FIRST LIGHT

15 November 2021

RESEARCH

[#4 Watch Out] India Strategy | Climate Action

COP26: Gradual tightening of climate targets

Somany Ceramics | Target: Rs 990 | +18% | BUY

Strong recovery, positive outlook

Affle (India) | Target: Rs 1,390 | +19% | BUY

Growth shines aided by stellar JAMPP performance

Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.55	11bps	(6bps)	67bps
India 10Y yield (%)	6.37	3bps	2bps	46bps
USD/INR	74.52	(0.2)	1.1	0.2
Brent Crude (US$/bbl)	82.87	0.3	(0.9)	90.4
Dow	35,921	(0.4)	4.1	23.5
Shanghai	3,533	1.2	(1.6)	5.8
Sensex	59,920	(0.7)	(0.4)	38.2
India FII (US$ mn)	**10-Nov**	**MTD**	**CYTD**	**FYTD**
FII-D	165.4	109.7	39.4	2,066.6
FII-E	(396.7)	(402.3)	5,856.3	(1,470.1)

Source: Bloomberg

SUMMARY

India Strategy: Climate Action

- COP26 ends in Glasgow with emission cut commitments exceeding those made in Paris as part of COP21
- We expect gradual tightening of climate norms to continue across countries going forward
- Companies will need to accelerate green spending while large emitters are at risk of further impairment in value

Click here for the full report.

Somany Ceramics

- Consolidated Q2 revenue grew 32% YoY to Rs 5.6bn with tile volumes up 25% and blended realisation up 6% YoY to Rs 306/msm
- EBITDA margin expanded 50bps YoY to 12.2% as lower employee & other expenses (-265bps) offset higher fuel cost (+295bps)
- Reiterate BUY with rollover to a revised TP of Rs 990 (vs. Rs 820) based on 27x Sep'23E P/E (vs. 22x) on improving business fundamentals

Click here for the full report.

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Affle (India)

- Q2 revenue surged 104% YoY aided by above-expected rebound at JAMPP and strong native business growth
- Turnaround initiatives pay off as JAMPP recorded 5% net margins (vs. nil profits earlier) in its first quarter post acquisition
- Reiterate BUY as we roll forward to a revised TP of Rs 1,390 (vs. Rs 1,240) based on 61x Sep'23E P/E

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CLIMATE ACTION | #4 Watch Out | 14 November 2021

COP26: Gradual tightening of climate targets

- COP26 ends in Glasgow with emission cut commitments exceeding those made in Paris as part of COP21
- We expect gradual tightening of climate norms to continue across countries going forward
- Companies will need to accelerate green spending while large emitters are at risk of further impairment in value

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COP26 final statement reiterates temperature goal: The COP's statement acknowledges that human activities have caused 1.1°C of global warming and reaffirms the 2015 goal adopted in Paris to limit the rise in global average temperature to 2°C above pre-industrial levels and to further make efforts to curb this rise to 1.5°C. The 1.5°C scenario requires world carbon emissions to reduce by 45% over 2010 levels and the world to reach net zero emission by 2050. The COP26 statement invited all countries to do more to achieve the desired reduction.

Green finance by developed world falls short: The final statement recognises the need for supporting the developing world, both financially and technically, to reduce emissions but falls short of country-specific commitments. However, it acknowledged the efforts being made by the Standing Committee of Finance to determine the needs of developing countries and emphasised the need to mobilise climate finance from "all sources" beyond US$ 100bn per year. As per media reports, developing countries led by India are demanding annual financing of as much as US$ 1tn.

Sunset for coal: The COP26 statement called upon countries to transition towards low-emission energy systems, accelerate the phase-down of unabated coal power and phase out inefficient fossil fuel subsidy.

Impact on listed equities: Given the huge gap between the required reduction in carbon emission and current trajectory of announced cuts, coupled with a lack of adequate financing for the developing world, we believe the pressure on listed entities to do more will intensify. We also believe countries will be urged to tighten emission targets gradually till the world as a whole attains the 2°C trajectory at the least.

Pressure on all companies to reduce scope 2 emission (related to purchased power) will force them to increase capex on clean tech, energy efficiency and purchase of renewable power. We believe large emitters such as coal, refiners, steel and cement will likely see gradual impairment in value while companies that provide energy efficiency and clean technology services will gain. Please read our note **Clean your way up** of 9 June 2021 for a detailed analysis.

BUY
TP: Rs 990 | ⮝ 18%

SOMANY CERAMICS | Construction Materials | 12 November 2021

Strong recovery, positive outlook

- **Consolidated Q2 revenue grew 32% YoY to Rs 5.6bn with tile volumes up 25% and blended realisation up 6% YoY to Rs 306/msm**
- **EBITDA margin expanded 50bps YoY to 12.2% as lower employee & other expenses (-265bps) offset higher fuel cost (+295bps)**
- **Reiterate BUY with rollover to a revised TP of Rs 990 (vs. Rs 820) based on 27x Sep'23E P/E (vs. 22x) on improving business fundamentals**

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Robust recovery: SOMC's revenue/EBITDA/PAT grew 15%/23%/100% vs. pre-Covid levels (Q2FY20) on the back of strong underlying demand and healthy real estate launches. Consolidated revenue increased 32% YoY to Rs 5.6bn and gross margin expanded 75bps YoY to 55%. Total fuel cost as a percentage of sales rose 295bps YoY to 20.8% due to rising gas prices, but EBITDA margin expanded 50bps YoY to 12.2% led by a decline in employee cost/other expenses of 80bps/185bps. EBITDA at Rs 682mn grew 38% YoY and adj. PAT was up 71% YoY to Rs 350mn.

Tiles – strong demand, healthy pricing: SOMC reported 25% YoY volume growth in tiles as the demand recovery that began at the end of Q1FY22 continued to firm up in Q2, led by strong offtake from real estate and individual housing. Healthy demand has buoyed the industry's pricing power amid rising fuel cost. Blended realisations rose 6% YoY from Rs 292 in Q1 to Rs 306 in Q2. Further, as Morbi players remained export-focused, the organised pan-India domestic players were able to hike prices to pass on the higher gas cost.

Demand momentum picking up: Management is highly optimistic on business momentum on the back of (a) strong underlying demand, (b) healthy real estate launches, (c) Morbi players' export focus once freight cost normalises, and (d) SOMC's new capacities coming onstream by Feb-Mar'22 which will improve the product mix and add to margins. Management has maintained guidance of 12-13% EBITDA margins in FY22 and expects a further 100-150bps increase in FY23 due to product mix and operating leverage benefits. The company has also guided for 15-20% volume growth and 35-40% growth in the bathware segment in FY22.

Maintain BUY: We lower our FY22/FY23/FY24 PAT estimates by 10%/8%/6% to factor in the higher fuel costs. At the same time, we raise our target P/E multiple from 22x to 27x (a discount to the 33x five-year median) and roll valuations over to Sep'23E. This yields a revised TP of Rs 990 (earlier Rs 820). Our multiple upgrade stems from an improving product mix, demand tailwinds, capital allocation towards the core business and better pricing power. BUY.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SOMC IN/Rs 842
Market cap	US$ 479.4mn
Free float	45%
3M ADV	US$ 0.4mn
52wk high/low	Rs 896/Rs 232
Promoter/FPI/DII	55%/3%/42%

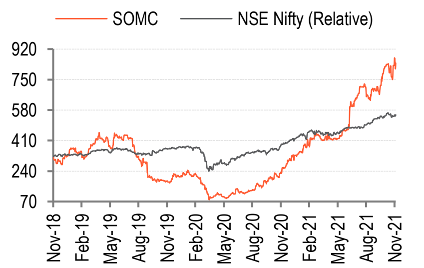
Source: NSE | Price as of 12 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	16,505	19,830	22,911
EBITDA (Rs mn)	1,908	2,179	2,893
Adj. net profit (Rs mn)	711	870	1,320
Adj. EPS (Rs)	16.8	20.5	31.2
Consensus EPS (Rs)	16.8	24.6	34.7
Adj. ROAE (%)	11.3	12.4	16.2
Adj. P/E (x)	50.2	41.0	27.0
EV/EBITDA (x)	21.1	17.8	13.2
Adj. EPS growth (%)	223.3	22.3	51.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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BUY
TP: Rs 1,390 | ▲ 19%

AFFLE (INDIA) | Technology & Internet | 12 November 2021

Growth shines aided by stellar JAMPP performance

- **Q2 revenue surged 104% YoY aided by above-expected rebound at JAMPP and strong native business growth**
- **Turnaround initiatives pay off as JAMPP recorded 5% net margins (vs. nil profits earlier) in its first quarter post acquisition**
- **Reiterate BUY as we roll forward to a revised TP of Rs 1,390 (vs. Rs 1,240) based on 61x Sep'23E P/E**

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Strong Q2 beat: AFFLE posted stellar Q2FY22 revenue growth of 104% YoY vs. our estimate of 74%. Growth was aided by above-expected revenue from the JAMPP acquisition and a strong showing in the native business. While converted users grew 73% YoY, the average CPCU rate also grew 27% (to Rs 51.3) after a largely flat run for the last 13 quarters, as the revenue mix shifted in favour of international business. Revenue contribution from E, F, G, H verticals remains at 90%. EBITDA margin at 19% was down 660bps YoY and 410bps QoQ, below our estimate of 19% due to higher inventory and data cost (+6ppt QoQ and YoY).

JAMPP shines: AFFLE's robust revenue beat was partly due to JAMPP. With 30% revenue share in Q2FY22, JAMPP's annualised run-rate implies 50% growth over its FY21 print. The rebound was enabled by renewed AFFLE-backed growth prospects compared to its prior financial distress. Management believes JAMPP can sustain 25-30% YoY growth over the medium term. We also note impressive progress on turnaround initiatives as the acquired platform recorded a 5% net margin in its first quarter post consolidation vs. breakeven operations pre-acquisition. Management is confident of margin improvement to the teens over the next two years.

Benefits from advertisers moving to Android: Apple's recent privacy crackdown has affected the largest players in online advertising very differently, recent quarterly results show, underscoring the strengths and weaknesses of each technology giant's ad business. Alphabet's Google, the world's largest digital-ad company by revenue, tallied its highest sales growth in more than a decade in the Jul-Sep quarter. AFFLE's home ground of developing countries are all Android-dominated markets and per management, the company has benefited as more advertisers have migrated to Android post Apple iOS's stricter privacy norms.

Reiterate BUY: Following the stellar Q2 performance, outstanding JAMPP print and growth impetus from the Android ecosystem, we raise our FY22/FY23 revenue estimates by 10-16% and adjust EPS by -1%/+4% factoring in the margin impact from the acquisition. Retain BUY as we roll forward to a new TP of Rs 1,390 based on a higher Sep'23E P/E of 61x (vs. 62.5x) – in line with the average post Covid multiple.

Key changes

Target	Rating
▲	◀▶

Ticker/Price	AFFLE IN/Rs 1,169
Market cap	US$ 419.0mn
Free float	40%
3M ADV	US$ 2.7mn
52wk high/low	Rs 1,260/Rs 567
Promoter/FPI/DII	60%/20%/20%

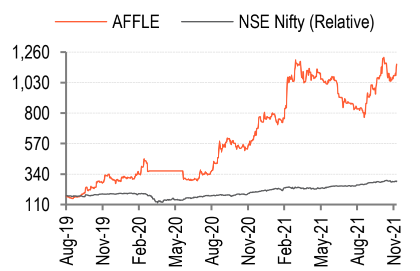
Source: NSE | Price as of 12 Nov 2021

Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	5,169	9,680	13,591
EBITDA (Rs mn)	1,300	1,926	2,990
Adj. net profit (Rs mn)	1,350	1,628	2,576
Adj. EPS (Rs)	10.6	12.2	19.3
Consensus EPS (Rs)	10.6	57.9	77.5
Adj. ROAE (%)	37.6	14.5	18.7
Adj. P/E (x)	110.3	95.6	60.4
EV/EBITDA (x)	23.9	16.4	10.1
Adj. EPS growth (%)	102.7	15.4	58.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

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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

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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