

RESEARCH**BUILDING MATERIALS | Q2FY25 REVIEW**

Another soft quarter on tepid demand and intense competition

SUMMARY**BUILDING MATERIALS: Q2FY25 REVIEW**

- Tepid quarter on intense competition in a weak demand environment and extended monsoon
- Worst is behind as we anticipate improved margins with gradual recovery in demand over the medium term
- Valuation of most BM stocks has now become reasonable post steep corrections in their stock prices over the past three months

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Another soft quarter on tepid demand and intense competition

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- **Worst is behind as we anticipate improved margins with gradual recovery in demand over the medium term**
- **Valuation of most BM stocks has now become reasonable post steep corrections in their stock prices over the past three months**

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Dismal quarter: Our building materials (BM) universe revenue grew at a muted pace (+1.3% YoY in Q2FY25) for the seventh consecutive quarter due to weak demand and extended monsoon. Our universe EBITDA was down 20.9% YoY in Q2FY25 due to severe margin pressure on account of heightened competitive intensity in a weak demand environment. However, we believe the worst is behind for the sector as we anticipate margin improvement with gradual recovery in demand over the medium term.

Pipes: Our pipe universe volume grew at a tepid pace of 2.3% YoY in Q2FY25 due to channel destocking on account of volatile resin prices, whereas EBITDA fell by 30.6% YoY in Q2FY25 due to steep fall in EBITDA per unit (-32.2% YoY to Rs 15/kg on intense competition and mark-to-market [MTM] inventory loss).

Bathware: Our bathware universe revenue grew at a muted pace (-0.8% YoY) for the sixth consecutive quarter. Our universe EBITDA margin was down sharply by 386bps YoY to 12.5% in Q2FY25 mainly due to higher raw-material cost and increased discounts offered to dealers in view of the weak demand environment.

Tiles: Our tiles universe volume grew by 5.3% YoY, but EBITDA was down by 12.9% YoY in Q2FY25 due to margin contraction (-200bps YoY to 11.3%) on increased competition from Morbi players in a weak market environment.

Wood panels: Our wood panel universe EBITDA contracted (-17.6% YoY in Q2FY25) for the ninth straight quarter due to muted demand and margin stress across segments resulting from supply-side pressures and elevated timber prices.

Positive on most BM stocks: We have now become positive on most BM stocks on (a) expectation of improvement in margin with gradual recovery in demand, and (b) valuation now becoming reasonable (our BM universe trades at 41.4x on 1Y fwd P/E vs 5Y average of 36.9x). Our top fundamental picks are SI in plastic pipes, CRS in bathware, SOMC in tiles, and MTLM in wood panel.

Recommendation snapshot

Ticker	Price	Target	Rating
APOLP IN	471	500	HOLD
ASTRA IN	1,716	2,000	BUY
CPBI IN	744	725	HOLD
CRS IN	7,281	8,500	BUY
FNXP IN	263	300	HOLD
GREENP IN	335	365	HOLD
GRLM IN	512	530	HOLD
HINDWARE IN	252	400	BUY
KJC IN	1,128	1,450	BUY
MTLM IN	316	380	BUY
PRINCPIN IN	438	650	BUY
SI IN	4,635	5,500	BUY
SOMC IN	645	850	BUY

Price & Target in Rupees | Price as of 18 Nov 2024



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BUY – Expected return >+15%

HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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