



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	■	↔	■

ESG Disclosure Score **NEW**

ESG RISK RATING	Score			
Updated Mar 08, 2023	22.79			
Medium Risk				
NEGL	LOW	MED	HIGH	SEVERE
0-10	10-20	20-30	30-40	40+

Source: Morningstar

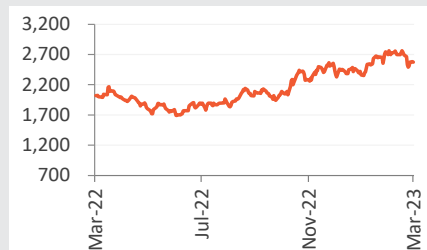
Company details

Market cap:	Rs. 32,699 cr
52-week high/low:	Rs. 2,816/1,669
NSE volume: (No of shares)	4.3 lakh
BSE code:	509930
NSE code:	SUPREMEIND
Free float: (No of shares)	6.5 cr

Shareholding (%)

FII	17
Institutions	19
Public & others	15
Promoters	49

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-5.6	8.9	24.2	27.4
Relative to Sensex	-2.8	13.4	26.0	27.2

Sharekhan Research, Bloomberg

Supreme Industries Ltd

Growth to ride on favourable pricing, healthy demand

Building Materials

Sharekhan code: SUPREMEIND

Reco/View: Buy



CMP: Rs. 2,574

Price Target: Rs. 3,000



Upgrade



Maintain



Downgrade

Summary

- We retain a Buy on Supreme Industries Limited (SIL) with a revised PT of Rs. 3,000, assigning a higher valuation multiple to factor in favourable pricing and demand.
- Prices of PVC have risen by 9% q-o-q in Q4FY2023 (till date) after seeing successive sequential declines over the past four quarters. We expect rangebound PVC prices to aid normalised OPMs of 15-16% in FY2024-FY2025E.
- PVC pipe players are expected to see healthy volume growth in FY2024 post a decadal high growth expected in FY2023. Government spending and positive residential housing demand would drive demand growth for piping.
- Commercial production at the Odisha unit started in mid-February. Greenfield and brownfield capacity additions undertaken in FY2023 and FY2024 would ascertain higher than industry growth rate for SIL.

Supreme Industries Limited (SIL) is expected to benefit from uptick in PVC prices in Q4FY2023, which is likely to lead to sequential improvement in OPMs. Average PVC prices in Q4FY2023 (till date) are up 9.2% q-o-q (up Rs. 7.9/kg) after witnessing successive declines over the past four quarters. Further, demand is expected to remain healthy during FY2024 aided by increased allocations towards PMAY, Jal Jeevan Mission and Smart Cities and a positive demand outlook for residential housing. As per CRISIL, PVC pipe manufacturers are expected to see a 13-15% y-o-y volume growth for FY2024 post a decadal high volume growth of 22-24% y-o-y in FY2023. Supreme Industries expects plastic piping volume growth of 35% plus y-o-y for FY2023, while overall volume growth is estimated at 25% y-o-y. For FY2024, it expects overall volumes to grow by 15% y-o-y. It has also started commercial production of 16,800 MT Odisha unit in mid-February. Its greenfield capacity additions in FY2023 along with brownfield expansions at existing units are likely to aid in higher than industry growth rate for the company.

- PVC prices inch up q-o-q in Q4FY2023:** PVC prices grew sequentially during Q4FY2023 till date after witnessing successive declines over trailing four quarters prior to that. Average PVC prices during Q4FY2023 till date were up 9.2% q-o-q (up Rs. 7.9/kg) at Rs. 93.5/kg. The same is after considering the latest price cut in PVC prices by Rs. 3/kg w.e.f. March 15, 2023. The uptick in PVC prices since December 2022 is expected to lead to possible inventory gain during Q4FY2023 and better OPMs sequentially. We expect PVC prices to remain rangebound, which should help the company in reverting back to normalized OPMs of 15-16% during FY2024-FY2025E.
- Healthy demand growth for FY2024 despite high base:** As per CRISIL, PVC pipe players are expected to see 13-15% y-o-y volume growth in FY2024 post a decadal-high volume growth of 22-24% y-o-y in FY2023. In the recently announced budget, for FY2024, the government has increased allocation towards Pradhan Mantri Awas Yojana by 66%, allocation towards Jal Jeevan Mission by 16.7% and Smart Cities Mission by 17.6%. Further, despite the rise in domestic home loan rates, the demand for residential housing segment remained resilient, while outlook for the same remains positive. Supreme Industries expects plastic piping volume growth of 35% plus y-o-y for FY2023, while overall volume growth is estimated at 25% y-o-y. For FY2024, it expects overall volume growth of 15% y-o-y.
- Capacity expansions remain on track:** The company announced commercial production of its 28th unit set up at Cuttack, Odisha on February 17, 2023. Its initial capacity is 16,800 MT per annum with a capex of about Rs. 90 crores. It would be scaled to 43,200 MT p.a. by Q1FY2024 taking the total capex at unit to about Rs. 125 crore. With the Cuttack unit into operation and other greenfield units (Guwahati & Erode) already operational along with other brownfield expansions at other existing locations, installed capacity of Plastic Piping Systems products shall reach to 6,15,000 MTPA by March 2023. The commissioning of additional capacities are likely to aid in over 35% y-o-y volume growth for Plastic Piping systems for FY2023.

Our Call

Valuation – Maintain Buy with a revised PT of Rs. 3,000: SIL is expected to benefit from sustained housing and infrastructure offtake besides a strong demand outlook from the agri segment. Rangebound polymer prices are expected to lead to healthy volume growth for the company going ahead. Additionally, lesser volatility in PVC prices is expected to help OPM normalise to 15-16% by FY2024. The company's aggressive expansion plans, funded entirely through internal accruals, are expected to keep its balance sheet strong. Healthy demand outlook and incremental capacity additions, is likely to provide 28% CAGR in net earnings over FY2023E-FY2025E. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 3,000, assigning higher valuation multiple to factor in favourable pricing and demand.

Key Risks

Demand slowdown could affect revenue growth. Adverse commodity price fluctuations might impact margins.

Valuation (Consolidated)

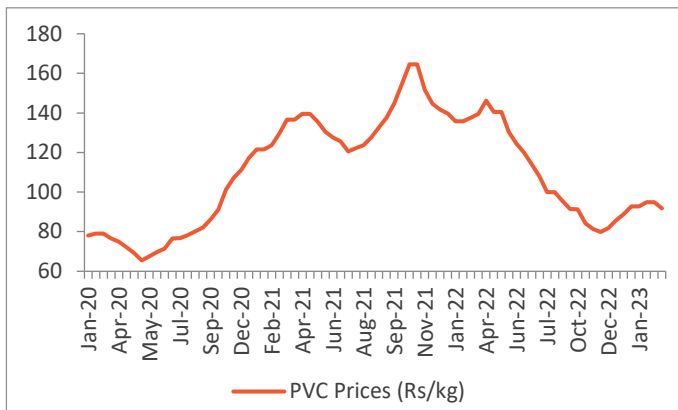
Particulars	FY22	FY23E	FY24E	FY25E
Revenue	7,773	9,118	10,186	11,320
OPM (%)	16.0	12.5	15.1	15.6
Adjusted PAT	968	839	1,184	1,374
% YoY growth	(1.0)	(13.3)	41.1	16.0
Adjusted EPS (Rs.)	76.3	66.1	93.3	108.2
P/E (x)	33.8	38.9	27.6	23.8
P/B (x)	8.5	7.4	6.3	5.4
EV/EBITDA (x)	25.5	27.4	20.0	17.4
RoNW (%)	25.2	19.1	23.0	22.7
RoCE (%)	25.3	19.1	23.2	23.1

Source: Company; Sharekhan estimates

PVC Prices rise 9% q-o-q during Q4FY23

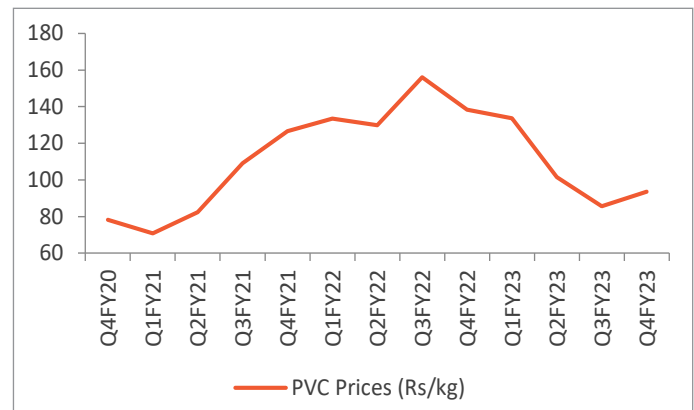
PVC prices have grown sequential improvement during Q4FY2023 till date after witnessing successive declines over trailing four quarters prior to that. The average PVC prices during Q4FY2023 till date were up 9.2% q-o-q (up Rs. 7.9/kg) at Rs. 93.5/kg. The same is after considering the latest price cut in PVC prices by Rs. 3/kg w.e.f. March 15, 2023. The PVC prices after rising by 49% y-o-y during FY2022 have witnessed correction of 25.5% y-o-y in FY2023. The decline in PVC prices during 9MFY2023 had led to lower OPM of 10.9% compared to 16% in FY2022 owing to substantial inventory losses. However, uptick in PVC prices since December 2022 is expected to lead to possible inventory gain during Q4FY2023 and better OPMs sequentially. We expect PVC prices to remain range bound which should aid the company in reverting back to normalised OPMs of 15-16% during FY2024-FY2025E.

PVC Price monthly trend



Source: Industry; Sharekhan Research

PVC Price quarterly trend



Source: Industry; Sharekhan Research

Demand momentum to remain healthy in FY2024

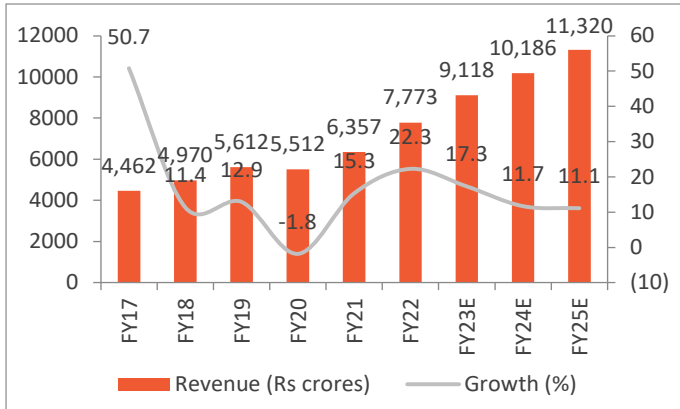
The plastic piping industry is expected to see healthy demand environment in FY2024 despite a strong jump in demand seen in FY2023. As per CRISIL, PVC pipe players are expected to see 13-15% y-o-y volume growth in FY2024 post a decadal high volume growth of 22-24% y-o-y in FY2023. In Union Budget 2023-24, for FY2024, the government has increased allocation towards Pradhan Mantri Awas Yojana by 66% (vs FY23BE) to Rs. 79,590 crore, allocation towards Jal Jeevan Mission by 16.7% (vs FY23BE) to Rs. 70,000 crore and Smart Cities by 17.6% (vs FY23BE) to Rs. 8000 crore. Further, despite a rise in domestic home loan rates, the demand for residential housing segment remained resilient while the outlook for the same remains positive. Hence, overall, plastic piping players are expected to see healthy demand environment during FY2024 despite a strong volume growth in FY2023. Supreme Industries expects plastic piping volume growth of 35% plus y-o-y for FY2023, while overall volume growth is estimated at 25% y-o-y. For FY2024, it expects overall volume growth of 15% y-o-y.

Odisha unit commence commercial production

SIL announced commercial production of its 28th unit set up at Cuttack, Odisha on February 17, 2023. The initial capacity of the unit is 16,800 MT per annum with a capex of about Rs. 90 crore. It would be scaled to 43,200 MT p.a. by Q1FY2024 taking the total capex at unit to about Rs. 125 crores. With the Cuttack unit into operation and other greenfield units (Guwahati & Erode) already operational along with other brownfield expansions at other existing locations, installed capacity of plastic piping systems products shall reach to 6,15,000 MTPA by March 2023. The commissioning of additional capacities are likely to aid in over 35% y-o-y volume growth for plastic piping systems for FY2023.

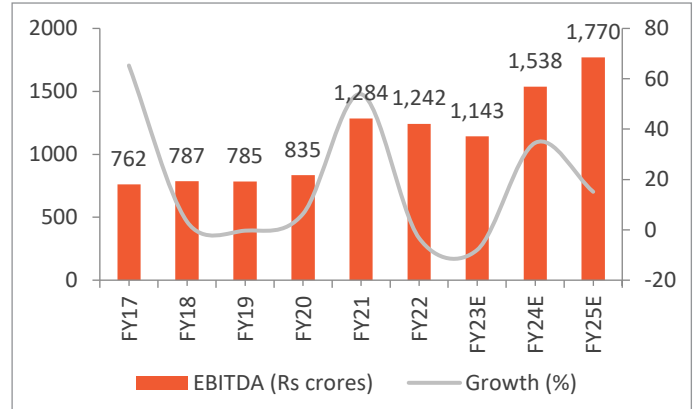
Financials in charts

Revenue trend



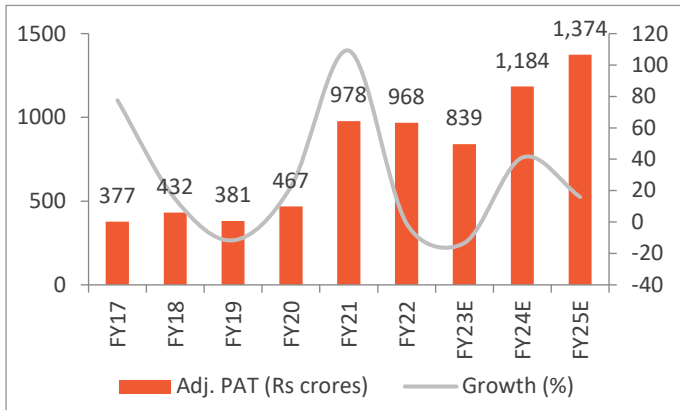
Source: Company, Sharekhan Research

EBITDA trend



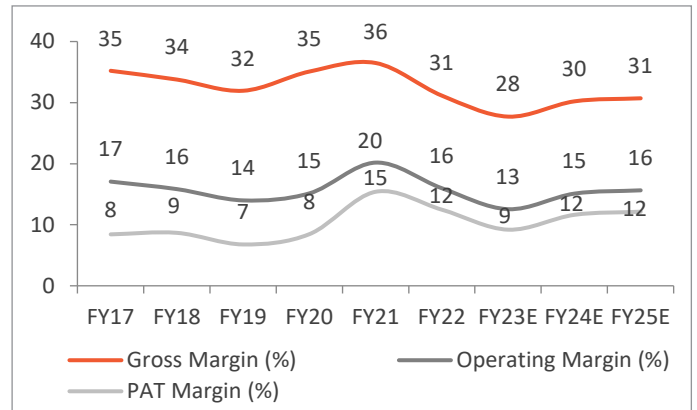
Source: Company, Sharekhan Research

Net Profit trend



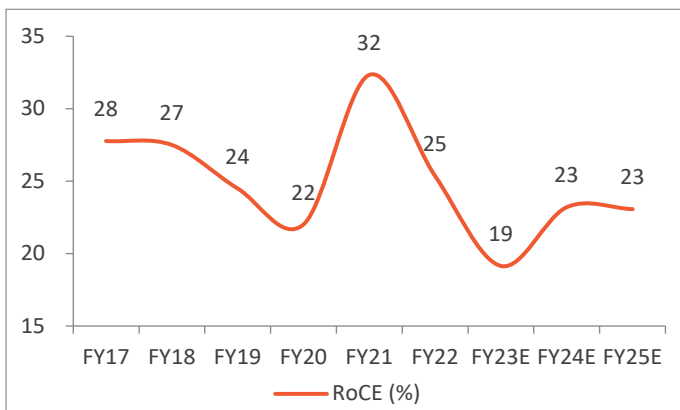
Source: Company, Sharekhan Research

Margins trend



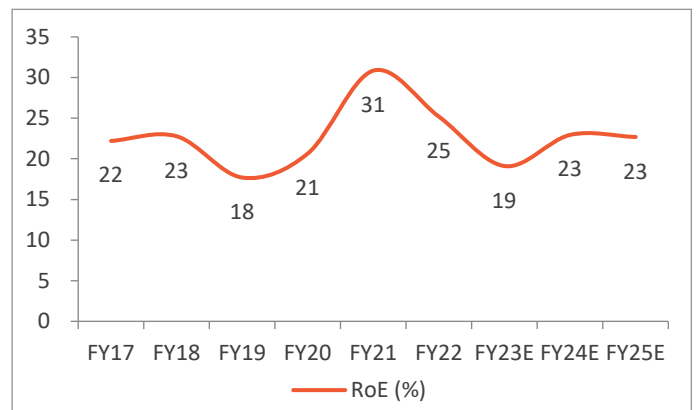
Source: Company, Sharekhan Research

ROCE trend



Source: Company, Sharekhan Research

ROE trend



Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Expect faster recovery in operations

The building materials industry was severely affected by the COVID-19-led lockdown during Q1FY2021, which affected its peak sales period. Additionally, a high fixed cost structure had affected OPM, dragging down its net earnings. However, from June, the sector has been one of the fastest to recover as the lockdown eased. The sector saw dealer and distribution networks resume and a sharp improvement in capacity utilisation. Most players have begun to see demand and revenue run-rate reaching 80-90% as compared to pre-COVID levels. Scaling up of revenues 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.

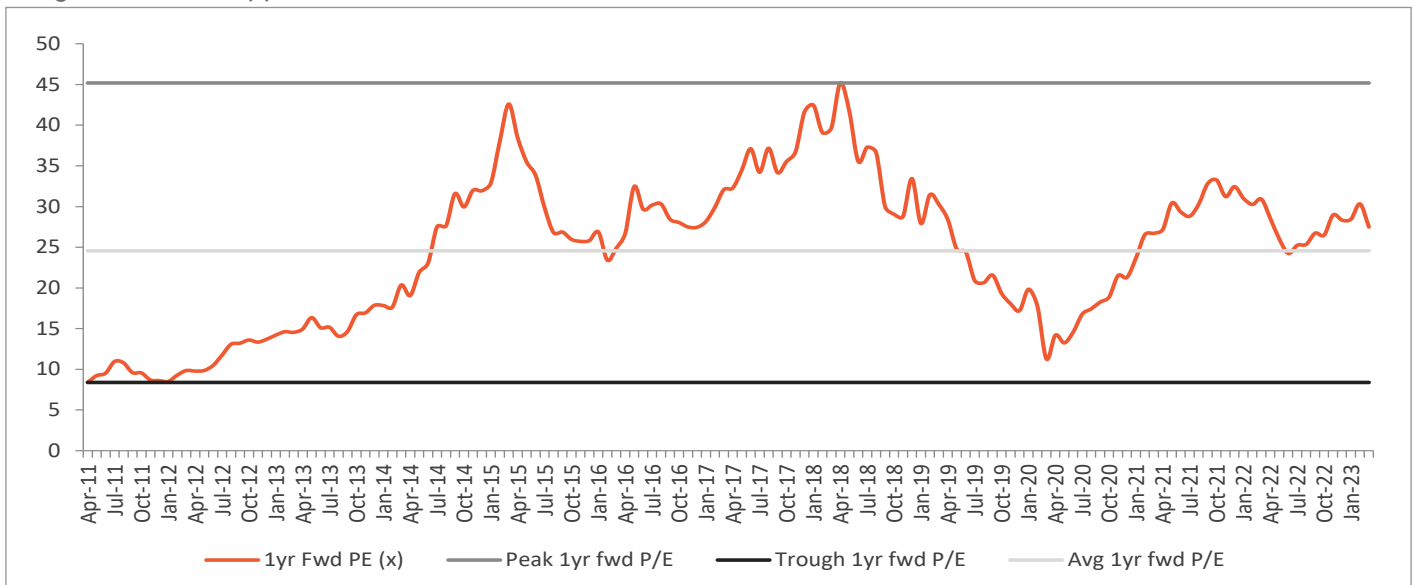
■ Company outlook - Eyeing healthy demand growth

SIL is witnessing a pick-up in demand from metros in the housing sector. Demand for all its products remains strong along with a healthy revival in the agriculture sector. The company has gained market share during FY2022 in both the PVC and CPVC segments and is expected to outperform in FY2023. SIL witnessed positive sales growth for July 2021 to date. The management remains optimistic about reporting minimum 35% y-o-y volume growth in plastic piping for FY2023. It expects OPM of over 12.5% plus owing to strong OPM during Q3FY2023. It is expecting healthy demand from the infrastructure and housing sectors along with demand emanating from 'Nal Se Jal' scheme going ahead. The company has a capital expenditure plan of Rs. 700 crore, which would be entirely funded through internal accruals.

■ Valuation - Maintain Buy with a revised PT of Rs. 3,000

SIL is expected to benefit from sustained housing and infrastructure offtake besides a strong demand outlook from the agri segment. Rangebound polymer prices are expected to lead to healthy volume growth for the company going ahead. Additionally, lesser volatility in PVC prices is expected to help OPM normalise to 15-16% by FY2024. The company's aggressive expansion plans, funded entirely through internal accruals, are expected to keep its balance sheet strong. Healthy demand outlook and incremental capacity additions, is likely to provide 28% CAGR in net earnings over FY2023E-FY2025E. We retain our Buy rating on the stock with a revised price target (PT) of Rs. 3,000, assigning higher valuation multiple to factor in favourable pricing and demand.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Supreme Industries	38.9	27.6	27.4	20.0	7.4	6.3	19.1	23.0
Astral	96.9	71.3	51.9	41.1	13.4	11.3	14.7	17.2

Source: Company; 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, an improved capital structure, and the Government's thrust on building better infrastructure.

Investment theme

SIL is on a firm footing, with a strong product portfolio and new product launches, 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 about introducing 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
ShivratanJeetmal 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

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jovial Investment & Trading Co Pvt	16.12
2	Boon Investment & Trading Co Pvt L	16.11
3	Venktesh Investment & Trading Co P	14.2
4	Nalanda India Fund Ltd	4.81
5	Kotak Mahindra Asset Management Co	4.77
6	DSP Investment Managers Pvt Ltd	3.72
7	HDFC Asset Management Co Ltd	2.22
8	Axis Asset Management Co Ltd/India	2.07
9	GOVERNMENT PENSION FUND - GLOBAL	1.79
10	Norges Bank	1.67

Source: Bloomberg

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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 deteriorating 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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