

Another soft quarter on tepid demand and intense competition

- **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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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.



Building Materials: Q3FY25 review

Subdued quarter on poor demand and intense competition

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 margin across the segment fell well below the 10Y historical average level on account of heightened competitive intensity in a weak demand environment.

Our view: Going ahead, we believe the BM sector margin is likely to return to normal level in anticipation of gradual recovery in demand from H2FY26. The valuation of most building material stocks has now become reasonable post steep corrections in their stock prices over the past three months (our BM universe trades at 36.5x on 1Y fwd P/E vs 5Y average of 40.2x). Our top fundamental picks are SI in plastic pipes, CRS in bathware, KJC in tiles, and MTLM in wood panel.

Pipes: Muted quarter on channel destocking and MTM inventory loss

Q3FY25 review: 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 10Y average of Rs 17.4/kg) on intense competition and inventory loss due to falling resin prices. In our coverage, APOLP posted the best volume growth in Q3FY25 as it preferred to gain market share over margin.

Outlook: The demand outlook for plastic pipe is expected to be positive in the near future in anticipation of restocking inventories in the channel as resin prices are expected to increase on account of potential anti-dumping duty. The sector margin profile is also expected to improve in the near future due to the low risk of MTM inventory loss and operating leverage benefits.

Our view: We prefer SI in plastic pipe as (a) it has been continuously gaining market share for the past 12 consecutive quarters, (b) its EPS is projected to grow at a strong 22.5% CAGR with healthy return ratio (pre-tax ROIC of 36%) over FY25-FY27E, and (c) its valuation is reasonable (trades at 36.7x on 1Y forward P/E vs 5Y avg of 35.0x).

Bathware: Muted quarter on soft demand

Our bathware universe revenue grew at a muted pace (-6.0% YoY) for the seventh consecutive quarter. Our universe's EBITDA margin was down sharply in Q3FY25 (-164bps YoY to 12.2% vs the 10Y average of 15.6%) due to higher input costs, and higher B2B sales and increased discounts offered to dealers in view of the weak demand environment.

Outlook: We expect the bathware industry's demand environment to improve from H2FY26 in anticipation of a recovery in the individual home building (IHB) segment. Note that more than 70-80% of bathware product demand comes from new construction activities. With anticipated recovery in demand, we expect the bathware sector margins to return to normal levels over the next three to four quarters.

Our view: We prefer CRS in the bathware space as (a) it has been gaining market share even in the current challenging market environment, (b) EPS projected to grow at 11.6% CAGR with healthy return ratio (pre-tax ROIC of 46%) over FY25-FY27E; and (c) valuation has become quite reasonable post the steep correction in its stock price over the past three months (trades at 30.9x on 1Y forward P/E vs 5Y average of 34.5x).

Tiles: Muted Q3 on weak retail demand and competition from Morbi

Our tile universe volume grew at a muted pace of 5.6% YoY (5Y CAGR: +6.4%) in Q3FY25. Our tiles universe EBITDA was down by 11.7% YoY in Q3FY25 due to margin pressure (-193bps YoY to 10.6% vs the 10Y average of 15.0%) on weak retail demand and increased competition from Morbi players. Among the top three tiles companies, KJC again gained market share by posting better YoY volume growth in Q3FY25 (KJC: +6.7%; SOMC: +4.5%; Johnson: 4.5%).

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

Our view: We prefer KJC in the tiles space as we see (a) market share gain in a weak demand environment; (b) EPS projected to grow at 22.5% CAGR with healthy return ratio profile (pre-tax ROIC of 23%) over FY25-FY27E; and (c) reasonable valuations (trades at 32.2x on 1Y forward P/E vs 5Y average of 44.3x).

Wood panels: Excess supply and high timber prices impacted Q3

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. Within our universe, CPBI reported sharp growth in operating profit (+22% YoY) due to strong volume growth posted for the plywood (+15.6%) and MDF (+77%) segments, whereas GREENP's EBITDA contracted sharply (-71% YoY) due to the severe contraction in MDF per unit (-50% QoQ to Rs 1,447/CBM vs 10Y average of Rs 6,085/CBM).

Outlook: We are still not constructive on wood panel as we believe (a) the recovery in MDF sector margin to the normal level is likely to be gradual in nature in anticipation of the industry's operating rate improving from 68% in Q3FY25 to ~80% in FY27E; and (b) the valuation is expensive (our wood panel universe trades at 43.3x on 1Y forward P/E vs 5Y average of 33.7x).

Our view: We prefer MTLM in the wood panel space due to (a) strong earnings growth prospects (EPS to grow at 34% CAGR) along with healthy return ratio (pre-tax ROIC of 18%) over FY25-FY27E; and (b) reasonable valuation (trades at 23.3x on 1Y forward P/E vs 5Y average of 24.0x).

Fig 1 – Building Materials universe earnings snapshot – Q3FY25

(%)	Revenue Growth (YoY)	EBITDA Growth (YoY)	Revenue Growth 5Y CAGR trend					EBITDA Growth 5Y CAGR trend				
	Q3FY25	Q3FY25	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25
SI	2.5	(18.5)	11.7	14.5	12.9	12.3	12.8	16.6	19.4	18.3	13.1	6.9
ASTRA	2.0	7.0	16.8	16.0	17.9	15.1	16.0	17.0	19.6	18.2	12.0	13.2
FNXP	(1.8)	(30.4)	6.1	5.1	3.9	7.5	7.4	(2.9)	7.4	10.8	(33.6)	(9.6)
PRINCEPI	(6.6)	(96.1)	11.4	8.2	9.7	7.7	7.9	11.8	9.6	2.0	(6.8)	(43.9)
APOLP	39.0	15.6	20.5	23.4	21.3	21.0	25.2	18.7	19.2	13.8	23.5	16.9
Pipes	2.0	(20.2)	11.8	12.2	11.8	11.9	12.4	11.7	15.6	14.7	6.5	3.3
CRS	3.1	0.2	6.5	5.6	8.1	8.4	6.8	5.7	7.4	10.5	10.9	6.5
HINDWARE	(14.2)	(41.6)	10.4	9.8	9.7	8.2	6.0	2.1	25.8	15.0	2.2	1.6
Bathware	(7.5)	(18.6)	8.8	8.0	9.0	8.3	6.3	4.0	13.5	12.3	7.9	4.8
KJC	1.0	(16.8)	8.7	8.8	9.7	10.5	9.4	8.1	6.9	9.5	8.6	6.0
SOMC	4.6	(9.4)	7.5	7.3	7.8	9.4	8.0	11.0	2.4	10.1	4.6	5.8
Tiles	2.3	(15.0)	8.3	8.2	9.1	10.1	8.9	8.8	5.4	9.6	7.5	5.9
CPBI	21.7	22.1	10.1	12.4	11.5	14.6	13.5	8.5	13.2	5.0	3.9	9.0
GRLM	6.9	(10.6)	12.4	11.6	15.9	14.3	11.0	11.6	13.5	16.5	10.9	3.1
MTLM	5.6	(4.8)	10.7	8.9	10.8	11.0	12.2	7.4	3.6	7.1	5.1	6.3
GREENP	(6.8)	(71.5)	19.0	17.8	11.6	11.9	8.8	16.6	20.4	5.4	(0.1)	(13.1)
Wood Panel	10.0	(10.2)	11.9	12.0	12.3	13.3	12.0	10.4	12.1	7.7	5.4	4.4
BM universe	2.9	(17.2)	10.9	11.0	11.2	11.5	11.1	10.2	13.1	12.3	6.5	4.1

Source: Company, BOBCAPS Research

Fig 2 – Building Materials universe – Relative valuation

	Revenue	Historical (%)			Future (%)			Valuation			
	(Rs bn)	Revenue	EBITDA	ROE	Revenue	EBITDA	Avg ROE	P/E (x)			
	FY24	5Y CAGR (FY19-FY24)	FY20-FY24	3Y CAGR (FY24-FY27E)	FY25E-FY27E	FY25E	FY26E	FY27E	5Y avg		
SI	101	12.5	14.5	25.9	13.8	14.7	20.8	44.7	36.2	29.8	34.7
ASTRA	56	17.6	19.1	20.3	13.4	14.0	17.2	66.4	54.1	44.5	76.1
FNXP	43	6.9	(0.5)	16.2	7.5	13.5	9.4	25.2	18.2	15.0	23.6
PRINCEPI	26	10.4	11.8	17.2	9.7	6.0	6.9	54.7	26.3	16.2	48.3
APOLP	10	22.2	19.6	10.2	24.4	29.7	8.3	35.9	21.7	15.3	48.4
Pipes		13.9	12.9	17.9	13.8	15.6	12.5	45.4	31.3	24.2	46.2
CRS	19	6.8	8.8	16.4	7.8	6.2	16.1	32.8	30.2	26.4	34.5
HINDWARE	28	10.9	13.9	13.8	3.3	10.4	3.3	NM	46.1	15.3	NM
Bathware		8.8	11.4	15.1	5.5	8.3	9.7	32.8	38.1	20.8	34.5
KJC	46	9.1	9.3	17.0	9.1	8.5	14.8	39.3	31.7	26.2	44.3
SOMC	26	8.6	9.0	12.3	6.4	5.7	10.8	34.0	20.9	15.1	29.9
Tiles		8.9	9.1	14.6	7.7	7.1	12.8	36.7	26.3	20.6	37.1
CPBI	39	11.2	11.2	19.5	16.0	18.6	13.0	72.2	46.8	32.8	38.1
GRLM	23	12.5	13.2	15.5	16.5	16.5	11.2	73.4	57.9	33.6	40.5
MTLM	22	9.1	4.4	17.6	12.2	23.8	16.2	30.1	22.7	16.7	24.0
GREENP	16	21.2	26.0	15.8	13.3	17.5	9.2	65.1	34.7	15.7	31.3
Wood Panel		13.5	13.7	17.1	14.5	19.1	12.4	60.2	40.5	24.7	33.5
BM Universe		11.3	11.8	16.2	10.4	12.5	11.9	43.8	34.1	22.6	37.8

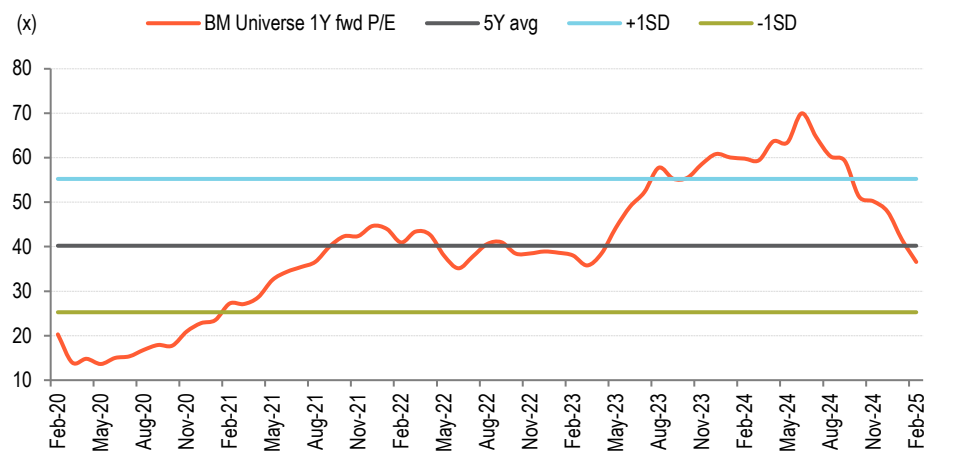
Source: Company, BOBCAPS Research

Fig 3 – Building Materials universe – Relative valuation

	Rating	Revenue (Rs bn)			EBITDA margin (%)			EPS (Rs)		
		FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
BOBCAPS										
SI	BUY	110.6	128.3	149.3	14.2	15.2	15.6	81.9	101.3	123.0
ASTRA	BUY	59.8	69.9	82.3	16.3	16.6	16.6	20.5	25.2	30.6
FNXP	BUY	42.5	47.5	53.7	10.6	14.6	16.0	7.2	10.0	12.1
PRINCPIP	BUY	25.8	29.4	33.9	7.1	9.4	10.9	4.8	10.1	16.4
APOLP	HOLD	12.3	15.3	20.0	8.8	10.4	11.0	8.9	14.8	21.0
CRS	BUY	19.2	21.3	23.5	14.6	15.0	15.5	178.7	194.4	222.7
HINDWARE	BUY	25.4	27.8	30.8	5.9	8.4	10.4	-4.6	4.0	12.0
KJC	BUY	47.8	52.9	59.4	13.7	14.5	15.1	22.1	27.4	33.2
SOMC	BUY	26.2	28.5	31.2	8.2	8.8	9.6	13.5	21.9	30.4
CPBI	HOLD	45.3	51.4	60.7	11.2	13.4	14.6	10.0	15.4	21.9
GRLM	SELL	26.3	31.1	36.4	11.2	11.7	12.9	7.4	9.4	16.1
MTLM	BUY	25.1	28.0	30.8	9.7	10.4	11.5	8.6	11.4	15.5
GREENP	HOLD	15.1	18.8	22.8	7.6	11.8	17.5	4.7	8.8	19.4
Bloomberg consensus										
SI		109.1	125.6	143.6	14.1	15.1	15.3	81.0	100.9	118.1
ASTRA		60.1	70.3	81.2	16.1	16.8	17.1	20.0	25.6	31.8
FNXP		43.5	48.8	54.3	11.1	13.0	13.7	9.1	9.3	11.4
PRINCPIP		26.4	30.0	34.2	7.7	10.5	11.5	6.5	13.4	18.2
APOLP		11.9	14.9	18.5	8.4	9.5	9.9	7.4	13.1	20.1
CRS		19.4	21.8	24.7	14.4	15.3	15.9	174.5	201.9	236.8
HINDWARE		26.6	29.0	32.1	7.0	8.7	9.9	-2.1	4.7	11.2
KJC		47.8	53.7	60.3	13.8	14.7	19.7	23.5	29.8	35.9
SOMC		26.7	29.8	33.1	8.5	9.3	9.2	18.2	28.8	36.6
CPBI		45.2	53.3	61.7	11.4	13.7	15.0	10.8	18.4	26.5
GRLM		26.5	32.6	37.9	11.4	12.2	13.5	8.3	13.0	20.5
MTLM		25.1	28.4	31.8	9.4	10.8	11.6	8.9	13.5	17.8
GREENP		15.1	18.9	22.3	8.9	13.8	17.6	5.0	10.3	18.7

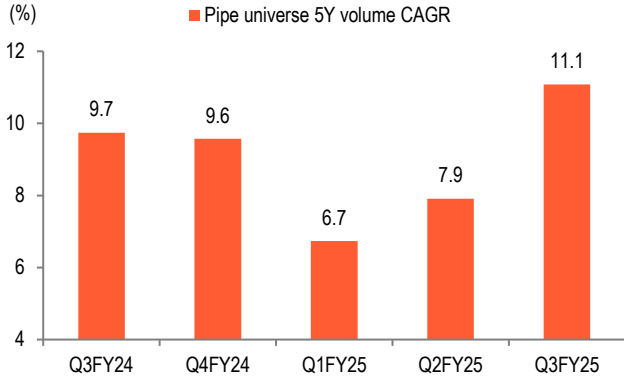
Source: BOBCAPS Research, Bloomberg

Fig 4 – Building Materials sector trading at 36.5x on 1Y fwd P/E vs 5Y avg of 40.2x



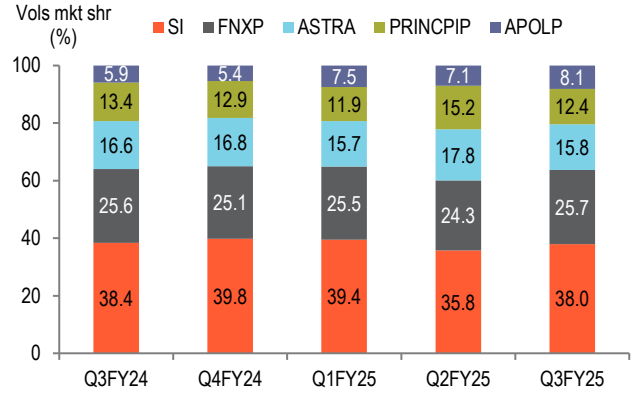
Source: Bloomberg, BOBCAPS Research

Fig 5 – Pipe universe volume grew by 5.0% YoY (5Y CAGR: +11.1%) in Q3FY25



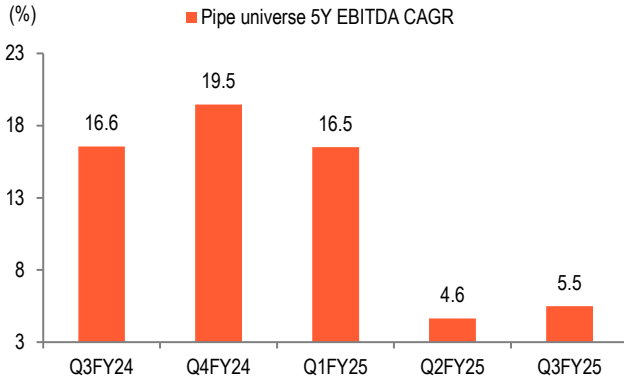
Source: Company, BOBCAPS Research; excludes profit from non-pipe segment

Fig 6 – APOLP gained market share at the cost of margins in Q3FY25



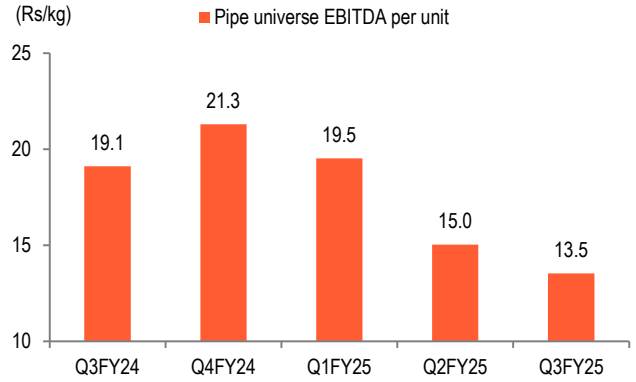
Source: Company, BOBCAPS Research

Fig 7 – Pipe universe EBITDA de-grew sharply by 25.6% YoY in Q3FY25



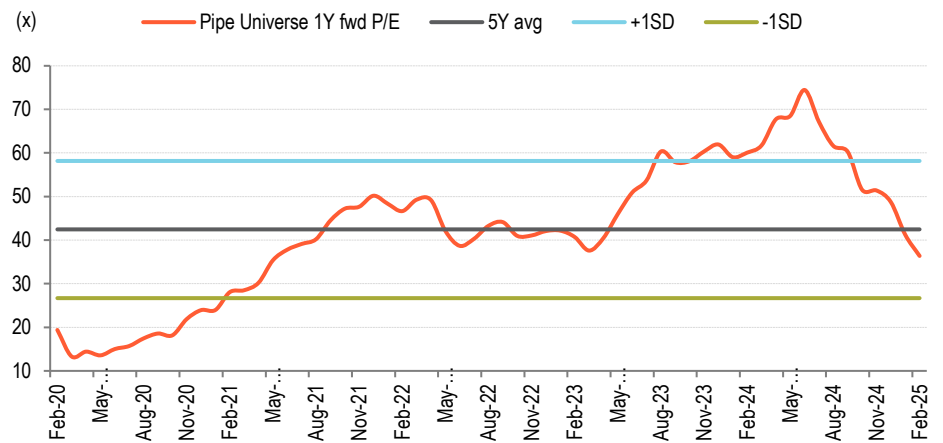
Source: Company, BOBCAPS Research

Fig 8 – Pipe EBITDA per unit was down 29% YoY in Q3FY25 due to steep fall in PVC resin prices



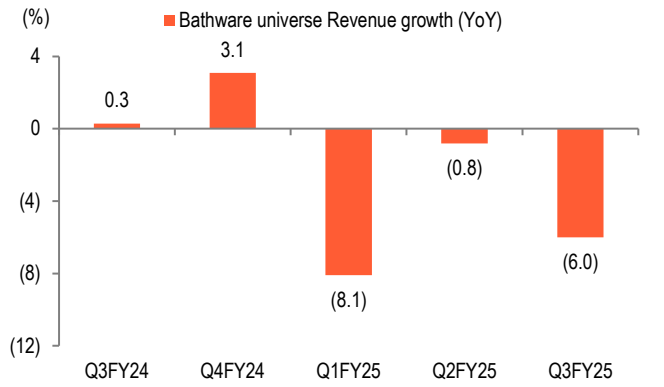
Source: Company, BOBCAPS Research

Fig 9 – Pipe universe trading at 36.3x on 1Y fwd P/E vs 5Y avg of 42.4x



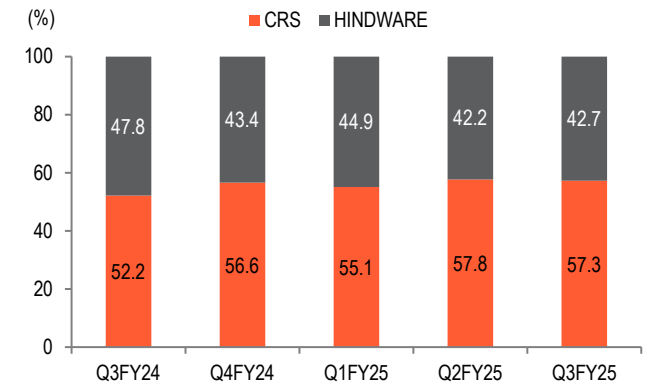
Source: Bloomberg, BOBCAPS Research

Fig 10 – Bathware universe revenue de-grew by 6.0% YoY in Q3FY25 due to weak retail demand



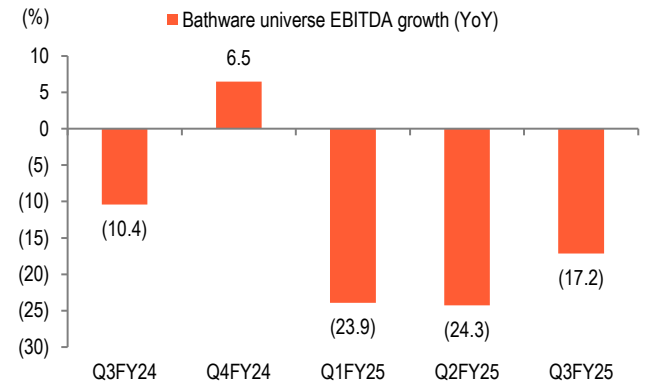
Source: Company, BOBCAPS Research

Fig 11 – CRS gained market share in Q3FY25 compared to HINDWARE



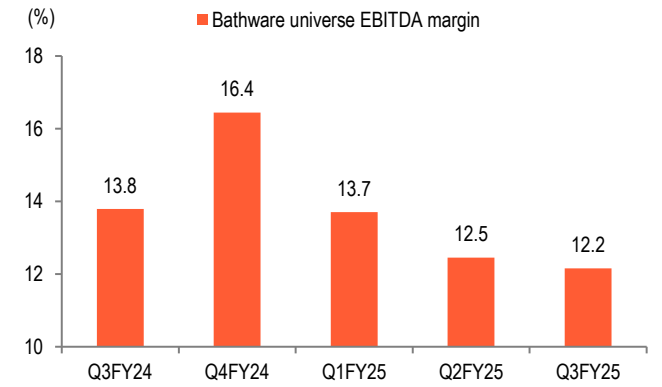
Source: Company, BOBCAPS Research

Fig 12 – Bathware universe EBITDA fell by 17.2% YoY in Q3FY25 due to high discounts & weak operating leverage



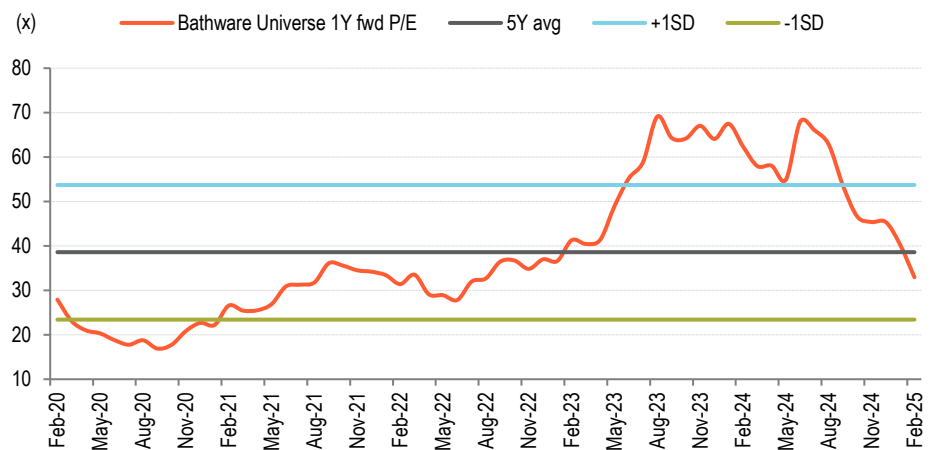
Source: Company, BOBCAPS Research

Fig 13 – Our bathware universe margin contracted by 164bps YoY to 12.2% in Q3FY25



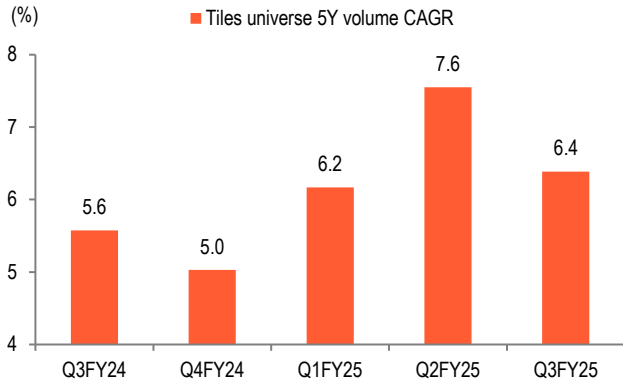
Source: Company, BOBCAPS Research

Fig 14 – Bathware universe trading at 32.9x on 1Y fwd P/E vs 5Y avg of 38.6x



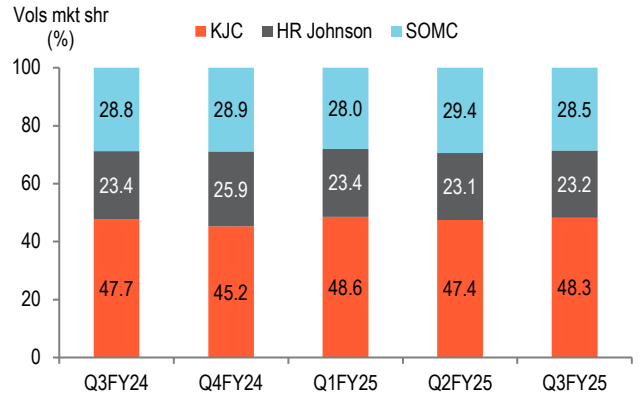
Source: Bloomberg, BOBCAPS Research

Fig 15 – Our tiles universe volume grew at a muted pace of 5.6% YoY (5Y CAGR: +6.4%) in Q3FY25



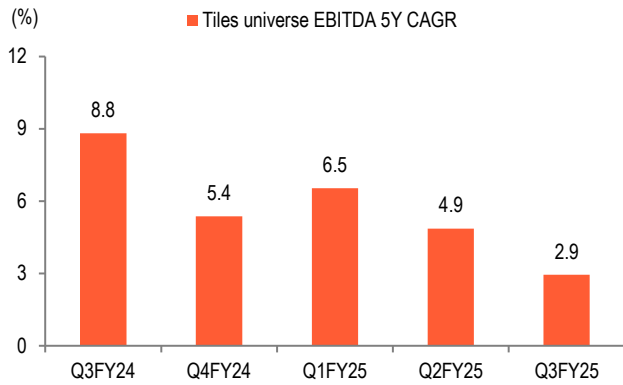
Source: Company, BOBCAPS Research

Fig 16 – Among the top 3 tiles companies, KJC gained market share in Q3FY25



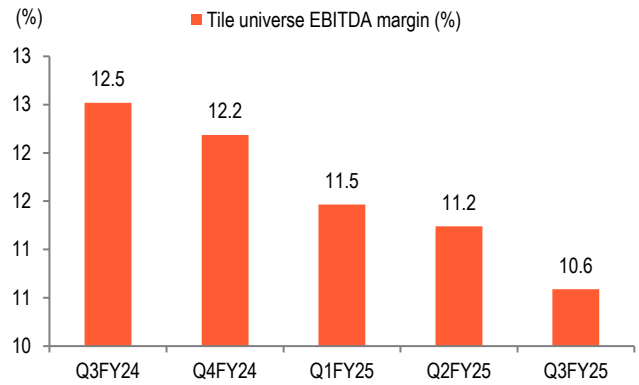
Source: Company, BOBCAPS Research

Fig 17 – Our tiles universe EBITDA was down 11.7% YoY in Q3FY25 due to weak B2C sales and higher discounts



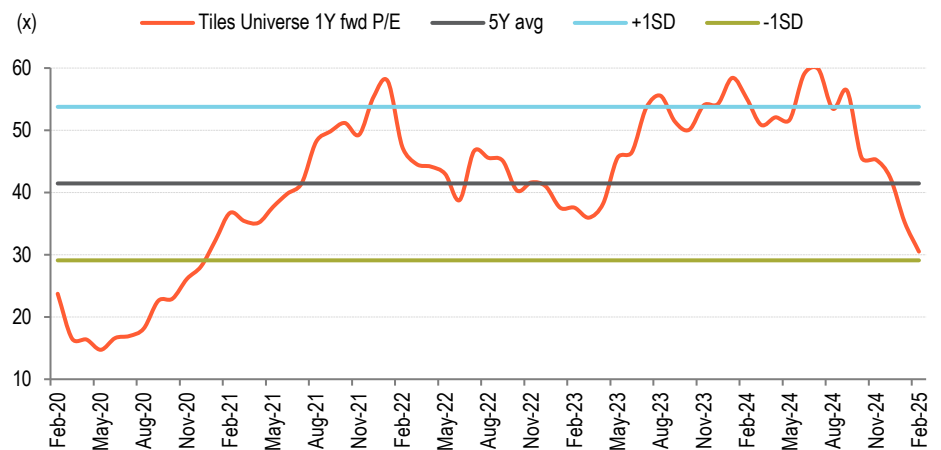
Source: Company, BOBCAPS Research

Fig 18 – Tiles universe EBITDA margin fell by 193bps YoY to 10.6% in Q3FY25 on intense competition from Morbi



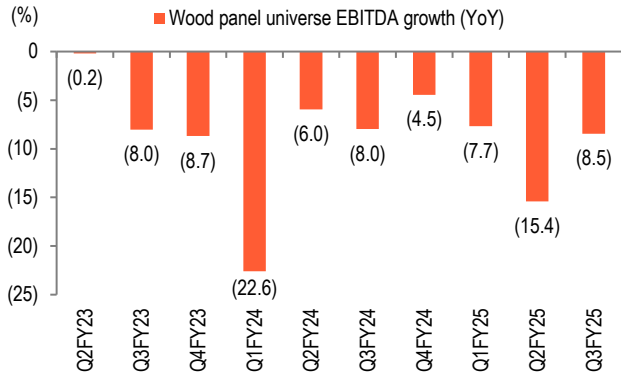
Source: Company, BOBCAPS Research

Fig 19 – Tiles universe trading at 30.5x on 1Y fwd P/E vs. 5Y avg of 41.4x



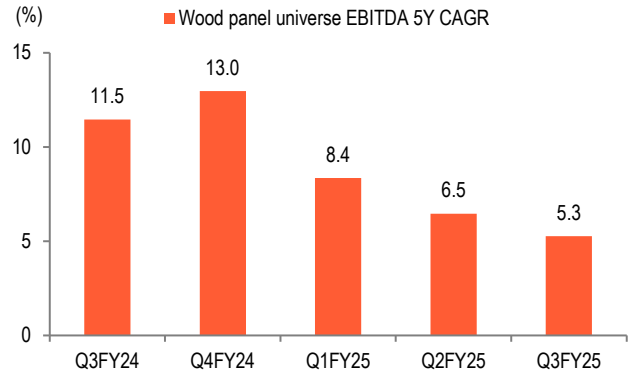
Source: Bloomberg, BOBCAPS Research

Fig 20 – Wood Panel universe EBITDA contracted YoY for the tenth consecutive quarter...



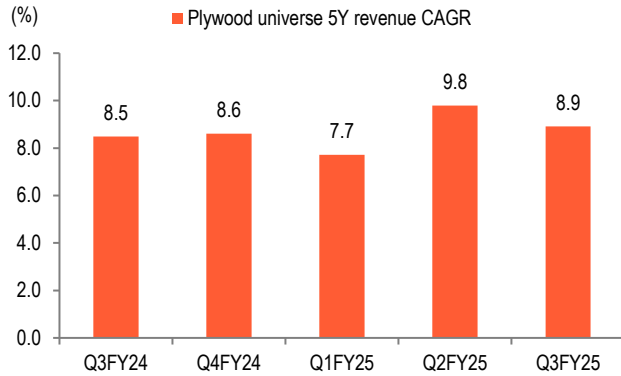
Source: Company, BOBCAPS Research

Fig 21 – ... but it still grew at a moderate rate of 5.3% on a 5Y CAGR basis in Q3FY25



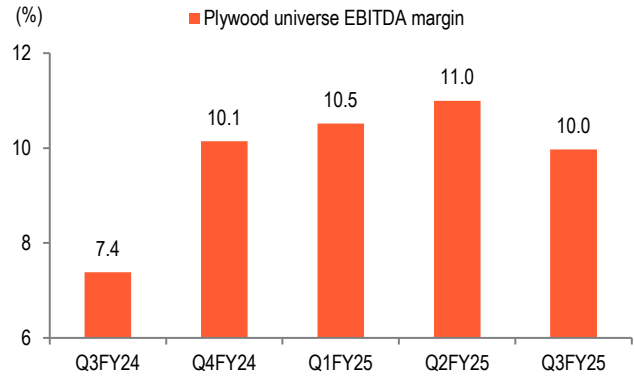
Source: Company, BOBCAPS Research

Fig 22 – Plywood universe revenue grew at 8.1% YoY (5Y: 8.9% CAGR) in Q3FY25



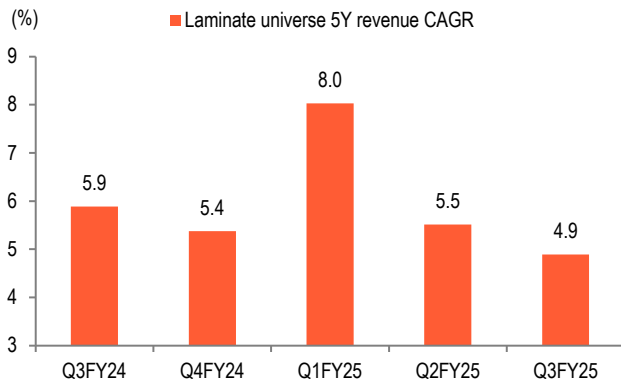
Source: Company, BOBCAPS Research

Fig 23 – Plywood EBITDA margin was up 259bps YoY to 10.0% in Q3FY25 on a low base



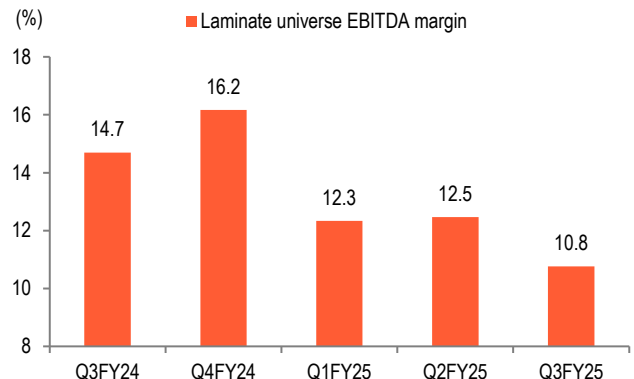
Source: Company, BOBCAPS Research

Fig 24 – Laminate universe revenue grew at a muted pace of 3.6% YoY (5Y: +4.9% CAGR) in Q3FY25



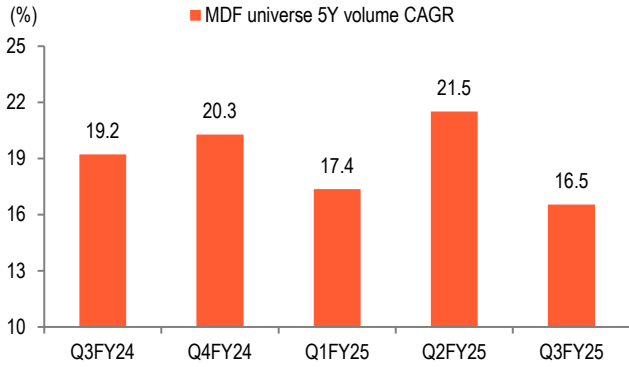
Source: Company, BOBCAPS Research

Fig 25 – Laminate universe EBITDA margin fell sharply by 393bps YoY to 10.8% in Q3FY25



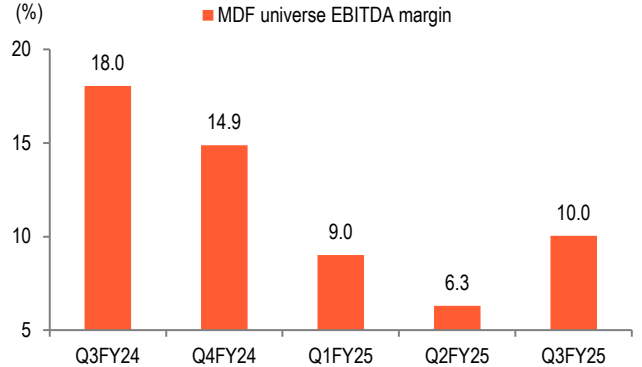
Source: Company, BOBCAPS Research

Fig 26 – MDF universe volumes grew at 14.1% YoY (5Y: +16.5% CAGR) in Q3FY25



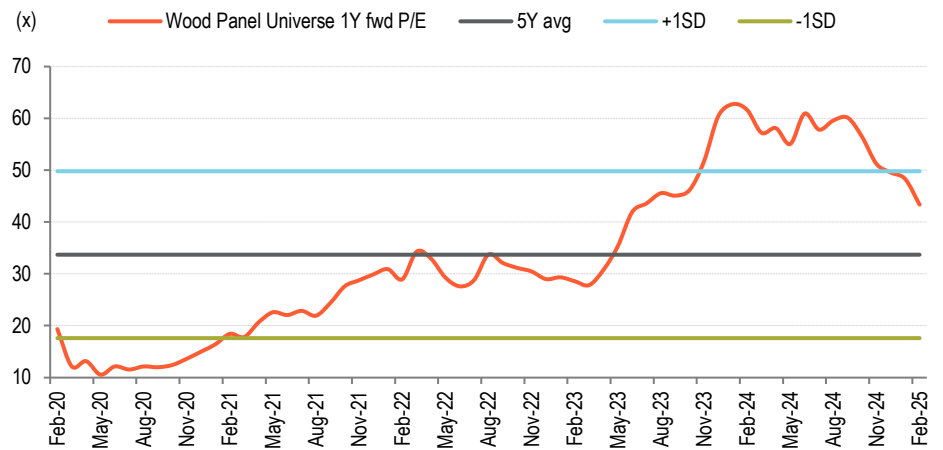
Source: Company, BOBCAPS Research

Fig 27 – MDF EBITDA margin down sharply on YoY basis in Q3FY25 due to supply glut & rising timber prices



Source: Company, BOBCAPS Research

Fig 28 – Wood Panel universe trading at 43.3x on 1Y fwd P/E vs 5Y avg of 33.7x



Source: Bloomberg, BOBCAPS Research

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