

# Building Materials

## Strong demand to support robust margin

We expect tiles and plastic pipes companies to deliver strong performance YoY, aided by both base effect (COVID-lockdown had impacted 4QFY20 volume and profits) and healthy overall demand across both the segments. Tiles companies could affect some price hikes to moderate the impact of surge in gas prices on EBITDA margin QoQ. However, we expect EBITDA margin to remain strong YoY. Similarly, for pipes companies, plumbing demand has remained healthy during the quarter while rising PVC prices have impacted the price-sensitive agri demand. While we expect margins for even pipes companies to marginally compress QoQ, it should remain strong YoY. We maintain our BUY on Kajaria Ceramics (TP INR 1,010) and ADD ratings on Astral Poly Technik (TP INR 1,660) and Supreme Industries (TP INR 2,045).

- **Tiles - strong domestic and export demand:** Strong export market has reduced competition for domestic focused players. Even retail demand from smaller towns has been good, thus boosting utilisation for the sector. These have helped the industry take price hikes amidst elevated gas cost.
- **Pipes companies to benefit from robust demand and rising PVC prices:** While pipes demand has remained strong from the plumbing segment, rising PVC prices has impacted demand from agri segment in 4QFY21. PVC resins prices continued to rise and this should lead to further inventory gains during 4QFY21.
- **Companies' performance:** We estimate Kajaria's consolidated revenues would rise 8% QoQ, riding on strong demand. On a low base, this should lead to 39% rise YoY. We estimate 165bps QoQ margin contraction, mainly led by impact of fuel price increase. Thus, we expect EBITDA to remain flattish QoQ but rise 136% YoY. In pipes companies, we estimate Astral's consolidated revenue/EBITDA/APAT to rise 16/9/6% QoQ and 65/86/156% YoY (on a low base). For Supreme Ind, we estimate consolidated revenue to rise 2/31% QoQ/YoY, while we expect its EBITDA/APAT to moderate 1/10% QoQ. Still on a low base, these should jump 45/154% YoY.
- **Stock views:** We remain positive on the tiles and pipes companies, owing to healthy demand outlook. We also expect PVC resins prices to cool off 2QFY22 onwards, which should be positive for demand from the price-sensitive agri segment. We maintain our BUY rating on Kajaria Ceramics (TP INR 1,010, 19x its FY23E consolidated EBITDA) and ADD ratings on Astral Poly Technik (TP INR 1,660, 34x its FY23E consolidated EBITDA) and Supreme Industries (TP INR 2,045, SOTP based – standalone business at 19x FY23E EBITDA and its 30% holding in Supreme Petrochem at a 30% discount to its market capitalisation).

### 4QFY21E Results preview

INR mn	Kajaria Ceramics			Astral Poly Technik			Supreme Industries		
	Mar-21E	YoY (%)	QoQ (%)	Mar-21E	YoY (%)	QoQ (%)	Mar-21E	YoY (%)	QoQ (%)
Net Sales	9,052	38.8	8.0	10,388	65.2	15.7	18,801	31.4	2.0
EBITDA	1,813	94.2	(0.3)	2,096	86.1	9.2	3,975	45.4	(1.0)
OPM %	20.0	571bps	(165bps)	20.2	227bps	(122bps)	21.1	203bps	(64bps)
APAT	1,171	136.2	(1.5)	1,307	155.9	6.1	2,798	153.6	(10.4)

Source: Company, HSIE research, consolidated financials

COMPANY	CMP (INR)	RATING	TP (INR)
Astral Poly Technik	1,527	ADD	1,660
Supreme Industries	1,952	ADD	2,045
Kajaria Ceramics	919	BUY	1,010

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**Rating Criteria**

BUY: >+15% return potential  
ADD: +5% to +15% return potential  
REDUCE: -10% to +5% return potential  
SELL: > 10% Downside return potential

**Disclosure:**

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**Any holding in stock –No**

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