

# Supreme Industries Ltd

31<sup>st</sup> October 2023

## Price quoting ahead of positive business outlook

In Q2 FY24, SIL registered a volume growth of 23% on a YoY basis. However, revenue grew at a lower rate of ~11% on a YoY basis primarily due to softening of realizations because of moderation in polymer prices. The sale of Value-Added products (VAP) also came back strongly after being in the 32-36% range for the preceding three quarters. VAPs contributed 41% to the total overall sales of Q2 FY24. The Company is optimistic about achieving a 20%+ overall volume growth and targets to clock a revenue of Rs. 105-110 Bn in FY24 with a 14%+ EBITDA margin. We believe that the Company will be able to achieve all its targets, but our estimates indicate that the price of SIL is currently quoting ahead of its positive fundamental outlook. Therefore, we change our rating on SIL from NEUTRAL to REDUCE.

### Strong volume growth continues

In Q2 FY24, the Company continued its volume growth momentum, registering a growth of 23% on a YoY basis driven by a strong volume uptick in the plastic piping segment, followed by packaging products. Both segments recorded a volume growth of 30% and 12% on a YoY basis, respectively. The Company anticipates clocking an overall volume growth of 20%+ in FY24, which will continue to be driven by the plastic piping segment.

### VAPs make a strong comeback

Since the preceding three quarters, the contribution of VAPs has shown a lacklustre performance. SIL recorded a VAP contribution of 36%, 36% and 32% to the overall sales for Q3 FY23, Q4 FY23 and Q1 FY24, respectively. The desired range for the VAP contribution for the Company is 38-41%. In Q2 FY24, the sale of VAP made a strong comeback, contributing 41% to the overall sales.

### Acquisition of M/s Parvati Agro Plast

Post Q2 FY24, SIL acquired the business of a Maharashtra-based pipe manufacturer, M/s Parvati Agro Plast (PAP), situated at Sangli. This acquisition was done in October at a consideration of ~Rs. 1.5 Bn. In addition to the existing business, the Company also acquired the 7.76 acres adjoining land from the owners of PAP. The primary objective behind acquiring PAP was to enter the O-PVC pipe business. These are larger-diameter pipes that support the ductile iron pipes in the transportation of drinking water. The total installed capacity of PAP is to the tune of 36,000 MT per annum.

### View & Valuation

We believe that SIL will be able to grow its sales volume by ~25% in FY24, along with mid-teens volume growth in FY25. Additionally, we anticipate realizations to remain closer to the current levels and SIL achieving a revenue between Rs. 105-110 Bn at 14-15% EBITDA margins in FY24. Considering the above-mentioned business outlook and applying slightly aggressive assumptions, our estimates suggest that SIL is currently quoting well ahead of its positive fundamental outlook. Therefore, we change our stance on SIL from NEUTRAL to REDUCE with a target price of Rs. 4,266, valuing it at 40x revised FY25E earnings.

## REDUCE

CMP Rs. 4,315

TARGET Rs. 4,266 (-1.1%)

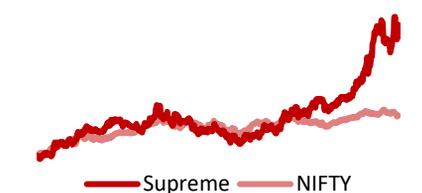
### Company Data

Bloomberg Code	SI IN
MCAP (Rs. Mn)	5,48,121
O/S Shares (Mn)	127
52w High/Low	4,884 / 1,949
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	2,208

### Shareholding Pattern %

	Sep 23	Jun 23	Mar 23
Promoters	48.85	48.85	48.85
FII's	23.85	19.06	18.10
DII's	12.54	17.11	17.95
Non-Institutional	14.76	14.98	15.11

### Supreme vs Nifty



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

### Key Financial Data

(Rs bn)	FY23	FY24E	FY25E
Revenue	92.0	108.3	124.5
EBITDA	12.0	15.2	18.7
Net Profit	8.7	11.1	13.5
Total Assets	59.4	68.2	79.0
ROCE (%)	21%	23%	24%
ROE (%)	21%	23%	24%

Source: Company, Keynote Capitals Ltd.

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## Q2 FY24 Result Update

## Result Highlights (Rs. Mn)

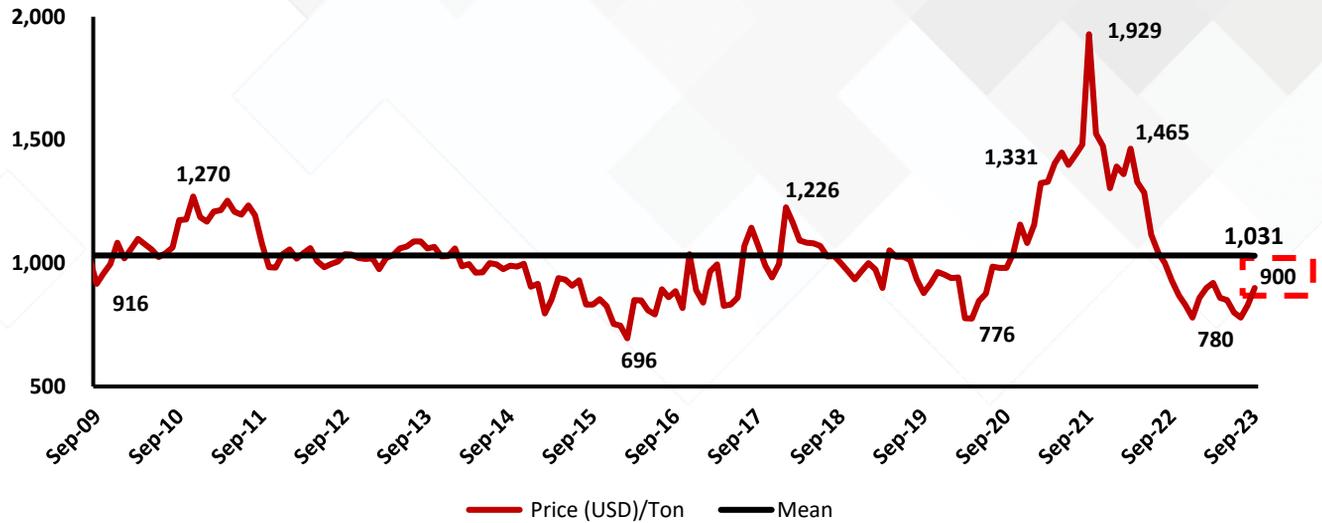
Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
Revenue	23,087	20,866	11%	23,686	-3%	46,773	42,926	9%	92,016
COGS	15,357	16,022	-4%	16,560	-7%	31,917	32,246	-1%	65,992
Gross Profit	7,730	4,845	60%	7,126	8%	14,856	10,680	39%	26,024
<b>Gross Profit %</b>	<b>33%</b>	<b>23%</b>	<b>1,026 Bps</b>	<b>30%</b>	<b>340 Bps</b>	<b>32%</b>	<b>25%</b>	<b>688 Bps</b>	<b>28%</b>
Employee Cost	1,059	882	20%	1,032	3%	2,091	1,792	17%	3,748
Power & Fuel	781	659	19%	793	-1%	1,574	1,223	29%	2,667
Other Operating Expense	2,328	1,832	27%	2,085	12%	4,412	3,505	26%	7,613
EBITDA	3,562	1,471	142%	3,216	11%	6,778	4,160	63%	11,997
<b>EBITDA %</b>	<b>15%</b>	<b>7%</b>	<b>838 Bps</b>	<b>14%</b>	<b>185 Bps</b>	<b>14%</b>	<b>10%</b>	<b>480 Bps</b>	<b>13%</b>
Depreciation	719	649	11%	721	0%	1,440	1,265	14%	2,634
EBIT	2,843	823	246%	2,495	14%	5,339	2,895	84%	9,363
<b>EBIT %</b>	<b>12%</b>	<b>4%</b>	<b>837 Bps</b>	<b>11%</b>	<b>178 Bps</b>	<b>11%</b>	<b>7%</b>	<b>467 Bps</b>	<b>10%</b>
Finance Cost	16	12	29%	17	-8%	32	28	14%	80
Other Income	127	55	130%	142	-11%	269	101	167%	298
PBT	2,955	866	241%	2,621	13%	5,575	2,968	88%	9,580
Share of Associates	240	186	29%	213	13%	454	766	-41%	1,533
Tax	763	231	230%	678	12%	1,441	774	86%	2,460
<b>Profit for the period</b>	<b>2,432</b>	<b>820</b>	<b>197%</b>	<b>2,155</b>	<b>13%</b>	<b>4,587</b>	<b>2,959</b>	<b>55%</b>	<b>8,653</b>
<b>EPS</b>	<b>19.14</b>	<b>6.46</b>	<b>-</b>	<b>16.97</b>	<b>-</b>	<b>36.11</b>	<b>23.29</b>	<b>-</b>	<b>60.18</b>

## Segment Highlights (Rs. Mn)

Particulars	Q2 FY24	Q2 FY23	Change % (Y-o-Y)	Q1 FY24	Change % (Q-o-Q)	H1 FY24	H1 FY23	Change % (Y-o-Y)	FY23
<b>Volumes</b>									
Plastic Piping	1,02,929	79,220	30%	1,17,274	-12%	2,20,230	1,58,644	39%	3,75,046
Industrial Products	15,425	14,766	4%	13,409	15%	28,834	27,667	4%	54,242
Packaging Products	14,890	13,297	12%	13,568	10%	28,458	26,163	9%	58,940
Consumer Products	4,519	4,520	0%	4,293	5%	8,812	8,251	7%	18,253
<b>Revenue</b>									
Plastic Piping	15,093	12,941	17%	16,261	-7%	31,354	27,581	14%	60,375
Industrial Products	3,258	3,349	-3%	2,985	9%	6,243	6,371	-2%	13,416
Packaging Products	3,522	3,278	7%	3,231	9%	6,753	6,542	3%	13,191
Consumer Products	1,054	1,119	-6%	1,049	0%	2,104	2,077	1%	4,446
<b>Realization/Kg (Rs.)</b>									
Plastic Piping	147	163	-10%	139	6%	142	174	-18%	161
Industrial Products	211	227	-7%	223	-5%	217	230	-6%	247
Packaging Products	237	247	-4%	238	-1%	237	250	-5%	224
Consumer Products	233	248	-6%	244	-5%	239	252	-5%	244
<b>Operating Profit</b>									
Plastic Piping	2,006	248	710%	1,941	3%	3,947	1,792	120%	6,793
Industrial Products	252	298	-15%	189	34%	441	554	-20%	1,239
Packaging Products	478	213	124%	255	87%	733	441	66%	915
Consumer Products	175	155	13%	177	-1%	353	265	33%	678
<b>Operating Profit Margin %</b>									
Plastic Piping	13%	2%	1,138 Bps	12%	135 Bps	13%	6%	609 Bps	11%
Industrial Products	8%	9%	-116 Bps	6%	142 Bps	7%	9%	-163 Bps	9%
Packaging Products	14%	7%	708 Bps	8%	568 Bps	11%	7%	412 Bps	7%
Consumer Products	17%	14%	275 Bps	17%	-28 Bps	17%	13%	398 Bps	15%
<b>Operating Profit / Kg (Rs.)</b>									
Plastic Piping	19	3	523%	17	18%	18	11	59%	18
Industrial Products	16	20	-19%	14	16%	15	20	-24%	23
Packaging Products	32	16	100%	19	71%	26	17	53%	16
Consumer Products	39	34	13%	41	-6%	40	32	24%	37

Source: Company, Keynote Capitals Ltd.

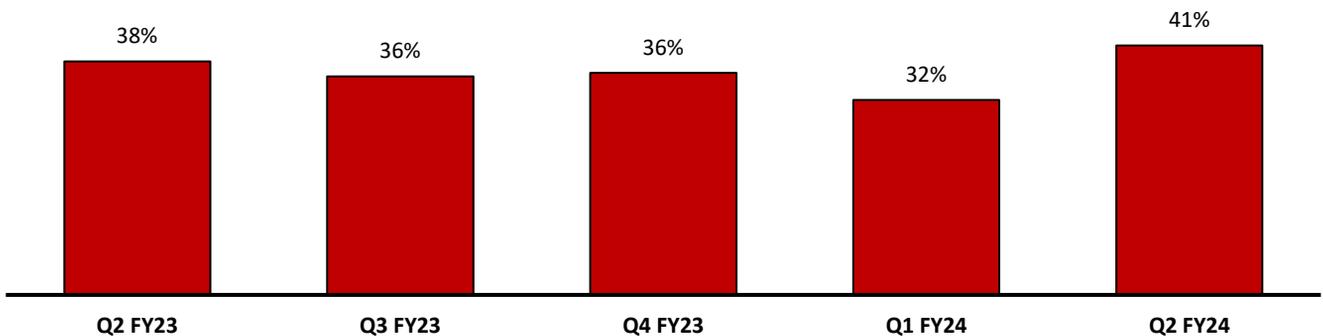
### PVC Prices (in USD/Ton)



Source: Bloomberg, Keynote Capitals Ltd.

### Contribution of Value-Added products as % of total revenue

Contribution of Value Added Products to Sales



Source: Company, Keynote Capitals Ltd.

### Q2 FY24 Conference Call Takeaways

#### General Highlights

- During Q2 FY24, polymer prices remained range-bound but saw a steep fall in the first fortnight of October 2023, which impacted business sentiments. The scenario has now stabilized, and business is expected to pick up. Owing to the above, there might be a moderate inventory loss in H2 FY24.
- All the expansion plans pertaining to the plastic piping segment are progressing well. Construction work is going on at Kanpur Dehat, Erode and Malanpur. These facilities are expected to be operational from Q4 FY24.
- In addition to the above, construction work at Gadegaon is now complete, and the production equipment has started arriving.

## Supreme Industries Ltd. | Quarterly Update

- In FY24, SIL will be incurring a CAPEX of ~Rs. 9 Bn (guidance revised from ~Rs. 7.5 Bn) excluding the ~Rs. 1.5 Bn acquisition of PAP. This entire CAPEX will be funded from internal accruals.
- Business operations at PAP will come in line with the business of SIL from December 2023 once the alignment process is over.
- All the ongoing capacity expansion plans will take SIL's overall production capacity from the current 0.9 Mn MT per annum in Q2 FY24 to 1 Mn MT per annum by the end of FY24. Currently, the majority of expansion is taking place in SIL's flagship plastic piping segment.
- Currently, SIL procures 40-45% of its raw material domestically, with the balance requirement being satiated from imports.

### Plastic Piping Business

- Once all the ongoing expansion plans are implemented by the end of FY24, the segment's capacity will go up from 0.6 Mn MT per annum in FY23 to ~0.8 Mn MT per annum by the end of FY24.
- SIL anticipates the segment to register a ~28% of volume growth in FY24.
- In H1, the CVPC business of SIL has almost remained flat on a YoY basis but is expected to rebound as there is strong demand from the real estate sector. This is because CPVC pipes are predominantly used in plumbing.
- The Company is the largest supplier of polyethylene pipes to the "Nal-Se-Jal" scheme. Water infrastructure development under this scheme is expected to be completed in a few quarters.
- After the completion of the supply to the "Nal-Se-Jal" project, SIL is targeting to supply pipes to the government for building the gas supply infrastructure.

### Packaging Product Business

- The Company is working on a plan to establish a 2,500 MT plant to manufacture cross-plastic film and expects the same to be launched in Q4 FY24.
- In the protective packaging business, SIL has received a significant order and is in the process of expanding its capacities to meet the demand of the customers adequately. Additionally, the Company is also making significant efforts to develop its export business in this segment.

### Industrial Components Business

- Demand for industrial components was weak during the quarter because of weakness in demand for consumer appliances. SIL expects the business to improve due to the upcoming festive season.
- Progress on fulfilling the composite cylinder order received from the IOCL is on track and the Company expects to deliver all the supplies by the end of FY24. Currently, there are no new orders from Indian oil marketing companies, but there are significant inquiries from overseas customers.

## Financial Statement Analysis

### Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
<b>Net Sales</b>	<b>77,728</b>	<b>92,016</b>	<b>1,08,265</b>	<b>1,24,504</b>	<b>1,43,180</b>
Growth %		18%	18%	15%	15%
Raw Material Expenses	52,255	64,498	73,620	83,418	95,931
Employee Expenses	2,989	3,294	4,331	4,980	5,727
Other Expenses	10,064	12,227	15,157	17,431	20,045
<b>EBITDA</b>	<b>12,421</b>	<b>11,997</b>	<b>15,157</b>	<b>18,676</b>	<b>21,477</b>
Growth %		-3%	26%	23%	15%
Margin%	16%	13%	14%	15%	15%
Depreciation	2,295	2,634	3,096	3,569	4,024
<b>EBIT</b>	<b>10,126</b>	<b>9,363</b>	<b>12,061</b>	<b>15,107</b>	<b>17,453</b>
Growth %		-8%	29%	25%	16%
Margin%	13%	10%	11%	12%	12%
Interest Paid	52	80	68	68	68
Other Income & exceptional	200	298	500	550	600
<b>PBT</b>	<b>10,274</b>	<b>9,580</b>	<b>12,493</b>	<b>15,589</b>	<b>17,985</b>
Tax	2,633	2,460	3,123	3,897	4,496
Share of Associates	2,044	1,533	1,686	1,854	2,040
<b>Net Profit</b>	<b>9,685</b>	<b>8,653</b>	<b>11,056</b>	<b>13,546</b>	<b>15,528</b>
Growth %		-11%	28%	23%	15%
Shares (Mn)	127.0	127.0	127.0	127.0	127.0
<b>EPS</b>	<b>76.24</b>	<b>68.12</b>	<b>87.05</b>	<b>106.66</b>	<b>122.27</b>

### Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	5,264	7,461	7,776	11,557	15,777
Current Investments	0	0	0	0	0
Debtors	4,668	4,924	5,846	6,723	7,732
Inventory	12,602	13,856	15,460	17,518	20,145
Short Term Loans & Advances	4,566	4,820	4,820	4,820	4,820
Other Current Assets	301	178	178	178	178
Total Current Assets	27,401	31,239	34,080	40,796	48,652
Net Block & CWIP	19,219	21,480	26,071	28,727	31,863
Long Term Investments	4,759	5,774	7,122	8,606	10,237
Other Non-current Assets	1,228	902	902	902	902
<b>Total Assets</b>	<b>52,607</b>	<b>59,394</b>	<b>68,176</b>	<b>79,031</b>	<b>91,654</b>
Creditors	7,940	9,038	10,080	11,454	13,207
Provision	2,724	2,537	2,537	2,537	2,537
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	1,988	2,237	2,237	2,237	2,237
Total Current Liabilities	12,652	13,811	14,853	16,227	17,980
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	904	908	908	908	908
Other Long Term Liabilities	607	654	654	654	654
Total Non Current Liabilities	1,512	1,562	1,562	1,562	1,562
Paid-up Capital	254	254	254	254	254
Reserves & Surplus	38,190	43,767	51,506	60,988	71,858
Shareholders' Equity	38,444	44,021	51,760	61,242	72,112
Non Controlling Interest	0	0	0	0	0
<b>Total Equity &amp; Liabilities</b>	<b>52,607</b>	<b>59,394</b>	<b>68,176</b>	<b>79,031</b>	<b>91,654</b>

### Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	10,274	9,580	12,493	15,589	17,985
Adjustments	193	943	2,664	3,087	3,492
Change in Working Capital	-4,939	-778	-984	-1,011	-1,283
Total Tax Paid	-2,868	-2,375	-3,123	-3,897	-4,496
<b>Cash flow from operating Activities</b>	<b>2,660</b>	<b>7,371</b>	<b>11,050</b>	<b>13,768</b>	<b>15,698</b>
Net Capital Expenditure	-4,661	-4,218	-7,687	-6,225	-7,159
Change in investments	139	188	0	0	0
Other investing activities	487	538	337	371	408
<b>Cash flow from investing activities</b>	<b>-4,035</b>	<b>-3,493</b>	<b>-7,350</b>	<b>-5,854</b>	<b>-6,751</b>
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-11	0	0	0	0
Dividend (incl. tax)	-2,922	-3,049	-3,317	-4,064	-4,659
Other financing activities	-171	-217	-68	-68	-68
<b>Cash flow from financing activities</b>	<b>-3,103</b>	<b>-3,266</b>	<b>-3,385</b>	<b>-4,132</b>	<b>-4,727</b>
Net Change in cash	-4,478	613	315	3,781	4,220

### Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
<b>Per Share Data</b>					
EPS	76	68	87	107	122
Growth %		-11%	28%	23%	15%
Book Value Per Share	303	347	408	482	568
<b>Return Ratios</b>					
Return on Assets (%)	20%	15%	17%	18%	18%
Return on Equity (%)	28%	21%	23%	24%	23%
Return on Capital Employed (%)	27%	21%	23%	24%	23%
<b>Turnover Ratios</b>					
Asset Turnover (x)	1.6	1.6	1.7	1.7	1.7
Sales / Gross Block (x)	2.2	2.4	2.4	2.4	2.4
Working Capital / Sales (x)	17%	17%	17%	18%	19%
Receivable Days	20	19	18	18	18
Inventory Days	71	75	73	72	72
Payable Days	46	47	46	46	46
Working Capital Days	45	47	44	45	44
<b>Liquidity Ratios</b>					
Current Ratio (x)	2.2	2.3	2.3	2.5	2.7
Interest Coverage Ratio (x)	200.5	120.5	183.7	228.9	264.0
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.1	-0.2	-0.2	-0.2	-0.2
<b>Valuation</b>					
PE (x)	26.9	36.9	51.9	42.4	37.0
Earnings Yield (%)	4%	3%	2%	2%	3%
Price to Sales (x)	3.3	3.5	5.3	4.6	4.0
Price to Book (x)	8.2	6.8	7.3	11.1	9.4
EV/EBITDA (x)	19.6	20.5	26.0	37.6	30.5
EV/Sales (x)	4.0	3.3	3.4	5.3	4.6

Source: Company, Keynote Capitals Ltd. estimates

## 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%
2 <sup>nd</sup> May 2023	BUY	2,740	+14.2%
31 <sup>st</sup> October 2023	REDUCE	4,315	-1.1%

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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