

## Commodity inflation and muted volumes to play spoilsport

- Expect a tepid Q4 given volume losses due to the third Covid wave in Jan'22 and elections in Feb'22; some demand pickup seen in March
- Margins to contract led by commodity inflation (crude-derived) and higher freight & logistics costs
- Management commentary on demand and margin outlook will be key monitorables

Ruchitaa Maheshwari  
 researchreport@bobcaps.in

**Tiles and Sanitaryware to see modest Q4 volume growth:** Players in the tiles business saw a sales pickup in the month of March as real estate demand was resilient and dealers stocked up in anticipation of price hikes in April. Due to high freight costs, exports remained sluggish and with rising gas costs, many Morbi players shut down operations, thus vacating the space for organised players. Companies under our coverage have been hiking prices (5-10% in Q4) to counter cost inflation but could still suffer margin contraction due to high gas prices. In sanitaryware, demand has held up well even as companies raised prices to pass on the cost inflation.

**Wood panel space to witness volume and margin losses:** Weak demand in January due to the third Covid wave is likely to subdue sequential MDF volume growth in Q4. Nevertheless, underlying demand remains robust given strong OEM offtake, wider distribution, lower imports, rising acceptance of readymade furniture and a shorter replacement cycle. Wood panel players have been hiking prices with a lag effect (2-2.5% for plywood in mid-Feb, 17% for MDF in Q3) to negate cost inflation. However, the rise in crude-derived chemical prices (Brent up 75% YTD) can exert margin pressure in Q4.

**Pipe volumes to improve QoQ:** The pipe industry saw a demand revival in Q4 led by steady traction in the plumbing segment while agriculture demand remained weak due to PVC price volatility. PVC resin prices hit a peak of Rs 160/kg in Oct'21 from Rs 137/kg, before falling back to Rs 137/kg in Nov'21, resulting in destocking by dealers in Q3. Many companies recently hiked prices to mitigate the raw material inflation impact even as PVC prices have recovered by ~Rs 7/kg to hover at Rs 143/kg in Q4. Prices of key inputs, HDPE/LDPE (both crude-derived), have risen 9%/17% YoY in Q4. We believe companies will be able to partly pass on the cost burden and expect them to report better volumes along with slight EBITDA margin gains QoQ.

**Adhesive segment margins to contract:** Price hikes by adhesives players under our coverage will aid realisations though a high base effect and slow demand in Jan'22 will limit volume growth. PIDI has raised prices to mitigate higher VAM input cost but this will still constrain its gross margin as it insulates only ~70% of the product basket.

### Recommendation snapshot

Ticker	Price	Target	Rating
ASTRA IN	2,060	2,205	HOLD
CPBI IN	664	735	HOLD
CRS IN	4,709	5,590	BUY
FNXP IN	166	180	HOLD
GREENP IN	584	595	HOLD
KJC IN	1,039	1,460	BUY
MTLM IN	225	260	BUY
PIDI IN	2,525	2,445	HOLD
SI IN	2,097	2,400	HOLD
SOMC IN	659	1,140	BUY

Price & Target in Rupees | Price as of 8 Apr 2022



Fig 1 – BOBCAPS Building Material Universe – Q4FY22 estimates

(Rs mn)	Q4FY22E			Q4FY21			Q3FY22		
	Revenue	EBITDA margin (%)	PAT	Revenue	EBITDA margin (%)	PAT	Revenue	EBITDA margin (%)	PAT
KJC	9,064	16.0	875	9,525	20.0	1,271	10,682	17.2	1,220
SOMC	5,151	9.7	225	5,646	15.9	532	5,870	10.6	342
CRS	3,640	15.5	371	4,384	16.0	477	4,045	16.5	448
GREENP	4,204	25.9	632	3,888	24.6	474	4,244	26.2	631
CPBI	7,950	17.0	838	7,450	16.9	863	8,548	17.6	939
MTLM	3,790	9.5	221	3,967	11.5	287	4,211	10.2	272
ASTRA	9,793	17.9	1,081	11,278	22.6	1,766	10,989	18.0	1,279
SI	20,424	15.3	1,902	20,846	24.5	3,800	19,451	16.3	1,951
FNXP	8,545	23.5	1,359	12,493	4,101	2,988	10,053	24.1	1,774
PIDI	24,801	18.0	2,845	22,355	20.6	3,061	28,507	19.3	3,555

Source: 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

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