

Improving trends across the board

We expect most of our building material coverage to clock YoY growth aided by demand revival. MDF companies look set for strong revenues backed by higher volumes. Tiling players are also likely to log near-double-digit volume growth, and we model for robust revenues in the pipes segment led by higher volumes and realisations. We forecast margin expansion across the board arising from volume (MDF/plywood/tiles) and inventory (pipes) gains. Management commentary on expected business pickup in FY22 will be a key monitorable.

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Tiles & Sanitaryware – healthy growth trajectory: Sales have improved in the tiles and sanitaryware business aided by unlocking of markets. Revenue growth for Kajaria Ceramics and Somany Ceramics is expected to be near double-digit driven primarily by volumes, whereas Cera Sanitaryware could clock low-digit topline growth as traction in the faucet/tile segments is offset by a modest performance in sanitaryware due to production issues. Operating margins are projected to improve or remain stable for all players under coverage aided by cost control and lower raw material cost.

Plywood – improving trends; MDF – strong growth YoY: We expect plywood sales to grow YoY for Century Plyboards but to decline for Greenply Industries due to tighter working capital discipline. Plywood margins for both companies are forecast to improve due to operating leverage. In MDF, we project ~40% YoY revenue growth for Greenpanel Industries but a flattish showing from Century Ply due to full capacity utilisation. Both players should deliver higher MDF margins led by better utilisation and an improving sales mix.

Pipes & Adhesives –YoY uptick: Demand from the housing sector and higher PVC resin prices are expected to aid revenue growth in the pipe segment. Operating margins are projected to expand for all players under our coverage – Supreme Industries, Astral Poly (ASTRA) and Finolex Industries – due to cost control and inventory gains on account of rising PVC resin prices. In adhesives, we anticipate strong topline growth for Pidilite Industries and ASTRA aided by a tepid base YoY and pent-up demand, with margin expansion arising from lower RM cost.

What to watch for: We await management commentary on the FY22 demand outlook and impact on margins from rising input prices.

RECOMMENDATION SNAPSHOT

Ticker	Rating
KJC IN	REDUCE
SOMC IN	BUY
CRS IN	ADD
PIDI IN	SELL
MTLM IN	BUY
CPBI IN	ADD
ASTRA IN	REDUCE
FNXP IN	ADD
SI IN	SELL
GREENP IN	BUY



FIG 1 – BOBCAPS BUILDING MATERIAL UNIVERSE – Q3FY21 ESTIMATES

(Rs mn)	Q3FY21E	Q3FY20A	Q2FY21A	YoY (%)	QoQ (%)	Comment
Kajaria Ceramics						
Sales	8,086	7,413	7,125	9.1	13.5	<ul style="list-style-type: none"> Volume increase of ~9% YoY expected in tiles segment Margins to improve on the back of operating leverage and better cost management PAT growth YoY to be aided by better operating performance
EBITDA	1,506	1,113	1,437	35.3	4.8	
PAT	922	615	891	49.9	3.5	
Somany Ceramics						
Sales	4,841	4,362	4,239	11.0	14.2	<ul style="list-style-type: none"> Sales growth backed by estimated tile volume increase of ~10% YoY Reduction in gas cost and other expenses to enable operating margin expansion Expect strong YoY growth in PAT due to higher revenue and margins
EBITDA	573	403	494	42.3	15.8	
PAT	260	115	205	127.1	26.9	
Cera Sanitaryware						
Sales	3,425	3,252	3,241	5.3	5.7	<ul style="list-style-type: none"> Faucetware/tiles to grow whereas sanitaryware likely to stay flattish due to production issues Expect flattish operating margins PAT growth to be in line with operating performance.
EBITDA	472	449	410	5.3	15.2	
PAT	304	284	246	7.1	23.4	
Pidilite Industries						
Sales	21,927	19,266	18,803	13.8	16.6	<ul style="list-style-type: none"> CBP volumes estimated to increase ~10% YoY due to tepid base Lower RM cost to aid margin gains PAT growth to be strong YoY
EBITDA	6,497	4,632	5,126	40.3	26.7	
PAT	4,490	3,418	3,564	31.4	26.0	
Greenply Industries						
Sales	3,250	3,460	2,955	(6.1)	10.0	<ul style="list-style-type: none"> Revenue decline in India due to slow unlocking in Top-10 cities but Gabon expected to deliver strong growth YoY Higher India margins but subdued Gabon figures to keep blended margins marginally higher YoY Expect flattish PAT growth YoY due to muted revenues
EBITDA	394	397	323	(1.0)	21.7	
PAT	218	213	186	2.4	17.7	
Century Plyboards						
Sales	6,228	5,954	5,198	4.6	19.8	<ul style="list-style-type: none"> All segments to witness growth except MDF due to full utilisation Operating margins to improve owing to better profitability in the MDF and plywood segments PAT growth tepid YoY due to lower taxation in year-ago quarter
EBITDA	1,080	943	859	14.6	25.8	
PAT	692	647	514	6.9	34.5	
Astral Poly Technik						
Sales	9,537	6,641	7,471	43.6	27.7	<ul style="list-style-type: none"> Revenue growth boosted by higher PVC prices YoY. Both pipes and adhesive segments likely to witness strong growth Better profitability in adhesive segment and inventory gains in pipes to aid operating margins PAT growth boosted by strong operational performance
EBITDA	1,807	1,182	1,436	52.9	25.8	
PAT	1,161	673	828	72.5	40.2	
Finolex Industries						
Sales	9,406	6,994	5,858	34.5	60.6	<ul style="list-style-type: none"> Higher PVC prices YoY to aid revenue growth Operating margins to increase due to better PVC margins Strong YoY PAT growth aided by EBITDA growth
EBITDA	1,896	1,384	1,448	37.0	31.0	
PAT	1,322	933	1,144	41.6	15.6	
Supreme Industries						
Sales	18,780	13,733	13,748	36.7	36.6	<ul style="list-style-type: none"> Revenue growth boosted by increased PVC prices YoY Operating margins to expand due to inventory gains and tighter control on cost PAT growth aided by operating performance
EBITDA	3,341	2,209	2,559	51.2	30.6	
PAT	2,060	1,226	1,484	67.9	38.7	
Greenpanel Industries						
Sales	2,980	2,356	2,249	26.5	32.5	<ul style="list-style-type: none"> Strong MDF showing to boost revenue growth Higher capacity utilisation in MDF segment to aid margin expansion Robust PAT growth YoY driven by higher sales and better margins despite MTM losses.
EBITDA	620	360	467	72.2	32.6	
PAT	267	107	254	149.0	5.2	

Source: BOBCAPS Research

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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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