

Expect an insipid quarter

Building material companies under our coverage are likely to post a dull Q4FY20 as tough market conditions have been further accentuated by the lockdown in end-March, thus taking a toll on volumes. We expect low single-digit volume declines for tile and plywood players. Pipe companies are likely to post a muted performance marked by flat/negative revenue YoY, excepting ASTRA which could see a 10% uptick. Management commentary on business strategies post Covid-19 will be a key monitorable.

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Tiles & Sanitaryware – dull quarter all round: Amid weak demand and the lockdown, we expect volume growth to decline in the low single digits for coverage tile companies, viz. Kajaria Ceramics (KJC) and Somany Ceramics (SOMC). Operating margins are forecast to contract 120bps and 100bps YoY respectively due to lower volume sales. In sanitaryware, Cera Sanitaryware (CRS) will likely report a subdued quarter as core category volumes remain tepid. We expect the company to post an ~85bps YoY margin decline due to weak sales.

Plywood & MDF – margin expansion in MDF: Greenply Industries (GIL) and Century Plyboards (CPBI) could see a dip in plywood volume growth. We forecast a 125bps YoY drop in operating margin for GIL due to reduced sales in India and Gabon. In the MDF segment, we expect Greenpanel Industries (GREENP) to report ~40% YoY volume growth partly aided by exports, whereas CPBI could grow at a slower ~10% due to near-peak utilisation of capacity. Both CPBI and GREENP will benefit from better profitability in MDF, aiding estimated margin expansion of 120bps and 300bps YoY respectively.

Pipes & Adhesives – ASTRA stands out: In the pipes segment, we estimate ~10% YoY revenue growth for Astral Poly Technik (ASTRA) aided by price hikes in CPVC, as compared to flat/negative growth for Supreme Industries (SI) and Finolex Industries (FNXP). Both ASTRA (better CPVC profitability) and FNXP (better PVC-EDC delta) are likely to post stronger EBITDA margins, up 40bps and 120bps YoY respectively. SI could see 65bps YoY margin contraction due to slower sales. In adhesives, PIDI is expected to have a modest quarter with volumes in the core CBP segment estimated to decline 1-2% YoY. Operating margins are forecast to rise 135bps due to lower raw material cost.

Watch for: Management commentary on strategies to deal with the fallout of Covid-19 in FY21 will be a key feature to watch this earnings season.

RECOMMENDATION SNAPSHOT

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



FIG 1 – BOBCAPS BUILDING MATERIAL UNIVERSE: Q4FY20 ESTIMATES

| (Rs mn) | Q4FY20E | Q4FY19A | Q3FY20A | YoY (%) | QoQ (%) | Comments |
|------------------------------|---------|---------|---------|---------|---------|--|
| Kajaria Ceramics | | | | | | |
| Sales | 7,455 | 8,153 | 7,413 | (8.6) | 0.6 | <ul style="list-style-type: none"> Volumes expected to decline 2-3% YoY Operating margins to contract ~120bps YoY due to lower turnover Lower operating profit to erode PAT |
| EBITDA | 1,037 | 1,229 | 1,113 | (15.6) | (6.8) | |
| PAT | 508 | 674 | 615 | (24.7) | (17.5) | |
| Somany Ceramics | | | | | | |
| Sales | 4,768 | 5,188 | 4,362 | (8.1) | 9.3 | <ul style="list-style-type: none"> Expect 2-3% YoY volume decline High base and lower volumes to drive 100bps YoY drop in EBITDA margins PAT to contract 22% YoY due to lower operating profits |
| EBITDA | 599 | 705 | 403 | (15.0) | 48.8 | |
| PAT | 259 | 330 | 112 | (21.5) | 131.2 | |
| Cera Sanitaryware | | | | | | |
| Sales | 3,631 | 4,131 | 3,213 | (12.1) | 13.0 | <ul style="list-style-type: none"> Revenues weak amid lockdown Operating margins to contract 85bps YoY, fuelling 4% PAT decline |
| EBITDA | 529 | 638 | 429 | (17.0) | 23.3 | |
| PAT | 366 | 380 | 284 | (3.9) | 28.9 | |
| Pidilite Industries | | | | | | |
| Sales | 16,553 | 16,389 | 19,266 | 1.0 | (14.1) | <ul style="list-style-type: none"> CBP volumes to dip 1-2% YoY Lower RM cost to aid 135bps expansion in operating margins PAT growth impacted due to lower sales |
| EBITDA | 3,039 | 2,788 | 4,632 | 9.0 | (34.4) | |
| PAT | 1,934 | 1,932 | 3,418 | 0.1 | (43.4) | |
| Greenply Industries | | | | | | |
| Sales | 3,385 | 3,917 | 3,460 | (13.6) | (2.2) | <ul style="list-style-type: none"> Lower revenues in both India and Gabon due to tepid market conditions and lockdown Operating margins to contract 125bps YoY, driving 32% PAT decline |
| EBITDA | 374 | 482 | 397 | (22.3) | (5.8) | |
| PAT | 201 | 297 | 213 | (32.4) | (5.8) | |
| Century Plyboard | | | | | | |
| Sales | 5,685 | 5,832 | 5,954 | (2.5) | (4.5) | <ul style="list-style-type: none"> Tepid revenue performance as plywood volumes slip 1-2% YoY Low base and better profitability in MDF segment to push up operating margins by 120bps YoY PAT de-growth driven by lower sales |
| EBITDA | 690 | 637 | 943 | 8.4 | (26.8) | |
| PAT | 315 | 342 | 647 | (7.9) | (51.4) | |
| Astral Poly Technik | | | | | | |
| Sales | 8,504 | 7,747 | 6,641 | 9.8 | 28.1 | <ul style="list-style-type: none"> Revenue growth and operating margin expansion of ~40bps YoY to be led by pipe segment PAT growth higher than EBITDA growth due to lower ETR |
| EBITDA | 1,340 | 1,190 | 1,182 | 12.7 | 13.4 | |
| PAT | 705 | 608 | 673 | 16.0 | 4.8 | |
| Finolex Industries | | | | | | |
| Sales | 8,839 | 9,642 | 6,994 | (8.3) | 26.4 | <ul style="list-style-type: none"> Topline slippage YoY owing to tepid volumes in pipes Higher PVC-EDC delta to boost operating margins (+120bps YoY) Flat PAT due to lower sales |
| EBITDA | 1,447 | 1,465 | 1,384 | (1.2) | 4.5 | |
| PAT | 898 | 914 | 933 | (1.8) | (3.8) | |
| Supreme Industries | | | | | | |
| Sales | 15,208 | 15,309 | 13,733 | (0.7) | 10.7 | <ul style="list-style-type: none"> Revenue growth affected by lockdown Operating margins to decrease 65bps YoY on account of lower turnover, leading to 11% drop in PAT |
| EBITDA | 1,906 | 2,020 | 2,209 | (5.6) | (13.7) | |
| PAT | 906 | 1,017 | 1,226 | (10.9) | (26.1) | |
| Greenpanel Industries | | | | | | |
| Sales | 2,330 | 1,748 | 2,356 | 33.3 | (1.1) | <ul style="list-style-type: none"> Revenue growth YoY aided by better capacity utilisation of MDF plant Operating margins to increase 300bps YoY on better profitability in MDF segment MTM losses on forex to hurt PAT |
| EBITDA | 340 | 202 | 360 | 68.0 | (5.5) | |
| PAT | (73) | 15 | 93 | NA | 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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