

Emerging trends in key raw materials

Housing and B2B demand to potentially drive volume growth

IN Q3FY24, we foresee a pass-through impact on pipe margins. This is due to a sharp 10% decline in PVC prices in October, which was only partially offset by a 4% increase in November. Copper prices for cables and wires (C&W) remained stable during Q3. Housing and B2B demand seems healthy, potentially driving volumes and operational leverage in Polycab, Supreme Industries (SI), Finolex Cables (FNXP), and Astral Ltd (ASTRA). Kajaria Ceramics (KJC) may experience a softer q-o-q margin, attributed to Gujarat Gas Ltd (GUJGA) implementing three price hikes totalling 18% from August to November. Pidilite Industries' (PIDI) margins are expected to benefit from lower vinyl acetate

monomer (VAM) prices compared to last year. Polyvinyl chloride (PVC resin), constituting 65% of total sales, serves as the primary raw material (RM). Around 50% of India's PVC demand relies on imports. October 2023 witnessed a substantial m-o-m decline of 10%, followed by a partial recovery of 4% in November 2023. As of December 2023, prices have remained stable.

In the pipes sector, RM volatility, with PVC being a key component, is promptly reflected, typically passed on within 7-10 days. The sharp fall in October 2023 could lead to short-term inventory losses, impacting pipe margins. Key players in the PVC market include SI, FNXP, while ASTRA utilises both chlorinated polyvinyl chloride (CPVC) and PVC.

Copper price fluctuations have a

direct impact on the C&W sector, involving companies such as Polycab, Finolex, Havell, and V-Guard Industries. In September 2023, copper prices dropped by 5%, prompting a roughly 3% reduction

Demand for cables and wires stays strong, driven by both public and private capital expenditures, along with new housing projects

in C&W prices among various players. Subsequently, copper prices have stabilised around \$8,250/MT. Stability in copper prices since September suggests minimal inventory-related effects on C&W margins for Q3. The demand for C&W remains robust, fuelled by public and private capital expenditures as well as housing projects. Anticipated healthy volume growth is poised to enhance operating leverage, thereby supporting margins within the C&W category.

The Brent surged by 30% from July to September 2023. In August, Gujarat Gas implemented a 6% hike

in natural gas prices, followed by another 6% in September, totalling a 13% increase. Subsequently, there was 5% additional hike in November, reaching ₹46/scm. Power & fuel costs account for 20-25% of Kajaria Ceramic's sales. To mitigate the impact, KJC plans to offset the gas cost increase by utilising more cost-effective biofuel and reconsidering discounts on their products.

The key raw material for adhesives used by Pidilite, VAM, experienced a 17% y-o-y dip in average price for Q3. Following a sharp 14% m-o-m increase in October 2023, VAM prices have since corrected by 22% over November-December 2023. With RM costs constituting 45-50% of Pidilite's net sales, the softer VAM prices may positively impact margins from FY24 onward. We anticipate the OPM to recover to 21.7% in FY24 and further to 22-23% in FY25-26, although crude oil volatility remains a watchpoint.

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