

Building Materials

Engage Echo: Morbi tiles – Decoding industry stress



As part of our *Engage Echo* series, we hosted an industry expert from a leading tiles manufacturer with over two decades of experience. Key takeaways from interactions: i) The US Iran–Israel conflict has disrupted fuel supply in Morbi, forcing shutdowns at 90–95 out of 700–725 tile plants amid propane shortages and potential cessation of Gujarat Gas supply after 15 March. ii) Fuel switching offers limited short-term flexibility as controlled shutdown/restart takes two–three days and kiln modifications for alternatives such as RLNG could take at least a month. iii) With gas accounting for 20–25% of production costs, organised players plan phased price hikes of INR25–85/sqm (7–15%) for GVT/PVT tiles. iv) Organised players are better positioned due to higher inventory (45–60 days versus 18–20 days for unorganised units), and the disruption could even lead to permanent closure of 5–6% of plants. v) Export outlook remains weak as 35–40% of Morbi shipments go to the Middle East, to which trade flows are currently disrupted.

- Fuel supply disruption due to ongoing US Iran-Israel conflict:** The Morbi cluster has 700–725 active plants producing ceramic, GVT and PVT tiles. However, 90–95 plants have already shut operations due to fuel shortages. The industry primarily relies on propane (~70% of fuel mix) and natural gas (20–22%); LNG use is limited to 1–2%. Propane supply has been disrupted after the government directed oil marketing companies and private suppliers to prioritise LPG over propane. In addition, Gujarat Gas has indicated that supply may cease after 15th March.
- Limited short-term flexibility for fuel switching:** Tile plants must have a controlled shutdown, typically maintaining a buffer of two–three days to gradually reduce kiln temperatures. Restarting a plant also takes two–three days and costs ~INR2mn in case of large plants and INR 1–1.25mn for smaller units. While alternatives such as coal or RLNG are technically feasible, modifying kiln setups would take at least a month, limiting near-term substitution options. Gujarat Gas is currently in discussions with authorities to continue supplying gas to existing customers, potentially at a 40–45% higher price.
- Industry may attempt raising price to pass on cost increases:** Gas accounts for 20–25% of total production cost in tile manufacturing. In response to the sharp increase in fuel costs and supply constraints, organised players have decided to implement price hikes in three phases in Mar'26. The magnitude of hikes is expected to be INR 25–85/sqm (implying 7–15% price hikes) for GVT/PVT tiles while ceramic wall tile prices are unlikely to see increases at this stage.
- Organised players likely to benefit from disruption:** Organised manufacturers are relatively better positioned due to higher inventory buffers (45–60 days) compared with 18–20 days for unorganised Morbi players. As a result, supply disruptions could lead to temporary capacity shutdowns among smaller manufacturers, benefiting organised players with stronger balance sheets and distribution networks. The disruption could potentially lead to permanent closure of 5–6% of plants in the cluster.
- Export outlook remains weak in near term:** Exports account for a significant portion of Morbi production, with 35–40% of shipments directed to the Middle East. Exports to this region are currently disrupted, although routes to markets such as the US, Russia and Latin America remain operational. Even if the fuel supply situation stabilises over the next one–two weeks, export demand is likely to remain muted in the upcoming quarter.

Exhibit 1: Valuation matrix

Company Name	M-cap (INR bn)	Rating	CMP (INR/sh)	TP (INR/sh)	EV/EBITDA (x)			P/E (x)		
					FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Kajaria Ceramics	153	BUY	958	1,125	17.6	17.1	15.3	30.3	29.1	25.6
Somany Ceramics	15	ADD	370	435	8.0	7.1	6.0	26.7	20.7	15.3
Cera Sanitaryware	61	REDUCE	4,652	5,200	22.9	20.6	18.0	28.2	26.9	24.3

Source: JM Financial

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Rating	Meaning
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