

## Operating performance to crumble amid lockdown

We expect building material companies under our coverage to post an anaemic Q1FY21 as the Covid-19 lockdown has exacted a severe toll on business. Revenues and volumes are forecast to slump ~50% YoY on average due to the absence of sales for most of the quarter. Resultant negative operating leverage will take a bite out of profitability. For building material players, pipes & adhesives are the only segments likely to post positive EBITDA. Management commentary on expected business pickup for the remainder of FY21 will be a key monitorable.

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**Tiles & Sanitaryware – dull quarter all round:** Amid the lockdown and listless demand during the quarter, we expect sales to plummet ~60% YoY for coverage tile companies Kajaria Ceramics (KJC) and Somany Ceramics (SOMC). April was a washout month due to the Covid-led restrictions, with sales gradually resuming in May and then picking up in June. We forecast heavy EBITDA losses stemming from negative operating leverage on lower volumes. In sanitaryware, we expect Cera Sanitaryware (CRS) to report ~62% YoY revenue erosion as core category sales slump, inducing operating losses.

**Plywood & MDF – both segments to suffer:** We estimate a ~65% YoY plunge in plywood sales for both Greenply Industries (GIL) and Century Plyboards (CPBI) due to weak sales in April-May. Operating margins are likely to turn negative for both companies, resulting in EBITDA losses. In the MDF segment, Greenpanel Industries (GREENP) and CPBI are projected to post revenue declines of ~45% YoY accompanied by EBITDA losses.

**Pipes & Adhesives – only segments to report positive EBITDA:** As the lockdown coincided with the busy season, we forecast revenue declines of 45-50% YoY for pipe companies, with agriculture pipe demand being the only silver lining. Pipe companies will likely see softer operating margins, but for our building material coverage – Supreme Industries (SI), Astral Poly (ASTRA) and Finolex Industries (FNXP) – this is the only segment besides adhesives that is projected to report positive EBITDA. In adhesives, we model for 55% YoY topline shrinkage for Pidilite Industries (PIDI) and ASTRA, with lower operating margins but positive EBITDA.

**Watch for:** We await management commentary on demand trends expected for the remainder of FY21 in the wake of Covid-19.

## RECOMMENDATION SNAPSHOT

Ticker	Rating
KJC IN	ADD
SOMC IN	ADD
CRS IN	ADD
PIDI IN	SELL
MTLM IN	BUY
CPBI IN	BUY
ASTRA IN	REDUCE
FNXP IN	ADD
SI IN	ADD
GREENP IN	BUY



**FIG 1 – BOBCAPS BUILDING MATERIAL UNIVERSE: Q1FY21 ESTIMATES**

(Rs mn)	Q1FY21E	Q1FY20A	Q4FY20A	YoY (%)	QoQ (%)	Comments
<b>Kajaria Ceramics</b>						
Sales	2,336	7,000	6,520	(66.6)	(64.2)	<ul style="list-style-type: none"> <li>Volume decline of ~66% YoY expected in tiles segment due to nationwide Covid-19 lockdown during the quarter</li> <li>Operating margins to contract as lower sales translate to negative operating leverage</li> <li>Sales erosion to drive operating and net losses</li> </ul>
EBITDA	(303)	1,060	934	(128.6)	(132.5)	
PAT	(419)	510	496	(182.2)	(184.5)	
<b>Somany Ceramics</b>						
Sales	1,476	3,955	3,561	(62.7)	(58.5)	<ul style="list-style-type: none"> <li>Tile volumes to plunge ~62% YoY on account of lockdown</li> <li>Negative operating leverage to fuel EBITDA and PAT losses</li> </ul>
EBITDA	(278)	303	139	(191.8)	(300.9)	
PAT	(344)	74	(93)	(562.5)	269.0	
<b>Cera Sanitaryware</b>						
Sales	1,040	2,712	2,978	(61.7)	(65.1)	<ul style="list-style-type: none"> <li>Expect revenue contraction across segments</li> <li>Operating margins to shrink due to negative operating leverage</li> <li>PAT negative due to EBITDA losses</li> </ul>
EBITDA	(255)	353	423	(172.2)	(160.2)	
PAT	(248)	181	372	(236.7)	(166.5)	
<b>Pidilite Industries</b>						
Sales	8,894	20,168	15,447	(55.9)	(42.4)	<ul style="list-style-type: none"> <li>CBP volumes estimated to plunge ~57% YoY due to lockdown</li> <li>Gross margins to expand YoY due to lower RM cost but negative operating leverage to weigh on operating margins</li> <li>PAT growth impacted by decline in operating profit</li> </ul>
EBITDA	981	4,437	3,009	(77.9)	(67.4)	
PAT	436	2,929	1,905	(85.1)	(77.1)	
<b>Greenply Industries</b>						
Sales	1,220	3,494	3,447	(65.1)	(64.6)	<ul style="list-style-type: none"> <li>Revenue declines expected in both India and Gabon operations owing to lockdown</li> <li>EBITDA and PAT losses stem from negative operating leverage</li> </ul>
EBITDA	(290)	411	299	(170.4)	(197.1)	
PAT	(318)	210	240	(251.6)	(232.8)	
<b>Century Plyboard</b>						
Sales	2,035	5,737	5,242	(64.5)	(61.2)	<ul style="list-style-type: none"> <li>All segments to witness revenue declines amid lockdown</li> <li>Operating losses due to negative leverage</li> <li>Lower sales and margins to drag down PAT</li> </ul>
EBITDA	(287)	926	701	(131.0)	(141.0)	
PAT	(386)	481	388	(180.3)	(199.6)	
<b>Astral Poly Technik</b>						
Sales	3,541	6,066	6,289	(41.6)	(43.7)	<ul style="list-style-type: none"> <li>Revenue shrinkage in both pipes &amp; adhesive segments due to lockdown</li> <li>Gross margins to increase YoY but operating margins to contract 520bps YoY on negative operating leverage</li> <li>Lower sales and margins to weigh on PAT</li> </ul>
EBITDA	360	931	1,126	(61.3)	(68.0)	
PAT	48	481	655	(90.1)	(92.7)	
<b>Finolex Industries</b>						
Sales	4,980	9,438	7,661	(47.2)	(35.0)	<ul style="list-style-type: none"> <li>Both pipe &amp; PVC resin segments to witness declines</li> <li>Operating margins to contract 690bps YoY due to negative operating leverage, leading to PAT decline</li> </ul>
EBITDA	307	1,236	1,041	(75.1)	(70.5)	
PAT	107	725	557	(85.3)	(80.9)	
<b>Supreme Industries</b>						
Sales	6,793	14,368	14,305	(52.7)	(52.5)	<ul style="list-style-type: none"> <li>Revenue erosion across segments</li> <li>Operating margins to decrease 570bps YoY due to negative leverage, translating to PAT losses</li> </ul>
EBITDA	404	1,674	2,734	(75.9)	(85.2)	
PAT	(93)	746	1,103	(112.5)	(108.5)	
<b>Greenpanel Industries</b>						
Sales	848	2,111	2,378	(59.8)	(64.3)	<ul style="list-style-type: none"> <li>Weak domestic and export sales to induce revenue declines in both plywood and MDF segments</li> <li>Negative operating leverage to erode EBITDA</li> <li>MTM losses to further depress PAT</li> </ul>
EBITDA	(66)	277	496	(123.9)	(113.4)	
PAT	(245)	25	259	(1,072.9)	(194.6)	

Source: Company, BOBCAPS Research

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**ADD** – Expected return from >+5% to +15%

**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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