

BUY
 TP: Rs 900 | ▲ 20%

SOMANY CERAMICS

| Building Materials

| 03 August 2024

Near-term pain, medium-term outlook positive

- Misses our revenue/EBITDA estimate by 2%/8% mainly due to lower-than-expected tiles volume
- Maintained guidance of low double-digit volume growth and margin improvement of 1.0%-1.5% for FY25, despite poor show in Q1
- Maintain BUY and TP of Rs 900 on strong earnings growth prospects with improvement in ROE profile and reasonable valuations

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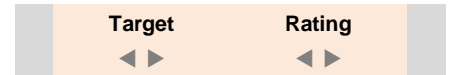
Weak quarter: SOMC reported a weak Q1FY25 result as it misses our estimates (Revenue: -1.9%; EBITDA: -8.4%; APAT: -14.5%) mainly due to lower-than-expected tiles sales volume (-0.9% YoY vs +3.0% estimated). Overall, SOMC revenue/EBITDA/APAT fell by 1.4%/3.2%/35.7% YoY in Q1FY25.

Key highlights: SOMC tiles volume was down 0.9% YoY, but it grew at 5.5% on a 5Y CAGR basis in Q1FY25. Despite lower tiles realisation (-2.0% YoY), gross margin improved by 407bps YoY to 57.1% in Q1FY25 due to better mix (GVT tiles share up 400bps to 37%) and lower input costs. However, EBITDA margin was down 16bps YoY to 8.5% in Q1FY25 due to higher employee cost (+14.1%) and negative operating leverage. Net debt rose slightly from Rs 2.6bn in Mar'24 to Rs 2.7bn in Jun'24 due to higher inventory (from 43 days in Q4FY24 to 59 days in Q1FY25) as well as debtors (from 41 days in Q4FY24 to 43 days in Q1FY25).

Optimistic guidance: The company has maintained its guidance of growing volume at a low double-digit rate and improving EBITDA margin by 1.0%-1.5% in FY25 – which we believe is at a risk based on the poor show in Q1 and expectation of demand recovery from Q4FY25. Over the medium term, the company targets to grow its revenue at a double-digit rate over the next three to four years. Max plant operated at a loss in Q1FY25 due to low capacity utilisation (at 35-37%), but the operating margin from this plant is expected to steadily improve over the next few quarters with rise in capacity utilisation. The company has no major capex plan and has put its Nepal plant on hold due to unfavourable market dynamics.

Maintain BUY and TP of Rs 900: We maintain our BUY rating on the stock as we see (a) strong earnings growth prospects (EPS to log 20% CAGR over FY24-FY27E) along with improvement in ROE profile (from 11.4% in FY24 to 15.1% in FY27E); and (b) reasonable valuation (trades at 25.7x on 1Y forward P/E vs. 5Y average of 24.0x). We cut our EPS estimates by 4.6%/4.3% for FY25E/FY26E based on weak Q1, but we have kept our TP unchanged at Rs 900 as we roll forward valuations from Mar'26 to Jun'26. Our target P/E remains unchanged at 25x.

Key changes



Ticker/Price	SOMC IN/Rs 748
Market cap	US\$ 366.3mn
Free float	45%
3M ADV	US\$ 1.1mn
52wk high/low	Rs 873/Rs 561
Promoter/FPI/DII	55%/2%/24%

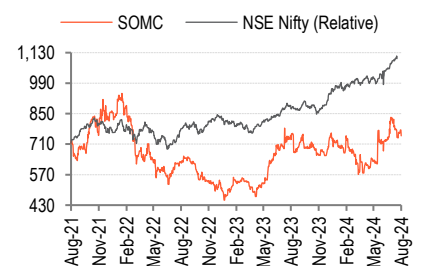
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,914	26,621	29,605
EBITDA (Rs mn)	2,532	2,612	2,962
Adj. net profit (Rs mn)	983	1,035	1,417
Adj. EPS (Rs)	24.0	25.3	34.6
Consensus EPS (Rs)	24.0	32.4	41.7
Adj. ROAE (%)	11.4	11.8	14.4
Adj. P/E (x)	31.2	29.6	21.6
EV/EBITDA (x)	11.0	10.7	9.7
Adj. EPS growth (%)	37.0	5.3	36.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Total operating income	5,786	5,865	(1.4)	7,375	(21.6)
Raw-Material expense	2,485	2,757	(9.9)	3,561	(30.2)
Gross Profit	3,301	3,108	6.2	3,815	(13.5)
Employee expense	868	760	14.1	867	0.1
Energy costs	1,276	1,189	7.3	1,399	(8.8)
Other expense	668	653	2.3	754	(11.4)
EBITDA	490	506	(3.2)	795	(38.4)
D&A	192	168	14.3	193	(0.7)
EBIT	298	338	(11.9)	602	(50.5)
Interest cost	135	112	20.9	134	0.5
Non-operating expense/(income)	(21)	43	(149.2)	(49)	(57.0)
PBT	184	184	(0.2)	516	(64.4)
Tax	61	58	4.8	177	(65.5)
Reported PAT	123	126	(2.5)	339	(63.8)
Adjusted PAT	123	191	(35.7)	287	(57.2)
As % of net revenues			(bps)		(bps)
Gross margin	57.1	53.0	407	51.7	534
Employee cost	15.0	13.0	204	11.8	324
Energy cost	22.1	20.3	178	19.0	309
Other cost	11.5	11.1	42	10.2	132
EBITDA margin	8.5	8.6	(16)	10.8	(231)
Tax rate	33.3	31.7	158	34.3	(104)
APAT margin	2.1	3.3	(113)	3.9	(176)

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

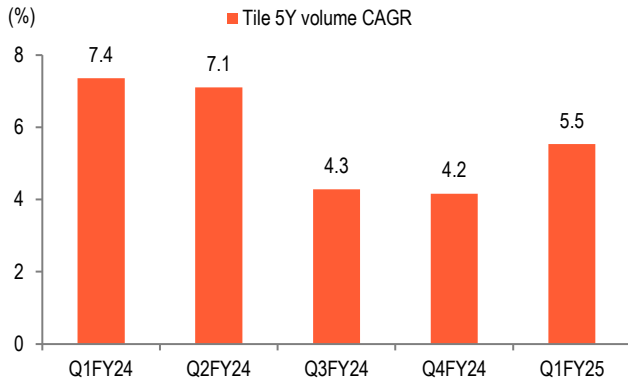
Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Tiles revenue (Rs mn)	4,972	5,121	(2.9)	6,115	(18.7)
- Own	1,726	2,107	(18.1)	2,100	(17.8)
- JV	2,037	1,759	15.8	2,234	(8.8)
- Outsourced	1,210	1,255	(3.6)	1,780	(32.1)
Non-tiles revenue (Rs mn)	787	720	9.2	979	(19.6)
Bathware	605	579	4.6	796	(23.9)
Adhesives	181	142	27.8	183	(0.8)
Tiles sales volume (MSM)	15.6	15.7	(0.9)	18.9	(17.6)
- Own	5.5	6.5	(14.5)	6.7	(17.2)
- JV	6.1	5.2	16.6	6.7	(9.1)
- Outsourced	3.9	4.0	(1.8)	5.5	(28.6)
Tiles Realisation (Rs/sqm)	320	326	(2.0)	324	(1.3)
- Own	312	325	(4.2)	314	(0.7)
- JV	334	336	(0.7)	333	0.3
- Outsourced	309	315	(1.9)	325	(4.8)
Blended EBITDA per unit (Rs/sqm)	31.5	32.2	(2.4)	42.1	(25.2)

Source: Company, BOBCAPS Research

Earnings call highlights

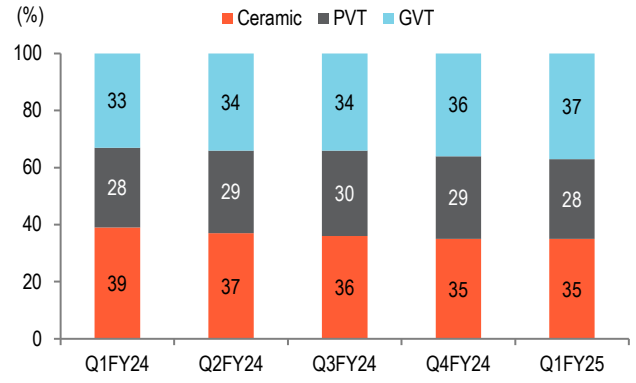
- **Tile demand:** Tile industry demand was quite sluggish in Q1FY25 due to muted environment and which got aggravated further due to extreme heatwave conditions and general elections. The industry demand in the month of Jul remained weak, but it has been better than May and Jun. Demand is expected to improve from the end of Q3FY25. The domestic tile industry market is expected to grow at sub-5% in FY25. However, the tile industry is expected to grow at a healthy rate over the next three to four years due to the uptick in real estate activity in metro cities.
- **Guidance:** SOMC maintained its volume growth guidance of low double-digit rate with improvement in EBITDA margin of 1.0-1.5% for FY25. The company targets growing its revenue at double-digit CAGR for the next three to four years.
- **Product mix:** GVT share rose 400bps YoY to 37% in Q1FY27 and is expected to improve further to ~50% over the next couple of years.
- **Max plant** reported an operating loss in Q1FY25 as it operated at low utilisation (35-37%). The plant is expected to reach breakeven point at 60-65% rate. The operating margin from this plant is expected to steadily improve over the next few quarters with rise in capacity utilisation.
- **Sales mix:** The share of tile sales to government infra project is 11%-12% for Q1FY25.
- **Bathware:** Revenue grew by 4.6% YoY in Q1FY25.
- **Brand spend** as a proportion of sales was relatively stable at 2.0% in Q1FY25, but the company plans to increase it to 2.75-3.0% in FY25.
- **Capex:** SOMC has no major capex plan for FY25. The company has put its Nepal project on hold at the moment due to unfavourable demand-supply fundamentals (where the local demand has fallen from 18-20msm to 11-12msm and capacity has risen upto 20msm). The company may plan to come up with a growth capex plan in the near future as its existing capacity is expected to be fully utilised over the next 18 months.

Fig 3 – SOMC’s tile volumes de-grew by 0.9% YoY, but it was up 5.5% on a 5Y CAGR basis in Q1FY25



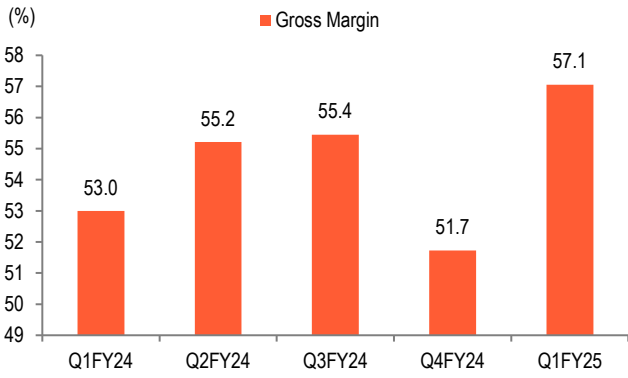
Source: Company, BOBCAPS Research

Fig 4 – SOMC product mix improved due to rising share of GVT sales volume



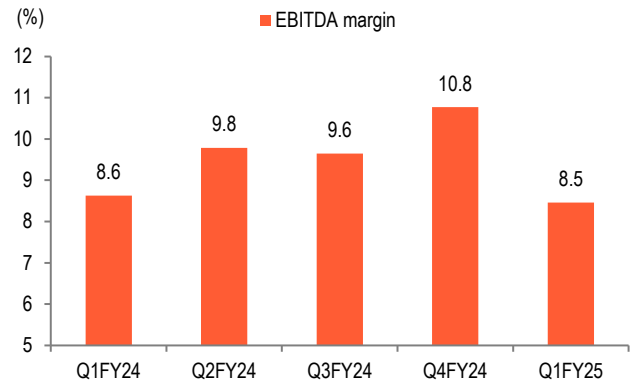
Source: Company, BOBCAPS Research

Fig 5 – Gross margin improved sharply in Q1FY25 due to improved product-mix and low raw material prices



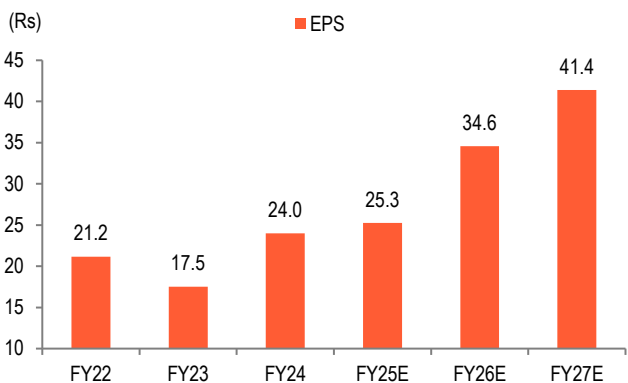
Source: Company, BOBCAPS Research

Fig 6 – EBITDA margin was slightly down in Q1FY25 on higher employee cost and negative operating leverage



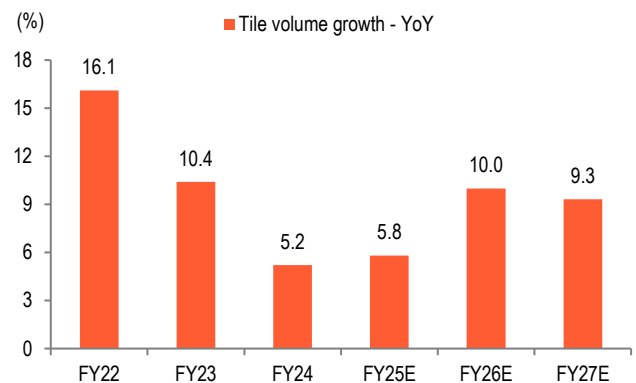
Source: Company, BOBCAPS Research

Fig 7 – EPS projected to clock a healthy 20% CAGR over FY24-FY27E...



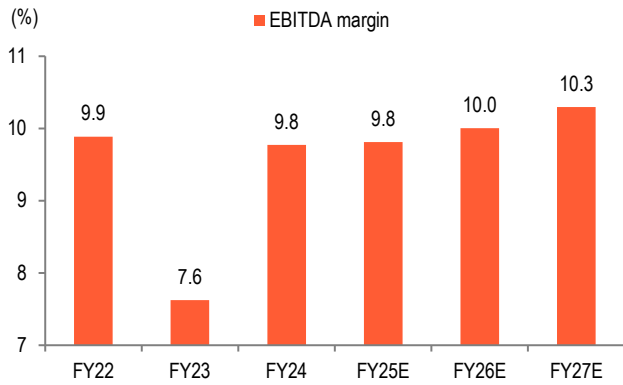
Source: Company, BOBCAPS Research

Fig 8 – ... on expectations of reasonable volume growth assumption of 8.4% CAGR over FY24-FY27E...



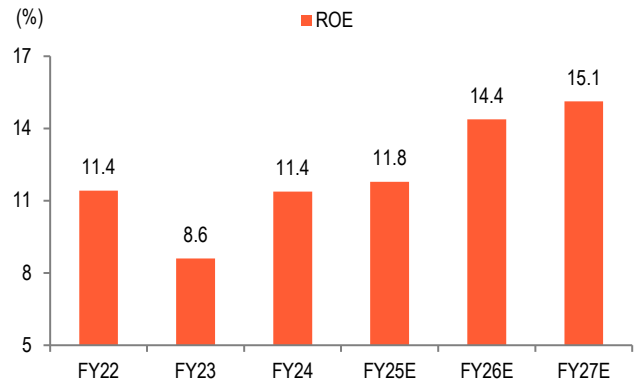
Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

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



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our BUY rating on the stock as we see (a) strong earnings growth prospects (EPS to log 20% CAGR over FY24-FY27E) along with improvement in ROE profile (from 11.4% in FY24 to 15.1% in FY27E); and (b) reasonable valuation (trades at 25.7x on 1Y forward P/E vs. 5Y average of 24.0x).

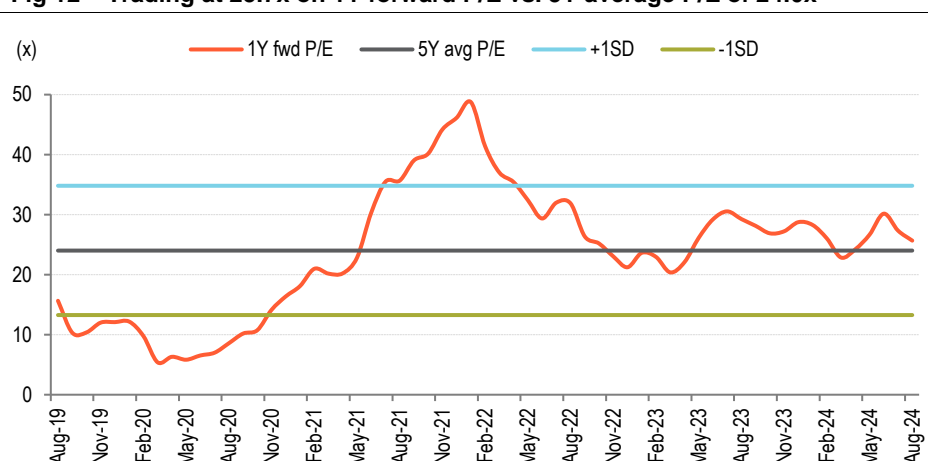
We cut our EPS estimates by 4.6%/4.3% for FY25E/FY26E based on weak Q1, but we have kept our TP unchanged at Rs 900 as we roll forward our valuation from Mar'26 to Jun'26. Our target P/E remains unchanged at 25x. We have introduced FY27 estimates.

Fig 11 – Revised estimates

Consolidated (Rs bn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Total operating income	26.6	29.6	27.0	30.0	(1.4)	(1.3)
EBITDA	2.6	3.0	2.7	3.2	(4.8)	(6.6)
EBITDA Margin (%)	9.8	10.0	10.2	10.6	(35bps)	(56bps)
EPS (Rs)	25.3	34.6	26.5	36.1	(4.6)	(4.3)

Source: BOBCAPS Research

Fig 12 – Trading at 25.7x on 1Y forward P/E vs. 5Y average P/E of 24.0x



Source: Bloomberg, BOBCAPS Research

Fig 13 – Key assumptions

Particulars (%)	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Tile Volume Growth	16.1	10.4	5.2	5.8	10.0	9.3
Tile Realisation Growth	10.0	6.0	(2.5)	(1.8)	0.4	0.0
Tile Revenue Growth	27.7	17.0	2.5	3.9	10.4	9.3
Non-Tile Revenue Growth	23.4	23.8	18.2	13.5	16.0	16.0
Non-Tile Revenue Share	10.9	11.5	13.0	14.0	14.6	15.4

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	632	650	HOLD
Astral	ASTRA IN	6.8	2,130	2,200	HOLD
Century Plyboards	CPBI IN	1.9	713	700	HOLD
Cera Sanitaryware	CRS IN	1.4	8,939	7,700	HOLD
Finolex Industries	FNXP IN	2.3	310	325	HOLD
Greenlam Industries	GRLM IN	0.9	583	560	HOLD
Greenpanel Industries	GREENP IN	0.5	355	365	HOLD
Greenply Industries	MTLM IN	0.6	376	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.4	437	600	BUY
Kajaria Ceramics	KJC IN	2.8	1,461	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.8	635	750	HOLD
Somany Ceramics	SOMC IN	0.4	748	900	BUY
Supreme Industries	SI IN	7.8	5,163	5,400	HOLD

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

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	24,785	25,914	26,621	29,605	32,655
EBITDA	1,889	2,532	2,612	2,962	3,362
Depreciation	679	725	784	813	839
EBIT	1,211	1,807	1,828	2,149	2,523
Net interest inc./(exp.)	(404)	(465)	(500)	(380)	(380)
Other inc./(exp.)	145	106	84	124	124
Exceptional items	2	0	0	0	0
EBT	950	1,449	1,412	1,893	2,266
Income taxes	259	434	377	476	570
Extraordinary items	22	21	0	0	0
Min. int./Inc. from assoc.	46	(25)	1	1	1
Reported net profit	715	969	1,035	1,417	1,697
Adjustments	28	14	0	0	0
Adjusted net profit	743	983	1,035	1,417	1,697

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,777	5,593	5,776	6,424	7,086
Other current liabilities	1,277	1,288	1,288	1,288	1,288
Provisions	52	48	49	55	61
Debt funds	4,884	3,351	3,380	3,504	3,630
Other liabilities	1,176	1,229	1,229	1,229	1,229
Equity capital	85	82	82	82	82
Reserves & surplus	7,785	7,119	8,023	9,261	10,742
Shareholders' fund	8,945	8,330	9,234	10,472	11,954
Total liab. and equities	20,111	19,838	20,957	22,972	25,247
Cash and cash eq.	1,864	855	1,897	2,282	3,004
Accounts receivables	2,683	3,372	3,464	3,853	4,249
Inventories	3,915	3,466	3,617	4,111	4,546
Other current assets	532	522	539	599	661
Investments	0	0	0	0	0
Net fixed assets	9,647	10,750	10,567	10,254	9,914
CWIP	473	96	96	1,096	2,096
Intangible assets	504	458	458	458	458
Deferred tax assets, net	84	81	81	81	81
Other assets	409	238	238	238	238
Total assets	20,111	19,838	20,957	22,972	25,247

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	1,566	3,893	2,160	2,197	2,567
Capital expenditures	(1,515)	(1,406)	(600)	(1,500)	(1,500)
Change in investments	0	0	0	0	0
Other investing cash flows	121	86	84	124	124
Cash flow from investing	(1,394)	(1,320)	(516)	(1,376)	(1,376)
Equities issued/Others	0	(3)	0	0	0
Debt raised/repaid	118	(1,533)	29	123	126
Interest expenses	(404)	(465)	(500)	(380)	(380)
Dividends paid	(132)	(125)	(131)	(180)	(215)
Other financing cash flows	70	(1,482)	2	2	2
Cash flow from financing	(348)	(3,607)	(601)	(435)	(468)
Chg in cash & cash eq.	(177)	(1,034)	1,043	386	722
Closing cash & cash eq.	1,864	855	1,897	2,282	3,004

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	16.8	23.6	25.3	34.6	41.4
Adjusted EPS	17.5	24.0	25.3	34.6	41.4
Dividend per share	3.0	3.0	3.2	4.4	5.3
Book value per share	185.4	175.6	197.7	227.9	264.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.1	1.1	1.0	1.0	0.9
EV/EBITDA	15.0	11.0	10.7	9.7	8.7
Adjusted P/E	42.7	31.2	29.6	21.6	18.1
P/BV	4.0	4.3	3.8	3.3	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	78.2	67.9	73.3	74.9	74.9
Interest burden (PBT/EBIT)	78.5	80.2	77.2	88.1	89.8
EBIT margin (EBIT/Revenue)	4.9	7.0	6.9	7.3	7.7
Asset turnover (Rev./Avg TA)	123.2	130.6	127.0	128.9	129.3
Leverage (Avg TA/Avg Equity)	2.3	2.3	2.4	2.3	2.3
Adjusted ROAE	8.6	11.4	11.8	14.4	15.1

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	18.3	4.6	2.7	11.2	10.3
EBITDA	(8.8)	34.0	3.2	13.4	13.5
Adjusted EPS	(17.3)	37.0	5.3	36.9	19.7
Profitability & Return ratios (%)					
EBITDA margin	7.6	9.8	9.8	10.0	10.3
EBIT margin	4.9	7.0	6.9	7.3	7.7
Adjusted profit margin	3.0	3.8	3.9	4.8	5.2
Adjusted ROAE	8.6	11.4	11.8	14.4	15.1
ROCE	9.8	16.4	15.2	16.3	17.0
Working capital days (days)					
Receivables	40	47	47	47	47
Inventory	58	49	50	51	51
Payables	56	79	79	79	79
Ratios (x)					
Gross asset turnover	2.2	1.9	1.8	1.9	2.1
Current ratio	1.1	1.0	1.1	1.2	1.2
Net interest coverage ratio	3.0	3.9	3.7	5.7	6.6
Adjusted debt/equity	0.3	0.3	0.2	0.1	0.1

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

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

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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%

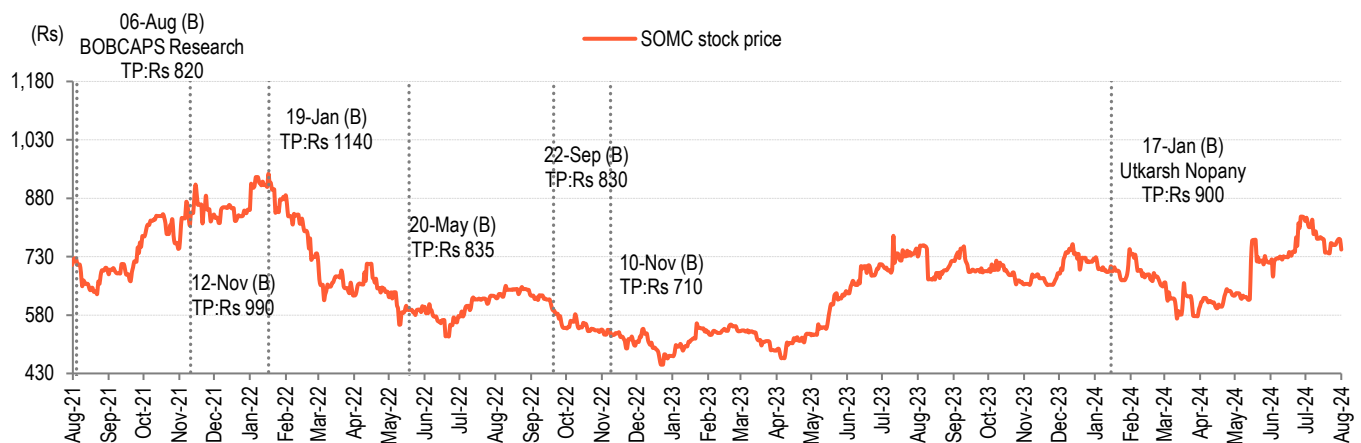
HOLD – Expected return from -6% to +15%

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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