

Supreme Industries Ltd

2nd May 2023

Business outlook continues to remain positive

In Q4 FY23, Supreme Industries Ltd. (SIL) registered a strong YoY volume growth of ~15% on the back of strong demand. Revenue for the Company grew at a much lower rate of 2% on the back of a steep price correction in PVC. The Company is optimistic about the business outlook for the coming year and targets to touch a revenue of Rs. 110 Bn in FY24 with slightly improved operating margins. Given the robust growth outlook and guidance, we change our stance on SIL from NEUTRAL to BUY with a target price of Rs. 3,130, valuing it at 35x FY24E earnings.

Strong Performance - Guidance surpassed on multiple fronts

The Company posted a strong performance in FY23 by surpassing guidance that was given over the past couple of quarters. 1) SIL posted a ~29% volume growth against a 25% guidance, 2) The Company clocked a revenue of Rs. 92 Bn against a guidance of Rs. 90 Bn, 3) EBITDA margin for SIL for FY23 came at 13.3% against a 12.5% guidance. This is despite recording Rs. 1.8 Bn worth of inventory loss in FY23.

Growth in business is expected to continue

The Management of the Company is optimistic about its growth prospects and expects a modest expansion in margins in FY24. The management anticipates generating revenue of over Rs. 110 Bn with an EBITDA margin of 13.5%-14.0%. This should result in ~20% growth in the top line, with profits increasing at a slightly faster rate. The contribution of value-added products in the sales mix is expected to increase from the current 36%, supporting the growth in profits. Additionally, the Company plans to incur a CAPEX of around Rs. 7.5 Bn in FY24, which will be financed entirely through internal accruals.

Interventions required in the packaging business

The packaging business of SIL continues to face headwinds as operating margins recorded another decline in FY23. Also, "SILPAULIN", the cross-laminated product of SIL, is now out of the value-added category as the Company is unable to earn a 17% EBITDA margin owing to severe competition from low-cost and low-quality products. Apart from this, the packaging film business is also facing competition which is putting pressure on margins. We consider the revival of margins in this segment to be challenging, and the management's efforts to improve it will be crucial to monitor.

View & Valuation

Normalization of PVC prices has led to a positive demand scenario which is expected to continue. The Management expects to achieve a volume growth higher than the industry and aims to reach a revenue of Rs. 110 Bn in FY24, with EBITDA margins expected to improve slightly to reach close to 14%. Given the positive demand outlook and guidance by the management, we believe SIL is well poised to see some rerating. Therefore, we change our stance on SIL from NEUTRAL to BUY with a target price of Rs. 3,130, valuing it at 35x FY24E earnings.

BUY

CMP Rs. 2,740

TARGET Rs. 3,130 (+14%)

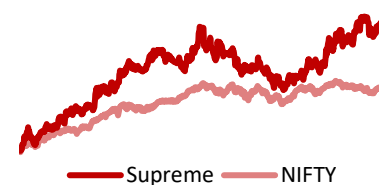
Company Data

MCAP (Rs. Mn)	3,48,080
O/S Shares (Mn)	127
52w High/Low	2,855 / 1,666
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	320

Shareholding Pattern %

	Mar 23	Dec 22	Sep 22
Promoters	48.85	48.85	48.85
FIIIs	18.10	17.41	16.32
DIIIs	17.96	18.52	19.15
Non-Institutional	15.11	15.22	15.68

Supreme vs Nifty



Apr, 20	Apr, 21	Apr, 22	Apr, 23
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Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Mn)	FY22	FY23	FY24E
Revenue	77,728	92,015	1,06,365
EBITDA	12,421	11,997	15,955
Net Profit	9,685	8,653	11,359
Total Assets	52,607	56,942	62,336
ROCE (%)	27%	21%	24%
ROE (%)	28%	21%	24%

Source: Company, Keynote Capitals Ltd.

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Q4 FY23 Result Update

Result Highlights (Rs. Mn)

Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Revenue	25,983	25,571	1.6%	23,107	12.4%	92,016	77,728	18.4%
COGS	17,283	18,439	-6.3%	16,463	5.0%	65,992	53,532	23.3%
Gross Profit	8,700	7,132	22.0%	6,644	30.9%	26,024	24,197	7.6%
Gross Profit %	33%	28%	559	29%	473	28%	31%	-285
Employee Cost	997	904	10.3%	959	4.0%	3,748	3,453	8.5%
Power & Fuel	745	615	21.1%	699	6.6%	2,667	2,134	24.9%
Other Operating Expense	2,155	1,699	26.8%	1,953	10.3%	7,613	6,188	23.0%
EBITDA	4,803	3,914	22.7%	3,034	58.3%	11,997	12,421	-3.4%
EBITDA %	18%	15%	318	13%	536	13%	16%	-294
Depreciation	721	588	22.6%	648	11.3%	2,634	2,295	14.8%
EBIT	4,082	3,326	22.7%	2,386	71.1%	9,363	10,126	-7.5%
EBIT %	16%	13%	270	10%	538	10%	13%	-285
Finance Cost	40	19	114.9%	12	251.3%	80	52	55.7%
Other Income	114	86	32.7%	83	37.6%	298	200	49.2%
PBT	4,156	3,393	22.5%	2,457	69.1%	9,580	10,274	-6.8%
Share of Associates	491	696	-29.4%	276	78.1%	1,533	2,044	-25.0%
Tax	1,052	851	23.7%	633	66.3%	2,460	2,633	-6.6%
PAT	3,594	3,239	11.0%	2,100	71.1%	8,653	9,685	-10.6%
EPS	28.3	25.5	-	16.5	-	68.1	76.2	-

Segment Highlights (Rs. Mn)

Particulars	Q4 FY23	Q4 FY22	Change % (Y-o-Y)	Q3 FY23	Change % (Q-o-Q)	FY23	FY22	Change % (Y-o-Y)
Volumes (MT)								
Plastic Piping	1,12,293	96,507	16.4%	1,04,109	7.9%	3,75,046	2,74,295	36.7%
Industrial Products	13,532	13,131	3.1%	14,785	-8.5%	54,242	54,163	0.1%
Packaging Products	16,508	13,763	19.9%	14,547	13.5%	58,960	48,030	22.8%
Consumer Products	5,081	5,206	-2.4%	4,921	3.3%	18,253	17,420	4.8%
Revenue								
Plastic Piping	17,708	17,997	-1.6%	15,087	17.4%	60,375	50,460	19.7%
Industrial Products	3,687	3,003	22.8%	3,358	9.8%	13,416	10,237	31.1%
Packaging Products	3,231	3,190	1.3%	3,419	-5.5%	13,191	12,101	9.0%
Consumer Products	1,211	1,180	2.6%	1,159	4.5%	4,446	4,051	9.8%
Realization/ Kg (Rs.)								
Plastic Piping	158	186	-15.4%	145	8.8%	161	184	-12.5%
Packaging Products	272	229	19.1%	227	19.9%	247	189	30.9%
Industrial Products	196	232	-15.6%	235	-16.7%	224	252	-11.2%
Consumer Products	238	227	5.1%	235	1.2%	244	233	4.7%
Operating Profit Margin %								
Plastic Piping	18.6%	14.4%	420	11.3%	725	13.0%	13.5%	-48
Industrial Products	10.0%	10.5%	-45	9.4%	60	6.4%	12.1%	-575
Packaging Products	7.7%	10.6%	-286	6.6%	110	7.6%	7.6%	9
Consumer Products	17.8%	12.3%	549	17.1%	72	12.2%	16.7%	-458
Operating Profit / Kg (Rs.)								
Plastic Piping	29	27	9.2%	16	78.5%	21	25	-15.6%
Industrial Products	27	24	14.0%	21	27.6%	16	23	-31.3%
Packaging Products	15	24	-38.4%	16	-2.9%	17	19	-10.2%
Consumer Products	42	28	52.1%	40	5.4%	30	39	-23.9%

Source: Company, Keynote Capitals Ltd.

Segment Wise Capacity Update

Segment	Capacity (in MT)
Plastic Piping	600,000
Industrial Components	84,000
Packaging Products	90,000
Consumer Products	29,000
Total Installed Capacity	803,000

Currently, capacity utilization stands in the range of 65%-70%

Source: Company, Keynote Capitals Ltd.

Q4 FY23 Conference Call and Other Takeaways

General Highlights

- PVC resin consumption in the industry in FY23 grew by 32%. This number for SIL grew by 37%, indicating market share gains for the Company. The industry is further expected to grow in the range of 13%-15% in the next couple of years.
- Strong demand is anticipated during FY24, given the positive monsoon forecast, robust housing demand, and GOI's infra push. Additionally, PVC prices are also now stable and affordable in the low trajectory, which should support demand during the year.
- The Company anticipates a CAPEX of ~Rs. 7.5 Bn, which will mostly be used for maintaining existing plants and expanding capacities. Most of the capacity expansion is targeted toward the plastic piping division.
- The Company continues to maintain a net cash balance sheet with a cash balance of ~Rs. 7.4 Bn and plans to remain debt free in the future as well.
- SIL implemented 3 new greenfield projects simultaneously for the first time after FY01.

Plastic Piping Business

- SIL has started manufacturing pipes at Erode in Tamil Nadu. This will improve SIL's competitive position in the South Indian market as the Company will be able to deliver products much faster and at lower cost owing to better proximity.
- Additionally, SIL will double its capacity of PVC Pipes and will also start manufacturing DWC Pipes and Blow Moulded Water Tanks at Erode.
- In FY23, the CPVC segment for SIL registered a volume growth of 20% and an even better value growth of 40%.
- Total distributor count at the end of FY23 stand at 1,443 vs 1,250 in FY22. the Company targets to add another 100 distributors across India in FY24.

Packaging Product Business

- The packaging business continues to struggle and sees a margin decline in FY23 as well. SIL used to clock ~17% margins in this segment in FY18, which has now come down to ~7% in FY23.
- The management is focusing on reviving segment margins and aims to take it closer to 13%-14%. The Company is facing severe competition from low-quality local players in this business.

Industrial Components Business

- FY23 was the most successful year for the Composite Cylinders division. The plant is now running at 90% capacity to fulfill its commitments to IOCL. SIL has supplied 4.72 lakh cylinders out of its committed 7.35 lakh cylinders.
- Expansion of existing capacity has been successfully completed, and SIL can now produce 1 Mn cylinders per annum. The Company is also expecting further orders from the IOCL.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Net Sales	63,552	77,728	92,015	1,06,365	1,22,320
Growth %		22%	18%	16%	15%
Raw Material Expenses	39,420	52,255	65,990	71,265	81,954
Employee Expenses	2,666	2,989	3,748	4,255	4,893
Other Expenses	8,624	10,064	10,279	14,891	17,125
EBITDA	12,842	12,421	11,997	15,955	18,348
Growth %		-3%	-8%	33%	15%
Margin%	20%	16%	13%	15%	15%
Depreciation	2,128	2,295	2,634	3,232	3,686
EBIT	10,714	10,126	9,363	12,722	14,662
Growth %		-5%	-8%	36%	15%
Margin%	17%	13%	10%	12%	12%
Interest Paid	221	52	80	54	54
Other Income & exceptional	169	200	298	230	230
PBT	10,662	10,274	9,581	12,898	14,837
Tax	2,341	2,633	2,460	3,224	3,709
Share of Associates	1,460	2,044	1,533	1,686	1,854
Net Profit	9,781	9,685	8,653	11,359	12,982
Growth %		-1%	-11%	31%	14%
Shares (Mn)	127.0	127.0	127.0	127.0	127.0
EPS	77.00	76.24	68.13	89.44	102.22

Balance Sheet

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Cash, Cash equivalents & Bank	7,684	5,264	7,461	6,413	8,211
Current Investments	0	0	0	0	0
Debtors	3,899	4,668	4,924	5,744	6,605
Inventory	7,608	12,602	13,856	14,966	17,210
Short Term Loans & Advances	4,244	4,566	53	53	53
Other Current Assets	112	301	2,493	2,493	2,493
Total Current Assets	23,546	27,401	28,787	29,668	34,573
Net Block & CWIP	17,639	19,219	21,480	24,643	27,073
Long Term Investments	3,366	4,759	5,719	7,067	8,551
Other Non-current Assets	1,158	1,228	958	958	958
Total Assets	45,709	52,607	56,942	62,336	71,154
Creditors	6,462	7,940	9,038	9,698	11,283
Provision	3,025	2,724	85	85	85
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	3,081	1,988	2,237	2,237	2,237
Total Current Liabilities	12,567	12,652	11,359	12,020	13,604
Long Term Debt	6	0	0	0	0
Deffered Tax Liabilities	919	904	908	908	908
Other Long Term Liabilities	524	607	654	654	654
Total Non Current Liabilities	1,449	1,512	1,562	1,562	1,562
Paid-up Capital	254	254	254	254	254
Reserves & Surplus	31,438	38,190	43,767	51,719	60,806
Shareholders' Equity	31,692	38,444	44,021	51,973	61,060
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	45,709	52,607	56,942	65,554	76,226

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow Statement

Y/E Mar, Rs. Mn	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	10,662	10,274	9,581	12,898	14,837
Adjustments	708	193	943	3,057	3,511
Change in Working Capital	1,955	-4,939	-778	-1,269	-1,522
Total Tax Paid	-2,322	-2,868	-2,374	-3,224	-3,709
Cash flow from operating Activities	11,004	2,660	7,371	11,462	13,117
Net Capital Expenditure	-2,210	-4,661	-4,218	-7,233	-6,116
Change in investments	80	139	188	0	0
Other investing activities	124	487	538	337	371
Cash flow from investing activities	-2,006	-4,035	-3,493	-6,896	-5,745
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-4,104	-11	0	0	0
Dividend (incl. tax)	-635	-2,922	-3,049	-3,408	-3,895
Other financing activities	-316	-171	-217	-54	-54
Cash flow from financing activities	-5,055	-3,103	-3,266	-3,462	-3,949
Net Change in cash	3,943	-4,478	612	1,104	3,423

Key Ratios

Particulars	FY21	FY22	FY23	FY24E	FY25E
Per Share Data					
EPS	77	76	68	89	102
Growth %	109%	-1%	-11%	31%	14%
Book Value Per Share	249	303	347	409	481
Return Ratios					
Return on Assets (%)	23%	20%	16%	19%	19%
Return on Equity (%)	36%	28%	21%	24%	23%
Return on Capital Employed (%)	34%	27%	21%	24%	23%
Turnover Ratios					
Asset Turnover (x)	1.5	1.6	1.7	1.8	1.8
Sales / Gross Block (x)	2.0	2.2	2.3	2.2	2.3
Working Capital / Sales (x)	12%	17%	17%	16%	16%
Receivable Days	20	20	19	18	18
Inventory Days	76	71	73	74	72
Payable Days	57	46	46	47	45
Working Capital Days	39	45	46	45	45
Liquidity Ratios					
Current Ratio (x)	1.9	2.2	2.5	2.5	2.5
Interest Coverage Ratio (x)	49.4	200.5	120.5	237.9	273.5
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.1	-0.2	-0.1	-0.1
Valuation					
PE (x)	26.5	26.9	40.0	30.4	26.6
Earnings Yield (%)	4%	4%	3%	3%	4%
Price to Sales (x)	4.1	3.3	3.8	3.3	2.8
Price to Book (x)	4.9	8.2	6.8	7.9	6.7
EV/EBITDA (x)	13.4	19.6	20.5	28.4	21.3
EV/Sales (x)	2.0	4.0	3.3	3.7	3.2

KEYNOTE Rating History

Date	Rating	Market Price at recommendation	Upside/Downside
20 th July 2022	NEUTRAL	1,893	+3.4%
28 th July 2022	NEUTRAL	1,876	+3.5%
2 nd November 2022	NEUTRAL	2,262	+4.2%
25 th January 2023	NEUTRAL	2,399	+7.7%
2 nd May 2023	BUY	2,740	+14.2%

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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