SOMANY

Date: 4th November, 2024

BSE Limited
Phiroze Jeejeebhoy Towers,
Dalal Street, Fort,
Mumbai — 400 001
Scrip Code: 531548

National Stock Exchange of India Ltd. (NSE)
Exchange Plaza,
Bandra Kurla Complex, Bandra (E),
Mumbai — 400 051
Symbol: SOMANYCERA

Dear Sir/Madam,

Subject: Transcript of the Earnings call for Q2 of FY 2024-25 pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015

In reference to our earlier letters dated 21st October, 2024 & 29th October, 2024 and pursuant to Regulation 30(6) of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find enclosed the Transcript of the Earnings Conference Call on the Financial Performance of the Company for the Quarter and Half Year ended 30th September, 2024 held on Tuesday, 29th October, 2024.

The above information may also be accessed on the website of the Company at www.somanyceramics.com.

This is for your information & records.

Thanking you,

Yours Faithfully,
For Somany Ceramics Limited

Ambrish Julka

Digitally signed by Ambrish Julka
Date: 2024.11.04 11:58:43 +05'30'

Ambrish Julka
Sr. GM (Legal) & Company Secretary
M. No. F4484

Encl: as above

Transcript

Somany Ceramics Limited
Q2 FY25 Earnings Conference Call

October 29, 2024

Management
Mr. Abhishek Somany – MD & CEO
Mr. Shrivatsa Somany – Head, Bathware
Mr. Sailesh Raj Kedawat - CFO
Mr. Kumar Sunit - Head, Strategy & IR

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Moderator: Ladies and gentlemen, good day and welcome to Somany Ceramics Limited Q2 FY25 Earnings Conference Call hosted by SKP Securities Limited.

As a reminder, all participant lines will be in the listen only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during this conference call, please signal an operator by pressing "*" then "0" on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Navin Agrawal – Head, Institutional Equities at SKP Securities. Thank you and over to you, sir.

Navin Agrawal: Good afternoon, ladies and gentlemen. On behalf of Somany Ceramics Limited and SKP Securities, it is my pleasure to welcome you to this Financial Results Conference Call.

We have with us Mr. Abhishek Somany - MD & CEO; Mr. Shrivatsa Somany - Head, Bathware; Mr. Sailesh Raj Kedawat – CFO; Mr. Kumar Sunit – Head, Strategy & IR. We will have the opening remarks from Mr. Somany, followed by a Q&A session. Thank you and over to you, Abhishekji.

Abhishek Somany: Thank you, ladies and gentlemen for the Earnings Call for Q2 and H1. As you must have seen, it has been a very muted H1 and a muted quarter. It has been weak domestic demand which got impacted largely by lower exports, which means that material was being dumped into India and also incessant rains across the country between July, August and September.

Exports, to be precise, declined by 15% in H1 and declined by 40% from its peak of 2023 of Rs. 2,000 crores and even if I take the average of last year, which was Rs. 16,500-Rs. 17,000 crore per month average, it is down to Rs. 1,280 crores in the month of August 24. Our sales, however, grew by 2.6% in Q2. The operating margin nevertheless remained the same as 8.5% in Q2, just like it was in Q1. There was a price pressure due to softer demand, which resulted in slightly more discounting at the end of the quarter. However, the product mix improved greatly in Q2, therefore, we were able to mitigate the higher discounting and maintained more or less the same average realization.

The gross margin declined by 1.9% from 35.2%-33.3% basically on the back of capacity utilization. The capacity utilization was down on a console level by 4% from 81% in Q1 to 77%. This is one of the lowest we have been working at for some time now. And if you look at Y-o-Y, it had gone down by 11%. Last year, same time it was 88% and now at this time it is 77%.

Similarly, in Bathware, capacity utilization was at 82%. However, the faucet was at 100% capacity utilization. The other highlights are that the gas price largely remained the same in Q2 and the bathware sales grew by 10%, which was better than the tiles growth of 2.6%. The product mix and the EBITDA at 8.5% everything corresponding was lower in Q2. The Tile segment, the Ceramic went down by 2% from 36%-34%. PBT went down from 30%-28% again by 2%. And this was all in favor of GVT, which went up from 34%-38%. This is what the tile mix was. As far as the bathware mix is concerned, the bathware was at Rs. 38 crores for the sanitaryware segment and Rs. 32 crores for the bath fitting segment up 9% and 12%, a total of 10% growth.

The brand spend remains at the same level of 2% and the guidance says that it will remain at 2.5%. Working capital days were maintained, 13 days in H1 as compared to 8 days in March '24. So, we were kind of okay as far as the working days are concerned. The debtor days, the inventory days and the creditor days – the debtor days stood at 45 days against 48 days in FY24. Inventories were slightly up at 55 days compared to 49 days in FY24 and the creditors were slightly lower at 76 than 79. So, overall, working capital days is 13 instead of 8.

The total debt stood at Rs. 315 crores, 70% of that debt is in two names which is Suda Somany which is our house plant which expanded 15 months ago, 18 months ago and the Max plant which started 9 months ago. The total term loan is Rs. 200 crores out of which we have a maturity of Rs. 40 crores this year. So, the net would remain at Rs. 160 at the end of the year and the working capital is at 115, so very much under control on the console level and at the standalone level, we are a net debt free company.

The Max plant is running at 36% capacity utilization as expected. We were expecting 50% capacity utilization is lower than their expectation to 36% because of the muted demand in quarter 2, but this year end we are looking at a much better capacity utilization going forward. Because we are doing two more launches in this quarter and next quarter. So, that should augment the capacity utilization of the Max plant. So, other than that JV, which is still under losses, all the other JV's are performing better or at the same level as last year. We have made an investment of Rs. 3.7 crores in the Solar SPV, which should give us the benefit of Rs. 1.5-Rs. 2 crores. This is now pending government approval, Haryana government approval as you know, the election was around the corner. So, with this, commission should come through and we should start getting these benefits very quickly. Otherwise, material cost and fuel costs largely remain under control.

The guidance for next year for the H2 is that we should be able to do high single digit, low double digit growth, which means that we should be able to conclude the year in the mid single digits between the 5% and 6.5% growth. The EBITDA margins obviously from the current levels will go up by 1.5% if we achieve that with the caveat being that there is no surprise on the gas pricing, especially from a geopolitical point of view and the branding remaining at 2.5%. So, we should be able to improve the EBITDA by 1%-1.5%, which is basically in line with last year's EBITDA, considering that the growth is not as how we expected.

We are looking at better H2 because all the festivities are over. October started at a decent note. So, we are looking at a good Q3 and a decent H2 and next year again we are looking at a better year with the real estate segment doing fairly well and all the buildings would come under completion and also we are hoping that there would be a reversal and trend of the export where the freight rates should go down from the highs. They have already started going down, which means that there will be the reversal in the export and a lot of the material which is in India currently would start getting exported. So, these are the highlights from Q2, overall, very optimistic, but not too happy with the Q2 results, especially due to rains and the lower export which put pressure on the Indian volume and also the value, also the pricing. So, over to you. Thank you very much.

Moderator: Thank you very much. We will now begin with the question-and-answer session. The first question is from Lana of Snehal Talreja from Nuvama. Please go ahead.

Sneha Talreja: Just couple of questions from my end, firstly on the volume growth side, we have seen slightly muted volume growth versus leader, now this is second consecutive quarter where our volume growth is not aligning with the leader, generally it used to be largely in line. Firstly, we wanted to understand on that particular front and then I will just switch to my second question?

Abhishek Somany: I think we have seen volume growth coming in certain companies, certain competition out of introducing a very low-end segment. So, if I had to discount that particular low-end segment, I think we are in line for the larger part of the normal volume which we have got. We have not lost any new brand or any new lower segments. It has been normal volume growth, that is one and number two, there are couple of states specifically one South state where there has been lower than expected volume as far as they are concerned. Thirdly, the Rs. 30-Rs. 35 crores which was taken the previous year, which is still in effect this year in the first quarter where last year we had a booster in the first quarter, so from that point of view, it is 1%-1.5% lower, but largely it is basically on the non-introduction of the lower price or lower brand from our side. We have business as usual. In fact, we are trying to premiumize the brand rather than go down on introducing a lower brand.

Sneha Talreja: In fact, a related question that way one of the reasons why you have maintained margins despite the lower operating level is because of your product mix. Could you quantify where does your product mix stand in Q2 this year versus last year Q2?

Abhishek Somany: So, we have had a pressure of about Rs. 4 square meter in terms of discounting, in terms of average realization. All of that has got mitigated with the product mix. So, the entire amount has got mitigated by the product mix. And I did mention on the call, GVT is now 38% versus 34%.

Sneha Talreja: I was saying, based on the muted volume growth that we have seen in H1 and probably our outlook ahead, is there any revised guidance that you stand for FY25 both in terms of volumes as well as margins?

Abhishek Somany: Yes, I think you missed my introductory comments. The guidance says that we should be able to manage single digit which is 5%-6.5% volume growth, which means that we would be in the double digits, high single digits, low double digits as far as the H2 is concerned. And as far as margin is concerned, we should be able to maintain last year margin, which means that it will be up by 1%-1.5% EBITDA from the current levels. This comes with the caveat that there should not be any other geopolitical issues which will spike the gas price. As of now, gas price looks under complete control, so if that doesn't happen then that is the guidance.

Moderator: Thank you very much. Next question is from the line of Rohit from Samatva Investments. Please go ahead.

Rohit: Sir, first question is, could you highlight how has the demand been in South India for the overall Tile industry?

Abhishek Somany: Now, across the industry, across the country, the demand has been muted. In fact, South is probably slightly more affected because the base was higher, but otherwise I think it is across the country where we have seen the muted demand. The rains have been completely across the country and covered the entire country. And also, from Morbi perspective, which is the cluster which makes tiles, a lot of that gets into South market because it is easy for them to transport by sea from the Kandla port, it goes directly into Kerala market, directly into Tamil Nadu market. So, from that point of view, South gets a lion share of Morbi produce other than the West. So, overall, the demand has been muted.

Moderator: Thank you very much. Next question is from the line of Vinamra Hirawat from JM Financial. Please go ahead.

Vinamra Hirawat: Sir, I want to know the split between Metro Tier-1, Tier-2, Tier-3 and lower cities and I want to know like other consumer companies is the slow growth more pronounced in the metro cities that you are in?

Abhishek Somany: So, our mix between Tier-1, Tier-2, Tier-3, 75% of our retail sales considering out of the total sales, approximately 75% we sell in retail, 25% we sell in project. So, out of the retail sale, a large part of the retail sale which is approximately 75%-80% of the 75, we are selling in the Tier-2, Tier-3, Tier-4 towns. And as far as the project sale is concerned, which is the balance 25, project is divided 50-50 or maybe slightly more towards the metro. So, most metros, which are Bangalore, Delhi, Bombay, Chennai, and most of these metros have become project markets. There is very little bungalows and IHBs, which are individual houses coming. These are more project markets and also replacement market. So, I hope I am able to answer the first question. I will reiterate 75%-80% of our retail sale comes from Tier-2, Tier-3, Tier-4 towns and approximately 50%-40% of rest of the sale comes from Tier-2, Tier-3 towns and the balance amount comes from metros. Your second question, whether the metros are slowed down more, or the Tier-2-3 towns is slowed down more, I think I don't have an exact BI because everything has slowed down. It is the Tier-2, Tier-3, Tier-4 towns also which has slowed and metros, I don't have too many surprises on the metros because metros I mentioned is a builder market and as far as the buildings are concerned in the metros, I mentioned earlier in the call that we are an item which goes literally 3 months before delivery takes place for the consumer, that means largely built up centric market, we will only come into action in the metro in the next half of the year. So, Metros, I don't have too many surprises. It is what it is. I hope I am able to answer your question.

Vinamra Hirawat: Sir, I just had a question on the export scenario as well, just firstly with the freight rates coming down, how much have the exports picked up by in the month of October? And secondly, with regards to exports as well, is it that easy for exporters to dump in the domestic market because unlike Somany, they don't have a distribution network. They aren't spending on branding, so why is it so easy for their tiles to replace ours in retail sales?

Abhishek Somany: I will clarify that. So, export figures, the peak was Rs. 2,000 last year was Rs. 1,670 crores per month average, which totaled about Rs. 20,000-Rs. 20,500 crores of last year. August figures, I have, the latest BI, I have as of August. I don't have any published data after that. August was 1,280. I believe this has improved to about 1350, which is what my information is from Morbi, but nothing beyond, which means that the export this year will be anywhere between Rs. 14,000-Rs. 15,000 crores annualized compared to Rs. 20,000 crores last year. It is improving, it will only improve when freight rates go down and anyway the seasons kind of not there in November and/or December for most of the European and American markets, because whatever had to leave the country has left. Christmas stocking has taken place. Now the next export for these markets will happen only in December, which will be reaching their port in January after Christmas. As far as your second question is concerned, you are absolutely right. So, the problem is not of the volume which they are selling in India. In fact, if you see the domestic industry, the domestic sale is a negative growth. The industry has grown negatively. The problem is not of volume. These guys because to run their cash flow they are putting pressure on pricing. So, when they put pressure on pricing, the trade inventory goes down because the trade is always unsure as to what the price would be next week, so therefore, if you see that trade inventory currently is not very high and as a result we have been forced to lower our capacity utilization from 81-77. Normally, if the trade would have been more effective, we would have been able to push some stock in the trade and make our capacity utilization slightly better. I don't think it would have had super duper numbers, but it would have been definitely better than what it is now. So, this is the vicious cycle where export not happening puts pressure on the pricing, putting pressure on pricing, the shopkeepers are very weary of what is going to happen next. Therefore, they are stocking less. Therefore, they are stocking some vanilla items. They are not stocking so much of the value-added items and as a result, our capacity utilization has seen a downtrend. I hope I have been able to answer.

Vinamra Hirawat: So, you had stated the festive demand should bring, October marks the start of the festive season, if we can have, what kind of volume growth have we seen this month, any indication on that?

Abhishek Somany: So, this month is better than it was the same time last year, 3 days or left for the month. But as I speak, as of today versus last year, same date, it is slightly better and if October being a Diwali month is better, there is a lot of issues considering November and December completely clean month for us. Last year, mid-November or Diwali, we lost one week before, one week after.

Moderator: Thank you very much. Next question is from the line of Keshav Lahoti from HDFC Securities, please go ahead.

Keshav Lahoti: Sir, what we understand the industry leader is low on project sales and they have a big plan of 30% growth on this segment. So, how should we see like we already have a good presence, so it would be more like a 10% growth for Somany, or do we have scope to grow at a faster rate of 20%-30%?

Abhishek Somany: I missed the first part.

Keshav Lahoti: The industrial leader talks about growing project business by 30% year-on-year for this and in fact next year also, although their mix is lower in the entire revenue pie, so how would be that for you?

Abhishek Somany: I don't have the calculation. I can do that, but last we were at 80% retail, this year, we would be at 75% retail. So, I don't have the growth if that 5% goes up in project, which is between government and private projects. So, government also, I think the only people spending in the Indian industry right now, the government, so that is going up and with the RERA coming in the better builders we have started supplying more products to, so the mix is changing from an 80% retail to 75% retail. So, if I had to look at that 5% shift, the project would grow at about 25% more or less, lots of similar figures.

Keshav Lahoti: So, you are talking about retail sales growth of 2%-3% for this year, if I assume project will grow at such a fast pace. So, how should we look, is it like the market is so weak or somewhere because of higher dumping by Morbi, possibly the domestic players have to lose market share, the big industry players also?

Abhishek Somany: The lion share is project, and the lion share of the value is coming out from retail.

Keshav Lahoti: So, is it right to assume the retail industry is growing by 2%-3% this year because that would be your growth rate for this year?

Abhishek Somany: So, not really because a lot of these builders are not directly buying from us. They also buy from the retail. So, the smaller towns, most of the builders are buying from the retail.

Keshav Lahoti: One last question, Max brand capacity utilization is around 36% for both Q1 and Q2, right?

Abhishek Somany: Yes, correct.

Keshav Lahoti: So, we haven't seen any ramp up in Max, ideally Q2 is a better quarter, and Max was a new plant. So, ideally the ramp up should be faster. So, why is that so?

Abhishek Somany: So, exactly the point, if you, I mentioned on my introductory comments that Max, we were hoping that it would go to 50, but two reasons, A, most of the products of Max are for projects.

Decent amount goes into projects which because of rains have been affected. Secondly because the price has been volatile and also the market has been down, the dealers have bought more of the slightly lower value added material than the Max material and therefore we are about 12%-13% lower than what we had expected for quarter 2, very rightly said, but that should remain in quarter 3 and 4.

Keshav Lahoti: One last question, I will ask, is your project and retail margin similar or project would be lower?

Abhishek Somany: Project is lower, retail is obviously much better in terms of payment and in terms of margins both.

Keshav Lahoti: So, as your mix is changing more towards project, so ideally your margin will take ahead because of this. So, what would that difference be?

Abhishek Somany: The delta is only by 4%-5% is changing. So, out of that 4%-5% see government, so let us say, 20% for my project and 10 and 10, actually 7% or 8% was the private project and government was 12%, so the lowest margins are from government. That is not changing very much. It will go from 12% to maybe 13%-14% and the private project will move from 7%-8% to about 10%, totaling 25%. That business has slightly better margins than the government, so the government part is the deltas only 2% we increase. And the private part anyway is slightly better realization, so it is not going to really take a large toll on the realization considering we are improving our value add mix. If we are able to pull off more volume, we will be probably in a better average realization this year than last year.

Keshav Lahoti: So, just to follow up on this, so the 10% margin guidance, which is there for FY25, so normally if the 10% is for a company, how would this private project margin look like?

Abhishek Somany: I don't have offhand on that from an EBITDA perspective.

Moderator: Thank you very much. Next follow up question is from the line of Vinamra Hirawat from JM Financial. Please go ahead.

Vinamra Hirawat: Sir, as I understand, we have had two issues this quarter, export dumping which caused lower prices and heavy rains. The good thing is that they both can somewhat be classed as…. if you can just give us some numbers on these issues, so we can understand what your growth would look like without them, like how many retail days did you lose because of rains? How much lower prices that the export players dumped into the domestic market? So, just some more color into like numeric evidence of the two issues that caused weak demand this quarter?

Abhishek Somany: I won't be able to give you the number of days lost as per rain because that is state specific, but I do have numbers as far as what we have been pressurized in terms of the export dumping. We have had a 4% reduction in our average realization if I discount the mitigation by the product mix. So, if there is Rs. 4 decline in our average realization apple to apple that has been mitigated because we have been able to push slightly better product mix, so large part of it has got mitigated. So, that has been the pressure. So, let us say Rs. 4 has been the pressure and even on the value added, I am looking at only mitigation, but there also there has been pressure. Had it not been pressure, probably the value added also would have got sold at a slightly better price.

Vinamra Hirawat: How much lower the prices that the export players are dumping in the market than our prices?

Abhishek Somany: See, export, most of the unbranded guys are exporting, so it is really not yardstick or a benchmark, but the only problem is that they confuse the market, they confuse the dealers. The dealers feel that if this is going to happen, volumes are down, rains are there. Even the brand leaders may discount the product, which really didn't happen so much.

Moderator: Thank you. Next question is from the line of Gunit Singh from Counter-Cyclical PMS. Please go ahead.

Gunit Singh: So, the guidance that you have given of about 6%-7% growth in FY25, I would like to understand what are the downside risks to it that you see? Is it a conservative guidance or is it optimistic from the management's point of view when you give such guidance?

Abhishek Somany: I would think that higher single digit is fair guidance. Looking at high single digit would be a good guidance. I wouldn't say it would be stretch guidance by any stroke of imagination and I would say that was a good guidance and higher single digit would be a fair guidance, so that is why I mentioned anywhere between 5% and 6.5% considering that we are at approximately 0.6%-0.7% growth currently in the H1.

Gunit Singh: Sir, what are the downside risks to this guidance, like you mentioned that monsoon as well as?

Abhishek Somany: So, the downside risk is, let us say, it is lower than expected hypothetically. We are a net debt free company. Our balance sheet is strong, our cash flows are strong. Raw material prices are completely under check, namely gas and also other raw material prices. So, the downside risk is that we won't be able to increase our EBITDA from 1%-1.5%. It would probably be at the same EBITDA level. That is the downside. Fortunately, we are not debt company. It is a net debt company. Even on the console level, we don't have a large debt. So, that is the only really downside risk. I don't see any other downside risk. No other investments are taking place. All the investments have taken place. We have put in about Rs. 500 crores in the last 30-35 months to put in again with a completely good balance sheet. We are keeping our eye on our receivables. We are not extending or stretching on our receivables. So, I don't really see any downside risk considering that there is no capital expenditure, raw material prices are stable, and it is what it is. That is why, beyond the point, if the industry goes that way, like every other building material industry. All I can assure you is that we will not be behind any other building material industry or behind competition.

Moderator: Thank you. As there are no further questions, I will now hand the conference over to Mr. Somany for closing comments.

Abhishek Somany: Thank you so much, everyone. Optimistic about Q3 and Q4, like I said, October started well. So, hopefully things should be better and we have a clean 5 months ahead of us with not too many festivities which points the rhythm of the market. And I am wishing every one of you a very Happy and Prosperous Diwali. Happy Diwali to all of you.

Moderator: Thank you very much. On behalf of SKP Securities Limited, that concludes this conference. Thank you for joining us and you may now disconnect your lines. Thank you.