



Event Update

June 14, 2025

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Domestic Demand Steady Amid Oversupply

We recently interacted with an expert in the Indian ceramic industry, who provided deep insights into the current landscape of the tile industry in Morbi. The discussion covered critical aspects such as gas pricing trends, export and domestic demand dynamics, over-capacity in Morbi, and ongoing structural shifts within the industry.

Key Takeaways:

Industry Capacity & Player Dynamics

- Currently, around 700 units are operational in Morbi. About 200 units shut down in FY25, and another 100 units may shut down in the coming year, due to high fixed costs, shift in demand from wall tiles to GVT tiles, and outdated machinery.
- Older plants are equipped with a kiln capacity of 100 sqm, whereas new plants have kilns of 300 sqm. Also, older kilns are less efficient and more expensive to operate, and are gradually being replaced by modern, cost-efficient kilns.
- 80 new units have recently been set up, focusing specifically on GVT tiles. These new units have a production capacity of 20,000 boxes per day, compared to the 10,000 boxes/day capacity of older units.

Domestic Demand & Oversupply Issues

- Domestic demand remains moderate; however, oversupply in the industry is exerting significant pricing pressure. With issues in the export market in FY25, 5–10% of export volumes from Morbi have shifted to the domestic market. This diversion has resulted in dumping of excess inventory in the domestic market, leading to intense competition and additional stress on pricing.
- In this challenging environment, branded players like Kajaria Ceramics and Somany continue to enjoy a premium, supported by their strong brand recognition and well-established distribution networks. In contrast, local and unbranded players remain exposed to price cuts and margin compression.

Export Market Scenario

- In FY25, tiles exports declined by ~11% to Rs 180bn. However, it is expected to reach FY24 levels in FY26. Currently, Morbi exports to 163 countries globally.
- In Apr'25, the UK, UAE and USA were the top 3 export destinations for tiles from Morbi.
- During the interaction, the expert highlighted that freight costs saw a significant correction—down by 65% in Jan'25 and currently remain 17% below the peak levels of Sept'24, making tile exports more viable. Freight rates had previously surged due to the Red Sea crisis, geopolitical tensions, and

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container shortages, but have now largely normalized. As a result, it is expected that approximately 35% of the total production from Morbi players will be directed toward exports.

- Morbi players face high duties (100%) in key Gulf countries like Saudi Arabia, Qatar, Oman and Kuwait. In contrast, duties in the USA are negligible at ~3%, and the UAE is duty free.

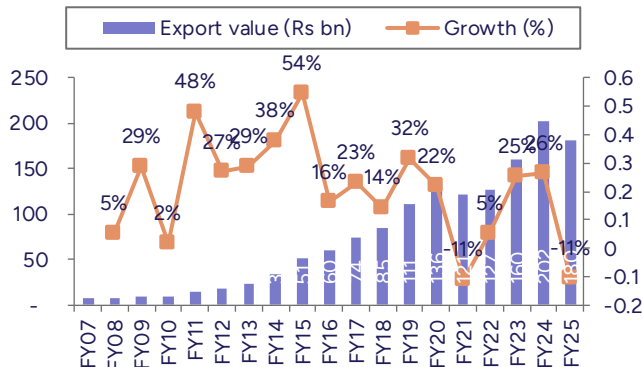
Gas Pricing and Consumption Trends

- Natural gas supplied by Gujarat Gas is more expensive than propane. Gujarat Gas supplies natural gas priced at Rs51/SCM, while propane stands at Rs48/SCM and LPG at Rs47/SCM. Two years ago, natural gas was priced at ~Rs30/SCM, indicating a significant rise in fuel costs.
- Three years ago, the price difference between natural gas and propane was Rs10-15. Due to this cost disparity, more than 500 out of 700 operational units switched from natural gas to propane. Major suppliers like IOCL, BPCL, Reliance and Adani also started supplying propane and LPG to these units.
- Fuel costs, which ideally should be in the range of 25–30% of total production cost, have now increased to 35%, leading to margin pressure for most units.
- Fuel consumption for Morbi units stands at 7.3mn SCM/day: 2.6mn SCM/day of gas from GGAS and 4.7mn SCM/day of propane from OMCs. At pick of capacity utilization, fuel consumption could rise to 8.2mn SCM/day.

Outlook

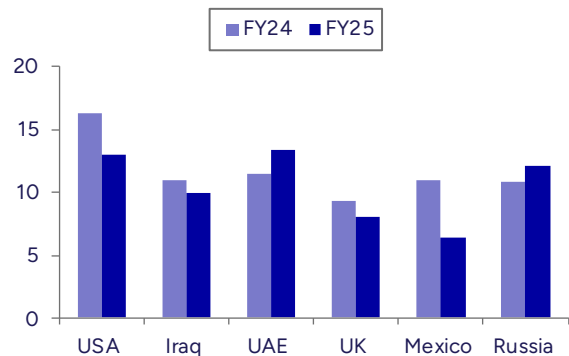
- Morbi cluster clocked Rs550bn turnover in FY25; of this, 30% (Rs165bn) from exports and the rest (Rs385bn) from the domestic market, excluding organized players.
- Margin pressure persists for unorganized players. Hence, some may plan temporary shutdowns (~1 month) to rationalize production and stabilize prices.
- Larger branded players like Kajaria, Somany and Johnson are relatively shielded from pricing pressures due to brand strength and premium product positioning.

Exhibit 1: Tiles exports decline by ~11% in FY25



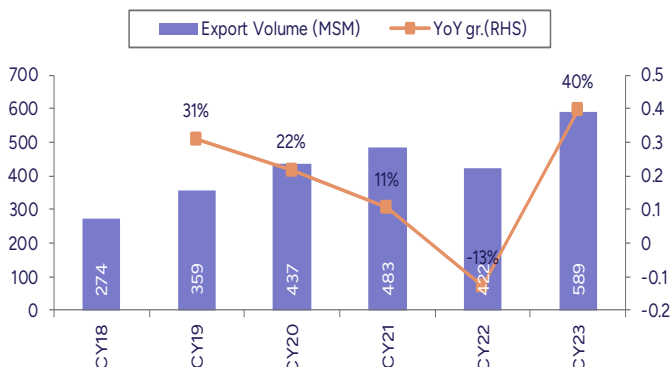
Source: Ministry of Commerce & Industry, PL

Exhibit 2: Major export destinations for tiles from India



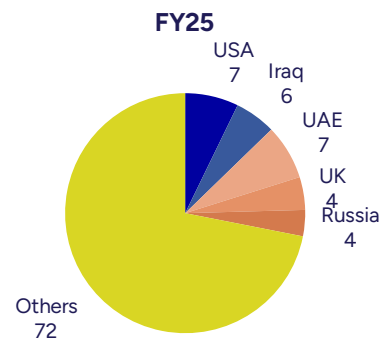
Source: Ministry of Commerce & Industry, PL

Exhibit 3: India's Ceramic Tiles - Pick up in export volume



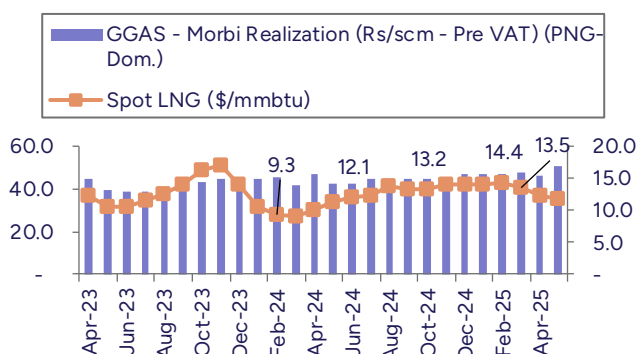
Source: Ceramic World Review, PL

Exhibit 4: India's tiles exports FY25 – country-wise (%)



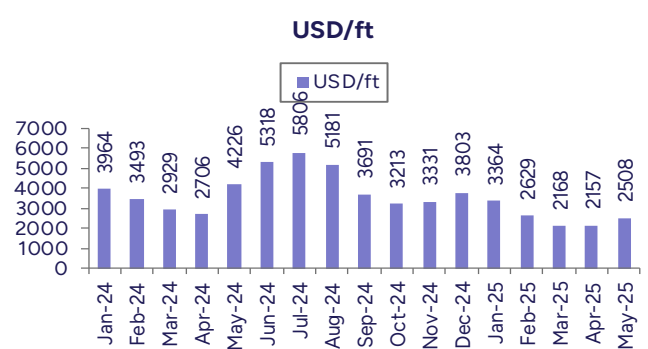
Source: Ministry of Commerce & Industry, PL

Exhibit 5: GGAS (Morbi) prices range bound at Rs 51/SCM



Source: Company, PL

Exhibit 6: Drewry WCI Composite container freight 40 ft box



Source: Company, PL; Bloomberg

Exhibit 7: Country-wise tiles export from India (Qrtly %)

Country-wise % share	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24	FY25
Saudi Arabia	20.3	22.7	16.8	21.7	14	7.3	5.5	2.6	1.3
USA	0.7	0.7	1.2	3.6	6.9	6.3	7.3	8.1	7.2
Iraq	1.1	7.2	5.3	4.2	4.4	5.5	5.3	5.4	5.5
UAE	6.5	6.1	7.3	5.2	4.9	5.2	5.9	5.7	7.4
Nepal	2.1	4.9	4.8	3.9	3.2	4.8	2.5	1.4	1.1
Kuwait	5.1	5.4	3.5	3.7	4.3	4	4.3	3.7	3.8
Thailand	0.4	1.1	2.1	2.5	2.6	3.3	3.2	2.7	2.8
UK	1.8	1.1	1.3	1.5	2.7	3.3	3.2	4.6	4.4
Mexico	16.5	7.5	5.9	5	4.4	3.3	3.3	5.5	3.5
Russia	0	0	0.2	0.6	1.7	3.2	3.1	5.3	6.7
Oman	6.5	5.7	5	3.7	3.9	3.1	3.4	3	2.8
Jordan	0.5	0.5	0.4	0.3	0.6	3	3.3	0.6	0.3
Poland	3.9	2	2.1	2.6	2.8	2.9	2.6	2.7	3
Indonesia	0	0.2	1.6	5.1	3.9	2.8	2.1	1	1.8
Israel						2.1	3.3	3.4	3.7
Others	34.6	34.9	42.4	36.4	39.6	40	41.6	44.2	44.5
Total	100	100	100	100	100	100	100	100	100

Source: Company, PL

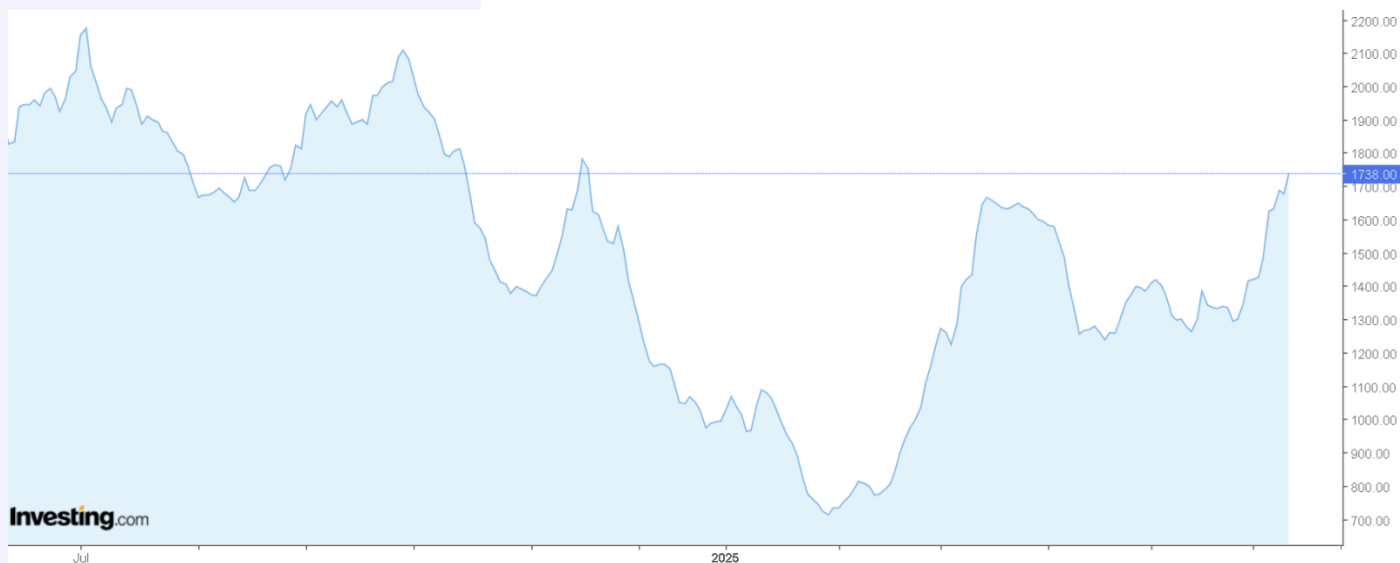
Exhibit 8: Country-wise tiles export from India (Annually %)

Country-wise Contribution (%)	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25
Saudi Arabia	2.3	3	2.5	4.9	1.7	1	1.6	2.6	1.8	1	1.6	0.8
USA	8.1	7.4	8.6	6.4	9.5	6.7	6.3	8.4	9.4	6.7	6.3	6.2
Iraq	4.8	6.3	5.6	4.8	4.7	6	6.6	4.8	4.7	6	6.6	5
UAE	5	4.7	6.4	6.6	5.7	7.9	7.7	6.7	5.7	7.9	7.7	8.4
Nepal	1.7	1.4	1.3	2.3	1.3	1.5	1	1.2	1.3	1.5	1	0.8
Kuwait	2.8	4.2	3.8	4.7	3.3	3.2	4.8	4.1	3.3	3.2	4.8	3.8
Thailand	2.6	2.7	2.9	3.3	2.8	3.2	2.5	2.6	2.8	3.2	2.5	2.7
UK	5.6	4.5	3	5.3	5.6	3.9	4.2	5.6	5.6	3.9	4.2	4
Mexico	4.2	5.1	6.6	4.4	4.9	5.4	2.6	6.6	4.8	5.4	2.6	1.4
Russia	6.2	4.9	4.5	3.1	7.4	6.8	6.5	5.9	7.3	6.8	6.5	6.3
Oman	2.3	3.1	3.3	3.6	2.4	2.8	2.7	3.2	2.4	2.8	2.7	3.4
Jordan	1	0.7	0.5	2.4	0.3	0.5	0.3	0.1	0.3	0.5	0.3	0.2
Poland	2.6	2.6	2.4	2.2	3.9	2.8	2.6	3.3	3.9	2.8	2.6	2.7
Indonesia	1.3	0.7	1	2	1	2.5	1.9	1.1	1	2.5	1.9	1.9
Israel	4.7	4.5	2.1	5	2.4	3.9	3.9	2.1	2.4	3.9	3.9	4.6
Others	44.9	44	45.6	39.2	43.2	41.9	44.8	41.8	43.3	41.9	44.8	47.7
Total	100	100	100	100	100	100	100	100	100	100	100	100

Source: Company, PL



Exhibit 9: Baltic dry Index



Source: Company, PL

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	Astral Ltd.	BUY	1,630	1,378
2	Avalon Technologies	Accumulate	927	879
3	Bajaj Electricals	Hold	641	610
4	Cello World	BUY	746	623
5	Century Plyboard (I)	Hold	775	784
6	Cera Sanitaryware	BUY	7,319	5,832
7	Crompton Greaves Consumer Electricals	BUY	423	327
8	Cyient DLM	Accumulate	546	494
9	Finolex Industries	Hold	213	224
10	Greenpanel Industries	BUY	310	249
11	Havells India	Hold	1,717	1,665
12	Kajaria Ceramics	Accumulate	878	800
13	Kaynes Technology India	Hold	5,744	6,263
14	KEI Industries	BUY	4,278	3,295
15	Polycab India	BUY	7,152	5,880
16	R R Kabel	BUY	1,292	1,426
17	Supreme Industries	Accumulate	3,803	3,512
18	Syrma SGS Technology	BUY	618	526
19	Voltas	BUY	1,516	1,223

PL's Recommendation Nomenclature

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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