

CERAMICS IN SRI - LANKA

Opening Doors....



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CERAMICS IN SRI - LANKA

SRI LANKAN CERAMICS TILES....

In Sri Lanka floor tiles and wall tiles are available in a wide range of shades, designs and finishes - rough or smooth surfaces and sizes to suit any area in residential and commercial buildings. They range from simple glazed tiles to multiple prints and manual hand painted to machine embroidered types. A variety of different textures to suit customer preferences: matt, rough, gloss, stone, marble, and terra-cotta finishes in a range of self-colours or shades are available.

MAJOR STRENGTHS OF CERAMIC TILES INDUSTRY IN SRILANKA



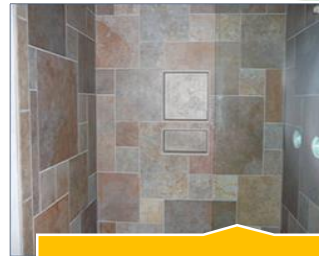
Abundant availability of raw materials

Availability of highly skilled workforce

MAJOR PRODUCTS OF CERAMIC TILES & SANITARY INDUSTRY



Floor Tiles



Wall Tiles



Bath ware & Sanitary ware



INDUSTRY SNAPSHOT



ORGANIZED SECTOR PRODUCTION CAPACITY

12.47 million SQM (as of 2016)

GROWTH RATE OF CERAMIC TILES INDUSTRY



SHARE IN GLOBAL TILE MARKET



PER CAPITA TILE CONSUMPTION



EXPORTS OF CERAMIC TILES

2,524 US\$ thousands

(As of April 2016)

SERVING MARKET SEGMENT



RESIDENTIAL

75 %

COMMERCIAL

25%



MAJOR CHALLENGES

High Energy Prices

Rigid Labour Policies



MAJOR PLAYERS

Lanka Tiles Plc

Lanka Wall Tiles Plc

Royal Ceramics Lanka Plc

Mack tiles Lanka

IMPORT STATISTICS

List of supplying markets for the product imported by Sri Lanka in 2015

Product: 6907 Unglazed ceramic flags and paving, hearth or wall tiles; unglazed ceramic mosaic cubes

Exporters	Trade Indicators						Tariff (estimated) applied by Sri Lanka (%)
	Imported value 2015 (USD thousand)	Share in Sri Lanka's imports (%)	Imported quantity 2015 (IN TONS) Estimated	Imported growth in value between 2011-2015 (% p.a.)	Imported growth in quantity between 2011-2015 (% p.a.)	Imported growth in value between 2014-2015 (% p.a.)	
World	1,830	100	2,597	24	16	101	
Malaysia	895	48.9	1,242	82	69	1179	25
China	402	22	583	35	27	16	25
Italy	218	11.9	308	27	19	16	25
India	89	4.9	131	-40	-44	1383	25
UAE	80	4.4	112	107	117	3900	25

List of supplying markets for the product imported by Sri Lanka in 2015

Product: 6908 Glazed ceramic flags and paving, hearth or wall tiles; glazed ceramic mosaic cubes

Exporters	Trade Indicators						Tariff (estimated) applied by Sri Lanka (%)
	Imported value 2015 (USD thousand)	Share in Sri Lanka's imports (%)	Imported quantity 2015 (IN TONS) Estimated	Imported growth in value between 2011-2015 (% p.a.)	Imported growth in quantity between 2011-2015 (% p.a.)	Imported growth in value between 2014-2015 (% p.a.)	
World	58,084	100	109,417	13	11	26	
China	37,409	64.4	70,432	24	22	27	26.7
India	15,548	26.8	29,316	18	15	57	26.7
Indonesia	1,395	2.4	2,636	-29	-30	-40	26.7
Spain	1,001	1.7	1,891	9	7	1078	26.7
Thailand	671	1.2	1,261	-25	-27	-65	26.7

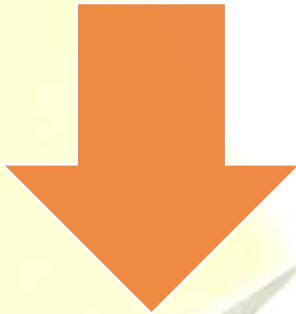
List of supplying markets for the product imported by Sri Lanka in 2015

Product: 6910 Ceramic sinks, washbasins, washbasin pedestals, baths, bidets, water closet pans, flushing

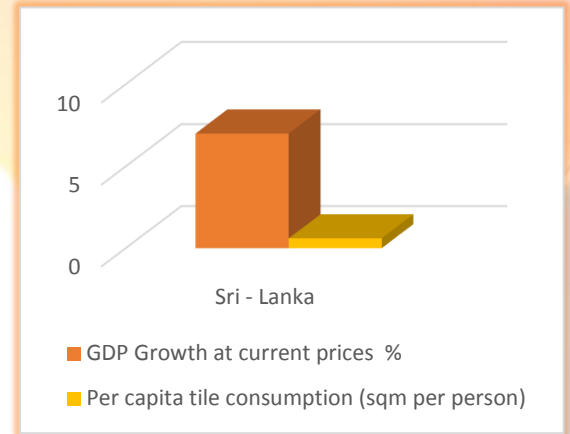
Exporters	Trade Indicators						Tariff (estimated) applied by Sri Lanka (%)
	Imported value 2015 (USD thousand)	Share in Sri Lanka's imports (%)	Imported quantity 2015 (IN TONS) Estimated	Imported growth in value between 2011-2015 (% p.a.)	Imported growth in quantity between 2011-2015 (% p.a.)	Imported growth in value between 2014-2015 (% p.a.)	
World	9,608	100	4,077	12	7	14	
China	6,795	70.7	2,917	15	10	20	21.6
India	1,059	11	432	-2	-6	-6	21.6
Thailand	769	8	335	32	35	6	23.1
Spain	312	3.2	132	115	105	373	23.1
Germany	179	1.9	66	62	61	-38	23.1

GROWTH DRIVERS FOR CERAMICS IN SRI - LANKA

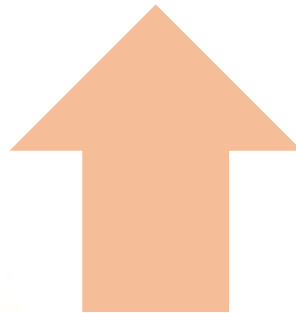
LOW PER CAPITA TILE CONSUMPTION



Compared to per capita tile consumption in nations like Europe at **6m²** per person, Brazil **2.5m²** per person and global tile giant China at **2m²** per person.



The local tile cluster of Sri - Lanka is on a low base with the per capita tile consumption only at **0.6m²**



Low per capita tile consumption compared to higher per capita GDP growth in Sri Lanka proves that there is ample room for the tile sector to grow.

GROWING DOMESTIC CONSTRUCTION SUB – SECTOR

Driven by the growing demand for housing and infrastructure, the domestic construction sub – sector experienced rapid growth of **6.5 %** in 2015.

1

The increase in the greater Colombo Housing Approval Index for December 2015 released by CBSL, which shows that significantly higher number of approvals being granted for large housing units.

This is evident by the two factors as follows:

2

Credit granted to the housing construction activities recorded growth of 35.3% for the twelve months ending 31st December, 2015, all of which points to the growing trend in favour of private sector construction activities.

HOUSING APPROVALS (IN '000)



GROWING URBANIZATION



With growing urbanization at rate of 0.9 % in 2014 the growth for housing and improved urban infrastructure has been growing with the growth of economy will boost the demand for domestic housing leading to increased demand for ceramic tiles.

HOUSEHOLD BACKLOG

According to discussion paper of **10 year horizon framework development framework 2006 - 2016;**

On the basis that one family possess their own house, the present housing requirement of the country is estimated at 4.5 mn. However the existing housing stock of the country is around 4.15 mn.

Accordingly, the present housing backlog is nearly 3, 50,000. The annual housing demand has been estimated around 100,000 units and annual addition to the housing stock has been reckoned approximately 50,000 units.

This means 50,000 units should be newly added to the stock on annual basis in order to clear the backlog backing the demand for ceramic tiles in the country.

REHABILITATION OF EXISTING HOUSING STOCK

Concerning the quality of Present Housing Stock

Nearly 1.3 mn housing units are of substandard level requiring urgent improvement or rehabilitation

Of this total 2,65,000 temporary structures are in need of serious attention by the government, since these inhabitants belong to socially disadvantaged community groups.

Approximately 98,000 houses were fully or partially damaged by tsunami

Around 3,26,000 houses were destroyed or damaged due to conflict in north - east.

Therefore...,

Considering various programs of government for provide new house or repair the houses there are altogether 0.7 mn housing units which require new construction and improvements which will boost the demand for ceramic tiles in country.

TOURISM BOOM & HOTEL INDUSTRY

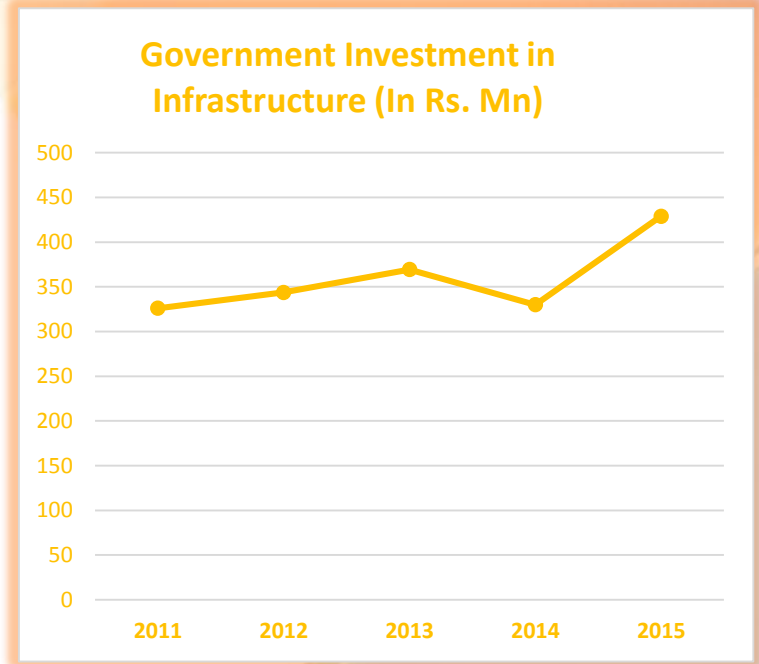
The tourist arrivals in Sri - Lanka recorded a 17.8% increase during 2015.



Heavy growth in the tourist arrivals has resulted in major refurbishments and expansions in the hotel industry. Thus this is a positive sign for the tile cluster as the demand for tiles is expected to increase at a rapid rate.

GOVERNMENT POLICIES AFFECTING DEMAND FOR CERAMIC TILES

The importance of improving economic and social infrastructure, which is essential to achieve sustained high economic growth and raise living standards of the people, has been well recognized by policy makers and hence, it continues to remain an integral part of the overall employment drive. Government investment in Infrastructure has continuously showed an increasing trend positively affecting the ceramic tiles market. The following chart depicts continuous increased investment in infrastructure.



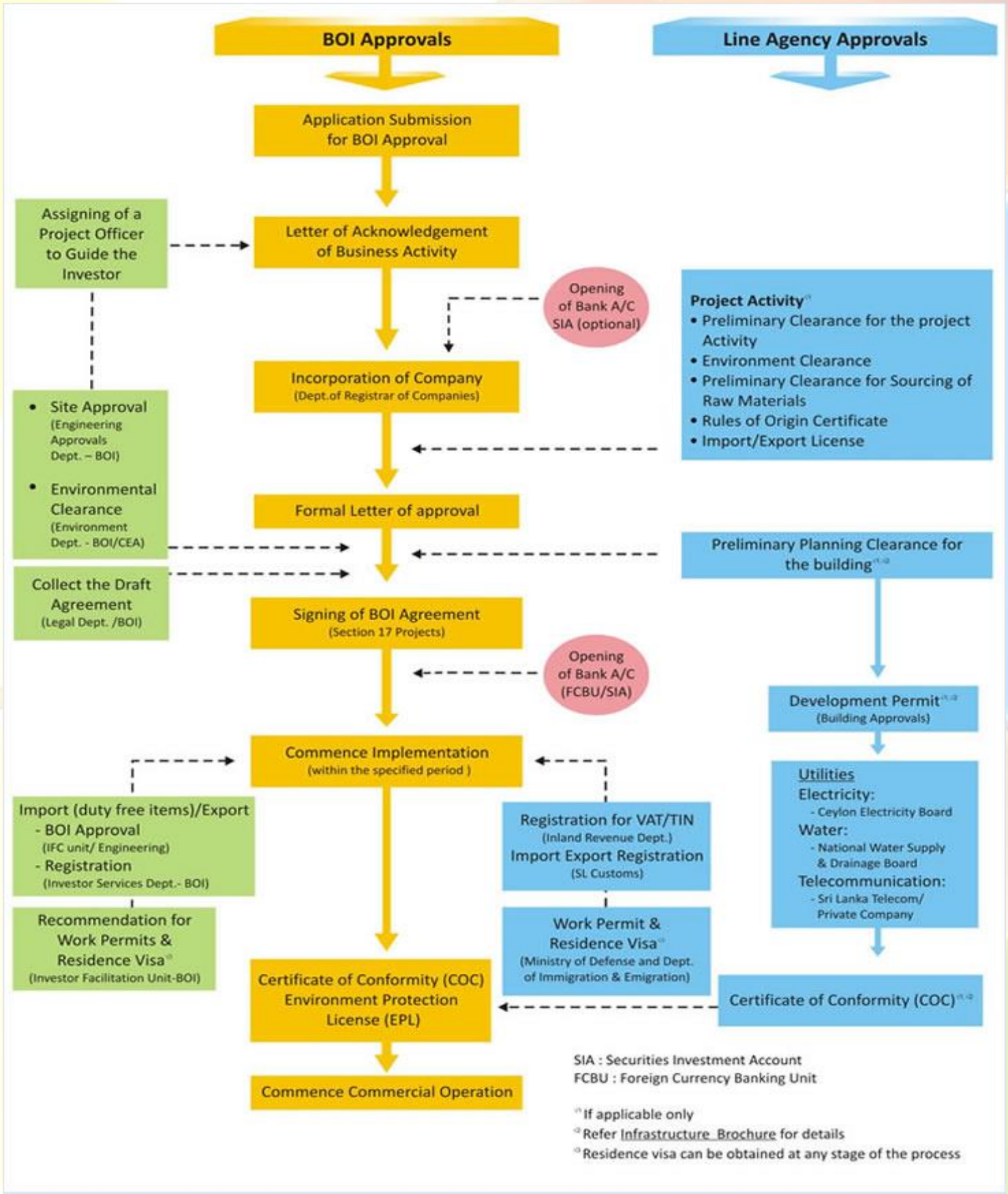
INVESTING IN CERAMIC SECTOR OF SRI - LANKA

With a significant contribution of 30 % to the GDP and 25 % to workforce, the industrial sector in Sri Lanka has become the prime force of value creation in the economic development of the country. Government of Sri Lanka has declared Ceramics as one of priority areas of investment in manufacturing sector. The government has introduced several Investment Incentives and Tax Advantages for attracting investment in Ceramic sector.

KEY INFORMATION FOR INVESTING IN CERAMICS



1. Investment Approval Process



2. Line Agency Approvals & Time Duration

Sub Sector	Type of Approval	Line Ministry/ Agency	Duration (Approx.)
Ceramics, Glassware & Other Mineral based Products	- Preliminary clearance for the project - Mining & exploration license - Export license	- Geological Survey & Mines Bureau - Ministry of Environment	15 days

3. Investment Incentives

Category	Amount of Investment ¹ (Rs. Mn.)	Tax Incentives		Import Duty (Custom Duty) Exemption on		Exemption from Exchange Control
		Period of Exemption (Years)	Applicable Rate (after tax holiday)	Capital Goods	Raw Materials	
Medium Scale - (New Enterprises)						
Manufacture of any article (including processing) other than liquor or tobacco products	≥50 & <100	4	export oriented - 12% Deemed exports ² - 12% other ³ - 28%	Yes ⁴	Yes ⁵ if export oriented	Yes if export oriented
	≥100 & <200	5				
	>200	6				
Large Scale - (New Enterprises)						
1. Manufacture, Production or processing of non-traditional goods for export, including deemed exports with a 90% export requirement ⁶	>300 & ≤500	6	export oriented - 12% Deemed exports ² - 12% other ³ - 28%	Yes ⁴	Yes ⁵ if export oriented	Yes if export oriented
	>500 & ≤700	7				
	>700 & ≤1,000	8				
	>1,000 & ≤1,500	9				
	>1,500 & ≤2,500	10				
2. Manufacturing for domestic and/or export market Boats, Pharmaceuticals, Tyres and Tubes, Motor Spare Parts, Furniture, Ceramics, Glassware or other mineral based products, Rubber based products, Cosmetic products, Edible products manufactured out of locally cultivated agricultural products, Construction materials, Electrical/Electronic items	>2,500	12				

4. Taxes & Levies

Type of Tax	Tax base	Tax rate	Remarks ¹
Applicable for Company			
Corporate Tax (Income tax)	Profits	Export Market Oriented : 12% Local Market Oriented : 28% ²	After Tax Holiday
Nation Building Tax (NBT)	Turnover	Export oriented: Exempted Other : 2%	Registration Criteria: if turnover of a quarter is Rs. 500,000 or more (An indirect tax hence inbuilt in the price)
Economic Service Charge (ESC)	Turnover	0.25%	Registration Criteria : if turnover of a quarter is Rs. 50 Mn. or more subject to a ceiling of Rs. 30 Mn per quarter
Withholding Tax on Dividends (WHT)	Dividends Distributed	10%	Exempted during the tax holiday period
Value Added Tax (VAT)	Value of Goods supplied	Locally manufactured products of coconut waste (coco peat, coir fiber, grow pellets, grow bags, twist fiber & coconut husk) : Exempted Others : 12%	Registration Criteria : if turnover of a quarter is Rs.650,000 or Annual Turnover: Rs.2.5 mn.
Applicable for Imports			
Customs Duty ³	CIF Value	<u>Export Oriented</u> : Capital Goods : Exempted Raw Materials : Exempted <u>Local Market</u> : Capital Goods : Exempted (During the project implementation period)	
Value Added Tax (VAT)	CIF Value ⁴	• Inside Zones - Exempted • Outside Zones – Export Oriented: Differ Raw materials for energy saving bulbs (HS Code 854390) : Exempted Other : 12% (for large scale projects VAT will be differed during the project implementation period)	If supply of goods or services is exempted from VAT, no input credit for imports
Nation Building Tax (NBT)	CIF Value ⁴	<u>Export Oriented</u> : Capital Goods : 2% Raw Materials : Exempted <u>Local Market</u> : Capital Goods : 2% Raw Materials : 2% If used for manufacture of goods for sale input is deductible from NBT payable	Absorbed by the importer

Type of Tax	Tax base	Tax rate	Remarks
Port & Airport Development Levy (PAL)	CIF Value	<p><u>Export Oriented :</u> Capital Goods : 5% Raw Materials : Exempted</p> <p><u>Local Market:</u> Capital Goods : 5% Raw Materials : 5% Consumables for textiles & apparel : 2.5%</p> <p>For large scale or Strategic Import Replacement projects, PAL will be differed for plant, machinery or equipment during the project implementation period</p>	<p>HS Codes for Consumables for textiles & apparel 340211, 340212, 340213, 340219, 844851, 845190, 845230 & 845290</p>
CESS	CIF Value ⁴	<p><u>Export Oriented :</u> Capital Goods : Applicable (Rate depends on the item) Raw Materials : Exempted</p> <p><u>Local Market:</u> Capital Goods : Applicable (Rate depends on the item) Raw Materials : Applicable (Rate depends on the item)</p>	
Excise (SP) Duty	CIF Value ⁴	<p><u>Export Oriented :</u> Capital Goods : Applicable (Rate depends on the item) Raw Materials : Exempted</p> <p><u>Local Market:</u> Capital Goods : Applicable (Rate Depends on the item) Raw Materials : Applicable (Rate depends on the item)</p>	
Special Commodity Levy	Quantity	<p>Export Oriented : Capital Goods : Not Applicable Raw Materials : Exempted</p> <p>Local Market: Capital Goods : Not Applicable Raw Materials : Applicable (Rate depends on the item)</p>	

5. Line Agency Contacts

1. Department of Forest Conservation

E-mail: minister@health.gov.lk
82, "Sampathpaya", Website: www.health.gov.lk
Rajamalwatta Road,
Battaramulla, Sri Lanka
Tel: +94 11 2676386

2. Geological Survey & Mines Bureau (GSMB)

No. 569, Epitamulla Road, E-mail: medimini@yahoo.com
Pitakotte, Sri Lanka Website: www.indigenousmedimini.gov.lk
Tel: +94 11 2739307-8
Fax: +94 11 2735752

3. Ministry of Industry & Commerce

E-mail: gsmb@slt.lk No. 73/1, Galle Road,
Website: www.gsmb.gov.lk Colombo 03, Sri Lanka
Tel: +94 11 2392149, 2392150

4. Import and Export Control Department

Fax: +94 112449402
No: 75 1/3, E-mail: secretarymid@gmail.com
1 Floor, Hemas Building, York Street, Website: www.industry.gov.lk
P.O. Box - 559,
Colombo 01, Sri Lanka.

IN A NUTSHELL

Sri - Lanka; A country in South Asia; which provides ample opportunities in Ceramic sector.

Whereby, major growth drivers for this Industry are:

Low Per Capita Tile Consumption

Growing domestic construction sub - sector

Growing Urbanization

Household backlog

Rehabilitation of existing housing stock

Tourism boom & Hotel Industry

Government policies affecting demand of ceramic tiles.

Investing in Ceramics in Sri Lanka

SOURCES

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- Economic and Social Infrastructure of Sri Lanka, 2016
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- Annual Report of Lanka Tiles PLC 2015
- Annual Report of Royal Ceramics Lanka PLC 2015
- Survey of Construction Industries – Final Report 2013
- Interim Update of Royal Ceramics Lanka PLC published by LOLC Securities
- Tile sector update published by Asia Wealth Management Co. (Pvt.) Ltd.
- Sri – Lanka Investment Guide on Manufacturing

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