BUILDING MATERIALS | Q2FY21 Preview | 13 October 2020

Unlocking to revive operational performance

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We expect building material companies under our coverage to witness significant operational improvement QoQ given the gradual easing of Covid restrictions. MDF and pipe players are likely to post YoY revenue growth but the tiles and plywood segments are both projected to decline. Barring plywood companies, we forecast margin gains across the board backed by higher sales (pipes/MDF) and lower input & other costs (tile/sanitaryware). Management commentary on expected business pickup in H2 will be a key monitorable.

Tiles & Sanitaryware – improving sales trend: The unlocking of Covid restrictions has led to an improving sales trend in tiles and sanitaryware, mainly in tier-2 cities and below. In the tiles segment, we expect revenues for Kajaria Ceramics/Somany Ceramics to contract at a slower pace of 12%/9% YoY (vs. –60%/–57% in Q1), whereas Cera Sanitaryware could clock a stable topline aided by traction in the sanitaryware and faucet segments. Operating margins are projected to improve or remain stable for all players under coverage aided by cost control and lower raw material cost.

Plywood – still languishing; MDF – strong growth YoY: Plywood sales are likely to return to ~70% of year-ago levels in Q2, steered by demand from markets beyond the top-10 cities. Operating margins in the plywood segment are likely to be weighed down by negative operating leverage. Greenply Industries' Gabon operations are expected to deliver robust revenue growth due to higher exports to Europe and Southeast Asia. In MDF, Greenpanel Industries and Century Plyboards are projected to post ~20% YoY revenue growth accompanied by margin expansion due to better capacity utilisation.

Pipes & Adhesives – set for YoY growth: We forecast revenue growth in the pipe segment aided by demand from the housing sector and also higher PVC resin prices. Operating margins are expected to expand for all players under our coverage, viz. Supreme Industries, Astral Poly (ASTRA) and Finolex Industries due to cost control initiatives during the pandemic and inventory gains on account of rising PVC resin prices. In adhesives, we anticipate topline growth for Pidilite Industries and ASTRA aided by the unlocking of markets, with operating margin expansion arising from lower RM cost.

Watch for: We await management commentary on the H2FY21 demand outlook in the wake of unlocking.

RECOMMENDATION SNAPSHOT

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

FIG 1 – BOBCAPS BUILDING MATERIAL UNIVERSE: Q2FY21 ESTIMATES

(Rs mn)	Q2FY21E	Q2FY20A	Q1FY21A	YoY (%)	QoQ (%)	Comments
Kajaria Ceramics						▪ Volume decline of ~13% YoY expected in tiles segment to impact revenue growth. ▪ Operating margins to improve on the back of better cost management and lower input prices ▪ High YoY fall estimated in PAT due to lower tax provisioning in base quarter
Sales	6,276	7,147	2,776	(12.2)	126.1	
EBITDA	967	1,052	(76)	(8.2)	NA	
PAT	549	932	(271)	(41.1)	NA	
Somany Ceramics						▪ Sales contraction to stem from expected ~6% YoY dip in tile volumes ▪ Lower gas cost and other expenses to keep operating margins stable despite volume decline ▪ Weaker sales to depress PAT
Sales	3,824	4,223	1,694	(9.4)	125.7	
EBITDA	405	448	(116)	(9.5)	NA	
PAT	113	243	(220)	(53.4)	NA	
Cera Sanitaryware						▪ Better performance in sanitaryware and faucet segments to result in stable revenues YoY ▪ Operating margins to improve due to better product mix ▪ Lower taxes in year-ago quarter to induce PAT decline
Sales	3,228	3,294	1,460	(2.0)	121.1	
EBITDA	433	431	38	0.6	1,044.7	
PAT	273	296	5	(7.5)	5838.2	
Pidilite Industries						▪ CBP volumes to increase ~7% YoY owing to tepid base YoY and pent-up demand ▪ Lower RM cost to aid margin expansion ▪ PAT growth impacted YoY due to lower tax provisioning in base quarter
Sales	18,675	18,066	8,778	3.4	112.7	
EBITDA	4,430	3,682	664	20.3	567.4	
PAT	3,066	3,465	268	(11.5)	1,045.0	
Greenply Industries						▪ India revenues to decline as top-10 cities still facing lockdown restrictions; Gabon to show strong growth YoY ▪ Lower India sales to result in EBITDA margin contraction ▪ PAT forecast to decline due to lower sales
Sales	2,800	3,803	1,327	(26.4)	111.0	
EBITDA	310	449	(28)	(30.9)	NA	
PAT	165	264	(113)	(37.7)	NA	
Century Plyboards						▪ Plywood segment remains tepid but MDF growth to be strong YoY ▪ Operating margins expected to be stable due to higher profitability in MDF and cost control ▪ Lower sales to compress PAT
Sales	4,759	5,894	2007	(19.3)	137.1	
EBITDA	749	928	8.4	(19.3)	8841.7	
PAT	434	521	(85)	(16.9)	NA	
Astral Poly Technik						▪ Revenue growth expected in both pipe and adhesive segments ▪ Better profitability in adhesives and inventory gains in pipes to shore up operating margins ▪ PAT projected to contract due to lower tax provisioning in the year-ago quarter
Sales	7,699	6,783	4,039	13.5	90.6	
EBITDA	1,371	1,190	543	15.2	152.5	
PAT	793	853	210	(7.0)	277.6	
Finolex Industries						▪ Higher PVC prices YoY to aid revenue growth ▪ Operating margins to increase due to better PVC margins ▪ Lower other income and tax provisioning YoY to constrain PAT
Sales	5,990	5,767	5,621	3.9	6.6	
EBITDA	908	820	882	10.7	2.9	
PAT	594	1,027	551	(42.2)	7.7	
Supreme Industries						▪ Revenue growth impacted by lower demand from industrial and consumer segments despite better performance in pipes ▪ Operating margins to increase due to inventory gains and tighter control on cost ▪ PAT decline forecast owing to lower tax provisioning in the year-ago quarter
Sales	12,600	12,709	10,539	(0.9)	19.6	
EBITDA	1,931	1,657	1,171	16.6	64.9	
PAT	985	1,214	442	(18.9)	122.9	
Greenpanel Industries						▪ Strong revenue growth projected in MDF segment from both domestic and export markets ▪ Higher MDF capacity utilisation to result in operating margin expansion ▪ PAT growth YoY to be driven by higher sales and better margins
Sales	2,150	1,921	902	11.9	138.5	
EBITDA	382	299	(83)	27.6	NA	
PAT	74	43	(317)	72.4	NA	

Source: Company, BOBCAPS Research

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BUY – Expected return >+15%

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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