

India Research – Stock Broking

Somany Ceramics Ltd

Bloomberg Code: SOMC IN

BUY

Somany: Gaining market share & realizations

Capacity addition to drive revenue growth: The company's capacity access is expected to reach 55 MSM by FY15, an increase of 25% compared to FY14 capacity. Out of total capacity that is expected to come up, 55% of the capacity is for production of PVT segment which fetches higher realizations compared to ceramic tiles. Tiles industry volumes has positive correlation with GDP & growing at 1.5 times of GDP over the last 9 years.

Better product mix to improve realizations: The company's PVT & GVT segments capacity is expected to reach 15.51 MSM in FY15E compared to 4.69 MSM in FY13 will enhance the realizations going forward.

Gaining market share through differentiated product offering and strong distribution network: With patented products such as VC tiles in the kitty with exclusive rights for 20 years, the company can leverage these products to improve the sales. The company has strong distribution network with more than 10000 touch points. Organised players has been consistently grabbing market share from their peers and from unorganized players through acquisitions or JV grabbing market share from its peers and unorganized players.

Asset light business model provides scalability & yields healthy returns: With JV contributing more than 45% of revenues and is expected to increase further will lead to improvement in return ratios. RoE & RoCE is expected to improve and be at 22.5% & 25.4% in FY17E respectively.

Valuation and Outlook

Somany is expected to post CAGR growth of 18% for the period FY14-17E on the back of capacity addition and better product mix. EBITDA margins likely to expand by 46 bps to 7.13% in FY17E. RoE is expected to increase to 22.48% by FY17E. At CMP of Rs.371, stock is trading at 17.8x FY17E EPS of 20.81. We value the company at 21x which is the two year average PE multiple of FY17E EPS and recommend a "BUY" rating for target price of Rs. 437, representing an upside of 18% for the holding period of 9 - 12 months.

Key Risks

1. Imports from China.
2. Surge in natural gas prices.
3. Competition from foreign players.

Exhibit 1: Valuation Summary (Rs. Mn)

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	10565	12660	15216	17971	21341
EBITDA	883	845	975	1247	1521
EBITDA Margin (%)	8.4	6.7	6.4	6.9	7.1
Adj. Net Profit	326	276	415	602	808
EPS (Rs.)	9.5	7.1	10.7	15.5	20.8
RoE (%)	22.3	12.8	16.7	20.3	22.5
PE (x)*	8.7	22.2	34.7	23.9	17.8

Source: Company, Karvy Research; *For FY13, FY14 PE multiples are on historic basis

Recommendation (Rs.)

CMP	371
Target Price	437
Upside (%)	18

Stock Information

Mkt Cap (Rs.mn/US\$ mn)	14339 / 235
52-wk High/Low (Rs.)	424 / 130
3M Avg. daily volume (mn)	0.02
Beta (x)	1.12
Sensex/Nifty	27458 / 8341
O/S Shares(mn)	38.8
Face Value (Rs.)	2

Shareholding Pattern (%)

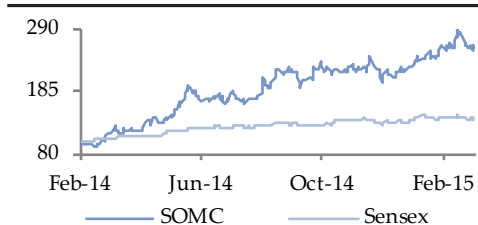
Promoters	56.2
FII's	5.7
DII's	2.9
Others	35.2

Stock Performance (%)

	1M	3M	6M	12M
Absolute	9	13	162	18
Relative to Sensex	5	8	12	84

Source: Company, Karvy Research

Relative Performance*



Source: Bloomberg, *Indexed to 100

Technical View

The stock is trading in a structural uptrend on monthly charts but has witnessed a profit taking dip during Mar 2015. The volume activity during the said fall has also been very less in the stock in the past few months indicating that market participants are waiting for the stock to form a base around current levels. The profit taking dip has provided traders with an opportunity to buy the stock for a long term. It looks well placed to surge towards targets of Rs. 420-440 levels.

Analyst Contact

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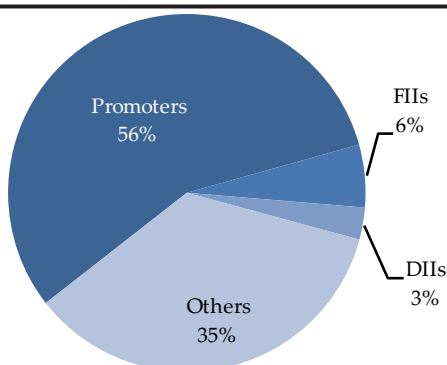
Company Financial Snapshot (Y/E Mar)

Profit & Loss (Rs.mn)			
	FY15E	FY16E	FY17E
Net sales	15216	17971	21341
Optg. Exp	14302	16788	19898
EBITDA	975	1247	1521
Depreciation	227	245	259
Interest	187	176	148
PBT	561	826	1114
Tax	171	252	340
PAT	415	602	808
Profit & Loss Ratios			
EBITDA margin (%)	6.4	6.9	7.1
Net profit margin (%)	2.7	3.4	3.8
P/E (x)	34.7	23.9	17.8
EV/EBITDA (x)	16.0	12.5	10.3
Dividend yield (%)	0.6	0.8	1.1

Source: Company, Karvy Research

Balance sheet (Rs.mn)			
	FY15E	FY16E	FY17E
Total Assets	8353	9362	10597
Net Fixed assets	2455	2534	2589
Current assets	5229	6046	7068
Other assets	669	782	940
Total Liabilities	8353	9362	10597
Net worth	2559	3039	3674
Debt	1453	1350	1037
Current Liabilities	3681	4231	4899
Deferred Tax	284	284	284
Other liabilities	320	389	607
Balance Sheet Ratios			
RoE (%)	16.7	20.3	22.5
RoCE (%)	19.0	22.8	25.4
Net Debt/Equity	0.6	0.5	0.3
Equity/Total Assets	0.3	0.3	0.3
P/BV (x)	5.8	4.9	4.0

Source: Company, Karvy Research

Exhibit 2: Shareholding Pattern (%)


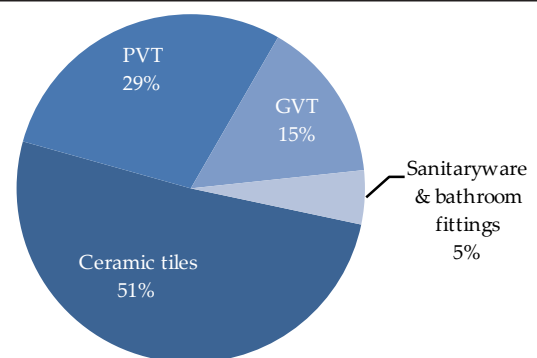
Source: Company, Karvy Research

Company Background

Somany Ceramics has established its presence as a leading and formidable Force in the Indian Tiles Sector. The company has manufacturing Plants in Kadi, Gujarat and Kassar Haryana, India and other joint venture plants, with production capacity of 44 Million Sq. Meters annually. The company is a complete solutions provider In terms of décor solutions with widest product selection categories - Ceramic Wall and Floor, Polished Vitrified Tiles (PVT), Glazed Vitrified Tiles (GVT), Digital Tiles, Sanitary ware and Bath Fittings. The company focuses on acquiring and leveraging on latest technology to be recognized as an undisputed leader in Design & Innovation. By venturing into the sanitary ware and bath fittings segment, the company is yet again ready for next phase of growth. The company has strong distribution network with more than 10000 touch points including 223 franchisee showrooms across the country.

Cash Flow (Rs.mn)			
	FY15E	FY16E	FY17E
EBITDA	975	1247	1521
Other Income	61	64	78
Interest	187	176	148
Tax	171	252	340
Changes in WC	(217)	(232)	(267)
CF from Operations	525	699	836
Capex	(450)	(300)	(300)
Others	28	28	39
CF from Investing	(422)	(272)	(261)
Change in Equity	0	0	0
Change in Debt	79	(106)	(200)
Dividends	(78)	(105)	(148)
Others	(187)	(176)	(148)
CF from Financing	(186)	(387)	(496)
Change in Cash	(83)	40	79

Source: Company, Karvy Research

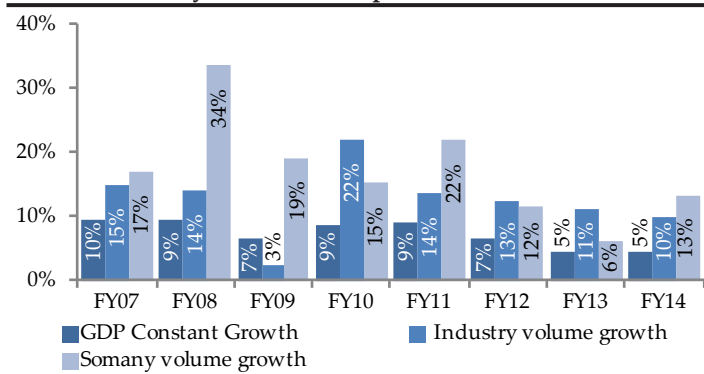
Exhibit 3: Revenue Segmentation (%)


Source: Company, Karvy Research

Capacity addition to drive revenue growth

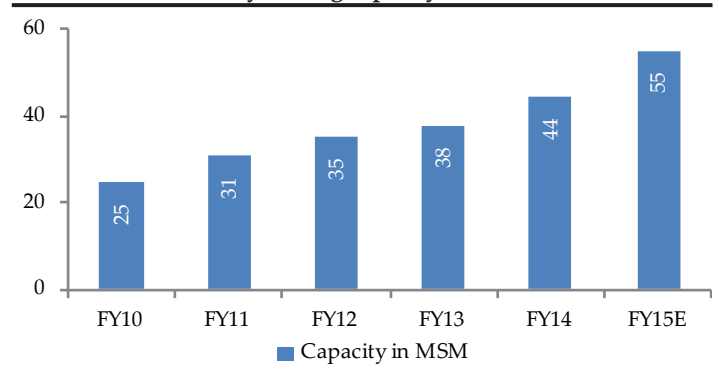
Capacity is expected to increase by 24.6% to 55 Million Square Meter (MSM) by the end of FY15. The Company has doubled its access to capacity from 24.60 MSM in FY10 to 55.12 in FY15E in order to support volume growth of 12% for the next couple of years without any capacity constrains because of capacity additions it has undergone. Despite tough economic conditions and slowing demand in real estate industry, company’s volumes grew at CAGR of 14% in the last five years. Tiles industry volumes which has positive correlation with GDP have been growing at 1.5 times of GDP over the last 9 years. With GDP expected to grow faster in forthcoming years, tiles industry is expected to benefit. Somany has pan Indian presence with wide market reach and consistently increasing its revenues from Tier II and Tier III cities from where it receives 75% of sales. Geographical-wise 60% of the sales come from North and South, and 16% from East. Government policies such as Housing for all & Smart cities would benefit the industry. The rapid urbanization trend, rising disposable income, change in perception towards tiles as lifestyle product, India being one of the lowest per capita consumption of tiles presents the opportunity for tiles industry. Government is closely working with states for sorting out issues in GST and implementation of it will provide boost to the organized players in the industry.

Exhibit 4: Somany’s Growth Comparison



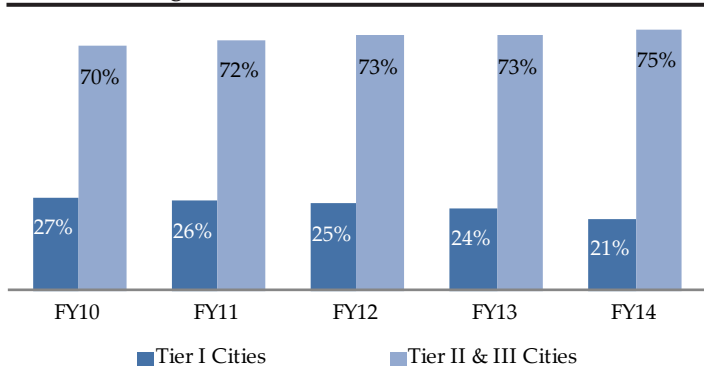
Source : Planning commission, Company, Karvy Research

Exhibit 5: Consistently adding capacity



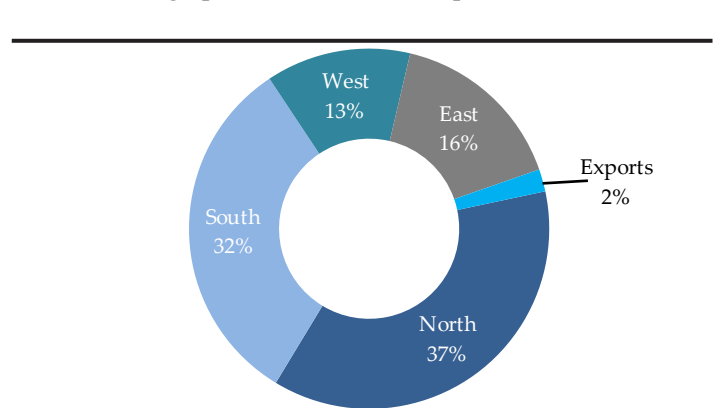
Source: Company, Karvy Research

Exhibit 6: Sales contribution for Tiles from Tier II and Tier III cities increasing



Source: Company, Karvy Research

Exhibit 7: Geographical revenue break up as of 2014 (%)

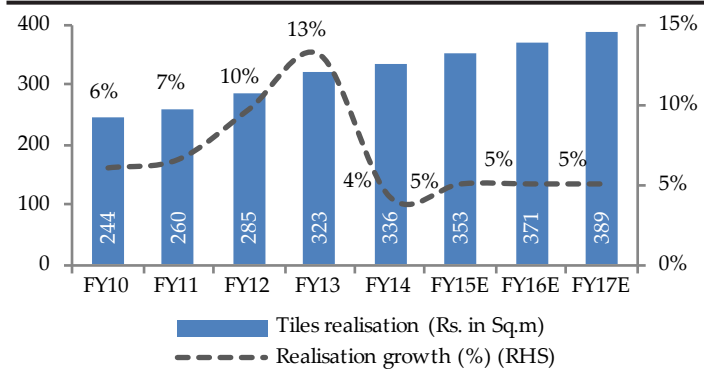


Source: Company, Karvy Research

Better product mix to improve realization

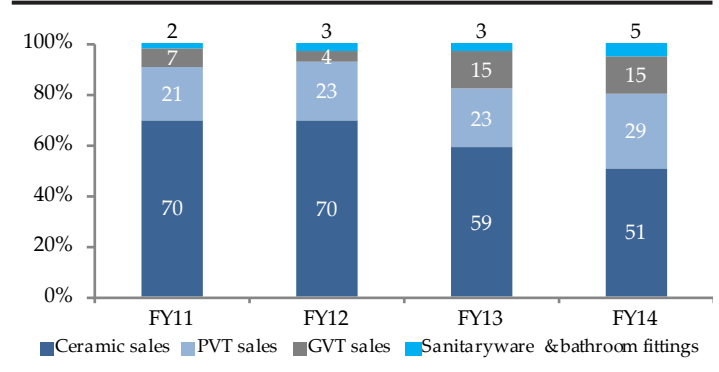
The company’s realizations have been growing at CAGR of 8% in the last five years mainly on the back of increasing contribution from value added products such as Digital tiles, Polished Vitrified tiles (PVT) & Glazed Vitrified tiles (GVT) segments which fetch higher realizations compared to ceramic tiles. The company has invested significantly in digital machines in order to enhance the value from ceramic tiles segment by using digital technology, which will categorize it as value added products. From the exhibits below, we can see the realizations increasing as the contribution to sales from PVT & GVT segment increases. The company’s PVT & GVT segments capacity is expected to reach 15.51 MSM in FY15E compared to 4.69 MSM in FY13 will enhance the realizations going forward.

Exhibit 8: Tiles Realization & Growth



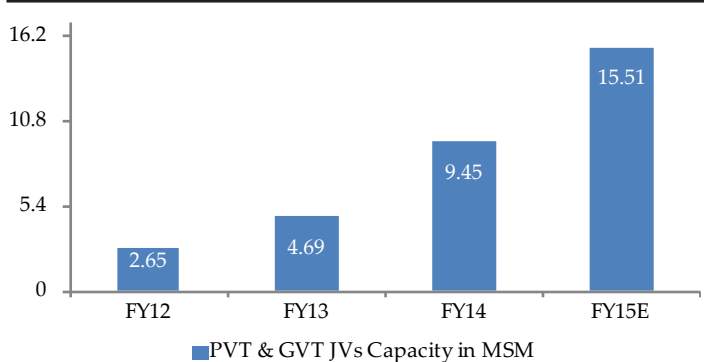
Source: Company, Karvy Research

Exhibit 9: Change in Revenue Mix (%)



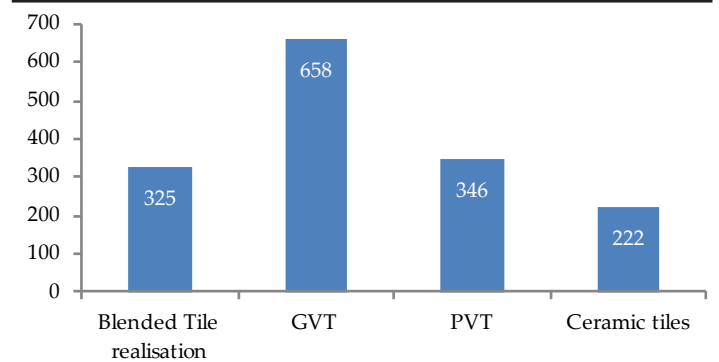
Source: Company, Karvy Research

Exhibit 10: Rapid expansion by JVs in PVT & GVT segment



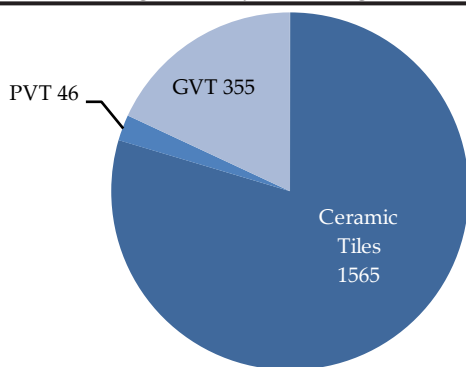
Source: Company, Karvy Research

Exhibit 11: Industry Realization in 2014 per square meter (Rs.)



Source: Company, Karvy Research

Exhibit 12: Designs in major tiles segment (in No.s)



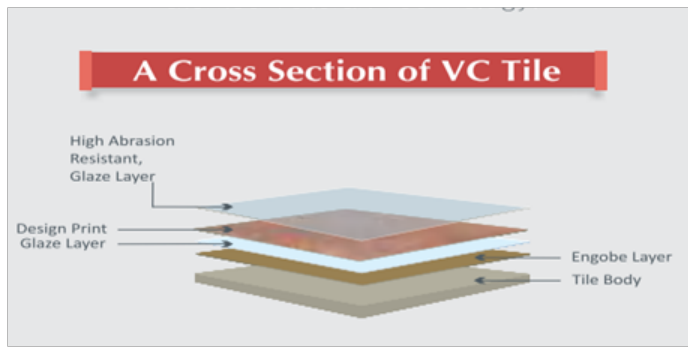
Source: Company, Karvy Research

Gaining market share through differentiated product offering and strong distribution network:

Somany has very efficient and strong research & development team which has offered revolutionary products such as VC tiles & Slip shield tiles through continuous innovation and use of technology. Somany’s R&D team was one of the few tiles companies recognized by Government of India which offers products across the range. It has Ceramic floor tiles, PVT, GVT, industry vitrified tiles, digital tiles, nano technology based tiles and large format tiles. It has close to 1966 designs as of March 2014. With such a wide range of product offerings and patented products in its basket, the company can create niche market for its products and can compete with large players in the industry.

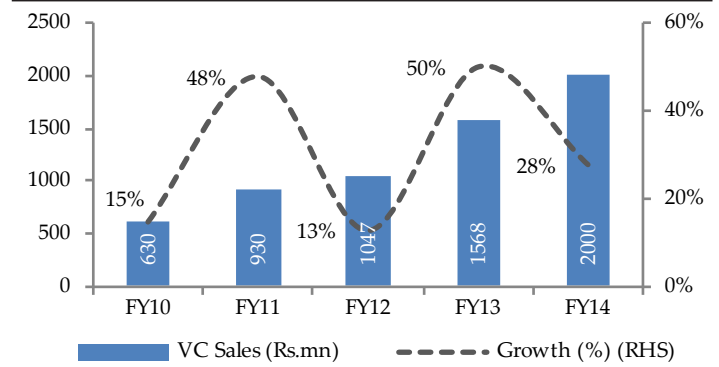
VC Tiles – Veil Craft Technology: The company has got patent for its glaze and process of Veil Craft (VC) shield technology. Somany Ceramics is the first ceramic tile company in India to receive a patent for its Veil Craft technology. Patent authorizes exclusive rights for production & commercialization of VC tiles for 20 years. Floor tiles coated with Veil Craft shield technology has outperformed Porcelain Enamel Institute (PEI) Grade V tiles, which itself is a worldwide benchmark for high abrasion. VC product sales have seen CAGR growth of 29% in the last five years and reached Rs. 2000 Mn in 2014 from 550 Mn in 2010. With such quality product launched in Indian market, the product was huge success as we can witness how the sales have grown in last few years. VC tiles are ideal for use in high traffic areas such as shopping malls, airports, hospitals and offices among others.

Exhibit 13:



Source: Company, Karvy Research

Exhibit 14: VC product sales have seen rapid growth since the launch



Source: Company, Karvy Research

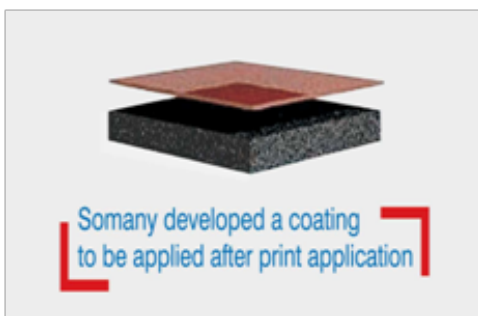
Exhibit 15: PEI Tile grading system

Grade	Usage
PEI Grade 1	Light domestic use - suitable to areas of home where soft footwear is worn
PEI Grade 2	Modern domestic traffic - used in home except outside such as hallway & outdoors
PEI Grade 3	Suitable for all areas of home including kitchens and hallways
PEI Grade 4	Suitable for domestic and public use where moderate to heavy traffic occurs
PEI Grade 5	Tiles suitable for all types of use including heavy traffic areas & much more scratch resistant than standard glazed ceramic tiles

Source: Industry, Karvy Research

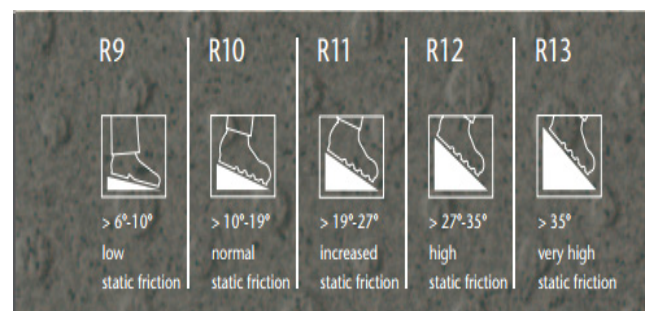
Slip Shield tiles - Usage of unique coating technology which gives anti-skid property to ceramic tiles. Slip shield tiles have protective stain resistant surface and increases the grip in wet flooring conditions. Product has huge potential as it can be used in wet areas, pool decks, bathrooms and kitchens. Slip shield Tiles are tested and certified by Clinical research centre Malaysia and is categorized under R11 (indicates tiles can be used for most of the slippery or wet locations). The company has also filed a patent for its slip resistant tile branded as Somany Slip shield. With patent being filed, Slip shield product can become a product which could boost the sales.

Exhibit 16: Slip shield tiles



Source: Company, Karvy Research

Exhibit 17: OIL wet ramp test



Source: Agrob Butchal, Karvy Research

Exhibit 18: Results by using the Dynamic Slider method as per ISO 10545

Company	Friction Co-efficient Value Range (Dry condition)	Friction Co-efficient Value Range (Soapy Water condition)
Anti-skid Tiles from competitor Brands	0.4-0.5	0.2-0.35
Slip shield Tiles from Somany	0.6-0.7	0.5-0.6

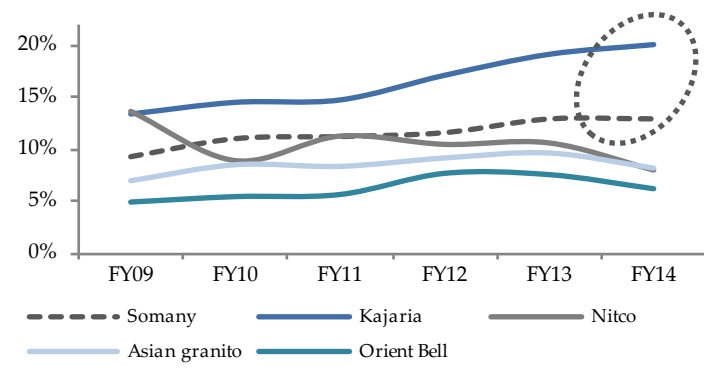
Source: Company, Karvy Research

Glosstra tiles: These tiles are one of the glossiest tiles for walls with wide range of bright and vibrant colors. Glosstra is created using ‘Ultra gloss technology’ which undergoes 3D firing technology which creates depth in the tile surface and light plays a major role in highlighting the high gloss finish which reflects style quotient.

Digital technology: The company is intensively using digital technology along with its patented VC technology in ceramic tiles. It uses high definition printing to print on curves and edges on ceramic tile surfaces. The tiles can be customized as per our needs such as replicating products like wood, stone, marbles & granites. This feature of replication has been one of the biggest advantage of tiles and big shift is happening to tiles rather than opting for natural stones mainly because of lower cost and ease of maintenance. With usage of digital technology, ceramic tiles segment is being offered as value added products which is enhancing the realizations as this segment is the major contributor to the revenues.

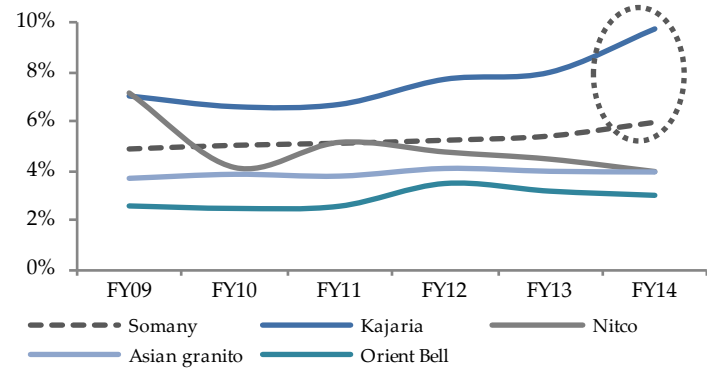
Gaining market share: Somany has been consistently gaining market share and has 13% share in 2014 compared to 10.5% in 2010 in organized segment. On other hand players, like Nitco has been losing market share from 13% in FY09 to 8% in FY14. Top two players such as Kajaria and Somany has been rapidly grabbing market share from others with their combined share increasing to 33% in FY14 from 22% in FY09 in organised segment while other branded players has been losing market share to top players. The companies which have deep pockets like Somany have strong distribution and retail network which helps them to penetrate deep into markets where other players fall short of. The wide range of product offerings and increased spending on promotional activities create strong brand image across customers support branded players such as Somany ceramics. The company has good reach in Tier II and Tier III cities with more than 10,000 touch points which include dealer, retailer, showrooms/display centers and derives more than 70% of its revenues from these category where people have started looking at tiles as lifestyle products rather than essential products. Top players are not only grabbing the market share from organized players but also from unorganized players by entering into JVs with them.

Exhibit 18: Market share in organized segment (%)



Source: Respective Companies, Karvy Research

Exhibit 19: Somany & Kajaria gaining industry market share (%)

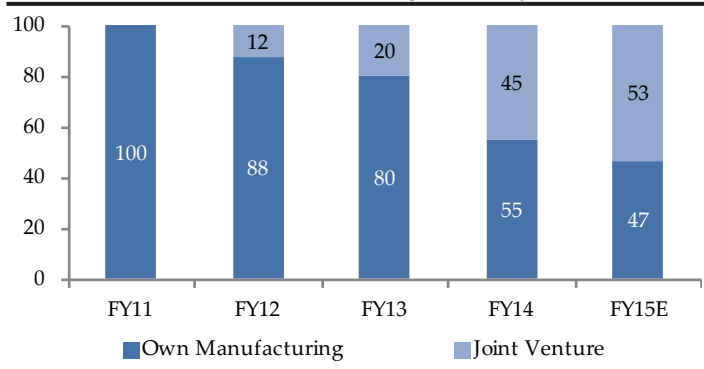


Source: Respective Companies, Karvy Research

Asset light business model providing scalability and yielding healthy returns

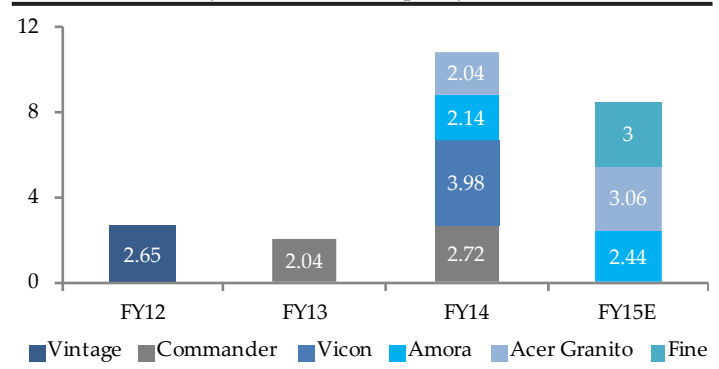
Somany is opting for Joint ventures (JV) rather than expanding its own capacity mainly because of quicker access to capacity and at lower investment costs. JV’s contribution to the revenues is on the rise and we expect the trend to continue. Generally manufacturer needs Rs. 140 – 200 mn to set up a plant with 1 MSM capacity. On the other hand, if a company ventures into JV it can have access to capacity at much lower investments. Projected payback period is about three years in case of JV compared to six years in the case of greenfield project. In FY14, the company invested Rs. 124.7 Mn and has got access to 8.16 MSM capacities through joint ventures. RoE has seen a dip in 2014 mainly due to Equity infusion by PE fund. We expect the ratios to improve going forward on the back of JV model with RoE and RoCE at 22.5% & 25.4% in FY17E respectively.

Exhibit 20: JV contribution increasing over the years (%)



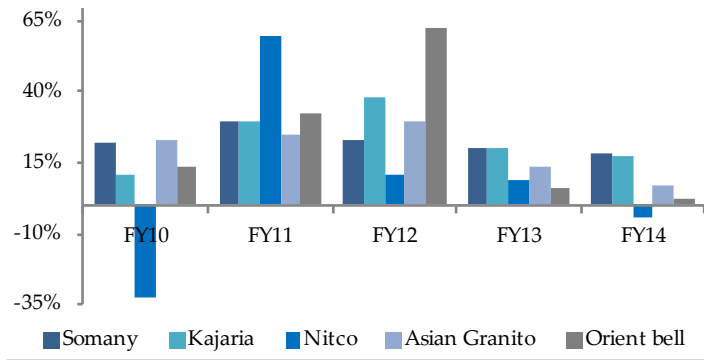
Source: Company, Karvy Research

Exhibit 21: Somany’s access to JV capacity in MSM



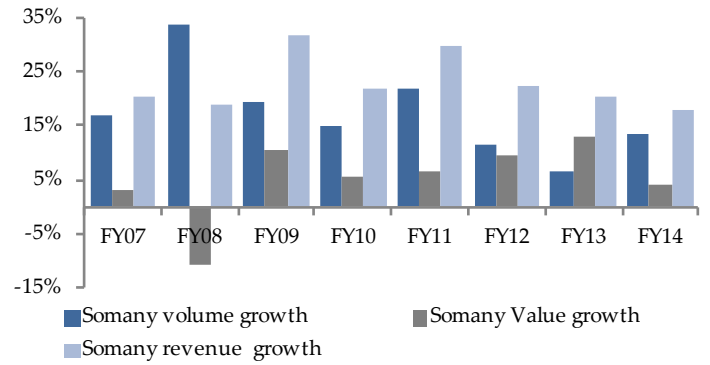
Source: Company, Karvy Research

Exhibit 22: Revenue trend of top 5 organised players in Industry



Source: Respective Companies, Karvy Research

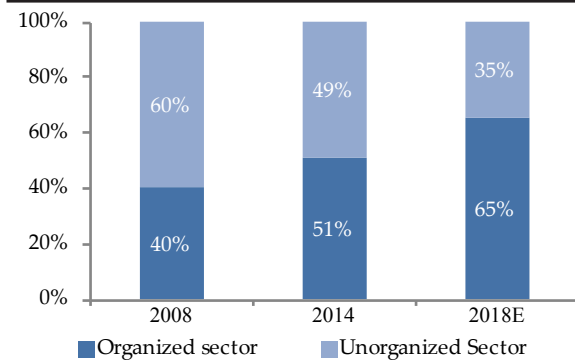
Exhibit 23: Somany grew at CAGR of 20% in last 8 years



Source: Company, Karvy Research

Consolidation in industry to benefit organized players

Exhibit 24: Organized sector expected to garner market share



Source: Company, Karvy Research

Towards the end of 2013, Gujarat High Court ordered Gujarat Pollution Control Board to shut down the coal based gasifiers. Order came on the back of ceramic units polluting and they were asked to switch over from coal to natural gas. As a result, the demand for Liquefied Natural Gas (LNG) shot up and prices started to impact the unorganized players. Gradually, unorganized players started losing market share as competitive edge waned and were unable to compete which lead to consolidation in the space. In 2008, unorganized players had market share of above 60%. However, scenario changed in 2014 with organized players capturing market share close to 50% and is expected to increase as organized players such as Somany and Kajaria are opting for joint ventures with players in Morbi, which provides instant access to readily available capacity and faster revenue generation. On the other hand, unorganized players get access to pan India market for their products and brand recognition. Growth for organized players is faster than the unorganized players because of wide variety of product offerings, pan India market access and strong brand recognition.

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Exhibit 25: Major deals happened in Indian tiles Industry (In MSM)

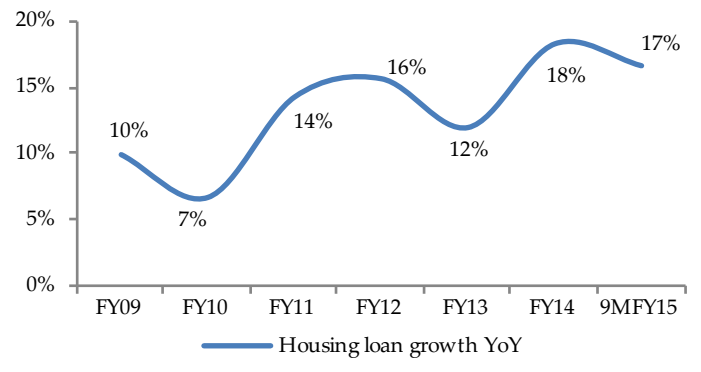
Acquirer company	Target company	Capacity	Segment
Somany	Vintage tiles	2.1	PVT
	Commander Vitrified	2.7	PVT/GVT
	Amora Tiles	2.5	Ceramic Tiles
	Vicon	2.1	Industrial Vitrified tiles
	Acer Granito	2.1	PVT
	Fine Virified	3.0	PVT
Kajaria	Soriso Ceramics	2.3	Ceramic Tiles
	Jaxx Vitrified	3.1	PVT
	Vennar Ceramics	2.3	Value added wall tiles
	Cosa Ceramics	2.7	Double charged PVT
	Taurus	5.0	PVT
H&R Johnson	Small tiles	2.3	PVT
Nitco Tiles	New vardhman	8.0	Vitrified & wall tiles
Total		40.2	

Source: Respective Companies, Karvy Research

Declining Interest rates to boost demand for housing

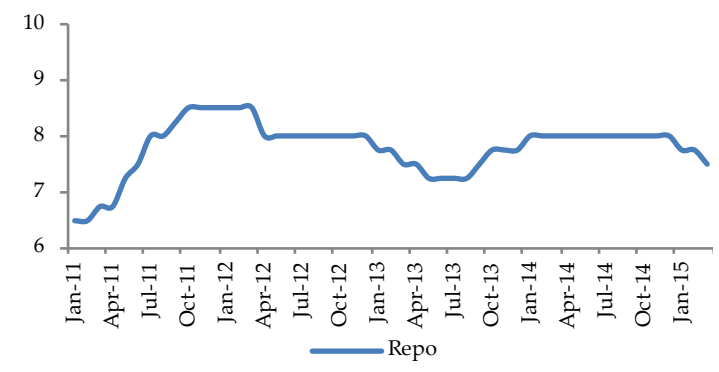
RBI has cut interest rates by 50 bps in this calendar year 2015 on the back of subdued inflation and we can expect interest rates to decline going forward. This scenario is expected to push the demand for housing loans and is expected to benefit tiles industry which derives 70% of demand from housing. Despite slowing economy, we witnessed a minor dip in housing loan demand but still holding up at steady pace of 17% which is encouraging sign.

Exhibit 26: Housing Loan YoY Growth (%)



Source: RBI, Karvy Research

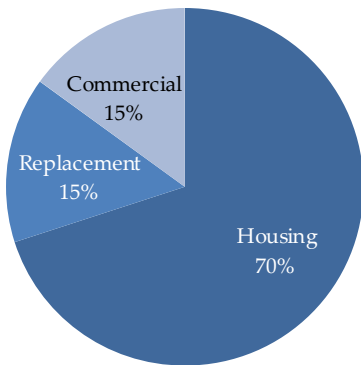
Exhibit 27: RBI Repo Rate (%)



Source: RBI, Karvy Research

Tiles demand break up

Exhibit 28: Break-up



Source: Company, Karvy Research

Housing demand constitutes 70% of Indian tiles demand, replacement demand forms 15% and commercial demand forms 15%. Housing demand is highly correlated to construction activity and to economy. As far as replacement demand is concerned, the durability of tiles is between 8-10 years. Malls, airports and other commercial places have started using high end tiles and it is evident from the usage in construction of recent airport terminals.

Government initiatives providing fillip to Indian ceramic tile industry

Housing sector which contributes 70% of the demand for ceramic tiles industry is likely to get much needed push from the government in order to address the prevailing housing shortage of 6 Cr and India has to construct 11 Cr houses by 2022 to achieve the vision of Housing for all by 2022 Government's policies such as developing 100 smart cities in next few years, Modi's 'Clean India' campaign with 'sanitization for all by 2019' and 'Housing for all by 2022' schemes will lead to boom in the ceramic tiles industry in India for the next few years.

Exhibit 29: Business Assumptions

Y/E Mar (Rs. Mn)	FY14	FY15E	FY16E	FY17E	Comments
India Business (Consolidated)					
Revenue	12660	15216	17971	21341	Volume growth is expected to grow at CAGR of 12% and realisation to post CAGR growth of 5% during FY14-FY17E.
Revenue Growth (%)	19.8	20.2	18.1	18.8	
EBITDA	845	975	1247	1521	EBITDA is expected to post CAGR of 21% on the back of improved product mix and with stable cost.
EBITDA Margins (%)	6.7	6.4	6.9	7.1	
PAT (normalized)	276	415	602	808	Bottomline is expected to improve going forward mainly because of lower finance costs on the back of declining interest rate cycle, possibility of equity fund raising to the tune of Rs.1500 mn and improving cash flows.
Fully Diluted EPS	7.1	10.7	15.5	20.8	
Fully Diluted EPS Growth (%)	(24.9)	50.5	45.1	34.2	
Capex (ex. Acquisition) - cash capex	425	450	300	300	No significant capex is required going forward.
Net CFO	738	525	699	836	Cash flow is expected to increase on the back of stable working capital requirement and efficient operations.
Net Debt	1707	1786	1680	1480	
Free Cash Flow	275	192	232	311	

Source: Company, Karvy Research

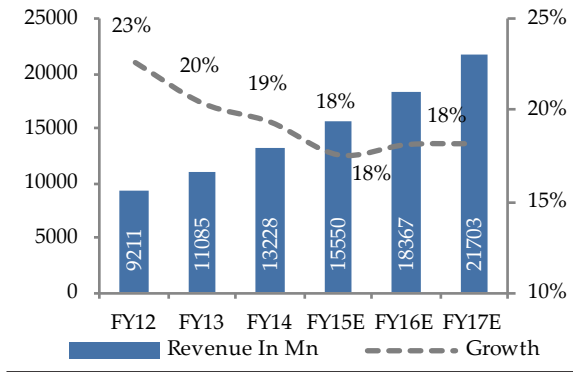
Exhibit 30: Karvy vs. Consensus

	Karvy	Consensus	Divergence (%)	Comments
Revenues (Rs.mn)				
FY15E	15216	15371	(1.0)	We expect the revenues to grow at CAGR of 18% during FY14-17E which is lower band of management's guidance of 18%-20%.
FY16E	17971	18546	(3.1)	
FY17E	21341	22470	(5.0)	
EBITDA (Rs.mn)				
FY15E	975	999	(2.4)	We expect margins to improve on the back of improved product mix and stable cost regime going forward. However, benefit of lower power & fuel costs is expected to be minimal as gas prices are linked to 5 year moving averages.
FY16E	1247	1276	(2.3)	
FY17E	1521	1618	(6.0)	
EPS (Rs.)				
FY15E	10.7	11.0	(2.8)	We expect the bottom line to improve on the back of lower finance costs and improved margins.
FY16E	15.5	16.1	(3.8)	
FY17E	20.8	22.4	(6.9)	

Source: Bloomberg Consensus, Karvy Research

Revenues to grow at steady pace

Exhibit 31: Revenue & Growth

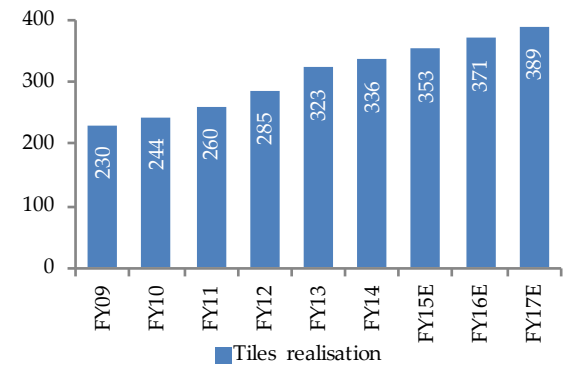


Source: Company, Karvy Research

Somany posted CAGR revenue growth of 22% in the last five years despite slowing real estate market and sluggish economy. We expect the company to maintain its outperformance even during tough times backed by strong distributional network in Tier II and Tier III cities with increasing branding activities. With various number of products on offer and good brand recall and grabbing market share from other players, Somany has edge over other players in the organized segment. With interest rates coming down, we can expect the demand for housing to gradually increase. The company is expected to grow at CAGR of 18% during FY14-FY17E with volume growth of 12% and remaining from realizations.

Realizations to improve on product mix

Exhibit 32: Realizations Trend (Rs. per Sq.m)

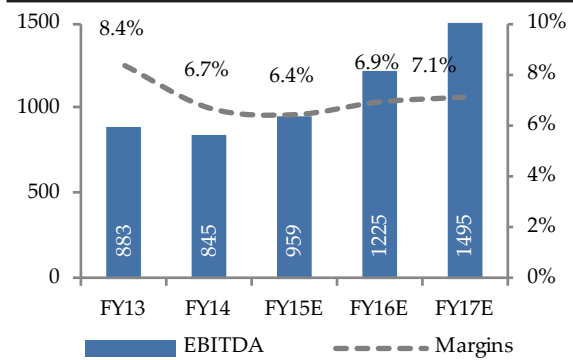


Source: Company, Karvy Research

Somany in the last couple of years has added capacity of 15.51 MSM in PVT & GVT tiles segment which will enhance the realizations going forward. Digital printing on ceramic tiles will shift the ceramic segment to the value added segment. Realization is expected to grow at CAGR of 5% during FY14 – 17E on higher contribution of value added products.

EBITDA margins to improve

Exhibit 33:

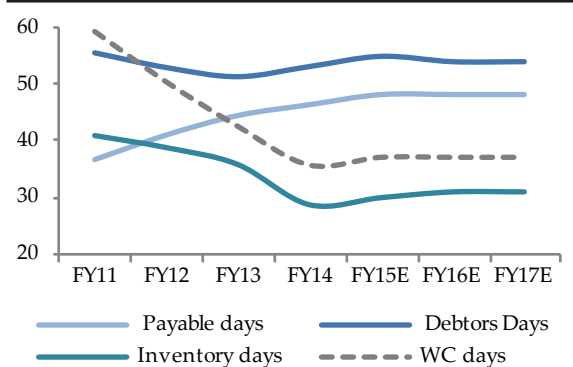


Source: Company, Karvy Research

EBITDA margins are expected to increase on the back of favorable product mix and stable power & fuel costs. Over the last few years, margins have been effected mainly because of volatility in power & fuel costs. Now with sharp decline in natural gas price globally, prices are expected to inch downwards going forward as the pricing is done in moving average.

Efficient management of working capital

Exhibit 34:

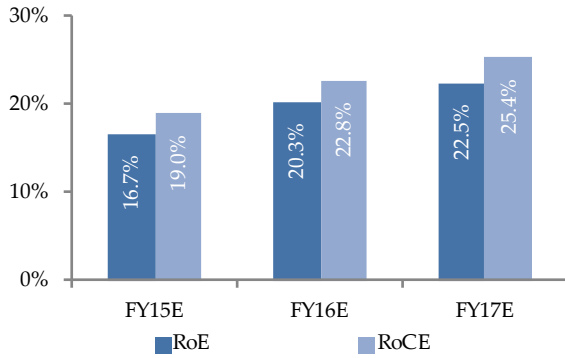


Source: Company, Karvy Research

The company has significantly managed to reduce its working capital days from 61 days in FY11 to 36 days in FY14. This lead to reduction of short term working capital needs for the company over the last few years. Despite this revenues are expected to grow at faster clip, the management is of the view that working capital days are expected to improve.

Return ratios to strengthen

Exhibit 35:

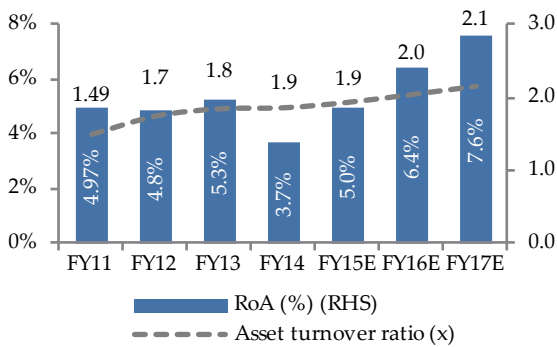


Source: Company, Karvy Research

Somany’s RoE declined sharply in FY14 mainly on account of equity dilution in the form of issue of equity shares to Creador raising an amount of Rs.500mn. However, going forward RoE & RoCE is expected to improve from the current levels to 22.5% and 25.4% in FY17E respectively on the back of asset light JV model.

Asset light model paying off

Exhibit 36:

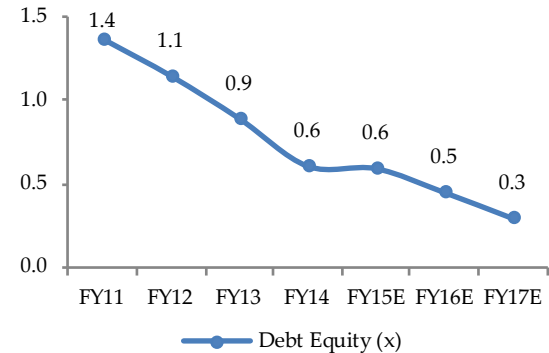


Source: Company, Karvy Research

As company is opting for Joint ventures rather than investing higher amount in developing greenfield projects, their asset turnover ratios are on the rise. Not putting not much stress on balance sheet and utilizing the assets efficiently is positive for the company. RoA is expected to increase from 5.01% in FY15E to 7.08% in FY17E.

Falling Debt Equity ratio

Exhibit 37:



Source: Company, Karvy Research

Debt Equity ratio has declined sharply from 1.37x in FY11 to 0.7x in FY14, mainly on back of reduction in working capital days. The company has got infusion of 500 million from PE investor which led to increase in net worth. With improvement in cash flows and better asset-turnover ratio, debt equity is to decline and be at 0.3x in FY17E.

Exhibit 38: Company Snapshot (Ratings)

	Low					High
	1	2	3	4	5	
Quality of Earnings			✓			
Domestic Sales				✓		
Exports	✓					
Net Debt/Equity			✓			
Working Capital requirement			✓			
Quality of Management				✓		
Depth of Management			✓			
Promoter				✓		
Corporate Governance			✓			

Source: Company, Karvy Research

Valuation & Outlook

We initiate coverage and value the company at 21x which is the two year average PE multiple of FY17E EPS and recommend a "BUY" rating for target price of Rs. 437, representing an upside of 18% for the holding period of 9 - 12 months. Being one of the leading players in the industry, Somany is expected to benefit from the government policies such as Housing for all and Smart cities. Rapid Urbanization and rising middle class people from Tier II and III cities are expected to push the demand for the tiles industry. With interest rates started declining and likely to continue, going forward it is expected to play favorable role in boosting housing demand from which industry receives 70% of demand. With government expected to spend more on infra & construction ancillary industries such as tiles industry is expected to benefit. Capacity addition and improved product mix are likely to support the top line and improve the margins. With company opting for joint ventures, RoA is expected to improve going forward. In recently held Board meeting, company is considering to raise money through issuance of Equity shares worth of Rs. 1500 mn. This will help the company to plan for the next phase of growth either through acquisition or refinancing of debt.

Exhibit 39: P/E Band (x)


Source: Bloomberg, Karvy Research

Exhibit 40: P/B Band (x)


Source: Bloomberg, Karvy Research

Exhibit 41: Comparative valuation summary

	CMP (Rs.)	M-cap (Rs. mn)	EPS (Rs.)			P/E (x)			RoE (%)		
			FY15E	FY16E	FY17E	FY15E	FY16E	FY17E	FY15E	FY16E	FY17E
Somany Ceramics	371	14444	10.7	15.5	20.8	34.7	23.9	17.8	16.7	20.3	22.5
Kajaria Ceramics	778	61834	20.8	26.6	34.2	35.8	28.1	21.8	23.2	24.2	25.3

Source: Company, Bloomberg, Karvy Research

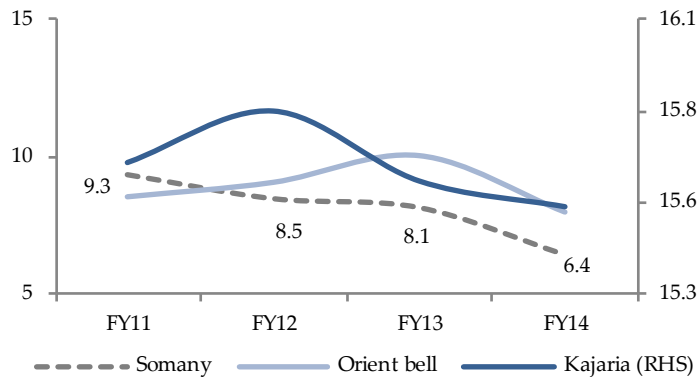
Exhibit 42: Scenario analysis of earnings based on % cost of raw materials to sales revenue

	Base assumption	YoY Cost of raw materials as a % of Sales revenue					
		3%	2%	1%	-1%	-2%	-3%
EBITDA margin (%)							
FY15E	6.4	4.5	5.1	5.8	7.1	7.7	8.3
FY16E	6.9	5.0	5.7	6.3	7.5	8.2	8.8
FY17E	7.1	5.2	5.9	6.5	7.7	8.4	9.0
EPS (Rs.)							
FY15E	10.7	4.7	6.3	8.0	11.3	12.9	14.6
FY16E	15.5	8.4	10.3	12.2	16.1	18.0	19.9
FY17E	20.8	12.2	14.5	16.7	21.3	23.6	25.9

Source: Company, Karvy Research

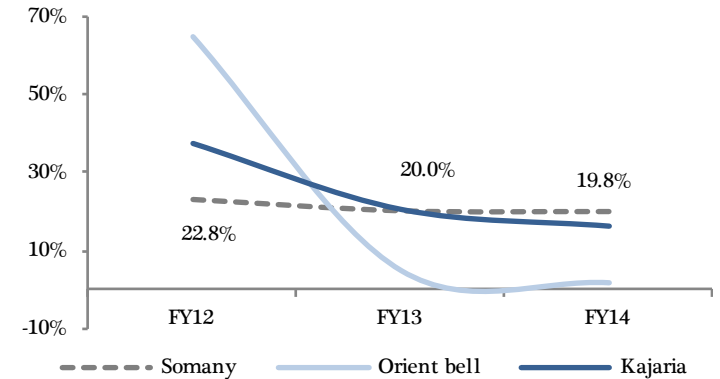
Peers Group Comparison

Exhibit 43: Trend in EBITDA margins (%)



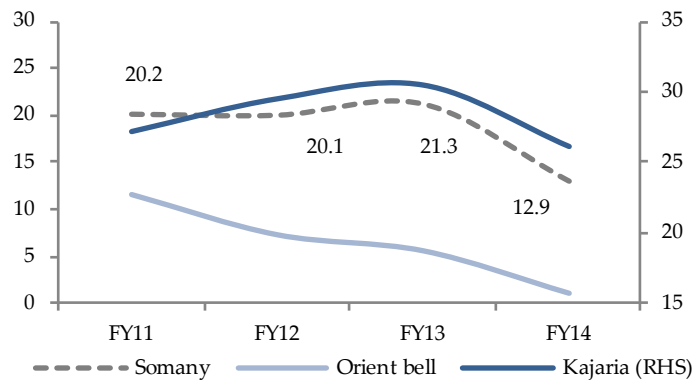
Source: Company, Karvy Research

Exhibit 44: Sales Growth Rate (%)



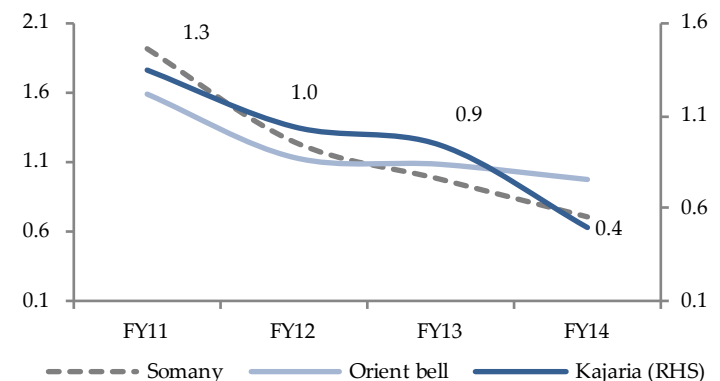
Source: Company, Karvy Research

Exhibit 45: Trend in RoE (%)



Source: Company, Karvy Research

Exhibit 46: Debt Equity Ratio Trend (x)



Source: Company, Karvy Research

Exhibit 47 (a): Comparative valuation summary

Company	Ceramic Tiles	PVT	GVT	Capacity FY14 (MSM)	Market Share in organized segment
Kajaria	✓	✓	Y	52	20
Somany	✓	✓	Y	44	13
Nitco	✓	✓	Y	16	8
Asian Granito	✓	✓	Y	34	8
Orient Bell	✓	x	N	24	6

Source: Company, Bloomberg, Karvy Research

Exhibit 47 (b): Comparative valuation summary (Rs. mn)

Company	FY14 Sales	Sales Growth Rate YoY	EBITDA%	PAT %	PAT	M.Cap	RoE	Debt Equity Ratio
Kajaria	18550	17	15.3	6.7	1242	62029	26.1	0.4
Somany	12730	18	6.4	2.2	275	14444	12.9	0.7
Nitco	8400	-4	-	-	-	779	-	10.6
Asian Granito	8540	7	8.3	1.8	157	2581	5.1	0.9
Orient Bell	6340	2	8.0	0.3	22	1856	1.2	0.9

Source: Company, Bloomberg, Karvy Research

Key Risks

- Imports from China.
- Surge in natural gas prices.
- Competition from foreign players.

Financials

Exhibit 48: Income Statement

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	10565	12660	15216	17971	21341
Growth (%)	20.2	19.8	20.2	18.1	18.8
Operating Expenses	9682	11815	14302	16788	19898
EBITDA	883	845	975	1247	1521
Growth (%)	17.3	(4.3)	15.4	28.0	22.0
Depreciation & Amortization	205	224	227	245	259
Other Income	26	31	61	64	78
EBIT	678	620	748	1002	1262
Interest Expenses	200	185	187	176	148
PBT	478	435	561	826	1114
Tax	152	170	171	252	340
Adjusted PAT	326	276	415	602	808
Growth (%)	27.9	(15.4)	50.5	45.1	34.2

Source: Company, Karvy Research

Exhibit 49: Balance Sheet

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
Cash & Equivalents	258	346	263	303	382
Sundry Debtors	1747	2149	2251	2560	2982
Inventory	1205	906	1251	1526	1813
Loans & Advances	813	1067	1236	1423	1658
Net Block	1991	2388	2455	2534	2589
CWIP	94	29	46	46	46
Total Assets	6211	7471	8353	9362	10597
Current Liabilities & Provisions	2224	2560	2927	3433	4067
Debt	1624	1707	1786	1680	1480
Other Liabilities	777	875	1004	1093	1182
Total Liabilities	4680	5192	5738	6254	6826
Shareholders Equity	69.0	77.7	77.7	77.7	77.7
Reserves & Surplus	1461	2157	2481	2961	3597
Total Networth	1530	2235	2559	3039	3674
Minority Interest	0	44	56	69	97
Total Networth & Liabilities	6211	7471	8353	9361	10597

Source: Company, Karvy research

Exhibit 50: Cash Flow Statement

YE Mar (Rs. Million)	FY13	FY14	FY15E	FY16E	FY17E
PBT	478	435	561	826	1114
Depreciation	205	224	227	245	259
Interest	200	185	187	176	148
Tax Paid	(155)	(170)	(171)	(252)	(340)
Inc/dec in Net WC	(15)	33	(217)	(232)	(267)
Others	(6)	30	(61)	(64)	(78)
Cash flow from operating activities	707	738	525	699	836
Inc/dec in capital expenditure	(381)	(599)	(450)	(300)	(300)
Inc/dec in investments	(33)	(508)	(33)	(36)	(40)
Others	18	60	61	64	78
Cash flow from investing activities	(396)	(1038)	(422)	(272)	(261)
Inc/dec in borrowings	(41)	84	79	(106)	(200)
Issuance of equity	0	476	0	0	0
Dividend paid	(32)	(48)	(78)	(105)	(148)
Others	(202)	(125)	(187)	(176)	(148)
Cash flow from financing activities	(275)	388	(186)	(387)	(496)
Net change in cash	36	88	(83)	40	79

Source: Company, Karvy Research

Exhibit 51: Key Ratios

YE Mar (%)	FY13	FY14	FY15E	FY16E	FY17E
EBITDA Margin (%)	8.4	6.7	6.4	6.9	7.1
EBIT Margin (%)	6.4	4.9	4.9	5.6	5.9
Net Profit Margin (%)	3.1	2.2	2.7	3.4	3.8
Dividend Payout (%)	12.7	21.1	18.7	17.4	18.3
Net Debt/Equity	0.9	0.6	0.6	0.5	0.3
RoE (%)	22.3	12.8	16.7	20.3	22.5
RoCE (%)	26.3	17.8	19.0	22.8	25.4

Source: Company, Karvy Research

Exhibit 52: Valuation Parameters

YE Mar	FY13	FY14	FY15E	FY16E	FY17E
EPS (Rs.)	9.5	7.1	10.7	15.5	20.8
DPS (Rs.)	1.2	1.5	2.0	2.7	3.8
BV (Rs.)	42.4	55.5	63.9	76.2	92.6
PE (x)*	8.7	22.2	34.7	23.9	17.8
P/BV (x)*	1.6	2.9	5.8	4.9	4.0
EV/EBITDA (x)*	4.9	8.5	16.0	12.5	10.3
EV/Sales (x)*	0.4	0.6	1.0	0.9	0.7

Source: Company, Karvy Research, * P/E, P/BV, EV/EBITDA and EV/Sales for FY13, FY14 are on historic basis.

Stock Ratings	Absolute Returns
Buy	: > 15%
Hold	: 5-15%
Sell	: <5%

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