Ceramic Tiles Industry

SECTOR Overview

June 2018

Global Market Highlights

- Top 5 Manufacturing countries of Ceramic Tiles (in terms of Volume)

China, Spain, Italy, India and Iran

- Global Industry reached a monetary value of USD 76 billion in 2016.
- Expected to grow at a CAGR of 9% between 2014-2020 to reach $120 billion by 2020.

- Asia is the Largest manufacturer and consumer of ceramic tiles.
- Accounts for 69% of the global production and 67% of the global consumption.
- China alone contributes 48.3% of the global production.

- Largest Exporter of Ceramic Tiles Globally: China (18.2% of the Global Exports)
- Spain has the highest share of exports in terms of its production, i.e., 86% of its production.

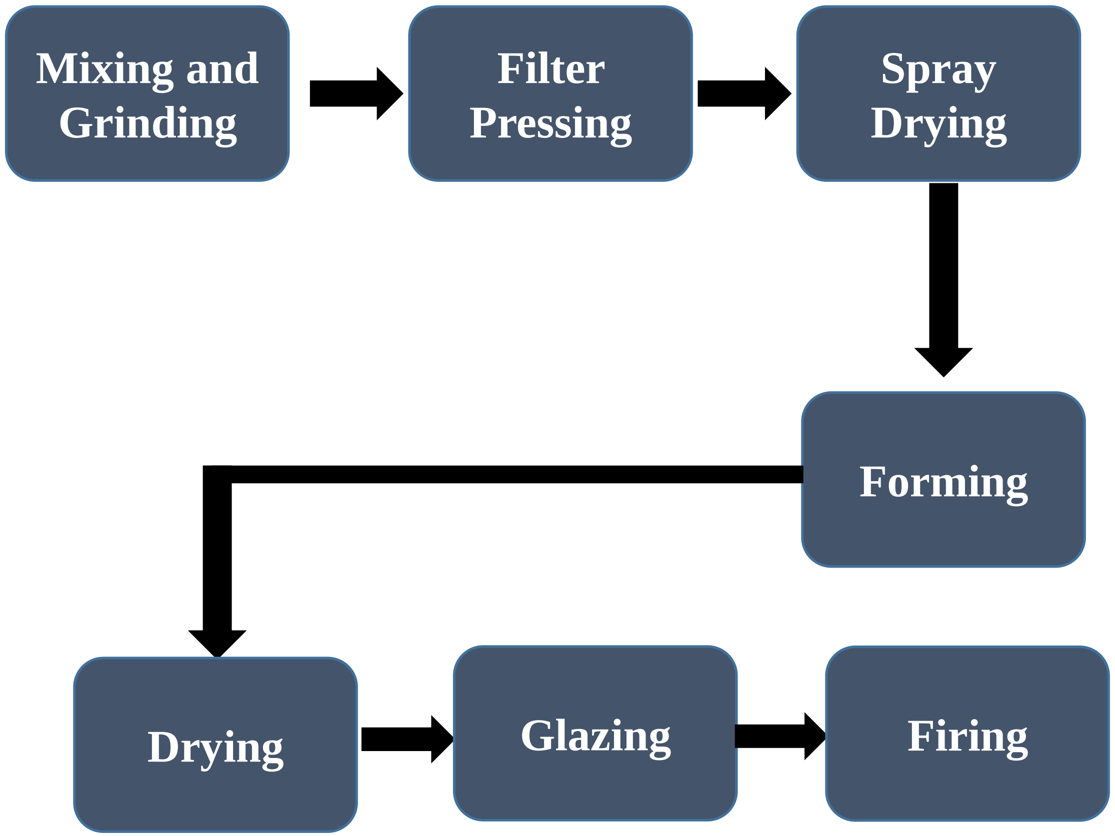
- India emerging as the third largest producer of ceramic tiles
- CAGR of 8%
- Became third largest consumer of ceramic tiles with a share of 6.3% in global consumption

Domestic Industry - Overview

- ❖ Ceramic Tiles Industry emerged in Pakistan in 1978.
- ❖ First Tiles Manufacturing unit was established in Karachi by Shabbir Tiles & Ceramics Limited
- ❖ The industry is a sub-sector of "Non-metallic Mineral Products" Sector included in Large-Scale Manufacturing.
- ❖ Immense potential for growth available to the Industry, which is highly dependant on the growth of construction sector of the Country. Actual potential of the domestic industry stands at ~400 million square feet of tiles per annum.
- ❖ The Demand for Ceramic tiles has a positive outlook & is likely to increase in the future.
- ❖ Annual Demand for tiles in Pakistan stood at 73million square meters in FY17.
- ❖ At present, annual demand for the industry stands over ~100million square metres of tiles.
- ❖ Import gap filler of ~52% of the total demand due to underutilized domestic industry.
- ❖ Major Raw Materials used in the production of tiles are clay, natural minerals such as feldspar and quartz, that are used to lower the firing temperature, natural Gas and chemical additives that are required for the shaping process.

Production Process - Outline

- The Raw Materials are pulverized and crushed according to particle size before mixing and grinding them.
- For many ceramic products, including tiles, the body composition (including colour of the tile) is determined by the amount and type of raw materials. Therefore, raw materials are batched according to their weights and composition before being mixed together in order to get the desired tile product.
- Once the ingredients are weighed, they are added together into a mixer. Sometimes, it is necessary to add water to improve the mixing of a multiple-ingredient batch as well as to achieve fine grinding.
- The excess water is usually removed via spray drying.
- Afterward, the tiles are formed using various techniques depending on the output such as dry pressing, ram pressing or pressure glazing
- The tiles are then dried again, glazed and finally heated intensely to strengthen them and give them the desired porosity.



Types of Tiles Produced in Pakistan

Ceramic tiles

Unglazed Ceramic tiles
Glazed Ceramics

- Single glaze
- Double glaze

✓ Easier to install and maintain
✓ Variety of types each with a different quality
✓ Easy to clean and have a plain surface
✓ Best for home use in kitchens and washrooms
✓ Also used for high traffic areas

Available in Variety of Sizes

Wall Tiles

Sizes: 22x66cm, 33x66cm, 27x77cm, 30x45cm, 20x50cm, 20x60cm.

Floor Tiles

Sizes: 15x90cm, 60x60cm, 40x40cm, 30x30cm, 100x100cm.

Clay tiles or Terracotta tiles

- Clay Roof tiles
- Clay floor tiles
- Clay brick wall tiles

Stone or Marble tiles

- Floor tiles
- Wall tiles

Ceiling tiles

✓ Light weight
✓ Used within buildings
✓ Provide thermal insulation
✓ Improve the acoustics of a room

Concrete tiles

- Circle paving tiles
- Concrete face wall tiles
- Concrete roof tiles
- Precast pavers
- Stone effect tiles

Mosaic tiles

- Marble mosaic
- Green Onyx
- Split stone veneer
- Brick mosaic

Rubber Floor tiles

✓ Commonly used as a protection for easily breakable floor
✓ Great uses in commercial and residential settings.

Plastic Floor tiles

✓ Suitable for heavy traffic areas and wet floors subject to movement, dampness and have usage of oil.
✓ Used in factory floors, garages, gyms, sport complexes, schools.

Sector - Composition

Domestic Tiles Market is divided into two segments:

- ❖ Organized Segment
- ❖ Unorganized Segment

Organized Segment

- ❖ Consist of Large Scale Manufacturing Concerns
- ❖ Governed by Relevant Associations (All Pakistan Tiles Manufacturing Association)
- ❖ Target Market consists of middle class and affluent segments in the urban areas.
- ❖ This segment consists of approximately 60% of the total domestic tiles industry by value.
- ❖ 7 top players in this sector.

Unorganized Segment

❖Small-scale privately owned manufacturers and traders.

Sector Snapshot

Annual Demand For tiles sector stood at 73million square meters in FY-17. The demand has now increased to ~110million square feet per annum.

Huge potential for growth in the Industry with a CAGR of 8% since 2013 through 2017.

Protected Industry – Major hindrance in development was import of cheaper tiles from neighbouring countries.

Chinese Imported tiles accounted for 75.26% of the total imports in FY17.

The National Tariff Commission imposed provisional anti-dumping duties for Imports of tiles from China against application submitted by the domestic producers effective from January 31, 2017.

Key Demand and Supply Drivers

Demand drivers:

- Construction boom in the country
- Increase in purchasing power of the middle class population.
- Government initiatives for infrastructural developments in the country/urbanization

Supply Drivers:

- Abundant availability of Raw Material Clay (especially in the KPK region)
- Positive outlook for local players for ongoing determination by National Tariff commission on anti-dumping duty for a period of 5 years.

Sector | Supply Side | FY17

Company	Available Production Capacity (Square meters) – FY17
Shabbir Tiles & Ceramics Industries Limited	12,760,000
Master tiles & Ceramics Industries Limited	9,000,000*
Karam Ceramics	6,480,000
Emco Industries*	5,000,000
Frontier Ceramics	4,680,000
Sonex Tiles & Ceramics	1,400,000
Swat Ceramics (Pvt) Limited	1,500,000
Star Tiles	5,500,000
TOTAL	**40,820,000**

- **Annual Available production capacity has reached to ~50mln square meters by June-18.**

Master Tiles' capacity has been enhanced to ~11mln sq.m by June-18. Further expansion plans would add up to ~41mln sq.m by 2021.

- **Tiles Manufacturing segment has been closed in FY-17 for EMCO Industries.**

- **Highest capacity utilization is of Master Tiles ~60%-~69%**

Sector Performance

Performance of Top Players of the Industry

Rs in million – FY17

Company	Master Tiles & Ceramics	Shabbir Tiles & Ceramics Industries	Karam Ceramics	Emco Ceramics	Frontier Ceramics
Revenue	5,127	5,020	861	1,007	427
Net Profit	516	(151)	(75)	29	8
Turnover growth	26%	8.85%	(28.01%)	(4.89%)	4.52%
Current ratio	0.92	0.8	1.13	0.99	0.77

- *Available data of sector players.*

Major threats to the Local Industry - History

Imports

- Cheap Imported tiles from China under the Free-Trade agreement has hurt the local Industry since 2015.
- Market Share for imported tiles increased to 52% in the FY17 up from 25% in FY13.

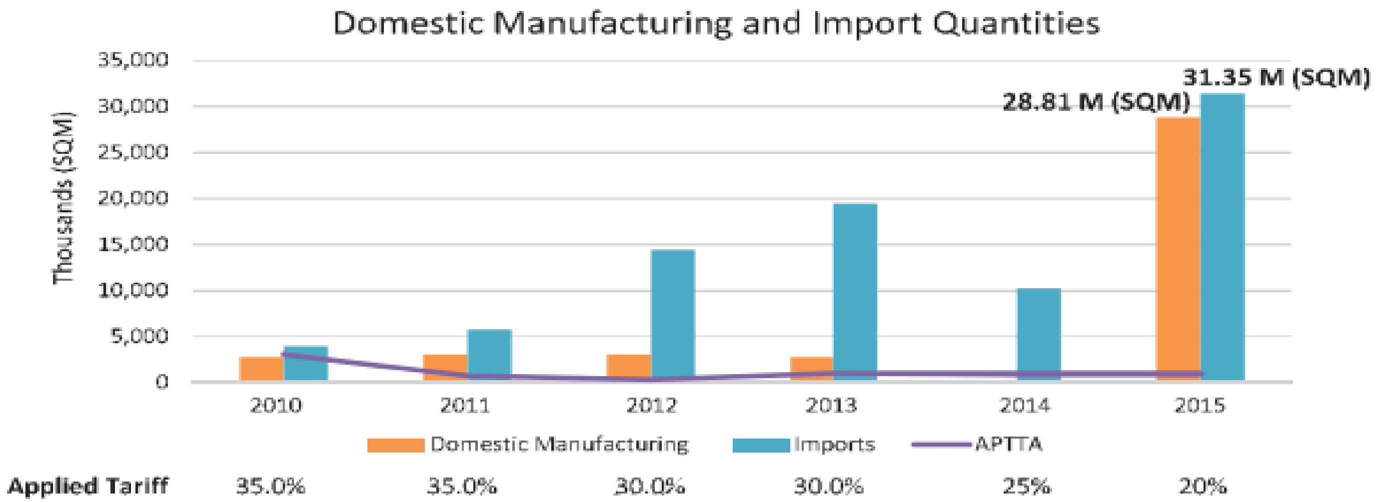
Under-invoicing

- The export quantities reported by partner countries differ from the Import quantities declared by Pakistani importers which may be a result of misdeclaration .

High Cost of Natural gas

- Cost of gas for Industrial consumers has increased at an annualized rate of 9% to reach PKR700/mmbtu in the FY17..

Comparison of Domestic Manufacture with Imported Tiles



*trade-weighted average of HS 02 subheadings of 6907 and 6908

- The applied tariff on Imported tiles decreased on YoY basis reaching to 20% in 2015..
- In 2015, the Volume of Imported tiles increased by 2.54 Million Square meters despite of having immense domestic production potential, after which investigation was carried out by NTC to impose anti-dumping duties.

Tariff Structure on Import of Tiles – Prior to anti-dumping duties

Tiles on which anti-dumping duties are imposed by the Government (effective from January 31, 2017) consist of Wall and Floor Tiles including ceramic, porcelain, vitrified, granite, glazed/unglazed, polished and unpolished tiles. These are classified under the Pakistan Custom Tariff (PCT) Codes of: 6907.1000, 6907.9000, 6908.1000, 6908.9010, 6908.9090.

PCT Code	Description	Custom Duty	Regulatory Duty
6907.1000	Unglazed Tiles, cubes and similar articles the side of which is less than 7 cms.	20%	25%
6907.9000	-Others	20%	15%
6908.1000	Glazed Tiles, cubes and similar articles the side of which is less than 7 cms.	20%	25%
6908.9010	Tiles	**20%**	**25%**
6908.9090	-Others	20%	15%

Protection to the Domestic Sector | Revised Tariffs

	Pre – anti dumping	Post anti-dumping
Custom Duty	20%	20%
Regulatory Duty	25%	45%
Anti-dumping duty	*	~10% - 36%

*Anti-dumping duties are currently imposed on imports from China. Previously, their imposition was subject to frequent changes and withdrawals. Domestic producers are also compelling on imposition of such duties on imported tiles from Iran whose out-turn is yet to be seen.

Industry Developments

Master Tiles Installed Capacity being increased from 11mln square meters to 19mln square meters in FY18. Further increase in pipeline.

EMCO industries ceramic tiles segment was closed in FY17. Entire focus shifted to transmission poles.

Pakistan Tiles – a new entrant in the Industry in April-18 through installation of a used plant from China and OEM from Italy.

Frontier Ceramics – Floor tiles eradicated from the market in FY17

New Entrant Hashoo Group expected to enter the market in FY19.

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