

FIRST LIGHT

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RESEARCH

BUILDING MATERIALS | Q3FY25 REVIEW

Another soft quarter on tepid demand and intense competition

SUMMARY

BUILDING MATERIALS: Q3FY25 REVIEW

- BM sector margins fell well below the 10Y average in Q3FY25 on heightened competitive intensity in a weak demand environment
- We anticipate margins to return to normal levels with gradual recovery in demand from H2FY26
- Valuations of most BM stocks have now become reasonable post steep corrections in their stock prices over the past three months

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Another soft quarter on tepid demand and intense competition

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Dismal quarter: Our building materials (BM) universe revenue grew at a muted pace (+3.5% YoY in Q3FY25) for the eighth consecutive quarter due to weak demand. Our BM universe EBITDA was down 16.9% YoY in Q3FY25 as margins across the segment fell well below the 10Y historical average level on account of heightened competitive intensity in a weak demand environment. Going ahead, we believe the BM sector margin is likely to return to normal level in anticipation of a gradual recovery in demand from H2FY26.

Pipes: Our pipe universe volume grew at a slow pace of 5.0% YoY in Q3FY25 (5Y CAGR: +11.1%) due to weak demand and channel destocking on account of volatile resin prices. Our pipe universe EBITDA per unit contracted sharply in Q3FY25 (-29.2% YoY to Rs 13.5/kg vs the 10Y average of Rs 17.4/kg) on intense competition and inventory loss due to falling resin prices.

Bathware: Our bathware universe revenue de-grew by 6.0% YoY in Q3FY25. Our universe EBITDA margin was down sharply in Q3FY25 (-164bps YoY to 12.2% vs the 10Y average of 15.6%) due to higher input costs; higher B2B sales and increased discounts offered to dealers in view of the weak demand environment.

Tiles: Our tiles universe volume grew by 5.6% YoY, but EBITDA declined by 11.7% YoY in Q3FY25 due to margin pressure (-193bps YoY to 10.6% vs 10Y average of 15.0%) on weak retail demand and increased competition from Morbi players.

Wood panels: Our wood panel universe EBITDA contracted (-10.2% YoY in Q3FY25) for the tenth straight quarter due to muted demand and margin stress across segments resulting from supply-side pressures and elevated timber prices.

Positive on most BM stocks: We have become constructive on most BM stocks on (a) expectation of improvement in margin with gradual recovery in demand, and (b) reasonable valuation now post the steep correction in stock prices over the past 3 months (our BM universe trades at 36.5x on 1Y fwd P/E vs 5Y average of 40.2x). Our top picks are SI in pipes, CRS in bathware, KJC in tiles, MTLM in wood panel.



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