Investment Banking

Capital Markets

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Home Improvement

A better and more resilient play on Real Estate

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Executive Summary

- **Real estate – at the cusp of a multi-year upcycle**
  - Household income rise, stagnant/steady property values, and low interest rates have improved the affordability quotient
  - Legislative (RERA, GST, etc.) / taxation incentives and government housing spends have made property more desirable
  - Key indicators (new launches/sales, dropping inventory, PMAY U, commercial, etc.) already point to an uptick
  - Long-term macros such as rising urbanization, family nuclearization, emergence of larger cities to drive real estate cycle
  - Rising interest rates (though stalled for now) only affect the cycle if pricing stagnates/falls (no signs of these currently)
- **Home Improvement – A better/resilient proxy play on real estate cycle**
  - Industry revenue comes from both new construction and renovation/replacement (independent of real estate cycle)
  - Players have pan-India market opportunity (not constrained by land bank availability unlike realty players)
  - Relatively asset light in nature versus real estate (light capex/WC cycles), which provides safety during problematic times
  - Key players (and the industry at large) grew faster than versus real estate companies over FY12-23
- **Market leaders with long growth runways available to play the space**
  - Top players usually have high single or early double-digit market-share at best (potential market share gain opportunities)
  - Strong balance sheets pre-COVID have only become stronger over the last three years
  - Pan-India reach (manufacturing, channel) and strong brands implies players can capitalize on market opportunities quicker
  - Premium real estate sales + shift towards larger/organized developers = case for branded home improvement products
  - Large players are entering adjacencies to leverage their reach/brand/balance sheet to enlarge addressable markets

Executive Summary

- **Wood Panels – Near-term pressures, but value emerging *(our favourite sector currently)***
  - MDF overcapacity/imports resurgence is noise in our opinion and overshadows the industry's total growth potential
  - Timber inflation, albeit a concern, could swing the balance in favour of organized players versus unorganized
  - Leaders available with robust balance sheets/wide reach to weather storms and gain from others' woes
  - **Initiate BUY:** Greenpanel Industries (GREENP), Greenlam Industries (GRLM)
  - **Maintain BUY:** Century Plyboards India (CPBI), Greenply Industries (MTLM)
- **Pipes – Steady compounding space; Safe harbour during rough times *(an evergreen sector)***
  - 50%+ demand from Irrigation/Infrastructure/Industrial makes pipes least dependent on the real estate cycle
  - Polymer price stability (esp. PVC) should ease margin volatility for players and resume stocking at the channel
  - **Initiate BUY:** Prince Pipes & Fittings (PRINCPIP), Apollo Pipes (APOLP)
  - **Initiate NEUTRAL:** Finolex Industries (FNXP)
  - **Maintain BUY:** Astral (ASTRA), Supreme Industries (SI)
- **Tiles / Sanitaryware – Growth in tiles, margin security in Bathware *(least favourite sector for now)***
  - Healthy growth runway in both Tiles and Bathware – though Bathware has margin stability given lower competition
  - Our reason for placing this sector last is due to low (practically zero) pricing power in the Tiles space, which makes margins vulnerable to gas price shocks (although this is being partially solved by moving fuel mix away from gas)
  - **Initiate BUY:** Cera Sanitaryware (CRS)
  - **Maintain BUY:** Kajaria Ceramics (KJC), Somany Ceramics (SOMC)

Executive Summary

Home Improvement

	Wood Panels	Pipes	Tiles / Bathware
Positives	• **MDF + PB:** ~15% industry CAGR over next ten years • **Plywood:** Brand/Balance Sheet leverage for market-share gains for organized plywood players • **Laminates:** China + 1 plus entry into product white spaces to drive growth	• **Business Diversity:** Only 35-40% of consumption linked to real estate • **Secular Growth:** Irrigation + Drinking Water + Replacement + Construction = Healthy recurring growth ahead • **Pricing Discipline:** Polymer price changes immediately passed through	• **Tiles – Long Growth Runway:** Real estate cycle + urbanization + low penetration (<30% houses today) • **Bathware – Best Margins:** Low competition + low gas dependence = better margins vs tiles • **Morbi's Export Focus:** Breather for domestic focused players to grow
Concerns	• **MDF (Overcapacity):** Double digit industry growth/price war memories to keep this fear at bay • **MDF (Imports):** Temporary coastal area issue (will reduce if prices rise) • **Timber Inflation:** Unavoidable but leaders better placed (can be combatted through value mix)	• **PVC Price Volatility:** Sharp movements can make/break margins. However, expect price stability in the near/mid-term. • **Lower PVC Prices = Return of small player:** Some competitive intensity to go up at lower end of spectrum	• **New construction linkage:** 80-85% linkage = dependent on real estate • **Low pricing power for tiles:** Low product differentiation / high competition = low pricing power • **Gas prices:** Volatile costs = volatile margins (though partly being addressed through biofuels now)
View	Fears overdone. Interesting opportunities available amongst leaders.	Ever green sector with relatively low cyclicality concerns.	Market leaders not having true pricing power is disappointing. Better Bathware mix preferred for margin protection.
Pecking Order	**GREENP**, CPBI, GRLM, MTLM*	**PRINCPIP**, APOLP, ASTRA, SI, FNXP	**CRS**, KJC, SOMC*

*Top picks in bold; *High risk-reward bets*

Wood Panels

Parameters	GREENP	CPBI	GRLM	MTLM
FY23 Revenue Mix (%):				
- Plywood	14	56	-	90
- Laminates	-	18	91	-
- MDF	86	17	-	-
- PB	-	5	-	-
- Others	-	4	9	10
New / Nascent Categories	N.A.	N.A.	Plywood / PB	MDF
Geographical Strengths	North / West / South	Pan India	North / West / South	Pan India
Plants (#)	2	12	4	5
Dealers (#)	2,535	2,700	1,500	2,350
Key Drivers	✓ Largest player in secular growth industry ✓ Rising value-added mix to reduce price concerns ✓ Healthy balance sheet	✓ One Stop Wood Panels Play ✓ Strong execution track record ✓ Robust balance sheet to capture growth across categories	✓ Deepening laminates business; PB/Plywood entry to expand TAM ✓ Veneers+ margin drag to reduce ✓ Peak debt in FY24E; FCF generation from FY25E	✓ MDF entry - a strategic high growth engine ✓ Plywood - seeds sown for healthy growth ✓ Peak capex behind, FCF to commence from FY24E
Revenue CAGR (%):				
- FY19-23	31.3	12.5	12.1	6.9
- FY23-25E	7.6	14.4	22.5	22.2
Earnings CAGR (%):				
- FY19-23	64.0	26.8	13.6	5.4
- FY23-25E	(4.0)	11.5	19.7	28.7
FY25E Balance Sheet:				
- NWC (Days)	25	50	67	40
- OCF/EBITDA (%)	80.1	78.3	82.4	72.1
- RoE (%)	15.8	19.4	16.2	20.3
- RoCE (%)	16.1	19.7	12.5	16.2

Pipes

Parameters	PRINCPIP	APOLP	ASTRA	SI	FNXP
FY23 Revenue Mix (%):					
- Pipes	99	100	72	66	94
- Non-Pipes	1	0	28	34	6
New / Nascent Categories	Bathware	NA	Bathware, Paints	N.A.	N.A.
Geographical Strengths	North / West / South	North / West / South	North / West / South	Pan India	West/South
Plants (#)	7	6	8	13	3
Dealers (#)	1,500	700	2,500	1,440	900
Key Drivers	✓ Shaping up into a credible pipes player (A&P, product quality, reach) ✓ Hungry for growth (East India market, Lubrizol tie-up, adjacency entries) ✓ Strong financial track record (ex FY23 due to inventory loss)	✓ Solid outperformance vs industry ✓ Targeting West/South/East markets ✓ Improving mix to drive margins	✓ Proven executor in pipes and adhesives ✓ Entry into Paints/Bathware expands TAM ✓ Strong growth + Strong FCF ahead	✓ Pipes leader with aims to deepen its presence ✓ Non pipe business margins to improve ahead ✓ Addressing key man risk concerns	✓ Non-agri mix improvement sustenance key ✓ Margin volatility to remain given PVC business dynamics ✓ New leadership may take time to settle in
Revenue CAGR (%):					
- FY19-23	14.6	26.1	19.8	13.2	9.2
- FY23-25E	15.4	29.7	22.8	13.8	7.0
Earnings CAGR (%):					
- FY19-23	10.4	(1.7)	24.2	22.7	(9.1)
- FY23-25E	57.5	101.7	39.5	23.2	62.9
FY25E Balance Sheet:					
- NWC (Days)	70	47	26	36	60
- OCF/EBITDA (%)	44.5	80.2	75.9	75.4	79.9
- RoE (%)	18.1	12.9	30.1	24.7	14.6
- RoCE (%)	22.7	16.2	24.5	28.9	15.4

Tiles/Bathware

Parameters	CRS	KJC	SOMC
FY23 Revenue Mix (%):			
- Tiles	11	90	87
- Bathware	88	7	13
- Others	1	3	-
New / Nascent Categories	N.A.	Plywood	N.A.
Geographical Strengths	North / West / South	North / West / South	North / West / South
Plants (#)	1	8	6
Dealers (#)	5,000	1,825	4,000
Key Drivers	✓ 70%+ presence in Tier II/III markets (where aspirational growth is high) ✓ Faster growth in Bathware to bolster overall margins/RoCE ✓ New team well settled to drive growth	✓ Best placed to benefit from Morbi's focus on exports ✓ Brand premium on margins = cushion during high gas price times ✓ Cash generated to suffice for expansions	✓ Well placed to grow domestic business (with Morbi's focus on exports) ✓ Mix improvement + falling fuel costs + capacity ramp up = margin expansion ✓ Margin expansion + lower fin costs (WC cut) = earnings boost
Revenue CAGR (%):			
- FY19-23	7.5	10.3	9.6
- FY23-25E	18.8	18.0	14.9
Earnings CAGR (%):			
- FY19-23	16.8	11.1	5.9
- FY23-25E	25.5	35.5	63.5
FY25E Balance Sheet:			
- NWC (Days)	71	65	39
- OCF/EBITDA (%)	73.0	64.1	81.1
- RoE (%)	22.7	22.7	18.3
- RoCE (%)	25.3	27.9	16.1

Valuation Summary

Company	CMP	MCap	TP	Upside	Implied FY25E Target P/E	EPS (Rs)			EPS CAGR	PAT Margin (%)			RoCE (%)		
	(Rs)	(Rs bn)	(Rs)	(%)	(x)	FY23	FY24E	FY25E	FY23-25E (%)	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Wood Panels															
GREENP	320	40	470	46.9	25	20.4	16.8	18.8	(4.0)	14.0	11.3	11.2	23.9	16.5	16.1
CPBI	613	136	750	22.3	35	17.2	17.6	21.4	11.5	10.5	9.6	10.0	23.3	19.4	19.7
GRLM	441	56	540	22.4	37	10.3	11.2	14.5	19.7	6.3	5.7	6.1	12.6	11.4	12.5
MTLM	176	22	210	19.3	16	8.0	7.3	13.2	28.7	5.3	4.0	5.9	12.0	10.6	16.2
Pipes															
PRINCPIP	640	71	820	28.1	30	11.0	19.4	27.4	57.5	4.5	7.4	8.4	11.6	18.4	22.7
APOLP	708	28	840	18.6	38	6.1	16.5	22.1	101.7	2.6	5.9	6.3	8.3	15.6	16.2
ASTRA	1,961	527	2,260	15.3	65	17.9	24.3	34.8	39.5	9.3	10.5	12.0	22.6	24.6	30.1
SI	3,124	397	3,420	9.5	33	68.1	80.5	103.4	23.2	9.4	10.0	11.0	22.0	24.0	28.9
FNXP	175	109	170	(2.9)	16	4.1	9.5	10.8	62.9	5.7	12.7	13.2	4.1	12.7	15.4
Tiles / Bathware															
CRS	7,664	100	9,100	18.7	35	164.8	211.6	259.6	25.5	11.9	12.8	13.3	21.3	23.5	25.3
KJC	1,261	201	1,420	12.6	35	22.1	30.9	40.6	35.5	8.0	9.6	10.6	17.7	23.5	27.9
SOMC	686	29	810	18.1	18	17.4	32.7	46.5	63.5	3.0	4.9	6.0	8.2	12.4	16.1

Valuation Summary

Company	RoE (%)			NWC (Days)			Net Debt/EBITDA (x)			P/E (x)			EV/EBITDA (x)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
Wood Panels															
GREENP	23.3	16.1	15.8	16	21	25	(0.4)	0.1	0.2	15.7	19.0	17.0	9.0	11.1	9.8
CPBI	22.1	18.8	19.4	64	56	50	0.1	0.6	0.3	35.6	34.8	28.6	24.5	22.6	18.4
GRLM	15.8	13.9	16.2	69	68	67	2.5	3.7	1.9	42.9	39.4	30.4	26.2	23.5	16.8
MTLM	16.6	13.1	20.3	45	43	40	3.7	2.7	1.4	22.0	24.1	13.3	16.5	12.8	8.2
Pipes															
PRINCPIP	9.3	14.7	18.1	79	70	70	(0.6)	(0.5)	(0.4)	58.1	33.0	23.4	27.6	17.9	13.2
APOLP	5.5	12.5	12.9	53	48	47	0.1	(0.2)	(0.7)	90.3	42.9	32.1	31.9	21.7	16.2
ASTRA	18.1	20.3	24.5	24	27	26	(0.8)	(1.1)	(1.2)	109.6	80.7	56.3	64.6	50.6	36.7
SI	21.0	21.8	24.4	38	37	36	(0.6)	(0.4)	(0.5)	45.9	38.8	30.2	32.5	26.9	20.3
FNXP	5.7	12.3	14.6	65	58	60	(4.4)	(1.2)	(0.5)	43.2	18.4	16.3	32.6	13.1	12.5
Tiles / Bathware															
CRS	19.4	21.5	22.7	70	71	71	(2.2)	(2.1)	(2.0)	46.5	36.2	29.5	31.9	25.1	20.3
KJC	15.4	19.4	22.7	64	65	65	(0.3)	(0.2)	(0.2)	57.0	40.8	31.0	33.7	24.5	19.4
SOMC	8.5	14.6	18.3	42	40	39	1.8	1.1	0.6	39.5	21.0	14.8	17.8	12.2	9.3

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Real Estate – At the cusp of a multi-year cycle!

With DAM Capital, It's Possible!

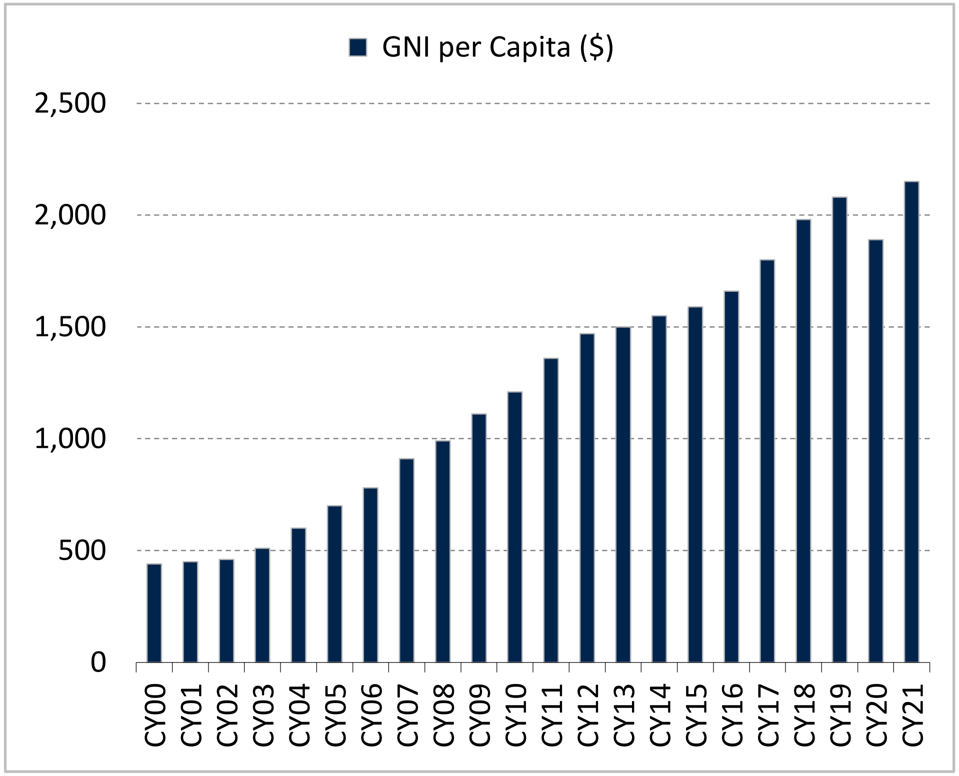
Affordability, Sector Initiatives & Long-Term Factors to drive multi-year real estate cycle

- **Affordability – Key indicators at levels not seen by a generation**
  - Steadily rising incomes, and stagnating/falling real estate prices across regions has unlocked the real estate markets
  - Key indicators put out by HDFC, Jones Lang LaSalle, and Knight Frank show affordability at multi-year high levels
  - Housing Loan interest rates, albeit up from their COVID time lows, are stabilizing at levels lower than in the previous cycle
- **Government initiatives in place to boost buyer/developer confidence in the real estate market**
  - Real Estate Regulation & Development Act (RERA, 2016) a game changer driving confidence of house buyers
  - Budgetary allocations, taxation incentives (for both buyers and developers) playing its part to prime the cycle
  - Improved buyer confidence and liquidity aiding developers to turnaround projects quicker and plan new ones
- **Data points hint that the sector's days in the woods are now far behind**
  - Key metro markets data suggests that the bottom has already been reached and the cycle is now on an up-move
  - Buoyancy being witnessed in commercial real estate as well
- **Virtuous real estate cycle can last 6-8 years**
  - Global and India's history suggests real estate cycles last 8-10 years. India is 2 years into the cycle
  - Long-term factors including rising urbanization / family nuclearization alongside income growth to fuel the cycle
- **Low probability for interest rate hikes to turn the cycle around in the near-term**
  - Rising housing prices, a bigger psychological factor for purchases, than rising interest rates
  - Interest rate hike 'mitigations' -> (1) Loan tenure extension; (2) EMI impact reduces due to inflation (given its fixed nature)

The real estate upcycle has several legs which drive confidence that it could be a long one before running out of steam

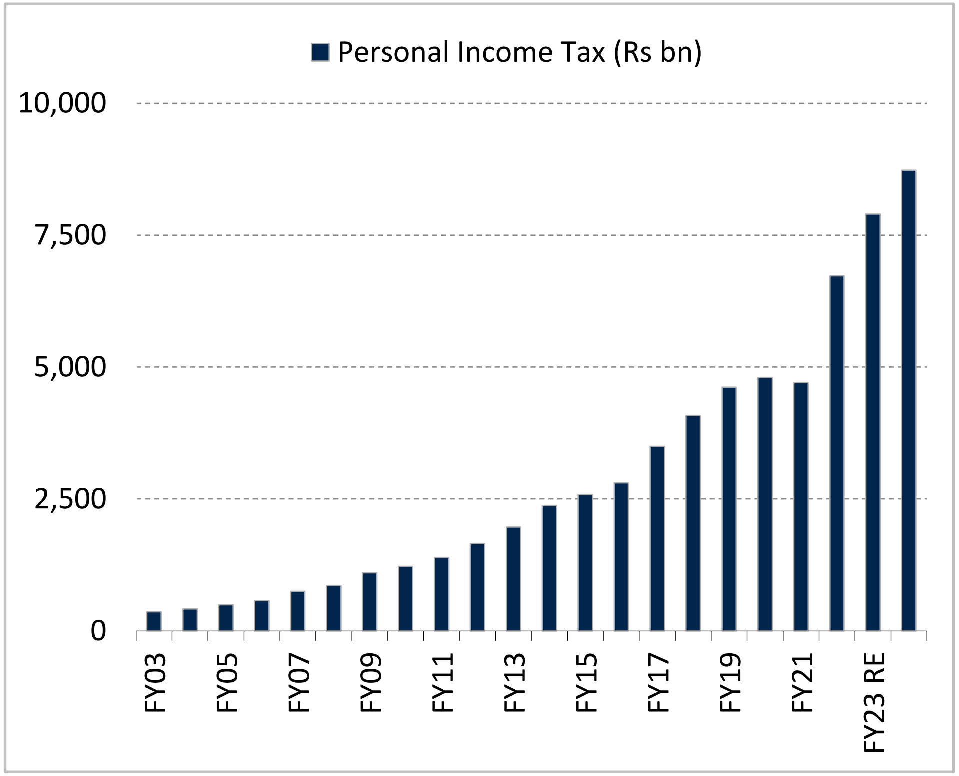
Income levels and affordability have steadily improved over the years

Household incomes have steadily grown (barring 2020)



Source: *World Bank, Macrotrends.net, DAM Capital Research*

Personal income tax collections have remained healthy



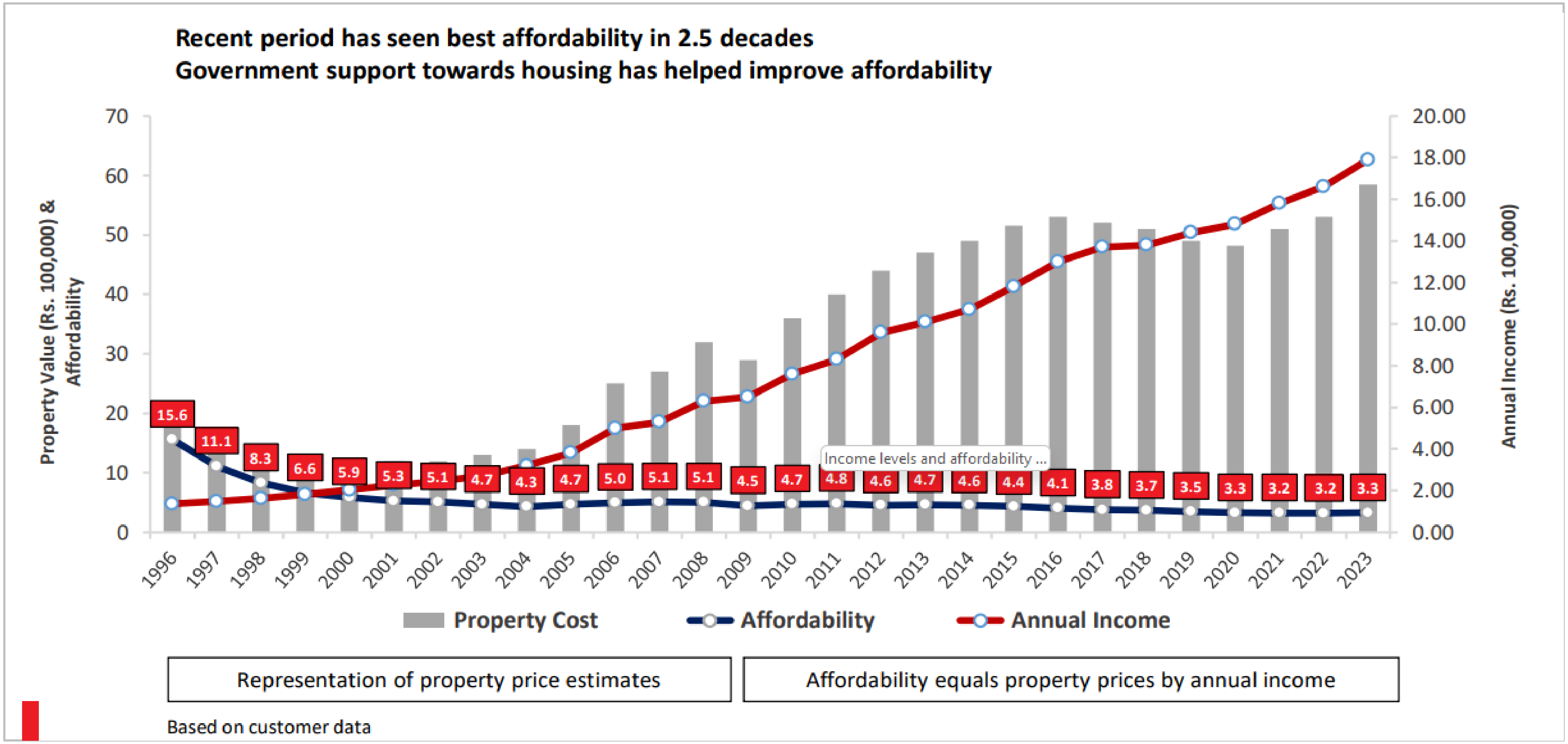
Source: *Union Budget, CMIE, DAM Capital Research*

Note: *FY22 has spill over collections from FY21 due to COVID delays*

National income and taxes collected thereon hint that household incomes have remained on a healthy wicket barring 2020/2021 due to COVID-19, but recovery has been quick

Income levels and affordability have steadily improved over the years

Improved Affordability

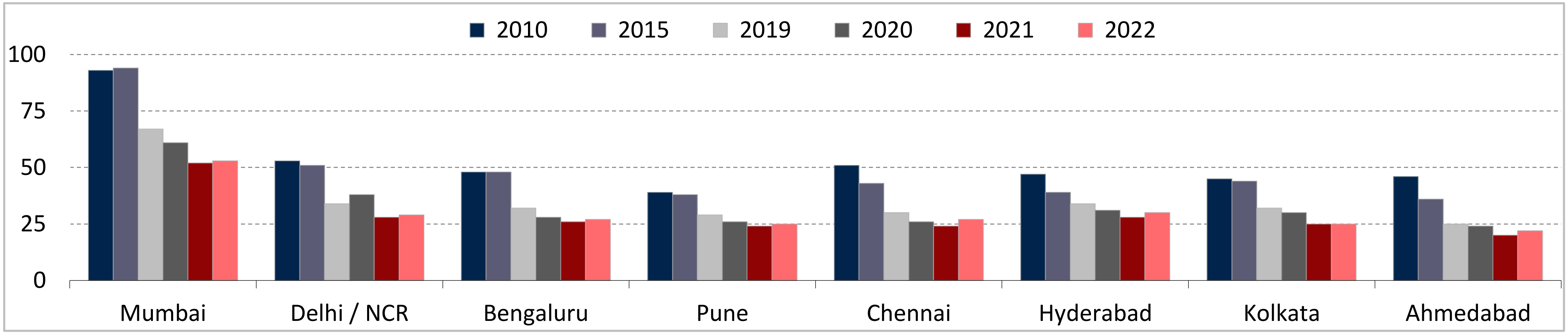


Source: *HDFC; Note – Data is for HDFC customers in key large markets*

Both improving incomes and steadily dropping or stagnating real estate prices has warmed up customers to finalize house purchases

Income levels and affordability have steadily improved over the years

EMI / Income ratios have declined across key top markets from the highs seen in 2010



Source: *MOSPI, Knight Frank Research, DAM Capital Research*

Assumptions: *(1) City average/median for Unit Size/EMI/Price; (2) LTV – 80%; (3) Tenure – 20 Years; (4) Loan rate – SBI average*

Home Purchase Affordability Indices (HPAI) have rebounded steadily from 2013 lows (considered as most unaffordable year for real estate)

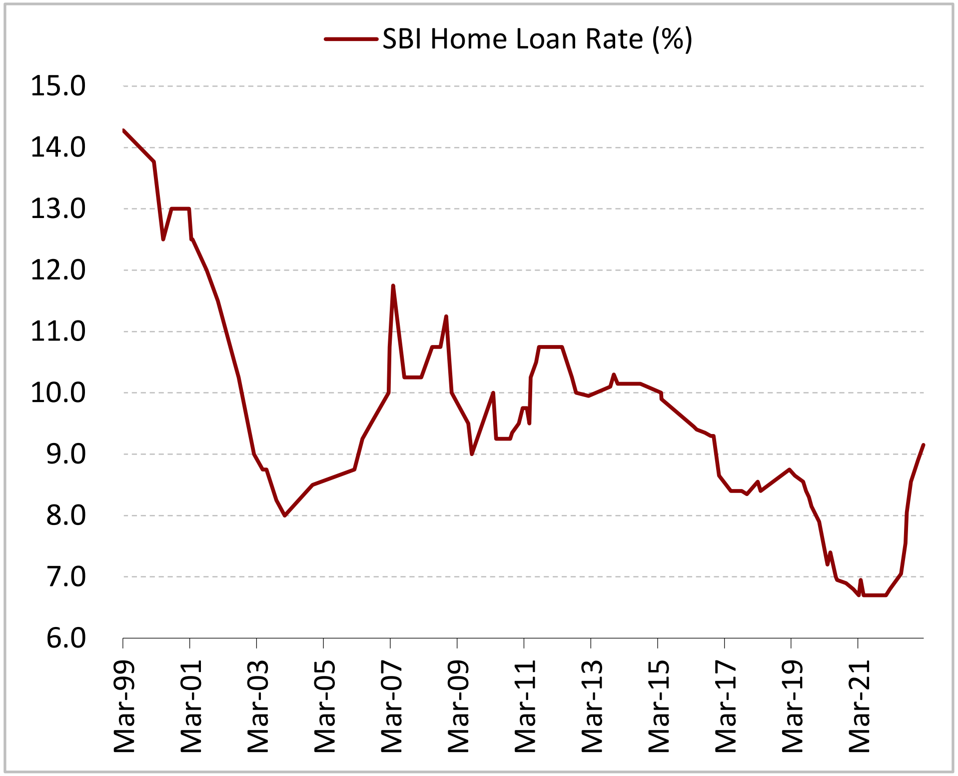
HPAI (x)	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022E	2023E
Mumbai	47	46	43	53	61	71	81	84	90	94	100	92	92
Delhi / NCR	83	73	65	82	95	106	120	120	127	132	140	125	121
Bengaluru	113	104	90	111	121	133	149	154	164	176	185	168	167
Pune	101	99	90	108	127	147	159	167	178	186	195	183	183
Chennai	93	96	90	110	124	135	152	155	168	174	181	162	161
Hyderabad	140	127	111	136	147	158	177	183	189	193	196	174	174
Kolkata	104	96	87	110	130	145	165	174	187	201	212	193	192

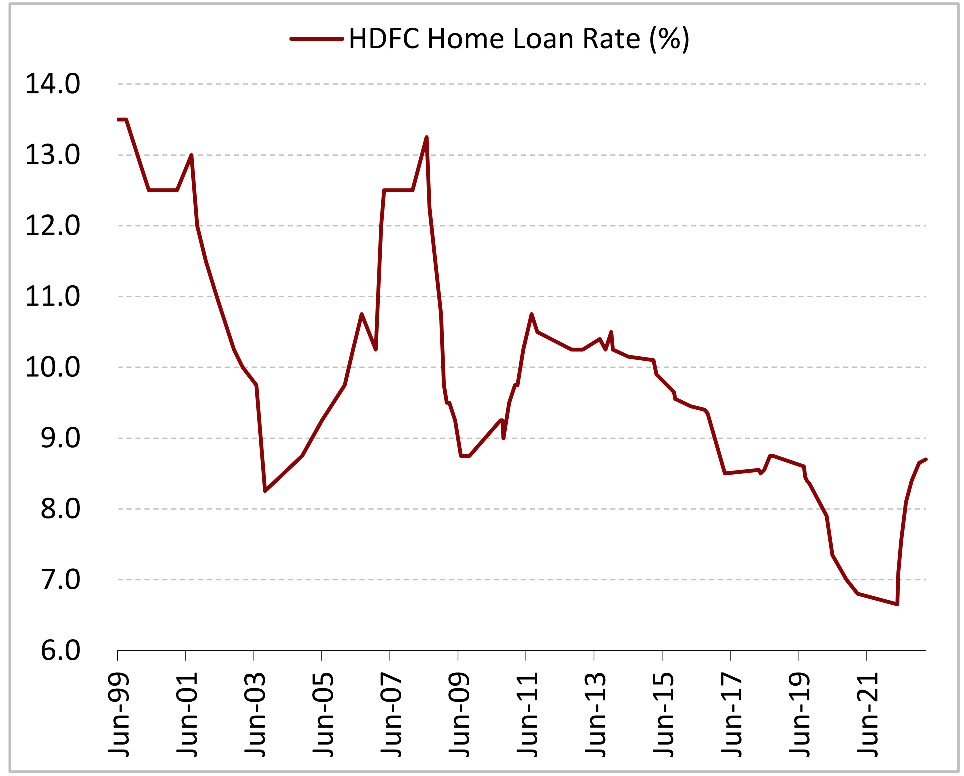
Source: *JLL – HPAI 2021/22, DAM Capital Research*

Note: *HPAI = Avg. Household Income / Min. Household Income required for a 1,000 sq. feet home loan at prevailing market prices (< 100 = Doesn't qualify; 100 = Exactly enough income; >100 = More than enough income)*

Improving affordability in key cities can be extrapolated across the general Indian market

Income levels and affordability have steadily improved over the years





Source: *SBI, HDFC, DAM Capital Research*

- After a steady decline over the years (coinciding a weak housing market), home loan interest rates jumped up from their COVID period lows as the RBI hiked repo rates in quick succession (as it focused to combat inflation).
- RBI has paused rate hikes in its April/June monetary policy, hinting that rates may have peaked for now.

Home loan interest rates, albeit off their COVID lows, are still at levels not seen by a generation of buyers…

Income levels and affordability have steadily improved over the years

(Rs m)	FY00	FY02	FY23
Loan Amount	3.57	3.57	3.57
Nominal Interest Rate (%)	**13.3**	**10.8**	**8.7**
Interest Deduction	0.08	0.15	0.20
Principal Deduction	0.02	0.02	0.15
Tax Rate (%)	**34.5**	**31.5**	**34.3**
Tenor (Years)	20	20	20
Annual Repayment	0.51	0.43	0.46
- Interest Component	0.47	0.38	0.31
- Principal Component	0.04	0.05	0.15
Tax Amount Saved	0.03	0.05	0.12
Effective Interest Paid	0.44	0.33	0.19
Effective Home Loan Interest (%)	**12.33**	**9.25**	**5.29**

Source: *HDFC, DAM Capital Research*

- Tax incentives aimed at the first-time homeowner have widened the scope of interest savings over the last two decades.
- Gap between tariff card interest rates and effective interest rates has widened from ~100 bps to ~340 bps over 20 years.

…which has been sweetened even further given tax incentives provided for the first-time home buyer

Government has played its part in improving buyers' confidence

Boosted the organised real estate space

RERA (2016)

- Norms brought in for developers to comply with (esp. on financing)
- Transparency in sector improved confidence in property buyers.

GST (2017)

- 5% GST on properties under construction, 0% on ready to move properties
- Encouraged buyers to look at ready inventory

Lower cash chasing properties aided price correction

Benami Transactions Act (2016)

- Illegal to hold properties under dummy names.
- Discouraged direct cash usage in real estate transactions

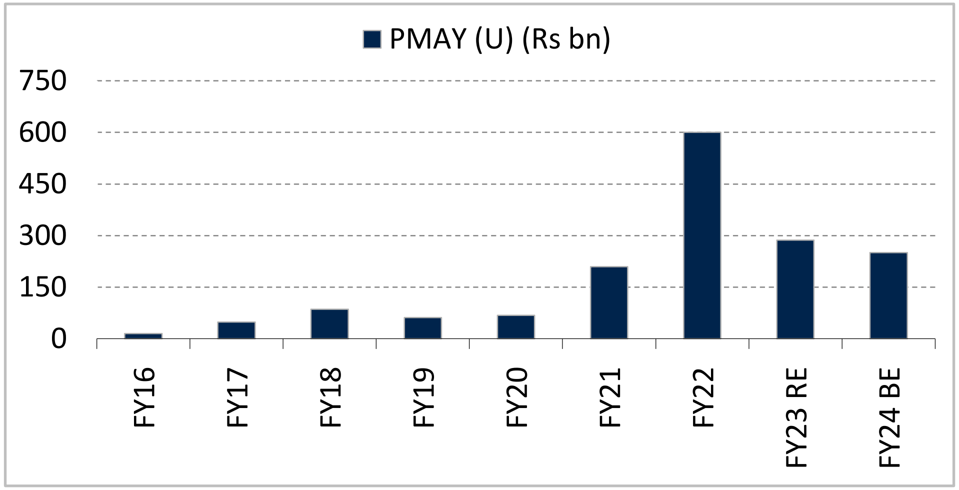
Demonetization (2016)

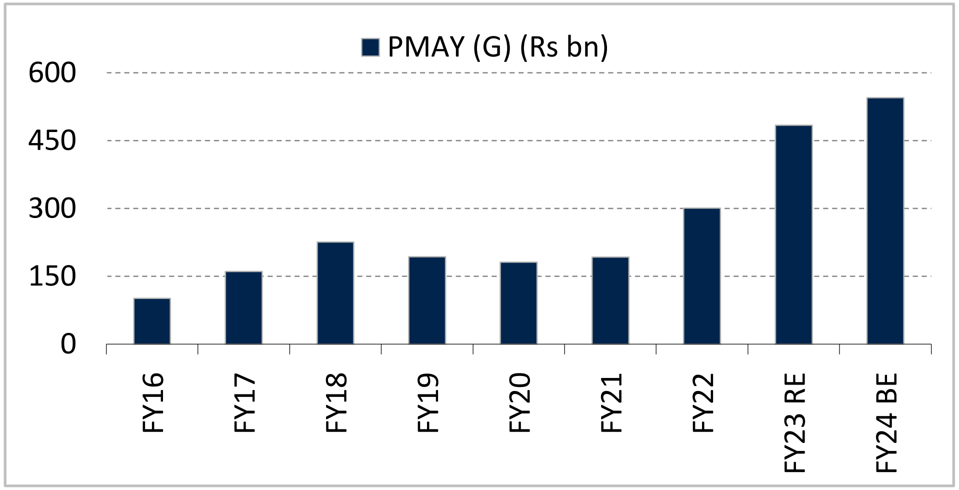
- Rs500/Rs1,000 notes in circulation no longer legal tender
- Direct hit on Real Estate sector where large chunk of a transaction was paid in cash

Government measures shook out the real estate sector at first, but softening prices and transparency improved buyers' confidence, which was eventually supportive to the real estate industry.

Government has played its part in improving buyers' confidence

Central Government Initiatives	• Housing for All • SWAMIH Investment Fund (for stuck projects) • Infrastructure status for Affordable Housing
State/Local Government Initiatives	• Stamp duty reduction for a limited time period. • Changes in Floor Space Index (FSI), improving project viability.



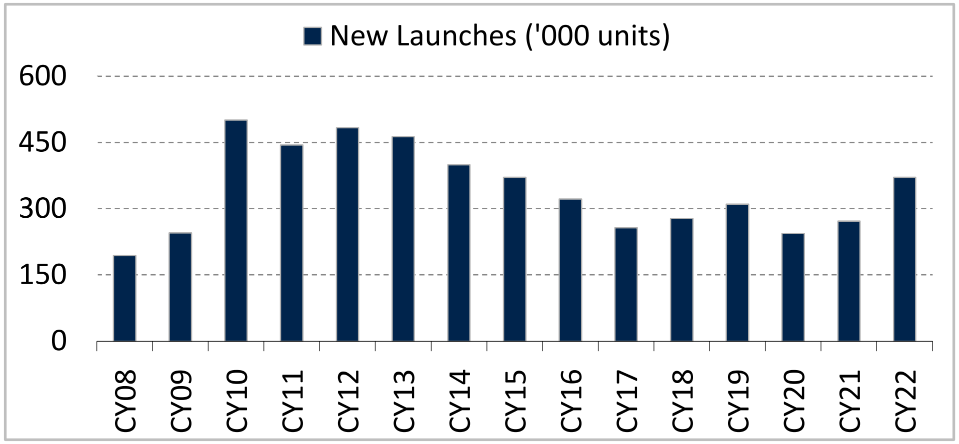


Source: *Union Budget Documents; Ministry of Finance, DAM Capital Research*

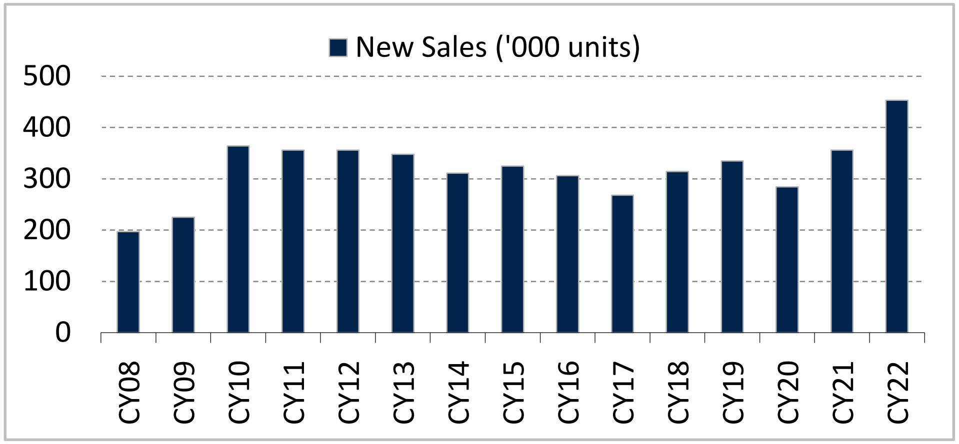
Legislative proposals and affordable housing investments is driving renewed vigour in the real estate sector

Key indicators point out an uptick

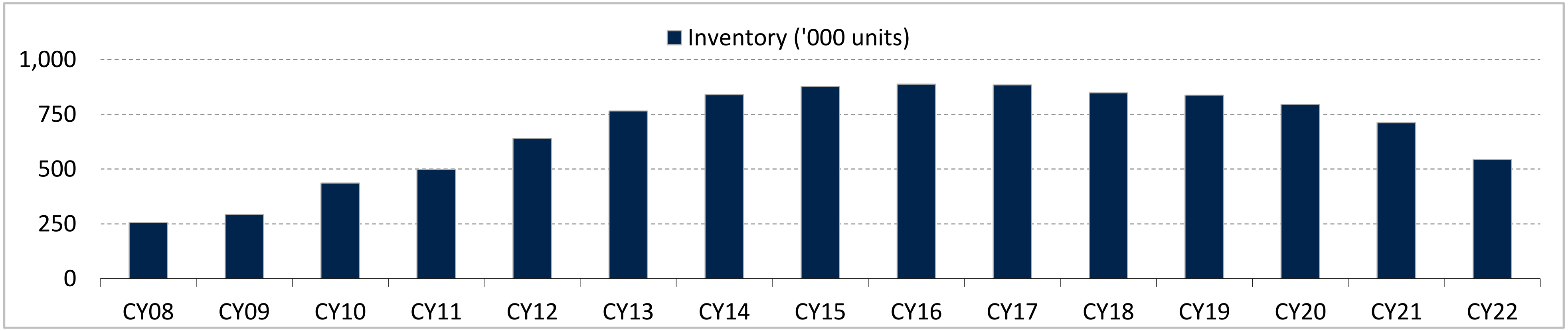
New launches in the Top 7 markets…



…as have sales rebounded over CY21/22 after a long declining trend



Available inventory on hand has come off

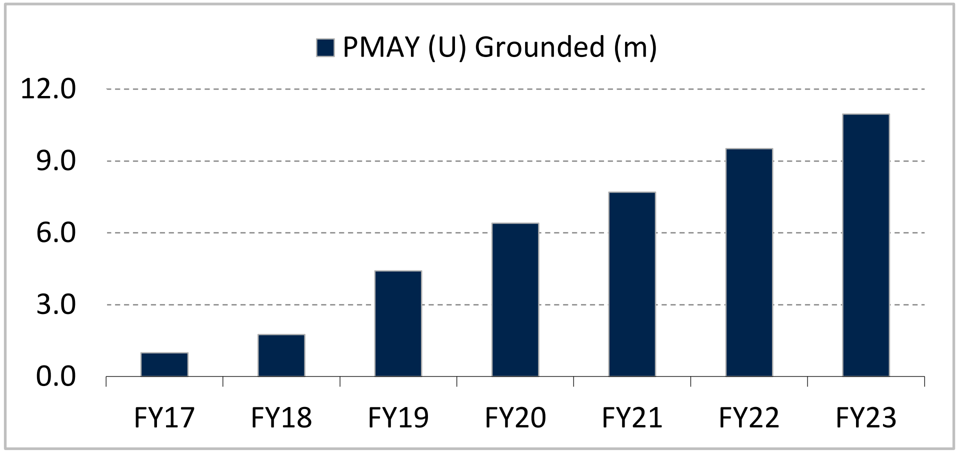


Source: *PropEquity;* ***Note:*** *Cumulative data for MMR, NCR, Bengaluru, Chennai, Hyderabad, Pune, and Kolkata*

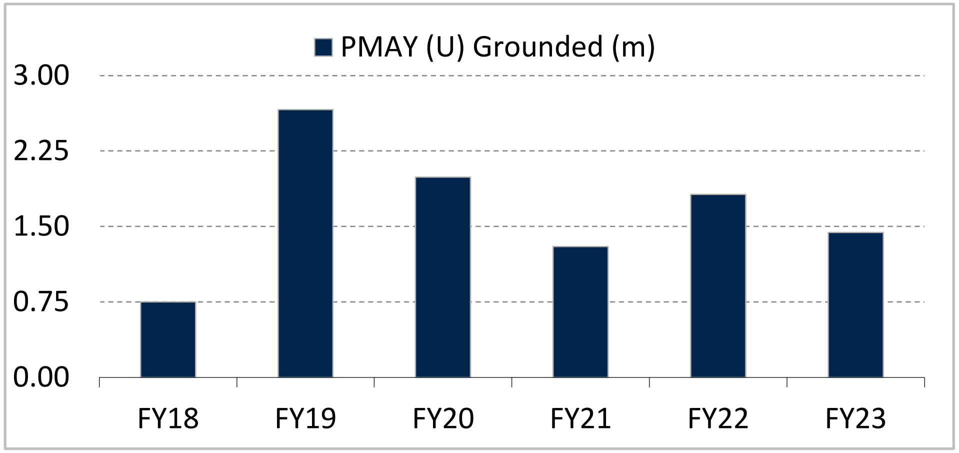
Data (albeit for Top 7 markets) indicates a clear up move as launches/sales move up while existing inventory in the system reduces. This can be used as a proxy for the broader real estate market.

Key indicators point at an uptick

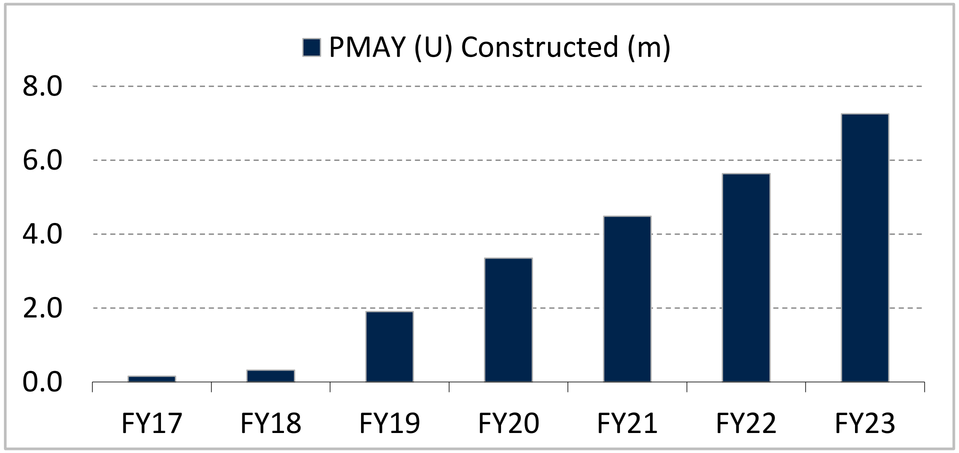
PMAY (Urban) Cumulative Grounded



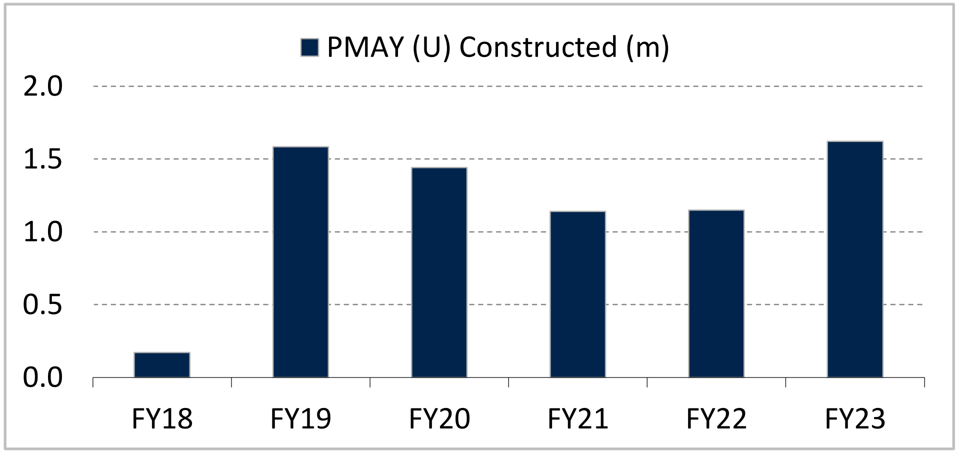
PMAY (Urban) Annual Grounded Additions



PMAY (Urban) Cumulative Units Delivered



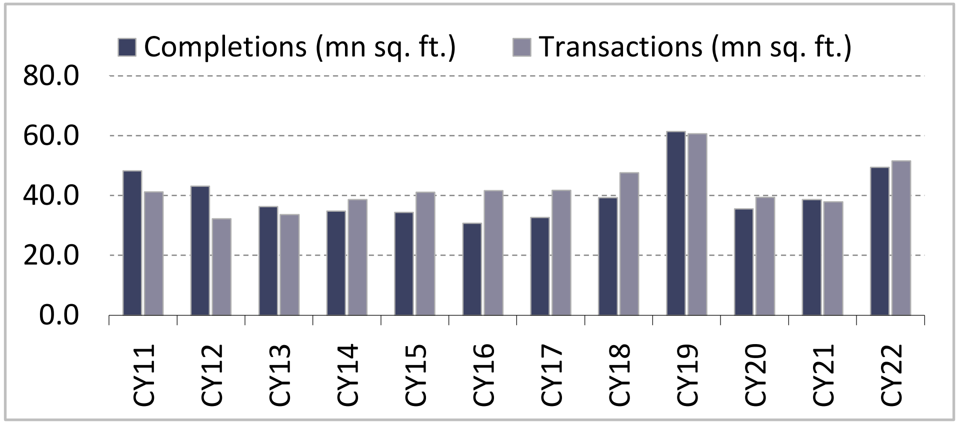
PMAY (Urban) Annual Constructed Additions



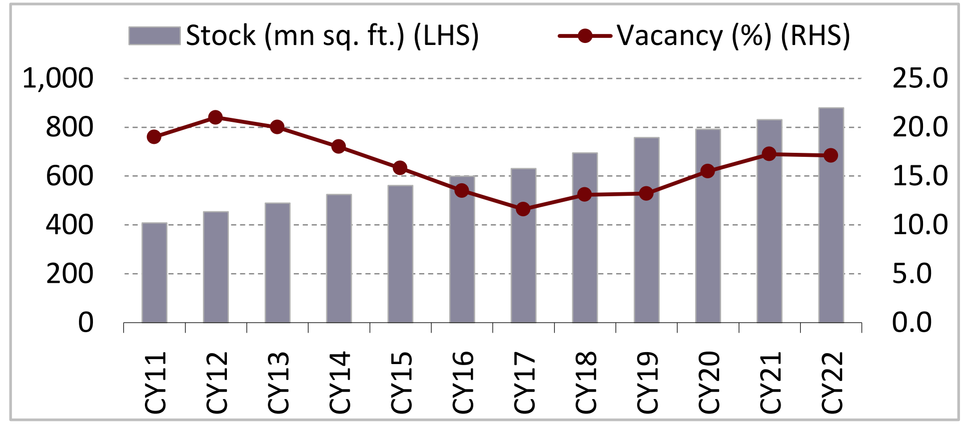
Steady housing additions happening through PMAY (Urban)

Key indicators point out an uptick

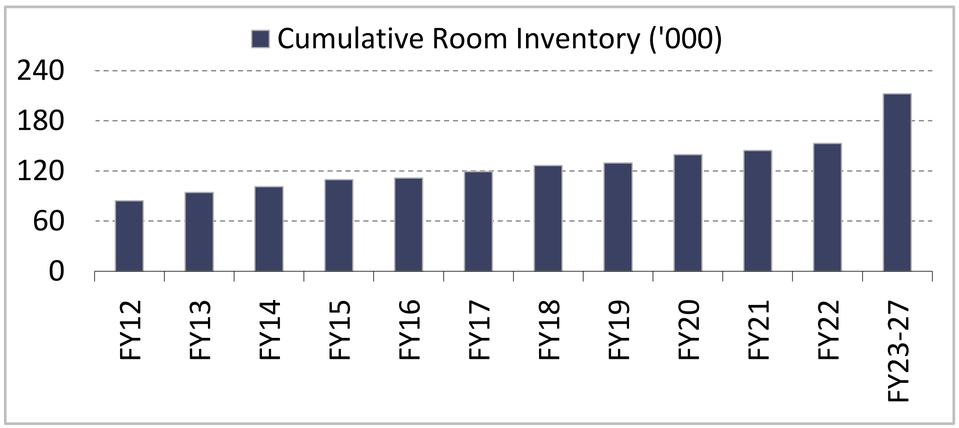
Office space additions have picked up in CY22…



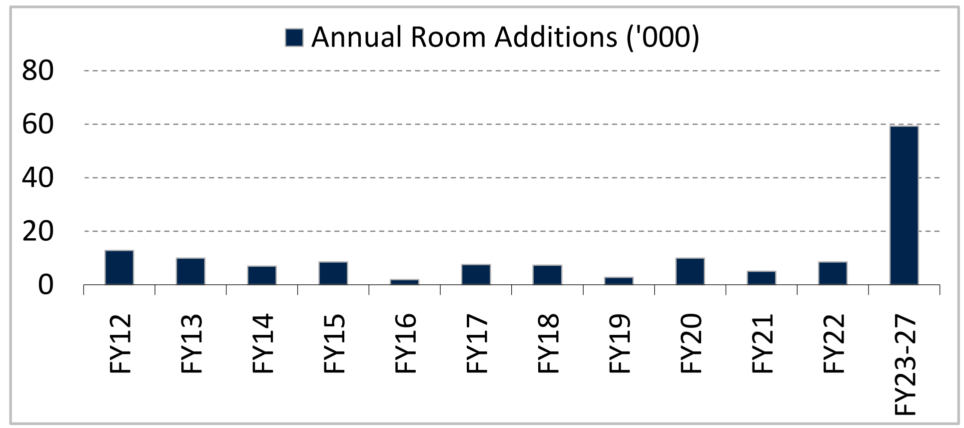
…while vacancy rates remain stable at ~17%



Hotel room additions have steadily improved…



…with a healthy pipeline ahead for the next five years



Source: Knight Frank Research (Office Data), Hotelivate (Hotels Rooms Data), DAM Capital Research

Activity pick-up remains healthy on the commercial side of real estate as well

How long can the cycle last?

- **What fuels the flywheel of real estate?**

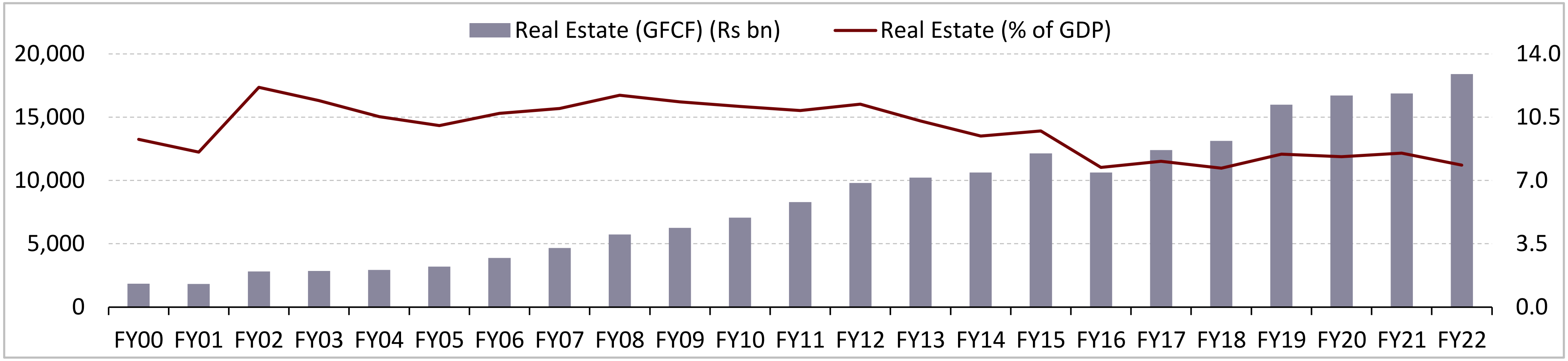
Financial Reasons	Emotional Reasons
Prosperity → Affordability → Increased Confidence	Idea of House Ownership (more than just an asset)
Lower price volatility (vs other asset classes)	Pent-Up Demand
Shrinking gap between Rental Yields and Deposit Rates	Recency bias of property price movements
Higher demand and timely payments = Developers able to rotate capital into new projects = Rinse & Repeat!	

- **Average Cycle Length:**
  - Globally, real estate cycles usually range between 8-20 years.
  - The average cycle in the United States is 18 years.
  - In India, the previous cycle began in 2003 and peaked in 2013/14 before stagnating.

Multitude of factors come together to drive real estate cycles which can be anywhere between 8 to 20 years long. India's last cycle was ~10 years.

How long can the cycle last?

Real Estate GFCF formation trend – a proxy to the overall real estate cycle



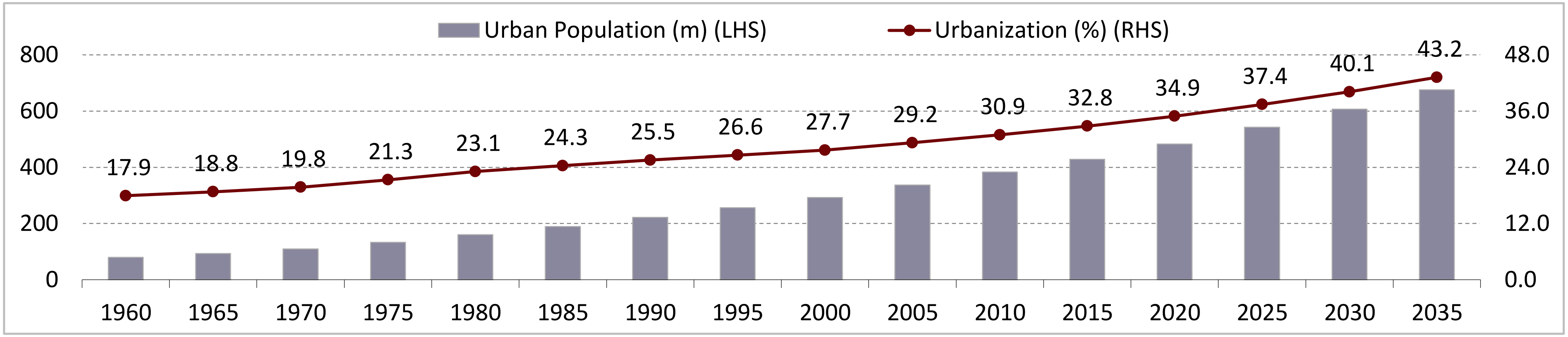
Source: *CMIE;* ***Note:*** *GFCF includes that of Construction and Professional Services*

- A long trend of gross fixed capital formation in India hints that the real estate upcycle started from FY02/03 and then did not lose steam until FY13-16 period.
- **What's new this time?**
  - Increased confidence through higher transparency in the sector.
  - Real estate sector moving in favour of larger/branded/organized developers (at least in large/mid-sized cities).
  - Rising urbanization creating new city centres, which should drive up construction momentum.
  - Hybrid work cultures (at home + in office) driving both residential and commercial space development.

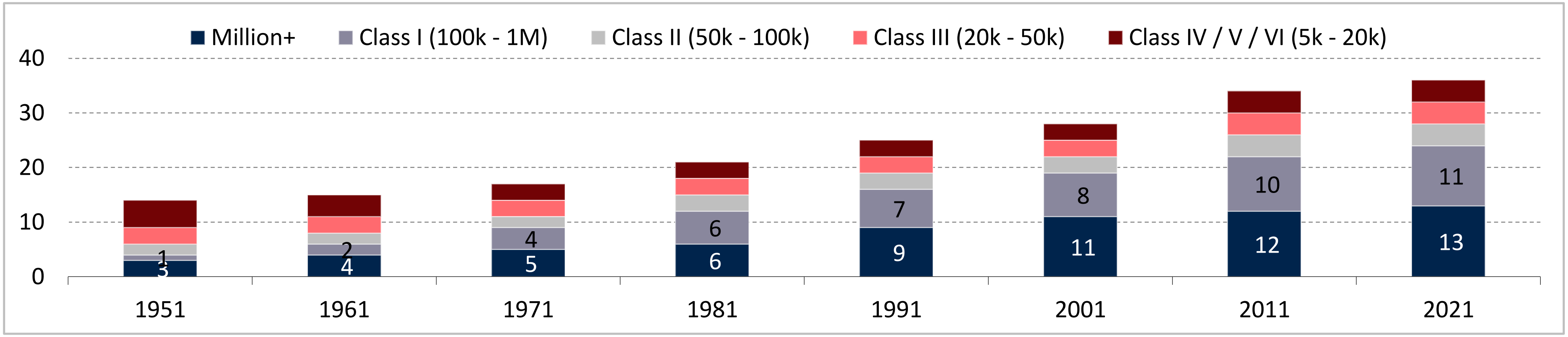
Structural foundations in place to fuel a long real estate cycle

How long can the cycle last?

Urbanization remains on an up-trend and is expected to continue to do so over the next decade…



…driving an increase in the number of large cities

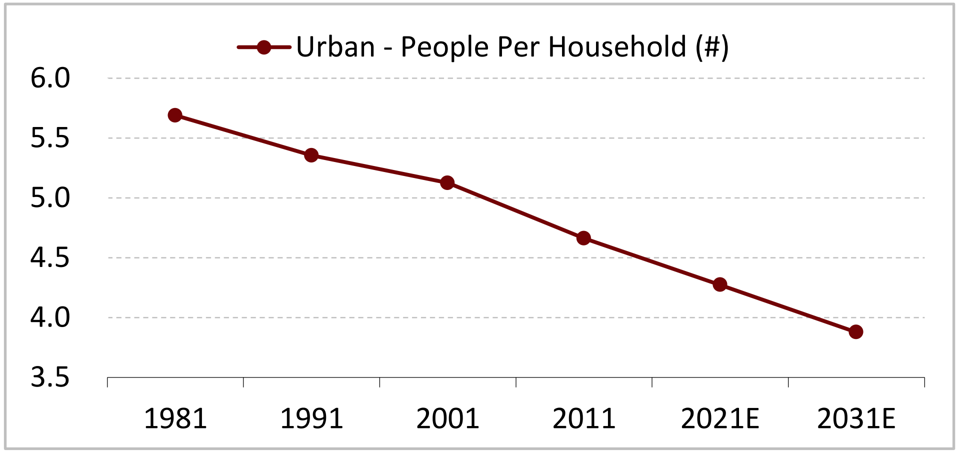


Source: *MOSPI, CSO, Asian Granito Investor Presentation, UN Habitat World Cities Report 2022, Macrotrends.net*

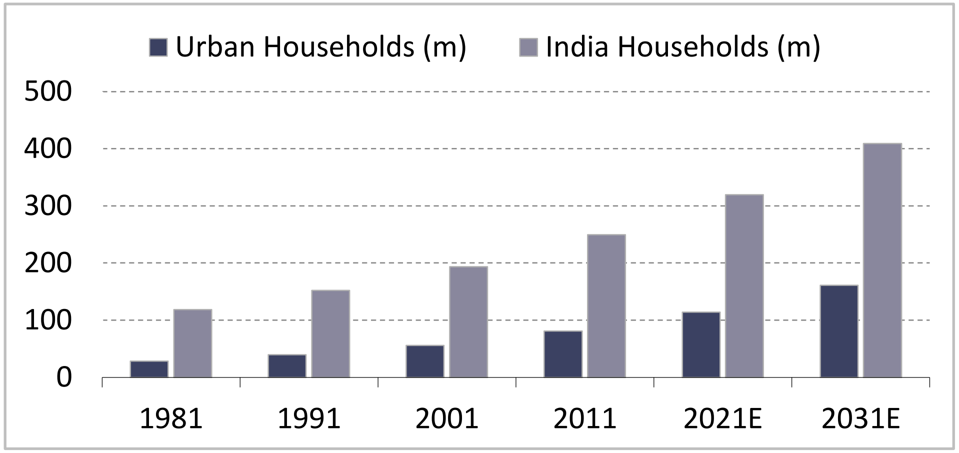
Increased urbanization is creating new urban centers (and enlarging existing ones) which will bring in new demand for real estate (and building materials)

How long can the cycle last?

Family nuclearization to continue…



…to drive households' growth, especially urban



Source: *India Census, DAM Capital Research*

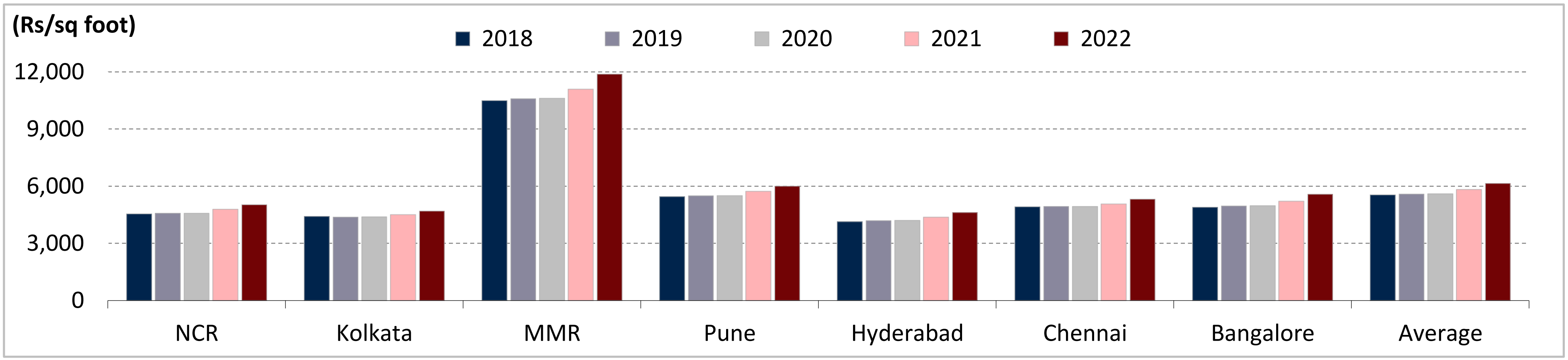
- **Work from Home culture passing on the baton to Hybrid Work:**
  - Work from Home (WFH) had its own role to drive real estate demand beyond the key metro cities.
  - As organisations return to work, we believe that WFH will transform more into a Hybrid Model (on/offsite).
  - This should drive both commercial real estate demand (esp. in smaller towns through co-working spaces) and also continued demand for residences (versus a full work from office where demand would concentrate in larger markets).

Shrinking family sizes would also add to housing demand, while Hybrid workspaces should have its own rub-off effect on commercial spaces in smaller cities (small office buildings or co-workspaces)

Can the upcycle be derailed due to the hike in interest rates?

- **Real estate pricing uptrend key:**
  - Steady real estate pricing growth should make the purchase decision easier (despite rise in interest rates)
  - Behavioural biases (esp. the fear of missing out) should drive home purchases, given the once-a-generation decision.
  - High initial purchase price can to an extent be mitigated by short-term discretionary spending cuts
- **Financial support measures to mitigate higher interest rates:**
  - Rising interest rates (for existing loan customers) can be managed through extending loan tenure (vs outright EMI increase).
  - Developers can extend purchase sops (as seen during the downcycle and early periods of COVID upcycle).
  - In the long-run, EMIs stay relatively 'fixed' while incomes (esp. through inflation or otherwise) rise.

Real estate prices in key markets have steadily risen since 2018

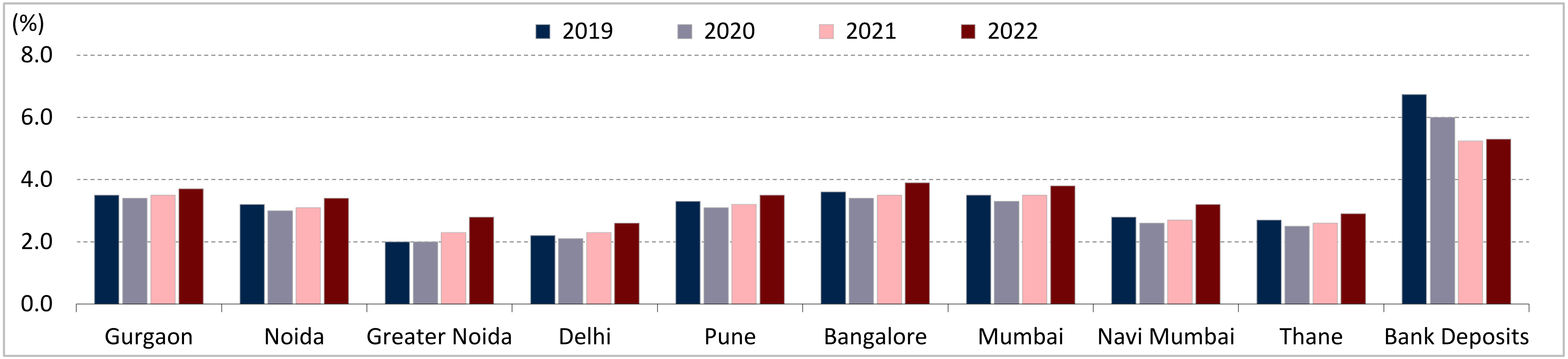


Source: *Anarock, DAM Capital Research*

As long as prices are on an uptrend, consumers should take higher interest rates in their stride

Can the upcycle be derailed due to the hike in interest rates?

Increase in rental yields across key cities has coincided with a fall in deposit rates, narrowing the gap by ~175 bps



Blast from the past – Home loan growth did not drop despite a rise in interest rates (until the 2008 crisis became acute)

(%)	FY04	FY05	FY06	FY07	FY08	FY09	FY10
Home Loans Growth	73.9	**48.6**	**43.7**	**25.7**	**8.5**	9.3	7.7
Repo Rate	6.0	6.0	6.5	7.8	7.8	5.0	5.0
SBI Home Loan Growth	-	**-**	**27.4**	**19.3**	**17.5**	21.1	31.7
SBI Interest Rate	-	-	8.8	10.8	10.3	10.0	9.0
HDFC Home Loan Growth	28.6	**28.7**	**24.9**	**25.6**	**29.8**	16.2	15.0
HDFC Home Loan Rate	8.3	8.8	9.8	12.0	12.5	9.5	8.8

Source: *Anarock, RBI, SBI, HDFC, DAM Capital Research;* ***Note:*** *Bank deposit rates are averages for public sector banks for each year*

As long as prices are on an uptrend, consumers should take higher interest rates in their stride

Investment Banking

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Home Improvement – A better and more resilient proxy play on the real estate cycle

With DAM Capital, It's Possible!

Home Improvement – Resilient proxy play on the real estate cycle

- **Goes hand-in-hand with the construction phase…**
  - Depending on the stage of construction, various sub-segments have ready plays available in the market.
- **…but also has tailwinds from replacement/renovation demand from retail clients**
  - Est. ~15-40% of the market (as per category) is from replacement demand (except Paints where the share is far higher).
  - Frequency of Renovation is linked to growth in income (post home ownership).
  - Shrinking replacement cycles could drive an additional growth driver (as seen in Paints).
- **Pan-India market opportunity for players**
  - Real estate companies' opportunity size is restricted to markets where land banks are present. Most listed real estate players' key markets top out within the Top 10 cities of India.
  - Large home improvement players – through their manufacturing footprint and channel network – are true pan India plays as geography usually is not a limiting factor (this also unlocks economies of scale).
- **Relatively asset-light nature for most companies in the space**
  - Most Home Improvement leaders are available with lean and strong balance sheets.
  - Relatively light capex/WC cycle and near zero debt provides safety during inclement times.
- **Growth relatively unscathed even during real estate's deceleration/slowdown**
  - Market opportunity size grew for most sub-segments even during weak real estate times.
  - Key home improvement players grew faster versus real estate companies over FY12-22 (and esp. during FY16-20 downturn).

Home Improvement players are a superior proxy play on the real estate cycle

Home Improvement industry fortunes directly linked to real estate construction…

– Final Touches

- Paints / Home Décor
- Furniture / Light Fixtures / Durables

#4

Outer Aesthetics

- Windows / Doors
- Tiles / Flooring / Bathware

#3

#1

Structure Set-Up

- Cement / RMC / Bricks
- Steel

#2

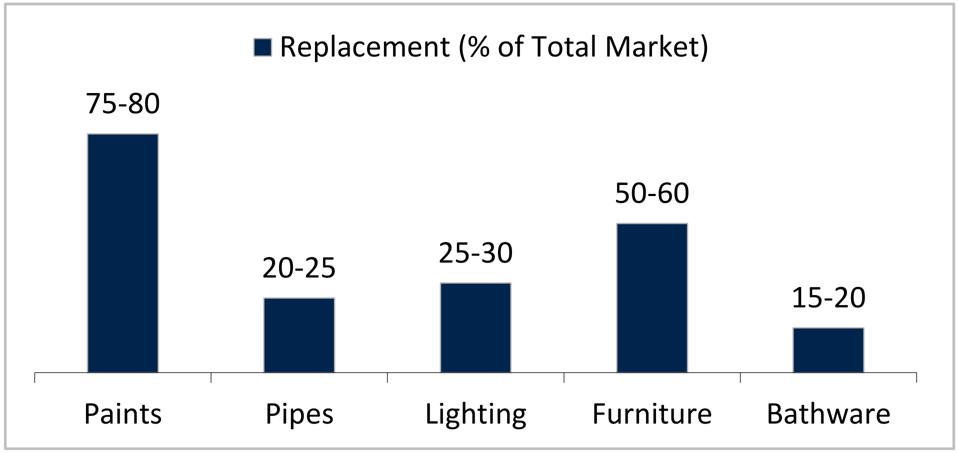
Network Lay-Down

- Plumbing Pipes / Wire Conduits
- Switchboards / Wires

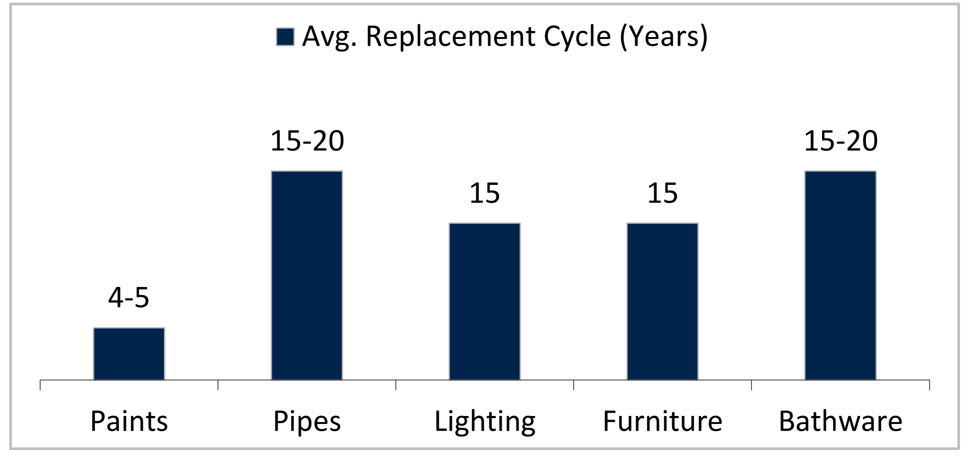
Sub-segments come into play depending on the phase of the construction. B2C element increases as one goes downstream.

… with a healthy boost coming in from renovation/replacement demand

Healthy replacement market share for most categories



Replacement cycles average 10-15 years for most



Source: *DAM Capital Research*

- Discretionary income growth is the key fuel that drives the replacement portion of overall industry segments.
- Paints, given its propensity of less hassle, has the highest replacement market proportion, followed by furniture (esp. for commercial spaces). Tiles/Bathware, given its longevity, has the lowest replacement demand. Pipes share of 20-25% includes one-time replacement of old GI pipes.
- In our sense, pipes, furniture, bathware have average replacement cycles of 15-20 years. Paints at 4-5 years is lower now versus the 7-10 years estimated a decade ago. With the preference for readymade furniture rising over custom-made furniture, we expect the furniture replacement cycle to also shrink in the medium-term.

Discretionary income growth + eventual shortening of replacement cycles = Healthy replacement demand

Market presence not restricted to land bank/property locations

- Home Improvement players' reach is restricted only to the extent of their channel's presence, unlike Real Estate companies for whom landbank location is key.
- Strategically placed manufacturing units as well as storage depots helps extend Home Improvement players' reach as well as deepen it as supply assurance encourages the channel to stock up.
- ***Through Home Improvement companies, investors can play the real estate upcycle beyond the key top 7-10 cities where urbanization and its impact on construction is far swifter versus mature cities.***

Home Improvement Players are mostly Pan-India franchises

Pan-India Players		
Pipes	Wood Panels	Tiles / Bathware
Astral	Century Ply	Kajaria
Supreme Ind.	Greenply	Somany
Prince Pipes	Greenpanel	Cera
	Greenlam	

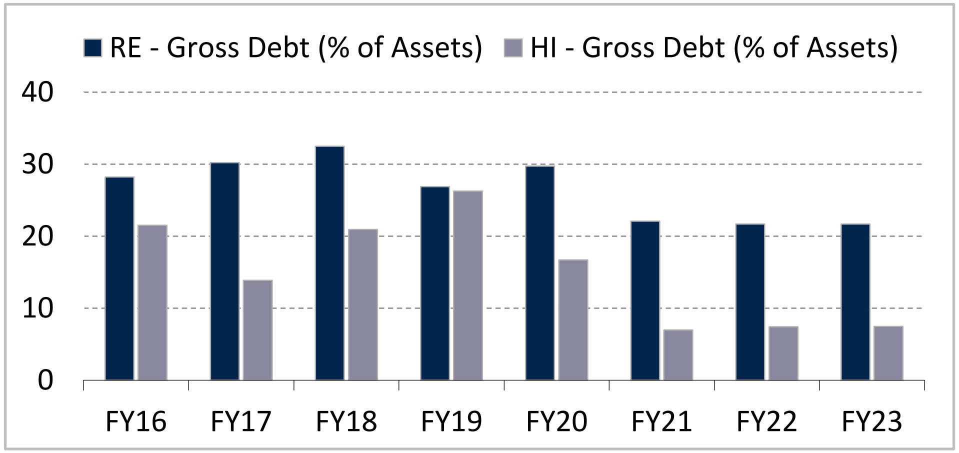
Real Estate companies are generally top city restricted

Company	Key Markets (Properties + Land Bank)
Brigade	Bengaluru, Mysuru, Chennai, Hyderabad, Kochi + 1
DLF	NCR, Chandigarh, Lucknow, Chennai, Kochi + 1
Godrej Prop.	Mumbai, NCR, Chandigarh, Ahmedabad, Pune + 5
Kolte-Patil	Mumbai, Pune, Bengaluru
Lodha	Mumbai, Pune, Bengaluru
Oberoi Realty	Mumbai
Prestige	Bengaluru, Mumbai, Chennai, Hyderabad, Kochi + 4
Sobha	Bengaluru, Chennai, NCR, Hyderabad, Pune + 6

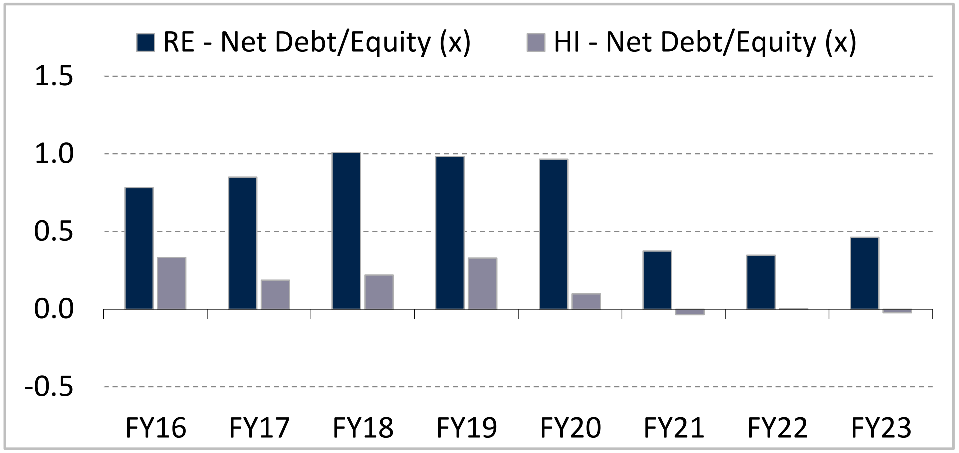
Most top home improvement players are pan-India franchises

Low leverage provides breathing room capacity during adverse times

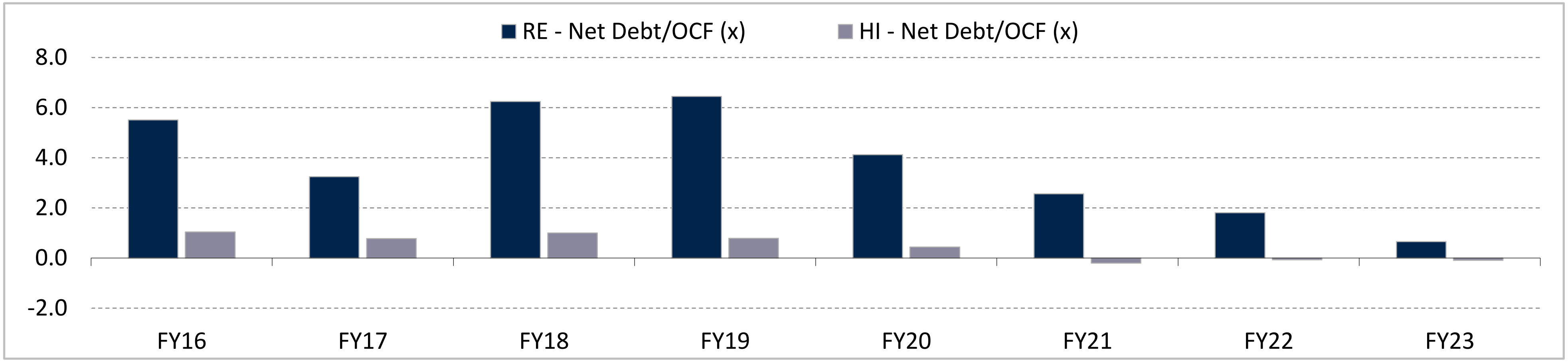
Home Improvement Cos. are generally non levered…



… providing them better comfort during stressed times



Debt repayment capacity stronger for Home Improvement (HI) players versus Real Estate (RE) players over cycles



Source: *Company, DAM Capital Research; RE – Real Estate; HI – Home Improvement; All figures are median levels for each year*

Leverage and debt repayment capacities are stronger for Home Improvement players versus Real Estate ones

Fairly resilient performance, especially during real estate weakness

CAGR (%)	FY16-20	FY20-23	FY12-23
Real Estate	4.7	(1.6)	8.9
Home Improvement:			
- Pipes	11.9	20.0	15.1
- Paints / Adhesives	7.4	16.4	11.4
- Wood Panels	8.8	17.0	17.1
- Tiles / Bathware	5.9	15.1	11.9
- Electricals	11.7	13.8	11.9

- We plotted revenue CAGR for key companies in the Real Estate and the Home Improvement sectors over three periods (1) FY16-20 (Demonetization period to pre-COVID); (2) FY20-23 (COVID time boom); and (3) FY12-23 (a decade covering the downcycle and the COVID time resurgence).
- Though real estate revenue can be deceptive in nature (courtesy Ind-AS 115 norms), we do note that across all three periods, Home Improvement categories have been resilient and consistent on top-line growth.
- Home Improvement space (esp. leaders) enjoys the twin benefit of (1) market share gains (over unorganized) and (2) non primary real estate level demand in addition to organic industry growth.

Source: *Company, DAM Capital Research;* ***Note****: Key listed players revenue considered for calculating CAGR across industries*

Across cycles (but especially during down cycles), Home Improvement players usually come on top versus Real Estate

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Market leaders with long growth runways available to play

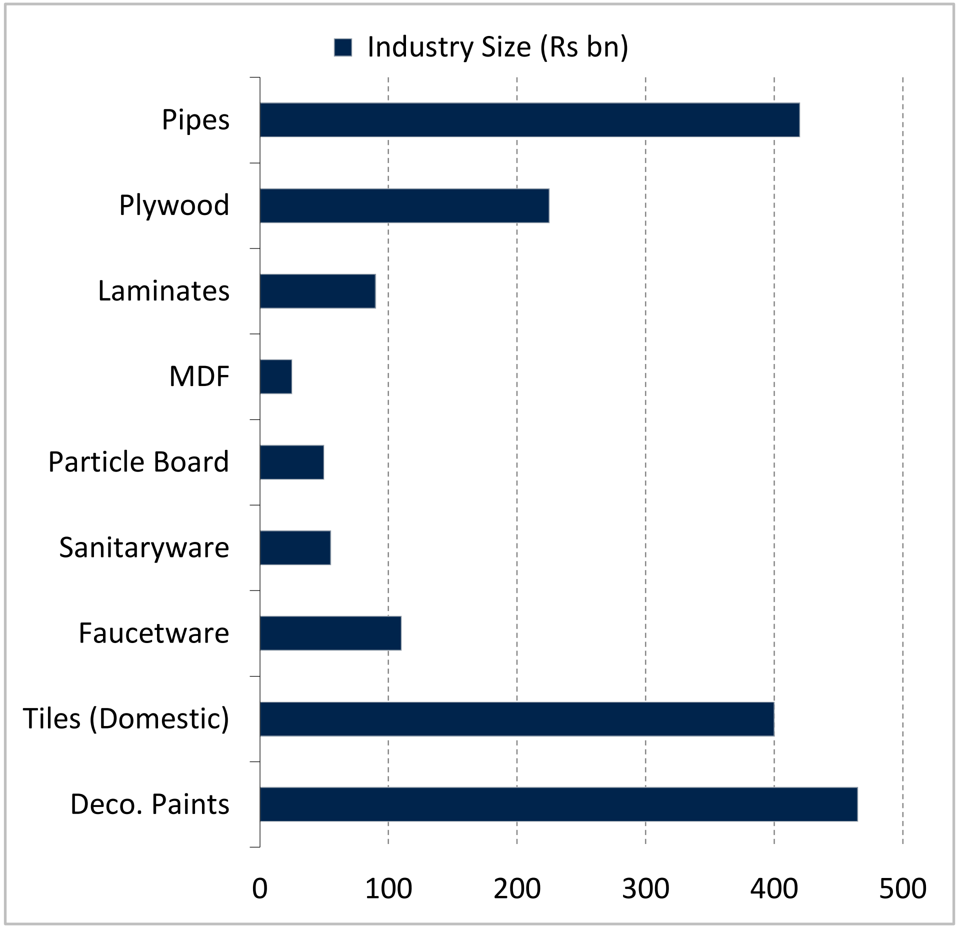
Large players with long growth runways available to play the space

- **Large players are effectively small fish in big (and growing) ponds**
  - Large (and growing) market potential available for players.
  - Barring paints (and to an extent MDF since its base is small), leaders' market-shares generally don't exceed 20%.
- **Robust balance sheets and reach created by leaders…**
  - Fairly strong balance sheets from pre-COVID times, have further strengthened.
  - Companies have remained active to build up their presence across India (manufacturing locations + channel network).
- **…enables faster potential growth vis-à-vis the aggregate industry**
  - High unorganized industry share up for grabs during inclement times (when market growth stalls).
  - Brand building (to tap into increasing customer aspirations) + Reach = Faster than industry growth unlocked.
  - Large players have introduced products across price points to cater across market segmentations.
- **Market dynamics building a case for premiumization**
  - Premium real estate inventory sales have increased in recent times.
  - Developer consolidation in Top 7 cities + broadening developer ecosystem beyond Top 7 to drive branded product sales.
- **Players entering adjacencies to leverage brand/reach**
  - Entry into adjacencies (within the home improvement universe) driving an expansion of total addressable market (TAM).
  - Larger TAM = Longer growth runways.

Top players across product segments themselves have plenty of potential for growth (industry + market share grab)

Large players still relatively small in the overall market

Large and growing addressable markets…



…yet most categories far from being oligopolies

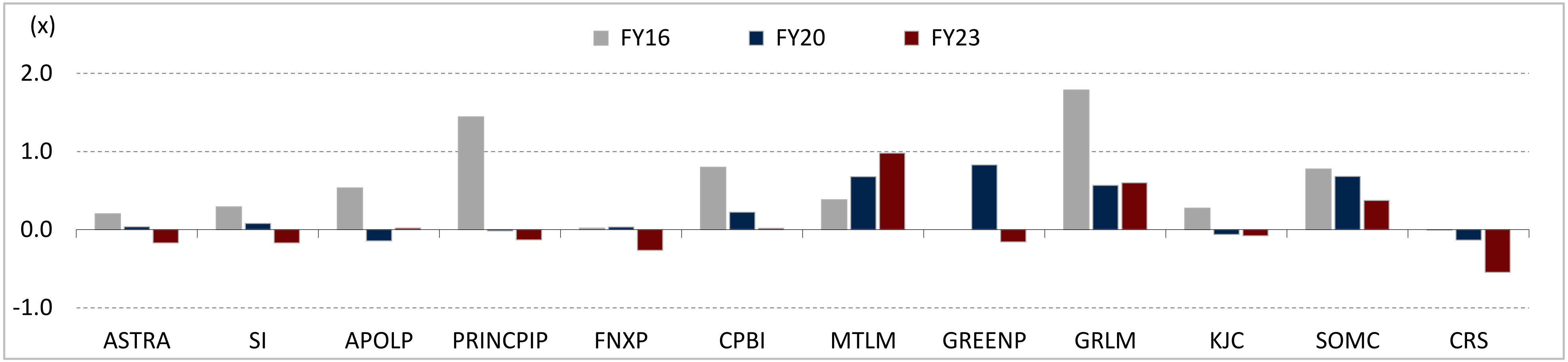
Industry	Top Player	2nd Largest
Pipes	Supreme (~12%)	Ashirvad (~11%)
Plywood	Century (~7%)	Greenply (~6%)
Laminates	Greenlam (~17%)	Merino (~15%)
MDF	Greenpanel (~55%)	Century (~22%)
Particle Board	Century (~3%)	--
Sanitaryware	Cera (~22%)	Jaguar (~21%)
Faucetware	Jaguar (~45%)	Cera (~10%)
Tiles	Kajaria (~8%)	Somany (~5%)
Paints	Asian (~40%)	Berger (~12%)

Source: *Industry, Company, DAM Capital Research;* ***Note:*** *Estimates for FY22; Figures in brackets are market-share*

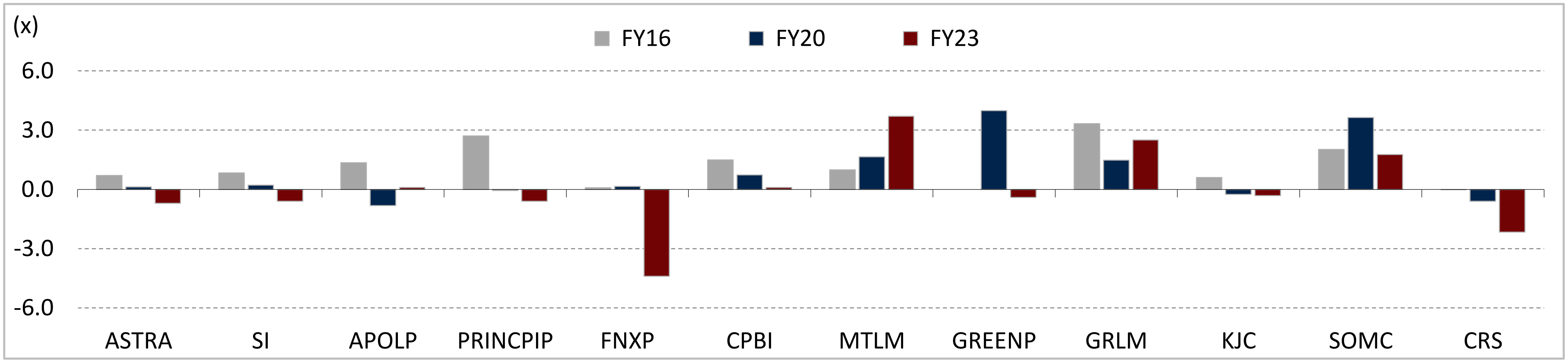
Most product category leaders are themselves 'small fish' in relatively big (and growing) ponds

Leaders have the means and the reach to capture their place in the growing market pie

Net Debt / Equity – Most Home Improvement players rest easy with robust balance sheets strengthened over time



Net Debt / EBITDA – Reducing debt levels and growing EBITDA has also improved

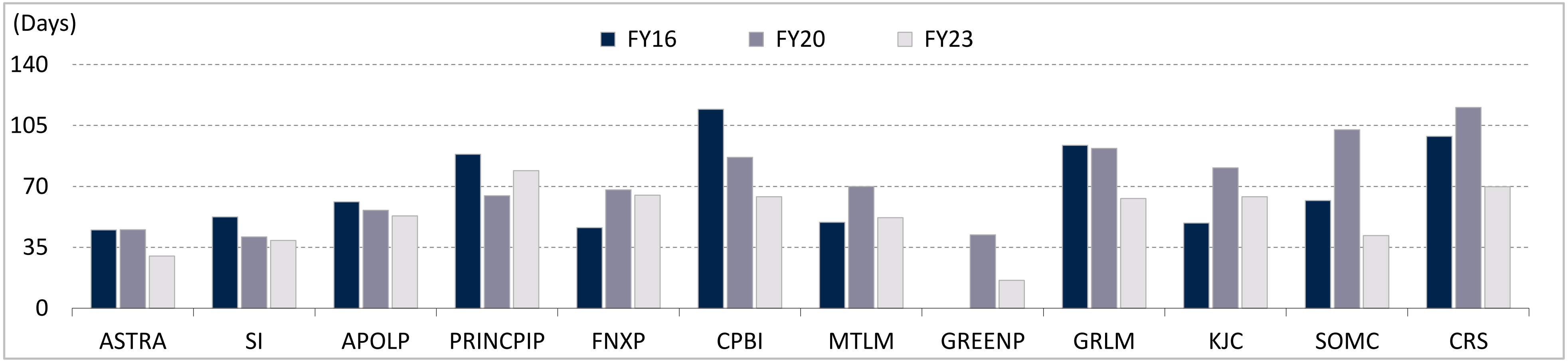


Source: *Company, DAM Capital Research*

Strong financial positions created over time permits breathing room for leaders to be opportunistic for growth

Leaders have the means and the reach to capture their place in the growing market pie

Most leaders have driven a drop in cash conversion cycles over the years, aiding balance sheet deleverage



Manufacturing and channel footprints ready to capitalize on growth opportunities across India

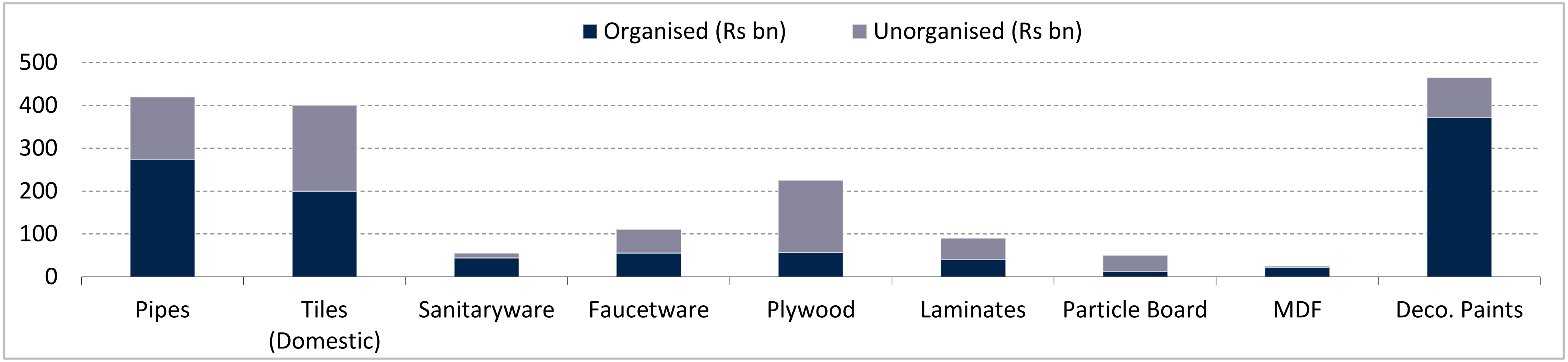
Pipes			Wood Panels			Tiles / Bathware		
Company	Factories	Dealers	Company	Factories	Dealers	Company	Factories	Dealers
ASTRA	8	2,500	**CPBI**	12	2,700	**KJC**	8	1,825
SI	13	1,440	**MTLM**	5	2,350	**SOMC**	6	4,000
APOLP	6	700	**GREENP**	2	2,535	**CRS**	1	5,000
PRINCPIP	7	1,500	**GRLM***	4	1,500			
FNXP	3	900						

Source: *Company, DAM Capital Research; *Distributor number for GRLM (given their key role of SKU holding in the channel)*

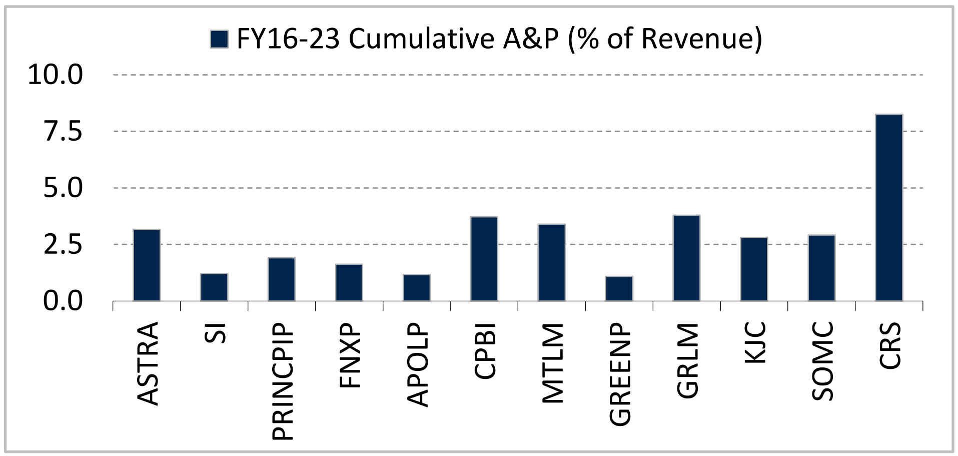
Leaders have the wherewithal to immediately exploit opportunities as and when they arise

Financial means and brand equity ensures growth for leaders across cycles

High unorganized share up for grabs during inclement/market growth stall periods



High focus on brand building by all front runners



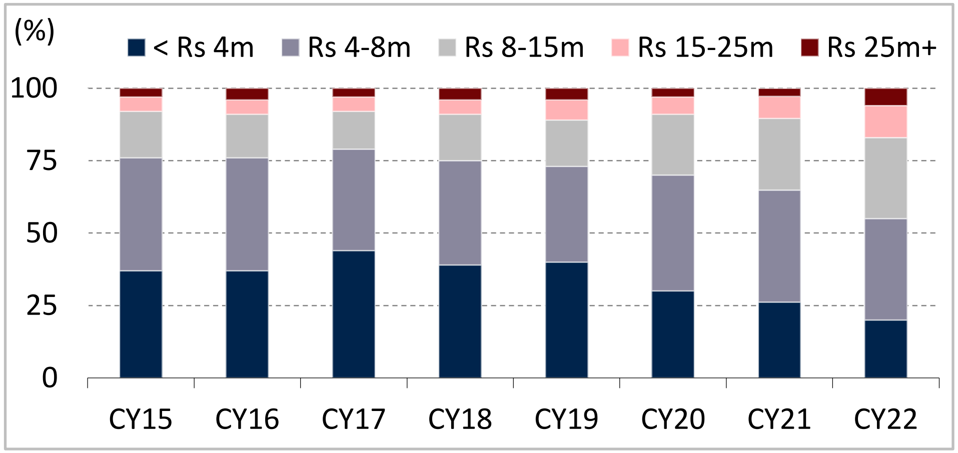
- Large players can drive growth through share gains during weak times and industry-beating growth during good times, courtesy brands/fin. strength.
- Across segments, there is plenty of share to grab from fragmented/unorganised players.
- Leaders have introduced products across price points to cater across the value spectrum while also satisfying the customer's urge for brands.

Source: *Industry, Company, DAM Capital Research*

Large players have the wherewithal to enjoy industry leading growth across good and bad times

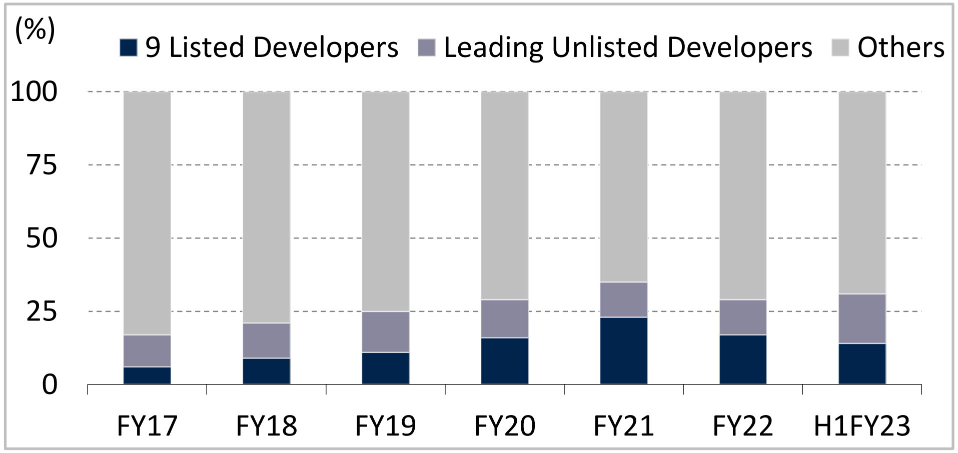
Real estate premiumization should flow through to home improvement products

Rising ticket sizes in large cities

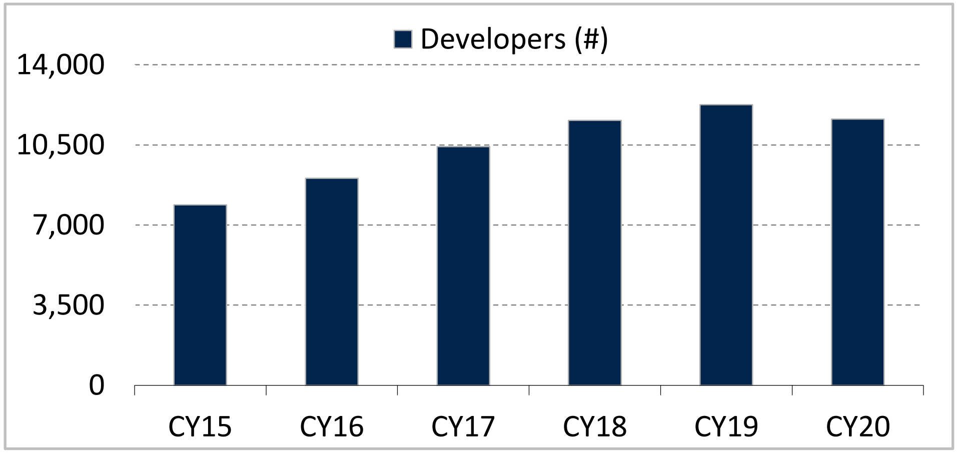


- Preference (or compulsion) for premium properties in larger cities, coupled with rising market-share for leading developers increases the case for premiumization for home improvement products.
- Broad-basing of the developer ecosystem beyond the larger cities should also eventually open the market for organized home improvement players.

Leading developers gaining market-share in large cities…



…while developer base is broadening beyond Top 7 cities

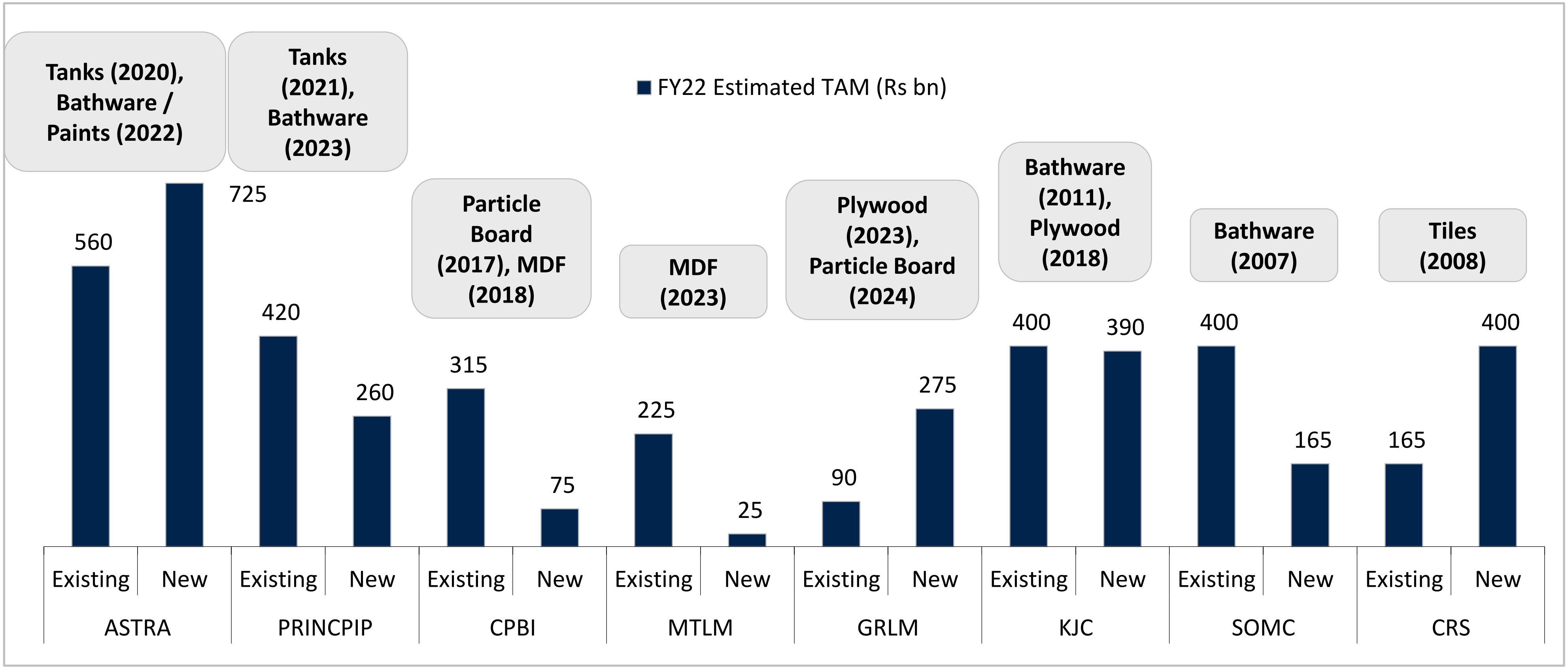


Source: *Anarock (Top 7 Data), Liases Foras (Developer data for 60 markets), DAM Capital Research*

As real estate demand (and its suppliers) go up the premium ladder, demand for branded products should also increase

Players entering adjacencies to leverage brand/reach

Over the years, most home improvement leaders have entered adjacent segments to expand their growth runway



- **Home improvement adjacency entries counts on leveraging players' existing brand and channel reach**

Source: *Industry, Company DAM Capital Research*

Entering adjacencies to leverage brand/reach theoretically makes sense, though execution remains key

Wood Panels -
Under siege, but opportunities beckon…

Wood Panels – Near-term pressures, but value emerging…

- **When it rains, it pours!**
  - Timber shortages (first in North, and now increasingly in South) have driven key wood prices higher (est 55-60% of total RM)
  - Lukewarm demand post constant price hikes meant that RM inflation pass-through became difficult
  - Medium Density Fiberboards (MDF) / Particle Board (PB) imports have shot up recently driving higher competitive intensity
  - Domestic MDF capacity is expected to rise ~50% over FY23-25E, which is causing pricing concerns
- **MDF – Near-term heartache, but a 2018 repeat unlikely**
  - **2018:** Industry capacity jumped ~3x in a relatively weak demand scenario driving price wars
  - **Today:** Industry capacity to grow ~60% over 18 months (but geographically spread out); demand dynamics strong
  - Expect pricing maturity this time – industry experience + higher value-added share today = no irrational pricing expectation
  - Imports, a 'fair weather' friend – export price rebound (early signs here) could drive lower import of MDF into India
- **MDF + PB – A sunrise category in the making**
  - Readymade furniture (which is also generally cheaper) is here to stay.
  - MDF/PB – Rising adoption + market-share gains over cheap plywood = ~15% CAGR potential over the next decade
  - Optionalities – (1) non-furniture applications; (2) furniture export hub plans for India

Wood panel as a space has near-term troubles, but this should open up opportunities for long-term investors

Wood Panels – Near-term pressures, but value emerging…

- **Plywood / Laminates – Share gains opportunity if cards played right**
  - **Plywood:** Leveraging margins/balance sheet to drive market-share gains in mid-market segment (timber issue is universal)
  - **Laminates:** China + 1 play has opened market-share gain possibilities for exporters
  - Product/sales process gaps being addressed to drive incremental market share in domestic markets
- **Leaders' balance sheet strength keeps them best placed to weather storms and gain from others' woes**
  - Leaders remain in pole position to weather near/mid-term business hiccups (RM pressures, growth weakness if any)
  - Strong balance sheets provide leeway to protect/gain market-share and expand reach in new markets
- **Initiate Coverage on Greenpanel Industries Ltd. (GREENP), Greenlam Industries Ltd. (GRLM) with BUY ratings; Maintain BUY on Century Plyboards India Ltd. (CPBI) and Greenply Industries Ltd. (MTLM)**
  - **GREENP:** Risk/reward proposition remains favourable post MDF-related battery; debt position healthy
  - **GRLM:** Core business doing well; new businesses to bring in exciting (though also risky) times ahead
  - **CPBI:** Best placed of the lot; valuations call for remaining opportunistic during weakness
  - **MTLM:** A potential dark horse but worth waiting for plywood performance inflection
  - **Pecking Order:** GREENP, CPBI, GRLM, and MTLM

Wood panels as a space has near-term troubles, but this should open up opportunities for long-term investors

Wood Panels – Opportunity in adversity

Greenpanel Industries (GREENP)
Initiate BUY / TP Rs470

- Largest MDF player (sales and production capacity wise)
- Rising value-added product mix to protect from price rivalries
- Healthy balance sheet sufficient for future capacity expansions

Greenlam Industries (GRLM)
Initiate BUY / TP Rs540

- Largest laminates player (both domestic/export)
- New category entries/ focus on laminates to drive growth ahead
- Receding losses from veneer/allied business to prop up EBITDA

Century Plyboards (CPBI)
Maintain BUY / TP Rs750

- One-stop wood panels shop – building strength across segments
- Best ground-level execution given strong leadership capabilities
- Cash generation strengthening an already strong balance sheet

Greenply Industries (MTLM)
Maintain BUY / TP Rs210

- Strategic MDF entry to boost overall growth/margin profile
- Seeds sowed for plywood growth; delivery awaited
- High leverage vs peers, but inexpensive valuations merit a look

GREENP, GRLM interesting bets; CPBI best placed; MTLM a dark horse

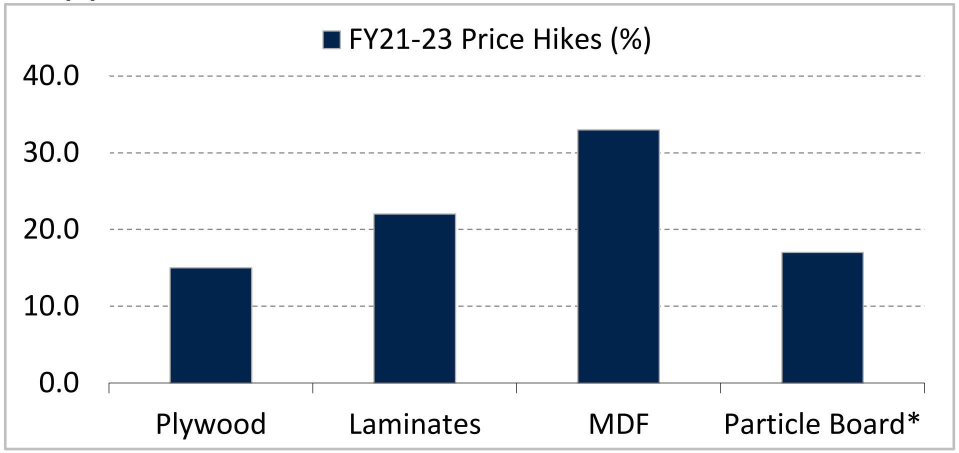
Peer Comparison

Company	CMP	Mcap	TP	Upside	EPS (Rs)			EPS CAGR	PAT Margin (%)			RoCE (%)		
	(Rs)	(Rs bn)	(Rs)	(%)	FY23	FY24E	FY25E	FY23-25E (%)	FY23	FY24E	FY25E	FY23	FY24E	FY25E
GREENP	320	40	470	46.9	20.4	16.8	18.8	(4.0)	14.0	11.3	11.2	23.9	16.5	16.1
CPBI	613	136	750	22.3	17.2	17.6	21.4	11.5	10.5	9.6	10.0	23.3	19.4	19.7
GRLM	441	56	540	22.4	10.3	11.2	14.5	19.7	6.3	5.7	6.1	12.6	11.4	12.5
MTLM	176	22	210	19.3	8.0	7.3	13.2	28.7	5.3	4.0	5.9	12.0	10.6	16.2

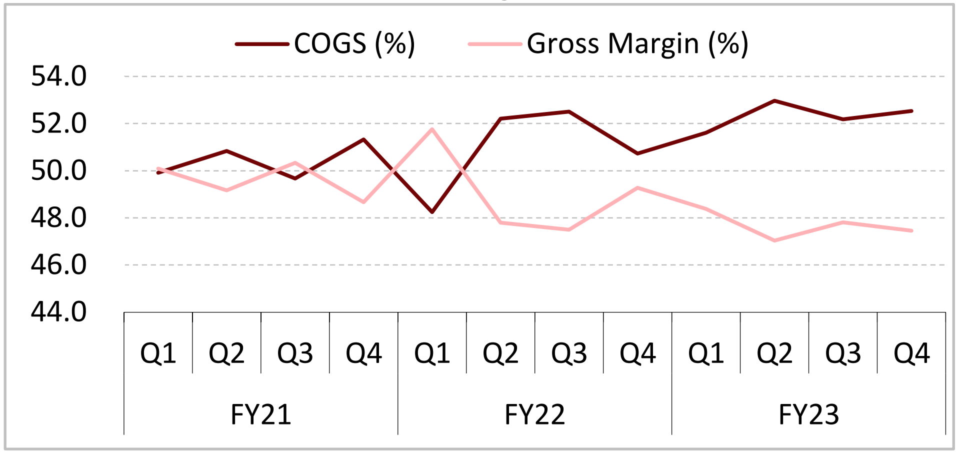
Company	RoE (%)			NWC (Days)			Net Debt/EBITDA (x)			P/E (x)			EV/EBITDA (x)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
GREENP	23.3	16.1	15.8	16	21	25	(0.4)	0.1	0.2	15.7	19.0	17.0	9.0	11.1	9.8
CPBI	22.1	18.8	19.4	64	56	50	0.1	0.6	0.3	35.6	34.8	28.6	24.5	22.6	18.4
GRLM	15.8	13.9	16.2	69	68	67	2.5	3.7	1.9	42.9	39.4	30.4	26.2	23.5	16.8
MTLM	16.6	13.1	20.3	45	43	40	3.7	2.7	1.4	22.0	24.1	13.3	16.5	12.8	8.2

When it rains, it pours!

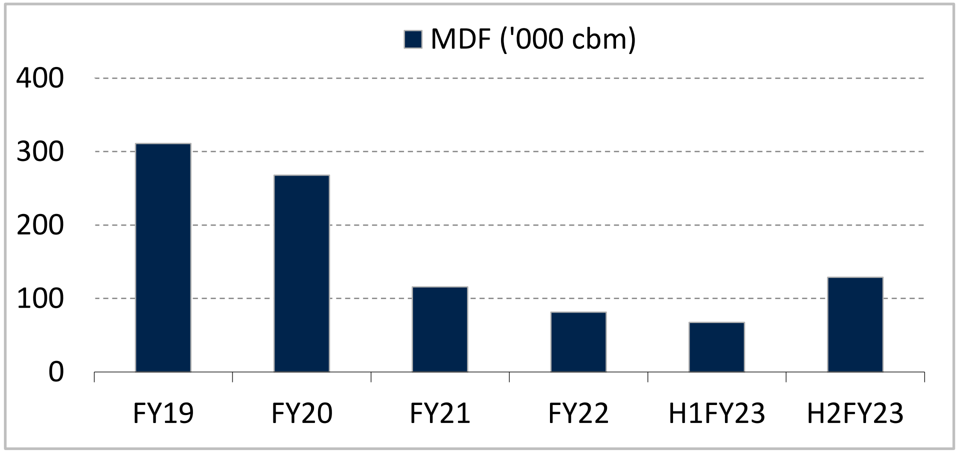
Sharp price hikes taken over FY21-23…



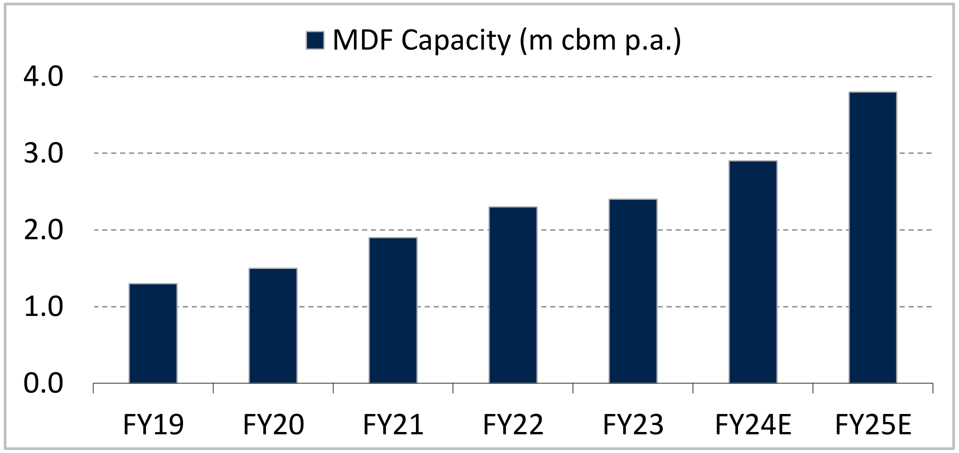
…have been insufficient to stem margin erosion



MDF imports have come back strongly…



…while domestic capacity additions will keep prices in check



***Source:** Company, Industry, DAM Capital Research; *PB prices post ~15% price cut in H2FY23; COGS/GM data for Wood Panel players*

RM inflation woes and near-term MDF competitive intensity concerns plaguing investor appetite

MDF – near-term heartache, but a 2018 repeat unlikely

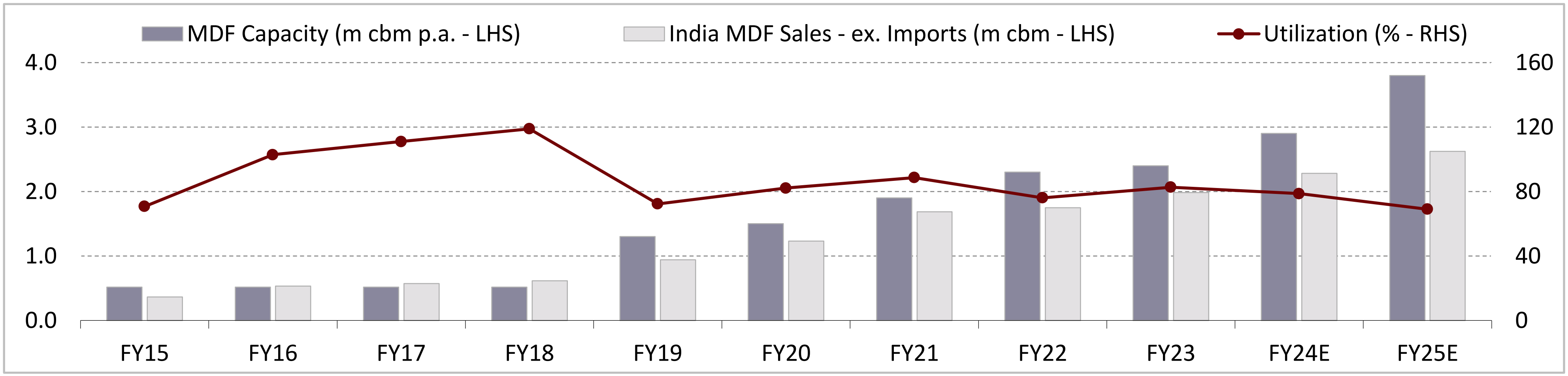
The environment of 2018 was far different…

- Domestic MDF capacity rose ~2.5x
- ~50% of incremental new capacity was in North India (small market vs South). ~50% in South India by GREENP
- Real estate / renovation demand was sluggish
- Industry utilisation dropped ~50% points to ~72% (est.)

…versus that of the 2023-25 period

- Cumulative capacity to rise ~50% over FY23-25E
- New capacities split ~25% / ~25% / ~50% in North / West / South, respectively
- Real estate / renovation demand better now
- Industry utilisation to drop ~15% points to ~70% (est.)

Capacity utilisation drop should be less painful this time versus 2018

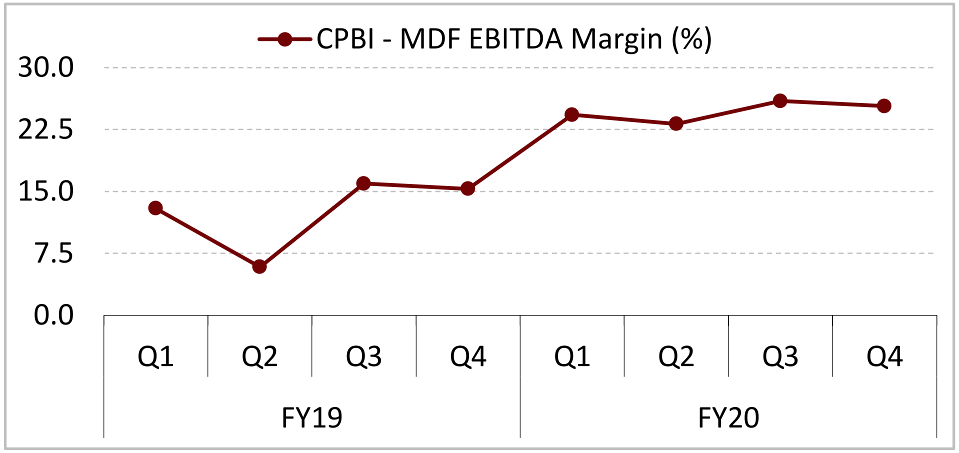


Source: *Industry, DAM Capital Research*

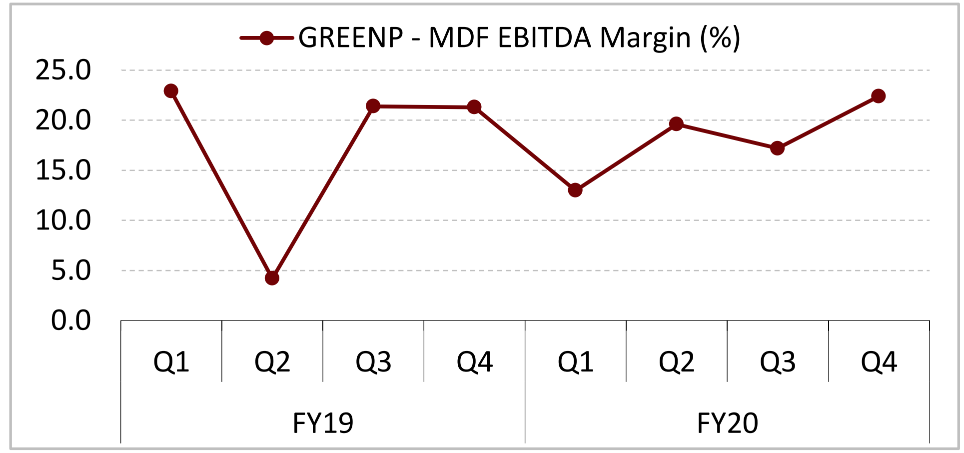
The 2018 environment for MDF was far tougher compared to 2023

MDF – near-term heartache, but a 2018 repeat unlikely

Margin pressures seen during 2018 recovered soon…



…as the race to bottom on prices turned around



Source: *Company, DAM Capital Research*

Expect pricing pressures to be far less aggressive this time vs 2018

- **Pricing maturity – lessons learnt; don't expect an encore again**
  - Attempt to build capacity utilisation/gain market share did not work sustainably in 2018
  - Debt fuelled capex to limit pricing aggression (GREENP, MTLM, RDL)
  - Zones with high-capacity addition to see near-term pricing pressures, but not with the same severity as in 2018
- **Imports a 'fair weather' friend**
  - Imported MDF a 'coastal' market problem (largely West/South India) but has a history of chasing higher prices
  - Away from coasts, logistics costs add up for OEMs with no supply guarantee if MDF prices globally move up
  - If MDF imports continue, the case for re-investigating dumping and recommending duties will increase again

Pricing pressure to be far more reasonable (and manageable) for industry players in 2023-25 vs 2018

MDF + PB – A sunrise category in the making

Rising adoption of readymade furniture…

- **Cost effective** versus regular/customised furniture
- Relatively low prices encourage **shorter replacement cycles** (12-15 years for commercial furniture now at 5-7 years)
- Customer **convenience** given production effort is out of home (installation/set up time is far less)
- Increasing adoption across commercial real estate (offices, retail, etc.) given inexpensive prices and better quality

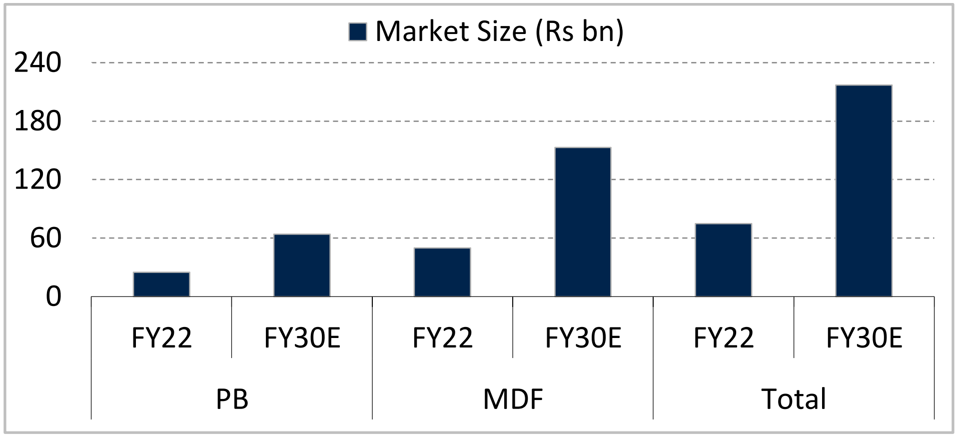
…alongside share gains over cheap plywood…

- **30-35% of total Plywood industry** remains under control of **Cheap/Low-End Plywood** players
- **PB/MDF is a potent substitute for Low-End Plywood** for customised furniture (low load-bearing) given higher quality and lower price versus that of the latter
- High input prices, increasing tax surveillance (GST adoption) to shrink price differentials, fuelling share gains for PB/MDF over Low-end Plywood

…and emerging optionalities

- **Non-Furniture Applications:** Sound Proofing, Flooring, Handicrafts, PCBs, Stage Sets, Blackboard/Easels, etc. to add incremental market opportunities for MDF
- **Furniture Export Hub:** India is a minor player in the estimated $600bn global furniture industry, which the government wants to tap by promoting exports. Readymade furniture should raise MDF/PB consumption

= ~15% medium-term CAGR potential for MDF/PB



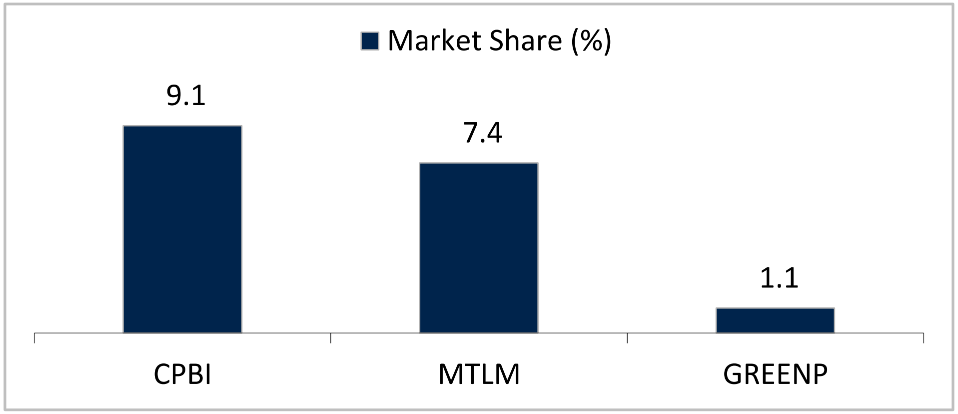
***Source:** Industry, DAM Capital Research*

MDF + PB together has the potential to grow at a healthy ~15% CAGR over the medium-term

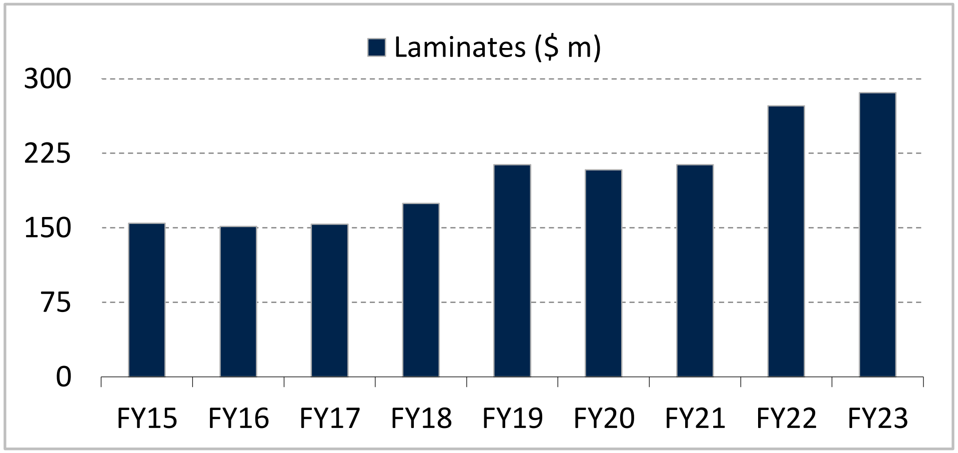
Plywood / Laminates – share gains possible if cards played right

- **Plywood – Product entries/reach expansion should open up market share gains for leaders**
  - Largest players have sub 10% market share today
  - New product introductions across price points (esp. lower priced ones) to tap into customer aspirations
  - Expanding reach/presence across Tier III and beyond markets (which is where real growth will come from, and which also have high aspirations for brands)
- **Laminates – China + 1 opportunity open for major players in the space**
  - India's laminates market (domestic + exports) is ~3.5-4% of the global market (exports is ~0.6-0.7%)
  - Alternate source tapping (besides China – the largest and cost-effective player pre-COVID) should open market for Indian exporters
  - Entry into white spaces in domestic markets – e.g. sub 1mm, compact laminates, etc., to drive revenue for individual players

Plywood market leaders have single digit market share



India laminates exports are <1% of global market

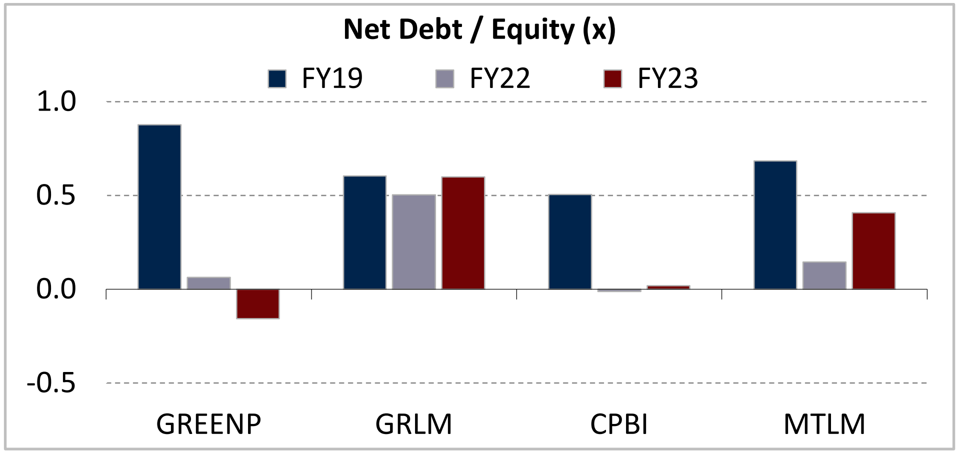


Source: *Company, Ministry of Commerce & Industry, IMARC Group, DAM Capital Research*

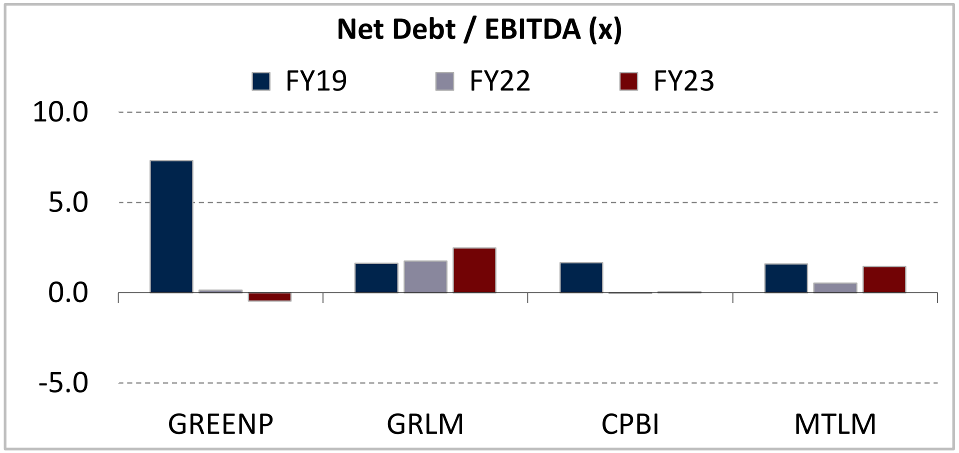
Scope for market-share gains for industry leaders to outperform market growth in Plywood/Laminates

Leaders' strong balance sheets assure safety (and opportunity) during tough times

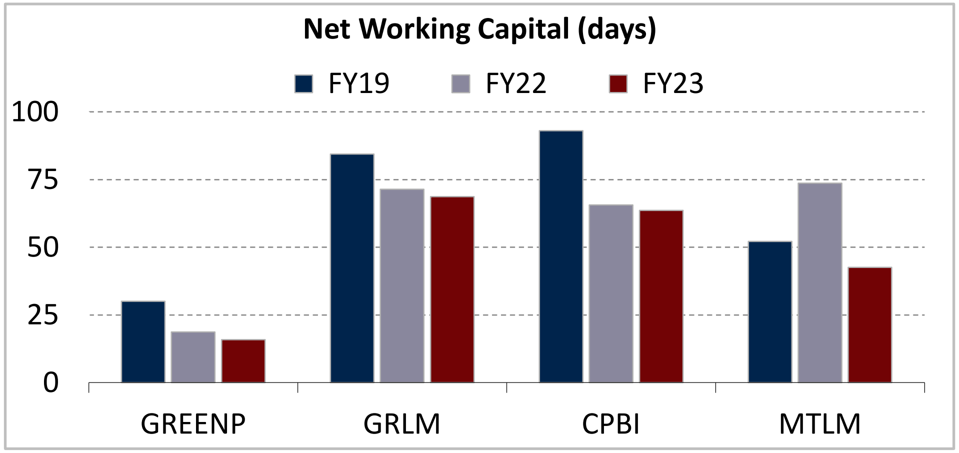
Debt positions remain healthy for wood panel players…



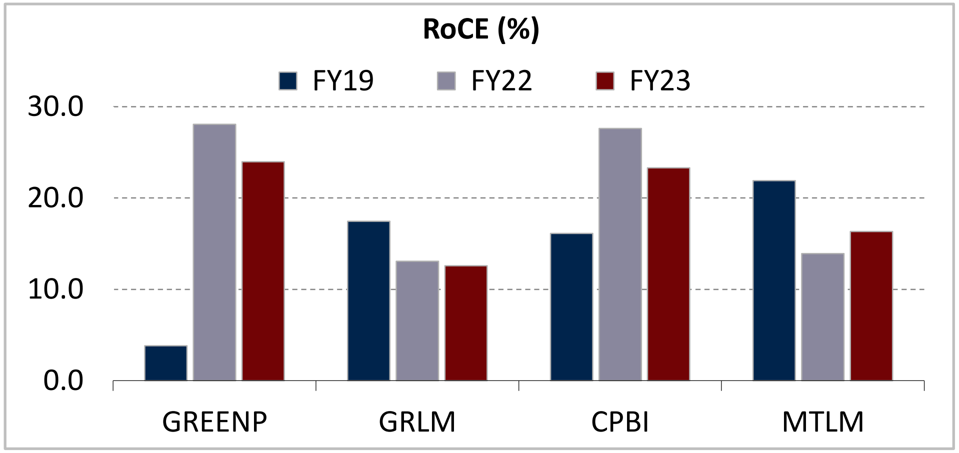
…while repaying capacity through EBITDA is manageable



Working capital strengthening across leaders



Healthy RoCEs despite rising capex intensity



Source: *Company, DAM Capital Research*

Leaders' balance sheets are strong (and at worst manageable) to withstand near-term pressures while continuing capex

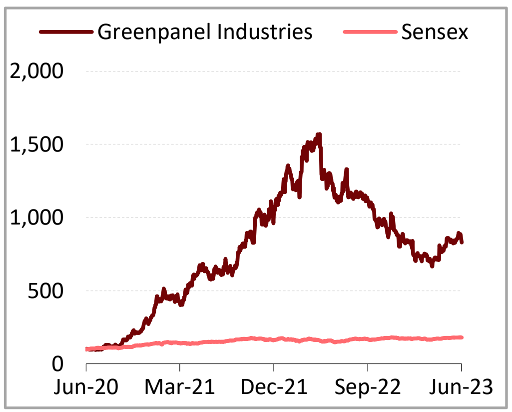
Initiating Coverage | Price: Rs320 | Target Price: Rs470 | Mkt Cap: Rs40bn

Stock Data

Bloomberg code	GREENP IN
Potential from CMP (%)	46.9
6-mth avg. daily traded value (Rsm/USDm)	124.1 / 1.5
Promoter holding (%)	53.1

Key Ratios	FY23	FY24E	FY25E
PE	15.7	19.0	17.0
EV/EBITDA	9.0	11.1	9.8
RoE	23.3	16.1	15.8
RoCE	23.9	16.5	16.1

Price Performance	3-mth	6-mth	1-yr
GREENP IN	16.0	3.5	(26.8)
BSE Sensex	8.7	5.2	20.5



Greenpanel Industries Ltd.

MDF leadership clouded by near-term industry capacity concerns

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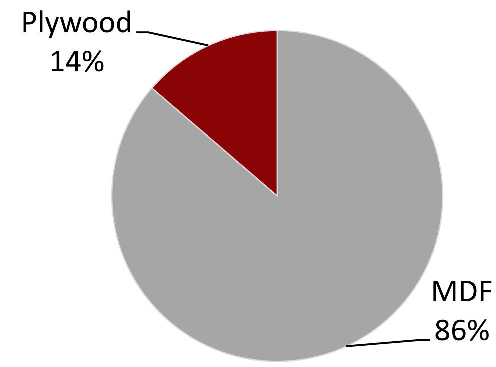
Email: aasim@damcapital.in

Greenpanel Industries Ltd. (GREENP)

GREENP is India's largest MDF producer today (by capacity and sales) and through its two key factories (in Rudrapur (Uttarakhand) and Srikalahasti (Andhra Pradesh)) has a reach across India's key consumption centres. By virtue of its demerger from the erstwhile Greenply Industries, GREENP also present in Plywood (integrated facility in Rudrapur plant), though its major focus remains on MDF.

FY23 Revenue Split



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	5,991	8,766	10,208	16,250	17,829	18,256	20,647
YoY (%)	-	*46.3*	*16.4*	*59.2*	*9.7*	*2.4*	*13.1*
EBITDA (Rs m)	774	1,378	2,034	4,304	4,165	3,557	4,078
EBITDAM (%)	12.9	15.7	19.9	26.5	23.4	19.5	19.8
Net Income (Rs m)	346	253	688	2,405	2,504	2,065	2,307
PATM (%)	5.8	2.9	6.7	14.8	14.0	11.3	11.2
RoE (%)	10.7	3.9	9.9	28.6	23.3	16.1	15.8
RoCE (%)	3.7	5.3	10.6	27.4	23.9	16.5	16.1
NWC (Days)	30	42	36	19	16	21	25
OCF/EBITDA (%)	21.9	72.5	105.0	84.9	81.0	76.2	80.1

Source: *Company, DAM Capital Research*

Investment Rationale

- **True pan India presence permits GREENP to capitalise on industry growth tailwinds**
  - ~660k cbm capacity currently (in 2 plants – 1 each in North/South India) – to be increased to ~831k cbm (by end H1FY25E)
  - Pan-India feet on the ground network includes 2,300+ dealers and 12,000+ retailers (as of FY23)
  - Manufacturing + distribution strength in place to capitalise on double-digit growth tailwinds that the MDF industry enjoys (~15-20% CAGR est. over the medium-term)
- **Upping the value quotient in an otherwise commodity category**
  - Progressively improved domestic MDF value-added mix (e.g. pre-laminated, club grade, etc.) from ~30% in FY18 to ~50% in FY23. Targets to increase this to ~60% by FY24E
  - **Branded MDF play:** Rising direct B2C MDF sales (est. ~20% of total currently) replacing cheap plywood
  - Both equations increasing over time should be the long-term driver for branding/price protection
- **Robust balance sheet to ensure financial safety during inclement times**
  - Strengthened net cash position over FY20-23 (~Rs6bn net debt to ~Rs2bn net cash). Though debt will rise over FY24E/25E, it will remain manageable (FY25E Net Debt/EBITDA ~0.3x)
  - WC down sharply over FY20-23 (down 26 days to 16 in FY23); Expect this to settle in the 20-25 days range ahead
  - Strong balance sheet provides tools to combat near-term issues such as RM/competitive pressures (and protect market-share by price incentivization if need be)

View – Best MDF play; concerns priced in at current levels

- **What we like?**
  - Largest and true pan-India MDF player

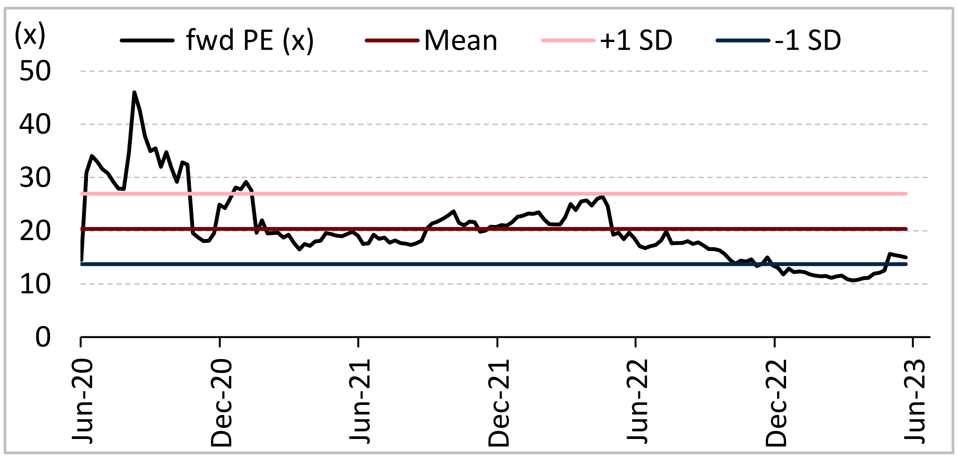
- **What we dislike?**
  - Earnings bottom still sometime away, given increasing competitive intensity (first in South, then possibly in North)

- **What's in the price (Rs320/share)?**
  - ~9%/7% revenue/EBITDA CAGR over FY23-33E
  - Extremely unlikely scenario in our opinion – MDF industry as a whole can easily grow at 15-20% CAGR – organically and through market-share gains over cheap plywood
  - Expects margins to settle at ~25% levels eventually as plant utilization and value-added mix improvement continue from current levels. We do not anticipate the irrational pricing behaviour which sunk every player in 2018 to repeat in 2024/25

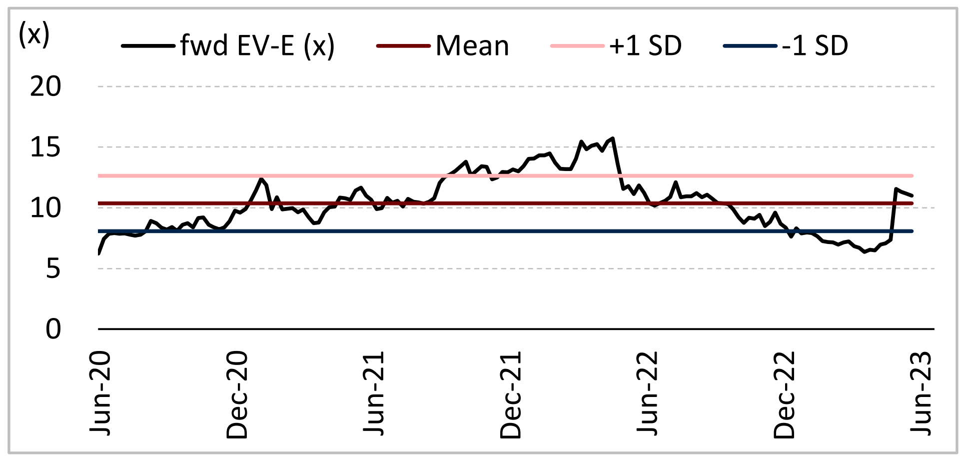
View – Best MDF play; concerns priced in at current levels

- **View – Initiate coverage with BUY rating (TP Rs470/47% upside)**
  - Earnings to bottom-out in FY24E as MDF pricing/margins normalise to sustainable levels (party is over)
  - Expect ~15% RoCE levels to hold during the downcycle/capex phase of FY23-25E
  - MDF industry growth tailwinds remain secular. GREENP still the best player to play this pan-India currently
  - Expect growth/return ratios to accelerate post capex phase (which ends in FY25E). Potential upside 'risk' -> lower than expected price cuts (due to lower competition) – which should drive margins/earnings expectations up
  - **Initiate coverage with a BUY rating. TP Rs470 (25x FY25E P/E / 47% upside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart

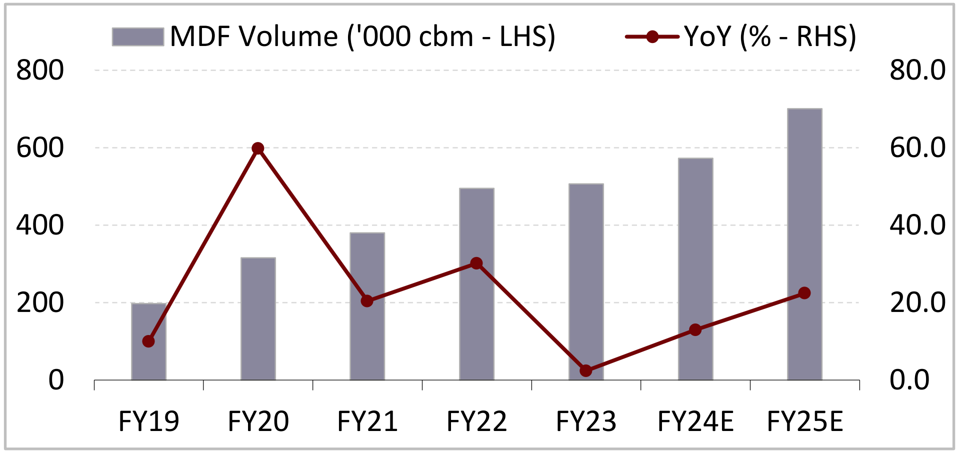


Source: *Bloomberg, DAM Capital Research*

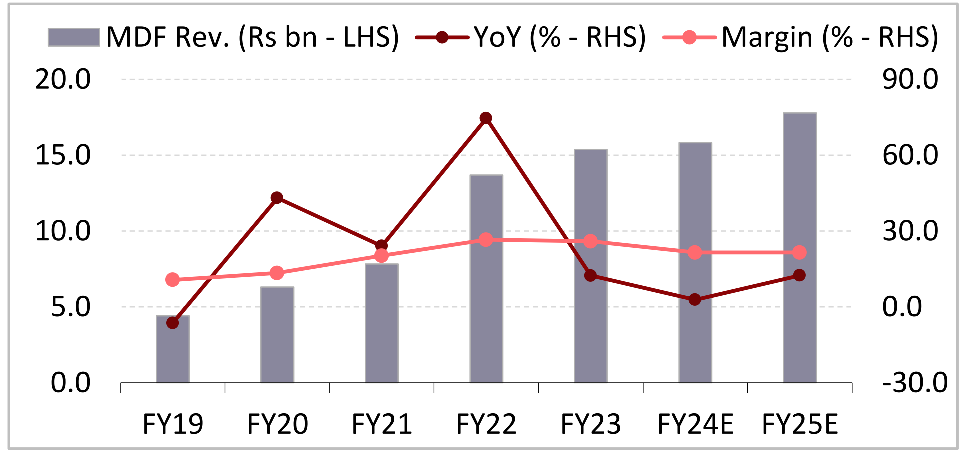
View – Best MDF play; concerns priced in at current levels

Key Assumptions	FY20	FY21	FY22	FY23	FY24E	FY25E
Volume						
- MDF (cbm)	316,022	380,431	495,041	506,743	572,400	700,650
- Plywood (mn sq. m.)	8.5	8.5	9.3	8.6	8.9	10.5
Volume Growth (%)						
- MDF	59.8	20.4	30.1	2.4	13.0	22.4
- Plywood	49.9	(0.3)	9.6	(7.7)	4.0	17.6
Revenue (Rs m)	**8,766**	**10,208**	**16,250**	**17,829**	**18,256**	**20,647**
- MDF	6,316	7,839	13,298	15,346	15,825	17,794
- Plywood	2,155	2,171	2,559	2,440	2,386	2,807
Revenue Growth (%)	**46.3**	**16.4**	**59.2**	**9.7**	**2.4**	**13.0**
- MDF	43.1	24.1	69.6	15.4	3.1	12.4
- Plywood	52.6	0.8	17.9	(4.7)	(2.2)	17.6
EBITDA Margin (%)	**15.7**	**19.9**	**26.5**	**23.4**	**19.5**	**19.8**
- MDF	13.4	20.2	27.4	26.0	21.5	21.5
- Plywood	11.5	12.2	10.7	6.1	6.5	9.0

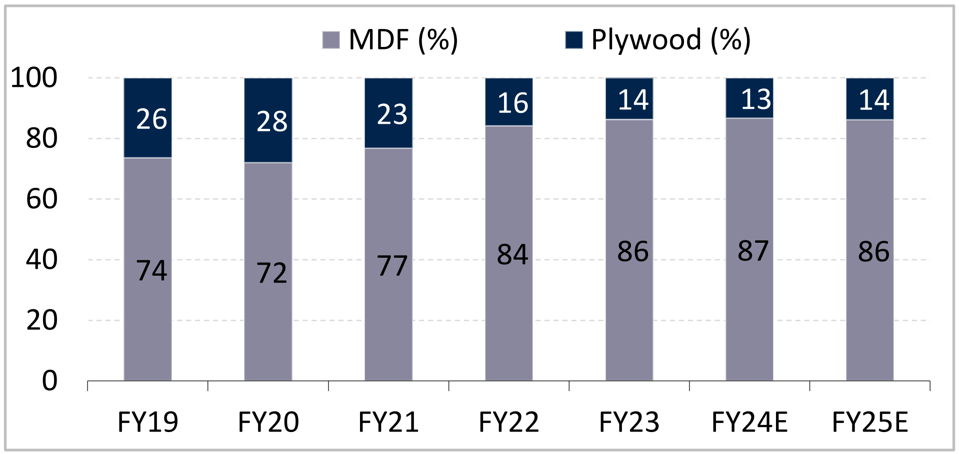
Key in ~18% CAGR in MDF volume for FY23-25E…



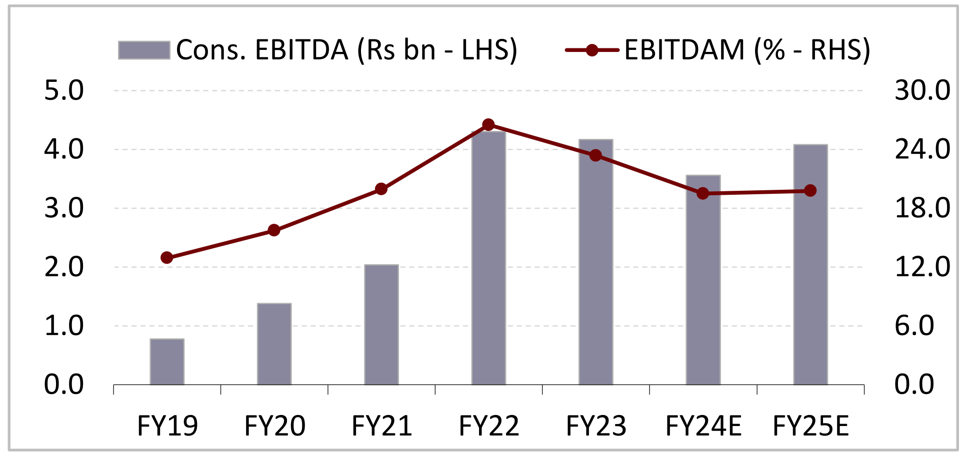
…though price revisions should translate into ~8% rev. CAGR



MDF share to stabilise over FY23-25E (due to price cuts)



Expect EBITDA margins to stabilise at ~20% by FY25E

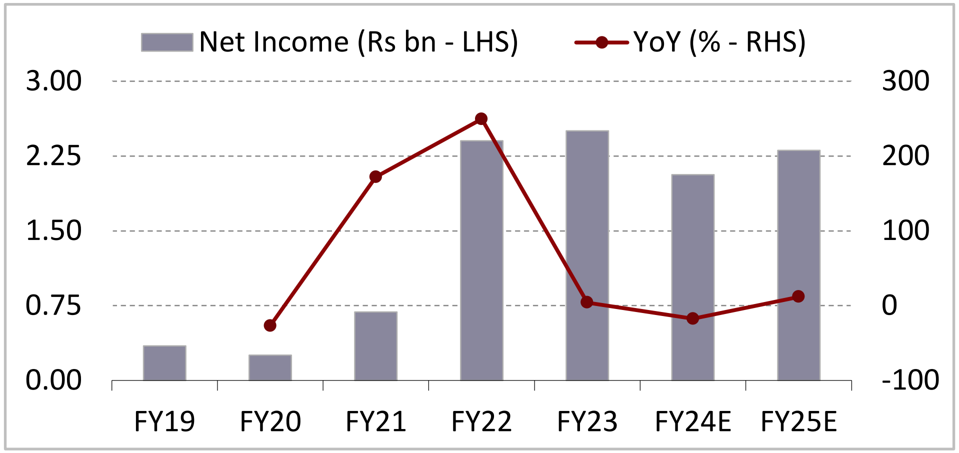


***Source:** Company, DAM Capital Research*

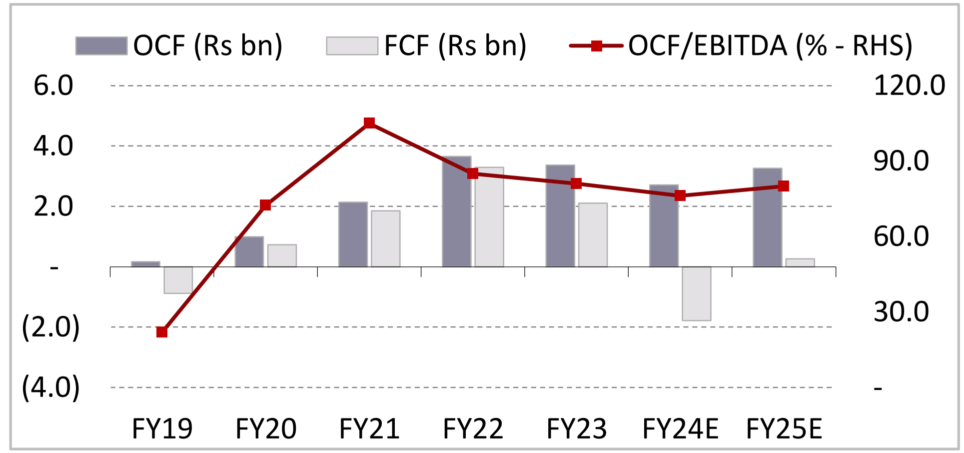
MDF downward price revisions and its impact on EBITDA margins should settle by FY25E

Story in charts

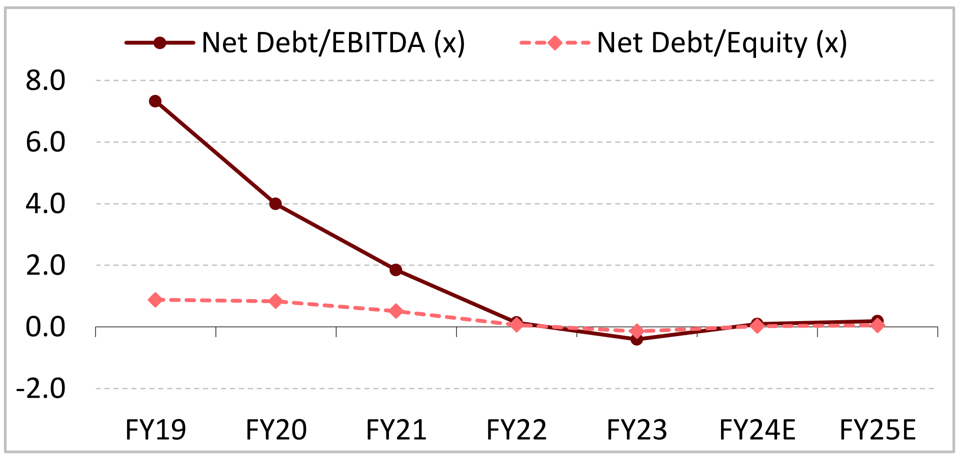
Earnings to bottom in FY24E before resuming up from FY25E



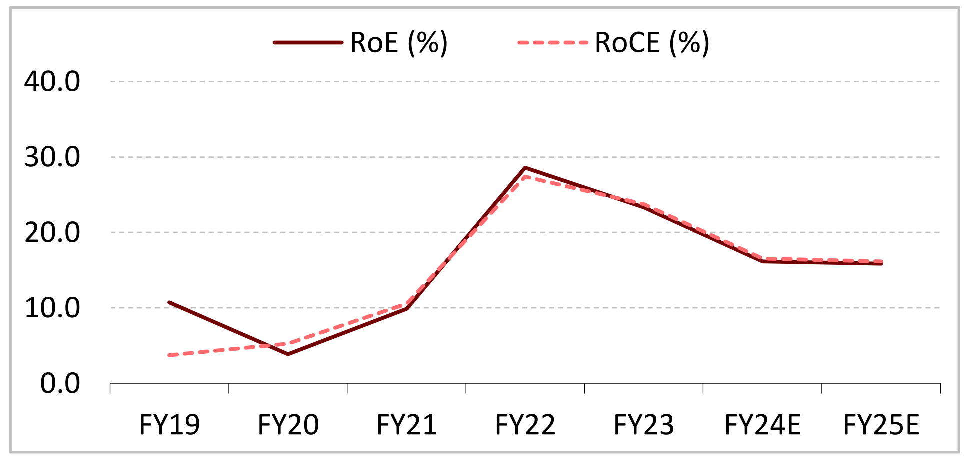
OCF strong; FCF weak due to MDF capex over FY24E-25E



Debt levels to remain manageable over FY24E/25E



Worst-case RoCEs of ~16% (still better vs FY19-21 levels)



***Source:** Company, DAM Capital Research*

Earnings 'weakness' would not impact balance sheet in a major way; GREENP to remain a ~16% RoCE player despite pains

Greenpanel Industries

CMP: Rs470; Mkt Cap: Rs40bn

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**10,010**	**15,857**	**17,786**	**18,256**	**20,647**
% growth	18.2	58.4	12.2	2.4	13.1
Operating expenses	8,174	11,946	13,663	14,698	16,569
EBITDA	**2,034**	**4,304**	**4,165**	**3,557**	**4,078**
% change	47.6	111.7	(3.2)	(14.6)	14.6
Other income	34	90	194	183	206
Net interest cost	372	171	190	92	126
Depreciation	686	734	720	888	1,076
Pre-tax profit	1,010	3,489	3,449	2,760	3,083
Deferred tax	0	0	0	0	0
Current tax	322	1,085	944	695	776
Profit after tax	**688**	**2,405**	**2,504**	**2,065**	**2,307**
Preference dividend	0	0	0	0	0
Minorities	0	0	0	0	0
Adjusted net profit	**688**	**2,405**	**2,504**	**2,065**	**2,307**
Non-recurring items	0	0	0	0	0
Reported net profit	**688**	**2,405**	**2,504**	**2,065**	**2,307**

Cashflow (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,010	3,489	3,449	2,760	3,083
Depreciation	686	734	720	888	1,076
Chg in Working capital	532	236	(719)	(387)	(265)
Total tax paid	(322)	(1,085)	(944)	(695)	(776)
Net Interest	372	171	190	92	126
Others	(6)	(198)	25	0	0
Operating cash flow	**2,283**	**3,368**	**2,712**	**2,711**	**3,266**
Capital expenditure	(297)	(337)	(303)	(4,500)	(3,000)
Free cash flow (a+b)	**1,986**	**3,031**	**2,409**	**(1,789)**	**266**
Chg in investments	0	0	0	0	0
Debt raised/(repaid)	(1,142)	(1,642)	(922)	(134)	1,500
Net interest	(372)	(171)	(190)	(92)	(126)
Capital raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	3	189	184	310	577

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	**123**	**123**	**123**	**123**	**123**
Reserves & surplus	7,181	9,394	11,816	13,572	15,302
Shareholders' equity	7,304	9,516	11,939	13,694	15,425
Total current liabilities	1,945	1,942	1,706	1,880	2,081
Total debt	**4,469**	**2,826**	**1,904**	**1,771**	**3,271**
Deferred tax liabilities	202	682	1,020	1,020	1,020
Other non-current liabilities	624	456	479	515	534
Total liabilities	7,240	5,907	5,109	5,185	6,905
Total equity & liabilities	**14,544**	**15,424**	**17,048**	**18,880**	**22,330**
Net fixed assets	10,778	10,382	9,965	13,577	15,501
Investments	0	0	0	0	0
Cash	720	2,226	3,778	1,454	2,517
Other current assets	2,824	2,637	2,561	3,105	3,567
Deferred tax assets	0	0	0	0	0
Other non-current assets	221	179	744	744	744
Net working capital	1,599	2,921	4,633	2,679	4,004
Total assets	**14,544**	**15,424**	**17,048**	**18,880**	**22,330**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	19.9	26.5	23.4	19.5	19.8
EBIT margin (%)	13.2	22.0	19.3	14.6	14.5
PAT margin (%)	6.7	14.8	14.0	11.3	11.2
RoE (%)	9.9	28.6	23.3	16.1	15.8
RoCE (%)	10.6	27.4	23.9	16.5	16.1
Gearing (x)	0.5	0.1	(0.2)	0.0	0.0
Net debt/ EBITDA (x)	1.8	0.1	(0.4)	0.1	0.2
FCF yield (%)	5.0	7.7	6.1	(4.5)	0.7
Dividend yield (%)	0.0	(0.5)	(0.5)	(0.8)	(1.5)

Valuations	FY21	FY22	FY23	FY24E	FY25E
Reported EPS (Rs)	**5.6**	**19.6**	**20.4**	**16.8**	**18.8**
Adj. EPS (Rs)	5.6	19.6	20.4	16.8	18.8
PE (x)	57.0	16.3	15.7	19.0	17.0
Price/ Book (x)	5.4	4.1	3.3	2.9	2.5
EV/ Net sales (x)	4.2	2.5	2.1	2.2	1.9
EV/ EBITDA (x)	21.1	9.3	9.0	11.1	9.8
EV/ CE (x)	3.4	3.0	2.4	2.3	2.0

Initiating Coverage

Price: Rs441

Target Price: Rs540

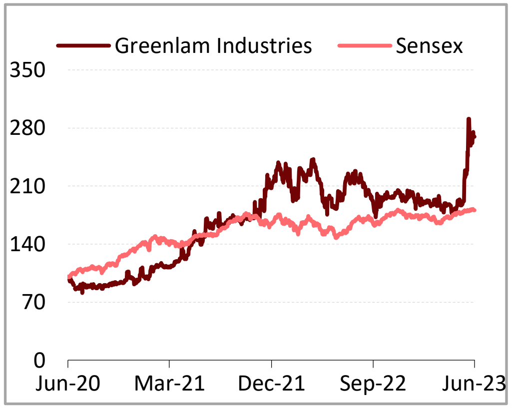
Mkt Cap: Rs56bn

Stock Data

Bloomberg code	GRLM IN
Potential from CMP (%)	22.5
6-mth avg. daily traded value (Rsm/USDm)	54.7 / 0.7
Promoter holding (%)	51.2

Key Ratios	FY23	FY24E	FY25E
PE	42.9	39.4	30.4
EV/EBITDA	26.2	23.5	16.8
RoE	15.8	13.9	16.2
RoCE	12.6	11.4	12.5

Price Performance	3-mth	6-mth	1-yr
GRLM IN	39.7	39.1	32.8
BSE Sensex	8.7	5.2	20.5



Greenlam Industries Ltd.

Existing businesses firing up; new frontiers beckon

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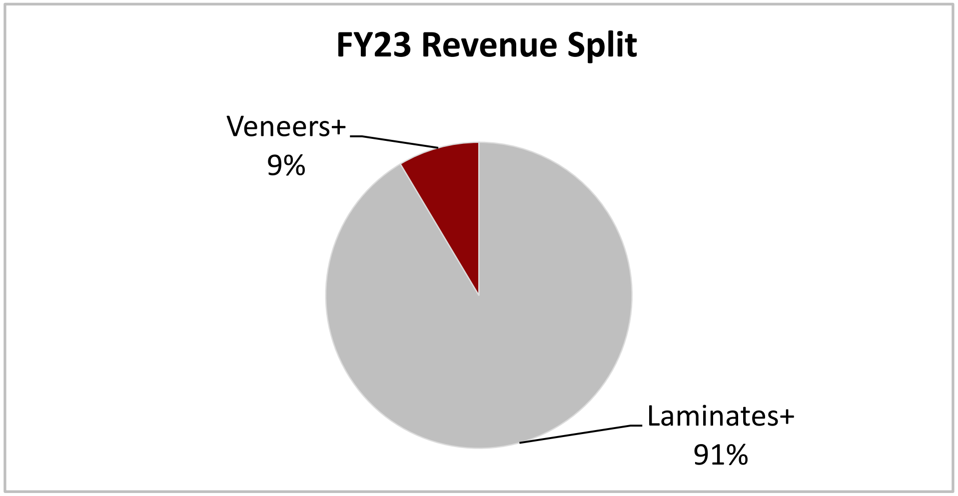
Greenlam Industries Ltd. (GRLM)

GRLM is India's largest (and a top 3 global) player in the laminates industry. It also has a presence in Decorative Veneers and Engineered Flooring/Doors. Its two key manufacturing locations are in North India, but it has recently acquired a plant in Gujarat and will commission its South India plant in H1FY24E, increasing its reach. GRLM has also entered the Plywood space (Q1FY24) and will enter the Particle Board space by Q4FY24E.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	12,807	13,206	11,996	17,034	20,260	24,890	30,408
YoY (%)	*11.9*	*3.1*	*(9.2)*	*42.0*	*18.9*	*22.9*	*22.2*
EBITDA (Rs m)	1,585	1,782	1,733	1,870	2,329	2,822	3,742
EBITDAM (%)	12.4	13.5	14.4	11.0	11.5	11.3	12.3
Net Income (Rs m)	771	867	862	933	1,284	1,420	1,840
PATM (%)	6.0	6.6	7.2	5.5	6.3	5.7	6.1
RoE (%)	19.7	18.7	16.0	15.2	15.8	13.9	16.2
RoCE (%)	17.4	15.3	13.1	13.1	12.6	11.4	12.5
NWC (Days)	84	92	96	71	69	68	67
OCF/EBITDA (%)	40.4	54.0	122.9	38.1	75.2	49.7	82.4

Source: *Company, DAM Capital Research*

Investment Rationale

- **#1 Laminates player with new capacities coming on board**
  - Leadership credentials – largest in India (both for domestic and exports) and third largest in Asia
  - Capacity expansions to address white spaces (AP plant for high value large-sized exports, Gujarat plant for lower thickness commodity segments) – Total capacity to rise ~70% to ~26m sheets by FY25E
- **New product entries to expand TAM/margin profile…**
  - Particle Board (operational by end FY24E) – adds ~Rs50bn to TAM (margin profile of 18-25%)
  - Plywood (operational from Q1FY24E) – adds ~Rs225bn to TAM (margin profile of 12-15%)
  - As new capacities settle down, GRLM's overall margins should start trending higher (vs current ~11-12%)
- **…while Veneers+ drag on margins to recede**
  - GRLM has reigned in losses in the Flooring business over FY23; expects similar initiatives for Doors ahead
  - Veneer costs elevated over FY23 – softening should drive Veneer margins higher
  - Expect Veneers+ margin drag to recede over FY24E and breakeven by FY25E
- **Debt levels to peak in FY24E; FCF generation to commence from FY25E**
  - PB/Plywood/Laminates capex – partially funded through equity raise – would drive net debt to ~Rs10bn by FY24E which should be the peak level for GRLM (Net Debt/EBITDA of ~3.6x)
  - Low capex intensity (at least for 3 years starting FY25E) and internal accruals should aid FCF generation and debt repayments (est. net debt ~Rs7bn; Net Debt/EBITDA ~2x by FY25E)

View – Laminates firing up; new product entries to propel growth/margins ahead

What we like?

- Numero uno position in Laminates, now carving adjacencies in the wood panels industry

What we dislike?

- Heavy leverage (~4x in FY24E) could expose it to vulnerabilities if capacity ramp-up is delayed

What's in the price (Rs441/share)?

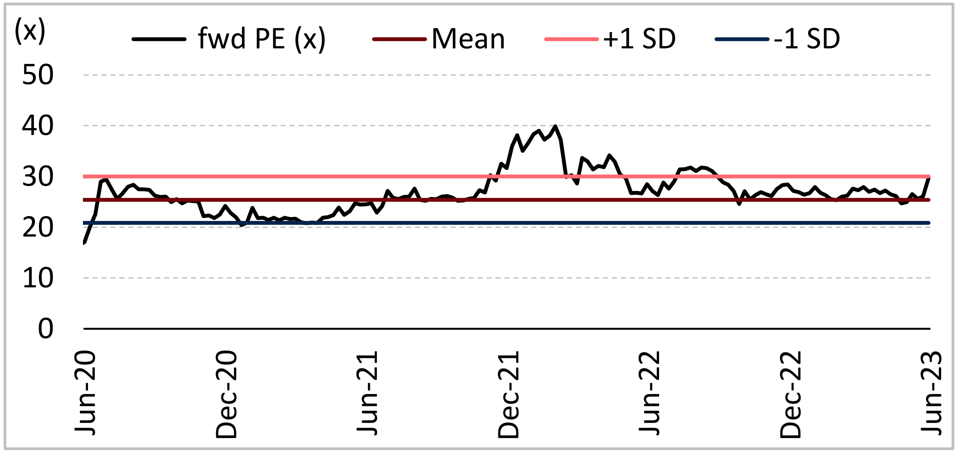
- Aggregate ~12% revenue CAGR over FY23-33E. Multiple scenarios possible, but most likely is the one where Laminates vol CAGR is sub 10%, and suboptimal ramp-up of Particle Board/Plywood units could drive this
- Given multiple capacity expansions in Laminates, and PB/Plywood are wood panel adjacencies, we believe a case for suboptimal ramp-up of new capacities is low
- Per our estimates, we expect GRLM to be in a high 20%+ growth phase initially (FY23-26E will see expanded laminates capacities, and new Plywood/PB lines coming in) post which growth should be in the 12-14% range. Aggregate revenue CAGR of ~15% over FY23-33E

View – Laminates firing up; new product entries to propel growth/margins ahead

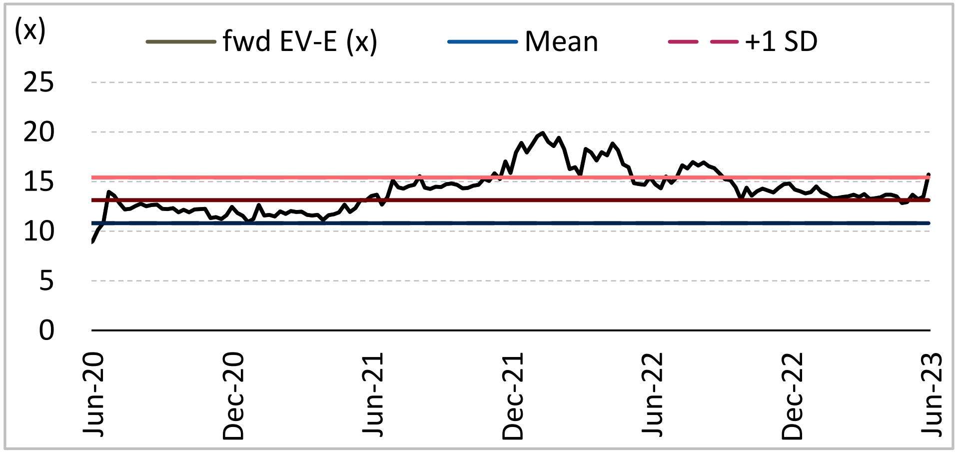
View – Initiate coverage with BUY rating (TP Rs540/23% upside)

- Laminate sales are independent of the substrate on which they are applied. Being #1 in the space makes it a better consumer-facing/branded domestic wood panels play
- Die cast to increase total addressable market and drive growth over and above its core laminates segment growth
- New plants coming online over FY24E/25E would front-end operating costs vs revenue ramp-up (which will come post FY25E), depressing earnings and making valuation ratios look optically higher
- **Initiate coverage with a BUY rating. TP Rs540 (27x FY26E P/E discounted to FY25E (implied P/E ~37x) / 23% upside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart

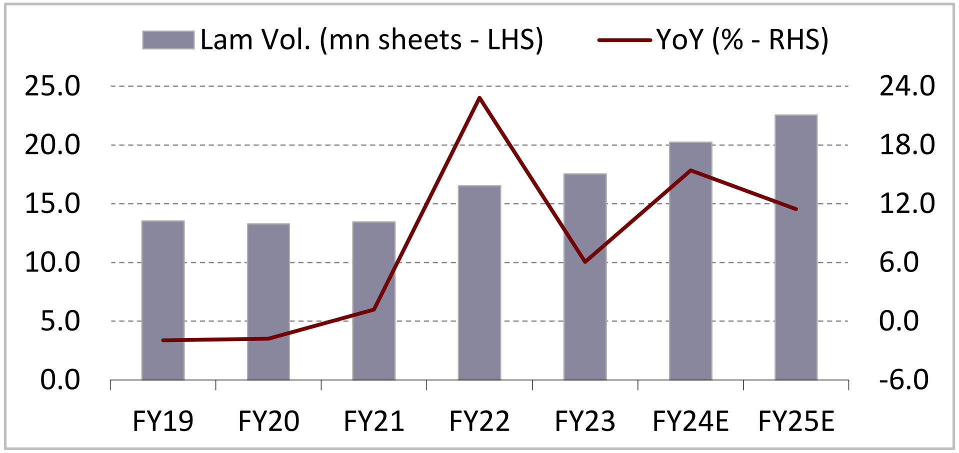


Source: *Bloomberg, DAM Capital Research*

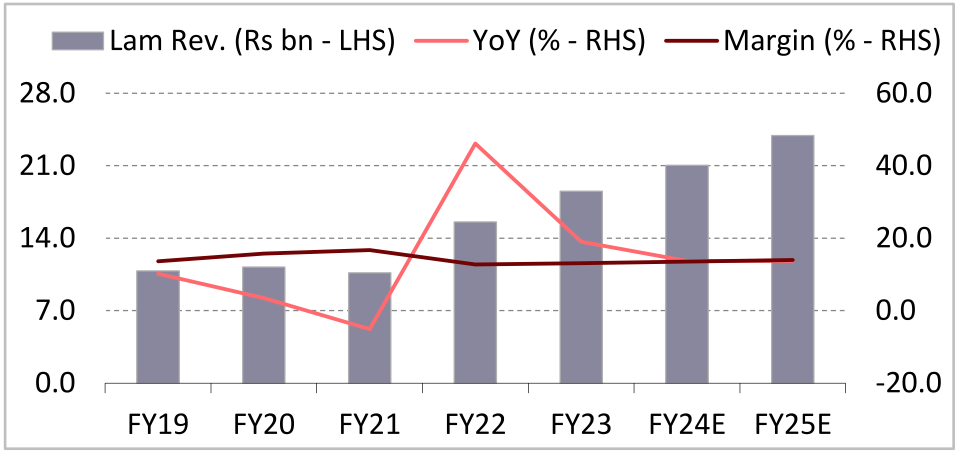
View – Laminates firing up; new product entries to propel growth/margins ahead

Key Assumptions	FY20	FY21	FY22	FY23	FY24E	FY25E
Volume:						
- Laminates (m sheets)	13.3	13.5	16.5	17.5	20.2	22.5
- Veneer (msm)	1.6	1.1	1.1	1.3	1.3	1.3
- Plywood (msm)	-	-	-	-	9.5	13.2
- Particle Board (cbm '000)	-	-	-	-	-	104
Volume Growth (%)						
- Laminates	(1.8)	1.2	22.8	6.0	15.4	11.4
- Veneer	(12.0)	(27.3)	(2.7)	11.0	4.1	6.7
- Plywood	-	-	-	-	-	40.0
- Particle Board	-	-	-	-	-	-
Revenue (Rs m)	**13,206**	**11,996**	**17,034**	**20,260**	**24,890**	**30,408**
- Laminates	11,222	10,653	15,563	18,523	21,054	23,931
- Veneer	1,126	786	836	1,067	1,116	1,203
- Plywood	-	-	-	-	1,890	2,725
- Particle Board	-	-	-	-	-	1,668
- Others (Doors/Flooring)	858	557	635	670	830	880
Revenue Growth (%)	**3.1**	**(9.2)**	**42.0**	**18.9**	**22.9**	**22.2**
- Laminates	3.5	(5.1)	46.1	19.0	13.7	13.7
- Veneer	(13.8)	(30.2)	6.4	27.6	4.7	7.7
- Plywood	-	-	-	-	-	44.2
- Particle Board	-	-	-	-	-	-
- Others (Doors/Flooring)	31.0	(35.1)	14.0	5.5	23.9	6.1
EBITDA Margin (%)	**13.5**	**14.4**	**11.0**	**11.5**	**11.3**	**12.3**
- Laminates	15.7	16.7	12.7	13.1	13.5	14.0
- Veneer	11.1	7.1	8.5	1.0	5.0	6.0
- Plywood	-	-	-	-	-	7.5
- Particle Board	-	-	-	-	-	10.0
- Others (Doors/Flooring)	(12.1)	(18.7)	(27.9)	(16.3)	(9.2)	(5.9)

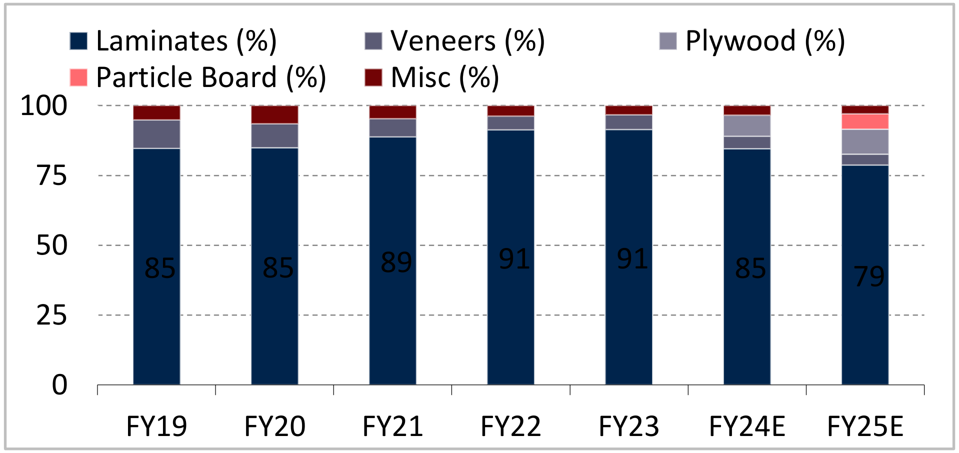
~13% lam. vol. CAGR over FY23-25E courtesy capacity rise



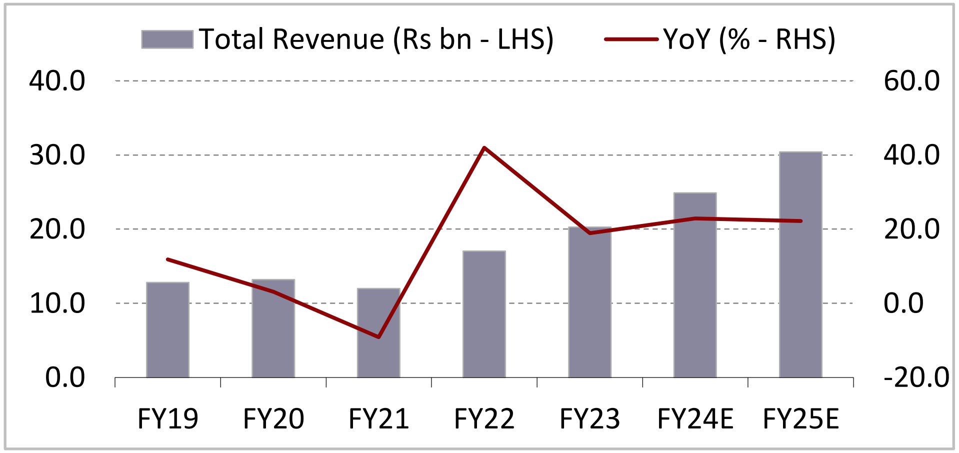
Low/high value lam expansion to drive ~14% rev. CAGR



New segments to touch ~14% of revenue by FY25E…



…which will drive ~22% revenue CAGR over FY23-25E

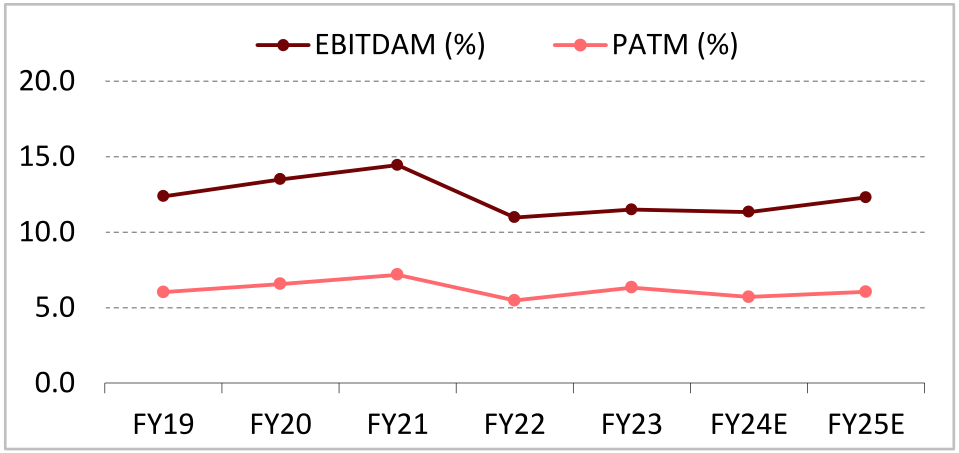


Source: *Company, DAM Capital Research*

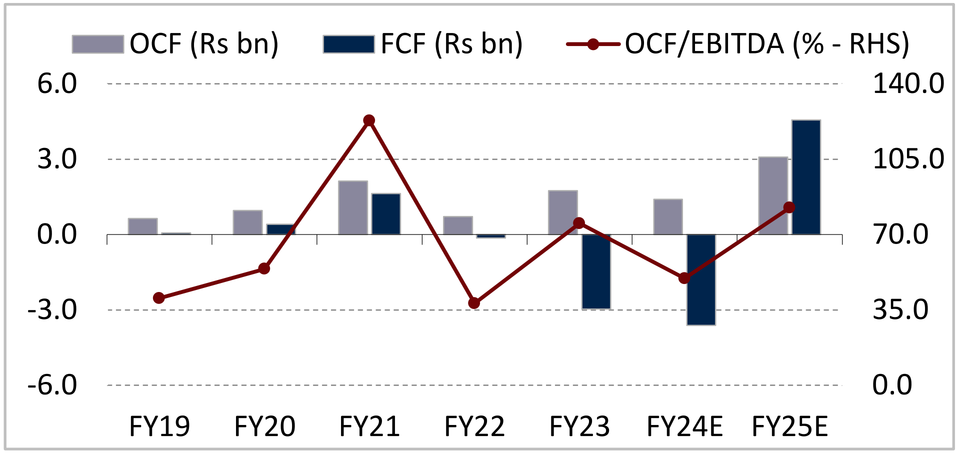
Laminates to remain GRLM's powerhouse but new category ramp-up to support ~22% revenue CAGR over FY23-25E

Story in charts

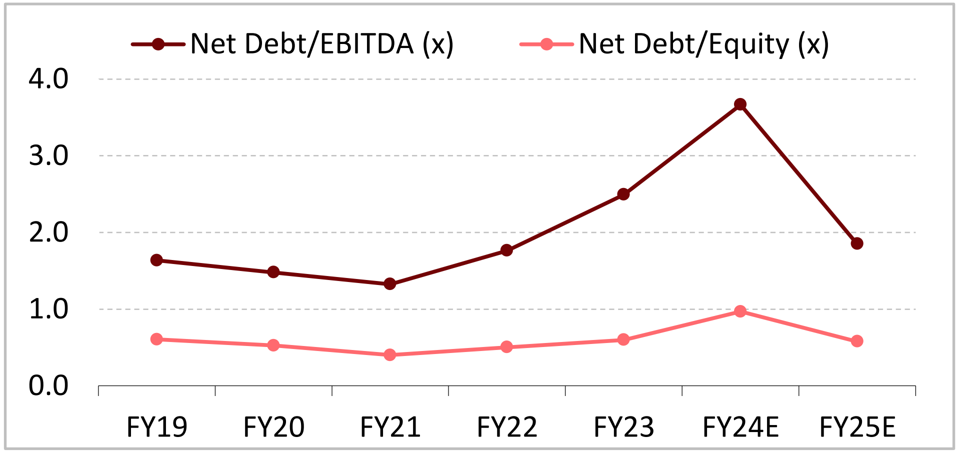
Expect margins to improve from FY25E onwards…



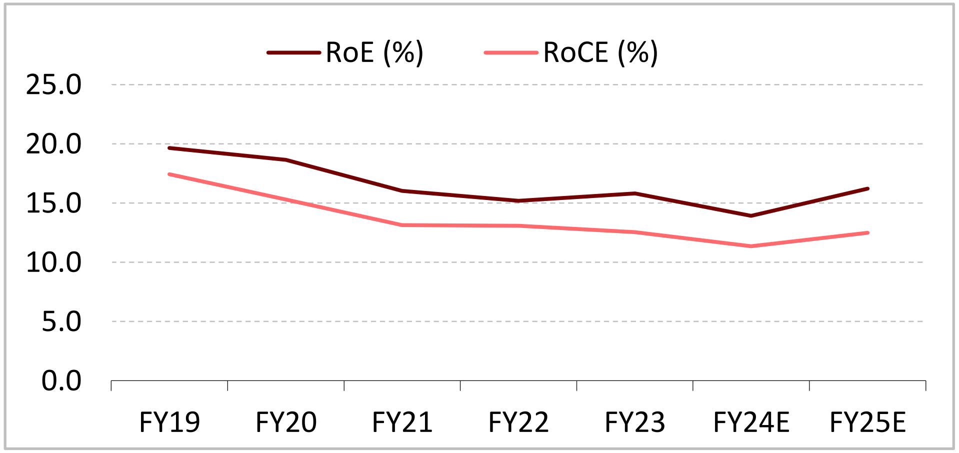
…as will FCF post GRLM's massive capex cycle conclusion



Debt levels to peak in FY24E and should ease from FY25E…



…which alongside improving margins should pull up RoCE



***Source:** Company, DAM Capital Research*

FY24E to be GRLM's year of settling its foundations for healthy growth come FY25E onwards

Greenlam Industries

CMP: Rs441; Mkt Cap: Rs56bn

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**11,996**	**17,034**	**20,260**	**24,890**	**30,408**
% growth	(9.2)	42.0	18.9	22.9	22.2
Operating expenses	10,263	15,164	17,931	22,069	26,666
EBITDA	**1,733**	**1,870**	**2,329**	**2,822**	**3,742**
% change	(2.8)	7.9	24.5	21.2	32.6
Other income	76	73	180	187	228
Net interest cost	169	141	235	493	598
Depreciation	556	585	632	649	985
Pre-tax profit	1,084	1,217	1,641	1,866	2,387
Deferred tax	0	0	0	0	0
Current tax	223	286	361	448	549
Profit after tax	**861**	**932**	**1,280**	**1,418**	**1,838**
Preference dividend	0	0	0	0	0
Minorities	1	2	4	2	2
Adjusted net profit	**862**	**933**	**1,284**	**1,420**	**1,840**
Non-recurring items	0	0	0	0	0
Reported net profit	**862**	**933**	**1,284**	**1,420**	**1,840**

Cash Flow (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,084	1,217	1,641	1,866	2,387
Depreciation	556	585	632	649	985
Chg in Working capital	(345)	(1,251)	(1,507)	(1,214)	(362)
Total tax paid	(223)	(286)	(361)	(448)	(549)
Net Interest	169	141	235	493	598
Others	(176)	(105)	46	0	0
Operating cash flow	**941**	**314**	**702**	**1,401**	**3,084**
Capital expenditure	(414)	(1,038)	(4,842)	(5,020)	1,480
Free cash flow (a+b)	**527**	**(724)**	**(4,140)**	**(3,619)**	**4,564**
Chg in investments	0	0	0	0	0
Debt raised/(repaid)	(458)	969	2,517	4,500	(1,000)
Net interest	(169)	(141)	(235)	(493)	(598)
Capital raised/(repaid)	0	0	1,950	0	0
Dividend (incl. tax)	0	121	190	426	552

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	**121**	**121**	**127**	**127**	**127**
Reserves & surplus	5,614	6,423	9,559	10,553	11,841
Shareholders' equity	**5,739**	**6,551**	**9,690**	**10,686**	**11,975**
Total current liabilities	2,793	3,182	4,174	5,588	6,717
Total debt	**2,484**	**3,453**	**5,970**	**10,470**	**9,470**
Deferred tax liabilities	191	169	156	156	156
Other non-current liabilities	573	488	537	584	600
Total liabilities	6,041	7,292	10,836	16,797	16,942
Total equity & liabilities	**11,780**	**13,842**	**20,526**	**27,482**	**28,917**
Net fixed assets	4,313	4,766	8,975	13,346	10,881
Investments	0	0	0	0	0
Cash	187	158	163	129	2,547
Other current assets	6,630	8,404	9,930	12,756	13,987
Deferred tax assets	64	81	63	63	63
Other non-current assets	586	434	1,394	1,188	1,439
Net working capital	4,024	5,380	5,920	7,298	9,817
Total assets	**11,780**	**13,842**	**20,526**	**27,482**	**28,917**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	14.4	11.0	11.5	11.3	12.3
EBIT margin (%)	9.8	7.5	8.4	8.7	9.1
PAT margin (%)	7.2	5.5	6.3	5.7	6.1
RoE (%)	16.0	15.2	15.8	13.9	16.2
RoCE (%)	13.1	13.1	12.6	11.4	12.5
Gearing (x)	0.4	0.5	0.6	1.0	0.6
Net debt/ EBITDA (x)	1.3	1.8	2.5	3.7	1.9
FCF yield (%)	1.0	(1.4)	(7.5)	(6.5)	8.2
Dividend yield (%)	0.0	(0.2)	(0.3)	(0.8)	(1.0)

Valuations	FY21	FY22	FY23	FY24E	FY25E
Reported EPS (Rs)	7.1	7.7	10.3	11.2	14.5
Adj. EPS (Rs)	7.1	7.7	10.3	11.2	14.5
PE (x)	61.7	57.0	42.9	39.4	30.4
Price/ Book (x)	9.3	8.1	5.7	5.2	4.7
EV/ Net sales (x)	4.6	3.3	3.0	2.7	2.1
EV/ EBITDA (x)	32.0	30.2	26.2	23.5	16.8
EV/ CE (x)	6.2	5.3	3.7	3.0	2.8

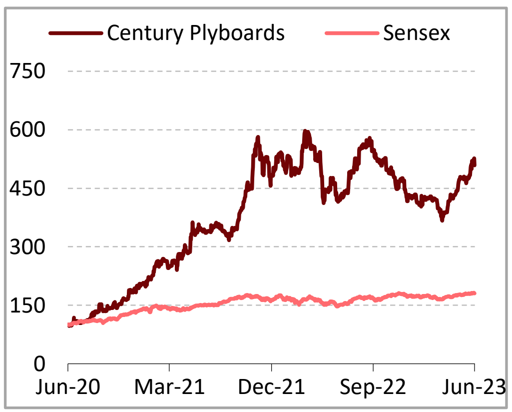
Company Update | **Price: Rs613** | **Target Price: Rs750** | **Mkt Cap: Rs136bn**

Stock Data

Bloomberg code	CPBI IN
Potential from CMP (%)	22.4
6-mth avg. daily traded value (Rsm/USDm)	72.0/ 0.9
Promoter holding (%)	73.0

Key Ratios	FY23	FY24E	FY25E
PE	35.6	34.8	28.6
EV/EBITDA	24.5	22.6	18.4
RoE	22.1	18.8	19.4
RoCE	23.3	19.4	19.7

Price Performance	3-mth	6-mth	1-yr
CPBI IN	28.9	22.0	19.5
BSE Sensex	8.7	5.2	20.5



Century Plyboards India Ltd.

Execution guru!

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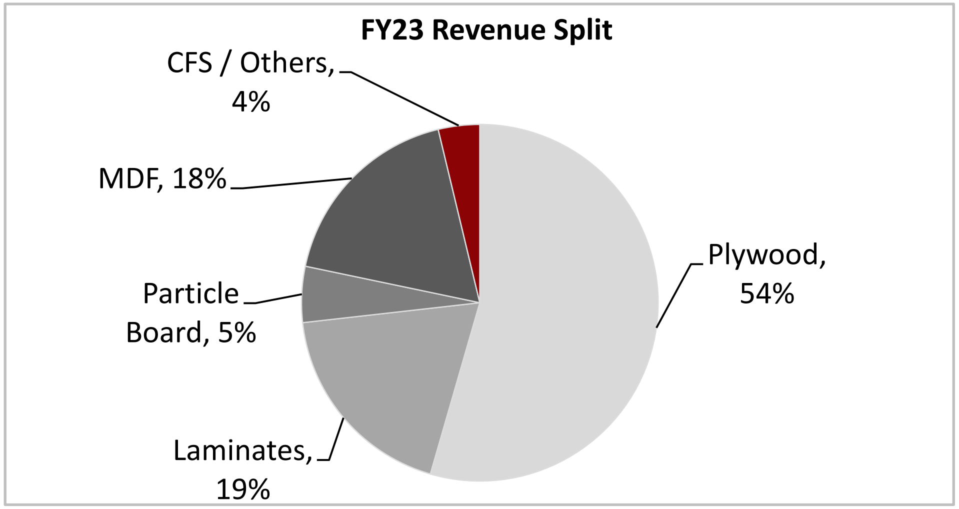
Century Plyboards India Ltd. (CPBI)

CPBI is a one-stop shop for all things wood panels (Plywood / Laminates / Medium Density Fiberboards (MDF) / Particle Boards (PB)). It is the largest plywood player in India (~9-10% share), fourth largest in Laminates (~6-7% share) and an emerging name in MDF and PB. The company is in the midst of a large capex drive (funded mainly by internal accruals) to consolidate its leadership position in the wood panels space.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	22,804	23,170	21,304	30,270	36,466	40,727	47,745
YoY (%)	*12.7*	*1.6*	*(8.1)*	*42.1*	*20.5*	*11.7*	*17.2*
EBITDA (Rs m)	3,016	3,307	3,355	5,308	5,587	6,193	7,548
EBITDAM (%)	13.2	14.3	15.7	17.5	15.3	15.2	15.8
Net Income (Rs m)	1,485	2,017	2,033	3,131	3,833	3,921	4,763
PATM (%)	6.5	8.7	9.5	10.3	10.5	9.6	10.0
RoE (%)	15.9	19.3	17.3	22.2	22.1	18.8	19.4
RoCE (%)	16.1	17.3	18.6	27.6	23.3	19.4	19.7
NWC (Days)	93	87	83	66	64	56	50
OCF/EBITDA (%)	88.1	121.0	110.4	52.0	78.4	94.0	78.3

Source: *Company, DAM Capital Research*

Investment Rationale

- **Building up on its one-stop wood panels platform**
  - CPBI's presence across wood panel categories makes it 'THE' play to bet on the industry as a whole
  - A leadership position in Plywood, fourth largest in Laminates, and credible place in PB/MDF industry
  - Capacity additions on track/planned across segments (Ply +25%, Lam +45%, MDF ~2x, PB ~5x over FY23-26E) to consolidate its grip in the wood panels space
- **Strong execution track record**
  - CPBI's DNA – Quick adaptation to changing market dynamics (MDF in 2018, PB now, Virokill in COVID times)
  - Constantly on its feet filling product white spaces and improving internal processes across segments to boost revenue and juice out efficiencies
  - Evident in CPBI's score - ~15%+ EBITDA margins over FY15-23 (barring 19/20), consistent 17%+ RoCE (est. ~19-20% RoCE over FY24E/25E despite the capex phase)
- **Robust balance sheet; best placed to capture growth opportunities**
  - Barring PB (for which debt maybe needed), all other capex being done through internal accruals
  - Healthy cash generation (esp. through WC tightening – 90+ days in FY19 down to 64 in FY23) has brought down debt heavily – expect some rise in FY24E, but this should be the peak level (est. FY24E Net Debt/EBITDA of 0.6x)
  - Strong balance sheet enables CPBI to hold its ground during tough times (RM inflation, sluggish environment, MDF competition) and possibly gain market-share over peers

View – Best placed (and safe) wood panels play

- **What we like?**
  - Execution track record
  - Presence across categories (vs listed peers)

- **What we dislike?**
  - Possible near-term margin risk if competitive intensity is sharper than anticipated in Ply/MDF

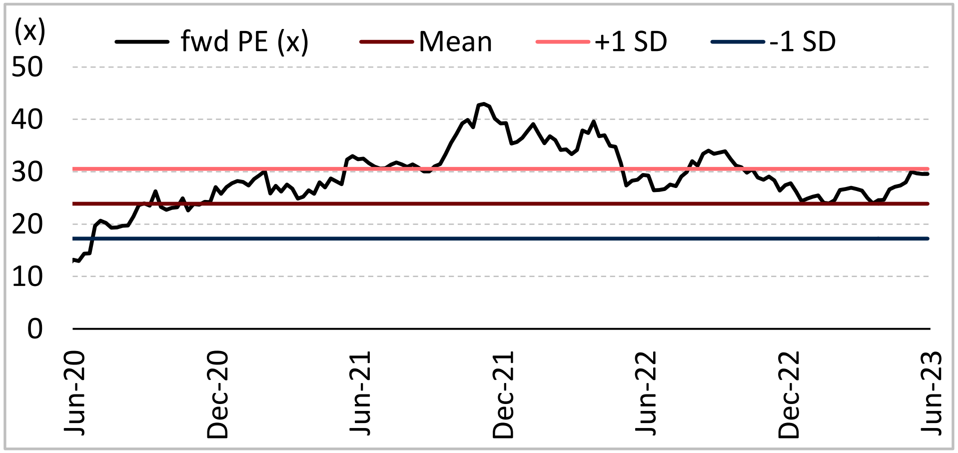
- **What's in the price (Rs613/share)?**
  - Revenue/EBITDA CAGR of ~14%/16% over FY23-33E (MDF/PB growth faster vs Plywood/Laminates)
  - EBITDA margin improvement of ~330 bps to ~18.5% by FY33E (vs FY23)
  - Multiples are at a premium for CPBI versus the rest of the pack, but given its inherent strengths, this is deserving

View – Best placed (and safe) wood panels play

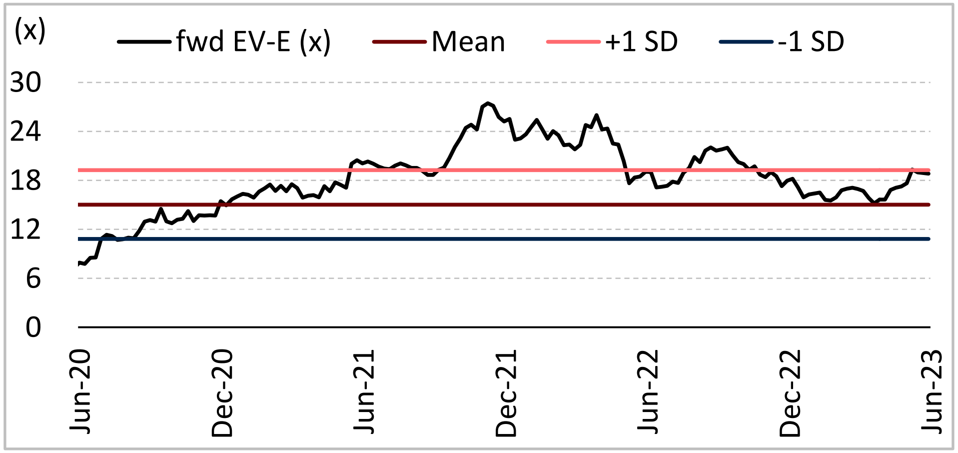
View – Maintain BUY (TP Rs750/22% upside)

- Presence across wood panel categories + Low debt = Compelling play on the space
- New capacity additions over FY24E-26E (peak near-term capex period) to provide CPBI with the arsenal to capture growth opportunities in the medium-term
- Margin cushion/cash on books powers CPBI to be its opportunistic best if market-share gain options arise
- **Maintain BUY rating. TP Rs750 (35x FY25E P/E / 22% upside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart



Source: *Bloomberg, DAM Capital Research*

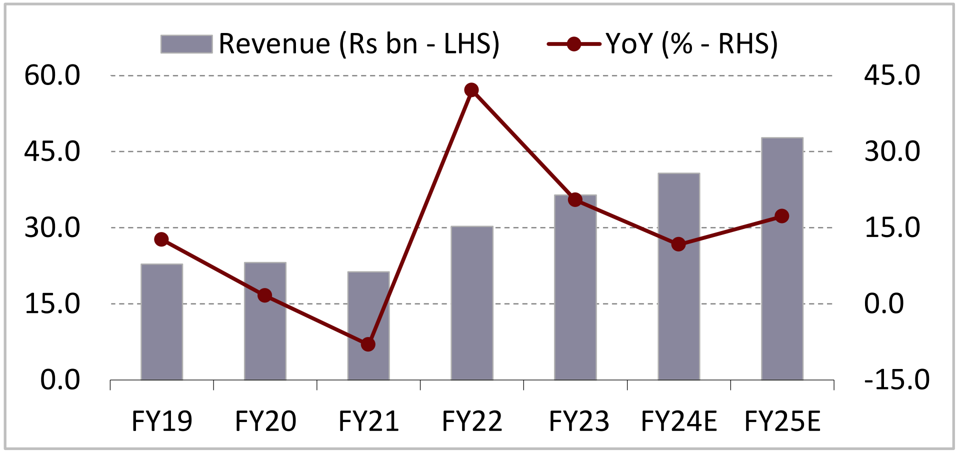
View – Best placed (and safe) wood panels play

Key Assumptions	FY20	FY21	FY22	FY23	FY24E	FY25E
Volume:						
- Plywood (cbm)	244,194	222,628	298,063	361,442	411,556	472,524
- Laminates (m sheets)	6.2	5.5	6.7	7.2	8.6	10.4
- Particle Board ('000 cbm)	62,745	54,972	72,933	73,022	74,848	89,817
- MDF ('000 cbm)	153,175	147,251	177,936	185,319	250,800	344,850
Volume Growth (%)						
- Plywood	(3.3)	(8.8)	33.9	21.3	13.9	14.8
- Laminates	5.3	(10.9)	22.3	6.8	20.0	20.0
- Particle Board	1.4	(12.4)	32.7	0.1	2.5	20.0
- MDF	15.8	(3.9)	20.8	4.1	35.3	37.5
Revenue (Rs m)	**23,170**	**21,304**	**30,270**	**36,466**	**40,727**	**47,745**
- Plywood	12,686	11,401	16,100	20,378	22,360	25,701
- Laminates	4,633	4,150	5,747	6,576	7,771	9,351
- Particle Board	991	901	1,508	1,742	1,516	1,783
- MDF	3,505	3,594	5,609	6,401	7,580	9,381
- CFS / Others	1,355	1,258	1,307	1,368	1,501	1,529
Revenue Growth (%)	**1.6**	**(8.1)**	**42.1**	**20.5**	**11.7**	**17.2**
- Plywood	(2.0)	(10.1)	41.2	26.6	9.7	14.9
- Laminates	5.5	(10.4)	38.5	14.4	18.2	20.3
- Particle Board	1.7	(9.1)	67.4	15.5	(13.0)	17.6
- MDF	18.7	2.5	56.1	14.1	18.4	23.8
- CFS / Others	(12.2)	(7.1)	3.9	4.7	9.7	1.9
EBITDA Margin (%)	**13.7**	**15.8**	**18.4**	**16.6**	**15.2**	**15.8**
- Plywood	8.9	10.6	13.9	10.7	13.0	13.3
- Laminates	13.5	17.9	15.7	14.8	13.0	14.5
- Particle Board	24.3	20.1	27.0	26.7	20.0	22.0
- MDF	24.7	25.8	31.7	27.3	22.0	22.0

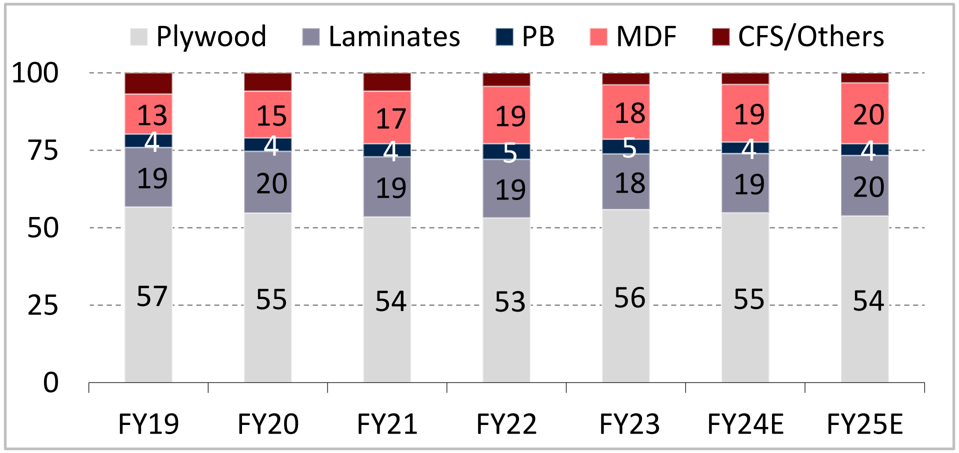
Across category capacity expansions underway…

Category	Capacity (FY23)	Capacity (FY26E)
Plywood ('000 cbm)	300	400
Laminates (m sheets)	8.8	12.8
PB ('000 cbm)	72	312
MDF ('000 cbm)	198*	627

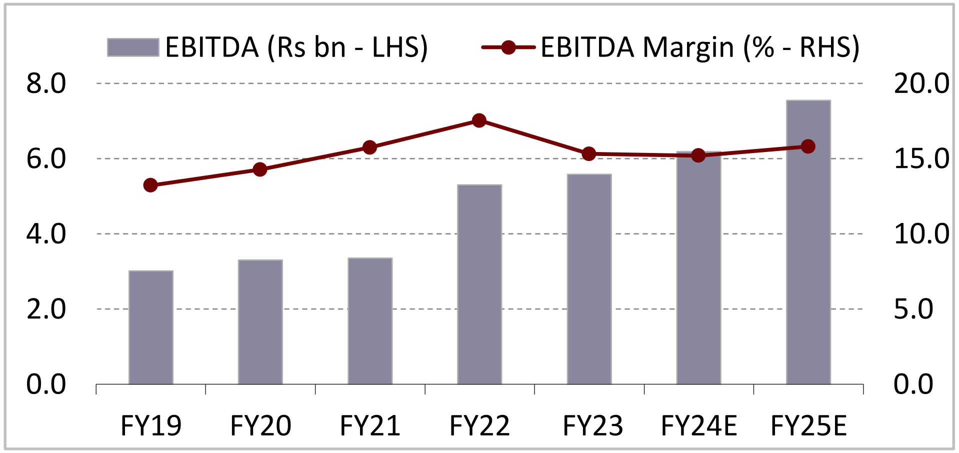
…to fuel CPBI's medium-term growth ambitions



High growth PB/MDF to increase share in overall mix…



…pulling consolidated margins higher

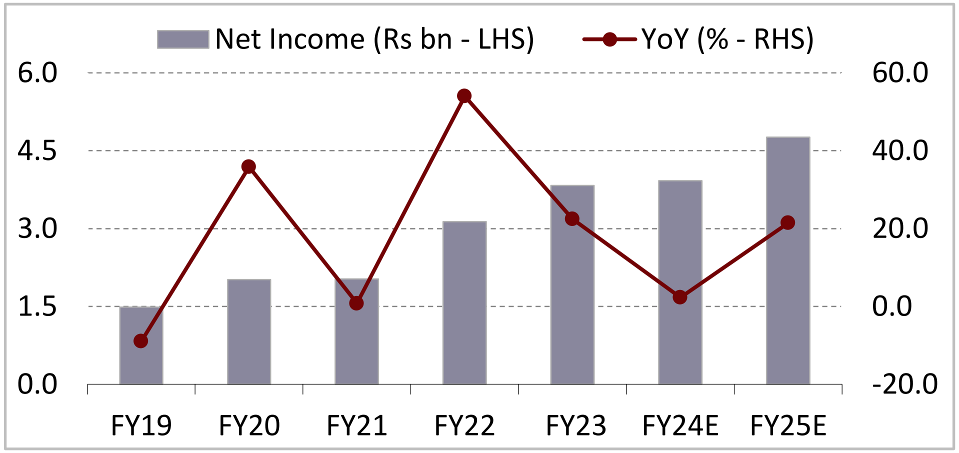


Source: *Company, DAM Capital Research; *MDF capacity rose to ~314k cbm in March 2023*

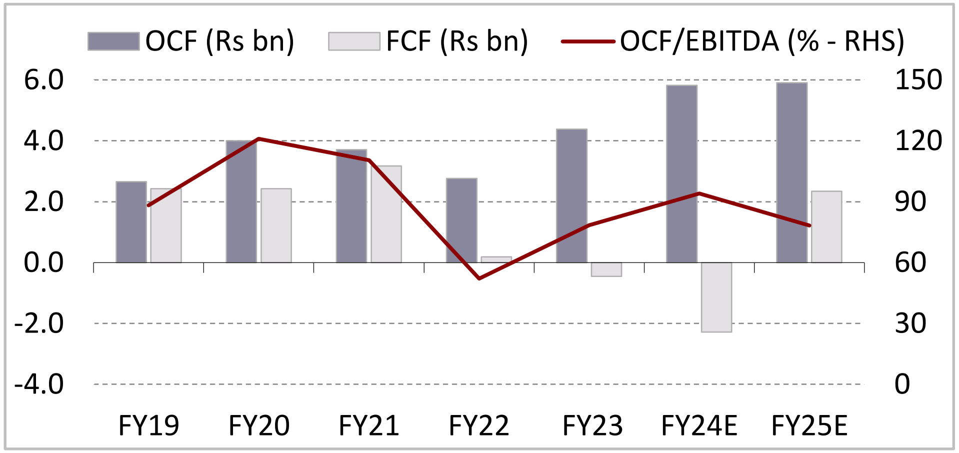
Heavy capex across segments, but especially high growth MDF/PB to drive revenue and EBITDA in near/mid-term

Story in charts

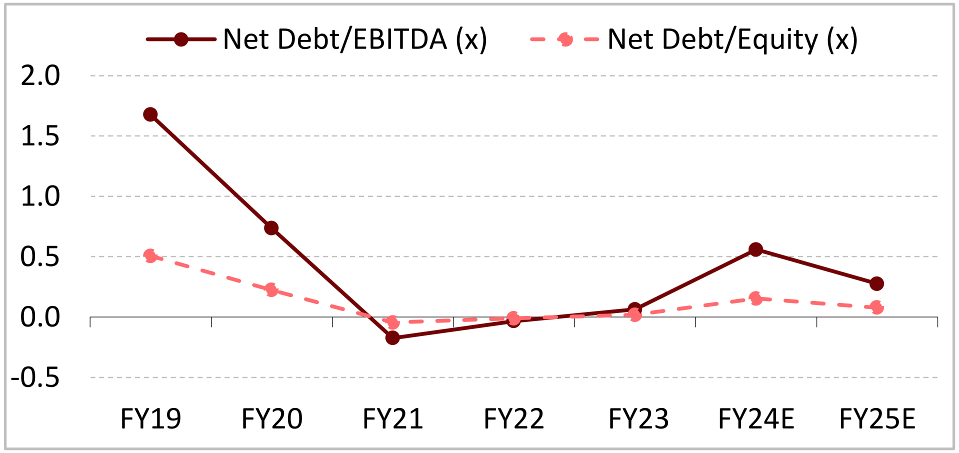
Capex to weigh near-term earnings (~12% FY23-25E CAGR)



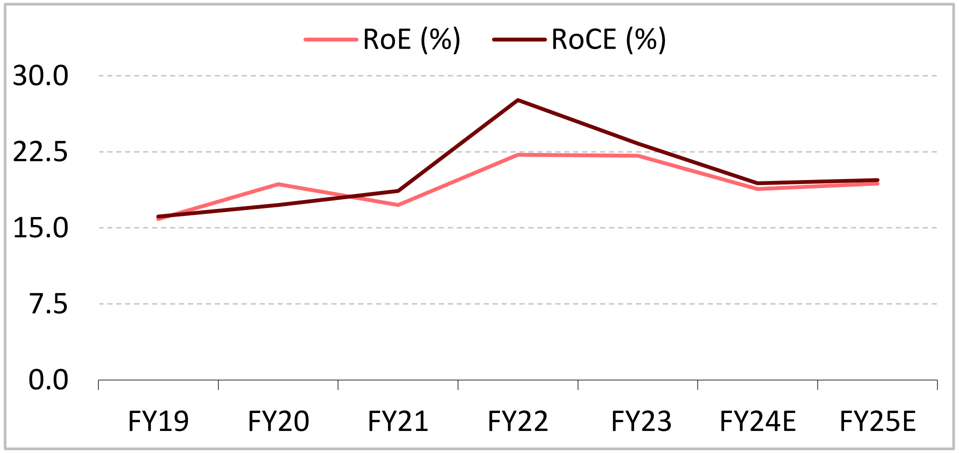
Healthy OCF generation, FCF to commence from FY25E



Temporary debt shoot-up to correct by FY25E



Superior return ratio profile through FY23-25E capex period



Source: *Company, DAM Capital Research*

Superior execution to be visible in debt/return ratios over FY23-25E despite capex heavy phase

Century Plyboards India

CMP: Rs613; Mkt Cap: Rs136bn

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**21,304**	**30,270**	**36,466**	**40,727**	**47,745**
% growth	*(8.1)*	*42.1*	*20.5*	*11.7*	*17.2*
Operating expenses	17,949	24,962	30,879	34,534	40,197
EBITDA	**3,355**	**5,308**	**5,587**	**6,193**	**7,548**
% change	*1.4*	*58.2*	*5.2*	*10.9*	*21.9*
Other income	173	231	477	548	658
Net interest cost	128	114	170	268	300
Depreciation	687	743	775	1,356	1,800
Pre-tax profit	2,714	4,682	5,119	5,118	6,105
Deferred tax	0	0	0	0	0
Current tax	684	1,550	1,278	1,151	1,282
Profit after tax	**2,030**	**3,132**	**3,841**	**3,966**	**4,823**
Preference dividend	0	0	0	0	0
Minorities	2	(1)	(8)	(45)	(60)
Adjusted net profit	**2,033**	**3,131**	**3,833**	**3,921**	**4,763**
Non-recurring items	(118)	0	0	0	0
Reported net profit	**1,915**	**3,131**	**3,833**	**3,921**	**4,763**

Cash Flow (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	2,714	4,682	5,119	5,118	6,105
Depreciation	687	743	775	1,356	1,800
Chg in Working capital	959	(2,110)	(608)	226	(1,020)
Total tax paid	(684)	(1,550)	(1,278)	(1,151)	(1,282)
Net Interest	128	114	170	268	300
Others	(181)	186	33	(6)	(5)
Operating cash flow	**3,710**	**1,914**	**4,206**	**5,819**	**5,907**
Capital expenditure	(584)	(2,369)	(4,294)	(8,100)	(3,562)
Free cash flow (a+b)	**3,126**	**(456)**	**(88)**	**(2,281)**	**2,345**
Chg in investments	0	(1)	2	0	0
Debt raised/(repaid)	(1,250)	998	706	866	0
Net interest	(128)	(114)	(170)	(268)	(300)
Capital raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	0	(334)	(223)	(556)	(668)

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	**223**	**223**	**223**	**223**	**223**
Reserves & surplus	12,451	15,346	18,921	22,286	26,381
Shareholders' equity	**12,662**	**15,542**	**19,106**	**22,516**	**26,672**
Total current liabilities	3,530	3,806	4,365	5,314	6,184
Total debt	**1,430**	**2,428**	**3,134**	**4,000**	**4,000**
Deferred tax liabilities	0	0	0	0	0
Other non-current liabilities	493	528	557	560	565
Total liabilities	5,453	6,763	8,056	9,874	10,749
Total equity & liabilities	**18,115**	**22,305**	**27,163**	**32,390**	**37,420**
Net fixed assets	7,843	9,470	12,989	19,733	21,494
Investments	64	64	62	62	62
Cash	2,014	2,610	2,782	543	1,921
Other current assets	7,409	9,543	10,162	10,711	12,401
Deferred tax assets	421	1	2	2	2
Other non-current assets	365	617	1,164	1,339	1,540
Net working capital	5,892	8,347	8,579	5,940	8,137
Total assets	**18,115**	**22,305**	**27,163**	**32,390**	**37,420**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	15.7	17.5	15.3	15.2	15.8
EBIT margin (%)	12.5	15.1	13.2	11.9	12.0
PAT margin (%)	9.5	10.3	10.5	9.6	10.0
RoE (%)	17.3	22.2	22.1	18.8	19.4
RoCE (%)	18.6	27.6	23.3	19.4	19.7
Gearing (x)	0.0	0.0	0.0	0.2	0.1
Net debt/ EBITDA (x)	(0.2)	0.0	0.1	0.6	0.3
FCF yield (%)	2.2	(0.3)	(0.1)	(1.6)	1.7
Dividend yield (%)	0.0	0.2	0.2	0.4	0.5

Valuations	FY21	FY22	FY23	FY24E	FY25E
Reported EPS (Rs)	**8.6**	**14.1**	**17.2**	**17.6**	**21.4**
Adj. EPS (Rs)	9.1	14.1	17.2	17.6	21.4
PE (x)	67.1	43.6	35.6	34.8	28.6
Price/ Book (x)	10.8	8.8	7.1	6.1	5.1
EV/ Net sales (x)	6.4	4.5	3.7	3.4	2.9
EV/ EBITDA (x)	40.5	25.7	24.5	22.6	18.4
EV/ CE (x)	9.3	7.4	6.0	5.2	4.4

Company Update | **Price: Rs176** | **Target Price: Rs210** | **Mkt Cap: Rs22bn**

Greenply Industries Ltd.

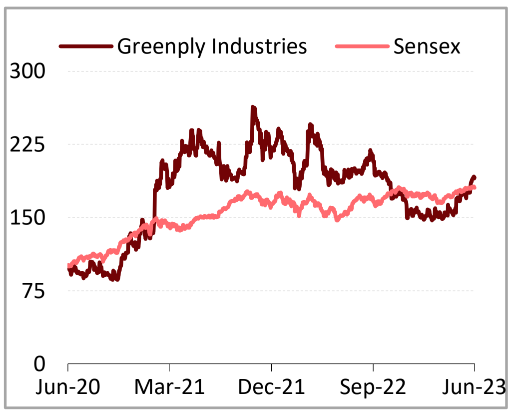
A potential dark horse

Stock Data

Bloomberg code	MTLM IN
Potential from CMP (%)	19.3
6-mth avg. daily traded value (Rsm/USDm)	36.3 / 0.4
Promoter holding (%)	52.3

Key Ratios	FY23	FY24E	FY25E
PE	22.0	24.1	13.3
EV/EBITDA	16.5	12.8	8.2
RoE	16.6	13.1	20.3
RoCE	12.0	10.6	16.2

Price Performance	3-mth	6-mth	1-yr
MTLM IN	25.5	27.9	2.5
BSE Sensex	8.7	5.2	20.5



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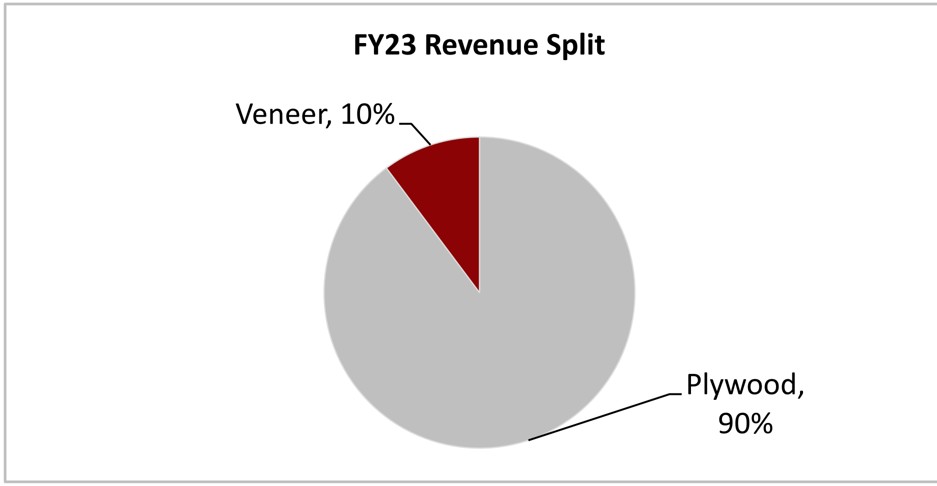
Greenply Industries Ltd. (MTLM)

MTLM is the second largest plywood player in India (~7-8% market-share) and is now foraying into the high potential market of MDF through its recently commissioned factory in West India. MTLM has the benefit of brand Greenply's legacy to not just scale up MDF but also to build on its Plywood platform. The company also has a face veneer unit (for in-house and third-party sales) in Gabon.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	14,122	14,204	11,653	15,628	18,456	22,603	27,569
YoY (%)	*54.8*	*0.6*	*(18.0)*	*34.1*	*18.1*	*22.5*	*22.0*
EBITDA (Rs m)	1,440	1,556	1,167	1,503	1,691	2,144	3,189
EBITDAM (%)	10.2	11.0	10.0	9.6	9.2	9.5	11.6
Net Income (Rs m)	797	862	609	947	982	896	1,625
PATM (%)	5.6	6.1	5.2	6.1	5.3	4.0	5.9
RoE (%)	26.5	27.3	15.0	19.4	16.6	13.1	20.3
RoCE (%)	21.9	20.3	13.9	16.3	12.0	10.6	16.2
NWC (Days)	52	70	74	43	45	43	40
OCF/EBITDA (%)	67.9	37.0	195.2	61.0	36.8	89.4	72.1

Source: *Company, DAM Capital Research*

Investment Rationale

- **MDF entry – adding a strategically placed high growth engine into the mix**
  - MTLM's MDF plant in Vadodara (Gujarat) is ~1,000+ kms away from its peers current and upcoming capacities. This will open up West India market and help in quicker capacity utilisation build up
  - Imports are the main competitor (given prices) in West India – expect this to ebb as global prices rebound
  - Brand Greenply's legacy roots (esp. its involvement in MDF earlier) to drive quicker channel ramp-up
- **Plywood – seeds sown for healthy growth**
  - Recent underperformance aside (~3% Ply volume CAGR over FY20-23), Greenply remains a credible power brand in the plywood space
  - Production capacity enhanced ~2x to ~48msm over FY20-23 (plus ~18msm through JVs). Dealer network at ~2,300 now vs ~1,900 in FY20 – rural/semiurban dealers up ~2x at ~930
  - Channel/internal sales team learnings over last three years should eventually drive volume growth, given that all other pieces of the puzzle are in place. We estimate ~13% CAGR over FY23-25E
- **Peak capex cycle now behind, free cash generation to commence from FY24E**
  - MDF/Plywood capex drove negative free cash over FY22/23 (~Rs3bn cumulative FCF outflow over FY20-23)
  - Capex now online (no major plans for next 2-3 years), estimate FCF generation of ~Rs3bn over FY24E/25E
  - Expect debt levels to recede from FY23 levels (Net Debt/EBITDA to drop from 3.7x to 1.4x over FY23-25E)

View – A potential dark horse

What we like?

- MDF plant located away from domestic competitors’ production facilities (no new ones expected soon)
- Market leader (albeit an underperforming one) available at throwaway valuations

What we dislike?

- Promoter to professional DNA transition is now in its fourth year (with no major financial positives so far)
- Leveraged balance sheet poses a risk if underperformance hits the MDF segment too (as seen in Plywood)

What’s in the price (Rs176/share)?

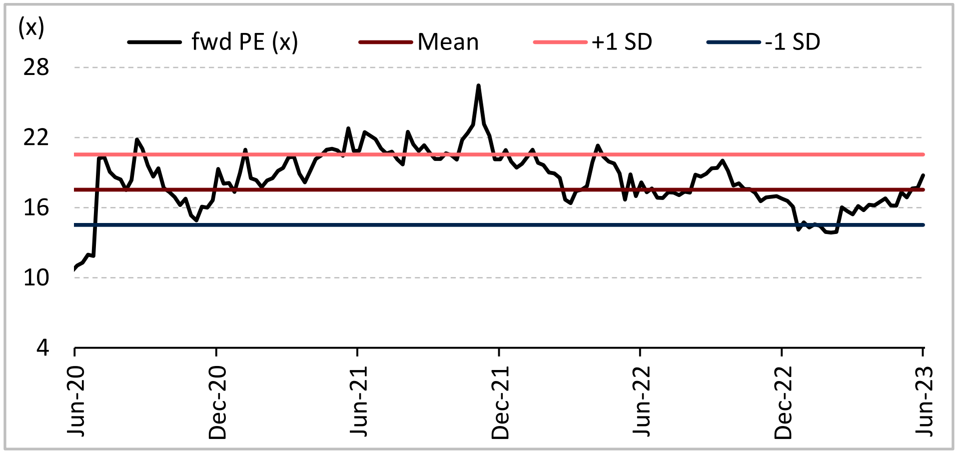
- Consolidated revenue/EBITDA CAGR of ~10%/15% over FY23-33E
- Plywood - ~7% CAGR (declining growth over forecast period) / MDF - ~20% CAGR (front-ended)
- EBITDA CAGR to rise faster as MDF contribution rises vs Plywood
- Given Brand Greenply’s legacy in the space, we believe that the implied growth rates can be higher

View – A potential dark horse

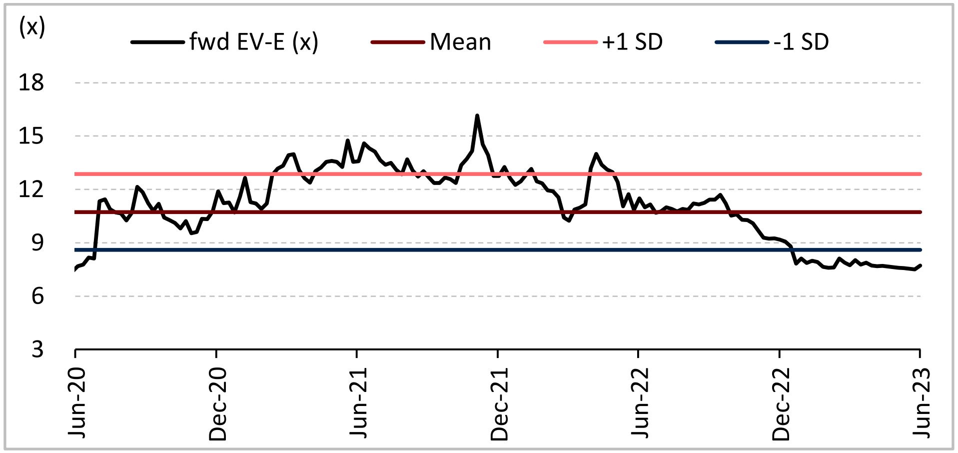
View – Maintain BUY rating (TP Rs210/19% upside)

- Continued underperformance in Plywood (vis-à-vis CPBI) and leveraged balance sheet remain twin concerns weighing down valuation – amidst a transition from a promoter-driven to a professional organisation
- Expect MTLM to consolidate its #2 position in Plywood (given capacities/channel/brand legacy)
- MDF – despite near-term industry challenges, should propel growth/margins for MTLM ahead
- At ~13x FY25E P/E, the stock factors in most negatives while ignoring potential upsides in Ply/MDF. A high risk bet at the current juncture
- **Maintain BUY rating (high risk). TP Rs210 (16x FY25E P/E / 19% upside)**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart

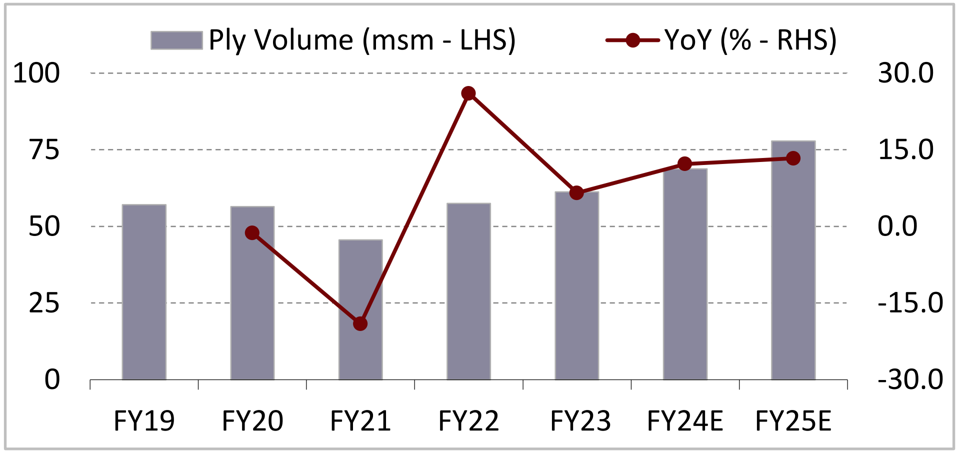


View – A potential dark horse

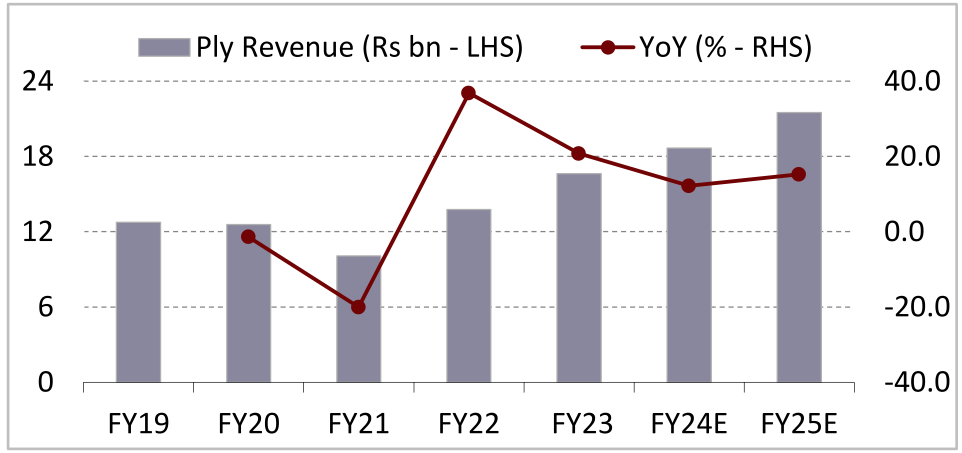
Key Assumptions	FY20	FY21	FY22	FY23	FY24E	FY25E
Volume:						
- Plywood (msm)	56.4	45.6	57.5	61.3	68.7	77.9
- Face Veneer (cbm)	33,659	33,285	41,757	40,512	34,272	39,168
- MDF (cbm)	-	-	-	-	96,000	168,000
Volume Growth (%):						
- Plywood	(1.3)	(19.1)	26.0	6.5	12.2	13.3
- Face Veneer	11.8	(1.1)	25.5	(3.0)	(15.4)	14.3
- MDF	-	-	-	-	-	75.0
Revenue (Rs m):	**14,204**	**11,653**	**15,628**	**18,456**	**22,603**	**27,569**
- Plywood	12,583	10,061	13,769	16,630	18,658	21,502
- Face Veneer	1,621	1,593	1,859	1,826	1,545	1,783
- MDF	-	-	-	-	2,400	4,284
Revenue Growth (%):	**0.6**	**(18.0)**	**34.1**	**18.1**	**22.5**	**22.0**
- Plywood	(1.4)	(20.0)	36.9	20.8	12.2	15.2
- Face Veneer	18.9	(1.8)	16.7	(1.8)	(15.4)	15.4
- MDF	-	-	-	-	-	78.5
EBITDA Margin (%):	**11.0**	**10.0**	**9.6**	**9.2**	**9.5**	**11.6**
- Plywood	10.5	9.9	9.4	9.5	9.5	10.5
- Face Veneer	14.7	11.0	11.8	8.8	8.5	9.0
- MDF	-	-	-	-	10.0	18.0

Story in charts

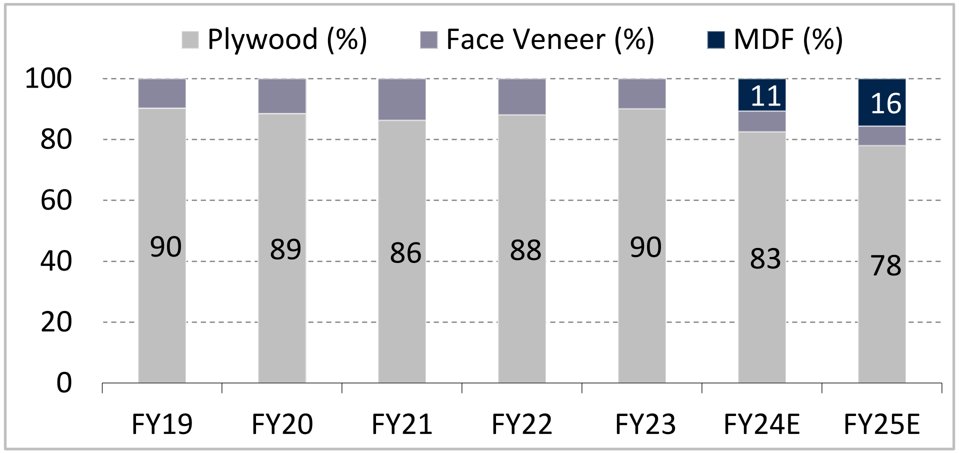
Capacity additions to drive ~13% ply vol. CAGR (FY23-25E)…



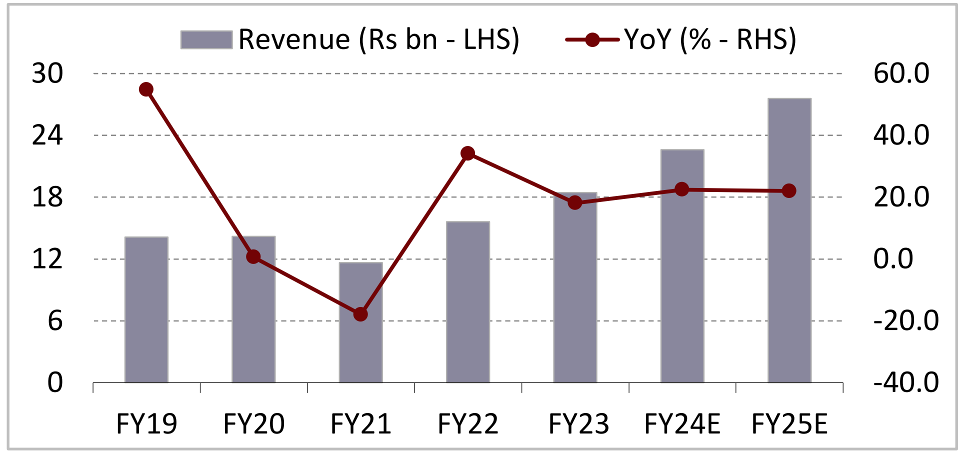
… with similar growth expectation for Ply revenue



MDF contribution to shoot up from FY24E onwards…



…which should power ~22% total revenue CAGR (FY23-25E)

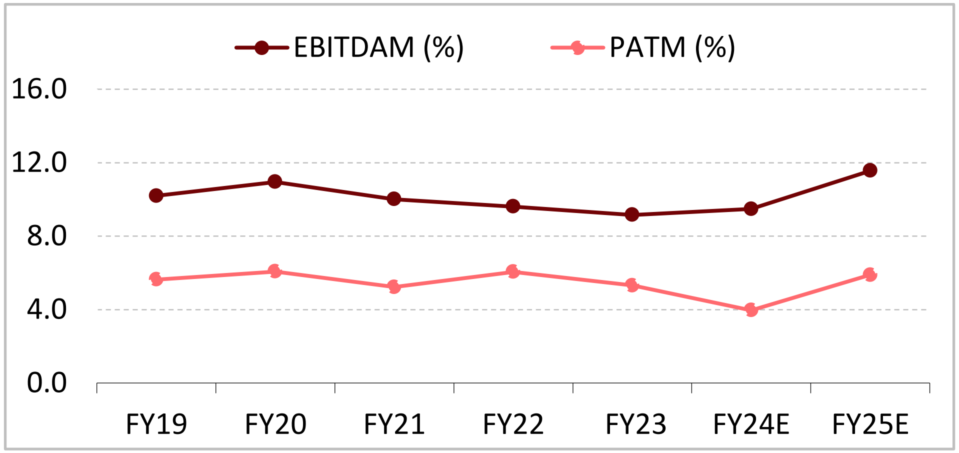


Source: *Company, DAM Capital Research*

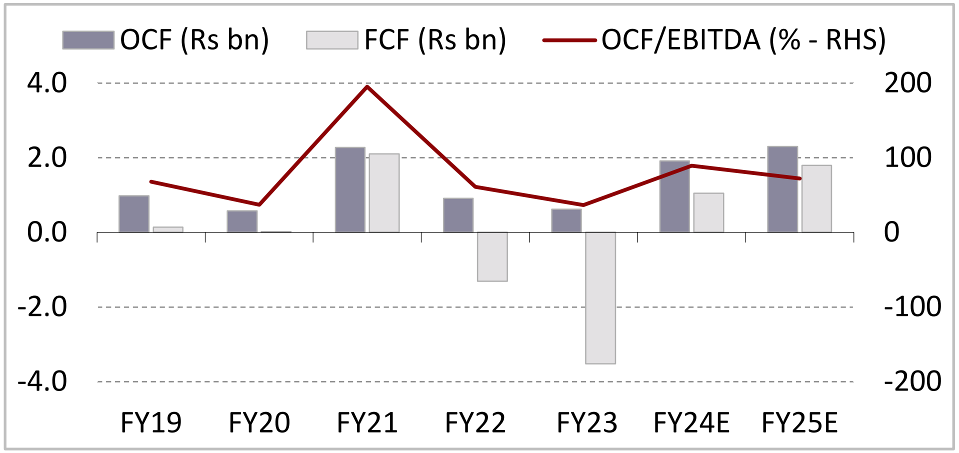
Plywood to chug along at ~13% CAGR, while MDF ramp-up to be key for MTLM's ~22% revenue CAGR over FY23-25E

Story in charts

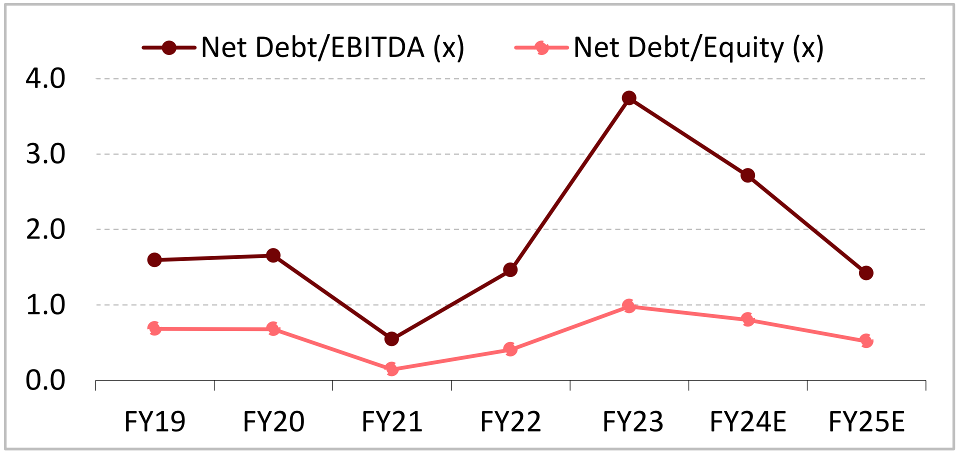
MDF to drive EBITDA margins higher by FY25E vs FY23



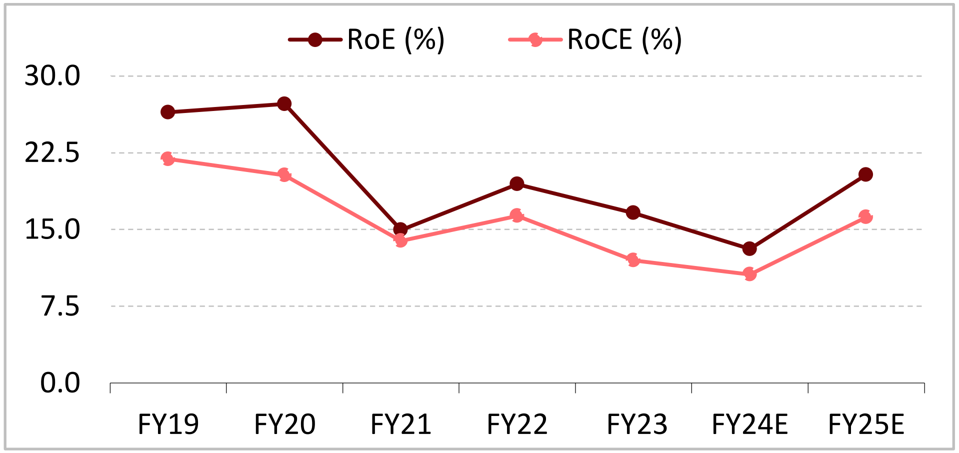
FCF generation to resume from FY24E (post capex cycle)



Debt to recede from FY23 peak



Expect return ratios to move up with MDF ramp-up



Source: *Company, DAM Capital Research*

MDF ramp-up should drive margins, free cash generation and return ratios FY24E onwards

Greenply Industries

CMP: Rs176; Mkt Cap: Rs22bn

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**11,653**	**15,628**	**18,456**	**22,603**	**27,569**
% growth	*(18.0)*	*34.1*	*18.1*	*22.5*	*22.0*
Operating expenses	10,486	14,125	16,765	20,459	24,380
EBITDA	**1,167**	**1,503**	**1,691**	**2,144**	**3,189**
% change	*(25.0)*	*28.7*	*12.5*	*26.8*	*48.8*
Other income	68	99	153	120	160
Net interest cost	166	119	262	442	385
Depreciation	231	258	365	707	939
Pre-tax profit	814	1,250	1,174	1,130	2,051
Deferred tax	0	0	0	0	0
Current tax	205	303	192	234	425
Profit after tax	**609**	**947**	**982**	**896**	**1,625**
Preference dividend	0	0	0	0	0
Minorities	0	0	0	0	0
Adjusted net profit	**609**	**947**	**982**	**896**	**1,625**
Non-recurring items	0	0	(68)	0	0
Reported net profit	**609**	**947**	**914**	**896**	**1,625**

Cashflow (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	814	1,250	1,174	1,130	2,051
Depreciation	231	258	365	707	939
Chg in Working capital	1,399	(1,169)	(493)	(137)	(663)
Total tax paid	(205)	(303)	(192)	(234)	(425)
Net Interest	166	119	262	442	385
Others	(5)	45	39	(12)	(11)
Operating cash flow	**2,266**	**214**	**1,071**	**1,917**	**2,299**
Capital expenditure	(198)	(1,676)	(5,327)	(870)	(500)
Free cash flow (a+b)	**2,068**	**(1,462)**	**(4,256)**	**1,047**	**1,799**
Chg in investments	13	(33)	194	0	0
Debt raised/(repaid)	(757)	1,001	3,716	(634)	(1,000)
Net interest	(166)	(119)	(262)	(442)	(385)
Capital raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	(49)	(61)	(61)	(98)	(123)

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	**123**	**123**	**123**	**123**	**123**
Reserves & surplus	4,244	5,259	6,315	7,113	8,615
Shareholders' equity	**4,367**	**5,382**	**6,438**	**7,236**	**8,738**
Total current liabilities	2,569	2,932	3,350	4,222	5,016
Total debt	1,917	2,919	6,634	6,000	5,000
Deferred tax liabilities	0	0	10	10	10
Other non-current liabilities	298	356	378	388	401
Total liabilities	4,784	6,206	10,372	10,619	10,427
Total equity & liabilities	**9,151**	**11,588**	**16,810**	**17,855**	**19,165**
Net fixed assets	2,870	4,287	9,249	9,413	8,975
Investments	225	258	64	64	64
Cash	1,280	726	314	186	477
Other current assets	4,319	5,784	6,656	7,689	9,169
Deferred tax assets	64	73	27	27	27
Other non-current assets	394	460	499	476	453
Net working capital	3,030	3,578	3,621	3,653	4,630
Total assets	**9,151**	**11,588**	**16,810**	**17,855**	**19,165**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	10.0	9.6	9.2	9.5	11.6
EBIT margin (%)	8.0	8.0	7.2	6.4	8.2
PAT margin (%)	5.2	6.1	5.3	4.0	5.9
RoE (%)	15.0	19.4	16.6	13.1	20.3
RoCE (%)	13.9	16.3	12.0	10.6	16.2
Gearing (x)	0.1	0.4	1.0	0.8	0.5
Net debt/ EBITDA (x)	0.5	1.5	3.7	2.7	1.4
FCF yield (%)	9.5	(6.7)	(19.6)	4.8	8.3
Dividend yield (%)	0.2	0.3	0.3	0.5	0.6

Valuations	FY21	FY22	FY23	FY24E	FY25E
Reported EPS (Rs)	**5.0**	**7.7**	**7.4**	**7.3**	**13.2**
Adj. EPS (Rs)	5.0	7.7	8.0	7.3	13.2
PE (x)	35.4	22.8	22.0	24.1	13.3
Price/ Book (x)	4.9	4.0	3.4	3.0	2.5
EV/ Net sales (x)	1.9	1.5	1.5	1.2	0.9
EV/ EBITDA (x)	19.0	15.8	16.5	12.8	8.2
EV/ CE (x)	3.4	2.7	2.1	2.0	1.8

Pipes – Steady compounding play with added guard rails

Pipes – Steady compounding space; safe harbour during rough times

- **Pipes volume growth to pick up pace in the near term**
  - FY23 industry growth estimated at ~30% YoY, but on a FY20-23 CAGR basis, growth was ~8% (close to historical average)
  - Real estate launches done over CY21 and early CY22 should bring in plumbing pipes demand in from hereon
  - Economical PVC prices (post its super cycle over mid FY21 to mid FY23) should drive incremental irrigation pipes volume – commenced in Q3FY23, but expect growth in Q1FY24 as well (peak season)
- **Multiple non-real estate linkages ensure long-term growth for the space**
  - Real estate's contribution to pipe volume is just 35-40% - the remaining is irrigation/infrastructure/industrial
  - Long way to go for Irrigation and Tap Water Connection coverage -> to provide long-term growth tailwinds
  - Replacement demand (est. 20-25% of overall pipes market) is not linked to real estate cycle
- **Polymer price stability should ease channel behaviour (and volatile margins)**
  - PVC prices' super cycle now behind with prices back to pre-COVID levels (adjusted for INR depreciation)
  - CPVC prices to steadily decline (back to its historical levels of 50% premium to PVC). Inventory losses (if any) to be minimal – CPVC is not traded unlike PVC and so prices can be managed depending on demand
  - Predictable prices to arrest cautious channel behavior and hence resume stocking (currently low versus average)

Pipes has steady growth legs which should drive compounding stories irrespective of the real estate cycle

Pipes – Steady compounding space; Safe harbour during inclement times

- **Wide and deep reach – perfect recipe to capture growth opportunities**
  - Deep product portfolios across usage categories and extensive dealer network crucial for success
  - Lower capex intensity (excluding land) for pipe plants (vs other segments) makes it easier for industry to spread out manufacturing footprint across the country to capture growth
- **~13% industry CAGR over FY13-23 demonstrates its resilience despite hiccups**
  - Per CRISIL and our estimates, the pipes industry's value grew ~13% CAGR over the last decade (~9% volume CAGR)
  - This is despite real estate headwinds pre-COVID and then COVID's impact on material prices/availability
- **Initiate coverage on Prince Pipes & Fittings Ltd. (PRINCPIP), Apollo Pipes Ltd. (APOLP) with a BUY, Finolex Industries Ltd. (FNXP) with NEUTRAL; Maintain BUY on Astral Ltd. (ASTRA)/ Supreme Industries Ltd. (SI)**
  - **PRINCPIP:** National player upping its value premium quotient
  - **APOLP:** On a blazing growth trail (and yet keeping WC under check)
  - **FNXP:** Agri hero, now vying for an integral role in the non-Agri space
  - **ASTRA:** Perfected execution playbook now to be applied on new segments
  - **SI:** Leadership in pipes to continue; non pipe margin drag to turn margin supporter
  - **Pecking Order:** PRINCPIP, APOLP, SI, ASTRA, FNXP

Pipes has steady growth legs which should drive compounding stories, irrespective of the real estate cycle

Pipes – Secular growth with a dose of safety

Prince Pipes & Fittings (PRINCPIP) **Initiate BUY / TP Rs820**	• Pieces of its growth jigsaw puzzle falling in place (market/products) • Moving up the value chain should narrow price differential versus leaders • Strong balance sheet / return metrics supportive of leadership challenge
Apollo Pipes (APOLP) **Initiate BUY / TP Rs840**	• Emerging regional player, now gunning for the big leagues • Improving mix to boost margin profile • Accelerating capacity augmentation in its bid to grow ahead of the market
Finolex Industries (FNXP) **Initiate NEUTRAL / TP Rs170**	• Shifting mix in favour of plumbing no easy task (higher A&P/WC needed) • Exposed to input price volatility without similar changes in PVC prices • New leadership at the helm may take time to settle down
Astral (ASTRA) **Maintain BUY / TP Rs2,260**	• Proven innovation/execution track record • Established playbook to be applied to grow new business segments • Healthy cash generation ahead given major capex needs behind for now
Supreme Industries (SI) **Maintain BUY / TP Rs3,420**	• Largest pipes player aiming to create distance between itself and peers • Non-pipes business' margin improvement to prop up overall profitability • Taking baby steps towards succession planning

PRINCPIP, APOLP emerging candidates; ASTRA, SI remain evergreen compounders

Pipes – Secular growth with a dose of safety

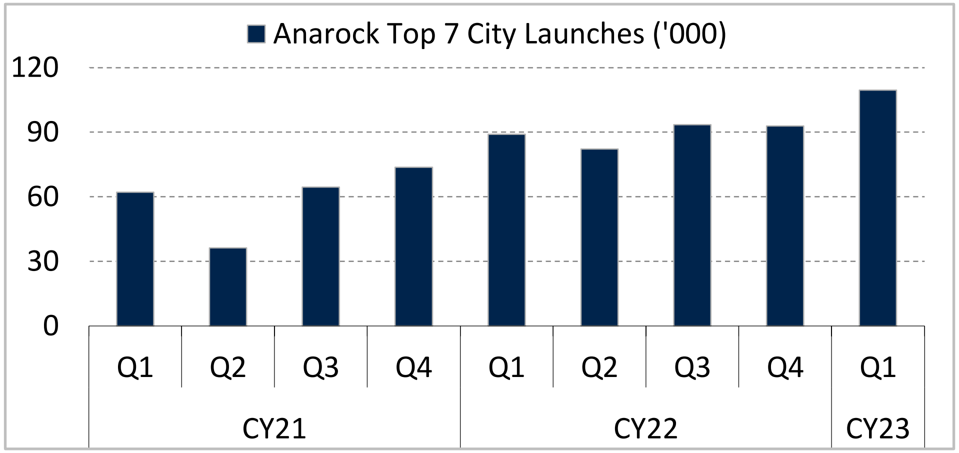
Peer Comparison

Company	CMP	MCap	TP	Upside	EPS (Rs)			EPS CAGR	PAT Margin (%)			RoCE (%)		
	(Rs)	(Rs mn)	(Rs)	(%)	FY23	FY24E	FY25E	FY23-25E (%)	FY23	FY24E	FY25E	FY23	FY24E	FY25E
PRINCPIP	640	71	820	28.1	11.0	19.4	27.4	57.5	4.5	7.4	8.4	11.6	18.4	22.7
APOLP	708	28	840	18.6	6.1	16.5	22.1	101.7	2.6	5.9	6.3	8.3	15.6	16.2
FNXP	175	109	170	(2.9)	4.1	9.5	10.8	62.9	5.7	12.7	13.2	4.1	12.7	15.4
ASTRA	1,961	527	2,260	15.3	17.9	24.3	34.8	39.5	9.3	10.5	12.0	22.6	24.6	30.1
SI	3,124	397	3,420	9.5	68.1	80.5	103.4	23.2	9.4	10.0	11.0	22.0	24.0	28.9

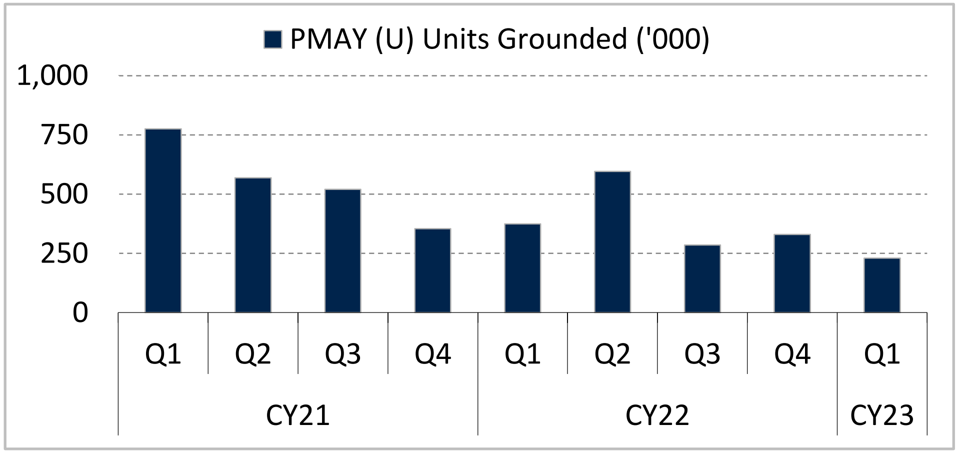
Company	RoE (%)			NWC (Days)			Net Debt/EBITDA (x)			P/E (x)			EV/EBITDA (x)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
PRINCPIP	9.3	14.7	18.1	79	70	70	(0.6)	(0.5)	(0.4)	58.1	33.0	23.4	27.6	17.9	13.2
APOLP	5.5	12.5	12.9	53	48	47	0.1	(0.2)	(0.7)	90.3	42.9	32.1	31.9	21.7	16.2
FNXP	5.7	12.3	14.6	65	57	60	(4.4)	(1.2)	(0.5)	43.2	18.4	16.3	32.6	13.1	12.5
ASTRA	18.1	20.3	24.5	24	27	26	(0.8)	(1.1)	(1.2)	109.6	80.7	56.3	64.6	50.6	36.7
SI	21.0	21.8	24.4	38	37	36	(0.6)	(0.4)	(0.5)	45.9	38.8	30.4	32.5	26.9	20.3

Pipes growth to pick-up in the near-term…

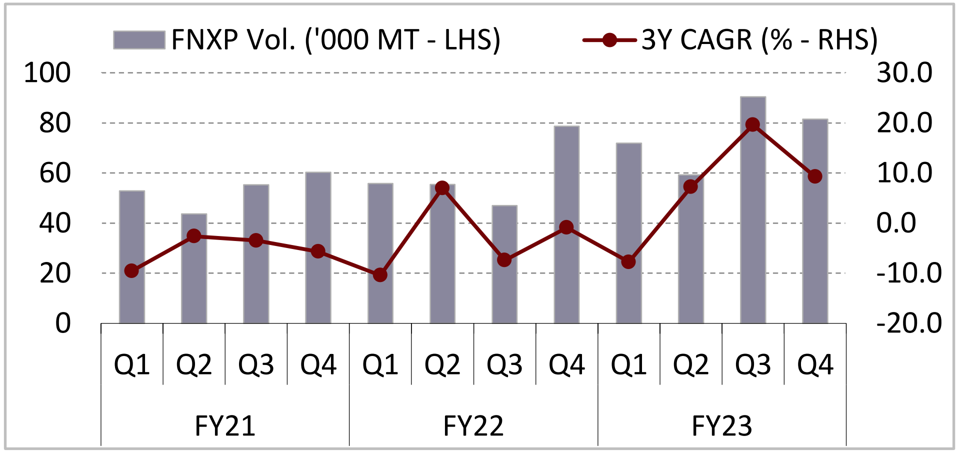
Residential unit launches done in the last 12-18 months…



…should commence plumbing pipe consumption now



Expect some pull-back from irrigation pipes in near-term



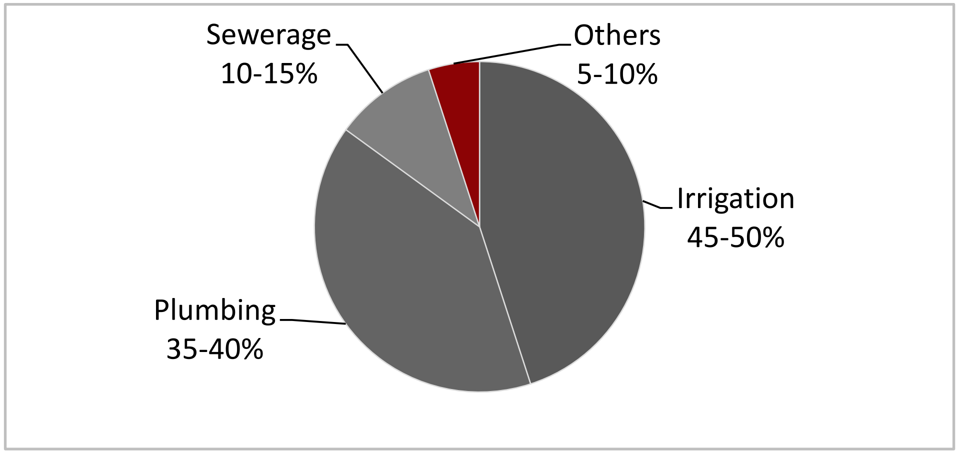
- Regular residential launches in urban areas over the past two years should bring in demand for pipes from hereon
- Stabilising prices for irrigation pipes (most price-sensitive market) should bring in some more catch-up demand (commenced from Q3FY23) in Q1FY24 (peak season)

Source: *ANAROCK, Ministry of Housing & Urban Affairs, DAM Capital Research; Note: FNXP pipes volume taken as proxy for agri sales*

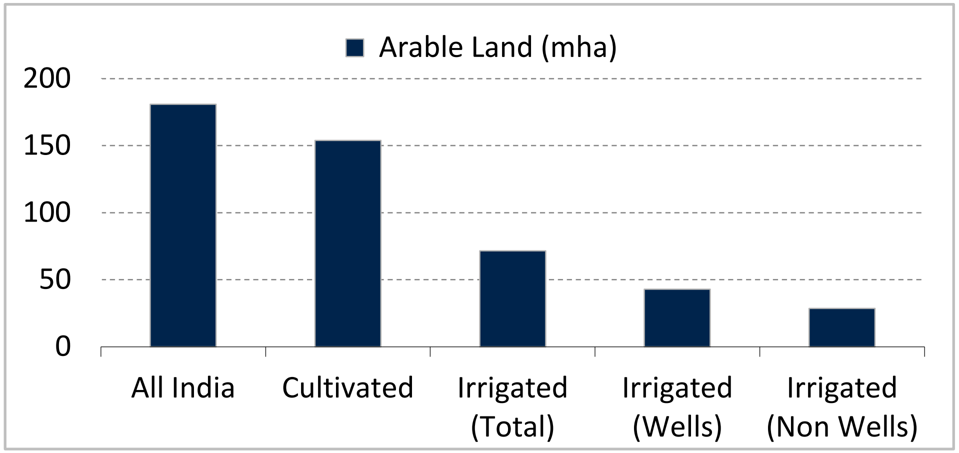
Pipes demand should see pick-up in the near-term (plumbing + irrigation)

…while non-real estate linkages ensure long-term sector growth

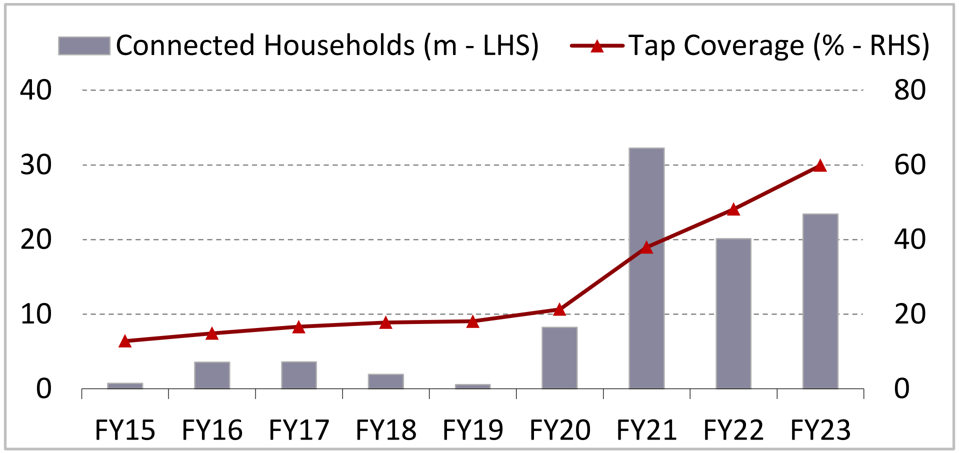
50%+ pipes demand comes from non-real estate usage



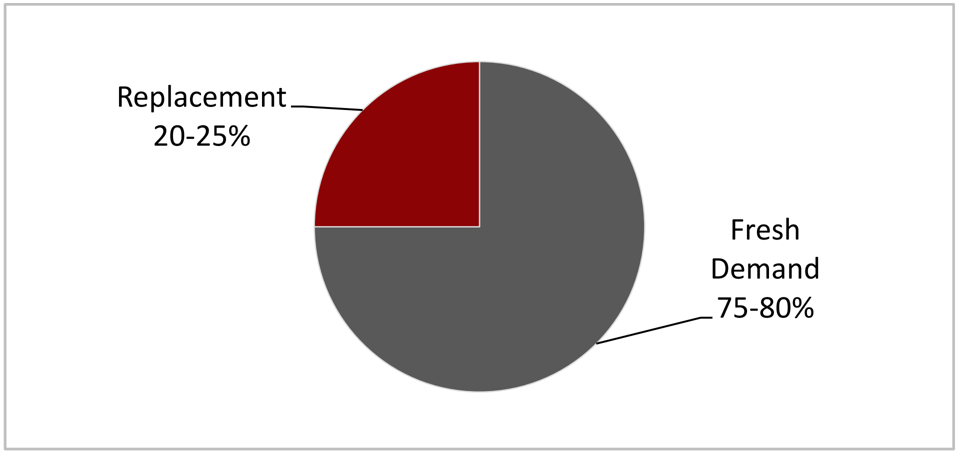
Non well irrigation coverage ~19% of cultivated land (2019)



100% tap coverage for rural households some time away



Renovation/Shift away from GI pipes est. 20-25% of market

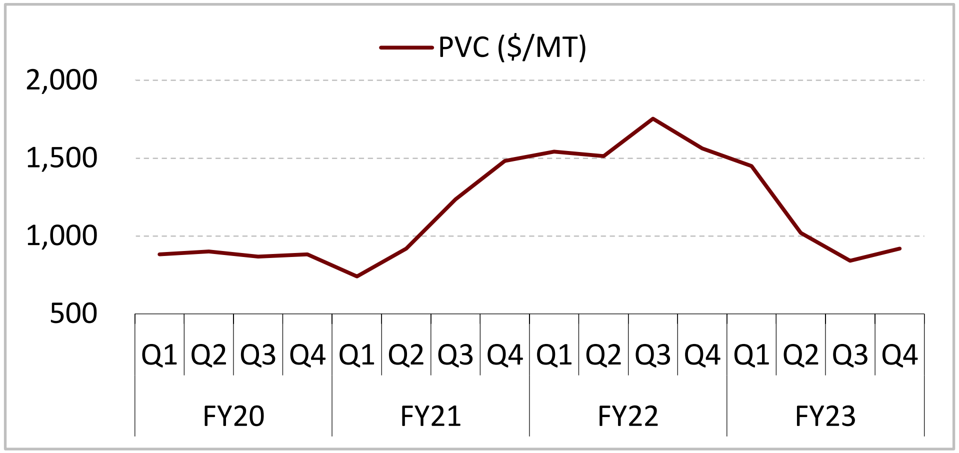


Source: *CRISIL, Ministry of Jalshakti, Ministry of Agriculture & Farmers Welfare, Industry, DAM Capital Research*

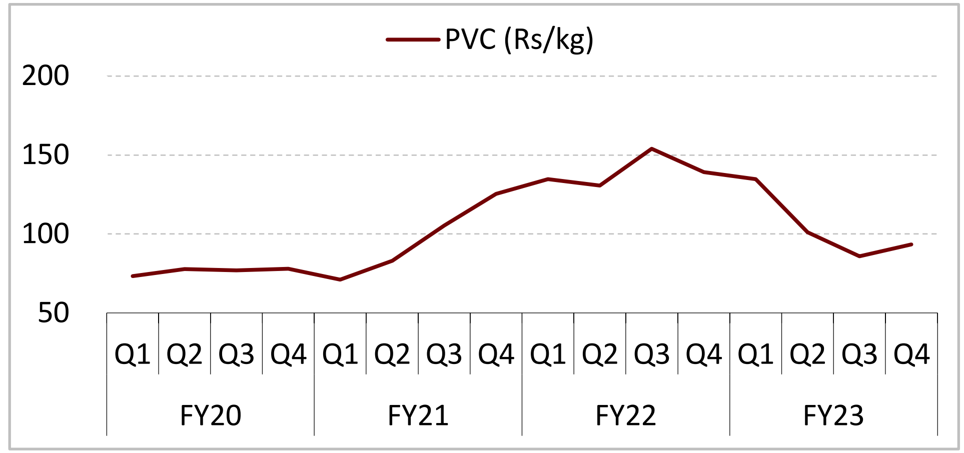
Multiple demand avenues not directly linked to primary real estate sales exist for pipes industry growth

Polymer price stability to aid normalisation of channel behaviour

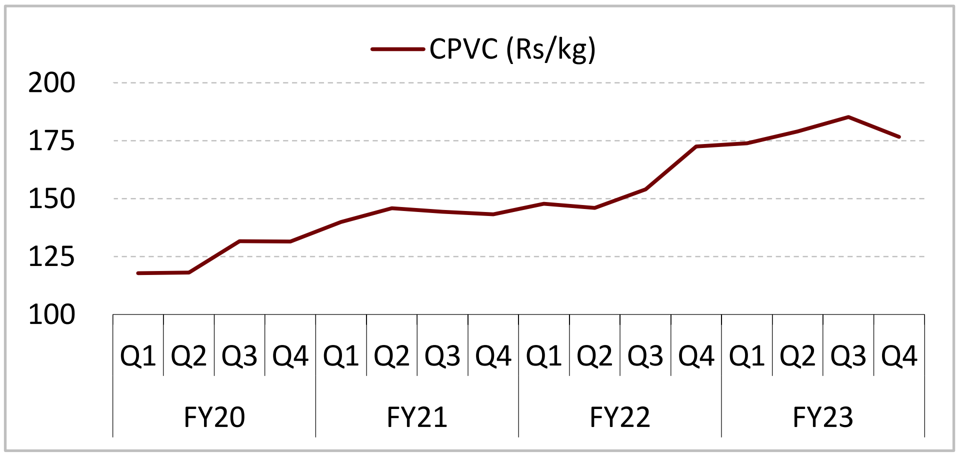
PVC prices have most likely bottomed out…



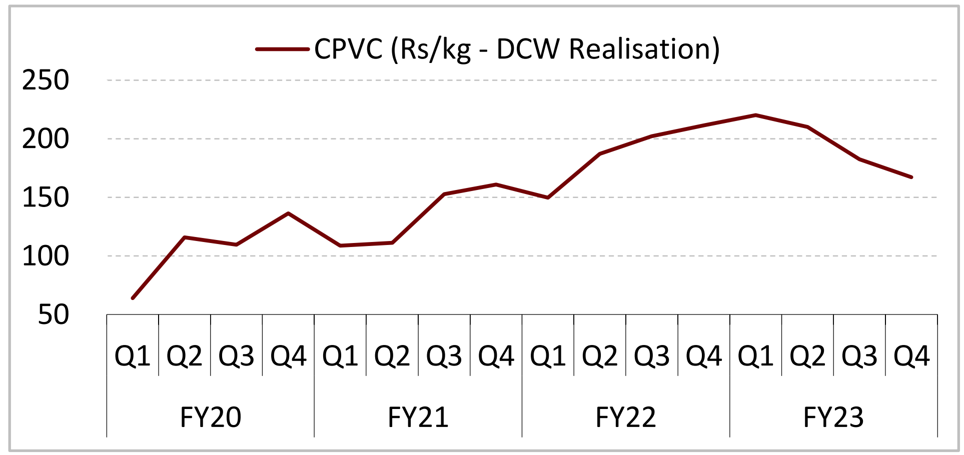
…and should settle in the current range as supply normalises



Expect CPVC prices to gradually trend lower…



…to its historical premium of ~50% vs PVC prices

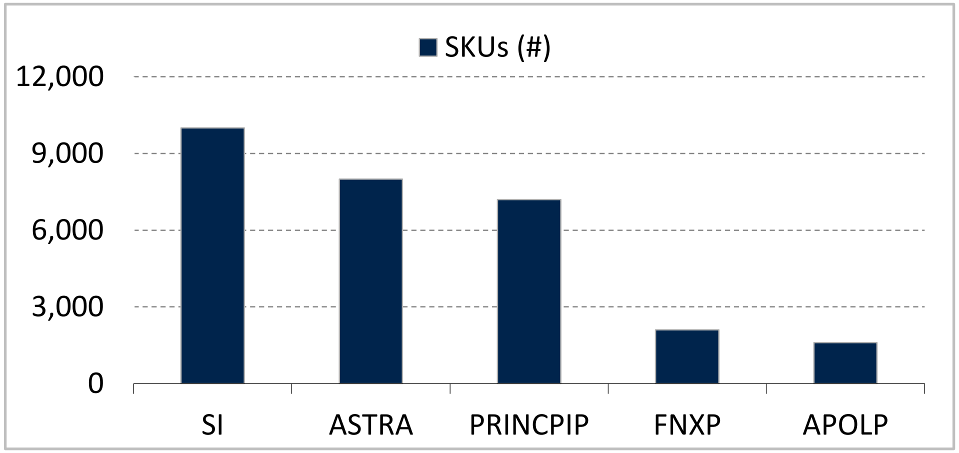


Source: *Industry, Company, DAM Capital Research*

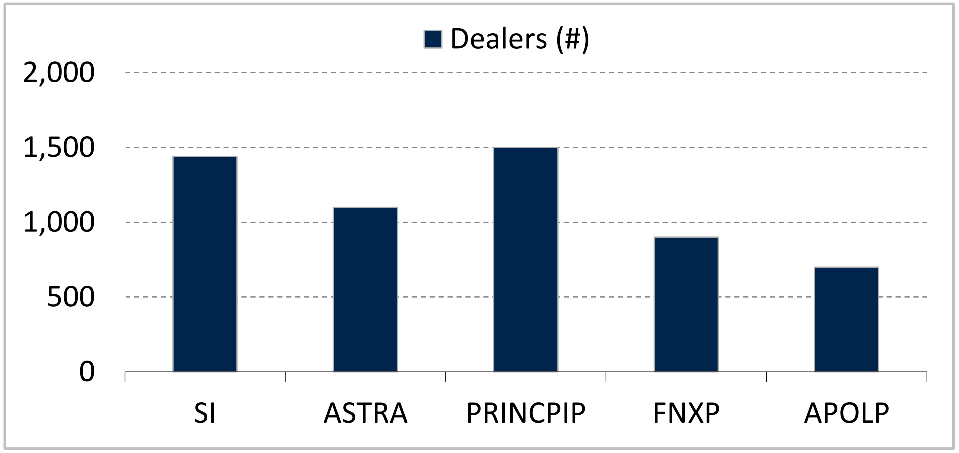
Polymer pricing stability (PVC already done, CPVC to come off gradually) should support normal pipe channel behavior

Large players well spread to capture growth opportunities

Large product portfolio…



… robust dealer network …



… and widespread manufacturing footprint crucial for companies to capture growth

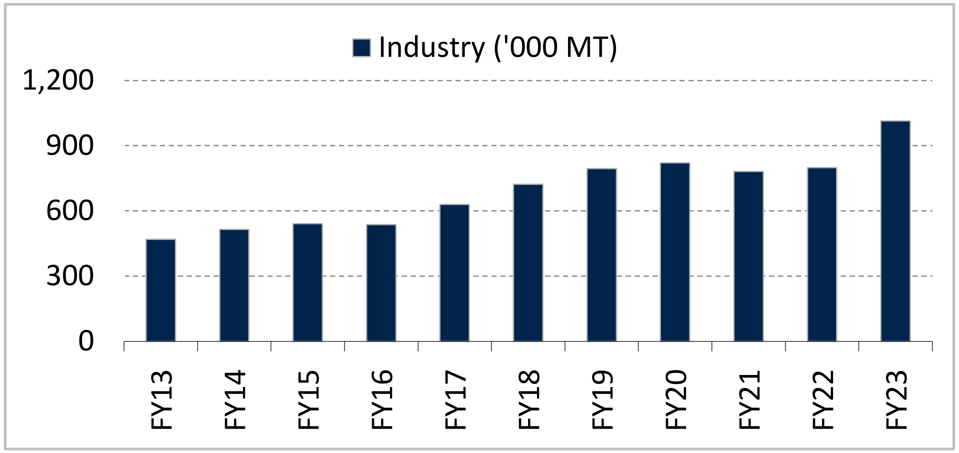
Company	Manufacturing Plants	Capacity (MTPA)	Presence
SI	13	600,000	Pan India
ASTRA	9	427,000	Pan India
PRINCPIP	7	315,000	Pan India
FNXP	3	418,000	North / West / Central / South
APOLP	5	136,000	North / Central / South

Source: *Company, DAM Capital Research*

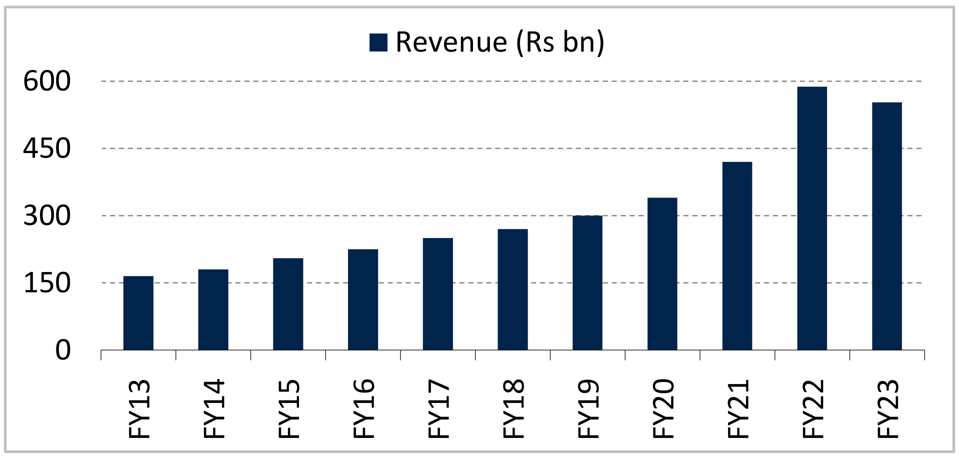
Large (established & upcoming) players have the means to capitalise on growth opportunities

Pipes – Double-digit industry growth despite headwinds shows sector resilience

Industry volume CAGR at ~9% for FY13-23 despite COVID…



…while revenue has grown ~13% CAGR over this period



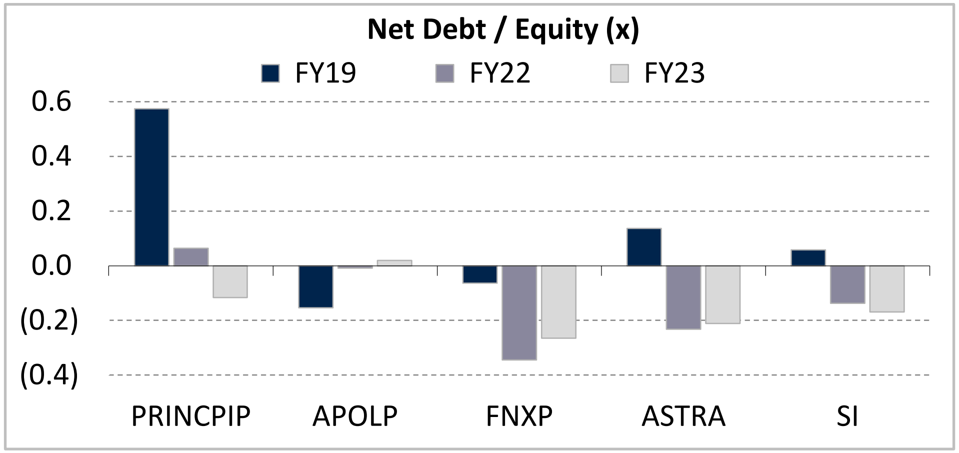
- **Per CRISIL and our estimates, the pipes industry delivered ~13% CAGR over FY13-23:**
  - FY21/22 had pricing led growth (given PVC price surge)
  - FY23 decline was due to higher price decline vis-à-vis industry volume growth
- **Secular growth despite industry headwinds:**
  - Real estate sector was weak, yet other sectors covered up
  - Government push for housing, drinking water access, infrastructure (including municipal/civil) has fuelled industry demand
  - COVID led to a super cycle in PVC prices which covered for volume sluggishness over FY21/22
- **Pricing discipline ensures relative level playing field:**
  - PVC (~60-70% of pipes industry) is procured either through large domestic producers or imports – both sources mean minimal scope for tax arbitrage
  - PVC price changes are almost immediately passed-through to the channel – leaving little scope for competitive pricing action

Source: *CRISIL, DAM Capital Research;* ***Note:*** *ASTRA, SI, FNXP, APOLP and PRINCPIP Pipe volume taken as proxy for industry data*

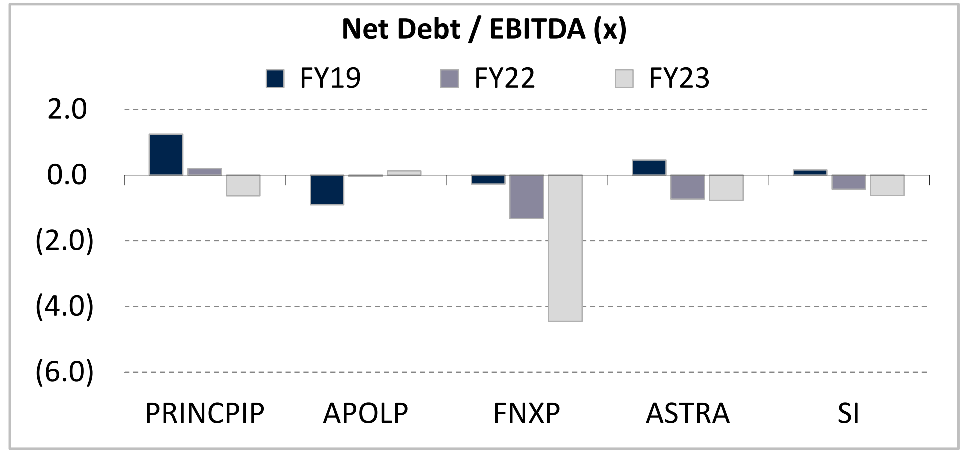
Pipes industry growth (~13% CAGR over FY13-23) has come despite sectoral headwinds

Strong balance sheets (despite PVC volatility) – an added arrow in leaders' quivers

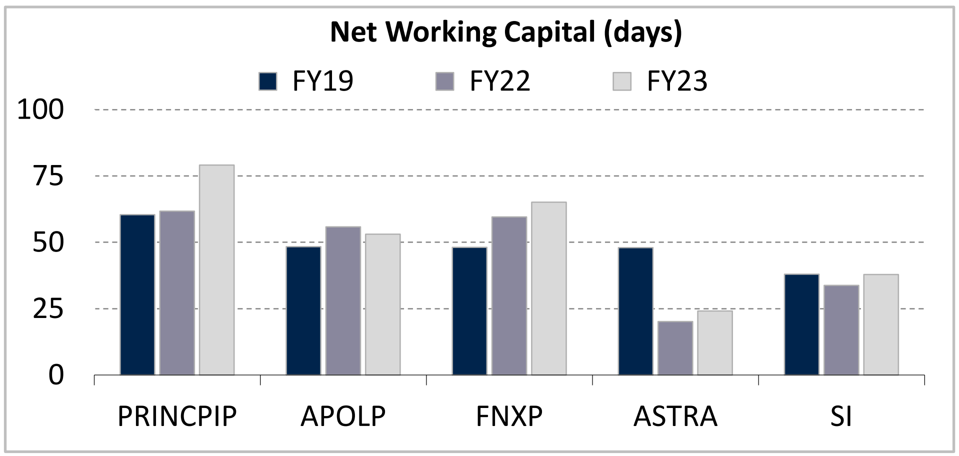
Strong net cash positions…



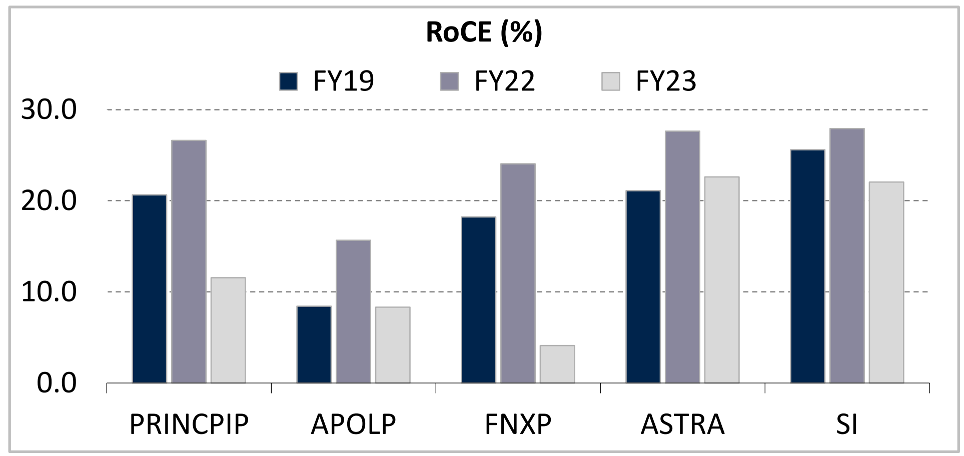
…provide assurance, especially during volatile PVC price times



Working capital at manageable levels



FY23 RoCEs impacted due to inventory losses



Source: *Company, DAM Capital Research*

Strong balance sheets provide cushions during input price shock times as seen over FY21-23

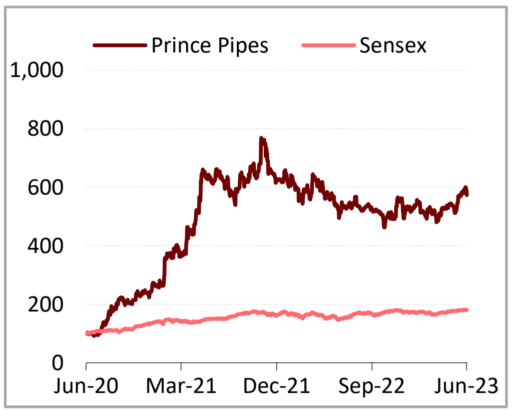
Initiating Coverage | **Price: Rs640** | **Target Price: Rs820** | **Mkt Cap: Rs71bn**

Stock Data

Bloomberg code	PRINCPIP IN
Potential from CMP (%)	28.1
6-mth avg. daily traded value (Rsm/USDm)	132.0 / 1.6
Promoter holding (%)	60.9

Key Ratios	FY23	FY24E	FY25E
PE	58.1	33.0	23.4
EV/EBITDA	27.6	17.9	13.2
RoE	9.3	14.7	18.1
RoCE	11.6	18.4	22.7

Price Performance	3-mth	6-mth	1-yr
PRINCPIP IN	11.6	16.0	12.6
BSE Sensex	8.7	5.2	20.5



Prince Pipes & Fittings Ltd.

Emerging one-stop-shop pipes challenger

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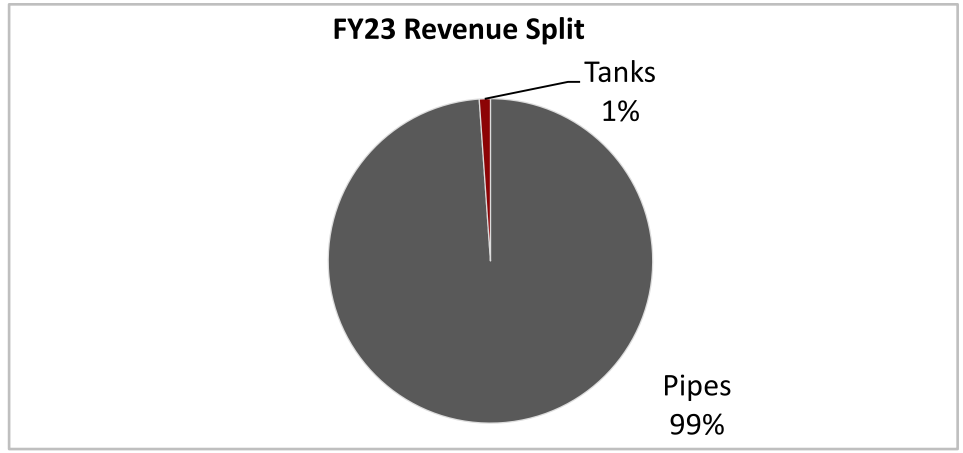
Email: aasim@damcapital.in

Prince Pipes & Fittings Ltd. (PRINCPIP)

PRINCPIP is India's fifth largest plastic pipes player and has a manufacturing footprint (~315k MTPA) spread across the country (barring East India where it currently depends on outsourcing partners). The brand 'Prince' is relatively strong in the retail space and PRINCPIP is currently (through its partnership with Lubrizol) actively building up its presence in building projects. The company is also manufacturing water tanks and has launched its Bathware business in Q1FY24E.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	15,718	16,357	20,715	26,568	27,109	29,166	36,106
YoY (%)	*19.7*	*4.1*	*26.6*	*28.3*	*2.0*	7.6	23.8
EBITDA (Rs m)	1,840	2,288	3,616	4,156	2,508	3,792	5,055
EBITDAM (%)	11.7	14.0	17.5	15.6	9.3	13.0	14.0
Net Income (Rs m)	821	1,125	2,218	2,494	1,219	2,146	3,026
PATM (%)	5.2	6.9	10.7	9.4	4.5	7.4	8.4
RoE (%)	22.9	18.2	23.6	21.6	9.3	14.7	18.1
RoCE (%)	20.7	19.5	26.5	26.6	11.6	18.4	22.7
NWC (Days)	60	65	52	62	79	70	70
OCF/EBITDA (%)	118.8	44.7	80.7	(4.7)	143.8	65.1	44.5

Source: *Company, DAM Capital Research*

Investment Rationale

- **Metamorphizing into a credible leader in pipes…**
  - Focus on product quality and entering new categories (across polymers) has helped PRINCPIP shed its tag as a 'mid tier' player and transform into a top league brand
  - Brand building efforts – higher A&P spends (avg. 2% of rev. over FY16-23), on-boarding of the brand ambassador and dealer events to help reduce price discount vis-à-vis large peers
  - Production capacity now at ~315k MTPA (in North/West/South India) – fourth largest in the industry
- **…with an eye to up its competitive advantages further**
  - ~35k MTPA plant planned in Bihar (by Q4FY25E) to be the eastern piece of its pan India jigsaw puzzle
  - Lubrizol tie-up to aid in higher CPVC pipe sales, drive better real estate project penetration and eventually up the company's brand equity (and eventually price premium)
  - Entry into adjacencies – Tanks at ~Rs300mn (~1% of revenue), Bathware (launched in Q1FY24E)
- **Healthy financial track record provides comfort**
  - Steady revenue growth of ~15% CAGR over FY16-23 on the back of ~20% median RoCE (FY23 RoCE drop is due to inventory losses)
  - Receivable days have trended lower from ~82 in FY16 to 57 in FY23. NWC has jumped YoY in FY23 mainly due to higher inventory – which should correct in FY24E
  - Net cash company since IPO

View – Emerging one-stop-shop challenger

- **What we like?**
  - Fifth largest pipes player going up the value chain

- **What we dislike?**
  - Legacy player but, unlike other leaders (SI, ASTRA, FNXP), has not captured a niche and mastered it
  - Bathware entry – a potential margin guzzler if not managed well (not modeled in financials)

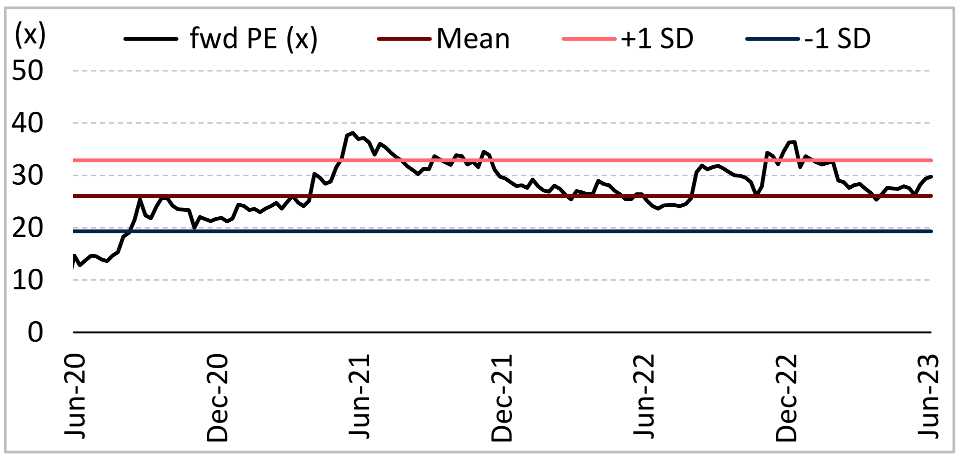
- **What's in the price (Rs640/share)?**
  - ~14%/22% revenue/EBITDA CAGR over FY23-33E
  - Fair growth expectations as PRINCPIP should (in tandem with leaders) grow ahead of market growth
  - Margin improvement from current levels is expected from higher VAP share (including CPVC) and shrinking price discount between itself and market leaders.

View – Emerging one-stop-shop challenger

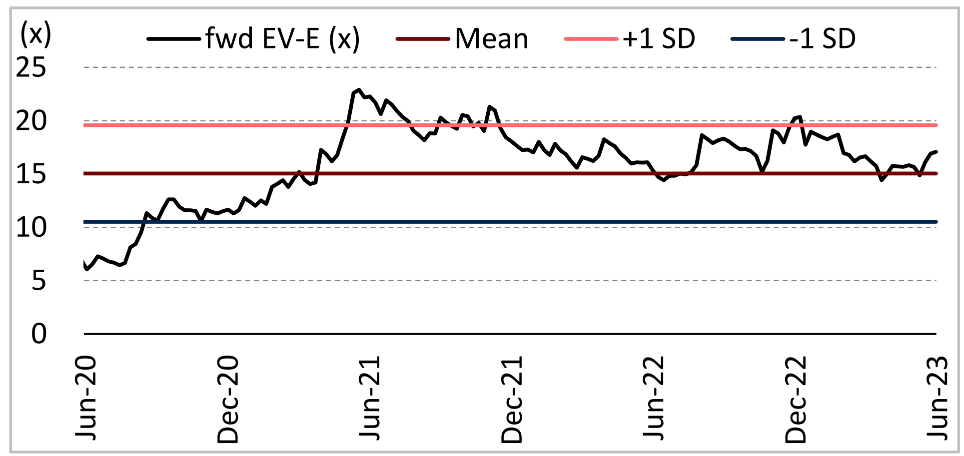
➢ View – Initiate Coverage with BUY rating (TP Rs820/28% upside)

- Estimate ~18% volume / ~15% revenue CAGR over FY23-25E (prices to drop from high levels). Margins to bounce back to 14.0% (vs 9.3% in FY23 – pressured by inventory losses)
- Margin expansion (higher value mix, operating leverage, plant decentralization) and declining WC to help in RoCE rebound to ~23% by FY25E (vs ~20% pre-COVID; ~26% in FY21/22 was due to inventory gains)
- PRINCPIP is doing all the right things (tech tie-ups, reach expansion, targeting new markets, marketing, balance sheet discipline) to become an eventual challenger brand
- **Initiate coverage with a BUY rating. TP Rs820 (30x FY25E P/E / 28% upside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart

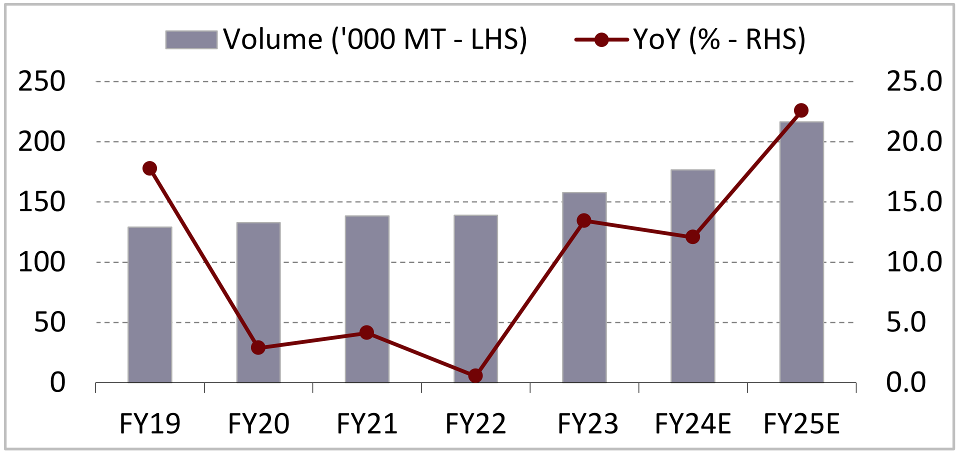


Source: *Bloomberg, DAM Capital Research*

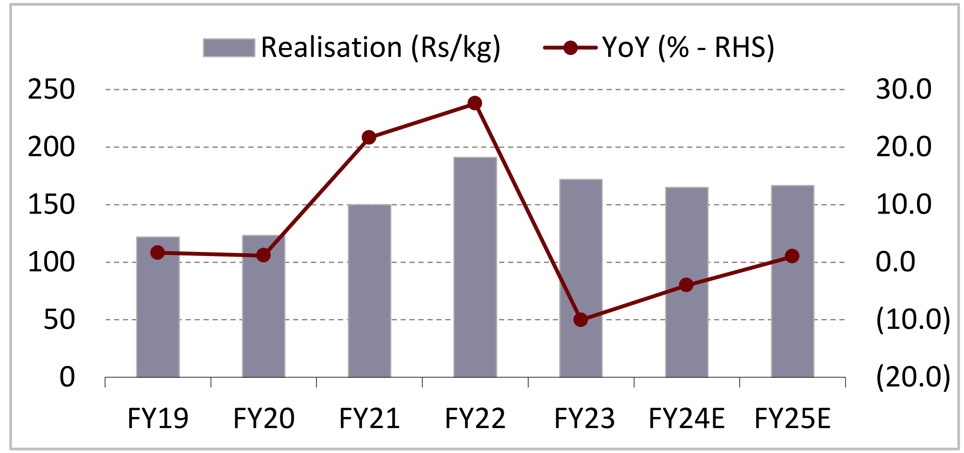
View – Emerging one-stop-shop challenger

Key Assumptions	FY20	FY21	FY22	FY23	FY24E	FY25E
Volume (MT)	132,816	138,289	139,034	157,717	176,759	216,650
YoY (%)	*2.9*	*4.1*	*0.5*	*13.4*	*12.1*	*22.6*
Revenue (Rs m)	**16,357**	**20,715**	**26,568**	**27,109**	**29,166**	**36,106**
YoY (%)	*4.1*	*26.6*	*28.3*	*2.0*	*7.6*	*23.8*
EBITDA (Rs m)	**2,288**	**3,616**	**4,156**	**2,508**	**3,792**	**5,055**
YoY (%)	*24.3*	*58.1*	*14.9*	*(39.6)*	*51.2*	*33.3*
Margin (%)	***14.0***	***17.5***	***15.6***	***9.3***	***13.0***	***14.0***
EBITDA (Rs/kg)	**17.2**	**26.2**	**29.9**	**15.9**	**21.5**	**23.3**
YoY (%)	*20.9*	*51.8*	*14.3*	*(46.8)*	*34.9*	*8.8*

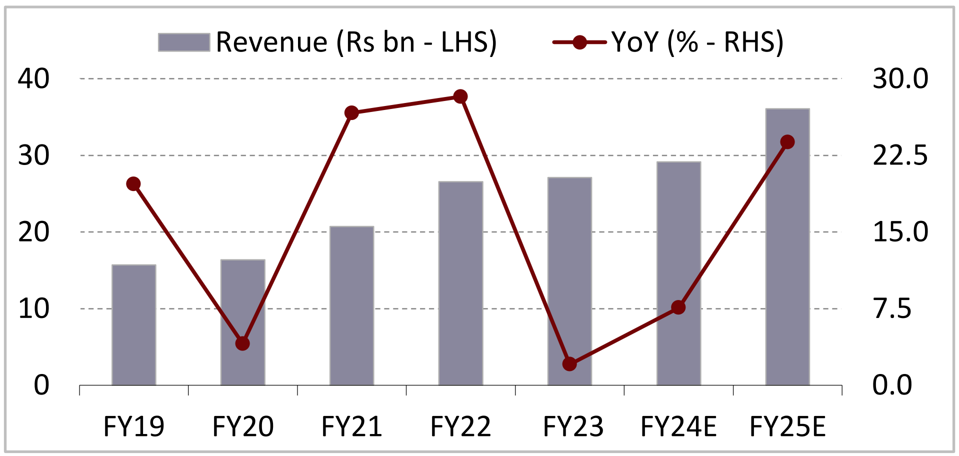
Capacity addition driven ~18% vol. CAGR over FY23-25E



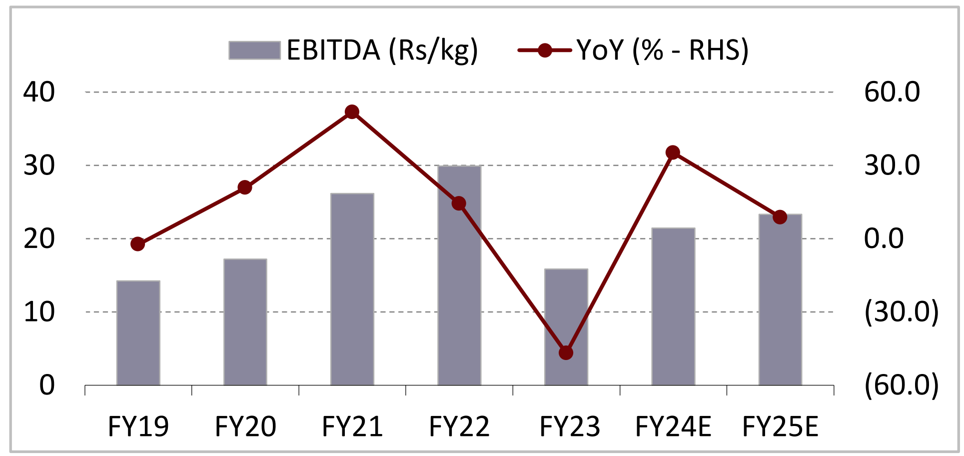
PVC drop to drive lower realisation vs FY23 levels



Volume led revenue growth ahead…



…which should also push up overall profitability

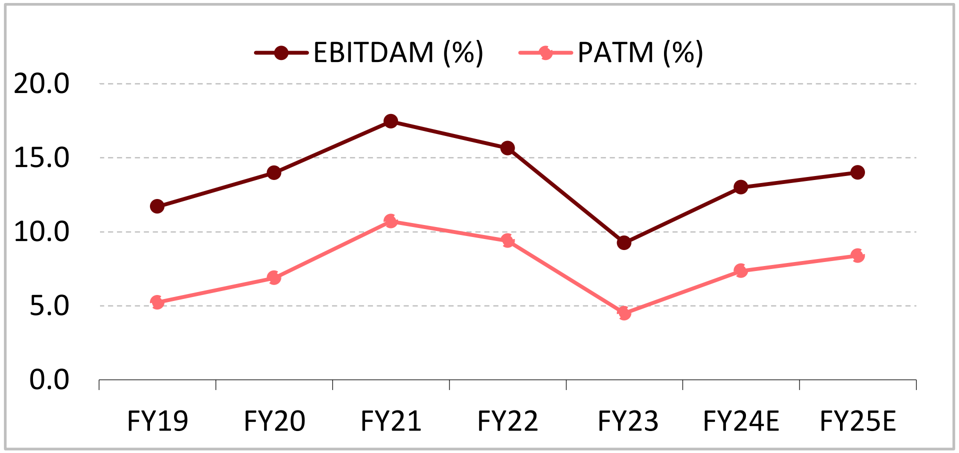


Source: *Company, DAM Capital Research*

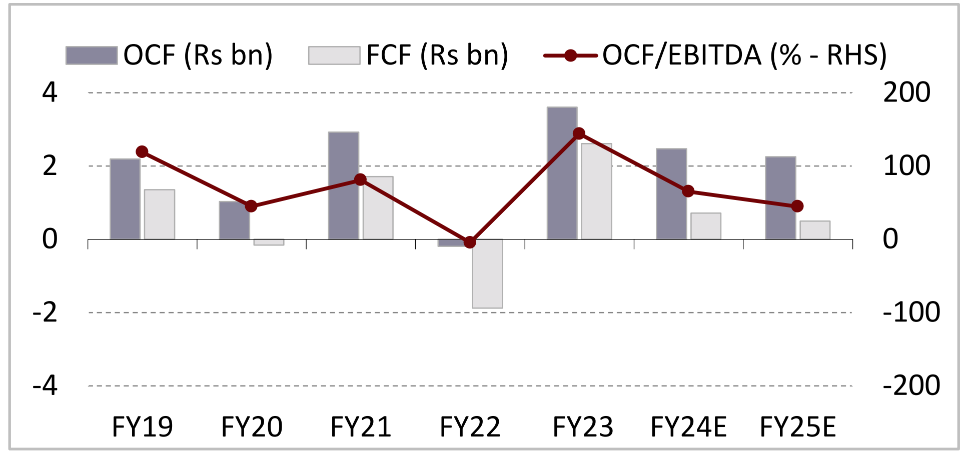
Revenue growth to lag volume growth due to drop in realisations (vs FY23), but margins to recover from FY23 lows

Story in charts

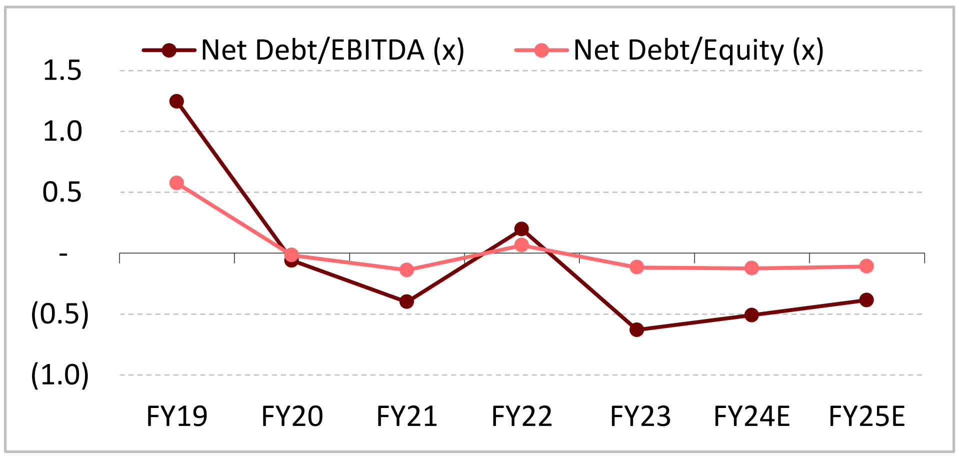
Inventory losses behind, expect margin recovery ahead



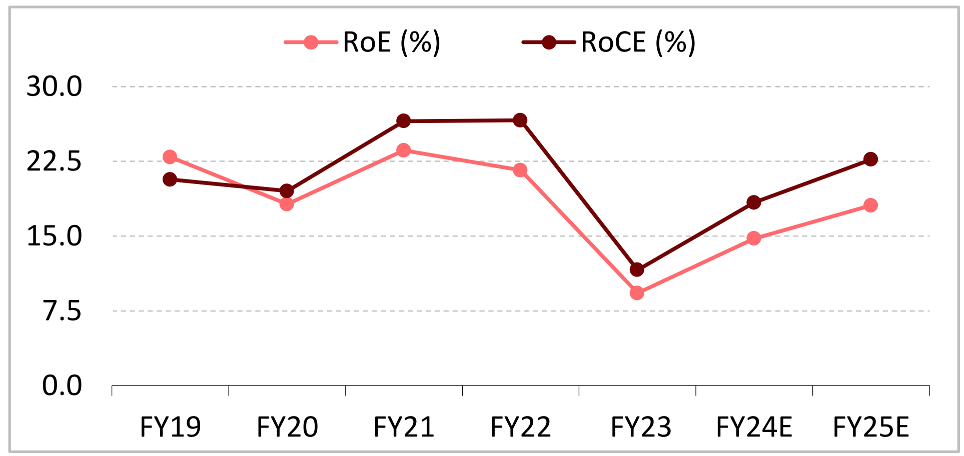
Cash generation to remain healthy over FY24E/25E



Net cash position to strengthen courtesy cash generation



Expect return ratios to also normalise post FY23 lows



Source: *Company, DAM Capital Research*

Better profitability and continued discipline on the balance sheet should drive cash generation and RoCE expansion

Prince Pipes & Fittings

CMP: Rs640; Mkt Cap: Rs71bn

P&L Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**20,715**	**26,568**	**27,109**	**29,166**	**36,106**
% growth	26.6	28.3	2.0	7.6	23.8
Operating expenses	17,099	22,412	24,600	25,375	31,051
EBITDA	**3,616**	**4,156**	**2,508**	**3,792**	**5,055**
% change	58.1	14.9	(39.6)	51.2	33.3
Other income	176	55	86	102	144
Net interest cost	207	139	110	46	21
Depreciation	594	703	830	980	1,134
Pre-tax profit	2,991	3,369	1,654	2,868	4,044
Deferred tax	0	0	0	0	0
Current tax	773	875	434	722	1,018
Profit after tax	**2,218**	**2,494**	**1,219**	**2,146**	**3,026**
Minorities	0	0	0	0	0
Adjusted net profit	**2,218**	**2,494**	**1,219**	**2,146**	**3,026**
Non-recurring items	0	0	0	0	0
Reported net profit	**2,218**	**2,494**	**1,219**	**2,146**	**3,026**

Cash Flow (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	2,991	3,369	1,654	2,868	4,044
Depreciation	594	703	830	980	1,134
Chg in Working capital	83	(3,506)	1,676	(827)	(2,074)
Total tax paid	(773)	(875)	(434)	(722)	(1,018)
Net Interest	207	139	110	46	21
Others	(161)	(13)	31	0	0
Operating cash flow	**3,113**	**(243)**	**3,898**	**2,467**	**2,247**
Capital expenditure	(1,428)	(1,589)	(1,190)	(1,750)	(1,750)
Free cash flow (a+b)	**1,685**	**(1,833)**	**2,708**	**717**	**497**
Chg in investments	(8)	(2)	14	0	0
Debt raised/(repaid)	(1,580)	648	(919)	(250)	(250)
Net interest	(207)	(139)	(110)	(46)	(21)
Capital raised/(repaid)	(6)	107	0	0	0
Dividend (incl. tax)	165	385	221	322	454

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	**1,100**	**1,106**	**1,106**	**1,106**	**1,106**
Reserves & surplus	9,335	11,547	12,534	14,358	16,931
Shareholders' equity	**10,435**	**12,653**	**13,640**	**15,464**	**18,036**
Total current liabilities	4,279	4,988	4,016	4,524	5,503
Total debt	852	1,500	581	331	81
Deferred tax liabilities	133	123	137	137	137
Other non-current liabilities	130	127	168	178	202
Total liabilities	5,394	6,738	4,902	5,170	5,923
Total equity & liabilities	**15,829**	**19,390**	**18,542**	**20,634**	**23,959**
Net fixed assets	5,795	6,682	7,041	7,811	8,427
Investments	15	17	3	3	3
Cash	2,299	687	2,161	3,219	4,011
Other current assets	7,326	11,580	9,091	9,354	11,272
Deferred tax assets	0	0	0	0	0
Other non-current assets	394	425	246	246	246
Net working capital	5,346	7,279	7,236	8,049	9,780
Total assets	**15,829**	**19,390**	**18,542**	**20,634**	**23,959**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	17.5	15.6	9.3	13.0	14.0
EBIT margin (%)	14.6	13.0	6.2	9.6	10.9
PAT margin (%)	10.7	9.4	4.5	7.4	8.4
RoE (%)	23.6	21.6	9.3	14.7	18.1
RoCE (%)	26.5	26.6	11.6	18.4	22.7
Gearing (x)	(0.1)	0.1	(0.1)	(0.1)	(0.1)
Net debt/ EBITDA (x)	(0.4)	0.2	(0.6)	(0.5)	(0.4)
FCF yield (%)	2.4	(2.6)	3.8	1.0	0.7
Dividend yield (%)	(0.2)	(0.5)	(0.3)	(0.5)	(0.6)

Valuations	FY21	FY22	FY23E	FY24E	FY25E
Reported EPS (Rs)	**20.2**	**22.6**	**11.0**	**19.4**	**27.4**
Adj. EPS (Rs)	20.2	22.6	11.0	19.4	27.4
PE (x)	31.8	28.3	58.1	33.0	23.4
Price/ Book (x)	6.8	5.6	5.2	4.6	3.9
EV/ Net sales (x)	3.3	2.7	2.6	2.4	1.9
EV/ EBITDA (x)	19.1	17.2	27.6	18.2	13.6
EV/ CE (x)	6.0	5.0	4.8	4.3	3.7

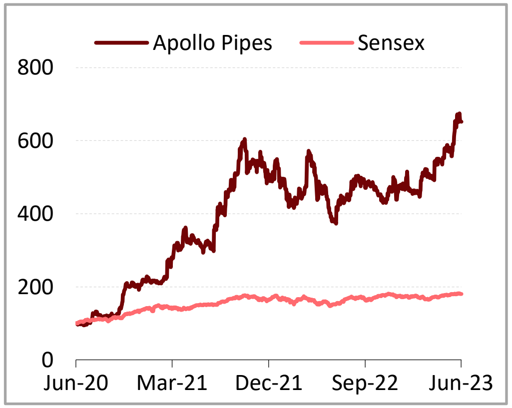
Initiating Coverage	Price: Rs708	Target Price: Rs840	Mkt Cap: 28bn

Stock Data

Bloomberg code	APOLP IN
Potential from CMP (%)	18.5
6-mth avg. daily traded value (Rsm/USDm)	63.0 / 0.8
Promoter holding (%)	52.0

Key Ratios	FY23	FY24E	FY25E
PE	90.3	42.9	32.1
EV/EBITDA	31.9	21.7	16.2
RoE	5.5	12.5	12.9
RoCE	8.3	15.6	16.2

Price Performance	3-mth	6-mth	1-yr
APOLP IN	28.9	49.4	72.1
BSE Sensex	8.7	5.2	20.5



Apollo Pipes Ltd.

Charting its own growth destiny!

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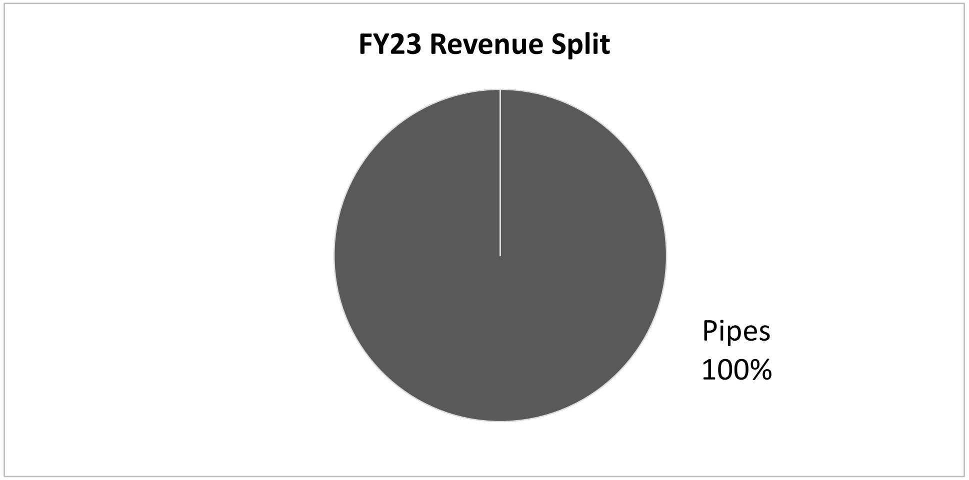
Email: aasim@damcapital.in

Apollo Pipes Ltd. (APOLP)

APOLP is a fast-growing pipes company (and has maintained this growth rate despite the PVC downcycle over FY23). It is primarily a North India player which in recent years has established roots in West and South India (~136k MTPA capacity). Leveraging its group company APL Apollo's channels and brand salience, APOLP has grand growth plans to become a key and serious pipes player in the Indian market.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	3,618	4,080	5,181	7,841	9,145	11,728	15,374
YoY (%)	*27.2*	*12.7*	*27.0*	*51.3*	*16.6*	*28.2*	*31.1*
EBITDA (Rs m)	392	464	743	934	680	1,349	1,845
EBITDAM (%)	10.8	11.4	14.3	11.9	7.4	11.5	12.0
Net Income (Rs m)	256	285	445	498	239	688	973
PATM (%)	7.1	7.0	8.6	6.3	2.6	5.9	6.3
RoE (%)	14.9	10.6	13.5	13.2	5.5	12.5	12.9
RoCE (%)	8.4	9.0	13.8	15.6	8.3	15.6	16.2
NWC (Days)	48	56	59	56	53	48	47
OCF/EBITDA (%)	65.9	26.5	28.1	38.9	101.1	55.5	80.2

Source: *Company, DAM Capital Research*

Investment Rationale

- **Outperforming peers as it moves to become a national player**
  - Albeit from a smaller base, APOLP has grown revenue at ~24% CAGR over FY16-23 period – far faster than its large peers (which have grown 11-16%)
  - Industry leading growth has helped APOLP break away from its traditional North India bastion – 25-30% of revenue now comes from West/South/Central India
- **Climbing up the value-added products ladder**
  - APOLP has successfully steered its growth in favour of higher value plumbing sales over agri in recent years
  - Low margin Agri share to the total revenue has dropped from ~60%+ in FY19 to <50% in FY23, while higher margin plumbing sales is now ~50%+ (vs ~<30% in FY19)
  - CPVC/Fittings revenue CAGR over FY19-23 at ~50% vs overall growth of ~30% in the same period
- **Unsatiated appetite for growth with an eye on RoCE**
  - Production capacity to double to ~286k MTPA in 3-4 years (vs ~136k currently) – capex of ~Rs5bn
  - Targeting ~30% revenue CAGR over next five years (we estimate ~27% CAGR over FY23-28E) – capacity augmentation, growing presence/VAP share in non-North India markets
  - GM expansion to be used on A&P and dealer incentives (including discounts to push cash-and-carry sales)
  - Razor sharp focus on balance sheet as it pursues growth – equity infusion commitments of ~Rs2.5bn from promoters, tightening WC to keep debt levels low

View – Springboarding itself into the big league

What we like?

- Outperformance vs peers – revenue/EBITDA while debt/working capital has reduced
- Increasing share from higher-margin non-Agri segments

What we dislike?

- Pace of margin expansion to be stunted in the near-term (higher A&P spends to support growth)

What's in the price (Rs708/share)?

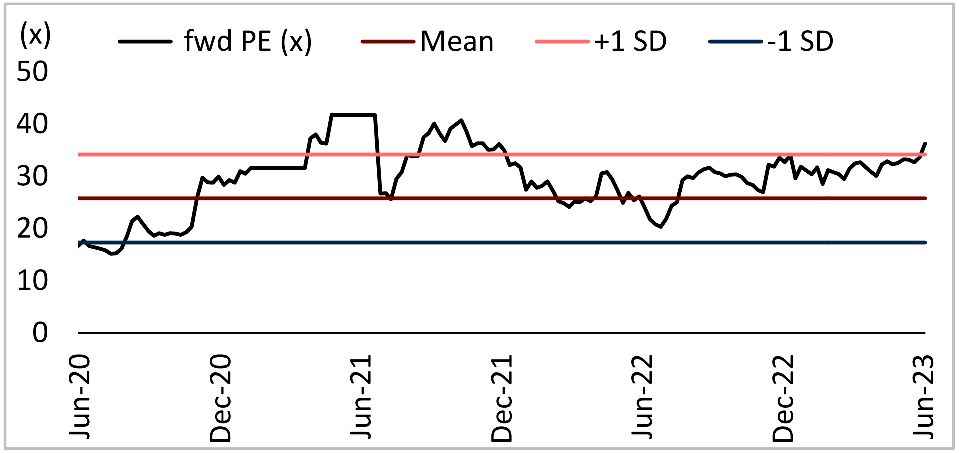
- 21%/29% revenue/EBITDA CAGR over FY23-33E
- Current price does not fully factor in potential growth from APOLP's aggressive expansion plans
- Upside risks – Growing close or above its 30% CAGR goal / margin expansion faster than anticipation

View – Springboarding itself into the big league

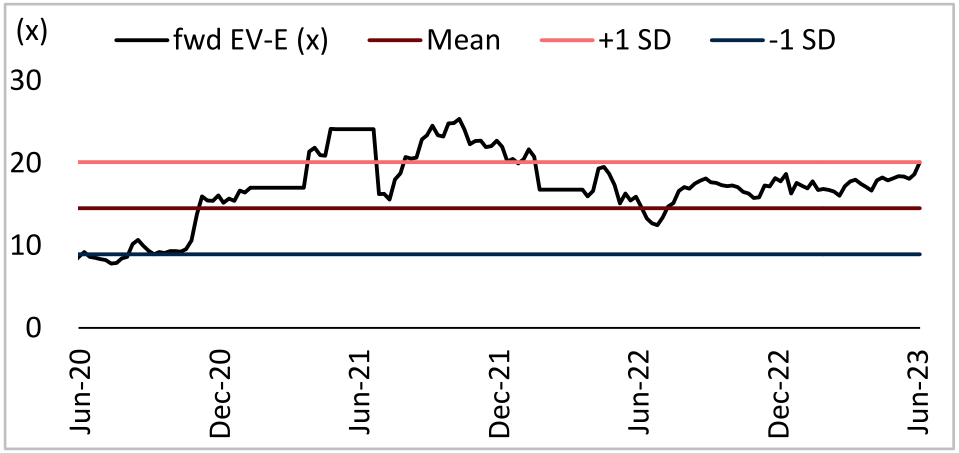
➢ View – Initiate Coverage with BUY rating (TP Rs840/19% upside)

- APOLP has demonstrated (1) ~2x+ growth versus industry (and ~50% higher than top peers), (2) margin expansion (as agri mix has reduced in favour of plumbing), and (3) keeping WC under check.
- Stable OCF generation (indicates judicious WC/margin management despite high growth) and while FCF has been negative over FY19-23 given capex, zero debt status is a positive.
- **Initiate coverage with a BUY rating. TP Rs840 (38x FY25E P/E on diluted basis – we assume equity dilution (through promoter preferential issue) over FY24E/25E; 34x FY25E on undiluted basis).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart



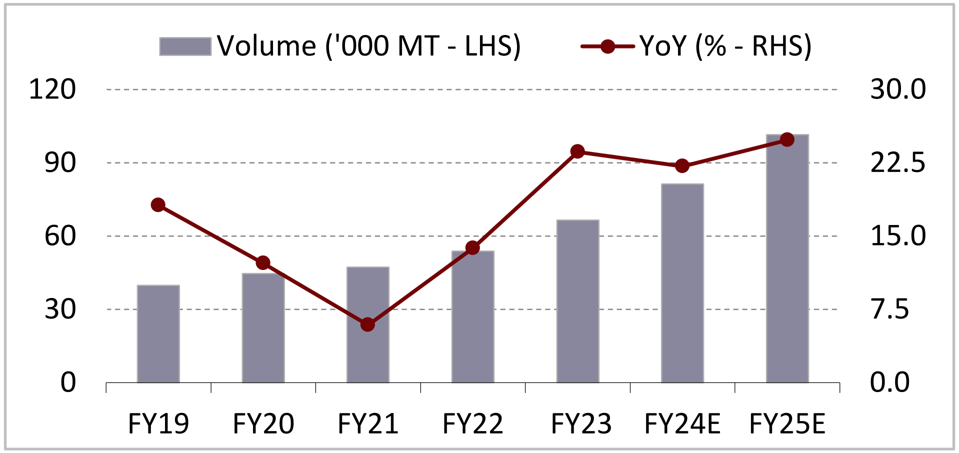
Source: *Bloomberg, DAM Capital Research*

View – Springboarding itself into the big league

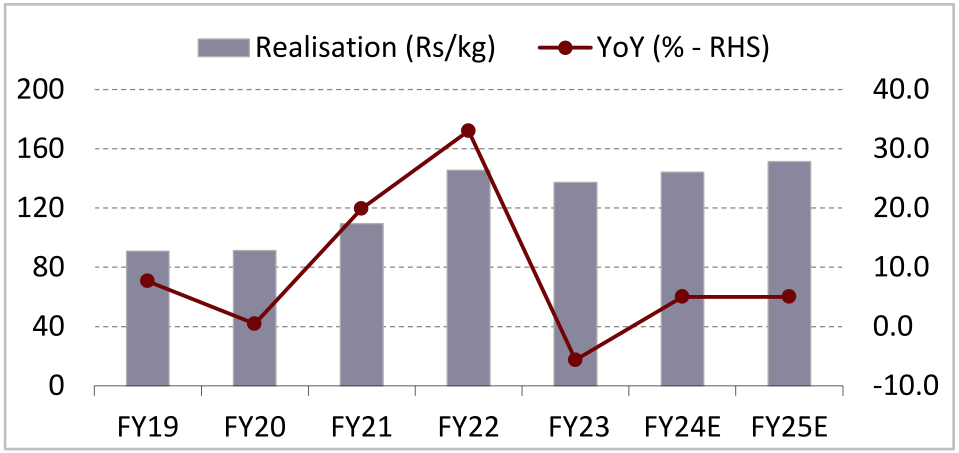
Key Assumptions	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Pipes:							
Volume (MT)	39,823	44,692	47,333	53,849	66,567	81,305	101,500
YoY (%)	*18.1*	*12.2*	*5.9*	*13.8*	*23.6*	*22.1*	*24.8*
Revenue (Rs m)	**3,618**	**4,080**	**5,181**	**7,841**	**9,145**	**11,728**	**15,374**
YoY (%)	*27.2*	*12.7*	*27.0*	*51.3*	*16.6*	*28.2*	*31.1*
EBITDA (Rs m)	**392**	**464**	**743**	**934**	**680**	**1,349**	**1,845**
YoY (%)	*19.1*	*18.4*	*60.2*	*25.8*	*(27.2)*	*98.3*	*36.8*
Margin (%)	***10.8***	***11.4***	***14.3***	***11.9***	***7.4***	***11.5***	***12.0***
EBITDA (Rs/kg)	**9.8**	**10.4**	**15.7**	**17.3**	**10.2**	**16.6**	**18.2**
YoY (%)	*0.8*	*5.5*	*51.3*	*10.6*	*(41.1)*	*62.3*	*9.6*

Story in charts

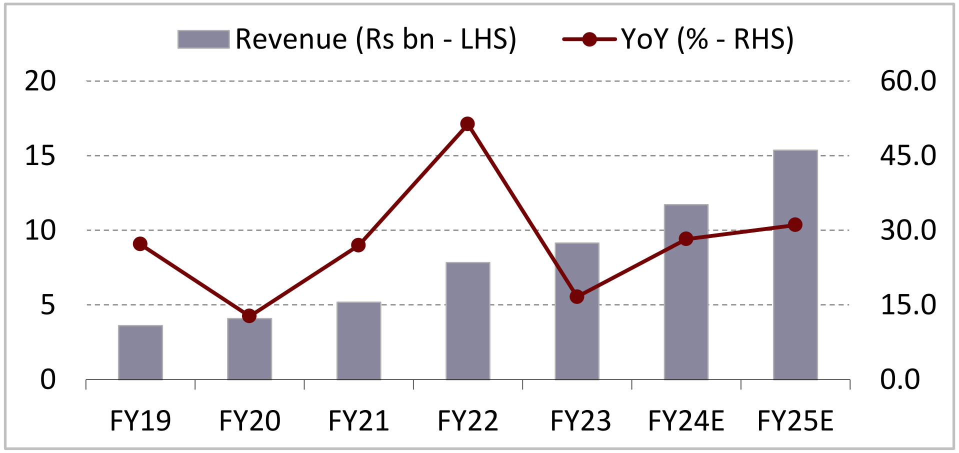
Aggressive growth to power ~24% vol. CAGR over FY23-25E



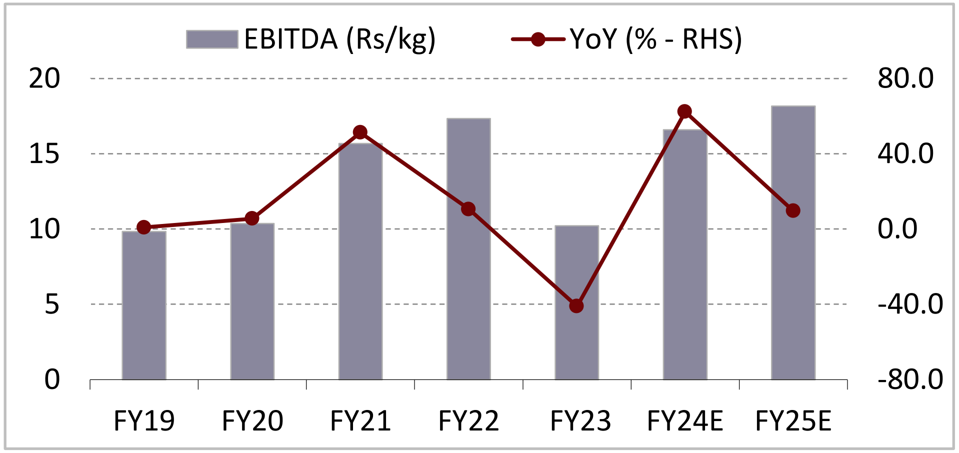
Expect mix led improvement to continue over FY24E/25E



Volume/mix to drive ~30% revenue CAGR over FY23-25E



…which should also push up overall profitability

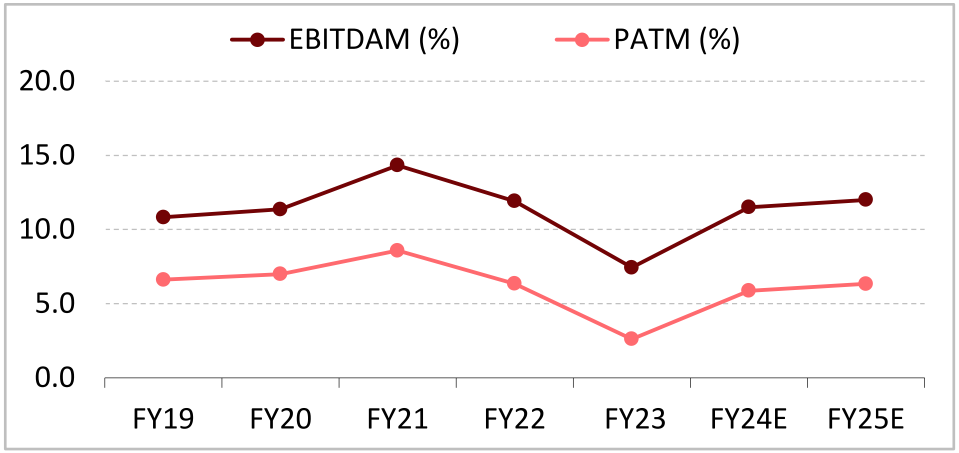


Source: *Company, DAM Capital Research*

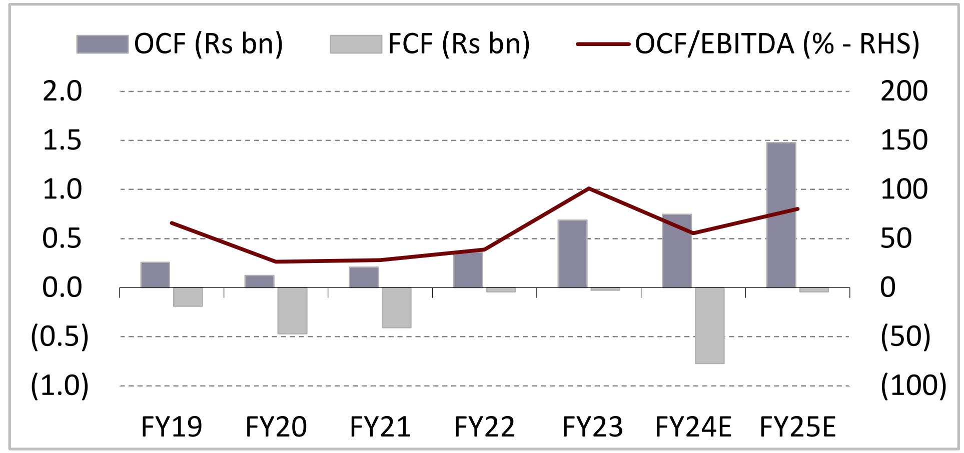
Industry leading volume growth to continue while improving mix in favour of non-agri categories to drive margins

Story in charts

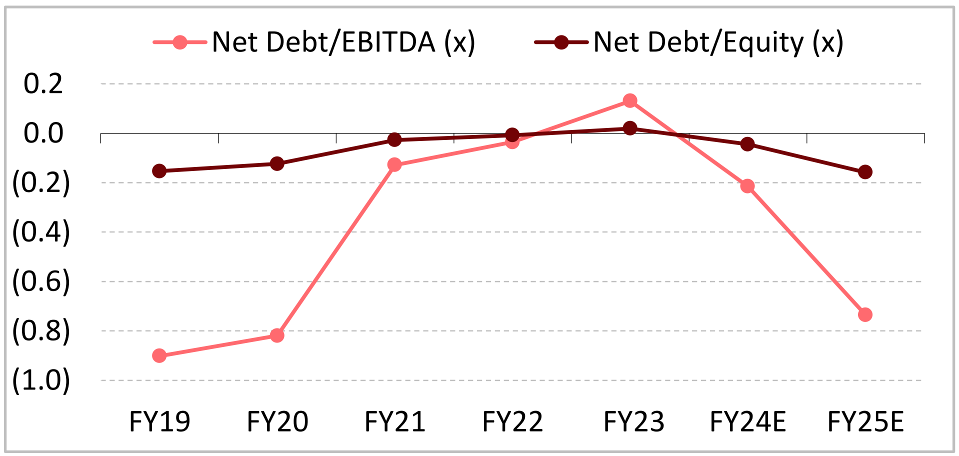
Normalised margins seen in FY20 to be breached in FY25E



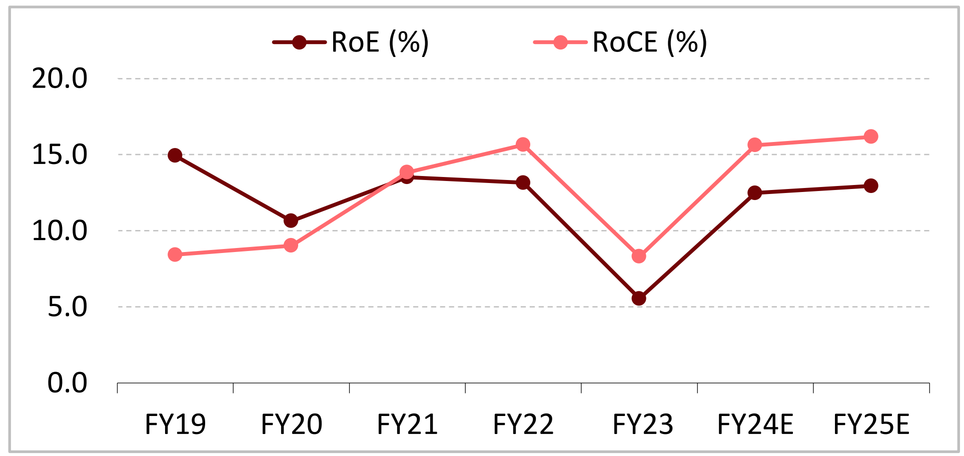
FCF generation to remain low given aggressive capex



Net cash levels to improve from FY24E onwards



Pencil in ~16% RoCE in FY25E



Source: *Company, DAM Capital Research*

Improving margins (along side growth) to drive OCF generation as well as Net Cash/RoCE improvement

Apollo Pipes

CMP: Rs708; Mkt Cap: US$xxxm

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**5,181**	**7,841**	**9,145**	**11,728**	**15,374**
% growth	*27.0*	*51.3*	*16.6*	*28.2*	*31.1*
Operating expenses	4,438	6,907	8,465	10,380	13,529
EBITDA	**743**	**934**	**680**	**1,349**	**1,845**
% change	*60.2*	*25.8*	*(27.2)*	*98.3*	*36.8*
Other income	84	38	20	23	46
Net interest cost	44	43	89	44	44
Depreciation	176	257	284	409	547
Pre-tax profit	607	672	327	920	1,300
Deferred tax	0	0	0	0	0
Current tax	162	174	88	232	327
Profit after tax	**445**	**498**	**239**	**688**	**973**
Preference dividend	0	0	0	0	0
Adjusted net profit	**445**	**498**	**239**	**688**	**973**
Non-recurring items	0	0	0	0	0
Reported net profit	**445**	**498**	**239**	**688**	**973**

Cash Flow (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	607	672	327	920	1,300
Depreciation	176	257	284	409	547
Chg in Working capital	(325)	(433)	158	(561)	(140)
Total tax paid	(162)	(174)	(88)	(232)	(327)
Net Interest	44	43	89	44	44
Others	0	0	0	0	0
Operating cash flow	**372**	**393**	**728**	**748**	**1,479**
Capital expenditure	(617)	(405)	(712)	(1,520)	(1,520)
Free cash flow (a+b)	**(245)**	**(11)**	**16**	**(772)**	**(41)**
Chg in investments	0	(38)	(359)	0	0
Debt raised/(repaid)	(272)	(242)	50	0	0
Net interest	(44)	(43)	(89)	(44)	(44)
Capital raised/(repaid)	0	(1)	0	1,298	1,298
Dividend (incl. tax)	0	(40)	(50)	(106)	(149)

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	131	393	393	417	440
Reserves & surplus	3,384	3,660	4,178	6,037	8,139
Shareholders' equity	**3,515**	**4,053**	**4,572**	**6,455**	**8,580**
Total current liabilities	762	969	1,547	1,593	2,299
Total debt	**629**	**387**	**437**	**437**	**437**
Deferred tax liabilities	24	14	44	44	44
Other non-current liabilities	14	16	20	24	30
Total liabilities	1,428	1,385	2,047	2,097	2,810
Total equity & liabilities	**4,943**	**5,439**	**6,619**	**8,553**	**11,390**
Net fixed assets	2,287	2,435	2,863	3,974	4,947
Investments	3	41	401	401	401
Cash	724	420	348	727	1,794
Other current assets	1,807	2,430	2,955	3,398	4,195
Other non-current assets	121	113	53	53	53
Net working capital	1,770	1,881	1,756	2,532	3,690
Total assets	**4,943**	**5,439**	**6,620**	**8,553**	**11,390**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	14.3	11.9	7.4	11.5	12.0
EBIT margin (%)	10.9	8.6	4.3	8.0	8.4
PAT margin (%)	8.6	6.3	2.6	5.9	6.3
RoE (%)	13.5	13.2	5.5	12.5	12.9
RoCE (%)	13.8	15.6	8.3	15.6	16.2
Gearing (x)	(0.0)	(0.0)	0.0	(0.0)	(0.2)
Net debt/ EBITDA (x)	(0.1)	0.0	0.1	(0.2)	(0.7)
FCF yield (%)	(0.8)	0.0	0.1	(2.5)	(0.1)
Dividend yield (%)	0.0	0.1	0.2	0.3	0.5

Valuations	FY21	FY22	FY23E	FY24E	FY25E
Reported EPS (Rs)	**11.3**	**12.7**	**6.1**	**16.5**	**22.1**
Adj. EPS (Rs)	11.3	12.7	6.1	16.5	22.1
PE (x)	29.1	38.3	90.3	42.9	32.1
Price/ Book (x)	3.7	4.7	4.7	4.6	3.6
EV/ Net sales (x)	2.5	2.4	2.4	2.5	1.9
EV/ EBITDA (x)	17.3	20.4	31.9	21.7	16.2
EV/ CE (x)	3.1	4.3	4.3	4.2	3.3

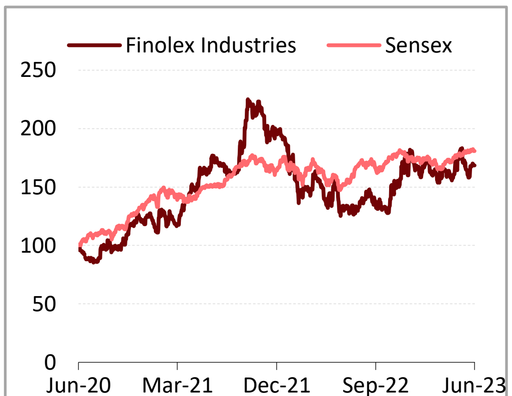
Initiating Coverage | Price: Rs175 | Target Price: Rs170 | Mkt Cap: Rs109bn

Stock Data

Bloomberg code	FNXP IN
Potential from CMP (%)	(2.8)
6-mth avg. daily traded value (Rsm/USDm)	154.2 / 1.9
Promoter holding (%)	52.5

Key Ratios	FY23	FY24E	FY25E
PE	43.2	18.4	16.3
EV/EBITDA	32.6	13.1	12.5
RoE	5.7	12.3	14.6
RoCE	4.1	12.7	15.4

Price Performance	3-mth	6-mth	1-yr
FNXP IN	4.3	5.1	27.9
BSE Sensex	8.7	5.2	20.5



Finolex Industries Ltd.

Taking steps on the transition trail

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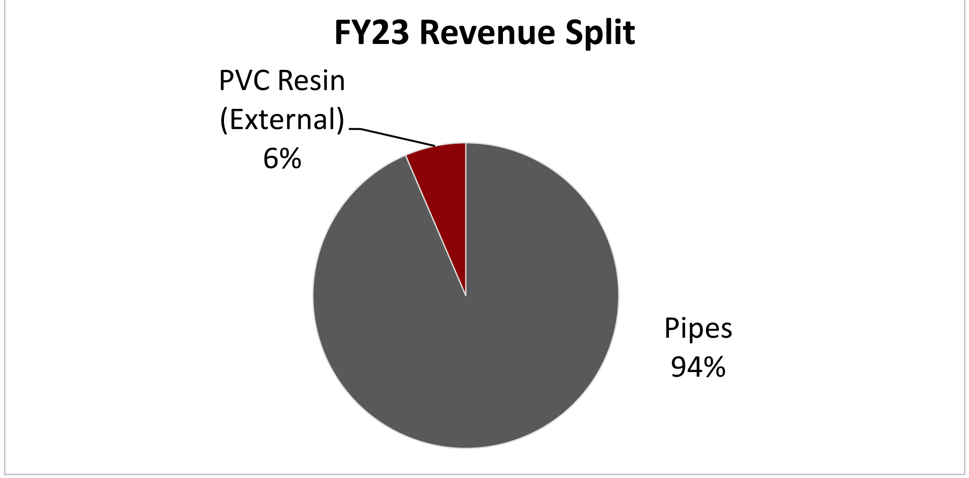
Finolex Industries Ltd. (FNXP)

FNXP is one of India's oldest and second largest player in the plastic pipes industry. It has made its name in the agricultural/irrigation pipes market (largest player) and is now looking to expand its non-irrigation portfolio. The company is also the only pipes manufacturer which is backward integrated by having its own PVC resin manufacturing facility.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	30,913	29,845	34,623	46,473	43,971	46,495	50,366
YoY (%)	*12.9*	*(3.5)*	*16.0*	*34.2*	*(5.4)*	*5.7*	*8.3*
EBITDA (Rs m)	6,043	4,474	9,893	10,237	2,925	7,605	8,313
EBITDAM (%)	19.5	15.0	28.6	22.0	6.7	16.4	16.5
Net Income (Rs m)	3,951	3,326	7,378	6,753	2,507	5,897	6,650
PATM (%)	12.8	11.1	21.3	14.5	5.7	12.7	13.2
RoE (%)	13.7	14.6	28.8	29.8	5.7	12.3	14.6
RoCE (%)	18.2	14.3	31.0	24.0	4.1	12.7	15.4
NWC (Days)	48	68	70	60	65	58	60
OCF/EBITDA (%)	64.7	23.8	95.1	60.8	103.1	76.8	79.9

***Source**: Company, DAM Capital Research*

Investment Rationale

- **Recent mix improvement due to weak irrigation demand – sustenance key monitorable**
  - FNXP is targeting agri/non-agri mix of 50:50 in the near to mid-term (vs historical 70:30; FY23 65:35). While non-agri mix has grown fast in FY23 (15-20% vs base growth of ~13%), irrigation weakness is more likely responsible for the mix shift
  - Finolex = Irrigation Pipes Brand; Shedding this image to make its plumbing pipes portfolio more desirable to consumers (over existing brands) is key for structural and sustaining mix improvement
  - Expect higher WC (est. DSO to increase 2-3 days by FY25E vs 25 in FY23) due to non-agri growth aggression
- **PVC resin-fueled margin volatility difficult to gauge**
  - Prices of PVC and its inputs Ethylene/Chlorine (from which EDC/VCM are made) do not necessarily trade in tandem – this causes margin expansion/contractions, which are difficult to anticipate
  - Historically, FNXP's EBITDA margins have fluctuated between 5% and 30%; Over FY19-23E, this was 7-29%
  - Once PVC resin is fully consumed in-house by pipes unit (est. by FY26E), FNXP's input RM will still be Ethylene/Chlorine vs peers' PVC resin – and so, will continue to remain exposed to the price disconnect between PVC and EDC/VCM
- **New leadership at the helm may need time to settle in**
  - Over 2022, multiple CXO level hires have happened from outside FNXP (CEO/MD, CFO, CHRO)
  - Previous leadership team (Mr. Sanjay Math / Mr. Anil Whabi) has retired over FY22-23
  - New team would need some time to settle in (and to showcase its positive (if any) effects on financials) since they come from a non-building materials space

View – Walking on the path of transition

➢ What we like?

- Strong competitive advantage in the low margin irrigation pipes market (FNXP has zero receivable days in this segment)
- Consistent cash generation (barring abnormal years) given low capex requirements

➢ What we dislike?

- Volatile margins (where FNXP has no control) leads to sharp earnings movements across years

➢ What's in the price (Rs175/share)?

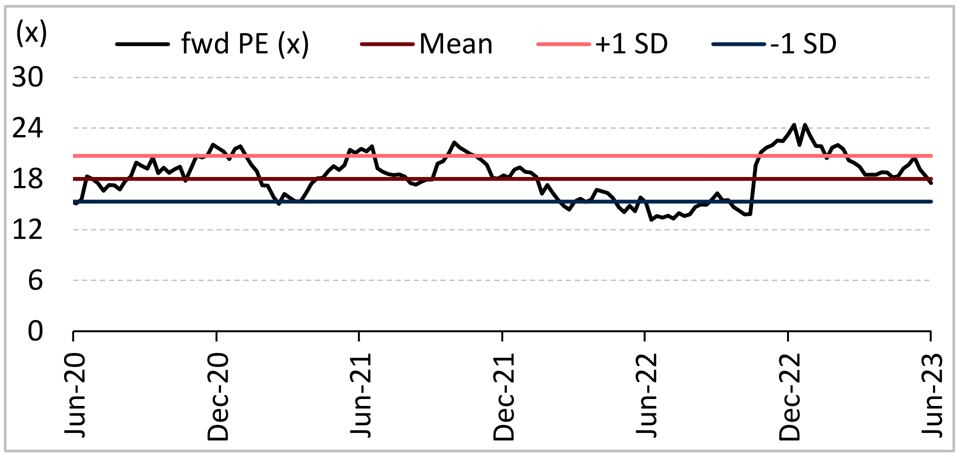
- ~12% revenue CAGR over FY23-33E; EBITDA CAGR of ~20% is due to low base (~10% for FY24E-33E) – our base case expectations assumes no margin volatility given these cannot be anticipated
- Slower EBITDA CAGR over time is due to PVC resin (higher median margin vs pipes) dropping in the overall mix
- We believe current valuations are fair given margin volatility concerns (un-modellable and hence needs to be captured through discount rate/conservative expectations) and relatively new leadership at the helm

View – Walking on the path of transition

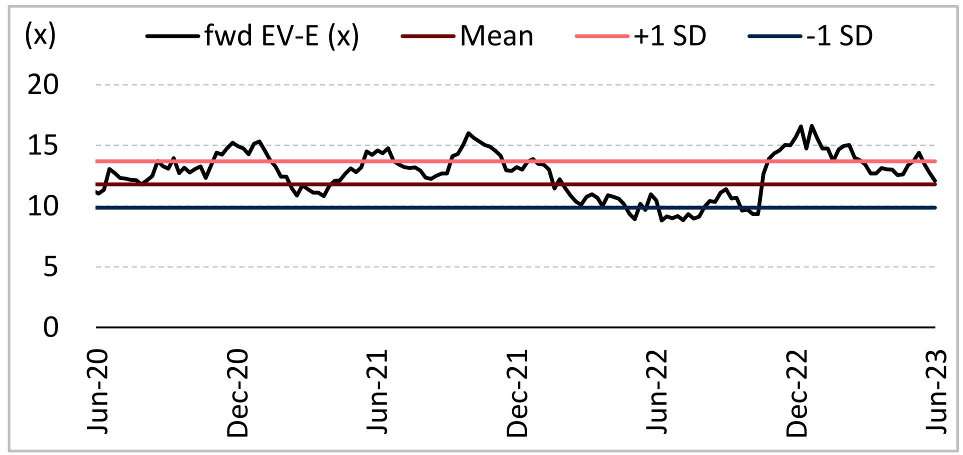
View – Initiate with NEUTRAL rating (TP Rs170/3% downside)

- PVC resin (and its input) price volatility distorts medium-term visibility on margins/earnings
- Lower PVC resin in the mix ahead = Lower consolidated EBITDA margin (though no real reduction in margin volatility given FNXP's inputs will still be Ethylene/Chlorine unlike its peers)
- Growth in non-agri pipes business = potential margin expansion, but confirmed WC rise
- New leadership at the helm – will need some time to settle in
- **Initiate with NEUTRAL rating. TP Rs170 (SOTP / Implied 16x FY25E P/E / 3% downside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart



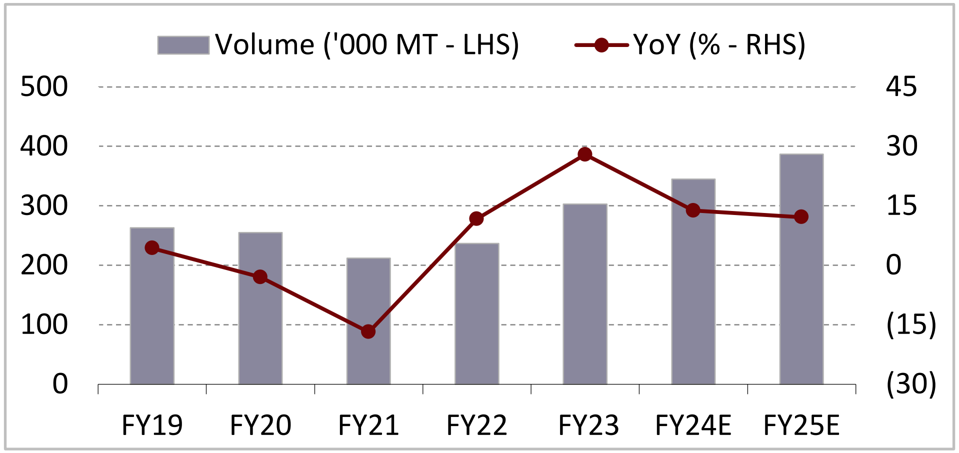
Source: *Bloomberg, DAM Capital Research*

View – Walking on the path of transition

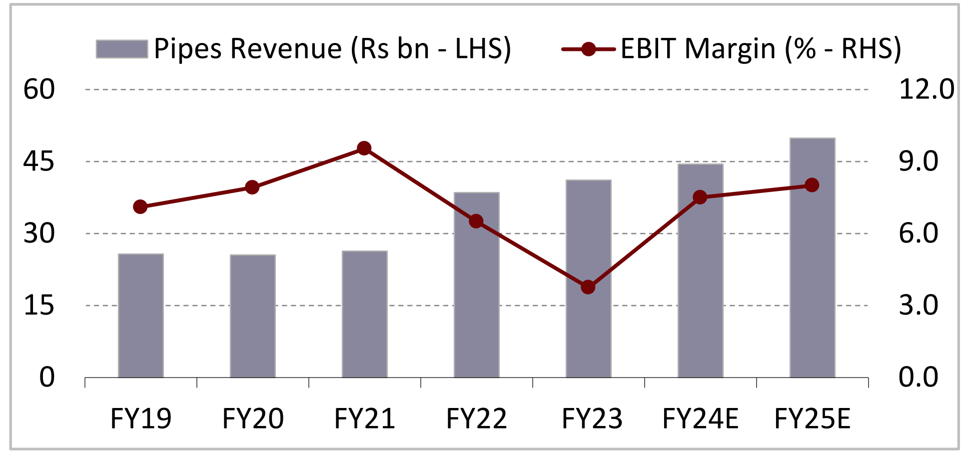
Particulars	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
PVC Resin :							
Volume (MT)	255,302	239,188	236,087	224,704	260,687	258,400	272,000
YoY (%)	*(1.3)*	*(6.3)*	*(1.3)*	*(4.8)*	*16.0*	*(0.9)*	*5.3*
Revenue (Rs m)	18,742	16,777	22,733	29,621	22,710	18,064	17,893
YoY (%)	*5.4*	*(10.5)*	*35.5*	*30.3*	*(23.3)*	*(20.5)*	*(0.9)*
EBIT (Rs m)	3,773	1,996	6,964	7,228	919	3,432	3,400
YoY (%)	*8.2*	*(47.1)*	*248.9*	*3.8*	*(87.3)*	*273.5*	*(0.9)*
Margin (%)	***20.1***	***11.9***	***30.6***	***24.4***	***4.0***	***19.0***	***19.0***
EBIT (Rs/kg)	14.8	8.3	29.5	32.2	3.5	13.3	12.5
YoY (%)	*9.6*	*(43.5)*	*253.5*	*9.0*	*(89.0)*	*276.8*	*(5.9)*
Pipes & Fittings :							
Volume (MT)	262,858	254,959	212,058	236,894	303,027	344,850	386,650
YoY (%)	4.3	(3.0)	(16.8)	11.7	27.9	13.8	12.1
Revenue (Rs m)	25,748	25,540	26,348	38,527	41,133	44,469	49,860
YoY (%)	10.6	(0.8)	3.2	46.2	6.8	8.1	12.1
EBIT (Rs m)	1,828	2,022	2,512	2,502	1,542	3,335	3,989
YoY (%)	34.3	10.6	24.2	(0.4)	(38.4)	116.3	19.6
Margin (%)	***7.1***	***7.9***	***9.5***	***6.5***	***3.7***	***7.5***	***8.0***
EBIT (Rs/kg)	7.0	7.9	11.8	10.6	5.1	9.7	10.3
YoY (%)	*28.7*	*14.1*	*49.3*	*(10.8)*	*(51.8)*	*90.1*	*6.7*

Story in charts

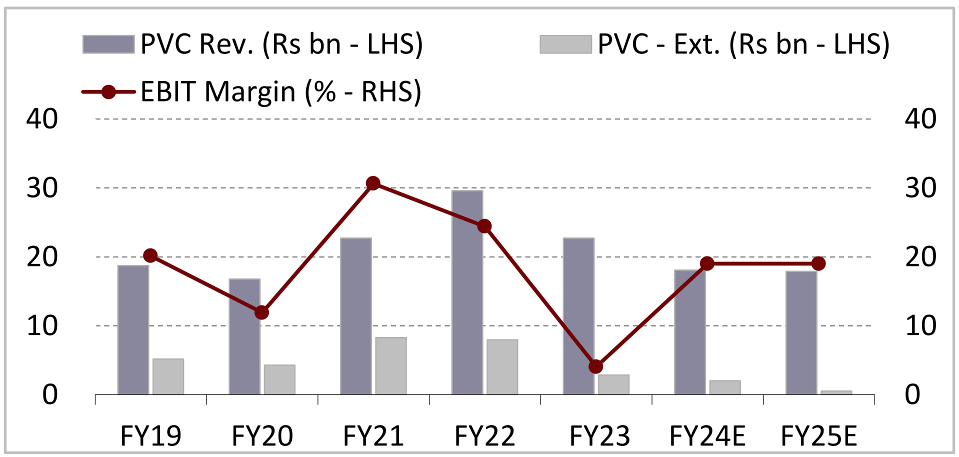
~13% pipes volume FY23-25E CAGR achievable for FNXP…



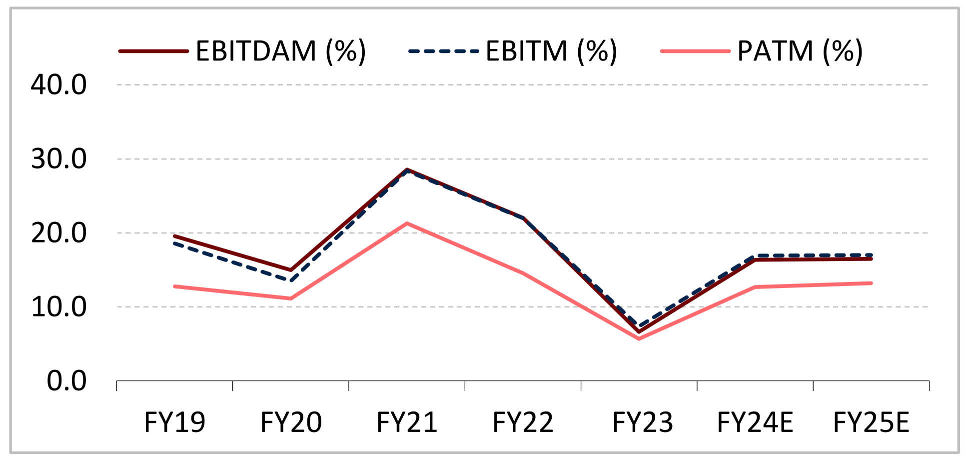
…which should fuel ~10% revenue CAGR and stable margins



Capacity constraints to pressure PVC resin growth



Building in margin stability after volatile FY19-23 period

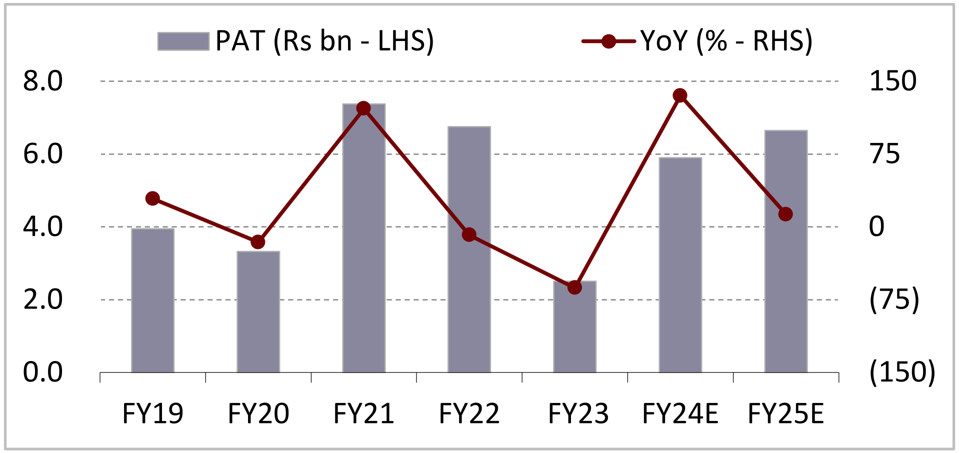


Source: *Company, DAM Capital Research*

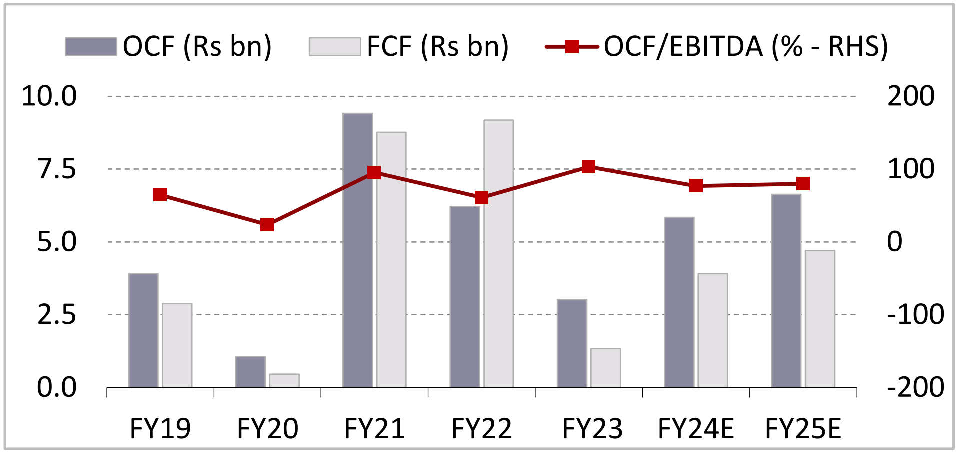
FNXP's revenue should be increasingly dictated by pipes given PVC resin capacity constraints/higher self-consumption

Story in charts

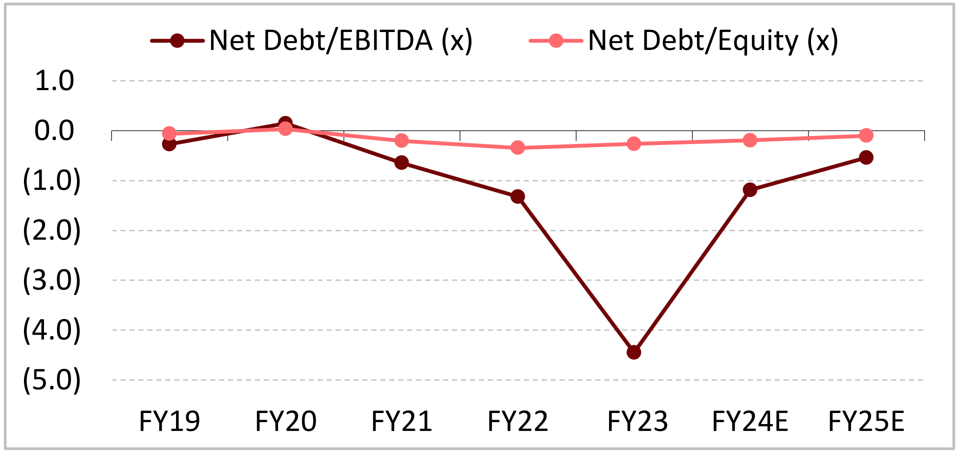
PAT to rebound from FY23 lows



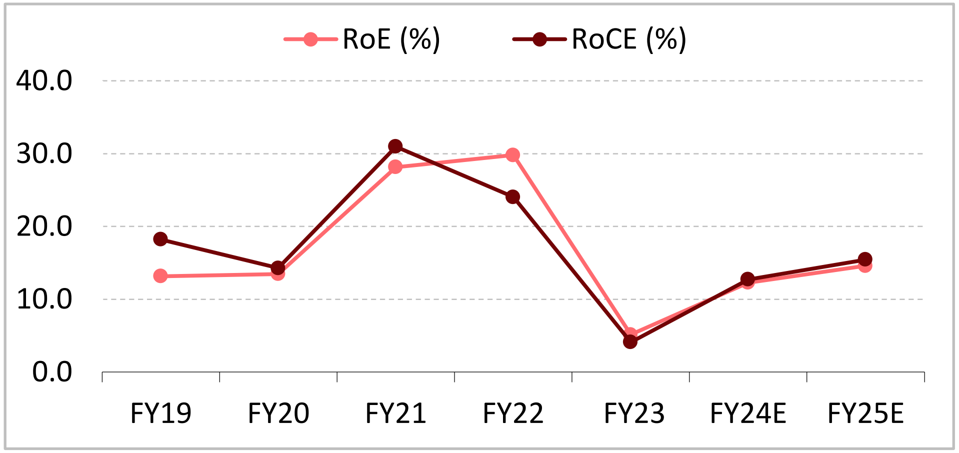
Bumper FY21/22 cashflow years unlikely to repeat soon



Expect FNXP to remain net cash



Return ratio profile to move back to pre-COVID levels



Source: *Company, DAM Capital Research*

PVC resin super-cycle behind (FY21/22 boom, FY23 bust), we expect net income/cash flows to normalise over FY24E/25E

Finolex Industries

CMP: Rs170; Mkt Cap: Rs28bn

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**34,623**	**46,473**	**43,971**	**46,495**	**50,366**
% growth	*16.0*	*34.2*	*(5.4)*	*5.7*	*8.3*
Operating expenses	24,730	36,236	41,045	38,890	42,053
EBITDA	**9,893**	**10,237**	**2,925**	**7,605**	**8,313**
% change	*121.1*	*3.5*	*(71.4)*	*160.0*	*9.3*
Other income	716	822	1,209	1,250	1,300
Net interest cost	73	141	272	263	0
Depreciation	777	834	892	979	1,047
Pre-tax profit	9,759	13,845	2,970	7,613	8,566
Deferred tax	20	(30)	125	0	0
Current tax	2,524	3,211	750	1,916	2,156
Profit after tax	**7,216**	**10,528**	**2,264**	**5,697**	**6,410**
Preference dividend	0	0	0	0	0
Minorities	162	(15)	243	200	240
Adjusted net profit	**7,378**	**6,753**	**2,507**	**5,897**	**6,650**
Non-recurring items	0	3,761	0	0	0
Reported net profit	**7,378**	**10,513**	**2,507**	**5,897**	**6,650**

Cash Flow (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	9,759	10,085	2,970	7,613	8,566
Depreciation	777	834	892	979	1,047
Chg in Working capital	1,746	(842)	681	(1,095)	(817)
Total tax paid	(2,524)	(3,211)	(750)	(1,916)	(2,156)
Net Interest	73	141	272	263	0
Others	0	0	0	0	0
Operating cash flow	**9,830**	**7,007**	**4,066**	**5,844**	**6,639**
Capital expenditure	(641)	(756)	(1,855)	(1,938)	(1,938)
Free cash flow (a+b)	**9,190**	**6,251**	**2,211**	**3,906**	**4,701**
Chg in investments	(6,407)	71	(10,146)	0	0
Debt raised/(repaid)	(788)	742	2,484	(5,264)	0
Net interest	(73)	(141)	(272)	(263)	0
Capital raised/(repaid)	0	0	(4)	0	0
Dividend (incl. tax)	(2,480)	(2,480)	(3,401)	(7,729)	(9,275)

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	1,241	1,241	1,237	1,237	1,237
Reserves & surplus	30,149	38,037	47,794	45,761	42,896
Shareholders' equity	**31,390**	**39,278**	**49,031**	**46,998**	**44,133**
Total current liabilities	8,116	10,035	7,063	8,189	8,714
Total debt	**2,039**	**2,780**	**5,264**	**0**	**0**
Deferred tax liabilities	1,395	1,360	1,493	1,493	1,493
Other non-current liabilities	0	0	0	0	0
Total liabilities	11,549	14,176	13,820	9,682	10,207
Total equity & liabilities	**42,939**	**53,454**	**62,851**	**56,680**	**54,340**
Net fixed assets	10,105	10,027	10,990	11,949	12,841
Investments	11,723	11,651	21,798	21,798	21,798
Cash	8,432	16,336	18,277	9,053	4,490
Other current assets	12,679	15,440	11,787	13,880	15,211
Net working capital	12,995	21,740	23,000	14,744	10,987
Total assets	**42,939**	**53,454**	**62,851**	**56,680**	**54,340**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	28.6	22.0	6.7	16.4	16.5
EBIT margin (%)	26.3	20.2	4.6	14.3	14.4
PAT margin (%)	21.3	14.5	5.7	12.7	13.2
RoE (%)	28.8	19.1	5.7	12.3	14.6
RoCE (%)	31.0	24.0	4.1	12.7	15.4
Gearing (x)	(0.2)	(0.3)	(0.3)	(0.2)	(0.1)
Net debt/ EBITDA (x)	(0.6)	(1.3)	(4.4)	(1.2)	(0.5)
FCF yield (%)	8.4	5.7	2.0	3.6	4.3
Dividend yield (%)	2.3	2.3	3.1	7.1	8.6

Valuations	FY21	FY22	FY23E	FY24E	FY25E
Reported EPS (Rs)	**11.9**	**16.9**	**4.1**	**9.5**	**10.8**
Adj. EPS (Rs)	11.9	10.9	4.1	9.5	10.8
PE (x)	14.7	16.1	43.2	18.4	16.3
Price/ Book (x)	3.5	2.8	2.2	2.3	2.5
EV/ Net sales (x)	3.0	2.0	2.2	2.1	2.1
EV/ EBITDA (x)	10.3	9.3	32.6	13.1	12.5
EV/ CE (x)	2.9	2.2	1.7	2.1	2.3

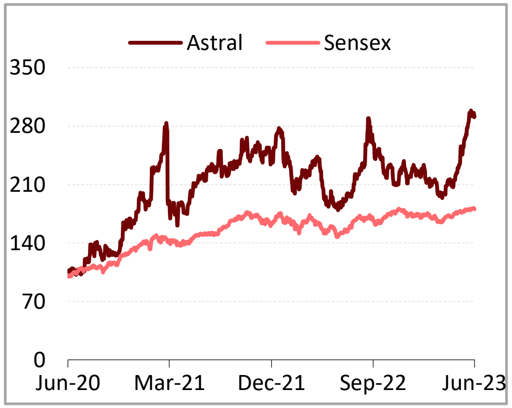
Company Update | **Price: Rs1,961** | **Target Price: Rs2,260** | **Mkt Cap: Rs527bn**

Stock Data

Bloomberg code	ASTRA IN
Potential from CMP (%)	15.3
6-mth avg. daily traded value (Rsm/USDm)	870.8 / 10.6
Promoter holding (%)	55.9

Key Ratios	FY23	FY24E	FY25E
PE	109.6	80.7	56.3
EV/EBITDA	64.6	50.6	36.7
RoE	18.1	20.3	24.5
RoCE	22.6	24.6	30.1

Price Performance	3-mth	6-mth	1-yr
ASTRA IN	46.7	38.0	57.4
BSE Sensex	8.7	5.2	20.5



Astral Ltd.

Applying its perfected playbook in new territories

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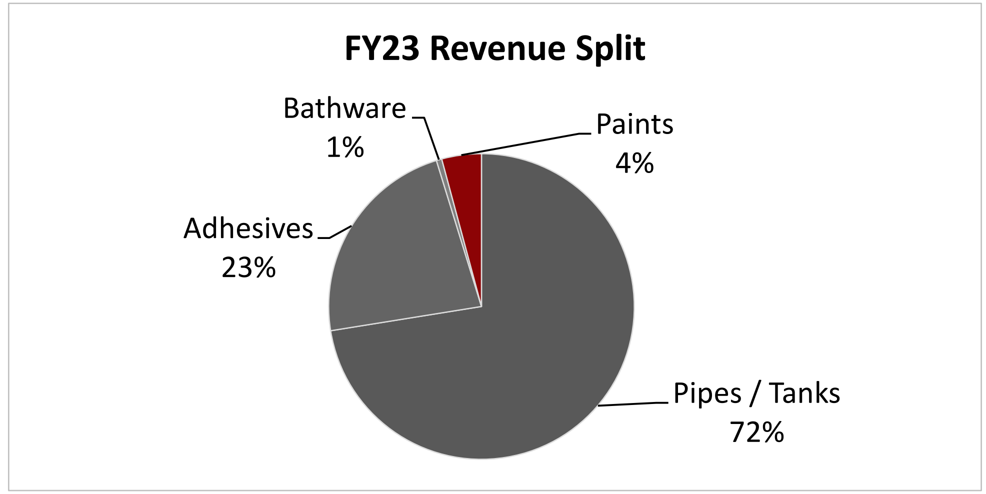
Astral Ltd. (ASTRA)

ASTRA is one of the largest plastic pipe brands in India (market leader in CPVC pipes) and is an emerging player in Adhesives. Its pioneering and innovative DNA alongside aggressive execution capabilities are hallmarks in favour of the company. In recent years, it has entered segments including Water Tanks, Bathware, Valves and Paints as it moulds itself into a one-stop home improvement player.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	25,073	25,779	31,763	43,940	51,585	61,992	77,786
YoY (%)	*21.0*	*2.8*	*23.2*	*38.3*	*17.4*	*20.2*	*25.5*
EBITDA (Rs m)	3,849	4,429	6,445	7,553	8,099	10,243	13,979
EBITDAM (%)	15.4	17.2	20.3	17.2	15.7	16.5	18.0
Net Income (Rs m)	2,002	2,628	4,056	4,889	4,751	6,536	9,366
PATM (%)	8.0	10.2	12.8	11.1	9.2	10.5	12.0
RoCE (%)	21.1	19.9	27.9	27.6	22.6	24.6	30.1
RoE (%)	17.4	18.9	23.6	22.9	18.1	20.3	24.5
NWC (Days)	48	45	30	20	24	27	26
OCF/EBITDA (%)	88.8	91.5	103.0	71.9	68.8	80.4	75.9

Source*: Company, DAM Capital Research*

Investment Rationale

- **Talismanic player with strong execution playbook…**
  - ASTRA's execution track record is evident by its pipes performance (30% volume CAGR over FY06-23) – supported by aggressive branding, regular new product introductions and navigating industry challenges
  - Adhesives became a ~Rs10bn+ revenue business over FY15-23 (~15% CAGR) despite low experience and high competition
- **…which will now be applied to new segments**
  - Over 2020-2022, ASTRA has made opportunistic plug-and-play acquisitions to mark its entry into Tanks (~Rs510m acquisition) and Paints (~Rs2bn for 51% stake)
  - Entered Bathware by on-boarding Mr. Atul Sanghvi (ex Cera's MD) and faucet plant acquisition in Jamnagar
  - ASTRA aims to grow these three businesses at a healthy/measured pace (no overt aggression that stretches profitability/balance sheet) and leverage its existing channel partners in the initial growth phase
- **Robust growth + strong cash generation expected ahead**
  - Robust growth platform set up – pipes/adhesives (15-20% CAGR), tanks/paints/bathware can grow faster
  - Revenue growth should not be a challenge (given past track record/existing channel relationships). Bathware can be a low EBITDA business early-on but other business margins should cover up the slack
  - Pipes is a relatively low capex business, Adhesives/Paints existing capacity sufficient for growth over the next 3-4 years. As such, we expect strong FCF generation (est. ~Rs14bn over FY24E-25E) despite ~23% revenue CAGR

View – Execution playbook now being applied to new frontiers

What we like?

- Innovation and industry leading growth track record (~25% revenue/PAT CAGR over FY11-23)
- Strong free cash generation expected despite growing businesses (since major capex is already in the books)

What we dislike?

- Potential margin/WC drags from new businesses (Paints/Bathware) given relative inexperience here

What's in the price (Rs1,961/share)?

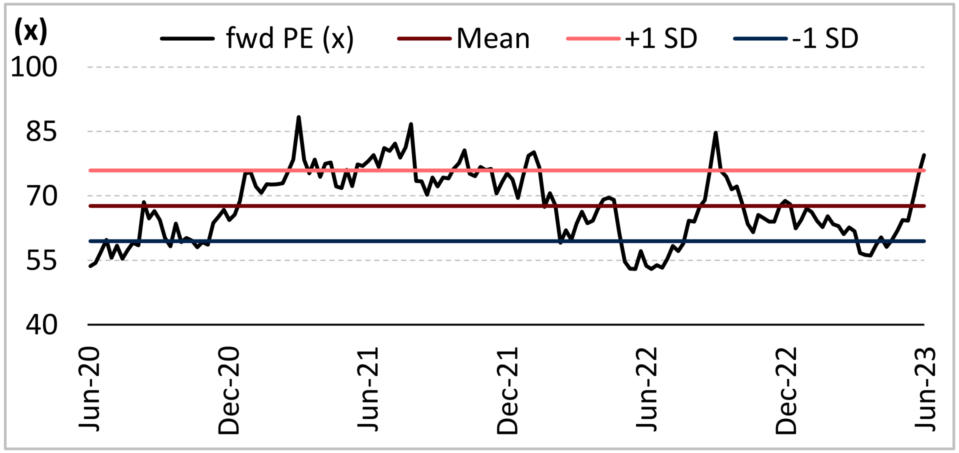
- ~17/20% revenue/EBITDA CAGR over FY23-33E priced in at current levels
- Current expectations are fair given its historical track record of being infallible
- Benefit of doubt being given for success in new businesses (given that ASTRA will not be overtly aggressive)

View – Execution playbook now being applied to new frontiers

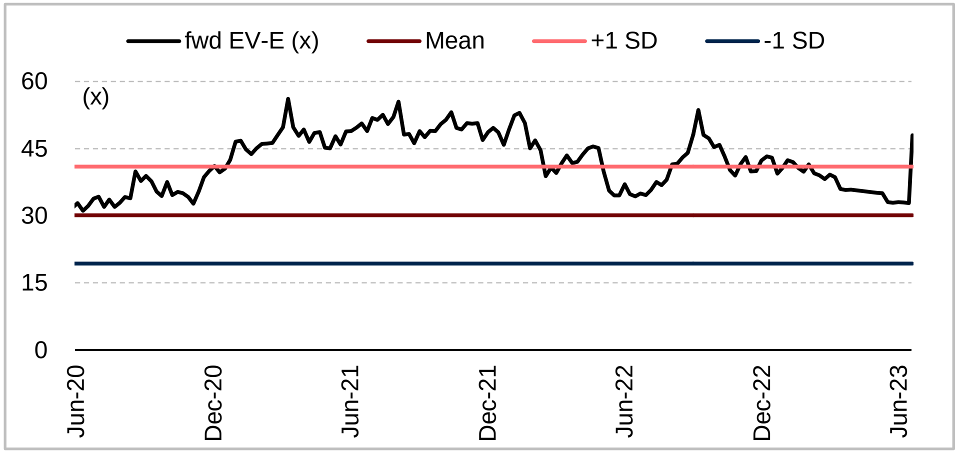
➢ View – Maintain BUY rating (TP Rs2,260/15% upside)

- Pipes on auto-pilot growth mode, Adhesives approaching cruising altitude – management bandwidth to focus on settling and growing new emerging segments
- Estimate ~15%/19% revenue/EBITDA CAGR over FY23-25E – powered by pipes/adhesives in the near-term
- Premium multiples to sustain, given stellar growth track record and ASTRA being a prime real-estate upcycle play
- **Maintain BUY rating. TP Rs2,260 (65x FY25E P/E / 15% upside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart



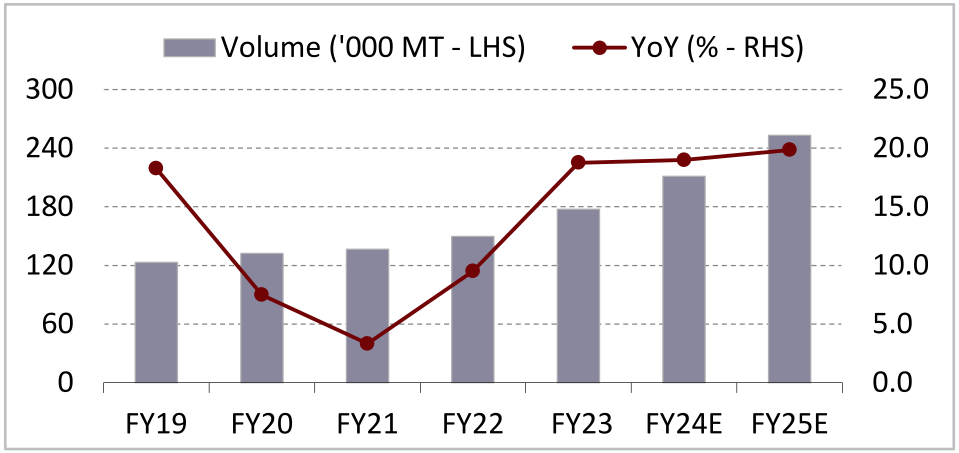
Source: *Bloomberg, DAM Capital Research*

View – Execution playbook now being applied to new frontiers

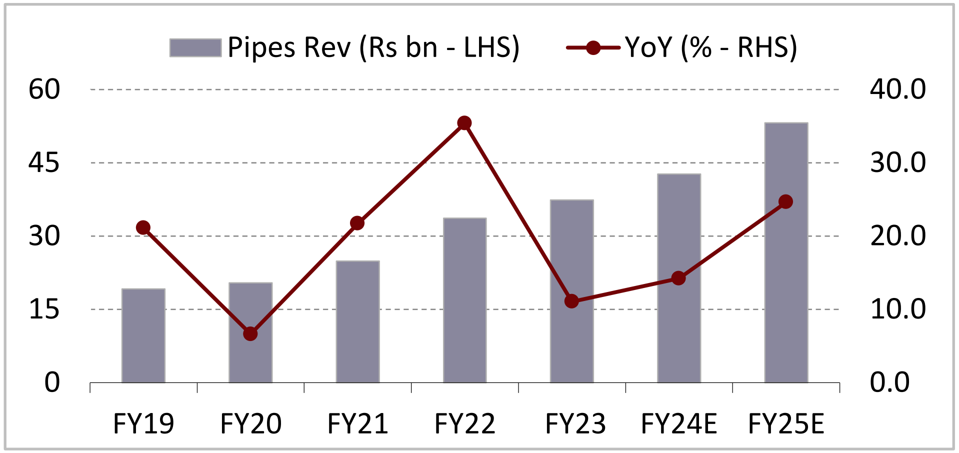
Key Assumptions	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Pipes Volume (MT)	122,988	132,200	136,593	149,569	177,628	211,350	253,296
YoY (%)	*18.3*	*7.5*	*3.3*	*9.5*	*18.8*	*19.0*	*19.8*
Revenue (Rs m):	**25,073**	**25,779**	**31,763**	**43,940**	**51,585**	**61,992**	**77,786**
- Pipes	19,157	20,428	24,863	33,658	37,379	42,696	53,217
- Adhesives	6,347	5,830	7,345	10,091	11,747	14,684	18,355
- Paints	-	1,829	2,010	2,146	2,163	2,812	3,515
- Bathware	-	-	-	-	296	1,800	2,700
Growth (%):	**21.0**	**2.8**	**23.2**	**38.3**	**17.4**	**20.2**	**25.5**
- Pipes	21.1	6.6	21.7	35.4	11.1	14.2	24.6
- Adhesives	20.6	(8.1)	26.0	37.4	16.4	25.0	25.0
- Paints	-	-	9.9	6.8	0.8	30.0	25.0
- Bathware	-	-	-	-	-	508.1	50.0
EBITDA (Rs m):	**3,849**	**4,429**	**6,445**	**7,553**	**8,099**	**10,243**	**13,979**
- Pipes	3,154	3,806	5,552	6,330	6,599	7,472	10,111
- Adhesives	812	765	1,137	1,287	1,656	2,349	3,120
- Paints	-	287	362	320	304	422	545
- Bathware	-	-	-	-	(180)	-	203
EBITDA Margin (%)	**15.4**	**17.2**	**20.3**	**17.2**	**15.7**	**16.5**	**18.0**
- Pipes	16.5	18.6	22.3	18.8	17.7	17.5	19.0
- Adhesives	12.8	13.1	15.5	12.8	14.1	16.0	17.0
- Paints	-	15.7	18.0	14.9	14.0	15.0	15.5
- Bathware	-	-	-	-	(60.8)	-	7.5

Story in charts

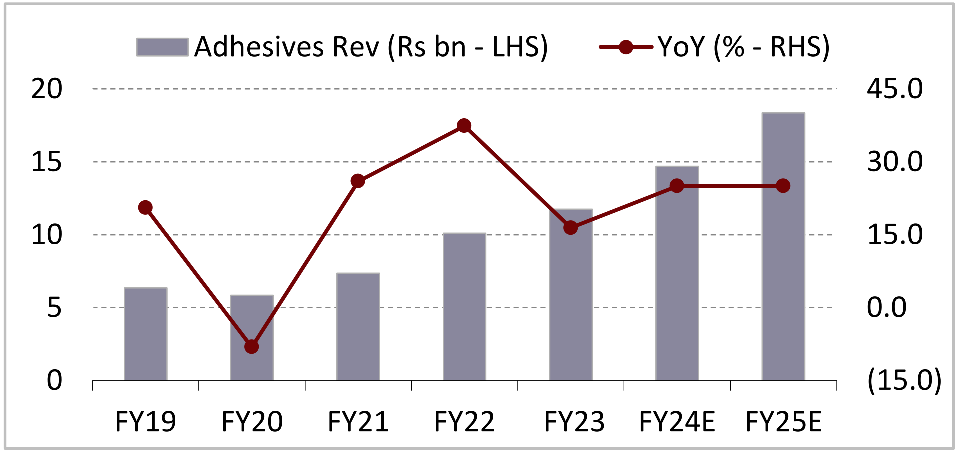
Pipes business on auto-pilot mode...



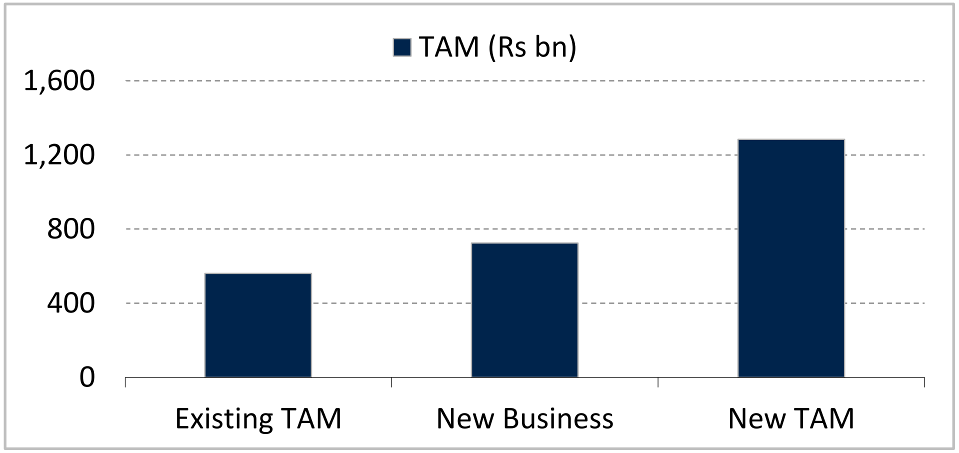
...through new/existing market penetration



Learnings from Adhesives scale-up (and Pipes)...



...to aid ASTRA's growth ambitions in new segments

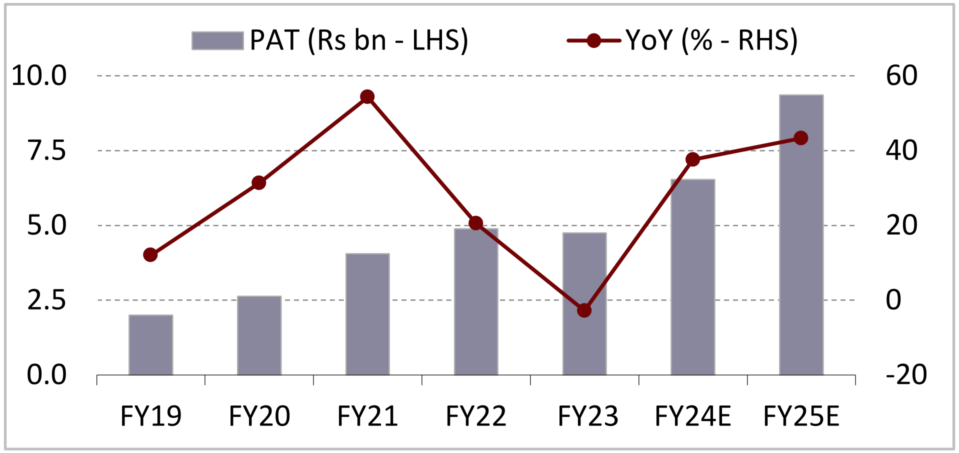


Source: *Company, DAM Capital Research*

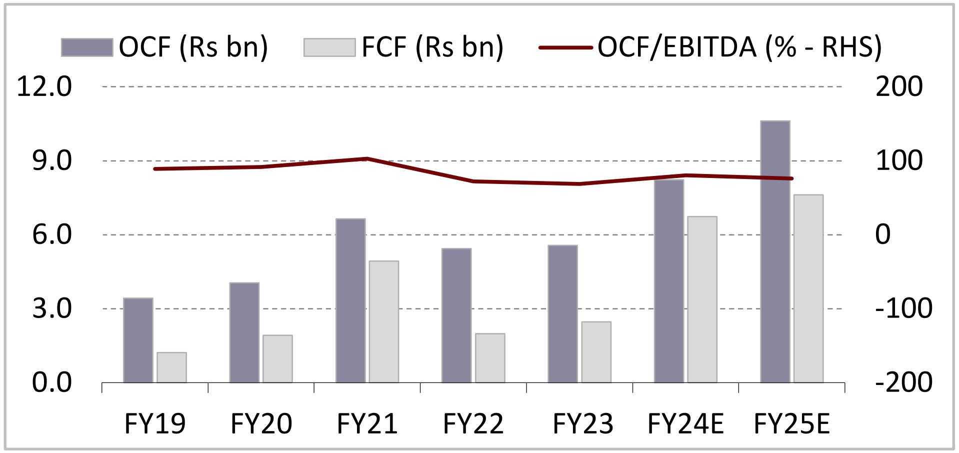
ASTRA's focus to increase on new businesses as its bread-and-butter pipes business moves to an auto-pilot mode

Story in charts

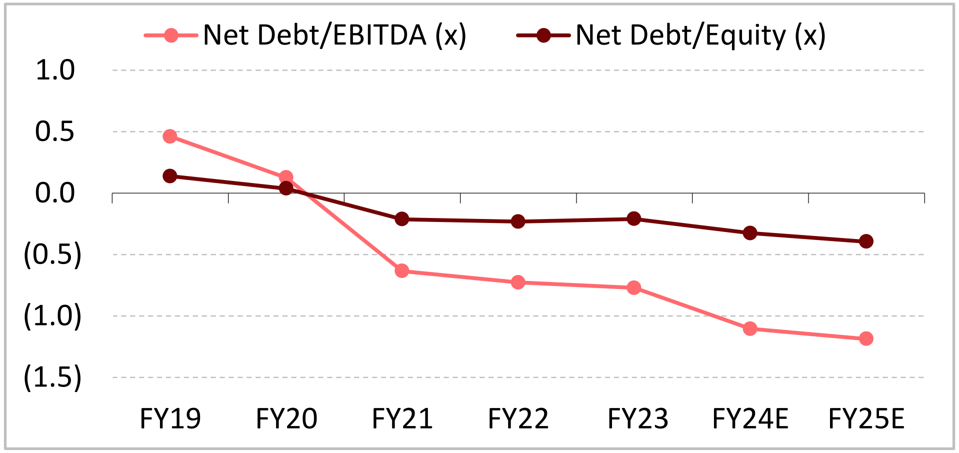
~40% PAT CAGR over FY23-25E (albeit on weak base)



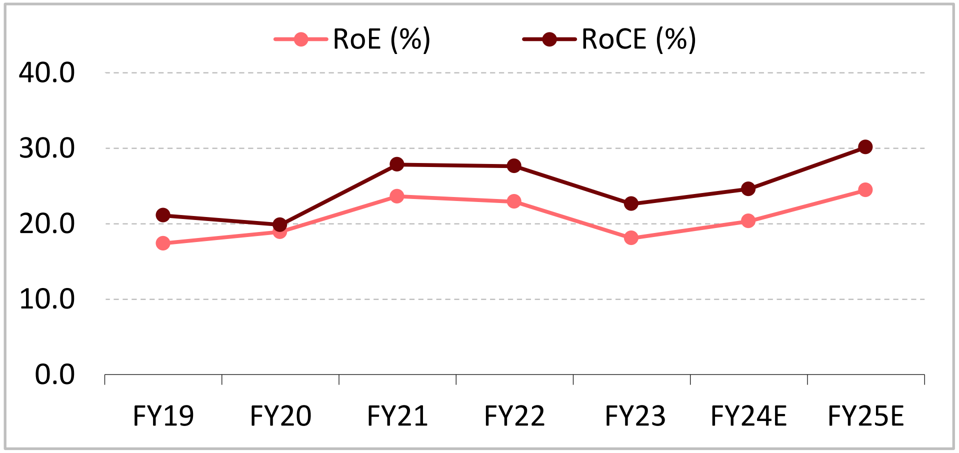
Rs19bn cumulative OCF (Rs14bn FCF) over FY23-25E despite growth



Strong cash generation to strengthen balance sheet further…



…while profitable growth to drive return ratios



Source: *Company, DAM Capital Research*

Strong earnings growth + robust balance sheet = formidable industry champion!

Astral

CMP: Rs1,961; Mkt Cap: Rs527bn

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**31,763**	**43,940**	**51,585**	**61,992**	**77,786**
% growth	*23.2*	*38.3*	*17.4*	*20.2*	*25.5*
Operating expenses	25,318	36,387	43,486	51,749	63,808
EBITDA	**6,445**	**7,553**	**8,099**	**10,243**	**13,979**
% change	*45.5*	*17.2*	*7.2*	*26.5*	*36.5*
Other income	251	349	267	899	1,167
Net interest cost	116	61	171	27	0
Depreciation	1,165	1,269	1,781	2,149	2,325
Pre-tax profit	5,415	6,572	6,414	8,966	12,820
Deferred tax	0	0	0	0	0
Current tax	1,248	1,581	1,557	2,257	3,227
Profit after tax	**4,167**	**4,991**	**4,857**	**6,709**	**9,594**
Preference dividend	0	0	0	0	0
Minorities	(108)	(85)	(44)	(173)	(227)
Adjusted net profit	**4,059**	**4,906**	**4,813**	**6,536**	**9,366**
Non-recurring items	(15)	(68)	(247)	0	0
Reported net profit	**4,044**	**4,838**	**4,566**	**6,536**	**9,366**

Cash Flow (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	5,415	6,572	6,414	8,966	12,820
Depreciation	1,165	1,269	1,781	2,149	2,325
Chg in Working capital	1,149	(573)	(541)	(647)	(1,300)
Total tax paid	(1,248)	(1,581)	(1,557)	(2,257)	(3,227)
Net Interest	116	61	171	27	0
Others	66	(71)	(281)	(5)	(5)
Operating cash flow	**6,663**	**5,677**	**5,987**	**8,234**	**10,614**
Capital expenditure	(1,690)	(3,760)	(6,299)	(1,500)	(3,000)
Free cash flow (a+b)	**4,973**	**1,917**	**(312)**	**6,734**	**7,614**
Chg in investments	0	0	0	0	0
Debt raised/(repaid)	(1,189)	254	(148)	(773)	0
Net interest	(116)	(61)	(171)	(27)	0
Capital raised/(repaid)	20	8	1	0	0
Dividend (incl. tax)	(352)	(603)	(1,208)	(1,634)	(2,342)

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	201	201	269	269	269
Reserves & surplus	18,757	23,165	26,843	31,745	38,770
Shareholders' equity	**19,170**	**23,644**	**29,589**	**34,664**	**41,916**
Total current liabilities	6,355	8,774	12,862	15,199	18,030
Total debt	**667**	**921**	**773**	**0**	**0**
Deferred tax liabilities	400	398	299	299	299
Other non-current liabilities	135	132	98	93	88
Total liabilities	7,557	10,225	14,032	15,591	18,418
Total equity & liabilities	**26,727**	**33,869**	**43,621**	**50,255**	**60,334**
Net fixed assets	10,543	13,037	16,997	16,348	17,023
Investments	0	0	0	0	0
Cash	4,760	6,418	6,821	11,121	16,393
Other current assets	8,256	11,259	16,034	19,050	23,211
Deferred tax assets	0	0	0	0	0
Other non-current assets	3,168	3,155	3,769	3,737	3,706
Net working capital	6,661	8,903	9,993	14,971	21,574
Total assets	**26,727**	**33,869**	**43,621**	**50,255**	**60,334**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	20.3	17.2	15.7	16.5	18.0
EBIT margin (%)	16.6	14.3	12.2	13.1	15.0
PAT margin (%)	12.8	11.2	9.3	10.5	12.0
RoE (%)	23.6	22.9	18.1	20.3	24.5
RoCE (%)	27.9	27.6	22.6	24.6	30.1
Gearing (x)	(0.2)	(0.2)	(0.2)	(0.3)	(0.4)
Net debt/ EBITDA (x)	(0.6)	(0.7)	(0.8)	(1.1)	(1.2)
FCF yield (%)	1.3	0.5	(0.1)	1.3	1.4
Dividend yield (%)	0.1	0.2	0.2	0.3	0.4

Valuations	FY21	FY22	FY23E	FY24E	FY25E
Reported EPS (Rs)	**20.1**	**24.1**	**17.0**	**24.3**	**34.8**
Adj. EPS (Rs)	20.2	24.4	17.9	24.3	34.8
PE (x)	97.1	80.3	109.6	80.7	56.3
Price/ Book (x)	20.6	16.7	17.8	15.2	12.6
EV/ Net sales (x)	12.3	8.8	10.2	8.4	6.6
EV/ EBITDA (x)	60.5	51.5	64.6	50.6	36.7
EV/ CE (x)	19.2	15.5	17.0	14.8	12.1

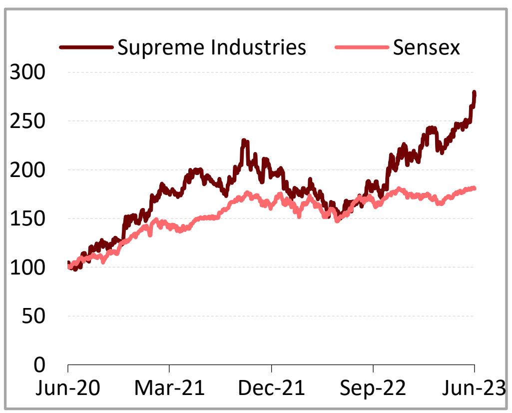
Initiating Coverage | **Price: Rs3,124** | **Target Price: Rs3,420** | **Mkt Cap: Rs397bn**

Stock Data

Bloomberg code	SI IN
Potential from CMP (%)	9.5
6-mth avg. daily traded value (Rsm/USDm)	288.4 / 3.5
Promoter holding (%)	48.9

Key Ratios	FY23	FY24E	FY25E
PE	45.9	38.8	30.2
EV/EBITDA	32.5	26.9	20.3
RoE	21.0	21.8	24.7
RoCE	22.0	24.0	28.9

Price Performance	3-mth	6-mth	1-yr
SI IN	23.0	34.7	85.0
BSE Sensex	8.7	5.2	20.5



Supreme Industries Ltd.

Profits-focused market leader

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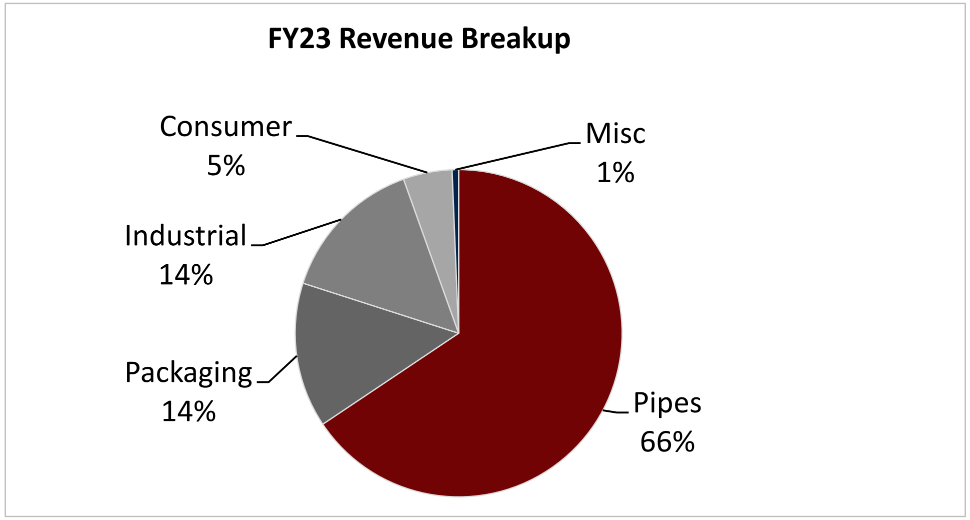
Email: aasim@damcapital.in

Supreme Industries Ltd. (SI)

SI is the largest and true to the word pan-India pipes player – given its manufacturing and distribution footprint spread across the length and breadth of the country. In addition, it has diversified into ancillary plastic segments such as packaging, industrial components, composite cylinders and plastic furniture in its bid to become one of India's largest polymer processor.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	56,120	55,115	63,552	77,728	92,016	102,565	119,258
YoY (%)	*12.9*	*(1.8)*	*15.3*	*22.3*	*18.4*	*11.5*	*16.3*
EBITDA (Rs m)	7,846	8,345	12,842	12,421	11,997	14,530	19,064
EBITDAM(%)	14.0	15.1	20.2	16.0	13.0	14.2	16.0
Net Income (Rs m)	3,814	4,674	9,781	9,684	8,653	10,223	13,132
PATM (%)	6.8	8.5	15.4	12.5	9.4	10.0	11.0
RoE (%)	18.8	21.2	36.0	27.6	21.0	21.8	24.7
RoCE (%)	25.6	23.9	35.0	27.9	22.0	24.0	28.9
NWC (Days)	38	41	33	34	38	37	36
OCF/EBITDA (%)	70.8	64.4	97.1	37.9	74.2	81.2	75.4

Source: *Company, DAM Capital Research*

Investment Rationale

- **Largest pipes company with an aim to grow faster than the market**
  - SI is the largest pipes company by volume (~375k MT in FY23, second largest FNXP at ~303k) and by production capacity (~600k MTPA spread across 20+ factories pan India)
  - Aggressive pipe capacity additions being done - ~75k MTPA added in FY23; ~130k MTPA to be added in FY24E. Similar focus to extend dealer network (~200 added in FY23 (total ~1,440); ~100 to be added in FY24E)
  - Clear ambition to extend its lead vs peers. We expect ~15% volume CAGR over FY23-25E
- **Margin tailwinds emerging in the non-pipes businesses**
  - Industrial components now on a steady growth/margin track – est. ~11% vol. CAGR / +200 bps margin expansion over FY23-25E (est 13.5% for FY25E)
  - Packaging products margins expected to pull up (est. 550 bps increase to 14.5% by FY25E) given new products entering the market (esp. patented cross plastic films) and the company plans to export cross-laminate products
  - Non-pipes businesses to turn margin pullers (versus draggers earlier) – net 400 bps gain over FY23-25E
- **Taking baby steps towards a professional management**
  - Chief Human Resources Officer hired recently to explore hiring senior business professionals and creating a succession plan for the current leadership
  - This should ease market's concerns about 'key man risk'

View – Supreme in profitability

- **What we like?**
  - Largest pipes player demonstrating growth aggression
  - Razor sharp focus on profitability, return metrics and balance sheet

- **What we dislike?**
  - Low visibility on succession, although this is being addressed (albeit slowly)

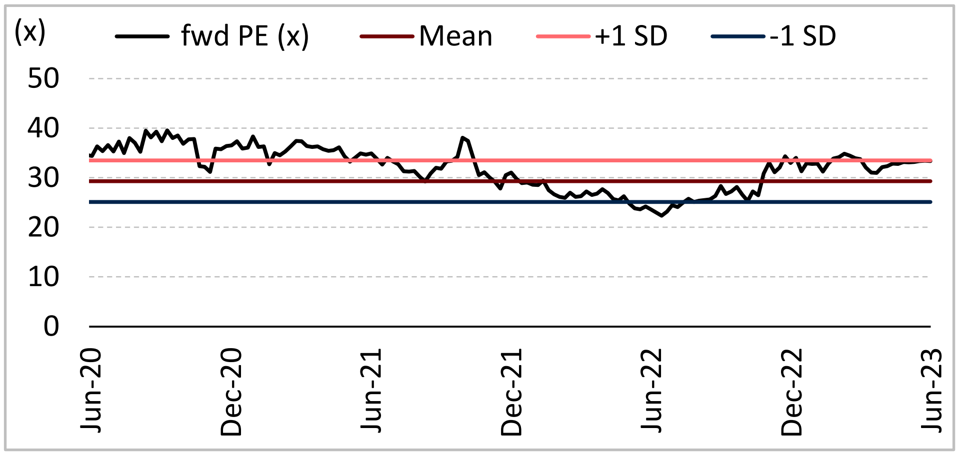
- **What's in the price (Rs3,124/share)?**
  - ~15% revenue CAGR (~14% volume CAGR) over FY23-33E. EBITDA CAGR of ~20% over the same period
  - Fair expectations, though its possible that EBITDA CAGR could be faster if margins from non-pipes businesses rebound faster and settle at a higher level
  - Potential margin expansion possible on the pipes side as well (plumbing pipes growth faster versus irrigation)

View – Supreme in profitability

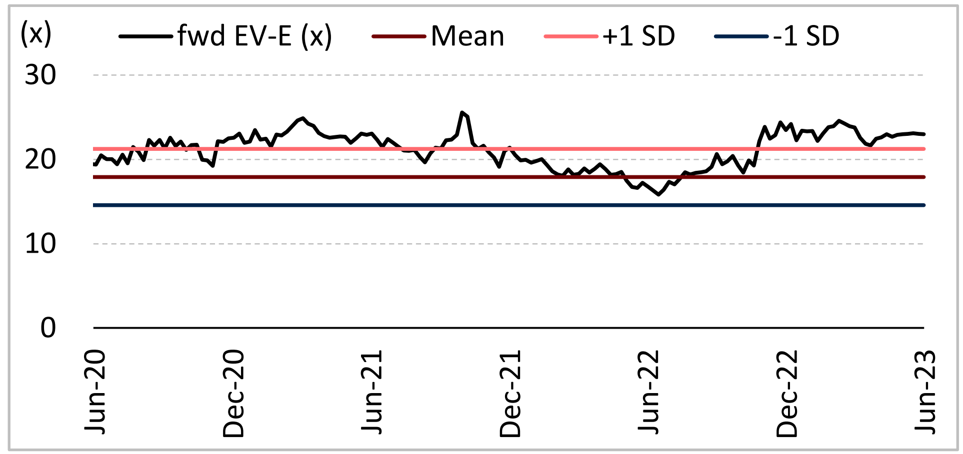
View – Maintain BUY rating (TP Rs3,420/10% upside)

- Play on the largest pipes player (with growth ambitions)
- Non-pipes margin headwinds in the past turning tailwinds (industrial already done, packaging to catch up)
- Track record of profitable growth (margin/return ratio focus) makes SI a safe and steady bet
- **Maintain BUY rating. TP Rs3,420 (SOTP / implied ~33x FY25E P/E / 10% upside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart



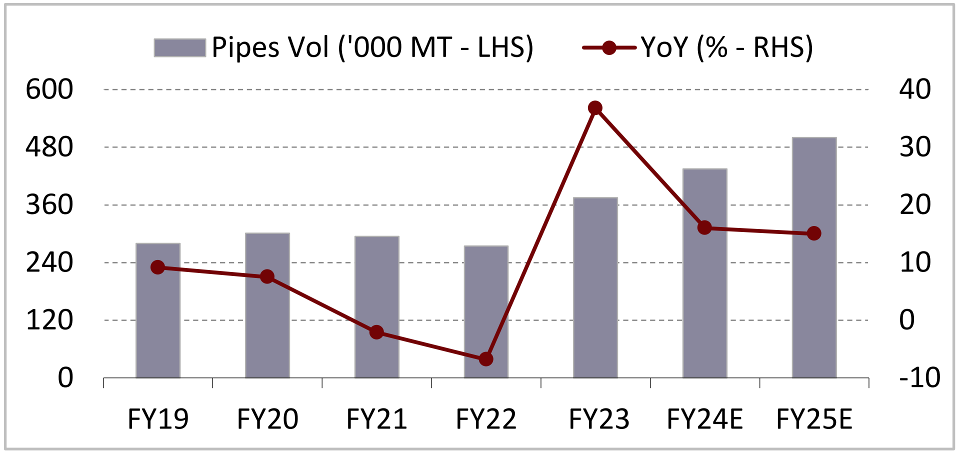
***Source:** Bloomberg, DAM Capital Research*

View – Supreme in profitability

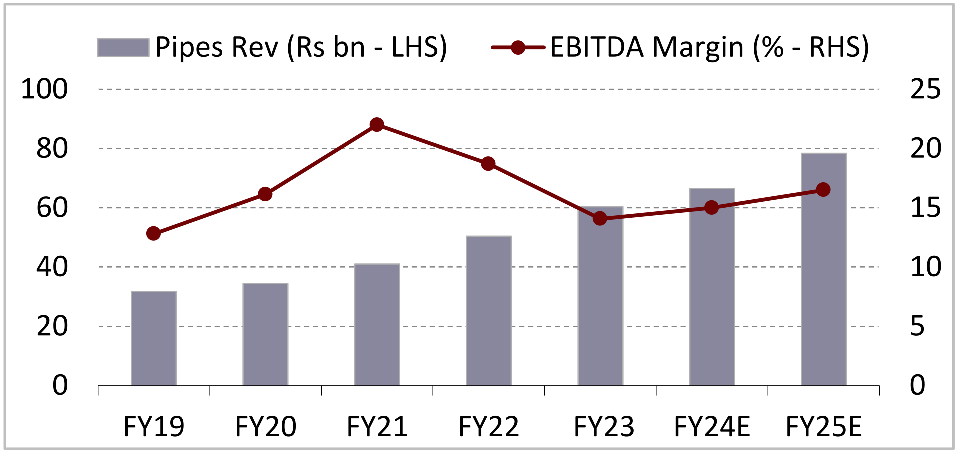
Key Assumptions	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Volume (MT):	**397,983**	**411,521**	**409,109**	**393,908**	**506,501**	**583,707**	**665,701**
- Pipes	279,748	300,772	294,357	274,295	375,046	435,053	500,311
- Packaging	52,284	51,353	54,833	54,163	54,242	62,378	70,487
- Industrial	44,523	38,617	41,451	48,030	58,960	65,740	72,314
- Consumer	21,428	20,779	18,468	17,420	18,253	20,535	22,588
Volume Growth (%)	**7.2**	**3.4**	**(0.6)**	**(3.7)**	**28.6**	**15.2**	**14.0**
- Pipes	9.1	7.5	(2.1)	(6.8)	36.7	16.0	15.0
- Packaging	4.7	(1.8)	6.8	(1.2)	0.1	15.0	13.0
- Industrial	(0.0)	(13.3)	7.3	15.9	22.8	11.5	10.0
- Consumer	5.1	(3.0)	(11.1)	(5.7)	4.8	12.5	10.0
Revenue (Rs m)	**55,720**	**55,115**	**63,571**	**77,728**	**92,016**	**102,565**	**119,258**
- Pipes	31,728	34,449	40,988	50,460	60,375	66,534	78,426
- Packaging	10,418	9,593	10,351	12,101	13,191	15,170	17,485
- Industrial	8,850	6,732	7,611	10,237	13,416	14,959	16,784
- Consumer	3,994	3,832	3,542	4,051	4,446	5,002	5,612
- Miscellaneous	730	510	1,079	880	587	900	950
Revenue Growth (%):	**12.9**	**(1.8)**	**15.3**	**22.3**	**18.4**	**11.5**	**16.3**
- Pipes	16.3	8.6	19.0	23.1	19.7	10.2	17.9
- Packaging	2.0	(7.9)	7.9	16.9	9.0	15.0	15.3
- Industrial	10.4	(23.9)	13.1	34.5	31.1	11.5	12.2
- Consumer	13.5	(4.1)	(7.6)	14.4	9.8	12.5	12.2
EBITDA Margin (%)	**14.0**	**15.2**	**19.5**	**16.0**	**13.0**	**14.2**	**16.0**
- Pipes	12.8	16.1	22.0	18.7	14.1	15.0	16.5
- Packaging	15.8	14.8	16.0	10.9	8.8	11.5	14.5
- Industrial	11.1	9.8	13.0	11.1	11.2	12.0	13.5
- Consumer	17.4	19.1	21.0	15.9	17.1	18.0	20.0

Story in charts

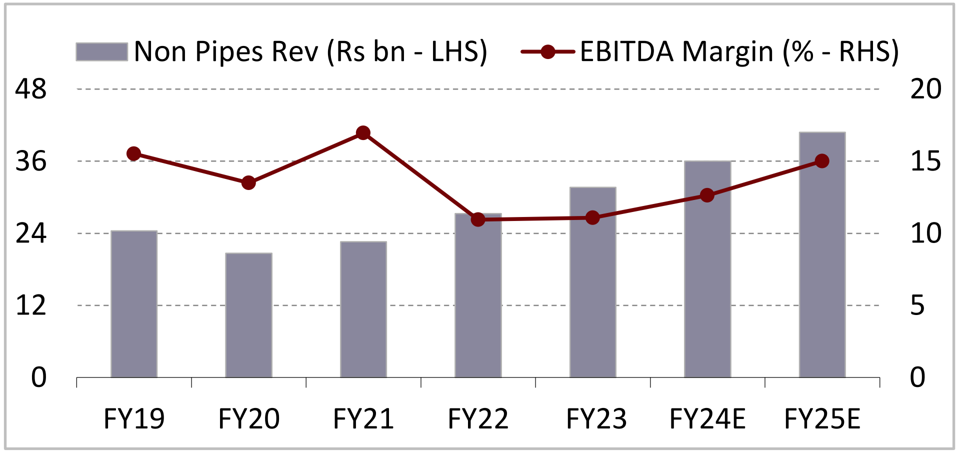
~15% volume CAGR over FY23-25E given capacity additions



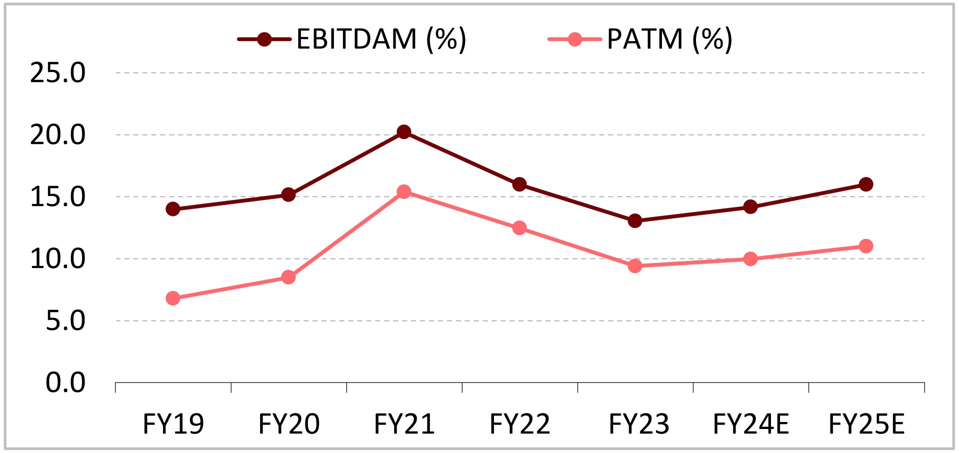
Pipes margins to recover post FY23 weakness



Packaging to drive non-pipe business margin improvement…



…which should drive overall profitability for SI from FY23 lows

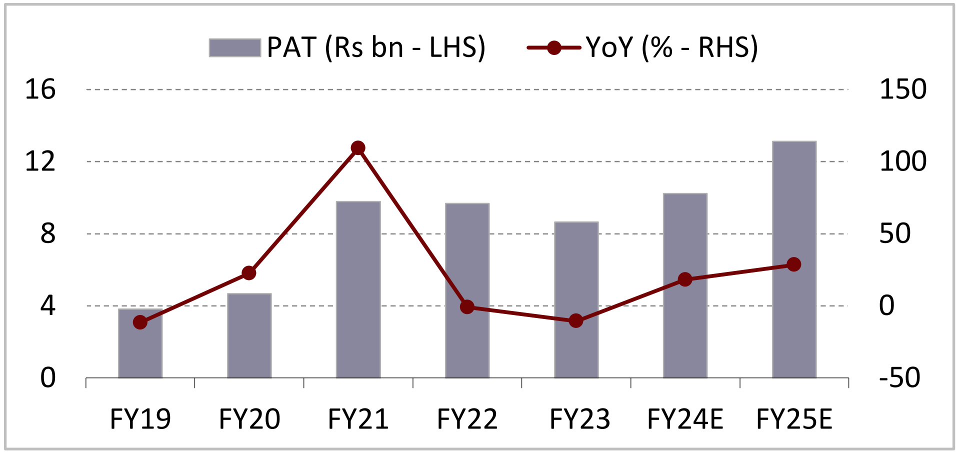


Source: *Company, DAM Capital Research*

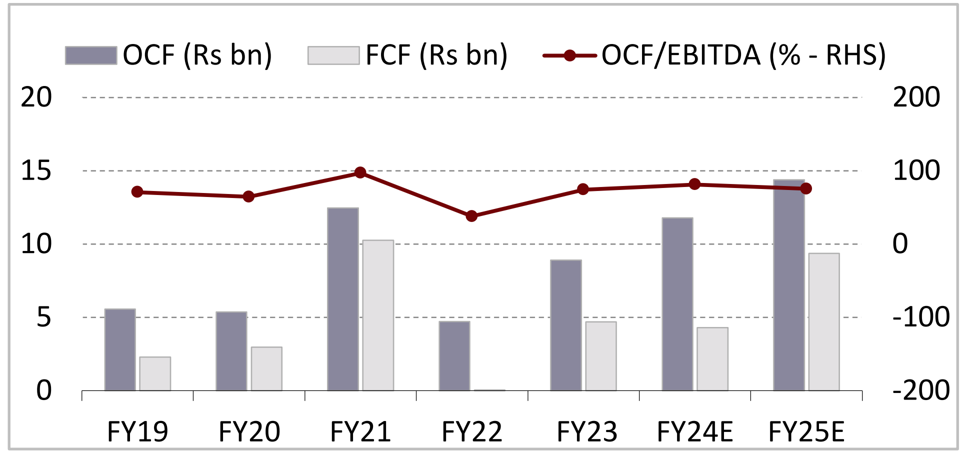
Pipes margin recovery (post PVC volatility) as well as non-pipes margin recovery to drive ~300 bps consol. EBITDA margin expansion

Story in charts

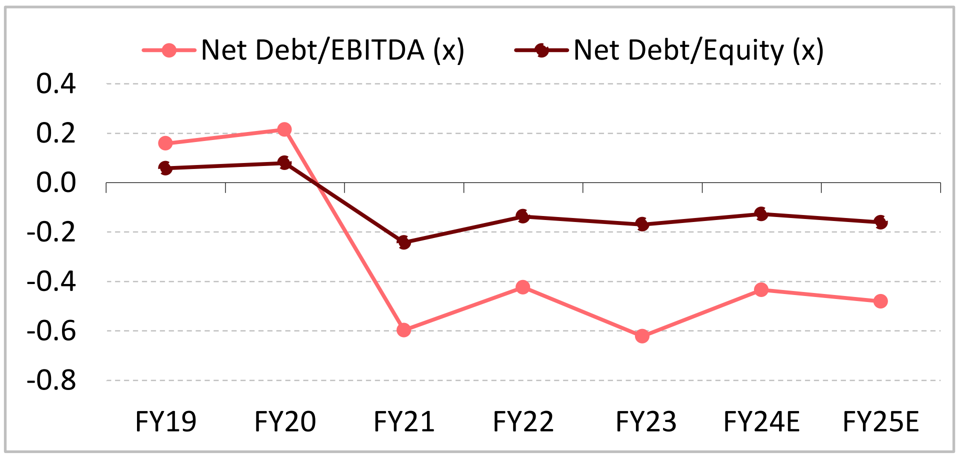
~23% earnings CAGR over FY23-25E (low base effect)



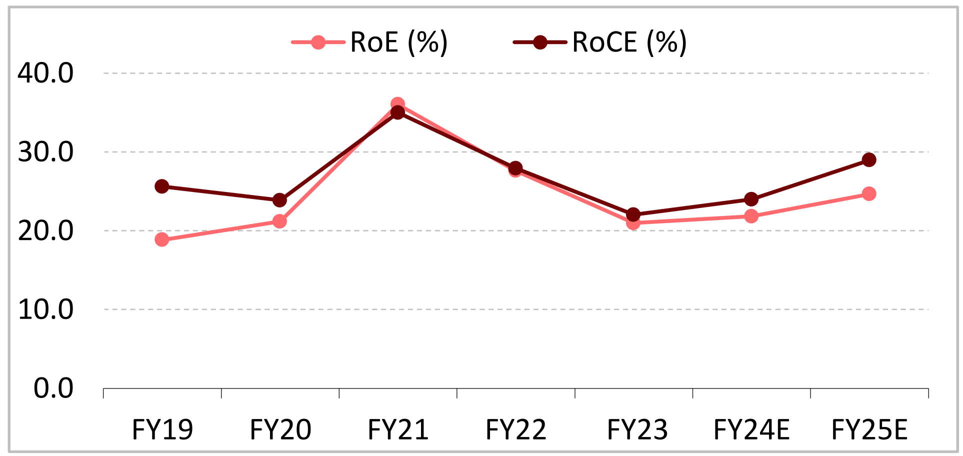
Strong cash generation expected over FY24E/25E



Net cash levels to remain healthy over forecast period…



…while return ratios improve given margin expansion



Source: *Company, DAM Capital Research*

Healthy earnings/margins + strong cash generation = Robust net cash levels + return ratios improvement

Supreme Industries

CMP: Rs3,124; Mkt Cap: Rs397bn

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**63,552**	**77,728**	**92,016**	**102,565**	**119,258**
% growth	15.3	22.3	18.4	11.5	16.3
Operating expenses	50,710	65,307	80,019	88,034	100,194
EBITDA	**12,842**	**12,421**	**11,997**	**14,530**	**19,064**
% change	53.9	(3.3)	(3.4)	21.1	31.2
Other income	169	200	298	280	320
Net interest cost	221	52	80	30	25
Depreciation	2,128	2,295	2,634	2,991	3,286
Pre-tax profit	12,122	12,318	11,113	13,190	17,178
Deferred tax	(406)	(15)	0	0	0
Current tax	2,747	2,648	2,460	2,967	4,046
Profit after tax	**9,781**	**9,684**	**8,653**	**10,223**	**13,132**
Preference dividend	0	0	0	0	0
Minorities	0	0	0	0	0
Adjusted net profit	**9,781**	**9,684**	**8,653**	**10,223**	**13,132**
Non-recurring items	0	0	0	0	0
Reported net profit	**9,781**	**9,684**	**8,653**	**10,223**	**13,132**

Cash Flow (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	12,122	12,318	11,113	13,190	17,178
Depreciation	2,128	2,295	2,634	2,991	3,286
Chg in Working capital	2,619	(6,293)	(202)	(1,431)	(2,052)
Total tax paid	(2,747)	(2,648)	(2,460)	(2,967)	(4,046)
Net Interest	221	52	80	30	25
Others	(38)	66	44	(18)	(17)
Operating cash flow	**14,370**	**5,724**	**11,210**	**11,794**	**14,374**
Capital expenditure	(2,689)	(3,757)	(4,847)	(7,500)	(5,000)
Free cash flow (a+b)	**11,681**	**1,967**	**6,364**	**4,294**	**9,374**
Chg in investments	(1,293)	(1,393)	(1,015)	(818)	(582)
Debt raised/(repaid)	(4,103)	(10)	0	0	0
Net interest	(221)	(52)	(80)	(30)	(25)
Capital raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	(2,795)	(3,049)	(3,303)	(4,600)	(5,910)

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	254	254	254	254	254
Reserves & surplus	31,438	38,190	43,767	49,390	56,613
Shareholders' equity	**31,692**	**38,444**	**44,021**	**49,644**	**56,867**
Total current liabilities	9,945	10,288	11,646	12,704	14,592
Total debt	**10**	**0**	**0**	0	0
Deferred tax liabilities	919	904	908	908	908
Other non-current liabilities	257	323	367	349	331
Total liabilities	11,131	11,515	12,921	13,961	15,831
Total equity & liabilities	**42,823**	**49,959**	**56,942**	**63,605**	**72,698**
Net fixed assets	16,981	18,443	20,656	25,165	26,879
Investments	3,366	4,759	5,774	6,592	7,174
Cash	7,684	5,264	7,461	6,306	9,163
Other current assets	14,120	20,705	22,228	24,759	28,738
Deferred tax assets	0	0	0	0	0
Other non-current assets	672	787	824	782	743
Net working capital	11,859	15,682	18,044	18,361	23,310
Total assets	**42,823**	**49,959**	**56,942**	63,605	72,698

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	20.2	16.0	13.0	14.2	16.0
EBIT margin (%)	16.9	13.0	10.2	11.3	13.2
PAT margin (%)	15.4	12.5	9.4	10.0	11.0
RoE (%)	36.0	27.6	21.0	21.8	24.7
RoCE (%)	35.0	27.9	22.0	24.0	28.9
Gearing (x)	(0.2)	(0.1)	(0.2)	(0.1)	(0.2)
Net debt/ EBITDA (x)	(0.6)	(0.4)	(0.6)	(0.4)	(0.5)
FCF yield (%)	2.9	0.5	1.6	1.1	2.4
Dividend yield (%)	0.7	0.8	0.8	1.2	1.5

Valuations	FY21	FY22	FY23	FY24E	FY25E
Reported EPS (Rs)	**77.0**	**76.2**	**68.1**	**80.5**	**103.4**
Adj. EPS (Rs)	77.0	76.2	68.1	80.5	103.4
PE (x)	40.6	41.0	45.9	38.8	30.2
Price/ Book (x)	12.5	10.3	9.0	8.0	7.0
EV/ Net sales (x)	6.1	5.0	4.2	3.8	3.3
EV/ EBITDA (x)	30.3	31.5	32.5	26.9	20.3
EV/ CE (x)	11.8	9.9	8.6	7.7	6.7

Tiles / Bathware – Choice between High Growth (Tiles) and Growth + Margins (Bathware)

Tiles & Bathware – Growth runway long in tiles, but margin security in bathware

- **~80-85% demand for Tiles/Bathware comes from new construction**
  - Real estate launches done over late CY21 and CY22 should come up for tiling work in 2-3 quarters from now.
  - Increasing urbanisation (est. 40% by 2030 vs 35% in 2020) expected to drive construction and hence tiles/Bathware demand
  - ~11% tiled households as per 2011 census (est. ~26% by 2021) implies significant headroom for penetration.
- **Tiles – a growing behemoth but highly competitive in nature**
  - India's domestic tiles market is valued at ~Rs420-430bn – the market has been sluggish at the industry level over FY20-23.
  - Though KJC/SOMC are the leaders in the domestic market, ~50% of the industry is branded with ~20 players and the remaining is a long tail of competent producers (mainly in Morbi belt).
  - Fragmented market structure, varying gas costs across production zones (North/West/South India) and largely similar quality products across has meant that branded players seldom have pricing power.
- **Booming tiles exports has translated into relief for domestic-focused brands**
  - India's tile exports have grown at ~18% CAGR over FY20-23 (~Rs160bn) as China + 1 from 2020 (ADDs + sourcing diversification needs post COVID) and Europe + 1 from 2022 (gas issues due to Ukraine war) opened up new markets.
  - Morbi tile players' eye on exports (volume sales/lower WC) has meant that their focus on domestic markets has come off – translating into a relatively better pricing/margin environment (albeit still no pricing power).

India's domestic tiles market is large but highly competitive in nature (given product quality is similar across players)

Tiles & Sanitaryware – Credible players on hand

- **Bathware – A better business to have in the overall mix, but entry barriers are high for new/small players**
  - Quality/after-market service is distinctly better for branded players vs unbranded (unlike tiles where differentiation is low)
  - Supply opportunities low in Sanitaryware – only 60-70 producers in India (players have to either set up shop or import)
  - Lower competition = better pricing power in Bathware. Lower gas requirements/costs = better margins in Bathware vs Tiles
  - Legacy brands rule the roost (Hindware/Cera/Jaguar neck to neck in Sanitaryware; Jaguar clear #1 in Faucets). New players have a long road ahead to carve out a meaningful (and profitable) presence (as KJC/SOMC's experience suggests)

- **Initiate Coverage on Cera Sanitaryware Ltd. (CRS) with BUY rating; Maintain BUY on Kajaria Ceramics Ltd. (KJC)/ Somany Ceramics Ltd. (SOMC)**
  - **CRS:** Strengthening Bathware mix = Strengthening profit profile
  - **KJC:** Best run tiles company, now reaping benefit of softening input prices
  - **SOMC:** Softening input prices, continued cut down in WC (driving debt cut) to drive strong earnings growth
  - **Pecking Order:** CRS, KJC – both buy on dips; SOMC – opportunistic high risk-bet

CRS best placed of the lot (growth + margin protection), KJC the best tiles company, SOMC an opportunistic high-risk bet

Tiles / Bathware – Choice between High Growth (Tiles) and Growth + Margins (Bathware)

Cera Sanitaryware (CRS)

Initiate with BUY / TP Rs9,100

- Presence across smaller cities driving growth across segments
- Fast growing Sanitaryware/Faucet segment (~85% of revenue) = improving margin profile
- Debt-free, cash-rich balance sheet

Kajaria Ceramics (KJC)

Maintain BUY / TP Rs1,420

- Pan-India presence gives first-mover advantage in branded tiles
- Brand premium provides margin cushion during gas price shocks
- Renewed focus on Bathware – if succeeds, it should bolster margins even more from current levels

Somany Ceramics (SOMC)

Maintain BUY / TP Rs810

- Potential to expand margins (and EBITDA) faster versus peers as gas prices come off from FY23 highs
- Better margins + volume growth = debt reduction = stronger delta on earnings
- Inexpensive valuations reflect subpar growth ahead (unlikely)

CRS best placed, followed by KJC – both are buy on dips; SOMC can be an opportunistic bet in the near-term

Tiles / Bathware – Choice between High Growth (Tiles) and Growth + Margins (Bathware)

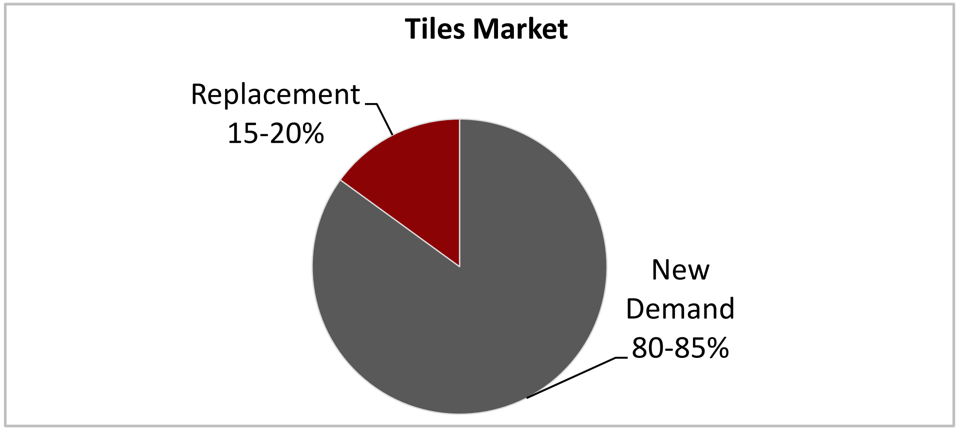
Peer Comparison

Company	CMP	MCap	TP	Upside	EPS (Rs)			EPS CAGR	PAT Margin (%)			RoCE (%)		
	(Rs)	(Rs bn)	(Rs)	(%)	FY23	FY24E	FY25E	FY23-25E (%)	FY23	FY24E	FY25E	FY23	FY24E	FY25E
KJC	1,261	201	1,420	12.6	22.1	30.9	40.6	35.5	8.0	9.6	10.6	17.7	23.5	27.9
SOMC	686	29	740	18.1	17.4	32.7	46.5	63.5	3.0	4.9	6.0	8.2	12.4	16.1
CRS	7,664	100	9,100	18.7	164.8	211.6	259.6	25.5	11.6	12.8	13.3	21.3	23.5	25.3

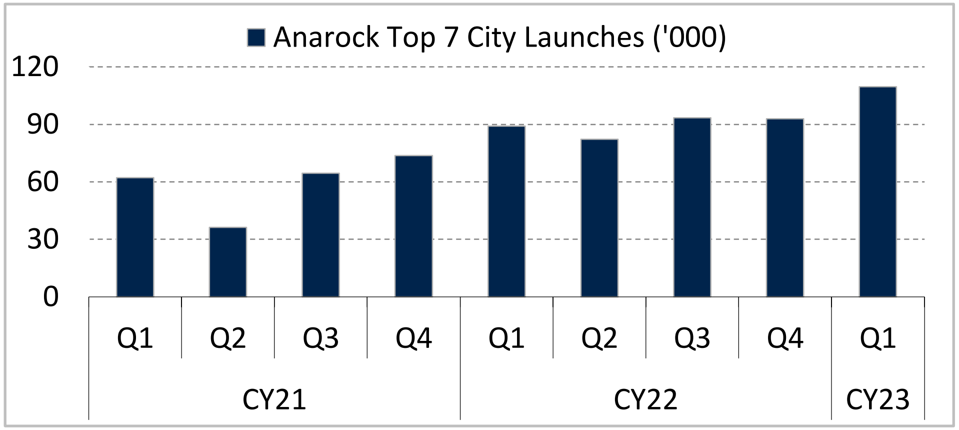
Company	RoE (%)			NWC (Days)			Net Debt/EBITDA (x)			P/E (x)			EV/EBITDA (x)		
	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E	FY23	FY24E	FY25E
KJC	15.4	19.4	22.7	64	65	65	(0.3)	(0.2)	(0.2)	57.0	40.8	31.0	33.7	24.5	19.4
SOMC	8.5	14.6	18.3	42	40	39	1.8	1.1	0.6	39.5	21.0	14.8	17.8	12.2	9.3
CRS	19.4	21.5	22.7	70	71	71	(2.2)	(2.1)	(2.0)	46.5	36.2	29.5	31.9	25.1	20.3

Construction-led demand for tiles has near- and long-term legs

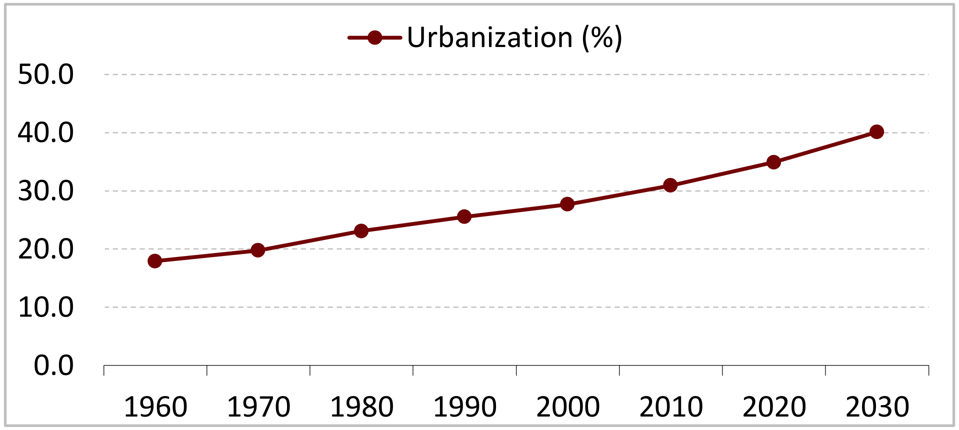
New construction major driver for Tiles/Bathware



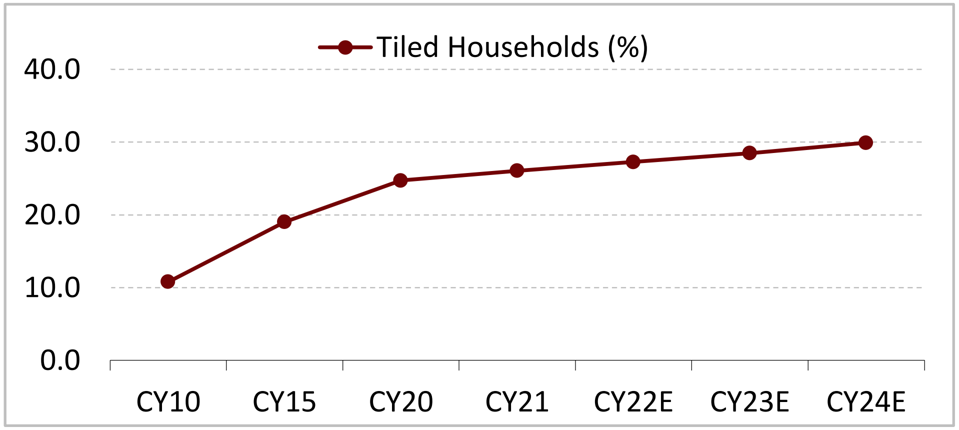
Launches over CY21/22 should drive demand in 2-3 quarters



Rising urbanisation to open tiles demand across markets



Tiled household penetration still low

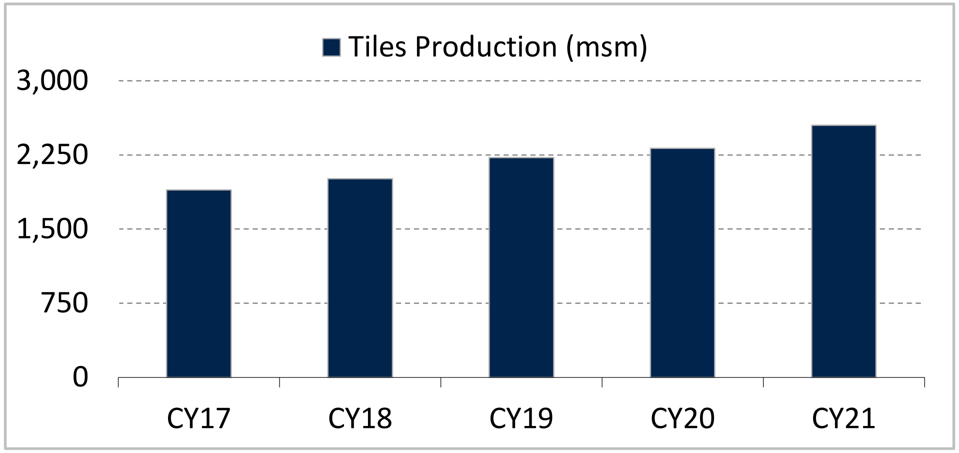


Source: *Industry, ANAROCK, Census, DAM Capital Research*

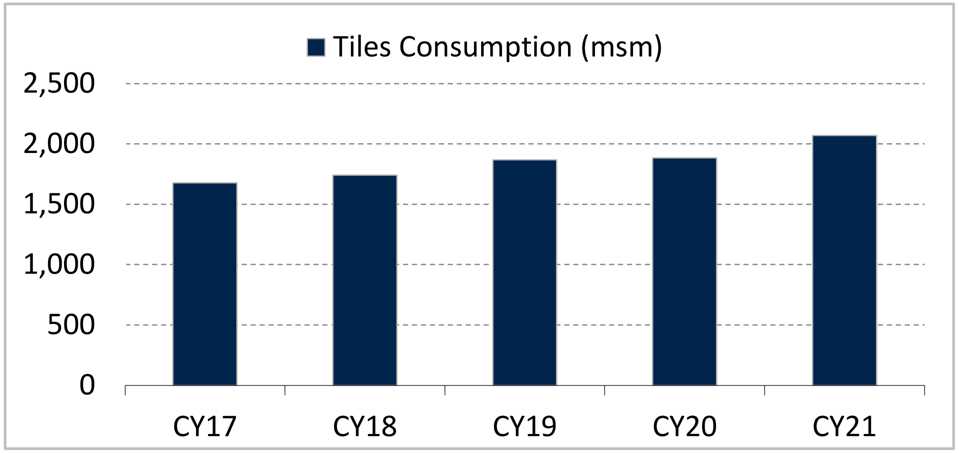
New construction + existing household penetration + replacement = Healthy growth runway for tiles

Indian tiles market – a growing behemoth as a whole…

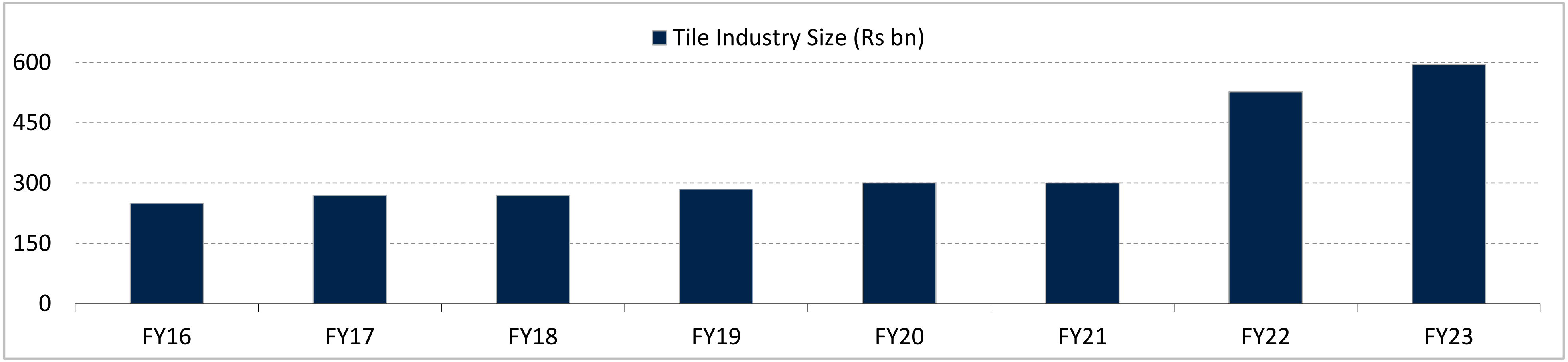
India is a formidable tiles producer…



…with immense appetite in the domestic market…



…which alongside an expanding exports market is propelling the tiles industry as a whole

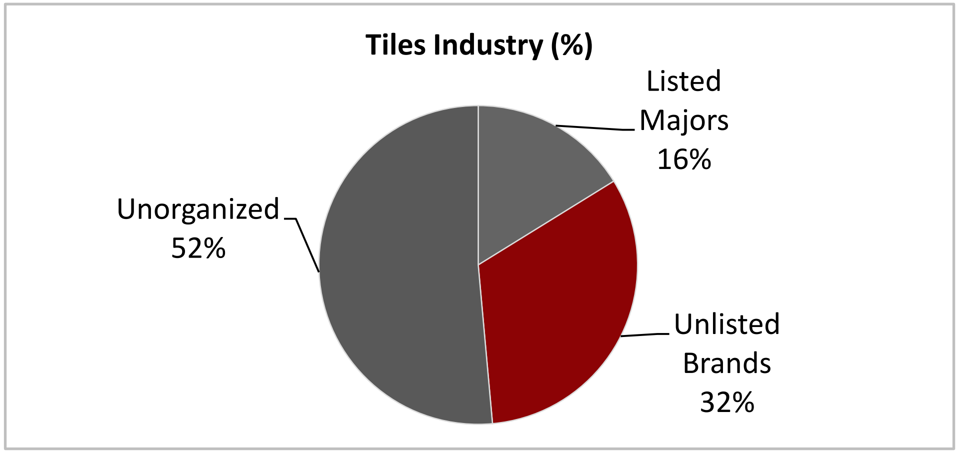


Source: *World Ceramic Review, Industry, DAM Capital Research*

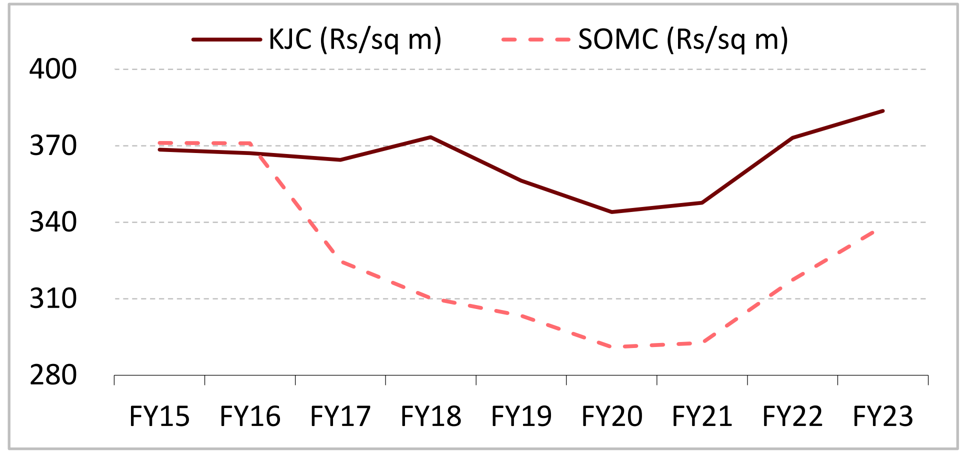
The Indian tiles market was steadily growing until exports opened up (which then propelled the industry further)

…but the domestic market is highly competitive and hence vulnerable on margins

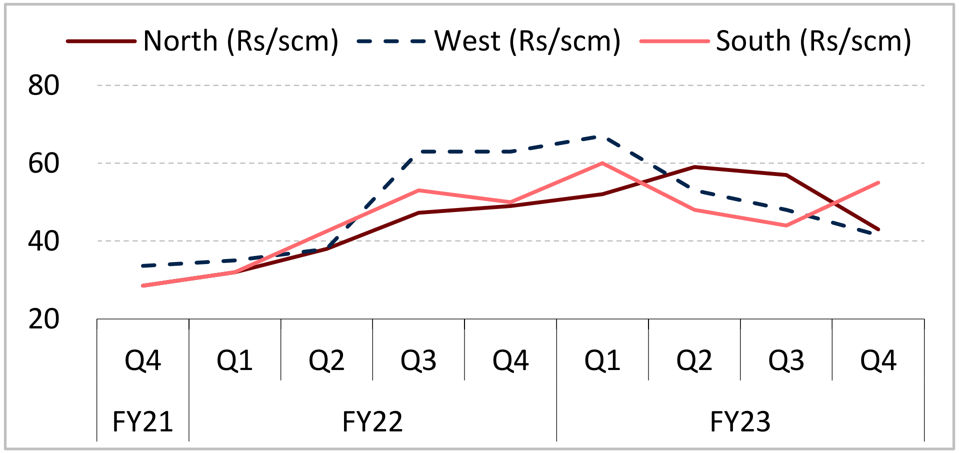
Unorganised players a tough match for brands…



…making pricing power a difficult proposition for leaders



Slow (or no) gas cost pass-through makes margins vulnerable



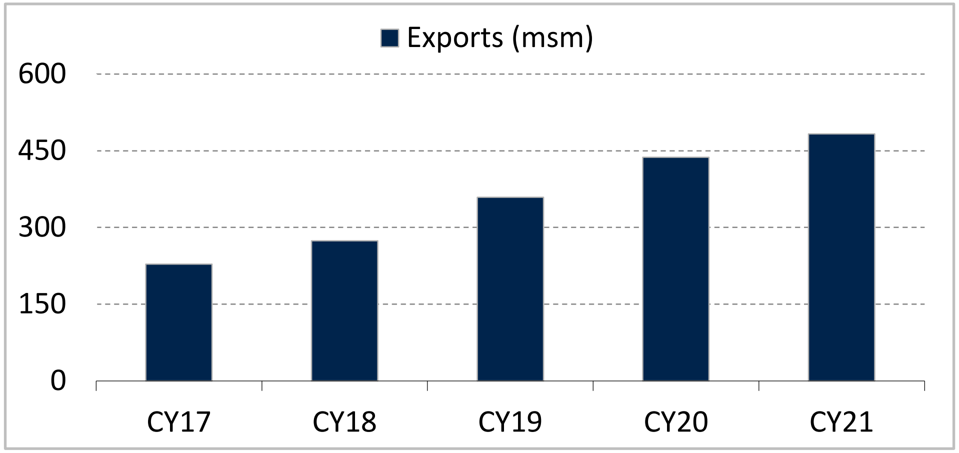
Source: *ASIAN Presentation, Company, DAM Capital Research*

- Pass through of gas price is a cat-and-mouse game with industry leaders usually watchful of what Morbi players do (since product quality is similar across players)
- Alternate fuel sources being experimented with to break its complete dependence on gas. Morbi uses (and plays) Propane over Natural Gas to control costs. Large players working with biofuels (~30% of total fuel) to cut costs.
- Fuel cost benefits are enjoyed by all and so does not necessarily provide a competitive edge to any player.

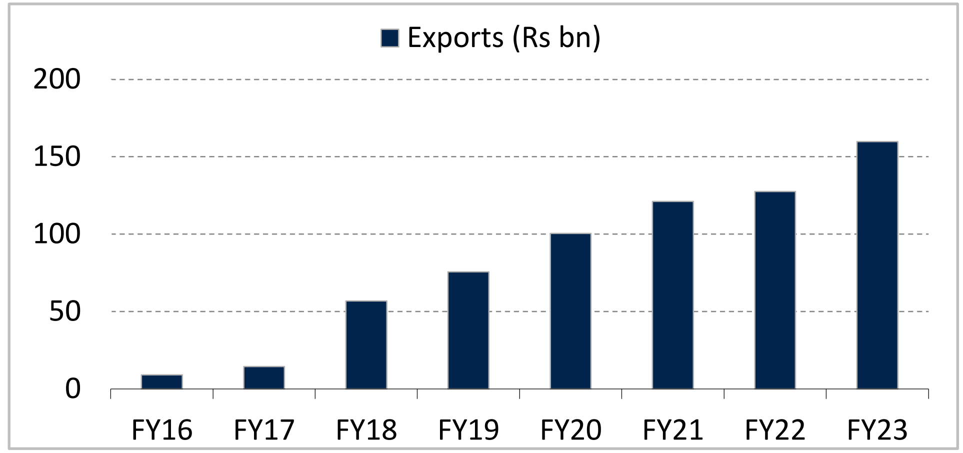
Unorganized players can be more than a match for organized brands, making the case for pricing power weak in Tiles

Export market's robustness crucial for domestic-focused players profitability

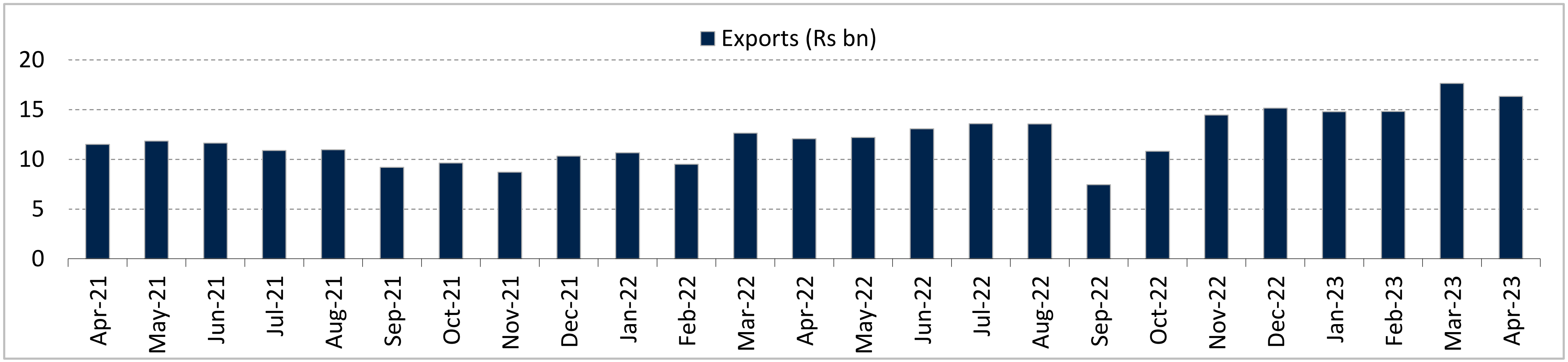
Tiles exports have picked up pace from India…



…which has reduced domestic competition to an extent



Monthly export run-rate continues to build up versus earlier figures



Source: *Ministry of Commerce & Industry, World Ceramic Review, DAM Capital Research*

Robust export markets → Morbi's higher focus on exports → Lower competitive intensity in domestic markets

Bathware – Lower competition, higher margin profile versus tiles

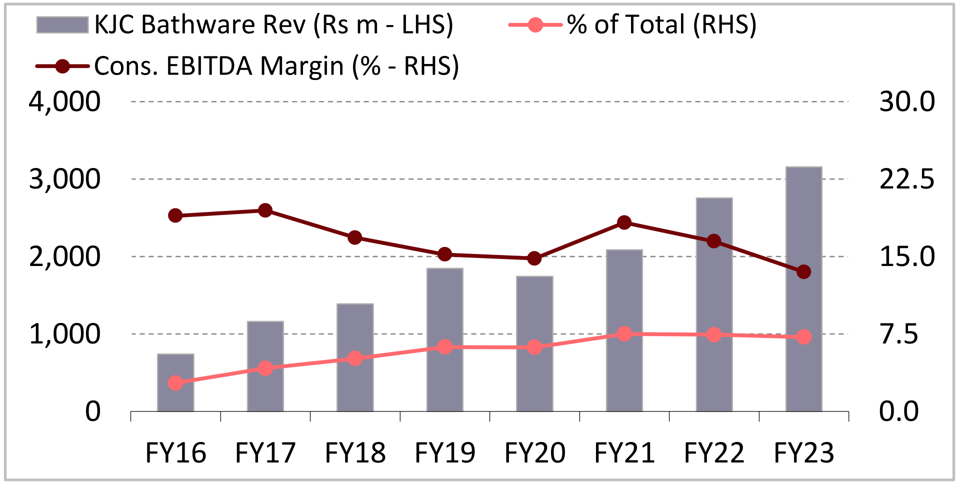
Sanitaryware – High skill requirement a key entry barrier

- **Market Size:** Rs55-60bn
- **Organised Share:** 70-75%
- **Competition:** Low (60-70 manufacturers only in India). Top 3 players have ~60% of organised market share
- **High Entry Barriers:** Highly skilled labour and/or high capital-intensive technology required.
- **Fuel Costs:** Low (2-3% of revenue vs 18-20% for tiles)

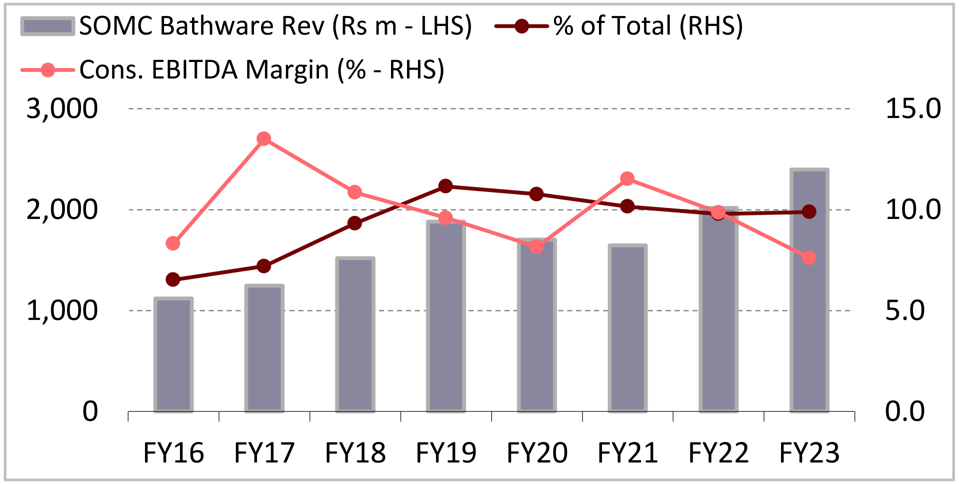
Faucets – Brand/after-market key for growth

- **Market Size:** Rs110bn
- **Organized Share:** 50-55%
- **Competition:** Medium (vendor base is wider vs sanitaryware but skill requirement is equally high)
- **Entry Barriers:** Relatively lower but brand/constant aftermarket service availability are key for growth
- **Fuel Costs:** Low (5-10% of revenue vs 18-20% for tiles)

KJC's Bathware Performance



SOMC's Bathware Performance

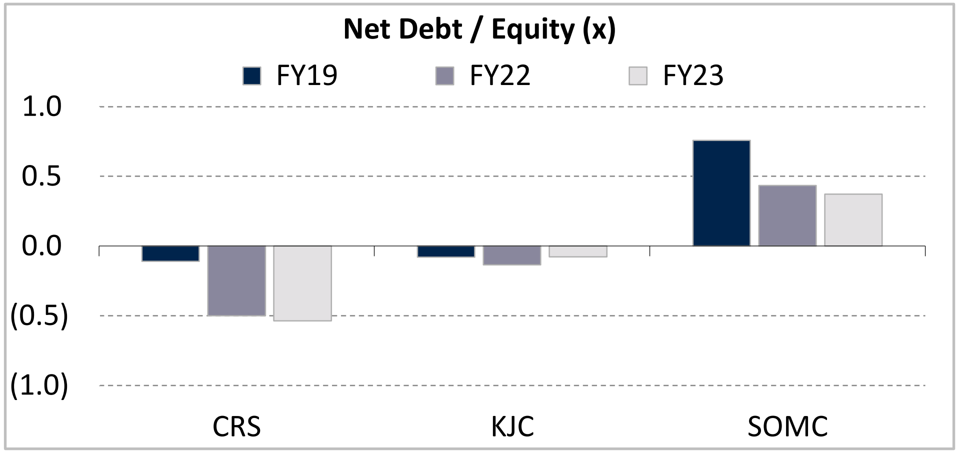


Source: *Company, DAM Capital Research*

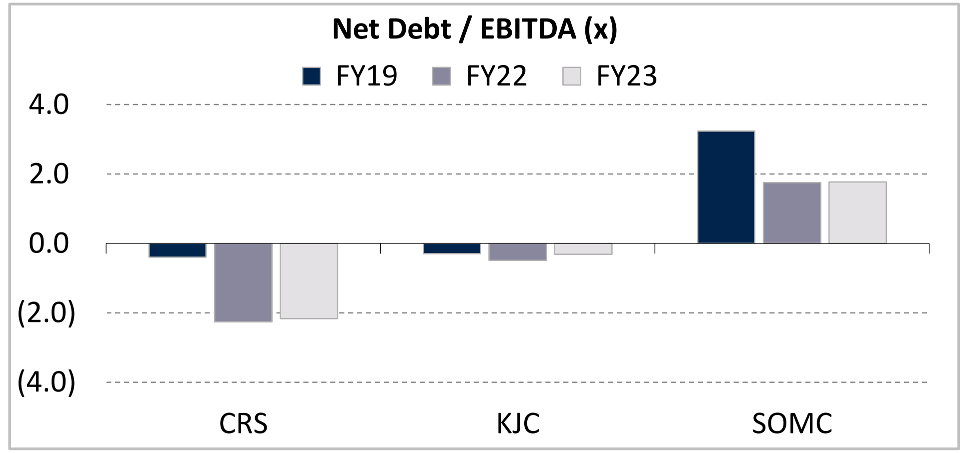
Bathware – A better margin piece in the pie, but KJC's/SOMC's experience suggests it is difficult to scale up quickly

Leaders shine on balance sheet as well; SOMC's a work-in-progress

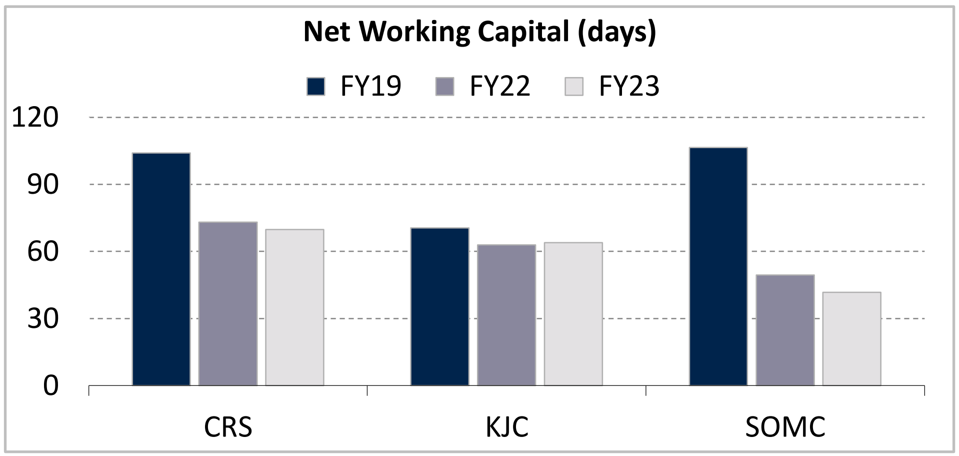
Strong net cash positions for CRS/KJC…



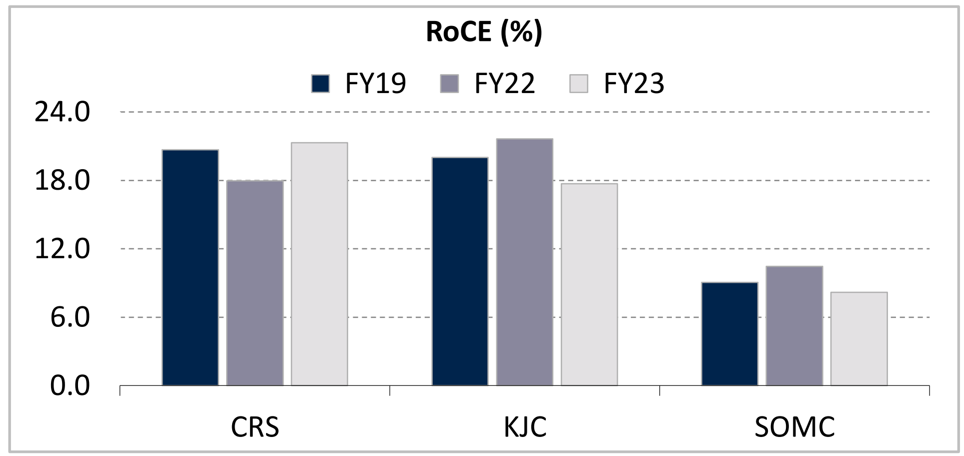
…while that of SOMC's is on the mend



WC cut down in recent times; SOMC's progress the best



Healthy RoCEs for CRS/KJC, SOMC relatively weak



Source: *Company, DAM Capital Research*

CRS best placed of the lot, given its competitive advantages; KJC's balance sheet provides strong cushion during crunch times

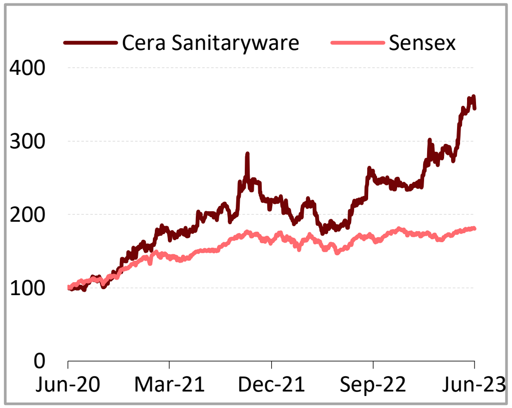
Initiating Coverage	Price: Rs7,664	Target Price: Rs9,100	Mkt Cap: Rs100bn

Stock Data

Bloomberg code	CRS IN
Potential from CMP (%)	18.7
6-mth avg. daily traded value (Rsm/USDm)	175.1 / 2.1
Promoter holding (%)	54.5

Key Ratios	FY23	FY24E	FY25E
PE	46.5	36.2	29.5
EV/EBITDA	31.9	25.1	20.3
RoE	19.4	21.5	22.7
RoCE	21.3	23.5	25.3

Price Performance	3-mth	6-mth	1-yr
CRS IN	21.1	51.4	91.8
BSE Sensex	8.7	5.2	20.5



Cera Sanitaryware Ltd.

Growth warrior with a fortified defense

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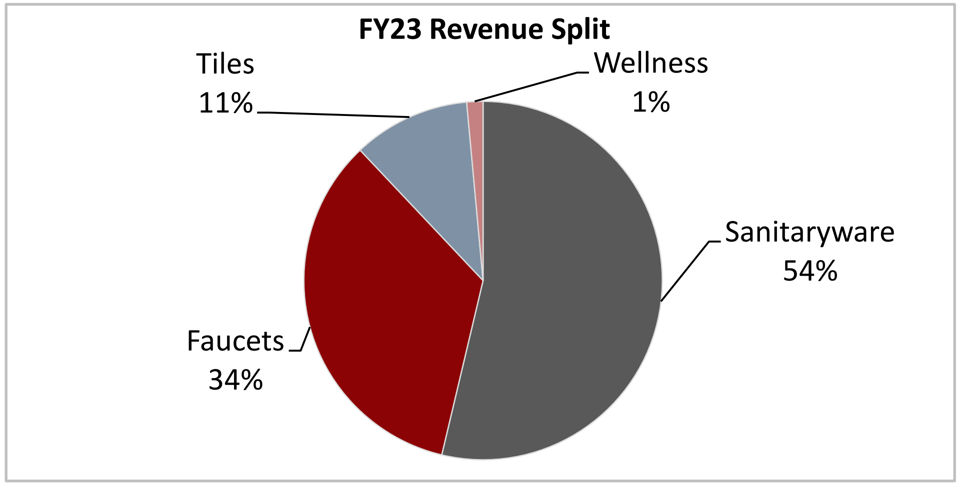
Email: aasim@damcapital.in

Cera Sanitaryware Ltd. (CRS)

CRS is a leading player in the bath improvements space - #1 in Sanitaryware, #2 in Faucetware and a relatively marginal player in tiles (est. ~0.4% market-share). The company's products are present across the price spectrum; however, it is more known for its mid-market/premium products and derives majority of its revenue from smaller markets (Tier II and beyond).



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	13,515	12,237	12,243	14,458	18,035	21,547	25,457
YoY (%)	*14.0*	*(9.5)*	*0.1*	*18.1*	*24.7*	*19.5*	*18.1*
EBITDA (Rs m)	1,983	1,655	1,581	2,287	2,930	3,663	4,455
EBITDAM (%)	14.7	13.5	12.9	15.8	16.2	17.0	17.5
Net Income (Rs m)	1,151	1,133	1,008	1,568	2,144	2,753	3,376
PATM (%)	8.5	9.3	8.2	10.8	11.9	12.8	13.3
RoE (%)	17.4	15.2	12.1	16.4	19.4	21.5	22.7
RoCE (%)	20.7	13.9	11.9	18.0	21.3	23.5	25.3
NWC (Days)	104	115	93	73	70	71	71
OCF/EBITDA (%)	62.8	78.0	169.6	38.9	55.4	58.1	73.0

Source: *Company, DAM Capital Research*

Investment Rationale

- **Over-indexed presence in Tier II/III cities driving growth**
  - ~70%+ revenue comes from emerging (and aspirational) Tier II/III and beyond towns
  - High construction activity in smaller markets, lower competition from brands (especially imported/foreign), and SKU presence across the price spectrum make CRS an opportune player to capitalise on growth
  - Tier II/III revenue CAGR over FY20-23 is at ~16% vs overall revenue CAGR of ~14%. Expect Tier II/III markets to outperform for CRS in the near to medium-term as well
- **Fast-growing bathware revenue (over tiles) to strengthen margin/return ratio profile**
  - Bathware SKUs have a relatively low competition versus tiles (hence higher pricing power) and gas is a low input requirement. As such, margins of Bathware tend to be higher (est. 18-20% vs tiles 10-15%)
  - Low gas cost (from isolated wells in Gujarat) and high outsourcing of low-end products (~60%/50% of SW/Faucetware outsourced in FY23), whereas high-value SKUs produced in-house aid margins/return ratios
  - Bathware rev. +20% CAGR over FY20-23 vs cons. rev of ~14% = ~270 bps EBITDA margin expansion to 16.5% and ~740 bps RoCE expansion to ~21% by FY23
- **New team has hit the ground running as reflective from FY23 performance**
  - CRS has a new leadership/execution team post Atul Sanghvi's exit (Oct 2021). New personnel include people with experience at Roca, Kohler and Hindware (joined during Sep 2021-22)
  - Healthy FY23 performance (growth/margin/RoCE) hints that the new team has integrated well

View – Targeting profitable growth ahead

What we like?

- ~85%+ revenue from Bathware reduces margin vulnerability to competition/gas price shocks
- Long track record of profitable capital allocation (20%+ RoCE since FY11 barring FY20-22)

What we dislike?

- Growth ambition historicallylow, though the new team could change this pattern

What's in the price (Rs7,664/share)?

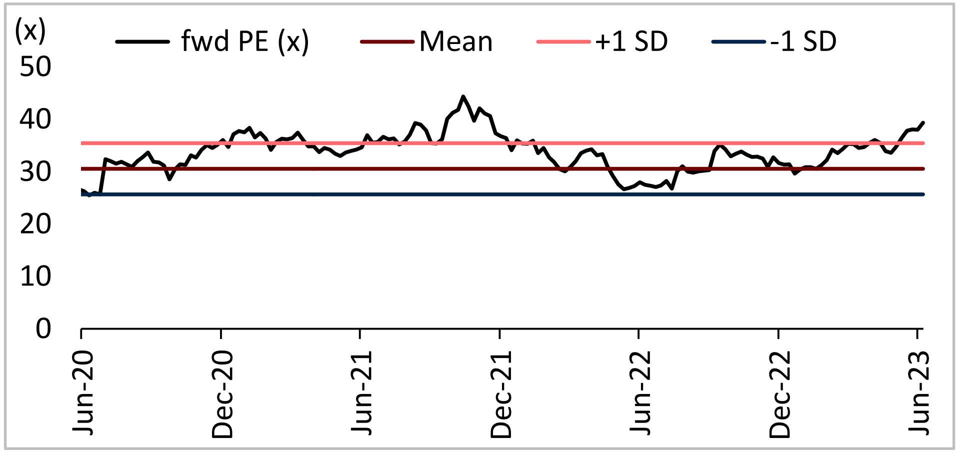
- ~15%/17% revenue/EBITDA CAGR over FY23-33E
- Tiles being a distant third in the overall mix is factored in – implying a relative slow growth vs Bathware
- Growth expectations are fair (not underpriced), though higher confidence that FY22/23 outperformance would continue in FY24E (and become more mainstream for CRS) would drive a re-rating from these levels

View – Targeting profitable growth ahead

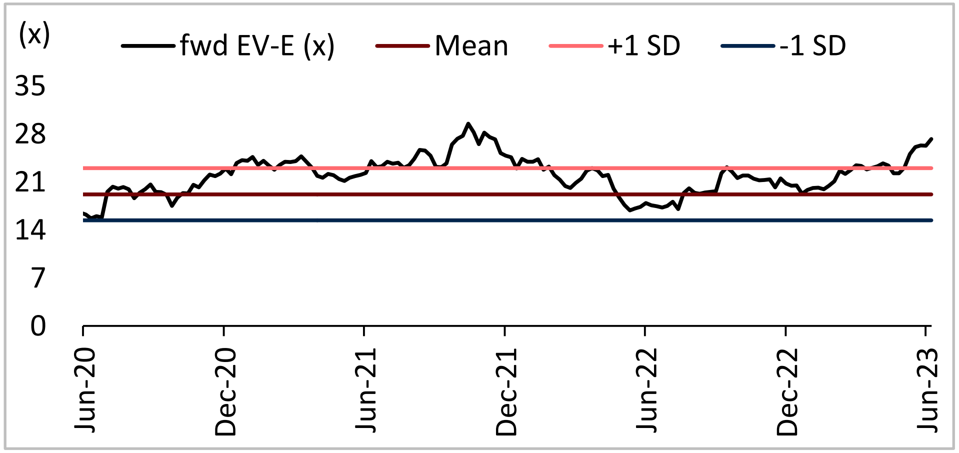
View – Initiate Coverage with BUY (TP Rs9,100/19% upside)

- Within the broader Tiles + Bathware spectrum, CRS is best placed versus tiles players, given healthy market opportunities and lower margin risks
- Expect 19%/23% revenue/EBITDA CAGR (FY23-25E) based on Tier II/III market momentum and relatively low competition in these markets for CRS
- Long track record of strong capital allocation and low/no-leverage balance sheet provides comfort
- **Initiate coverage with a BUY rating. TP Rs9,100 (35x FY25E P/E / 19% upside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart



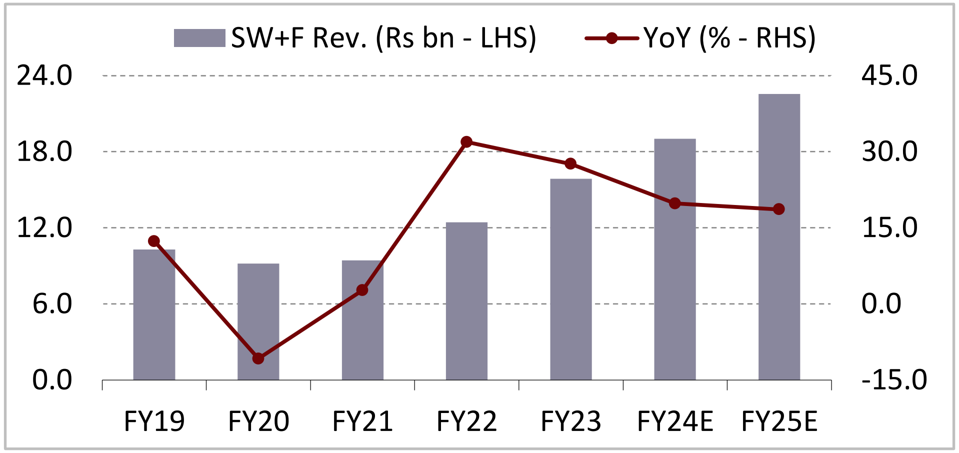
Source: *Bloomberg, DAM Capital Research*

View – Targeting profitable growth ahead

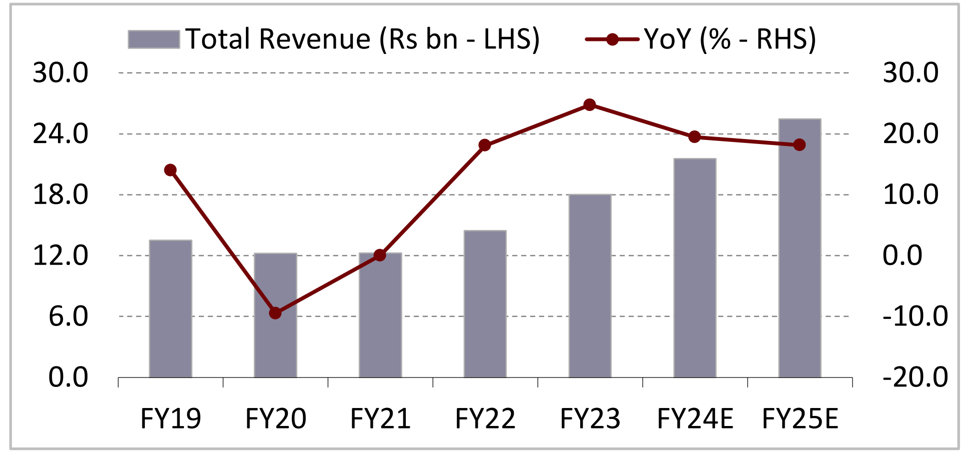
Key Assumptions	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	**13,515**	**12,237**	**12,243**	**14,458**	**18,035**	**21,547**	**25,457**
- Sanitaryware	7,091	5,996	5,999	7,663	9,686	11,284	13,089
- Faucetware	3,196	3,182	3,428	4,771	6,179	7,724	9,462
- Tiles	2,754	2,692	2,571	1,735	1,907	2,250	2,587
- Wellness	475	367	245	289	264	290	319
Growth (%)	**14.0**	**(9.5)**	**0.1**	**18.1**	**24.7**	**19.5**	**18.1**
- Sanitaryware	7.9	(15.4)	0.1	27.7	26.4	16.5	16.0
- Faucetware	23.7	(0.4)	7.7	39.2	29.5	25.0	22.5
- Tiles	16.5	(2.2)	(4.5)	(32.5)	9.9	18.0	15.0
- Wellness	42.1	(22.8)	(33.3)	18.1	(8.9)	10.0	10.0
Revenue Contribution (%)	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**	**100.0**
- Sanitaryware	52.5	49.0	49.0	53.0	53.7	52.4	51.4
- Faucetware	23.6	26.0	28.0	33.0	34.3	35.8	37.2
- Tiles	20.4	22.0	21.0	12.0	10.6	10.4	10.2
- Wellness	3.5	3.0	2.0	2.0	1.5	1.3	1.3
EBITDA (Rs m)	**1,983**	**1,655**	**1,581**	**2,287**	**2,930**	**3,663**	**4,455**
YoY (%)	11.8	(16.5)	(4.5)	44.7	28.1	25.0	21.6
Margin (%)	**14.7**	**13.5**	**12.9**	**15.8**	**16.2**	**17.0**	**17.5**

Story in charts

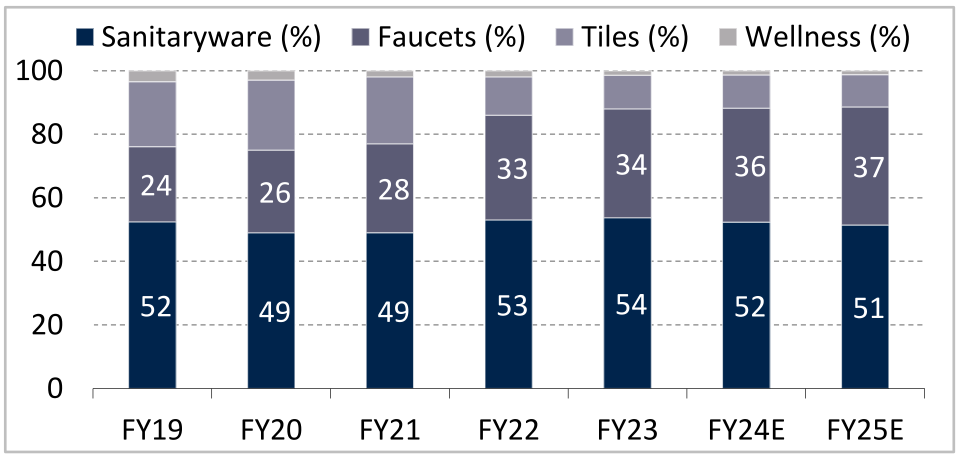
~19% Sanitaryware + Faucets CAGR over FY23-25E…



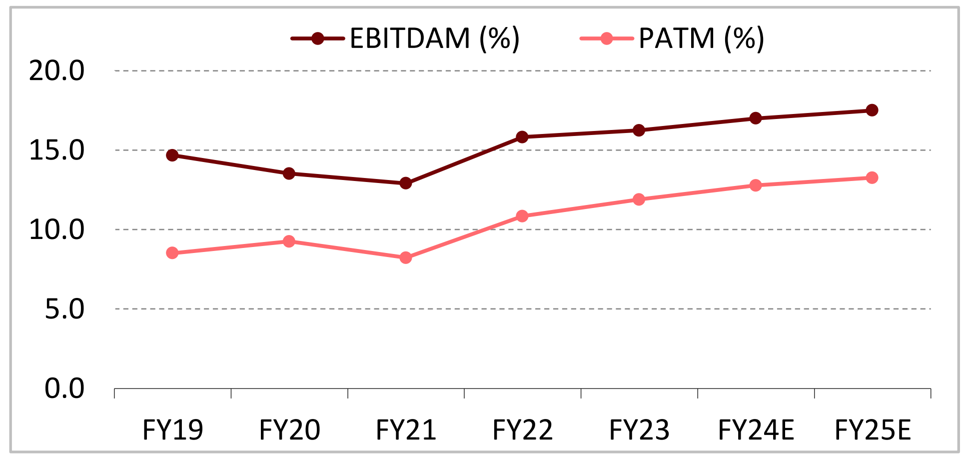
…to be main driver for total revenue



Steady increase in high margin SW/Faucet share…



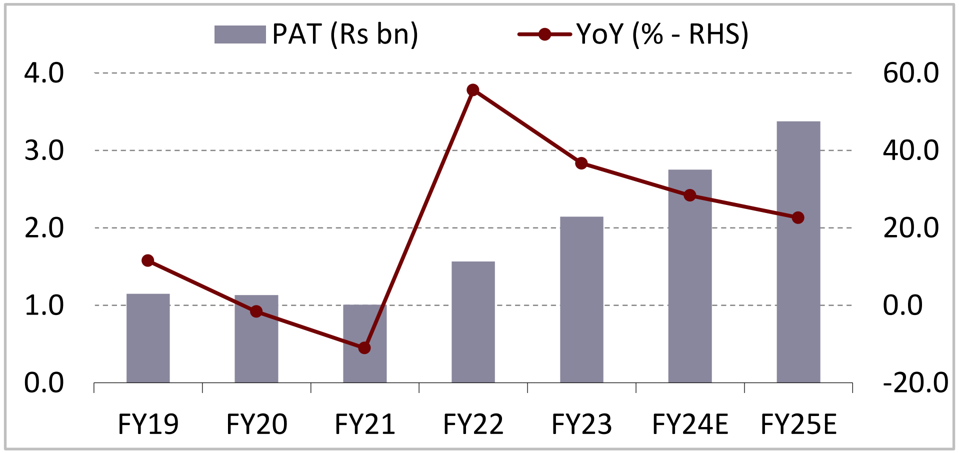
…alongside operating leverage to push margins higher



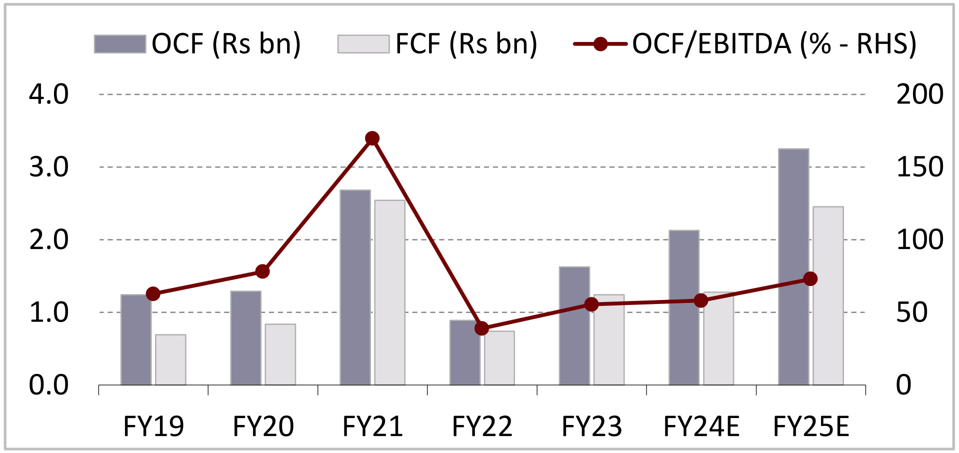
Source: *Company, DAM Capital Research*

Healthy growth in high-margin Sanitaryware/Faucets segments to pull up overall profitability

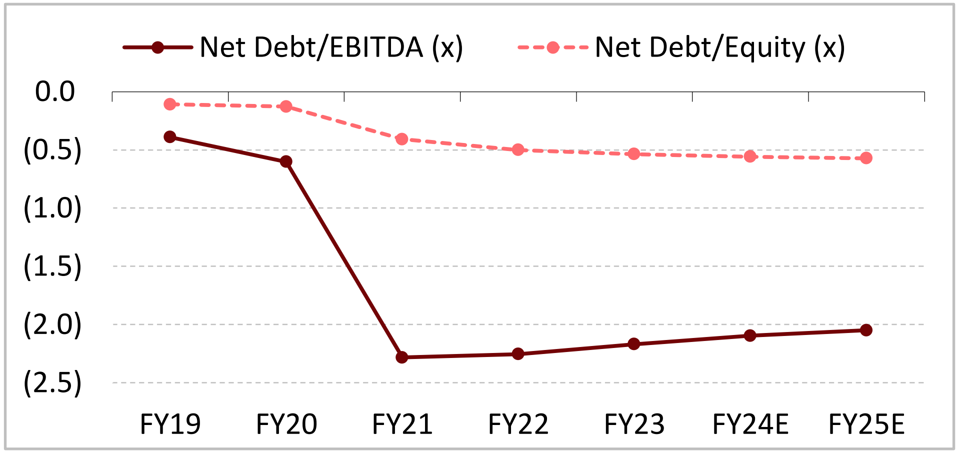
~25% earnings CAGR over FY23-25E



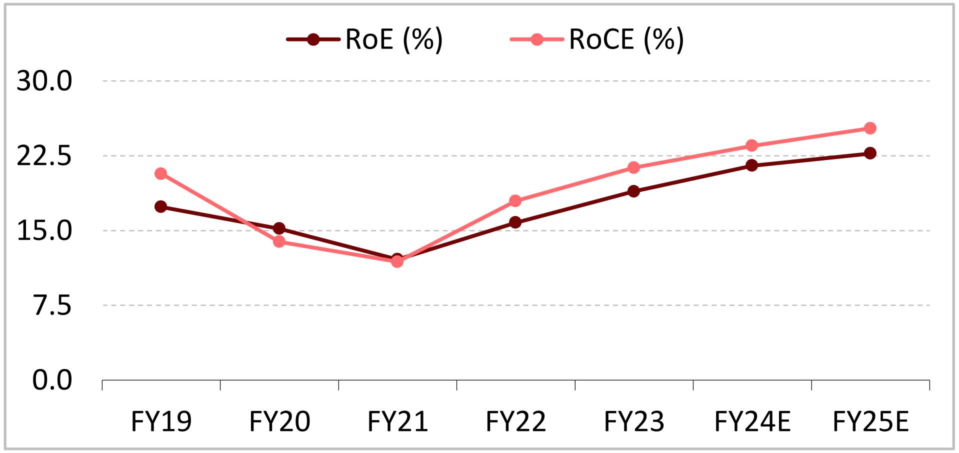
Cash generated sufficient to finance major capex



Zero debt company



~400 bps increase in RoCE to 25% by FY25E (vs FY23)



***Source:** Company, DAM Capital Research*

Strong cash generation (alongside net income) to strengthen return ratio profile of CRS

Cera Sanitaryware

CMP: Rs9,100; Mkt Cap: Rs100bn

Income Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**12,243**	**14,458**	**18,035**	**21,547**	**25,457**
% growth	0.1	18.1	24.7	19.5	18.1
Operating expenses	10,663	12,171	15,105	17,884	21,002
EBITDA	**1,581**	**2,287**	**2,930**	**3,663**	**4,455**
% change	(4.5)	44.7	28.1	25.0	21.6
Other income	252	236	356	431	509
Net interest cost	97	53	60	19	0
Depreciation	396	324	326	397	453
Pre-tax profit	1,339	2,147	2,899	3,678	4,511
Deferred tax	0	0	0	0	0
Current tax	340	560	738	926	1,135
Profit after tax	**999**	**1,587**	**2,161**	**2,753**	**3,376**
Preference dividend	0	0	0	0	0
Minorities	8	(19)	(17)	0	0
Adjusted net profit	**1,008**	**1,568**	**2,144**	**2,753**	**3,376**
Non-recurring items	0	0	0	0	0
Reported net profit	**1,008**	**1,568**	**2,144**	**2,753**	**3,376**

Cash Flow (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,339	2,090	2,849	3,678	4,511
Depreciation	396	324	326	397	453
Chg in Working capital	1,337	(1,827)	792	(1,114)	(595)
Total tax paid	(340)	(560)	(738)	(926)	(1,135)
Net Interest	97	53	60	19	0
Others	(18)	6	101	0	0
Operating cash flow	**2,848**	**97**	**3,376**	**2,129**	**3,252**
Capital expenditure	(173)	468	(514)	(850)	(800)
Free cash flow (a+b)	**2,675**	**564**	**2,863**	**1,279**	**2,452**
Chg in investments	(14)	52	67	0	0
Debt raised/(repaid)	(83)	(570)	(13)	(253)	0
Net interest	(97)	(53)	(60)	(19)	0
Capital raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	0	0	0	0	0

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	65	65	65	65	65
Reserves & surplus	8,652	10,086	11,661	13,588	15,782
Shareholders' equity	**8,835**	**10,294**	**11,832**	**13,759**	**15,954**
Total current liabilities	1,598	1,403	2,125	2,462	2,906
Total debt	837	267	253	0	0
Deferred tax liabilities	303	354	376	376	376
Other non-current liabilities	488	481	581	612	615
Total liabilities	3,225	2,506	3,336	3,450	3,897
Total equity & liabilities	**12,060**	**12,799**	**15,168**	**17,209**	**19,850**
Net fixed assets	4,168	3,376	3,564	4,017	4,364
Investments	402	350	283	283	283
Cash	4,445	5,421	6,607	7,675	9,131
Other current assets	4,555	6,207	6,132	7,532	8,550
Other non-current assets	207	163	181	187	193
Net working capital	7,402	10,225	10,614	12,746	14,775
Total assets	13,777	15,517	16,766	19,695	22,521

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	12.9	15.8	16.2	17.0	17.5
EBIT margin (%)	9.7	13.6	14.4	15.2	15.7
PAT margin (%)	8.2	10.4	11.6	12.8	13.3
RoE (%)	12.1	15.8	18.9	21.5	22.7
RoCE (%)	11.9	18.0	21.3	23.5	25.3
Gearing (x)	(0.4)	(0.5)	(0.5)	(0.6)	(0.6)
Net debt/ EBITDA (x)	(2.3)	(2.3)	(2.2)	(2.1)	(2.0)
FCF yield (%)	2.6	0.5	2.8	1.2	2.4
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Valuations	FY21	FY22	FY23E	FY24E	FY25E
Reported EPS (Rs)	**77.4**	**116.2**	**161.0**	**211.6**	**259.6**
Adj. EPS (Rs)	77.4	116.2	161.0	211.6	259.6
PE (x)	98.9	63.6	46.5	36.2	29.5
Price/ Book (x)	11.3	9.7	8.4	7.2	6.2
EV/ Net sales (x)	7.9	6.5	5.2	4.3	3.6
EV/ EBITDA (x)	60.9	41.4	31.9	25.1	20.3
EV/ CE (x)	9.2	8.3	7.2	6.2	5.3

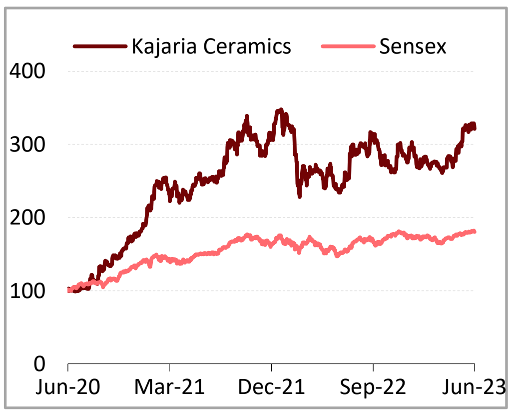
Company Update	Price: Rs1,261	Target Price: Rs1,420	Mkt Cap: Rs201bn

Stock Data

Bloomberg code	KJC IN
Potential from CMP (%)	12.6
6-mth avg. daily traded value (Rsm/USDm)	214.5 / 2.6
Promoter holding (%)	47.5

Key Ratios	FY23	FY24E	FY25E
PE	57.0	40.8	31.0
EV/EBITDA	33.7	24.5	19.4
RoE	15.4	19.4	22.7
RoCE	17.7	23.5	27.9

Price Performance	3-mth	6-mth	1-yr
KJC IN	21.2	16.7	37.2
BSE Sensex	8.7	5.2	20.5



Kajaria Ceramics Ltd.

Well-oiled tiling machine

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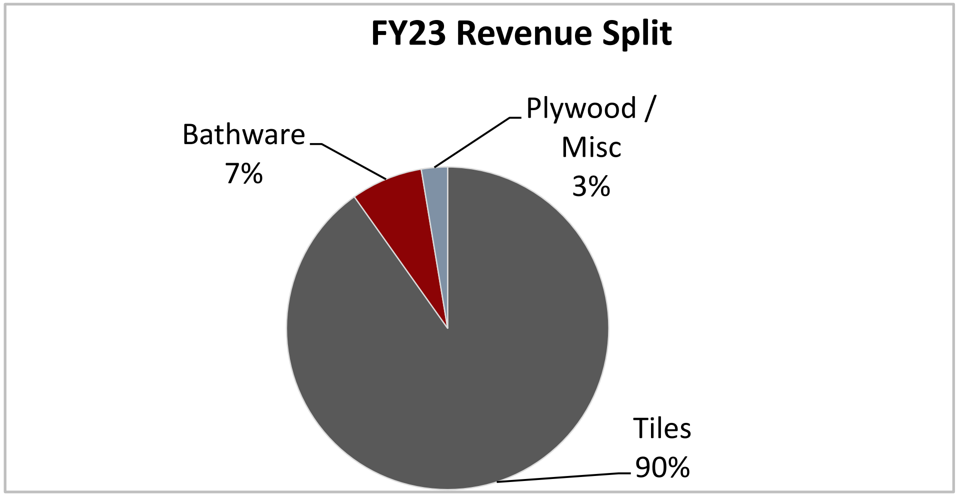
Email: aasim@damcapital.in

Kajaria Ceramics Ltd. (KJC)

KJC is the largest and most recognised tiles brand in the fragmented yet vast (and underpenetrated) market. It has manufacturing capabilities in North, West and South India and has the best pan-India market reach. The company also has interests in Bathware and Wood Panels as it attempts to build itself into a one-stop home improvement player.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	29,562	28,080	27,809	37,052	43,819	51,530	61,040
YoY (%)	*9.1*	*(5.0)*	*(1.0)*	*33.2*	*18.3*	*17.6*	*18.5*
EBITDA (Rs m)	4,495	4,159	5,088	6,107	5,920	8,193	10,316
EBITDAM (%)	15.2	14.8	18.3	16.5	13.5	15.9	16.9
Net Income (Rs m)	2,314	2,553	3,081	3,770	3,524	4,922	6,470
PATM (%)	7.8	9.1	11.1	10.2	8.0	9.6	10.6
RoE (%)	15.1	14.9	16.6	18.3	15.4	19.4	22.7
RoCE (%)	20.0	15.7	19.3	21.7	17.7	23.5	27.9
NWC (Days)	71	81	83	63	64	65	65
OCF/EBITDA (%)	70.6	54.0	100.0	69.7	49.9	73.6	64.1

Source: *Company, DAM Capital Research*

Investment Rationale

- **Best indirect beneficiary of global China + 1 tiles, given KJC's domestic reach**
  - KJC is the largest tiles player in India – manufacturing/channel footprint spread across the country and will be present in 522 (out of 546) Lok Sabha constituencies by September 2023
  - Most Morbi players – who traditionally thrived in smaller markets have shifted partial (and at times complete) focus to exports. This has opened the market in favour of domestic-focused players such as KJC
  - Estimate ~15% tiles volume CAGR over FY23-25E (and is on course to grow at that pace over next decade)

- **Margins to improve over FY24E/25E given fuel/revenue mix improvement**
  - KJC has historically enjoyed a ~300-400 bps margin on price premium alone (higher prices/mix) built through first mover (and consistent efforts since) advantage of brand building (2.6% of rev. spent over FY13-23)
  - FY24E onwards, ~30-35% of fuel mix will come from low-cost biofuel. This should structurally ease fuel cost shocks on margins in the future
  - Incremental capacity expansions for premium products should increase blended realisations (and margins)

- **Capacity expansions to be financed through internal accruals**
  - KJC's target of 15% volume CAGR would necessitate a similar growth in capacity (84.5 msm as of FY23)
  - FY23 capacity addition of ~11msm was entirely through operating cash flow. We expect future capacity additions to also be through OCF, thus upholding KJC as a strong net cash company

View – Well-run tiles player deserves premium multiple

What we like?

- Brand fueled margin cushion vs peers helps KJC stay competitive – capacity to absorb gas cost shock better and provides the option to play for market-share gains, if needed

What we dislike?

- Bathware ramp-up and its effects on margins remain subpar so far
- Plywood could have a similar effect on margins in the near- to medium-term

What's in the price (Rs1,261/share)?

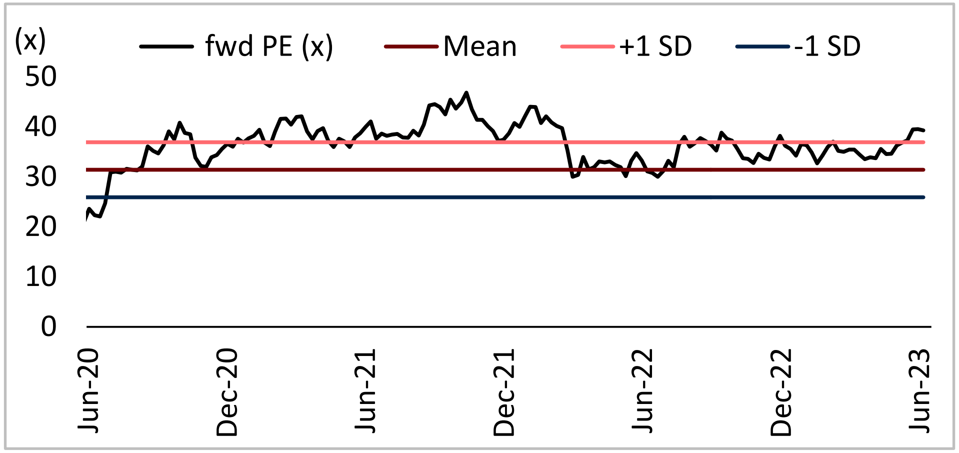
- Tiles - ~14% revenue CAGR over FY23-33E (13% vol. CAGR)
- Bathware - ~19% revenue CAGR over FY23-33E
- ~15%/19% revenue/EBITDA CAGR overall
- Fair expectations given current environment and KJC's own leadership position

View – Well-run tiles player deserves premium multiple

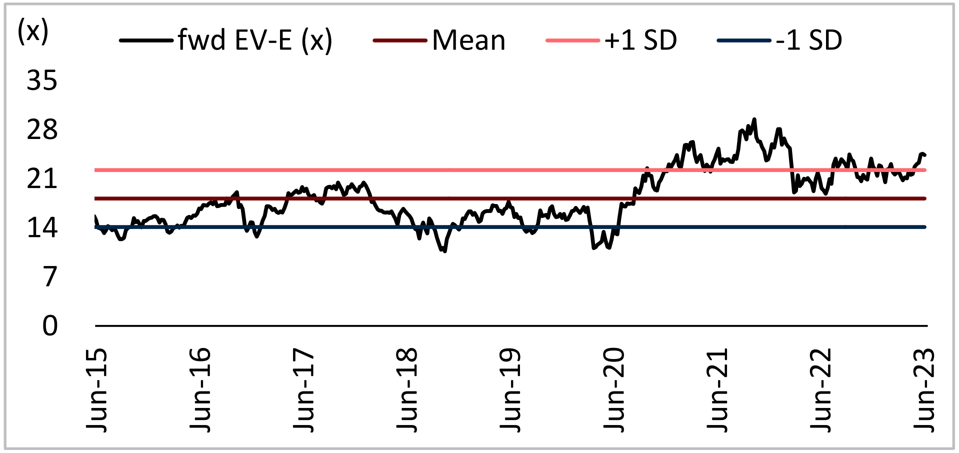
View – Maintain BUY rating (TP Rs1,420/13% upside)

- Best name to play the tiles space and, given its reach, best placed to capitalise on the long growth runway
- Margin cushion available to play market-share gain opportunities over peers when gas prices shoot up. Though with biofuel entering the mix, gas cost volatility will structurally come off
- Bathware business, if scaled well (renewed focus from FY24E onwards), could be margin accretive in the long-run
- **Maintain BUY. TP Rs1,420 (35x FY25E P/E; 13% upside)**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart



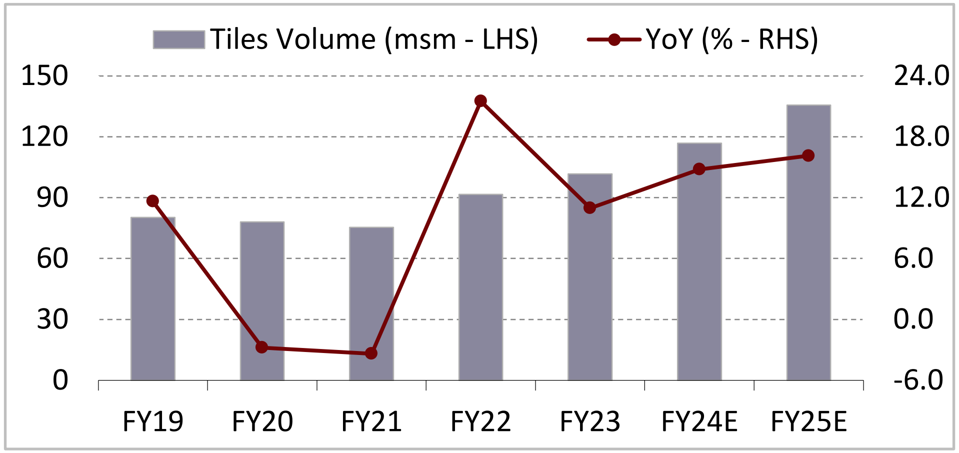
***Source:** Bloomberg, DAM Capital Research*

View – Well-run tiles player deserves premium multiple

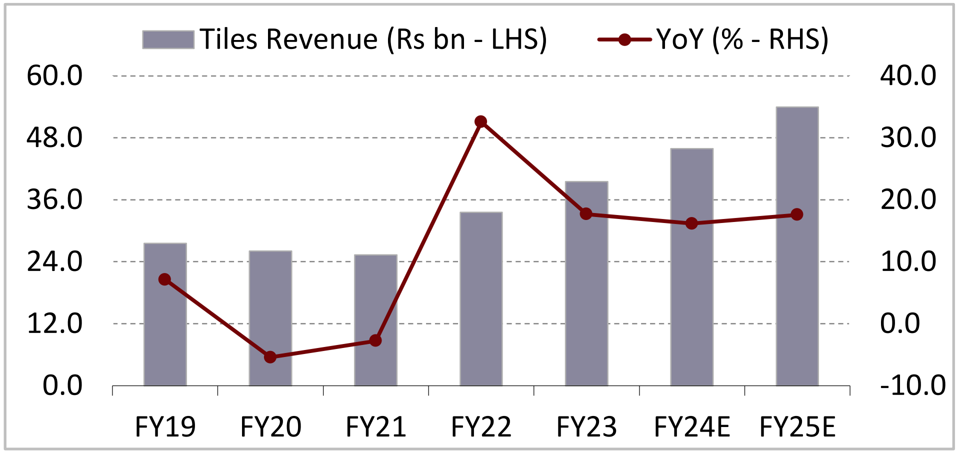
Key Assumptions	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Tiles Metrics							
- Volume (msm)	**80.3**	**78.1**	**75.4**	**91.7**	**101.7**	**116.7**	**135.6**
- Vol. Growth (%)	*11.6*	*(2.8)*	*(3.4)*	*21.5*	*11.0*	*14.8*	*16.1*
- Realisation (Rs / sq.m.)	**343.0**	**333.6**	**335.7**	**366.3**	**388.5**	**393.1**	**398.0**
- Realisation Growth (%)	*(4.0)*	*(2.7)*	*0.6*	*9.1*	*6.1*	*1.2*	*1.3*
Revenue (Rs m)	**29,562**	**28,080**	**27,809**	**37,052**	**43,819**	**51,530**	**61,040**
- Tiles	27,545	26,047	25,328	33,573	39,512	45,891	53,959
- Bathware	1,848	1,744	2,090	2,757	3,157	4,104	5,130
- Plywood	168	289	392	661	773	1,082	1,407
- Misc	0	-	-	61	377	453	543
Revenue Growth (%)	**9.1**	**(5.0)**	**(1.0)**	**33.2**	**18.3**	**17.6**	**18.5**
- Tiles	7.1	(5.4)	(2.8)	32.6	17.7	16.1	17.6
- Bathware	32.9	(5.6)	19.8	31.9	14.5	30.0	25.0
- Plywood	-	71.9	35.4	68.7	17.1	40.0	30.0
- Misc	-	(100.0)	-	-	515.3	20.0	20.0
EBITDA (Rs m)	**4,495**	**4,159**	**5,088**	**6,107**	**5,920**	**8,193**	**10,316**
YoY (%)	(1.5)	(7.5)	22.3	20.0	(3.1)	38.4	25.9
Margin (%)	**15.2**	**14.8**	**18.3**	**16.5**	**13.5**	**15.9**	**16.9**

Story in charts

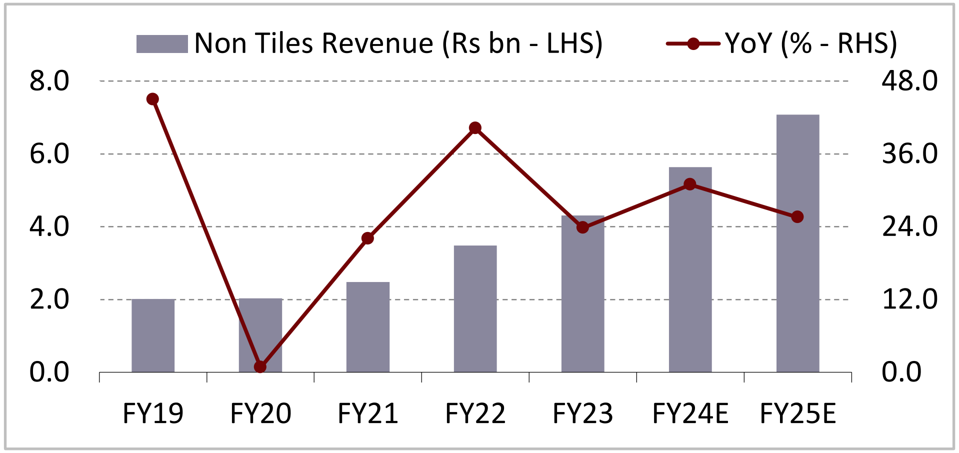
~15% Tiles volume CAGR (FY23-25E) achievable…



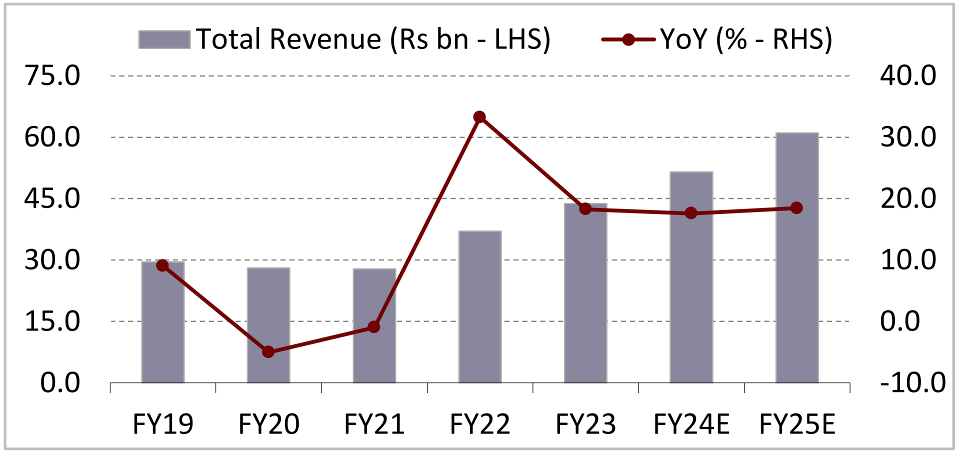
…while better mix to drive ~17% tiles revenue CAGR



Non-tiles revenue to grow faster at ~28% CAGR…



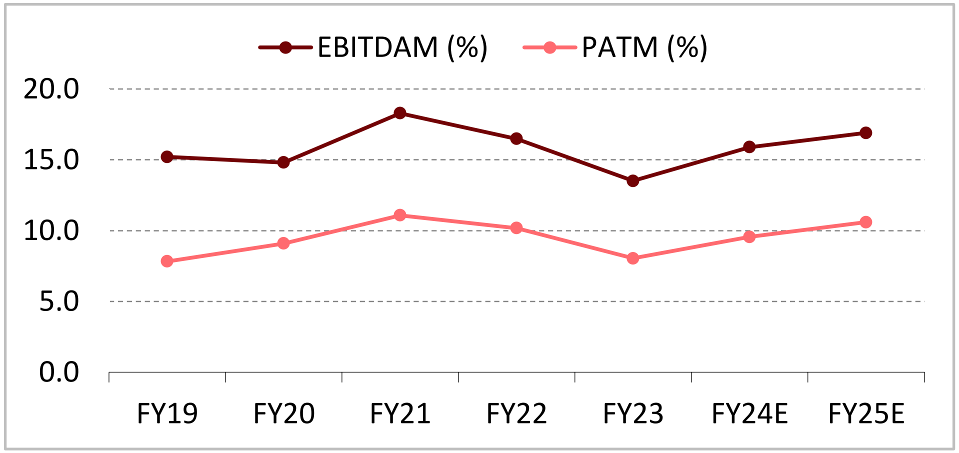
…but overall revenue growth to mirror that of tiles



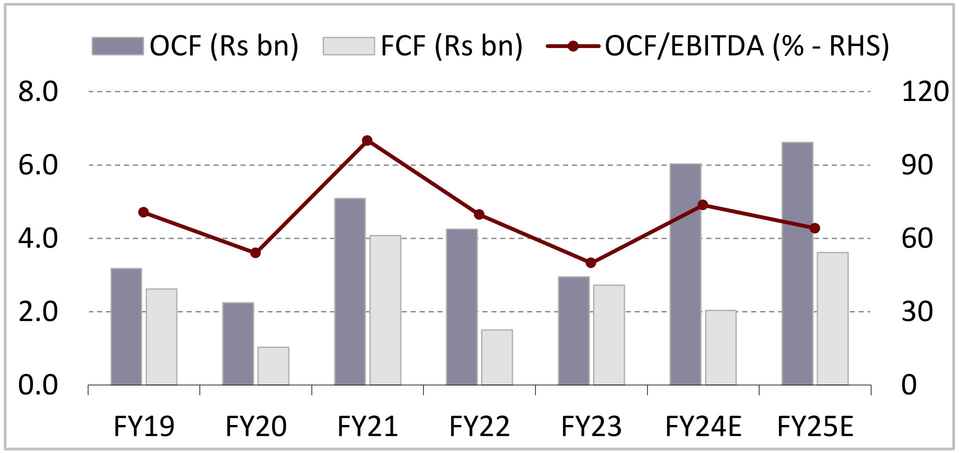
Source: *Company, DAM Capital Research*

Tiles to power the overall revenue over FY23-25E, even though non-tiles is growing faster

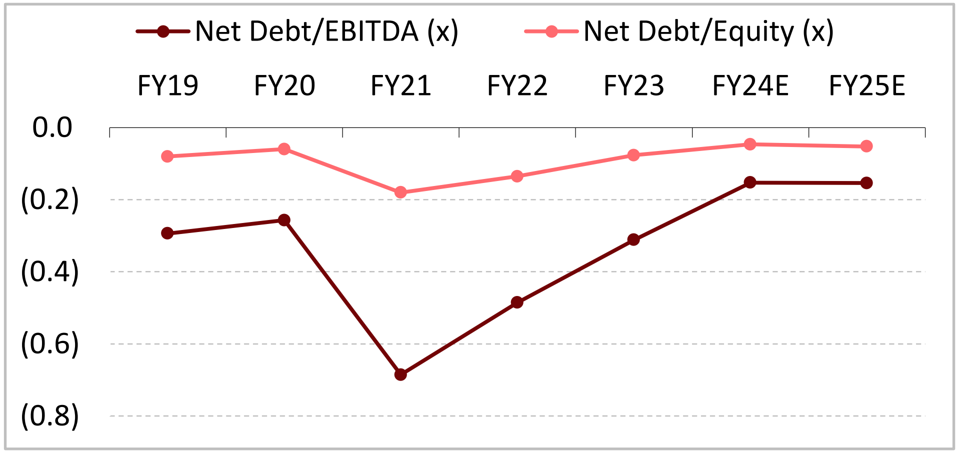
Fuel respite to drive margin improvement from FY23



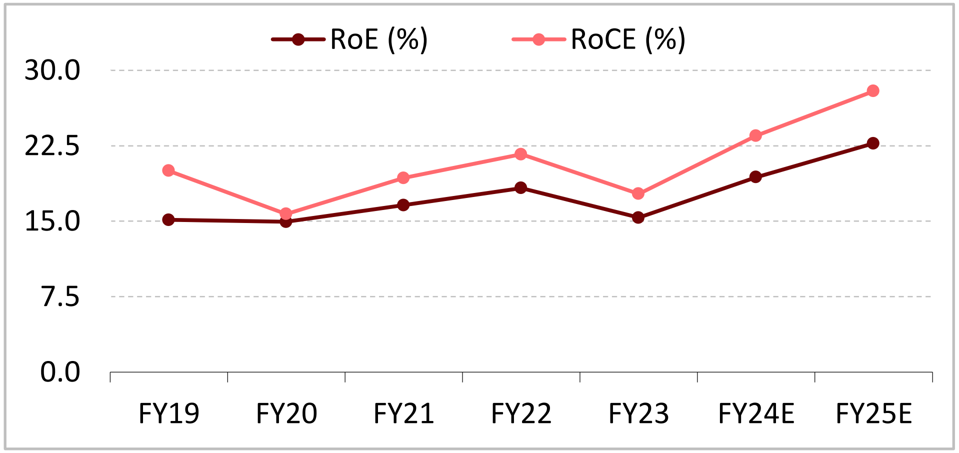
Strong cash generation sufficient to finance capex



KJC to remain net cash in the years ahead…



…with improving return ratios



Source: *Company, DAM Capital Research*

Margin improvement from FY23 levels to drive better return ratios

Kajaria Ceramics

CMP: Rs1,261; Mkt Cap: Rs201bn

Income Statement (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Net sales	**27,809**	**37,052**	**43,819**	**51,530**	**61,040**
% growth	NM	33.2	18.3	17.6	18.5
Operating expenses	22,721	30,945	37,899	43,337	50,724
EBITDA	**5,088**	**6,107**	**5,920**	**8,193**	**10,316**
% change	22.3	20.0	(3.1)	38.4	25.9
Other income	213	276	336	403	464
Net interest cost	107	127	223	235	93
Depreciation	1,067	1,154	1,329	1,582	1,801
Pre-tax profit	4,127	5,102	4,705	6,780	8,886
Deferred tax	(45)	65	(11)	0	0
Current tax	1,083	1,210	1,174	1,706	2,237
Profit after tax	**3,089**	**3,827**	**3,542**	**5,073**	**6,649**
Preference dividend	0	0	0	0	0
Minorities	(9)	(58)	(17)	(151)	(179)
Adjusted net profit	**3,081**	**3,770**	**3,525**	**4,922**	**6,470**
Non-recurring items	0	0	(79)	0	0
Reported net profit	**3,081**	**3,770**	**3,446**	**4,922**	**6,470**

Cash Flow (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	4,127	5,102	4,705	6,780	8,886
Depreciation	1,067	1,154	1,329	1,582	1,801
Chg in Working capital	1,034	(1,276)	(2,234)	(1,107)	(1,813)
Total tax paid	(1,083)	(1,210)	(1,174)	(1,706)	(2,237)
Net Interest	107	127	223	235	93
Others	(80)	88	(41)	(14)	(13)
Operating cash flow	**5,114**	**4,015**	**2,841**	**6,031**	**6,612**
Capital expenditure	(1,058)	(3,109)	(2,452)	(4,000)	(3,000)
Free cash flow (a+b)	**4,055**	**907**	**390**	**2,031**	**3,612**
Chg in investments	3	0	(19)	0	0
Debt raised/(repaid)	(293)	291	814	(1,575)	0
Net interest	(107)	(127)	(223)	(235)	(93)
Capital raised/(repaid)	74	74	0	0	0
Dividend (incl. tax)	(1,591)	(1,751)	(1,433)	(2,388)	(3,184)

Balance Sheet (Rs m)	FY21	FY22	FY23E	FY24E	FY25E
Paid-up capital	159	159	159	159	159
Reserves & surplus	18,530	21,065	23,109	25,642	28,928
Shareholders' equity	**19,335**	**21,872**	**24,044**	**26,729**	**30,195**
Total current liabilities	3,873	5,480	5,831	7,403	8,215
Total debt	**988**	**1,279**	**2,093**	**518**	**518**
Deferred tax liabilities	674	726	738	738	738
Other non-current liabilities	383	501	573	820	702
Total liabilities	5,919	7,986	9,234	9,479	10,173
Total equity & liabilities	**25,253**	**29,858**	**33,279**	**36,208**	**40,368**
Net fixed assets	11,785	13,740	14,863	17,281	18,480
Investments	0	0	19	19	19
Cash	4,477	4,244	3,938	1,771	2,106
Other current assets	8,703	11,485	14,039	16,738	19,384
Other non-current assets	288	389	420	399	379
Net working capital	9,307	10,248	12,146	11,107	13,274
Total assets	**25,253**	**29,858**	**33,279**	**36,208**	**40,368**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	18.3	16.5	13.5	15.9	16.9
EBIT margin (%)	14.5	13.4	10.5	12.8	13.9
PAT margin (%)	11.1	10.2	8.0	9.6	10.6
RoE (%)	16.6	18.3	15.4	19.4	22.7
RoCE (%)	19.3	21.7	17.7	23.5	27.9
Gearing (x)	(0.2)	(0.1)	(0.1)	0.0	(0.1)
Net debt/ EBITDA (x)	(0.7)	(0.5)	(0.3)	(0.2)	(0.2)
FCF yield (%)	2.0	0.4	0.2	1.0	1.8
Dividend yield (%)	0.8	0.9	0.7	1.2	1.6

Valuations	FY21	FY22	FY23E	FY24E	FY25E
Reported EPS (Rs)	**19.4**	**23.7**	**21.6**	**30.9**	**40.6**
Adj. EPS (Rs)	19.4	23.7	22.1	30.9	40.6
PE (x)	65.1	53.3	57.0	40.8	31.0
Price/ Book (x)	10.4	9.2	8.3	7.5	6.6
EV/ Net sales (x)	7.1	5.4	4.6	3.9	3.3
EV/ EBITDA (x)	38.9	32.5	33.7	24.5	19.4
EV/ CE (x)	9.3	8.1	7.3	7.0	6.2

Company Update

Price: Rs686

Target Price: Rs810

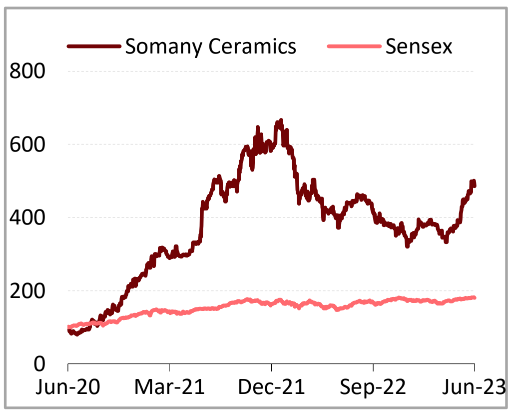
Mkt Cap: Rs29bn

Stock Data

Bloomberg code	SOMC IN
Potential from CMP (%)	18.1
6-mth avg. daily traded value (Rsm/USDm)	44.9 / 0.5
Promoter holding (%)	54.8

Key Ratios	FY23	FY24E	FY25E
PE	39.5	21.0	14.8
EV/EBITDA	17.8	12.2	9.3
RoE	8.5	14.6	18.3
RoCE	8.2	12.4	16.1

Price Performance	3-mth	6-mth	1-yr
SOMC IN	34.0	51.4	30.6
BSE Sensex	8.7	5.2	20.5



Somany Ceramics Ltd.

Riding the gas price fall tailwind

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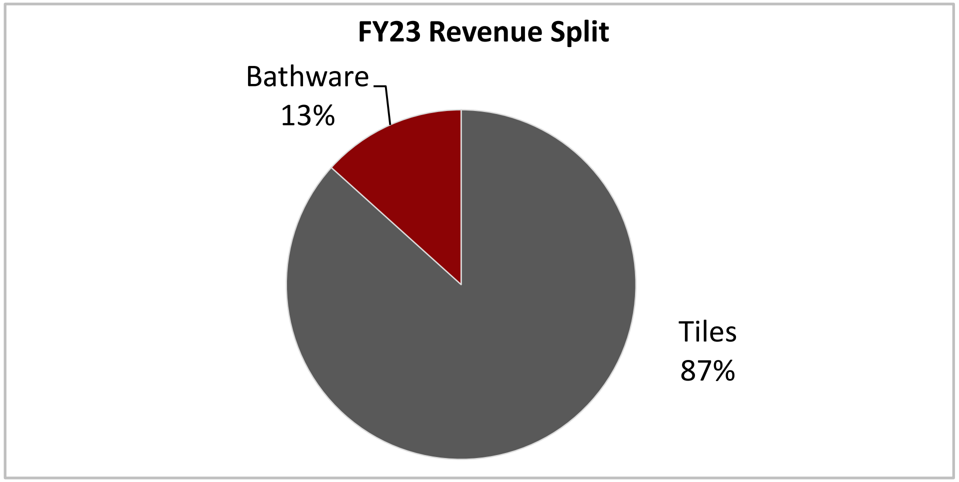
Somany Ceramics Ltd. (SOMC)

SOMC is the second largest tiles company in India, and as such a credible brand in the largely crowded quality market. It has production facilities in North, West and South India, which helps it to be a true pan-India player. The company also has a meaningful presence in the bathware space.



Key Financials	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Revenue (Rs m)	17,151	16,101	16,506	20,945	24,785	28,052	32,718
YoY (%)	*0.1*	*(6.1)*	*2.5*	*26.9*	*18.3*	*13.2*	*16.6*
EBITDA (Rs m)	1,645	1,314	1,902	2,065	1,887	2,703	3,436
EBITDAM (%)	9.6	8.2	11.5	9.9	7.6	9.6	10.5
Net Income (Rs m)	586	412	755	887	737	1,386	1,970
PATM (%)	3.4	2.6	4.6	4.2	3.0	4.9	6.0
RoE (%)	8.5	5.9	10.5	11.3	8.5	14.6	18.3
RoCE (%)	9.0	5.5	10.0	10.4	8.2	12.4	16.1
NWC (Days)	106	103	79	49	42	40	39
OCF/EBITDA (%)	52.2	116.3	187.4	69.0	87.2	80.0	81.1

Source: *Company, DAM Capital Research*

Investment Rationale

- **Indirect beneficiary of global China + 1 tiles push (like KJC)**
  - SOMC – though junior to KJC (~5% market-share vs KJC's ~8%) – almost mirrors the market leader in brand recognition, pan-India reach, and now manufacturing footprint (post its South India factory set up)
  - Morbi's export focus has opened the domestic market for brands such as SOMC, given lower competition
  - We estimate ~14% volume CAGR over FY23-25E
- **Improving mix + falling gas costs + new capacity utilization ramp-up = margin upliftment**
  - VAP mix has consistently risen for SOMC – GVT contribution at 20% in FY17 is now at 32% (25% in FY22). Recently added capacity primarily on the GVT side.
  - Fuel costs to drop over FY23-25E – reducing gas costs + rising alternate fuels being used
  - ~11msm capacity added over FY23 (total ~64msm in FY23) would see capacity ramp-up over FY24E/25E
  - Estimate ~300 bps improvement in EBITDA margins to 10.5% by FY25E
- **Shrinking working capital, lean capex cycle = debt reduction = earnings growth boost**
  - SOMC's ~8% revenue CAGR over FY18-23 has come in the backdrop of a ~50% cut in receivable days. WC has dropped from a high of 108 days in FY18 to 42 in FY23 (we expect 1-2 day improvement hereon)
  - ~20% capacity expansion now on-line, near-term future capex plans to be light in nature
  - Improved margins + lower debt (cut in WC/low capex needs) to drive ~63% earnings CAGR in FY23-25E

View – Margin turnaround in the making; valuations supportive

What we like?

- Working capital cut in half over FY18-23 (now better than KJC’s), while delivering an ~8% revenue CAGR
- Consistent mix improvement

What we dislike?

- Vulnerable margins during input cost escalation environment

What’s in the price (Rs686/share)?

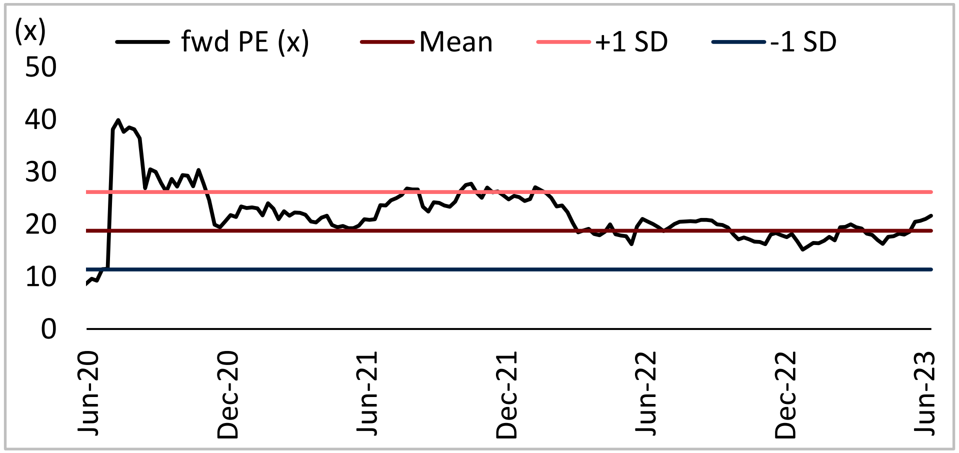
- ~10% revenue/~15% EBITDA CAGR over FY23-33E
- Implied ~9% volume CAGR over the next decade
- Volume growth expectations appear low versus SOMC’s ability, and we believe this should ideally be higher

View – Margin turnaround in the making; valuations supportive

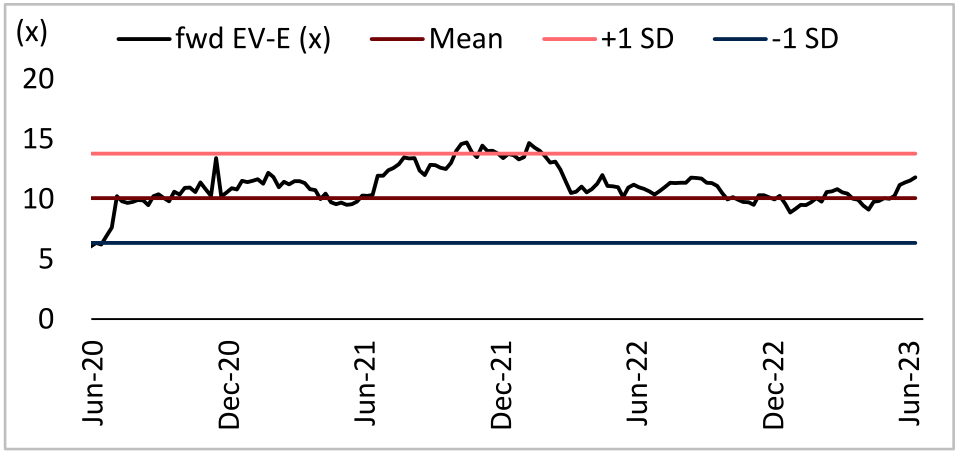
View – Maintain BUY rating (TP Rs810/18% upside)

- Believe that past corporate governance episodes have clouded SOMC's fabulous effort of growing revenue as it went about cutting receivables by ~50% (~18% OCF CAGR over FY19-23)
- SOMC's margins should improve due to (1) mix improvement, (2) falling gas prices and (3) cut in finance costs through eventual debt repayments
- In a deflationary cost scenario, SOMC's low margins imply that a ~100 bps improvement should have a higher EBITDA delta versus KJC (which has a higher margin profile) – possible that it may beat KJC's growth
- High risk-bet, but valuations supportive
- **Maintain BUY rating. TP Rs810 (17.5x FY25E P/E / 18% upside).**

1Y Forward P/E Chart



1Y Forward EV/EBITDA Chart



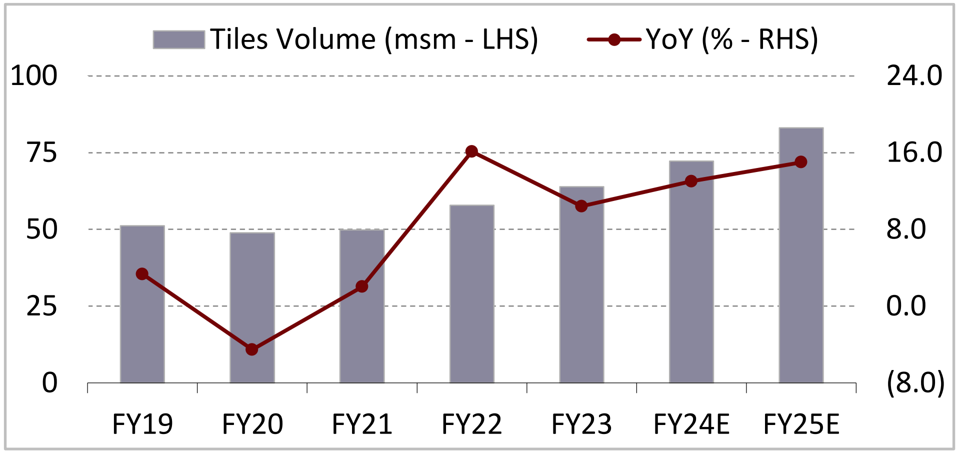
Source: *Bloomberg, DAM Capital Research*

View – Margin turnaround in the making; valuations supportive

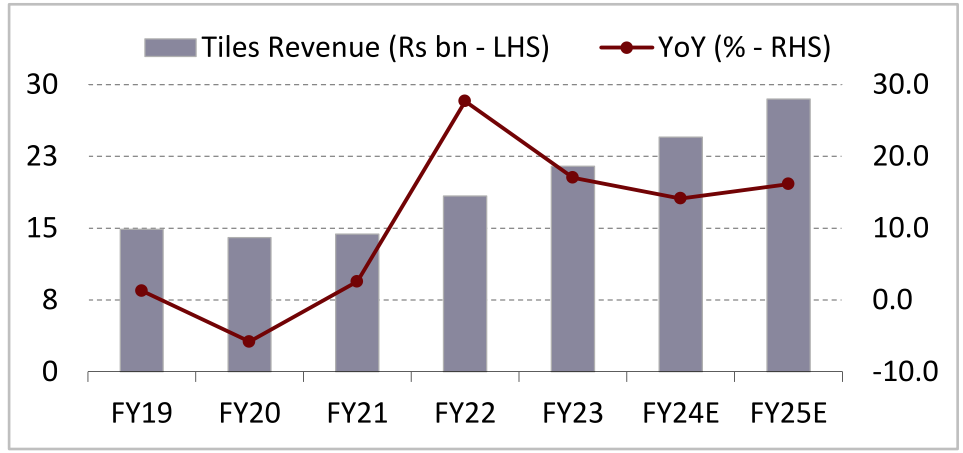
Key Assumptions	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E
Tiles Metrics							
- Volume (msm)	**51.2**	**48.9**	**49.8**	**57.9**	**63.9**	**72.2**	**83.0**
- Vol. Growth (%)	*3.3*	*(4.5)*	*2.0*	*16.1*	*10.4*	*13.0*	*15.0*
- Realisation (Rs / sq.m.)	**290.8**	**286.9**	**288.5**	**317.2**	**336.2**	**339.6**	**343.0**
- Realisation Growth (%)	*(2.0)*	*(1.3)*	*0.5*	*10.0*	*6.0*	*1.0*	*1.0*
Revenue (Rs m)	**16,851**	**15,824**	**16,198**	**20,605**	**24,265**	**27,856**	**32,484**
- Tiles	14,878	14,016	14,377	18,358	21,483	24,518	28,478
- Bathware	1,973	1,808	1,821	2,247	2,782	3,338	4,006
Revenue Growth (%)	**0.1**	**(6.1)**	**2.5**	**26.9**	**18.3**	**13.2**	**16.6**
- Tiles	1.3	(5.8)	2.6	27.7	17.0	14.1	16.2
- Bathware	21.7	(8.3)	0.7	23.4	23.8	20.0	20.0
EBITDA (Rs m)	**1,645**	**1,314**	**1,902**	**2,065**	**1,887**	**2,703**	**3,436**
YoY (%)	(11.5)	(20.2)	44.8	8.6	(8.6)	43.3	27.1
Margin (%)	**9.8**	**8.3**	**11.7**	**10.0**	**7.8**	**9.7**	**10.6**

Story in charts

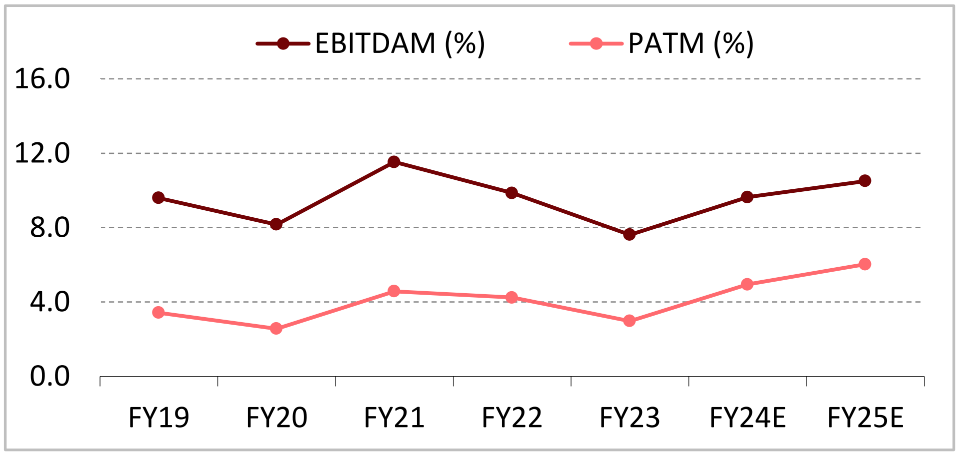
~14% volume CAGR expected over FY23-25E…



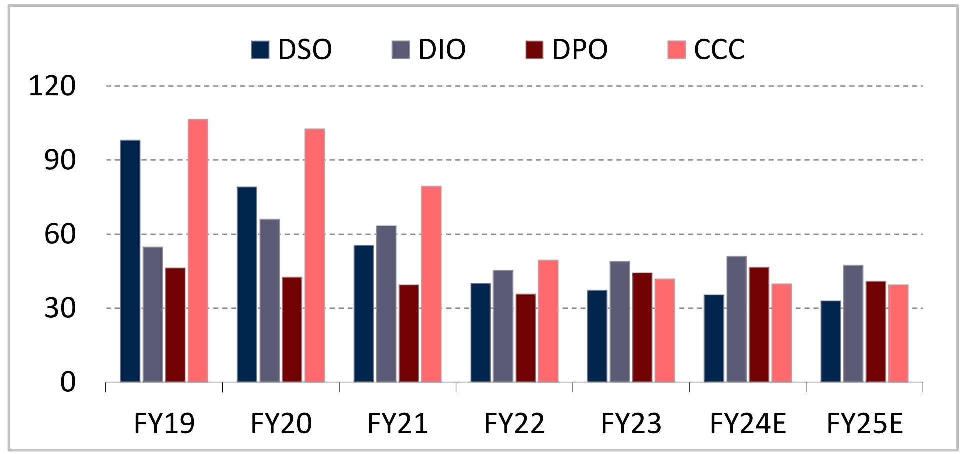
…while mix improvement to drive ~15% revenue CAGR



Mix Change + Lower Fuel/Finance Costs = Rise in Margins



Sharp cut in working capital cycle over the years

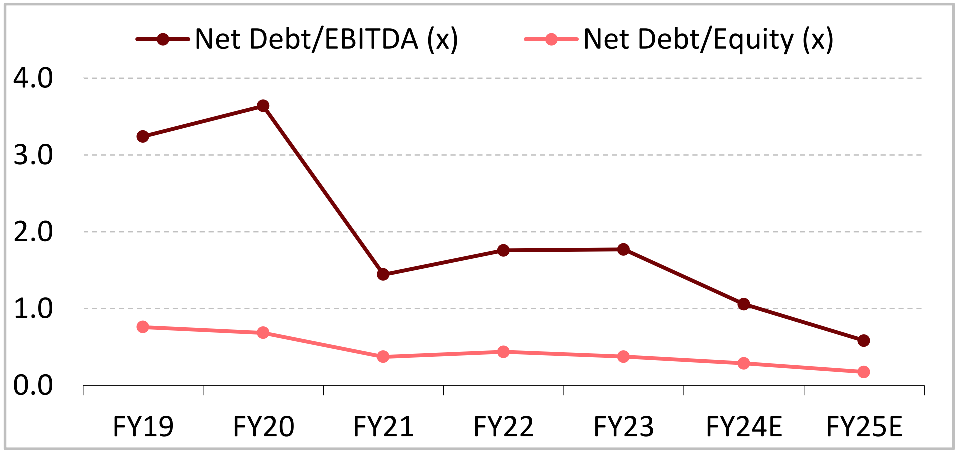


***Source:** Company, DAM Capital Research*

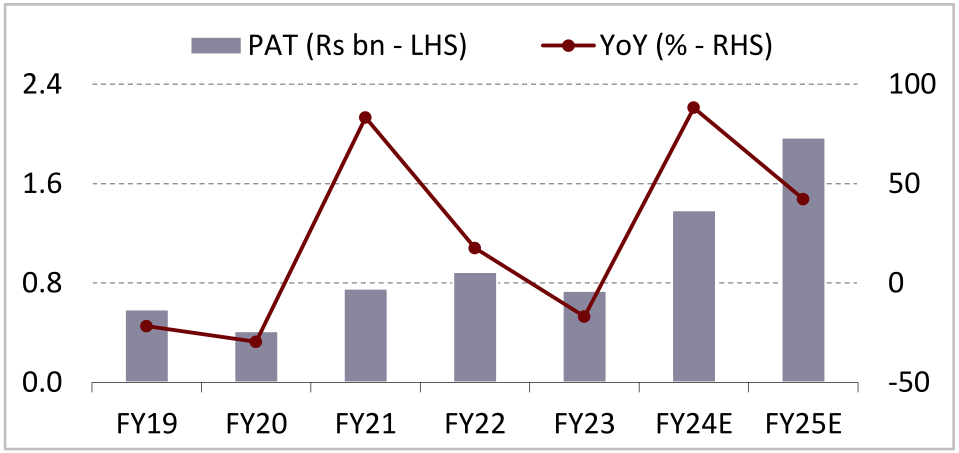
~14% volume growth, alongside margin improvement (mix / lower fuel costs)

Story in charts

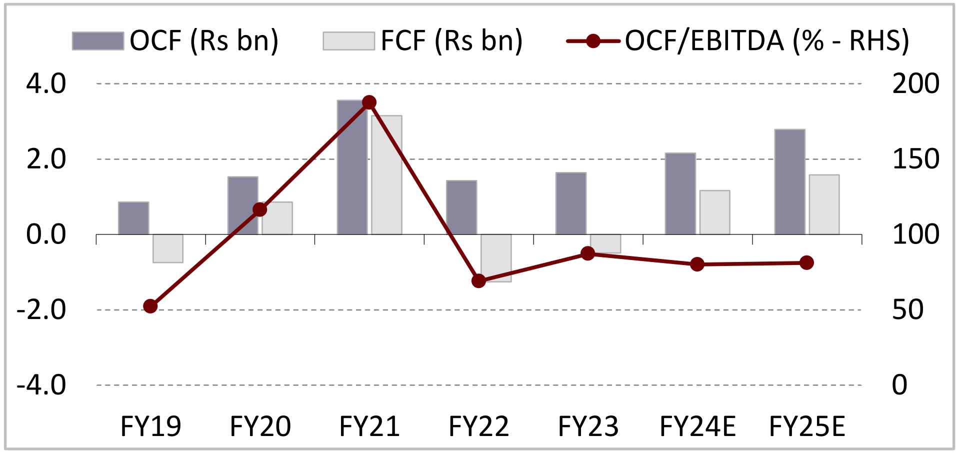
WC cut + low near-term capex = drop in debt levels…



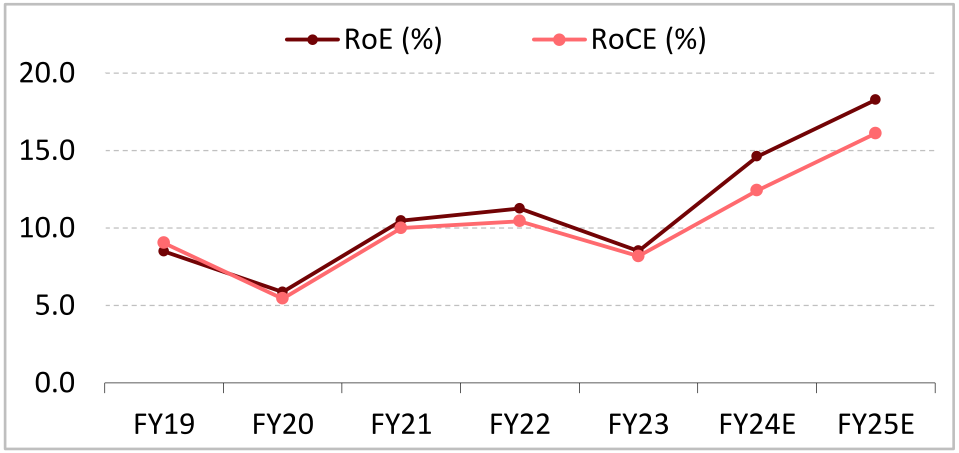
…which along side margin expansion to drive PAT growth



OCF/FCF to rise in tandem FY24E onwards…



…as would return ratios given margin improvement



Source: *Company, DAM Capital Research*

WC cut/low capex intensity to drive cut in debt levels, which should drive strong ~60%+ earnings growth over FY23-25E

Somany Ceramics

CMP: Rs686; Mkt Cap: Rs29bn

P&L Statement (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Net sales	**16,506**	**20,945**	**24,785**	**28,052**	**32,718**
% growth	2.5	26.9	18.3	13.2	16.6
Operating expenses	14,604	18,879	22,898	25,348	29,283
EBITDA	**1,902**	**2,065**	**1,887**	**2,703**	**3,436**
% change	44.8	8.6	(8.6)	43.3	27.1
Other income	128	134	145	288	336
Net interest cost	401	296	404	404	335
Depreciation	616	640	679	790	869
Pre-tax profit	1,012	1,264	950	1,798	2,568
Deferred tax	(25)	9	(61)	0	0
Current tax	246	321	321	453	646
Profit after tax	**790**	**934**	**691**	**1,346**	**1,922**
Preference dividend	0	0	0	0	0
Minorities	(36)	(47)	46	40	49
Adjusted net profit	**755**	**887**	**737**	**1,386**	**1,970**
Non-recurring items	(184)	0	(22)	0	0
Reported net profit	**570**	**887**	**715**	**1,386**	**1,970**

Cash Flow (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	1,012	1,264	950	1,798	2,568
Depreciation	616	640	679	790	869
Chg in Working capital	1,286	359	338	(399)	(367)
Total tax paid	(246)	(321)	(321)	(453)	(646)
Net Interest	401	296	404	404	335
Others	(54)	(30)	109	23	28
Operating cash flow	**3,016**	**2,208**	**2,159**	**2,164**	**2,786**
Capital expenditure	(408)	(2,779)	(1,429)	(1,000)	(1,200)
Free cash flow (a+b)	**2,608**	**(570)**	**730**	**1,164**	**1,586**
Chg in investments	0	0	0	0	0
Debt raised/(repaid)	(747)	878	(229)	(300)	(1,300)
Net interest	(401)	(296)	(404)	(404)	(335)
Capital raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	(102)	0	0	(277)	(394)

Balance Sheet (Rs m)	FY21	FY22	FY23	FY24E	FY25E
Paid-up capital	85	85	85	85	85
Reserves & surplus	**6,323**	**7,178**	**7,785**	**8,894**	**10,470**
Shareholders' equity	7,404	8,339	8,945	10,014	11,541
Total current liabilities	2,827	3,389	5,106	4,827	5,517
Total debt	**4,235**	**5,112**	**4,884**	**4,584**	**3,284**
Deferred tax liabilities	371	364	327	327	327
Other non-current liabilities	749	719	849	872	900
Total liabilities	8,182	9,584	11,166	10,609	10,028
Total equity & liabilities	**15,586**	**17,923**	**20,111**	**20,623**	**21,569**
Net fixed assets	7,232	9,372	10,122	10,332	10,663
Cash	1,491	1,486	1,546	1,728	1,286
Other current assets	6,161	6,374	7,449	7,565	8,616
Other non-current assets	701	691	995	998	1,004
Net working capital	4,825	4,471	3,888	4,466	4,385
Total assets	**15,586**	**17,923**	**20,111**	**20,623**	**21,569**

Key Ratios	FY21	FY22	FY23	FY24E	FY25E
EBITDA margin (%)	11.5	9.9	7.6	9.6	10.5
EBIT margin (%)	7.8	6.8	4.9	6.8	7.8
PAT margin (%)	4.6	4.2	3.0	4.9	6.0
RoE (%)	10.5	11.3	8.5	14.6	18.3
RoCE (%)	10.0	10.4	8.2	12.4	16.1
Gearing (x)	0.4	0.4	0.4	0.3	0.2
Net debt/ EBITDA (x)	1.4	1.8	1.8	1.1	0.6
FCF yield (%)	8.7	(1.9)	2.4	3.9	5.3
Dividend yield (%)	0.3	0.0	0.0	0.9	1.3

Valuations	FY21	FY22	FY23	FY24E	FY25E
Reported EPS (Rs)	**13.4**	**20.9**	**16.9**	**32.7**	**46.5**
Adj. EPS (Rs)	17.8	20.9	17.4	32.7	46.5
PE (x)	38.5	32.8	39.5	21.0	14.8
Price/ Book (x)	3.9	3.5	3.3	2.9	2.5
EV/ Net sales (x)	2.0	1.6	1.4	1.2	1.0
EV/ EBITDA (x)	17.3	16.4	17.8	12.2	9.3
EV/ CE (x)	2.6	2.3	2.2	2.1	2.0

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New Rating System		Old Rating System	
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Neutral	<-5% to 10%	Neutral	Less than 5% to Index

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