

Lower gas prices to drive earnings growth...

About the stock: Somany Ceramics (SCL) is the second largest tiles manufacturer in the domestic tiles market having ~75 MSM capacity along with sanitaryware and faucets capacity of 1.15 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)

Q4FY23 Results: SCL reported a healthy performance with margin recovery.

- The topline was up 10% YoY at ₹ 679 crore. Tiles revenues were up 9% YoY at ₹ 583 crore with volumes up ~9% YoY
- EBITDA was at ₹ 61 crore, up ~20% YoY, owing to lower gas prices leading to expansion of 77 bps in margins YoY (247 bps QoQ) to 9% during the quarter
- PAT was at ₹ 24.4 crore, up 41.7% YoY

What should investors do? SCL's share price has underperformed and given merely ~17% return over the past five years.

- We expect a margins recovery (aided by lower gas prices) to drive the overall earnings over the next couple of years. Demand, albeit relatively modest currently, is likely to remain decent especially for branded domestic players amid Morbi volumes being diverted for exports given the healthy outlook. Thus, we upgrade from HOLD to **BUY**

Target Price and Valuation: We value SCL at ₹ 765/share at 20x FY25E P/E as we raise our earnings estimate & target multiple (from 18x) on visible earnings recovery.

Key triggers for future price performance:

- We expect 13% CAGR in tiles volume, resulting in tiles revenues CAGR of 14% over FY23-25 to ₹ 2790 crore
- Benign gas price trajectory, product mix and operating leverage to drive margin recovery to ~10.4% in FY25 vs. 7.7% in FY23
- Healthy topline and margins expansion to drive overall earnings CAGR of ~50.8% over FY23-25

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 ₹ 1350



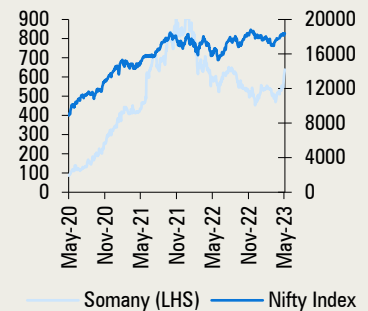
Particulars

Particular	Amount (₹ crore)
Market Capitalization	2,721
Total Debt (FY23)	488
Cash (FY23)	155
EV	3,055
52 week H/L (₹)	700 / 446
Equity capital	8.5
Face value	₹ 2

Shareholding pattern

	Jun-22	Sep-22	Dec-22	Mar-23
Promoters	54.8	54.8	54.8	54.8
DII	18.1	18.1	21.5	22.0
FII	2.4	2.3	1.7	1.4
Other	24.7	24.8	22.0	21.8

Price Chart



Key Risks

Key Risk: (i) Weak demand traction; (ii) Gas price volatility

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Key Financial Summary

₹ crore	FY20	FY21	FY22E	FY23	5 yr CAGR (FY18-23)	FY24E	FY25E	2 yr CAGR FY23-25E
Net Sales	1,600.2	1,641.4	2,082.7	2,464.6	7.6%	2,778.0	3,184.1	13.7%
EBITDA	131.4	190.2	206.5	188.7	0.3%	273.4	330.2	32.3%
EBITDA Margin (%)	8.2	11.6	9.9	7.7		9.8	10.4	
PAT	15.0	57.0	88.7	71.5	-1.6%	121.5	162.5	50.8%
EPS (₹) *	3.5	13.5	20.9	16.9		28.7	38.3	
P/E (x)	181.4	47.7	30.7	38.1		22.4	16.7	
EV/EBITDA (x)	24.1	15.3	14.6	16.0		11.0	8.7	
RoNW (%)	2.5	8.9	12.2	9.1		13.7	16.0	
RoCE (%)	6.5	11.1	10.7	9.0		13.4	15.9	

Key business highlight and outlook

- **Outlook:** While demand in April, 2023 was muted, SCL remained confident of healthy growth trajectory from Q2 onwards. With no new capacity coming up in Morbi and a robust exports outlook, it expects domestic branded players to remain a dominant force, going ahead
- **Product mix and utilisation:** Share of PVT, GVT, ceramic tiles was 29%, 32%, 39% in FY23, respectively. With commercialisation of Somany Max, premium tiles (GVT, large size) share will increase. Over the next couple of years, SCL intends to increase the premium GVT tiles share to up to 40%. Capacity utilisation in tiles, sanitaryware, faucetware segment was 90%, 55%, 75%, respectively. One sanitaryware line had to be shut down during Q4 on account of stock pile up
- **Bathware division:** SCL witnessed sales at ₹ 74.2 crore in Q4. It was up ~20% on a benign base. The management expects 22-25% growth in FY24
- **Guidance:** Operating margin saw an improvement led by benign gas price. **The company guided for overall revenue growth in mid-teens led by volume growth of 12-13%. EBITDA margins of ~9.5-10% were driven by a decline in gas cost, increase in value added mix, operating leverage. Like Kajaria, the company will also pass on some lower gas benefits to dealers in the form of trade discounts**
- **Gas prices:** Gas prices in west, north, south, overall average in Q4FY23 were at ₹ 45, ₹ 46, ₹ 56, ₹ 50 per scm, respectively. In April, 2023 it was at ₹ 43, ₹ 46, ₹ 50, ₹ 47 per scm, respectively: **Gas prices are expected to average at ₹ 43-44/scm in Q1FY24 (further 6-7% lower than April average).** The company is also using ~33% bio fuel in the north plant
- **A&P spends:** SCL's A&P spends during FY23 were ~2.5% of the topline. **It expects to maintain the same (spends at 2.5% of sales) in FY24**
- **Expansion plans & capex:** The company has announced the set-up of greenfield manufacturing facility of large format/ slab tile (Somany Max) 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. It is expected to come on stream in FY25 end. **For FY24, the company has guided for capex of ~₹ 30 crore. The company intends to invest ₹ 15-20 crore into the Nepal JV**
- **Industry:** Domestic, exports is at ₹ 38000 crore, ₹ 17000 crore, respectively. The company expects industry growth rate of 5-7% YoY in FY24, primarily driven by exports. It expects exports of ~₹ 20000 crore in FY24
- **Dealers network:** It added 300 dealers during FY23 (vs. 200 dealers during FY22) with 109 showrooms, 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 FY24E
- **Working capital & debt:** Working capital days at the end of FY23 have improved to 31 days (vs. 39 days at FY22) mainly aided by higher payable days. Net debt was at ₹ 308 crore in FY23 vs. ₹ 280 crore (net debt to equity at 0.4x). With no major capex in FY24, debt is expected to come down in FY24

Exhibit 1: Variance Analysis

Particular	Q4FY23	Q4FY22	YoY (Chg %)	Q3FY23	QoQ (Chg %)	Comments
Net Sales	679.2	616.8	10.1	622.4	9.1	Tiles revenues were up 9% YoY at ₹ 583 crore with volumes up ~9% YoY.
Other Income	3.6	1.5	144.8	4.1	-13.4	
Raw Material Expense	154.7	127.7	21.1	165.5	-6.5	
Purchase of Traded Goods	153.0	140.7	8.8	132.1	15.8	
Power & Fuel	154.3	137.0	12.7	154.7	-0.2	
Employee benefit expenses	80.5	66.0	22.0	75.8	6.2	
Other Expenses	72.3	67.2	7.7	72.9	-0.8	
EBITDA	61.0	50.6	20.4	40.6	50.3	
EBITDA Margin (%)	9.0	8.2	77 bps	6.5	246 bps	Margin expansion aided by benign gas prices
Depreciation	18.7	17.1	9.7	16.8	11.4	
Interest	11.6	6.4	82.4	11.9	-2.0	
PBT	34.2	28.7	19.3	16.0	113.6	
Taxes	9.8	8.1	20.7	4.5	115.6	
PAT	24.3	17.2	41.7	11.9	103.5	

Source: Company, ICICI Direct Research

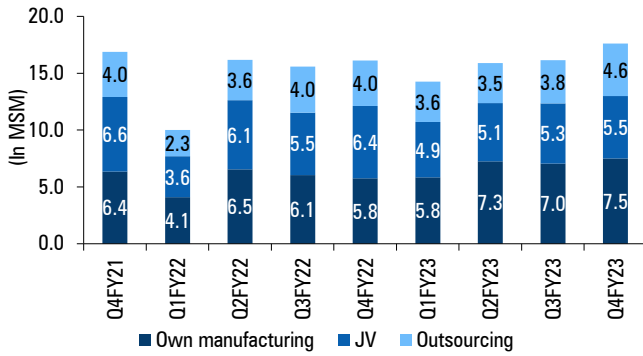
Exhibit 2: Change in estimates

Particulars	FY23		FY24E			FY25E			Comments
	Old	New	Change	Old	New	Change			
Revenue	2478.5	2791.5	2793.0	0.1	3112.7	3199.1	2.8	Realign estimates	
EBITDA	188.7	264.9	273.4	3.2	311.2	330.2	6.1		
EBITDA Margin (%)	7.6	9.5	9.8	30 bps	10.0	10.3	32 bps		
Adjusted PAT	71.5	113.3	121.5	7.3	142.2	162.5	14.3		
EPS	16.9	26.7	28.7	7.3	33.5	38.3	14.3		

Source: Company, ICICI Direct Research

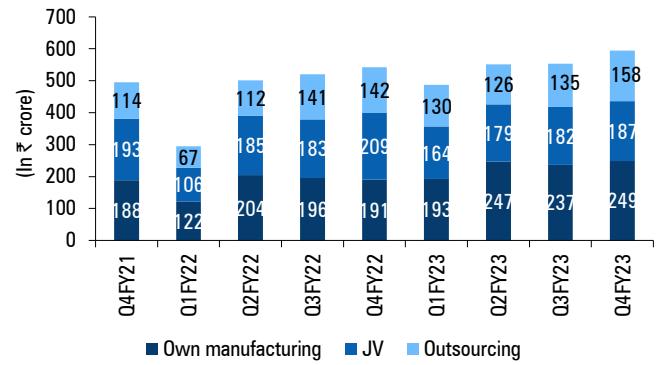
Company Analysis

Exhibit 3: Quarterly standalone sales volumes (in MSM)



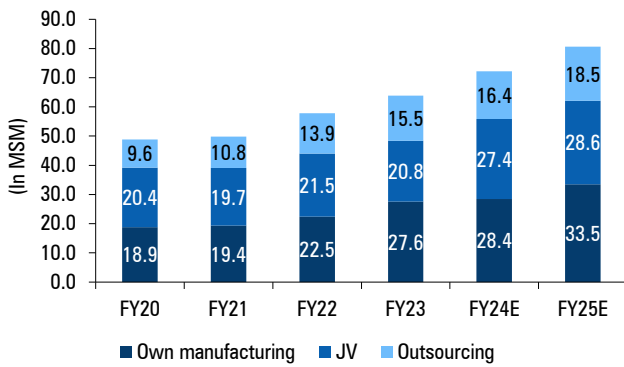
Source: Company, ICICI Direct Research

Exhibit 4: Quarterly standalone sales value



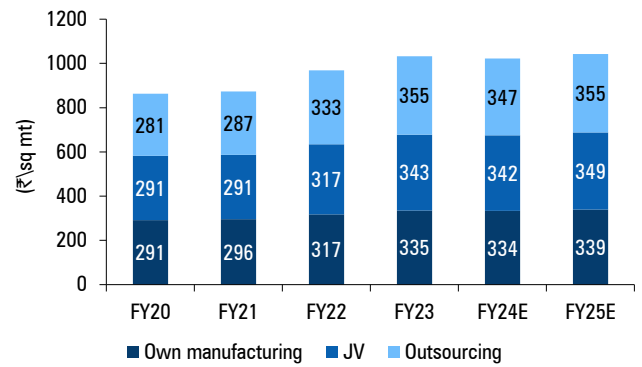
Source: Company, ICICI Direct Research

Exhibit 5: Model-wise standalone sales volumes break-up



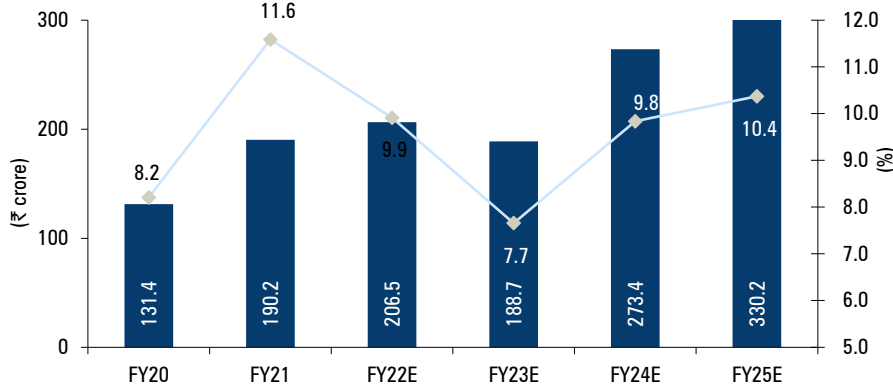
Source: Company, ICICI Direct Research

Exhibit 6: Average realisation break-up



Source: Company, ICICI Direct Research

Exhibit 7: Consolidated EBITDA and EBITDA margin trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Net Sales	2,082.7	2,464.6	2,778.0	3,184.1
Other Income	13.4	14.5	15.5	18.0
Total Revenue	2,107.9	2,493.0	2,808.5	3,217.1
Raw Material Expense	487.8	637.6	652.8	748.3
Purchase of Traded Goods	447.2	542.5	544.5	620.9
(Increase)/Decrease in Inventories	(14.4)	(110.7)	13.9	15.9
Employee benefit expenses	257.1	301.2	333.4	369.4
Other Expenses	229.3	272.1	322.2	366.2
Total Operating Expenditure	1,887.9	2,289.8	2,519.6	2,868.8
EBITDA	206.5	188.7	273.4	330.2
Interest	29.6	40.4	38.5	34.3
Depreciation	64.0	67.9	78.7	84.5
PBT	126.4	95.0	171.6	229.5
Total Tax	33.0	25.9	44.1	59.0
PAT before MI	93.4	66.9	127.5	170.5
Minority Interest	4.7	(4.6)	6.0	8.0
PAT	88.7	71.5	121.5	162.5
YoY growth	491.2%	-19.4%	69.9%	33.8%
EPS (Diluted)	20.9	16.9	28.7	38.3

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Profit after Tax	88.7	71.5	121.5	162.5
Depreciation	64.0	67.9	78.7	84.5
Interest Paid	29.6	40.4	38.5	34.3
Cash Flow before WC changes	173.6	162.8	229.3	271.2
Net Increase in Current Assets	(51.1)	(135.6)	(92.6)	(117.8)
Net Increase in Current Liabilities	56.2	171.7	(18.9)	71.1
Net CF from Op. Activities	178.7	198.8	117.7	224.6
(Purchase)/Sale of Fixed Assets	(268.6)	(151.5)	(50.0)	(50.0)
Others	41.1	34.9	15.5	18.0
Net CF from Inv. Activities	(227.6)	(116.7)	(34.5)	(32.0)
Proceeds/Repayment of Debt	87.8	(22.9)	(35.1)	(50.0)
Dividend and Dividend Tax	-	-	(24.3)	(32.5)
Interest Paid	(29.6)	(40.4)	(38.5)	(34.3)
Net CF from Fin. Activities	58.1	(63.2)	(98.0)	(116.8)
Net Cash flow	(2.8)	(2.9)	(14.8)	75.8
Opening Cash/ Cash Equivalent	149.1	148.6	154.6	139.8
Cl. Cash/ Cash Equivalent	148.6	154.6	139.8	215.6

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet				
	₹ crore			
(Year-end March)	FY22	FY23	FY24E	FY25E
Liabilities				
Share Capital	8.5	8.5	8.5	8.5
Reserves & Surplus	717.8	778.5	875.7	1,005.7
Total Shareholders funds	726.3	787.0	884.2	1,014.2
Secured Loan	336.6	303.3	283.2	233.2
Unsecured Loan	174.6	185.1	170.0	170.0
Total Debt	511.2	488.4	453.2	403.2
Deferred Tax Liability	36.4	32.7	32.7	32.7
Minority Interest	107.6	107.6	113.6	121.6
Other Long Term Liabilities	63.2	74.5	74.5	74.5
Long Term Provisions	8.7	10.5	10.5	10.5
Liability side total	1,453	1,501	1,569	1,657
Assets				
Gross Block	999.7	1,330.8	1,370.8	1,420.8
Net Block	744.5	1,007.7	968.9	934.5
Capital WIP	226.7	47.3	57.3	57.3
Current Investments	60.0	31.9	31.9	31.9
Long-term loans and advances	-	2.6	2.6	2.6
Inventories	273.7	391.5	418.6	479.8
Sundry Debtors	236.8	268.3	302.4	346.6
Loans and Advances	3.0	0.8	0.9	1.0
Other Current Assets	63.9	52.4	83.7	96.0
Cash	148.6	154.6	139.8	215.6
Total Current Assets	786.0	899.4	977.3	1,170.8
Creditors	225.5	377.7	342.5	392.6
Provisions	1.7	5.2	5.2	5.2
Other Current Liabilities	111.7	127.7	144.0	165.0
Total Current Liabilities	338.9	510.6	491.7	562.8
Net Current Assets	447.1	388.8	485.6	608.1
Assets side total	1,453	1,501	1,569	1,657

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios				
(Year-end March)	FY22	FY23	FY24E	FY25E
Per Share Data				
EPS	20.9	16.9	28.7	38.3
Cash EPS	36.0	32.9	47.2	58.3
BV	171.4	185.7	208.6	239.3
Revenue per Share	491.4	581.6	655.5	751.3
Dividend per share	3.0	3.0	3.0	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	58	55	55
Debtor Days	42	40	40	40
Creditor Days	40	56	45	45
Return Ratios				
RoE	12.2	9.1	13.7	16.0
RoCE	10.7	9.0	13.4	15.9
RoC	14.0	9.5	14.5	18.2
Valuation Ratios				
EV / EBITDA	14.5	15.9	10.9	8.6
P/E	30.4	37.8	22.2	16.6
EV / Net Sales	1.4	1.2	1.1	0.9
Market Cap / Sales	1.3	1.1	1.0	0.8
Price to Book Value	3.7	3.4	3.1	2.7
Turnover Ratios				
Asset turnover	1.4	1.6	1.8	1.9
Gross Block Turnover	2.1	1.8	2.0	2.2
Solvency Ratios				
Net Debt / Equity	0.4	0.4	0.3	0.2
Current Ratio	1.7	1.4	1.6	1.6
Debt / EBITDA	1.5	1.6	1.0	0.5
Quick Ratio	0.9	0.6	0.8	0.8

Source: Company, ICICI Direct Research

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