

One more hit on exceptional event

Somany Ceramics informed the stock exchanges that a cheque of ₹ 26.2 crore issued in favour of the company by its stock broker - Mentor Financial Services Pvt Ltd (Mentor), has bounced owing to insufficient funds. While the company has filed a police complaint, it could have to take provisions worth ₹ 26.2 crore on this front if the amount is not recovered. We also note that Somany had earlier provisioned against financial loss worth ₹ 15.9 crore in FY19 on account of misappropriation of funds by an employee. While Somany's operations have become strong with credit control measures taken in FY19, repetitive instances related to employee & the recent broker-related issues do not lend us comfort on the company's profitability. Besides this, it has investment of ₹ 29.9 crore in Srei Infrastructure Finance NCDS. The financial performance for Srei Infra Finance is deteriorating, which remains a concern for Somany's investment.

Somany's broker defaults on ₹ 26.2 crore receivables

Somany Ceramics has informed the stock exchanges that a cheque of ₹ 26.2 crore issued in favour of the company by its stock broker Mentor has bounced owing to insufficient funds. Somany has issued demand notices for repayment to Mentor as per requirements of the applicable law. In view of default by Mentor, Somany has filed a case against Mentor and its directors with Haryana Police. Non recovery of these funds could lead the company to take provisions worth ₹ 26.2 crore on its books in FY20E.

Provisions for ₹ 15.9 crore in FY19 for defalcation by employee

Somany faced ₹ 15.9 crore financial loss in FY19 due to misappropriation of funds by an employee. While the matter is currently being investigated, Somany is confident of recovering the amount. However, as a matter of caution, the company created provision on this front in FY19.

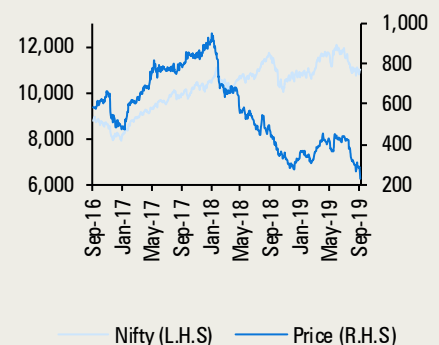
Valuation & Outlook

Somany has become operationally strong with credit control measures taken in FY19. Overall, while the business environment remains challenging amid liquidity squeeze in the economy, Somany is expected to perform relatively better than its peers. Thus, we expect PAT to grow at 23.7% CAGR to ₹ 70.9 crore in FY19-21E. On the flip side, recent broker-related default lends us discomfort over the company's profitability as it is the second instance after the company took provisions worth ₹ 15.9 crore in FY19 on account of misappropriation of funds by an employee. Also, Somany has investment of ₹ 29.9 crore in Srei Infrastructure Finance in form of NCDs, of which ₹ 11.1 crore will mature on March 23, 2020. The financial performance of Srei Infra Finance is deteriorating, which remains a concern for Somany's investment. Overall, we cut our target multiple and downgrade the stock to **HOLD** with a revised target price of ₹ 250/share (15x FY21E EPS).



Particulars	
Particular	Amount (₹ crore)
Market Capitalization	970
Total Debt	540
Cash	14
EV	1,497
52 week H/L (₹)	472 / 229
Equity capital	8.5
Face value	₹ 2

Price Chart



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Key Financial Summary

₹ crore	FY17	FY18	FY19	FY20E	FY21E	CAGR FY19-21E
Net Sales	1,727.8	1,708.2	1,708.3	1,860.5	2,082.2	10.4%
EBITDA	230.6	181.4	156.7	171.2	195.7	11.8%
EBITDA Margin (%)	13.3	10.6	9.2	9.2	9.4	
PAT *	112.1	77.5	46.3	31.3	70.9	23.7%
Adj. PAT	112.1	77.5	46.3	57.5	70.9	
EPS (₹) *	26.4	18.3	10.9	7.4	16.7	23.7%
Adj. EPS (₹)	26.4	18.3	10.9	13.6	16.7	
P/E (x)	8.7	12.5	21.0	31.0	13.7	
EV/EBITDA (x)	5.7	7.6	9.2	8.4	7.3	
RoNW (%)	21.4	13.3	7.6	4.9	10.2	
RoCE (%)	18.3	12.2	9.7	10.1	11.1	

Source: Company, ICICI Direct Research; * We factor in provisions worth ₹ 26.2 crore that the company could take on its books in FY20E against default by its broker - Mentor Financial Services Pvt Ltd

Financial summary

Exhibit 1: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Net Sales	1,708.2	1,708.3	1,860.5	2,082.2
Other Income	18.1	19.2	17.2	18.1
Total Revenue	1,726.3	1,727.5	1,885.2	2,108.5
Raw Material Expense	455.7	433.5	474.4	526.8
Purchase of Traded Goods	289.4	324.1	353.0	395.1
(Increase)/Decrease in Inventories	(38.2)	(35.8)	(39.0)	(43.6)
Employee benefit expenses	217.5	226.2	246.3	275.7
Other Expenses	253.7	233.7	254.6	284.9
Total Operating Expenditure	1,526.9	1,551.7	1,689.4	1,886.5
EBITDA	181.4	156.7	171.2	195.7
Interest	39.9	45.9	47.3	47.3
Depreciation	41.3	44.3	47.8	50.6
PBT	122.8	92.4	100.7	124.0
Total Tax	39.3	26.8	34.2	42.2
PAT before MI	79.1	53.3	40.3	81.9
Minority Interest	3.6	6.9	8.9	10.9
PAT after MI	75.5	46.3	31.3	70.9
Profit from Associates	2.0	-	-	-
PAT	77.5	46.3	31.3	70.9
YoY growth	-30.9%	-40.2%	-32.4%	126.5%
EPS (Diluted)	18.3	10.9	7.4	16.7

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Profit after Tax	77.5	46.3	31.3	70.9
Depreciation	41.3	44.3	47.8	50.6
Interest Paid	39.9	45.9	47.3	47.3
Cash Flow before WC changes	146.6	136.5	118.1	161.7
Net Increase in Current Assets	(122.5)	29.2	(48.6)	(100.1)
Net Increase in Current Liabilities	79.8	(41.4)	19.4	38.0
Net CF from Operating Activities	103.9	124.4	88.9	99.5
(Purchase)/Sale of Fixed Assets	(132.0)	(98.0)	(50.0)	(50.0)
Intangible assets and CWIP	15.4	2.9	0.0	-
LT liability, provision, MI and DTL	16.8	(2.0)	8.9	10.9
Investments	8.7	33.4	-	-
Profit in Joint Venture	(1.6)	(6.9)	(8.9)	(10.9)
Net CF from Investing Activities	(74.7)	(51.5)	(32.8)	(31.9)
Proceeds from LT Borrowings	42.7	33.5	(0.0)	-
Dividend and Dividend Tax	(13.8)	(8.2)	(5.6)	(12.6)
Interest Paid	(39.9)	(45.9)	(47.3)	(47.3)
Net CF from Financing Activities	(11.0)	(20.7)	(52.9)	(59.9)
Net Cash flow	18.2	52.2	3.3	7.8
Opening Cash/ Cash Equivalent	24.0	13.6	40.0	43.3
Closing Cash/ Cash Equivalent	13.6	40.0	43.3	51.1

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	572.2	604.5	630.3	688.6
Total Shareholders funds	580.7	613.0	638.8	697.1
Secured Loan	234.6	393.3	393.3	393.3
Unsecured Loan	305.0	179.8	179.8	179.8
Total Debt	539.6	573.1	573.1	573.1
Deferred Tax Liability	52.4	56.7	56.7	56.7
Minority Interest	95.9	86.7	95.7	106.6
Other Long Term Liabilities	25.1	28.1	28.1	28.1
Long Term Provisions	4.8	4.7	4.7	4.7
Liability side total	1,299	1,362	1,397	1,466
Assets				
Gross Block	695.3	793.6	843.6	893.6
Net Block	636.1	699.9	702.7	702.1
Capital WIP	27.9	24.7	24.7	24.7
Non-current Investments	-	-	-	-
Long-term loans and advances	0.3	5.0	5.0	5.0
Inventories	259.7	254.5	277.2	310.2
Sundry Debtors	503.7	417.9	433.3	484.9
Loans and Advances	8.5	58.4	63.6	71.2
Other Current Assets	48.6	60.5	65.9	73.7
Cash	13.6	40.0	43.3	51.1
Total Current Assets	948.3	899.6	951.5	1,059.4
Creditors	233.2	198.6	203.9	228.2
Provisions	0.7	0.9	6.1	6.8
Other Current Liabilities	106.8	99.7	108.6	121.6
Total Current Liabilities	340.6	299.2	318.6	356.5
Net Current Assets	607.7	600.4	632.9	702.8
Assets side total	1,298	1,362	1,397	1,466

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios				
(Year-end March)	FY18	FY19	FY20E	FY21E
Per Share Data				
EPS	18.3	10.9	7.4	16.7
Cash EPS	28.0	21.4	18.7	28.7
BV	137.0	144.6	150.7	164.4
Revenue per Share	402.9	402.9	438.8	491.1
Dividend per share	2.7	1.6	1.1	2.5
Operating Ratios				
EBITDA / Total Operating Income	10.6	9.1	9.2	9.4
PAT / Total Operating Income	4.5	2.7	1.7	3.4
Inventory Days	55	54	54	54
Debtor Days	108	89	85	85
Creditor Days	50	42	40	40
Return Ratios				
RoE	13.3	7.6	4.9	10.2
RoCE	12.2	9.7	10.1	11.1
RoC	12.3	9.1	9.8	11.0
Valuation Ratios				
EV / EBITDA	7.6	9.2	8.4	7.3
P/E	12.5	21.0	31.0	13.7
EV / Net Sales	0.8	0.8	0.8	0.7
Market Cap / Sales	0.6	0.6	0.5	0.5
Price to Book Value	1.7	1.6	1.5	1.4
Turnover Ratios				
Asset turnover	1.3	1.3	1.3	1.4
Gross Block Turnover	2.4	2.1	2.2	2.3
Solvency Ratios				
Net Debt / Equity	0.7	0.8	0.7	0.7
Current Ratio	2.4	2.7	2.7	2.7
Debt / EBITDA	3.0	3.7	3.3	2.9
Quick Ratio	1.6	1.8	1.8	1.8

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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