

RESEARCH**BUILDING MATERIALS | Q1FY25 REVIEW**

Another soft quarter on tepid demand and intense competition

SUMMARY**BUILDING MATERIALS: Q1FY25 REVIEW**

- Tepid quarter on intense competition in a weak demand environment; pipe remains the best performer, wood panel the worst
- Near-term pain to persist; positive medium-term outlook is captured well in current expensive valuations
- Positive on select names (PRINCEPI, SOMC, HINDWARE) on strong earnings prospects with reasonable valuations

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Tepid quarter: Our building materials (BM) universe revenue grew at a muted pace of +6.7% YoY in Q1FY25 on account of extreme heatwave conditions and general elections. Across BM segments margin pressure was witnessed in Q1FY25 due to increased competitive intensity in a weak demand environment. Sector-wise, plastic pipe again performed relatively better, whereas the wood panel sector performed the worst again due to steep margin pressures in MDF. Company-wise, SI fared the best in plastic pipes, MTLM in wood panels and KJC in tiles.

Pipes: Our pipe universe EBITDA grew by 13.1% YoY in Q1FY25 driven by higher volume (+12.5%) and relatively flat EBITDA per unit (+0.5% YoY to Rs 19.5/kg even on a low base due to the rise in competitive intensity). However, the pace of pipe volume growth on a 5Y CAGR basis moderated from 9.6% in Q4FY24 to 6.7% in Q1FY25 due to destocking of channel inventories on account of volatile resin prices.

Bathware: Our bathware universe revenue grew at a muted pace (-8.1% YoY) for the fifth consecutive quarter. Our universe EBITDA margin was down sharply by 285bps YoY to 13.7% in Q1FY25 mainly due to higher discounts offered to dealers in view of the weak demand environment and negative operating leverage.

Tiles: Our tiles universe EBITDA was down 5.6% YoY in Q1FY25 due to tepid volumes (+2.8%) and margin contraction (-68bps YoY to 11.6%) on increased competition from Morbi players in a weak market environment.

Wood panels: Our wood panel universe EBITDA contracted (-8.4% YoY) for the eight straight quarter due to muted demand and margin stress across segments resulting from supply-side pressures and elevated timber prices.

Positive on selective BM stocks: We are positive on BM's fundamental outlook over the medium term, but we maintain our cautious view on most BM stocks due to expensive valuations (our BM universe trades at 44.5x on 1Y fwd P/E vs 5Y avg of 34.6x). We are positive on select names (PRINCEPI, SOMC, and HINDWARE), where we see relatively better earnings prospects and reasonable valuations.



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