

Expect strong growth off a tepid base

We expect our building material coverage to report robust YoY growth in Q4FY21 aided by a lockdown-hit base quarter and demand revival. Tile players are likely to clock a strong uptick in volumes due to demand pickup, pipe companies should see robust revenue led by higher realisations, and MDF players look set for sustained volume-led growth. We forecast margin expansion across the board arising from volume (MDF, plywood, tiles, sanitaryware) and inventory (pipes) gains. GREENP, SOMC, GIL and CRS are our preferred picks.

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Tiles & Sanitaryware – strong growth trajectory: Sale trends in the tiles and sanitaryware business have improved with continued demand momentum from tier-2 towns. We expect Kajaria Ceramics (KJC) and Somany Ceramics (SOMC) to post robust revenue growth due to a low base and increased volumes from a revival in housing demand. Cera Sanitaryware (CRS) is likely to witness strong growth aided by ramp-up in the sanitaryware production facility following resolution of labour issues in Q3. Operating margins are projected to improve for all players under coverage aided by cost control and operating leverage.

Plywood – demand revival; MDF – robust growth YoY: We expect plywood sales to grow handsomely YoY for Century Plyboards (CPBI) and Greenply Industries (GIL) due to demand pickup from metros coupled with continued offtake from semi-urban areas. Plywood margins for both companies are forecast to improve due to operating leverage and price hikes. In MDF, we project revenue growth of 58% YoY (12% QoQ) for Greenpanel Industries (GREENP) and 42% YoY (3% QoQ) for CPBI due to better capacity utilisation and price hikes. Both players should also deliver higher MDF margins.

Pipes & Adhesives – YoY uptick: Demand from the housing sector has held strong in the quarter but higher PVC prices have dented agriculture sector consumptions. We expect higher PVC resin prices (~80% YoY) to aid revenue growth in the pipe segment. Operating margins are forecast to expand for all players under our coverage – Supreme Industries (SI), Astral Poly (ASTRA) and Finolex Industries (FNXP) – due to operating leverage and inventory gains on account of rising PVC resin prices. In adhesives, we anticipate strong topline growth for Pidilite Industries (PIDI) and ASTRA aided by a tepid base YoY and pent-up demand, along with margin expansion.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
ASTRA IN	1,597	1,076	SELL
CPBI IN	311	310	ADD
CRS IN	3,834	3,900	BUY
FNXP IN	701	675	ADD
GREENP IN	196	235	BUY
KJC IN	959	780	REDUCE
MTLM IN	190	195	BUY
PIDI IN	1,920	1,365	SELL
SI IN	1,994	1,605	SELL
SOMC IN	454	490	BUY

Price & Target in Rupees | Price as of 9 Apr 2021



FIG 1 – BOBCAPS BUILDING MATERIAL UNIVERSE – Q4FY21 ESTIMATES

(Rs mn)	Q4FY21E	Q4FY20A	Q3FY21A	YoY (%)	QoQ (%)	Comments
Kajaria Ceramics						
Sales	8,523	6,520	8,383	30.7	1.7	Volumes expected to rise 26% YoY (+2% QoQ) in the tiles segment due to a tepid base
EBITDA	1,634	934	1,818	75.0	(10.1)	EBITDA margin to improve backed by operating leverage and better cost management
PAT	990	496	1,189	99.6	(16.8)	PAT growth YoY aided by better operating performance
Somany Ceramics						
Sales	5,084	3,561	4,925	42.8	3.2	Sales growth of 43% YoY to be spurred by estimated tile volume increase of 41% YoY (+6% QoQ) due to a favourable base
EBITDA	565	139	633	308.0	(10.7)	Operating leverage to enable margin expansion
PAT	272	(93)	282	NA	(3.8)	Strong PAT growth projected due to increase in revenue and margins
Cera Sanitaryware						
Sales	4,175	2,978	3,158	40.2	32.2	Sanitaryware to lead growth along with faucets post resolution of production issues
EBITDA	605	423	432	43.1	40.3	Better product mix to drive operating margin expansion
PAT	387	372	299	4.0	29.5	PAT growth impacted due to lower tax incidence YoY
Pidilite Industries						
Sales	21,280	15,447	22,990	37.8	(7.4)	CBP revenues estimated to increase 38% YoY due to low base
EBITDA	4,614	3,009	6,408	53.3	(28.0)	EBITDA margin to expand due to operating leverage despite RM cost pressure
PAT	3,056	1,905	4,418	60.4	(30.8)	PAT growth to be strong at 60% YoY
Greenply Industries						
Sales	3,964	3,447	3,404	15.0	16.5	India business expected to report strong growth whereas Gabon subsidiary could decline due to logistic issues
EBITDA	486	299	417	62.7	16.5	EBITDA margin to improve due to operating leverage
PAT	290	113	250	156.5	15.8	Expect strong PAT growth off tepid base YoY
Century Plyboards						
Sales	6,768	5,242	6,544	29.1	3.4	All segments forecast to witness growth due to weak base and demand pickup
EBITDA	1,262	701	1,218	80.1	3.6	Operating margin to improve owing to better profitability in MDF and plywood segments
PAT	817	388	777	110.5	5.1	PAT growth likely to replicate strong operational performance
Astral Poly Technik						
Sales	10,504	6,289	8,975	67.0	17.0	Revenue growth boosted by higher PVC prices YoY. Both pipes and adhesive segment headed for strong growth
EBITDA	2,032	1,126	1,920	80.5	5.8	Better profitability in adhesive segment and inventory gains in pipe segment to aid operating margins
PAT	1,292	655	1,222	97.3	5.8	PAT growth boosted by strong operational performance
Finolex Industries						
Sales	13,280	7,661	10,669	73.3	24.5	Higher PVC prices YoY to augment revenue growth
EBITDA	3,028	1,041	3,467	191.0	(12.7)	Operating margin to increase on the back of inventory gains
PAT	2,175	557	2,559	290.4	(15.0)	Expect strong PAT uptick YoY spurred by EBITDA growth
Supreme Industries						
Sales	20,338	14,305	18,438	42.2	10.3	Increased PVC prices to bolster revenue growth YoY
EBITDA	4,153	2,734	4,016	51.9	3.4	Inventory gains and tighter control on cost would likely elevate operating margin
PAT	2,674	1,103	2,595	142.4	3.0	PAT growth to be backed by stronger operating performance
Greenpanel Industries						
Sales	3,520	2,378	3,169	48.0	11.1	Strong MDF growth to boost revenue
EBITDA	792	496	697	59.8	13.7	Operating margin to expand due to higher capacity utilisation in MDF segment
PAT	441	388	378	13.8	16.7	PAT growth YoY likely to lag operational performance owing to lower tax in the year-ago quarter

Source: BOBCAPS Research

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

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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