

Retail Equity Research Supreme Industries Ltd

Plastic Products

BSE CODE : 509930 NSE CODE: SUPREMEIND
BLOOMBERG CODE: SI:IN SENSEX : 60,836

Accumulate

12 Months Investment Period

Rating as per Mid Cap

CMP Rs.2,201 TARGET Rs.2,446 RETURN 11% ↑
(Closing: 03-11-22)

KEY CHANGES:

TARGET ↑

RATING ↓

EARNINGS ↓

Inventory loss hurts margins...positive outlook intact

Supreme Industries Ltd (SIL) is India's leading player in plastic products; the company's wide range of offering includes Plastic Piping system, Packaging, Industrial and Consumer products.

- Revenue grew by 8% YoY in Q2FY23, but PAT declined by 64% YoY, was below our expectations due to high cost inventory.
- EBITDA declined by 54% YoY, while EBITDA margins was down 910bps YoY at 7.1%.
- We believe that the worst impact on margins is behind us and that margins will gradually improve from hereon.
- Overall demand environment is anticipated to improve driven by low input costs, channel restocking, and demand from construction & agri. sectors.
- Management upgraded its overall volume growth guidance to 20% from 15% earlier.
- We believe that the worst earnings downgrade is behind us. We roll forward to FY25E and value SIL at P/E of 26x, with a target price of Rs2,446 and downgrade to Accumulate from BUY.

Volumes healthy...

SIL's Q2FY23 revenue grew by 8.9% YoY, led by Industrial and Packaging which grew by 32% & 18% YoY. While plastic piping segment grew by a modest 2% and Consumer division reported flat growth. Plastic piping business was worst affected, as its realization declined by 7% YoY on account of sharp fall in PVC prices. On a positive note, plastic pipe volume grew by healthy 9% YoY. Given sharp drop in prices, affordability has significantly improved, which is expected to drive growth. Industrial business volumes grew by 15% YoY led by improved demand for consumer durables. Packaging business was benefitted by market share gains, an improved portfolio and entry into exports markets. Capex planned for the FY23 will amount to Rs700cr. Olefins fitting & PEX Piping were introduced by the company. Given steep decline in input prices, affordability has greatly increased and management has upgraded its volume guidance to 20% from 15% for FY23. We expect overall volume to grow by 18% and expect revenue to revenue to grow by 12% for FY23-25E.

Inventory losses hurt margins...

SIL's Q2FY22 gross margins declined by 830bps YoY to 23.2% due to sharp fall in raw material prices that led to inventory loss. EBITDA declined by 53% YoY, impacted by higher other expenses. EBITDA margin for Q2FY23 was down by 910bps YoY to 7.1%. Consequently, PAT declined by 64% YoY to Rs.82cr. We believe that the worst impact on margins are behind us and anticipate steady margin improvement moving forward, driven by higher volumes and stable raw material prices. Due to short term impact on margins, we lower our EBITDA margin estimates by 410 bps & 195 bps, for FY23E & FY24E. Hence, our EPS estimates for FY23E and FY24E have been reduced by 28% and 13%, respectively.

Valuations

Going ahead, we expect volume growth to pick-up, led by improvement in agri & construction sector demand and softness in raw material prices. We roll forward to FY25E and value SIL at P/E of 26x and downgrade to Accumulate from BUY rating with a target price of Rs. 2,446.

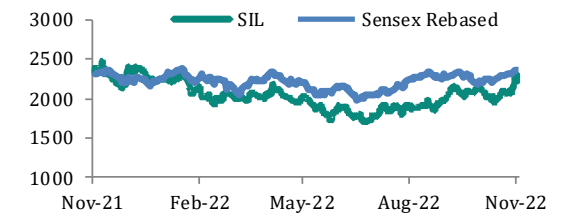
Company Data

Market Cap (cr)	Rs.27,962
Enterprise Value (cr)	Rs.27,481
Outstanding Shares (cr)	12.7
Free Float	51.2%
Dividend Yield	1.1%
52 week high	Rs.2,500
52 week low	Rs.1,669
6m average volume (cr)	0.01
Beta	0.7
Face value	Rs.2

Shareholding (%)	Q4FY22	Q1FY23	Q2FY23
Promoters	48.9	48.9	48.9
FII's	16.2	15.8	16.2
MFs/Institutions	19.7	19.7	19.7
Public	13.1	13.1	13.1
Others	2.2	2.4	2.2
Total	100.0	100.0	100.0
Promoter Pledge	0.0	0.0	0.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	17.7%	14.3%	-6.7%
Absolute Sensex	4.2%	11.7%	1.8%
Relative Return*	13.5%	2.6%	-8.5%

*over or under performance to benchmark index



Standalone (cr)	FY23E	FY24E	FY25E
Sales	8,511	9,663	10,708
Growth (%)	9.5	13.5	10.8
EBITDA	1,043	1,406	1,660
EBITDA Margin (%)	12.3	14.6	15.5
PAT Adjusted	765	1,010	1,195
Growth (%)	(21.0)	32.0	18.3
Adjusted EPS	60.2	79.5	94.1
Growth (%)	(21.0)	32.0	18.3
P/E	36.5	27.7	23.4
P/B	6.1	5.1	4.2
EV/EBITDA	26.4	19.7	16.5
ROE (%)	18.2	20.0	19.6
D/E	0.0	0.0	0.0

ANIL R
Research Analyst

Quarterly Financials

Profit & Loss

Rs (cr)	Q2FY23	Q2FY22	YoY Growth (%)	H1FY23	H1FY22	YoY Growth (%)
Sales	2,087	1,929	8.2	4,293	3,271	31.2
EBITDA	147	311	(53.0)	416	533	(22.0)
EBITDA margins	7.1	16.1	(910bps)	9.7	16.3	(660 bps)
Depreciation	65	57	13.5	127	113	12.0
EBIT	82	254	(67.6)	290	420	(31.0)
Interest	1	1	-	3	3	-
Other Income	6	4	35.0	10	8	20.0
Exceptional Items	-	-	-	-	-	-
PBT	87	257	(66.3)	297	425	(30.2)
Tax	23	67	(65.7)	77	110	(30.0)
Share of profit from Associate	19	39	(52.5)	77	84	(9.0)
Other comprehensive income	-	-	-	-	-	-
Reported PAT	82	229	(64.1)	296	399	(26.0)
Adjustments	-	-	-	-	-	-
Adj PAT	82	229	(64.1)	296	399	(26.0)
No. of Shares	12.7	12.7	-	12.7	12.7	-
EPS (Rs)	6.5	18.0	(64.1)	23.3	31.4	(26.0)

Change in Estimates

Year / Rs cr	Old estimates		New estimates			Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY25E	FY23E	FY24E
Revenue	8,491	9,528	8,511	9,663	10,708	0.2	1.4
EBITDA	1,393	1,572	1,043	1,406	1,660	(25.2)	(11.0)
Margins (%)	16.4	16.5	12.3	14.6	15.5	(410bps)	(195bps)
Adj. PAT	1,060	1,164	765	1,010	1,195	(28.0)	(13.3)
EPS	83.4	91.6	60.2	79.5	94.1	(28.0)	(13.3)

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs.cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Revenue	6,355	7,773	8,511	9,663	10,708
% change	15.3	22.3	9.5	13.5	10.8
EBITDA	1,284	1,242	1,043	1,406	1,660
% change	53.9	(3.3)	(16.1)	34.9	18.0
Depreciation	213	230	261	311	360
EBIT	1,071	1,013	781	1,095	1,300
Interest	22	5	6	6	4
Other Income	17	20	32	43	57
PBT	1,066	1,027	807	1,133	1,353
% change	74.8	(3.6)	(21.5)	40.4	19.5
Tax	234	263	202	283	338
Tax Rate (%)	22.0%	25.6%	25.0%	25.0%	25.0%
Reported PAT	978	968	765	1,010	1,195
Adj*	-	-	-	-	-
Adj PAT	978	968	765	1,010	1,195
% change	109.3	(1.0)	(21.0)	31.9	18.3
No. of shares (cr)	12.7	12.7	12.7	12.7	12.7
Adj EPS (Rs.)	77.0	76.2	60.2	79.5	94.1
% change	109.3	(1.0)	(21.0)	31.9	18.3
DPS (Rs.)	5.0	3.8	3.8	3.8	3.8
CEPS (Rs.)	93.8	94.3	80.8	103.9	122.4

CASH FLOW

Y.E March (Rs.cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Net inc. + Depn.	1,191	1,198	1,026	1,320	1,555
Non-cash adj.	(142)	(250)	6	6	4
Changes in W.C	196	(494)	(190)	(341)	(152)
C.F. Operation	1,246	470	842	985	1,407
Capital exp.	(221)	(466)	(575)	(850)	(710)
Change in inv.	8	14	(250)	(280)	(280)
Other invest.CF	12	49	-	-	-
C.F - Investment	(201)	(403)	(825)	(1,130)	(990)
Issue of equity	-	-	-	-	-
Issue/repay debt	(410)	(1)	(5)	(10)	(10)
Dividends paid	(64)	(292)	(48)	(48)	(48)
Other finance.CF	(32)	(17)	(6)	(6)	(4)
C.F - Finance	(506)	(310)	(59)	(64)	(62)
Chg. in cash	540	(243)	(42)	(209)	355
Closing cash	762	519	477	268	623

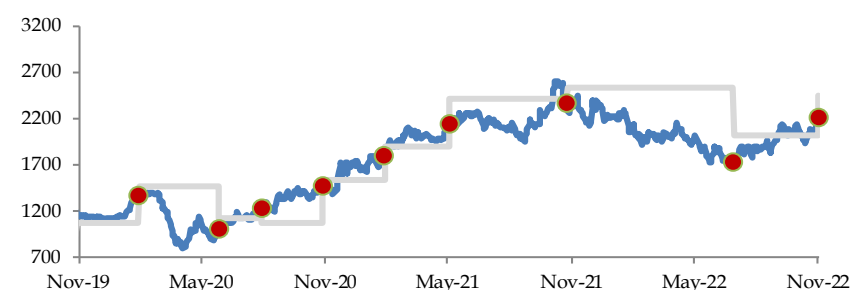
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	762	519	477	268	623
Accounts Receivable	390	467	490	556	616
Inventories	761	1,260	1,349	1,549	1,631
Other Cur. Assets	268	351	443	596	689
Investments	337	476	726	1,006	1,286
Gross Fixed Assets	3,338	3,606	4,306	5,106	5,806
Net Fixed Assets	1,703	1,761	2,200	2,689	3,029
CWIP	51	155	30	80	90
Intangible Assets	11	8	8	8	8
Def. Tax (Net)	(92)	(90)	(90)	(90)	(90)
Other Assets	-	-	-	-	-
Total Assets	4,190	4,905	5,631	6,661	7,881
Current Liabilities	646	794	743	732	740
Provisions	30	32	58	69	76
Debt Funds	31	38	33	23	13
Other Liabilities	314	197	235	314	381
Equity Capital	25	25	25	25	25
Reserves & Surplus	3,144	3,819	4,536	5,498	6,645
Shareholder's Fund	3,169	3,844	4,562	5,524	6,671
Total Liabilities	4,190	4,905	5,631	6,661	7,881
BVPS (Rs.)	249	303	359	435	525

RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	20.2	16.0	12.3	14.6	15.5
EBIT margin (%)	16.9	13.0	9.2	11.3	12.1
Net profit mgn.(%)	15.4	12.5	9.0	10.4	11.2
ROE (%)	36.0	27.6	18.2	20.0	19.6
ROCE (%)	33.7	27.5	18.2	20.0	19.6
W.C & Liquidity					
Receivables (days)	20.2	20.1	20.5	19.7	20.0
Inventory (days)	47.4	47.4	55.9	54.7	54.2
Payables (days)	53.9	49.1	45.6	39.5	36.1
Current ratio (x)	3.2	3.1	3.4	3.7	4.4
Quick ratio (x)	1.6	1.1	0.7	0.8	0.8
Turnover & Leverage					
Gross asset T.O (x)	2.0	2.2	2.2	2.1	2.0
Total asset T.O (x)	1.7	1.7	1.6	1.6	1.5
Int. coverage ratio (x)	48.6	196.6	122.3	186.3	343.8
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	4.3	3.5	3.2	2.9	2.6
EV/EBITDA (x)	21.2	22.1	26.4	19.7	16.5
P/E (x)	28.6	28.9	36.5	27.7	23.4
P/BV (x)	8.8	7.3	6.1	5.1	4.2

Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
06-November-18	Accumulate	1,108
29-January-19	Hold	1,018
08-May-19	Reduce	936
29-October-19	Reduce	1,082
29-January-20	Hold	1,476
27-May-20	Accumulate	1,126
29-July-20	Sell	1,073
29-October-20	Hold	1,537
28-January-21	Hold	1,893
04-May-21	Accumulate	2,424
26-October-21	Hold	2,536
30-June-22	Buy	2,015
04-November-22	Accumulate	2,446

Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10%-15%	Upside is between 10%-20%
Hold	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated/Neutral			

Definition:

Buy: Acquire at Current Market Price (CMP), with the target mentioned in the research note.

Accumulate: Partial buying or to accumulate as CMP dips in the future.

Hold: Hold the stock with the expected target mentioned in the note.

Reduce: Reduce your exposure to the stock due to limited upside.

Sell: Exit from the stock.

Not rated: The analyst has no investment opinion on the stock.

Not rated/Neutral: The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Not rated/Neutral- The analyst has no investment opinion on the stock under review

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