PRESS RELEASE
October 23, 2024

Proposed anti-dumping duty by USA could derail ceramic tiles exports in FY2025; domestic demand remains resilient: ICRA

- ***Operating profitability to remain under pressure, as supply overhang constrains pricing flexibility***

Rating agency ICRA highlighted that the domestic market, which accounts for ~64% of the Indian ceramic tiles industry's revenues, continues to witness resilient real estate demand, auguring well for the sector. However, the export market has started showing signs of a slowdown. The demand slowdown from the USA is visible in the current fiscal, post the commencement of the USA Department of Commerce's investigations, in May 2024, on ceramic tile imports from India. Further, a sharp increase in freight cost amid the Red Sea crisis as well as slow-moving residential markets in the USA and Europe has further derailed the export momentum from Q4 FY2024. According to an ICRA study, India's ceramic tiles export revenue is likely to decline in FY2025, primarily on account of the anticipated imposition of significant anti-dumping duties (ADD, 328-489%) by the US, resulting in an annual contraction in tile exports in FY2025e. The US had accounted for 9% of Indian tiles exports in FY2024.

Providing further insights on the subject, **Chintan Lakhani, Vice President and Sector Head – Corporate Ratings, ICRA** said: *"ICRA expects exports to contract by ~8-10% in FY2025, mainly due to the impact on India's two major exports hubs — USA (owing to likely imposition of ADD) and Europe — given the continued sluggish residential markets. The decline could be even sharper if the Red Sea crisis persists for a prolonged period. India's ceramic tiles export to Europe and the Americas has been impacted in recent quarters because of the increase in logistics cost, thus affecting competitiveness. While freight rates have eased sequentially, the logistics cost remains higher on a YoY basis and, hence, continues to impact the export demand".*

Demand from the domestic market remains resilient in the backdrop of a favourable outlook for the real estate sector. Consequently, the overall revenue growth of the sector is estimated at 7-9% for FY2025e, primarily supported by domestic demand, whereas exports are likely to remain a drag in the near term. The share of domestic revenues is relatively higher for larger entities compared to small/mid-sized ones, as large entities enjoy pricing flexibility owing to their strong market position.

Lakhani further adds: *"Notwithstanding the expected contraction in exports, the revenue of ICRA's sample entities is likely to grow by 7-9% on a YoY basis in FY2025e, aided by growth in the domestic residential estate sector. ICRA expects industry capex to moderate from 8-9% of operating income (FY2023 and FY2024) to below 7% in the current fiscal, as the tiles companies shift their focus towards improving operating efficiencies and capacity utilisation. The industry's operating margins are expected to remain flattish at ~11-12% in FY2025, as operating leverage benefits and moderation in input costs are offset by intense competition and supply overhang pressure on realisations."*

ICRA highlighted that several large tile players have a relatively lean cash conversion cycle, low leverage, and comfortable credit metrics. However, small and mid-size players have limited pricing flexibility and relatively high exposure to exports; hence the headwinds in the export market could have a bearing on their cash conversion cycle and coverage metrics. Moreover, a slowdown in exports will result in a supply overhang in the domestic market, which will curtail pricing flexibility and constrain margins, in ICRA's view.

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