

December 07, 2024

SECTOR UPDATE | Sector: Building Materials

Building Materials Update

Industry awaits demand recovery, no major improvement yet!

On our visit to Delhi, we interacted with (i) Somany Ceramics, (ii) Hindware Home Innovation, (iii) Greenlam Industries, & (iv) Greenpanel Industries, and following are the KTAs from our interaction:

Somany Ceramics Ltd:

- Demand continues to remain sluggish in domestic markets.
- Company expects demand to revive in coming 4-6months on the back of strong real-estate cycle.
- With new slab plant, company has expanded its product offerings & overall product-mix will improve with the same.
- Exports from Morbi have improved marginally but the overall utilization is ~65% (multi-quarter low).
- Management expects strong demand over 4-5years, and volume growth should be healthy owing to strong demand from real-estate segment & growing application of tiles (counter tops, walls etc.)
- Margins should improve with higher utilization & better product-mix.

Valuation: At CMP, the stock trades at P/E(x) of 19x/16x on F26E/FY27E EPS of Rs36.9/43.6 respectively. We have a BUY rating on the stock with a target price of Rs873.

Hindware Home Innovation Ltd:

- Sanitaryware & faucets demand continues to remain soft.
- In Q2FY25, bathware biz was impacted due to higher discounting and lower sales.
- Company is integrating sanitaryware & faucets sales team, consolidating warehouses for Bathware & Consumer biz which should lead to reduction in expenses.
- For pipes, demand for CPVC has been healthy on the back of strong plumbing demand. PVC pipes should witness better volume off-take with stable resin prices.
- In plastic pipes, management is focusing on value added products which will lead to better profitability.
- New pipe plant of 125,000Te in North will commence operation from Q4FY25, and total capex for the same will be Rs1.8Bn.
- Proceedings from rights issue of Rs2.5Bn will be used for repayment of debt.

Valuation: At CMP, the stock trades at P/E(x) of 56x/27x on FY26E/FY27E EPS of Rs5.0/10.6 respectively. We have a NEUTRAL rating on the stock with a target price of Rs265.

Greenlam Industries Ltd:

- Company expects laminate volume growth of ~12-14%.
- In order to mitigate the higher container cost, Greenlam took price hike of ~2.5-3% in domestic markets.
- At current laminate capacity, peak utilization can be ~110%, next capex for laminates will be brownfield.

Stock picks

Stock	Rating	TP
Somany	BUY	873
Hindware	NEUTRAL	265
Greenlam	ADD	600
Greenpanel	BUY	451

Note: Target and Recommendation as on Result date

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- Wooden floor and door segment performance is improving while decorative veneer segment continues to remain under pressure. The segment should break-even at EBITDA level.
- For plywood, company is following direct dealer model & current pricing is ~3-4% lower Vs peers.
- Timber prices in south have inched upwards & Greenlam has taken price hikes in plywood as well.
- Plywood plant should operate at ~50% in FY26E.
- For particle boards, year-1 utilization should be ~40-45%.
- Capex for H2FY25E will be Rs2.5Bn.
- Current debt of Rs10Bn should reduce FY26 onwards. Of total debt, Rs6.5Bn is for particle boards & Rs1Bn for laminates.

Valuation: At CMP, the stock trades at P/E(x) of 37x/30x on FY26E/FY27E EPS of Rs15.8/19.9 respectively. We have an ADD rating on the stock with a target price of Rs600.

Greenpanel Industries Ltd:

- Demand in Oct'24 was decent while Nov'24 has been weak.
- Peers took price hike of ~3% & now the pricing is similar to Greenpanel.
- Total industry capacity post expansion will be 4.5-4.6mn cbm while domestic demand is ~2.7-2.8mn cbm.
- While timber prices in north remained elevated, south prices inched-up further post Q2FY25.
- VAP constitutes ~50% of product-mix wherein margins are ~2.5% better Vs base products.
- New plant will be commissioned from Jan'25 first week wherein company incurred capex of Rs6Bn and expects A/To of 1.1x and will gradually ramp-up to 1.3-1.4x.
- Higher timber prices & low volume off-take is likely to dent margins.
- Company is eyeing a capex for plywoods in coming 12-15months depending on demand.

Valuation: At CMP, the stock trades at P/E(x) of 24x/20x on FY26E/FY27E EPS of Rs14.5/18.0 respectively. We have a BUY rating on the stock with a target price of Rs451.

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