

PRESS RELEASE

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PBIT margins slide by ~700 bps during FY2022-FY2024 for asbestos roofing players; estimated at 8-9% in the medium term: ICRA

- **Russia-Ukraine conflict and supply chain disruptions are key reasons for the margin erosion**

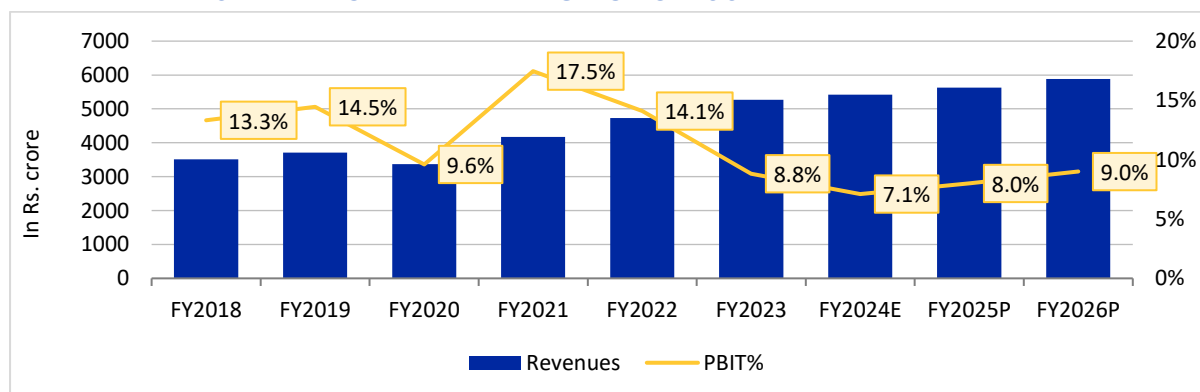
ICRA expects the PBIT¹ margins of the asbestos-based roofing players for ICRA’s sample² set to improve by 100-200 bps to around 8-9% in FY2025 and FY2026, backed by estimated steady growth in volumes and marginal improvement in realisations. The asbestos fibre prices increased at a CAGR of 9.6% during the FY2018 – FY2024 period compared to the modest rise in realisations at a CAGR of 3.1% during the same period, thereby impacting the profitability of the companies.

Giving more insights, **Abhishek Lahoti, Assistant Vice President and Sector Head, Corporate Ratings, ICRA**, said: “Though sales volumes increased at a CAGR of ~5.4% during FY2018 – FY2024, rise in raw material prices, intense competition and narrowing price differential compared to substitutes limited the ability to fully pass on the increase in prices to customers. This halved the PBIT margins to 7% in FY2024 from 14% in FY2022.”

In FY2023, fibre prices had increased by 25%, the highest rise in any year, amidst the Russia-Ukraine conflict, with Russia being the largest exporter of Chrysotile asbestos in the world. Additionally, rupee depreciation and spiking freight costs due to logistical challenges had worsened the price increase.

Asbestos roofing is predominantly used in rural India due to its affordability, price competitiveness and durability, compared to the alternative options. However, asbestos fibre sheet players are exposed to high regulatory risk. In India, only the Chrysotile variety (also known as white asbestos) of fibre cement, which is considered safe, is used in roofing solutions. The fibre is mixed and bonded with cement and other raw materials, preventing the possibility of escaping into the atmosphere on normal usage. India has banned the mining of asbestos. While the country still permits the import of chrysotile asbestos, many countries have banned all types of asbestos. Given the health hazards, any ban on the mining of asbestos across countries may expose the players to the risk of non-availability of raw materials which can consequently impact the companies’ operations.

EXHIBIT 1: TRENDS IN REVENUE AND PBIT MARGIN OF ICRA’S SAMPLE



¹ Profit before interest and tax

² ICRA’s sample includes 5 major asbestos FC sheet players, which account for 80-82% market share as of March 2024

Source: ICRA Research

The market share of the top five companies (in revenue terms) in the asbestos fibre cement (FC) sheet segment is in the range of 80%-82%, implying an oligopoly market structure. The asbestos players largely cater to rural markets, where buyers are extremely price sensitive and the increase in input prices is passed on to customers over a protracted period. The asbestos FC sheets industry is cyclical in nature with Q1 and Q4 of the fiscal generally being the strongest revenue-generating quarters due to the demand, post the rabi and kharif harvest. The demand conditions of the rural economy are dependent on the prospects linked to farm income levels (farm output, minimum selling price movement). The nominal gross value-added (GVA) for agriculture saw healthy growth during FY2020 – FY2023, which supported growth in the asbestos roofing industry.

“Considering the moderate growth prospects of the asbestos FC industry, there are no major capex plans in the pipeline for the top five players in the medium term. Further, the average capacity utilisation is in the range of 80-86% for the top players. The key players are moving towards de-risking their business profiles by entering non-asbestos segments due to regulatory risks associated with the threat of a ban on the usage of these products and on the mining of asbestos in the producing countries. The share of asbestos products’ revenues in the overall revenue mix for ICRA’s sample set has declined to 61-63% in FY2024 from 72% in FY2018 due to product diversification initiatives, which is expected to continue in the medium term,” Lahoti added.

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