

Channel inventory rationalisation hits volume offtake...

About the stock: Supreme Industries (SIL) is India's leading plastic processing company with a presence in four major segments including piping systems, packaging products, industrial products & consumer product category with revenue contribution of 63%, 18%, 12% & 7%, respectively.

- Market leader in the PVC pipe industry with a value market share of 14%
- Robust balance sheet with RoE & RoCE of 24% & 27% (five-year average), respectively, with stringent working capital policy

Q3FY22 Results: Overall performance was in-line with our estimates. However, channel inventory rationalisation & extended monsoon lowered volume offtakes.

- The company reported price led revenue growth of ~6% YoY to ₹ 1945 crore. Volume dipped 18% YoY (vs. I-direct estimate of -10%)
- Gross margins came in lower by 502 bps YoY (up 50 bps QoQ) due to higher raw material cost. EBITDA margins declined 544 bps YoY
- PAT declined 21% YoY to ~₹ 246 crore, tracking lower EBITDA

What should investors do? SIL's share price has grown at ~23% CAGR over the past five years.

- We maintain our **BUY** rating on the stock

Target Price and Valuation: We roll over our valuation on FY24E and value the stock at 28x P/E FY24E EPS with a revised target price of ₹ 2625.

Key triggers for future price performance:

- The government's flagship 'Nal Se Jal' scheme (with an outlay of ~₹ 3 lakh crore over the next five years) is a big booster for domestic plastic piping industry over the long term
- Rising contribution of value added product in overall topline (increased from 35% in FY18 to ~40% in FY21) to keep EBITDA margin elevated
- Overall manufacturing capacity to grow at a CAGR of 7% to 8 lakh tonnes with an investment of ~₹ 850 crore in FY21-23E
- Model revenue CAGR of 14% led by piping segment revenue CAGR of 16%

Alternate Stock Idea: in the building material space, we also like Asian Paints.

- Asian Paints is a market leader in the decorative paint segment having ~2.3x more dealers (~70,000) than the No. 2 player. There are structural long term demand drivers of decorative paint such as reduced repainting cycle and 'Housing for all, that makes it a long term growth story
- BUY with a target price of ₹ 3870



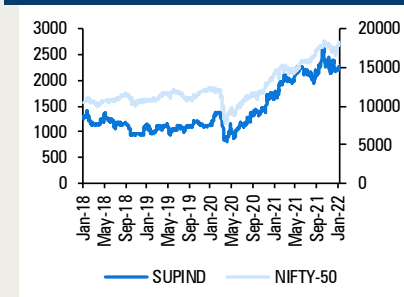
Particulars

Particular	Amount
Market Capitalization (₹ Crore)	26,116.8
Total Debt (FY21) (₹ Crore)	0.6
Cash & Invest. (FY21) (₹ Crore)	761.5
EV (₹ Crore)	25,355.8
52 week H/L	2689/ 1717
Equity capital (₹ Crore)	25.4
Face value (₹)	2.0

Shareholding pattern

(in %)	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21
Promoter	48.9	48.9	48.9	48.9	48.9
FII	8.8	9.0	10.8	10.4	16.2
DII	24.7	24.8	24.7	25.3	19.7
Others	17.6	17.3	15.6	15.4	15.2

Price Chart



Recent Event & Key risks

- Capex of ₹ 521 crore for FY22
- Key Risk:** (i) input cost pressure (ii) low demand of agri pipes

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Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	5Yr CAGR (FY16-21)	FY22E	FY23E	FY24E	3Yr CAGR (FY21-24E)
Net Sales	5612.0	5511.5	6357.1	17.0	7576.2	8545.6	9438.4	14.1
EBITDA	784.6	834.5	1284.3	24.0	1230.3	1411.6	1605.9	7.7
EBITDA Margin (%)	14.0	15.1	20.2		16.2	16.5	17.0	
Net Profit	448.6	467.4	978.1	34.0	917.9	1045.5	1186.7	6.7
EPS (₹)	35.3	36.8	77.0		72.3	82.3	93.4	
P/E (x)	58.2	55.9	26.7		28.5	25.0	22.0	
Price/Book (x)	12.1	11.6	8.2		7.3	6.3	5.5	
Mcap/Sales (x)	4.7	4.7	4.1		3.4	3.1	2.8	
RoE (%)	18.7	20.7	30.9		25.6	25.1	25.0	
RoCE (%)	25.0	22.2	33.1		26.9	27.0	27.5	

Key takeaways of recent quarter & conference call highlight

Q3FY22 Results: Lower volume offtake, high realisation drive revenues

- SIL reported price led revenue growth of ~6% YoY to ₹ 1945 crore. Volume de-growth of 18% YoY is attributable to channel inventory rationalisation, extended monsoon and volatile PVC prices. The piping segment volume declined ~26% YoY, followed by 19% decline in volume of furniture business. Packaging volume also declined albeit on a lower pace of 1%
- The EBITDA margin declined 544 bps YoY to 16.3%. The margin has come back to its normalised level (base period margins were expended due to favourable raw material prices). As a result, PAT declined 21% YoY to ~₹ 246 crore

Q3FY22 Earnings Conference Call highlights

Plastic piping system

- Extended rainfall, inventory de-stocking at dealer's level (amid volatile PVC prices) and high base of last year resulted in 26% volume drop in the piping segment
- While EBIT margin down by 500 bps YoY, the same is back to its normalised level of 16.5% from near peak margins reported in the base period. Sequentially, margins were up 120 bps
- The management expects a strong recovery in piping volume in the coming quarter (i.e Q4FY22) supported by improved traction from housing and infrastructure segments
- New unit to make plastic pipes in Guwahati, Cuttack and Erode is moving smoothly. All capacities are expected to be operationalised by H1FY23
- The channel inventory is lowest due to de-stocking by dealers

Industrial products

- Material handling volume growth came in at 17% YoY. The company continues to add new products and increased dealer networks in this division. However, industrial component volumes declined 3.5% YoY due to ongoing chip shortage

Packaging products

- Marginal decline in segment volume by ~1% as 10% volume fall in the protective packaging business was partially offset by 50% volume growth in the performance packaging division
- EBIT margin shrunk ~600 bps to ~7%, mainly due to delay in price hikes in the segment and lower sales of cross laminated packaging products
- The management indicated that margins would return to normal levels aided by higher sales of value added products

Consumer products (furniture)

- Furniture division has shown 18% volume de-growth during Q3FY22 mainly due to lower demand from tier II & III cities
- EBIT margins at 17% in Q3FY22, down by 300 bps YoY (up by 100 bps QoQ)

Others

- The company has planned a capex of ₹ 521 crore for FY22
- Value added products sales declined 12% YoY to ₹ 665 crore
- SIL is aiming at revenue of ₹ 7500 crore and EBITDA margin of 16% in FY22

Exhibit 1: Peer comparison

Company	Mcap ₹ cr	Revenue				EBITDA margin				PAT				RoCE				RoE				PE			
		FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Supreme	26,117	6357	7576	8546	9438	20	16	17	17	978	918	1046	1187	33	27	27	28	31	26	25	25	27	28	25	22
Astral	42,145	3176	4028	4948	5860	20	18	19	20	408	468	615	770	28	28	32	33	22	22	24	25	103	90	69	55

Source: BSE, ICICI Direct Research

The management expects FY22E revenues at ~₹ 7500 crore, implying Q4FY22 revenue growth at 13-14% YoY supported by dealer offtake (refilling of inventory amid pick up in PVC prices from January 2022 onward). Also, the company has increased its focus towards valued added products. Value added products command EBITDA margin of ~17%+ compared to the company level margin of 15%. The revenue contribution of value added product category to overall topline has increased from 35% in FY18 to ~40% by the end of FY21. We believe revival in housing and infrastructure spends will be key growth drivers for PVC piping industry in the medium to long term. We build in revenue CAGR of 14% over FY21-24E led by piping segment revenue CAGR of 16%. We roll over our valuation on FY24E and value the stock at 28x PE of FY24E EPS (five years average one year forward P/E multiple) with revised target price of ₹ 2625/share. We maintain our BUY rating on the stock considering strong growth outlook in company's core business and robust balance sheet condition.

Exhibit 2: Variance Analysis

	Q3FY22	Q3FY22E	Q3FY21	YoY (%)	Q2FY22	QoQ (%)	Comments
Revenue	1,945.1	1,957.8	1,843.8	5.5	1,928.5	0.9	Revenue growth is largely driven by higher realisation but overall volume came in lower by 18% during the period
Other Income	2.9	4.0	0.3	1,076.0	4.1	-28.1	
Raw Material Exp	1,283.6	1,302.6	1,111.6	15.5	1,289.9	-0.5	Higher raw material prices dragged overall gross margin by 502 bps YoY
Cost of traded goods	38.8	39.2	49.4	-21.5	30.8	25.8	
Employee Exp	88.0	88.1	81.3	8.3	86.6	1.7	
Other expenditure	216.8	215.4	199.9	8.5	210.5	3.0	
EBITDA	317.9	312.6	401.6	-20.8	310.8	2.3	
EBITDA Margin (%)	16.3	16.0	21.8	-544 bps	16.1	23 bps	Gross margin pressure and low operating leverage led to decline in EBITDA margin by 544 bps YoY, remained flat QoQ
Depreciation	57.5	53.7	54.9	4.6	57.1	0.6	
Interest	0.5	4.7	-1.2	-137.1	0.7	-32.4	
PBT	262.9	258.1	348.1	-24.5	257.1	2.3	
Total Tax	67.8	64.5	88.6	-23.5	67.5	0.5	
Profit from associates	50.7	40.6	52.8	-4.1	39.1	29.5	
PAT	245.7	234.3	312.3	-21.3	228.7	7.4	PAT decline was led by lower EBITDA margin
Key Metrics							
Plastic Piping	1,148.0	1,250.3	1,140.0	0.7	1,267.0	-9.4	Volume decline of 25% YoY in Q3FY22 on a high base and inventory de-stocking at dealer's level
Packaging Products	370.0	346.8	318.0	16.4	277.0	33.6	Segment revenues were largely driven by price hike
Industrial Products	272.0	216.6	216.0	25.9	253.0	7.5	Segment volume increased by 6% YoY supported by 17% volume growth in the material handling segment
Consumer Products	127.0	124.0	117.0	8.5	111.0	14.4	An 18% volume de-growth in the furniture segment mainly due to weak rural demand

Source: Company, ICICI Direct Research

Exhibit 3: Change in estimates

₹ Crore	FY22E			FY23E			FY24E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	7,380.0	7576.2	2.7	8,500.3	8,545.6	0.5	9,242.0	9,438.4	2.1	We slightly tweak our revenue estimate upward for FY22E considering better-than-expected revenues of non-piping business
EBITDA	1,166.8	1230.3	5.4	1,404.9	1,411.6	0.5	1,578.5	1,605.9	1.7	
EBITDA Mar %	15.8	16.2	44bps	16.5	16.5	2bps	17.1	17.0	-9bps	Price hikes and improved product mix will help drive EBITDA margin for the company
PAT	858.1	917.9	7.0	1,024.8	1,045.5	2.0	1,156.6	1,186.7	2.6	
EPS (₹)	67.6	72.3	7.0	80.7	82.3	2.0	91.1	93.4	2.5	

Source: Company, ICICI Direct Research

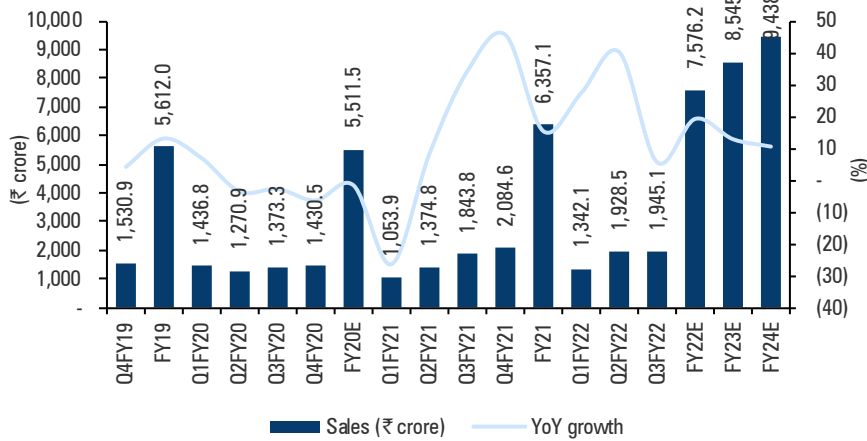
Exhibit 4: Assumption

(%)	Current					Earlier			Comments
	FY20	FY21	FY22E	FY23E	FY24E	FY22E	FY23E	FY24E	
Plastic Piping	8.6	19.0	16.8	20.1	11.0	15.8	23.3	9.5	We model revenue CAGR of ~16% led by same amount of volume growth in FY21-24E
Packaging	(7.9)	7.8	17.9	3.1	8.2	14.4	1.0	8.2	Strong recovery in the demand for cross laminated films and launch of new products in the performance packaging segment would help drive sales for packaging products, going forward
Industrial	(24.0)	13.1	36.5	-2.8	8.6	24.3	1.4	4.8	Strong demand from material handling and other consumer durable segment would help drive segment performance, going forward
Furniture*	(4.0)	(7.6)	22.6	3.3	15.0	19.5	1.8	8.6	Market share gains from unorganised segment would help in driving demand for consumer furniture business

Source: Company, ICICI Direct Research

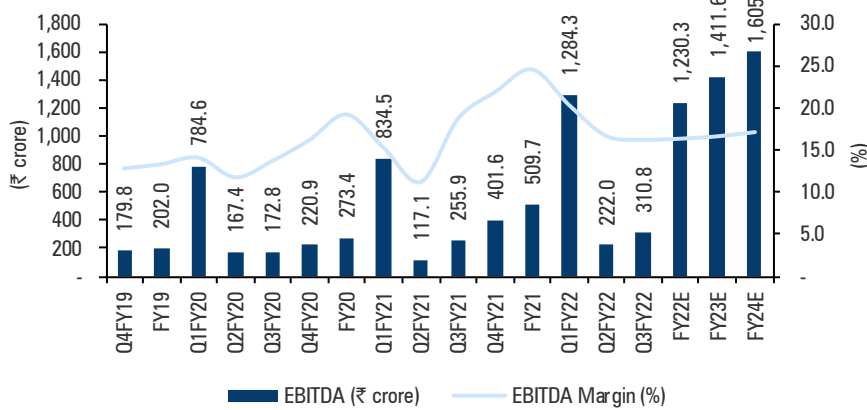
Financial story in charts....

Exhibit 5: Revival in housing segment key to drive piping revenue



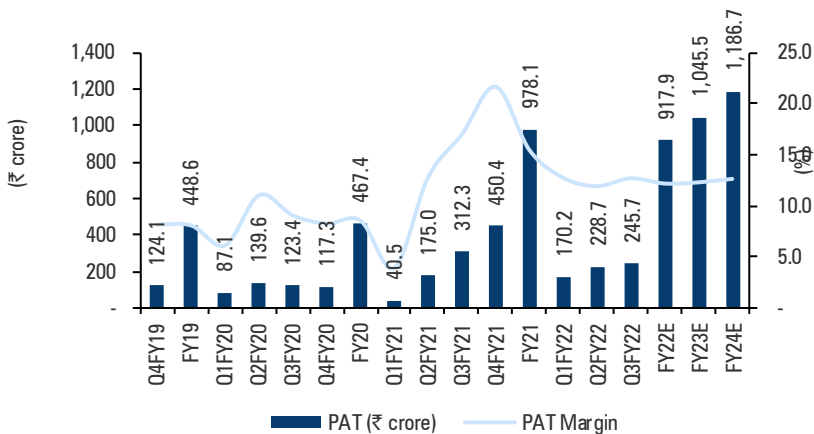
Source: Company, ICICI Direct Research

Exhibit 6: EBITDA likely to remain robust while EBITDA margin to normalise



Source: Company, ICICI Direct Research

Exhibit 7: PAT growth trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 8: Profit and loss statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Net Sales	5511.5	6357.1	7576.2	8545.6	9438.4
Growth (%)	-1.8	15.3	19.2	12.8	10.4
Other Income	1.4	16.9	18.3	19.7	21.3
Total Revenue	5513.0	6374.0	7594.5	8565.3	9459.7
Expenditure					
Raw Material Expenses	3706.0	3764.4	5209.1	5607.1	6122.8
Cost of goods traded	47.4	123.6	146.1	85.5	94.4
Employees cost	279.8	310.4	351.7	394.9	436.5
Other Expenditure	818.9	724.0	870.0	1046.7	1178.9
Total Operating Exp	4677.0	5072.8	6345.9	7134.0	7832.5
Operating Profit (EBITDA)	834.5	1284.3	1230.3	1411.6	1605.9
Growth (%)	6.4	53.9	-4.2	14.7	13.8
Depreciation	205.7	212.8	227.3	241.0	259.6
Interest	20.2	22.1	3.8	4.0	4.0
PBT after Excep Items	610.1	1066.2	1017.4	1186.3	1363.6
Total Tax	173.9	234.1	262.5	302.1	347.5
PAT before MI	436.2	832.2	755.0	884.2	1016.1
Profit from Associates	31.2	146.0	162.9	161.3	170.6
Reported PAT	467.4	978.1	917.9	1045.5	1186.7

Source: Company, ICICI Direct Research

Exhibit 9: Cash flow statement					
	₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Profit/(Loss) after taxation	467.4	978.1	917.9	1045.5	1186.7
Add: Depreciation & Amortization	205.7	212.8	227.3	241.0	259.6
Add: Interest Paid	20.2	22.1	3.8	4.0	4.0
C/F bef working cap changes					
Net Increase in Current Assets	-82.1	83.4	-601.7	-243.9	-224.6
Net Increase in Current Liabilities	-11.4	209.1	166.4	84.0	129.7
Net cash flow from operating Act	599.8	1505.5	713.7	1130.6	1355.3
(Inc)/Dec in Other Investments	15.1	-129.3	-23.0	-33.0	-50.0
(Purchase)/Sale of Fixed Assets	-295.3	-277.4	-500.0	-400.0	-400.0
Net Cash flow from Investing Act	-280.5	-461.3	-545.0	-450.5	-466.1
Proceeds/(Rep) of debt	248.9	-410.3	100.0	10.0	-10.0
(Payment) of Div & Div Tax	-214.1	-279.0	-304.8	-457.3	-609.7
Net Cash flow from Financing Act	-131.5	-502.6	-410.0	-451.3	-623.7
Net Cash flow	187.8	541.6	-241.3	228.9	265.5
Cash & Cash Equ at the begin.	32.1	219.9	761.5	520.2	749.1
Cash & Cash Equ at the end	219.9	761.5	520.2	749.1	1014.7

Source: Company, ICICI Direct Research

Exhibit 10: Balance sheet					
	₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Equity Capital	25.4	25.4	25.4	25.4	25.4
Reserve and Surplus	2235.8	3143.8	3555.5	4143.7	4720.7
Total Shareholders funds	2261.2	3169.2	3580.9	4169.1	4746.1
Total Debt	410.9	0.6	100.6	110.6	100.6
Deferred Tax Liability	132.6	91.9	91.9	91.9	91.9
Total Liabilities	2837.0	3291.7	3803.4	4401.6	4968.6
Gross Block	3235.0	3554.6	4059.5	4459.5	4859.5
Accumulated Depreciation	1627.3	1840.1	2067.3	2308.3	2567.9
Net Block	1607.7	1714.5	1992.1	2151.1	2291.6
Capital WIP	92.9	50.8	45.9	45.9	45.9
Total Fixed Assets	1700.7	1765.3	2038.0	2197.0	2337.5
Other Investments	207.3	336.6	359.6	392.6	442.6
Inventory	890.6	760.8	1141.6	1287.7	1422.2
Debtors	312.8	389.8	581.2	655.6	724.0
Loans and Advances	184.4	153.8	183.3	206.8	228.4
Cash	219.9	761.5	520.2	749.1	1014.7
Total Current Assets	1607.7	2065.9	2426.4	2899.2	3389.3
Creditors	547.5	646.2	726.5	819.4	905.1
Provisions	31.3	29.8	55.6	62.7	69.3
Total Current Liabilities	781.5	990.6	1157.0	1241.1	1370.7
Net Current Assets	826.2	1075.3	1269.3	1658.1	2018.6
Long term loans and advances	102.9	114.5	136.4	153.9	170.0
Total Asset	2837.0	3291.7	3803.4	4401.6	4968.6

Source: Company, ICICI Direct Research

Exhibit 11: Key ratios					
	₹ crore				
(Year-end March)	FY20	FY21	FY22E	FY23E	FY24E
Per share data (₹)					
EPS	36.8	77.0	72.3	82.3	93.4
Cash EPS	53.0	93.8	90.2	101.3	113.9
BV per share	178.0	249.5	281.9	328.2	373.6
DPS	16.9	22.0	24.0	36.0	48.0
Operating Ratios (%)					
EBITDA Margin	15.1	20.2	16.2	16.5	17.0
PAT Margin	8.5	15.4	12.1	12.2	12.6
Turnover Days					
Inventory Days	59.0	43.7	55.0	55.0	55.0
Debtor Days	20.7	22.4	28.0	28.0	28.0
Creditor Days	36.3	37.1	35.0	35.0	35.0
Return Ratios (%)					
RoNW	20.7	30.9	25.6	25.1	25.0
RoCE	22.2	33.1	26.9	27.0	27.5
RoIC	24.0	40.0	28.9	30.7	32.6
Valuation Ratios (x)					
P/E	55.9	26.7	28.5	25.0	22.0
EV / EBITDA	31.5	19.7	20.9	18.0	15.7
EV / Net Sales	4.8	4.0	3.4	3.0	2.7
Market Cap / Sales	4.7	4.1	3.4	3.1	2.8
Price to Book Value	11.6	8.2	7.3	6.3	5.5
Solvency Ratios					
Debt / EBITDA	0.5	0.0	0.1	0.1	0.1
Debt / Equity	0.2	0.0	0.0	0.0	0.0
Current Ratio	2.4	1.9	2.4	2.4	2.4
Quick Ratio	0.9	0.8	1.0	1.0	1.0

Source: Company, ICICI Direct Research

Exhibit 12: ICICI Direct coverage universe (Retail)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
					FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E	FY21	FY22E	FY23E	FY24E
Asian Paints (ASIPAI)	3,155	3,870	Buy	3,02,565	33.4	32.4	46.5	58.2	94.4	97.5	67.9	54.2	61.4	63.3	45.6	36.5	29.6	28.0	35.6	39.4	25.0	23.4	29.9	32.6
Berger Paints (BERPAI)	713	845	Hold	69,247	7.4	7.7	10.1	12.9	96.2	93.0	70.7	55.2	58.1	57.0	45.1	35.8	24.9	25.2	30.9	34.9	21.3	21.0	25.6	28.6
Kansai Nerolac (KANNER)	573	630	Hold	30,880	10.2	9.0	13.3	15.6	55.9	63.5	43.2	36.7	36.1	40.5	28.6	24.2	17.6	15.7	20.8	22.3	13.7	12.1	16.0	16.9
Pidilite Industries (PIDIND)	2,640	2,640	Hold	1,34,059	22.2	23.3	29.1	35.2	119.0	113.2	90.7	75.0	79.5	74.4	61.3	51.3	23.8	21.6	26.1	30.5	20.2	18.3	21.9	25.5
Bajaj Electricals (BAJELE)	1,157	1,280	Buy	13,253	16.5	20.7	32.9	38.3	70.1	55.8	35.1	30.2	44.5	37.1	25.3	22.4	15.1	18.8	24.9	24.1	10.7	14.9	19.7	19.1
Crompton Greaves(CROGR)	413	525	Buy	25,887	9.8	9.1	11.6	13.1	42.0	45.5	35.6	31.5	34.4	33.8	27.0	23.8	34.4	36.0	41.5	41.5	31.9	28.5	32.7	32.3
Havells India (HAVIND)	1,180	1,515	Buy	73,620	16.7	18.5	22.3	28.6	70.8	63.6	52.9	41.3	46.2	42.9	35.9	28.3	24.9	25.5	29.2	35.7	20.1	21.1	24.2	29.4
Polycab India (POLI)	2,510	3,000	Buy	37,429	59.4	55.0	69.2	84.9	42.2	45.6	36.3	29.6	32.8	32.8	24.3	19.9	20.8	18.3	22.2	23.3	17.9	14.5	17.0	18.0
Symphony (SYMLIM)	1,041	1,160	Hold	7,283	15.3	20.3	33.1	40.0	68.1	51.2	31.5	26.0	51.1	38.1	24.6	20.1	15.2	21.5	29.5	31.0	14.9	19.5	27.7	28.3
V-Guard Ind (VGUARD)	216	310	Buy	9,251	4.7	5.0	6.9	7.8	45.8	43.5	31.4	27.8	28.8	28.8	22.4	19.6	23.9	23.2	28.2	28.1	16.7	17.6	21.9	21.8
Voltas Ltd (VOLTAS)	1,188	1,375	Hold	39,291	16.0	19.8	25.2	33.3	74.3	59.9	47.1	35.7	60.6	52.6	41.7	34.0	15.0	18.5	20.8	21.8	10.6	13.6	15.4	17.5
Amber Enterprises (AMBER)	3,226	3,900	Buy	10,870	24.7	44.0	82.2	106.9	130.5	73.3	39.2	30.2	49.1	37.7	22.3	17.5	7.7	10.8	17.0	19.4	5.2	8.9	14.3	15.8
Dixon Technologies (DIXTE)	4,620	5,990	Buy	27,050	27.3	45.8	84.8	116.4	169.4	100.8	54.5	39.7	94.4	59.2	35.4	26.4	23.5	31.2	40.1	39.1	21.7	31.0	39.5	37.2
Supreme Indus (SUPIND)	2,056	2,625	Buy	26,117	77.0	72.3	82.3	93.4	26.7	28.5	25.0	22.0	19.7	20.9	18.0	15.7	33.1	26.9	27.0	27.5	30.9	25.6	25.1	25.0
Astral Ltd (ASTPOL)	2,098	2,375	Hold	42,145	20.3	23.3	30.6	38.3	103.2	90.1	68.5	54.8	64.7	57.4	44.6	36.3	27.5	28.1	31.9	33.1	21.5	21.8	24.5	25.3

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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