

BUILDING MATERIALS

Q3FY24 Review

19 February 2024

Soft quarter on poor demand and margin pressure

- Tepid demand climate dampens building material performance in Q3; pipe segment remains the best performer, wood panel the worst
- Maintain cautious stance on building material sector due to soft near-term demand outlook and expensive valuations
- Positive on select names (HINDWARE, MTLM, SOMC) that carry strong earnings prospects and reasonable valuations

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Tepid topline: Our building material universe clocked subdued revenue growth of 2.9% YoY in Q3FY24 due to a weak demand environment and a sharp drop in raw material prices. However, our universe EBITDA grew at a healthy 13.4% YoY due to a low base (-21% in Q3FY24). On a 4Y CAGR basis, EBITDA grew at a moderate pace of 10.2% in Q3. Sector-wise, the plastic pipe segment performed relatively better due to sustained demand from housing and infrastructure, whereas the wood panel segment performed the worst. Company-wise, SI fared the best in plastic pipes, HINDWARE in bathware, KJC in tiles and MTLM in wood panels.

Pipes: Our pipe universe EBITDA continued to grow at a healthy 17.1% YoY (4Y CAGR: +15.1%) in Q3FY24. We observed that large players (SI, ASTRA) posted strong volume growth, whereas small and midsize companies reported low volumes due to higher competitive intensity.

Bathware: Our bathware universe EBITDA was down 10.4% YoY in Q3 due to soft demand (revenue flat YoY) and sharp margin compression (-165bps YoY to 13.8%) on account of heavy brand spending during the Cricket World Cup.

Tiles: Our tiles universe volumes grew at a muted 1% YoY (4Y CAGR: +5.4%) for the quarter on account of poor demand and higher competition from Morbi players. However, EBITDA grew at a healthy 37.0% YoY (4Y CAGR: +11.9%) off a low base.

Wood panels: Our wood panel universe EBITDA contracted (-4.5% YoY) for the sixth straight quarter due to a dull demand environment and margin stress from high import pressure in MDF and particleboard and elevated timber prices.

Cautious on sector, selective on stocks: Our building material universe is trading at 41.3x on 1Y forward P/E vs. the 5Y average of 32.7x. We remain cautious on the sector amid a weak near-term demand outlook and high valuations. Even so, we are positive on select names – HINDWARE (BUY, TP Rs 600), MTLM (BUY, Rs 300), SOMC (BUY, TP Rs 900) – where we see relatively better earnings prospects and reasonable valuations. Our report of 17 January, [Strong foundations](#), has details.

Recommendation snapshot

Ticker	Price	Target	Rating
APOLP IN	759	600	SELL
ASTRA IN	1,967	2,000	HOLD
CPBI IN	726	700	HOLD
CRS IN	7,461	7,700	HOLD
FNXP IN	225	230	HOLD
GREENP IN	363	400	HOLD
GRLM IN	547	500	HOLD
HINDWARE IN	426	600	BUY
KJC IN	1,270	1,400	HOLD
MTLM IN	243	300	BUY
PRINCPIN IN	594	650	HOLD
SI IN	4,056	4,300	HOLD
SOMC IN	672	900	BUY

Price & Target in Rupees | Price as of 19 Feb 2024



Building materials: Q3FY24 review

Tepid quarter

Our building material universe clocked subdued revenue growth of 2.9% YoY in Q3FY24 due to a weak demand environment and sharp drop in raw material prices. However, our universe EBITDA grew at a healthy 13.4% YoY off a low base. Sector-wise, the plastic pipe segment performed relatively better due to sustained demand from housing and infrastructure, whereas the wood panel segment lagged owing to steep margin pressure across segments. Company-wise, SI fared the best in plastic pipes, HINDWARE in bathware, KJC in tiles and MTLM in wood panels.

Our building material universe is trading at 41.3x one-year forward P/E vs. the five-year average of 32.7x. We remain cautious on the sector amid a dull near-term demand outlook and expensive valuations. Even so, we are positive on select names – HINDWARE, MTLM and SOMC – where we see relatively better earnings prospects and reasonable valuations.

Pipes: Relatively strong performance

Our pipe universe volumes grew at a muted 5.1% YoY (4Y CAGR: +12.7%) in Q3FY24. EBITDA per unit fell 13.7% QoQ to Rs 19.1/kg due to MTM inventory loss following a steep decline in resin prices, but held above pre-Covid levels (Rs 17.5/kg in Q3FY20). Aggregate pipe EBITDA grew at a healthy 17.1% YoY (4Y CAGR: +15.1%). Among our coverage, SI continued to gain market share for the eighth consecutive quarter, whereas PRINCEPI continued to lose ground for the sixth straight quarter.

We expect our pipe universe volumes to log a healthy 15.2% CAGR over FY23-FY26 given improved affordability (for agriculture pipes), pickup in real estate activity and higher government spend on infrastructure. Aggregate EBITDA per unit is projected to improve from Rs 18.4/kg in FY23 to Rs 22.7/kg in FY26 as we foresee limited risk of MTM inventory loss going ahead and higher operating leverage. However, we maintain our cautious stance on the plastic pipe space due to expensive valuations, with our pipe universe trading at 44.9x one-year forward P/E vs. the five-year average of 34.9x.

Bathware: Weak quarter on soft demand, high marketing spend

Our bathware universe EBITDA contracted 10.4% YoY in Q3FY24 due to soft demand (revenue flat YoY) and sharp margin compression (-165bps YoY to 13.8%) on account of heavy brand spending during the Cricket World Cup and higher sales promotions to incentivise dealers. Among our coverage, HINDWARE gained market share over CRS as it posted better revenue growth (HINDWARE: +5.6%; CRS: -4.1%) in Q3.

Bathware companies believe the demand climate may remain fragile in the near term but is likely to improve after the general elections in April-May due to the ongoing pickup in real estate cycle. Guidance suggests the sector's margin would return to normal from Q4FY24 as brand spend normalises.

We continue to prefer HINDWARE over CRS as (a) it has been gaining market share in bathware over CRS for the past three years; (b) it has a better capital allocation profile, in that it is using cash flow to aggressively increase its presence in the growing and profitable plastic pipe and consumer appliance segments (as against the absence of a

concrete cash usage plan by CRS); and (c) it has relatively better earnings growth prospects along with reasonable valuations (HINDWARE is trading at 27x one-year forward P/E vs. a five-year mean of 33.6x, whereas CRS trades at 35.8x vs. the historical mean of 32.1x).

Tiles: Subdued demand, intense competition dampen performance

Our tile universe volumes grew just 1% YoY (4Y CAGR: +5.4%) for the December quarter on account of poor demand. Aggregate EBITDA margin fell marginally by 5bps QoQ to 15.4% due to low realisation amid increased competition from Morbi players. However, collective EBITDA grew at a healthy 37.0% YoY (4Y CAGR: +11.9%) off a low base. Among the top 3 tile companies, KJC continued to gain market share by registering positive YoY volume growth in Q3FY24, whereas its peers posted negative volume growth during the quarter.

Over the near term, our tile coverage companies expect the domestic demand environment to remain challenging, along with persisting margin pressure on account of pricing stress from Morbi competition and higher gas prices.

We continue to prefer SOMC over KJC as (a) near-completion of growth capex projects should enable it to increase volumes at a better rate in the near future (SOMC operated at 83% vs. 101% for KJC in Q3); (b) we see scope for margin improvement due to a rising share of high-margin glazed vitrified tile (GVT) products and operating leverage; and (c) valuations look reasonable (at 24.7x one-year forward P/E, SOMC is trading in line with its five-year average multiple of 25.3x, whereas KJC's 44.2x multiple is a premium to its historical mean of 38.4x).

Wood panels: Margin stress continues

Our wood panel universe EBITDA contracted (-4.5% YoY) for the sixth straight quarter due to dull demand across segments and margin stress from high import pressure in MDF and particleboard and elevated timber prices. Within our universe, MTLM reported sharp growth in operating profit (+75% YoY) due to fast ramp-up of its MDF plant, whereas GREENP's EBITDA contracted sharply (-34% YoY) following margin pressure in the MDF segment.

Wood panel companies have a muted near-term outlook on both demand and margin fronts across segments. Plywood and laminate segment margins are guided to remain weak in the near future amid slow demand and higher raw material prices (timber and kraft paper). MDF and particleboard margins are expected to come under further strain near term due to pricing pressure from a supply glut and higher timber prices.

We continue to prefer MTLM in our universe given (a) market share gains in its core plywood segment following better revenue growth (+15.1% YoY) compared to CPBI (+5.2%) in Q3; (b) fast ramp-up of the MDF plant in a challenging environment; (c) divestment of its controlling stake in the lossmaking Gabon subsidiary; (d) entry into a fast-growing and profitable furniture fitting business; and (e) strong earnings growth prospects (we expect EPS to post a 25.6% CAGR over FY23-FY26) with reasonable valuations (trading at 24.5x one-year forward P/E vs. the five-year average of 23.9x).

Fig 1 – Building Material universe – Q3FY24 earnings snapshot

Particulars (%)	Sales Growth (YoY)	EBITDA Growth (YoY)	Sales Growth 4Y CAGR trend					EBITDA Growth 4Y CAGR trend				
	Q3FY24	Q3FY24	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24
SI	6.0	24.9	13.1	14.1	13.3	16.1	15.6	14.6	24.2	17.7	19.8	14.4
ASTRA	8.1	10.0	19.1	18.1	20.6	19.1	19.8	18.8	26.9	21.3	16.6	14.8
FNXP	(9.3)	30.5	10.4	4.3	5.7	11.2	9.9	(9.8)	10.4	5.4	5.9	(3.5)
PRINCPIP	(12.4)	8.9	18.3	11.3	9.9	11.2	11.8	12.6	26.3	(3.7)	9.7	9.1
APOLP	(6.4)	25.1	28.4	29.6	22.0	26.8	22.0	17.2	29.2	14.6	25.5	17.2
Pipes (excl non-pipe)	0.1	17.1	17.9	14.5	13.7	15.5	17.3	16.4	26.9	17.4	15.9	15.1
Pipes (consolidated)	0.6	19.9	14.8	12.9	12.8	15.7	15.1	9.7	21.9	13.4	15.5	10.2
CRS	(4.1)	(18.1)	9.3	6.3	12.1	8.9	7.8	12.6	7.0	18.9	15.4	8.2
HINDWARE	(2.8)	1.9	14.0	12.3	13.8	13.3	11.7	2.3	36.4	29.4	28.2	16.9
Bathware	(3.3)	(10.1)	12.1	9.6	13.1	11.4	10.1	7.9	17.1	23.2	20.8	11.7
KJC	5.6	34.3	9.5	10.3	11.0	11.9	11.6	2.4	9.4	12.4	14.3	12.6
SOMC	(1.7)	45.5	10.0	7.0	10.4	11.6	8.8	3.7	(3.6)	13.7	9.4	10.0
Tiles	2.9	37.0	9.7	9.0	10.8	11.8	10.6	2.7	5.2	12.7	12.9	11.9
CPBI	6.1	(17.6)	11.1	13.0	11.2	13.6	11.6	16.2	19.7	11.2	11.9	6.0
GRLM	11.9	29.8	12.5	10.3	15.5	14.7	12.0	7.5	13.6	21.1	11.7	6.8
MTLM	45.0	74.6	5.2	4.6	8.0	12.4	15.7	(4.9)	(0.3)	(7.7)	3.4	9.3
GREENP	(8.2)	(34.2)	27.0	26.1	16.3	20.0	13.1	34.6	39.3	24.1	23.2	14.8
Wood Panel	12.2	(4.5)	12.3	12.2	12.2	14.4	12.9	14.5	17.1	12.1	12.1	8.4
BM universe	2.9	13.4	13.1	11.7	12.4	14.2	13.3	9.5	17.8	13.7	14.7	10.2

Source: Company, BOBCAPS Research

Fig 2 – Building material universe – Relative valuation

Particulars	Revenue	Historical (%)			Future (%)			Valuation		
	(Rs bn)	Revenue	EBITDA	Avg ROIC	Revenue	EBITDA	Avg ROIC	P/E (x)		
	FY23	4Y CAGR (FY19-FY23)	FY19-FY23		3Y CAGR (FY23-FY26E)	FY24E-FY26E		FY25E	FY26E	5Y avg
SI	92	13.2	11.2	38.3	13.2	22.2	43.8	39.7	34.0	27.8
ASTRA	52	19.8	20.4	31.0	15.8	20.4	31.8	74.5	62.8	66.9
FNXP	44	9.2	(14.3)	44.3	5.3	41.4	35.6	21.8	19.6	20.1
PRINCPIP	27	14.8	9.1	25.9	7.5	23.9	19.9	32.2	23.6	32.5
APOLP	9	26.1	14.8	16.6	15.1	33.8	19.1	43.1	33.5	35.7
Pipes		14.3	0.1	31.2	11.8	24.8	30.0	42.3	34.7	36.6
CRS	18	10.1	13.9	33.0	8.9	9.6	51.7	35.5	31.7	32.1
HINDWARE	29	19.8	25.7	18.9	6.2	20.3	18.8	25.6	16.5	33.6
Bathware		15.7	18.7	26.0	7.3	14.7	35.3	30.6	24.1	32.9
KJC	44	14.0	9.7	25.3	11.1	18.0	26.6	39.1	33.3	38.5
SOMC	25	13.1	4.5	11.7	7.6	21.7	17.9	21.5	15.2	25.3
Tiles		13.7	8.4	18.5	9.8	18.9	22.3	30.3	24.3	31.9
CPBI	36	16.9	23.8	25.7	11.3	9.9	19.4	45.1	34.6	27.3
GRLM	20	16.5	13.3	19.3	17.9	25.6	17.7	46.9	30.5	30.7
MTLM	18	9.3	5.3	21.2	15.0	23.2	17.0	23.4	16.4	23.9
GREENP	18	43.8	75.1	17.7	6.8	5.4	21.9	21.5	15.2	17.0
Wood Panel		18.6	26.5	21.0	12.8	13.4	19.0	34.2	24.2	24.7

Source: Company, BOBCAPS Research

Fig 3 – Building material sector trading at 41.3x on 1Y fwd P/E vs. 5Y avg of 32.7x

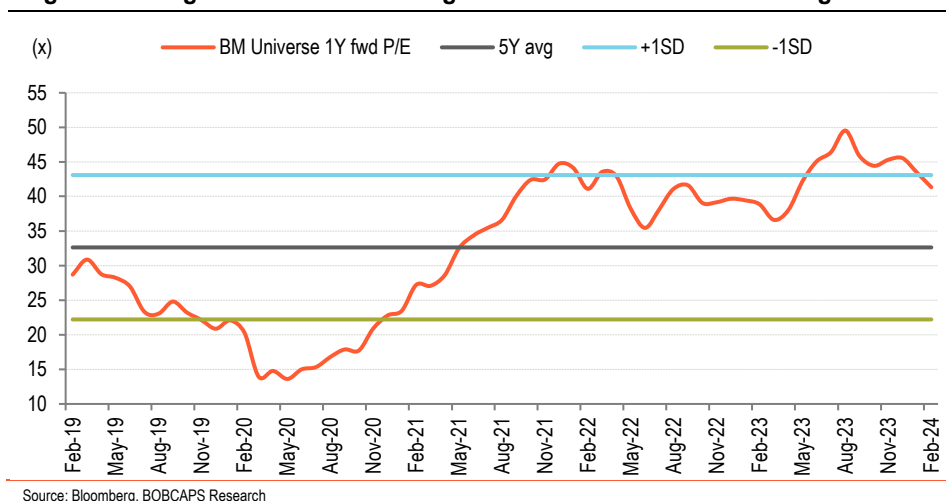


Fig 4 – Pipe universe EBITDA grew at healthy 17.1% YoY and 15.1% on 4Y CAGR basis in Q3FY24

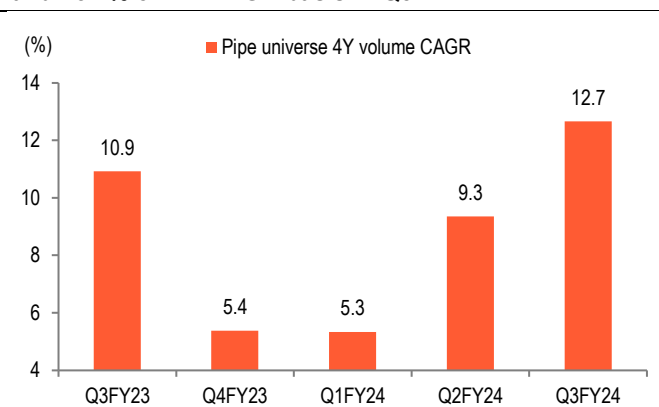


Fig 5 – Pipe volumes grew at 5.1% YoY and 12.7% on 4Y CAGR basis

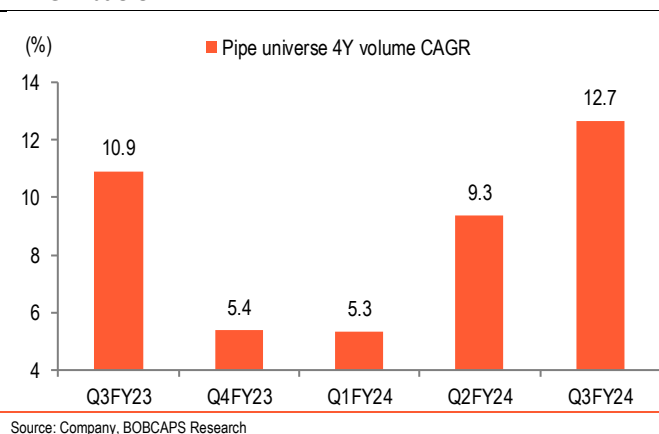


Fig 6 – Pipe EBITDA per unit declined 13.7% QoQ in Q3FY24 due to unfavourable resin prices

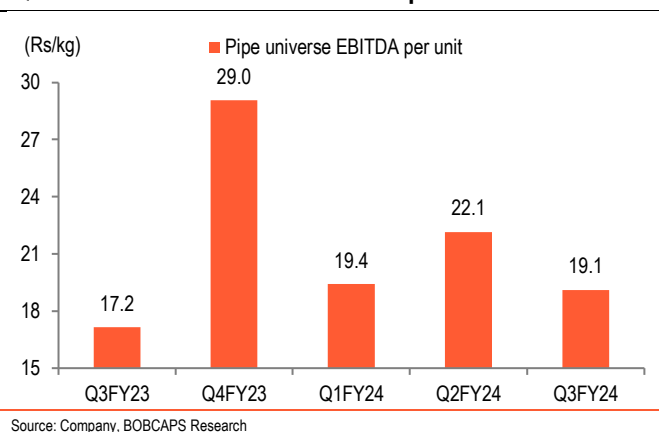


Fig 7 – In our pipe universe, SI continued to gain market share whereas PRINCIP remained a laggard

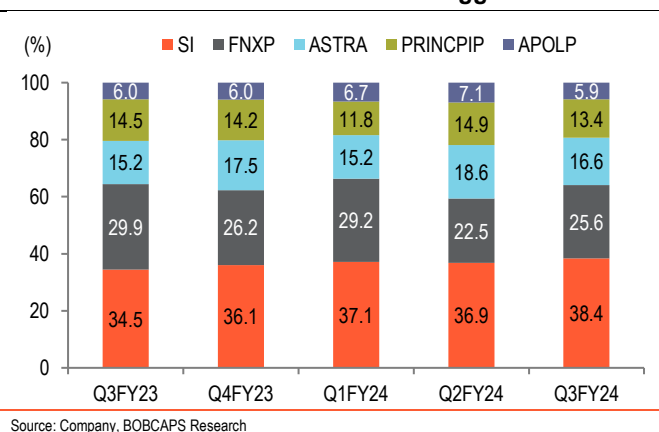


Fig 8 – Pipe universe trading at 44.9x on 1Y fwd P/E vs. 5Y avg of 34.9x

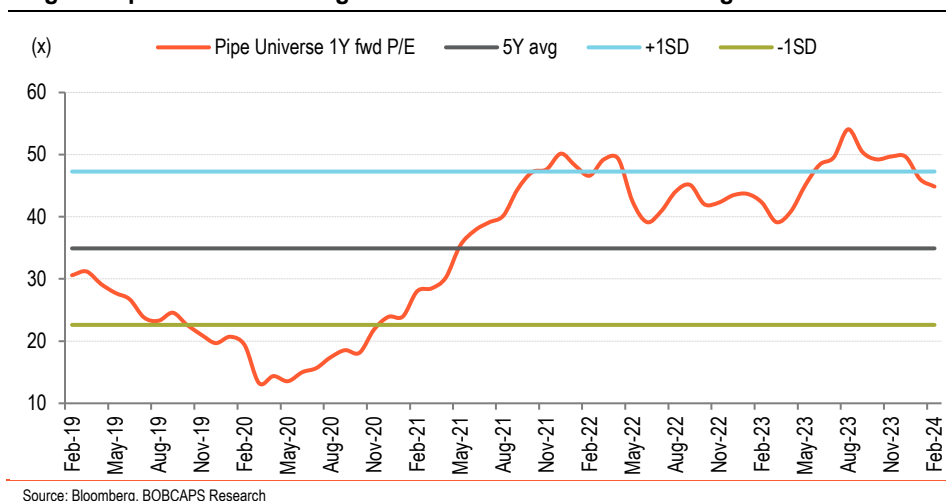


Fig 9 – Bathware universe revenue was flat YoY...

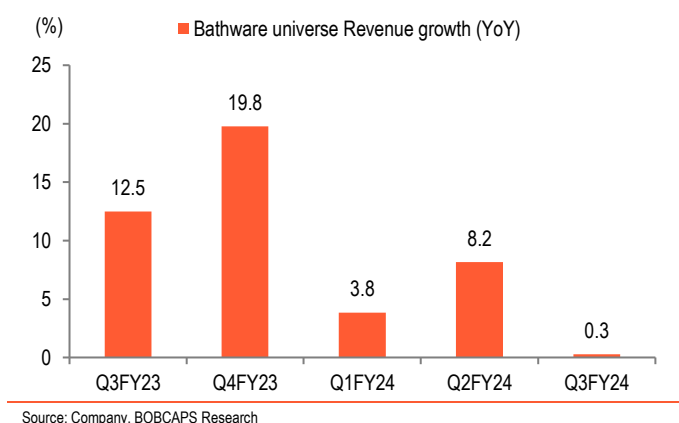


Fig 10 – ...with EBITDA down 10.4% YoY in Q3FY24...

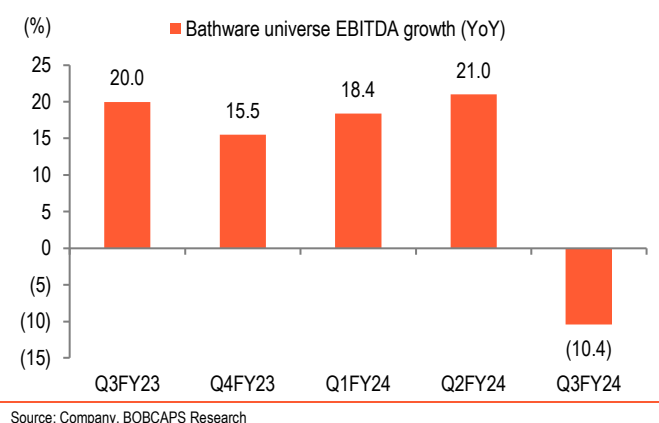


Fig 11 – ...due to margin contraction on account of heavy brand spend during the Cricket World Cup

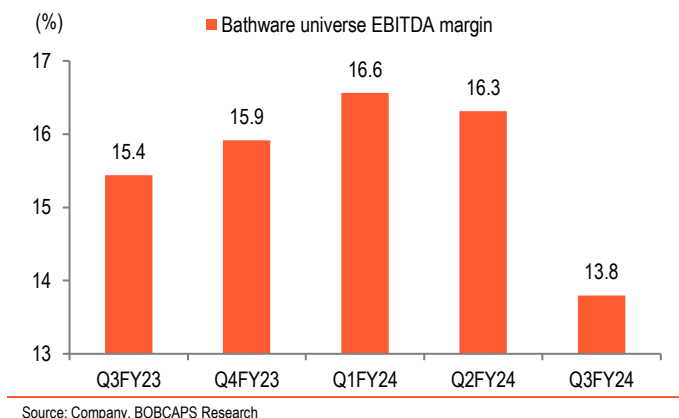


Fig 12 – HINDWARE's revenue market share in our bathware universe improved in Q3FY24

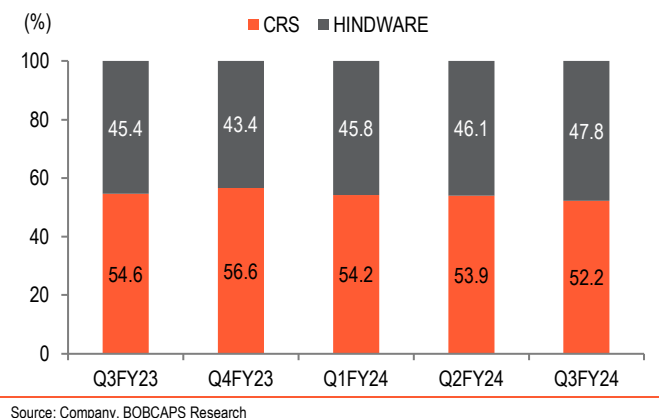
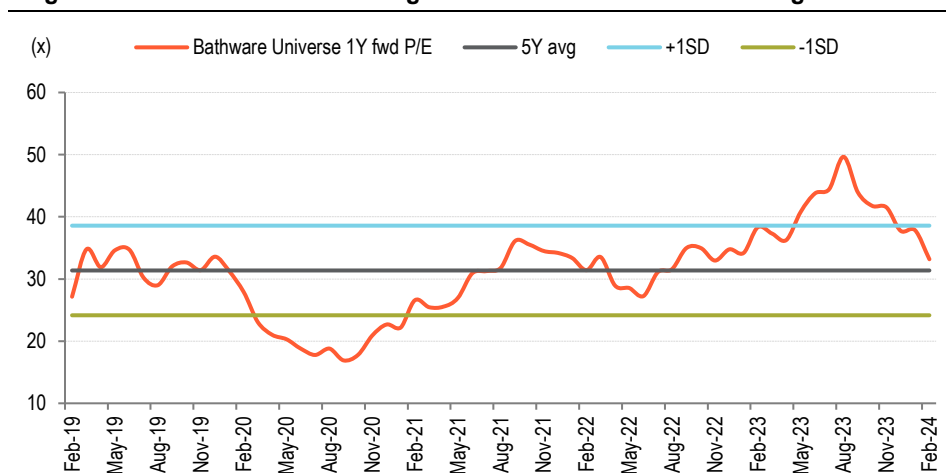
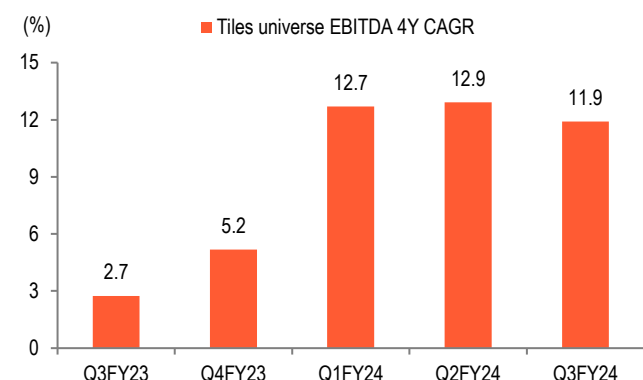


Fig 13 – Bathware universe trading at 33.2x on 1Y fwd P/E vs. 5Y avg of 31.4x



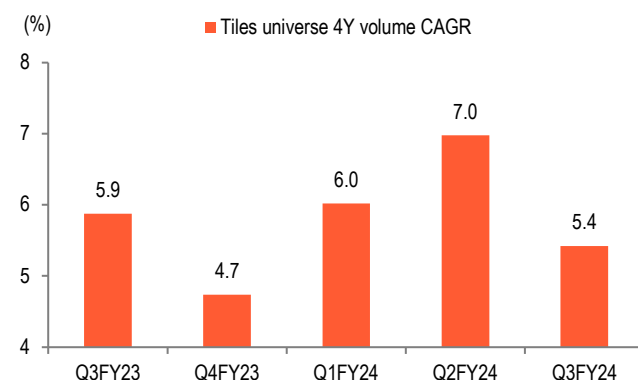
Source: Bloomberg, BOBCAPS Research

Fig 14 – Tiles universe EBITDA grew 37% YoY and 11.9% on 4Y CAGR basis in Q3FY24 off low base



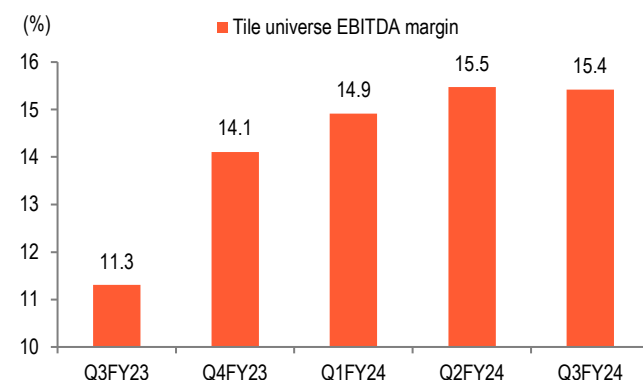
Source: Company, BOBCAPS Research

Fig 15 – Tiles volume grew at tepid 1% YoY and 5.4% on 4Y CAGR basis due to weak demand...



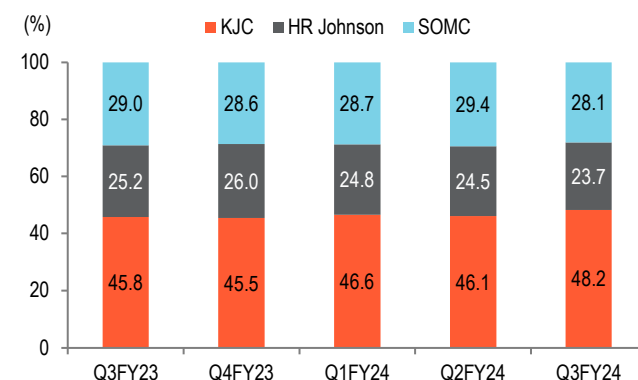
Source: Company, BOBCAPS Research

Fig 16 – ...and EBITDA margin fell slightly QoQ in Q3FY24 on rising competition from Morbi players



Source: Company, BOBCAPS Research

Fig 17 – Among top 3 tiles companies, KJC gained market share whereas SOMC lost share



Source: Company, BOBCAPS Research

Fig 18 – Tiles universe trading at 36.2x on 1Y fwd P/E vs. 5Y avg of 35.9x

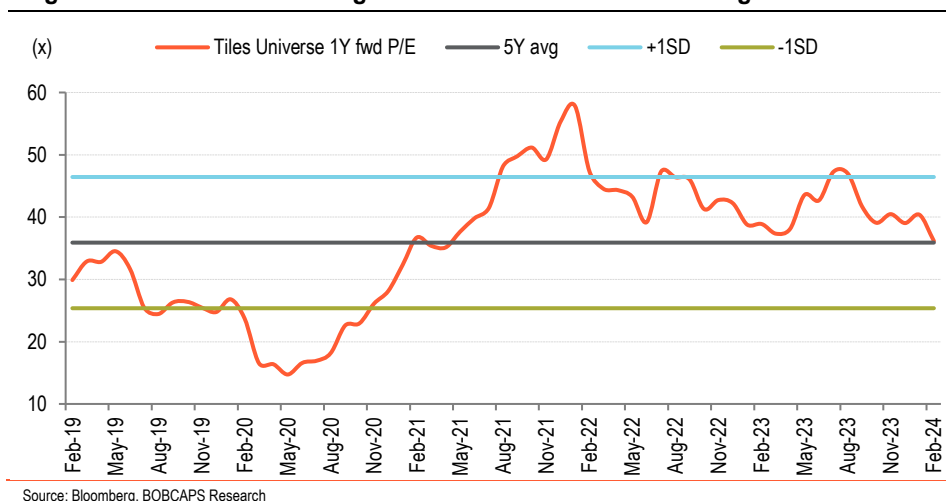


Fig 19 – Wood panel universe EBITDA contracted YoY for the sixth consecutive quarter...

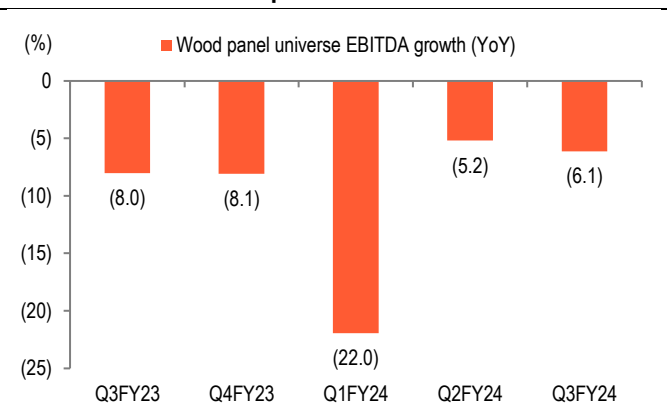


Fig 20 – ...but has grown at a healthy 9.5% rate on 4Y CAGR basis in Q3FY24

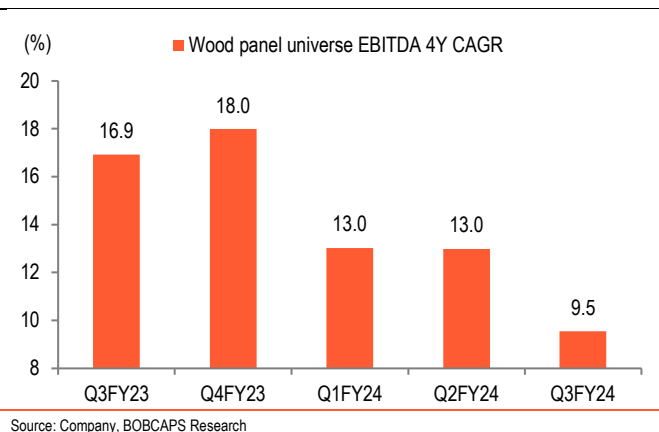


Fig 21 – Plywood universe revenue grew at 7.2% YoY and 9.1% on 4Y CAGR basis in Q3FY24...

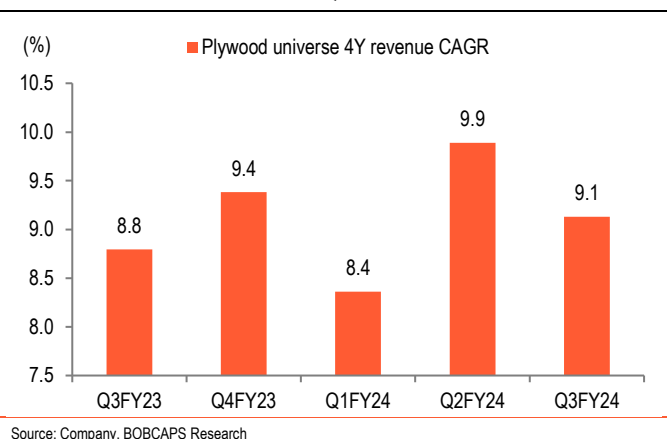


Fig 22 – ...while EBITDA margin fell on account of weak demand and higher timber prices

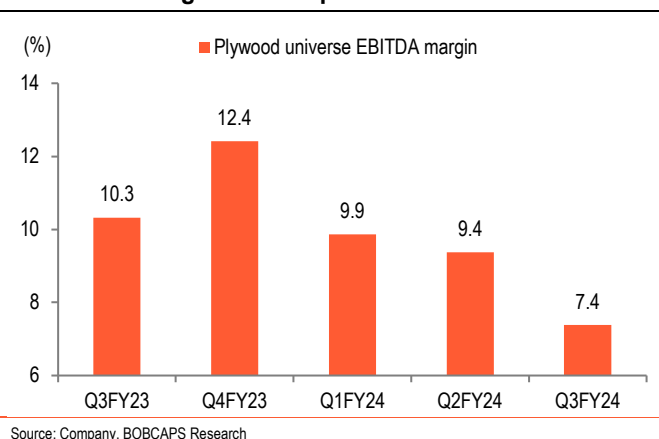
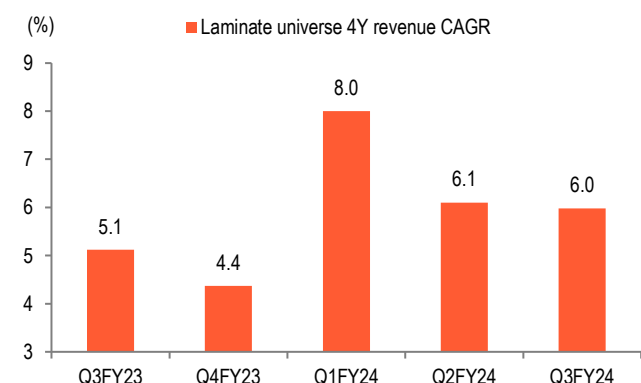
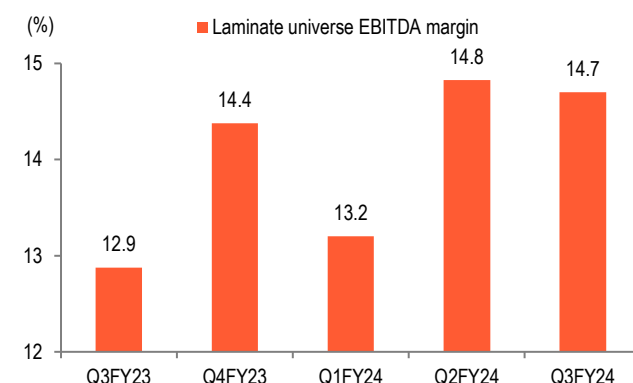


Fig 23 – Laminate universe revenue grew at 9% YoY and 6% on 4Y CAGR basis in Q3FY24...



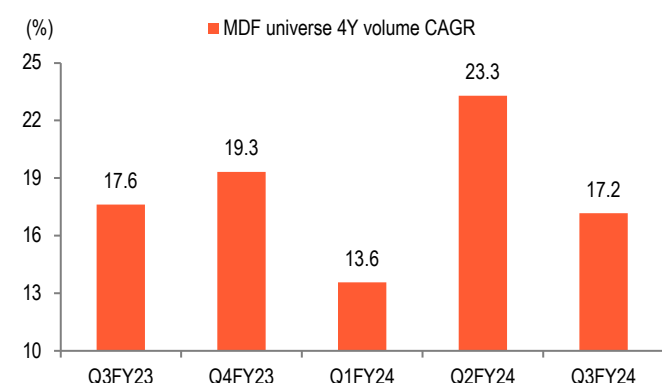
Source: Company, BOBCAPS Research

Fig 24 – ...with EBITDA margin down slightly on QoQ basis



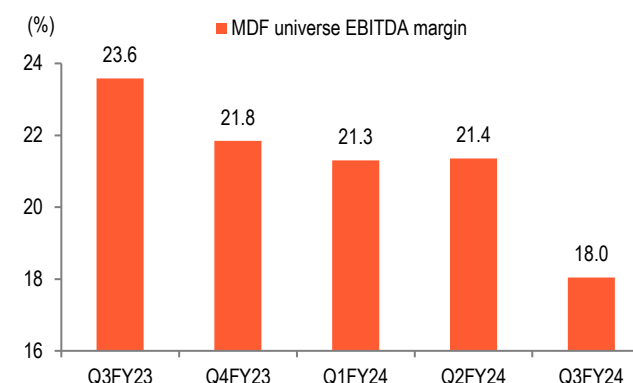
Source: Company, BOBCAPS Research

Fig 25 – MDF universe volumes grew 25.9% YoY and 17.2% on 4Y CAGR basis in Q3FY24...



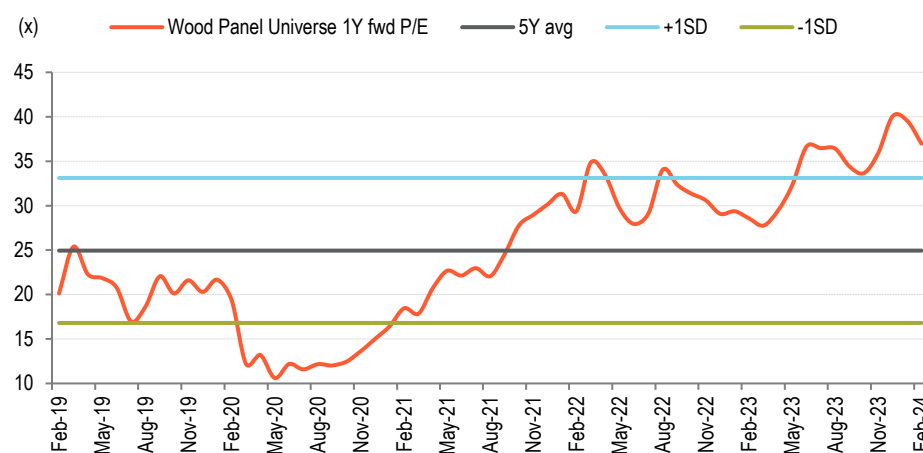
Source: Company, BOBCAPS Research

Fig 26 – ...but EBITDA margin fell sharply due to supply glut and rising timber prices



Source: Company, BOBCAPS Research

Fig 27 – Wood panel universe trading at 37x on 1Y fwd P/E vs. 5Y avg of 24.9x



Source: Bloomberg, BOBCAPS Research

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Note: Recommendation structure changed with effect from 21 June 2021

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