

INDIAN CERAMIC TILES INDUSTRY

Healthy demand prospects and
softening input prices to spur
recovery in H2 FY2023

FEBRUARY 2023





Click to Provide Feedback

While the industry's performance remained impacted amid elevated PNG prices and sluggish export demand till H1 FY2023, healthy demand prospects and softening input prices are expected to spur recovery in H2 FY2023



- In H1 FY2023, the Indian tiles industry grappled with rising input costs (especially piped natural gas), which impacted the industry's operating profitability by ~300-400 bps. Container freight rates remained elevated (even as these started moderating after peaking in January 2022), reducing the competitiveness of India tiles in the export market.



- The demand prospects for the industry remain supported by the uptrend in the domestic housing cycle. Moreover, the imposition of anti-dumping duty (ADD) by western nations on China, apart from the normalisation of freight costs, has made exports lucrative for Indian manufacturers.



- Natural gas prices started softening from September 2022 amid the slowdown in global economy and recessionary fears in the developed world. Further, the partial shift of tiles companies to cheaper alternatives like LPG and propane is expected to improve the margin on a sequential basis in H2 FY2023.



- The structural shift towards more value-added products is expected to augment an improvement in realisation and profitability margins, especially for branded players, who have an edge over the unorganised players in terms of faster product innovation and development.



- With most of the tiles players currently operating at an optimum capacity utilisation amid healthy demand prospects, key players have announced significant investments in capacity expansion, mergers/acquisitions, value-added products and addition of new geographies in the medium term.



- The overall credit metrics are expected to moderate slightly in FY2023e with an increase in working capital borrowings of most of the industry participants. While the pressure would be evident among small to mid-sized players, the larger players have better financial flexibility and liquidity cushion to absorb this.

India 2nd largest consumer of tiles; demand growth better than peers in CY17-21

Exhibit 1: Ceramic tiles: Market size and top global consumer countries

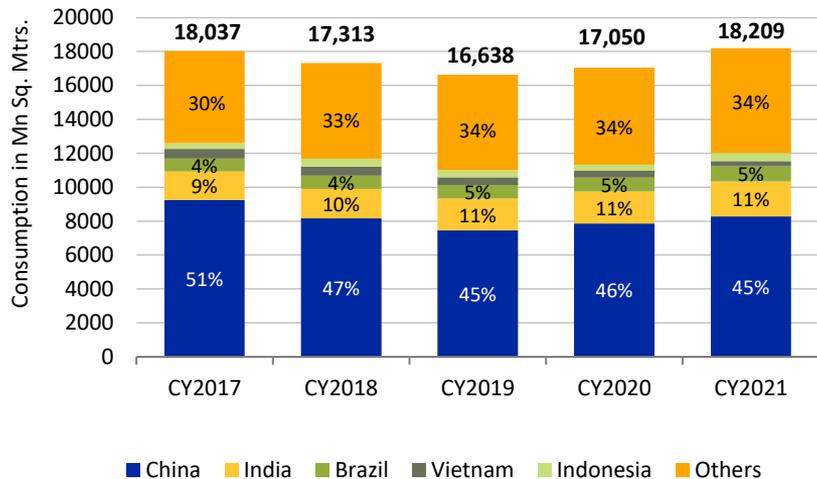
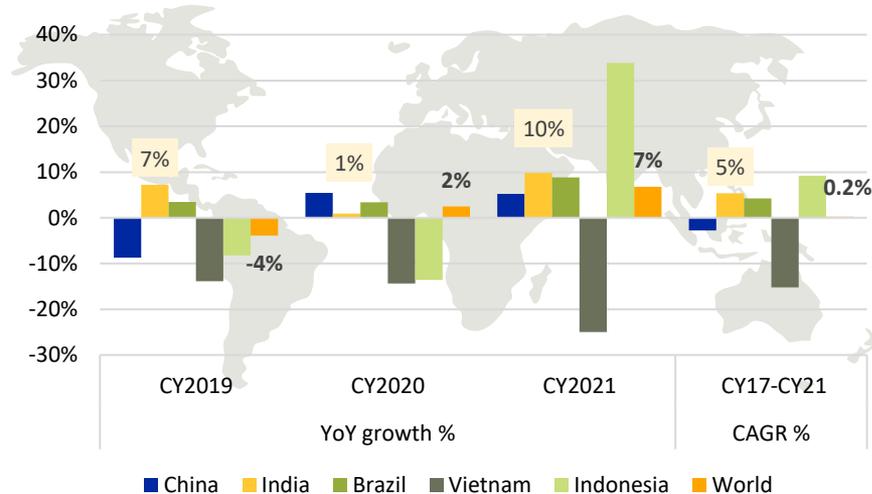


Exhibit 2: YoY consumption growth in key world markets



- India is the second-largest consumer of ceramic tiles globally.
- While the world tile consumption has stagnated for the past several years, India continues to grow at ~5% CAGR.
- Government's focus on infrastructure growth, investment in product innovations, improving disposable income levels of the mass and rising preference for modern residential spaces with aesthetic flooring solutions are a few of the factors driving market growth in India.

Sluggish demand impacted industry's performance in H1 FY2023

Exhibit 3: Quarterly trend in industry revenues

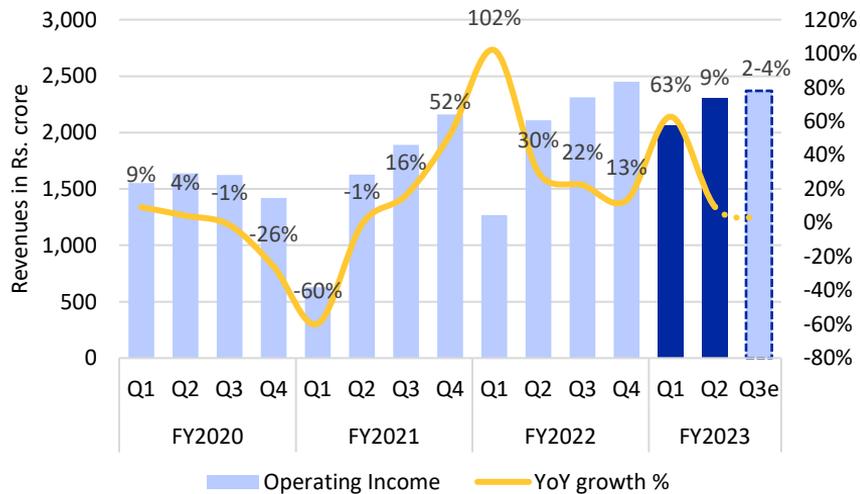
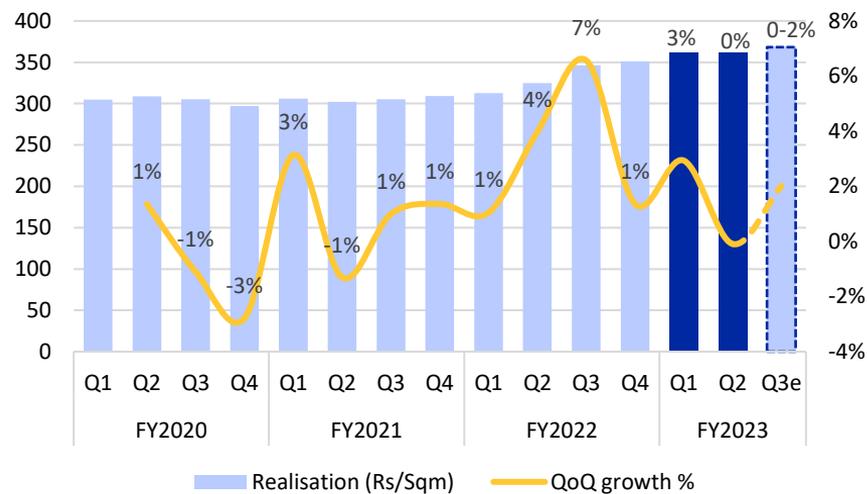


Exhibit 4: Quarterly trend in realisation of tiles (Rs/per sq metre)



- Domestic tiles manufacturers saw strong Q1 revenues, aided by robust volume growth and higher realisations. However, revenues moderated in Q2 because of seasonality (monsoon months) and gas availability-led production constraints. Coupled with sluggish exports, inventory levels for the domestic tiles industry saw an increase. Consequently, most players in Morbi took a month-long planned shutdown (Aug-Sep'22), which reduced the supply pressure in the domestic market.
- With improving exports and reversal of Morbi supplies to overseas markets, domestic organised players are expected to benefit in H2 FY2023.

Export volumes slowed down since FY2022; recovery offshoots seen in Q3 FY2023

Exhibit 5: Trend in India's annual tile export revenues

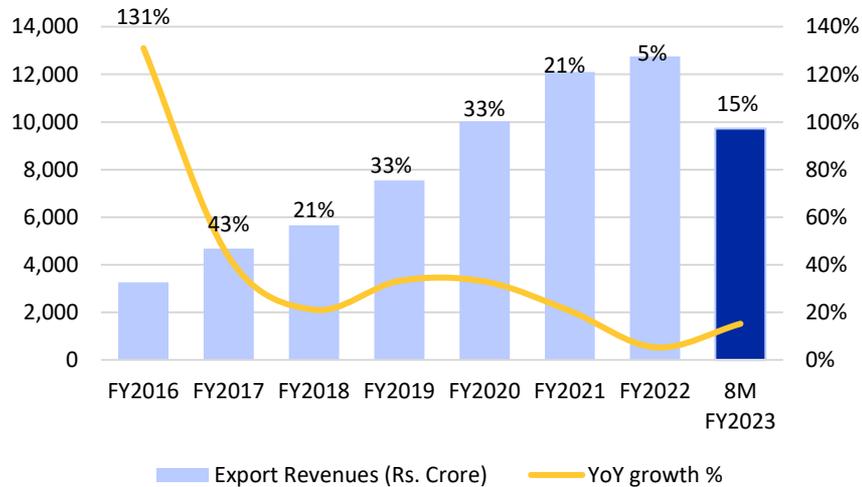
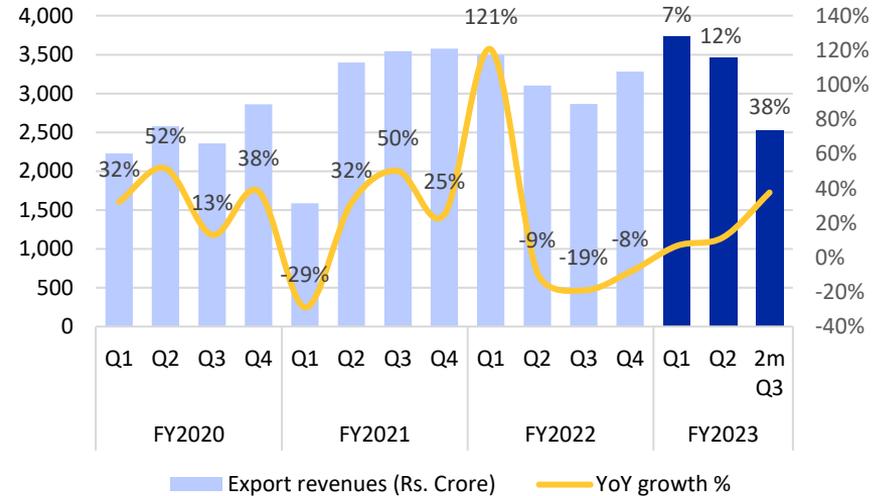


Exhibit 6: Trend in India's quarterly tile export revenues



- Indian tile exports grew at a CAGR of ~30% over FY2016-FY2021. However, the pace of exports moderated during Q2-Q4 FY2022 amid elevated sea freight rates and higher production cost, which reduced the competitiveness of India tiles in the international market. The underperformance has been higher in Gulf Cooperation Council (GCC) countries, where exports fell 20% in FY2022 after the imposition of anti-dumping duty (ADD ~41%) from June 2020.
- While export revenues grew by 5% in FY2022, the average tiles realisation improved by around 10% during this period (partly on account of rupee depreciation). The overall tiles export (in volume terms) is estimated to have declined by around 5% in FY2022. Further, tiles exports (in volumes) are estimated to have grown by a modest 2% during 8M FY2023 and the revenue growth is again reflecting the INR depreciation to a large extent.

Excess domestic supply constrained pricing power in H1 FY2023, dragging margins

Exhibit 7: Quarterly trend in RM and fuel cost/OI ratio

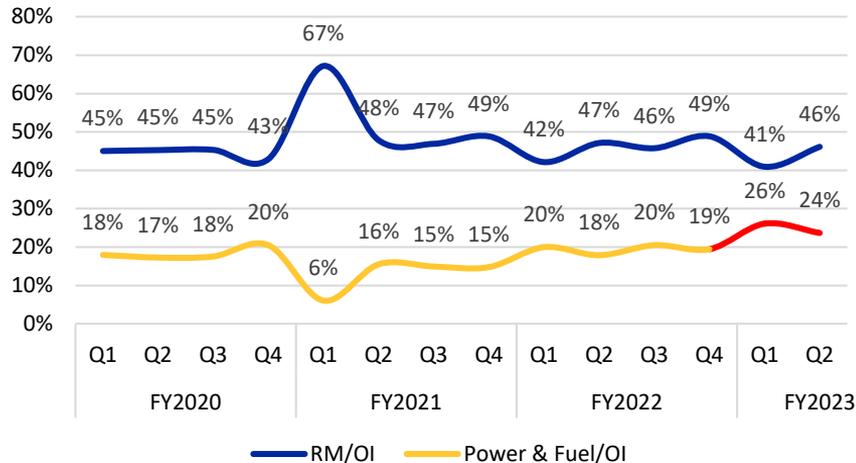
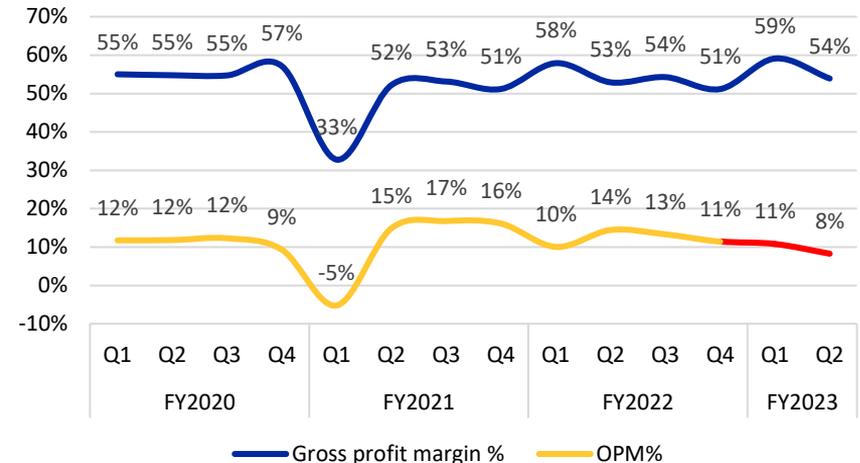


Exhibit 8: Quarterly trend in gross profit and operating profit margin



- While tiles demand in the domestic market remained relatively stable, the decline in exports in 2022 shifted Morbi supplies to the domestic market, thus diluting the industry's ability to pass on the sharp increase in input prices, especially gas. This led to a moderation in the industry's operating margins, as witnessed in H1 FY2023.
- The trend in gross profit margins indicate that the impact of RM cost escalations was almost fully passed-through by the listed players. However, power and fuel expense dragged down the overall profitability by almost 400-500bps in H1 FY2023.

Profitability impact was higher in smaller players vis-à-vis large organised players

Exhibit 9: Impact of RM & fuel cost on operating margins of listed players

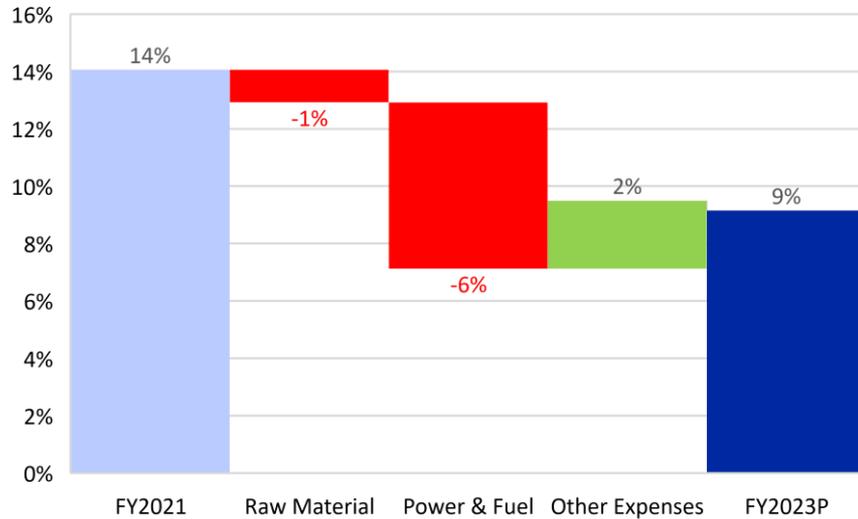
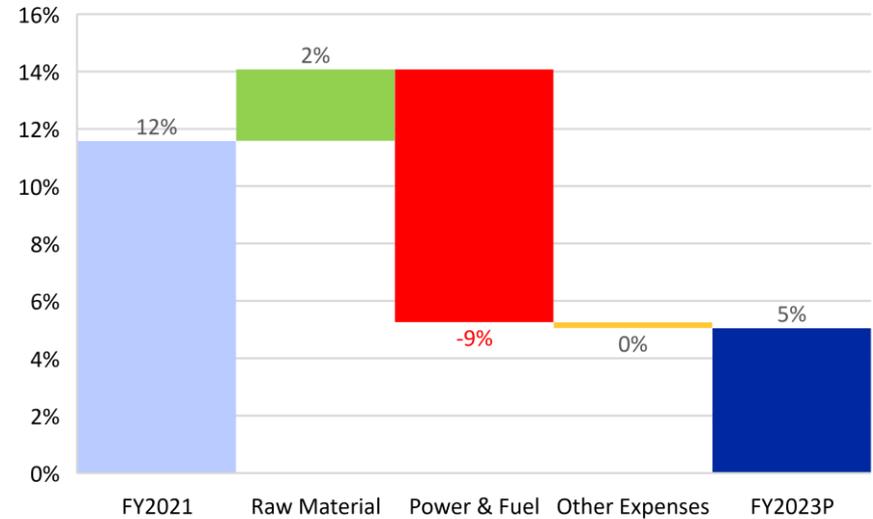
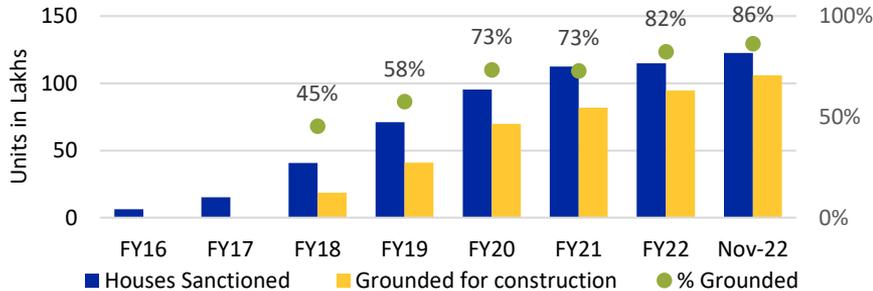


Exhibit 10: Impact of RM & fuel cost on operating margins of smaller players



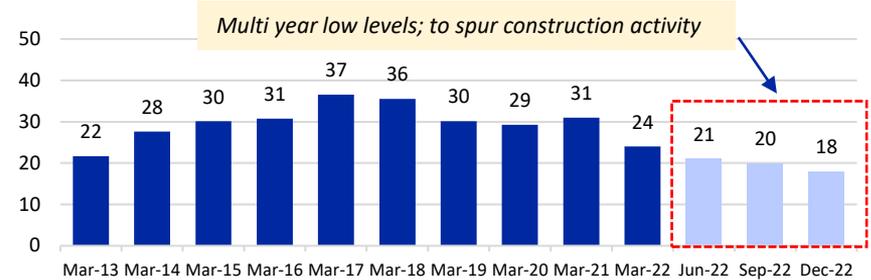
- The larger organised tiles sector in India majorly focusses on the domestic market, while 50-60% of the companies operating in the Morbi cluster of Gujarat are catering to exports. Given the established brand presence of the listed players in the domestic market, the margin impact was relatively low (as price hikes were taken) compared to the regional players in Gujarat and the southern markets.
- As the larger players are engaged in manufacturing as well as trading, the raw material consumption impact was higher among the larger players on account of the increased cost of traded products. Meanwhile, given the lower volume of exports, due to exogenous factors and the relatively low ability to bargain for gas prices, the impact on the profit margins of smaller players in ICRA's sample set is expected to be higher.

Exhibit 11: Progress under PM Awas Yojna - Urban



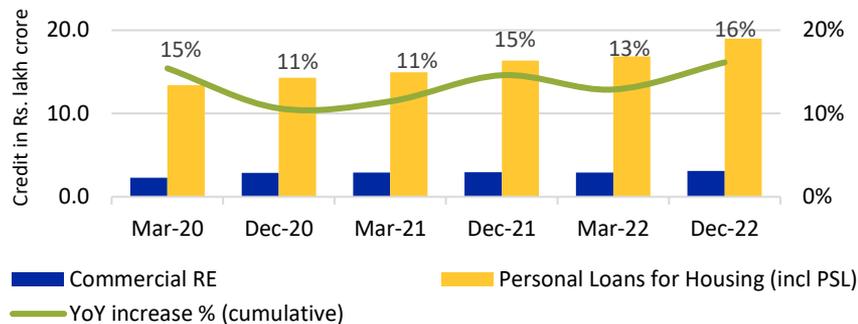
Source: PMAY-urban.gov.in, ICRA Research

Exhibit 12: Pan-India unsold residential inventory overhang (in months)



Source: PropEquity data, ICRA Research

Exhibit 13: Trend in RBI's sectoral deployment of bank credit

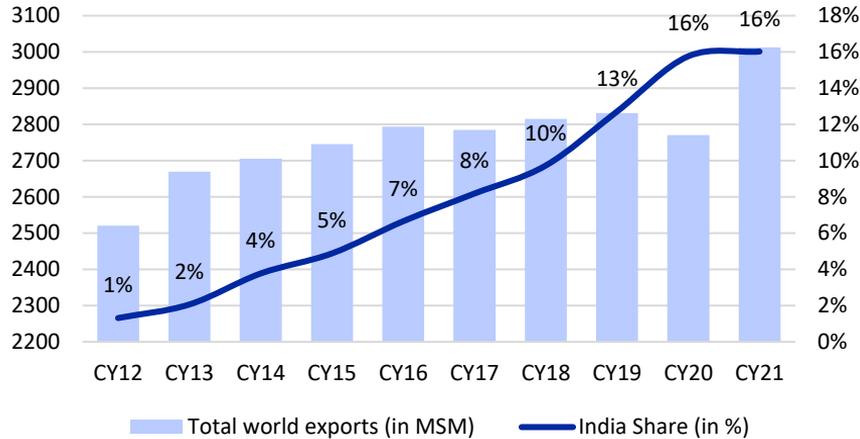


Source: RBI, ICRA Research

- Demand for ceramic tiles remains supported by the uptrend in domestic housing cycle and strong demand from individual house builders in smaller cities.
- The improved outlook for the real estate sector with the completion of stalled housing units, the ongoing housing upcycle as well as home improvement/upgradation trend has led to a pick-up in demand for building materials, including tiles and sanitaryware products, in the domestic market.
- Commercial bank credit to RE sector has steadily increased, following the pandemic. The uptrend in retail housing loans, supported by relatively low borrowing rates and relaxed lending norms, is also a good indicator of healthy demand for building materials, including tiles.

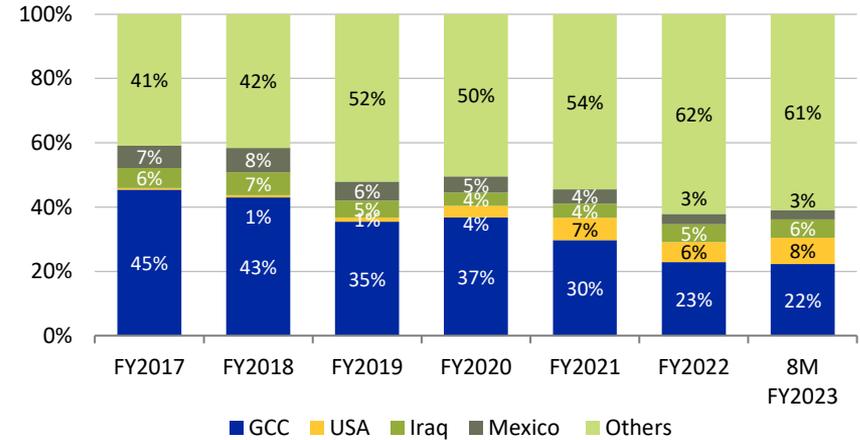
Pick-up in exports to new geographies will benefit the industry

Exhibit 14: India's share in world exports



Source: Ceramic World Review, ICRA Research

Exhibit 15: Key markets for Indian exporters



Source: EXIM Bank data, ICRA Research



- Indian tiles have steadily gained share in world tiles exports, mainly at the expense of China, which is experiencing contraction.
- While exports to GCC countries fell by 20% in FY2022, the imposition of ADD by the US and Europe on China, raw material availability constraints (European makers have higher dependency on Ukraine's clay to manufacture tiles), normalisation of freight costs, cheaper energy costs in India vis-à-vis Europe and the lockdowns in China are a few key factors for exports becoming lucrative for Indian manufacturers for other geographies in FY2023. This would ease competition in the domestic market, making room for higher growth for domestic-focused branded players

Moderation in energy and freight costs augurs well for industry's profitability

Exhibit 16: Trend in PNG and Coal Prices

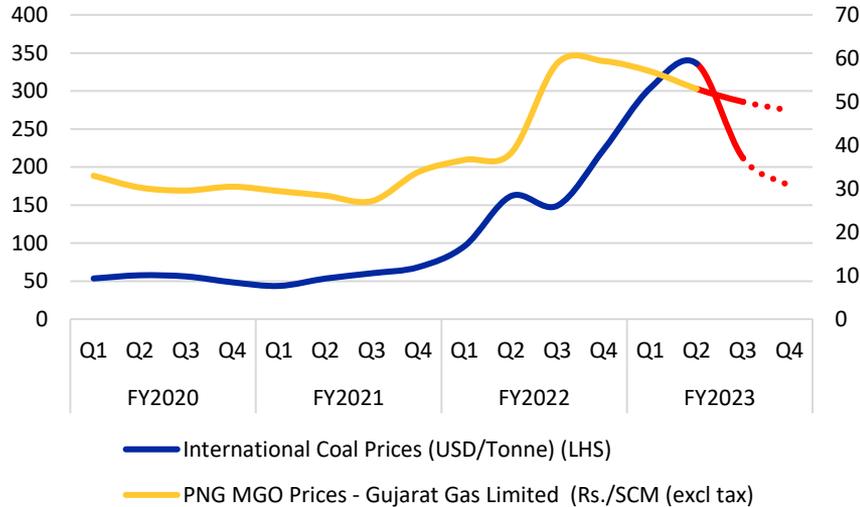
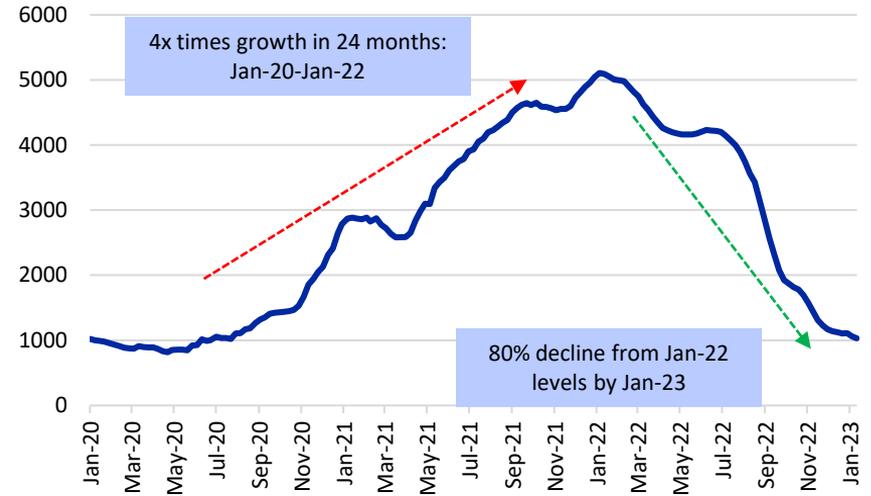


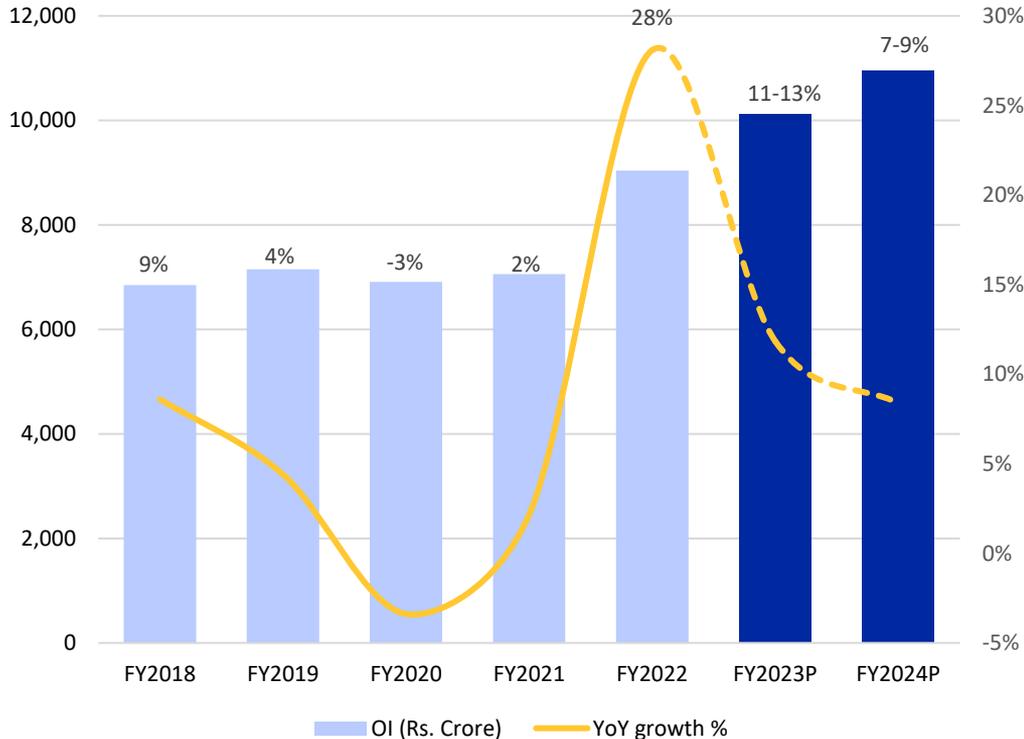
Exhibit 17: Shanghai Containerized Freight Index



- Gas prices have started softening (on QoQ basis) mainly on account of adequate storage levels in EU for the winter, slowdown in global economy impacting demand and recessionary fears in developed economies. Further, tiles companies have been moving (partly) to cheaper alternatives like LPG and propane (~5-10% lower cost); this is expected to improve the margin on a sequential basis in H2 FY2023.
- Even though the freight rates have moderated during 2022 from the historical high levels, these are likely to be higher than the pre-pandemic levels due to elevated ancillary charges – high fuel prices, port taxes, canal charges and higher cost of new vessels. Container freight rates can be expected to decline further as merchandise trade normalises and newly built vessels enter the market.

Multiple tailwinds to drive industry growth over the next 12-15 months

Exhibit 18: ICRA sample set - Revenue growth trend - Past and projected



 **Domestic demand** - To be driven by rebound in housing and commercial real estate market and not much capacity addition (leading to constant supply)

 **Export demand** - Expected to rebound after contracting in CY2022 due to India's cost and quality advantage

 **Revenue growth** will mainly be volume driven; however, export recovery will give some pricing power to domestic players

 **Headwinds** - High inflation, weak rural demand, dumping of Chinese inventory and price wars due to competition

Focus on value-added products, a structural positive for long-term growth

Exhibit 19: Share of GVT in capacity mix of key organised sector players

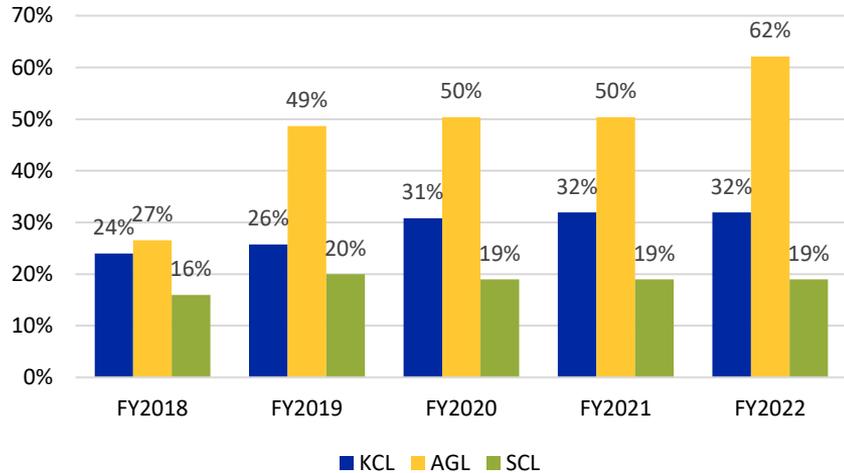
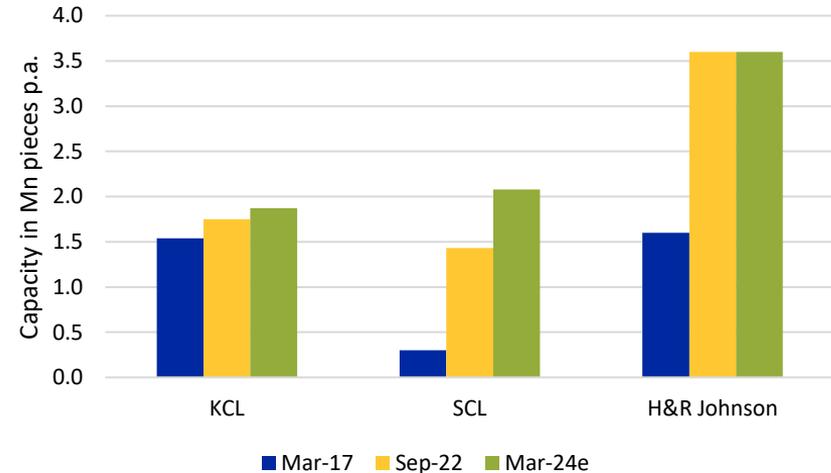


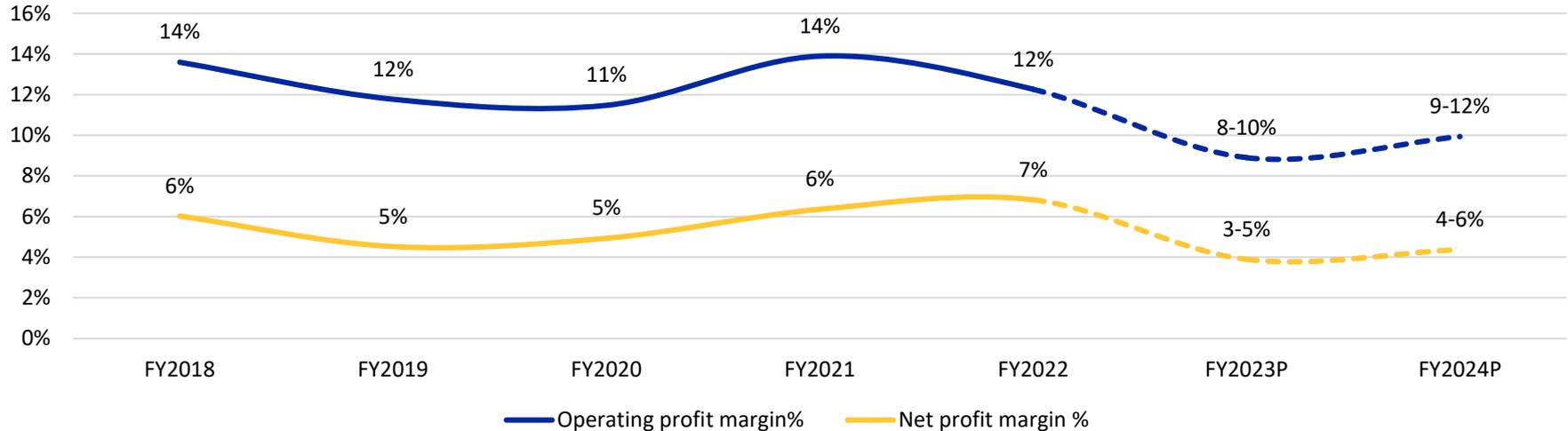
Exhibit 20: Capacity additions in sanitaryware and bathware by leading OEMs



- Indian tile industry has historically been driven by ceramic walls and floor tiles. However, owing to the increase in purchasing power and changes in lifestyle, customer preferences are gradually shifting towards higher value-added premium vitrified tiles.
- The structural shift in value-added products (such as glazed vitrified tiles (GVT)) over the period is expected to improve realisation and profitability margins, especially of branded players, who have an edge over unorganised players in terms of faster product innovation and development.
- New product innovations such as large-sized tile slabs, stone plastic composite flooring, along with an expansion into the sanitaryware and bathware segment, is expected to drive the industry's growth, going ahead.

Margin recovery in sight, though FY2024e to trail levels seen in FY2021-2022

Exhibit 21: Trend in operating and net margin of ICRA sample set



Moderation in energy/ gas prices



Return of pricing power to domestic branded players with recovery in exports



Increasing volumes driving positive operating leverage

Healthy capacity utilisations trigger capex cycle; expected to continue in FY2024e

Exhibit 22: Trend in capacity utilisation of key players

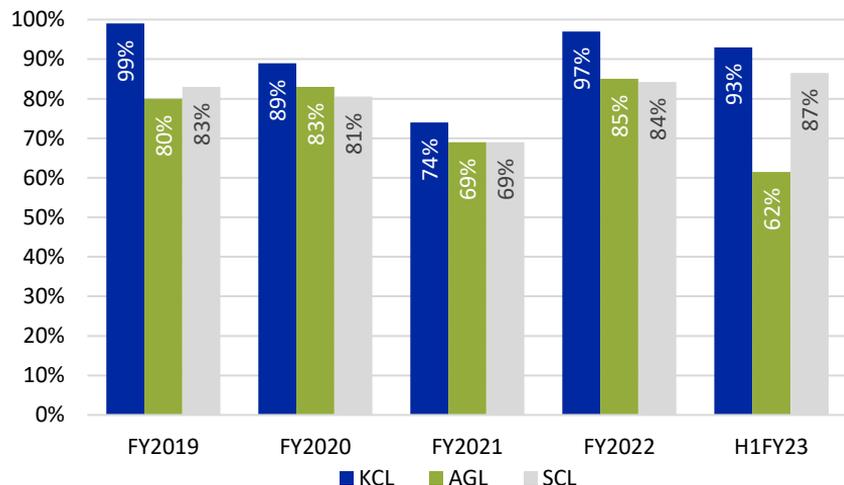
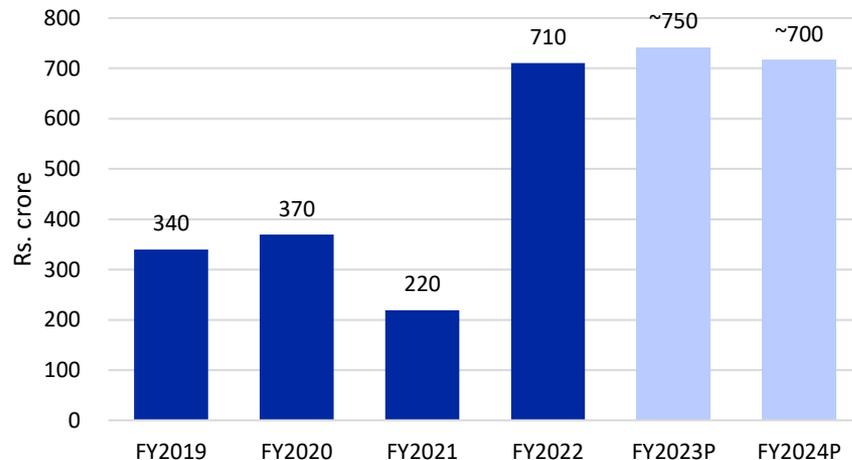


Exhibit 23: Trend in capital expenditure for ICRA sample set



- Leading manufacturers saw capacity utilisation levels exceeding 85% in FY2022; these continued to remain elevated in H1 FY2023.
- With most players operating at an optimum capacity and healthy demand prospects in both the domestic and international markets, significant investments have been announced in capacity expansion, mergers/acquisitions and ventures into new geographies, which will support revenue expansion in the medium to long term.

Sizeable capex towards capacity expansion, modernisation & value-added products

| Company | Capacity Addition | Outlay (in Rs. Crore) | Comments |
|---|---|--|--|
|  |  |  |  |
| Kajaria Ceramics | 11 MSM | ~300 (including 75 on Sanitaryware) | 8 MSM capacity being created in Nepal under a JV, likely to be operational by mid-CY2024; 17 MSM already added in CY2022 @ Rs. 275 crore |
| Somany Ceramics | 4.5 MSM | ~170 | Greenfield slab tile manufacturing facility in Gujarat is expected to commence production by Q1 FY2024-end; New capacity of 11 MSM has started contributing |
| H&R Johnson (Prism Johnson) | 11 MSM | - | Capacity addition in FY2022-FY2024 |
| Asian Granito | 9.9 MSM | ~400 (including 50 in Bathware & Sanitaryware) | ~16 MSM already added in CY2022 @ Rs. 70 crore |
| Orient Bell | 6.3 MSM | ~180 | 0.7 MSM already added in CY2022 @ Rs. 11 crore |

Credit metrics to rebound in FY2024e after slight moderation in FY2023e

Exhibit 24: Receivable, payable, inventory holding period of ICRA sample set

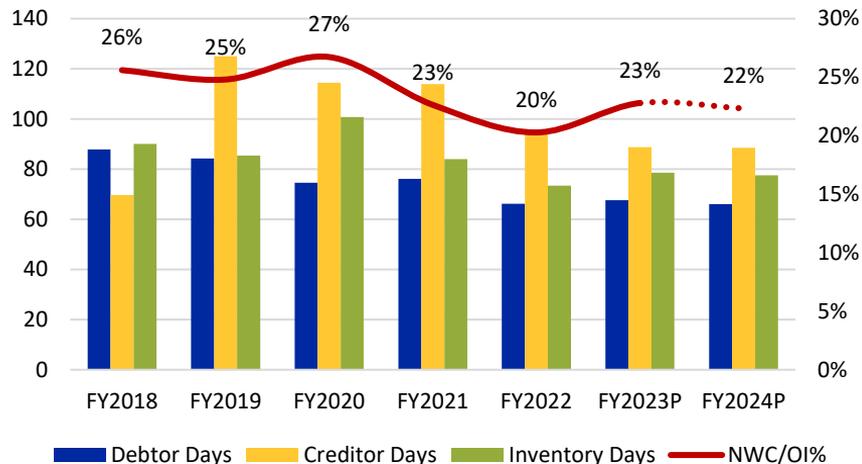
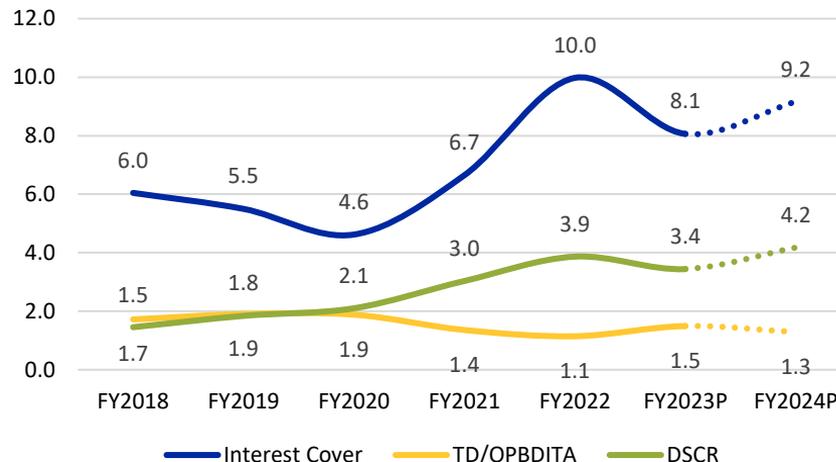
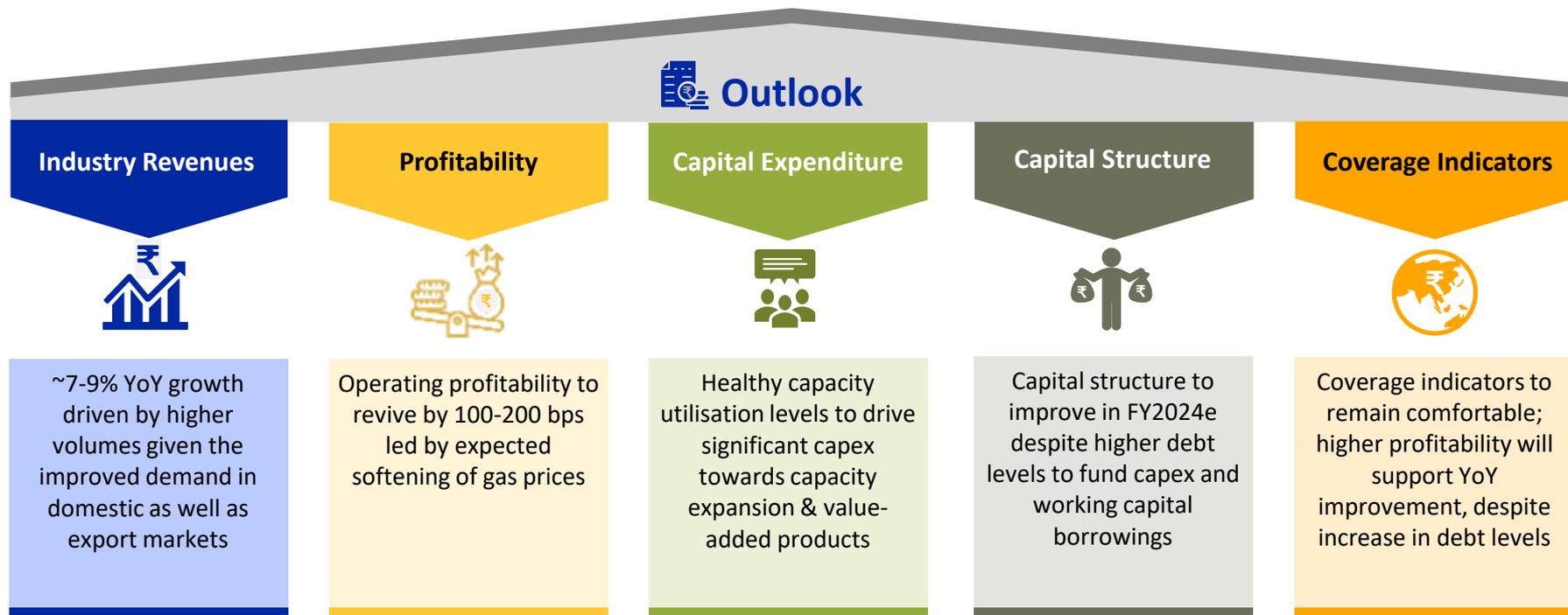


Exhibit 25: Trend in coverage indicators of ICRA sample set



- Given the significant ongoing and proposed expansion being undertaken by the industry participants, the debt levels and working capital borrowings of some of the players are also expected to increase from the levels seen in FY2022. Nevertheless, some companies like Asian Granito have raised funds by rights issue, a part of which is deployed towards deleveraging and working capital requirements.
- At a broader industry level, most industry participants will witness a sequential moderation in credit profile during FY2023e. The pressure would be more evident in small to mid-sized players, whereas the larger players have better financial flexibility and liquidity cushion to absorb cost pressure.



Key monitorable will be input prices and infrastructure spending

List of ICRA-rated entities in the ceramic tiles industry

Exhibit 26: ICRA's ratings for entities in the ceramic tiles industry

| Company Name | Long-term Rating | Outlook | Short-term Rating | Last Rating action/ PR date |
|----------------------------------|------------------|----------|-------------------|--|
| Kajaria Ceramics Limited | [ICRA]AA | Stable | [ICRA]A1+ | Ratings reaffirmed; Outlook revised to Stable; Dec 2022 |
| Asian Granito India Limited | [ICRA]A | Negative | [ICRA]A2+ | Ratings downgraded; Nov 2022 |
| Aparna Enterprises Ltd. | [ICRA]A- | Stable | [ICRA]A2+ | Ratings reaffirmed; May 2022 |
| Amazoone Ceramics Ltd. | [ICRA]BBB- | Negative | [ICRA]A3 | Ratings downgraded; Nov 2022 |
| Sentini Ceramica Pvt. Ltd. | [ICRA]BBB+ | Negative | [ICRA]A2 | Ratings reaffirmed; Outlook revised to Negative; Jul 2022 |
| Sanskar Ceramics Private Limited | [ICRA]BBB | Stable | [ICRA]A3+ | Ratings reaffirmed; Dec 2022 |
| Solizo Vitrified Pvt. Ltd. | [ICRA]BB- | Stable | [ICRA]A4 | Ratings reaffirmed; Aug 2022 |
| Leviton Ceramic LLP | [ICRA]BB- | Stable | [ICRA]A4 | Ratings reaffirmed; Jan 2022 |
| Octiva Ceramic | [ICRA]BB- | Stable | [ICRA]A4 | Ratings reaffirmed; Nov 2022 |
| Real Granito Pvt. Ltd. | [ICRA]B+ | Stable | [ICRA]A4 | Ratings reaffirmed; Apr 2022 |
| Adoration Ceramica Pvt. Ltd. | [ICRA]B+ | Stable | [ICRA]A4 | Ratings downgraded to [ICRA] D/D and simultaneously upgraded; Feb 2022 |
| Keramika Indiana | [ICRA]B | Stable | [ICRA]A4 | Ratings reaffirmed; Apr 2022 |

Source: ICRA Research; Ratings outstanding as on Jan 31, 2023; Highlighted cells indicate negative rating actions during the year



Click to Provide Feedback



ICRA Analytical Contact Details



Rajeshwar Burla

*Group Head &
Vice-President*

Ashish Modani

*Co-Group Head &
Vice-President*

Ritu Goswami

*Sector Head &
Assistant Vice-President*

Anurag Bhootra

Senior Analyst



rajeshwar.burla@icraindia.com

ashish.modani@icraindia.com

ritu.goswami@icraindia.com

anurag.bhootra@icraindia.com



+91 40 4067 527

+91 22 6114 3414

+91 124 4545 826

+91 124 4545 852





ICRA

Business Development/Media Contact Details



L. Shivakumar

Executive Vice-President

Jayanta Chatterjee

Executive Vice-President

Naznin Prodhani

Head Media & Communications



shivakumar@icraindia.com

jayantac@icraindia.com

communications@icraindia.com



022 - 6114 3406

080 - 4332 6401

0124 - 4545 860





© Copyright, 2023 ICRA Limited. All Rights Reserved.

All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable. Although reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies, while publishing or otherwise disseminating other reports may have presented data, analyses and/or opinions that may be inconsistent with the data, analyses and/or opinions in this publication. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.



ICRA

Thank You!