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Q4FY22 result review;  
earnings, TP and rating  
change

## Plastic

Target price: Rs2,334

### Earnings revision

(%)	FY23E	FY24E
Revenue	↑ 3.0	↑ 0.6
EBITDA	↑ 0.4	↑ 0.2
PAT	↑ 5.8	↑ 3.7

### Target price revision

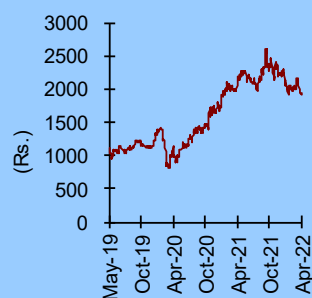
Rs2,334 from Rs2,323

### Shareholding pattern

	Sep '21	Dec '21	Mar '22
Promoters	48.9	48.9	48.9
Institutional investors	35.7	35.9	35.8
MFs and others	17.0	17.0	17.1
FIs/Banks	0.1	0.1	0.1
Insurance Cos.	2.1	2.4	2.2
FII	16.5	16.4	16.4
Others	15.4	15.2	15.3

Source: NSE

### Price chart



### Research Analysts:

#### Arun Baid

arun.baid@icicisecurities.com  
+91 22 6807 7235

#### Sohil Kaura

sohil.kaura@icicisecurities.com  
+91 22 6807 7416

INDIA

**ICICI Securities**

## Supreme Industries

**BUY**

Upgrade from ADD

### Demand outlook improving

**Rs1,947**

Supreme Industries' (SI) Q4FY22 performance was below our expectations with blended volumes increasing 15.6% YoY and revenues increasing 22.8% YoY, driven by a recovery in agri demand for plastic pipes (pipes volume growth of 27% YoY on a tepid base) and higher YoY realisations. Owing to a sharp decline in gross margins (-412bp QoQ/-10.7ppt YoY), operating margins stood at 15.3% (-103bps QoQ/-916bps YoY), resulting in EBIDTA / PAT decline of 23.2%/28.1% YoY. As per management, Mar'22 saw historically high dispatches for plastic pipes aided by a pick-up in agri pipe segment. Going ahead, management is optimistic of strong demand, backed by housing and agriculture segment. Management has guided for at least 15%+ volume growth in FY23 driven by the piping segment and a tepid base. We broadly maintain EBIDTA estimates but increase PAT estimates by 6%/4% for FY23E/24E due to the better-than-expected performance by the associate company. Upgrade the stock from Add to BUY post the recent stock correction with a revised SoTP-based Mar'23E target price of Rs2,334 (earlier Rs2,323).

- **Recovery in agri pipes demand drives volume growth:** SI reported blended plastic volume growth of 15.6% YoY and revenue growth of 22.8% YoY on a tepid base. The growth in volumes was led by PVC pipe segment which witnessed 27% YoY volume growth while other segments packaging, industrial and consumer products remained subdued. The strong growth in pipes was aided by recovery from agri demand which has been lackluster over the past two years. As per management, the month of Mar'22 saw the highest ever pipe dispatches in the history of the company. The demand trend remains favourable and, with PVC prices softening and expected to further soften, they expect demand scenario to remain healthy going ahead. Management has guided for at least 15%+ volume growth in FY23 driven by the piping segment and a tepid base. For FY22, SI witnessed blended volume de-growth of 3.7% YoY with piping segment declining 6.8% YoY.
- **EBITDA margin remain healthy:** SI reported an operating margin of 15.3% for Q4FY22, a decline of 916bps YoY (-103bps QoQ), due to adverse product mix and also absence of inventory gain as was the case YoY resulting in EBIDTA/PAT declining 23%/28% YoY. Blended EBIDTA/kg fell to Rs30.4/kg (-34%/13% YoY/QoQ) due to higher raw material cost and adverse product mix. Management expects EBIDTA margins to be sustainable at 15%-15.5% going ahead if PVC prices remain in a range.
- **Valuations and view:** We largely maintain EBIDTA estimates but increase our PAT estimates by ~6%/4% for FY23/24E due to the better-than-expected performance of the associate company. We continue to like SI for its leadership position in piping market and believe it has demand tailwinds going ahead due to pickup in housing and agriculture market. Upgrade the stock from **Add** to **BUY** post the recent correction in stock price with a revised Mar'23E SoTP-based target price of Rs2,334.

Market Cap	Rs247bn/US\$3.2bn	<b>Year to Mar</b>	<b>FY21</b>	<b>FY22</b>	<b>FY23E</b>	<b>FY24E</b>
Reuters/Bloomberg	SUPI.BO/SI IN	Revenue (Rs mn)	63,496	77,728	84,654	90,342
Shares Outstanding (mn)	127.0	EBITDA (Rs mn)	12,786	12,421	13,846	14,984
52-week Range (Rs)	2613/1911	Net Income (Rs mn)	9,592	9,684	10,498	11,100
Free Float (%)	51.1	EPS (Rs)	75.5	76.2	82.6	87.4
FII (%)	16.4	% Chg YoY	97.1	1.0	8.4	5.7
Daily Volume (US\$'000)	3,196	P/E (x)	25.8	25.5	23.6	22.3
Absolute Return 3m (%)	(7.3)	EV/E (x)	19.3	19.5	17.3	15.8
Absolute Return 12m (%)	(4.0)	Dividend Yield	1.1	1.2	1.7	1.8
Sensex Return 3m (%)	(1.5)	RoCE (%)	27.5	21.3	19.8	18.3
Sensex Return 12m (%)	18.2	RoE (%)	35.3	27.6	25.2	23.1

Please refer to important disclosures at the end of this report

**Table 1: 4QFY22 result review (Consolidated)**

(Rs mn, year ending March 31)

	Q4FY22	Q4FY21	YoY(%)	Q3FY22	QoQ(%)	FY22	FY21	YoY(%)
<b>Total revenues</b>	<b>25,571</b>	<b>20,827</b>	<b>22.8%</b>	<b>19,451</b>	<b>31.5%</b>	<b>77,728</b>	<b>63,552</b>	<b>22.3%</b>
Raw Materials	18,439	12,786	44.2%	13,224	39.4%	53,532	40,427	32.4%
% of sales	72.1%	61.4%	1072 bps	68.0%	412 bps	68.9%	63.6%	526 bps
Employee expense	904	931	(2.9%)	880	2.7%	3,453	3,104	11.3%
% of sales	3.5%	4.5%	-93 bps	4.5%	-99 bps	4.4%	4.9%	-44 bps
Power & fuel expense	615	548	12.2%	510	20.5%	2,134	1,986	7.5%
% of sales	2.4%	2.6%	-23 bps	2.6%	-22 bps	2.7%	3.1%	-38 bps
Other expense	1,699	1,465	16.0%	1,658	2.5%	6,188	5,194	19.1%
% of sales	6.6%	7.0%	-39 bps	8.5%	-188 bps	8.0%	8.2%	-21 bps
<b>Total expenditure</b>	<b>21,657</b>	<b>15,731</b>	<b>37.7%</b>	<b>16,272</b>	<b>33.1%</b>	<b>65,307</b>	<b>50,710</b>	<b>28.8%</b>
% of sales	84.7%	75.5%	916 bps	83.7%	103 bps	84.0%	79.8%	423 bps
<b>EBIDTA</b>	<b>3,914</b>	<b>5,097</b>	<b>(23.2%)</b>	<b>3,179</b>	<b>23.1%</b>	<b>12,421</b>	<b>12,842</b>	<b>(3.3%)</b>
EBITDA margin (%)	15.3%	24.5%	-916 bps	16.3%	-103 bps	16.0%	20.4%	-423 bps
Depreciation/Amortisation	588	548	7.3%	575	2.3%	2,295	2,128	7.9%
<b>EBIT</b>	<b>3,326</b>	<b>4,549</b>	<b>(26.9%)</b>	<b>2,604</b>	<b>27.7%</b>	<b>10,126</b>	<b>10,714</b>	<b>(5.5%)</b>
EBIT Margin (%)	13.0%	21.8%	-883 bps	13.4%	-38 bps	13.0%	16.9%	-383 bps
Net Interest Expenses	19	50	(62.1%)	5	308.7%	52	221	(76.6%)
Other non-operating income	86	82	4.5%	29	192.5%	200	169	18.1%
<b>PBT</b>	<b>3,393</b>	<b>4,581</b>	<b>(25.9%)</b>	<b>2,629</b>	<b>29.1%</b>	<b>10,274</b>	<b>10,662</b>	<b>(3.6%)</b>
Income Tax Expense	851	781	8.9%	678	25.4%	2,633	2,341	12.5%
<b>PAT before associates</b>	<b>2,543</b>	<b>3,800</b>	<b>(33.1%)</b>	<b>1,951</b>	<b>30.3%</b>	<b>7,641</b>	<b>8,322</b>	<b>(8.2%)</b>
Share of profit of associate	696	703	(1.0%)	507	37.4%	2,044	1,460	40.0%
<b>Reported PAT</b>	<b>3,239</b>	<b>4,504</b>	<b>(28.1%)</b>	<b>2,457</b>	<b>31.8%</b>	<b>9,684</b>	<b>9,781</b>	<b>(1.0%)</b>

Source: Company data, I-Sec research

**Table 2: 4QFY22 segmental details**

(Rs mn, year ending March 31)

	Q4FY22	Q4FY21	YoY(%)	Q3FY22	QoQ(%)	FY22	FY21	YoY(%)
<b>Segment revenue</b>								
Plastic Piping Products	17,997	13,468	33.6%	11,479	56.8%	50,460	40,988	23.1%
Industrial Products	3,003	2,931	2.5%	2,715	10.6%	10,237	7,611	34.5%
Packaging Products	3,190	3,097	3.0%	3,697	-13.7%	12,101	10,351	16.9%
Consumer Products	1,180	1,240	-4.8%	1,275	-7.4%	4,051	3,542	14.4%
Others	201	92	119.5%	285	-29.4%	880	1,060	-17.0%
<b>Net Revenue from Operations</b>	<b>25,571</b>	<b>20,827</b>	<b>22.8%</b>	<b>19,451</b>	<b>31.5%</b>	<b>77,728</b>	<b>63,552</b>	<b>22.3%</b>
<b>EBIT</b>								
Plastic Piping Products	2,589	3,570	-27.5%	1,894	36.7%	7,839	8,213	-4.6%
Industrial Products	314	390	-19.4%	224	40.3%	853	635	34.4%
Packaging Products	337	408	-17.4%	246	37.0%	1,009	1,246	-19.0%
Consumer Products	145	286	-49.4%	215	-32.4%	541	597	-9.4%
Others	10	4	164.1%	58	-82.3%	85	242	-65.1%
<b>Total EBIT</b>	<b>3,396</b>	<b>4,659</b>	<b>-27%</b>	<b>2,637</b>	<b>29.1%</b>	<b>10,326</b>	<b>10,932</b>	<b>-5.5%</b>
<b>EBIT margins (%)</b>								
Plastic Piping Products	14.4%	26.5%	-1212 bps	16.5%	-211 bps	15.5%	20.0%	-450 bps
Industrial Products	10.5%	13.3%	-284 bps	8.3%	222 bps	8.3%	8.3%	-1 bps
Packaging Products	10.6%	13.2%	-261 bps	6.7%	391 bps	8.3%	12.0%	-370 bps
Consumer Products	12.3%	23.1%	-1081 bps	16.8%	-454 bps	13.3%	16.8%	-350 bps

Source: Company data, I-Sec research

**Table 3: Change in estimates**

(Rs mn, year ending March 31)

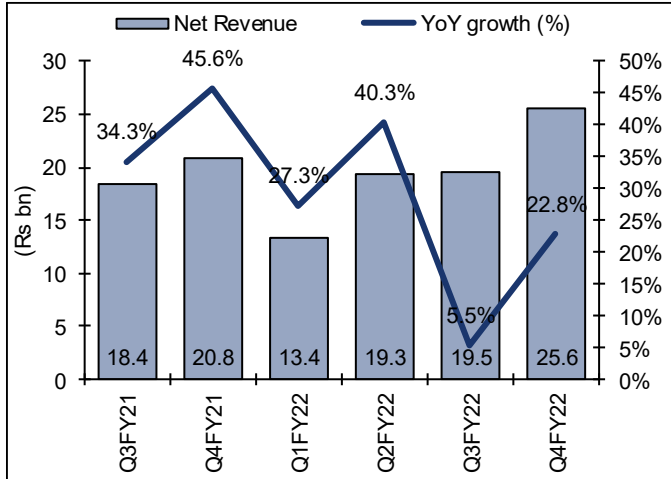
	Revised		Earlier		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Revenue	84,654	90,342	82,159	89,838	3.0%	0.6%
EBIDTA	13,846	14,984	13,791	14,952	0.4%	0.2%
PAT	10,498	11,100	9,925	10,700	5.77%	3.7%

Source: Company data, I-Sec research

## Key takeaways from Q4FY22 earnings conference call

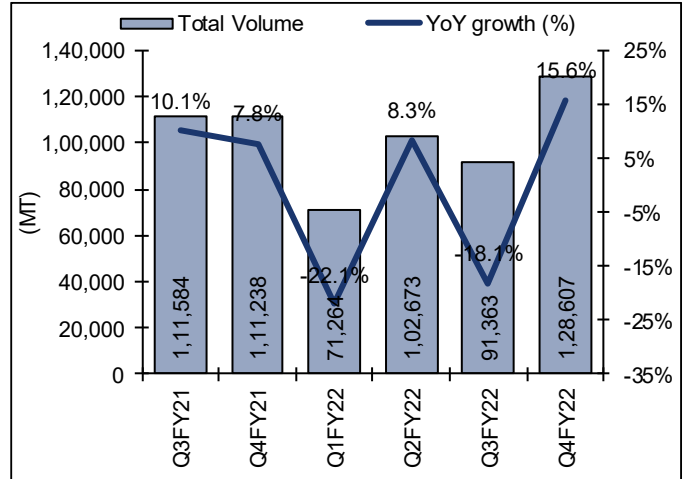
- **Demand outlook:** Management has a very positive outlook on demand across segments going forward, backed by various government schemes such as Jal Jeevan Mission, Swachh Bharat Abhiyan, Sanitation, affordable housing, etc. Coupled with the planned capacity expansion, management remains confident of delivering at least 15% volume growth in FY23. The expected downward trend in PVC prices is further expected to boost demand.
- **Company outlook:** Due to weak performance of the tarpaulin segment, management has decided to shift their focus on finding new applications for their non-tarpaulin products. Additionally, they remain focused on growing the plastic pipes segment with the continual expansion of its product portfolio.
- **PVC prices:** Have dropped Rs6/kg since beginning of Apr'22 and management expect the prices to continue in a downward trend from current levels. The prices have started easing following a stable supply from China.
- **Segmental demand:** Company saw highest dispatches for plastic pipes in Mar'22 and good demand is observed in Apr'22. Pick up in demand from agri segment led to volume recovery in Q4FY22. Demand for tarpaulin was affected due to seasonality of the product, fierce competition from look-alike products and inability to pass on high RM prices. Demand in the industrial component segment was high, but it was impacted due to supply issues created by global shipping and logistical constraints. The margins in packaging segment were impacted as hike in RM prices was passed on with a greater delay than usual.
- **Guidance:** Management have indicated gross margin to be maintained around the FY22 levels (~31%). Operating margins are expected to remain at 15-15.5% if the PVC prices remain range bound. For pipes, management is confident of delivering good volume growth in FY23 and has guided for an EBIT/kg levels of Rs31/kg.
- **CPVC:** Management reported CPVC volume growth for both the company and the industry. The current price for CPVC resin is 35-40% higher than PVC. Management indicated that they have a stable supply for CPVC from China and do not see any supply issues in FY23.
- **Capacity expansion:** Setting up of plants at Guwahati, Cuttack and Erode is ongoing. The 1<sup>st</sup> phase production at Cuttack and Erode is expected in Aug-Sept'22. During FY22, the capacity for Cross Laminated Film segment has been expanded to 30,000MT per year. The capacity for composite LPG cylinder is currently being doubled to 1mn cylinder p.a. with expected commissioning by Nov'22. Upon operationalization of the entire cylinder capacity, it has a revenue generation potential of Rs2-2.5bn. Additionally, the company has planned expansion activities in all other business segments as well.
- **Capex:** The management has plans to spend Rs7bn in capex for FY23, funded by internal accruals. During FY22, the company incurred Rs2.59bn of capex
- **High Inventory:** The inventory levels are elevated as of 31<sup>st</sup> March,2022 in anticipation of high demand during the peak season of April to June.

**Chart 1: Quarterly revenue**



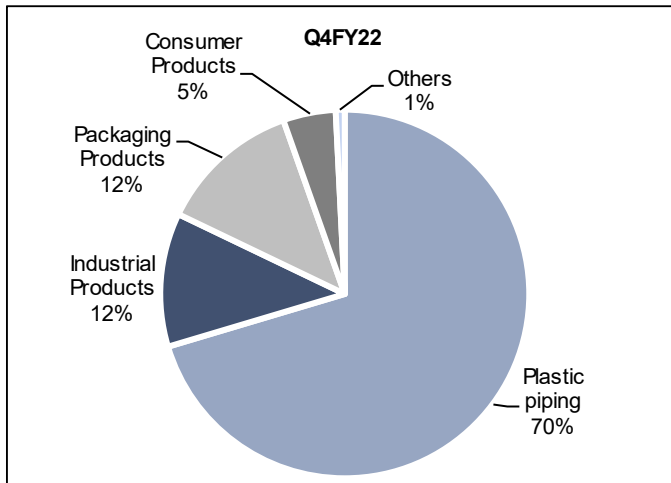
Source: Company data, I-Sec research.

**Chart 2: Quarterly sales volume**



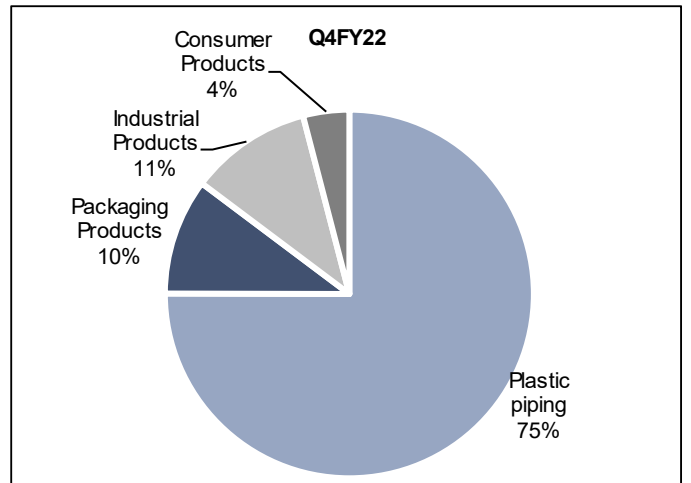
Source: Company data, I-Sec research.

**Chart 3: Q4FY22 revenue breakup**



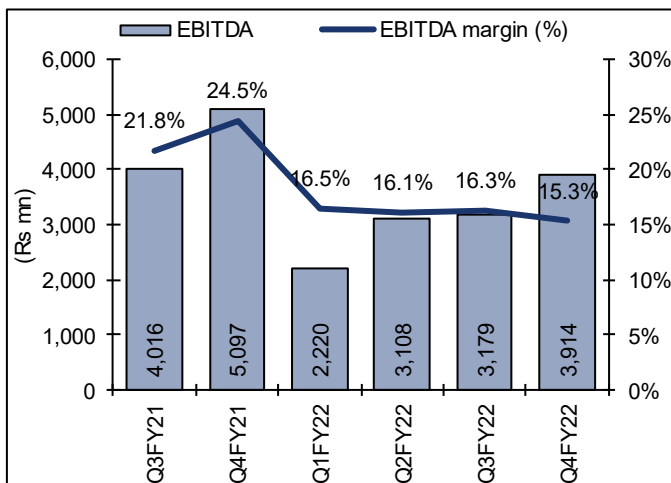
Source: Company data, I-Sec research

**Chart 4: Q4FY22 sales volumes breakup**



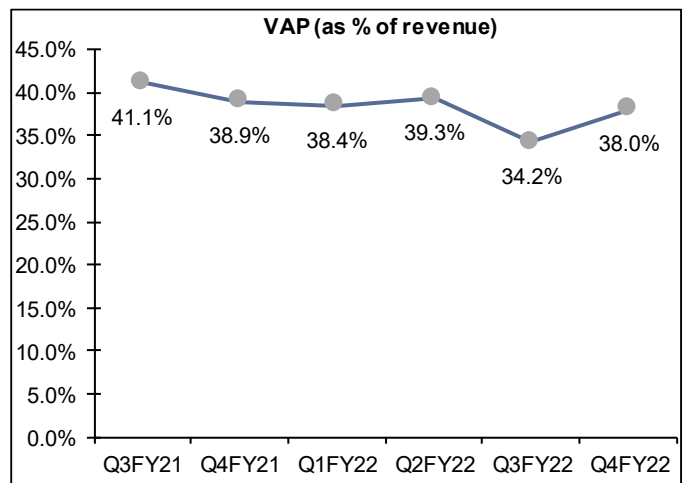
Source: Company data, I-Sec research

**Chart 5: Quarterly EBITDA and margin**



Source: Company data, I-Sec research

**Chart 6: Share of value added products**



Source: Company data, I-Sec research

## Valuations

SI is a play on India's growing housing and consumer market, backed by a strong brand, comprehensive product portfolio and wide distribution reach. The company has a healthy operating margin profile, impressive return ratios (RoE of 20%+) and a net debt free balance sheet.

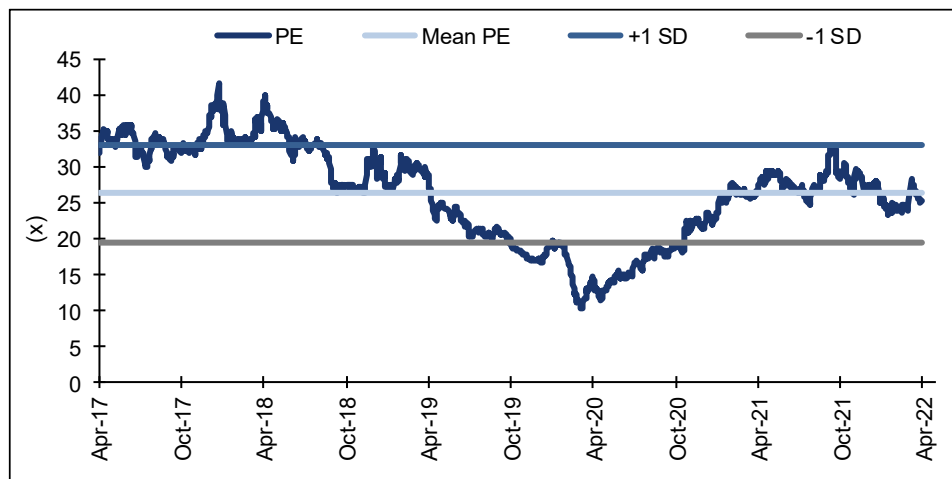
We value SI on SoTP basis considering (i) its core operations and (ii) its stake in its associate Supreme Petrochem Ltd.

**Table 4: SoTP valuation of SIL**

<b>A) Valuation of SI's core operations on PER basis</b>	
Standalone FY 24E EPS (Rs/share)	70.8
Target PER (x)	30
Value per share (Rs/share)	(A) 2124
<b>B) Value of SI's stake in Supreme Petrochem Ltd</b>	
Supreme Petrochem Market capitalisation (Rs mn)	86,668
Supreme Industries holding (%)	31%
Value of holding (Rs mn)	26,677
Total No of equity shares (Mn)	127
SI's value per share (Rs/share)	(B) 210
<b>C) SOTP Valuation of SI</b>	
Value per share of SI's core operation	Rs 2124
Value of SI's stake in Supreme Petrochem	Rs 210
<b>Target Price --- (A+B)</b>	<b>Rs 2334</b>

Source: Company data, I-Sec research

**Chart 7: One-year forward PE band**



Source: I-Sec research, Bloomberg

Upgrade the stock from **Add** to **BUY** post the recent correction in stock price with a revised SoTP based target price of Rs 2,334 ( earlier Rs2,323)

### Key risks:

- **Slowdown in housing market:** Any unexpected demand slowdown in housing market will adversely affect growth in the pipe segment.
- **Sharp fall in PVC resin prices:** A sharp and sudden fallen in PVC resin prices will adversely affect the profitability of the company.
- **Resurgence of pandemic:** Any resurgence of covid pandemic may dampen demand and thus adversely affect operational performance.

## Financial summary

Table 5: Profit and loss statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Income (Sales)</b>	<b>63,496</b>	<b>77,728</b>	<b>84,654</b>	<b>90,342</b>
Operating Expenses	50,710	65,307	70,808	75,358
<b>EBITDA</b>	<b>12,786</b>	<b>12,421</b>	<b>13,846</b>	<b>14,984</b>
% margins	20.1	16.0	16.4	16.6
Depreciation & Amortisation	2,128	2,295	2,698	3,087
Interest Cost	221	52	45	50
Other Income	37	200	219	241
<b>Recurring PBT</b>	<b>10,473</b>	<b>10,274</b>	<b>11,322</b>	<b>12,089</b>
Less: Taxes	2,341	2,633	2,898	3,095
Add: Profit from associates	1,649	2,044	2,075	2,106
<b>Net Income (Reported)</b>	<b>9,781</b>	<b>9,684</b>	<b>10,498</b>	<b>11,100</b>
<b>Net Income (Adjusted)</b>	<b>9,592</b>	<b>9,684</b>	<b>10,498</b>	<b>11,100</b>

Source: Company data, I-Sec research

Table 6: Balance sheet

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Assets</b>				
Total Current Assets	15,159	25,969	28,014	32,222
of which cash & cash eqv.	1,039	5,264	8,300	11,183
Total Current Liabilities	10,212	10,611	11,624	12,285
<b>Net Current Assets</b>	<b>4,947</b>	<b>15,359</b>	<b>16,390</b>	<b>19,937</b>
Investments	10,011	4,759	5,559	7,259
<b>Net Fixed Assets</b>	<b>17,145</b>	<b>17,685</b>	<b>22,151</b>	<b>23,564</b>
<b>Total Assets</b>	<b>42,823</b>	<b>49,959</b>	<b>57,271</b>	<b>64,591</b>
<b>Liabilities</b>				
<b>Borrowings</b>	<b>10</b>	<b>0</b>	<b>300</b>	<b>200</b>
<b>Total Liabilities</b>	<b>10,212</b>	<b>10,611</b>	<b>11,624</b>	<b>12,285</b>
Equity Share Capital	254	254	254	254
Face Value per share(Rs)	2	2	2	2
Reserves & Surplus	31,438	38,190	44,488	51,148
<b>Net Worth</b>	<b>31,692</b>	<b>38,444</b>	<b>44,742</b>	<b>51,402</b>
Minority Interest	-	-	-	-
<b>Total Liabilities &amp; Shareholders' Equity</b>	<b>42,823</b>	<b>49,959</b>	<b>57,271</b>	<b>64,591</b>

Source: Company data, I-Sec research

Table 7: Quarterly trend

(Rs mn, year ending March 31)

	Jun'21	Sep'21	Dec'21	Mar'22
Net sales	13,421	19,285	19,451	25,571
% growth (YoY)	27.3	40.3	5.5	22.8
EBITDA	2,220	3,108	3,179	3,914
EBITDA Margin (%)	16.5	16.1	16.3	15.3
Other Income	43	41	29	86
Extraordinary Items	-	-	-	-
Net profit	1,702	2,287	2,457	3,239

Source: Company data

Table 8: Cashflow statement

(Rs mn, year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Operating Cashflow</b>				
Working Capital Changes	2,360	-6,177	1,705	-564
Capex	-2,774	-4,661	-7,165	-4,500
<b>Free Cashflow</b>	<b>4,479</b>	<b>7,208</b>	<b>6,981</b>	<b>7,473</b>
<b>Cashflow from Investing Activities</b>	<b>-10,012</b>	<b>1,354</b>	<b>-7,965</b>	<b>-6,200</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	-4,103	-10	300	-100
Dividend paid	-635	-2,922	-4,199	-4,440
<b>Chg. In Cash &amp; Cash equivalents</b>	<b>-575</b>	<b>4,225</b>	<b>3,036</b>	<b>2,883</b>

Source: Company data, I-Sec research

Table 9: Key ratios

(Year ending March 31)

	FY21	FY22	FY23E	FY24E
<b>Per Share Data (Rs)</b>				
EPS (Diluted Adjusted)	75.5	76.2	82.6	87.4
CEPS (Cash EPS)	93.8	94.3	103.9	111.7
Dividend per share (DPS)	22.0	24.0	33.1	35.0
Book Value per share (BV)	249.5	302.6	352.2	404.7
<b>Growth Ratios (%)</b>				
Operating Income	15.3	22.4	8.9	6.7
EBITDA	49.3	(2.9)	11.5	8.2
Adjusted Net Income	97.1	1.0	8.4	5.7
EPS (Diluted Adjusted)	97.1	1.0	8.4	5.7
<b>Valuation Ratios (x)</b>				
P/E	25.8	25.5	23.6	22.3
P/CEPS	20.8	20.6	18.7	17.4
P/BV	7.8	6.4	5.5	4.8
EV / EBITDA	19.3	19.5	17.3	15.8
EV / Operating Income	3.9	3.1	2.8	2.6
<b>Operating Ratios</b>				
Other Income / PBT (%)	0.3	1.9	1.9	2.0
Effective Tax Rate (%)	22.4	25.6	25.6	25.6
NWC / Total Assets (%)	9.1	20.2	14.6	13.9
Net D/E Ratio (x)	-0.0	-0.1	-0.2	-0.2
Adjusted Net Income Margins	15.1	12.5	12.4	12.3
RoCE	27.5	21.3	19.8	18.3
RoE	35.3	27.6	25.2	23.1
Dividend Yield	1.1	1.2	1.7	1.8
EBITDA Margins	20.1	16.0	16.4	16.6

Source: Company data, I-Sec research

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