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BUILDING MATERIALS | Q1FY25 Review | 19 August 2024

Another soft quarter on tepid demand and intense competition

- **Tepid quarter on intense competition in a weak demand environment; pipe remains the best performer, wood panel the worst**
- **Near-term pain to persist; positive medium-term outlook is captured well in current expensive valuations**
- **Positive on select names (PRINCPIP, SOMC, HINDWARE) on strong earnings prospects with reasonable valuations**

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Tepid quarter: Our building materials (BM) universe revenue grew at a muted pace of +6.7% YoY in Q1FY25 on account of extreme heatwave conditions and general elections. Across BM segments margin pressure was witnessed in Q1FY25 due to increased competitive intensity in a weak demand environment. Sector-wise, plastic pipe again performed relatively better, whereas the wood panel sector performed the worst again due to steep margin pressures in MDF. Company-wise, SI fared the best in plastic pipes, MTLM in wood panels and KJC in tiles.

Pipes: Our pipe universe EBITDA grew by 13.1% YoY in Q1FY25 driven by higher volume (+12.5%) and relatively flat EBITDA per unit (+0.5% YoY to Rs 19.5/kg even on a low base due to the rise in competitive intensity). However, the pace of pipe volume growth on a 5Y CAGR basis moderated from 9.6% in Q4FY24 to 6.7% in Q1FY25 due to destocking of channel inventories on account of volatile resin prices.

Bathware: Our bathware universe revenue grew at a muted pace (-8.1% YoY) for the fifth consecutive quarter. Our universe EBITDA margin was down sharply by 285bps YoY to 13.7% in Q1FY25 mainly due to higher discounts offered to dealers in view of the weak demand environment and negative operating leverage.

Tiles: Our tiles universe EBITDA was down 5.6% YoY in Q1FY25 due to tepid volumes (+2.8%) and margin contraction (-68bps YoY to 11.6%) on increased competition from Morbi players in a weak market environment.

Wood panels: Our wood panel universe EBITDA contracted (-8.4% YoY) for the eight straight quarter due to muted demand and margin stress across segments resulting from supply-side pressures and elevated timber prices.

Positive on selective BM stocks: We are positive on BM's fundamental outlook over the medium term, but we maintain our cautious view on most BM stocks due to expensive valuations (our BM universe trades at 44.5x on 1Y fwd P/E vs 5Y avg of 34.6x). We are positive on select names (PRINCPIP, SOMC, and HINDWARE), where we see relatively better earnings prospects and reasonable valuations.

Building Materials: Q1FY25 review

Tepid quarter on poor demand and intense competition

Our BM universe revenue grew at a muted pace of 6.7% YoY in Q1FY25 due to continued weak demand on account of extreme heatwave conditions and general elections. Our BM universe EBITDA grew at a nominal rate of 6.4% YoY in Q1FY25 due to a low base for plastic pipe. However, our universe EBITDA (excluding pipe) de-grew by 9.2% YoY in Q1FY25 due to margin pressure seen across segments resulting from increased competitive intensity in a weak demand environment. Sector-wise, plastic pipe again performed relatively better, whereas the wood panel sector performed the worst again due to steep margin pressures in MDF. Company-wise, SI fared the best in plastic pipes, MTLM in wood panels and KJC in tiles.

Our view: We are positive on the fundamental outlook of the building materials sector over the medium term as we believe the sector's revenue growth momentum will improve with the recovery in India's real estate sector. However, we maintain our cautious view on most of our coverage stocks due to rich valuations (our BM universe is trading at 44.5x on 1Y forward P/E vs 5Y average of 34.6x) which fully captures the future earnings growth prospects. Post Q1FY25 result, we have upgraded PRINCPIP from HOLD to BUY on the back of market share gains along with improvement in the collection period cycle; we have downgraded three stocks (MTLM from BUY to HOLD; KJC from BUY to HOLD; CRS from HOLD to SELL) as their valuations have now become expensive post the sharp run up in their stock prices over the past three months. We are positive on select names (PRINCPIP, SOMC, and HINDWARE), where we see relatively better earnings prospects and reasonable valuations.

Pipes: Moderation in pace of demand on channel destocking

Q1FY25 review: Our pipe universe volumes grew by 12.5% YoY in Q1FY25 driven by good demand across applications (i.e. agriculture, real estate and infrastructure). However, the pace of volume growth on a 5Y CAGR basis moderated from 9.6% in Q4FY24 to 6.7% in Q1FY25 due to the destocking of inventories in the channel on account of volatile resin prices in the month of Jun'24. Our pipe universe EBITDA per unit was relatively flat (+0.5% YoY) at Rs 19.5/kg in Q1FY25 even on a low base of last year due to increased competitive intensity in the sector. In our coverage, SI posted relatively better result as it continued to gain market share for the tenth consecutive quarter, whereas APOLP was the only plastic pipe in our universe whose net profit contracted (-10.3% YoY) in Q1FY25 due to weak standalone performance and impact of the consolidation of the recently acquired entity (i.e. Kisan Moulding).

Outlook: Domestic PVC resin prices fell by 9% in Q2FY25 (QTD). This impacted the demand for plastic pipe in the months of Jul-Aug 2024 due to low inventory maintained in the channel. However, the dealers are likely to start restocking inventories once resin prices stabilise. Over the medium term, we expect our pipe universe volumes to log a healthy 15% CAGR over FY24-FY27E in anticipation of favourable demand across end applications (i.e. improved affordability for agriculture pipes, pickup in real estate activity for plumbing pipes and higher government spend for infrastructure pipe).

Our view: We maintain our cautious stance on most plastic pipe stocks as we believe the positive outlook is captured well in the current valuations (our pipe universe is trading at 45.9x on 1Y forward P/E – a steep premium to its 5Y average of 36.6x).

Bathware: Muted quarter on soft demand

Our bathware universe revenue de-grew by 8.1% YoY in Q1FY25 over a weak base. Our universe EBITDA margin was down sharply by 285bps YoY to 13.7% in Q1FY25 mainly due to higher discounts offered to dealers in view of weak demand environment and negative operating leverage.

Outlook: We expect the bathware industry's demand environment to improve from H2FY25 in anticipation of an increase in the pace of completion of ongoing real estate projects undertaken over the past two to three years. Note that more than 70-80% of bathware product demand comes from new construction activities. With anticipated recovery in demand, we expect bathware sector margins to return to normal levels over the next two to three quarters.

Our view: HINDWARE posted a dismal performance for the bathware segment in Q1, but we still prefer it to CRS due to (a) expectation of strong earnings growth prospects (EBITDA to grow at 18.2% CAGR over FY24-FY27E); (b) better capital allocation towards increasing exposure to fast growing plastic pipe sector (as against no concrete cash usage plan by CRS); and (b) reasonable valuations (HINDWARE and CRS trade at 25.4x/17.6x and 46.6x/40.7x on FY26E/FY27E EPS).

Tiles: Weak Q1 on muted demand and intense competition from Morbi

Our tile universe volume grew at a muted pace of 2.8% YoY (5Y CAGR: +5.5%) in Q1FY25 due to weak demand. Our tiles universe realisation remained under pressure (-1.3% QoQ) in Q1 due to intense competition from Morbi players (on account of weak exports). Our tiles universe EBITDA margin contracted by 68bps YoY to 11.6% in Q1FY25 on weak demand and lower realisation. Among the top three tile companies, KJC's performance was the outlier in Q1FY25 as it gained market share by posting better volume growth (KJC: +7.8%; SOMC: -0.9% YoY; Johnson: -2.3%;).

Outlook: We expect the tile sector demand environment to improve from H2FY25 due to an increase in the pace of completion of real estate projects. However, we believe tiles realisation in the domestic market may remain weak in the near future due to weak exports (due to high ocean freight rate) and risk of imposition of anti-dumping duty on Indian tile products by the US.

Our view: SOMC remains our preferred name in the tiles space as we see (a) scope of better volume growth prospects in the near future on the back of completion of growth capex projects (SOMC operated at 81% vs 96% for KJC in Q1FY25); (b) good scope for margin improvement due to a rising share of high-margin glazed vitrified tile (GVT) products and operating leverage benefits; and (c) reasonable valuations (SOMC is trading at 24.5x on 1Y forward P/E – near its 5Y average of 24.0x), despite sharp improvement in its return ratio profile (ROIC to improve to 20% over FY25-FY27E vs 5Y average of 13%).

Wood panels: Excess supply and high timber prices impacted Q1

Our wood panel universe EBITDA contracted (-8.2% YoY) for the eight straight quarter due to muted demand and margin stress across segments resulting from supply-side pressures and elevated timber prices. Within our universe, MTLM reported sharp growth in operating profit (+94% YoY) due to improved performance of its new MDF plant and weak base effect, whereas GREENP's EBITDA contracted sharply (-45% YoY) due to severe margin pressure in the MDF segment.

Outlook: We believe the worst is over for the Indian MDF industry, but we still do not have a constructive view on this space as we believe (a) recovery in MDF and particleboard margins are likely to be more gradual in nature due to unfavourable supply-demand fundamentals and timber prices to remain elevated for the next one year; and (b) expensive valuations (our wood panel universe is trading at 41.0x on 1Y forward P/E vs 5Y average of 27.8x).

Our view: We recently downgraded MTLM from BUY to HOLD post the sharp rally in its stock over the past three months. We do not have a BUY rating on any name in this space and would wait for either industry fundamentals to materially improve or valuations to become reasonable before becoming constructive on any name for a favourable risk reward in future.

Fig 1 – Building Materials universe earnings snapshot – Q1FY25

Particulars (%)	Revenue Growth (YoY)	EBITDA Growth (YoY)	Revenue Growth 5Y CAGR trend					EBITDA Growth 5Y CAGR trend				
	Q1FY25	Q1FY25	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY24
SI	11.3	20.4	12.0	11.8	11.7	14.5	12.9	11.6	10.4	16.6	19.4	18.3
ASTRA	7.8	6.3	21.9	16.9	16.8	16.0	17.9	21.1	18.5	17.0	19.6	18.2
FNXP	(3.3)	35.5	7.3	10.2	6.1	5.1	3.9	(4.7)	(3.8)	(2.9)	7.4	10.8
PRINCPIP	9.2	28.7	11.0	11.3	11.4	8.2	9.7	8.2	12.6	11.8	9.6	2.0
APOLP	18.5	10.7	20.8	24.2	20.5	23.4	21.3	15.0	27.9	18.7	19.2	13.8
Pipe (excludes non-pipe)	**8.0**	**13.1**	**15.2**	**15.3**	**14.1**	**13.7**	**12.6**	**18.2**	**20.3**	**16.6**	**19.5**	**16.5**
Pipes (consolidated)	**7.6**	**19.9**	**12.9**	**13.1**	**11.8**	**12.2**	**11.8**	**8.3**	**10.0**	**11.7**	**15.6**	**14.7**
CRS	(6.6)	(17.5)	8.8	6.9	6.5	5.6	8.1	13.5	9.8	5.7	7.4	10.5
HINDWARE	(3.7)	(31.2)	NA	NA	10.4	9.8	9.7	NA	NA	2.1	25.8	15.0
Bathware (consolidated)	**(4.9)**	**(24.0)**	**NA**	**NA**	**8.8**	**8.0**	**9.0**	**NA**	**NA**	**4.0**	**13.5**	**12.3**
KJC	4.6	(1.3)	10.1	9.1	8.7	8.8	9.7	11.8	10.5	8.1	6.9	9.5
SOMC	(1.4)	(3.2)	9.0	10.9	7.5	7.3	7.9	10.0	19.3	11.0	2.4	10.1
Tiles	2.5	(1.7)	9.7	9.7	8.3	8.2	9.1	11.4	12.5	8.8	5.4	9.6
CPBI	12.8	(16.5)	10.4	12.0	10.1	12.4	11.5	8.8	17.7	8.5	13.2	5.0
GRLM	17.4	(0.5)	12.3	13.6	12.4	11.6	15.9	13.8	14.0	11.6	13.5	16.5
MTLM	22.6	94.2	9.0	10.9	12.2	8.9	10.8	7.7	7.7	7.4	3.6	7.1
GREENP	(5.5)	(45.2)	24.4	24.4	19.0	17.8	11.6	22.8	65.6	16.6	20.4	5.4
Wood Panel	**12.8**	**(8.2)**	**12.3**	**13.6**	**12.3**	**12.0**	**12.3**	**12.2**	**18.7**	**10.4**	**12.1**	**7.7**
BM universe	**6.7**	**6.4**	**12.0**	**12.2**	**11.0**	**11.0**	**11.2**	**9.9**	**12.1**	**10.2**	**13.1**	**12.3**

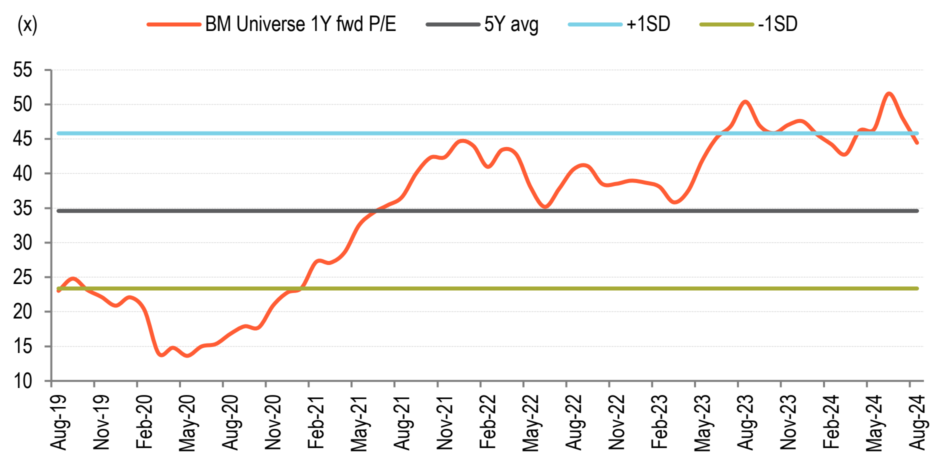
Source: Company, BOBCAPS Research

Fig 2 – Building Materials universe – Relative valuation

Particulars	Revenue (Rs bn)	Historical (%) Revenue	Historical (%) EBITDA	Historical (%) ROE	Future (%) Revenue	Future (%) EBITDA	Future (%) ROE	Valuation P/E (x)		
	FY24	5Y CAGR (FY19-FY24)		5Y avg (FY20-FY24)	3Y CAGR (FY24-FY27E)		3Y avg (FY25E-FY27E)	FY25E	FY26E	5Y avg
SI	101	12.5	14.5	25.9	16.1	18.2	23.4	50.9	43.7	37.8
ASTRA	56	17.6	19.0	20.3	19.0	21.1	20.0	77.2	62.7	50.4
FNXP	43	6.9	(0.7)	11.9	10.7	23.9	16.2	25.6	23.9	20.1
PRINCPIP	26	10.4	11.6	17.1	14.5	20.7	13.9	34.1	25.1	20.7
APOLP	10	22.2	19.6	10.2	26.8	33.3	9.6	39.6	27.6	20.5
Pipes	**-**	**12.4**	**11.1**	**17.1**	**17.4**	**23.4**	**16.6**	**45.5**	**36.6**	**29.9**
CRS	19	6.8	8.8	16.4	9.4	10.0	17.3	52.7	46.6	40.7
HINDWARE	28	10.9	13.9	13.8	9.9	18.2	14.4	52.0	25.4	17.6
Bathware	**-**	**9.1**	**10.9**	**15.1**	**9.6**	**14.1**	**15.9**	**52.3**	**36.0**	**29.1**
KJC	46	9.1	9.3	17.0	14.0	14.7	18.4	46.9	39.0	33.2
SOMC	26	8.6	8.9	12.2	7.6	11.9	15.5	29.2	21.3	17.8
Tiles	**-**	**11.3**	**11.6**	**14.6**	**10.8**	**13.3**	**17.0**	**38.0**	**30.2**	**25.5**
CPBI	39	11.2	11.2	19.5	15.7	19.9	14.9	52.7	41.3	30.1
GRLM	23	12.5	12.9	15.5	19.8	21.0	14.4	57.6	38.7	29.5
MTLM	22	9.1	4.3	17.5	12.3	29.5	19.6	36.3	24.2	19.2
GREENP	16	21.2	26.0	15.8	16.2	27.2	13.0	41.2	23.1	14.5
Wood Panel	-	**12.3**	**12.4**	**17.1**	**16.0**	**24.4**	**15.5**	**46.9**	**31.8**	**23.3**
BM Universe	**-**	**11.5**	**11.3**	**24.6**	**14.9**	**20.4**	**26.5**	**37.6**	**29.5**	**33.7**

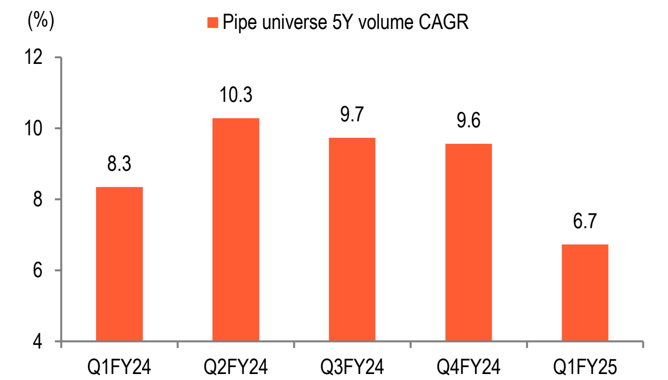
Source: Company, BOBCAPS Research

Fig 3 – Building Materials sector trading at 44.5x on 1Y fwd P/E vs 5Y avg of 34.6x



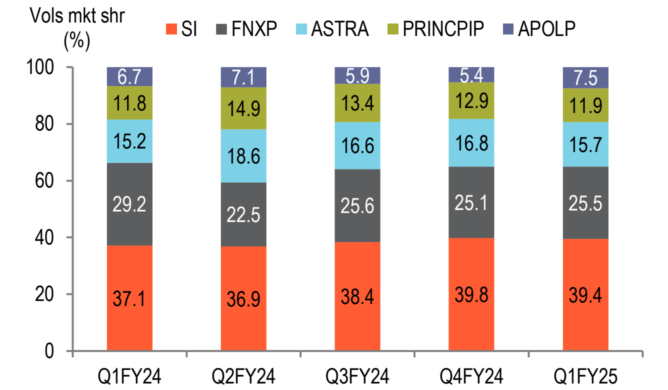
Source: Bloomberg, BOBCAPS Research

Fig 4 – Pipe universe volume grew by 12.5% YoY and 6.7% on a 5Y CAGR basis in Q1FY25



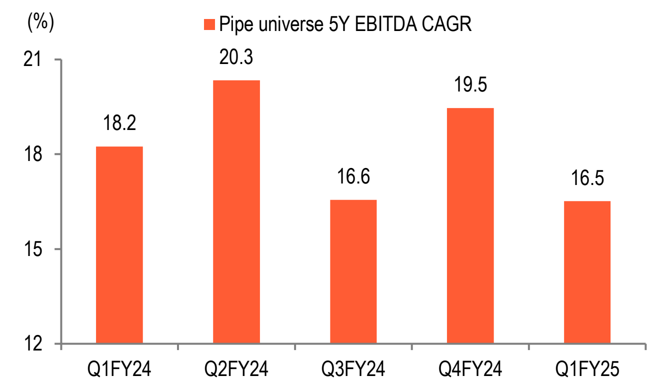
Source: Company, BOBCAPS Research; excludes profit from non-pipe segment

Fig 5 – SI continued to gain market share, whereas FNXP lost market share in Q1FY25



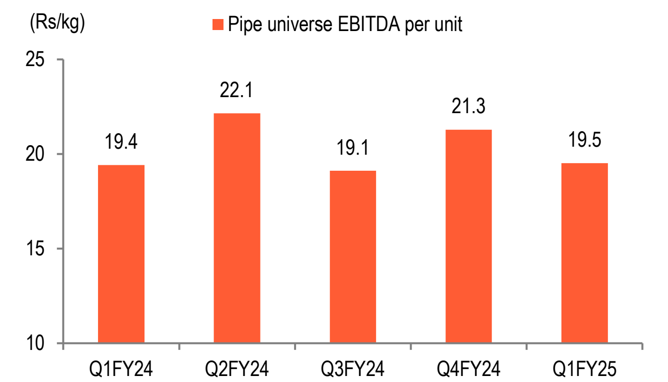
Source: Company, BOBCAPS Research

Fig 6 – Pipe universe EBITDA grew by 13.1% YoY and 16.5% on a 5Y CAGR basis in Q1FY25



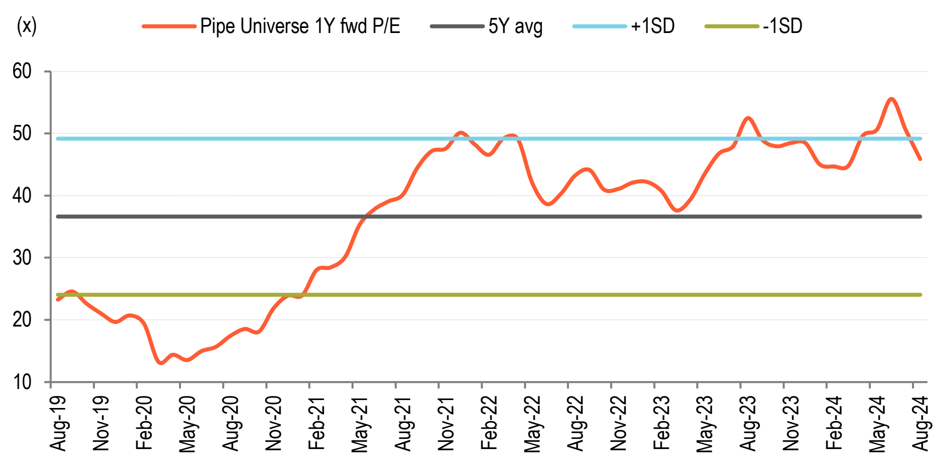
Source: Company, BOBCAPS Research

Fig 7 – Pipe EBITDA per unit was flat on YoY in Q1FY25 even on a weak base due to rise in competitive intensity



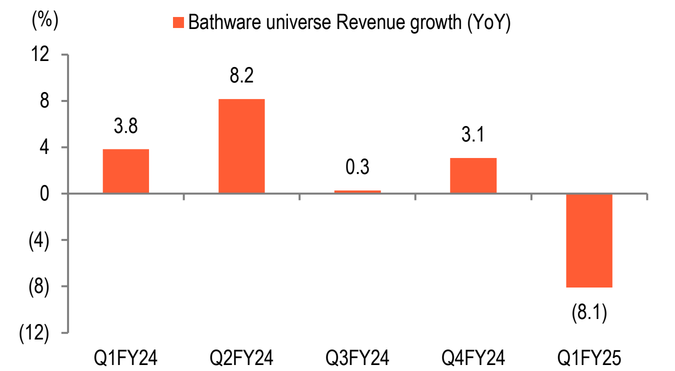
Source: Company, BOBCAPS Research

Fig 8 – Pipe universe trading at 45.9x on 1Y fwd P/E vs 5Y avg of 36.6x



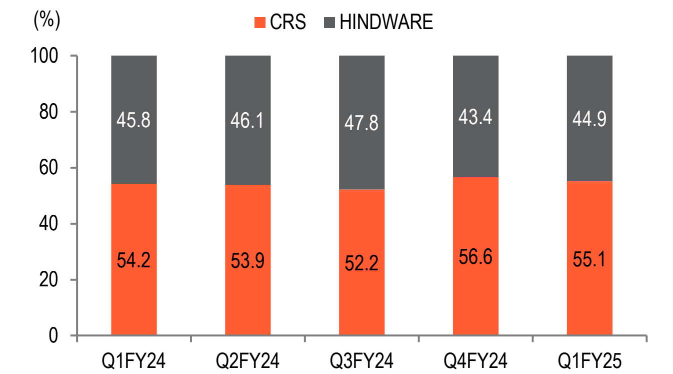
Source: Bloomberg, BOBCAPS Research

Fig 9 – Bathware universe revenue de-grew by 8.1% in Q1FY25 on a low base due to weak demand conditions



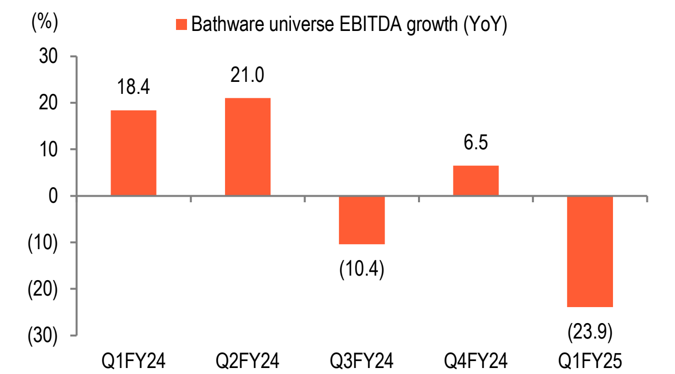
Source: Company, BOBCAPS Research

Fig 10 – CRS performed better than Hindware in Q1FY25



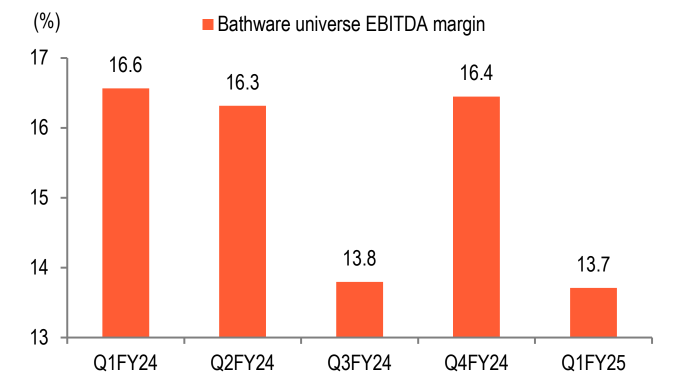
Source: Company, BOBCAPS Research

Fig 11 – Our bathware universe EBITDA de-grew by 23.9% YoY in Q1FY25 due to negative operating leverage



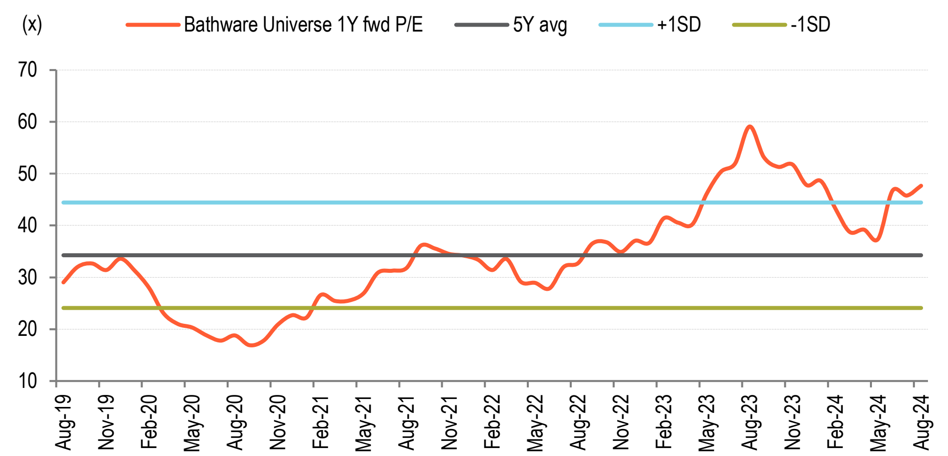
Source: Company, BOBCAPS Research

Fig 12 – Our bathware universe margin contracted by 285bps YoY to 13.7% in Q1FY25



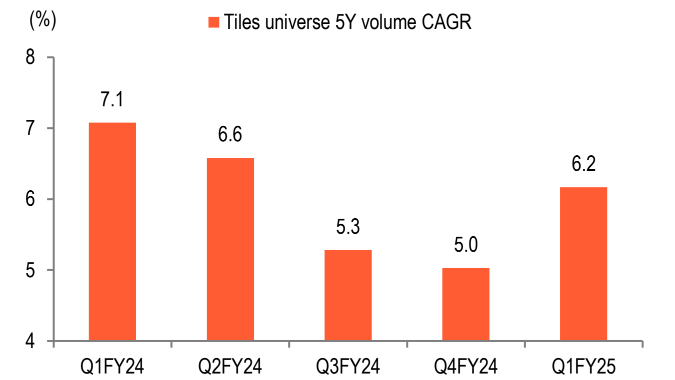
Source: Company, BOBCAPS Research

Fig 13 – Bathware universe trading at 47.7x on 1Y fwd P/E vs 5Y avg of 34.2x



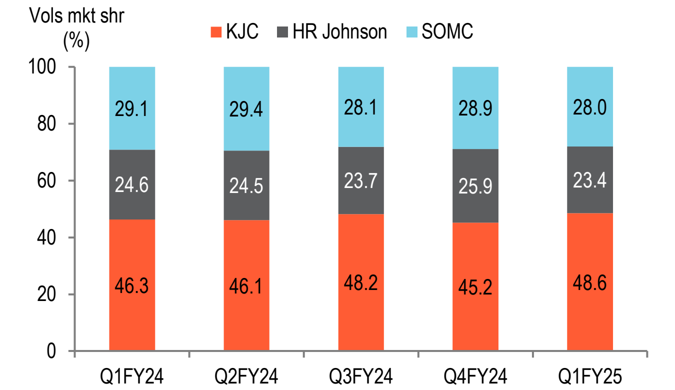
Source: Bloomberg, BOBCAPS Research

Fig 14 – Our tiles universe volume grew at a muted pace of 2.8% YoY and 6.2% on a 5Y CAGR basis in Q1FY25



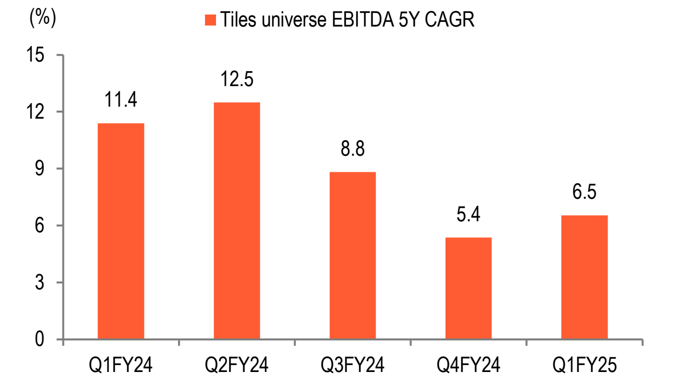
Source: Company, BOBCAPS Research

Fig 15 – Among top 3 tiles companies, KJC gained market share in Q1FY25



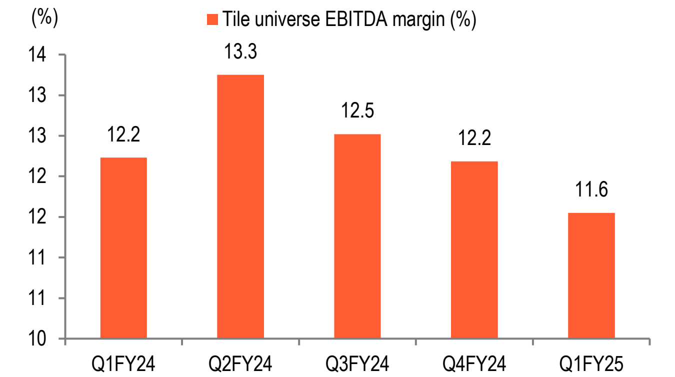
Source: Company, BOBCAPS Research

Fig 16 – Our tiles universe EBITDA was down 5.6% YoY, but it was up 6.5% on a 5Y CAGR basis in Q1FY25



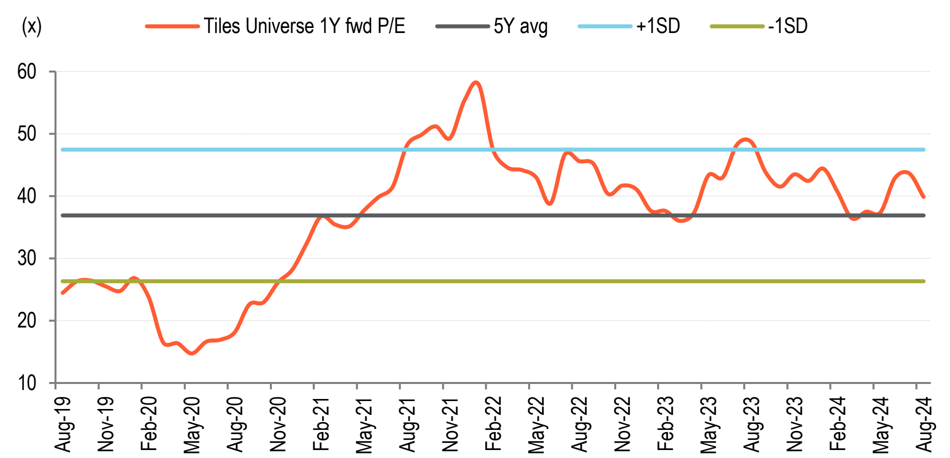
Source: Company, BOBCAPS Research

Fig 17 – Tiles universe EBITDA margin fell by 68bps YoY to 11.6% in Q1FY25 on intense competition from Morbi



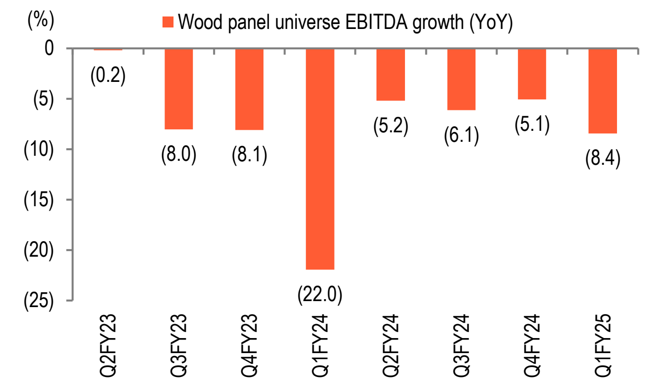
Source: Company, BOBCAPS Research

Fig 18 – Tiles universe trading at 39.9x on 1Y fwd P/E vs. 5Y avg of 36.9x



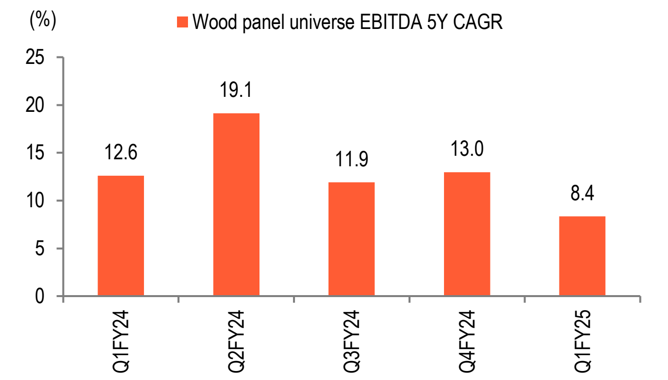
Source: Bloomberg, BOBCAPS Research

Fig 19 – Wood Panel universe EBITDA contracted YoY for the eight consecutive quarter…



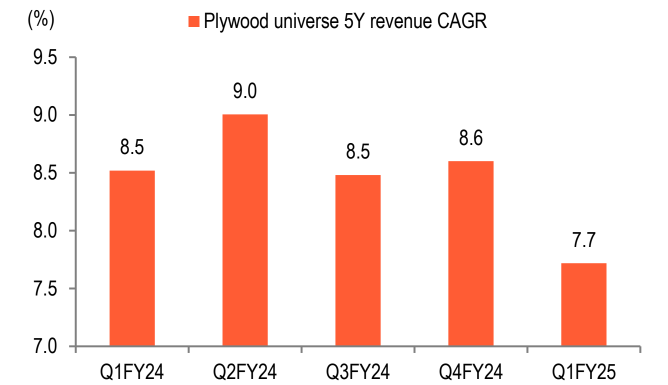
Source: Company, BOBCAPS Research

Fig 20 – … but it still grew at a moderate rate of 8.4% on a 5Y CAGR basis in Q1FY25



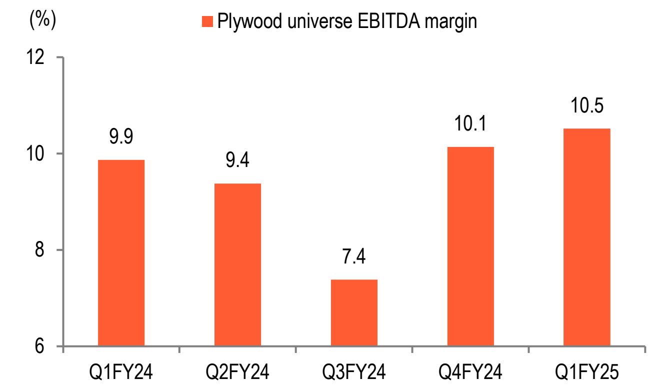
Source: Company, BOBCAPS Research

Fig 21 – Plywood universe revenue grew at a muted pace of 5.2% YoY and 7.7% on a 5Y CAGR basis in Q1FY25



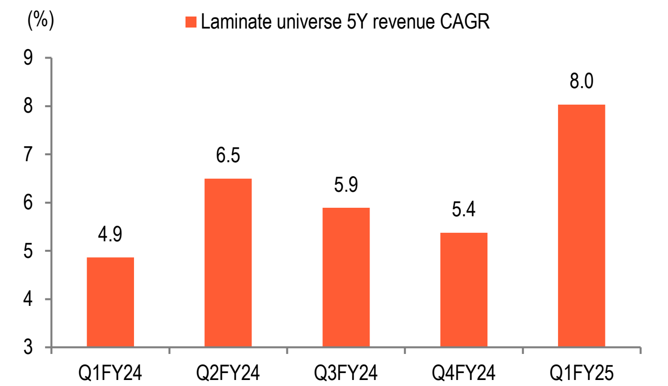
Source: Company, BOBCAPS Research

Fig 22 – Plywood EBITDA margin was up 65bps YoY to 10.5% in Q1FY25 on a low base



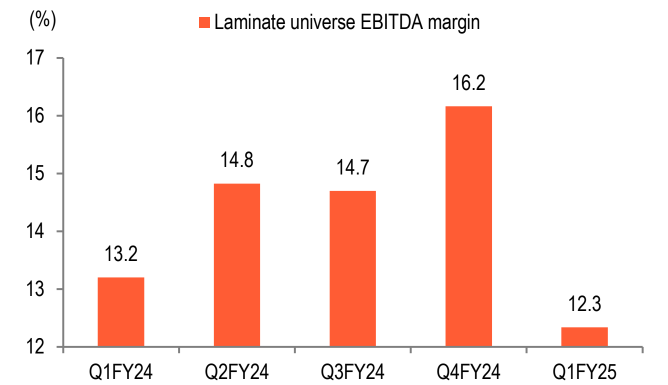
Source: Company, BOBCAPS Research

Fig 23 – Laminate universe revenue grew at 9.8% YoY and 8.0% on a 5Y CAGR basis in Q1FY25



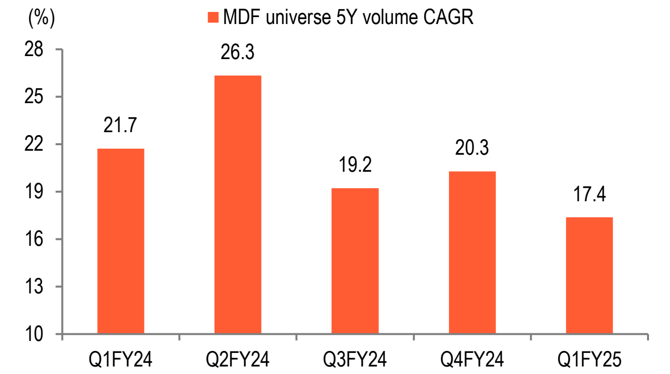
Source: Company, BOBCAPS Research

Fig 24 – Laminate universe EBITDA margin fell by 87bps to 12.3% in Q1FY25



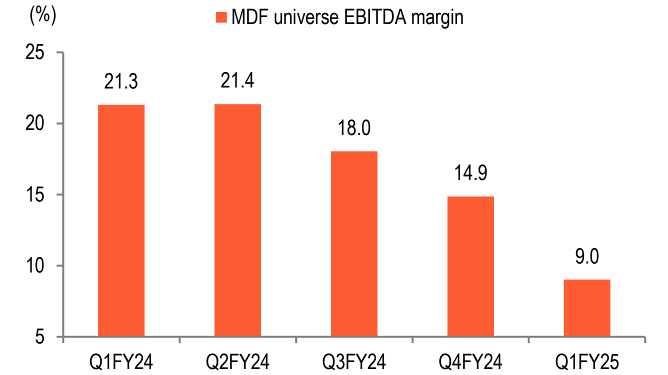
Source: Company, BOBCAPS Research

Fig 25 – MDF universe volumes grew at 33.9% YoY and 17.4% on a 5Y CAGR basis in Q1FY25



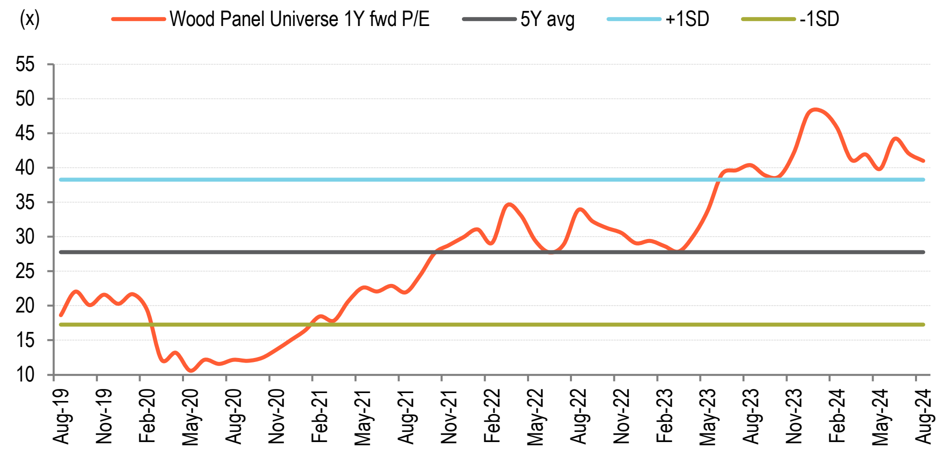
Source: Company, BOBCAPS Research

Fig 26 – MDF EBITDA margin trending down due to supply glut and rising timber prices



Source: Company, BOBCAPS Research

Fig 27 – Wood Panel universe trading at 41.0x on 1Y fwd P/E vs 5Y avg of 27.8x



Source: Bloomberg, BOBCAPS Research

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