

29 April 2022

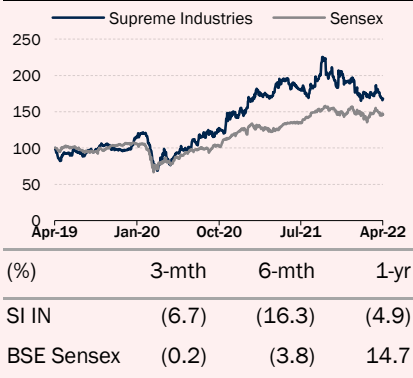
BSE Sensex: 57061

Sector: Home Improvement

Stock data

CMP (Rs)	1,949
Mkt Cap (Rs bn/USD m)	247.6 / 3,239
Target Price (Rs)	2,412
Change in TP (%)	(4.2)
Potential from CMP (%)	23.8
Core PAT change (%)	
FY23E	(6.9)
FY24E	(4.7)
Bloomberg code	SI IN
1-yr high/low (Rs)	2,694/1,856
6-mth avg. daily volumes (m)	0.1
6-mth avg. daily traded value (Rsm/USDm)	244.2/3.2
Shares outstanding (m)	127.0
Free float (%)	51.2
Promoter holding (%)	48.9

Price performance – relative & absolute



Q4FY22 Financial Results

- **Fin. Performance:** Rev. grew ~23% yoy to ~Rs26bn (in-line) – volume grew ~16% yoy (vs est 10% drop). EBITDA fell ~23% yoy to ~Rs4bn (in-line) – high base impact yoy on margins. Net income fell ~28% yoy to ~Rs3bn (12% beat – adj. for Supreme Petrochem profit share, PAT was in-line).
- **Pipes:** Vol. grew ~27% yoy to ~97k MT (10% beat – 2/3 year CAGR at 12%/5% respectively), while revenue grew ~34% yoy to ~Rs18bn (5% beat). Lost ground in Q3 was recovered in Q4 – SI has attributed healthy demand environment for pipes (esp non-agri side). EBIT margins stood at 14.4% (-200 bps qoq due to adverse mix; base was high due to inv. gains).
- **Non Pipes: Packaging** – Vol. down 16% yoy – high base/competition in tarpaulin segment. EBIT margins rose +400 bps qoq (but down 260 bps yoy) aided by mix and price hikes. **Industrial** – Vol flat yoy (high base), EBIT margins at 10.5% (+180 bps qoq; -280 bps yoy). **Consumer** – Vol. down ~11% yoy given rural weakness, margins down ~450 bps qoq at 12.3%.
- **Misc:** (1) FY23E capex commitments of ~Rs7bn (incl. ~Rs2.8bn carry forwarded from FY22) – this includes CWIP and capital advances made; (2) Would start focusing on non-tarpaulin products in packaging segment (higher margin versus tarpaulin with lower competitive intensity); (3) Positive demand scenario witnessed in Pipes/Industrial segments.

Key positives: Strong pipes performance

Key negatives: N/A

Financials: 7%/5% cut in FY23E/24E core earnings.

Valuations & View

Demand environment for pipes has been picking up in the latter part of FY22 and should continue into FY23E as well and SI being the largest pan-India player should be able to capitalise on this, given its aggressive capex plans here. PVC prices have started to correct (and the expectation is that it would continue to fall through H1FY23E as per current trends) and this may have a temporary impact on channel level stocking, but given that channel inventory is still light, it should not hurt primary pipe sales in a major way. Any inventory loss due to a sudden PVC price fall would be temporary at worst. Non pipe business segments have had their challenges in recent times, but any turnaround here would only aid op. leverage benefits on margins/earnings. Pipes volumes have been underwhelming in the past, but at ~23x FY24E P/E, we believe valuations are supportive to play the long-term pipes story and hence remain constructive on the name. Maintain BUY on the name (TP Rs2,412 / 24% upside from CMP of Rs1,949 / 28x FY24E implied P/E).

Key financials (quarterly)

(Rs m)	Q4FY21	Q3FY22	Q4FY22	QoQ (%)	YoY (%)	Var. from Est.
Revenue	20,827	19,451	25,571	31.5	22.8	2.2
EBITDA	5,097	3,179	3,914	23.1	(23.2)	0.6
OPM (%)	24.5	16.3	15.3			
Depreciation	548	575	588	2.3	7.3	(2.0)
Other Income	82	29	86	192.5	4.5	186.7
Fin. Expenses	50	5	19	308.7	(62.1)	-
PAT	4,504	2,457	3,239	31.8	(28.1)	12.2
EPS (Rs)	35.5	19.3	25.5	31.8	(28.1)	12.2

Source: Company, DAM Capital Research

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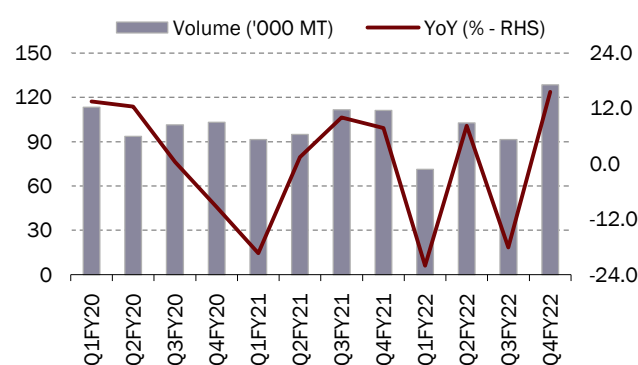
Exhibit 1: Quarterly Financials (Detailed)

(Rs m)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Comments
Total Revenue	18,438	20,827	13,421	19,285	19,451	25,571	In-line; Strong show on pipes
YoY (%)	34.3	45.6	27.3	40.3	5.5	22.8	
COGS	11,610	12,786	8,662	13,207	13,224	18,439	
Gross Profit	6,828	8,041	4,759	6,078	6,227	7,132	Mix/RM volatility drives compression
GPM (%)	37.0	38.6	35.5	31.5	32.0	27.9	
SG&A	2,812	2,944	2,539	2,970	3,048	3,218	
EBITDA	4,016	5,097	2,220	3,108	3,179	3,914	
EBITDAM (%)	21.8	24.5	16.5	16.1	16.3	15.3	
YoY (%)	81.8	86.4	89.6	21.5	(20.8)	(23.2)	
Depreciation	549	548	561	571	575	588	
Other Income	37	82	43	41	29	86	
Financial Expenses	22	50	21	7	5	19	
PBT	3,481	4,581	1,681	2,571	2,629	3,393	
Tax Expenses	886	781	430	675	678	851	
Associates Profit	528	703	450	391	507	696	
PAT	3,123	4,504	1,702	2,287	2,457	3,239	In-line adjusting for Sup. Petchem
YoY (%)	153.1	284.0	319.8	30.7	(21.3)	(28.1)	

Source: Company, DAM Capital Research

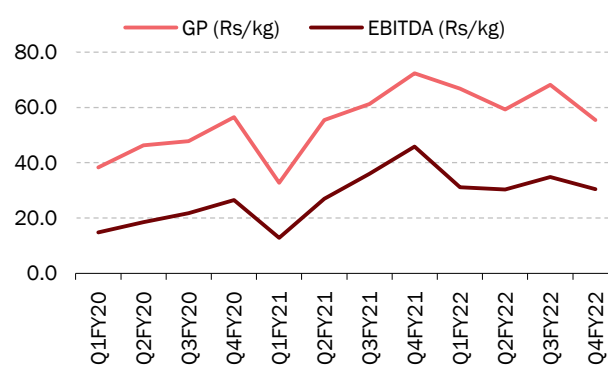
Quarterly Performance

Exhibit 2: Pipes recovery powers overall volume growth in Q4



Source: Company, DAM Capital Research

Exhibit 3: Adverse mix, RM volatility pressure margins



Source: Company, DAM Capital Research

Exhibit 4: Segment-Wise Performance Snapshot

Segment Performance	Q3FY21	Q4FY21	Q1FY22	Q2FY22*	Q3FY22*	Q4FY22*
Plastic Pipes:						
Volume ('000 MT)	76.8	76.0	48.1	72.5	57.2	96.5
YoY (%)	9.0	(1.7)	(35.8)	8.8	(25.5)	27.0
Revenue (Rs m)	11,402	13,468	8,311	12,673	11,479	17,997
YoY (%)	42.8	43.7	8.7	49.6	0.7	33.6
EBITDA (Rs m)	2,736	3,647	1,716	2,343	2,254	3,030
YoY (%)	114.5	89.0	91.7	34.8	(17.6)	(16.9)
EBITDAM (%)	24.0	27.1	20.7	18.5	19.6	16.8
Packaging:						
Volume ('000 MT)	16.8	15.6	11.5	12.9	16.6	13.1
YoY (%)	2.4	40.2	13.3	5.4	(1.1)	(16.0)
Revenue (Rs m)	3,179	3,097	2,441	2,773	3,697	3,190
YoY (%)	3.0	49.2	30.2	26.1	16.3	3.0
EBITDA (Rs m)	509	489	290	322	350	397
YoY (%)	(5.8)	11.5	1.4	(13.5)	(31.1)	(18.9)
EBITDAM (%)	16.0	15.8	11.9	11.6	9.5	12.4
Consumer:						
Volume ('000 MT)	6.4	5.9	2.1	4.9	5.2	5.2
YoY (%)	10.9	11.9	39.9	4.1	(18.5)	(11.3)
Revenue (Rs m)	1,167	1,240	485	1,112	1,275	1,180
YoY (%)	11.7	30.6	73.1	30.1	9.2	(4.8)
EBITDA (Rs m)	269	312	48	207	247	169
YoY (%)	40.5	36.2	-	22.6	(7.9)	(45.9)
EBITDAM (%)	23.0	25.1	10.0	18.6	19.4	14.3
Industrial:						
Volume ('000 MT)	11.7	13.7	9.5	12.4	12.4	13.8
YoY (%)	32.4	44.8	99.4	9.8	6.1	0.1
Revenue (Rs m)	2,161	2,931	1,989	2,530	2,715	3,003
YoY (%)	38.0	84.0	182.2	39.4	25.6	2.5
EBITDA (Rs m)	281	487	212	259	302	377
YoY (%)	66.0	117.3	2,060.4	22.5	7.5	(22.5)
EBITDAM (%)	13.0	16.6	10.6	10.2	11.1	12.6

Source: Company, DAM Capital Research; *Q2-Q4FY22 EBITDA/Margins are estimates based on reported EBIT margins

□ Analyst Call Highlights

- **Pipes demand scenario:** Expect a robust FY23E for pipes volumes. SI would continue to invest in capacities to capitalize on this. Expect agri demand to also contribute this fiscal (base is weak, but agri pipes business has improved versus lows of November).
- **15%+ pipes volume growth expected in FY23E:** At a minimum, SI expects volume growth of 15%+ (similar estimate for overall company level.) For pipes, it is expanding capacities (majority of capex earmarked for this), increasing its reach (districts/retailers), and launching 280 new SKUs. SI is confident of recovering lost agri volume of FY22E in this fiscal. Assuming PVC prices hold at current levels, expect 15-15.5% EBITDA margin for piping segment.
- **Resin availability has improved; PVC prices to trend lower in days ahead:** CPVC availability has improved, while PVC resin supplies are now coming in from China. PVC prices should trend lower (from now till July) since supplies from China are coming in, and these have been booked at lower prices versus current landing prices.
- **Channel inventory is still relatively light:** Although PVC prices are expected to fall, given strong demand feelers (esp. at current juncture), expect volume growth to remain healthy since channel inventories remain light.
- **Tarpaulin to remain major share of cross-lam products:** Focus would increase towards non-tarpaulin products in FY23E, but tarpaulin would continue to remain the largest revenue contributor. Non tarpaulin product margins are better versus tarpaulin.

- **Supreme Petrochem update:** ~17% volume growth achieved in FY22. Plants have run at full capacity. Indian market continues to remain healthy (especially at consumer durable customer level).
- **Misc. Takeaways:** (1) CPVC volumes for SI/Industry have grown in FY22. CPVC-PVC pricing differential has increased to 30-40% at current juncture; (2) Inventory rise in balance sheet is in anticipation of good pipes/pkg demand in Q1; (3) Composite cylinder revenue potential of Rs2-2.5bn when capacity rises to 1m units p.a.

Exhibit 5: Valuation Methodology

SOTP Valuation (Rs m)	FY24E
PAT - Core Operations	9,264
Target P/E (x)	32.5
I. SI Equity Value	301,092
SPPT Market-Cap	86,668
SI's Share (%)	30.8
Discount Factor (%)	20.0
II. SPPT Equity Value (attributable to SI)	5,335
Fair Equity Value	306,428
Shares Outstanding (m)	127
Fair Value Per Share (Rs)	2,412
Implied P/E (x)	28.4

Source: DAM Capital Research

Exhibit 6: Revised Estimates

Revised Estimates (Rs mn)	FY23E			FY24E		
	Previous	Revised	Chg (%)	Previous	Revised	Chg (%)
Total Volume (MT)	454,933	461,046	1.3	519,115	515,980	(0.6)
Blended Realization (Rs/MT)	182,104	178,930	(1.7)	177,189	178,250	0.6
Revenue	82,845	82,495	(0.4)	91,981	91,973	(0.0)
EBITDA	13,588	12,651	(6.9)	15,515	14,780	(4.7)
OPM (%)	16.4	15.3		16.9	16.1	
Core PAT	8,362	7,784	(6.9)	9,718	9,264	(4.7)
Net Income (incl. Associate)	9,540	9,559	0.2	10,704	10,798	0.9
EPS (Rs)	75.1	75.3	0.2	84.3	85.0	0.9

Source: DAM Capital Research

Income statement

Year to 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Net sales	55,115	63,571	77,728	82,495	91,973
% growth	(1.8)	15.3	22.3	6.1	11.5
Operating expenses	46,770	50,728	65,307	69,844	77,194
EBITDA	8,345	12,843	12,421	12,651	14,780
% change	6.4	53.9	(3.3)	1.9	16.8
Other income	14	43	200	200	240
Net interest cost	202	95	52	0	0
Depreciation	2,057	2,128	2,295	2,449	2,639
Pre-tax profit	6,413	12,122	12,318	12,177	13,914
Deferred tax	122	(406)	0	0	0
Current tax	1,617	2,747	2,633	2,618	3,116
Profit after tax	4,674	9,781	9,684	9,559	10,798
Preference dividend	0	0	0	0	0
Minorities	0	0	0	0	0
Adjusted net profit	4,674	9,781	9,684	9,559	10,798
Non-recurring items	0	0	0	0	0
Reported net profit	4,674	9,781	9,684	9,559	10,798
% change	4.2	109.3	NM	(1.3)	13.0

Balance sheet

As on 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Paid-up capital	254	254	254	254	254
Preference capital	0	0	0	0	0
Reserves & surplus	22,358	31,438	38,190	43,447	49,386
Shareholders' equity	22,612	31,692	38,444	43,701	49,640
Total current liabilities	7,840	9,946	10,288	10,493	11,660
Total debt	4,113	10	0	0	0
Deferred tax liabilities	1,326	919	904	904	904
Other non-current liabilities	295	257	323	307	291
Total liabilities	13,574	11,131	11,515	11,704	12,856
Total equity & liabilities	36,185	42,823	49,959	55,405	62,496
Net fixed assets	16,421	16,981	18,443	18,994	20,355
Investments	2,073	3,366	4,759	6,776	8,132
Cash	2,314	7,684	5,264	8,437	10,360
Other current assets	14,792	14,120	20,705	20,450	22,938
Deferred tax assets	0	0	0	0	0
Other non-current assets	586	672	787	748	711
Net working capital	9,266	11,859	15,682	18,394	21,639
Total assets	36,185	42,823	49,959	55,405	62,496

Cash flow

Year to 31 Mar (Rs m)	FY20	FY21	FY22	FY23E	FY24E
Pre-tax profit	6,413	12,122	12,318	12,177	13,914
Depreciation	2,057	2,128	2,295	2,449	2,639
Chg in Working capital	(1,877)	2,619	(6,294)	500	(1,284)
Total tax paid	(1,617)	(2,747)	(2,633)	(2,618)	(3,116)
Net Interest	202	95	52	0	0
Others	295	(38)	66	(16)	(15)
Operating cash flow	5,473	14,244	5,739	12,492	12,138
Capital expenditure	(2,368)	(2,689)	(3,757)	(3,000)	(4,000)
Free cash flow (a+b)	3,105	11,556	1,982	9,492	8,138
Chg in investments	151	(1,293)	(1,393)	(2,017)	(1,356)
Debt raised/(repaid)	2,489	(4,103)	(10)	0	0
Net interest	(202)	(95)	(52)	0	0
Capital raised/(repaid)	0	0	0	0	0
Dividend (incl. tax)	(2,138)	(2,795)	(3,049)	(4,302)	(4,859)
Other items	(1,775)	633	(1,943)	(1,891)	(1,534)
Net chg in cash	1,941	5,370	(2,420)	3,057	1,923

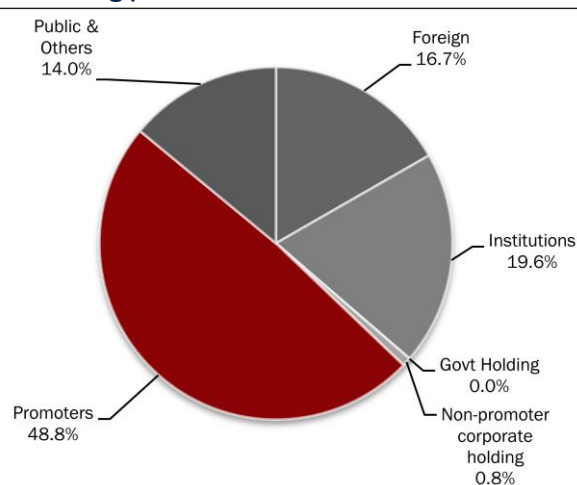
Key ratios

Year to 31 Mar	FY20	FY21	FY22	FY23E	FY24E
EBITDA margin (%)	15.1	20.2	16.0	15.3	16.1
EBIT margin (%)	11.4	16.9	13.0	12.4	13.2
PAT margin (%)	8.5	15.4	12.5	11.6	11.7
RoE (%)	21.2	36.0	27.6	23.3	23.1
RoCE (%)	23.9	35.0	27.9	24.1	25.4
Gearing (x)	0.1	(0.2)	(0.1)	(0.2)	(0.2)
Net debt/ EBITDA (x)	0.2	(0.6)	(0.4)	(0.7)	(0.7)
FCF yield (%)	1.3	4.7	0.8	3.8	3.3
Dividend yield (%)	0.7	1.1	1.2	1.7	2.0

Valuations

Year to 31 Mar	FY20	FY21	FY22	FY23E	FY24E
Reported EPS (Rs)	36.8	77.0	76.2	75.3	85.0
Adj. EPS (Rs)	36.8	77.0	76.2	75.3	85.0
PE (x)	53.0	25.3	25.6	25.9	22.9
Price/ Book (x)	10.9	7.8	6.4	5.7	5.0
EV/ Net sales (x)	4.5	3.8	3.1	2.9	2.6
EV/ EBITDA (x)	29.9	18.7	19.5	18.9	16.0
EV/ CE (x)	8.8	7.3	6.1	5.3	4.7

Shareholding pattern



As of Mar-22

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New Rating System		Old Rating System	
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Buy	> =10%	Outperformer	More than 5% to Index
Sell	< -5%	Underperformer	Within 0-5% (upside or downside) to Index
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