

Somany Ceramics

BUY

Subdued volume growth and weak ASP marred the earnings

Summary

Somany Ceramics Ltd.'s (SCL) Q4FY24 result was slightly better than our estimates on key parameters. The company reported another quarter of subdued volume growth as domestic demand continued to be sluggish and lower exports from Morbi raised competitive intensity in the domestic market. The management has guided lower double digit net sales growth in FY25E, which would be majorly driven by higher volume. Net sales was higher by 8.6% YoY to Rs7,375mn, while EBITDA came in at Rs795mn, up by 30.3% YoY. The company reported net profit of Rs339mn, up by 38.9% YoY. We have broadly maintained our earnings estimates for FY25E/FY26E. Post recent stock price correction, valuation looks attractive at current level. We upgrade the stock to BUY with a revised TP of Rs765 (earlier Rs775), assigning 18x PER on FY26E.

Key Highlights and Investment Rationale

- Another quarter of suppressed volume growth:** The company reported 7.3% YoY growth in sales volume to 18.8MSM led by subdued demand. Further, NSR declined by 2.3% YoY to Rs324/SQM. Energy prices declined in the quarter, which was partially passed on, driving lower ASP in Q4. Capacity utilization in Q4FY24 was tiles - 89%, sanitaryware- 39% and faucets- 100%, while sales mix of Own manufacturing/ JVs/Others was at 30%/32%/38%.
- Valuation looks lucrative, BUY with a TP of Rs765:** The company's FY24 performance was marred by challenges in domestic market viz subdued demand and Morbi's increased supply. The management has guided meaningful revival in H2FY25E as real estate segment shows recovery. We expect optimum utilization of current capacity, demand revival and improved performance of bathware segment to drive earnings growth in near term. Post correction n stock price, valuation looks lucrative. BUY with a TP of Rs765.

TP	Rs765		Key Stock Data	
CMP	Rs621			
Potential upside/downside	23%			
Previous Rating	HOLD			
Price Performance (%)				
	-1m	-3m	-12m	
Absolute	3.1	(8.7)	14.4	
Rel to Sensex	3.6	(10.0)	(2.7)	
V/s Consensus			Shareholding Pattern (%)	
EPS (Rs)	FY25E	FY26E	Promoters	55.0
IDBI Capital	34	43	FII	1.3
Consensus	34	43	DII	21.3
% difference	0.4	0.8	Public	22.4

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	20,945	24,785	25,914	28,803	31,878
Change (yoY, %)	27	18	5	11	11
EBITDA	2,065	1,887	2,532	2,996	3,507
Change (yoY, %)	9	(9)	34	18	17
EBITDA Margin(%)	9.9	7.6	9.8	10.4	11.0
Adj.PAT	887	737	1,039	1,403	1,743
EPS (Rs)	21	17	25	34	43
Change (yoY, %)	17.4	(16.9)	46.0	35.0	24.2
PE(x)	29.7	35.8	24.5	18.1	14.6
Dividend Yield (%)	-	0.3	0.5	0.6	0.7
EV/EBITDA (x)	14.4	15.7	11.1	8.9	7.1
RoE (%)	13.0	9.7	13.8	18.0	19.0
RoCE (%)	10.4	8.1	12.8	15.0	16.5

Source: IDBI Capital Research

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Concall Highlights:**Industry:**

- According to the management, geopolitical issues impacted the exports from the country due to which morbi players dumped most of their product in the domestic market.
- Management has guided that in Q1FY25 demand to be sluggish led by elections. However, the management is confident that post-election the demand to improve and expect good recovery in H2FY25.

Operating Performance:

- During the quarter, sales volume grew by 7% to 188 MSM. Also, in value terms grew by 6% to Rs7,093 mn.
- In FY24, sales volume grew by 5% to 669 MSM. Also, in value terms grew by 4% to Rs25 bn.
- During the quarter, the capacity utilization for sanitary ware, faucet ware and tiles stood at 39%, 100% and 89%.
- In FY24, the capacity utilization stood at 86%.
- In FY24 the contribution from GVT has grown by 2% YoY to 34%.Also, Q4FY24 the contribution from GVT grown by 6%YoY to 36%.

Capex:

- The company will do the capex of ~Rs600 mn in FY25 towards maintenance of the plant.
- The Nepal project got delayed due to unfavorable weather conditions, the company expects the project to be get completed by H2FY26.

Others:

- In FY24, A&P spends stood at 2.5% of total sales. Also, In FY25 the company has guided the A&P spend increase to 3% of total sales.
- The company has added 110 dealers in FY24 and will add another ~150 dealers in FY25.
- In FY24, the sales mix between retail and institutional stood at 80:20.

Guidance:

- Somany has guided low double digit growth for FY25 led by increase in volumes and capacity utilization. Also, margins to improve by 100-120bps during the year.

Exhibit 1: Financial snapshot

Particulars (mn)	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
Total revenues	7,375	6,121	20.5	6,792	8.6
Total expenditure	6,581	5,531	19.0	6,182	6.4
EBIDTA	795	590	34.6	610	30.3
<i>EBIDTA margin(%)</i>	10.8	9.6	113bps	9.0	1078bps
Depreciation	193	188	2.6	187	3.2
Interest cost	134	109	23.4	116	15.4
Other income	16	28	(43.4)	36	(55.2)
exceptional Item	33	13	-	-	-
PBT	483	321	50.4	342	41.4
Tax	177	100	76.5	98	81.0
Minority Interest	-	-		1	
Rep. net profit	339	234	44.8	244	38.9
EPS (INR)	8.0	5.5	44.8	5.7	38.9

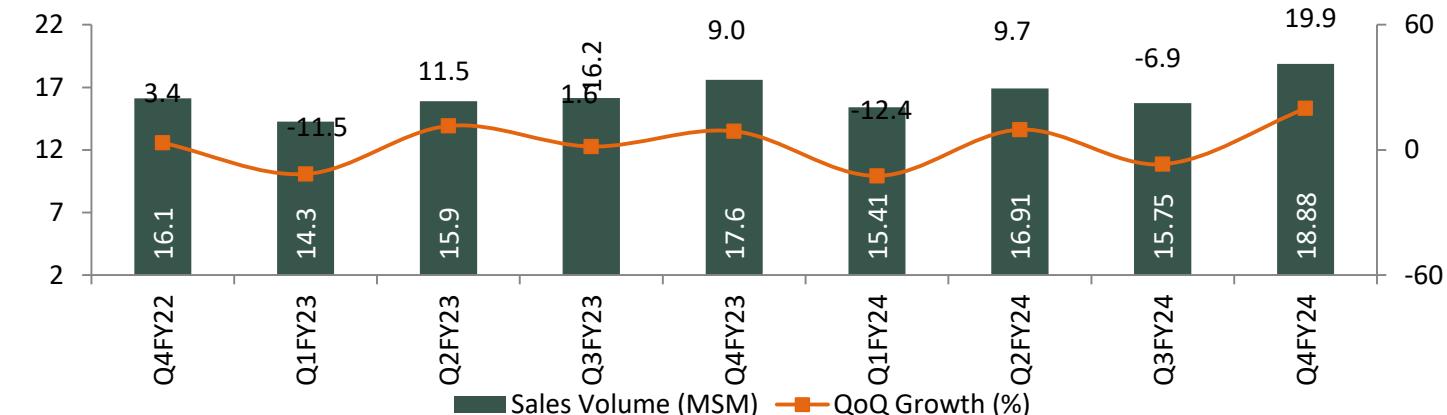
Source: Company; IDBI Capital Research

Exhibit 2: Actual Vs Expected

Particulars (Rs mn)	Q4FY24A	Q4FY24E	Variance (%)
Net Sales	7,375	6,729	9.6
EBIDTA	795	665	19.5
<i>EBIDTA Margin</i>	10.8	9.9	90bps
Net Profit	339	295	14.7
EPS Rs	8.0	7.0	14.7

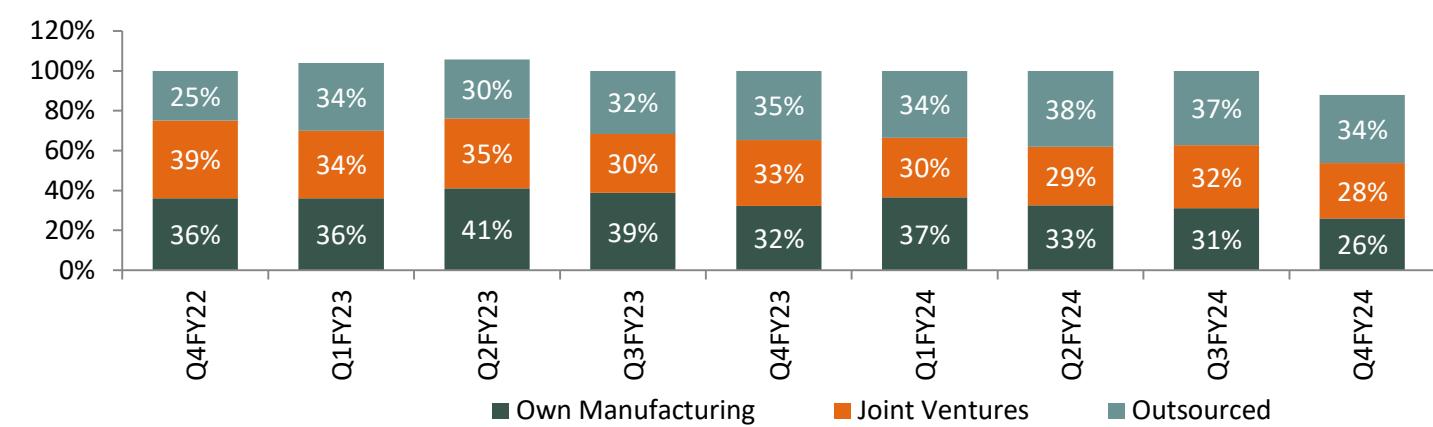
Source: Company; IDBI Capital Research

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	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	16,506	20,945	24,785	25,914	28,803	31,878
<i>Change (yoY, %)</i>	2.5	27	18	5	11	11
Operating expenses	(14,604)	(18,879)	(22,898)	(23,381)	(25,808)	(28,372)
EBITDA	1,902	2,065	1,887	2,532	2,996	3,507
<i>Change (yoY, %)</i>	44.8	9	(9)	34	18	17
<i>Margin (%)</i>	11.5	9.9	7.6	9.8	10.4	11.0
Depreciation	(616)	(640)	(679)	(725)	(948)	(993)
EBIT	1,286	1,426	1,209	1,807	2,047	2,513
Interest paid	(401)	(296)	(404)	(465)	(317)	(334)
Other income	128	134	145	106	111	117
Pre-tax profit	828	1,264	929	1,428	1,842	2,296
Tax	(222)	(330)	(259)	(434)	(464)	(578)
<i>Effective tax rate (%)</i>	26.8	26.1	27.9	30.4	25.2	25.2
Minority Interest	(35.7)	(47.3)	45.8	25.0	25.0	25.0
Net profit	570	887	715	1,019	1,403	1,743
Exceptional items	(185)	-	(22)	(21)	-	-
Adjusted net profit	755	887	737	1,039	1,403	1,743
<i>Change (yoY, %)</i>	88.6	18	(17)	41	35	24
EPS	17.8	20.9	17.4	25.3	34.2	42.5
Dividend per sh	2.4	-	2.0	3.0	3.5	4.5
<i>Dividend Payout (%)</i>	16.2	-	13.8	14.2	12.3	12.7

Balance Sheet							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Shareholders' funds	6,407	7,263	7,870	7,201	8,432	9,954	
Share capital	85	85	85	82	82	82	
Reserves & surplus	6,323	7,178	7,785	7,119	8,350	9,872	
Total Debt	4,235	4,765	4,884	3,351	3,519	3,714	
Other liabilities	1,249	1,310	1,455	1,229	1,319	1,413	
Curr Liab & prov.	2,698	3,508	4,827	6,928	7,316	7,666	
Current liabilities	2,206	3,035	4,212	6,346	6,719	7,054	
Provisions	492	473	615	582	598	611	
Total liabilities	8,182	9,584	11,166	11,508	12,154	12,792	
Total equity & liabilities	15,586	17,923	20,111	19,838	21,690	23,825	
Net fixed assets	7,210	9,369	10,120	10,846	10,653	10,415	
Investments	898	600	319	146	157	172	
Other non-curr assets	1,115	1,250	1,315	1,230	1,275	1,318	
Current assets	6,363	6,704	8,358	7,615	9,604	11,920	
Inventories	2,455	2,737	3,915	3,466	3,639	3,857	
Sundry Debtors	2,211	2,368	2,683	3,372	3,541	3,789	
Cash and Bank	1,491	1,486	1,546	709	2,352	4,198	
Loans and advances	206	113	215	68	73	76	
Total assets	15,586	17,923	20,111	19,838	21,690	23,825	

Cash Flow Statement							(Rs mn)
Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E	
Pre-tax profit	828	1,264	929	1,428	1,842	2,296	
Depreciation	616	640	679	725	948	993	
Tax paid	(228)	(358)	(346)	(359)	(426)	(531)	
Chg in working capital	623	469	(152)	1,869	47	(117)	
Other operating activities	-	-	-	-	-	-	
Cash flow from operations (a)	1,839	2,015	1,110	3,664	2,411	2,641	
Capital expenditure	(354)	(2,798)	(1,429)	(1,452)	(755)	(756)	
Chg in investments	(557)	298	282	173	(12)	(14)	
Other investing activities	-	-	-	-	-	-	
Cash flow from investing (b)	(911)	(2,501)	(1,147)	(1,279)	(766)	(770)	
Equity raised/(repaid)	-	0	-	(3)	-	-	
Debt raised/(repaid)	(216)	531	118	(1,533)	168	195	
Dividend (incl. tax)	(122)	-	(102)	(148)	(172)	(221)	
Chg in minorities	20	32	45	78	-	-	
Other financing activities	680	(82)	36	(1,616)	3	1	
Cash flow from financing (c)	362	481	98	(3,222)	(2)	(25)	
Net chg in cash (a+b+c)	1,290	(5)	60	(837)	1,643	1,846	

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	151.1	171.1	185.4	175.6	205.7	242.8
Adj EPS (Rs)	17.8	20.9	17.4	25.3	34.2	42.5
Adj EPS growth (%)	88.6	17.4	-16.9	46.0	35.0	24.2
EBITDA margin (%)	11.5	9.9	7.6	9.8	10.4	11.0
Pre-tax margin (%)	5.0	6.0	3.7	5.5	6.4	7.2
Net Debt/Equity (x)	0.4	0.5	0.4	0.4	0.1	0.0
ROCE (%)	10.4	10.4	8.1	12.8	15.0	16.5
ROE (%)	12.1	13.0	9.7	13.8	18.0	19.0
DuPont Analysis						
Asset turnover (x)	1.1	1.3	1.3	1.3	1.4	1.4
Leverage factor (x)	2.5	2.5	2.5	2.7	2.7	2.5
Net margin (%)	4.6	4.2	3.0	4.0	4.9	5.5
Working Capital & Liquidity ratio						
Inventory days	54	48	58	49	46	44
Receivable days	49	41	40	47	45	43
Payable days	46	50	60	87	84	80

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	34.9	29.7	35.8	24.5	18.1	14.6
Price/Book value (x)	4.1	3.6	3.3	3.5	3.0	2.6
EV/Net sales (x)	1.8	1.4	1.2	1.1	0.9	0.8
EV/EBITDA (x)	15.3	14.4	15.7	11.1	8.9	7.1
Dividend Yield (%)	0.4	0.0	0.3	0.5	0.6	0.7

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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