

Supreme Petrochem Ltd



RESULT UPDATE

01st August, 2023

Supreme Petrochem Ltd.

Correction in raw material prices led to destocking of products

CMP INR 443	Target INR 482	Potential Upside 8.9%	Market Cap (INRmn) INR 83,378	Recommendation BUY	Sector Petrochemicals
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Q1FY24 Result Highlights:

- Supreme Petrochem Ltd. (SPL) has reported a revenue of INR 12,251 Mn in Q1FY24 against INR 14,854 Mn in Q1FY23, a de-growth of 17.5% on a YoY basis and INR 13,869 Mn in Q4FY23, a dip of approximately -11.7% on a QoQ basis.
- EBITDA in Q1FY24 stood at INR 905 Mn (-64.0% YoY / -56.7% QoQ), EBITDA Margin contracted by 956 bps YoY and 768 bps QoQ to 7.4% in Q1FY24 due to a correction in raw material prices resulting into a volume de-growth led by inventory destocking in the industry.
- Net Profit in Q1FY24 stood at INR 693 Mn (-63.4 YoY / -56.7% QoQ), with NPM at 5.7% as compared to 11.5% in the quarter gone by.
- EPS during the quarter came at INR 3.68 against INR 10.06 in the same quarter last year and INR 8.50 in Q3FY23.

MARKET DATA

Shares O/S (Mn)	188
Mkt Cap (INRmn)	83,378
52 Wk H/L (INR)	488/337
Volume Avg (3m K)	56.6
Face Value (INR)	2
Bloomberg Code	SPPT IN

KEY FINANCIALS

Particulars (INRmn)	FY21	FY22	FY23	FY24E	FY25E
Net Sales	31,852	50,323	52,872	55,378	68,620
EBITDA	6,689	9,054	6,581	6,535	10,087
PAT	4,775	6,633	4,981	4,989	7,560
EPS (INR)	50.8	35.3	26.5	26.5	40.2
EBITDA Margin	21.0%	18.0%	12.4%	11.8%	14.7%
PAT Margin	15.0%	13.2%	9.4%	9.0%	10.6%

Source: Company, KRChoksey Research

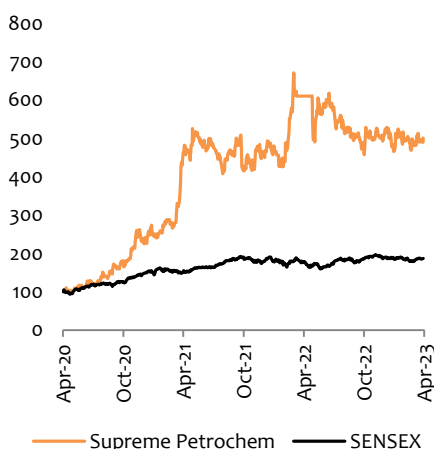
Revenue declined on account of destocking of inventory globally.

In Q1FY24, SPL revenue from operation stood at INR 12,251 Mn, which de-grew by 11.7% QoQ and declined by 17.5% YoY. The decline in revenue is mainly attributable to correction in the price of Styrene Monomer which is the primary raw material. The correction in raw material prices led to destocking of inventory at the industry level and resulting into a dip in production volumes. The production volumes stood at 77,178 MT in Q1FY24, resulting into a 5.7% decrease QoQ and an 8.7% increase YoY. The weak demand scenario in the industry led to a sharp correction in realizations. The sales realization stood at INR 159/kg in Q1FY24 as compared to INR 209/kg in Q1FY23 and INR 169/kg in Q4FY23. The impacted volumes and shrinking sales realizations had an accelerating effect on the EBITDA levels due to lower fixed costs absorbtion. The EBITDA margins during the quarter contracted sharply to 7.4% as compared to 16.9% in Q1FY23 and 15.1% in Q4FY23. The margins contracted due to a weak topline and a lesser room for controlling the fixed costs which is reflected in a ~54% reduction in EBITDA realization. The EBITDA realization in Q1FY24 stood at INR 12/kg (-54.1% QoQ/ -66.9% YoY). Overall, the quarter remained weak primarily due to correction in raw material prices which resulted into customers destocking their current inventory and low offtake by appliance manufacturers.

Status of capacity expansion

The company is currently undergoing a substantial CAPEX project worth around INR 1,240 crores at its Amdoshi Plant in Maharashtra. The expansion plan involves increasing the capacities of PS and EPS at the Amdoshi Plant, along with the establishment of a new plant for Mass ABS with a total capacity of 1,40,000 TPA. The company is setting up second line of Extruded Polystyrene Board with annual capacity of 1,00,000 m³. This line will have the facility to produce boards with width of 1200 MM which are now being imported. As part of their expansion strategy, the company aims to incrementally increase the capacity of Compounds to 75,000 TPA. The entire expansion plan is scheduled to be completed in phases by March 2025.

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	66,528
NIFTY	19,754

SHARE HOLDING PATTERN (%)

Particulars	June-23	Mar-23	Dec-22
Promoters	64.2%	64.2%	64.2%
FIIIs	2.0%	2.1%	2.2%
DIIIs	2.4%	2.4%	2.4%
Others	31.4%	31.2%	31.2%
Total	100%	100%	100%

13.9%

Revenue CAGR between FY23 and FY25E

23.2%

PAT CAGR between FY23 and FY25E

Supreme Petrochem Ltd.

INRMn	Q4FY23	Q3FY23	Q4FY22	Q-o-Q	Y-o-Y
Revenues	12,251	13,869	14,854	-11.7%	-17.5%
Total Expenditure	11,347	11,779	12,337	-3.7%	-8.0%
EBITDA	904.8	2,089.1	2,517	-56.7%	-64.0%
EBITDA Margin	7.4%	15.1%	16.9%	-768 bps	-956 bps
Depreciation & amortization	141.75	135.51	105	4.6%	34.4%
EBIT	763	1,954	2,411	-60.9%	-68.4%
EBIT Margin	6.2%	14.1%	16.2%	-786 bps	-1,000 bps
Finance Cost	6	8	9	-21.4%	-32.9%
Other Income	179	210	121	-14.6%	48.4%
PBT	936	2,155	2,522	-56.6%	-62.9%
Tax	243	557	632	-56.4%	-61.5%
PAT	693	1,598	1,890.9	-56.7%	-63.4%
PAT Margin	5.7%	11.5%	12.7%	-587 bps	-708 bps
Diluted EPS (INR)	3.7	8.5	10.1	-56.7%	-63.4%

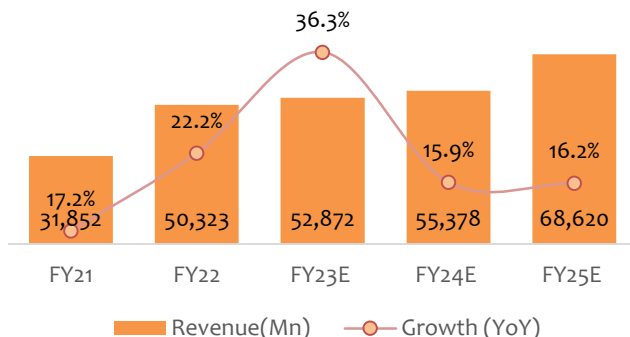
Source: Company, KRChoksey Research
Restated EPS post split from INR 4/ share to INR 2/share

Valuation & View

Despite the challenging time in the near term due to global headwinds, we are positive on the company medium and long term growth prospect on the back of capacity expansion of PS and EPS to cater to the increasing demand for its products. With enhanced capacity and healthy demand from end-user industries, SPL will witness strong growth in the future. We expect SPL to clock 13.9%, 23.8% and 23.2% CAGR growth in its revenue, EBITDA and PAT over FY23-25E period.

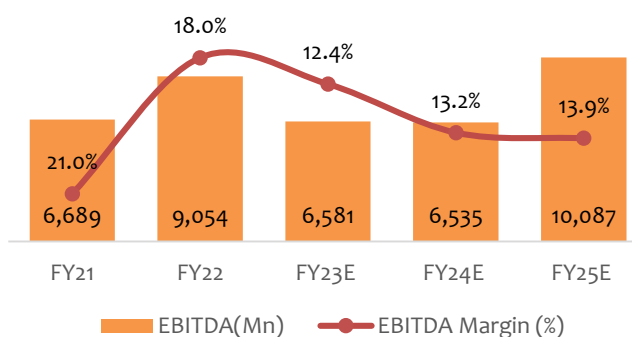
SPL reported a weak operating performance during Q1FY24 on the back of correction in styrene monomer prices resulting into a weaker industry demand due to inventory destocking. At CMP of INR 443, the stock is currently trading at a P/E multiple of 16.7x/11.0x on its FY24E/25E revised EPS of INR 26.5/40.2 respectively. We value the stock at 12x on its FY25E EPS of INR 40.2, which yields a target price of INR 482/share, an upside of 8.9% over the CMP. Accordingly, we changed our rating from “BUY” to “ACCUMULATE” rating on the shares of Supreme Petrochem Ltd.

Revenue to witness 16% CAGR over FY23-25E



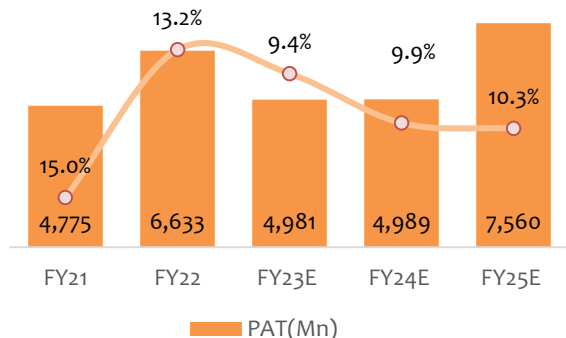
Source: Company, KRChoksey Research

EBITDA margin trend over the years



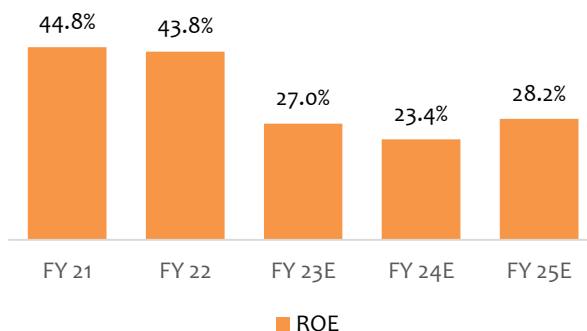
Source: Company, KRChoksey Research

PAT to witness 23% CAGR over FY23-25E



Source: Company, KRChoksey Research

ROE to stabilise around 30%



Source: Company, KRChoksey Research

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KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

Particulars (INRmn)	FY21	FY22	FY23	FY24E	FY25E
Revenue from Operations	31,852	50,323	52,872	55,378	68,620
Other Income	213	305	589	674	809
Total Income	32,065	50,628	53,461	56,052	69,429
Cost of Materials Consumed	15,979	27,019	32,150	34,057	40,417
Purchase of stock-in-trade	6,899	11,344	11,906	11,076	13,724
Excise Duty on Sale of Goods	0	0	0	0	0
Changes in Inventories of Finished Goods and WIP	67	81	-1,067	0	0
Employee Benefit Expense	457	483	547	665	823
Other Expenses	1,761	2,342	2,754	3,046	3,568
Total Expenses	25,554	41,687	46,757	49,349	59,289
EBITDA	6,689	9,054	6,581	6,535	10,087
D&A	391	419	466	506	756
EBIT	6,298	8,636	6,115	6,029	9,331
Finance Costs	73	62	36	25	19
Other Income	213	305	589	674	809
PBT	6,438	8,878	6,669	6,678	10,121
Income Tax Expenses	1,663	2,246	1,687	1,690	2,561
PAT	4,775	6,633	4,981	4,989	7,560

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

Particulars (INRmn)	FY21	FY22	FY23	FY24E	FY25E
Net Cash Generated From Operations	4,347	6,722	3,403	7,265	8,101
Net Cash Flow from/(used in) Investing Activities	-938	-1,400	-1,654	-5,003	-5,003
Net Cash Flow from Financing Activities	-1,044	-1,780	-1,941	-2,003	-2,121
Net Inc/Dec in cash equivalents	2,365	3,542	-192	259	977
Opening Balance	1,759	5,770	2,175	833	1,092
Investment in liquid scheme	-3,355	-7,137	-1,151	0	0
Closing Balance of Cash and Cash Equivalents	1,067	2,175	833	1,092	2,069

Source: Company, KRChoksey Research

Exhibit 3: Ratio Analysis

Key Ratio	FY21	FY22	FY23	FY24E	FY25E
EBITDA Margin	21.0%	18.0%	12.4%	11.8%	14.7%
Tax rate (%)	25.8%	25.3%	25.3%	25.3%	25.0%
Net Profit Margin (%)	15.0%	13.2%	9.4%	9.0%	10.6%
RoE (%)	44.8%	43.8%	27.0%	23.4%	28.2%
RoCE (%)	42.1%	42.2%	26.4%	22.8%	27.5%
Current Ratio (x)	2.2x	2.5x	2.4x	2.0x	1.9x
EPS (INR per share)	50.8	35.3	26.5	26.5	40.2

Source: Company, KRChoksey Research

Restated EPS post split from INR 4/ share to INR 2/share

Supreme Petrochem Ltd.

KEY FINANCIALS

Exhibit 4: Balance Sheet

Particulars (INRmn)	FY21	FY22	FY23E	FY24E	FY25E
Non-Current Assets					
Property, Plant and Equipment	3,189	3,020	5,115	9,646	13,927
Right to use assets	393	344	147	114	81
Capital Work-in Progress	91	1,789	10,804	10,804	10,804
Other Intangible Assets	6	5	4	4	3
Financial Assets					
Loans	9	12	19	19	19
Other Financial Assets	53	48	249	261	323
Other Non-Current Assets	162	115	410	418	427
Total non-current assets	3,903	5,333	7,025	11,543	15,861
Current Assets					
Inventories	3,178	3,008	6,469	6,776	8,396
Financial Assets					
Investment in Liquid scheme of MF	4,703	4,838	5,626	5,626	5,626
Trade Receivables	3,833	4,118	3,623	3,795	4,702
Cash and Cash Equivalents	661	2,175	833	1,092	2,069
Bank Balance other than cash	407	2,299	2,662	2,662	2,662
Loans	6	8	9	9	9
Other Financial Assets	568	600	563	590	731
Current Tax Assets (net)	85	88	130	137	169
Other Current Assets	210	316	370	388	480
Total current assets	13,651	17,450	20,285	21,073	24,844
TOTAL ASSETS	17,553	22,783	27,310	32,616	40,705
Equity and Liabilities					
Shareholder's fund					
Equity Share Capital	940	376	376	376	376
Other Equity	9,708	14,780	18,063	20,983	26,474
Total Equity	10,648	15,156	18,439	21,359	26,850
Non-current Liabilities					
Long term borrowings	0	0	0	0	0
Lease liabilities	262	167	24	114	81
Provisions	36	34	36	38	47
Other financial liabilities	33	33	36	38	47
Deferred Tax Liabilities (Net)	357	344	354	371	460
Total non-current liabilities	689	578	450	560	634
Current Liabilities					
Financial Liabilities					
Lease Liabilities	148	206	143	143	143
Trade Payables	5,685	5,259	7,820	10,074	12,483
Other Financial Liabilities	192	966	296	310	384
Other Current Liabilities	152	590	134	141	175
Provisions	25	26	22	23	28
Current Tax Liabilities (net)	13	1	6	6	8
Total current liabilities	6,216	7,048	8,422	10,697	13,221
TOTAL LIABILITIES	6,905	7,627	8,872	11,257	13,854
Total Equity and Liabilities	17,553	22,783	27,310	32,616	40,705

Source: Company, KRChoksey Research

Supreme Petrochem Ltd.

Supreme Petrochem Ltd.				Rating Legend (Expected over a 12-month period)	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
01-Aug-23	443	482	BUY	Buy	More than 15%
28-Apr-23	383	467	BUY		
21-Feb-23	370	427	BUY	Accumulate	5% – 15%
29-Oct-22	687	873	BUY		
26-Jul-22	879	1,021	BUY	Hold	0 – 5%
29-Apr-22	921	NA	UR	Reduce	-5% – 0
25-Jan-22	696	814	BUY		
21-Oct-21	690	814	BUY	Sell	Less than – 5%

ANALYST CERTIFICATION:

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