

India

Overweight (no change)**Highlighted Companies****APL Apollo Tubes****ADD, TP Rs1611, Rs1553 close**

The sales volume growth and EBITDA margin ramp-up has been slower-than-estimated over the past three-to-four quarters. However, our base estimates imply a 30-35% EPS CAGR over FY23-26F. As the ramp-up picks up, the near-term stock price underperformance should be used to buy or add positions, in our view, as the stock price has been flat since Aug 2023.

KEI Industries**ADD, TP Rs2728, Rs2988 close**

We expect a stable performance in 3QFY24F, with sales volume growth at 15%+ yoy and decent margins. We would watch out for the status update of the company's greenfield project in Gujarat. The income-tax department's searches at Polycab in Dec 2023 led to a stock price correction over the past week across listed stocks in the C & W space. We would use this opportunity to buy/add KEI Industries.

Summary Valuation Metrics

	Mar24-F	Mar25-F	Mar26-F
P/E (x)			
APL Apollo Tubes	49.19	34.7	
KEI Industries	46.51	39.43	32.87
P/BV (x)			
APL Apollo Tubes	11.68	9.49	
KEI Industries	8.6	7.15	5.94
Dividend Yield			
APL Apollo Tubes	0.45%	0.9%	
KEI Industries	0.13%	0.17%	0.2%

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Industrial - Overall**3Q preview: Durables and building materials**

- 3QFY24F margins to rise as raw material inflation pressure eases. Sales volume was the best for C&W/PVC pipe firms. For all others, it was below par.
- Cable/wire, water heater, plastic pipe, faucets and wood panel sales did well in Oct-Dec 2023. Structural steel pipe, tiles & FMEG segments were weak.
- Good 3Q: Polycab, KEI, Astral, Supreme Inds. & Century Plyboards. Weak 3Q: Orient Electric, Finolex Cables, Finolex Industries, APL Apollo and Cera.

Building materials to do well vs. consumer durables in 3QFY24F

We expect our building material coverage universe to perform better vs. consumer durables as plastic pipes, wood panels and faucets continue to witness good sales volume growth vs. fans, lighting products, switchgear and kitchen appliances. The prices of key raw materials like copper, aluminium, plastic, chemicals and timber were largely stable qoq, leading to margin expansion across our coverage universe. Our channel check revealed that retail demand remained subdued, despite the festive season, and B2B (institutional/project) demand stayed healthy in Oct-Dec 2023. Key parameters to track in the 3QFY24 results are management commentary on sales volume growth, market share and retail demand trend, new product launches, capex status and the outlook for 4QFY24F.

Expectations from consumer durable companies

We expect 3QFY24F cumulative revenue growth at 13% yoy, largely led by cable and wire sales volume growth. Selling prices have remained stable across products qoq. Despite the shift of the festive season to 3Q from 2QFY24, retail demand remained subdued, leading to soft FMEG sales. The EBITDA margin would continue to expand (ex-CG Consumer, Finolex Cables) due to a better sales mix, minimal changes to raw material prices qoq and operating leverage benefits. Cumulative EBITDA growth is estimated at 16% yoy for our coverage universe. We would keep a track on timely execution of capex (Havells India – cables/refrigerators, Orient Electric – fans, KEI – cables/wires, Finolex Industries – optic fibre). Based on yoy growth, V-Guard, Polycab and KEI Industries would relatively outperform their peers while Havells India, CG Consumer, Orient Electric and Finolex Cables would show a neutral or weak performance.

Expectations from companies in building materials space

We expect cumulative revenue/EBITDA/PAT growth of 3%/19%/22% yoy, respectively, for our coverage universe led by plastic product companies. Low revenue growth yoy is likely due to lower sales volume growth yoy for Finolex Industries due to a high base and lower realization for APL Apollo due to destocking in 3Q. A low base quarter (volatile input prices & high power/fuel costs hit margins in 3Q), which is likely to lead to strong EBITDA/PAT growth yoy. We expect a good 3Q for Astral, Supreme Industries, Kajaria Ceramics & Century Plyboard while Finolex Industries, APL Apollo & Cera to be relatively weak.

What do we prefer?

Based on current PE-G matrix, we prefer APL Apollo and KEI Industries.

Figure 1: 3QFY24F earnings summary (Rs m)

	Revenue	% yoy	EBITDA	% yoy	PAT	% yoy
Havells India	45,333	9.8	4,647	9.7	3,187	12.4
CG Consumer	16,760	10.5	1,575	3.4	890	4.4
V-Guard Industries	11,676	19.0	957	45.3	534	35.9
Orient Electric	6,887	-6.8	517	-5.8	244	-24.9
Polycab India	44,629	20.1	6,248	24.0	4,338	21.3
Finolex Cables	12,573	9.3	1,559	6.9	1,517	-1.7
KEI Industries	21,028	17.8	2,220	21.9	1,533	19.2
Astral	13,889	9.6	2,458	31.9	1,481	59.2
Supreme Inds.	26,032	12.7	3,879	27.9	2,697	28.4
Finolex Inds.	10,777	-4.2	916	-0.7	794	-0.7
APL Apollo	40,526	-6.3	2,796	2.5	1,712	1.2
Kajaria Ceramics	11,960	9.6	1,854	39.3	1,096	47.5
Cera Sanitaryware	4,853	6.0	798	6.4	616	9.3
Century Plyboards	9,696	10.5	1,474	15.7	941	12.4
Total	2,76,619	8.4	31,899	16.3	21,579	16.0

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Coverage universe – valuation summary

Company Name	Bblg ticker	Rating	Market cap US\$m	Closing price Rs/share	Target price Rs/share	Upside [%]	P/E (x)		EV/E (x)		CAGR % (FY23-25F)		FY25F	
							FY24F	FY25F	FY24F	FY25F	Revenue	EPS	RoE (%)	RoCE (%)
Electricals														
Havells India	HAVL IN	ADD	10,793	1,430	1,526	6.7	65.2	51.5	44.1	34.1	15.4	27.4	21.6	27.5
Polycab	POLYCAB IN	ADD	7,014	3,878	6,354	63.8	33.4	30.5	22.3	19.9	21.9	22.9	22.1	29.7
KEI Industries	KEI IN	ADD	3,240	2,981	2,728	-8.5	46.4	39.3	31.8	26.4	17.0	19.6	19.8	26.0
CG Consumer Electricals	CROMPTON IN	HOLD	2,503	325	286	-11.9	44.3	34.0	27.4	22.2	10.1	12.9	19.6	21.2
Finolex Cables	FNXC IN	REDUCE	1,926	1,046	809	-22.6	22.1	18.7	20.1	16.6	14.7	30.1	15.4	16.1
V-Guard	VGRD IN	REDUCE	1,544	296	275	-6.8	47.1	38.6	29.0	23.9	15.0	32.4	17.0	19.8
Orient Electric	ORIENTEL IN	HOLD	595	232	232	0.1	42.4	34.8	23.0	16.9	13.5	36.4	19.7	28.6
Simple Average							43.0	35.4	28.2	22.8	15.4	26.0	19.3	24.1
Building Materials														
Astral	ASTRA IN	HOLD	5,863	1,812	1,936	6.8	84.4	70.2	50.6	42.0	13.0	21.1	20.0	24.8
Supreme Industries	SI IN	REDUCE	6,469	4,229	3,828	-9.5	51.3	44.2	35.0	30.0	11.5	18.5	22.1	26.0
APL Apollo	APAT IN	ADD	5,248	1,570	1,611	2.6	49.7	35.1	31.5	23.2	17.0	39.0	30.2	36.8
Kajaria Ceramics	KJC IN	ADD	2,633	1,373	1,379	0.5	46.7	37.8	28.2	23.1	13.5	29.5	20.8	25.6
Finolex Industries	FNXP IN	REDUCE	1,752	234	182	-22.4	20.9	20.0	22.4	16.1	2.5	70.1	10.7	13.0
Century Plyboards	CPBI IN	ADD	2,079	777	746	-4.0	43.5	36.4	29.2	24.0	16.6	13.6	19.0	21.0
Cera Sanitaryware	CRS IN	ADD	1,216	7,763	9,523	22.7	37.7	31.8	26.4	22.3	16.2	23.1	21.6	27.4
Simple Average							47.7	39.4	31.9	25.8	12.9	30.7	20.6	24.9

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Consumer durables sector 3QFY24F earnings preview

	3QFY24F	3QFY23A	2QFY24A	Change (%) yoy	Change (%) qoq	Comments
FMEG						
Havells India						
Net Sales	45,333	41,276	39,003	9.8	16.2	# Switchgear, cables and wires, Lloyd, motors and water purifiers will have a relatively better revenue growth yoy vs. lighting products and ECD in 3QFY24F.
EBITDA	4,647	4,236	3,734	9.7	24.5	# Decline in the intensity of LED price fall globally and festive demand should lead to a marginal recovery in lighting products' revenue growth yoy, in our view.
EBITDA margin (%)	10.3	10.3	9.6	-1bp	69bp	# Shift of the festive season to 3Q from 2Q should lead to a higher ECD sales qoq. However, the high base of fan revenue last year would lead to a lower overall revenue growth of 4% yoy for the ECD segment.
Consolidated PAT	3,187	2,835	2,491	12.4	27.9	# Supported by new capacity in South India, we expect Lloyd's revenue growth at +18% yoy while EBIT loss at ~Rs500m. # No dividend has been declared in 1HFY24. The board of directors is expected to recommend an interim dividend in 3QFY24F.
CG Consumer Electricals (consolidated, including Butterfly Gandhimathi)						
Net Sales	16,760	15,162	17,823	10.5	-6.0	# Management's enhanced focus to grow revenue faster than the industry and also vs. listed peers should lead to a recovery in the ECD segment's revenue growth yoy (+16.5% yoy) in 3QFY24F. Also, in the base year, fan revenue was relatively lower owing to low-push sales of non-star rated ceiling fans vs. peers.
EBITDA	1,575	1,524	1,745	3.4	-9.7	# Lighting products' revenue growth should see a marginal recovery owing to lesser LED price decline qoq and the festive season demand.
EBITDA margin (%)	9.4	10.1	9.8	-65bp	26bp	# Seasonally, Butterfly registers peak sales in 2Q every year and revenue declines by 20-30% qoq in 3Q. Owing to fragile demand for kitchen products and stiff competition, we expect a revenue decline of 7% yoy.
Consolidated PAT	890	853	972	4.4	-8.5	# Continued rise in staff costs and higher advertising expenses would lead to a lower EBITDA margin of 9.4%, down yoy and qoq.
V-Guard (including Sunflame)						
Net Sales	11,676	9,808	11,338	19.0	3.0	# Revenue growth will be led by the electronics segment (16% yoy) followed by electricals (+10% yoy) and then ECD (+5% yoy).
EBITDA	957	659	925	45.3	3.5	# Aided by a low base quarter that suffered due to low B2C demand and high raw material inflation, 3QFY24F will look optically strong.
EBITDA margin (%)	8.2	6.7	8.2	148bp	-144bp	# Sunflame is expected to witness a healthy revenue growth (+50% qoq) owing to a seasonally strong quarter during the year, low base year revenue yoy and shift of the festive season demand to 3Q from 2Q.
Consolidated PAT	534	393	590	35.9	-9.5	# Gross margin should improve further qoq, but higher opex would offset most gains, leading to a flat EBITDA margin qoq. # In 2HFY24F, other income may decline qoq due to the absence of one-time gains on mark-to-market or MTM valuation of Gegadyne.
Orient Electric						
Net Sales	6,887	7,390	5,669	-6.8	21.5	# We expect the ECD segment's revenue to decline by 12% yoy owing to a low base and not a very strong season for fans for Orient Electric.
EBITDA	517	549	207	-5.8	149.9	# Lighting products segment's revenue growth (+8% yoy) should see a marginal recovery owing to a lesser LED price decline qoq and festive season demand.
EBITDA margin (%)	7.5	7.4	3.6	8bp	378bp	# Consolidated gross margin is likely to expand to 33%, up yoy and qoq, but higher opex would lead to flat EBITDA margin yoy.
Consolidated PAT	244	326	-2	-24.9	NM	
C&W segment						
Polycab						
Net Sales	44,629	37,152	42,177	20.1	5.8	# B2B demand trend remained intact qoq, which should lead to a healthy C&W revenue growth of 21% yoy.
EBITDA	6,248	5,038	6,089	24.0	2.6	# FMEG segment's revenue, comprising mainly fans and lighting products, saw a soft season, which should lead to a revenue growth of 5% yoy, in our view.
EBITDA margin (%)	14.0	13.6	14.4	44bp	-88bp	# The income-tax department's search operations and investigations at a few offices and plants of the company on 22nd Dec 2023 may have disrupted operations in the last 10 days of the quarter.
Consolidated PAT	4,338	3,576	4,256	21.3	1.9	# We expect gross/EBITDA margins to be stable at 27%/14%, respectively, in 3QFY24F.
Finolex Cables						
Net Sales	12,573	11,503	11,874	9.3	5.9	# We expect the electrical cable segment's revenue growth at +13% yoy, communication cables: down 12% yoy and FMEG: +9% yoy in 3QFY24F.
EBITDA	1,559	1,459	1,461	6.9	6.7	# Gross/EBITDA margins are largely going to be stable yoy/qoq.
EBITDA margin (%)	12.4	12.7	12.3	-28bp	38bp	# The share of profit from Finolex Industries (32.5% equity stake) should improve to Rs242m, +13.5% yoy.
Consolidated PAT	1,517	1,543	1,416	-1.7	7.1	
KEI Industries						
Net Sales	21,028	17,843	19,466	17.8	8.0	# We expect the cable segment's revenue growth at 17.5% yoy.
EBITDA	2,220	1,822	2,039	21.9	8.9	# We expect flat stainless steel wire sales; EPC segment's revenue: +12% yoy
EBITDA margin (%)	10.6	10.2	10.5	35bp	-26bp	# Gross/EBITDA margins should be stable yoy/qoq.
Consolidated PAT	1,533	1,286	1,402	19.2	9.3	Highest-ever quarterly PAT of Rs1.5bn likely.
Cumulative Financials						
Net Sales	1,58,886	1,40,135	1,47,350	13.4	7.8	
EBITDA	17,724	15,286	16,199	15.9	9.4	
EBITDA margin (%)	11.2	10.9	11.0	25bp	-9bp	
Consolidated PAT	12,242	10,812	11,124	13.2	10.1	

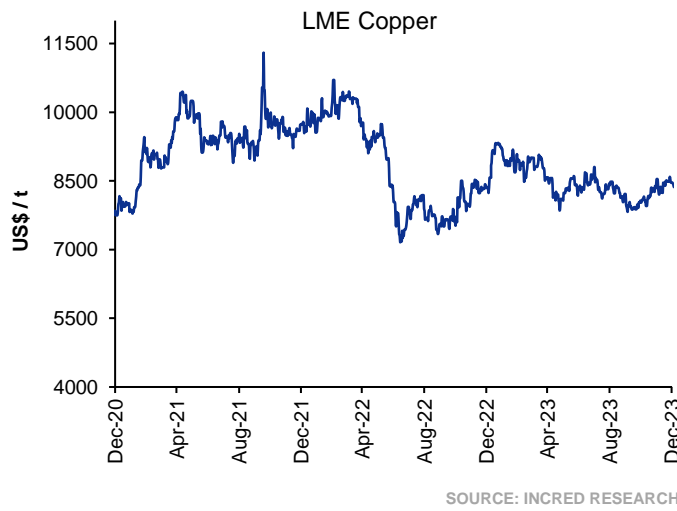
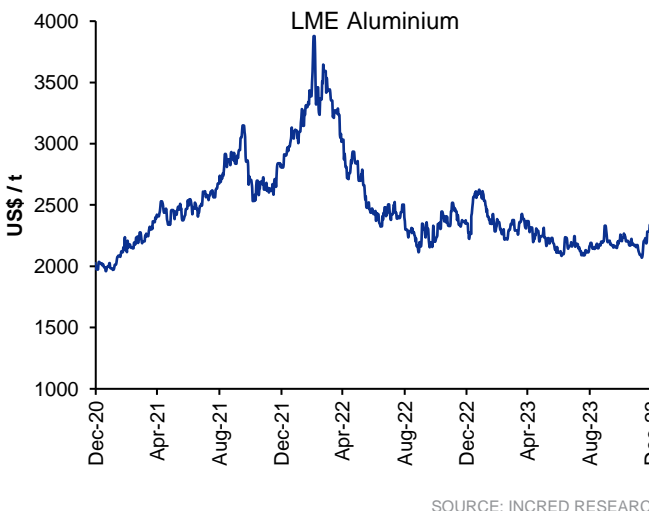
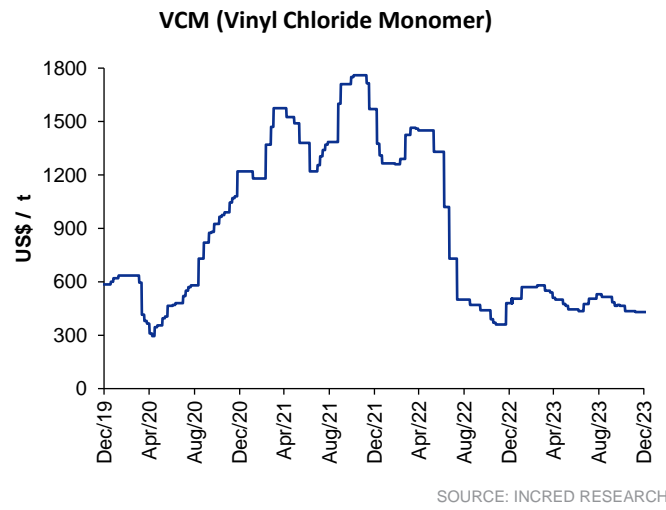
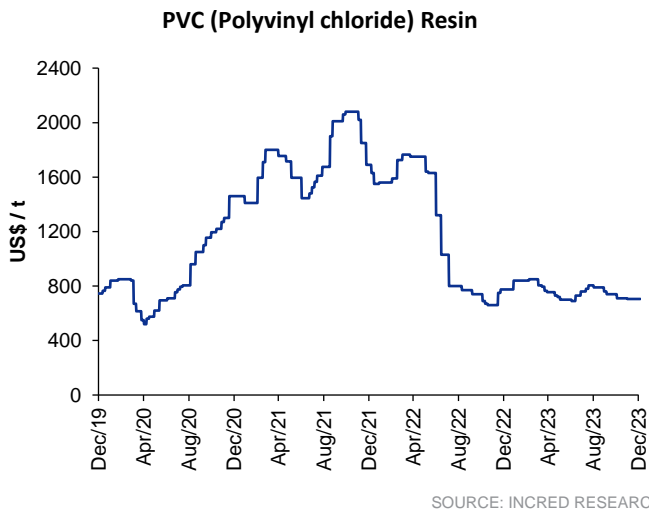
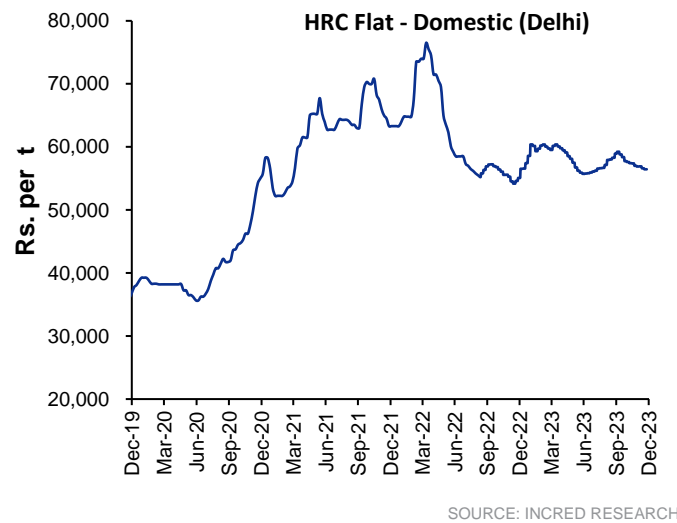
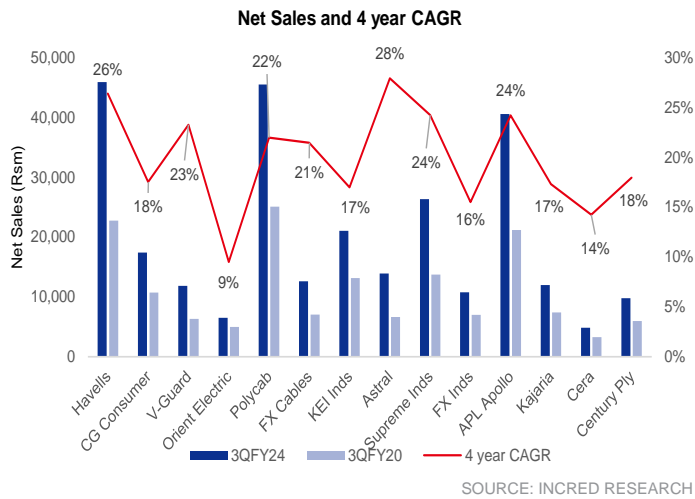
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 4: Building materials sector's 3QFY24F earnings preview

	3QFY24F	3QFY23A	2QFY24A	Change (%)		Comments
				yoy	qoq	
Plastic Pipes						
Astral						
Net Sales	13,889	12,678	13,630	9.6	1.9	# PVC prices fell in early Oct 2023 (destocking in the last week of Sep 2023) and then were largely steady during the quarter. Again, during the last week of Dec 2023, the anticipation of a price drop led to destocking by the trade channel. Average PVC price stood at Rs81/kg, down 5% qoq, in 3QFY24.
EBITDA	2,458	1,864	2,201	31.9	11.7	
EBITDA margin (%)	17.7	14.7	16.1	300bp	155bp	
Consolidated APAT	1,481	930	1,312	59.2	12.9	# We expect plastic products' sales volume at 55.2kt, +20% yoy/+6% qoq. # We expect lower plastic products' unit EBITDA at Rs36/kg, assuming the fall in PVC prices in early Oct 2023 led to marginal inventory losses. # We expect the adhesives and paint segment's revenue/EBITDA growth at 17%/44% yoy, respectively. GEM Paints to see a recovery in revenue growth, post full takeover by Astral in 3QFY24. # Payment of consideration for the acquisition of GEM Paints was done in 3QFY24. Cash outgo of ~Rs2.6bn (80% equity stake) would lead to a drop in free cash balance and treasury income for the quarter.
Supreme Industries						
Net Sales	26,032	23,107	23,087	12.7	12.8	# We expect the plastic pipe segment's sales volume at 123k, +18%, rom yoy, including some contribution from the from the recently acquired Parvati Agro Plast.
EBITDA	3,879	3,034	3,562	27.9	8.9	
EBITDA margin (%)	14.9	13.1	15.4	177bp	-53bp	# We expect the packaging segment's sales volume growth at 17% yoy given seasonally strong demand while industrial and consumer products' sales volume to be weak at 3-4% yoy given relatively subdued demand for these products. # We expect the consolidated realization to be down 3% yoy, leading to consolidated revenue growth of 13% yoy. # We estimate consolidated EBITDA/t at Rs24,500, +12% yoy /down 5% qoq. # The acquisition of Parvati Agro Plast was completed on 17th Oct 2023 for a total cash consideration of Rs1.7bn. Cash balance has to be adjusted for this at the end of 3QFY24.
Consolidated APAT	2,697	2,100	2,432	28.4	10.9	
Finolex Industries						
Net Sales	10,777	11,248	8,832	-4.2	22.0	# We expect PVC resin sales volume at 60kt, down 7% yoy, while realization would decline by 2% yoy. Issues with vendors regarding the supply of resin raw material (ECD/VCM) could hit 3QFY24F resin sale volume.
EBITDA	916	923	1,030	-0.7	-11.0	
EBITDA margin (%)	8.5	8.2	11.7	30bp	-316bp	# We expect the pipes and fittings division's sales volume at 80kt, down 11% yoy, due to a high base (3QFY23 saw large pent-up demand qoq). # The PVC-EDC and PVC-VCM spreads have worsened on a qoq basis. Hence, we expect gross/EBIT margins to be lower qoq for the PVC resin division.
Consolidated APAT	794	799	980	-0.7	-19.0	
Steel Pipes						
APL Apollo Tubes						
Net Sales	40,526	43,271	46,304	-6.3	-12.5	# 3QFY24 sales volume stood at 604kt, flat yoy and down 11% qoq, as was disclosed in the quarterly business update on 1 Jan 2024. Channel destocking in anticipation of a correction in Indian HRC prices, in line with the global price trend, led to a weaker-than-expected sales volume in 3Q.
EBITDA	2,796	2,729	3,250	2.5	-14.0	
EBITDA margin (%)	6.9	6.3	7.0	59bp	-12bp	# Indian HRC prices were flattish yoy and qoq at Rs57,500/t during Oct-Dec 2023. # New Raipur plant's (ABPL) sales volume was ~125kt (41% utilization of 1.2mt capacity) in 3QFY24, implies ~20% of overall sales volume. # Given the volume decline in lighting products and general structures yoy, we expect EBITDA to compress to ~Rs4,600/t, +3% yoy and down 4% qoq, owing to operating deleverage.
Consolidated APAT	1,712	1,692	2,029	1.2	-15.6	
Sanitaryware & Tiles						
Kajaria Ceramics						
Net Sales	11,960	10,911	11,216	9.6	6.6	# We expect tile sales volume at 27.6msm, +8.5% yoy.
EBITDA	1,854	1,331	1,797	39.3	3.2	# Demand remained subdued in 3QFY24. Channel incentives continued qoq to aid sales volume of Kajaria Ceramics. We expect flat net realization for the tiles segment yoy while up 1.5% qoq based on a better sales mix in favour of GVT and larger slab tiles.
EBITDA margin (%)	15.5	12.2	16.0	330bp	-52bp	# We expect a recovery in bathware and plywood revenue growth to Rs951m, +20% yoy, and Rs277m, +48% yoy, respectively, in 3QFY24F. # Adhesive sales, albeit on a low base, are expected at Rs145m, +60% yoy. # EBITDA margin should hold around the qoq level owing to flattish power and fuel costs qoq.
Consolidated APAT	1,096	743	1,080	47.5	1.5	
Cera Sanitaryware						
Net Sales	4,853	4,578	4,637	6.0	4.7	# Sanitaryware to witness a subdued performance due to seasonality and a high base while faucets and tiles to perform relatively better. Faucet sales to be aided by ramp-up of the new plant commissioned in Sep 2023.
EBITDA	798	750	765	6.4	4.4	
EBITDA margin (%)	16.5	16.4	16.5	7bp	-4bp	
Consolidated APAT	616	564	585	9.3	5.5	# SW revenue: down 4% yoy, Faucets: +20% yoy, Tiles: +8% yoy. # EBITDA margin to be stable yoy and qoq.
Plywood						
Century Plyboards						
Net Sales	9,696	8,772	9,879	10.5	-1.9	# Sales volume growth to be the best for the MDF segment, given capacity ramp-up from its existing North India plant and the lowest for the particle board segment, given stiff competition in the segment. Plywood and laminates to witness a moderately decent performance in 3Q.
EBITDA	1,474	1,274	1,404	15.7	4.9	
EBITDA margin (%)	15.2	14.5	14.2	67bp	98bp	# Sales volume growth yoy - a) Plywood: +9%; b) Laminate: +12%; c) MDF: +21%; d) Particle board: +6% yoy. # Realization should be flattish for the plywood and MDF segments while the laminates and particle board segments' realization to decline yoy. # MDF sales volume expected at ~58kcbm, +21% yoy. # Segmental EBITDA margin should improve yoy for the plywood and MDF segments and decline for the laminates, particle boards and CFS segments.
Consolidated APAT	941	838	904	12.4	4.2	
Cumulative Financials						
Net Sales	1,17,732	1,14,565	1,17,585	2.8	0.1	
EBITDA	14,175	11,904	14,009	19.1	1.2	
EBITDA margin (%)	12.0	10.4	11.9	165bp	13bp	
Consolidated APAT	9,337	7,666	9,320	21.8	0.2	

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 5: Commodity price trend



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