

## BUILDING MATERIALS

Q1FY23 Preview

07 July 2022

## Unusually challenging times; stick with leaders

- Increased input costs in tiles (gas cost) and wood panel (timber) to impact margins; but strong volume growth YoY on low base
- For plastic pipes players, pipe volumes will be high on a low base but the sharp fall in PVC prices would potentially cause inventory losses
- Management commentary on demand and margin outlook will be key monitorables

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**Tiles and Sanitaryware to witness margin impact due to rise in gas costs:**

Weak demand and subdued exports led many Morbi players to shut-down their operations, thus vacating the space for domestic players. We expect volume in tiles to be buoyant on account of improved demand and low base (due to covid impact). But EBITDA margins may remain volatile (Q1 margins likely to be weak), esp. in the near term, till gas prices and raw-material cost inflation stabilise.

**Wood panel space outperform as MDF demand remains intact:** Wood panel continue to perform better—partially due to strong growth in the MDF and particleboard segment as exports remained sturdy. MDF continues to enjoy healthy demand and high margins with higher export realisations, despite increase in input costs – the MDF supply-demand dynamics remain favourable and the high cost of imports and container availability continue to keep imports low. However, demand for plywood and laminates was subdued in Q1. Moreover, escalation in cost of timber and other chemicals should lead to contraction in margins. Although, margins are expected to cool off in the MDF business QoQ, they would still be far higher than historical average.

**Pipe volumes to improve YoY on low base:** PVC prices have corrected by ~Rs20/kg in Q1 (down by ~Rs43/kg from its peak of ~Rs 162/kg in mid-Oct'21) on the back of increase in supplies from China and removal of anti-dumping duty. We estimate that a sharp fall in PVC prices would result in inventory losses and put pressure on margins. Further, demand from the plumbing, housing & infra segments remains strong, while agriculture demand has witnessed recovery. Thus, we anticipate strong YoY growth in Q1 further helped by low base.

**Adhesive segment margins to improve QoQ due to operating leverage:** Owing to low base, Pidilite will register top-line growth of +56% YoY led by strong growth in Consumer & Bazaar and B2B sales. Further, aggregate revenue from subsidiaries is also expected to grow strongly led by Araldite and waterproofing. The increase in VAM (key input) costs by ~10% QoQ will continue to put pressure on gross margin though EBITDA margin could improve by 150bps QoQ due to operating leverage.

**Recommendation snapshot**

Ticker	Price	Target	Rating
ASTRA IN	1,701	2,205	BUY
CRS IN	4,250	5,225	BUY
FNXP IN	139	180	BUY
GREENP IN	439	595	BUY
KJC IN	982	1,460	BUY
MTLM IN	183	260	BUY
PIDI IN	2,237	1,870	SELL
SI IN	1,845	2,400	BUY
SOMC IN	597	835	BUY

Price & Target in Rupees | Price as of 7 Jul 2022



**Fig 1 – BOBCAPS Building Material Universe – Q1FY23 estimates**

(Rs mn)	Q1FY23E			Q1FY22			Q4FY22		
	Revenue	EBITDA margin (%)	PAT	Revenue	EBITDA margin (%)	PAT	Revenue	EBITDA margin (%)	PAT
KJC	9,661	14.1	775	5,617	14.3	415	11,018	15.1	972
SOMC	5,569	8.0	182	3,299	7.0	39	6,168	8.2	206
CRS	3,126	15.1	316	2,282	9.1	115	4,099	19.5	584
GREENP	4,581	27.0	747	3,083	22.7	297	4,701	29.3	806
CPBI	8,178	16.0	814	4,575	13.2	311	9,011	17.8	888
MTLM	3,899	8.9	216	2,608	5.1	42.3	4,486	9.9	289
ASTRA	9,801	15.0	853	7,001	18.5	784	13,906	15.6	1,496
SI	18,252	12.8	1,344	13,421	16.5	1,251	25,571	15.3	2,543
FNXP	11,463	16.0	1,357	9,657	21.7	1,468	15,946	16.6	2,109
PIDI	30,270	17.5	3,520	19,368	17.9	2,154	25,071	16.0	2,491

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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