

INDIA

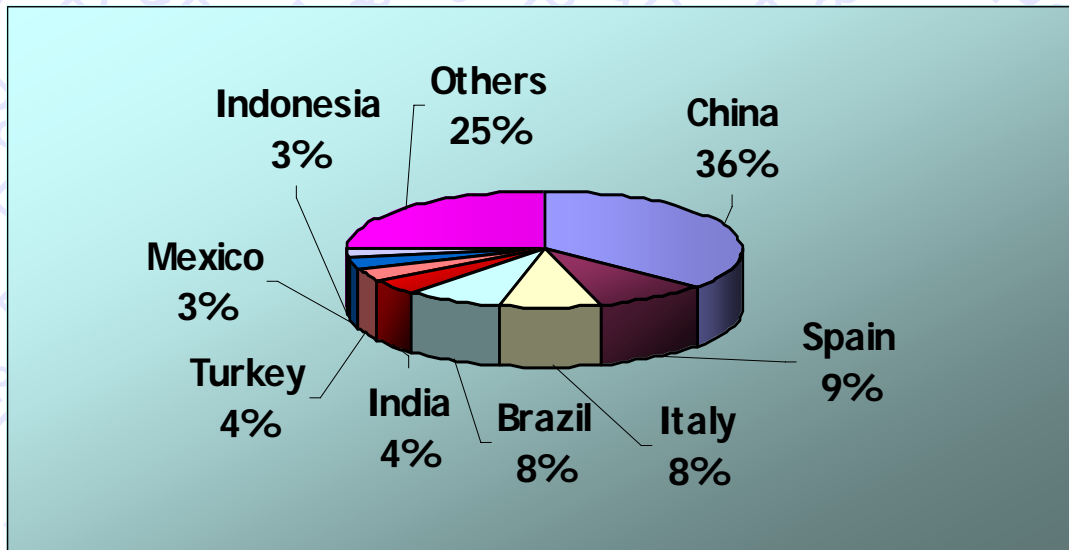
CERAMIC TILES INDUSTRY

MARKET PROFILE

and

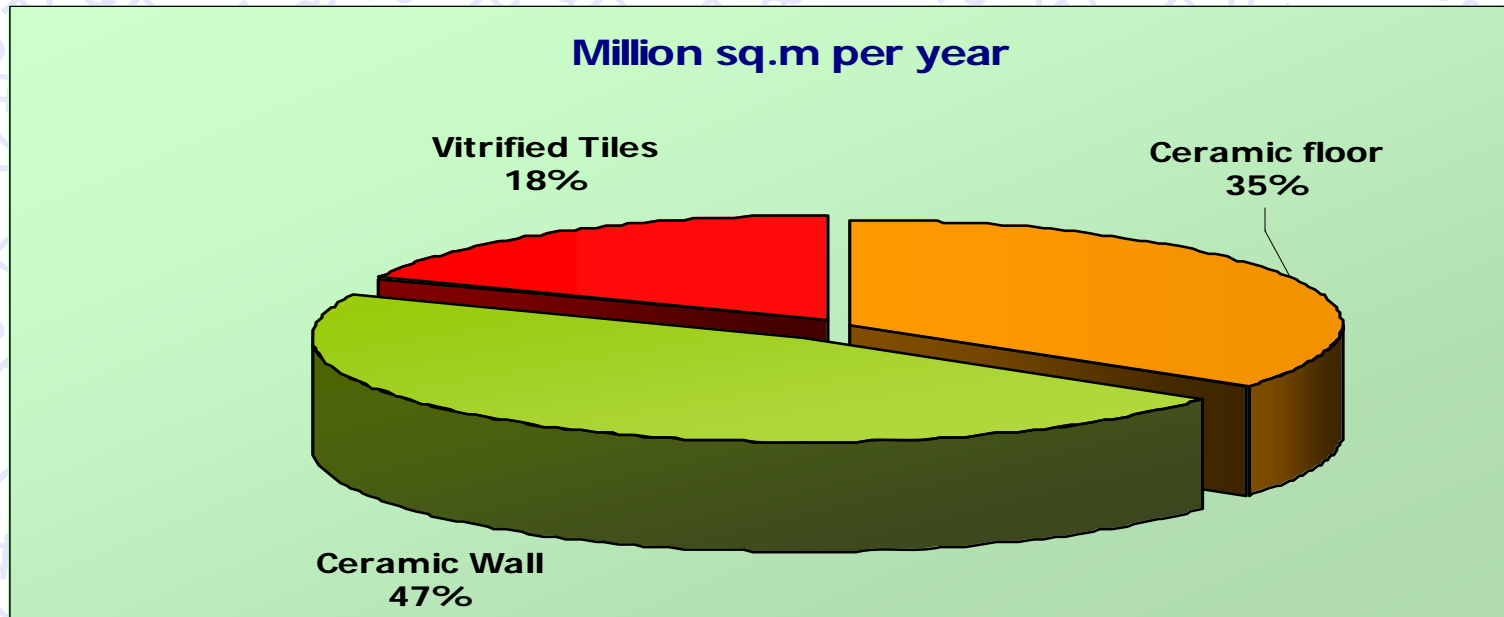
WINNING STRATEGY

Global Ceramic Tiles Production-2006-07



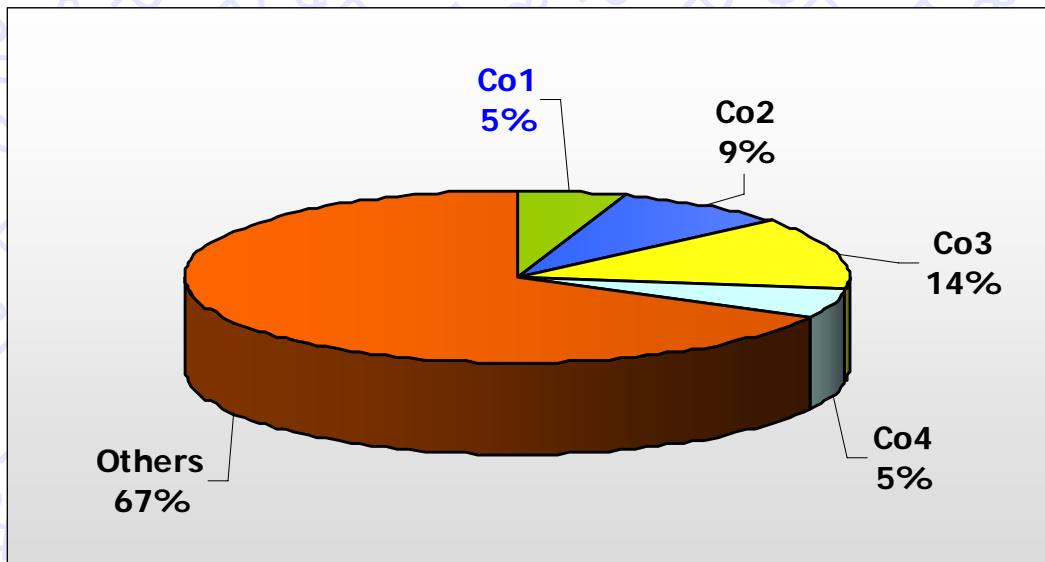
Country	Prodn capacity (mn sq.m)
China	2500
Spain	656
Italy	570
Brazil	568
India	298
Turkey	261
Mexico	190
Indonesia	175
Others	1737
Total	6955

Tiles Industry statistics 2006-07



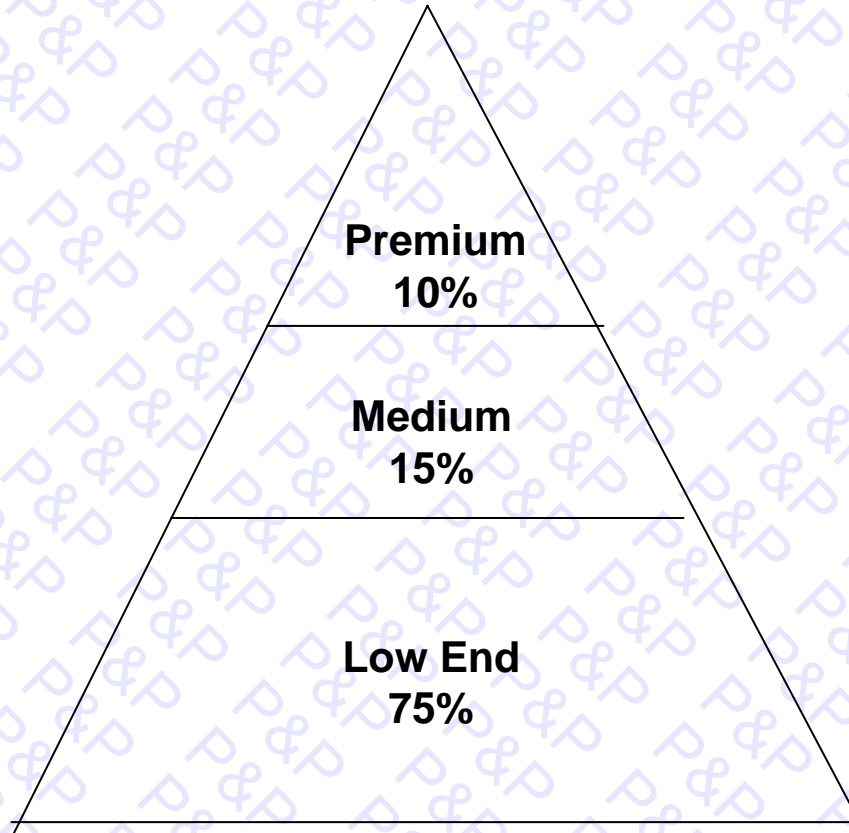
Category	Value(in M USD)	Million sq.m/yr	Real (USD/Sq.m)
Glazed ceramic Porcelain floor	500	105	4.5
Glazed Ceramic Wall	500	140	3.4
Polished Vitrified Tiles	500	55	8.5

Ceramic market share in India - 2006-07



Company	Prodn capacity
	(mn sq.m)
Co1	15000
Co2	25000
Co3	40000
Co4	15000
Others	195000

Market Structure by Price



Competition features

- Large market fragmentation – 35% from unorganized players
- Company1 is leader in premium segment
- Company2 operates in ceramic floor and wall.
- Company3 is the market leader having presence in all segments
- Company4 operates in wall and floor.

Market Overview For Last 5 Years

- The growth rate has been 20% per annum
- Aggregated investments some USD 1.2 Billion
- Total production stood at approx. 300 million sq.m per annum
- 50% of the industry was in unorganised sector.

Market Overview for Year 2006-2007

- The market size was around USD 1.5 Billion.
- Unorganised sector accounted for 35% where as the organised sector accounted for 65%.
- Per capita consumption in India is 0.15 sq.m, China at 2 sq.m, Europe is at 6 sq.m.
- India ranks 5th in terms of production in world.

Market trends for next years

- Unprecedented growth being foreseen in India's residential, commercial and retail segments
- A sharp increase in incomes will gradually translate into a sharp increase in flooring spendings.
- Market environment will be catalysed by two realities: evolution of interiors into a status symbol and widening of the market with imported varieties.

Factors sustaining growth

- Booming economy, general market and stock market doing well
- Increased spending on Infrastructure
- Incremental demand from industrial projects
- Increasing number of nuclear families
- Higher real income and higher affordability of disposable income on housing
- Tax policy to Housing

Comparison among China, India and Europe

- Chinese Tiles approximately cost €1-2 per sq.m.
- Indian Tiles approximately cost €3-4 per sq. m.
- European High Fashion high quality tiles cost from €9-10 upwards (very little niche)

- **Conclusions:**

- European tiles are too expensive and very little volumes. Indian Tiles are very much harmed by Chinese Tiles.
- Both Indian and European Tiles need to find a new strategy to face and win Chinese competition

Receipt for Success

- Should both Indian and Europeans be able to offer the same European perceived quality and design and elegance at more affordable prices (€6-7 per sq.m.) there might be a very big new market in the high-end premium segment .
- The only way to achieve that is to have a Euro-India JV and implement the following guidelines.....

Euro-India JV

Hybrid model to success

- The hybrid model provides a significant opportunity to scale revenues in the shortest time and represents a win-win strategy:
- Pursue a unique Flooring Solution Company.
- European Group provide designs and monitor quality;
- Indian manufacturer invests in scale and manufacturing excellence
- Both strengthen JV's supply chain to reach customers quicker and cheaper

SWOT for India Delocalised Euro-INDIA JV

Strengths

- High perceived Innovation and Design
- High perceived Fashion Brand
- High perceived Life Style
- High perceived High Quality
- Foreign perceived tiles at Indian manufacturing prices
- New opportunity for Private Equity
- Distribution Leverage on Indian Partner's marketing network
- People
- Territory Knowledge by Indian Partner

Opportunities

- Industry growth rate of +15% p.a.
- Low penetration levels of organized housing
- Opening of large projects
- Competing at the high end 10% market share
- Delocalise vitrified tiles to China Plants
- Pursue a unique Flooring Solution Company.

- Location
- Low current capacities

Weakness

- Large unorganized sector
- Low entry barrier
- Depleting price lines
- Increasing competition by China

Threats

The Future Winning Strategy

- extend a tile into a lifestyle statement
- extend a tile to floor solution comprising a unique and non-repeat assortment of tiles within a collection
- position its products around innovation, innovation and innovation
- create sub-markets
- find the right combination for produce, position, promote and price
- realizations higher than the industry standard
- focus in innovating faster and better

Establish a prominent position in the building product segment

and in the following lines of business:

- Manufacturing of premium range of Ceramic Tiles
- Processing and distribution of imported marble
- Manufacturing of Cement Tiles
- manufacturing of vitrified tiles and paving tiles through Contract Manufacturing from China.
- add new products like sanitary ware, bathroom fittings through outsourcing for sale within the existing dealer network
- Manufacture of exterior paints.

The Future Business Model

- Pursue the best of a global business model: manufacture either in India or abroad, market in India or abroad
- Pursue a flexibility between 'make and sell' and 'buy and sell'
- Pursue minimized capex investment in a low capital-output business
- Pursue outsourcing from those countries that possess the most attractive economies of scale
- Pursue and secure low cost outsourcing advantage through a long-term purchase agreement with a stable manufacturer
- Pursue the right equilibrium between a manufacturing focus and a contract manufacturing strategy

A Premium boutique profitability

- Pursue a policy of high margins through a presence in high-end products. Target EBITDA margins can be higher than 15% , Target Return on employed capital can reach 12-13%
- Pursue a balance of value and volumes that protects sustainability.
- Pursue a strategy as an effective hedge against interest and fuel costs, both outside the company's control.

Marketing and distribution network

- Direct Dealers spread across the country
- Retail Outlets spread across the country.
- Marketing Offices across the country.
- Direct Shop in Shops which help promote and sell products to the consumers.
- Exclusive Showrooms in major cities.
- Direct Nooks which act as shop-in-shop.
- Customer helpline service.

Advertising strategy for a BrandCo

- Build a well known brand in India tiles industry
- Look for a well known celebrity as Brand Ambassador
- Advertising on T.V. to improve visibility of brand.
- Reinforce and stress brand attributes like innovation, fast mover, younger and modern, premium and classy.