

Rating matrix		
Rating	:	Buy
Target	:	₹ 426
Target Period	:	12-18 months
Potential Upside	:	18%

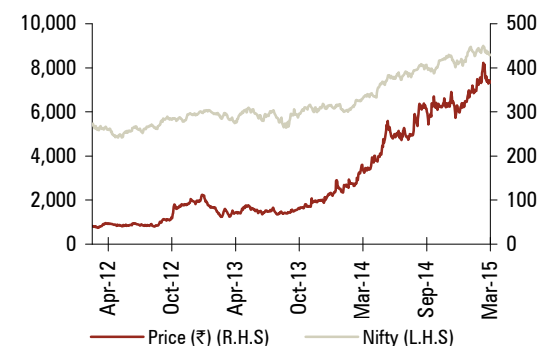
YoY Growth (%)				
(YoY Growth)	FY14	FY15E	FY16E	FY17E
Net Sales	19.8	21.6	30.6	15.3
EBITDA	(5.0)	19.2	30.2	26.8
Net Profit	(9.8)	57.9	38.8	37.4
EPS (₹)	7.4	11.8	16.3	22.4

Valuation summary				
(x)	FY14	FY15E	FY16E	FY17E
P/E	48.6	30.8	22.2	16.1
Target P/E	57.2	36.2	26.1	19.0
EV / EBITDA	18.5	15.5	11.8	9.0
P/BV	6.3	5.4	4.6	3.7
RoNW (%)	12.9	17.6	20.5	23.1
RoCE (%)	14.8	17.6	22.1	26.5

Stock data	
Particular	Amount
Bloomberg/Reuters Code	SOMC IN / SOCE.NS
Sensex / Nifty	28261 / 8570
30 Day Average Volume	44,580.0
Market Cap (₹ crore)	1,406.2
52 week H/L	425 / 154
Equity Capital (₹ crore)	7.8
Face value	₹ 2
Promoter's Stake (%)	56.2
FII Holding (%)	5.7
DII Holding (%)	2.9

Comparative return matrix (%)				
(% Return)	1M	3M	6M	12M
Somany Ceramics	-0.5	22.4	20.0	129.5
Kajaria Ceramics	4.8	38.7	24.4	130.2
Cera Sanitaryware	-1.2	50.1	56.9	196.5
HSIL	6.1	19.0	25.7	246.3

Price movement



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Somany Ceramics (SPLIND)

₹ 362

So'many' JVs – strategy to reap dividends!

Somany Ceramics (Somany) emerged as the third largest tiles player in the Indian tiles industry. It witnessed 23.3% CAGR in topline in FY10-14 (industry average: 16.6%) through aggressive capacity expansion from 16.7 msm in FY10 to 42.5 msm currently largely through a JV model. Going ahead, we remain positive on Somany's growth prospects considering the structural shift in the industry post the Morbi development, its aggressive expansion plans and shift towards JV model. Consequently, we expect Somany's earnings to grow at 44.4% CAGR in FY14-17E without any significant incremental capex resulting in an improvement in return ratios. Hence, we initiate coverage on Somany with a BUY rating with a target price of ₹ 426 (19x FY17 EPS).

Becoming one of the leading players in industry through JV model...

Somany has emerged as the third largest player in the growing tile industry and is expected to grow its capacity to 47.5 msm (excluding outsourcing tie-ups) in FY16E largely through an asset light model such as JV with local players (currently: 21 msm & FY16E: 26 msm). Consequently, revenue share from the JV model is expected to increase from 20% in FY14 to 48.0% in FY16E with minimal incremental capex (~₹ 75-80 crore in FY15-16E) leading to improvement in the return ratios.

Morbi development – Structurally positive for organised player...

In November 2013, Gujarat Pollution Control Board issued closure notice to Morbi (unorganised players hub) based ceramic units that run on coal gas furnace. This development is structurally positive for organised players like Kajaria & Somany as i) the organised pie will grow faster in the absence of cost advantage enjoyed by unorganised players due to coal gas furnace, ii) tone has been set for consolidation in the industry.

De-leveraging balance sheet lends us comfort...

One of the major overhangs for Somany was its leverage position. However, it managed to reduce its debt to equity from 1.7x in FY11 to 0.8x in FY14 through higher internal accruals and better WC management. Furthermore, Somany raised ₹ 50 crore by diluting 11.2% stake to private equity firm Creador in January, 2014. Going ahead, with more focus on the JV model, we expect its debt to equity to come down to 0.3x.

Strong earnings growth led by JV model; initiate with BUY...

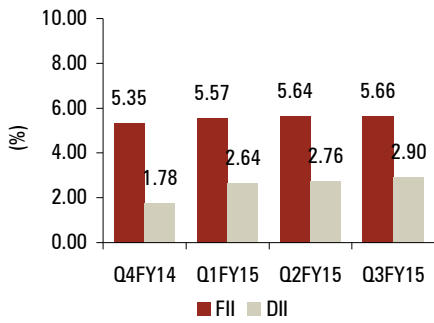
We highlight that we remain positive on Somany's growth considering a structural shift in the industry, its strong brand recall, wide distribution network and stable natural gas prices. With its renewed focus on growth using asset light model translating into strong earnings growth and improvement in return ratio, we initiate coverage on Somany with BUY rating with a target price of ₹ 426. We value Somany at 19x FY17 EPS, which is at a 25% discount to Kajaria and implies a PEG of 0.4x.

Exhibit 1: Financial Performance

(₹ Crore)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales (₹ crore)	1,049.9	1,258.0	1,529.7	1,998.6	2,304.6
EBITDA (₹ crore)	85.7	81.4	97.0	126.3	160.1
Net Profit (₹ crore)	32.0	28.9	45.7	63.4	87.1
EPS (₹)	9.3	7.4	11.8	16.3	22.4
P/E (x)	39.0	48.6	30.8	22.2	16.1
Price / Book (x)	8.2	6.3	5.4	4.6	3.7
EV/EBITDA (x)	18.0	18.5	15.5	11.8	9.0
RoCE (%)	20.7	14.8	17.6	22.1	26.5
RoE (%)	20.9	12.9	17.6	20.5	23.1

Source: Company, ICICIdirect.com Research

FII & DII holding trend (%)



Shareholding pattern (Q3FY15)

Shareholder	Holding (%)
Promoters	56.2
Institutional investors	8.6
General public	35.2

Company Background

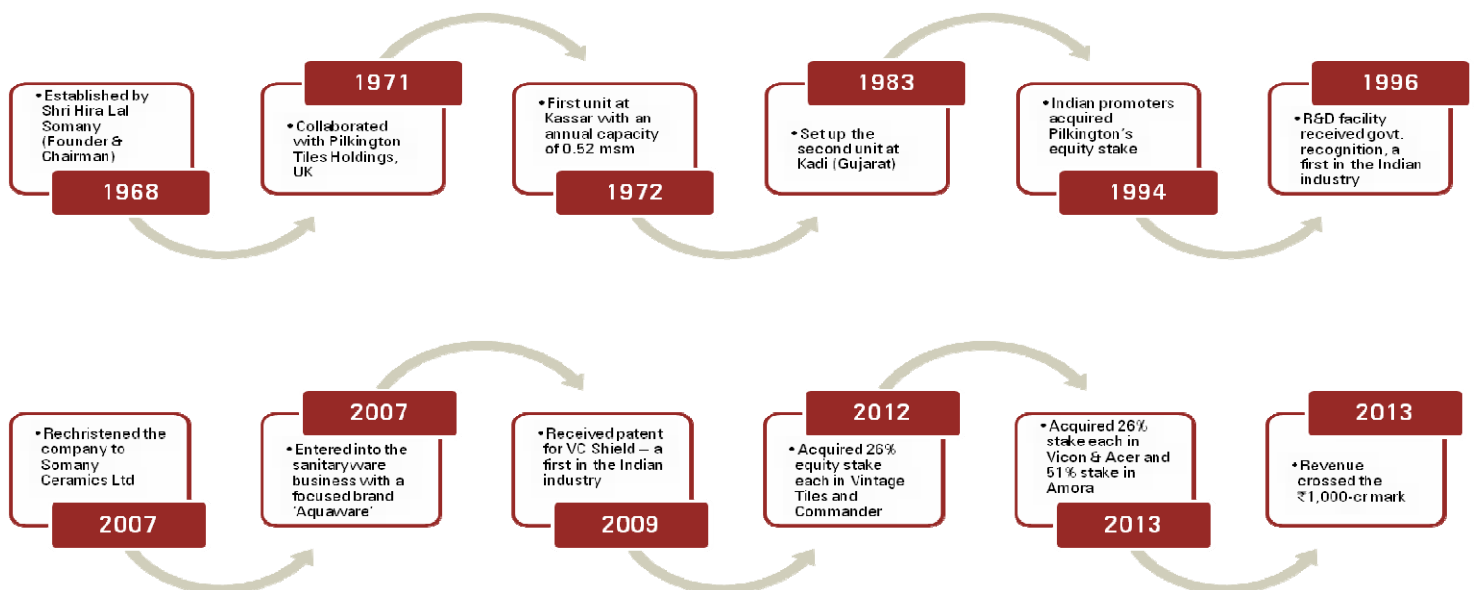
Somany Ceramics (Somany) was incorporated in 1968 and is a part of the prestigious HL Somany Group. The company initially started operations in collaboration with UK-based Pilkington Tiles (registered as Somany Pilkington Ltd). Later it was renamed as Somany Ceramics in 2007. The company is one of the leaders in the Indian tile industry.

Somany Ceramics is the third largest tile manufacturer in India with a current capacity of ~42.5 million square metres (msm) per annum (including JVs and excluding outsourcing) behind Kajaria Ceramics (~54.1 msm) and H&R Johnson (~54 msm). The company is headquartered in Noida, Uttar Pradesh with two own manufacturing units in Kassar, Haryana (~13.1 msm) and Kadi, Gujarat (~6.0 msm) and five JV based manufacturing facilities in Morbi, Gujarat (~21 msm). Somany also has outsourcing tie-ups for capacity of ~9.5 msm.

Somany's product offerings include ceramic wall and floor tiles, glazed and polished vitrified tiles, internationally-branded tiles, sanitary ware and bathware fittings. The company markets these products through its robust pan-India distribution network consisting of 1,200+ dealers, 10,000+ sub-dealers, 6,500+ touch points including 223 showrooms, 19 stock points and 31 marketing offices. Sales from retail clientele form ~65% of total sales with the remaining ~35% coming from institutional clientele. Its institutional clients comprise developers like Lodha, Omaxe, Vatika, Shapoorji Pallonji, corporates like Infosys, L&T, IBM, HDFC Bank, government, PSUs like CPWD, BTPC, SAIL, AAI, ONGC, retailers, hospitals, hospitality entities like Big Bazaar, Shoppers' Stop, Cooper hospital, The Lalit, etc.

In FY09-14, Somany posted healthy growth of 23.3% and 26.9% in revenue and PAT, respectively. As on FY14, the company has ~13% market share in the organised space and ~6.5% market share in the overall Indian tiles market.

Exhibit 2: Major milestones



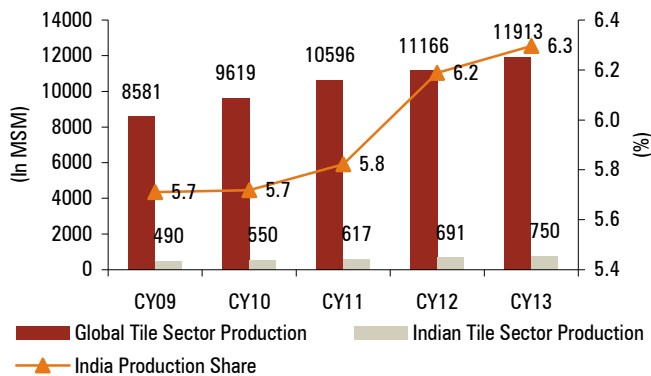
Source: Company, ICICIdirect.com Research

Investment Rationale

Global tile industry - bird's eye view!!!

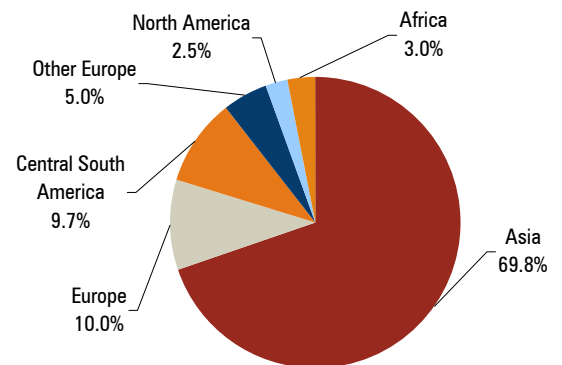
Global tile production has grown at 8.5% CAGR in CY09-13 to 11,913 msm whereas India's tile production has grown at a robust 11.2% CAGR to 750 msm in the same period. Also, India's share in global tile production has increased to 6.3% in CY13 vs. 5.7% in CY09. With Asia leading the production, China (5,700 msm), Brazil (871 msm) and India were the top three producers. India's transformation from the fifth largest producer of tiles in CY08 to the third largest in CY13 is a result of its innovation and capability enhancement.

Exhibit 3: Tile production trend



Source: Ceramic World Review, Company, ICICIdirect.com Research

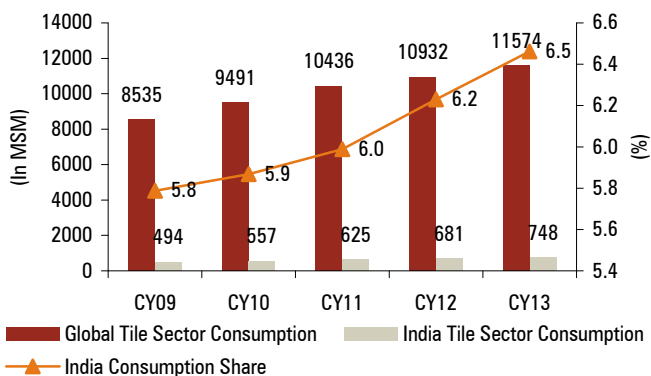
Exhibit 4: World production scenario (CY13)



Source: Ceramic World Review, Company, ICICIdirect.com Research

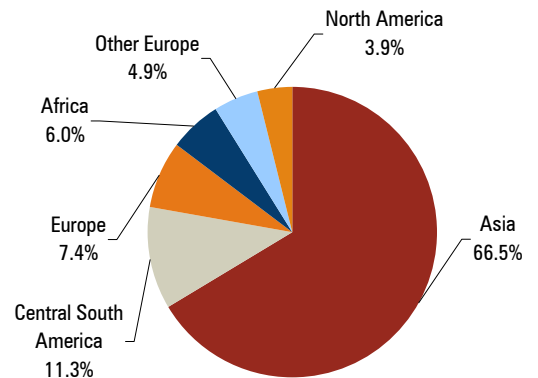
Furthermore, global tile consumption has grown at 7.9% CAGR in CY09-13 to 11,574 msm wherein Indian tile consumption has exhibited healthy growth of 10.9% to 748 msm in the same period. In addition, India's share in global tile consumption has increased to 6.5% in CY13 vs. 5.8% in CY09 on the back of strong domestic demand. In consumption also, India is placed third behind China (4,556 msm) and Brazil (837 msm).

Exhibit 5: Tile consumption trend



Source: Ceramic World Review, Company, ICICIdirect.com Research

Exhibit 6: World consumption scenario (CY13)



Source: Ceramic World Review, Company, ICICIdirect.com Research

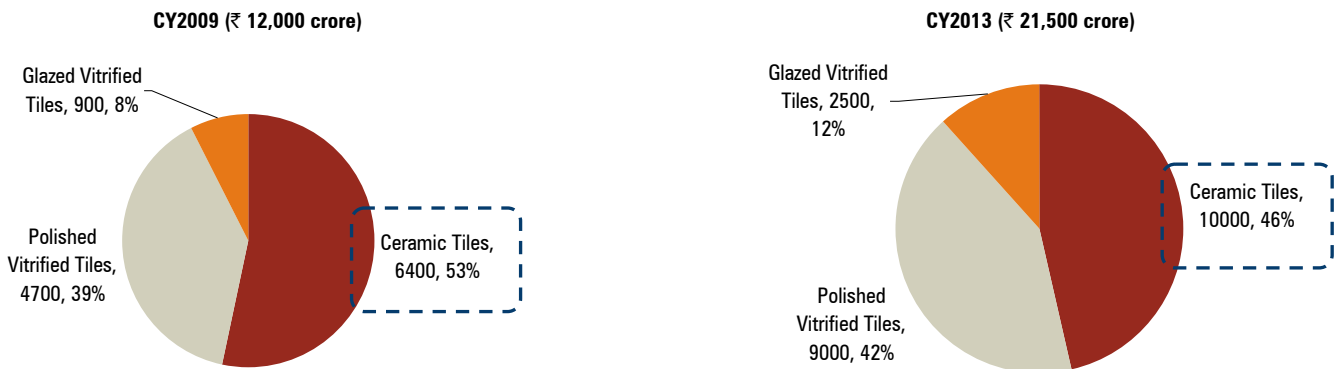
As on March 2014, the Indian tile market is valued at ₹ 21,500 crore while in volume terms it is 748 msm

Indian tile industry – Moving up the value chain!!!

The Indian tiles industry has exhibited strong growth vis-à-vis its global counterparts led by strong demand owing to the emergence of tiles as a durable, cost-effective and convenient flooring solution over other flooring material like natural stone, mud, cement, etc. Furthermore, increasing disposable income, affordability, urbanisation, brand aspiration and home aesthetics have led consumers to shift to branded and high value products. Also, lower cost of equipment and imposition of anti-dumping duty had given a major push to the domestic tiles industry, on the supply side.

In CY09-13, the Indian tiles industry grew at 15.7% CAGR to ₹ 21,500 crore. On the volume front, it grew at 10.9% CAGR to ₹ 748 msm. The ceramic tiles category grew at 11.8% CAGR to ₹ 10,000 crore while on the volume front it grew at 7.7% CAGR to 450 msm during the same period. However, the ceramic tiles category forms 46% of the overall Indian tile industry in CY12 vs. 53% in CY09. This indicates a clear shift towards high value products in the domestic industry.

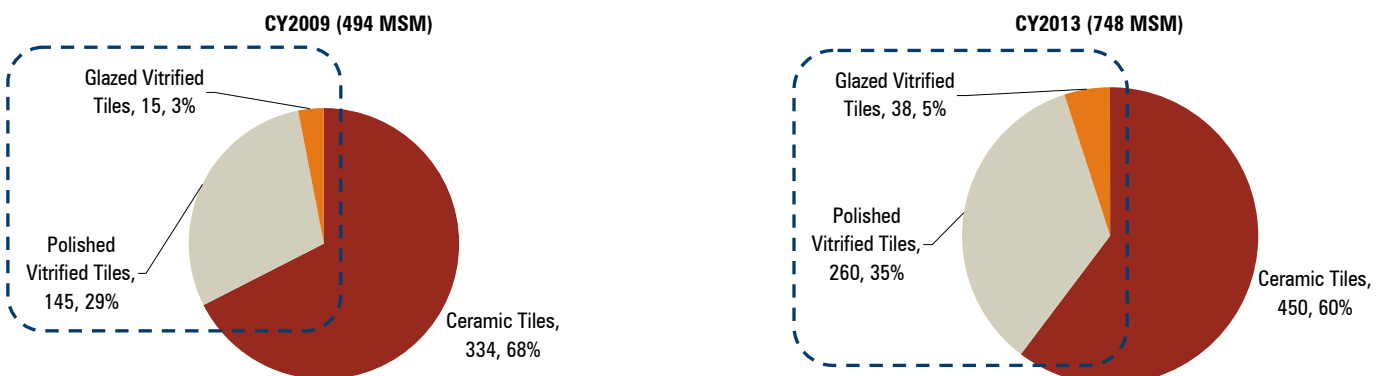
Exhibit 7: Indian tile industry (value – in ₹ crore)



Source: Company, ICICIdirect.com Research

There has been a structural shift in ceramic tiles demand with preference towards high-end vitrified tiles led by rising affordability, urbanisation, brand aspiration and home aesthetics. We highlight that while volumes of the domestic tile industry have grown at 10.9% CAGR in CY09-13, polished vitrified tiles (PVT) and glazed vitrified tiles (GVT) have grown at 15.7% and 26.2% CAGR, respectively, during the same period.

Exhibit 8: Indian tile industry (volume – in msm)

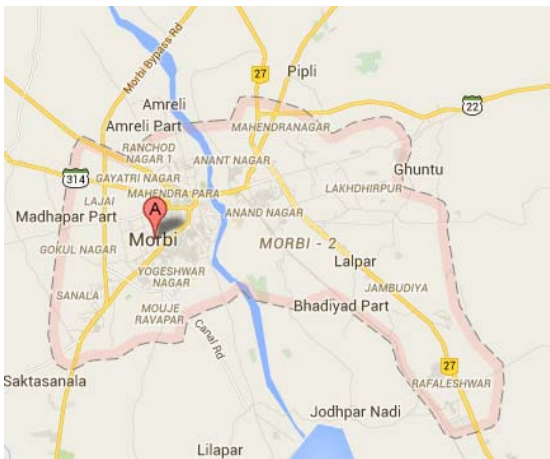


Source: Company, ICICIdirect.com Research

Morbi development...Structural shift towards organised players...



Morbi (Gujarat) is a hub of ceramic tile manufacturers in India with ~500 manufacturing units (mostly unorganised). The region, according to various sources, produces 65-70% of the total ceramic products (vitrified tiles, wall tiles, floor tiles, quartz stone, sanitary ware, roofing tiles and mosaic tiles) in the country. One of the key reasons behind Morbi being the ceramic city is easy availability of key raw materials like various types of clay, red and black soil, minerals (including calcite and wollastonite) with frits and glazes readily available either locally or from neighbouring Rajasthan. It is also cost effective since Gujarat State Petroleum Corporation (GSPC) has installed industrial gasoline in the region.



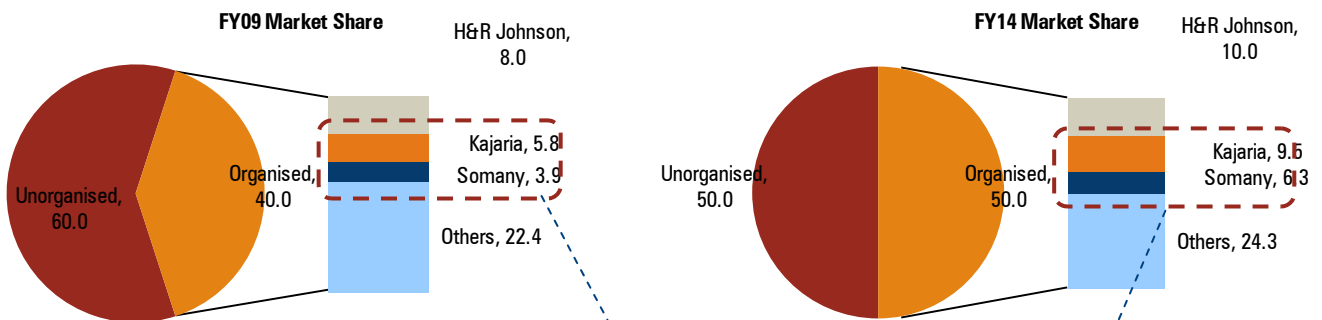
Source: Google Maps

In the last few years, given the sharp rise in gas prices (~80% in the last two years), cost of production has gone up substantially. Most Morbi players were operating on coal based furnaces as opposed to organised players who were operating on gas based plants. Due to this, unorganised players had an undue cost advantage over organised players due to the fact that a) cost of production using coal was cheaper by 5-6% compared to using gas and b) on lower tax outflow due to under reporting of production owing to clandestine sales.

In November 2013, the Gujarat High Court issued a closure notice to Morbi based ceramic units that run on coal gas furnaces due to pollution concerns. Also, since FY14 beginning, Gujarat Pollution Control Board (GPCB) restricted cargo handling at the Navlakhi port (which handles 60% of coal for the ceramic industry), leading to a severe shortage of coal. Moreover, post the closure, Morbi players have to bring coal from Kandla and Mundra ports where transportation cost is higher by ~50%. Consequently, unorganised players had to shift back to gas fired furnaces and the cost parity enjoyed by unorganised players went away. Hence, these developments were structurally positive for organised players and provided a level playing field to them. Going ahead, we expect the organised pie to expand significantly on account of the reducing price differential leading to customers shifting towards branded tiles.

Furthermore, the current situation has set the tone for consolidation in the industry. We believe that given the higher cost of operation and inability of unorganised players to push their products amid growing preference for branded products, they could now move towards either forming a joint venture (JV) or being taken over by organised players.

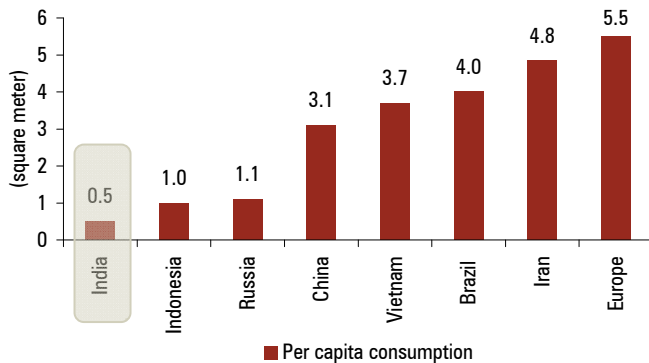
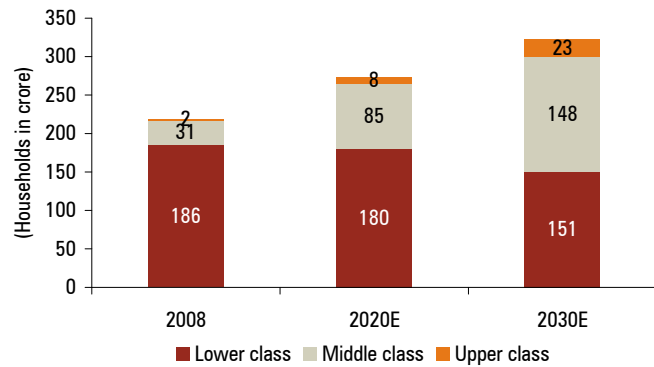
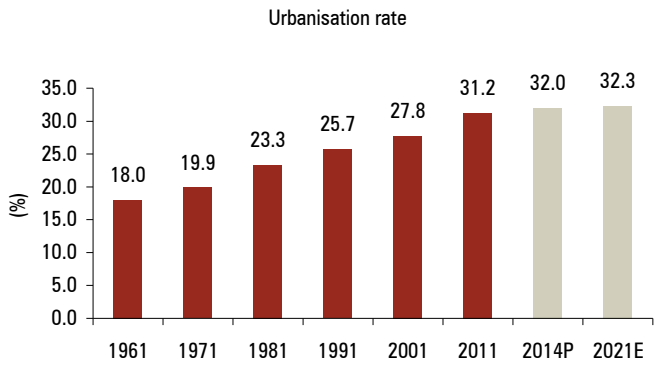
Exhibit 9: Morbi development – structurally positive for organised players



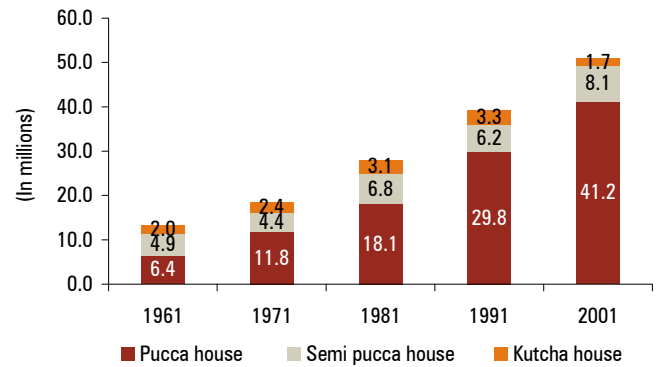
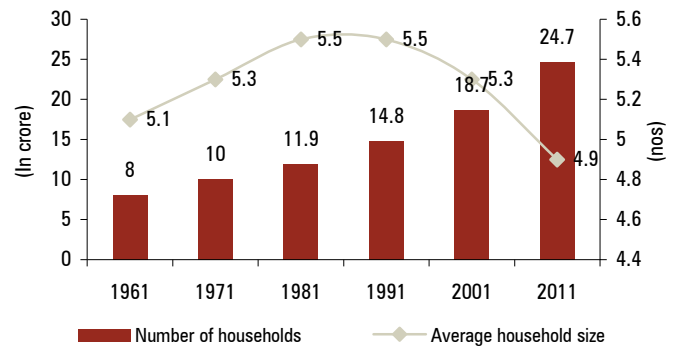
Morbi development, rising affordability, urbanisation, brand aspiration and home aesthetics have led to an increase in the pie of organised players to 50% in FY14 from 40% in FY09. We also highlight that within organised space, Kajaria, Somany have gained significant market share compared to their peers

Source: Company, ICICIdirect.com Research

Exhibit 10: Volume growth drivers



Volume Growth Drivers



Material (%)	India		Rural		Urban	
	1991	2001	2001	2011	2001	2011
Mud	67.0	57.1	46.5	72.3	62.6	18.0
Stone	0.0	5.8	8.1	4.5	6.2	9.1
Cement	21.3	26.5	31.1	18.0	24.2	48.3
Mosaic / Floor tiles	3.8	7.3	10.8	2.2	3.7	25.9
Others	7.9	3.3	3.5	3.0	3.2	4.1

India's urban population has grown 2.47% annually over the last decade, making it the most rapidly urbanising country. India's urban population is expected to increase from 32% today to 40% by 2020, strengthening the prospects for tile manufacturers.

By 2030, India is likely to emerge as the world's largest middle class consumer market with aggregate consumer spends of nearly US\$13 trillion. Nuclear families are the overwhelming norm in India with 70% of households comprising just one married couple, driving the need for quality housing.

There was significant growth in households living in pucca house in the last decade. Also, India's per capita consumption of 0.5 SM is least in comparison to 3-4 SM in peer countries like China and Brazil.

In India, tiles are still considered interior products. Hence, they have very limited usage while globally they are used equally outdoors.

These factors augur well for robust volume led growth for the Indian tile industry, going ahead.

The current urban housing shortage (18.8 million units) will be gradually made up, resulting in substantial sustained growth in India's tile industry. Also, according to the Asian Development Bank, India will require 10 million new housing units a year by 2030. Furthermore, a reduction in home renovation cycle from 15 years (a decade back) to five years would lead to robust demand.

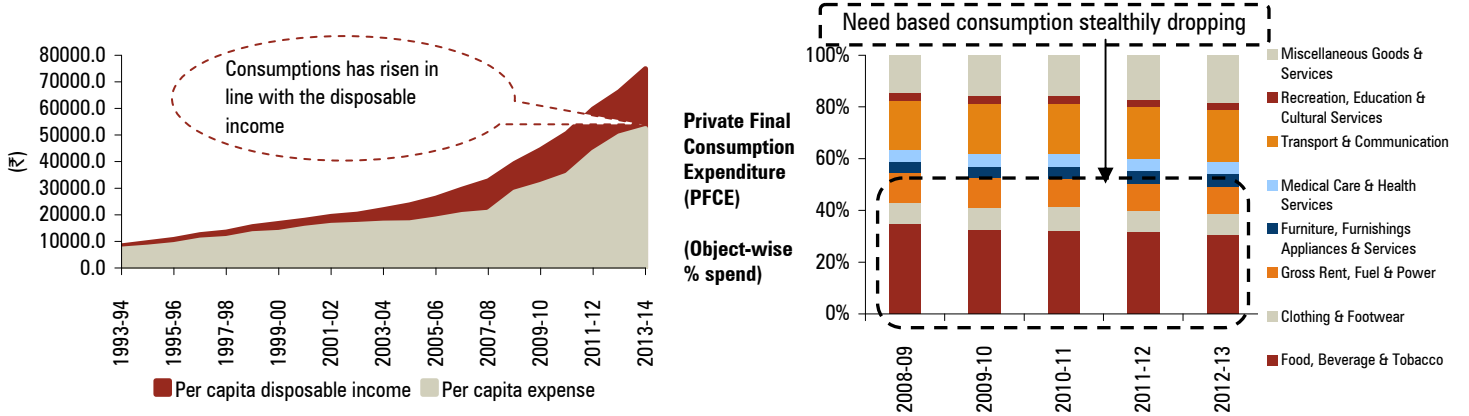
Office space supply in the top eight Indian cities is expected to reach 180 million square foot (mn sq ft) in 2012-16. Average mall size of around 380000 sq ft expected to increase to 660000 sq ft by 2017.

Over 300 hotels are expected to be commissioned in India in the next three years. By 2015, the Indian hospitality sector is estimated at ₹ 23000 crore growing at a robust 12.2% CAGR. The 1,50,000 shortage of hotel rooms and 2:1 hotel room demand-supply ratio in India, can catalyse the sustained growth in tile offtake

India's healthcare sector is expected to grow from \$78.6 billion in 2012 to \$158.2 billion in 2017. The per capita healthcare expenditure has been increasing at 10.3% CAGR

Source: Census Data, McKinsey Global Institute (MGI), MHUPA, Company, ICICIdirect.com Research

Exhibit 11: Value growth driver



The per capita disposable income has grown at 13% CAGR in the last decade to ₹ 74,920 in 2013-14. The sustained increase in per capita incomes is putting more disposable money in the hands of Indians, translating into increased spending on the home front. India has a young population with an average age of 24 years, leading to higher disposable incomes in the hands of those with aspirations for a better lifestyle and stylish interiors

It has been observed in the last few years that need based consumption is stealthily dropping. Food, beverage & tobacco that used to form 35% of total PFCE in 2008-09 dropped to 30.5% in 2012-13. Consumption of lifestyle items has increased significantly during the same period. Hence, with the increase in disposable income and high aspiration, consumption of value-added products increases substantially.

Due to the recent ban on part of the Gujarat High Court on use of coal based gasifiers, all unbranded players in Morbi had to shift to natural gas reducing their cost competitiveness vis-à-vis branded players. This may pave the way for an increase in overall sales realisation for the industry. Therefore, the Morbi development, rise in disposable income, increasing urbanisation, brand aspiration and home aesthetics would lead to people shifting towards value added products and, in turn, value growth for every player in the industry

Source: RBI, Company, ICICIdirect.com Research

Exhibit 12: Other key initiatives/events that augur well for industry



Source: Company, ICICIdirect.com Research

Somany – Well placed for future growth...

Exhibit 13: Change in strategy with more focus on high RoCE JV model

Past event

Expected event

- In November 2013, the Gujarat High Court issued a closure notice to Morbi based ceramic units that run on coal gas furnaces due to pollution concerns
- Also, since the beginning of FY14, Gujarat Pollution Control Board (GPCB) restricted cargo handling at the Navlakhi port (that handles 60% of coal for the ceramic industry), leading to a severe shortage of coal

Currently, the inequitable indirect duty structure provides a huge price advantage to unorganised players over organised players. Consequently, India's unorganised tile sector accounts for 50% of the total market size. Following the proposed implementation of GST, this large indirect tax differential is expected to narrow down, bringing organised and unorganised players on an even tax platform

Impact on unorganised players:

- Needed to shift to gas based furnaces leading to diminution in earlier cost advantage due to coal based furnace
- Lack of brand and distribution set-up leads to built up in inventory levels
- Lower capacity utilisation
- Fixed cost pressure
- Loss in market share

Benefits to organised players:

- Price differential between organised product and unorganised product reduces due to Morbi development
- GST would make tax evasion difficult for unorganised players, which, in turn, would provide a level playing field for all
- Diminishing competition from unorganised players
- Consequently, customer prefers branded products over others

Structural change in industry:

Given the higher cost of operation and inability of unorganised players to push their products amid growing preference for branded products, they are either forming a JV with or being taken over by organised players

Win-Win situation

Unorganised players:

- Given assured offtake from branded players, there would be an improvement in capacity utilisation and inventory levels
- Cost plus agreeable margins would lead to better profitability

Organised players:

- Faster access to capacity, reduction in lead time by almost a year and faster payback as compared to greenfield project
- Low capital requirement and better return on capital employed
- Better quality control as most unorganised players are family-driven

Steps in right direction by Somany:

- Somany is following a strategy of expansion by bringing in more and more unorganised players under its ambit. Hence, in the last two years the company has invested ₹ 20.6 crore for acquisition of a 26% stake in four JVs and 51% stake in one JV, which gave it the right to buy back the entire capacity of 21.0 MSM
- With this, the production capacity has been enhanced while the selling and distribution activities have been augmented with spare bandwidth. Going forward, the company intends to partner with more such small players and enhance its outreach to domestic and global markets
- This asset light model strategy would not only be high margin accretive for Somany but also provide a significant boost to its return profile

Source: ICICIdirect.com Research

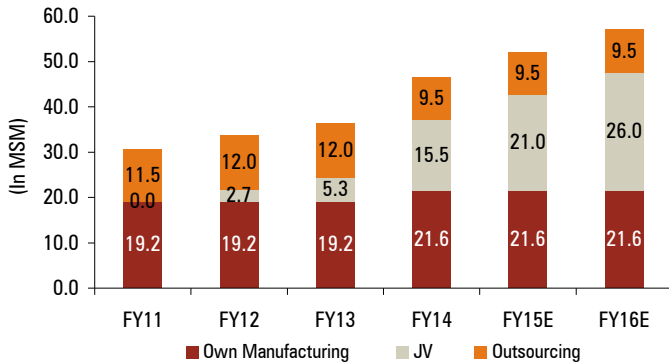
Somany's business strategy:

Pursuing growth by maximising RoCE through production outsourcing following an asset-light model

Source: Annual Report 2013-14

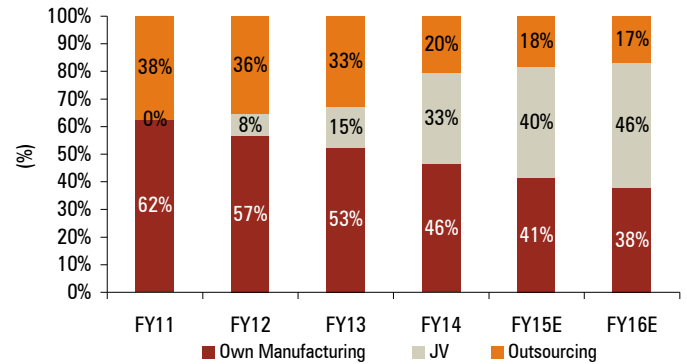
The significant advantage of expansion through the JV route over greenfield projects has made Somany gravitate towards an asset light model. This can be seen from the fact that the company has expanded its JV capacity from 2.7 msm in FY12 to 15.5 msm currently. Subsequently, revenues from the JV route account for 20% of overall revenues to ₹ 264.5 crore in FY14. Going ahead, Somany's strategy to grow via the JV route without stressing its balance sheet would significantly improve its revenues, margins, terms of trade and return on capital employed. In turn, this is expected to translate to superior value in the hands of shareholders.

Exhibit 14: Capacity break-up (in msm)



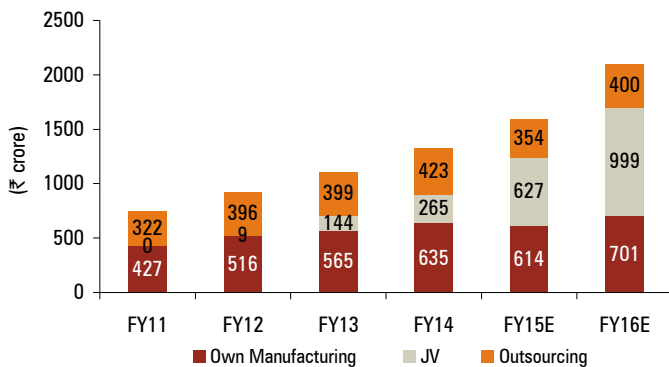
Source: Company, ICICIdirect.com Research

Exhibit 15: Capacity break-up (%)



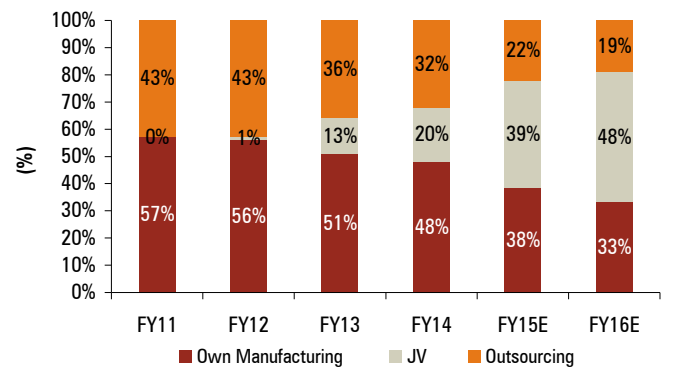
Source: Company, ICICIdirect.com Research

Exhibit 16: Revenue break-up (₹ crore)



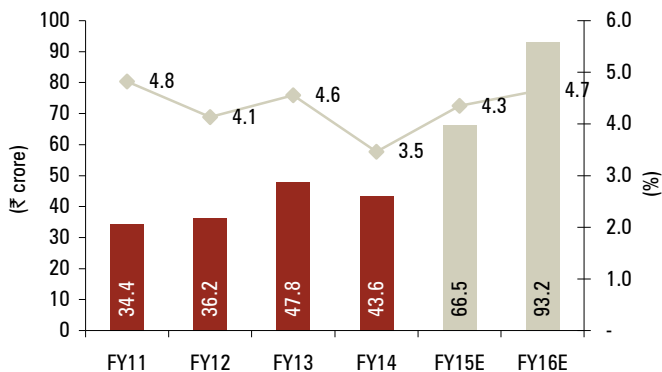
Source: Company, ICICIdirect.com Research

Exhibit 17: Revenue break-up (%)



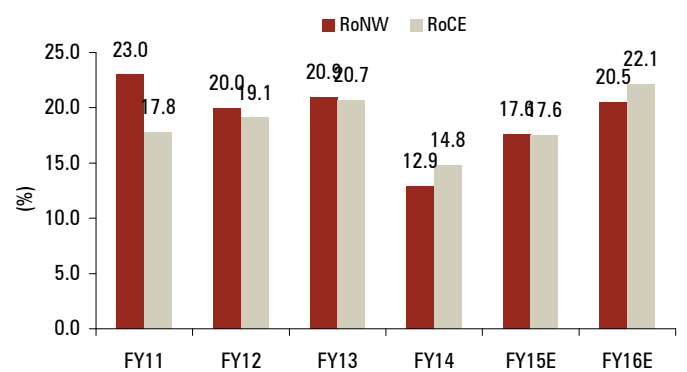
Source: Company, ICICIdirect.com Research

Exhibit 18: PBT margin expansion



Source: Company, ICICIdirect.com Research

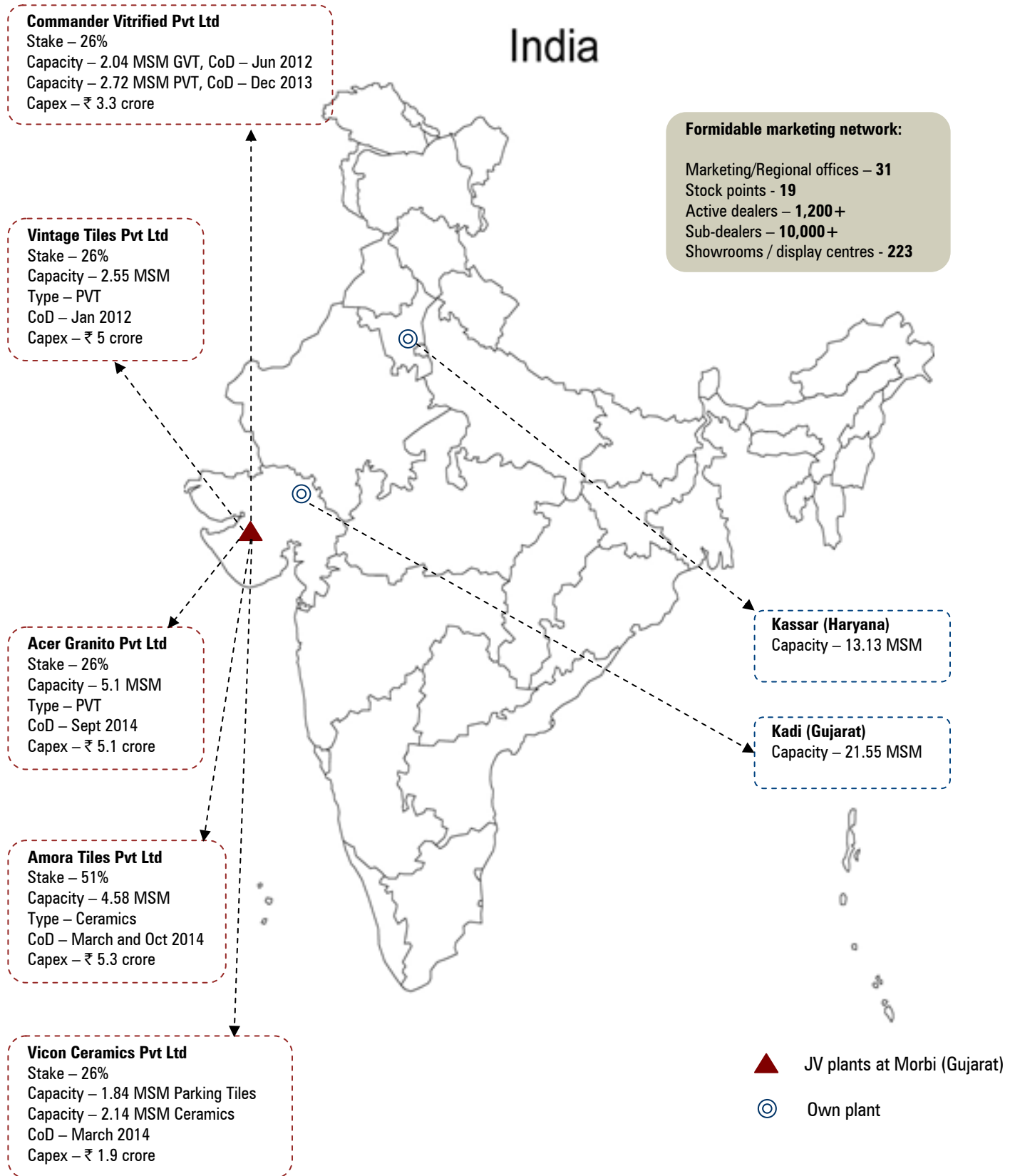
Exhibit 19: RoE & RoCE expansion



Source: Company, ICICIdirect.com Research

Formidable distribution and marketing network...

Exhibit 20: Formidable distribution and marketing network



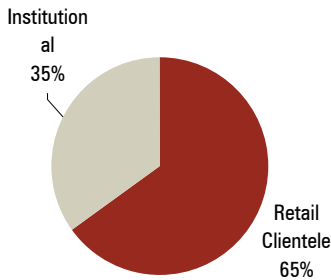
Source: Company, ICICIdirect.com Research

Somany's business strategy:

Growing the number of domestic customers through an increase in the pan-India footprint

Source: Annual Report 2013-14

Revenue break-up client-wise (FY14)



Source: Company, ICICIdirect.com Research

Somany's business strategy:

Providing impetus to capturing the value pyramid by increasing the share of tier II and III towns in the sales

Source: Annual Report 2013-14

Considering the nature of the tiles products, they are manufactured in a handful of locations but sold across India. Hence, it is imperative for companies to create a marketing and distribution network that makes it compelling and convenient for customers to make a purchase. Somany has progressively invested in this capability to the point that it has now become one of its most potent advantages.

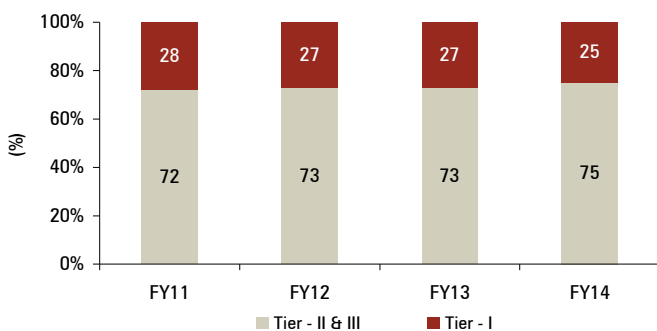
Over the years, Somany has consciously chosen to increase the proportion of its retail presence with the objective of generating higher realisations & also progressively insulated itself from sectoral downtrends through wider risk dispersal. Consequently, this strategy has led to a formidable pan-India distribution and marketing network consisting of 1,200+ dealers, 10,000+ sub-dealers, 6,500+ touch points including 223 showrooms, 19 stock points and 31 marketing offices. This has led to a significant increase in offtake in Somany's product from average of ₹ 1.2 crore worth of products a day in 2007-08 (assuming 300 working days in a year) to ₹ 4.4 crore a day in 2013-14. This not only enables Somany to push a larger quantity through its domestic distribution network but also extend this network to emerging demand pockets. Furthermore, this has also led to more broad based retail revenues for Somany wherein 50% of revenues are derived from 20% of its dealers as against its competing brands that derive 70% of revenue from 20% of their dealers.

Strong presence in tier-II & tier-III cities...

India's urbanisation rate has seen significant growth in the past decade. India's urbanisation is expected to increase from 32% currently to an estimated 40% by 2020, strengthening the prospects of tile manufacturers. This urbanisation may largely happen in tier-II, tier-III cities resulting in the creation of more homes, schools, colleges, hotels, malls and restaurants. The spread of roads, telephones and electricity is helping in creation of new population clusters. The number of 'census towns' in 2011 was 3x that in 2001, resulting in the emergence of significant housing demand from non-metro locations (smaller urban centres, Tier-II and III cities). We expect this to translate to growth in the offtake of tiles over conventional flooring material and as an extension, benefit the leading branded players over the unorganised majority.

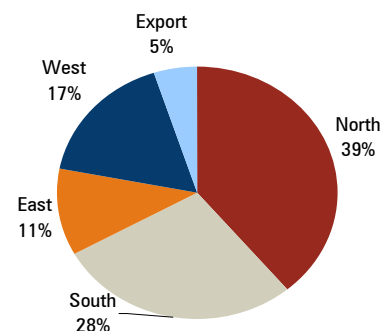
Over the years, Somany has created a significant presence in tier-II and tier-III cities. The company is able to pump growing volumes through the distribution network through a widening and deepening of Somany's presence in these cities. This can be seen from the fact that the contribution from tier-II and tier-III revenues increased from 66% in 2007-08 to 75% in 2013-14. Furthermore, Somany is also a geographically diversified organisation as far as revenues are concerned. The northern and southern Indian markets contribute around 67% of revenues.

Exhibit 21: Revenue break-up (%)



Source: Company, ICICIdirect.com Research

Exhibit 22: Region wise break-up (Q3FY15)

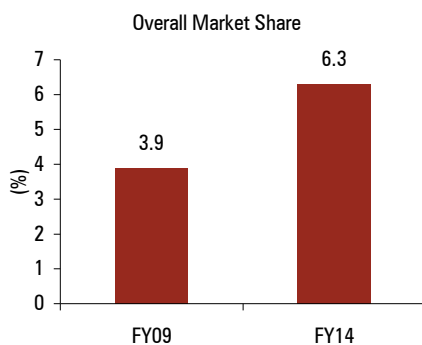
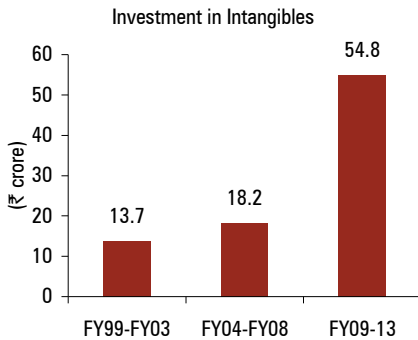


Source: Company, ICICIdirect.com Research

Somany's business strategy:

Brand strengthening through more value addition to the brand with more effort in the direction

Source: Annual Report 2013-14



Somany's business strategy:

Moving up the value chain by focusing on value-addition on existing polished and glazed vitrified tiles

Source: Annual Report 2013-14

Brand "Somany" – Strong brand equity...

In a business marked by a declining lead between companies following the launch of differentiated products, success comes down to one word: **Brand**. How positively a brand is perceived is critical in sustainable product offtake. Brand consciousness among consumers is also on the rise given the trust and quality that they entail.

To enhance its brand image, Somany is investing more in its brand presence through more rigorous effort by exploring new platforms. The company has consistently invested 1.5-2.0% of its annual net sales in brand building. In the five years leading to 2012-13, Somany invested a consolidated ₹ 55 crore in branding through advertisements in electronic, print, social media, participation in prestigious exhibitions (nationally and internationally) and via exclusive/shop-in-shop retail outlets. This has led to increasing offtake, on the one hand, and a rising sales proportion of high & medium-end products (and complementary products) on the other. As a result, it has emerged as one of the fastest growing Indian brands for high and medium-end products. Somany's determined pursuit in delivering excellence has put its brand in an illustrious bracket.

The company has been investing sustainably in intangibles (brand and distribution) to enhance market visibility and penetration. Somany has invested in experiential showrooms to provide a unique shopping ambience. These proactive branding and distribution initiatives translated to a higher share of the market: ~6% of the Indian tile industry and ~12% among branded players. As a result, what was once considered only an urban label is now a broadly dispersed national brand. What was largely an Indian label, until as recently as four years ago, is now a progressively international brand.

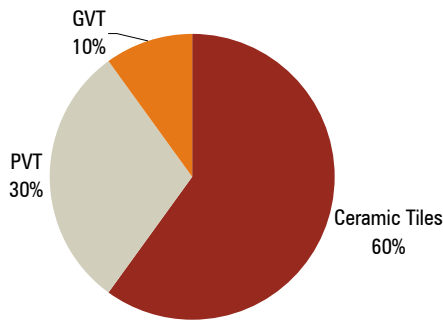
Hence, the Somany brand commands a premium over unorganised products. Going ahead, we believe Somany's top-of-the-mind brand recall and focus on enhancing the brand equity along with improving industry dynamics would translate to robust revenue growth.

Moving up the value chain...

Somany's product portfolio offers products at every price point from low-end to high-end, making it possible for prospective consumers to graduate to the next higher-priced product with incremental spending. The company is one of the brand leaders in the organised sector. Somany has retained this position on account of its ability to create niche products (prints and sizes) and stunning designs – some of which are first-time launches in the Indian market. This creative ability elicits a unique recall of being a product conceptualiser among discerning customers, allowing it to earn a premium over competing products.

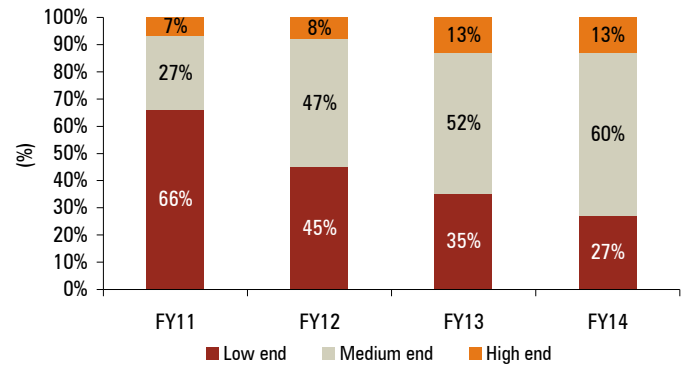
Moreover, what makes the Somany story compelling is not just a quantitative increase in off-take but a qualitative improvement as well. In FY14, sales from polished vitrified tiles (PVT) and glazed vitrified tiles (GVT) contributed to 42.5% of overall revenue as against 25.1% in FY11. As a result, Somany's average realisation of its tile products increased every single year over the last five years. The company reported 23% CAGR in net sales that was considerably higher than the prevailing industry average.

Exhibit 23: Capacity break-up (product-wise)



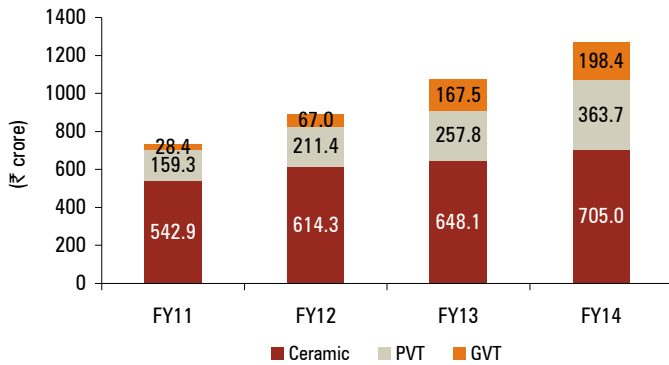
Source: Company, ICICIdirect.com Research

Exhibit 24: Revenue break-up (%)



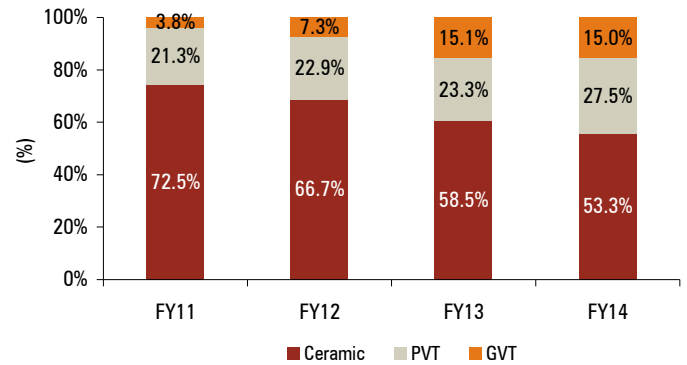
Source: Company, ICICIdirect.com Research

Exhibit 25: Revenue break-up (₹ crore)



Source: Company, ICICIdirect.com Research

Exhibit 26: Revenue break-up (%)



Source: Company, ICICIdirect.com Research

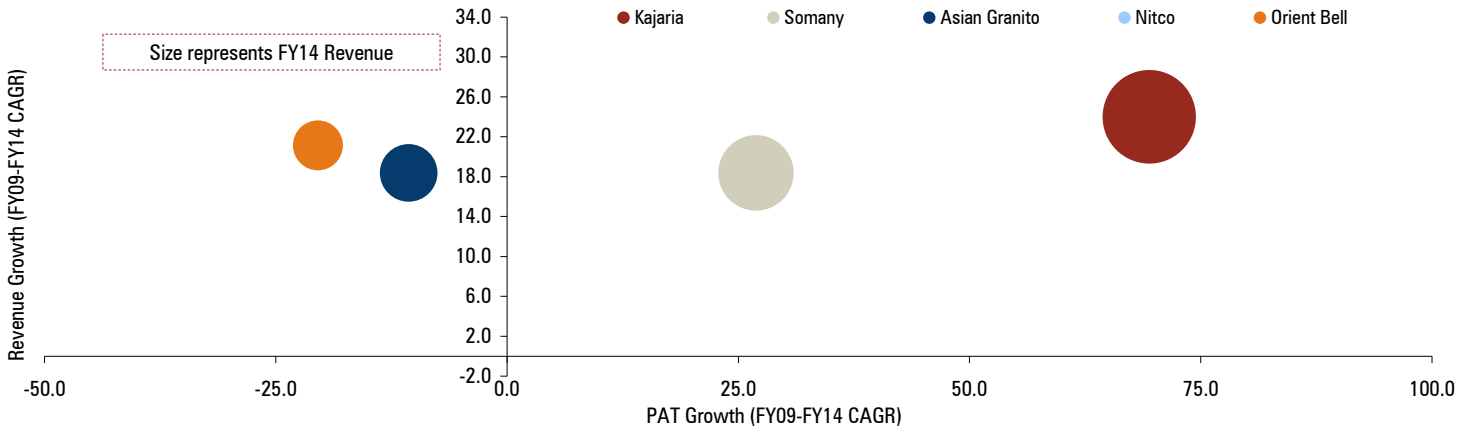
One-stop-destination for all home décor needs...

Following a growing trend that customers preferred to buy all their tile and related requirements from a single location, Somany forayed into the business of sanitary ware in 2007 and bathroom fitting in 2010. Till date, the company has build capacity of 0.3 million pieces per annum. Both businesses have created significant synergy with Somany's existing business model. These products saw considerable offtake as they were seen as complementary to tiles even though they were priced higher than tiles. It also helped the company to strengthen its holistic branding. Revenues from these segments have increased from 2.3% of Somany's overall revenues in 2009-10 to 3.2% in 2012-13.

Going ahead, the outlook for these business segments continues to be optimistic. There is a large untapped potential for sanitary ware products in the form of housing shortages and inadequate sanitation facilities. Going forward, the company is planning to ramp up its capacity to 1 million in the next five years.

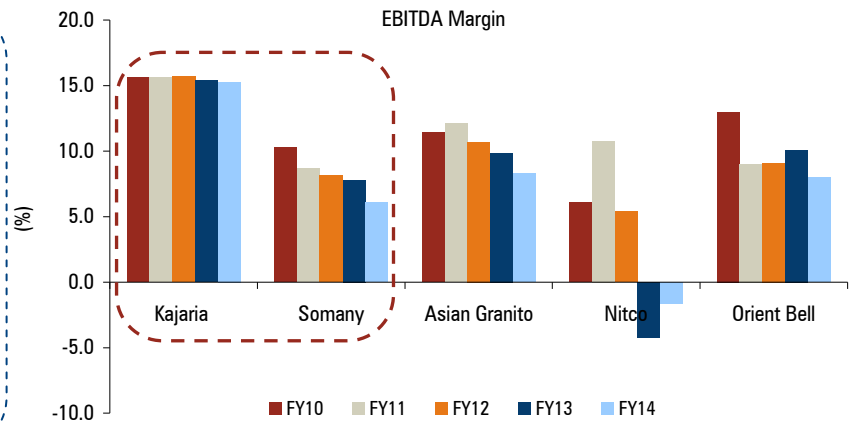
Exhibit 27: Peer comparison

Kajaria and Somany clearly stand out among their peers. Kajaria and Somany's revenue grew 24% and 23.3%, respectively, in FY09-14. Also, during the same period, where Kajaria and Somany reported a CAGR of 69.4% and 26.9% in net profit, others reported a decline in net profit. Both these players not only gained market share from organised players but also from branded players like Nitco, Orient Bell, RAK Ceramics, etc.

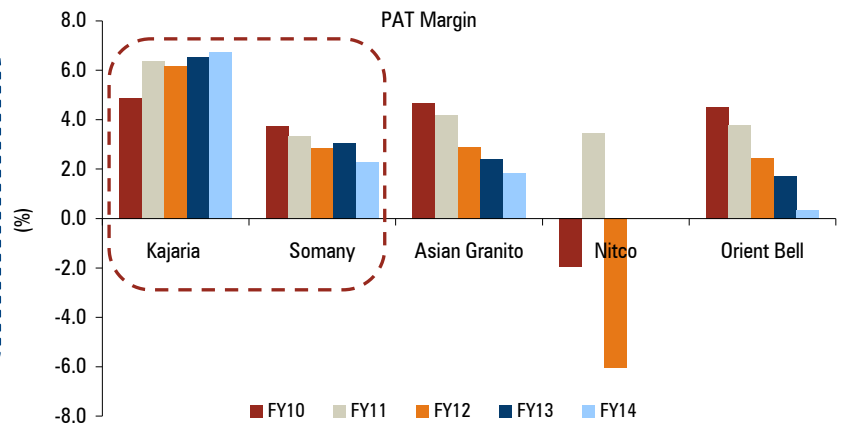


Kajaria has the highest EBITDA margin in the industry. This is mainly due to higher share of own manufacturing in total sales, which generates EBITDA margin of ~20% vs. ~5-10% for outsourced revenues. Also, being a leader in the industry, Kajaria's products command a significant premium over tiles of other brands

Somany's EBITDA margin has been lower than Kajaria's in the last few years on account of an increase in proportion of revenue from outsourcing than own manufacturing in contrast to Kajaria



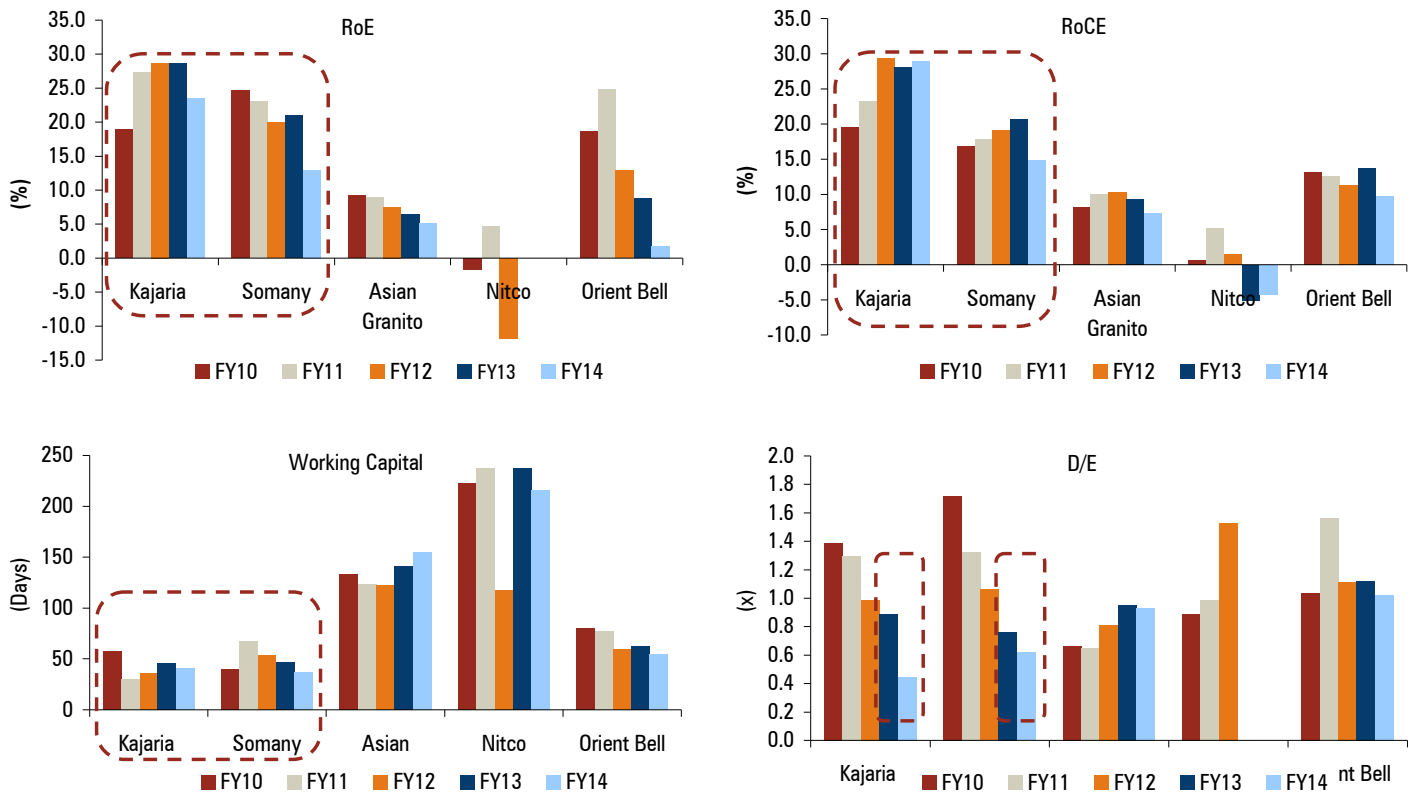
The Morbi development has led to consolidation in the tile industry. Hence, branded players are shifting towards the JV model, which leads to an expansion in PBT margin due to the asset light nature of the model. Kajaria and Somany have both built up significant capacity through the JV model over the last couple of years. Also, strong internal accruals have helped them de-leverage their balance sheet significantly. Hence, they are able to sustain their PAT margin as opposed to their peers



*Note: Nitco's FY13 & FY14 PAT Margin is not represented as it is <-20%

Source: Company, ICICIdirect.com Research

Exhibit 28: Peer comparison

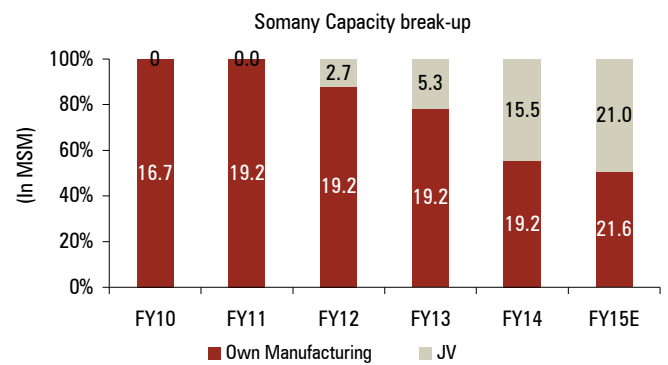
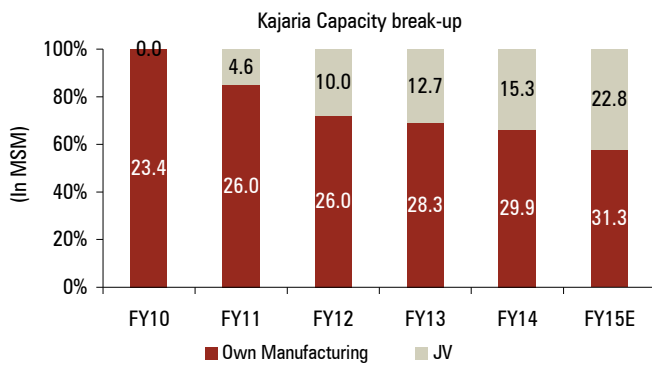


*Note: Nitco's FY13 & FY14 RoE and D/E are not represented as they are <-50% and >4x respectively, RoE and RoCE of Somany in FY14 is declined due to equity dilution

Particulars	Somany	kajaria	H&R Johnson	Asian Granito	Nitco	Orient Bell
Access to capacity (including outsourcing tie-ups)	52 MSM	62.6 MSM	54 MSM	36 MSM	16 MSM	25 MSM
Plant location	Gujarat & Haryana	UP, Rajasthan, Gujarat and AP	Maharashtra, Gujarat, Karnataka, Pondicherry, MP, Andhra Pradesh and HP	Gujarat	Maharashtra, Gujarat, Dadra and Nagar Haveli	UP, Gujarat and Karnataka
No. of plants	7 manufacturing units including JVs	6 manufacturing units including JVs	11 manufacturing units including JVs	8 manufacturing units including associates and exclusive tie-ups	2 manufacturing units	3 manufacturing units
Distribution network	1,200 dealers and 10,000 sub-dealers	900 dealers and 10,000 sales points	1,200 dealers and 15,000 sub-dealers	2,800 dealers and retailers	1,100 dealers and 5,000 retail outlets	3000 dealers
Brand spending	1.5-2% of Sales	1.5% of sales	NA	2% of Sales	2% of Sales	NA
Organised Market Share (%)						
FY12	11	17	20	7	11	7
FY13	12	18	19	7	9	7
FY14	13	19	20	7	8	6

Source: Company, ICICIdirect.com Research

Exhibit 29: Kajaria vs. Somany – Leaders of the industry



	Current average realisation (₹/sq mt)			Overall realisation
	Own	JV	Outsourcing	
Kajaria	383	361	397	378
Somany	335	416	400	379

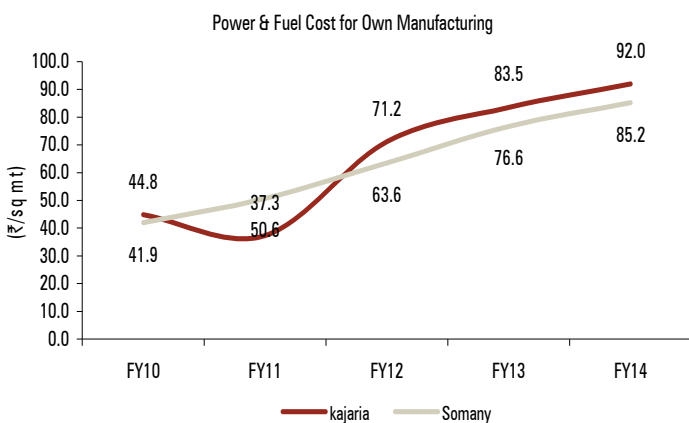
Common size comparison (FY14)		
Particulars	Kajaria	Somany
Revenue	100.0	100.0
Raw material	22.8	13.8
Net purchase of stock	22.0	48.3
Power & fuel	20.2	13.1
Employee expense	9.4	6.6
Other expense	10.3	12.1
Total operating expense	84.7	93.9
EBITDA	15.3	6.1
Other income	0.3	0.6
Depreciation	2.6	1.8
EBIT	13.0	4.9
Interest	2.2	1.5
PBT	10.8	3.4
Taxes	3.6	1.3
PAT	7.2	2.1

Kajaria entered into JVs from FY11 whereas Somany entered into JV arrangements from FY12 onwards. Currently, the proportion of own manufacturing to overall capacity is higher in case of Kajaria than that of Somany.

Somany's significant capacity of own manufacturing is of ceramic tiles. Hence, its average realisation is seen lower compared to that of Kajaria. On the other hand, most of Somany's JV capacity is of PVT and GVT type. Hence, its average realisation is seen higher than that of Kajaria. On a blended basis, average realisation is more or less same for both companies.

Since the proportion of own manufacturing is higher in case of Kajaria, raw material cost and power & fuel cost are higher than that of Somany. However, Somany's net purchase of stock is higher than that of Kajaria due to significant JV and outsourcing capacity. Consequently, Kajaria generates higher EBITDA margin than that of Somany as own manufacturing earns margin of ~10-20% vs. ~5-10% in outsourcing and JVs.

As a result, Kajaria has better PAT margins than that of Somany. However, Somany's prudent strategy to shift towards the JV model would lead to an expansion in PBT margin and, in turn, PAT margin, going ahead.



The LNG cost has significantly risen in the last few years, which has adversely impacted the company's margin profile. It has become 2x from FY10 to FY14. However, a recent reduction in gas price would have a positive impact on the margin profile after a few years as these companies have long term contracts for LNG supply where cost is determined using last five year's monthly moving average cost. Hence, the benefit of the recent reduction in gas prices would be seen after a few quarters

Source: Company, ICICIdirect.com Research

Financials

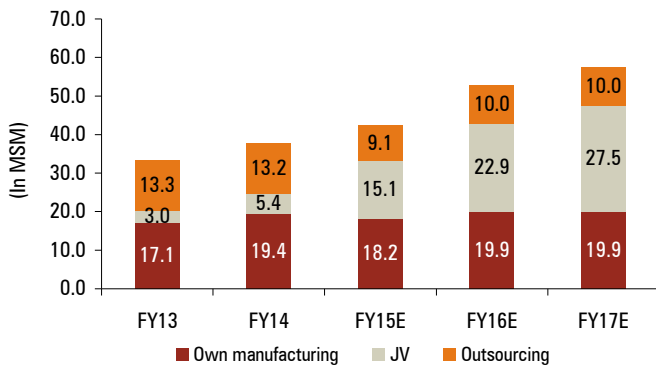
Revenues to grow at CAGR of 22% during FY14-17E...

We expect revenues to witness robust growth at 22% CAGR to ₹ 2426 crore during FY14-17E

Even during the slowdown in the last few years, Somany has reported healthy revenue CAGR of 23% in FY09-14. Going ahead, we expect significant volume growth for the entire industry on account of our aforementioned rationale for volume growth drivers (refer exhibit 11). In addition to that this volume growth would also be complemented by value growth (refer exhibit 12).

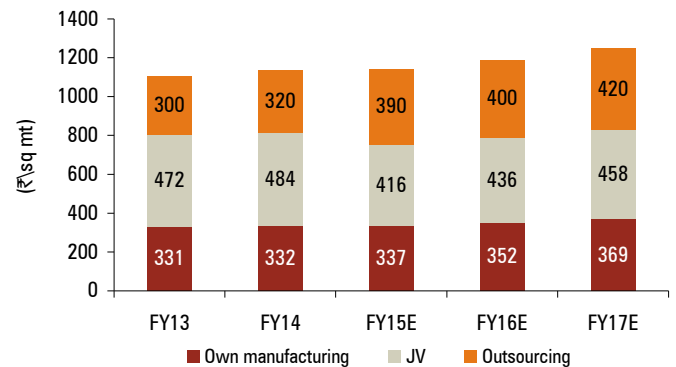
With a significant ramp up in capacity using the JV model, we expect Somany's volumes to grow at 15% CAGR during FY14-17E. We highlight that most of the incremental capacity through JV would be in value added tiles i.e. PVT and GVT. Therefore, we expect 22% CAGR in consolidated revenue for Somany during FY14-17E.

Exhibit 30: Volume trend



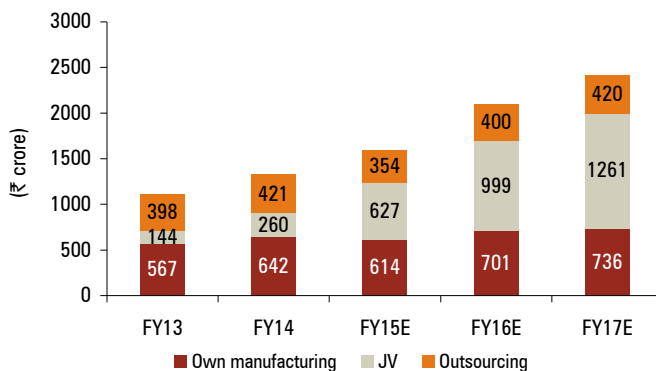
Source: Company, ICICIdirect.com Research

Exhibit 31: Average realisation trend



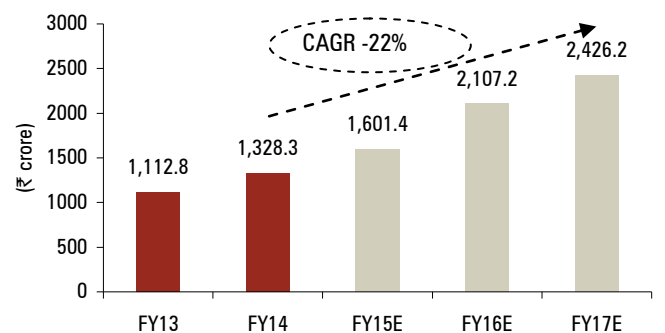
Source: Company, ICICIdirect.com Research

Exhibit 32: Model wise revenue break-up



Source: Company, ICICIdirect.com Research

Exhibit 33: Consolidated revenue growth



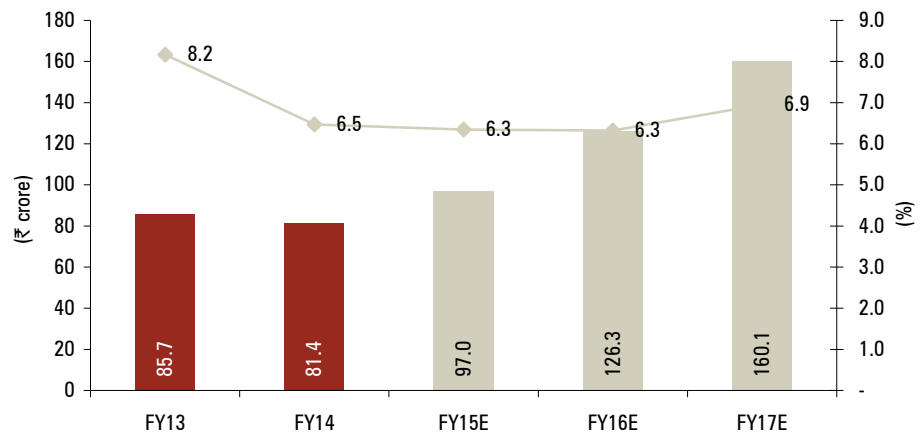
Source: Company, ICICIdirect.com Research

We expect an EBITDA margin expansion by 40 bps to 6.9% in FY17E. Consequently, the EBITDA is expected to grow at 25% CAGR to ₹ 160 crore during FY14-17E

EBITDA to grow at 25% CAGR during FY14-17E...

There was a two-fold increase in LNG prices over the last five years coupled with a sharp depreciation of the rupee during the same period. This has adversely impacted its EBITDA margins. Moreover, Somany's strategy to increase outsourcing in the last couple of years has also impacted its EBITDA margin as own manufacturing earns margin of ~15-20% vs. ~5% in outsourcing. However, going ahead, Somany's strategy of expanding using the JV model would impact positively as margins in the JV model are better than that in outsourcing. Hence, we expect an EBITDA margin expansion of 40 bps to 6.9% in FY17E. Consequently, the EBITDA is expected to grow at 25% CAGR to ₹ 160 crore in FY14-17E.

Exhibit 34: EBITDA and EBITDA margin trend



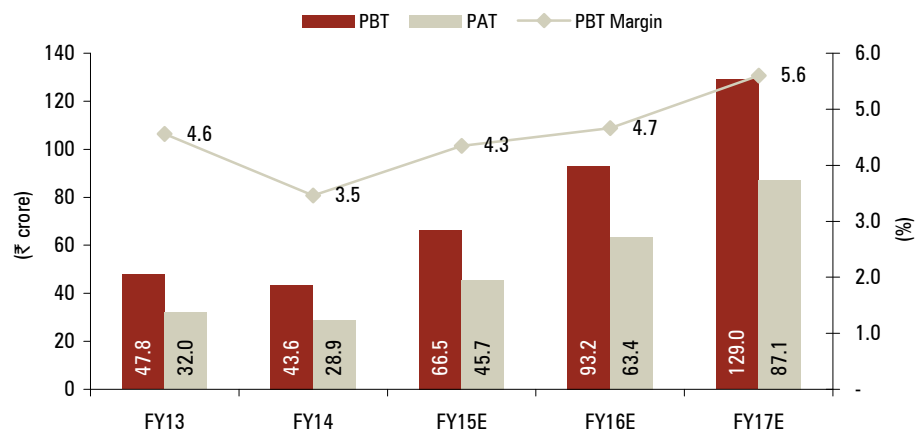
Source: Company, ICICIdirect.com Research

PBT margin to expand 130 bps in FY17E...

We envisage PAT will post healthy growth of 44% CAGR during FY14-17E to ₹ 87.1 crore

The asset light nature of the JV model and increasing proportion of value added products would result in robust revenue growth, improvement in debt to equity ratio as the JV requires minimum investment to build the same capacity against the Greenfield mode. These attributes would result in lower interest & depreciation cost. Consequently, we expect a 130 bps improvement in PBT margin to 5.6% in FY17E. Furthermore, we expect 44% CAGR in PAT to ₹ 87.1 crore in FY14-17E.

Exhibit 35: PBT and PAT margin trend

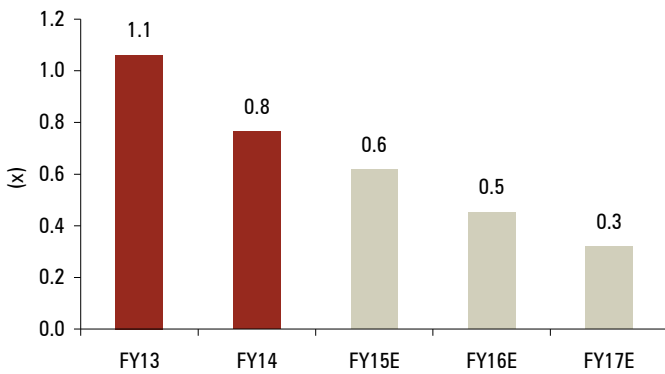


Source: Company, ICICIdirect.com Research

Leverage and working capital improvement....

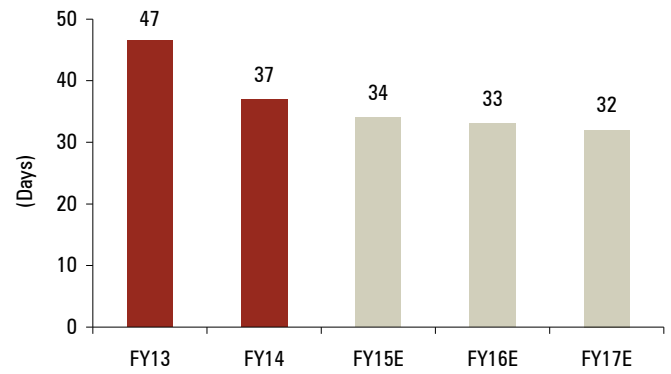
One of major overhangs for Somany was its leverage position. However, it managed to reduce its debt to equity from 1.7x in FY11 to 0.8x in FY14 and WC days from 67 days in FY11 to 37 days in FY14 through higher internal accruals and better WC management. Furthermore, Somany has raised ₹ 50 crore by diluting an 11.2% stake to private equity firm Creador in January, 2014, which was used to de-leverage its balance sheet and for working capital requirement. Going ahead, with more focus on the JV model, we expect its debt to equity to come down to 0.3x and WC days to come down to 32 days in FY17E.

Exhibit 36: Leverage



Source: Company, ICICIdirect.com Research

Exhibit 37: Working capital days

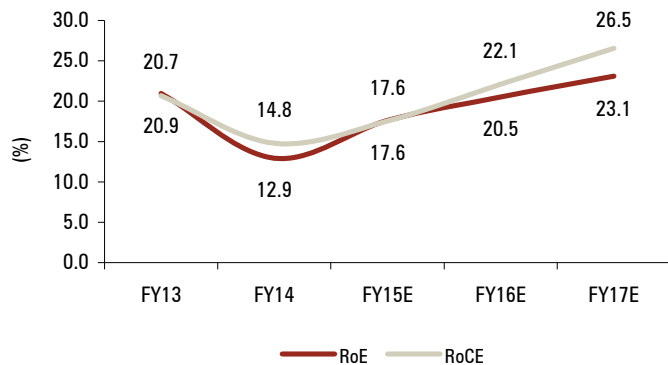


Source: Company, ICICIdirect.com Research

Healthy return ratios...

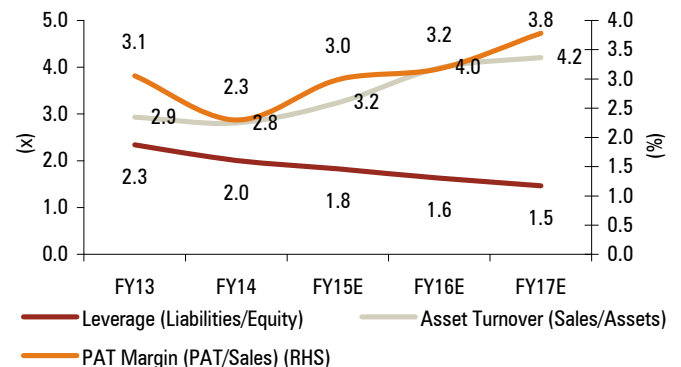
The average RoE and RoCE of Somany during FY10-14 has remained at 20.3% and 17.8%, respectively. In FY14, there was a dip in return ratio due to equity infusion by PE firm Creador. However, we estimate RoE and RoCE will improve significantly due to the benefit from the asset light JV model. We expect RoE and RoCE to go to 22.8% and 26.1%, respectively, in FY17E mainly driven by an increase in PAT margins and asset turnover.

Exhibit 38: RoE & RoCE trend



Source: Company, ICICIdirect.com Research

Exhibit 39: Asset turnover and PAT margin to drive future RoE



Source: Company, ICICIdirect.com Research

Risks & Concerns

Termination of JVs...

Somany has significantly ramped up its capacity via the JV model in the last couple of years from 2.7 msm in FY12 to 21 msm currently. For future expansion plans also, it is looking at the JV route (26 msm JV capacity by FY16E). The termination of the JV due to any reason can significantly impact its sales volume and, in turn, future expected growth. However, we believe the JV model is win-win situation for both local player and Somany. Hence, the probability of occurrence of this event is low.

Demand slowdown...

The primary demand driver for the ceramic tiles industry has been the housing sector. With major realty markets such as Mumbai and NCR witnessing muted volumes and Bengaluru showing initial signs of slower volumes, demand could be affected. However, despite the persisting economic slowdown and a sluggish housing sector over the last three years, the demand for tiles registered healthy growth– a trend, which is expected to continue over the coming years as aspiration and affordability of the average Indian continues to scale northward. Moreover, the investment-favouring government policies are expected to provide a thrust to the housing sector which could cascade into a stronger demand for tiles.

Fuel price uncertainty and forex volatility...

There was a two-fold increase in LNG prices over the last five years coupled with a sharp depreciation of the rupee during the same period. This has adversely impacted business margins. The profit margins of the industry remained under pressure mainly due to inability on part of the industry to fully pass on this cost burden to end consumers due to severe competition. To mitigate this, Somany has entered into a long-term agreement with Gail, IOC and GSPL. Also, Somany is trying to sustain its operating margin on account of a) increasing proportion of value added tiles in its sales mix b) continuous improvement in critical process, which optimises consumption of gas.

Exhibit 40: FY17E EPS sensitivity to natural gas price and exchange rate

		Natural Gas Price (\$/Mmbtu)				
		16.1	15.1	14.1	13.1	12.1
Exchange rate (₹/\$)	63.0	11.1	15.7	20.4	25.0	29.6
	62.0	12.3	16.8	21.4	25.9	30.5
	61.0	13.5	17.9	22.4	26.9	31.4
	60.0	14.6	19.1	23.5	27.9	32.3
	59.0	15.8	20.2	24.5	28.8	33.2

Source: Company, ICICIdirect.com Research

Threats from imports...

Chinese players have been the biggest threat to domestic players given their lower cost of production. Hence, there was a huge dumping of Chinese tiles during FY06-08, which adversely impacted Indian players. To protect them, the Government of India levied an anti-dumping duty of ₹ 137 per square metre (sq m) on ceramic wall and floor tiles and ₹ 155 per sq m on vitrified tiles in FY09. However, anti-dumping duty on the tiles was withdrawn with effect from June 2013. Till date, there is status-quo on the same. If the government does not re-impose anti-dumping duty then competition from Chinese tiles may intensify. Nonetheless, the depreciating rupee has made imports expensive. Hence, imported volumes have dropped. Further, the organised sector has developed capability to offer reasonably-priced, internationally-benchmarked products, which reduced the relevance of imports significantly.

With its renewed focus on growth using asset light model translating into strong earnings growth and improvement in return ratio, we initiate coverage on Somany with BUY rating with a target price of ₹ 426. We value Somany at 19x FY17 EPS, which is at 25% discount to Kajaria & implies the PEG of 0.4x.

Valuation

Somany has exhibited impressive revenue and earnings growth of 23.3% and 26.9%, respectively, in FY09-14 led by its capacity expansion and by moving to the high value vitrified tiles. The return ratios are also expected jump to ~18% in FY15E from ~13% in FY08 while net leverage has reduced sharply to 0.7x in H1FY15, from 2.1x in FY09.

We expect its revenues and earnings to grow at a CAGR of 22% and 44% in FY14-17E, respectively. Given its focus on the asset light strategy such as JV with local players (revenue share to grow from ~20% in FY14 to 52% in FY17E), healthy growth is expected to come without any incremental huge capex. Consequently, its return ratio is expected to improve further to 26% in FY17E while its debt to equity is expected to come down further to 0.3x in FY17E.

In terms of PE, with the consistent improvement in the fundamental performance of the company, its average PE multiple has improved from 5-7x to 13x in the last three years. However, on a relative basis, it traded at ~29% discount to Kajaria given the lower earnings growth and return profile than Kajaria. We highlight that we remain positive on Somany's growth considering a structural shift in the industry, its strong brand recall, wide distribution network and stable natural gas prices. Furthermore, with its renewed focus on growth using asset light model translating into strong earnings growth and improvement in return ratio, we initiate coverage on Somany with **BUY** rating with a target price of ₹ **426**. We value Somany at 19x FY17 EPS, which is at 25% discount to Kajaria & implies the PEG of 0.4x.

Peer Matrix

Exhibit 41: Financial Metrics

Company	CMP (₹)	Mcap (₹ cr)	Revenue (₹ crore)					FY14-17E CAGR	EBITDA Margin (FY14)	PAT (₹ crore)					FY14-17E CAGR
			FY14	FY15E	FY16E	FY17E	FY09-14 CAGR			FY14	FY15E	FY16E	FY17E	FY09-14 CAGR	
Somany Ceramics	362	1412	1258.0	1529.7	1998.6	2304.6	23%	22%	6%	28.9	45.7	63.4	87.1	26%	44%
Kajaria Ceramics	780	6162	1840.0	2245.3	2862.0	3448.3	23%	23%	15%	124.2	172.4	216.9	267.5	69%	29%
Cera Sanitaryware	2582	3228	643.8	833.2	1023.7	1358.6	32%	28%	14%	48.2	69.0	85.0	120.2	26%	36%
HSIL	430	2838	1784.6	2077.6	2421.9	2849.3	23%	17%	12%	38.9	78.5	130.3	173.1	3%	64%
Century Plyboard	243	5418.9	1390.6	1670.5	2017.7	2488.7	14%	21%	11%	67.0	140.0	182.4	235.1	43%	52%

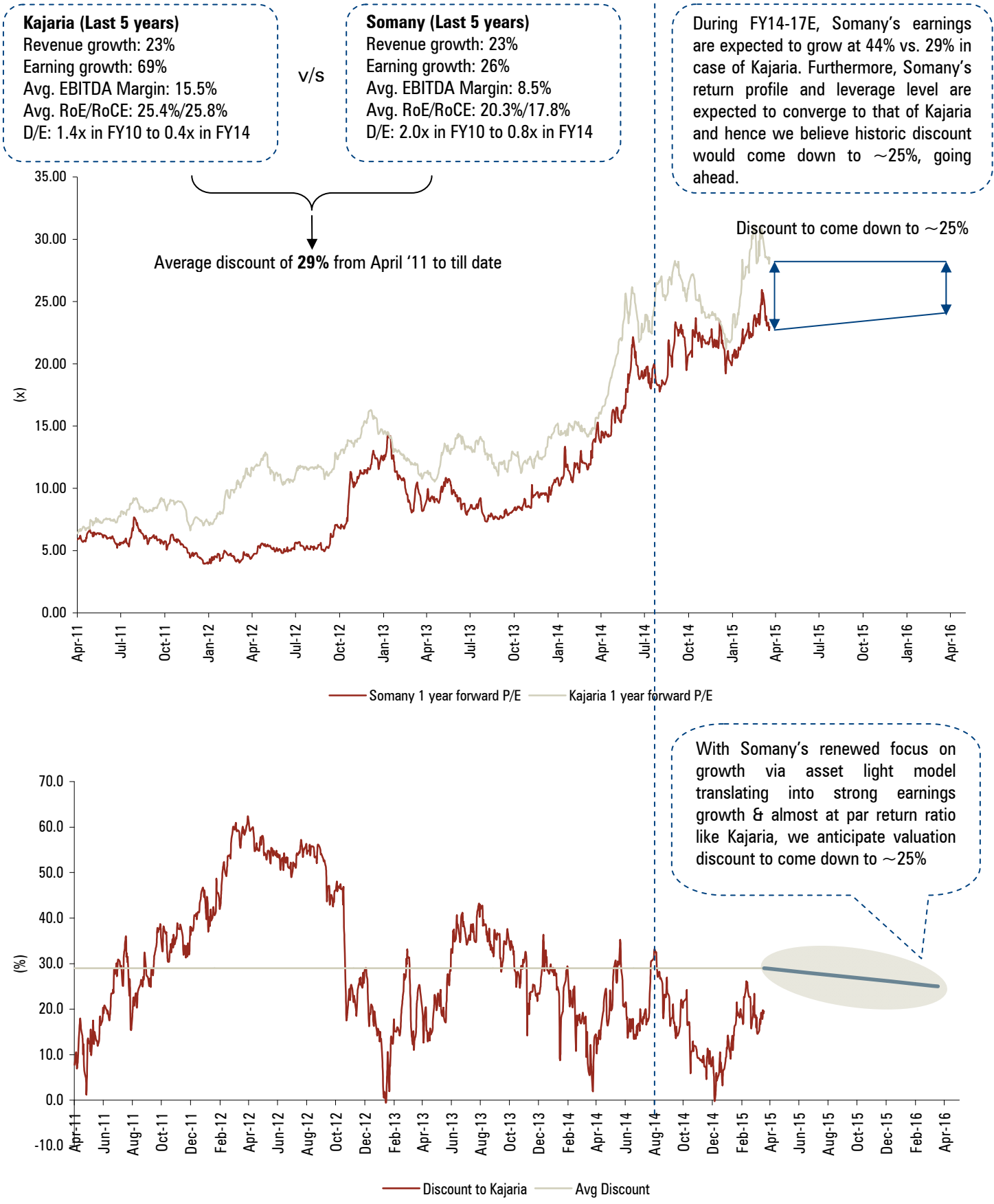
Source: Company, ICICIdirect.com Research

Exhibit 42: Valuation Metrics

Company	RoE				P/E				P/BV				EV/EBITDA			
	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E	FY14	FY15E	FY16E	FY17E
Somany Ceramics	12.9	17.6	20.5	23.1	48.6	30.8	22.2	16.1	6.3	5.4	4.6	3.7	18.5	15.5	11.8	9.0
Kajaria Ceramics	23.5	24.3	24.8	24.9	50.0	35.9	28.6	23.1	11.1	8.7	7.1	5.8	22.5	18.0	14.2	11.7
Cera Sanitaryware	23.9	26.6	27.0	28.6	67.2	47.3	38.2	27.2	14.7	11.5	9.0	6.9	37.3	26.8	21.2	16.7
HSIL	4.2	7.5	11.5	13.9	69.2	36.3	22.1	16.4	2.7	2.6	2.4	2.2	16.9	12.2	9.8	8.3
Century Plyboard	23.0	36.6	36.4	36.0	80.8	38.6	29.6	23.0	18.6	14.1	10.8	8.3	39.7	23.9	19.6	15.9

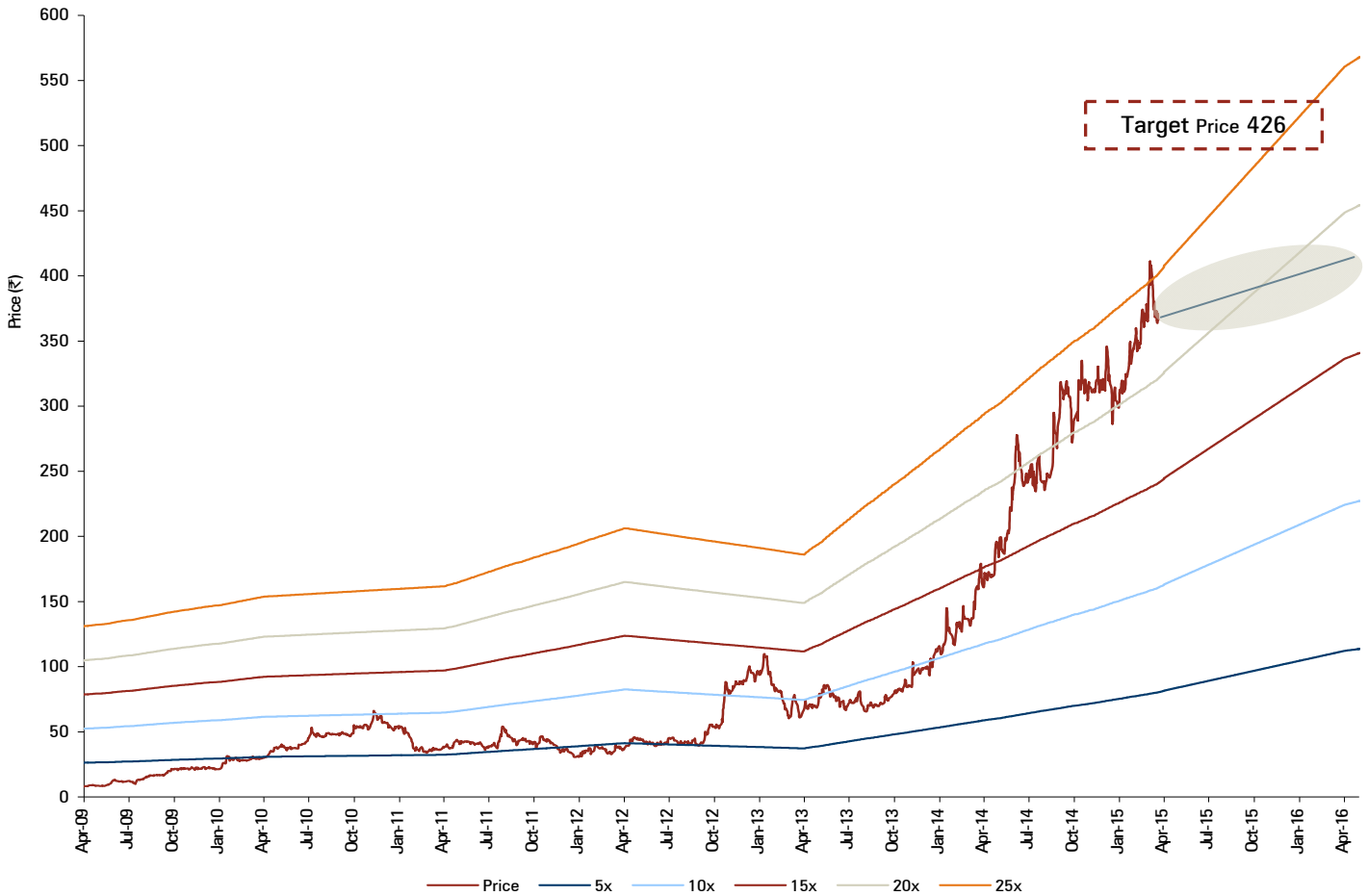
Source: Company, ICICIdirect.com Research

Exhibit 43: Somany vs. Kajaria (One year forward P/E)



Source: Company, ICICIdirect.com Research

Exhibit 44: One year forward P/E chart of Somany



Source: Company, ICICIdirect.com Research

Sensitivity Analysis

We have built in natural gas price of 14.1 \$/Mmbtu and exchange rate conversion of ₹ 61 ₹/\$ for our FY17E. Our sensitivity analysis indicates with every one dollar change in natural gas prices keeping ₹ to \$ conversion constant would impact FY17E EPS by 20% and with every one rupee change in ₹ to \$ conversion keeping natural gas price constant would impact FY17E EPS by 5%.

Exhibit 45: FY17E EPS sensitivity to natural gas price, exchange rate

		Natural Gas Price (\$/Mmbtu)				
		16.1	15.1	14.1	13.1	12.1
Exchange rate (₹/\$)	63.0	11.1	15.7	20.4	25.0	29.6
	62.0	12.3	16.8	21.4	25.9	30.5
	61.0	13.5	17.9	22.4	26.9	31.4
	60.0	14.6	19.1	23.5	27.9	32.3
	59.0	15.8	20.2	24.5	28.8	33.2

Source: Company, ICICIdirect.com Research

Tables

Exhibit 46: Profit & loss account (Consolidated)

(₹ Crore)	FY13	FY14	FY15E	FY16E	FY17E
Gross Sales	1,112.8	1,328.3	1,601.4	2,107.2	2,426.2
Excise Duty	62.8	70.3	71.7	108.7	121.6
Net Sales	1,049.9	1,258.0	1,529.7	1,998.6	2,304.6
Other Operating Income	3.9	4.9	12.8	13.5	14.8
Other Income	2.6	3.1	8.1	8.5	9.3
Total Revenue	1,056.5	1,266.0	1,550.6	2,020.5	2,328.7
Raw Material Expense	164.6	173.2	180.3	126.8	146.4
Purchase of Traded Goods	472.4	581.3	872.8	1,150.6	1,328.6
(Increase)/Decrease in Inventories	(16.0)	26.7	(83.5)	-	-
Power & Fuel	131.1	165.4	185.6	229.6	247.5
Employee benefit expenses	74.6	83.2	98.0	127.8	147.7
Other Expenses	141.5	151.8	192.2	250.9	289.1
Total Operating Expenditure	968.1	1,181.5	1,445.5	1,885.8	2,159.3
EBITDA	85.7	81.4	97.0	126.3	160.1
Interest	20.0	18.5	15.9	15.4	13.2
Depreciation	20.5	22.4	22.7	26.1	27.2
PBT	47.8	43.6	66.5	93.2	129.0
Total Tax	15.2	17.0	23.4	32.6	45.1
PAT before MI	32.6	26.6	43.1	60.6	83.9
Minority Interest	-	(0.7)	(0.5)	(0.4)	(0.3)
PAT after MI	32.6	27.2	43.6	60.9	84.2
Profit from Associates	(0.6)	1.7	2.0	2.4	2.9
PAT	32.0	28.9	45.7	63.4	87.1
EPS	9.3	7.4	11.8	16.3	22.4

Source: Company, ICICIdirect.com Research

Exhibit 47: Balance sheet (Consolidated)

(₹ Crore)	FY13	FY14	FY15E	FY16E	FY17E
Equity Capital	6.9	7.8	7.8	7.8	7.8
Reserve and Surplus	146.1	215.7	251.5	301.2	369.6
Total Shareholders funds	153.0	223.4	259.3	309.0	377.4
Secured Loan	162.4	170.1	159.4	139.4	119.4
Unsecured Loan	-	0.6	0.6	0.6	0.6
Total Debt	162.4	170.7	160.0	140.0	120.0
Deferred Tax Liability	26.2	28.4	28.4	28.4	28.4
Minority Interest	-	4.4	4.0	3.6	3.3
Other Non Current Liabilities	14.2	17.8	17.8	17.8	17.8
Liability side total	358.2	447.8	472.5	501.9	549.9
	-	-	-	-	-
Total Gross Block	405.4	449.3	500.8	522.5	544.4
Net Block	199.9	240.5	269.4	264.9	259.5
Total CWIP	9.4	2.9	2.9	2.9	2.9
Total Fixed Assets	209.2	243.5	272.3	267.8	262.5
Other Investments	8.7	17.7	17.7	27.7	37.7
Inventory	120.5	90.6	109.0	142.4	164.2
Debtors	174.7	214.9	251.5	323.1	366.2
Loans and Advances	77.2	90.8	109.0	142.4	164.2
Other Current Assets	0.8	2.1	4.2	5.5	6.3
Cash	25.8	34.6	23.0	36.7	71.0
Total Current Assets	399.0	432.9	496.6	650.0	771.8
Creditors	161.2	178.3	217.9	284.7	328.3
Provisions	58.7	74.7	94.6	123.5	142.5
Other Current Liabilities	42.8	46.2	54.5	71.2	82.1
Total Current Liabilities	262.7	299.2	367.0	479.4	552.9
Net Current Assets	136.2	133.8	129.6	170.5	219.0
Assets side total	358.3	447.9	472.5	501.9	550.0

Source: Company, ICICIdirect.com Research

Exhibit 48: Cash flow statement (Consolidated)

(Year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Profit after Tax	32.0	28.9	45.7	63.4	87.1
Depreciation	20.5	22.4	22.7	26.1	27.2
Interest Paid	20.7	20.0	18.5	15.9	15.4
Cash Flow before WC changes	72.5	69.9	84.2	104.9	127.5
Net Increase in Current Assets	(70.8)	(25.2)	(75.2)	(139.7)	(87.6)
Net Increase in Current Liabilities	67.7	36.4	67.8	112.5	73.4
Net CF from Operating Activities	69.5	81.1	76.8	77.7	113.3
(Purchase)/Sale of Fixed Assets	(35.3)	(56.6)	(51.5)	(21.7)	(21.8)
(Increase)/Decrease in Investments	(4.2)	(3.5)	(9.0)	-	(10.0)
Increase/ (Decrease) in DTL	(0.3)	0.8	2.2	-	-
Increase/ (Decrease) in MI	-	-	4.4	(0.5)	(0.4)
Increase/ (Decrease) in Non current liabilities	1.5	-	3.6	-	-
Net CF from Investing Activities	(36.9)	(103.7)	(52.0)	(14.9)	(27.1)
Inc / (Dec) in Equity Capital	-	0.9	-	-	-
Inc / (Dec) in Secured Loan	(4.1)	7.7	(10.7)	(20.0)	(20.0)
Inc / (Dec) in Unsecured Loan	-	0.6	-	-	-
Dividend and Dividend Tax	(3.2)	(4.8)	(6.8)	(9.8)	(13.6)
Interest Paid	(20.7)	(20.0)	(18.5)	(15.9)	(15.4)
Net CF from Financing Activities	(29.0)	31.3	(36.4)	(49.0)	(52.0)
Net Cash flow	3.6	8.8	(11.6)	13.7	34.3
Opening Cash/ Cash Equivalent	22.1	25.8	34.6	23.0	36.7
Closing Cash/ Cash Equivalent	25.8	34.6	23.0	36.7	71.0

Source: Company, ICICIdirect.com Research

Exhibit 49: Ratio analysis

(Year-end March)	FY13	FY14	FY15E	FY16E	FY17E
Per Share Data					
EPS	9.3	7.4	11.8	16.3	22.4
Cash EPS	15.2	13.2	17.6	23.0	29.4
BV	44.3	57.5	66.7	79.5	97.1
Operating profit per share	24.9	21.0	25.0	32.5	41.2
Operating Ratios					
EBITDA / Total Operating Income	8.1	6.4	6.3	6.3	6.9
PAT / Total Operating Income	3.0	2.3	3.0	3.2	3.8
Return Ratios					
RoE	20.9	12.9	17.6	20.5	23.1
RoCE	20.7	14.8	17.6	22.1	26.5
RoIC	20.2	15.8	18.1	22.6	28.8
Valuation Ratios					
EV / EBITDA	18.0	18.5	15.5	11.8	9.0
P/E	39.0	48.6	30.8	22.2	16.1
EV / Net Sales	1.5	1.2	1.0	0.7	0.6
Sales / Equity	6.9	5.6	5.9	6.5	6.1
Market Cap / Sales	1.3	1.1	0.9	0.7	0.6
Price to Book Value	8.2	6.3	5.4	4.6	3.7
Turnover Ratios					
Asset turnover	3.0	3.1	3.3	4.1	4.4
Debtors Turnover Ratio	6.0	5.9	6.1	6.2	6.3
Creditors Turnover Ratio	6.5	7.1	7.0	7.0	7.0
Solvency Ratios					
Debt / Equity	1.1	0.8	0.6	0.5	0.3
Current Ratio	1.5	1.4	1.4	1.4	1.4
Quick Ratio	1.1	1.1	1.1	1.1	1.1

Source: Company, ICICIdirect.com Research

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