

Press release

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Middle East conflict to chip 1-2% off ceramic industry revenue

Operating margin to fall 130-150 bps to a five-year low; credit profiles to face challenges

The Rs 53,000-crore Indian ceramic tiles industry will log a decline in growth for the second consecutive year this fiscal due to the twin impact of ongoing developments in the Middle East (ME).

One, exports to the ME have been impacted by logistical challenges and supply-chain realignment. Notably, exports constitute 40% of the industry's revenue, with the ME accounting for 15% of ceramic exports.

Export revenue may decline 6-7% due to the closure of the Strait of Hormuz, which has disrupted deliveries and increased freight and insurance costs. This has not only halted exports to ME but also raised the cost of exports to other regions.

Two, the supply of liquefied natural gas (LNG) and propane—key raw materials that make up 35% of the cost of goods sold (COGS)—has been curtailed, forcing most ceramic plants to either shut down production or operate at significantly reduced levels.

With production nearly grinding to a halt in March, domestic consumption growth is likely to slow down. The domestic market is now expected to grow just 4-5% this fiscal, slower than the earlier projection of 7-8%.

Says Nitin Kansal, Director, Crisil Ratings, “The ceramic industry will face significant challenges due to the current ME conflict. Specifically, the availability of gas supplies, low-to-no demand from the ME region, and increased logistics costs for other overseas markets will directly impact production schedules. If the situation persists for a further 2-3 weeks, it may lead to longer shutdowns and substantial losses for companies, ultimately causing a 1-2% revenue decline this fiscal. Furthermore, if the situation prolongs, we may see a 7-8% monthly decline in revenue.”

Alongside revenue loss due to plant shutdowns and underutilisation, companies will face the burden of fixed costs (15-20% of the COGS) and higher logistics costs (3-5% of COGS) due to increase in freight cost by 45%-50% and insurance cost by 25-30% for shipments.

The above factors are expected to drag down operating profitability by 130-150 basis points (bps) to a five-year low of 9.3-9.5% this fiscal and, if the situation persists in the first quarter of next fiscal, decline to 8.2 -8.5% in fiscal 2027.

Our analysis of 40 manufacturers rated by us, accounting for about a fourth of the industry's revenue, indicates as much.

With the expected decline in profitability and flattish revenue, interest coverage of our rated portfolio is expected to moderate to 3.5 times this fiscal from 4.4 times last fiscal. Total outside liabilities to tangible net worth (TOL/TNW) should remain in check at 1 time this fiscal.

Says Nilesh Agarwal, Associate Director, Crisil Ratings, “Our rated companies have sufficient liquidity for 30-40 days to manage essential expenses and repayment of debt obligations despite operations remaining shut. However, if disruptions persist beyond 30-40 days, finances of rated ceramic companies could come under strain, impacting their credit profiles.”

Any further escalation in geopolitical uncertainties, leading to longer shutdowns, will bear watching, as will government support and reduced exports.

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