

 OIL & GAS

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Expert call: Morbi gas volumes under pressure near-term

- **Morbi gas demand under pressure due to significant drop in ceramic manufacturing plant utilisations and initiation of price cuts**
- **Ceramics market recovering but remain sub-par, branded players to clock double digit growth in FY23; near-term decline in margin likely**
- **While medium-term outlook is healthy for gas demand from Morbi on export competitiveness, propane price to now act as a cap**

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We interacted with Tapan Jena, founder of SANVT Ceramics, to gain a perspective on the ceramic industry and natural gas outlook in Morbi. Key takeaways:

Morbi natural gas demand under pressure near-term: Despite natural gas now at parity with propane, demand is under pressure due to stress in the ceramic industry at Morbi. Utilisation has dropped below 70% with ~300 units shut, and another 60-100 units operating in start-stop mode out of a total of 900 units. Recovery in ceramics production may take another 4-5 months, and will require uptick in ceramics demand and stabilisation of prices after recent 5% cut.

Medium-term outlook healthy for Morbi natural gas demand: Export is now recovering gradually with Rs15bn monthly run-rate over past two months. Exports could double over next three years to Rs30bn. Note, Morbi has bounced back several times in past from difficult market conditions driving innovation in business.

Propane price to act as a cap: ~40% of units including large ones now have propane switching ability. Therefore, propane price will likely act as a cap for natural gas prices. That said, propane switching capacity build-out is largely over.

Ceramics market recovering: Domestic market is also recovering gradually, though growth remains sub-par. Branded players/ organised market will clock higher growth but will likely fall short of their initial targets.

Morbi players have initiated price cuts: Over past two weeks, Morbi based producers have initiated average price cut of 5%, largely in line with reduction in gas prices. While price cut is less than 5% on commodity products, it exceeds 5% on premium products. Branded players/ organised markets will have to follow through on these cuts to keep their premium over Morbi producers in a desirable range.

Branded players at near-term advantage: With Morbi players under pressure from dealers on pricing and inventory clearance, Branded players hold advantage near-term.



Other takeaways

India to keep gaining share in export market

- India has moved up to No 2 in export market. Mr Jena expects export to double from current run-rate of Rs15bn/month to Rs30bn over next three years and then again double over five years thereafter to a run rate of Rs70bn.
- He highlights that India has an edge in GVT (Glazed Vitrified Tiles) against world No 1 Chinese competition. Chinese are stronger in legacy tiles, however, Indian score on competitive production cost, higher varieties, and credit facility to customers.
- Indian producers do not face competition from Italy and Spain. Those producers operate in their own league, with a stable output in a narrow range, focus on designs, and no price competition
- Branded players are not focused on export due to lower margins, and their longer decision-making time typical of a professional set-up.

Competitive initiatives from Morbi

- While Morbi is developing its own brands, large branded players are likely to survive with their strong presence across nation. Morbi brands will gain market share.
- Slab manufacturing launched by Morbi is resulting in price cut in larger tiles segment, which used to carry substantial premium over smaller tiles. This kind of premium does not exist in international market and is now getting normalised. 18 players are now manufacturing slabs.

Sanitaryware

- Within Sanitaryware, Jaguar is the only player performing well. While other players like Hindware and Cera have a presence, their focus on this category is limited given their presence across multiple segments. Astral's entry in sanitary ware will not have a material impact on the category as industry does not take a player seriously until it is backed by its own manufacturing.

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