

4QFY22 Result Update

The Supreme Industries

Volumes picking Up

30 April 2022



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CMP (Rs): 1,950

Market cap. (Rs bn): 248

Target price (Rs): 2,623

Maintain BUY

First Cut Feel of the Results

- Supreme Industries (SI) reported performance in-line with our estimates. Volumes were slightly better while EBITDA margin was slightly lower than our estimates on account of lower-than-expected realizations and product mix (higher agri sales). Sales volumes grew 16% YoY to 1,28,607 MT
- Polymer prices were volatile during the quarter. Blended realizations declined 6.6% QoQ to Rs 1,98,830/MT (up 6.1% YoY). PVC prices have declined by Rs 6/kg so far in April.
- Overall, topline grew 23% YoY to Rs 25.6 bn. Revenue from value-added products (VAP) grew by 20% YoY to Rs 9.7 bn.
- EBITDA de-grew 23% YoY to Rs 3.9 bn, while EBITDA margin contracted 920 bps YoY to 15.3% mainly on account of product mix (higher share of agri pipes) and absence of inventory gain. Overall, RPAT de-grew by 28% YoY to Rs 3.2 bn.

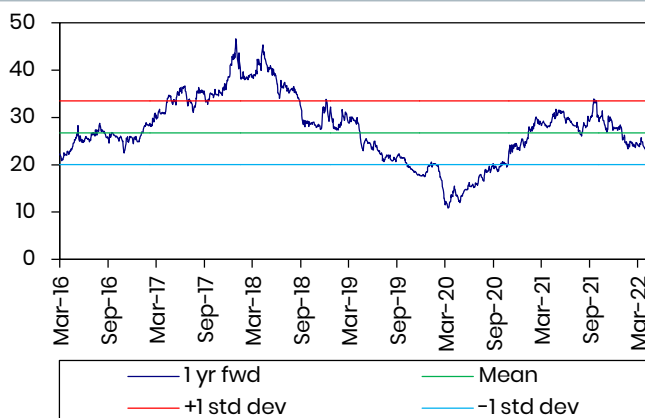
Financial highlights

(Rs mn)	4QFY21	4QFY22	YoY (%)	3QFY22	QoQ (%)
Net Sales	20,846	25,571	22.7	19,451	31.5
EBITDA	5,097	3,914	(23.2)	3,179	23.1
EBITDA margin (%)	24.5	15.3	-920 bps	16.3	-100 bps
Other income	37	86	135.0	29	192.5
Interest	5	19	308.7	5	308.7
Depreciation	548	588	7.3	575	2.3
PBT	4,581	3,393	(25.9)	2,629	29.1
Tax	781	851	8.9	678	25.4
Reported PAT	4,504	3,239	(28.1)	2,457	31.8
Adjusted PAT	3,800	2,543	(33.1)	1,951	30.3
Adjusted EPS (Rs)	29.9	20.0	(33.1)	15.4	30.3

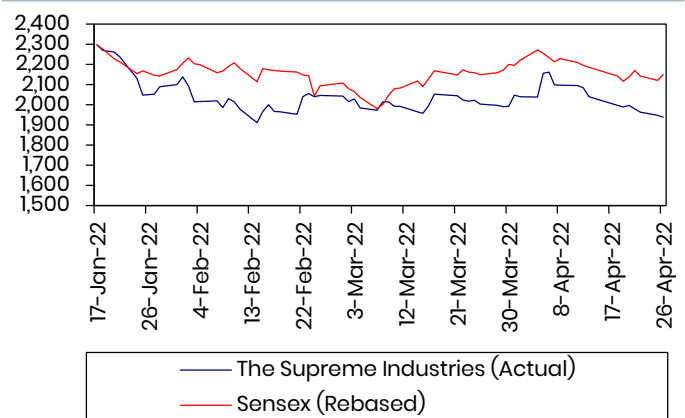
Key variables

	Improvement on (%)		
	B&K est.	Consensus	
Net Sales	(0.5)	8.0	
EBITDA	(4.5)	(0.2)	
Reported PAT	1.7	11.7	
	FY22P	FY23E	FY24E
Valuations			
PER (x)	32.4	28.9	23.7
PBV (x)	6.4	5.4	4.5
EV/EBITDA (x)	19.5	17.1	14.0
Key Ratios			
ROE (%)	27.6	25.7	25.8
Liquidity			
Net D/E (x)	(0.1)	0.0	0.0

One-year forward PER



Relative performance



Is it in the Price?

Supreme's 4QFY22 performance was broadly in-line with our estimates. Sales volumes have been better than expected, which is encouraging. Agri demand has started coming back and is expected to further improve in the coming year. Management has guided for at least 15% volume growth in FY23. Strong traction from the real estate space as well as key government schemes (Jal Jeevan Mission, Swacch Bharat Abhiyan, PMAY etc.) are progressing well, which is positive for pipes demand, going ahead. We remain constructive on the structural outlook of the pipes industry.

Connecting the Dots

Supreme's 4QFY22 was encouraging as it clocked volume growth of 16% YoY to 1,28,607 MT, mainly on account of 27% YoY growth in Plastic Pipes to 96,507 MT. CPVC segment has been on a consistent growth, whereas agri demand is bouncing back. Company recorded highest dispatches in March in PVC pipes (agri + plumbing), whereas CPVC sales was also strong. Demand from the agri pipes is improving, while other segments are also showing growth. Hence, management expects at least 15% volume growth in FY23.

Polymer prices were volatile during the quarter, which led to blended realizations declining 6.6% QoQ to Rs 1,98,830/MT. Overall, topline grew 23% YoY to Rs 25.6 bn. Revenue from value-added products (VAP) de-grew by 20% YoY to Rs 9.7 bn.

PVC pipes EBIT margin declined 210 bps QoQ to 14.4% mainly due to product mix (higher share of agri pipes) apart from the volatile resin prices. PVC prices witnessed upward trend during the month of March, but have now declined by Rs 6/kg so far in April. Management expects prices to soften since new shipments (expected in June/July) have been booked at lower prices. Availability of resin has improved due to supply from China. However, prices are expected to remain at elevated levels and at the current PVC prices, the management expects EBITDA margin in the pipes division to sustain at 15-16%.

Plastic pipe sales were impacted in 9MFY22, but have shown recovery in 4QFY22 and demand continues to remain strong as agri segment sales has started picking up. Recovery in agri demand (missing over last two years), implementation of key government schemes (Jal Jeevan Mission, Swacch Bharat Abhiyan, PMAY etc.) is positive for pipes demand, going ahead. Supreme is undertaking capacity expansion and continues to enlarge its product basket. The expansion at three new manufacturing sites (Cuttack, Erode and Guwahati) is going on in full swing. First phase at Cuttack and Erode are expected to be operationalize by Sep'22. This will give required impetus to the division to grow faster.

Profitability curve to remain healthy: EBITDA de-grew 23% YoY to Rs 3.9 bn, while EBITDA margin contracted 920 bps YoY to 15.3% mainly on account of product mix (higher share of agri pipes) and absence of inventory gain. PVC prices have declined by Rs 6/kg so far in April (March had witnessed upward trend) and are expected to soften as new shipments have been booked at lower rates. However, they are still expected to remain at elevated levels.

Upcoming new capacities would provide better efficiencies, whereas positive volume growth outlook would lead to better operating leverage. Hence, sustainable margin trajectory would remain higher compared to historical range over last ten years. Management has guided for 15-16% EBITDA margin in the pipes division.

Packaging Products: Sales volumes de-grew by 16% YoY to 13,131 MT. Realizations for the segment grew 9.0% QoQ to 2,42,914/MT. During the year, Cross Laminated Film products were impacted the most whereas, business was also impacted by fierce competition from look-alike products apart from higher polymer prices. Going ahead, the company would be putting thrust on promoting non-Tarpaulin products (even

better EBITDA margin than Tarpaulin products), finding new applications, targeting new customers in existing markets & reaching new markets.

Consumer Products: Sales volumes de-grew by 11% YoY to 5,206 MT, whereas realizations de-grew 7.4% QoQ to 2,26,662/MT. The company has launched its own portal for showcasing wide range of premium products (company is market leader in premium range of plastic furniture). Further, it plans to launch variety of new models during which would lead to overall growth in FY23.

Industrial Products: Volumes were flattish YoY at 13,763 MT, while realizations were flattish sequentially at Rs 2,18,179/MT. During the year, the company clocked good growth in the Material Handling division and has been able to add many new customers. Supply chain issues impacted Industrial Component division in FY22 despite high demand, but conditions have started improving and demand scenario is looking positive in various appliances segments. **In the Composite Cylinder division, company received repeat orders from existing as well as new customers. It received LOI for supply of 7,35,186 Composite LPG Cylinders worth Rs 1.7 bn from IOCL. To cater to the demand, the company is doubling the capacity at a capex of Rs 500–600 mn.**

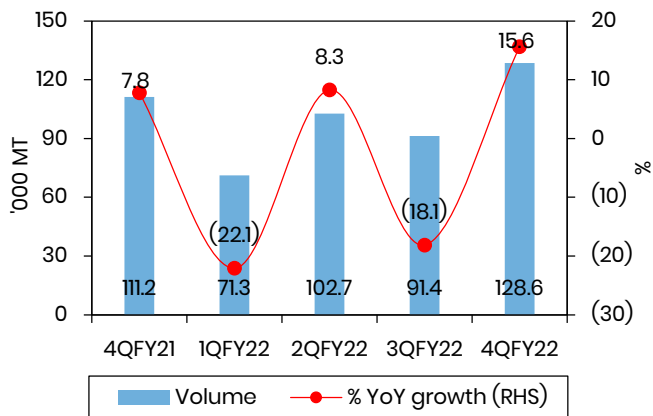
Capex guidance of Rs 7 bn: Supreme incurred capex worth Rs 2.6 bn in FY22 primarily towards ramping up the capacities in plastic piping system, introduction of new products in various business segments, automation and replacing some old production equipment with new technology machines. The entire capex was funded through internal accruals. Further, the Company plans to incur capex of ~Rs 7 bn (including carry forward commitments of Rs 2.8 bn) which would be funded through internal accruals. Company's cash position stands at Rs 5.2 bn (vs. 1.5bn as of 3QFY22).

The company's installed capacity stands at 7,25,000 MT as of FY22, which is expected to increase to ~8,00,000 MT by FY23 end. This would be mainly from higher addition in Plastic Pipe and Industrial Products.

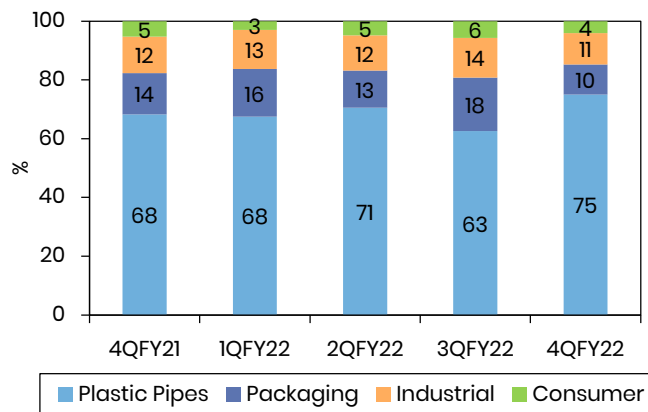
Outlook and Recommendation

SI's performance has started improving with strong demand coming back in the pipes segment. Agri segment has started picking up and the management expects at least 15% volume growth in the coming year. The upcoming capacities would further enable the company cater to the demand with better efficiency. PVC prices are on a softening trend, but are expected to remain at elevated levels. These factors bodes well for margin trajectory to sustain at higher levels. Company has further announced increase in capex (to be funded through internal accruals), which augurs well for robust growth (favorable cycle) as well as cost efficiency. Balance sheet remains strong with net cash worth Rs 5.2 bn as of 4QFY22 which is expected to further increase in coming years. We remain structurally positive on the stock given upcycle in the industry and Supremes' leadership in pipes segment. Maintain Buy rating with target price of Rs 2,623 (based at PER of 30x for core business on FY24E and market value of investment in associate company).

Sales Volume Trend

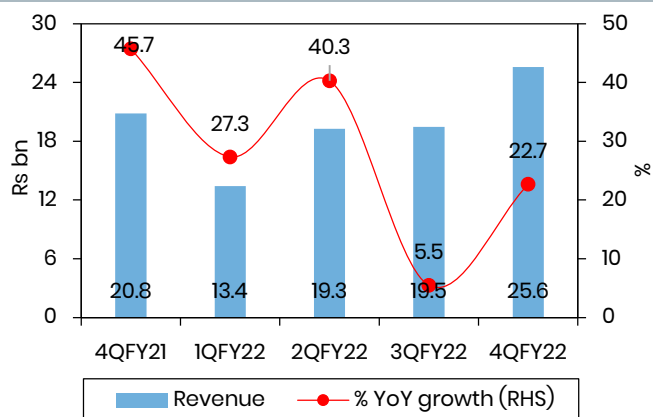


Sales Volume Breakup

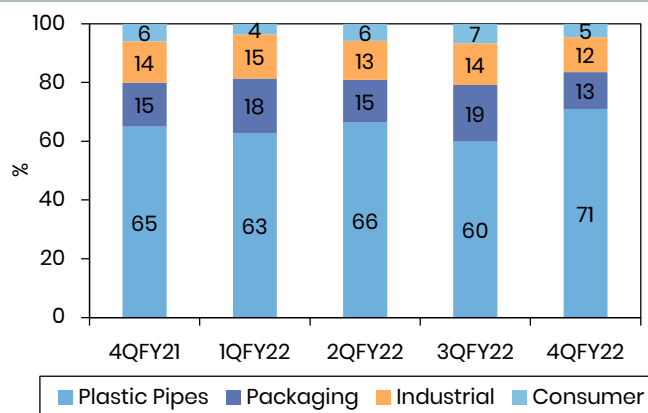


Source: Company, B&K Research

Revenue trend

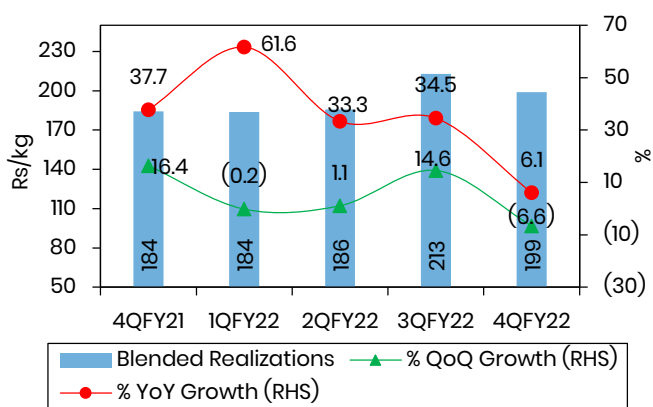


Revenue Breakup

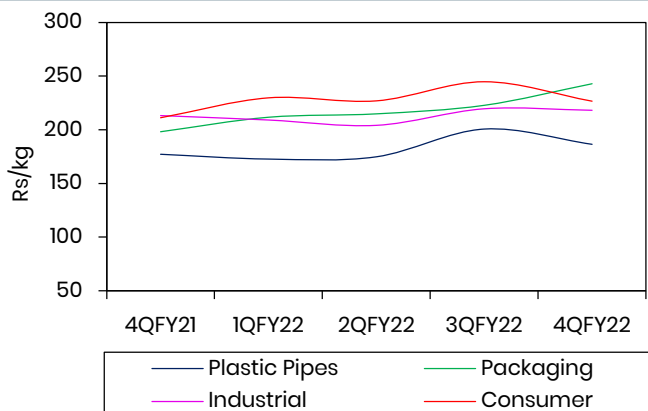


Source: Company, B&K Research

Blended Realisation Trend

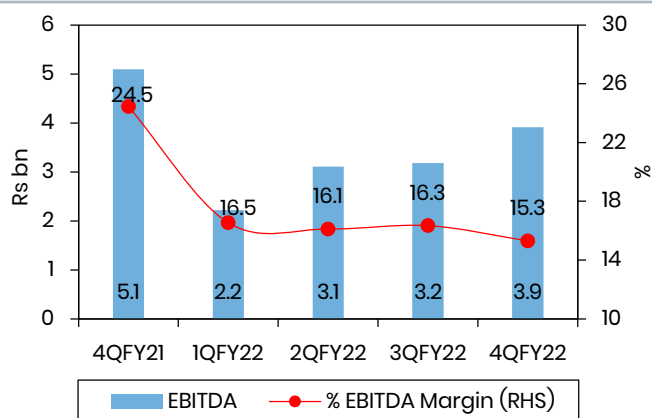


Product-wise Realization Trend

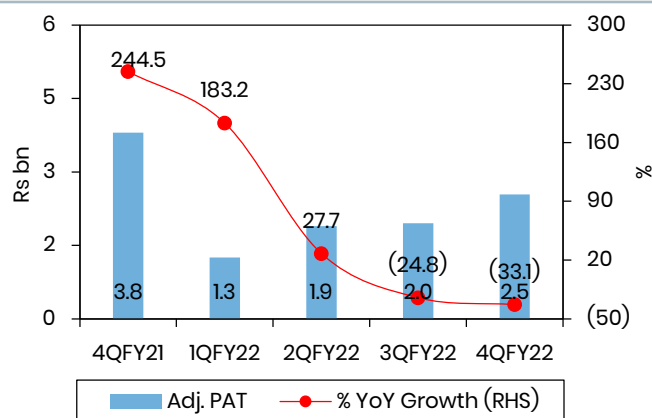


Source: Company, B&K Research

EBITDA and margin trend



Adjusted PAT trend



Source: Company, B&K Research

4QFY22 Performance Matrix

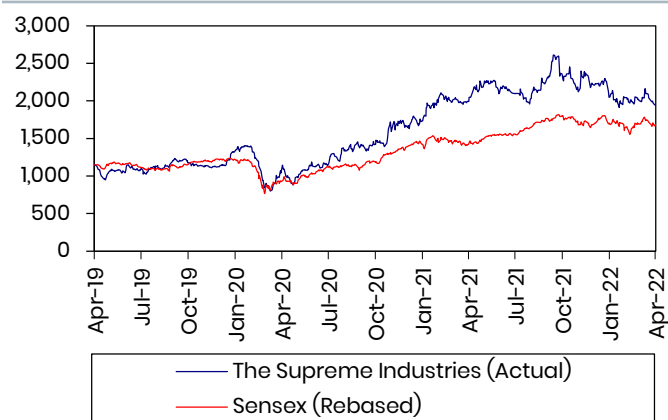
(Rs mn)	4QFY21	4QFY22	YoY (%)	3QFY22	QoQ (%)
Revenue					
Plastic piping and fittings	13,468	17,997	33.6	11,479	56.8
Packaging Product	3,097	3,190	3.0	3,697	(13.7)
Industrial Product	2,931	3,003	2.5	2,715	10.6
Consumer Product	1,240	1,180	(4.8)	1,275	(7.4)
Volume (MT)					
Plastic piping and fittings	75,997	96,507	27.0	57,197	68.7
Packaging Product	15,627	13,131	(16.0)	16,594	(20.9)
Industrial Product	13,744	13,763	0.1	12,365	11.3
Consumer Product	5,870	5,206	(11.3)	5,207	(0.0)
Total Volume	111,238	128,607	15.6	91,363	40.8
Realisations (Rs/MT)					
Plastic piping and fittings	177,211	186,487	5.2	200,698	(7.1)
Packaging Product	198,202	242,914	22.6	222,809	9.0
Industrial Product	213,249	218,179	2.3	219,588	(0.6)
Consumer Product	211,244	226,662	7.3	244,786	(7.4)

Source: Company, B&K Research

Major shareholders (%)

	Dec 21	Mar 22	Change
Promoters	48.9	48.9	0.0
GOI	0.0	0.0	
FII's	16.2	16.2	0.0
MFs	17.0	17.1	0.1
BFSI's	2.7	2.5	(0.1)
Public & Others	15.3	15.3	0.1
Pledge	0.0	0.0	0.0

Relative to Sensex 3 Years



Income Statement

Period end (Rs mn)	Mar 21	Mar 22P	Mar 23E	Mar 24E
Net sales	62,991	77,206	84,569	97,135
Growth (%)	15.2	22.6	9.5	14.9
Operating expenses	(50,728)	(65,307)	(71,345)	(81,332)
Operating profit	12,263	11,899	13,224	15,803
Other operating income	580	522	536	551
EBITDA	12,843	12,421	13,760	16,354
Growth (%)	53.8	(3.3)	10.8	18.8
Depreciation	(2,128)	(2,295)	(2,535)	(2,698)
Other income	53	200	384	423
EBIT	10,767	10,325	11,609	14,079
Finance cost	(83)	(52)	(84)	0
Profit before tax	10,685	10,274	11,525	14,079
Tax (current + deferred)	(2,747)	(2,633)	(2,954)	(3,608)
Profit/(Loss) for the period	7,937	7,641	8,571	10,470
P/L of Associates, Min Int, Pref Div	1,460	2,044	2,248	2,473
Reported Profit / (Loss)	9,397	9,684	10,819	12,943
Adjusted net profit	9,397	9,684	10,819	12,943
Growth (%)	100.7	3.1	11.7	19.6

Balance Sheet

Period end (Rs mn)	Mar 21	Mar 22P	Mar 23E	Mar 24E
Share capital	254	254	254	254
Reserves & surplus	31,438	38,190	45,450	54,328
Shareholders' funds	31,692	38,444	45,704	54,582
Non-current liabilities	1,449	1,512	1,531	1,619
Long-term borrowings	6	0	0	0
Other non-current liabilities	1,443	1,512	1,531	1,619
Current liabilities	9,682	10,004	11,088	12,656
ST borrowings, Curr maturity	4	0	0	0
Other current liabilities	9,678	10,004	11,088	12,656
Total (Equity and Liab.)	42,823	49,959	58,323	68,857
Non-current assets	22,161	25,206	28,003	28,695
Fixed assets (Net block)	16,979	18,443	21,186	21,826
Non-current Investments	3,312	4,702	4,702	4,702
Long-term loans and advances	267	293	348	399
Other non-current assets	1,604	1,768	1,768	1,768
Current assets	20,662	24,753	30,319	40,162
Cash & current investment	7,684	5,264	12,177	19,333
Other current assets	12,978	19,489	18,142	20,829
Total (Assets)	42,823	49,959	58,323	68,857
Total debt	10	0	0	0
Capital employed	33,145	39,955	47,235	56,201

Cash Flow Statement

Period end (Rs mn)	Mar 21	Mar 22P	Mar 23E	Mar 24E
Profit before tax	10,685	10,274	11,525	14,079
Depreciation	2,128	2,295	2,535	2,698
Change in working capital	2,856	(6,192)	2,265	(1,142)
Total tax paid	(3,154)	(2,648)	(2,858)	(3,608)
Others	73	52	(300)	(423)
Cash flow from oper. (a)	12,588	3,780	13,167	11,604
Capital expenditure	(2,686)	(3,760)	(5,278)	(3,338)
Change in investments	(1,292)	(1,390)	384	423
Others	(173)	(164)	0	0
Cash flow from inv. (b)	(4,151)	(5,314)	(4,894)	(2,915)
Free cash flow (a+b)	8,437	(1,534)	8,273	8,688
Equity raised/(repaid)	(16)	119	(2)	0
Debt raised/(repaid)	(4,103)	(10)	0	0
Dividend (incl. tax)	(3,360)	(3,049)	(3,557)	(4,065)
Others	4,412	2,052	2,199	2,532
Cash flow from fin. (c)	(3,067)	(887)	(1,360)	(1,533)
Net chg in cash (a+b+c)	5,370	(2,420)	6,913	7,156

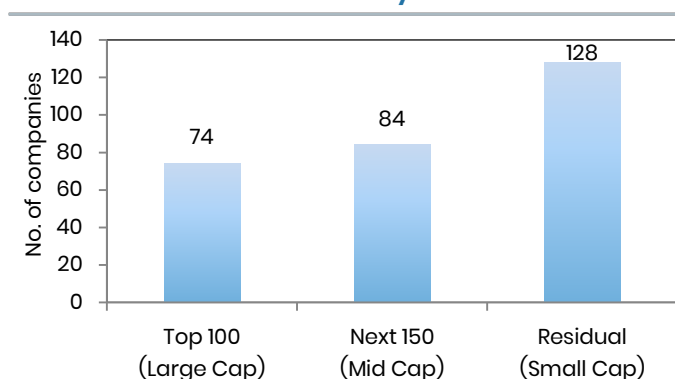
Key Ratios

Period end (%)	Mar 21	Mar 22P	Mar 23E	Mar 24E
Adjusted EPS (Rs)	62.5	60.1	67.5	82.4
Growth	100.7	3.1	11.7	19.6
CEPS (Rs)	90.7	94.3	105.1	123.1
Book NAV/share (Rs)	248.5	302.6	359.7	429.6
Dividend/share (Rs)	22.0	24.0	28.0	32.0
Dividend payout ratio	35.8	31.5	32.9	31.4
EBITDA margin	20.4	16.1	16.3	16.8
EBIT margin	17.1	13.4	13.7	14.5
Tax rate	25.7	25.6	25.6	25.6
RoCE	34.9	28.3	26.6	27.2
Net debt/Equity (x)	(0.2)	(0.1)	0.0	0.0
Du Pont Analysis - RoE				
Net margin	14.9	12.5	12.8	13.3
Asset turnover (x)	1.6	1.7	1.6	1.5
Leverage factor (x)	1.5	1.3	1.3	1.3
Return on equity	34.6	27.6	25.7	25.8

Valuations

Period end (x)	Mar 21	Mar 22P	Mar 23E	Mar 24E
PER	31.2	32.4	28.9	23.7
PCE	22.9	20.7	18.5	15.8
Price/Book	8.4	6.4	5.4	4.5
Yield (%)	1.1	1.2	1.4	1.6
EV/EBITDA	20.0	19.5	17.1	14.0

B&K Universe Profile – by AMFI Definition



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BUY	>+15%	>+20%
HOLD	+15% to -10 %	+20% to -15 %
SELL	<-10%	<-15%

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