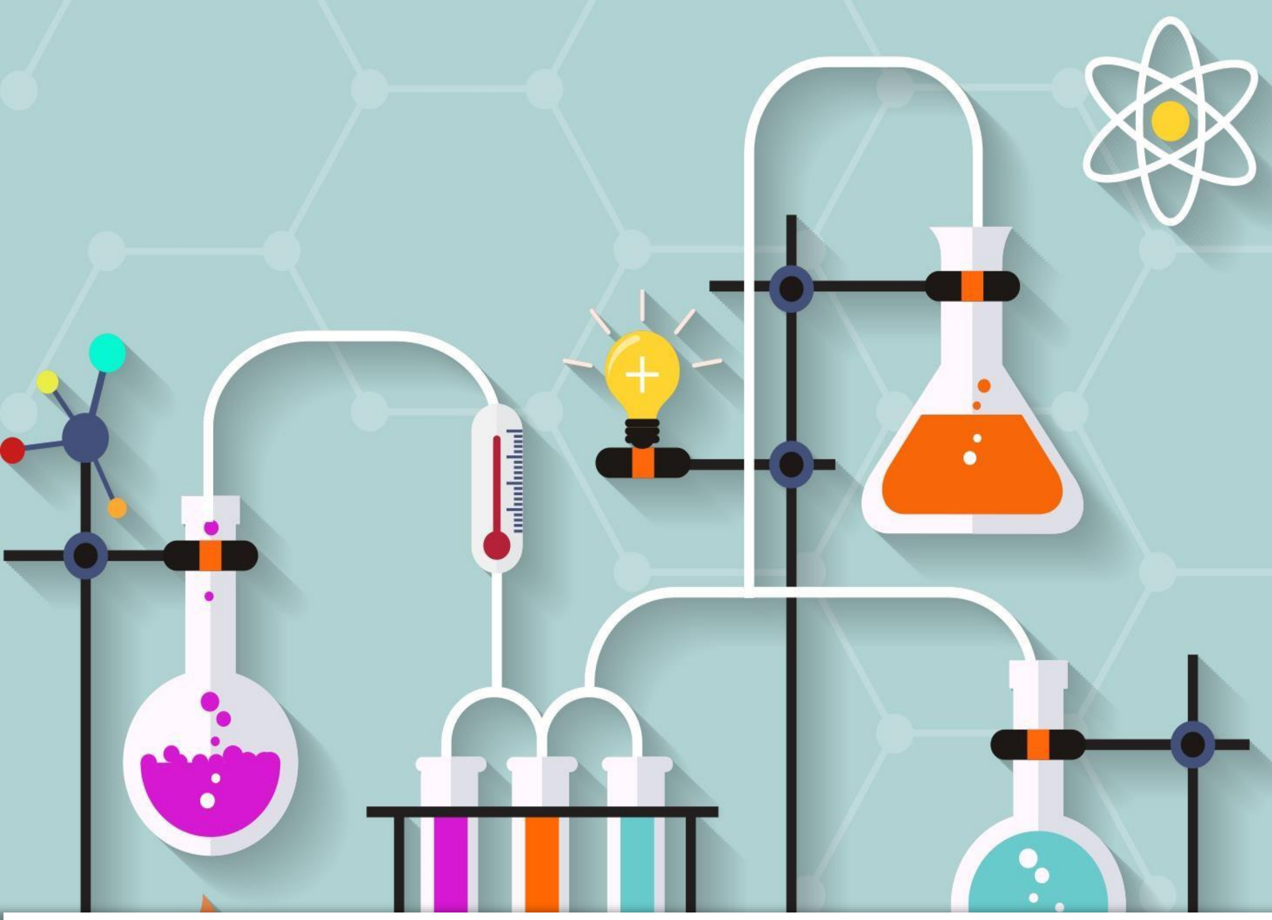
Supreme Petrochem Ltd



Result update

29th January 2024

Supreme Petrochem Ltd.

Flat revenue growth and decline in profitability; Maintain Hold

CMP	Target	Potential Upside	Market Cap (INR Mn)	Recommendation	Sector
INR 568	**INR 592**	**4.3%**	**INR 1,06,718**	**HOLD**	**Specialty Chemicals**

Result Highlights of Q3FY24:

- For Q3FY24, Supreme Petrochem reported revenue of INR 11,877 Mn which grew 0.6% YoY but declined 7.0% QoQ. The revenue missed our estimates by 8.3% as exports to USA, Europe including Turkey have been impacted due to missile attack by Yemen's Houthi rebels on commercial ships starting from late November. The 9MFY24 revenue declined 5.4% YoY to INR 36,905 Mn.
- EBITDA for the quarter was INR 948 Mn which declined by 20.4% YoY and 10.8% QoQ. The EBITDA missed our estimates by 23.1% because the Chennai EPS plant was shut due to cyclone causing heavy rains and floods for 15 days. The EBITDA margin contracted 211 bps YoY and 33 bps QoQ to 8.0%. We expected EBITDA margins to be 9.5% but it was lower by 150 bps. For 9MFY24, EBITDA was INR 2,916 Mn which declined by 35.2% YoY. The EBITDA margin contracted 363 bps YoY to 7.9%.
- Adj PAT for the quarter was INR 677 Mn which declined by 24.7% YoY and 13.3% QoQ. The Adj PAT missed our estimates by 27.4% primarily due to weaker than expected operating performance. Adj PAT margin contracted 191 bps YoY and 41 bps QoQ to 5.7%. We expected Adj PAT margin to be 7.2% but it was lower by 150 bps. For 9MFY24, Adj PAT declined by 36.5% YoY to INR 2,150 Mn. The Adj PAT margin contracted by 286 bps YoY to 5.8%.

MARKET DATA

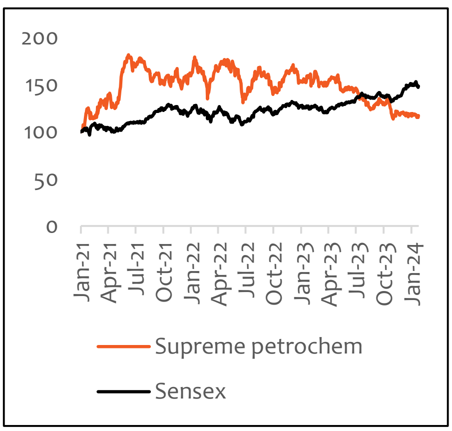
Shares outs (Mn)	188
Equity Cap (INR Mn)	18,593
Mkt Cap (INR Mn)	1,06,718
52 Wk H/L (INR)	618/345
Volume Avg (3m K)	59
Face Value (INR)	2
Bloomberg Code	SPPT IN

KEY FINANCIALS

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Revenue	50,323	52,872	50,498	62,718	79,652
EBITDA	9,054	6,581	4,336	6,794	9,298
EBITDA margin (%)	18.0%	12.4%	8.6%	10.8%	11.7%
PAT	6,633	4,981	3,170	4,892	6,600
PAT margin (%)	13.2%	9.4%	6.3%	10.5%	10.9%
EPS	35.3	26.5	16.9	26.0	35.1
P/E (x)	8.1	21.4	33.7	21.8	16.2

Source: Company, KRChoksey Research

SHARE PRICE PERFORMANCE



MARKET INFO

SENSEX	70,701
NIFTY	21,353

Subdued revenue growth due to a lack of demand for OEM in appliance manufacturing

For Q3FY24, Supreme Petrochem reported revenue of INR 11,877 Mn which grew 0.6% YoY but declined 7.0% QoQ. The subdued growth reflected the weakness in exports to USA and Europe, including Turkey, which were adversely impacted due to the danger of potential attacks on commercial ships in the Red Sea. The 9MFY24 revenue declined 5.4% YoY to INR 36,905 Mn. The QoQ volume witnessed a decline of 13.0%, primarily attributed to the business slowdown in November and December. During these months, Original Equipment Manufacturers (OEMs) tend to scale back their manufacturing activities and initiate inventory buildup starting in January. The muted increase in volume for manufactured products from styrene monomer can be attributed to weak demand from Original Equipment Manufacturers (OEM) in the appliance manufacturing sector, which witnessed a YoY decline of 5.0%. However, in CY24E, management expects 8.0%-10.0% growth in OEM appliance manufacturing. Given the slowdown, the volume guidance for FY24E was reduced to 45,000 from 50,000, implying a growth of 10.0% to 12.0% YoY.

Profitability impacted due to operating de-leverage

Gross margin for the quarter contracted 239 bps YoY and 26 bps QoQ to 14.9% as the key raw material styrene monomer prices were range-bound during the quarter. For 9MFY24, gross margin contracted 326 bps YoY to 14.7%. EBITDA for the quarter was INR 948 Mn which declined by 20.4% YoY and 10.8% QoQ. This decline was due to the Chennai EPS (Expandable Polystyrene) plant was shut due to a cyclone causing heavy rains and floods for 15 days. The EBITDA margin contracted 211 bps YoY and 33 bps QoQ to 8.0%. This contraction was due to an increase in employee costs YoY which was partially offset by a decline in other expenses YoY. For 9MFY24, EBITDA was INR 2,916 Mn which declined by 35.2% YoY. The EBITDA margin contracted 363 bps YoY to 7.9%. Adj PAT for the quarter was INR 677 Mn which declined by 24.7% YoY and 13.3% QoQ. This decline was due to an increase in finance costs. Adj PAT margin contracted 191 bps YoY and 41 bps QoQ to 5.7%. For 9MFY24, Adj PAT declined by 36.5% YoY to INR 2,150 Mn. The Adj PAT margin contracted by 286 bps YoY to 5.8%.

SHARE HOLDING PATTERN (%)

Particulars	Dec-23 (%)	Sep-23 (%)	Jun-23 (%)
Promoters	64.2	64.2	64.2
FIIs	2.6	2.0	2.0
DIIs	2.5	2.8	2.4
Others	30.7	31	31.4
Total	**100**	**100**	**100**

14.6%

Revenue CAGR between FY23 and FY26E

9.8%

Adj. PAT CAGR between FY23 and FY26E

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Supreme Petrochem Ltd.

Key Concall Highlights:

- Throughout the quarter, the pricing of the crucial raw material, styrene monomers, has been consistently strong.
- While the sales of manufactured products derived from styrene monomer experienced a modest growth of 1.7% in Q3FY24, there was a notable increase of 12.0% in the quantity sold during 9MFY24.
- During the 9MFY24, the domestic volume experienced 4.0% growth. This overall increase was bolstered by a surge in export volume, leading to a cumulative growth of 12.0%.
- In Q3FY24, the trading sales were 24.0% of overall sales, and manufactured sales were 76.0% of total sales.
- The potential revenue from the 3D panel capacity project is INR 1,000 Mn.
- The capacity utilization for polystyrene, EPS, and SPC was around 70.0% for 9MFY24.
- The Chennai EPS plant experienced a shutdown lasting approximately 15 days because of a cyclone, leading to extensive rainfall and floods in early December.
- The cyclone led to the impairment of certain fixed assets and caused damage to components of raw materials and finished goods, as well as stores and spares.
- The insurance company has commenced the surveying procedure and has designated surveyors; all of this is currently underway.
- SPPT continues to remain debt-free with an investable surplus of INR 7,930 Mn at the end of Q3FY24.
- The company is contemplating the establishment of a new manufacturing facility in the northern part of the country to minimize freight expenses and capitalize on the increasing demand for specific products in that area.

Valuation and view:

SPPT's revenue growth has remained stagnant as a result of challenges in exporting to the USA, Europe, and Turkey including the danger of potential attacks on commercial ships in the Red Sea and the lack of demand from OEMs as they scale back their manufacturing activities in a seasonally weak period. The profitability margins were impacted due to an increase in employee costs and strong pricing in key raw material styrene monomer. The main monitorables are demand from Original Equipment Manufacturers (OEM) in the appliance manufacturing sector and the price of key RM styrene monomers. **We have introduced FY26E estimates and currently, the stock is trading at PE multiples of 21.8x/16.2x based on FY25E/FY26E EPS estimates, respectively. We expect the revenue to grow at 14.6% CAGR over FY23-FY26E, and PAT to grow at 9.8% CAGR over FY23-FY26E. We maintain the target price of INR 592/share and a HOLD rating on the stock, implying an FY26E P/E multiple of 16.9x. We believe that in CY24E the demand from OEMs in appliance manufacturing will go up and support the topline, although margins may continue to remain under pressure.**

Q3FY24 Analysis

Particulars (INR Mn)	Q3FY24	Q3FY24	Q3FY23	Q-o-Q	Y-o-Y	9MFY24	9MFY23	Y-o-Y
Revenue from Operations	**11,877**	**12,777**	**11,804**	**-7.0%**	**0.6%**	**36,905**	**39,004**	**-5.4%**
Total Expenditure	**10,928**	**11,714**	**10,612**	**-6.7%**	**3.0%**	**33,989**	**34,505**	**-1.5%**
Cost of Raw Materials	7,001	7,431	6,956	-5.8%	0.6%	22,368	23,400.1	-4.4%
Purchase of Stock	2,977	3,212	2,716	-7.3%	9.6%	8,672	9,045.2	-4.1%
Changes in Inventories	132	201	94	-34.1%	40.6%	436	-450.3	-196.9%
Employee Cost	174	161	153	7.8%	13.8%	492	416.5	18.1%
Other Expenses	644	709	693	-9.1%	-7.0%	2,021	2,093.4	-3.4%
EBITDA	**948**	**1,063**	**1,192**	**-10.8%**	**-20.4%**	**2,916**	**4,499**	**-35.2%**
EBITDA Margin (%)	8.0%	8.3%	10.1%	-33 bps	-211 bps	7.9%	11.5%	-363 bps
Depreciation	151	143	110	5.8%	36.9%	435.1	330.5	31.6%
EBIT	**798**	**920**	**1,082**	**-13.3%**	**-26.3%**	**2,481**	**4,168**	**-40.5%**
Other Income	156	156	142	0.4%	10.2%	491.0	379.8	29.3%
Interest Expense	30	19	10	55.5%	211.7%	55.2	27.9	97.8%
Share of Associates	0	0	0	NA	NA	0.0	0.0	NA
PBT before Exceptional	**924**	**1,057**	**1,214**	**-12.5%**	**-23.9%**	**2,916**	**4,520**	**-35.5%**
Exceptional Items	0	0	0	NA	NA	0.0	0.0	NA
PBT	**924**	**1,057**	**1,214**	**-12.5%**	**-23.9%**	**2,916.49**	**4,520**	**-35.5%**
Tax	247	276	316	-10.4%	-21.7%	767	1,132	-32.3%
Minority interest	0	0	0	NA	NA	0.0	0.0	NA
PAT	**677**	**781**	**898**	**-13.3%**	**-24.7%**	**2,150**	**3,388**	**-36.5%**
PAT Margin (%)	5.7%	6.1%	7.6%	-41 bps	-191 bps	5.8%	8.7%	-286 bps
EPS	**3.6**	**4.2**	**4.8**	**-13.3%**	**-24.7%**	**11.4**	**18.0**	**-36.5%**
Adj. PAT	**677**	**781**	**898**	**-13.3%**	**-24.7%**	**2,150**	**3,388.0**	**-36.5%**
Adj. PAT Margin (%)	5.7%	6.1%	7.6%	-41 bps	-191 bps	5.8%	8.7%	-286 bps
Adj. EPS	**3.6**	**4.2**	**4.8**	**-13.3%**	**-24.7%**	**11.4**	**18.0**	**-36.5%**

Source: Company, KRChoksey Research

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Supreme Petrochem Ltd.

KEY FINANCIALS

Exhibit 1: Profit & Loss Statement

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Revenue from Operations	**50,323**	**52,872**	**50,498**	**62,718**	**79,652**
Other Income	305	589	622	653	653
Total Income	**50,628**	**53,461**	**51,120**	**63,371**	**80,305**
Cost of Materials Consumed	27,019	32,150	30,660	36,962	48,189
Purchase of stock-in-trade	11,344	11,906	11,615	14,425	16,488
Excise Duty on Sale of Goods	0	0	0	0	0
Changes in Inventories of Finished Goods and Work-in-progress	81	-1,067	505	147	181
Employee Benefit Expense	483	547	606	941	1,195
Other Expenses	2,342	2,754	2,777	3,449	4,301
Total Expenses	**41,687**	**46,757**	**46,593**	**56,455**	**70,986**
EBITDA	**9,054**	**6,581**	**4,336**	**6,794**	**9,298**
D&A	419	466	431	531	631
Operating Profit	**8,636**	**6,115**	**3,905**	**6,263**	**8,666**
Finance Costs	62	36	63	26	24
Other Income	305	589	622	653	653
Profit/Loss Before Tax	**8,878**	**6,669**	**4,464**	**6,890**	**9,295**
Income Tax Expenses	2,246	1,687	1,295	1,998	2,696
Profit/(Loss) for the year	**6,633**	**4,981**	**3,170**	**4,892**	**6,600**
EPS	35.3	26.5	16.9	26.0	35.1

Source: Company, KRChoksey Research

Exhibit 2: Cash Flow Statement

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Net Cash Generated From Operations	6,707	3,236	4,608	4,674	4,825
Net Cash Flow from/(used in) Investing Activities	-1,400	-1,491	-2,003	-2,003	-2,003
Net Cash Flow from Financing Activities	-1,765	-1,936	-2,041	-2,128	-2,126
Net Inc/Dec in cash equivalents	3,542	-192	564	543	696
Opening Balance	5,770	9,312	833	1,397	1,940
Investment in liquid scheme	-7,137	-8,288	0	0	0
Closing Balance Cash and Cash Equivalents	**2,175**	**833**	**1,397**	**1,940**	**2,635**

Source: Company, KRChoksey Research

Exhibit 3: Key Ratio

Key Ratio	FY22	FY23	FY24E	FY25E	FY26E
EBITDA Margin	18.0%	12.4%	8.6%	10.8%	11.7%
Tax rate (%)	25.3%	25.3%	29.0%	25.0%	25.0%
Net Profit Margin (%)	13.2%	9.4%	6.3%	10.5%	10.9%
RoE (%)	43.8%	27.0%	16.2%	21.9%	24.5%
RoCE (%)	42.2%	26.4%	15.8%	21.3%	23.9%
Current Ratio (x)	2.5x	2.4x	2.3x	2.2x	2.2x
EPS (INR per share)	35.3	26.5	16.9	26.0	35.1

Source: Company, KRChoksey Research

Supreme Petrochem Ltd.

Exhibit 4: Balance Sheet

INR Millions	FY22	FY23	FY24E	FY25E	FY26E
Non-Current Assets					
Property, Plant and Equipment	3,020	5,115	6,721	8,227	9,634
Right to use assets	344	147	114	81	47
Capital Work-in Progress	1,789	10,804	10,804	10,804	10,804
Other Intangible Assets	5	4	4	3	2
Financial Assets					
Loans	12	19	19	19	19
Other Financial Assets	48	249	238	295	375
Other Non-Current Assets	115	410	418	427	435
Total non-current assets	**5,333**	**7,025**	**8,595**	**10,133**	**11,594**
Current Assets					
Inventories	3,008	6,469	6,179	7,674	9,746
Financial Assets					
Investment in Liquid scheme of MF	4,838	5,626	5,626	5,626	5,626
Trade Receivables	4,118	3,623	3,460	4,298	6,547
Cash and Cash Equivalents	2,175	833	1,397	1,940	2,635
Bank Balance other than cash	2,299	2,662	2,662	2,662	2,662
Loans	8	9	9	9	9
Other Financial Assets	600	563	538	668	848
Current Tax Assets (net)	88	130	124	155	196
Other Current Assets	316	370	353	439	557
Total current assets	**17,450**	**20,285**	**20,348**	**23,469**	**28,826**
TOTAL ASSETS	**22,783**	**27,310**	**28,943**	**33,602**	**40,420**
Equity and Liabilities					
Shareholder's fund					
Equity Share Capital	376	376	376	376	376
Other Equity	14,780	18,063	19,164	21,987	26,519
Total Equity	**15,156**	**18,439**	**19,540**	**22,363**	**26,895**
Non-current Liabilities					
Long term borrowings	0	0	0	0	0
Lease liabilities	167	24	114	81	47
Provisions	34	36	35	43	55
Other financial liabilities	33	36	34	43	54
Deferred Tax Liabilities (Net)	344	354	338	420	533
Total non-current liabilities	578	450	521	586	689
Current Liabilities					
Financial Liabilities					
Lease Liabilities	206	143	143	143	143
Trade Payables	5,259	7,820	8,301	9,966	12,002
Other Financial Liabilities	966	296	283	351	446
Other Current Liabilities	590	134	128	160	203
Provisions	26	22	21	26	33
Current Tax Liabilities (net)	1	6	6	7	9
Total current liabilities	**7,048**	**8,422**	**8,882**	**10,653**	**12,836**
TOTAL LIABILITIES	**7,627**	**8,872**	**9,403**	**11,239**	**13,525**
Total Equity and Liabilities	**22,783**	**27,310**	**28,943**	**33,602**	**40,420**

Source: Company, KRChoksey Research

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Supreme Petrochem Ltd.

Supreme Petrochem Ltd			
Date	CMP (INR)	TP (INR)	Recommendation
29-Jan-24	568	592	HOLD
22-Nov-23	556	592	HOLD
01-Aug-23	443	482	ACCUMULATE
28-Apr-23	383	467	BUY
21-Feb-23	370	427	BUY
29-Oct-22	687	873	BUY
26-Jul-22	879	1,021	BUY

Rating Legend (Expected over a 12-month period)	
Our Rating	Upside
Buy	More than 15%
Accumulate	5% – 15%
Hold	0 – 5%
Reduce	-5% – 0
Sell	Less than – 5%

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