

SUPREME INDUSTRIES

RESULT UPDATE

KEY DATA

Rating	BUY
Sector relative	Outperformer
Price (INR)	1,947
12 month price target (INR)	2,996
Market cap (INR bn/USD bn)	247/3.2
Free float/Foreign ownership (%)	12.5/20.5
What's Changed	
Target Price	↑
Rating/Risk Rating	—

QUICK TAKE

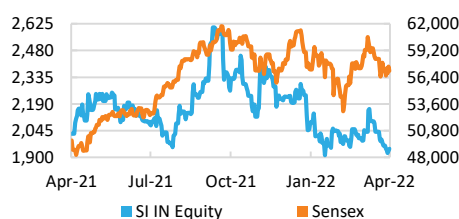
	Above	In line	Below
Profit			•
Margins			•
Revenue Growth	•		
Overall			•

FINANCIALS

(INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Revenue	63,571	77,728	85,846	95,378
EBITDA	12,842	12,421	13,880	15,564
Adjusted profit	9,781	9,685	10,803	11,955
Diluted EPS (INR)	77.0	76.2	85.0	94.1
EPS growth (%)	109.3	(1.0)	11.5	10.7
RoAE (%)	36.1	27.6	26.4	25.8
P/E (x)	25.3	25.5	22.9	20.7
EV/EBITDA (x)	22.8	23.8	20.8	18.3
Dividend yield (%)	1.1	1.2	1.2	1.2

PRICE PERFORMANCE



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Volumes drives growth; margins a miss

Supreme Industries' (SIL) result came in slightly below expectation due to a sharp rise in plastic pipe volumes (27% YoY vs. 12% est.) – offset by lower than expected profitability (margin at 15.3%). While the pipe segment benefitted from a pick-up in agri-pipes demand, non-pipes segment saw volume pressure along with margin weakness. While PVC prices are expected to fall further, impacting margins, management expects rising affordability to drive strong demand growth.

We believe SIL's growth will be led by a pick-up in industry growth (led by agri, housing and infra) and rising market consolidation. Maintain **'BUY'** with a revised target price of INR2,996 (earlier INR2,972) at 40x multiple as we roll forward valuation to Sept-23E.

Robust plastic pipes volumes; non-pipes segment muted

Q4FY22 plastic pipe volume increased sharply by 27% YoY, versus our 12% growth estimate. We believe, the sharp increase in volume was led by: i) strong demand from the agri pipe segment; ii) increase in CPVC sales, as availability was re-stored; iii) CPVC availability also improved PVC sales – impact of basket selling; and iv) higher channel re-stocking in March. Volumes in the non-pipe segment disappointed. This stems from packaging segment volumes slipping by 16% YoY due to weak silpaulin volumes, 11% YoY drop in consumer furniture business, due to weak demand, and flattish volumes in the industrial segment. Going ahead, falling PVC prices and rising affordability are expected to drive volumes, especially for the agri-pipes business.

Margins show weakness impacted by product miss and high base

Q4FY22 EBITDA margin at 15.3%, declined a sharp 900bps YoY/100bps QoQ, lower than our estimate of 17.8%. Although YoY margins look lower, due to last year's high base (inventory gains of INR0.8-1bn), QoQ pressure was rooted in a change in product mix towards low margin agri-pipes. The non-plastic pipes business, except consumers, saw better than expected margins. Going ahead, while EBITDA margins may look weak, with falling PVC prices, volume growth can be robust driving operating leverage.

Outlook and valuations: Bolstering leadership; retain **'BUY'**

Management expects a downward pressure in PVC prices to drive volume growth more sustainable in the long-term. We believe, SIL is poised to leap onto the next league in the coming years led by rising market consolidation. We maintain **'BUY/SO'** with a TP of INR2,996 (INR149 for subsidiary Supreme Petro) based on 40x Sep-23E.

Financials

Year to March	Q4FY22	Q4FY21	% Change	Q3FY22	% Change
Net Revenue	25,571	20,846	22.7	19,451	31.5
EBITDA	3,914	5,097	(23.2)	3,179	23.1
Adjusted Profit	3,239	4,504	(28.1)	2,457	31.8
Diluted EPS (INR)	25.5	35.5	(28.1)	19.3	31.8

Financial Statements

Income Statement (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Total operating income	63,571	77,728	85,846	95,378
Gross profit	23,186	24,197	29,188	32,428
Employee costs	3,104	3,453	3,764	4,102
Other expenses	7,240	8,323	11,544	12,762
EBITDA	12,842	12,421	13,880	15,564
Depreciation	2,128	2,295	2,664	2,889
Less: Interest expense	95	52	50	20
Add: Other income	43	200	239	287
Profit before tax	10,662	10,274	11,406	12,942
Prov for tax	2,341	2,633	2,851	3,236
Less: Other adj	16	0	0	0
Reported profit	9,797	9,685	10,803	11,955
Less: Excp.item (net)	(16)	0	0	0
Adjusted profit	9,781	9,685	10,803	11,955
Diluted shares o/s	127	127	127	127
Adjusted diluted EPS	77.0	76.2	85.0	94.1
DPS (INR)	22.0	24.0	24.0	24.0
Tax rate (%)	22.0	25.6	25.0	25.0

Important Ratios (%)

Year to March	FY21A	FY22E	FY23E	FY24E
Industrial growth %	7.3	15.9	12.0	12.0
Consumer growth %	(11.1)	(5.7)	8.0	8.0
Packaging growth %	6.8	(1.2)	15.0	12.0
EBITDA margin (%)	20.2	16.0	16.2	16.3
Net profit margin (%)	15.4	12.5	12.6	12.5
Revenue growth (% YoY)	15.3	22.3	10.4	11.1
EBITDA growth (% YoY)	53.9	(3.3)	11.7	12.1
Adj. profit growth (%)	109.3	(1.0)	11.5	10.7

Assumptions (%)

Year to March	FY21A	FY22E	FY23E	FY24E
GDP (YoY %)	(7.3)	9.5	7.0	6.5
Repo rate (%)	4.0	4.0	4.3	5.3
USD/INR (average)	74.2	74.5	76.0	75.0
Pipes growth %	(2.1)	(6.8)	18.0	12.0
Industrial margin %	13.0	13.0	13.0	13.0
Consumer margin %	21.0	17.0	18.0	18.0
Packaging margin %	16.0	11.5	15.0	15.0
Pipes margin %	22.0	17.5	16.5	16.5

Valuation Metrics

Year to March	FY21A	FY22E	FY23E	FY24E
Diluted P/E (x)	25.3	25.5	22.9	20.7
Price/BV (x)	7.8	6.4	5.7	5.0
EV/EBITDA (x)	22.8	23.8	20.8	18.3
Dividend yield (%)	1.1	1.2	1.2	1.2

Source: Company and Edelweiss estimates

Balance Sheet (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Share capital	254	254	254	254
Reserves	31,438	38,190	43,054	49,070
Shareholders funds	31,692	38,444	43,308	49,325
Minority interest	0	0	0	0
Borrowings	6	0	0	0
Trade payables	6,462	7,940	8,538	9,486
Other liabs & prov	4,663	3,575	3,575	3,575
Total liabilities	42,823	49,959	55,420	62,385
Net block	16,362	16,821	19,157	20,268
Intangible assets	781	64	64	64
Capital WIP	510	1,558	343	382
Total fixed assets	17,653	18,443	19,565	20,714
Non current inv	3,366	4,759	4,759	4,759
Cash/cash equivalent	7,684	5,283	11,680	15,390
Sundry debtors	3,898	4,668	4,704	5,226
Loans & advances	2,614	52	57	63
Other assets	7,608	16,753	14,656	16,232
Total assets	42,823	49,959	55,420	62,385

Free Cash Flow (INR mn)

Year to March	FY21A	FY22E	FY23E	FY24E
Reported profit	9,797	9,685	10,803	11,955
Add: Depreciation	2,128	2,295	2,664	2,889
Interest (net of tax)	64	35	34	13
Others	3,898	(10,196)	3,075	(4,556)
Less: Changes in WC	1,955	(4,939)	2,653	(1,157)
Operating cash flow	13,931	6,758	13,922	11,458
Less: Capex	(2,210)	(4,661)	(3,786)	(4,038)
Free cash flow	11,721	2,097	10,136	7,420

Key Ratios

Year to March	FY21A	FY22E	FY23E	FY24E
RoE (%)	36.1	27.6	26.4	25.8
RoCE (%)	36.8	29.4	28.0	28.0
Inventory days	75	69	73	62
Receivable days	20	20	20	19
Payable days	54	49	53	52
Working cap (% sales)	6.2	14.0	9.6	9.8
Gross debt/equity (x)	0	0	0	0
Net debt/equity (x)	(0.2)	(0.1)	(0.3)	(0.3)
Interest coverage (x)	112.8	196.6	224.3	633.8

Valuation Drivers

Year to March	FY21A	FY22E	FY23E	FY24E
EPS growth (%)	109.3	(1.0)	11.5	10.7
RoE (%)	36.1	27.6	26.4	25.8
EBITDA growth (%)	53.9	(3.3)	11.7	12.1
Payout ratio (%)	28.5	31.5	28.2	25.5

Q4FY22 conference call: Key highlights

The call was led by Mr S J Taparia as Mr M P Taparia was not well

Pipes Demand

- PVC consumption – all India data is not available and thus difficult to compare
- In CPVC segment, both industry and Supreme Industries have grown
- Demand should be much higher compared to last year so prospects are good
- Expansion plan and good demand is also expected to drive growth
- November demand was badly affected, post which demand has improved
- Getting improved supplies of CPVC
- Value add could be 25-28% in pipes division
- In the month of March, seen highest ever dispatches in plastic pipes business

PVC prices

- Showing downward trend and will remain range bound driving volumes
- Focusing on increasing retail network
- Plan to introduce 280 new product that will also drive growth

PVC vs CPVC pricing

- CPVC prices are higher by 30-40% vs PVC prices

Outlook

- Minimum 15% volume growth and as a company as a whole also

Channel inventory

- Channel inventory is normalised
- With yearend prices softening, has there

Prices

- INR6/kg dropped immediately in channel. Prices should drop further
- Softening of prices as weakening of demand in China

Mar-22 capacity

- 725,000 MT – Total
- Plastic pipes – 525,000 MT
- Industrial pipes – 80,000 MT
- Packaging division – 90,000 MT
- Consumer – 30,000 MT

Mar-23 capacity

- Total capacity is likely to increase to 800,000 tonnes of which major share will be of plastic pipes i.e 585,000-590,000 MT

Company's higher Inventory

- Higher inventory as April to June is the peak quarter
- Not much inventory in the channel

Capex

- Capex INR2.5bn actually gone in production, INR1.5bn is WIP and some more is capital commitments made in advance. Moreover, creditors paid has come down
- Thus, cash outflow in FY23 will be lower than the capex planned
- Assam, Orissa Tamil Nadu
- Adding new product range so new moulds required
- INR500-600bn capex on composite cylinder

Margins

- Inventory loss impacted margins
- Assuming prices stay where they are, margins will be in the range of 15-15.5%

Composite cylinders

- INR550-600mn will double the capacity
- With full capacity utilisation, the company will be able to generate revenues of INR2-2.5bn
- IOCL has made soft launch and they are committed to growing more
- Even other companies are planning to come
- Value added product (so margins above 17%)
- This business will be B2B only – as sale will be to gas marketing companies only
- IOCL has 50% capacity in domestic market while the rest is with other two players

Packaging

- Passing on the prices will take some time
- Lag is little longer this time due to high competitive intensity
- Tarpaulin – we would be there but only with quality conscious customers; will not participate in low price product
- Focus on non-Tarpaulin business – where margins are higher; volume wise Tarpaulin will still continue to dominate

Supreme petrochem

- Volume growth 16.7%
- Best performance last year as company was running at full capacity with strong margins
- Indian market doing well especially air conditioners and refrigerators
- Doubling capacity in tonnage terms
- Since domestic demand was robust, exports were missing
- 1.4 lakh tonnes – ABS

OPENING REMARKS or PRESS RELEASE NOTES

On volumes

- The company sold 128,607MT of Plastic goods and achieved net product turnover of INR25.2bn against sales of 111,238MT volumes and turnover of INR2bn in Q4FY21 achieving volume and product value growth of about 16 % and 23 %, respectively.
- Plastic pipes volumes increased by 27% YoY while that of consumers volumes dropped 11% YoY, Packaging volumes dropped 16% YoY and that of Industrial division stood flat YoY.

Capex

- Considering optimistic business growth potential, the Company has incurred Capital Expenditure (capex) of INR2.59bn, during the year under review.
- The entire capex has been incurred 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.
- Company has also incurred capex for increasing captive generation capacity of solar energy apart from balancing equipment at various locations. The entire capex has been funded through internal accruals only.
- The Company has plans to commit capex of about INR7bn including carry forward commitments of INR2.8bn at the beginning of the year.
- To complete and put into operation the on- going project work at Assam to manufacture PVC Pipes and Rota & Blow Moulded products.
- Putting up a plastic product complex near Cuttack in Odisha & near Erode in Tamilnadu where work is going on in full swing
- 1st phase at both the sites is likely to go into production by August-September, 2022.
- To double the capacity of Composite LPG cylinders to 1mn pcs. p.a at existing site at Halal, Gujarat.
- Establishing additional capacity to manufacture olefin Fittings and to put PEX Piping System at Jadcherla.
- Expanding capacities and product range of its bath fitting products at Puducherry.
- Adding varieties of new injection moulded fitting products in its plastic Piping products.
- To add new models of injection moulded furniture, crates & pallets in the Company's range of furniture and Material Handling Products.
- To increase capacities of Industrial Component moulding at various locations in view of increased business opportunities.
- To add necessary equipment at its protective packaging and performance packaging division.
- To install Rooftop Solar energy generation plants at its various locations

- To install balancing equipment at various locations
- The entire capex and increased working capital requirement shall be funded from internal accruals of the Company.

Prices

- Polymer prices also witnessed relentless upward march which continued up to middle of November 2021. Subsequently, prices fell quite steeply (especially in PVC Resin) which, virtually destroyed the demand of Plastic Pipe Systems albeit temporarily.
- Even in such extreme adverse circumstances, Company maintained a positive outlook for its growth plans. It persisted with its large investment plan with full confidence that business will be quite promising in the year 2022-23 and beyond.

Plastic pipes

- The Company continues its objective to aggressively grow Plastic Pipe System business where the Company is a leader in the segment as it has the largest portfolio of products, which is being continuously expanded to offer more systems as required by the market it caters to.
- The company is also positive about govt schemes that is expected to drive company's growth

Packaging films:

- The business of Cross Laminated Film products was impacted the most due to one of its product tarpaulin being seasonal in nature with peak season between April to June.
- Business also got impacted by fierce competition from look- alike products as well as higher polymer prices which could not be passed on to the product in appropriate manner.
- The thrust in the current year will be on promoting non- Tarpaulin products, finding new applications, targeting new customers in existing markets & reaching new markets.
- Company expects the exports to grow further in the current year apart from increasing the sale of Made Up products. The Company has also expanded its capacity to 30,000MT p.a.

Consumer

- The Company continues to remain a market leader in the Premium Range of Plastic Furniture.
- The Company's furniture range is sold on various e-commerce portals & retailers who are being serviced through Company's network of 1306 channel partners.
- The Company has launched its own portal for showcasing to its consumers its wide range of premium products and made it available for them from the comforts of their home.
- With economy opening up, the Company plans to launch variety of new models during 22-23 which will help in overall growth in the current year

Industrial components

- In Industrial Component division, the year was marked by huge supply chain issues at all its customers due to shortage of imported material because of shipping and logistics issues, non-availability of containers, shortage of semi-conductors etc.
- This led to typical scenario of high demand but no supply. Supply chain was also affected by rising commodity and fuel prices during the year.
- Business conditions have started improving and looking at positive demand scenario in various sectors of Appliances like Washing Machines, Air Conditioners, Coolers and Refrigerators, segments where the Company has good presence. The Company invested in Capacity Expansion at various locations.
- This has started yielding results and will help the division going forward

Material handling

- In Material handling division, Company has shown good growth in essential commodities, Retail, Industrial Sector, Fruits & Vegetable segment, e-commerce, FMCG, Fisheries Jumbo Crates, Dairy segment and Injection & Roto moulded Pallets and Dustbins.
- The Company is highly focused to constantly improve its product quality and the timely delivery of products to its customers.
- The division has been able to add many new customers all over the country and would strive to continue enlarge its customer base.

Composite LPG cylinder

- In Composite LPG Cylinder division, repeated orders from existing as well as new customers stood testimony to the excellent quality of the current product offering.
- The Company has successfully participated and received Letter of Intent (LOI) for supply of 7,35,186 Nos of 10 Kg.
- Composite LPG Cylinders valuing about INR1.7bn from Indian Oil Corporation Limited (IOCL), one of the leading government oil marketing Company. The volume of business is large which surpasses the existing installed capacity. The Company has taken effective steps to install a new plant on a war footing in the same premises to double the capacity and the same is likely to be operational by November, 2022, which will enable the company to make around 1mn nos. per year.

Protective packaging

- In Protective packaging division, business conditions were good and there was growth in all its application segments viz. packaging, insulation and civil.
- It has also started doing good business in its consumer products, sports goods, yoga mats and kids puzzle & toys.
- Good growth is shown in export markets as well. Buyers have reduced their dependency on China and exploring opportunities in India.
- The Company expects good business for the division in the coming year.

Performance packaging

- Performance Packaging Film being part of intermediary to essential product category has done well particularly in dairy & oil industry.
- Continuous efforts to develop new products will help the division grow better and add more value added products in its fold. Exports have shown positive growth and received good response from countries in Middle East, Africa and Europe.
- Other markets are now being explored in parts of Europe and USA. With improved product mix and focus on increasing customer base, the Company expects to achieve volume and value growth in this business in the current year.
- Most of the business segments are now showing improved demand prospects. The Company continues with its investment plans vigorously.
- The Company envisages good business growth opportunities in all its segments going forward as the impact of pandemic has ebbed and several initiatives are being taken by the Government to put the Country on higher growth path.

Exhibit 1: Quarterly financial snapshot (INR mn)

Year to June	Q422	Q421	% change	Q322	% change	FY22	FY23E	FY24E
Revenues	25,571	20,846	22.7	19,451	31.5	77,728	85,846	95,378
Raw material and components	18,439	12,744	44.7	13,224	39.4	53,532	56,658	62,949
Employee cost	904	931	(2.9)	880	2.7	3,453	3,764	4,102
Others	2,314	2,074	11.6	2,168	6.7	8,323	11,544	12,762
Total Expenditure (INR mn)	21,657	15,749	37.5	16,272	33.1	65,307	71,965	79,814
EBITDA	3,914	5,097	(23.2)	3,179	23.1	12,421	13,880	15,564
Depreciation	588	548	7.3	575	2.3	2,295	2,664	2,889
EBIT	3,326	4,549	(26.9)	2,604	27.7	10,126	11,216	12,675
Interest	18	5	291.3	5	291.3	52	50	20
Other income	86	37	135.0	29	192.5	200	239	287
Add: Prior period items						0	0	0
Profit Before Tax	3,394	4,581	(25.9)	2,629	29.1	10,274	11,406	12,942
Less: Provision for Tax	851	781	8.9	678	25.4	2,633	2,851	3,236
Less: Minority Interest						0	0	0
Add: Share of profit from associates	696	703	(1.0)	507		2,044	2,248	2,248
Less: Profit from Discontinued Operations						0	0	0
Add: Exceptional items (net of tax)	0	0		0	NA	0	0	0
Reported Profit	3,239	4,504	(28.1)	2,457	31.8	9,685	10,803	11,955
Adjusted Profit	3,239	4,504	(28.07)	2,457	31.8	7,564	8,469	9,613
Equity capital (FV INR 2)	254	254		254		0		
No. of Diluted shares outstanding (mn)	127	127		127		127	127	127
Adjusted Diluted EPS	25.5	35.5	(28.07)	19.3	31.8	59.5	66.7	75.7
Diluted P/E (x)						36.2	32.3	28.5
EV/EBITDA (x)						21.6	18.9	16.6
ROE(%)						21.6	20.7	20.8
as % of net revenues	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Raw material	72.1	61.1		68.0		68.9	66.0	66.0
Staff expenses	3.5	4.5		4.5		4.4	4.4	4.3
Other expenses	9.0	9.9		11.1		10.7	13.4	13.4
EBITDA	15.3	24.5		16.3		16.0	16.2	16.3
Net profit	12.7	21.6		12.6		9.7	9.9	10.1

Source: Company, Edelweiss Research

Exhibit 2: Quarterly segmental snapshot (INR mn)

Segment wise performance	Q422	Q421	% change	Q322	% change
Revenues					
Piping	17,997	13,468	33.6	11,479	56.8
Industrial	3,003	2,931	2.5	2,715	10.6
Packaging	3,190	3,097	3.0	3,697	(13.7)
Consumer	1,180	1,240	(4.8)	1,275	(7.4)
Total					
EBIT					
Piping	2,589	3,570	(27.5)	1,894	36.7
Industrial	314	390	(19.4)	224	40.3
Packaging	337	408	(17.4)	246	37.0
Consumer	145	286	(49.4)	215	(32.4)
Total					
Margins					
Piping	14.4	26.5		16.5	
Industrial	10.5	13.3		8.3	
Packaging	10.6	13.2		6.7	
Consumer	12.3	23.1		16.8	
Total					

Source: Company, Edelweiss Research

Table 1: By segment volume breakup

(MT)	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22
Piping	77,315	74,992	66,609	76,759	75,997	48,111	72,480	57,197	96,507
Industrial	9,494	4,770	11,285	11,652	13,744	9,512	12,390	12,365	13,763
Packaging	11,147	10,182	12,239	16,785	15,627	11,532	12,905	16,594	13,131
Consumer	5,244	1,507	4,703	6,388	5,870	2,109	4,898	5,207	5,206

Table 2: By segment volume growth (YoY)

(%)	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22
Piping	(7.4)	(12.0)	(1.8)	9.0	(1.7)	(35.8)	8.8	(25.5)	27.0
Industrial	(12.9)	(54.0)	13.4	32.4	44.8	99.4	9.8	6.1	0.1
Packaging	(17.6)	(20.1)	10.6	2.4	40.2	13.3	5.4	(1.1)	(16.0)
Consumer	(14.0)	(70.5)	0.6	10.9	11.9	39.9	4.1	(18.5)	(11.3)

Table 3: By segment revenue

(Mn)	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22
Piping	9,366	7,646	8,473	11,402	13,470	8,310	12,673	11,479	17,997
Industrial	1,594	705	1,815	2,161	2,930	1,990	2,530	2,715	3,003
Packaging	2,084	1,876	2,198	3,179	3,097	2,440	2,773	3,697	3,190
Consumer	955	280	855	1,167	1,238	480	1,112	1,275	1,180

Table 4: By segment revenue growth (YoY)

(%)	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22
Piping	(1.1)	(14.9)	4.3	42.8	43.8	8.7	49.6	0.7	33.6
Industrial	(21.8)	(62.5)	7.4	38.0	83.7	182.3	39.4	25.6	2.5
Packaging	(22.0)	(23.4)	11.0	3.0	48.6	30.1	26.1	16.3	3.0
Consumer	(0.2)	(71.1)	(0.6)	11.7	29.7	71.4	30.1	9.2	(4.7)

Table 5: By segment realization per unit

(INR)	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22
Piping	121.1	102.0	127.2	148.5	177.2	172.7	174.8	200.7	186.5
Industrial	167.9	147.8	160.8	185.5	213.2	209.2	204.2	219.6	218.2
Packaging	186.9	184.2	179.6	189.4	198.2	211.6	214.9	222.8	242.9
Consumer	182.0	185.8	181.7	182.7	210.9	227.6	227.0	244.8	226.7

Table 6: By segment realization per unit growth (%)

(%)	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22
Piping	6.8	(3.3)	6.2	31.0	46.3	69.4	37.5	35.1	5.2
Industrial	(10.2)	(18.5)	(5.3)	4.3	26.9	41.6	27.0	18.4	2.4
Packaging	(5.3)	(4.2)	0.4	0.6	6.0	14.9	19.6	17.6	22.6
Consumer	16.1	(2.3)	(1.3)	0.7	15.9	22.5	24.9	33.9	7.5

Table 7: By segment EBIT

(Mn)	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22
Piping	1,688	665	1,475	2,503	3,570	1,416	1,940	1,894	2,589
Industrial	140	(76)	120	201	390	122	192	224	314
Packaging	334	183	256	399	408	171	255	246	337
Consumer	185	(45)	127	228	286	6	175	215	145

Table 8: Segment EBIT Margins

(%)	Mar'20	Jun'20	Sep'20	Dec'20	Mar'21	Jun'21	Sep'21	Dec'21	Mar'22
Piping	18.0	8.7	17.4	21.9	26.5	17.0	15.3	16.5	14.4
Industrial	8.8	(10.8)	6.6	9.3	13.3	6.1	7.6	8.3	10.5
Packaging	16.0	9.8	11.6	12.5	13.2	7.0	9.2	6.7	10.6
Consumer	19.4	(16.1)	14.8	19.6	23.1	1.3	15.7	16.8	12.3

Source: Company, Edelweiss Research

Company Description

SIL is one of the most prominent plastic manufacturing companies in India, having over 50 years of experience under the current management. It has been consistently increasing capacity in the plastics processing. It processes over 0.6 mn mt of plastic per annum, and has 25 manufacturing locations across India. The company's core operations involve processing polymers and resins into diversified plastic products spread under four broad categories: industrial products, consumer products, piping products and packaging products. Over the years, SIL has managed to gain a significant market share across its product portfolio. It is credited with pioneering various products including Cross- Laminated Films, HMHD Films, Multilayer Films, SWR Piping Systems, PP Mats etc. The company currently has around 3567 distributors of which 1,214 distributors are for Pipes, 1,113 for furniture, and remaining for other divisions

Investment Theme

Supreme Industries (SIL) is not only the undisputed leader in PVC pipes (11% market share), but it also has presence across plastic usage--auto, material handling, packaging, moulded furniture, among others. The company's pipe business (63% of revenue) has been key beneficiary of rapid consolidation in the industry and demand shift to organised players; we envisage robust spurt in CPVC and DWC pipes to be additional boosters. We reiterate our conviction in SIL's structural growth story riding: 1) growth revival (FY19-24E EPS CAGR of 21%); and 2) pipes segment reaping benefits of industry consolidation.

SIL has strong operating and free cash flows to fund its capex from internal accruals – a great comfort factor. Moreover the company's net working capital cycle stands at around 50 days, one the best in the industry as it gives cash discounts to customers on early payments as well as imports raw materials against which it gets a higher credit period. It also has strong return ratios with ROCE at 37% and ROE at 36% for FY21. Shareholders have been consistently rewarded with its liberal dividend policy.

Key Risks

The plastic industry is highly fragmented with unorganized players accounting for 60% of the output and posing a stiff competition to SIL.

Sharp increase in raw material prices of PVC, LDPE, HDPE and delays in passing on the same.

The company has an asset heavy model hence needs to invest continuously in the business to sustain growth. Any delay in expansion plans can affect the turnover of the business as the same has been factored in our model.

Unavailability of skilled labour might hurt the capacity utilization of one or many plants thereby affecting the turnover and performance.

The plastic industry has been growing in range of 1.8x-2x GDP growth rate of India. Hence any slowdown in GDP growth of the country might affect the topline of the company.

Additional Data

Management

Chairman	Mr. B L Taparia
Managing Director	Mr. M P Taparia
CFO	Mr. P C Somani
Executive Director	Mr. S J Taparia
Auditor	M/s. Lodha & Co.

Holdings – Top 10*

	% Holding		% Holding
Kotak AMC	4.95	Norges Bank	1.67
Nalanda India	4.81	Govt Pension	1.66
DSP Invst	4.42	Vanguard	1.51
HDFC AMC	2.04	JP Morgan	0.94
Axis AMC	1.93	Blackrock	0.81

*Latest public data

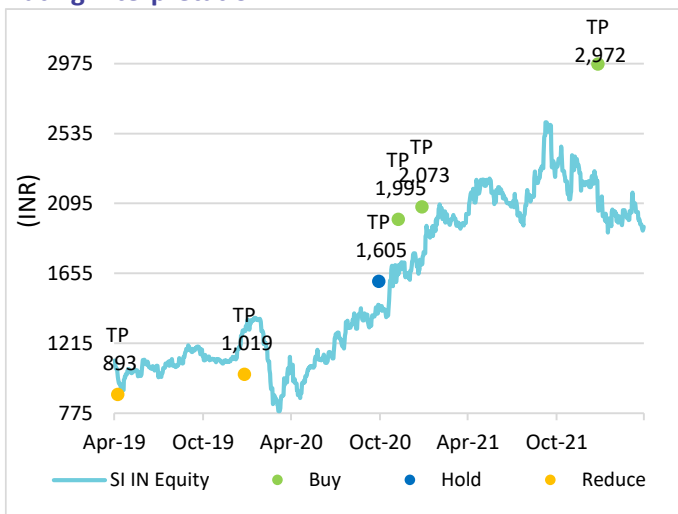
Recent Company Research

Date	Title	Price	Reco
24-Jan-22	Plastic pipe volumes disappoint; <i>Result Update</i>	2,130	Buy
23-Oct-21	Volume in line; margin disappoints; <i>Result Update</i>	2,368	Buy
16-Aug-21	Consolidation driving strong growth ; <i>Company Update</i>	2,040	Buy

Recent Sector Research

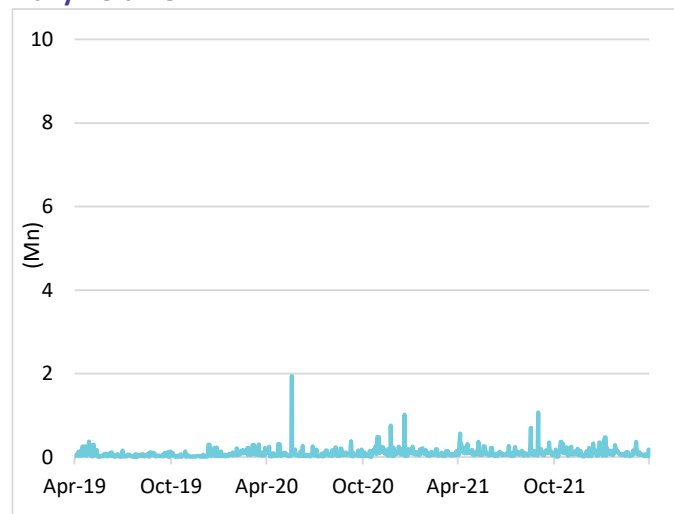
Date	Name of Co./Sector	Title
07-Apr-22	Home Decor	Price hikes getting absorbed gradually; <i>Sector Update</i>
06-Apr-22	Home Decor	Market share gain; inflation hits margin; <i>Sector Update</i>
01-Apr-22	Home Decor	Exports feeling the heat, yet competitiv; <i>Sector Update</i>

Rating Interpretation



Source: Bloomberg, Edelweiss research

Daily Volume



Source: Bloomberg

Rating Distribution: Edelweiss Research Coverage

	Buy	Hold	Reduce	Total
Rating Distribution*	193	56	17	268
	>50bn	>10bn and <50bn	<10bn	Total
Market Cap (INR)	244	34	6	284

*2 stocks under review

Rating Rationale

Rating	Expected absolute returns over 12 months
Buy:	>15%
Hold:	>15% and <-5%
Reduce:	<-5%

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