

Ceramics Industry – Tiles & Sanitaryware Update

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Introduction

The ceramics industry comprises tiles (vitrified & porcelain, floor and wall) and sanitaryware (washbasins, sinks, toilet bowls etc.) and services the real estate industry. The organised sector in India accounts for around 50% of the industry and the other half is represented by regional players present in clusters such as Morbi (Gujarat). Morbi has continued its rapid growth and is now estimated to have more than 500 production lines, many of which are devoted to products for export.

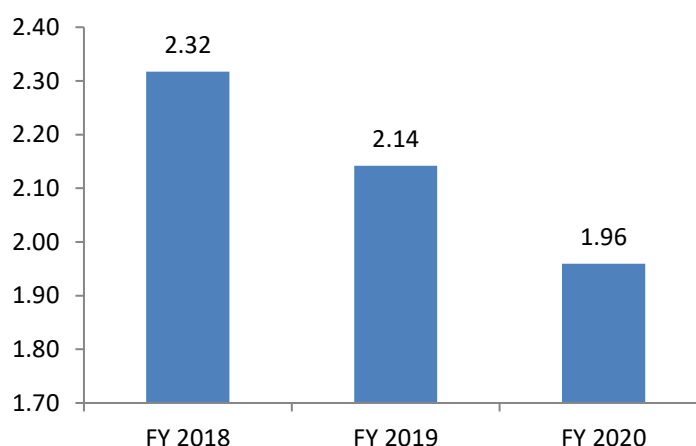
With an installed capacity already in excess of 40 million pieces/year, India is the world's second largest ceramic tiles and sanitaryware producer after China. Almost 80% of the tiles produced are consumed domestically and around 20% is exported. The major factors driving this growth in domestic consumption are increasing urbanisation, low per capita consumption, increasing disposable income and stable replacement demand

The ceramics industry was already passing through a dull phase in FY2019 due to challenges faced by the user industry (real estate) before the spread of Covid-19.

Production

The domestic production of ceramic tiles declined by 12% from 2.32 million tonnes in FY2018 to 2.14 million tonnes in FY2020 majorly due to the woes of the user industry. The production of ceramic tiles fell by a record 76% for the period April-July 2021 to 16.3 thousand tonnes from 67.7 thousand tonnes compared with the same period last year.

Chart 1: Domestic Production of ceramic tiles (million tonnes)



Source: CMIE

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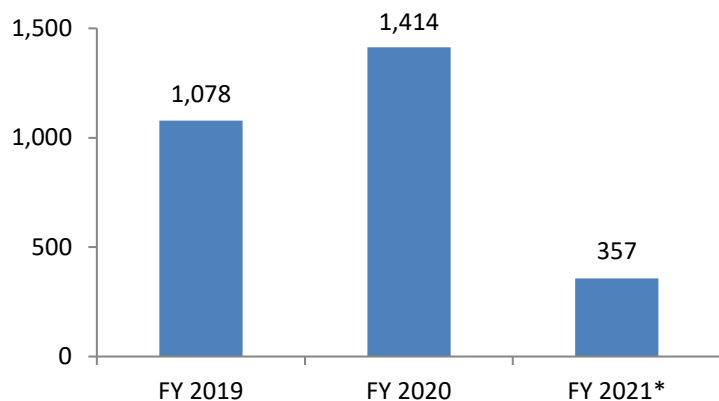
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Trade

Tiles

Chart 2: Exports of ceramic tiles (million USD)



The exports of ceramic tiles increased by 31% from 1,078 million USD in FY 2019 to 1,414 million USD in FY2020 backed by dampened domestic demand, investment in technology and improving product quality. As per the data released by Department of Commerce, the export of ceramic tiles was 357 million USD for the period April – July 2021.

Source: Department of Commerce

*Note: April – July

Note: all figures shown are of HS Code 6907

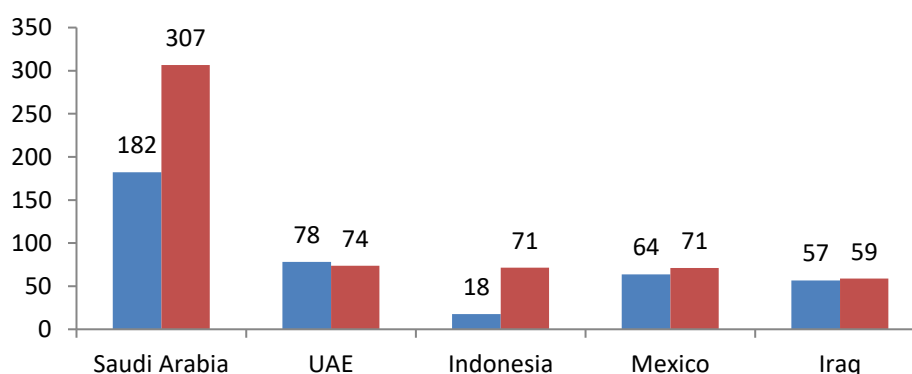
Now, the Gulf Corporation Council (GCC) has imposed an anti-dumping duty on exports of ceramic floor and wall tiles originating from India and China with effect from 6th June, 2020. This decision could potentially hurt the Indian domestic players as GCC accounts for the highest share of exports of 37% as per FY2020 data.

Rate of dumping duty on CIF value	Indian origin	Chinese origin
Non sampling cooperating companies	41.2% (196 companies fall in this category)	23.5% (89 Chinese companies fall in this category)
All other companies	106%	76%

Source: morbitiles.org

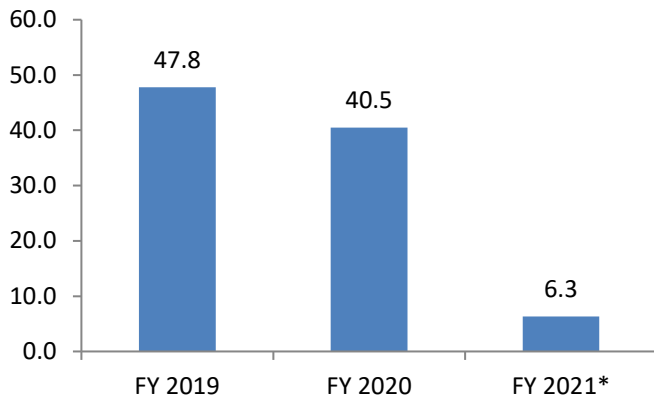
The below chart depicts the key exporting markets for India in FY19 and FY20. Saudi Arabia was the largest market followed by UAE in FY 2020.

Chart 3: Top 5 countries for exports of ceramic tiles (million USD)



Source: Department of Commerce

Note: figures depicted are of HS Code 6907

Chart 4: Imports of ceramic tiles (million USD)

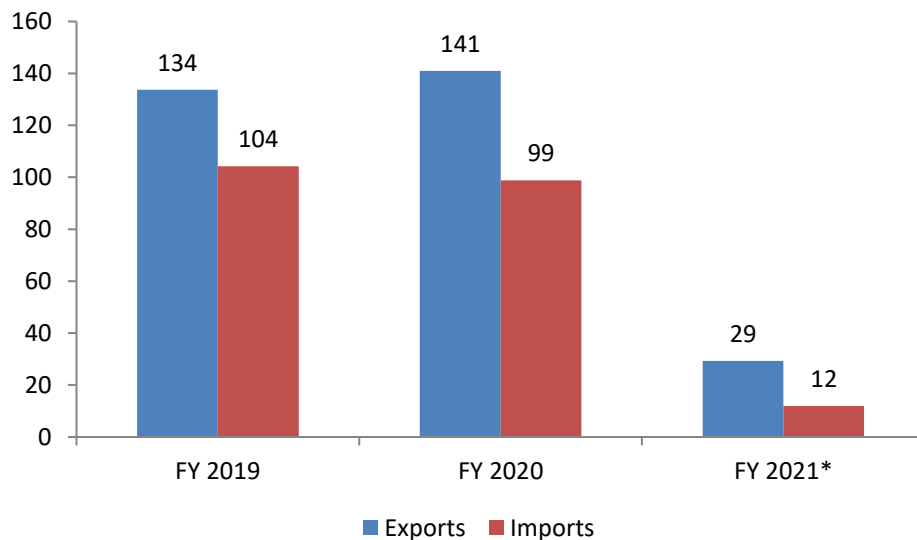
The imports of ceramic tiles decreased by 15% from 47.8 million USD in FY19 to 40.5 million USD in FY2020 and according to the data released by Department of Commerce, the import of ceramic tiles was 6.3 million USD for the period April – July 2021.

Source: Department of Commerce

Note: figures depicted are of HS Code 6907

Sanitaryware

The exports of ceramic sanitaryware grew by 5% on a y-o-y basis from 134 million USD in FY19 to 141 million USD in FY20 whereas the imports of sanitaryware fell by 5% from 104 million USD in FY19 to 99 million USD in FY20. The exports and imports amounted for 29 million USD and 12 million USD respectively for the period April-July 2020.

Chart 5: Exports & imports of ceramic sanitaryware (in million USD)

Source: Department of Commerce

*Note: April – July

Note: figures shown are of HS Code 6910

Impact of Covid-19

The imposition of nationwide lockdown due to Covid-19 brought the construction activities to a complete halt. New projects were postponed and delivery of on-going projects was delayed. This had a severe impact on the demand of ceramic tiles and sanitaryware that services the real estate industry as part of building and construction materials. The replacement demand of tiles and sanitaryware was also affected owing to fears of virus contraction and job losses due to pandemic. The following chart shows the net sales and operating profit of ceramics industry. Net Sales declined by 55% from Rs 2,482 crores in Q1 FY20 to 1,127 in Q1 FY21. Similarly, operating profit nosedived by 76% to Rs 43 crore in Q1 FY21 compared with Rs 320 crore in the same period last year.

Chart 6: Net Sales of ceramic industry (Rs crore)

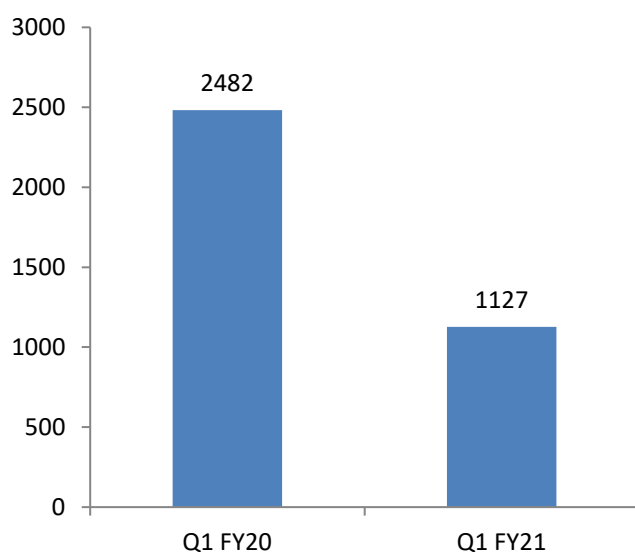
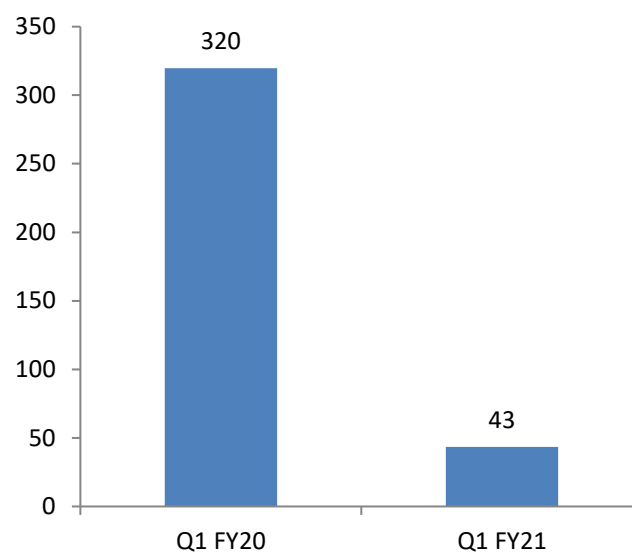


Chart 7: Operating Profit of ceramic industry (Rs crore)



Source: CARE Ratings Research

Note: Based on data of 28 companies

One of the top players in the ceramics industry stated that their plants were operating at a capacity utilisation of 26% in the month of June 2020. However, the capacity utilisation improved to 78% in the month of July 2020. The lifting of lockdown restrictions in a phased manner from April 2020 onwards helped in resumption of activity however the industry continued to face challenges of supply chain constraints, liquidity and shortage of labour largely owing to reverse migration.

It is expected that the upcoming festive season could help in reviving sales of residential property.

According to industry reports, the global market is recovering better than the domestic market where demand continues to be subdued. The domestic players are relying on exports to sell their products however the imposition of anti-dumping duty by GCC could quash their hopes. This blow could probably be softened by penetration of Indian ceramic tiles and sanitaryware in new global markets and preference for Indian products over other competing Asian countries.

Government Support

It is expected that government measures such as Affordable Rental Housing Complexes (ARHCs) for Migrants Workers a sub-scheme under Pradhan Mantri AWAS Yojana- Urban (PMAY-U) launched in October 2020, reduction in stamp duty by Maharashtra government by 3% till December 2020 and other economic measures announced by the government to support the real estate and construction sector could in turn provide a boost to the ceramics industry.

Concluding Remarks:

- India is the world's second largest producer of ceramic tiles and sanitaryware and almost 80% of tiles produced is consumed domestically whereas 20% is exported
- The production of ceramic tiles reduced by 12% in FY20 to 1.96 million tonnes compared with 2.14 million tonnes in the same period of previous year
- The nationwide imposition of lockdown affected the user industry – real estate and construction and in turn led to muted demand for ceramics industry where sales and operating profit fell by 55% and 76% respectively for Q1 FY21 y-o-y basis
- With the easing of restrictions in a phased manner across the globe and domestically, it is expected that the ceramics industry could experience a gradual and slow recovery in demand. Measures announced by government are also expected to help in the recovery of the user industry which will support the revival of demand in ceramic industry

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