

Industry	Building Materials
Bloomberg	SOMC IN
BSE CODE	531548

## Credit control hurts FY19 sales; growth ahead to be seen

<b>RATING</b>	<b>NEUTRAL</b>
<b>CMP</b>	<b>380</b>
<b>Price Target</b>	<b>410</b>
<b>Potential Upside</b>	<b>8%</b>

<b>Rating Change</b>	↔
<b>Estimate Change</b>	↔
<b>Target Change</b>	↔

### Stock Info

52wk Range H/L	578/270
Mkt Capital (Rs Cr)	1610
Free float (%)	48%
Avg. Vol 1M (,000)	30
No. of Shares (Cr)	4
Promoters Pledged %	0%

### Research Analyst

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### 4QFY19 Result Update

- ❑ Somany Ceramics reported 4.1% YoY downfall in revenue to Rs 519 crores.
- ❑ The tiles volume de-grew by 3% YoY due to high base quarter last year on loose credit control. The realisations were down 1.4% QoQ on a blended basis.
- ❑ The Bathware segment witnessed a slowdown in revenue growth to ~8% in Q4FY19.
- ❑ The gross margins came in flat at 52.7% for the quarter.
- ❑ The cool down in gas prices helped in lower power & fuel cost which came in at 17.3% of sales. Further, lower A&P expenses aided EBITDA margins to come at 13.6% for the quarter.
- ❑ Strong operational performance helped company to report an adj. PAT of Rs 37 Cr.
- ❑ The new plant in South India commenced its commercial production from 27th March, 2019. The company has announced a refurbishment plan at a cost of Rs 30 crores for the Kadi plant which will help to produce more value added products.

### View and Valuation

FY19 for SOMANYCERA can be characterized for the credit control exercise to bring the Working Capital under control which led to a hit in yearly revenue (flat YoY) with volume growing by mere 3%. Further, the company also faced sectoral challenges with the rising gas costs, depreciating rupee, poor industry growth and pricing pressures. However, the company was able to close the year on positive note with strong operational numbers in Q4FY19 with the credit under control and lower gas costs. Post the NGT order of banning the use of coal, the industry dynamics are expected to improve with all the players now on the same level playing field where they comply with the GST. Further, the Morbi players have now lost the undue cost benefit from using cheaper energy source Coal instead of Gas which should ease the pricing environment with Morbi taking price hikes. The management has guided for a double digit volume growth for FY20. However, being cautious, we have taken ~10% tiles volume growth for FY20. Further, the management has guided the bathware division revenue growth to be 25-30% YoY and we have taken it to be 25%. At the current gas prices, the total gas cost should come down from 21.9% of sales in FY19 to ~19.6% in FY20. With the lowering cost pressures and easing price competition from Morbi players post the NGT order, EBITDA margin is expected to improve by 60bps to 10.1%. We largely maintain our headline earning numbers. SOMANYCERA currently trades at 21.8x FY20e EPS and we maintain our price target of Rs 410 and NEUTRAL rating.

### Key Risks to our rating and target

- ❑ Slowdown in overall demand environment, stiff competition on market share
- ❑ Highly volatile gas prices pose a threat to margins

KEY FINANCIAL/VALUATIONS	FY16	FY17	FY18	FY19	FY20E
Net Sales	1712	1731	1713	1715	1921
EBITDA	143	234	186	163	194
EBIT	115	202	145	119	147
PAT	69	102	75	59	74
EPS (Rs)	16	24	18	14	17
EPS growth (%)	49%	48%	-27%	-22%	26%
ROE (%)	18%	20%	13%	8%	11%
ROCE (%)	17%	21%	13%	10%	12%
BV	104	124	137	145	160
P/B (X)	3.8	5.6	4.9	2.9	2.4
P/E (x)	24.1	28.5	38.0	30.4	21.8

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## 4QFY19 Results Mixed numbers

## Margin revives in Q4

Financials	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19	YoY %	QoQ%	FY18	FY19	YoY %
Net Sales	541	381	393	425	519	-4.1%	22.0%	1,713	1,715	0.1%
Other Income	5	5	4	4	6	14.3%	25.8%	18	19	5.8%
Total Revenue	546	386	398	430	524	-3.9%	22.0%	1,731	1,734	0.2%
COGS	256	131	173	179	246	-4.0%	37.0%	707	722	2.1%
Gross Margin	53%	66%	56%	58%	53%	0.0%	-5.2%	59%	58%	-0.8%
Power & Fuel	52	58	54	56	54	5.4%	-3.0%	217	226	4.0%
Employee Cost	106	100	87	93	90	-15.1%	-3.2%	349	370	6.1%
Other Expense	65	60	53	62	59	-10.4%	-5.9%	254	234	-7.9%
EBITDA	62	31	26	35	70	13.4%	101.1%	186	163	-12.1%
EBITDAM	11%	8%	7%	8%	14%	2.1%	5.3%	11%	10%	-1.3%
Depreciation	12	11	11	11	11	-1.6%	3.9%	41	44	7.2%
EBIT	51	20	16	24	59	16.9%	145.8%	145	119	-17.6%
Interest	10	12	11	12	12	16.8%	1.4%	40	46	15.0%
PBT	45	14	9	17	53	16.6%	212.1%	123	92	-24.8%
Exceptional	(2)	-	-	0	(13)	556.2%	-2698%	(4)	(12)	178%
Tax	14	5	3	7	11	-21.7%	54.9%	39	27	-31.6%
Share of P/L	-	-	-	-	-	0.0%	0.0%	-	-	0.0%
Minority Int	(3)	(0)	(1)	(1)	(5)	55.5%	386.9%	(9)	(7)	-20%
PAT	26	9	5	9	24	-7.0%	163.1%	70	46	-34.2%
PAT Margin	5%	2%	1%	2%	5%	-0.1%	2.5%	4%	3%	-1.4%

Revenue Mix	1QFY18	2QFY18	3QFY18	4QFY18	1QFY19	2QFY19	3QFY19	4QFY19
Own Mfg(Tiles)		40%	36%	38%	37%	40%	37%	36%
JVs (Tiles)		43%	39%	38%	36%	36%	32%	31%
Outsourcing (Tiles)		10%	16%	14%	16%	14%	20%	20%
Bathware		7%	9%	10%	11%	10%	11%	12%

### Poor tiles volume growth leads to sluggish revenue

Somany Ceramics reported 4.1% YoY downfall in revenue to Rs 519 crores, lower than our expectations of Rs 555 crores. The fall in the revenue was due to tiles volume de-growth of 3% (est. 7% growth) on the back of high base quarter last year on loose credit control. The realisations were down 1.4% QoQ on a blended basis. The Bathware segment witnessed a slowdown in revenue growth to ~8% in Q4FY19.

### Strong EBITDA margins on the back of lower gas costs and gross margins

The gross margins came in flat at 52.7% (est. 48.8%) for the quarter due to higher than expected outsourcing share in the revenue mix. The cool down in gas prices helped in lower power & fuel cost which came in at 17.3% of sales (est. 17.5%). Further, lower A&P expenses aided EBITDA margins to come at 13.6% (est. 9.6%) for the quarter.

Strong operational performance helped company to report an adj. PAT of Rs 37 Cr.

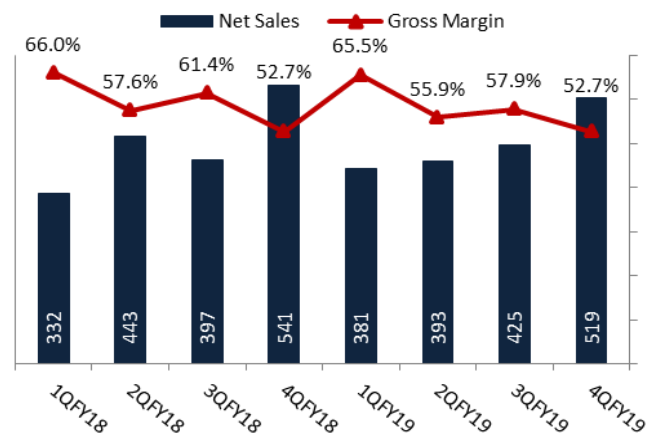
In Q4, the company discovered defalcation committed by an employee, responsible for payment processing of certain imported trading goods. The Company is confident of recovering the amount. However, as a matter of abundant caution provided about Rs 15.86 crores in FY.

### Concall Highlights

- More dealers are now open for fresh buying and that would be reflected in sales for Q1
- The credit control initiative had a hit on sales. WC days to further improve going ahead.
- Currently, there are about 330 and company targets to take it to 370-380 this year. The company currently has 1800 dealers and total customer touch points at 9000.
- Capex: Rs 50 crores for FY20. Rs 30 crores for Kadi plant and rest for maintenance and others. No further expansion for tiles in this year.
- The NGT ruling has a positive effect. The decision would stay this time as half of the Morbi is supporting the ruling and they have submitted an affidavit to the government
- None of SOMANY plants in Morbi runs on coal and so NGT order doesn't affect them
- The company has taken price hike in April for wall tiles from Morbi area. The Morbi players have taken price hikes in ceramic wall tiles by Rs 10-15 (~5%). The company has taken very small price hikes in Sanitaryware and Bathware.
- Company is increasing their focus more on Retail. Looking to reduce private builder's sale from current 18% to 12-13%.

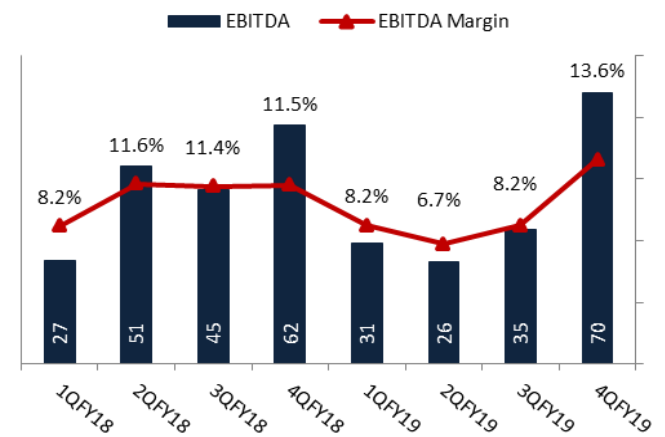
## Exhibit: Sales and Gross Margin %

Sales de-grew on a high base last year



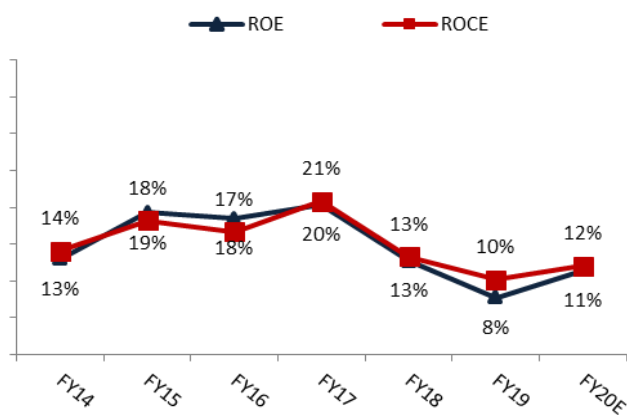
## Exhibit: EBITDA and EBITDA margin %

EBITDAM was higher with lower gas costs and A&P expenses



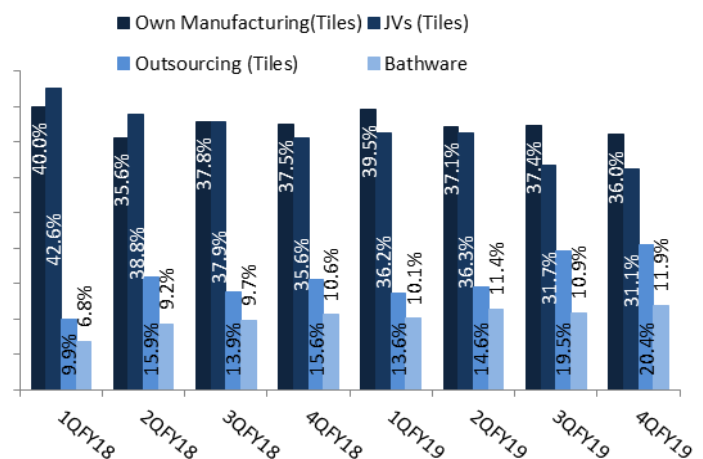
## Exhibit: Return Ratios %

Strong profitability to drive return ratios higher after hit in FY19



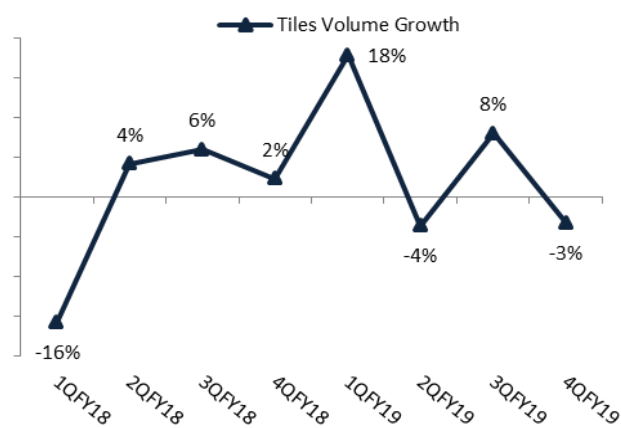
## Exhibit: Revenue Mix %

Higher outsourcing in the mix



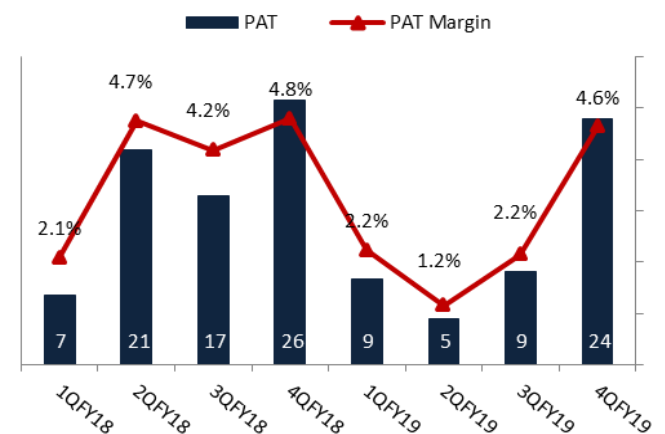
## Exhibit: Tiles Volume Growth

Tiles volume de-grew by 3% on a high base last year on loose credit



## Exhibit: PAT and PAT Margin

PAT growth on back of strong operational performance



## Financial Details

## Balance Sheet

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Share Capital</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>	<b>8</b>
Reserves	216	250	434	516	572	605	668
<b>Net Worth</b>	<b>223</b>	<b>258</b>	<b>442</b>	<b>524</b>	<b>581</b>	<b>613</b>	<b>677</b>
<b>Minority Interest</b>	<b>4</b>	<b>5</b>	<b>65</b>	<b>83</b>	<b>96</b>	<b>87</b>	<b>94</b>
Debt	147	162	390	440	477	511	471
Other Non Current Liab	49	51	74	78	83	89	89
<b>Total Capital Employed</b>	<b>424</b>	<b>476</b>	<b>971</b>	<b>1,126</b>	<b>1,237</b>	<b>1,300</b>	<b>1,330</b>
Net Fixed Assets (incl CWIP)	243	265	522	579	672	730	733
Goodwill	-	-	4.4	4.4	4.4	4.4	4.4
Other non-current assets	34	40	18	19	15	27	27
<b>Non Current Assets</b>	<b>277</b>	<b>305</b>	<b>544</b>	<b>603</b>	<b>691</b>	<b>762</b>	<b>765</b>
Inventory	91	136	196	221	260	255	297
Debtors	215	259	323	427	504	418	421
Cash & Bank	35	15	19	15	6	30	45
Other Current Assets	130	69	156	178	179	198	217
<b>Current Assets</b>	<b>470</b>	<b>480</b>	<b>693</b>	<b>841</b>	<b>948</b>	<b>900</b>	<b>980</b>
Creditors	178	208	124	164	233	199	232
Provisions	75	11	1	1	1	1	1
Other Current Liabilities	70	90	141	153	169	162	182
<b>Curr Liabilities</b>	<b>323</b>	<b>308</b>	<b>267</b>	<b>318</b>	<b>403</b>	<b>362</b>	<b>415</b>
<b>Net Current Assets</b>	<b>147</b>	<b>171</b>	<b>426</b>	<b>523</b>	<b>545</b>	<b>538</b>	<b>565</b>
<b>Total Assets</b>	<b>747</b>	<b>784</b>	<b>1,238</b>	<b>1,443</b>	<b>1,639</b>	<b>1,662</b>	<b>1,745</b>

## Income Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
<b>Revenue from Operation</b>	<b>1,265</b>	<b>1,543</b>	<b>1,712</b>	<b>1,731</b>	<b>1,713</b>	<b>1,715</b>	<b>1,921</b>
Change (%)	20%	22%	11%	1%	-1%	0%	12%
Other Income	3	8	9	17	18	19	20
<b>EBITDA</b>	<b>81</b>	<b>108</b>	<b>143</b>	<b>234</b>	<b>186</b>	<b>163</b>	<b>194</b>
Change (%)	-5%	32%	33%	64%	-20%	-12%	19%
Margin (%)	6%	7%	8%	14%	11%	10%	10%
Depr & Amor.	22	27	28	31	41	44	47
<b>EBIT</b>	<b>59</b>	<b>81</b>	<b>115</b>	<b>202</b>	<b>145</b>	<b>119</b>	<b>147</b>
Int. & other fin. Cost	19	21	22	39	40	46	43
<b>EBT</b>	<b>44</b>	<b>68</b>	<b>101</b>	<b>181</b>	<b>123</b>	<b>92</b>	<b>124</b>
Exp Item	-	-	(4)	(4)	(4)	(12)	-
Tax	17	22	31	61	39	27	43
share of profit/(loss) of associates	2	1	2	-	-	-	-
Minority Interest	1	(1)	(3)	(17)	(9)	(7)	(7)
Reported PAT	29	46	65	98	70	46	74
<b>Adjusted PAT</b>	<b>29</b>	<b>46</b>	<b>69</b>	<b>102</b>	<b>75</b>	<b>59</b>	<b>74</b>
Change (%)	-10%	61%	49%	48%	-27%	-22%	26%
Margin(%)	2%	3%	4%	6%	4%	3%	4%

## Financial Details

## Key Ratios

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19	FY20E
Current Ratio	1.5	1.6	2.6	2.6	2.4	2.5	2.4
Debt-Equity Ratio	0.7	0.6	0.9	0.8	0.8	0.8	0.7
Interest Coverage Ratio	3.2	3.9	5.1	5.2	3.6	2.6	3.4
Capital Turnover Ratio	4.3	4.6	2.8	2.5	2.3	2.0	2.2
Fixed Asset Turnover Ratio	5.2	6.1	4.4	3.1	2.7	2.4	2.6
Inventory Days outstanding	42.4	53.1	70.4	114.0	134.1	128.7	128.7
Accounts Receivable Days outstanding	62.0	61.3	68.8	90.0	107.3	88.9	80.0
Accounts Payable Days outstanding	83.5	80.8	44.6	84.5	120.4	100.4	100.4
ROCE	14.0%	18.2%	16.6%	20.8%	13.2%	10.1%	12.0%
ROE	12.9%	19.3%	18.5%	20.4%	12.7%	7.7%	11.5%
FCF per Share	3.8	(6.1)	(18.1)	3.0	(4.5)	(2.9)	21.0
Price / EPS	24.0	36.4	24.1	28.5	38.0	30.4	21.8
Price / Book Value	3.1	6.6	3.8	5.6	4.9	2.9	2.4
EV/EBITDA	8.7	16.8	13.6	13.7	17.2	13.4	10.1
EV/Sales	0.6	1.2	1.1	1.9	1.9	1.3	1.0
Div Yield	0.9%	0.5%	0.6%	0.4%	0.4%	0.5%	0.7%

## Cash Flow Statement

Y/E March	FY14	FY15	FY16	FY17	FY18	FY19E	FY20E
<b>PBT</b>	<b>44</b>	<b>68</b>	<b>97</b>	<b>177</b>	<b>118</b>	<b>80</b>	<b>124</b>
(inc)/Dec in Working Capital	3	(65)	(60)	(73)	(48)	(17)	(12)
Non Cash Op Exp	22	23	25	24	33	11	27
Int Paid (+)	19	21	22	39	40	46	43
Tax Paid	(13)	(22)	(24)	(49)	(33)	(27)	(43)
<b>CF from Op. Activities</b>	<b>74</b>	<b>25</b>	<b>60</b>	<b>117</b>	<b>111</b>	<b>93</b>	<b>139</b>
(inc)/Dec in FA & CWIP	(59)	(51)	(136)	(105)	(130)	(105)	(50)
Free Cashflow	15	(26)	(77)	13	(19)	(12)	89
(Pur)/Sale of Inv	(44)	10	(60)	(26)	6	46	-
others	(1)	3	4	(1)	14	16	20
<b>CF from Inv. Activities</b>	<b>(104)</b>	<b>(38)</b>	<b>(192)</b>	<b>(131)</b>	<b>(110)</b>	<b>(43)</b>	<b>(30)</b>
inc/(dec) in NW	54	-	120	6	2	-	-
inc/(dec) in Debt	8	21	42	56	42	33	(40)
Int. Paid	(18)	(20)	(22)	(40)	(40)	(46)	(43)
Div Paid (inc tax)	(5)	(7)	(9)	(12)	(14)	(14)	(10)
others	-	-	-	-	-	-	-
<b>CF from Fin. Activities</b>	<b>39</b>	<b>(6)</b>	<b>131</b>	<b>10</b>	<b>(10)</b>	<b>(26)</b>	<b>(93)</b>
<b>Inc(Dec) in Cash</b>	<b>9</b>	<b>(19)</b>	<b>(1)</b>	<b>(4)</b>	<b>(9)</b>	<b>24</b>	<b>15</b>
Add: Opening Balance	26	35	20	19	15	6	30
<b>Closing Balance</b>	<b>35</b>	<b>15</b>	<b>18</b>	<b>15</b>	<b>6</b>	<b>30</b>	<b>45</b>

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Analyst's ownership of the stocks mentioned in the Report	NIL
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