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Q1FY21 result review  
and reco change

## Tiles

Target price: Rs162

### Earnings revision

(%)	FY21E	FY22E
Sales	↑ 7.4	↑ 5.9
EBITDA	↑ 4.4	↑ 11.6
EPS	↑ 18.6	↑ 28.2

### Target price revision

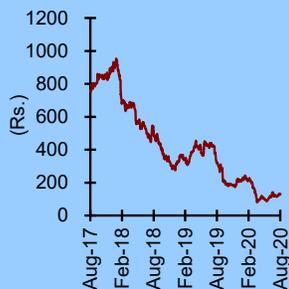
Rs162 from Rs125

### Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	51.5	51.5	51.5
Institutional investors	22.9	21.8	20.5
MFs and others	17.6	16.6	15.3
FIs/Banks	0.1	0.1	0.1
Insurance	1.4	1.4	1.3
FII	3.8	3.7	4.0
Others	24.6	26.7	28.0

Source: NSE

### Price chart



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INDIA

**ICICI Securities**

# Somany Ceramics

**BUY**

Upgrade from HOLD

**Rs136**

## On road to recovery

The faster than anticipated recovery in Somany Ceramics' (SOMC) volumes in Jun'20 led to a beat in Q1FY21 revenues at Rs1.69bn (I-Sec: Rs1.4bn), down 57% YoY. Cost saving initiatives and lower fuel costs too led to a beat in EBITDA, which came in at -Rs116mn (I-Sec: -Rs210mn). The silver lining for the quarter was balance sheet discipline with stricter control on working capital (receivables declined to Rs1.98bn in Q1FY21 vs Rs2.7bn in Mar'20), which led to debt repayment of Rs500mn-600mn during the quarter. With sales recovery likely to accelerate, management expects Q2FY21 sales at >85% of Q2FY20 levels, which would drive sharp improvement in EBITDA margins. Upgrade to BUY.

- **Valuation and outlook:** Factoring-in the Q1FY21 performance, we increase our consolidated revenue and PAT estimates by 7.4%/5.9% and 18.6%/28.2% respectively for FY21E/FY22E. We now expect SOMC to report revenue and adjusted PAT CAGRs of 3.5% and 60.5% respectively over FY20-FY22E. With better visibility on revenues and improved balance sheet management, we upgrade the stock to **BUY** (from **Hold**), with a revised target price of Rs162 (earlier: Rs125), valuing it at 11x FY22E earnings.
- **Pent-up demand at Q1FY21-end aids revenue beat:** SOMC posted 56.9% YoY decline in its consolidated revenues at Rs1.69bn. This is attributed to 56.5%/1% YoY decline in tile volumes/realisation and 51% YoY drop in allied product revenues. Despite downtrading during the quarter (driving greater share of commodity product revenues), realisations declined merely 1% due to higher retail sales and lower discounting in the trade. Going forward, while the economic environment remains uncertain, the company expects 85% of Q2FY20 sales in Q2FY21 while maintaining a stricter control on its working capital. We expect SOMC to report volume / revenue CAGRs of 3.2% / 3.5% respectively over FY20-FY22E.
- **Cost-cutting initiatives and lower gas costs to drive margin recovery through rest of the year.** SOMC's consolidated gross margin declined by 1,100bps to 24.7% vs 35.7% YoY leading to the company reporting a negative EBITDA margin. The consolidated EBITDA margin came in at -6.9% (I-Sec: -15%). The beat was largely attributed to cost-cutting initiatives undertaken by the company, particularly with respect to manpower costs and brand spend. Going forward, with expected traction in tile volumes and certain cost saving initiatives likely to be sustainable in the medium term, we model EBITDA margins at 8.3% / 10.5% for FY21E / FY22E respectively.
- **Consolidated losses lower than anticipated.** SOMC's reported consolidated post-tax loss of Rs220mn (I-Sec: loss of Rs285mn) in Q1FY21 was largely due to better than expected operational performance. Likely improvement in cashflow management and debt repayment in the near term would aid gradual improvement in RoCE to 8.9% in FY22E from 6.9% in FY20.

Market Cap	Rs8.4bn/US\$112mn	Year to Mar	FY19	FY20	FY21E	FY22E
Reuters/Bloomberg	SOCE.BO/SOMC IN	Revenue (Rs mn)	17,151	16,101	13,648	17,150
Shares Outstanding (mn)	61.5	Rec. Net Income (Rs mn)	463	150	119	623
52-week Range (Rs)	311/80	EPS (Rs)	13.8	5.7	2.8	14.7
Free Float (%)	48.5	% Chg YoY	(34.2)	(67.6)	(20.8)	425.1
FII (%)	4.0	P/E (x)	12.4	38.4	48.5	9.2
Daily Volume (US\$/'000)	177	CEPS (Rs)	21.4	17.4	17.2	29.4
Absolute Return 3m (%)	43.9	EV/E (x)	6.4	7.6	8.3	4.9
Absolute Return 12m (%)	(56.8)	Dividend Yield (%)	1.5	3.7	3.7	3.7
Sensex Return 3m (%)	23.1	RoCE (%)	10.9	6.9	4.3	8.9
Sensex Return 12m (%)	3.2	RoE (%)	8.5	3.5	1.7	8.3

Please refer to important disclosures at the end of this report

**Table 1: Q1FY21 result review (consolidated)***(Rs mn, year ending March 31)*

Particulars	Q1FY21A	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
<b>Net Sales</b>	<b>1,692</b>	<b>1,375</b>	<b>3,927</b>	<b>(56.9)</b>	<b>3,537</b>	<b>(52.2)</b>
Other Op. Income	3	25	28	(91.0)	23	(89.3)
<b>Total Op. Income</b>	<b>1,694</b>	<b>1,400</b>	<b>3,955</b>	<b>(57.2)</b>	<b>3,561</b>	<b>(52.4)</b>
<b>Expenditure</b>	<b>1,810</b>	<b>1,610</b>	<b>3,652</b>	<b>(50.4)</b>	<b>3,422</b>	<b>(47.1)</b>
Raw Materials	909	330	944	(3.7)	617	47.3
Cost of traded goods	260	230	701	(62.9)	650	(60.0)
Staff Cost	373	400	579	(35.6)	619	(39.8)
Other Expenditure	269	650	1,429	(81.2)	1,537	(82.5)
<b>Operating Profit</b>	<b>(116)</b>	<b>(210)</b>	<b>303</b>	<b>(138.3)</b>	<b>139</b>	<b>(183.8)</b>
OPM (%)	(6.9)	(15.0)	7.7	NA	3.9	NA
Other Income	19	25	48	(60.8)	30	(37.0)
Interest	115	90	117	(1.4)	115	0.3
Depreciation	145	165	121	19.9	161	(10.0)
<b>PBT before exceptional items</b>	<b>(358)</b>	<b>(440)</b>	<b>114</b>	<b>(414.8)</b>	<b>(108)</b>	<b>232.7</b>
Exceptional item	0	0	0		0	
<b>PBT</b>	<b>(358)</b>	<b>(440)</b>	<b>114</b>	<b>(414.8)</b>	<b>(108)</b>	<b>232.7</b>
Tax	(94)	(135)	42	(322.5)	(18)	436.6
<b>Reported PAT</b>	<b>(264)</b>	<b>(305)</b>	<b>71</b>	<b>(469.3)</b>	<b>(90)</b>	<b>193.0</b>
Minority Interest	(44)	(20)	(3)	1,360.0	3	(1,468.8)
<b>Reported PAT after MI</b>	<b>(220)</b>	<b>(285)</b>	<b>74</b>	<b>(395.6)</b>	<b>(93)</b>	<b>135.9</b>
<b>Adj PAT after MI</b>	<b>(220)</b>	<b>(285)</b>	<b>74</b>	<b>(395.6)</b>	<b>(93)</b>	<b>135.9</b>
NPM (%)	(13.0)	(20.8)	1.9	NA	(2.6)	NA

Source: Company data, I-Sec research

**Table 2: Revision in estimates***(Rs mn)*

	Old		New		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	12,709.4	16196.0	13,647.7	17,150.4	7.4%	5.9%
EBITDA	1,082.0	1616.7	1,129.3	1,804.8	4.4%	11.6%
EBIDTA margins	8.5%	10.0%	8.3%	10.5%	-20bps	50bps
PAT	100.1	486.3	118.7	623.5	18.6%	28.2%
EPS	2.4	11.5	2.8	14.7	18.6%	28.2%

Source: I-Sec research

**Key takeaways from Q1FY21 management conference call:**

- **Impact of Covid on Q1FY21 performance:** Company reported 57% decline in volumes in Q1FY21.
- Company saw downtrading in each of the product categories, but was able to maintain pricing due to higher mix of retail.
- Capacity utilisation: Jun'20: 45%, Jul'20: 66% and Aug'20 likely to be at pre-Covid levels.
- Tiers 2-5 cities/towns contribute 80% of the overall revenues, of which tier-2 cities would have contributed 8-10%.
- Sanitaryware revenues came in at Rs120mn while faucet revenues stood at Rs70mn during the quarter.
- Overall, category-wise mix remained same YoY with ceramics at 42%, PVT at 34% and GVT at 24%.
- **Gas prices** are currently at Rs20/scm, down by Rs10/scm at its Kassar plant in North India. Gas prices however are down by Rs1-1.5 to Rs28.5/scm in Morbi while the same in South India stood at Rs19-20/scm, down by Rs4/scm.

- **Outlook:** Company expects a strong Q2FY21 with 85% of Q2FY20 sales as things have started to normalise and manpower issues have also been more or less behind them.
- **Cost cuts:** Company has cut salary cost by 15-20% for FY21. Branding expenses are expected to be at 3% of overall revenues.
- Export is not the focus area for the company due to issues of extended credit periods and aggressive pricing. However, SOMC may resort to exports in the near term to utilise its capacities better.
- **Receivables** as at Jun'20-end stood at Rs1.98bn vs Rs2.8bn at Mar'20-end due to muted sales and stronger cash collections in Q1FY21.
- Gross debt reduced by Rs500mn-600mn to Rs4.50bn as at Q1FY21-end.
- As per the company, Morbi has around 700 units operational out of 900 units, and 70 odd units are likely to have shut permanently due to pandemic-related issues.
- Company has 30% of sales contribution from private projects, government orders, etc. and the rest is from retail.
- **Treasury operations:** SOMC recovered Rs300mn-400mn through redemption of ICDs in Q1FY21. ICDs to the tune of Rs110mn are still pending, which is likely to be redeemed within the next 12-15 months.
- **Capex:** Company may incur maintenance capex of Rs200mn-300mn in FY21, which would also include sourcing of 2-3 new printers.

## Financial summary

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Net Revenues</b>	<b>17,151</b>	<b>16,101</b>	<b>13,648</b>	<b>17,150</b>
<b>Operating Expenses</b>	<b>15,517</b>	<b>14,787</b>	<b>12,518</b>	<b>15,346</b>
<b>EBITDA</b>	<b>1,634</b>	<b>1,314</b>	<b>1,129</b>	<b>1,805</b>
% margins	9.5%	8.2%	8.3%	10.5%
Depreciation & Amortisation	443	590	612	625
Gross Interest	459	494	460	383
Other Income	192	127	63	51
<b>Recurring PBT</b>	<b>924</b>	<b>358</b>	<b>120</b>	<b>849</b>
Less: Taxes	268	(99)	30	214
Add: Profit from share of associates	-	-	-	-
Less: Minority Interest	69	45	(29)	12
<b>Net Income (Reported)</b>	<b>586</b>	<b>412</b>	<b>119</b>	<b>623</b>
Extraordinaries (Net)	(122)	(262)	-	-
<b>Recurring Net Income</b>	<b>463</b>	<b>150</b>	<b>119</b>	<b>623</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Assets</b>				
Total Current Assets	8,586	7,393	8,532	9,872
of which cash & cash eqv.	400	201	171	314
Total Current Liabilities & Provisions	3,945	3,705	4,290	5,209
<b>Net Current Assets</b>	<b>4,640</b>	<b>3,688</b>	<b>4,241</b>	<b>4,663</b>
Investments	683	341	111	3
Net Fixed Assets	7,056	7,706	10,237	7,895
Capital Work-in-Progress	247	60	-	-
Goodwill	44	73	73	73
<b>Total Assets</b>	<b>12,670</b>	<b>11,869</b>	<b>14,662</b>	<b>12,634</b>
<b>Liabilities</b>				
Borrowings	5,106	4,451	6,917	4,583
Deferred Tax Liability	567	413	413	413
Minority Interest	867	941	1,347	1,229
Equity Share Capital	85	85	85	85
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	6,045	5,980	5,900	6,325
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>6,130</b>	<b>6,065</b>	<b>5,985</b>	<b>6,410</b>
<b>Total Liabilities</b>	<b>12,670</b>	<b>11,869</b>	<b>14,662</b>	<b>12,634</b>

\*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net revenues	4,223	4,362	3,561	1,694
% growth (YoY)	7.4	2.4	(31.3)	(56.9)
EBITDA	448	403	139	(116)
Margin (%)	10.6	9.2	3.9	(6.9)
Other income	18	31	30	19
Extraordinaries (Net)	(262)	-	-	-
<b>Net profit</b>	<b>65</b>	<b>104</b>	<b>(93)</b>	<b>(220)</b>

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Operating Cashflow</b>	<b>865</b>	<b>722</b>	<b>370</b>	<b>1,401</b>
Working Capital Changes	315	798	518	(367)
Capital Commitments	(1,029)	(1,053)	(300)	(400)
<b>Free Cashflow</b>	<b>151</b>	<b>467</b>	<b>588</b>	<b>634</b>
<b>Cashflow from Investing Activities</b>	<b>459</b>	<b>341</b>	<b>231</b>	<b>107</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(290)	(656)	(651)	(400)
Dividend paid	(99)	(198)	(198)	(198)
<b>Change in Deferred Tax Liability</b>	<b>43</b>	<b>(154)</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>264</b>	<b>(200)</b>	<b>(30)</b>	<b>143</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
<b>Per Share Data (Rs)</b>				
EPS	13.8	5.7	2.8	14.7
Cash EPS	21.4	17.4	17.2	29.4
Dividend per share (DPS)	2.0	5.0	5.0	5.0
Book Value per share (BV)	165.1	165.3	173.0	180.3
<b>Growth (%)</b>				
Net Sales	0.0	-6.3	-14.7	25.7
EBITDA	-12.1	-19.6	-14.0	59.8
PAT	-34.2	-67.6	-20.8	425.1
Cash EPS	-18.9	-18.4	-1.2	70.8
<b>Valuation Ratios (x)</b>				
P/E	12.4	38.4	48.5	9.2
P/CEPS	6.4	7.8	7.9	4.6
P/BV	0.8	0.8	0.8	0.8
EV / EBITDA	6.4	7.6	8.3	4.9
EV / Sales	0.6	0.6	0.7	0.5
<b>Operating Ratios</b>				
Raw Material / Sales (%)	41.3	37.0	44.4	44.0
Employee cost / Sales (%)	13.2	14.9	14.0	13.3
Other Income / PBT (%)	23.9	133.0	52.3	6.1
Effective Tax Rate (%)	33.5	-103.5	25.2	25.2
Working Capital (days)	101.2	99.2	88.0	85.0
Inventory Turnover (days)	54.4	74.9	55.0	60.0
Receivables (days)	89.3	63.8	75.0	70.0
Payables (days)	42.4	39.4	42.0	45.0
Net D/E Ratio (x)	0.7	0.6	0.5	0.4
<b>Profitability Ratios (%)</b>				
Net Income Margins	3.4	1.5	0.9	3.6
RoACE	10.9	6.9	4.3	8.9
RoAE	8.5	3.5	1.7	8.3
Dividend Payout	21.4	132.2	167.0	31.8
Dividend Yield	1.5	3.7	3.7	3.7
EBITDA Margins	9.6	8.2	8.3	10.5

Source: Company data, I-Sec research

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