

## Supreme Industries

### Sharp improvement in demand, outlook positive

Supreme Industries' demand improved significantly over the last quarter. 3QFY22 had registered sharp decline in PVC volumes (-25% YoY) on account of unseasonal rains and destocking at channels. However, post mid Jan'22 demand improved meaningfully leading to growth in volumes by 16%. Price realization grew by 6% with growth across all the 4 sub segments. Sales grew 23% while EBITDA and PAT declined by 23% and 6% respectively. EBITDA margins declined to 15.3% on account of change in product mix (higher sales of agri pipes) and inventory gains in the base quarter. Management guided for minimum 15% volume growth and EBITDA margins of 16-16.5% for FY23. Overall the demand scenario is on upward trajectory. We largely maintain our estimates and Buy rating on the stock with TP of Rs2,853, valuing at 30x FY24E.

#### Plastic Piping division to drive the growth

Plastic Pipe division recovered sharply with volume growth of 27% on YoY basis. FY22 volumes declined by 7% on account of sharp declines in 1Q and 3Q. Last two years registered lull demand for agricultural pipes on account of higher prices. However, the demand for agricultural pipes looks strong and expected to contribute meaningfully in FY23. Agri pipes contribute 25-30% to the company's total plastic piping division sales. Management has guided for minimum 15% volume growth in FY23. The Government's focus on Jal Jeevan Mission, Swachh Bharat Abhiyan, Sanitation and affordable housing initiatives would boost demand for plastic piping products. Supreme's brownfield and greenfield expansion will give required impetus to the division to grow faster and recap the lost business opportunities during the pandemic.

#### Packaging segment faced headwinds

Packaging segment which contributed ~15% to the total sales faced headwinds in its cross laminated films business (sells under Silpaulin brand). The segment was impacted the most due to one of its product tarpaulin being seasonal in nature with peak season between April to June (impacted due to 2<sup>nd</sup> wave of COVID). Business also got impacted by fierce competition from look-alike products (highlighted in our last channel check note) as well as higher polymer prices which could not be passed on to the product in appropriate manner. The Company has also expanded its capacity to 30,000tn pa. Other two sub segments Protective Packaging and Performance Packaging registered good demand during the year.

#### Valuations remain attractive

Supreme Industries, despite being the market leader in plastic pipes segment, is trading at significant discount to its historic multiples. We expect Supreme's sales, EBITDA and PAT to grow at CAGR of 12% each over FY22-24E. We estimate EBITDA margins to stabilize at an average of 16.5% for the next two years. We largely maintain our estimates and retain our Buy rating. We value the business at 30x FY24E with target price of Rs2,853.

#### Financial and valuation summary

YE Mar (Rs mn)	4QFY22A	4QFY21A	YoY (%)	3QFY22A	QoQ (%)	FY22A	FY23E	FY24E
Revenues	25,571	20,846	22.7	19,451	31.5	77,728	86,340	94,418
EBITDA	3,914	5,097	(23.2)	3,179	23.1	12,421	14,160	15,673
EBITDA margin (%)	0.0	0.0	0.0	0.0	0.0	16.0	16.4	16.6
Adj. Net profit	3,239	3,427	(5.5)	2,457	31.8	9,685	11,284	12,081
Adj. EPS (Rs)	25.5	27.0	(5.5)	19.3	31.8	76.2	88.8	95.1
EPS growth (%)						(1.0)	16.5	7.1
PE (x)						25.4	21.8	20.3
EV/EBITDA (x)						19.4	16.3	14.3
PBV (x)						6.4	5.4	4.6
RoE (%)						27.6	26.9	24.4
RoCE (%)						21.9	21.7	20.5

Source: Company, Centrum Broking

#### Result Update

India I Mid Cap

30 April, 2022

**BUY**

Price: Rs1,934

Target Price: Rs2,853

Forecast return: 48%

Institutional Research

#### Market Data

Bloomberg:	SI IN
52 week H/L:	2,694/1,856
Market cap:	Rs245.7bn
Shares Outstanding:	127.0mn
Free float:	51.2%
Avg. daily vol. 3mth:	108,866

Source: Bloomberg

#### Changes in the report

Rating:	BUY, Unchanged
Target price:	Rs2,853; increased by 6%
EPS:	FY23E EPS: Rs88.8; up 2.6% FY24E EPS: Rs95.1; up 2.2%

Source: Centrum Broking

#### Shareholding pattern

	Mar-22	Dec-21	Sep-21	Jun-21
Promoter	48.9	48.9	48.9	48.9
FIIs	16.2	16.2	10.4	10.8
DIIIs	19.4	19.4	19.2	18.5
Public/other	15.6	15.6	21.6	21.8

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q4FY22	Actual Q4FY22	Variance (%)
Revenue	22,483	25,571	13.7
EBITDA	3,733	3,914	4.9
EBITDA margin	16.6	15.3	
Rep. PAT	3,113	3,237	4.0
Adj. PAT	3,113	3,237	4.0

Source: Bloomberg, Centrum Broking



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Mid Cap

## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY23E New	FY23E Old	% chg	FY24E New	FY24E Old	% chg
Revenue	86,340	84,992	1.6	94,418	92,885	1.7
EBITDA	14,160	14,279	-0.8	15,673	15,785	-0.7
EBITDA margin	16.4	16.8	-40	16.6	17.0	-40
Adj. PAT	11,284	10,996	2.6	12,081	11,817	2.2
Diluted EPS (Rs)	88.8	86.6	2.6	95.1	93.0	2.2

Source: Centrum Broking

### Supreme Industries versus NIFTY Midcap 100

	1m	6m	1 year
SI IN	(2.2)	(16.4)	(5.0)
NIFTY Midcap 100	(0.8)	(4.5)	23.5

Source: Bloomberg, NSE

### Key assumptions

Y/E Mar	FY22	FY23E	FY24E
Plastic Pipes (tn)	274,295	329,154	375,236
Packaging (tn)	54,163	58,496	63,176
Industrials (tn)	48,030	51,872	56,022
Consumer (tn)	17,420	20,556	23,022
Plastic Pipes (Rs/kg)	184	175	170
Packaging (Rs/kg)	223	217	215
Industrials (Rs/kg)	213	207	201
Consumer (Rs/kg)	232	225	223

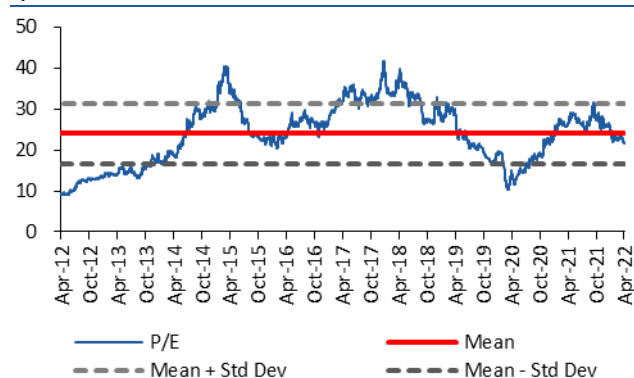
Source: Centrum Broking

### Valuations

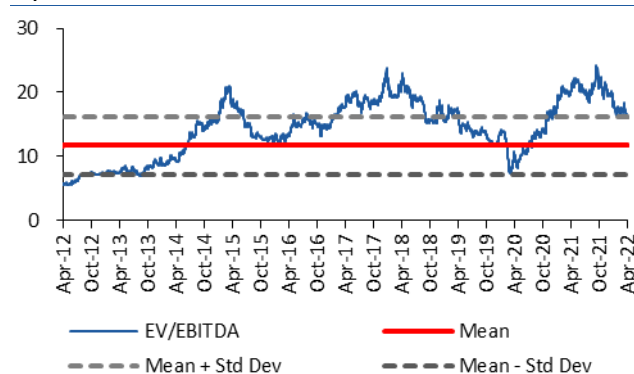
We value Supreme Industries at 30x FY24 EPS. Based on it we arrive at TP of Rs2853. Our target multiple is based on the last five year PE median.

Valuations	Rs/share
FY24 EPS	95.1
Target Multiple (x)	30
Target Price	2,853

#### P/E mean and standard deviation



#### EV/EBITDA mean and standard deviation

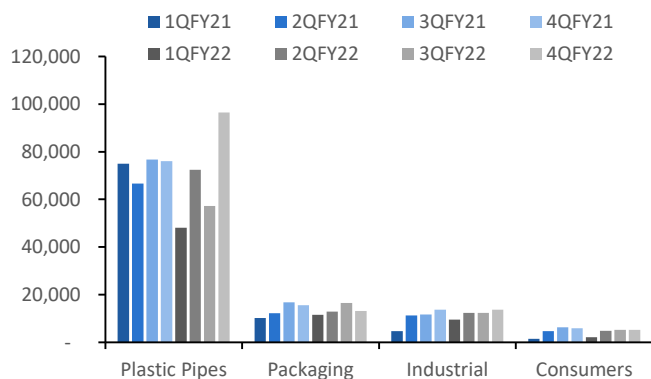


Source: Bloomberg, Centrum Broking

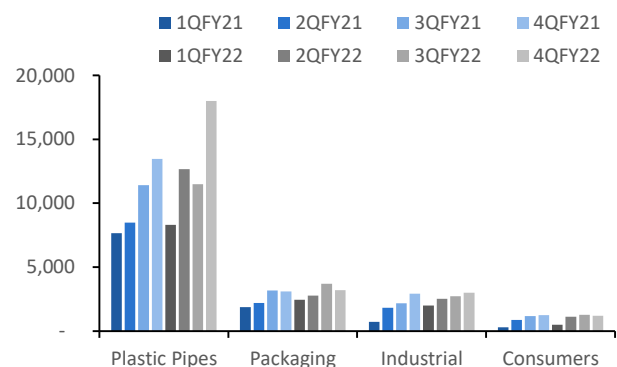
**Exhibit 1: 4QFY22 – Financial Snapshot**

Y/E March (Rsmn)	4QFY21	3QFY22	4QFY22	YoY(%)	QoQ (%)	FY21	FY22	YoY(%)
<b>Net sales</b>	<b>20,846</b>	<b>19,451</b>	<b>25,571</b>	<b>22.7</b>	<b>31.5</b>	<b>63,570</b>	<b>77,728</b>	<b>22.3</b>
Net raw material & Purchase of finished goods	12,744	13,224	18,439	44.7	39.4	40,385	53,532	32.6
% of sales	61.1	68.0	72.1	17.9	6.1	63.5	68.9	534.3
Employee expenses	931	880	904	(2.9)	2.7	3,102	3,450	11.2
Other expenses	2,074	2,168	2,314	11.6	6.7	7,241	8,324	15.0
<b>Total expenditure</b>	<b>15,749</b>	<b>16,272</b>	<b>21,657</b>	<b>37.5</b>	<b>33.1</b>	<b>50,728</b>	<b>65,306</b>	<b>28.7</b>
<b>Operating Profit</b>	<b>5,097</b>	<b>3,179</b>	<b>3,914</b>	<b>(23.2)</b>	<b>23.1</b>	<b>12,843</b>	<b>12,422</b>	<b>(3.3)</b>
<b>OPM(%)</b>	<b>24.5</b>	<b>16.3</b>	<b>15.3</b>	<b>(915)</b>	<b>(103)</b>	<b>20.2</b>	<b>16.0</b>	<b>(422)</b>
Interest	5	5	19	308.7	308.7	2,128	2,295	7.9
<b>PBDT</b>	<b>5,093</b>	<b>3,174</b>	<b>3,896</b>	<b>(23.5)</b>	<b>22.7</b>	<b>8,267</b>	<b>7,070</b>	<b>(14.5)</b>
Depreciation	548	575	588	7.3	2.3	2,128	2,295	7.9
Other income	88	29	86	(2.1)	192.5	111	200	80.1
<b>PBT (before exp/Asso.)</b>	<b>4,633</b>	<b>2,629</b>	<b>3,393</b>	<b>(26.8)</b>	<b>29.1</b>	<b>10,714</b>	<b>10,275</b>	<b>(4.1)</b>
Tax	1,206	678	851	(29.4)	25.4	2,775	2,633	(5.1)
Effective tax rate (%)	26.0	25.8	25.1	(3.6)	(2.8)	25.9	25.6	(27.0)
<b>Reported Net Profit</b>	<b>3,427</b>	<b>1,951</b>	<b>2,543</b>	<b>(25.8)</b>	<b>30.3</b>	<b>7,939</b>	<b>7,642</b>	<b>(3.7)</b>
Share of JV/Associate less minority interest	-	507	696	#DIV/0!	37.4	793	2,044	157.7
<b>Reported PAT</b>	<b>3,427</b>	<b>2,457</b>	<b>3,239</b>	<b>(5.5)</b>	<b>31.8</b>	<b>8,719</b>	<b>9,677</b>	<b>11.0</b>
<b>EPS (Rs.)</b>	<b>27.0</b>	<b>19.3</b>	<b>25.5</b>	<b>(5.5)</b>	<b>31.8</b>	<b>68.7</b>	<b>76.2</b>	<b>10.9</b>

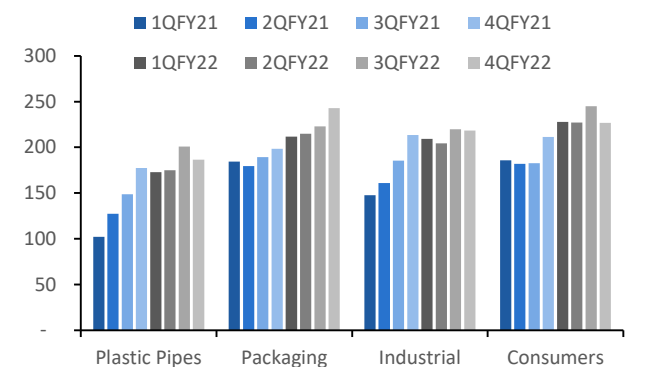
Source: Company, Centrum Broking

**Exhibit 2: Quarterly sales volumes (tn pa)**

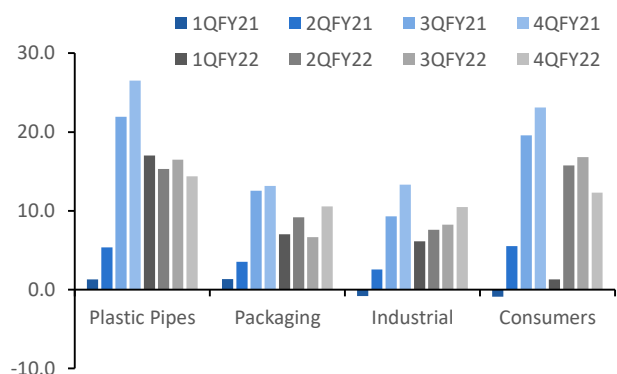
Source: Centrum Broking, Company Data

**Exhibit 3: Quarterly sales (Rsmn)**

Source: Centrum Broking, Company Data

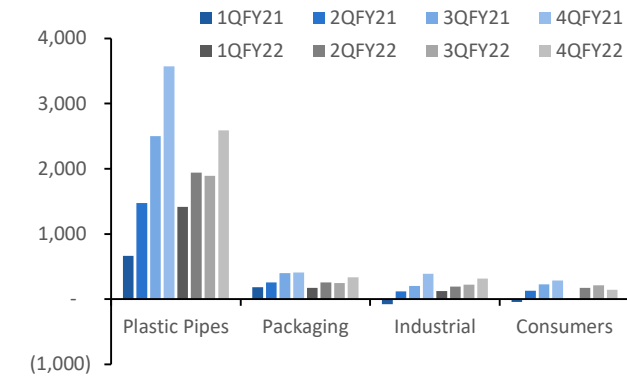
**Exhibit 4: Sales Realization (Rs/kg)**

Source: Centrum Broking, Company Data

**Exhibit 5: Segmental EBIT(%)**

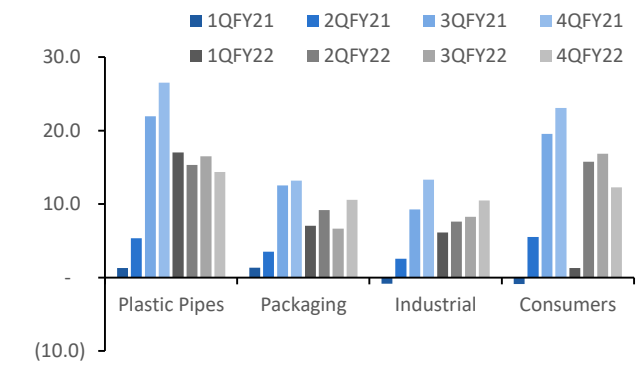
Source: Centrum Broking, Company Data

**Exhibit 6: Segmental EBIT (Rsmn)**



Source: Centrum Broking, Company Data

**Exhibit 7: Segmental EBIT (Rs/kg)**



Source: Centrum Broking, Company Data

## 4QFY22 conference call KTAs

### Gross margins expectations:

- FY22 margins should be normalized level
- 31-32% GM can be expected in FY23/FY24

### Growth estimates for FY23:

- March'22 registered highest ever dispatches in SIL's history
- Expanding capacities and retail reach in pipes segment
- Overall volume expected for FY23 - minimum of 15%
- Pipes too on a conservative estimates expected to grow by minimum 15%
- Demand is recovering very well and has remained growth as of now
- ex agri pipes, FY22 volumes would have grown over FY21

### PVC vs. CPVC prices:

- price differential is 35-40% between PVC and CPV
- PVC: Rs140/kg, CPVC:
- Chinese availability is good for CPVC and no issues on supply side
- Reduction in PVC prices by Rs6/kg and has been passed on to the channel partners

### CPVC supply issues for Supreme:

- SIL gets from Kaneka, Japan
- supply for CPVC (which was an issue in last quarter) has now been stable and sorted out

### Channel inventory:

- usually moderate in case of Supreme, channel inventories are lean at this point of time
- At co level inventory has risen by Rs500cr at end of FY22 in anticipation of good demand in pipes and Silpaulin in 1QFY23

### Capacity:

#### FY22:

- Total- 725ktn
- Pipes: 525k tn
- Industrial: 80ktn
- Packaging: 90ktn
- Consumer: 30ktn

#### FY23:

- Total capacity will be 800ktn, largely addition in pipes followed by cylinder capacity addition
- Capex will be funded by internal accruals
- Capex of Rs700cr in FY23

### Cylinder sales:

- At peak utilisation of 1mn pieces: Rs200-250cr
- Composite Cylinder comes under Value Added Products, margins better than 17%
- will continue to B2B business

- IOCL has 50% of domestic LPG capacity while other two players share remaining of 50%

### **Updates on Supreme Petrochem:**

- Equity capital reduced
- Margins is on elevated level
- Indian market is doing well led by consumer appliances (especially ACs)
- PLI scheme in consumer durables space will help boost ABS demand in India
- Capex: Rs770cr over FY21-25E

### **Sustainable margins:**

- If PVC prices sustain at current level then 15.5-16% are sustainable margins in pipes segment

P&L					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenues</b>	<b>55,115</b>	<b>63,571</b>	<b>77,728</b>	<b>86,340</b>	<b>94,418</b>
Operating Expense	37,944	42,370	55,666	60,956	66,659
Employee cost	2,798	3,104	3,453	4,058	4,249
Others	6,029	5,254	6,188	7,166	7,837
<b>EBITDA</b>	<b>8,346</b>	<b>12,843</b>	<b>12,421</b>	<b>14,160</b>	<b>15,673</b>
Depreciation & Amortisation	2,057	2,128	2,295	2,661	2,888
<b>EBIT</b>	<b>6,289</b>	<b>10,715</b>	<b>10,126</b>	<b>11,499</b>	<b>12,785</b>
Interest expenses	202	95	52	0	0
Other income	14	43	200	209	220
<b>PBT</b>	<b>6,101</b>	<b>10,662</b>	<b>10,274</b>	<b>11,708</b>	<b>13,005</b>
Taxes	1,739	2,341	2,633	2,570	2,855
Effective tax rate (%)	28.5	22.0	25.6	22.0	22.0
<b>PAT</b>	<b>4,362</b>	<b>8,322</b>	<b>7,641</b>	<b>9,138</b>	<b>10,150</b>
Minority/Associates	312	1,460	2,044	2,146	1,931
<b>Recurring PAT</b>	<b>4,674</b>	<b>9,781</b>	<b>9,685</b>	<b>11,284</b>	<b>12,081</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>4,674</b>	<b>9,781</b>	<b>9,685</b>	<b>11,284</b>	<b>12,081</b>

Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Growth (%)</b>					
Revenue	(1.8)	15.3	22.3	11.1	9.4
EBITDA	6.4	53.9	(3.3)	14.0	10.7
Adj. EPS	4.2	109.3	(1.0)	16.5	7.1
<b>Margins (%)</b>					
Gross	35.1	36.5	31.1	32.6	32.6
EBITDA	15.1	20.2	16.0	16.4	16.6
EBIT	11.4	16.9	13.0	13.3	13.5
Adjusted PAT	8.5	15.4	12.4	13.1	12.8
<b>Returns (%)</b>					
ROE	21.2	36.0	27.6	26.9	24.4
ROCE	18.1	28.7	21.9	21.7	20.5
ROIC	18.0	32.6	21.9	27.5	29.9
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	1.7	1.8	2.1	2.1	2.1
Debtors	23	20	20	23	24
Inventory	84	75	69	74	66
Creditors	56	54	49	51	50
Net working capital	55	62	68	92	114
<b>Solvency (x)</b>					
Net debt-equity	0.1	(0.2)	(0.1)	(0.3)	(0.4)
Interest coverage ratio	41.3	135.2	241.2	0.0	0.0
Net debt/EBITDA	0.2	(0.6)	(0.4)	(1.0)	(1.4)
<b>Per share (Rs)</b>					
Adjusted EPS	36.8	77.0	76.2	88.8	95.1
BVPS	178.0	249.4	302.6	358.9	419.6
CEPS	53.0	93.7	94.3	109.8	117.8
DPS	27.7	5.0	24.0	26.6	28.5
Dividend payout (%)	75.4	6.5	31.5	30.0	30.0
<b>Valuation (x)</b>					
P/E	52.6	25.1	25.4	21.8	20.3
P/BV	10.9	7.8	6.4	5.4	4.6
EV/EBITDA	29.7	18.5	19.4	16.3	14.3
Dividend yield (%)	1.4	0.3	1.2	1.4	1.5

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity share capital	254	254	254	254	254
Reserves & surplus	22,358	31,438	38,190	45,345	53,059
Shareholders fund	22,612	31,692	38,444	45,599	53,313
Minority Interest	0	0	0	0	0
Total debt	4,109	6	0	0	0
Non Current Liabilities	323	300	363	363	363
Def tax liab. (net)	1,326	919	904	904	904
<b>Total liabilities</b>	<b>28,370</b>	<b>32,917</b>	<b>39,711</b>	<b>46,866</b>	<b>54,580</b>
Gross block	31,609	34,718	37,438	40,938	44,438
Less: acc. Depreciation	(16,117)	(18,245)	(20,540)	(23,201)	(26,090)
Net block	15,492	16,473	16,897	17,736	18,348
Capital WIP	929	508	1,546	614	0
Net fixed assets	16,421	16,981	18,443	18,350	18,348
Non Current Assets	3,688	5,182	6,763	6,763	6,763
Investments	0	0	0	0	0
Inventories	8,906	7,608	12,602	11,028	12,030
Sundry debtors	3,128	3,898	4,668	5,996	6,557
Cash & Cash Equivalents	2,314	7,684	5,264	14,215	21,214
Loans & advances	20	17	40	40	40
Other current assets	1,710	1,453	2,179	2,420	2,647
Trade payables	5,475	6,462	7,940	8,421	9,187
Other current liab.	2,028	3,146	1,988	3,195	3,493
Provisions	313	298	320	330	338
Net current assets	8,262	10,753	14,505	21,753	29,470
<b>Total assets</b>	<b>28,370</b>	<b>32,917</b>	<b>39,711</b>	<b>46,866</b>	<b>54,580</b>

Cashflow					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit Before Tax	6,413	12,122	12,318	13,854	14,936
Depreciation & Amortisation	2,059	2,130	2,295	2,661	2,888
Net Interest	296	221	51	0	0
Net Change – WC	(1,647)	1,955	(4,939)	1,703	(717)
Direct taxes	(1,621)	(2,322)	(2,868)	(2,570)	(2,855)
<b>Net cash from operations</b>	<b>5,393</b>	<b>12,464</b>	<b>4,704</b>	<b>13,292</b>	<b>12,101</b>
Capital expenditure	(2,417)	(2,266)	(4,699)	(2,568)	(2,886)
Acquisitions, net	0	0	0	0	0
Investments	263	80	85	0	0
Others	194	180	580	1,686	1,408
<b>Net cash from investing</b>	<b>(1,959)</b>	<b>(2,006)</b>	<b>(4,035)</b>	<b>(882)</b>	<b>(1,478)</b>
<b>FCF</b>	<b>3,434</b>	<b>10,458</b>	<b>669</b>	<b>12,410</b>	<b>10,623</b>
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	2,380	(4,104)	(11)	0	0
Dividend paid	(3,522)	(635)	(2,922)	(3,385)	(3,624)
Interest paid	(271)	(166)	(10)	0	0
Others	(142)	(150)	(161)	0	0
<b>Net cash from financing</b>	<b>(1,555)</b>	<b>(5,055)</b>	<b>(3,103)</b>	<b>(3,385)</b>	<b>(3,624)</b>
Net change in Cash	1,879	5,403	(2,434)	9,025	6,998

Source: Company, Centrum Broking

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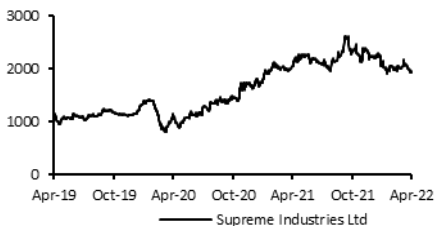
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#### Supreme Industries



Source: Bloomberg

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