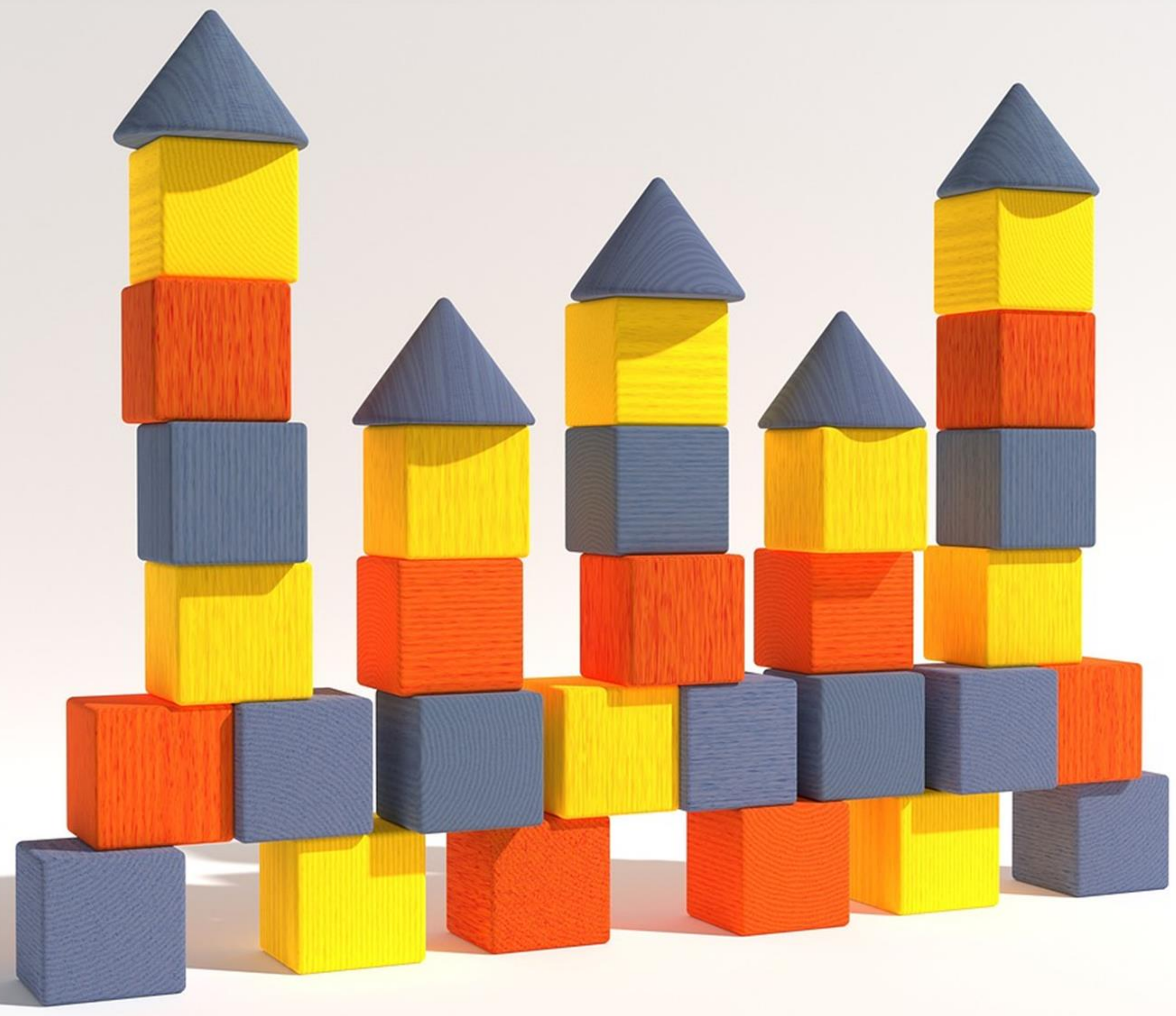

Building Materials

Strong foundations

January 2024

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BUILDING MATERIALS

17 January 2024

Strong foundations

- **India's building materials industry is on a strong footing given the anticipated revival in real estate cycle and rising organised share**
- **Valuations price in the positives for most building material stocks, capping upside potential**
- **We initiate on 3 stocks (APOLP, HINDWARE, PRINCPIP) and assume coverage on 10; HINDWARE, SOMC and MTLM are our only BUYs**

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Positive on industry growth, cautious on valuations: We assume coverage on India's building materials sector with a positive outlook in anticipation of a broad-based revival in the domestic real estate market and a gradual formalisation of the materials sector. Even so, we are cautious on most building material stocks as their valuations look full – our universe is trading at 41x on 1Y forward P/E vs. the 5Y average of 31.7x. We prefer only a few select names, viz. HINDWARE, SOMC and MTLM, where we see strong earnings potential alongside reasonable valuations.

Plastic Pipes – fastest growing segment: We are positive on this space as it is the fastest growing segment in the building materials industry and has lower risk of MTM inventory loss from Q4FY24 onward as global PVC resin prices are trading well below the 20Y avg. However, we have HOLD ratings on the top 5 names – SI (TP Rs 4,300), ASTRA (Rs 2,000), FNXP (Rs 230), PRINCPIP (Rs 800) and APOLP (Rs 650) – on high valuations. Our pipe universe trades at 44.4x 1Y fwd P/E vs. the 5Y avg of 34.1x.

Tiles – a play on rising per capita income: We assume coverage on SOMC (TP Rs 900) with a BUY given expectations of a strong 36.6% earnings CAGR over FY23-FY26 as capacity expansion likely propels volumes and margins improve on a better mix. Valuations too look reasonable at 23.5x 1Y fwd P/E – in line with the 5Y mean. For peer KJC (Rs 1,450), we recommend HOLD as valuations appear high.

Bathware – a premiumisation play: We assign a BUY to HINDWARE (TP Rs 700) as it has successfully arrested its market share decline in bathware, diversified into pipes and small kitchen appliances, and offers a robust 56% EPS CAGR over FY23-FY26E along with reasonable valuations at 28.1x 1Y fwd P/E. For CRS (Rs 8,100), we ascribe a HOLD rating as it lacks growth catalysts amid rising competition and looks richly valued.

Wood Panels – MDF to lead growth but faces supply glut: We assume coverage on MTLM (TP Rs 300) with BUY given likely market share gains in plywood from enhanced capacity, entry into MDF and architectural fittings, and strong execution in an oversupplied MDF industry. CPBI (Rs 800), GREENP (Rs 400) and GRLM (Rs 600) are all rated HOLD given a supply overhang in MDF and particleboard coupled with lofty valuations.

Recommendation snapshot

Ticker	Price	Target	Rating
APOLP IN	694	650	HOLD
ASTRA IN	1,794	2,000	HOLD
CPBI IN	778	800	HOLD
CRS IN	8,056	8,100	HOLD
FNXP IN	236	230	HOLD
GREENP IN	410	400	HOLD
GRLM IN	524	600	HOLD
HINDWARE IN	501	700	BUY
KJC IN	1,399	1,450	HOLD
MTLM IN	243	300	BUY
PRINCPIP IN	712	800	HOLD
SI IN	4,163	4,300	HOLD
SOMC IN	705	900	BUY

Price & Target in Rupees | Price as of 16 Jan 2024

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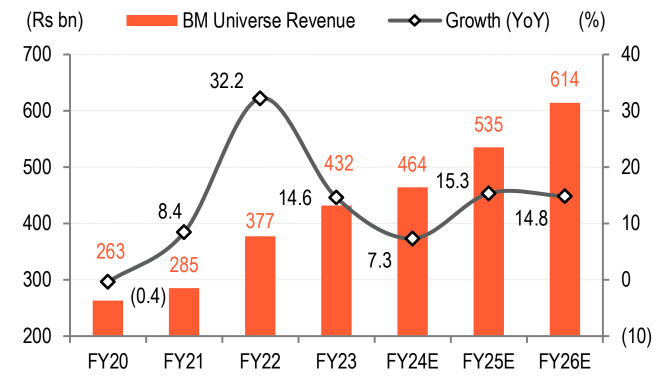
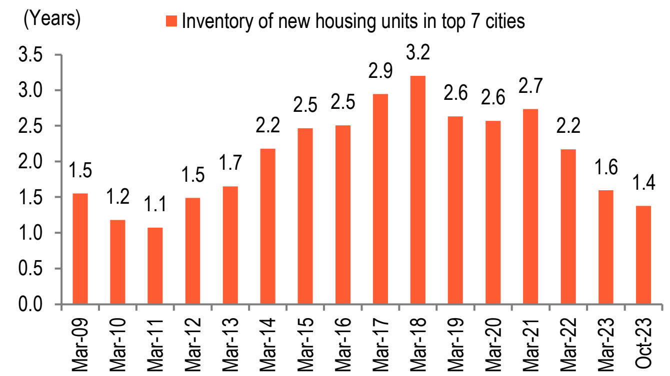


Source: Company, BOBCAPS Research | BM: Building Materials

Fig 2 – ...in anticipation of a broad-based revival in the domestic real estate market



Source: Industry, BOBCAPS Research

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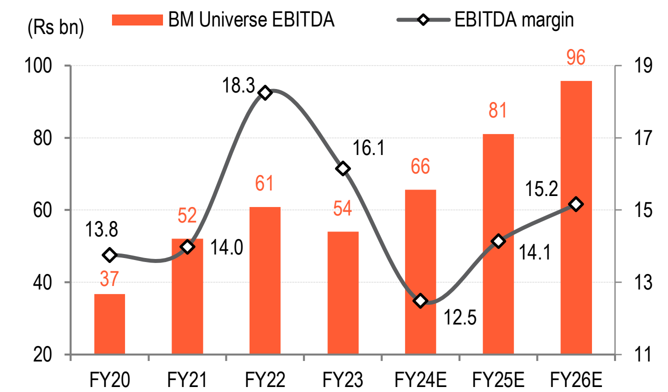
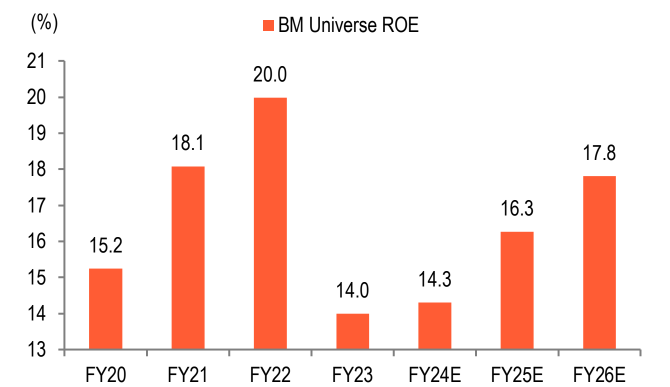


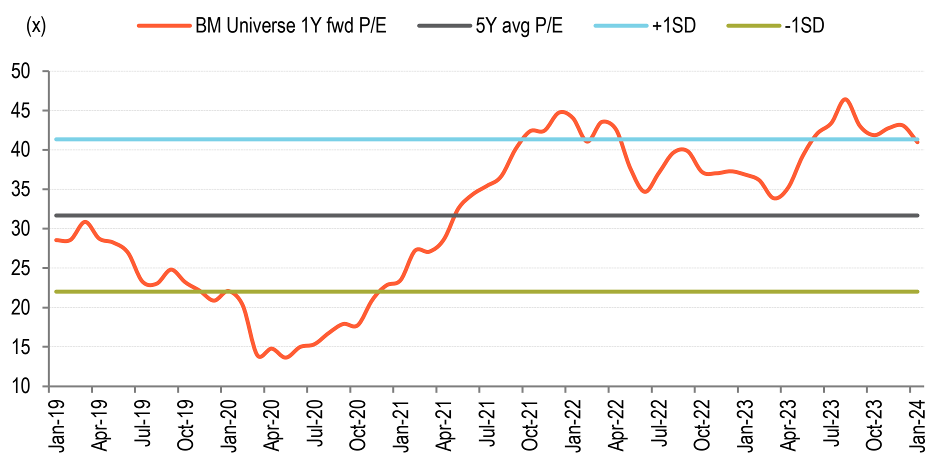
Source: Company, BOBCAPS Research

Fig 4 – ROE is likely to improve over FY23-FY26E on higher operating margins and better asset utilisation



Source: Company, BOBCAPS Research

Fig 5 – Most BM stocks are trading at a steep premium to their historical mean; we prefer select names, viz. HINDWARE, SOMC and MTLM



Source: Bloomberg, BOBCAPS Research

Building materials – Key industry drivers

The Indian building materials sector navigated a difficult phase during FY16-FY21 owing to a slow real estate cycle, various structural policy reforms (demonetisation and GST), tighter lending to the housing market in the wake of NBFC-related turmoil, and finally the Covid pandemic. We anticipate better times ahead as the recent uptrend in India's real estate sector is anticipated to continue for the next few years (prior upcycles have lasted 4-5 years), in turn spurring demand for building material products, where we are also seeing growing formalisation of the market.

Fig 6 – Demand for building materials highly linked to real estate activity

5Y CAGR (%)	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23
Sales volume of new housing units in top 7 cities	14	5	(4)	(4)	(7)	(2)	(1)	(4)	4	12
Sales volume of top 5 plastic pipe companies	18	14	11	10	9	9	9	5	5	7
Sales volume of top 3 tiles companies	16	12	9	6	7	7	2	3	5	6
Sales volume of top plywood company	NA	10	6	4	6	5	3	2	7	11

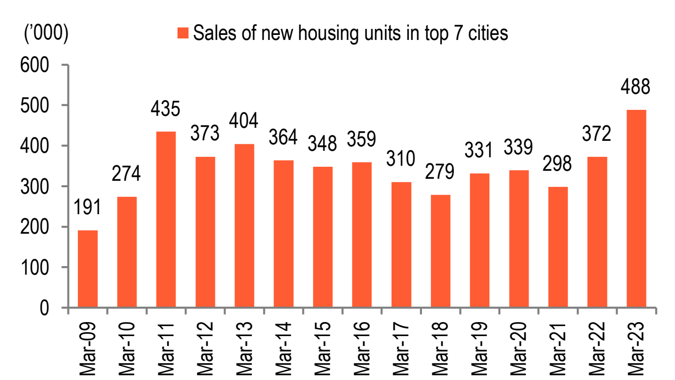
Source: Industry, Company, BOBCAPS Research

Anticipated revival in real estate market

We are positive on India's building materials sector over the medium term in anticipation of a broad-based revival in the domestic real estate market. Urban real estate, as represented by the top 7 cities, has been in a consolidation phase for 12 years over FY11-FY22 and has started showing initial signs of recovery. Industry data indicates that the sale of new housing units has risen 31% YoY in FY23 and 13% YoY in 7MFY24 (Apr-Oct'23), reaching a record high. As a result, new housing unit inventory in the top 7 cities has fallen to a 12-year low of 1.4 years in October 2023.

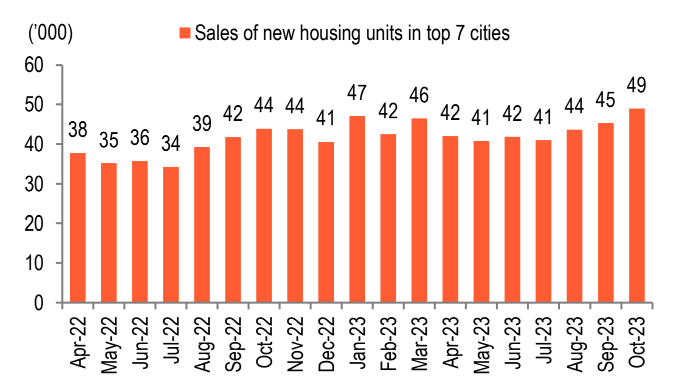
The vacancy rate in commercial office space has also hit a multi-year low of 15.6% in the top 7 cities during Q2FY24 vs. the last 10-year average of 17.8%. Further, the hotel sector's occupancy rate is forecast to improve to a 17-year high of 70% in FY24 as compared to the last 10-year average of 60% (source: Hotelier).

Fig 7 – Sales of new housing units in top 7 cities at record high in FY23



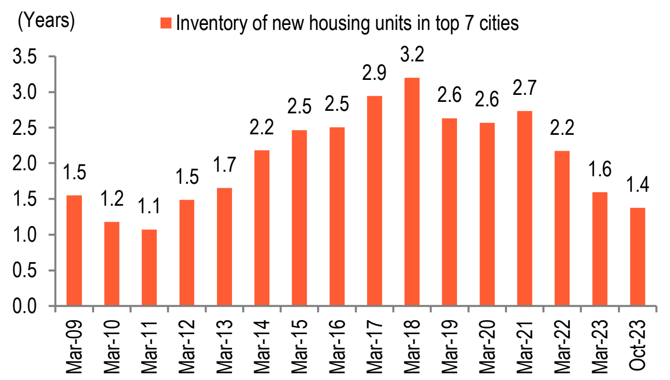
Source: Industry, BOBCAPS Research

Fig 8 – Demand for new housing grew at strong 13% YoY in 7MFY24 over a high base



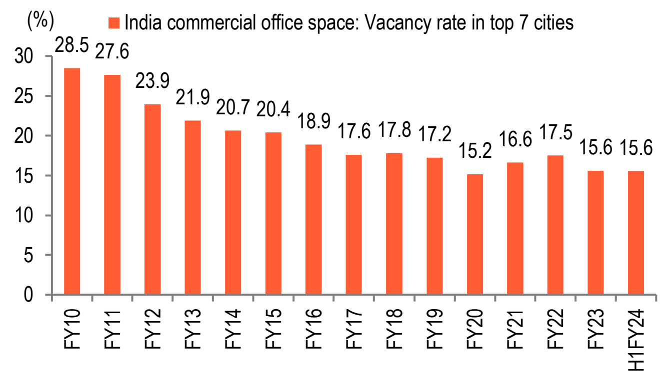
Source: Industry, BOBCAPS Research

Fig 9 – Inventory of new housing units in top 7 cities has fallen to 12Y low



Source: Industry, BOBCAPS Research

Fig 10 – Vacancy rate in commercial office space in top 7 cities has reached a multi-year low in H1FY24



Source: Industry, BOBCAPS Research

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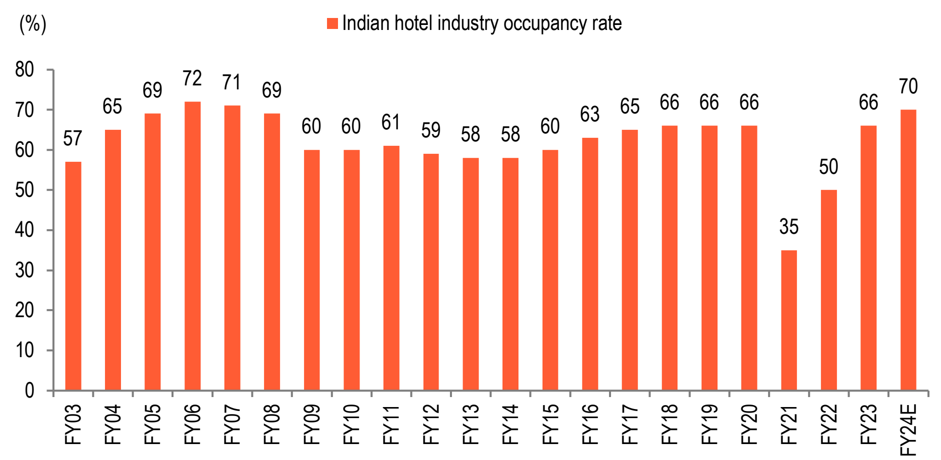

Source: Hotelier, BOBCAPS Research

Gradual shift from unorganised to organised players

Large, organised building material companies are steadily gaining market share from informal players due to the rising footprint of prominent real estate developers in urban cities, a growing consumer preference for branded, premium products, and a narrowing of the price gap with unorganised players after goods & services tax (GST) rollout.

In addition, major players have been able to undertake aggressive capex on account of their large scale of operations and strong balance sheets, enabling them to expand existing operations and also tap adjacent categories by leveraging their existing distribution network and brand equity. For instance, ASTRA has entered infrastructure pipes, tanks, adhesives, bathware and paints; KJC has forayed into bathware and wood panels; and GRLM has ventured into the plywood and particleboard segments.

Industry growth outlook

Within the building materials universe, we believe the plastic pipe business has a relatively superior business risk profile, followed by bathware, tiles and wood panels. The major pipe companies have registered better volume growth than other categories during the recent weak real estate cycle due to a diverse end-user base, besides demonstrating better pricing discipline, enjoying low substitution risk from higher-cost steel and cement pipes, seeing limited linkage to the global economy due to a low reliance on imports, and delivering a superior return ratio profile on the back of low capex intensity.

Fig 12 – Building materials: Segment risk profile analysis

Particulars	Plastic Pipe	Tiles	Bathware	Wood Panel	Remarks
Market size (Rs bn) - FY23	470	580	180	500	Larger the better
Expected growth rate (%)	10-12	8-10	8-10	8-10	Higher the better
Replacement share (%)	35	10-15	20	High	Higher the better
Organised share (%)	67	50	65	35	Higher the better
Global linkage	Almost nil	High	Almost nil	Very high	Lower the better
Import risk	Almost nil	Almost nil	Low	High	Lower the better
Segment risk profile ranking	1	3	2	4	Lower the better

Source: Industry, BOBCAPS Research

Fig 13 – Relative valuation of our building materials universe

Company	Revenue (Rs bn)	Historical (%)			Future (%)			Valuation		
		Revenue	EBITDA	Avg. ROIC	Revenue	EBITDA	Avg. ROIC	P/E (x)		
	FY23	4Y CAGR (FY19-FY23)		FY19-FY23	3Y CAGR (FY23-FY26E)		FY24E-FY26E	FY25E	FY26E	5Y avg.
Pipes										
SI	92	13.2	11.2	38	12.8	21.4	43	42.2	36.4	27.8
ASTRA	52	19.8	20.4	31	14.5	19.5	31	67.5	57.2	66.2
FNXP	44	9.2	(14.3)	44	8.1	42.3	38	23.0	20.8	19.0
PRINCPIP	27	14.8	9.1	26	10.0	30.1	25	29.3	23.7	29.5
APOLP	9	26.1	14.8	16	16.7	34.3	16	36.4	30.1	34.8
Average		**14.3**	**7.5**	**31**	**12.2**	**25.0**	**31**	**39.7**	**33.6**	**35.5**
Tiles										
KJC	44	14.0	9.7	25	12.4	19.9	28	41.3	35.9	37.7
SOMC	25	13.1	4.5	12	9.1	21.8	17	22.4	15.8	23.1
Average		**13.7**	**8.4**	**19**	**11.2**	**20.3**	**23**	**31.9**	**25.8**	**30.4**
Bathware										
CRS	18	10.1	13.9	33	11.7	12.7	54	36.9	32.5	31.5
HINDWARE	29	19.8	25.7	19	9.5	24.6	20	25.9	16.6	28.7
Average		**15.7**	**18.7**	**26**	**10.4**	**18.4**	**37**	**31.4**	**24.6**	**30.1**
Wood Panel										
CPBI	36	16.9	23.8	26	13.4	11.7	22	40.7	32.5	25.5
GRLM	20	16.5	13.3	19	20.7	27.0	17	36.0	27.6	28.6
MTLM	18	9.3	5.3	21	18.1	24.8	16	24.2	16.8	23.8
GREENP	18	43.8	75.1	18	7.1	5.2	22	24.0	16.8	16.1
Average		**18.6**	**26.5**	**21**	**14.9**	**14.5**	**19**	**31.2**	**23.4**	**23.5**

Source: Company, BOBCAPS Research

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Pipes: Fastest growing along with superior return ratios

Indian market has grown at 9.7% over FY15-FY23

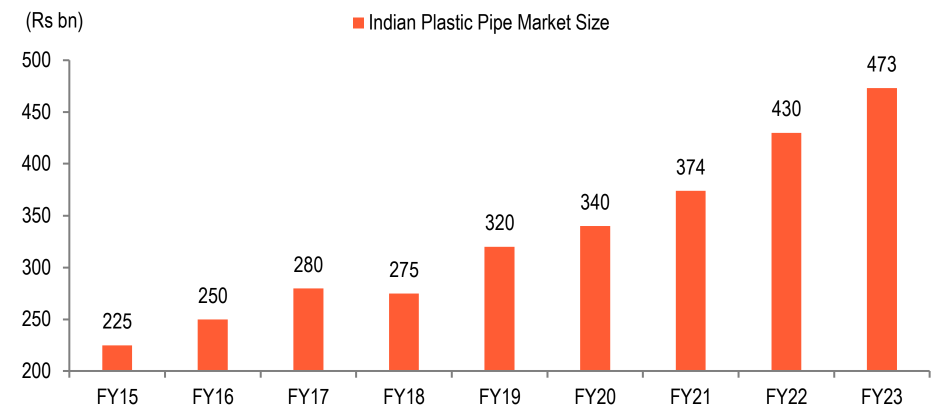
India's plastic pipe industry is estimated at ~Rs 470bn in FY23 and has grown at 9.7% CAGR over FY15-FY23. Organised players are estimated to command 67% share in FY23. By end use, plumbing & sewerage pipes account for roughly 55% of the industry's volumes, followed by agriculture pipes (35%), and infrastructure & industrial pipes (10%).

We expect the infrastructure & industrial pipe segment to grow the fastest due to high government spending on the Jal Jeevan scheme (to provide drinking water connections in rural areas) and urban infrastructure, along with low penetration of plastic pipes in water supply management, which is still dominated by expensive cement and steel pipes.

Expect 10-12% volume CAGR over FY23-FY28E

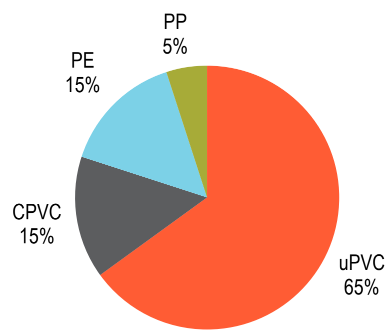
We estimate that plastic pipe industry volumes will grow at 10-12% over the next 3-5 years considering affordable resin (key input) prices, a likely revival in the urban real estate cycle, and the government's strong focus on raising farm income and driving infrastructure development.

Fig 14 – India's plastic pipe industry has grown at 9.7% CAGR over FY15-FY23



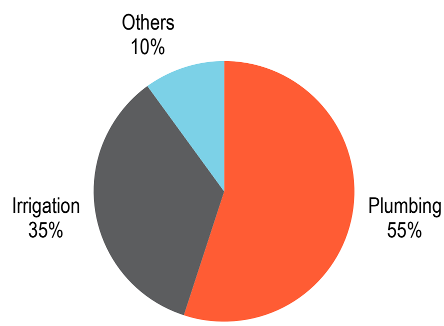
Source: Industry, BOBCAPS Research

Fig 15 – Plastic pipe industry breakup by polymer



Source: Industry, BOBCAPS Research | CPVC: Chlorinated Polyvinyl Chloride; PE: Polyethylene; PP: Polypropylene; uPVC: Unplasticised Polyvinyl Chloride

Fig 16 – Plastic pipe industry breakup by end user



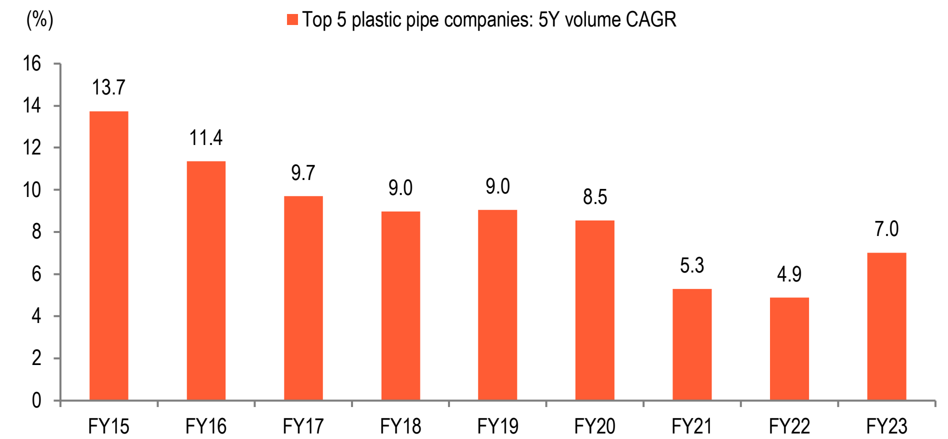
Source: Industry, BOBCAPS Research

Positive outlook given real estate revival and low PVC resin prices

Sale volumes of the top 5 listed plastic pipe companies clocked an 8.4% CAGR over FY15-FY23 versus mid-single-digit growth for the industry due to market share gains from unorganised players along with exposure to diverse end user industries beyond real estate, such as agriculture and infrastructure.

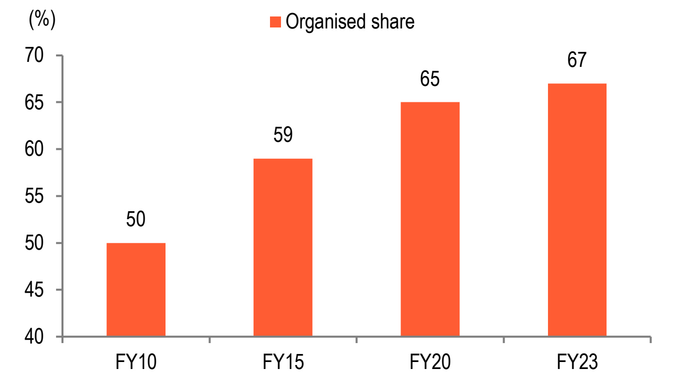
The top 5 also reported healthy return ratios during the real estate downturn of FY15-FY21 on account of better pricing discipline facilitated by the dominance of organised players in the industry. Although operating margins have softened in FY23 due to impact of MTM inventory loss on account of steep decline in polymer prices, we expect the sector to post healthy margins from Q4FY24 onward given the low risk of mark-to-market (MTM) inventory losses as global PVC resin prices are now trading well below the 20-year average.

Fig 17 – Volumes of top 5 plastic pipe companies grew at healthy 8.4% CAGR for FY15-FY23 despite weak real estate cycle



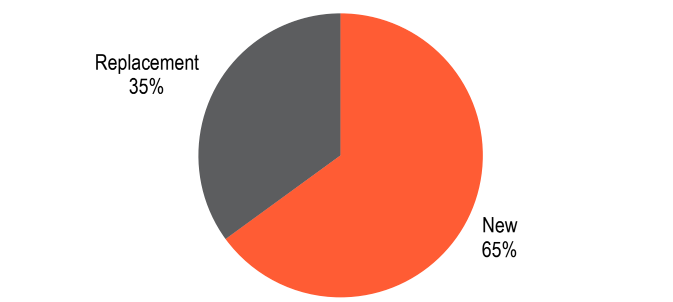
Source: Company, BOBCAPS Research

Fig 18 – Market seeing gradual shift from unorganised to organised players



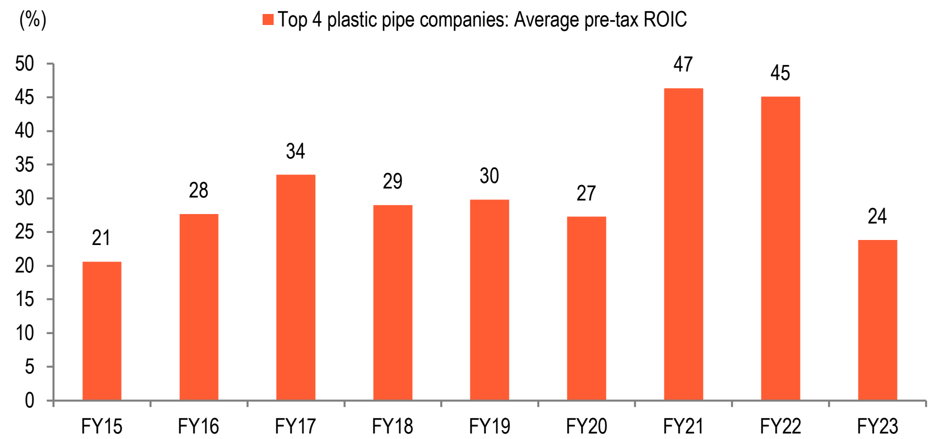
Source: Industry, BOBCAPS Research

Fig 19 – High share of replacement demand in plastic pipe industry driving volume growth



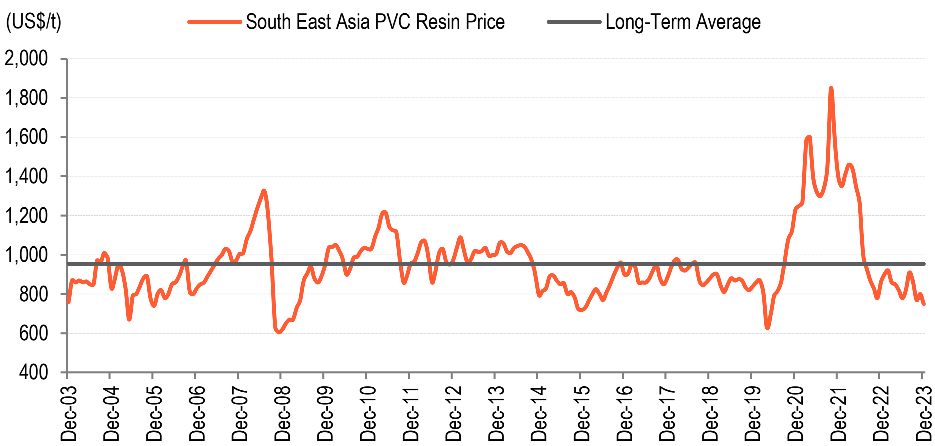
Source: Industry, BOBCAPS Research

Fig 20 – Top 4 saw healthy avg. pre-tax ROIC of ~30% even amid real estate slump



Source: Company, BOBCAPS Research

Fig 21 – Favourable PVC resin price trends bode well for margins



Source: Bloomberg, BOBCAPS Research

Fig 22 – Indian plastic pipe market size and margin profile

Company	Revenue (Rs bn)	Market Share (%)	5Y Revenue CAGR (%)	EBITDA margin (%)		
	FY23	FY23	FY18-FY23	FY21	FY22	FY23
Supreme Industries (SI) - Pipe Segment	60	12.8	17.2	22.2	18.0	13.9
Ashirvad Pipes - Pipe Segment	50*	10.5	15.6	20.8	18.0	NA
Finolex Industries (FNXP) - Pipe Segment	41	8.7	12.9	11.1	7.8	4.8
Astral (ASTRA) - Pipe Segment	37	7.9	19.4	21.9	18.6	16.8
Prince Pipes (PRINCPIP)	27	5.7	15.6	17.8	15.8	9.3
Sudhakar group	13	2.8	10.3	17.0	11.5	8.1
Vectus group	11	2.3	13.9	11.9	4.9	(7.6)
R C Plasto Tanks and Pipes	10*	2.1	24.8	14.6	11.6	NA
Apollo Pipes (APOLP)	9	1.9	26.3	14.3	11.9	7.4
Hindware - Pipe Segment	8	1.7	NA	8.7	7.6	5.6
Kriti Industries	7	1.5	10.4	11.4	7.2	(1.1)
Texmo Pipes	6	1.3	20.6	6.8	6.2	(5.0)
Others	193	40.7	-	-	-	-
Total	**473**	**-**	**-**	**-**	**-**	**-**

Source: Company, BOBCAPS Research | *BOBCAPS estimates

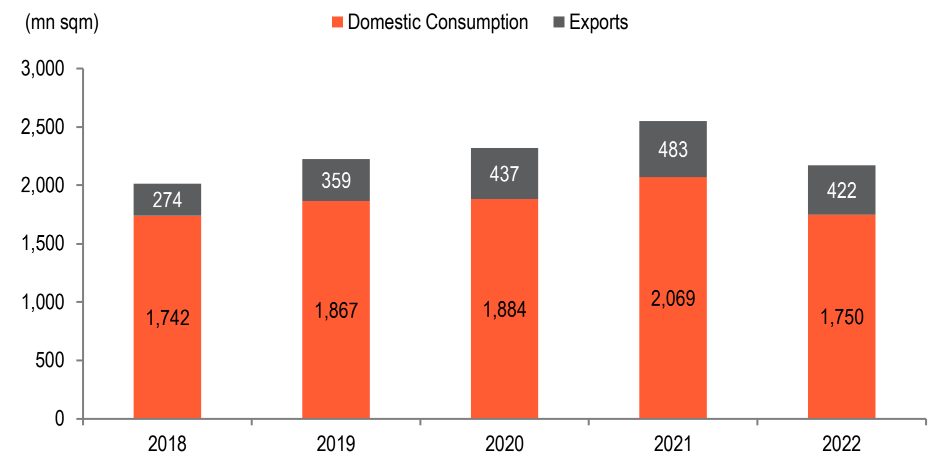
Tiles: Rising incomes to fuel domestic branded market

Industry volumes grew at 3.4% CAGR over CY18-CY22

India's tiles industry market size is estimated at Rs 580bn in FY23. As per World Ceramic Review, India's industry volumes logged a 3.4% CAGR over CY18-CY22 (vs. -1% CAGR for the world) mainly driven by a surge in exports (+11.4%), whereas domestic tile consumption has been relatively flat (+0.1%) due to weak consumer sentiments.

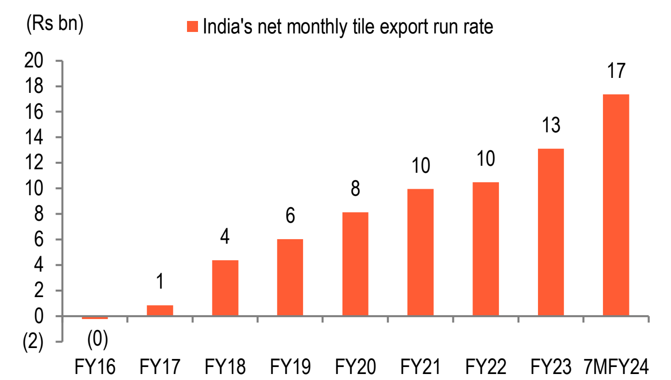
Tile share in Indian flooring material has been increasing due to a lower cost of installation & maintenance, durability, aesthetic appeal and improving affordability. The city of Morbi (Gujarat) accounts for ~70% of ceramics manufactured in India due to easy availability of raw material (natural gas, clay, quartz and feldspar). The other major tile manufacturing clusters in India are Firozabad (Uttar Pradesh), Bhiwadi (Rajasthan), Chennai (Tamil Nadu), and Andhra Pradesh.

Fig 23 – India's tile industry volume growth is being driven by exports



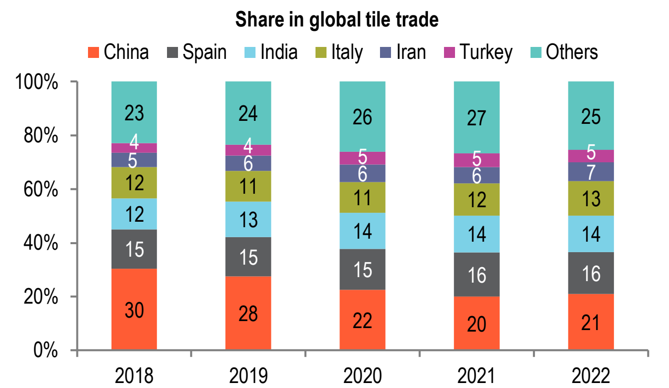
Source: World Ceramic Review, BOBCAPS Research

Fig 24 – India has moved from net tile importer in FY16 to second largest exporter...



Source: Ministry of Commerce, BOBCAPS Research

Fig 25 – …due to high duty imposed on Chinese tiles by developed countries

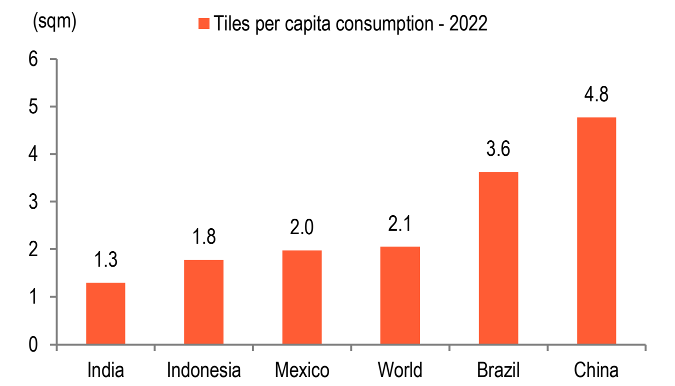


Source: World Ceramic Review, BOBCAPS Research

Expect 6-8% volume CAGR over FY23-FY28E

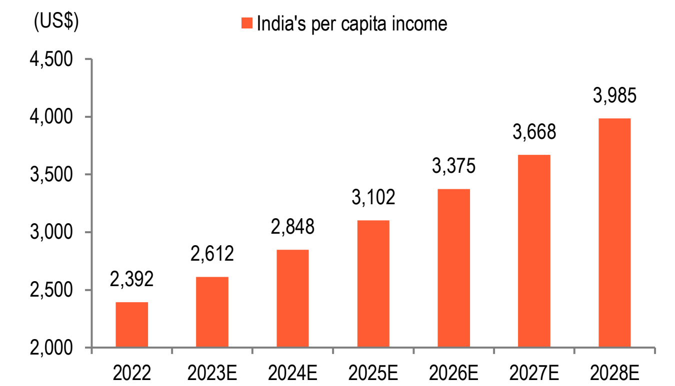
At 1.3sqm in CY22, the per capita consumption of tiles in India is significantly lower than the world average of 2.1sqm. In China, per capita tile consumption doubled from 1.4sqm to 3sqm over seven years (CY04-CY11) and redoubled to 6.6sqm over CY11-CY17 due to rising income levels. For India, based on expectations of a gradual uptick in real estate activity (roughly 80-85% of tile demand comes from new construction) and growing per capita income, we forecast a 6-8% CAGR in tile demand over the next five years.

Fig 26 – India's per capita tile consumption is well below the world average…



Source: World Ceramic Review, BOBCAPS Research

Fig 27 – …but set to increase over the long term on rising per capita income



Source: IMF, BOBCAPS Research

Fig 28 – China's per capita tile consumption has been spurred by rising income levels

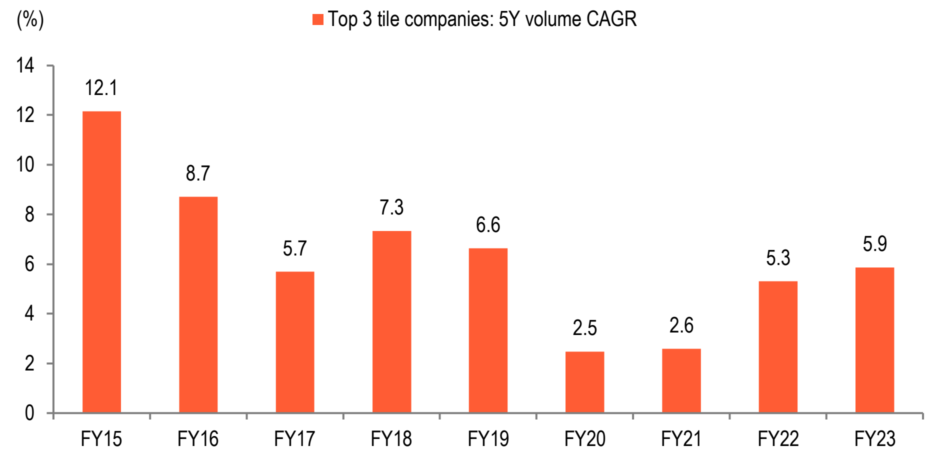
Particulars	2002	2007	2012	2017	2022
China per capita income (US$)	1,141	2,691	6,283	8,760	12,814
China tiles per capita consumption (sqm)	1.2	2.1	3.1	6.6	4.8

Source: World Ceramic Review, BOBCAPS Research

Organised players gaining market share

The share of organised players in the domestic tiles market is estimated at 50% and is growing gradually. The top 3 tile manufacturers clocked a 5.9% volume CAGR (FY19-FY23) vs. 3.4% for the industry (CY18-CY22). This outperformance was aided by a narrowing of the price differential with informal players post GST implementation, from >35-40% to 15-20%, and a focus on value-added product launches (such as glazed vitrified tiles or GVT and large-slab tiles) via investments in the latest technology and higher brand spending. Further, diversification of the manufacturing base and an increasing distribution reach in semiurban and rural areas have reduced delivery time to dealers.

Fig 29 – Top 3 Indian tile manufacturers consistently outpacing industry volumes



Source: Company, BOBCAPS Research

Large players focus on domestic market; Morbi cluster targets exports

Large companies are mainly focusing on the domestic branded tile market as it offers better margins and entails lower credit to local distributors in comparison to export orders. Small and midsize manufacturers based out of Morbi (Gujarat) are mainly focusing on exports of low-value-added products given the benefit of anti-dumping duty imposed on Chinese tiles by many countries and rising costs of production in the west.

We note that during times of weak tile exports, the large, organised players witness margin pressure due to stiff competition from Morbi players who divert their excess capacity to the domestic market at a cheaper price to cover their fixed manufacturing cost.

Fig 30 – Indian tile sector market size and margin profile

Company	Revenue (Rs bn)	Market Share (%)	5Y Revenue CAGR (%)	EBITDA Margin (%)		
	FY23	FY23	(FY18-FY23)	FY21	FY22	FY23
Kajaria Ceramics (KJC)	39.5	9.4	9.0	18.5	16.5	13.5
Somany Ceramics (SOMC)	21.5	5.1	7.9	11.7	9.9	7.6
HR Johnson	20.8	4.9	6.6	8.7	10.6	7.3
Simpolo Group	14.5	3.5	15.8	14.3	16.9	17.0
Varmora Group	14.0	3.3	15.8	10.9	10.6	11.0
Asian Granito - Tiles	12.8	3.1	5.0	10.5	7.9	(4.4)
R.A.K. Ceramics India	9.5	2.3	8.8	3.1	8.9	7.5
Sunshine Tiles Company	7.4	1.8	8.4	8.7	8.8	8.6
Orient Bell	7.1	1.7	1.5	6.8	8.7	6.7
Exxaro Tiles	3.2	0.8	7.6	18.9	14.8	10.4

Source: Company, BOBCAPS Research

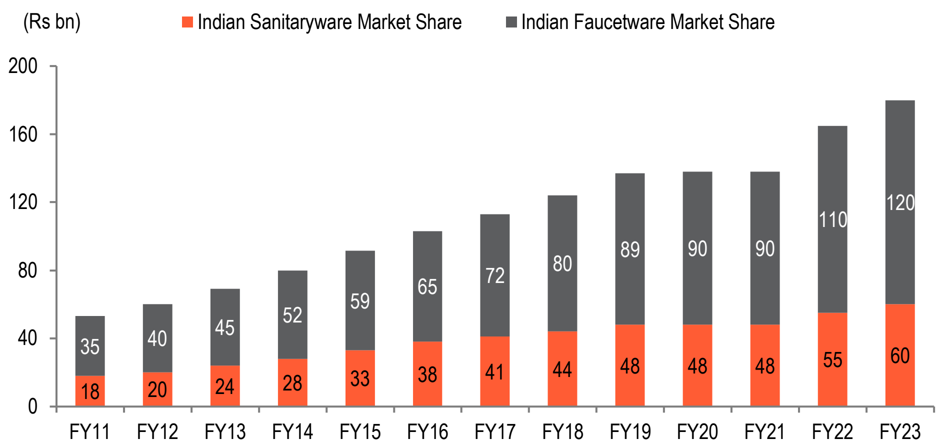
Bathware: Premiumisation trends

Expect 8-10% growth over FY23-FY28E

The Indian bathware market is estimated at Rs 180bn in FY23 (sanitaryware: Rs 55bn; faucets: Rs 110bn) and has posted a 7.9% CAGR over FY15-FY23, with sanitaryware logging a 6% CAGR and faucets 9%. New real estate activities and demand for high-end products are the key drivers for bathware products in India.

We expect premiumisation trends, an anticipated revival in real estate activity and a rising share of replacement demand to support 8-10% growth in the bathware industry over the next five years. The sanitaryware segment is likely to grow at a slower rate compared to faucets as it is highly penetrated, but we still see good growth visibility over the long term as replacement demand accounts for only 15-20% of the domestic sanitaryware market as compared to 80% in developed countries.

Fig 31 – Indian bathware market expected to grow at 8-10% over FY23-FY28E



Source: Industry, BOBCAPS Research

Highly organised market

Organised sanitaryware market share is estimated at 75% and the top 4 players (Jaquar, Hindware, Parryware or ROCA, CRS) enjoy ~60% share as of FY23. In faucets, the organised market share is estimated at 60%, of which top player Jaquar enjoys a dominant ~33% whereas CRS, Parryware and HINDWARE have 4-5% each.

Organised players have gained ground in the bathware space as incumbents continued to widen their product portfolio (Jaquar entered sanitaryware; CRS, HINDWARE and Parryware forayed into faucets) and expand distribution, while a slew of reputed building material companies entered the segment over the past decade. These include Asian Paints, KJC, SOMC, Prism Johnson, ASTRA, PRINCPIP and Asian Granito. Further, product launches in the premium & mass-premium category and high branding spends have served to cement their dominance over the informal sector.

Fig 32 – Indian bathware sector market size and margin profile

Company	Revenue (Rs bn)	Market Share (%)	5Y Revenue CAGR (%)	EBITDA margin (%)		
	FY23	FY23	FY18-FY23	FY21	FY22	FY23
Jaquar	50	27.7	16.2	13.4	14.6	NA
Parryware	17	9.3	16.2	12.3	15.3	16.7
Cera Sanitaryware (CRS)	16	8.7	11.3	12.9	16.1	16.3
Hindware	15	8.5	8.0	9.8	10.0	12.6
Kohler	15	5.6	13.8	12.8	10.2	9.7
Lixil Corporation (Grohe, American Standard)	5	2.8	NA	NA	NA	NA
Asian Paints	4	2.4	21.9	NA	NA	NA
Kajaria Ceramics (KJC)	3	1.8	17.8	11.6	13.2	9.0
Somany Ceramics (SOMC)	2	1.4	10.0	NA	NA	NA
Others	57	31.9	-	-	-	-
Total	**180**	**-**	**-**	**-**	**-**	**-**

Source: Company, BOBCAPS Research

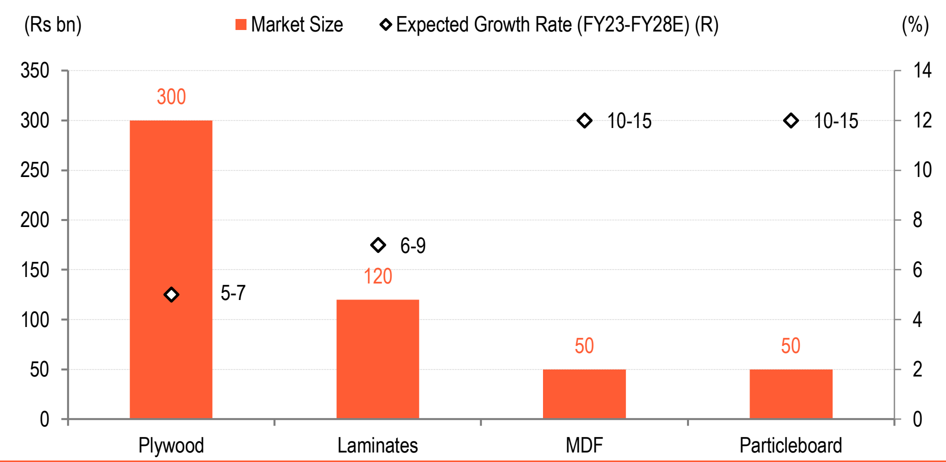
Wood panels: MDF to lead the way

Indian market to grow at 8-10% over FY23-FY28E

India's wood panel market has grown in mid-single-digits over the past five years due to weak real estate activity, reaching an estimated Rs 520bn in FY23. We model for stronger 8-10% growth over the next five years in anticipation of a pickup in the real estate cycle.

Plywood is the largest segment in the wood panel industry, accounting for 55% share, followed by laminates (22%), MDF (11%), particleboard (9%) and veneer (4%). We believe MDF and particleboard will grow the fastest at 10-15% over five years and plywood the slowest at 5-7% due to its substitution by cheaper readymade furniture made of MDF and particleboard.

Fig 33 – Indian wood panel market to grow at 8-10% over FY23-FY28E



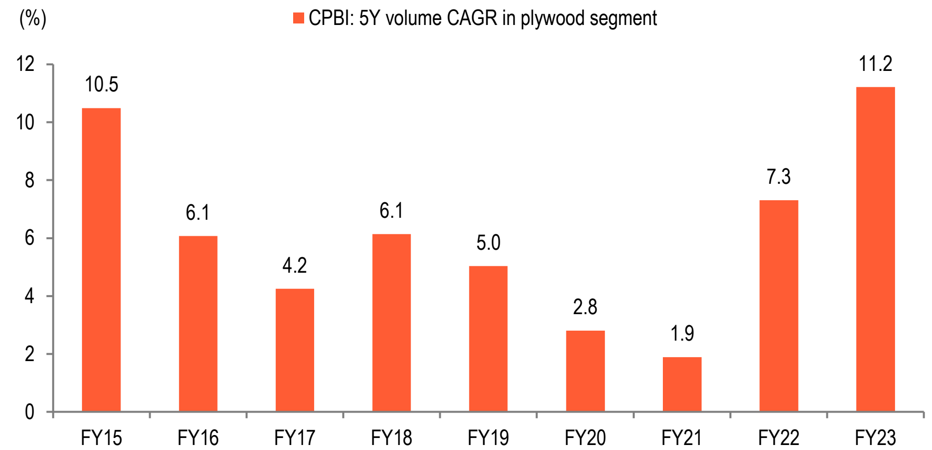
Source: Industry, BOBCAPS Research

#1 Plywood: Focus on mass-premium and premium range

India's plywood market is estimated at Rs 300bn in FY23 and can be divided into three categories – low-end (price Rs 40-70/sq ft), mass-premium (Rs 70-100/sq ft) and premium (Rs 100-170/sq ft). The share of the organised sector is estimated at only 25%, wherein the top two players together command 60-65% share.

Large, organised players initially forayed into the premium segment, but over the past decade began penetrating the upper end of the mass-premium segment and widening manufacturing & distribution to glean volume gains amid a soft property cycle and capture market share from regional players. Large players are not present in the low-end plywood market as they cater to this segment through MDF and particleboard products, which are cheaper and offer better quality.

Fig 34 – Large players gaining strong traction in mass-premium category



Source: Company, BOBCAPS Research

#2 MDF: Large opportunity in readymade furniture

India's MDF market is estimated at Rs 50bn in FY23 and is projected to grow at the fastest annual rate of 10-15% in the wood panel space over the next five years due to (a) a rising preference for readymade furniture, where MDF is favoured over plywood due to its low cost and ability to be easily moulded, machined and painted; and (b) a low volume share of the material in India's interior wood panel space at 30% compared to the world's 70% (FY23).

The domestic MDF market is highly organised with the top four players accounting for ~68% of industry capacity in FY23. This is mainly because the business is capital-intensive in nature in comparison to the plywood and laminate product category.

Fig 35 – MDF sector is organised as it is capital-intensive

Company	MDF Capacity (mn cbm)			
	Old	New		Total
	FY23	FY24E	FY25E	FY25E
Greenpanel (GREENP)	0.66	-	0.23	0.89
Century Ply (CPBI)	0.20	0.12	0.31	0.63
Action Tesa	0.37	0.22	-	0.59
Rushil Décor	0.33	-	-	0.33
Greenply (MTLM)	0.00	0.24	-	0.24
Others	0.74	NA	NA	0.74
Total	**2.30**	**0.58**	**0.54**	**3.42**

Source: Company, BOBCAPS Research

We highlight that the MDF EBITDA margin for GREENP – the largest organised player – has plummeted from 33.7% in Q4FY22 to 18.7% in Q1FY24 due to a steep increase in cheap MDF imports (+138% YoY in 7MFY24) amid weak global demand, along with a rise in local timber prices. However, despite a sharp increase in domestic capacity in H1FY24 and high wood cost inflation, GREENP's EBITDA margin improved slightly to 19.4% in Q2FY24 as domestic players are prioritising pricing discipline by sacrificing market share.

Based on data for the top 5 players, we believe utilisation for the Indian MDF industry will drop from 81% in FY23 to 61% in FY25 due to a scale-up in capacity from 2.3mn cbm to over 3.5mn cbm, which would keep the industry margin under pressure over the next few quarters. We expect industry fundamentals to start improving from FY26 onwards and model for an increase in industry operating rate from 61% in FY25 to 69% in FY26 on the assumption that net imports remain stagnant at the current level and domestic MDF volumes post a 15% CAGR over FY23-FY26.

Fig 36 – Indian MDF industry margin to remain under pressure near term on supply glut

Top 5 players	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
MDF capacity (cbm)	0.51	0.51	0.51	0.60	0.97	1.20	1.20	1.38	1.56	2.04	2.57	2.68
Capacity utilisation (%)	78	94	97	89	64	67	73	87	81	65	61	69
Sales volume (cbm) - A	0.39	0.47	0.49	0.54	0.63	0.80	0.88	1.20	1.27	1.32	1.57	1.86
Imports (cbm) - B	0.16	0.19	0.21	0.30	0.28	0.25	0.12	0.10	0.19	0.34	0.34	0.34
Exports (cbm) - C	0.01	0.02	0.01	0.01	0.02	0.03	0.02	0.12	0.14	0.15	0.17	0.20
Implied domestic demand (cbm) (D=A+B-C)	0.54	0.65	0.68	0.82	0.89	1.02	0.98	1.17	1.31	1.51	1.74	2.00
Demand growth (5Y CAGR) (%)	NA	NA	NA	NA	NA	13	9	12	10	11	11	12
EBITDA margin (%)	18	24	25	26	17	21	24	25	24	NA	NA	NA

Source: Company, Ministry of Commerce, BOBCAPS Research

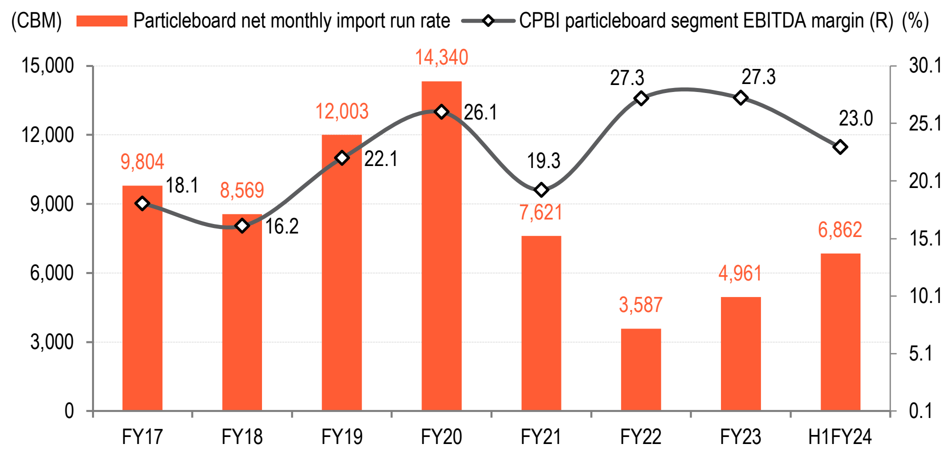
#3 Particleboard: Highly unorganised market

The particleboard market is growing at 10-15% as it is the cheapest option among interior wood panels, being 20-25% cheaper than MDF, which in turn is 30-35% cheaper than low-end plywood. It is mainly used in commercial real estate and by price-sensitive residential consumers. The unorganised sector has a high 65% share of the market due to the presence of numerous small players.

Particleboard is the most preferred option for readymade furniture manufacturing in India. Given the rising acceptance of readymade furniture, large, organised players such as Merino, CPBI and GRLM have entered into this segment to tap the growing opportunity.

We note that CPBI's particleboard segment EBITDA margin has plunged from 36% in Q1FY23 to 23% in Q2FY24 due to a spike in particleboard imports (+38% YoY in FY23 and 82% YoY in 7MFY24), weak demand from OEMs on tepid consumer sentiments, and higher local timber prices. In our view, the industry margin will remain under pressure in the near term given the sharp rise in domestic capacity (Merino: 247,500cbm in H1FY24, GRLM: 231,000cbm in Q4FY24, CPBI: 240,000cbm in Q4FY25) along with growing pressure from imports.

Fig 37 – CPBI's particleboard segment EBITDA margin under pressure



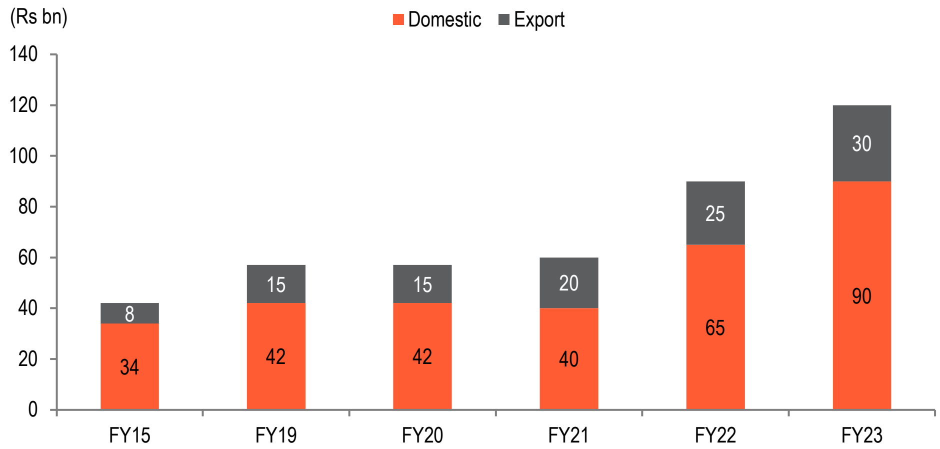
Source: Ministry of Commerce, Company, BOBCAPS Research

#4 Laminates: Exports driving growth

India's laminate industry is estimated at Rs 120bn, of which organised players form 67% and the domestic to export split is 75:25 (FY23). Domestic laminate sale volumes are estimated to have posted muted mid-single-digit growth over FY15-FY23 due to the dull real estate cycle, whereas exports from India registered a 10.8% CAGR backed by the strong marketing and distribution networks of large, organised players such as Merino, GRLM, Virgo and CPBI across the world and rising costs of production in developed markets.

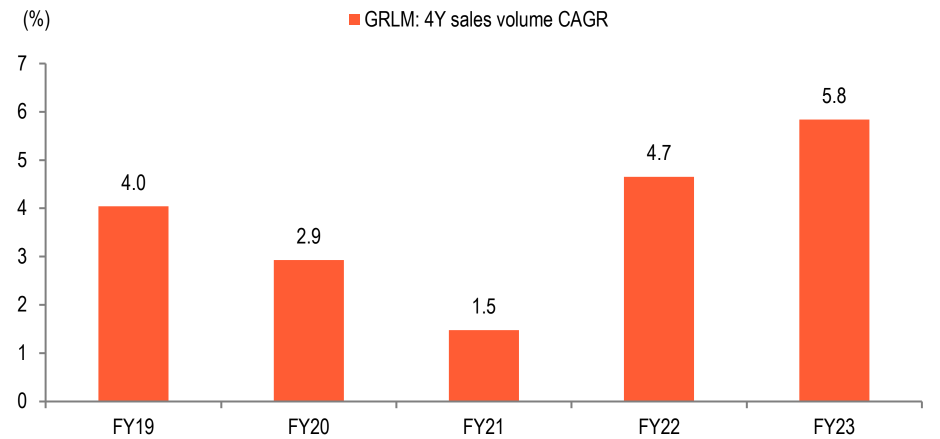
We project a high-single-digit volume CAGR for the Indian laminate industry over the next five years on the back of expected revival in the domestic real estate sector and market share gains in global trade.

Fig 38 – Indian laminate industry market size



Source: Company, BOBCAPS Research

Fig 39 – Indian laminate industry volumes to grow in high single digits, FY23-FY28E



Source: Company, BOBCAPS Research

Stock recommendations

We assume coverage on India's building materials sector with a positive outlook in anticipation of a broad-based revival in the domestic real estate market and a gradual formalisation of the materials sector. However, despite our constructive fundamental outlook, we are cautious on most building material stocks as valuations look stretched – our universe is trading at 41x one-year forward P/E vs. the five-year average of 31.7x – leaving limited upside potential. We are positive only on select names, viz. HINDWARE, SOMC and MTLM, where we see strong earnings growth prospects alongside reasonable valuations.

- **Plastic pipes:** In our view, the plastic pipes segment has a relatively superior business risk profile in the building materials industry and is likely to be the fastest growing segment. We see a lower risk of MTM inventory loss from Q4FY24 onwards given that global PVC resin prices are trading well below the 20-year average. However, we have HOLD ratings on the top 5 names – SI (TP Rs 4,300), ASTRA (Rs 2,000), FNXP (Rs 230), PRINCPIP (Rs 800) and APOLP (Rs 650) owing to expensive valuations. Our pipe universe trades at 44.4x one-year forward P/E vs. the historical average of 34.1x.

- **Tiles:** We assume coverage on SOMC (TP Rs 900) with a BUY rating given expectations of a strong 36.4% earnings CAGR over FY23-FY26 as capacity expansion likely propels volume growth and margins improve on a better mix. Valuations look reasonable at 23.3x one-year forward P/E – in line with the five-year mean. For peer KJC (Rs 1,450), we recommend HOLD as valuations appear high.

- **Bathware:** We assign a BUY to HINDWARE (TP Rs 700) as the company has successfully arrested its market share decline in the core bathware portfolio and improved its business risk profile by entering the profitable plastic pipes and kitchen appliances segments. Further, robust earnings growth at an estimated 56% CAGR over FY23-FY26 along with reasonable valuations at 28.1x one-year forward P/E support our view. For CRS (Rs 8,100), we assume coverage with HOLD due to a lack of growth catalysts amid rising competition, inefficient capital allocation toward growth, revamp in the key management team and expensive valuations.

- **Wood Panels:** We assume coverage on MTLM (TP Rs 300) with a BUY rating considering expected market share gains in plywood in the near future on the back of a 2.5x rise in capacity from 24.9msm in FY20 to 65.9msm in FY23, an increase in addressable market size from Rs 300bn to Rs 450bn due to its entry into MDF and architectural fittings, and strong execution in an oversupplied MDF industry over a short span of time. Concurrently, we have HOLD ratings on CPBI (Rs 800), GREENP (Rs 400) and GRLM (Rs 600) due to concerns of a supply overhang in the MDF and particleboard industries coupled with lofty valuations.

Fig 40 – Relative valuation

Company	Rating	Target Price (Rs)	FY23-FY26E CAGR (%)			ROE (%)			P/E (x)				Target P/E (x)
			Revenue	EBITDA	EPS	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	5Y avg.	Sep'25E
SI	HOLD	4,300	12.8	21.4	18.9	21.9	22.9	22.8	51.1	42.2	36.4	27.8	40.0
ASTRA	HOLD	2,000	14.5	19.5	21.5	18.1	19.3	19.5	83.4	67.5	57.2	66.2	70.0
FNXP	HOLD	230	8.1	42.3	39.0	9.0	11.8	12.0	32.2	23.0	20.8	19.0	22.0
PRINCPIP	HOLD	800	10.0	30.1	39.6	14.0	16.3	17.6	38.7	29.3	23.7	29.5	30.0
APOLP	HOLD	650	16.7	34.3	55.9	9.0	9.5	10.5	50.3	36.4	30.1	34.8	30.0
Pipes		**-**	**12.4**	**29.5**	**35.0**	**14.4**	**16.0**	**16.5**	**51.1**	**39.7**	**33.6**	**35.5**	**38.4**
KJC	HOLD	1,450	12.4	19.9	20.9	18.3	19.1	19.7	47.9	41.3	35.9	37.7	40.0
SOMC	BUY	900	9.1	21.8	36.6	10.6	14.3	17.7	31.3	22.4	15.8	23.1	25.0
Tiles		**-**	**10.7**	**20.9**	**28.8**	**14.4**	**16.7**	**18.7**	**39.6**	**31.9**	**25.8**	**30.4**	**32.5**
CRS	HOLD	8,100	11.7	12.7	14.7	20.2	19.4	19.3	40.8	36.9	32.5	31.5	35.0
HINDWARE	BUY	700	9.5	24.6	56.0	12.5	19.5	24.6	47.0	25.9	16.6	28.7	30.0
Bathware		**-**	**10.6**	**18.6**	**35.3**	**16.3**	**19.4**	**21.9**	**43.9**	**31.4**	**24.6**	**30.1**	**32.5**
CPBI	HOLD	800	13.4	11.7	9.3	17.9	16.0	17.0	42.6	40.7	32.5	25.5	40.0
GRLM	HOLD	600	20.7	27.0	25.4	13.1	14.8	16.6	21.6	36.0	27.6	28.6	35.0
MTLM	BUY	300	18.1	24.8	25.7	8.4	14.9	17.7	50.7	24.2	16.8	23.8	25.0
GREENP	HOLD	400	7.1	5.2	6.0	13.0	13.7	16.7	28.7	24.0	16.8	16.1	20.0
Wood Panel		**-**	**14.8**	**17.2**	**16.6**	**13.1**	**14.8**	**17.0**	**35.9**	**31.2**	**23.4**	**23.5**	**28.8**
BM Universe average		**-**	**12.2**	**21.5**	**28.9**	**14.6**	**16.7**	**18.5**	**42.6**	**33.5**	**26.9**	**29.9**	**33.0**

Source: Company, BOBCAPS Research

Companies

HOLD

TP: Rs 4,300 | ⮝ 3%

SUPREME INDUSTRIES | Plastic Products | 17 January 2024

Undisputed leader in plastic pipes but highly valued

- **Commands ~13% market share of Indian plastic pipes with scope for further gains amid capex ramp-up**
- **Delivers superior return ratios (pre-tax ROIC of >30%) across economic cycles on the back of prudent capital allocation**
- **Expensive valuation leads us to assume coverage with HOLD; our TP of Rs 4,300 is set at 40x on Sep'25E EPS**

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Healthy growth prospects: SI is the largest plastic processor in India with a well-diversified portfolio spanning plastic pipes, consumer furniture, packaging and industrial products. The company is a leader in most of its products and has been steadily gaining market share in plastic pipes – its biggest profit contributor (70% of EBITDA in FY23). We forecast a healthy revenue/EBITDA/PAT CAGR of 12.8%/21.3%/18.9% for the company over FY23-FY26 as a timely ramp-up in capex positions it well to benefit from the ongoing revival in real estate activity.

Intensive capex fuelling market gains in plastic pipes: SI's volume market share among the top 5 listed pipe companies has risen from 33.5% in FY19 to 34.7% in FY23 and 37.0% in H1FY24. We believe SI will continue to add market share as it benefits from a progressive step-up in capex outlay to Rs 5bn in FY24E from Rs 2.5bn on average pre-Covid, aimed at diversifying its manufacturing footprint, entering new product categories (PVC-O pipes, uPVC doors & windows), and increasing capacity.

Superior return ratios: SI has generated healthy pre-tax ROIC of more than 30% across economic cycles over the past decade due to prudent capital allocation, where investments were ploughed into fast-growing, high-return products and also directed toward high dividend payout at 30-40% of net profits.

Weak risk profile of non-pipe segment: SI's non-pipe operating profit has risen at a tepid 3.7% CAGR over FY15-FY23 due to stiff competition from unorganised players in the packaging and furniture segments. We expect the performance of non-pipe business (30% of FY23 EBITDA) to remain sluggish.

Valuations high – HOLD: Even after factoring in reasonably optimistic assumptions (pipe/non-pipe volume CAGR of 18.3%/8.5% over FY23-FY26 vs. 7.9%/3.8% seen over FY15-FY23), we assume coverage on SI with HOLD due to stretched valuations. The stock is trading at 43.5x on 1Y forward P/E vs. the 5Y average of 27.8x. We value SI at 40x Sep'25E EPS for a TP of Rs 4,300 which offers just 3% upside.

Key risks: Above-expected recovery in real estate would be a key upside risk to our view and market share loss in plastic pipes represents a downside risk.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	SI IN/Rs 4,163
Market cap	US$ 6.4bn
Free float	51%
3M ADV	US$ 9.8mn
52wk high/low	Rs 4,888/Rs 2,335
Promoter/FPI/DII	49%/24%/13%

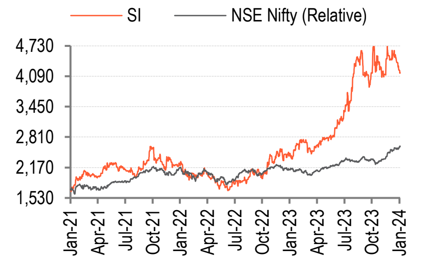
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	92,016	99,736	1,14,729
EBITDA (Rs mn)	11,997	15,341	18,548
Adj. net profit (Rs mn)	8,653	10,359	12,529
Adj. EPS (Rs)	68.1	81.5	98.6
Consensus EPS (Rs)	68.1	85.9	103.6
Adj. ROAE (%)	21.0	21.9	22.9
Adj. P/E (x)	61.1	51.1	42.2
EV/EBITDA (x)	44.6	34.9	29.0
Adj. EPS growth (%)	(11.7)	19.7	20.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

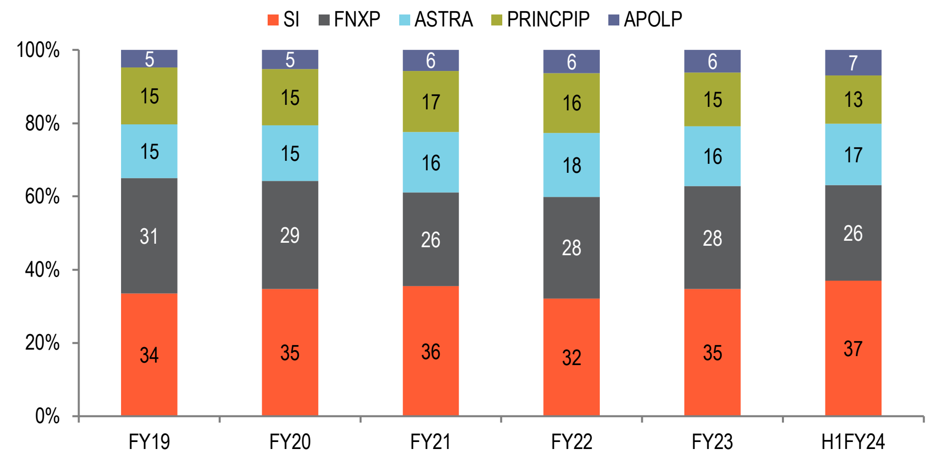
Healthy growth visibility in pipes

Aggressive capex fuelling market share gains

India's market for plastic pipes is estimated at Rs 470bn in FY23, with the top 5 listed players commanding 46% share. SI leads the market and its volume share among the top 5 has increased from 33.5% in FY19 to 34.7% in FY23 and 37.0% in H1FY24 due to its presence across segments such as plumbing, agriculture and infrastructure, rural network expansion from 1,071 distributors in FY19 to 1,443 in FY23, and thrust on broadening the fittings range from 8,085 SKUs to 10,073 SKUs over the same period.

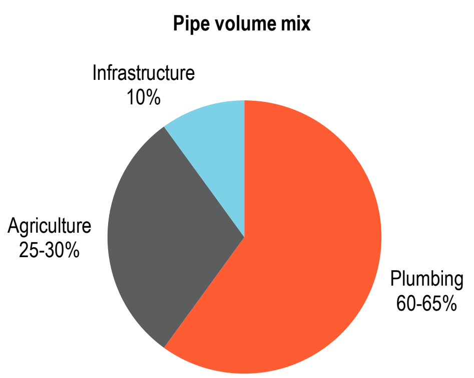
Going ahead, we believe SI could further gain market share in plastic pipe due to a progressive step-up in capex outlay to Rs 5bn in FY24E from Rs 2.5bn on average pre-Covid (FY18-FY20), aimed at diversifying its manufacturing footprint, entering new product categories (PVC-O pipes, uPVC doors & windows), and scaling up capacity at existing locations.

Fig 1 – SI gaining market share among top 5 listed plastic pipe companies



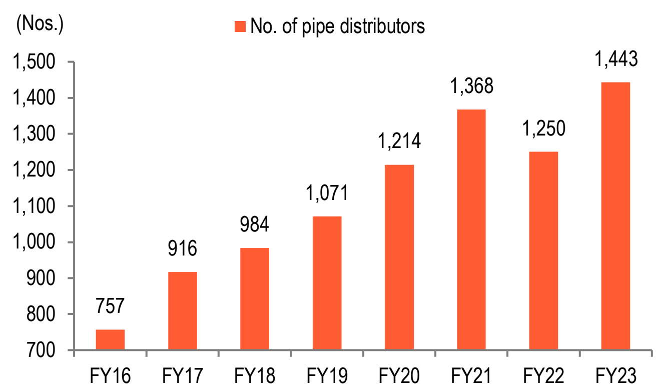
Source: Company, BOBCAPS Research

Fig 2 – Leading presence across segments



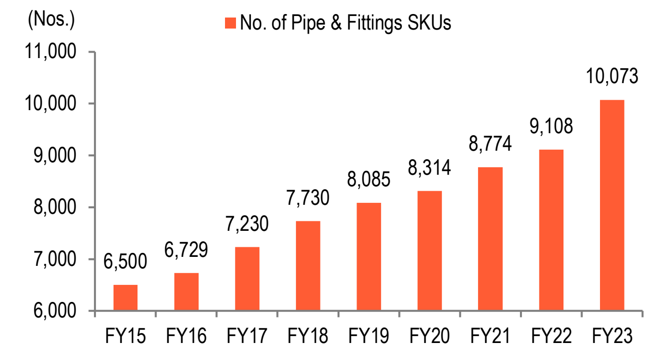
Source: BOBCAPS Research

Fig 3 – Expansion of distribution network in rural market



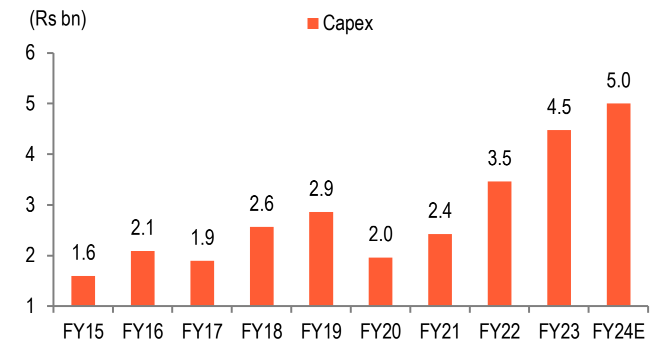
Source: Company, BOBCAPS Research

Fig 4 – Extension of fittings range



Source: Company, BOBCAPS Research

Fig 5 – Step-up in capex outlay over past 3Y

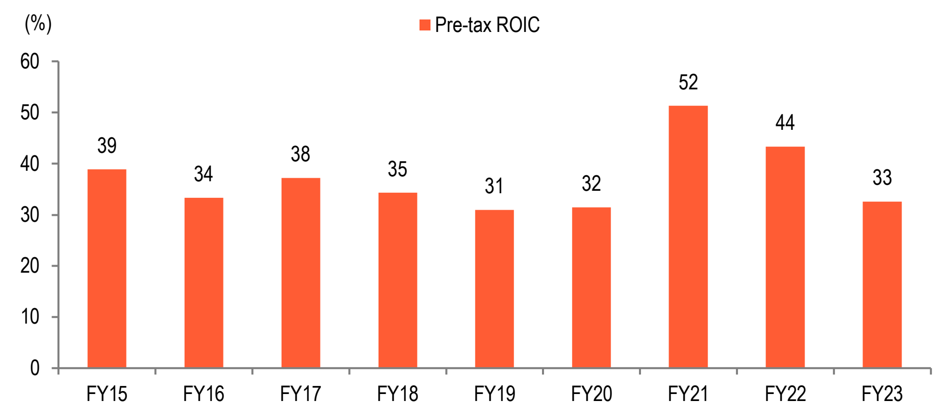


Source: Company, BOBCAPS Research

Superior return ratio profile

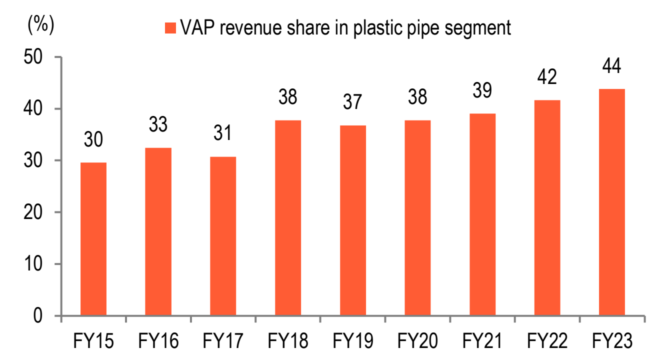
Despite sharp volatility in prices of polymer (a key input), SI has reported healthy pre-tax ROIC of more than 30% across economic cycles over the past decade, as illustrated in the chart below. We believe this stems from (a) management's persistent focus on raising the share of value-added products, (b) lower logistics costs due to a widening of the manufacturing footprint, (c) operating leverage benefits from a growing scale of business, and (d) prudent capital allocation where capex is mainly targeted at fast-growing, high-return products along with strong dividend payout of 30-40%.

Fig 6 – Healthy pre-tax ROIC of >30% across economic cycles



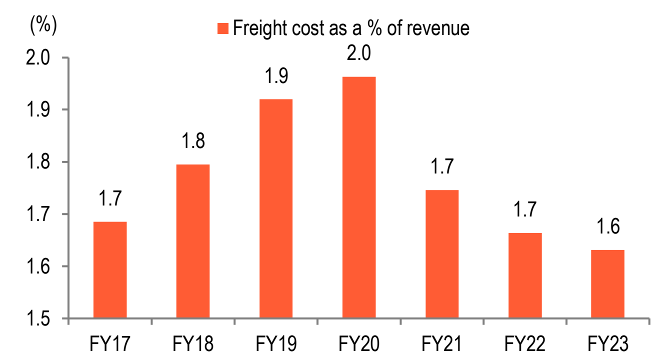
Source: Company, BOBCAPS Research

Fig 7 – Focused on raising share of value-added products (VAP)



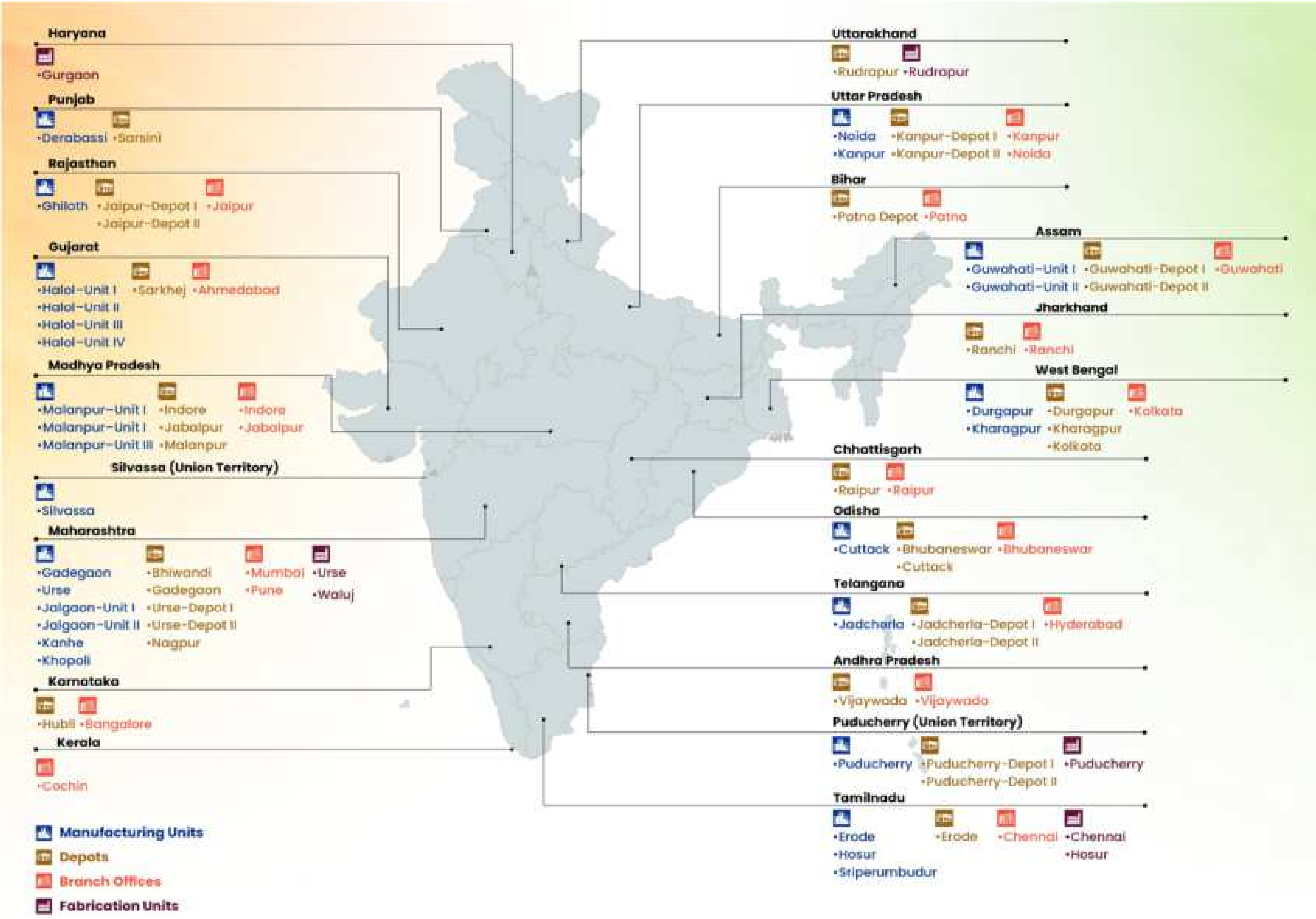
Source: Company, BOBCAPS Research

Fig 8 – Optimising freight cost by expanding manufacturing footprint across India



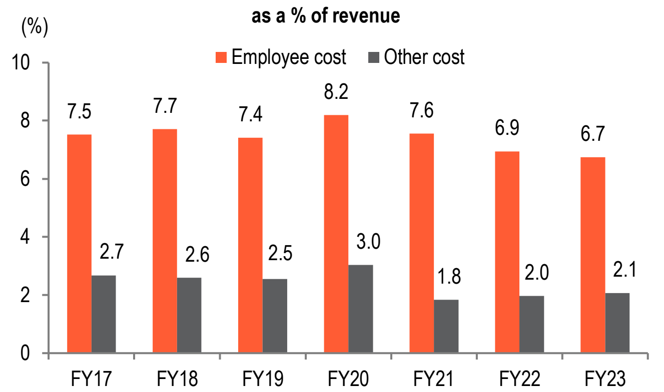
Source: Company, BOBCAPS Research

Fig 9 – Wide manufacturing footprint across India



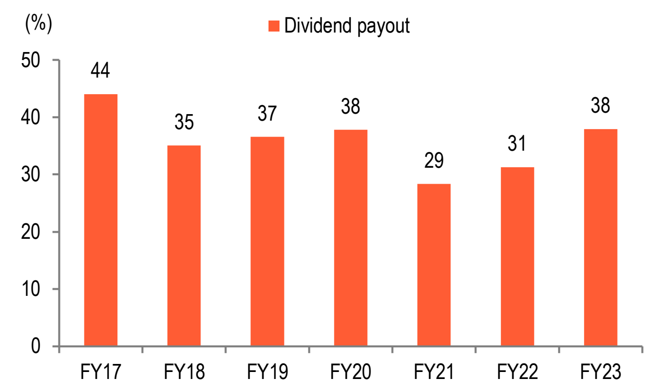
Source: Company, BOBCAPS Research

Fig 10 – Benefits of operating leverage kicking in



Source: Company, BOBCAPS Research

Fig 11 – Prudent capital allocation policy

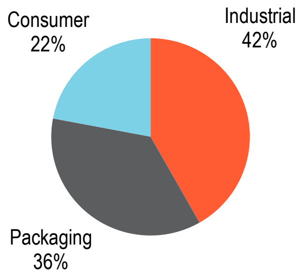


Source: Company, BOBCAPS Research

Weak risk profile in non-pipe segment

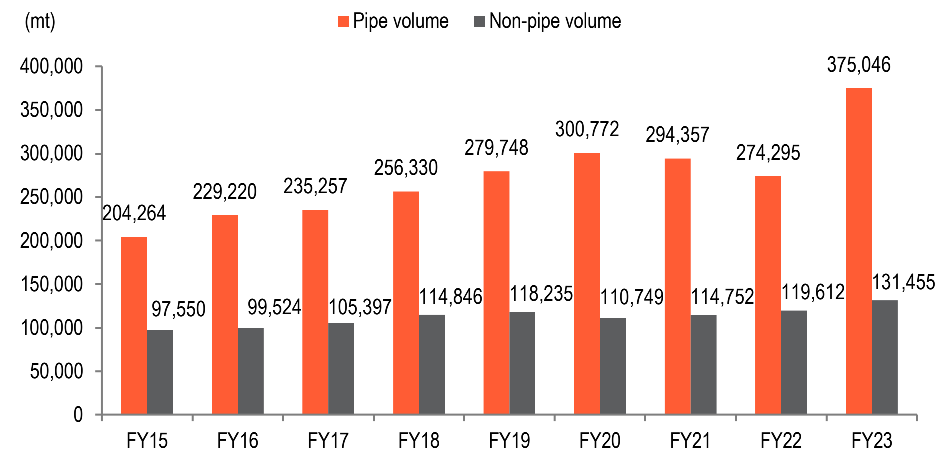
SI's consolidated EBITDA grew at a nominal 7.6% CAGR over FY15-FY23 as sluggish growth in the non-pipe segment (3.7%) marred a brisk performance in plastic pipes (+14.6%). The non-pipe business, which comprises sales of consumer furniture, industrial and packaging products, has posted weak volume growth (3.8% CAGR) on account of stiff competition from unorganised players in the packaging and consumer furniture verticals. We expect this business (30% of SI's EBITDA in FY23) to continue to grow well below the pipe segment.

Non-pipe EBITDA breakup – FY23



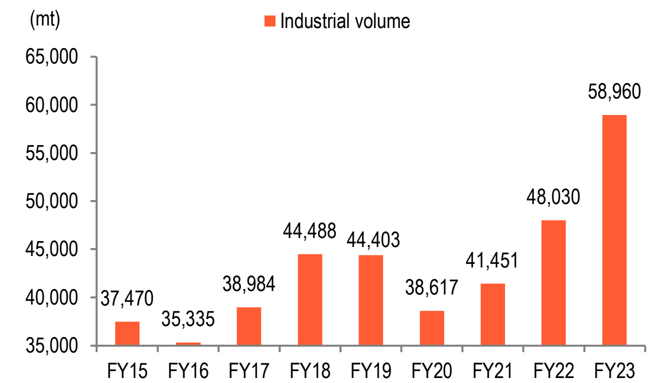
Source: Company, BOBCAPS Research

Fig 12 – Non-pipe volumes grew at just 3.8% over FY15-FY23 vs. 7.9% CAGR in pipes



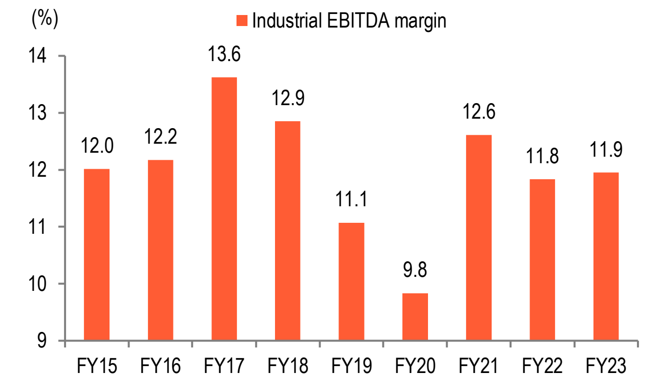
Source: Company, BOBCAPS Research

Fig 13 – Industrial volumes saw 5.8% CAGR over FY15-FY23 but likely to improve on rising demand for durables



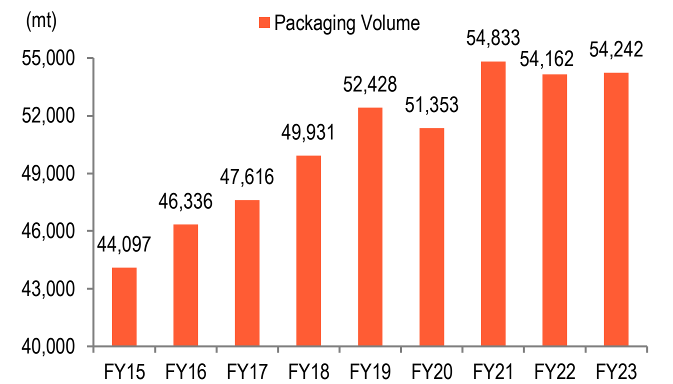
Source: Company, BOBCAPS Research

Fig 14 – Industrial segment earns low margins due to B2B contract manufacturing nature and intense competition



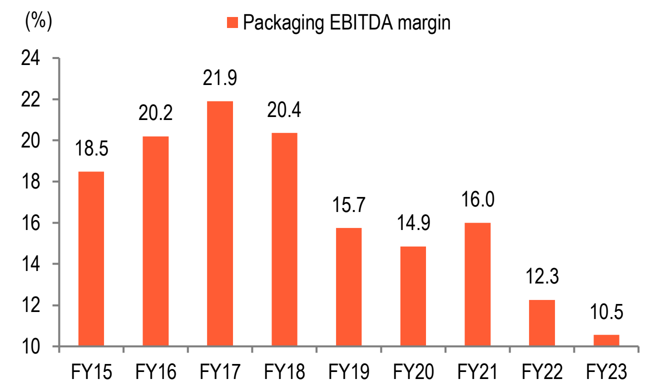
Source: Company, BOBCAPS Research

Fig 15 – Packaging volumes grew at a meagre 2.6% CAGR over FY15-FY23…



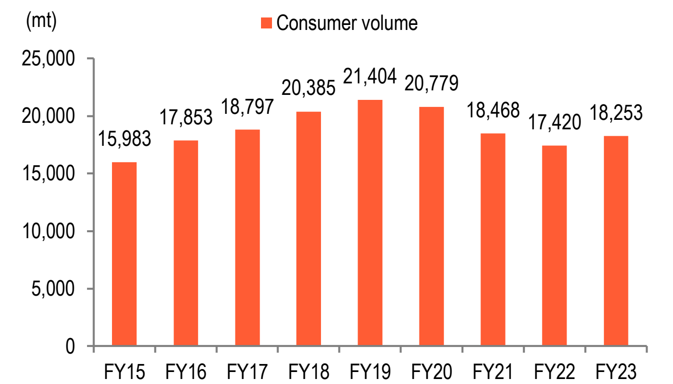
Source: Company, BOBCAPS Research

Fig 16 – …and segment margin came under significant pressure due to stiff competition from new entrants



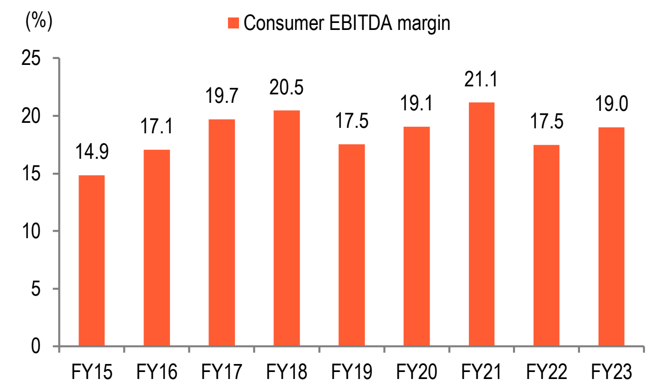
Source: Company, BOBCAPS Research

Fig 17 – Consumer furniture volumes grew at only 1.7% CAGR over FY15-FY23…



Source: Company, BOBCAPS Research

Fig 18 – …but margins healthy due to SI's strong brand name and focus on value-added products



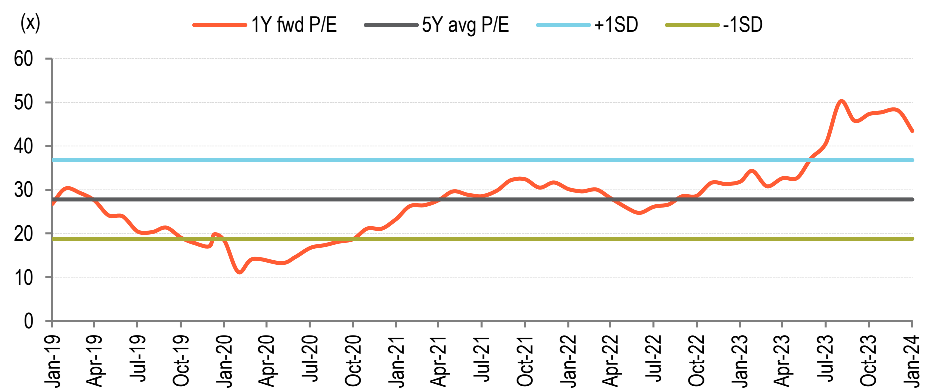
Source: Company, BOBCAPS Research

Valuations expensive

HOLD, TP Rs 4,300

Even after factoring in reasonably optimistic growth assumptions (pipe/non-pipe volume CAGR of 18.3%/8.5% over FY23-FY26 vs. the 7.9%/3.8% CAGR achieved over FY15-FY23), we assume coverage on SI with a HOLD rating due to expensive valuations. The stock is trading at 43.5x one-year forward P/E vs. the five-year average of 27.8x. We value SI at 40x Sep'25E EPS – a steep premium to its historical multiple on bright prospects – and arrive at a TP of Rs 4,300, which offers just 3% upside.

Fig 19 – Trading at 43.5x 1Y forward P/E vs. 5Y average of 27.8x



Source: Bloomberg, BOBCAPS Research

Fig 20 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix						
Pipe	64.5	64.9	65.6	66.9	69.0	70.9
Packaging	16.3	15.6	14.3	14.3	13.3	12.4
Industrial	12.0	13.2	14.6	13.5	12.8	12.2
Consumer	5.6	5.2	4.8	4.6	4.3	4.0
Sales volume growth						
Pipe	(2.1)	(6.8)	36.7	25.1	15.0	15.0
Packaging	6.8	(1.2)	0.1	10.7	7.7	7.0
Industrial	7.3	15.9	22.8	7.3	10.0	10.0
Consumer	(11.1)	(5.7)	4.8	6.9	7.0	7.0
Total	**(0.6)**	**(3.7)**	**28.6**	**20.8**	**13.5**	**13.5**
Average realisation growth	**15.1**	**27.7**	**(7.5)**	**(10.3)**	**1.4**	**1.6**
EBITDA margin						
Pipe	22.2	18.0	13.9	16.3	16.8	16.8
Packaging	16.0	12.3	10.5	15.7	17.8	17.8
Industrial	12.6	11.8	11.9	11.0	12.0	12.0
Consumer	21.1	17.5	19.0	20.3	20.0	20.0
Total	**20.2**	**16.2**	**13.0**	**15.4**	**16.2**	**16.2**

Source: Company, BOBCAPS Research

Key risks

- Better-than-expected recovery in the real estate sector would be a key upside risk.
- Market share loss in plastic pipes would represent a key downside risk.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**77,728**	**92,016**	**99,736**	**1,14,729**	**1,32,226**
EBITDA	12,561	11,997	15,341	18,548	21,440
Depreciation	2,295	2,634	2,992	3,343	3,695
EBIT	10,266	9,363	12,349	15,205	17,745
Net interest inc./(exp.)	(52)	(80)	(63)	(62)	(62)
Other inc./(exp.)	200	298	523	640	780
Exceptional items	140	0	0	0	0
EBT	10,274	9,580	12,808	15,783	18,463
Income taxes	2,633	2,460	3,383	4,214	4,889
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	2,044	1,533	934	961	961
Reported net profit	**9,685**	**8,653**	**10,359**	**12,529**	**14,535**
Adjustments	110	0	0	0	0
Adjusted net profit	**9,795**	**8,653**	**10,359**	**12,529**	**14,535**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	7,940	9,038	9,874	11,358	13,090
Other current liabilities	1,988	2,237	2,237	2,237	2,237
Provisions	76	85	93	107	123
Debt funds	0	0	0	0	0
Other liabilities	1,512	1,562	1,562	1,562	1,562
Equity capital	254	254	254	254	254
Reserves & surplus	38,190	43,767	50,315	58,525	68,740
Shareholders' fund	38,444	44,021	50,569	58,779	68,994
Total liab. and equities	**49,959**	**56,942**	**64,334**	**74,042**	**86,006**
Cash and cash eq.	5,264	7,461	10,997	15,565	22,158
Accounts receivables	4,668	4,924	5,337	6,139	7,075
Inventories	12,602	13,856	15,019	17,277	19,912
Other current assets	2,219	2,546	2,818	3,242	3,736
Investments	4,759	5,713	5,713	5,713	5,713
Net fixed assets	16,821	19,764	21,772	23,429	24,734
CWIP	1,967	1,129	1,129	1,129	1,129
Intangible assets	864	878	878	878	878
Deferred tax assets, net	0	0	0	0	0
Other assets	795	672	672	672	672
Total assets	**49,959**	**56,942**	**64,334**	**74,042**	**86,006**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**6,014**	**10,762**	**11,888**	**13,309**	**15,195**
Capital expenditures	(4,104)	(4,753)	(5,000)	(5,000)	(5,000)
Change in investments	(1,393)	(954)	0	0	0
Other investing cash flows	59	298	523	640	780
Cash flow from investing	**(5,437)**	**(5,409)**	**(4,477)**	**(4,360)**	**(4,220)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(12)	0	0	0	0
Interest expenses	(52)	(80)	(63)	(62)	(62)
Dividends paid	(3,049)	(3,303)	(3,812)	(4,320)	(4,320)
Other financing cash flows	116	228	0	0	0
Cash flow from financing	**(2,997)**	**(3,156)**	**(3,875)**	**(4,382)**	**(4,382)**
Chg in cash & cash eq.	**(2,420)**	**2,197**	**3,536**	**4,568**	**6,593**
Closing cash & cash eq.	**5,264**	**7,461**	**10,997**	**15,565**	**22,158**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	76.2	68.1	81.5	98.6	114.4
Adjusted EPS	77.1	68.1	81.5	98.6	114.4
Dividend per share	24.0	26.0	30.0	34.0	34.0
Book value per share	302.6	346.5	398.0	462.6	543.0

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.8	5.8	5.4	4.7	4.1
EV/EBITDA	42.3	44.6	34.9	29.0	25.3
Adjusted P/E	54.0	61.1	51.1	42.2	36.4
P/BV	13.8	12.0	10.5	9.0	7.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	95.3	90.3	80.9	79.4	78.7
Interest burden (PBT/EBIT)	100.1	102.3	103.7	103.8	104.0
EBIT margin (EBIT/Revenue)	13.2	10.2	12.4	13.3	13.4
Asset turnover (Rev./Avg TA)	155.6	161.6	155.0	155.0	153.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.3
Adjusted ROAE	27.9	21.0	21.9	22.9	22.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	22.3	18.4	8.4	15.0	15.3
EBITDA	(2.3)	(4.5)	27.9	20.9	15.6
Adjusted EPS	0.0	(11.7)	19.7	20.9	16.0
Profitability & Return ratios (%)					
EBITDA margin	16.2	13.0	15.4	16.2	16.2
EBIT margin	13.2	10.2	12.4	13.3	13.4
Adjusted profit margin	12.6	9.4	10.4	10.9	11.0
Adjusted ROAE	27.9	21.0	21.9	22.9	22.8
ROCE	27.2	21.9	25.5	27.0	26.9
Working capital days (days)					
Receivables	22	20	20	20	20
Inventory	59	55	55	55	55
Payables	37	36	36	36	36
Ratios (x)					
Gross asset turnover	2.3	2.5	2.3	2.4	2.5
Current ratio	2.5	2.5	2.8	3.1	3.4
Net interest coverage ratio	199.3	116.7	194.8	245.2	286.2
Adjusted debt/equity	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

HOLD
TP: Rs 2,000 | ⮝ 11%

ASTRAL | Plastic Products | 17 January 2024

Well diversified player but positives priced in

- **Ranks #3 in plastic pipes and is seeing consistent market share gains; superior product mix drives above-peer margins**
- **Steady business diversification paves the way for transformation into a one-stop building material play**
- **Current valuation prices in positives; we assume coverage with HOLD and TP of Rs 2,000, set at 70x Sep'25E EPS**

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Transitioning into a one-stop building material shop: ASTRA is the third largest plastic pipe company in India and commands 16.4% market share among the top 5 players. The company enjoys a better product mix than peers due to its larger proportion of high-margin CPVC pipe sales. Over the past decade, it has entered a slew of new verticals (adhesives, DWC pipes, water tanks, paints, sanitaryware, valves), for transformation into a complete building material solution provider. We believe ASTRA management plans to replicate its success in the pipe business to build out the new verticals from a regional to a pan-India presence.

Consistent market share gains in plastic pipes: ASTRA's volume market share among the top 5 pipe companies has improved steadily from 12.8% in FY15 to 16.4% in FY23. These gains have been aided by strong demand for its CPVC pipes – a faster growing segment than agri pipes, geographical diversification as the company widened its manufacturing footprint, deeper penetration into semi-urban and rural areas (1,100 dealers vs. 850 in FY21), and product portfolio expansion. Effective advertising has also encouraged conversion of pipes from a commodity into a brand.

Best-in-class margins: For the pipe segment, ASTRA clocked an EBITDA margin of 16.3% in FY23 vs. 13.9% for SI due to a higher share from CPVC pipes and small contribution from low-margin agricultural pipes. However, we observe that the company's return ratio profile is slightly inferior to SI's due to overshooting of capex guidance on a consistent basis and entry into return dilutive new building material segments (i.e. overseas SEAL IT adhesives operation & expensive paints acquisition).

Valuations expensive – HOLD: We forecast a healthy revenue/EBITDA/EPS CAGR of 14.5%/19.5%/21.5% for ASTRA over FY23-FY26 in anticipation of a revival in India's real estate cycle. However, current valuations at 69.8x on 1Y forward P/E look expensive (5Y average at 66.2x), leading us to assume coverage with a HOLD rating. We value the stock at 70x Sep'25E EPS for a TP of Rs 2,000.

Key risks: Better-than-expected recovery in India's real estate sector and a sharp turnaround in the company's new paint & sanitaryware ventures would be key upside risks to our estimates. Market share loss in pipes would be a downside risk.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	ASTRA IN/Rs 1,794
Market cap	US$ 5.9bn
Free float	44%
3M ADV	US$ 11.5mn
52wk high/low	Rs 2,058/Rs 1,298
Promoter/FPI/DII	56%/19%/13%

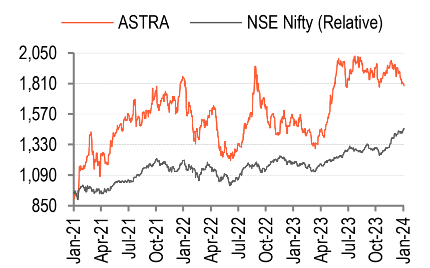
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	51,585	56,078	65,649
EBITDA (Rs mn)	8,100	9,500	11,693
Adj. net profit (Rs mn)	4,710	5,787	7,145
Adj. EPS (Rs)	17.5	21.5	26.6
Consensus EPS (Rs)	17.5	23.1	29.7
Adj. ROAE (%)	17.7	18.1	19.3
Adj. P/E (x)	102.5	83.4	67.5
EV/EBITDA (x)	60.2	51.4	41.8
Adj. EPS growth (%)	(3.0)	22.9	23.5

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

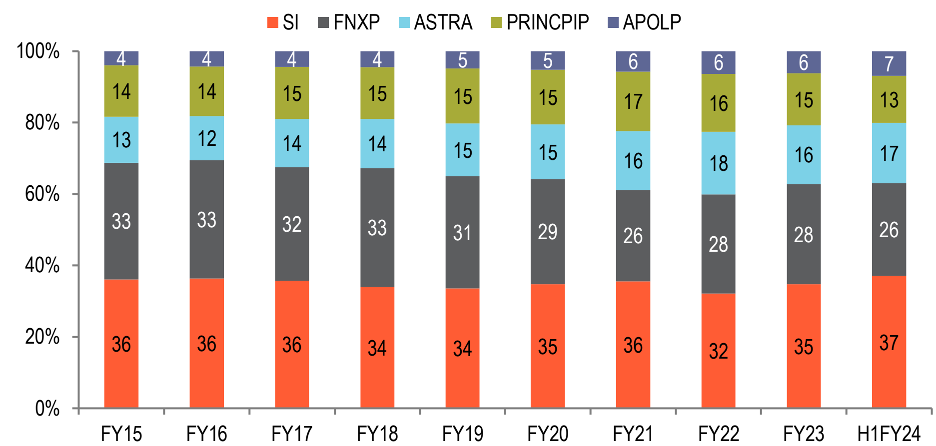
Strong player with evolving business model

Consistent market share gains in plastic pipes

India's market for plastic pipes is estimated at Rs 470bn in FY23, with the top 5 listed players commanding 46% share. ASTRA's volume market share among the top 5 listed pipe companies has steadily improved from 12.8% in FY15 to 16.4% in FY23, making it the third largest player in the industry.

Market share gain for ASTRA has been aided by strong demand for its CPVC pipes – a faster growing segment than agri and plumbing pipes, geographical diversification as the company widened its manufacturing footprint across regions, and an increase in addressable market through product portfolio expansion into double wall corrugated pipes (DWC: FY19), water tanks (FY21) and industrial valves (FY23). In addition, ASTRA derived benefits from the extension of its distribution network in semi-urban and rural areas (to 1,100 dealers at present vs. 850 in FY21) along with a thrust on advertising that encouraged the conversion of pipes as a commodity to pipes as a brand.

Fig 1 – ASTRA's market share among top 5 players rising steadily



Source: Company, BOBCAPS Research

Fig 2 – Expansion of manufacturing base enables geographical diversification

Plant Location	COD	West	North	Central	South	East	North-East
Santej, Gujarat	1999	✓					
Baddi, Himachal Pradesh	2005		✓				
Dholka, Gujarat	2011	✓					
Hosur, Tamil Nadu	2013				✓		
Giloth, Rajasthan	2018		✓				
Sangli, Maharashtra	2018	✓					
Sitarganj, Uttarakhand	2018		✓				
Aurangabad, Maharashtra	2020	✓					
Cuttack, Odisha	2022					✓	
Guwahati (leased)	2023						✓
Hyderabad	2024E				✓		
Kanpur, Uttar Pradesh	2025E			✓			

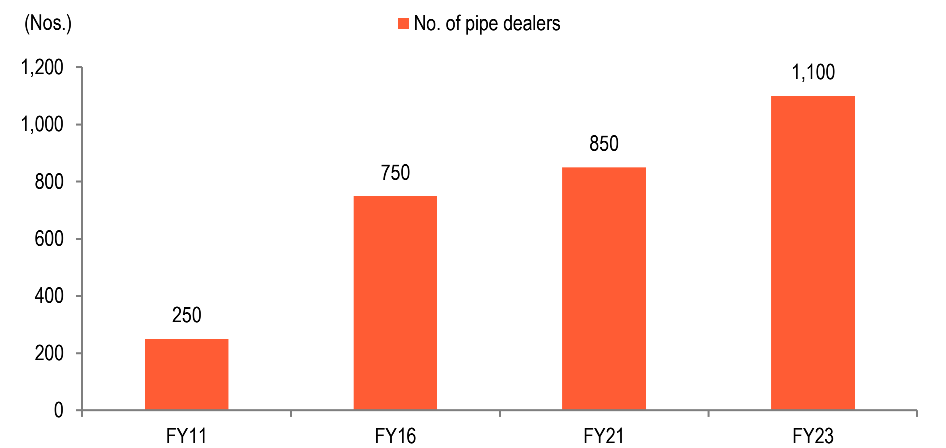
Source: Company, BOBCAPS Research

Fig 3 – Portfolio expansion helping widen addressable market for pipes

Launch	Plastic Pipe Products
1999	CPVC pipes
2001	CPVC fittings
2004	PVC pipes and fittings
2009	Drainage pipes
2010	Manholes/inspection chambers, column pipes for borewell applications
2013	Agricultural pipes
2016	CPVC compound; low noise drainage system (Silencio)
2017	'Recyfix' – Comprehensive range of surface drainage systems; 'Insupro' – XLPE insulation for hot and cold-water pipes as well as for HVAC
2018	DWC pipes (acquisition)
2020	Water tanks (acquisition)
2023	Valves

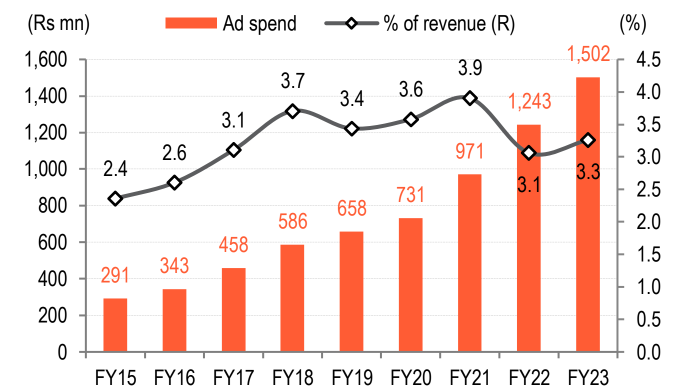
Source: Company, BOBCAPS Research

Fig 4 – Expansion of distribution network in semi-urban and rural areas



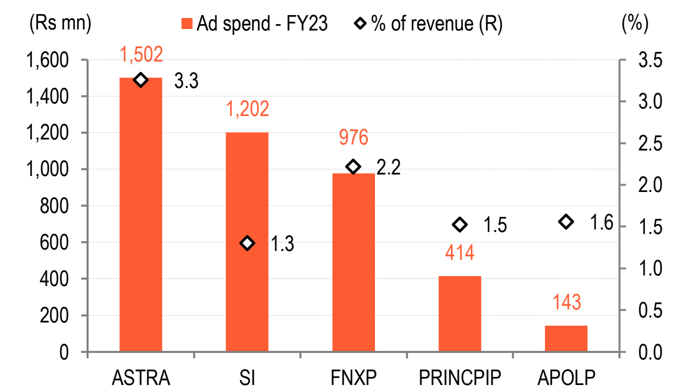
Source: Company, BOBCAPS Research

Fig 5 – Effective advertising spends improved brand profile



Source: Company (standalone), BOBCAPS Research

Fig 6 – ASTRA's brand spends the highest in the plastic pipe industry



Source: Company, BOBCAPS Research

Best-in-class margins

ASTRA enjoys relatively better operating margins than major listed pipe peers, at 16.3% in FY23 while SI follows at 13.9% and other players at sub-9%. This edge stems from a superior product mix tilted toward higher margin CPVC pipes with only a small share of low margin agricultural pipes. We expect sustained outperformance over peers and model for 215bps margin expansion to 17.9% over FY23-FY26.

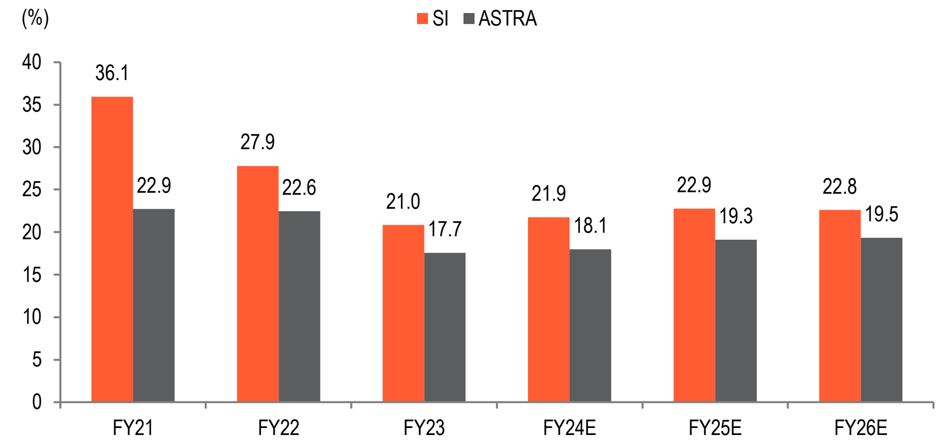
However, we note that the company's return ratio profile is slightly inferior to SI's because of a trend of heavy annual capex that typically overshoots initial guidance, an entry into the paints business in FY23 which would remain return-dilutive over the medium term due to an expensive acquisition deal, and a weak performance from overseas adhesive operations (SEAL IT) and the new sanitaryware business. We expect ASTRA ROE to improve from 17.7% in FY23 to 19.5% in FY26 on expectation of improvement in pipe segment operating margin.

Fig 7 – Superior product mix leads to relatively better pipe margin than peers

FY23	Realisation per unit (Rs/kg)	EBITDA per unit (Rs/kg)	EBITDA margin (%)
ASTRA	217	35.5	16.3
SI	161	22.3	13.9
PRINCPIP	172	16.0	9.3
APOLP	137	10.2	7.4
FNXP	136	6.5	4.8

Source: Company, BOBCAPS Research

Fig 8 – ROE profile slightly inferior to SI



Source: Company, BOBCAPS Research

Fig 9 – Trend of sharp deviation in capex from initial guidance

Month	Capex Guidance (Rs bn)				Actual Capex (Rs bn)			
	FY21	FY22	FY23	FY24	FY21	FY22	FY23	H1FY24
Aug'20	0.65-0.70				1.6			
May'21		1.3-1.5				3.7		
Nov'21		2.0-2.5						
May'22			1.5				3.8	
Aug'22			2.0					
Nov'22			2.3					
Feb'23			2.3					
Aug'23				3.5				3.0
Nov'23				4.3				

Source: Company, BOBCAPS Research

Fig 10 – Expensive paint business acquisition to be return-dilutive

Particulars	(Rs mn)
Acquisition cost for 51% equity stake in Gem Paints - A	1,940
Equity Valuation for 100% stake in Gem Paints - B	3,804
Debt as on 31 Mar 2023 - C	312
Capital Employed - D=B+C	4,116

Paint Segment	FY22	FY23	FY24E	FY25E	FY26E
Revenue (Rs mn)	2,008	2,158	2,145	2,467	2,837
EBITDA (Rs mn)	305	235	335	370	426
EBIDTA margin (%)	15.2	10.9	15.6	15.0	15.0
D&A (Rs mn)	37	31	31	31	31
Assumed goodwill amortization (Rs mn)	0	0	0	0	0
EBIT (Rs mn) - E	268	204	304	339	394
Paint business pre-tax ROCE (%) - F=E/D	6.5	5.0	7.4	8.2	9.6
ASTRA consolidated pre-tax ROCE (%)	28.4	23.0	23.3	25.2	25.6

Source: Company, BOBCAPS Research

Fig 11 – Weak performance from overseas adhesive operations (SEAL IT)

Particulars ('000 Pound)	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22	FY23	CAGR (%) (FY15-FY23)
Revenue	14,281	13,776	15,886	17,285	21,582	22,815	26,523	32,666	35,752	12.2
EBITDA	972	1,214	869	1,016	1,800	2,273	3,325	4,451	2,873	14.5
EBITDA margin (%)	6.8	8.8	5.5	5.9	8.3	10.0	12.5	13.6	8.0	-
EBIT	703	803	288	384	1,088	1,458	2,364	3,415	1,804	12.5
Net Debt	2,604	3,117	6,116	6,864	8,016	7,670	6,226	7,068	6,400	-
Net Debt/EBITDA	2.7	2.6	7.0	6.8	4.5	3.4	1.9	1.6	2.2	-
Capital Employed	4,908	6,209	9,078	9,857	12,409	12,034	12,613	17,387	17,917	-
Pre-tax ROCE (%)	14.3	14.4	3.8	4.1	9.8	11.9	19.2	22.8	10.2	-
ASTRA consol pre-tax ROCE (%)	15.8	19.3	21.3	22.5	21.8	20.5	28.6	28.4	23.0	-

Source: Company, BOBCAPS Research

Fig 12 – New sanitaryware venture to weigh on return ratios over medium term due to small scale of operations

Particulars (Rs mn)	FY23	FY24E	FY25E	FY26E
Revenue	220	829	1,620	2,420
EBITDA	(165)	(138)	(3)	111
EBITDA margin (%)	(75.0)	(16.6)	(0.2)	4.6

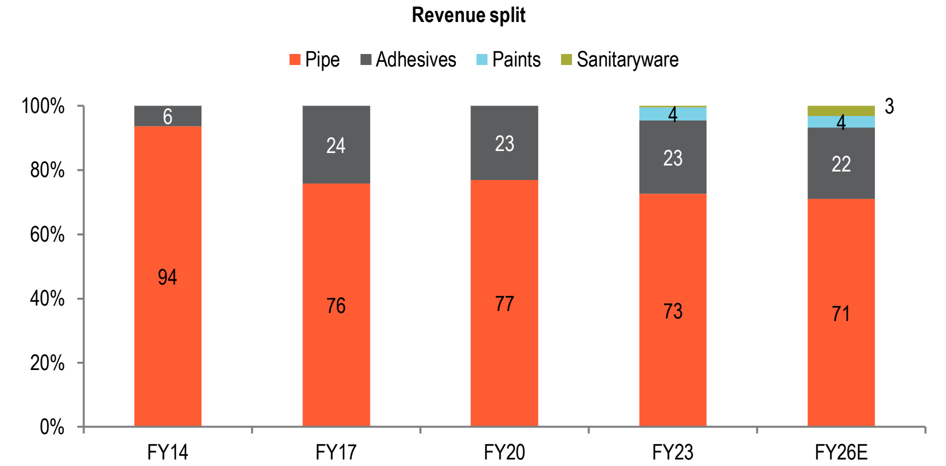
Source: Company, BOBCAPS Research

Diversification into new categories

Over the past decade, ASTRA has diversified its product portfolio by foraying into a broad range of allied business verticals – these include adhesives in 2014, silicon tape in 2016, DWC pipes in 2018, water tanks in 2020, paints & sanitaryware in 2022 and industrial valves in 2023.

We believe management's goal is to gradually transform the company into a one-stop building material solution provider, building on its success story in the pipe business to eventually scale up the new verticals from a regional to a pan-India presence. The diversification has gradually lowered the share of piping segment revenue from 94% in FY14 to 73% in FY23. We expect a 71% share by FY26 as new ventures gather pace.

Fig 13 – Moving towards end-to-end building material solutions



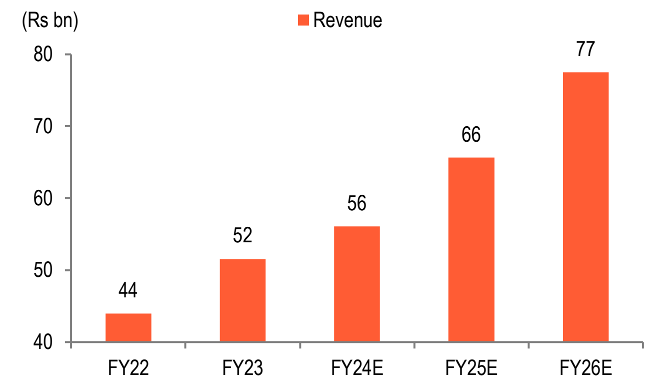
Source: Company, BOBCAPS Research

Valuations expensive

HOLD, TP Rs 2,000

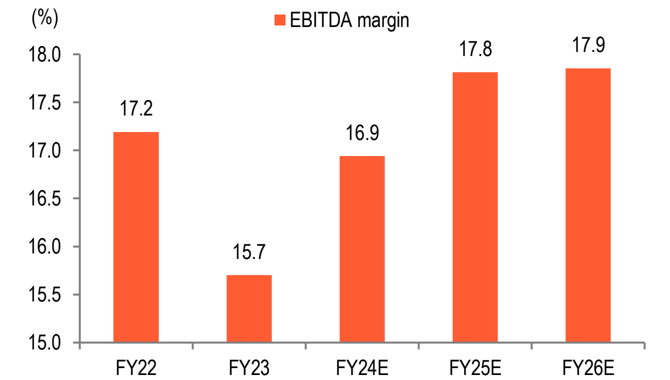
We forecast a healthy revenue/EBITDA/EPS CAGR of 14.5%/19.5%/21.5% for ASTRA over FY23-FY26 in anticipation of a revival in India's real estate cycle. However, current valuations at 69.8x one-year forward P/E look expensive (vs. the stock's five-year average of 66.2x), leading us to assume coverage with a HOLD rating. We value the stock at 70x Sep'25E EPS, in line with its current multiple, for a TP of Rs 2,000.

Fig 14 – Expect 14.5% revenue CAGR over FY23-FY26E on positive real estate outlook



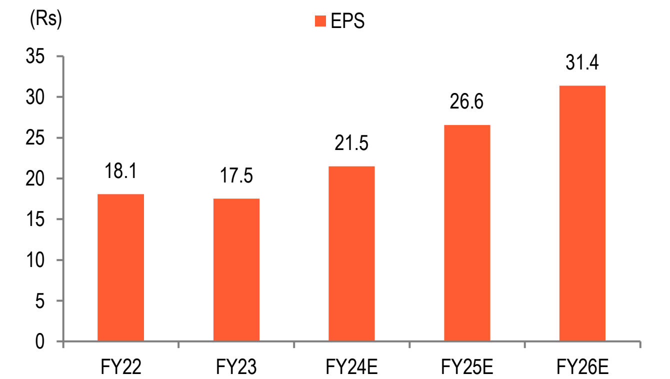
Source: Company, BOBCAPS Research

Fig 15 – EBITDA margin to improve 215bps over FY23-FY26E on favourable polymer prices and superior mix



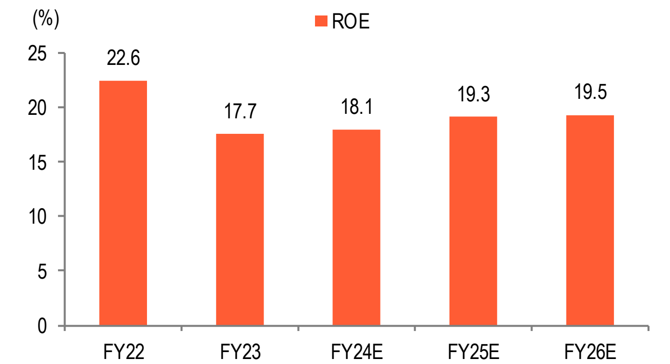
Source: Company, BOBCAPS Research

Fig 16 – EPS forecast to log 21.5% CAGR over FY23-FY26



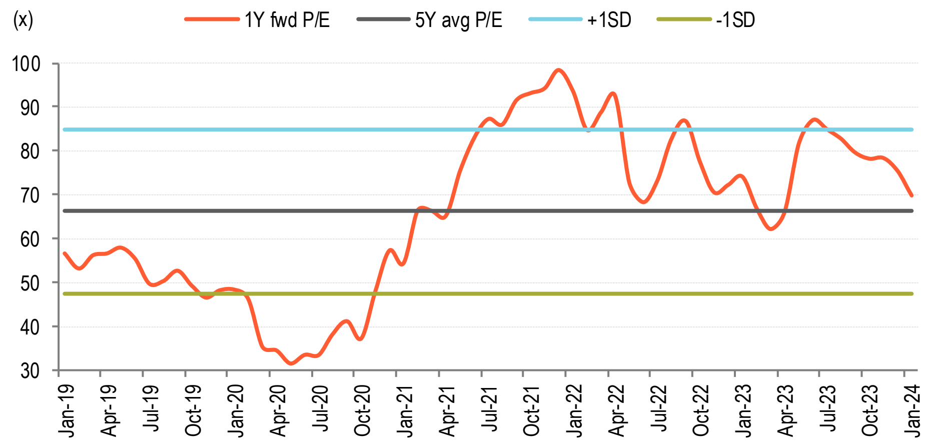
Source: Company, BOBCAPS Research

Fig 17 – ROE profile to remain healthy over medium term



Source: Company, BOBCAPS Research

Fig 18 – Trading at 69.8x 1Y forward P/E vs. 5Y average of 66.2x



Source: Bloomberg, BOBCAPS Research

Fig 19 – Key operational assumptions

Parameter (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue Mix					
Pipe	77	76	71	71	71
Adhesives	23	24	24	23	22
Paints	-	4	4	4	4
Bathware	-	0	1	2	3
Operating Metrics					
Pipe volume growth	9	19	21	15	15
Adhesive revenue growth	36	14	13	14	14
Paints revenue growth	-	-	0	15	15
Bathware revenue growth	-	-	277	95	49
EBITDA Margin					
Pipe	18.6	16.8	18.3	18.3	18.3
Adhesives	12.5	14.1	15.2	17.8	17.8
Paints	-	14.0	15.6	15.0	15.0
Bathware	-	(75.0)	(16.6)	(0.2)	4.6

Source: Company, BOBCAPS Research Estimates

Key risks

- Better-than-expected recovery in India's real estate sector and a sharp turnaround in the company's new paint & sanitaryware ventures would be key upside risks to our estimates.
- Market share loss in the pipe business would be a key downside risk.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**43,940**	**51,585**	**56,078**	**65,649**	**77,456**
EBITDA	7,554	8,100	9,500	11,693	13,829
Depreciation	1,269	1,781	1,961	2,361	2,761
EBIT	6,285	6,319	7,539	9,332	11,068
Net interest inc./(exp.)	(129)	(400)	(298)	(320)	(320)
Other inc./(exp.)	349	267	523	536	536
Exceptional items	1	1	0	0	0
EBT	6,504	6,185	7,764	9,548	11,284
Income taxes	1,581	1,557	1,976	2,403	2,840
Extraordinary items	0	(112)	0	0	0
Min. int./Inc. from assoc.	(85)	(44)	0	0	0
Reported net profit	**4,838**	**4,696**	**5,787**	**7,145**	**8,444**
Adjustments	1	14	0	0	0
Adjusted net profit	**4,839**	**4,710**	**5,787**	**7,145**	**8,444**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	7,484	8,000	8,719	10,208	12,043
Other current liabilities	1,384	4,854	1,531	1,531	1,531
Provisions	18	26	28	33	39
Debt funds	851	773	0	0	0
Other liabilities	491	489	489	489	489
Equity capital	201	269	269	269	269
Reserves & surplus	23,165	26,843	31,473	37,189	43,944
Shareholders' fund	23,644	29,589	34,219	39,935	46,690
Total liab. and equities	**33,872**	**43,731**	**44,987**	**52,195**	**60,792**
Cash and cash eq.	6,418	6,821	5,135	7,027	9,840
Accounts receivables	2,691	3,545	3,854	4,512	5,323
Inventories	7,334	8,746	8,037	9,428	11,386
Other current assets	1,008	3,380	3,684	4,313	5,088
Investments	0	0	0	0	0
Net fixed assets	11,572	13,923	16,962	19,601	21,839
CWIP	1,232	1,261	1,261	1,261	1,261
Intangible assets	3,388	5,582	5,582	5,582	5,582
Deferred tax assets, net	3	110	110	110	110
Other assets	226	363	363	363	363
Total assets	**33,872**	**43,731**	**44,987**	**52,195**	**60,792**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**5,318**	**5,768**	**5,019**	**8,105**	**9,286**
Capital expenditures	(3,634)	(6,355)	(5,000)	(5,000)	(5,000)
Change in investments	0	0	0	0	0
Other investing cash flows	348	248	523	536	536
Cash flow from investing	**(3,286)**	**(6,107)**	**(4,477)**	**(4,464)**	**(4,464)**
Equities issued/Others	8	13	0	0	0
Debt raised/repaid	185	(78)	(773)	0	0
Interest expenses	(129)	(400)	(298)	(320)	(320)
Dividends paid	(804)	(942)	(1,157)	(1,429)	(1,689)
Other financing cash flows	366	2,149	0	0	0
Cash flow from financing	**(374)**	**742**	**(2,228)**	**(1,749)**	**(2,009)**
Chg in cash & cash eq.	**1,658**	**403**	**(1,686)**	**1,892**	**2,813**
Closing cash & cash eq.	**6,418**	**6,821**	**5,135**	**7,027**	**9,840**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	18.1	17.5	21.5	26.6	31.4
Adjusted EPS	18.1	17.5	21.5	26.6	31.4
Dividend per share	3.0	3.5	4.3	5.3	6.3
Book value per share	87.2	100.8	118.0	139.2	164.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	11.0	9.4	8.7	7.4	6.3
EV/EBITDA	64.1	60.2	51.4	41.8	35.3
Adjusted P/E	99.4	102.5	83.4	67.5	57.2
P/BV	20.6	17.8	15.2	12.9	10.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.4	76.2	74.5	74.8	74.8
Interest burden (PBT/EBIT)	103.5	97.9	103.0	102.3	102.0
EBIT margin (EBIT/Revenue)	14.3	12.2	13.4	14.2	14.3
Asset turnover (Rev./Avg TA)	129.7	118.0	124.7	125.8	127.4
Leverage (Avg TA/Avg Equity)	1.6	1.6	1.4	1.4	1.4
Adjusted ROAE	22.6	17.7	18.1	19.3	19.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	38.3	17.4	8.7	17.1	18.0
EBITDA	17.2	7.2	17.3	23.1	18.3
Adjusted EPS	23.1	(3.0)	22.9	23.5	18.2
Profitability & Return ratios (%)					
EBITDA margin	17.2	15.7	16.9	17.8	17.9
EBIT margin	14.3	12.2	13.4	14.2	14.3
Adjusted profit margin	11.0	9.1	10.3	10.9	10.9
Adjusted ROAE	22.6	17.7	18.1	19.3	19.5
ROCE	27.1	21.7	23.6	24.7	24.9
Working capital days (days)					
Receivables	22	25	25	25	25
Inventory	61	62	52	52	54
Payables	62	57	57	57	57
Ratios (x)					
Gross asset turnover	2.6	2.6	2.3	2.2	2.2
Current ratio	1.9	1.7	2.0	2.1	2.3
Net interest coverage ratio	48.7	15.8	25.3	29.2	34.6
Adjusted debt/equity	(0.2)	(0.2)	(0.2)	(0.2)	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 230 | ⋎ 2%

FINOLEX INDUSTRIES | Plastic Products | 17 January 2024

Lack of positive triggers

- **Market share loss in plastic pipes and softer return ratios on poor capital allocation weigh on outlook**
- **Improvement in business risk profile with rising profit contribution of B2C pipe segment**
- **We assume coverage with HOLD and TP of Rs 230 on limited growth prospects and weak return ratios**

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Ceding market share in plastic pipes: FNXP is the fourth largest pipe company and the largest agricultural pipe player in India. It is also the only backward-integrated player as it manufactures PVC resin. However, FNXP has ceded ground among the top 5 listed pipe companies over the past decade – from 32.8% volume market share in FY15 to 28.1% in FY23 and 26% in H1FY24 as its geographical and product portfolio expansion has lagged peers and its volume mix contains a large proportion of agricultural pipes (70%+) – a segment seeing much lower demand growth than plumbing and infrastructure products.

Deterioration in return ratio profile: FNXP's net cash balance has ballooned from Rs 1.4bn in Mar'19 to Rs 15.6bn in Mar'23. Moreover, a limited capex programme points to additional free cash flow in future. We expect inefficient capital allocation to drive down ROE from 15.4% in FY20 to 9.0%-12.0% in FY24E-FY26E.

Structural improvement in business risk profile: FNXP business risk profile is expected to improve on a structural basis due to a) rising revenue contribution from fast-growing B2C pipes (from 69% in FY15 to 94% in FY23), scope for improvement in pipe segment EBITDA per unit due to a growing volume share of the high-margin non-agricultural pipe business (from 20% in FY18 to 30% in FY23 with a target of 50% long term), and a positive outlook for PVC resin profits given favourable currency trends.

HOLD, TP Rs 230: Compared to major peers, the stock is trading at a reasonable valuation of 24.1x on 1Y forward P/E vs. its 5Y average of 19x. However, we assume coverage with a HOLD rating due to the company's limited growth prospects (EPS estimated to log a slow 9% CAGR over FY19-FY26) and weak return ratio profile amidst poor capital allocation. We value the stock at 22x Sep'25E EPS for a TP of Rs 230.

Key risks: Better utilisation of surplus cash, strong agricultural pipe demand and settlement of a long-pending family dispute would be key upside risks to our estimates. A steep decline in PVC resin prices and market share loss in the plumbing pipe portfolio would represent key downside risks.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	FNXP IN/Rs 236
Market cap	US$ 1.8bn
Free float	47%
3M ADV	US$ 3.1mn
52wk high/low	Rs 260/Rs 158
Promoter/FPI/DII	52%/7%/12%

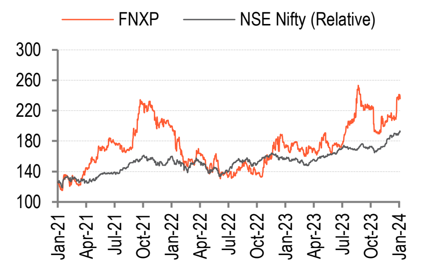
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	43,971	44,505	49,372
EBITDA (Rs mn)	3,258	5,797	8,433
Adj. net profit (Rs mn)	2,604	4,536	6,342
Adj. EPS (Rs)	4.2	7.3	10.3
Consensus EPS (Rs)	4.2	8.0	9.9
Adj. ROAE (%)	5.9	9.0	11.8
Adj. P/E (x)	56.0	32.2	23.0
EV/EBITDA (x)	48.5	27.9	19.1
Adj. EPS growth (%)	(65.9)	74.2	39.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

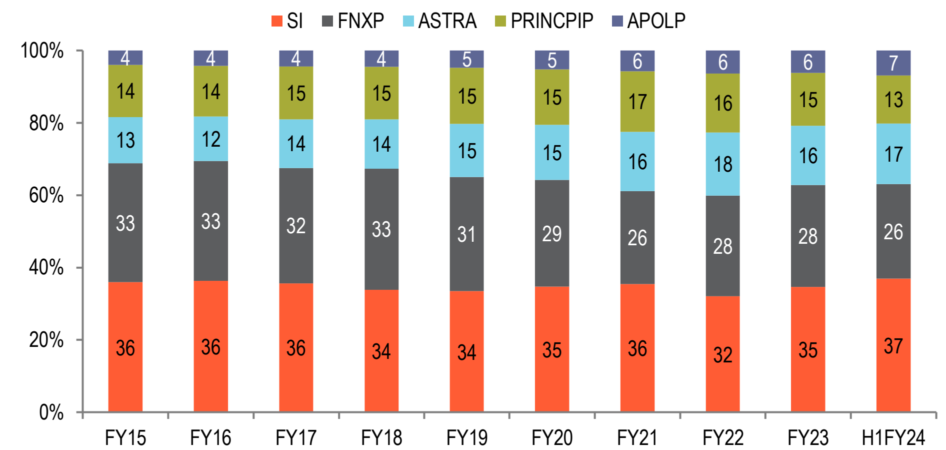
Limited growth prospects

Losing ground in plastic pipes

FNXP's volume market share among the top 5 listed pipe companies has receded from 32.8% in FY15 to 28.1% in FY23 and 26.0% in H1FY24 as (a) it has lagged peers in terms of geographical and product portfolio expansion, and (b) agricultural pipes form a large 70%+ share of its sale volumes, where demand growth is well below that of plumbing and infrastructure pipes.

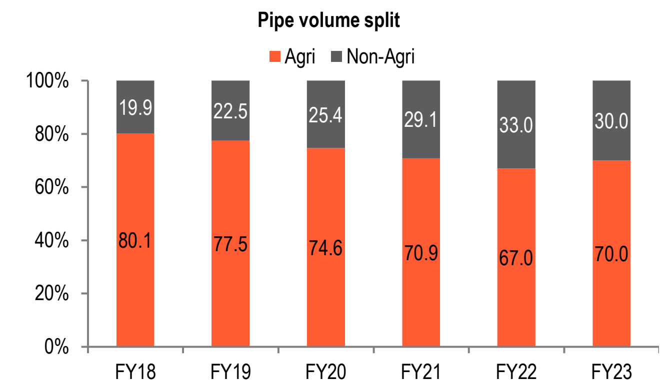
That said, the company has been working to ramp up sales of its non-agricultural pipe portfolio by increasing its footprint in urban and semi-urban areas. This has led to a healthy 12.6% revenue CAGR for the non-agricultural business over FY19-FY23 and an increase in volume share from 22.5% to 30% over the period.

Fig 1 – FNXP's market share among top 5 listed players has been consistently trending down



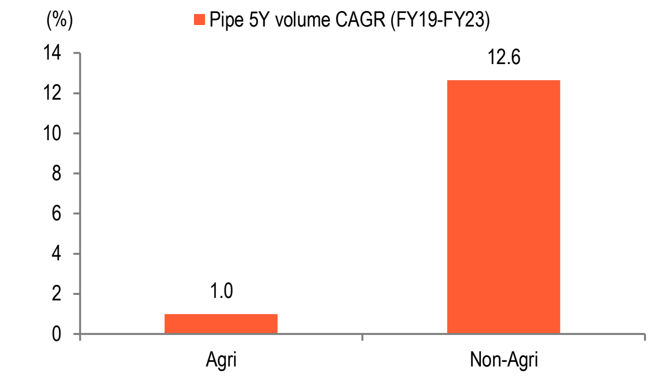
Source: Company, BOBCAPS Research

Fig 2 – High share of slow-growing agri pipe portfolio…



Source: Company, BOBCAPS Research

Fig 3 – …but non-agri pipe business is growing well



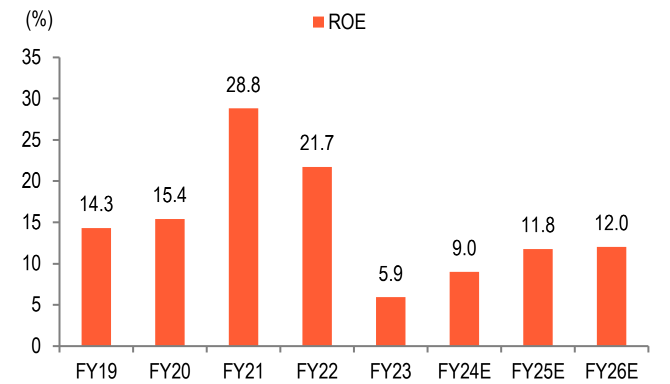
Source: Company, BOBCAPS Research

Inefficient capital allocation weighing on return ratios

FNXP's net cash balance has surged from Rs 1.4bn in Mar'19 to Rs 15.6bn in Mar'23. Moreover, given the company's limited capex programme, it is likely to generate positive free cash flow from operations in future. We expect inefficient capital allocation to drive down ROE from 15.4% in FY20 to 9.0%-12.0% in FY24E-FY26E.

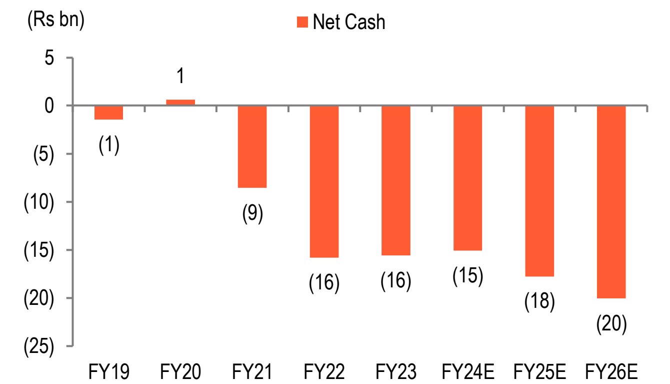
In our view, any action taken by management to better utilise the existing cash surplus would serve as a positive stock trigger – this could include aggressive expansion in the existing pipe business, forays into allied categories, or distribution of surplus cash to shareholders via special dividend or buyback.

Fig 4 – ROE profile likely to moderate...



Source: Company, BOBCAPS Research Estimates

Fig 5 – …due to an inefficient capital allocation policy



Source: Company, BOBCAPS Research Estimates

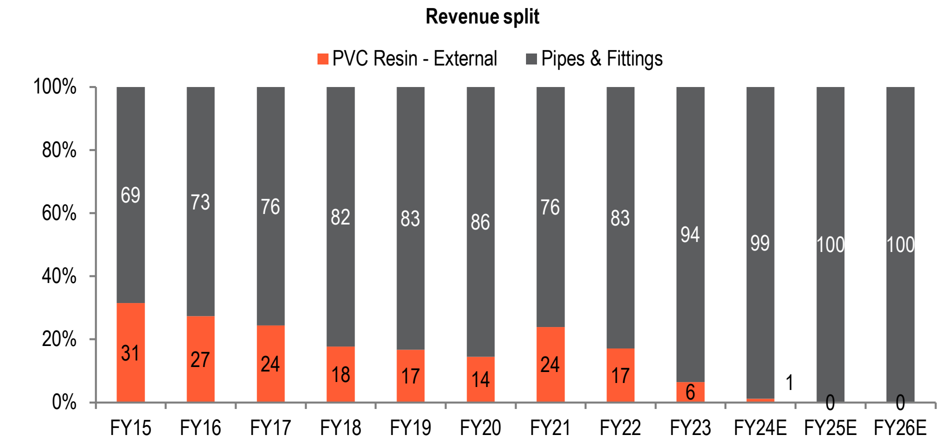
Structural improvement in business risk profile

On a positive note, we expect structural improvement in FNXP's business risk profile over the long term for three reasons. Firstly, management remains focused on the faster growing, more profitable B2C pipes business, where revenue contribution has climbed from 69% in FY15 to 94% in FY23, while scaling back the cyclical PVC resin segment as evidenced by a decided absence of major capex plans.

Secondly, we see scope for improvement in pipe segment EBITDA per unit due to a growing share of the high-margin non-agricultural pipe business. Management has set a target of taking the volume share of non-agricultural pipes from 30% in FY23 to 50% over the long term.

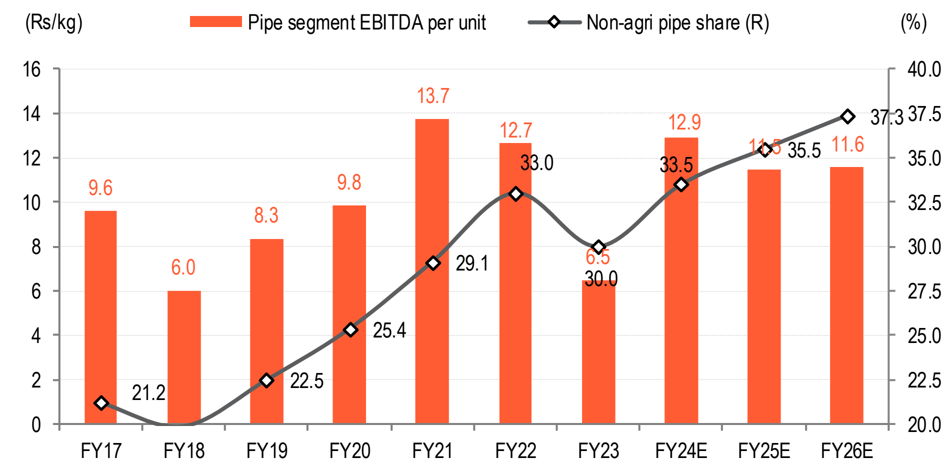
Thirdly, we see a positive outlook for PVC resin segment profits due to weakness in the rupee against the US dollar. We note that despite stable global PVC resin spreads in dollar terms over the past two decades, FNXP's EBITDA per unit in the PVC resin segment has been consistently trending up due to the impact of rupee depreciation.

Fig 6 – Business risk profile to structurally improve due to rising contribution of B2C pipe segment revenue



Source: Company, BOBCAPS Research

Fig 7 – Change in product mix to raise pipe segment EBITDA per unit



Source: Company, BOBCAPS Research

Fig 8 – Positive outlook for PVC resin segment profit due to weak rupee

Particulars	FY09-FY13	FY14-FY18	FY19-FY23
Average PVC-EDC resin spread (US$/t)	428	398	490
Average forex rate (USDINR)	48	64	76
Average FNXP PVC resin segment EBITDA per unit (Rs/kg)	7.9	9.5	18.1

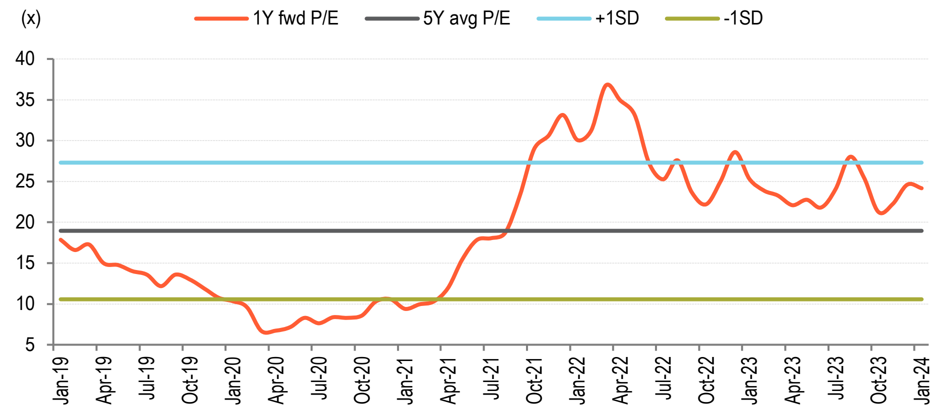
Source: Company, Bloomberg, BOBCAPS Research

Valuations reasonable but lack of positive triggers

HOLD, TP Rs 230

We believe FNXP's business risk profile will improve on a structural basis as the product profile improves. The stock also trades at a reasonable valuation compared to major peers, at 24.1x one-year forward P/E vs. the five-year average of 19x. However, we assume coverage with a HOLD rating due to the company's limited growth prospects (EPS estimated to grow at only 9% CAGR over FY19-FY26) and weak return ratios amidst inefficient capital allocation (ROE projected to drop from 15.4% in FY20 to 9-12% in FY24-FY26). We value the stock at 22x Sep'25E EPS, a slight premium to its historical multiple on an improving business risk profile, for a TP of Rs 230.

Fig 9 – Trading at 24.1x 1Y forward P/E vs. 5Y average of 19x



Source: Bloomberg, BOBCAPS Research

Fig 10 – Key operational assumptions

Parameter (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix					
PVC resin	17.1	6.5	1.1	0.0	0.0
Pipes & Fittings	82.9	93.5	98.9	100.0	100.0
Sales volume growth					
Pipes & Fittings	12	28	12	10	9
Realisation growth					
Pipes & Fittings	31	(17)	(5)	2	3
EBITDA per unit (Rs/kg)					
PVC resin	32.4	4.0	7.4	15.5	16.4
Pipes & Fittings	12.7	6.5	12.9	11.5	11.6

Source: Company, BOBCAPS Research Estimates

Key risks

- Better utilisation of surplus cash, strong agricultural pipe demand and settlement of a long-pending family dispute related to control of Finolex Cables (FNXC) would be key upside risks.
- A steep decline in PVC resin prices and market share loss in the plumbing pipe portfolio would represent key downside risks to our call.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**46,473**	**43,971**	**44,505**	**49,372**	**55,528**
EBITDA	10,276	3,258	5,797	8,433	9,390
Depreciation	834	892	1,099	1,123	1,201
EBIT	9,442	2,366	4,698	7,310	8,189
Net interest inc./(exp.)	(141)	(272)	(464)	(498)	(498)
Other inc./(exp.)	822	1,209	1,585	1,420	1,420
Exceptional items	39	332	0	0	0
EBT	10,085	2,970	5,819	8,232	9,110
Income taxes	3,317	706	1,526	2,133	2,354
Extraordinary items	(3,761)	0	0	0	0
Min. int./Inc. from assoc.	(15)	243	243	243	243
Reported net profit	**10,513**	**2,507**	**4,536**	**6,342**	**6,999**
Adjustments	(2,841)	97	0	0	0
Adjusted net profit	**7,672**	**2,604**	**4,536**	**6,342**	**6,999**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	4,631	2,893	2,952	3,275	3,683
Other current liabilities	4,535	3,158	3,158	3,158	3,158
Provisions	42	45	46	50	57
Debt funds	2,780	5,264	5,264	5,264	5,264
Other liabilities	2,187	2,460	2,460	2,460	2,460
Equity capital	1,241	1,237	1,237	1,237	1,237
Reserves & surplus	38,037	47,794	50,475	54,652	59,178
Shareholders' fund	39,278	49,031	51,712	55,889	60,414
Total liab. and equities	**53,454**	**62,851**	**65,592**	**70,097**	**75,037**
Cash and cash eq.	18,573	20,812	20,313	23,000	25,312
Accounts receivables	3,345	2,975	3,012	3,341	3,757
Inventories	10,155	6,732	9,014	9,521	10,802
Other current assets	625	940	959	1,064	1,197
Investments	9,415	19,262	19,262	19,262	19,262
Net fixed assets	9,923	10,376	11,277	12,154	12,953
CWIP	95	438	438	438	438
Intangible assets	9	176	176	176	176
Deferred tax assets, net	256	245	245	245	245
Other assets	1,060	894	894	894	894
Total assets	**53,454**	**62,851**	**65,592**	**70,097**	**75,037**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**6,113**	**3,622**	**2,235**	**5,929**	**5,863**
Capital expenditures	(801)	(1,868)	(2,000)	(2,000)	(2,000)
Change in investments	160	(9,848)	0	0	0
Other investing cash flows	4,544	877	1,585	1,420	1,420
Cash flow from investing	**3,904**	**(10,839)**	**(415)**	**(580)**	**(580)**
Equities issued/Others	0	(4)	0	0	0
Debt raised/repaid	742	2,484	0	0	0
Interest expenses	(2,482)	(928)	(1,855)	(2,164)	(2,473)
Dividends paid	(141)	(272)	(464)	(498)	(498)
Other financing cash flows	(143)	8,177	0	0	0
Cash flow from financing	**(2,024)**	**9,457**	**(2,319)**	**(2,663)**	**(2,972)**
Chg in cash & cash eq.	**7,993**	**2,240**	**(499)**	**2,687**	**2,311**
Closing cash & cash eq.	**18,573**	**20,812**	**20,313**	**23,000**	**25,312**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	16.9	4.1	7.3	10.3	11.3
Adjusted EPS	12.4	4.2	7.3	10.3	11.3
Dividend per share	4.0	1.5	3.0	3.5	4.0
Book value per share	63.3	79.3	83.6	90.4	97.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.2	3.6	3.6	3.3	2.9
EV/EBITDA	14.6	48.5	27.9	19.1	17.3
Adjusted P/E	19.1	56.0	32.2	23.0	20.8
P/BV	3.7	3.0	2.8	2.6	2.4

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	76.1	87.7	77.9	77.0	76.8
Interest burden (PBT/EBIT)	106.8	125.6	123.9	112.6	111.3
EBIT margin (EBIT/Revenue)	20.3	5.4	10.6	14.8	14.7
Asset turnover (Rev./Avg TA)	86.9	70.0	67.9	70.4	74.0
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.3	1.3
Adjusted ROAE	21.7	5.9	9.0	11.8	12.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	34.2	(5.4)	1.2	10.9	12.5
EBITDA	3.8	(68.3)	77.9	45.5	11.3
Adjusted EPS	3.9	(65.9)	74.2	39.8	10.4
Profitability & Return ratios (%)					
EBITDA margin	22.1	7.4	13.0	17.1	16.9
EBIT margin	20.3	5.4	10.6	14.8	14.7
Adjusted profit margin	16.5	5.9	10.2	12.8	12.6
Adjusted ROAE	21.7	5.9	9.0	11.8	12.0
ROCE	24.4	6.6	11.0	14.3	14.6
Working capital days (days)					
Receivables	26	25	25	25	25
Inventory	80	56	74	70	71
Payables	36	24	24	24	24
Ratios (x)					
Gross asset turnover	1.9	1.8	1.7	1.7	1.8
Current ratio	2.7	2.8	2.9	3.1	3.4
Net interest coverage ratio	67.0	8.7	10.1	14.7	16.4
Adjusted debt/equity	(0.4)	(0.3)	(0.3)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

HOLD
TP: Rs 800 | ⮝ 12%

PRINCE PIPES & FITTINGS

| Building Materials | 17 January 2024

Tepid earnings profile, fairly valued

- **Ranks as the #5 plastic pipe company in India and is a pure play on the business, with an improving brand image**
- **Market share bleed amid stiff competition, deteriorating ROE and low 7.3% earnings growth visibility (FY22-FY26E) are key concerns**
- **Fairly valued; initiate with HOLD and TP of Rs 800, set at 30x Sep'25E EPS**

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Pure play pipe company: PRINCPIP is the fifth largest plastic pipe company in India with a strong presence in the retail segment, besides making a recent foray into the B2B project and infrastructure pipe business. The company generates most of its revenue from the plastic pipe segment, where the price gap to industry leader SI has been narrowing steadily since FY19 due to rising sales of value-added products and an improving brand image backed by higher ad spends and a partnership with the reputed Lubrizol-Flowguard brand for its CPVC piping system.

Fall in market share, rise in collection period: Despite elongation of its debtor cycle vis-à-vis a decline in collection period for the industry, PRINCPIP's volume market share among the top 5 listed pipe companies has fallen over the past two years from 16.7% in FY21 to 14.6% in FY23 due to aggressive competition in the retail segment as well as a reduction in product price differential to peers.

Moderation in return ratio profile: Considering low reliance on leverage to grow the business in the three years post IPO and suboptimal utilisation of the newly commissioned greenfield unit in Telangana, we expect PRINCPIP's ROE to drop from ~22.5% pre-Covid (FY18-FY20) to 16% on average over FY24-FY26.

Initiate with HOLD, TP Rs 800: Baking in competitive pressures, we model for a sluggish EPS CAGR of 7.3% for the company over FY22-FY26. In our view, the stock is fairly valued at 30.5x on 1Y forward P/E vs. a mean of 29.5x since listing in Dec'19. We thus initiate coverage with HOLD and have a TP of Rs 800, set at 30x Sep'25E EPS.

Key risks: Market share gains in plastic pipes and a sharp improvement in return ratios would represent key upside risks to our estimates. Increased exposure to group companies and significant cost or time overruns in the Bihar greenfield project are key downside risks.

Ticker/Price	PRINCPIP IN/Rs 712
Market cap	US$ 957.8mn
Free float	39%
3M ADV	US$ 4.0mn
52wk high/low	Rs 776/Rs 533
Promoter/FPI/DII	61%/5%/19%

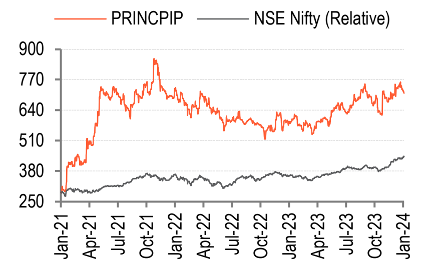
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	27,109	27,284	31,455
EBITDA (Rs mn)	2,517	3,603	4,539
Adj. net profit (Rs mn)	1,223	2,032	2,686
Adj. EPS (Rs)	11.1	18.4	24.3
Consensus EPS (Rs)	11.1	19.0	25.8
Adj. ROAE (%)	9.3	14.0	16.3
Adj. P/E (x)	64.4	38.7	29.3
EV/EBITDA (x)	31.4	21.9	17.7
Adj. EPS growth (%)	(51.3)	66.2	32.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

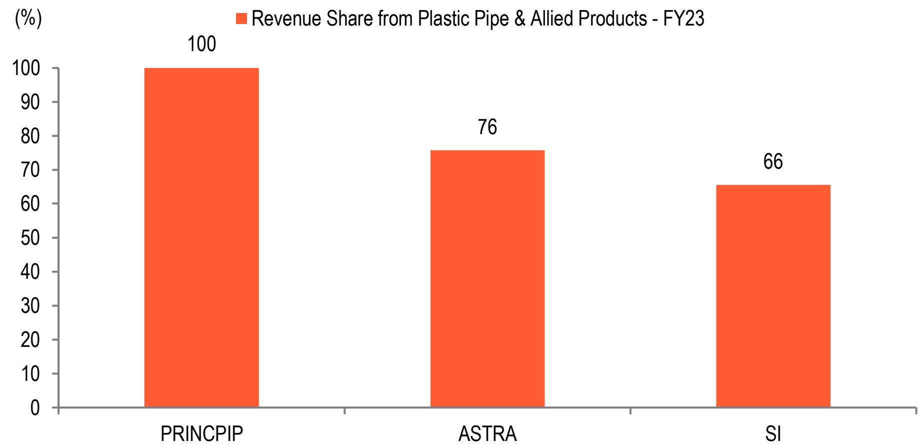
Tepid growth profile

Pure play pipe company

PRINCPIP, the #5 player in plastic pipes, generates most of its revenue from the pipe segment, whereas its top 3 peers also have a presence in other segments that carry an inferior risk profile to the core business.

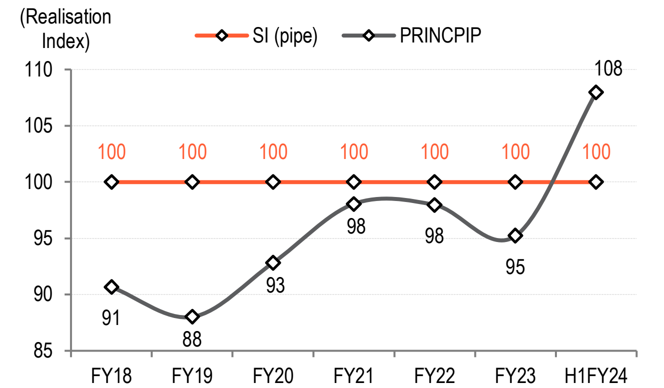
Notably, the company's price gap with industry leader SI has been narrowing since FY19 due to an improving product profile, marked by a higher share of value-added products such as CPVC, plumbing & drainage and water tanks, and a stronger brand image on the back of higher advertising spends and an alliance with the reputed Lubrizol-Flowguard brand for its CPVC piping system. Management has also leveraged the opportunities arising from industry consolidation in a weak economic cycle.

Fig 1 – PRINCPIP a pure play plastic pipe company unlike other top players



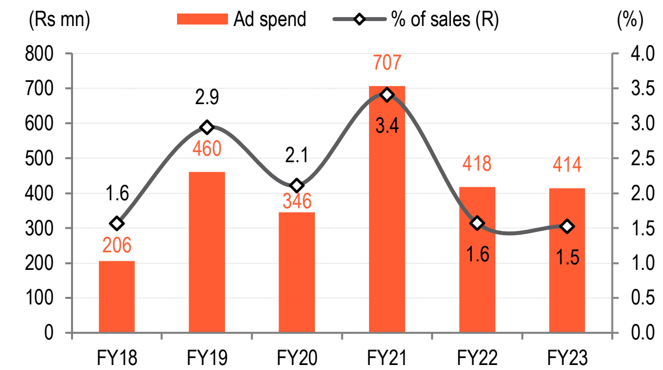
Source: Company, BOBCAPS Research

Fig 2 – Price gap to leader SI has narrowed since FY19 due to an improved mix…



Source: Company, BOBCAPS Research

Fig 3 – …and higher brand spend as well as industry consolidation in a weak economic cycle



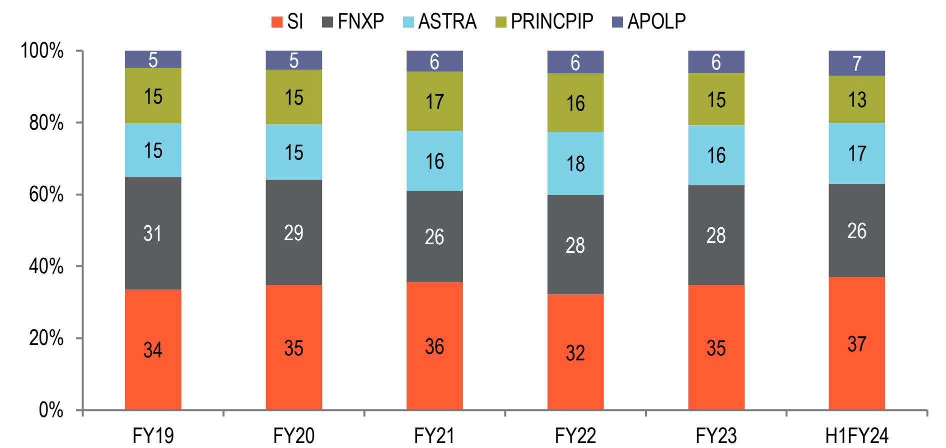
Source: Company, BOBCAPS Research

Loss of market share, high collection period

PRINCPIP has a strong presence in the retail segment but a small footprint in B2B projects and infrastructure pipes due to a late entry. The company's volume market share among the top 5 listed pipe companies has tapered down from 16.7% in FY21 to 14.6% in FY23 despite a sharp rise in collection period – from 31 days in Q3FY21 to 59 days in Q2FY24 – as against a declining trend in debtor days for major peers. This indicates that PRINCPIP has lost market share in the retail segment, likely due to a narrowing of the price gap with industry leaders and a rise in competitive intensity.

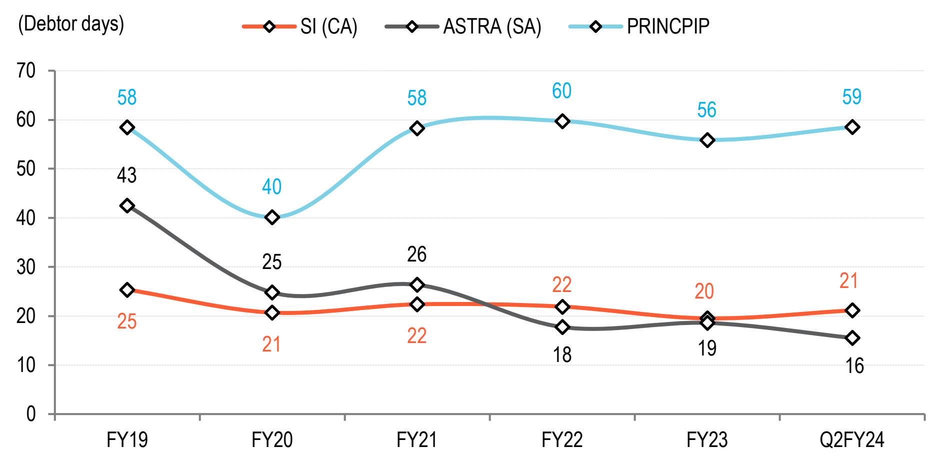
Factoring in market share losses amid aggressive competition in the retail segment, we forecast a tepid revenue/EBITDA/EPS CAGR of 7.9%/7.3%/7.3% for the company over FY22-FY26E.

Fig 4 – Market share among top 5 down from 16.7% in FY21 to 14.6% in FY23…



Source: Company, BOBCAPS Research

Fig 5 – …despite elongation of collection period vs. declining trend for peers

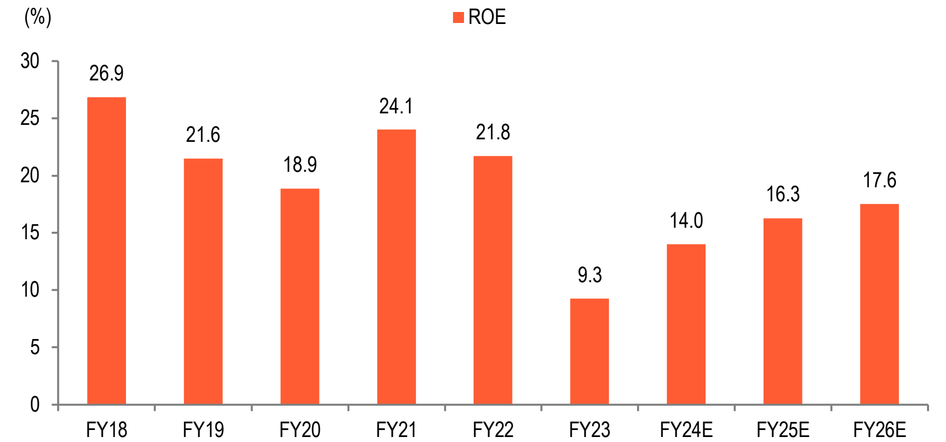


Source: Company, BOBCAPS Research

Weakening return ratio profile

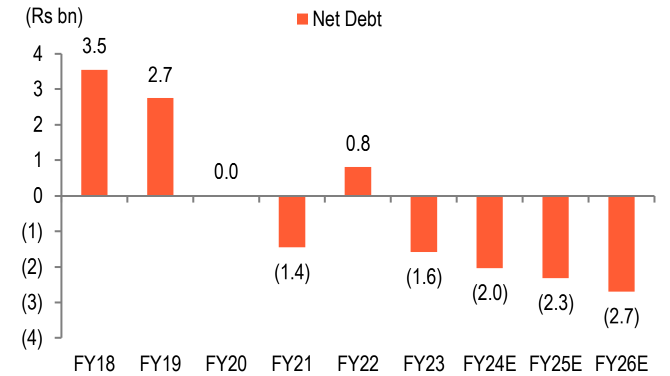
We expect the company's ROE profile to moderate from an average of ~22.5% during the pre-Covid period (FY18-FY20) to 16.0% on average over FY24E-FY26E due to a low reliance on leverage to expand operations post IPO and suboptimal utilisation of the newly commissioned greenfield unit in Telangana.

Fig 6 – ROE profile forecast to moderate from pre-Covid levels…



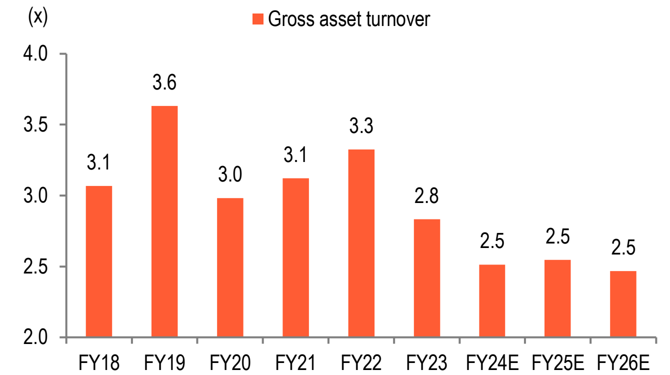
Source: Company, BOBCAPS Research

Fig 7 – …due to low leverage…



Source: Company, BOBCAPS Research

Fig 8 – …and suboptimal utilisation of Telangana unit



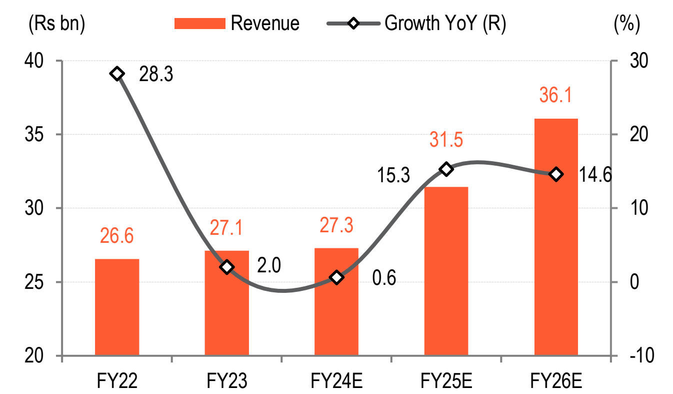
Source: Company, BOBCAPS Research

Valuations fair

Initiate with HOLD, TP Rs 800

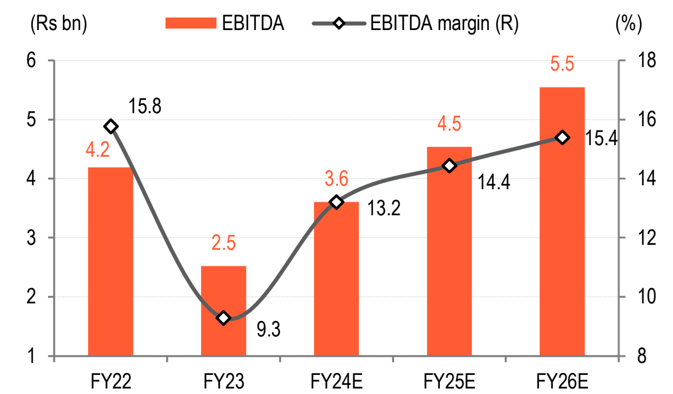
Baking in competitive pressures in the retail space, we forecast a tepid revenue/ EBITDA/EPS CAGR of 7.9%/7.3%/7.3% for PRINCPIP over FY22-FY26. In our view, the stock is fairly valued at 30.5x one-year forward P/E vs. 29.5x on average since listing in Dec'19. We value the stock at 30x Sep'25E EPS for a TP of Rs 800, in line with its historical multiple, and initiate coverage with a HOLD rating that reflects our tepid earnings growth expectations and the stock's limited upside potential.

Fig 9 – Revenue to grow at 7.9% CAGR over FY22-FY26E



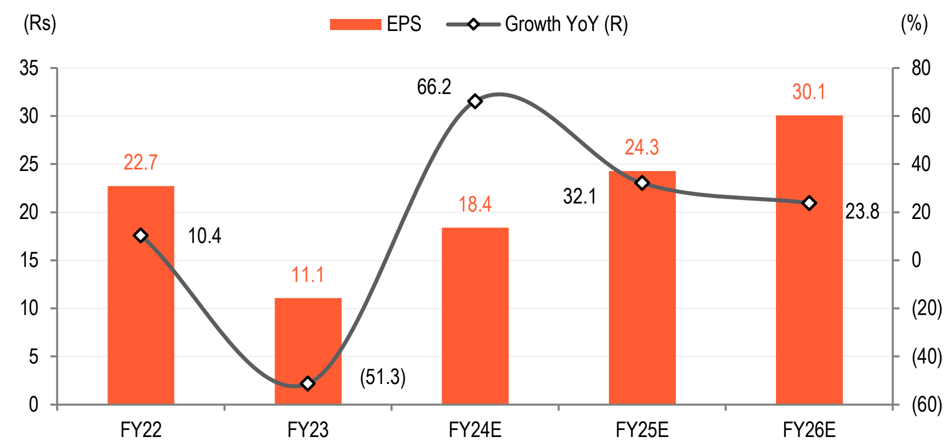
Source: Company, BOBCAPS Research

Fig 10 – EBITDA margin to slightly moderate from 15.8% in FY22 to 15.4% in FY26E



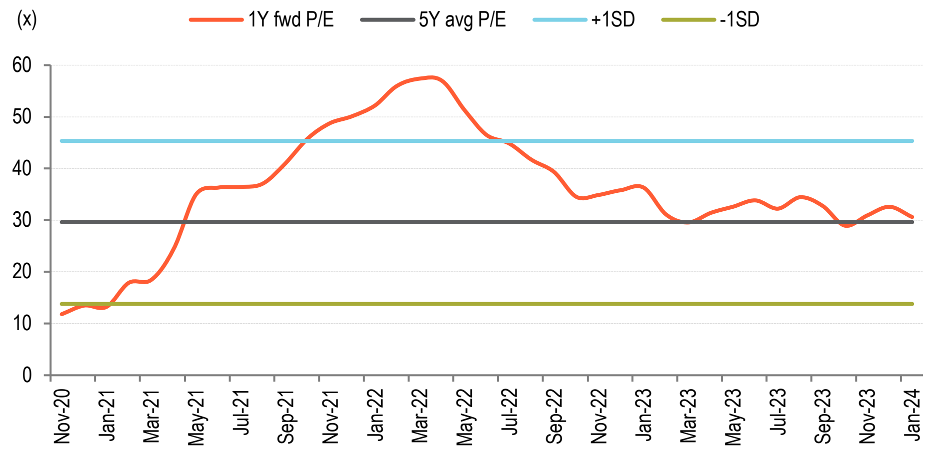
Source: Company, BOBCAPS Research

Fig 11 – EPS to grow at a tepid pace of 7.3% over FY22-FY26E



Source: Company, BOBCAPS Research

Fig 12 – Trades at 30.5x 1Y fwd P/E vs. 5Y average of 29.5x



Source: Bloomberg, BOBCAPS Research

Fig 13 – Key operational assumptions

(%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales volume growth	4.1	0.5	13.4	12.7	13.6	13.7
Realisation growth	21.6	27.6	(10.1)	(10.7)	1.4	0.8
EBITDA per unit (Rs/kg)	26.6	30.1	16.0	20.3	22.5	24.2

Source: Company, BOBCAPS Research

Key risks

- Market share gains in plastic pipes and a sharp improvement in return ratios would be key upside risks to our estimates.
- Increased exposure to group companies and significant cost/time overruns in the Bihar greenfield project are key downside risks.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**26,568**	**27,109**	**27,284**	**31,455**	**36,052**
EBITDA	4,188	2,517	3,603	4,539	5,548
Depreciation	703	830	912	1,013	1,168
EBIT	3,485	1,687	2,691	3,526	4,380
Net interest inc./(exp.)	(139)	(110)	(69)	(69)	(69)
Other inc./(exp.)	55	86	132	132	132
Exceptional items	32	14	0	0	0
EBT	3,369	1,648	2,754	3,589	4,442
Income taxes	875	434	722	903	1,118
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**2,494**	**1,214**	**2,032**	**2,686**	**3,324**
Adjustments	18	9	0	0	0
Adjusted net profit	**2,512**	**1,223**	**2,032**	**2,686**	**3,324**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	3,986	3,202	3,384	3,901	4,471
Other current liabilities	980	794	794	794	794
Provisions	22	20	21	24	27
Debt funds	1,500	581	585	675	773
Other liabilities	250	305	305	305	305
Equity capital	1,106	1,106	1,106	1,106	1,106
Reserves & surplus	11,547	12,534	14,235	16,423	19,194
Shareholders' fund	12,653	13,640	15,340	17,528	20,300
Total liab. and equities	**19,390**	**18,542**	**20,429**	**23,227**	**26,671**
Cash and cash eq.	687	2,161	2,620	2,989	3,469
Accounts receivables	4,346	4,150	4,177	4,816	5,519
Inventories	6,188	4,256	4,831	5,525	6,333
Other current assets	1,046	684	723	832	953
Investments	17	3	3	3	3
Net fixed assets	6,415	6,750	7,338	7,825	9,656
CWIP	226	190	390	890	390
Intangible assets	41	101	101	101	101
Deferred tax assets, net	0	0	0	0	0
Other assets	425	246	246	246	246
Total assets	**19,390**	**18,542**	**20,429**	**23,227**	**26,671**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**(185)**	**3,645**	**2,424**	**2,715**	**3,370**
Capital expenditures	(1,680)	(1,000)	(1,700)	(2,000)	(2,500)
Change in investments	(2)	14	0	0	0
Other investing cash flows	22	72	132	132	132
Cash flow from investing	**(1)**	**(19)**	**0**	**0**	**0**
Equities issued/Others	5	0	0	0	0
Debt raised/repaid	648	(919)	4	89	99
Interest expenses	(139)	(110)	(69)	(69)	(69)
Dividends paid	(387)	0	(332)	(498)	(553)
Other financing cash flows	105	(227)	0	0	0
Cash flow from financing	**233**	**(1,256)**	**(397)**	**(477)**	**(523)**
Chg in cash & cash eq.	**47**	**2,370**	**2,027**	**2,238**	**2,847**
Closing cash & cash eq.	**687**	**2,161**	**2,620**	**2,989**	**3,469**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	22.6	11.0	18.4	24.3	30.1
Adjusted EPS	22.7	11.1	18.4	24.3	30.1
Dividend per share	3.5	0.0	3.0	4.5	5.0
Book value per share	114.4	123.4	138.8	158.5	183.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.0	2.9	2.9	2.6	2.2
EV/EBITDA	19.0	31.4	21.9	17.7	14.6
Adjusted P/E	31.3	64.4	38.7	29.3	23.7
P/BV	6.2	5.8	5.1	4.5	3.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.6	74.2	73.8	74.8	74.8
Interest burden (PBT/EBIT)	96.7	97.7	102.3	101.8	101.4
EBIT margin (EBIT/Revenue)	13.1	6.2	9.9	11.2	12.1
Asset turnover (Rev./Avg TA)	137.0	146.2	133.6	135.4	135.2
Leverage (Avg TA/Avg Equity)	1.7	1.4	1.4	1.4	1.4
Adjusted ROAE	21.8	9.3	14.0	16.3	17.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	28.3	2.0	0.6	15.3	14.6
EBITDA	13.9	(39.9)	43.1	26.0	22.2
Adjusted EPS	10.4	(51.3)	66.2	32.1	23.8
Profitability & Return ratios (%)					
EBITDA margin	15.8	9.3	13.2	14.4	15.4
EBIT margin	13.1	6.2	9.9	11.2	12.1
Adjusted profit margin	9.5	4.5	7.4	8.5	9.2
Adjusted ROAE	21.8	9.3	14.0	16.3	17.6
ROCE	25.0	12.5	17.7	20.1	21.4
Working capital days (days)					
Receivables	60	56	56	56	56
Inventory	85	57	65	64	64
Payables	55	43	45	45	45
Ratios (x)					
Gross asset turnover	3.3	2.8	2.5	2.5	2.5
Current ratio	1.9	2.4	2.6	2.6	2.7
Net interest coverage ratio	25.1	15.3	39.1	51.3	63.7
Adjusted debt/equity	0.1	(0.1)	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

HOLD

TP: Rs 650 | ∀ 6%

APOLLO PIPES | Building Materials | 17 January 2024

Sacrificing margins for growth

- **Market share gains spurred by aggressive pricing, but EBITDA margin capped at single digits**
- **Resorting to equity dilution to support growth due to inferior return ratios (8.4% pre-tax ROCE in FY23)**
- **Potential derating candidate; initiate with HOLD and TP of Rs 650, set at 30x Sep'25E P/E**

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Building market share through aggressive pricing: APOLP is among the top 10 leading plastic pipe companies in India and is a part of APL Apollo Tubes, which is engaged in the manufacture of electric resistance welded (ERW) steel tubes and structural products. APOLP has been capturing market share in plastic pipes over the past five years through a strategy of steep product discounting and by expanding both its geographic and product footprint. Its volume market share among the top 5 pipe companies has improved from 4.8% in FY19 to 6.2% in FY23. The management target to grow its pipe volume at 25% CAGR over the next 3-4 years.

Weak margin profile: APOLP's EBITDA margin has plummeted from pre-Covid levels of ~11% to 7.4%/9.9% in FY23/H1FY24 because of its small scale of operations (131ktpa capacity vs. 600ktpa for industry leader SI), high share of low-margin agricultural pipes (close to 50% of volumes in FY23), and aggressive pricing.

Resorting to equity dilution to support growth: The company generates inferior return ratios than peers (8.4% pre-tax ROCE in FY23) on account of weak operating margin and suboptimal 50% capacity utilisation. Consequently, APOLP has twice resorted to equity dilution to support growth whereas peers have been able to fund growth capex via internal accruals. We model for modest pre-tax ROCE of 11-13% over FY24-FY26 vs. management's ambitious target of 25-30% over 3-4 years.

Initiate with HOLD, TP Rs 650: We value the stock at 30x Sep'25E EPS, 14% discount to its 5Y average of 34.8x as we believe it would be an uphill task for management to achieve its twin objectives of ramping up sales volume at a 25% CAGR and quadrupling pre-tax ROCE in 3-4 years. Our valuation yields a TP of Rs 650, which implies 6% downside – initiate with HOLD.

Key risks: A sharp improvement in return ratios and large market share gains would be key upside risks to our estimates. Market share loss in the plastic pipe business and significant time or cost overruns in ongoing expansion projects would be key downside risks.

Ticker/Price	APOLP IN/Rs 694
Market cap	US$ 336.3mn
Free float	49%
3M ADV	US$ 0.6mn
52wk high/low	Rs 790/Rs 481
Promoter/FPI/DII	49%/2%/13%

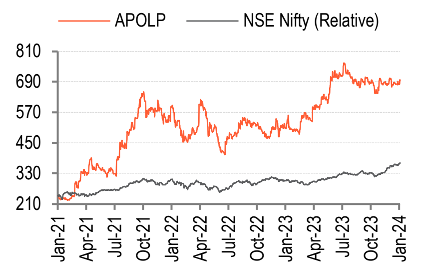
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	9,145	10,380	12,370
EBITDA (Rs mn)	680	1,031	1,352
Adj. net profit (Rs mn)	239	549	758
Adj. EPS (Rs)	6.1	13.8	19.1
Consensus EPS (Rs)	6.1	15.9	21.9
Adj. ROAE (%)	5.5	9.0	9.5
Adj. P/E (x)	114.1	50.3	36.4
EV/EBITDA (x)	40.7	26.8	21.2
Adj. EPS growth (%)	(51.9)	126.8	38.1

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



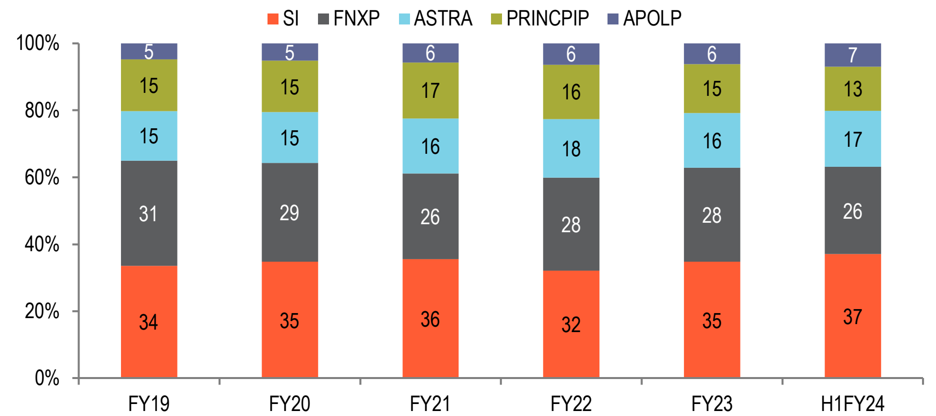
Source: NSE

Pursuit of growth at a sacrifice of margins

Gaining market share through aggressive pricing

APOLP sells its products at a discount to other pipe majors in a bid to drive volumes. This coupled with geographical and product portfolio expansion has led to an increase in its volume market share among the top 5 listed plastic pipe companies from 4.8% in FY19 to 6.2% in FY23 and 7.0% in H1FY24. Management is targeting a volume CAGR of 25% over the next 3-4 years vs. 14.6% over FY18-FY23 by leveraging its aggressive price strategy.

Fig 1 – APOLP's volume market share has improved due to aggressive pricing and geographical/product portfolio expansion



Source: Company, BOBCAPS Research

Weak margin profile

APOLP underperforms most listed peers on margins due to its small scale of operations, large share of low-margin agricultural pipes in its sales volume (close to 50% in FY23), and aggressive-price strategy to gain market share. The company's EBITDA margin has dropped from pre-Covid levels of ~11% to 7.4%/9.9% in FY23/H1FY24, further exacerbated by the impact of MTM inventory losses following a steep decline in PVC resin prices.

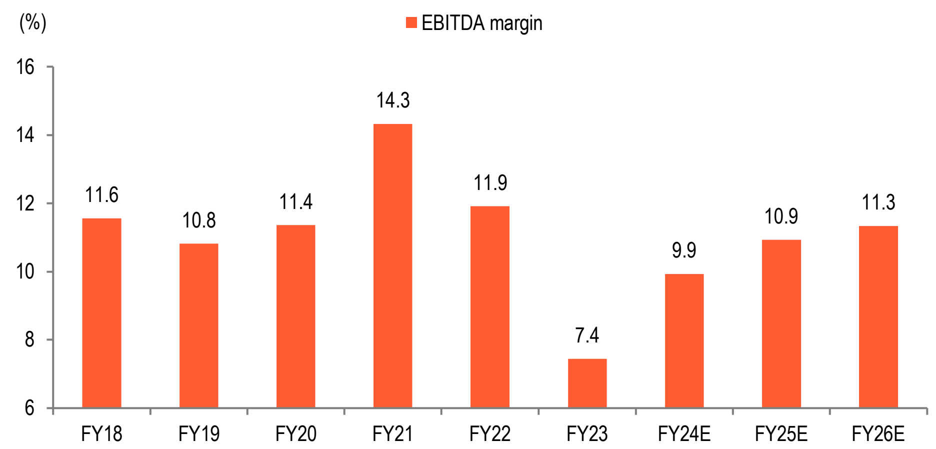
Considering management's strong focus on raising the share of value-added products and the expected benefits from operating leverage, we model for a gradual improvement in APOLP's EBITDA margin to low double digits in FY25-FY26 – albeit still well below our projections for peers.

Fig 2 – Poor margin profile due to inferior mix and aggressive pricing

Company	Q2FY24		Product mix (%)		
	Revenue (Rs bn)	EBITDA margin (%)	Agriculture	Plumbing & Drainage	Infrastructure
SI	15.1	16.3	25-35	55-65	10
ASTRA	9.6	18.0	<10	>80	10
FNXP	8.6	9.4	60	40	0
PRINCPIP	6.6	14.3	30-35	60-65	<5
APOLP	2.5	9.7	52	48	0
HINDWARE	2.0	9.6	<5	>95	0

Source: Company, BOBCAPS Research

Fig 3 – APOLP EBITDA margin is forecast to improve from 9.9% in H1FY24 to ~11% in FY25-FY26E



Source: Company, BOBCAPS Research

Resorting to equity dilution to support growth

APOLP has opted for equity dilution twice over the past five years totalling Rs 4.6bn, whereas other pipe majors have been able to fund growth capex through internal accruals. This, we believe, is primarily because the company generates inferior return ratios that cannot support its ambitious growth plans.

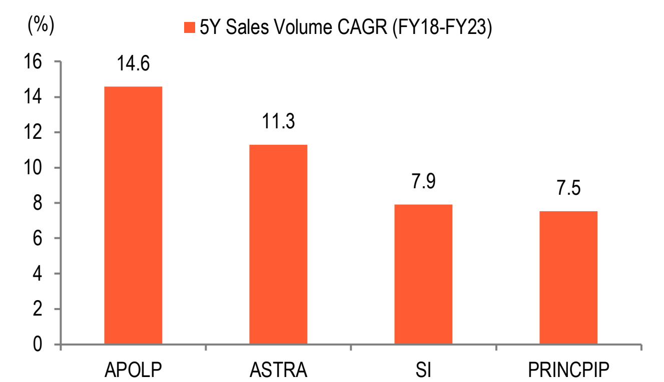
In FY23, pre-tax ROCE stood at just 8%, which management aims to scale to 25-30% over the next 3-4 years. In contrast, we expect only nominal improvement in returns to early double digits through to FY26 given the company's slim operating margins and subpar capacity utilisation (at 52% vs. 62-67% for peers last year).

Fig 4 – Equity diluted twice in past 5Y to fund capex whereas internal accruals have sufficed for peers

Period	Amount Raised (Rs bn)	Exercise Price (Rs)	Remarks
May-23	2.60	550	Convertible warrants issued to promoter and non-promoter group
Sep-18	2.03	197	Preferential issue as well as convertible warrants issued to promoters

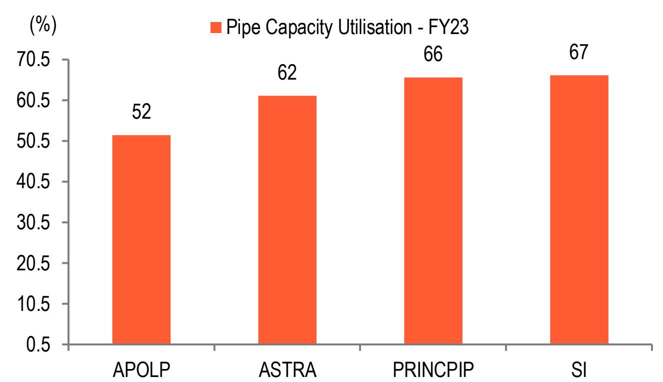
Source: Company, BOBCAPS Research

Fig 5 – Chasing aggressive growth at expense of margins



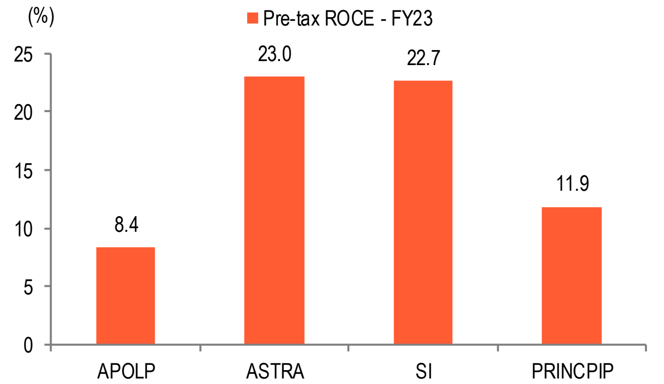
Source: Company, BOBCAPS Research

Fig 6 – Capacity utilisation trails that of major peers



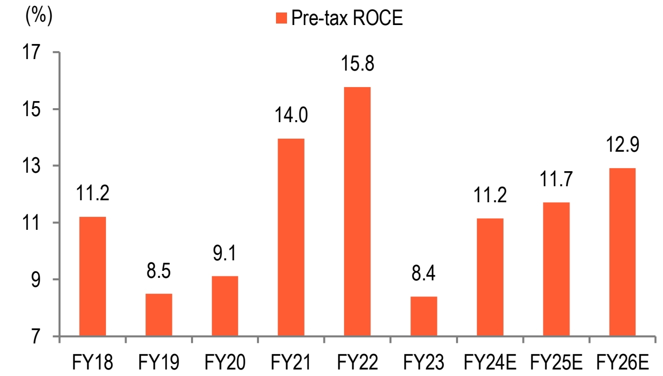
Source: Company, BOBCAPS Research

Fig 7 – Return ratios well below cost of capital (WACC)



Source: Company, BOBCAPS Research

Fig 8 – APOLP pre-tax ROCE to remain at low double-digit rate over FY24-FY26E



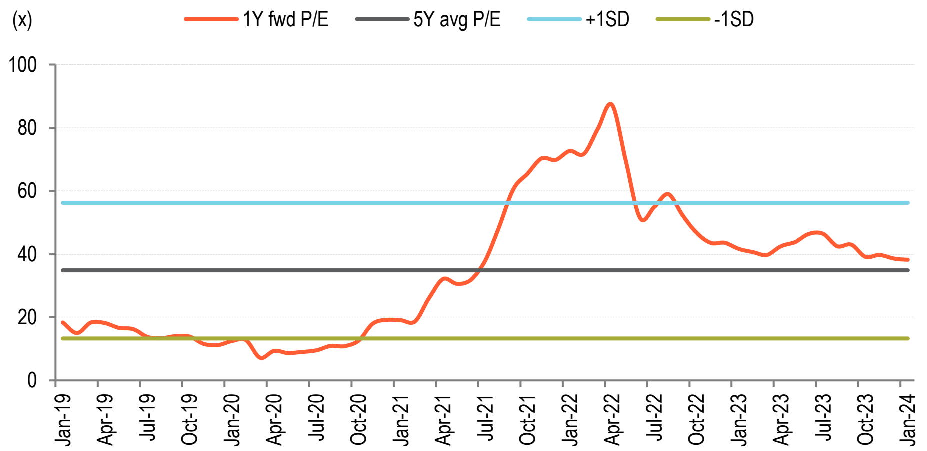
Source: Company, BOBCAPS Research

Valuations lofty

Initiate with HOLD, TP Rs 650

We initiate coverage on APOLP with a TP of Rs 650 and a HOLD rating as we find valuations expensive. The stock is trading at 38.2x one-year forward P/E vs. 30.5x for closest peer PRINCPIP. Our TP is set at 30x Sep'25E EPS, a discount to the stock's five-year average of 34.8x as we believe it would be an uphill task for the company to achieve its twin objectives of aggressive volume/market share gains and improvement in ROCE.

Fig 9 – Trading at 38.2x 1Y forward P/E, a premium to its 5Y average of 34.8x



Source: Bloomberg, BOBCAPS Research

Fig 10 – Key operational assumptions

Particulars (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Sales volume growth	5.9	13.8	23.6	25.6	15.0	15.0
Realisation growth	19.9	33.0	(5.6)	(9.6)	3.6	2.2
EBITDA per unit (Rs/kg)	15.7	17.3	10.2	12.3	14.1	14.9
Pre-tax ROCE	14.0	15.8	8.4	11.2	11.7	12.9

Source: Company, BOBCAPS Research Estimates

Key risks

- A sharp improvement in return ratios and large market share gains would be key upside risks to our estimates.
- Market share loss in the plastic pipe business and significant time/cost overruns in ongoing expansion projects would represent key downside risks.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**7,841**	**9,145**	**10,380**	**12,370**	**14,545**
EBITDA	934	680	1,031	1,352	1,649
Depreciation	257	284	298	354	439
EBIT	677	396	733	998	1,210
Net interest inc./(exp.)	(43)	(89)	(42)	(37)	(37)
Other inc./(exp.)	38	20	51	52	52
Exceptional items	0	0	0	0	0
EBT	672	327	742	1,013	1,226
Income taxes	174	88	193	255	308
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**498**	**239**	**549**	**758**	**917**
Adjustments	0	0	0	0	0
Adjusted net profit	**498**	**239**	**549**	**758**	**917**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	837	1,179	1,338	1,594	1,875
Other current liabilities	126	364	364	364	364
Provisions	4	5	5	6	7
Debt funds	387	437	483	576	677
Other liabilities	30	64	64	64	64
Equity capital	393	393	398	398	398
Reserves & surplus	3,660	4,179	7,256	7,934	8,752
Shareholders' fund	4,053	4,572	7,654	8,332	9,150
Total liab. and equities	**5,437**	**6,619**	**9,907**	**10,936**	**12,136**
Cash and cash eq.	420	348	2,599	2,171	1,926
Accounts receivables	705	658	746	889	1,046
Inventories	1,316	1,708	1,629	1,926	2,273
Other current assets	407	590	665	785	916
Investments	41	401	401	401	401
Net fixed assets	2,061	2,506	2,708	3,353	4,164
CWIP	71	56	806	1,056	1,056
Intangible assets	303	301	301	301	301
Deferred tax assets, net	0	0	0	0	0
Other assets	113	53	53	53	53
Total assets	**5,438**	**6,620**	**9,907**	**10,936**	**12,136**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**345**	**739**	**914**	**794**	**987**
Capital expenditures	(405)	(712)	(1,250)	(1,250)	(1,250)
Change in investments	(38)	(359)	0	0	0
Other investing cash flows	38	20	51	52	52
Cash flow from investing	**(1)**	**(19)**	**0**	**0**	**0**
Equities issued/Others	262	0	5	0	0
Debt raised/repaid	(242)	50	46	93	101
Interest expenses	(43)	(89)	(42)	(37)	(37)
Dividends paid	(39)	(24)	(60)	(80)	(100)
Other financing cash flows	(182)	303	2,587	0	0
Cash flow from financing	**(244)**	**241**	**2,537**	**(24)**	**(35)**
Chg in cash & cash eq.	**100**	**961**	**3,450**	**770**	**952**
Closing cash & cash eq.	**420**	**348**	**2,599**	**2,171**	**1,926**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	12.7	6.1	13.8	19.1	23.0
Adjusted EPS	12.7	6.1	13.8	19.1	23.0
Dividend per share	1.0	0.6	1.5	2.0	2.5
Book value per share	103.1	116.3	192.3	209.4	229.9

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.6	3.0	2.7	2.3	2.0
EV/EBITDA	29.8	40.7	26.8	21.2	17.9
Adjusted P/E	54.9	114.1	50.3	36.4	30.1
P/BV	6.7	6.0	3.6	3.3	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	73.1	74.0	74.8	74.8
Interest burden (PBT/EBIT)	99.3	82.6	101.2	101.6	101.3
EBIT margin (EBIT/Revenue)	8.6	4.3	7.1	8.1	8.3
Asset turnover (Rev./Avg TA)	144.2	138.2	104.8	113.1	119.9
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.6	1.4	1.4
Adjusted ROAE	13.2	5.5	9.0	9.5	10.5

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	51.3	16.6	13.5	19.2	17.6
EBITDA	25.8	(27.2)	51.6	31.1	21.9
Adjusted EPS	11.9	(51.9)	126.8	38.1	21.0
Profitability & Return ratios (%)					
EBITDA margin	11.9	7.4	9.9	10.9	11.3
EBIT margin	8.6	4.3	7.1	8.1	8.3
Adjusted profit margin	6.3	2.6	5.3	6.1	6.3
Adjusted ROAE	13.2	5.5	9.0	9.5	10.5
ROCE	16.1	8.3	9.6	11.8	12.8
Working capital days (days)					
Receivables	33	26	26	26	26
Inventory	61	68	57	57	57
Payables	39	47	47	47	47
Ratios (x)					
Gross asset turnover	2.8	2.7	2.6	2.6	2.5
Current ratio	2.3	1.7	2.6	2.3	2.1
Net interest coverage ratio	15.8	4.5	17.4	27.0	32.8
Adjusted debt/equity	0.0	0.0	(0.3)	(0.2)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 8,100 | ▲ 1%

CERA SANITARYWARE | Construction Materials | 17 January 2024

Competitive headwinds, expensive valuations

- **Revenue growth profile muted owing to rising competition, inefficient capital outlay for growth and management churn**
- **Positives include a strong margin and asset-light model that serve to fortify return ratios**
- **Valuations look expensive in view of limited growth catalysts; we assume coverage with HOLD and TP of Rs 8,100**

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Loss of share in core sanitaryware segment..: CRS is one of the leading bathware companies in India with a strong presence in the economy and mass-premium segments in rural and semiurban markets. The company began its journey with sanitaryware and entered into faucetware in 2010 where it has built a strong presence. On the flip side, it has ceded market share in its core sanitaryware business due to rising competition from established players as well as new entrants, in our view.

…suppressing revenue growth: As against a ~15% CAGR for peers such as Jaquar, Hindware and Parryware, CRS's revenue has grown at just ~9% over the past five years amid a loss of sanitaryware market share and inefficient capital allocation towards growth. We find management's revenue growth guidance of 19-25% CAGR over the next 2-3 years optimistic and model for 11.7% CAGR over FY23-FY26.

Management exits a concern: Various senior personnel have left CRS in the past three years, largely as they reached retirement age. The company has inducted a new management team with relevant work experience to fill the gaps, but retention of this team over a long tenure holds the key to protecting market share, in our view.

Return ratios healthy: CRS's ROE (ex-cash) has averaged 26% over the past five years on account of strong margins and an asset-light business. At 16.3% in FY23, its EBITDA margin is the best among peers, while its operations are less capex intensive due to a high share of outsourced sales and low capex intensity in the bathware business.

HOLD, TP Rs 8,100: The stock is trading at 37.5x on 1Y forward P/E vs. the 5Y average of 31.5x. We find valuations expensive and assume coverage with HOLD for a TP of Rs 8,100, set at 35x Sep'25E EPS, as we await improvement in revenue growth outlook and a concrete plan for cash deployment.

Key risks: Market share gains in sanitaryware and better utilisation of surplus cash would be key upside risks to our estimates. Loss of share in faucetware would be a key downside risk.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	CRS IN/Rs 8,056
Market cap	US$ 1.3bn
Free float	46%
3M ADV	US$ 1.8mn
52wk high/low	Rs 9,740/Rs 5,230
Promoter/FPI/DII	54%/21%/8%

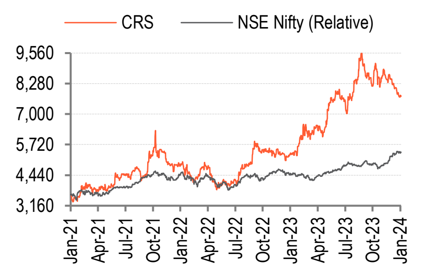
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,035	19,942	22,348
EBITDA (Rs mn)	2,939	3,325	3,705
Adj. net profit (Rs mn)	2,138	2,569	2,837
Adj. EPS (Rs)	164.4	197.5	218.1
Consensus EPS (Rs)	164.4	199.0	234.7
Adj. ROAE (%)	19.3	20.2	19.4
Adj. P/E (x)	49.0	40.8	36.9
EV/EBITDA (x)	37.2	33.3	30.1
Adj. EPS growth (%)	35.4	20.2	10.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Competitive headwinds

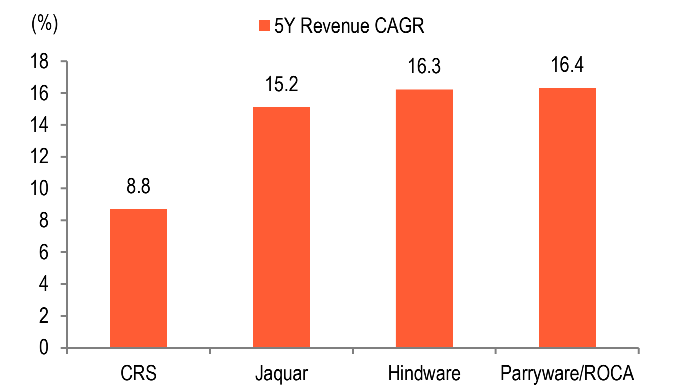
Muted revenue growth

CRS's consolidated revenue has increased at a tepid 8.8% CAGR over the past five years (FY18-FY23) vs. growth in the mid-teens for its major peers (Jaquar: +15.2%, Hindware: +16.3%, Parryware: 16.4%). In our view, this underperformance stems from a loss of market share in the core sanitaryware segment amid rising competition from existing players as well as new entrants and inefficient capital allocation towards growth.

We note that all the established bathware companies have entered allied building material segments to leverage their existing distribution network and brand (for instance, Jaquar has moved into water heater & lighting products, Parryware into plastic pipes, and Hindware into plastic pipes and small kitchen appliances). CRS too has been able to strengthen its presence in the allied faucetware segment, clocking a revenue CAGR of 18.6% over the past five years (FY18-FY23), but this business is yet to lend meaningful tailwinds to topline growth.

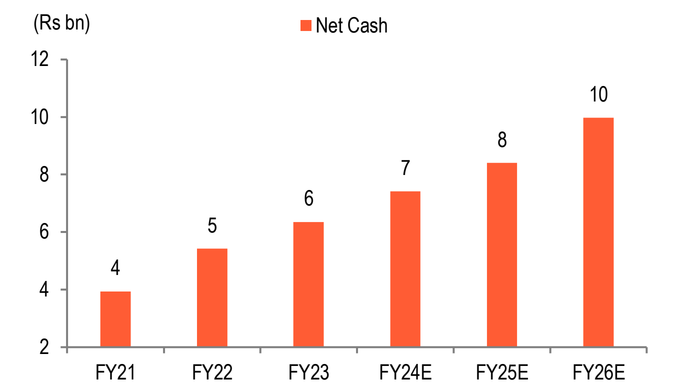
Management's revenue growth guidance of 19-25% CAGR over the next 2-3 years appears optimistic, in our view, especially when set against the sub-10% growth clocked in H1FY24. We model for a modest 11.7% CAGR over FY23-FY26 which reflects the stiff competition and lack of a concrete plan to harness surplus cash on its books.

Fig 1 – CRS's revenue growth lags peers due to rising competition…



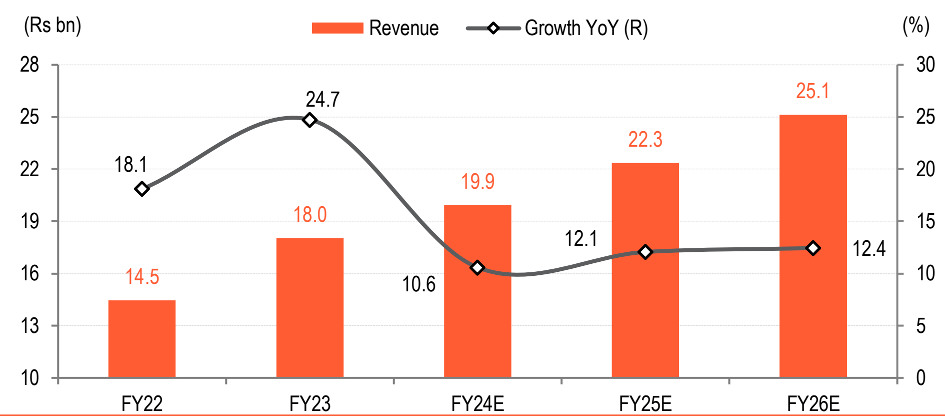
Source: Company, BOBCAPS Research

Fig 2 – …and inefficient capital allocation



Source: Company, BOBCAPS Research

Fig 3 – CRS revenue is forecast to grow at 11.7% CAGR over FY23-FY26



Source: Company, BOBCAPS Research

Management team churn

CRS's management team has seen substantial changes over the past three years due to the exit of various senior personnel. However, we observe that most of these exits were due to personnel approaching retirement age (except Executive Director Ayush Bagla). The company has inducted a new senior management team with relevant work experience to plug the gaps, but we believe retention of this team over a long tenure would be more important to protect its market share.

Fig 4 – Senior management exits over the past three years

Name	Designation	Date of leaving	Years with CRS	Total experience	Remarks
Atul Sanghvi	CEO	Oct-21	20	34	Moved to ASTRA; approaching retirement age
Ayush Bagla	ED	Mar-24	6	28	To pursue new avenues
Rajesh B Shah	CFO / COO	Mar-23	33	33	Retired
Narendra N Patel	President & CS	Mar-20	30	30	Retired
P K Shashidharan	Senior VP – Marketing	Apr-21	27	38	Retired
Abbey Rodrigues	Senior VP – Sales	Dec-21	22	24	Retired

Source: Company, BOBCAPS Research

Fig 5 – Current senior management team

Name	Position	Qualification	Joined	Remarks
Vikram Somany	Founder and CMD	B.Sc., FCMI (U.K.)	1980	Vikram founded the business in 1980. He is involved in the initiation and execution of strategy.
Deepshikha Khaitan (Daughter of Vikram Somany)	JMD	B.Sc. Hons. (Eco), LLB	Mar-14	Deepshikha handles all business verticals, including R&D, new launches, sales & marketing and finance.
Anupam Gupta	ED	B.E., MBA	Oct-21	Anupam is responsible for the manufacturing and commercial aspects of sanitaryware. He has 30+ years of experience in industries such as cement, textiles, chemicals and ceramics, and has spent over 17 years with the Aditya Birla Group and 4 years with Raymond.
Vikas Kothari	CFO	CA, MBA	Jun-22	Vikas has more than two decades of experience with various companies such as BIC, Birla Century and Reliance Industries.
Parthiv Dave	President – Sales	BBA, MBA	Jan-22	Parthiv has more than three decades of experience, mainly in the building materials sector. He has earlier worked with CRS for 13+ years as VP Sales, overseeing the marketing strategy for India (except South) and for Nepal.
V Krishnamurthy	President – Marketing	MBA	Jan-21	V Krishnamurthy has over 25 years of experience. He has earlier worked as Senior VP (Marketing) with Hindware.
Rahul Jain	VP – Marketing	MBA	Jul-18	Rahul has more than 16 years of experience in the marketing of bathware products. He was previously associated with ROCA as Product Head.
Ajay Jain (Plant Head – Faucet)	VP	B.E., M. E.	Oct-21	Ajay has over two decades of experience with companies such as HSIL, Kohler India and Hindalco.
Vivek Andankar (Plant Head – Sanitaryware)	AVP	B.E., M. E.	Apr-21	Vivek has more than two decades of experience with Kohler, LG Electronics and Electrolux.

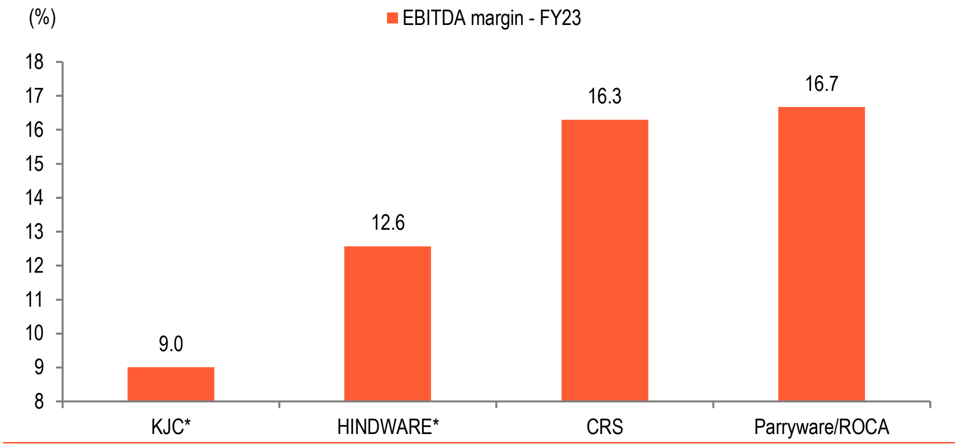
Source: Company, BOBCAPS Research

Healthy margins and return ratios

At 16.3% in FY23, CRS operates at industry-leading EBITDA margins due to favourable manufacturing locations (proximity to raw material and fuel), access to cheap fuel (60-70% of its gas requirement is met through GAIL at a subsidised rate), and lower power & fuel cost per unit on account of high plant utilisation (more than 100% for the sanitaryware unit). Further, the company enjoys high B2C retail sales at 66% of revenue in FY23 and is seeing a declining share of the low-margin tiles trading business, from 22% in FY20 to 11% in FY23.

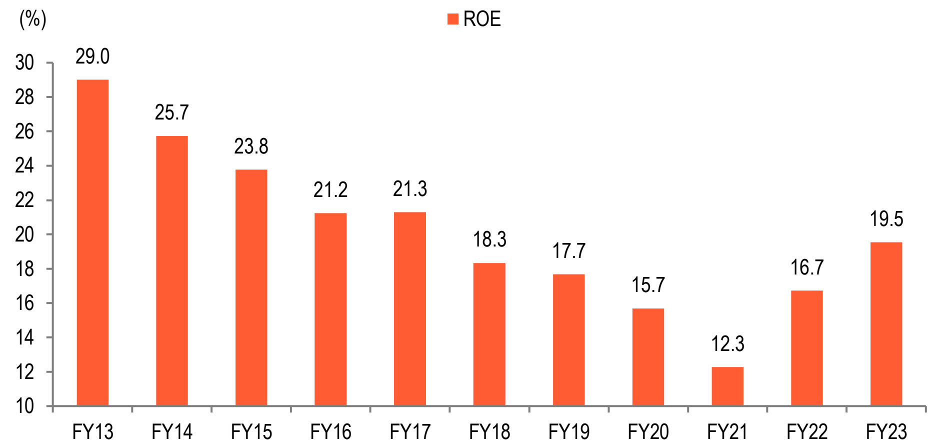
This apart, we note that CRS runs an asset-light business on account of low capex intensity in the branded bathware business and a high level of outsourced sales (sanitaryware 59% and faucets 52% in FY23). This together with a strong operating margin has enabled the company to deliver healthy return ratios across economic cycles.

Fig 6 – CRS's industry-leading margin stems from access to cheap fuel and high sanitaryware plant utilisation



Source: Company, BOBCAPS Research | *represents bathware operations only

Fig 7 – Return ratios look healthy across the cycle due to a strong operating margin and asset-light business



Source: Company, BOBCAPS Research

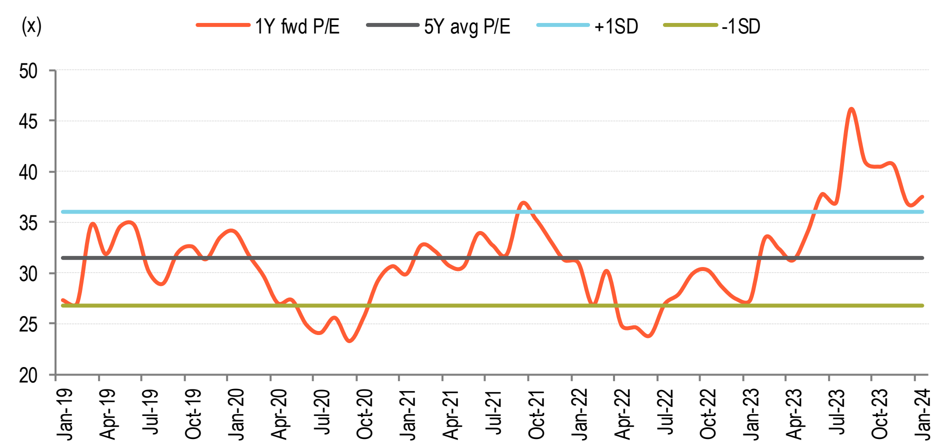
Valuations high

HOLD, TP Rs 8,100

CRS is one of the leading bathware companies in India with a strong presence in the economy and mass-premium segments in rural and semiurban markets. The company began its journey with sanitaryware and entered into faucetware in 2010. It has built a strong presence in faucetware over the past decade but has lost market share in its core sanitaryware business due to rising competition from established players as well as new entrants.

In our view, management's revenue growth guidance of 19-25% CAGR over the next 2-3 years looks optimistic (vs. 8.8% clocked over FY18-FY23), even as poor capital allocation remains an overhang on the business. Valuations also look expensive at 37.5x one-year forward P/E vs. the five-year average of 31.5x. We, therefore, assume coverage with a HOLD rating and value the stock at 35x Sep'25E EPS – a slight premium to its historical multiple on a positive real estate outlook – translating to a TP of Rs 8,100.

Fig 8 – Trading at 37.5x on 1Y fwd P/E vs. 5Y avg. of 31.5x



Source: Company, BOBCAPS Research

Fig 9 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue Mix						
Sanitaryware	48.5	52.7	53.6	52.0	50.9	49.8
Faucetware	28.3	33.2	34.1	34.9	35.8	36.6
Tiles	20.8	12.2	10.6	11.3	11.5	11.8
Wellness	2.4	1.9	1.8	1.8	1.9	1.9
Revenue Growth						
Sanitaryware	(0.5)	30.2	26.8	7.5	10.0	10.0
Faucetware	10.4	41.0	28.0	13.6	15.0	15.0
Tiles	(6.7)	(29.7)	8.4	18.1	15.0	15.0
Wellness	(34.1)	(6.9)	16.9	15.8	13.7	13.7
Total	0.1	18.1	24.7	10.6	12.1	12.4
EBITDA margin	**12.9**	**16.1**	**16.3**	**16.7**	**16.6**	**16.7**

Source: Company, BOBCAPS Research

Key risks

- Market share gains in sanitaryware and better utilisation of surplus cash would be key upside risks to our estimates.
- Market share loss in faucetware would be a key downside risk.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**14,458**	**18,035**	**19,942**	**22,348**	**25,127**
EBITDA	2,323	2,939	3,325	3,705	4,202
Depreciation	324	326	358	393	438
EBIT	1,999	2,613	2,967	3,312	3,764
Net interest inc./(exp.)	(53)	(60)	(54)	(55)	(55)
Other inc./(exp.)	236	356	529	534	604
Exceptional items	36	9	0	0	0
EBT	2,147	2,899	3,441	3,791	4,313
Income taxes	560	738	868	954	1,086
Extraordinary items	57	50	16	0	0
Min. int./Inc. from assoc.	(18)	(16)	0	0	0
Reported net profit	**1,511**	**2,094**	**2,558**	**2,837**	**3,228**
Adjustments	68	44	12	0	0
Adjusted net profit	**1,579**	**2,138**	**2,569**	**2,837**	**3,228**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	1,335	2,069	2,292	2,569	2,888
Other current liabilities	2,762	1,523	1,523	1,523	1,523
Provisions	24	131	145	162	183
Debt funds	267	253	212	236	263
Other liabilities	836	958	958	958	958
Equity capital	65	65	65	65	65
Reserves & surplus	10,086	11,661	13,448	15,434	17,693
Shareholders' fund	10,294	11,832	13,619	15,605	17,864
Total liab. and equities	**15,517**	**16,766**	**18,748**	**21,052**	**23,678**
Cash and cash eq.	5,689	6,607	7,624	8,634	10,238
Accounts receivables	1,648	1,892	2,092	2,344	2,635
Inventories	2,937	3,825	3,894	4,371	4,977
Other current assets	1,622	415	460	515	579
Investments	82	31	31	31	31
Net fixed assets	3,207	3,138	3,710	3,517	4,379
CWIP	7	169	250	950	150
Intangible assets	163	256	256	256	256
Deferred tax assets, net	0	0	0	0	0
Other assets	163	433	433	433	433
Total assets	**15,517**	**16,766**	**18,748**	**21,052**	**23,678**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**988**	**1,713**	**2,381**	**2,259**	**2,495**
Capital expenditures	468	(514)	(1,011)	(900)	(500)
Change in investments	0	52	0	0	0
Other investing cash flows	144	296	513	534	604
Cash flow from investing	**611**	**(165)**	**(498)**	**(366)**	**104**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(570)	(13)	(42)	24	28
Interest expenses	(53)	(60)	(54)	(55)	(55)
Dividends paid	(455)	(650)	(771)	(851)	(968)
Other financing cash flows	385	78	0	0	0
Cash flow from financing	**(693)**	**(646)**	**(867)**	**(882)**	**(996)**
Chg in cash & cash eq.	**905**	**902**	**1,017**	**1,011**	**1,603**
Closing cash & cash eq.	**5,264**	**7,461**	**11,008**	**15,358**	**21,702**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	116.2	161.0	196.7	218.1	248.2
Adjusted EPS	121.4	164.4	197.5	218.1	248.2
Dividend per share	35.0	50.0	59.3	65.4	74.5
Book value per share	780.5	901.6	1,039.0	1,191.7	1,365.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	7.4	6.1	5.5	5.0	4.5
EV/EBITDA	46.2	37.2	33.3	30.1	26.8
Adjusted P/E	66.4	49.0	40.8	36.9	32.5
P/BV	10.3	8.9	7.8	6.8	5.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	73.5	73.8	74.7	74.8	74.8
Interest burden (PBT/EBIT)	107.4	110.9	116.0	114.5	114.6
EBIT margin (EBIT/Revenue)	13.8	14.5	14.9	14.8	15.0
Asset turnover (Rev./Avg TA)	93.2	107.6	106.4	106.2	106.1
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.4
Adjusted ROAE	16.5	19.3	20.2	19.4	19.3

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	18.1	24.7	10.6	12.1	12.4
EBITDA	46.9	26.5	13.1	11.4	13.4
Adjusted EPS	56.6	35.4	20.2	10.4	13.8
Profitability & Return ratios (%)					
EBITDA margin	16.1	16.3	16.7	16.6	16.7
EBIT margin	13.8	14.5	14.9	14.8	15.0
Adjusted profit margin	10.9	11.9	12.9	12.7	12.8
Adjusted ROAE	16.5	19.3	20.2	19.4	19.3
ROCE	21.2	24.6	25.3	24.3	24.1
Working capital days (days)					
Receivables	42	38	38	38	38
Inventory	74	77	71	71	72
Payables	34	42	42	42	42
Ratios (x)					
Gross asset turnover	2.5	3.4	3.4	3.5	3.5
Current ratio	2.7	3.2	3.4	3.5	3.8
Net interest coverage ratio	37.8	43.2	54.5	60.4	68.7
Adjusted debt/equity	(0.5)	(0.5)	(0.5)	(0.5)	(0.6)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BUY
TP: Rs 700 | ⮝ 40%

HINDWARE HOME INNOVATION | Building Materials | 17 January 2024

Robust business at attractive valuations

- **Market share decline in core bathware portfolio arrested from FY22 onwards in comparison to closest peer CRS**
- **Diversifying the business into profitable and growing plastic pipes and small/kitchen appliances segments**
- **Initiate with BUY and TP of Rs 700 on strong earnings growth prospects and reasonable valuations**

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Among the largest bathware players: HINDWARE (formerly Somany Home Innovation or HSIL) was formed in 2017 to house the consumer & retail business of HSIL and is one of India's largest bathware companies with 8.5% share of the Rs 180bn market (FY23). In view of rising competition in the highly penetrated bathware space, HINDWARE entered into the small appliances & kitchen appliances segment in 2015 and plastic pipes business in 2018. We estimate a strong 56.0% earnings CAGR for the company over FY23-FY26 as these businesses gain scale and bathware margins gradually retrace to historical levels post restructuring.

Market share decline arrested in core bathware portfolio: HINDWARE has lost market share in bathware due to increased competition over the past few years when reputed brands entered the sanitaryware business and management also shifted focus toward diversifying revenue. However, the company's revenue market share decline in bathware has been arrested in comparison to CRS and we note improvement from FY22 onwards (from 47% in FY21 to 49% in H1FY24) due to success in its faucetware portfolio and the launch of new sanitaryware products.

Business diversification de-risks revenue: Entry into the profitable and growing plastic pipes and small/kitchen appliances segments has resulted in a sharp increase in addressable market size from Rs 180bn (only bathware) to >Rs 600bn in FY23. This has mitigated business concentration risk – from 83% of revenue in FY17, bathware now forms 53%, pipes 27% and consumer products 17%.

Initiate with BUY, TP Rs 700: We initiate coverage on HINDWARE with a BUY rating and TP of Rs 700, valuing the stock at 30x Sep'25E EPS, on (a) strong earnings growth expectations at a 56% CAGR on the back of 9.5%/24.6% revenue/EBITDA growth over FY23-FY26E, and (b) reasonable valuations – the stock trades at 28x 1Y forward P/E, in line with its average of 28.7x since demerger in Jan'20. Note there is a sharp deviation in our EPS estimates vs. consensus as this is a thinly covered stock.

Key risks: Market share loss in bathware and plastic pipes would be a key downside risk to our estimates.

Ticker/Price	HINDWARE IN/Rs 501
Market cap	US$ 440.7mn
Free float	49%
3M ADV	US$ 0.7mn
52wk high/low	Rs 664/Rs 325
Promoter/FPI/DII	51%/7%/9%

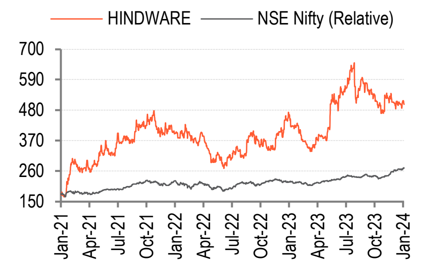
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	28,733	29,498	33,360
EBITDA (Rs mn)	2,469	3,040	3,902
Adj. net profit (Rs mn)	574	771	1,400
Adj. EPS (Rs)	7.9	10.7	19.4
Consensus EPS (Rs)	7.9	18.1	28.1
Adj. ROAE (%)	10.4	12.5	19.5
Adj. P/E (x)	63.1	47.0	25.9
EV/EBITDA (x)	14.2	10.6	7.5
Adj. EPS growth (%)	(51.8)	34.3	81.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

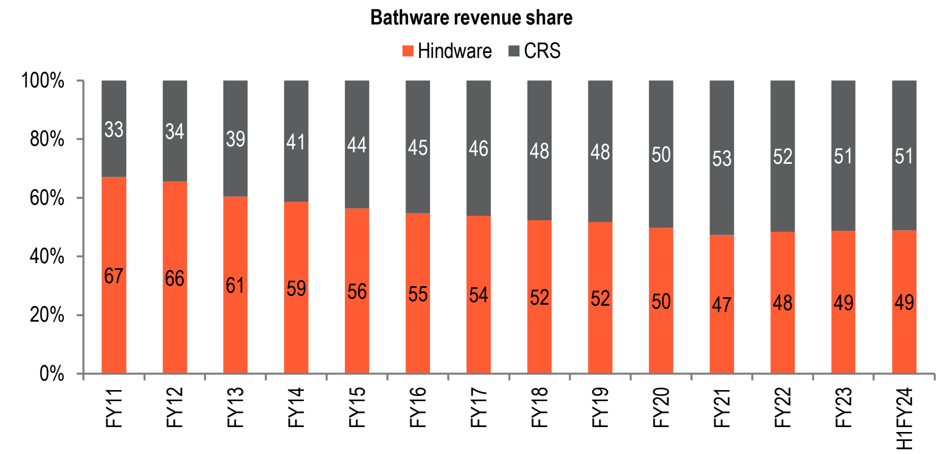
Investment rationale

Regaining ground in core bathware portfolio

HINDWARE's revenue market share in its core bathware category had dropped from 67% in FY11 to 47.5% in FY21 in comparison to rival CRS due to higher competition from the entry of various reputed brands (such as Jaquar, Kohler, ROCA, American Standard, Toto and Duravit) in the highly penetrated sanitaryware segment. Another contributing factor was a shift in management focus toward diversifying the revenue stream by entering the new consumer businesses of small/kitchen appliances and plastic pipes.

However, the company has been able to arrest the decline in revenue market share in the bathware segment and has seen improvement since FY22 due to good success in the faucetware portfolio and the launch of new sanitaryware products.

Fig 1 – Gaining market share relative to CRS in bathware segment since FY22

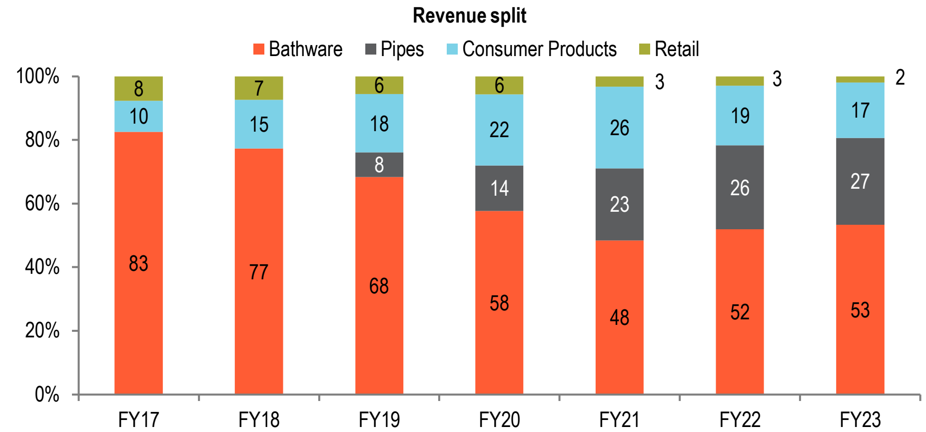


Source: Company, BOBCAPS Research

Diversified revenue streams

The company's bathware segment comprised 100% of its revenue in FY13 which has nearly halved to 53% in FY23 as it forayed into the profitable and growing consumer business (faucets in 2014, small & kitchen appliances in 2015, plastic pipes in 2018). Management's objective was to diversify operations in view of the rising competition in the highly penetrated bathware segment and a weak real estate cycle. Pipes now form 27% of its revenue and consumer products 17%, helping lower revenue concentration and raising the addressable market from Rs 180bn (only bathware) to >Rs 600bn in FY23.

Fig 2 – Diversification into profitable consumer business has de-risked revenue

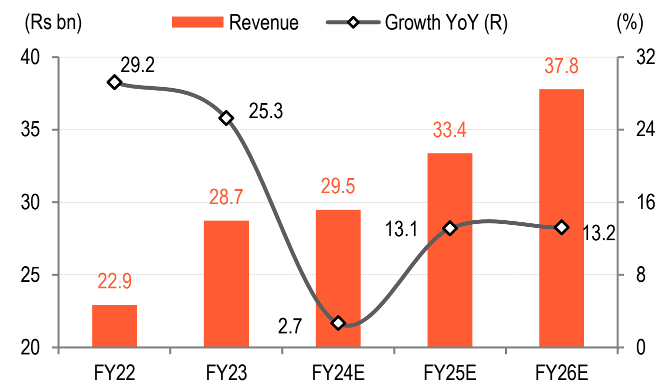


Source: Company, BOBCAPS Research

Scope for margin gains across segments

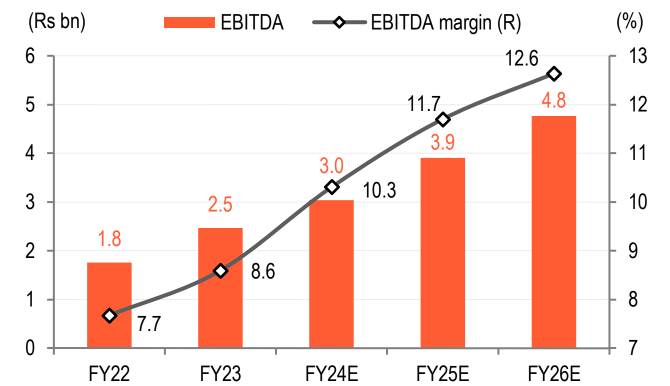
We forecast a revenue/EBITDA CAGR of 9.2%/22.8% accompanied by a robust 51.8% PAT CAGR for HINDWARE over FY23-FY26 as we anticipate strong operating margin expansion across segments. As a result, ROE is projected to sharply improve from 10.4% in FY23 to 24.6% in FY26.

Fig 3 – HINDWARE revenue to grow at 9.2% CAGR over FY23-FY26



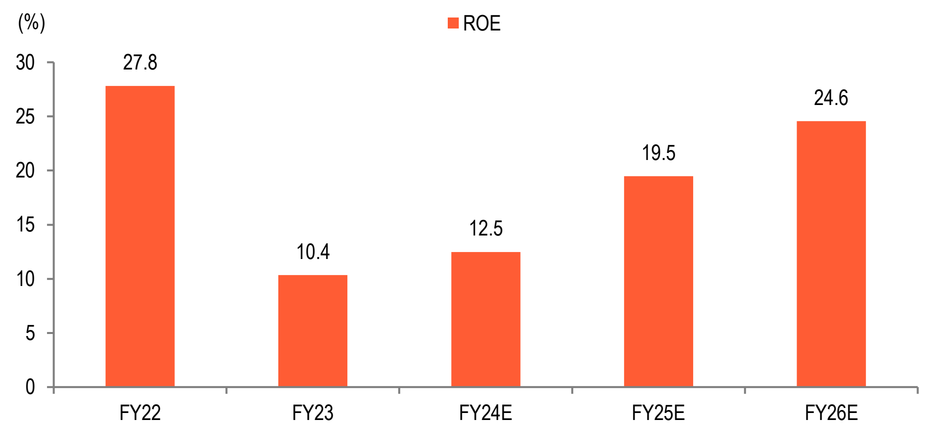
Source: Company, BOBCAPS Research

Fig 4 – HINDWARE EBITDA margin to improve from 10.3% in FY23 to 12.6% in FY26



Source: Company, BOBCAPS Research

Fig 5 – ROE is projected to sharply improve from 10.4% in FY23 to 24.6% in FY26

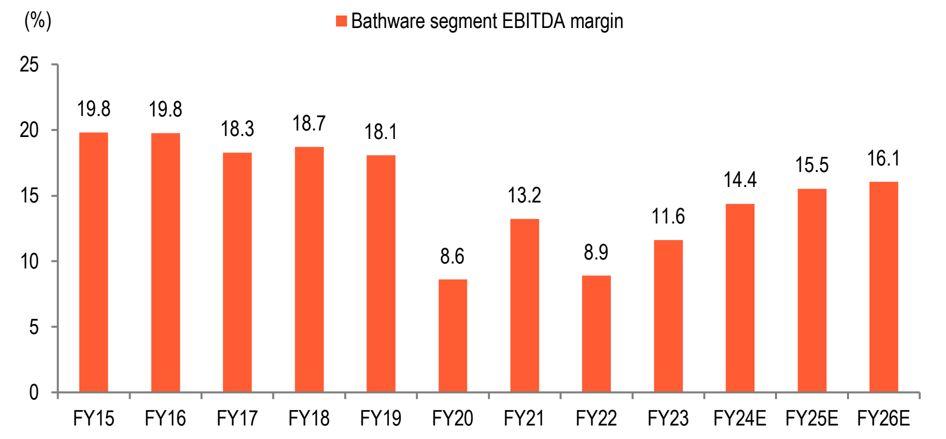


Source: Company, BOBCAPS Research

Bathware

The company's bathware segment EBITDA margin plummeted from an 18-20% range to 9% in FY20 due to (a) the impact of business reorganisation in Aug'19, where the brand and distribution network were demerged while manufacturing operations remained part of the parent entity, i.e. HSIL) and (b) the impact of Covid-19. Following the transfer of manufacturing operations w.e.f April 2022, the segment's EBITDA margin profile has now improved to 14.1% in Q2FY24, and management aims to achieve historical levels of 18% soon. We model for a 16% margin by FY26.

Fig 6 – Bathware segment margin forecast to rise to 16.1% by FY26E

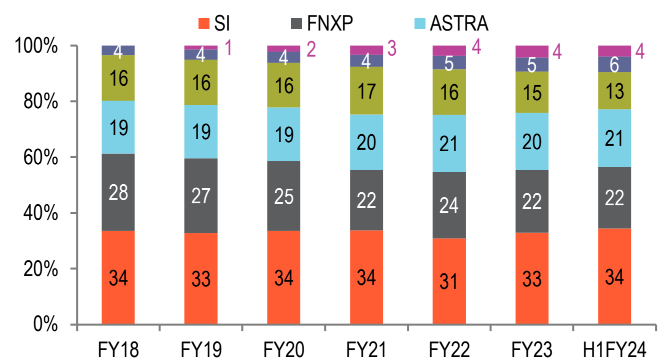


Source: Company, BOBCAPS Research

Plastic pipes

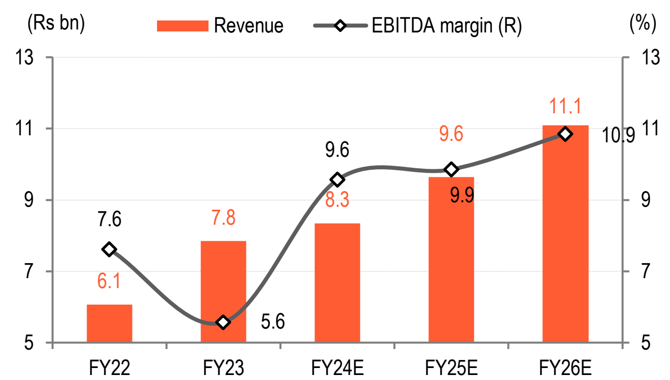
HINDWARE's plastic pipe product profile is quite similar to ASTRA's, but its operating margin profile is much weaker (HINDWARE: 5.6%, ASTRA: 16.8% for FY23) due to its small scale of operations. Notably, the company's revenue market share among the top 6 listed pipe companies has improved to ~4% in H1FY24 due to good acceptability of its *Truflo* brand in the market within just five years of launch. We expect HINDWARE's plastic pipe segment EBITDA margin to rise to 10.9% by FY26 due to a good product mix and benefits of operating leverage.

Fig 7 – Gaining revenue share among top 6 listed pipe companies



Source: Company, BOBCAPS Research

Fig 8 – Pipe segment margin to improve on good mix and operating leverage

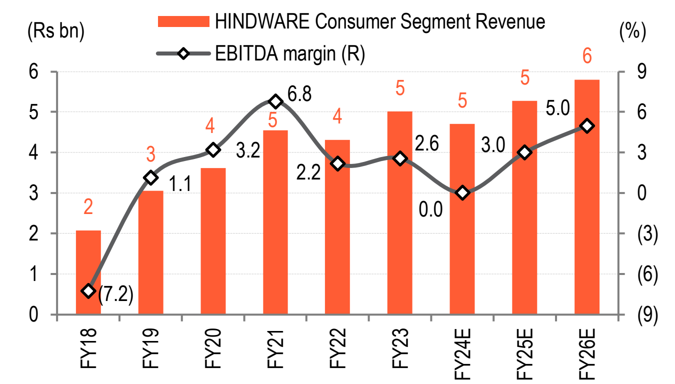


Source: Company, BOBCAPS Research

Consumer products

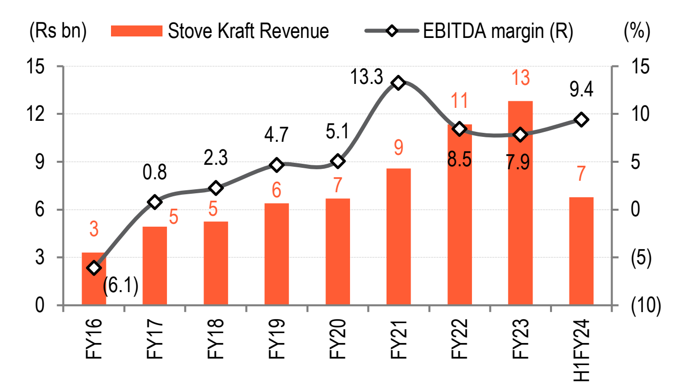
In consumer products, HINDWARE mainly operates in kitchen hobs, cooktops, sinks, furniture fittings, water purifiers and air coolers. The company has been earning a low-single-digit operating margin mainly due to its small scale of operations. As the business expands, we model for mid- to high-single-digit margins over the medium term (as witnessed by rival Stove Kraft with a rise in its scale of operations).

Fig 9 – Consumer product EBITDA margin to improve…



Source: Company, BOBCAPS Research

Fig 10 – …along the lines of Stove Kraft



Source: Company, BOBCAPS Research

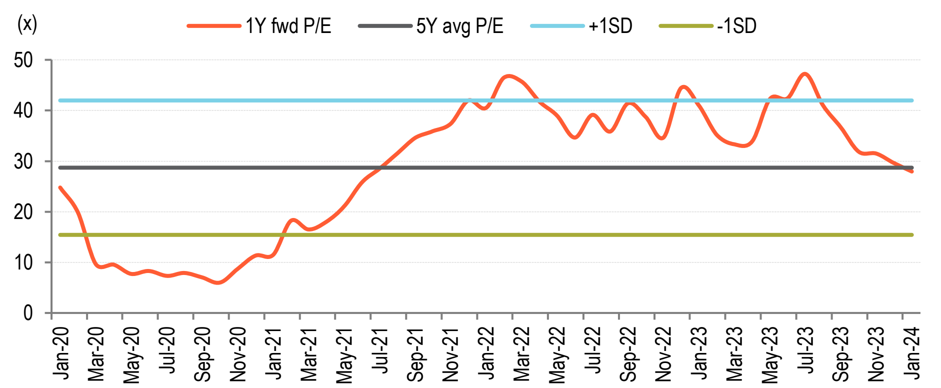
Valuations reasonable

Initiate with BUY, TP Rs 700

Formed in 2017 to house the consumer & retail business of HSIL, HINDWARE is one of the largest bathware companies in India with 8.5% share of the Rs 180bn market (FY23). Entry into the plastic pipes and small/kitchen appliances segments has eased revenue concentration risk and resulted in a sharp increase in its addressable market.

We initiate coverage on HINDWARE with a BUY rating and TP of Rs 700, valuing the stock at 30x Sep'25E EPS, largely in line with its historical multiple, considering (a) strong earnings growth expectations at a 56% EPS CAGR over FY23-FY26 on the back of estimated revenue/EBITDA growth of 9.5%/24.6%, and (b) reasonable valuations – the stock trades at 28x one-year forward P/E, close to its average of 28.7x since demerger in Jan'20.

Fig 11 – Trading at 28x 1Y forward P/E, in line with average multiple since demerger



Source: Company, BOBCAPS Research

Fig 12 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue Mix						
Bathware	68.3	57.7	48.3	51.9	53.3	54.7
Plastic Pipe	7.8	14.3	22.8	26.4	27.3	28.3
Consumer Product	18.3	22.4	25.6	18.8	17.4	15.9
Retail	5.6	5.6	3.3	2.9	2.0	1.1
Segment Revenue Growth						
Bathware	(7.8)	38.6	28.8	5.4	12.6	13.4
Plastic Pipe	75.5	50.1	29.4	6.3	15.6	15.0
Consumer Product	25.8	(5.2)	16.2	(6.1)	12.1	10.0
Retail	(35.5)	14.7	(16.0)	(44.0)	(11.3)	0.0
EBITDA margin						
Bathware	13.2	8.9	11.6	14.4	15.5	16.1
Plastic Pipe Segment	NA	7.6	5.6	9.6	9.9	10.9
Consumer Products Segment	6.8	2.2	2.6	0.0	3.0	5.0
Retail	(1.9)	7.4	3.4	(25.9)	(10.0)	(10.0)

Source: Company, BOBCAPS Research

Key risks

- Market share loss in bathware and plastic pipes would be a key downside risk to our estimates.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**22,936**	**28,733**	**29,498**	**33,360**	**37,768**
EBITDA	1,760	2,469	3,040	3,902	4,772
Depreciation	393	1,010	1,210	1,342	1,395
EBIT	1,367	1,459	1,829	2,560	3,377
Net interest inc./(exp.)	(204)	(771)	(955)	(973)	(973)
Other inc./(exp.)	293	346	327	324	324
Exceptional items	12	4	0	0	0
EBT	1,444	1,030	1,202	1,911	2,728
Income taxes	417	365	374	471	511
Extraordinary items	(1,009)	0	0	0	0
Min. int./Inc. from assoc.	(18)	(94)	(57)	(40)	(40)
Reported net profit	**2,017**	**571**	**771**	**1,400**	**2,178**
Adjustments	(826)	3	0	0	0
Adjusted net profit	**1,191**	**574**	**771**	**1,400**	**2,178**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,524	2,972	3,051	3,451	3,907
Other current liabilities	9,517	4,234	4,234	4,234	4,234
Provisions	81	61	62	70	80
Debt funds	1,432	7,117	7,281	7,001	6,501
Other liabilities	2,640	2,812	2,812	2,812	2,812
Equity capital	145	145	145	145	145
Reserves & surplus	5,119	5,613	6,323	7,629	9,661
Shareholders' fund	5,264	5,830	6,540	7,847	9,879
Total liab. and equities	**21,457**	**23,027**	**23,981**	**25,415**	**27,413**
Cash and cash eq.	536	93	412	354	376
Accounts receivables	3,059	3,776	4,041	4,570	5,174
Inventories	6,753	6,838	6,454	7,054	8,087
Other current assets	1,535	1,268	1,562	1,767	2,000
Investments	873	880	1,000	1,000	1,000
Net fixed assets	4,902	6,527	6,816	6,974	7,079
CWIP	579	358	358	358	358
Intangible assets	2,534	2,597	2,597	2,597	2,597
Deferred tax assets, net	391	390	430	430	430
Other assets	294	301	311	311	311
Total assets	**21,457**	**23,027**	**23,981**	**25,415**	**27,413**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**7,376**	**(3,198)**	**2,465**	**2,464**	**2,817**
Capital expenditures	(6,869)	(2,491)	(1,500)	(1,500)	(1,500)
Change in investments	(873)	(6)	(121)	0	0
Other investing cash flows	1,290	342	327	324	324
Cash flow from investing	**(6,453)**	**(2,155)**	**(1,294)**	**(1,176)**	**(1,176)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(462)	5,685	164	(280)	(500)
Interest expenses	(204)	(771)	(955)	(973)	(973)
Dividends paid	0	(36)	(61)	(94)	(146)
Other financing cash flows	(53)	27	0	0	0
Cash flow from financing	**(719)**	**4,905**	**(852)**	**(1,347)**	**(1,619)**
Chg in cash & cash eq.	**204**	**(448)**	**319**	**(58)**	**22**
Closing cash & cash eq.	**320**	**321**	**2,314**	**7,684**	**5,264**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	27.9	7.9	10.7	19.4	30.1
Adjusted EPS	16.5	7.9	10.7	19.4	30.1
Dividend per share	0.0	0.5	0.8	1.3	2.0
Book value per share	72.8	79.6	89.5	107.5	135.6

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.5	1.2	1.1	0.9	0.8
EV/EBITDA	19.2	14.2	10.6	7.5	6.2
Adjusted P/E	30.4	63.1	47.0	25.9	16.6
P/BV	6.9	6.3	5.6	4.7	3.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	82.5	55.7	64.2	73.3	79.8
Interest burden (PBT/EBIT)	105.6	70.6	65.7	74.7	80.8
EBIT margin (EBIT/Revenue)	6.0	5.1	6.2	7.7	8.9
Asset turnover (Rev./Avg TA)	106.9	124.8	123.0	131.3	137.8
Leverage (Avg TA/Avg Equity)	5.0	4.2	3.9	3.5	3.1
Adjusted ROAE	27.8	10.4	12.5	19.5	24.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	29.2	25.3	2.7	13.1	13.2
EBITDA	22.7	40.3	23.1	28.4	22.3
Adjusted EPS	134.5	(51.8)	34.3	81.6	55.5
Profitability & Return ratios (%)					
EBITDA margin	7.7	8.6	10.3	11.7	12.6
EBIT margin	6.0	5.1	6.2	7.7	8.9
Adjusted profit margin	5.2	2.0	2.6	4.2	5.8
Adjusted ROAE	27.8	10.4	12.5	19.5	24.6
ROCE	24.8	13.9	15.6	19.4	22.6
Working capital days (days)					
Receivables	49	48	50	50	50
Inventory	107	87	80	77	78
Payables	40	38	38	38	38
Ratios (x)					
Gross asset turnover	5.2	3.8	3.0	3.0	3.0
Current ratio	0.9	1.1	1.1	1.1	1.2
Net interest coverage ratio	6.7	1.9	1.9	2.6	3.5
Adjusted debt/equity	0.2	1.2	1.1	0.8	0.6

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 1,450 | ▲ 4%

KAJARIA CERAMICS | Construction Materials | 17 January 2024

Undisputed leader in tiles but upside capped

- **Commands ~9.4% of domestic tiles industry and earns best-in-class margins**
- **Generates healthy return ratios across economic cycles on efficient capital allocation**
- **Strong earnings prospects well priced into current valuations; we assume coverage with HOLD and TP of Rs 1,450**

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Market leader in tiles: KJC is the leading branded tile company in India, commanding ~9.4% share of the domestic tile market in FY23. It has cemented its position by deepening distribution and introducing offerings in the premium segment. We expect KJC to continue to capture share from peers, funded by an accelerated capex drive where annual outlay has risen from <Rs 1bn pre-Covid to Rs 3.5bn-3.7bn at present on the back of a strong balance sheet.

Industry-leading margins: A favourable product mix and strong brand translate to robust profitability for KJC. Despite a blip in FY23 when its EBITDA margin slipped to 13.5%, we expect a return to the historical average of ~16% over FY24-FY26 factoring in a sharp reduction in fuel cost, as gas prices has normalised after the unusual spike last year, and premiumisation.

Disciplined capital allocation supports healthy return ratios: KJC has generated healthy average pre-tax ROIC of 29% over the past decade due to a high share of domestic branded business, premium launches, and increased outsourcing of manufacturing for low-value-added products.

De-risking revenue: The share of non-tile revenue (bathware, plywood, adhesives) has risen from 5% in FY18 to 10% in FY23 and is projected to tick up to 11% by FY25 as the business ramps up off a low base. We also expect a gradual rise in the segment's margin profile over the medium-to-long term due to economies of scale.

Valuation full – HOLD: We forecast a brisk revenue/EBITDA/EPS CAGR of 12.4%/19.9%/ 20.9% for KJC over FY23-FY26 on expectations of a 10.5% volume CAGR and EBITDA margin expansion. Nevertheless, we assume coverage with a HOLD rating as current valuations look rich at 42.2x on 1Y forward P/E (vs. the 5Y average of 37.7x). We value the stock at 40x Sep'25E EPS for a TP of Rs 1,450.

Key risks: Above-expected recovery in real estate demand and sharp improvement in non-tile segment margins are key upside risks to our estimates. Market share loss in tiles and a steep decline in tile exports from India are key downside risks.

Key changes

Target	Rating
▲	▼

Ticker/Price	KJC IN/Rs 1,399
Market cap	US$ 2.7bn
Free float	53%
3M ADV	US$ 3.2mn
52wk high/low	Rs 1,524/Rs 1,007
Promoter/FPI/DII	47%/18%/25%

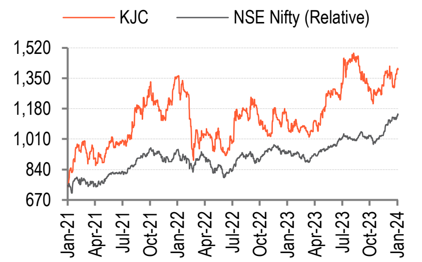
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	43,819	47,096	54,195
EBITDA (Rs mn)	5,934	7,597	8,889
Adj. net profit (Rs mn)	3,514	4,650	5,395
Adj. EPS (Rs)	22.1	29.2	33.9
Consensus EPS (Rs)	22.1	30.1	36.9
Adj. ROAE (%)	15.3	18.3	19.1
Adj. P/E (x)	63.4	47.9	41.3
EV/EBITDA (x)	38.0	29.6	25.2
Adj. EPS growth (%)	(7.0)	32.3	16.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Strong fundamentals

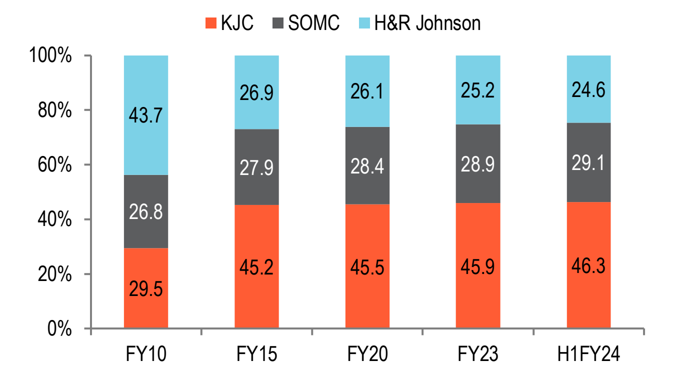
Leading player with best-in-class margins

KJC is the leading player in the domestic tile industry, with a market share of ~9.4% in FY23. The company has been steadily gaining market share over the past one decade on the back of growing distribution network, especially in semiurban and rural markets, and new premium product offerings such as glazed vitrified tiles (GVT). The company has also expedited the product delivery time to dealers by extending its manufacturing base across the country.

We expect KJC to continue to gain market share, funded by an accelerated capex programme where annual outlay has risen from <Rs 1bn in the pre-Covid period to Rs 3.5bn-3.7bn at present on the back of a strong balance sheet.

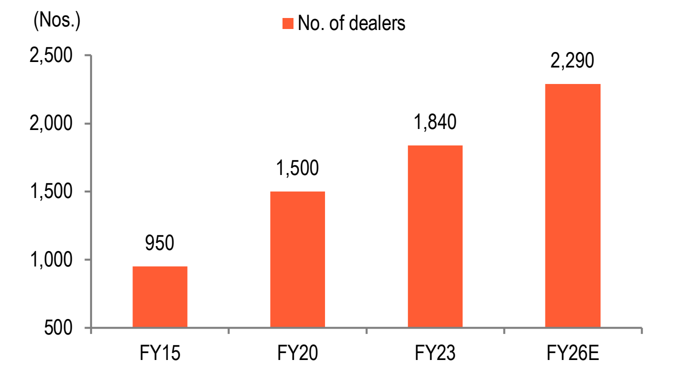
The company also operates at industry-leading margins by virtue of a favourable product mix and strong brand positioning that's driven by robust advertising spend (which enables it to command better prices than peers). Though the EBITDA margin was muted at 13.5% in FY23 owing to higher fuel prices, we expect a return to the historical average of ~16% over FY24-FY26 due to a sharp reduction in gas prices and an improving mix.

Fig 1 – KJC dominates volume market share among the top 3 tile players…



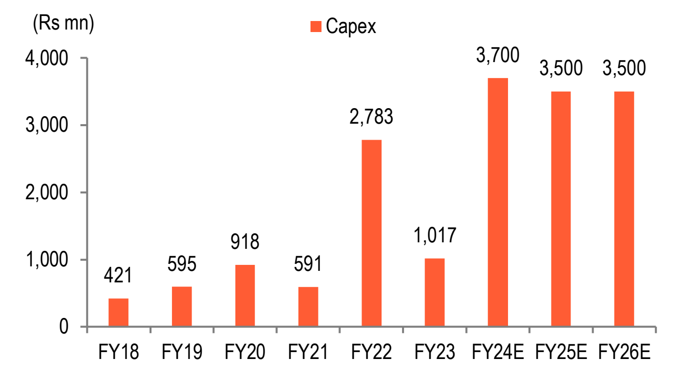
Source: Company, BOBCAPS Research

Fig 2 – …aided by a growing distribution network and new premium offerings



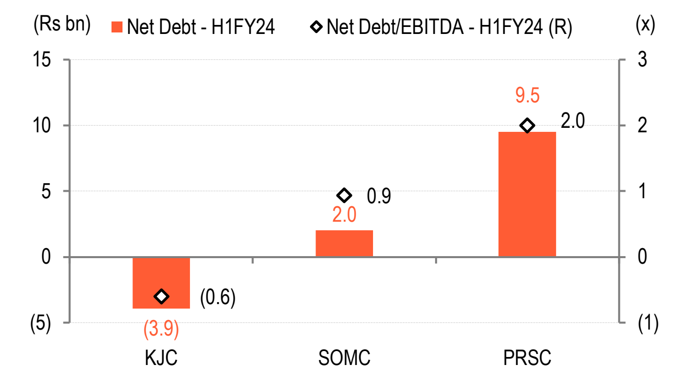
Source: Company, BOBCAPS Research

Fig 3 – Expect further market share gains as capex has accelerated...



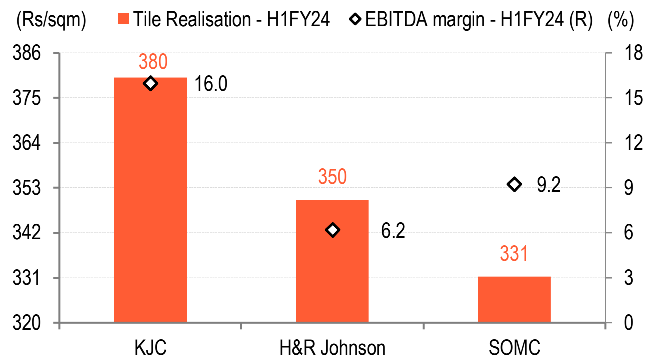
Source: Company, BOBCAPS Research

Fig 4 – …facilitated by a strong balance sheet position (unlike major peers)



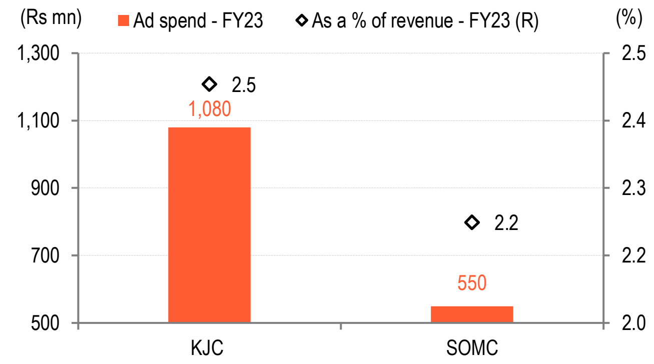
Source: Company, BOBCAPS Research

Fig 5 – Industry-leading operating margin stems from favourable product mix...



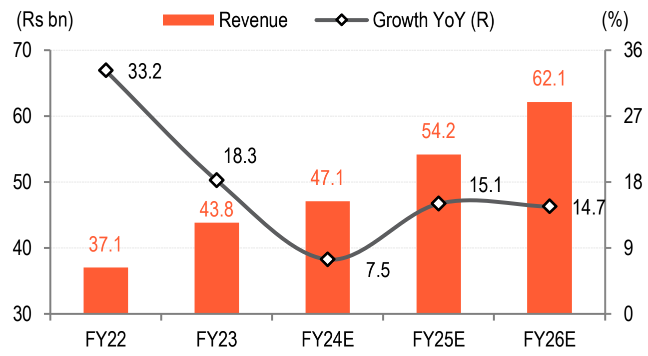
Source: Company, BOBCAPS Research

Fig 6 – …and strong brand positioning backed by heavy ad spends in comparison to second largest peer



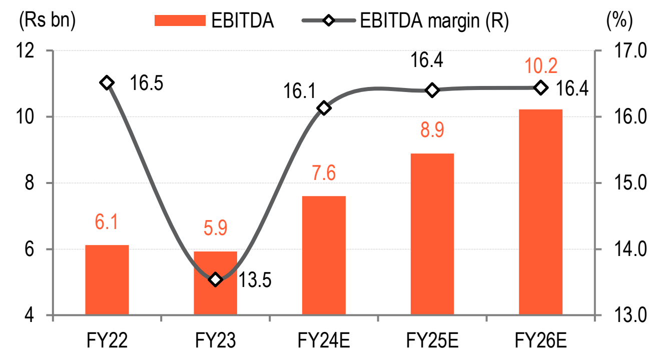
Source: Company, BOBCAPS Research

Fig 7 – KJC revenue is forecast to grow at 12.4% CAGR over FY23-FY26



Source: Company, BOBCAPS Research

Fig 8 – KJC EBITDA margin to improve from a low base of 13.5% in FY23 to 16.4% in FY26 on steep fall in fuel prices

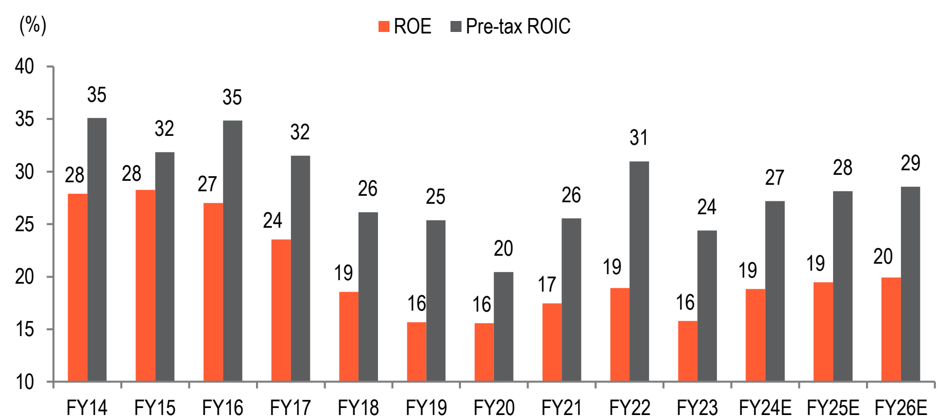


Source: Company, BOBCAPS Research

Sound return ratios on effective capital allocation

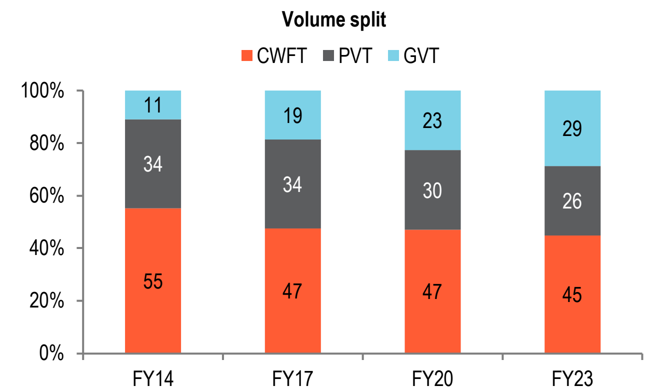
KJC has generated healthy pre-tax ROIC of 29% on average over the past 10 years. Key contributors are a high revenue share of domestic branded business and a small contribution of low-margin export business (1.3% in FY23), new product launches in the premium segment by investing in the latest technology, and an increase in share of outsourced volumes for the sourcing of low-value-added products.

Fig 9 – Healthy return ratios across economic cycles



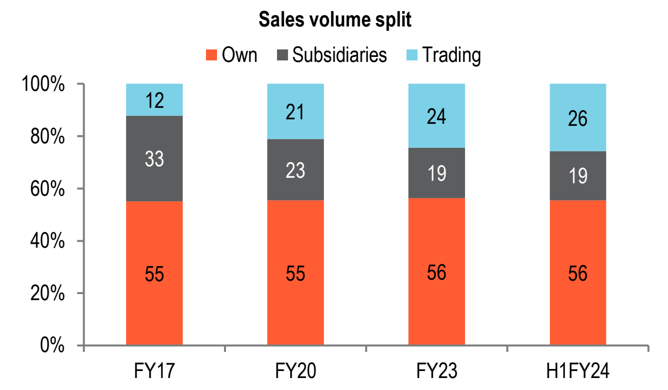
Source: Company, BOBCAPS Research

Fig 10 – Focused on raising the share of premium products in its portfolio (i.e. GVT)…



Source: Company, BOBCAPS Research

Fig 11 – …and on increasing outsourced volumes of low-value-added products

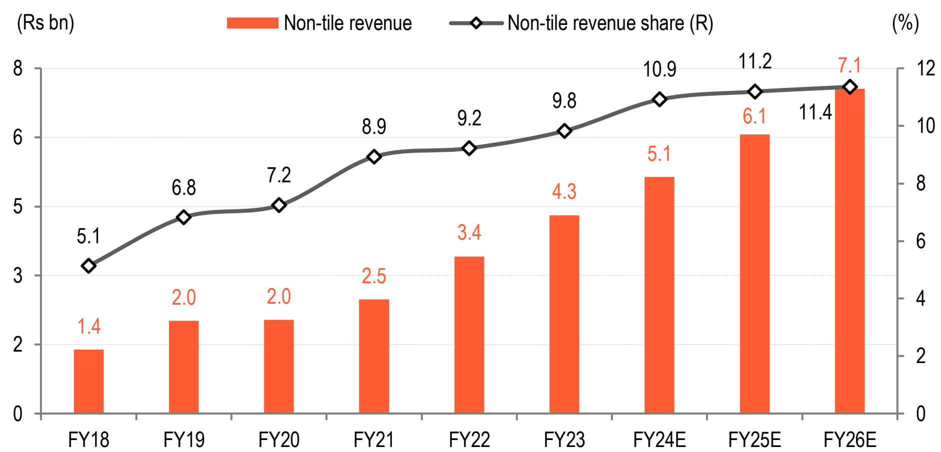


Source: Company, BOBCAPS Research

De-risking revenue through non-tile business

Over the past decade, KJC has forayed into other building material categories, such as bathware, plywood and adhesives, to leverage its existing distribution network and diversify the revenue stream. The share of non-tile revenue has doubled from 5% in FY18 to 10% in FY23 and is projected to tick up to 11% by FY25 as the business ramps up off a low base. We also expect gradual improvement in the segment's margin profile over the medium-to-long term due to economies of scale.

Fig 12 – Non-tile revenue share trending up



Source: Company, BOBCAPS Research

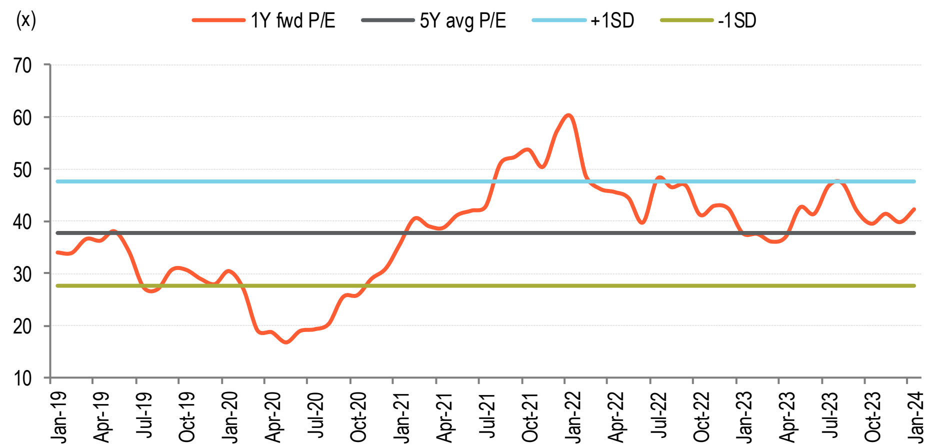
Valuations high

HOLD, TP Rs 1,450

We forecast a brisk revenue/EBITDA/EPS CAGR of 12.4%/19.9%/20.9% for KJC over FY23-FY26 on expectations of (a) a 10.5% volume CAGR led by recovery in real estate demand and (b) 290bps improvement in EBITDA margin to 16.4% by FY26 on account of lower fuel prices and an improving mix.

Nevertheless, we assume coverage on the company with a HOLD rating as current valuations look rich at 42.2x one-year forward P/E (vs. the five-year average of 37.7x). We value the stock at 40x Sep'25E EPS, a slight premium to its historical multiple given bright prospects, to arrive at a TP of Rs 1,450.

Fig 13 – Trading at 42.2x 1Y forward P/E vs. 5Y average of 37.7x



Source: Bloomberg, BOBCAPS Research

Fig 14 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Tile volume growth	(3.4)	21.5	11.0	8.9	11.7	11.1
Tile realisation growth	0.6	9.3	5.9	(2.5)	2.7	3.0
Tile revenue growth	(2.8)	32.8	17.5	6.2	14.7	14.5
Non-Tile revenue growth	22.1	37.7	26.0	19.4	17.9	16.4
Non-Tile revenue share	8.9	9.2	9.8	10.9	11.2	11.4

Source: Company, BOBCAPS Research

Key risks

- Better-than-expected recovery in real estate demand and sharp improvement in non-tile segment margins are key upside risks to our estimates.
- Market share loss in tiles and a steep decline in tile exports from India are key downside risks.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**37,052**	**43,819**	**47,096**	**54,195**	**62,149**
EBITDA	6,120	5,934	7,597	8,889	10,217
Depreciation	1,154	1,329	1,432	1,648	1,858
EBIT	4,966	4,605	6,166	7,241	8,359
Net interest inc./(exp.)	(127)	(223)	(181)	(170)	(170)
Other inc./(exp.)	276	336	341	331	331
Exceptional items	13	14	0	0	0
EBT	5,102	4,705	6,326	7,401	8,520
Income taxes	1,274	1,163	1,563	1,863	2,144
Extraordinary items	0	79	0	0	0
Min. int./Inc. from assoc.	(58)	(18)	(113)	(143)	(165)
Reported net profit	**3,770**	**3,445**	**4,650**	**5,395**	**6,211**
Adjustments	10	69	0	0	0
Adjusted net profit	**3,780**	**3,514**	**4,650**	**5,395**	**6,211**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,981	3,104	3,336	3,838	4,402
Other current liabilities	2,382	2,723	2,723	2,723	2,723
Provisions	80	82	88	101	116
Debt funds	1,386	2,093	1,575	1,803	2,059
Other liabilities	1,165	1,261	1,261	1,261	1,261
Equity capital	159	159	159	159	159
Reserves & surplus	21,065	23,109	25,898	29,136	32,862
Shareholders' fund	21,872	24,044	26,723	29,818	33,380
Total liab. and equities	**29,865**	**33,305**	**35,705**	**39,544**	**43,940**
Cash and cash eq.	4,244	3,938	3,480	3,332	3,519
Accounts receivables	5,133	6,012	6,461	7,435	8,526
Inventories	4,659	5,647	5,699	6,670	7,934
Other current assets	478	1,268	1,355	1,545	1,757
Investments	0	19	19	19	19
Net fixed assets	10,998	13,705	15,973	17,825	19,467
CWIP	2,634	817	817	817	817
Intangible assets	498	761	761	761	761
Deferred tax assets, net	152	207	207	207	207
Other assets	1,071	932	932	932	932
Total assets	**29,865**	**33,305**	**35,705**	**39,544**	**43,940**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**4,178**	**2,978**	**5,807**	**5,502**	**6,157**
Capital expenditures	(3,498)	(2,482)	(3,700)	(3,500)	(3,500)
Change in investments	0	(19)	0	0	0
Other investing cash flows	31	7	104	94	94
Cash flow from investing	**(3,467)**	**(2,495)**	**(3,596)**	**(3,406)**	**(3,406)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	416	707	(518)	228	256
Interest expenses	(127)	(223)	(181)	(170)	(170)
Dividends paid	(1,751)	(1,433)	(1,860)	(2,158)	(2,484)
Other financing cash flows	461	143	(221)	(286)	(329)
Cash flow from financing	**(1,002)**	**(806)**	**(2,779)**	**(2,386)**	**(2,728)**
Chg in cash & cash eq.	**(291)**	**(323)**	**(569)**	**(290)**	**23**
Closing cash & cash eq.	**4,244**	**3,938**	**3,480**	**3,332**	**3,519**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	23.7	21.6	29.2	33.9	39.0
Adjusted EPS	23.7	22.1	29.2	33.9	39.0
Dividend per share	11.0	9.0	11.7	13.6	15.6
Book value per share	133.3	146.2	163.7	184.0	207.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.1	5.1	4.8	4.1	3.6
EV/EBITDA	36.7	38.0	29.6	25.2	21.9
Adjusted P/E	58.9	63.4	47.9	41.3	35.9
P/BV	10.5	9.6	8.5	7.6	6.7

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.1	74.7	73.5	72.9	72.9
Interest burden (PBT/EBIT)	102.7	102.2	102.6	102.2	101.9
EBIT margin (EBIT/Revenue)	13.4	10.5	13.1	13.4	13.5
Asset turnover (Rev./Avg TA)	124.1	131.6	131.9	137.1	141.4
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.4
Adjusted ROAE	18.3	15.3	18.3	19.1	19.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	33.2	18.3	7.5	15.1	14.7
EBITDA	18.7	(3.0)	28.0	17.0	14.9
Adjusted EPS	20.6	(7.0)	32.3	16.0	15.1
Profitability & Return ratios (%)					
EBITDA margin	16.5	13.5	16.1	16.4	16.4
EBIT margin	13.4	10.5	13.1	13.4	13.5
Adjusted profit margin	10.2	8.0	9.9	10.0	10.0
Adjusted ROAE	18.3	15.3	18.3	19.1	19.7
ROCE	22.5	18.9	23.0	23.9	24.5
Working capital days (days)					
Receivables	51	50	50	50	50
Inventory	46	47	44	45	47
Payables	29	26	26	26	26
Ratios (x)					
Gross asset turnover	1.9	2.1	2.0	2.0	2.0
Current ratio	2.2	2.3	2.2	2.2	2.3
Net interest coverage ratio	39.0	20.6	34.2	42.5	49.1
Adjusted debt/equity	(0.1)	(0.1)	(0.1)	(0.1)	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BUY
TP: Rs 900 | ⮝ 28%

SOMANY CERAMICS | Construction Materials | 17 January 2024

Strong earnings prospects, reasonable valuations

- **Maintains domestic market share in tiles even after squeezing debtor period; new premium capacity to boost margins**
- **Return ratio and balance sheet profile set to improve on better utilisation, enhanced mix and near-completion of large capex drive**
- **Valuations attractive given expected 37% EPS CAGR over FY23-FY26; we assume coverage with BUY and TP of Rs 900**

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Steadfast market share: SOMC is the second largest tile player in India with a strong presence in the north, south and east of the country. Its volume market share among the top 3 tile companies has stayed largely stable at 29.1% in H1FY24 vs. 29.7% in FY18, despite a sharp tightening of the credit period offered to dealers to 38 days in FY23 from 107 days in FY18. We expect the company's market share to improve due to near-completion of its large capex programme, raising its tile manufacturing capacity (own plus subsidiary) from 52.7msm in Mar'22 to 61.6msm in Mar'24.

Scope for margin expansion: We model for a substantial rise in utilisation of existing capacity from 78% in FY23 to 93% in FY26 based on a 9.4% volume CAGR, which would aid optimisation of power & fuel cost. Capacity share of premium glazed vitrified tiles (GVT) is also on track to ramp up from 19% in Mar'22 to 34% in Mar'24, which would augment the product mix. Considering both factors, we forecast EBITDA margin expansion from 9.2% in H1FY24 to 10.9% in FY26.

Return ratios and balance sheet profile to improve in medium term: Better capacity utilisation, higher margins and completion of the large capex program could help improve ROE from 8.6% in FY23 to 17.7% in FY26 and strengthen SOMC's leverage profile, in our view. Given an improving balance sheet position, the company has recently concluded a Rs 1.25bn share buyback at a price of Rs 850/sh.

Attractively priced; BUY, TP Rs 900: As capacity scales up, we forecast a 9.4% volume CAGR and 139bps EBITDA margin gains over FY23-FY26, supporting a revenue/EBITDA/EPS CAGR of 9.1%/21.8%/36.6% for the company. The stock is trading at reasonable valuations of 23.5x on 1Y forward P/E, in line with the 5Y average. Considering strong earnings prospects and attractive valuations, we assume coverage with BUY, valuing the stock at 25x Sep'25E EPS for a TP of Rs 900. Note that our EPS estimate is below consensus for FY25 on expectations of a slower recovery in EBITDA margin to 9.6% vs. 10.2% forecast by the street.

Key risks: Poor offtake of the recently launched large-slab GVT tiles and below-expected recovery in operating margin are key downside risks to our estimates.

Key changes

Target	Rating
▲	◄ ►

Ticker/Price	SOMC IN/Rs 705
Market cap	US$ 351.8mn
Free float	45%
3M ADV	US$ 0.5mn
52wk high/low	Rs 819/Rs 466
Promoter/FPI/DII	55%/1%/24%

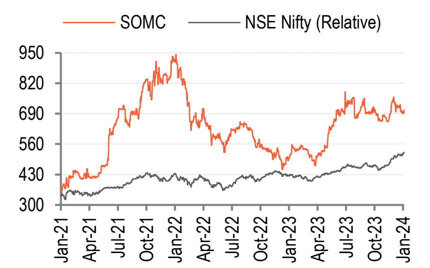
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	24,785	26,239	29,073
EBITDA (Rs mn)	1,889	2,307	2,804
Adj. net profit (Rs mn)	743	922	1,293
Adj. EPS (Rs)	17.5	22.5	31.6
Consensus EPS (Rs)	17.5	22.5	37.6
Adj. ROAE (%)	8.6	10.6	14.3
Adj. P/E (x)	40.3	31.3	22.4
EV/EBITDA (x)	14.1	11.3	9.1
Adj. EPS growth (%)	(17.3)	28.6	40.2

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



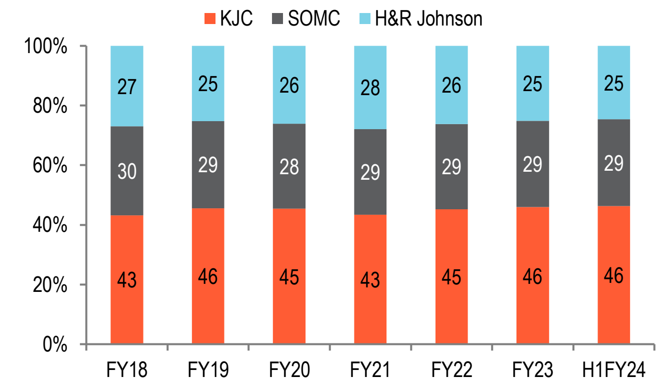
Source: NSE

Investment rationale

Market share steady despite squeeze on debtor days

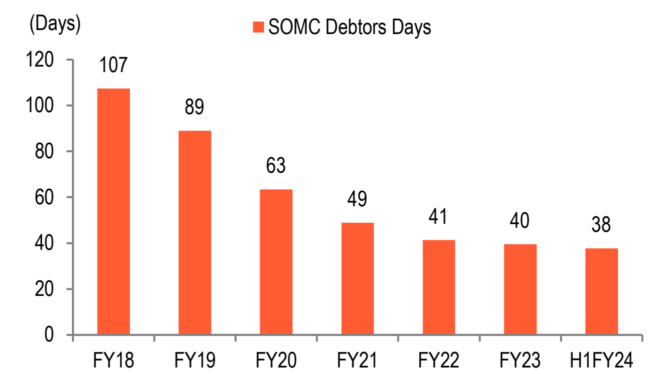
SOMC's volume market share among the top 3 tile companies has held steady at ~29% over the past six years despite a sharp cutback in credit period offered to dealers, from 107 days in FY18 to 38 days in H1FY24. Going ahead, we believe the company's market share will improve due to the benefits of near-completion of its large capex programme that will raise tile manufacturing capacity (own and subsidiary) from 52.7msm in Mar'22 to 61.6msm in Mar'24 and aid an estimated 9.4% volume CAGR over FY23-FY26.

Fig 1 – SOMC has largely maintained its market share…



Source: Company, BOBCAPS Research

Fig 2 – …despite squeezing its debtor days

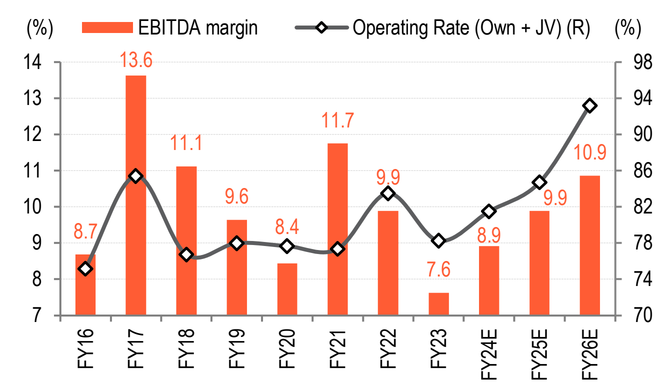


Source: Company, BOBCAPS Research

Margin to improve on higher utilisation and better mix

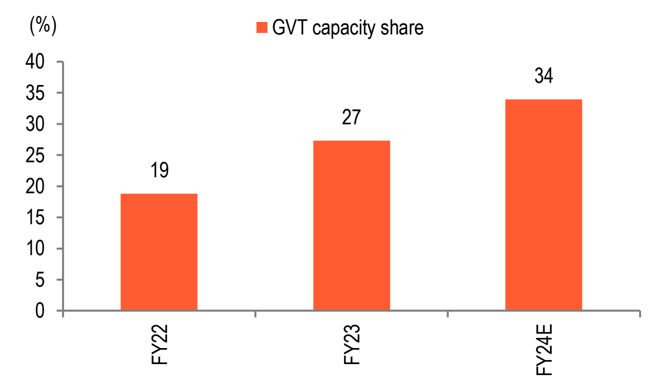
SOMC's EBITDA margin fell from a 10-year average of 9.5% to 7.6% in FY23 due to the impact of a steep rise in gas prices, before recovering to 9.2% in H1FY24. We expect margin expansion to 10.9% in FY26 on account of (a) better utilisation of existing capacity based on an estimated volume CAGR of 9.4%, which would result in optimisation of power & fuel cost, and (b) a richer product mix from planned ramp-up in share of high-end GVT manufacturing capacity from 19% in Mar'22 to 34% in Mar'24.

Fig 3 – EBITDA margin expected to improve on higher utilisation…



Source: Company, BOBCAPS Research

Fig 4 – …and a better product mix due to a sharp rise in share of GVT manufacturing capacity

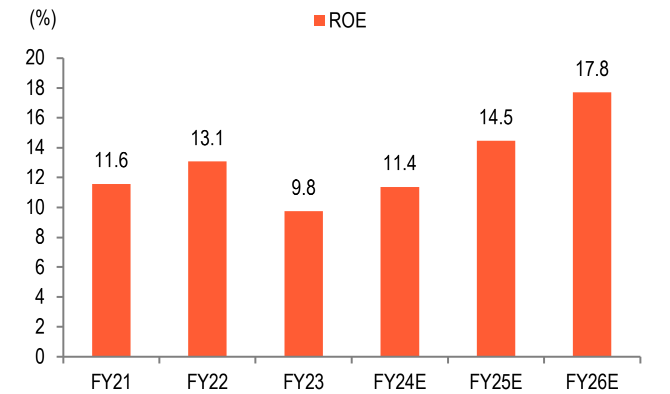


Source: Company, BOBCAPS Research

Balance sheet to strengthen in medium term

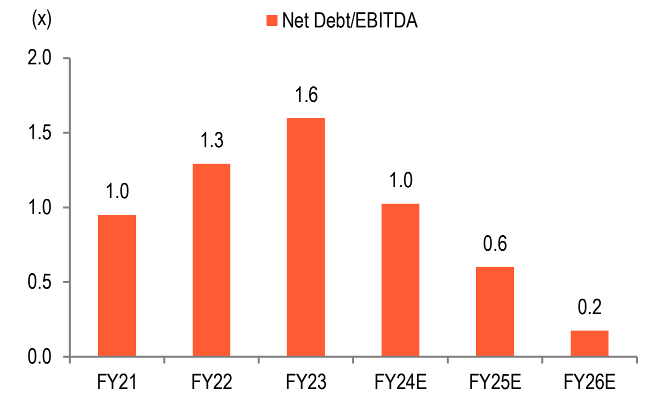
We forecast a sharp improvement in SOMC's ROE from 8.6% in FY23 to 17.7% in FY26 on expectations of better utilisation of existing capacity and a sharp uplift in margins as the product mix evolves. The company's balance sheet profile is also set to strengthen due to near-completion of its large capex programme, softening the net debt/EBITDA ratio from 1.6x in FY23 to an estimated 0.2x in FY26. Backed by an improving balance sheet position, the company recently concluded a Rs 1.25bn share buyback at a price of Rs 850/sh.

Fig 5 – ROE to scale up on better utilisation and mix



Source: Company, BOBCAPS Research

Fig 6 – Net debt/EBITDA ratio to ease as capex tapers off



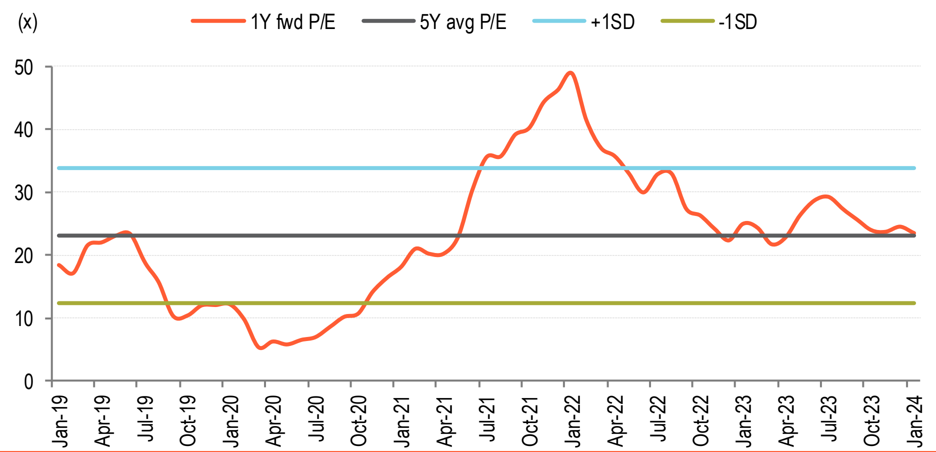
Source: Company, BOBCAPS Research

Valuations reasonable

BUY, TP Rs 900

SOMC is the second largest tile player in India with a strong presence in the north, south and east of the country. We expect a 9.4% volume CAGR and 139bps EBITDA margin gains over FY23-FY26 to support a corresponding revenue/EBITDA/EPS CAGR of 9.1%/21.8%/36.6% for the company. Valuations too look reasonable at 23.5x one-year forward P/E, in line with the five-year average multiple. Considering strong earnings prospects and attractive valuations, we assume coverage with BUY and a TP of Rs 900, ascribing the stock a P/E multiple of 25x on Sep'25E EPS, which is in line with its historical average.

Fig 7 – Trading at 23.5x 1Y forward P/E, in line with 5Y average



Source: Bloomberg, BOBCAPS Research

Fig 8 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Tile volume growth	2.0	16.1	10.4	8.3	9.9	10.0
Tile realisation growth	0.5	10.0	6.0	(1.2)	0.3	0.0
Tile revenue growth	2.6	27.7	17.0	7.0	10.2	10.0
Non-Tile revenue growth	0.7	23.4	23.8	16.8	15.0	15.0
Non-Tile revenue share	11.2	10.9	11.5	12.4	12.9	13.4

Source: Company, BOBCAPS Research

Key risks

- Poor offtake of the recently launched large-slab GVT tiles and below-expected recovery in operating margin are key downside risks to our estimates.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**20,945**	**24,785**	**26,239**	**29,073**	**32,167**
EBITDA	2,071	1,889	2,307	2,804	3,418
Depreciation	640	679	704	746	796
EBIT	1,431	1,211	1,603	2,059	2,623
Net interest inc./(exp.)	(296)	(404)	(441)	(439)	(439)
Other inc./(exp.)	134	145	122	120	120
Exceptional items	5	2	0	0	0
EBT	1,264	950	1,284	1,740	2,304
Income taxes	329	259	375	438	466
Extraordinary items	0	22	0	0	0
Min. int./Inc. from assoc.	(47)	46	13	(9)	(9)
Reported net profit	**887**	**715**	**922**	**1,293**	**1,829**
Adjustments	12	28	0	0	0
Adjusted net profit	**899**	**743**	**922**	**1,293**	**1,829**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,602	3,777	4,624	5,123	5,668
Other current liabilities	1,117	1,277	1,277	1,277	1,277
Provisions	17	52	55	61	68
Debt funds	4,765	4,884	5,033	5,314	5,622
Other liabilities	1,082	1,176	1,176	1,176	1,176
Equity capital	85	85	82	82	82
Reserves & surplus	7,178	7,785	7,322	8,421	9,975
Shareholders' fund	8,339	8,945	8,493	9,583	11,129
Total liab. and equities	**17,923**	**20,111**	**20,658**	**22,535**	**24,941**
Cash and cash eq.	2,086	1,864	1,363	2,275	3,642
Accounts receivables	2,368	2,683	2,840	3,147	3,482
Inventories	2,737	3,915	3,725	4,068	4,501
Other current assets	669	532	566	626	692
Investments	0	0	0	0	0
Net fixed assets	7,102	9,647	10,693	10,948	11,152
CWIP	2,267	473	473	473	473
Intangible assets	419	504	504	504	504
Deferred tax assets, net	41	84	84	84	84
Other assets	235	409	409	409	409
Total assets	**17,923**	**20,111**	**20,658**	**22,535**	**24,941**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**2,039**	**1,566**	**2,794**	**2,153**	**2,662**
Capital expenditures	(2,753)	(1,515)	(1,750)	(1,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	129	121	122	120	120
Cash flow from investing	**(2,624)**	**(1,394)**	**(1,628)**	**(880)**	**(880)**
Equities issued/Others	0	0	(3)	0	0
Debt raised/repaid	531	118	149	282	308
Interest expenses	(296)	(404)	(441)	(439)	(439)
Dividends paid	(129)	(132)	(138)	(194)	(274)
Other financing cash flows	130	70	(1,220)	(18)	(18)
Cash flow from financing	**235**	**(348)**	**(1,654)**	**(369)**	**(424)**
Chg in cash & cash eq.	**(350)**	**(177)**	**(488)**	**904**	**1,358**
Closing cash & cash eq.	**2,086**	**1,864**	**1,363**	**2,275**	**3,642**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	20.9	16.8	22.5	31.6	44.6
Adjusted EPS	21.2	17.5	22.5	31.6	44.6
Dividend per share	3.0	3.0	3.4	4.7	6.7
Book value per share	171.1	185.4	180.7	207.5	245.4

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.2	1.1	1.0	0.9	0.8
EV/EBITDA	12.4	14.1	11.3	9.1	7.5
Adjusted P/E	33.3	40.3	31.3	22.4	15.8
P/BV	4.1	3.8	3.9	3.4	2.9

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	71.1	78.2	71.8	74.3	79.4
Interest burden (PBT/EBIT)	88.3	78.5	80.1	84.5	87.8
EBIT margin (EBIT/Revenue)	6.8	4.9	6.1	7.1	8.2
Asset turnover (Rev./Avg TA)	116.9	123.2	127.0	129.0	129.0
Leverage (Avg TA/Avg Equity)	2.3	2.3	2.4	2.5	2.4
Adjusted ROAE	11.4	8.6	10.6	14.3	17.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	26.9	18.3	5.9	10.8	10.6
EBITDA	6.8	(8.8)	22.1	21.6	21.9
Adjusted EPS	23.8	(17.3)	28.6	40.2	41.5
Profitability & Return ratios (%)					
EBITDA margin	9.9	7.6	8.8	9.6	10.6
EBIT margin	6.8	4.9	6.1	7.1	8.2
Adjusted profit margin	4.3	3.0	3.5	4.4	5.7
Adjusted ROAE	11.4	8.6	10.6	14.3	17.7
ROCE	11.9	9.8	12.8	14.6	16.4
Working capital days (days)					
Receivables	41	40	40	40	40
Inventory	48	58	52	51	51
Payables	45	56	64	64	64
Ratios (x)					
Gross asset turnover	2.3	2.2	1.9	1.9	2.0
Current ratio	1.2	1.1	0.9	1.0	1.2
Net interest coverage ratio	4.8	3.0	3.6	4.7	6.0
Adjusted debt/equity	0.3	0.3	0.4	0.3	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

HOLD
TP: Rs 800 | ▲ 3%

CENTURY PLYBOARDS | Construction Materials | 17 January 2024

Margin headwinds tarnish prospects

- **Only wood panel company in India present across the value chain; benefits from strong competitive moats**
- **Generates sturdy return ratios but margins under pressure due to rising imports and excess domestic capacity addition**
- **Expect tepid 9% EPS CAGR over FY23-FY26; valuations lofty – initiate with HOLD for TP of Rs 800**

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Presence across the value chain: CPBI is the only wood panel company in India with a presence across the value chain – it enjoys a leadership position in plywood, ranks the third largest in MDF, the fifth largest in laminates and is a major player in particleboard. The company wields key competitive advantages in the wood panel industry by dint of a widespread manufacturing base for a freight-intensive product, diverse product offerings, a strong brand image and management's efficient execution record.

Balance sheet sound despite heavy capex: CPBI has been generating healthy return ratios with ROE of >17% across the cycle, and we expect its gross block to nearly double over FY23-FY25 following heavy capex across segments. Even so, the company's net debt/EBITDA ratio is forecast to remain comfortable at 1.15x in FY24 vs. >2x for most major peers as its operations scale up.

Persisting margin pressure: The company's MDF and particleboard segment margins have been strained over the past five quarters due to supply-side pressure stemming from rising imports and excess capacity addition in the domestic market. We expect weak segmental profitability to pull down the blended EBITDA margin by 70bps over FY23-FY26 and hence model for a modest revenue/EBITDA/EPS CAGR of 13.4%/11.7%/9.3% for the company.

HOLD, TP Rs 800: At 41x one-year forward P/E, the stock is trading well above its 5Y average of 25.5x. An unexciting growth profile and lofty valuations lead us to assume coverage with HOLD. We value the stock at 40x Sep'25E EPS for a TP of Rs 800.

Key risks: Better-than-expected pickup in the real estate market and speedy ramp-up of new projects would be key upside risks to our estimates. Sharp corrections in MDF or particleboard prices and delay in completion of ongoing projects with significant cost overruns would be key downside risks.

Key changes

Target	Rating
▲	▼

Ticker/Price	CPBI IN/Rs 778
Market cap	US$ 2.1bn
Free float	27%
3M ADV	US$ 2.2mn
52wk high/low	Rs 850/Rs 436
Promoter/FPI/DII	73%/6%/14%

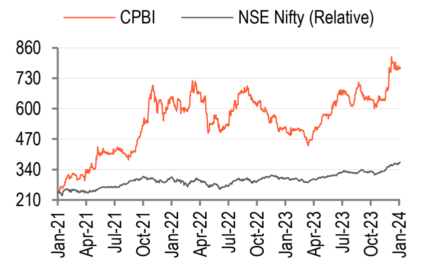
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	36,466	39,381	45,373
EBITDA (Rs mn)	5,927	6,128	6,913
Adj. net profit (Rs mn)	4,088	4,066	4,252
Adj. EPS (Rs)	18.4	18.3	19.1
Consensus EPS (Rs)	18.4	17.7	20.9
Adj. ROAE (%)	23.6	19.4	17.2
Adj. P/E (x)	42.4	42.6	40.7
EV/EBITDA (x)	29.3	28.3	24.5
Adj. EPS growth (%)	28.6	(0.5)	4.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



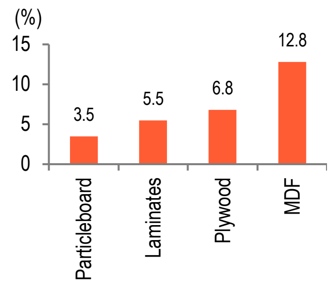
Source: NSE

Solid model but margins at risk

Presence across the value chain

CPBI has the distinction of being the only wood panel company in India with a strong presence across segments – the company is the market leader in plywood, ranks the third largest in MDF, the fifth largest in laminates and is a major player in particleboard.

CPBI market share – FY23



Source: Company, BOBCAPS Research

Fig 1 – Revenue mix of leading wood panel companies in India

Company	Revenue (Rs bn)	Revenue mix - FY23 (%)				
	FY23	Plywood	Laminates	MDF	Particleboard	Others
CPBI	36.5	56	18	18	5	4
Merino	21.8	-	78	-	-	22
GRLM	20.3	-	91	-	-	9
MTLM	18.5	100	-	-	-	-
Balaji Action	18.1	-	-	72	28	-
GREENP	17.8	14	-	86	-	-
Virgo Group	12.9	-	Yes	-	-	-
Stylam	9.5	-	Yes	-	-	-
Rushil Décor	8.4	-	25	74	-	1

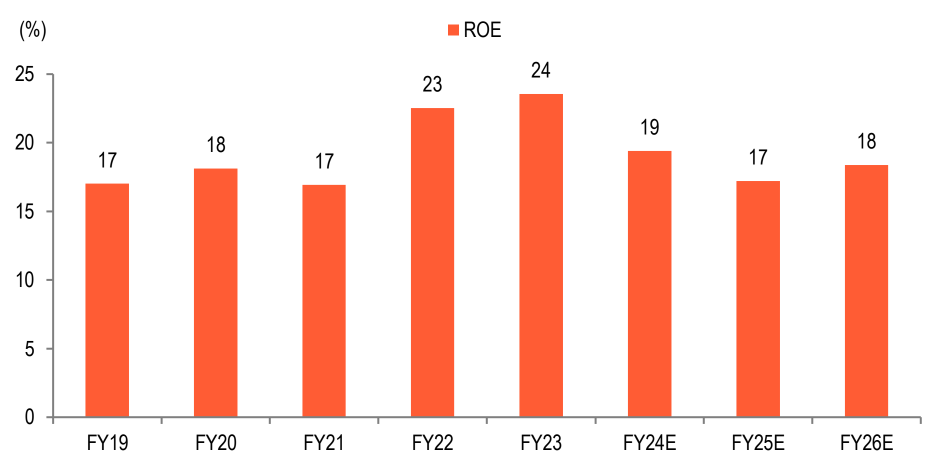
Source: Company, BOBCAPS Research

Strong competitive advantage

CPBI has been generating healthy return ratios (ROE >17% across economic cycles) backed by strong competitive advantages in the wood panel industry. These include a pan-India presence with a widespread manufacturing base that's key for a freight-intensive product, diverse product offerings and a strong brand image supported by heavy advertising spends.

In addition, we highlight management's consistent track record in terms of speedy execution of new capex projects, entry into new, fast-growing product categories and scaling them up quickly, and improvement in productivity by leveraging technology and appointing industry consultants.

Fig 2 – Return ratios healthy across economic cycles



Source: Company, BOBCAPS Research

Fig 3 – Pan-India manufacturing base lends CPBI a competitive edge in a freight-intensive industry

Segment	Company	Manufacturing locations region-wise				
		North	West	South	East	Northeast
Plywood	CPBI	Haryana, Uttarakhand, Punjab (upcoming)	Gujarat	Tamil Nadu	West Bengal	Assam
	MTLM	Uttar Pradesh	Gujarat	-	West Bengal	Nagaland
	GRLM	-	-	Tamil Nadu	-	-
	GREENP	Uttarakhand	-	-	-	-
Laminates	GRLM	Rajasthan, Himachal Pradesh	-	Andhra Pradesh	-	-
	Merino	Haryana, Uttar Pradesh	Gujarat	Tamil Nadu	-	-
	Virgo	Rajasthan, Punjab, Himachal Pradesh	Gujarat	Andhra Pradesh	-	-
	CPBI	-	-	Andhra Pradesh (upcoming)	West Bengal	-
	Stylam	Haryana	-	-	-	-
	Rushil	-	Gujarat	-	-	-
MDF	GREENP	Uttarakhand	-	Andhra Pradesh	-	-
	Balaji Action	Uttarakhand	-	-	-	-
	CPBI	Punjab	-	Andhra Pradesh (upcoming)	-	-
	Rushil	-	-	Karnataka, Andhra Pradesh	-	-
	MTLM	-	Gujarat	-	-	-
Particleboard	Balaji Action	Uttarakhand	-	-	-	-
	CPBI	-	-	Tamil Nadu	-	-
	GRLM	-	-	Andhra Pradesh (upcoming)	-	-
	Merino	-	Gujarat (upcoming)	-	-	-

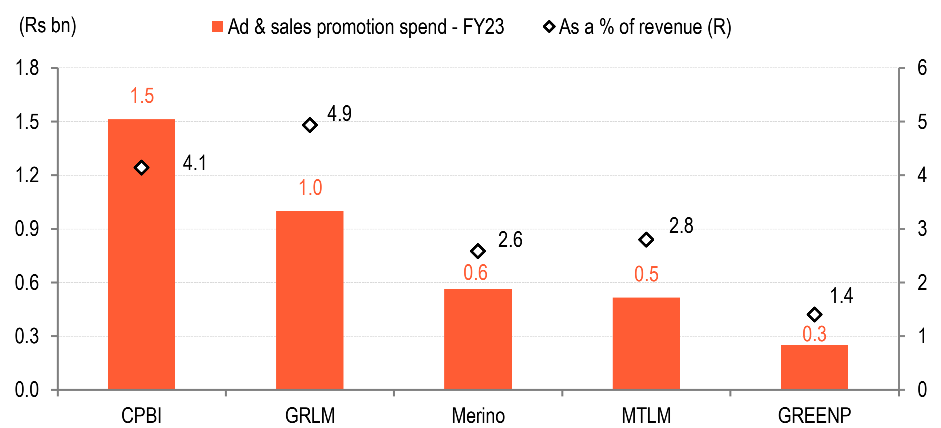
Source: Company, BOBCAPS Research

Fig 4 – Strong distribution network compared to major peers…

Company	Distribution Network - FY23	
	No. of dealers	No. of retail touchpoints
CPBI	3,848	14,091
Merino	3,000	16,000
GRLM	NA	23,000
MTLM	2,300	12,500
GREENP	2,300	12,000

Source: Company, BOBCAPS Research

Fig 5 – …and a strong brand image backed by high advertising

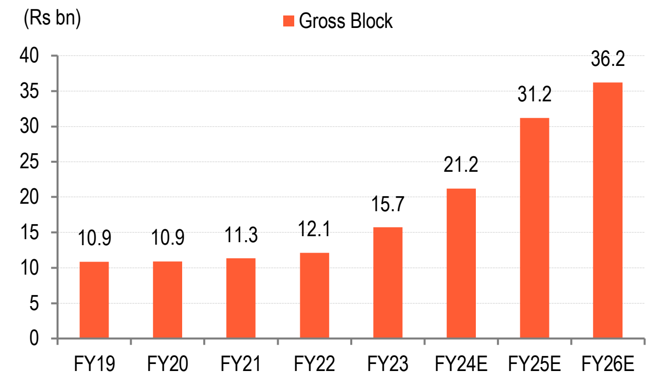


Source: Company, BOBCAPS Research

Sound balance sheet despite aggressive capex

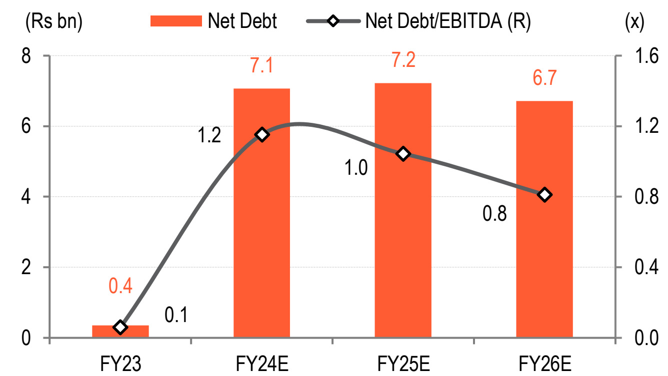
CPBI has undertaken a Rs 15bn capex programme across business segments which is expected to nearly double its gross block to Rs 31bn over FY23-FY25. Nevertheless, we forecast comfortable leverage with a net debt/EBITDA ratio of 1.15x in FY24 and 1x in FY25 (vs. >2x for most major peers) as we bake in a growing scale of operations.

Fig 6 – Gross block to almost double over FY23-FY25…



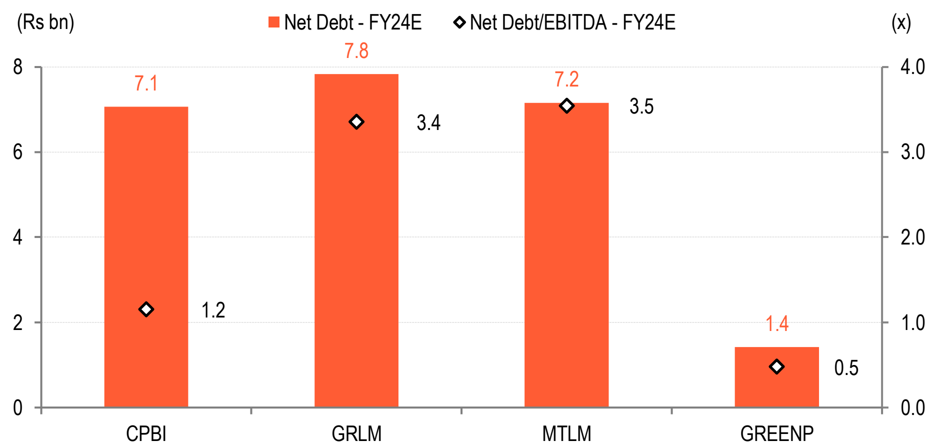
Source: Company, BOBCAPS Research

Fig 7 – …but balance sheet expected to remain comfortable



Source: Company, BOBCAPS Research

Fig 8 – Leverage expected to remain below that of large peers

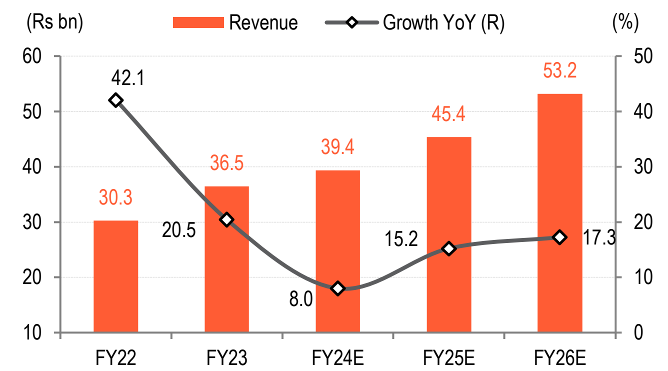


Source: Company, BOBCAPS Research

Margin pressure clouds outlook

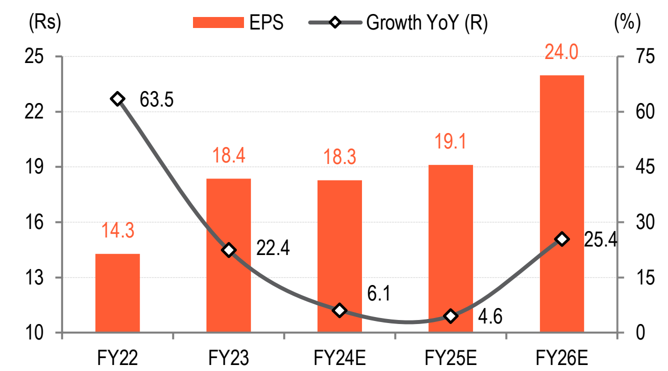
Growing imports and excess capacity addition in the domestic market have suppressed the company's MDF and particleboard segment margins over the past five quarters. We expect weak segmental profitability to shrink the blended EBITDA margin by 73bps over FY23-FY26 and hence model for a muted EPS CAGR of 9.3%.

Fig 9 – CPBI revenue is forecast to grow at a healthy 13.4% CAGR over FY23-FY26



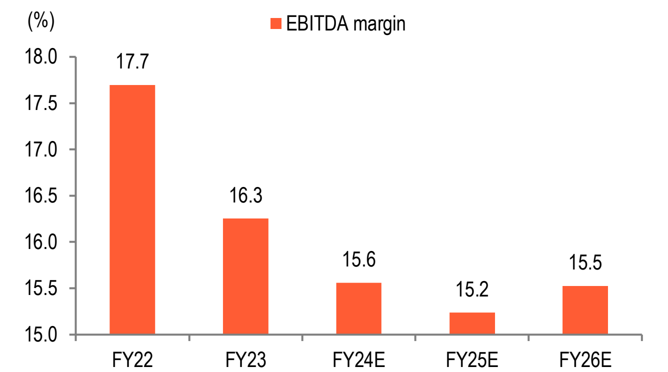
Source: Company, BOBCAPS Research

Fig 10 – EPS is projected to grow at a muted pace of 9.3% over FY23-FY26 in anticipation of..



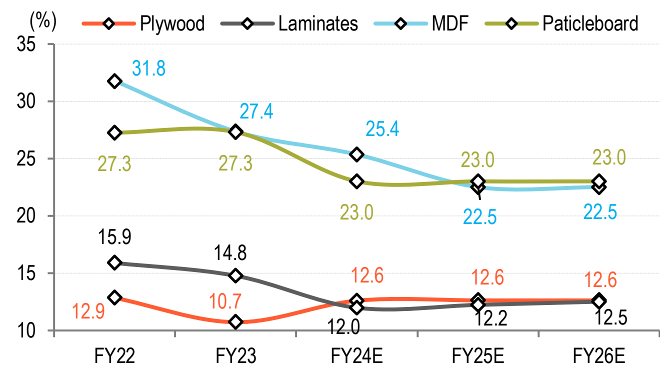
Source: Company, BOBCAPS Research

Fig 11 – Margin contraction of 73bps over FY23-FY26..



Source: Company, BOBCAPS Research

Fig 12 – ..due to supply overhand in MDF & particleboard



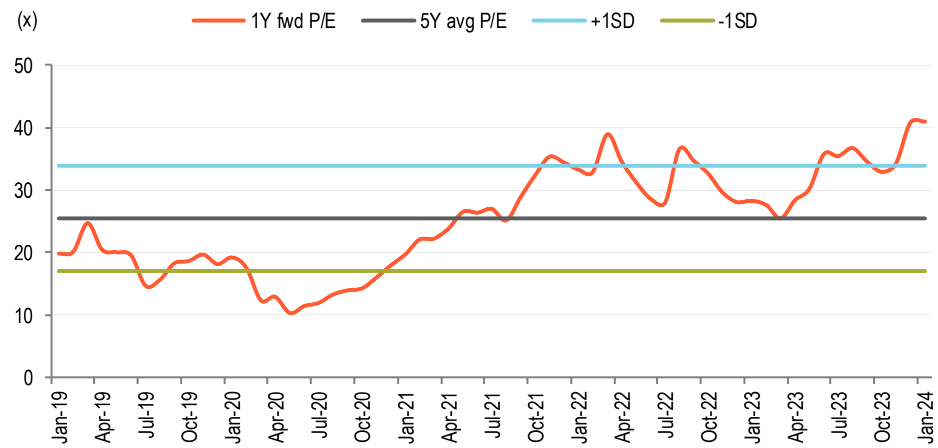
Source: Company, BOBCAPS Research

Valuations lofty

HOLD, TP Rs 800

Despite aggressive capex, we forecast a modest revenue/EBITDA/EPS CAGR of 13.4%/11.7%/9.3% CAGR for CPBI over FY23-FY26 in anticipation of persisting margin pressure in the MDF and particleboard segments. We also find valuations expensive at 41x one-year forward P/E vs. the stock's five-year average of 25.5x. Our TP of Rs 800 is set at 40x Sep'25E EPS – in keeping with the stock's one-year forward multiple – and offers 3% upside, leading us to assume coverage with HOLD.

Fig 13 – Trading at 41x 1Y forward P/E vs. 5Y average of 25.5x



Source: Bloomberg, BOBCAPS Research

Fig 14 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix						
Plywood	53.4	53.1	55.9	56.4	54.7	52.2
Laminates	19.5	19.0	18.0	16.8	17.2	17.3
MDF	16.8	18.5	17.6	19.9	22.3	22.8
Particleboard	4.2	5.0	4.8	4.0	3.8	5.9
Others	6.0	4.5	3.8	2.8	2.0	1.8
Sales volume growth						
Plywood	(8.8)	33.9	21.3	6.8	11.9	11.9
Laminates	(10.9)	22.1	6.9	10.0	15.0	15.0
MDF	(3.9)	20.8	4.1	18.9	37.2	20.0
Particleboard	(12.4)	32.7	0.1	3.2	10.0	80.0
Adjusted EBITDA margin						
Plywood	11.2	12.9	10.7	12.6	12.6	12.6
Laminates	18.1	15.9	14.8	12.0	12.2	12.5
MDF	25.6	31.8	27.4	25.4	22.5	22.5
Particleboard	19.3	27.3	27.3	23.0	23.0	23.0

Source: Company, BOBCAPS Research

Key risks

- Better-than-expected pickup in the real estate market and fast ramp-up of new projects would be key upside risks to our estimates.
- Sharp corrections in MDF or particleboard prices and delay in completion of ongoing projects with significant cost overruns represent key downside risks.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**30,270**	**36,466**	**39,381**	**45,373**	**53,214**
EBITDA	5,356	5,927	6,128	6,913	8,261
Depreciation	743	775	978	1,441	1,584
EBIT	4,614	5,151	5,150	5,472	6,677
Net interest inc./(exp.)	(114)	(170)	(286)	(326)	(246)
Other inc./(exp.)	231	477	509	484	644
Exceptional items	48	340	0	0	0
EBT	4,682	5,119	5,374	5,630	7,075
Income taxes	1,550	1,278	1,307	1,377	1,741
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(1)	(8)	0	0	0
Reported net profit	**3,131**	**3,833**	**4,066**	**4,252**	**5,334**
Adjustments	48	255	0	0	0
Adjusted net profit	**3,178**	**4,088**	**4,066**	**4,252**	**5,334**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,528	2,749	3,037	3,501	4,108
Other current liabilities	1,546	1,619	1,619	1,619	1,619
Provisions	71	85	94	108	127
Debt funds	2,182	3,134	7,115	7,115	7,115
Other liabilities	436	470	470	470	470
Equity capital	223	223	223	223	223
Reserves & surplus	15,346	18,921	22,580	26,407	31,208
Shareholders' fund	15,542	19,106	22,766	26,593	31,393
Total liab. and equities	**22,305**	**27,163**	**35,101**	**39,406**	**44,832**
Cash and cash eq.	2,610	2,782	52	(101)	406
Accounts receivables	3,524	3,903	4,215	4,857	5,696
Inventories	5,264	5,290	5,523	6,617	8,066
Other current assets	755	969	1,071	1,235	1,449
Investments	3	1	1	1	1
Net fixed assets	7,745	10,671	15,193	23,752	27,167
CWIP	1,766	2,362	7,862	1,862	862
Intangible assets	20	17	17	17	17
Deferred tax assets, net	1	2	2	2	2
Other assets	617	1,164	1,164	1,164	1,164
Total assets	**22,305**	**27,163**	**35,101**	**39,406**	**44,832**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**2,649**	**4,385**	**4,471**	**4,114**	**4,642**
Capital expenditures	(2,622)	(4,865)	(11,000)	(4,000)	(4,000)
Change in investments	(1)	2	0	0	0
Other investing cash flows	183	137	509	484	644
Cash flow from investing	**(2,440)**	**(4,726)**	**(10,491)**	**(3,516)**	**(3,356)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	752	952	3,981	0	0
Interest expenses	(114)	(170)	(286)	(326)	(246)
Dividends paid	(334)	(223)	(407)	(425)	(533)
Other financing cash flows	82	(54)	0	0	0
Cash flow from financing	**386**	**506**	**3,289**	**(751)**	**(779)**
Chg in cash & cash eq.	**595**	**164**	**(2,730)**	**(153)**	**507**
Closing cash & cash eq.	**2,610**	**2,782**	**52**	**(101)**	**406**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	14.1	17.2	18.3	19.1	24.0
Adjusted EPS	14.3	18.4	18.3	19.1	24.0
Dividend per share	1.5	1.0	1.8	1.9	2.4
Book value per share	70.0	86.0	102.5	119.7	141.2

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	5.7	4.8	4.4	3.7	3.1
EV/EBITDA	32.2	29.3	28.3	24.5	20.1
Adjusted P/E	54.5	42.4	42.6	40.7	32.5
P/BV	11.1	9.0	7.6	6.5	5.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	67.9	79.9	75.7	75.5	75.4
Interest burden (PBT/EBIT)	101.5	99.4	104.3	102.9	106.0
EBIT margin (EBIT/Revenue)	15.2	14.1	13.1	12.1	12.5
Asset turnover (Rev./Avg TA)	135.7	134.2	112.2	115.1	118.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.5	1.5	1.4
Adjusted ROAE	20.4	21.4	17.9	16.0	17.0

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	42.1	20.5	8.0	15.2	17.3
EBITDA	59.6	10.6	3.4	12.8	19.5
Adjusted EPS	59.3	28.6	(0.5)	4.6	25.4
Profitability & Return ratios (%)					
EBITDA margin	17.7	16.3	15.6	15.2	15.5
EBIT margin	15.2	14.1	13.1	12.1	12.5
Adjusted profit margin	10.5	11.2	10.3	9.4	10.0
Adjusted ROAE	22.5	23.6	19.4	17.2	18.4
ROCE	27.3	25.3	18.9	17.7	19.0
Working capital days (days)					
Receivables	42	39	39	39	39
Inventory	63	53	51	53	55
Payables	30	28	28	28	28
Ratios (x)					
Gross asset turnover	2.6	2.6	2.1	1.7	1.6
Current ratio	1.9	1.7	1.4	1.5	1.7
Net interest coverage ratio	40.4	30.3	18.0	16.8	27.2
Adjusted debt/equity	0.0	0.0	0.3	0.3	0.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

HOLD
TP: Rs 400 | ∀ 3%

GREENPANEL INDUSTRIES | Construction Materials | 17 January 2024

MDF oversupply dims outlook

- **Supply overhang in domestic MDF industry likely to dampen earnings growth and suppress return ratios**
- **Balance sheet expected to remain healthy despite implementation of large Rs 6bn MDF expansion project over FY24-Q1FY25**
- **Initiate with HOLD and TP of Rs 400 on muted 6% EPS CAGR to FY26E and expensive valuations**

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Largest MDF player: MTLM's MDF division was demerged and transferred to GREENP in Apr'18, making the latter the largest player in India's Rs 50bn MDF market (FY23). This market is expected to grow the fastest in the wood panel industry due to consumers' rising preference for readymade furniture, where MDF is preferred over plywood for its lower cost and ease of building.

Price stabiliser in oversupplied MDF market: GREENP's domestic MDF realisations have been relatively flattish over the past six quarters as it has played the role of price stabiliser in an oversupplied market by sacrificing market share to maintain pricing discipline.

Tepid earnings growth profile and moderating return ratios: We expect the MDF segment EBITDA margin to weaken from 26% in FY23 to 23.6% in FY26 on soft export realisation and rising timber prices, leading to a muted 6% EPS CAGR for the company over FY23-FY26. ROE is also projected to fall from 21.1% in FY23 to 16.7% in FY26.

Balance sheet to remain healthy: Despite over Rs 6.5bn in capex over FY24-FY25, GREENP is likely to be net debt-free by FY26, which would allow it to undertake fresh capex over the next 12-18 months. Any capex announcement in the non-MDF wood panel segment would improve the business risk profile in the long run.

HOLD, TP Rs 400: We project a dull revenue/EBITDA/EPS CAGR of 7.1%/5.2%/6% for GREENP over FY23-FY26. While we are optimistic about the company's long-term prospects due to its presence in the fast-growing MDF segment, we assume coverage with a HOLD rating given tepid earnings growth and deteriorating return ratios over our forecast period. Valuations also look high at 24.7x on 1Y forward P/E vs. the 5Y average of 16.1x. We value the stock at 20x Sep'25E EPS for a TP of Rs 400.

Key risks: Lower imports and a steep increase in global MDF prices are the key upside risks to our estimates. Weak domestic MDF prices and material delays along with cost escalation in ongoing capex projects are the key downside risks.

Key changes

Target	Rating
▼	▼

Ticker/Price	GREENP IN/Rs 410
Market cap	US$ 612.5mn
Free float	47%
3M ADV	US$ 1.9mn
52wk high/low	Rs 450/Rs 255
Promoter/FPI/DII	53%/4%/23%

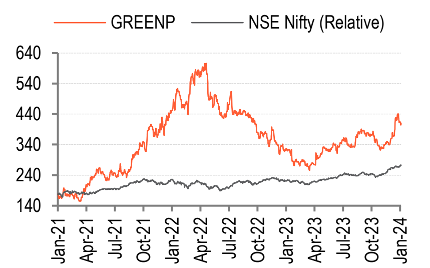
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	17,829	16,611	18,735
EBITDA (Rs mn)	4,165	2,960	3,508
Adj. net profit (Rs mn)	2,521	1,756	2,098
Adj. EPS (Rs)	20.6	14.3	17.1
Consensus EPS (Rs)	20.6	15.3	19.0
Adj. ROAE (%)	23.5	13.8	14.5
Adj. P/E (x)	20.0	28.7	24.0
EV/EBITDA (x)	11.6	17.2	14.4
Adj. EPS growth (%)	3.9	(30.3)	19.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

Supply-side pressure

Leading player in fast-growing MDF segment

GREENP is the largest player in India's Rs 50bn MDF market (FY23), which is expected to grow at the fastest rate in the wood panel industry due to the rising preference for readymade furniture, where MDF is preferred over plywood for its low cost and ability to be easily moulded, machined and painted. MDF also has a low volume market share in the interior wood panel segment comprising plywood and MDF, at 30% in India compared to the global average of 70% in FY23, per company estimates. Thus, we see a large growth opportunity for GREENP in the long run.

Fig 1 – GREENP the largest player in fast-growing MDF segment

Top 5 MDF players	FY23		FY26E	
	Capacity (cbm)	Share (%)	Capacity (cbm)	Share (%)
GREENP	660,000	39	891,000	33
CPBI	313,500	19	627,000	23
Balaji Action	372,500	22	592,500	22
Rushil Décor	330,000	20	330,000	12
MTLM	0	0	240,000	9

Source: Company, BOBCAPS Research

Price stabiliser in an oversupplied market

The Indian MDF market is facing a supply overhang due to cheap imports and large domestic capacity additions. GREENP has played the role of price stabiliser in an oversupplied market by sacrificing market share to maintain pricing discipline, leading to flattish domestic MDF realisations over the past six quarters. The company has also increased the share of value-added products (pre-laminated MDF, high density water resistance fibreboard or HDWR) and appointed new distributors to penetrate deeper into the country to mitigate the risk of low-cost imports.

Fig 2 – GREENP playing the role of price stabiliser in an oversupplied Indian MDF market

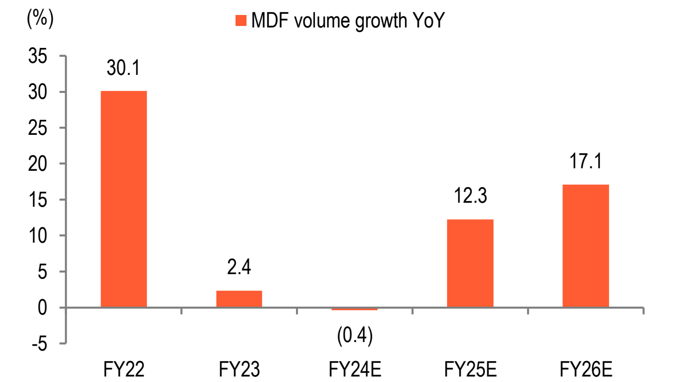
Particulars	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
GREENP MDF Domestic Realisation (Rs/cbm)	33,320	33,346	33,554	33,854	32,978	32,925	32,771
Indian MDF Domestic Demand (cbm)							
GREENP (domestic)	101,833	98,428	99,495	92,808	94,338	88,368	90,407
CPBI	48,137	45,309	45,109	48,099	46,801	47,988	53,724
Rushil Décor (domestic)	47,130	47,428	44,481	45,826	60,534	44,033	45,921
MTLM	0	0	0	0	0	6,062	31,019
Gross MDF Imports	21,768	33,114	38,047	48,547	67,766	71,786	102,808
Total	**218,868**	**224,279**	**227,132**	**235,281**	**269,439**	**258,237**	**323,879**
Indian MDF Domestic Demand Share (%)							
GREENP (domestic)	47	44	44	39	35	34	28
CPBI	22	20	20	20	17	19	17
Rushil Décor (domestic)	22	21	20	19	22	17	14
MTLM	0	0	0	0	0	2	10
Gross MDF Imports	10	15	17	21	25	28	32

Source: Company, BOBCAPS Research

Tepid outlook on earnings and return ratios

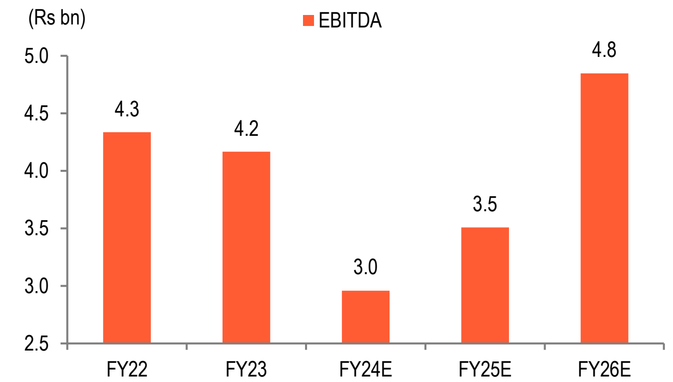
MDF forms a bulk of GREENP's revenue mix at 86% in FY23 whereas the contribution from its plywood business is limited at 14%. We assume domestic MDF realisations will stay flat at Q2FY24 levels through to FY26. This coupled with weak export realisations and rising timber prices is likely to weaken the MDF segment EBITDA margin from 26% in FY23 to 23.6% in FY26. Consequently, we project a muted revenue/EBITDA/EPS CAGR of 7.1%/5.2%/6% for the company over FY23-FY26 with ROE tumbling 445bps to 16.7% in FY26.

Fig 3 – MDF volumes projected to log 9.4% CAGR over FY23-FY26E...



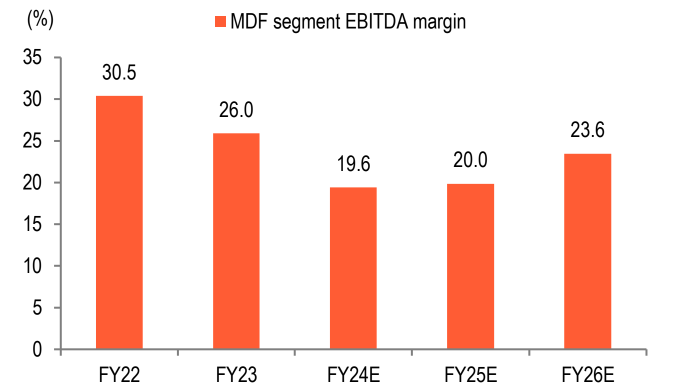
Source: Company, BOBCAPS Research

Fig 4 – ...but weak segmental margin to lead to muted 5.2% EBITDA CAGR



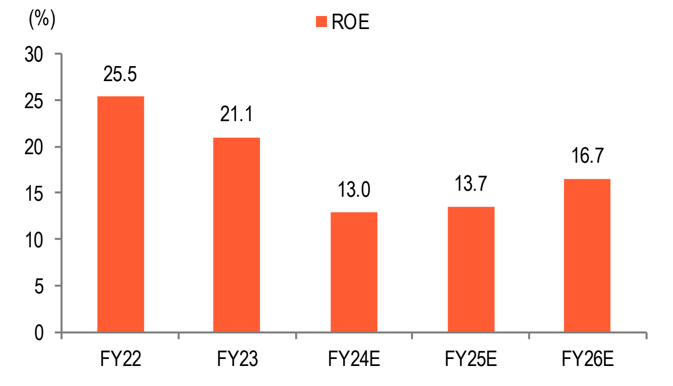
Source: Company, BOBCAPS Research

Fig 5 – MDF EBITDA margin likely to fall on weak export realisation and rising wood costs



Source: Company, BOBCAPS Research

Fig 6 – ROE also forecast to decline

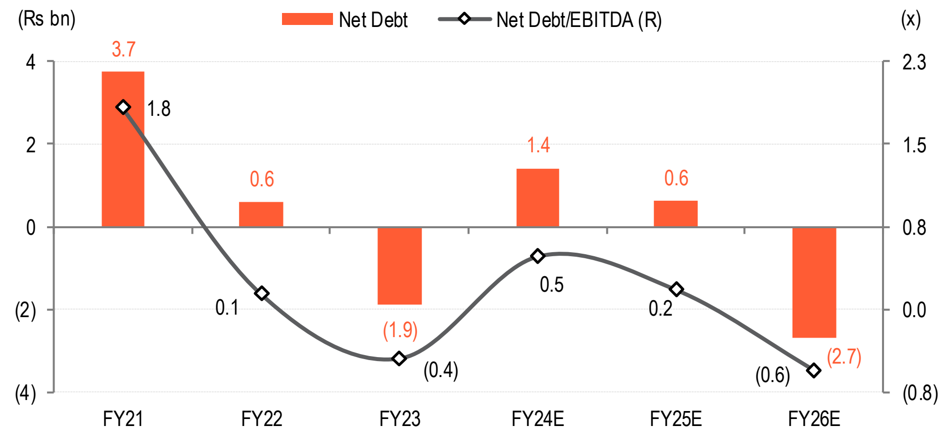


Source: Company, BOBCAPS Research

Balance sheet to remain healthy in medium term

GREENP plans to increase its MDF capacity from 660,000cbm at present to 891,000cbm by Q3FY25 at a cost of Rs 6bn at its existing location in Andhra Pradesh. Even so, we expect the company to be net debt-free by FY26, which could allow it to undertake fresh capex over the next 12-18 months. Any new capex announcement in the non-MDF wood panel segment would improve the business risk profile over the long run.

Fig 7 – Expected to be net debt-free by Mar'26E even after planned MDF capex



Source: Company, BOBCAPS Research

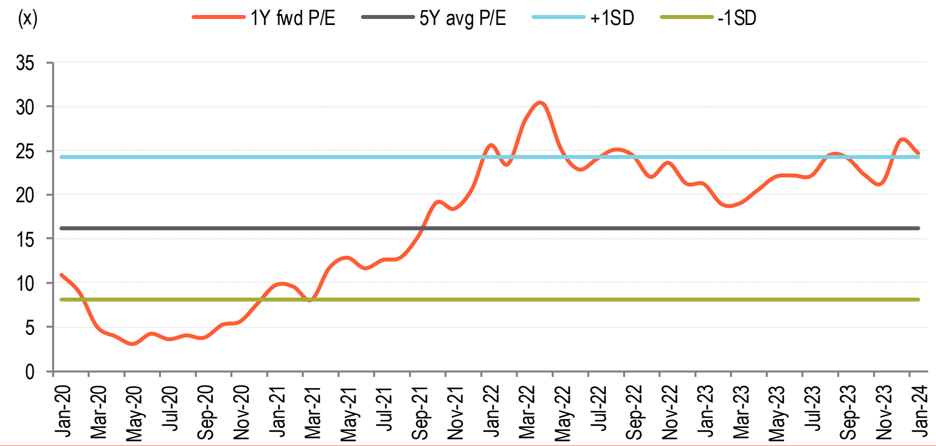
Valuations high

HOLD, TP Rs 400

GREENP is the leading player in India's MDF industry, formed after MTLM's MDF division was demerged and transferred to it in Apr'18. Although we are optimistic about the company's long-term prospects, we assume coverage with a HOLD rating given a tepid outlook on earnings growth and return ratios over our forecast period.

We project a muted revenue/EBITDA/EPS CAGR of 7.1%/5.2%/6% over FY23-FY26 along with moderation in ROE from 21.1% to 16.7%. Valuations also look high at 24.7x one-year forward P/E vs. the five-year average of 16.1x. We value the stock at 20x Sep'25E EPS, a discount to its current multiple in view of the unfavourable industry outlook, to arrive at a TP of Rs 400.

Fig 8 – Trading at 24.7x 1Y forward P/E vs. 5Y average of 16.1x



Source: Bloomberg, BOBCAPS Research

Fig 9 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix						
MDF	78.7	84.2	86.3	88.7	88.9	89.6
Plywood	21.3	15.8	13.7	11.3	11.1	10.4
Sales volume growth						
MDF	20.4	30.1	2.4	(0.4)	12.3	17.1
Plywood	(0.2)	9.5	(7.7)	(18.1)	12.3	10.0
EBITDA margin						
MDF	22.7	30.5	26.0	19.6	20.0	23.6
Plywood	10.4	9.9	5.0	3.4	6.8	8.2

Source: Company, BOBCAPS Research

Key risks

- Lower imports and a steep increase in global MDF prices are the key upside risks to our estimates.
- Weak domestic MDF prices and material delays along with cost escalation in ongoing capex projects are the key downside risks.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**16,250**	**17,829**	**16,611**	**18,735**	**21,910**
EBITDA	4,334	4,165	2,960	3,508	4,848
Depreciation	734	720	757	894	1,053
EBIT	3,600	3,445	2,203	2,614	3,794
Net interest inc./(exp.)	(171)	(190)	(97)	(59)	(35)
Other inc./(exp.)	90	194	263	262	262
Exceptional items	29	0	0	0	0
EBT	3,489	3,449	2,369	2,817	4,022
Income taxes	1,085	944	613	720	1,023
Extraordinary items	0	(61)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	**2,405**	**2,565**	**1,756**	**2,098**	**2,999**
Adjustments	20	(45)	0	0	0
Adjusted net profit	**2,425**	**2,521**	**1,756**	**2,098**	**2,999**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	1,378	1,111	1,038	1,171	1,369
Other current liabilities	534	578	578	578	578
Provisions	30	17	16	18	21
Debt funds	2,826	1,904	1,419	149	149
Other liabilities	1,139	1,499	1,499	1,499	1,499
Equity capital	123	123	123	123	123
Reserves & surplus	9,394	11,816	13,389	15,241	17,872
Shareholders' fund	9,516	11,939	13,511	15,364	17,995
Total liab. and equities	**15,424**	**17,048**	**18,061**	**18,778**	**21,610**
Cash and cash eq.	2,226	3,778	0	799	4,119
Accounts receivables	414	444	414	467	546
Inventories	1,658	1,525	1,834	1,833	1,978
Other current assets	564	592	576	604	647
Investments	0	0	0	0	0
Net fixed assets	9,948	9,453	8,981	14,344	13,591
CWIP	0	49	5,049	49	49
Intangible assets	434	463	463	463	463
Deferred tax assets, net	0	0	0	0	0
Other assets	179	744	744	218	218
Total assets	**15,424**	**17,048**	**18,061**	**18,778**	**21,610**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**3,748**	**3,376**	**2,010**	**2,941**	**3,858**
Capital expenditures	(302)	(823)	(5,285)	(731)	(300)
Change in investments	0	0	0	0	0
Other investing cash flows	60	255	263	165	165
Cash flow from investing	**(241)**	**(569)**	**(5,022)**	**(566)**	**(136)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(1,642)	(922)	(485)	(1,271)	0
Interest expenses	(171)	(190)	(97)	(59)	(35)
Dividends paid	(184)	(184)	(184)	(245)	(368)
Other financing cash flows	(8)	41	0	0	0
Cash flow from financing	**(2,005)**	**(1,255)**	**(766)**	**(1,575)**	**(402)**
Chg in cash & cash eq.	**1,501**	**1,552**	**(3,778)**	**799**	**3,320**
Closing cash & cash eq.	**2,226**	**3,778**	**0**	**799**	**4,119**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	19.6	20.9	14.3	17.1	24.5
Adjusted EPS	19.8	20.6	14.3	17.1	24.5
Dividend per share	1.5	1.5	1.5	2.0	3.0
Book value per share	77.6	97.4	110.2	125.3	146.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.8	2.7	3.1	2.7	2.3
EV/EBITDA	10.6	11.6	17.2	14.4	10.2
Adjusted P/E	20.8	20.0	28.7	24.0	16.8
P/BV	5.3	4.2	3.7	3.3	2.8

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	69.5	73.1	74.1	74.5	74.6
Interest burden (PBT/EBIT)	96.9	100.1	107.5	107.8	106.0
EBIT margin (EBIT/Revenue)	22.2	19.3	13.3	14.0	17.3
Asset turnover (Rev./Avg TA)	105.4	104.6	92.0	99.8	101.4
Leverage (Avg TA/Avg Equity)	1.6	1.4	1.3	1.2	1.2
Adjusted ROAE	25.5	21.1	13.0	13.7	16.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	59.2	9.7	(6.8)	12.8	16.9
EBITDA	112.0	(3.9)	(28.9)	18.5	38.2
Adjusted EPS	248.8	3.9	(30.3)	19.4	43.0
Profitability & Return ratios (%)					
EBITDA margin	26.7	23.4	17.8	18.7	22.1
EBIT margin	22.2	19.3	13.3	14.0	17.3
Adjusted profit margin	14.9	14.1	10.6	11.2	13.7
Adjusted ROAE	28.8	23.5	13.8	14.5	18.0
ROCE	29.9	26.3	16.5	18.5	22.4
Working capital days (days)					
Receivables	9	9	9	9	9
Inventory	37	31	40	36	33
Payables	31	23	23	23	23
Ratios (x)					
Gross asset turnover	1.1	1.3	1.2	1.1	1.1
Current ratio	1.6	2.7	1.2	1.9	3.4
Net interest coverage ratio	21.1	18.1	22.7	44.4	109.6
Adjusted debt/equity	0.1	(0.2)	0.1	0.0	(0.2)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

BOBCAPS
TRUST | INNOVATION | EXCELLENCE

BUY
TP: Rs 300 | ⮝ 23%

GREENPLY INDUSTRIES | Construction Materials | 17 January 2024

High earnings trajectory, improving risk profile

- **Capacity addition in plywood (2.5x over FY20-FY23) and MDF set to lift volumes and market share**
- **Recent entry into fast-growing MDF and architectural fittings market likely to improve margins and business risk profile**
- **Expect strong 26% EPS CAGR through FY26; initiate with BUY and TP of Rs 300**

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Rising capacity to aid market share gains: MTLM is the second largest plywood player in India with 6.2% share of the Rs 300bn market led by a strong presence in the premium range and a growing footprint in mass premium products. The completion of a ~Rs 7.0bn capex drive to add capacities in plywood (from 24.9msm in FY20 to 65.9msm in FY23) and enter the MDF segment (240,000cbm greenfield facility commercialised in Q1FY24) is likely to spur volumes and market share.

Improving risk profile: MTLM forayed into the MDF segment in Q1FY24 and recently entered a JV with Turkey-based company, Samet, to enter into architectural fittings. A presence in these segments would help lower the company's revenue concentration risk. In our view, MTLM's established relationships with architects and carpenters raises the likelihood of brisk growth in the MDF and fittings segments.

Strong execution in oversupplied MDF industry: MTLM has garnered 12% market share among the top four MDF players in just six months of launch and generated a healthy segmental operating margin of 15.8% in Q2FY24 in a difficult environment. We expect the MDF margin to improve to 17.0% in FY25 considering removal of product discounting, value-added products in the mix, and a likely softening of timber cost.

High earnings growth trajectory: We believe volume growth from new capacities along with contribution from the high-margin MDF business will aid a revenue/ EBITDA/EPS CAGR of 18.1%/24.8%/25.7% for the company over FY23-FY26, with operating margin expansion from 9.5% to 11.2%. ROE is also projected to improve from 13.9% in FY23 to 17.7% due to the sweating of existing capacity.

BUY, TP Rs 300: The stock is trading at 26.5x on 1Y forward P/E vs. its 5Y average of 23.8x. We assume coverage on MTLM with BUY and a TP of Rs 300, set at 25x Sep'25E EPS, based on strong earnings growth prospects, improving return ratios and a positive shift in business risk profile. Note we are below consensus EPS estimates for FY24-FY25 on expectations of a more modest recovery in MDF margin.

Key risks: Muted domestic demand and weak MDF prices are key downside risks.

Key changes

Target	Rating
▲	◀ ▶

Ticker/Price	MTLM IN/Rs 243
Market cap	US$ 363.6mn
Free float	48%
3M ADV	US$ 1.7mn
52wk high/low	Rs 267/Rs 135
Promoter/FPI/DII	52%/2%/33%

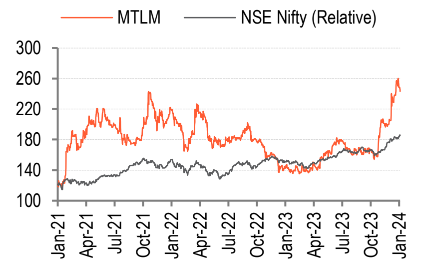
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	18,456	22,991	26,943
EBITDA (Rs mn)	1,762	2,008	2,858
Adj. net profit (Rs mn)	893	589	1,234
Adj. EPS (Rs)	7.3	4.8	10.0
Consensus EPS (Rs)	7.3	5.9	11.0
Adj. ROAE (%)	15.1	8.7	16.1
Adj. P/E (x)	33.4	50.7	24.2
EV/EBITDA (x)	16.2	12.8	8.1
Adj. EPS growth (%)	(8.9)	(34.1)	109.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



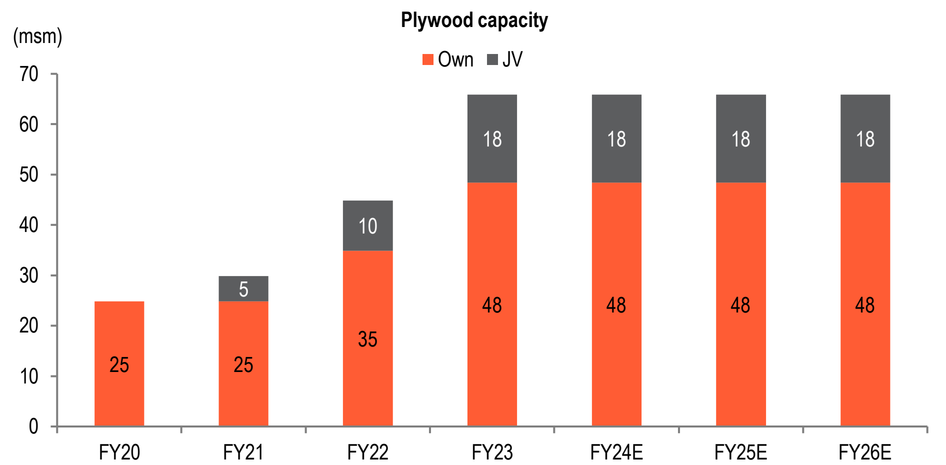
Source: NSE

Investment rationale

Higher capacity to spur volumes

MTLM is the second largest plywood player in India with 6.2% share of the Rs 300bn market led by a strong presence in the premium range and a growing footprint in mass premium products. The company has increased its plywood capacity from 24.9msm in FY20 to 65.9msm in FY23, which is likely to spur volumes and market share gains.

Fig 1 – Plywood capacity has risen 2.5x over FY20-FY23



Source: Company, BOBCAPS Research

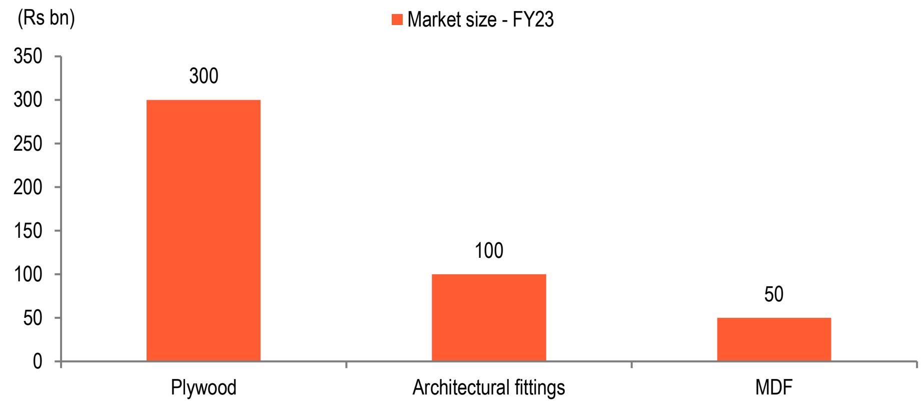
Entry into MDF and furniture fittings improves risk profile

In Q1FY24, MTLM marked its entry into the MDF segment with the start of a 240,000cbm greenfield facility in Gujarat. With this business, the company can now cater to needs across the interior wood panel segment. MTLM also recently entered into a joint venture agreement with Turkish company, Samet, to make a foray into the architectural fittings market.

The leading players in the furniture fittings market, such as Hettich, Hafele, Ebco, Dorset, and Godrej, are growing at a double-digit rate accompanied by healthy operating margins (Hettich: 18-20%, others: 12-15%). In our view, MTLM's established relationships with architects and carpenters through its plywood business raises the likelihood of brisk growth in the fittings segment.

We further highlight that the entry into MDF and fittings both expands the addressable market opportunity for MTLM, from Rs 300bn (for plywood) to Rs 450bn (MDF: Rs 50bn plus furniture fittings: Rs 100bn), and helps lower the company's revenue concentration risk. Per our estimates, plywood will form 81% of revenue in FY26 from 100% in FY23.

Fig 2 – New forays raise addressable market



Source: Company, BOBCAPS Research

Strong execution in oversupplied MDF industry

MTLM has garnered 12% market share in MDF among the top four players within just two quarters of launch and generated a healthy operating margin of 15.8% in Q2FY24 amid a difficult market environment. The company is selling at a 2-2.5% discount to major peers in the South India market to gain share in the initial stages of operation and plans to sell at par with peers in the next fiscal year in anticipation of quick ramp-up of the plant.

We expect segmental operating margin to improve to 17.0% in FY25 considering benefits from (a) the expected discontinuation of discounting in the coming quarters, (b) higher value-added products in the mix, (c) a likely softening of timber prices over the next 5-6 quarters, and (d) operating leverage.

Fig 3 – A strong start in an oversupplied MDF industry

Particulars	Q4FY23	Q1FY24	Q2FY24
Sales Volume (cbm)			
GREENP	137,265	115,798	123,615
CPBI	46,801	47,988	53,724
Rushil Décor	66,179	59,089	60,413
MTLM	-	6,062	31,019
Market Share (%)			
GREENP	55	51	46
CPBI	19	21	20
Rushil Décor	26	26	22
MTLM	0	3	12
Realisation (Rs/cbm)			
GREENP	28,122	29,376	28,679
CPBI	34,294	34,752	35,118
Rushil Décor	23,993	24,854	24,788
MTLM	NA	28,546	28,540
EBITDA per unit (Rs/cbm)			
GREENP	5,650	5,493	5,576
CPBI	9,004	9,301	9,133
Rushil Décor	3,795	4,283	4,093
MTLM	0	(12,042)	4,513

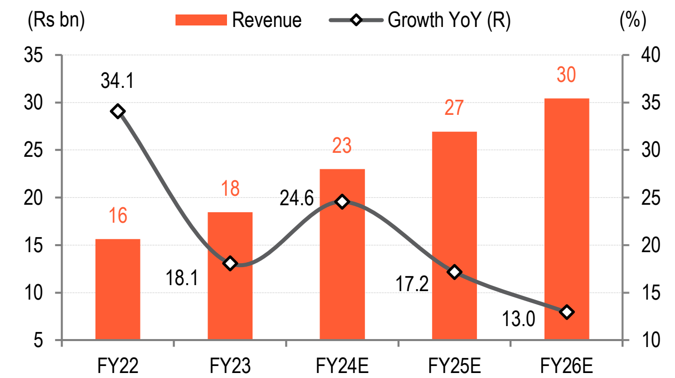
Source: Company, BOBCAPS Research

Robust earnings and return ratio profile

With the completion of its ~Rs 7.0bn capex programme, we believe volume growth from MTLM's new plywood capacity along with incremental contribution from the high-margin MDF business will aid operating margin expansion from 9.5% to 11.2% over FY23-FY26, leading to a robust 25.7% EPS CAGR for the company.

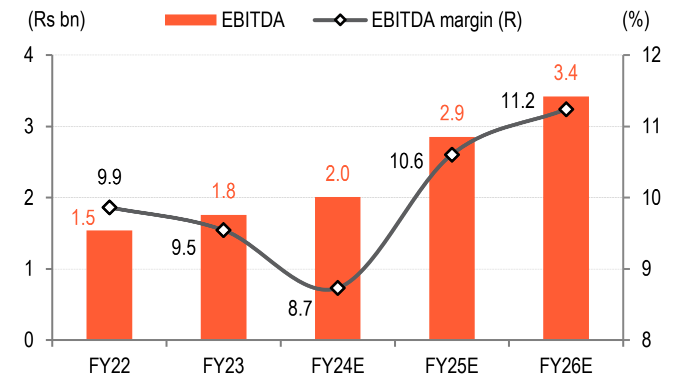
ROE is also projected to climb from 13.9% in FY23 to 17.7% due to the sweating of existing capacity and margin expansion. With most of the capex behind us, we estimate that the net debt/EBITDA ratio will fall from 3.6x in FY23 to 1.6x in FY26.

Fig 4 – Expect revenue CAGR of 18.1% over FY23-FY26E



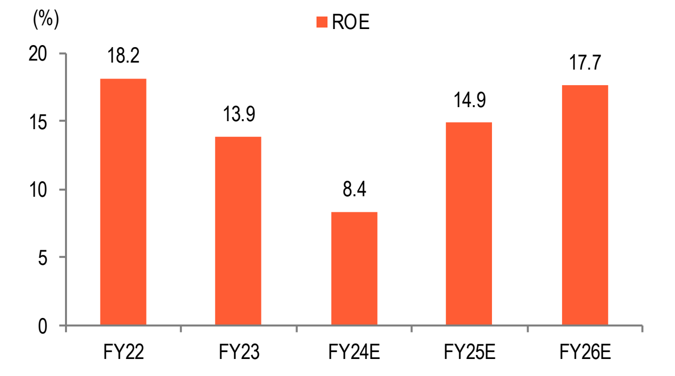
Source: Company, BOBCAPS Research

Fig 5 – MDF business to aid EBITDA margin gains



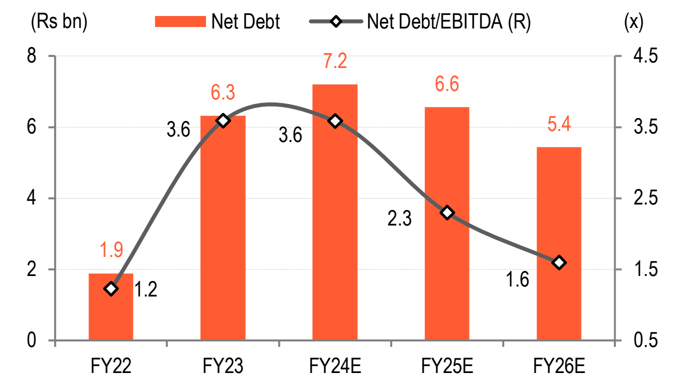
Source: Company, BOBCAPS Research

Fig 6 – Return ratio profile to pick up



Source: Company, BOBCAPS Research

Fig 7 – Wind-down of capex to improve balance sheet



Source: Company, BOBCAPS Research

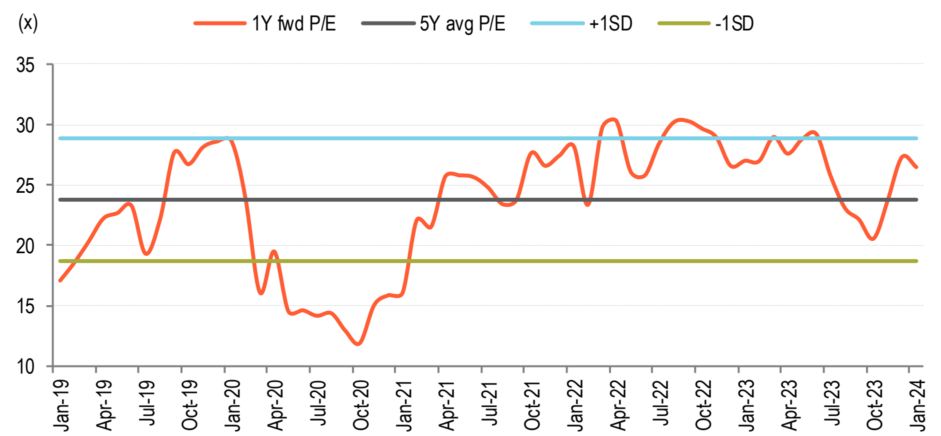
Valuations reasonable

BUY, TP Rs 300

MTLM is the second largest plywood player in India and recently marked an entry into the MDF and furniture fittings segments, which is expected to lift margins and de-risk business concentration. We forecast a revenue/EBITDA/EPS CAGR of 18.1%/24.8%/ 25.7% for the company over FY23-FY26, accompanied by operating margin expansion to 11.2% and material improvement in return ratios due to the benefits of a large capex drive.

The stock is trading at 26.5x one-year forward P/E vs. its five-year average of 23.8x. We assume coverage with BUY for a TP of Rs 300, set at 25x Sep'25E EPS, which is close to the stock's historical average multiple.

Fig 8 – Trading at 26.5x 1Y forward P/E vs. 5Y average of 23.8x



Source: Bloomberg, BOBCAPS Research

Fig 9 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix						
Plywood	100.0	100.0	100.0	87.5	82.9	80.8
MDF	0.0	0.0	0.0	12.5	17.1	19.2
Sales volume growth						
Plywood	(19.1)	26.0	15.1	8.9	9.7	10.0
MDF	NA	NA	NA	NA	46.9	24.5
EBITDA margin						
Plywood	10.1	10.0	9.6	8.5	9.3	9.9
MDF	NA	NA	NA	12.3	16.8	17.0

Source: Company, BOBCAPS Research

Key risks

- Muted domestic demand and weak domestic MDF prices are the key downside risks to our call.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**15,628**	**18,456**	**22,991**	**26,943**	**30,433**
EBITDA	1,542	1,762	2,008	2,858	3,421
Depreciation	258	365	614	676	703
EBIT	1,283	1,397	1,394	2,182	2,717
Net interest inc./(exp.)	(119)	(262)	(631)	(605)	(554)
Other inc./(exp.)	99	153	87	72	72
Exceptional items	39	71	0	0	0
EBT	1,224	1,217	850	1,649	2,235
Income taxes	303	192	256	415	459
Extraordinary items	0	(96)	0	0	0
Min. int./Inc. from assoc.	26	(208)	(5)	0	0
Reported net profit	**947**	**914**	**589**	**1,234**	**1,776**
Adjustments	31	(21)	0	0	0
Adjusted net profit	**978**	**893**	**589**	**1,234**	**1,776**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,164	2,427	3,174	3,720	4,202
Other current liabilities	767	920	920	920	920
Provisions	169	73	91	107	121
Debt funds	2,919	6,634	7,398	6,838	6,198
Other liabilities	188	318	318	318	318
Equity capital	123	123	123	123	123
Reserves & surplus	5,259	6,315	6,904	8,138	9,914
Shareholders' fund	5,382	6,438	7,027	8,261	10,037
Total liab. and equities	**11,588**	**16,810**	**18,928**	**20,164**	**21,796**
Cash and cash eq.	1,035	314	202	281	762
Accounts receivables	1,864	2,287	2,849	3,339	3,771
Inventories	2,256	2,784	3,535	3,932	4,488
Other current assets	547	1,143	1,424	1,669	1,885
Investments	258	64	114	314	464
Net fixed assets	3,086	4,014	9,430	9,254	9,051
CWIP	1,096	5,130	300	300	300
Intangible assets	292	578	578	578	578
Deferred tax assets, net	198	55	55	55	55
Other assets	955	442	442	442	442
Total assets	**11,588**	**16,810**	**18,928**	**20,164**	**21,796**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**364**	**923**	**919**	**1,872**	**2,252**
Capital expenditures	(1,586)	(5,612)	(1,200)	(500)	(500)
Change in investments	(33)	194	(50)	(200)	(150)
Other investing cash flows	60	179	87	72	72
Cash flow from investing	**(1,558)**	**(5,239)**	**(1,163)**	**(628)**	**(578)**
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	1,001	3,716	764	(560)	(640)
Interest expenses	(119)	(262)	(631)	(605)	(554)
Dividends paid	0	0	0	0	0
Other financing cash flows	67	142	0	0	0
Cash flow from financing	**949**	**3,595**	**132**	**(1,165)**	**(1,194)**
Chg in cash & cash eq.	**(245)**	**(721)**	**(112)**	**79**	**480**
Closing cash & cash eq.	**1,035**	**314**	**202**	**281**	**762**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	7.7	7.4	4.8	10.0	14.5
Adjusted EPS	8.0	7.3	4.8	10.0	14.5
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	43.9	52.4	57.2	67.2	81.7

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	1.8	1.6	1.1	0.9	0.8
EV/EBITDA	18.3	16.2	12.8	8.1	6.7
Adjusted P/E	30.5	33.4	50.7	24.2	16.8
P/BV	5.5	4.6	4.3	3.6	3.0

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	79.9	73.4	69.3	74.8	79.5
Interest burden (PBT/EBIT)	95.4	87.1	60.9	75.6	82.3
EBIT margin (EBIT/Revenue)	8.2	7.6	6.1	8.1	8.9
Asset turnover (Rev./Avg TA)	134.9	109.8	121.5	133.6	139.6
Leverage (Avg TA/Avg Equity)	2.2	2.6	2.7	2.4	2.2
Adjusted ROAE	18.2	13.9	8.4	14.9	17.7

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	34.1	18.1	24.6	17.2	13.0
EBITDA	30.5	14.3	14.0	42.3	19.7
Adjusted EPS	56.8	(8.9)	(34.1)	109.6	44.0
Profitability & Return ratios (%)					
EBITDA margin	9.9	9.5	8.7	10.6	11.2
EBIT margin	8.2	7.6	6.1	8.1	8.9
Adjusted profit margin	6.3	4.8	2.6	4.6	5.8
Adjusted ROAE	20.1	15.1	8.7	16.1	19.4
ROCE	16.7	11.9	10.3	14.9	17.2
Working capital days (days)					
Receivables	44	45	45	45	45
Inventory	53	55	56	53	54
Payables	51	48	50	50	50
Ratios (x)					
Gross asset turnover	3.5	3.4	2.5	2.2	2.4
Current ratio	1.2	1.3	1.4	1.5	1.6
Net interest coverage ratio	10.8	5.3	2.2	3.6	4.9
Adjusted debt/equity	0.4	1.0	1.0	0.8	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

HOLD

TP: Rs 600 | ▲ 15%

GREENLAM INDUSTRIES | Building Materials | 17 January 2024

Bright prospects but priced in

- **Leading player in India's Rs 120bn laminates industry (~15% market share) with scope for further market share gains in near future**
- **Major capex drive to scale up laminate capacity and enter plywood (Q1FY24) and particleboard (Q4) segments nearing completion**
- **Positives priced in at current valuation of 37.4x one-year forward P/E; initiate with HOLD and TP of Rs 600**

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Gaining market share in core laminates business: GRLM is the leading player in India's laminates industry with ~15% market share. Its revenue market share among the top 3 laminate companies has risen over the past four years from 40% in FY19 to 44% in FY23 due to aggressive capacity addition, both organic and inorganic. We expect a further increase in its market share in the near future due to benefits from the recent commissioning of a greenfield laminate facility with a capacity of 3.5mn sheets in Q2FY24, which takes its total capacity to 24.5mn sheets from 14mn in FY19.

Broadening revenue streams: The company entered the allied plywood segment in Q1FY24 and plans to venture into particleboard in Q4FY24. This would help to broaden revenue streams and will increase GRLM's addressable market opportunity from Rs 140bn in Mar'23 to an estimated Rs 490bn in Mar'24.

Solid earnings growth prospects on aggressive capex: We estimate a revenue/ EBITDA/EPS CAGR of 20.7%/27.0%/25.4% for the company over FY23-FY26 as its aggressive capex programme fructifies. ROE is also projected to improve from 12.6% in FY23 to 16.6% in FY26 due to the ramp-up of new capacity. While the net debt/EBITDA ratio is likely to spike from 1.3x in FY23 to 2.6x in FY24, we anticipate a gradual decline to 1.6x in FY26.

Positives priced in – HOLD, TP Rs 600: Despite our upbeat earnings growth estimate of a 25.4% CAGR over FY23-FY26, we initiate coverage on GRLM with a HOLD rating as the positives look priced in at current valuations of 37.4x 1Y forward P/E (5Y average: 28.6x). Our TP of Rs 600 is set at 35x Sep'25E EPS.

Key risks: Quick ramp-up of new facilities and recovery in global housing demand are the key upside risks to our estimates. Market share loss in the laminate division and weak demand sentiments in the domestic market are key downside risks.

Ticker/Price	GRLM IN/Rs 524
Market cap	US$ 809.2mn
Free float	49%
3M ADV	US$ 1.2mn
52wk high/low	Rs 626/Rs 282
Promoter/FPI/DII	51%/16%/1%

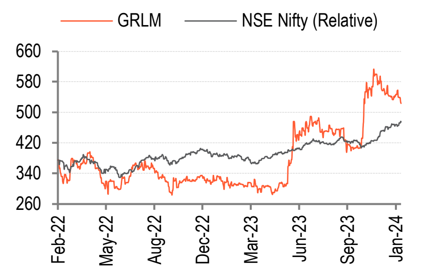
Source: NSE | Price as of 16 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	20,260	24,202	31,375
EBITDA (Rs mn)	2,333	2,965	3,991
Adj. net profit (Rs mn)	1,224	1,425	1,847
Adj. EPS (Rs)	9.6	11.2	14.5
Consensus EPS (Rs)	9.6	12.6	15.3
Adj. ROAE (%)	15.1	13.8	15.8
Adj. P/E (x)	54.3	46.7	36.0
EV/EBITDA (x)	27.9	21.6	15.3
Adj. EPS growth (%)	23.6	16.4	29.6

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE

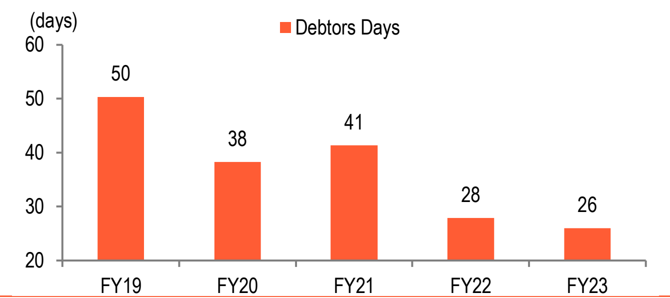
Bright prospects on capex completion

Gaining market share in core laminates business

India's laminate market size is estimated at Rs 120bn in FY23 with a domestic to export mix of 75:25. The top 3 players together account for 35% share of the industry. GRLM leads with 15% market share and has a strong presence in both domestic and export markets. It is the largest exporter of laminates from India, accounting for 31% of exports in value terms and catering to over 100 countries.

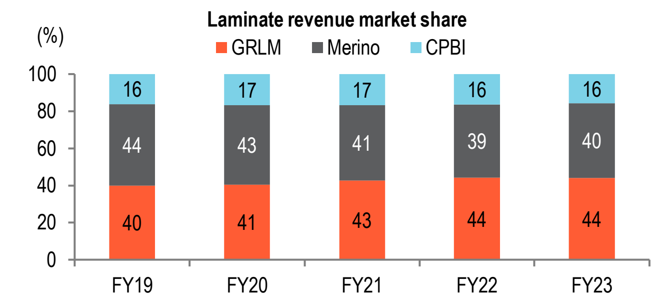
Despite curtailing the credit period offered to dealers, GRLM's revenue market share among the top 3 laminate companies has risen from 40% in FY19 to 44% in FY23 due to the benefit of a sharp increase in capacity from 14mn to 21mn sheets via both organic and inorganic expansion during this period. With the recent commissioning of a greenfield laminate facility in Andhra Pradesh in Q2FY24, adding 3.5mn sheets, we expect GRLM's market share to expand further in the near future.

Fig 1 – Credit period offered to dealers has been tightened…



Source: Company, BOBCAPS Research

Fig 2 – …but GRLM has gained market share among top 3 laminate companies

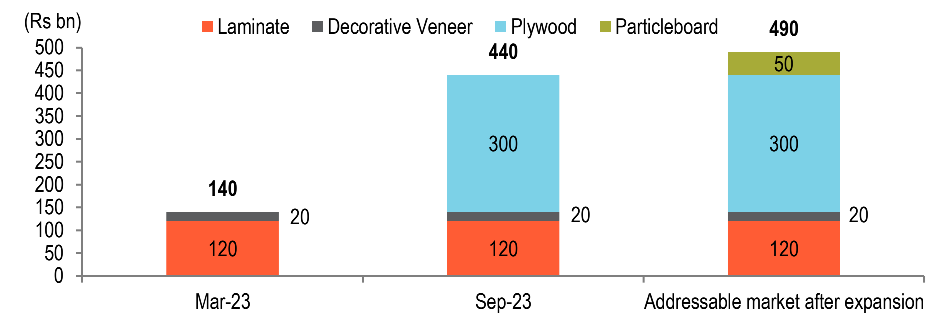


Source: Company, BOBCAPS Research

Improvement in business risk profile

GRLM operated only in the laminated and veneer segments till FY23. In Q1FY24, the company added the plywood segment with the start of an 18.9msm greenfield facility in Tindivanam, Tamil Nadu. This apart, work is underway to commence a 231,000cbm greenfield particleboard facility in Naidupeta, Andhra Pradesh, in Q4FY24. Entry into the allied plywood and particleboard segments will help diversify revenues and also raises GRLM's addressable market opportunity from Rs 140bn in Mar'23 to an estimated Rs 490bn in Mar'24.

Fig 3 – Targeting a larger addressable market



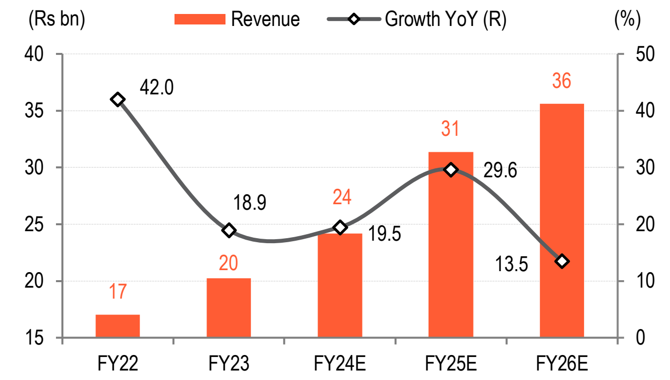
Source: Company, BOBCAPS Research

Aggressive capex to spur growth

We expect the augmented capacity and new business ventures to support a solid revenue/EBITDA/EPS CAGR of 20.7%/27.0%/25.4% for the company over FY23-FY26. EBITDA margin is forecast to improve from 11.5% in FY23 to 13.4% in FY26 due to a weak base in the core laminate business and high particleboard margins. ROE is also projected to rise from 12.6% to 16.6% due to the ramp-up of new capacity.

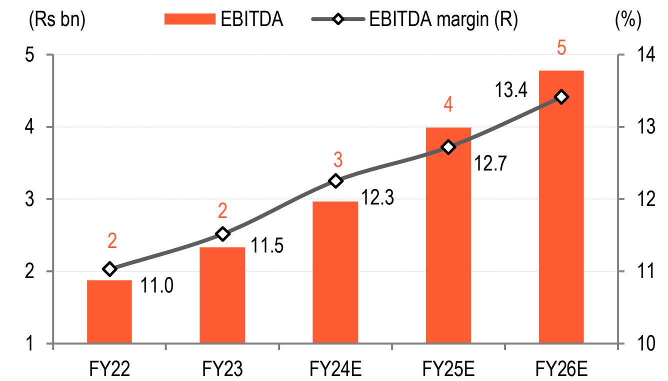
The company raised Rs 1.95bn in Jul'22 through a preferential QIP issue at a price of Rs 309/sh to fund its aggressive capex. Even so, we estimate that its net debt/EBITDA ratio will rise sharply from 1.3x in FY23 to 2.6x in FY24 before gradually settling at 1.6x in FY26.

Fig 4 – Capacity expansion to aid 20.7% revenue CAGR over FY23-FY26E…



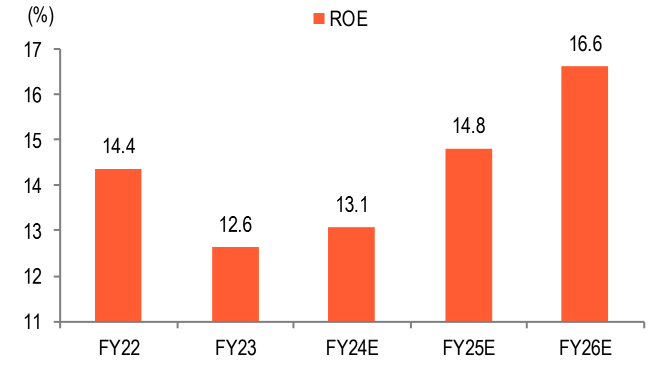
Source: Company, BOBCAPS Research

Fig 5 – …accompanied by margin expansion



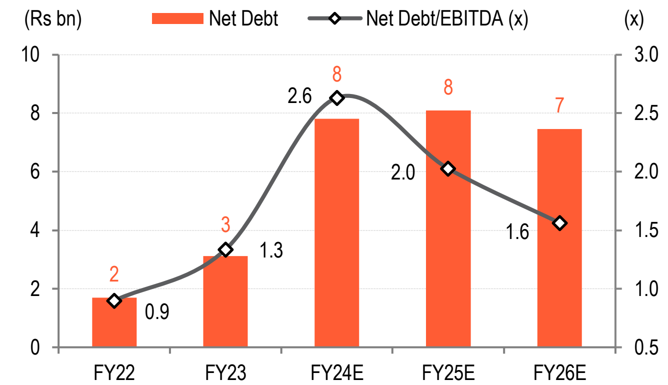
Source: Company, BOBCAPS Research

Fig 6 – ROE to improve on ramp-up of new facilities



Source: Company, BOBCAPS Research

Fig 7 – Net Debt/EBITDA to peak out in FY24E



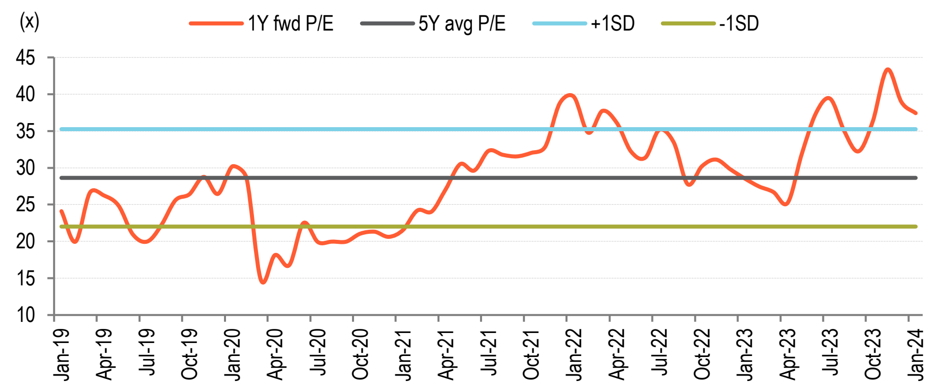
Source: Company, BOBCAPS Research

Positives priced in

Initiate with HOLD, TP Rs 600

GRLM is the leading player in India's laminates industry with ~15% market share. Despite our upbeat 25.4% earnings growth estimate over FY23-FY26 on near-completion of its large capex programme, we initiate coverage on the company with a HOLD rating as positives look priced in at current valuations. The stock is trading at 37.4x one-year forward P/E, well above its five-year average of 28.6x. Our TP of Rs 600 is set at 35x Sep'25E EPS – a steep premium to the historical average multiple considering the strong earnings growth prospects.

Fig 8 – Trading at 37.4x 1Y fwd P/E vs. 5Y average of 28.6x



Source: Bloomberg, BOBCAPS Research

Fig 9 – Key operational assumptions

Parameter (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix						
Laminates	88.8	91.4	91.4	88.0	81.1	78.6
Veneer	11.2	8.6	8.6	8.1	6.8	6.6
Plywood	NA	NA	NA	3.4	6.9	7.8
Particleboard	NA	NA	NA	0.5	5.2	7.0
Sales volume growth						
Laminates	1.4	22.5	4.7	13.0	18.9	10.0
Plywood	NA	NA	NA	NM	163.5	28.2
Particleboard	NA	NA	NA	NA	NM	53.6
EBITDA margin						
Laminates	16.7	12.7	13.2	15.3	15.0	15.0
Veneer	(3.6)	(6.2)	(5.1)	(3.6)	(3.4)	(3.0)
Plywood	NA	NA	NA	(27.3)	5.4	9.8
Particleboard	NA	NA	NA	(26.8)	8.1	15.2

Source: Company, BOBCAPS Research

Key risks

- Quick ramp-up of new facilities and recovery in global housing demand are the key upside risks to our estimates.
- Market share loss in the laminate division and weak demand sentiments in the domestic market are key downside risks.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	**17,034**	**20,260**	**24,202**	**31,375**	**35,613**
EBITDA	1,879	2,333	2,965	3,991	4,777
Depreciation	585	632	829	1,158	1,218
EBIT	1,294	1,701	2,136	2,833	3,560
Net interest inc./(exp.)	(141)	(235)	(404)	(525)	(495)
Other inc./(exp.)	73	180	179	160	160
Exceptional items	9	4	0	0	0
EBT	1,217	1,641	1,910	2,468	3,225
Income taxes	286	361	486	621	812
Extraordinary items	26	0	0	0	0
Min. int./Inc. from assoc.	2	4	0	0	0
Reported net profit	**907**	**1,284**	**1,425**	**1,847**	**2,413**
Adjustments	33	(61)	0	0	0
Adjusted net profit	**941**	**1,224**	**1,425**	**1,847**	**2,413**

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	2,558	2,697	3,307	4,287	4,866
Other current liabilities	594	1,713	1,284	1,284	1,284
Provisions	30	35	43	56	63
Debt funds	3,453	5,699	9,000	8,500	8,000
Other liabilities	657	693	845	845	845
Equity capital	121	127	127	127	127
Reserves & surplus	6,423	9,559	10,770	12,340	14,391
Shareholders' fund	6,551	9,690	10,900	12,470	14,521
Total liab. and equities	**13,842**	**20,526**	**25,379**	**27,441**	**29,579**
Cash and cash eq.	1,765	2,583	1,198	416	538
Accounts receivables	1,301	1,443	1,724	2,235	2,537
Inventories	5,034	5,135	6,473	8,552	10,239
Other current assets	468	946	1,392	1,804	2,048
Investments	0	0	0	0	0
Net fixed assets	4,572	5,028	13,199	13,041	12,824
CWIP	75	3,802	802	802	802
Intangible assets	118	145	145	145	145
Deferred tax assets, net	81	63	63	63	63
Other assets	427	1,381	383	383	383
Total assets	**13,842**	**20,526**	**25,379**	**27,441**	**29,579**

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	**611**	**2,550**	**756**	**1,359**	**2,320**
Capital expenditures	(867)	(5,774)	(5,002)	(1,000)	(1,000)
Change in investments	0	0	0	0	0
Other investing cash flows	38	175	179	160	160
Cash flow from investing	**(829)**	**(5,598)**	**(4,824)**	**(840)**	**(840)**
Equities issued/Others	0	6	0	0	0
Debt raised/repaid	969	2,246	3,301	(500)	(500)
Interest expenses	(141)	(235)	(404)	(525)	(495)
Dividends paid	(145)	(190)	(214)	(277)	(362)
Other financing cash flows	50	2,043	0	0	0
Cash flow from financing	**733**	**3,870**	**2,683**	**(1,302)**	**(1,357)**
Chg in cash & cash eq.	**515**	**822**	**(1,384)**	**(783)**	**123**
Closing cash & cash eq.	**1,765**	**2,583**	**1,198**	**416**	**538**

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	7.5	10.1	11.2	14.5	19.0
Adjusted EPS	7.8	9.6	11.2	14.5	19.0
Dividend per share	1.2	1.5	1.7	2.2	2.9
Book value per share	54.2	76.3	85.8	98.2	114.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	3.8	3.2	2.6	1.9	1.6
EV/EBITDA	34.4	27.9	21.6	15.3	12.3
Adjusted P/E	67.2	54.3	46.7	36.0	27.6
P/BV	9.7	6.9	6.1	5.3	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	77.3	74.6	74.6	74.8	74.8
Interest burden (PBT/EBIT)	94.1	96.5	89.4	87.1	90.6
EBIT margin (EBIT/Revenue)	7.6	8.4	8.8	9.0	10.0
Asset turnover (Rev./Avg TA)	123.1	98.7	95.4	114.3	120.4
Leverage (Avg TA/Avg Equity)	2.1	2.1	2.3	2.2	2.0
Adjusted ROAE	14.4	12.6	13.1	14.8	16.6

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	42.0	18.9	19.5	29.6	13.5
EBITDA	7.3	24.2	27.1	34.6	19.7
Adjusted EPS	15.9	23.6	16.4	29.6	30.6
Profitability & Return ratios (%)					
EBITDA margin	11.0	11.5	12.3	12.7	13.4
EBIT margin	7.6	8.4	8.8	9.0	10.0
Adjusted profit margin	5.5	6.0	5.9	5.9	6.8
Adjusted ROAE	15.3	15.1	13.8	15.8	17.9
ROCE	13.7	12.2	11.6	14.3	16.5
Working capital days (days)					
Receivables	28	26	26	26	26
Inventory	108	93	98	99	105
Payables	55	49	50	50	50
Ratios (x)					
Gross asset turnover	2.1	2.2	1.7	1.6	1.8
Current ratio	1.7	1.5	1.5	1.6	1.8
Net interest coverage ratio	9.2	7.2	5.3	5.4	7.2
Adjusted debt/equity	0.3	0.3	0.7	0.6	0.5

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

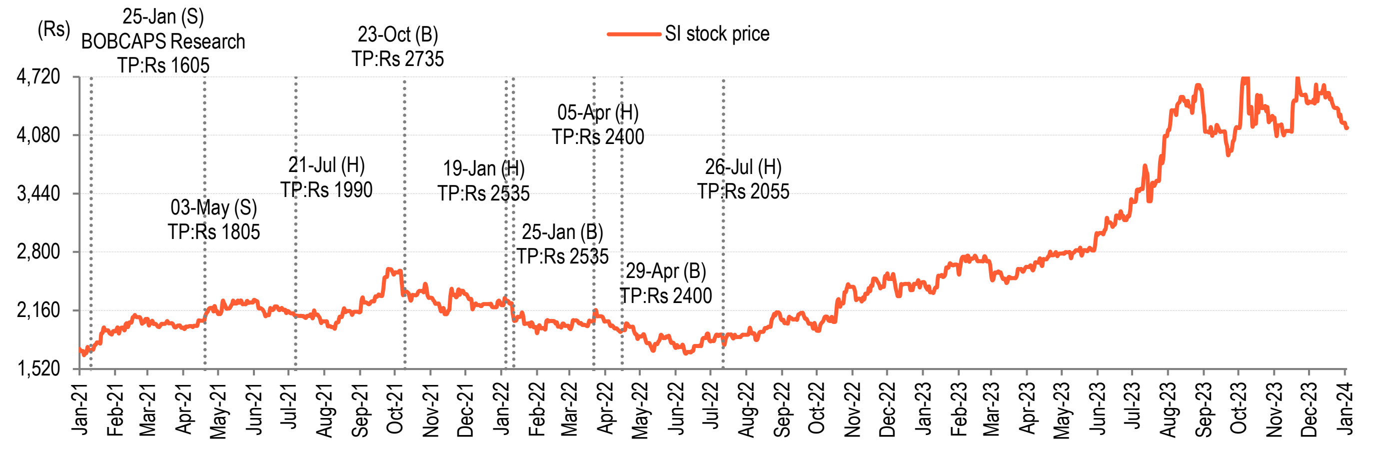
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SUPREME INDUSTRIES (SI IN)



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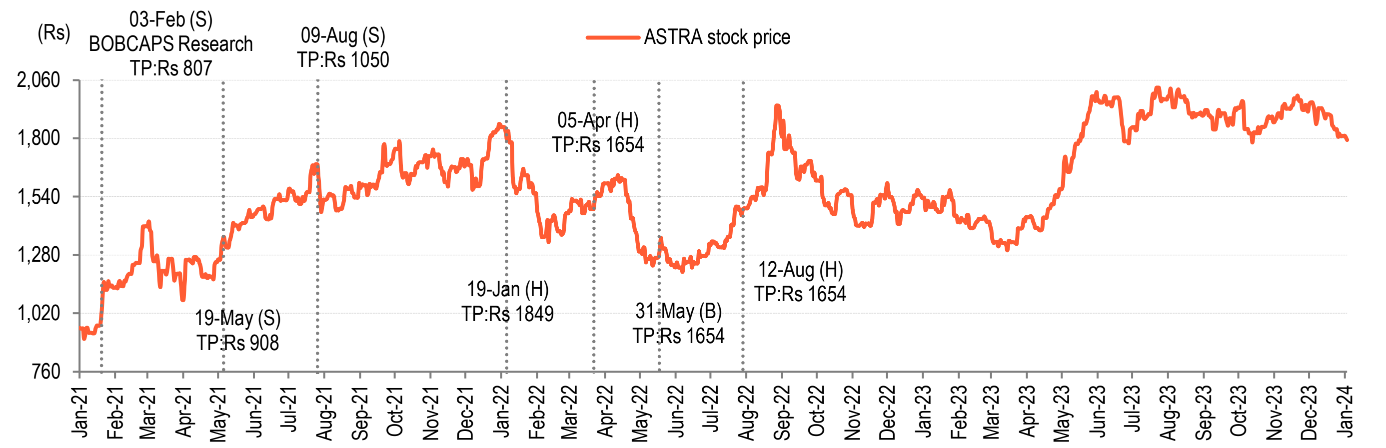
Ratings and Target Price (3-year history): ASTRAL (ASTRA IN)



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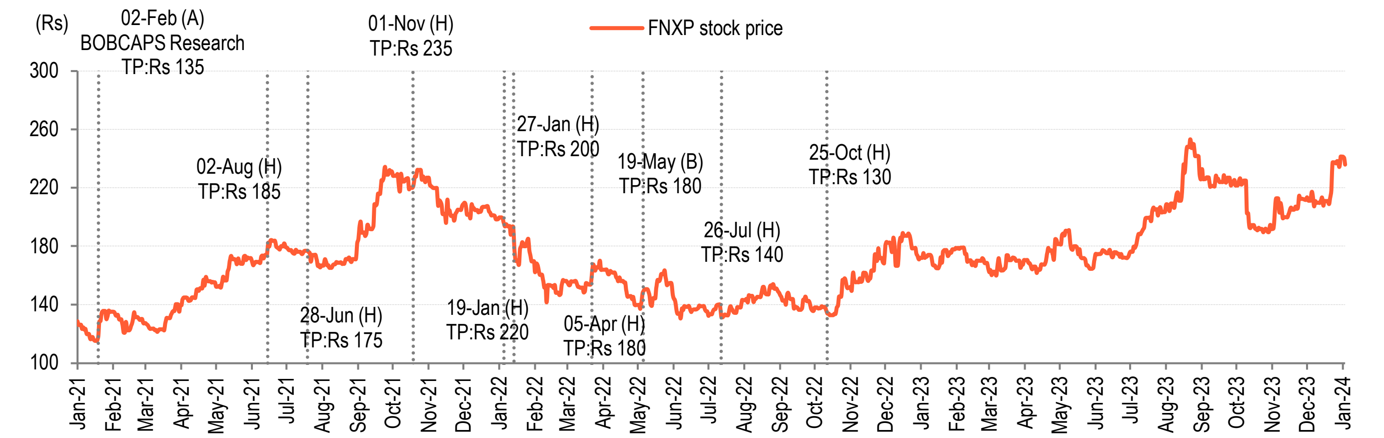
Ratings and Target Price (3-year history): FINOLEX INDUSTRIES (FNXP IN)



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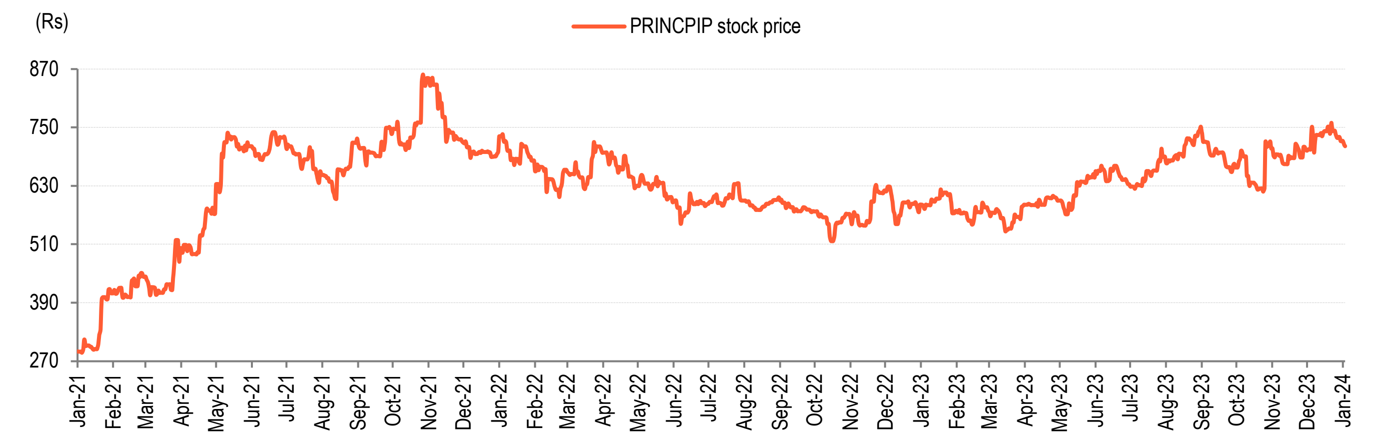
Ratings and Target Price (3-year history): PRINCE PIPES & FITTINGS (PRINCPIP IN)



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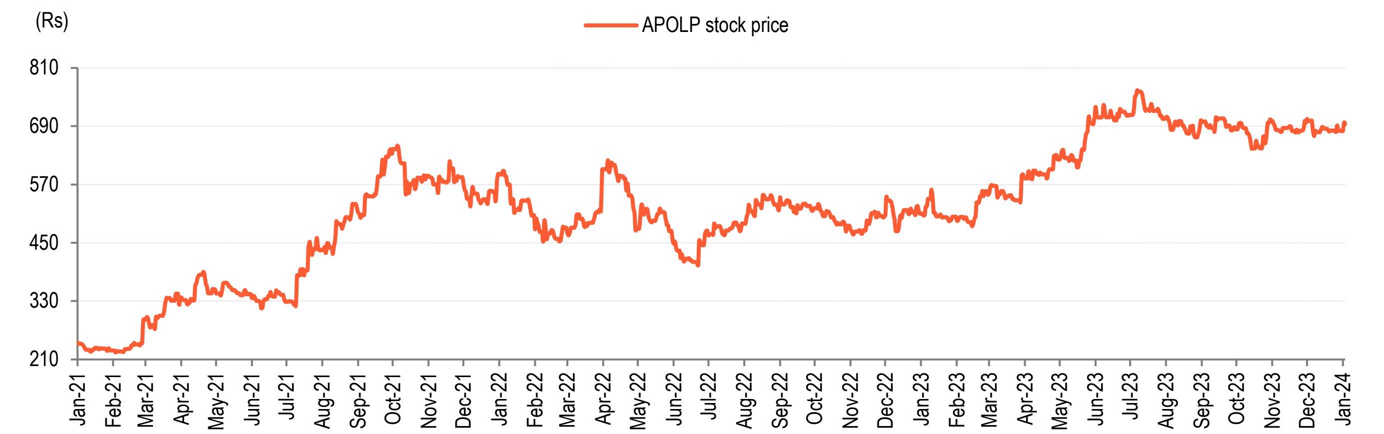
Ratings and Target Price (3-year history): APOLLO PIPES (APOLP IN)



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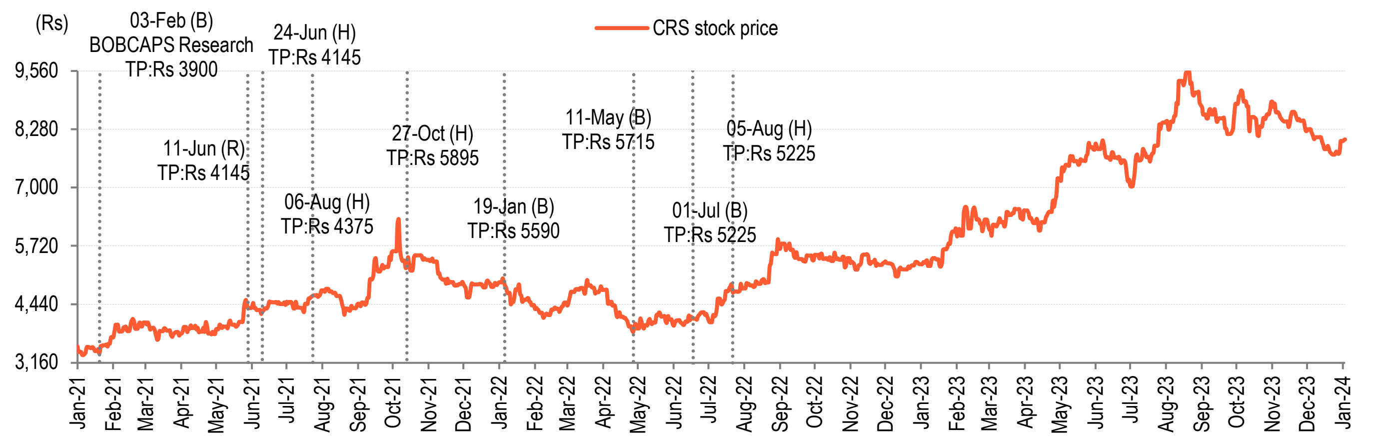
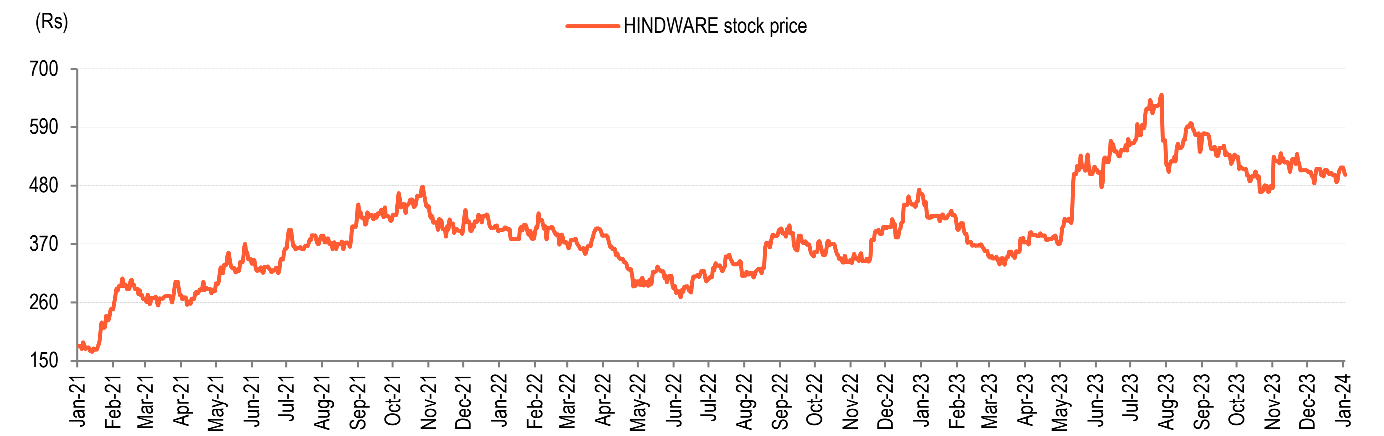
Ratings and Target Price (3-year history): CERA SANITARYWARE (CRS IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Ratings and Target Price (3-year history): HINDWARE HOME INNOVATION (HINDWARE IN)



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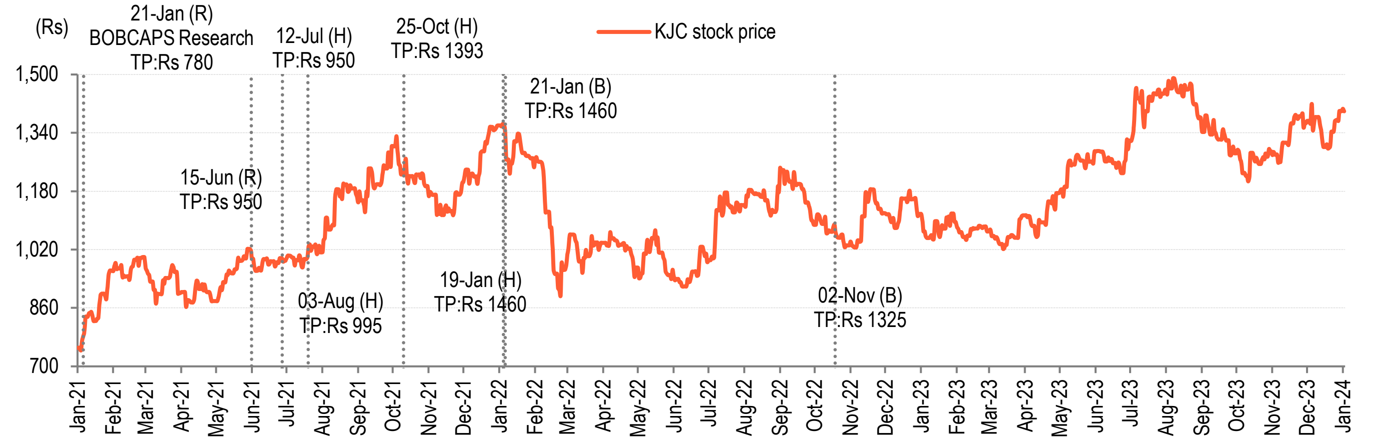
Ratings and Target Price (3-year history): KAJARIA CERAMICS (KJC IN)



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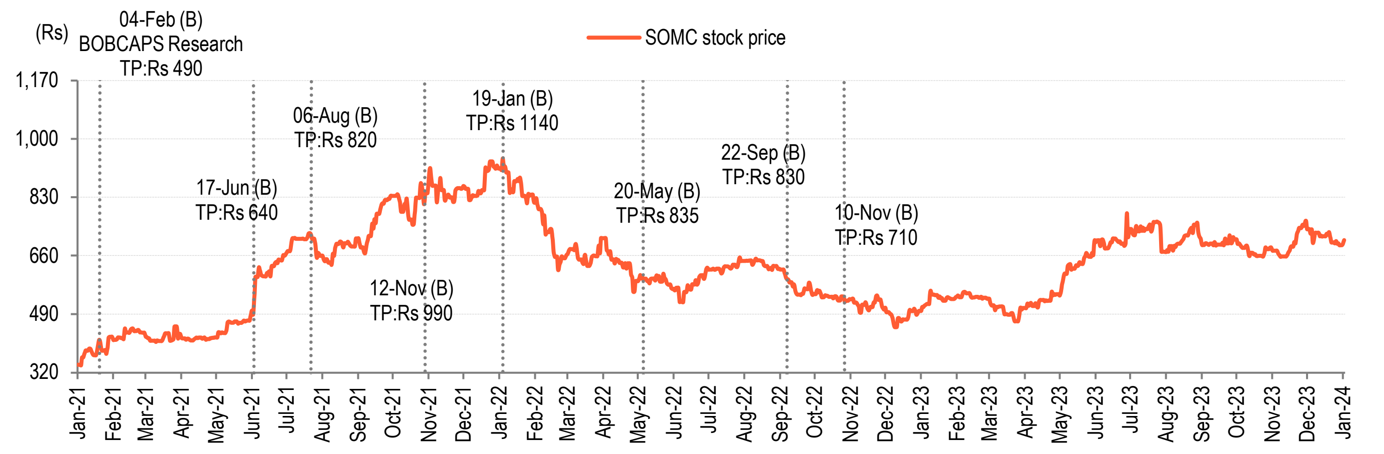
Ratings and Target Price (3-year history): SOMANY CERAMICS (SOMC IN)



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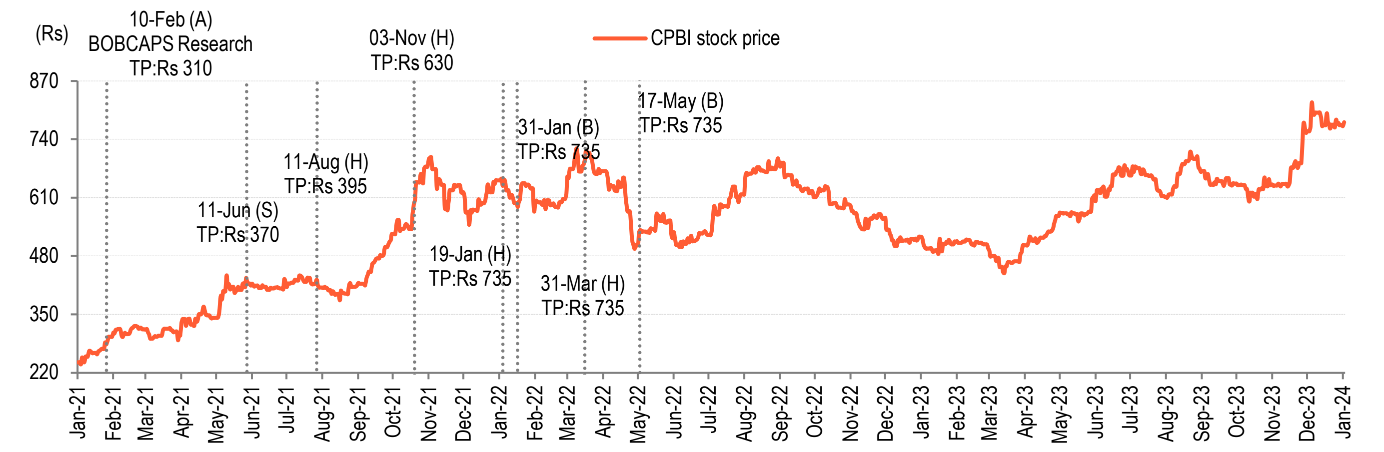
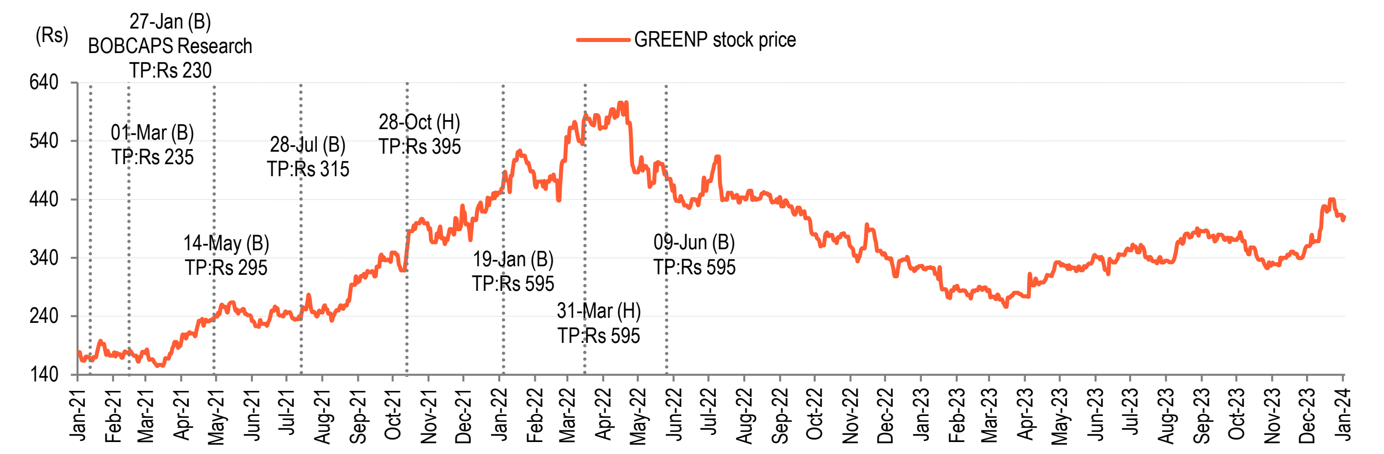
Ratings and Target Price (3-year history): CENTURY PLYBOARDS (CPBI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

Ratings and Target Price (3-year history): GREENPANEL INDUSTRIES (GREENP IN)



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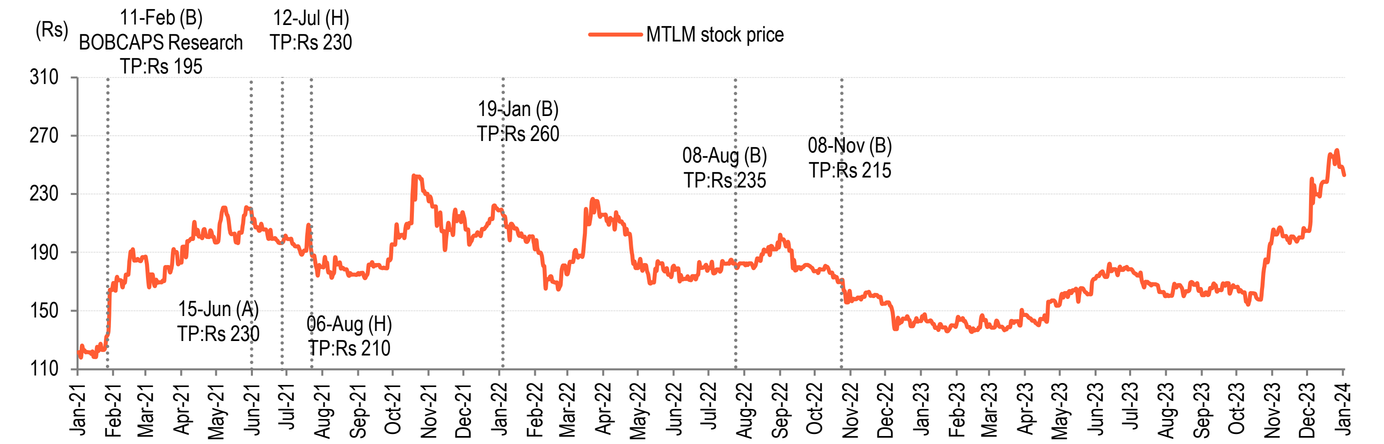
Ratings and Target Price (3-year history): GREENPLY INDUSTRIES (MTLM IN)



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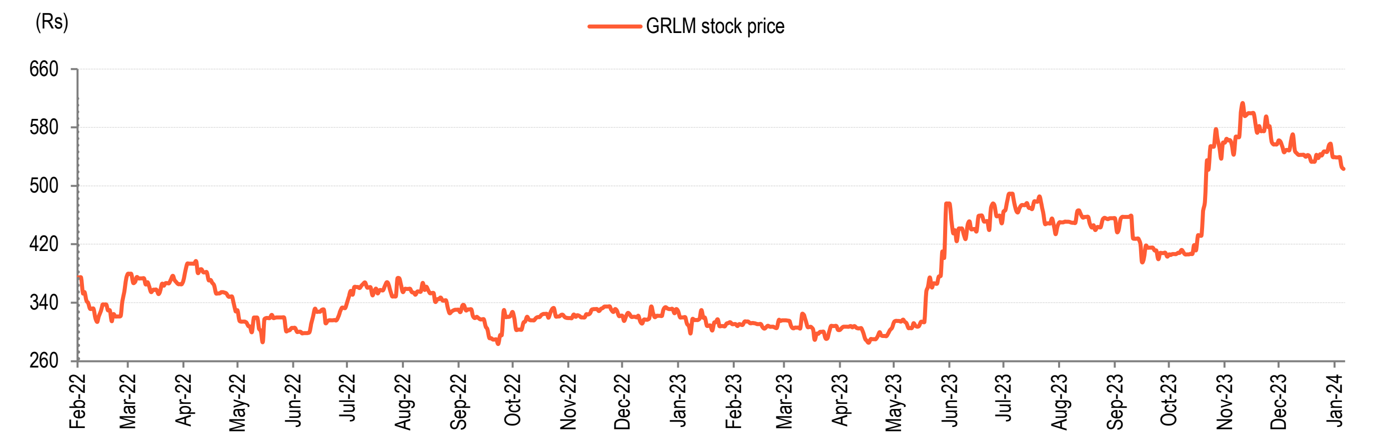
Ratings and Target Price (3-year history): GREENLAM INDUSTRIES (GRLM IN)



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