SOMANY

Shri Hiralal Somany, founder of Somany Ceramics Limited, passed away on November 14, 2016 at the age of 96. He was a visionary and in true sense the doyen of the Indian ceramic industry having pioneered businesses in tiles, sanitaryware and faucets.

He was, in fact, one of the earliest industrialists in independent India and a great believer in indigenous manufacturing.

He was way ahead of his times. His ethos, vision and values shall remain our guiding principles while taking the Company to greater heights. We at Somany Ceramics, shall always remain indebted to him.

SOMANY
version 2.0

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Forward-looking Statement

Statements in this report that describe the Company's objectives, projections, estimates, expectations or predictions of the future may be 'forward-looking statements' within the meaning of the applicable securities laws and regulations. The Company cautions that such statements involve risks/uncertainty and that actual results could differ materially from those expressed or implied. Important factors that could cause differences include input costs and/or its availability, cyclical demand and pricing in the Company's principal markets, changes in government regulations, economic developments within the countries in which the Company conducts business, and other factors relating to the Company's operations, such as litigation, labor negotiations and fiscal regimes.

UNTHINKABLE.

AT SOMANY CERAMICS LIMITED, THE UNTHINKABLE HAPPENED IN 2016-17.

PROFITABLE GROWTH.

THE COMPANY'S SALES GREW 6.7 PER CENT.

THE COMPANY'S SALES VOLUME INCREASED 7.3 PER CENT.

THE COMPANY'S PROFIT AFTER TAX STRENGTHENED 41 PER CENT.

COUNTERING WEAK REALTY MARKETS, DEMONETISATION AND INCREASING COMPETITION.

SOMANY

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SOMANY **BECOMES**

YOUNGER!

A few years ago, Somany addressed a curious challenge.

The company was getting chronologically older in a world driven increasingly by the youthful (by age and temperament).

The company enjoyed a strong legacy of 45 years of leadership in design and innovation. What seemed imperative was to use this legacy as a competitive advantage rather than it becoming a handicap.

Somany addressed this challenge in an unusual way.

The company reinvented itself.

Nowhere has Somany's reinvention manifested more visibly than in fresh recruitment.

Somany recruited younger. Somany recruited non-tile professionals.

The average age of organisation is 35 years; however the average age of new joinees is lower at 31 years.

We are pleased to state that the trickle-down of this evolving chemistry is evident.

Conventions are being questioned.

'Can we explore a better way?' is being heard more in Somany brainstormings.

There is a greater priority in doing it 'now'.

Standing in is passé; standing out is the new desire.

TRANSFORMATION.

MANIFESTING IN A REALITY WITH REMARKABLE POSSIBILITIES.

Display on Wheels

When Somany announced its intention to provide the best of its products deep across rural and semi-India, the first response was one of surprise.

How would the company be able to afford the resources required? How would the company create stores where muted demand existed?

The reinvented Somany addressed this challenge in an unusual way.

If the consumer couldn't always come to the Somany store; the store could also always go to the consumer.

The result was that in 2016, Somany launched the pioneering Display on Wheels. A luxury bus service converted into a travelling store.

This customised bus has an unusual route; instead of making short runs within an urban location, it extends from one town to another. Travelling across 7 States.

What makes this bus store different is that it showcases products like they would be in a store. The attending executives explain product portfolio, attributes and superiority. They address local architects and designers. They engage prospective consumers.

This initiative has enhanced brand awareness, respect, offtake and dealer morale.

"The bus increased my month's offtake 30 per cent" said one dealer; "The company cares" said another.

Somany is about a phrase that is being increasingly used – Proximity to masses.

Digital marketing

In line with ongoing realities, Somany began to shift its marketing from the analog to the digital.

Somany increased its social media presence, reaching 2,693 followers on Twitter, 4,196 followers on LinkedIn and securing 243,940 likes on Facebook.

The Company also strengthened its search engine optimisation, generating a top listing across relevant searches. Somany's mobile app served as a one-stop engagement that generated relevant information related to tiles, sanitaryware and bath fittings. The result is that , over the last few years Somany has shrunk its proximity to only an arm's length away.

Luxury stores

The Company launched exclusive state-of-the-art display showrooms across the country to address the needs of a high-end clientele and interior designers to see and touch products before purchase. These showrooms stocked the widest product collection and were manned by competent executives possessing a deep understanding of customer needs and the Company's products. The result is that these luxury stores have strengthened Somany's visibility and brand strengthening offtake.

6 WAYS IN WHICH WE REINVENTED THE COMPANY

1 Asset lightness

Somany made increasing investments in tile manufacturing joint venture companies; each of these JVs was greenfield, were commissioned faster with shorter gestations, invested in high technologies and addressed specific product lines; the company's seven joint ventures are one of the highest in India's tile manufacturing sector.

The result: enhanced asset lightness and investment efficiency.

5 Debt repayment

Until 2008, Somany's investments in manufacturing facilities and capacities were largely debt-driven. The company made a conscious decision: to invest in distribution, branding, technologies and joint ventures, make superior value-added products, report stronger cash flows, and repay debt and moderate interest.

The result: The Company graduated from a focus on profits to cash flows; gearing declined, interest cover strengthened and this strategy was robustly validated by increased market capitalisation.

6 Category extension

Until 2008, Somany was a focused tile-driven company. Thereafter, the company responded to the growing convenience needs of consumers. It began to offer bathroom solutions through the outsourcing of complementary products (sanitaryware and faucets); once these markets had been seeded, the company extended to high-margin sanitaryware manufacturing and marketing.

The result: The Company is trebling the manufacturing of sanitaryware products, effective from 2017-18.

2 Distribution investments

Until 2008, Somany was largely a manufacturing-driven company. Thereafter, the company made disproportionately higher investments in business intangibles (principally distribution). The company increased Tier 2 and Tier 3 city dealers and distributors, engaged actively with trade channels and accelerated product launches.

The result: enhanced trade retention, loyalty and throughput.

3 Brand investments

Until 2008, Somany was the fourth largest brand in India's tile sector. The Somany brand was recalled around the following words: 'good' and 'usual' and 'enduring'. The company set about transforming this recall: through contemporary product introductions, accelerated launches, superior product styling and finishes, younger communication and larger brand investments.

The result: superior unaided brand recall, better trade visibility, distinctive consumer pull, enhanced product realisations, stronger distributor accretion and higher corporate profitability.

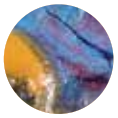
4 Relationships

Until 2010, Somany was largely driven by the momentum generated out of tangible investments in infrastructure and equipment. The operative line within the company was 'How much have we produced today?' The company embarked on a strategic re-alignment thereafter, increasing its investments in intangibles (relationships with trade channels, joint venture partners, employees and shareholders).

The result: higher degree of passion and motivation; a stronger conviction that relationships make the difference.

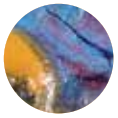
Initiatives, 2016-17

- Somany Ceramics responded to market challenges through various initiatives.



Products

- Enhanced glazed vitrified offerings marked by superior designs and technologies
- Accelerated product launches every two months, enhancing trade excitement; the company introduced a new 40x80-inch glazed vitrified tile for wall applications and B and C Indian cities
- Improved designs across sizes which proved to be an effective counter-response to Chinese imports
- Introduced a differently-styled French Collection addressing the luxury sanitary ware market



Customers

- Engaged customers directly; the Individual Household Builder initiative showcased products and variants for high-end customers, contractors and architects, reaching more than 7500 prospective customers
- Created a team to aggregate and address sales leads
- Addressed a wider customer range (masons, architects, individual home builders and new home builders)

CHALLENGES 2016/17

The company addressed weak demand from a sluggish real estate sector. There was a decline in ceramic and polished vitrified realisations. There was a need to enhance mindshare and mind space for top of the mind recall. There was a priority to establish increased Kassar throughput in the marketplace. The company needed to continue its focus on retail sales (~65 per cent of offtake) to protect from price erosion.