

## Supreme Industries Ltd.

24<sup>th</sup> Jan 2023

## Robust volume growth as PVC prices normalized

In Q3 FY23, Supreme Industries Ltd. (SIL) registered a strong volume growth of 51% on a YoY basis. The Company posted a 19% YoY revenue growth driven by volume despite a sharp correction in PVC prices. Inventory losses are not expected to further continue as PVC price started its reversal in December 2022 and increased by Rs. 15 per/kg. Volume guidance for FY23E remains strong at greater than 25% with a revenue target of Rs. 90+ Bn at ~12.5% EBITDA margins, which is lower than the previous guidance of ~15%-16%. We believe that the guidance for FY23E will be achieved but sense that the market is currently pricing a major chunk of the future positivity and therefore maintain a NEUTRAL rating on SIL with a target price of Rs. 2,584, valuing it at 32x FY24E earnings.

## Growth guidance continues to remain strong

A steep fall in PVC prices has increased affordability and led to a positive demand environment for SIL. The Company anticipates growing its volumes by more than 25% and is confident of breaching Rs. 90 Bn revenue mark in FY23E. The plastic piping segment (the largest segment for SIL) is also expected to clock healthy growth in the future owing to strong demand from all segments, including agri, housing, and real estate. The management expects the industry to grow at ~15% for the next five years, and SIL being the largest player, will reap significant benefits from this growth.

## No inventory losses are expected in the short term

In H1FY23, SIL reported an inventory loss of Rs. 2.0-2.5 Bn due to a severe fall in PVC prices. PVC prices fell by 45% till November 2022 before the downtrend was reversed in December 2022. If prices continue to soar, the Company will realise some inventory gain.

## Margin guidance remains unchanged

The management has held onto the EBITDA margin guidance for FY23E and expects it to stay around 12.5% as SIL reported a significant inventory loss during the year. In a year without inventory losses, unlike FY22, the management expects the business to clock a margin of ~15%-16% on a blended basis.

## View &amp; Valuation

Normalization of PVC prices has led to a positive demand scenario, and now a robust demand is being witnessed across customer segments. This will lead to strong volume growth in FY23E. However, we believe that the guidance for FY23E will be achieved but are of the opinion that a large part of the positivity from Q4FY23 and FY24E seems to be reflected in the price. Therefore, we maintain our view on Supreme Industries Ltd. with a NEUTRAL rating and a target price of Rs. 2,584 (32x FY24E revised earnings).

## NEUTRAL

CMP Rs. 2,399

TARGET Rs. 2,584 (+7.7%)

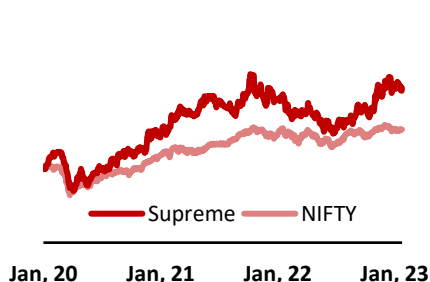
## Company Data

MCAP (Rs. Mn)	3,04,750
O/S Shares (Mn)	127
52w High/Low	2,605 / 1,669
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	189.7

## Shareholding Pattern %

	Dec 22	Sep 22	Jun 22
Promoters	48.85	48.85	48.85
FIIs	17.41	16.32	15.79
DIIIs	18.52	19.15	19.70
Non-Institutional	15.22	15.68	15.67

## Supreme vs Nifty



Source: Keynote Capitals Ltd.

## Key Financial Data

(Rs Mn)	FY22	FY23E	FY24E
Revenue	77,728	90,106	96,606
EBITDA	12,421	11,263	14,491
Net Profit	7,641	6,771	8,907
Total Assets	52,607	60,247	67,325
ROCE (%)	27%	20%	22%
ROE (%)	28%	19%	22%

Source: Company, Keynote Capitals Ltd.

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## Q3 FY23 Result Update

## Result Highlights (Rs. Mn)

Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change %	FY22
Revenue	23,107	19,451	18.8%	20,866	-88.9%	66,033	52,157	26.6%	77,728
COGS	16,463	13,224	24.5%	16,022	-89.7%	48,709	35,093	38.8%	53,532
Gross Profit	6,644	6,227	6.7%	4,845	-86.3%	17,324	17,064	1.5%	24,196
<b>Gross Profit %</b>	<b>28.8%</b>	<b>32.0%</b>	<b>-326 Bps</b>	<b>23.2%</b>	<b>554 Bps</b>	<b>26.2%</b>	<b>32.7%</b>	<b>-648 Bps</b>	<b>31.1%</b>
Employee Cost	959	880	8.9%	882	-89.1%	2,751	2,549	7.9%	3,453
Power & Fuel	699	510	37.0%	659	-89.4%	1,922	1,520	26.5%	2,134
Other Operating Expense	1,953	1,658	17.8%	1,832	-89.3%	5,458	4,489	21.6%	6,188
EBITDA	3,034	3,179	-4.6%	1,471	-79.4%	7,194	8,507	-15.4%	12,421
<b>EBITDA %</b>	<b>13%</b>	<b>16%</b>	<b>-321 Bps</b>	<b>7%</b>	<b>608 Bps</b>	<b>11%</b>	<b>16%</b>	<b>-542 Bps</b>	<b>16%</b>
Depreciation	648	575	12.7%	649	-90.0%	1,913	1,707	12.1%	2,295
EBIT	2,386	2,604	-8.4%	823	-71.0%	5,281	6,800	-22.3%	10,126
<b>EBIT %</b>	<b>10%</b>	<b>13%</b>	<b>-306 Bps</b>	<b>4%</b>	<b>638 Bps</b>	<b>8%</b>	<b>13%</b>	<b>-504 Bps</b>	<b>13%</b>
Finance Cost	12	5	150.0%	12	-90.4%	40	33	21.7%	52
Other Income	83	29	182.0%	55	-85.0%	184	114	61.8%	200
<b>PBT</b>	<b>2,457</b>	<b>2,629</b>	<b>-6.5%</b>	<b>866</b>	<b>-71.6%</b>	<b>5,425</b>	<b>6,881</b>	<b>-21.2%</b>	<b>10,074</b>
Share of Associates	276	507	-45.5%	186	-85.1%	1,041	1,348	-22.7%	2,044
Tax	633	678	-6.7%	231	-72.6%	1,407	1,783	-21.0%	2,633
<b>PAT</b>	<b>2,100</b>	<b>2,457</b>	<b>-14.5%</b>	<b>820</b>	<b>-74.4%</b>	<b>5,059</b>	<b>6,446</b>	<b>-21.5%</b>	<b>9,684</b>
<b>EPS</b>	<b>16.5</b>	<b>19.3</b>	<b>-</b>	<b>6.5</b>	<b>-</b>	<b>39.8</b>	<b>50.7</b>	<b>-</b>	<b>76.2</b>

## Segment Highlights (Rs. Mn)

Particulars	Q3 FY23	Q3 FY22	Change % (Y-o-Y)	Q2 FY23	Change % (Q-o-Q)	9M FY23	9M FY22	Change %	FY22
<b>Volumes (MT)</b>									
Plastic Piping	1,04,109	57,197	82.0%	79,220	31.4%	2,62,753	1,77,788	47.8%	2,74,295
Industrial Products	14,785	12,365	19.6%	14,766	0.1%	42,452	34,267	23.9%	54,163
Packaging Products	14,547	16,595	-12.3%	13,297	9.4%	40,710	41,032	-0.8%	48,030
Consumer Products	4,921	5,207	-5.5%	4,520	8.9%	13,172	12,214	7.8%	17,420
<b>Revenue</b>									
Plastic Piping	15,087	11,479	31.4%	12,947	16.5%	42,667	32,463	31.4%	50,460
Industrial Products	3,358	2,715	23.7%	3,349	0.3%	9,730	7,234	34.5%	10,237
Packaging Products	3,419	3,697	-7.5%	3,278	4.3%	9,961	8,911	11.8%	12,101
Consumer Products	1,159	1,275	-9.1%	1,119	3.5%	3,236	2,871	12.7%	4,051
<b>Realization/Kg (Rs.)</b>									
Plastic Piping	145	201	-27.8%	163	-11.3%	162	183	-11.1%	184
Packaging Products	227	220	3.4%	227	0.2%	229	211	8.6%	189
Industrial Products	235	223	5.5%	247	-4.7%	245	217	12.7%	252
Consumer Products	235	245	-3.8%	248	-4.9%	246	235	4.5%	233
<b>Operating Profit Margin %</b>									
Plastic Piping	11.3%	16.5%	-517 Bps	1.9%	942 Bps	8.2%	16.2%	-797 Bps	15.5%
Industrial Products	6.7%	9.1%	-234 Bps	6.4%	36 Bps	6.9%	9.3%	-244 Bps	8.3%
Packaging Products	9.2%	6.1%	318 Bps	9.1%	15 Bps	8.7%	6.0%	269 Bps	8.3%
Consumer Products	17.1%	16.8%	23 Bps	13.9%	319 Bps	14.3%	13.8%	53 Bps	13.3%
<b>Operating Profit / Kg (Rs.)</b>									
Plastic Piping	16	33	-50.4%	3	425.2%	13	30	-54.9%	29
Industrial Products	15	20	-23.3%	14	5.8%	16	20	-20.0%	16
Packaging Products	22	14	60.9%	22	-3.0%	21	13	62.9%	21
Consumer Products	40	41	-2.5%	34	17.0%	35	32	8.5%	31

Source: Company, Keynote Capitals Ltd.

## Q3 FY23 Conference Call Takeaways

### General Highlights

- Momentum in growth to continue as soft PVC prices makes the product more affordable. Product prices are approximately 20% down compared to last year.
- Going forward, expect dealers to stock more inventory as the demand environment remains favourable. The Company also sees good demand for products that it sells only in rural areas.
- PVC prices saw a steep fall till November '22. Currently, the price is recovering from the lows and is expected to remain range bound.
- The recent price bump is due to a global shortage created because of the reluctance of PVC manufacturers to manufacture PVC as the prices fell steeply. Imports fulfill approximately 60% of India's PVC demand.
- CAPEX for FY23 will be to the tune of Rs. 7 Bn. The expanded total capacity of SIL by the end of FY23 will stand at 8,15,000 MT, up from 7,35,000 MT.
- New greenfield plants at Guwahati (Assam) and Erode (Tamil Nadu) have started commercial production.

### Plastic Piping Business

- Demand environment remains encouraging, with agricultural, housing, and real estate demanding sector. Anticipation of 35% volume growth in FY23.
- CPVC segment registered a 32% volume growth during 9MFY23. The management is confident that customers won't migrate to PVC pipes available at a relatively cheaper price.
- The piping industry in India is expected to grow at 21% in FY23 after seeing two constant years of de-growth. Management expects the industry to grow at 15% CAGR for the coming five years.
- In pipe fittings, the Company is satisfied with staying in the plastic fitting business and has no plans to diversify in metal fittings. According to the management, there will be encouraging demand for good quality fittings.

### Packaging Product Business

- Protective packaging continues to show lacklustre performance. The segment volumes for FY23 are expected to remain flat. However, the management expects next year to be much better owing to export sales.

### Other segments

- Doubling of LPG cylinder capacity is completed, and the same is under trial now.

## 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>90,106</b>	<b>96,606</b>	<b>1,03,545</b>
Growth %		22%	16%	7%	7%
Raw Material Expenses	39,420	52,255	64,877	65,692	70,411
Employee Expenses	2,666	2,989	3,604	3,864	4,142
Other Expenses	8,624	10,064	10,362	12,559	14,496
<b>EBITDA</b>	<b>12,842</b>	<b>12,421</b>	<b>11,263</b>	<b>14,491</b>	<b>14,496</b>
Growth %		-3%	-9%	29%	0%
Margin%	20%	16%	13%	15%	14%
Depreciation	2,128	2,295	2,410	2,790	3,091
<b>EBIT</b>	<b>10,714</b>	<b>10,126</b>	<b>8,853</b>	<b>11,701</b>	<b>11,406</b>
Growth %		-5%	-13%	32%	-3%
Margin%	17%	13%	10%	12%	11%
Interest Paid	221	52	54	54	54
Other Income & exceptional	169	200	230	230	230
<b>PBT</b>	<b>10,662</b>	<b>10,274</b>	<b>9,029</b>	<b>11,876</b>	<b>11,581</b>
Tax	2,341	2,633	2,257	2,969	2,895
<b>PAT</b>	<b>8,322</b>	<b>7,641</b>	<b>6,771</b>	<b>8,907</b>	<b>8,686</b>
Others (Minorities, Associates)	1,460	2,044	1,226	1,349	1,484
<b>Net Profit</b>	<b>9,781</b>	<b>9,685</b>	<b>7,998</b>	<b>10,256</b>	<b>10,170</b>
Growth %		-1%	-17%	28%	-1%
Shares (Mn)	127.0	127.0	127.0	127.0	127.0
<b>EPS</b>	<b>77.00</b>	<b>76.24</b>	<b>62.97</b>	<b>80.76</b>	<b>80.08</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Cash, Cash equivalents & Bank	7,684	5,264	4,085	7,474	11,300
Current Investments	0	0	0	0	0
Debtors	3,899	4,668	5,406	5,796	6,213
Inventory	7,608	12,602	14,273	14,452	14,786
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	28,632	32,590	37,166
Net Block & CWIP	17,639	19,219	24,648	26,688	28,774
Long Term Investments	3,366	4,759	5,740	6,819	8,006
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>60,247</b>	<b>67,325</b>	<b>75,175</b>
Creditors	6,462	7,940	9,982	9,881	10,612
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	14,694	14,592	15,323
Long Term Debt	6	0	0	0	0
Deffered 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
Paid-up Capital	254	254	254	254	254
Reserves & Surplus	31,438	38,190	43,788	50,967	58,086
Shareholders' Equity	31,692	38,444	44,042	51,221	58,340
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>45,709</b>	<b>52,607</b>	<b>60,247</b>	<b>67,325</b>	<b>75,175</b>

Source: Company, Keynote Capitals Ltd. estimates

### Cash Flow

Y/E Mar, Rs. Mn	FY21	FY22	FY23E	FY24E	FY25E
Pre-tax profit	10,662	10,274	9,029	11,876	11,581
Adjustments	708	193	2,235	2,615	2,915
Change in Working Capital	1,955	-4,939	-367	-671	-19
Total Tax Paid	-2,322	-2,868	-2,257	-2,969	-2,895
<b>Cash flow from operating Activities</b>	<b>11,004</b>	<b>2,660</b>	<b>8,639</b>	<b>10,851</b>	<b>11,582</b>
Net Capital Expenditure	-2,210	-4,661	-7,839	-4,830	-5,177
Change in investments	80	139	0	0	0
Other investing activities	124	487	475	500	527
<b>Cash flow from investing activities</b>	<b>-2,006</b>	<b>-4,035</b>	<b>-7,364</b>	<b>-4,331</b>	<b>-4,650</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-4,104	-11	0	0	0
Dividend (incl. tax)	-635	-2,922	-2,399	-3,077	-3,051
Other financing activities	-316	-171	-54	-54	-54
<b>Cash flow from financing activities</b>	<b>-5,055</b>	<b>-3,103</b>	<b>-2,454</b>	<b>-3,131</b>	<b>-3,105</b>
Net Change in cash	3,943	-4,478	-1,179	3,389	3,826

### Key Ratios

	FY21	FY22	FY23E	FY24E	FY25E
<b>Per Share Data</b>					
EPS	77	76	63	81	80
Growth %	109%	-1%	-17%	28%	-1%
Book Value Per Share	249	303	347	403	459
<b>Return Ratios</b>					
Return on Assets (%)	23%	20%	14%	16%	14%
Return on Equity (%)	36%	28%	19%	22%	19%
Return on Capital Employed (%)	34%	27%	20%	22%	19%
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.5	1.6	1.6	1.5	1.5
Sales / Gross Block (x)	2.0	2.2	2.2	2.1	2.0
Working Capital / Sales (x)	12%	17%	16%	17%	19%
Receivable Days	20	20	20	21	21
Inventory Days	76	71	76	80	76
Payable Days	57	46	49	55	53
Working Capital Days	39	45	47	46	44
<b>Liquidity Ratios</b>					
Current Ratio (x)	1.9	2.2	1.9	2.2	2.4
Interest Coverage Ratio (x)	49.4	200.5	166.8	219.1	213.7
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.1	-0.1	-0.1	-0.2
<b>Valuation</b>					
PE (x)	26.5	26.9	38.1	29.7	29.9
Earnings Yield (%)	4%	4%	3%	3%	3%
Price to Sales (x)	4.1	3.3	3.4	3.2	2.9
Price to Book (x)	4.9	8.2	6.8	6.9	5.9
EV/EBITDA (x)	13.4	19.6	20.5	26.6	20.7
EV/Sales (x)	2.0	4.0	3.3	3.3	3.1

## KEYNOTE Rating History

Date	Rating	Market Price at recommendation	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	2,262	+4.2%
25 <sup>th</sup> January 2023	NEUTRAL	2,399	+7.7%

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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