

RESEARCH

Somany Ceramics | Target: Rs 160 | +17% | BUY

Recovery expected in Q2; upgrade to BUY on cheap valuations

eClerx Services | Target: Rs 510 | -2% | REDUCE

Aggressive cost management saves the day

SUMMARY

Somany Ceramics

Somany Ceramics (SOMC) reported a dull Q1FY21 as consolidated revenue shrank 57% YoY to Rs 1.7bn, with tile volumes down 56% YoY. Negative operating leverage caused an EBITDA loss of Rs 116mn. Management did not put out FY21 guidance but expects Q2 to have ~85% of normal revenues. We raise FY21 EBITDA by 8% and hike our PAT forecast five-fold (on a low base); FY22E remains unchanged. On rollover, we arrive at a new Sep'21 TP of Rs 160 (vs. Rs 140). Valuations are reasonable at 11.9x FY22E EPS; raise from ADD to BUY.

[Click here for the full report.](#)

eClerx Services

eClerx (ECLX) reported a surprising operating margin beat in Q1FY21 backed by aggressive cost cuts. Dollar revenue declined 6.1% QoQ, in line with our estimate, led by a slowdown in retail, travel and CLX business. While management expects sequential revenue growth in Q2, demand visibility thereafter is bleak. We raise FY21/FY22 EPS by 36%/18% to factor in the margin beat and share buyback. On rollover, we have a new Sep'21 TP of Rs 510 (vs. Rs 420). Valuations at 7.5x FY22E P/E are inexpensive but lack catalysts. Reiterate REDUCE.

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TOP PICKS

LARGE-CAP IDEAS

Company	Rating	Target
Bajaj Finance	Buy	4,000
Cipla	Buy	850
GAIL	Buy	150
Petronet LNG	Buy	305
Tech Mahindra	Buy	780

MID-CAP IDEAS

Company	Rating	Target
Alkem Labs	Buy	3,600
Chola Investment	Buy	280
Laurus Labs	Buy	1,200
Transport Corp	Buy	240
Mahanagar Gas	Sell	750

Source: BOBCAPS Research

DAILY MACRO INDICATORS

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	0.64	7	0	(106)
India 10Y yield (%)	5.90	1	14	(63)
USD/INR	74.78	0.2	0.6	(4.7)
Brent Crude (US\$/bbl)	27,687	(0.4)	6.2	5.4
Dow	3,340	(1.2)	(1.3)	19.4
Shanghai	38,407	0.6	5.0	3.9
Sensex	44.50	(1.1)	2.9	(27.4)
India FII (US\$ mn)	10 Aug	MTD	CYTD	FYTD
FII-D	(39.6)	(36.2)	(14,563.8)	(4,804.3)
FII-E	169.9	1,512.1	223.9	6,826.8

Source: Bank of Baroda Economics Research

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BUY

TP: Rs 160 | ▲ 17%

SOMANY CERAMICS

Construction Materials

12 August 2020

Recovery expected in Q2; upgrade to BUY on cheap valuations

Somany Ceramics (SOMC) reported a dull Q1FY21 as consolidated revenue shrank 57% YoY to Rs 1.7bn, with tile volumes down 56% YoY. Negative operating leverage caused an EBITDA loss of Rs 116mn. Management did not put out FY21 guidance but expects Q2 to have ~85% of normal revenues. We raise FY21 EBITDA by 8% and hike our PAT forecast five-fold (on a low base); FY22E remains unchanged. On rollover, we arrive at a new Sep'21 TP of Rs 160 (vs. Rs 140). Valuations are reasonable at 11.9x FY22E EPS; raise from ADD to BUY.

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Volumes decline due to lockdown: SOMC's consolidated topline decreased 57% YoY, with tiles segment revenue dropping 57% (volumes/realisations down 56%/1% YoY) and sanitaryware & allied revenue down 49% due to the lockdown. Management stated that sales have improved MoM post easing of restrictions, particularly in tier-2 cities and below. Capacity utilisation has risen to 66% in July from 44% in June, and SOMC expects to retrace to pre-Covid levels by end-August/early-September. Management believes revenues would recover to ~85% of year-ago levels in Q2FY21.

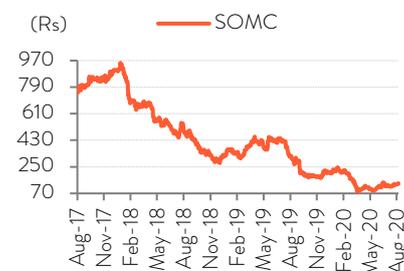
Operating and net losses: The company reported a consolidated operating loss of Rs 116mn due to negative operating leverage as sales declined, resulting in a pre-tax loss of Rs 358mn. Management expects margins to improve due to normalisation of sales, lower input cost, stable tile prices and benefit of cost control measures.

Upgrade to BUY on valuations: We raise our FY21 EBITDA estimate by 8% and PAT by 5x on a low base but keep FY22 projections unchanged. Upgrade to BUY from ADD given reasonable upside potential at current valuations of 11.9x FY22E P/E. Our new Sep'21 TP of Rs 160 is set at unchanged 12x one-year forward EPS.

Ticker/Price	SOMC IN/Rs 136
Market cap	US\$ 77.3mn
Shares o/s	42mn
3M ADV	US\$ 0.2mn
52wk high/low	Rs 324/Rs 77
Promoter/FPI/DII	51%/2%/47%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	17,110	16,101	13,859	16,485	18,396
EBITDA (Rs mn)	1,576	1,314	1,073	1,638	1,864
Adj. net profit (Rs mn)	490	234	71	485	632
Adj. EPS (Rs)	11.6	5.5	1.7	11.4	14.9
Adj. EPS growth (%)	(32.9)	(52.2)	(69.7)	583.1	30.3
Adj. ROAE (%)	8.2	3.8	1.2	7.6	9.2
Adj. P/E (x)	11.8	24.7	81.5	11.9	9.2
EV/EBITDA (x)	6.4	7.7	9.6	6.1	5.0

Source: Company, BOBCAPS Research



REDUCE

TP: Rs 510 | ▼ 2%

ECLERX SERVICES

| IT Services

| 13 August 2020

Aggressive cost management saves the day

eClerx (ECLX) reported a surprising operating margin beat in Q1FY21 backed by aggressive cost cuts. Dollar revenue declined 6.1% QoQ, in line with our estimate, led by a slowdown in retail, travel and CLX business. While management expects sequential revenue growth in Q2, demand visibility thereafter is bleak. We raise FY21/FY22 EPS by 36%/18% to factor in the margin beat and share buyback. On rollover, we have a new Sep'21 TP of Rs 510 (vs. Rs 420). Valuations at 7.5x FY22E P/E are inexpensive but lack catalysts. Reiterate **REDUCE**.

Ruchi Burde | Seema Nayak

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Tight cost control drives margin beat: Q1 dollar revenue declined 6.1% QoQ, as expected. EBIT margins outperformed estimates, rising 280bps QoQ to 19.6% vs. ~300bps QoQ contraction expected. Margin expansion was aided by tight cost control (operating costs down 7.4% QoQ against a 4.1% QoQ rupee revenue decline) and rupee depreciation.

Modest deal wins: Management indicated that the company won several deals in Q1FY21, though contract sizes were modest. ECLX signed a new deal with a Nordic bank and also improved its relationships with Fortune 500 clients. The deal pipeline has improved from Q4FY20 levels, but management is cautious on pipeline conversion potential.

Outlook cautious: ECLX expects Q1FY21 to be the trough quarter, with recovery from Q2 onwards. Retail is likely to bounce back faster than the travel vertical. The CLX business has been badly affected and will take time to recover. Operating margins are expected to be volatile due to wage hikes in Q2 and Q3 along with return-to-office costs. Management stated that it remains open to any lucrative acquisitions (worth US\$ 10mn-15mn).

Ticker/Price	ECLX IN/Rs 519
Market cap	US\$ 261.3mn
Shares o/s	38mn
3M ADV	US\$ 1.4mn
52wk high/low	Rs 710/Rs 320
Promoter/FPI/DII	50%/25%/25%

Source: NSE

STOCK PERFORMANCE

Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	14,305	14,376	14,018	16,573	18,437
EBITDA (Rs mn)	3,092	3,249	3,287	3,840	4,301
Adj. net profit (Rs mn)	2,283	2,087	1,981	2,363	2,632
Adj. EPS (Rs)	60.1	55.5	58.2	69.4	77.3
Adj. EPS growth (%)	(19.4)	(7.7)	4.9	19.3	11.4
Adj. ROAE (%)	20.2	17.5	14.4	16.2	16.9
Adj. P/E (x)	8.6	9.4	8.9	7.5	6.7
EV/EBITDA (x)	5.0	5.2	5.1	3.8	3.2

Source: Company, BOBCAPS Research



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Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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