

# Supreme Industries

## Nothing unexpected here!

Revenue grew 23% YoY; largely in line with our estimate. Supreme posted 16% YoY volume growth driven by volume recovery post a weak 3QFY22. EBITDAM declined 100bps QoQ to 15.3% (Ambit -16%); overall EBITDA was largely in line with our expectation. Plastic pipes business volume grew 27% YoY, but EBITM declined by 210bps YoY on the back of recovery on agri side. Other business volume/EBITM declined 9%/410bps YoY. Management highlighted that after a weak FY22, the company is targeting 15% volume growth with stable margin in FY23. We marginally reduce our FY24 PAT estimate by 2% but TP remains unchanged. Whilst Supreme's valuations are relatively cheaper, lower capital allocation opportunities along with peaking VAP share make us negative on the stock. We remain SELLERS with TP of Rs1,920, implying 24x FY24 EPS.

### Key takeaways from the call

- **Volume declined due to volatility in PVC prices** – Management highlighted that volume decreased by 4% YoY during the year under review due to volatility in PVC prices. High PVC prices also led to increase in value growth by 23% YoY.
- **PVC prices should soften further** – Management expects PVC prices to go down further from current levels. Management further highlighted that benefit of drop in prices should be passed on to the channel.
- **Capex across various segments to be funded from internal accruals** – Post incurring a capex of Rs2.6bn during the year under review, management highlighted the plan to incur capex of Rs7bn during FY23. This capex will be incurred primarily for PVC Pipes, Roto and Blow Moulded Products, Plastic Product Complex in Orissa and Composite LPG cylinders among others. This entire capex will be funded from internal accruals.
- **Expectation of recovery in demand** – Management expects demand to recover due to various government schemes and improvement in housing sector and agricultural demand which should be assisted by downward trend in PVC prices.
- **Rise in inventory levels** – There was significant build-up in inventory levels. Management highlighted that this was done in anticipation of strong demand ahead.
- **Letter of intent for LPG cylinders** – Management highlighted that they have successfully participated and received letter of intent from IOC for supply of 7,35,186 cylinders of 10kg capacity.

### Where do we go from here?

We turned SELLERS on Supreme owing to its lower capital allocation opportunities (36% capex/CFO in FY23 vs 56%/41% in FY22/21) going forward, meaning scope for material re-rating remains low hereon. Whilst Supreme is cash positive, it is taking smaller bets unlike its peer Astral in categories like tanks, bath fittings, HDPE pipes, etc.

We decrease our PAT estimates for FY23/24 marginally by ~4%/2%; however are lower than consensus' FY24 estimates by 5%. This is owing to expectation of PVC price correction and lower margins vs. consensus. EBITDA/kg for Supreme is at significantly elevated levels which could be a risk to estimates going forward.

We are building in PVC resin prices to correct in FY24 which would hurt margins but aid volumes. Whilst Supreme remains relatively inexpensive, lower capital allocation opportunities restrict us to rethink our stance. We remain SELLERS with TP of Rs1,920 (24x FY24 EPS).

# SELL

## Result Update

### Stock Information

Bloomberg Code:	SI IN
CMP (Rs):	1,947
TP (Rs):	1,920
Mcap (Rs bn/US\$ bn):	247/3.2
6M ADV (Rs mn/US\$ mn):	246/3.3

### Stock Performance (%)

	1M	3M	12M	YTD
Absolute	(2.2)	(6.8)	(5.0)	(12.7)
Rel. to Sensex	1.5	(2.6)	(22.0)	(10.6)

Source: Bloomberg, Ambit Capital research

### Ambit Estimates

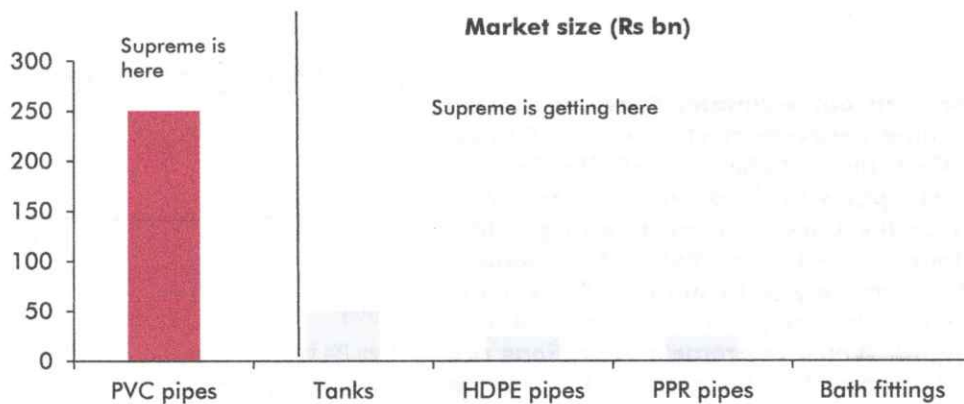
(Rs bn)	FY22	FY23E	FY24E
Net revenues	77.7	82.1	84.2
EBITDA	12.4	12.6	13.4
Diluted EPS (Rs)	76.2	76.9	80.1

Source: Ambit Capital research

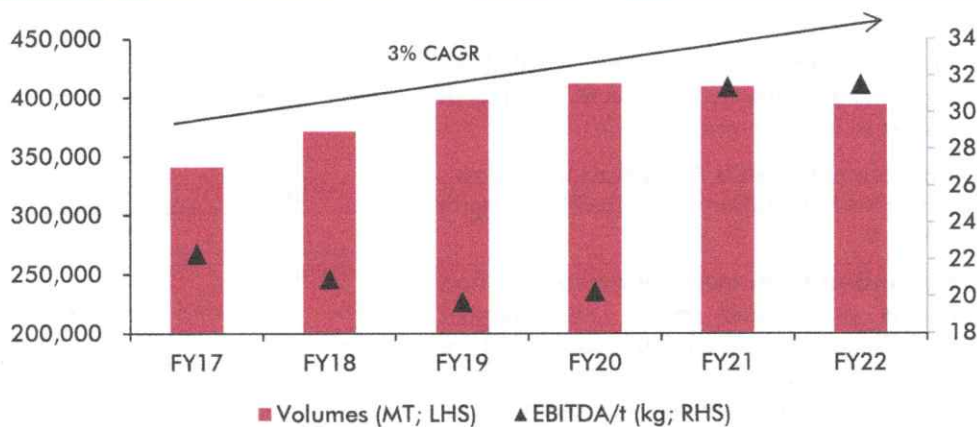
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**Exhibit 1: Supreme is getting aggressive into lower TAM categories**


Source: Ambit Capital Research, Industry data

**Exhibit 2: Supreme's EBITDA/kg is at significantly elevated level (update this chart)**


Source: Ambit Capital Research, Company

**Exhibit 3: Quarterly result snapshot**

(Rsmn)	4QFY22	4QFY21	3QFY22	YoY (%)	QoQ (%)	Ambit Est	Deviation %
<b>Volumes Sold</b>	<b>128,607</b>	<b>111,234</b>	<b>91,363</b>	<b>16%</b>	<b>41%</b>	<b>135,188</b>	<b>-5%</b>
Realization	199	187	213	6%	-7%	185	7%
<b>Net Sales</b>	<b>25,571</b>	<b>20,846</b>	<b>19,451</b>	<b>23%</b>	<b>31%</b>	<b>25,019</b>	<b>2%</b>
<b>Total operating expenditure</b>	<b>21,657</b>	<b>15,749</b>	<b>16,272</b>	<b>38%</b>	<b>33%</b>	<b>21,016</b>	<b>3%</b>
% of net sales	85%	76%	84%	910 bps	100 bps	1	70 bps
<b>EBITDA</b>	<b>3,914</b>	<b>5,097</b>	<b>3,179</b>	<b>-23%</b>	<b>23%</b>	<b>4,003</b>	<b>-2%</b>
<b>EBITDA margin (%)</b>	<b>15.3%</b>	<b>24.5%</b>	<b>16.3%</b>	<b>-910 bps</b>	<b>-100 bps</b>	<b>16.0%</b>	<b>-70 bps</b>
Depreciation	588	548	575	7%	2%	600	-2%
<b>Reported EBIT</b>	<b>3,326</b>	<b>4,549</b>	<b>2,604</b>	<b>-27%</b>	<b>28%</b>	<b>3,403</b>	<b>-2%</b>
<b>Reported EBIT margin (%)</b>	<b>13.0%</b>	<b>21.8%</b>	<b>13.4%</b>	<b>-880 bps</b>	<b>-40 bps</b>	<b>14%</b>	<b>-60 bps</b>
Other income	86	37	29	132%	193%	29	193%
Interest	19	5	5	276%	309%	5	NA
<b>Reported PBT</b>	<b>3,393</b>	<b>4,581</b>	<b>2,629</b>	<b>-26%</b>	<b>29%</b>	<b>3,428</b>	<b>-1%</b>
Tax	851	781	678	9%	25%	857	-1%
Tax rate (%)	25%	17%	26%	800 bps	-70 bps	0	10 bps
Associate Income	696	703	507	-1%	37%	-	na
<b>Reported net profit</b>	<b>3,239</b>	<b>4,503</b>	<b>2,457</b>	<b>-28%</b>	<b>32%</b>	<b>3,271</b>	<b>-1%</b>
Net profit margin (%)	13%	22%	13%	-890 bps	00 bps	0	-40 bps
<b>EPS</b>	<b>25</b>	<b>35</b>	<b>19</b>	<b>-28%</b>	<b>32%</b>	<b>26</b>	<b>-1%</b>

Source: Company, Ambit Capital research

**Exhibit 4: Change in estimates**

Particulars (Rs mn unless mentioned)	New estimates		Earlier estimates		Change in estimates	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
<b>Volume growth</b>						
Plastic piping systems	10.0%	11.0%	10.0%	12.0%	0 bps	-100 bps
Packaging products	10.0%	10.0%	12.0%	10.0%	-200 bps	0 bps
Industrial products	14.0%	14.0%	14.0%	15.0%	0 bps	-100 bps
Consumer durables	12.0%	12.0%	15.0%	14.9%	-300 bps	-290 bps
<b>Realisation growth</b>						
Plastic piping systems	-4.9%	-10.0%	-2.8%	-10.0%	-209 bps	0 bps
Packaging products	-6.0%	-5.0%	-5.0%	-5.0%	-100 bps	0 bps
Industrial products	-6.0%	-5.0%	-5.0%	-5.0%	-100 bps	0 bps
Consumer durables	-6.0%	-2.0%	-5.0%	-2.0%	-100 bps	0 bps
<b>Net revenues (in Rsmn)</b>						
Plastic piping systems	52,802	52,749	52,511	52,931	1%	0%
Packaging products	12,513	13,076	13,234	13,829	-5%	-5%
Industrial products	10,970	11,881	11,225	12,264	-2%	-3%
Consumer durables	4,265	4,681	4,765	5,366	-10%	-13%
Composites	1,056	1,257	1,156	1,376	-9%	-9%
<b>Total</b>	<b>81,606</b>	<b>83,644</b>	<b>82,891</b>	<b>85,765</b>	<b>-2%</b>	<b>-2%</b>
<b>Overall EBITM</b>	<b>12.2%</b>	<b>12.4%</b>	<b>12.5%</b>	<b>12.3%</b>	<b>-29 bps</b>	<b>10 bps</b>
<b>Overall EBITDA</b>	<b>12,601</b>	<b>13,363</b>	<b>12,997</b>	<b>13,538</b>	<b>-3%</b>	<b>-1%</b>
<b>Overall EBITDAM</b>	<b>15.3%</b>	<b>15.9%</b>	<b>15.6%</b>	<b>15.7%</b>	<b>-24 bps</b>	<b>19 bps</b>
PBT	10,187	10,590	10,583	10,765	-4%	-2%
PAT	7,623	7,924	7,919	8,055	-4%	-2%
EPS (in Rs)	77	80	79	81	-3%	-1%
<b>Profitability ratios</b>						
RoCE	17%	16%	18%	16%	-84 bps	-59 bps
RoE	23%	21%	24%	22%	-91 bps	-72 bps
TP	1,920		1,920			

Source: Ambit Capital Research, Company



**Exhibit 5: Quarterly segment snapshot**

Particulars	4QFY22	4QFY21	3QFY22	YoY (%)	QoQ (%)	Ambit Est	Deviation %
<b>Volumes (MT)</b>							
Plastic Piping Systems	96,507	75,997	57,197	27.0%	68.7%	94,996	1.6%
Packaging products	13,131	15,624	16,594	-16.0%	-20.9%	17,637	-25.5%
Industrial products	13,763	13,744	12,365	0.1%	11.3%	15,806	-12.9%
Consumer durables	5,206	5,869	5,207	-11.3%	0.0%	6,749	-22.9%
Composite products	-	-	-				
<b>Total volumes</b>	<b>128,607</b>	<b>111,234</b>	<b>91,363</b>	<b>15.6%</b>	<b>40.8%</b>	<b>135,188</b>	<b>-4.9%</b>
<b>Realisation (Rs)</b>							
Plastic Piping Systems	186	177	201	5.2%	-7.1%	175	6.8%
Packaging products	243	198	223	22.5%	9.0%	201	21.1%
Industrial products	218	213	220	2.4%	-0.6%	198	10.4%
Consumer durables	227	211	245	7.5%	-7.4%	220	2.9%
<b>Net Realization per ton</b>	<b>199</b>	<b>187</b>	<b>213</b>	<b>6.1%</b>	<b>-6.6%</b>	<b>185</b>	<b>7.3%</b>
<b>Revenues (Rs mn)</b>							
Plastic Piping Systems	17,997	13,470	11,479	33.6%	56.8%	16,587	8.5%
Packaging products	3,190	3,097	3,697	3.0%	-13.7%	3,537	-9.8%
Industrial products	3,003	2,929	2,715	2.5%	10.6%	3,124	-3.9%
Consumer durables	1,180	1,238	1,275	-4.7%	-7.4%	1,487	-20.6%
Others	201	110	285	82.8%	-29.4%		
<b>Net Revenue from Operations</b>	<b>25,571</b>	<b>20,844</b>	<b>19,451</b>	<b>22.7%</b>	<b>31.5%</b>	<b>25,019</b>	<b>2.2%</b>
<b>EBIT (Rs mn)</b>							
Plastic Piping Systems	2,589	3,570	1,894	-27.5%	36.7%		
Packaging products	337	408	246	-17.4%	37.0%		
Industrial products	314	390	224	-19.4%	40.3%		
Consumer durables	145	286	215	-49.3%	-32.4%		
Others	10	4	58	157.5%	-82.3%		
<b>Total segmental PBIT</b>	<b>3,396</b>	<b>4,658</b>	<b>2,637</b>	<b>-27.1%</b>	<b>28.8%</b>	<b>3,403</b>	<b>-0.2%</b>
Reported EBIT	3396	4658	2637	-27.1%	28.8%		
<b>EBIT Margin (%)</b>							
Plastic Piping Systems	14.4%	26.5%	16.5%	-1210 bps	-210 bps		
Packaging products	10.6%	13.2%	6.7%	-260 bps	390 bps		
Industrial products	10.5%	13.3%	8.3%	-280 bps	220 bps		
Consumer durables	12.3%	23.1%	16.8%	-1080 bps	-450 bps		
Others	5.1%	3.6%	20.5%	150 bps	-1540 bps		
<b>Total PBIT Margin Adj (%)</b>	<b>13.3%</b>	<b>22.3%</b>	<b>13.6%</b>	<b>-910 bps</b>	<b>-30 bps</b>	<b>13.6%</b>	<b>-30 bps</b>

Source: Company, Ambit Capital research

## Financials

### Income Statement

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	55,114	63,570	77,728	82,121	84,169
Reported EBITDA	8,344	12,841	12,421	12,601	13,363
Net depreciation / amortisation	2,057	2,128	2,295	2,623	2,993
EBIT	6,287	10,713	10,126	9,978	10,370
Interest Expense/(income)	202	95	52	-	-
PBT	6,099	10,661	10,274	10,187	10,590
Provision for taxation	1,739	2,341	2,633	2,564	2,665
PAT	4,371	8,354	7,641	7,623	7,924
Share of associates	312	1,460	2,044	2,146	2,253
Consolidated PAT	4,672	9,780	9,684	9,769	10,178
Reported Consolidated PAT	4,672	9,780	9,684	9,769	10,178
Consolidated EPS (Rs.)	36.8	77.0	76.2	76.9	80.1

Source: Company, Ambit Capital Research

### Balance sheet

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Total Networth	22,612	31,692	38,444	45,164	51,988
Loans	4,104	10	-	-	-
Deferred Tax Liability	1,326	919	904	904	904
<b>Sources of funds</b>	<b>28,042</b>	<b>32,621</b>	<b>39,348</b>	<b>46,069</b>	<b>52,893</b>
Net block	15,332	16,361	16,821	21,490	24,498
Capital work-in-progress	929	496	1,546	1,546	1,546
Investments	2,073	3,312	4,702	4,702	4,702
Cash and bank balances	2,314	7,684	5,264	11,987	17,313
Sundry debtors	3,128	3,899	4,668	4,932	5,055
Inventories	8,906	7,608	12,602	11,428	9,893
Loans and advances	2,150	1,469	2,064	2,064	2,064
Other Current Assets	639	1,198	1,429	1,429	1,429
Total Current Assets	17,137	21,858	26,027	31,840	35,753
Current liabilities & provisions	7,843	9,834	10,154	13,915	14,012
Net current assets	9,294	12,024	15,873	17,924	21,741
<b>Application of funds</b>	<b>28,042</b>	<b>32,621</b>	<b>39,348</b>	<b>46,069</b>	<b>52,893</b>

Source: Company, Ambit Capital Research

### Cash flow statement

Particulars (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
PBT	6,099	12,122	12,318	12,333	10,590
Depreciation	2,057	2,130	2,295	2,623	2,993
Interest expense/ (income)	227	212	42	-	-
Direct taxes paid	(1,621)	(2,321)	(2,868)	(2,564)	(2,665)
<b>CFO (before exceptional)</b>	<b>5,371</b>	<b>12,464</b>	<b>4,703</b>	<b>14,746</b>	<b>14,154</b>
<b>CFO</b>	<b>5,371</b>	<b>12,464</b>	<b>4,703</b>	<b>14,746</b>	<b>14,154</b>
Purchase of fixed assets	(2,396)	(2,210)	(4,660)	(5,310)	(6,000)
<b>CFI</b>	<b>(1,937)</b>	<b>(2,006)</b>	<b>(4,034)</b>	<b>(5,100)</b>	<b>(5,780)</b>
Net borrowings	2,380	(4,104)	(11)	-	-
Dividends paid	(3,522)	(635)	(2,922)	(2,922)	(3,049)
<b>CFF</b>	<b>(1,555)</b>	<b>(4,905)</b>	<b>(2,943)</b>	<b>(2,922)</b>	<b>(3,049)</b>
Net Cash	1,879	5,553	(2,273)	6,723	5,325
<b>Free cash flow</b>	<b>2,975</b>	<b>10,254</b>	<b>43</b>	<b>9,436</b>	<b>8,154</b>

Source: Company, Ambit Capital Research

**Valuation metrics**

Particulars	FY20	FY21	FY22E	FY23E	FY24E
Consolidated adjusted EPS (Rs)	36.8	77.0	76.2	76.9	80.1
BVPS	178	249	303	356	409
DPS (Rs)	14	5	22	24	26
P/E (x)	57.9	27.7	27.9	27.7	26.6
P/B (x)	12.0	8.5	7.0	6.0	5.2
EV/EBITDA (x)	30.1	18.8	19.7	18.9	17.4
EV/EBIT (x)	40.0	22.6	24.1	23.8	22.4
EV/Sales	4.5	3.9	3.2	3.0	3.0
EV/IC	9.7	9.7	7.2	7.0	6.5

Source: Company, Ambit Capital Research

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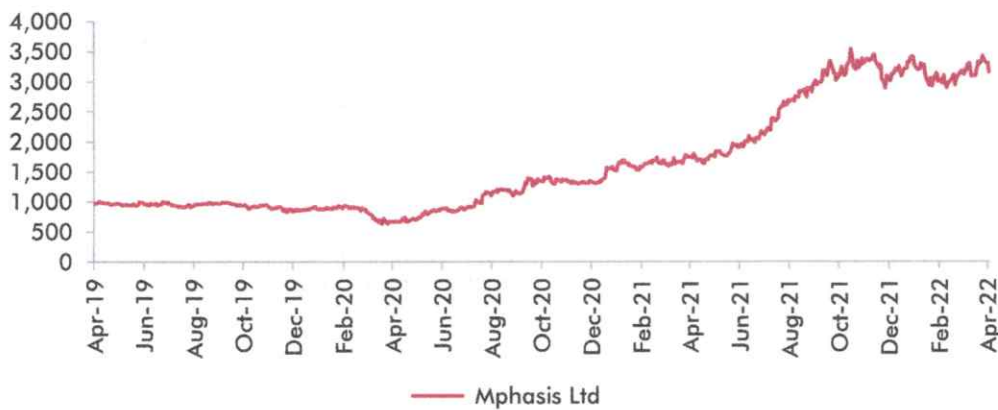
Source: Bloomberg, Ambit Capital research

**SBI Cards & Payment Services (SBICARD IN, BUY)**



Source: Bloomberg, Ambit Capital research

**Mphasis Ltd (MPHL IN, BUY)**



Source: Bloomberg, Ambit Capital research



**Supreme Industries Ltd (SI IN, SELL)**



Source: Bloomberg, Ambit Capital research

**Explanation of Investment Rating - Our target prices are with a 12-month perspective. Returns stated are our internal benchmark**

Investment Rating	Expected return (over 12-month)
BUY	We expect this stock to deliver more than 10% returns over the next 12 months
SELL	We expect this stock to deliver less than or equal to 10% returns over the next 12 months
UNDER REVIEW	We have coverage on the stock but we have suspended our estimates, TP and recommendation for the time being NOT
NOT RATED	We do not have any forward-looking estimates, valuation, or recommendation for the stock.
POSITIVE	We have a positive view on the sector and most of stocks under our coverage in the sector are BUYS
NEGATIVE	We have a negative view on the sector and most of stocks under our coverage in the sector are SELLS
NO STANCE	We have forward looking estimates for the stock but we refrain from assigning valuation and recommendation

**Note:** At certain times the Rating may not be in sync with the description above as the stock prices can be volatile and analysts can take time to react to development.

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