

Somany Ceramics | BUY

In-line quarter; Hopeful of recovery from 2HFY25

Somany Ceramics' (Somany) 4QFY24 revenue was broadly in line with JMFe while lower than expected other expenses led to 5% beat on EBITDA front. Tiles revenue grew 5% YoY (+18% QoQ, +4% 5-year CAGR), led by volume growth of 7% YoY (+20% QoQ, +4% 5 years CAGR) while realisation fell 2% YoY (-1% QoQ) on account of higher schemes/discounts. Demand for tiles remained sluggish through 4Q and further impacted in 1QFY25 on seasonality. Blended gas cost was down 6% YoY at INR 47/scm while lower other expenses and employee cost led to EBITDA margin expansion of 180bps YoY/110bps QoQ to 10.8%, 40bps above JMFe. Somany remain hopeful of recovery from 2QFY25 and guides for low double digit volume growth in FY25 with 100-150bps improvement in operating margins, assuming stable gas prices. We broadly maintain our FY25 -26EPS estimates to arrive at Mar'25 TP of INR 950, basis 22xMar'26EPS. Maintain BUY on attractive valuations(14.4xFY26EPS).

- 4QFY24 summary:** Somany's consolidated revenue grew 2% YoY (-7% QoQ, +9% 4-year CAGR, 1% above JMFe) as tile volume grew 7% YoY (+20% QoQ, +4% 5-year CAGR, 1% above JMFe) while realisation declined 2% YoY (-1% QoQ, 2% below JMFe). Bathware revenue grew 8% YoY (+5% 5-year CAGR). Power and fuel cost fell 9% YoY (+12% QoQ) to INR 104/sqm, led by reduction in gas price (INR 47/scm; -6% YoY). Gross margin (post P&F cost) expanded 130bps YoY (-220bps QoQ) to 32.8% (220bps below JMFe). EBITDA margin expanded 180bps YoY (+110bps QoQ, 40bps above JMFe) to 10.8%. Adj. PAT was INR 287mn (+18% YoY; -3% on 4-year CAGR; 21% below JMFe). The management has guided for low double digit volume growth for tiles and double digit growth for the bathware segment. On the profitability, management expects 100-150bps YoY improvement in operating margins in FY25.
- Decent volume performance (+7% YoY):** Somany's tile volume grew 7% YoY (+20% QoQ) which was a tad above the industry leader (+6% YoY/+9% QoQ). Demand for tiles remained sluggish during the quarter on account of continued slowdown in home improvement activity and increased competitive intensity. The management highlighted, tile demand continues to remain weak in Q1 on account of seasonality as well as general elections. However, management remains optimistic on recovery on the back of a) demand tailwinds in the real estate sector b) aggressive distribution expansion in smaller cities, c) Morbi players' focus on exports (India's export market is expected to grow given the favourable position of Indian exports in the global tiles market), and d) Somany's new capacities for GVT (Maxx plant), which will improve product mix and be margin-accretive.
- FY24 performance:** During the year, revenue grew 5% YoY to INR 25.9bn. Demand for tiles remained weak; tile volume grew 5% YoY to 67msm while realisations declined 1% YoY. Softening in gas prices led to gross margin (post P&F) expansion of 290bps YoY to 33.6%. EBITDA margin expanded 220bps YoY to 9.8% which led to EBITDA growth of 34% YoY. Adj PAT during FY24 came at INR 984mn (+73% YoY). Working capital days reduced significantly to 18days vs. 31 days in FY23. The company generated net CFO of



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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	BUY
Current Price Target (12M)	950
Upside/(Downside)	51.8%
Previous Price Target	950
Change	0.0%

Key Data – SOMC IN

Current Market Price	INR626
Market cap (bn)	INR25.7/US\$0.3
Free Float	40%
Shares in issue (mn)	42.0
Diluted share (mn)	42.4
3-mon avg daily val (mn)	INR24.2/US\$0.3
52-week range	819/515
Sensex/Nifty	72,987/22,201
INR/US\$	83.5

Price Performance

%	1M	6M	12M
Absolute	3.6	-7.3	14.9
Relative*	3.6	-16.2	-2.5

* To the BSE Sensex

Financial Summary

	(INR mn)				
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	20,945	24,785	25,914	28,124	31,990
Sales Growth (%)	26.9	18.3	4.6	8.5	13.7
EBITDA	2,066	1,887	2,532	3,034	3,556
EBITDA Margin (%)	9.9	7.6	9.8	10.8	11.1
Adjusted Net Profit	887	568	984	1,441	1,838
Diluted EPS (INR)	20.9	13.4	23.2	34.0	43.3
Diluted EPS Growth (%)	24.0	-36.0	73.2	46.4	27.6
ROIC (%)	10.2	6.9	11.1	15.5	18.5
ROE (%)	12.8	7.5	13.1	18.7	20.7
P/E (x)	29.9	46.7	27.0	18.4	14.4
P/B (x)	3.7	3.4	3.7	3.2	2.8
EV/EBITDA (x)	15.0	16.3	11.9	9.6	7.8
Dividend Yield (%)	0.7	1.0	1.3	1.6	1.9

Source: Company data, JM Financial. Note: Valuations as of 15/May/2024

JM Financial Institutional Securities Limited

JM Financial Research is also available on:
Bloomberg - JMFR <GO>,
Thomson Publisher & Reuters,
S&P Capital IQ, FactSet and Visible Alpha

Please see Appendix I at the end of this report for Important Disclosures and Disclaimers and Research Analyst Certification.

INR 3.9bn vs. INR 1.6bn in FY23. Somany's net debt reduced to INR 2.6bn vs. INR 3.2bn in FY23.

- **Maintain estimates, maintain BUY:** We broadly maintain our FY25-26 EPS estimates to arrive at a Mar'25 TP of INR 950, basis 22xMar'26 EPS. We maintain **BUY** as the current valuation doesn't adequately reflect a) continuous improvement in balance sheet (net debt and working capital improvement), b) demand tailwinds, c) capital allocation towards its core business (continuous capacity expansion), and d) gradual abatement of governance concerns.
- **Other highlights:**
 - As per the management, total size of the tiles market is c. INR 565-580bn, of which exports market is c. INR 190-200bn.
 - Somany's GVT mix has improved to 36% from 32% in 4QFY23. For full year, GVT mix stood at 34% vs. 32% in FY23. Management has guided to improve the GVT mix to 38% next year and 40% in FY26.
 - For Somany, retail segment contributes c.80% while institutional contributes c. 20%.
 - The company's large format tile/ slab plant was commissioned during 3Q and commenced commercial production in Jan'24. The management highlighted that this will strengthen the company's value-added product portfolio.
 - Capacity utilisation during the quarter stood at 89% in tiles, 39% in sanitaryware and 99% in faucets for Somany Ceramics.
 - During the quarter, company spent 2.4% of sales in ad spend. For FY25, company will continue spending towards advertisement and branding and will spend c.3% of sales.
 - Working capital days reduced to 18 days in Mar'24 vs. 31 days in Mar'23. Net debt was INR 2.6bn as of Mar'24 (vs. INR 3.1bn in Mar'23). Net debt/equity decreased to 0.36 from 0.39 in Mar'23.

Exhibit 1. Quarterly performance

INR mn	4Q23	4Q24	YoY	5yr CAGR	3Q24	QoQ	4Q24E	Var	FY23	FY24	YoY	5yr CAGR
Net Sales	6,792	7,375	9%	7%	6,121	20%	7,282	1%	24,785	25,914	5%	9%
Bathware	736	796	8%	5%	653	22%	863	-8%	3,588	3,929	10%	12%
Tiles Revenue	5,835	6,115	5%	6%	5,163	18%	6,164	-1%	21,197	21,984	4%	8%
Tiles Volume	17.6	18.9	7%	4%	15.8	20%	18.7	1%	63.9	67.0	5%	6%
Realisation	331.5	323.9	-2%	2%	327.8	-1%	329.3	-2%	331.8	328.4	-1%	2%
Raw Material Cost	3,111	3,561	14%	8%	2,728	31%	3,239	10%	10,694	11,979	12%	11%
% of sales	45.8%	48.3%	250 bps		44.6%	370 bps	44.5%	380 bps	43.1%	46.2%	310 bps	
Gross Margin %	54.2%	51.7%	-250 bps		55.4%	-370 bps	55.5%	-380 bps	56.9%	53.8%	-310 bps	
Power and Fuel Cost	1,543	1,399	-9%	9%	1,252	12%	1,494	-6%	6,471	5,219	-19%	7%
% of sales	22.7%	19.0%	-380 bps		20.5%	-150 bps	20.5%	-150 bps	26.1%	20.1%	-600 bps	
Rs/sqm	114	104	-8%	5%	105	-1%	100	4%	124	105	-15%	2%
Gross Profit	2,138	2,416	13%	6%	2,142	13%	2,549	-5%	7,620	8,716	14%	7%
Gross Margin	31.5%	32.8%	130 bps		35.0%	-220 bps	35.0%	-220 bps	30.7%	33.6%	290 bps	
Employee cost	805	867	8%	10%	794	9%	879	-1%	3,012	3,244	8%	7%
% of sales	11.8%	11.8%	-10 bps		13.0%	-120 bps	12.1%	-30 bps	12.2%	12.5%	40 bps	
Other expenses	723	754	4%	5%	757	0%	917	-18%	2,721	2,940	8%	5%
% of sales	10.7%	10.2%	-40 bps		12.4%	-210 bps	12.6%	-240 bps	11.0%	11.3%	40 bps	
Total Expenditure	6,182	6,581	6%	8%	5,531	19%	6,528	1%	22,898	23,381	2%	9%
EBITDA	610	795	30%	2%	590	35%	754	5%	1,887	2,532	34%	9%
EBITDA margin	9.0%	10.8%	180 bps		9.6%	110 bps	10.4%	40 bps	7.6%	9.8%	220 bps	
Depreciation	187	193	3%	11%	188	3%	188	3%	679	725	7%	10%
EBIT	423	602	42%	0%	402	50%	566	6%	1,209	1,807	50%	8%
Other Income	36	16	-55%	-22%	28	-43%	30	-47%	145	106	-27%	-10%
PBIT	458	618	35%	-1%	430	44%	596	4%	1,354	1,913	41%	7%
Interest	116	134	15%	3%	109	23%	100	35%	404	465	15%	0%
XO Exp/-Inc	0	-33			-13		0		22	21		
PBT	342	516	51%	5%	334	54%	496	4%	929	1,428	54%	12%
PBT Margin	5.0%	7.0%	200 bps		5.5%	150 bps	6.8%	20 bps	3.7%	5.5%	180 bps	
Tax Expense	98	177	81%		100	76%	123	44%	330	434	32%	
Tax Rate	28.6%	34.3%	570 bps		30.0%	430 bps	24.9%		35.5%	30.4%	NM	
Share of Profit from associates/JV	1	31	3738%		12	154%	10	218%	47	25	-47%	
Reported Net Profit	243	308	27%	5%	222	39%	363	-15%	552	969	76%	16%
Adjusted Net Profit	243	287	18%	-3%	213	35%	363	-21%	568	984	73%	13%

Source: Company, JM Financial

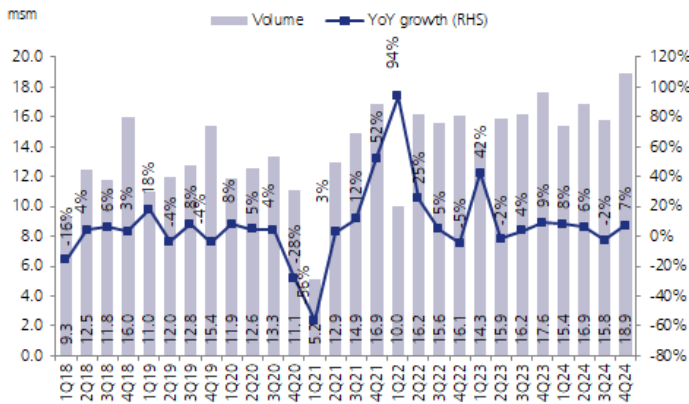
Exhibit 2. Segmental performance (consolidated)

Particulars	4Q23	4Q24	YoY	5yr CAGR	3Q24	QoQ	4Q24E	Var	FY23	FY24	YoY	5yr CAGR
Sales Volume (msm)	17.60	18.88	7%	7%	15.75	20%	18.72	1%	63.89	66.95	5%	9%
Tiles Own	6.60	6.69	1%	3%	5.80	15%	8.98	-26%	25.27	25.32	0%	7%
Tiles JV	6.38	6.71	5%	7%	5.55	21%	5.95	13%	23.13	22.59	-2%	7%
Outsourced	4.62	5.48	19%	13%	4.40	25%	3.79	45%	15.49	19.04	23%	17%
Sales Volume Mix	100%	100%			100%		100%		100%	100%		
Tiles Own	37.5%	35.4%	-210 bps		36.8%	-140 bps	48.0%	-1250 bps	39.6%	37.8%	-170 bps	
Tiles JV	36.3%	35.5%	-70 bps		35.2%	30 bps	31.8%	380 bps	36.2%	33.7%	-250 bps	
Outsourced	26.3%	29.0%	280 bps		27.9%	110 bps	20.2%	880 bps	24.2%	28.4%	420 bps	
Realisation (INR/sqm)	332	324	-2%	4%	328	-1%	326	-1%	332	328	-1%	4%
Tiles Own	326	314	-4%	1%	320	-2%	322	-3%	330	322	-2%	2%
Tiles JV	347	333	-4%	5%	340	-2%	336	-1%	348	341	-2%	4%
Outsourced	318	325	2%	6%	323	1%	320	1%	330	321	-3%	9%
Revenues (INR mn)	6,678	7,093	6%	12%	5,816	22%	6,968	2%	23,647	24,655	4%	14%
Tiles Own	2,153	2,100	-2%	5%	1,857	13%	2,893	-27%	8,335	8,154	-2%	9%
JV+O/S	3,682	4,015	9%	15%	3,307	21%	3,212	25%	12,863	13,830	8%	17%
Others incl Bath fittings	843	979	16%	16%	653	50%	863	13%	2,450	2,671	9%	12%
Sanitaryware	430	446	4%	7%	364	23%	491	-9%	1,450	1,521	5%	10%
Faucets	306	350	14%	13%	289	21%	371	-6%	1,000	1,150	15%	16%

Source: Company, JM Financial

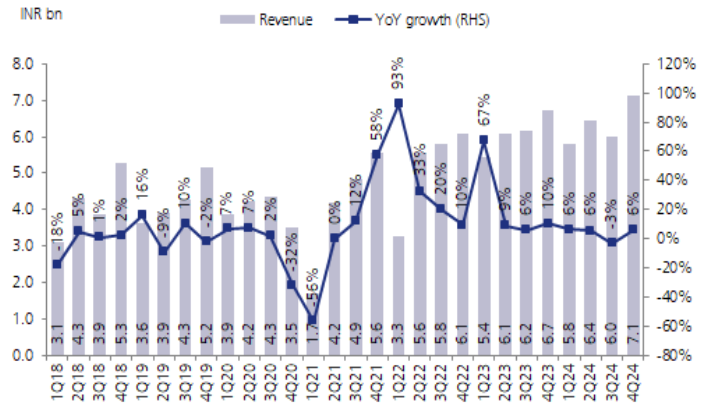
Quarterly charts

Exhibit 3. Volume growth trend - Quarterly



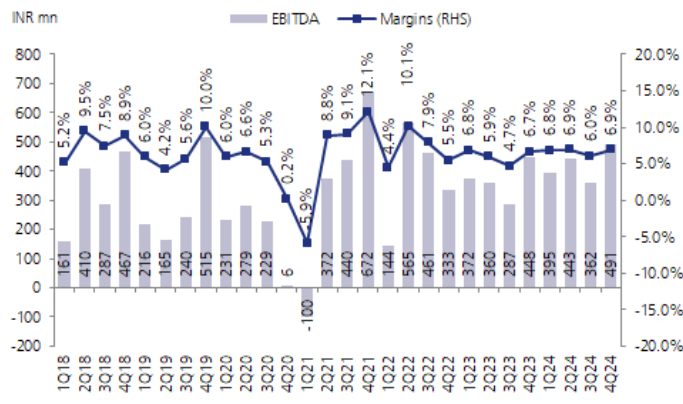
Source: Company, JM Financial

Exhibit 4. Revenue growth trend - Quarterly



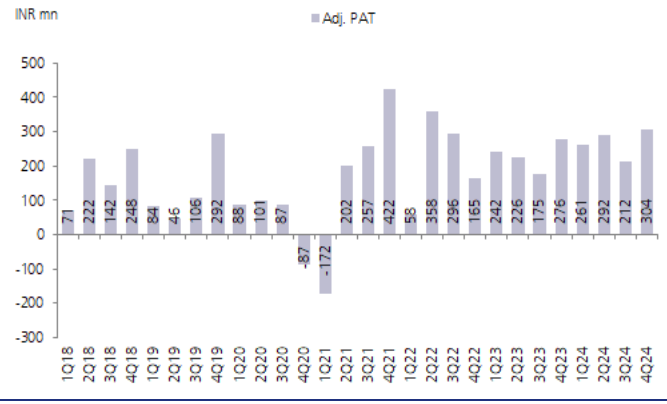
Source: Company, JM Financial.

Exhibit 5. EBITDA margin trend - Quarterly



Source: Company, JM Financial

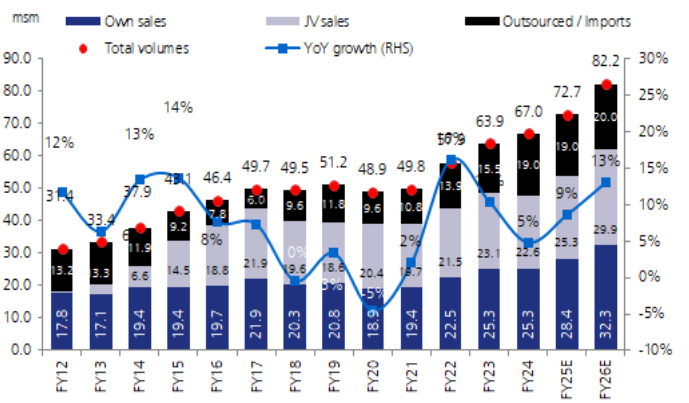
Exhibit 6. Profit growth trend - Quarterly



Source: Company, JM Financial

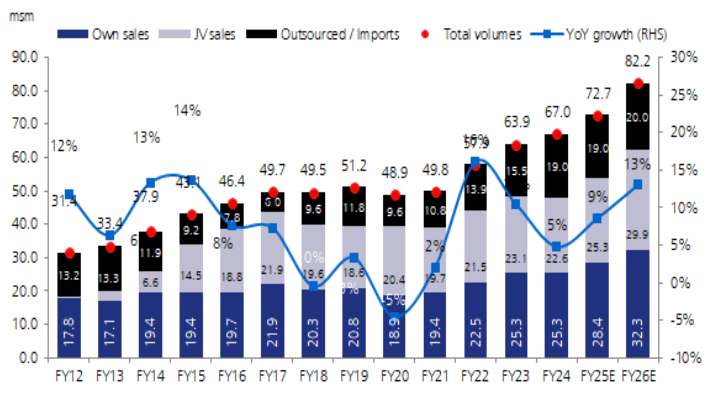
Annual charts

Exhibit 7. Volume growth trend



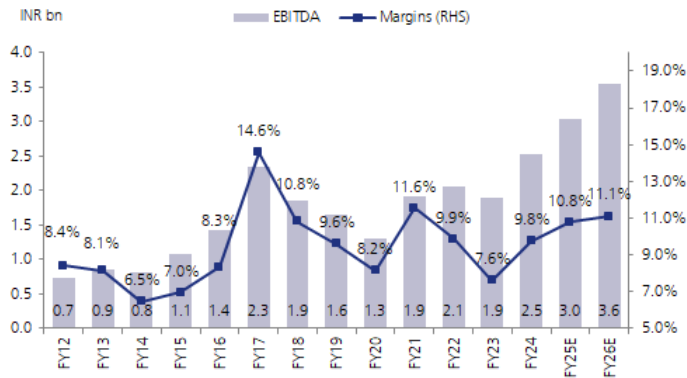
Source: Company, JM Financial

Exhibit 8. Revenue growth trend



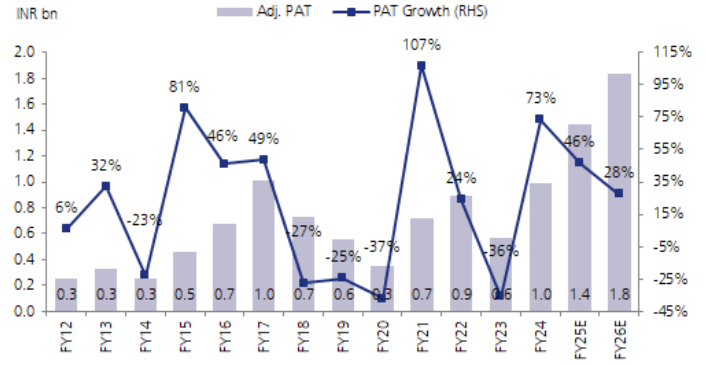
Source: Company, JM Financial

Exhibit 9. EBITDA margin performance



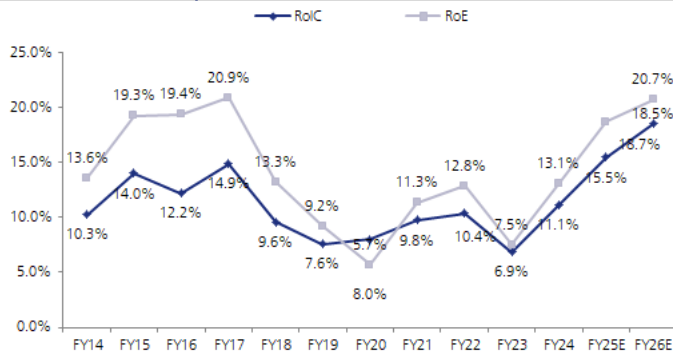
Source: Company, JM Financial

Exhibit 10. PAT growth



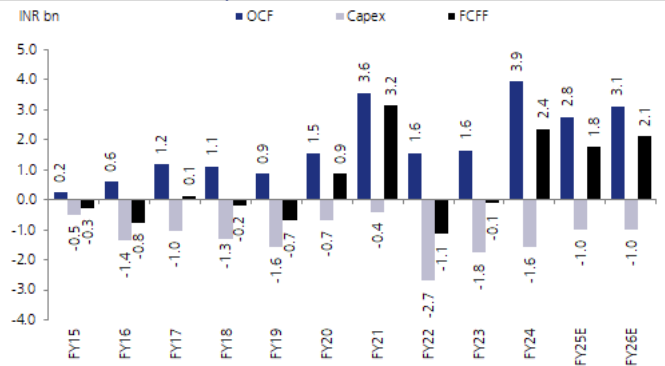
Source: Company, JM Financial

Exhibit 11. Return profile



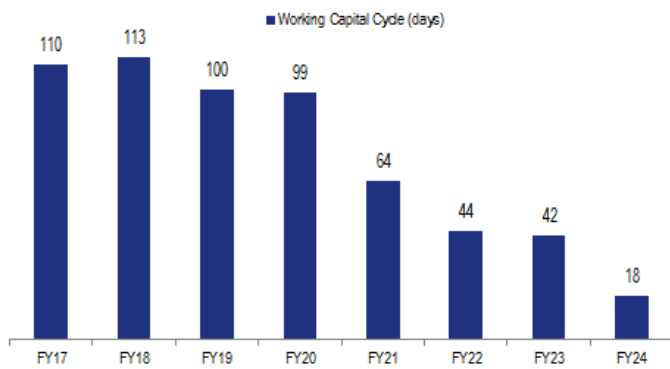
Source: Company, JM Financial

Exhibit 12. Cash flow performance



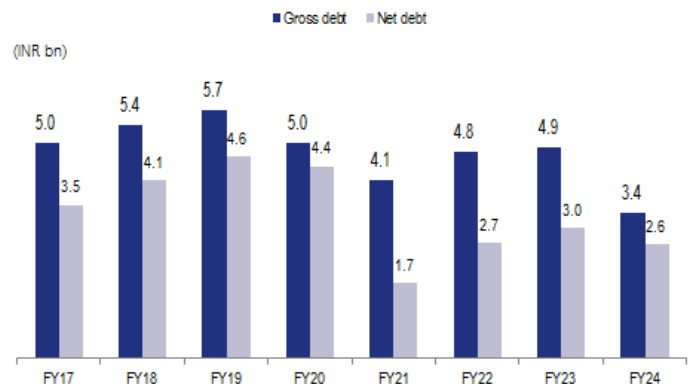
Source: Company, JM Financial

Exhibit 13. Net working capital days



Source: Company, JM Financial

Exhibit 14. Debt profile



Source: Company, JM Financial

Financial Tables (Consolidated)

Income Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Sales	20,945	24,785	25,914	28,124	31,990
Sales Growth	26.9%	18.3%	4.6%	8.5%	13.7%
Other Operating Income	0	0	0	0	0
Total Revenue	20,945	24,785	25,914	28,124	31,990
Cost of Goods Sold/Op. Exp	9,205	10,694	11,979	12,742	14,491
Personnel Cost	2,571	3,012	3,244	3,568	3,978
Other Expenses	7,103	9,192	8,158	8,780	9,964
EBITDA	2,066	1,887	2,532	3,034	3,556
EBITDA Margin	9.9%	7.6%	9.8%	10.8%	11.1%
EBITDA Growth	8.3%	-8.7%	34.2%	19.8%	17.2%
Depn. & Amort.	640	679	725	801	886
EBIT	1,426	1,209	1,807	2,232	2,670
Other Income	134	145	106	148	197
Finance Cost	296	404	465	430	380
PBT before Excep. & Forex	1,264	950	1,449	1,951	2,487
Excep. & Forex Inc./Loss(-)	0	0	0	0	0
PBT	1,264	950	1,449	1,951	2,487
Taxes	330	330	434	488	622
Extraordinary Inc./Loss(-)	0	-22	-21	0	0
Assoc. Profit/Min. Int.(-)	0	0	0	0	0
Reported Net Profit	935	599	994	1,463	1,865
Adjusted Net Profit	887	568	984	1,441	1,838
Net Margin	4.2%	2.3%	3.8%	5.1%	5.7%
Diluted Share Cap. (mn)	42.4	42.4	42.4	42.4	42.4
Diluted EPS (INR)	20.9	13.4	23.2	34.0	43.3
Diluted EPS Growth	24.0%	-36.0%	73.2%	46.4%	27.6%
Total Dividend + Tax	187	272	344	426	508
Dividend Per Share (INR)	4.4	6.4	8.1	10.1	12.0

Source: Company, JM Financial

Balance Sheet		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Shareholders' Fund	7,263	7,870	7,201	8,216	9,545
Share Capital	85	85	82	82	82
Reserves & Surplus	7,263	7,870	7,201	8,216	9,545
Preference Share Capital	0	0	0	0	0
Minority Interest	1,076	1,076	1,128	1,150	1,178
Total Loans	5,112	4,884	3,351	2,151	1,151
Def. Tax Liab. / Assets (-)	364	327	369	369	369
Total - Equity & Liab.	13,815	14,156	12,050	11,887	12,243
Net Fixed Assets	9,788	10,624	11,305	11,508	11,621
Gross Fixed Assets	10,348	13,123	14,905	15,905	16,905
Intangible Assets	73	73	73	73	73
Less: Depn. & Amort.	2,900	3,044	3,769	4,570	5,456
Capital WIP	2,267	473	96	100	100
Investments	600	319	146	146	146
Current Assets	7,535	9,168	8,387	8,703	10,110
Inventories	2,737	3,915	3,466	3,853	4,382
Sundry Debtors	2,368	2,683	3,372	3,467	3,944
Cash & Bank Balances	1,486	1,545	709	543	943
Loans & Advances	944	1,025	840	840	840
Other Current Assets	0	0	0	0	0
Current Liab. & Prov.	4,108	5,955	7,788	8,470	9,634
Current Liabilities	2,255	3,776	5,593	6,087	6,924
Provisions & Others	1,853	2,179	2,195	2,383	2,710
Net Current Assets	3,427	3,213	600	233	476
Total - Assets	13,815	14,156	12,050	11,887	12,243

Source: Company, JM Financial

Cash Flow Statement		(INR mn)			
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Profit before Tax	1,264	929	1,449	1,951	2,487
Depn. & Amort.	639	679	725	801	886
Net Interest Exp. / Inc. (-)	239	330	391	282	183
Inc (-) / Dec in WCap.	-540	-90	1,676	200	158
Others	316	45	34	22	27
Taxes Paid	-353	-247	-340	-488	-622
Operating Cash Flow	1,566	1,646	3,934	2,768	3,120
Capex	-2,709	-1,765	-1,570	-1,004	-1,000
Free Cash Flow	-1,143	-120	2,364	1,764	2,120
Inc (-) / Dec in Investments	52	293	269	0	0
Others	104	564	72	148	197
Investing Cash Flow	-2,553	-909	-1,229	-856	-803
Inc / Dec (-) in Capital	0	0	-1,554	-22	-27
Dividend + Tax thereon	0	-127	-127	-426	-508
Inc / Dec (-) in Loans	811	266	-1,463	-1,200	-1,000
Others	-312	-352	-415	-430	-380
Financing Cash Flow	499	-213	-3,560	-2,079	-1,916
Inc / Dec (-) in Cash	-489	523	-855	-166	401
Opening Cash Balance	1,491	1,486	1,545	709	543
Closing Cash Balance	1,002	2,009	691	543	943

Source: Company, JM Financial

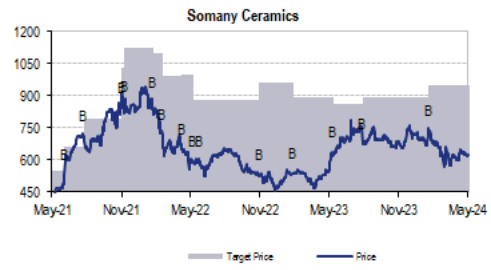
Dupont Analysis					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
Net Margin	4.2%	2.3%	3.8%	5.1%	5.7%
Asset Turnover (x)	1.6	1.8	2.0	2.3	2.7
Leverage Factor (x)	1.9	1.8	1.7	1.6	1.4
RoE	12.8%	7.5%	13.1%	18.7%	20.7%

Key Ratios					
Y/E March	FY22A	FY23A	FY24A	FY25E	FY26E
BV/Share (INR)	171.3	185.6	169.8	193.8	225.1
ROIC	10.2%	6.9%	11.1%	15.5%	18.5%
ROE	12.8%	7.5%	13.1%	18.7%	20.7%
Net Debt/Equity (x)	0.5	0.4	0.4	0.2	0.0
P/E (x)	29.9	46.7	27.0	18.4	14.4
P/B (x)	3.7	3.4	3.7	3.2	2.8
EV/EBITDA (x)	15.0	16.3	11.9	9.6	7.8
EV/Sales (x)	1.5	1.2	1.2	1.0	0.9
Debtor days	41	40	47	45	45
Inventory days	48	58	49	50	50
Creditor days	44	60	87	89	89

Source: Company, JM Financial

Date	Recommendation	Target Price	% Chg.
5-Jul-20	Buy	150	
13-Aug-20	Buy	200	33.3
7-Nov-20	Buy	280	40.0
15-Jan-21	Buy	450	60.7
6-Feb-21	Buy	530	17.8
2-Mar-21	Buy	550	3.8
17-Jun-21	Buy	660	20.0
7-Aug-21	Buy	790	19.7
14-Nov-21	Buy	1,030	30.4
23-Nov-21	Buy	1,120	8.7
3-Feb-22	Buy	1,100	-1.8
2-Mar-22	Buy	990	-10.0
22-Apr-22	Buy	1,000	1.0
20-May-22	Buy	880	-12.0
7-Jun-22	Buy	880	0.0
12-Nov-22	Buy	960	9.1
9-Feb-23	Buy	890	-7.3
24-May-23	Buy	860	-3.4
12-Aug-23	Buy	890	3.5
3-Feb-24	Buy	950	6.7

Recommendation History



APPENDIX I

JM Financial Institutional Securities Limited

Corporate Identity Number: U67100MH2017PLC296081

Member of BSE Ltd. and National Stock Exchange of India Ltd.

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Definition of ratings	
Rating	Meaning
Buy	Total expected returns of more than 10% stocks with market capitalisation in excess of INR 200 billion and REITs* and more than 15% for all other stocks, over the next twelve months. Total expected return includes dividend yields.
Hold	Price expected to move in the range of 10% downside to 10% upside from the current market price for stocks with market capitalisation in excess of INR 200 billion and REITs* and in the range of 10% downside to 15% upside from the current market price for all other stocks, over the next twelve months.
Sell	Price expected to move downwards by more than 10% from the current market price over the next twelve months.

* REIT refers to Real Estate Investment Trusts.

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