

Somany Ceramics

BUY

Higher sales volume supported quarterly performance

Summary

Somany Ceramics Ltd.'s (SCL) Q4FY23 result was above our and consensus estimates on key parameters as the company reported better than expected sales volume growth of tiles division. Further, our interaction with the management suggests that sales volume off-take to be key driver of net sales improvement in FY24E. Gas prices have corrected in Q4FY23, which has led to EBITDA margin expansion of the company. Net sales increased by 10.1% YoY to Rs6,792mn, while EBITDA came in at Rs610mn, up by 20.4% over Q4FY22. The company reported net profit of Rs243mn, a robust growth of 42.2% YoY. We have broadly maintained over earnings estimates for FY24E/FY25E. Maintain BUY with a revised TP of Rs756 (earlier Rs704), assigning 20x PER on FY25E.

Key Highlights and Investment Rationale

- Pick up in sales volume encouraging:** The company reported 9% YoY growth in sales volume to 17.6MSM led by improved demand dynamics. Net sales growth was driven by higher volume rather than improved NSR which were at Rs332/sqm, down by 0.3% YoY. Capacity utilization in Q4FY23 was tiles - 90%, sanitaryware- 55% and faucets- 75%, while sales mix of Own manufacturing/ JVs/Others was at 37%/28%/35%. Retail sales of company was at 78-79% in which 3% was from export, 12-13% government projects and 7-7.5% private projects.
- Volume driven growth visible, BUY with a TP of Rs756:** After a subdued H1FY23, finally the company's sales volume data looks encouraging. The management's positive commentary on FY24E growth outlook further strengthens our view of revival in earnings in near term. We believe higher share of value added products and softened gas prices may drive operating margin expansion for SCL. BUY with a TP of Rs756.

TP **Rs756**

CMP Rs635

Potential upside/downside **19%**

Previous Rating **BUY**

Price Performance (%)

	-1m	-3m	-12m
Absolute	23.1	15.4	6.8
Rel to Sensex	19.2	11.7	(7.2)

V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	26.0	37.8
Consensus	28.3	37.1
% difference	(8.3)	1.8

Key Stock Data

Bloomberg / Reuters	SOMC IN/SOCE.BO
Sector	Building Material Product
Shares o/s (mn)	42
Market cap. (Rs mn)	26,973
3-m daily avg Trd value (Rs mn)	7.0
52-week high / low	Rs694 / 445
Sensex / Nifty	61,982 / 18,348

Shareholding Pattern (%)

Promoters	54.8
FII	1.4
DII	19.6
Public	24.2

Financial snapshot

Year	FY21	FY22	FY23	FY24E	FY25E
Revenue	16,506	20,945	24,785	27,736	31,384
Change (yoy, %)	3	27	18	12	13
EBITDA	1,902	2,065	1,887	2,690	3,421
Change (yoy, %)	45	9	(9)	43	27
EBITDA Margin(%)	11.5	9.9	7.6	9.7	10.9
Adj.PAT	755	887	737	1,102	1,605
EPS (Rs)	17.8	20.9	17.4	26.0	37.8
Change (yoy, %)	88.6	17.4	(16.9)	49.6	45.6
PE(x)	35.7	30.4	36.6	24.5	16.8
Dividend Yield (%)	0.4	-	0.3	0.4	0.6
EV/EBITDA (x)	15.6	14.6	16.1	11.0	8.2
RoE (%)	12.1	13.0	9.7	13.2	16.8
RoCE (%)	10.4	10.4	8.1	10.7	13.8

Source: IDBI Capital Research

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Concall Highlights:

- The management guided that EBITDA was subdued as gas prices were still at elevated level in Q4FY23.
- Revenue Mix: Ceramic/PVT/GVT was at 39%/29%/32% respectively.
- The management indicated bathware segment to grow at 20%-25% in FY24E.
- The management guided that average utilization capacity in Q4 was the almost 90% in tile, approximately 55% of the sanitaryware and faucet was at 75%.
- The company highlighted that the brand advertising expenses were at 2.5% of sales and this would be maintained going forward.
- New dealer addition was approximately 300 in FY23 and company had about 109 showrooms, which they opened in this financial year.
- The management guided that going forward for FY24E, sales growth would be largely driven by volume growth and very small by the value growth
- On EBITDA margin front, the company has forecasted EBITDA margin of 9.5%-10.5% in F2Y24E.
- The company guided that they will focus on more dealer additions in future. They will be adding another 300 to 500 dealers during this year and similar growth is expected in future.
- The management guided that capex would be in the range of Rs500mn-550mn.
- Nepal plant will be commissioned next year. It will take 18 month from now and it will be largely for Nepal market
- Retail sales of company was at 78-79% in which 3% included export, 12-13% government projects and 7-7.5% private projects.
- The company is targeting to take GVT share in total sales to ~40% in next 3 years.
- In FY24, the company is looking 13% volume growth and margin will also grow at same extent.

Exhibit 1: Financial snapshot

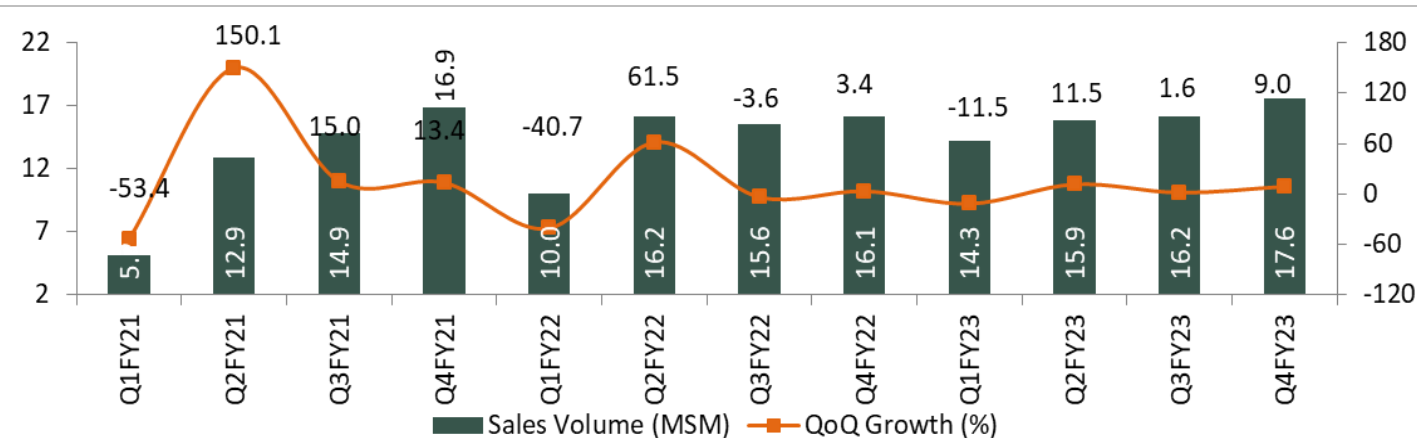
Particulars (mn)	Q4FY23	Q3FY23	QoQ (%)	Q4FY22	YoY (%)
Total revenues	6,792	6,224	9.1	6,168	10.1
Total expenditure	6,182	5,818	6.3	5,661	9.2
EBIDTA	610	406	50.3	507	20.4
<i>EBIDTA margin(%)</i>	<i>9.0</i>	<i>6.5</i>	<i>246bps</i>	<i>8.2</i>	<i>897.8bps</i>
Depreciation	187	168	11.4	171	9.7
Interest cost	116	119	(2.0)	64	82.4
Other income	36	41	(13.4)	15	144.8
exceptional Item	-	-	-	-	-
PBT	342	160	113.6	287	19.3
Tax	98	45	115.6	81	20.7
Minority Interest	(1)	5		(35)	
Rep. net profit	243	120	103.5	171	42.2
EPS (INR)	5.7	2.8	103.5	4.0	42.2

Source: Company; IDBI Capital Research

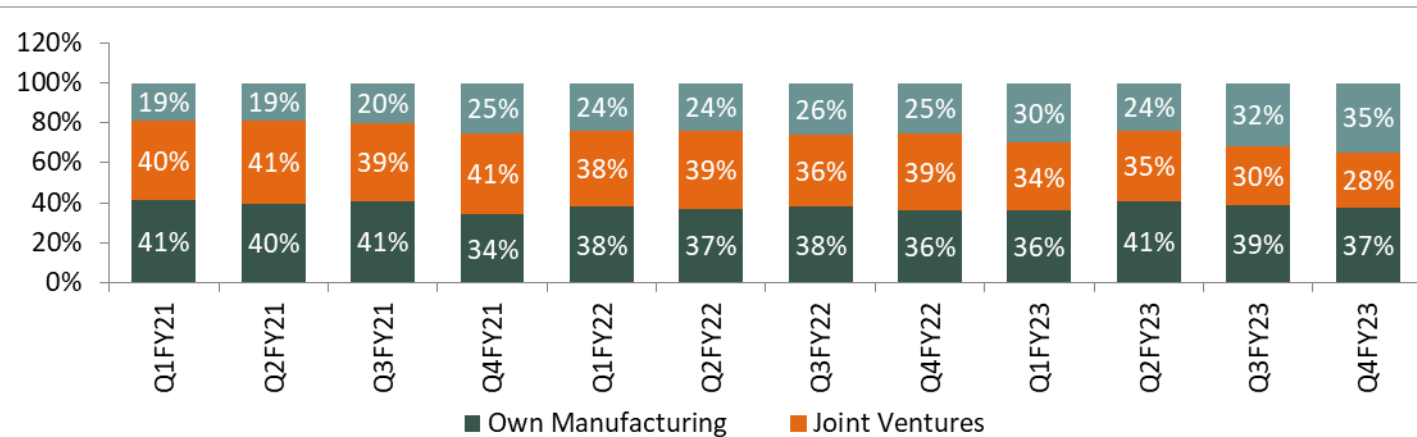
Exhibit 2: Actual Vs Expected

Particulars (Rs mn)	Q4FY23A	Q4FY23E	Variance (%)
Net Sales	6,792	6,315	7.6
EBITDA	610	531	14.8
<i>EBITDA Margin</i>	<i>9</i>	<i>8</i>	<i>57.8bps</i>
Net Profit	243	188	29.4
EPS Rs	5.7	4.4	29.4

Source: Company; IDBI Capital Research

Exhibit 3: Sales volume analysis


Source: Company; IDBI Capital Research

Exhibit 4: Sales volume contribution (%)


Source: Company; IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Net sales	16,101	16,506	20,945	24,785	27,736	31,384
<i>Change (yoy, %)</i>	<i>(6.1)</i>	<i>2.5</i>	<i>26.9</i>	<i>18.3</i>	<i>11.9</i>	<i>13.2</i>
Operating expenses	(14,787)	(14,604)	(18,879)	(22,898)	(25,046)	(27,963)
EBITDA	1,314	1,902	2,065	1,887	2,690	3,421
<i>Change (yoy, %)</i>	<i>-20.2</i>	<i>44.8</i>	<i>8.6</i>	<i>-8.6</i>	<i>42.6</i>	<i>27.2</i>
<i>Margin (%)</i>	<i>8.2</i>	<i>11.5</i>	<i>9.9</i>	<i>7.6</i>	<i>9.7</i>	<i>10.9</i>
Depreciation	(590)	(616)	(640)	(679)	(996)	(1,049)
EBIT	724	1,286	1,426	1,209	1,694	2,372
Interest paid	(494)	(401)	(296)	(404)	(443)	(465)
Other income	127	128	134	145	160	176
Pre-tax profit	96	1,197	1,264	972	1,412	2,084
Tax	99	(222)	(330)	(259)	(355)	(524)
<i>Effective tax rate (%)</i>	<i>(103.5)</i>	<i>18.5</i>	<i>26.1</i>	<i>26.7</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	(56.7)	(35.7)	(47.3)	45.8	45.8	45.8
Net profit	138	939	887	759	1,102	1,605
Exceptional items	(262)	185	-	22	-	-
Adjusted net profit	400	755	887	737	1,102	1,605
<i>Change (yoy, %)</i>	<i>(31.7)</i>	<i>88.6</i>	<i>17.5</i>	<i>(16.9)</i>	<i>49.6</i>	<i>45.6</i>
EPS	9.4	17.8	20.9	17.4	26.0	37.8
Dividend per sh	4.0	2.4	-	2.0	2.5	3.5
<i>Dividend Payout (%)</i>	<i>50.9</i>	<i>16.2</i>	<i>-</i>	<i>13.8</i>	<i>11.6</i>	<i>11.1</i>

Balance Sheet

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Shareholders' funds	6,065	6,407	7,263	7,870	8,845	10,271
Share capital	85	85	85	85	85	85
Reserves & surplus	5,980	6,323	7,178	7,785	8,760	10,186
Total Debt	4,451	4,235	4,765	4,884	4,917	5,163
Other liabilities	415	1,249	1,310	1,455	1,536	1,647
Curr Liab & prov.	3,703	2,698	3,508	4,827	5,123	5,404
Current liabilities	2,651	2,206	3,035	4,212	4,501	4,766
Provisions	1,052	492	473	615	622	638
Total liabilities	8,568	8,182	9,584	11,166	11,577	12,214
Total equity & liabilities	15,574	15,586	17,923	20,111	21,451	23,470
Net fixed assets	7,472	7,210	9,369	10,120	10,143	9,869
Investments	341	898	600	319	350	378
Other non-curr assets	736	1,115	1,250	1,315	1,368	1,418
Current assets	7,024	6,363	6,704	8,358	9,590	11,805
Inventories	3,282	2,455	2,737	3,915	4,228	4,439
Sundry Debtors	2,798	2,211	2,368	2,683	2,844	2,986
Cash and Bank	201	1,491	1,486	1,546	2,288	4,135
Loans and advances	345	131	33	10	11	12
Total assets	15,574	15,586	17,923	20,111	21,451	23,470

Cash Flow Statement

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	96	1,197	1,264	972	1,412	2,084
Depreciation	590	616	640	679	996	1,049
Tax paid	(48)	(228)	(358)	(346)	(332)	(483)
Chg in working capital	667	623	469	(152)	(178)	(73)
Other operating activities	-	-	-	-	-	-
Cash flow from operations (a)	1,304	2,208	2,015	1,153	1,897	2,576
Capital expenditure	(743)	(354)	(2,798)	(1,429)	(1,019)	(775)
Chg in investments	341	(557)	298	282	(32)	(28)
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(402)	(911)	(2,501)	(1,147)	(1,051)	(803)
Equity raised/(repaid)	-	-	0	-	-	-
Debt raised/(repaid)	(656)	(216)	531	118	33	246
Dividend (incl. tax)	(204)	(122)	-	(102)	(127)	(178)
Chg in minorities	(12)	20	32	45	-	-
Other financing activities	(231)	311	(82)	(20)	(19)	(4)
Cash flow from financing (c)	(1,102)	(7)	481	42	(113)	64
Net chg in cash (a+b+c)	(200)	1,290	(5)	47	734	1,837

Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	143.0	151.1	171.1	185.4	208.4	242.0
Adj EPS (Rs)	9.4	17.8	20.9	17.4	26.0	37.8
Adj EPS growth (%)	-31.7	88.6	17.4	(16.9)	49.6	45.6
EBITDA margin (%)	8.2	11.5	9.9	7.6	9.7	10.9
Pre-tax margin (%)	0.6	7.2	6.0	3.9	5.1	6.6
Net Debt/Equity (x)	0.7	0.4	0.5	0.4	0.3	0.1
ROCE (%)	5.9	10.4	10.4	8.1	10.7	13.8
ROE (%)	6.6	12.1	13.0	9.7	13.2	16.8

DuPont Analysis

Asset turnover (x)	1.0	1.1	1.3	1.3	1.3	1.4
Leverage factor (x)	2.6	2.5	2.5	2.5	2.5	2.3
Net margin (%)	2.5	4.6	4.2	3.0	4.0	5.1

Working Capital & Liquidity ratio

Inventory days	74	54	48	58	56	52
Receivable days	63	49	41	40	37	35
Payable days	43	46	50	60	59	56

Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	67.3	35.7	30.4	36.6	24.5	16.8
Price/Book value (x)	4.4	4.2	3.7	3.4	3.0	2.6
EV/Net sales (x)	1.9	1.8	1.4	1.2	1.1	0.9
EV/EBITDA (x)	23.7	15.6	14.6	16.1	11.0	8.2
Dividend Yield (%)	0.6	0.4	0.0	0.3	0.4	0.6

Source: Company; IDBI Capital Research



Notes

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Key to Ratings Stocks:

BUY: 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

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