Stock Update

Sharekhan by BNP PARIBAS

Powered by the Sharekhan 3R Research Philosophy

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	Change
Reco: **Buy**	↔
CMP: **Rs. 2,367**	
Price Target: **Rs. 2,721**	↑

↑ Upgrade ↔ Maintain ↓ Downgrade

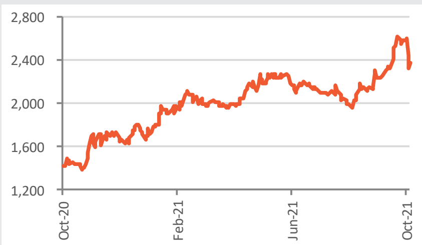
Company details

Market cap:	Rs. 30,061 cr
52-week high/low:	Rs. 2,689 / 1,380
NSE volume: (No of shares)	4.38 lakh
BSE code:	509930
NSE code:	SUPREMEIND
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	49
FII	10
DII	25
Others	15

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	5.2	12.6	18.9	66.9
Relative to Sensex	3.6	-2.2	-8.2	17.5

Sharekhan Research, Bloomberg

Supreme Industries Ltd

Underlying demand healthy; OPM disappoint

Building Materials | Sharekhan code: SUPREMEIND | Result Update

Summary

- We retain a Buy on Supreme Industries Limited (SIL) with a revised PT of Rs. 2,721, factoring in upwardly revised estimates for FY2022-FY2024.
- The company reported better than expected revenue growth for Q2FY2022 led by high realizations and healthy volume growth in plastic products. OPM came in below than expected on account of higher raw material costs.
- The company remain optimistic on the underlying demand and target to achieve 3-4 y-o-y volume growth for FY2022. Expect PVC prices to remain firm over next six months.
- Capex of Rs. 521 crores for FY2022 remains on track with new plants expected to be operational between January 2022 to May 2022. We expect infra, housing and government schemes to provide a long term sustainable demand environment.

Supreme Industries Limited (SIL) reported marginally higher than expected consolidated revenues while OPM came in lower than anticipated. Consolidated revenues were up 40.3% y-o-y at Rs. 1928.5 crore led by a strong rise in blended realization (up 39.2% y-o-y at Rs. 188/kg) for plastic goods. The plastic product volumes rose by 8.3% y-o-y as it saw a pickup in demand from agriculture & housing segments. SIL's OPM contracted by 249bps y-o-y at 16.1% on account of rise in raw material prices leading to operating profit growth of 21.5% y-o-y. The consolidated net profit at Rs. 229 crore was up 31% y-o-y. The management remains optimistic on reporting 3-4% y-o-y volume growth for FY2022 The company's Rs. 521 crore capex plans remain on track with new plants getting operational between January 2022 to May 2022.

Key positives

- Strong realization growth along with healthy volume growth.
- Value added products turnover rise 42% y-o-y.

Key negatives

- OPM came in lower than expected on account of higher raw material costs.
- Higher inventory stocking of PVC resins and finished goods.

Management Commentary

- To target 3-4% volume growth in plastic products for FY2022.
- Higher PVC prices can be passed through with a lag of 2-3 weeks.
- Expect PVC prices to remain firm for at least six months.
- Demand growth in housing and agriculture maintainable

Revision in estimates – We have revised our estimates upwards factoring higher realizations led by rise in PVC prices.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 2,721: SIL is one of the fastest growing companies to recover in the post unlock era in the building material sector as it has been continuously gaining market share led by historically high PVC prices. The company's growth outlook remains healthy. However, PVC prices remain volatile and are expected to remain high over the near term. The healthy demand outlook along with incremental capacity additions is likely to provide healthy double digit revenue growth over FY2022-FY2024. SIL is expected to benefit from strong housing demand and government schemes such as 'Nal se Jal'. We retain our Buy rating on the stock with a revised PT of Rs. 2,721 factoring upwardly revised estimates.

Key Risks

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

Valuation (Consolidated) Rs cr

Particulars	FY21	FY22E	FY23E	FY24E
Revenue	6,357	7,968	9,474	11,069
OPM (%)	20.2	17.2	17.5	17.8
Adjusted PAT	978	970	1,173	1,394
% YoY growth	*109.3*	*(0.8)*	*20.9*	*18.8*
Adjusted EPS (Rs.)	77.0	76.4	92.4	109.7
P/E (x)	30.7	31.0	25.6	21.6
P/B (x)	9.5	7.9	6.6	5.5
EV/EBITDA (x)	24.0	22.3	18.6	16.0
RoNW (%)	30.9	25.5	25.7	25.5
RoCE (%)	32.3	28.3	28.6	28.4

Source: Company; Sharekhan estimates

Healthy volume and strong realization growth for Q2

Supreme Industries Limited (SIL) reported a 40.3% y-o-y rise (+43.7% q-o-q) in consolidated revenues at Rs. 1928.5 crore (marginally higher than our estimate) led by a strong rise in blended realization (up 39.2% y-o-y at Rs. 188/kg) for plastic goods. The plastic product volumes rise by 8.3% y-o-y (+44.1% q-o-q) at 1,02,673MT as it saw pick up in offtake for the agriculture & housing segments. The management estimates strong volume growth for H2FY2022 leading to guidance of 3-4% y-o-y volume growth for H2FY2022. The CPVC growth stood at 30% y-o-y while it was unable to meet high demand. The sale of value-added products increased by 42% y-o-y to Rs. 758 crore for Q2FY2022. Further, SIL's OPM contracted by 249bps y-o-y (-43bps q-o-q) at 16.1% which was on account of higher raw material prices. Hence, operating profit rose 21.5% y-o-y (+40% q-o-q) to Rs. 311 crore. Strong revenue growth y-o-y along with lower interest expense and higher other income led to 30.7% y-o-y rise (+34% q-o-q) in consolidated net profit at Rs. 229 crore (marginally better than our estimate).

Underlying demand healthy while expansion plans on track

The management remain optimistic on demand from housing and agriculture segment and expect 3-4% y-o-y volume growth for FY2022. The company maintained its capital expenditure plan for FY2022 to Rs. 521 crore which can incrementally add Rs. 900 crore to the topline. The company's plastic products capacity is slated to increase from current 6,97,000MT to 748,000MT during FY2022 with major capacity addition envisaged in Piping products and Industrial products. The company's progress in putting up plants at Guwahati, Cuttack and Erode are moving smoothly. All these plants will be operational between January 2022 to May 2022. On PVC prices, the management expects it to remain firm for at least six months.

Key Conference Call Takeaways

- **Guidance:** The company expects 3-4% y-o-y volume growth for FY22. The company expects PVC prices to remain high for six months more.
- **Q2FY2022 performance:** The company saw a 8% y-o-y volume growth and 44% y-o-y value growth for Q2FY22. The volume/value growth across divisions are Plastic piping 9%/50%, Packaging products 5%/26%, Industrial products 10%/39% and Consumer products 4%/30%. The company discontinued to share vertical wise OPM from Q2.
- **PVC prices:** The PVC prices continue to tread higher even during current quarter. The high prices are passed through after a lag of two to three weeks.
- **Value added products:** The revenue from value added products increased 42% y-o-y to Rs. 758 crore.
- **Surplus funds:** The surplus funds stood at Rs. 331 crore versus Rs. 759 crore in March 2021.
- **Inventory:** The inventory position is high due to stocking of PVC resins and finished goods.
- **CPVC:** It saw a 30% y-o-y volume growth in CPVC segment and was not able to meet the high demand.
- **Other segments:** The bathing segment is expected to cross Rs. 100 crore next year. The tanks segment has crossed Rs. 200 crores.

Results (Consolidated) Rs cr

Particulars	Q2FY22	Q2FY21	Y-o-Y %	Q1FY22	Q-o-Q %
Revenue	**1,928.5**	**1,374.8**	**40.3**	**1,342.1**	**43.7**
Total expenditure	1,617.8	1,118.9	44.6	1,120.1	44.4
EBITDA	**310.8**	**255.9**	**21.5**	**222.0**	**40.0**
Depreciation	57.1	52.3	9.2	56.1	1.8
EBIT	**253.7**	**203.6**	**24.6**	**165.9**	**52.9**
Other income	4.1	3.0	35.9	4.3	-5.3
Interest expenses	0.7	5.4	-87.5	2.1	-68.1
PBT	**257.1**	**201.1**	**27.8**	**168.1**	**52.9**
Tax expenses	67.5	52.7	28.0	43.0	57.1
Share of profit from associate	-39.1	-26.5	-	-45.0	-
Adjusted net profit	**228.7**	**175.0**	**30.7**	**170.2**	**34.4**
Extra ordinary itmes	0.0	0.0	-	0.0	-
Reported net profit	**228.7**	**175.0**	**30.7**	**170.2**	**34.4**
Adjusted EPS (Rs.)	18.0	13.8	30.7	13.4	34.4
			BPS		**BPS**
EBITDA Margin (%)	16.1	18.6	-250	16.5	-40
PAT Margin (%)	11.9	12.7	-80	12.7	-80
Effective tax rate (%)	26.2	26.2	0	25.6	60

Source: Company; Sharekhan Research

Outlook and Valuation

Sector view – Expect faster recovery in operations

The building materials industry was severely affected by COVID-19 led lockdown during Q1FY2021, which had affected its peak sales period of the year. Additionally, its high fixed cost structure had affected OPM, dragging down its net earnings. However, from June, the sector has been one of the fastest in recovery with easing of the lockdown domestically. The sector witnessed resumption of dealer and distribution networks and a sharp improvement in capacity utilization levels. Most players have begun to see demand and revenue run-rate reaching 80%-90% compared to pre-COVID levels. Scaling up of revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery. The industry is expected to rebound with strong growth in FY2022.

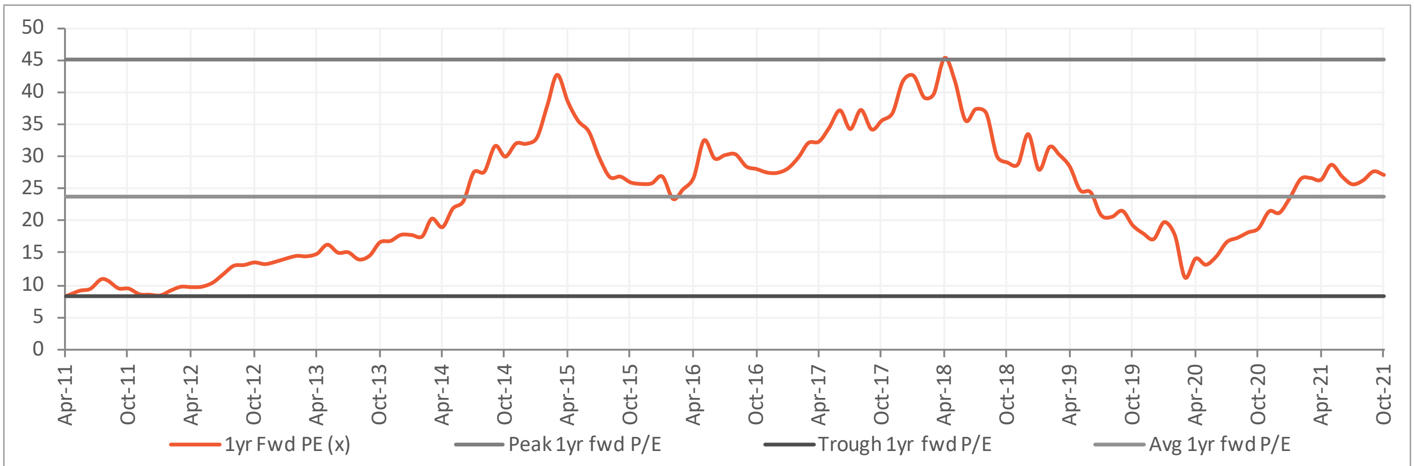
Company outlook – Healthy demand outlook

The company is witnessing a 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 FY2021 in both PVC and CPVC segments. SIL witnessed positive growth in sales for July 2021 till date. The management remain optimistic on reporting positive y-o-y volume growth for FY2022 recovering for the weak offtake in Q1FY2022. The CPVC revenue growth is expected at 20-25% y-o-y for FY2022 partly due to low base. It is expecting healthy demand from infrastructure and housing sectors along with demand emanating from "Nal Se Jal" scheme going ahead. The company has capital expenditure plan of Rs. 521 crore for FY2022 which can incrementally add Rs. 900 crore to the topline.

Valuation – Maintain Buy with a revised PT of Rs. 2,721

SIL is one of the fastest growing companies to recover in the post unlock era in the building material sector as it has been continuously gaining market share led by historically high PVC prices. The company's growth outlook remains healthy. However, PVC prices remain volatile and are expected to remain high over the near term. The healthy demand outlook along with incremental capacity additions is likely to provide healthy double digit revenue growth over FY2022-FY2024. SIL is expected to benefit from strong housing demand and government schemes such as 'Nal se Jal'. We retain our Buy rating on the stock with a revised PT of Rs. 2,721 factoring upwardly revised estimates.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Supreme Industries	25.6	21.6	18.6	16.0	6.6	5.5	25.7	25.5
APL Apollo Tubes	28.1	22.2	16.3	12.7	7.4	5.8	29.6	29.4
Astral Poly Technik	73.8	57.5	47.8	38.4	15.0	12.0	22.5	23.1

Source: Sharekhan Research

About company

SIL is a leading manufacturer of plastic products with a significant presence across piping, packaging, industrial, and consumer segments. The company has emerged as one of the best proxy plays on growing plastic consumption in India because of a diversified product portfolio, an extensive distribution network, improved capital structure, and government's thrust on building a better infrastructure.

Investment theme

SIL is on a firm footing, with a strong product portfolio and new product launches, which are expected to drive growth in the coming years. The government's thrust on affordable housing and enhanced allocation towards irrigation projects will aid future growth for companies such as SIL. We remain positive on the introduction of value-added products and capacity expansion plans, which are largely funded by robust internal accruals. SIL enjoys superior return ratios with low gearing levels, and we expect the company to maintain high return ratios going forward.

Key Risks

Slowdown in demand offtake from the user industry can impact revenue growth rates. Adverse commodity price fluctuation might impact margin profile.

Additional Data

Key management personnel

Bajranglal Surajmal Taparia	Non Executive Chairman
Mahavirprasad Surajmal Taparia	Executive Director
Shivratan Jeetmal Taparia	Executive Director
Vijaykumar Bajranglal Taparia	Executive Director
P C Somani	Chief Finance Officer
Rajendra J Saboo	AVP (Corporate Affairs) & Company Secretary & Compliance Officer

Source: Company Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jovial Investment & Trading	16.12
2	Boon Investment & Trading	16.11
3	Venktesh Investment & Trading	14.20
4	Axis Asset Management	5.14
5	Nalanda India Fund Ltd	4.81
6	Kotak Mahindra Asset Management	3.81
7	JPMorgan Chase	3.07
8	DSP Investment Managers	2.25
9	HDFC Asset Management	2.23
10	GOVERNMENT PENSION FUND - GLOBAL	1.63

Source: Bloomberg

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 detoriating 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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