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+91 22 6637 7416**INDIA****Building materials****Va tutto bene #11**

Exactly a year before, we wrote ‘Andra tutto bene’ (everything is going to be alright!) in which we analysed the likely changes to consumption, industry structures etc. We revisit the thoughts, we looked beyond the noise, and present potential changes in operating environment and likely beneficiaries – Va tutto bene (everything’s fine!). A root-cause-analysis of every trend indicates that it’s a consumer / customer behaviour change. “Andra tutto bene #18” is here - [link](#).

Top long-term trends for building materials industry include: (1) Secondary residential real estate sector has made a strong comeback post Covid led by multiple factors and is likely to drive demand for wood panel sector; (2) industry consolidation (particularly in plumbing pipes and commodity laminate segments) driven by near-term solvency risks faced by unorganised players in these segments; (3) with declining residential inventory in FY21, top tier developers to focus on new launches in FY22 driving the gradual revival in real estate sector; (4) greater emphasis on work from home has helped improve ready-made furniture demand; (5) increase in digitisation across organisations to drive efficiency; and (6) increase in new launches with virus protections and touch free products – already witnessed in plywood, laminates and faucets category in particular.

Key short-term challenges include: (1) Higher input cost to remain a concern in the near term; (2) second Covid wave has already led to partial migration of labour again especially from Maharashtra; and (3) likely decline in real estate prices may lead to down-trading in building material categories.

Beneficiaries: Wood panel companies and top tier plastic piping companies

See our previous reports in the series – [Consumer](#), [Agriculture](#), [Pharma](#), [Real Estate](#), [Telecom](#), [Power](#), [Dairy](#), [Capital Goods](#), [Cement](#), [BFSI](#)

We present below long-term trends in the sector:

- ▶ **Strong sales of unsold inventory in residential real estate to drive wood panel products demand:** Residential real estate has been facing problem of higher unsold inventory since long. However, post Covid factors like work from home, low mortgage rates, discounts/deferred payments plan offered by developers for ready/near-completion inventory and stamp duty waivers in markets such as the Mumbai Metropolitan Region (MMR) led to higher demand for homes. This will lead to higher demand for wood panel products with occupation of premises, which we have already started witnessing in Q4FY21 with higher demand for plywood/laminates/MDF products as per our channel checks.
- ▶ **Industry consolidation to continue with intermittent lockdowns affecting the unorganised industry at large:** With intermittent lockdowns, labour issues, higher freight cost, higher input costs and lower sales have caused large profitability drain for the unorganised industry while organised industry with stronger balance sheet has been able to wither the storm and will continue to gain market share going forward. The unorganised to organised gain will be faster in case of plumbing pipes (due to higher PVC prices), cheap plywood (due to shift to MDF) and commodity laminate segment (due to higher input costs).
- ▶ **Top tier developers to focus on new launches in FY22 as unsold inventory declined in FY21:** Higher sales of unsold residential units and limited launches in FY21 has led to a decline in unsold inventory. Real estate developers can now focus on new launches in FY22, which is likely to improve demand of building materials across categories.

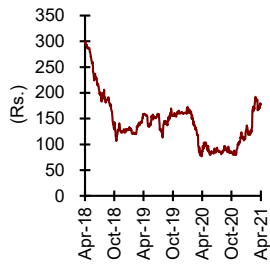
- ▶ **Greater emphasis on work from home has helped improve ready-made furniture demand from local manufacturers:** Greater emphasis on work from home has helped improve ready-made furniture demand from local manufacturers, which has led to a sharp improvement in MDF demand. Also, curbs on imports from China has helped local furniture industry to a great extent to flourish. Government has also levied import duty on furniture which is likely to help improve domestic furniture demand.
- ▶ **Increase in digitisation across organisations to drive efficiency:** Post Covid, all organisations have increased their focus on improving digitisation in all their processes so that further lockdowns or second wave do not impact them as much. For eg. most organisations have increased their presence in online sales through e-commerce route, etc.
- ▶ **Increase in new product launches with virus protections and touch free products:** A lot of companies developed new products during the lockdown to fight against the viruses in general and provide touch free experiences to customers with their new offerings. For eg, Viro-kill from Century Ply, Touch free sensor products from Cera, etc.

Unappreciated short-term challenges:

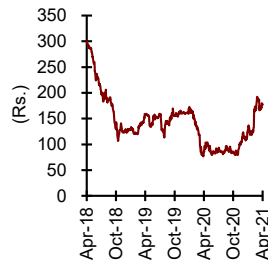
- **Higher input cost and other expenses to remain a concern in near term:** Over the last six months, all commodities have seen a sharp surge in their prices. Also, with improving demand, we expect cost rationalisation (induced post lockdown) to ease gradually going forward with companies rolling back salaries and increasing their branding expenses. The same is likely to remain a short-term challenge. However, with improving volumes, companies are likely to benefit significantly from operating leverage.
- **Second Covid wave has led to partial migration of labour again especially from Maharashtra:** Although Q3FY21 and Q4FY21 have seen strong comeback by all building material companies in terms of sales, second Covid wave poses a threat of fresh stricter lockdowns in many states of India especially Maharashtra. This could lead to partial migration of labour from top (Covid impacted) cities to rural areas amid fears of stricter lockdown.
- **Likely decline in real estate prices may lead to down-trading in building material categories:** With decline in real estate prices in the near term, we expect homeowners to increasingly resort to down-trading in carrying out their interior works. This may impact the premiumisation category of the majority of organised building material brands.

Price charts

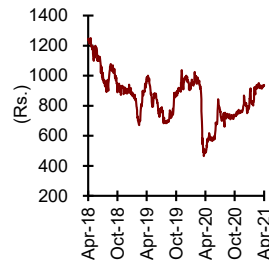
Century Plyboards



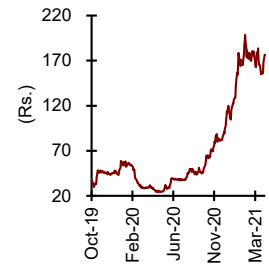
Greenply Industries



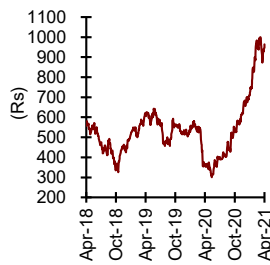
Greenlam Industries



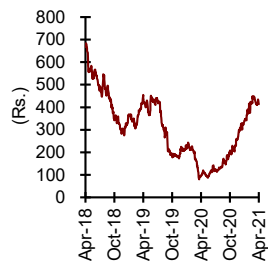
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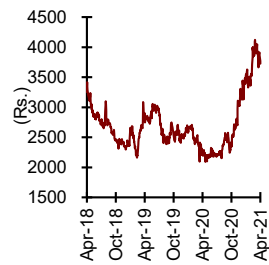
Kajaria Ceramics



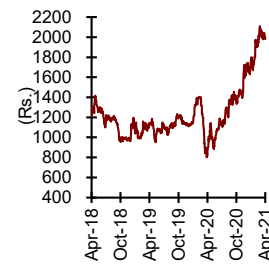
Somany Ceramics



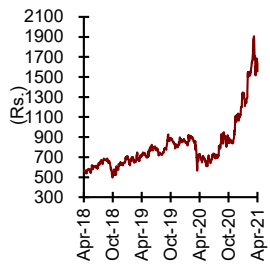
Cera Sanitaryware



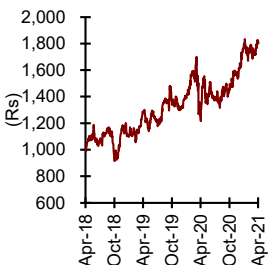
Supreme Industries



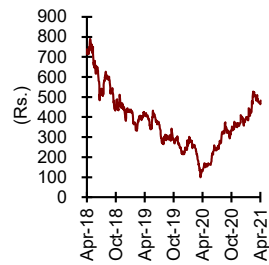
Astral Poly Technik



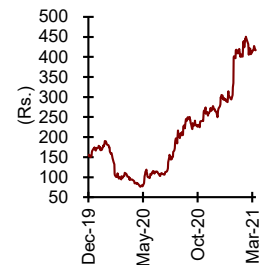
Pidilite Industries



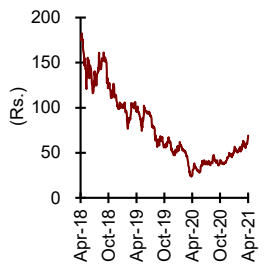
Visaka Industries



Prince Pipes



Time Technoplast



Source: Bloomberg

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