

BUILDING MATERIALS

15 October 2024

Tiles channel check: Stable pricing environment

- Demand conditions were mixed in Q2FY25 as healthy demand was observed in West/East/Central and weak in North/South regions
- Pricing environment for top brands remains stable in Q2FY25, despite rise in competitive intensity from Morbi
- Kajaria continues to be the leading tiles brand, followed by Somany; Simpolo and Varmora are the fastest-growing brands on a low base

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We recently interacted with 15 bathware dealers pan-India (South: 4; East: 4; North/Central: 4; West: 3) to gauge the demand and pricing scenarios in the tiles sector in Q2FY25, the near-term outlook and the industry competitive landscape.

Demand conditions: According to our channel check, tile demand was mixed in Q2FY25 on a YoY basis as West/East/Central India observed healthy demand, whereas North/South saw muted demand due to the slow pace of construction activity and delay in regulatory approvals (especially in Telangana and Andhra Pradesh). Going ahead, few dealers expect a recovery in demand in H2FY25 due to near-completion of ongoing real estate projects, but some believe demand will remain slow in the near term.

Pricing scenario: The competitive intensity from Morbi players has gone up in the past few months as they are dumping goods at heavy discounts in the market (especially in the project segment) due to weak exports. However, the established brand has not been much impacted in the retail segment as most customers are brand centric. Despite the rise in competition from Morbi players, tiles prices for top brands were relatively stable on a QoQ basis in Q2FY25.

Competitive landscape: Our tiles universe revenue grew at 7.8% CAGR over the last five years (FY19-FY24). Among the top brands, Simpolo's revenue grew at the fastest pace (+16.8% CAGR), followed by Varmora (+13.8%), Johnson Tiles (+8.5% on a low base), Somany (+8.2%) and Kajaria (+8.1%).

Segment performance: GVT is the best-selling product for most dealers, followed by CWT. Demand for large slab tiles is growing gradually in both the retail and projects segments. Dealers expect the market size of large slab tiles to grow sharply in the next few years as the top brands are making consistent efforts to push the large slab tile product in the market due to improved margins.

Recommendation snapshot

Ticker	Price	Target	Rating
KJC IN	1,406	1,450	HOLD
SOMC IN	703	900	BUY

Price & Target in Rupees | Price as of 15 Oct 2024



Dealer feedback on select top brands

Kajaria: (a) The brand has a strong pan-India presence in both the retail and project segments. (b) Despite selling its products at a premium (+5-10%) compared to other top brands, the company has consistently increased its market share due to a robust distribution network, increased advertisement spends and efficient marketing team. (c) Received positive feedback about dealers servicing regarding large SKUs range, availability of goods and timely delivery.

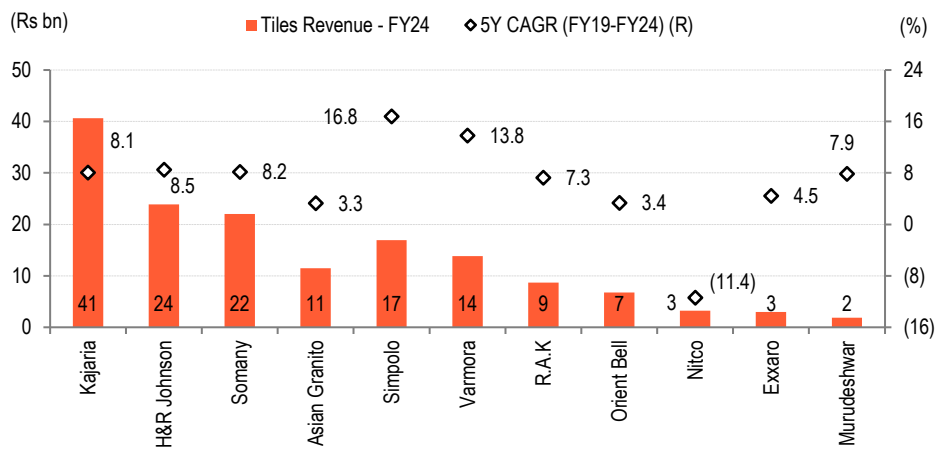
Somany: (a) Most dealers indicated that Somany is the second-best performing tiles brand after Kajaria across regions. (b) Region-wise, the brand has a limited presence in the East market due to weak distribution network. (c) Received positive feedback on the company’s pre and post sales service.

Johnson: Most dealers indicated that Johnson is the third-best performing tiles brand in the North/Central/East India markets, but it has a poor presence in the West/South markets.

Simpolo: The company is the fastest-growing tiles brand in most regions (except East) due to aggressive distribution network expansion, continuous focus on launching differentiating and innovative products in the market and increased marketing spend.

Varmora: (a) The company has been gaining market share through aggressive marketing efforts (opening new stores, large SKUs range, ad spends) in most regions across India, but it has limited presence in the retail segment in the East/Central regions due to lack of distributors.

Fig 1 – Our tiles universe revenue grew at 7.8% CAGR over FY19-FY24



Sources: Company, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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