

## Retail Equity Research Supreme Industries Ltd

### Plastic Products

BSE CODE : 509930 NSE CODE: SUPREMEIND  
BLOOMBERG CODE: SI:IN SENSEX : 61,355

**Buy**

12 Months Investment Period Rating as per Mid Cap  
CMP Rs.2,747 TARGET Rs.3,223 RETURN 17% ↑  
(Closing: 02-05-23)

#### KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↑

#### Volumes drive growth...Q4 margins impressive

Supreme Industries Ltd. (SIL) is India's leading player in plastic products; the company's wide range of offerings include plastic piping systems, packaging, industrial and consumer products.

- Revenue grew by 2% YoY in Q4FY23, was above expectation led by 15% YoY increase in volumes.
- EBITDA grew by 23% YoY, whereas EBITDA margins improved by 320bps YoY to 18.5%, aided by scale benefits & volume growth.
- Stable demand from the housing & agriculture sector will continue to drive volume & revenue going ahead.
- Softness in PVC prices is expected to support gradual improvement in margins. We assume EBITDA margins to remain stable at 15% over FY23-FY25E.
- Considering a strong earnings outlook of 21% CAGR, we value SIL at P/E of 32x (3-year avg.) on FY25E, with a target price of Rs.3,223 and upgrade to Buy.

#### Volume remains healthy...

SIL's Q4FY23 revenue growth was above expectation led by higher volumes. Revenue grew by 2% YoY, & 12.4% QoQ despite decline in realization by 11.2% YoY on account of sharp fall in PVC prices. Industrial products segments grew by robust 23%, while Consumer products & packaging products grew by 2.6% & 1.3% YoY, respectively. While its key Plastic piping de-grew -1.6% YoY. Overall volume grew by 15% YoY, with Plastic piping & Industrial segment reported a healthy volume growth of 16.4% & 20%, YoY. Strong housing and agricultural demand aided the plastic piping industry. However, Packaging & consumer business volume de-grew by 12% & 6% YoY. Given the steep decline in input prices, affordability has improved significantly, and management expects volume to grow by 15% if polymer prices remain stable. SIL plans to spend ~Rs.700cr to expand its current capacity from 8,00,000 to 9,50,000 tonnes by March 24, with major addition in pipes. Going ahead, given stable RM prices, we anticipate volume & revenue to grow by 13% & 11% CAGR over FY23-25E.

#### Margins to normalise...

SIL's Q4FY22 gross margins improved by 560bps YoY to 33.5% due a sharp fall in raw material prices, which declined by 27.5%. EBITDA grew by 23% YoY. EBITDA margin expanded by 320bps YoY to 18.5%. Supported by the profit share from Supreme Petro, PAT grew by 11% YoY. On a sequential basis, margins improved by 540bps. Management has guided EBITDA margin to be in the range of 13-15%, which seems conservative. We believe that the worst impact on margins is behind us and we anticipate steady margin improvement moving forward, driven by higher volumes and stable raw material prices. We expect profitability to grow by 21% CAGR over FY23-25E.

#### Valuations

Tailwinds like stable infra & agri volumes and lower input costs will drive earnings. With a stable RM environment, we expect margins to improve further. Considering strong earnings outlook of 21% CAGR, we value SIL at P/E of 32x (3-year avg.) on FY25E and upgrade to Buy with a target price of Rs. 3,223.

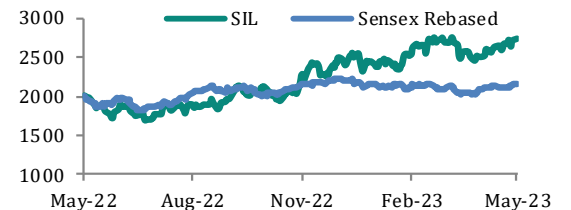
#### Company Data

Market Cap (cr)	Rs.34,890
Enterprise Value (cr)	Rs.34,191
Outstanding Shares (cr)	12.7
Free Float	51.2%
Dividend Yield	0.95%
52 week high	Rs.2,816
52 week low	Rs.1,669
6m average volume (cr)	0.01
Beta	0.8
Face value	Rs.2

Shareholding (%)	Q2FY23	Q3FY23	Q4FY23
Promoters	48.9	48.9	48.9
FII's	16.2	17.4	16.8
MFs/Institutions	19.7	18.5	18.1
Public	13.1	12.5	14.1
Others	2.2	2.7	2.1
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 month	6 Month	1 Year
Absolute Return	8.3%	24.8%	36.6%
Absolute Sensex	2.8%	0.9%	7.7%
Relative Return*	5.6%	23.9%	28.9%

\*over or under performance to benchmark index



Standalone (cr)	FY23A	FY24E	FY25E
Sales	9,202	10,245	11,419
Growth (%)	18.4	11.3	11.5
EBITDA	1,200	1,491	1,770
EBITDA Margin (%)	13.0	14.6	15.5
PAT Adjusted	865	1,075	1,279
Growth (%)	(10.6)	24.3	19.0
Adjusted EPS	68.1	84.6	100.7
Growth (%)	(10.6)	24.3	19.0
P/E	40.3	32.4	27.3
P/B	7.9	6.4	5.2
EV/EBITDA	28.5	23.1	19.3
ROE (%)	21.0	21.9	21.2
D/E	0.0	0.0	0.0

ANIL R  
Research Analyst

## Quarterly Financials

### Profit & Loss

Rs (cr)	Q4FY23	Q4FY22	YoY Growth (%)	Q3FY23	QoQ Growth (%)
Sales	2,598	2,557	1.6	2,311	12.4
EBITDA	480	391	22.7	303	58.3
EBITDA margins	18.5	15.3	+320bps	13.1	540bps
Depreciation	72	59	22.6	65	11.3
EBIT	408	333	22.7	239	71.1
Interest	4	2	115.0	1	251.3
Other Income	11	9	32.7	8	37.6
Exceptional Items	-	-	-	-	-
PBT	416	339	22.5	246	69.1
Tax	105	85	23.7	63	66.3
Share of profit from Associate	49	70	(29.4)	28	78.1
Other comprehensive income	-	-	-	-	-
<b>Reported PAT</b>	<b>359</b>	<b>324</b>	<b>11.0</b>	<b>210</b>	<b>71.1</b>
Adjustments	-	-	-	-	-
<b>Adjusted PAT</b>	<b>359</b>	<b>324</b>	<b>11.0</b>	<b>210</b>	<b>71.1</b>
No. of Shares	12.7	12.7	-	12.7	-
<b>EPS (Rs)</b>	<b>28.3</b>	<b>25.5</b>	<b>11.0</b>	<b>16.5</b>	<b>71.1</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	10,218	11,367	10,245	11,419	0.3	0.5
EBITDA	1,487	1,762	1,491	1,770	0.2	0.4
Margins (%)	14.6	15.5	14.6	15.5	-	-
Adj. PAT	1,071	1,272	1,075	1,279	0.4	0.6
EPS	84.3	100.1	84.6	100.7	0.4	0.6

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs.cr)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>6,355</b>	<b>7,773</b>	<b>9,202</b>	<b>10,245</b>	<b>11,419</b>
% change	15.3	22.3	18.4	11.3	11.5
<b>EBITDA</b>	<b>1,284</b>	<b>1,242</b>	<b>1,200</b>	<b>1,491</b>	<b>1,770</b>
% change	53.9	(3.3)	(3.4)	24.3	18.7
Depreciation	213	230	263	300	349
<b>EBIT</b>	<b>1,071</b>	<b>1,013</b>	<b>936</b>	<b>1,191</b>	<b>1,421</b>
Interest	22	5	8	6	5
Other Income	17	20	30	36	50
<b>PBT</b>	<b>1,066</b>	<b>1,027</b>	<b>958</b>	<b>1,220</b>	<b>1,466</b>
% change	74.8	(3.6)	(6.8)	27.4	20.1
Tax	234	263	246	305	366
Tax Rate (%)	22.0%	25.6%	25.7%	25.0%	25.0%
<b>Reported PAT</b>	<b>978</b>	<b>968</b>	<b>865</b>	<b>1,075</b>	<b>1,279</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>978</b>	<b>968</b>	<b>865</b>	<b>1,075</b>	<b>1,279</b>
% change	109.3	(1.0)	(10.6)	24.3	19.0
No. of shares (cr)	12.7	12.7	12.7	12.7	12.7
<b>Adj EPS (Rs.)</b>	<b>77.0</b>	<b>76.2</b>	<b>68.1</b>	<b>84.6</b>	<b>100.7</b>
% change	109.3	-1.0	-10.6	24.3	19.0
DPS (Rs.)	5.0	3.8	3.8	3.8	3.8
CEPS (Rs.)	93.8	94.3	88.9	108.2	128.2

### BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	762	519	738	415	774
Accounts Receivable	390	467	492	589	657
Inventories	761	1,260	1,386	1,642	1,739
Other Cur. Assets	268	351	353	632	735
Investments	337	476	577	857	1,137
Gross Fixed Assets	3,338	3,606	4,167	4,917	5,667
Net Fixed Assets	1,703	1,761	2,059	2,509	2,910
CWIP	51	155	84	80	90
Intangible Assets	11	8	5	5	5
Def. Tax (Net)	(92)	(90)	(91)	(91)	(91)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>4,190</b>	<b>4,905</b>	<b>5,603</b>	<b>6,640</b>	<b>7,957</b>
Current Liabilities	646	794	904	776	789
Provisions	30	32	35	73	81
Debt Funds	31	38	39	29	19
Other Liabilities	314	197	224	332	407
Equity Capital	25	25	25	25	25
Reserves & Surplus	3,144	3,819	4,377	5,404	6,636
Shareholder's Fund	3,169	3,844	4,402	5,430	6,661
<b>Total Liabilities</b>	<b>4,190</b>	<b>4,905</b>	<b>5,603</b>	<b>6,640</b>	<b>7,957</b>
<b>BVPS (Rs.)</b>	<b>249</b>	<b>303</b>	<b>347</b>	<b>427</b>	<b>524</b>

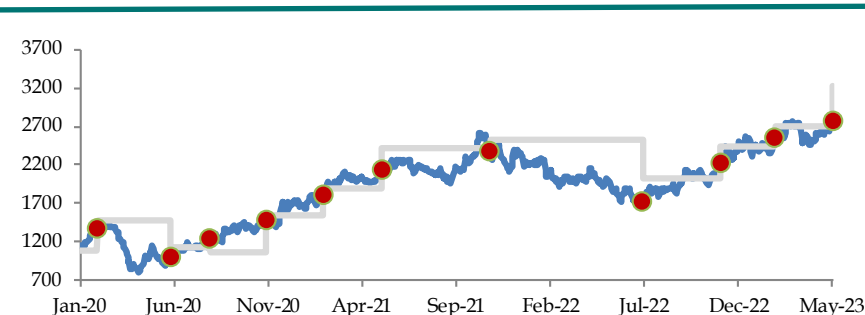
### CASH FLOW

Y.E March (Rs.cr)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Net inc. + Deprn.</b>	<b>1,191</b>	<b>1,198</b>	<b>1,129</b>	<b>1,375</b>	<b>1,629</b>
Non-cash adj.	(142)	(250)	(178)	6	5
Changes in W.C	196	(494)	(78)	(614)	(172)
<b>C.F. Operation</b>	<b>1,246</b>	<b>470</b>	<b>890</b>	<b>768</b>	<b>1,461</b>
Capital exp.	(221)	(466)	(422)	(746)	(760)
Change in inv.	8	14	19	(280)	(280)
Other invest.CF	12	49	54	-	-
<b>C.F - Investment</b>	<b>(201)</b>	<b>(403)</b>	<b>(349)</b>	<b>(1,026)</b>	<b>(1,040)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(410)	(1)	-	(10)	(10)
Dividends paid	(64)	(292)	(305)	(48)	(48)
Other finance.CF	(32)	(17)	(22)	(6)	(5)
<b>C.F - Finance</b>	<b>(506)</b>	<b>(310)</b>	<b>(327)</b>	<b>(64)</b>	<b>(63)</b>
Chg. in cash	540	(243)	215	(323)	359
Closing cash	762	519	738	415	774

### RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	20.2	16.0	13.0	14.6	15.5
EBIT margin (%)	16.9	13.0	10.2	11.6	12.4
Net profit mgn.(%)	15.4	12.5	9.4	10.5	11.2
ROE (%)	36.0	27.6	21.0	21.9	21.2
ROCE (%)	33.7	27.5	20.9	21.8	21.1
<b>W.C &amp; Liquidity</b>					
Receivables (days)	20.2	20.1	19.0	19.3	19.9
Inventory (days)	47.4	47.4	52.5	53.9	54.1
Payables (days)	53.9	49.1	47.0	42.4	36.0
Current ratio (x)	3.2	3.1	3.2	3.9	4.5
Quick ratio (x)	1.6	1.1	1.4	0.8	0.8
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.0	2.2	2.4	2.3	2.2
Total asset T.O (x)	1.7	1.7	1.8	1.7	1.6
Int. coverage ratio (x)	48.6	196.6	116.7	184.1	295.5
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	5.4	4.4	3.7	3.4	3.0
EV/EBITDA (x)	26.6	27.7	28.5	23.1	19.3
P/E (x)	35.7	36.0	40.3	32.4	27.3
P/BV (x)	11.0	9.1	7.9	6.4	5.2

## 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
30-January-23	Hold	2,703
03-May-23	Buy	3,223

## Investment Criteria

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

### 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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