	15.0	57.7	103.0	118.4
Profit from Associates	-	-	-	-
PAT	15.0	57.7	103.0	118.4
YoY growth	-86.6%	284.7%	NA	15.0%
EPS (Diluted)	3.5	13.6	24.3	27.9

Source: Company, ICICI Direct Research

Exhibit 19: Cash flow statement ₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E
Profit after Tax	15.0	57.7	103.0	118.4
Depreciation	59.0	61.3	62.6	75.6
Interest Paid	49.4	40.1	32.6	32.6
Cash Flow before WC changes	141.3	168.4	193.1	225.6
Net Increase in Current Assets	95.6	161.1	(114.9)	(107.2)
Net Increase in Current Liabilities	(49.9)	33.0	38.1	52.7
Net CF from Op. Activities	187.0	362.6	116.4	171.1
(Purchase)/Sale of Fixed Assets	(78.0)	(37.8)	(160.0)	(50.0)
Intangible assets and CWIP	15.3	(0.7)	110.0	-
LT liability, provision, MI and DTL	27.2	11.4	8.0	12.0
Investments	5.3	(62.3)	-	-
Profit in Joint Venture	(4.5)	(3.6)	(8.0)	(12.0)
Net CF from Inv. Activities	(21.9)	(80.2)	(37.0)	(37.0)
Proceeds/Repayment of Debt	(75.0)	(86.0)	(50.0)	-
Dividend and Dividend Tax	(20.4)	(10.2)	(20.6)	(23.7)
Interest Paid	(49.4)	(40.1)	(32.6)	(32.6)
Net CF from Fin. Activities	(144.9)	(136.3)	(103.2)	(56.3)
Net Cash flow	20.3	129.0	(23.8)	77.8
Opening Cash/ Cash Equivalent	40.0	20.1	149.1	125.2
Cl. Cash/ Cash Equivalent	20.1	149.1	125.2	203.0

Source: Company, ICICI Direct Research

Exhibit 20: 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	729.3	824.0
Total Shareholders funds	606.4	655.3	737.7	832.5
Secured Loan	336.6	250.6	200.6	200.6
Unsecured Loan	161.5	161.5	161.5	161.5
Total Debt	498.1	412.1	362.1	362.1
Deferred Tax Liability	41.3	37.2	37.2	37.2
Minority Interest	94.1	99.7	107.7	119.7
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	1,323	1,429
Assets				
Gross Block	872.0	909.9	1,069.9	1,119.9
Net Block	733.9	710.4	807.8	782.2
Capital WIP	6.0	8.6	(101.4)	(101.4)
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	280.4	326.7
Sundry Debtors	279.8	230.7	285.5	332.6
Loans and Advances	30.3	10.9	12.3	14.3
Other Current Assets	57.4	48.4	71.4	83.1
Cash	20.1	149.1	125.2	203.0
Total Current Assets	749.9	773.4	864.5	1,049.5
Creditors	172.9	188.2	214.1	249.4
Provisions	2.7	1.6	1.6	1.6
Other Current Liabilities	73.8	92.6	104.8	122.1
Total Current Liabilities	249.3	282.4	320.5	373.1
Net Current Assets	500.6	491.1	544.0	676.4
Assets side total	1,308	1,282	1,323	1,429

Source: Company, ICICI Direct Research

Exhibit 21: Key ratios				
(Year-end March)	FY20	FY21	FY22E	FY23E
Per Share Data				
EPS	3.5	13.6	24.3	27.9
Cash EPS	17.4	28.1	39.1	45.8
BV	143.1	154.6	174.1	196.4
Revenue per Share	377.6	387.9	439.0	511.5
Dividend per share	4.8	2.4	4.0	4.6
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	55	55
Debtor Days	64	51	56	56
Creditor Days	39	42	42	42
Return Ratios				
RoE	2.5	8.8	14.0	14.2
RoCE	6.5	11.1	13.8	14.6
RoIC	5.8	12.5	14.0	15.8
Valuation Ratios				
EV / EBITDA	20.5	12.7	10.3	8.6
P/E	150.3	39.1	21.9	19.0
EV / Net Sales	1.7	1.5	1.3	1.1
Market Cap / Sales	1.4	1.4	1.2	1.0
Price to Book Value	3.7	3.4	3.1	2.7
Turnover Ratios				
Asset turnover	1.2	1.3	1.4	1.5
Gross Block Turnover	1.8	1.8	1.7	1.9
Solvency Ratios				
Net Debt / Equity	0.7	0.3	0.2	0.1
Current Ratio	2.8	1.9	2.0	2.0
Debt / EBITDA	3.4	0.9	0.6	0.3
Quick Ratio	1.5	1.0	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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