

Annual Report
2018-19

SOMANY CERAMICS LIMITED

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, labour negotiations and fiscal regimes.

CONTENTS

6 things you need to know about Somany Ceramics	02
Financial highlights	04
Chairman's overview	06
Operational review	08
Integrated value-creation report	14
Branding review	22
Sales and distribution review	24
Design review	26
Human resources	28
Segment review	30
Social engagement	36
Management discussion & analysis	37
Directors' report	46
Business responsibility report	54
Corporate governance report	86
Standalone financial statements	102
Consolidated financial statements	160



A modern, bright living room with large windows, a white sofa, and a large mirror. The room features a high ceiling with a staircase on the left and a large mirror on the right. The floor is made of large, light-colored tiles. A dark grey semi-transparent box is overlaid on the right side of the image, containing text.

Luxury living by Somany

The name 'Somany' stands for a distinctive recall.

A recall of luxury.

Where the aesthetics of the curtain, the sheen of the upholstery, the craftsmanship of the furniture and the elegance of the rug are complemented by the unmissable wall and floor effect.

The effect of tile size, colour, texture and finish.

Evoking a predictable response from someone who has just walked into the room: '*Imported?*'

6 things you need to know about Somany Ceramics

1. Ethos

Vision: Becoming the most sought-after tile and allied products manufacturer 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 and allied products for creating stakeholder value.



2. Legacy

Over the past five decades, Somany has emerged as the second largest Indian company specialising in the manufacture and marketing of tiles, sanitaryware, bath fittings and allied products.

3. Portfolio

The Company offers a wide range of products, which includes ceramic wall and floor tiles, polished vitrified tiles, glazed vitrified tiles, sanitaryware and bath fittings. The Company also offers tile-laying solutions.

4. Scale

Somany has nine state-of-the-art manufacturing facilities across the country, providing an annual tiles manufacturing capacity of ~52 million square meters, sanitaryware capacity of ~1.15 million pieces per annum and bath fittings capacity of 0.65 million pieces per annum. The capacity of the bath fittings plant is estimated to increase 3x in two phases by 2020.

5. Footprint

Somany enjoys a widening pan-India presence, with an organised tile market share of ~13%. Over

the years, the Company strengthened its market presence through the presence ~10,000 touch points, which included more than 1,800 active dealers and more than 300 showrooms/display centres.

6. Listing

Somany Ceramics is listed on BSE Limited and National Stock Exchange of India Limited. The Company's market capitalisation increased from ₹1,54,913 Lakhs as on 31st March 2015 to ₹1,78,714 Lakhs as on 31st March 2019.






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Key financial highlights



Revenues (₹ Lakhs)

FY17		1,72,781
FY18		1,70,821
FY19		1,70,833

Definition

Sales net of taxes.

Why is this measured?

It highlights the product and service acceptance coupled with a widening reach of the Company.




Performance

The Company sustained revenues for the year at ₹1,70,833 Lakhs in a challenging market.

Value impact

Creates a robust growth engine on which to build profits.

Profit after tax (₹ Lakhs)

FY17		9,816
FY18		7,044
FY19		4,634

Definition

Profit earned during the year after deducting all expenses and provisions.

Why is this measured?

It highlights the strength of the business model in generating value for shareholders.




Performance

The Company reported a profit after tax of ₹4,634 Lakhs during the year under review.

Value impact

Ensures that adequate cash is available for reinvestment, allowing the Company's growth engine to sustain.

EBITDA (₹ Lakhs)

FY17		25,084
FY18		20,396
FY19		18,253

Definition

Earnings before the deduction of certain fixed expenses or provisions (interest, depreciation, extraordinary items and tax).

Why is this measured?

It is an index that showcases the Company's ability to optimise operating costs despite inflation that can be easily compared with the averages of sectoral peers.

Performance

The Company's EBITDA in 2018-19 stood at ₹18,253 Lakhs.

Value impact

Helps create a robust growth engine that allows the Company to build profits in a sustainable manner.



Earnings per share (₹)

FY17		23.16
FY18		16.62
FY19		10.93

Definition

It is the portion of a company's profit allocated to each outstanding share of common stock.

Why is this measured?

This figure depicts the actual value the Company has created for shareholders.

Performance

The Company's EPS for 2018-19 stood at ₹10.93.

Value impact

Adds value in the hands of shareholders through enhanced earnings per share.

EBITDA margin (%)

FY17		14.5
FY18		11.9
FY19		10.7

Definition

EBITDA margin is a profitability ratio used to measure a company's pricing strategy and operating efficiency.

Why is this measured?

The EBITDA margin provides an idea of how much a company earns (before accounting for interest and taxes) on each rupee of sale.

Performance

The Company reported an EBITDA margin of 10.7% during the year under review.

Value impact

Demonstrates adequate buffer in the business, which, when multiplied by scale, enhances surpluses.

RoCE (%)

FY17		20.6
FY18		13.4
FY19		10.7

Definition

It is a financial ratio that measures a company's profitability and the efficiency with which its capital is employed in the business.

Why is this measured?

RoCE is a useful metric for comparing profitability across companies based on the amount of capital they use – especially in capital-intensive sectors.

Performance

A showcase of prudently investing every rupee in profitable spaces that generate higher returns for shareholders.

Value impact

Enhanced RoCE can potentially drive valuations and perception (on listing).

Debt-equity ratio (x)

FY17		0.95
FY18		0.93
FY19		0.93

Definition

This is derived through the ratio of debt to net worth (less revaluation reserves).

Why is this measured?

A measure of a company's financial health, indicating the ability of the Company to remunerate shareholders over debt providers.

Performance

The Company successfully sustained a gearing of 0.93 during the year under review.

Value impact

Enhanced shareholder value by keeping the equity side constant; enhanced flexibility in progressively moderating debt costs.



Chairman's overview

Why Somany is focusing on 'Luxury living'

Shreekanth Somany

Chairman & Managing Director

'Why are we building a company focused on luxury living?'

This is a question that I have often been asked.

The question is well-meaning. People insist that India is a mass market still in the early stage of its consumption cycle. There is an argument that in this cycle a number of people will need to consume and only after an extended period will they graduate their preferences. By this inference, they believe that we are far too ahead of the curve and it would be prudent to allocate our resources effectively across other segments of our product pyramid.

The misunderstanding lies in the selection of the word 'luxury'. A number of people mistakenly believe that 'luxury' means expensive. It does not. 'Luxury' indicates the higher end of that range of products that an individual's spending capacity empowers her / him to buy. The implication is evident: the word does not indicate the apex of the country's consumption pyramid; it only refers to the luxury end of that consumption or economic segment. By this definition, there are a number of luxury segments addressed by a responsible and mature company (Somany included).

Why will this luxury trend grow as a direction and movement?

The answer to this lies in the income-earning capacity of Indians. Even as we are the sixth largest economy in the world by the virtue of being the second most populous country, the per capita income of the Indian is 145th in the global hierarchy of incomes. If this should sound depressing, let us turn to one of the most important drivers of my optimism: the increase in per capita incomes trebled across the last decade indicates that we are passing through one of the most economically productive phases in our existence.

When you extend this change to the sheer increase in the quantum of Indian earners and spenders, you get a reality that should make any marketing company turn its attention to the country: this represents one of the largest movements of individuals from the lower income group into the country's middle-class and thereafter a sharp increase in the number of high net worth individuals, anywhere in the world.

So what are these increasingly prosperous Indians spending more on?

To my understanding, Indians are spending

more on experiences – and will continue to do so across the foreseeable future. The biggest experience that Indians are likely to spend on is going to be their homes. India will seek to earn more and live better simply because of a fundamental optimism that their futures are expected to be considerably better. Why Indians will continue to feel this way comes from the convergence of realities – increase in FDI, government reforms, unprecedented investments in national infrastructure, and customers becoming more demanding not only on vendors but also on themselves. These consumers seek a better quality of life and are willing to spend more to access it.

What is that one unmistakable number that points to the India's need for superior lifestyle quality?

The answer to this comes down to just one word: debt.

India is an extensively under-borrowed nation – India's debt to GDP ratio in 2017 was pegged at 54.5% compared to 247% in China for the same period. However, this reality is beginning to change as Indians are becoming less averse to borrow. The result is that more Indians are

We believe that when the market steps out of the trough of 2018-19, the rebound will be sharp and enduring. When this transpires, we expect to have the largest manufacturing capacity in our existence.



engaged in large-ticket consumption – in homes and interiors. Given the extent of under-penetration in India, it would be reasonable to believe that there are years of responsible mortgage in the pipeline before India's indebtedness becomes a matter of concern. What this means for companies like ours is that the more debt is assumed, the greater the investment in vanity and superior lifestyles (including a higher spending in tiles and bathware).

There are a number of factors that provide me with the optimism that India is sitting at the bottom-end of a long J-curve. The cost of home decor as a percentage of home ownership lies in the modest single-digits. Besides, from a supply side, luxury product categories are widening, the products under each category are increasing, the grades within each products are deepening, the price difference between each product grade is narrowing – the emergence of product breadth and depth. The result is that the consumer gets a wide choice of luxury products to buy into –

purchased directly or financed by the country's non-banking finance sector.

Has the consumption engine stepped up?

My answer is yes. The evidence is everywhere: the proportion of revenues derived from non-metro cities is rising; dealers with one showroom for years have widened their presence to multiple showrooms in the last decade; the surprise is that places you would not have been able to locate on the map are now figuring on the spread sheets of our sales executives with increasing frequency.

How does Somany expect to capitalise on this accelerating trend?

At Somany, our strategy is simple: Move ahead of the curve. If we are to succeed in this market, we will need to be future-promised across our business because the moment demand revives, the payback derived from a proactive presence will be considerably higher than the cost of investment.

At Somany, we invested in a number of future-touching initiatives.

For a company that focused on North and West India for more than five decades,

we commissioned our first South Indian manufacturing facility during the last financial year.

For a company that addressed the broadest market segment for decades, we are now focusing at the luxury end.

For a company that was debt-heavy and equity-conservative, we are deleveraging our Balance Sheet.

Where will this take Somany?

We believe that when the market steps out of the trough of 2018-19, the rebound will be sharp and enduring. When this transpires, we expect to have the largest manufacturing capacity in our existence, combined with the largest percentage of value-addition and the lowest cost in our existence derived out of superior technologies. We are optimistic that this component will translate into an attractive volume-value proposition that enhances organisational momentum across a multi-year cycle and enriches all those associated with our Company.

Shreekant Somany

Chairman & Managing Director

Strategic direction

“We made a sizable investment and are convinced that our increased visibility and recall will translate into superior offtake in 2019-20”



Abhishek Somany
Managing Director,
provides a perspective of where
the Company is headed

