

# Supreme Industries

## Weak transient demand

We maintain BUY on Supreme Industries (SIL), with an SOTP-based TP of INR 2,650/share. In Q3FY22, the pipes sales slump (in Nov-21) moderated SIL's consolidated revenue growth, which was down 5% YoY to INR 19.5bn. Lower utilisation and gross margin and inventory loss (vs gain YoY) pulled consolidated EBITDA/APAT down 21/21% YoY to INR 3.18/2.46bn. Management said that since resin prices have seemingly bottomed out, dealers would restock inventory. Along with a demand uptick, this should cause a sales rebound in Q4FY22.

- Pipes division adversely hit in Q3FY22:** A sharp demand slump (for PVC pipes) in Nov and falling resin prices in Nov/Dec (which made dealers destock inventory) pulled down pipes sales volume by 26/21% YoY/QoQ. However, EBITDAM expanded ~150bps QoQ to ~19% on better realisation and product mix. Inventory loss (vs gain YoY) and higher other expenses, however, dragged EBITDAM YoY by ~550bps. These factors caused pipes EBITDA to decline 21% YoY, despite 1% revenue growth.
- Mixed performance in other segments:** The industrial division's volume firmed up 6% YoY on strong traction in the material handling segment (volume up 14% YoY), driving segmental EBITDA up by 26% YoY. SIL is adding new products and strengthening its market reach. However, volume and EBITDA declined for both furniture (consumer) and packaging divisions. COVID-lockdown drove its plastic furniture volume/EBITDA down by 19/5% YoY. The packaging division EBITDA too fell 30% YoY on RM cost pressure in XF division and competition from lookalike products.
- Capex report card:** SIL guided that its ongoing expansion in Guwahati, Cuttack, and Erode (to be operational in H1FY23) should increase the total capacity by ~10% to 0.79mn MT. In FY22E, SIL will incur Capex of INR 5.2bn and continue to spend ~at least INR 3.5-4bn annually thereafter to expand capacities. SIL targets 1.5-2x asset turnover from these investments.
- Outlook:** SIL believes resin prices to have bottomed out, which would result in a normal channel stocking-led demand uptick in Q4. Further, pipes demand is also expected to rebound. We reduce our FY22E EBITDA estimate by 4% to factor in weak demand but maintain our EBITDA estimates for FY23/24E. We remain positive on SIL owing to its leadership presence in the growing pipes industry, healthy return ratios, and strong balance sheet. We value its operating business at 21x its Dec-23E EBITDA and its 30.8% holding in its associate Supreme Petrochem at a 30% discount to its current market cap, leading to an SOTP-based TP of INR 2,650/share.

### Consolidated financial summary

YE Mar (INR mn)	Q3FY22	Q3FY21	YoY %	Q2FY22	QoQ %	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	19,451	18,438	5.5	19,285	0.9	55,115	63,571	74,575	84,929	97,680
EBITDA	3,179	4,016	(20.8)	3,108	2.3	8,346	12,843	12,307	13,532	15,428
EBITDAM (%)	16.3	21.8		16.1		15.1	20.2	16.5	15.9	15.8
APAT	2,457	3,123	(21.3)	2,287	7.4	4,674	9,781	9,447	9,661	10,843
AEPS (Rs)	19.3	24.6	(21.3)	18.0	7.4	36.8	77.0	74.4	76.0	85.3
EV / EBITDA (x)						32.7	20.5	21.8	19.7	17.1
P/E (x)						57.9	27.7	28.6	28.0	25.0
RoE (%)						21.2	36.0	28.0	25.3	25.0

Source: Company, HSIE Research

BUY

CMP (as on 24 Jan 2022)	INR 2,130
Target Price	INR 2,650
NIFTY	17,149

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	INR 2,700	INR 2,650
EBITDA revision %	FY22E (4.1)	FY23E (0.2)

### KEY STOCK DATA

Bloomberg code	SI IN
No. of Shares (mn)	127
MCap (INR bn) / (\$ mn)	271/3,636
6m avg traded value (INR mn)	269
52 Week high / low	INR 2,694/1,717

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(10.1)	1.4	23.4
Relative (%)	(4.6)	(7.2)	5.8

### SHAREHOLDING PATTERN (%)

	Sep-21	Dec-21
Promoters	48.85	48.85
FIs & Local MFs	25.30	19.7
FPIs	10.38	16.16
Public & Others	15.47	15.29
Pledged Shares	NIL	NIL

Source : BSE

Pledged shares as % of total shares

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## Q3/9MFY22 performance trends

### Consolidated financial performance

INR mn	Q3FY22	Q3FY21	YoY %	Q2FY22	QoQ %	9MFY22	9MFY21	YoY %
Net Sales	19,451	18,438	5.5	19,285	0.9	52,157	42,725	22.1
Raw Materials	12,836	11,116	15.5	12,899	(0.5)	34,105	26,677	27.8
Power and Fuel	510	554	(7.9)	566	(9.9)	1,520	1,438	5.7
Employee	880	813	8.3	866	1.7	2,549	2,173	17.3
Other Exp	1,658	1,446	14.7	1,539	7.8	4,489	3,729	20.4
<b>EBITDA</b>	<b>3,567</b>	<b>4,510</b>	<b>(20.9)</b>	<b>3,416</b>	<b>4.4</b>	<b>9,495</b>	<b>8,709</b>	<b>9.0</b>
<i>EBITDA margin (%)</i>	18.3	24.5		17.7		18.2	20.4	
Depreciation	575	549	4.6	571	0.6	1,707	1,580	8.0
<b>EBIT</b>	<b>2,992</b>	<b>3,960</b>	<b>(24.5)</b>	<b>2,845</b>	<b>5.2</b>	<b>7,788</b>	<b>7,129</b>	<b>9.2</b>
Other Income	29	37	(20.1)	41	(28.1)	114	87	31.1
Interest Cost	5	22	(79.0)	7	(32.4)	33	171	(80.9)
<b>PBT – Reported</b>	<b>3,017</b>	<b>3,975</b>	<b>(24.1)</b>	<b>2,879</b>	<b>4.8</b>	<b>7,869</b>	<b>7,045</b>	<b>11.7</b>
Tax	678	886	(23.5)	675	0.5	1,783	1,560	14.3
<i>Tax rate (%)</i>	22.5	22.3		23.4		22.7	22.1	
Share of associates' profit	507	528	(4.1)	391	29.5	6,446	5,278	22.1
<b>RPAT</b>	<b>2,845</b>	<b>3,617</b>	<b>(21.3)</b>	<b>2,595</b>	<b>9.6</b>	<b>12,533</b>	<b>10,763</b>	<b>16.4</b>
EO (Loss) / Profit	-	-		-		-	-	
<b>APAT</b>	<b>2,845</b>	<b>3,617</b>	<b>(21.3)</b>	<b>2,595</b>	<b>9.6</b>	<b>12,533</b>	<b>10,763</b>	<b>16.4</b>
<i>Adj PAT margin (%)</i>	14.6	19.6		13.5		24.0	25.2	

Source: Company, HSIE Research

### Segmental performance

	Q3FY22	Q3FY21	YoY %	Q2FY22	QoQ %	9M FY22	9M FY21	YoY %
<b>Total Sales Vol (MT)</b>	<b>91,363</b>	<b>1,11,584</b>	<b>(18.1)</b>	<b>1,02,673</b>	<b>(11.0)</b>	<b>2,65,300</b>	<b>2,97,871</b>	<b>(10.9)</b>
Plastics Pipes Vols (MT)	57,197	76,759	(25.5)	72,480	(21.1)	1,77,788	2,18,360	(18.6)
Revenue (INR mn)	11,479	11,402	0.7	12,673	(9.4)	32,463	27,520	18.0
EBITDA (INR mn)	2,194	2,792	(21.4)	2,242	(2.1)	6,152	5,426	13.4
<i>OPM %</i>	19.1	24.5		17.7		18.9	19.7	
Industrial Products Vols (MT)	12,365	11,652	6.1	12,390	(0.2)	34,267	27,707	23.7
Revenue (INR mn)	2,715	2,161	25.6	2,530	7.3	7,234	4,680	54.6
EBITDA (INR mn)	314	292	7.7	278	12.9	804	513	56.8
<i>OPM %</i>	11.6	13.5		11.0		11.1	11.0	
Packaging Products Vols (MT)	16,594	16,785	(1.1)	12,905	28.6	41,031	39,206	4.7
Revenue (INR mn)	3,697	3,179	16.3	2,773	33.3	8,911	7,253	22.9
EBITDA (INR mn)	370	524	(29.5)	360	2.6	1,020	1,182	(13.7)
<i>OPM %</i>	10.0	16.5		13.0		11.4	16.3	
Consumer Products Vols (MT)	5,207	6,388	(18.5)	4,898	6.3	12,214	12,598	(3.0)
Revenue (INR mn)	1,275	1,167	9.2	1,112	14.7	2,871	2,302	24.7
EBITDA (INR mn)	261	274	(4.7)	222	17.5	532	437	21.6
<i>OPM %</i>	20.5	23.5		20.0		18.5	19.0	

Source: Company, HSIE Research

## Q3FY22 con call takeaways

- Pipes sales volume was adversely impacted by inventory destocking, extended rainfall, and supply chain disruption. Due to extended rainfall, infrastructure and agriculture demand got stalled. The company expects good volume growth in most of the businesses in Q4. In Oct, volume grew marginally, while in Nov (CPVC de-grew by 70% in Nov) and Dec, it de-grew.
- **Guidance for FY22:** Revenue - INR 75bn+, OPM - ~16%.
- **PVC prices:** PVC prices rose by INR44/kg from Jun-21 to Oct-21, after which they started falling (down by INR 33, as of 17<sup>th</sup> Jan, 2022), so net prices are higher by INR 11 vis-à-vis Jun-21 level.
- **Inventory loss:** Inventory loss took place in the quarter, though it has not been quantified.
- **Channel inventory:** Channel inventory was very low at the end of Dec-21.
- **Capex:** Guwahati, Cuttack, and Erode plants are expected to be operational between Apr-Aug-22 (capacity – 90k tonne). In FY22E, the company plans to incur Capex of INR 5.21bn (INR 3.44bn spent YTD FY22). Going forward, it plans to spend at least INR 3.5-4bn every year.
- **Capex turnover:** The Capex turnover target is 1.5x-2x, once the new capacities are fully operational.
- **Segment-wise capacity:** Once new capacity is commissioned by next year, total capacity will increase to 575k for plastic pipes, 85k for industrial, 90k for packaging, and 35k for consumers.
- **Working capital** increased in Q3 due to pile-up in inventory of finished goods, given lower demand in Nov and Dec.
- **Cash surplus:** The Company has a cash surplus of INR 1.48bn at Q3-end vs INR 3.31bn QoQ.

### Operational trends and assumptions

	FY19	FY20	FY21	FY22E	FY23E	FY24E
<b>Plastic piping</b>						
Sales vol (K MT)	280	301	294	250	293	337
Revenue (INR mn)	31,728	34,449	40,988	45,988	53,806	63,115
EBITDA (INR mn)	4,050	5,560	9,170	8,496	9,443	10,968
OPM (%)	12.8	16.1	22.4	18.5	17.6	17.4
<b>Industrial products</b>						
Sales vol (K MT)	45	39	41	48	52	57
Revenue (INR mn)	8,850	6,732	7,611	10,366	11,313	12,569
EBITDA (INR mn)	980	660	970	1,180	1,263	1,389
OPM (%)	11.1	9.8	12.7	11.4	11.2	11.1
<b>Packaging products</b>						
Sales vol (K MT)	52	51	55	58	62	68
Revenue (INR mn)	10,418	9,593	10,351	12,607	13,624	15,287
EBITDA (INR mn)	1,640	1,420	1,672	1,492	1,629	1,792
OPM (%)	15.7	14.8	16.2	11.8	12.0	11.7
<b>Consumer products</b>						
Sales vol (K MT)	21	21	18	18	20	21
Revenue (INR mn)	3,994	3,832	3,542	4,428	4,880	5,273
EBITDA (INR mn)	700	730	755	838	897	979
OPM (%)	17.5	19.1	21.3	18.9	18.4	18.6

Source: Company, HSIE Research

We cut our FY22E consolidated EBITDA estimate by 4% to factor in the demand loss in Q3, while maintain our EBITDA estimates for FY23/24E. We have increased consolidated APAT estimates by 18/18/17% each to factor in higher profit contribution from the associate company Supreme Petrochem.

### Estimates revision summary

INR mn	Current Estimates			Old Estimates			Revisions		
	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E
Net Sales	74,575	84,929	97,680	68,308	74,425	84,177	9.2	14.1	16.0
EBITDA	12,307	13,532	15,428	12,831	13,558	15,423	(4.1)	(0.2)	0.0
OPM %	16.5	15.9	15.8	18.8	18.2	18.3			
APAT	9,447	9,661	10,843	8,019	8,207	9,283	17.8	17.7	16.8

Source: Company, HSIE Research

## Financials

### Consolidated Income Statement

YE Mar (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>Revenues</b>	<b>55,115</b>	<b>63,571</b>	<b>74,575</b>	<b>84,929</b>	<b>97,680</b>
<b>Growth %</b>	<b>(0.8)</b>	<b>15.3</b>	<b>17.3</b>	<b>13.9</b>	<b>15.0</b>
Raw Material	35,783	40,385	49,865	56,153	64,569
Power & Fuel	2,161	1,986	2,237	2,973	3,419
Freight Expense	1,082	1,110	1,641	1,699	1,856
Employee cost	2,790	3,104	3,569	3,926	4,319
Other Expenses	4,954	4,144	4,956	6,647	8,090
<b>EBITDA</b>	<b>8,346</b>	<b>12,843</b>	<b>12,307</b>	<b>13,532</b>	<b>15,428</b>
<b>EBIDTA Margin (%)</b>	<b>15.1</b>	<b>20.2</b>	<b>16.5</b>	<b>15.9</b>	<b>15.8</b>
<b>EBITDA Growth %</b>	<b>14.2</b>	<b>53.9</b>	<b>(4.2)</b>	<b>10.0</b>	<b>14.0</b>
Depreciation	2,057	2,128	2,265	2,442	2,751
<b>EBIT</b>	<b>6,289</b>	<b>10,715</b>	<b>10,041</b>	<b>11,089</b>	<b>12,677</b>
Other Income	14	169	130	65	86
Interest	202	221	39	51	51
<b>PBT</b>	<b>6,101</b>	<b>10,662</b>	<b>10,132</b>	<b>11,103</b>	<b>12,711</b>
Tax	1,739	2,341	2,685	2,942	3,369
Share in associates profit	(312)	(1,460)	(2,000)	(1,500)	(1,500)
<b>RPAT</b>	<b>4,674</b>	<b>9,781</b>	<b>9,447</b>	<b>9,661</b>	<b>10,843</b>
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-
<b>APAT</b>	<b>4,674</b>	<b>9,781</b>	<b>9,447</b>	<b>9,661</b>	<b>10,843</b>
<b>APAT Growth (%)</b>	<b>42.7</b>	<b>109.3</b>	<b>(3.4)</b>	<b>2.3</b>	<b>12.2</b>
<b>AEPS</b>	<b>36.8</b>	<b>77.0</b>	<b>74.4</b>	<b>76.0</b>	<b>85.3</b>
<b>AEPS Growth %</b>	<b>42.7</b>	<b>109.3</b>	<b>(3.4)</b>	<b>2.3</b>	<b>12.2</b>

Source: Company, HSIE Research

### Consolidated Balance Sheet

YE Mar (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
<b>SOURCES OF FUNDS</b>					
Share Capital	254	254	254	254	254
Reserves And Surplus	22,358	31,438	35,579	40,358	45,906
<b>Total Equity</b>	<b>22,612</b>	<b>31,692</b>	<b>35,833</b>	<b>40,612</b>	<b>46,160</b>
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Long-term Debt	307	266	10	10	10
Short-term Debt	4,101	-	500	500	500
<b>Total Debt</b>	<b>4,408</b>	<b>266</b>	<b>510</b>	<b>510</b>	<b>510</b>
Deferred Tax Liability	1,326	919	919	919	919
Long-term Liab+ Provisions	-	-	-	-	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>28,345</b>	<b>32,878</b>	<b>37,262</b>	<b>42,041</b>	<b>47,589</b>
<b>APPLICATION OF FUNDS</b>					
Net Block	16,078	17,145	15,880	18,937	20,186
Capital WIP	929	508	5,008	4,508	4,508
Goodwill	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-
Total Non-current Investments	2,073	3,366	4,366	4,366	4,366
<b>Total Non-current Assets</b>	<b>19,080</b>	<b>21,019</b>	<b>25,254</b>	<b>27,811</b>	<b>29,060</b>
Inventories	8,906	7,608	12,678	12,739	14,652
Debtors	3,128	3,898	3,729	4,246	4,884
Cash and Cash Equivalents	2,314	7,684	2,556	4,952	7,643
Other Current Assets (& Loans/adv)	2,758	2,614	2,497	2,574	2,655
<b>Total Current Assets</b>	<b>17,106</b>	<b>21,804</b>	<b>21,460</b>	<b>24,513</b>	<b>29,834</b>
Creditors	5,475	6,462	5,966	6,794	7,814
Other Current Liabilities & Provns	2,365	3,484	3,486	3,488	3,491
<b>Total Current Liabilities</b>	<b>7,840</b>	<b>9,946</b>	<b>9,452</b>	<b>10,283</b>	<b>11,305</b>
<b>Net Current Assets</b>	<b>9,266</b>	<b>11,859</b>	<b>12,008</b>	<b>14,230</b>	<b>18,529</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>28,345</b>	<b>32,878</b>	<b>37,262</b>	<b>42,041</b>	<b>47,589</b>

Source: Company, HSIE Research

## Consolidated Cash Flow

YE Mar (INR mn)	FY20	FY21	FY22E	FY23E	FY24E
Reported PBT	6,413	12,122	10,132	11,103	12,711
Non-operating & EO Items	(106)	(1,643)	(130)	(65)	(86)
Interest Expenses	296	221	39	51	51
Depreciation	2,059	2,130	2,265	2,442	2,751
Working Capital Change	(1,647)	1,955	(5,277)	174	(1,608)
Tax Paid	(1,621)	(2,322)	(2,685)	(2,942)	(3,369)
<b>OPERATING CASH FLOW ( a )</b>	<b>5,393</b>	<b>12,464</b>	<b>4,344</b>	<b>10,764</b>	<b>10,451</b>
Capex	(2,397)	(2,210)	(5,500)	(5,000)	(4,000)
Free Cash Flow (FCF)	2,997	10,254	(1,156)	5,764	6,451
Investments	263	80	(1,000)	-	-
Non-operating Income	174	124	130	65	86
Others					
<b>INVESTING CASH FLOW ( b )</b>	<b>(1,959)</b>	<b>(2,006)</b>	<b>(6,370)</b>	<b>(4,935)</b>	<b>(3,914)</b>
Debt Issuance/(Repaid)	2,380	(4,104)	243	-	-
Interest Expenses	(271)	(166)	(39)	(51)	(51)
FCFE	5,105	5,984	(951)	5,713	6,400
Share Capital Issuance	-	-	-	-	-
Dividend	(3,522)	(635)	(3,307)	(3,381)	(3,795)
<b>FINANCING CASH FLOW ( c )</b>	<b>(1,414)</b>	<b>(4,905)</b>	<b>(3,102)</b>	<b>(3,432)</b>	<b>(3,846)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>2,020</b>	<b>5,553</b>	<b>(5,128)</b>	<b>2,396</b>	<b>2,690</b>
EO Items, Others					
<b>Closing Cash &amp; Equivalents</b>	<b>2,393</b>	<b>7,866</b>	<b>2,556</b>	<b>4,952</b>	<b>7,643</b>

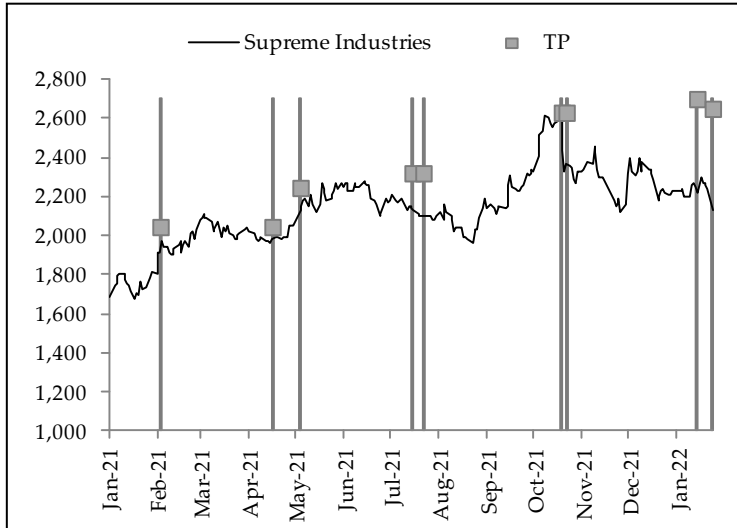
Source: Company, HSIE Research

## Key Ratios

	FY20	FY21	FY22E	FY23E	FY24E
<b>PROFITABILITY %</b>					
EBITDA Margin	15.1	20.2	16.5	15.9	15.8
EBIT Margin	11.4	16.9	13.5	13.1	13.0
APAT Margin	8.5	15.4	12.7	11.4	11.1
RoE	21.2	36.0	28.0	25.3	25.0
RoIC	17.8	32.4	24.5	22.6	24.1
RoCE	17.0	27.6	21.2	20.6	20.8
<b>EFFICIENCY</b>					
Tax Rate %	28.5	22.0	26.5	26.5	26.5
Fixed Asset Turnover (x)	1.9	2.0	2.2	2.3	2.3
Inventory (days)	59	44	62	55	55
Debtors (days)	21	22	18	18	18
Other Current Assets (days)	18	15	12	11	10
Payables (days)	36	37	29	29	29
Other Current Liab & Provns (days)	16	20	17	15	13
Cash Conversion Cycle (days)	46	24	46	40	41
Net Debt/EBITDA (x)	0.3	(0.6)	(0.2)	(0.3)	(0.5)
Net D/E	0.1	(0.2)	(0.1)	(0.1)	(0.2)
Interest Coverage	31.1	48.4	258.9	217.6	248.8
<b>PER SHARE DATA (Rs)</b>					
EPS	36.8	77.0	74.4	76.0	85.3
CEPS	53.0	93.7	92.2	95.3	107.0
Dividend	14.0	22.0	26.0	26.6	29.9
Book Value	178.0	249.4	282.0	319.7	363.3
<b>VALUATION</b>					
P/E (x)	57.9	27.7	28.6	28.0	25.0
P/Cash EPS (x)	40.2	22.7	23.1	22.4	19.9
P/BV (x)	12.0	8.5	7.6	6.7	5.9
EV/EBITDA (x)	32.7	20.5	21.8	19.7	17.1
Dividend Yield (%)	0.7	1.0	1.2	1.2	1.4
OCF/EV (%)	2.0	4.7	1.6	4.0	4.0
FCFF/EV (%)	1.1	3.9	(0.4)	2.2	2.4
FCFE/M Cap (%)	1.9	2.2	(0.4)	2.1	2.4

Source: Company, HSIE Research

**RECOMMENDATION HISTORY**



Date	CMP	Reco	Target
4-Feb-21	1,918	ADD	2,045
16-Apr-21	1,952	ADD	2,045
4-May-21	2,109	ADD	2,245
15-Jul-21	2,149	ADD	2,320
22-Jul-21	2,104	ADD	2,320
19-Oct-21	2,584	ADD	2,630
23-Oct-21	2,362	ADD	2,630
15-Jan-22	2,220	BUY	2,700
24-Jan-22	2,130	BUY	2,650

**Rating Criteria**

- BUY: >+15% return potential
- ADD: +5% to +15% return potential
- REDUCE: -10% to +5% return potential
- SELL: > 10% Downside return potential

**Disclosure:**

We, **Rajesh Ravi, MBA & Keshav Lahoti, CA**, authors and the names subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect our views about the subject issuer(s) or securities. HSL has no material adverse disciplinary history as on the date of publication of this report. We also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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