

Sapphire Foods

Pizza Hut revival delayed

Sapphire Foods' (SF) Q4FY25 results were below expectations owing to weak performance of Pizza Hut (+1% SSSg) despite a favourable base (-15% SSSg in base quarter), owing to cutbacks in mass media advertising. Additionally, KFC reported a 1% SSSg decline. The negative operating leverage for both brands weighed on margins. We maintain our ADD rating on SF with a TP of INR 360/sh (25x its FY27 Pre IND-AS EV/EBITDA, 12% premium to its 3-yr average), with revenue/Pre IND-AS EBITDA CAGRs of 14/48% for FY25-FY28. In our view, growth will be driven by (a) improving ADS for both Pizza Hut and KFC which would improve margins, (b) strengthening of brand equity via price-value correction, menu innovation, and media campaigns, and (c) optimal utilization of store space, and rationalization of operating overheads to reduce payback period.

Segmental results summary:

- **KFC format (65% of overall sales):** SSSg declined 1% YoY due to sustained macro strain and competitive intensity. Gross margin contracted only c30bps YoY to 68% despite aggression on value offerings owing to product composition tweaks. Gross margins to sustain around current range. Pre-Ind-AS contribution margin declined by 300bps YoY to 18.2%, owing to negative operating leverage (ADS declined 5% YoY down to INR 108,000). Sapphire earlier expected KFC operating margin to hold around 18%; however, the urban slowdown and competitive intensity have resulted in a 300 bps margin contraction to 15.7%. Low single digit SSSg will hold current levels; KFC will need mid-high single digit SSSg for margin expansion. KFC added six stores during Q4, taking the total count to 502. SF to add 70-80 stores annually.
- **Pizza Hut format (20% of overall sales):** SSSg grew only 1% YoY despite a favourable base (-15% SSSg in base quarter), owing to cutback of mass media campaigns as there is a divergence in advertising focus between DIL and SF. Pre-IND AS contribution margin/gross margin declined YoY at by 190/70 bps to (4.6)/74.8%, owing to minimal gain in operating leverage and increasing salience of value offerings. Pizza hut closed five stores in Q4, dropping the total store count to 334.
- **Sri Lanka business (15% of overall sales):** Surprised with 16% SSSg, given the improving macroeconomic environment. The additional operating leverage improved the adjusted EBITDA margin by 250bps to 14.8%. ADS increased by 27% to INR 95,000.
- **Consolidated:** Sales grew 12.6% YoY, in line with our expectation. GM contraction was lower than expected (73 bps contraction vs. expectation of 190 bps contraction), owing to product composition tweaks carried out in KFC. However, the negative operating leverage in KFC and Pizza Hut weighed on margins and Pre-IND AS EBITDA margin contracted by 140bps to 7.2%.

Quarterly/annual financial summary

(INR mn)	4QFY25	4QFY24	YoY (%)	3QFY25	QoQ (%)	FY25	FY26E	FY27E	FY28E
Net Sales	7,113	6,317	12.6	7565	(6.0)	28,746	32,755	37,723	42,905
EBITDA*	1,062	1,029	3.2	1343	(20.9)	1,591	3,396	4,313	5,159
APAT	56	24	NA	120	(53.0)	420	1,491	1,886	2,161
AEPS (INR)	0.8	0.4	NA	1.8	(53.7)	1.3	4.7	5.9	6.8
P/E (x)						239.8	67.5	53.4	46.6
EV/EBITDA (x)						61.8	28.2	21.3	16.9
Core RoCE (%)						(1.1)	12.4	20.6	35.1

Source: Company, HSIE Research

*Pre Ind AS

ADD

CMP (as on 07 May 2025)	INR 311
Target Price	INR 360
NIFTY	24,414

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 360	INR 360
Pre-INDAS EBITDA %	FY26E +0.1	FY27E +0.1

KEY STOCK DATA

Bloomberg code	SAPPHIRE IN
No. of Shares (mn)	321
MCap (INR bn) / (\$ mn)	100/1,177
6m avg traded value (INR mn)	188
52 Week high / low	INR 401/242

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(3.8)	(2.2)	10.0
Relative (%)	(7.5)	(3.8)	0.1

SHAREHOLDING PATTERN (%)

	Dec-24	Mar-25
Promoters	26.13	26.08
FIs & Local MFs	38.32	38.51
FPIs	30.67	30.42
Public & Others	4.88	4.99
Pledged Shares	0.00	0.00

Source : BSE

Pledged shares as % of total shares

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Somany Ceramics

Higher incentives pull down gross margin

We maintain BUY on Somany Ceramics (SOMC), with a lower price of INR 550/share (20x Mar-27E EPS). Consolidated revenue grew only 4% YoY, as tiles volume recorded sub-par growth of 3% YoY. Gross margin declined 270/440bps YoY/QoQ owing to a higher dealer discount. So, EBITDA margin declined 270bps YoY to 8.1%, leading to 21% decline in EBITDA. Led by lower EBITDA, high depreciation, which was partially offset by lower tax rate, APAT declined 23% YoY. As per management, domestic demand for tiles has seen an uptick in April, and initial indications point towards a recovery in export markets. The company has no expansion plans for the next year in tiles segment. We expect it to deliver 6% volume CAGR during FY25-27E.

- **Q4FY25 performance:** Revenue beat ours and consensus estimates by 3% and 4% owing to better volume at the cost of higher incentive. So, due to weak realization, APAT missed ours/ consensus estimate by 11/14%. Sales volumes grew 3% YoY (3-year CAGR is 8%). Blended NSR declined 1% each YoY/QoQ. Thus, tiles revenue grew 2% YoY. The non-tiles revenue growth was healthy at 22% (3-yr CAGR: 21%). Overall, consolidated revenue grew 4% YoY. Gross margin declined 270/440bps YoY/QoQ owing to higher discount given to dealer. Owing to fixed cost control, employee/ other expenses rose 3/5% YoY. So, EBITDA margin decreased by 270/20bps YoY/QoQ leading to 21% decline in EBITDA. Led by lower EBITDA, high depreciation, which was partially offset by lower tax rate, APAT fell by 23% YoY.
- **Outlook:** The company forecasts robust volume growth in the high single to low double-digit range for FY26. Additionally, they expect to enhance EBITDA margins by 100-150bps YoY in FY26. As per management, domestic demand for tiles has seen an uptick in April, and initial indications point towards a recovery in export markets. Ad spends are projected to increase by 50bps as a percentage of sales in FY26, while employee costs are expected to decrease. As of now, the company has no expansion plans for its tiles segment. Following the Q4 earnings miss, we are reducing our FY26/27E EPS estimates by 11% and 18%, respectively. Factoring in Morbi's market share gains and the slow ramp-up of the Somany Max plant, we are lowering our target multiple to 20x Mar-27E EPS from the 22x previously. We maintain BUY on Somany Ceramics, with a lower target price of INR 550/share.

Quarterly/annual financial summary (consolidated)

YE Mar (INR mn)	Q4 FY25	Q4 FY24	YoY (%)	Q3 FY25	QoQ (%)	FY23	FY24	FY25	FY26E	FY27E
Tiles sales (MSM)	20.4	19.9	2.6	17.1	19.5	63.9	69.3	70.9	75.1	79.6
NSR (Rs/Kg)	315.5	317.4	-0.6	319.6	-1.3	336.2	323.5	318.3	318.3	321.5
Tiles Revenue	6,439	6,317	1.9	5,459	17.9	21,483	22,426	22,551	23,904	25,592
Others Revenue	1,220	1,001	21.8	941	29.6	3,164	3,347	3,882	4,348	4,783
Net Sales	7,690	7,375	4.3	6,449	19.2	24,785	25,914	26,588	28,252	30,374
EBITDA	625	795	-21.4	535	16.9	1,887	2,532	2,209	2,451	2,702
EBITDAM (%)	8.1	10.8		8.3		7.6	9.8	8.3	8.7	8.9
APAT	214	275	-22.5	113	89.1	737	989	579	956	1,119
Diluted EPS (Rs)	5.2	6.7	-22.5	2.8	89.1	17.4	24.1	14.1	23.3	27.3
EV / EBITDA (x)						12.0	8.5	9.5	7.6	6.9
P/E (x)						24.8	17.8	30.5	18.4	15.7
RoE (%)						8.5	11.5	6.9	10.9	11.6

Source: Company, HSIE Research

BUY

CMP (as on 07 May 2025)	INR 430
Target Price	INR 550
NIFTY	24,414

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 730	INR 550
EPS	FY26E	FY27E
revision %	(10.9)	(18.2)

KEY STOCK DATA

Bloomberg code	SOMC IN
No. of Shares (mn)	41
MCap (INR bn) / (\$ mn)	18/208
6m avg traded value (INR mn)	15
52 Week high / low	INR 873/395

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(14.3)	(36.5)	(31.2)
Relative (%)	(18.0)	(38.0)	(41.0)

SHAREHOLDING PATTERN (%)

	Dec-24	Mar-25
Promoters	55.01	55.01
FIs & Local MFs	23.61	23.63
FPIs	1.56	1.49
Public & Others	19.82	19.87
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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