



3R MATRIX

	+	=	-
Right Sector (RS)	✓	■	■
Right Quality (RQ)	✓	■	■
Right Valuation (RV)	✓	■	■

+ Positive = Neutral - Negative

What has changed in 3R MATRIX

	Old		New
RS	■	↔	■
RQ	■	↔	■
RV	■	↔	■

Reco/View

Reco/View	Change
Reco: Buy	↔
CMP: Rs. 1,971	
Price Target: Rs. 2,330	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

Company details

Market cap:	Rs. 25,038 cr
52-week high/low:	Rs. 1,998/791
NSE volume: (No of shares)	4.3 lakh
BSE code:	509930
NSE code:	SUPREMEIND
Free float: (No of shares)	6.5 cr

Shareholding (%)

FII	9
Institutions	25
Public & others	18
Promoters	49

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	16.3	21.1	51.8	42.0
Relative to Sensex	14.1	5.1	18.6	18.4

Sharekhan Research, Bloomberg

Summary

- We retain Buy on Supreme Industries Limited (SIL) with a revised PT of Rs. 2,330, led by positive medium-term outlook along with strong net earnings growth over FY2021E-FY2023E.
- PVC prices continued their upward trajectory for Q4FY2021 till date, which may lead to elevated OPM for Q4FY2021.
- The company's long-term growth levers in terms of demand generation from rural, tier III, tier IV economies along with demand generation from the affordable housing segment remain intact.
- The company will focus on appointing distributors, addition of products, and deeper penetration. Capex of Rs. 400 crore has been earmarked for this year.

Supreme Industries Limited (SIL) has seen a strong run up of over 2x over YTD, led by steep rise in PVC prices. Since May 2020, PVC prices have continued their upward journey with prices as on date being up 88.8% (up Rs. 58/kg) to Rs. 123.6/kg. In the latest hike, PVC prices have increased by Rs. 2/kg (+1.6%) with effect from February 18, 2021, to Rs. 123.6/kg. PVC prices surged by 18.9% in Q2FY2021 (versus Q1FY2021 end), while they were up 28.6% in Q3FY2021 (versus Q2FY2021 end) and are further rising by 5.5% for Q4FY2021 till date (versus Q3FY2021 end). The tight supply-side issues globally have led to sharp run-up in PVC prices. The same had led to inventory gain of Rs. 94 crore and Rs. 80 crore for SIL during Q2FY2021 and Q3FY2021, respectively, leading to 501bps and 569bps y-o-y jump in OPM. The unabated rise in PVC prices may lead to further inventory gain for SIL in Q4FY2021, leading to higher OPM. The company is witnessing pickup in demand from metro cities in the housing sector. Demand for all its products remains strong, except in the agriculture sector. The company has gained market share during 9MFY2021 in both PVC and CPVC segments. Management expects Q4FY2021 to be better than Q4FY2020. Management expects 10%-12% sustainable volume growth in piping, although it is unable to ascertain value-led growth. The company also improved cash surplus to Rs. 432 crore from Rs. 215 crore in Q2FY2021. The company would be investing around Rs. 400 crore during this year, including carried forward commitment of Rs. 182 crore. The company is undertaking Brownfield expansion at seven sites and Greenfield expansion at three new sites. SIL aims to put these new plants in production in FY2022. On the long-term demand side, the company remains quite optimistic on rural, tier III, tier IV economies along with demand being generated for affordable housing pan-India. The stock is currently trading at 32.9x/28.2x its P/E on FY2022E/FY2023E earnings, which we believe leaves further room for upside, considering favourable outlook over FY2021E-FY2023E. Hence, we retain our Buy rating on the stock with a revised PT of Rs. 2,330.

Firm PVC prices to aid in healthy OPM: SIL reported 501 bps and 569 bps y-o-y jump in OPM during Q2FY2021 and Q3FY2021, led by strong rise in PVC prices. PVC prices were expected to decline during January 2021 with easing of demand supply issues globally. However, PVC prices continued to remain firm during January and February 2021 with Rs. 6.4/kg hike in price from Q3FY2021 exit prices. Hence, we expect SIL to further benefit from inventory gain during Q4FY2021, leading to sustained higher OPM for the third consecutive quarter.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 2,330: SIL has been one of the fastest to recover in the post unlock era in the building material sector, as it continued to benefit from rising PVC prices. The company's growth outlook remains healthy going ahead, with PVC prices trending upwards during Q4FY2021 till date along with better volume offtake expected due to higher channel filling. On the long-term demand side, the company remains quite optimistic on rural, tier III, tier IV economies along with demand being generated for affordable housing pan-India. The stock is currently trading at 32.9x/28.2x P/E on FY2022E/FY2023E earnings, which we believe leaves further room for upside, considering favourable outlook over FY2021E-FY2023E. Hence, we retain our Buy rating on the stock with a revised PT of Rs. 2,330.

Key Risks

Slowdown in demand offtake could impact revenue growth rates. Adverse commodity price fluctuation might impact the margin profile.

Valuation (Consolidated)

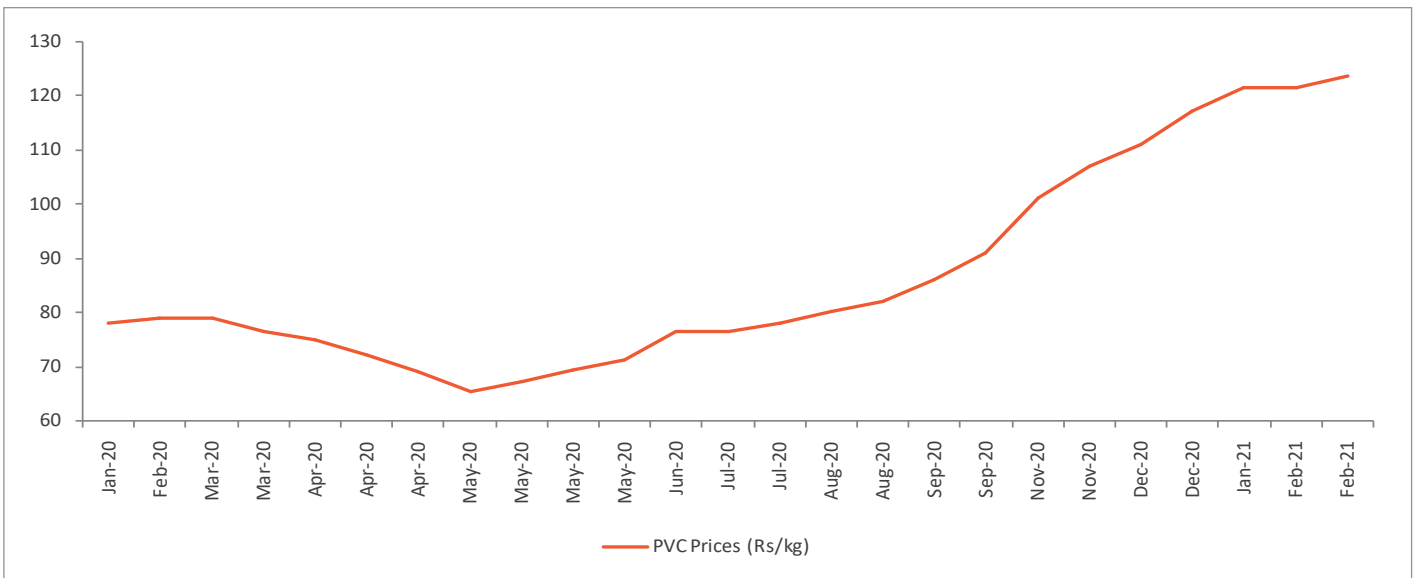
Particulars	FY20	FY21E	FY22E	FY23E
Revenue	5,512	6,027	6,985	7,984
OPM (%)	15.1	18.5	17.3	17.5
Adjusted PAT	467	713	760	887
% YoY growth	22.5	52.5	6.6	16.8
Adjusted EPS (Rs.)	36.8	56.1	59.8	69.9
P/E (x)	53.6	35.1	32.9	28.2
P/B (x)	10.2	8.6	7.3	6.3
EV/EBITDA (x)	29.9	22.5	20.7	17.9
RoNW (%)	19.0	24.4	22.3	22.2
RoCE (%)	23.4	28.6	26.3	26.5

Source: Company; Sharekhan estimates

PVC prices continue to remain firm

PVC prices have since May 2020 continued their upward journey with prices as on date being up 88.8% (up Rs. 58/kg) to Rs. 123.6/kg. In the latest hike, PVC prices have increased by Rs. 2/kg (+1.6%) with effect from February 18, 2021, to Rs. 123.6/kg. PVC prices surged by 18.9% in Q2FY2021 (versus Q1FY2021 end), while they were up 28.6% in Q3FY2021 (versus Q2FY2021 end) and are further rising by 5.5% for Q4FY2021 till date (versus Q3FY2021 end). The tight supply-side issues globally have led to sharp run-up in PVC prices. The same had led to inventory gain of Rs. 94 crore and Rs. 80 crore for SIL during Q2FY2021 and Q3FY2021, respectively, leading to 501 bps and 569 bps y-o-y jump in OPM. The unabated rise in PVC prices may lead to further inventory gain for SIL in Q4FY2021, leading to higher OPM.

PVC Price Trend



Source: Industry; Sharekhan Research

Understanding the Sharekhan 3R Matrix

Right Sector	
Positive	Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies
Neutral	Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies
Negative	Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability.
Right Quality	
Positive	Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.
Neutral	Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable
Negative	Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet
Right Valuation	
Positive	Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.
Neutral	Trading at par to historical valuations and having limited scope of expansion in valuation multiples.
Negative	Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.

Source: Sharekhan Research

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