

Margins improve; volume recovery expected ahead

CMP: INR 405

Rating: BUY

Target Price: INR 772

Stock Info

BSE	531548
NSE	SOMANYCERA
Bloomberg	SOMC:IN
Sector	Ceramics
Face Value (INR)	2
Equity Capital (INR Mn)	4,162
Mkt Cap (INR Mn)	15,837
52w H/L (INR)	624/372
Avg Yearly Volume (in 000')	43.8

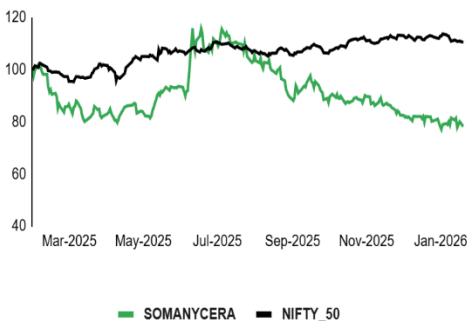
Shareholding Pattern %

(As on Sept, 2025)

Promoters	55.00
FII's	0.90
DII's	23.01
Public & Others	21.08

Stock Performance (%)	1m	6m	12m
Somany Ceramics	(0.1)	(21.1)	(18.8)
NIFTY	(2.3)	2.1	9.4

Somany vs Nifty 50



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Somany Ceramics Q3FY26 revenue grew 6% YoY to INR 6,765 Mn, below our estimates of INR 6,882 Mn. Tile Volumes grew 2% YoY. EBITDA stood at 624 Mn below our estimate of INR 633 Mn. EBITDA margin improved to 9.2%, inline with our estimates. Capacity utilization stood at tiles 80%, sanitaryware 81% and faucets 94%. Consl PAT increased modestly to INR 170 Mn missing our estimates of 181 Mn.

Bathware segment expected to outperform: The bathware segment contributed 11.8% of revenue in Q3FY26(vs 11.1% in Q3FY25). While tile growth was 3.6%, the Bathware and Waterproofing vertical grew by 35%. We expect this segment to contribute 20%+ of total revenue by FY27-28E, supported by improving utilization (75% in Q2 vs 55% in Q1). With higher scale and better operating leverage, we expect the bath ware segment to be margin accretive, contributing ~7-8% of consolidated PAT by H2FY27E.

Margin improvement leading to an uptick in bottom-line: Management is focused on reaching double-digit margins by addressing underperforming assets and optimizing costs. Following a 9.2% EBITDA margin in Q3, we anticipate a 1.6% margin expansion in Q4.

Max Plant Breakeven: Losses at the Max subsidiary have reduced from INR 75 Mn to INR 60 Mn. Management guides that annual losses will drop from the current INR 250-260 Mn to below INR 100 Mn in FY27, with a full break-even expected within 18 months. We bear coherence with the view as the breakeven trajectory follows.

Further improvement in realization expected in Q4FY26: We expect ASP(Average Selling Price) to continue to improve in Q4FY26 as the company expects price hikes to prolong. With demand expected to improve hereon, esp. in the North coupled with a higher premium product mix, we foresee a growth in topline and an improved bottom-line performance.

Gas Costs expected to remain stable: Despite volatility, the company is managing fuel costs through a diversified sourcing basket (Henry Hub, Brent-linked, and Biofuel), projecting stability in gas prices ranging in INR 42.5-43/SCM.

Export related Tailwinds: Indian manufacturers are expected to gain an edge as Chinese exports become 9-12% more expensive due to VAT changes. This shift is likely to divert domestic supply toward international markets, benefiting domestic players like Somany.

Outlook and Valuation: Q3 displayed slight improvement in numbers with marginal growth in revenues and improved margins. We expect an uptick in topline from Q4FY26 onwards, as volumes improve coupled with improving realizations. We believe the bathware (sanitary & faucets), to fare better with a ~14% YoY growth trajectory. Overall construction activity is expected to pickup from next quarter onwards in key markets and export markets can witness a marginal uptick, leading to volume growth and improving ASPs. We reiterate our TP of INR 772 valued at a P/E of 20x the FY28E EPS of INR 38.5.

Summary (INR Mn)	FY25	FY26E	FY27E	FY28E
Revenue	26,588	29,006	32,902	35,789
EBITDA	2,209	2,380	3,283	3,783
Net Profit	580	648	1,128	1,580
EPS	14.1	16.3	27.5	38.5
P/E F(x)	54.7	47.4	28.0	20.0
EV/EBITDA (x)	9.97	7.61	6.70	5.71
ROE(%)	8%	11%	13%	16%
RoCE (%)	11%	13%	14%	18%
Debt/Equity (x)	0.32	0.27	0.28	0.21

Source: Company, Arihant Research

INR Mn (Consolidated)	Q3FY26	Q2FY26	Q3FY25	Q-o-Q	Y-o-Y
Net Sales	6,765	6,805	6,449	-1%	5%
Gross Profit	2,226	2,099	2,221	6%	0%
<i>Gross Margin</i>	<i>32.90%</i>	<i>30.85%</i>	<i>34.44%</i>	-	-
Employee costs	935	898	891	4%	5%
Power & Fuel & Other Expenses	1,259	1,097	1,234	15%	-4%
EBITDA	562	543	560	15%	5%
<i>EBITDA margin</i>	<i>8.3%</i>	<i>7.9%</i>	<i>8.4%</i>	-	-
Other Non-Operating Income	26	37	21	21%	44%
Depreciation	279	263	192	-10.6%	36%
EBIT	283	226	306	26%	-8%
Finance costs	121	123	133	-2%	-9%
PBT	187	192	192	35%	-2%
Tax Expense	75	63	75	20%	0%
<i>Effective tax rate</i>	<i>40%</i>	<i>45%</i>	<i>39%</i>	-	-
PAT	112	122	117	48%	-2%
<i>PAT margin</i>	<i>1.7%</i>	<i>1.1%</i>	<i>1.8%</i>	-	-
EPS	2.8	1.9	2.9	48%	-2%

Key Concall Takeaways- Q3FY26

Max Plant and Verticals

- **Loss Reduction:** Losses at the Max plant reduced to INR 60 Mn recently. Management guides that annual losses will drop from the current INR 250–260 Mn range to below INR 100 Mn in FY27.
- **Break-even Timeline:** The plant is expected to reach break-even in approximately 18 months (FY27–28).
- **Sales Split:** Retail currently accounts for 77-78% of sales but is projected to moderate to 75% next year as private and government projects contribute a larger share.

Pricing and Input Cost

- **Bath Fittings Price Hike:** A price increase is scheduled for 1st February to offset a 22–26% spike in brass costs.
- **Tile Pricing:** No direct price hikes are planned for tiles; instead, SOMC is focusing on controlling discounts and improving product mix through value addition.
- **Gas Prices:** Average gaseous fuel prices were INR 44/SCM in Q3 and are projected to stay between INR 42.5 and INR 43/SCM in Q4 due to the company's diversified sourcing across North, South and West India.

Macro Factors

- **Domestic Demand:** Management reports a positive visibility in demand with improved dealer walk-ins in the retail segment.
- **Export Competitiveness:** The Indian ceramic industry is expected to benefit from China's VAT changes, which make Chinese exports 9–12% less competitive, potentially easing domestic supply as Indian manufacturers pivot to exports.
- **Distribution Strategy:** Somany is increasingly bundling sanitaryware and adhesives with its core tile products, leveraging its network of smaller, diversified dealers to maximize counter share.

Financial Outlook

- **Deleveraging:** Total outside debt decreased to INR 2,310 Mn this year. Management expects to pay down approximately INR 700 Mn in both FY27 and FY28, targeting a terminal debt level of INR 500 Mn by the end of FY28.
- **Margin Expansion:** Following an EBITDA margin of 9.2% in Q3, management expects a further 1.5% improvement in Q4, potentially pushing margins into double digits.
- **Ad Spend:** The company intends to maintain advertising expenditure at 2.5% of sales moving forward.
- **Depreciation:** The quarterly run rate is expected to remain stable between INR 260 Mn and INR 270 Mn.

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

Absolute Return

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