

Higher gas prices impact margins...

About the stock: Somany Ceramics (SCL) is the second largest tiles manufacturer in the domestic tiles market having ~63 MSM capacity and sanitaryware and faucets capacity of 1.15 mn pieces and 0.65 mn pieces, respectively.

- SCL's new capacity of 10 MSM (potential to generate ~₹ 250-300 crore worth of additional revenue at full capacity and incremental margin of 100-150 bps) will come by Q4 end/Q1FY23

Q3FY22 Results: SCL reported a mixed bag performance.

- The topline was up 19.3% YoY at ₹ 587 crore led by tiles revenues (up 19.7% YoY) at ₹ 512 crore with ~5% volume growth and ~14% realisation uptick)
- The EBITDA was at ₹ 62.4 crore down 1.5% YoY. The resultant margins were at 10.6%, down 223 bps YoY owing higher gas prices
- PAT was at ₹ 32.2 crore, up 14% YoY, aided by lower interest and taxes

What should investors do? SCL's share price has grown by 40% over the past five years (from ~₹ 620 in January 2017 to ~₹ 865 levels in January 2022).

- With strong underlying demand and likely improvement in margins when gas price cools off, we upgrade from HOLD to BUY

Target Price and Valuation: We value Somany at ₹ 1000/share at 26x FY24 P/E.

Key triggers for future price performance:

- New capacity of 10 MSM (with potential to generate ~₹ 250-300 crore worth of additional revenue at full capacity) and incremental margin of 100-150 bps will come by Q4 end/Q1FY23. Additionally, it has also announced setting up of greenfield manufacturing facility of large format/ slab tile of ~4 MSM/annum in Gujarat, which is expected to commence production during Q4FY23 at capex of ~₹ 170 crore
- We expect 13% CAGR in tiles volume and realisations CAGR of ~2%, resulting in tiles revenues CAGR of 15% over FY22-24 to ₹ 2473 crore
- Any respite in gas price rise to aid margins

Alternate Stock Idea: Besides SCL, we like Mahindra Lifespace in realty/building material space

- Play on expanding residential real estate portfolio
- BUY with a target price of ₹ 335

Key Financial Summary

₹ crore	FY20	FY21	5 yr CAGR (FY26-21)	FY22E	FY23E	FY24E	2 yr CAGR FY22-24E
Net Sales	1,600.2	1,643.7	-2.0%	2,081.5	2,521.3	2,789.6	15.8%
EBITDA	131.4	190.8	15.5%	219.2	288.9	321.4	21.1%
EBITDA Margin (%)	8.2	11.6		10.5	11.5	11.5	
PAT	15.0	57.7	-5.6%	103.5	139.2	163.4	25.6%
EPS (₹) *	3.5	13.6		24.4	32.9	38.6	
P/E (x)	244.4	63.5		35.4	26.3	22.4	
EV/EBITDA (x)	31.3	20.1		18.0	13.8	12.0	
RoNW (%)	2.5	8.8		14.0	16.4	16.7	
RoCE (%)	6.5	11.1		12.8	15.1	16.3	

Source: Company, ICICI Direct Research



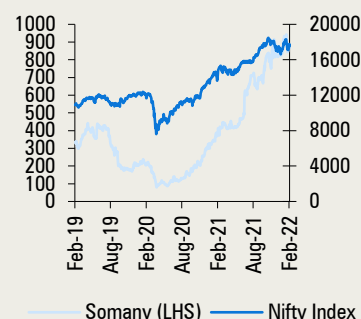
Particulars

Particular	Amount (₹ crore)
Market Capitalization	3,667
Total Debt (FY21)	412
Cash (FY21)	149
EV	3,930
52 week H/L (₹)	970 / 366
Equity capital	8.5
Face value	₹ 2

Shareholding pattern

	Mar-21	Jun-21	Sep-21	Dec-21
Promoters	54.8	54.8	54.8	54.8
DII	18.1	17.1	17.7	18.0
FII	2.7	3.5	2.9	2.5
Other	24.5	24.6	24.7	24.8

Price Chart



Key Risks

Key Risk: (i) Slowdown in demand;
(ii) Continued high gas prices

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Key business highlight and outlook

- Q3FY22 performance:** The performance during Q3FY22 was partly impacted due to a) increase in product prices, b) non-availability of finished goods from SCL's outsourcing partners largely for PVT segment (due to shutdown of plants in the Morbi region; sales impact of ~₹ 25-30 crore), and c) rise in gas prices. With these, SCL has reported 5% YoY growth in the volumes of tiles products segment (to 15.6 MSM) with capacity utilisation improving slightly to 95% during Q3FY22 (vs 92% in Q2FY22). Overall tiles production during Q3FY22 was at 12.5 MSM (own plant: 6.24 MSM, JVs: 6.26 MSM). Going forward, the company expects sales volume in Q4FY22 to post flat/marginal growth on a YoY basis (on higher Q4FY21 base) with ongoing supply side constraints. However, the management has guided for double digit volume growth in FY23 to be driven by a) healthy product demand, b) no-major supply side constraint, and c) commencement of operation of new plants
- Tiles product mix:** GVT product contributed 29% to sales (vs. 28% in Q2FY22) and is likely to expand to ~35% with commissioning of proposed plants (having ~8 MSM of GVT capacity)
- Sanitaryware and bath fitting division:** In sanitaryware division, SCL witnessed 20.3% YoY growth in sales value (to ₹ 57.6 crore) in Q3FY22. With these, the capacity utilisation in the segment improved to 48% during Q3FY22 (vs. 38% during Q2FY22). SCL's bath fittings capacity currently stands at 0.65 mn pcs/annum (excluding outsource tie ups). With its plant running at 102% capacity utilisation, the company is in the process to double its existing capacity. The capex would be ~₹ 4 crore.
- Input prices trend higher:** Gas prices have increased drastically over the past few quarters and remained at an elevated level currently. For North-based Kassar plant, gas prices (linked to three month's average of crude) is currently at ~₹ 43.5/SCM (vs ~₹ 40/SCM a quarter back) and expects to reach ~₹ 47-50/SCM over next two to three months. Similarly, prices for Kadi (Morbi plant) went up to ~₹ 57/SCM (vs ~₹ 38/SCM a quarter back). Also, prices for the southern plant have climbed up currently to ~₹ 90/SCM (vs ~₹ 44/SCM a quarter back). Going forward, the management expects moderation in gas rates over next two to three month for plants in the western and southern region with softening of spot prices
- Price hike:** SCL undertook price hikes of ~7-8% during Q3FY22 across its major product category in order to partially offset increase in input and gas prices. During Q4FY22, the company has not undertaken any price hike with gas prices staying constant at elevated levels
- A&D Spends:** SCL has ramped-up brand building exercise with A&D spends reaching ~2.7% of overall sales during Q3FY22
- Margin guidance:** Operating margin decline was due to a) rise in gas and commodity prices, and b) loss of sales due to plant shutdown (net impact of 1-1.5%). Going forward, the management expects margins to hover in the current range in Q4FY22 with continued pressure due to gas prices. However, this is likely to get partly offset by a) strong sales volumes, b) higher operational efficiencies with plants running at ~100% capacities, c) better product mix and d) continuation of cost rationalisation exercise
- Dealers network:** SCL has built a strong distribution network consisting of 2,500+ active dealers. The company has added ~150 dealers during 9MFY22 (targeted mainly in the tier-II, III and IV cities as SCL's focused area remains non-metro regions; 80% of overall sales are from Non-metro regions) and has guided for net addition of ~250 dealers by FY22E-end
- Expansion:** Capacity expansion at all of SCL's three locations (West, South and Northern region) are at an advanced stage and likely to be completed during Q4FY22. The management expects capacity utilisation to reach ~80% in these plants by May 2022 (total revenue potential: ~₹ 250-300 crore at full capacity utilisation; total capacity: 10 MSM). Additionally, the company has also announced set-up of greenfield manufacturing facility of large format/ slab tile of ~4 MSM/annum in Gujarat, which is expected to commence production during Q4FY23. The overall capex is expected to be ~₹ 170 crore mainly via internal accruals. The capacity additions are margin attractive with higher value added production

Exhibit 1: Variance Analysis

Particular	Q3FY22	Q3FY21	YoY (Chg %)	Q2FY22	QoQ (Chg %)	Comments
Net Sales	587.0	492.5	19.2	560.7	4.7	Tiles Revenues were up 19.7% YoY at ₹ 512 crore (~5% volume growth and ~14% realisation improvement).
Other Income	4.8	3.3	46.2	3.8	25.3	
Raw Material Expense	141.6	136.6	3.7	127.5	11.1	
Purchase of Traded Goods	136.8	91.6	49.3	105.0	30.3	
Power & Fuel	153.0	88.5		116.4		
Employee benefit expenses	66.4	70.8	-6.3	64.6	2.7	
Other Expenses	61.8	59.8	3.3	59.0	4.7	
EBITDA	62.4	63.3	-1.5	68.2	-8.6	
EBITDA Margin (%)	10.6	12.9	-223 bps	12.2	-154 bps	
Depreciation	15.6	15.4	1.2	16.2	-3.9	
Interest	7.4	9.4	-21.6	7.8	-5.3	
PBT	44.2	41.8	5.8	48.1	-8.0	
Taxes	10.1	10.7	-6.1	12.7	-21.0	
PAT	32.2	28.2	14.0	35.0	-8.0	

Source: Company, ICICI Direct Research

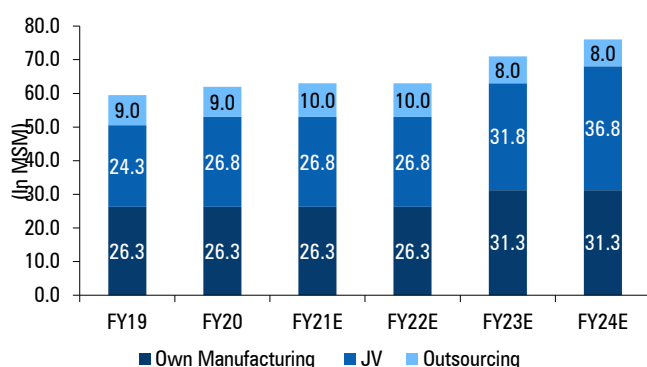
Exhibit 2: Change in estimates

Particulars	FY20		FY21		FY22E			FY23E			FY24E		Comments
					Old	New	Change	Old	New	Change	New		
Revenue	1600.2	1643.7	2097.9	2081.5	-0.8	2420.2	2521.3	4.2	2789.6	Realign estimates			
EBITDA	131.4	190.8	242.0	219.2	-9.4	290.2	288.9	-0.4	321.4				
EBITDA Margin (%)	8.2	11.6	11.5	10.5	-100 bps	12.0	11.5	-53 bps	11.5	Lower the margins to account for gas price hike			
Adjusted PAT	15.0	57.7	114.5	103.5	-9.6	139.4	139.2	-0.1	163.4				
EPS	3.5	13.6	27.0	24.4	-9.6	32.9	32.9	-0.1	38.6				

Source: Company, ICICI Direct Research

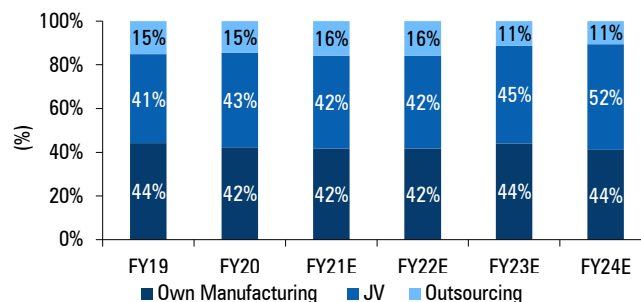
Company Analysis

Exhibit 4: Capacity break-up (in MSM)



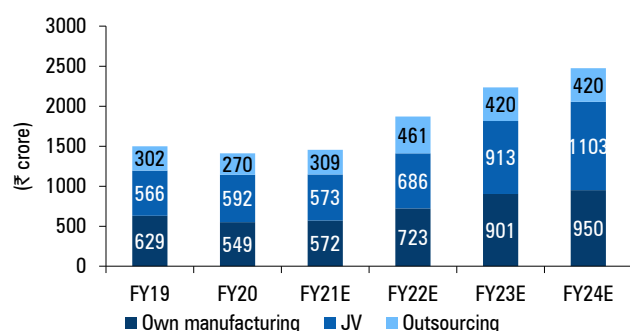
Source: Company, ICICI Direct Research

Exhibit 5: Capacity break-up (%)



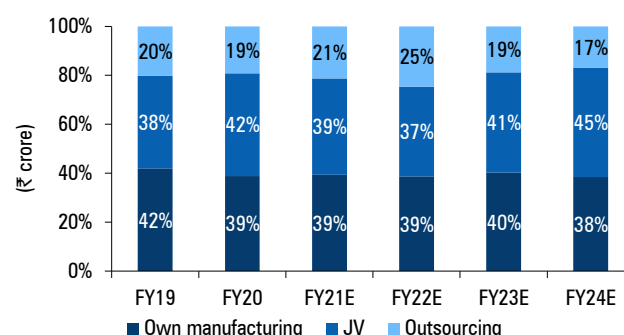
Source: Company, ICICI Direct Research

Exhibit 6: Revenue break-up (₹ crore)



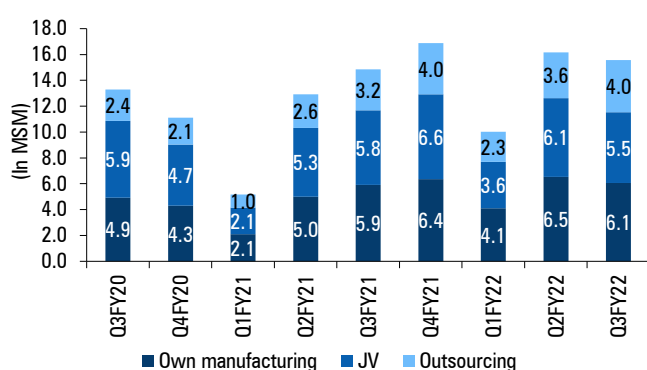
Source: Company, ICICI Direct Research

Exhibit 7: Revenue break-up (%)



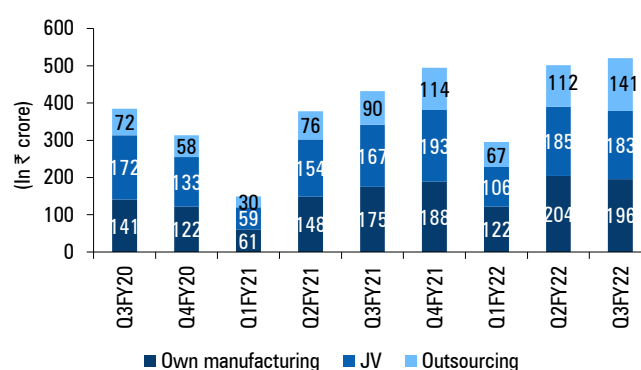
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly standalone sales volumes (in MSM)



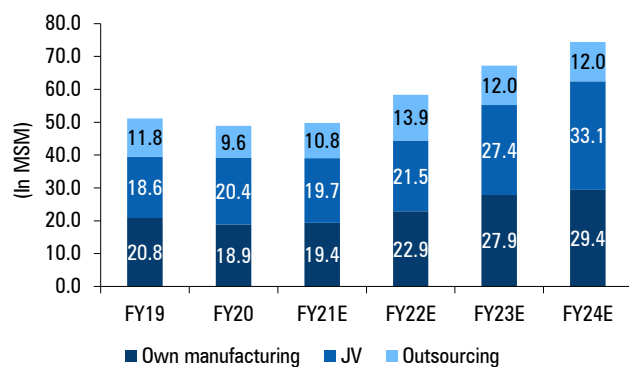
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly standalone sales value



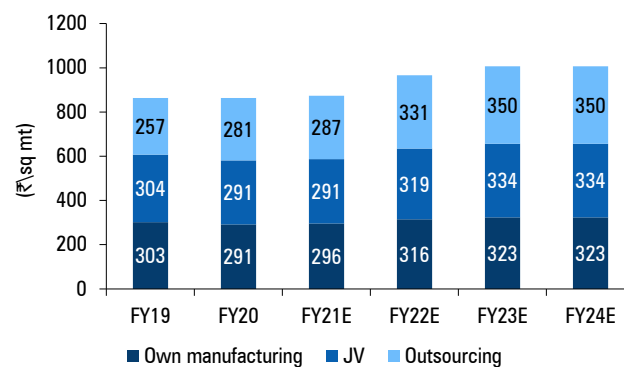
Source: Company, ICICI Direct Research

Exhibit 10: Model-wise standalone sales volumes break-up



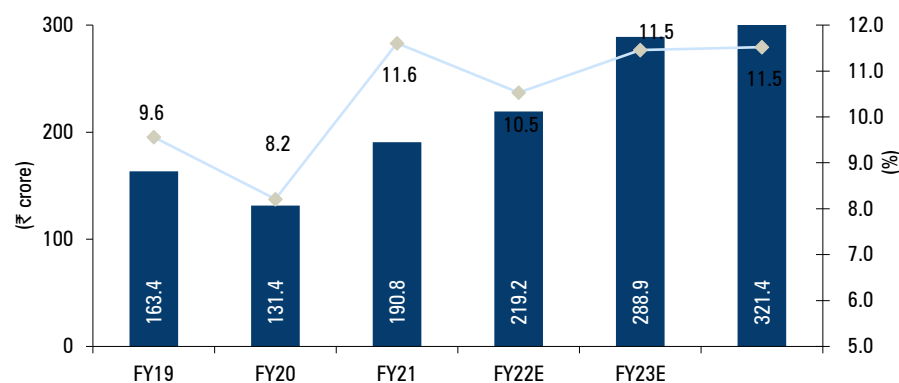
Source: Company, ICICI Direct Research

Exhibit 11: Average realisation break-up



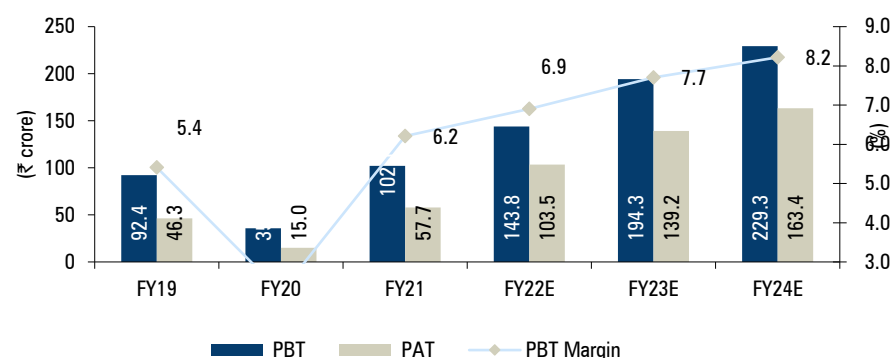
Source: Company, ICICI Direct Research

Exhibit 12: Consolidated EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 13: Consolidated PBT, PAT margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Net Sales	1,643.7	2,081.5	2,521.3	2,789.6
Other Income	12.8	18.0	20.0	22.0
Total Revenue	1,663.2	2,108.5	2,550.3	2,820.6
Raw Material Expense	393.7	489.2	592.5	655.6
Purchase of Traded Goods	308.0	372.6	451.3	499.3
(Increase)/Decrease in Inventories	78.5	20.8	75.6	80.9
Employee benefit expenses	224.8	260.2	302.6	334.7
Other Expenses	177.4	229.0	252.1	279.0
Total Operating Expenditure	1,459.7	1,871.3	2,241.4	2,477.1
EBITDA	190.8	219.2	288.9	321.4
Interest	40.1	30.9	30.9	27.2
Depreciation	61.3	62.6	83.7	87.0
PBT	102.1	143.8	194.3	229.3
Total Tax	22.4	36.2	49.0	57.9
PAT before MI	61.3	107.5	145.2	171.4
Minority Interest	3.6	4.0	6.0	8.0
PAT	57.7	103.5	139.2	163.4
YoY growth	284.7%	79.4%	34.5%	17.3%
EPS (Diluted)	13.6	24.4	32.9	38.6

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Profit after Tax	57.7	103.5	139.2	163.4
Depreciation	61.3	62.6	83.7	87.0
Interest Paid	40.1	30.9	30.9	27.2
Cash Flow before WC changes	168.4	183.0	239.8	263.6
Net Increase in Current Assets	161.1	(146.4)	(143.9)	(87.8)
Net Increase in Current Liabilities	33.0	76.0	75.4	46.0
Net CF from Op. Activities	362.6	112.6	171.3	221.8
(Purchase)/Sale of Fixed Assets	(38.5)	(190.0)	(170.0)	(50.0)
Others	(41.7)	18.0	20.0	22.0
Net CF from Inv. Activities	(80.2)	(172.0)	(150.0)	(28.0)
Proceeds/Repayment of Debt	(86.0)	-	-	(50.0)
Dividend and Dividend Tax	(10.2)	(20.7)	(27.8)	(32.7)
Interest Paid	(40.1)	(30.9)	(30.9)	(27.2)
Net CF from Fin. Activities	(136.3)	(51.6)	(58.8)	(109.8)
Net Cash flow	129.0	(111.0)	(37.4)	83.9
Opening Cash/ Cash Equivalent	20.1	149.1	38.0	0.6
Cl. Cash/ Cash Equivalent	149.1	38.0	0.6	84.5

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	646.9	729.7	841.1	971.8
Total Shareholders funds	655.3	738.2	849.6	980.3
Secured Loan	250.6	250.6	250.6	200.6
Unsecured Loan	161.5	161.5	161.5	161.5
Total Debt	412.1	412.1	412.1	362.1
Deferred Tax Liability	37.2	37.2	37.2	37.2
Minority Interest	99.7	103.7	109.7	117.7
Other Long Term Liabilities	70.1	70.1	70.1	70.1
Long Term Provisions	7.9	7.9	7.9	7.9
Liability side total	1,282	1,369	1,486	1,575
Assets				
Gross Block	909.9	1,069.9	1,239.9	1,289.9
Net Block	710.4	807.8	894.2	857.2
Capital WIP	8.6	38.6	38.6	38.6
Current Investments	89.8	89.8	89.8	89.8
Long-term loans and advances	4.6	4.6	4.6	4.6
Inventories	244.6	308.0	373.0	412.7
Sundry Debtors	230.7	285.1	345.4	382.1
Loans and Advances	10.9	13.7	16.6	18.4
Other Current Assets	48.4	74.1	89.8	99.4
Cash	149.1	38.0	0.6	84.5
Total Current Assets	773.4	808.8	915.2	1,087.0
Creditors	188.2	239.5	290.1	321.0
Provisions	1.6	1.6	1.6	1.6
Other Current Liabilities	92.6	117.3	142.0	157.1
Total Current Liabilities	282.4	358.4	433.7	479.7
Net Current Assets	491.1	450.4	481.5	607.2
Assets side total	1,282	1,369	1,486	1,575

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY21	FY22E	FY23E	FY24E
Per Share Data				
EPS	13.6	24.4	32.9	38.6
Cash EPS	28.1	39.2	52.6	59.1
BV	154.6	174.2	200.5	231.3
Revenue per Share	387.9	491.2	594.9	658.2
Dividend per share	2.4	5.0	5.0	5.0
Operating Ratios				
EBITDA / Total Operating Income	9.5	8.2	11.6	10.5
PAT / Total Operating Income	2.7	0.9	3.5	5.0
Inventory Days	54	54	54	54
Debtor Days	51	50	50	50
Creditor Days	42	42	42	42
Return Ratios				
RoE	8.8	14.0	16.4	16.7
RoCE	11.1	12.8	15.1	16.3
RoIC	12.5	13.0	15.1	17.2
Valuation Ratios				
EV / EBITDA	20.1	18.0	13.8	12.0
P/E	63.5	35.4	26.3	22.4
EV / Net Sales	2.3	1.9	1.6	1.4
Market Cap / Sales	2.2	1.8	1.5	1.3
Price to Book Value	5.6	5.0	4.3	3.7
Turnover Ratios				
Asset turnover	1.3	1.5	1.7	1.8
Gross Block Turnover	1.8	1.9	2.0	2.1
Solvency Ratios				
Net Debt / Equity	0.3	0.4	0.4	0.2
Current Ratio	1.9	1.9	1.9	1.9
Debt / EBITDA	0.9	1.3	1.1	0.6
Quick Ratio	1.0	1.1	1.1	1.1

Source: Company, ICICI Direct Research

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Sell: <-15%



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