

Somany Ceramics

HOLD

Subdued volume growth and decline in NSR dented earnings

Summary

Somany Ceramics Ltd.'s (SCL) Q2FY25 result was in-line with our estimates on net sales and EBITDA front, while PAT was below forecast. below our estimates on key parameters. During the quarter, demand has been subdued due to lower Morbi exports, which has led to material oversupply in the domestic market. Additionally, high rainfall during the quarter has further impacted demand conditions. The management guided demand to improve in H2FY25 and will support volume off-take. Net sales was marginally up by 1.7% YoY to Rs6,663mn, while EBITDA came in at Rs560mn, down by 12.7% YoY. The company reported net profit of Rs173mn, down by 41.3% YoY. Given weak H1FY25, we have cut net earnings estimates for FY25E/FY26E. Maintain HOLD with a TP of Rs718 (earlier Rs765), assigning 18x PER on FY26E.

Key Highlights and Investment Rationale

- Another quarter of subdued performance:** Demand has been subdued due to lower Morbi exports, which has led to material oversupply in domestic market. Additionally, high rainfall during the quarter has further impacted demand conditions. Somany reported 2.6% YoY increase in sales volume to 17.8MSM, while NSR declined by 3.1% YoY to Rs319/SQM. The product mix for the Q2FY25 for own manufacturing/JV manufacturing and others were at 28%/34% and 38%. Capacity utilization decreased by 4% QoQ and 10% YoY, to 77%.
- Revival in earnings in H2FY25 to be watched, HOLD with a TP of Rs718:** The management has guided H2FY25 to be better on key parameters, primarily aided by demand revival. We expect optimum utilization of current capacity, demand revival and improved performance of bathware segment to drive earnings growth in near term. HOLD with a TP of Rs718.

TP	Rs718
CMP	Rs651
Potential upside/downside	10%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(6.9)	(15.1)	(2.7)
Rel to Sensex	(0.9)	(13.9)	(28.7)

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	32.9	39.9
Consensus	29.7	39.8
% difference	10.9	0.2

Key Stock Data

Bloomberg / Reuters	SOMC IN/SOCE.BO
Sector	Building Material Product
Shares o/s (mn)	41
Market cap. (Rs mn)	26,696
3-m daily avg Trd value (Rs mn)	2.2
52-week high / low	Rs872 / 562
Sensex / Nifty	80,369 / 24,467

Shareholding Pattern (%)

Promoters	55.0
FII	1.8
DII	21.9
Public	21.3

Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	20,945	24,785	25,914	28,130	31,132
Change (yoy, %)	27	18	5	9	11
EBITDA	2,065	1,887	2,532	2,925	3,362
Change (yoy, %)	9	(9)	34	16	15
EBITDA Margin(%)	9.9	7.6	9.8	10.4	10.8
Adj.PAT	887	737	1,039	1,351	1,635
EPS (Rs)	21	17	25	32.9	39.9
Change (yoy, %)	17.4	(16.9)	46.0	30.0	21.0
PE(x)	35.8	43.1	29.5	19.8	16.4
Dividend Yield (%)	31.3	37.6	25.8	0.5	0.7
EV/EBITDA (x)	-	0.3	0.5	9.6	7.9
RoE (%)	15.0	16.5	11.6	17.3	18.0
RoCE (%)	13.0	9.7	13.8	14.5	15.6

Source: IDBI Capital Research

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Concall Highlights:**Industry:**

- During the quarter, demand has been subdued due to lower exports, which has led to material oversupply in India. Additionally, high rainfall during the quarter has further impacted demand conditions.
- Exports decreased by 15% in the first half of the fiscal year, totaling Rs1,280cr, compared to the average range of Rs1,650–1,700cr.
- Gas prices remained relatively stable during the Q2FY25

Operating Performance:

- During the quarter, sales volume remained flat YoY to 17.81 MSM. Also, in value terms remained flat YoY to Rs6,615 mn.
- The product mix for the Q2FY25 for own manufacturing/JV manufacturing and others were at 28%/34% and 38%.
- Softer demand led to increased discounting at the end of the quarter, though an improved product mix helped mitigate this impact
- Working capital days increased from 8 to 13 days

Others:

- The company has invested Rs370 mn in solar energy, expected to generate benefits of Rs15–20 mn
- ~75% of sales are derived from retail, while 25% comes from project business, of which government and private sectors contributes 50-50%.
- Capacity utilization decreased by 4% QoQ and 10% YoY, to 77%.

Guidance:

- Capacity utilization is expected to increase due to new product launches.
- Somany has guided for 1-1.5% volume growth, leading to high single-digit to low double-digit growth, with margins to increase by 1-1.5% over FY24.

Exhibit 1: Financial snapshot

Particulars(mn)	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)
Total revenues	6,663	5,786	15.2	6,552	1.7
Total expenditure	6,103	5,296	15.2	5,910	3.3
EBIDTA	560	490	14.4	641	(12.7)
<i>EBIDTA margin(%)</i>	<i>8.4</i>	<i>8.5</i>	<i>-6bps</i>	<i>9.8</i>	<i>-138.3bps</i>
Depreciation	192	192	(0.1)	176	8.7
Interest cost	135	135	(0.1)	110	22.8
Other income	13	21	(36.8)	38	(65.6)
exceptional Item	-	-	-	-	-
PBT	247	184	34.3	394	(37.3)
Tax	73	61	19.9	98	(25.3)
Minority Interest	-	-	-	-	-
Rep. net profit	173	123	41.4	295	(41.3)
EPS (INR)	4.1	2.9	41.4	7.0	(41.3)

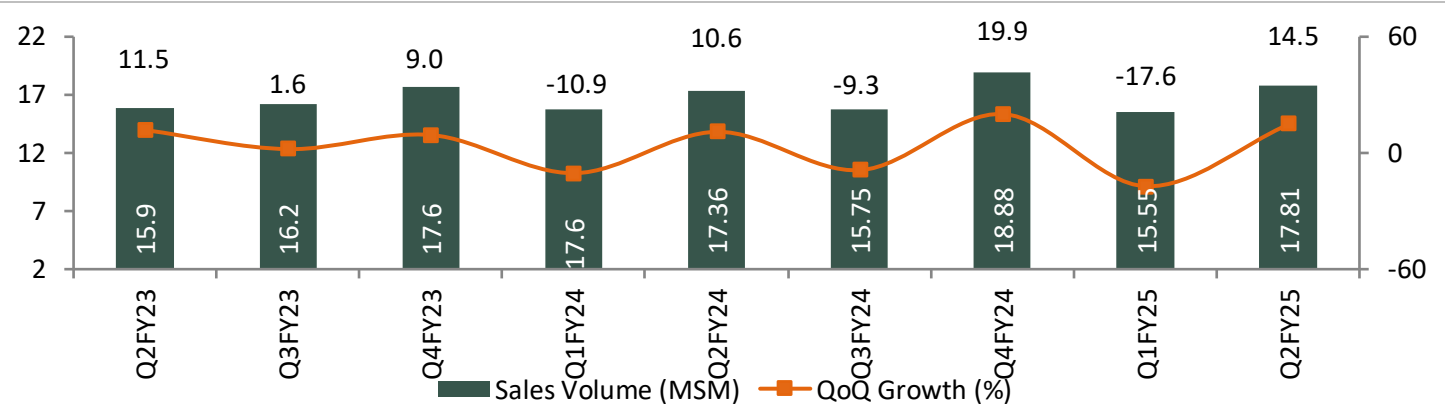
Source: Company; IDBI Capital Research

Exhibit 2: Actual Vs Expected

Particulars (Rs mn)	Q2FY25A	Q2FY25E	Variance (%)
Net Sales	6,663	6,278	6.1
EBITDA	560	613	(8.7)
<i>EBITDA Margin</i>	<i>8.4</i>	<i>9.8</i>	<i>-137bps</i>
Net Profit	173	228	(24.1)
EPS Rs	4.1	5.4	(24.1)

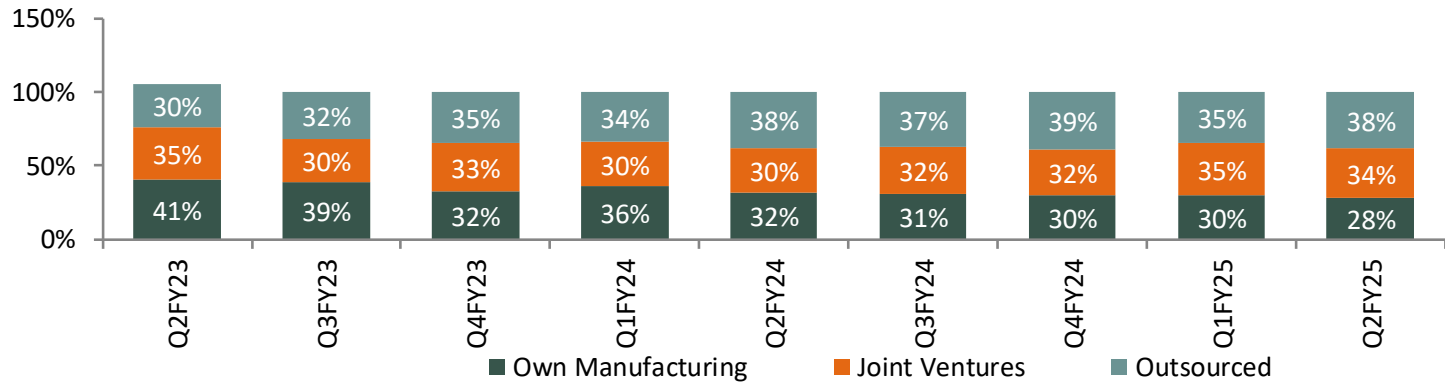
Source: Company; IDBI Capital Research

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	28,130	31,132
<i>Change (yoy, %)</i>	2.5	27	18	5	9	11
Operating expenses	(14,604)	(18,879)	(22,898)	(23,381)	(25,204)	(27,770)
EBITDA	1,902	2,065	1,887	2,532	2,925	3,362
<i>Change (yoy, %)</i>	44.8	9	(9)	34	16	15
<i>Margin (%)</i>	11.5	9.9	7.6	9.8	10.4	10.8
Depreciation	(616)	(640)	(679)	(725)	(948)	(993)
EBIT	1,286	1,426	1,209	1,807	1,977	2,369
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	1,772	2,152
Tax	(222)	(330)	(259)	(434)	(446)	(542)
<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	1,351	1,635
Exceptional items	(185)	-	(22)	(21)	-	-
Adjusted net profit	755	887	737	1,039	1,351	1,635
<i>Change (yoy, %)</i>	88.6	18	(17)	41	30	21
EPS	17.8	20.9	17.4	25.3	32.9	39.9
Dividend per sh	2.4	-	2.0	3.0	3.5	4.5
<i>Dividend Payout (%)</i>	16.2	-	13.8	14.2	12.7	13.5

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	6,407	7,263	7,870	7,201	8,380	9,794
Share capital	85	85	85	82	82	82
Reserves & surplus	6,323	7,178	7,785	7,119	8,298	9,712
Total Debt	4,235	4,765	4,884	3,351	3,519	3,714
Other liabilities	1,249	1,310	1,455	1,229	1,317	1,407
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	12,152	12,787
Total equity & liabilities	15,586	17,923	20,111	19,838	21,635	23,659
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	9,550	11,754
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	2,297	4,032
Loans and advances	206	113	215	68	73	76
Total assets	15,586	17,923	20,111	19,838	21,635	23,659

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	828	1,264	929	1,428	1,772	2,152
Depreciation	616	640	679	725	948	993
Tax paid	(228)	(358)	(346)	(359)	(410)	(498)
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	2,357	2,530
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)	1,589	1,734

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	151.1	171.1	185.4	175.6	204.4	238.9
Adj EPS (Rs)	17.8	20.9	17.4	25.3	32.9	39.9
Adj EPS growth (%)	88.6	17.4	-16.9	46.0	30.0	21.0
EBITDA margin (%)	11.5	9.9	7.6	9.8	10.4	10.8
Pre-tax margin (%)	5.0	6.0	3.7	5.5	6.3	6.9
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	14.5	15.6
ROE (%)	12.1	13.0	9.7	13.8	17.3	18.0

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	4.8	5.3

Working Capital & Liquidity ratio

Inventory days	54	48	58	49	47	45
Receivable days	49	41	40	47	46	44
Payable days	46	50	60	87	86	82

Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	36.7	31.3	37.6	25.8	19.8	16.4
Price/Book value (x)	4.3	3.8	3.5	3.7	3.2	2.7
EV/Net sales (x)	1.8	1.5	1.3	1.1	1.0	0.8
EV/EBITDA (x)	16.0	15.0	16.5	11.6	9.6	7.9
Dividend Yield (%)	0.4	0.0	0.3	0.5	0.5	0.7

Source: Company; IDBI Capital Research

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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