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Sector update

INDIA

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Building material

Outlook CY21: On comeback trail

The organised building material sector is likely to be on a strong comeback trail with branded companies expected to report healthy volume growth/earnings in CY21 driven by: 1) low base of last year, 2) strong pent-up demand in renovation / refurbishment segment, and 3) impressive pick-up in secondary sales in real estate sector post Covid. In the branded categories space, we expect growth recovery in CY21 to be led by: 1) the plumbing pipe segment (expectations of accelerated consolidation in PVC/CPVC pipes post Covid), 2) tile segment (driven by impressive market share gains from Morbi players who are incrementally focusing on exports post Covid) and MDF (on the back of higher demand for modular furniture (MF) *vs* organised carpentry, and 3) expected increase in MF shipments with India likely becoming a manufacturing hub replacing China).

- **Outlook CY21: Branded plumbing pipe, tile and MDF categories are likely themes to outperform in CY21.** Branded categories like plumbing pipes, MDF and ceramic tiles seem poised to outpace the other building material categories in terms of volume growth recovery. We also expect other categories to report healthy growth led by lower base of last year. Recovery in adhesives / construction chemicals, plywood and laminates (more dependent on growth in secondary real estate market or refurbishment/renovation demand) is likely to be more visible than in the sanitaryware segment, which derives a high percentage of growth from new construction activities.
  - **Ceramic tiles:** While the ceramic tile category also derives high percentage of growth from new construction activities (which may take time to recover), the branded ceramic tile players are likely to witness impressive volume recovery driven by market share gains from the Morbi players who are focusing incrementally on exports, which has seen exponential surge post Covid.
  - **Plumbing pipes:** Accelerated consolidation in the PVC/CPVC pipe segment post Covid, sustained replacement demand and opening up of opportunities in the underground drainage system and water storage tanks space in India, are likely major catalysts for branded plumbing pipe players in CY21.
  - **Wood panels:** Gradual liquidation of high inventories in real estate sector resulting in higher rate of occupation of premises, and pent-up demand in renovation, would aid recovery in the plywood/laminates segment. MDF category on the other hand is expected to report robust growth in CY21 led by: 1) increasing demand in India and opening up of export opportunities post Covid, 2) increasing replacement to cheaper plywood, and 3) import substitution on expected anti-dumping duty on thin MDF and likely countervailing duty on all MDF imports.
  - **Adhesive/construction chemicals**: Increasing awareness and acceptance, and firm pent-up demand in maintenance and DIY categories in particular would drive decent growth in CY21.
  - **Sanitaryware:** The sanitaryware category, which derives a high percentage growth from new construction activities in the real estate sector, may witness relatively slower recovery than the other building material categories.

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CY21 top building material picks

- **Value picks**
  - Greenply Industries (MTLM)
- **Growth + Value picks (in order of priority)**
  - Greenpanel Industries (GNPL)
  - Prince Pipes (PPF)
  - Century Plyboards (CPBI)
- **Stocks having considerable rerating or turnaround potential in the near term (in order of priority)**
  - Greenpanel Industries (GNPL)
  - Somany Ceramics (SOMC)
  - Greenply Industries (MTLM)
- **Resilient and compounding themes (in order of priority)**
  - Astral Poly Technik (ASTRA)
  - Supreme Industries (SI)
  - Pidilite Industries (PIDI)
  - Kajaria Ceramics (KJC)

Recap: CY20TD – The year that was…

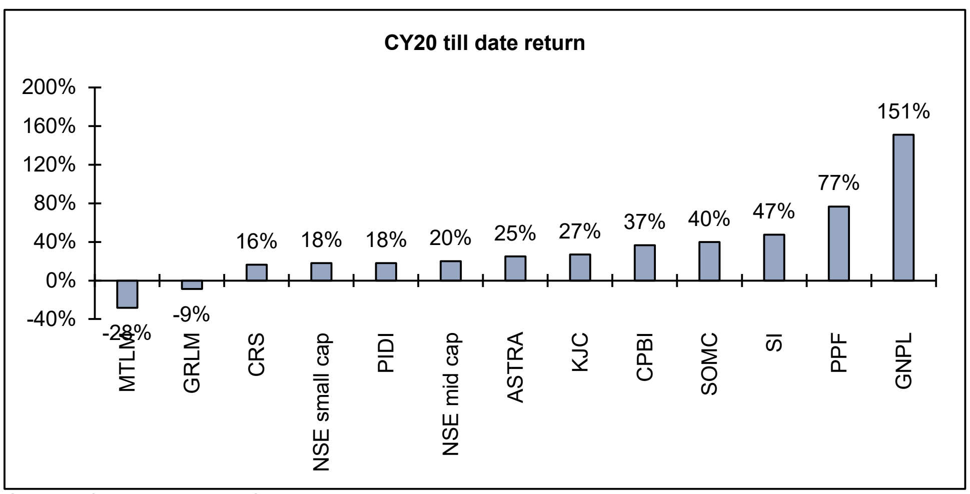
Compared to the NSE MidCap 100 (up 20%) and NSE SmallCap 100 (up 18%) indices, majority of the building material stocks under our coverage outperformed the benchmarks. The notable exceptions however were Greenply Industries (MTLM) and Greenlam Industries (GRLM).

Table 1: Stock performance in CY20-TD

Companies	Price as on 11th Dec'20	Price as on 31st Dec'19	Absolute return (%) in CY20	High of CY20	Change (%)	Low of CY20	Change (%)
Ceramic tiles							
KJC	667	525	27.0%	690	-3%	295	126%
SOMC	298	213	39.9%	313	-5%	77	288%
Sanitaryware							
CRS	3,134	2,692	16.4%	3,324	-6%	2,001	57%
Wood panel							
MTLM	114	159	-28.3%	179	-36%	70	63%
CPBI	220	161	36.6%	237	-7%	95	132%
GRLM	822	902	-8.9%	1,055	-22%	450	83%
GNPL	113	45	151.1%	118	-4%	24	375%
Plumbing pipes							
ASTRA	1,469	1,176	24.9%	1,594	-8%	748	96%
SI	1,698	1,152	47.4%	1,770	-4%	791	115%
PPF	270	153	76.8%	283	-5%	75	259%
Adhesives & Construction chemicals							
PIDI	1,638	1,387	18.1%	1,710	-4%	1,186	38%

Source: Company data, I-Sec research

Chart 1: Relative stock performance



Source: Company data, I-Sec research

CY20: Stock outperformance category wise

Plumbing pipe segment: PPF and SI have significantly outpaced ASTRA w.r.t. stock returns in the last CY with faster volume and earnings recovery led by sharp surge in polymer prices in particular. SI recorded 47% while ASTRA 25% returns CY20-TD. However, PPF rebounded strongly with the stock generating 77% returns for the year.

Ceramics tile segment: Within the ceramic tiles space, PBT declined for both KJC and SOMC by 43% and 122% YoY respectively in 9MCY20 due to Covid-led lockdown impacting first half of the CY. However, by end of the 9MCY20, recovery for branded players was much faster than expected driven by market share gains for KJC and SOMC over the Morbi players with the latter incrementally focusing on exports post Covid. SOMC outpaced KJC over the period due to sharp improvement in its balance sheet (which had deteriorated significantly in the past) post Covid driving major rerating in the stock.

Wood panel segment: Within the wood panel space, Greenpanel Industries (GNPL) stood out with strong returns (151%) for the year driven by impressive growth seen in MDF post Covid led by consumers opting for readymade furniture *vs* customised carpentry. While GRLM and MTLM underperformed the segment due to delay in recovery in plywood and laminates segments, CPBI however recovered faster driven by strong performance in MDF and sudden balance sheet strengthening post Covid. This has helped CBPI record 37% stock return in CY20-TD.

Adhesives and construction chemical space: PIDI recorded 18% returns for the year – which is materially lower compared to some of the other building material companies under our coverage. This was largely driven by Covid-led (material) impact on the PVA segment in the first half of the CY.

Table 2: Volume growth trend in our coverage universe

	FY18				FY19				FY20				FY21		CY2019	CY2020
Volume growth (%)	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**Q3**	**Q4**	**Q1**	**Q2**	**9m**	**9m**
Tiles																
KJC	4%	6%	10%	5%	9%	11%	16%	11%	10%	1%	0%	-19%	-61%	0%	7%	-27%
SOMC	-16%	4%	6%	2%	18%	-4%	8%	-3%	8%	5%	-5%	-29%	-56%	2%	3%	-28%
Sanitaryware																
CRS (%)*	10%	18%	23%	16%	20%	12%	10%	14%	-5%	-1%	1%	-29%	-47%	-3%	3%	-26%
Wood panel																
Plywood																
CPBI	2%	-6%	6%	2%	1%	4%	0%	-7%	-2%	-4%	3%	-11%	-69%	-13%	-4%	-31%
MTLM (excl Gabon)	-9%	10%	11%	10%	53%	40%	32%	40%	4%	2s%	5%	-15%	-65%	-27%	15%	-36%
MDF																
CPBI							94%	30%	39%	23%	4%	5%	-70%	19%	31%	-15%
GNPL	9%	-4%	16%	-24%	-27%	-18%	34%	61%	112%	67%	47%	38%	-54%	31%	80%	5%
Laminates																
CPBI	-18%	24%	8%	-8%	27%	-23%	-8%	7%	7%	22%	6%	-12%	-60%	-22%	12%	-31%
GRLM	6%	9%	11%	7%	-3%	-6%	1%	1%	-12%	4%	8%	-8%	-37%	-7%	-2%	-18%
Plastic piping																
SI	-7%	17%	25%	8%	5%	7%	9%	15%	22%	20%	1%	-7%	-12%	-2%	19%	-7%
ASTRA	1%	27%	28%	10%	15%	5%	4%	23%	41%	27%	15%	-13%	-31%	2%	30%	-14%
PPF					26%	17%	6%	22%	19%	10%	5%	-16%	-27%	2%	17%	-14%
Adhesives & Construction chemicals segment																
PIDI	0%	12%	22%	13%	18%	10%	11%	3%	6%	1%	3%	3%	-58%	4%	3%	-17%
ASTRA*	3%	15%	29%	24%	25%	26%	16%	17%	1%	-10%	2%	-27%	-35%	35%	3%	-9%

Source: Company data, I-Sec research
*As volume data is not available, revenue growth has been taken

Table 3: Snapshot: The numbers in CY20-TD

	KJC			SOMC			CRS		
	9MCY19	9MCY20	Change	9MCY19	9MCY20	Change	9MCY19	9MCY20	Change
Revenue	22,299.8	16,421.1	-26%	13,366.4	9,493.8	-29%	10,076.7	7,537.3	-25%
EBITDA	3,341.4	2,294.9	-31%	1,457.6	516.9	-65%	1,406.0	895.0	-36%
EBITDA margin (%)	15.0%	14.0%	-100bps	10.9%	5.4%	-550bps	14.0%	11.9%	-210bps
PBT	2,661.1	1,525.1	-43%	828.1	(178.8)	-122%	1,273.3	759.7	-40%

	SI			ASTRA			PIDI		
	9MCY19	9MCY20	Change	9MCY19	9MCY20	Change	9MCY19	9MCY20	Change
Revenue	42,386.4	38,591.6	-9%	20,596.0	17,799.0	-14%	54,624.8	43,028.5	-21%
EBITDA	5,421.6	6,463.8	19%	3,310.5	3,105.0	-6%	10,907.5	8,798.9	-19%
EBITDA margin (%)	12.8%	16.7%	390bps	16.1%	17.4%	130bps	20.0%	20.4%	40bps
PBT	3,796.6	4,763.7	25%	2,485.9	2,101.0	-15%	11,034.9	7,639.4	-31%

	CPBI			MTLM			GRLM		
	9MCY19	9MCY20	Change	9MCY19	9MCY20	Change	9MCY19	9MCY20	Change
Revenue	17,462.9	12,446.9	-29%	11,214.9	7,729.4	-31%	9,988.0	7,737.0	-23%
EBITDA	2,490.5	1,567.6	-37%	1,342.2	593.7	-56%	1,228.1	935.4	-24%
EBITDA margin (%)	14.3%	12.6%	-170bps	12.0%	7.7%	-430bps	12.3%	12.1%	-20bps
PBT	1,842.5	1,008.6	-45%	1,007.0	298.1	-70%	756.8	420.8	-44%

	PPF			GNPL		
	9MCY19	9MCY20	Change	9MCY19	9MCY20	Change
Revenue	13,079.7	11,919.1	-9%	5,780.1	5,528.1	-4%
EBITDA	1,761.1	1,695.3	-4%	779.4	833.1	7%
EBITDA margin (%)	13.5%	14.2%	70bps	13.5%	15.1%	160bps
PBT	1,184.2	1,191.5	1%	171.9	(102.8)	-160%

Source: Company data, I-Sec research

Plumbing pipes, tiles and MDF – likely themes to outperform in CY21

Going forward into CY21, branded categories like plumbing pipes, MDF and ceramic tiles are likely to outpace the other building material categories in terms of volume growth recovery. However, categories like adhesives / construction chemicals, plywood and laminates are likely to witness lower growth traction as they are more dependent on growth in the secondary real estate market or refurbishment/renovation demand. The sanitaryware segment, which derives a high percentage growth from new construction activities, is likely to lag growth *vs* other building material categories.

Material outperformance in plumbing pipes, tiles and MDF largely driven by:

- **Plumbing pipe space:** Expectations of accelerated consolidation in the PVC/CPVC pipe segment post Covid, sustained replacement demand and opening up of opportunities in underground drainage segment.
- **Tiles segment:** Impressive market share gains from Morbi players, who are incrementally focusing on exports post Covid.
- **MDF segment:** Higher demand for modular furniture (MF) *vs* organised carpentry and expected increase in MF shipments with India likely to become a manufacturing hub replacing China.

Demand for branded building material categories is driven by: a) new construction activities (to a large extent), b) strong government push towards affordable housing projects, c) renovation/replacement demand, d) shift from unbranded to branded products led by improving compliance, e) increase in occupation of premises, and f) weakening competitive intensity in some categories.

Table 4: Assessment of growth drivers for building material categories: Branded pipe, MDF and ceramic tile segments are likely themes to outperform in the near term

Branded Categories / growth drivers	New construction	Occupation of premises	Renovation / Replacement demand	Improving compliance	Decline in competitive intensity	Affordable housing	Overall score
Plumbing pipes	★	★	★★★	★★	★★★★	★★★★	15
MDF	★	★★★	★★★	★	★★	★★★★	14
Ceramic tiles	★	★★	★★★	★	★★★★★	★	13
Adhesives / Construction chemicals	★	★★	★★★★	★	★★★	★	12
Plywood	★	★★★	★★	★★	★★	★	11
Laminates	★	★★★	★★	★★	★★	★	11
Faucets	★	★	★★★★	★	★★	★	10
Sanitaryware	★	★	★	★	★	★	6

Source: Company data, I-Sec research

Our assessment/rating of each of the above demand drivers for our coverage building material categories suggests that categories like plumbing pipes, MDF and ceramic tiles are likely to outpace other categories in near term (CY21) growth.

CY21 outlook company-wise:

Table 5: Company-wise CY21 outlook in ceramic tile category

Company	Key comments
Kajaria Ceramics	• We expect demand tailwinds (which started from Q2FY21) to sustain in the near to medium term driven by: 1) market share gains from Morbi in the domestic space as they have started focusing more on exports, 2) sustained growth traction in tier-2 and above cities and towns, and 3) gradual opening up of demand in tier-1 and metro cities. • Realisations are also likely to remain firm in H2FY21 largely on the back of stable pricing and better product mix. • Despite likely increase in gas prices, we expect gross/EBITDA margins to improve in H2FY21 largely driven by product mix improvement and partial sustenance of cost rationalisation measures initiated post Covid. • Increasing free cash from operations, muted capex and working capital discipline has led to significant FCF generation, which is likely to continue going forward.
Somany Ceramics	• We expect demand tailwinds which started from Q2FY21 to sustain in the near to medium term driven by: 1) market share gains from Morbi in the domestic space as they focus more on export growth, 2) sustained growth traction in tier-2 and above cities and towns, and 3) recent opening up of demand in tier-1 and metro cities, and 4) sharp curtailment of receivables post Covid. • Realisation is also likely to improve in H2FY21 largely on the back of better product mix. • Despite likely marginal increase in gas prices, we expect gross margins to improve in H2FY21 driven largely by product mix improvement and partial sustenance of cost rationalisation measures initiated post Covid. • Increasing free cash from operations, muted capex and working capital discipline has led to significant FCF generation, which is likely to continue going forward.

Source: Company data, I-Sec research

Table 6: Company-wise CY21 outlook in plumbing pipe category

Company	Key comments
Supreme Industries (SI)	• We expect Supreme Industries (SIL) to gain considerable traction in revenues in the near-to-medium term driven by impressive volume traction in: a) plastic piping segment on the back of likely accelerated PVC/CPVC pipe industry consolidation post Covid and expected decentralisation of its manufacturing footprint, and b) packaging product segment driven by easing competitive intensity in SILPAULIN segment in particular. • Scaling up of EBITDA margins led by superior product mix, intensified focus on the VAP portfolio, cost rationalisation and operating leverage. • Healthy balance sheet, expected improvement in asset turns, incremental capex in higher RoCE-generating segments and likely traction in earnings is expected to drive considerable improvement in overall RoCEs in the near term.
Astral Poly Technik (ASTRA)	• With robust growth outlook (Oct'20 already witnessed 85% YoY growth) led by likely industry consolidation and new product launches (water storage tanks in particular), and expected improvement in margins (driven by product mix improvement), we expect strong growth traction in the standalone pipe segment. • With Oct'20 growth at 55%, recovery in the adhesives segment is likely to sustain amid new product launches. EBIDTA margins, which has recently scaled up in adhesives segment, look sustainable on the back of improving operating leverage.
Prince Pipes and Fittings (PPF)	• With the company expected to witness impressive growth traction in its CPVC pipe segment (post the Lubrizol sourcing tie-up) coupled with its cross-selling opportunities and consolidation in the piping industry, we expect PPF to report strong revenue growth going forward. • EBITDA margin is likely to improve structurally driven by superior product mix, likely price hikes in CPVC pipe segment and manufacturing footprint expansion. • Sharp curtailment in receivables has led to significant improvement in cash conversion cycle.

Source: Company data, I-Sec research

Table 7: Table 8: Company-wise CY21 outlook in sanitaryware category

Company	Key comments
Cera Sanitaryware (CRS)	• CRS is well geared to witness material volume recovery in its bathroom solutions segment aided by: a) considerable balance sheet strengthening post Covid driven by stricter control on receivables, particularly in faucet and tile segments (which is likely to continue in the near term); b) market share gains across the product portfolio driven by import substitution in sanitaryware and faucet segments and Morbi's intensified focus on exports in the tile segment. • Margins too are likely to improve considerably driven by change in sourcing mix in sanitaryware segment in particular, operating leverage, recent price hike in sanitaryware and tile segments, and sustained cost rationalisation measures. • The likely improvement in profitability, increasing FCF from operations (amid muted capex and strict working capital discipline) and sustained focus on outsourcing is likely to push consolidated RoCEs higher in the near term.

Source: Company data, I-Sec research

Table 9: Table 10: Company-wise CY21 outlook in wood panel category

Company	Key comments
Century Plyboards (CPBI)	• We expect the growth momentum to sustain going forward with: 1) recovery in plywood and laminate segments likely to gain traction from Q4CY20; 2) MDF/PB expected to deliver double-digit growth and margin improvement amid buoyancy in demand. • We expect improvement in EBITDA margin driven by superior product mix, operating leverage and cost rationalisation. • Impressive profitability and strict working capital management is expected to drive strong FCF in FY21E, which in turn will be utilised to further pare down debt.
Greenply Industries (MTLM)	• MTLM is well geared to witness smart recovery in plywood volumes aided by: a) considerable balance sheet strengthening post Covid driven by the company's stricter control on receivables (which is likely to continue in the near term); and b) impressive recovery in secondary real estate market post Q2FY21 resulting in higher rate of occupation of premises. • Standalone margins too are likely to improve considerably driven by operating leverage and sustained cost rationalisation measures. • The likely sharp improvement in profitability, aggressive debt reduction (amid muted capex and strict working capital discipline) and sustained focus on outsourcing is likely to push consolidated RoCEs considerably higher.
Greenlam Industries (GRLM)	• With GRLM foreseeing strong market share gain opportunity in both domestic and export laminate markets in near to medium term, we build-in a steady-state recovery in laminates segment going forward. • With benign input costs, improvement in product mix and better operating leverage, we expect EBITDA margin to improve gradually. • Traction in engineered wood flooring and engineered doors is likely to improve gradually while recovery in decorative veneer category is expected to be slower.
Greenpanel Industries (GNPL)	• Delayed greenfield projects of Rushil Décor and CPBI, likely imposition of anti-dumping duty on thin MDF and countervailing duty on all MDF imports and increasing demand for modular furniture (for own consumption and exports) would drive higher utilisation rates for GNPL in the near to medium term. • Recent price hike coupled with operating leverage, recently initiated productivity enhancement and cost control measures, and improving revenue mix (focus on domestic volumes) would drive strong margin recovery in CY21. • Higher RoCE going forward is likely to be driven by higher capacity utilisation, sharp improvement in profitability, higher FCF generation (with no capex over the next two years amid stricter working capital management) and subsequent debt reduction.

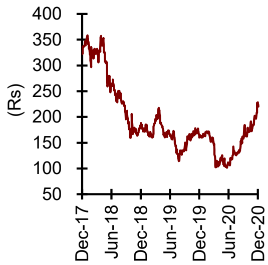
Table 11: Table 12: Company-wise CY21 outlook in adhesives and construction chemicals category

Company	Key comments
Pidilite Industries	• As per our checks, growth momentum has sustained into Q4CY21-TD with Oct'20 and Nov'20 together registering YoY growth. Company sees some green shoots in real estate sector in the emerging markets as well. • Input prices have hardened post Q2CY20 and have accelerated in last 3-4 weeks. However, EBITDA margins are likely to remain firm driven by operating leverage and improving product mix.

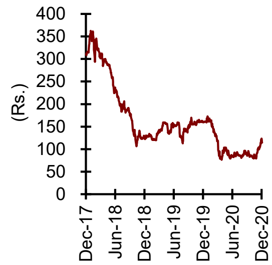
Source: Company data, I-Sec research

Price charts

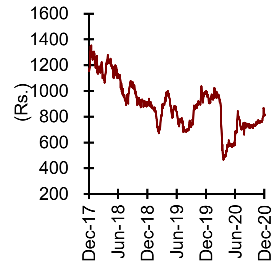
Century Plyboards



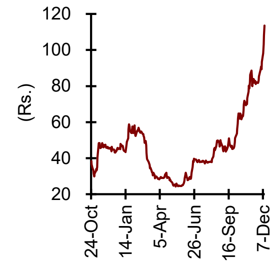
Greenply Industries



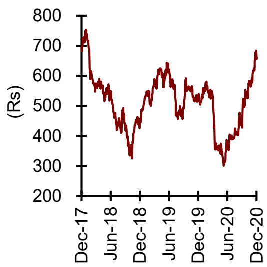
Greenlam Industries



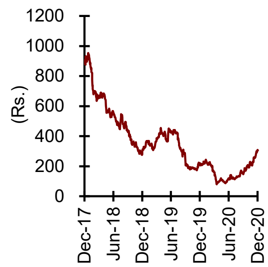
Greenpanel Industries



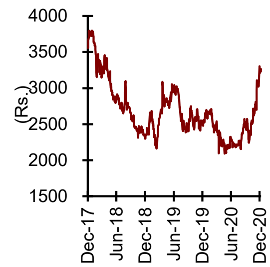
Kajaria Ceramics



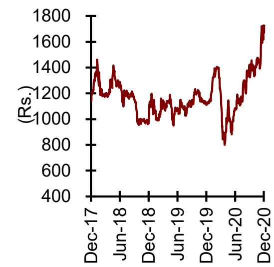
Somany Ceramics



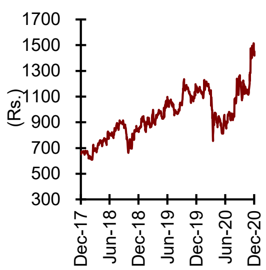
Cera Sanitaryware



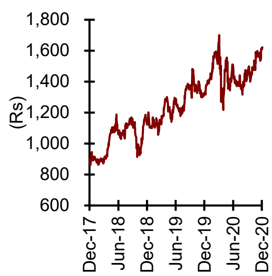
Supreme Industries



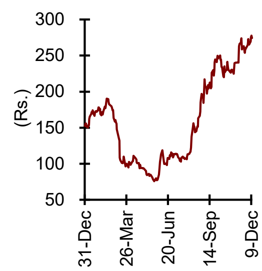
Astral Poly Technik



Pidilite Industries



Price Pipes & Fittings



Source: Bloomberg

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