


BUILDING MATERIALS

25 June 2024

Steep rise in ocean freight rates impact BM sector

- **Positive for plastic pipe; companies with high exposure to PVC polymer to benefit the most in the near term**
- **Neutral for wood panel sector as benefit of weak imports to be offset by supply overhang in the domestic market**
- **Positive for bathware companies with low share of imported sanitaryware; negative for tiles**

Utkarsh Nopany
 research@bobcaps.in

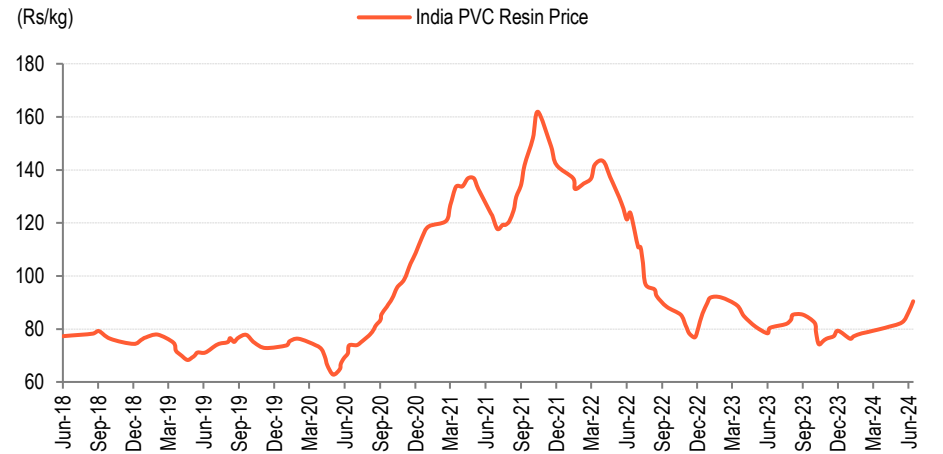
Plastic Pipe: While Southeast Asia PVC resin prices rose by 5.0% in Q1FY25 (QTD) over Mar'24, domestic PVC resin prices rose by 14% due to the impact of the steep rise in ocean freight rates. Hardening resin prices are likely to impact the profitability of the plastic pipe sector in the near future in terms of better demand (due to restocking of pipe inventories in the channel) and margin (due to mark-to-market inventory loss as pipe companies usually hold inventory of 45-60 days). We believe companies with high share of PVC polymers in their total raw materials mix (such as FNXP, PRINCEPI) are likely to benefit the most in the near future due to the steep rise in PVC resin prices.

Wood panel: The pace of imports in the MDF and particleboard segments fell by more than 90% YoY in Mar-Apr'24 due to restricted imports in anticipation of the implementation of BIS norms. It remains at a low level now due to the impact of the steep rise in ocean freight rates. This is likely to provide relief to domestic players, but we maintain our cautious stance as (a) MDF and particleboard prices are not likely to rise in the near future (unlike in the COVID period with rise in ocean freight rate) on account of supply side issues emerging from significant capacity addition in the domestic market, and (b) rising timber prices. We believe the laminates segment's performance is also likely to be impacted in the near future due to weak exports (-15.6% YoY in Apr'24). We believe companies with high exposure to the plywood (such as MTLM) are likely to post relatively better results in near future.

Ceramics: Our channel checks indicate that ceramics demand remains weak in Q1FY25 due to the impact of general elections and extreme heat wave conditions in the country. We believe the domestic market's tile pricing environment may remain weak in the near future on weakening exports outlook due to (a) the steep rise in ocean freight rates; and (b) possibility of imposition of anti-dumping duty by the US on Indian tile products (which formed 8% of total exports from India in FY24). However, we believe bathware companies with a low share of imported sanitaryware mix (such as CRS, HINDWARE) are likely to be positively impacted in the near future due to a high share of imports in the premium portfolio at the industry level.

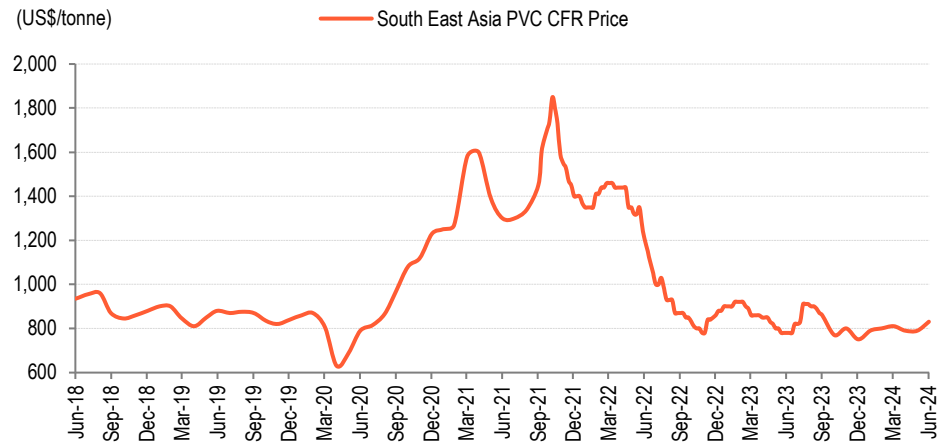


Fig 1 – Indian PVC resin prices rose 14% in Q1FY25 (QTD) over Mar'24



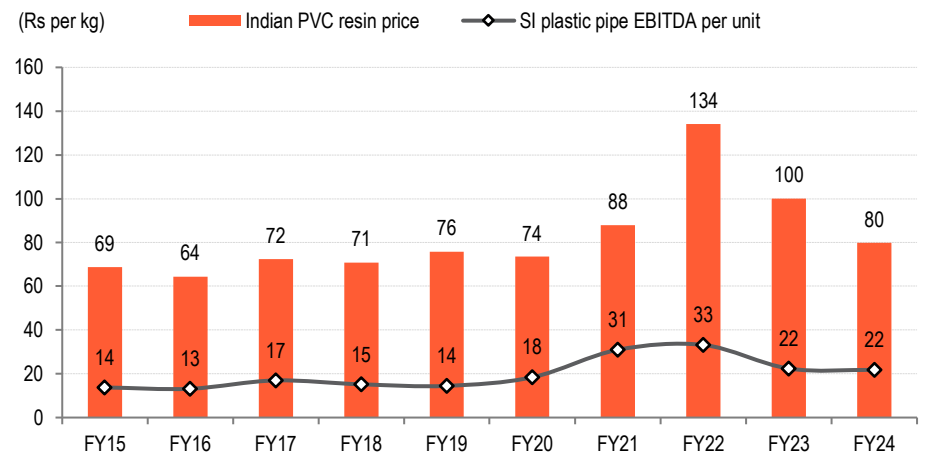
Source: BOBCAPS Research | PVC: Polyvinyl chloride

Fig 2 – Southeast Asia PVC resin price still at 5-7% discount to pre-COVID levels



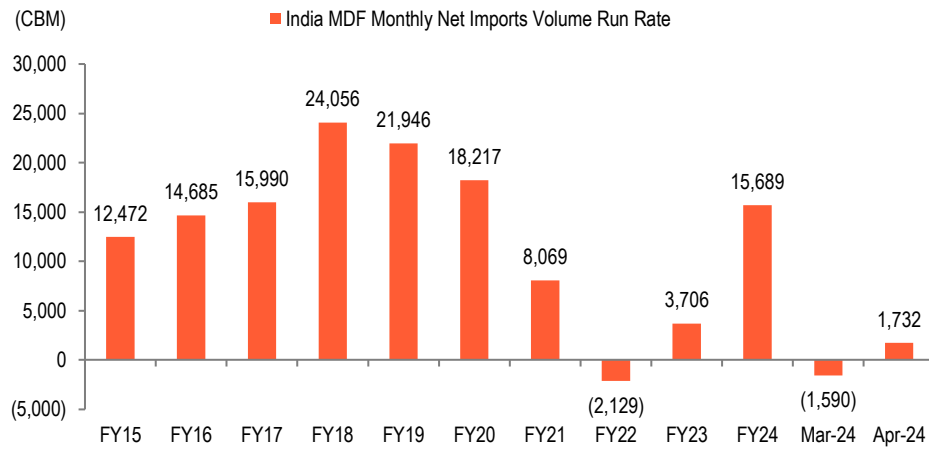
Source: Bloomberg, BOBCAPS Research | CFR: Cost and freight

Fig 3 – Based on historical data, rising PVC resin prices are likely to positively impact profitability of plastic pipe sector in near future



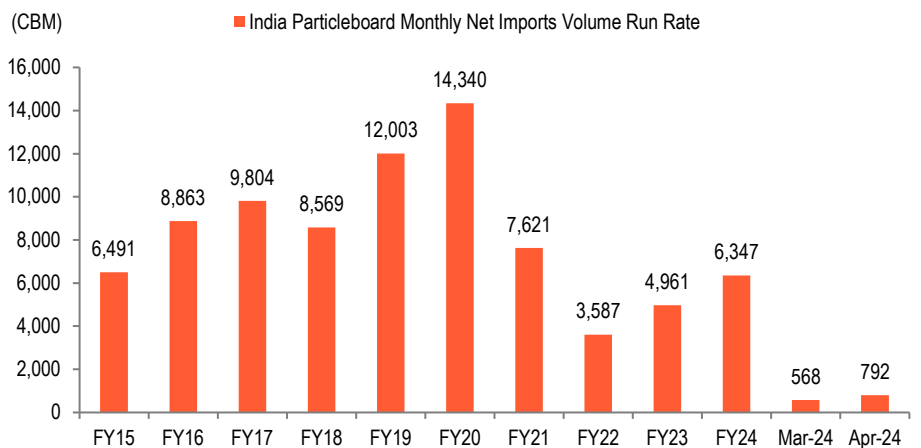
Source: Supreme Industries (SI), BOBCAPS Research

Fig 4 – India’s MDF monthly net import run rate fell sharply in the past few months, but prices are likely to remain weak on supply-side issues



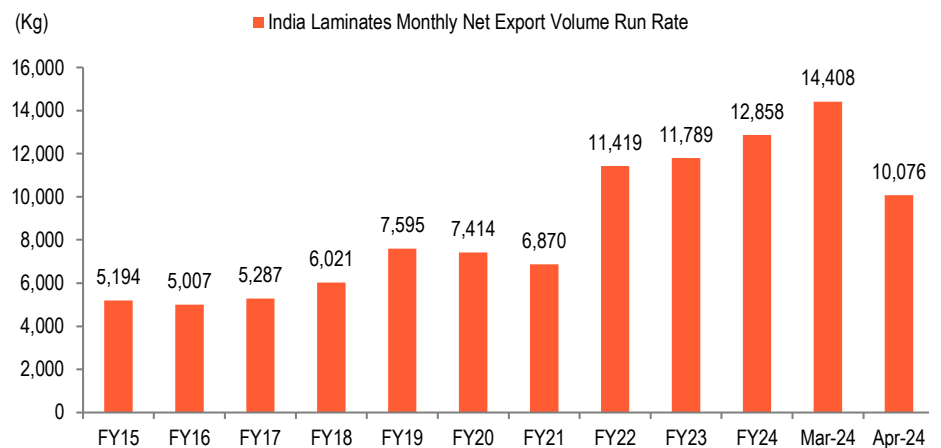
Source: Ministry of Commerce, BOBCAPS Research

Fig 5 – India’s particleboard monthly net import run rate dropped sharply in the past few months, but prices are likely to remain weak on supply-side issues



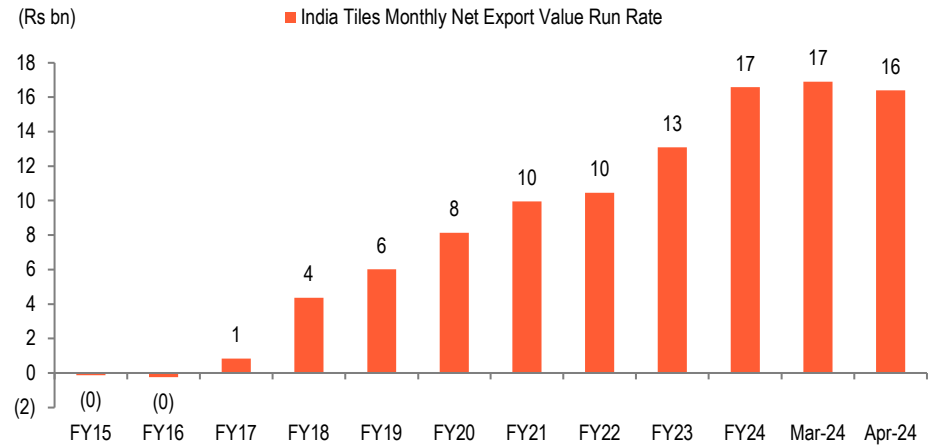
Source: Ministry of Commerce, BOBCAPS Research

Fig 6 – India’s laminate exports may be affected in near term due to steep rise in ocean freight rates



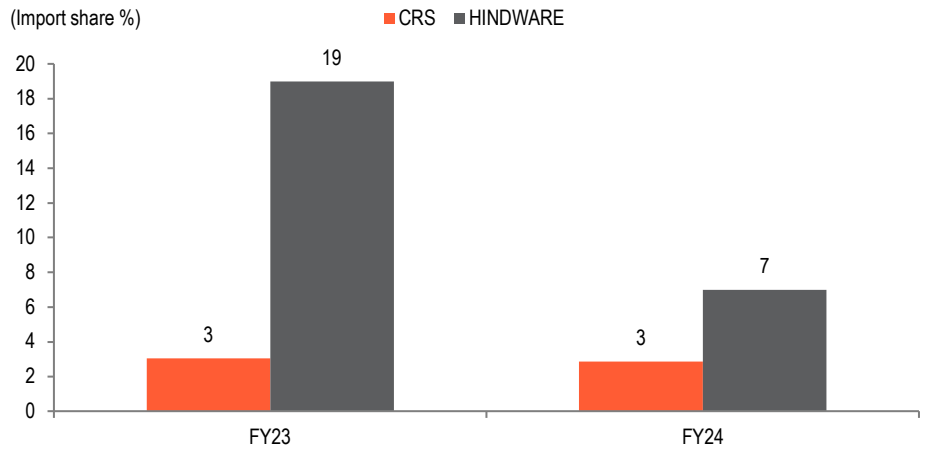
Source: Ministry of Commerce, BOBCAPS Research

Fig 7 – India’s tiles exports may be impacted by steep rise in ocean freight rates



Source: Ministry of Commerce; BOBCAPS Research

Fig 8 – Bathware companies with low share of imported sanitaryware are likely to benefit the most in near future



Source: Companies, BOBCAPS Research

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Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

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