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BUILDING MATERIALS | Q2FY20 Preview | 11 October 2019

Modest quarter

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Building material companies under our coverage are expected to post a modest Q2FY20 as tough market conditions exact a toll on volumes. We estimate meagre 2-4% YoY volume growth for sanitaryware/plywood players, while tile players should do slightly better at 5-7%. Piping companies are likely to post a mixed performance with revenue growth ranging from 2-14% YoY. Management commentary on the demand and margin outlook for H2FY20 will be a key aspect to watch this earnings season.

Anaemic quarter: Due to dull market conditions and floods in some major markets, we expect building material companies to report a muted Q2. We forecast mid-single-digit volume growth for tile companies under our coverage, viz. Kajaria Ceramics (KJC) and Somany Ceramics (SOMC). In the plywood segment, Greenply Industries (GIL) and Century Plyboards (CPBI) will likely see volumes inch up in low single digits. In MDF, however, CPBI is expected to grow revenues by ~30% YoY due to a low base and benefits of price hikes undertaken during the quarter.

Sanitaryware players such as Cera Sanitaryware (CRS) will likely report a subdued quarter as core category volumes remain in a slump. In the pipes segment, we estimate 14% YoY revenue growth for Astral Polytechnik (ASTRA) aided by price increases in CPVC and the acquisition of Rex Poly, whereas Supreme Industries (SI) and Finolex Industries (FNXP) are forecast to have modest topline growth in a seasonally soft quarter.

Operating margin gains for tile/plywood players: Lower input prices are likely to push up EBITDA margins for tile players in Q2 (+25bps/+95bps YoY for KJC/SOMC). In the plywood segment, CPBI could clock ~150bps YoY margin expansion off a low base. Among pipe players, FNXP could see margins contracting YoY due to a lower PVC-EDC delta, whereas ASTRA is forecast to report a 100bps YoY uptick on the back of better CPVC profitability. CRS should witness ~50bps YoY margin expansion off a soft base.

Key areas to watch: Managements' outlook on revenues and margins for H2FY20 will be a key monitorable. We also await announcements regarding the planned deployment of cost savings from the reduced corporate tax rate.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
KJC IN	562	650	BUY
SOMC IN	187	340	BUY
CRS IN	2,471	3,135	BUY
MTLM IN	155	200	BUY
CPBI IN	162	200	BUY
ASTRA IN	1,163	1,005	REDUCE
FNXP IN	583	610	ADD
SI IN	1,202	1,210	ADD

Price & Target in Rupees

FIG 1 – BOBCAPS BUILDING MATERIALS UNIVERSE – Q2FY20 ESTIMATES

(Rs mn)	Q2FY20E	Q2FY19A	Q1FY20A	YoY (%)	QoQ (%)	Comment
KJC						
Sales	7,461	7,253	7,000	2.9	6.6	▪ Volume growth expected at 6-7% YoY ▪ Operating margins to improve ~25bps YoY ▪ PBT likely to grow in line with EBITDA whereas PAT to clock a higher 25% YoY due to the lower effective tax rate (ETR)
EBITDA	1,139	1,089	1,060	4.6	7.5	
PAT	667	536	510	24.5	30.8	
SOMC						
Sales	4,082	3,935	3,955	3.7	3.2	▪ Volume growth forecast at 5-6% YoY ▪ Operating margins to expand 95bps YoY on lower input prices ▪ PBT projected to dip ~6% YoY despite EBITDA growth due to lower other income and higher depreciation. Lower ETR to aid 16% PAT uptick
EBITDA	313	265	303	18.3	3.4	
PAT	53	46	74	16.2	(28.6)	
CRS						
Sales	3,343	3,310	2,674	1.0	25.0	▪ Revenue growth led by faucet and tiles segments ▪ Tepid base should aid 50bps YoY operating margin gains ▪ PBT growth to be flat with PAT growth of 13% YoY due to lower ETR
EBITDA	478	456	352	5.0	35.9	
PAT	319	281	191	13.3	67.1	
CPBI						
Sales	5,830	5,644	5,737	3.3	1.6	▪ Dull revenue growth owing to sluggish plywood performance (+1-2% YoY). MDF segment to grow ~30% YoY on better capacity utilisation ▪ Better plywood/MDF margins and low base to boost EBITDA margin 150bps YoY ▪ PAT growth to be in line with EBITDA
EBITDA	854	742	926	15.1	(7.8)	
PAT	440	378	481	16.3	(8.6)	
ASTRA						
Sales	7,172	6,292	6,066	14.0	18.2	▪ Revenue likely to be driven by pipes ▪ Operating margin to increase ~100bps YoY aided by better margins in pipes ▪ PAT to outpace EBITDA growth due to lower ETR
EBITDA	1,152	944	931	22.1	23.8	
PAT	651	517	481	25.9	35.4	
FNXP						
Sales	5,550	5,426	9,438	2.3	(41.2)	▪ Seasonally a dull quarter given low demand for agri pipes ▪ Expect sharp margin drop of 10ppt YoY due to lower PVC-EDC delta ▪ PBT to decline in line with EBITDA
EBITDA	679	1,249	1,236	(45.6)	(45.0)	
PAT	438	764	725	(42.7)	(39.5)	
SI						
Sales	13,049	12,353	14,368	5.6	(9.2)	▪ Modest revenue growth aided by pipe segment ▪ Operating margins to expand 70bps YoY off a tepid base ▪ PBT to track EBITDA growth; lower ETR to take PAT higher
EBITDA	1,770	1,594	1,674	11.1	5.8	
PAT	901	701	746	28.4	20.6	

Source: Company, BOBCAPS Research | Note: We have not provided estimates for GIL due to non-availability of comparable data post-demerger in FY20

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BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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