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Q4FY21 result review  
and earnings revision

## Tiles

Target price: Rs870

### Earnings revision

(%)	FY22E	FY23E
Sales	↑ 4.2	↑ 6.3
EBITDA	↑ 4.2	↑ 14.2
EPS	↑ 6.0	↑ 19.0

### Target price revision

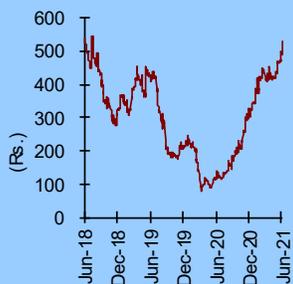
Rs870 from Rs525

### Shareholding pattern

	Sep '20	Dec '20	Mar '21
Promoters	54.7	54.8	54.8
Institutional investors	18.3	19.0	22.7
MFs and others	14.4	14.5	17.1
FIs/Banks	0.0	0.0	0.0
Insurance	1.3	0.5	1.0
FIIIs	1.6	4.0	4.6
Others	27.0	26.2	22.5

Source: NSE

### Price chart



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INDIA

**ICICI Securities**

# Somany Ceramics

**BUY**

**Maintain**

**Rs533**

## Walking the talk

We believe Somany Ceramics is on the cusp of major rerating with the management walking the talk on several key issues (which led to significant de-rating in the past) including a) cleaning up of balance sheet over the last few quarters including fully providing for its investments in SREI Infra bonds in Q4FY21 as a prudent accounting practice (despite no stress at the moment); b) its strong cashflow management driven by superior working capital discipline; c) calling off its treasury operations by recalling all the ICDs and utilising it to pay off its debt; and d) correcting major flaws in its systems and processes by introducing appropriate checks and replacing few KMPs. Besides correcting the balance sheet, the company also seems geared to post industry leading volume growth aided by low base (of last 5 years), recent capex initiatives and structural improvement in EBITDA margins driven by superior product mix and operating leverage. We now rate SOMC as our top pick in building materials space. **Maintain BUY.**

- **Valuation and outlook:** Factoring in Q4FY21 performance, we increase our consolidated revenue and PAT estimates by 4.2%/6.3% and 5.8%/19%, respectively for FY22E/FY23E. We now expect SOMC to report revenue and adj. PAT CAGRs of 17.9% and 39.1%, respectively over FY21-FY23E. **We maintain our BUY rating on the stock with a revised target price of Rs870 (earlier: Rs525), valuing it at 25x (earlier 18x) FY23E earnings.** Key downside risks: 1) Sharp rise in gas prices and 2) increase in competitive intensity.
- **Volume growth at 13.4% QoQ.** SOMC posted 14.7% QoQ increase in its consolidated revenue to Rs5.65bn (I-Sec: Rs5.45bn). This is attributable to 13.4% QoQ increase in tile segment volumes. With higher mix of GVT, SOMC was able to improve its realisation by 1.1% QoQ despite higher growth in outsourcing revenues. Allied product revenues witnessed growth of 19.6% QoQ. Going forward, with double-digit revenue growth in tiles likely in FY22 aided by market share gains, expected recovery in its allied product segment and expansion led growth in FY23, we expect SOMC to report revenue CAGR of 17.9% over FY21-FY23E.
- **EBITDA margin record high at 15.9% (I-Sec: 12.5%).** SOMC surprised with 15.9% EBITDA margin (I-Sec: 12.5%) led by better product mix, savings in brand spends and operating leverage. We expect 12.5% EBITDA margin in FY22 led by impact of higher gas cost, higher branding and staff cost on a low base. However, in FY22 higher utilisation and better mix will help improve margin. With likely improvement in GVT mix to 30% from 26% currently and operating leverage, we model on a conservative basis (led by commissioning of all the three expanded capacities at one go in FY23 start) EBITDA margin of 13.5% by FY23E from 11.6% in FY21.
- **RoCEs likely to inch towards 16.7% by FY23E.** Sharp improvement in profitability and strong cashflow generation in FY21 and FY22 along with stricter balance sheet are likely to help SOMC absorb higher capex over the next one year and improve RoCE to 16.7% in FY23E from 11.8% in FY21. This, we believe, will lead to further rerating of the stock going forward.

Market Cap	Rs22.5bn/US\$306mn	Year to Mar	FY20	FY21	FY22E	FY23E
Reuters/Bloomberg	SOCE.BO/SOMC IN	Revenue (Rs mn)	16,101	16,505	19,656	22,860
Shares Outstanding (mn)	42.4	Rec. Net Income (Rs mn)	150	577	1,060	1,472
52-week Range (Rs)	532/112	EPS (Rs)	5.7	17.9	25.0	34.7
Free Float (%)	45.2	% Chg YoY	(67.6)	284.5	83.8	38.9
FII (%)	4.6	P/E (x)	149.7	38.9	21.2	15.3
Daily Volume (US\$/'000)	614	CEPS (Rs)	17.5	28.1	40.4	52.1
Absolute Return 3m (%)	27.3	EV/E (x)	20.7	12.9	10.2	8.0
Absolute Return 12m (%)	368.7	Dividend Yield (%)	0.4	0.5	0.5	0.5
Sensex Return 3m (%)	5.5	RoCE (%)	6.6	11.8	15.2	16.7
Sensex Return 12m (%)	58.3	RoE (%)	3.5	10.4	12.9	15.4

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**Table 1: Q4FY21 result review (consolidated)***(Rs mn, year ending March 31)*

Particulars	Q4FY21A	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Net Sales</b>	<b>5,617</b>	<b>5,430</b>	<b>3,537</b>	<b>58.8</b>	<b>4,903</b>	<b>14.6</b>	<b>16,437</b>	<b>16,002</b>	<b>2.7</b>
Other Op. Income	29	23	23	24.5	22	31.2	68	98	(31.4)
<b>Total Op. Income</b>	<b>5,646</b>	<b>5,453</b>	<b>3,561</b>	<b>58.6</b>	<b>4,925</b>	<b>14.7</b>	<b>16,505</b>	<b>16,101</b>	<b>2.5</b>
<b>Expenditure</b>	<b>4,750</b>	<b>4,770</b>	<b>3,422</b>	<b>38.8</b>	<b>4,292</b>	<b>10.7</b>	<b>14,597</b>	<b>14,809</b>	<b>(1.4)</b>
Raw Materials	1,401	1,550	617	127.0	1,184	18.3	4,722	3,847	22.8
Cost of traded goods	1,191	830	650	83.3	916	29.9	3,080	2,826	9.0
Staff Cost	645	650	619	4.3	708	(8.9)	2,248	2,370	(5.1)
Other Expenditure	1,513	1,740	1,537	(1.5)	1,484	2.0	4,547	5,766	(21.1)
<b>Operating Profit</b>	<b>896</b>	<b>683</b>	<b>139</b>	<b>546.7</b>	<b>633</b>	<b>41.6</b>	<b>1,908</b>	<b>1,292</b>	<b>47.6</b>
<i>OPM (%)</i>	<i>15.9</i>	<i>12.5</i>	<i>3.9</i>	<i>1200bps</i>	<i>12.9</i>	<i>300bps</i>	<i>11.6</i>	<i>8.0</i>	<i>360bps</i>
Other Income	36	35	30	18.7	33	8.2	128	127	0.3
Interest	93	95	115	(18.7)	94	(0.7)	401	488	(17.8)
Depreciation	164	162	161	1.9	154	6.8	613	574	6.9
<b>PBT before exceptional items</b>	<b>674</b>	<b>461</b>	<b>-108</b>	<b>NA</b>	<b>418</b>	<b>61.3</b>	<b>1,021</b>	<b>358</b>	<b>185.5</b>
Exceptional item	-185	0	0		0		-185	-262	
<b>PBT</b>	<b>490</b>	<b>461</b>	<b>-108</b>	<b>NA</b>	<b>418</b>	<b>17.1</b>	<b>837</b>	<b>96</b>	<b>773.3</b>
Tax	137	116	-18	NA	107	28.0	224	-99	(325.7)
<b>Reported PAT</b>	<b>353</b>	<b>345</b>	<b>-90</b>	<b>NA</b>	<b>311</b>	<b>13.4</b>	<b>613</b>	<b>195</b>	<b>214.2</b>
Minority Interest	43	23	3	1,240.6	29	49.5	36	45	(20.7)
<b>Reported PAT after MI</b>	<b>310</b>	<b>322</b>	<b>-93</b>	<b>NA</b>	<b>282</b>	<b>9.7</b>	<b>577</b>	<b>150</b>	<b>284.7</b>
<b>Adj PAT after MI</b>	<b>443</b>	<b>322</b>	<b>-93</b>	<b>NA</b>	<b>282</b>	<b>56.8</b>	<b>712</b>	<b>338</b>	<b>110.4</b>
<i>NPM (%)</i>	<i>7.9</i>	<i>5.9</i>	<i>(2.6)</i>	<i>1050bps</i>	<i>5.8</i>	<i>210bps</i>	<i>4.3</i>	<i>2.1</i>	<i>400bps</i>

Source: Company data, I-Sec research

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

	Old		New		% change	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	18,869.40	21,501.80	19,656.1	22,860.3	4.2%	6.3%
EBITDA	2,351.40	2,694.90	2,451.2	3,078.1	4.2%	14.2%
EBIDTA margins	12.50%	12.50%	12.5%	13.5%	0bps	100bps
PAT (adj.)	1,002.10	1,236.10	1,060.3	1,472.4	5.8%	19.1%
EPS (adj.)	23.6	29.2	25.0	34.7	6.0%	19.0%

Source: I-Sec research

## Financial summary

Table 3: Profit &amp; loss statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Net Revenues</b>	<b>16,101</b>	<b>16,505</b>	<b>19,656</b>	<b>22,860</b>
<b>Operating Expenses</b>	<b>14,787</b>	<b>14,597</b>	<b>17,205</b>	<b>19,782</b>
<b>EBITDA</b>	<b>1,314</b>	<b>1,908</b>	<b>2,451</b>	<b>3,078</b>
% margins	8.2%	11.6%	12.5%	13.5%
Depreciation & Amortisation	590	613	652	735
Gross Interest	494	401	380	337
Other Income	127	128	118	112
<b>Recurring PBT</b>	<b>358</b>	<b>1,021</b>	<b>1,537</b>	<b>2,118</b>
Less: Taxes	(99)	224	387	534
Add: Profit from share of associates	-	-	-	-
Less: Minority Interest	45	36	90	112
<b>Net Income (Reported)</b>	<b>412</b>	<b>761</b>	<b>1,060</b>	<b>1,472</b>
Extraordinaries (Net)	(262)	(185)	-	-
<b>Recurring Net Income</b>	<b>150</b>	<b>577</b>	<b>1,060</b>	<b>1,472</b>

Source: Company data, I-Sec research

Table 4: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	7,393	7,094	9,524	9,092
of which cash & cash eqv.	201	1,491	458	528
Total Current Liabilities & Provisions	3,174	4,108	5,357	5,258
<b>Net Current Assets</b>	<b>4,219</b>	<b>2,986</b>	<b>4,167</b>	<b>3,834</b>
Investments	341	898	967	1,102
Net Fixed Assets	7,706	7,496	8,295	10,493
Capital Work-in-Progress	60	86	-	-
Goodwill	73	73	73	73
<b>Total Assets</b>	<b>12,399</b>	<b>11,538</b>	<b>13,502</b>	<b>15,501</b>
<b>Liabilities</b>				
Borrowings	4,981	3,616	4,191	4,948
Deferred Tax Liability	413	372	372	372
Minority Interest	941	997	1,460	1,364
Equity Share Capital	85	85	85	85
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	5,980	6,469	7,395	8,734
Less: Misc. Exp. n.w.o.	-	-	-	-
<b>Net Worth</b>	<b>6,064</b>	<b>6,553</b>	<b>7,480</b>	<b>8,818</b>
<b>Total Liabilities</b>	<b>12,399</b>	<b>11,538</b>	<b>13,502</b>	<b>15,501</b>

\*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 5: Quarterly trend

(Rs mn, year ending March 31)

	Jun-20	Sep-20	Dec-20	Mar-21
Net revenues	1,694	4,239	4,925	5,646
% growth (YoY)	(56.9)	0.8	12.8	58.8
EBITDA	(116)	494	633	896
Margin (%)	(6.9)	11.7	12.9	15.9
Other income	19	40	33	36
Extraordinaries (Net)	-	-	-	(185)
Net profit	(220)	205	282	443

Source: Company data, I-Sec research

Table 6: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Operating Cashflow</b>	<b>576</b>	<b>1,226</b>	<b>1,481</b>	<b>2,243</b>
Working Capital Changes	892	2,579	(1,094)	(305)
Capital Commitments	(1,006)	(429)	(700)	(1,100)
<b>Free Cashflow</b>	<b>462</b>	<b>3,376</b>	<b>(313)</b>	<b>838</b>
<b>Cashflow from Investing Activities</b>	<b>342</b>	<b>(557)</b>	<b>(69)</b>	<b>(135)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(750)	(1,365)	(516)	(500)
Dividend paid	(99)	(124)	(134)	(134)
<b>Change in Deferred Tax Liability</b>	<b>(154)</b>	<b>(41)</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>(200)</b>	<b>1,290</b>	<b>(1,032)</b>	<b>70</b>

Source: Company data, I-Sec research

Table 7: Key ratios

(Year ending March 31)

	FY20	FY21	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
EPS	5.7	17.9	25.0	34.7
Cash EPS	17.5	28.1	40.4	52.1
Dividend per share (DPS)	2.0	2.4	2.7	2.7
Book Value per share (BV)	165.3	178.2	210.9	240.3
<b>Growth (%)</b>				
Net Sales	-6.3	2.7	19.6	16.3
EBITDA	-20.2	45.2	28.5	25.6
PAT	-67.6	284.5	83.8	38.9
Cash EPS	-18.3	61.0	43.8	28.9
<b>Valuation Ratios (x)</b>				
P/E	149.7	38.9	21.2	15.3
P/CEPS	30.4	18.9	13.1	10.2
P/BV	3.2	3.0	2.5	2.2
EV / EBITDA	20.7	12.9	10.2	8.0
EV / Sales	1.7	1.5	1.3	1.1
<b>Operating Ratios</b>				
Raw Material / Sales (%)	37.1	47.5	46.6	42.3
Employee cost / Sales (%)	14.9	13.7	13.3	13.3
Other Income / PBT (%)	132.9	15.3	7.7	5.3
Effective Tax Rate (%)	-103.5	26.8	25.2	25.2
Working Capital (days)	99.2	63.8	66.0	65.0
Inventory Turnover (days)	74.9	54.3	55.0	55.0
Receivables (days)	63.8	51.2	53.0	53.0
Payables (days)	39.4	41.8	42.0	43.0
Net D/E Ratio (x)	0.7	0.3	0.3	0.2
<b>Profitability Ratios (%)</b>				
Net Income Margins	1.5	4.6	5.4	6.4
RoACE	6.6	11.8	15.2	16.7
RoAE	3.5	10.4	12.9	15.4
Dividend Payout	66.1	21.5	12.6	9.1
Dividend Yield	0.4	0.5	0.5	0.5
EBITDA Margins	8.2	11.6	12.5	13.5

Source: Company data, I-Sec research

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