



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	■	↔	■

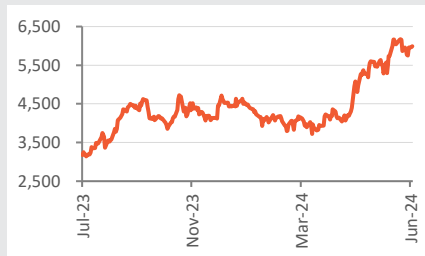
Company details

Market cap:	Rs. 76,127 cr
52-week high/low:	Rs. 6,482 / 3,110
NSE volume: (No of shares)	4.39 lakh
BSE code:	509930
NSE code:	SUPREMEIND
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	25
FII	11
DII	15
Others	49

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	7.7	46.4	33.7	88.6
Relative to Sensex	3.8	38.9	23.2	66.8

Sharekhan Research, Bloomberg

Supreme Industries Ltd
Strong headstart for FY2025

Building Materials	Sharekhan code: SUPREMEIND		
Reco/View: Buy	↔	CMP: Rs. 5,993	Price Target: Rs. 6,850 ↑
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy on Supreme Industries Limited (SIL) with a revised PT of Rs. 6,850, increasing and rolling forward our valuation multiple to September 2026E earnings. SIL has appreciated ~35% since we upgraded it to Buy on April 26, 2024.
- Growth momentum continued in April-May as overall volumes rose 22% y-o-y, while plastic pipe volumes rose 27% y-o-y. Sales including other income were up 12% y-o-y.
- Management retained overall volume growth guidance of 20% y-o-y and plastic pipe system guidance of 25% y-o-y for FY2025. Average PVC prices rose ~9% in April-May 2024 as compared to Q4FY2024 average.
- It adds three new greenfield sites for expansions. Piping system to rise to 10.5 LTPA, plastic pipe system capacities to 8.35 LTPA by FY2025-end. Capex of Rs. 1500 crore including a carry-forward commitment intact.

In its recently concluded AGM, Supreme Industries Ltd (SIL) provided key highlights for the first two months of FY2025, outlook for FY2025 and update on its ongoing and future expansion plans. The company saw growth momentum continuing in first two months of FY2025 (sales including other income were up 11.9% y-o-y led by 22% y-o-y volume growth aided by 27% y-o-y growth in plastic pipe systems, value-added products grew 19.8% y-o-y). The management retained its overall volume growth guidance of 20% y-o-y for FY2025 (Plastic pipe systems to grow at 25% y-o-y). It added three new greenfield site expansions to its existing expansion plan of (brownfield expansions at ten sites and greenfield expansions at three sites), which will go into production by December 2025. Piping system capacities are slated to increase to 10.5 LTPA by FY2025-end from 9.5 LTPA in FY2024 (Plastic pipe to increase to 8.35 LTPA from current 7.4 LTPA). It retained its capex plan of Rs. 1500 crore, which includes a carry-forward commitment of Rs. 496 crore at the beginning of the year.

- **Demand momentum continues in April-May 2024:** SIL had clocked a 26% y-o-y volume growth in FY2024 with plastic pipe systems recording a 34% y-o-y volume growth. Subsequently, the demand momentum remained strong during first two months of FY2025 leading to 22% volume growth (plastic pipe systems grew 27% y-o-y). Overall, its net sales including other income were up 11.9% y-o-y at Rs. 1,708 crore, which was also aided by 20% y-o-y growth in value added products revenues at Rs. 539 crore.
- **PVC prices inch up q-o-q in Q1FY2025:** PVC prices grew sequentially during Q1FY2025 till June end after witnessing successive declines over trailing two quarters prior to that. Average PVC prices during Q1FY2025 till June end were up 8.6% q-o-q (up Rs. 6.9/kg) at Rs. 87.3/kg. The Red Sea movement restrictions led to abnormal rise in logistics costs, which is resulting in increase in PVC prices. The uptick in PVC prices since April 2024 is expected to lead to possible inventory gains during Q1FY2025 and better OPMs sequentially. The increase in PVC prices may also result in channel re-stocking leading to strong volume growth during Q1FY2025.
- **Guidance for FY2025 retained, new greenfield expansions added:** The company retained its overall volume growth guidance of 20% y-o-y and plastic piping system growth guidance of 25% y-o-y for FY2025, while the industry is estimated to grow at ~12% y-o-y. It expects to maintain adequate growth in FY2026. It also added three new greenfield sites to its existing expansion plan of 10 brownfield expansions and three greenfield. All five greenfield sites are expected to go into production between July 2024 to December 2025. It retained its overall capex plan of Rs. 1500 crore including carry-forward commitment of Rs. 496 crore at the start of the current fiscal.

Our Call

Valuation – Retain Buy with a revised PT of Rs. 6,850: SIL continues to benefit from sustained agriculture and infrastructure demand aided by bottoming out of PVC prices. It is expected to see high growth over 2-3 years aided by healthy demand and capacity additions. Aggressive expansions, funded entirely through internal accruals, are expected to keep its balance sheet strong. We introduce our FY2027E earnings in this note. Healthy demand outlook and incremental capacity additions, is likely to drive a 19% net earnings CAGR over FY2024-FY2027. The stock has appreciated by ~35% since we upgraded it to Buy in our report dated April 26, 2024, and is currently trading at a P/E of 49x/42x its FY2026E/FY2027E earnings. We retain a Buy rating on SIL with a revised price target (PT) of Rs. 6,850 increasing our valuation multiple and rolling forward to September 2026E earnings.

Key Risks

Demand slowdown could affect revenue growth, while commodity price fluctuations might hit margins.

Valuation (Consolidated)

Particulars	Rs cr			
	FY24	FY25E	FY26E	FY27E
Revenue	10,134	12,180	14,056	16,224
OPM (%)	15.3	16.2	16.4	16.6
Adjusted PAT	1,070	1,356	1,557	1,791
% YoY growth	23.6	26.8	14.8	15.1
Adjusted EPS (Rs.)	84.2	106.8	122.6	141.1
P/E (x)	71.2	56.1	48.9	42.5
P/B (x)	14.9	12.7	10.9	9.3
EV/EBITDA (x)	48.0	37.9	32.2	27.4
RoNW (%)	20.9	22.6	22.2	21.9
RoCE (%)	23.6	26.1	26.2	26.4

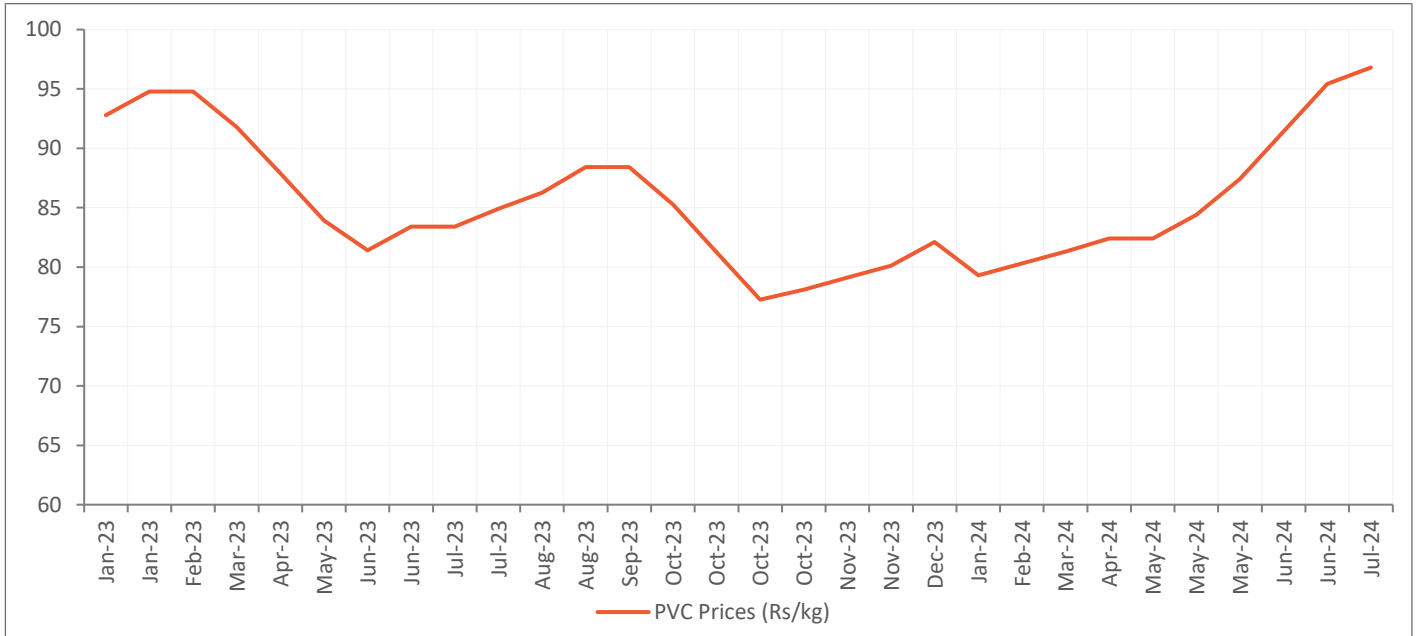
Source: Company; Sharekhan estimates

Key AGM Takeaways

- ◆ **Guidance:** The company retained its overall volume growth guidance of 20% y-o-y and plastic piping system growth guidance of 25% y-o-y for FY2025 while the industry is estimated to grow at 12% y-o-y. It expects to maintain adequate growth in FY2026.
- ◆ **April-May-24 performance:** Net sales and other income during the first two months of FY2025 grew by 11.9% y-o-y to Rs. 1708 crore. Overall volumes were up 22% y-o-y at 1,17,278 MT (including 27% y-o-y growth in Plastic Pipe system and 6% y-o-y in other segments). Turnover from value added products increased by 19.8% y-o-y to Rs. 539 crore. Net cash surplus balance stood at Rs. 1253 crore as of May-end 2024 and would continue to meet all its capex and working capital requirements from internal accruals.
- ◆ **PVC prices:** Polymer prices remained range bound with upward bias. The red-sea movement restrictions led to abnormal increase in logistics costs, which resulted in prices of PVC which has gone up by about Rs. 13 per kg since the beginning of April 2024. i.e. an increase of about ~16%.
- ◆ **Capacity expansion:** The Company has committed to invest further monies in brownfield expansion in ten sites amongst its existing units and plans to set up additional greenfield two sites in the current year. The company is also at an advanced stage of negotiations to put up three new units (Malanpur (Gwalior), Bihar (Patna), near Vijayawada (Andhra Pradesh)). It is expected that land for all these new sites will be in its possession by September this year. The Company plans that inclusive of these additional three sites, all these five new greenfield sites will go into production between July 2024 to December 2025. The units at Andhra Pradesh, Bihar and two units at Malanpur will have manufacturing facilities of multiple varieties of Plastics Piping System products and at Kanpur new Greenfield site will make Plastics Profiles and Windows. By end of FY25, installed capacity of Plastics Piping division is expected to reach to 8,35,000 MTPA against present capacity of 7,40,000 MTPA. On an aggregate basis, its total capacity stands at 950,000 tonnes, while it targets to increase it to 10,50,000 tonnes by FY2025 end.
- ◆ **Bathware:** The company is expanding its product portfolio in Bath Fittings made from high quality engineering Plastics. It has entered into collaboration with LIXIL, a Japanese company, to make SATO Brand Plastics sanitaryware useful for low cost sanitary solutions.
- ◆ **Valves:** New greenfield unit dedicated for production of varieties of Industrial and ball valves is at the advanced stage of completion at Malanpur (M.P.) and shall be going into commercial production in July this year.
- ◆ **Furniture:** The company's furniture business delivered a nominal negative performance in value and volume in first two months of the year. The company has identified different segments of plastic furniture such as premium products, almirah, blow molded tables & school furniture, which will help it to return to its growth journey.
- ◆ **Composite Cylinders:** The year under review remained subdued for the Composite Cylinder division, as purchases from its major customer IOCL have not fructified as projected earlier. Discussion with other OMCs to introduce composite Cylinders in their portfolio is also continuing. The Company continued exports to its valued customers and is also working on penetrating new exports markets.
- ◆ **Protective packaging:** New product development, adopting new technologies in manufacturing and focusing on Export business have resulted in the division witnessing value growth of 16% in first two months along with 9% volume growth. The company expects higher growth in this segment with the introduction of several value-added products. To meet the growth in demand, Company has initiated steps to put up new plant near JNPT Port. The site near JNPT port will facilitate exports of Protective and Performance Packaging products at economical cost to its international customers and will cater to increased requirement in the domestic market as well.
- ◆ **Capex:** The company has plans to commit capex of about Rs. 1500 crore including carry forward commitments of Rs. 496 crore at the beginning of the year.

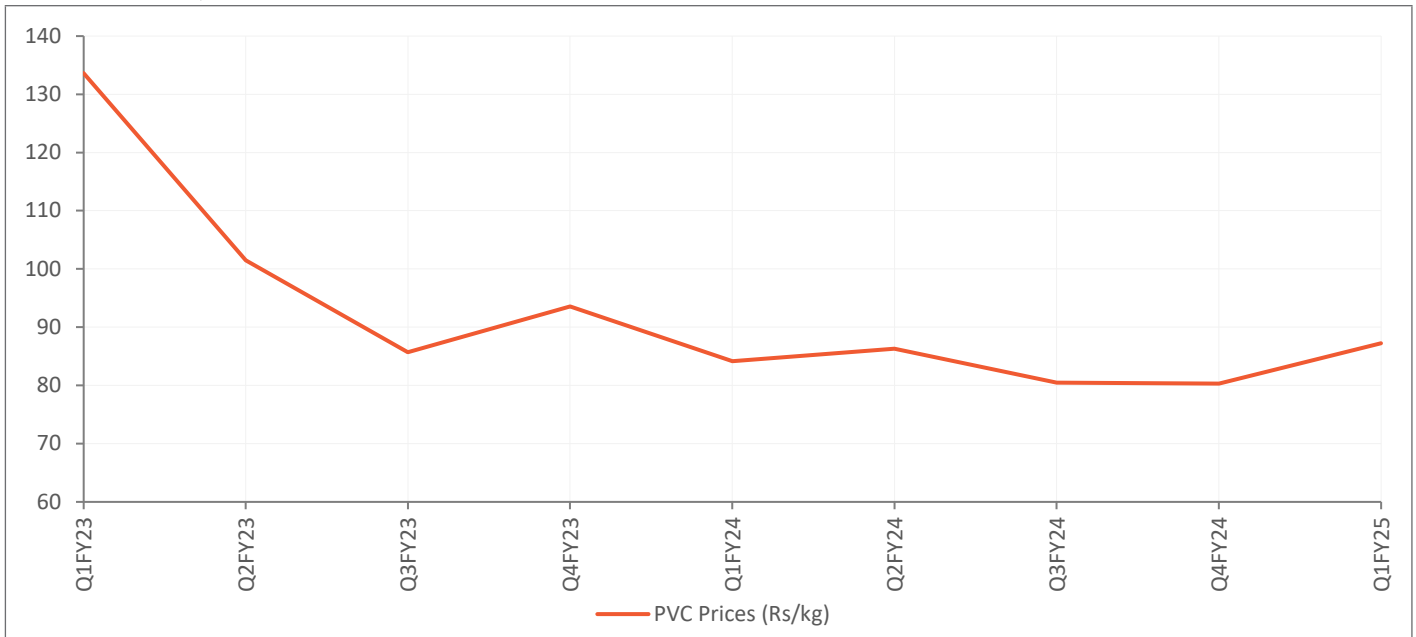
- ◆ **Green energy:** The Company has met about 14% of its energy requirement from renewable energy sources during FY2024. It invested a sum of Rs. 39 Crore in FY2024 and plans to invest further about Rs. 50 crore in FY2025 to increase captive solar energy generation. It aims to meet about 30% of its energy requirements from renewal sources by March 2025.

PVC Price monthly trend



Source: Industry; Sharekhan Research

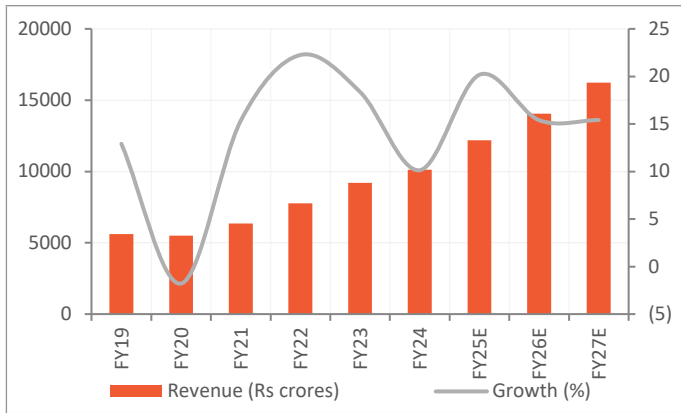
PVC Price quarterly trend



Source: Industry; Sharekhan Research

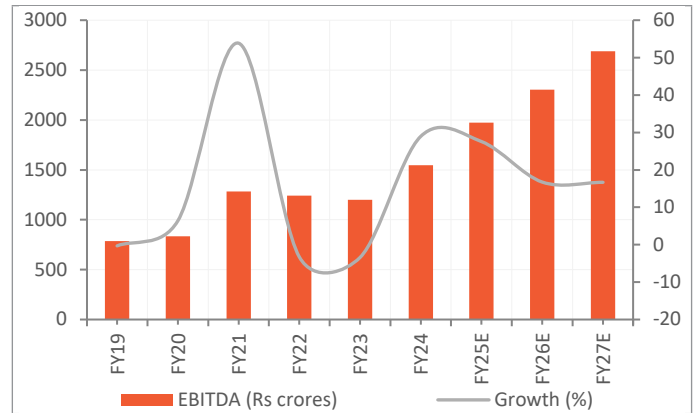
Financials in charts

Revenue trend



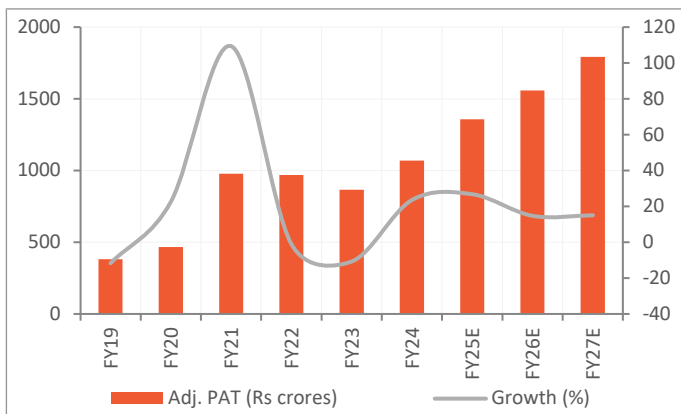
Source: Company, Sharekhan Research

EBITDA trend



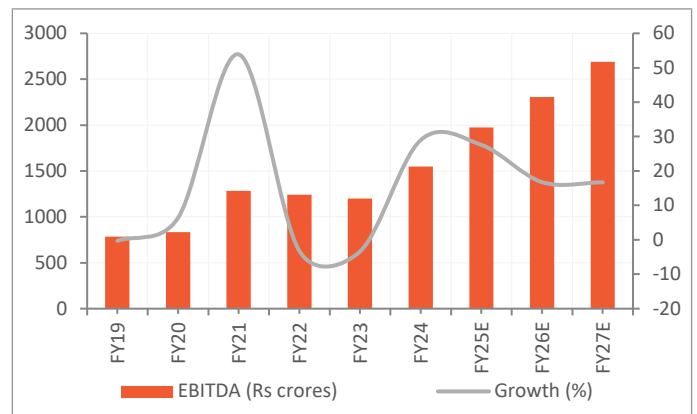
Source: Company, Sharekhan Research

Net Profit trend



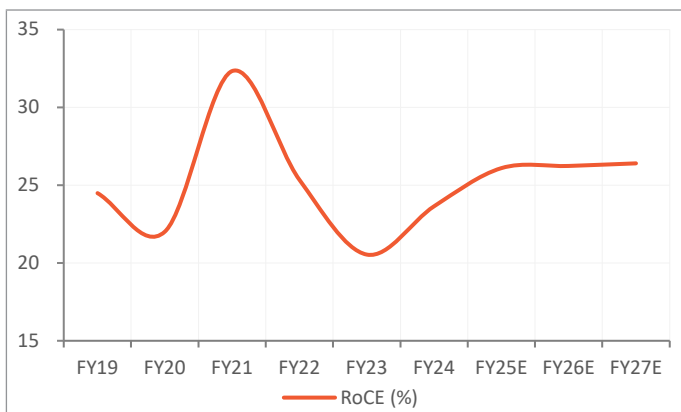
Source: Company, Sharekhan Research

Margins trend



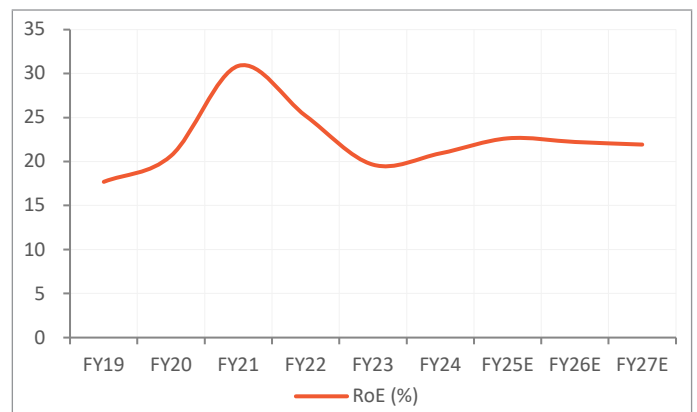
Source: Company, Sharekhan Research

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 2022, the sector has been one of the fastest to recover as the lockdown eased. The sector witnessed a resumption of dealer and distribution networks 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 revenue is also expected to lead to better absorption of fixed costs going ahead, aiding net earnings recovery.

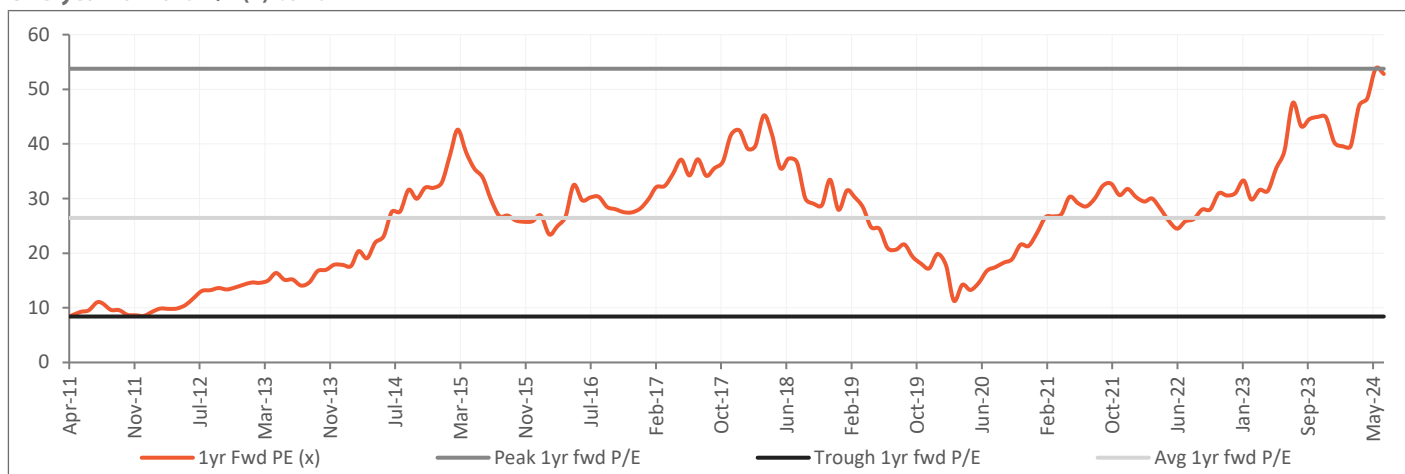
■ Company Outlook – Eyeing healthy demand growth

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 a market share during FY2023 and FY2024 in both PVC and CPVC segments and is expected to outperform in FY2025. The management remains optimistic about reporting 25% y-o-y volume growth in plastic piping for FY2025. It remains confident of maintaining stable OPMs. It is expecting healthy demand from the infrastructure and housing sectors and demand arising from the 'Nal Se Jal' scheme going ahead. The company has a capital expenditure plan of Rs. 1500 crore, which would be entirely-funded through internal accruals.

■ Valuation – Retain Buy with a revised PT of Rs. 6,850

SIL continues to benefit from sustained agriculture and infrastructure demand aided by bottoming out of PVC prices. It is expected to see high growth over 2-3 years aided by healthy demand and capacity additions. Aggressive expansions, funded entirely through internal accruals, are expected to keep its balance sheet strong. We introduce our FY2027E earnings in this note. Healthy demand outlook and incremental capacity additions, is likely to drive a 19% net earnings CAGR over FY2024-FY2027. The stock has appreciated by ~35% since we upgraded it to Buy in our report dated April 26, 2024, and is currently trading at a P/E of 49x/42x its FY2026E/FY2027E earnings. We retain a Buy rating on SIL with a revised price target (PT) of Rs. 6,850 increasing our valuation multiple and rolling forward to September 2026E earnings.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Particulars	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Supreme Industries	56.1	48.9	37.9	32.2	12.7	10.9	22.6	22.2
Astral	86.6	67.8	53.4	42.6	16.6	13.4	21.1	21.9

Source: 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 suitable 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
Shivratan Jeetmal 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 Website

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Jovial Investment & Trading	16.12
2	Boon Investment & Trading	16.11
3	Venktesh Investment & Trading	14.20
4	Kotak Mahindra Asset Management	4.85
5	Nalanda India Fund Ltd	4.81
6	DSP Investment Managers	4.08
7	HDFC Asset Management	2.22
8	Axis Asset Management	2.07
9	Vanguard Group Inc	1.93
10	GOVERNMENT PENSION FUND - GLOBAL	1.79

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

Sharekhan

by BNP PARIBAS

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