

Margins to improve ahead...

About the stock: Somany Ceramics (SCL) is the second largest tiles manufacturers in the domestic tiles market having ~73 MSM capacity with sanitaryware and faucets capacity of 1.15 million (mn) pieces and 0.65 mn pieces, respectively.

- Greenfield slab tile manufacturing facility of ~4.5 MSM/annum in Gujarat is expected to commence production by Q2FY24 (capex of ~₹ 170 crore) and is also looking to set up a capacity in Nepal through a JV

Q3FY23 Results: SCL reported a soft performance on the volumes/margins front.

- The topline was up 6% YoY at ₹ 622 crore. Tiles revenues were up 6% YoY at ₹ 554 crore with volumes up 3.7% YoY amid soft demand
- EBITDA was at ₹ 40.6 crore, a decline of ~35% YoY, owing to higher input price and muted revenues growth, along with high sales and marketing spends leading to a decline of 411 bps in margins to 6.5%. PAT was at ₹ 11.9 crore, down 63% YoY

What should investors do? SCL's share price has declined by ~23% over the past five years.

- We expect margin recovery to be gradual. We will also monitor how the demand trajectory moves ahead. Thus, we maintain **HOLD**

Target Price and Valuation: We value SCL at ₹ 605/share, as we rollover to FY25 and value it at 18x FY25E P/E (vs. 20x FY24, earlier).

Key triggers for future price performance:

- New capacity of 11 MSM (with potential to generate revenue of ~₹ 250-300 crore has started contributing. Additionally, greenfield manufacturing facility of slab tile of ~4.5 MSM/annum in Gujarat is expected to commence production by Q2FY24 at capex of ~₹ 170 crore along with a planned JV in Nepal.
- We expect ~10% CAGR in tiles volume and realisations CAGR of ~3%, resulting in tiles revenues CAGR of ~14% over FY22-25 to ₹ 2721 crore
- Gas price trajectory will determine quantum of margin recovery

Alternate Stock Idea: Besides SCL, we like Kajaria Ceramics in the tiles space

- Leading growth & resilient margins in the segment
- BUY with a target price of ₹ 1310



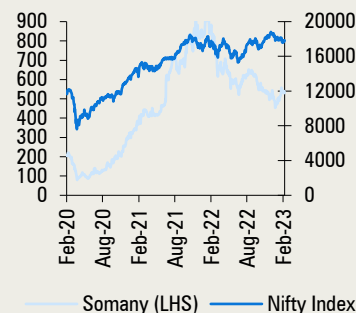
Particulars

Particular	Amount (₹ crore)
Market Capitalization	2,278
Total Debt (FY22)	511
Cash (FY22)	149
EV	2,641
52 week H/L (₹)	854 / 446
Equity capital	8.5
Face value	₹ 2

Shareholding pattern

	Mar-22	Jun-22	Sep-22	Dec-22
Promoters	54.8	54.8	54.8	54.8
DII	18.0	18.1	18.1	21.5
FII	2.5	2.4	2.3	1.7
Other	24.7	24.7	24.8	22.0

Price Chart



Key Risks

Key Risk: (i) Better demand; (ii) Continued high gas prices

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Key Financial Summary

₹ crore	FY21	FY22E	5 yr CAGR (FY17-22)	FY23E	FY24E	FY25E	3 yr CAGR FY22-25E
Net Sales	1,641.4	2,082.7	9.8%	2,442.0	2,779.5	3,100.7	14.2%
EBITDA	190.2	206.5	-6.0%	184.9	264.9	311.2	14.6%
EBITDA Margin (%)	11.6	9.9		7.6	9.5	10.0	
PAT	57.0	88.7	-11.1%	69.9	113.3	142.2	17.0%
EPS (₹) *	13.5	20.9		16.5	26.7	33.5	
P/E (x)	40.2	25.8		32.8	20.2	16.1	
EV/EBITDA (x)	13.0	12.6		14.4	9.8	7.9	
RoNW (%)	8.9	12.2		8.9	12.9	14.4	
RoCE (%)	11.1	10.7		8.5	13.0	14.6	

Key business highlight and outlook

- Q3FY23 performance and Revenue Guidance:** SCL has witnessed a muted performance reporting 3.7% YoY growth in tiles volume (to 15.89 SCM) owing to benign product demand amid festive season. Tiles revenues have improved 6% YoY with better realisations and portfolio mix. The share of PVT, GVT, ceramic tiles was 29%, 33%, 38% in Q3FY23, respectively. Further, the capacity utilisation remained elevated at ~87% for tiles segment during Q3FY23. **It offered discount incentives of 1-2% to dealers to enable higher stocking in Q3 and indicated it may have to offer further dealer incentives to partially pass on fuel price lowering. The company expects healthy rise in demand ahead and has guided for mid teen tiles revenues growth in FY24.**
- Bathware division:** SCL has witnessed sales at ₹ 58 crore due to subdued demand environment. However, **the management expects 20% growth in both FY23 & FY24**
- Margin guidance:** Operating margins remained under pressure and were at 6.5% during Q3FY23, down 411 bps YoY, owing to higher input price and muted revenues growth, along with high sales and marketing spends leading. **While the company has refrained from providing any margin guidance, it has indicated towards margin improvement ahead. Also, SCL is focusing more on a) value added sales and b) improving share of GVT to overall tiles segment' sales which should aid margins ahead**
- Input prices:** Gas prices have shown some sign of softness in Q3FY23 (currently at ~₹ 60-61/SCM) after a drastic increase in gas prices over the past few quarters (~₹ 65/SCM during Q2FY23). **The company indicated ~6-7% QoQ decline in gas price in Q4. It has also been running 10-15% of its plants on LPG and the remaining on natural gas, with near parity of LPG with gas prices**
- A&P spends:** SCL's A&P spends during Q3FY23 was at ~₹ 18 crore (~3% of revenues) and for 9MFY23 it was ~₹ 40 crore. **The management expects ₹ 58-60 crore of ad and promotion (A&P) spending in FY23**
- Update on Morbi players:** The management said that exports out of Morbi were below expectations during November-December 2022 but has since improved. Currently, monthly exports of ₹ 1400 crore are seen, which is expected to increase to ₹ 1500-1600 crore per month. Furthermore, Saudi Arabia is planning to remove anti-dumping duty on India, will also boost exports
- Expansion plans:** The company has also **announced setting up of greenfield manufacturing facility of large format/ slab tile of ~4.5 MSM/annum in Gujarat in the recent past (capex: ~₹ 170 crore to be funded mainly via internal accruals; revenue potential: ~₹ 250 crore). The management expects production to commence from Q2FY24.** The capacity additions are margin attractive with higher value-added production. **Furthermore, the board of directors has approved setting up a tile manufacturing facility in a JV with the Murarka Group in Nepal. The capacity will be of 3.5 MSM. for capex of up to ₹ 62.5 crore**
- Dealers network:** The company has ~4,000 dealers of which it has regular billing from ~2,500. It added 225 dealers during 9MFY23 (vs. 200 dealers during FY22) mainly in the tier-II, III and IV cities as SCL's focused area remains non-metro regions. Overall, the company has guided for net addition of ~300 dealers during FY23E (50% likely to be exclusive dealers)
- Working Capital:** Working capital days at the end of Q3FY23 has increased to 50 days (vs. 49 days at Q2FY23 end) mainly due to higher inventory

Exhibit 1: Variance Analysis

Particular	Q3FY23	Q3FY22	YoY (Chg %)	Q2FY23	QoQ (Chg %)	Comments
Net Sales	622.4	587.0	6.0	617.8	0.8	Tiles revenues were up 6% YoY at ₹ 554 crore with volumes up 3.7% YoY amid soft demand
Other Income	4.1	4.8	-14.8	2.9	40.4	
Raw Material Expense	165.5	141.6	16.9	169.3	-2.3	
Purchase of Traded Goods	132.1	136.8	-3.4	125.5	5.2	
Power & Fuel	154.7	153.0	1.1	172.8	-10.5	
Employee benefit expenses	75.8	66.4	14.2	73.7	2.8	
Other Expenses	72.9	61.8	18.1	65.5	11.4	
EBITDA	40.6	62.4	-35.0	42.2	-3.9	
EBITDA Margin (%)	6.5	10.6	-411 bps	6.8	-32 bps	
Depreciation	16.8	15.6	7.8	17.0	-1.1	
Interest	11.9	7.4	61.0	9.6	23.9	
PBT	16.0	44.2	-63.8	18.6	-13.8	
Taxes	4.5	10.1	-54.9	4.7	-3.6	
PAT	11.9	32.2	-62.9	14.7	-18.7	

Source: Company, ICICI Direct Research

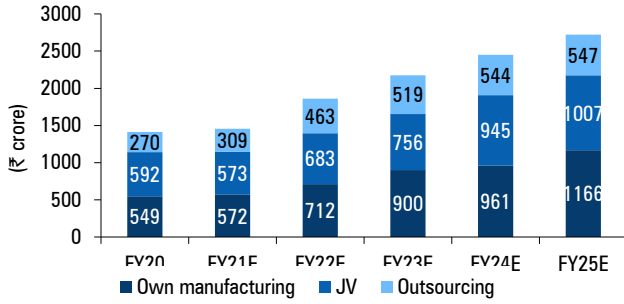
Exhibit 2: Change in estimates

Particulars	FY22		FY23E			FY24E			FY25E	Comments
	Old	New	Change	Old	New	Change	New			
Revenue	2094.5	2482.7	2456.0	-1.1	2792.1	2791.5	0.0	3112.7	Realign estimates	
EBITDA	206.5	223.0	184.9	-17.1	280.0	264.9	-5.4	311.2		
EBITDA Margin (%)	9.9	9.0	7.5	-145 bps	10.0	9.5	-54 bps	10.0		
Adjusted PAT	88.7	92.4	69.9	-24.3	128.3	113.3	-11.7	142.2		
EPS	20.9	21.8	16.5	-24.3	30.3	26.7	-11.7	33.5		

Source: Company, ICICI Direct Research

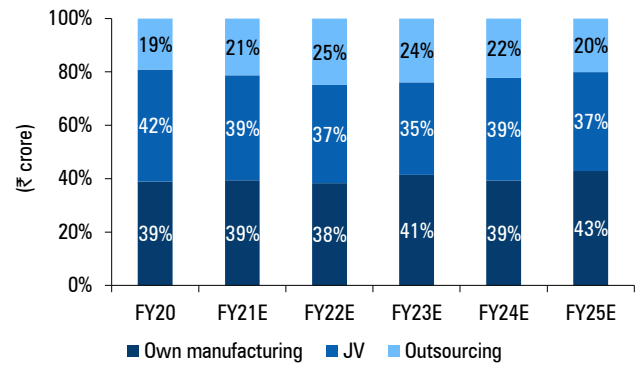
Company Analysis

Exhibit 3: Revenue break-up (₹ crore)



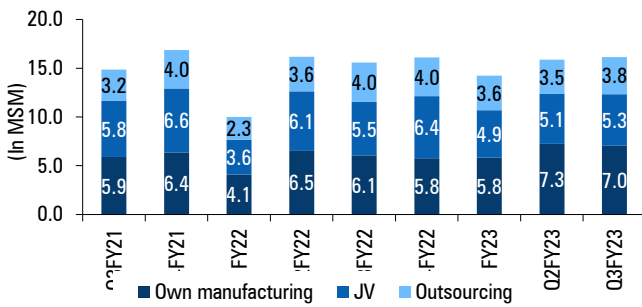
Source: Company, ICICI Direct Research

Exhibit 4: Revenue break-up (%)



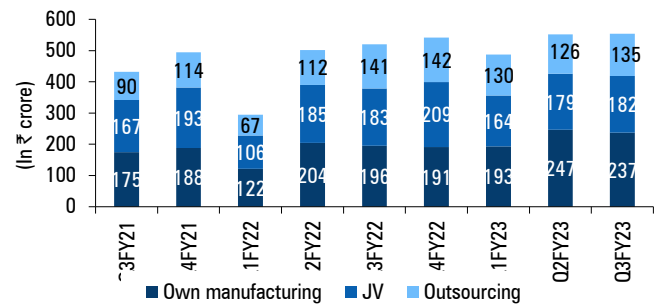
Source: Company, ICICI Direct Research

Exhibit 5: Quarterly standalone sales volumes (in MSM)



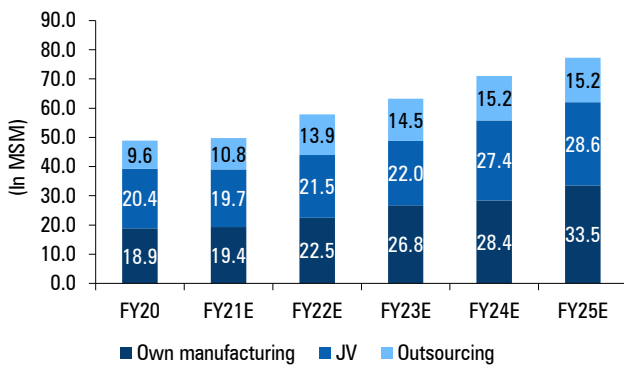
Source: Company, ICICI Direct Research

Exhibit 6: Quarterly standalone sales value



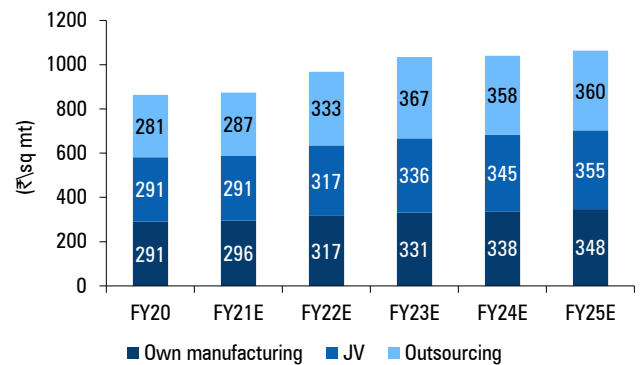
Source: Company, ICICI Direct Research

Exhibit 7: Model-wise standalone sales volumes break-up



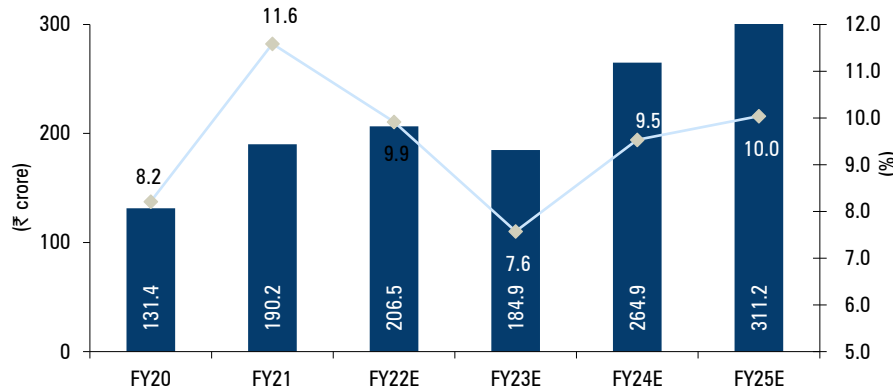
Source: Company, ICICI Direct Research

Exhibit 8: Average realisation break-up



Source: Company, ICICI Direct Research

Exhibit 9: Consolidated EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 10: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Net Sales	2,082.7	2,442.0	2,779.5	3,100.7
Other Income	13.4	15.0	15.0	15.0
Total Revenue	2,107.9	2,471.0	2,806.5	3,127.7
Raw Material Expense	487.8	573.9	653.2	728.7
Purchase of Traded Goods	447.2	464.0	525.3	586.0
(Increase)/Decrease in Inventories	(14.4)	24.4	27.8	31.0
Employee benefit expenses	257.1	293.0	319.6	355.0
Other Expenses	229.3	268.6	305.8	325.6
Total Operating Expenditure	1,887.9	2,271.0	2,526.6	2,801.5
EBITDA	206.5	184.9	264.9	311.2
Interest	29.6	36.6	40.8	40.8
Depreciation	64.0	70.3	78.2	81.4
PBT	126.4	93.0	160.9	204.0
Total Tax	33.0	24.1	41.7	52.8
PAT before MI	93.4	68.9	119.3	151.2
Minority Interest	4.7	(1.0)	6.0	9.0
PAT	88.7	69.9	113.3	142.2
YoY growth	491.2%	-21.2%	62.0%	25.5%
EPS (Diluted)	20.9	16.5	26.7	33.5

Source: Company, ICICI Direct Research

Exhibit 11: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Profit after Tax	88.7	69.9	113.3	142.2
Depreciation	64.0	70.3	78.2	81.4
Interest Paid	29.6	36.6	40.8	40.8
Cash Flow before WC changes	173.6	160.9	223.3	258.4
Net Increase in Current Assets	(51.1)	(98.5)	(93.4)	(88.9)
Net Increase in Current Liabilities	56.2	61.4	55.1	52.4
Net CF from Op. Activities	178.7	123.7	184.9	221.9
(Purchase)/Sale of Fixed Assets	(266.4)	(170.0)	(50.0)	(50.0)
Others	41.1	15.0	15.0	15.0
Net CF from Inv. Activities	(225.3)	(155.0)	(35.0)	(35.0)
Proceeds/Repayment of Debt	87.8	12.0	(70.0)	-
Dividend and Dividend Tax	-	(10.2)	(22.7)	(28.4)
Interest Paid	(29.6)	(36.6)	(40.8)	(40.8)
Net CF from Fin. Activities	58.1	(34.8)	(133.4)	(69.2)
Net Cash flow	(0.6)	(66.1)	16.5	117.7
Opening Cash/ Cash Equivalent	149.1	148.6	82.5	99.0
Cl. Cash/ Cash Equivalent	148.6	82.5	99.0	216.7

Source: Company, ICICI Direct Research

Exhibit 12: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23E	FY24E	FY25E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	717.8	777.5	868.1	981.9
Total Shareholders funds	726.3	786.0	876.6	990.4
Secured Loan	336.6	333.2	283.2	283.2
Unsecured Loan	174.6	190.0	170.0	170.0
Total Debt	511.2	523.2	453.2	453.2
Deferred Tax Liability	36.4	36.4	36.4	36.4
Minority Interest	107.6	106.6	112.6	121.6
Other Long Term Liabilities	63.2	63.2	63.2	63.2
Long Term Provisions	8.7	8.7	8.7	8.7
Liability side total	1,453	1,524	1,551	1,673
Assets				
Gross Block	991.1	1,161.1	1,211.1	1,261.1
Net Block	744.5	844.2	816.0	784.6
Capital WIP	226.7	226.7	226.7	226.7
Current Investments	60.0	60.0	60.0	60.0
Long-term loans and advances	-	-	-	-
Inventories	273.7	321.1	365.5	407.8
Sundry Debtors	236.8	277.7	316.1	352.6
Loans and Advances	3.0	3.5	4.0	4.5
Other Current Assets	63.9	73.6	83.8	93.4
Cash	148.6	82.5	99.0	216.7
Total Current Assets	786.0	818.5	928.4	1,135.0
Creditors	225.5	267.6	304.6	339.8
Provisions	1.7	1.7	1.7	1.7
Other Current Liabilities	111.7	131.0	149.1	166.3
Total Current Liabilities	338.9	400.3	455.4	507.8
Net Current Assets	447.1	418.2	473.0	627.1
Assets side total	1,453	1,524	1,551	1,673

Source: Company, ICICI Direct Research

Exhibit 13: Key ratios				
(Year-end March)	FY22	FY23E	FY24E	FY25E
Per Share Data				
EPS	20.9	16.5	26.7	33.5
Cash EPS	36.0	33.1	45.2	52.8
BV	171.4	185.5	206.9	233.7
Revenue per Share	491.4	576.2	655.9	731.6
Dividend per share	-	2.4	5.0	5.0
Operating Ratios				
EBITDA / Total Operating Income	9.5	8.2	11.5	9.9
PAT / Total Operating Income	2.7	0.9	3.5	4.2
Inventory Days	48	48	48	48
Debtor Days	42	42	42	42
Creditor Days	40	40	40	40
Return Ratios				
RoE	12.2	8.9	12.9	14.4
RoCE	10.7	8.5	13.0	14.6
RoIC	14.0	9.9	16.0	19.6
Valuation Ratios				
EV / EBITDA	12.6	14.4	9.8	7.9
P/E	25.8	32.8	20.2	16.1
EV / Net Sales	1.2	1.1	0.9	0.8
Market Cap / Sales	1.1	0.9	0.8	0.7
Price to Book Value	3.2	2.9	2.6	2.3
Turnover Ratios				
Asset turnover	1.4	1.6	1.8	1.9
Gross Block Turnover	2.1	2.1	2.3	2.5
Solvency Ratios				
Net Debt / Equity	0.4	0.5	0.3	0.2
Current Ratio	1.7	1.7	1.7	1.7
Debt / EBITDA	1.5	2.1	1.1	0.6
Quick Ratio	0.9	0.9	0.9	0.9

Source: Company, ICICI Direct Research

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