

BUILDING MATERIALS

13 April 2020

Lockdown to mar near-term prospects; structural drivers intact

We expect the ongoing lockdown to severely hamper demand for building materials in H1FY21 with some revival only from H2. Longer credit periods and incentives to distributors/dealers in FY21 would erode margins and balance sheet health in the near term, but this should normalise in FY22. We scale back FY22 earnings estimates for our coverage companies by 8-40% and cut target prices, but remain positive given strong balance sheet profiles – SI, KJC (both raised from ADD to BUY), CRS and MTLM are top picks.

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Demand revival only in FY22: The Covid-19 lockdown will materially dent earnings for our building material coverage, implying a dull H1FY21. We expect demand recovery only from H2FY21 assuming the coronavirus is under control by Q1FY21. Lack of skilled and unskilled labour who have migrated en masse to their hometowns is an added concern. Though FY22 should be a better year, growth will be slower due to the lingering impact of Covid-19. We cut revenue for coverage stocks by 18-30% for FY21 and 9-21% for FY22 (Fig 2). Given a likely shakeout in the informal sector, organised players should benefit in the long run.

Near-term impact on margins and working capital: With dealers/distributors facing earnings disruptions, we believe large building material companies will support their channel partners by way of added credit and incentives in FY21. Consequently, margins and balance sheets will be stretched while slow sales will lead to negative operating leverage for the year. We thus cut earnings estimates for our coverage companies by 17-69% in FY21 and 8-40% in FY22 (Fig 4). As most coverage stocks have strong balance sheets and cash flows, they will weather the near-term headwinds. We expect a return to near normalcy in FY22.

Target prices cut; ratings broadly maintained: Based on our revised estimates, we cut Mar'21 target prices for our coverage stocks by 8-52%. Despite near-term challenges due to Covid-19, we believe the long-term structural story for the building material sector remains intact. We continue to like companies that have strong brands, wide distribution and sound balance sheets – Supreme Industries (SI), Kajaria Ceramics (KJC), Cera Sanitaryware (CRS) and Greenply Industries (MTLM) are our preferred picks. We upgrade SI and KJC to BUY from ADD given upside potential. Ratings for the rest of our coverage remain unchanged given the recent stock price correction.

RECOMMENDATION SNAPSHOT

Ticker	Price	Target	Rating
KJC IN	366	425	BUY
SOMC IN	101	165	BUY
CRS IN	2,191	2,550	BUY
PIDI IN	1,349	1,110	SELL
MTLM IN	97	145	BUY
CPBI IN	113	155	BUY
ASTRA IN	970	925	REDUCE
FNXP IN	374	545	BUY
SI IN	894	1,030	BUY
GREENP IN	29	46	BUY

Price & Target in Rupees



Estimate revision

FIG 1 – REVISED TARGET PRICES AND RATINGS

Company (Rs)	Target price		Rating		Rationale
	Old	New	Old	New	
KJC IN	615	425	ADD	BUY	Earnings cut. Multiple revised to 26x (earlier 28x) due to lower growth and return ratios
SOMC IN	345	165	BUY	BUY	Earnings cut. Multiple revised to 12x (earlier 15x) due to lower growth and return ratios
CRS IN	2,775	2,550	BUY	BUY	Earnings cut
PIDI IN	1,325	1,110	SELL	SELL	Earnings cut
MTLM IN	205	145	BUY	BUY	Earnings cut
CPBI IN	220	155	BUY	BUY	Earnings cut
ASTRA IN	1,195	925	REDUCE	REDUCE	Earnings cut
FNXP IN	640	545	BUY	BUY	Earnings cut
SI IN	1,385	1,030	ADD	BUY	Earnings cut
GREENP IN	64	46	BUY	BUY	Earnings cut

Source: BOBCAPS Research

FIG 2 – REVISED REVENUE ESTIMATES

Company (Rs mn)	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
KJC IN	29,707	32,780	36,573	29,015	24,838	30,464	(2.3)	(24.2)	(16.7)
SOMC IN	18,022	19,847	21,989	17,309	15,164	18,036	(4.0)	(23.6)	(18.0)
CRS IN	13,179	13,803	15,229	12,790	11,374	13,931	(3.0)	(17.6)	(8.5)
PIDI IN	75,826	87,040	99,434	75,415	64,686	82,580	(0.5)	(25.7)	(16.9)
MTLM IN	14,764	16,417	18,080	14,142	12,672	14,916	(4.2)	(22.8)	(17.5)
CPBI IN	23,861	26,140	28,658	23,270	19,729	24,197	(2.5)	(24.5)	(15.6)
ASTRA IN	29,005	33,921	39,561	28,196	24,430	32,705	(2.8)	(28.0)	(17.3)
FNXP IN	32,859	35,633	38,856	31,038	25,867	30,604	(5.5)	(27.4)	(21.2)
SI IN	58,192	65,583	74,071	56,289	45,691	59,647	(3.3)	(30.3)	(19.5)
GREENP IN	8,447	9,884	11,225	8,362	7,764	10,196	(1.0)	(21.5)	(9.2)

Source: BOBCAPS Research

FIG 3 – REVISED EBITDA ESTIMATES

Company (Rs mn)	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
KJC IN	4,453	5,091	5,826	4,263	3,398	4,685	(4.3)	(33.3)	(19.6)
SOMC IN	1,847	2,064	2,298	1,774	1,372	1,804	(4.0)	(33.5)	(21.5)
CRS IN	1,779	1,863	2,102	1,727	1,536	1,922	(3.0)	(17.6)	(8.5)
PIDI IN	16,757	19,497	22,373	16,441	13,196	18,911	(1.9)	(32.3)	(15.5)
MTLM IN	1,747	1,987	2,208	1,652	1,433	1,775	(5.4)	(27.9)	(19.6)
CPBI IN	3,544	4,048	4,492	3,225	2,395	3,414	(9.0)	(40.8)	(24.0)
ASTRA IN	4,919	5,816	6,828	4,743	3,710	5,505	(3.6)	(36.2)	(19.4)
FNXP IN	5,067	5,337	5,724	4,887	4,369	4,705	(3.6)	(18.2)	(17.8)
SI IN	8,129	9,365	10,662	7,517	5,915	8,360	(7.5)	(36.8)	(21.6)
GREENP IN	1,279	1,558	1,823	1,282	1,182	1,619	0.2	(24.1)	(11.2)

Source: BOBCAPS Research

FIG 4 – REVISED EPS ESTIMATES

Company (Rs)	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
KJC IN	16.1	19.0	22.1	15.3	10.7	16.2	(5.0)	(43.6)	(26.6)
SOMC IN	14.7	19.1	23.2	13.3	7.2	13.9	(9.9)	(62.3)	(40.0)
CRS IN	87.2	93.1	106.6	83.9	73.0	97.9	(3.8)	(21.6)	(8.2)
PIDI IN	24.9	28.5	33.0	24.4	19.2	27.7	(1.9)	(32.6)	(16.2)
MTLM IN	8.1	9.9	11.4	7.5	5.9	8.2	(7.7)	(40.2)	(28.3)
CPBI IN	8.1	9.8	11.0	7.1	4.4	7.7	(12.6)	(55.2)	(29.9)
ASTRA IN	18.6	23.7	28.7	17.7	13.4	22.1	(4.4)	(43.8)	(22.8)
FNXP IN	28.7	30.1	32.5	27.5	25.1	27.4	(3.9)	(16.5)	(15.9)
SI IN	37.2	43.9	51.0	33.5	22.9	38.0	(10.0)	(47.9)	(25.4)
GREENP IN	1.3	3.1	4.9	0.8	1.0	3.5	(41.6)	(68.8)	(27.9)

Source: BOBCAPS Research

FIG 5 – VALUATION SUMMARY

Company (Rs)	Price	Target	Upside	Rating	P/E (x)		EV/EBITDA (x)		ROE (%)
					FY21E	FY22E	FY21E	FY22E	FY22E
KJC IN	366	425	16	BUY	34.2	22.6	15.9	11.7	13.1
SOMC IN	101	165	63	BUY	14.1	7.3	5.3	3.7	8.3
CRS IN	2,191	2,550	16	BUY	30.0	22.4	16.7	13.1	13.9
PIDI IN	1,349	1,110	(18)	SELL	70.3	48.8	51.5	36.0	24.4
MTLM IN	97	145	49	BUY	16.3	11.9	9.4	7.4	20.1
CPBI IN	113	155	37	BUY	25.7	14.7	11.3	8.4	13.5
ASTRA IN	970	925	(5)	REDUCE	72.6	43.9	39.1	26.1	18.8
FNXP IN	374	545	46	BUY	14.9	13.7	9.2	8.6	11.7
SI IN	894	1,030	15	BUY	39.1	23.5	19.3	13.5	18.2
GREENP IN	29	46	59	BUY	29.8	8.2	6.7	4.4	6.3

Source: BOBCAPS Research

Stock performance

FIG 6 – KAJARIA CERAMICS

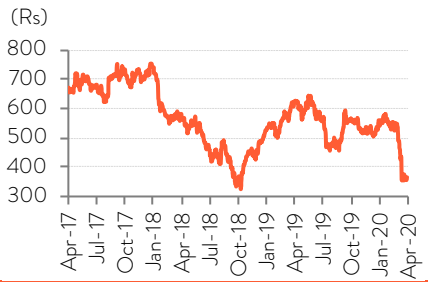


FIG 7 – SOMANY CERAMICS

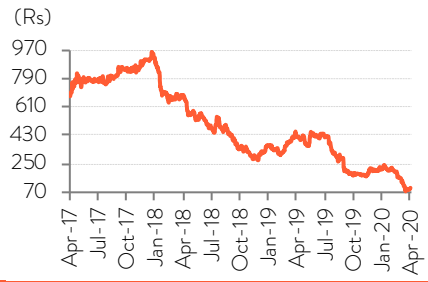


FIG 8 – CERA SANITARYWARE

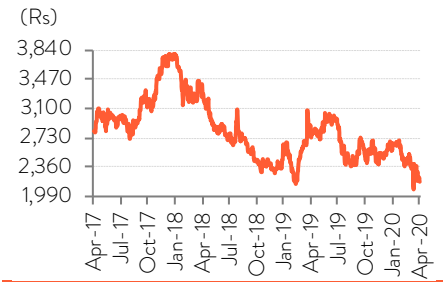


FIG 9 – PIDILITE INDUSTRIES

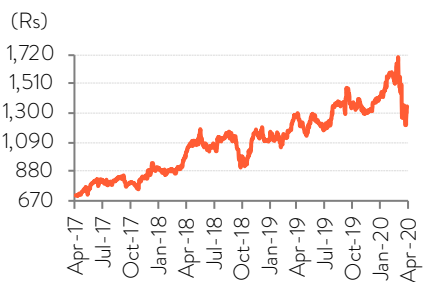


FIG 10 – GREENPLY INDUSTRIES

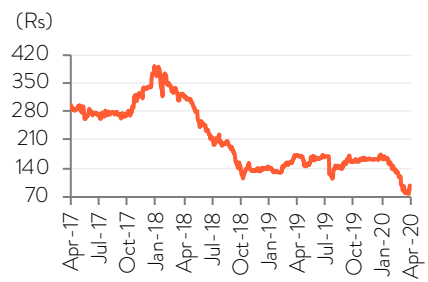


FIG 11 – CENTURY PLYBOARDS

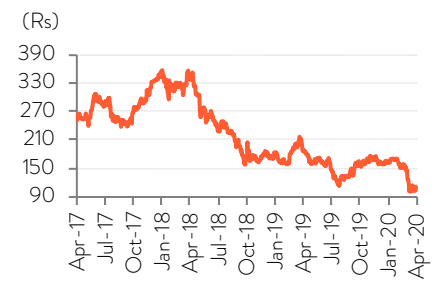


FIG 12 – ASTRAL POLY TECHNIK

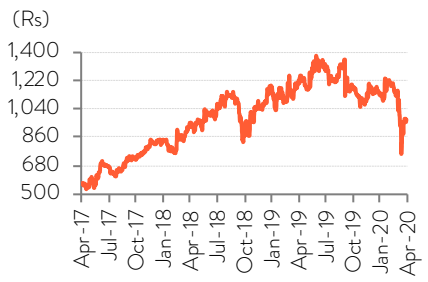


FIG 13 – FINOLEX INDUSTRIES

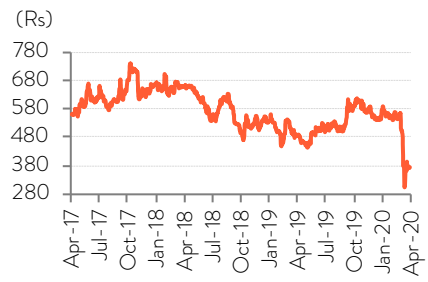


FIG 14 – SUPREME INDUSTRIES

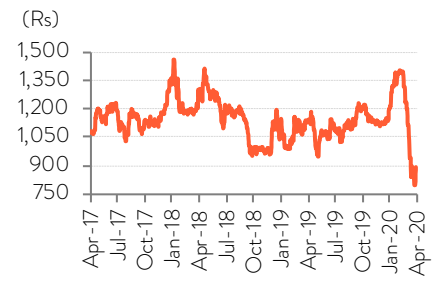
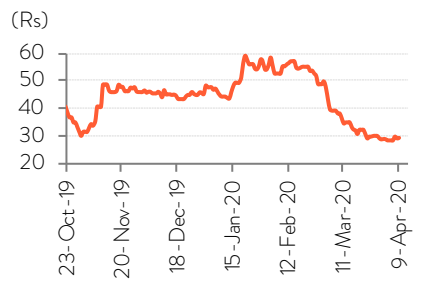


FIG 15 – GREENPANEL INDUSTRIES



Source: NSE

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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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