Institutional Equity Research

Somany Ceramics

Consumer Durables | India

Initiating Coverage | September 12, 2017

CMP* (Rs)	800
Upside/ (Downside) (%)	28
Bloomberg Ticker	SOMC IN
Market Cap. (Rs bn)	34
Free Float (%)	49
Shares O/S (mn)	42

BUY

Target Price: Rs1,020

Multiple Growth Drivers in Place

Increasing premiumisation, higher share of organised industry post-GST roll-out, operating leverage and asset light expansion model will be the key growth drivers for Somany Ceramics (SCL), going forward. **Expecting SCL to report revenue and earnings CAGR of 13.8% and 24.6%, respectively through FY17-19E coupled with attractive valuations (23.5x FY19E earnings), we initiate coverage on the stock with a Target Price of Rs1,020, which implies an upside of 28% from the current levels.**

Structural Shift from GST Implementation

Currently, 60% of ceramic tile market by volume is controlled by the unorganised players, who have so far been able to compete with the organised players by undercutting price through tax evasion and under-reporting of invoices. However, implementation of GST and introduction of E-Way bill would result in effective audit trail and make tax evasion difficult. Under GST regime, the unorganised players would find it extremely difficult to compete with the organised players who have made significant investments behind their brand and distribution network, which in our view will result in structural shift in the industry towards large organised players like SCL.

Increasing Premiumisation & Healthy Product-mix to Drive Growth

SCL has consistently been focussing on improving the product-mix in favour of high-margin Polished vitrified tiles (PVT) and Glazed vitrified tiles (GVT) segment. The share of low-margin ceramic tile segment has fallen from 69% in FY12 to 42% in FY17, while share of PVT has increased from 24% to 36% and GVT from 8% to 22% in the same period. SCL has also taken decent strides into sanitary ware and bath fittings segment.

Superior Financial Performance

Over the past five years, SCL has reported the highest growth rates in revenues and profits among its peers. While the industry revenues and EBITDA witnessed 7% and 6% CAGR, respectively through FY12-17, SCL's revenues and EBITDA witnessed 16% and 19% CAGR, respectively in the same period, even surpassing the industry leader in the process.

Outlook & Valuation

We estimate SCL to report consolidated revenues of Rs20.2bn and Rs23.5bn and net profit of Rs1.1bn and Rs1.4bn in FY18E and FY19E, respectively. Based on expected EPS of Rs34.1, the stock currently trades at an attractive PE multiple of 23.5x FY19E earnings. We are positive on the Company on the back of its strong brand equity, increased salience of organised players and continued focus on high-margin segment coupled with attractive valuations. **We initiate coverage on SCL with BUY recommendation and Target Price of Rs1,020 based on 27x Sep '19 earnings, which is at a 20% discount to industry leader Kajaria's target multiple.**

Key Financials (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Sales	15,431	17,116	18,110	20,204	23,462
EBITDA	1,076	1,429	1,915	2,099	2,592
Net profit	464	691	971	1,115	1,446
EPS Rs)	10.9	15.3	22.0	25.9	34.1
DPS (Rs)	2.0	2.3	2.7	3.0	4.0
P/E (x)	73.1	52.4	36.4	30.9	23.5
P/B (x)	13.1	7.9	6.5	5.5	4.6
EV/EBITDA (x)	32.5	24.3	18.1	15.9	12.4
ROE (%)	20.9	20.4	21.3	21.0	23.2
Dividend yield (%)	0.3	0.3	0.3	0.4	0.5

Source: Company, RSec Research

Share Price (%)	1 mth	3 mth	12 mth
Absolute performance	5.6	1.7	37.0
Relative to Nifty	2.4	(2.0)	24.0

Shareholding Pattern (%)	Mar'17	Jun'17
Promoter	51.5	51.5
Public	48.5	48.5

1 Year Stock Price Performance

*Note: * CMP as on Sept 11, 2017*

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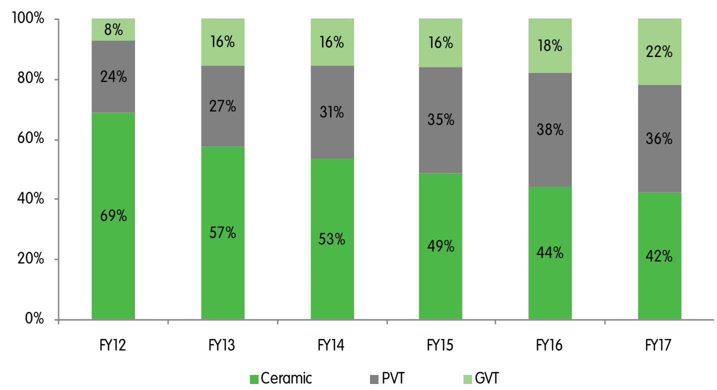
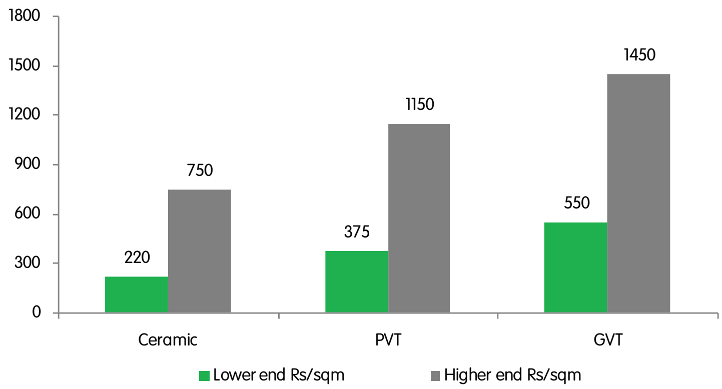
Investment Rationale

Consistent Thrust on Improving Product-mix

The Company has consistently focussed on improving the product-mix in favour of high-margin and high-growth PVT and GVT segment and reducing salience of ceramic tiles. Share of pure ceramic tiles to total tile revenues has fallen from 69% in FY12 to 42% in FY17. On the other hand, share of PVT has increased from 24% to 36% and GVT from 8% to 22% in the same period. Average realisation in PVT and GVT is 1.5-2x of ceramic tile realisation.

Exhibit 1: Sharp Improvement in Product-mix





Source: Company, RSec Research

Even in the ceramic space, SCL has undertaken up-gradation of its Kassar and Kadi facility to manufacture high-value products. The 1st stage of up-gradation has been completed in 2QFY18, while the 2nd stage would be completed by the end of FY18. As a result, the installed capacity of Kadi unit has reduced from 8.4msm to 6.7msm.

- **Capacity Expansion & Greenfield Unit in AP:** In the joint ventures, Vintage Tiles has increased its capacity of double charged PVT tiles from 3msm to 4.8msm. Similarly, the Company has also finalised plans to establish a 5msm vitrified tile facility in AP through an associate company Sudha Somany Ceramics. Pvt. Ltd.
- **Expanding Sanitaryware Capacity:** Apart from tiles, SCL has also increased the annual sanitaryware capacity in its JV from 0.3mn pieces per annum to 1.15mn pieces, per annum which would enable the Company to sustain high growth momentum in the sanitaryware space.

Exhibit 2: Different Types of Tiles & Their Characteristics

Types	Structure & Key Features
Ceramic Tiles	Made of clay
Vitrified Tiles	Mixture of clay, silica, quartz and feldspar
Soluble Salt Vitrified Tiles	Upgraded ceramic tiles with higher kiln temperature providing better durability
Double Charged Vitrified Tiles	Fed through a press that prints pattern with double layer of pigment 3-4mm more than normal tiles
Full Body Tiles	Vitrified tiles that have pigment in entire body of the tile
Glazed Vitrified Tiles	Vitrified tile with glaze on the surface
Digital Print Tiles	Tiles, designs of which are printed on the surface. Created by photos on the computer platform and then applied to tiles using Ink-jets

Source: Company, RSec Research

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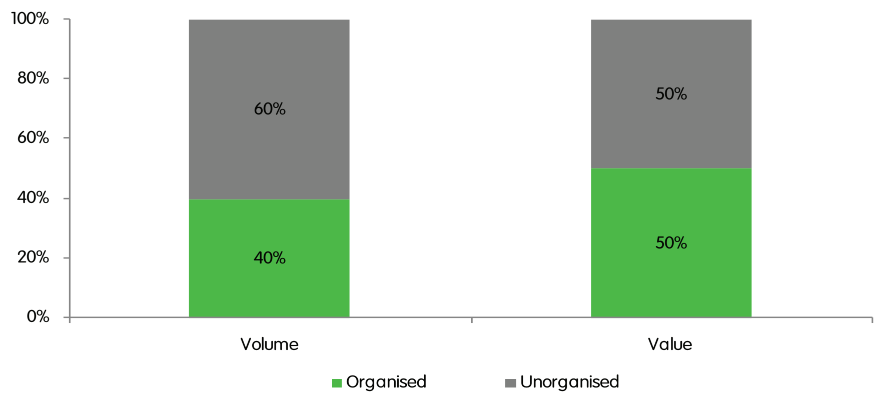
Structural Shift in the Wake of GST Implementation

We expect implementation of GST to bring about structural changes in the ceramic tiles industry. Around 60% of industry volumes are controlled by the unorganised players and in value terms, 50% of the industry is accounted for by them. In the pre-GST era, there were a plethora of taxes i.e. Entry Tax, Excise Duty, CST, VAT, Octroi and other local taxes. In the absence of any end-to-end audit trail of transactions and uniformity in levy and monitoring mechanism, a huge part of the market used to evade taxes by under-reporting revenues.

Exhibit 3: Unorganised a large part of the tiles industry



Source: Company, RSec Research

Overall taxation ranged between 20-26% and the evasion of which enabled these players to aggressively price their products and undercut their organised counterparts. This was working to the disadvantage of large organised players like Kajaria and SCL.

However, under the new tax regime, the Government has levied 28% GST on ceramic tiles. Although the levied rate is higher compared to industry expectation of 18%, it will bring about structural changes in coming years. Besides, demonetisation in Nov'16 has also structurally affected the unorganised players.

Under the GST system, there would be an end-to-end audit trail of transactions and different players of the chain will not be able to take input tax credit even if any one player in the chain avoids paying taxes. This would lead to the similar tax liability for the unorganised players as their organised counterparts and do away with their pricing advantage.

Organised players have made significant investments for brand building and enhancing their distribution network over the past few years. We believe that in times of tax neutrality between organised and unorganised players, the latter would not be able to compete with organised players. We expect the organised players like Kajaria and SCL to utilise this opportunity to expand their JV-based manufacturing capacities further.

Post GST implementation w.e.f. July'17, the Management suggests that non-compliance from the unorganised players has come down from 50-55% to 30-35%. Introduction of E-Way bill in coming months is expected to further tighten the screws on the tax evaders. E-Way bill is an electronic way bill that is generated on the GSTN portal is used for movement of goods in GST regime. Movement of goods currently above Rs50,000 will not be permitted without the E-Way bill, making tax evasion more difficult.

Favourable Macro Factors to Further Accelerate Growth

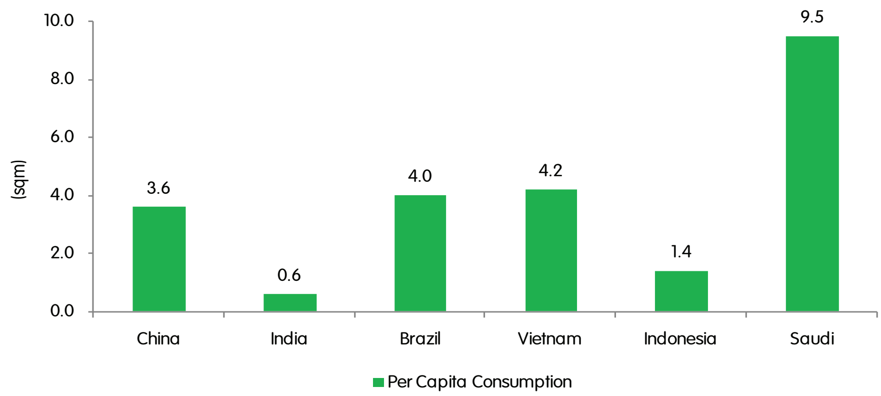
The Central Government has undertaken several initiatives, which would drive the growth of ceramic tiles industry in coming years. Some of the macro-programmes include:

- **Housing for All:** Building 60mn homes by 2022 with 40mn homes in rural (40mn) and urban areas (20mn).
- **Swachh Bharat Abhiyaan:** 60mn toilets are proposed to be built across 4,041 towns by 2019.
- **Smart City Mission:** First phase of development of 20 cities is underway and outlay to the tune of Rs508bn is earmarked for developing 100 cities.
- **Atal Mission for Rejuvenation & Urban Transformation (AMRUT):** 500 cities will be developed under this project.
- **Pradhan Mantri Awas Yojana:** Assistance to local urban bodies for rehabilitation of existing slum dwellers, credit linked subsidy, affordable housing partnership and subsidy for beneficiary led individual house construction/enhancement.
- **RERA Implementation:** Implementation of Real Estate (Regulation and Development Act) 2016 is expected to facilitate timely completion of real estate projects.
- **Implementation of 7th Pay Commission's Recommendations:** Implementation of 7th Pay Commission's recommendations would result in 23.6% overall increase in salaries, allowances and pension, which would increase the disposable incomes in the hands of the consumers.

Lower Per-capita Consumption Provides Strong Headroom for Further Growth

Although India is the third largest producer and consumer of tiles globally, accounting for ~7% of total production and consumption, per capita consumption of tiles remains abysmally low. India's per capita consumption at 0.6sqm is very low compared to 3.6sqm for China and 4sqm for Brazil.

Exhibit 4: Abysmal Penetration Levels Provide Huge Potential



Source: Company, RSec Research

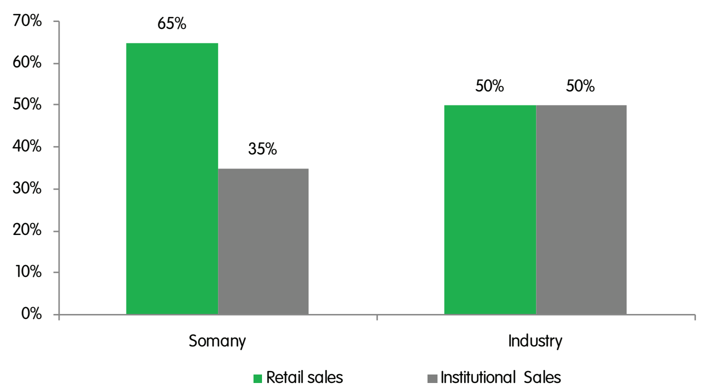
Data from Census 2011 clearly depict huge potential for the domestic tiles industry in coming years. As per the Census, mud is used as floor material in 47% of households, while cement is used in 31% households. Mosaic/floor tiles account for just 11% of total households. However, the share of mud flooring has fallen from 67% in 1991 to 47% in 2011, while share of tiles has increased from 4% to 11% in the same period.

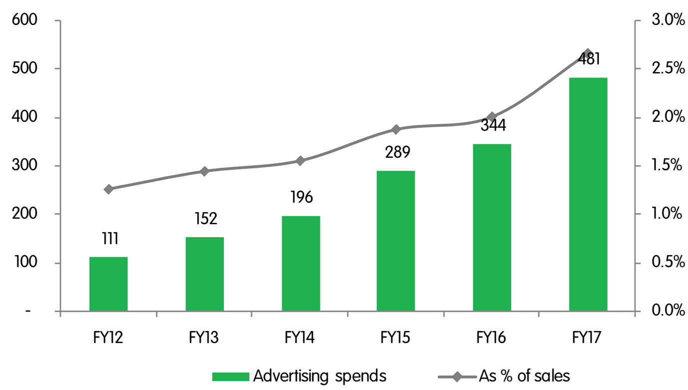
With higher income levels, increasing urbanisation, rising aspirations, better awareness and easier availability, we expect the share of mud and cement flooring to come down substantially in coming years with the increased usage of floor tiles.

Retail Segment to Drive Growth

Sales to retail customers account for half of total industry sales, while institutional sales account for the other half. Over the years, SCL has focussed on catering to the retail segment. It derives 65% of its revenues from the retail segment, and intends to increase the same to 70% in coming years. SCL's investments behind its brands have led to more than four-fold increase in A&P spend to Rs481mn in FY17 from Rs111mn in FY12.

Exhibit 5: Thrust on Driving Retail Sales with Increased Investment Behind Brands





Source: Company, RSec Research

The Company has consistently focussed on expanding its distribution footprint to aid growth. Various retail distribution channels are mentioned below.

Exhibit 6: Retail Distribution Channels – At a Glance

Type of Stores	Key Features
Coco	Company owned stores with area of 3500 sqft. Showcasing entire range
Grande	Dedicated stores with area of 2500 sqft. Covering entire range of products
Exclusive	Area ranging between 1500-2500 sq.ft showcasing different types of PVT, GVT and Ceramic tiles
Studio	Store area of 1500 sq.ft showcasing ceramic floor and wall tiles and franchise owned

Source: Company, RSec Research

Emphasis on Joint Ventures for Expansion

Pursuing the asset light business model, SCL's total capacity has increased from 35msm in FY12 to 60.3msm in FY17 mainly on the back of pursuing the joint venture model. Out of the total capacity of 60.3msm, SCL's own plants cover 23.8msm in two facilities located at Kassar and Kadi. Its six joint ventures contribute 27.5msm, while outsourced capacity stands at ~9msm.

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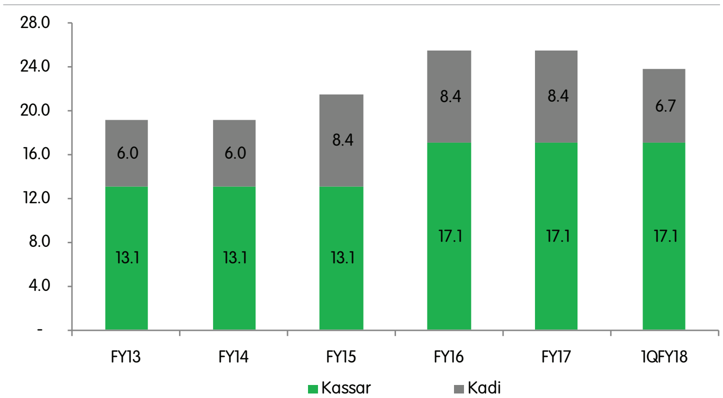
Exhibit 7: Plant-wise Manufacturing Capacities

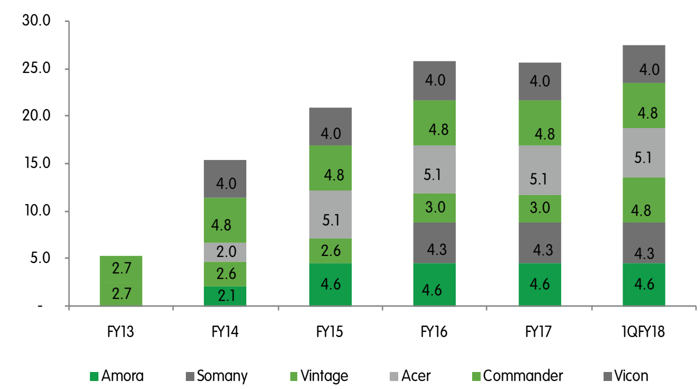
	Stake (%)	Capacity Utilisation (%)	Capacity FY17	Capacity 1QFY18
Own plants			**25.6**	**23.8**
Kassar	Owned	90	17.1	17.1
Kadi	Owned	77	8.4	6.7
Subsidiary/Associates			**25.7**	**27.5**
Amora	51	77	4.6	4.6
Somany	51	112	4.3	4.3
Vintage	50	95	3.0	4.8
Acer	26	86	5.1	5.1
Commander	26	76	4.8	4.8
Vicon	26	81	4.0	4.0
Outsourced			**9.0**	**9.0**
Total capacity (msm)			**60.3**	**60.3**

Source: Company, RSec Research

Over the past five years, the in-house production capacity has largely remained stagnant except for 4msm expansion in Kassar in FY16, while SCL has aggressively ramped-up joint ventures to enhance overall capacity.

Exhibit 8: Expansion through JV Model Driving Capacities





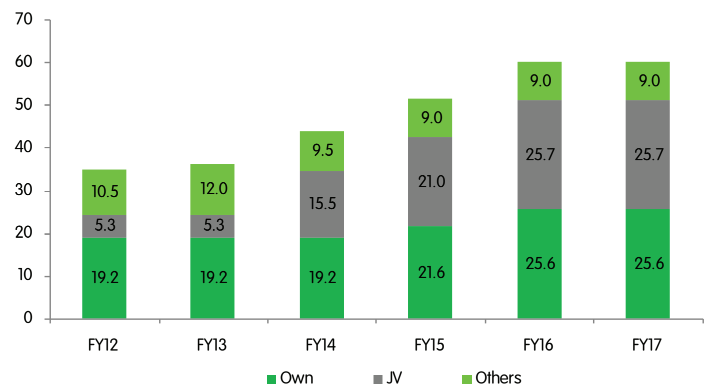
Source: Company, RSec Research

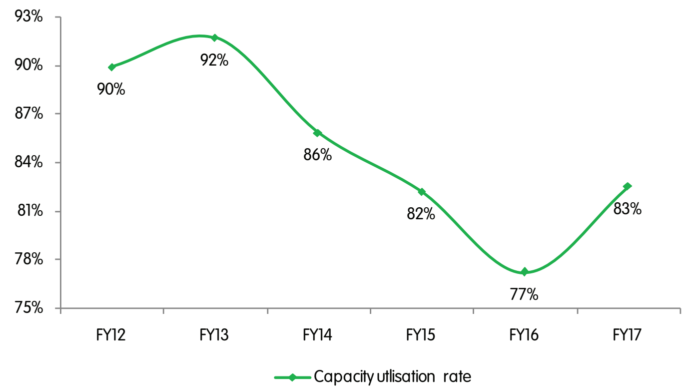
There are several advantages of JV model, which benefit both large organised players and contract manufacturers. That include:

- Lower capital requirement
- Faster access to new capacities through lower lead times
- Quicker payback
- Better control over production
- Freedom to focus on key aspects of designs, branding and marketing
- Asset light business model
- Improvement in debt equity levels
- Allows each partner to focus on its respective strengths
- Underwriting of production by large players giving growth visibility to contract manufacturers

Focus on the JV model has enabled SCL to increase its capacity to 60.3msm in FY17 from 35msm in FY12. While in-house production capacity increased to 25.6msm in FY17 (from 19.2msm in FY12), JV capacities have increased by five-fold to 25.7msm (from 5.3msm) in the same period.

Exhibit 9: Own Capacities Increase at Marginal Pace; Capacity Utilisation Remains Healthy





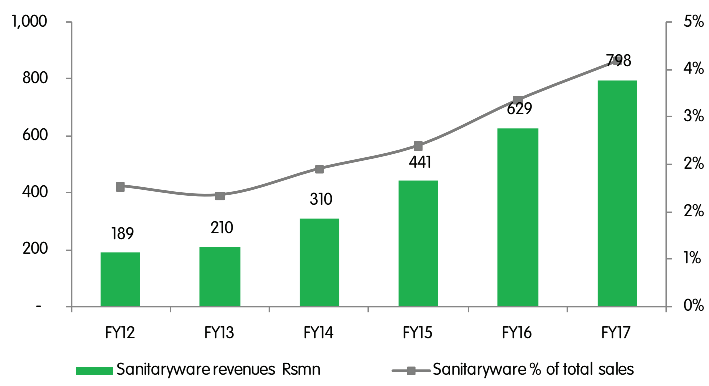
Source: Company, RSec Research

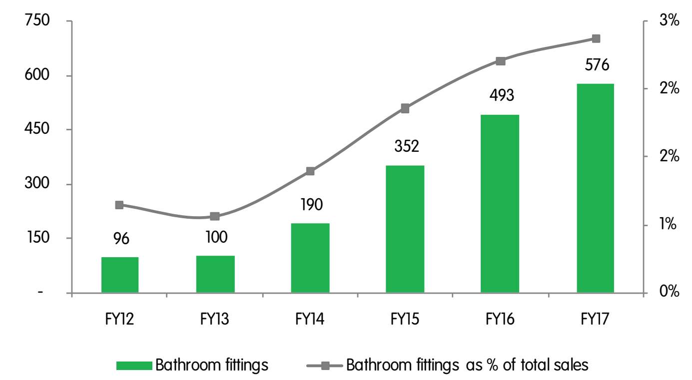
Enhancing Presence in Sanitary Ware & Bath Fittings Segment

Apart from tiles, SCL has focussed on allied segments of sanitary ware and bath fittings. While initially, the Company focussed on marketing aspects, it has subsequently set up sanitary ware manufacturing facility of 0.3mn pieces which is running at full capacity. With a view to catering to the increased demand, the Company has now enhanced the capacity to 1.15mn pieces per annum. The Company is now in the process of setting up faucet manufacturing facility.

Through FY12-17, SCL's sanitary ware revenues witnessed 33% CAGR to Rs800mn in FY17, entailing a four-fold increase. Similarly, bath fitting revenues have witnessed 43% CAGR to Rs576mn in FY17, entailing a six-fold growth in past five years. Revenue contribution of sanitary ware and bath fittings segment to SCL's consolidated revenues increased to 8.5% in FY17 from 3% in FY12. The Management intends to increase the contribution of this segment to 15% of consolidated sales by FY20E.

Exhibit 10: Increasing Salience of Sanitaryware & Bath Fittings Segment





Source: Company, RSec Research

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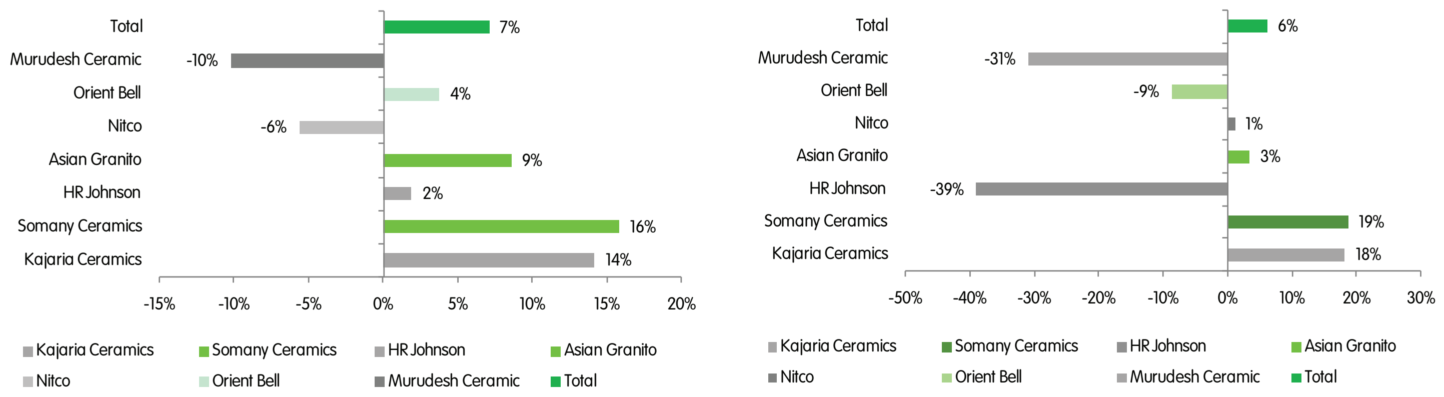
Superior Financial Performance

SCL has reported strong performance in past 5 years. The Top-7 players reported revenue and EBITDA CAGR of 7% and 6%, respectively through FY12-17. On the other hand, SCL has delivered revenue and EBITDA CAGR of 16% and 19%, respectively in the same period, which was the highest amongst all 7 players. From being the fourth largest player in FY12, it emerged as clear No.2 in FY17 surpassing Prism Cements' HR Johnson.

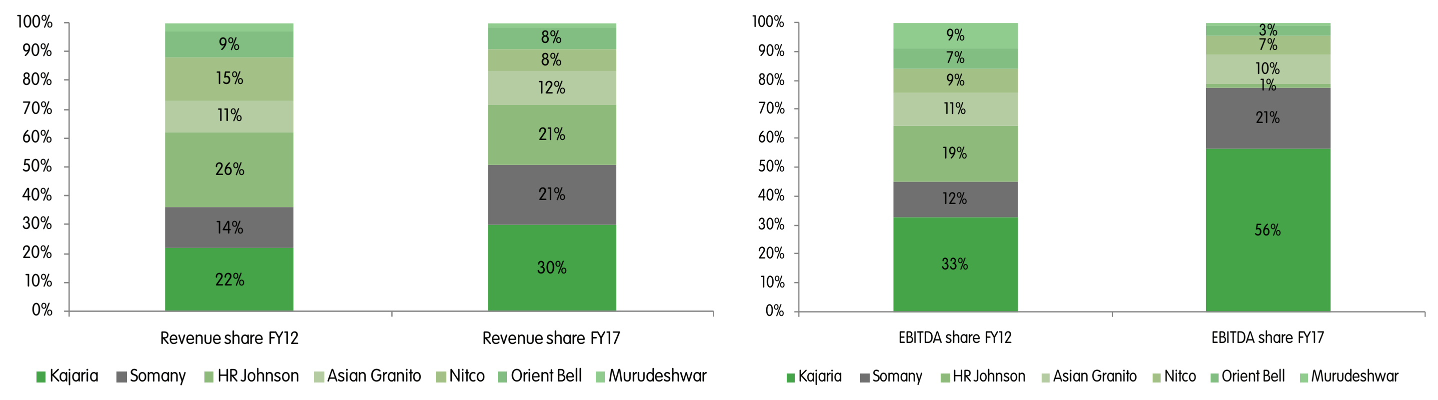
Exhibit 11: Revenue and EBITDA CAGR through FY12-17



Source: Company, RSec Research

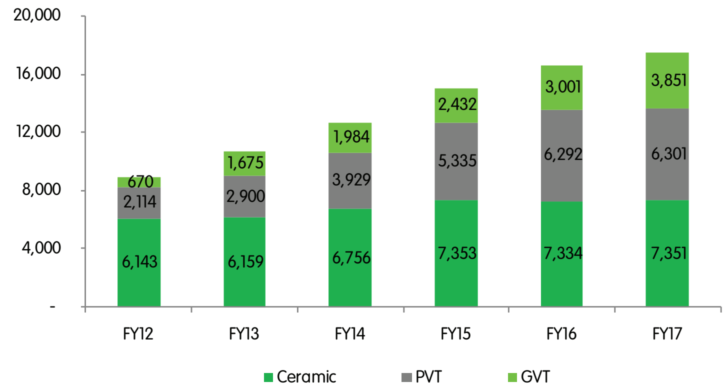
SCL has witnessed average volume growth of 9.6% in past five years and reported volume sales of 49.7msm in FY17. Revenues from tiles segment have grown at 14.4% CAGR buoyed by improved product-mix. While revenues from ceramic tiles grew at 4% CAGR through FY12-17, PVT and GVT segment witnessed revenue CAGR of 24% and 42%, respectively in the same period. Amongst the top 7 players, SCL's share in industry revenues increased from 14% in FY12 to 21% in FY17, while share in EBITDA has increased from 12% to 21% in the same period.

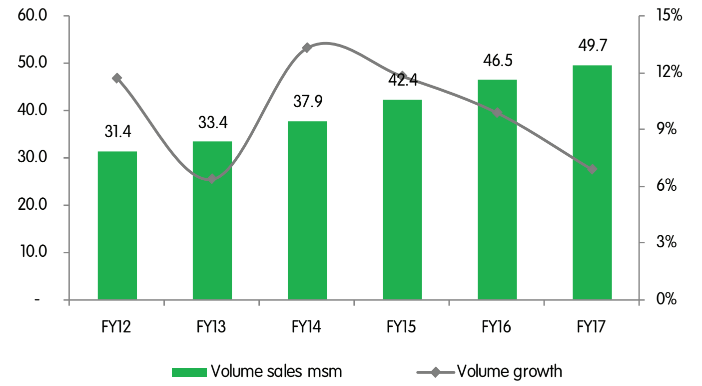
Exhibit 12: Increasing Share in Industry (top seven players) Revenue & EBITDA for SCL in Past Five Years



Source: Company, RSec Research

Exhibit 13: Revenue from Different Segments & Volume Growth Trajectory

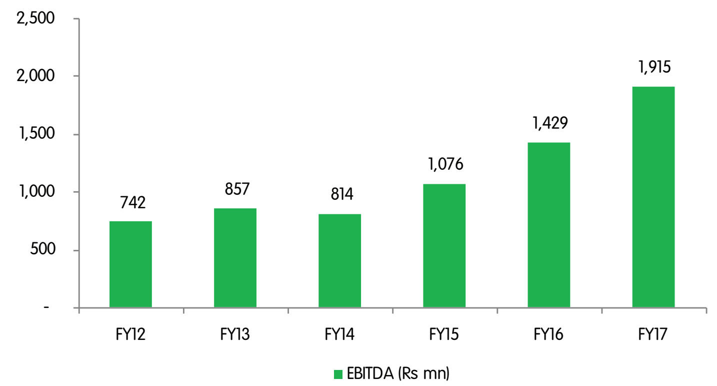


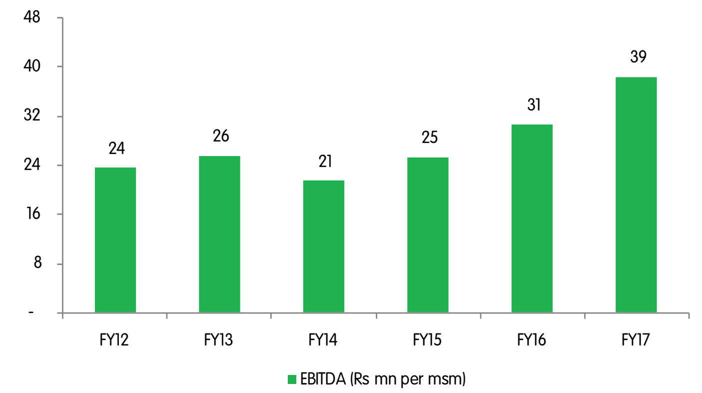


Source: Company, RSec Research

Superior product-mix, lower natural gas prices and higher operating leverage resulted in EBITDA CAGR of 21% in the same period.

Exhibit 14: Trend in EBITDA & EBITDA per msm





Source: Company, RSec Research

Financials & Valuation

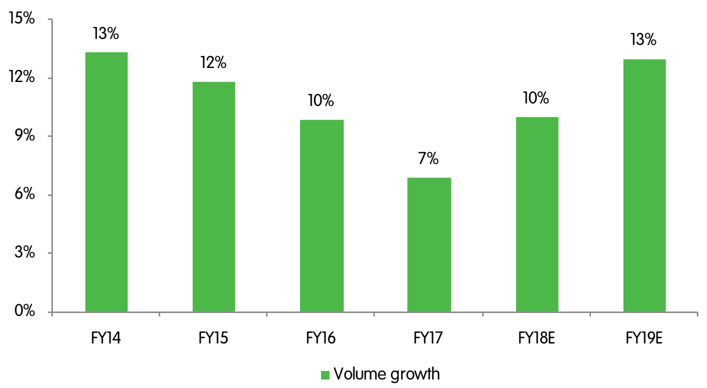
We expect SCL to report consolidated revenues and earnings CAGR of 13.8% and 24.6% through FY17-19E. The Company is estimated to post consolidated sales of Rs20.2bn and Rs23.5bn and net profit of Rs1.1bn and Rs1.4bn in FY18E and FY19E, respectively.

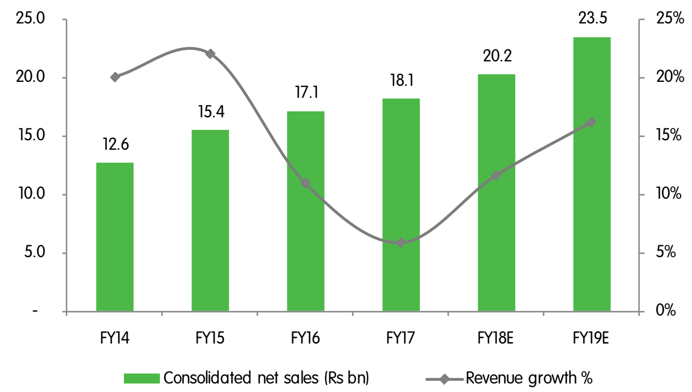
We estimate recovery in volume growth in 2HFY18 and is expected to be aided by Somany's continued focus on improving product-mix, enhancing distribution reach along with increased traction in sanitary ware and bath fittings segment.

SCL faced a challenging first quarter as consolidated revenues fell 18.8% to Rs3.3bn, while EBITDA and net profit were lower by 57% and 67% respectively on yoy basis. This was mainly on account of two factors:

- Rollout of GST with effect from July 1st 2017 resulted in sharp de-stocking by the trade and impacted revenues especially in the Month of June.
- Implementation of SAP HANA across the organisation significantly impacted the revenues in the month of April. The management estimated that losses from SAP HANA implementation on 1QFY18 sales were to the tune of Rs550mn.

Exhibit 15: Volume and mix led Revenue Growth to Continue

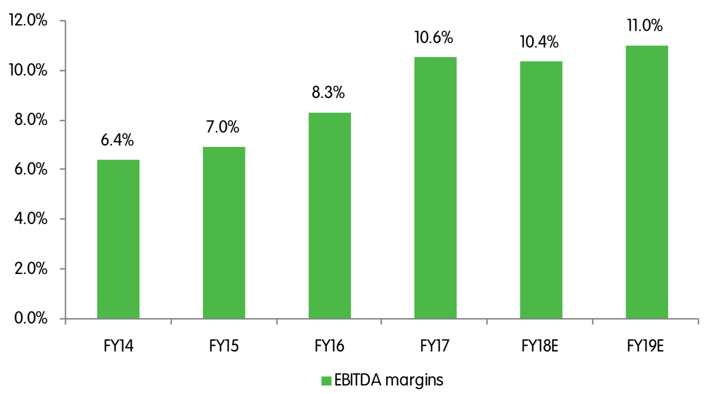


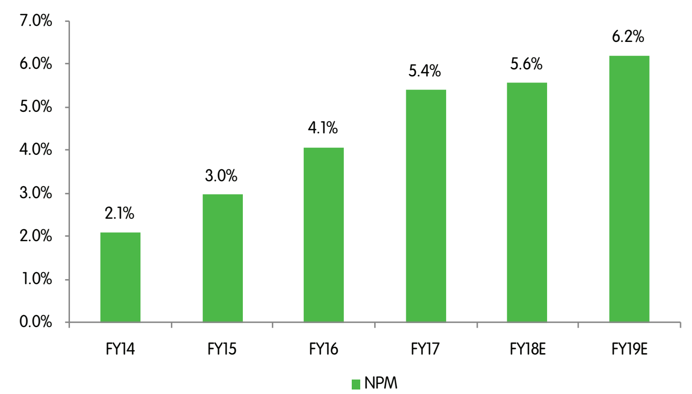


Source: Company, RSec Research

EBITDA margins are likely to improve moderately to 11% in FY19E from 10.6% in FY17 on the back of lower gas prices, improved operating leverage and superior product-mix.

Exhibit 16: Double-digit Volume Growth & Operating Leverage to Drive Margin Expansion





Source: Company, RSec Research

While we expect SCL's EBITDA to increase to Rs2.6bn in FY19E from Rs1.9bn in FY17, the Company's consolidated net profit is estimated to grow to Rs1.4bn in FY19E from Rs981mn in FY17.

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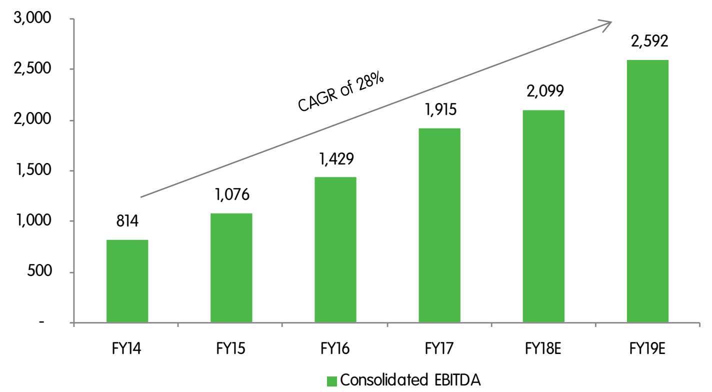
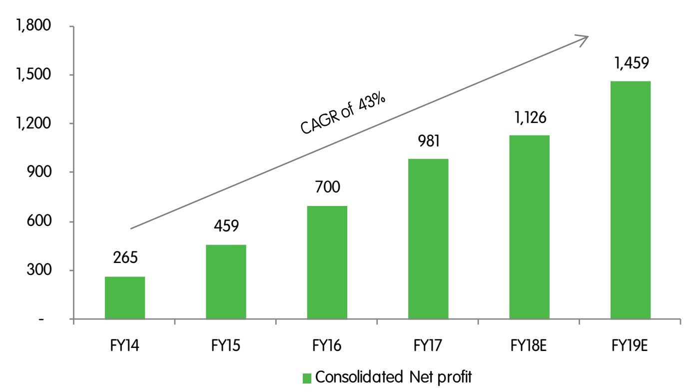
Exhibit 17: Healthy Growth Expected in Earnings

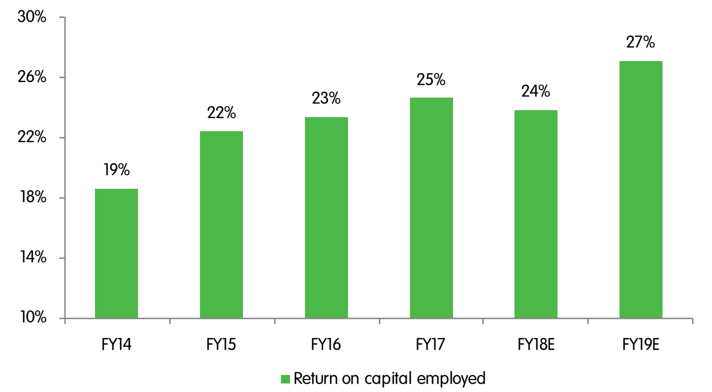




Source: Company, RSec Research

Improved margins coupled with strong balance sheet and lower cash conversion cycle would result in improvement in ROCE and ROE in coming years. While we expect ROCE to improve from 25% in FY17 to 27% in FY19E, ROE would improve from 21% to 23% in the same period. We expect the debt equity ratio to improve further from 0.4x in FY17 to 0.2x in FY19E, interest coverage ratio too would jump from 8.9x in FY17 to 18.2x in FY19E.

Exhibit 18: Improved Margins & Asset Light Business Model to Drive Return Ratios



Source: Company, RSec Research

Exhibit 19: DuPont Analysis

	FY14	FY15	FY16	FY17	FY18E	FY19E
NPM (%)	2.3	3.0	3.8	5.1	5.4	6.2
Asset T/O Ratio	3.8	3.9	3.2	2.6	2.6	2.7
Equity Multiplier	1.9	1.8	1.7	1.6	1.5	1.4
Return on Equity	16.7	20.9	20.4	21.3	21.0	23.2

Source: Company, RSec Research

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CMP* (Rs)	800
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Bloomberg Ticker	SOMC IN

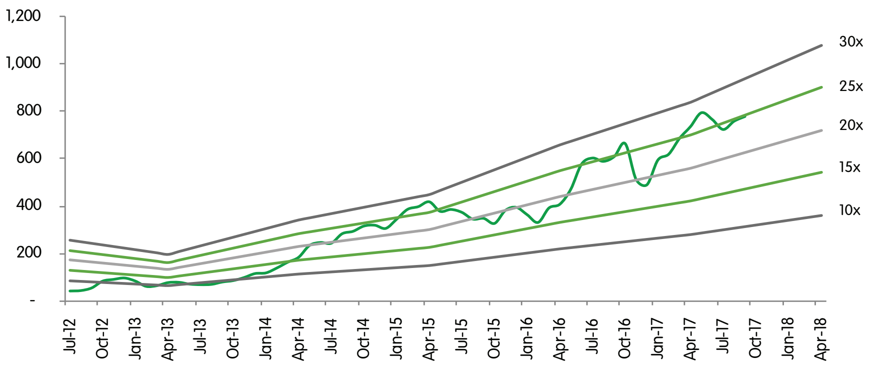
BUY

Target Price: Rs1,020

SCL has historically traded at a 20-25% discount to market leader Kajaria Ceramics' multiple. We have valued Kajaria based on 34x Sept'19E multiple and have hence valued SCL at a multiple of 27x Sept'19E earnings, which is at a 20% discount to Kajaria. We expect SCL to command these multiples along with Kajaria due to following factors.

- Strong financial performance.
- Structural shift in the wake of GST implementation.
- Enhanced focus on macro initiatives.
- Asset light business model with focus on JVs.
- Increased saliency of allied segments like sanitary ware and bath fittings.
- Improved operating leverage.

Exhibit 20: Average Historical PE Multiple



Source: Company, RSec Research

Based on expected EPS of Rs34.1, the stock currently trades at an attractive PE multiple of 23.5x FY19E earnings. We are positive on the Company on the back of its strong brand equity, increased salience of organised players and continued focus on high-margin segment coupled with attractive valuations. **We initiate coverage on Somany Ceramics with a BUY recommendation and Target Price of Rs1,020 based on 27x Sept'19 earnings.**

Our DCF valuation arrives at a Target Price of Rs979, based on RFR of 6.5%, WACC of 10.2% and Terminal growth rate of 5%.

Exhibit 21: Key DCF Assumptions

	(Rs mn)
PV of free cash flow	10,087
Terminal value	32,152
Present value of the firm	42,239
Debt(Net of cash)	715
Cash flow to equity	41,524
Number of shares	42
Target price Rs	979
Upside	22%
Risk free rate (%)	6.5
Cost of equity (%)	10.8
WACC (%)	10.2
Terminal growth rate (%)	5.0

Source: Company, RSec Research

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Somany Ceramics

Initiating Coverage | India

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BUY

Target Price: Rs1,020

Profit & Loss Statement

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net Sales	15,431	17,116	18,110	20,204	23,462
Total operating income	**15,431**	**17,116**	**18,110**	**20,204**	**23,462**
% chg	22.0	10.9	5.8	11.6	16.1
Total Expenditure	14,356	15,687	16,195	18,105	20,869
Cost of Materials	9,040	10,149	9,785	10,961	12,729
Power & Fuel	2,034	2,039	2,047	2,284	2,652
Employee costs	1,014	1,232	1,576	1,797	2,049
Others	2,269	2,268	2,786	3,063	3,439
EBITDA	**1,076**	**1,429**	**1,915**	**2,099**	**2,592**
% chg	32.2	32.9	34.0	9.6	23.5
(% of Net Sales)	7.0	8.3	10.6	10.4	11.0
Depr. & Amortisation	266	283	350	393	426
EBIT	**810**	**1,146**	**1,565**	**1,705**	**2,166**
% chg	37.3	41.6	36.5	9.0	27.0
(% of Net Sales)	5.2	6.7	8.6	8.4	9.2
Interest & other Charges	205	225	233	188	166
Other Income	77	91	151	181	211
(% of PBT)	11.2	9.0	10.2	10.6	9.5
Recurring PBT	**681**	**1,012**	**1,483**	**1,698**	**2,211**
% chg	56.5	48.6	46.5	14.5	30.2
PBT (reported)	**681**	**1,012**	**1,483**	**1,698**	**2,211**
Tax	222	312	502	571	752
(% of PBT)	32.6	30.9	33.9	33.7	34.0
PAT (recurring)	**459**	**700**	**981**	**1,126**	**1,459**
% chg	73.2	52.4	40.1	14.8	29.6
(% of Net Sales)	3.0	4.1	5.4	5.6	6.2
Minority interest	5	(9)	(9)	(11)	(14)
Net profit	**464**	**691**	**971**	**1,115**	**1,446**
Basic EPS (Rs)	10.9	15.3	22.0	25.9	34.1
Fully Diluted EPS (Rs)	10.9	15.3	22.0	25.9	34.1
% chg	60.7	39.5	43.9	18.0	31.7

Somany Ceramics

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BUY

Target Price: Rs1,020

Balance Sheet

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Share capital	78	85	85	85	85
Reserves	2,502	4,197	5,128	6,084	7,340
Net worth	2,580	4,282	5,212	6,169	7,425
Total borrowings	1,616	2,089	2,344	2,094	1,844
Minority Interest	53	200	271	271	271
Deferred tax	287	329	373	459	571
Total Liabilities	**4,537**	**6,900**	**8,200**	**8,993**	**10,111**
Gross block	4,943	6,320	6,547	7,147	7,747
Less: Acc. depreciation	2,306	2,515	2,781	3,183	3,609
Net block	2,638	3,805	3,767	3,964	4,138
CWIP	8	63	357	207	57
Investments	466	1,079	1,508	1,808	2,108
Current assets	5,543	5,487	6,495	7,397	8,899
Inventories	1,365	1,387	1,497	1,671	1,941
Debtors	2,591	3,172	4,103	4,084	4,493
Cash	154	183	121	778	1,462
Other CA	64	78	112	125	145
Loans and advances	1,371	667	662	739	858
Current liabilities	3,168	3,353	3,846	4,294	4,986
Provisions	951	183	80	90	104
Net current assets	1,425	1,952	2,569	3,014	3,809
Total Assets	**4,537**	**6,900**	**8,200**	**8,993**	**10,111**

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Somany Ceramics

Initiating Coverage | India

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BUY

Target Price: Rs1,020

Cash Flow Statement

Y/E Mar (Rs mn)	FY15	FY16	FY17	FY18E	FY19E
Net profit	**459**	**700**	**981**	**1,126**	**1,459**
Depn and w/o	266	283	350	393	426
Deferred tax	13	53	46	86	113
Change in working cap	(564)	(498)	(679)	212	(111)
Operating cash flow	**174**	**538**	**698**	**1,818**	**1,887**
Capital expenditure	(429)	(1,432)	(520)	(450)	(450)
Investments	81	(613)	(429)	(300)	(300)
Investing cash flow	**(347)**	**(2,045)**	**(949)**	**(750)**	**(750)**
Free cash flow	**(255)**	**(895)**	**178**	**1,368**	**1,437**
Dividend	(93)	(117)	(137)	(153)	(204)
Fresh equity	0	1,205	0	0	0
Debt/Preference shares	144	473	254	(250)	(250)
Financing cash flow	**51**	**1,561**	**117**	**(403)**	**(454)**
Others	(69)	(24)	72	(7)	0
Net change in cash	**(192)**	**29**	**(62)**	**658**	**684**
Opening cash	**346**	**154**	**183**	**121**	**778**
Closing cash	**154**	**183**	**121**	**778**	**1,462**

Key Ratio

Y/E Mar	FY15	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)					
P/E (on FDEPS)	73.1	52.4	36.4	30.9	23.5
P/CEPS	46.5	36.5	26.5	22.7	18.1
P/BV	13.1	7.9	6.5	5.5	4.6
Dividend yield (%)	0.3	0.3	0.3	0.4	0.5
EV/Sales	2.3	2.0	1.9	1.7	1.4
EV/EBITDA	32.5	24.3	18.1	15.9	12.4
Per Share Data (Rs)					
EPS (Basic)	10.9	15.3	22.0	25.9	34.1
Core EPS	10.9	15.3	22.0	25.9	34.1
Cash EPS	17.2	21.9	30.2	35.2	44.1
DPS	2.0	2.3	2.7	3.0	4.0
Book Value	60.9	101.0	122.9	145.5	175.1
Returns (%)					
RoCE	22.4	23.4	24.6	23.8	27.1
RoE	20.9	20.4	21.3	21.0	23.2
Turnover ratios (x)					
Asset Turnover (Gross Block)	3.9	3.2	2.6	2.6	2.7
Inventory / Sales (days)	31	28	28	28	28
Receivables (days)	58	64	78	69	66
Payables (days)	71	68	73	73	73
Cash conversion cycle (days)	18	24	33	25	21

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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