

Management guides for double digit volume growth!!!

Somany Ceramics (Somany) reported 3.3% volume de-growth YoY (grew 20.3% QoQ) to 15.4 MSM in Q4FY19. Topline de-grew 4.1% YoY to ₹ 518.8 crore on account of a higher base. EBITDA margins expanded 210 bps YoY to 13.6% in Q4FY19. PAT de-grew 16.9% YoY to ₹ 24.1 crore on account of exceptional item worth ₹ 12.7 crore (on account of ₹ 15.9 crore defalcation committed by an employee). Adjusted PAT grew 26.9% YoY to ₹ 36.8 crore.

To increase share of GVT in product portfolio...

Somany's sales volumes grew 3.3% YoY to 51.2 MSM in Q4FY19 despite conscious credit monitoring. The 3.5 MSM Andhra GVT plant was commissioned in March, 2019 and is expected to reach 100% utilisation in Q2FY20E. Secondly, Somany is upgrading Kadi plant (₹ 30 crore capex) to augment manufacturing of value-added products and is expected to be operational by November, 2019. With new capacities being added and share of value-added products expected to increase, the management has guided for double-digit volume & revenue growth in FY20E. Overall, we expect revenues to grow at 15.3% CAGR to ₹ 2,270.7 crore in FY19-21E.

...which should lead to improvement in EBITDA margins

EBITDA margins expanded 210 bps YoY to 13.6% on account of lower fuel costs in Q4FY19. Somany aims to up GVT's share in its product portfolio to 25-26% in FY20E from 21% in FY19. Apart from additional GVT capacities, it has appointed a separate head for the GVT segment to increase focus on this product. Higher proportion of GVT in the product portfolio should aid better EBITDA margins, going ahead. Gas price, currently at ~₹ 33.5/SCM, is expected to inch up by ₹ 1-2/SCM by June, 2019. Overall, while the management has guided for 9.7%+ EBITDA margins in FY20E, we expect margins at 9.7% by FY21E.

Bathware revenues expected to grow 25-30% in FY20E

Bathware segment clocked ₹ 188 crore revenues in FY19, with ₹ 130 crore from sanitaryware. While sanitaryware plant operated at 61% utilisation in FY19, it may reach 100% utilisation in FY20E. Overall, the management aims for 25-30% YoY revenue growth in bathware segment in FY20E & targets ₹ 350-400 crore annual bathware revenues in the next three to four years.

Valuation & Outlook

Somany has become structurally strong with credit control measures taken in FY19. Additional value-added capacities & stress in Morbi cluster could not only lead Somany to clock double-digit growth in FY20E but could also lead to PAT growth of 40.8% CAGR to ₹ 91.9 crore in FY19-21E. We maintain **BUY** recommendation on the stock with a target price of ₹ 475/share.



Particulars	
Particular	Amount (₹ crore)
Market Capitalization	1,632
Total Debt	540
Cash	14
EV	2,158
52 week H/L (₹)	736 / 271
Equity capital	8.5
Face value	₹ 2

Key Highlights

- Sales volumes de-grew 3.3% YoY (grew 20.3% QoQ) to 15.4 MSM in Q4FY19
- The management has guided for double-digit volume & revenue growth in FY20E
- Somany intends to increase GVT's share in the product portfolio to 25-26% in FY20E from 21% in FY19
- The management has guided for 25-30% YoY growth in bathware division revenues in FY20E
- Maintain **BUY** with a target price of ₹ 475/share

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Key Financial Summary

₹ crore	FY17	FY18	FY19E	FY20E	FY21E	CAGR FY19-21E
Net Sales	1,727.8	1,708.2	1,708.3	1,964.7	2,270.7	15.3%
EBITDA	230.6	181.4	156.7	186.6	220.2	18.6%
EBITDA Margin (%)	13.3	10.6	9.2	9.5	9.7	
PAT	112.1	77.5	46.3	72.1	91.9	40.8%
EPS (₹)	26.4	18.3	10.9	17.0	21.7	
P/E (x)	14.6	21.1	35.2	22.7	17.8	
EV/EBITDA (x)	8.6	11.3	13.3	11.1	9.4	
RoNW (%)	21.4	13.3	7.6	10.7	12.3	
RoCE (%)	18.3	12.2	9.7	11.3	12.7	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

Particular	Q4FY19	Q4FY18	YoY (Chg %)	Q3FY19	QoQ (Chg %)	Comments
Net Sales	518.8	540.9	-4.1	425.4	22.0	Revenue de-growth was on account of higher base
Other Income	5.6	4.9	14.3	4.5	25.8	
Raw Material Expense	108.4	133.0	-18.5	106.2	2.0	
Purchase of Traded Goods	104.5	97.9	6.7	90.6	15.4	
Power & Fuel	89.9	0.0		92.9		
Employee benefit expenses	54.3	51.5	5.4	56.0	-3.0	
Other Expenses	58.6	171.3	-65.8	62.2	-5.9	
EBITDA	70.5	62.1	13.4	35.0	101.2	
EBITDA Margin (%)	13.6	11.5	210 bps	8.2	535 bps	EBITDA margins expanded on account of lower fuel & power costs
Depreciation	11.5	11.6	-1.6	11.0	3.9	
Interest	11.7	10.0	16.8	11.5	1.4	
PBT	53.0	45.4	16.6	17.0	212.2	
Taxes	11.3	14.5	-21.7	7.3	54.9	
PAT	24.1	29.0	-16.9	9.2	163.2	PAT de-growth was on account of exceptional items worth ₹ 12.7 crore in Q4FY19. Adjusting for this, PAT grew 26.9% YoY to ₹ 36.8 crore in Q4FY19

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars	FY18	FY19	FY20E		FY21E		Comments
			Old	New	Change	Introduced	
Revenue	1708.2	1708.3	2054.8	1964.7	-4.4	2270.7	We introduce FY21E estimates
EBITDA	181.4	156.7	205.5	186.6	-9.2	220.2	
EBITDA Margin (%)	10.6	9.2	10.0	9.5	-50 bps	9.7	
Adjusted PAT	77.5	46.3	86.8	72.1	-17.0	91.9	Margin revision leads to bottomline downgrade
EPS	18.3	10.9	20.5	17.0	-17.0	21.7	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	FY18	FY19E	Current		Earlier		Comments
			FY20E	FY21E	FY19E	FY20E	
Sales Volume Assumptions (MSM)							
Own Manufacturing	20.3	20.8	23.6	26.3	21.3	23.6	
JV	19.6	18.6	24.8	27.8	19.2	25.2	
Outsourcing/Imports	9.6	11.8	9.2	10.8	10.9	9.2	
Total	49.5	51.2	57.7	64.8	51.4	58.0	We introduce FY21E estimates
Average Realisation (₹/SM)							
Own Manufacturing	311	303	303	309	304	307	
JV	355	304	304	310	344	358	
Outsourcing/Imports	209	257	257	262	202	204	
Blended realisation	309	293	296	301	294	313	

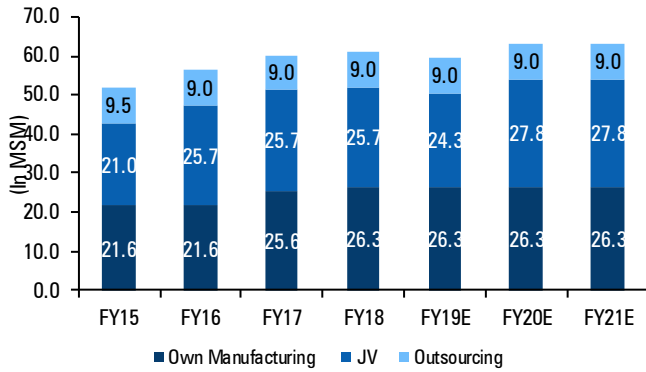
Source: Company, ICICI Direct Research

Conference call Highlights

- **Management guidance:** The management said the tiles industry growth was at sub 3% in FY19 and would remain flattish YoY in FY20E. Despite this, the management expects double-digit volume growth YoY in FY20E (7% market share currently) on account of gain in market share (amid stress in Morbi cluster). With the Andhra GVT plant (3.5 MSM) commissioned in March, 2019 it is expected to reach 100% utilisation in Q2FY20E. While initially 50% of production will be value-added, it will go up to 100% value-added GVT, going ahead. The management aims to improve its product portfolio by taking the contribution of GVT tiles to 25-26% of the product mix in FY20E from 21% in FY19. To increase its focus on the GVT segment, it has created separate heads for PVT and GVT segments. Consequently, it has guided for 9.8%+ EBITDA margins, going ahead. Also, the newly commissioned Andhra GVT plant will help the company expand its presence in the South India market
- **Morbi update:** Of the 850 ceramic units in Morbi, 350-400 units were already gas-based. While the remaining units ran of coal gasifiers, ~300 units of these shifted to gas and remaining units have shut down following the NGT ban on coal gasifiers. Also, part of Somany's operations were impacted for 10 days as gas demand from Morbi players trebled overnight following the NGT ban. However, the situation is back to normal now with adequate gas supply in place
- **Gas prices:** Gas prices currently are at ₹ 33.5/SCM and could increase by ₹ 1-2/SCM by Q1FY20E end.
- **Bathware segment:** The management aims for 25-30% YoY revenue growth in bathware segment in FY20E. Furthermore, it is targeting ₹ 350-400 crore annual revenues from this segment by the next three to four years. On the margin front, bathware division has 30-40% higher margin than tiles
- **Sales mix:** Somany's portfolio mix consists of ceramics: PVT: GVT at 43:36:21 as of Q4FY19. It aims to increase share of GVT products to 25-26% in FY20E. On the target customer front, retail segment makes up 69-70% of sales while 18% of sales comes from private building clients. However, Somany plans to reduce the latter's contribution to 12-13%, going ahead, by increasing corporate sales and share of sale to retail customers
- **Distribution network:** Somany has a network of 2,000+ dealers (~1,800 active dealers) and ~9,000 touchpoints as of FY19. The company has 330 exclusive franchisee stores, which the management aims to increase to 370-380, going ahead. Franchisee stores contribute 35-40% to Somany's revenues
- **Debtors update:** Debtor days came down by 16 days and were at 77-78 days as of March, 2019. While the company is on track to bring it down below 75 days, it aims to bring it further down to 70 days in the next two to three quarters
- **Capex:** Somany is expected to incur total capex worth ~₹ 45 crore in FY20E. Of this, ₹ 30 crore outlay would be towards upgradation of Kadi plant where it plans to increase production of value-added GVT products. Balance ₹ 15 crore capex will be towards regular maintenance
- **Ad expense:** The company aims to keep ad expenses at 3.0-3.5% of overall revenues in FY20E

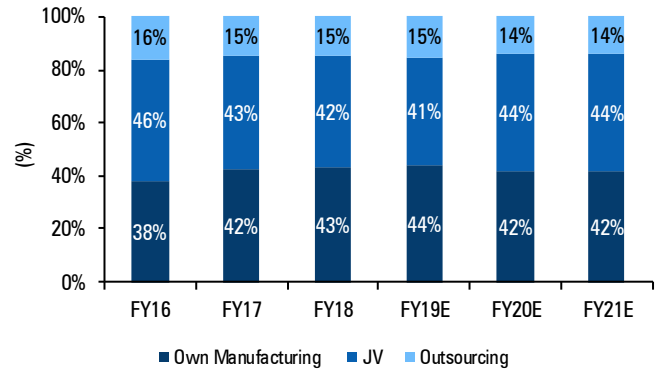
Company Analysis

Exhibit 4: Capacity break-up (in MSM)



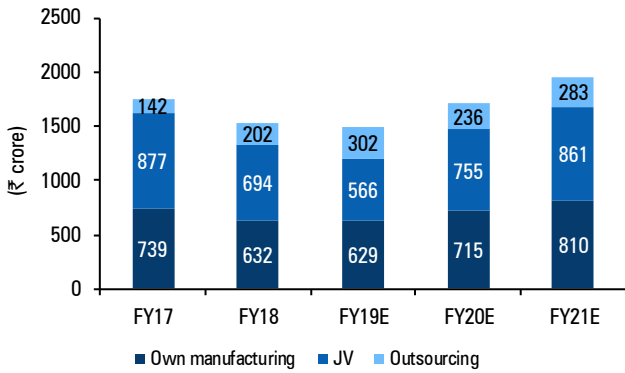
Source: Company, ICICI Direct Research

Exhibit 5: Capacity break-up (%)



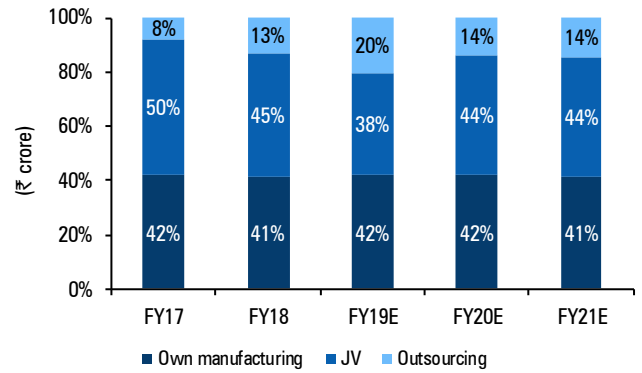
Source: Company, ICICI Direct Research

Exhibit 6: Revenue break-up (₹ crore)



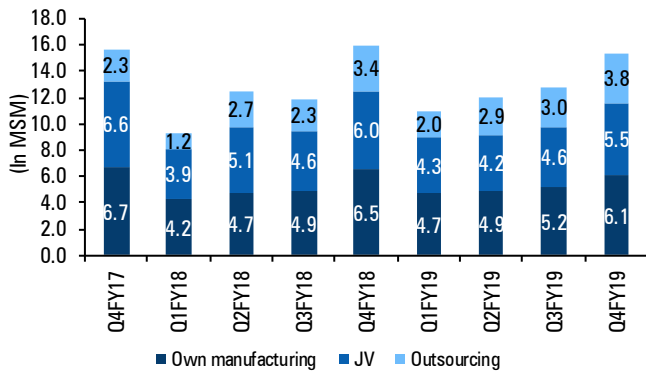
Source: Company, ICICI Direct Research

Exhibit 7: Revenue break-up (%)



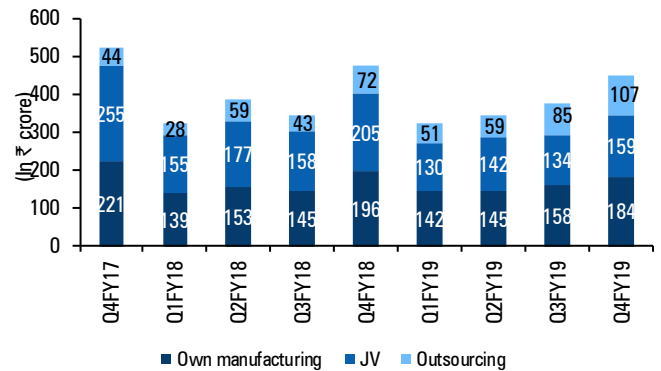
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly standalone sales volumes (in MSM)



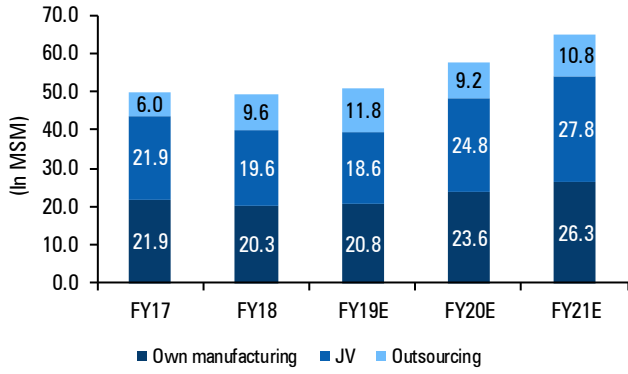
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly standalone sales value



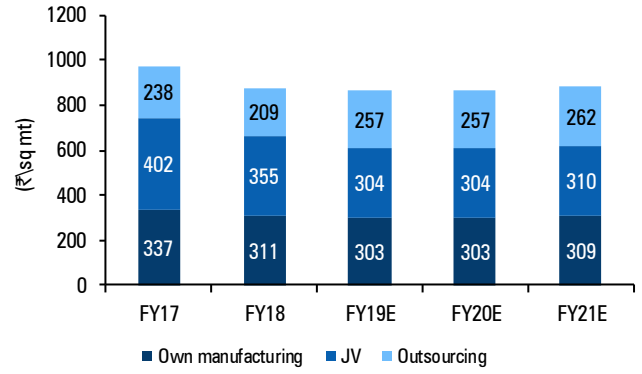
Source: Company, ICICI Direct Research

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



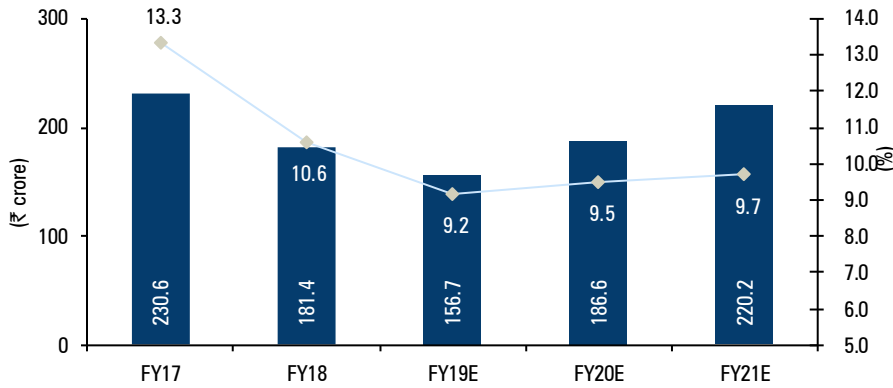
Source: Company, ICICI Direct Research

Exhibit 11: Average realisation break-up



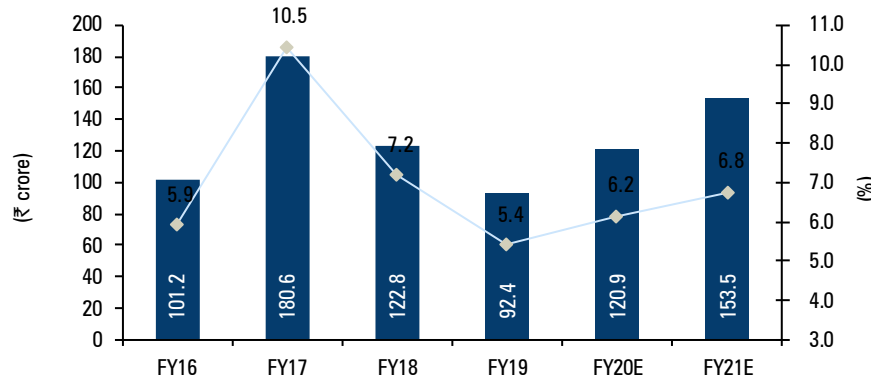
Source: Company, ICICI Direct Research

Exhibit 12: Consolidated EBITDA and EBITDA margin trend



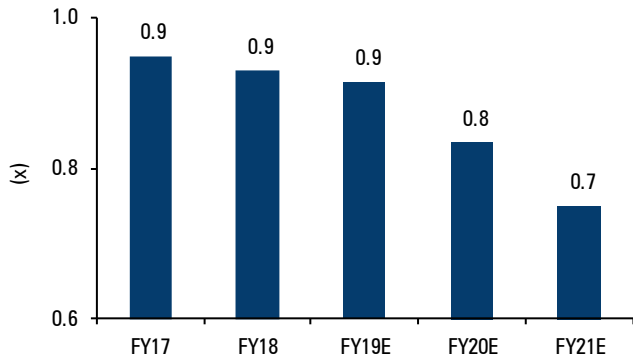
Source: Company, ICICI Direct Research

Exhibit 13: Consolidated PBT, PAT margin trend



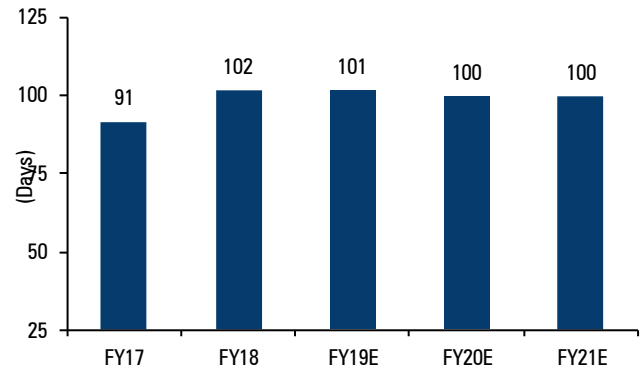
Source: Company, ICICI Direct Research

Exhibit 14: Consolidated leverage



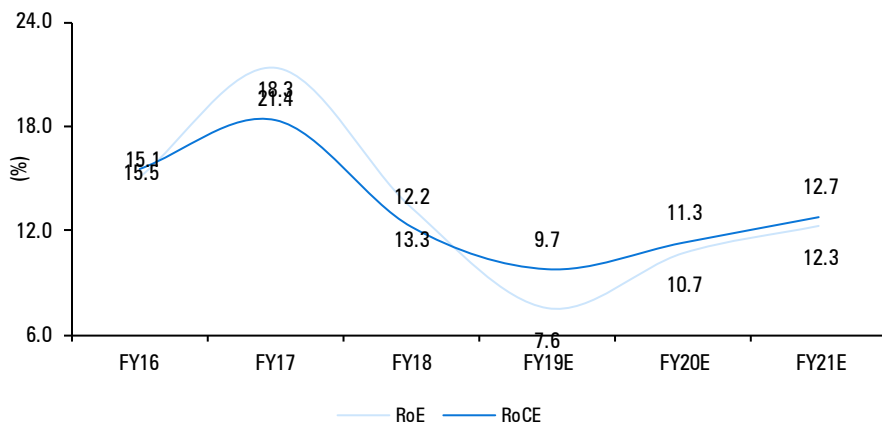
Source: Company, ICICI Direct Research

Exhibit 15: Consolidated working capital days



Source: Company, ICICI Direct Research

Exhibit 16: Return ratios to improve, going ahead



Source: Company, ICICI Direct Research

Valuation & Outlook

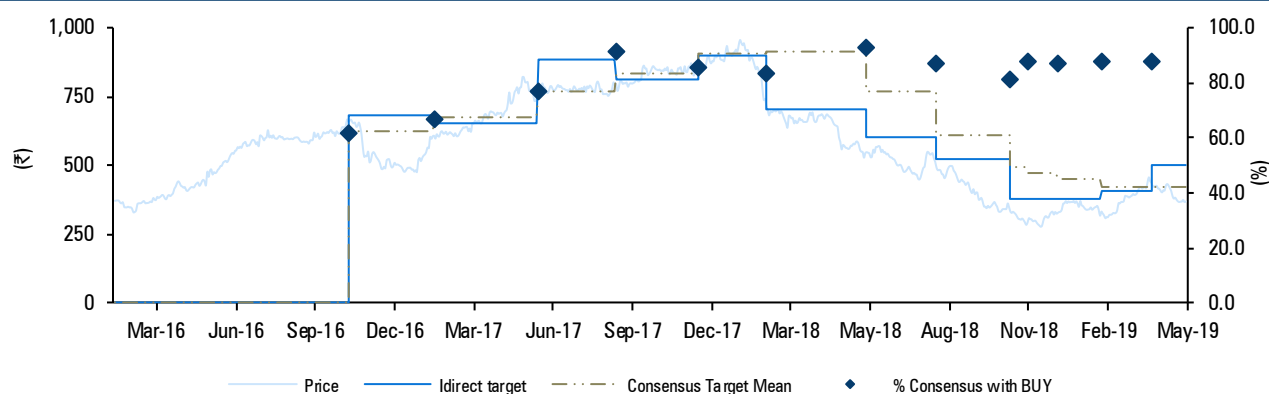
Somany has become structurally strong with credit control measures taken in FY19. The company added 3.5 MSM GVT capacity in March, 2019 and is further upgrading value-added capacity at its Kadi plant. Secondly, the ongoing stress in the Morbi cluster could lead to Somany getting incremental share (7% market share as of FY19). With these factors in place, the management expects double-digit volume growth YoY in FY20E. Furthermore, with the company aiming to increase the share of GVT in its product portfolio to 25-26% in FY20E from 21% in FY19, EBITDA margins could improve, going ahead. Consequently, we expect PAT growth at 40.8% CAGR to ₹ 91.9 crore in FY19-21E. We maintain **BUY** recommendation on the stock with a TP of ₹ 475/share (22x FY21E EPS).

Exhibit 17: Valuation Metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITD (x)	RoNW (%)	RoCE (%)
FY17	1,727.8	5.9	26.4	42.2	16.3	9.5	21.4	18.3
FY18	1,708.2	(1.1)	18.3	(30.9)	23.6	12.3	13.3	12.2
FY19E	1,708.3	0.0	10.9	(40.2)	39.4	14.5	7.6	9.7
FY20E	1,964.7	15.0	17.0	55.5	25.4	12.2	10.7	11.3
FY21E	2,270.7	15.6	21.7	27.5	19.9	10.3	12.3	12.7

Source: Company, ICICI Direct Research

Exhibit 18: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 19: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Bhilwara Holdings, Ltd.	31-Mar-19	21.7%	9.2	0.0
2	Sarvottam Vanijya, Ltd.	31-Mar-19	14.9%	6.3	0.0
3	Franklin Templeton Asset Management (India) Pvt. Ltd.	31-Mar-19	8.8%	3.8	0.0
4	Scope Vinimoy Pvt. Ltd.	31-Mar-19	8.4%	3.6	0.0
5	L&T Investment Management Limited	30-Apr-19	5.6%	2.4	0.0
6	DSP Investment Managers Pvt. Ltd.	31-Mar-19	3.5%	1.5	0.0
7	Somany (Shrivastva)	31-Mar-19	3.1%	1.3	0.0
8	Jhunjhunwala (Surya Kumar)	31-Mar-19	2.5%	1.1	0.2
9	Aditya Birla Sun Life AMC Limited	31-Mar-19	2.2%	0.9	0.0
10	HSBC Global Asset Management (India) Private Limited	31-Mar-19	1.6%	0.7	0.1

Source: Reuters, ICICI Direct Research

Exhibit 20: Recent Activity

Buys			Sells		
Investor name	Value	Shares	Investor name	Value	Shares
Parekh (Sanjeev Vinodchandra)	2.7	0.4	Kotak Mahindra Life Insurance Co, Ltd.	-3.8	-0.8
Jhunjhunwala (Surya Kumar)	1.4	0.2	Tata Asset Management Limited	-1.2	-0.3
HSBC Global Asset Management (India) Private Limited	0.7	0.1	Mahindra Asset Management Company Pvt. Ltd.	-0.9	-0.2
Aditya Birla Sun Life AMC Limited	0.2	0.0	DHFL Pramerica Asset Managers Private Limited	-0.3	-0.1
L&T Investment Management Limited	0.2	0.0	BlackRock Institutional Trust Company, N.A.	-0.2	-0.1

Source: Reuters, ICICI Direct Research

Exhibit 21: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	51.5	51.5	51.5	51.5
Public	48.5	48.5	48.5	48.5
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 22: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Net Sales	1,708.2	1,708.3	1,964.7	2,270.7
Other Income	18.1	19.2	20.1	21.1
Total Revenue	1,726.3	1,727.5	1,984.9	2,291.8
Raw Material Expense	455.7	433.5	495.1	567.7
Purchase of Traded Goods	289.4	324.1	372.8	430.8
(Increase)/Decrease in Inventories	(38.2)	(35.8)	(41.2)	(47.6)
Employee benefit expenses	217.5	226.2	260.1	300.6
Other Expenses	253.7	233.7	268.8	310.7
Total Operating Expenditure	1,526.9	1,551.7	1,778.1	2,050.4
EBITDA	181.4	156.7	186.6	220.2
Interest	39.9	45.9	46.3	46.3
Depreciation	41.3	44.3	47.0	49.7
PBT	122.8	92.4	120.9	153.5
Total Tax	39.3	26.8	39.9	50.7
PAT before MI	79.1	53.3	81.0	102.8
Minority Interest	3.6	6.9	8.9	10.9
PAT after MI	75.5	46.3	72.1	91.9
Profit from Associates	2.0	-	-	-
PAT	77.5	46.3	72.1	91.9
YoY growth	-30.9%	-40.2%	55.5%	27.5%
EPS (Diluted)	18.3	10.9	17.0	21.7

Source: Company, ICICI Direct Research

Exhibit 23: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit after Tax	77.5	46.3	72.1	91.9
Depreciation	41.3	44.3	47.0	49.7
Interest Paid	39.9	45.9	46.3	46.3
Cash Flow before WC changes	146.6	136.5	154.1	177.7
Net Increase in Current Assets	(122.5)	29.2	(95.6)	(138.1)
Net Increase in Current Liabilities	79.8	(28.8)	39.1	54.6
Net CF from Operating Activities	103.9	136.9	97.6	94.2
(Purchase)/Sale of Fixed Assets	(132.0)	(110.1)	(50.0)	(50.0)
Intangible assets and CWIP	15.4	5.3	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)	(61.3)	(29.9)	(28.9)
Proceeds from LT Borrowings	42.7	21.0	-	-
Dividend and Dividend Tax	(13.8)	(8.2)	(12.8)	(16.3)
Interest Paid	(39.9)	(45.9)	(46.3)	(46.3)
Net CF from Financing Activities	(11.0)	(33.2)	(59.1)	(62.6)
Net Cash flow	18.2	42.4	8.6	2.8
Opening Cash/ Cash Equivalent	24.0	13.6	40.0	48.7
Closing Cash/ Cash Equivalent	13.6	40.0	48.7	51.4

Source: Company, ICICI Direct Research

Exhibit 24: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	572.2	604.5	663.8	739.4
Total Shareholders funds	580.7	613.0	672.3	747.8
Secured Loan	234.6	400.6	400.6	400.6
Unsecured Loan	305.0	160.0	160.0	160.0
Total Debt	539.6	560.6	560.6	560.6
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	1,350	1,418	1,505
Assets				
Gross Block	695.3	803.4	853.4	903.4
Net Block	636.1	699.9	702.9	703.2
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	292.7	338.3
Sundry Debtors	503.7	417.9	457.5	528.8
Loans and Advances	8.5	58.4	67.2	77.6
Other Current Assets	48.6	60.5	69.6	80.4
Cash	13.6	40.0	48.7	51.4
Total Current Assets	948.3	899.6	1,003.9	1,144.8
Creditors	233.2	198.6	215.3	248.8
Provisions	0.7	0.9	6.4	7.4
Other Current Liabilities	106.8	112.3	129.1	149.2
Total Current Liabilities	340.6	311.7	350.8	405.4
Net Current Assets	607.7	587.9	653.1	739.4
Assets side total	1,298	1,350	1,418	1,505

Source: Company, ICICI Direct Research

Exhibit 25: Key ratios				
(Year-end March)	FY18	FY19E	FY20E	FY21E
Per Share Data				
EPS	18.3	10.9	17.0	21.7
Cash EPS	28.0	21.4	28.1	33.4
BV	137.0	144.6	158.6	176.4
Revenue per Share	402.9	402.9	463.4	535.5
Dividend per share	2.7	1.6	2.5	3.2
Operating Ratios				
EBITDA / Total Operating Income	10.6	9.1	9.5	9.7
PAT / Total Operating Income	4.5	2.7	3.7	4.0
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	10.7	12.3
RoCE	12.2	9.7	11.3	12.7
RoIC	12.3	9.2	10.9	12.5
Valuation Ratios				
EV / EBITDA	11.3	13.3	11.1	9.4
P/E	21.1	35.2	22.7	17.8
EV / Net Sales	1.2	1.2	1.1	0.9
Market Cap / Sales	1.0	1.0	0.8	0.7
Price to Book Value	2.8	2.7	2.4	2.2
Turnover Ratios				
Asset turnover	1.3	1.3	1.4	1.5
Gross Block Turnover	2.4	2.1	2.3	2.5
Solvency Ratios				
Net Debt / Equity	0.7	0.7	0.7	0.6
Current Ratio	2.4	2.6	2.5	2.5
Debt / EBITDA	3.0	3.6	3.0	2.5
Quick Ratio	1.6	1.7	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 26: ICICI Direct coverage universe (Tiles)

Sector / Company	CMP		M Cap (₹ Cr)	EPS (₹)			P/E (x)			N/EBITDA (x)			P/B (x)			RoE (%)			
	(₹)	TP(₹)		Rating	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Shankara Building (SHABUI)	490	485	Hold	1120	14.3	16.3	27.5	34.2	30.0	17.8	10.9	13.2	9.4	2.3	2.1	1.9	6.8	7.1	10.7
Kajaria Ceramics (KAJCER)	590	680	Buy	9375	14.2	19.5	23.5	41.4	30.3	25.2	20.5	16.7	14.1	6.0	5.2	4.5	14.4	17.1	17.9
Somany Ceramics (SPLIND)	385	475	Buy	1632	10.9	17.0	21.7	35.2	22.7	17.8	13.3	11.1	9.4	2.7	2.4	2.2	7.6	10.7	12.3

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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