

Supreme Industries Ltd

26th July 2024

Growth and margin outlook remain intact

In Q1 FY25, SIL registered a volume growth of 17% on a YoY basis. However, revenue grew by ~11% on a YoY basis due to the softening of realizations. The share of Value-Added products (VAP), as % of total revenue, remained lower at 35%, lesser than SIL's expected range of 38-40% of sales. The Company continues to believe that the raw material prices will remain affordable for the remainder of FY25, which will lead to robust volume growth. The Company continues to remain optimistic about the demand environment and anticipates growing faster than the industry while maintaining stable margins. To satiate the anticipated business growth, SIL has planned significant CAPEX for FY25.

Strong overall volume growth expected to continue

SIL continues to believe that the raw material prices will remain at affordable levels in FY25. Additionally, major infrastructure initiatives by the Government of India and an uptick in real estate are expected to boost demand for plastic products, particularly pipes, for the coming few years. In line with the above, SIL maintains its overall volume growth guidance at 20% for FY25 despite recording slightly lower growth in Q1 FY25.

Volume growth to translate into topline growth with stable margins

Considering the expectations of a stable raw material price, SIL believes that the overall volume growth of ~20% will translate into similar topline growth during the year. Therefore, the Company anticipates recording a revenue of Rs. 120-125 Bn in FY25. Additionally, SIL believes that it will be able to maintain EBITDA margins in the range of 15.0-15.5% in FY25.

Significant expansion plans

Given significant demand expectations for the coming few years, SIL is planning a significant CAPEX to the tune of Rs. 15 Bn (including carry-forward commitments) in FY25. Most of the capacity expansion is going to take place in the plastic piping division. Currently, multiple capacity expansion programs are progressing for SIL including greenfield and brownfield. Most of the brownfield expansion will be available by H2 FY25. In addition to this, the process of greenfield expansion is taking place at multiple locations like Patna, Vijayawada and Jammu. At the end of the CAPEX drive, SIL will have 36 plants around 15 states in India with a total installed capacity of over 1.25 Mn MT, of which 1 Mn MT will be dedicated solely to the plastic piping division.

View & Valuation

We believe that the strong business performance of SIL will continue along with stable margins in FY25. Additionally, we also don't see a large room for moderation of realization from hereon, given the expectation of a stable macro environment. Considering the above-mentioned business outlook and our revised estimates, SIL is currently quoting well ahead of its positive fundamental outlook. Therefore, we maintain our stance on SIL with a REDUCE rating with a target price of Rs. 4,957, valuing it at 49x FY25E earnings.

REDUCE

CMP Rs. 5,419

TARGET Rs. 4,957 (-8.5%)

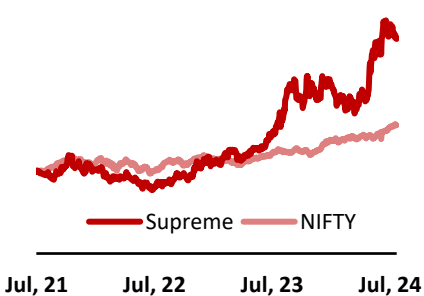
Company Data

Bloomberg Code	SI IN
MCAP (Rs. Mn)	6,88,409
O/S Shares (Mn)	127
52w High/Low	6,460 / 3,182
Face Value (in Rs.)	2
Liquidity (3M) (Rs. Bn)	1.62

Shareholding Pattern %

	Jun 24	Mar 24	Dec 23
Promoters	48.85	48.85	48.85
FIIs	25.05	24.68	24.65
DIIIs	11.50	11.41	12.19
Non-Institutional	14.61	15.06	14.31

Supreme vs Nifty



Source: Keynote Capitals Ltd.

Key Financial Data

(Rs Bn)	FY24	FY25E	FY26E
Revenue	101.3	126.1	149.5
EBITDA	15.5	19.9	22.4
Net Profit	10.7	13.9	15.4
Total Assets	65.6	77.0	89.2
ROCE (%)	23%	23%	24%
ROE (%)	22%	23%	24%

Source: Company, Keynote Capitals Ltd.

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Q1 FY25 Result Update

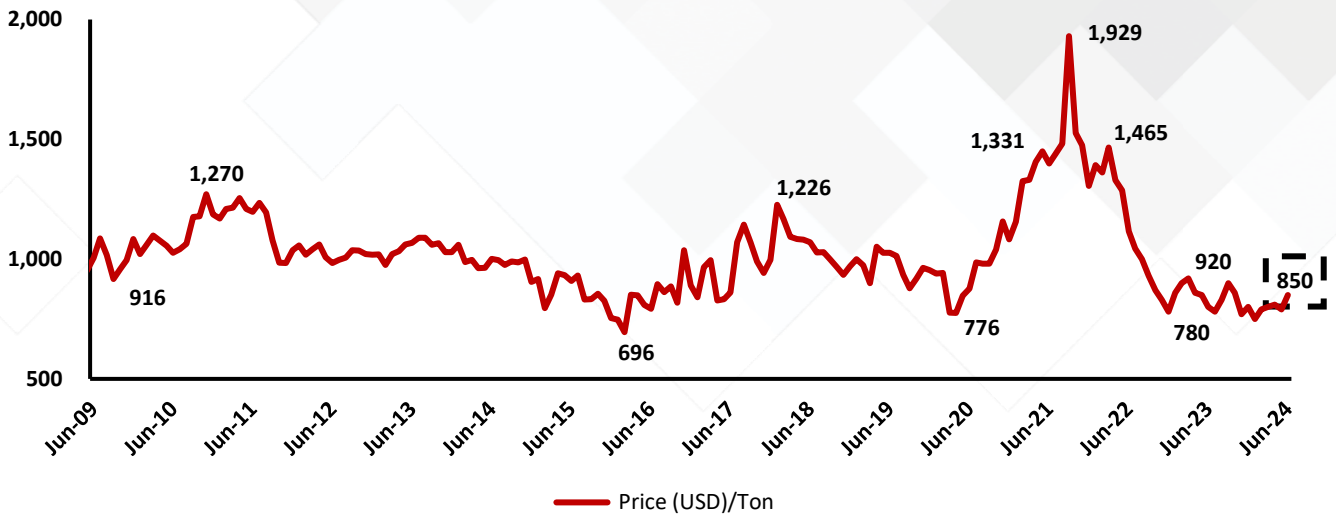
Result Highlights (Rs. Mn)

Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Revenue	26,364	23,686	11%	30,079	-12%	1,01,343
COGS	17,958	16,560	8%	20,262	-11%	68,584
Gross Profit	8,406	7,126	18%	9,817	-14%	32,759
Gross Profit %	32%	30%	180 Bps	33%	-75 Bps	32%
Employee Cost	1,213	1,032	17%	1,233	-2%	4,422
Power & Fuel Cost	866	793	9%	863	0%	3,288
Other Operating Expense	2,454	2,085	18%	2,815	-13%	9,576
EBITDA	3,873	3,216	20%	4,907	-21%	15,473
EBITDA %	15%	14%	111 Bps	16%	-162 Bps	15.3%
Depreciation	860	721	19%	772	11%	2,984
EBIT	3,013	2,496	21%	4,135	-27%	12,490
Finance Cost	33	17	97%	77	-57%	161
Other Income	214	142	51%	181	19%	657
PBT	3,194	2,621	22%	4,239	-25%	12,985
Tax	836	678	23%	1,097	-24%	3,357
Share of Associates	375	213	76%	407	-8%	1,069
Profit for the period	2,734	2,155	27%	3,548	-23%	10,697
EPS	21.52	16.97	-	27.93	-	84.21

Segment Highlights (Rs. Mn)

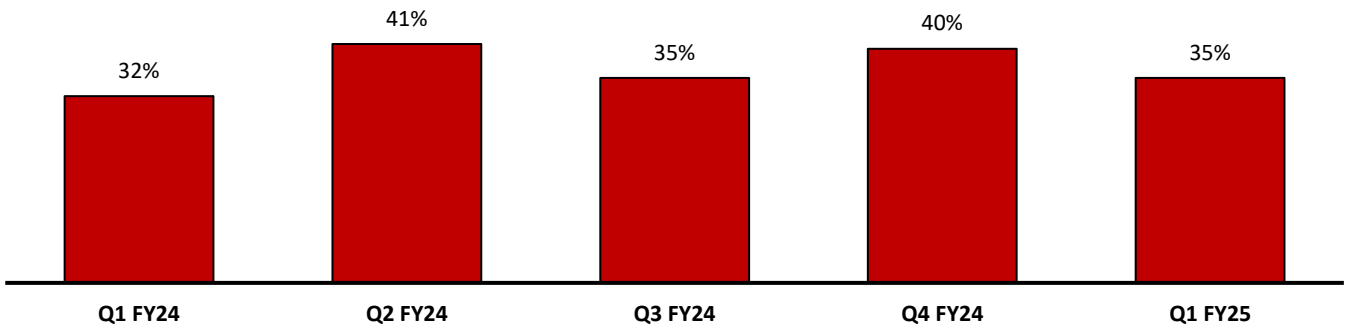
Particulars	Q1 FY25	Q1 FY24	Change % (Y-o-Y)	Q4 FY24	Change % (Q-o-Q)	FY24
Volumes						
Plastic Piping	1,40,153	1,17,274	20%	1,58,795	-12%	5,01,001
Industrial Products	14,963	13,409	12%	16,871	-11%	61,936
Packaging Products	14,717	13,568	8%	15,051	-2%	58,507
Consumer Products	4,002	4,293	-7%	4,652	-14%	18,257
Revenue						
Plastic Piping	18,584	16,261	14%	21,525	-14%	69,316
Industrial Products	3,064	2,985	3%	3,516	-13%	13,078
Packaging Products	3,681	3,231	14%	3,764	-2%	14,057
Consumer Products	972	1,049	-7%	1,184	-18%	4,410
Realization/Kg (Rs.)						
Plastic Piping	133	139	-4%	136	-2%	138
Industrial Products	205	223	-8%	208	-2%	211
Packaging Products	250	238	5%	250	0%	240
Consumer Products	243	244	-1%	254	-5%	242
Operating Profit						
Plastic Piping	2,313	1,941	19%	2,926	-21%	9,002
Industrial Products	195	189	3%	395	-51%	1,133
Packaging Products	421	255	65%	678	-38%	1,877
Consumer Products	161	177	-9%	205	-22%	753
Operating Profit Margin %						
Plastic Piping	12%	12%	51 Bps	14%	-115 Bps	13%
Industrial Products	6%	6%	5 Bps	11%	-487 Bps	9%
Packaging Products	11%	8%	355 Bps	18%	-657 Bps	13%
Consumer Products	17%	17%	-35 Bps	17%	-79 Bps	17%
Operating Profit / Kg (Rs.)						
Plastic Piping	17	17	0%	18	-10%	18
Industrial Products	13	14	-7%	23	-44%	18
Packaging Products	29	19	52%	45	-36%	32
Consumer Products	40	41	-3%	44	-9%	41

PVC Prices (in USD/Ton)



Source: Bloomberg, Keynote Capitals Ltd.

Contribution of Value-Added products as % of total revenue



Source: Company, Keynote Capitals Ltd.

Q1 FY25 Conference Call Takeaways

General Highlights

- The price of PVC resin increased by ~15%. However, prices started to decline during the second week of July'24. Raw material prices are expected to remain affordable in FY25, which will result in strong volume and topline growth.
- As a result of the above-mentioned price movement, business growth was hampered in June'24 as customers withdrew their purchases as the price of PVC appeared unsustainable. In fact, the business may remain slow in July'24 as well.
- There has been no inventory gain during the quarter.
- Out of the overall PVC that is imported into India, 80% of the material comes from Asia itself.

Supreme Industries Ltd. | Quarterly Update

- SIL anticipates the industry's continued growth of 12-15% for the coming few years due to strong infrastructure demand. Additionally, the Company aims to grow faster than the industry.

Plastic Piping Business

- SIL is a big player in the infrastructure and housing segments. The Company doesn't have a material presence in the agriculture segment in India. However, there is a significant overlap, as agriculture pipes are also used in housing.
- Projects that SIL was supplying to in the "Nal Se Jal" scheme are almost complete, and therefore, the revenue in Q1 FY25 from the scheme is negligible. The management highlighted that more projects would come in September 2024.
- SIL is a very small player in the O-PVC pipe segment. The Company has ordered machines from an overseas company, which has delayed their supply. Therefore, SIL is in discussion with a domestic manufacturer for the same. If he can deliver a good quality machine, SIL will buy from the domestic manufacturer itself.
- SIL's decision to enter the O-PVC pipe segment was a result of the GOI accepting O-PVC pipes as a replacement of Ductile Iron pipes.
- The Company is launching the following plastic piping systems during FY25: Gas piping system, PP Silent piping system (technical collaboration with M/s Poloplast GmbH), PERT piping system, etc. All these systems are value-added in nature and will increase the contribution of VAP in the Company's topline.
- Currently, the utilization of the manufacturing capacities of the Company is in the range of 70-75%. These utilization levels are expected to stay intact for FY25 given the positive demand outlook. This is higher than the historical average of SIL which has been in the range of 65-70%.

Packaging Product Business

- In this segment, SIL is moving towards value-added products and export markets.
- The Company aims to sustainably clock a 15%+ operating margin in this segment.

Industrial Components Business

- SIL is carrying out capacity expansion judiciously, mostly against confirmed business and volumes committed by customers. The Company is also working to expand its customer base by tapping new sectors in the future.
- The Company has received another LOI from IOCL for the supply of 0.2 Mn cylinders during FY25. Additionally, various promotional activities are also going on.

CAPEX Plans

- Despite undertaking significant CAPEX, the Company is not compromising on the ROCE criteria of 20%+. Increased plants will benefit SIL in terms of freight cost, etc. These benefits will be passed to the customers which will make SIL cost competitive.

Financial Statement Analysis

Income Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Net Sales	92,016	1,01,343	1,24,043	1,49,485	1,80,144
Growth %		10%	22%	21%	21%
Raw Material Expenses	64,498	68,584	84,349	1,01,650	1,22,498
Employee Expenses	3,294	4,422	5,210	5,979	7,206
Other Expenses	12,227	12,864	16,126	19,433	23,419
EBITDA	11,997	15,473	18,358	22,423	27,022
Growth %		29%	19%	22%	21%
Margin%	13%	15%	15%	15%	15%
Depreciation	2,634	2,984	3,346	3,969	4,187
EBIT	9,363	12,490	15,013	18,454	22,834
Growth %		33%	20%	23%	24%
Margin%	10%	12%	12%	12%	13%
Interest Paid	80	161	178	178	178
Other Income & exceptional	298	657	700	750	750
PBT	9,580	12,985	15,535	19,025	23,406
Tax	2,460	3,357	3,884	4,756	5,852
Share of Associates	1,533	1,069	1,090	1,123	1,156
Net Profit	8,653	10,697	12,741	15,392	18,711
Growth %		24%	19%	21%	22%
Shares (Mn)	127.0	127.0	127.0	127.0	127.0
EPS	68.12	84.21	100.32	121.20	147.33

Balance Sheet

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Cash, Cash equivalents & Bank	7,461	11,873	4,425	10,283	17,198
Current Investments	0	0	0	0	0
Debtors	4,924	5,114	6,698	8,072	9,728
Inventory	13,856	13,586	17,713	21,346	25,725
Short Term Loans & Advances	4,831	0	0	0	0
Other Current Assets	167	2,301	2,301	2,301	2,301
Total Current Assets	31,239	32,874	31,138	42,003	54,951
Net Block & CWIP	21,480	24,711	36,194	37,457	39,575
Long Term Investments	5,774	6,381	7,253	8,152	9,077
Other Non-current Assets	902	1,591	1,591	1,591	1,591
Total Assets	59,394	65,557	76,176	89,202	1,05,194
Creditors	9,038	10,156	11,856	14,108	17,001
Provision	2,537	162	162	162	162
Short Term Borrowings	0	0	0	0	0
Other Current Liabilities	2,237	2,410	2,410	2,410	2,410
Total Current Liabilities	13,811	12,728	14,428	16,680	19,573
Long Term Debt	0	0	0	0	0
Deferred Tax Liabilities	908	960	960	960	960
Other Long Term Liabilities	654	781	781	781	781
Total Non Current Liabilities	1,562	1,741	1,741	1,741	1,741
Paid-up Capital	254	254	254	254	254
Reserves & Surplus	43,767	50,834	59,753	70,527	83,625
Shareholders' Equity	44,021	51,088	60,007	70,781	83,879
Non Controlling Interest	0	0	0	0	0
Total Equity & Liabilities	59,394	65,557	76,176	89,202	1,05,194

Source: Company, Keynote Capitals Ltd. estimates

Cash Flow Statement

Y/E Mar, Rs. Mn	FY23	FY24	FY25E	FY26E	FY27E
Pre-tax profit	9,580	12,985	15,535	19,025	23,406
Adjustments	943	1,511	2,824	3,397	3,615
Change in Working Capital	-778	4,287	-3,311	-2,005	-2,390
Total Tax Paid	-2,375	-3,232	-3,884	-4,756	-5,852
Cash flow from operating Activities	7,371	15,551	11,163	15,661	18,780
Net Capital Expenditure	-4,218	-5,467	-14,885	-5,232	-6,305
Change in investments	188	237	0	0	0
Other investing activities	538	533	218	225	231
Cash flow from investing activities	-3,493	-4,697	-14,667	-5,007	-6,074
Equity raised / (repaid)	0	0	0	0	0
Debt raised / (repaid)	0	0	0	0	0
Dividend (incl. tax)	-3,049	-3,557	-3,822	-4,618	-5,613
Other financing activities	-217	-260	-178	-178	0
Cash flow from financing activities	-3,266	-3,817	-4,000	-4,796	-5,613
Net Change in cash	613	7,037	-7,504	5,858	7,093

Key Ratios

Particulars	FY23	FY24	FY25E	FY26E	FY27E
Per Share Data					
EPS	68	84	100	121	147
Growth %		24%	19%	21%	22%
Book Value Per Share	347	402	472	557	660
Return Ratios					
Return on Assets (%)	15%	17%	18%	19%	19%
Return on Equity (%)	21%	22%	23%	24%	24%
Return on Capital Employed (%)	21%	23%	23%	24%	24%
Turnover Ratios					
Asset Turnover (x)	1.6	1.6	1.8	1.8	1.9
Sales / Gross Block (x)	2.4	2.3	2.3	2.3	2.6
Working Capital / Sales (%)	17%	19%	15%	14%	17%
Receivable Days	19	18	17	18	18
Inventory Days	75	75	68	70	70
Payable Days	47	52	45	45	45
Working Capital Days	47	40	40	43	43
Liquidity Ratios					
Current Ratio (x)	2.3	2.6	2.2	2.5	2.8
Interest Coverage Ratio (x)	120.5	81.6	88.2	107.8	132.4
Total Debt to Equity	0.0	0.0	0.0	0.0	0.0
Net Debt to Equity	-0.2	-0.2	-0.1	-0.1	-0.2
Valuation					
PE (x)	36.9	68.7	57.7	47.7	39.3
Earnings Yield (%)	3%	1%	2%	2%	3%
Price to Sales (x)	3.5	7.2	5.9	4.9	4.1
Price to Book (x)	6.8	7.3	14.4	12.2	10.4
EV/EBITDA (x)	20.5	26.0	47.1	39.7	32.5
EV/Sales (x)	3.3	3.4	7.2	5.9	4.9

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%
29 th April 2024	REDUCE	4,954	-4.7%
26 th July 2024	REDUCE	5,419	-8.5%

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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