

BUY
 TP: Rs 900 | ▲ 22%

SOMANY CERAMICS

| Building Materials

| 03 February 2024

Lacklustre demand dulls performance

- Q3 EBITDA miss of 7% on tepid demand environment and rise in competitive intensity from Morbi players
- Expect near-term pain but positive medium-term outlook on near-completion of large capex programme
- Maintain BUY with unchanged TP of Rs 900 on strong earnings growth prospects and reasonable valuations

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Weak Q3FY24: SOMC missed our EBITDA estimate by 7% due to muted tile volumes (-2.5% YoY) and weak realisations (-1.5% QoQ) on account of tepid demand conditions and intense competition. For the quarter, revenue dipped 2% YoY, but EBITDA/adj. PAT grew 46%/76% YoY off a low base.

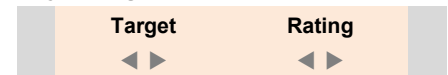
Key highlights: SOMC’s tile volumes fell 2.5% YoY but grew 4.3% on a 4Y CAGR basis in Q3. Despite the rise in competitive intensity from Morbi, EBITDA margin declined only 14bps QoQ to 9.6% due to a turnaround of JV operations. Debtor days have gone up from 35 days in Q3FY23 to 40 days, while net debt contracted from Rs 2bn in Sep’23 to Rs 1.7bn in Dec’23.

Guidance muted: SOMC expects its tile volumes to grow at a tepid rate of 5-7% YoY in Q4FY24. However, management appears confident of healthy volume growth in FY25 in anticipation of a ramp-up of newly built capacities. Despite expecting a flat pricing scenario and noting the rise in gas prices (from Rs 44/scm in Q3 to Rs 46-47/scm at present), management still expects EBITDA margin to stay flattish QoQ in Q4FY24 with improvement to 10%+ in FY25, led by a rise in share of high-margin glazed vitrified tile (GVT) products and operating leverage benefits.

Maintenance capex in FY25: The company plans to spend Rs 150mn-200mn in FY25 for maintenance capex and intends to announce the next round of growth capex over the next 12-18 months. The Nepal plant is expected to become operational by Q3FY25.

Maintain BUY: We maintain our BUY rating on the stock with an unchanged TP of Rs 900 as we see (a) strong earnings growth prospects (EPS to log a 37% CAGR over FY23-FY26E), and (b) improving return ratios (ROE to rise from 8.6% in FY23 to 18.2% in FY26E) on healthy earnings and near-completion of the major capex drive. Further, valuations look reasonable at 24.7x 1Y forward P/E vs. the 5Y average of 25.3x. We lower our EPS estimate by 31% for FY24 to incorporate the Q3 underperformance but largely maintain our forecasts for FY25/FY26. Our target P/E remains at 25x on Sep’25E EPS – in-line with the stock’s historical average.

Key changes



Ticker/Price	SOMC IN/Rs 737
Market cap	US\$ 367.5mn
Free float	45%
3M ADV	US\$ 0.5mn
52wk high/low	Rs 819/Rs 466
Promoter/FPI/DII	55%/1%/24%

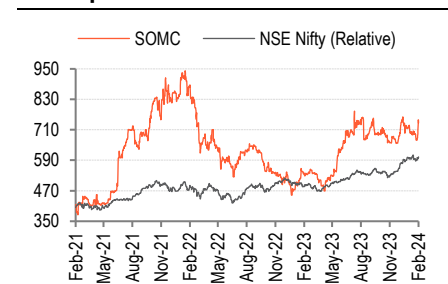
Source: NSE | Price as of 2 Feb 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	24,785	25,208	27,796
EBITDA (Rs mn)	1,889	2,026	2,845
Adj. net profit (Rs mn)	743	633	1,294
Adj. EPS (Rs)	17.5	15.4	31.6
Consensus EPS (Rs)	17.5	22.5	37.6
Adj. ROAE (%)	8.6	7.4	14.8
Adj. P/E (x)	42.1	47.7	23.3
EV/EBITDA (x)	14.8	13.5	9.4
Adj. EPS growth (%)	(17.3)	(11.8)	104.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Total operating income	6,121	6,224	(1.7)	6,552	(6.6)	18,538	17,993	3.0
Raw-Material expense	2,728	2,784	(2.0)	2,934	(7.0)	8,419	7,583	11.0
Gross Profit	3,394	3,440	(1.3)	3,618	(6.2)	10,120	10,410	(2.8)
Employee expense	794	758	4.8	822	(3.4)	2,377	2,207	7.7
Energy costs	1,252	1,547	(19.0)	1,379	(9.2)	3,820	4,980	(23.3)
Other expense	757	729	3.8	776	(2.4)	2,185	1,946	12.3
EBITDA	590	406	45.5	641	(7.9)	1,738	1,277	36.0
D&A	188	168	12.2	176	6.8	532	492	8.3
EBIT	402	238	69.0	465	(13.5)	1,205	786	53.4
Interest cost	109	119	(8.4)	110	(0.9)	330	287	15.0
Non-operating expense/(income)	(41)	(41)	0.2	(38)	7.0	(37)	(88)	(58.0)
PBT	334	160	108.9	394	(15.0)	912	587	55.5
Tax	100	45	121.1	98	2.1	257	162	59.2
Reported PAT	234	115	104.0	295	(20.8)	655	425	54.0
Adjusted PAT	213	121	76.3	293	(27.4)	697	489	42.5
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	55.4	55.3	18	55.2	23	54.6	57.9	(327)
Employee cost	13.0	12.2	80	12.5	42	12.8	12.3	56
Other cost	12.4	11.7	65	11.8	53	11.8	10.8	97
EBITDA margin	9.6	6.5	313	9.8	(14)	9.4	7.1	227
Tax rate	30.0	28.4	167	25.0	505	28.2	27.5	66
APAT margin	3.5	1.9	154	4.5	(100)	3.8	2.7	104

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

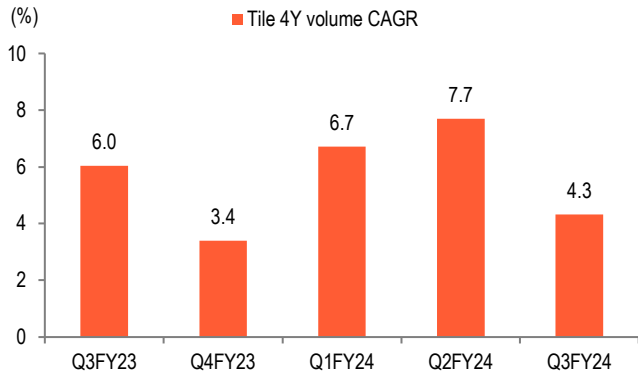
Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Tiles revenue (Rs mn)								
- Own	1,857	2,117	(12.3)	2,089	(11.1)	6,054	6,181	(2.1)
- JV	1,887	2,068	(8.7)	1,878	0.5	5,479	5,828	(6.0)
- Outsourced	1,419	1,246	13.9	1,664	(14.7)	4,336	3,639	19.2
Total	5,163	5,431	(4.9)	5,631	(8.3)	15,870	15,648	1.4
Non-tiles revenue (Rs mn)								
- Bathware	653	603	8.4	640	2.0	1,875	1,708	9.8
- Adhesives	153	85	79.8	144	5.6	414	225	84.0
Total	806	687	17.2	785	2.7	2,289	1,933	18.4
Tiles sales volume (msm)								
- Own	5.8	6.4	(9.4)	6.3	(8.5)	18.6	18.7	(0.2)
- JV	5.6	5.9	(6.6)	5.4	3.0	15.9	16.8	(5.2)
- Outsourced	4.4	3.8	15.5	5.2	(15.1)	13.6	10.9	24.7
Total	15.8	16.2	(2.5)	16.9	(6.9)	48.1	46.3	3.8
Tiles Realisation (Rs/sqm)								
- Own	320	331	(3.2)	330	(2.8)	325	331	(1.8)
- JV	340	348	(2.3)	348	(2.4)	345	348	(0.8)
- Outsourced	323	327	(1.4)	321	0.4	320	335	(4.5)
Blended	328	336	(2.5)	333	(1.5)	330	338	(2.3)
Blended EBITDA per unit (Rs/sqm)	37.5	25.1	49.2	37.9	(1.2)	36.1	27.6	31.0

Source: Company, BOBCAPS Research

Earnings call highlights

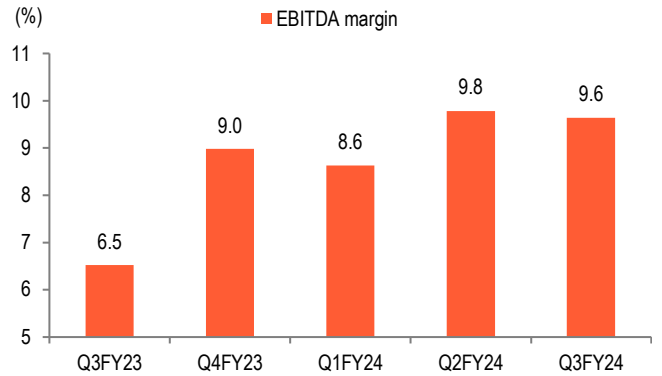
- **Tile demand:** SOMC's tile volumes declined by 2.5% YoY in Q3FY24 due to weak demand in the domestic market and a rise in competitive intensity from Morbi players. However, the company has observed low-single-digit volume growth in the month of January and expects momentum to pick up further due to a good response from customers for large slab tiles that were recently launched in the market.
- **Tile volumes:** SOMC expects its tile volumes to grow at 5-7% YoY in Q4FY24. For FY25, management appears confident of registering healthy volume growth in anticipation of the ramp-up of newly commissioned capacities.
- **Tile pricing:** The company's realisations on tiles declined 1.5% QoQ in Q3FY24. Going ahead, management does not expect any price hikes to be implemented by the industry in the near future due to the rise in competition from Morbi players in a weak demand environment.
- **Margin outlook:** Even after factoring in a flat pricing scenario and higher gas prices (from Rs 44/scm in Q3 to Rs 46-47/scm at present), management expects the EBITDA margin to be relatively flat QoQ in Q4FY24 and to improve to more than 10% in FY25, backed by a rise in share of high-margin GVT products and operating leverage benefits.
- **Product mix:** GVT share has risen 200bps YoY to 34%, ceramics share has fallen 200bps YoY to 36% and PVT share was flat at 30% in Q3.
- **Large slab tiles:** SOMC commissioned its greenfield large slab GVT tile facility in the month of Jan'24. The company has received a good response from customers for the launch of its 15mm tiles and plans to launch 9mm tiles shortly.
- **Bathware:** Revenue in the bathware business grew 8% YoY in Q3FY24 driven by faucets (+16%) and sanitaryware (+3%). The company aims to increase bathware revenue in the range of 12-15% over the medium term.
- **Construction chemicals:** Segmental revenue grew 80% YoY in Q3 due to a small base.
- **Brand spend:** SOMC aims to spend 2.75% of revenue on branding in FY24.
- **Debtors:** Debtor days have gone up from 35 days in the year-ago quarter to 40 days in Q3FY24.
- **Net debt:** The company's net debt position has reduced from Rs 2bn in Sep'23 to Rs 1.7bn in Dec'23. JV debt stood at Rs 3.2bn at the end of Dec'23.
- **SREI:** Management expects to recover Rs 46mn from its investment in SREI bonds. Of this sum, Rs 13mn was received in Q3FY24 with the remainder expected over the next two quarters.
- **Capex:** SOMC plans to spend Rs 150mn-200mn in FY25 for maintenance capex and indicated that it will announce the next round of growth over the next 12-18 months. The Nepal plant is expected to become operational by Q3FY25.

Fig 3 – SOMC’s tile volumes fell by 2.5% YoY but grew at 4.3% on a 4Y CAGR basis in Q3FY24



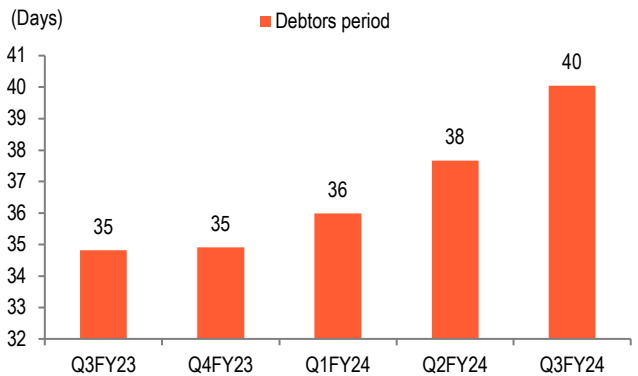
Source: Company, BOBCAPS Research

Fig 4 – EBITDA margin dipped 14bps QoQ to 9.6% due to rise in competitive intensity from Morbi



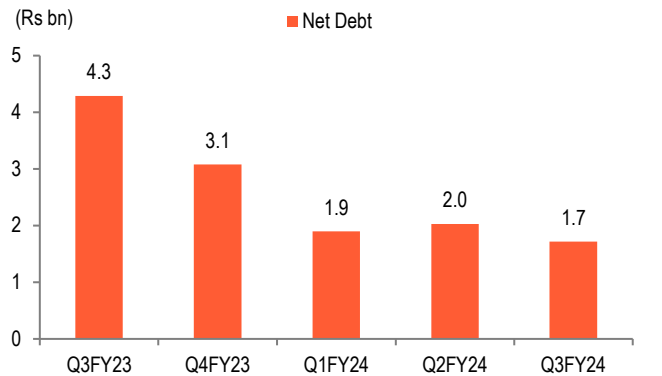
Source: Company, BOBCAPS Research

Fig 5 – Debtor days have increased by 5 days YoY to 40



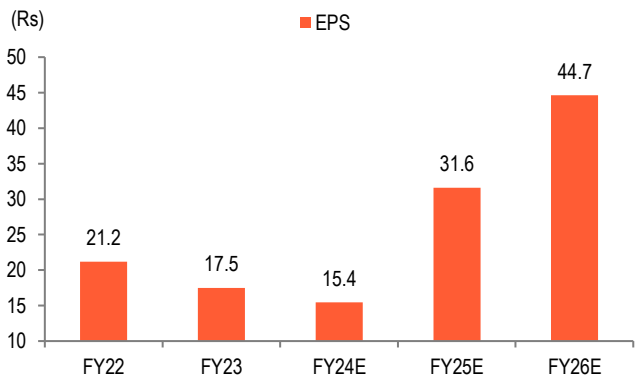
Source: Company, BOBCAPS Research

Fig 6 – Net debt has reduced to Rs 1.7bn in Dec’23



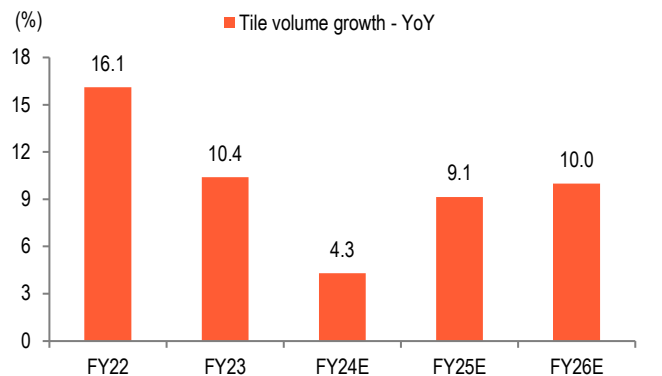
Source: Company, BOBCAPS Research

Fig 7 – EPS is projected to clock a strong 37% CAGR over FY23-FY26E...



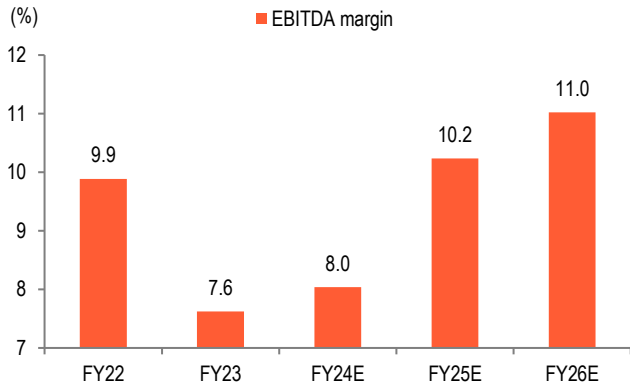
Source: Company, BOBCAPS Research

Fig 8 – ...on expectation of reasonable 7.8% volume CAGR...



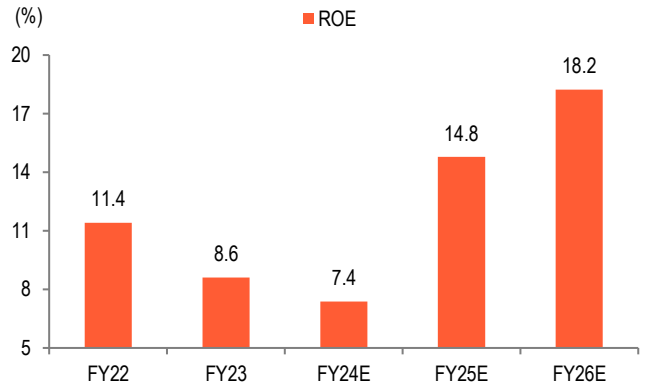
Source: Company, BOBCAPS Research

Fig 9 – ...and improvement in EBITDA margin due to better mix and operating leverage



Source: Company, BOBCAPS Research

Fig 10 – ROE also projected to improve on healthy earnings and near completion of major growth capex



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our BUY rating on the stock with an unchanged TP of Rs 900 as we see (a) strong earnings growth prospects (EPS to log a 37% CAGR over FY23-FY26E), and (b) improving return ratios (ROE to rise from 8.6% in FY23 to 18.2% in FY26E) on healthy earnings and near-completion of the major capex drive. Further, valuations look reasonable at 24.7x 1Y forward P/E vs. the 5Y average of 25.3x.

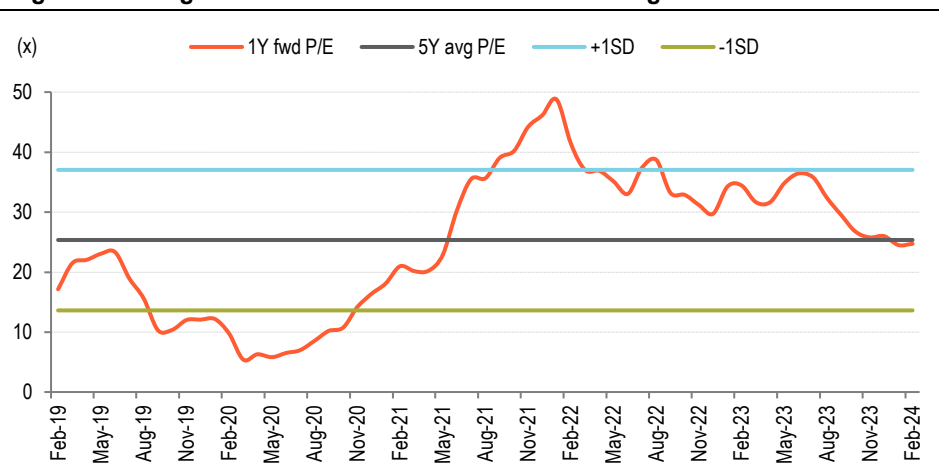
We lower our EPS estimate by 31% for FY24 to incorporate the Q3 underperformance but largely maintain our forecasts for FY25/FY26. Our target P/E remains at 25x on Sep'25E EPS – in-line with the stock's historical average.

Fig 11 – Revised estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Total operating income	25.2	27.8	30.9	26.2	29.1	32.2	(3.9)	(4.4)	(4.0)
EBITDA	2.0	2.8	3.4	2.3	2.8	3.4	(12.2)	1.5	(0.4)
EBITDA Margin (%)	8.0	10.2	11.0	8.8	9.6	10.6	(76bps)	59bps	40bps
Adjusted PAT	0.6	1.3	1.8	0.9	1.3	1.8	(31.4)	0.1	0.1
EPS (Rs)	15.4	31.6	44.7	22.5	31.6	44.6	(31.4)	0.1	0.1

Source: BOBCAPS Research

Fig 12 – Trading at 24.7x on 1Y forward P/E vs. 5Y average P/E of 25.3x



Source: Bloomberg, BOBCAPS Research

Fig 13 – Key assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Tile Volume Growth	2.0	16.1	10.4	4.3	9.1	10.0
Tile Realisation Growth	0.5	10.0	6.0	(2.1)	0.3	0.3
Tile Revenue Growth	2.6	27.7	17.0	2.1	9.5	10.3
Non-Tile Revenue Growth	0.7	23.4	23.8	17.4	15.6	16.0
Non-Tile Revenue Share	11.2	10.9	11.5	13.0	13.6	14.2

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates are:

- weak tiles exports from India on a sustained basis,
- poor offtake of the recently launched large slab GVT tiles, and
- below-expected recovery in operating margin.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	678	600	SELL
Astral	ASTRA IN	6.2	1,902	2,000	HOLD
Century Plyboards	CPBI IN	2.1	783	800	HOLD
Cera Sanitaryware	CRS IN	1.3	8,239	8,100	HOLD
Finolex Industries	FNXP IN	1.6	218	230	HOLD
Greenlam Industries	GRLM IN	0.8	547	600	HOLD
Greenpanel Industries	GREENP IN	0.6	391	400	HOLD
Greenply Industries	MTLM IN	0.4	239	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	466	700	BUY
Kajaria Ceramics	KJC IN	2.6	1,345	1,400	HOLD
Prince Pipes & Fittings	PRINCP IN	0.9	701	800	HOLD
Somany Ceramics	SOMC IN	0.4	737	900	BUY
Supreme Industries	SI IN	6.4	4,138	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Feb 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	20,945	24,785	25,208	27,796	30,875
EBITDA	2,071	1,889	2,026	2,845	3,404
Depreciation	640	679	704	728	743
EBIT	1,431	1,211	1,322	2,117	2,661
Net interest inc./(exp.)	(296)	(404)	(439)	(435)	(424)
Other inc./(exp.)	134	145	118	112	112
Exceptional items	5	2	0	0	0
EBT	1,264	950	1,001	1,794	2,349
Income taxes	329	259	362	452	470
Extraordinary items	0	22	0	0	0
Min. int./Inc. from assoc.	(47)	46	(6)	(48)	(48)
Reported net profit	887	715	633	1,294	1,830
Adjustments	12	28	0	0	0
Adjusted net profit	899	743	633	1,294	1,830

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,602	3,777	4,442	4,898	5,441
Other current liabilities	1,117	1,277	1,277	1,277	1,277
Provisions	17	52	53	59	65
Debt funds	4,765	4,884	5,033	5,300	5,619
Other liabilities	1,082	1,176	1,176	1,176	1,176
Equity capital	85	85	82	82	82
Reserves & surplus	7,178	7,785	7,076	8,176	9,732
Shareholders' fund	8,339	8,945	8,227	9,279	10,786
Total liab. and equities	17,923	20,111	20,208	21,990	24,364
Cash and cash eq.	2,086	1,864	1,168	2,847	4,809
Accounts receivables	2,368	2,683	2,729	3,009	3,342
Inventories	2,737	3,915	3,605	3,799	4,256
Other current assets	669	532	544	599	665
Investments	0	0	0	0	0
Net fixed assets	7,102	9,647	10,693	10,265	9,822
CWIP	2,267	473	473	473	473
Intangible assets	419	504	504	504	504
Deferred tax assets, net	41	84	84	84	84
Other assets	235	409	409	409	409
Total assets	17,923	20,111	20,208	21,990	24,364

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	2,039	1,566	2,577	2,277	2,578
Capital expenditures	(2,753)	(1,515)	(1,750)	(300)	(300)
Change in investments	0	0	0	0	0
Other investing cash flows	129	121	118	112	112
Cash flow from investing	(2,624)	(1,394)	(1,632)	(188)	(188)
Equities issued/Others	0	0	(3)	0	0
Debt raised/repaid	531	118	149	268	319
Interest expenses	(296)	(404)	(439)	(435)	(424)
Dividends paid	(129)	(132)	(95)	(194)	(275)
Other financing cash flows	130	70	(1,260)	(97)	(97)
Cash flow from financing	235	(348)	(1,648)	(458)	(477)
Chg in cash & cash eq.	(350)	(177)	(703)	1,631	1,914
Closing cash & cash eq.	2,086	1,864	1,168	2,847	4,809

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	20.9	16.8	15.4	31.6	44.7
Adjusted EPS	21.2	17.5	15.4	31.6	44.7
Dividend per share	3.0	3.0	2.3	4.7	6.7
Book value per share	171.1	185.4	174.7	201.5	239.5

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.3	1.1	1.1	1.0	0.9
EV/EBITDA	13.1	14.8	13.5	9.4	7.9
Adjusted P/E	34.8	42.1	47.7	23.3	16.5
P/BV	4.3	4.0	4.2	3.7	3.1

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	71.1	78.2	63.2	72.1	77.9
Interest burden (PBT/EBIT)	88.3	78.5	75.7	84.8	88.3
EBIT margin (EBIT/Revenue)	6.8	4.9	5.2	7.6	8.6
Asset turnover (Rev./Avg TA)	116.9	123.2	124.7	126.4	126.7
Leverage (Avg TA/Avg Equity)	2.3	2.3	2.4	2.5	2.4
Adjusted ROAE	11.4	8.6	7.4	14.8	18.2

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	26.9	18.3	1.7	10.3	11.1
EBITDA	6.8	(8.8)	7.2	40.5	19.6
Adjusted EPS	23.8	(17.3)	(11.8)	104.5	41.4
Profitability & Return ratios (%)					
EBITDA margin	9.9	7.6	8.0	10.2	11.0
EBIT margin	6.8	4.9	5.2	7.6	8.6
Adjusted profit margin	4.3	3.0	2.5	4.7	5.9
Adjusted ROAE	11.4	8.6	7.4	14.8	18.2
ROCE	11.9	9.8	10.9	15.3	16.9
Working capital days (days)					
Receivables	41	40	40	40	40
Inventory	48	58	52	50	50
Payables	45	56	64	64	64
Ratios (x)					
Gross asset turnover	2.3	2.2	1.9	1.9	2.1
Current ratio	1.2	1.1	0.9	1.1	1.3
Net interest coverage ratio	4.8	3.0	3.0	4.9	6.3
Adjusted debt/equity	0.3	0.3	0.5	0.3	0.1

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**

Brand Name: **BOBCAPS**

Trade Name: **www.barodaetrade.com**

CIN: **U65999MH1996GOI098009**



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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

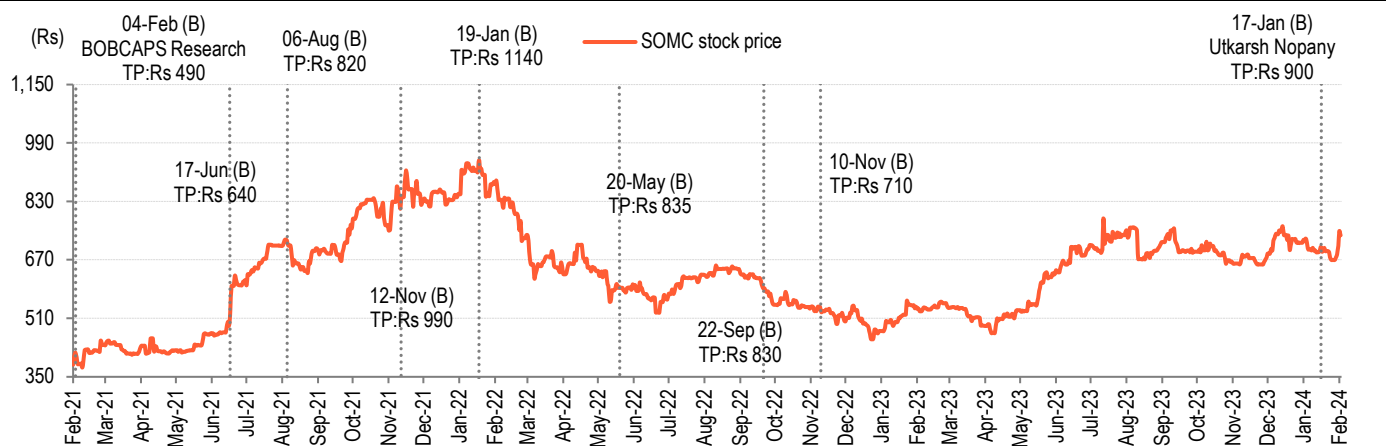
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SOMANY CERAMICS (SOMC IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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