

BUILDING MATERIALS

Q2FY25 Review

19 November 2024

Another soft quarter on tepid demand and intense competition

- Tepid quarter on intense competition in a weak demand environment and extended monsoon
- Worst is behind as we anticipate improved margins with gradual recovery in demand over the medium term
- Valuation of most BM stocks has now become reasonable post steep corrections in their stock prices over the past three months

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Dismal quarter: Our building materials (BM) universe revenue grew at a muted pace (+1.3% YoY in Q2FY25) for the seventh consecutive quarter due to weak demand and extended monsoon. Our universe EBITDA was down 20.9% YoY in Q2FY25 due to severe margin pressure on account of heightened competitive intensity in a weak demand environment. However, we believe the worst is behind for the sector as we anticipate margin improvement with gradual recovery in demand over the medium term.

Pipes: Our pipe universe volume grew at a tepid pace of 2.3% YoY in Q2FY25 due to channel destocking on account of volatile resin prices, whereas EBITDA fell by 30.6% YoY in Q2FY25 due to steep fall in EBITDA per unit (-32.2% YoY to Rs 15/kg on intense competition and mark-to-market [MTM] inventory loss).

Bathware: Our bathware universe revenue grew at a muted pace (-0.8% YoY) for the sixth consecutive quarter. Our universe EBITDA margin was down sharply by 386bps YoY to 12.5% in Q2FY25 mainly due to higher raw-material cost and increased discounts offered to dealers in view of the weak demand environment.

Tiles: Our tiles universe volume grew by 5.3% YoY, but EBITDA was down by 12.9% YoY in Q2FY25 due to margin contraction (-200bps YoY to 11.3%) on increased competition from Morbi players in a weak market environment.

Wood panels: Our wood panel universe EBITDA contracted (-17.6% YoY in Q2FY25) for the ninth straight quarter due to muted demand and margin stress across segments resulting from supply-side pressures and elevated timber prices.

Positive on most BM stocks: We have now become positive on most BM stocks on (a) expectation of improvement in margin with gradual recovery in demand, and (b) valuation now becoming reasonable (our BM universe trades at 41.4x on 1Y fwd P/E vs 5Y average of 36.9x). Our top fundamental picks are SI in plastic pipes, CRS in bathware, SOMC in tiles, and MTLM in wood panel.

Recommendation snapshot

Ticker	Price	Target	Rating
APOLP IN	471	500	HOLD
ASTRA IN	1,716	2,000	BUY
CPBI IN	744	725	HOLD
CRS IN	7,281	8,500	BUY
FNXP IN	263	300	HOLD
GREENP IN	335	365	HOLD
GRLM IN	512	530	HOLD
HINDWARE IN	252	400	BUY
KJC IN	1,128	1,450	BUY
MTLM IN	316	380	BUY
PRINCPIN IN	438	650	BUY
SI IN	4,635	5,500	BUY
SOMC IN	645	850	BUY

Price & Target in Rupees | Price as of 18 Nov 2024



Building Materials: Q2FY25 review

Subdued quarter on poor demand and intense competition

Our BM universe revenue grew at a muted pace (+1.3% YoY in Q2FY25) for the seventh consecutive quarter due to weak demand and extended monsoon. Our universe EBITDA was down 20.9% YoY in Q2FY25 due to severe margin pressure on account of heightened competitive intensity in a weak demand environment. Sector-wise, plastic pipe again performed relatively better after adjusting the impact of MTM inventory loss, whereas the wood panel sector performed the worst due to steep margin pressures in MDF. Company-wise, MTLM fared the best in wood panels, CRS in bathware, and KJC in tiles.

Our view: We believe that the worst is behind the Indian BM sector as we anticipate improvement in margin with gradual recovery in demand over the medium term. The valuation of most building material stocks has now become reasonable post steep corrections in their stock prices over the past three months (our BM universe trades at 41.4x on 1Y fwd P/E vs 5Y average of 36.9x).

Post the Q2FY25 results, we have upgraded four stocks (SI/ASTRA/KJC/MTLM) from HOLD to BUY as their valuations have now become reasonable. We have also upgraded CRS from SELL to BUY on the back of (a) relatively better performance in Q2FY25 and positive outlook commentary for H2FY25, and (b) reasonable valuation. Our top fundamental picks are SI in plastic pipes, CRS in bathware, SOMC in tiles, and MTLM in wood panel. Also, we have now revised the TP of SI to Rs 5,400 (Rs 5,250 earlier) due to a slight upward revision in our target P/E multiple (from 45x to 47x) and reduced our TP for APOLP to Rs 500 due to the cut in our target P/E multiple (from 30x to 28x).

Pipes: Muted quarter on channel destocking and MTM inventory loss

Q2FY25 review: Our pipe universe volume grew at a tepid pace of 2.3% YoY in Q2FY25 due to channel destocking on account of volatile resin prices, whereas EBITDA fell by 30.6% YoY in Q2FY25 due to steep fall in EBITDA per unit (-32.2% YoY to Rs 15/kg on account of intense competition and MTM inventory loss). In our coverage, FNXP and PRINCEPI only posted YoY volume growth in Q2FY25 as they preferred to gain market share at the cost of inferior margin and offered extended creditor periods to their dealers. However, ASTRA maintained its margins even in a falling resin price environment by sacrificing market share in Q2FY25. SI's margins were less impacted on a relative basis even after adopting an aggressive pricing strategy in Q2FY25. APOLP posted weak operating performance for the fourth consecutive quarter.

Outlook: The demand outlook for plastic pipe appears to be positive in the near future in anticipation of restocking inventories in the channel as resin prices are expected to increase on account of potential anti-dumping duty. We see the sector margin profile improving from Q3FY25 due to the low risk of MTM inventory loss and operating leverage benefits.

Our view: We now prefer SI in plastic pipe as it has been continuously gaining market share without diluting margin and return ratio profile even after following an aggressive pricing strategy (which is not the case with others).

Bathware: Muted quarter on soft demand

Our bathware universe revenue grew at a muted pace (-0.8% YoY) for the sixth consecutive quarter. Our universe EBITDA margin was down sharply by 386bps YoY to 12.5% in Q2FY25 mainly due to higher raw material cost, increased discounts offered to dealers in view of the weak demand environment and negative operating leverage.

Outlook: We expect the bathware industry's demand environment to improve from Q4FY25 in anticipation of an increase in the pace of completion of ongoing real estate projects undertaken over the past two to three years. Note that more than 70-80% of bathware product demand comes from new construction activities. With anticipated recovery in demand, we expect bathware sector margins to return to normal levels over the next two to three quarters.

Our view: We now prefer CRS in the bathware space as it has performed relatively better in Q2FY25 and guided for a positive outlook in H2FY25 compared to HINDWARE, and the stock's valuation has also become quite reasonable (trades at 34.9x on 1Y forward P/E vs 5Y average of 35.6x).

Tiles: Weak Q2 on muted demand and intense competition from Morbi

Our tile universe volume grew at a muted pace of 5.3% YoY (5Y CAGR: +7.6%) in Q2FY25 due to weak demand. Our tiles universe EBITDA margin contracted by 200bps YoY to 11.3% in Q2FY25 due to lower realisation (-0.5% QoQ) on the back of intense competition from Morbi players (on account of weak exports). Among the top three tile companies, KJC's performance was the outlier in Q2 as it gained market share by posting better YoY volume growth (KJC: +8.4%; SOMC: +5.3%; Johnson: -0.7%).

Outlook: We expect tile sector demand to improve from Q4FY25 in anticipation of an increase in the pace of completion of real estate projects. However, we believe domestic tiles realisation may remain weak in the near term due to weak exports.

Our view: We continue to prefer SOMC in the tiles space as we see (a) scope for better volume growth prospects in the near future on the back of completion of growth capex projects (SOMC operated at 77% vs 100% for KJC in Q2FY25); (b) good scope for margin improvement due to a rising share of high-margin glazed vitrified tile (GVT) products and operating leverage benefits; and (c) reasonable valuations (SOMC is trading at 22.0x on 1Y forward P/E – near its 5Y average of 25.4x), despite expectation of sharp improvement in its return ratio profile (ROIC to improve to 21% over FY25E-FY27E vs 5Y average of 13%).

Wood panels: Excess supply and high timber prices impacted Q2

Our wood panel universe EBITDA contracted (-17.6% YoY in Q2FY25) for the ninth straight quarter due to muted demand and margin stress across segments resulting from supply-side pressures and elevated timber prices. Within our universe, MTLM reported sharp growth in operating profit (+19% YoY) due to the quick ramp-up of its new MDF plant and weak base effect, whereas GREENP's EBITDA contracted sharply (-57% YoY) due to market share loss and severe margin pressure in MDF.

Outlook: We believe the worst is over for the Indian MDF industry, but we believe recovery in MDF and particleboard margins are likely to be more gradual in nature due

to unfavourable supply-demand fundamentals and timber prices remaining elevated for the next one year. Our wood panel universe is still trading at a significant premium to historical valuations (trades at 41.9x on 1Y forward P/E vs 5Y average of 30.6x).

Our view: We prefer MTLM in the wood panel space due to (a) strong earnings growth prospects (EPS to grow at 44% CAGR over FY24-FY27E) along with sharp improvement in ROE profile (11.2% in FY24 to 20.8% in FY27E); and (b) reasonable valuation (trades at 25.0x on 1Y forward P/E vs 5Y average of 23.0x).

Fig 1 – Building Materials universe earnings snapshot – Q2FY25

Particulars (%)	Revenue Growth (YoY)	EBITDA Growth (YoY)	Revenue Growth 5Y CAGR trend					EBITDA Growth 5Y CAGR trend				
	Q2FY25	Q2FY25	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25
SI	(1.5)	(10.4)	11.8	11.7	14.5	12.9	12.3	10.4	16.6	19.4	18.3	13.1
ASTRA	0.5	(4.5)	16.9	16.8	16.0	17.9	15.1	18.5	17.0	19.6	18.2	12.0
FNXP	(6.2)	(89.7)	10.2	6.1	5.1	3.9	7.5	(3.8)	(2.9)	7.4	10.8	(33.6)
PRINCP	(5.2)	(51.5)	11.3	11.4	8.2	9.7	7.7	12.6	11.8	9.6	2.0	(6.8)
APOLP	0.4	16.0	24.2	20.5	23.4	21.3	21.0	27.9	18.7	19.2	13.8	23.5
Pipe (excludes non-pipe)	(3.9)	(30.6)	15.3	14.1	13.7	12.6	11.3	20.3	16.6	19.5	16.5	4.6
Pipes (consolidated)	(2.1)	(23.1)	13.1	11.8	12.2	11.8	11.9	10.0	11.7	15.6	14.7	6.5
CRS	6.2	(5.7)	6.9	6.5	5.6	8.1	8.4	9.8	5.7	7.4	10.5	10.9
HINDWARE	(10.1)	(58.7)	NA	10.4	9.8	9.7	8.2	NA	2.1	25.8	15.0	2.2
Bathware (consolidated)	(3.6)	(31.4)	NA	8.8	8.0	9.0	8.3	NA	4.0	13.5	12.3	7.9
KJC	5.1	(11.6)	9.1	8.7	8.8	9.7	10.5	10.5	8.1	6.9	9.5	8.6
SOMC	1.0	(12.7)	10.9	7.5	7.3	7.8	9.4	19.3	11.0	2.4	10.1	4.6
Tiles	3.6	(11.9)	9.7	8.3	8.2	9.1	10.1	12.5	8.8	5.4	9.6	7.5
CPBI	18.7	(22.9)	12.0	10.1	12.4	11.5	14.6	17.7	8.5	13.2	5.0	3.9
GRLM	12.8	7.7	13.6	12.4	11.6	15.9	14.3	14.0	11.6	13.5	16.5	10.9
MTLM	5.4	12.4	10.9	10.7	8.9	10.8	11.0	7.7	7.4	3.6	7.1	5.1
GREENP	(15.5)	(56.8)	24.4	19.0	17.8	11.6	11.9	65.6	16.6	20.4	5.4	(0.1)
Wood Panel	9.0	(17.6)	13.6	11.9	12.0	12.3	13.3	18.7	10.4	12.1	7.7	5.4
BM universe	1.3	(20.9)	12.2	10.9	11.0	11.2	11.5	12.1	10.2	13.1	12.3	6.5

Source: Company, BOBCAPS Research

Fig 2 – Building Materials universe – Relative valuation

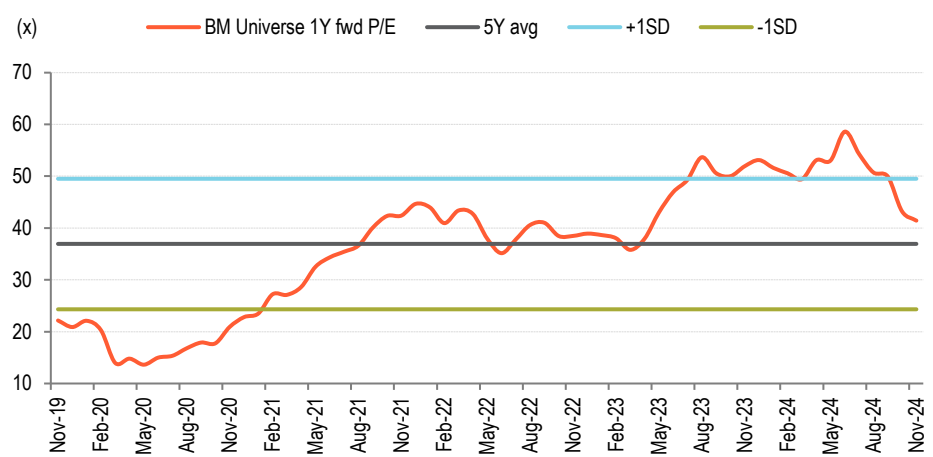
Particulars	Revenue	Historical (%)			Future (%)			Valuation		
	(Rs bn)	Revenue	EBITDA	ROE	Revenue	EBITDA	ROE	P/E (x)		
	FY24	5Y CAGR (FY19-FY24)	5Y avg (FY20-FY24)		3Y CAGR (FY24-FY27E)	3Y avg (FY25E-FY27E)		FY26E	FY27E	5Y avg
SI	101	12.5	14.5	25.9	16.4	18.3	23.0	38.5	33.3	31.2
ASTRA	56	17.6	19.1	20.3	15.1	15.7	17.9	65.9	54.1	73.9
FNXP	43	6.9	(0.5)	16.2	9.0	17.0	10.4	23.4	20.8	21.4
PRINCP	26	10.4	11.8	17.2	14.0	15.6	11.3	23.4	18.6	35.6
APOLP	10	22.2	19.6	10.2	26.0	29.8	9.4	28.9	21.3	45.5
Pipes		13.9	12.9	17.9	16.1	19.3	14.4	36.0	29.6	41.5
CRS	19	6.8	8.8	16.4	8.6	7.0	16.7	34.1	31.3	33.6
HINDWARE	28	10.9	13.9	13.8	7.7	12.5	7.2	29.6	17.6	NM
Bathware		8.8	11.4	15.1	8.1	9.7	12.0	31.8	24.5	NM
KJC	46	9.1	9.3	17.0	13.2	12.5	17.2	35.1	29.4	41.7
SOMC	26	8.6	9.0	12.3	8.3	11.4	14.8	19.1	15.8	25.2
Tiles		8.9	9.1	14.6	10.7	12.0	16.0	27.1	22.6	33.5
CPBI	39	11.2	11.2	19.5	17.0	19.6	13.4	47.5	33.4	35.9
GRLM	23	12.5	13.2	15.5	17.8	17.2	13.1	41.1	29.2	35.1
MTLM	22	9.1	4.4	17.6	14.4	28.0	18.6	23.0	17.6	23.0
GREENP	16	21.2	26.0	15.8	16.1	23.3	11.6	25.2	15.2	24.2
Wood Panel		13.5	13.7	17.1	16.3	22.0	14.2	34.2	23.8	29.6
BM Universe		11.3	11.8	16.2	12.8	15.7	14.1	32.3	25.1	41.6

Source: Company, BOBCAPS Research

Fig 3 – Building Materials universe – Relative valuation

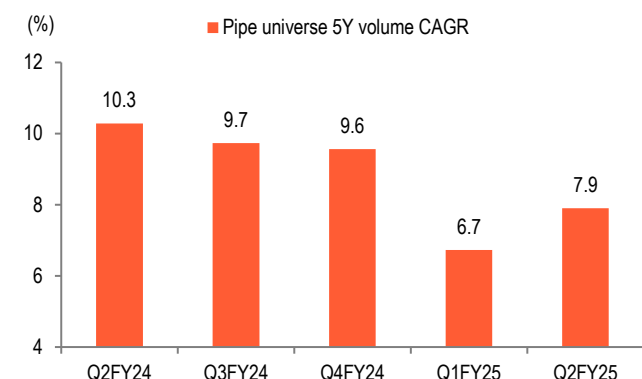
Fig 9 Building materials and CEM - Relative Valuation										
Particulars	Rating	Revenue (Rs bn)			EBITDA margin (%)			EPS (Rs)		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
BOBCAPS										
SI	BUY	115.7	137.2	159.9	15.7	16.0	16.0	98.6	118.2	136.5
ASTRA	BUY	62.2	73.1	86.1	16.5	16.6	16.6	21.8	26.3	32.0
FNXP	HOLD	45.5	49.4	55.9	13.0	17.1	16.8	8.7	11.3	12.7
PRINCPIP	BUY	27.8	33.4	38.1	10.1	12.0	12.6	12.0	18.9	23.7
APOLP	HOLD	12.8	16.4	19.7	8.9	9.9	10.6	10.6	16.9	22.9
CRS	BUY	19.7	21.7	24.1	15.2	15.4	15.5	193.2	205.7	223.6
HINDWARE	BUY	27.5	31.0	35.0	7.3	8.7	9.7	1.0	8.6	14.5
KJC	BUY	49.9	57.6	66.4	14.3	15.0	15.0	25.9	32.9	39.3
SOMC	BUY	26.4	29.5	32.9	9.3	10.5	10.7	21.4	33.7	40.7
CPBI	HOLD	44.9	52.2	62.1	11.3	13.3	14.8	10.4	15.5	22.8
GRLM	HOLD	27.3	32.1	37.7	11.4	12.0	12.7	9.2	12.6	17.7
MTLM	BUY	25.3	29.8	32.6	9.9	11.2	12.1	9.7	14.1	18.4
GREENP	HOLD	16.1	20.8	24.5	10.6	15.0	18.8	6.8	13.6	22.5
Bloomberg consensus										
SI		115.6	133.5	152.7	15.0	15.6	15.8	94.4	113.6	133.3
ASTRA		63.8	75.9	88.9	16.6	17.3	17.6	23.1	30.3	37.3
FNXP		46.3	52.2	59.0	13.3	15.0	15.3	9.9	10.9	12.4
PRINCPIP		27.8	32.4	37.3	10.2	11.7	12.4	12.5	18.3	23.2
APOLP		12.7	16.3	20.7	8.8	9.6	10.3	10.3	15.3	23.4
CRS		20.0	22.8	25.6	15.2	16.0	16.2	189.4	218.9	249.9
HINDWARE		30.2	34.6	-	10.0	11.2	-	9.3	17.7	-
KJC		49.8	56.5	63.9	15.0	15.9	16.3	28.2	35.2	41.7
SOMC		27.2	30.7	33.9	9.5	10.1	10.4	26.1	35.5	43.7
CPBI		44.9	53.3	62.2	12.2	14.3	15.4	13.1	20.2	26.9
GRLM		27.8	34.3	39.5	12.2	13.0	14.2	11.2	17.1	23.9
MTLM		25.5	29.0	32.4	10.1	11.4	11.9	10.2	14.7	18.1
GREENP		16.2	20.3	23.7	12.0	16.1	18.7	7.9	14.3	21.7

Source: BOBCAPS Research, Bloomberg

Fig 4 – Building Materials sector trading at 41.4x on 1Y fwd P/E vs 5Y avg of 36.9x

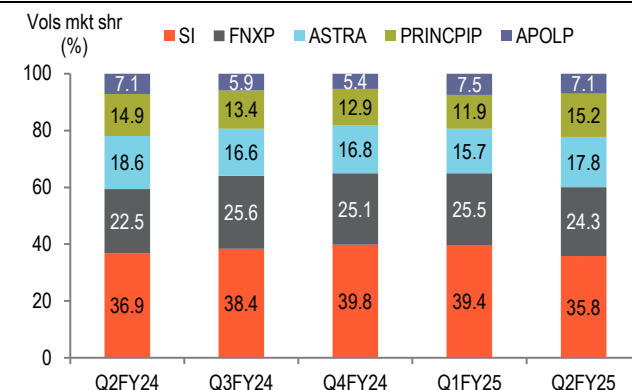
Source: Bloomberg, BOBCAPS Research

Fig 5 – Pipe universe volume grew by 2.3% YoY (5Y CAGR: +7.9%) in Q2FY25



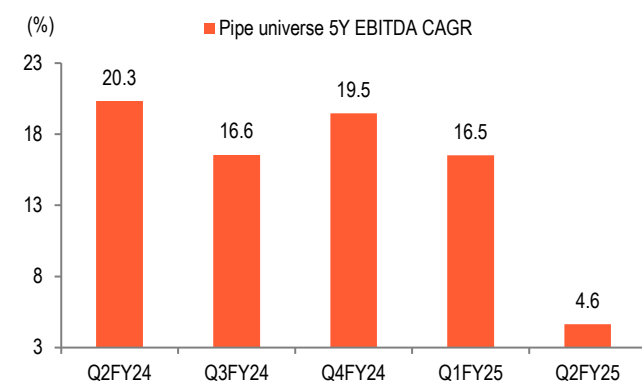
Source: Company, BOBCAPS Research; excludes profit from non-pipe segment

Fig 6 – FNXP and PRINCIPIP gained market share at the cost of margins in Q2FY25



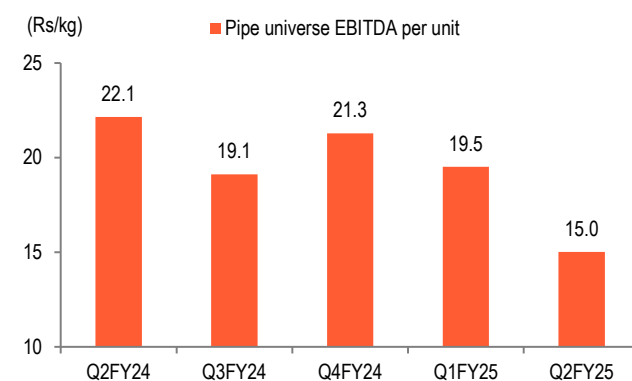
Source: Company, BOBCAPS Research

Fig 7 – Pipe universe EBITDA de-grew sharply by 30.6% YoY in Q2FY25



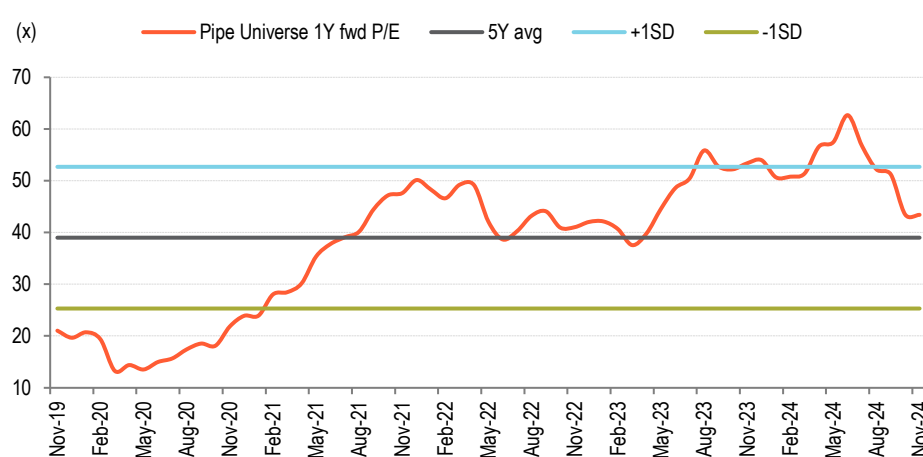
Source: Company, BOBCAPS Research

Fig 8 – Pipe EBITDA per unit was down 32% YoY in Q2FY25 due to steep fall in PVC resin prices



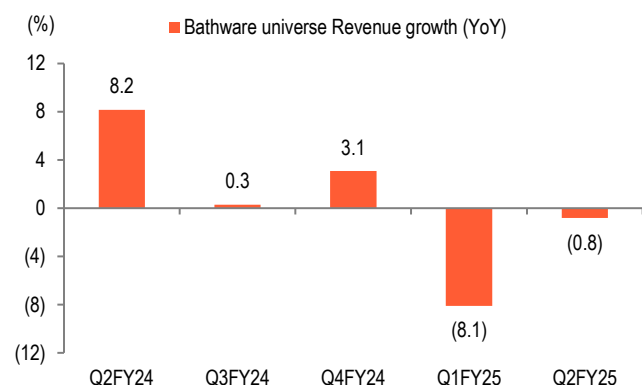
Source: Company, BOBCAPS Research

Fig 9 – Pipe universe trading at 43.4x on 1Y fwd P/E vs 5Y avg of 39.0x



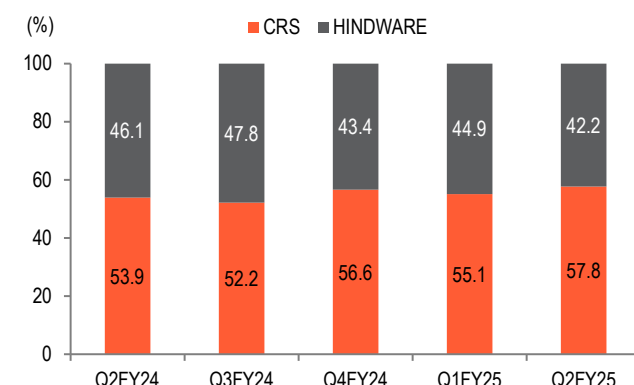
Source: Bloomberg, BOBCAPS Research

Fig 10 – Bathware universe revenue de-grew by 0.8% in Q2FY25 on a low base due to weak demand conditions



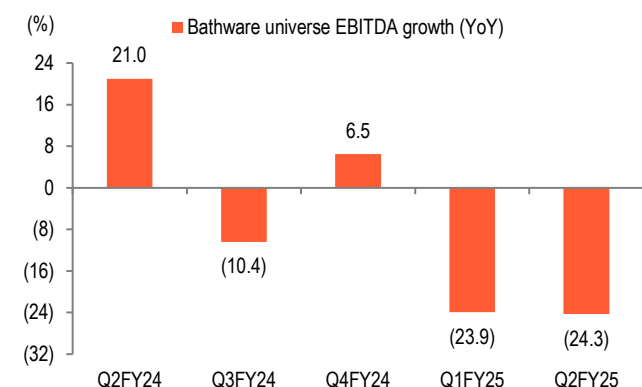
Source: Company, BOBCAPS Research

Fig 11 – CRS gained market share in Q2FY25 compared to HINDWARE



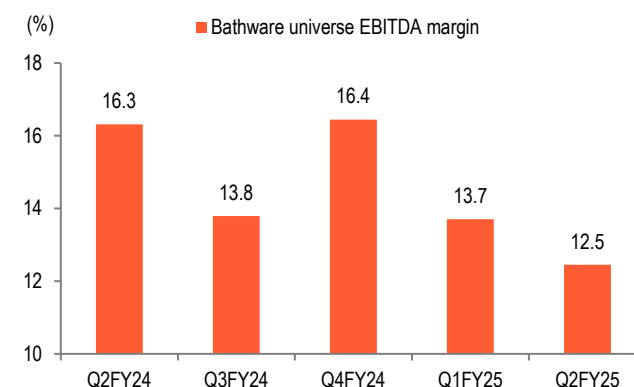
Source: Company, BOBCAPS Research

Fig 12 – Bathware universe EBITDA fell by 24.9% YoY in Q2FY25 due to high discounts & weak operating leverage



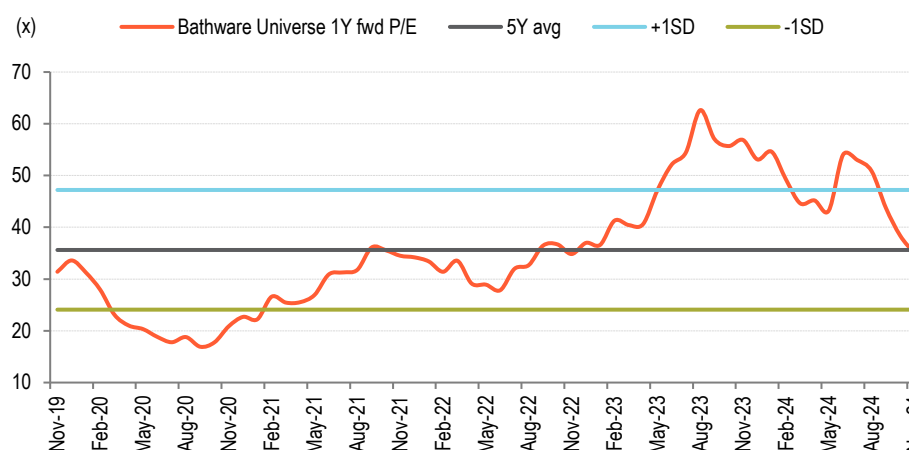
Source: Company, BOBCAPS Research

Fig 13 – Our bathware universe margin contracted by 386bps YoY to 12.5% in Q2FY25



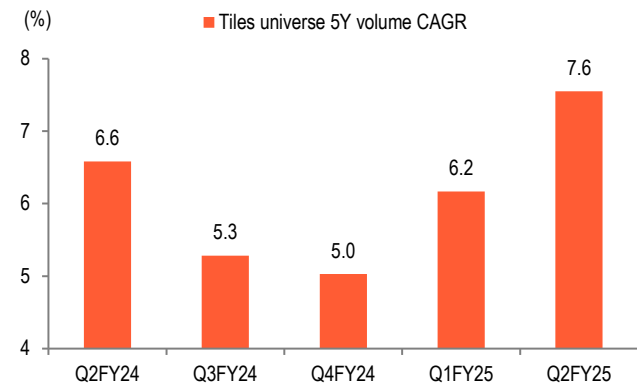
Source: Company, BOBCAPS Research

Fig 14 – Bathware universe trading at 34.9x on 1Y fwd P/E vs 5Y avg of 35.6x



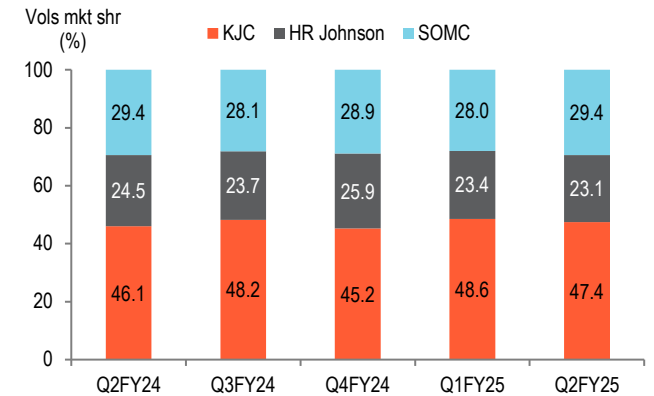
Source: Bloomberg, BOBCAPS Research

Fig 15 – Our tiles universe volume grew at a muted pace of 5.3% YoY (5Y CAGR: +7.6%) in Q2FY25



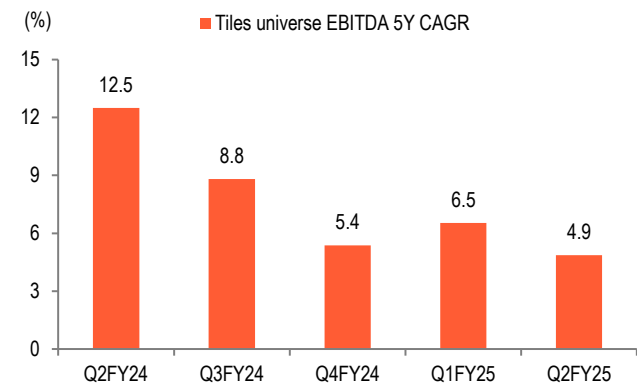
Source: Company, BOBCAPS Research

Fig 16 – Among top 3 tiles companies, KJC gained market share in Q2FY25



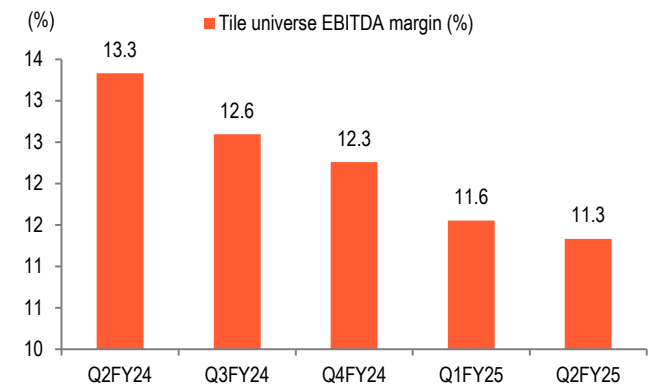
Source: Company, BOBCAPS Research

Fig 17 – Our tiles universe EBITDA was down 12.9% YoY in Q2FY25 due to stiff competition from Morbi players



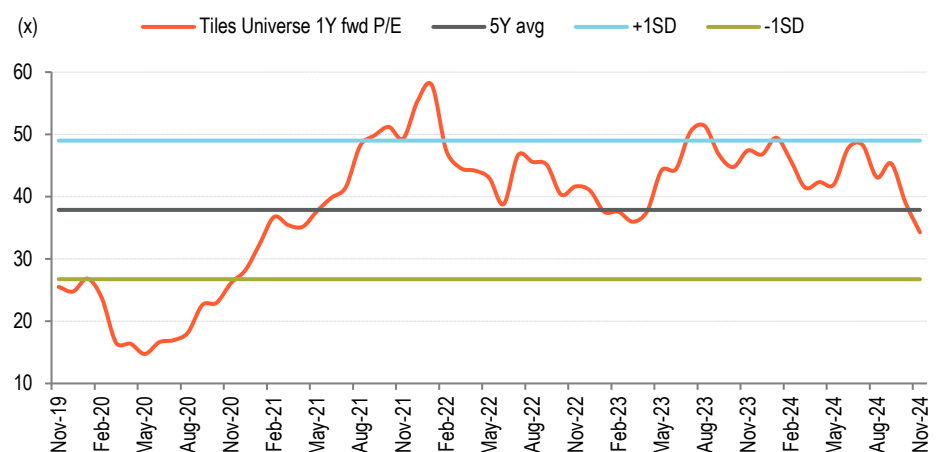
Source: Company, BOBCAPS Research

Fig 18 – Tiles universe EBITDA margin fell by 200bps YoY to 11.3% in Q2FY25 on intense competition from Morbi



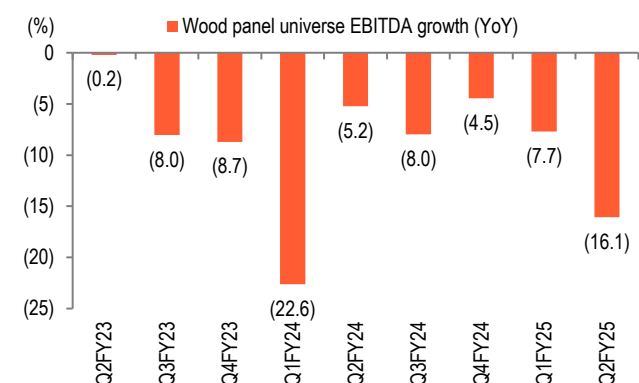
Source: Company, BOBCAPS Research

Fig 19 – Tiles universe trading at 34.3x on 1Y fwd P/E vs. 5Y avg of 37.9x



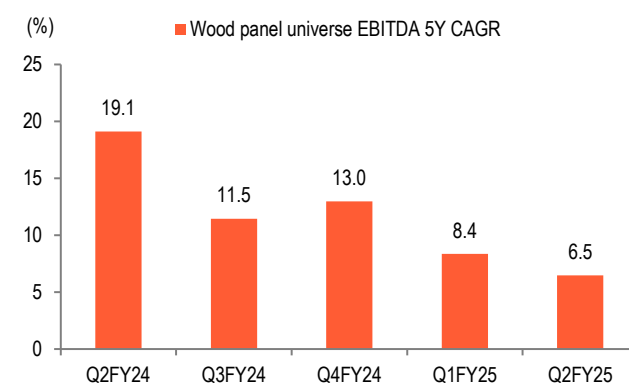
Source: Bloomberg, BOBCAPS Research

Fig 20 – Wood Panel universe EBITDA contracted YoY for the ninth consecutive quarter...



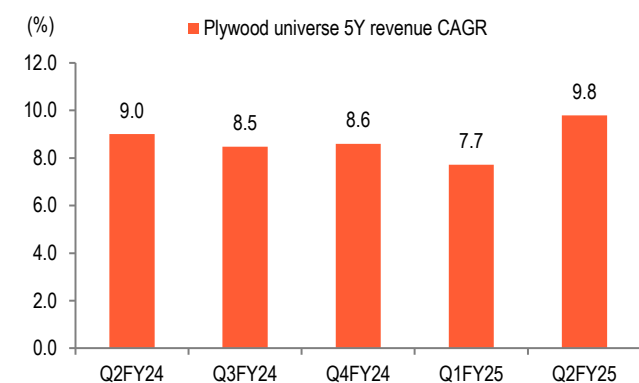
Source: Company, BOBCAPS Research

Fig 21 – ... but it still grew at a moderate rate of 6.5% on a 5Y CAGR basis in Q2FY25



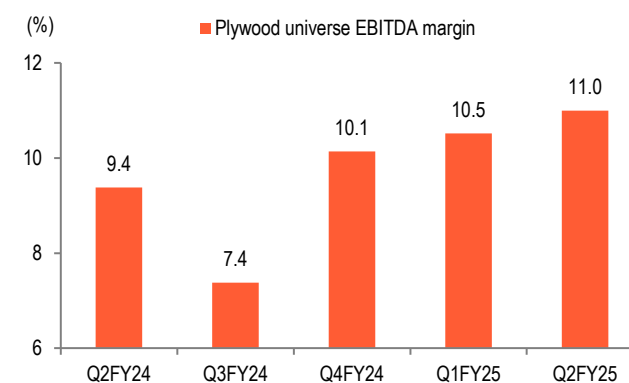
Source: Company, BOBCAPS Research

Fig 22 – Plywood universe revenue grew at a muted pace of 9.4% YoY and 9.8% on a 5Y CAGR basis in Q2FY25



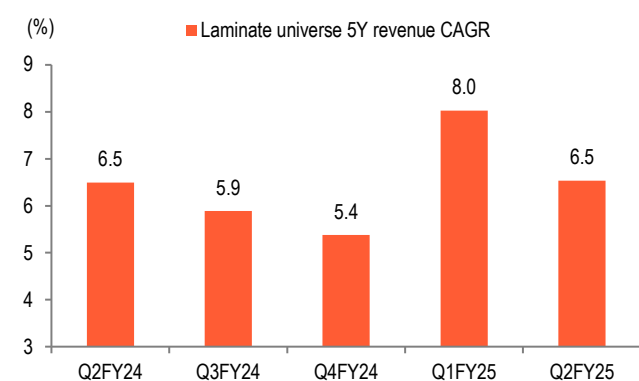
Source: Company, BOBCAPS Research

Fig 23 – Plywood EBITDA margin was up 161bps YoY to 11.0% in Q2FY25 on a low base



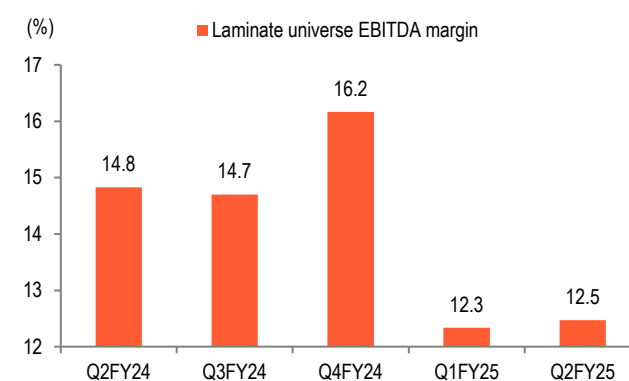
Source: Company, BOBCAPS Research

Fig 24 – Laminate universe revenue grew at 7.5% YoY and 6.5% on a 5Y CAGR basis in Q2FY25



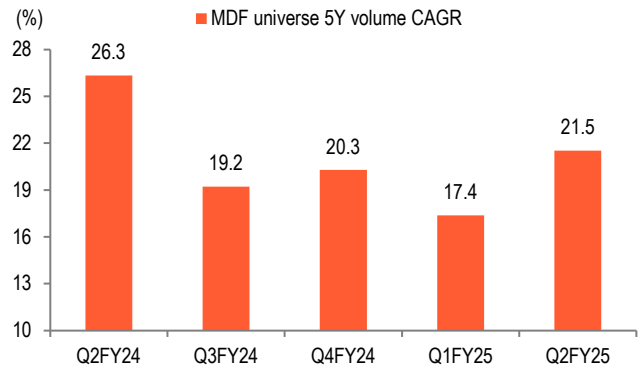
Source: Company, BOBCAPS Research

Fig 25 – Laminate universe EBITDA margin fell by 235bps to 12.5% in Q2FY25



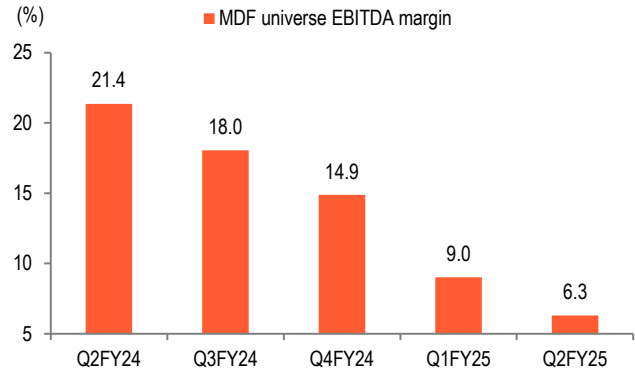
Source: Company, BOBCAPS Research

Fig 26 – MDF universe volumes grew at 14.7% YoY and 21.5% on a 5Y CAGR basis in Q2FY25



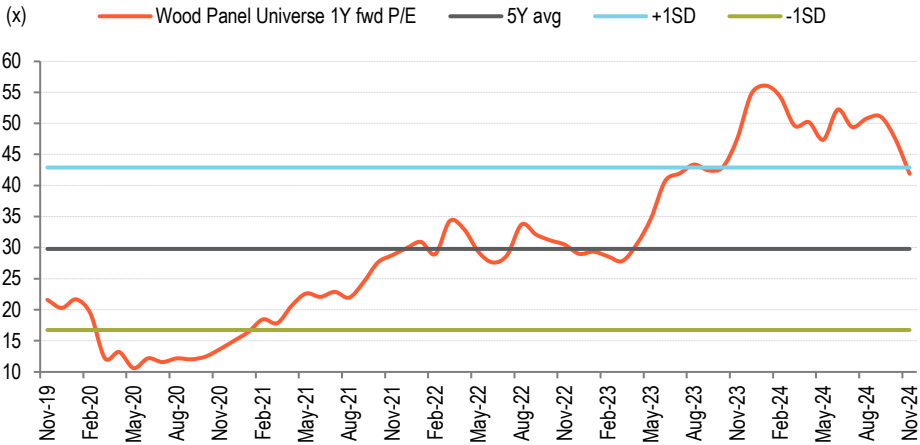
Source: Company, BOBCAPS Research

Fig 27 – MDF EBITDA margin trending down due to supply glut and rising timber prices



Source: Company, BOBCAPS Research

Fig 28 – Wood Panel universe trading at 41.9x on 1Y fwd P/E vs 5Y avg of 30.6x



Source: Bloomberg, BOBCAPS Research

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