

31st January 2024

Somany Ceramics – BUY

CMP : Rs. 708.0
Target Price : Rs. 864.0
Upside : 22%+
Stop Loss : Rs. 612.0 (Closing basis)

Investment Thesis

- Somany Ceramics Ltd. (Somany Ceramics) is one of the leading players in the Indian tiles industry with well-recognized brand and pan-India distribution reach with strong presence in the north, south and east of the country. Its volume market share among the top 3 tile companies has stayed largely stable at 29.1% in H1FY24 vs. 29.7% in FY18, despite a sharp tightening of the credit period offered to dealers to 38 days in FY23 from 107 days in FY18. Its diverse products range comprises ceramic wall and floor tiles, polished vitrified tiles, glazed vitrified tiles, sanitaryware and bath fittings. Somany Ceramics has 11 plants that manufacture tiles, sanitaryware and bath fittings are spread across India, which aids faster turnaround in serving over 9,000 point of sales across regions.
- Somany Ceramics has plans to aggressively add capacity in tiles especially in value added products to rebrand itself as a premium tiles brand. The proportion of revenues derived from glazed vitrified tiles (GVT) has increased from 18.5% in FY19 to 29.0% in FY23 and likely to increase to 34% in couple of years. Recent capacity addition of 11.0 MSM is largely dedicated to GVT, thereby strengthening its realizations and improving margins. Somany Ceramics is setting up greenfield manufacturing facility of large format/ slab tile of ~4.5 MSM in Gujarat; which is expected to commence production in Q3FY24. Additionally, Somany Ceramics has announced JV with Murarka Group for establishing a manufacturing facility in Nepal having capacity of ~3.5 MSM.
- Gas prices accounts for ~30% of the raw material cost for the tile manufacturing companies. Gas prices had spiked ~3x from January 2022 to August 2022, impacted players across the industry especially unorganised players in Morbi. Many large players, like Somany Ceramics have modified their requirement and switched consumption partly to alternative fuels such as LPG or propane. During Q2FY23, Somany Ceramics was running 50% of its units on LPG. It has fungible fuel management system in place and it takes only 6-8 hours to switch to alternate fuel depending upon the natural gas price. Recently, natural gas price fell below \$2.1/MMBtu, nearing a nine-month low, due to reduced demand and increased supply and we are expecting gas prices to remain subdued due to higher-than-average temperatures globally. Also, gas production is gradually rebounding after being disrupted by a recent Arctic storm.

Financials

- Somany Ceramics' revenue grew by CAGR of 7.7% led by strong demand of its products, higher contribution of value-added GVT and capacity addition while PAT de-grew by 3.3% during FY18-23 due to higher natural gas price.

Consol. (Rs.Mn)	FY21	FY22	FY23	FY24E	FY25E
Revenue	16,506	20,945	24,785	27,759	31,923
EBITDA	1,895	2,063	1,858	2,509	2,935
EBITDA Margin (%)	11.5%	9.8%	7.5%	9.0%	9.2%
PAT	606	934	669	883	1,018
EPS (Rs.)	14.3	22.0	15.8	20.8	24.0
P/E (x)	49.6	32.2	44.9	34.0	29.5
RoE (%)	9.5%	12.9%	8.5%	10.2%	10.7%

Stock Data

Market Cap (Rs. Mn)	30,079
Market Cap (\$ Mn)	360.2
Shares O/S (in Mn)	42.5
Avg. Volume (3 month)	63,000
52-Week Range (Rs.)	466.00 / 819.00

Shareholding Pattern

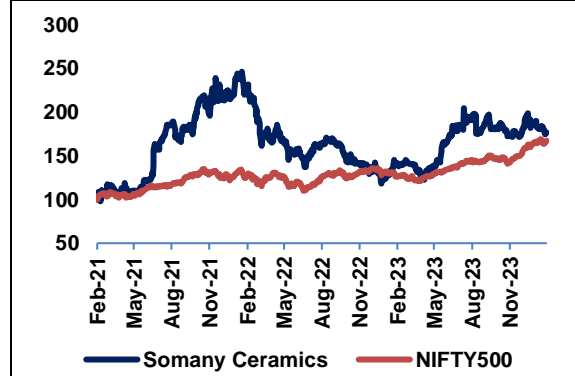
Promoters	55.01%
FII's	1.43%
Institutions	23.33%
Others (incl. body corporate)	20.21%

Key Ratios

Div Yield	0.4%
TTM PE	36.9x
ROE	8.6%
TTM EPS (Rs.)	18.9/-

Stock Performance

Performance (%)	1M	6M	1Yr
ABSOLUTE	-4.5%	-8.2%	27.4%
NIFTY 500	0.7%	14.7%	31.8%



- Somany Ceramics has reported 6.1% YoY growth in revenue to Rs.6,552mn in Q2FY24 led by 6.4% YoY growth in volume in the quarter. Realizations also improved QoQ, driven by higher sales of premium products.
- Somany Ceramics' EBITDA grew by 51.5% YoY as total operating cost/MSM saw a marginal decline of 3.5% YoY primarily due to reduced Power & fuel costs and sales costs. As a result of this, EBITDA margin also grew by 294bps to 9.8% in Q2FY24.
- Somany Ceramics has expanded its dealers network by 130 dealers (net) to 3,200 in H1FY24 along with added 22 new showrooms, which will help in company's growth strategy.

Key Business Highlights

- Somany Ceramics engages in manufacturing and selling of ceramic wall & floor tiles, polished vitrified tiles, glazed vitrified tiles, sanitaryware, bath fittings, adhesives as well as tile laying solutions. It is the second largest Indian ceramic tiles company, having total tiles capacity of ~75 MSM p.a., including outsource tie-ups.
- Somany Ceramics has also presence in bathware segment and has in-house manufacturing capacity 0.78 mn pieces p.a. of sanitaryware and 1.30 mn pieces p.a. of bath fittings products.
- Somany Ceramics mainly caters to domestic market (95%) and markets its tiles under the established brand names like Somany, Duragress, Durastone, Glostra, Vistoso, Vitro, VC Shield, Slip shield, etc. and caters to customers of different price sensitivities. It has one of the largest distribution network with over 9,000 PoS across regions, which include 4,000+ dealers.

Valuation

Somany Ceramics has one of the largest distribution network - 12,000+ touch points across regions, which include 3,200+ dealers. It has significant presence in markets beyond tier-I cities, around 80% of its network is based in tier-III and tier-IV cities. Wider and deeper non-metro presence which are relatively under-served by branded tile companies is expected to help Somany Ceramics to enhance market share in these regions.

Somany Ceramics invested extensively in a design studio to develop new styles and collections, strengthening a premium yet affordable positioning. With expansion into the bathware segment, whereby it sells sanitaryware, faucets and bath fittings, it has marked its position as premium bath interior solutions apart from being a strong tile brand. With presence across multiple price points and products, significant distribution reach as well as brand recognition, the company has been able to maintain a healthy market position.

Domestic tiles industry is expected to grow at 13.6% CAGR over FY23-25E vs 5-6% CAGR for the global tiles industry. Higher growth compared to global growth rate is majorly due to strong demand for housing led by rising disposable income, rapid urbanization, housing shortage, demand for warehousing and commercial properties, etc. Whereas ability to provide quality products at competitive rates due to technological efficiency, modernization of plants and low-cost labour is expected to support exports.

With one of the leading players in the Indian tiles industry, maintained volume market share at ~29% for the last 5 years, aggressively added capacity in tiles especially in value added products, lower natural gas price and its fungible fuel management system and one of the largest distribution network - 12,000+ touch points across regions, we are assigning BUY rating to Somany Ceramics Ltd. (Somany Ceramics) and value at 36.0x FY25E EPS of Rs.24.00 to arrive at target price of Rs.864.00, an upside of ~22.0%+.

Risk & Concern

- Any intense competition from large players as well as Morbi players may put pressure on margin as well as future growth of the company.
- Any slowdown in exports may result in oversupply of tiles in the domestic market, leading to undercutting of prices by small unorganized players and can affect volume offtake of the company.
- Natural gas accounts for ~30% of total cost, any drastic increase in natural gas price will adversely impact margins of Somany Ceramics.

Graphs & Charts

Figure 1: Net Sales Trend

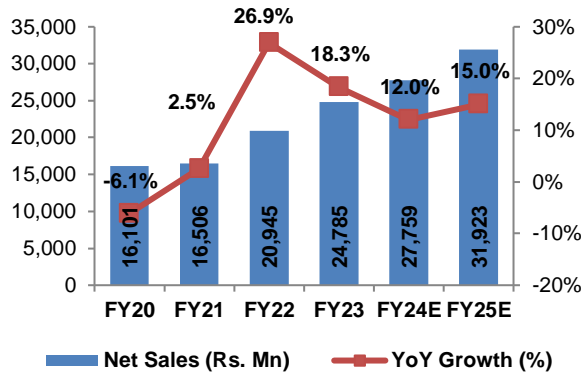


Figure 2: EBITDA & EBITDA Margin Trend

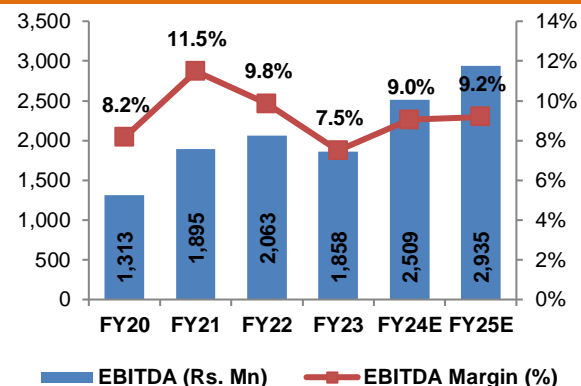


Figure 3: PAT Trend

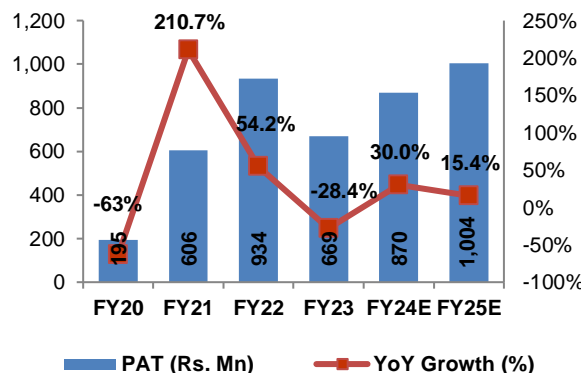
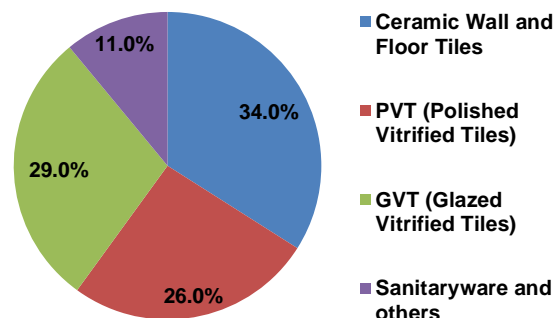


Figure 4: Product-wise Revenue (FY23)



Name
Rajesh Sinha

Designation
Sr. Research Analyst

Disclosure: M/s. Bonanza Portfolio Ltd here by declares that views expressed in this report accurately reflect view point with subject to companies/securities. M/s. Bonanza Portfolio Ltd has taken reasonable care to achieve and maintain independence and objectivity in making any recommendations. The Analysts engaged in preparation of this Report or his/her relative: - (a) do not have any financial interests in the subject company mentioned in this Report; (b) do not own 1% or more of the equity securities of the subject company mentioned in the report as of the last day of the month preceding the publication of the research report; (c) do not have any material conflict of interest at the time of publication of the Report. The Analysts engaged in preparation of this Report:- (a) have not received any compensation from the subject company in the past twelve months; (b) have not managed or co-managed public offering of securities for the subject company in the past twelve months; (c) have not received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (d) have not received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months; (e) has not received any compensation or other benefits from the subject company or third party in connection with the Report; (f) has not served as an officer, director or employee of the subject company; (g) is not engaged in market making activity for the subject company.

M/s. Bonanza Portfolio Ltd is a registered Research Analyst under the regulation of SEBI, the year 2014. The Regn No. INH100001666 and research analyst engaged in preparing reports is qualified as per the regulation's provision.

Disclaimer: This research report has been published by M/s. Bonanza portfolio Ltd and is meant solely for use by the recipient and is not for circulation. This document is for information purposes only and information / opinions / views are not meant to serve as a professional investment guide for the readers. Reasonable care has been taken to ensure that information given at the time believed to be fair and correct and opinions based thereupon are reasonable, due to the nature of research it cannot be warranted or represented that it is accurate or complete and it should not be relied upon as such. If this report is inadvertently send or has reached to any individual, same may be ignored and brought to the attention of the sender. Preparation of this research report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Past performance is not a guide for future performance. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by Bonanza portfolio Ltd to be reliable. This report should not be taken as the only base for any market transaction; however this data is representation of one of the support document among other market risk criterion. The market participant can have an idea of risk involved to use this information as the only source for any market related activity. The distribution of this report in definite jurisdictions may be restricted by law, and persons in whose custody this report comes, should observe, any such restrictions. The revelation of interest statements integrated in this analysis are provided exclusively to improve & enhance the transparency and should not be treated as endorsement of the views expressed in the analysis. The price and value of the investments referred to in this report and the income from them may go down as well as up. Bonanza portfolio Ltd or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of M/s. Bonanza portfolio Ltd shall be liable. Research report may differ between M/s. Bonanza portfolio Ltd RAs and other companies on account of differences in, personal judgment and difference in time horizons for which recommendations are made. Research entity has not been engaged in market making activity for the subject company. Research analyst has not served as an officer, director or employee of the subject company. Research analyst have not received any compensation/benefits from the Subject Company or third party in connection with the research report.

M/s. Bonanza Portfolio Ltd at Bonanza House, Plot No. M-2, Cama Industrial Estate. Walbhat Road, Goregaon (E), Mumbai – 400063
Web site: <https://www.bonanzaonline.com>

Research Analyst Regn No. INH100001666

SEBI Regn. No.: INZ000212137

BSE /NSE/MCX : | CASH | DERIVATIVE | CURRENCY DERIVATIVE | COMMODITY SEGMENT |

| CDSL: | 120 33500 | NSDL: | IN 301477 | | PMS: INP 000000985 | AMFI: ARN -0186