

# Building material firms take demand-margin hit in Q1

Slowdown in construction activity, high inventory levels, cost spike key negatives

RAM PRASAD SAHU  
Mumbai, 21 July

The building material sector faced a double whammy with moderate demand trends and margins pressure on a sequential basis in the June quarter of the 2022-23 financial year (Q1FY23). Listed companies in the key segments of the sector such as tiles, pipes and wood panels are expected to report a revenue fall in the 12-23 per cent range while their operating profits could see a steeper fall 16-32 per cent.

Listed tile makers Kajaria Ceramics and Somany Ceramics witnessed a fall of 13-16 per cent in volumes on a sequential basis with three-year annual growth pegged at 4-5 per cent. Achal Lohade and Paarth Gala of JM Financial believe that demand momentum moderated during the quarter due to slowdown in construction activity and renovation projects across India given the inflation across building products.

Exports from the Morbi region in Gujarat were also impacted due to logistics issues. Deepak Agarwal of PhillipCapital India expects prices to soften, or remain static, in the near term as weakness in exports is leading to volumes shifting to the domestic market where retail volumes are under pressure. Given the higher inventory and increasing costs, smaller players are closing shop, he adds.

In addition to muted demand, margins are expected to be under pressure due to sharp rise in gas prices. The two larger tile makers are expected to see their profitability fall by 20-160 basis points, sequentially, with Kajaria's margins at 13-15 per cent and Somany's at 6.7-8 per cent. Falling gas prices could offer some relief in the September quarter.

While the short-term outlook is expected to be muted, improvement in domestic construction activity, higher export demand, and recovery in smaller cities and towns, are expected to help the bigger brands gain market share over the medium term. This should help in raising prices, improve product mix and manage costs helping companies improve their margins.

PhillipCapital India has a 'buy' on Kajaria and Somany given their brand recall, distribution, product profile and cash flows which will enable them to gain market share.

Demand and volume trends for plastic

## UNDER PRESSURE (% change QoQ)



	Revenue	Operating profit	Margin (%)	Change in basis points
Greenpanel Industries	-10	-20	25.7	-320
Century Plyboards	-13	-16	17.3	-50
Cera Sanitaryware	-23	-32	16.6	-220
Kajaria Ceramics	-12	-20	13.8	-130
Astral	-18	-27	13.8	-180
Supreme Industries	-20	-32	13.0	-230
Greenlam Industries	10	15	11.3	60
Greenply Industries	-11	-8	10.3	40
Prince Pipes	-35	-61	9.4	-620
Somany Ceramics	-17	-20	8.0	-20

Source: JM Financial, HDFC Securities

pipes too were disappointing on a sequential basis though they were higher over the year ago quarter. Slowing construction activity and falling prices of polyvinyl chloride (PVC) prices led to higher inventories.

Rajesh Ravi and Keshav Lahoti of HDFC Securities say, "Plastic pipes demand remained subdued as a sharp fall in PVC resins from mid-quarter onwards (amid increased supply from China) impacted near-term sales due to channel destocking."

Resin prices have corrected 20 per cent in Q1FY23 and this should lead to inventory losses for players accelerating margin compression, they add. Among the listed players, while Astral is expected to post a margin fall of 180 basis points, the decline for Prince Pipes is highest at over 600 basis points, point out brokerages.

Analysts expect demand to pick up over the next couple of quarters on the back of government initiatives/policy

measures. Reliance Securities expects rising market share from unorganised players, market consolidation, and a healthy capex to augur well for the PVC pipe companies.

Listed wood panel makers are also facing a demand moderation due to lower construction activity amid rising inflation across building products and challenges in labour supply on account of intense summer. Growth in medium density fibreboard and laminate segments are expected to be relatively better than plywood due to strong demand from both segments (OEM and retail), increase in applications and lower imports. Rising raw material costs, logistics, demand volatility and working capital issues are likely to put smaller and unorganised players under pressure leading to market share gains for the larger players. Here, Greenpanel Industries is the top pick for most brokerages.