

OIL & GAS

09 June 2023

Ceramics expert call: Expect Morbi gas volume recovery in H2

- Slow start for the ceramics sector in FY24 but export traction, big projects and demand for large tiles to support revenue growth
- Morbi gas demand remains under pressure from lower utilisation in the ceramics industry and strong competition from propane
- Medium-term outlook for Morbi gas demand still healthy given a likely doubling of tile exports over the next 3-4 years

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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 for Morbi (Gujarat). Key takeaways:

Domestic market seeing short-term slowdown but will deliver growth: The domestic ceramic market has begun on a slow note in FY24 with below-expected volume growth in April-May and continuing price reduction in larger tiles. The market is expected to turn around with support from big-ticket projects in FY24 and a pickup in exports.

Branded players at an advantage: The reduction in branded-to-unbranded price differential with the easing of costs has helped level the playing field with the unorganised Morbi ceramics industry. Branded players are less affected by price reduction and are still likely to deliver value growth from higher sale volumes of bigger size tiles.

Exports have started improving: The past 15-20 days have seen export traction, but price pressure continues. The export market is still likely to deliver double-digit revenue growth for FY24 and is expected to double over 3-4 years.

Morbi industry needs 3-4 months to recover: Morbi players are yet to regain dealers' trust after multiple price cuts last year. Plant utilisation remains below 70% and competition is still high with 35-40 units newly commissioned in FY23 attempting to gain market share. The Morbi industry should also recover in 3-4 months with support from big-ticket domestic projects and export revival.

Morbi propane usage still high: Despite the sharp fall in natural gas prices since April, propane remains competitive and usage remains high. Propane prices will act as a cap on natural gas with nearly 70% of the Morbi ceramics cluster by volume having the ability to switch between propane and natural gas.

Read-across for Gujarat natural gas players: Recovery in Morbi gas demand is more likely in H2FY24 as the ceramic industry is still working to regain domestic market share. Though natural gas demand has come off Q4 lows, propane still poses stiff competition. The medium-term outlook remains strong with exports expected to accelerate.





Other takeaways

- Fast growing market: The Indian ceramics market has grown to Rs 600bn and 1,200mn sqm in FY23, of which the domestic market contributed 70% and exports accounted for 30%.
- H1 is not seasonally slower: The first half of fiscal year typically accounts for 45-47% of annual sales and hence cannot be considered seasonally weak.
- Margins of branded players to improve in FY24: While pricing of bigger tiles is
 undergoing downward adjustment, higher sale volumes of these products in the
 mix and lower fuel prices will help branded players to improve margins in FY24.
- Domestic prices correcting for larger tiles: In European markets, bigger tiles are priced 60% above normal tiles whereas in India these are 2-3x costlier. In terms of cost dynamics, large tiles cost 10% more to produce but still offer a 40% price advantage for domestic players.
- Export growth supported by market share gains in GVT: Despite the slowdown in western markets, the Indian ceramics industry registered strong export growth in FY23 on the back of market share gains in glazed vitrified tiles (GVT). GVT share in exports has risen from 15% to 33% over the past five years as the domestic industry has caught up with China in terms of pricing, quality and design.
- Export markets prefer smaller sized tiles: Though bigger tiles see strong domestic
 offtake, smaller/mid-sized tiles are in demand in export markets, with Middle East
 and Asian countries being dominant export partners. Western markets (Europe and
 US) prefer large tiles but account for a smaller share of India's export mix.
- Morbi industry more competitive in large tiles for domestic market: Morbi players have an advantage over branded players due to their new and modern plants that offer cost-effective production for bigger sizes. The advantage particularly exists for the sizes of 800mm x 1600mm, 1200mm x 1800mm, and 800mm x 2400mm with 15mm thickness.
- Morbi to adopt Continua+ technology: The Morbi industry is likely to adopt Continua+ presses over the next 3-4 years to replace the traditional press. The Continua+ press has the advantage of higher efficiency, productivity, multi-size production and better accuracy. The European market offers a 10% premium for products from plants using this technology. China has widely adopted the same for the production of bigger tiles. Natural gas consumption will not change with this shift as the kiln remains the same.
- Morbi has significant propane switching ability: Of the 800 ceramic plants at Morbi, 350 (accounting for 60-70% of production) have been converted to flexibly switch between propane and natural gas as fuel.
- Branded players still preferred in sanitaryware segment: Though the consumer preference for branded sanitaryware products continues, Morbi has an advantage in the one-piece system.



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