2 November 2022

Supreme Industries

Stock losses drag on profitability, upbeat on off-take; retaining a Buy

Rating: **Buy**
Target Price: Rs.2,730
Share Price: Rs.2,287

Driven by volume growth, Supreme's Q2 revenue grew 8.2% y/y to Rs21bn (in line with ARe) even as blended realisations continued soft. Inventory losses led by a steep fall in raw material prices curbed profitability. The gross, EBITDA and PAT margins shrank respectively 830bps, 906bps and 793bps y/y to 23.2%, 7.1% and 3.9% (below ARe).

Greater off-take supports revenue growth. Volumes grew 8.9% y/y to 111,803 tonnes and helped revenue scale up as the blended realisation was soft, down 0.4% y/y to Rs185,084 a tonne. Volume growth was seen across categories except in consumer products while realisation improved across categories except in plastic piping (key segment; 62% of revenue).

Poor show continues in plastic piping. Revenue grew 2.2% y/y to Rs13bn driven by higher volumes sold, up 9.3% y/y, as realisation was 6.5% lower y/y to Rs163,432 a tonne. Inventory losses cut into profitability; the EBIT margin at 1.9% contracted 1,340bps y/y, 864bps q/q.

Focus to enhance VAP revenue and to remain cash-surplus. Revenue from value-added products (VAP) increased 5% y/y to Rs7.98bn. Revenue from VAP was 39% (35% the quarter prior and 40% a year back). Product launches would add to revenue from VAP. The cash surplus was Rs4.9bn, against Rs5.2bn at end-Q4 FY22 and Rs3.3bn at end-Q2 FY22.

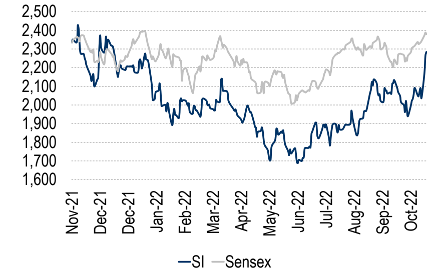
Outlook & Valuation. The encouraging demand outlook and margin tailwinds would boost the H2 FY23 performance. Management expects Rs90bn revenue and a 12-12.5% EBITDA margin for FY23. We introduce FY25 earnings and expect 12% and 9% revenue and earnings CAGRs respectively over FY22-25. We retain our Buy rating, and raise our target price to Rs.2,730 (from Rs.2,467) based on 27.5x (unchanged) FY25e earnings.

Key data	SI IN / SUPI.BO
52-week high / low	Rs.2500 / 1666
Sensex / Nifty	60906 / 18083
3-m average volume	$2.2m
Market cap	Rs.290bn / $3505m
Shares outstanding	127m

Shareholding pattern (%)	Sep'22	Jun'22	Mar'22
Promoters	48.9	48.9	48.9
- of which, Pledged	-	-	-
Free float	51.2	51.2	51.2
- Foreign institutions	16.3	15.8	16.2
- Domestic institutions	19.2	19.7	19.7
- Public	15.7	15.7	15.3

Estimates revision (%)	FY23e	FY24e
Sales	7.6	6.0
EBITDA	(11.3)	(2.5)
PAT	(17.9)	(8.9)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY21	FY22	FY23e	FY24e	FY25e
Sales (Rs m)	63,571	77,728	85,277	95,451	1,09,675
Net profit (Rs m)	9,782	9,684	7,880	10,383	12,615
EPS (Rs)	77.0	76.2	62.0	81.7	99.3
P/E (x)	29.7	30.0	36.9	28.0	23.0
EV / EBITDA (x)	22.0	23.0	25.8	19.9	16.1
P / BV (x)	9.2	7.6	6.8	5.8	5.0
RoE (%)	36.0	27.6	19.3	22.4	23.3
RoCE (%) after tax	27.5	21.0	15.5	18.4	19.5
Dividend yield (%)	1.0	1.0	1.1	1.2	1.4
Net debt / equity (x)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)

Source: Company, Anand Rathi Research

Rishab Bothra
Research Analyst

Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Net revenues	63,571	77,728	85,277	95,451	1,09,675
Growth (%)	15.3	22.3	9.7	11.9	14.9
Direct costs	40,385	53,532	59,360	65,324	74,716
SG&A	10,344	11,775	14,923	15,869	17,822
EBITDA	**12,843**	**12,421**	**10,993**	**14,258**	**17,137**
EBITDA margins (%)	20.2	16.0	12.9	14.9	15.6
- Depreciation	2,128	2,295	2,444	2,673	2,820
Other income	169	200	213	239	274
Interest expenses	221	52	21	12	7
PBT	10,663	10,274	8,741	11,812	14,584
Effective tax rate (%)	22.0	25.6	25.0	25.0	25.0
+ Associates / (Minorities)	1,460	2,044	1,324	1,524	1,676
Net income	9,782	9,684	7,880	10,383	12,615
Adjusted income	9,782	9,684	7,880	10,383	12,615
WANS	127.1	127.1	127.1	127.1	127.1
FDEPS (Rs / sh)	77.0	76.2	62.0	81.7	99.3
FDEPS growth (%)	109.3	-1.0	-18.6	31.8	21.5
Gross margins (%)	36.5	31.1	30.4	31.6	31.9

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
Share capital	254	254	254	254	254
Net worth	31,438	38,190	42,767	49,593	58,270
Debt	10	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	919	904	904	904	904
Capital employed	**32,621**	**39,348**	**43,925**	**50,751**	**59,428**
Net tangible assets	16,362	16,821	21,196	23,696	24,946
Net intangible assets	781	852	852	852	852
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	510	1,558	1,262	887	637
Investments (strategic)	3,312	4,702	4,702	4,702	4,702
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	2,668	3,492	4,159	4,871	5,836
Cash	7,684	5,264	7,053	6,460	14,191
Current liabilities	3,740	2,671	3,476	3,138	3,191
Working capital	5,045	9,330	8,177	12,422	11,456
Capital deployed	**32,621**	**39,348**	**43,925**	**50,751**	**59,428**
Contingent liabilities	788	684	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
EBIT (excl. other income)	**10,663**	**10,274**	**8,741**	**11,812**	**14,584**
+ Non-cash items	2,128	2,295	2,444	2,673	2,820
Oper. prof. before WC	**12,791**	**12,569**	**11,185**	**14,485**	**17,404**
- Incr. / (decr.) in WC	2,789	(6,128)	1,582	(4,930)	523
Others incl. taxes	(2,461)	(2,662)	(2,164)	(2,941)	(3,639)
Operating cash-flow	**13,119**	**3,779**	**10,603**	**6,614**	**14,288**
- Capex (tang. + intang.)	(2,774)	(3,873)	(6,523)	(4,798)	(3,820)
Free cash-flow	**10,344**	**(94)**	**4,080**	**1,816**	**10,469**
Acquisitions					
- Div.(incl. buyback & taxes)	(2,795)	(3,049)	(3,303)	(3,557)	(3,938)
+ Equity raised	-	-	-	-	-
+ Debt raised	(4,100)	(10)	-	-	-
- Fin investments	(1,292)	(1,390)	-	-	-
- Misc. (CFI + CFF)	3,212	2,123	1,012	1,148	1,200
Net cash-flow	**5,370**	**(2,420)**	**1,789**	**(592)**	**7,731**

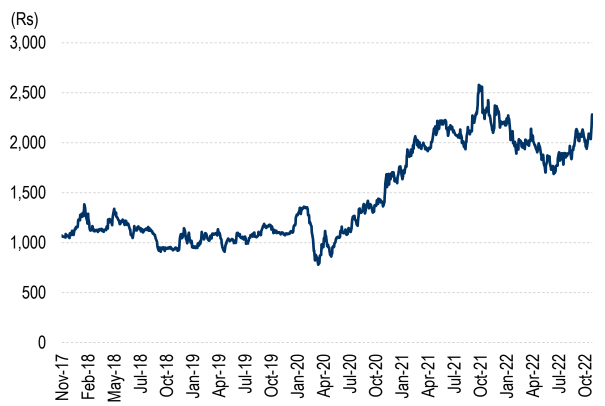
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY21	FY22	FY23e	FY24e	FY25e
P/E (x)	29.7	30.0	36.9	28.0	23.0
EV / EBITDA (x)	22.0	23.0	25.8	19.9	16.1
EV / Sales (x)	4.4	3.7	3.3	3.0	2.5
P/B (x)	9.2	7.6	6.8	5.8	5.0
RoE (%)	36.0	27.6	19.3	22.4	23.3
RoCE (%) - after tax	27.5	21.0	15.5	18.4	19.5
RoIC	36.6	29.5	20.9	24.2	26.7
DPS (Rs / sh)	22.0	24.0	26.0	28.0	31.0
Dividend yield (%)	1.0	1.0	1.1	1.2	1.4
Dividend payout (%) - incl. DDT	28.6	31.5	41.9	34.3	31.2
Net debt / equity (x)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Receivables (days)	22.4	21.9	22.5	22.5	22.5
Inventory (days)	43.7	59.2	50.0	62.5	53.1
Payables (days)	37.1	37.3	37.5	37.5	37.5
CFO : PAT %	134.1	39.0	134.6	63.7	113.3

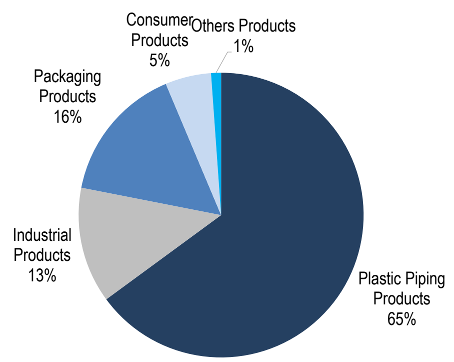
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – FY22 revenue break-up (consolidated)



Source: Company

Financial highlights

Fig 7 – Financials (consolidated)

(Rs m)	Q2 FY22	Q1 FY23	Q2 FY23	% Y/Y	% Q/Q	H1 FY22	H1 FY23	% Y/Y	FY21	FY22	% Y/Y
Revenue	**19,285**	**22,060**	**20,866**	*8.2*	*(5.4)*	**32,706**	**42,926**	***31.2***	**63,552**	**77,728**	***22.3***
Raw material costs	13,207	16,224	16,022	*21.3*	*(1.2)*	21,869	32,246	*47.4*	40,427	53,532	*32.4*
Employee costs	866	910	882	*1.9*	*(3.0)*	1,669	1,792	*7.4*	3,104	3,453	*11.3*
Other expenses	2,105	2,237	2,491	*18.4*	*11.3*	3,840	4,728	*23.1*	7,180	8,323	*15.9*
EBITDA	**3,108**	**2,689**	**1,471**	*(52.7)*	*(45.3)*	**5,328**	**4,160**	***(21.9)***	**12,842**	**12,421**	***(3.3)***
Other income	571	617	649	*13.5*	*5.1*	1,132	1,265	*11.7*	2,128	2,295	*7.9*
Depreciation	7	16	12	*76.5*	*(26.4)*	28	28	*0.7*	221	52	*(76.6)*
Finance costs	41	46	55	*35.0*	*21.3*	84	101	*19.7*	169	200	*18.1*
Share of profit from Associate	391	580	186	*(52.5)*	*(68.0)*	841	766	*(9.0)*	1,460	2,044	*40.0*
PBT	**2,962**	**2,682**	**1,052**	*(64.5)*	*(60.8)*	**5,093**	**3,733**	***(26.7)***	**12,122**	**12,318**	***1.6***
Tax	675	543	231	*(65.7)*	*(57.4)*	1,104	774	*(29.9)*	2,341	2,633	*12.5*
PAT	**2,287**	**2,139**	**820**	*(64.1)*	*(61.6)*	**3,989**	**2,959**	***(25.8)***	**9,781**	**9,684**	***(1.0)***
EPS (Rs)	18.0	16.8	6.5	*(64.1)*	*(61.6)*	31.4	23.3	*(25.8)*	77.0	76.2	*(1.0)*
As % of revenue				**bps y/y**	**bps q/q**			**bps y/y**			**bps y/y**
Raw material costs	68.5	73.5	76.8	*830*	*324*	66.9	75.1	*825*	63.6	68.9	*526*
Gross margins	**31.5**	**26.5**	**23.2**	*(830)*	*(324)*	**33.1**	**24.9**	***(825)***	**36.4**	**31.1**	***(526)***
Employee costs	4.5	4.1	4.2	*(26)*	*11*	5.1	4.2	*(93)*	4.9	4.4	*(44)*
Other expenses	10.9	10.1	11.9	*102*	*180*	11.7	11.0	*(73)*	11.3	10.7	*(59)*
EBITDA margins	**16.1**	**12.2**	**7.1**	*(906)*	*(514)*	**16.3**	**9.7**	***(660)***	**20.2**	**16.0**	***(423)***
Other income	3.0	2.8	3.1	*15*	*31*	3.5	2.9	*(51)*	3.3	3.0	*(40)*
Depreciation	0.0	0.1	0.1	*2*	*(2)*	0.1	0.1	*(2)*	0.3	0.1	*(28)*
Finance costs	0.2	0.2	0.3	*5*	*6*	0.3	0.2	*(2)*	0.3	0.3	*(1)*
PBT	**15.4**	**12.2**	**5.0**	*(1,032)*	*(712)*	**15.6**	**8.7**	***(688)***	**19.1**	**15.8**	***(323)***
Effective tax rates	26.2	25.8	26.7	*47*	*88*	26.0	26.1	*12*	22.0	25.6	*368*
PAT	**11.9**	**9.7**	**3.9**	*(793)*	*(576)*	**12.2**	**6.9**	***(530)***	**15.4**	**12.5**	***(293)***
Segment revenues (Rs m)				**% Y/Y**	**% Q/Q**			**% Y/Y**			**% Y/Y**
Plastic piping	12,673	14,633	12,947	*2.2*	*(11.5)*	20,983	27,581	*31.4*	40,988	50,460	*23.1*
Industrial products	2,530	3,023	3,349	*32.4*	*10.8*	4,519	6,371	*41.0*	7,611	10,237	*34.5*
Packaging products	2,773	3,263	3,278	*18.2*	*0.5*	5,214	6,542	*25.5*	10,351	12,101	*16.9*
Consumer products	1,112	958	1,119	*0.7*	*16.9*	1,596	2,077	*30.1*	3,542	4,051	*14.4*
Others	199	183	173	*(12.9)*	*(5.4)*	394	356	*(9.6)*	1,060	880	*(17.0)*
Total	**19,285**	**22,060**	**20,866**	***8.2***	***(5.4)***	**32,706**	**42,926**	***31.2***	**63,552**	**77,728**	***22.3***
EBIT (%)				**bps y/y**	**bps q/q**			**bps y/y**			**bps y/y**
Plastic piping	15.3	10.6	1.9	*(1,340)*	*(864)*	16.0	6.5	*(950)*	20.0	15.5	*(450)*
Industrial products	7.6	8.5	8.9	*131*	*46*	7.0	8.7	*174*	8.3	8.3	*(1)*
Packaging products	9.2	7.0	6.5	*(269)*	*(48)*	8.2	6.7	*(144)*	12.0	8.3	*(370)*
Consumer products	15.7	11.5	13.9	*(187)*	*237*	11.4	12.8	*142*	16.8	13.3	*(350)*
Others	10.8	-3.0	-18.5	*(2,932)*	*(1,554)*	4.0	-10.5	*(1,455)*	22.9	9.6	*(1,325)*
Blended EBIT margins (%)	**13.4**	**9.7**	**4.2**	***(917)***	***(544)***	**13.1**	**7.0**	***(610)***	**17.2**	**13.3**	***(392)***

Source: Company, Anand Rathi Research ** Note: Segment EBIT margins are as per reported figures, unadjusted for unallocable expenses / income*

Quantitative highlights

Fig 8 – Financials (consolidated)

(Rs m)	Q2 FY22	Q1 FY23	Q2 FY23	% Y/Y	% Q/Q	H1 FY22	H1 FY23	% Y/Y	FY21	FY22	% Y/Y
Value-added turnover	7,580	7,610	7,980	*5.3*	*4.9*	12,740	15,590	*22.4*	24,800	29,110	*17.4*
As % of sales	39.9	35.1	39.0	*(89)bps*	*390bps*	39.7	37.0	*(270)bps*	40.1	38.2	*(197)bps*
Volumes (tonnes)											
Plastic piping	72,480	79,424	79,220	*9.3*	*(0.3)*	1,20,591	1,58,644	*31.6*	2,94,357	2,74,295	*(6.8)*
Industrial products	12,390	12,901	14,766	*19.2*	*14.5*	21,902	27,667	*26.3*	41,451	48,030	*15.9*
Packaging products	12,905	12,866	13,297	*3.0*	*3.3*	24,437	26,163	*7.1*	54,833	54,163	*(1.2)*
Consumer products	4,898	3,731	4,520	*(7.7)*	*21.1*	7,007	8,251	*17.8*	18,468	17,420	*(5.7)*
Total	**1,02,673**	**1,08,922**	**1,11,803**	***8.9***	***2.6***	**1,73,937**	**2,20,725**	***26.9***	**4,09,109**	**3,93,908**	***(3.7)***
Realisations (Rs / tonne)											
Plastic piping	1,74,845	1,84,244	1,63,432	*(6.5)*	*(11.3)*	1,74,004	1,73,852	*(0.1)*	1,39,246	1,83,962	*32.1*
Industrial products	2,04,157	2,34,292	2,26,778	*11.1*	*(3.2)*	2,06,314	2,30,282	*11.6*	1,83,619	2,13,131	*16.1*
Packaging products	2,14,862	2,53,637	2,46,537	*14.7*	*(2.8)*	2,13,369	2,50,029	*17.2*	1,88,766	2,23,420	*18.4*
Consumer products	2,26,970	2,56,687	2,47,588	*9.1*	*(3.5)*	2,27,815	2,51,703	*10.5*	1,91,797	2,32,543	*21.2*
Blended realisation	**1,85,899**	**2,00,850**	**1,85,084**	***(0.4)***	***(7.8)***	**1,85,771**	**1,92,864**	***3.8***	**1,52,751**	**1,95,093**	***27.7***
EBIT / tonne											
Plastic piping	26,769	19,441	3,127	*(88.3)*	*(83.9)*	27,828	11,294	*(59.4)*	27,901	28,578	*2.4*
Industrial products	15,504	19,805	20,202	*30.3*	*2.0*	14,341	20,017	*39.6*	15,310	17,751	*15.9*
Packaging products	19,744	17,698	16,026	*(18.8)*	*(9.4)*	17,441	16,848	*(3.4)*	22,722	18,631	*(18.0)*
Consumer products	35,729	29,510	34,336	*(3.9)*	*16.4*	25,860	32,154	*24.3*	32,305	31,039	*(3.9)*
Blended EBIT / tonne	**24,954**	**19,623**	**8,178**	***(67.2)***	***(58.3)***	**24,591**	**13,826**	***(43.8)***	**26,130**	**25,999**	***(0.5)***

Source: Company, Anand Rathi Research

Q2 FY23 Results Highlights

- Revenue grew 8.2% y/y to Rs20.9bn, driven by volume growth across categories except in consumer products as realisations in the key category, i.e. plastic piping products, were soft.
- The gross margin fell 830bps y/y to 23.2% due to inventory losses (Rs2-2.5bn in H1 FY23, a significant part of which was in Q2, ~8-10% of Q2 revenues).
- Hurt by the lower gross margin and higher power & fuel and other operating expenses (up respectively 16% and 19% y/y), EBITDA was 52.7% lower y/y to Rs1.5bn, resulting in a 7.1% EBITDA margin, a 906bp contraction y/y.
- Soft revenue growth and weak operating performance along with a lower share of profit from associates (down 53% y/y) curtailed earnings. PAT was down a significantly 64.1% y/y to Rs820m.

Category details

- **Overall; volume growth steals the show as realisations cool.** The company's Q2 FY23 revenue grew 7.7% y/y to Rs20bn, led by more volumes sold, up 8.9% y/y, 2.6% q/q, to 111,803 tonnes, even as blended realisations were soft, 1.1% lower y/y, 8.1% q/q, to Rs183,090 a tonne.
- **VAP revenue broadly unchanged.** Turnover of value-added products (VAP) rose 5% y/y to Rs7.98bn. Its contribution to overall revenue was unchanged y/y at 39% (40% in a year ago and 35% the quarter prior).
- **Plastic piping revenue growth soft.** Revenue growth in the key contributing category, i.e. plastic piping products, was soft, up 2.2% y/y to Rs13bn. Such growth, however, in other categories such as industrial and packaging products was healthy, up respectively 32.4% and 18.2% to Rs3.3bn each. Consumer products revenue was muted, 0.7% y/y to Rs1.1bn.
- **Except in consumer products, volume growth across categories.** Volume growth in industrial products was strong, up 19.2% y/y to 14,766 tonnes, supported by plastic piping and packaging products up respectively 9.3% and 3% y/y to respectively 79,220 and 13,927 tonnes. Sentiment in consumer products was weak; hence, volumes were 7.7% lower y/y to 4,520 tonnes.
- **Realisations improve except in plastic piping products.** Industrial, packaging and consumer product realisations rose 11.1%, 14.7% and 9.1% y/y respectively to Rs227, Rs247 and Rs248 a kg. However in plastic piping products it was 6.5% lower y/y to Rs.163 a kg.
- **Except in industrial products, profitability in all categories hit.** Inventory losses impacted the plastic piping performance, its EBIT margin contracting a significant 1,340bps y/y to 1.9%. The packaging and consumer product EBIT margin contracted 269bps and 187bps y/y respectively to 6.5% and 13.9%. The industrial product EBIT margin, however, improved 131bps y/y to 8.9%.

Details, by category

- **Plastic pipes.** Considering the considerable fall in prices of PVC resins in H1 FY23, which made the finished goods more affordable, management expects 25% plastic pipe volume growth in FY23.
- **Cross-laminated film.** The company has introduced new products here and is expanding to newer regions. Hence, management expects 10% volume growth in this category, with greater profitability.
- **Furniture.** The H1 FY23 performance was healthy, with 17% volume growth. However, the steep fall in prices of the key raw material, i.e. polypropylene curbed off-take in Q2 FY23. Nevertheless, this rendered the product more affordable and management anticipates volumes picking up again in H2 FY23.
- **Composite LPG cylinders.** This product has been well accepted by clients and prospective, and order enquires are flowing in**.** Capacity constraints, however, restricted the company from taking up fresh orders. Doubling capacity is underway, expected to be commissioned by Dec'22.

Other details

- **Volatile input-price situation.** Raw material prices continue to slide. Prices of polymers particularly polypropylene (PP), low denier polyethylene (LDPE) and polyvinyl chloride (PVC) have fallen by between Rs31 and Rs55 a kg since the beginning of the year, i.e. a 21% to 38% reduction.

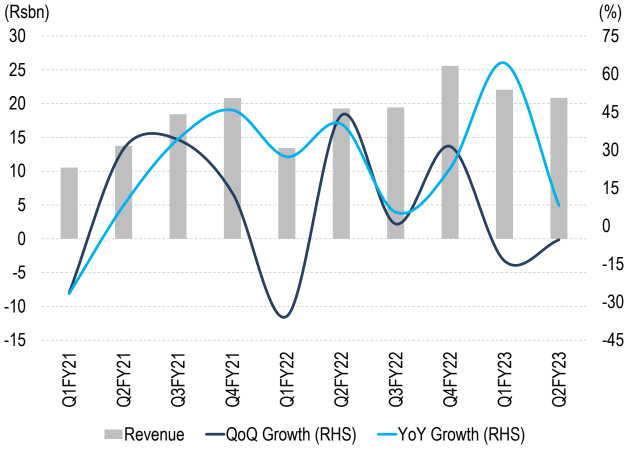
  The severest fall was of PVC resins, by Rs55 a kg, i.e. 38% in H1 FY23. The price of PVC in Oct'22 fell by Rs7; since Apr'22, it has fallen by Rs61.
- **Continues to be cash surplus**: The cash surplus was Rs4.9bn (Rs5.2bn at end-Q4 FY22 and Rs3.3bn at end-Q2 FY22).
- **PEX pipe project commissioned:** Successful trials at the PEX pipe plant at Jadcherla (Telangana) have been completed and the plant has gone into commercial production, w.e.f. 1st Aug'22. Price of PEX pipes are 70-80% higher than CPVC pipes.
- **Capacity expansion to continue.** FY23 capex is Rs7bn, including the carried forward commitment of Rs2.8bn. Capex already incurred in H1 FY23 was Rs2.4bn and Rs2.5bn is expected in H2 FY23. The company will be funding the entire capex through internal accruals.
- **Order intake.** The company has received a letter of intent (LoI) of Rs4.8bn from The Maharashtra Jeevan Pradhikaran (MJP) to supply HDPE pipes for water supply projects over 24-30 months under the Jal Jivan Mission (JJM).

Concall KTAs

- **Demand for agri pipes to bounce back.** In Q2 FY23 (July-Sep'22) pipe demand in agriculture came down; demand was more in housing and infrastructure. However, management believes that in H2 FY23 demand for pipes in agriculture would be strong, supported by abundant water in dams, affordable prices and a good harvest.
- **Polymer mix; PVC remains the key.** In plastic pipes, PVC pipes contributed ~80%, the remaining 20% coming from other polymers such as HDPE and LDPE and CPVC, among other.
- **Healthy growth in CPVC continues owing to low base.** CPVC volumes grew 21% q/q in Q2 FY23 and ~45% in H1 FY23. Prices of CPVC were steady, unlike in PVC where they fell steeply.
- **Demand for consumer products to scale up in H2 FY23.** Demand for furniture was weak in Q2 FY23; distributors were de-stocking considering softness in prices. However, this is expected to boost demand in H2 FY23.
- **Segment-wise capacity break-up at end-FY23.** Overall capacity would be 783,000 tonnes, split among plastic pipes (580,000 tonnes), industrial products (80,000), packaging products (90,000), consumer products (30,000) in the ratio of 74:11:11:4. Capacity of plastic pipes would rise by 80,000 tonnes in FY23 and the benefit of 30,000 tonnes would be available.
- Management said that, according to Reliance Industries, plastic pipes consumed in 2021 was 2.73m tonnes; in 2022, it is expected to be 3.26m tonnes, similar to the 2019 level. Hence, management expects the company to sell 340,000 tonnes vs. 299,000 tonnes of plastic pipe products in FY20, a ~13% increase.
- **FY23 guidance:** Management expects 20% overall volume growth, with 25% more plastic pipe volumes (340,000 tonnes off-take). It provided revenue/EBITDA margin guidance of Rs90bn/12-12.5%.

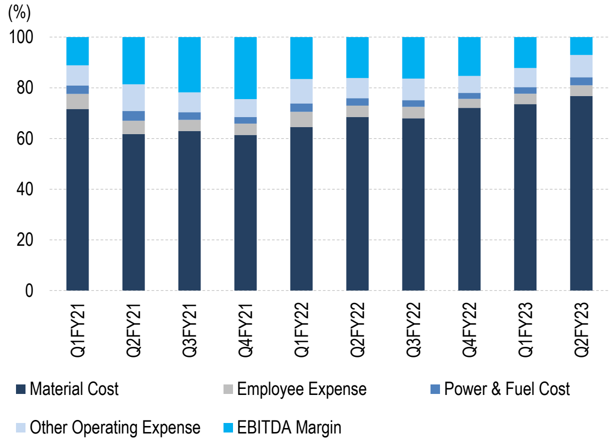
Story in charts

Fig 9 – Revenue and growth



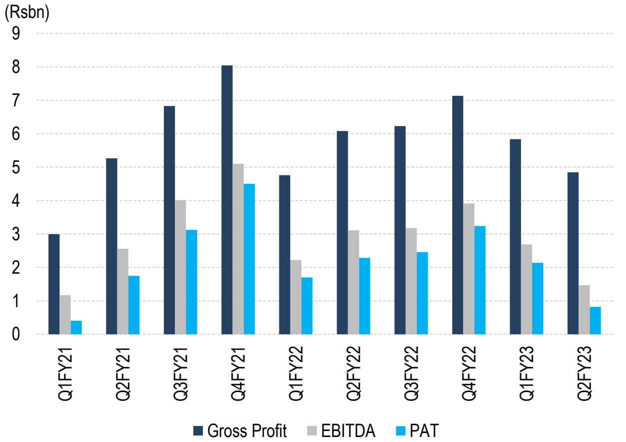
Source: Company, Anand Rathi Research

Fig 10 – Revenue split, expenses and EBITDA margin



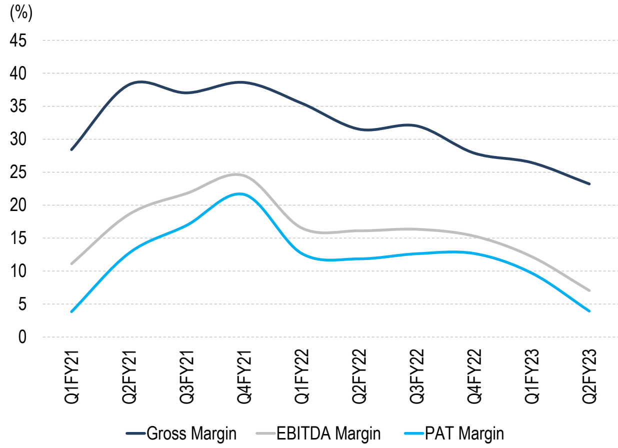
Source: Company, Anand Rathi Research

Fig 11 – Gross profit, EBITDA and PAT



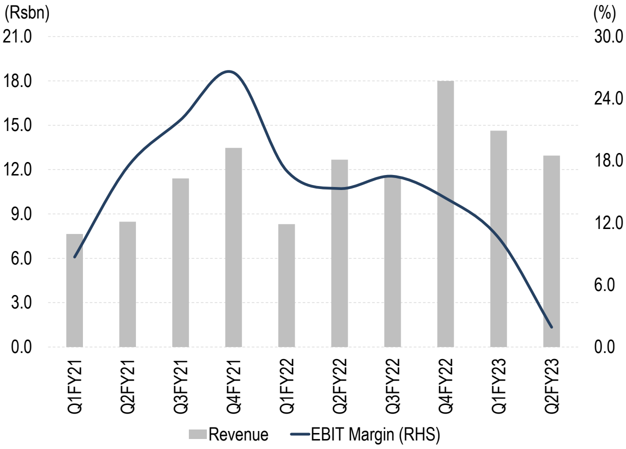
Source: Company, Anand Rathi Research

Fig 12 – Margin profile



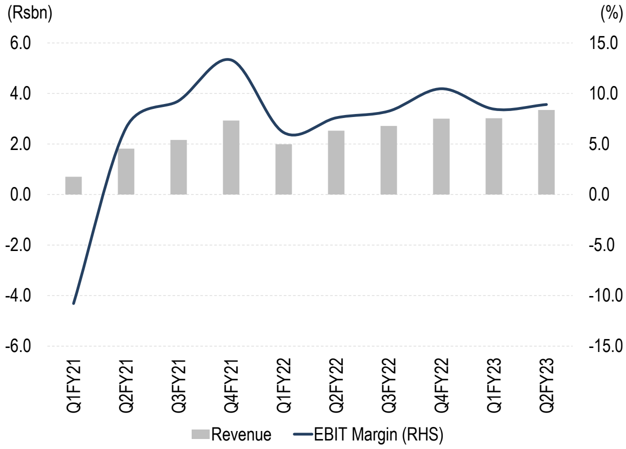
Source: Company, Anand Rathi Research

Fig 13 – Plastic piping products: revenue and EBIT margin



Source: Company, Anand Rathi Research

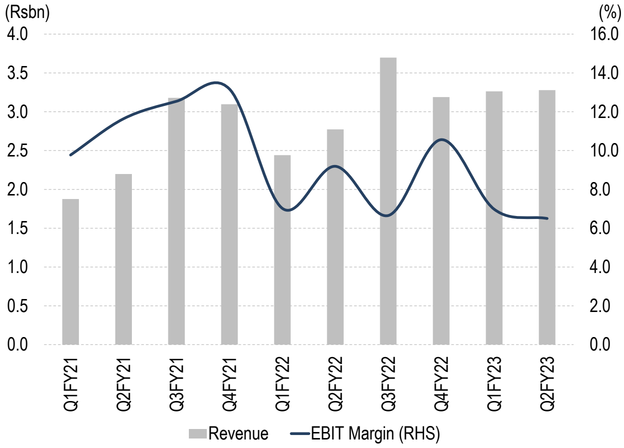
Fig 14 – Industrial products: revenue and EBIT margin



Source: Company, Anand Rathi Research

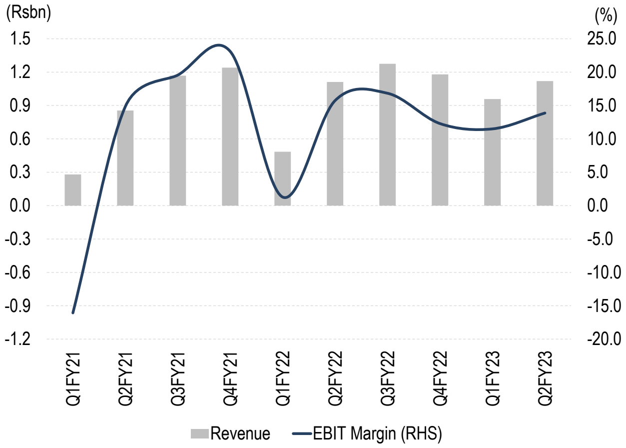
Story in Charts cont.

Fig 15 – Packaging products: revenue and EBIT margin



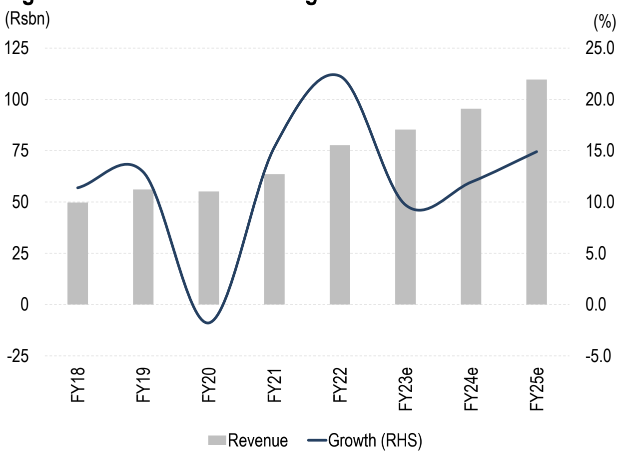
Source: Company, Anand Rathi Research

Fig 16 – Consumer products: revenue and EBIT margin



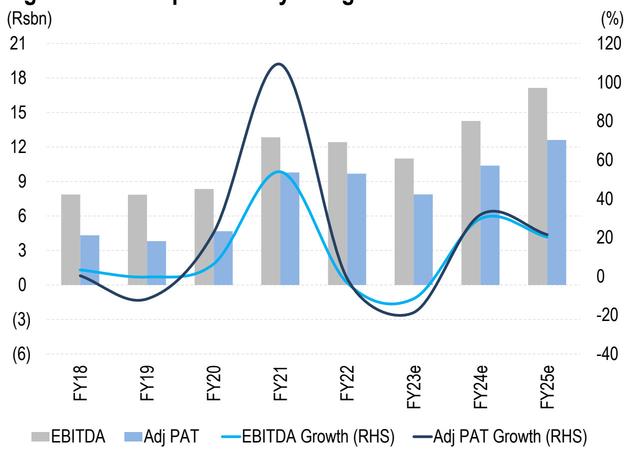
Source: Company, Anand Rathi Research

Fig 17 – Annual revenue and growth



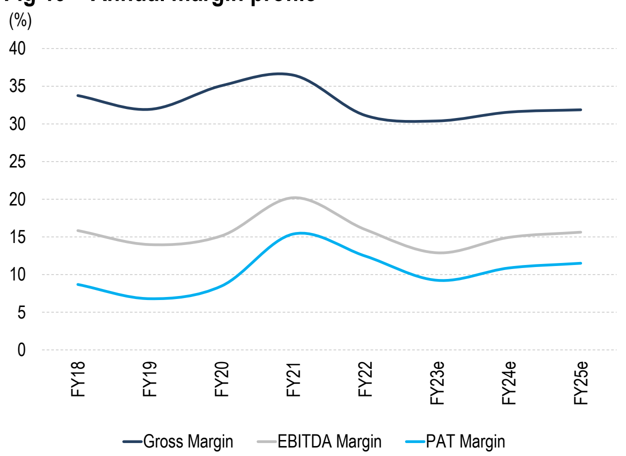
Source: Company, Anand Rathi Research

Fig 18 – Annual profitability and growth



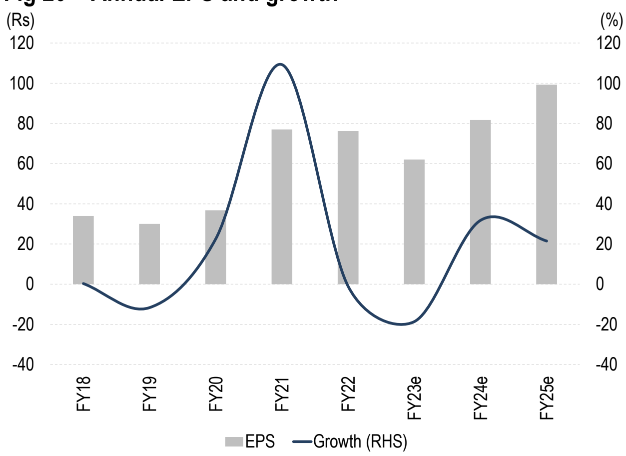
Source: Company, Anand Rathi Research

Fig 19 – Annual margin profile



Source: Company, Anand Rathi Research

Fig 20 – Annual EPS and growth



Source: Company, Anand Rathi Research

Valuation

We like Supreme for its leading position in plastic products. It is the largest plastic processor in India, selling ~0.4m tonnes of plastic products. It has 25 plants in India, with three more envisaged in the next six months.

Its key strengths are its strong brand equity and varied products, its leading position in key categories, extensive and strong distribution, regular capacity additions, focus on value-added products, efficient working-capital management, strong FCF generation, healthy return ratios and a sturdy balance sheet.

We believe that demand in most of its key verticals is encouraging, especially in plastic piping (owing to the steep reduction in prices). Expansion of capacities in various segments and introduction of products are expected to aid healthy revenue growth and increase revenue from value-added products. The key challenge, however, is to minimise input costs and increase overall profitability.

Revenue and earnings growth would be largely driven by more volumes and better realisations, while margins could improve though gradually (significant inventory loss in Q2 FY23). The low-yield cash surplus, however, may suppress return ratios, while healthy FCFs would continue.

Though profit from the Associate (Supreme Petrochem) has risen considerably in the last few years, the H1 FY23 performance, however, was not encouraging. Hence, we have reduced the profit contribution from associates accordingly. We have assumed Rs1,324m/1,524m/1,676m as profit from the associate in FY23/FY24/FY25, assigning a 25% holding-company discount, less than reflected in the table below.

Fig 21 – Details of share of profit from Associate

(Rs m)	FY19	FY20	FY21	FY22	FY23e	FY24e	FY25e
Supreme Petrochem PAT	490	1,020	4,749	6,492	5735*	6602*	7262*
Contribution to Supreme Industries	147	306	1,462	1,998	1,765	2,032	2,235
as % of Supreme Industries' PAT	*3.2*	*6.7*	*14.9*	*21.1*	*16.8*	*14.7*	*13.3*

Source: Anand Rathi Research

Note: Supreme Industries has a ~31% stake in Supreme Petrochem   ** internal assumption*

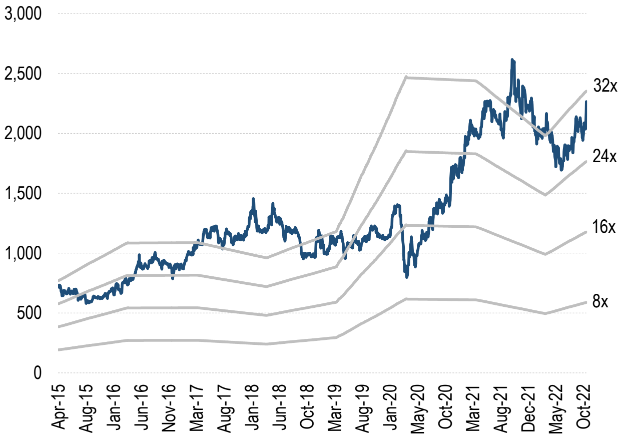
We have revised downward our FY23 and FY24 figures to factor in the healthy volume growth in plastic piping and the continuing margin pressures (from inventory losses) in H1 FY23. We also introduce FY25 earnings and expect 12% and 9% revenue and earnings CAGRs respectively over FY22-25. We maintain a Buy rating, and raise our target price to Rs2,730 (from Rs2,467) based on 27.5x (unchanged) FY24e earnings.

Fig 22 – Change in estimates

	Earlier			Revised			Change		
(Rs m)	FY23e	FY24e	FY25e	FY23e	FY24e	FY25e	FY23e	FY24e	FY24e
Revenue	79,281	90,008	-	85,277	95,451	109,675	*7.6*	*6.0*	*n/a*
EBITDA	12,388	14,626	-	10,993	14,258	17,137	*(11.3)*	*(2.5)*	*n/a*
EBITDA margin %	*15.6*	16.3	-	*12.9*	*14.9*	*15.6*	*(273)*	*(131)*	*n/a*
PAT	9,600	11,398	-	7,880	10,383	12,615	*(17.9)*	*(8.9)*	*n/a*
EPS (Rs)	75.6	89.7	-	62.0	81.7	99.3	*(17.9)*	*(8.9)*	*n/a*

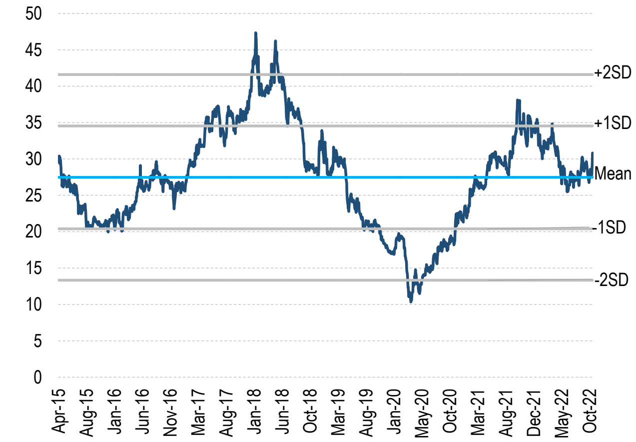
Source: Anand Rathi Research

Fig 23 – P/E band



Source: BSE, Anand Rathi Research

Fig 24 – Standard deviation



Source: BSE, Anand Rathi Research

Risks

- Less-than-expected growth in any of its business categories is a downward risk to our estimates.
- Adverse raw-material prices and keener competition may slash margins.

Appendix

Analyst Certification

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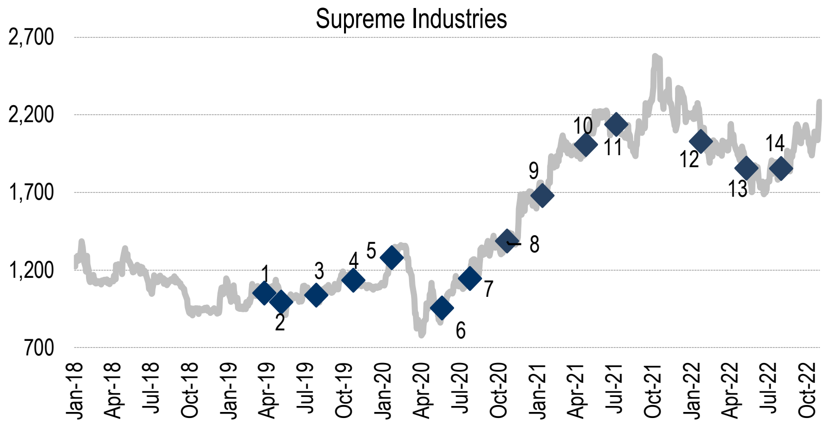

	Date	Rating	TP (Rs)	Share Price (Rs)
1	28-Mar-19	**Buy**	1,304	1,100
2	7-May-19	**Buy**	1,202	1,037
3	29-Jul-19	**Hold**	1,131	1,075
4	25-Oct-19	**Hold**	1,257	1,187
5	24-Jan-20	**Hold**	1,423	1,318
6	22-May-20	**Hold**	1,085	975
7	27-Jul-20	**Hold**	1,261	1,160
8	28-Oct-20	**Hold**	1,636	1,460
9	25-Jan-21	**Hold**	1,948	1,730
10	3-May-21	**Hold**	2,256	2,109
11	21-Jul-21	**Hold**	2,276	2,104
12	27-Jan-22	**Buy**	2,697	2,057
13	4-May-22	**Buy**	2,546	1,993
14	1-Aug-22	**Buy**	2,467	1,897

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