



STAYING AHEAD OF THE **CURvE**

SOMANY CERAMICS LIMITED | ANNUAL REPORT 2011-12



Disclaimer

In this annual report, we have disclosed forward-looking information to enable investors to comprehend our prospects and take informed investment decisions. This report and other statements – written and oral – that we periodically make contain forward-looking statements that set out anticipated results based on the management's plans and assumptions. We have tried wherever possible to identify such statements by using words such as 'anticipates', 'estimates', 'expects', 'projects', 'intends', 'plans', 'believes' and words of similar substance in connection with any discussion of future performance.

We cannot guarantee that these forward-looking statements will be realised, although we believe we have been prudent in our assumptions. The achievement of results is subject to risks, uncertainties and even inaccurate assumptions. Should known or unknown risks or uncertainties materialise, or should underlying assumptions prove inaccurate, actual results could vary materially from those anticipated, estimated or projected. We undertake no obligation to publicly update any forward-looking statements, whether as a result of new information, future events or otherwise.

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Special consumers desire to buy today what the rest of the world will consume tomorrow. ✨

✨ At Somany Ceramics, this simple understanding translated into selective productisation (innovative varieties, sizes, textures, finishes and range), technology preference and strategic acquisitions. In turn, this insight helped the Company counter the slowdown and report a 22.89% increase in turnover and 5.63% growth in profit after tax in a challenging 2011-12.

STAYING AHEAD OF THE CURVE...

ACQUISITION

At a time when it is critical to keep growing turnover on one hand and reduce capital expenditure on the other, Somany Ceramics reconciled these seemingly impossible requirements through an asset-light joint venture-driven expansion strategy.

Annualised production capacity including JVs (mn sqm)



13.84%

Growth in
production capacity

2011-12: 21.80 mn sqm

2010-11: 19.15 mn sqm

Somany Ceramics embarked on strategic acquisitions to expand its product range without investing in new equipment and improving its market penetration without spending years in product development. These were achieved through the following initiatives:

- **VTPL:** We acquired a 26% equity stake in Gujarat-based Vintage Tiles Private Limited for ₹5.03 crores providing us with a complete access to VTPL's manufacturing capacity (2.65 mn sqm per annum of polished vitrified tiles) from January 2012 leading to projected annual turnover of ₹80 crores.

- **CVPL:** We entered into an MOU to acquire 26% equity stake (with an option to increase it to 51%) in Gujarat-based Commander Vitrified Private Limited (CVPL) for ₹3.25 crores to procure and sell CVPL's production capacity of 2.65 mn sqm per annum of polished vitrified and glazed vitrified tiles from June 2012 leading to projected annual turnover of ₹100 crores.

The result: our tile production capacity increased from 19.15 mn sqm to 24.45 mn sqm per annum for an investment which was 80% less than the greenfield alternative. This will potentially generate annualised turnover of about ₹180 crores with a projected payback of about three years as against a prevailing greenfield payback of around 10 years .

Enabling us to stay ahead of the curve.

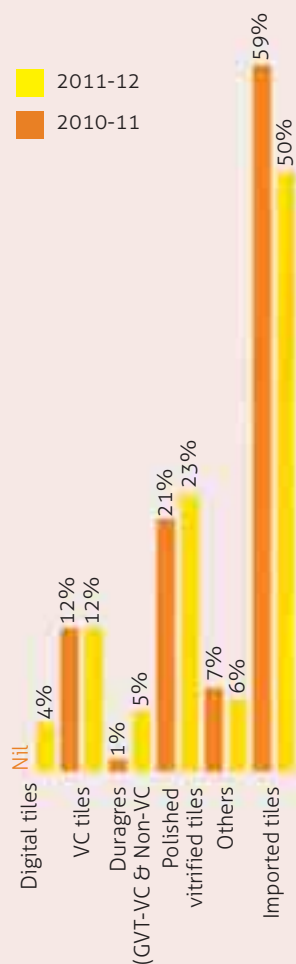


STAYING AHEAD OF THE CURVE...

PRODUCT INNOVATION

At a time when most people were likely to dismiss a tile as a tile, there was a premium on the ability to innovate and create something different.

Changing product mix (tiles)



10.84%

Improvement in
operating Profit

2011-12: ₹56.34 crores

2010-11: ₹50.83 crores

At Somany, we blended product contemporariness with technology, durability and geographic compatibility – better than competitors. And this initiative was showcased through the Company's digital printing technology leading to the launch of a new product line called 'Somany Digital'.

This range possesses the potential of making all kinds of stone quarrying and tree-felling redundant – at least for home furnishing. This is because high definition digital printing captures and reproduces stylisations and patterns on flat and curved surfaces as well as moulded tile surfaces, replicating the look of authentic stone and wood patterns.

The Company strengthened its digitisation emphasis through the following initiatives:

- Installed three state-of-the-art digital machines for an investment of ₹12.80 crores, enriching our value-added product basket
- Launched a new range of digital wall tiles with enhanced definition, richer colours and compelling designs in two existing sizes (300x450 mm and 300x600 mm) and two new sizes (148x450 mm and 300x900 mm)
- Extended digital printing to VC Shield tiles and glazed vitrified tiles with improved finish and looks in floor tiles

This progressive digitisation of our product mix will improve our topline and bottomline in the mid to long term.

Enabling us to stay ahead of the curve.

STAYING AHEAD OF THE CURVE...

VALUE-ADDITION

At a time when declining margins represent a serious concern for tile manufacturers, there is a premium on the ability to create a superior product mix which can generate sizeable surpluses for onward reinvestment.

Value pyramid (%)



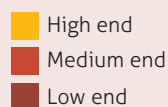
2010-11



2011-12



2012-13 (P)



9.65%

Improvement in average
realisation per sqm

2011-12: ₹284 per sqm

2010-11: ₹259 per sqm

At Somany, we undertook substantive work in this direction. We refined our product mix to enhance profits and reinforce business sustainability through the following initiatives:

- Increased the overall sale of medium and high end products from 34% in 2010-11 to 55% in 2011-12
- Increased sales derived from the in-house production of value-added tiles from 33% of our product mix in 2010-11 to 58% in 2011-12, strengthening our margins
- Introduced new ranges in our existing basket of value-added products
- Introduced new value-added products like Duragres VC 50 and Digital Tiles

All these initiatives resulted in an increase in our average realisation per sqm from ₹259 in 2010-11 to ₹284 in 2011-12.

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CORPORATE IDENTITY

SOMANY CERAMICS.

GENERATES A YOUTHFUL, TRENDY AND INNOVATIVE RECALL.

ACROSS CERAMIC, GLAZED VITRIFIED, POLISHED VITRIFIED AND DIGITAL TILES. PLUS SANITARYWARE AND BATHROOM FITTINGS.

RESULTING IN A COMPLETELY PROFITABLE SOLUTION FOR CONSUMER AND COMPANY.

SOMANY'S VALUES

Vision

Most sought after tile and allied product brand in India and be the best employer in the tile industry

Mission

Achieving customer delight through business innovation and cost-effectiveness while pursuing latest fashion trends in ceramics & allied products for creating stakeholders values