

30 Jan 2016

Initiating Coverage (BUY)

Somany Ceramics

CMP

INR 364

Target Price

INR 445

Stock Details	
Industry	Furniture, Furnishing, Paints
Bloomberg Code	SOMC:IN
BSE Code	531548
Face Value (Rs.)	2.00
Market Cap. (Rs. Mn)	15,332.75
52wk. High/Low (Adjusted) ((Rs.)	499.90 / 303.50

Shareholding Pattern Jun '15	
Promoter (%)	51.5
FII (%)	4.9
DII (%)	9.1
Public - Other (%)	35.5
No. of Share Outstanding (mn)	42.38

Valuation Summary				
	FY 14A	FY 15A	FY 16E	FY 17E
P/E (x)*	20.79	30.30	25.00	20.00
EV/EBITDA (x)*	8.32	13.84	11.39	9.51
P/BV (x)*	2.98	5.94	5.47	4.86

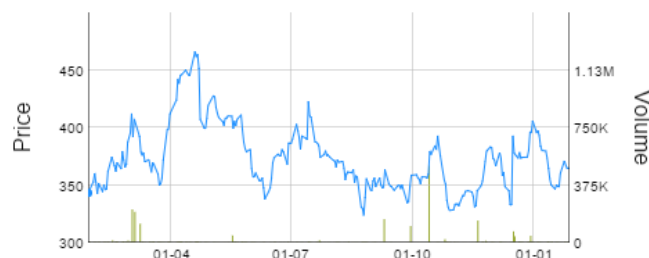
*Based On CMP on Reco Date for FY 15 and
Market Price as on 1st Apr is taken for FY14

Key Financial				
Rs. Mn	FY 14A	FY 15A	FY 16E	FY 17E
Net Sales	12,648	15,431	17,592	20,230
EBITDA	845	1,152	1,560	1,969
Net Profit	289	464	684	943
EPS (Rs.)*	8.3	11.9	16.1	22.3

*Adjusted for stock split of 5:1 in FY16

Key Ratios				
	FY 14A	FY 15A	FY 16E	FY 17E
EBITDA Margin (%)	6.7	7.5	8.9	9.7
EBIT Margin (%)	4.9	5.7	7.1	8.2
Net Pro. Margin (%)	2.3	3.0	3.9	4.7
Debt/Equity (x)	0.32	0.30	0.24	0.17
RoNW (%)	15.3	19.3	24.0	26.9
RoCE (%)	9.5	12.5	16.4	19.8

One Year Price / Volume



We recommend 'BUY' on Somany Ceramics for a target of INR 445 - valuing the company at P/E of 20.0x FY17E Earning.

INVESTMENT RATIONALE:

- Future growth to be driven by planned capacity expansion
- Anti-dumping investigation by Commerce Ministry a huge positive
- Structural story remains intact
- Strong earnings growth led by JV model
- Market Conditions Sluggish But 4QFY16E and FY17E to be Better Than 9M for the Company
- Lower fuel costs, operating leverage benefits aided margin expansion

VALUATIONS AND VIEW:

Somany reported Net Sales growth of 10.7% in Q3'FY16 and 12.3% in 9m'FY16 on YoY basis. PBT margins at 5.2% for Q3'FY16 Raised Rs. 120 crores via QIP to strengthen Balance Sheet; Interest of Marquee Investors in QIP reinforces confidence Investigation for Anti-Dumping Duty on China commenced. Recent revision in Long Term Gas Prices positive Implementation of Government Policies remains the single largest catalyst to Boost Sentiment and Demand across categories of buyers. Investing in branding activities to create a stronger brand recall amongst buyers.

We continue to remain positive on the branded players, especially Somany which is grabbing market share from other players and improvement is seen in margins on the back of asset light model and change in product mix. We value the business at 20x FY17E EPS and recommend a BUY rating on the stock with a target price of INR 445 per share.

RISK & CONCERNS:

- Imports from China.
- Surge in natural gas prices.
- Competition from branded and unorganised players.

COMPANY BACKGROUND:

Somany Ceramics Limited is engaged in the manufacturing of ceramic tiles and allied products, and mainly sale of the product within the country. The Company's product categories include ceramic wall and floor, polished vitrified tiles (PVT), glazed vitrified tiles (GVT), digital tiles, and sanitary ware and bath fittings, as well as tile laying solution. It manufactures a range of wall and floor tiles. Its floor tiles include durastone, durages, slip shield and veil craft shield. The tiles are available in different sizes and come with the option of digitally printed. Its PVT range is named as Somany Vitro. Its GVT offers seven different sizes of tiles, each with various design options in the GVT range. Its sanitary ware includes products for toilets, basins, urinals, allied products, sinks and cabinet-basins. Its chrome plated (CP) fittings include faucets, showers and allied products. The Company also offers tile laying solution, including Ezy fix, tile master and Ezy grout.

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 offtake but a qualitative improvement as well.

Currently, the company is trying to change its product mix with a continuous shift towards high end polished vitrified tiles (PVT) and glazed vitrified tiles (GVT). As a result, Somany's average realisation of its tile products increased every single year over the last five years.

Q3FY16 Performance Overview:

Operational Performance:

- Q3'FY16 tiles sales volume at 11.04 msm vs 10.18 msm for Q3'FY15, a growth of 8.4% YoY while for 9m'FY16 volume growth was 9.3% to 32.53 msm
- Sales mix in Q3'FY16 - Own manufacturing (35%), JV (45%) and Others (20%) while for 9m'FY16 sales mix - Own manufacturing (36%), JV (42%) and Others (22%)

Financial Performance:

- Net Sales increased by 10.7% YoY to Rs. 413.08 cr in Q3'FY16 and 12.3% to Rs. 1207.87 cr for 9m'FY16
- Q3'FY16 PBT grew by 25.3% to Rs. 21.32 cr with margin of 5.2% 9m'FY16 PBT before exceptional item grew by 26.6% to Rs. 57.68 cr with a margin of 4.8%
- Q3'FY16 PAT grew by 25.8% to Rs. 13.86 cr and 18.3% to Rs. 35.00 cr for 9m'FY16

Capacities:

- Current Access to capacity at ~56 msm p.a.; to increase to ~60 msm p.a. by Q1'FY17
- Capacity Expansion for 4.0 msm p.a. of Glazed Vitrified Tiles at Kassar Plant at Haryana is on course for completion by Q1'FY17

INDUSTRY OVERVIEW:

The Indian tile industry: Ceramic tiles are hygiene products, evident from their varied use in bathrooms and kitchens in most Indian households as well as in medical centres, labs, milk booths, schools, public convenience spaces, shopping malls, among others. The Indian tile industry is expected to sustain momentum over the medium-term for the following reasons:

Qualitatively superior than other flooring materials:

In India, 47% of the population lives in houses with mud flooring, 37% with cement flooring and 11% with mosaic and tile flooring. Nearly 26% of India's urban population lives in houses with tile flooring and 46% lives in houses with cement flooring. On the other hand, only 3.7% of India's rural population lives in houses with tile flooring and 62.6% of population lives in houses with mud flooring – a huge opportunity. As

urbanisation intensifies, an increasing number of people will shift from rural pockets to cities, catalysing a demand for flooring materials. (Census 2011)

Urban India:

- About 10 million people are moving to Indian cities each year.
- The per capita income in urban India is expected to treble from US\$2,800 in 2012 to US\$8,300 in 2028.

Government policies:

The Government's progressive policies – Housing for All by 2022, Swachh Bharat Abhiyaan (Sanitisation for All by 2019), Atal Mission for Rejuvenation and Urban Transformation (AMRUT) and Smart Cities Mission – should facilitate investment, accelerate construction activities and give a fillip to the economy. These schemes aim to meet the needs of around 40% of India's population and hold significant promise for the real estate sector.

Younger and smaller families:

The average household size is expected to decline from 4.8 to about 4.4.

The fall in household size is expected to increase the demand for 10 million new housing units.

About 35% of India's population is between the 15-35 year age bracket, which is expected to drive housing demand for the next 15 years.

Ceramic Industry:

The World ceramic tiles production has been growing at a healthy rate of 8.5% CAGR over 2009 to 2013 and is estimated to have reached 11,913 msm in the year 2013. China with about 47% share in the total world ceramic tiles production, continues to remain the world's largest ceramic tiles producer, consumer and exporter. Brazil is the second largest producer with production capacity of 871 msm, followed by India at 750 msm. In terms of exports, China is a clear leader followed by Spain and Italy. These top-three countries together contribute close to 66% to the overall world ceramic tiles exports.

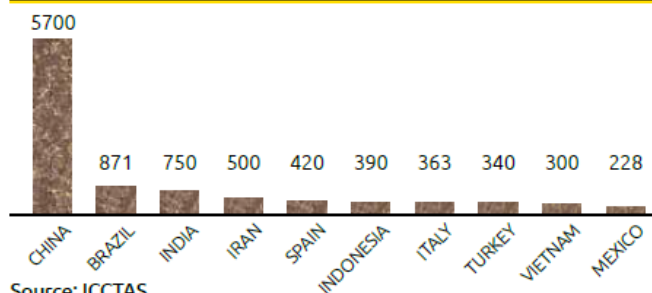
With a production and consumption CAGR of ~11% over 2009 to 2013, India remains one of the fastest growing ceramic tiles market in the world. India's share in the global ceramic tiles production is continuously increasing and has reached 6.3% in 2013 from 5.7% in 2009.

Also in the year 2013 where the world's production has increased by 6.7%, India's production has grown at 8.5%. In value terms the Indian tile industry has grown at a CAGR of more than 15% over 2009 to 2013 and is estimated to have reached ` 215 billion in 2013. The growth has been 10.3% over the previous year 2012.

The industry was earlier highly dominated by the unorganized players based out in Gujarat. But with stringent pollution control norms by the Gujarat Pollution Control Board the industry in getting more organized. The unorganized players have started to enter into JV with the organized players assisting them in manufacturing activities. Also India is currently witnessing a change in preference towards high end polished vitrified tiles which is leading to higher demand growth for the organized players.

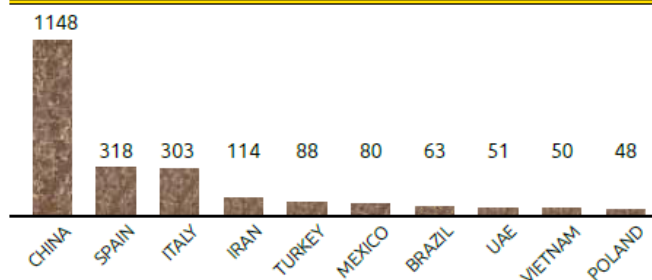
India has not grown much in terms of exports of ceramic tiles and currently consists of less than 0.5% of the global market. As per ICCTAS, in the year 2014 India has exported ceramic tiles of around USD 441 million. India exports ceramics to markets across Europe, Asia, US and Africa and the key export markets are UAE, Saudi Arabia and Malaysia.

Top 10 ceramic tiles manufacturing nations (msm)



Source: ICCTAS

Top 10 ceramic tiles exporting nations (msm)



Source: ICCTAS

Top 10 Ceramic tiles Importing Nations, 2013

COUNTRY	(msm)	%
USA	160	6.0
SAUDI ARABIA	150	5.6
IRAQ	121	4.5
FRANCE	96	3.6
NIGERIA	84	3.1
GERMANY	83	3.1
RUSSIA	80	3.0
THAILAND	68	2.5
SOUTH KOREA	65	2.4
UAE	53	2.0

Source: Ceramic World Review

PEER COMPARISON (Top 7 companies in the same business)

Company	CMP (Rs)	P/E	Mcap (Rs Cr)	Div Yld (%)	NP Qtr (Rs Cr)	Qtr Profit Var (%)	Sales Qtr (Rs Cr)	Qtr Sales Var (%)	CMP/BV
Asian Paints	870	49.2	83,441	0.70	463	35.44	4,103	13.88	13.8
Kansai Nerolac	263	42.2	14,154	0.53	84	28.57	965	8.75	7.6
Berger Paints	266	60.3	18,478	0.47	89	32.72	1,163	5.52	13.0
Kajaria Ceramics	974	35.8	7,742	0.41	58	29.08	600	6.19	8.7
Akzo Nobel	1,340	33.4	6,253	1.49	63	10.96	733	9.23	5.9
Cera Sanitary	1,749	31.7	2,274	0.36	18	13.52	225	12.88	5.9
Somany Ceramics	364	30.3	15,333	0.50	14	25.77	413	10.67	5.9

FINANCIAL OVERVIEW

- Net Sales increased by 10.7% YoY to Rs. 413.08 cr in Q3'FY16 and 12.3% to Rs. 1207.87 cr for 9m'FY16
- Q3'FY16 PBT grew by 25.3% to Rs. 21.32 cr with margin of 5.2% 9m'FY16 PBT before exceptional item grew by 26.6% to Rs. 57.68 cr with a margin of 4.8%
- Q3'FY16 PAT grew by 25.8% to Rs. 13.86 cr and 18.3% to Rs. 35.00 cr for 9m'FY16

Q3 FY16 Performance Highlight (Standalone Basis)							
(in Million)	2Q FY15	3Q FY15	4Q FY15	1Q FY16	2Q FY16	YoY (%)	QoQ (%)
Revenue	374.15	374.87	459.11	393.55	405.63	8.41%	3.07%
Other Income	1.94	2.52	1.78	1.28	1.68		
Total Income	376.09	377.39	460.89	394.83	407.31	8.30%	3.16%
Expenditure	-350.50	-350.62	-430.22	-369.55	-381.54		
As a % of Sales	93.68%	93.53%	93.71%	93.90%	94.06%		
Interest	-3.72	-4.12	-4.76	-4.37	-4.51	21.24%	3.20%
PBDT	21.87	22.65	25.91	20.91	21.26		
As a % of Sales	5.85%	6.04%	5.64%	5.31%	5.24%		
Depreciation	-5.52	-5.64	-5.98	-4.83	-4.81		
PBT	16.35	17.01	19.93	16.08	16.45	0.61%	2.30%
As a % of Sales	4.37%	4.54%	4.34%	4.09%	4.06%		
Tax	-5.85	-5.99	-5.15	-5.59	-5.8	-0.85%	3.76%
Net Profit	10.5	11.02	14.78	10.49	10.65	1.43%	1.53%
As a % of Sales	2.81%	2.94%	3.22%	2.67%	2.63%		
Equity	7.77	7.77	7.77	7.77	7.77	0.00%	0.00%
EPS (Rs)	2.7	2.84	3.8	2.7	--		
CEPS (Rs)	4.12	4.29	5.34	3.94	3.98		
OPM %	6.84	7.14	6.68	6.42	6.35		
NPM %	2.81	2.94	3.22	2.67	2.63		

Income Statement (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Net Sales	8,790	10,539	12,648	15,431	17,592	20,230	22,253
Other Operating Income	-	-	-	-	-	-	-
Expenditure	8,048	9,682	11,834	14,356	16,040	18,271	20,161
EBITDA	742	857	814	1,076	1,551	1,959	2,092
Depreciation	183	205	224	266	308	314	317
EBIT	559	652	590	810	1,243	1,645	1,775
Interest Expenses	207	200	185	205	246	276	307
PBT	352	452	404	604	997	1,369	1,468
Tax	111	152	170	222	321	436	467
Other Income	12	26	31	77	8	10	11
Extraordinary Items	(2)	-	-	-	-	-	-
Net Income Before Adjustment	251	326	265	459	684	943	1,012
Minority Int./Income from Assoc.	(0)	6	(23)	(5)	-	-	-
Adjusted PAT	251	320	289	464	684	943	1,012

Balance Sheet (Consolidated)

Y/E Mar (Rs mn)	FY 12A	FY 13A	FY 14A	FY 15A	FY 16E	FY 17E	FY 18E
Equity share capita	69	69	78	78	78	78	78
Reserves & surplus	1,190	1,461	2,157	2,502	3,049	3,801	4,576
Share Warrants	-	-	-	-	-	-	-
Misc Expenditure	-	-	-	-	-	-	-
Net worth	1,259	1,530	2,235	2,580	3,126	3,879	4,654
Minority Interest	-	-	44	53	-	-	-
Share Application Money	-	-	-	-	-	-	-
Loan Funds	672	616	708	768	748	648	528
Net deferred tax liability	254	262	284	287	287	287	287
Other Long-term Liabilities	142	142	178	192	219	252	234
Long-term Provisions	23	25	31	33	38	44	48
Total Liabilities	2,351	2,576	3,481	3,916	4,419	5,112	5,753
Net block	1,944	2,092	2,435	2,646	2,489	2,226	1,960
Investment, Loan & Adv.	102	128	335	406	400	451	536
Total Current Assets	3,247	3,990	4,701	5,604	6,199	7,807	9,192
Current Liabilities & Provisions	2,943	3,636	3,991	4,742	4,669	5,375	5,937
Net Current Assets	304	355	710	862	1,529	2,432	3,255
Total Assets	2,351	2,576	3,481	3,916	4,419	5,112	5,753

Cash Flow (Consolidated)

Y/E Mar (Rs mn)	FY 15A	FY 16E	FY 17E	FY 18E
Operating Cash Flow	251	332	1,165	1,230
Cash Flow from Investments	(379)	(149)	(107)	(140)
Cash Flow from Financing	(64)	(241)	(369)	(506)
Net Changes in Cash	(192)	(58)	689	584
Opening Cash	346	154	96	785
Closing Cash Balance	154	96	785	1,369

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Disclosure of Interest Statement	Somany Ceramics
1.Analyst ownership of the stocks mentioned above	No
2.Served as an officer, director or employee	No

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