

## BUILDING MATERIALS

30 April 2020

### Gulf anti-dumping levy to hit ceramic tile producers

The GCC today imposed anti-dumping duty on ceramic tile imports from India and China from 6 June 2020 for five years. The duty on India is in the range of 17.6% to 106% with most companies at 41.2%; for China, this is between 23.5% and 76% with most players at 23.5%. The comparatively higher duty on India will dent competitiveness and potentially affect 35-40% (~Rs 40bn) of total exports from ceramic hub Morbi to Gulf countries, creating possible pricing pressure in domestic markets.

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**Tile exports to Gulf countries to face pressure:** Higher anti-dumping duty (ADD) of ~41% on most Indian ceramic tile players vs. ~24% for a bulk of Chinese players imposed by the Gulf Cooperation Council (GCC) will make Indian exporters less competitive and lead to market share losses in Gulf countries such as Saudi Arabia, UAE, Bahrain, Kuwait, Oman and Qatar. The ADD imposed on Indian companies is broadly similar to the levies proposed in Nov'19 despite industry representation to the council.

**Morbi players to feel the heat:** GCC countries account for 35-40% of the total exports (~Rs 120bn as per industry reports) from India's largest tile manufacturing hub of Morbi in Gujarat. About 400 of the ~850 units in Morbi are estimated to sell to Gulf countries. Rising exports from India had enabled Morbi players to stay afloat despite recent headwinds from lower domestic demand, the ban on coal gasifiers (leading to higher cost of production), and increased compliance requirements. Now with exports to GCC also facing pressure due to higher ADD, many Morbi players would be hit hard.

**Domestic tile prices may weaken:** Morbi players have been focusing on exports to markets outside the GCC such as the US and Indonesia for a while now, but it may not be possible to immediately replace the loss in demand from Gulf countries. Some companies may thus look to sell their production in India, creating pricing pressure in a market that is already seeing subdued demand, whereas others could shut shop as business becomes unviable. However, most Morbi producers do not have a wide distribution network and thus we see limited pricing pressures on bigger organised, branded players such as Kajaria Ceramics and Somany Ceramics.

#### KEY RECOMMENDATIONS

Ticker	Rating
KJC IN	BUY
SOMC IN	BUY



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**BUY** – Expected return >+15%

**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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