INSTITUTIONAL RESEARCH

Somany Ceramics

Not yet booming, demand is just rooming

We recently engaged with Somany Ceramics' management, including Mr. Abhishek Somany (MD & CEO), Mr. Sailesh Kedawat (CFO), and Mr. Kumar Sunit (Head - Strategy and IR). The management reported stable tile prices but noted continued sluggish demand. However, they observed early signs of demand recovery and expressed optimism for strong tile demand in the coming quarters, citing robust recent real estate sales. They emphasized a strong focus on the balance sheet and working capital management, prioritizing financial stability at the expense of potential growth. The company has no tile segment expansion plans for the next 18 months. We anticipate that the persistent issue of Morbi dumping will continue to hinder tile player volume growth and margins. Somany's newly commissioned large-sized tiles Max plant in Gujarat, with a 4.5 MSM capacity, is expected to drive volume growth and improve its product mix. We project a 7% tile volume growth for Somany from FY24 to FY27. Our forecasts indicate a 7%, 6%, and 11% CAGR for revenue, EBITDA, and APAT, respectively, during FY24-27E. While we maintain our current estimates, our topline and bottom-line projections are ~2% and ~8% below consensus for FY25-27E. We remain positive on Somany due to its robust retail distribution, improved product mix, and efficient working capital management. We reiterate our BUY rating on Somany Ceramics with an unchanged target price of INR 660/share (22x Sep-26E consolidated EPS).

- **Demand's yet to pick up; prices are stable:** Management reported that tile prices have remained stable, while demand continues to be sluggish. While bathware demand is relatively better than tile demand, it is still subpar. Tile demand is further hampered by weak exports. However, management has observed an improvement in tile exports, which they anticipate will alleviate pressure from Morbi in the domestic market. Furthermore, they see early signs of a demand recovery and are optimistic about strong tile demand in the coming quarters, based on robust real estate sales in recent years. For FY26, the company aims for high single-digit to low double-digit volume growth. To enhance realization and margins, management intends to improve their product mix. The company has increased the GVT mix from 29% in FY22 to 38%, with plans to reach 40% shortly and 50% in the next few years. Management emphasizes a strong focus on the balance sheet and working capital management, even if it means sacrificing some growth. Somany has significantly improved its working capital in recent years, reducing it to less than one month from over three months five years ago.
- **No expansion plan**: Somany is focusing on maximizing its existing tile capacity, which can operate at 95-100% utilization, rather than pursuing expansion in the next 18 months. The Nepal expansion has been on hold due to oversupply and weak demand. Sanitary ware capacity may be increased in future quarters, requiring an investment of INR 0.3-0.5 billion. Brownfield expansion remains a viable option for future tile capacity additions, with a completion time of two to three quarters.
- **Outlook and valuation:** The unorganized Morbi tile manufacturers have significantly disrupted the industry by flooding the domestic market with low-priced products. Given the ongoing geopolitical tensions, Indian tile exports are expected to remain volatile. Consequently, the challenge of Morbi dumping will most likely continue to suppress tile player volume growth and margins. While strong real estate sales have provided some impetus to the tile sector, much of this potential growth has been offset by Morbi's aggressive pricing.

BUY

CMP *(as on 21 Mar 2025)*	**INR 440**
Target Price	**INR 660**
NIFTY	**23,350**

KEY CHANGES	**OLD**	**NEW**
Rating	BUY	BUY
Price Target	INR 660	INR 660
EPS revision %	FY25E *(0.00)*	FY26E *(0.00)*

KEY STOCK DATA	
Bloomberg code	SOMC IN
No. of Shares (mn)	41
MCap (INR bn) / ($ mn)	18/209
6m avg traded value (INR mn)	15
52 Week high / low	INR 873/402

STOCK PERFORMANCE (%)	**3M**	**6M**	**12M**
Absolute (%)	(33.6)	(39.7)	(30.4)
Relative (%)	(32.1)	(30.6)	(36.2)

SHAREHOLDING PATTERN (%)	**Sep-24**	**Dec-24**
Promoters	55.02	55.01
FIs & Local MFs	23.52	23.61
FPIs	1.78	1.56
Public & Others	19.68	19.82
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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Somany's new large-sized tiles Max plant in Gujarat, with a 4.5 MSM capacity commissioned at the end of January 2024, is expected to boost volume growth and enhance the product mix. We project a 7% tile volume growth for Somany from FY24 to FY27E. We forecast a 7%, 6%, and 11% CAGR for revenue, EBITDA, and APAT, respectively, during FY24-27E. Although we maintain our estimates, our topline and bottomline projections are ~2% and ~8% below consensus for FY25-27E. We remain positive on Somany due to its robust retail distribution, improving product mix, and efficient working capital management. We reiterate our BUY rating on Somany Ceramics with an unchanged target price of INR 660/share (22x Sep-26E consolidated EPS).

Key operating assumptions

Segmental performance	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E	FY27E
Tiles volume (MSM)	**48.9**	**49.8**	**57.9**	**63.9**	**67.0**	**69.6**	**75.2**	**81.2**
YoY change (%)	*(4.5)*	*2.0*	*16.1*	*10.4*	*4.8*	*4.0*	*8.0*	*8.0*
NSR (INR/sqm)	**287**	**288**	**317**	**336**	**328**	**320**	**324**	**327**
YoY change (%)	*(1.3)*	*0.5*	*10.0*	*6.0*	*(2.3)*	*(2.4)*	*1.0*	*1.0*

Source: Company, HSIE Research

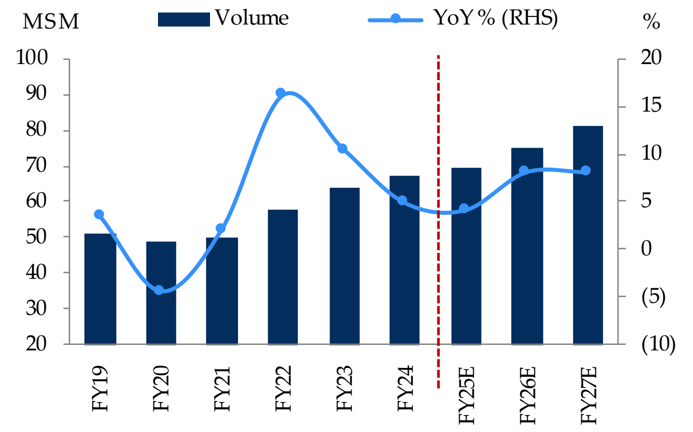
HSIE vs consensus estimates

We have factored in lower growth and margins, so our estimates are below consensus.

INR mn	HSIE estimates FY25E	Consensus estimates FY25E	*Deviation %*	HSIE estimates FY26E	Consensus estimates FY26E	*Deviation %*	HSIE estimates FY27E	Consensus estimates FY27E	*Deviation %*
Net Sales	26,474	26,401	*0.3*	29,000	29,467	*-1.6*	32,143	32,765	*-1.9*
EBITDA	*2,247*	2,234	*0.6*	*2,650*	2,764	*-4.1*	*3,022*	3,065	*-1.4*
APAT	*698*	746	*-6.4*	*1,073*	1,163	*-7.8*	*1,369*	1,501	*-8.8*

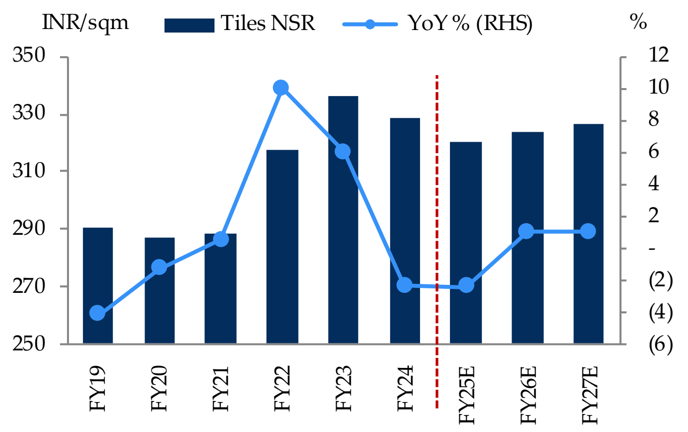
Source: Bloomberg, Company, HSIE Research

We expect 7% tiles volume CAGR during FY24-27E



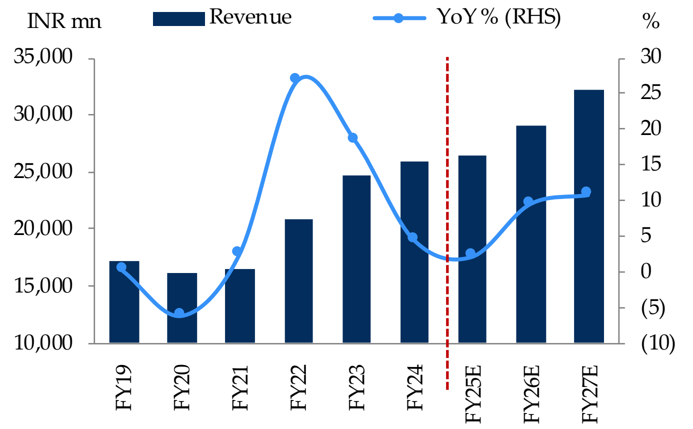
Source: Company, HSIE Research

Tiles realisation has decreased in FY25, we expect it will gradually increase in FY26/27E



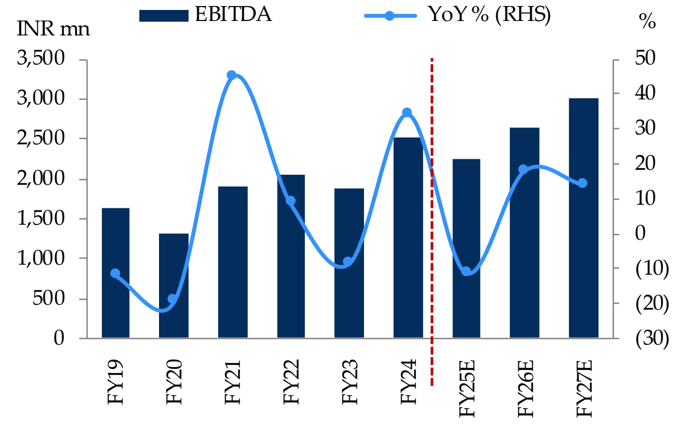
Source: Company, HSIE Research

We expect 7% revenue CAGR during FY24-27E (volume led)



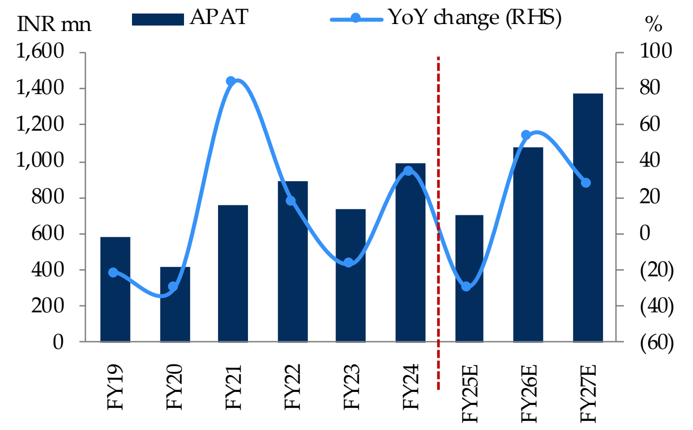
Source: Company, HSIE Research

We project 6% EBITDA CAGR during FY24-27E



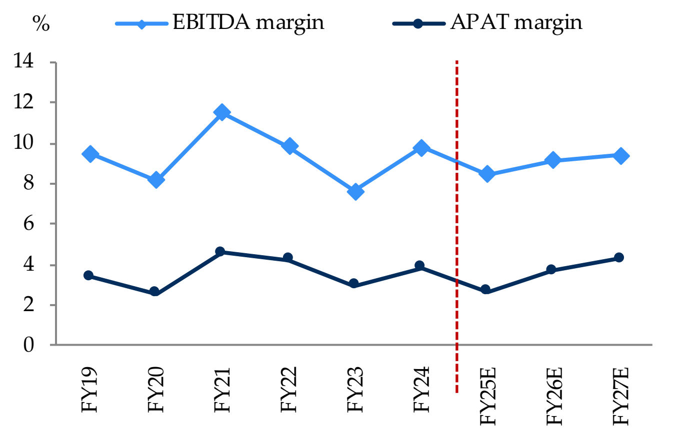
Source: Company, HSIE Research

Owing to higher EBITDA, we estimate 11% APAT CAGR during FY24-27E



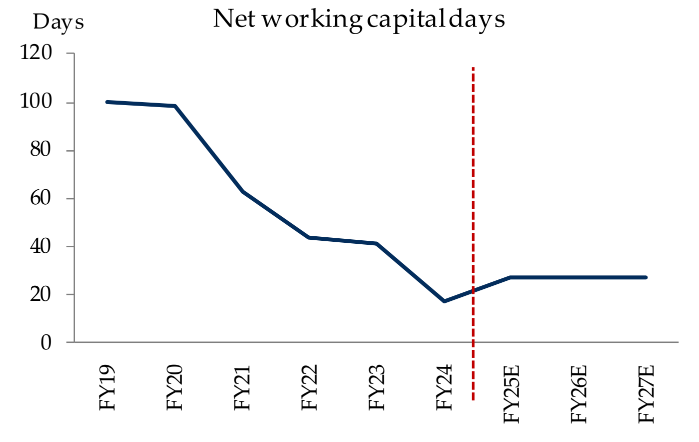
Source: Company, HSIE Research

From FY25 low, we expect margin will gradually increase in FY26/27E



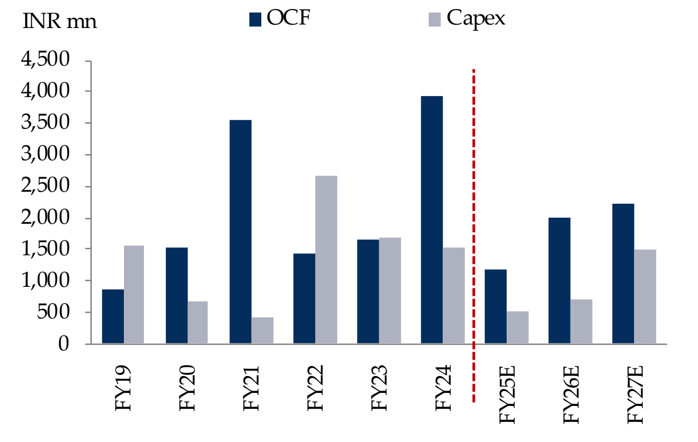
Source: Company, HSIE Research

The Company has tightened working capital



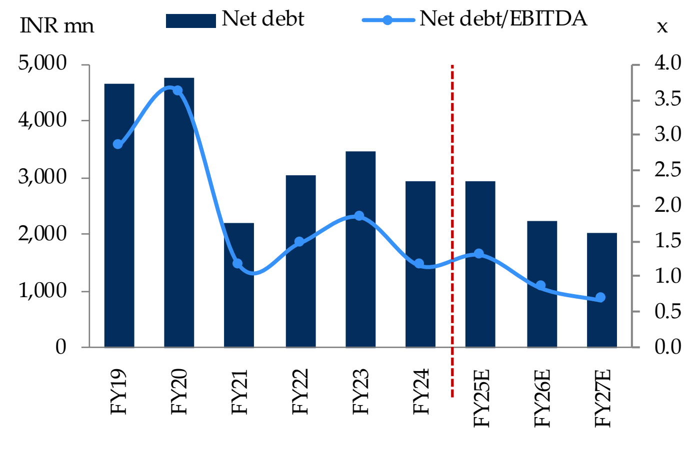
Source: Company, HSIE Research

Capex has slowed due to the absence of major expansion plans. OCF will be sufficient to fund Capex.



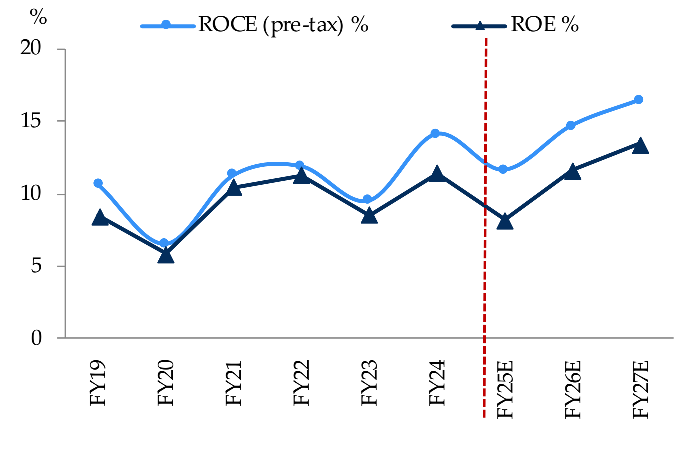
Source: Company, HSIE Research

Debt level will decrease, balance sheet will strengthen



Source: Company, HSIE Research

Return ratios will improve in FY26/27E



Source: Company, HSIE Research

Financials (consolidated)

Income Statement

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	**20,945**	**24,785**	**25,914**	**26,474**	**29,000**	**32,143**
Growth %	*26.9*	*18.3*	*4.6*	*2.2*	*9.5*	*10.8*
Raw Material	9,205	10,694	11,979	11,979	13,732	15,125
Power & Fuel	4,810	6,471	5,219	5,560	5,220	5,786
Freight Expense	363	369	412	424	435	514
Employee cost	2,571	3,012	3,244	3,503	3,854	4,162
Other Expenses	1,931	2,353	2,527	2,762	3,109	3,534
EBITDA	**2,065**	**1,887**	**2,532**	**2,247**	**2,650**	**3,022**
EBIDTA Margin (%)	*9.9*	*7.6*	*9.8*	*8.5*	*9.1*	*9.4*
EBITDA Growth %	*8.5*	*(8.6)*	*34.2*	*(11.2)*	*17.9*	*14.1*
Depreciation	640	679	725	832	804	861
EBIT	**1,426**	**1,209**	**1,807**	**1,415**	**1,846**	**2,161**
Other Income	134	145	106	70	90	90
Interest	296	404	465	515	432	341
PBT	**1,264**	**950**	**1,449**	**970**	**1,504**	**1,910**
Tax	330	259	434	262	406	516
Minority Interest	47	(46)	25	10	25	25
RPAT	**887**	**715**	**969**	**678**	**1,073**	**1,369**
EO (Loss) / Profit (Net Of Tax)	-	(22)	(21)	(20)	-	-
APAT	**887**	**737**	**989**	**698**	**1,073**	**1,369**
APAT Growth (%)	*17.3*	*(16.9)*	*34.3*	*(29.4)*	*53.7*	*27.6*
AEPS	**20.9**	**17.4**	**24.1**	**17.0**	**26.2**	**33.4**
AEPS Growth %	*17.1*	*(16.9)*	*39.0*	*(29.4)*	*53.7*	*27.6*

Source: Company, HSIE Research

Balance Sheet

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS						
Share Capital	85	85	82	82	82	82
Reserves And Surplus	7,178	7,785	7,119	7,551	8,378	9,502
Total Equity	**7,263**	**7,870**	**7,201**	**7,633**	**8,460**	**9,584**
Minority Interest	**1,076**	**1,076**	**1,128**	**1,138**	**1,163**	**1,188**
Long-term Debt	2,524	2,653	2,624	2,267	1,767	1,267
Short-term Debt	2,600	2,689	1,152	1,583	1,583	1,583
Total Debt	**5,124**	**5,342**	**3,775**	**3,850**	**3,350**	**2,850**
Deferred Tax Liability	323	243	289	289	289	289
Long-term Liab+ Provisions	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	**13,786**	**14,531**	**12,393**	**12,910**	**13,262**	**13,910**
APPLICATION OF FUNDS						
Net Block	7,520	10,152	11,209	10,877	10,772	11,411
Capital WIP	2,267	473	96	96	96	96
Other Non-current Assets	-	-	-	-	-	-
Total Non-current Assets	**9,788**	**10,624**	**11,305**	**10,973**	**10,868**	**11,507**
Inventories	2,737	3,915	3,466	3,574	3,915	4,339
Debtors	2,368	2,683	3,372	3,177	3,480	3,857
Cash and Cash Equivalents	2,086	1,864	855	913	1,126	842
Other Current Assets (& Loans/adv)	903	941	760	810	863	921
Total Current Assets	**8,095**	**9,403**	**8,452**	**8,474**	**9,384**	**9,960**
Creditors	2,602	3,777	5,593	4,765	5,220	5,786
Other Current Liabilities & Provns	1,495	1,720	1,771	1,771	1,771	1,771
Total Current Liabilities	**4,096**	**5,497**	**7,364**	**6,537**	**6,991**	**7,557**
Net Current Assets	**3,999**	**3,907**	**1,089**	**1,937**	**2,393**	**2,403**
TOTAL APPLICATION OF FUNDS	**13,786**	**14,531**	**12,393**	**12,910**	**13,262**	**13,910**

Source: Company, HSIE Research

Cash Flow

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	1,264	929	1,428	970	1,504	1,910
Non-operating & EO Items	(94)	(29)	(19)	(90)	(90)	(90)
Interest Expenses	296	404	465	515	432	341
Depreciation	640	679	725	832	804	861
Working Capital Change	(327)	(90)	1,676	(790)	(243)	(293)
Tax Paid	(353)	(247)	(340)	(262)	(406)	(516)
OPERATING CASH FLOW (a)	**1,426**	**1,646**	**3,934**	**1,176**	**2,001**	**2,213**
Capex	(2,680)	(1,683)	(1,527)	(500)	(700)	(1,500)
Free Cash Flow (FCF)	(1,255)	(38)	2,407	676	1,301	713
Investments	52	695	226	-	-	-
Non-operating Income	76	79	72	70	90	90
INVESTING CASH FLOW (b)	**(2,553)**	**(909)**	**(1,229)**	**(431)**	**(610)**	**(1,410)**
Debt Issuance/(Repaid)	954	199	(3,092)	74	(500)	(500)
Interest Expenses	(312)	(385)	(470)	(515)	(432)	(341)
FCFE	(613)	(224)	(1,155)	235	369	(128)
Share capital issuance	(2)	100	130	-	-	-
Dividend	-	(127)	(127)	(246)	(246)	(246)
FINANCING CASH FLOW (c)	**639**	**(213)**	**(3,560)**	**(686)**	**(1,178)**	**(1,087)**
NET CASH FLOW (a+b+c)	**(489)**	**523**	**(855)**	**59**	**213**	**(284)**
Closing Cash & Equivalents	**1,900**	**2,610**	**1,009**	**913**	**1,126**	**842**

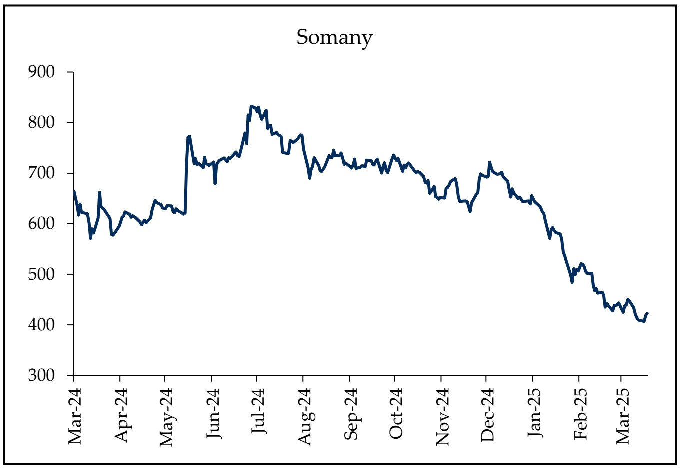
Source: Company, HSIE Research

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY %						
EBITDA Margin	9.9	7.6	9.8	8.5	9.1	9.4
EBIT Margin	6.8	4.9	7.0	5.3	6.4	6.7
APAT Margin	4.2	3.0	3.8	2.6	3.7	4.3
RoE	11.3	8.5	11.5	8.2	11.7	13.4
RoIC Pre tax	14.7	11.1	15.2	12.0	15.3	17.2
RoCE (pre-tax)	11.9	9.5	14.1	11.7	14.7	16.5
EFFICIENCY						
Tax Rate %	26.1	27.3	30.0	27.0	27.0	27.0
Fixed Asset Turnover (x)	2.1	2.1	1.9	1.8	1.9	1.9
Inventory (days)	48	58	49	49	49	49
Debtors (days)	41	40	47	44	44	44
Other Current Assets (days)	16	14	11	11	11	10
Payables (days)	45	56	79	66	66	66
Other Current Liab & Provns (days)	26	25	25	24	22	20
Cash Conversion Cycle (days)	33	30	3	14	16	18
Net Debt/EBITDA (x)	1.5	1.8	1.2	1.3	0.8	0.7
Net D/E	0.4	0.4	0.4	0.3	0.2	0.2
Interest Coverage	4.8	3.0	3.9	2.7	4.3	6.3
PER SHARE DATA (Rs)						
EPS	20.9	17.4	24.1	17.0	26.2	33.4
CEPS	36.0	33.3	41.8	37.3	45.8	54.4
Dividend	3.0	3.0	3.0	6.0	6.0	6.0
Book Value	196.4	210.7	203.2	213.9	234.7	262.7
VALUATION						
P/E (x)	21.1	25.4	18.2	25.8	16.8	13.2
P/Cash EPS (x)	12.2	13.4	10.6	11.9	9.6	8.1
P/BV (x)	2.6	2.4	2.5	2.4	2.1	1.9
EV/EBITDA (x)	10.5	12.2	8.7	9.8	8.1	7.0
Dividend Yield (%)	0.7	0.7	0.7	1.4	1.4	1.4
OCF/EV (%)	6.8	7.4	18.4	5.5	9.7	10.8
FCFF/EV (%)	(6.0)	(0.2)	11.3	3.2	6.3	3.5
FCFE/M Cap (%)	(3.4)	(1.2)	(6.6)	1.4	2.1	(0.7)

Source: Company, HSIE Research

1 Yr Price history



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

Disclosure:
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