# Somany Ceramics (SOMCER)

ICICI direct Research

CMP: ₹ 700 | Target: ₹ 900 (29%) | Target Period: 12-15 months

**BUY**

August 5, 2024

## Muted quarter; Demand recovery likely from H2!

**About the stock:** Somany Ceramics is the second largest tiles manufacturer in the domestic tiles market having ~80 MSM capacity along with bath fittings and sanitaryware capacity of 1.3 mn pieces and 0.78 mn pieces, respectively.

- Riding on real estate strong cycle, the company has guided for low double digit tiles volumes ahead in FY25.

**Q1FY25 Performance**: Somany report muted set of numbers on expected lines. Tiles volumes were down 0.9% YoY at 15.9 MSM on account of subdued market demand and election led impact. Tiles revenues were down 2.9% YoY at ₹ 497 crore with 2% YoY decline in realisations. The overall revenue was at ₹ 579 crore, down 1.5% YoY. The margins at 8.4% were flattish (down 10 bps YoY), aided by the operational resilience and cost management. PAT at ₹ 12.3 crore was down by 15.7% YoY given the weak operating performance.

### Investment Rationale:

- **Healthy outlook Growth recovery likely from H2:** The management has indicated that demand should witness recovery driven by the real estate completion upsurge, with major demand picking up in H2 onwards. It reiterated its low double digits volume growth in FY25. We have baked in tiles volume and revenue CAGR over FY24-26E of ~10%/10.2% to 81 MSM and ₹ 2662 crore, respectively. Overall topline is expected to grow at 10.2% CAGR over FY24-26 to ₹ 3102 crore.
- **Operating leverage and benign gas prices to drive Margins improvement and earnings growth:** The gas prices have eased significantly in FY24 (Average gas cost for FY24 was ₹ 45/scm vs. ₹ 59/scm in FY23) and remained stable in Q1FY25. Gas prices are likely to remain stable and at benign levels. The company has guided for margins expansion of 100-150 bps in FY25. Amid benign Gas prices and operating leverage led benefits, we expect EBITDA margins to reach ~10.8%/11.2% in FY25/FY26, respectively from 9.8% in FY24. We expect ~32% earnings CAGR over FY24-26.

### Rating and Target Price

- With strong real estate completion cycle kicking in coupled with benign gas costs, we expect Somany to remain one of the beneficiaries of the same.
- We value Somany at **₹ 900, at 22x FY26 P/E and maintain our BUY rating**

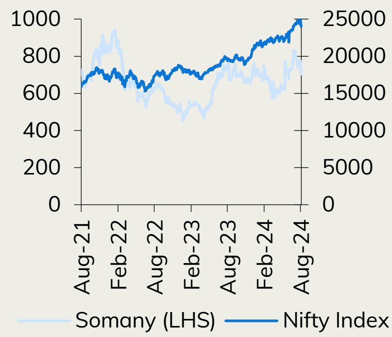
### Particulars

| Particular | ₹ crore |
|---|---|
| Market Capitalization | 2,870 |
| Total Debt (FY24) | 335 |
| Cash (FY24) | 71 |
| EV | 3,134 |
| 52 week H/L (₹) | 819 / 561 |
| Equity capital | 8.2 |
| Face value | 2.0 |

### Shareholding pattern

| | Sep-23 | Dec-23 | Mar-24 | Jun-24 |
|---|---|---|---|---|
| Promoters | 54.8 | 54.8 | 55.0 | 55.0 |
| DII | 23.7 | 23.3 | 23.8 | 23.5 |
| FIIs | 1.5 | 1.4 | 1.3 | 1.6 |
| Other | 20.1 | 20.5 | 19.9 | 19.8 |

### Price Chart




### Key risks

- Slowdown in demand
- Any sharp rise in gas costs

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Company Update

ICICI Securities – Retail Equity Research

### Key Financial Summary

| ₹ crore | FY21 | FY22E | FY23 | FY24 | 5 yr CAGR (FY19-24) | FY25E | FY26E | 2 yr CAGR FY24-26E |
|---|---|---|---|---|---|---|---|---|
| Net Sales | 1,641.4 | 2,082.7 | 2,464.6 | 2,577.3 | 8.6% | 2,705.1 | 3,101.5 | 9.7% |
| EBITDA | 190.2 | 206.5 | 188.7 | 253.2 | 9.2% | 292.6 | 347.3 | 17.1% |
| EBITDA Margin (%) | 11.6 | 9.9 | 7.7 | 9.8 | | 10.8 | 11.2 | |
| PAT | 57.0 | 88.7 | 71.5 | 96.9 | 15.9% | 130.0 | 167.8 | 31.6% |
| EPS (₹) * | 13.4 | 20.9 | 16.8 | 23.6 | | 31.7 | 40.9 | |
| P/E (x) | 51.8 | 33.3 | 41.3 | 29.5 | | 22.0 | 17.0 | |
| EV/EBITDA (x) | 16.0 | 15.3 | 16.7 | 12.3 | | 10.7 | 8.6 | |
| RoNW (%) | 8.9 | 12.2 | 9.1 | 13.5 | | 15.8 | 17.5 | |
| RoCE (%) | 11.1 | 10.7 | 9.0 | 14.8 | | 16.7 | 18.9 | |

Source: Company, ICICI Direct Research

## Performance highlights and outlook

- **Tile Segment Performance** – Somany's tile volumes were down 0.9% YoY at 15.9 MSM on account of subdued market demand and election led impact. Tiles revenues were down 2.9% YoY at ₹ 497 crore with 2% YoY decline in realisations.
- **Tile Industry update** - The quarter experienced muted demand, which was further aggravated by the elections and extended heatwave. The company is expecting an upsurge in demand for certain products (e.g. tiles, sanitaryware, bath fittings) as real estate completion cycle kicks in the next 6-8 months. As per the management, the demand for tiles is expected to increase, driven by the real estate upsurge, with major demand picking up in H2 onwards, particularly in Q4.
- **Guidance** - The management expects revenue growth of double digits in FY25, largely driven by volumes. On margins front, EBITDA margin is likely to expand by 1-1.5%, amid benign gas prices while riding on better capacity utilisation and better product mix.
- **Morbi exports** – As per the management, the exports have improved since the lows of January and February, when it had plummeted to ₹1,300-₹1350 crore levels. It's risen back to ₹1,650- ₹1,700 crore levels per month between April, May and June rising steadily, despite freight rates being at record high levels. Hence, this is a positive development which will keep aiding the tiles industry from India.
- **Gas Prices** –Region wise, Gas prices in west (Morbi), north, south, in Q1FY25 were at ₹ 45, ₹ 43, ₹ 47 per SCM vs. ₹ 43, ₹ 45, ₹ 55, per SCM, respectively in Q1FY24. The company also utilises bio gas in 70% of the plant, for spray drying. The company indicated that the gas prices have remained stable during the quarter and likely to remain stable going forward as well.
- **Product Mix** – in Q1 FY 25, ceramic formed 35%, PVT formed 28% and GVT formed 37% of volume mix. For Q1 FY24, Ceramics formed 39%, PVT 28%, GVT 33%. As per the management, GVT mix will gradually expand and is expected to become the norm.
- **Investment in Nepal:** Recall, the company is setting up a tile manufacturing facility in Nepal, with annual capacity of 3.5 MSM on JV basis The plant was to be a mix of ceramic and GVT tiles. Nepal market demand has shrunk from 18-20 MSM per annum to 11-12 MSM per annum. The project was delayed and is now held back.
- **Capex -** The company had guided for capex of ₹ 50-60 crore every year, going forward. However, the management has revised their capex plans stating no major capex will be required for the next 12-18 months in their plants. However, post the stipulated period, capex will be required to increase capacity.
- **Brand spend** – Brand spend in Q1 FY25 was 2% (generally lower during the first quarter). The management indicated maintaining the annualised brand spends between 2.75% to 3%.

## Exhibit 1: Quarter Performance

| Particular | Q1FY25 | Q1FY24 | YoY (Chg %) | Q4FY24 | QoQ (Chg %) | Comments |
|---|---|---|---|---|---|---|
| Net Sales | 579 | 586.5 | -1.4 | 737.5 | -21.6 | Tiles volumes were down 0.9% YoY at 15.9 MSM on account of subdued market demand and election led impact . Tiles revenues were down 2.9% YoY at ₹ 497 crore with 2% YoY decline in realisations |
| Other Income | 2.1 | 2.4 | -11.8 | 1.6 | 31.4 | |
| Raw Material Expense | 145.0 | 124.7 | 16.3 | 132.8 | 9.3 | |
| Purchase of Traded Goods | 124.5 | 126.1 | -1.2 | 179.3 | -30.5 | |
| Power & Fuel | 127.6 | 118.9 | 7.3 | 139.9 | -8.8 | |
| Employee benefit | 86.8 | 76.0 | 14.1 | 86.7 | 0.1 | |
| Other Expenses | 66.8 | 65.3 | 2.3 | 75.4 | -11.4 | |
| EBITDA | 49.0 | 50.6 | -3.2 | 79.5 | -38.4 | |
| EBITDA Margin (%) | 8.5 | 8.6 | -16 bps | 10.8 | -231 bps | |
| Depreciation | 19.2 | 16.8 | 14.3 | 19.3 | -0.7 | |
| Interest | 13.5 | 11.2 | 20.9 | 13.4 | 0.5 | |
| PBT | 18.4 | 25.0 | -26.6 | 48.3 | -62.0 | |
| Taxes | 6.1 | 5.8 | 4.8 | 17.7 | -65.5 | |
| PAT | 12.3 | 14.6 | -15.7 | 30.8 | -60.1 | |

*Source: Company, ICICI Direct Research*

## Exhibit 2: Assumptions

| Assumptions | FY22 | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|---|
| **Sales Volume Assumptions (MSM)** | **57.9** | **63.9** | **67.2** | **73.1** | **81.3** |
| **Average Realisation (₹/SM)** | **317** | **336** | **331** | **321** | **327** |

*Source: Company, ICICI Direct Research*

# Financial Summary

**Exhibit 3: Profit and loss statement** ₹ crore

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Net Sales | 2,465 | 2,577 | 2,705 | 3,102 |
| Other Income | 15 | 11 | 12 | 13 |
| **Total Revenue** | **2,493** | **2,602** | **2,735** | **3,134** |
| Raw Material Expense | 638 | 543 | 568 | 651 |
| Purchase of Traded Goods | 542 | 599 | 628 | 720 |
| (Increase)/Decrease in Inver | (111) | 56 | 38 | 34 |
| Employee benefit expenses | 301 | 324 | 338 | 388 |
| Other Expenses | 272 | 294 | 311 | 354 |
| **Total Operating Expendit** | **2,290** | **2,338** | **2,430** | **2,774** |
| **EBITDA** | **189** | **253** | **293** | **347** |
| Interest | 40 | 46 | 34 | 29 |
| Depreciation | 68 | 73 | 78 | 84 |
| **PBT** | **95** | **145** | **193** | **247** |
| Total Tax | 26 | 43 | 58 | 69 |
| PAT before MI | 67 | 99 | 135 | 178 |
| Minority Interest | (5) | 3 | 5 | 10 |
| **PAT** | **71** | **97** | **130** | **168** |
| YoY growth | 376.6% | 35.5% | 34.2% | 29.1% |
| **EPS (Diluted)** | **16.8** | **23.6** | **31.7** | **40.9** |

Source: Company, ICICI Direct Research

**Exhibit 4: Cash flow statement** ₹ crore

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| **Profit after Tax** | **71.5** | **96.9** | **130.0** | **167.8** |
| Depreciation | 67.9 | 72.5 | 77.5 | 83.7 |
| Interest Paid | 40.4 | 46.5 | 33.9 | 29.3 |
| **Cash Flow before WC cha** | **162.8** | **209.8** | **234.8** | **278.1** |
| Net Increase in Current Asse | (135.6) | (23.0) | (70.0) | (118.1) |
| Net Increase in Current Liak | 171.7 | 182.2 | (71.2) | 90.4 |
| **Net CF from Op. Activities** | **198.8** | **369.1** | **93.6** | **250.4** |
| (Purchase)/Sale of Fixed As | (122.5) | (140.6) | (60.0) | (60.0) |
| Others | 34.9 | 53.3 | 11.7 | 12.8 |
| **Net CF from Inv. Activities** | **(87.6)** | **(87.2)** | **(48.3)** | **(47.2)** |
| Proceeds/Repayment of De | (22.9) | (153.3) | (40.0) | (40.0) |
| Dividend and Dividend Tax | - | (12.5) | (26.0) | (33.6) |
| Interest Paid | (40.4) | (46.5) | (33.9) | (29.3) |
| **Net CF from Fin. Activities** | **(63.2)** | **(212.2)** | **(99.9)** | **(102.9)** |
| | | | | |
| **Net Cash flow** | **26.1** | **(83.6)** | **(54.7)** | **100.3** |
| Opening Cash/ Cash Equivc | 148.6 | 154.6 | 70.9 | 16.2 |
| **Cl. Cash/ Cash Equivalent** | **154.6** | **70.9** | **16.2** | **116.5** |

Source: Company, ICICI Direct Research

**Exhibit 5: Balance Sheet** ₹ crore

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| Liabilities | | | | |
| Share Capital | 8.5 | 8.2 | 8.2 | 8.2 |
| Reserves & Surplus | 778.5 | 711.9 | 815.9 | 950.2 |
| Total Shareholders funds | 787.0 | 720.1 | 824.1 | 958.4 |
| Secured Loan | 303.3 | 149.4 | 109.4 | 69.4 |
| Unsecured Loan | 185.1 | 185.7 | 185.7 | 185.7 |
| Total Debt | 488.4 | 335.1 | 295.1 | 255.1 |
| Deferred Tax Liability | 32.7 | 36.9 | 36.9 | 36.9 |
| Minority Interest | 107.6 | 112.8 | 117.8 | 127.8 |
| Other Long Term Liabilities | 74.5 | 75.0 | 75.0 | 75.0 |
| Long Term Provisions | 10.5 | 11.0 | 11.0 | 11.0 |
| **Liability side total** | **1,501** | **1,291** | **1,360** | **1,464** |
| Assets | | | | |
| Gross Block | 1,301.3 | 1,479.6 | 1,539.6 | 1,599.6 |
| Net Block | 1,007.7 | 1,113.4 | 1,095.9 | 1,072.1 |
| Capital WIP | 47.3 | 9.6 | 9.6 | 9.6 |
| Current Investments | 31.9 | 14.6 | 14.6 | 14.6 |
| Long-term loans & advances | 2.6 | - | - | - |
| Inventories | 391.5 | 346.6 | 370.6 | 424.9 |
| Sundry Debtors | 268.3 | 337.2 | 353.9 | 405.8 |
| Loans and Advances | 0.8 | - | - | - |
| Other Current Assets | 52.4 | 52.2 | 81.5 | 93.5 |
| Cash | 154.6 | 70.9 | 16.2 | 116.5 |
| Total Current Assets | 899.4 | 821.5 | 836.8 | 1,055.2 |
| Creditors | 377.7 | 559.3 | 481.7 | 552.3 |
| Provisions | 5.2 | 4.8 | 4.8 | 4.8 |
| Other Current Liabilities | 127.7 | 128.8 | 135.2 | 155.0 |
| Total Current Liabilities | 510.6 | 692.8 | 621.7 | 712.1 |
| Net Current Assets | 388.8 | 128.6 | 215.1 | 343.2 |
| **Assets side total** | **1,501** | **1,291** | **1,360** | **1,464** |

Source: Company, ICICI Direct Research

**Exhibit 6: Key ratios**

| (Year-end March) | FY23 | FY24 | FY25E | FY26E |
|---|---|---|---|---|
| **Per Share Data** | | | | |
| EPS | 16.8 | 23.6 | 31.7 | 40.9 |
| Cash EPS | 32.8 | 41.3 | 50.6 | 61.4 |
| BV | 185.4 | 175.6 | 201.0 | 233.8 |
| Revenue per Share | 580.6 | 628.6 | 659.8 | 756.5 |
| Dividend per share | 3.0 | 3.0 | 5.0 | 5.0 |
| **Operating Ratios** | | | | |
| EBITDA / Total Operating In | 7.6 | 9.8 | 10.7 | 11.1 |
| PAT / Total Operating Incom | 2.9 | 3.7 | 4.8 | 5.4 |
| Inventory Days | 58 | 49 | 50 | 50 |
| Debtor Days | 40 | 48 | 48 | 48 |
| Creditor Days | 56 | 79 | 65 | 65 |
| **Return Ratios** | | | | |
| RoE | 9.1 | 13.5 | 15.8 | 17.5 |
| RoCE | 9.0 | 14.8 | 16.7 | 18.9 |
| RoIC | 9.5 | 15.1 | 16.3 | 19.9 |
| **Valuation Ratios** | | | | |
| EV / EBITDA | 16.7 | 12.3 | 10.7 | 8.6 |
| P/E | 41.3 | 29.5 | 22.0 | 17.0 |
| EV / Net Sales | 1.3 | 1.2 | 1.2 | 1.0 |
| Market Cap / Sales | 1.2 | 1.1 | 1.1 | 0.9 |
| Price to Book Value | 3.8 | 4.0 | 3.5 | 3.0 |
| **Turnover Ratios** | | | | |
| Asset turnover | 1.6 | 2.0 | 2.0 | 2.1 |
| Gross Block Turnover | 1.9 | 1.7 | 1.7 | 1.9 |
| **Solvency Ratios** | | | | |
| Net Debt / Equity | 0.4 | 0.3 | 0.3 | 0.1 |
| Current Ratio | 1.4 | 1.1 | 1.3 | 1.3 |
| Debt / EBITDA | 1.6 | 1.0 | 0.9 | 0.4 |
| **Quick Ratio** | **0.6** | **0.6** | **0.7** | **0.7** |

Source: Company, ICICI Direct Research

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