

Tepid quarter

Building material companies under our coverage are expected to post a tepid Q3FY20 as market conditions remained challenging, thus taking a toll on volumes. We estimate 3-5% YoY volume growth for tile players and 2-3% YoY volume growth for plywood players. Piping companies are likely to post a mixed performance with revenue growth ranging from 4-13% YoY.

Management commentary on demand and margin outlook for Q4FY20/FY21 will be a key aspect to watch.

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Insipid quarter: Due to continued tough market conditions, we expect building material companies to report a muted Q2. We forecast low-single-digit volume growth for tile companies under our coverage, viz. Kajaria Ceramics (KJC) and Somany Ceramics (SOMC). In the plywood segment, Greenply Industries (GIL) and Century Plyboards (CPBI) will likely see modest low single digit volume growth. In MDF, CPBI is expected to report flat growth YoY (+15% QoQ) due to near-peak utilization of capacity.

Sanitaryware players such as Cera Sanitaryware (CRS) will likely report a subdued quarter as core category volumes remain in a slump. In the pipes segment, we estimate 12.9% YoY revenue growth for Astral Polytechnik (ASTRA) aided by price increases in CPVC, whereas Supreme Industries (SI) and Finolex Industries (FNXP) are forecast to have modest topline growth.

Operating margin gains for some pipe/plywood players: Among pipe players, ASTRA is forecast to report operating margins increase of 270bps YoY on the back of better CPVC profitability. Also, SI will report margin increase of ~70bps YoY due to a tepid base whereas FNXP could see margins contracting YoY due to a lower PVC-EDC delta. In tile companies, KJC is expected to witness a decline of 90bpsYoYin margins whereas SOMC will see an increase of 165bps YoY (-70bps QoQ) due to a tepid base. In the plywood segment, CPBI could clock ~290bps YoY margin expansion off a low base. CRS should witness ~180bps YoY margin decline due to adverse product mix and tepid sales. For the quarter we expect CPBI to report healthy EBIDTA growth due to a tepid base whereas ASTRA to report strong results aided by price increases in CPVC.

Key areas to watch: Managements' outlook on revenues and margins for Q4FY20/FY21 will be a key monitorable.

KEY RECOMMENDATIONS

Ticker	Price	Target	Rating
KJC IN	550	625	ADD
SOMC IN	217	340	BUY
CRS IN	2,587	3,040	BUY
MTLM IN	170	210	BUY
CPBI IN	163	205	BUY
ASTRA IN	1,140	1,080	REDUCE
FNXP IN	543	625	ADD
SI IN	1,148	1,235	ADD
GREENP IN	46	48	BUY

Price & Target in Rupees



FIG 1 – BOBCAPS BUILDING MATERIAL UNIVERSE – Q3FY20 ESTIMATES

(Rs mn)	Q3FY19A	Q3FY20E	Q2FY20A	YoY (%)	QoQ (%)	Comment
KJC						
Sales	7,586	7,603	7,147	0.2	6.4	▪ Volume growth is expected to be ~4-5% YoY
EBITDA	1,208	1,141	1,052	(5.6)	8.4	▪ Operating margins to decline by ~90 bps YoY (+30bps QoQ).
PAT	648	657	932	1.5	(29.4)	▪ PBT to decline due to lower operating profits
SOMC						
Sales	4,254	4,346	4,223	2.1	2.9	▪ Volume growth is expected to be ~3-4% YoY
EBITDA	350	430	448	22.8	(3.9)	▪ Operating margins to expand by 165 bps YoY due to a tepid base
PAT	89	117	229	31.5	(49.1)	▪ Higher PAT growth due to decline in ETR
CRS						
Sales	3,188	3,166	3,272	(0.7)	(3.2)	▪ Flat revenue growth due to de-growth in sanitaryware segment
EBITDA	460	400	416	(12.9)	(3.7)	▪ Operating margins to decline by 180 bps YoY due to adverse product mix.
PAT	284	262	300	(7.6)	(12.7)	▪ PBT to de-grow due to decline in operating profits
CPBI						
Sales	5,789	6,051	5,894	4.5	2.7	▪ Tepid revenue growth due to plywood witnessing sluggish growth of 1-2% YoY
EBITDA	759	955	928	25.8	3.0	▪ Operating margins to expand 250 bps YoY (flat QoQ) due to better margins in plywood/MDF segment and a tepid base
PAT	414	504	521	21.7	(3.4)	▪ PAT growth driven by better operating profitability
ASTRA						
Sales	6,337	7,153	6,783	12.9	5.5	▪ Revenue growth to be driven by the pipe segment
EBITDA	937	1,248	1,190	33.3	4.9	▪ Operating margins to expand by ~270bps YoY aided by better margins in pipe segment
PAT	461	692	853	50.1	(18.8)	▪ PAT growth to be higher than EBIDTA growth due to lower ETR
FNXP						
Sales	7,566	8,266	5,767	9.3	43.3	▪ Modest revenue growth aided by PVC resin segment
EBITDA	1,250	1,234	820	(1.3)	50.5	▪ Operating margins to decline by 160bps YoY due to lower PVC-EDC delta
PAT	787	895	1,027	13.8	(12.8)	▪ PAT growth due to lower ETR
SI						
Sales	14,146	14,644	12,709	3.5	15.2	▪ Modest revenue growth aided by growth in the pipe segment
EBITDA	1,798	1,970	1,728	9.6	14.0	▪ Operating margins to increase by 70 bps YoY due to a tepid base
PAT	862	1,029	1,286	19.3	(20.0)	▪ Higher PAT growth due to lower ETR

Source: Company, BOBCAPS Research | Note: We have not provided estimates for GIL/GREENP due to non-availability of comparable data post-demerger in FY20

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