Somany Ceramics Limited

Instrument	Amount	Rating Action
	In Crore	
Commercial Paper	40.0 *enhanced from 25.0*	[ICRA]A1+ *reaffirmed*

ICRA has reaffirmed short term rating of [ICRA]A1+[1] (pronounced as ICRA A one plus) assigned to the Rs 40 crore[2] (enhanced from 25 crore) Commercial Paper Programme of Somany Ceramics Limited (SCL).

The rating action takes into account SCL's strong brand and established market position which coupled with healthy demand growth for tiles has resulted in a healthy top-line growth in the last five years. Given the favourable long term demand prospects for flooring and wall tiles in the domestic market and SCL's improved manufacturing presence post acquisitions in Morbi, Gujarat, ICRA expects company's revenue growth to be sustained. ICRA also notes the strong financial profile aided by equity infusion, reducing debt levels and strong accruals which has resulted in very strong debt coverage metrics. The company's presence in sanitary-ware and bath fittings segment (though JV and outsourced sales) is expected to provide fillip to the profitability as the segments increase in scale. Rating concerns emanate from the highly competitive nature of the tile industry marked by the presence of both large and organised players as well as numerous small scale tile manufacturers, centred largely around Morbi, which continue to operate with leaner cost structure. The company's margins will be vulnerable to change in input costs, especially power and gas. The company has benefitted from lowering gas prices especially since January 2016, and this is expected to aid profitability of the company in the near term. The business also remains vulnerable to slowdown in real estate sector as is evident from the lower yoy growth in operating income in FY2016 and Q1FY2017, however the company's actual exposure to private builders segment which is witnessing pressure is limited. Despite the weak industry demand, the volume growth has continued to remain strong in FY2016. With the company's asset light model, and availability of substantial liquid funds the debt levels are expected to decline and debt coverage metrics are expected to improve going forward.

Going forward, the SCL's ability to counter rise in input costs, competitive pressures and demand slowdown with its focus on value-add products and its ability to improve upon its brand will remain key rating drivers. Focus on inorganic growth should keep the long term debt levels stable and also aid revenue growth.

Company Profile

Somany Ceramics Limited was incorporated in 1969 as a manufacturer of ceramic tiles, by Mr HL Somany in collaboration with Pilkington's of U.K as a widely held Company. Since then the company has extended production capacities as well as the product range. SCL is engaged in the business of manufacturing, outsourcing and trading of ceramic wall and floor tiles. The company has access to 60.25 msm capacity which includes 25.55 msm p.a. capacity at company owned production units' at Kassar (Haryana) and Kadi (Gujarat), 25.70 msm p.a. through subsidiaries and associates and balance 9.0 msm p.a. through outsourcing. In addition, the company had acquired a majority stake in Somany Sanitaryware Pvt Ltd which has a capacity of 3.03 lac pieces of sanitary ware per annum. The company markets its tiles under the established brand names like 'Somany', 'Durastone', 'Duragress', 'VC Shield', 'Somany Express' etc.

Recent Results

Somany Ceramics Limited reported a profit after tax (PAT) of Rs 17.9 crore in Q1 FY2017 on an operating income of Rs 413.9 crore registering an increase of 5.2% in operating income yoy. The company reported a profit after tax (PAT) of Rs 61.1 crore in FY 2016 on an operating income of Rs 1730.7 crore as agasint PAT of Rs 44.4 crore and operating income of Rs 1539.8 crore in FY 2015.

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[1] For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications.

[2] 100 lakh = 1 crore = 10 million

For further details please contact:
Analyst Contacts:
Mr. Sabyasachi Majumdar (Tel. No. +91 124 4545304)
sabyasachi@icraindia.com

Siddhartha Kaushik (Tel. No +91 124 4545 323
siddhartha.kaushik@icraindia.com

Relationship Contacts:
Mr. L. Shivakumar, (Tel. No. +91 22 6114 3406)
shivakumar@icraindia.com

ICRA

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20- 25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	