

Supreme Industries Ltd

23rd January 2024

Softening polymer prices to result in volume growth

In Q3 FY24, SIL registered a volume growth of 14% on a YoY basis. However, revenue grew at ~6% on a YoY basis due to the softening of realizations because of moderation in polymer prices. The sale of Value-Added products (VAP), as % of total revenue, again fell back to 35% after reporting a strong number in Q2 FY24. Owing to the affordable polymer prices, the Company is optimistic about achieving a ~30% volume growth for FY24 in the piping segment. Given the positive external environment, we believe that the Company will continue to register business growth, but our estimates indicate that the price of SIL is still quoting in line with its positive fundamental outlook. Therefore, we maintain our REDUCE rating on SIL.

Improved polymer affordability resulted in strong volume growth

In Q3 FY24, SIL continued to witness volume growth momentum, registering a YoY growth of 14%. This was driven by a further fall in polymer prices of ~7% during the quarter. As of December 2023, prices of PVC stood at ~22% below its long-term average. Also, the demand from the agriculture segment is expected to be robust in the upcoming season. Owing to the better affordability and strong demand expectations from Indian farmers, the Company expects to clock ~30% volume growth in FY24.

Focus on value-added products and exports continue

Though the contribution of VAP to total revenue accounted for ~35% in Q3 FY24, SIL's move towards introducing more VAP is clear. In its packaging and consumer segment, the Company is continuously working on increasing the share of VAP. In addition to this, SIL has sharpened its focus on increasing the share of exports in its revenue mix.

Significant expansion announced in O-PVC pipes

Post Q2 FY24, SIL acquired M/s Parvati Agro Plast (PAP), situated at Sangli. This acquisition was done for a consideration of ~Rs. 1.5 Bn. In addition to this, the Company also acquired the 7.76 acres of adjoining land from the owners of PAP, which is still to receive government clearance. The primary objective behind acquiring PAP was to enter the large-diameter O-PVC pipes that support the ductile iron pipes in the transportation of drinking water. In addition to this, SIL has placed an order for nine O-PVC lines that will take the total O-PVC capacity to 40,000 MT/per annum. Post commencement, the Company will manufacture O-PVC pipes at Cuttack and Gadegaon apart from Sangli.

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 have moderated our realization expectations further on account of the recent fall in polymer prices. Considering the above-mentioned business outlook and our revised estimates, SIL is currently quoting in line with its positive fundamental outlook. Therefore, we maintain our stance on SIL with a REDUCE rating with a target price of Rs. 4,042, valuing it at 39x revised FY25E earnings.

REDUCE

CMP Rs. 4,089

TARGET Rs. 4,042 (-1.2%)

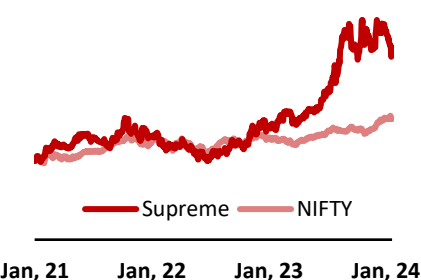
Company Data

Bloomberg Code	SI IN
MCAP (Rs. Mn)	5,19,413
O/S Shares (Mn)	127
52w High/Low	4,884 / 2,335
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Mn)	685

Shareholding Pattern %

	Dec 23	Sep 23	Jun 23
Promoters	48.85	48.85	48.85
FII's	24.65	23.85	19.06
DII's	12.19	12.54	17.11
Non-Institutional	14.31	14.76	14.98

Supreme vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY23	FY24E	FY25E
Revenue	92.0	101.3	121.2
EBITDA	12.0	15.2	17.9
Net Profit	8.7	11.1	13.0
Total Assets	59.4	67.3	78.5
ROCE (%)	21%	22%	23%
ROE (%)	21%	22%	23%

Source: Company, Keynote Capitals Ltd.

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Q3 FY24 Result Update

Result Highlights (Rs. Mn)

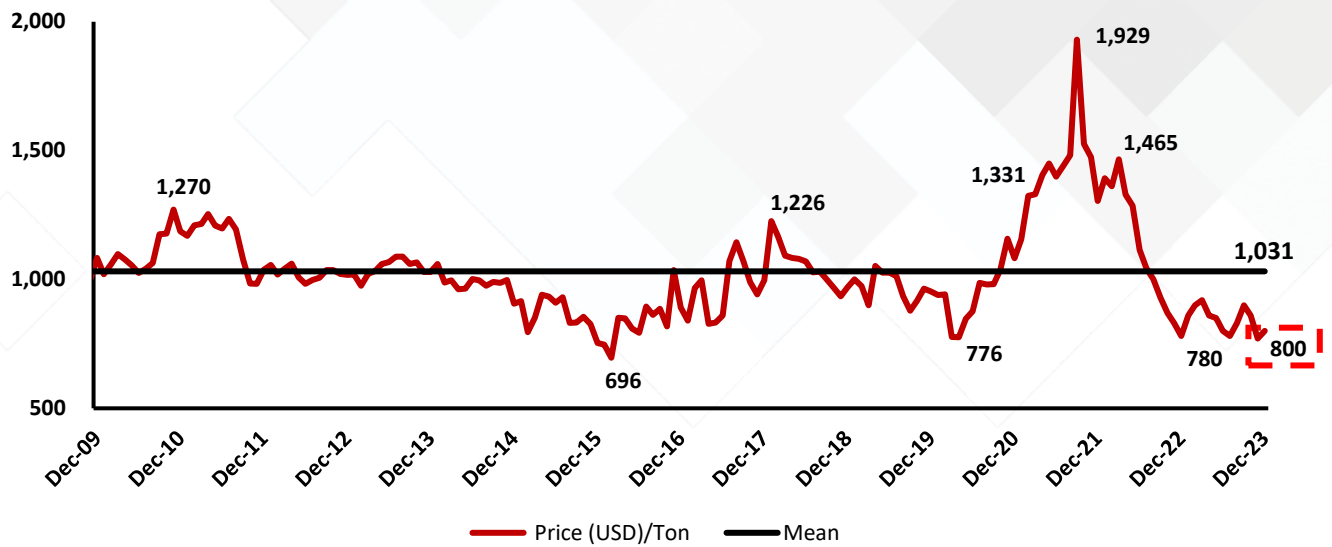
Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Revenue	24,491	23,107	6%	23,087	6%	71,264	66,033	8%	92,016
COGS	16,405	16,463	0%	15,357	7%	48,322	48,709	-1%	65,992
Gross Profit	8,086	6,644	22%	7,730	5%	22,942	17,324	32%	26,024
Gross Profit %	33%	29%	426 Bps	33%	-46 Bps	32%	26%	596 Bps	28%
Employee Cost	1,098	959	15%	1,059	4%	3,189	2,751	16%	3,748
Power & Fuel	851	699	22%	781	9%	2,425	1,922	26%	2,667
Other Operating Expense	2,349	1,953	20%	2,328	1%	6,761	5,458	24%	7,613
EBITDA	3,788	3,034	25%	3,562	6%	10,567	7,194	47%	11,997
EBITDA %	15%	13%	234 Bps	15%	4 Bps	15%	11%	393 Bps	13%
Depreciation	772	648	19%	719	7%	2,212	1,913	16%	2,634
EBIT	3,016	2,386	26%	2,843	6%	8,354	5,281	58%	9,363
Finance Cost	52	12	349%	16	233%	84	40	111%	80
Other Income	207	83	150%	127	63%	476	184	159%	298
PBT	3,172	2,457	29%	2,955	7%	8,746	5,425	61%	9,580
Tax	818	633	29%	763	7%	2,259	1,407	61%	2,460
Share of Associates	208	276	-25%	240	-13%	662	1,041	-36%	1,533
Profit for the period	2,562	2,100	22%	2,432	5%	7,149	5,059	41%	8,653
EPS	20.17	16.53	-	19.14	-	56.28	39.83	-	68.12

Segment Highlights (Rs. Mn)

Particulars	Q3 FY24	Q3 FY23	Change % (Y-o-Y)	Q2 FY24	Change % (Q-o-Q)	9M FY24	9M FY23	Change % (Y-o-Y)	FY23
Volumes									
Plastic Piping	1,22,003	1,04,109	17%	1,02,929	19%	3,42,206	2,62,753	30%	3,75,046
Industrial Products	16,231	14,785	10%	15,425	5%	45,065	42,452	6%	54,242
Packaging Products	14,998	14,547	3%	14,890	1%	43,456	40,710	7%	58,940
Consumer Products	4,793	4,921	-3%	4,519	6%	13,605	13,172	3%	18,253
Revenue									
Plastic Piping	16,437	15,087	9%	15,093	9%	47,790	42,667	12%	60,375
Industrial Products	3,320	3,358	-1%	3,258	2%	9,563	9,730	-2%	13,416
Packaging Products	3,540	3,419	4%	3,522	0%	10,293	9,961	3%	13,191
Consumer Products	1,123	1,159	-3%	1,054	7%	3,227	3,236	0%	4,446
Realization/Kg (Rs.)									
Plastic Piping	135	145	-7%	147	-8%	140	162	-14%	161
Industrial Products	205	227	-10%	211	-3%	212	229	-7%	247
Packaging Products	236	235	0%	237	0%	237	245	-3%	224
Consumer Products	234	235	0%	233	0%	237	246	-3%	244
Operating Profit									
Plastic Piping	2,129	1,710	25%	2,006	6%	6,076	3,502	74%	6,793
Industrial Products	297	316	-6%	252	18%	738	870	-15%	1,239
Packaging Products	465	226	106%	478	-3%	1,199	667	80%	915
Consumer Products	196	198	-1%	175	12%	548	463	18%	678
Operating Profit Margin %									
Plastic Piping	13%	11%	162 Bps	13%	-34 Bps	13%	8%	451 Bps	11%
Industrial Products	9%	9%	-47 Bps	8%	119 Bps	8%	9%	-122 Bps	9%
Packaging Products	13%	7%	655 Bps	14%	-43 Bps	12%	7%	496 Bps	7%
Consumer Products	17%	17%	35 Bps	17%	80 Bps	17%	14%	268 Bps	15%
Operating Profit / Kg (Rs.)									
Plastic Piping	17	16	6%	19	-10%	18	13	33%	18
Industrial Products	18	21	-14%	16	12%	16	20	-20%	23
Packaging Products	31	16	100%	32	-3%	28	16	68%	16
Consumer Products	41	40	2%	39	5%	40	35	15%	37

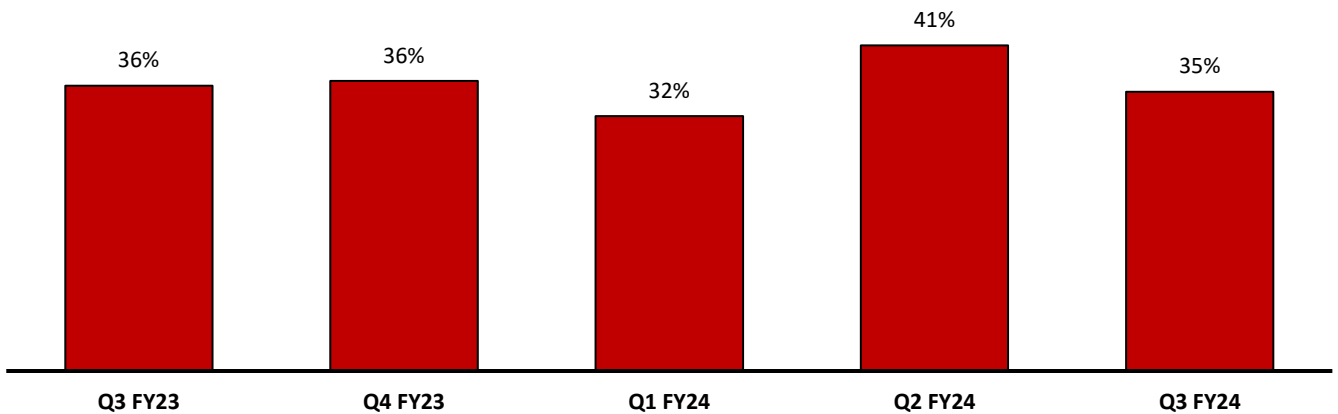
Source: Company, Keynote Capitals Ltd.

PVC Prices (in USD/Ton)



Source: Bloomberg, Keynote Capitals Ltd.

Contribution of Value-Added products as % of total revenue



Source: Company, Keynote Capitals Ltd.

Q3 FY24 Conference Call Takeaways

General Highlights

- Polymer prices have stabilized at an affordable level, but conflict in the Red Sea has caused business disruption. If this conflict intensifies, significant polymer price volatility can take place.
- Additional petrochemical plants in India have gone into operation. Capacities are expected to commence production in the coming 2-3 years. This is a positive development for SIL's business.
- Acquisition of M/s Parvati Agro Plast, Sangli, has been completed. The adjoining ~7.8-acre land, which is also part of the deal, is under government clearance. SIL expects to start running the acquired plant at full capacity from February '24.
- Malanpur plant is expected to become operational from Q1 FY25.

Supreme Industries Ltd. | Quarterly Update

- In FY24, SIL will be incurring a CAPEX of ~Rs. 10 Bn (including the acquisition of M/s Parvati Agro Plast). This entire CAPEX will be funded from internal accruals.
- Government business contributes less than 10% to the overall business of SIL.

Plastic Piping Business

- SIL received BIS approval for supplying its HDPE pipe for carrying natural gas. The Company will commence selling this system from Q4 FY24 onwards.
- The Company now extends its CPVC pipe offering to industrial applications also. So far, SIL is only offering CPVC solutions for the plumbing and sprinkler systems solutions.
- Acquisition of PAP has enabled SIL to enter the O-PVC pipe segment. The total installed capacity of PAP is 36,000 MT per annum, which is further divided into 3,000 MT of O-PVC and 33,000 MT of PVC and Polyethylene capacity.
- In addition to this, the Company is planning a significant expansion in its O-PVC pipe manufacturing capacity. For this purpose, SIL has ordered nine lines, which will take the total O-PVC pipe manufacturing capacity at SIL's disposal to 40,000 MT/per annum.
- The total inventory loss in the segment during the 9M FY24, amounted to Rs. 510 Mn. SIL is now manufacturing more than 16,000 SKUs.
- The Company generates most of its business from the housing, agriculture and the infrastructure segment. Pipe demand from the agriculture segment is expected to remain robust this season as the financial situation of farmers remains robust.

Packaging Product Business

- In the packaging business, the Company continues making significant efforts to increase domestic penetration along with reaching to more international markets.
- In addition to this, efforts behind developing customized solutions and products for newer applications will result in better capacity utilization and, hence, better profitability.
- In this segment, the Company is moving towards value-added items. Owing to this, the segment may not demonstrate double-digit volume growth, but operating margins will continue to improve.

Industrial Components Business

- Demand for industrial components was weak during the quarter because of weakness in demand for consumer appliances despite the festive season. SIL is continuously engaging with new customers to optimally utilise its manufacturing capacities.
- Execution of the order received from IOCL is near completion. The recent promotional campaign by the IOCL has seen increased product inquiries. Other two oil marketing companies are also likely to introduce the product in the market soon.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Net Sales	77,728	92,016	1,01,300	1,21,155	1,44,901
Growth %	18%	10%	10%	20%	20%
Raw Material Expenses	52,255	64,498	67,871	81,174	97,084
Employee Expenses	2,989	3,294	4,052	5,089	6,086
Other Expenses	10,064	12,227	14,182	16,962	20,286
EBITDA	12,421	11,997	15,195	17,931	21,445
Growth %	-3%	27%	18%	18%	20%
Margin%	16%	13%	15%	15%	15%
Depreciation	2,295	2,634	3,079	3,529	3,982
EBIT	10,126	9,363	12,116	14,402	17,464
Growth %	-8%	29%	19%	21%	21%
Margin%	13%	10%	12%	12%	12%
Interest Paid	52	80	68	68	68
Other Income & exceptional	200	298	500	550	600
PBT	10,274	9,580	12,548	14,883	17,995
Tax	2,633	2,460	3,137	3,721	4,499
Share of Associates	2,044	1,533	1,686	1,854	2,040
Net Profit	9,685	8,653	11,097	13,017	15,536
Growth %	-11%	28%	17%	19%	19%
Shares (Mn)	127.0	127.0	127.0	127.0	127.0
EPS	76.24	68.12	87.38	102.49	122.33

Balance Sheet

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Cash, Cash equivalents & Bank	5,264	7,461	8,934	12,272	15,834
Current Investments	0	0	0	0	0
Debtors	4,668	4,924	5,470	6,542	7,825
Inventory	12,602	13,856	14,253	17,047	20,388
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	33,655	40,858	49,044
Net Block & CWIP	19,219	21,480	25,593	28,122	31,385
Long Term Investments	4,759	5,774	7,122	8,606	10,237
Other Non-current Assets	1,228	902	902	902	902
Total Assets	52,607	59,394	67,272	78,488	91,569
Creditors	7,940	9,038	9,148	11,252	13,457
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	13,921	16,025	18,230
Long Term Debt	0	0	0	0	0
Deffered 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	51,535	60,647	71,522
Shareholders' Equity	38,444	44,021	51,789	60,901	71,776
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	52,607	59,394	67,272	78,488	91,569

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow Statement

Y/E Mar, Rs. Mn	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	10,274	9,580	11,535	14,883	17,995
Adjustments	193	943	2,647	3,048	3,450
Change in Working Capital	-4,939	-778	-381	-1,192	-1,790
Total Tax Paid	-2,868	-2,375	-2,884	-3,721	-4,499
Cash flow from operating Activities	2,660	7,371	10,917	13,018	15,157
Net Capital Expenditure	-4,661	-4,218	-7,192	-6,058	-7,245
Change in investments	139	188	0	0	0
Other investing activities	487	538	337	371	408
Cash flow from investing activities	-4,035	-3,493	-6,855	-5,687	-6,837
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	-11	0	0	0	0
Dividend (incl. tax)	-2,922	-3,049	-3,101	-3,905	-4,661
Other financing activities	-171	-217	-68	-68	-68
Cash flow from financing activities	-3,103	-3,266	-3,169	-3,973	-4,729
Net Change in cash	-4,478	613	893	3,358	3,591

Key Ratios

Particulars	FY22	FY23	FY24E	FY25E	FY26E
Per Share Data					
EPS	76	68	81	102	122
Growth %	-11%	20%	26%	19%	19%
Book Value Per Share	303	347	404	475	561
Return Ratios					
Return on Assets (%)	20%	15%	16%	18%	18%
Return on Equity (%)	28%	21%	22%	23%	24%
Return on Capital Employed (%)	27%	21%	22%	23%	24%
Turnover Ratios					
Asset Turnover (x)	1.6	1.6	1.6	1.7	1.7
Sales / Gross Block (x)	2.2	2.4	2.2	2.3	2.5
Working Capital / Sales (x)	17%	17%	18%	18%	19%
Receivable Days	20	19	19	18	18
Inventory Days	71	75	75	71	70
Payable Days	46	47	48	45	45
Working Capital Days	45	47	46	44	44
Liquidity Ratios					
Current Ratio (x)	2.2	2.3	2.4	2.5	2.7
Interest Coverage Ratio (x)	200.5	120.5	169.7	218.6	264.1
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
Valuation					
PE (x)	26.9	36.9	50.0	39.7	33.3
Earnings Yield (%)	4%	3%	2%	3%	3%
Price to Sales (x)	3.3	3.5	5.1	4.3	3.6
Price to Book (x)	8.2	6.8	7.3	10.1	8.6
EV/EBITDA (x)	19.6	20.5	26.0	36.1	28.5
EV/Sales (x)	4.0	3.3	3.4	5.1	4.2

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%
31 st October 2023	REDUCE	4,315	-1.1%
23 rd January 2023	REDUCE	4,089	-1.2%

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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