FIRST LIGHT

20 May 2022

RESEARCH

Pidilite Industries | Target: Rs 1,870 | –12% | SELL

Earnings miss, unabated cost inflation; downgrade to SELL

Finolex Industries | Target: Rs 180 | +22% | BUY

Higher volumes drive topline but PVC price volatility persists

Somany Ceramics | Target: Rs 835 | +40% | BUY

Another quarter of weak performance

SUMMARY

Pidilite Industries

- Consolidated Q4 net revenue increased 12% YoY to Rs 25bn as the C&B/B2B segments grew 11%/21%
- Gross margin contracted 730bps YoY to 43.5% due to a spike in VAM price to US$ 2,600-2700/mt from ~US$ 1,200/mt in Q4FY21
- We lower FY23/FY24 PAT by 20% each on weak volumes and RM inflation; cut from HOLD to SELL with a reduced TP of Rs 1,870 (vs. Rs 2,445)

Click here **for the full report.**

Finolex Industries

- Q4 revenue increased 28% YoY as volumes/realisations rose 4%/9% in PVC pipes & fittings and 32%/8% in PVC resin
- Operating margin contracted 1,620bps YoY to 16.6% on higher RM cost (+1815bps) and other expenses (+80bps)
- We retain our TP of Rs 180 while raising our rating from HOLD to BUY post the recent stock correction

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Daily macro indicators

Indicator	17-May	18-May	Chg (%)
US 10Y yield (%)	2.99	2.88	(10bps)
India 10Y yield (%)	7.37	7.35	(1bps)
USD/INR	77.56	77.58	0.0
Brent Crude (US$/bbl)	111.9	109.1	(2.5)
Dow	32,655	31,490	(3.6)
Hang Seng	20,603	20,644	0.2
Sensex	54,318	54,209	(0.2)
India FII (US$ mn)	**13-May**	**17-May**	**Chg ($ mn)**
FII-D	(272.8)	11.3	284.1
FII-E	(454.4)	(214.1)	240.3

Source: Bank of Baroda Economics Research

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Somany Ceramics

- Q4 revenue growth muted at 9.7% YoY due to a 5% decline in tile volumes, though blended realisation rose 14% to Rs 333/msm
- EBITDA margin contracted 665bps YoY to 5.5% as RM cost increased by 510bps and other expenses by 205bps
- We lower FY23/FY24 PAT by 28%/21% on weak volumes and gas cost inflation; retain BUY with a reduced TP of Rs 835 (vs. Rs 1,140)

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SELL

TP: Rs 1,870 | ▼ 12%

PIDILITE INDUSTRIES | Construction Materials | 19 May 2022

Earnings miss, unabated cost inflation; downgrade to SELL

- **Consolidated Q4 net revenue increased 12% YoY to Rs 25bn as the C&B/B2B segments grew 11%/21%**
- **Gross margin contracted 730bps YoY to 43.5% due to a spike in VAM price to US$ 2,600-2700/mt from ~US$ 1,200/mt in Q4FY21**
- **We lower FY23/FY24 PAT by 20% each on weak volumes and RM inflation; cut from HOLD to SELL with a reduced TP of Rs 1,870 (vs. Rs 2,445)**

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Underwhelming revenue growth: PIDI's consolidated Q4FY22 net revenue grew 12% YoY to Rs 25bn on a high base (45% YoY growth in Q4FY21). Consumer & Bazaar (C&B) segment revenue increased 11% YoY to Rs 19.1bn, but segmental EBIT margin shrank 530bps to 21.8%. The B2B segment grew 21% YoY to Rs 6.5bn – here too, EBIT margin was down 290bps to 6.9%.

Intense RM cost headwinds: Gross margin contracted 730bps YoY to 43.5% as prices of key raw material VAM soared to US$ 2,600-2,700/mt vs. ~US$ 1,200/mt in Q4FY21 (~US$ 2,500/mt in Dec'21). Thus, EBITDA margin declined by 460bps YoY to 16% and EBITDA fell 13% YoY (-27% QoQ) to Rs 4bn.

Standalone performance weak: Net sales grew 12% YoY to Rs 20.8bn with a 10%/24% uptick in C&B/B2B business. C&B EBIT margin contracted 625bps YoY to 23.4% and B2B reported a 550bps decline to 8.9%. Overall gross/EBITDA margin contracted by 910bps/555bps YoY to 42.7%/16.4% and EBITDA fell 16% YoY to Rs 3.4bn.

Significant near-term inflation worries; value lies much lower: PIDI witnessed price-led growth while volumes remained subdued in Q4 on account of the pandemic and persistent inflation which hurt consumer demand. We expect sustained demand and margin pressures in the near term due to the likelihood of unabated commodity inflation. Management too acknowledged significant concerns over near-term inflation and its impact on market growth.

Downgrade to SELL: We cut our FY23/FY24 PAT estimates by ~20% each to factor in headwinds to growth and raw material costs. At current valuations of 90x FY22E and 70x FY24E EPS, the stock is well above its 5Y median P/E of 65x. In our view, valuations do not adequately price in the risks to growth and margins. We cut our target FY24E P/E multiple from 65x to 62x, translating to a reduced TP of Rs 1,870 (vs. Rs 2,445), and downgrade the stock from HOLD to SELL.

Key changes

Target	Rating
▼	▼

Ticker/Price	PIDI IN/Rs 2,118
Market cap	US$ 13.8bn
Free float	30%
3M ADV	US$ 13.3mn
52wk high/low	Rs 2,765/Rs 1,922
Promoter/FPI/DII	70%/12%/18%

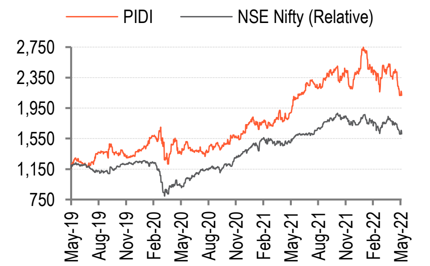
Source: NSE | Price as of 19 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	99,210	1,03,920	1,19,726
EBITDA (Rs mn)	18,473	19,745	23,347
Adj. net profit (Rs mn)	11,965	12,932	15,307
Adj. EPS (Rs)	23.5	25.4	30.1
Consensus EPS (Rs)	23.5	33.1	38.9
Adj. ROAE (%)	19.9	19.4	21.1
Adj. P/E (x)	89.9	83.2	70.3
EV/EBITDA (x)	58.0	54.4	46.0
Adj. EPS growth (%)	5.5	8.1	18.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

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BUY
TP: Rs 180 | ⮝ 22%

FINOLEX INDUSTRIES | Plastic Products | 19 May 2022

Higher volumes drive topline but PVC price volatility persists

- **Q4 revenue increased 28% YoY as volumes/realisations rose 4%/9% in PVC pipes & fittings and 32%/8% in PVC resin**
- **Operating margin contracted 1,620bps YoY to 16.6% on higher RM cost (+1815bps) and other expenses (+80bps)**
- **We retain our TP of Rs 180 while raising our rating from HOLD to BUY post the recent stock correction**

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Higher realisations and volumes bolster topline: FNXP reported a 28% YoY increase in Q4FY22 revenue to Rs 15.9bn due to higher volumes in PVC pipes & fittings (+4%) and PVC resin (+32%). In addition, realisations in both segments increased 9% and 8% YoY respectively.

EBITDA margin contracts 16ppt: An increase in raw material cost (+1815bps) and other expenses (+80bps) resulted in a substantial fall in EBITDA margin by 1,620bps YoY to 16.6%. EBITDA declined 36% YoY to Rs 2.6bn. The average PVC-EDC delta for the quarter decreased 17% YoY and 9% QoQ to US$ 727/t.

PVC prices have begun to correct: PVC prices stood at US$ 1,563/t in Q4FY22 vs. US$ 1,753/t in Q3 (US$ 1,483/t in Q4FY21). Since Apr'22, prices have cumulatively reduced by Rs 16/t. As domestic consumption in China has slowed due to the lockdown, India is witnessing higher PVC dumping (anti-dumping duty removed in Feb'22), which poses the risk of a further correction in prices. EDC prices stood at US$ 835/t (US$ 959/t in Q3) vs. US$ 605/t in Q4FY21. The average PVC-EDC delta was at US$ 727/t vs. US$ 877/t in Q4FY21.

Near-term pain: We like FNXP for its pipe business and robust balance sheet but expect earnings to be lower over FY22-FY24 due to a high base and correcting PVC/EDC spreads. Demand was lukewarm in the month of April due to pressure on PVC prices. However, management has guided for double-digit volume growth in FY23. Further, the gradual shift in sales mix from agricultural to non-agricultural pipes could bring in better margins and valuations.

Valuations reasonable post correction; raise to BUY: The stock has corrected ~17% since 12 May 22' and is currently trading at 15x FY24E EPS compared to its 5Y median of 19x. We find valuations reasonable on the back of FNXP's strong brand, focus on high-margin non-agri business and net debt-free balance sheet, leading us to upgrade our rating from HOLD to BUY. Our TP remains unchanged at Rs 180, set at 18x FY24E EPS.

Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	FNXP IN/Rs 148
Market cap	US$ 1.2bn
Free float	48%
3M ADV	US$ 1.0mn
52wk high/low	Rs 245/Rs 125
Promoter/FPI/DII	52%/6%/42%

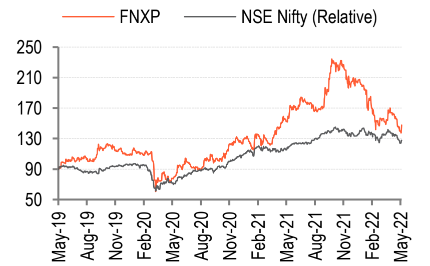
Source: NSE | Price as of 18 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	46,473	49,553	51,379
EBITDA (Rs mn)	10,237	8,682	8,972
Adj. net profit (Rs mn)	10,453	6,125	6,226
Adj. EPS (Rs)	16.8	9.9	10.0
Consensus EPS (Rs)	16.8	10.1	10.8
Adj. ROAE (%)	29.6	15.0	14.0
Adj. P/E (x)	8.8	15.0	14.7
EV/EBITDA (x)	8.7	9.4	8.6
Adj. EPS growth (%)	41.7	(41.4)	1.6

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

RESULT REVIEW

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BUY
TP: Rs 835 | ⮝ 40%

SOMANY CERAMICS | Construction Materials | 20 May 2022

Another quarter of weak performance

- **Q4 revenue growth muted at 9.7% YoY due to a 5% decline in tile volumes, though blended realisation rose 14% to Rs 333/msm**
- **EBITDA margin contracted 665bps YoY to 5.5% as RM cost increased by 510bps and other expenses by 205bps**
- **We lower FY23/FY24 PAT by 28%/21% on weak volumes and gas cost inflation; retain BUY with a reduced TP of Rs 835 (vs. Rs 1,140)**

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Revenue growth muted; margins contract: SOMC's Q4FY22 revenue grew 9.7% YoY to Rs 6.1bn. EBITDA declined 51% YoY with 665bps margin contraction to 5.5%, which was deeper than the 500bps contraction (to 15.1%) and revenue growth of 15.7% reported by peer KJC. Consolidated revenue increased 9.2% YoY to Rs 6.2bn and gross margin declined 615bps YoY to 30%. Fuel cost as a percentage of sales rose 400bps YoY to 22% due to rising gas prices. EBITDA margin thus declined 765bps YoY to 8.2%.

Gas cost a growing concern: Rising gas cost is putting pressure on margins – prices in the north have risen from Rs 32-33/scm in Q4FY21 to Rs 48/scm in Q4FY22 and Rs 58/scm currently, in the south from Rs 30/scm to Rs 90/scm and Rs 92/scm, and in the west from ~Rs 35/scm to Rs 62/scm and Rs 68/scm now. The company could not take price hikes in Q4 as Morbi players decided not to do so. Morbi players did take hikes in Oct-Nov'21 but later rolled these back in anticipation of demand moderation. SOMC effected a cumulative ~8% price increase in FY22 which was not sufficient to cover the cost inflation. It has taken a ~2% hike in April.

Tiles – volume decline due to loss of 2.5mn sqm tiles: SOMC reported 5% YoY volume decline in tiles as company loss of 2.5mn sqm tiles amounting to Rs 700-800mn. In addition, the company could not get the capacity in South plant as KJC cornered those capacities. The company could not source the loss volumes from Morbi due to high freight cost. The Blended realisations rose 14.2% YoY Rs 333 in Q4.

Maintain BUY, TP cut to Rs 835: We lower our FY23/FY24 PAT estimates by 28%/21% to factor in the high gas costs and SOMC's inability to take price hikes. Further, management indicated that Q1FY23 will be a subdued quarter, although it is guiding for 15-20% volume growth in FY23. The stock is trading at 25.3x/16.5x FY23E/FY24E EPS compared to its 5Y median of 27.5x. To bake in the gas cost inflation and subdued performance vs. KJC, we reduce our target FY24E P/E multiple from 25x to 23x, translating to a lower TP of Rs 835 (vs. Rs 1,140). Retain BUY given an improving mix, demand tailwinds and capital allocation towards the core business.

Key changes

Target	Rating
▼	◄ ►

Ticker/Price	SOMC IN/Rs 596
Market cap	US$ 325.1mn
Free float	45%
3M ADV	US$ 0.5mn
52wk high/low	Rs 970/Rs 430
Promoter/FPI/DII	55%/3%/43%

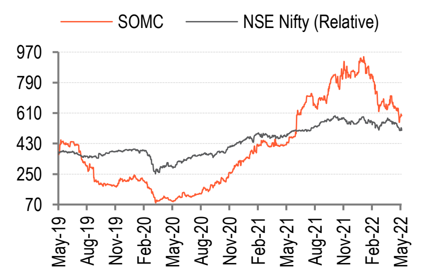
Source: NSE | Price as of 19 May 2022

Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	20,945	23,167	27,140
EBITDA (Rs mn)	2,065	2,442	3,212
Adj. net profit (Rs mn)	888	1,000	1,530
Adj. EPS (Rs)	21.0	23.6	36.1
Consensus EPS (Rs)	21.0	34.7	45.2
Adj. ROAE (%)	13.0	13.0	17.3
Adj. P/E (x)	28.5	25.3	16.5
EV/EBITDA (x)	13.8	11.5	8.8
Adj. EPS growth (%)	24.8	12.6	53.0

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

Stock performance



Source: NSE

Disclaimer

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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