

A bumpy quarter; revival likely in H2

- Expect a subdued Q2FY23 owing to weak demand in Jul-Aug'22, though September did see some traction ahead of the festive season
- No major price hikes taken, barring a 2-3% increase by tile players. Input costs eased slightly but soft demand to weigh on margins
- Prefer GREENP, CPBI, ASTRA and KJC; use any weakness in ASTRA as an opportunity to enter

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Mixed bag for tiles and sanitaryware: Morbi ceramic manufacturers had shut operations for four weeks during Aug-Sep'22 amid poor demand and subdued exports, even as organised players continued operations (via JVs/outourced partners). We expect tile players to report healthy topline growth in Q2FY23 due to their superior realisations. Further, companies did take price hikes to the tune of 2-3% but could not pass on the same fully during the quarter. Thus, we expect higher gas prices to weigh on margins and induce PAT declines of 20% YoY for KJC and 37% for SOMC (see our [Ceramics Sector Update of 22Sep22](#)).

Moderating demand in wood panels: Our channel checks indicate muted demand in the wood panel segment in July and August from seasonal weakness and a slowdown in construction activity due to the monsoons. However, offtake picked up in September ahead of the festive season. MDF continues to see steady domestic traction but export realisations saw some pressure. Demand for plywood and particleboard remains sluggish. Given the weak demand climate, manufacturers refrained from taking price hikes. We expect escalation in the cost of timber and other chemicals to result in ~260bps YoY margin contraction for our coverage (see our [Greenpanel report of 8Sep22](#)).

Weakness in pipe volumes and margins to intensify: Our market checks indicate an ~8% YoY drop in sale volumes for pipe companies in Q2FY23 as channel partners have delayed restocking and demand is being deferred due to fluctuating PVC prices. PVC is currently down to ~Rs 88/kg from Rs 119/kg in Q1 given higher supplies from China and removal of anti-dumping duty. We expect pressure on margins and EBITDA/kg to intensify for SI and FNXP while ASTRA could report better numbers than peers owing to its large exposure to the less volatile CPVC pipe segment. Volume offtake should improve in H2FY23 as PVC prices likely stabilise, agricultural demand picks up and channel restocking kicks in (see our [Plastic Products note of 28Sep22](#)).

Adhesive margins to improve QoQ due to price hikes: We expect PIDI to report ~2% YoY volume growth in its Consumer & Bazaar and B2B segments. The increase in VAM (key input) costs will continue to strain gross margins YoY, though we anticipate 30bps QoQ improvement due to price hikes taken during the quarter.

Recommendation snapshot

Ticker	Price	Target	Rating
ASTRA IN	2,266	2,205	HOLD
CPBI IN	630	735	BUY
FNXP IN	143	140	HOLD
GREENP IN	408	595	BUY
KJC IN	1,150	1,460	BUY
MTLM IN	182	235	BUY
PIDI IN	2,663	1,870	SELL
SI IN	2,015	2,055	HOLD
SOMC IN	563	830	BUY

Price & Target in Rupees | Price as of 7 Oct 2022



Fig 1 – BOBCAPS Building Material Universe: Q2FY23 estimates

(Rs mn)	Q2FY23E			Q2FY22			Q1FY23		
	Revenue	EBITDA margin (%)	PAT	Revenue	EBITDA margin (%)	PAT	Revenue	EBITDA margin (%)	PAT
KJC	10,805	14.8	954	9,736	18.5	1,161	10,082	15.2	930
SOMC	5,953	8.3	225	5,607	12.2	354	5,591	8.0	194
CRS	4,250	15.0	431	4,033	15.3	440	3,972	15.8	399
GREENP	4,558	27.1	739	4,222	26.8	671	4,640	28.4	776
CPBI	8,465	15.2	821	8,136	19.6	994	8,888	16.1	926
MTLM	4,021	8.1	157	4,324	11.5	318	4,535	8.8	213
ASTRA	12,479	14.2	998	11,541	18.3	1,432	12,129	14.2	1,055
SI	18,239	10.7	1,007	19,285	16.1	1,896	22,060	12.2	1,559
FNXP	9,632	9.5	626	10,830	27.8	2,351	11,898	10.6	1,001
PIDI	31,000	17.2	3,480	26,264	20.9	3,747	31,011	17.1	3,536

Source: Company, BOBCAPS Research

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

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