

Case Study: Royal Ceramics Lanka PLC Market Dominance during Crisis

Executive Summary

Royal Ceramics Lanka PLC (RCL, “Rocell”) is Sri Lanka’s leading tile and sanitaryware manufacturer. When the COVID-19 pandemic struck and Sri Lanka later plunged into an economic crisis, RCL saw its market position transform dramatically. Government import restrictions (a near-total ban on imported tiles and bathware from mid-2020) and high demand for building materials propelled the company’s market share from roughly 52% pre-pandemic to about 75% in floor tiles and 82% in wall tiles. This gain was achieved through aggressive consolidation (acquiring rival Lanka Ceramic/Lanka Tiles group in 2013–2021) and massive investment in local production capacity. As a result, Rocell’s revenues and profits surged – e.g. revenue grew ~28% in FY2022 while profit after tax jumped 63% – even amid supply-chain shocks. RCL enhanced efficiency (running plants at nearly 100% capacity), secured raw-material sources (buying clay mines), and resisted price hikes to maintain competitiveness. In short, Rocell adapted to external shocks by vertically integrating and expanding capacity, turning a challenging environment into a period of record growth. The analysis below details the causes, challenges, impacts and strategic responses behind this remarkable performance, with data drawn from company reports and industry sources.

Context and Background

Company Background: Royal Ceramics PLC and Rocell

Royal Ceramics Lanka PLC (Rocell), established in 1990 and later acquired by Dhammika Perera’s Vallibel One group, is Sri Lanka’s leading manufacturer of ceramic tiles and sanitaryware. Through strategic acquisitions—most notably the 2013 takeover of Lanka Ceramic PLC (owner of the Lanka Tiles brand)—the company gained dominant market control, accounting for over 68% of national tile sales even before the COVID-19 crisis.

Rocell operates four ISO-certified factories with a combined tile production capacity of 41,500 m²/day and an additional plant for tile adhesives. The firm is vertically integrated, owning raw material sources and a widespread retail network, including 58 showrooms across Sri Lanka as of 2020. With control over production, branding, and distribution, Rocell entered the post-2020 economic crisis as a highly capable and entrenched industry leader.

Industry Context and Challenges

Before COVID-19, Sri Lanka’s domestic tile industry was relatively small: roughly 40% of tile demand was met by local manufacturers, while imports (mostly from cheaper foreign producers) supplied the majority. Local tile producers often struggled with excess inventories and underutilized factories, as cheaper imported tiles flooded the market. Royal Ceramics (RCL) itself commanded only about half of the local market pre-2020 (around 52% combined

wall and floor tiles), despite having two major brands (Rocell and the acquired Lanka Tiles brand).

The onset of the pandemic and ensuing economic crisis radically changed the playing field. In July 2020, Sri Lanka's government implemented a near-total ban on tile and sanitaryware imports to conserve foreign exchange. Simultaneously, local housing and infrastructure projects surged (in part due to low interest rates and pent-up demand). These factors created a captive market for domestic producers. RCL and its peers ran factories at full tilt to meet demand, reducing inventory levels dramatically. As Lanka Walltiles' MD Mahendra Jayasekera noted, companies cut inventory from ten months' supply pre-ban to only a few weeks in FY2021. In short, an external supply shock (import ban and forex scarcity) combined with robust local demand gave RCL a historic opportunity – albeit amid the broader turmoil of the COVID and economic crises.

At the same time, the crisis posed new challenges. Input costs and currency risks soared. The Sri Lankan rupee devalued sharply in 2022, driving up the cost of imported raw materials (like ceramic powders and LPG gas for kilns). Fuel and energy shortages led to higher production costs. Shipping disruptions (container shortages) even hampered RCL's small export operations. Labor and logistic disruptions from lockdowns and protests also weighed on operations. Thus, while local demand was strong, RCL had to navigate spiraling costs and uncertainties in supply. The company's strategic response to these twin pressures (supply shock and input inflation) is examined below.

Strategic Response

Strategic Acquisitions and Vertical Integration

RCL's dominant market share was not accidental: it resulted from years of strategic consolidation in the Sri Lankan tile industry. From 2013 onward RCL, under the Vallibel One Group, acquired controlling stakes in competing ceramic companies. Notably, in 2014 RCL acquired a 76.5% stake in Lanka Ceramic PLC (the holding company for Lanka Tiles and Lanka Walltiles, then the nation's No. 2 tile maker). In 2021 the company restructured this investment to bring Lanka Walltiles PLC directly under RCL, effectively uniting both the Lanka Tiles (floor tiles) and Lanka Walltiles (wall tiles) businesses under one group. It also merged in its Royal Porcelain sanitaryware arm (2019) and acquired CP Holdings in 2021. These moves gave RCL the two top tile brands (Rocell and Lankatiles) and tight control of the supply chain (including Lanka Ceramic's clay-mining and glaze factories).

The effect of these acquisitions was to leave RCL as a near-monopolist. By FY2021/22, RCL management reports that "Rocell together with Lankatiles dominate the local wall tile and floor tile market by having more than 71% of the market share". In practical terms, this meant that when imports were cut off, RCL effectively supplied three-quarters to four-fifths of Sri Lankan tile demand. Indeed, a market research note in early 2021 estimated that RCL's overall tile market share jumped to ~75% for floor tiles and 82% for wall tiles post-ban. In other words,

by acquiring its main domestic rivals and running their operations in parallel, RCL ensured that it captured the bulk of the newly captive market.

These acquisitions also gave RCL better control over costs and inputs. For example, Lanka Ceramic PLC owned local clay deposits and feldspar mines. RCL has since invested in securing those mining lands to guarantee its raw material supply. In effect, RCL vertically integrated much of the ceramic supply chain: raw materials (clay, feldspar), tile production (Rocell and Lanka tiles factories) and distribution (extensive showroom and dealer networks). This integration reduced dependency on imports for inputs and allowed the group to rapidly scale output without negotiating with external competitors. It also enabled RCL to plan expansions effectively: in 2023/24 RCL spent an additional Rs. 7.4 billion expanding its tile production capacity (mostly at Eheliyagoda and Horana), confident that domestic demand would absorb the output. In short, RCL's prior takeover of competitors laid the groundwork for its strategic response to the crisis.

Production Expansion and Local Sourcing

With import competition effectively removed, RCL turned to ramping up production to meet demand. The company's modern tile plants in Eheliyagoda and Horana were pushed to near-100% utilization. Management reports that all tile factories operated "at optimal capacity, facilitating overhead absorption". As a result, output increased dramatically: for example, the tiles and bathware division's revenue grew from Rs. 38.4 billion in FY2020/21 to Rs. 43.3 billion in FY2021/22 (a 20% rise). The surge in volumes, coupled with economies of scale, helped lift gross margins by over 230 basis points in FY2020/21.

To sustain this production drive, RCL also invested heavily in capacity and efficiency. Royal Ceramics nearly doubled its capital expenditure from Rs. 1,902 million in FY2020/21 to Rs. 3,425 million in FY2021/22 in response to the import ban and rising domestic demand, investing heavily in expanding production capacity and operational efficiency. The 2023/24 Annual Report notes a Rs. 7.4 billion capex outlay to expand tile capacity (Rs. 7.3 billion for tiles specifically). New production lines were opened for large-format and price-sensitive tiles. The company continued upgrading its processes with world-class machinery and preventive maintenance (e.g. total productive maintenance programs) to maximize throughput. Workers' shifts and inventory planning were adjusted to keep the plants running day and night if needed. (For example, RCL reported reducing its tile inventory from 10 months pre-COVID to roughly three weeks by late 2021, indicating a much higher turnover rate.)

Crucially, RCL mitigated supply risks by securing raw materials locally. The tile sector relies on ball clay, kaolin, feldspar and silica sand. RCL ensures these inputs through a mix of sourcing and ownership. Management reports that all tile plants source clay only from licensed local suppliers, and that RCL has purchased ball-clay deposits to lock in its supply. By contrast, imported raw materials would have been scarce and costly during the forex crunch. RCL's plantations and chemical subsidiaries also produce or trade in raw minerals. This local sourcing strategy helped RCL keep its furnaces fed and avoid the foreign-exchange bottlenecks that other industries faced.

In the sanitaryware (bathware) segment, RCL similarly sought to replace imports. While bathroom fixtures were not fully banned, the company nevertheless expanded local capacity after 2020. Its subsidiary (Royal Porcelain) increased production by upgrading kilns and adding lines. In FY2021/22 this segment's revenue jumped 57% to Rs. 6.58 billion, driven by stronger domestic sales. Domestic market share for Rocell-brand bathware reached nearly 39% by FY2022. (RCL also opened new showrooms nationwide to display its expanded product range and to capture consumer demand.)

Overall, RCL's strategy of maximizing domestic manufacturing paid off in both quantity and price. By avoiding price hikes, RCL earned consumer goodwill; management emphasized that it had not "jacked up" prices after the import ban, as energy and raw material costs rise being the true inflation drivers. Instead, RCL absorbed much of the cost inflation initially, using productivity gains protect margins. This disciplined approach ensured that local projects and home builders could still afford quality Sri Lankan-made tiles and bathware, further fueling volume growth.

Financial Impacts

The combination of acquisitions and expanded output translated into a stellar financial performance in FY2022 (year ended Mar 2022). As summarized in RCL's annual report, group revenue for 2021/22 was Rs. 57.5 billion (up 28% from Rs. 44.9 billion the year before). Profit after tax surged 63% to Rs. 13.7 billion – the highest earnings in the company's history. (Earnings-per-share rose from Rs. 5.54 to Rs. 8.84, even before adjusting for the 1:10 share split.) This growth was broad-based: the tiles division (both floor and wall) generated about two-thirds of revenues and saw a 20% sales jump, while the sanitaryware division's profit grew 79%. By contrast, in the previous decades RCL had often fought flat or slow growth under import competition.

A chart of RCL's revenue and profit over recent years illustrates this leap:

Fiscal Year (ends Mar)	Revenue (Rs bn)	Profit after Tax (Rs bn)
2019/20	31.4	1.8
2020/21	44.9	8.4
2021/22	57.5	13.7

*Estimate based on annual reports

*During FY2021/22, RCL paid increased dividends as well – Rs. 3.75 per share vs. Rs. 2.60 in FY2020/21 – reflecting strong cash generation. The company's balance sheet remained very healthy: RCL carried lower debt (gearing ~21.5%) and higher cash after the boom year. Importantly, the profitability boost was largely organic (no big write-ups); for example, group gross margin climbed to 39% in Q3 FY2021 and EBIT margin improved sharply with scale.

In summary, the financial and strategic metrics all point to an exposure-to-impact windfall for RCL during the crisis period. Table 1 below highlights some key figures (FY2021/22 vs. FY2020/21):

Indicator	FY2020/21	FY2021/22	Change
Total Revenue (Rs bn)	44.9	57.5	+28%
Profit After Tax (Rs bn)	8.4	13.7	+63%
Tile Sector Revenue (Rs bn)	31.9	38.4	+20%
Tile Sector PAT (Rs bn)	5.8	9.7	+66%
Packaging Revenue (Rs bn)	4.2	6.58	+57%
Sanitaryware Revenue (Rs bn)	3.3	3.6	+9%

Table 1: Royal Ceramics key performance indicators (source: RCL annual reports).

Navigating Post-Crisis Challenges

By 2023 the broader economic crisis in Sri Lanka began to bite. Government restrictions on tile imports were gradually lifted as IMF aid arrived and forex conditions eased. At the same time, local construction activity slowed amid high interest rates and inflation. RCL therefore saw some pullback in demand. In FY2023/24, for example, the tiles segment reported a 7.5% decline in revenue to Rs. 43.3 billion (year-on-year). Margins also came under pressure from cost inflation. RCL noted that gross margins were squeezed by the need to discount excess inventory in sanitaryware, and by higher taxes on revenues. Energy costs remained a critical issue: RCL (like its industry) is Sri Lanka's largest LPG user, and prices were "at all-time high" during 2022/23. In short, the company transitioned from a boom to a more normalizing environment.

Despite these headwinds, RCL's response was cautious yet proactive. The group kept its plants busy (maintaining ~99% capacity utilization) and did not reverse its expansion plans entirely. For instance, even as sales dipped, RCL continued large-format tile production to improve per-unit costs. It also cut finance costs by prepaying some debt and benefitted from lower interest rates in late 2023 (FY24 finance cost was 52% below the prior year). Management highlighted ongoing cost-control measures (energy savings, process improvements) and its substantial cash buffers (current ratio ~1.67).

On the market side, RCL began selectively reopening imports for segments still constrained (for example, certain premium or specialized tiles not yet made locally), while advocating with government that local industry can meet core demand. Indeed, a study by the Sri Lanka Ceramics Council projected that, once RCL and Lankatiles finish their expansion projects (by mid-2022), domestic capacity would fully meet the country's tile needs. RCL's management

assured regulators and investors that it can maintain high production levels without further foreign imports.

In the financial year ending March 2024, these dynamics resulted in RCL earning Rs. 9.23 billion PAT (down 13%). Notably, the company still declared a robust dividend (Rs. 2.90 per share) given its strong cash flows. By controlling costs and prioritizing liquidity, RCL remained profitable even as Sri Lanka's construction market softened.

Root Cause Analysis

Royal Ceramics' exceptional performance can be traced to several key factors:

- **Vertical Integration and Supply Control:** Rocell had already invested in upstream inputs. It owns mines and lands with ceramic clay deposits, ensuring raw materials even if imports are cut. It also produces tile adhesives and mortars in-house. During the crisis, these capabilities meant Rocell was never starved for inputs: unlike many businesses, it could continue tile production at full steam.
- **High Local Capacity:** As of 2020, Rocell operated four ISO-certified tile plants (total 41,500 sqm/day) and additional allied facilities. This large installed capacity – formerly underutilized in a normal market – became the critical bottleneck now turned into advantage. Facing no imported competition, Rocell could scale its local output almost tenfold without needing to invest in new kilns immediately. In practice it quickly executed some expansions (via new lines and a new plant) to add ~20% more capacity. Other Sri Lankan producers were few; Royal Ceramics' acquisitions in the last decade (Lanka Tiles, Lanka Walltiles) had already consolidated most capacity under its management, leaving little competition.
- **Brand and Distribution Strength:** Rocell is a premium and trusted brand. It maintained an island-wide network of 58 company showrooms and hundreds of dealer outlets, giving it immediate channels to sell extra volume. Customers, starved of imports, were willing to pay local prices for Rocell's quality – a fact cited by Rocell's own director, who noted that Sri Lankan tile manufacturers "produce high-quality tile...on par with global leaders" once the playing field was even. In other words, brand reputation and the push strategy through showrooms allowed Rocell to translate its increased output into sales without serious margin erosion.
- **Effective Government Policy Alignment:** Whether by design or fortune, Rocell's strategy aligned perfectly with government import policy. Management had publicly supported import restrictions in 2020 as a way to "kill the local market [of inferior imports]". When the restrictions took full effect, Rocell was ready – by contrast, many competitors who relied on imports or foreign supply chains were forced to retrench or exit. Rocell's comment that the tile-ban "has created opportunities for local manufacturers to further expand" proved prophetic; indeed, Rocell expanded while others shrank.

Conclusion

Royal Ceramics Lanka PLC's case illustrates how a dominant domestic manufacturer can thrive in crisis through strategic positioning. The confluence of pandemic-related demand and import restrictions unlocked a captive local market; RCL's preemptive acquisitions and capacity buildup allowed it to capture that market almost in its entirety. The company's financials confirm the success: record profits in 2021/22 and sustained earnings thereafter despite headwinds. Key to this success was RCL's agility and foresight – investing in local production, securing raw material supply, and streamlining operations before and during the crisis. While Sri Lanka's economic troubles eventually slowed growth, RCL emerged from the period with unparalleled market share (around three-quarters in tiles) and a modernized manufacturing base. In sum, Rocell's strategic decisions during 2020–2023 turned national adversity into a period of consolidation and robust profitability.

Reference

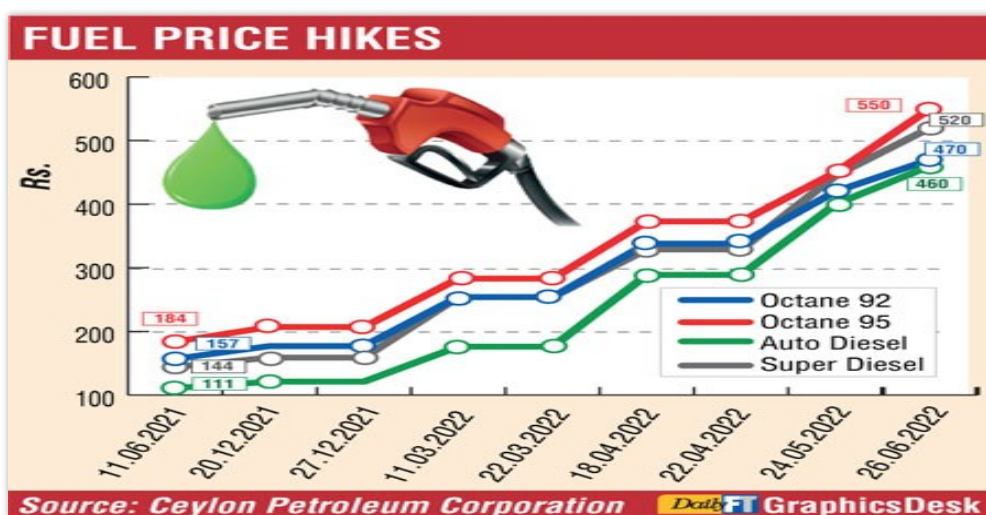
- [here](#) Royal Ceramics Lanka PLC. (2022/23). *Annual Report 2022/2023*.
- [here](#) Royal Ceramics Lanka PLC. (2021/22). *Annual Report 2021/2022*.
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- [here](#) The Island. (2021, March 19). *Import substitution boosts profitability for Royal Ceramics*.
- [here](#) First Capital Holdings PLC. (2021, March 10). *Royal Ceramics Lanka PLC: Valuation note*.
- [here](#) Central Bank of Sri Lanka. (2022). *Winning industries: Ceramic sector*.
- [here](#) Daily FT. (2022, June 27). *Govt. hikes fuel prices again*. Daily FT.

Appendix

Import restrictions on ceramics									
Category	HS Codes	Date of Gazette from the Dept. of Import and Export Control							
		16-Jul-20	17-Aug-20	15-Sep-20	19-Oct-20	29-Oct-20	24-Dec-20	11-Feb-21	11-Jun-21
Wall and Floor Tiles	69072110, 69072190, 69072210, 69072290, 69072310, 69072390, 690730, 690740	TS	TS	TS	TS	TS	TS	TS	TS
Bathroom fittings	69101010, 69101090, 69109010, 69109090	TS	TS	TS	TS	TS	TS	All moved to 180 day credit with cess increase	All restrictions removed. Cess increase in place.
Other building material	690410, 690490, 690510, 690590, 690600	TS	TS	TS	TS	TS	TS on 690410 & 690490 removed (bricks, flooring blocks etc) with cess increase	690600 moved to the 180 day credit list (pipes)	All restrictions removed for all HS Codes except 690510, 690590 (roofing tiles, and other constructional goods)
Table & kitchenware	691110, 691190, 691210, 691290	TS	TS	TS	69120010 moved to 90 day credit (tableware)	TS	TS	TS	All restrictions removed
Ornaments, jars, lab equipment etc	691310, 69139010, 69139090, 69141090, 69149000, 69149010, 69149090	TS	TS	TS	TS	TS	TS	TS imposed on 69149010 & 69149090 (ornaments)	All restrictions on 6913 on statuettes and ornaments and some handicraft removed. 691400, 691410, 691490 still suspended.

Economic Research Department
Central Bank of Sri Lanka

Bank of Sri Lanka. (2022). Winning industries: Ceramic sector. [here](#)



Daily FT. (2022, June 27). Govt. hikes fuel prices again. [Daily FT](#)



ROYAL CERAMICS LANKA PLC [RCL.N0000]

PROTECTIONISM BOOST PROFITABILITY

VALUATION NOTE

Fair Value [FY22E]: LKR 280.0 [Range of LKR 250.0-310.0]

Import restriction aids to conquer the market

RCL group, the dominant local player in Tile and Sanitaryware products was a key beneficiary following the import restrictions employed by the Government via the implementation of "Special Import License Regulation" dated 16th Jul 2020 resulting in a complete import ban on all Tile and Sanitaryware products. RCL's Pre-Covid 52% market share surged across all segments to 75% in floor tiles and 82% in wall tiles.

[here](#) First Capital Holdings PLC. (2021, March 10). *Royal Ceramics Lanka PLC: Valuation note.*

Annual Domestic Requirement – 22 Mn sqm
Annual Domestic Production – 16 Mn sqm

Manufacturing Company	Total Annual Production
Lanka Tiles (Pvt) Ltd	7.7 Mn sqm
Rocell (Pvt) Ltd	4.6 Mn sqm
Macksons Tiles Lanka (Pvt) Ltd	3.7 Mn sqm
Maximum Annual production capacity	16.0* Mn sqm

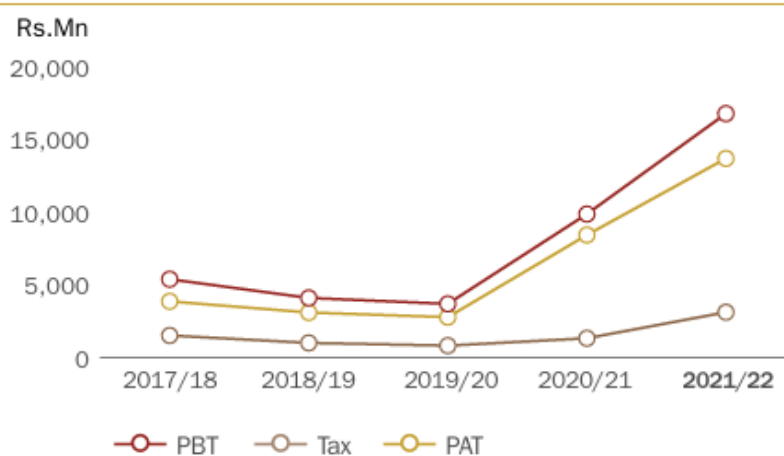
Sector Overview, Ministry of Industry and Entrepreneurship Development

Q: Due to import restrictions there is a severe shortage. Is there room to further boost capacity?

Mahendra: There isn't much room. Total tiles market used to be about 30 million square metres per annum. Due to the pandemic the market has dropped to about 24 million square metres. The existing three manufacturers supply is about 20 million square metres which means there is a 20% shortage. For the time being we are unable to fill this gap. At LTL we are running at full capacity which is at 20,000 square metres per day and have plans to expand the capacity by 4,500 square metres by July 2022.

Lanka Walltiles Plc Managing Director Mahendra Jayasekera (right) and Royal Ceramics Lanka Plc Managing Director Aravinda Perera (centre) during the Daily FT-SC Securities.
[here](#)

Profit Before and After Tax



Annual Report 2021/22

Financial Highlights

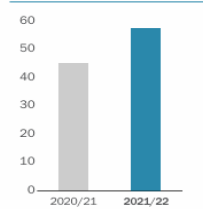


FINANCIAL INDICATORS

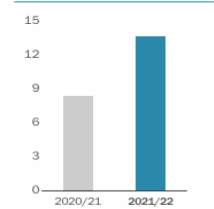
		2021/22	2020/21
Revenue	Rs.Bn	57.5	44.9
Operating profit	Rs.Bn	17.1	11.2
Profit before tax	Rs.Bn	16.8	9.9
Profit after tax	Rs.Bn	13.7	8.4
Revenue growth	%	28	43
Profit after tax growth	%	63	205

Recorded the highest earnings in history
for the **2nd** consecutive year

Revenue



Profit After Tax

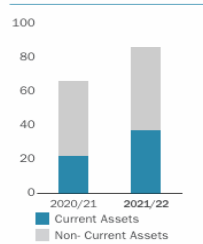


Shareholder Returns

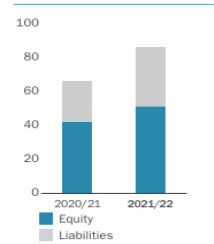
		2021/22	2020/21
Earnings per share	Rs.	8.84	5.54
Dividend per share	Rs.	3.75	2.6
Market capitalisation	Rs.Bn	45.0	28.4
Market value per share	Rs.	40.70	257.00*
Return on Equity (ROE)	%	26.7	20.1

* Before the share split of 1:10 shares

Total Assets



Funding



annual report 2021/22

Group Members

1. Yomal Thathsara
2. Udara Sandaruwan
3. Hasitha Nuwan
4. Navodya Thathsarani
5. Vishal Suresh
6. Viraj Jayaweera
7. Achira Hewage
8. Nishara Sithari
9. Lakmal Kaushalya
10. Thilina Madushanka