

Higher input, gas prices impact margins...

About the stock: Somany Ceramics (SCL) is the second largest tiles manufacturers in the domestic tiles market having ~63 MSM capacity (as of Q4) and sanitaryware, faucets capacity of 1.15 million (mn) pieces, 0.65 mn pieces respectively.

- SCL's new capacity of 11 MSM (potential to generate ~₹ 250-300 crore worth of additional revenue (at full capacity) to be operational from Q1FY23

Q4FY22 Results: SCL reported a weak performance.

- The topline was up 9.4% YoY at ₹ 616.8 crore. Tiles revenues were up 9.1% YoY at ₹ 535.8 crore with volumes down 4.5% YoY and realisations up 14% YoY. Volume was impacted by a) a production line in Kadi plant was shut during January' 2022 due to augmentation and b) one-off disturbance in existing capacity of Kassara plant due to future planned expansion
- EBITDA was at ₹ 50.6 crore, down ~43% YoY owing to higher input and gas prices leading to decline of 605 bps in gross margins at 29.8%. Resultant margins were at 8.2%, down 756 bps YoY.
- PAT was at ₹ 17.2 crore, down ~43% YoY given the margin pressure

What should investors do? SCL's share price has declined by 23% over the past five years.

- Post steep correction (~36% in the last 3 months), we believe gas price uncertainty is largely built in. Thus, we maintain **BUY**

Target Price and Valuation: We value SCL at ₹ 780/share at 22x FY24 P/E (vs. ₹ 1000 at 26x, earlier) amid gas price uncertainty and as we cut margins estimates.

Key triggers for future price performance:

- New capacity of 11 MSM (with potential to generate revenue of ~₹ 250-300 crore will be operational in Q1FY23). Additionally, greenfield manufacturing facility of slab tile of ~4 MSM/annum in Gujarat is expected to commence production during Q1FY24 at capex of ~₹ 170 crore
- We expect 13% CAGR in tiles volume and realisations CAGR of ~2%, resulting in tiles revenues CAGR of 16% over FY22-24 to ₹ 2490 crore
- Any respite in gas price rise

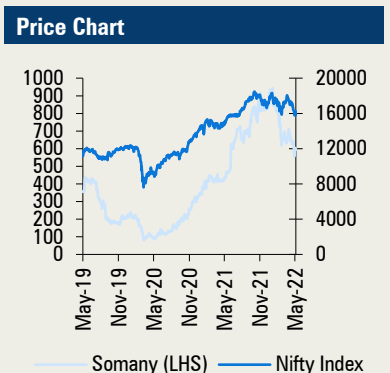
Alternate Stock Idea: Besides SCL, we like Kajaria in the building material space.

- Quasi play on housing
- BUY with a target price of ₹ 1165



Particulars	Amount (₹ crore)
Market Capitalization	2,528
Total Debt (FY22)	511
Cash (FY22)	149
EV	2,890
52 week H/L (₹)	970 / 430
Equity capital	8.5
Face value	₹ 2

Shareholding pattern	Jun-21	Sep-21	Dec-21	Mar-22
Promoters	54.8	54.8	54.8	54.8
DII	17.1	17.7	18.0	18.0
FII	3.5	2.9	2.5	2.5
Other	24.6	24.7	24.8	24.7



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

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Key Financial Summary	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR FY22-24E
₹ crore							
Net Sales	1,600.2	1,641.4	2,082.7	9.8%	2,572.4	2,824.0	16.4%
EBITDA	131.4	190.2	206.5	-6.0%	256.1	311.1	22.7%
EBITDA Margin (%)	8.2	11.6	9.9		10.0	11.0	
PAT	15.0	57.0	88.7	-11.1%	109.2	150.5	30.3%
EPS (₹) *	3.5	13.5	20.9		25.8	35.5	
P/E (x)	168.5	44.3	28.5		23.1	16.8	
EV/EBITDA (x)	22.6	14.3	13.7		11.2	8.8	
RoNW (%)	2.5	8.9	12.2		13.2	15.9	
RoCE (%)	6.5	11.1	10.7		12.7	15.3	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- Q4FY22 performance:** The performance during Q4FY22 was impacted with a) one of its production lines in Kadi (Morbi) plant being shut during January 2022 due to augmentation, b) one-off disturbance in existing capacity of Kassar plant due to future planned expansion (volume, sales impact of ~2.5 MSM, ₹ 70-80 crore respectively), c) inability to source finished products from Morbi region due to higher freight costs, and d) significant rise in gas and paper costs. With these, SCL has reported 4% YoY decline in volumes of tiles products segment (on higher base; to 16.1 MSM) with capacity utilisation declining to 85% in Q4FY22 (vs. 95% in Q3FY22). Overall tiles production in Q4FY22 was at 12.8 MSM (own plant: 6.2 MSM, JVs: 6.6 MSM). **Going forward, the management has guided for ~15-20% volume growth in FY23 to be driven by a) healthy product demand from real estate sector, b) no-major supply side constraint, and c) commencement of operation of new plants**
- Margin guidance:** Operating margin during Q4FY22 was under pressure on account of a) rise in gas and commodity prices, and b) loss of sales due to plant shutdown. **While the management has refrained from providing any concrete margin guidance, it is likely to remain under pressure in the near term (Q1) with ongoing volatility in gas prices and increased freight and packaging cost**
- Input prices:** Gas prices have increased drastically over the past few quarters and remained at an elevated level currently. For the north-based Kassar plant, gas prices (linked to three month's average of crude) is currently at ~₹ 58/SCM (vs. ~₹ 32 /SCM during Q4FY21; ~₹ 48 /SCM during Q4FY22) and expected to reach ~₹ 60-62/SCM over the next month or two. Similarly, prices for Kadi (Morbi plant) went up to ~₹ 68/SCM (vs. ~₹ 35/SCM during Q4FY21; ~₹ 62/SCM during Q4FY22). Also, prices for the southern plant have climbed up currently to ~₹ 90/SCM (vs. ~₹ 30/SCM during Q4FY21; ~₹ 90/SCM during Q4FY22). **Going forward, the management expects volatility to continue over the medium term**
- Price hike:** SCL undertook price hikes of ~8% during Q3FY22 across its major product category in order to partially offset increase in input and gas prices. However, the company was unable to hike prices during Q4FY22 due to competitive market conditions despite rise in costs due to geopolitical issues. **Lately, SCL has taken 2% price hike during April 2022-end (which is not enough as per the management considering higher cost pressure). The company may contemplate more price hikes depending on gas prices and Morbi players (undertaking price hikes)**
- A&D spends:** SCL has ramped-up brand building exercise with advertisement and distribution (A&D) spends reaching ~2.5% of overall sales during FY22 and likely to hover in the same level in FY23
- Sanitaryware division:** In the sanitaryware division, SCL saw 8.9% YoY growth in sales value (to ₹ 62.1 crore) in Q3FY22. The capacity utilisation in the segment has improved to 53% during Q4FY22 with better product demand (vs. 48% during Q3FY22). The management expects utilisation to reach at optimum level during FY23. **Overall, the management has guided for 30-35% YoY growth during FY23 (to ₹ 280-300 crore). The company might look for capacity expansion in FY24 post reaching 100% utilisation**
- Industry update:** Exports opportunity for Indian players remained muted in FY22 (at ~₹ 12,500 crore) due to Covid-19 disruptions, significant rise in gas prices, higher freight costs, and unavailability of containers at desired levels. However, exports from Morbi region have gained momentum in recent times largely aided by competitive price advantage with significant rise in gas costs for European and Chinese players. With these, exports from Indian manufacturers is likely to reach ~₹ 16,000 -19,000 crore during FY23. Morbi players also likely to increase their product prices with higher gas prices in the near term
- Expansion plans:** SCL successfully commissioned its northern plant during Q4FY22 while its other two plants in western and southern region has recently started operations during May 2022 (total capacity: 11 MSM). Additionally, the company has also announced setting up of greenfield manufacturing facility of large format/ slab tile of ~4.5 MSM/annum in Gujarat, which is expected to commence production during Q4FY23

(revenue potential: ~₹ 250 crore). **The capex is expected to be ~₹ 170 crore mainly via internal accruals. The capacity additions are margin attractive with higher value added production**

- **Dealers network:** SCL has built a strong distribution network consisting of 404 showrooms, 2,500+ active dealers. The company added ~200 dealers during FY22 (100 exclusive dealers; targeted mainly in the tier-II, III and IV cities as SCL's focused area remains non-metro regions) and has **guided for net addition of ~200 dealers during FY23E (50% likely to be exclusive dealers)**
- **Working capital:** Working capital days at the end of FY22 have improved to 45 days (vs. 51 days at FY21-end) backed by better inventory and receivables management.

Post steep correction (~36% in the last 3 months), we believe gas price uncertainty is largely built in. SCL is also a quasi-play on improved scenario of real estate and expanding reach to tier 2/3 cities. Marked improvement in working capital in last 2-3 years, also bodes well for the company. We maintain BUY rating. We value it at multiple at 22x FY24E P/E (vs. 26x, earlier) to ascribe a revised target price of ₹ 780/share (vs. ₹ 1000, earlier), amid gas price uncertainty and lower margins possibility.

Exhibit 1: Variance Analysis

Particular	Q4FY22	Q4FY21	YoY (Chg %)	Q3FY22	QoQ (Chg %)	Comments
Net Sales	616.8	564.0	9.4	587.0	5.1	Tiles Revenues were up 9.1% YoY at ₹ 535.8 crore with volumes down 4.5% YoY and realisations up 14% YoY. Volume was impacted by a) a production line in Kadi plant was shut during January'22 due to augmentation and b) one-off disturbance in existing capacity of Kassar plant due to future planned expansion
Other Income	1.5	3.6	-59.3	4.8	-69.9	
Raw Material Expense	127.7	137.7	-7.2	141.6	-9.8	
Purchase of Traded Goods	140.7	119.1	18.1	136.8	2.8	
Power & Fuel	137.0	102.6		153.0		
Employee benefit expenses	66.0	64.5	2.2	66.4	-0.6	
Other Expenses	67.2	48.7	37.9	61.8	8.8	
EBITDA	50.6	88.9	-43.1	62.4	-18.8	
EBITDA Margin (%)	8.2	15.8	-756 bps	10.6	-242 bps	
Depreciation	17.1	16.4	3.8	15.6	9.5	
Interest	6.4	9.3	-31.7	7.4	-13.6	
PBT	28.7	66.7	-57.1	44.2	-35.2	
Taxes	8.1	13.7	-40.9	10.1	-19.5	
PAT	17.2	30.3	-43.3	32.2	-46.7	

Source: Company, ICICI Direct Research

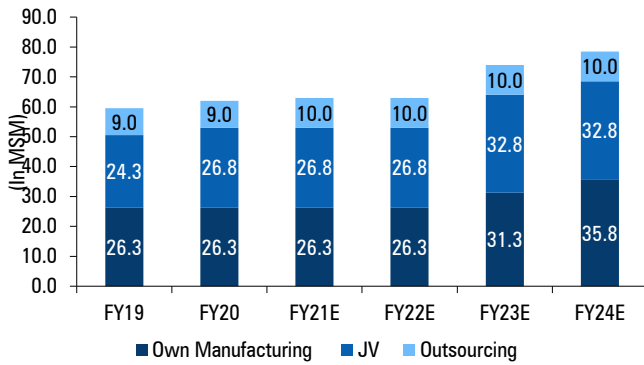
Exhibit 2: Change in estimates

Particulars	FY21	FY22	FY23E			FY24E			Comments
			Old	New	Change	Old	New	Change	
Revenue	1641.4	2082.7	2521.3	2572.4	2.0	2789.6	2824.0	1.2	Realign estimates
EBITDA	190.2	206.5	288.9	256.1	-11.4	321.4	311.1	-3.2	
EBITDA Margin (%)	11.6	9.9	11.5	10.0	-150 bps	11.5	11.0	-51 bps	Lower the margins to account for gas price hike
Adjusted PAT	57.0	88.7	139.2	109.2	-21.5	163.4	150.5	-7.9	
EPS	13.5	20.9	32.9	25.8	-21.5	38.6	35.5	-7.9	

Source: Company, ICICI Direct Research

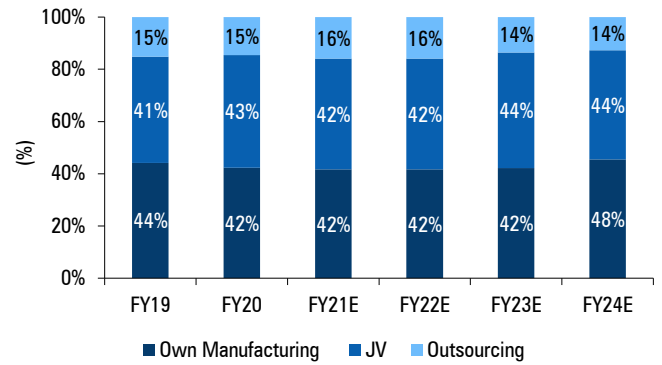
Company Analysis

Exhibit 4: Capacity break-up (in MSM)



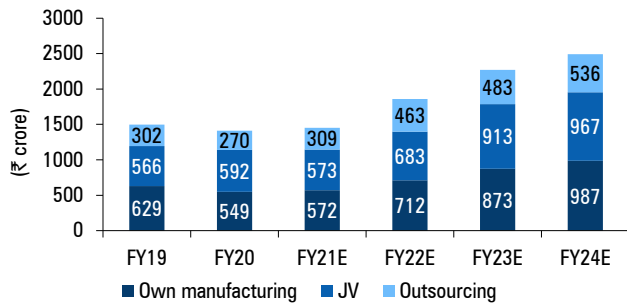
Source: Company, ICICI Direct Research

Exhibit 5: Capacity break-up (%)



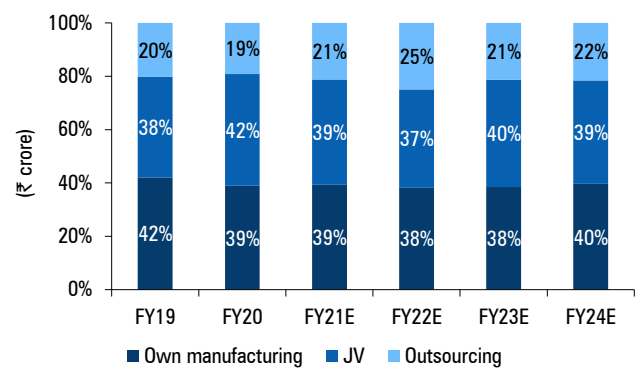
Source: Company, ICICI Direct Research

Exhibit 6: Revenue break-up (₹ crore)



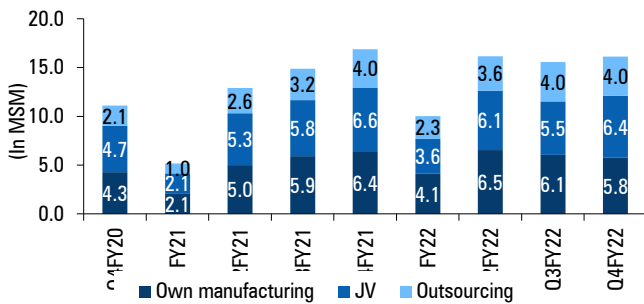
Source: Company, ICICI Direct Research

Exhibit 7: Revenue break-up (%)



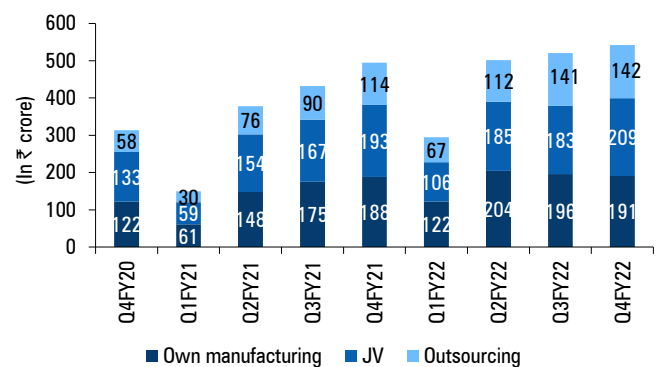
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly standalone sales volumes (in MSM)



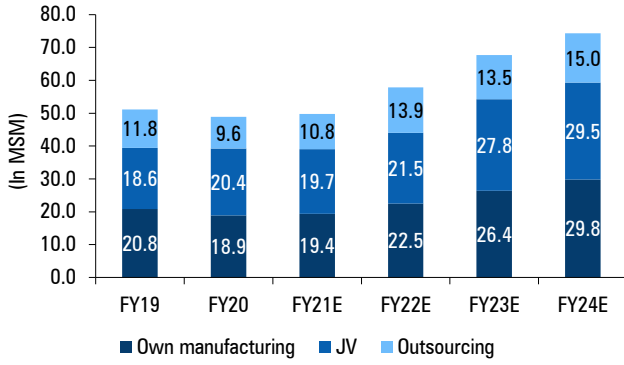
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly standalone sales value



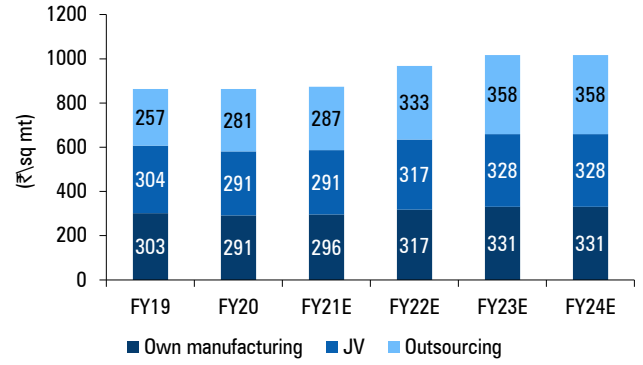
Source: Company, ICICI Direct Research

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



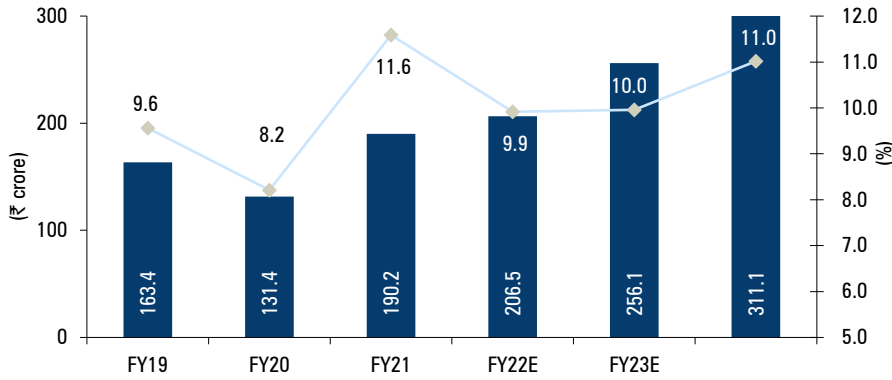
Source: Company, ICICI Direct Research

Exhibit 11: Average realisation break-up



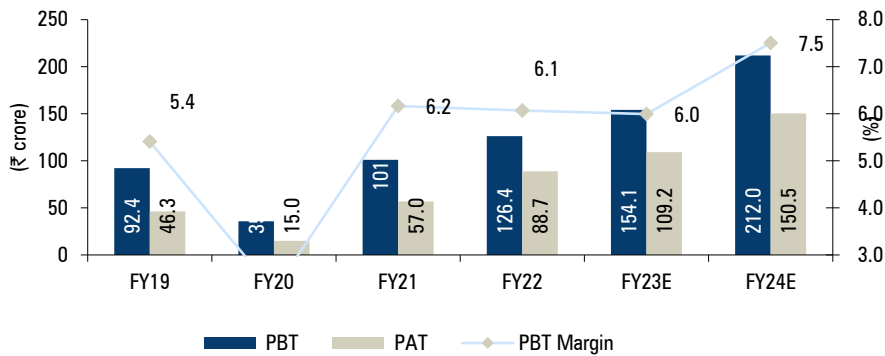
Source: Company, ICICI Direct Research

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	FY22	FY23E	FY24E
Net Sales	1,641.4	2,082.7	2,572.4	2,824.0
Other Income	12.8	13.4	20.0	22.0
Total Revenue	1,663.4	2,107.9	2,604.1	2,857.8
Raw Material Expense	393.8	487.8	604.5	663.6
Purchase of Traded Goods	307.9	447.2	460.5	505.5
(Increase)/Decrease in Inventories	78.9	(14.4)	25.7	42.4
Employee benefit expenses	225.2	257.1	295.8	324.8
Other Expenses	177.4	229.3	285.5	310.6
Total Operating Expenditure	1,460.4	1,887.9	2,328.0	2,524.7
EBITDA	190.2	206.5	256.1	311.1
Interest	40.1	29.6	43.5	39.2
Depreciation	61.6	64.0	78.5	81.9
PBT	101.2	126.4	154.1	212.0
Total Tax	22.2	33.0	38.9	53.5
PAT before MI	60.6	93.4	115.2	158.5
Minority Interest	3.6	4.7	6.0	8.0
PAT	57.0	88.7	109.2	150.5
YoY growth	280.1%	55.6%	23.2%	37.8%
EPS (Diluted)	13.5	20.9	25.8	35.5

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Profit after Tax	57.0	88.7	109.2	150.5
Depreciation	61.6	64.0	78.5	81.9
Interest Paid	40.1	29.6	43.5	39.2
Cash Flow before WC changes	168.0	173.6	217.2	257.6
Net Increase in Current Assets	169.4	(51.1)	(134.7)	(69.6)
Net Increase in Current Liabilities	33.4	56.2	82.7	41.1
Net CF from Op. Activities	370.8	178.7	165.2	229.0
(Purchase)/Sale of Fixed Assets	(62.6)	(266.4)	(170.0)	(50.0)
Others	(8.1)	41.1	20.0	22.0
Net CF from Inv. Activities	(70.7)	(225.3)	(150.0)	(28.0)
Proceeds/Repayment of Debt	(74.7)	87.8	(0.0)	(50.0)
Dividend and Dividend Tax	(10.2)	-	(10.2)	(30.1)
Interest Paid	(40.1)	(29.6)	(43.5)	(39.2)
Net CF from Fin. Activities	(125.0)	58.1	(53.6)	(119.3)
Net Cash flow	129.0	(0.6)	(38.4)	81.7
Opening Cash/ Cash Equivalent	20.1	149.1	148.6	110.2
Cl. Cash/ Cash Equivalent	149.1	148.6	110.2	191.9

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet				
	₹ crore			
(Year-end March)	FY21	FY22	FY23E	FY24E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	632.3	717.8	816.9	937.2
Total Shareholders funds	640.7	726.3	825.3	945.7
Secured Loan	272.0	336.6	333.2	283.2
Unsecured Loan	151.4	174.6	178.0	178.0
Total Debt	423.5	511.2	511.2	461.2
Deferred Tax Liability	37.1	36.4	36.4	36.4
Minority Interest	99.7	107.6	113.6	121.6
Other Long Term Liabilities	66.9	63.2	63.2	63.2
Long Term Provisions	8.0	8.7	8.7	8.7
Liability side total	1,276	1,453	1,558	1,637
Assets				
Gross Block	932.0	991.1	1,161.1	1,211.1
Net Block	749.3	744.5	836.0	804.1
Capital WIP	8.6	226.7	226.7	226.7
Current Investments	89.8	60.0	60.0	60.0
Long-term loans and advances	4.6	-	-	-
Inventories	245.5	273.7	338.3	371.4
Sundry Debtors	221.1	236.8	292.5	321.1
Loans and Advances	10.9	3.0	3.7	4.1
Other Current Assets	48.9	63.9	77.5	85.1
Cash	149.1	148.6	110.2	191.9
Total Current Assets	765.2	786.0	882.3	1,033.6
Creditors	183.9	225.5	281.9	309.5
Provisions	1.6	1.7	1.7	1.7
Other Current Liabilities	97.2	111.7	138.0	151.5
Total Current Liabilities	282.7	338.9	421.6	462.7
Net Current Assets	482.5	447.1	460.7	570.9
Assets side total	1,276	1,453	1,558	1,637

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	13.5	20.9	25.8	35.5
Cash EPS	28.0	36.0	44.3	54.8
BV	151.2	171.4	194.8	223.2
Revenue per Share	387.3	491.4	607.0	666.4
Dividend per share	2.4	-	2.4	5.0
Operating Ratios				
EBITDA / Total Operating Income	9.5	8.2	11.5	9.9
PAT / Total Operating Income	2.7	0.9	3.5	4.2
Inventory Days	55	48	48	48
Debtor Days	49	42	42	42
Creditor Days	41	40	40	40
Return Ratios				
RoE	8.9	12.2	13.2	15.9
RoCE	11.1	10.7	12.7	15.3
RoIC	12.5	14.0	15.3	19.8
Valuation Ratios				
EV / EBITDA	14.3	13.7	11.2	8.8
P/E	44.3	28.5	23.1	16.8
EV / Net Sales	1.7	1.4	1.1	1.0
Market Cap / Sales	1.5	1.2	1.0	0.9
Price to Book Value	3.9	3.5	3.1	2.7
Turnover Ratios				
Asset turnover	1.3	1.4	1.7	1.7
Gross Block Turnover	1.7	2.1	2.2	2.3
Solvency Ratios				
Net Debt / Equity	0.3	0.4	0.4	0.2
Current Ratio	1.9	1.7	1.7	1.7
Debt / EBITDA	1.0	1.5	1.3	0.7
Quick Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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