

## Another soft quarter on muted demand and intense competition

- **BM sector margin stays under pressure for the 6th straight quarter on heightened competitive intensity in weak demand environment**
- **Demand outlook remains weak in near future; margin to return to normal level with gradual recovery in demand over the next 2 years**
- **Cautious on most BM stock on rich valuations. Top picks: CRS in bathware and FNXP in pipes**

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**Weak Q1FY26:** Our building materials (BM) universe revenue grew at a muted pace (-0.2% YoY in Q1FY26) for the 10th consecutive quarter, due to tepid demand. EBITDA margin fell by 204bps YoY to 11.0% in Q1FY26, on account of margin pressure given the high discounts offered to dealers across segments in view of the rise in competitive intensity in a soft demand environment. Pipes sector performed the worst in our coverage in Q1FY26.

**Pipes:** Our pipe universe volume grew at a slow pace of 3.0% YoY in Q1FY26 (6Y CAGR: +6.1%) due to weak demand, impact of early monsoon and high base effect. EBITDA per unit contracted sharply in Q1FY26 (-26.1% YoY to Rs 15.4/kg) on weak resin prices but were still above the pre-Covid level (Rs 14.7/kg in Q1FY20).

**Bathware:** Our bathware universe revenue grew at a muted pace for the 9th consecutive quarter (+5.0% in Q1FY26). Segment EBITDA margin was down (-86bps YoY to 12.9%) in Q1FY26, due to higher B2B sales and increased discounts offered to dealers in view of the weak retail demand.

**Tiles:** Our tiles universe volume grew by 1.4% YoY in Q1FY26. Industry margin remains under pressure due to stiff competition from Morbi players in view of weak exports, but our universe EBITDA margin improved (+98bps YoY to 13.8%) due to benefit of cost rationalisation initiatives implemented by Kajaria.

**Wood panels:** Our wood panels universe EBITDA contracted (-4.8% YoY in Q1FY26) for the 12th straight quarter, because of muted demand and margin stress resulting from supply-side pressures and elevated timber prices.

**Our view:** We have become cautious on most BM stocks due to limited upside potential (even if we assume good recovery in demand with normalised margin over the next 1 year) on account of rich valuation (our universe trades at 41.2x on 1YF P/E vs pre-COVID avg of ~30.0x). We continue to prefer pipes and bathware over tiles & wood panel due to relatively better pricing discipline on high organised share and low global linkage. CRS and FNXP are our top picks.



## Building Materials: Q1FY26 review

### Subdued quarter on tepid demand and intense competition

Our BM universe revenue grew at a muted pace (-0.2% YoY in Q1FY26) for the 10th consecutive quarter, due to tepid demand. Our BM universe EBITDA margin fell by 204bps YoY to 11.0%, in Q1FY26 on account of margin pressure due to high discounts offered to dealers in view of the rise in competitive intensity in a soft demand environment. The pipe sector gave the worst performance in our coverage in Q1FY26.

**Our view:** We have a HOLD rating on most BM stocks as we believe there is limited upside potential (even if we assume good recovery in demand along with normalization of margin over the next 1 year) due to rich valuation (our BM universe trades at 40.7x on 1YF P/E vs 5Y avg of 42.3x). Segment-wise, we prefer pipes and bathware due to better pricing discipline vs tiles & wood panels, on account of high organised share and low global linkage. Our top picks: CRS in bathware and FNXP in pipes.

### Pipes: Muted quarter on subdued demand and weak resin prices

**Q1FY26 review:** Our pipe universe volume grew at a slow pace of 3.0% YoY in Q1FY26 (6Y CAGR: +6.1%) due to weak demand, impact of early monsoon and high base effect (+12.5% YoY in Q1FY25). EBITDA per unit has contracted sharply in Q1FY26 (-26.1% YoY to Rs 15.4/kg), mainly due to weak resin prices, but was still above the pre-Covid level (Rs 14.7/kg in Q1FY20). In our coverage, Supreme Industries (SI) continued to gain market share in Q1FY26 due to aggressive pricing strategy.

**Outlook:** We believe demand sentiment will remain subdued in Q2FY26 due to weak real estate activity. However, we believe competitive intensity in this space has peaked out as a few companies (FNXP; APOLP) have withdrawn additional incentives schemes offered to dealers in Q1FY26 in view of a steep decline in their margins. Furthermore, there is a high likelihood of the imposition of anti-dumping duty (ADD) on PVC resin in near future, which would provide short-term relief to the sector in the form of dealers restocking and MTM inventory gain.

**Our view:** SI continued to gain market share in the plastic pipe sector in Q1FY26. Nevertheless, we have downgraded SI stock from BUY to HOLD due to a limited upside potential. FNXP is now our preferred tactical bet in the plastic pipe space on a) healthy earnings growth prospects (EPS to grow at 15.7% CAGR over FY25-FY28E); b) major beneficiary of the imposition of ADD on PVC resin in near future as it is the only backward integrated plastic pipe manufacturer c) reasonable valuation (the stock trades at 20.1x on 1YF P/E vs 5Y avg of 24.8x).

### Bathware: Another muted quarter on soft retail demand environment

**Q1FY26 review:** Our bathware universe revenue grew at a muted pace for the 9th consecutive quarter (+5.0% in Q1FY26). Segment EBITDA margin was also down (-86bps YoY to 12.9%) in Q1FY26, owing to higher B2B sales and increased discounts offered to dealers in view of the weak retail demand. In our coverage, CRS has delivered slightly better revenue growth vs HINDWARE in Q1FY26.

**Outlook:** We expect the bathware industry's demand environment to improve from H2FY26 onwards, in anticipation of a recovery in individual home building (IHB)

segment. Note that more than 70-80% of the bathware products demand comes from new construction activities.

**Our view:** We prefer CRS in the bathware space as a) it has been consistently gaining market share b) operating profit projected to grow at a moderate pace of 7.7% CAGR with a healthy return ratio (pre-tax ROIC of 37%) over FY26-FY28E c) reasonable valuation (trades at 33.9x on 1YF P/E vs 5Y average of 34.6x).

### **Tiles: Muted Q1 on weak retail demand and stiff competition from Morbi**

**Q1FY26 review:** Our tiles universe volume grew at a muted pace of 1.4% YoY (6Y CAGR: +5.4%) in Q1FY26, due to weak retail demand. Industry margin remains under pressure due to stiff competition from Morbi in view of weak exports, but our universe EBITDA margin improved (+98bps YoY to 13.8%) in Q1FY26 due to benefit of cost rationalisation initiatives implemented by Kajaria. Among top 3 tiles companies, Somany has reported better volume growth for the 2nd consecutive quarter in a row (SOMC: +3.0% YoY; Johnson: +0.8%; KJC: +0.7% in Q1FY26).

**Outlook:** We expect the tile sector demand to improve from H2FY26 in anticipation of a recovery in the IHB segment. However, we believe the industry margin is not likely to return to normal levels till the time we see a good pick-up in exports.

**Our view:** We have downgraded KJC rating from BUY to HOLD, due to rich valuation (trades at 41.7x on 1YF P/E vs pre-COVID 5Y average of 35.0x), despite moderation in volume growth and return ratio profile compared to pre-COVID level. We continue to prefer SOMC in the tiles space as we see (a) scope of market share gain opportunities based on existing tiles manufacturing operating rate (SOMC: 77%; KJC: 100% in Q1FY26) (b) SOMC operating profit projected to grow at a better pace than KJC over FY25-FY28E in anticipation of margin improvement (from 8.0% in Q1FY26 to 10.1% in FY28) due to operating efficiencies with the gradual ramp-up of its existing capacity (c) reasonable valuations (trades at 22.1x on 1YF P/E vs 5Y average of 31.1x).

### **Wood panels: Weak demand, excess supply and high timber prices impacted Q1**

**Q1FY26 review:** Our wood panel universe EBITDA contracted (-4.8% YoY in Q1FY26) for the 12th straight quarter on muted demand and margin stress resulting from supply-side pressures and elevated timber prices. Within our universe, CPBI was the best performer (EBITDA grew by 15.3% YoY), whereas GREENP's EBITDA contracted sharply by 67.5% YoY.

**Outlook:** We are still not constructive on wood panel stocks as a) we believe recovery in MDF sector margin to normal level will be slow in anticipation of gradual improvement in industry's operating rate from ~65% in FY25 to ~80% in FY27E b) expensive valuation (our wood panels universe trades at 46.2x on 1YF P/E vs 5Y average of 42.8x).

**Our view:** We downgrade GREENP from BUY to HOLD based on the Q1FY26 result, but we would maintain our constructive view on the stock over long-term as we see (a) strong earnings growth prospects (EPS to grow at 57% CAGR over FY26-FY28E) on the back of healthy volume growth visibility (16% CAGR), along with a gradual recovery in margin (from 3.6% in Q1FY26 to 18.4% in FY28E) (b) reasonable valuation (trades at a P/E of 22.1x/13.6x on FY27E/FY28E).

**Fig 1 – Building Materials universe earnings snapshot – Q1FY26**

Particulars (%)	Revenue Growth (YoY)	EBITDA Growth (YoY)	Revenue Growth 6Y CAGR trend					EBITDA Growth 6Y CAGR trend				
	Q1FY26	Q1FY26	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26
SI	(1.0)	(17.7)	11.9	9.5	10.1	12.0	10.5	13.0	6.6	9.9	12.8	11.3
ASTRA	(1.6)	(13.8)	19.4	14.0	14.2	13.8	14.4	18.5	14.3	15.2	16.8	12.1
FNXP	(8.5)	(54.7)	5.5	7.3	4.8	3.3	1.7	1.1	(33.7)	(8.1)	2.6	(4.5)
PRINCP	(4.0)	(39.8)	10.7	8.4	8.2	6.3	7.3	11.4	(2.1)	(36.0)	(1.0)	(6.5)
APOLP	(10.9)	(28.6)	20.4	19.9	23.4	23.3	15.3	14.3	18.0	18.2	14.7	5.3
<b>Pipes</b>	<b>(3.4)</b>	<b>(27.1)</b>	<b>12.0</b>	<b>10.4</b>	<b>10.1</b>	<b>10.2</b>	<b>9.1</b>	<b>10.2</b>	<b>3.4</b>	<b>5.6</b>	<b>10.3</b>	<b>6.3</b>
CRS	5.4	(5.1)	6.0	6.8	5.9	5.7	7.7	7.6	7.1	4.7	8.4	7.7
HINDWARE	(11.5)	13.3	NA	NA	5.9	6.3	5.8	NA	NA	(7.0)	9.4	14.7
<b>Bathware</b>	<b>(4.7)</b>	<b>2.7</b>	<b>NA</b>	<b>NA</b>	<b>5.9</b>	<b>6.0</b>	<b>6.6</b>	<b>NA</b>	<b>NA</b>	<b>(0.2)</b>	<b>8.7</b>	<b>10.6</b>
KJC	(1.0)	11.9	9.2	8.4	7.3	7.0	7.9	9.5	6.5	4.1	2.0	9.9
SOMC	5.0	(1.6)	7.1	9.1	7.2	6.8	7.3	7.7	13.3	7.3	(2.0)	8.0
<b>Tiles</b>	<b>1.0</b>	<b>8.8</b>	<b>8.5</b>	<b>8.7</b>	<b>7.2</b>	<b>6.9</b>	<b>7.7</b>	<b>9.1</b>	<b>8.0</b>	<b>4.8</b>	<b>0.6</b>	<b>9.5</b>
CPBI	16.3	15.3	10.8	13.1	12.0	12.5	12.3	4.1	9.7	10.6	9.1	6.7
GRLM	11.4	(14.5)	13.2	13.5	11.5	11.2	15.1	11.3	12.9	7.6	6.3	10.6
MTLM	2.9	6.4	11.2	10.0	9.9	8.8	9.5	18.8	8.4	5.2	5.9	7.0
GREENP	(10.1)	(67.5)	18.9	16.7	14.3	13.5	7.6	7.4	32.4	(7.7)	15.5	(13.4)
<b>Wood Panel</b>	<b>8.3</b>	<b>(4.8)</b>	<b>12.4</b>	<b>12.8</b>	<b>11.6</b>	<b>11.4</b>	<b>11.6</b>	<b>8.5</b>	<b>11.7</b>	<b>6.7</b>	<b>8.5</b>	<b>5.5</b>
<b>BM universe</b>	<b>(0.2)</b>	<b>(15.8)</b>	<b>12.2</b>	<b>11.6</b>	<b>9.5</b>	<b>9.5</b>	<b>9.2</b>	<b>10.1</b>	<b>6.5</b>	<b>5.2</b>	<b>8.3</b>	<b>7.0</b>

Source: Company, BOBCAPS Research

**Fig 2 – Relative Valuation Comp Sheet - BOBCAPS**

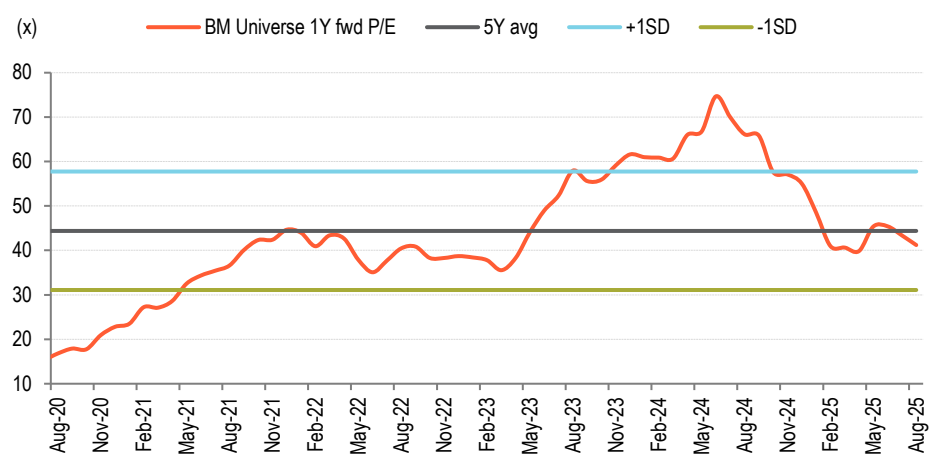
Particulars	Revenue	Historical (%)			Future (%)			Valuation			
	(Rs bn)	Revenue	EBITDA	Avg ROE	Revenue	EBITDA	Avg ROE	P/E (x)			
	FY25	6Y CAGR (FY19-FY25)	FY19-FY25		3Y CAGR (FY25-FY28E)	FY25-FY28E		FY26E	FY27E	FY28E	5Y avg
SI	104.5	10.9	10.8	24.0	18.3	26.1	19.2	51.3	40.3	35.5	39.6
ASTRA	58.3	15.1	16.1	19.1	23.1	24.6	15.8	61.6	48.1	40.0	82.0
FNXP	41.4	5.0	(3.9)	14.8	14.0	33.1	9.4	25.6	21.7	19.3	24.8
PRINCP	25.2	8.3	(1.6)	15.8	20.5	60.0	6.8	42.1	22.7	16.6	57.1
APOLP	11.8	21.8	16.1	10.1	23.5	38.1	5.9	44.5	30.6	22.3	57.5
<b>Pipes</b>		<b>12.2</b>	<b>7.5</b>	<b>16.7</b>	<b>19.9</b>	<b>36.4</b>	<b>11.4</b>	<b>45.0</b>	<b>32.7</b>	<b>26.7</b>	<b>52.2</b>
CRS	19.3	6.1	7.3	17.1	13.5	11.7	17.1	38.6	33.9	30.2	34.6
HINDWARE	25.2	7.1	2.4	15.2	10.3	51.0	5.6	48.4	26.9	21.4	47.1
<b>Bathware</b>		<b>6.6</b>	<b>4.9</b>	<b>16.2</b>	<b>11.9</b>	<b>31.3</b>	<b>11.4</b>	<b>43.5</b>	<b>30.4</b>	<b>25.8</b>	<b>40.9</b>
KJC	46.4	7.8	5.7	16.3	13.1	23.2	15.9	41.7	37.0	33.3	45.2
SOMC	26.6	7.6	4.9	11.2	13.3	25.2	11.7	25.4	18.0	14.0	31.1
<b>Tiles</b>		<b>7.7</b>	<b>5.3</b>	<b>13.8</b>	<b>13.2</b>	<b>24.2</b>	<b>13.8</b>	<b>33.5</b>	<b>27.5</b>	<b>23.6</b>	<b>38.1</b>
CPBI	45.3	12.1	7.7	17.5	17.9	38.9	12.0	61.4	41.6	33.6	47.1
GRLM	25.7	12.3	9.4	14.1	25.9	34.9	10.7	67.6	34.9	25.6	50.0
MTLM	24.9	9.9	7.9	16.7	13.2	24.3	14.5	35.4	26.1	22.2	27.2
GREENP	14.4	15.7	9.1	13.9	26.3	79.5	7.5	-366.2	22.7	14.0	75.5
<b>Wood Panel</b>		<b>12.5</b>	<b>8.5</b>	<b>15.6</b>	<b>20.8</b>	<b>44.4</b>	<b>11.2</b>	<b>-50.4</b>	<b>31.3</b>	<b>23.8</b>	<b>49.9</b>
<b>BM Universe</b>		<b>9.8</b>	<b>6.5</b>	<b>15.6</b>	<b>16.4</b>	<b>34.1</b>	<b>11.9</b>	<b>17.9</b>	<b>30.5</b>	<b>25.0</b>	<b>45.3</b>

Source: Company, BOBCAPS Research

**Fig 3 – Building Materials – Relative valuation BOBCAPS vs Bloomberg**

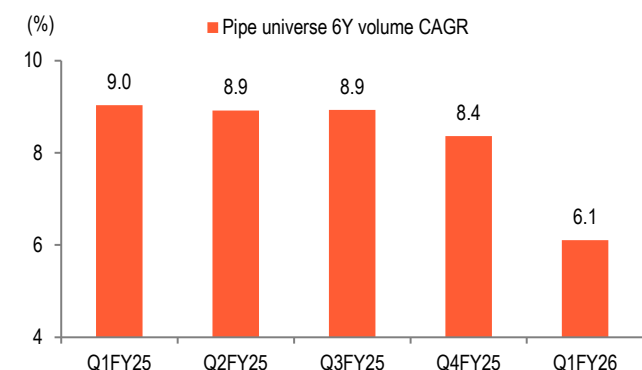
		Revenue (Rs bn)			EBITDA margin (%)			EPS (Rs)		
Particulars	Rating	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
BOBCAPS										
SI	HOLD	111.1	129.1	146.1	14.7	15.8	15.8	84.1	107.1	121.5
ASTRA	BUY	63.3	75.2	88.4	16.2	16.6	16.6	20.6	26.3	31.6
FNXP	BUY	42.6	48.5	53.9	12.9	15.3	15.6	9.1	10.7	12.0
PRINCPIP	BUY	26.4	31.7	36.6	9.0	10.3	11.3	7.1	13.1	18.0
APOLP	HOLD	12.6	15.2	18.0	8.4	9.3	10.1	8.8	12.7	17.5
CRS	BUY	20.5	22.5	24.8	14.2	15.0	15.3	181.4	206.5	232.0
HINDWARE	BUY	24.7	27.7	30.7	9.0	10.5	10.6	5.7	10.2	12.8
KJC	HOLD	49.4	54.0	59.3	15.8	16.0	16.0	29.7	33.5	37.2
SOMC	BUY	28.3	31.0	34.1	8.6	9.5	10.1	20.2	28.6	36.8
CPBI	HOLD	51.2	57.4	62.9	12.1	14.0	14.9	12.0	17.7	22.0
GRLM	HOLD	30.7	36.0	40.7	10.2	11.7	12.3	3.4	6.5	8.9
MTLM	HOLD	26.7	29.2	31.9	10.4	11.1	11.5	9.4	12.8	15.0
GREENP	HOLD	15.3	19.1	22.9	6.9	15.9	18.4	(0.8)	12.3	20.1
Bloomberg consensus										
SI		116.4	132.9	150.1	14.5	15.2	15.6	88.1	107.1	125.0
ASTRA		64.1	73.7	85.8	16.1	16.8	17.2	21.2	26.8	33.2
FNXP		44.9	50.0	54.5	12.8	13.4	13.7	8.7	10.6	11.3
PRINCPIP		27.4	31.1	35.3	9.2	10.8	11.4	8.2	13.6	18.1
APOLP		13.4	16.5	21.1	9.6	10.2	11.0	8.9	16.2	25.8
CRS		20.8	23.4	26.5	15.2	15.9	16.2	192.8	225.8	261.2
HINDWARE		25.8	29.0	35.1	9.6	10.9	12.0	6.2	11.3	19.4
KJC		49.4	54.6	60.8	16.2	16.5	16.8	30.2	35.6	41.7
SOMC		28.7	31.5	35.2	9.0	9.6	10.3	21.0	28.2	38.3
CPBI		52.0	60.1	69.0	12.5	14.4	15.2	14.7	22.4	29.0
GRLM		30.5	35.6	41.4	11.0	12.7	13.5	4.0	7.8	11.2
MTLM		27.4	30.6	34.3	10.8	11.6	12.0	11.2	15.9	19.1
GREENP		16.2	19.7	23.2	9.7	15.7	17.0	3.7	13.1	18.8

Source: Company, Bloomberg, BOBCAPS Research

**Fig 4 – Building Materials sector trading at 41.2x on 1Y fwd P/E vs 5Y avg of 44.4x**

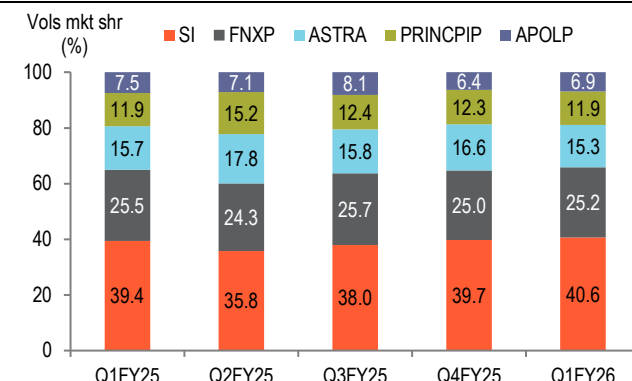
Source: Company, BOBCAPS Research

**Fig 5 – Pipe universe volume grew at 3.0% YoY (6Y CAGR: +6.1%) in Q1FY26**



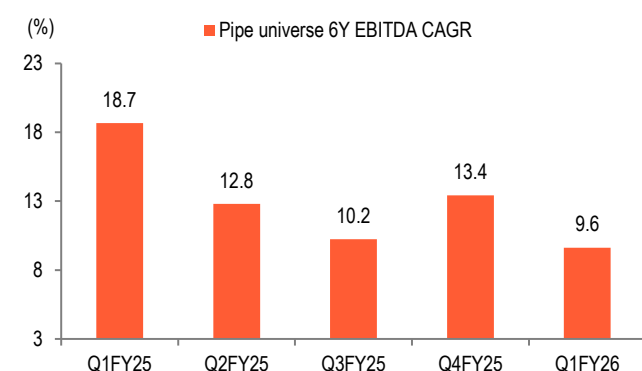
Source: Company, BOBCAPS Research; excludes profit from non-pipe segment

**Fig 6 – SI continued to gain market share in Q1FY26 due to aggressive pricing strategy and high agri pipe share**



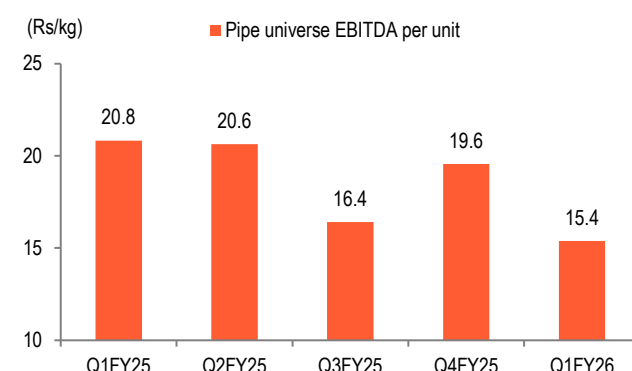
Source: Company, BOBCAPS Research

**Fig 7 – Pipe universe EBITDA was down sharply 23.6% YoY (6Y CAGR: +9.6%) in Q1FY26**



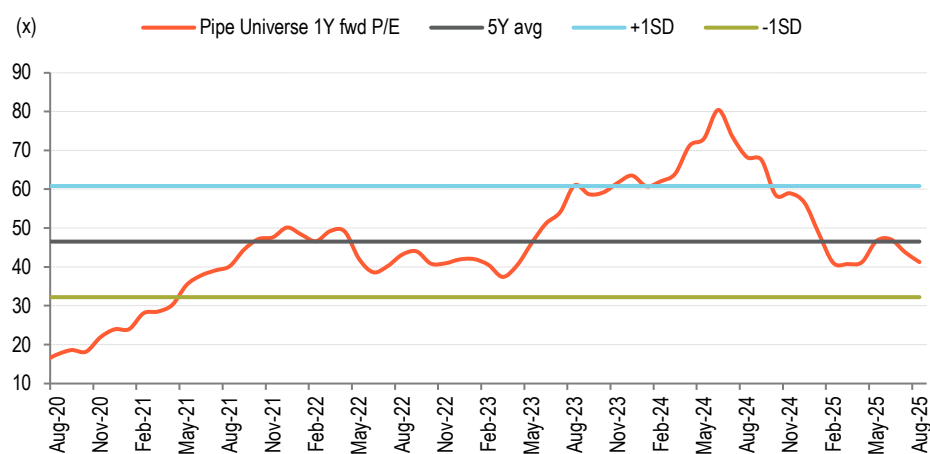
Source: Company, BOBCAPS Research

**Fig 8 – Pipe EBITDA per unit was down 26.1% YoY in Q1FY26 due to muted demand and weak resin prices**



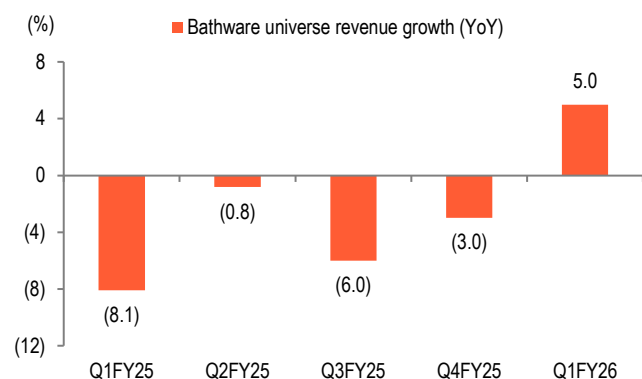
Source: Company, BOBCAPS Research

**Fig 9 – Pipe universe trading at 41.2x on 1Y fwd P/E vs 5Y avg of 46.5x**



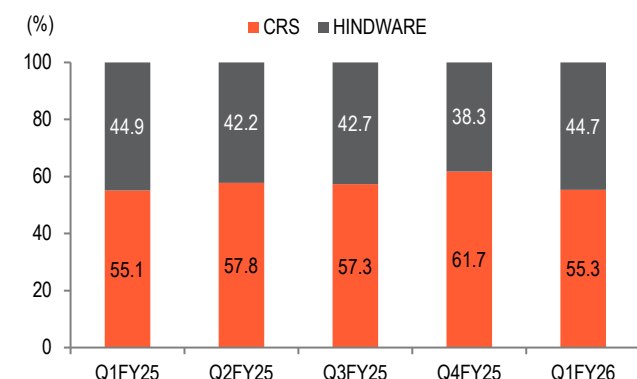
Source: Bloomberg, BOBCAPS Research

**Fig 10 – Bathware universe revenue grew by 5.0% YoY in Q1FY26 given weak retail demand**



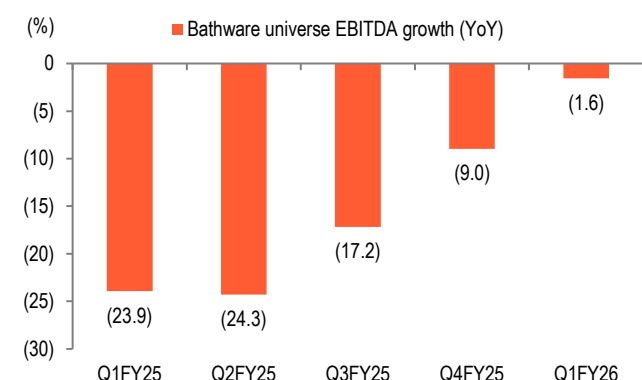
Source: Company, BOBCAPS Research

**Fig 11 – CRS gained market share in Q1FY26 yet again vs HINDWARE**



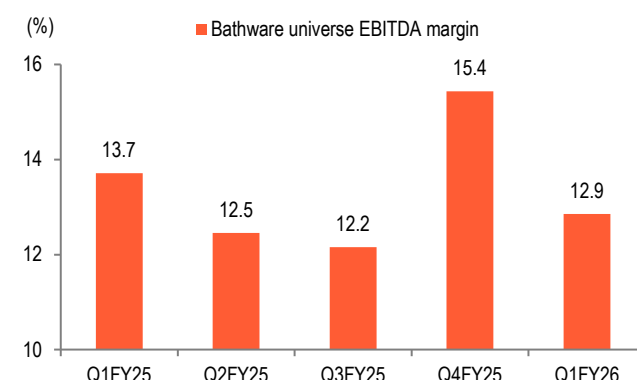
Source: Company, BOBCAPS Research

**Fig 12 – Bathware universe EBITDA fell by 1.6% YoY in Q1FY26 due to high discounts offered to dealers**



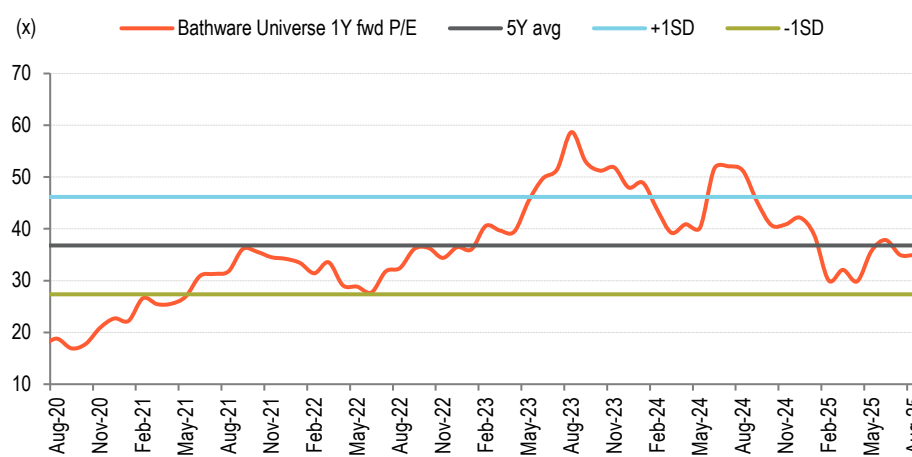
Source: Company, BOBCAPS Research

**Fig 13 – Our bathware universe margin contracted by 86bps YoY to 12.9% in Q1FY26**



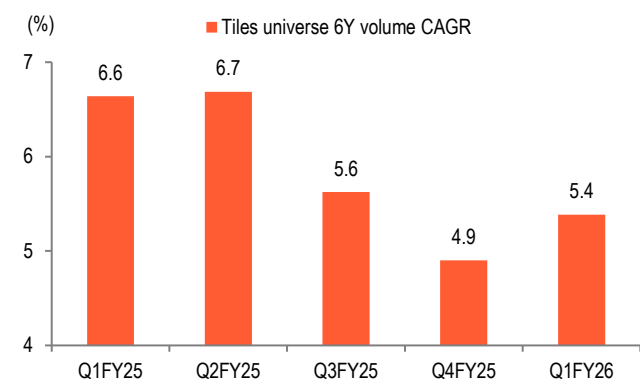
Source: Company, BOBCAPS Research

**Fig 14 – Bathware universe trading at 34.9x on 1Y fwd P/E vs 5Y avg of 36.8x**



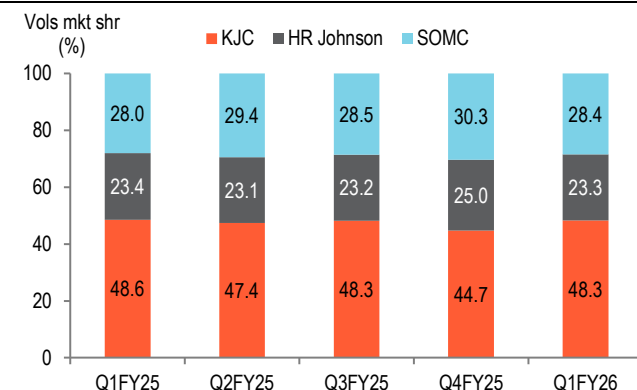
Source: Bloomberg, BOBCAPS Research

**Fig 15 – Our tiles universe volume grew at a muted pace of 1.4% YoY (6Y CAGR: +5.4%) in Q1FY26**



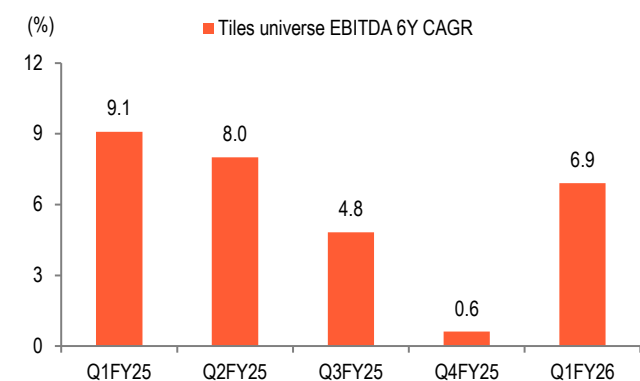
Source: Company, BOBCAPS Research

**Fig 16 – Among top 3 tiles companies, SOMC gained market share for 2<sup>nd</sup> quarter in a row**



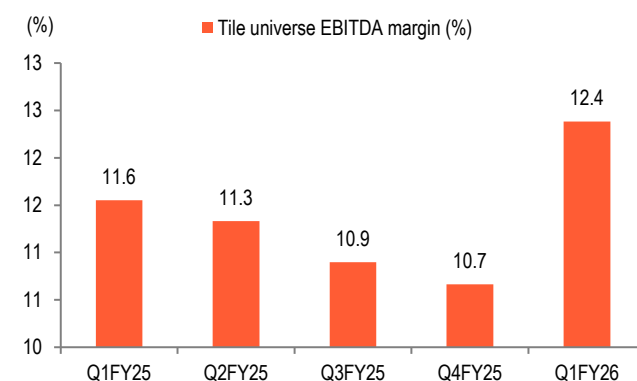
Source: Company, BOBCAPS Research

**Fig 17 – Our tiles universe EBITDA was up 8.8% YoY in Q1FY26 due to benefit of cost rationalisation measures implemented by Kajaria**



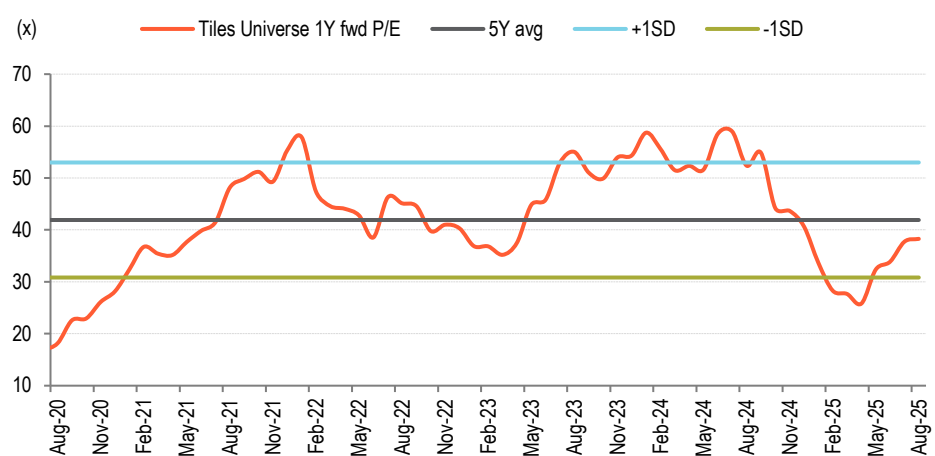
Source: Company, BOBCAPS Research

**Fig 18 – Tiles industry margin remains under pressure, but our universe EBITDA margin improved in Q1FY26 on sharp margin expansion for Kajaria**



Source: Company, BOBCAPS Research

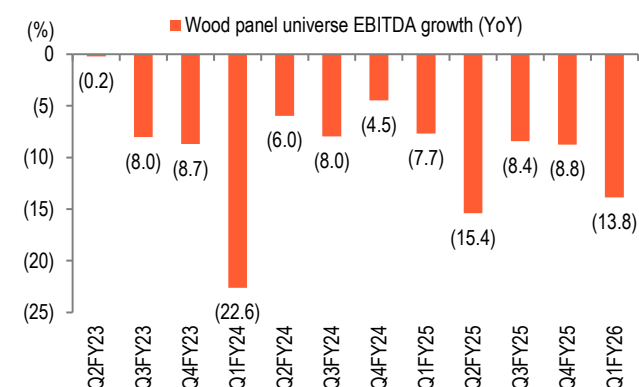
**Fig 19 – Tiles universe trading at 38.3x on 1Y fwd P/E vs 5Y avg of 41.9x**



Source: Bloomberg, BOBCAPS Research

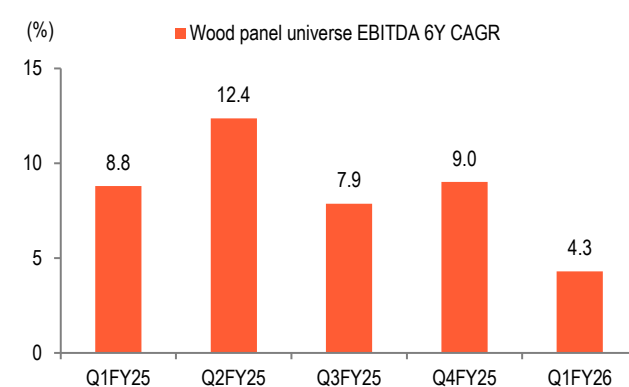


**Fig 20 – Wood Panel universe EBITDA contracted YoY for the 12th consecutive quarter...**



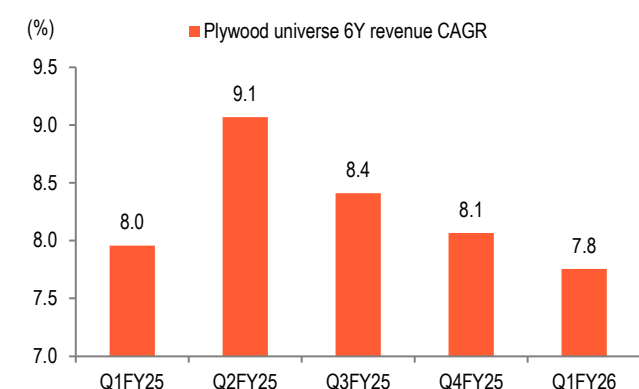
Source: Company, BOBCAPS Research

**Fig 21 – ... but it grew at a tepid pace of 4.3% rate on a 6Y CAGR basis in Q1FY26**



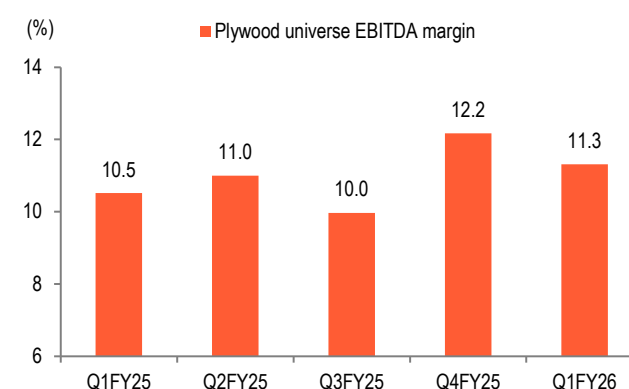
Source: Company, BOBCAPS Research

**Fig 22 – Plywood universe revenue grew at 7.9% YoY (6Y: 7.8% CAGR) in Q1FY26**



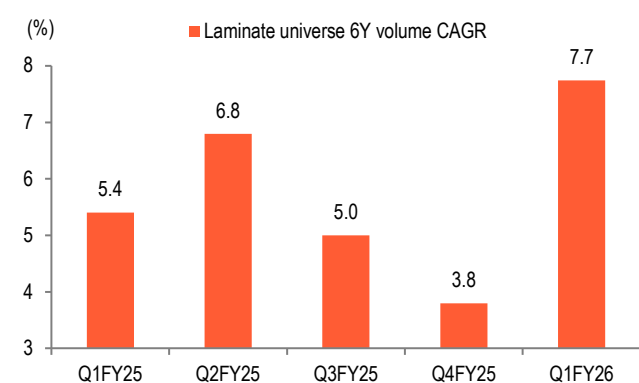
Source: Company, BOBCAPS Research

**Fig 23 – Plywood EBITDA margin improved by 80bps YoY to 11.3% in Q1FY26 on improved CPBI performance**



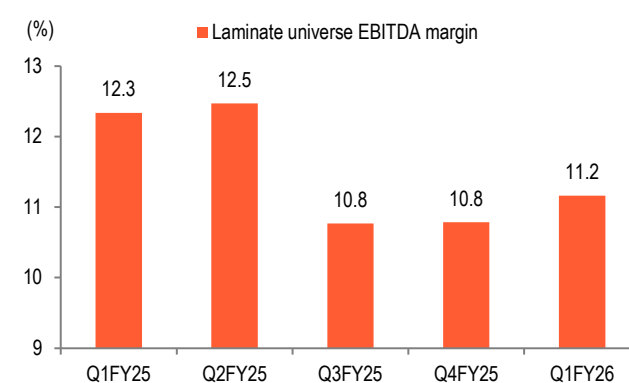
Source: Company, BOBCAPS Research

**Fig 24 – Laminate universe volume grew at 6.3% YoY (6Y: +7.7% CAGR) in Q1FY26**



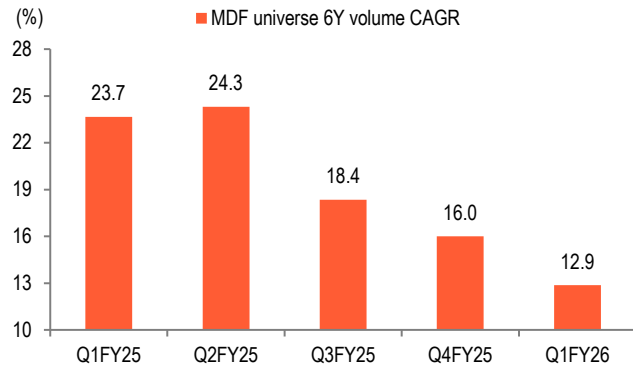
Source: Company, BOBCAPS Research

**Fig 25 – Laminate universe EBITDA margin fell by 117bps YoY to 11.2% in Q1FY26**



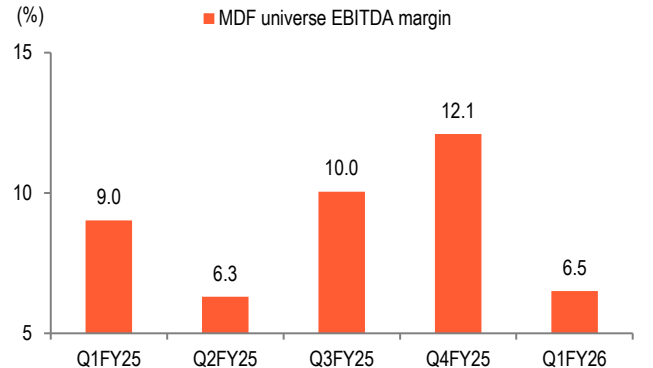
Source: Company, BOBCAPS Research

**Fig 26 – MDF universe volume was down 7.2% YoY (6Y: CAGR: +12.9%) in Q1FY26**



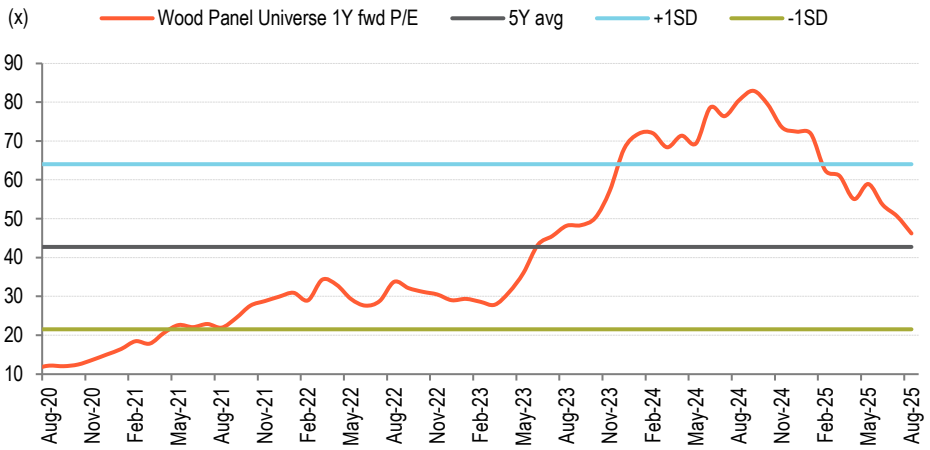
Source: Company, BOBCAPS Research

**Fig 27 – MDF EBITDA margin down sharply on YoY basis in Q1FY26 due to supply glut & elevated timber prices**



Source: Company, BOBCAPS Research

**Fig 28 – Wood Panels universe trading at 46.2x on 1YF P/E vs 5Y avg of 42.8x**



Source: Bloomberg, BOBCAPS Research

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