

Q1FY22 Results Review

SECTOR UPDATE

Recovery takes a breather; profits robust

Q1FY22 marked a pause in the solid recovery that was underway in the home décor sector with revenue/EBITDA/PAT dipping 36%/ 56%/ 62% QoQ (up 62%/196%/951% YoY). While revenue/volumes were down compared to Q1FY20, profitability was up (EBITDA/PAT up 11%/39%) led by several cost cutting measures and operating leverage. Although April and May saw significant impact on sales due to lockdowns, June and July saw strong pick up in sales.

Despite weak Q1FY22, most companies are going for large capex given the robust demand outlook. We prefer Supreme Industries (SIL), Somany Ceramics (SOMC) and Greenlam Industries (GRLM) in light of recent correction and strong growth opportunities.

Lockdown impacted top line and profitability

In Q1FY22, home décor companies only posted a sharp QoQ dip in revenue at 36%, but also 56%/62% QoQ drop in aggregate EBITDA/PAT impacted by lower volumes, falling utilisation and inventory losses (for plastic pipe players). Volume declined across categories with MDF (22% dip QoQ) and laminates (23% dip) outperforming other segments – pipes (33% fall), tiles (40% dip) and ply (44% drop). Profitability too was impacted by lower volumes and inventory losses. We believe, Q1FY22 marked a pause in solid recovery that was underway and growth is likely to revive across categories. Further, plastic pipes players are unlikely to report any large inventory losses in the near term given prices are already on a rising trend.

Balance sheet strength continues along with capex announcements

FY21 had seen significant strengthening of balance sheets along with strong operating performance. While performance in Q1FY22 was weak given the impact of wave 2, balance sheets of all companies continued to remain robust. However, working capital deteriorated marginally in comparison to Q4FY21 given the increase in inventory due to lockdowns. Nevertheless, most companies continue to remain deleveraged with renewed capital expansion interest continuing across categories.

Outlook: Larger players continue to gain market share

Although the home décor industry (including tiles, wood panel and plastic pipes) is still recovering, top players in the industry are recording double-digit volume growth and gaining significant market share. In tiles, Morbi players are catering to strong exports, leaving the domestic market vacant for large national players like Kajaria (KJC) and Somany (SOMC). In the plastic pipes segment, unavailability and huge volatility in raw material prices (PVC) have led to shift in market share from small regional players to large national players.

We believe the much-anticipated demand shift from unorganised to organised segment could accelerate further if macro economy picks up. We prefer Supreme Industries, Somany Ceramics and Greenlam Industries in light of the recent correction and valuation comfort; we have a **'BUY'** recommendation on all three.

Tiles

Volume growth impacted due to second wave

Growth of tile companies got impacted due to lockdown caused by second covid-19 wave. Consequently, while revenue/volume of tile companies increased ~100% YoY, the same was down ~40% QoQ. Although April and May were badly impacted, June saw reasonable pick up with July being even better for Kajaria as well as Somany Ceramics. This time around, the impact was more on rural/tier2/3 cities versus metros. Volumes for large branded players including Kajaria and Somany continue to benefit from shift in focus of Morbi-based players to exports. Despite container availability issues, exports continue to see strong growth led by anti-China sentiments across the world and anti-dumping duty (ADD) on Chinese tiles by many countries.

Margins bend a little; likely to remain favourable in near term

KJC and SOMC saw dip in margins by 570bps QoQ to 14% and ~900bps QoQ to 7%, respectively. The fall was on account of lower volumes, continued fixed costs and increase in power & fuel expenses. While the leader KJC refrained from giving any guidance, SOMC is confident of further margin expansion in comparison to FY21 in the wake of operating leverage and an improved product mix. We believe exports growth and capacity additions should be closely watched considering sharp volatility in margins of large national brands.

Exhibit 1: Tiles segmental data

Consolidated Sales Volume (Tiles)									(in msm)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY21
Kajaria Ceramics	19.6	19.8	20.4	18.2	7.7	19.8	22.6	25.4	15.3
Somany Ceramics	11.9	12.6	13.3	11.1	5.2	12.9	14.9	16.9	10.0
					12.8	32.7	37.5	42.3	25.3
Consolidated Sales Volume growth YoY									(%)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY21
Kajaria Ceramics	9.6	1.1	0.5	(19.0)	(61.0)	0.3	10.5	39.2	99.2
Somany Ceramics	8.0	4.8	4.2	(27.9)	(56.5)	2.9	11.8	52.0	93.6
Realization									(INR/sqm)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY21
Kajaria Ceramics	354	352	351	348	351	335	343	353	352
Somany Ceramics	323	332	325	315	326	324	325	327	324
Realization growth YoY									(%)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY21
Kajaria Ceramics	(4.4)	(7.5)	(6.8)	(4.5)	(0.9)	(5.0)	(2.3)	1.4	0.4
Somany Ceramics	(1.3)	2.0	(2.3)	(5.0)	1.1	(2.6)	0.0	4.0	(0.8)
EBITDA Margins									(%)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY21
Kajaria Ceramics	15.1	14.7	14.3	14.3	(2.7)	20.2	21.7	20.0	14.3
Somany Ceramics	7.7	10.6	9.2	3.9	(6.9)	11.7	12.9	15.9	7.0

Source: Company, Edelweiss Research

Wood panel industry

MDF and particle board show greater resilience

After posting strong growth in Q4FY21, wood panel companies reported 32%/53%/66% QoQ dip in revenue/EBITDA/PAT in Q1FY22. Amongst all segments, plywood was the most hit with ~45% plunge in volumes. At the same time, laminate companies were a mixed bag with domestic-focused companies reporting a higher volume dip (Century with ~41% QoQ fall) and exports-oriented company reporting relatively better numbers (Greenlam reported 16% QoQ fall). MDF (22% QoQ drop) and particle board clocked better performance as demand from ready-made furniture makers continues to remain robust.

On the margin front, all the segment clocked QoQ dip impacted by lower volumes. Consequently, while revenues across wood panel space declined 32% QoQ, EBITDA and PAT drop was higher at 53% and 66% QoQ, respectively.

Exhibit 2: Plywood segmental data

Consolidated Sales Volume (Plywood)									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Century Plyboards (in CBM)	56,642	55,868	57,736	50,567	17,958	49,289	67,544	72,874	40,114
Greenply Industries (in SQM)	13.6	15.2	14.3	13.3	4.7	11.1	14.0	15.9	8.9
Consolidated Sales Volume growth YoY (%)									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Century Plyboards	1.0	(1.1)	8.2	(7.3)	(68.3)	(11.8)	17.0	44.1	123.4
Greenply Industries	4.1	2.2	5.2	(14.6)	(65.1)	(27.2)	(2.4)	18.9	88.6
Realization (Plywood)									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Century Plyboards (INR/CBM)	46,497	46,925	47,161	46,708	47,015	46,718	46,670	48,604	49,589
Greenply Industries (INR/SQM)	222	224	219	219	224	211	219	222	235
Realization growth YoY (%)									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Century Plyboards	0.6	(0.3)	0.8	(2.7)	1.3	(0.4)	(1.0)	4.1	5.3
Greenply Industries	3.3	0.9	(2.7)	1.4	0.9	(5.8)	-	1.4	4.9
Plywood Segment's EBIT Margins (%)									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Century Plyboards	14.9	14.2	12.4	13.0	(7.8)	12.8	11.7	15.1	6.4
Greenply Industries	13.6	15.2	14.3	13.3	4.7	11.1	14.0	15.9	8.9

Source: Company, Edelweiss Research

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Exhibit 3: MDF segmental data

Consolidated Sales Volume (MDF)									(in cbm)	
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	
Century Plyboards	41,177	33,271	41,553	37,173	12,496	39,599	49,207	45,949	31,836	
Greenpanel Industries	76,738	62,561	86,369	90,355	35,086	82,133	1,23,723	1,39,490	1,12,735	
							1,72,930	1,85,439	1,44,571	
Consolidated Sales Volume growth YoY									(%)	
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	
Century Plyboards	38.8	23.1	3.5	5.0	(69.7)	19.0	18.4	23.6	154.8	
Greenpanel Industries		66.5	47.3	38.3	-	54.3	31.3	43.2	54.4	221.3
Realization									(INR/cbm)	
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	
Century Plyboards	22,301	23,342	23,216	22,710	24,256	23,612	23,663	25,896	28,571	
Greenpanel Industries	18,672	20,284	19,296	19,570	18,908	20,030	20,138	21,730	22,528	
Realization growth YoY									(%)	
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	
Century Plyboards	(5.3)	3.2	5.7	5.8	8.8	1.2	1.9	14.0	17.8	
Greenpanel Industries		(12.5)	(7.9)	1.2	1.3	(1.3)	4.4	11.0	10.2	
MDF Segment's EBIT Margins									(%)	
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22	
Century Plyboards	18.4	17.1	20.3	20.0	(8.2)	22.8	23.7	25.1	23.3	
Greenpanel Industries	3.5	7.3	8.3	14.2	(26.0)	13.0	18.6	23.9	18.5	

Source: Company, Edelweiss Research

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Exhibit 4: Laminates segmental data

Consolidated Sales Volume (Laminates)									(in mn sheets)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Greenlam Industries	2.8	3.5	3.5	3.4	1.7	3.2	3.9	4.5	3.8
Century Plyboards	1.4	1.8	1.5	1.4	0.6	1.4	1.6	1.9	1.1
Consolidated Sales Volume growth YoY									(%)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Greenlam Industries	(13.4)	3.9	7.9	(8.1)	(37.5)	(7.2)	10.5	31.1	120.8
Century Plyboards	6.6	22.1	5.6	(12.1)	(59.7)	(22.3)	2.4	37.9	103.0
Realization									(INR/sheet)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Greenlam Industries	818	803	799	774	810	772	736	780	782
Century Plyboards	726	709	700	719	672	673	718	747	734
Realization growth YoY									(%)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Greenlam Industries	9.7	3.2	5.0	0.5	(1.0)	(3.9)	(7.9)	0.8	(3.5)
Century Plyboards	8.6	(1.1)	(5.7)	(2.3)	(7.4)	(5.1)	2.6	3.9	9.2
Laminates Segment's EBIT Margins									(%)
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Greenlam Industries	13.3	17.1	20.9	14.7	9.8	18.1	22.3	18.5	15.4
Century Plyboards	9.0	13.2	12.3	12.0	0.5	11.2	17.5	24.2	13.6

Source: Company, Edelweiss Research

Plastic pipes

Demand hit by lower agri pipes demand & higher PVC prices

After a robust performance in FY21 (despite covid-19 related lockdowns in first two months) with revenue/EBITDA/PAT growth of 19%/68%/102%, Q1FY22 saw a muted performance. Q1FY22 though saw 44%/107%/217% YoY PAT growth on low base, sequentially there was a sharp fall of 36%/54%/60%. Combined volumes too declined sharply by 33% QoQ impacted by low agri pipes demand due to high prices and as covid-19 related lockdowns not only impacted plumbing demand in urban areas, but also in rural areas. Further, margins too across companies declined sharply on account of lower volumes and inventory losses due to falling prices.

YoY and QoQ comparison between individual plastic pipe companies will not give the correct picture this quarter as the base quarter for each company was very different. Finolex reported 5% YoY growth, but in Q1FY21 it had been the worst hit with 42% YoY fall versus 31% YoY fall for Astral, 26% YoY fall for Prince Pipes and 12% YoY fall for Supreme Industries. Even QoQ performance is not comparable given the product mix of companies is different as Q1 is the biggest quarter for agri pipes focussed companies --~70% of Finolex sales are from agri, 30-40% of sales for Supreme Industries, 30-35% for Prince and 5-10% for Astral.

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Exhibit 5: Plastic pipes segmental data

Sales volume of pipe division (in MT)									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Supreme Industries	85,214	67,812	70,431	77,315	74,992	66,609	76,759	75,997	48,111
Astral Pipes	31,729	34,620	32,053	33,798	21,784	35,373	36,902	42,534	24,627
Prince Pipes	33,348	34,553	31,122	33,140	24,792	35,132	36,711	41,644	18,466
Finolex Industries	91,655	48,024	52,815	62,465	52,910	43,618	55,299	60,231	55,818
								2,20,406	1,47,022
Sales Volume growth YoY									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Supreme Industries	22.4	19.8	0.6	(7.4)	(12.0)	(1.8)	9.0	(1.7)	(35.8)
Astral Pipes	41.2	27.0	15.0	(13.1)	(31.3)	2.2	15.1	25.8	13.1
Prince Pipes	16.6	10.4	5.1	(16.4)	(25.7)	1.7	18.0	25.7	(25.5)
Finolex Industries	18.1	6.1	(10.8)	(22.7)	(42.3)	(9.2)	4.7	(3.6)	5.5
Sales Volume growth QoQ									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Supreme Industries	2.1	(20.4)	3.9	9.8	(3.0)	(11.2)	15.2	(1.0)	(36.7)
Astral Pipes	(18.4)	9.1	(7.4)	5.4	(35.5)	62.4	4.3	15.3	(42.1)
Prince Pipes	(15.9)	3.6	(9.9)	6.5	(25.2)	41.7	4.5	13.4	(55.7)
Finolex Industries	13.5	(47.6)	10.0	18.3	(15.3)	(17.6)	26.8	8.9	(7.3)
Realization (INR/Kg)									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Supreme Industries	105	120	113	121	102	127	149	177	173
Astral Pipes	144	153	158	146	142	156	182	208	205
Prince Pipes	114	124	127	130	122	131	150	183	157
Finolex Industries	93	108	105	101	96	115	131	150	151
Realization growth YoY									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Supreme Industries	-1.8	-0.7	-0.3	6.8	-3.3	6.2	31.0	46.3	35.8
Astral Pipes	-2.0	-10.3	-7.0	-3.3	-1.3	1.9	15.5	42.8	44.2
Prince Pipes	-0.7	1.3	4.4	3.3	7.1	5.1	17.6	40.7	20.0
Finolex Industries	-0.2	3.6	5.0	3.3	3.2	6.6	25.2	47.9	58.1
Segment's EBIT Margins									
	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	Q2FY21	Q3FY21	Q4FY21	Q1FY22
Supreme Industries	8.7	13.5	13.0	18.0	8.7	17.4	21.9	26.5	17.0
Astral Pipes	10.2	14.6	15.3	14.2	7.5	15.8	19.2	20.3	15.0
Prince Pipes	10.0	12.3	10.1	10.0	5.8	14.2	16.0	17.3	11.8
Finolex Industries	8.5	4.6	7.9	10.0	10.1	7.8	12.6	7.7	5.2

Source: Company, Edelweiss Research

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Exhibit 6: Valuations snapshot

Company Name	Reco	Target Price	Share Price	M Cap	FY21-23E	FY21-23E	P/E (x)		EV/EBITDA (x)		Pre-tax	
					Sales CAGR	PAT CAGR	FY22E	FY23E	FY22E	FY23E	RoCE	
			INR	(USD mn)	(%)	(%)					FY21	
Kajaria Ceramics	HOLD	1,030	1,046	2244	20.1	24.8	41.2	34.0	25.1	21.4	21.5	
Somany Ceramics	Buy	840	651	372	19.5	62.2	24	18.2	12.8	10.1	12.6	
Prince Pipes	HOLD	661	651	965	12.2	9.6	35.3	26.9	21.8	16.8	28.9	
Supreme Industries	BUY	2,477	2,040	3494	6.9	-	7.0	32.7	30.6	22.0	20.5	36.8
Century Plyboards	BUY	480	408	1223	23.7	36.1	32.2	24.9	22.0	16.9	21.0	
Greenlam Industries	BUY	1,421	1,312	427	21.3	35.4	24.8	20.0	14.5	12.0	16.1	

Source: Company, Edelweiss Research

All price charts cannot be included given the large of number of companies in our coverage. Specific charts may be available upon request

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Q1FY22 Results Review

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