

12 August 2023

India | Equity research | Q1FY24 Result Review

Somany Ceramics

Tiles

Insipid quarter; margin outlook improving

Somany Ceramics (SOMC) reported Q1FY24 consolidated revenue growth of 4.9% YoY driven by tile vol growth of 8.1% YoY (4-year CAGR of 6.7%), while tile realisation declined 2.2% YoY (flat QoQ). Consol EBITDA margin increased 59bps YoY (-35bps QoQ) to 8.6% primarily due to lower RM costs (down 97bps YoY, including power and fuel cost), resulting in EBITDA growth of 12.6% YoY while APAT declined 4.4% YoY (due to higher interest cost). Management stated demand conditions were subdued in Q1FY24, but there is significant improvement in July'23. It has guided for double-digit vol growth in FY24 with EBITDA margin of 9.5-10% (due to lower gas prices and operating leverage). We tweak PAT estimates by ~1% for FY24E/FY25E and maintain **BUY** with a rolled-over Sep'24E TP of INR 939 (earlier: INR 896).

Revenue growth of 4.9% YoY with 8.1% YoY volume growth

SOMC reported consolidated revenue growth of 4.9% YoY in Q1FY24 to ~INR 5.9bn, driven by tile volume growth of 8.1% YoY (-12.4% QoQ; 4-year CAGR of 6.7%), while tile realisation declined 2.2% YoY (flat QoQ). Bathware segment revenue grew 7.7% YoY (-21.6% QoQ). Management stated demand was subdued in Q1, but it has seen significant improvement in Jul'23. It expects demand tailwinds to continue and has guided for double-digit volume growth in FY24. For bathware segment, management expects revenue of ~INR 3bn in FY24 (vs ~INR 2.5bn in FY23). Its net working capital improved by 11 days QoQ to 20 in Q1FY24 and net debt declined to INR1.9bn (down ~INR1.2bn QoQ). We have modelled tile volume CAGR of 11.4% over FY23-FY26E.

EBITDA margin improves due to lower gas cost

In Q1FY24, SOMC's consolidated EBITDA margin expanded 59bps YoY (-35bps QoQ) to 8.6% primarily due to lower raw material expenses (down 97bps YoY, including power and fuel cost) partly negated by 23bps and 15bps YoY increase in employee and other expenses, respectively. Management stated that blended gas cost has declined ~9% QoQ in Q2-TD which, coupled with improved capacity utilisation, will likely aid in margin improvement going forward. It has maintained its guidance for EBITDA margin of 9.5-10% in FY24 (vs 7.6% in FY23). We have modelled margins of 10.1% / 10.3% for FY24E / FY25E respectively (vs ~9.9% average EBITDA margin over FY16-FY23).

Financial summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	24,785	27,917	31,164	34,561
EBITDA	1,891	2,812	3,224	3,584
EBITDA %	7.6	10.1	10.3	10.4
Net Profit	709	1,426	1,706	1,919
EPS (INR)	16.7	33.6	40.2	45.2
EPS % Chg YoY	(18.9)	101.2	19.7	12.4
P/E (x)	40.3	20.0	16.7	14.9
EV/EBITDA (x)	16.7	10.8	9.3	8.1
RoCE (%)	6.3	11.1	12.6	13.3
RoE (%)	9.4	16.8	17.3	16.8

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Market Data

Market Cap (INR)	29bn
Market Cap (USD)	345mn
Bloomberg Code	SOMC IN
Reuters Code	SOCE.BO
52-week Range (INR)	819 /445
Free Float (%)	45.0
ADTV-3M (mn) (USD)	0.8

Price Performance (%)	3m	6m	12m
Absolute	23.0	25.9	3.1
Relative to Sensex	6.5	8.7	11.6

ESG Disclosure	2021	2022	Change
ESG score	38.9	53.6	14.7
Environment	11.8	49.6	37.8
Social	26.2	32.5	6.2
Governance	78.6	78.6	-

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.

Source: Bloomberg, I-sec research

Earnings Revisions (%)	FY24E	FY25E
Revenue	(1.3)	(1.2)
EBITDA	(0.3)	(1.0)
EPS	(1.0)	(1.3)

Previous Reports

25-05-2023: [Q4FY23 results review](#)08-02-2023: [Q3FY23 results review](#)

Valuations & view

SOMC's reported operational margin performance in Q1 was below our expectations. Company has near-term demand and margin tailwinds due to pick-up in the domestic housing market and increased exports from Morbi (thus possibly lower domestic competition and pricing pressure) along with lower gas prices. We thus continue to like the company and maintain **BUY** with a rolled-over Sep'24 target price of INR 939, set at an unchanged 22x Sep'25E P/E.

Exhibit 1: Q1FY24 consolidated result review

INR mn	Q1FY24	Q1FY23	% YoY	Q4FY23	% QoQ
Net Revenue	5,865	5,591	4.9%	6,792	(13.6%)
Raw Material	2,757	2,163	27.5%	3,111	(11.4%)
% of sales	47.0%	38.7%	833 bps	45.8%	120 bps
Power & Fuel	1,189	1,653	(28.1%)	1,543	(22.9%)
% of sales	20.3%	29.6%	-930 bps	22.7%	-244 bps
Employee expense	760	712	6.8%	805	(5.5%)
% of sales	13.0%	12.7%	23 bps	11.8%	111 bps
Other Expenses	653	614	6.3%	723	(9.8%)
% of sales	11.1%	11.0%	15 bps	10.7%	48 bps
Total Expenditure	5,359	5,142	4.2%	6,182	(13.3%)
% of sales	91.4%	92.0%	-59 bps	91.0%	35 bps
EBITDA	506	449	12.6%	610	(17.0%)
EBITDA Margin (%)	8.6%	8.0%	59 bps	9.0%	-35 bps
Depreciation/Amortisation	168	154	8.9%	187	(10.3%)
EBIT	338	295	14.5%	423	(20.0%)
EBIT Margin (%)	5.8%	5.3%	48 bps	6.2%	-46 bps
Net Interest Expenses	112	73	54.1%	116	(4.0%)
Other Income	24	40	(40.3%)	36	(33.2%)
PBT	250	263	(4.7%)	342	(26.8%)
Tax Expenses	58	69	(15.4%)	89	(34.4%)
PAT before MI & extraordinary	192	194	(0.9%)	253	(24.1%)
Minority Interest	20	12	69.5%	-1	nm
Exceptional items	-66	0	nm	-9	nm
Reported PAT	146	205	(29.1%)	243	(40.1%)
Adjusted PAT	196	205	(4.4%)	250	(21.4%)

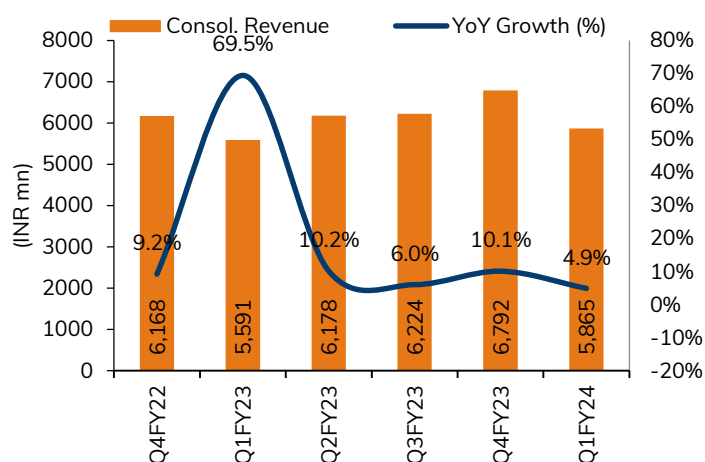
Source: I-Sec research, Company data

Key takeaways from Q1FY24 earnings conference call

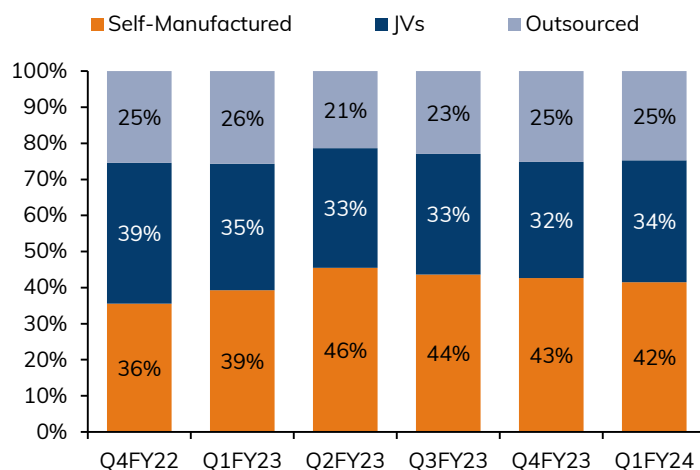
- **Demand:** Management reported **subdued demand conditions in Q1FY24** as SOMC's tile plants ran at 70% utilisation. However, it has **witnessed significant demand improvement in Q2-TD** and expects margin tailwinds to sustain going forward.
- **Guidance:** Management has guided for **double-digit volume growth in FY24 and maintained its EBITDA margin guidance of 9.5-10%** for the year (driven by declining gas cost and operating leverage). For the bathware segment, management has guided for revenue **of INR 3bn in FY24** (vs ~INR 2.5bn in FY23).
- **Branding:** SOMC spent **2.6% of total revenue on A&P during Q1FY24**, which including co-sponsoring a team in the IPL.
- **Divestment of subsidiary:** SOMC has decided to divest its stake in Somany Fine Vittrified Ltd as the subsidiary was involved in the manufacturing of soluble salt products (PVT category). The **plant was not running at profitable utilisations**, as demand for its products was lower. Hence the company incurred an investment loss of INR 66.2mn in Q1FY24.
- **Gas prices:** Blended gas cost in **Q1FY24 was INR 45/scm (vs INR 41/scm currently and INR 50/scm in Q4FY23)**. In Q1FY24, for north plant gas cost was INR 46/scm (vs INR 41/scm currently and INR 51/scm in Q4FY23); for south plant

gas cost was INR 57/scm (vs INR 50/scm currently and INR 59/scm in Q4FY23), and for west plant gas cost was INR 43/scm (vs INR 40/scm currently and INR 50/scm in Q4FY23).

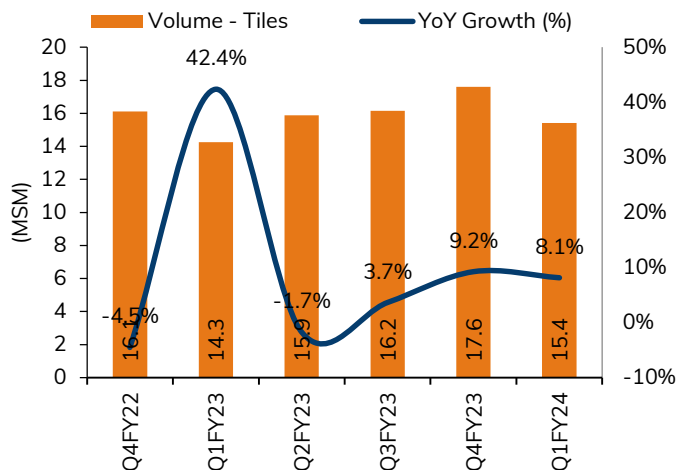
- **Capacity expansion:** The ~4.5msm plant in Morbi, which will manufacture large-format tiles, is **expected to operationalise in early-Q3FY24**.
- **Capex:** Management indicated a **maintenance capex of INR 400mn-500mn in FY24**.
- **Product mix:** In Q1FY24, share of GVT increased by ~200-300bps QoQ, with PVT declining ~200bps and ceramics declining ~100bps QoQ.
- **Revenue mix:** 75-80% is retail, 12% is government projects, 7% private builders, 2% exports and 1% corporates.
- **Bathware revenue mix:** In Q1FY24, sanitaryware revenue was ~INR 330mn (flat YoY) and faucet revenue was ~INR 260mn (vs ~INR 200mn YoY).
- **Distribution:** SOMC added 50+ dealers and 25+ showrooms during Q1FY24.

Exhibit 2: Consolidated quarterly revenue


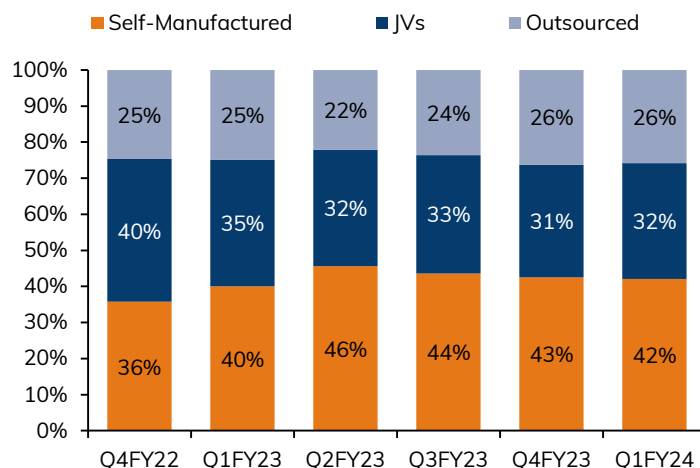
Source: I-Sec research, Company data

Exhibit 3: Quarterly revenue breakup


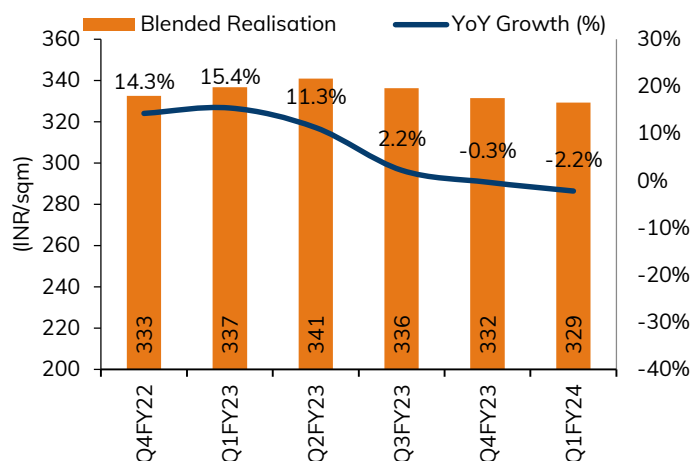
Source: I-Sec research, Company data

Exhibit 4: Quarterly volume growth


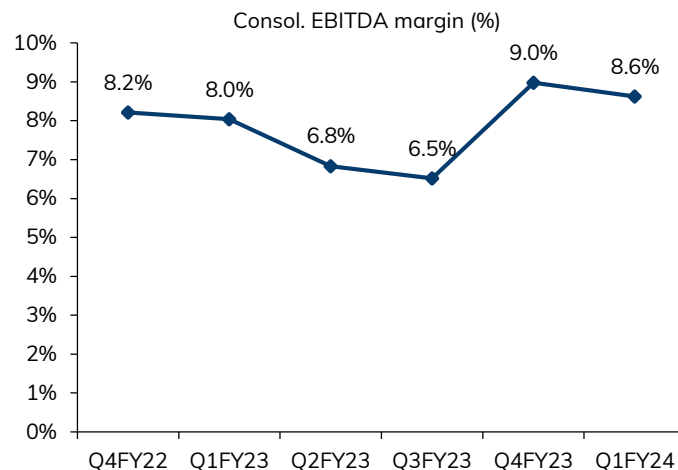
Source: I-Sec research, Company data

Exhibit 5: Quarterly volume breakup


Source: I-Sec research, Company data

Exhibit 6: Quarterly realisation

Source: I-Sec research, Company data

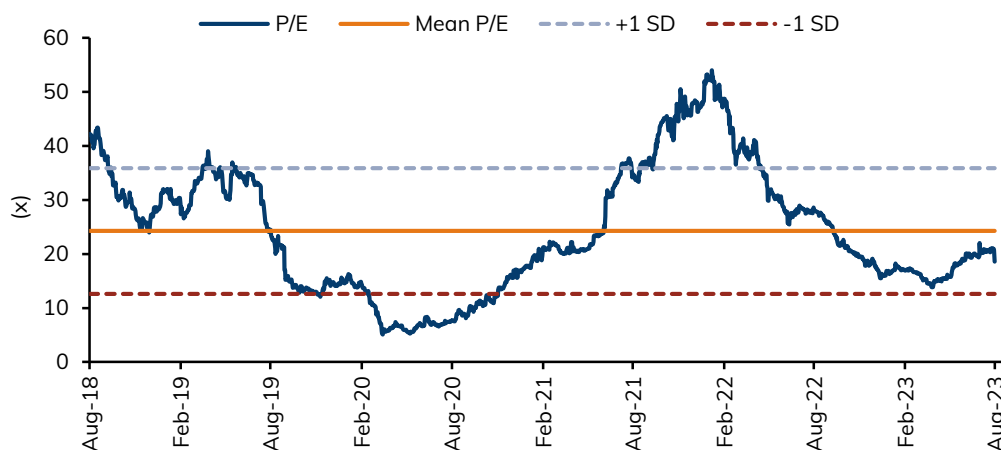
Exhibit 7: Quarterly consolidated EBITDA margin

Source: I-Sec research, Company data

Valuation

SOMC is one of the leading players in the Indian tile market with significant presence in markets beyond tier-I cities. It has a strong brand with wide distribution and a broad product portfolio. Company focuses on the retail segment, which accounts for ~80% of total revenue.

The stock trades at a P/E of 16.7x FY25E, which is attractive and led by high growth prospects (EBIDTA CAGR of 23.8% during FY23-FY26E driven by tile volume CAGR of 11.4%) and healthy return ratios (RoE of 17.3% FY25E). Maintain **BUY** with a rolled-over Sep'24 target price of INR 939, set at unchanged 22x P/E Sep'25E.

Exhibit 8: 1-year forward P/E band

Source: I-Sec research, Company data

Key downside risks

- **Slowdown in housing market:** The housing market is the demand driver for tile sector. Unexpected slowdown in the tile market could adversely affect the company.
- **Higher raw material prices:** Gas accounts for ~25% of total production cost. Continuous increase in gas prices could adversely affect margins/demand for tiles.

- **Continuous slowdown in exports from Morbi:** A prolonged slowdown in exports from Morbi could lead to pressure on supply in domestic markets, and thus affect growth prospects for the company.
- **Resurgence of pandemic:** A resurgence of the covid pandemic could adversely affect demand prospects the in near term.

Exhibit 9: Shareholding pattern

%	Dec'22	Mar'23	Jun'23
Promoters	54.8	54.8	54.8
Institutional investors	23.2	23.4	23.5
MFs and others	17.9	18.8	18.5
FIs/Banks	0.0	0.0	0.0
Insurance	0.8	0.8	0.8
FIIIs	4.5	3.8	4.2
Others	22.0	21.8	21.7

Source: Bloomberg

Exhibit 10: Price chart

Source: Bloomberg

Financial summary

Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	24,785	27,917	31,164	34,561
Operating Expenses	22,894	25,105	27,940	30,977
EBITDA	1,891	2,812	3,224	3,584
EBITDA Margin (%)	7.6	10.1	10.3	10.4
Depreciation & Amortization	679	691	748	826
EBIT	1,213	2,121	2,476	2,759
Interest expenditure	404	355	287	225
Other Non-operating Income	100	168	145	105
Recurring PBT	910	1,933	2,335	2,639
Less: Taxes	(249)	(487)	(588)	(665)
PAT	661	1,446	1,746	1,974
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	46	(20)	(40)	(55)
Extraordinaries (Net)	9	-	-	-
Net Income (Reported)	715	1,426	1,706	1,919
Net Income (Adjusted)	709	1,426	1,706	1,919

Source Company data, I-Sec research

Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	3,915	4,127	4,593	5,075
Cash & cash eqv.	1,864	2,079	1,620	1,708
Sundry Debtors	2,683	3,059	3,415	3,774
Other Current Assets	941	1,071	1,195	1,321
Trade payables	3,776	3,840	4,215	4,610
Other Current Liabilities	1,720	1,857	2,041	2,235
Net Current Assets	3,907	4,639	4,567	5,033
Investments	-	-	-	-
Net Fixed Assets	10,120	9,756	10,359	10,933
Other Non Current Assets	504	504	504	504
Total Assets	14,531	14,899	15,430	16,471
Liabilities				
Borrowings	4,884	4,000	3,000	2,300
Other Non Current Liabilities	702	702	702	702
Total Liabilities	5,586	4,702	3,702	3,002
Equity Share Capital	85	85	85	85
Reserves & Surplus	7,785	9,017	10,507	12,193
Total Net Worth	7,870	9,102	10,592	12,278
Minority Interest	1,076	1,096	1,136	1,191
Total Liabilities & Net Worth	14,531	14,899	15,430	16,471

Source Company data, I-Sec research

Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Sep-22	Dec-22	Mar-23	Jun-23
Net Sales	6,178	6,224	6,792	5,865
% growth (YoY)	10.2	6.0	10.1	4.9
EBITDA	422	406	610	506
Margin %	6.8	6.5	9.0	8.6
Other Income	29	41	36	24
Extraordinaries	-22	-1	-9	-66
Adjusted Net Profit	164	120	250	196

Source Company data, I-Sec research

Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	1,484	1,640	2,147	2,476
Working Capital Changes	216	(517)	(387)	(378)
Capital Commitments	(1,429)	(327)	(1,350)	(1,400)
Free Cashflow	55	1,312	797	1,076
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(1,429)	(327)	(1,350)	(1,400)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(229)	(884)	(1,000)	(700)
Dividend paid	(127)	(214)	(256)	(288)
Others	79	0	0	0
Cash flow from Financing Activities	(277)	(1,098)	(1,256)	(988)
Chg. in Cash & Bank balance	(222)	215	(459)	88
Closing cash & balance	1,864	2,079	1,620	1,708

Source Company data, I-Sec research

Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	16.8	33.6	40.2	45.2
Adjusted EPS (Diluted)	16.7	33.6	40.2	45.2
Cash EPS	32.7	49.8	57.8	64.6
Dividend per share (DPS)	3.0	5.0	6.0	6.8
Book Value per share (BV)	185.3	214.3	249.4	289.1
Dividend Payout (%)	18.0	15.0	15.0	15.0
Growth (%)				
Net Sales	18.3	12.6	11.6	10.9
EBITDA	(9.6)	48.7	14.7	11.2
EPS (INR)	(18.9)	101.2	19.7	12.4
Valuation Ratios (x)				
P/E	40.3	20.0	16.7	14.9
P/CEPS	20.6	13.5	11.6	10.4
P/BV	3.6	3.1	2.7	2.3
EV / EBITDA	16.7	10.8	9.3	8.1
EV / Sales	1.3	1.1	1.0	0.8
Dividend Yield (%)	0.4	0.7	0.9	1.0
Operating Ratios				
Gross Profit Margins (%)	30.5	33.2	34.0	35.1
EBITDA Margins (%)	7.6	10.1	10.3	10.4
Effective Tax Rate (%)	27.4	25.2	25.2	25.2
Net Profit Margins (%)	2.9	5.1	5.5	5.6
NWC / Total Assets (%)	10.2	12.4	13.6	14.3
Net Debt / Equity (x)	0.4	0.2	0.1	0.0
Net Debt / EBITDA (x)	1.6	0.7	0.4	0.2
Profitability Ratios				
RoCE (%)	6.3	11.1	12.6	13.3
RoE (%)	9.4	16.8	17.3	16.8
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	58	54	54	54
Receivables Days	40	40	40	40
Payables Days	56	50	49	49

Source Company data, I-Sec research

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