



SECTOR RESEARCH

CERAMIC TILES

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Ceramic tiles expected to witness healthy growth led by strong exports and recovering domestic demand

Industrial Sector Analysis

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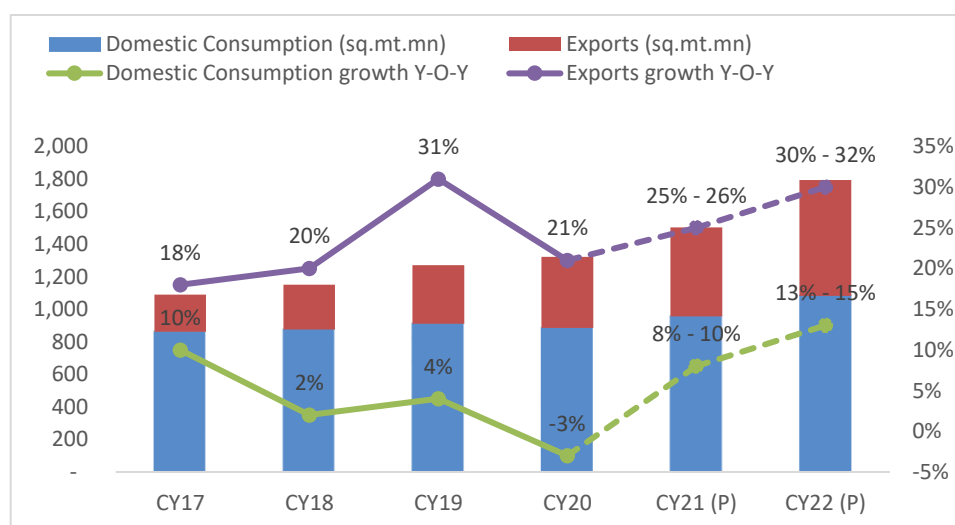
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Executive Summary

Brickwork Ratings (BWR) expects the Indian ceramic tiles industry, which is recovering from the pandemic impact, to witness 15%-20% growth in the next two years, i.e. CY21 and CY22. This can be attributed to an increased share of exports, coupled with the recovery in domestic demand on the back of the thrust on infrastructure development and real estate schemes such as Housing for All. Entities in the ceramic tiles industry have also been trying to penetrate new markets by promoting vitrified tiles, which can be used in non-residential spaces. The sector is highly competitive because of limited product differentiation and the largely unorganised nature of business. However, the share of organised players is increasing on account of their product innovation, adoption of the latest technologies, expanding reach and branding activities.

Trend in domestic ceramic tiles' consumption and exports



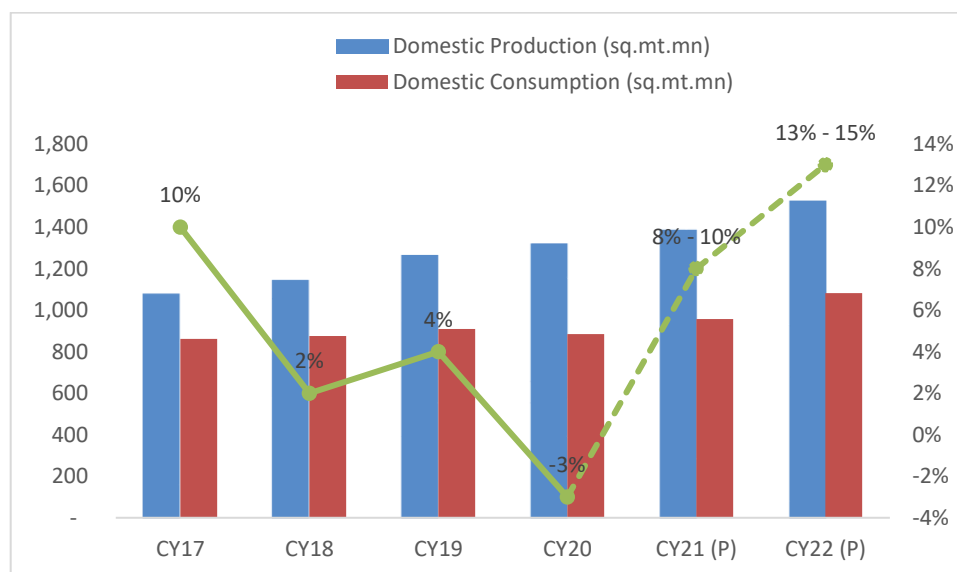
P-Projected, Source: Ceramic World Review, BWR Research

Indian ceramic tiles have seen robust demand in the export market. Gujarat's Morbi district, India's largest tiles manufacturing cluster, has been trying to strengthen its position in the US market. Although there are concerns regarding exports declining in the Gulf Cooperation Council (GCC) countries due to imposition of anti-dumping duty, access to newer markets in Europe and North America due to anti-China sentiments is expected to maintain robust growth in exports. Driven by a rise in demand, companies operated at 80%-90% of their capacities in FY21. BWR expects this upward trend to continue in the medium term, leading to 15%-16% capacity addition in the next couple of fiscal years with the assumption of minimal impact on the supply chain due to any subsequent waves of the pandemic. While the top line is expected to increase, BWR expects profitability to remain range-bound as higher input costs will offset healthy volumes and growth in realisation.

Domestic demand for ceramic tiles to see strong recovery in CY21 and CY22 due to a rise in infrastructure activities and the increased penetration of newer products

Ceramic tiles' demand is largely dependent on construction activities, with underlying demand drivers being favourable demographics and thrust through various government initiatives such as Housing for All and Smart City. The ceramic tiles industry witnessed shocks on account of the pandemic in CY20, with the implementation of the nationwide lockdown. However in CY21, all the industries have been observed to be coping with the pandemic impact and paving their way towards healthy growth. Since demand for ceramic tiles is created through increasing construction activities, government initiatives on housing and infrastructure are likely to drive this demand. Additionally, in the current work-from-home scenario, people have started renovating their homes, and ceramic tiles have gained popularity among all the other supplements as these provide an elegant and sophisticated look to homes.

Trend in domestic production and consumption



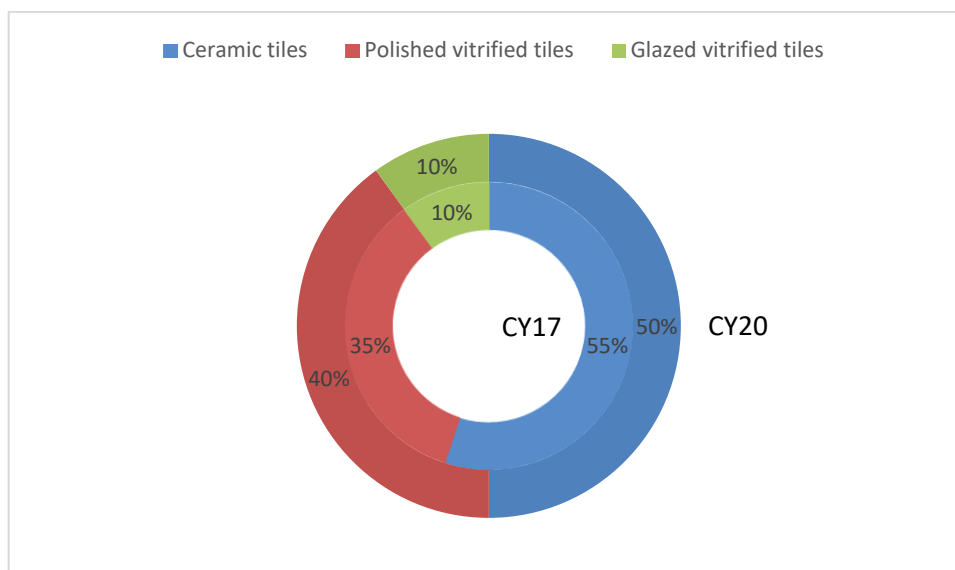
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Source: Ceramic World Review, BWR Research

Over the years, companies have launched innovative value-added products such as glazed vitrified tiles and polished vitrified tiles to increase their customer base. Vitrified tiles are gaining more popularity in comparison with traditional products owing to their ease of installation and maintenance. Vitrified tiles have a polished surface and have been accepted as a supplement for granite and marble. Therefore, focus on housing and infrastructure, and the increased penetration of newer products are expected to provide an upward push to demand for ceramic tiles by 8% and 14% in CY21 and CY22, respectively.

The increase in investment towards infrastructure development and customers preferring vitrified tiles over marble and granite to push the ceramic tiles demand by 8-10% in CY21 and 13-15% CY22.

Share of product segment in domestic consumption



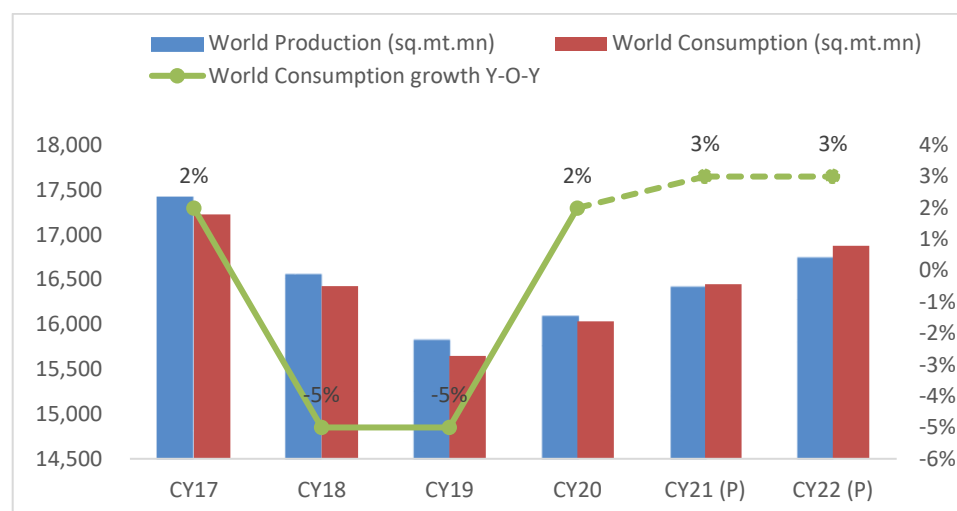
Source: Company Reports, BWR Research

Global demand to improve in CY21 after having declined in the last couple of years

With China and other major countries upgrading their capacity in 2022, the global production and consumption expected to revive after being hit by the pandemic.

Global tile production declined in CY18 and CY19 owing to a sharp fall in production in China in these years. This fall was mainly attributed to the anti-dumping duty imposed by many countries (the EU, Brazil, Taiwan, Chile, Vietnam and South Korea, among others) on Chinese tiles. This decline in China was partially offset by healthy growth in India, Brazil, Iran and Vietnam. However, growth in these countries was still not able to restrict overall decline in the production of ceramic tiles globally. Smaller markets such as countries in the African region, especially Senegal, Angola, Zimbabwe, Kenya, Uganda, Ethiopia, Ghana and Tanzania, continued to record strong growth in production, which was largely driven by a spurt in Chinese investments in these regions. The situation further deteriorated in CY20 owing to business closures around the world due to the pandemic.

Trend in world production and consumption



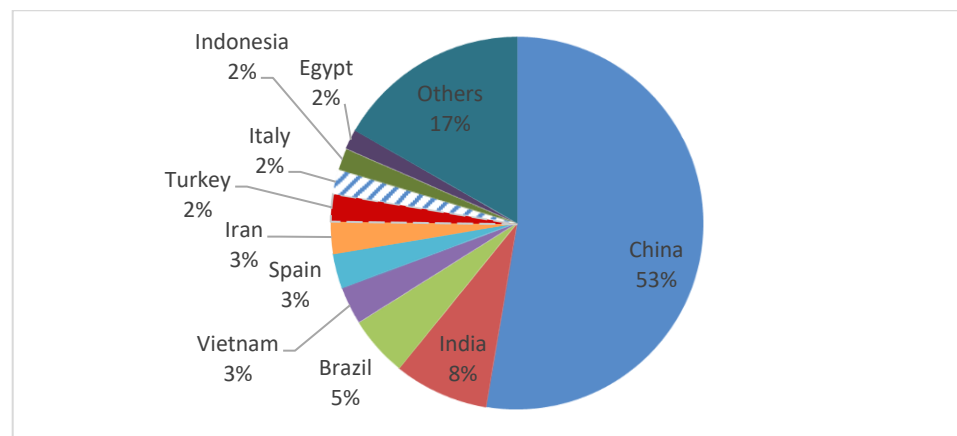
P- Projected

Source: Ceramic World Review, BWR Research

China being the largest producer is also the largest market for ceramic tiles in the world. Some other major markets are Brazil, India, Vietnam, Indonesia and the US. Consumption, in line with production, had declined on account of lower demand in Asia, especially in China in CY18 and CY19. The slowdown in the global economy and subdued growth in construction activity in developing countries such as China, India, Indonesia and the GCC countries led to decline in the consumption of ceramic tiles globally.

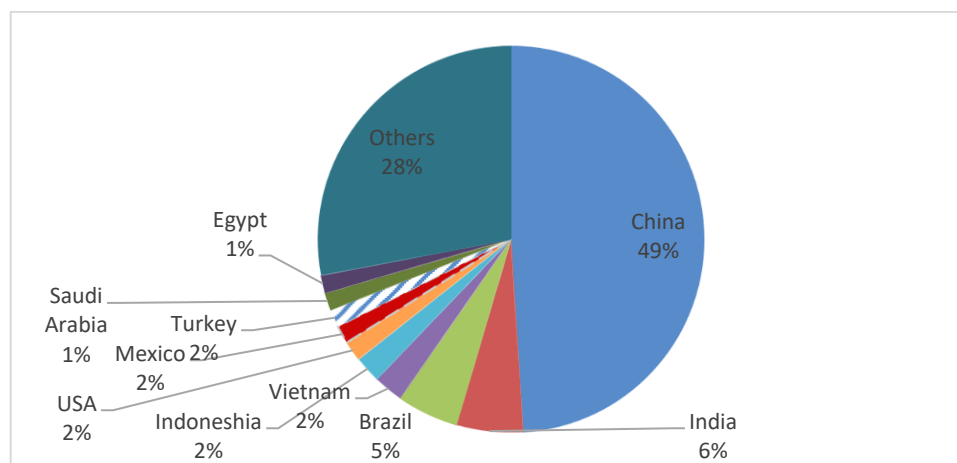
With the pandemic risk subsiding, global demand is estimated to have improved in CY21. China has increased its installed capacity, and domestic demand has also increased. BWR expects that with the world recovering from the impact of the pandemic, Spain and Italy will also be able to accelerate their manufacturing. India is expected to expand its exports market in various parts of Europe and North America in CY21.

Share in world production (CY20)



Source: Ceramic World Review, BWR Research

Share in world consumption (CY20)



Source: Ceramic World Review, BWR Research

Optimum capacity utilisation, backed by rising demand, especially in the export market, to drive industry's expansion plans

FY21 has been an encouraging year for ceramic tiles companies. While on an overall year basis, in FY21, major players had capacity utilisations of 80%-85%, we could expect capacity utilisations to reach 98%-100% in FY22. To meet pent-up demand, it is vital for companies to increase their capacity in the near future. BWR understands that companies are planning to expand their capacities by 15%-16% and expects this capacity to be operational by the end of CY22.

Ceramic tile companies have adopted a trend of creating joint ventures with clusters at Morbi (Gujarat) to reduce the gestation period. Such an arrangement benefits the organised sector as companies incur less capex and can get higher returns on their investments owing to lower gestation periods.

The government's thrust on increasing investments for infrastructure development would also provide an upward push to the ceramic tiles industry. The real estate industry is also expected to grow by 10%-12%, which will further support demand growth for ceramic tiles.

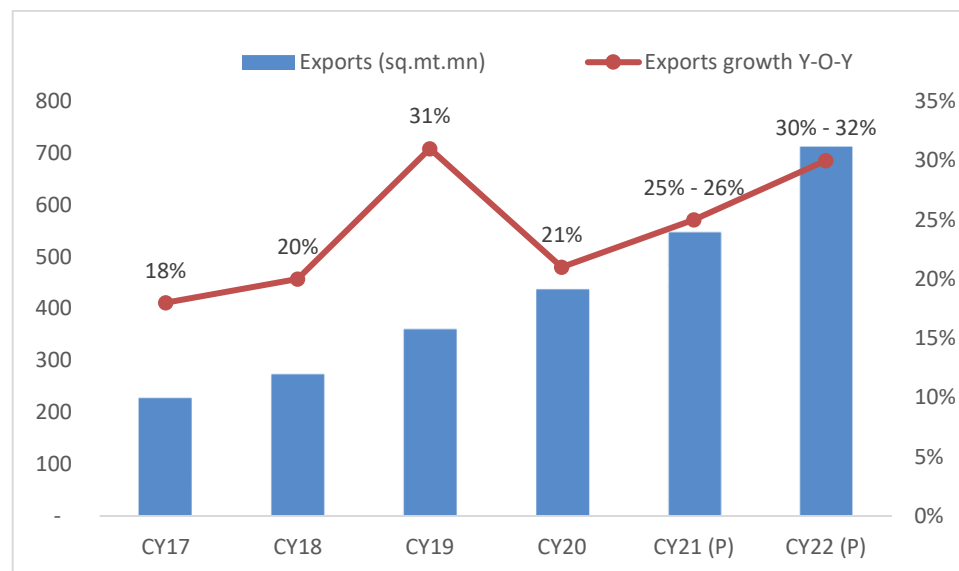
India's exports to continue strong run, benefiting from China's diminishing market share

The Indian export market has been growing at a steady pace for the last few years, with India becoming the second largest exporter in CY20 after China. India's share in world exports has been increasing on account of anti-dumping duties imposed by various countries on Chinese tiles, a move that has benefited India the most. In CY20, India's share in global exports is estimated to have gone up, especially in the regions

In recent years, Indian companies are having capacity utilization of 80-85% on an average, therefore it becomes essential for them to expand their manufacturing units to cater to the rising demand.

of North America, which has almost eliminated Chinese imports on the back of the trade war, as well as the pandemic situation worldwide. The major export destinations for India are Saudi Arabia, Mexico, Brazil, the UAE, Oman and Kuwait.

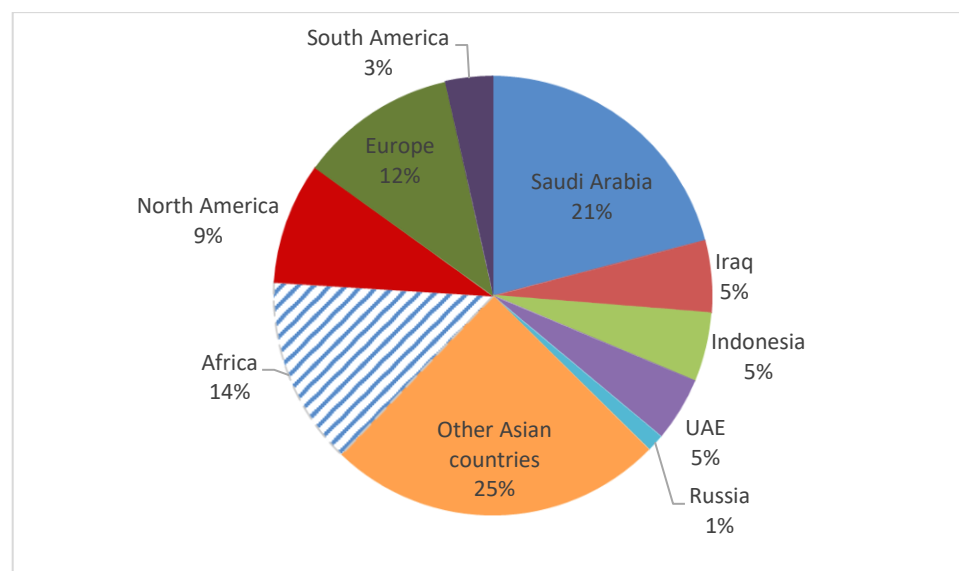
Trend in Exports of Indian Ceramic tiles



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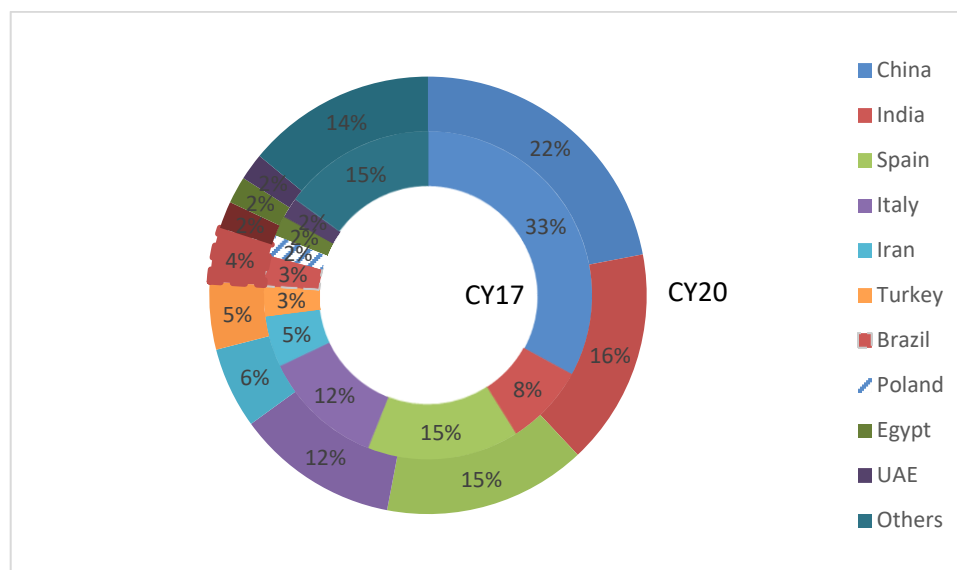
Source: Ceramic World Review, BWR Research

Export destinations for Indian ceramic tile Industry (CY20)



Source: Ceramic World Review, BWR Research

Trend in share of countries in world exports



Source: Ceramic World Review, BWR Research

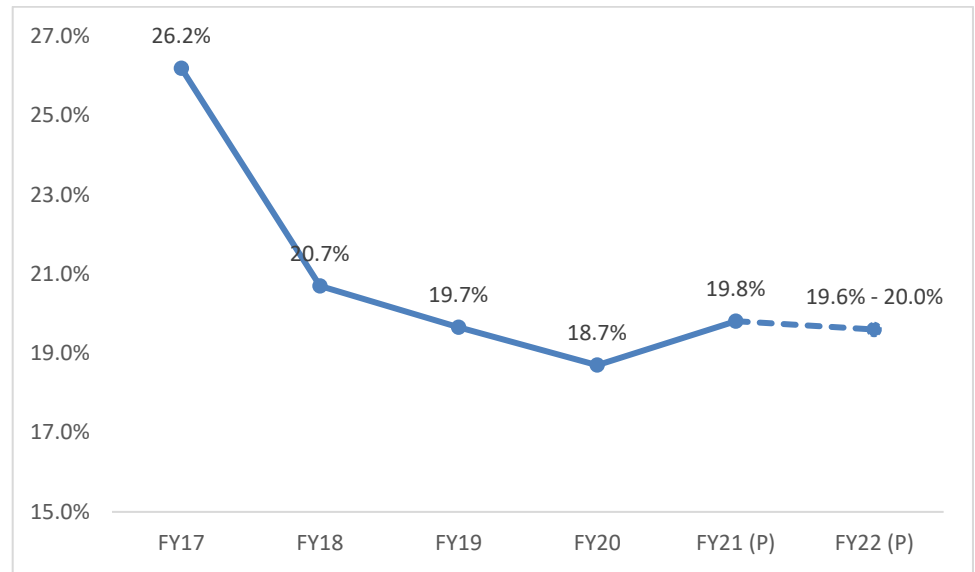
Geo-political developments and trade disputes among the major economies are likely to play a favourable role in creating demand for exports in the coming years. Although there have been concerns of exports declining in the GCC countries due to the imposition of the anti-dumping duty, access to newer markets in Europe and North America due to anti-China sentiments will maintain robust growth in exports. While exports in CY20 showed steady growth, BWR expects that in CY21 and 2022, exports will increase by 25%-30%.

Profitability to remain range-bound as high input costs will offset healthy volume and realisations growth

In FY22, BWR expects the profitability of Indian ceramic tile manufacturers to remain range-bound as increasing input costs (raw material, fuel and power) will offset the expected strong top line growth for players. In YTD FY22 (April to October) natural gas, an essential element used in manufacturing ceramic tiles, witnessed significantly high price fluctuations of around 80%-85%. However, certain factors such as optimum capacity utilisation, better product mix, higher share of exports and strong demand will help companies keep their profitability margins intact on the back of high input costs.

The Indian export market for ceramic tiles has witnessed major improvements in terms of access to new markets in Europe and North America due to anti-Chinese sentiment in CY20 which are expected to continue in CY21 and CY22.

Trend in profitability of Indian Ceramic Tiles manufacturers (EBITDA margin)



P-Projected

Note: Profitability is derived based on the financials of the top 6 players having a presence in the organised segment of the ceramic tiles industry.

Source: Company reports, BWR Research

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