

October 29, 2024

**RESULT REPORT Q2 FY25** | Sector: Building Materials

# Somany Ceramics Ltd

**Demand to improve from here on, maintain BUY!**

## Result Synopsis

Somany Ceramics Ltd (SOMC), registered a muted performance in Q2FY25. Company's tile volumes grew by 3%YoY (2-year CAGR stood at 6%) while tile revenue remained flattish YoY on account of 3% reduction in realizations. Operating margins remained under pressure at 8.4% Vs 9.8% in Q2FY24 & 8.5% in the previous quarter due to one of the lowest capacity utilizations which came in at 77% as compared to 88%/81% in Q2FY24/Q1FY25 respectively largely due to sluggish demand in domestic markets. Hence, absolute EBITDA declined by 13%YoY & increased by 14%QoQ. However, margin pressure was cushioned by better product-mix wherein Ceramic/PVT/GVT mix stood at 34%/28%/38% in Q2FY24 from 36%/30%/34% in the corresponding period last year. Maxx plant operated at a utilization of 36% that was lower than management's target of ~50% by Q2FY25. Sanitaryware & faucet contributed 54% & 46% to total bathware revenue of Rs701Mn respectively.

## Management Guidance

Management expects a volume growth of high single digit to low double digit for H2FY25. Consequently, the growth for FY25 should be 5-6.5%. Management expects an increase in EBITDA margin by 1-1.5% from current level to 9-10% for FY25 (similar to FY24).

## Our View

Owing to muted demand, H1FY25 volumes remained flattish on YoY basis at 33.4msqm. Given the softness in first half, we have revised our FY25E EPS downwards by 16%. We expect H2FY25 to be better Vs H1FY25, with exports increasing and pick-up in retail demand. Therefore, we reckon volumes to grow by 4.5%YoY for FY25E. With improving utilization and better product-mix, margins should also improve in H2FY25 hence, we factor-in operating margins of 9.8% for FY25E. Overall, we expect Revenue/EBITDA/PAT to grow by 7.7%/9.3%/21.6% respectively over FY24-FY27E. At CMP, the stock trades at P/E(x) of 17.7x/15x on FY26E/FY27E revised EPS estimates of Rs37 (lower by 9% Vs previous est) /Rs43.6 respectively. We have valued the company at P/E(x) of 20x on FY27E EPS, arriving at a target price of Rs873. Hence, we assign a BUY rating to the stock.

## Result Highlights

- Revenue stood at Rs6.66Bn (7% above est), up by 2%YoY & 15%QoQ.
- EBITDA for the quarter stood at Rs560Mn, a decrease of 13%YoY & an increase of 14%QoQ. EBITDA margin came in at 8.4% (Vs est of 8.2%) Vs 9.8%/8.5% in Q2FY24/Q1FY25 respectively.
- Net profit for Q2FY25 stood at Rs173Mn, a decline of 41%YoY & a growth of 41%QoQ.

## Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	6,663	6,250	6,705	6.6	(0.6)	Above estimates.
EBITDA	560	513	612	9.3	(8.5)	
EBITDA Margin (%)	8.4	8.2	9.1	20 bps	-73 bps	
Adjusted PAT	173	155	227	11.8	(23.6)	

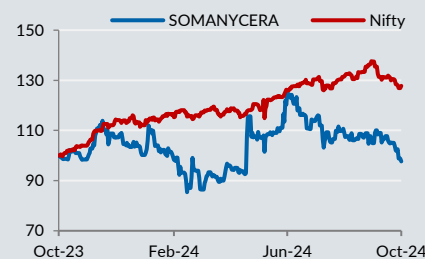
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 653
Target Price	: Rs 873
Potential Return	: +33.6%

## Stock data (as on Oct 29, 2024)

Nifty	24,467
52 Week h/l (Rs)	873 / 561
Market cap (Rs/USD mn)	27,630 / 329
Outstanding Shares (mn)	41
6m Avg t/o (Rs mn):	50
Div yield (%):	0.4
Bloomberg code:	SOMC IN
NSE code:	SOMANYCERA

## Stock performance



	1M	3M	1Y
Absolute return	-6.8%	-14.9%	-2.3%

## Shareholding pattern (As of Sep'24 end)

Promoter	55.0%
FII+DII	25.3%
Others	19.7%

## Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	873	896

## Δ in earnings estimates

	FY25E	FY26E	FY27E
EPS (New)	27.6	36.9	43.6
EPS (Old)	32.9	40.7	-
% change	-16.0%	-9.4%	-

## Financial Summary

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	26,134	29,073	32,381
YoY Growth	0.8	11.2	11.4
EBITDA	2,554	2,965	3,303
EBITDA (%)	9.8	10.2	10.2
PAT	1,133	1,513	1,789
YoY Growth	14.0	33.6	18.2
ROE	14.7	17.0	17.2
EPS	27.6	36.9	43.6
P/E	23.6	17.7	15.0
BV/Share	200.2	234.0	274.5
P/BV	3.3	2.8	2.4

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## Segmental Highlights for Q2FY25

### Tiles

- Overall tile volumes stood at 17.8msm, up by 3%YoY & 15%QoQ (2-year CAGR 6%). Own volumes (34% of total) stood at 6.0msm, down by 6%YoY & up by 8%QoQ. JVs (37% of total) registered a growth of 13%YoY & 8%QoQ to 6.6msm. Lastly, outsourced vols (29% of total), stood at 5.3msm, flattish YoY & an increase of 34%QoQ.
- Tiles revenue stood at Rs5.68Bn, flattish YoY & a growth of 14%QoQ (2-year CAGR 2%). Own tile revenue (33% of revenue) stood at Rs1.85Bn, a degrowth of 11%YoY & a growth of 7%QoQ. JVs sales (40% of tile revenue) increased by 15%YoY & 10%QoQ to Rs2.25Bn, and Outsourced sales (28% of tile revenue) stood at Rs1.58Bn, a degrowth of 5%YoY & an increase of 31%QoQ.
- Blended ASP came in at Rs319/sqm Vs Rs329/Rs320 in Q2FY24/Q1FY25, respectively. Own manufacturing's ASP stood at Rs309/sqm Vs Rs330/Rs312 in Q2FY24/Q1FY25, respectively. JVs realization came in at Rs341/sqm, an increase of 2%YoY & 2%QoQ basis. Outsourced ASP contracted from Rs321/Rs309 in Q2FY24/Q1FY25, respectively to Rs302/sqm in Q2FY25.

### Others

- Bathware segment recorded a revenue of Rs701Mn, a growth of 10%YoY & 16%QoQ.
- Other biz (Epoxy, Adhesives etc.) reported a growth of 32%YoY & 29%QoQ to Rs233Mn.

## Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Revenue	5,865	6,552	6,121	7,375	5,786	6,663	1.7	15.2	12,417	12,449	0.3
Expenditure	5,359	5,910	5,531	6,581	5,296	6,103	3.3	15.2	11,269	11,400	1.2
- RM	2,757	2,934	2,728	3,561	2,485	3,228	10.0	29.9	5,691	5,712	0.4
- Staff Cost	760	822	794	867	868	891	8.4	2.7	1,582	1,759	11.2
- Power Cost	1,189	1,379	1,252	1,399	1,276	1,234	(10.5)	(3.3)	2,568	2,510	
- Other Cost	653	775	757	754	668	750	(3.2)	12.3	1,428	1,418	(0.7)
Operating Profit	506	642	590	795	490	560	(12.7)	14.4	1,148	1,050	(8.5)
OPM(%)	8.6	9.8	9.6	10.8	8.5	8.4	(139 bps)	(6 bps)	9.2	8.4	(81 bps)
Other Income	24	38	28	16	21	13	(65.6)	(36.8)	62	34	(45.1)
Depreciation	168	176	188	193	192	192	8.7	(0.1)	344	383	11.5
Interest	112	110	109	134	135	135	22.8	(0.1)	222	270	21.8
Exceptional	(66)	-	13	33	-	-	-	-	(66)	-	
PBT	184	394	334	516	184	247	(37.4)	34.3	578	431	(25.5)
Tax	58	98	100	177	61	74	(25.2)	20.1	157	135	(14.0)
PAT	126	296	234	339	123	173	(41.4)	41.4	421	296	(29.8)
OCI	-	-	-	5	-	(2)	-	-	-	(2)	-
Reported PAT	126	296	234	344	123	172	(42.0)	40.0	421	294	(30.2)

Source: Company, YES Sec

## Exhibit 3: Operational Numbers:

Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Revenue (Rs mn)											
Own	2,107	2,089	1,857	2,100	1,726	1,851	(11.4)	7.2	4,197	3,577	(14.8)
JV	1,759	1,961	1,887	2,234	2,037	2,247	14.5	10.3	3,720	4,283	15.1
Other	1,255	1,664	1,419	1,780	1,210	1,584	(4.8)	30.9	2,918	2,793	(4.3)
<b>Total Tile</b>	<b>5,121</b>	<b>5,714</b>	<b>5,164</b>	<b>6,115</b>	<b>4,972</b>	<b>5,681</b>	<b>(0.6)</b>	<b>14.3</b>	<b>10,835</b>	<b>10,653</b>	<b>(1.7)</b>
<b>Bathware</b>	<b>579</b>	<b>636</b>	<b>653</b>	<b>796</b>	<b>605</b>	<b>701</b>	<b>10.3</b>	<b>15.8</b>	<b>1,214</b>	<b>1,306</b>	<b>7.6</b>
<b>Others</b>	<b>142</b>	<b>176</b>	<b>153</b>	<b>183</b>	<b>181</b>	<b>233</b>	<b>32.3</b>	<b>28.7</b>	<b>318</b>	<b>414</b>	<b>30.3</b>
Volume (msm)											
Own	6.5	6.3	5.8	6.7	5.5	6.0	(5.7)	7.9	12.8	11.5	(10.1)
JV	5.2	5.8	5.6	6.7	6.1	6.6	12.7	7.9	11.1	12.7	14.5
Other	4.0	5.2	4.4	5.5	3.9	5.3	1.4	34.3	9.2	9.2	-
<b>Total Tile</b>	<b>15.7</b>	<b>17.4</b>	<b>15.8</b>	<b>18.9</b>	<b>15.6</b>	<b>17.8</b>	<b>2.6</b>	<b>14.5</b>	<b>33.1</b>	<b>33.4</b>	<b>0.9</b>
Realization (Rs)											
Own	325	330	320	314	312	309	(6.1)	(0.7)	327	310	(5.2)
JV	336	336	340	333	334	341	1.7	2.3	336	338	0.5
Other	315	321	323	325	309	302	(6.1)	(2.5)	319	305	(4.3)
<b>Total Tile</b>	<b>326</b>	<b>329</b>	<b>328</b>	<b>324</b>	<b>320</b>	<b>319</b>	<b>(3.1)</b>	<b>(0.2)</b>	<b>328</b>	<b>319</b>	<b>(2.6)</b>

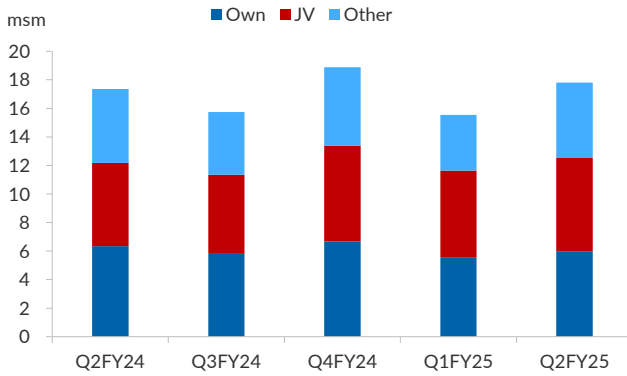
Source: Company, YES Sec

## KEY CON-CALL HIGHLIGHTS

- Management has guided for a high single digit to low double digit growth for H2FY25 that would take total volume growth for FY25 to 5-6.5%. EBITDA margin is expected to increase by 1-1.5% from current level to take it to 9-10% for FY25.
- Volumes were impacted by high monsoon & export dumping. GM was lower owing to lower capacity utilization by 11%YoY & 4%QoQ at 77% (one of the lowest ever).
- Company has not introduced any lower brand products that has resulted in lower volume growth Vs peers.
- Exports were lower by ~15% in H1FY25. FY24 saw a monthly average of Rs16.7Bn exports that translated into Rs200Bn annually. In Aug'24 exports were Rs12.8Bn. FY25 exports are expected to be in the range of Rs130-150Bn.
- Retail/project mix was 75/25 Vs 80/20 in FY24. Of retail, tier2/3/4 contribute 75-80% whereas tier2/3/4 contribute 40-50% of total project sales. Project segment has been growing at ~25% but remained muted in H1FY25 owing to incessant monsoon.
- Ceramic/PVT/GVT mix was 34/28/38 Vs 36/30/34 in FY24.
- Max plant operated at a utilization of 36%, lower than management's expectation of 50%. Most of the products catered to project segment and were affected by heavy rains. Furthermore, due to price volatility, builders bought lower price items during the quarter. Company has plans for 2 more launches from the plant by FY25 end.
- Gas price in Q2FY25 remained the same as Q1FY25.
- Sanitaryware/faucet contributed 54%/46% to bathware revenue.
- Debtor/inventory/creditor days were 45/55/76 Vs 48/49/79 in FY24.

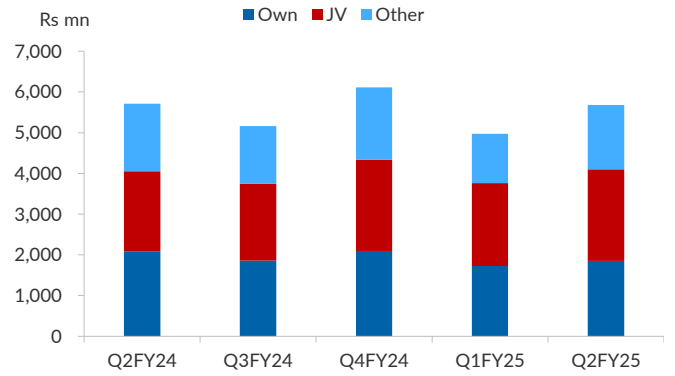
## QUARTERLY TRENDS

**Exhibit 4: Tiles volume grew by 3%YoY...**



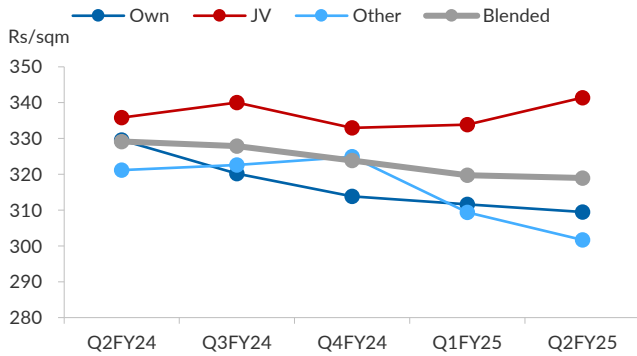
Source: Company, YES Sec

**Exhibit 5: Tile revenue remained flattish YoY...**



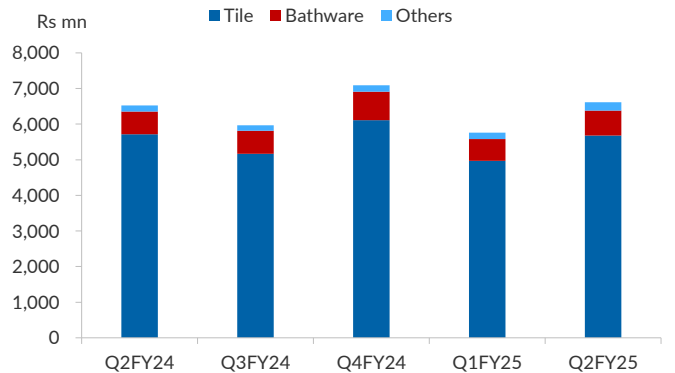
Source: Company, YES Sec

**Exhibit 6: Blended ASP reduced to Rs319/sqm...**



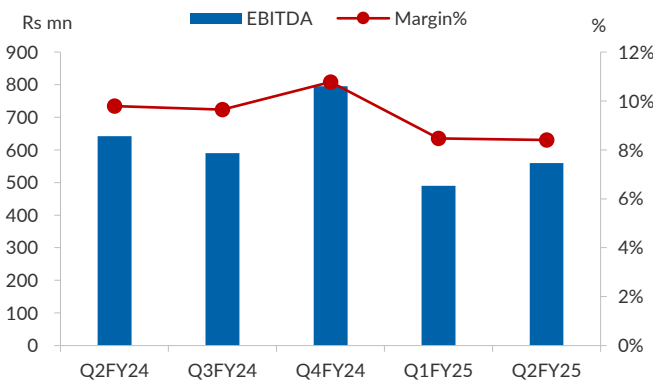
Source: Company, YES Sec

**Exhibit 7: Tiles contributed to 86% of revenue...**



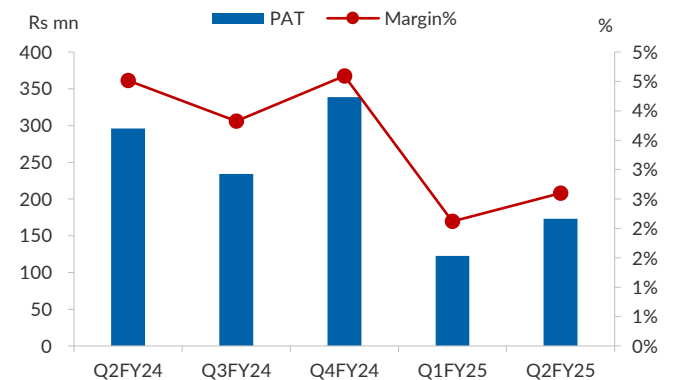
Source: Company, YES Sec

**Exhibit 8: Blended margin declined to 8.4%...**



Source: Company, YES Sec

**Exhibit 9: Net profit stood at Rs173Mn...**



Source: Company, YES Sec

## FINANCIALS

### Exhibit 10: Income Statement

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Sales	24,785	25,914	26,134	29,073	32,381
COGS	10,694	11,979	11,344	12,888	14,771
GP	14,091	13,934	14,789	16,185	17,611
GP%	56.9	53.8	56.6	55.7	54.4
Employee Cost	3,012	3,244	3,568	3,996	4,476
Power & Fuel	6,523	5,219	5,375	5,537	5,703
Other Cost	2,669	2,939	3,292	3,687	4,129
EBITDA	1,887	2,533	2,554	2,965	3,303
EBITDA%	7.6	9.8	9.8	10.2	10.2
Finance Cost	404	465	350	294	237
Depreciation	679	725	787	814	841
Other Income	145	106	135	160	160
PBT	950	1,449	1,552	2,018	2,385
Tax	259	434	419	504	596
PAT	669	994	1,133	1,513	1,789
PAT%	2.7	3.8	4.3	5.2	5.5
EPS	16	24	28	37	44

Source: Company, YES Sec

### Exhibit 11: Balance Sheet

Y/e 31 Mar (Rs mn)	FY23	FY24	H1FY25	FY25E	FY26E	FY27E
Share Capital	85	82	82	82	82	82
Reserves	7,785	7,119	7,309	8,125	9,511	11,173
Non-current Liab	3,027	3,086	2,981	2,809	2,532	2,255
ST Borrowings	3,033	1,494	1,594	1,271	1,048	825
Payables	3,777	5,593	5,164	2,448	2,781	3,188
Other current Liab	1,197	1,205	1,153	1,205	1,205	1,205
<b>Total Equity &amp; Liab</b>	<b>20,111</b>	<b>19,838</b>	<b>19,541</b>	<b>17,199</b>	<b>18,419</b>	<b>19,986</b>
Gross Block	12,660	14,488	14,796	14,988	15,488	15,988
Acc Dep	3,013	3,738	4,121	4,525	5,339	6,180
Net Block	9,647	10,750	10,675	10,463	10,149	9,808
CWIP	473	96	96	96	96	96
Other Noncurrent Assets	495	321	473	321	321	321
Inventory	3,915	3,466	3,699	1,517	1,724	1,976
Receivables	2,683	3,372	3,036	3,401	3,783	4,214
Cash & Bank	1,546	709	500	278	1,222	2,448
Other Current Assets	524	522	488	522	522	522
<b>Total Assets</b>	<b>20,111</b>	<b>19,838</b>	<b>19,541</b>	<b>17,199</b>	<b>18,419</b>	<b>19,986</b>

Source: Company, YES Sec

## Exhibit 12: Cash Flow

Y/e 31 Mar (Rs mn)	FY23	FY24	H1FY25	FY25E	FY26E	FY27E
PBT	929	1,428	431	1,552	2,018	2,385
Depreciation & Amortization	679	725	383	787	814	841
Finance cost	404	465	270	350	294	237
(Incr)/Decr in Working Capital	(9)	168	(37)	(122)	(26)	(28)
Taxes	(247)	(340)	(119)	(419)	(504)	(596)
Cash from ops.	1,646	3,934	587	1,046	2,365	2,591
(Incr)/ Decr in PP&E	(1,765)	(1,615)	(363)	(500)	(500)	(500)
Cash Flow from Investing	(909)	(1,229)	(367)	(500)	(500)	(500)
(Decr)/Incr in Borrowings	135	(1,563)	(223)	(500)	(500)	(500)
Finance cost	(385)	(470)	(265)	(350)	(294)	(237)
Cash Flow from Financing	(214)	(3,560)	(458)	(977)	(921)	(864)
Incr/(Decr) in cash	523	(855)	(239)	(431)	944	1,226
Cash and cash equivalents at beg of year	937	1,447	592	709	278	1,222
Cash and cash equivalents at end of year	1,460	592	354	278	1,222	2,448

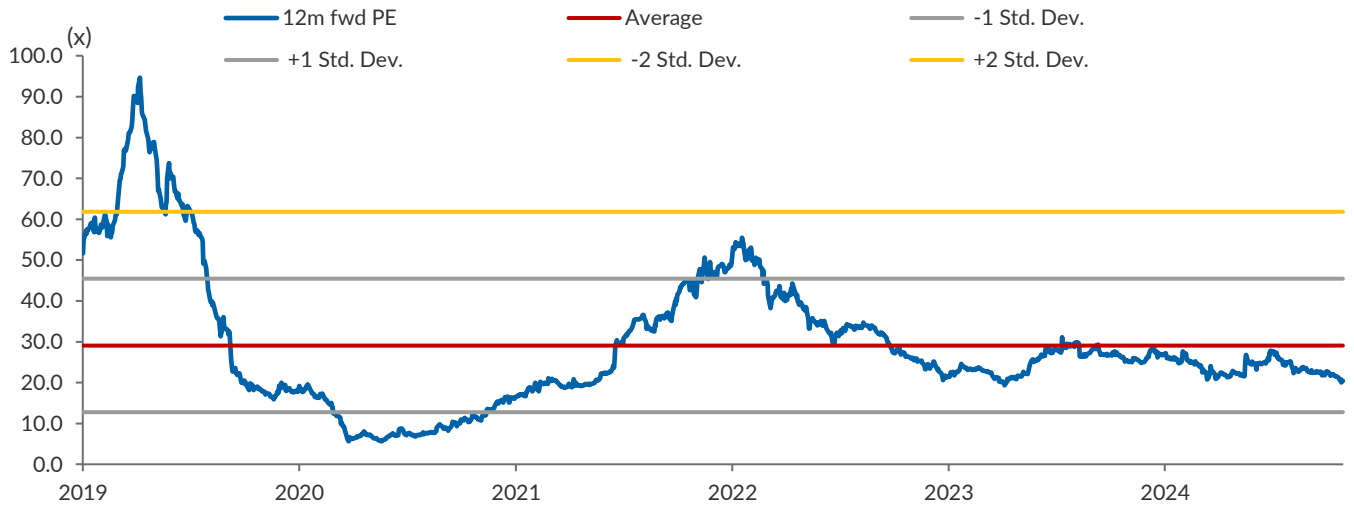
Source: Company, YES Sec

## Exhibit 13: Ratios

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
<b>Growth Matrix (%)</b>					
Revenue growth	18.3	4.6	0.8	11.2	11.4
EBITDA growth	(8.6)	34.2	0.8	16.1	11.4
EBIT growth	(13.2)	41.3	(0.6)	21.5	13.4
PAT growth	(28.4)	48.6	14.0	33.6	18.2
<b>Profitability ratios (%)</b>					
GP margin	56.9	53.8	56.6	55.7	54.4
EBITDA margin	7.6	9.8	9.8	10.2	10.2
EBIT margin	5.5	7.4	7.3	8.0	8.1
PAT margin	2.7	3.8	4.3	5.2	5.5
RoCE	12.9	18.1	17.9	20.0	20.5
RoE	8.8	13.2	14.7	17.0	17.2
<b>Per share values</b>					
EPS	15.8	24.3	27.6	36.9	43.6
CEPS	31.7	41.9	46.8	56.8	64.1
BVPS	185.4	175.6	200.2	234.0	274.5
<b>Valuation ratios (x)</b>					
P/E	34.9	23.8	23.6	17.7	15.0
P/CEPS	17.3	13.8	13.9	11.5	10.2
P/B	3.0	3.3	3.3	2.8	2.4
EV/EBITDA	14.1	10.4	11.5	9.4	7.9
<b>Leverage ratios (x)</b>					
Debt/ Equity	0.6	0.5	0.3	0.2	0.2
Net debt/Equity	0.4	0.4	0.3	0.1	(0.1)
Net debt/EBITDA	1.8	1.0	1.0	0.4	(0.2)
Int coverage	3.4	4.1	5.4	7.9	11.1
<b>NWC days</b>					
Receivables	40	47	47	47	47
Inventory	58	49	49	49	49
Payables	56	79	79	79	79

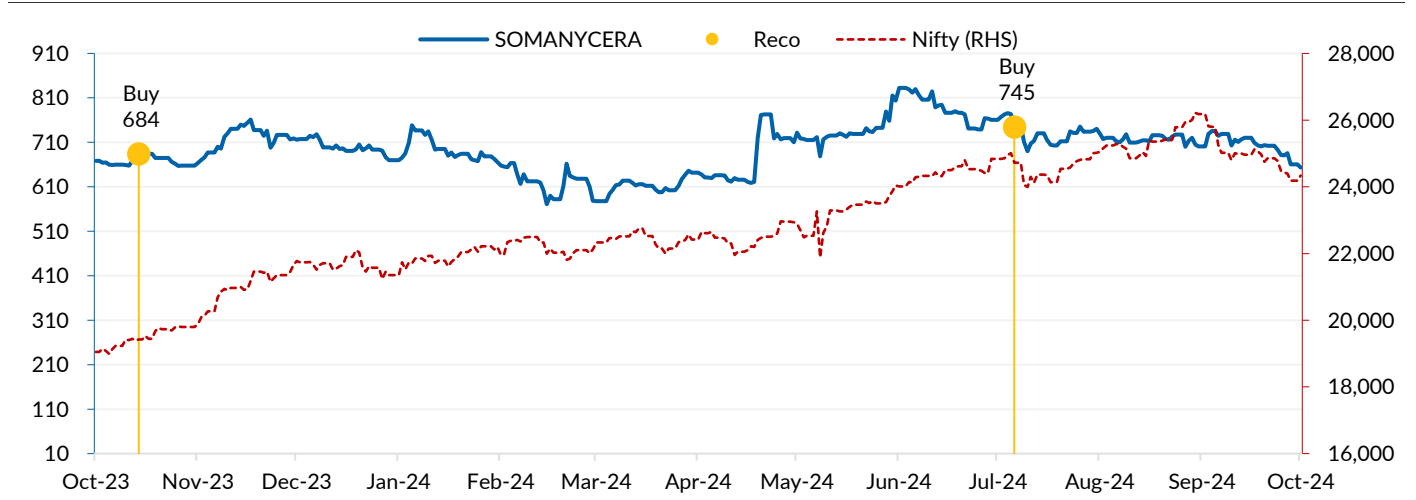
Source: Company, YES Sec

**Exhibit 14: 1-year forward P/E (x) chart**



Source: Company, YES Sec

## Recommendation Tracker





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Analyst signature

Analyst signature

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