MATECIA 2025

SECTOR UPDATE

Bouncing from the bottom

We visited Matecia 2025—a wood panels industry event. Key takeaways: i) MDF and particle board usage has risen significantly. ii) Mid-sized players are attempting a price hike in MDF from Sep 1; large players to follow. iii) While timber prices are falling, resin prices are up. iv) Demand is healthy and capacity additions are slow, hinting at oversupply easing. v) Large players are planning capacity beyond two–three years aiming for sustainable margin of 18–20% in MDF.

We believe while EBITDA margins may seem to have bottomed, the subdued scenario may continue for two–three more quarters until resin prices (~40% of MDF and ~20% of plywood RM consumption) fall again or a consensus evolves on a price hike in the MDF segment.

Key takeaways

Demand: While demand for traditional products such as plywood and laminates is relatively slow, MDF and particle board are recording strong demand led by a pickup from OEMs and shift from low-end plywood.

Product acceptability: Our interaction with various stakeholders and buyers strengthened our thesis that MDF and quality particle board would increasingly continue to replace products such as low-quality plywood.

Capacity addition: Given subdued project economics, many players have put their plans on hold and are awaiting the right time to expand capacity (especially in particle board and MDF), hoping to ride the India growth story.

Competitive intensity: While domestic demand in MDF remains healthy, players were unable to take a price hike given intense competition amid oversupply and elevated timber costs. While higher competitive intensity continues to lead players to focus on achieving higher utilisation, price hikes are again being attempted.

Price: Many mid-sized players have announced an increase in MDF prices by 5% from September 1, which is likely to be followed by leading brands.

Costs: While timber prices are cooling off with rising number of plantations, concern is growing on an increase in resin prices, which make up 40% of MDF costs and ~20% of plywood costs.

Imports: Imports in certain segments such as MDF had created pressure in the past; they are no longer a matter of concern on the back of BIS implementation from February 2025. Participants further believed BIS implementation on ready-made furniture could be a game changer.

Our view: We reckon while a bottom may have been achieved, the industry is unlikely to log a major improvement in profitability in the next two–three quarters given a surge in resin prices although we believe it is temporary.

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MATECIA 2025

Fourth edition of Matecia: Bigger and brighter

The four-day edition of Matecia 2025 featured 450 exhibitors (from more than 250 exhibitors in FY24) and attended by close to 73,000 visitors from across the globe. The exhibition showcased products across the wood panels spectrum such as plywood, MDF, laminates, particle board, adhesives, etc. Moreover, furniture makers, distributors, association heads, dealers, contractors, architects, interior retailers and designers were also among participants– giving us a 360-degree view.

Many companies also used this event to exhibit new products launches

Majority of the large Indian brands such as Century Ply, Greenply and Action Tesa participated. Furthermore, many mid–tier companies such as Duroply, Sudama Panels, E3 group, Advanced Laminates and Virgo also showcased their products.

Exhibit 1: Leading pan-India wood panels manufacturer

Source: Company, Nuvama Research

Exhibit 2: Manufacturer from the south

Source: Company, Nuvama Research

Exhibit 3: Emerging brand from House of Sudama

Source: Company, Nuvama Research

Exhibit 4: Bondtite by Astral

Source: Company, Nuvama Research

MDF and particle board: Products built for future

With more than a decade since the launch of MDF in the domestic market, the product has gained popularity due to its versatility, quick turnaround time and easy-to-handle characteristics.

Our interaction with various stakeholders and buyers bolstered our thesis that MDF and quality particle board would increasingly continue to replace products such as low-quality plywood. Moreover, the significant fall in MDF/particle board prices (on the back of intense competition) and rise in plywood prices due to elevated timber prices is helping in faster adoption of these products given much higher affordability compared with plywood. Moreover, particle board has been gaining traction aided by a rising number of ready-made furniture manufacturers in the country who prefer using pre-laminated board that is commonly part of the particleboard industry.

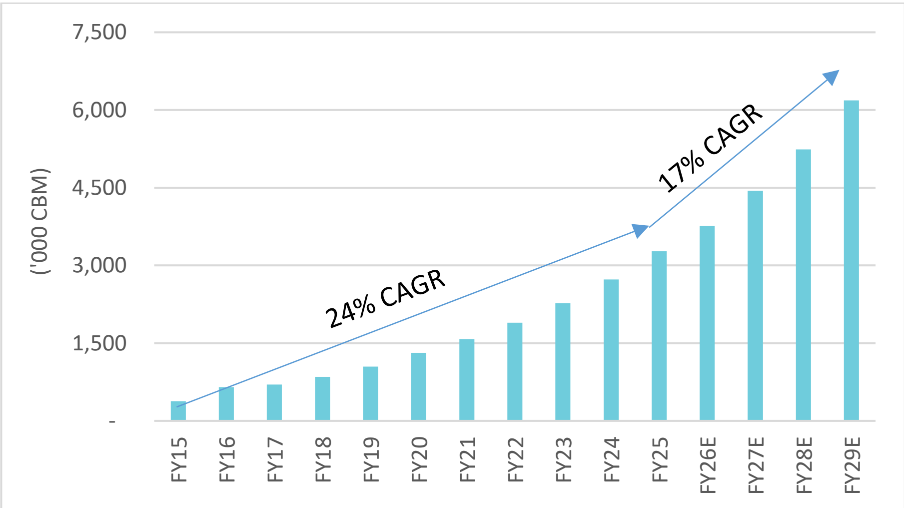
Exhibit 5: Gift boxes made out of MDF

Source: Amazon

Exhibit 6: Decorative trays made out of MDF

Source: House2Home

Exhibit 7: MDF consumption clocks a 24% CAGR; to post a 17% CAGR going ahead

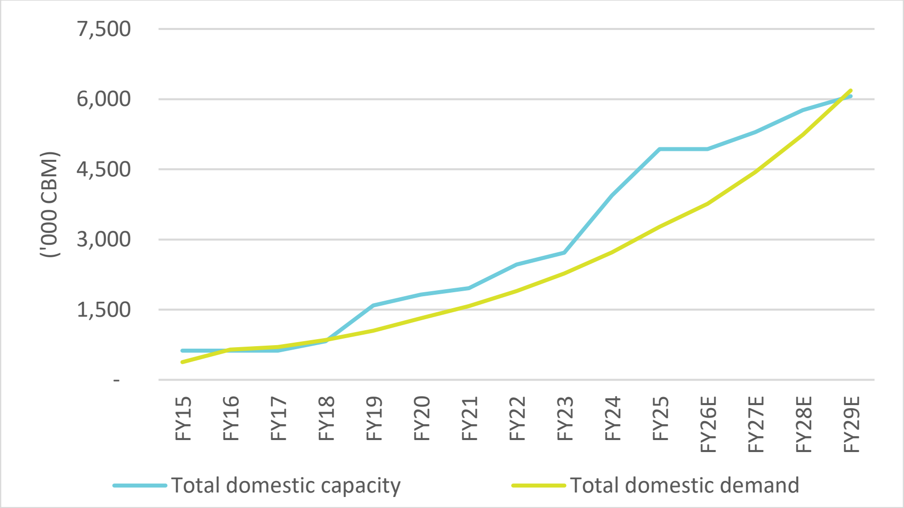


Source: Company, Nuvama Research

Oversupply hits MDF; likely to be absorbed as capacity addition slows

All industry participants recognised that the MDF industry has been hurt by oversupply. The MDF segment has seen its fair share of ruthless capacity addition by organised players even after higher capex commitment; even unorganised players did not shy away and filled the market with multi daylight plants. Now, with prices falling and margins significantly coming under pressure, capacity addition plans have become far more cautious and have slowed down immensely.

Exhibit 8: Demand-supply gap to narrow FY29E onwards



Source: Company, Nuvama Research

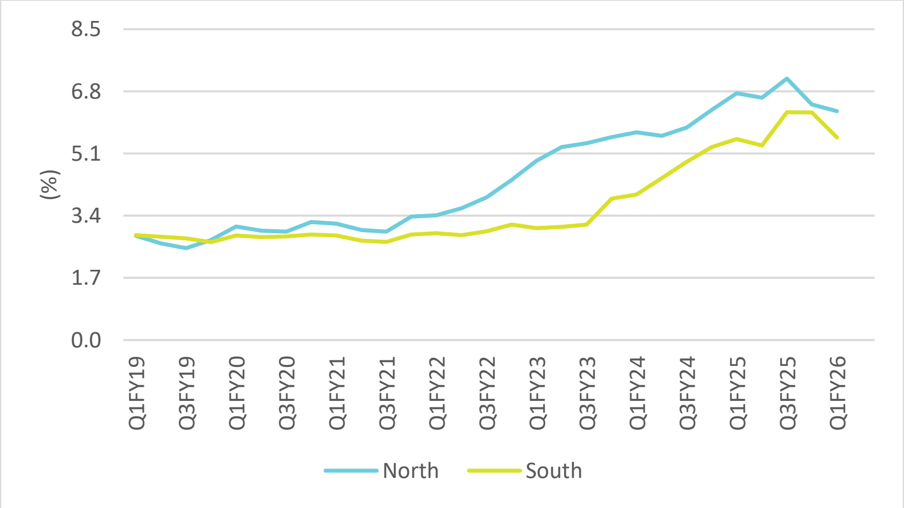
Timber cost coming down…

Plantations are spread across various regions of the country. The sudden spurt in demand during Covid had eaten into the plantations. That led to a dearth of timber, pushing prices higher. However, with new plantation maturing now, prices are easing.

While the North trades at a premium to South India in terms of wood prices, South India has been the frontrunner in terms of tackling the shortage head on. Timber prices are climbing up due to shortage.

Timber plantation owners have been cognizant of the shortage and have taken steps to enhance supply. An important shift has been in the age of timber needed by wood panels players. The general age of timber for plywood is six–eight years, for MDF is three–five years and for particle board is two–four years. Given demand from MDF and particleboard is picking up, a quicker turnaround is likely from plantation workers. This has worked in favour of plantation owners who can expect higher yield from their land and a quicker turnaround of their products.

Exhibit 9: Timber prices starting to correct with new supply hitting market



Source: Company, Nuvama Research

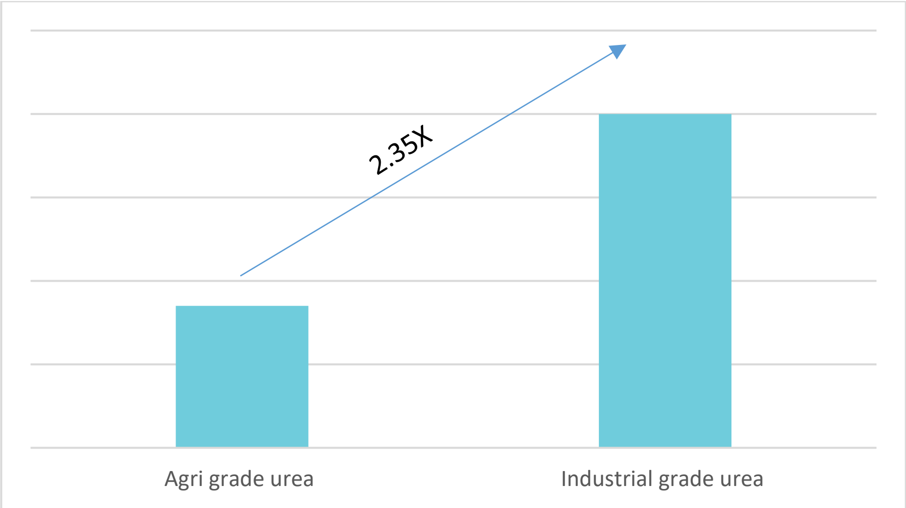
…but rising resin prices a new issue though temporary

A strict check on the misuse of agriculture-grade urea has given rise to demand for technical grade urea. Recently, the government has increased vigil on movement of supply of agriculture-grade urea and started raiding factories. The tightening on urea has led to trouble for few plywood manufacturing units that were using this cheap grade; now they are buying technical grade urea. Technical-grade urea is 3x costlier than agricultural grade; hence resin costs have gone up. Urea is used in making resin mixed with formaldehyde, which is a constituent of adhesives for finishes and moulded objects.

Urea-formaldehyde is a non-transparent thermosetting resin. It should be noted that plywood factories cannot use agriculture-grade urea as the government provides a subsidy on it. Large-scale misuse of neem-coated urea by illegally diverting it for industrial use has been detected. This has prompted authorities to raid plywood and MDF manufacturing units.

As per our interactions with experts, the cost of resins has started to increase. This is a large raw material cost component —~40% in case of MDF and ~20% in case of plywood. The bigger dent will be on smaller players, which were using agriculture-based urea. However, costs have increased even for larger players, as their resin suppliers indirectly contributed to use of agriculture-grade urea.

Exhibit 10: Industrial-grade urea to increase input costs for MDF manufacturers

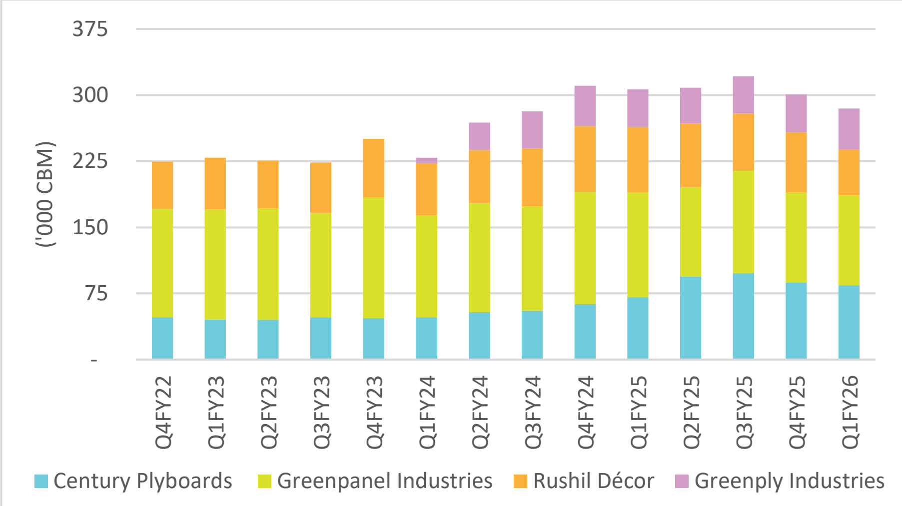


Source: Company, Nuvama Research

Though MDF margins at bottom; turnaround in next 2–3 quarters

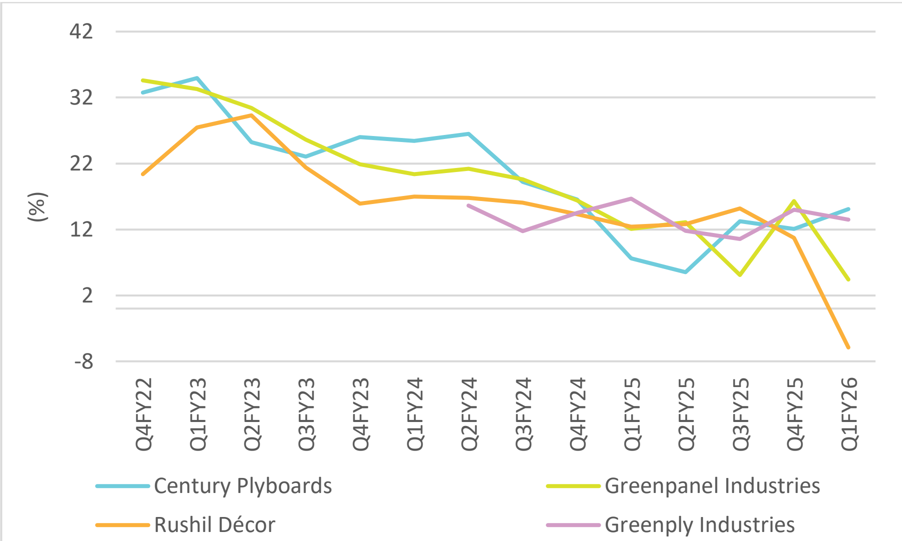
While the domestic MDF segment has reported a surge in demand, margins in the segment have been hurt by a pricing war, higher competitive intensity and elevated timber costs. While players have been able to satisfy the demand, they have been unable to pass on the rising timber costs to consumers. This has in turn led to margins getting squeezed for players (falling to all-time lows).

Exhibit 11: Volume uptick aided by strong domestic demand…



Source: Company, Nuvama Research

Exhibit 12: …but MDF margins have taken a beating



Source: Company, Nuvama Research

Now what is changing

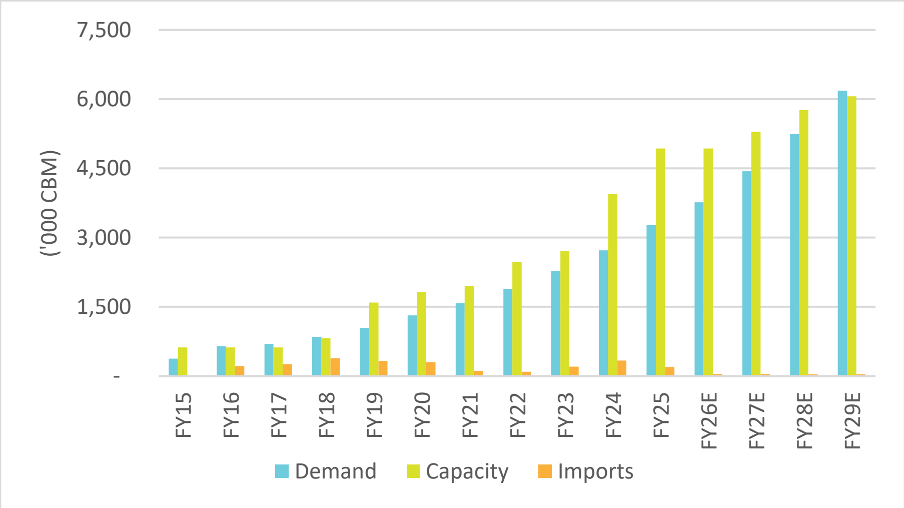
Price hike of 5% from September 1, 2025

The MDF category now has got classified into four sub-segments: i) Leading players such as Action Tesa (selling at 4–5% premium compared with even leading brands). ii) Followed by leading brands such as Century Plyboards, Greenply and Greenpanel Industries. iii) Followed by mid-sized players such as Sudama Panel, E3, Metro, Cross Bond. iv) Last sub-segment comprises all small multi daylight plants that are currently making losses. Most players have decided to take a price hike of 5% from September 1, 2025. Some leading brands will then follow suit in a month. This is likely to ease the margin pressure that has been ailing the industry for so long.

Demand-supply gap to narrow FY27E onwards

A year ago, many capacities were coming up or had been planned. A plethora of meetings with machinery manufacturers ensued. However, after the turmoil last year, the commitments have either been put on hold or cancelled. The high competitive intensity and inability to pass on the elevated raw material cost have pressurised unorganised MDF players. Even participants who are closer to the commencement of their plants have decided to take a longer-term view for MDF. Players such as Xylos have instead decided to put up a particle board unit while players such as Infra.market have put their plans on a new plant on the back burner.

Exhibit 13: Narrowing gap between demand and capacity as imports reduce



Source: Company, Nuvama Research

Larger players cleaning out smaller counterparts

Old plants, which had sizable capacity, are facing severe profitability challenges and need to take price hikes. While there have been various discussions on price hikes in the past, despite several meetings, a consensus had not evolved as large players with strong balance sheets focus on scaling up capacity utilisation and grabbing market share. This is in turn not only hurting new and upcoming players, but is also heaping intense pressure on small players who are struggling to operate their plants. Consequently, some of them are opting to take shutdowns or sell off their plant.

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