

Supreme Industries Ltd.

20th July 2022

Volumes to rally while realizations may correct

Supreme Industries Ltd. (SIL) is India's most prominent plastic product manufacturer, with a presence across multiple plastic businesses. SIL holds leading positions in all four business segments (plastic pipes, packaging, industrial, and consumer products). The company generates most of its business from the plastic piping business, where it has the pole position with an approximately 12% market share of the plastic piping industry. We initiate coverage on Supreme Industries Ltd. with a NEUTRAL rating and a target price of Rs. 1,958.

Elevated PVC prices led growth may not sustain for long

Overall realization/kg for SIL has shot up abnormally from Rs. 141 in FY19 to Rs. 197 in FY22. This spike has come because of the elevated PVC prices. Material price cooling has already taken place, and it looks like some softening will be seen in coming quarters. This fall in PVC prices will result in inventory losses and dent profitability. Though realization levels might not come down to historically low levels, FY22 levels are challenging to sustain, given the supply situation continues to normalize.

Breakthrough efforts are needed to increase the contribution of Value-added products

The company has put in considerable efforts since FY12 to increase the share of Value-Added Products (VAP) to its sales. From FY17 onwards, the contribution of VAP to total sales has stagnated in the 38-40% range. The company needs to accelerate efforts to be able to breach this range.

Optionalities have started performing

The company achieved a much-needed breakthrough with its composite LPG cylinders in FY22. SIL received an order for Indian Oil Corporation Ltd., which marks the introduction of this product in the domestic market. Currently, the scale is very small to move the needle, but SIL can benefit immensely if this becomes widely acceptable. Another positive is that this product falls under the VAP category. More considerable success can increase the VAP contribution to total sales and might result in valuation re-rating.

View & Valuation

We initiate coverage on Supreme Industries with a NEUTRAL rating and a target price of Rs. 1,958 (24x FY23 earnings). Over the last two years, sales and operating profit has grown based on rising PVC prices and exceptional performance from Supreme Petrochem. Sustainability of such performance looks difficult therefore SIL is expected to give mid to high single-digit growth at both levels. Strong performance can sustain/correct moderately if PVC prices start moving up from current levels.

NEUTRAL

CMP Rs. 1,893

TARGET Rs. 1,958 (+3.4%)

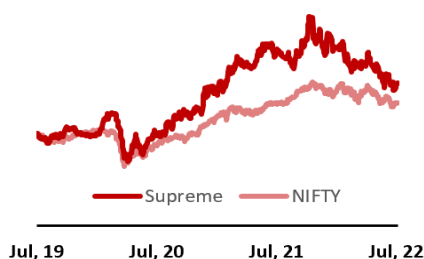
Company Data

MCAP (Rs. Mn)	2,40,475
O/S Shares (Mn)	127
52w High/Low	2694 / 1669
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	107

Shareholding Pattern %

	Mar 22	Dec 21	Sep 21
Promoters	48.85	48.85	48.85
FII's	16.16	16.16	10.38
DII's	19.65	19.70	25.30
Non-Institutional	15.34	15.29	15.47

Supreme vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs mn)	FY22	FY23E	FY24E
Revenue	77,728	80,449	83,940
EBITDA	12,421	13,676	14,270
Net Profit	7,641	8,279	8,451
Total Assets	52,607	59,601	67,585
ROCE (%)	27%	25%	22%
ROE (%)	28%	25%	21%

Source: Company, Keynote Capitals Ltd.

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About Supreme Industries

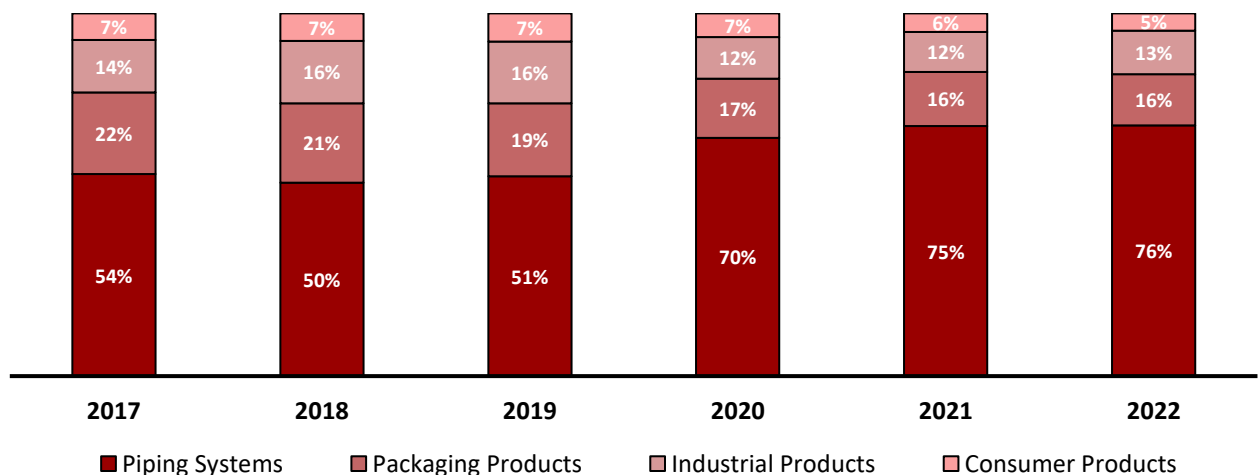
Incorporated in 1942 at Wadala Mumbai, Supreme Industries Ltd. (SIL) was promoted by the family of Kantilal K Mody. In 1996, the Taparia family took control of the company by outright purchasing shares. Supreme Industries Ltd. is one of the largest plastic processors in India. In FY22 alone, SIL processed more than 400,000 MT of polymers.

The company operates in 4 different segments in the plastic processing space where they manufacture a plethora of plastic products starting from PVC Pipes, CPVC Pipes, Plastic Furniture, Packaging Films, Yoga Mats, Plastic LPG Cylinders, Dustbins, Crates, etc. This makes SIL the most diversified plastic player in India. Apart from this, Supreme Industries Ltd. also holds a 30.78% stake in an associate company called “Supreme Petrochemicals Ltd.”

Segment	Products	Applications
Plastic Piping System	UPVC, CPVC, PPR, Overhead Tanks, Septic Tanks, Bath Fittings, Solvents, Drainage Systems, Sprinkler Irrigation Systems, Casing Pipes, Column Pipes, Screen Slotted Pipes, Double Wall Corrugated Pipes, etc.	These products find application in Building Plumbing, Building Drainage, Civil & Infra projects, Pressure Piping Systems, Bore Wells, Underground Drainage & Sewerage for Civil Projects and Infrastructure.
Packaging Products	Protective Packaging Films, Performance Packaging Films, Multi-layered Cross Laminated Films.	Used for cushioning/protection, Insulation, Toys, Protection from water, rain, and making packages containing edible items.
Industrial Products	Industry-Specific Crates, Bins, Pallets, ROTO Moulded Crates, Bins, and Pallets.	Products are used in various manufacturing setups for material handling, Waste management, etc.
Consumer Products	Moulded Plastic Furniture	Various indoor and outdoor setups like houses, offices, restaurants, gardens, etc.

Source: Company, Keynote Capitals Ltd.

Plastic piping segment continues to dominate SIL’s sales mix



Source: Company, Keynote Capitals Ltd.

“Most Diversified Plastic Player” a plethora of plastic products manufactured and sold by Supreme Industries Ltd.



Products - Plastic Piping System

Protective Packaging Products



Cross Laminated Films (Tripal)



Performance Packaging Films



Products – Packaging Products

Functional & Durable Range Of Material Handling Products



Products – Industrial Products

Crates & Bins



Products – Consumer Products

Furniture

Not only products, but the company is well diversified in terms of production units also. SIL has 25 production units spread across 10 states of India.

Plant No.	Locality	State	Piping Products	Packaging Products	Industrial Products	Consumer Products	Composites
1.	Derabassi	Punjab			*	*	
2.	Durgapur	West Bengal			*	*	
3.	Gadegaon	Maharashtra	*	*	*	*	
4.	Ghiloth	Rajasthan			*		
5.	Guwahati	Assam				*	
6.	Halol – U1	Gujarat		*			
7.	Halol – U2	Gujarat		*			
8.	Halol – U3	Gujarat		*			
9.	Halol – U4	Gujarat					*
10.	Hosur	Tamil Nadu		*			
11.	Jalgaon – U1	Maharashtra	*				
12.	Jalgaon – U2	Maharashtra	*				
13.	Jadcherla	Telangana	*	*	*	*	
14.	Kanhe	Maharashtra			*		
15.	Kanpur	UP	*				
16.	Kharagpur	West Bengal	*	*		*	
17.	Khopoli	Maharashtra		*			
18.	Malanpur – U1	MP		*			
19.	Malanpur – U2	MP	*	*			
20.	Malanpur – U3	MP	*				
21.	Noida	UP			*		
22.	Puducherry	UT			*	*	
23.	Silvassa	UT		*			
24.	Sriperumbudur	Tamil Nadu			*		
25.	Urse	Maharashtra		*			

Source: Company, Keynote Capitals Ltd.

Supreme Industries Ltd. has a vast pan India network of production units where the company manufactures products for single/multiple segments at each production unit. Supreme Industries Ltd. has taken up three new projects primarily for Plastic Piping Systems in the states of Assam, Odisha, and Tamil Nadu. These facilities will come on stream during the first half of the current year.

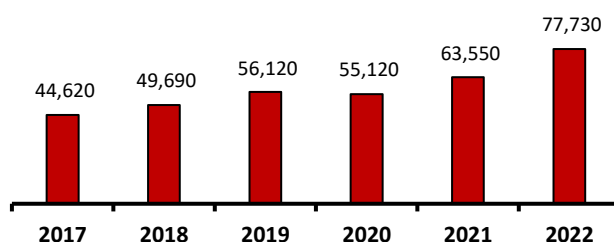
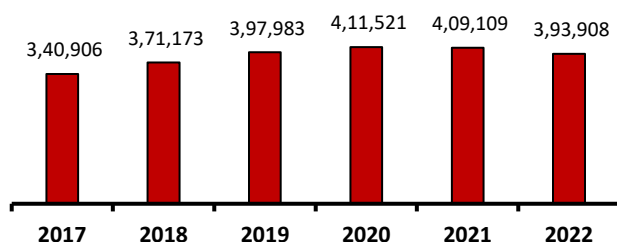
Segment	Capacity (in MT)
Plastic Piping	525,000
Plastic Packaging	90,000
Industrial Products	80,000
Consumer Products	30,000

Source: Company, Keynote Capitals Ltd.

Supreme Industries Ltd. – Business Progression in Numbers

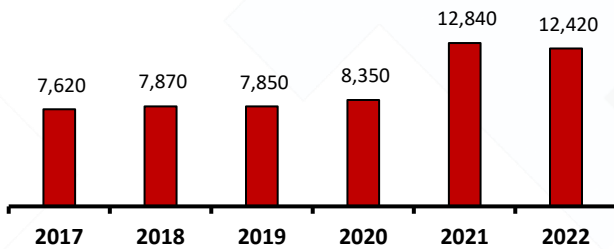
Steady Volume (MT) growth pre COVID. Dented due to loss of Q1 in FY21 & FY22

Bulk of Sales (Rs. mn) has come from value growth. PVC inflation is a major driver

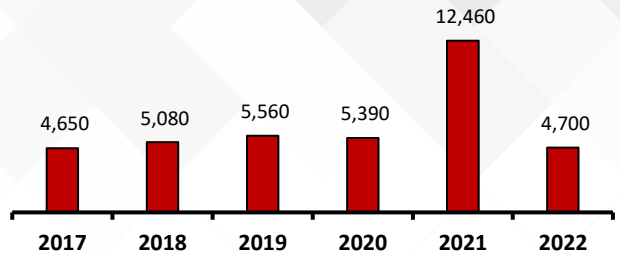


Source: Company, Keynote Capitals Ltd.

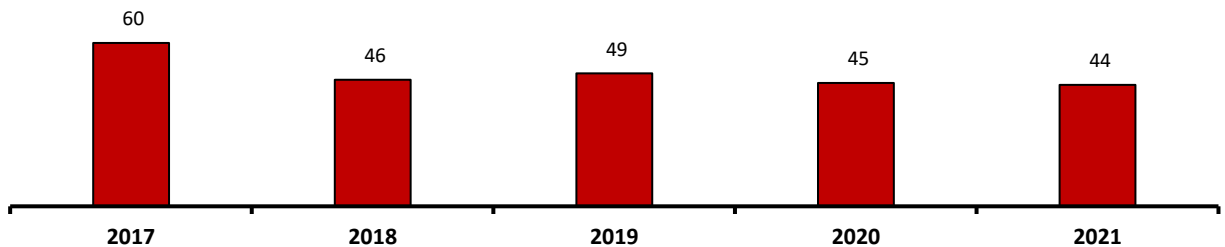
Price led Profit (Rs. mn) growth portraying a healthy picture



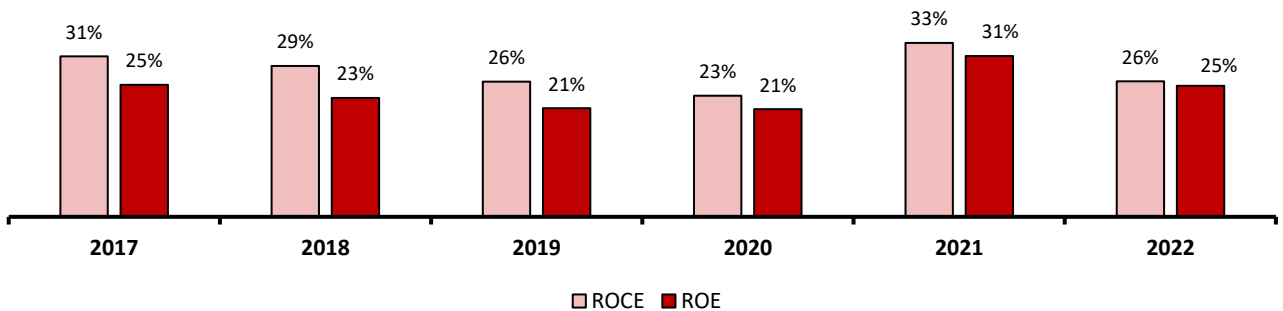
Constant +ve healthy Operating Cash Flow (Rs. mn) generation indicates low/no debt requirement in the future



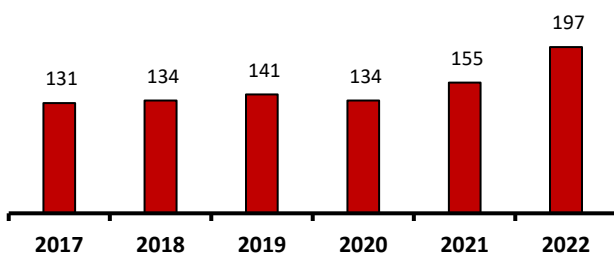
Constantly improving Net Working Capital (Days)



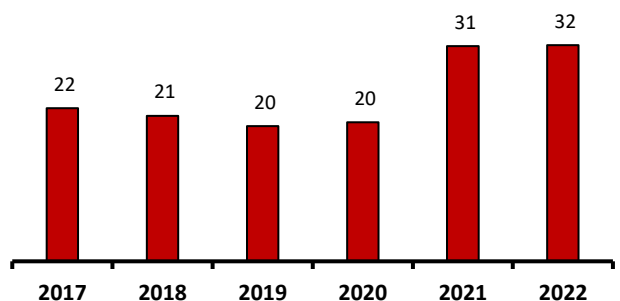
History of generating healthy ROEs & ROCEs (%)



Price driven Realizations/kg (Rs.) growth. Sustainability of FY22 realizations remains a question given PVC price history



-ve trajectory of EBITDA/kg (Rs.) turning +ve due to price led growth



Understanding The Piping Business

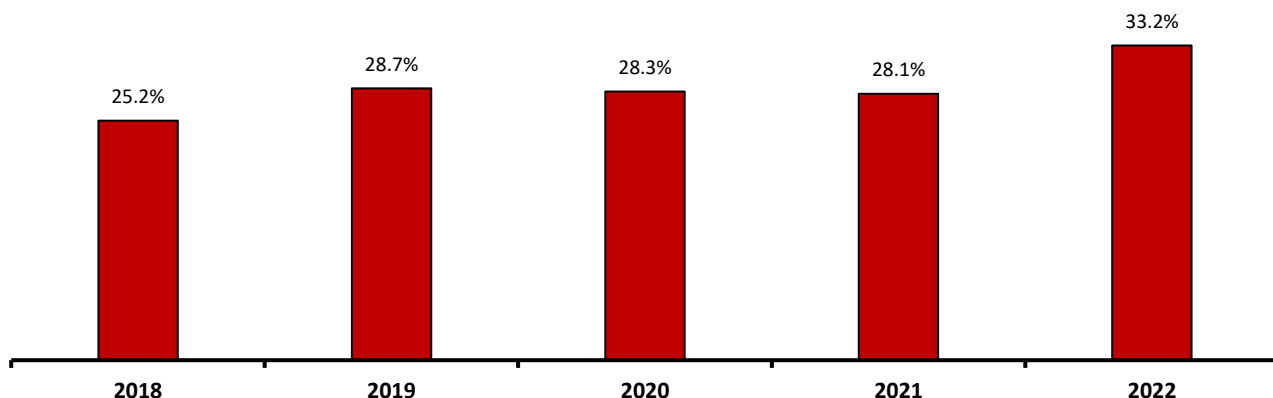
Indian Polymer Piping Industry Overview

Indian polymer piping industry is currently pegged at ~Rs.400-450 bn. Significant demand for piping comes from irrigation, residential, and infrastructure segments. These segments can be housed under public and private projects undertaken by various institutes, companies, and the government at multiple levels. This demand is generated from areas like irrigation, WSS (water supply and sanitation), and real estate (mainly replacing traditional steel pipes with plastic pipes and new projects). In the coming years, the industry is poised to grow at 10%-12% p.a. and can reach 550-600 bn in size

This kind of growth will be driven due to i) the government's infrastructure thrust ii) various government schemes like "Nal Se Jal," "Housing for All," "Pradhan Mantri Awas Yojna," etc. iii) replacement of steel pipes with plastic pipes iv) discovery of novel applications. Over the years, the plastic piping industry has evolved from an unorganized segment-dominated industry to an industry which organized players now dominate. This can be attributed to multiple factors, including regulatory changes (GST, RERA, etc.) and private players' efforts on marketing, innovation, and distribution.

Four leading listed private players have managed to take away market share from unorganized players. The list includes Supreme Industries Ltd, Astral Ltd, Finolex Industries Ltd, and Prince Pipes & Fittings Ltd.

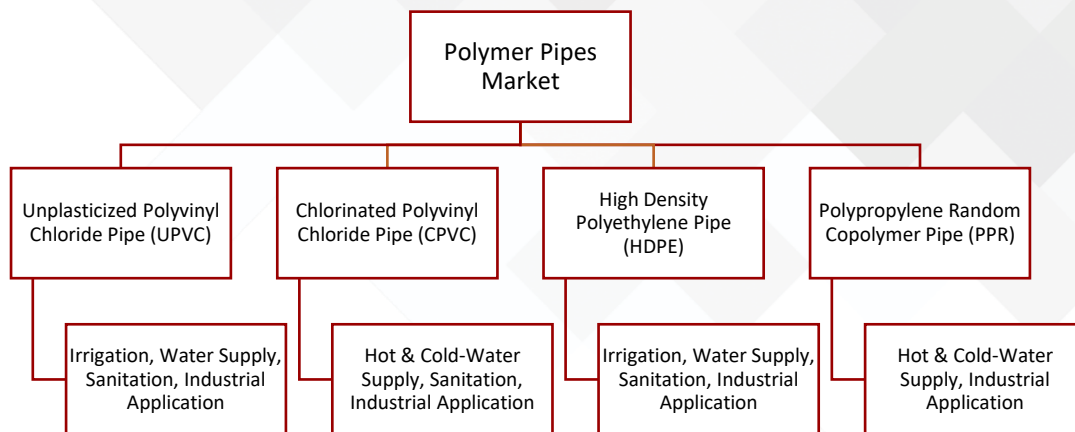
Market share % of top 4 plastic piping players



Source: Company, Keynote Capitals Ltd.

Market Structure

Polymer piping is a vast and the largest segment in the building material space, offering significantly higher growth than other building material industries. The industry is expected to grow at a double-digit rate and can reach Rs. 550-600 bn. by FY25. The entire piping market can be divided into various types of pipes with multiple uses based on the characteristics of different pipes.

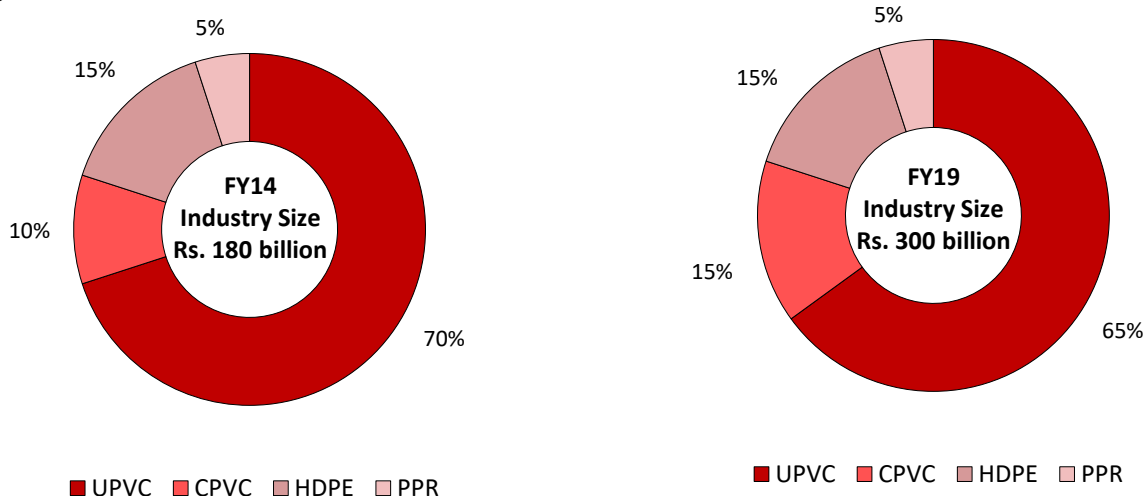


Comparison of Various Types of Pipes

Pipe Type	Industry contribution % as of FY19	Brief Detail
UPVC	~65%	These pipes find application in irrigation and plumbing for potable water supply. Demand for UPVC has grown mainly because of the constant replacement of GI pipes as these pipes have higher durability and affordability compared to GI. According to CRISIL, this segment can register a low double-digit growth of around 10%-12% in the coming few years.
CPVC	~15%	These pipes are mainly used in plumbing systems as well as the distribution of hot and cold water. This has been and is expected to be the fastest-growing sub-segment because these pipes are corrosion, fire, and lead-free. Another peculiarity of CPVC pipes is that they can withstand high temperatures. According to CRISIL, CPVC pipes can grow at a 20% rate in the coming few years.
HDPE	~15%	These pipes find application in sectors like city gas distribution, chemicals, etc. Apart from traditional applications like irrigation and drainage, HDPE pipes gained prominence over metal pipes due to their durability and longevity. As per CRISIL, the segment is expected to grow in the low double digits.
PPR	~5%	The contribution of PPR pipes to the industry is very small and is used for industrial purposes. These pipes are relatively costly compared to other plastic pipes. This acts as a growth damper. According to CRISIL, this segment is expected to clock a 6%-7% growth in the coming years.

Source: Prince Pipes & Fittings RHP, Keynote Capitals Ltd.

Piping Demand Mix FY14 vs FY19



Source: Prince Pipes & Fittings RHP, Keynote Capitals Ltd.

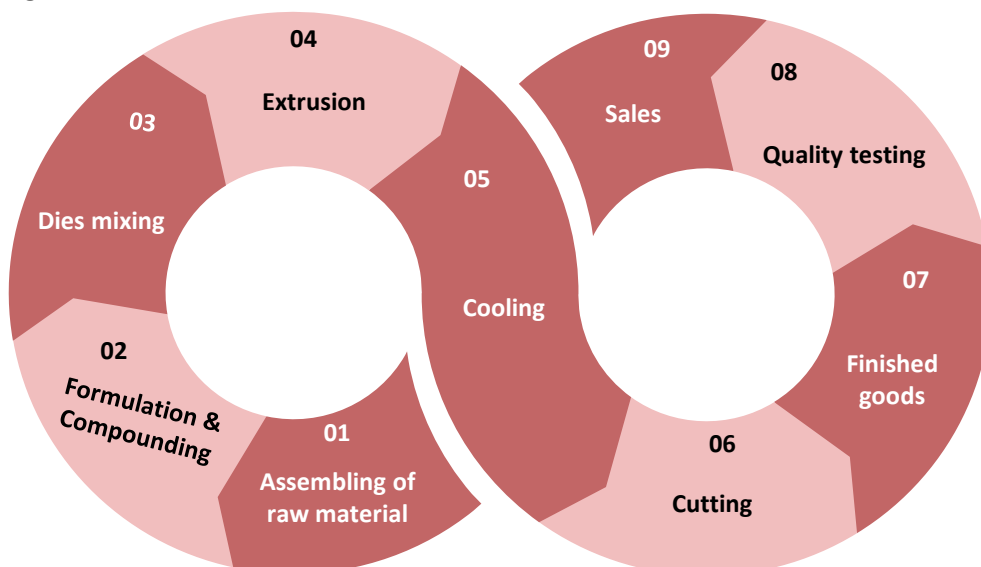
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UPVC pipes continue to dominate the mix, but the contribution of CPVC has gone up in the past few years. Its contribution is likely to increase given the growth these pipes sub-segment is witnessing. The contribution of UPVC has come down from ~70% in FY14 to ~65% in FY19, whereas the contribution of CPVC has gone up from ~10% in FY14 to ~15% in FY19. It looks high likely that the contribution of CPVC will only head north from here based on the demand scenario.

Comparing Parameters	UPVC	CPVC	HDPE	PPR	GI
Life (Years)	20-25	30-35	50	50	15-20
Max Temp (Degree C)	60-70	90-100	90-100	90-100	200-250
Cost	Cheaper than GI	Cheaper than GI but costlier than UPVC	Cheaper than GI but costlier than UPVC	Cheaper than GI but costlier than UPVC	Costlier than plastic pipes
Corrosion	No effect due to chemical resistance	Has anti-corrosive properties	Excellent anti-corrosion and chemical resistance	Good chemical and corrosion resistance	Corrodes Faster
Chance of Leakage	Leakage free	Leakage free for life	Leakage free	Leakage free but requires installation by skilled manpower	Vulnerable to Leakage
Installation	Done through cold welding	Done through cold welding	Done through cold welding but these pipes are more tolerant to poor installation	Fusion welded system which requires specialized training & equipments	Time and energy consuming
Expected Growth	-	11%-12%	20%+	12%-13%	6%-7%

Source: Prince Pipes & Fittings RHP, Keynote Capitals Ltd.

Manufacturing Process



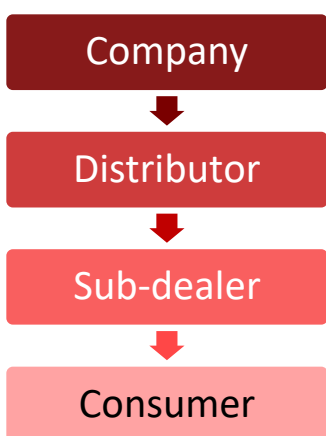
Source: Rex Pipes & Cables RHP, Keynote Capitals Ltd.

Supply Chain Structure

The piping industry generally follows a two or three-step distribution chain where the company supplies to the distributor, who goes ahead and either sells to a sub-dealer or directly to the end consumer. For large projects, piping companies go through the distributor route or directly deal with the end customer.

Plastic pipe is a bulky product; hence, distribution/manufacturing network diversification plays a vital role for a plastic pipe manufacturing company. Freight cost is a material cost component for pipe manufacturing players. This cost can be significantly controlled by strengthening the distribution chain and localizing production.

3 Step Structure



2 Step Structure



Source: Company, Keynote Capitals Ltd.

Major Raw Materials and their Sources

PVC – Roughly half of India’s PVC demand is indigenously met and the rest is met collectively by countries like China, Japan, Korea, etc.

CPVC – Most of India’s demand for CPVC is met by imports. India heavily relies on countries like Korea, China, Japan, etc for its CPVC material. There are very few CPVC resin suppliers globally and local pipe majors have already tied up with these CVPC suppliers as CPVC pipes are expected to grow the fastest.

ADD on CPVC – GOI in August 2019 imposed an “anti-dumping duty” on imports of CPVC from China and Korea for a term of 5 years. As per data shared by GOI, these two countries account for 32% of India’s CPVC resin imports.

PPR – Almost 90% of PPR’s demand in India is domestically met

PE – For PE, roughly 60% of demand is internally met, and the rest is imported from countries like UAE, Saudi, Singapore, and USA. These countries account for the biggest import share of PE in India.



PVC Resin

Tailwinds for the Industry and Especially for Organized Players

GOI's Focus on Improving Infrastructure – The government of India has rolled out many initiatives to improve the overall infrastructure of the country. They are putting immense focus right on building bridges, roads, houses, water transport, etc. Pipes have an important role to play in almost all infrastructure projects. Apart from this, large organized players have a better chance to cater to the demand coming out of these projects as smaller players will not be able to fulfill such huge demands within time and of the right quality. Therefore, organized private players with an established presence will have a better chance against unorganized smaller players to cater to this growing demand.

Market Consolidation – Plastic piping industry, like many other industries, is increasingly being dominated by organized and well-managed players. Market share in the hands of the top 4 organized players has gone from 25% in FY18 to 33% in FY22. This has been possible because small players are squeezed from two sides, on one side, government reforms around imports, the introduction of GST, etc have made life difficult for these players and on the other hand, strong organized players are continuing to invest behind the right things such as production, branding, distribution, and innovation, unlike small unorganized players who lack the muscle power to invest behind these initiatives. The combination of these two has forced and will force a lot of small players out of the industry.

Development of Private Infrastructure – Along with the government, there are a lot of private sector investments in infrastructure which will propel India's future growth. Piping as a construction material doesn't contribute more than 5% to the overall project cost therefore it won't take a lot of mind share from customers. Private players are constantly positioning themselves as the best pipe manufacturers with the help of advertising at multiple platforms and events. Also, organized private players have a lot to offer in terms of the product range. These two factors offer them an advantage to tap the private infra growth over smaller unorganized players.

Plastic pipes will continue to replace GI pipes – Plastic pipes are much more cost-effective compared to traditional GI pipes. Apart from this, plastic pipes offer several other benefits like low chances of leakage, less/not prone to corrosion, less/no impact of chemicals, etc. Due to this, there is a replacement wave, customers across the country are replacing GI pipes with plastic ones.

Major Players in Plastic Piping Industry



1. Plastic Piping Business – Supreme’s Supremacy

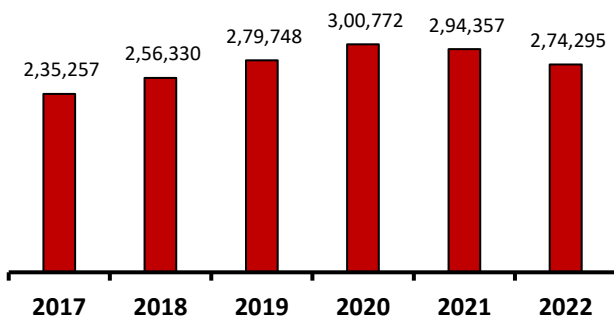
Supreme Industries is India’s largest plastic pipe manufacturer and seller. The company roughly sold ~275,000 MT pipes in FY22 alone. This scale is slightly lower than Astral Ltd, and Prince Pipes and Fittings Ltd put together. Both these leading companies in FY22 managed to sell ~288,000 MT pipes at a combined level.

In the piping business, SIL clocked a more than 50bn turnover in FY22. The company enjoys leadership with an 11%-12% market share of a 400-450 bn piping market. A good chunk of the sales for SIL comes from the sale of PVC pipes, the demand for which is generated by both the irrigation and the housing and infrastructure sectors. Currently, the company has a pipe manufacturing capacity of 525,000 MT, which is expected to go up to 585,000 by the end of FY23.

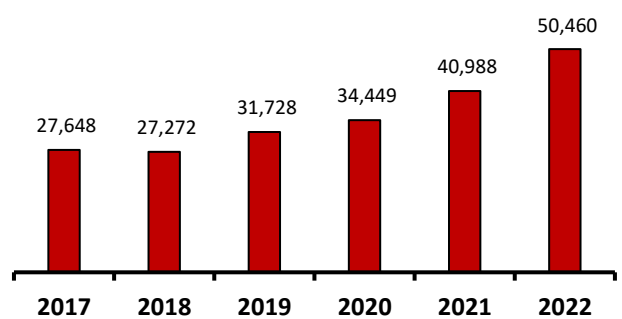
The company has talked a lot about the potential of the export market. Also, the company has been sharing growth numbers from time to time, but exports as % of total sales are not encouraging.

Plastic Piping Business Progression in Numbers

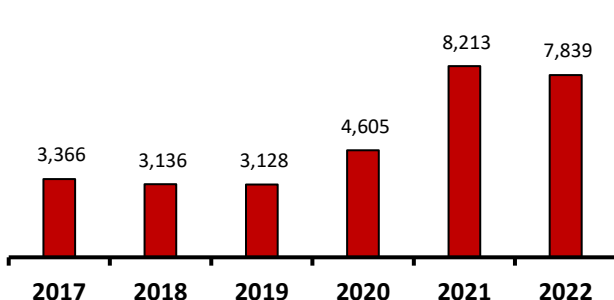
Constant volume (MT) growth dented by COVID. It should come back in FY23



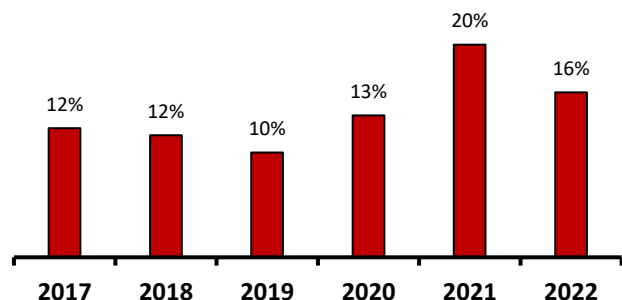
Steady Revenue (Rs. mn) growth spiked in last two years due to higher PVC prices.



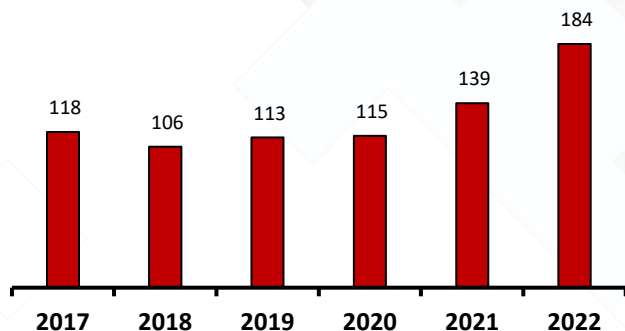
Operating Profits (Rs. mn) might stay in similar range. FY21 was abnormal. Softening of PVC price might lead to low profit growth



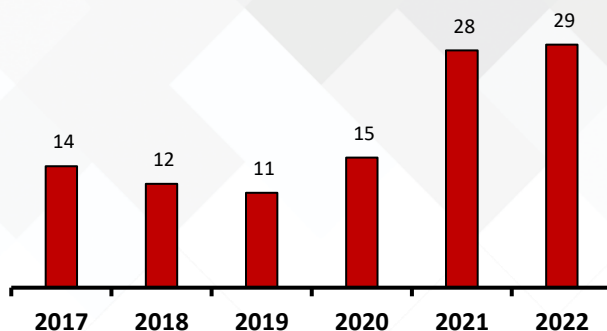
Margins bottomed out in FY19. It should stay in 14%-16% range going forward



Better Realizations/kg (Rs.) on the back of increased prices. It might soften going forward



Operating Profit/kg (Rs.) trend

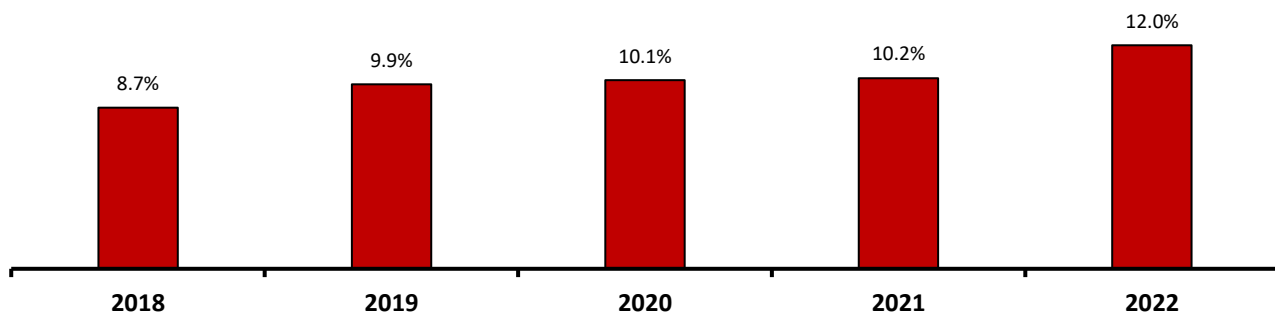


Source: Company, Keynote Capitals Ltd.

Plastic Piping Business Progression

Over the years, Supreme Industries Ltd. has made relentless efforts in building and improving its plastic piping business. As a result, the company has not only managed to maintain leadership but also gain market share from weaker players and become even more dominant in the industry.

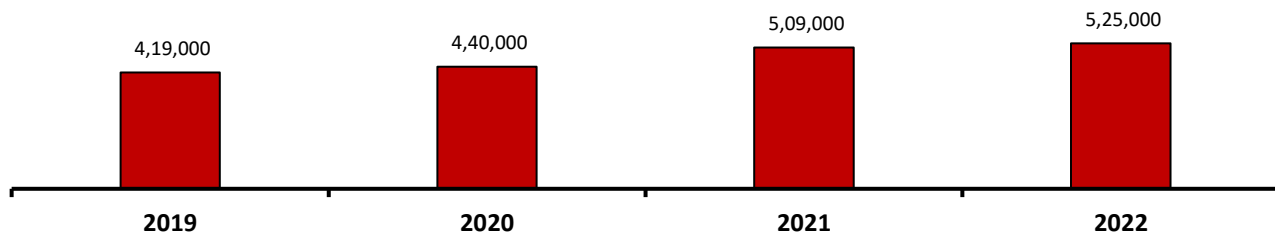
Supreme maintaining leadership while gaining Market Share (%) in plastic piping business



Source: Company, Keynote Capitals Ltd.

Continuous Investments in Building Production Capabilities – Over the years, the company has continued to invest in its piping business which has turned into a powerhouse of growth for the company. The company has increased its production capacity year after year which now stands at more than 5 lakh MT. This capacity will further go up to 5.9 lakh by the end of FY23 as the company has planned to put up 3 new plants driven by the Plastic Piping segment.

Continuous capital commitment towards plastic piping segment. 3Y capacity (MT) expansion rate CAGR healthy at ~8%

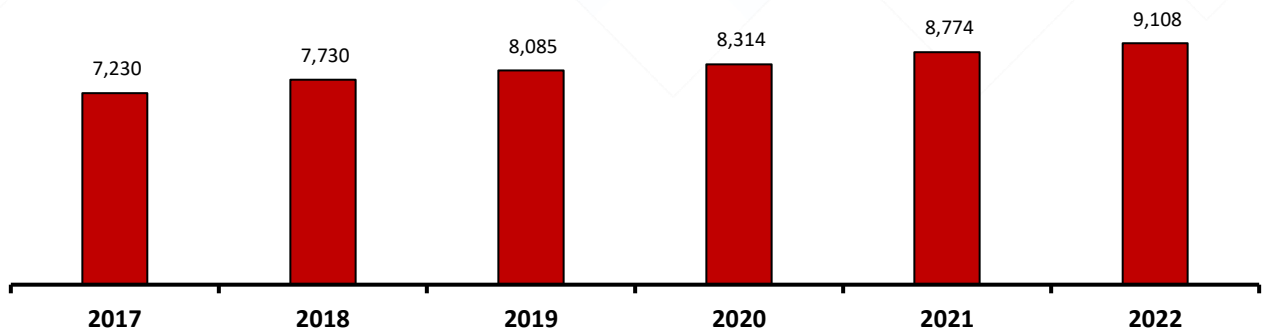


Source: Company, Keynote Capitals Ltd.

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Constant Addition of New VA Products – Supreme Industries Ltd. has constantly worked on improving its piping and allied product portfolio. The company from being a PVC pipe manufacturer has developed competencies in manufacturing all types of pipes. Not only this, SIL has introduced a plethora of bath fitting products which fetch the company a healthy ~20% margin. These efforts are still going on, and SIL continues to innovate and expand its product portfolio by introducing new products every year. Piping product portfolio has grown at a CAGR of ~5% in the last 5 years.

Constant expansion of plastic piping portfolio by introduction of new innovative products (SKUs)



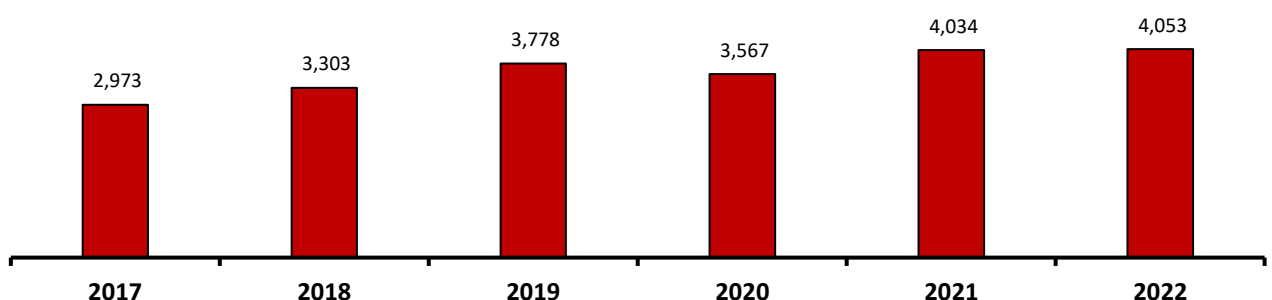
Source: Company, Keynote Capitals Ltd.

Entry into Segments where SIL has High Winning Probability like Water Tanks – Plastic Overhead Water Tanks have emerged as an emerging opportunity that provides potential to big players like SIL for increasing market share. SIL has been at the forefront of taking this opportunity and has set up multiple manufacturing facilities to tap Rs.50-60 bn plastic tanks market.

If executed properly, this segment can generate meaningful sales for SIL. In the latest annual report, the company highlighted that they would be producing tanks at eight different locations. This will enable the company to service customers more economically. SIL has a robust expansion plan to increase the tank business through a distribution strategy of directly serving retailers from production units.

Expansion of Distribution Network – Plastic pipe is a bulky product. It becomes extremely important for a company like SIL to diversify and increase its production and distribution reach. Along with increasing its production capacity over years, the company has also been cognizant of strengthening its distribution network. SIL has nearly doubled its distribution reach in the past 7-8 years.

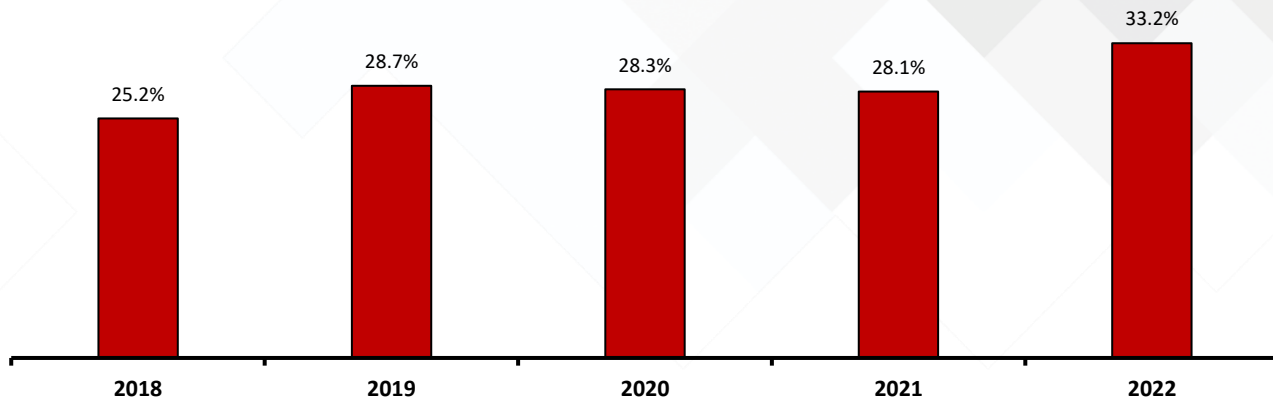
Steady increase in No. of Distributors year after year registering a 5Y CAGR of 6%+



Source: Company, Keynote Capitals Ltd.

Plastic Piping Peer Analysis

Top 4 listed players constantly gaining share (%) from smaller unorganized players



Source: Company, Keynote Capitals Ltd.

Market share gain by leading listed players can be attributed to 3 key strategies the prominent private players followed over the years.

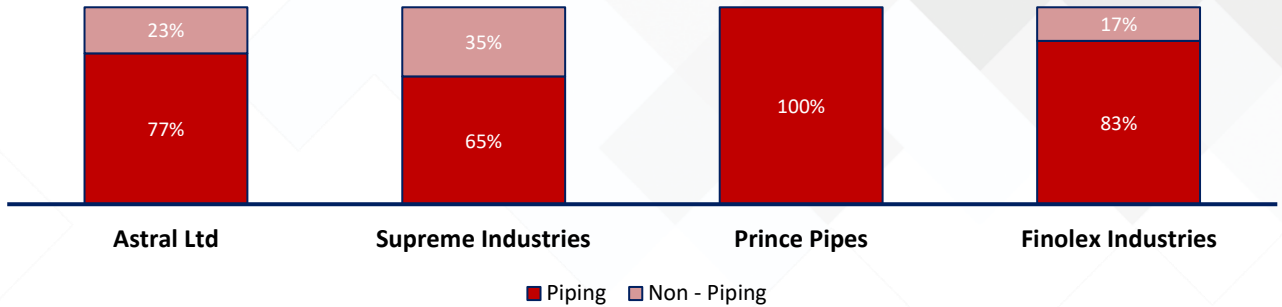
Brand Creation – Private players have changed how marketing is done in this commoditized industry by roping Bollywood superstars and building a brand presence at prestigious sports tournaments and other events. Unlike traditional trends, industry players are willing to spend 2-3% of their revenue on marketing activities.

Expanding Production & Distribution – This is another area where all prominent private players have made significant strides. The leading players have diversified their production by putting up plants at various locations across India and have also strengthened their distribution network year after year. This helped them immensely as the plastic pipe is a bulky product and proximity to customers makes it increasingly viable to supply goods at lesser freight cost, which is a material cost component for all plastic piping players.

Product Innovation & Portfolio expansion – Over the last few years, prominent private players have demonstrated their capabilities of producing innovative (new to market) products and received encouraging customer responses. Having created a strong foundation of innovation enables them to spend significantly on marketing while constantly increasing their capacity.

These areas continue to be on the focus list of leading private players who are trying to improve in these areas each passing day. Players who will continue to excel in these three areas will continue to gain disproportionately over smaller players who don't have the operational and financial bandwidth to focus on these areas.

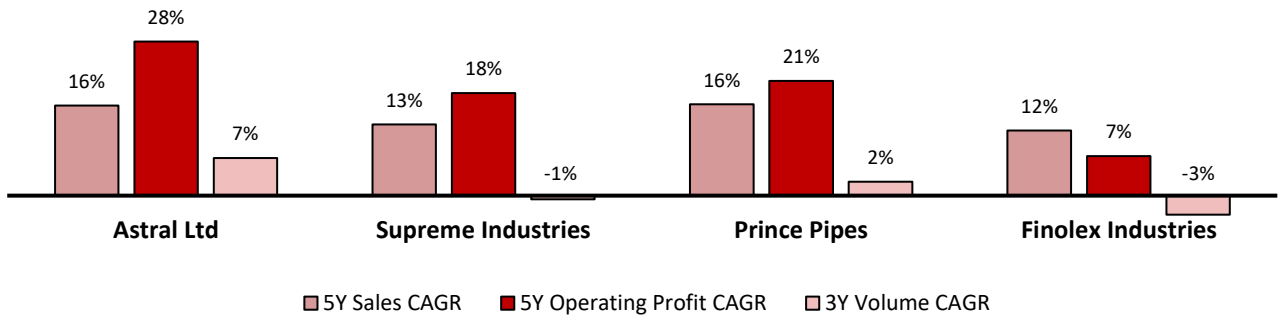
All piping players have diversified into other businesses except Prince Pipes and Fittings Ltd.



Source: Company, Keynote Capitals Ltd.

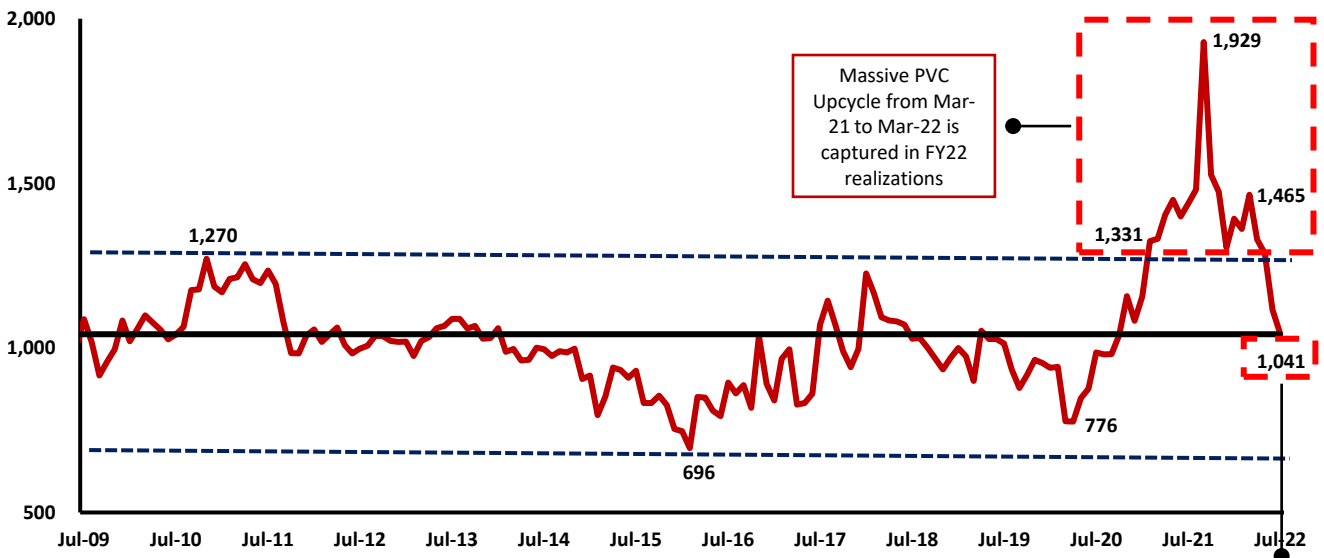
Except for Prince Pipes & Fittings Ltd, all the piping players have diversified into other businesses. All of them have followed a different path. Astral has chosen to get into businesses like adhesives, paints, and faucets, which are not complimenting the existing business. Supreme Industries Ltd. has chosen to get into adjacent plastic segments, whereas Finolex has chosen to integrate + diversify by dabbling in the PVC business.

Astral & Prince have outperformed peers by growing their revenues, operating profits and volumes faster and have gained higher share compared to peers in the last 5 years



Source: Company, Keynote Capitals Ltd.

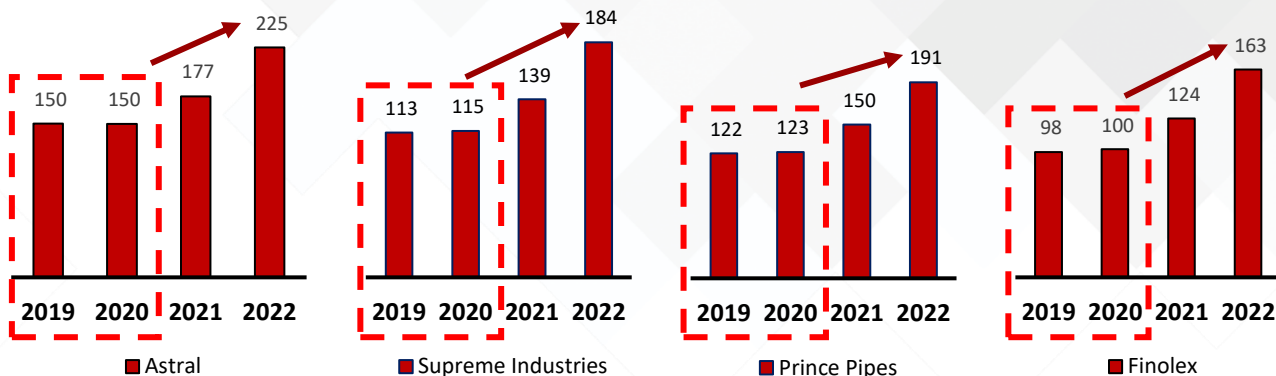
Long term PVC price (in USD/Ton) analysis



Source: Bloomberg, Keynote Capitals Ltd.

PVC prices have again come back in the range and closer to long term average. Realizations softening expected in coming quarters.

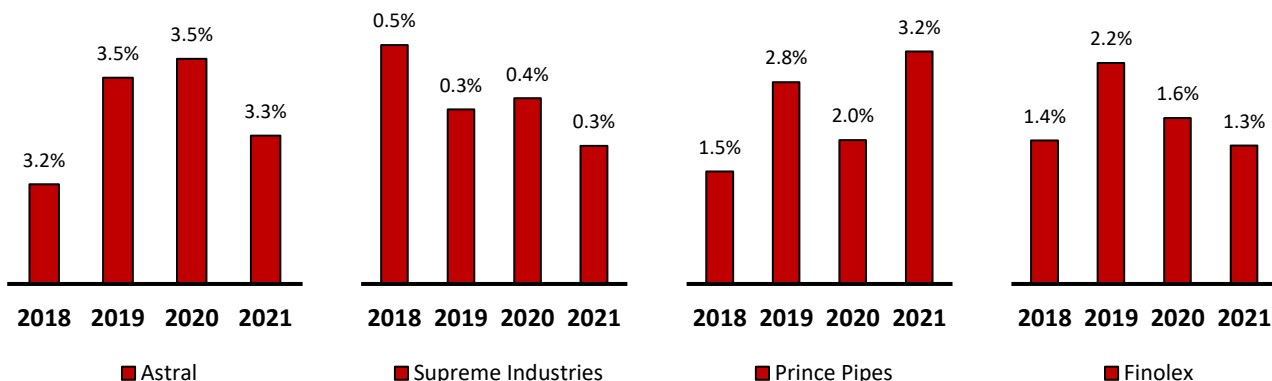
Comparison of Realization/kg across peers



Source: Company, Keynote Capitals Ltd.

All the major players have seen significant jumps in realization due to the recent spike in PVC prices. Astral Ltd. has the best realizations/kg because of its higher sales contribution from CPVC pipes which is a premium product compared to PVC. Prince Pipes & Fittings Ltd. has also shown considerable improvement over the last few years and has surpassed SIL. Realizations for SIL and Finolex are lower because of the higher contribution from UPVC pipes. All players will have increased focus on CPVC in the future as it is the fastest-growing sub-segment with healthy margins.

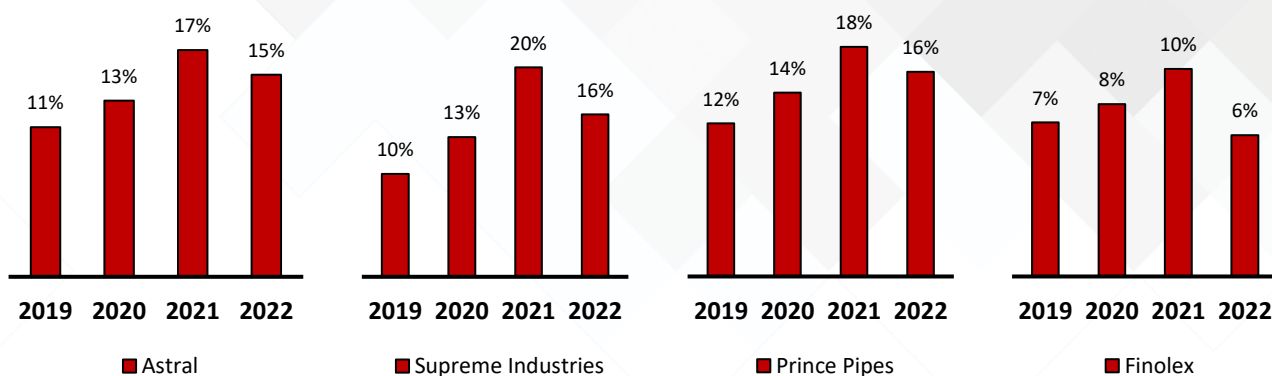
SIL will have to catch up in comparison to peers in terms of Advertisement spending as % of Sales



Source: Company, Keynote Capitals Ltd.

Supreme Industries Ltd. has been on the backfoot for years even though other players in the industry have turned pro marketing. So far, SIL has come out unscathed without spending heavily on advertising. If SIL doesn't step up ad-spends, it can result in market share loss for the company in the long run.

Operating margin in the plastic piping business for all the players are in line except Finolex



Source: Company, Keynote Capitals Ltd.

Peer comparison on other financial parameters

Particular	Astral	Supreme Industries	Prince Pipes & Fitting	Finolex Industries
FY22 Total Installed Capacity (MT)	374,882	725,000	305,000	642,000
FY22 Total Sales Volume (MT)	149,569	393,908	139,034	461,819
FY22 Debt/Equity (x)	0.04	0.01	0.12	0.07
6Y Cumulative CFO/EBITDA	84.2%	66.4%	56.8%	64.4%
FY22 Piping Market Share (Based on Revenue)	8.0%	12.0%	6.3%	9.2%
Current PE	70.7	24.5	26.4	8.22
FY22 Receivable Days	26	24	67	30
FY22 Net Working Capital Days	22	44	86	99
5Y Avg. ROE	18.4%	24.1%	19.6%	18.1%
5Y Avg. ROCE	22.7%	27.5%	21.2%	20.2%

Source: Company, Keynote Capitals Ltd.

2. SIL's Packaging Business – Competition Questioning Dominance

Supreme Industries Ltd. is a significant packaging player in the Indian packaging industry. In FY22, the company sold 54,000 MT worth of packaging products. SIL's packaging product business can be divided into three broad categories.

Performance Packaging Product

SIL is among India's largest manufacturers of co-extruded multi-layer barrier films and is the only company that has two imported 7-layer blown film lines from Windmoller & Holscher, Germany which are world leaders in multi-layer blown films. The company also has a bag and pouch-making machines for critical vacuum packing.

Protective Packaging Products

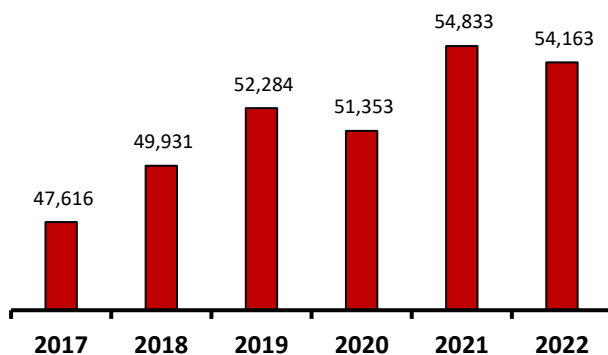
SIL's protective packaging division offers solutions for a diverse set of industries like sports goods, healthcare, toys, white goods, etc. The company has prepared custom-designed solutions which can prevent dents, breakages, and scratches during transit. SIL has a strong blue-chip clientele both in India and overseas.

Cross Laminated Products

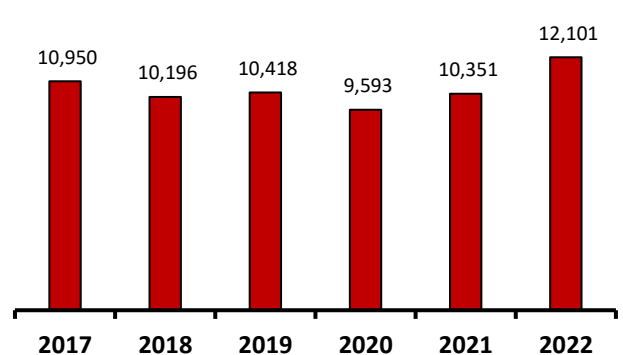
SIL is a leader in the plastic Tarpaulin Industry. For many years, the company has been manufacturing multi-layered Cross Laminated UV Stabilized Films which are used in various agricultural and industrial applications. Supreme has a technical collaboration with Rasmussen Polymer Development AG, Switzerland. Technology to manufacture SILPAULIN is a patented one and is limited to only 6 countries in the world. These products are lightweight but are extremely strong and have gained acceptance in geographies like Europe, America, the Middle East, etc.

Packaging Business Progression in Numbers (Rs. mn)

Packaging products volume (MT) growing at a modest rate



Revenue growth lower than volume growth shows lack of pricing power

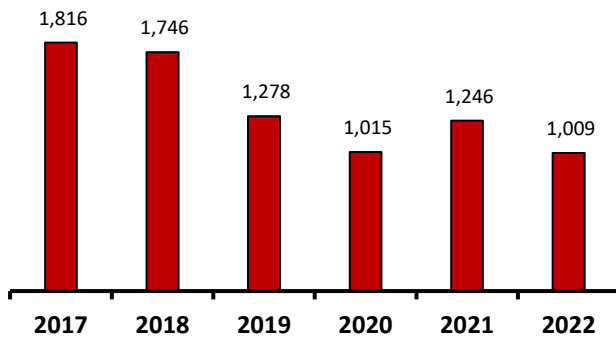


Source: Company, Keynote Capitals Ltd.

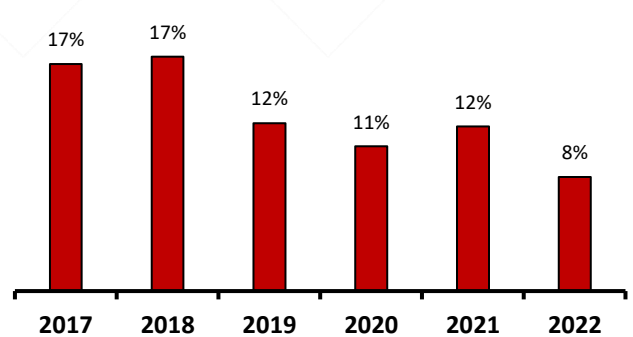
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The revenue share of the plastic packaging segment in the overall revenue pie has significantly reduced from 23% in FY16 to 16% in FY22. This is a cause of concern for the company as most of the products in the plastic packaging segment belong to the value-added category where operating margins are greater than 17%. It seems like the trend is playing out because of increased competition from local players who are manufacturing sub-standard and cheaper products. Based on realization & margin trend, it looks like SIL is unable to exercise pricing power in this segment, unlike other businesses.

Fierce competition in the packaging segment denting Operating Profitability (Rs. mn)

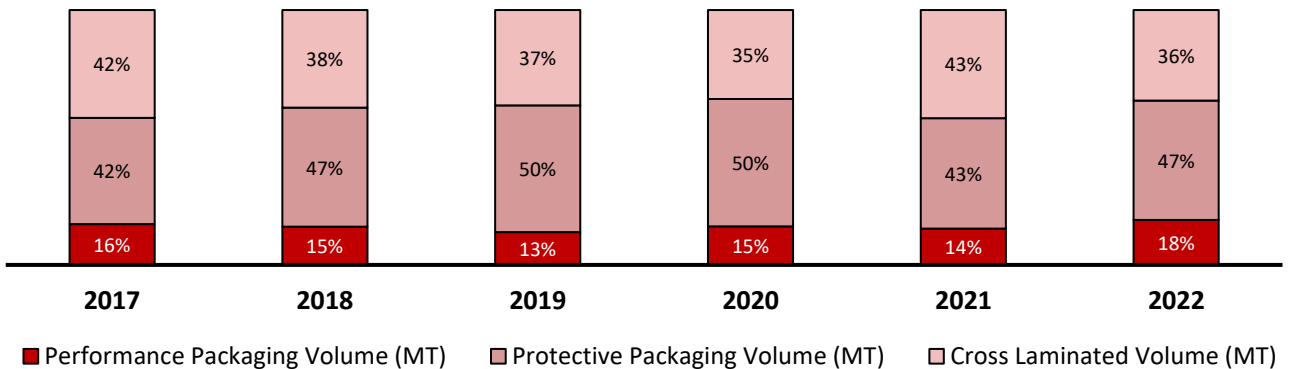


Operating profit margin in packaging segment has seen a steep fall over the years



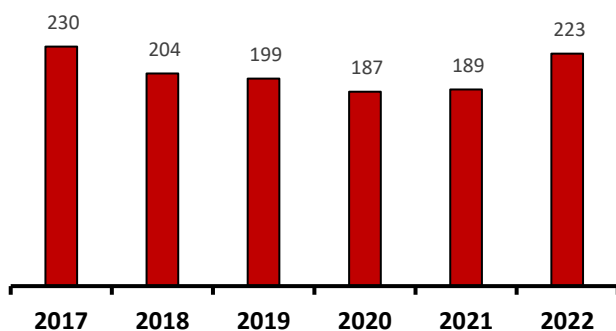
Source: Company, Keynote Capitals Ltd.

Cross Laminated business constantly declined vs the other two

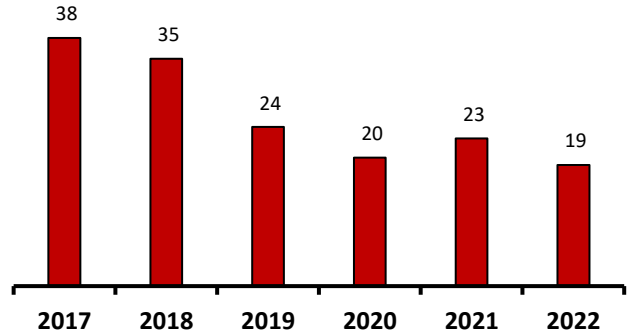


Source: Company, Keynote Capitals Ltd.

Declining trend in packaging business Revenue/kg (Rs.) rose because of PVC price inflation



Inability of passing cost hikes is clearly visible in Operating Profit/kg (Rs.)



Source: Company, Keynote Capitals Ltd.

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Looking at the operating profitability timeline for the packaging business of SIL, one thing is very evident they are unable to exercise pricing power on customers despite having the best-in-class customers and making the best quality product.

Profitability has seen steep degrowth since 2016. Hopefully, some part of it will come back with Tarpaulin business normalizing on account of normal business this year. For the last two years, the Tarpaulin business was getting impacted due to COVID as India was in a country-wide lockdown during the peak season of Tarpaulin sales which is Q1 & Q2. Things can change if this business starts contributing closer to 40%.

Bottom line is, competition is impacting SIL in the packaging business and that is visible in numbers. The company has mentioned the impact on the business from competition on various occasions in various communications in the past. Given the current product portfolio and competitive scenario in this business, it might not be possible for the company to reclaim the historical 17% kind margins.

Packaging Business Progression

Year	Performance Packaging Film	Protective Packaging Film	Cross Laminated Film	Tech Improvement	Expansion Plans
FY18	<p>Division ran at full capacity during the year.</p> <p>Exports showed strong growth during the year.</p>	<p>The company faced competition from sub-standard products in the insulation business.</p> <p>The company took up the challenge to build awareness among consumers.</p>	<p>GST hurt the business as channel partners were reluctant to hold inventory.</p> <p>This resulted in the loss of business, but the company kept trying to tap new markets.</p> <p>The company acquired all the rights in the patent of Cross Line Bonded Film from the tech collaborator resulting in cost savings.</p>	<p>Technical team is constantly working on improving existing products.</p> <p>Lightweight products developed by the company received a positive response from the market.</p>	<p>The company expanded its existing capacity at Khopoli.</p> <p>Protective packaging capacity will be augmented from 28,600 MT to 38,500 MT.</p>
FY19	<p>During the year, the company added a lamination unit and increased its capability to introduce value-added products.</p> <p>Exports declined due to stiff competition.</p>	<p>Division added foam production capacity to meet demand in South India.</p> <p>The company planning to tap the import substitution opportunity.</p> <p>Two units at Hosur merged into one for better efficiency. Low-cost competition is hampering business.</p> <p>Developed various products for Decathlon and they are in talks to become its global supplier.</p>	<p>Division showed growth despite strong competition from new players.</p> <p>The company also manufactured tarpaulins from reprocessed granules to tackle low-cost competition.</p>	<p>Developed tandem extruder with a Korean vendor. This will help the company manufacture low density foam. This will help the company against competition.</p>	-

Year	Performance Packaging Film	Protective Packaging Film	Cross Laminated Film	Tech Improvement	Expansion Plans
FY20	Exports grew during the year	<p>The company has set up a unit at Jadcherla which will start production post COVID.</p> <p>A plan to make products using cross-linked scrap is under consideration.</p> <p>Yoga mat demand is encouraging. Pro kabaddi association has already started using the product</p> <p>Developed low-cost good quality insulation products to fight competition.</p>	<p>Tarpaulin's business season got impacted due to lockdowns.</p> <p>Share of fabricated products is increasing and the company plans to increase the same further as it has bright prospects.</p> <p>Exports present a good opportunity and efforts are underway to get business.</p> <p>All reprocessed granules were used to make low-cost Tarpaulins</p>	<p>Started manufacturing additives and chemicals indigenously.</p> <p>This will remove FOREX impact as well as reduce lead time.</p> <p>Plan is to introduce new products post COVID which will improve profitability.</p>	-
FY21	<p>The company added a new VAP for the dairy industry. This will enable the company to grow in different directions as well.</p> <p>Exports during the year declined due to COVID and related restrictions.</p>	<p>The company lost its business season but following two quarters were positive.</p> <p>Exports in civil business did well as company's product found acceptance in various countries.</p> <p>Started working with CSC and is expecting to break into CSD as well.</p>	<p>Business recovered well from COVID set back.</p> <p>Soft launch of Bio-floc tank made during the year in 11 states.</p> <p>This met with some defects. The company will relaunch after necessary improvements.</p>	<p>The company has been granted patent for its innovative method of recycling cross linked waste.</p> <p>Supreme will not sell any scrap going forward.</p>	Plan to put up a new project was all set but global lockdowns have made this expansion difficult.
FY22	<p>Good business of essential commodities gave a boost to this business.</p> <p>Exports have again declined but a positive business is expected.</p>	<p>The segment did well but the company was unable to supply RM price inflation which dented margins.</p> <p>The company wants to add new customers to the CIVIL business at the same time will look to revive existing business as well.</p> <p>Developed a range of products for Decathlon India. Waiting for international approvals for other SKUs.</p>	<p>The business was lost due to strict lockdowns in peak season during Q1.</p> <p>Capacity expanded from 27,000 MT to 30,000 MT.</p> <p>The plan is to promote non-tarpaulin products. Dealers and distributors are appointed across the country.</p> <p>The goal is to increase business from value added products.</p>	<p>The company has installed various machines to reduce manpower requirement and wastage</p> <p>New machines to manufacture yoga mat has also been installed at Hosur</p>	<p>Hardware orders for expansion in Hosur are placed by the company and production will start from August 2022</p> <p>Expansion of several high value-added products has been undertaken and will be completed in H1 FY23</p>

Source: Company, Keynote Capitals Ltd.

Commentary and actions such as producing economical products from reprocessed granules and scrap indicate that there is intense competition.

3. Supreme's Industrial Products Business – Coming back on track

The industrial components business of Supreme Industries Ltd. can be subdivided into three categories based on the customer base and the type of product of the company.

Automotive

In the automotive business, SIL supplies various exterior and interior plastic body parts to auto OEMs. SIL generates maximum revenue from auto.

Consumer Durables

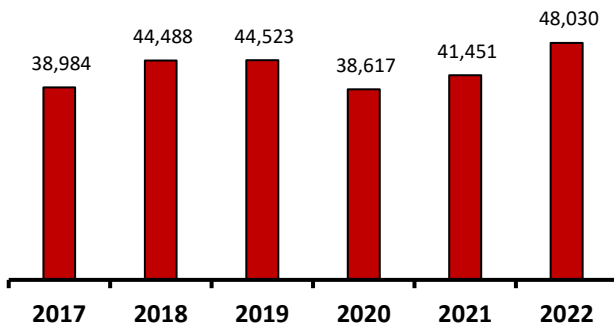
SIL in its consumer durable business manufactures exterior boxes for washing machines, ACs, Coolers, and Refrigerators

Material Handling

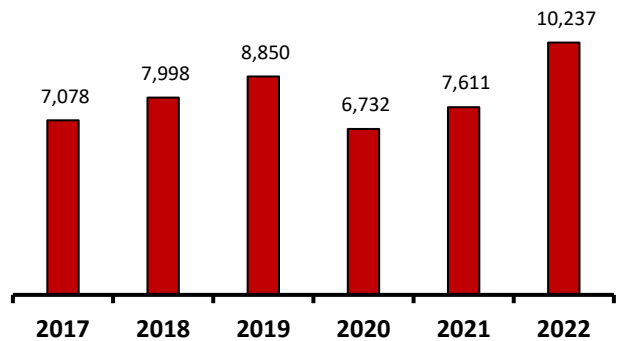
The Material Handling business of Supreme manufactures various products like crates, pallets, bins, etc. which find application under various industrial setups

Industrial Products Business Progression in Numbers

Auto slowdown impacted volumes (MT) which is steadily coming back. Peak achieved in FY22

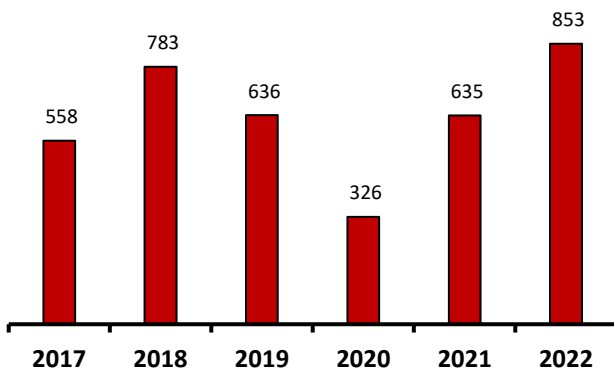


Revenues (Rs. mn) following the same trend as volumes

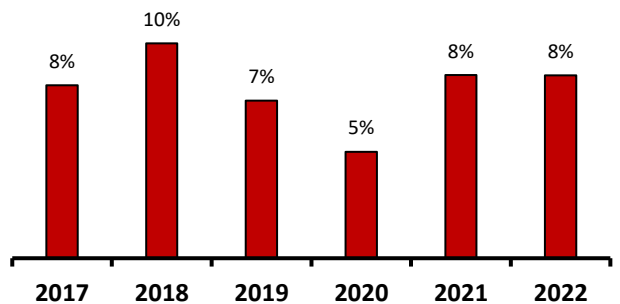


Source: Company, Keynote Capitals Ltd.

Segment operating profitability (Rs. mn) bottomed in FY20. Peak achieved in FY22



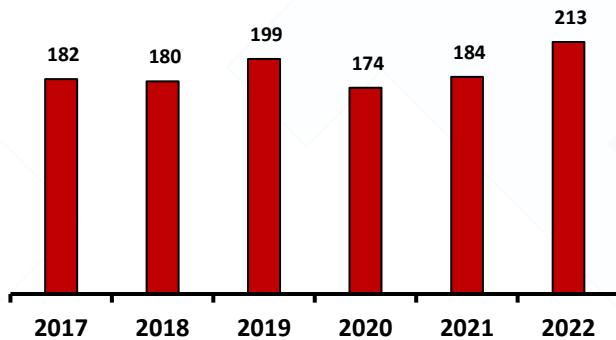
Operating margins got dented due to auto slowdown but have recovered to normal levels despite COVID



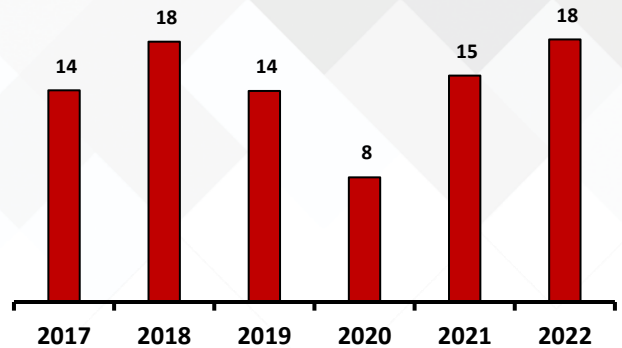
Source: Company, Keynote Capitals Ltd.

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Realization/kg (Rs.) showing a steady rise post FY20



Operating Profit/kg (Rs.) trend remains the same



Source: Company, Keynote Capitals Ltd.

Industrial Products Business Progression

Year	General Update	Auto Business	Consumer Durable Business	Expansion Plans
FY18	-	<p>Major customer TATA Motors showed demand recovery which will result in better business</p> <p>TVS & Vespa are also seeing positive demand which resulted in better utilization.</p> <p>The company has been getting good business from Honda and Maruti. Also exploring opportunities with new customers.</p> <p>JV with Kumi Kasei, Japan who is the tech partner of the company and a major supplier to Honda.</p>	<p>Demand for ACs looks encouraging.</p> <p>Bosch has set up a huge manufacturing facility in Chennai and is expected to give good business to Supreme.</p> <p>Business with Whirlpool has done well and is expected to grow further in the future.</p>	<p>The company has set up a new plant close to its large AC customer in Rajasthan to reduce logistic costs.</p>
FY19	<p>The business started on an encouraging note but then took a severe beating as the market for autos and consumer durables didn't pick up as expected.</p> <p>Demand during the festival season remained sluggish. But the company acquired orders for EVMs and VVPATs to cover the gap.</p>	<p>The auto business did well during the first half as revenue from TATA Motors steadily improved.</p>	<p>Noida and Rajasthan plant put together will focus on the white goods business</p>	-
FY20		<p>The auto sector went into slowdown on account of vehicle safety and BS-VI implementation.</p> <p>Difficulty in availing of credit was another factor that impeded demand.</p> <p>The commercial vehicle segment was badly hit which resulted in considerable business loss.</p>	<p>The company discontinued business with a customer as it was showing signs of pressure. The customer eventually went bankrupt.</p> <p>One major customer stopped manufacturing TVs in India and outsourced AC production. The company lost business here as well.</p>	

Source: Company, Keynote Capitals Ltd.

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Year	General Update	Auto Business	Consumer Durable Business	Expansion Plans
FY21	<p>Auto and consumer durable segments were badly hit due to COVID.</p> <p>End customer segments in the latter half recovered well and again got hit by severe lockdowns.</p> <p>The company targeted FMCG and e-com businesses customers for material handling equipment.</p> <p>In the material handling business, the company did not only retain its customers but also acquired new ones.</p>	<p>Demand recovery in auto, post-COVID helped the segment to achieve growth.</p> <p>Recovery was broad-based across 2W, PVs, and CVs.</p>	<p>Demand recovery was seen in AC, washing machines, and refrigerators.</p> <p>These boosted revenue post COVID.</p>	-
FY22	<p>Looking at positive demand, the company invested in capacity expansion at various locations.</p> <p>The company has planned need-based capacity expansion to handle demand increases going forward.</p> <p>The company is engaging with customers to introduce various types of pallets for one-time and repeated use.</p> <p>The company did not grow but managed to retain all customers during the year</p>	<p>Good demand revival in PV and CV space. 2W demand remained subdued.</p> <p>Also, the semiconductor shortage is negatively impacting the business.</p> <p>The company is optimizing its product range for the introduction of new models in the EV space.</p>	<p>Consumer sentiment shifted in favor of automatic washing machines from semi-auto. This adversely impacted the business as it is more tilted towards semi-auto.</p> <p>Efforts to make this shift are going on.</p>	-

Source: Company, Keynote Capitals Ltd.

SIL in the industrial business is serving top-notch customers in the automobile and consumer durables segment. Apart from this, the company is also catering to varied industries with its material handling products.

This business segment, unlike other segments, has shown record volumes since 2017. Also, the margins have come back to the normal range of 8%. These margins cannot be expected to go to a 15%+ range because this is a B2B business where the SIL is dependent on customers who will always have bargaining power over SIL.

This bargaining power of customers over SIL can be seen in the company's action to set up a plant near its large AC customer in Ghiloth, Rajasthan.

The business provides good growth prospects as end-user industries like consumer durables and auto are expected to grow. Also, entry barriers of strong relationships and large-scale capacity will keep competition at bay because it enjoys strong relationships with customers and is also capable of delivering large quantities required by large customers.

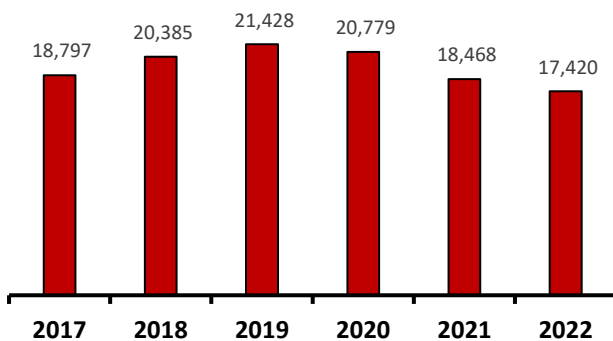
4. SIL's Consumer Products Business – Can it Breakout?

The Consumer Products segment of Supreme Industries Ltd. houses the furniture manufacturing business of the company. SIL manufactures various types of plastic furniture which is used in various indoor and outdoor setups. The company holds a leadership position in "Premium Range" plastic furniture and manufactures furniture using Injection moulding, Blow moulding, and Roto moulding technologies.

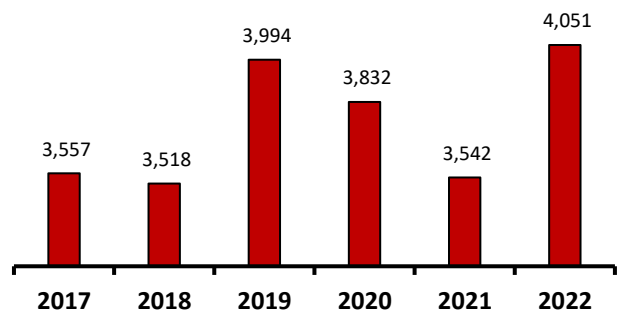
SIL in its furniture business enjoys excellent pan-India reach because the company manufactures plastic furniture at 7 locations across the country. The company's focus now is to create large retail showrooms across India and strengthen this business. Supreme plans to have 100 showrooms across India by the end of FY23.

Consumer Business Progression in Numbers

Consumer business volumes (MT) impacted due to COVID related slowdown

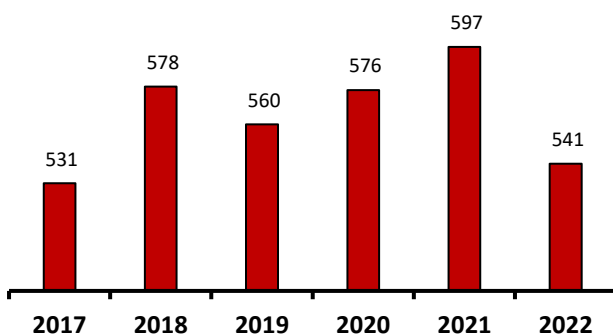


Revenues (Rs. mn) made a bottom during FY21 due to COVID and showed a steep rise this year due to value increase in sales mix

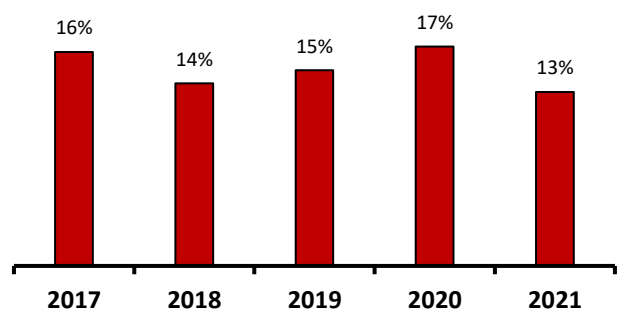


Source: Company, Keynote Capitals Ltd.

SIL managed to keep operating profits (Rs. mn) stable during COVID

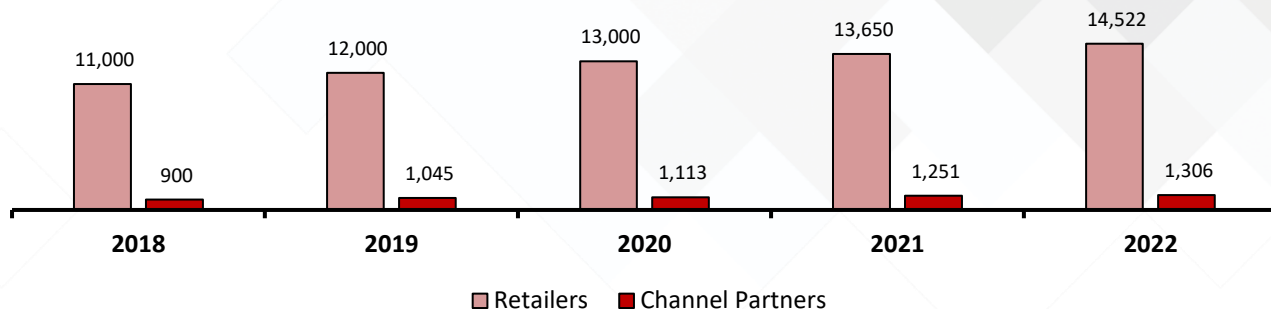


Consumer Business is capable of generating value-added margins. Meaningful contribution can improve overall profitability of SIL



Source: Company, Keynote Capitals Ltd.

Retailers & channel partners play a significant role in this business. SIL has duly focused on building a strong channel which is a good sign



Source: Company, Keynote Capitals Ltd.

Year	Business Updates
2018	<p>Sales were very sluggish due to the introduction of GST initially as the channel wasn't stocking. GST rate initially decided was 28% which was later brought down to 18%. In the long run, organized players should gain.</p> <p>Greenfield CAPEX at Jadcherla to manufacture injection molded furniture to increase share in South India. These products have a huge export potential along with good quality products of the company.</p> <p>The company is now exporting to 12 countries and hopes to substantially grow this business.</p>
2019	<p>The business did well compared to leading brands, but unorganized competition continued to gain due to acceptance of brown color matt finish products where the use of reprocessed polymers makes very little difference in the appeal of the product.</p> <p>The company continues to focus on exports and is taking part in various international business events to showcase its products. Goods are getting good response also from the international market.</p>
2020	<p>Business took a severe hit due to nationwide lockdowns. Overall business of organized players has stayed the same or has degrown, but unorganized players continue to do well in local markets.</p> <p>The export potential of the business is yet to be realized. The company is hopeful that the efforts will pay off given the bright outlook the market presents after many countries are boycotting China. The company is in talks with many retailers in the USA, Europe, the UK, and Japan. Hopeful to start a business with them post COVID.</p> <p>SIL has also appointed dedicated channel partners for E-commerce portals and plans to scale up operations.</p>
2021	<p>COVID continues to impact the business as there is a strict ban on events. Also, schools and offices remain closed. SIL has now identified weak markets and has decided to intensify marketing activities to improve penetration.</p> <p>Sales through the E-commerce channel rose handsomely post COVID. Consumer behavior is now changing towards online shopping. The company is focusing on increasing its online presence. Growth in the export business was driven by the acceptance of products by the US and middle east retailers. Efforts on this front are continued.</p>
2022	<p>Difficult year for business as prices of PP rose steeply along with business challenges imposed by COVID. SIL opened 22 showrooms and aims to open 100 by the close of FY23.</p> <p>On the online business, the company has launched its portal to showcase products apart from selling products online via Amazon, etc. SIL also expects good business from overseas markets as the company has built good relations with multiple retailers overseas.</p>

Source: Company, Keynote Capitals Ltd.

The story in the furniture business remains like that of packaging when we look at aspects like unorganized competition. Unorganized players are giving tough competition to SIL here as well. Apart from this, the company has been talking about the export potential and its efforts.

Composite Cylinder Business – Some green shoots are now visible. Sustainability & Scalability will be key things to watch out for.

SIL manufactures composite LPG cylinders which can replace traditional metal cylinders. There are good reasons for this switch to happen but somehow it hasn't happened yet. There are multiple advantages that composite cylinders provide over traditional cylinders which are as follows.

1. They are less than half the weight of conventional steel cylinders
2. Wall transparency provides gas level visibility
3. Explosion-proof
4. Rust and moist proof

Despite the good quality and many advantages which the product provides, SIL was unable to develop a business for composite cylinders as it is a B2B product and switching decision lies in the hands of oil marketing companies. Therefore, SIL had to wait for such a long time before it got an order to supply 7,35,186 cylinders to Indian Oil Corporation Ltd.

Composite LPG Cylinder Business Progression

Year	Business Updates
2018	<p>Supreme supplied some cylinders to Bangladesh and Korea which met with certain issues. The company solved all those issues during the year and started discussions about repeat orders with clients.</p> <p>Bangladesh had been using these cylinders for a year and the company is in talks to supply large quantities. Also, a trial lot was shipped to Korea</p> <p>BIS Standards were awaited by the company as this was necessary for OMCs to take the necessary steps to introduce them in India. The company also acquired a 10% stake in HPC Research, a startup company focused on R&D in composite cylinders in the Czech Republic</p>
2019	<p>Supreme received an order of 80,000 cylinders from Bangladesh and started executing the same. Some complaints came up and therefore the company stopped supplies.</p> <p>The company in association with the Czech company found a workable solution that will take a few months to get resolved. The company has also supplied initial quantities in the African continent and has also got a notification from OMCs to receive orders from GOI.</p>
2020	<p>The company ratified and overcame the technical fault in the product and started using the Poka-yoke system. Cylinders were also exported to the Caribbean country.</p> <p>Repeat orders are placed from Maldives and Somalia while Korean customers continued to take cylinders. Follow-up with OMCs is on track.</p> <p>New product samples are sent to Bangladesh and have met the requirements and have passed the test.</p>
2021	<p>Improved product has yielded excellent results along with repeat orders and new customers. The company continued its business in Maldives and Somalia.</p> <p>New footprints were established in West & Central Africa, Taiwan, and the Caribbean islands. Sales volumes were hampered as new customers couldn't visit India. Korean business didn't progress because of this.</p> <p>Easing travel restrictions will help the business for the better. IOCL purchased small quantities for trials in 4 cities.</p>

Source: Company, Keynote Capitals Ltd.

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Year	Business Updates
2022	<p>Efforts from the company have now yielded results in the form of repeat orders from existing customers. Another positive is that no complaint has been received from any customer regarding composite cylinders during the year.</p> <p>There is now a continuous flow of inquiries from various geographies. The most encouraging development is that SIL has received an LOI from IOCL to supply 7.35 lakh cylinders. Supply started in March 2022 and the bulk of the order will be fulfilled during the year.</p> <p>In the light of the new order, the company is required to increase its production capacity and has planned to double its capacity which will allow Supreme to manufacture 10 lakh cylinders per annum.</p>

Source: Company, Keynote Capitals Ltd.

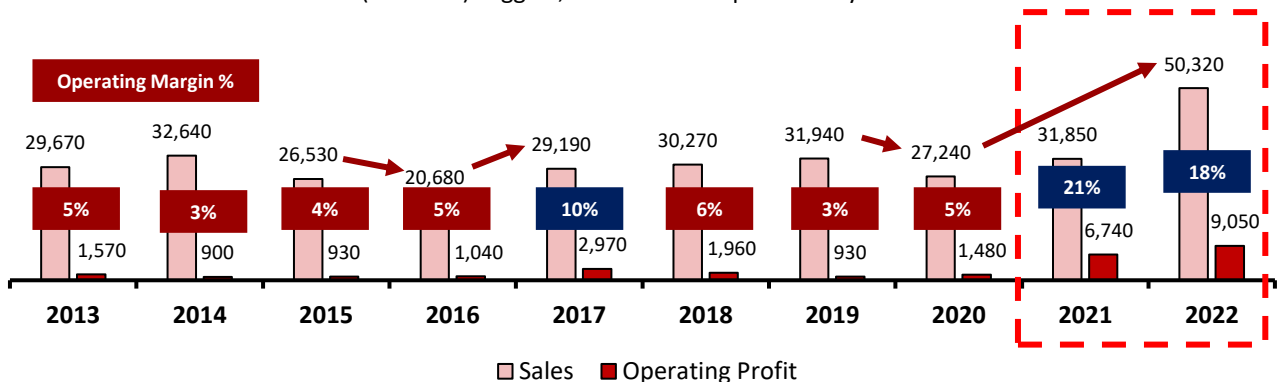
Supreme Pertochem Ltd.

Supreme Petrochem Ltd (SPL) was formed as a JV between Supreme Industries Ltd and Rajan Raheja Group; the company started commercial production in 1995 with the business of manufacturing Polystyrene (PS), which is used in plastic industries like refrigerators, air conditioning bodies, television, etc. SPL holds a 50% market share of the Polystyrene market in India.

To widen the spectrum, the company is now making more value-added products from PS, i.e., Expanded polystyrene (EPS) and Extruded Polystyrene (XPS). SPL is now increasing its operations toward value-added products.

The company has two manufacturing plants. One is in Raigad, Maharashtra, and another in Chennai, Tamil Nadu. The key raw material for manufacturing PS and EPS is a Styrene monomer. International pricing and demand/ supply risks are inherent in importing this raw material; therefore, the company has entered annual contracts for procuring its raw materials.

Supreme Petrochem – Cyclical business showing extraordinary performance post COVID. Historical numbers (in rs. mn) suggest, these levels of profitability is difficult to sustain.

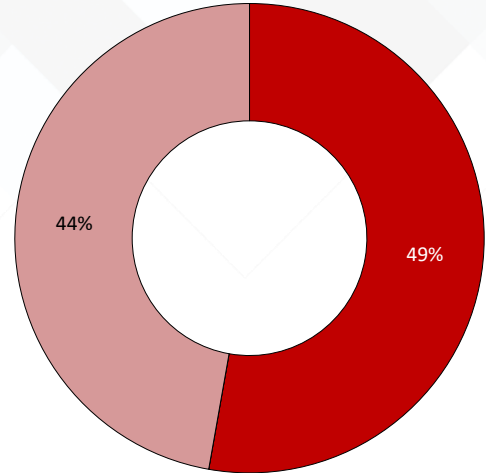
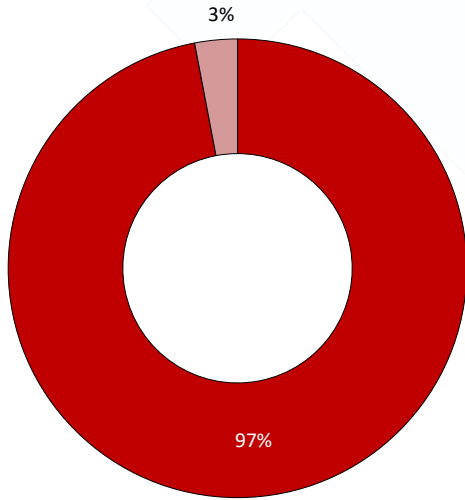


Source: Company, Keynote Capitals Ltd.

SPL showed abnormal performance post-COVID. Revenues of the company rallied from ~27,000 mn. To ~50,000 mn. In a matter of 2 years. Not only growth but also the margins are now on a trajectory that looks unsustainable. The above chart shows historical data which says that standard margins stay in the 3%-6% range. Even a 10% number in 2017 was unsustainable. Currently, margins have doubled from 2017 levels as well.

Normalization of profitability of Supreme Petrochem will weigh on SIL's profitability just like it aided the profitability of SIL in a big way in the last two years.

Historical Capital Allocation – Complete Reliance on Operations/Accruals



- Operating Activity
- Investing Activity
- Financing Activity

- Business Investments
- Financial Investments
- Capital Structure

Source: Company, Keynote Capitals Ltd.

A decade of cash flow history of Supreme Industries Ltd. depicts that almost all the cash generated by SIL came from operating activities. On the deployment front, almost 50% is deployed behind increasing production capabilities.

SIL has constantly invested in plants and machinery over the years and has increased its plastic processing capacity at a CAGR of 6% in the last 3 years despite COVID disruption. The company has also planned further expansion of its capacity which is expected to increase by 10% this year as well.

Almost 30% of this is paid back to shareholders in the form of dividends, and the rest is used for repayment of borrowing, interest costs, and other activities.

Based on the above breakup of cash inflow and outflow we think that the capital generation and allocation activities of SIL look healthy and have no red flags. SIL has relied on its internal accruals to expand its capacity and has attained debt-free status. Apart from this, surplus generated funds are given back to the owners of the company.

Management Analysis – Layer 1 indicates rearrangement requirements, and Layer two indicates a pipeline of sufficient professionals who can step up.

Name	Designation	With SIL Since?	Age	Qualification
BL Taparia	Chairman	45+	87	B.A, B. Com
MP Taparia	MD	45+	84	B.A
SJ Taparia	Ex. Director	45+	74	BE. Mech
VK Taparia	Ex. Director	35+	66	B. Com
R. Kannan	Ind. Director	8	74	M. Tech
RM Pandia	Ind. Director	8	72	ME. Chem, BE
Ms. Ameeta Parpia	Ind. Director	3	57	BA, LLB
S Behuria	Ind. Director	3	70	B.A

Source: Company, Keynote Capitals Ltd.

Looking at the first layer of leaders, we can say that there are enough family people with significant experience at the helm of Supreme Industries Ltd. One concern is that 85%+ members are above the age of 65. This indicates a clear need to rejig the top brass.

Second Level Management – Well-experienced & loyal professionals waiting in the wings

Name	Designation	With SIL Since?	Qualification
AK Tripathi	Ex. VP Plastic Piping	36	Exe. MBA, ISB
Vasudeo Malu	Ex. VP Industrial Components	16	BE Mech
Susanta Patniak	COO Protective Packaging	2	MBA, IIM C
Siddharth Roongta	VP Cross Laminated Films	30	CA
Pradeep Kamat	VP Composite Cylinders	7	Engineering Plastic
Sanjeev Jain	VP Furniture	32	BE Mech
Manish Poddar	VP Commercial	31	Cost Accountant
Sanjay Mishra	AVP Business Head	6	B. Sc

Source: Company, Keynote Capitals Ltd.

A deep dive into the second-tier management team tells us that all the segments are led by credible and capable leaders most of whom are with the company for decades.

Compensation & Skin in the game

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
% Promoter Holding	49.7%	49.7%	49.9%	48.9%	48.9%
Promoter Salary (Rs. Mn)	282	292	330	439	464
% of PAT	6%	6%	7%	4%	5%

Source: Company, Keynote Capitals Ltd.

Promoter shareholding in the company has stayed close to 50% for the past five years which signifies good skin in the game of the promoter. Also, their salary has been in the range of 4%-6% of PAT, which is a comfortable compensation range.

Top Shareholders %

Particulars	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Nalanda India	5.94%	4.81%	4.81%	4.81%	4.81%
Kotak MF	-	-	2.15%	2.45%	3.14%
DSP MF	1.17%	1.33%	1.43%	1.72%	2.37%
HDFC MF	1.69%	2.07%	2.30%	2.15%	1.93%
Gov. Pension Fund Global	-	1.35%	1.47%	1.64%	1.66%
Axis MF	1.24%	2.36%	2.78%	4.16%	1.50%

Source: Company, Keynote Capitals Ltd.

OPPORTUNITIES

Strong volume rebound is expected from PVC pipes

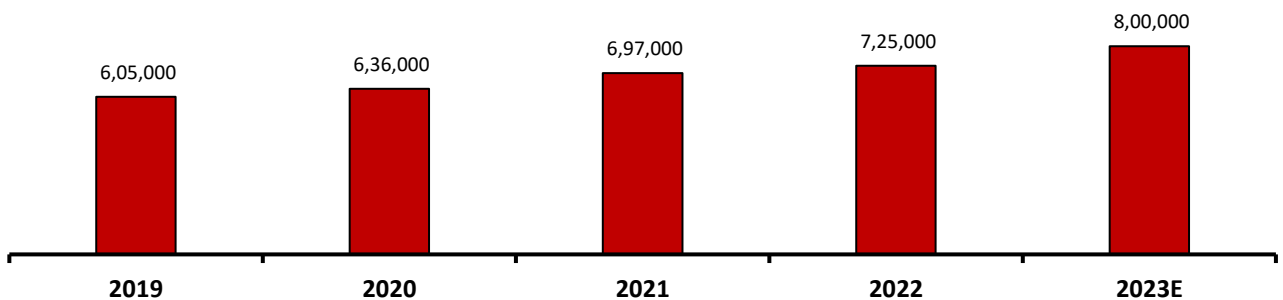
Nearly 30% of SIL's piping business comes from the agriculture sector. Most of this demand is generated around Q1, just before monsoon. Demand was impacted in Q1 of FY21 & FY22 due to COVID restrictions post which prices of PVC skyrocketed, which affected demand.

Now that COVID has receded, the prices of PVC have softened along with expectations of a normal monsoon. These factors indicate that demand for plastic pipes (mainly PVC) will sharply rebound.

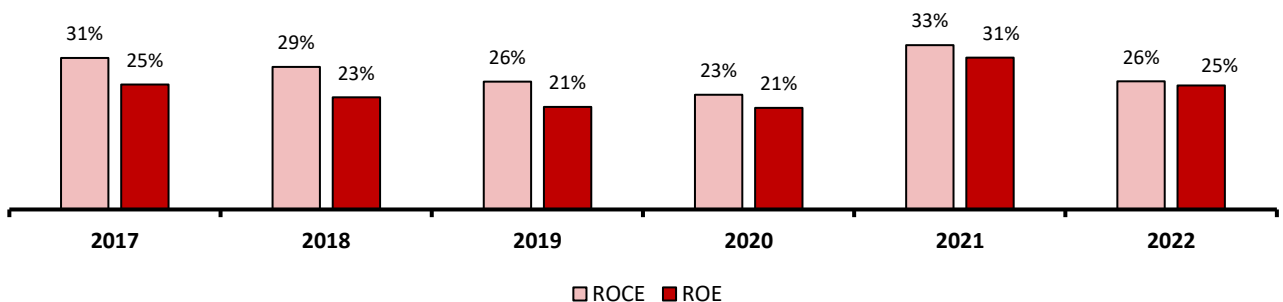
Prudent capital allocation along with maintaining return ratios

SIL has constantly invested in expanding its capacity and has sourced most of its capital from the business, thereby relying less on external funds. Along with augmenting capacity across segments, the company has done well to maintain its return ratios. In the future, SIL is expected to meet their capacity expansion requirements through internal accruals. They are going to invest at least 3-4bn p.a.

Trend of steadily increasing Total Capacity



History of generating consistent Return Ratios (%)



Source: Company, Keynote Capitals Ltd.

Optionality Bearing Fruits

For many years, SIL struggled to get a breakthrough in its composite cylinder business as there was no customer acceptance. Recently, SIL received an order from IOCL to supply 7,35,186 cylinders, pushing them to double their cylinder capacity. This augmented capacity at 100% utilization can generate 1.8-2.0 bn revenue.

This is a very positive development that was long pending for SIL and its investors.

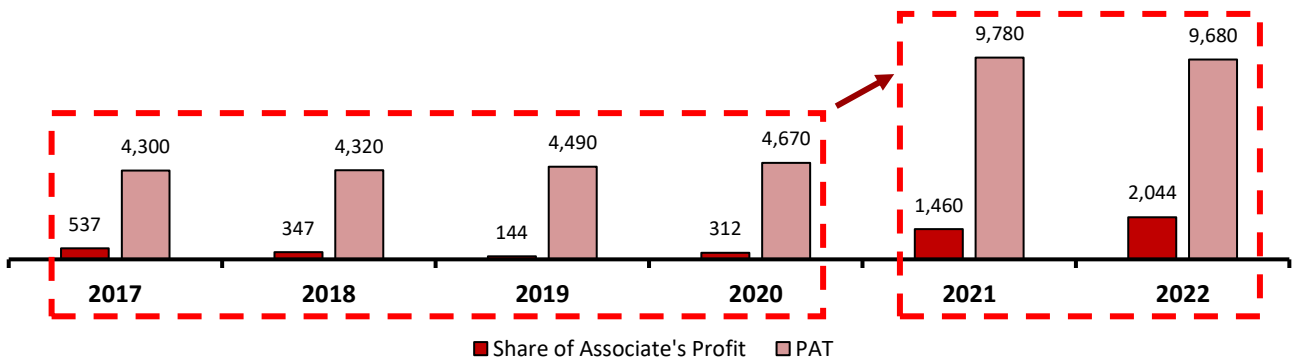
CHALLENGES

Profit Normalcy on the cards – Difficult to sustain and grow profits from this level as the rise is commodity-led.

Supreme Petrochem Ltd, the associate company of SIL has shown a staller performance due to business tailwinds. As a result of this, the “Share of Associate” on the PNL for Supreme has elevated from an Rs. 300 mn run rate to upwards of Rs. 1400 mn in the last two years. This plus PVC inflation has led to a sharp jump in profitability for SIL.

This jump in the performance of SPL can be primarily attributed to the inflationary commodity environment for SPL’s products. It is difficult to say that this kind of performance will sustain for long.

Abnormal Increase in PAT (Rs. mn) due to sharp increase in Share of Associate and PVC Inflation



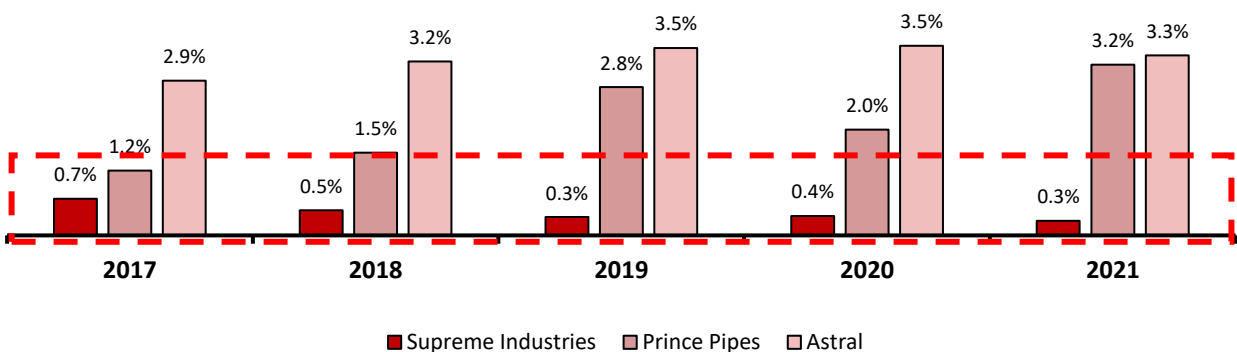
Source: Company, Keynote Capitals Ltd.

Lack of Marketing Spends vs Peers

Plastic product segments in which SIL operates (except furniture) were not branding-oriented product segments. But the game is not the same anymore. Players like Astral Ltd and Prince Pipes and Fittings Ltd. have changed the game by creating brands in a commoditized sector like piping. This strategy has given them great success and therefore they continue to put thrust on branding and marketing.

Astral Ltd and Prince Pipes and Fittings Ltd. have signed up high-profile Bollywood actors like Salman Khan, Akshay Kumar, and Ranveer Singh. SIL has lagged in this area and is also not looking committed to increasing marketing spending in the future. This can be detrimental to the company’s growth, especially in the VAP segment.

SIL needs to step up advertisement spends (%)



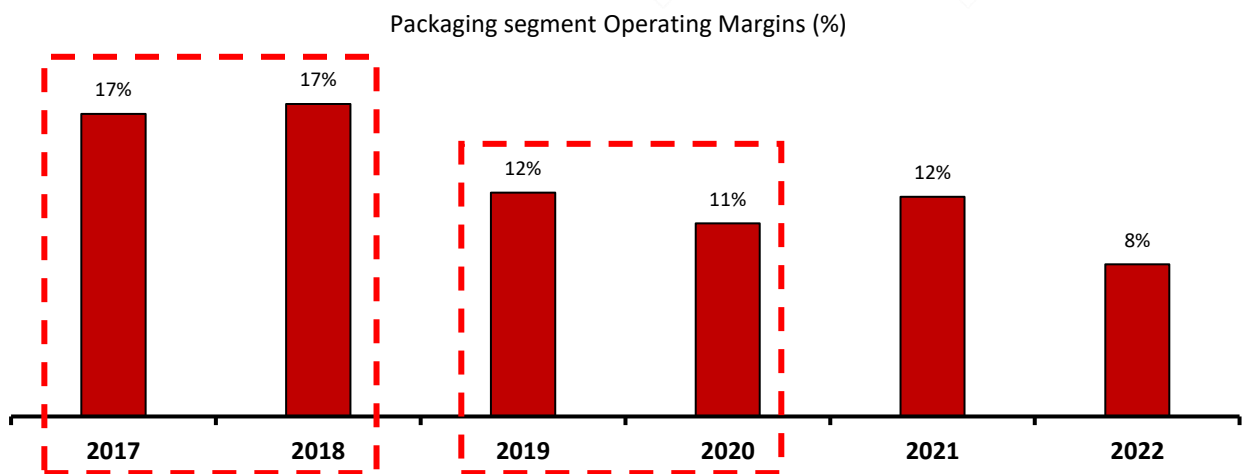
Source: Company, Keynote Capitals Ltd.

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There is a stark difference in the ad-spend trend between SIL and other piping majors. Astral Ltd has taken its spending from 2.9% in 2017 to 3.3% in 2021. Prince Pipes and Fittings Ltd. has increased spending from 1.2% in 2017 to 3.2% in 2021, close to Astral Ltd. SIL has not only not spent behind marketing but has shown a declining trajectory which is not very encouraging. Also, it doesn't look like the situation will change in the future.

Struggle vs Competition in the Packaging Segment

Supreme Industries Ltd, despite having excellent quality packaging products, is unable to grow its business and sustain its profitability along the way. This is because the company faces fierce competition from low-cost, low-quality unorganized players.



Source: Company, Keynote Capitals Ltd.

Products in which SIL can generate 17%+ EBITDA are considered VAP by the company. In FY17-18, the entire packaging segment was operating at VAP margin levels. These margins started coming down from FY19 and have not been able to recover ever since.

On multiple occasions in the annual reports, the company has also mentioned competitive pressure weighing on the packaging business. The company has also made sincere efforts to produce cost-effective products. However, it is still unable to fight low-quality competition and hence, ends up sacrificing the business as the company doesn't want to operate below a certain margin.

Sacrificing such a business is a reasonable step by SIL, but it eventually dents the overall business and profitability as this was a healthy profit-making business.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Net Sales	63,552	77,728	80,449	83,940	90,418
Growth %		22%	4%	4%	8%
Raw Material Expenses	39,420	52,255	52,292	54,561	58,772
Employee Expenses	2,666	2,989	3,218	3,358	3,617
Other Expenses	8,624	10,064	11,263	11,752	12,659
EBITDA	12,842	12,421	13,676	14,270	15,371
Growth %		-3%	10%	4%	8%
Margin%	20%	16%	17%	17%	17%
Depreciation	2,128	2,295	2,783	3,148	3,392
EBIT	10,714	10,126	10,894	11,122	11,979
Growth %		-5%	8%	2%	8%
Margin%	17%	13%	14%	13%	13%
Interest Paid	221	52	54	54	54
Other Income & exceptional	169	200	200	200	200
PBT	10,662	10,274	11,039	11,267	12,125
Tax	2,341	2,633	2,760	2,817	3,031
PAT	8,322	7,641	8,279	8,451	9,094
Others (Minorities, Associates)	1,460	2,044	2,085	2,126	2,169
Net Profit	9,781	9,685	10,364	10,577	11,263
Growth %		-1%	7%	2%	6%
Margin%	15%	12%	13%	13%	12%
Shares (Mn)	127.0	127.0	127.0	127.0	127.0
EPS	77.00	76.24	81.61	83.28	88.68

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	7,684	5,264	8,980	15,962	23,591
Current Investments	0	0	0	0	0
Debtors	3,899	4,668	4,827	5,036	5,425
Inventory	7,608	12,602	11,504	12,003	12,342
Short Term Loans & Advances	4,244	4,566	4,566	4,566	4,566
Other Current Assets	112	301	301	301	301
Total Current Assets	23,546	27,401	30,179	37,869	46,226
Net Block & CWIP	17,639	19,219	23,435	23,729	23,863
Long Term Investments	3,366	4,759	4,759	4,759	4,759
Other Non-current Assets	1,158	1,228	1,228	1,228	1,228
Total Assets	45,709	52,607	59,601	67,585	76,076
Creditors	6,462	7,940	7,679	8,259	8,867
Provision	3,025	2,724	2,724	2,724	2,724
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	3,081	1,988	1,988	1,988	1,988
Total Current Liabilities	12,567	12,652	12,391	12,971	13,578
Long Term Debt	6	0	0	0	0
Deferred Tax Liabilities	919	904	904	904	904
Other Long-Term Liabilities	524	607	607	607	607
Total Non-Current Liabilities	1,449	1,512	1,512	1,512	1,512
Liabilities	254	254	254	254	254
Paid-up Capital	31,438	38,190	45,444	52,848	60,732
Reserves & Surplus	31,692	38,444	45,699	53,102	60,986
Shareholders' Equity	0	0	0	0	0
Non-Controlling Interests	0	0	0	0	0
Total Equity & Liabilities	45,709	52,607	59,601	67,585	76,076

Source: Company, Keynote Capitals Ltd.

Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	12,122	12,318	13,124	13,394	14,294
Adjustments	708	193	2,220	2,577	2,812
Change in Working Capital	1,955	-4,939	678	-129	-120
Total Tax Paid	-2,322	-2,868	-2,760	-2,817	-3,031
Cash flow from operating Activities	12,464	4,704	13,262	13,025	13,955
Net Capital Expenditure	-2,210	-4,661	-6,999	-3,442	-3,526
Change in investments	80	139	0	0	0
Other investing activities	124	487	617	625	634
Cash flow from investing activities	-2,006	-4,035	-6,382	-2,816	-2,893
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-4,104	-11	0	0	0
Dividend (incl. tax)	-635	-2,922	-3,109	-3,173	-3,379
Other financing activities	-316	-171	-54	-54	-54
Cash flow from financing activities	-5,055	-3,103	-3,164	-3,228	-3,433
Net Change in cash	5,402	-2,434	3,716	6,981	7,630

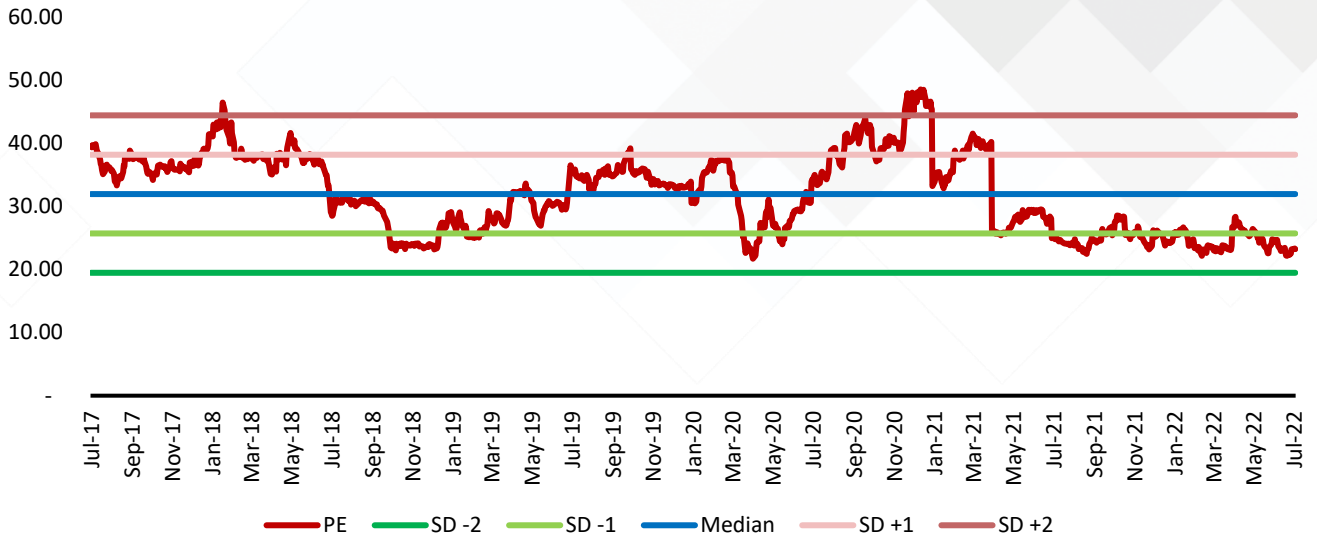
Key Ratios

	FY21	FY22	FY23E	FY24E	FY25E
Per Share Data					
EPS	77	76	82	83	89
Growth %	109%	-1%	7%	2%	6%
Book Value Per Share	249	303	360	418	480
Return Ratios					
Return on Assets (%)	23%	20%	18%	17%	16%
Return on Equity (%)	36%	28%	25%	21%	20%
Return on Capital Employed (%)	34%	27%	25%	22%	20%
Turnover Ratios					
Asset Turnover (x)	1.5	1.6	1.4	1.3	1.3
Sales / Gross Block (x)	2.0	2.2	2.0	1.9	1.9
Working Capital / Sales (x)	12%	17%	20%	25%	32%
Receivable Days	20	20	22	21	21
Inventory Days	76	71	84	79	76
Payable Days	57	46	56	53	53
Working Capital Days	39	45	50	47	44
Liquidity Ratios					
Current Ratio (x)	1.9	2.2	2.4	2.9	3.4
Interest Coverage Ratio (x)	49.4	200.5	203.7	207.9	223.7
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.1	-0.2	-0.3	-0.4
Valuation					
PE (x)	26.5	26.9	23.2	22.7	21.3
Earnings Yield (%)	4%	4%	4%	4%	5%
Price to Sales (x)	4.1	3.3	3.0	2.9	2.7
Price to Book (x)	4.9	8.2	6.8	5.3	4.5
EV/EBITDA (x)	13.4	19.6	20.5	17.2	16.5
EV/Sales (x)	2.0	4.0	3.3	2.9	2.8

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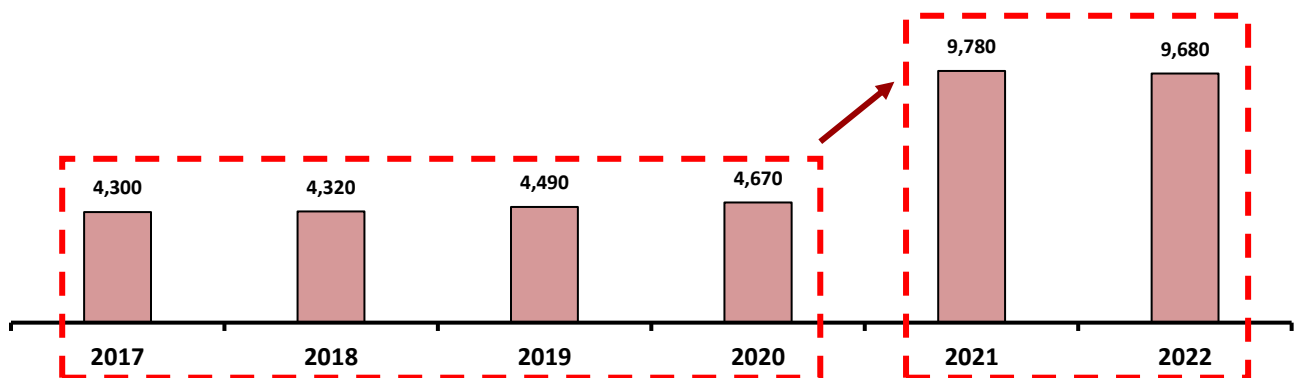
Valuation

5 Year Trailing PE – Supreme looking optically cheap due to abnormal earnings since last 2 years



Source: Company, Keynote Capitals Ltd.

Abnormal Increase in PAT (Rs. mn) due to sharp increase in Share of Associate and PVC Inflation



Source: Company, Keynote Capitals Ltd.

A look at the PE band says that Supreme Industries Ltd. is trading a little lower than –ve one standard deviation from the mean. A closer look at earnings acts as an eye-opener and gives a reality check. Earnings for SIL over the last 2 years have been abnormally high because of PVC inflation and supernormal performance from the associate Supreme Petrochem Ltd. This performance doesn't look sustainable in the long run.

PVC prices and the supernormal performance of Supreme Petro might not normalize immediately. It is impossible to predict price movements, but it looks tough for these numbers to move up from here or sustain at these levels for long.

It is prudent to not fall for this optically low PE and take a harder look at earnings sustainability and growth, raising a question on sustainability.

2-3 piping companies in the past calls have gone on to highlight the same point and have said that volatility in PVC prices now is very high and price prediction is impossible. Volatility might stay as it is for some time but the peak level which the PVC prices saw, doesn't look sustainable and must normalize. This will lead to inventory losses and hence, profit normalization.

Valuation based on Sensitivity of Realizations

Valuation	FY22	FY23		
Scenario	Current	Bear	Base	Bull
Realization/Kg (Rs.)	197	160	178	195
Revenue (Rs. mn)	77,728	72,479	80,449	88,334
PAT % (incl. share of associate)	12%	12%	13%	14%
PAT (Rs. mn)	9,685	8,697	10,364	12,367
EPS (Rs.)	76.24	68.48	81.61	97.38
PE	-	23	24	26
Target Price (Rs.)	-	1,575	1,958	2,532
CMP (Rs.)	-	1,893	1,893	1,893
% Upside/Downside	-	(16.8)	3.4	33.7

Source: Company, Keynote Capitals Ltd.

It is impossible to predict the price trend of PVC in the future. Still, if we go by the past data and words of the management of a few companies, we can safely say that price volatility can remain for some time. Still, PVC prices going beyond FY22 levels now look difficult given the normalization of global supply chain disruptions.

Base Case - We have built a 10% lower realization for FY23 because the realizations of FY22 capture the rampant PVC upcycle post COVID. These levels of realization don't look sustainable. At the same time, the recent drop in PVC prices points towards a strong volume recovery which we have built in our assumptions as well. Normalization of realizations with improved volumes makes us arrive at a target price of Rs. 1,958 which is ~3% higher than CMP.

Bull Case – We have assumed peak realizations to continue along with higher volumes. SIL can generate a substantial ~34% upside, given things remain as it is. This coupled with multiple re-rating, can result in a price of Rs. 2,532 a share.

Bear Case – We have assumed an ~18% drop in realizations given the sharp correction from the peak visible in the PVC prices. This scenario will result in a ~17% downside from current levels bringing the price down to Rs. 1,575 at a PE of 23x.

Rating Methodology

Rating	Criteria
BUY	Expected positive return of > 10% over 1-year horizon
NEUTRAL	Expected positive return of > 0% to < 10% over 1-year horizon
REDUCE	Expected return of < 0% to -10% over 1-year horizon
SELL	Expected to fall by >10% over 1-year horizon
NOT RATED (NR)/UNDER REVIEW (UR)/COVERAGE SUSPENDED (CS)	Not covered by Keynote Capitals Ltd/Rating & Fair value under Review/Keynote Capitals Ltd has suspended coverage

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