

CMP: ₹ 529

Target: ₹ 605 (14%)

Target Period: 12 months

HOLD

November 13, 2022

Soft demand, higher gas prices impact margins...

About the stock: Somany Ceramics (SCL) is the second largest tiles manufacturers in the domestic tiles market having ~73 MSM capacity and sanitaryware, faucets capacity of 1.15 million (mn) pieces and 0.65 mn pieces, respectively.

- Greenfield slab tile manufacturing facility of ~4.5 MSM/annum in Gujarat is expected to commence production by Q1FY24 end (capex of ~₹ 170 crore)

Q2FY23 Results: SCL reported a soft performance on the volumes/margins front.

- Topline was up 10.3% YoY at ₹ 615.5 crore. Tiles revenue was up 9.3% YoY at ₹ 542 crore with volumes down ~2% YoY and realisations up ~13% YoY
- EBITDA was at ₹ 42.2 crore, down ~38% YoY, owing to higher input and gas prices leading to a decline of 530 bps in margins to 6.8%. PAT was at ₹ 14.7 crore, down 58% YoY

What should investors do? SCL's share price has declined ~38% over the past five years.

- Soft demand presents a new concern amid likely recovery in margins ahead. Thus, we maintain **HOLD**

Target Price and Valuation: We value SCL at ₹ 605/share at 20x FY24E P/E as we cut margins, topline estimates slightly further.

Key triggers for future price performance:

- New capacity of 11 MSM (with potential to generate revenue of ~₹ 250-300 crore has started contributing. Additionally, greenfield manufacturing facility of slab tile of ~4.5 MSM/annum in Gujarat is expected to commence production by Q1FY24 end at capex of ~₹ 170 crore
- We expect 10% CAGR in tiles volume and realisations CAGR of ~4%, resulting in tiles revenues CAGR of 15% over FY22-24 to ₹ 2659 crore
- Any respite in gas price rise

Alternate Stock Idea: Besides SCL, we like Kajaria Ceramics in tiles space

- Leading growth & resilient margins in the segment
- BUY with a target price of ₹ 1210



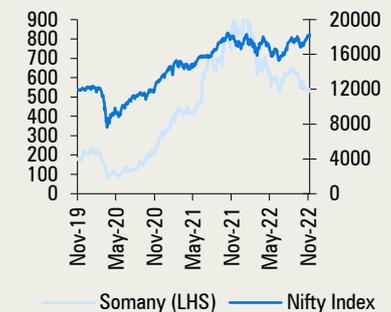
Particulars

Particular	Amount (₹ crore)
Market Capitalization	2,244
Total Debt (FY22)	511
Cash (FY22)	149
EV	2,606
52 week H/L (₹)	970 / 511
Equity capital	8.5
Face value	₹ 2

Shareholding pattern

	Dec-21	Mar-22	Jun-22	Sep-22
Promoters	54.8	54.8	54.8	54.8
DII	18.0	18.0	18.1	18.1
FII	2.5	2.5	2.4	2.3
Other	24.8	24.7	24.7	24.8

Price Chart



Key Risks

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

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Key Financial Summary

₹ crore	FY20	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	2 yr CAGR FY22-24E
Net Sales	1,600.2	1,641.4	2,082.7	9.8%	2,482.7	2,792.1	15.8%
EBITDA	131.4	190.2	206.5	-6.0%	223.0	280.0	16.4%
EBITDA Margin (%)	8.2	11.6	9.9		9.0	10.0	
PAT	15.0	57.0	88.7	-11.1%	92.4	128.3	20.3%
EPS (₹) *	3.5	13.5	20.9		21.8	30.3	
P/E (x)	149.6	39.4	25.3		24.3	17.5	
EV/EBITDA (x)	20.5	12.8	12.3		11.7	8.9	
RoNW (%)	2.5	8.9	12.2		11.4	14.1	
RoCE (%)	6.5	11.1	10.7		10.6	13.7	

Source: Company, ICICI Direct Research

Key business highlight and outlook

- Q2FY23 performance:** SCL witnessed a muted performance in Q2FY23 reporting 2% YoY decline in tiles volume (to 15.89 SCM) owing to benign product demand, and supply chain and logistical disruptions (especially in Morbi based plants due to shutdown and unavailability of truckers at desired level). However, sales (in value terms) have improved 9.3% YoY with better realisations and portfolio mix. Further, capacity utilisation remained elevated at ~88% for tiles segment during Q2FY23. Overall tiles production was at 13.3 MSM (own plant: 8.1 MSM, JVs: 5.2 MSM). Going forward, the management has indicated towards continuance of subdued product demand in October 2022 due to festive season. However, the company expects healthy rise in demand from November 2022 and has guided for ~15-20% YoY revenues growth in FY23
- Sanitaryware division:** In sanitaryware division, SCL witnessed 2.9% YoY growth in sales value (to ₹ 54.5 crore) due to a subdued demand environment. Utilisation also declined drastically to ~45% during Q2FY23 (vs. 88% during Q1FY23). However, the management expects a revival in product demand during H2FY23
- Margin guidance:** Operating margin remained under pressure and was at 5.9% during Q2FY23 (vs. 10.2% in Q2FY22) primarily impacted by muted volumes, and rise in gas prices. While the company has refrained from providing any margin guidance for FY23, it has indicated towards margin improvement despite continued volatility in gas prices (with use of LPG as an alternative). Also, the company is focusing more on a) value added sales, b) improving share of GVT to overall tiles segment' sales (28% in Q2FY22; 33% in Q2FY23) and c) use of LPG and propane as an alternative to gas in order to improve margin performance over medium to longer term
- Input prices:** Gas prices have started showing some sign of softness in Q3FY23 (currently at ~₹ 60-62/SCM) after a drastic increase in gas prices over the past few quarters (~₹ 65/SCM during Q2FY23). However, the company has started working on necessary mitigation measures to offset the increase in gas price by switching to alternatives such as LPG (50% of overall capacity converted into LPG; would be increasing to ~60% by December 2022; average LPG price currently at ~₹ 50-52). These are likely to benefit the company with better margin owing to lower gas and fuel prices over near to medium term
- Price hike:** SCL undertook price hikes of ~2.5-3% during mid-April 2022 and mid-June 2022 across its major product category in order to partially offset increase in input and gas prices. However, the company has not taken any significant price rise during Q2FY23 owing to a muted demand scenario
- A&D spends:** SCL's A&D spends during Q2FY23 were at ~2% of overall sales, which is likely to hover in the same range, going forward, with continuance of healthy brand building exercise
- Update on Morbi players:** Inflated raw material costs, increased freight rates, and shortage of containers have resulted in a fall in demand for tiles products in the recent past mainly for export oriented Morbi players. However, the scenario has changed in Q2FY23 with a significant fall in ocean freight rate, huge anti-dumping duty on Turkey by major European countries and significant rise in electricity and gas prices in Europe. These have triggered a healthy demand revival for Indian tiles in the European territory aided by competitive price advantage. The management expects exports from Indian manufacturers to reach ~₹ 18,000 crore during FY23 (vs. ~₹ 12,500 crore in FY22)
- Divestment:** The company divested its investment in one of its subsidiary Amora Ceramics Pvt Ltd, with effect from July 1, 2022 resulting in loss of control over the subsidiary. This has no material impact on the operations of the company. However, loss on disinvestment amounting to ₹ 97 lakh has been shown under the head exceptional items
- Expansion plans:** SCL has successfully commissioned its three new plants in north, west and south (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 in the recent past (capex: ~₹ 170 crore to be funded mainly via internal accruals; revenue potential: ~₹ 250 crore). The machineries have been orders and the management expects production to

commence from Q1FY24-end. The company invested ~₹ 40 crore during Q2FY23. The capacity additions are margin attractive with higher value added production

- **Dealers network:** SCL has built a strong distribution network consisting of 400+ showrooms, 2,900+ active dealers. The company added 150 dealers during H1FY23 (vs. 200 dealers during FY22) mainly in the tier-II, III and IV cities as SCL's focused area remains non-metro regions. Overall, the company has guided for net addition of ~300 dealers during FY23E (50% likely to be exclusive dealers)
- **Working capital:** Working capital days at the end of Q2FY23 have increased to 49 days (vs. 45 days at FY22-end; 46 days at Q1FY23 end) mainly due to higher inventory

Exhibit 1: Variance Analysis

Particular	Q2FY23	Q2FY22	YoY (Chg %)	Q1FY23	QoQ (Chg %)	Comments
Net Sales	617.8	560.7	10.2	559.1	10.5	Tiles revenues were up 9.3% YoY at ₹ 542 crore with volumes down ~2% YoY and realisations up ~13% YoY.
Other Income	2.9	3.8	-24.0	4.0	-26.4	
Raw Material Expense	169.3	127.5	32.8	148.1	14.3	
Purchase of Traded Goods	125.5	105.0	19.5	131.8	-4.7	
Power & Fuel	172.8	116.4	48.4	170.6	1.3	
Employee benefit expenses	73.7	64.6	14.0	71.2	3.5	
Other Expenses	65.5	59.0	11.0	56.2	16.5	
EBITDA	42.2	68.2	-38.1	44.9	-6.1	
EBITDA Margin (%)	6.8	12.2	-533 bps	8.0	-120 bps	
Depreciation	17.0	16.2	4.8	15.4	10.2	
Interest	9.6	7.8	23.1	7.3	32.3	
PBT	18.6	48.1	-61.3	26.3	-29.2	
Taxes	4.7	12.7	-63.0	6.9	-31.7	
PAT	14.7	35.0	-58.0	20.5	-28.5	

Source: Company, ICICI Direct Research

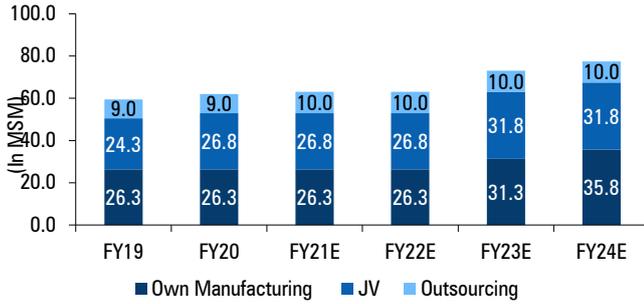
Exhibit 2: Change in estimates

Particulars	FY21	FY22		FY23E			FY24E			Comments
		Old	New	Change	Old	New	Change			
Revenue	1641.4	2082.7	2512.3	2482.7	-1.2	2854.8	2792.1	-2.2	Realign estimates	
EBITDA	190.2	206.5	238.1	223.0	-6.3	300.3	280.0	-6.7		
EBITDA Margin (%)	11.6	9.9	9.5	9.0	-49 bps	10.5	10.0	-49 bps		
Adjusted PAT	57.0	88.7	109.2	92.4	-15.4	141.1	128.3	-9.1		
EPS	13.5	20.9	25.8	21.8	-15.4	33.3	30.3	-9.1		

Source: Company, ICICI Direct Research

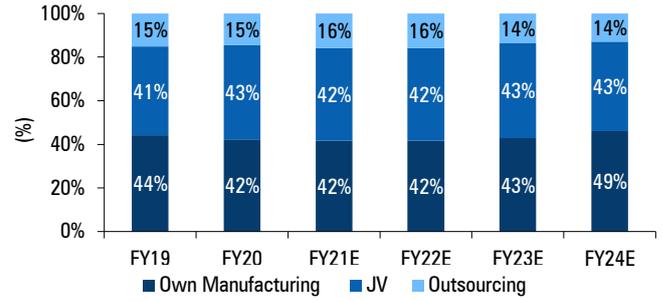
Company Analysis

Exhibit 4: Capacity break-up (in MSM)



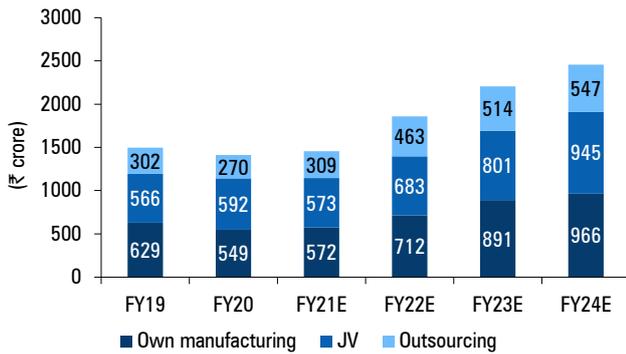
Source: Company, ICICI Direct Research

Exhibit 5: Capacity break-up (%)



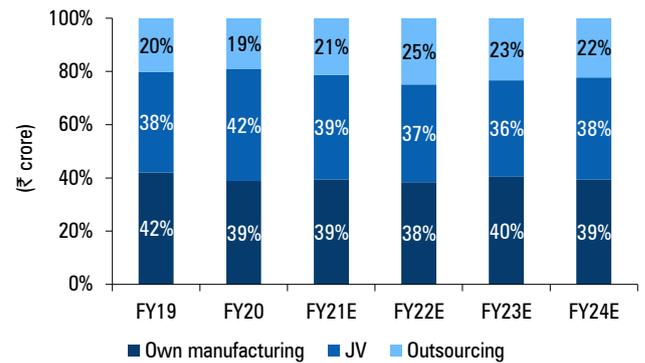
Source: Company, ICICI Direct Research

Exhibit 6: Revenue break-up (₹ crore)



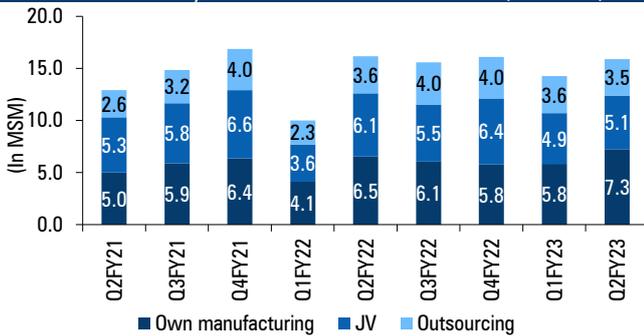
Source: Company, ICICI Direct Research

Exhibit 7: Revenue break-up (%)



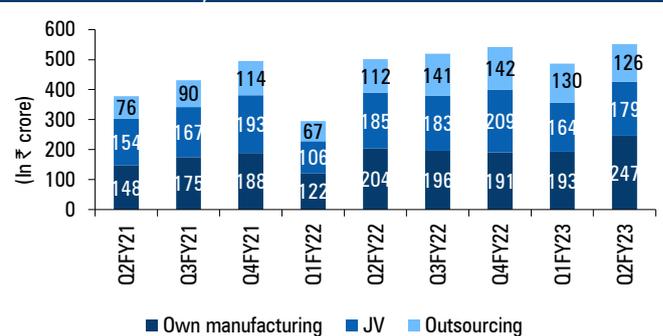
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly standalone sales volumes (in MSM)



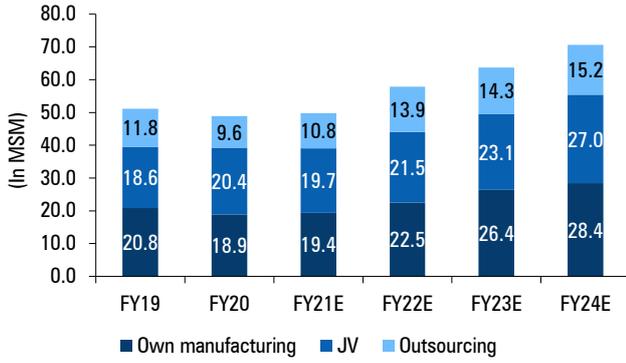
Source: Company, ICICI Direct Research

Exhibit 9: Quarterly standalone sales value



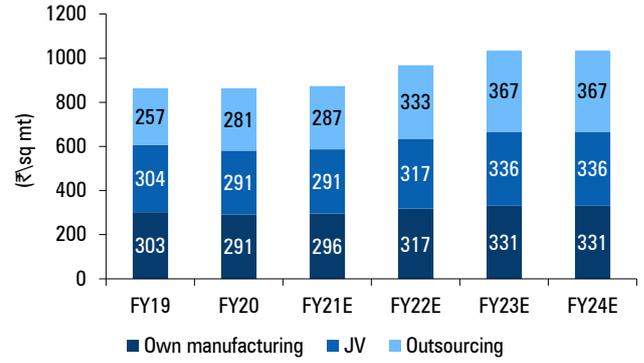
Source: Company, ICICI Direct Research

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



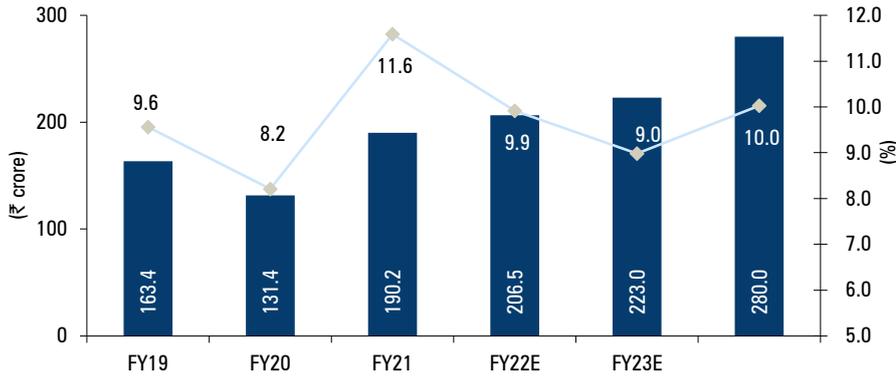
Source: Company, ICICI Direct Research

Exhibit 11: Average realisation break-up



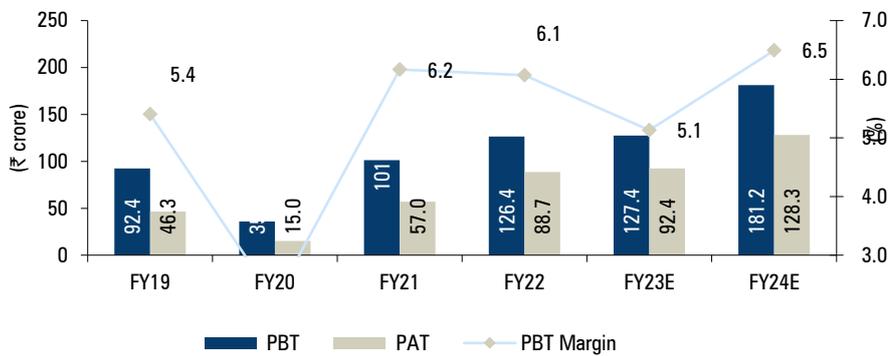
Source: Company, ICICI Direct Research

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	2,482.7	2,792.1
Other Income	12.8	13.4	15.0	17.0
Total Revenue	1,663.4	2,107.9	2,509.7	2,821.1
Raw Material Expense	393.8	487.8	583.4	656.1
Purchase of Traded Goods	307.9	447.2	471.7	527.7
(Increase)/Decrease in Inventories	78.9	(14.4)	24.8	27.9
Employee benefit expenses	225.2	257.1	285.5	321.1
Other Expenses	177.4	229.3	260.7	293.2
Total Operating Expenditure	1,460.4	1,887.9	2,271.6	2,524.0
EBITDA	190.2	206.5	223.0	280.0
Interest	40.1	29.6	35.8	37.8
Depreciation	61.6	64.0	74.8	78.0
PBT	101.2	126.4	127.4	181.2
Total Tax	22.2	33.0	33.0	46.9
PAT before MI	60.6	93.4	94.4	134.3
Minority Interest	3.6	4.7	2.0	6.0
PAT	57.0	88.7	92.4	128.3
YoY growth	280.1%	55.6%	4.2%	38.8%
EPS (Diluted)	13.5	20.9	21.8	30.3

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	92.4	128.3
Depreciation	61.6	64.0	74.8	78.0
Interest Paid	40.1	29.6	35.8	37.8
Cash Flow before WC changes	168.0	173.6	190.0	233.1
Net Increase in Current Assets	169.4	(51.1)	(109.8)	(85.6)
Net Increase in Current Liabilities	33.4	56.2	68.1	50.5
Net CF from Op. Activities	370.8	178.7	148.3	198.0
(Purchase)/Sale of Fixed Assets	(62.6)	(266.4)	(170.0)	(50.0)
Others	(8.1)	41.1	15.0	17.0
Net CF from Inv. Activities	(70.7)	(225.3)	(155.0)	(33.0)
Proceeds/Repayment of Debt	(74.7)	87.8	(0.0)	(50.0)
Dividend and Dividend Tax	(10.2)	-	(10.2)	(25.7)
Interest Paid	(40.1)	(29.6)	(35.8)	(37.8)
Net CF from Fin. Activities	(125.0)	58.1	(46.0)	(113.5)
Net Cash flow	129.0	(0.6)	(52.7)	51.5
Opening Cash/ Cash Equivalent	20.1	149.1	148.6	95.9
Cl. Cash/ Cash Equivalent	149.1	148.6	95.9	147.4

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	800.1	902.7
Total Shareholders funds	640.7	726.3	808.6	911.2
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	109.6	115.6
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	1,538	1,596
Assets				
Gross Block	932.0	991.1	1,161.1	1,211.1
Net Block	749.3	744.5	839.7	811.7
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	326.5	367.2
Sundry Debtors	221.1	236.8	282.3	317.5
Loans and Advances	10.9	3.0	3.6	4.0
Other Current Assets	48.9	63.9	74.8	84.1
Cash	149.1	148.6	95.9	147.4
Total Current Assets	765.2	786.0	843.1	980.2
Creditors	183.9	225.5	272.1	306.0
Provisions	1.6	1.7	1.7	1.7
Other Current Liabilities	97.2	111.7	133.1	149.7
Total Current Liabilities	282.7	338.9	407.0	457.5
Net Current Assets	482.5	447.1	436.1	522.8
Assets side total	1,276	1,453	1,538	1,596

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios				
(Year-end March)	FY21	FY22	FY23E	FY24E
Per Share Data				
EPS	13.5	20.9	21.8	30.3
Cash EPS	28.0	36.0	39.5	48.7
BV	151.2	171.4	190.8	215.0
Revenue per Share	387.3	491.4	585.8	658.8
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	11.4	14.1
RoCE	11.1	10.7	10.6	13.7
RoIC	12.5	14.0	12.8	17.4
Valuation Ratios				
EV / EBITDA	12.8	12.3	11.7	8.9
P/E	39.4	25.3	24.3	17.5
EV / Net Sales	1.5	1.2	1.0	0.9
Market Cap / Sales	1.4	1.1	0.9	0.8
Price to Book Value	3.5	3.1	2.8	2.5
Turnover Ratios				
Asset turnover	1.3	1.4	1.6	1.7
Gross Block Turnover	1.7	2.1	2.1	2.3
Solvency Ratios				
Net Debt / Equity	0.3	0.4	0.4	0.3
Current Ratio	1.9	1.7	1.7	1.7
Debt / EBITDA	1.0	1.5	1.6	0.9
Quick Ratio	1.0	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

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Sell: <-15%



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