

Sector update

[Morbi ceramic tracker #1](#)[Morbi Ceramic tracker #2](#)[Morbi Ceramic tracker #3](#)[Morbi Ceramic tracker #4](#)

INDIA



Morbi ceramic tracker #5

Costs escalate for Morbi units amid buoyancy in exports

Morbi's exports of ceramic tiles continue unabated with Nov'20 crossing the Rs10bn mark for the fourth successive month. Amid the rising exports, Morbi's costs too have risen due to: a) increase in gas prices by Gujarat Gas w.e.f. 24th Dec'20 with discounts being slashed from Rs4.5/scm to Re0.5/scm, b) sharp increase in inland transportation costs, and c) surge in sea freight rates amid container availability woes. While Morbi players' increasing impetus on exports would sustain market share gains for the top branded players, the recent surge in gas and freight costs would dissuade them from disrupting prices in the domestic space in the near term.

- ▶ **Exports for Morbi players sustain post initial pent-up demand.** Post the lockdown in Apr-May'20, Morbi's monthly exports surged to over Rs10bn in Jul'20 driven largely by pent-up demand. However, with the hub witnessing a sharp spurt in shipments to the US, UK and Europe – driven by anti-China sentiment and imposition of ADD on Chinese tiles by the US – our recent checks suggest that their export turnover for Nov'20 has crossed Rs10bn again. Exports for the past four months (Aug-Nov'20) now stand at Rs46bn as compared to Rs100bn registered in FY20. Our interaction with various exporters in Morbi suggests that exports could touch Rs100bn-120bn in the current fiscal.
- ▶ **Gas prices surge with immediate effect for Morbi units.** Effective 24th Dec'20, Gujarat Gas increased its gas tariff by Rs4/scm (15-18% increase) by lowering the discount structure to Re0.5/scm from Rs4.5/scm. It may be noted that in the view of falling crude prices, Gujarat Gas had offered a discount of Rs2/scm in Jun'20, which was then increased to Rs4.5/scm in Sep'20.
- ▶ **Recent cost surge for Morbi players may dissuade them from cutting prices or offering excessive discounts in the domestic space.** With higher gas tariff and sharp increase in inland transportation costs and shipping freight (for exports), the key monitorable going forward is whether Morbi players would be able to take a corresponding price increase in the export/domestic markets. This would however reduce the probability of Morbi units disrupting product prices at least in the near to medium term: advantage branded players again!
- ▶ **Morbi capacity addition gathers steam and is largely dedicated to exports.** Our channel check suggests that over 50 new plants did their ground-breaking ceremony this Diwali. However, the likely delay in shipments in the wake of current pandemic and expected delay from machinery manufacturers (who are flushed with orders) could push the commissioning of these plants to Aug-Dec'21. Further, a majority of these plants are likely to be GVT-based and export-dedicated.

Table 1: Indian ceramic tiles yearly export data to key countries

Key export drivers	FY16	FY17	FY18	FY19	FY20
GCC	3,970	5,725	24,349	26,776	36,865
<i>Mix</i>	45%	41%	43%	35%	37%
Europe	319	1,000	3,680	6,902	10,402
<i>Mix</i>	4%	7%	7%	9%	10%
UK	82	259	613	1,003	1,551
<i>Mix</i>	1%	2%	1%	1%	2%
USA	35	99	378	938	3,616
<i>Mix</i>	0%	1%	1%	1%	4%
Indonesia	-	0	102	1,240	5,076
<i>Mix</i>	0%	0%	0%	2%	5%
Thailand	31	53	605	1,617	2,468
<i>Mix</i>	0%	0%	1%	2%	2%
Others	4,374	6,983	26,884	36,963	40,350
<i>Mix</i>	50%	49%	47%	49%	40%
Total exports	8,811	14,119	56,611	75,439	100,328

Source: Industry

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