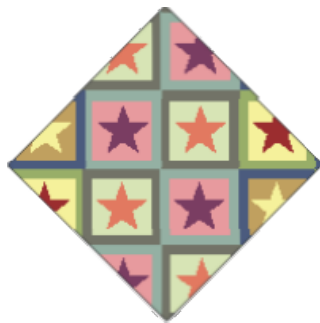


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Preface

Every month we read news on capacity expansion of many ceramic companies. This is obvious because India is the 6th largest consumer of ceramic tiles and the 8th largest manufacturer of this product.

This report entails an overview of the Indian ceramic industry with more emphasis on the export potential of ceramics, the challenges faced by small players at markets overseas and support of government in this regard.

The report is result of exhaustive visits of the ceramic tiles and sanitary ware units of both Morbi and Himmatnagar.

While making this report I also met various Associations of this industry. They gave me fare view of how they give a platform to the domestic manufacturers to stand tall against the stiff price war of China.

I have given more emphasis to ceramic tiles because of the fact that they constitute a big chunk of the total exports. Apart from tiles Indian sanitary wares has also got fame across the borders.

The kudos to furnish this report goes to various entrepreneurs of Gujarat, who have given me their precious time to accomplish the missing blocks of information in this work.

When I started, I was once disappointed because no one has written about this wealth creating industry of Gujarat. But bit by bit all information was dug out from various industrial sources.

Executive Summary

Introduction

In India, ceramic tile industry emerged in the late 1950s, with H&R Johnson setting up its plant for manufacturing of wall tiles at Thane. Somany Pilkington entered the industry subsequently in 1960. After almost three decades in 1985, Spartek Ceramics entered the ceramic tiles industry with unglazed ceramic floor tiles. The lucrative and flourishing floor tiles industry further attracted many others. At present around 16 industrial units are operating in the organized sector and more than 250 units in the unorganized sector with total production capacity of 175 mn sq. mt. per annum.

Ceramic industry can be classified into three segments --- wall tiles segment, floor tile segment and vitrified & porcelain tile segment. Presently in India the market share of these segments are 42%, 46% and 12% respectively.

The organized sector is characterized by the existence of a few large players e.g., H&R Johnson, Kajaria Ceramics, SPL, Spartek and Murudeshwar Ceramics to name a few. In the domestic market of ceramic market, H&R Johnson is the leader followed by Kajaria Ceramics with market shares of 21% and 13% respectively.

Global Scenario

World production of ceramic tiles was 5904 million sq. mt. in 2002. China was the largest producer with a total production of 2100 million sq. mt. Spain and Italy were other major producers with production of 651 million sq. mt. and 606 million sq. mt. respectively. India ranks at 8th position with production of 150 million sq. mt., which is around 2.5% of global production. However, in terms of production growth, India ranked 2nd with a CAGR of 24.35%.

Total world consumption is 5426 million sq. mt., of which 25.5% is traded globally and the rest being sold domestically. China is the largest consumer followed by Brazil and Spain. India ranked 6th in terms of consumption volume, but has highest consumption growth rate of 22.26% per annum.

In terms of exports, Italy ranked 1st in the world. In 2002 Italy exported 436 million sq.mt. of ceramic tiles, this is 8.10% of world consumption. Spain and China were the 2nd and 3rd largest exporters. In recent years China's export has increased at a much faster pace than others.

In terms of imports, USA was the largest importer with an import volume of 189 mn. Sq.mt, which is around 13.6% of global import. Germany and France are the two other major importers of ceramic tiles. USA, Germany and France jointly imports around 30% of total world imports.

Indian Tile Industry

The ceramic tiles industry in India emerged since 1950s. The industry is characterized by few players in the organized sector and a large number of players in the unorganized segment. The industry holds a share of 2.5% in global production. Though India holds a minuscule share of 0.77% of global trade of ceramic products in 2002. India majorly exported to Saudi Arabia, UK and UAE and imported from China and Germany.

India's Opportunities

Four different product groups are identified as items of high demand for exports.

Product Group	Markets	Potential markets
Glazed ceramic tiles	Qatar, Saudi Arabia, Sri Lanka	Germany, France
Ceramic household articles	UK	UK
Ornamental ceramic products	USA	USA
Unglazed ceramic tiles	UAE, Saudi Arabia, UK, Sri Lanka	UK, Germany

Some Concerns

For some time now Indian ceramic tile manufacturers are besieged with the problem of low margin and falling profitability. One of the reasons

behind this is the dumping of vitrified tiles into Indian market by countries such as China, Indonesia, Sri Lanka, Malaysia and UAE. Last year nearly Rs. 100 crore worth of imported tiles were dumped into India.

This problem has recently been intensified because of the China's entry into the Bangkok agreement, which was developed with a view to promote free trade among South East Asian countries. Entry of China in the Bangkok agreement has resulted in large import from China, as under this agreement Chinese goods attract a duty of 10% as against 15% duty on import from other countries. This seems to affect the domestic producers severely.

Another major problem for the industry is the rising costs of manufacturing due to increase in prices of raw materials such as zirconium and titanium.

The petroleum price hike has also affected the industry, though in an indirect manner. Because of the substantial bulk of the material, ceramic tile accrues very high freight element. Rise in the petroleum prices increases this cost substantially. On the other way because of the import competition from China, domestic tile manufacturers cannot increase their price. This directly reduces their sales and profitability further.

Future Outlook

Prospect of ceramic industry heavily depends on construction activities. In India the construction sector is expected to do well mainly due to fiscal incentives given to the infrastructure development.

Apart from this, the housing sector is also expected to grow because of low interest rates on housing loans. Thus, the future prospect of the Indian ceramic industry seems to be bright.

Introduction

The word ceramic derives its name from the Greek word keramos, meaning "pottery". The word was used to refer to a product obtained through the action of fire upon earthy materials. The ceramic industry in India is about 100 years old and forms a sizeable industrial base at present.

Ceramic tiles are manufactured both in large and small sectors with wide variance in type, size and standards. There are 27 glass and ceramic items for which the small scale sector has exclusive production right. Tableware and allied items namely, dinner sets, tea sets, cups and saucers, jars in stoneware, semi-vitreous ware and earthen ware are reserved for the SSI sector.

State of the art ceramic goods are manufactured in the country and the technology adopted by the Indian ceramic industry is of international standard.

The ceramic sector mainly consists of mainly three sub sectors, namely, ceramic tiles, sanitary ware and crockery items. A brief description of each of these sub-sectors is presented below.

Ceramic tiles sector. There are 16 units in the organized sector and 250 units in the unorganized sector manufacturing ceramic wall tiles, floor tiles and vitrified tiles. The production of organized sector is 85 million square metre per annum. While the production of the unorganized sector is 70 million square metre per annum. India accounts for nearly 2.5% of the world production.

The domestic ceramic tile industry is growing at a rate of 8% per annum. Estimated size of the ceramic industry is approx Rs. 3300 crore out of which the share of SSI sector is around Rs. 1200 crore.

In India the per capita ceramic tile consumption is 0.09 sq.mt.p.a. as compared to 1.2sq.mt. in China and 5 sq.mt. in European countries. Its demand is expected to increase with the growth in the housing sector. Indian tiles are competitive in the international market. They are being exported to east and west Asian countries.

Sanitary ware. Sanitary ware is manufactured both in large and small sectors with wide variance in type, range, quality and standard. This industry has been growing by around 5% per annum during the last two years. Sanitary ware items are presently being exported to East and West Asia, Africa, Europe and Canada.

Pottery. Pottery ware such as crockery and tableware is produced both in organized and unorganized sectors. There are 16 units in the organized sector with a total installed capacity of 43,000 tonnes per annum. Bone china crockery ware is being imported from Bangladesh and Sri Lanka in view of the better availability of raw material there.

Among the three segments of ceramic products mentioned above, the tile segment is the largest of all. The rest of my report will concentrate on the present status of ceramic tile industry and some important recent issues.

Global Scenario

Production. China is the largest producer and exporter in Asia. Italy and Spain are the two most important production centers in EU. Brazil is the largest producer in Latin America. Among all the major producers China has achieved most rapid growth in production and export. However, quality wise, Italy and Spain produce best tiles in the world. Italian ceramic tiles are also very costly. The current price of Italian tiles is Euro 8.74 per sq. mt., which is highest among all producer countries.

Top 10 manufacturing countries

Ranking	Country	Production (million sq.mt.)	% of world production
1	China	2100	35.6
2	Spain	651	11.0
3	Italy	606	10.3
4	Brazil	508	8.6
5	Indonesia	230	3.9
6	Turkey	162	2.7
7	Mexico	159	2.7
8	India	150	2.5
9	Iran	1.5	1.8
10	Vietnam	105	1.8
	world	5904	100

Consumption. Asia is the largest consumer with a share of 50.8% of global consumption. EU and South America are the two other major consuming areas with consumption share of 19.2% and 10.9% respectively.

China tops the consumption list with domestic consumption level of 1750 million sq.mt./year, which is nearly 4 times of the consumption of second largest consumer, Brazil. India ranks at 6th position with domestic consumption of 145 million sq.mt. However, the consumption growth rates in India had a CAGR of 22.26%, which is highest among the major consuming countries and much higher than the world consumption growth rate of 7%.

This might be one of the reason that Indian ceramic companies concentrate on domestic market rather than export. Demand in India is very high so only concern is to fulfill that demand indigenously.

Export. India's export volume is minuscule and India does not come in the list of top 15 exporting nations. The table bellow shows the top exporting countries in this industry.

Top Exporting Countries

Ranking	Country	Export (million sq.mt.)	Export as a % of world consumption
1	Italy	438	8.1
2	Spain	356	6.6
3	China	100	1.8
4	Brazil	72	1.3
5	Turkey	72	1.3
6	Indonesia	50	0.9
7	UAE	39	0.7
8	Mexico	33	0.6
9	Malaysia	29	0.5
10	Portugal	22	0.4
	world	1385	25.5

Indian Ceramic Tile Industry

The Indian tile industry consists of 16 players in the organized sector and more than 600 units in unorganized sector. The total turnover of the organized industry is around Rs 2,000 crore.

The Indian ceramic tile industry employs 10,000 directly and provides 25,000 persons indirect employment.

The ceramic tile making process has mainly four routes.

- a. Tunnel Bisquit and tunnel Glost Firing: It is the oldest manufacturing process for tiles. The advantage of this process is that it can handle very small size to medium size tiles, which cannot be manufactured by other processes.
- b. Tunnel Bisquit and Roller Glost Firing: The main advantage of this process is that it can produce very large size products which can not be made in tunnel - tunnel route of manufacturing.
- c. Single Roller Firing: This is the most modern technology in the production of tiles today. The advantages are higher productivity, lower fuel consumption and reduced losses.
- d. Roller - Roller firing or Double Fast Firing: The advantage of this technology is that it can produce tiles with better surface.

Today, single firing is mainly used for the production of floor tiles while double firing continues to be used for wall tiles. Roller technology is more suitable for larger tiles while the tunnel technology for the smaller ones.

The vitrified tiles are abrasion and acid resistant and do not absorb any moisture. They are suitable for places subject to heavy wear and tear, such as, industrial and chemical plants, hotel lobbies, show rooms.

The ceramic tile industry in India emerged in the late 1950s with the H&R Johnson setting up its plant for manufacturing wall tiles at Thane. This was followed by Somany Pilkington Ltd (SPL) entering the industry in 1960. After almost 3 decades in 19985, Spartek Ceramics entered the ceramic tiles industry attracted other companies like Regency Ceramics, Kajaria Ceramics, Murudeshwar Ceramics, Bell Ceramics and many others.

The ceramic industry witnessed major changes in the 1990s. Ever since the liberalization process was initiated in 1991, the excise duty on the ceramic tiles has been on the downslide. From as high as 55% prevalent in 1994, it is now down to 16%. These excise duty cuts have helped the industry to achieve a healthy growth rate of more than 8% per annum, which is comparable to the growth rates prevalent among other sectors. Ceramic industry also scored well over its competitors (mosaic tiles and marble stones) because of its environment friendly manufacturing process. Excise duty reduction and eco-friendly manufacturing resulted in boom in the industry during the 1990s. Existing players expanded their capacities and many new companies entered the ceramic tiles market. In 1995, the capacity of the industry expanded by 14% and in the very next year the capacity expanded further by 32%.

Present Scenario

The entry of two new product categories, Vitrified tiles & Porcelain tiles has increased the size of the market considerably. It is expected that these products will gradually take away the market from the conventional ceramic tiles (wall and floor tiles). In 1990s mosaic tiles were in great demand in India. But it started losing ground to vitrified and porcelain tiles since the inception of the latter in the late 1990s.

Unlike the mosaic tiles, which are very heavy and expensive to transport, ceramic tiles are light and can be fixed on the floor easily. Moreover, porcelain and vitrified tiles have a designer look, which is in great demand in this age of interior design and aesthetics. The price is also almost the same for both mosaic and vitrified tiles. Because of these factors vitrified tiles are gaining ground in the Indian market at present.

Ceramic tiles industry statistics

India's Share of Global Production	2.5%
Global Industry Growth Rate	11%
Indian Growth Rate	8%
Organized Industry Turnover	Rs. 16.56 billion
Share of Wall Tile	42%
Share of Floor Tile	46%
Share of Vitrified and Porcelain Tile	12%
Investment in the Last 5 Years	Rs. 16 billion

As far as the manufacturing of ceramic tiles is concerned, both the organized as well as unorganized sectors play important role in India. The unorganized players are concentrated in Morbi, Vankaner and Himmatnagar cities of Gujarat. There are more than 250 units in these regions. They produce as much tiles as what is produced by the big players in rest of the part of the country.

Big players of Ceramics in India.

Company	Brand	Market share
H&R Johnson	Marbonite	21%
Kajaria Ceramics	Kajaria	13%
Murudeshwar Ceramics	Naveen diamontile	5.5%
SPL	Greviti, Somany	--
Spartek	--	--
Regency Ceramics	--	--
Bell Ceramics	--	--

Leading manufacturers Overseas.

Company	Country
RAK Ceramics	UAE
Kaleseramik	Turkey
Nanhai	China

Capacity Expansion

Increasing number of commercial complexes in the country has bolstered demand for ceramic tiles. This massive domestic demand for ceramic tiles in 2004 led to an unprecedented Rs. 500 crore of fresh investments in the industry. All the major players including H&R Johnson, Kajaria Ceramics, Murudeshwar Ceramics, and Regency Ceramics have made substantial investment to expand the production capacity. The industry is hopeful that in the year 2006 most of these fresh capacities would go on production stream.

It is expected that this expansion of plant capacity will help the domestic producers to reap economy of scale. This will in turn enable them to price their products more competitively in the domestic as well as in the global market.

Ceramic Industry Growth Rates.

Year	Production	Domestic consumption	Exports	Import
2003-04	6.55	6.35	31.87	-56.60
2004-05	8.14	18.29	- 18.49	26.90

The above table shows that after the demand surge in 2004, Indian producers felt the need to enhance their plant capacity so that the increasing domestic demand can be met without damaging the export performance.

4Ps of Marketing for Indian Ceramic Industry.

Product.

The ceramic products have traditionally been associated with the aesthetic value of cultures. Today, due to increasing hygiene consciousness and growing tendency to adopt new construction materials has boosted the demand of the product. The product is also associated with culinary (Kitchen) and ornamental items.

Ceramic tiles are very convenient as compared to marble, granite, and stone in terms of price, color choice, weight, sizes, surface and availability.

Place.

Gujarat has a highly developed ceramics industry concentrated in the Morbi, Wankaner, Thangadh, Bamanbor, Shapar-Veraval areas in Rajkot district. The industry has a turnover of around Rs 300 crore per annum in the state.

These areas in the Saurashtra region are rich in red soil (fire clay), which is a raw material for the ceramics industry. In addition, raw materials such as vollestonite and feldspar are acquired from mines in Bikaner and Jaipur. Powder used in the industry comes from Pune and Udaipur. Fuel gas is supplied from Porbandar.

Ceramic products like glazed tiles, sanitary ware and kitchenware are manufactured in Morbi and Thangadh and are exported to countries in the Middle East and Africa.

The ceramics industries earn foreign exchange worth Rs 37.5 crore a year. There are close to 500 units in the ceramics industry in the region. Of these, 200 are engaged in the production of glazed tiles.

Promotion.

India ceramic companies now displays their product range at international exhibitions held in major trade hubs like Dubai, Singapore etc. Also brand loyalty is given due importance.

From march 7-9 2006 there is an International Ceramic Exhibition at Morbi. Many companies from India and Overseas will launch their products in this extravaganza. This exhibition will definitely give a platform to the small players in this industry and an international exposure which was otherwise not possible.

Many ceramic companies in Gujarat have launched online portals to directly come in contact with customers. Visitors of the site can customize the designs at their will and order a sample of the tile before buying it.

Price.

Though Indian ceramic industry is facing pricing war from China, our price is reasonably low in premium markets like Europe, Canada and US. Only thing we need is proper sales network in these markets.

In the markets like Middle East and Africa, the price plays an important role. So we need to lower down factory costs by the use of alternative source of fuels. The government's gas pipeline project will bring down the energy costs drastically.

India's Trade Performance for Ceramic Products

Global ceramic products (including tiles, sanitary wares and crockery items) export was \$ 18834.77 million in 2001 and it has increased to more than \$ 19385.11 million in 2002. Therefore the rate of growth of world trade was 2.92% in 2002.

India's export performance vis-a-vis the rest of the world.

Major exporting countries were Italy, Spain, China and Germany. China registered the highest export growth rate of 31.38% among the major exporting countries.

India's export figures were quite low compared to other countries. In 2002, India had a minuscule share of 0.52% total global ceramic exports.

Major exported of ceramic products and India (US \$ Million)

Country	% share of global export
Italy	21.34
Spain	12.19
China	12.03
Germany	10.01
France	4.55
Japan	4.44
USA	4.32
UK	3.60
Mexico	2.87
Portugal	2.28
India	0.52

India's major export markets.

Major export destinations of Indian ceramic products in 2003 are shown in the table bellow.

India's Export Destinations (US\$ million)

Major Export Destination	2003
Saudi Arabia	14.84

UK	13.07
UAE	12.93
Sri Lanka	6.51
Bangladesh	4.33
USA	4.15
Kuwait	2.77
Australia	2.61
Germany	2.41
Qatar	2.36

India's participation in the global trade is minimal. This can be seen from India's total ceramic trade as a percentage of total global ceramic trade.

Recently a comprehensive project has been undertaken by CAPEXIL (Chemical and Allied Products Export Promotion Council) under the Market Access Initiative (MAI) in order to push export of Indian ceramic and related products to select markets such as the US, Mexico and the UK. The four identified focus products of the MAI project are ceramic insulators, ceramic building wares including tiles and sanitary ware, ceramic household articles or pottery ware and advanced ceramics.

Analysis of India's export potential

Analysis have been carried out to identify potential markets for Indian ceramic products, especially with regard to unglazed and glazed ceramic tiles, ceramic house hold articles and ornamental ceramic products.

Glazed ceramic tiles

Glazed ceramic tile is comprised of two basic material, clay and glaze. The surface of the tile is coated with a colored glaze (similar to glass) and hence the name glazed ceramic tiles. Glazed tiles are easy to clean, but its surface is very low slip resistance and becomes slippery when wet. Therefore, glazed tile is much suited for walls rather than for floors.

The top 3 importers of glazed ceramic products are USA, France and Germany.

Top 3 importers of glazed ceramic tiles	
Country	Value ('000 US \$)
USA	1421174
France	597143
Germany	483835

USA.

USA mainly imports from Italy, Spain and Mexico. Italy alone supplied more than 44% of US import requirements of glazed ceramic tiles. Spain and Mexico supplied around 20% and 11% respectively. India's export to USA is negligible (~ 0.2%) with regard to unit price India is cheaper than Italy but costlier than Spain and Mexico.

France.

France is the world's 2nd largest importer of ceramic tiles. It mainly imports from Italy and Spain. Italy supplies 58% of total import of glazed tiles by France. Spain and Germany are the second and third largest source countries with 24% and 4% shares respectively. India's export to France is negligible. India's unit price in France relatively competitive (\$ 0.4 thousand/ tonne) than European exporters and thus there is scope for increasing India's share in the French market.

Germany.

Germany is the 3rd largest importer of glazed ceramic tiles and the country mainly imports from Italy, Spain and France. More than 61% of Germany's import comes from Italy. Indian glazed tiles are relatively competitive in German market.

Currently, around 80% of India's glazed tiles export (in terms of value) goes to Qatar, Sri Lanka, Saudi Arabia and USA.

Unglazed ceramic tiles

The unglazed ceramic tiles are high value items, usually stain resistant and low wearing. Installation of these tiles is also relatively easy and requires less maintenance, especially with regard to polishing. There are also applications of designs to suit the requirement of customers. Thus, these tiles are one of the potential items for exports from India.

Top three importers of Unglazed Ceramic Tiles	
Country	Value ('000 US \$)
USA	146552
Germany	137069
France	108943

Above table shows top 3 importing countries of this category. Now we will see from where they import this requirement.

USA.

USA mainly imports from Italy, Mexico and Spain. Italy alone supplied around 80% of US import requirements of unglazed ceramic tiles. India's export to USA is negligible. However, with regard to unit price, India is cheaper than European countries. So have potential to grab reasonable market share considering the low unit price as compared to European suppliers.

Germany.

Germany is the second largest importer of unglazed ceramic tiles and the country has mainly imported from Italy, Netherlands and France. India is not a significant supplier to Germany. And it is tough to grab this

market because Germany enjoys vicinity of Italy and both are member of EU.

France.

France is the 3rd largest importer of unglazed ceramic tiles from Italy, Spain and Germany. More than 70% of import by France comes from Italy alone. India is at 14th position as major source country for France. India's unit price in France market is half the value of the major European suppliers.

Currently, around 30% of India's unglazed tiles are exported to Saudi Arabia, Sri Lanka, UAE and UK. India's unit prices are also relatively low in these markets.

Ceramic Household Articles

Ceramic household articles mainly consist of tableware and kitchenware such as dinner set, tea/coffee set, dishes, bowls, serving plates, pitchers, vases etc.

Country	Value ('000 US \$)
USA	1222975
Germany	219005
Japan	214439

USA.

USA mainly imports from China, UK and Italy. China alone supplies around 56% of US imports of ceramic household articles, where the share of UK and Italy is 7.3% and 5.6% respectively. India's market share in USA is negligible (~ 0.1%).

Germany.

Germany mainly imports from Czech Republic, China and Poland. India's market share is negligible and also the unit price of Indian products is higher than Poland and China.

Japan.

Japan mainly imports from China and UK. More than 70% of import by Japan comes from these countries. India's export to Japan is negligible. However Indian products are very competitive against the European products and thus there is scope for India to increase market share in Japan.

Currently, 80% of India's export of ceramic household articles goes to Canada, Germany, UK and USA.

Ornamental Ceramic Products

Top 3 importers of ornamental ceramic products	
Country	Value ('000 US \$)
USA	663931
Germany	144878
Hong Kong	122634

USA.

USA mainly imports from China, Spain and Italy. China alone supplies more than 57% of US import of ornamental ceramic product.

Germany.

Germany mainly imports from Vietnam and Portugal. Around 47% of Germany's import of ornamental ceramic products comes from China alone. India is not a significant supplier to Germany and thus India's market share is negligible. India's unit price is also higher than the price of major suppliers to Germany.

Hong Kong.

More that 95% of import in Hong Kong comes from China. Unit price of Chinese products is much lower than the price of other exporting countries. India does not export to Hong Kong.

Currently, more than 50% of India's ornamental ceramic export goes to USA, UK, France and Spain.

Some Recent Issues

Fuel supply - a major concern to become competitive

There exist few alternative sources of fuels for the domestic ceramic industry like.

- (1) Liquefied Petroleum Gas (LPG)
- (2) Propane gas
- (3) Light Diesel Oil (LDO)
- (4) Coal gas
- (5) Liquefied Natural Gas (LNG)

Presently ceramic and refractory industry spends 35% of the total production costs as the fuel and energy cost. The recent gas findings by Reliance and ONGC have given some hope that the industry will get sufficient supply of gas at reasonable prices in the long term.

Advanced Ceramics - a hugh potential

Of late Indian ceramic industry is focusing on advanced ceramic products to step up exports. At present, advanced ceramic products do not feature in the Indian export basket. Traditional items like insulators, floor tiles and sanitary ware are normally exported. The global market for advanced ceramics is dominated by countries like Japan and America. India is lacking the technology for large scale commercial production of advanced ceramics. However, recently CAPEXIL has announced that it will chalk out a roadmap for development of exports of advanced ceramics products under Market Access Initiative (MAI) scheme of the ministry of commerce.

Advanced ceramics products contain ingredients not usually found in traditional ceramics. A combination of special raw material and superior manufacturing techniques deliver products with unique resistance to temperature, corrosion and wear. The products find use in electronics, automotive and aerospace industries. New and expanding applications for ceramic materials are creating growth opportunities in virtually all industrial sectors of the world's economy. Many commercial and consumer related applications such as computers and telecommunication equipment have been growing rapidly, contributing to the growth, particularly in the electronics ceramic area.

Dumping

Indian ceramic manufacturers are besieged with the problem of low margin and falling profitability. The growth in net margin in the vitrified segment has plummeted from 15% to 3% within a year. According to industry sources, major factors that have kept the price structure firmly low are dumping and anomalous custom duty structure in the country. Cheap imported vitrified tiles are being dumped into the Indian market by countries such as China, Indonesia and Malaysia. During 2003-04 Rs. 100 crore worth of imported tiles were dumped in India. Such cheap import has threatened the industry's viability, especially of units in the vitrified segment.

Recently, the government of India has levied an anti - dumping duty on import of vitrified tiles from China and UAE. Industry sources also allege that vitrified tiles are often imported into India under the disguise of wall and floor tiles to avoid the anti dumping duty. Moreover tiles from these countries are often routed through the SAARC countries to evade the anti dumping duty. These low priced foreign tiles are often of substandard quality and do not conform to the quality norms set by BIS. However, the Chinese tiles have been successful to pose a threat to the domestic tile industry because of the price sensitive nature of Indian market.

Bangkok Agreement

The problem faced by domestic manufacturers due to cheap import has recently been intensified because of the China's entry into the Bangkok Agreement, which was developed with a view to promote free trade among South East Asian countries.

The domestic ceramic tile industry is already facing intense competition and margins are drastically falling. In such a scenario, entry of China, as under this agreement Chinese goods will attract a duty of 10% as against 15% duty on import from other countries. This might severely affect the domestic producers.

The reduction in import duty on Chinese tiles has resulted in a decline in price of vitrified tiles from around Rs. 60/sq ft last year to Rs. 40/sq ft at present. This price shakeout in the vitrified segment has also adversely affected the wall and floor tiles segment where the price has fallen from Rs. 30 last year to Rs 18 at present.

Government Support

1) With the discovery of huge deposits of China clay in Kutch district, the state government is hoping to place the ceramic industry in the state on the world map. The government has set an ambitious target to over take Chinese exports by the end of 2005

According to preliminary indications, China clay deposits are estimated at over 200 million tonne. However, Gujarat Mineral Development Corporation (GMDC) is conducting a survey in Kutch to estimate the amount of availability of the Mineral in the region.

The government has identified four clusters Kutch, Rajkot, Morbi and Mehsana for the development of the ceramics industry in the state. The clusters are expected to be developed and be operational by the end of 2006.

2) The Foreign Direct Investment limit in the real estate and property sector, and the government's thrust on the housing sector through initiatives like the Bharat Nirman and the National Urban Renewal Mission, under which the government aims to focus on 66 select cities, are set to accelerate the growth of ceramic industry.

3) The duty entitlement pass book (DEPB) scheme, under which companies get a 14 per cent tax concession in exports, is only available to glaze units.

4) Providing some relief to the industry, the government of Gujarat had cut sales tax on the products from 15 per cent to 8 per cent in the last budget.

5) The government has rationalized the excise duty structure to a large extent from roughly 55 per cent few years ago to current 16 per cent.

6) In a major breakthrough that is expected to have a far-reaching impact on the ceramic industry, Ahmedabad-based Central Glass & Ceramic Research Institute (CGCRI) has developed a new technology, which is claimed to generate wealth from waste material.

This technology converts hard, vitrified and dense "fired" ceramic scraps into breakable and brittle material so that they can be easily ground into fine powder and then recycled as raw material for the ceramic industry. This uses the wastage to create wealth. And it also protects environment from scraps of ceramics.

7) The ailing ceramic industry, known world-wide for the quality ceramic tiles it produced, will get gas within 4 months as the state energy and petrochemicals department has decided to expedite the work on laying pipeline, as part of the proposed state-wide gas grid, up to Morbi.

The government hopes that its enterprise, Gujarat State Petronet Ltd (GSPL), which is responsible for the gas grid project, will be able to extend the pipeline up to Morbi within 4 months. When I am writing this the fuel costs might have come down in ceramic units.

8) By doing research at Ceramic Research Institute in Calcutta, government has suggested to the manufacturers that energy cost in ceramic manufacturing, which is about 25% of total cost, can be saved by micro processor based control system and variable speed drivers. By this way companies can save 15% of manufacturing cost.

9) Government has established Indian Council of Ceramic Tiles and Sanitary ware (ICCTAS). The goal of this council is "To promote sales of products of ceramic tiles and porcelain articles by India in domestic and overseas markets".

Its activities are, to arrange Trade exhibitions, Events, Seminars and Representation of Indian ceramic manufacturers overseas.

10) Under the aegis of government CAPEXIL (Chemical and Allied Products Export Promotion Council) is actively supporting Indian ceramic companies. Major activity of this council is to transfer trade inquiries from overseas to Indian manufacturers.

11) Chinese tile Company Nanhai exported vitrified and porcelain tiles to India through the United Arab Emirates, so that they can be exempted from paying anti-dumping duties in India. But Gujarat Ceramic Floor Tiles Manufacturers Association (GCFTMA) filed a writ petition in

Gujarat High Court. The court issued the stay order and the shipment was not allowed to be cleared at Indian port. So in this way local associations are very helpful to communicate with the government when there is any dispute.

Problems faced by Indian Ceramic Industry

1) The drop in duties on imported tiles will erode the industry's viability as it will lead to closure of number of manufacturing units. The rationalization of customs duties by the finance ministry has reduced the duties on the import of finished tiles to 10 %

But the import duty on raw materials is almost double at 20 %. India imports bulk of the glaze, which is an essential finishing ingredient, from China. This has placed local manufacturers at a big disadvantage against imports.

The customs duty on raw material should ideally be lower than that on finished goods, so that investors would find it worthwhile to put money into local manufacturing units

2) The cause of eroding margins has been the high basic import duty on raw materials coupled with a demand-supply mismatch a result of huge overcapacities and dumping of sub-standard quality imports from unscrupulous importers and traders.

3) The reasons for industry's poor performance is - skewed capital structure, poor economies of scale, high duties paid on raw materials and squeezing margins as a result of the influx of cheap imports and new industry players.

Industry Voices.

- ; "If the government can provide gas, electricity and water to this industry at lower rates, the sector can become a major money spinner of Saurashtra," said Prafulbhai Detroja, president, Morbi-Dhuva Glaze Tiles Association.
- ; "To boost exports, the DEPB scheme should be extended to sanitary ware and floor tiles firms," said Karshanbhai Aadroja, president, Sanitary Manufacturers' Association.
- ; "Small units which do not export directly are not covered under DEPB scheme. If some special provisions are provided, there is vast scope for development for small firms in this sector," said Chandrakantbhai Aashar, a leading manufacturer of ceramic products.
- ; According to Becharbhai Patel, president, Morbi Chamber of Commerce, "the high power rates charged by the Gujarat Electricity Board (GEB) are further inflating the cost of production of small manufacturers".
- ; Anilbhai Patel, minister of state for industries, said: "The government has given the priority to this industry under the cluster development programme. The ministry has also referred the pipeline plan to the energy minister."
- ; Prafullbhai Detroja, president, Morbi-Dhuva Glaze Tiles Association, says "small ceramic manufacturers who are ignorant of policy and export procedures do not go for exports and sell their products at lower prices in the local market".
- ; Girishbhai Pehtapara, president, GCFTMA says "for South Indian traders, transportation cost from Morbi and from China is equal. So they prefer cheaper Chinese products"

Conclusion

In the recent years, the ceramic industry is witnessing encouraging trends in demand, powered by sustained rise in housing construction and booming hospitality industry. The industry also laid great thrust on cost control measures, capacity expansion, exploration of newer markets and introduction of newer designs. All these measures are expected to facilitate better growth in the industry's revenues and profitability in future.

Ceramic and sanitary ware industry is highly integrated with construction industry and high growth rate in construction sector brings forth fortune for the ceramic and sanitary ware industry. In India the construction sector is expected to do well in the future mainly due to fiscal incentives given to infrastructure development. The budget also set target to build 250,000 housing units per year.

In this year's budget (2005 -06) too, thrust has been given on infrastructure development through the grand "Bharat Nirman" project, which aims to strengthen rural infrastructure within a span of four years. Housing is one among the 6 sectors that has been identified under the project.

Apart from the budget incentives, the housing sector is expected to grow because of low interest rates on housing loans.

All these would provide impetus to growth in construction industry, which in turn would fuel the growth of ceramic product market. Thus, the industry prospects seem to be very good.

According to Michel Porter's model of competitive advantage, the increased domestic market demand will automatically boost the industry's sustainability at international level. But to increase export in the most advanced and remunerative markets, it has become essential to establish a loyal sales network and a brand name that is recognized and respected by industry professionals.

Thus importance must be given on brand building and sales networking backed by better after sales service in markets abroad.

Reference.



- (1) Excerpts from interviews of various persons engaged in this industry
- (2) Export Import Bank of India (Exim Bank)
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Courtesy

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3. Mr. Girishbhai Pethapara
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