

PVC Pipes

Institutional Equity Research

Results Preview | 08 October 2021

Strong quarter on the Cards

The demand for PVC pipes was healthy despite the higher prices during 2QFY22, after a lockdown seen in Apr'21 and May'21. The PVC pipes industry witnessed a higher realization supported by supply side shortage along with a continued increase in PVC prices. Pipes companies are likely to report strong numbers in 2QFY22 led by robust demand from both construction and agri segments. PVC resins prices have seen a sharp bounce-back in 2QFY22, with an average price of ~Rs130/kg, from ~Rs115/kg levels in 1QFY22. PVC pipes manufacturers also took a price hike of ~Rs10-12/kg during 2QFY22.

Majority of players reported strong 50-60% YoY growth in Jul'21 driven by higher realisation. Industrial, drainage and plumbing are expected to witness decent growth led by various schemes announced by the GoI. The demand for agri pipes remained decent in 2QFY22 despite all-time high PVC prices. The demand for non-agri pipes remained intact in 2QFY22 led by the GoI's push for infrastructure spending along with strong revival of real estate sector. Western and southern regions continued to witness their strong demand for PVC pipes followed by northern region. With several small unorganized players, eastern region continues to remain underpenetrated. PVC pipes industry is also seeing market consolidation with smaller unorganized players facing supply side constraints due to the pandemic.

We expect the companies under our PVC pipes coverage universe to report 34% YoY, 39% YoY and 42% YoY growth in revenue, EBITDA and PAT respectively in 2QFY22E. EBITDA margin is expected to increase by 80bps YoY to 20.5%.

Our View: We expect a strong recovery in demand for PVC pipes despite the higher prices. After a muted 1QFY22, due to the second wave lockdowns in few states in Apr'21 and May'21, demand is back on track during 2QFY22. We expect demand to pick up in the next few quarters and follow a similar trajectory as seen in the last year, provided there is no economic disruption caused by a likely third wave. PVC prices rose by ~15% during 2QFY22 and are still very high compared to the historic average, resulting in continued high realizations. A further correction in prices is expected to be gradual over a longer period of time, whereby realizations and margins will be lower in FY22 compared to the peak seen in 2HFY21. Rising market share from the unorganised players, market consolidation, higher PVC prices and a healthy capex augur well for the PVC pipes companies under our coverage universe.

Our Top Picks: Finolex Industries and Supreme Industries

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Exhibit 1: PVC Pipes - Quarterly Estimates

Company	Revenue (Rs mn)					EBITDA (Rs mn)					PAT (Rs mn)				
	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)
Astral	10,353	7,471	38.6	7,001	47.9	2,158	1,436	50.3	1,294	66.7	1,363	923	47.7	751	81.5
Finolex Ind	8,203	5,858	40.0	9,657	(15.1)	2,065	1,448	42.6	2,095	(1.4)	1,630	1,183	37.8	1,468	11.1
Prince Pipes	6,261	4,587	36.5	3,306	89.4	1,108	803	38.0	412	168.7	695	466	49.3	177	292.1
Supreme Ind	17,552	13,748	27.7	13,421	30.8	3,372	2,559	31.8	2,220	51.9	2,428	1,750	38.8	1,702	42.7
Aggregate	42,368	31,663	33.8	33,385	26.9	8,703	6,245	39.4	6,021	44.5	6,118	4,322	41.6	4,098	49.3

Source: Company, RSec Research

Exhibit 2: PVC Pipes - 2QFY22 Results Preview

Company (Rs mn)	2QFY22E	2QFY21	YoY (%)	1QFY22	QoQ (%)	Comments
Astral						
Revenue	10,353	7,471	38.6	7,001	47.9	▶ The company's revenue is expected to increase by 39% YoY to Rs10.4bn, led by a strong growth in pipes and adhesive business on a low base. We expect PVC pipes volume to increase by 10% YoY to 38,980MT, while realization is seen at Rs205/kg (up 32% YoY). While its EBITDA is expected to increase by 50% YoY to Rs2.2bn, EBITDA margin is seen at 20.8% (up 160bps YoY), led by a sharp uptick in PVC prices. PAT is likely to increase by 48% YoY to Rs1.36bn.
EBITDA	2,158	1,436	50.3	1,294	66.7	
EBITDA Margin (%)	20.8	19.2	162bps	18.5	236bps	
PAT	1,363	923	47.7	751	81.5	
Finolex Industries						
Revenue	8,203	5,858	40.0	9,657	(15.1)	▶ Finolex's revenue is expected to increase by 40% YoY to Rs8.2bn, led by a strong growth in PVC resin and PVC pipes segments supported by higher realization. We expect pipes volume to increase by 7% YoY to 46,670MT, while realization is seen at Rs149/kg (up 30% YoY). While its EBITDA is expected to increase by 43% YoY to Rs2.1bn, EBITDA margin is seen at 25.2% (up 50bps YoY), led by a higher margin in PVC resin segment. PAT is likely to increase by 38% YoY to Rs1.6bn.
EBITDA	2,065	1,448	42.6	2,095	(1.4)	
EBITDA Margin (%)	25.2	24.7	46bps	21.7	348bps	
PAT	1,630	1,183	37.8	1,468	11.1	
Prince Pipes						
Revenue	6,261	4,587	36.5	3,306	89.4	▶ The company's revenue is expected to increase by 37% YoY to Rs6.3bn, led by 30% YoY growth in realization to Rs170/kg and 5% YoY growth in volume at 36,900MT. While EBITDA is expected to increase by 38% YoY to Rs1.1bn, EBITDA margin is seen at 17.7% (up 20bps YoY). PAT is likely to increase by 49% YoY to Rs695mn.
EBITDA	1,108	803	38.0	412	168.7	
EBITDA Margin (%)	17.7	17.5	20bps	12.5	523bps	
PAT	695	466	49.3	177	292.1	
Supreme Industries						
Revenue	17,552	13,748	27.7	13,421	30.8	▶ Supreme's revenue is expected to increase by 27% YoY to Rs17.6bn, led by 35% YoY realization growth in PVC pipes segment, with 4% YoY volume growth at 69,273 MT. While EBITDA is expected to increase by 32% YoY to Rs3.4bn, EBITDA margin is seen at 19.2% (up 60bps YoY). PAT is likely to increase by 39% YoY to Rs2.4bn.
EBITDA	3,372	2,559	31.8	2,220	51.9	
EBITDA Margin (%)	19.2	18.6	60bps	16.5	267bps	
PAT	2,428	1,750	38.8	1,702	42.7	

Source: RSec Research

Change in Ratings

We have changed our rating system and included **HOLD** recommendation. We have **BUY, HOLD and SELL** recommendation now.

We have also shifted to **1-Year Target Price** from **2-Year Target Price**.

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