Building Materials

YES SECURITIES
INSTITUTIONAL EQUITIES

Demand recovery still a while away

Demand headwinds to persist in 2HFY20

Our interaction with the building materials dealers PAN India indicate, i) Persistent slowdown in the real estate sector with no signs of material improvement for 2HFY20, ii) Demand in West, Central & South regions has been affected by severe floods in key states like Maharashtra, Bihar, Karnataka & Kerala, iii) Demand from affordable housing projects has also slowed down sequentially in Q2FY20, iv) Liquidity woes due to tightened bank lending, v) Rising working capital constraints as many small distributors & retailers are facing difficulties while running their businesses due to late payments or payment defaults, vi) Exports remains only major growth driver for tiles & laminates products, vii) Slowdown is now more prevalent in rural areas, viii) Tepid domestic retail replacement demand, and ix) Pricing remains suppressed amid excess supply & competitive pressure. We believe multiple demand headwinds likely to persist in 2HFY20 as well & hence forecast Tiles/ Sanitary-ware/ Plywood/ Laminate/ MDF industry volume growth of ~5%/ 4%/ 4%/ 8%/ 15% respectively in FY20.

Pricing pressure to continue for ceramic products

Sustained slowdown in the real estate sector and liquidity issues in the trade have significantly hit the Morbi tile manufacturers. Hence, the price hikes initiated by Morbi players post the coal gasifier ban have also seen a partial rollback. Realizations of Glazed Vitrified Tiles (GVT)/Polished Vitrified Tiles (PVT) products are under significant pressure with more players launching newer products and designs at competitive rates. We believe pressure on realizations of branded products should continue, mainly because of higher competition from aggressive approach adopted by emerging (Tier-II) Morbi players.

Working capital, a bit stretched for some established players

Channel check suggests that the WC cycle for some established branded and emerging players has remained stretched over the past few months. For established players (Somany, HSIL, Rushil Decor, Greenply, Simpolo), WC days remain stretched because of higher inventory days while for the emerging players (Sunheartt, RAK, Swastik, Varmora etc.) higher debtor & inventory days (some cases) have impacted the overall working capital cycle. Few regional plywood & tier-II morbi tiles players have remained aggressive in ramping up sales (both domestic and exports), which might be a key reason driving up debtor days.

Exports & shortening home renovation cycle to aid laminate industry growth

Domestic laminate players like Century Ply, Greenlam & Merino have been gradually gaining traction among foreign importers and specifiers over the last few years due to better product quality at competitive pricing. India's home renovation cycle has reduced from 15 years a decade back to 7-8 years currently; it would further reduce to 5-6 years going ahead due to rising disposable incomes, aspiring young population & nuclear families. Besides, our channel checks indicate that the labour cost as % of total furniture cost has gone up from 40% to 50% in last 5 years, and it can further increase to 60-65% over the next 5 years. As seen with various paint companies, demand for premium to mid-range products has increased significantly with labour charges accounting for a major portion of painting costs. Hence, we feel demand for branded and readymade furniture to pick up, directly leading to growth in laminate consumption.

October 16, 2019

Research Analyst: Umesh Raut ✉ umesh.raut@ysil.in
Head of Research: Amar Ambani ✉ amar.ambani@ysil.in

Exhibit 1: Valuation summary

	CMP (Rs.)	Revised TP (Rs.)	Rating	CAGR FY19-21E (%)			RoE (%)		P/E (x)		P/B (x)		EV/EBITDA (x)	
				Sales	EBITDA	EPS	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Kajaria Ceramics	561	506	REDUCE	8.1	8.9	17.9	16.5	16.8	32.2	27.7	5.0	4.4	18.0	16.2
Cera Sanitaryware	2,467	3,161	BUY	8.5	10.3	19.5	17.9	18.5	23.7	19.6	3.9	3.4	14.8	12.3
Century Plyboards	160	198	BUY	11.5	17.6	21.8	17.3	18.7	19.8	16.1	3.2	2.8	10.9	9.2

Source: Company, YES Sec- Research

Exhibit 2: Q2 FY20 Earnings estimate

Company (Rs mn)	Q2 FY20E	Q2 FY19	% yoy	Q1 FY20	% qoq	Comments
Kajaria Ceramics						
Revenue	7,560	7,253	4.2	7,000	8.0	✓ Expect volume/revenue growth of 6%/4% yoy. ✓ EBITDAM likely to remain flat while PAT to grow by 27% yoy led by tax rate cut. ✓ Key Things to Look For: Demand outlook and margins
EBITDA	1,094	1,055	3.7	1,060	3.2	
EBITDAM (%)	14.5	14.5	(7.5)	15.1	(66.8)	
Adj. PAT	638	502	27.0	510	25.0	
Cera Sanitaryware						
Revenue	3,508	3,310	6.0	2,712	29.4	✓ We expect revenues to grow by 6% yoy led by faucet segment. ✓ Expect margins to improve marginally by 16.5bps yoy. ✓ Key Things to Look For: Senator & ISVEA brands revenue contribution, continuous increase in distribution & network.
EBITDA	489	456	7.3	352	38.6	
EBITDAM (%)	13.9	13.8	16.5	13.0	93.2	
Adj. PAT	343	281	22.0	181	89.5	
Century Plyboards						
Revenue	6,009	5,644	6.5	5,737	4.7	✓ Expect revenues to grow by 6.5% yoy led by laminate & MDF segment. ✓ PAT to grow by 20% yoy led by margin expansion of 155bps yoy. ✓ Key Things to Look For: Competitive pressure in MDF segment, traction in mid plywood segment.
EBITDA	883	742	19.0	926	(4.6)	
EBITDAM (%)	14.7	13.2	155.0	16.1	(144.4)	
Adj. PAT	454	378	20.1	481	(5.7)	

Source: Company, YES Sec- Research

YES SECURITIES INSTITUTIONAL EQUITIES

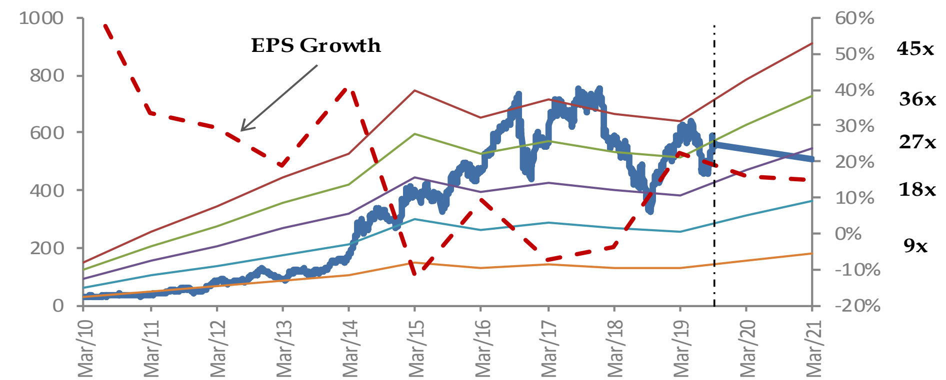
KAJARIA CERAMICS - REDUCE

CMP (Rs) 561, 12-mts Target (Rs) 506, Downside 10%

Retain 'Reduce' on expensive valuations

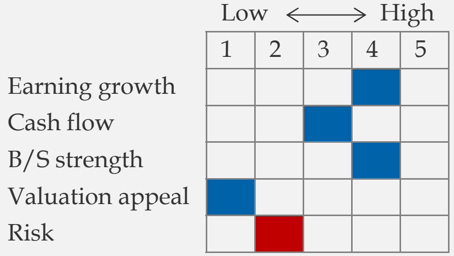
Though KJCL has been a very strong player in GVT/PVT segments led by best quality, strong brand & distribution network, in recent times Tier-II & organized players from Morbi have heavily invested in quality standards of GVT/PVT products, production efficiency, brand & distribution network. Hence, we believe further market share gain for KJCL would be challenging. We revise our FY20E/FY21E volume growth estimate downwards by 2%/3% respectively to factor in the persistent demand slowdown. We are building in volume growth of 8%/9.5% in FY20E/FY21E respectively, while realizations are expected to remain muted over FY19-21E. We have revised tax rate to 25.2% in FY20/21E from 35.6% in FY19 resulting in earnings CAGR of ~18% over FY19-21E. At CMP of Rs561, the stock is trading at P/E of 32.2/27.7x respectively, implying rich valuations with PEG ratio of 1.7x. We retain reduce rating with revised target price of Rs506 at 25x FY21E EPS.

Exhibit 3: Earnings moderation warrants multiple de-rating

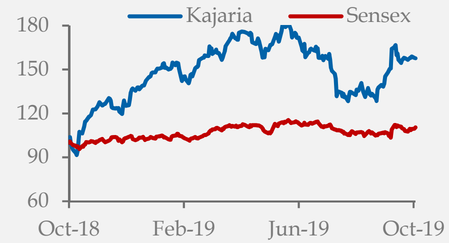


Source: Company, YES Sec – Research

Kajaria Ceramics rating grid



Stock performance



Market Data (As on October 15, 2019)

Sensex:	38,215
52 Week h/l (Rs)	649/316
6m Avg t/o (Rs mn):	335
FV (Rs):	1
Div yield (%):	0.5
Bloomberg code:	KJC IN

	1M	3M	1Y
Absolute return	6.6%	0.1%	57.6%

Shareholding pattern (as of Sept'19 end)

Promoter	47.6%
FII+DII	36.2%
Others	16.2%

Exhibit 4: Financial summary

Y/e 31 Mar (Rs m)	FY17	FY18	FY19	FY20E	FY21E
Revenues	25,496	27,106	29,562	31,500	34,534
yoy growth (%)	5.6	6.3	9.1	6.6	9.6
Operating profit	4,963	4,564	4,495	4,855	5,327
OPM (%)	19.5	16.8	15.2	15.4	15.4
Adjusted PAT	2,528	2,350	2,266	2,773	3,214
yoy growth (%)	9.3	(7.4)	(1.2)	19.8	15.9
EPS (Rs)	15.9	14.8	14.3	17.4	20.2
P/E (x)	35.3	38.0	39.4	32.2	27.7
Price/Book (x)	7.6	6.6	5.7	5.0	4.4
EV/EBITDA (x)	18.4	19.8	19.6	18.1	16.3
Debt/Equity (x)	0.2	0.1	0.1	0.1	0.0
RoE (%)	23.5	18.5	15.8	16.5	16.8
RoCE (%)	32.4	26.3	24.0	22.6	22.3

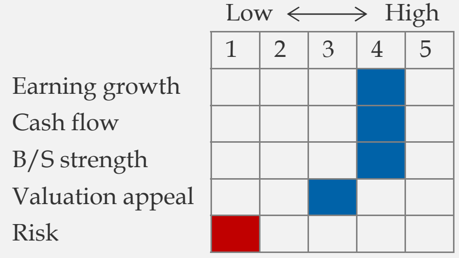
Source: Company, YES Sec – Research

CERA SANITARYWARE - BUY

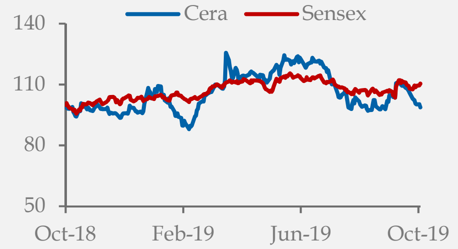
CMP (Rs) 2,467, 12-mts Target (Rs) 3,161, Upside 28%

We believe demand recovery in Sanitaryware (SW) segment will stabilize gradually over the next few quarters, while its tiles (relatively lower base) and faucets (FW) segments will continue to see better growth (guidance of 20%+) backed by market share gain. We envisage healthy growth prospects for CRS in FW as our channel checks indicated that it would continue to outgrow others & could face less competition from major players due to 1) Better dealer satisfaction, 2) Strong brand with large number of SKU's, 3) Deeper penetration in Central/North-eastern markets, (4) Robust distribution network; and (5) Bolstering after-sales service. Despite an increase in non-SW revenue contribution, CRS would maintain EBITDAM at ~15% because its ability to pass on the costs through pre-planned price hikes and in-house wind & solar capacity. We expect CRS to deliver ~20% earning CAGR over FY19-21E with 18%+ ROEs. We maintain BUY rating with TP of Rs3,161 at 25x FY21 EPS, implying PEG ratio of 1.25x.

Cera Sanitaryware rating grid



Stock performance



Market Data (As on October 15, 2019)

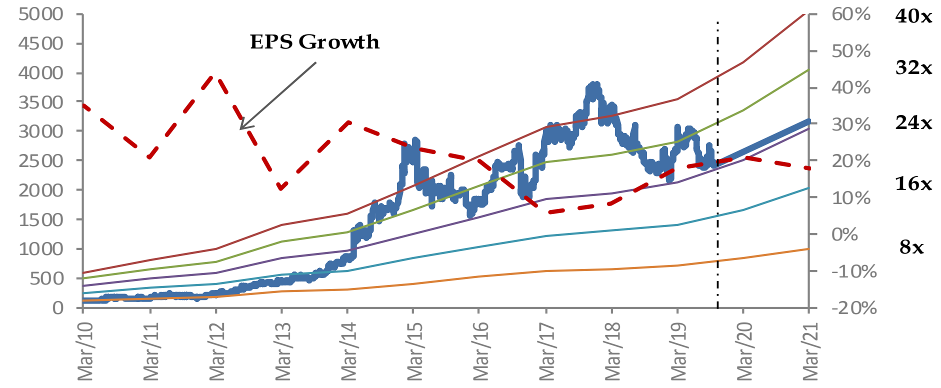
Sensex:	38,215
52 Week h/l (Rs)	3180/2151
6m Avg t/o (Rs mn):	22.2
FV (Rs):	5
Div yield (%):	0.5
Bloomberg code:	CRS IN

	1M	3M	1Y
Absolute return	(5.9%)	(11.1%)	(1.2)

Shareholding pattern (as of Sept'19 end)

Promoter	54.7%
FII+DII	29.9%
Others	15.4%

Exhibit 5: Valuations have bottomed out



Source: Company, YES Sec – Research

Exhibit 6: Financial summary

Y/e 31 Mar (Rs m)	FY17	FY18	FY19	FY20E	FY21E
Revenues	10,085	11,853	13,515	14,084	15,904
yoy growth (%)	10.0	17.5	14.0	4.2	12.9
Operating profit	1,756	1,774	1,983	2,076	2,410
OPM (%)	17.4	15.0	14.7	14.7	15.2
Adjusted PAT	1,001	1,061	1,151	1,359	1,644
yoy growth (%)	20.0	6.0	8.5	18.0	21.0
EPS (Rs)	77.0	81.6	88.5	104.5	126.4
P/E (x)	32.0	30.2	27.9	23.6	19.5
Price/Book (x)	6.1	5.3	4.6	3.9	3.3
EV/EBITDA (x)	18.1	17.9	15.8	14.8	12.3
Debt/Equity (x)	0.2	0.2	0.1	0.1	0.1
RoE (%)	21.2	18.8	17.6	17.9	18.5
RoCE (%)	30.5	24.8	25.4	22.8	23.4

Source: Company, YES Sec – Research

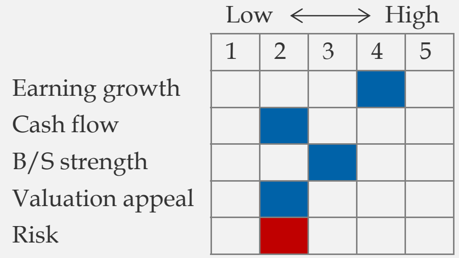
CENTURY PLYBOARDS INDIA - BUY

CMP (Rs) 160, 12-mts Target (Rs) 198, Upside 24%

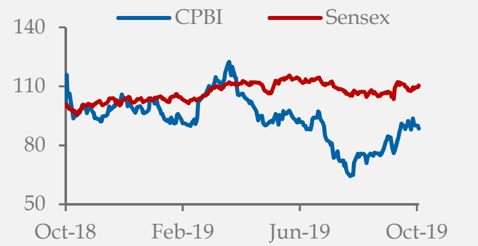
Diversified play in wood panel sector

Century Plyboards India (CPBI) is an integrated wood panel company with exposure to laminates, MDF, Particle Board along with Plywood and hence a better story in our view as it is not dependent on anyone segment. We think CPBI's earnings are at an inflection point given that MDF prices have largely bottomed out & unorganized plywood players are struggling to maintain margins. We expect 6%+ plywood volume growth in FY20 through market share gains as CPBI has shifted its focus towards fastest growing mid-market segment. We expect CPBI's sales/EBITDA/PAT to grow at a CAGR of 11%/18%/22%, respectively, over FY19-21E. At CMP of Rs159, the stock is trading at P/E of 20x/16x on FY20E/FY21E earnings. We maintain BUY rating with TP of Rs198 at 20x PE on EPS of Rs9.9, implying PEG ratio of 0.9

Century Plyboards rating grid



Stock performance

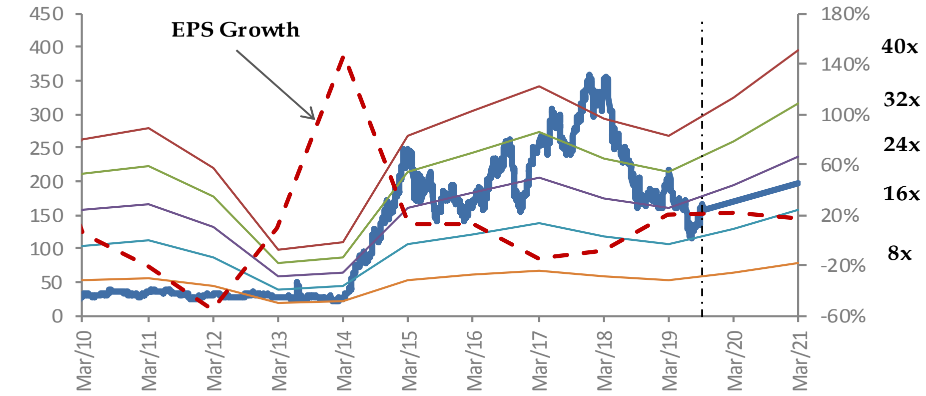


Market Data (As on October 15, 2019)	
Sensex:	38,215
52 Week h/l (Rs)	222/112
6m Avg t/o (Rs mn):	31.4
FV (Rs):	1
Div yield (%):	0.6
Bloomberg code:	CPBI IN

	1M	3M	1Y
Absolute return	5.4%	8.4%	(11.5%)

Shareholding pattern (as of Sept'19 end)	
Promoter	72.8%
FII+DII	17.8%
Others	9.4%

Exhibit 7: Favorable risk reward ratio



Source: Company, YES Sec – Research

Exhibit 8: Financial summary

Y/e 31 Mar (Rs m)	FY17	FY18	FY19	FY20E	FY21E
Revenues	18,187	20,239	22,804	24,937	28,326
yoy growth (%)	10.8	11.3	12.7	9.4	13.6
Operating profit	3,120	3,311	3,016	3,614	4,173
OPM (%)	17.2	16.4	13.2	14.5	14.7
Adjusted PAT	1,881	1,626	1,480	1,799	2,201
yoy growth (%)	12.8	-14.4	-9.0	21.2	22.4
EPS (Rs)	8.6	7.3	6.7	8.1	9.9
P/E (x)	18.7	21.8	23.9	19.8	16.1
Price/Book (x)	5.0	4.2	3.6	3.2	2.8
EV/EBITDA (x)	13.2	12.3	13.3	10.9	9.2
Debt/Equity (x)	0.9	0.6	0.5	0.4	0.3
RoE (%)	30.6	20.8	16.3	17.3	18.7
RoCE (%)	17.1	13.7	12.3	14.2	15.8

Source: Company, YES Sec – Research

YES SECURITIES INSTITUTIONAL EQUITIES

DISCLAIMER

Investments in securities market are subject to market risks, read all the related documents carefully before investing.

The information and opinions in this report have been prepared by YSL and are subject to change without any notice. The report and information contained herein are strictly confidential and meant solely for the intended recipient and may not be altered in any way, transmitted to, copied or redistributed, in part or in whole, to any other person or to the media or reproduced in any form, without prior written consent of YSL.

The information and opinions contained in the research report have been compiled or arrived at from sources believed to be reliable and have not been independently verified and no guarantee, representation of warranty, express or implied, is made as to their accuracy, completeness, authenticity or validity. No information or opinions expressed constitute an offer, or an invitation to make an offer, to buy or sell any securities or any derivative instruments related to such securities. Investments in securities are subject to market risk. The value and return on investment may vary because of changes in interest rates, foreign exchange rates or any other reason. Investors should note that each security's price or value may rise or fall and, accordingly, investors may even receive amounts which are less than originally invested. The investor is advised to take into consideration all risk factors including their own financial condition, suitability to risk return profile and the like, and take independent professional and/or tax advice before investing. Opinions expressed are our current opinions as of the date appearing on this report. Investor should understand that statements regarding future prospects may not materialize and are of general nature which may not be specifically suitable to any particular investor. Past performance may not necessarily be an indicator of future performance. Actual results may differ materially from those set forth in projections.

Technical Analysis reports focus on studying the price movement and trading turnover charts of securities or its derivatives, as opposed to focusing on a company's fundamentals and opinions, as such, may not match with reports published on a company's fundamentals.

YSL, its research analysts, directors, officers, employees and associates accept no liabilities for any loss or damage of any kind arising out of the use of this report. This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject YSL and associates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

DISCLOSURE OF INTEREST

Name of the Research Analyst : Umesh Raut

The analyst hereby certifies that opinion expressed in this research report accurately reflect his or her personal opinion about the subject securities and no part of his or her compensation was, is or will be directly or indirectly related to the specific recommendation and opinion expressed in this research report.

Sr. No.	Particulars	Yes/No
1	Research Analyst or his/her relative's or YSL's financial interest in the subject company(ies)	No
2	Research Analyst or his/her relative or YSL's actual/beneficial ownership of 1% or more securities of the subject company(ies) at the end of the month immediately preceding the date of publication of the Research Report	No
3	Research Analyst or his/her relative or YSL has any other material conflict of interest at the time of publication of the Research Report	No
4	Research Analyst has served as an officer, director or employee of the subject company(ies)	No
5	YSL has received any compensation from the subject company in the past twelve months	No
6	YSL has received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
7	YSL has received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
8	YSL has received any compensation or other benefits from the subject company or third party in connection with the research report	No
9	YSL has managed or co-managed public offering of securities for the subject company in the past twelve months	No
10	Research Analyst or YSL has been engaged in market making activity for the subject company(ies)	No

Since YSL and its associates are engaged in various businesses in the financial services industry, they may have financial interest or may have received compensation for investment banking or merchant banking or brokerage services or for any other product or services of whatsoever nature from the subject company(ies) in the past twelve months or associates of YSL may have managed or co-managed public offering of securities in the past twelve months of the subject company(ies) whose securities are discussed herein.

Associates of YSL may have actual/beneficial ownership of 1% or more and/or other material conflict of interest in the securities discussed herein.

YES Securities (India) Limited
Registered Office: Unit No. 602 A, 6th Floor, Tower 1 & 2, Indiabulls Finance Centre, Senapati Bapat Marg, Elphinstone Road, Mumbai – 400013, Maharashtra, India.
Tel: +91-22-71123123 | **Email:** research@ysil.in | **Website:** www.yesinvest.in

CIN: U74992MH2013PLC240971 | SEBI Single Registration No.: NSE, BSE & MCX: INZ000185632 | MERCHANT BANKER: INM000012227 | RESEARCH ANALYST: INH000002376 | INVESTMENT ADVISER: INA000007331 | AMFI ARN Code – 94338 |
Details of Compliance Officer: Name: Vaibhav Purohit,
Email id: compliance@ysil.in, Contact No-+91-22-33479208

RECOMMENDATION PARAMETERS FOR FUNDAMENTAL REPORTS

Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Potential return **>15%** over 12 months

ADD: Potential return **+5% to +15%** over 12 months

REDUCE: Potential return **-10% to +5%** over 12 months

SELL: Potential return **<-10%** over 12 months

NOT RATED

ABOUT YES SECURITIES (INDIA) LIMITED

YES Securities (India) Limited (''YSL'') is a wholly owned subsidiary of YES BANK LIMITED. YSL is a SEBI registered stock broker holding membership of NSE, BSE and MCX. YSL is also a SEBI registered Category I Merchant Banker, Investment Adviser and a Research Analyst. YSL offers, inter alia, trading/investment in equity and other financial products along with various value added services. We hereby declare that there are no disciplinary actions taken against YSL by SEBI/Stock Exchanges.