

## Supreme Industries Ltd.

2<sup>nd</sup> Nov 2022

Strong volume growth expected, margin pressure to stay

In Q2 FY23, Supreme Industries Ltd. (SIL) registered a volume growth of 9% on a YoY basis, along with solid realizations of Rs. 187/kg. The Company posted an 8% YoY revenue growth despite a sharp correction in PVC prices owing to a better product mix. Profitability on all levels took a severe beating due to an inventory loss to the tune of Rs. 2,000-2,500 Mn in H1 FY23. We believe the PVC prices are almost at trough levels, which will lead to solid volume growth in H2 FY23. Also, the management has raised its volume growth guidance for FY23E from 15% to more than 20% and is targeting revenue of Rs. 90 Bn in FY23E at ~12.5% EBITDA margins, which is lower than the previous guidance of ~15%. Given the strong volume growth outlook with subdued margins, we maintain a NEUTRAL rating on SIL with a target price of Rs. 2,358, valuing it at 32x FY24E earnings.

## Volume growth guidance remains strong as PVC prices bottom out

Since the beginning of the year, prices across polymers have steeply declined. Among all polymers, PVC has seen the severest fall of 38% or Rs. 55/kg. We believe that PVC prices have almost bottomed out. This will result in increased affordability of plastic products as nearly all the benefits are passed through to consumers. Considering this reality, the Management of SIL has raised the volume growth guidance from 15% previously to more than 20% from FY23E.

## Value-added products make a comeback

The contribution of Value-Added Products (VAP) to the Company's total sales fell steeply to 34% in Q1 FY23 from the historical range of 38-40%. In Q2 FY23, VAP contribution made a comeback by contributing 38% to the total sales of SIL. The Company has also made considerable efforts to add new VAP products to its portfolio and has launched multiple new products to augment this higher-margin business.

## Inventory losses will keep margins under pressure despite strong realizations in the current fiscal

SIL is one of the largest consumers of PVC in India. Despite declining PVC prices, the Company managed to keep realizations strong with the help of a better product mix. On the other hand, margins couldn't hold up because the Company had to take an inventory loss amounting to Rs. 2,000-2,500 Mn in H1FY23. This blow will continue to pull down the overall performance of FY23E. In line with this, the Company expects to clock a ~12.5% EBITDA margin in FY23E.

## View &amp; Valuation

We maintain our view on Supreme Industries with a NEUTRAL rating and a target price of Rs. 2,358 (32x FY24E revised earnings). During the year, PVC prices fell sharply, leading to a material inventory loss for the Company, denting margins in Q2 & H1 FY23. This margin pressure is expected to remain in FY23E; therefore, SIL is expected to clock a ~12.5% EBITDA margin in FY23E. We expect margins to climb gradually from FY24E.

## NEUTRAL

CMP Rs. 2,262

TARGET Rs. 2,358 (+4%)

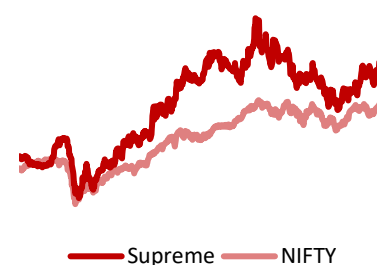
## Company Data

MCAP (Rs. Mn)	2,87,405
O/S Shares (Mn)	127
52w High/Low	2,492 / 1,666
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	151

## Shareholding Pattern %

	Sept 22	Jun 22	Mar 22
Promoters	48.85	48.85	48.85
FII's	16.32	15.79	16.16
DII's	19.15	19.69	19.65
Non-Institutional	15.68	15.67	15.34

## Supreme vs Nifty



Oct, 19    Oct, 20    Oct, 21    Oct, 22

## Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	77,728	87,920	92,742
EBITDA	12,421	10,990	13,911
Net Profit	9,685	7,372	9,353
Total Assets	52,607	59,119	65,729
ROCE (%)	28%	20%	20%
ROE (%)	27%	20%	20%

Source: Company, Keynote Capitals Ltd.

Chirag Maroo, Research Analyst  
Chirag@keynotecapitals.net

## Q2 FY23 Conference Call Takeaways

### General Highlights

- Planned CAPEX for FY23E stays at Rs. 7 Bn, including carry forward CAPEX of Rs. 2.8 Bn. The entire CAPEX will be internally funded. The Installed Capacity of SIL will go up by 80,000 MT in FY23E.
- Management is guiding to reach Rs. 90 Bn revenue with a 12.5% EBITDA margin. Almost 100% of the drop in Gross profit margin can be attributed to inventory loss.
- Inventory stocking by the channel should start soon as the prices for PVC have bottomed out.
- After testing the market with the biofloc tank, the Company has decided to discontinue the product due to its inability to add value to customers.

### Plastic Piping Business

- All greenfield projects of SIL will be fully operational from December 2022, and the Company is confident of achieving 25% volume growth in this business in FY23E, along with market share gain.
- Olefin fittings and PEX pipes are well received by the market, and the plan is to launch more products further to augment the product range.
- Housing and Agri segment is showing robust demand. Agri demand is strong due to good monsoon, affordability of pipes, and a good crop.
- Business growth in CPVC was also strong at 20% in Q2 FY23, and the CPVC market has been steady for the last six months.

### Packaging Product Business

- Cross-laminated film business performance improved with increased penetration in export markets. The Company expects 10% growth with improved profitability in this business.
- The Company continues to introduce new products in the protective packaging division. In performance packaging, due to strong export demand, the Company will soon have to look for capacity expansion.

### Industrial Product Business

- Business is gradually improving and is further expected to improve as demand for home appliances and white goods improves, which forms a large part of the segment's business.

### Consumer Business

- This segment did well in H1 FY23 with improved profitability. The steep drop in Polypropylene (the principal raw material) will drive volume growth in this segment going forward.

### Other Businesses

- The Company is receiving orders for LPG cylinders from existing and new customers but could not cater to their demand due to capacity constraints. Doubling of LPG cylinder capacity is underway, and the new capacity will be operational from December 2022.

## Q2FY23 Result Update

## Result Highlights (Rs. Mn)

Particulars	Q2 FY23	Q2 FY22	Change % (Y-o-Y)	Q1 FY23	Change % (Q-o-Q)	H1 FY23	H1 FY22	Change %	FY22
Revenue from operations	20,866	19,285	8%	22,060	-5%	42,926	32,706	31%	77,728
COGS	16,022	13,207	21%	16,224	-1%	32,246	21,869	47%	53,532
Gross Profit	4,845	6,078	-20%	5,836	-17%	10,680	10,837	-1%	24,196
<b>Gross Profit %</b>	<b>23%</b>	<b>32%</b>	<b>-830 Bps</b>	<b>26%</b>	<b>-324 Bps</b>	<b>25%</b>	<b>33%</b>	<b>-826 Bps</b>	<b>31%</b>
Employee Cost	882	866	2%	910	-3%	1,792	1,669	7%	3,453
Power & Fuel	659	566	16%	565	17%	1,223	1,010	21%	2,134
Other Operating Expense	1,832	1,539	19%	1,672	10%	3,505	2,831	24%	6,188
EBITDA	1,471	3,108	-53%	2,690	-45%	4,160	5,328	-22%	12,421
<b>EBITDA %</b>	<b>7%</b>	<b>16%</b>	<b>-906 Bps</b>	<b>12%</b>	<b>-514 Bps</b>	<b>10%</b>	<b>16%</b>	<b>-660 Bps</b>	<b>16%</b>
Depreciation	649	571	14%	617	5%	1,265	1,132	12%	2,295
EBIT	823	2,537	-68%	2,073	-60%	2,895	4,196	-31%	10,126
<b>EBIT %</b>	<b>4%</b>	<b>13%</b>	<b>-921 Bps</b>	<b>9%</b>	<b>-545 Bps</b>	<b>7%</b>	<b>13%</b>	<b>-609 Bps</b>	<b>13%</b>
Finance Cost	12	7	76%	16	-26%	28	28	1%	52
PBT	811	2,530	-68%	2,056	-61%	2,866	4,168	-31%	10,074
<b>PBT %</b>	<b>4%</b>	<b>13%</b>	<b>-923 Bps</b>	<b>9%</b>	<b>-544 Bps</b>	<b>7%</b>	<b>13%</b>	<b>-607 Bps</b>	<b>13%</b>
Other Income	55	41	35%	46	-99%	101	84	20%	200
Share of Associates	186	391	-53%	580	-68%	766	841	-9%	2,044
Tax	231	675	-66%	543	-57%	774	1,104	-30%	2,633
PAT	820	2,287	-64%	2,139	-62%	2,958	3,989	-26%	9,684
<b>EPS</b>	<b>6.46</b>	<b>18.00</b>	<b>-64%</b>	<b>16.84</b>	<b>-62%</b>	<b>23.29</b>	<b>31.40</b>	<b>-26%</b>	<b>76.24</b>

Source: Company, Keynote Capitals Ltd.

## Segment Highlights (Rs. Mn)

Particulars	Q2 FY23	Q2 FY22	Change % (Y-o-Y)	Q1 FY23	Change % (Q-o-Q)	H1 FY23	H1 FY22	Change %	FY22
<b>Volume (MT)</b>									
Plastic Piping	79,220	72,480	9%	79,424	0%	1,58,644	1,20,591	32%	2,74,295
Packaging Products	14,766	12,390	19%	12,866	15%	27,667	21,902	26%	48,030
Industrial Products	13,297	12,905	3%	12,901	3%	26,163	24,437	7%	54,163
Consumer Products	4,520	4,898	-8%	3,731	21%	8,251	7,007	18%	17,420
<b>Revenue</b>									
Plastic Piping	12,947	12,673	2%	14,633	-12%	27,581	20,983	31%	50,460
Packaging Products	3,349	2,530	32%	3,023	11%	6,371	4,519	41%	10,237
Industrial Products	3,278	2,773	18%	3,263	0%	6,542	5,214	25%	12,101
Consumer Products	1,119	1,112	1%	958	17%	2,077	1,596	30%	4,051
<b>Operating Profit Margin %</b>									
Plastic Piping	2%	15%	-1340 Bps	11%	-864 Bps	6%	16%	-950 Bps	16%
Packaging Products	9%	8%	131 Bps	8%	46 Bps	9%	7%	174 Bps	8%
Industrial Products	7%	9%	-269 Bps	7%	-48 Bps	7%	8%	-144 Bps	8%
Consumer Products	14%	16%	-187 Bps	11%	237 Bps	13%	11%	142 Bps	13%
<b>Realization/Kg (Rs.)</b>									
Plastic Piping	163	175	-7%	184	-11%	174	174	6%	184
Packaging Products	227	204	11%	235	-3%	230	206	14%	213
Industrial Products	247	215	15%	253	-3%	250	213	19%	223
Consumer Products	248	227	9%	257	-4%	252	228	13%	233
<b>Operating Profit/Kg (Rs.)</b>									
Plastic Piping	3	27	-88%	19	-84%	11	28	-30%	29
Packaging Products	20	16	30%	20	2%	20	14	38%	18
Industrial Products	16	20	-19%	18	-9%	17	17	1%	19
Consumer Products	34	36	-4%	30	16%	32	26	14%	31

Source: Company, Keynote Capitals Ltd.

## Financial Statement Analysis

## Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
<b>Net Sales</b>	<b>63,552</b>	<b>77,728</b>	<b>87,920</b>	<b>92,742</b>	<b>99,965</b>
Growth %		22%	13%	5%	8%
Raw Material Expenses	39,420	52,255	61,105	62,137	65,977
Employee Expenses	2,666	2,989	3,517	3,710	3,999
Other Expenses	8,624	10,064	12,309	12,984	14,995
<b>EBITDA</b>	<b>12,842</b>	<b>12,421</b>	<b>10,990</b>	<b>13,911</b>	<b>14,995</b>
Growth %		-3%	-12%	27%	8%
Margin%		16%	13%	15%	15%
Depreciation	2,128	2,295	2,805	3,235	3,573
<b>EBIT</b>	<b>10,714</b>	<b>10,126</b>	<b>8,185</b>	<b>10,676</b>	<b>11,422</b>
Growth %		-5%	-19%	30%	7%
Margin%		17%	13%	12%	11%
Interest Paid	221	52	54	54	54
Other Income & exceptional	169	200	200	200	200
<b>PBT</b>	<b>10,662</b>	<b>10,274</b>	<b>8,330</b>	<b>10,822</b>	<b>11,568</b>
Tax	2,341	2,633	2,083	2,705	2,892
<b>PAT</b>	<b>8,322</b>	<b>7,641</b>	<b>6,248</b>	<b>8,116</b>	<b>8,676</b>
Others (Minorities, Associates)	1,460	2,044	1,124	1,237	1,360
<b>Net Profit</b>	<b>9,781</b>	<b>9,685</b>	<b>7,372</b>	<b>9,353</b>	<b>10,036</b>
Growth %		-1%	-24%	27%	7%
Margin%		15%	12%	8%	10%
Shares (Mn)	127.0	127.0	127.0	127.0	127.0
<b>EPS</b>	<b>77.00</b>	<b>76.24</b>	<b>58.05</b>	<b>73.64</b>	<b>79.02</b>

## Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	7,684	5,264	5,484	10,175	15,726
Current Investments	0	0	0	0	0
Debtors	3,899	4,668	5,275	5,565	5,998
Inventory	7,608	12,602	13,443	13,670	13,855
Short Term Loans & Advances	4,244	4,566	4,566	4,566	4,566
Other Current Assets	112	301	301	301	301
<b>Total Current Assets</b>	<b>23,546</b>	<b>27,401</b>	<b>29,069</b>	<b>34,277</b>	<b>40,446</b>
Net Block & CWIP	17,639	19,219	24,062	25,464	26,890
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
<b>Total Assets</b>	<b>45,709</b>	<b>52,607</b>	<b>59,119</b>	<b>65,729</b>	<b>73,323</b>
Creditors	6,462	7,940	9,292	9,355	9,924
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
<b>Total Current Liabilities</b>	<b>12,567</b>	<b>12,652</b>	<b>14,003</b>	<b>14,066</b>	<b>14,636</b>
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
<b>Total Non Current Liabilities</b>	<b>1,449</b>	<b>1,512</b>	<b>1,512</b>	<b>1,512</b>	<b>1,512</b>
Paid-up Capital	254	254	254	254	254
Reserves & Surplus	31,438	38,190	43,350	49,897	56,922
Shareholders' Equity	31,692	38,444	43,604	50,151	57,176
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>45,709</b>	<b>52,607</b>	<b>59,119</b>	<b>65,729</b>	<b>73,323</b>

## Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	12,122	12,318	10,644	12,064	12,934
Adjustments	708	193	2,432	2,837	3,149
Change in Working Capital	1,955	-4,939	33	-518	-113
Total Tax Paid	-2,322	-2,868	-2,380	-2,707	-2,893
<b>Cash flow from operating Activities</b>	<b>12,464</b>	<b>4,704</b>	<b>10,728</b>	<b>11,675</b>	<b>13,076</b>
Net Capital Expenditure	-2,210	-4,661	-7,567	-4,637	-4,998
Change in investments	80	139	0	0	0
Other investing activities	124	487	425	447	472
<b>Cash flow from investing activities</b>	<b>-2,006</b>	<b>-4,035</b>	<b>-7,142</b>	<b>-4,190</b>	<b>-4,526</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-4,104	-11	0	0	0
Dividend (incl. tax)	-635	-2,922	-2,479	-2,807	-3,012
Other financing activities	-316	-171	-54	-54	-54
<b>Cash flow from financing activities</b>	<b>-5,055</b>	<b>-3,103</b>	<b>-2,534</b>	<b>-2,862</b>	<b>-3,067</b>
Net Change in cash	5,402	-2,434	1,053	4,624	5,483

## Key Ratios

Particulars	FY21	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>					
EPS	77	76	65	74	79
Growth %	109%	-1%	-15%	13%	7%
Book Value Per Share	249	303	348	400	455
<b>Return Ratios</b>					
Return on Assets (%)	23%	20%	15%	15%	14%
Return on Equity (%)	36%	28%	20%	20%	18%
Return on Capital Employed (%)	34%	27%	20%	20%	19%
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.5	1.6	1.6	1.5	1.4
Sales / Gross Block (x)	2.0	2.2	2.2	2.0	2.0
Working Capital / Sales (%)	12%	17%	18%	20%	24%
Receivable Days	20	20	21	21	21
Inventory Days	76	71	79	78	76
Payable Days	57	46	52	53	53
Working Capital Days	39	45	48	46	44
<b>Liquidity Ratios</b>					
Current Ratio (x)	1.9	2.2	2.2	2.5	2.8
Interest Coverage Ratio (x)	49.4	200.5	175.8	199.8	213.6
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.1	-0.1	-0.2	-0.3
<b>Valuation</b>					
PE (x)	26.5	26.9	33.4	29.5	27.5
Earnings Yield (%)	4%	4%	3%	3%	4%
Price to Sales (x)	4.1	3.3	3.2	3.0	2.8
Price to Book (x)	4.9	8.2	6.8	6.2	5.4
EV/EBITDA (x)	13.4	19.6	20.5	22.2	19.4
EV/Sales (x)	2.0	4.0	3.3	3.1	2.9

Source: Company, Keynote Capitals Ltd. estimates

## KEYNOTE Rating History

Date	Rating	Target Price	Upside/Downside
20 <sup>th</sup> July 2022	NEUTRAL	1,893	+3.4%
28 <sup>th</sup> July 2022	NEUTRAL	1,876	+3.5%
2 <sup>nd</sup> November 2022	NEUTRAL	2,358	+4.2%

Source: Company, Keynote Capitals Ltd. estimates

## 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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Compliance Officer: Mr. Jairaj Nair; Tel: 022-68266000; email id: jairaj@keynoteindia.net

Registered Office: 9th Floor, The Ruby, Senapati Bapat Marg, Dadar West, Mumbai – 400028, Maharashtra. Tel: 022 – 68266000.

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