

# Supreme Industries

**BUY**

Sector: Plastic/Mid Cap | Earnings Update – 4QFY22

1 May 2022

**Background:** Supreme Industries Limited is India's leading plastics product manufacturer, offering a wide and comprehensive range of plastic products in India. The company operates in various product categories viz. Plastic Piping System, Cross Laminated Films & Products, Protective Packaging Products, Industrial Moulded Components, Moulded Furniture, Storage & Material Handling Products, Performance Packaging Films and Composite LPG Cylinders. Supreme Industries has 25 technologically advanced manufacturing facilities located at various places spread across the country. The company has built-up excellent relationship with its distributors and is also providing orientation to them, in order to ensure proper service to ultimate customers.

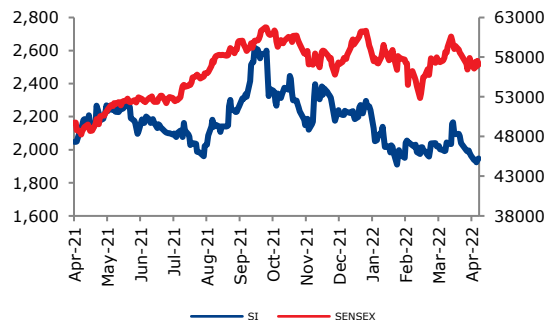
Sensex	57,061
Nifty	17,103
Price	₹1,947
Target Price (12 months)	₹2,240
Recommendation	BUY

52 Week High/Low	₹2,693/1,872
Bloomberg / Reuters	SI IN /SUPI.BO
Equity (shares in mn)	127
Mkt. Cap in bn	₹247.3/₹3.2
Avg. Daily Vol. ('000)	96.8
Avg. Daily Vol. (mn)	₹188.5/₹2.5

Shareholding	Mar 21	Dec 21	Mar 22
Promoters (%)	48.9	48.9	48.9
FII (%)	9.0	10.4	16.2
DII (%)	24.8	25.3	19.7
Others (%)	17.4	15.5	15.3
Pledge (% of promoter holding)	0.0	0.0	0.0

Valuation Summary (₹ bn)			
Y/E March	2022E	2023E	2024E
Revenue	77.7	90.2	102.8
EBITDA	12.4	15.4	17.5
Adj PAT	9.7	9.3	10.5
Adj EPS (Rs)	76.2	73.3	82.6
% growth	-1.5	-3.9	12.6
PE	25.5	26.6	23.6
P/ BV	6.4	5.9	5.3
EV/EBITDA	19.5	16.2	14.3
EV/Sales	3.1	2.8	2.4
Div Yield (%)	1.7	1.7	1.9
ROE (%)	27.6	23.1	23.4

Performance (%)	1M	3M	12M
Supreme Industries	-3.1%	-14.6%	-5.5%
Sensex	-0.1%	-4.1%	15.7%



## Mixed quarter; promising volume recovery led by robust demand environment

- Supreme Industries (SIL) reported a mixed performance for 4QFY22 as revenue grew by 22.7% YoY led by higher volumes & better realizations, while EBITDA & PAT lowered by 23.2% & 28.1% respectively. The overall volume grew by 15.6%/40.8% QoQ, majorly driven by recovery in plastic piping segment (27% YoY/68.7% QoQ). EBITDA margin came at 15.3% (-900bps YoY/-100bps QoQ) amidst elevated RM inflation. APAT stood at ₹3.2bn (-28.1%YoY/+31.8%QoQ). The management remains highly optimistic about the demand environment for FY23 aptly reflected by traction observed in volumes.
- Segmental performance-** Amongst the business verticals, the plastic piping business, the major revenue contributor, reported strong growth in 4QFY22 and anchored the overall performance for SIL. It registered volume growth of 27% YoY/ 33.7% QoQ while realizations improved by 5.3% YoY (-7.1% QoQ). Packaging products volumes lowered by 16% YoY/20% QoQ but realizations improved by 22.6% YoY/9.0% QoQ. Industrial product's volumes remained flat while realizations moderately grew by 2.2% on YoY. The consumer products saw de-growth of 11.3% while realizations bettered by 7.3% YoY. The management envisages ample business opportunities across the segments implied by capex activities undertaken.
- Capex status-** SIL has undertaken capital expenditure of ~₹2.6bn during FY22. The total capex was funded via internal accruals for the purpose of expanding the capacities of plastic piping system & scaling up of its portfolio. Additionally, the company has plans to spend ~₹7bn (including carry forward commitments of ₹2.8bn) in FY23. It will be mainly committed for project works at Assam (PVP pipe manufacturing site), Cuttack & Erode (plastic product complex). The latter are expected to operational by 1HFY23. The capacity of composite cylinders at Gujarat site will be doubled. Similarly, company is aiming to expand capacities at various other sites. SIL plans to fund the entire capex via internal accruals.
- Demand outlook:** SIL had persevered its capex plans despite the adverse circumstances arose at the beginning of FY22. The management had precognition about adversity to be transient in nature which is getting reflected via strong volume recovery & robust demand environment observed during the quarter. SIL anticipates strong volume growth in FY23 (~15%+) across the verticals. The stagnation of PVC prices will result in increased demand and normalizing of the channel inventories. The demand from agriculture is improving which will turn beneficial for pipe business.

**Valuation-** The management hadn't recalibrated from its capex plans despite the challenging environment, signifying their strong conviction in long term growth structure of the business. The enhanced product portfolio along with added capacities will aid SIL in garnering additional market share in their prime business of plastic piping. Concurrently, government's efforts towards boosting affordable housing, focus on sanitation and providing piped water to all will act as key triggers for higher demand. At CMP the stock is trading at 26.6x & 23.6x its FY23E/FY24E EPS; we are valuing SIL on a SOTP basis to arrive at a target price of ₹2,240 (earlier ₹2,703) while maintaining BUY rating on the stock.

**Risks:** Sharp fall in PVC resin prices, slowdown in plumbing pipe demand, increase in RM prices.

## Results Summary 4QFY22

Y/E ( INR mn)	4QFY22	4QFY21	YoY Growth	3QFY22	QoQ Growth
<b>Revenue</b>	25,571	20,846	22.7%	19,451	31.5%
<b>EBITDA</b>	3,914	5,097	-23.2%	3,179	23.1%
<b>Depreciation</b>	588	548	7.3%	575	2.3%
<b>Other Income</b>	86	82	4.4%	29	192.5%
<b>PBT</b>	3,393	4,581	-25.9%	2,629	29.1%
<b>Tax</b>	851	781	8.9%	678	25.4%
<b>PAT</b>	2,543	3,800	-33.1%	1,951	30.3%
<b>Adjusted PAT</b>	3,239	4,504	-28.1%	2,457	31.8%
<b>EBITDA Margin</b>	15.3%	24.5%		16.3%	
<b>Tax Incidence</b>	25.1%	17.0%		25.8%	
<b>Adj PAT Margin</b>	12.7%	21.6%		12.6%	

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