

03 August 2024

India | Equity Research | Q1FY25 results review

Somany Ceramics

Tiles

Muted quarter, management guides for a healthy H2FY25

In Q1FY25, Somany Ceramics (SOMC) reported consol. revenue decline of 1.4% YoY, as tiles volume declined 0.9% YoY (5-year CAGR of 5.5%). Consol. EBITDA margin decreased 16bps YoY/231bps QoQ to 8.5% due to negative operating leverage, while RM costs (including power and fuel cost) fell 229bps YoY/225bps QoQ, resulting in EBITDA/APAT decline of 3.2%/37.5% YoY. Management stated demand conditions were subdued in Q1FY25 but remained optimistic of it improving in H2FY24 led by buoyant housing market; it maintained guidance of double-digit tile volume growth in FY25 with EBITDA margin increasing 100–150bps YoY. We tweak our PAT estimates by 4%/3% for FY25–26E and maintain **BUY** with a rolled-over Jun'25E TP of INR 928 (earlier INR 916), set at an unchanged 22x PER.

Muted tile volumes

SOMC reported consolidated revenue decline of 1.4% YoY (5-year CAGR of 7.9%) in Q1FY25 to ~INR 5.8bn (-21.6% QoQ), as tile volume declined 0.9% YoY (-17.6% QoQ; 5-year CAGR of 5.5%) while tile realisation dipped 2% YoY/1.3% QoQ. Bathware segment's revenue grew 4.6% YoY (fell 23.9% QoQ). Management stated demand was subdued in Q1, partly affected by India's general elections and a scorching summer, but noted some improvement in Jul'24. It remains optimistic towards demand ameliorating significantly in H2FY24 and guides for double-digit volume growth in FY25 (implying >13% volume growth in the remaining 9MFY25). Net working capital increased by 5 days QoQ to 13 days in Q1FY25 (primarily due to higher inventory days) and net debt escalated to ~INR 2.7bn (up ~INR 120mn QoQ). We have modelled tile volume CAGR of 10% over FY24–27E.

EBITDA margin declines YoY on negative operating leverage

In Q1FY25, SOMC's consol. EBITDA margin (OPM) fell 16bps YoY/231bps QoQ to 8.5%, due to negative operating leverage, despite raw material (RM) expenses (including power and fuel cost) contracting 229bps YoY/225bps QoQ. Management indicated that improvement in gross margins was due to a better product mix (YoY higher share of GVT). Gas cost remains largely stable and management maintains its guidance for EBITDA margin improvement of 100–150bps YoY in FY25 (on 9.8% in FY24). We have modelled margins of 10.6–10.8% for FY25E–27E (vs. ~9.9% avg. OPM over FY16–24E).

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	25,914	28,272	31,180	34,311
EBITDA	2,532	3,006	3,364	3,741
EBITDA %	9.8	10.6	10.8	10.9
Net Profit	983	1,396	1,662	1,931
EPS (INR)	24.0	34.1	40.5	47.1
EPS % Chg YoY	38.7	42.0	19.0	16.2
P/E (x)	31.2	22.0	18.5	15.9
EV/EBITDA (x)	13.1	10.7	9.3	8.2
RoCE (%)	9.7	13.6	14.4	14.8
RoE (%)	13.0	17.9	18.2	18.1

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Market Data

Market Cap (INR)	31bn
Market Cap (USD)	366mn
Bloomberg Code	SOMC IN
Reuters Code	SOCE.BO
52-week Range (INR)	873 /561
Free Float (%)	44.0
ADTV-3M (mn) (USD)	1.2

Price Performance (%)	3m	6m	12m
Absolute	18.8	1.5	2.4
Relative to Sensex	9.2	(11.3)	(20.8)

Earnings Revisions (%)	FY25E	FY26E
Revenue	0.0	0.0
EBITDA	0.0	0.0
EPS	(4.1)	(2.7)

Previous Reports

16-05-2024: [Q4FY24 results review](#)
03-02-2024: [Q3FY24 results review](#)

Valuation and view

SOMC's reported operational margin performance in Q1 was below our estimates; we have, thus, cut our PAT estimates by 4%/3% for FY25/26E. The company has potential near-term demand and margin tailwinds stemming from an uptick in the domestic housing market and increased exports from Morbi (thus, possibly lower domestic competition and pricing pressure) along with stable RM (gas) prices.

On balance, we continue to like the company and maintain **BUY** with a rolled-over Jun'25E target price of INR 928, set at an unchanged 22x Jun'25E P/E.

Exhibit 1: Q1FY25 consolidated result review

INR mn	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ
Net Revenue	5,786	5,865	(1.4%)	7,375	(21.6%)
Raw Material	2,485	2,757	(9.9%)	3,561	(30.2%)
% of sales	42.9%	47.0%	-407 bps	48.3%	-534 bps
Power & Fuel	1,276	1,189	7.3%	1,399	(8.8%)
% of sales	22.1%	20.3%	178 bps	19.0%	309 bps
Employee expense	868	760	14.1%	867	0.1%
% of sales	15.0%	13.0%	204 bps	11.8%	324 bps
Other Expenses	668	653	2.3%	754	(11.4%)
% of sales	11.5%	11.1%	42 bps	10.2%	132 bps
Total Expenditure	5,296	5,359	(1.2%)	6,581	(19.5%)
% of sales	91.5%	91.4%	16 bps	89.2%	231 bps
EBITDA	490	506	(3.2%)	795	(38.4%)
EBITDA Margin (%)	8.5%	8.6%	-16 bps	10.8%	-231 bps
Depreciation/Amortisation	192	168	14.3%	193	(0.7%)
EBIT	298	338	(11.9%)	602	(50.5%)
EBIT Margin (%)	5.1%	5.8%	-62 bps	8.2%	-301 bps
Net Interest Expenses	135	112	20.9%	134	0.5%
Other Income	21	24	(11.8%)	16	31.4%
PBT	184	250	(26.6%)	483	(62.0%)
Tax Expenses	61	58	4.8%	177	(65.5%)
PAT before MI & extraordinary	123	192	(36.1%)	306	(59.9%)
Minority Interest	0	20	(99.0%)	-31	(100.7%)
Exceptional items	0	-66	nm	33	nm
Reported PAT	123	146	(15.7%)	308	(60.1%)
Adjusted PAT	123	196	(37.5%)	287	(57.3%)

Source: I-Sec research, Company data

Exhibit 2: Q1FY25 segmental result review

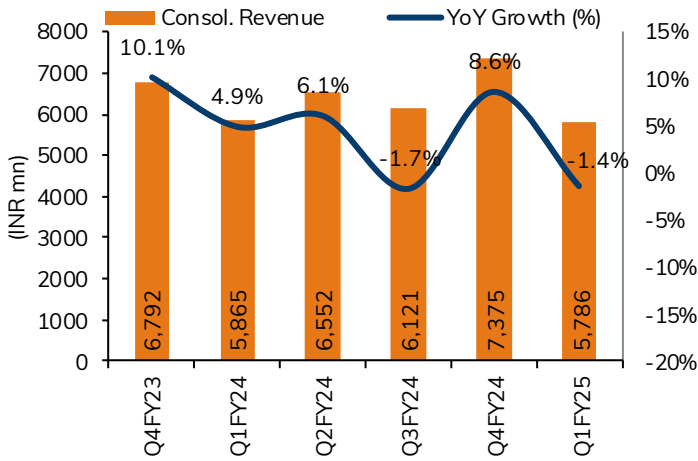
	Q1FY25	Q1FY24	% YoY	Q4FY24	% QoQ
Tiles Revenue (INR mn)					
Own Manufacturing	1,726	2,107	(18.1%)	2,100	(17.8%)
JVs	2,037	1,759	15.8%	2,234	(8.8%)
Outsourced	1,210	1,255	(3.6%)	1,780	(32.1%)
Bathware	605	579	4.6%	796	(23.9%)
Others	181	142	27.8%	183	(0.8%)
Total	4,972	5,121	(2.9%)	6,115	(18.7%)
Tiles Volume (MSM)					
Own Manufacturing	5.5	6.5	(14.5%)	6.7	(17.2%)
JVs	6.1	5.2	16.6%	6.7	(9.1%)
Outsourced	3.9	4.0	(1.8%)	5.5	(28.6%)
Total	15.6	15.7	(0.9%)	18.9	(17.6%)
Tiles Realisation (INR/sqm)					
Own Manufacturing	312	325	(4.2%)	314	(0.7%)
JVs	334	336	(0.7%)	333	0.3%
Outsourced	309	315	(1.9%)	325	(4.8%)
Blended	320	326	(2.0%)	324	(1.3%)

Source: I-Sec research, Company data

Takeaways from Q1FY25 earnings conference call

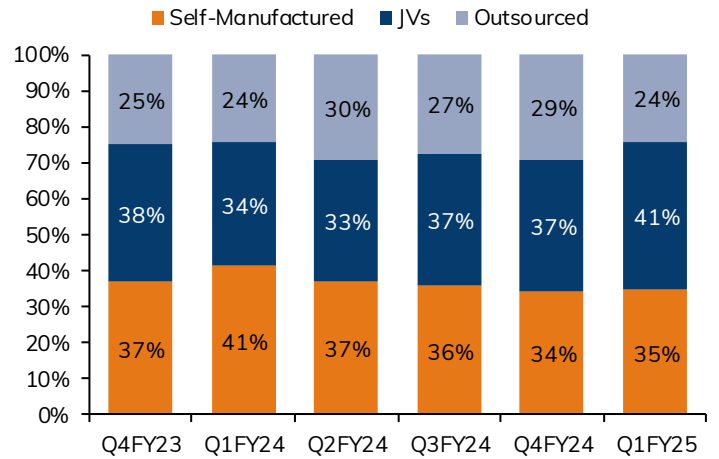
- **Demand:** Management indicated that demand was muted in Q1FY25 and it saw only a slight improvement in Jul'24. It is optimistic of healthy demand in H2FY25. Exports, in Q1FY25, improved QoQ despite elevated freight rates. SOMC decided against incentivising sales by offering higher discount schemes to dealers, as this would have distorted its cash conversion cycles (due to higher receivables).
- Management stated that SOMC's primary revenue is generated by tiles in the middle segment of the product range. It will continue to enhance sales from this segment and also make inroads in the premium segment via sales of value-added products (VAP) from its recently commissioned Max plant in Gujarat. The Max plant is currently operating at ~35% utilisation and management expects this plant to breakeven at 60–65% utilisation levels.
- Operating margins in Q1 were impacted due to negative operating leverage. Gross margins improved YoY driven by better product mix.
- **Guidance:** Management has guided for double-digit volume growth in FY25 and maintained its margin improvement guidance 100-150bps YoY.
- **Gas prices:** Gas prices across India, in Q1FY25, were: INR43/scm in the north (vs. INR40/scm YoY); INR45/scm in the west (vs INR43/scm YoY); and INR47/scm in the south (vs. INR55/scm YoY). Gas prices remain largely stable Q2–TD. SOMC utilises biogas at ~70% of its plants in the spray drying only.
- **Capex:** Management indicated that it has not incurred any capex in Q1 and is currently planning the next major capex to operationalise after 12–18 months. Management has also withheld its earlier planned capex in Nepal due to oversupply in the markets there.
- **Product mix (revenue terms):** Ceramics formed 35% (vs. 39% YoY); PVT formed 28% (vs. 28% YoY); and GVT formed 37% (vs. 33% YoY).
- **Branding:** Management indicated ~2% of revenue was spent on A&P in Q1FY25. It expects to spend 2.5–3% of revenue on A&P in FY25.

Exhibit 3: Consolidated quarterly revenue



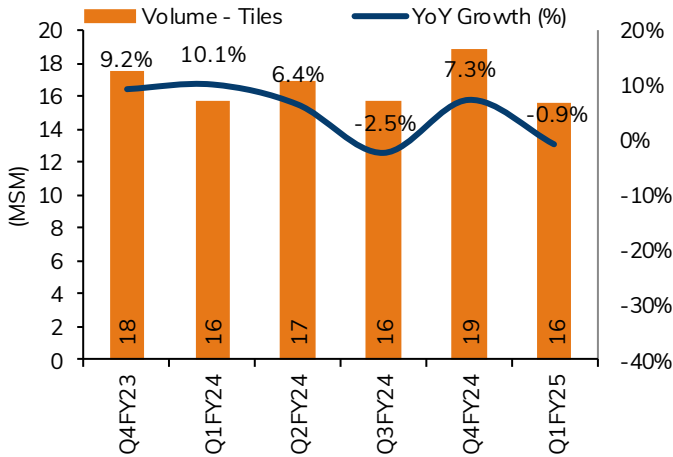
Source: I-Sec research, Company data

Exhibit 4: Quarterly revenue breakup



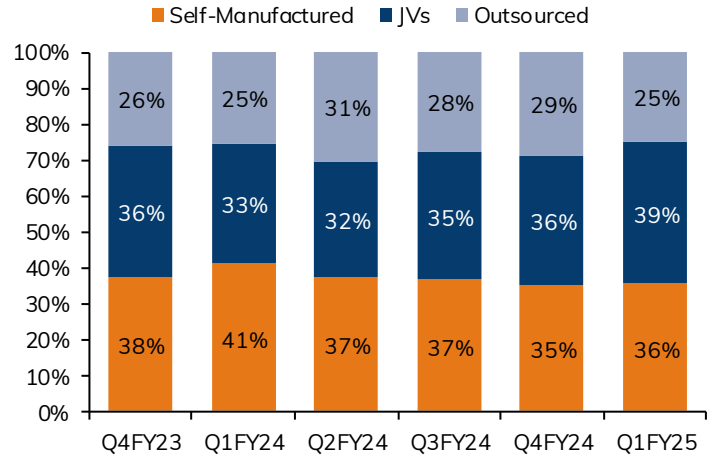
Source: I-Sec research, Company data

Exhibit 5: Quarterly volume growth



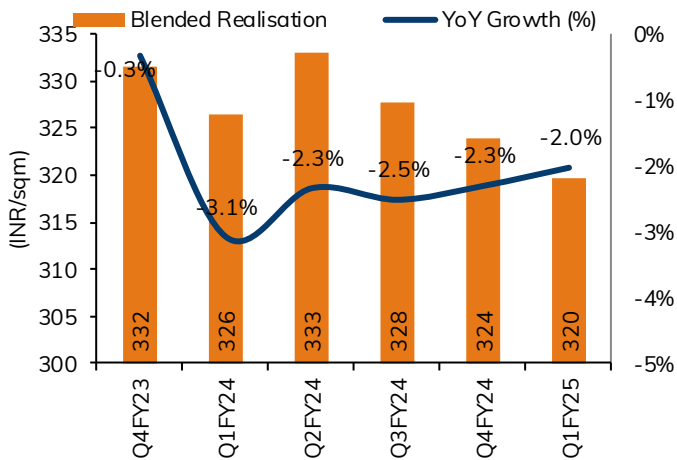
Source: I-Sec research, Company data

Exhibit 6: Quarterly volume breakup



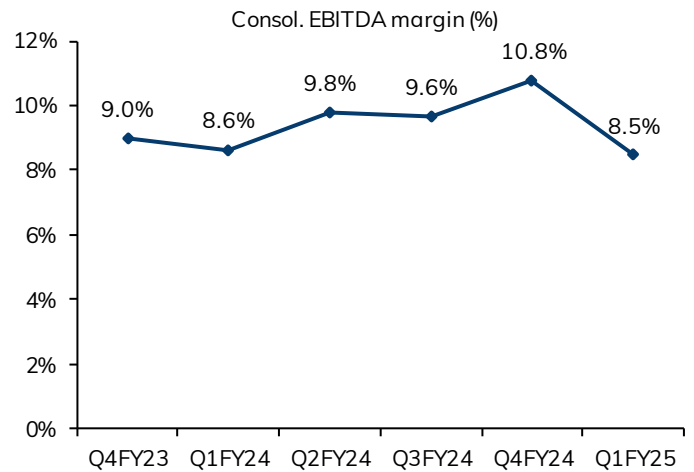
Source: I-Sec research, Company data

Exhibit 7: Quarterly realisation



Source: I-Sec research, Company data

Exhibit 8: Quarterly consolidated EBITDA margin



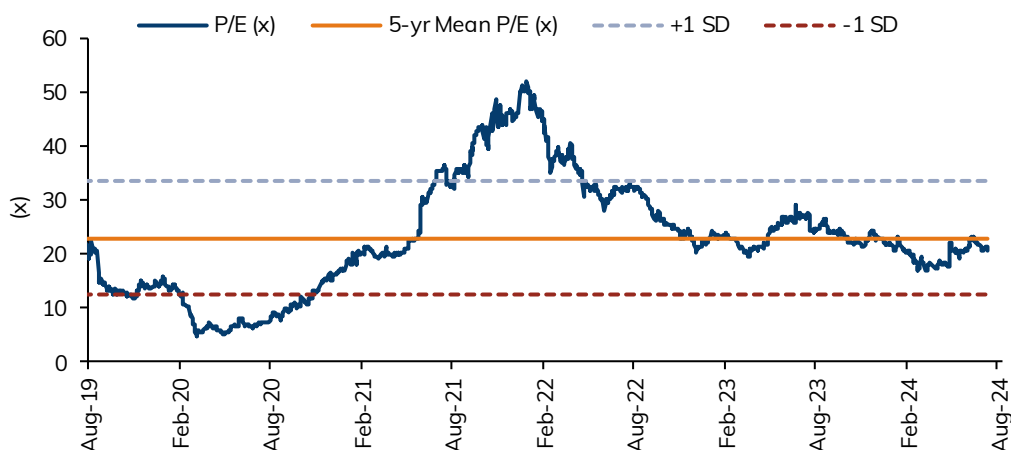
Source: I-Sec research, Company data

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. The company focuses on the retail segment, which accounts for ~80% of total revenue.

The stock trades at a P/E of 18.5x FY26E, which is attractive and led by healthy growth prospects (EBIDTA CAGR of 13.9% during FY24–27E driven by tile volume CAGR of 10%) and strong return ratios (RoE of 18.2% FY26E). Maintain **BUY** with a rolled-over Jun'25E target price of INR 928, set at unchanged 22x P/E Jun'25E.

Exhibit 9: 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 housing market could adversely affect the company.
- **Higher RM 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.

Exhibit 10: Shareholding pattern

%	Dec'23	Mar'24	Jun'24
Promoters	54.8	55.0	55.0
Institutional investors	24.1	25.1	25.1
MFs and others	20.8	21.2	21.4
FIs/Banks	0.0	0.0	2.0
Insurance	0.1	0.0	0.1
FIIIs	3.8	3.9	1.6
Others	20.5	19.9	19.9

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	25,914	28,272	31,180	34,311
Operating Expenses	23,381	25,266	27,816	30,570
EBITDA	2,532	3,006	3,364	3,741
EBITDA Margin (%)	9.8	10.6	10.8	10.9
Depreciation & Amortization	725	757	841	951
EBIT	1,807	2,249	2,523	2,790
Interest expenditure	465	427	343	259
Other Non-operating Income	106	103	111	131
Recurring PBT	1,449	1,924	2,290	2,661
Less: Taxes	(434)	(493)	(586)	(681)
PAT	1,014	1,432	1,704	1,980
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	(25)	(35)	(42)	(49)
Extraordinaries (Net)	(21)	-	-	-
Net Income (Reported)	969	1,396	1,662	1,931
Net Income (Adjusted)	983	1,396	1,662	1,931

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Assets				
Inventories	3,466	3,807	4,191	4,606
Cash & cash eqv.	855	1,383	1,635	1,585
Sundry Debtors	3,372	3,641	4,015	4,418
Other Current Assets	760	852	940	1,034
Trade payables	5,593	6,032	6,596	7,259
Other Current Liabilities	1,771	1,852	2,048	2,254
Net Current Assets	1,089	1,799	2,137	2,131
Investments	-	-	-	-
Net Fixed Assets	10,846	10,793	11,352	12,401
Other Non Current Assets	458	458	458	458
Total Assets	12,393	13,051	13,947	14,990
Liabilities				
Borrowings	3,351	2,751	2,151	1,551
Other Non Current Liabilities	713	713	713	713
Total Liabilities	4,064	3,464	2,864	2,264
Equity Share Capital	82	82	82	82
Reserves & Surplus	7,119	8,342	9,796	11,390
Total Net Worth	7,201	8,424	9,878	11,472
Minority Interest	1,128	1,163	1,205	1,254
Total Liabilities & Net Worth	12,393	13,051	13,947	14,990

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Sep-23	Dec-23	Mar-24	Jun-24
Net Sales	6,552	6,121	7,375	5,786
% growth (YOY)	6.1	-1.7	8.6	-1.4
EBITDA	641	590	795	490
Margin %	9.8	9.6	10.8	8.5
Other Income	38	28	16	21
Extraordinaries	0	13	33	0
Adjusted Net Profit	293	213	287	123

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	3,626	2,042	2,501	2,936
Working Capital Changes	1,809	(182)	(86)	(44)
Capital Commitments	(1,451)	(704)	(1,400)	(2,000)
Free Cashflow	2,174	1,338	1,101	936
Other investing cashflow	-	-	-	-
Cashflow from Investing Activities	(1,451)	(704)	(1,400)	(2,000)
Issue of Share Capital	(3)	-	-	-
Inc (Dec) in Borrowings	(1,533)	(600)	(600)	(600)
Dividend paid	(123)	(209)	(249)	(386)
Others	(1,525)	0	0	-
Cash flow from Financing Activities	(3,183)	(809)	(849)	(986)
Chg. in Cash & Bank balance	(1,009)	529	252	(51)
Closing cash & balance	855	1,383	1,635	1,585

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	23.6	34.1	40.5	47.1
Adjusted EPS (Diluted)	24.0	34.1	40.5	47.1
Cash EPS	41.7	52.5	61.0	70.3
Dividend per share (DPS)	3.0	5.1	6.1	9.4
Book Value per share (BV)	175.6	205.5	240.9	279.8
Dividend Payout (%)	12.5	15.0	15.0	20.0
Growth (%)				
Net Sales	4.6	9.1	10.3	10.0
EBITDA	33.9	18.7	11.9	11.2
EPS (INR)	38.7	42.0	19.0	16.2
Valuation Ratios (x)				
P/E	31.2	22.0	18.5	15.9
P/CEPS	18.0	14.2	12.3	10.6
P/BV	4.3	3.6	3.1	2.7
EV / EBITDA	13.1	10.7	9.3	8.2
EV / Sales	1.3	1.1	1.0	0.9
Dividend Yield (%)	0.4	0.7	0.8	1.3
Operating Ratios				
Gross Profit Margins (%)	33.6	34.0	34.0	34.0
EBITDA Margins (%)	9.8	10.6	10.8	10.9
Effective Tax Rate (%)	30.0	25.6	25.6	25.6
Net Profit Margins (%)	3.8	4.9	5.3	5.6
NWC / Total Assets (%)	1.2	2.0	2.2	2.2
Net Debt / Equity (x)	0.3	0.2	0.1	0.0
Net Debt / EBITDA (x)	1.0	0.5	0.2	0.0
Profitability Ratios				
RoCE (%)	9.7	13.6	14.4	14.8
RoE (%)	13.0	17.9	18.2	18.1
Cash Conversion Cycle (on net sales)				
Inventory Turnover Days	49	49	49	49
Receivables Days	47	47	47	47
Payables Days	79	78	77	77

Source Company data, I-Sec research

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