



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. 72,304 cr
52-week high/low:	Rs. 6,482/3,188
NSE volume: (No of shares)	4.3 lakh
BSE code:	509930
NSE code:	SUPREMEIND
Free float: (No of shares)	6.5 cr

Shareholding (%)

FII	25
Institutions	11
Public & others	15
Promoters	49

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-4.5	35.3	36.8	56.3
Relative to Sensex	-8.6	26.0	22.4	35.1

Sharekhan Research, Bloomberg

Supreme Industries Ltd

Unfavourable product mix affect Q1; Retain BUY

Building Materials

Sharekhan code: SUPREMEIND

Reco/View: Buy



Upgrade



Maintain



Downgrade

CMP: Rs. 5,692

Price Target: Rs. 6,850

Summary

- We retain BUY on Supreme Industries Limited (SIL) with an unchanged PT of Rs. 6,850, considering sustainable long-term demand growth tailwinds.
- The company reported a marginally lower-than-expected consolidated revenue on account of lower realisation for Q1FY2025. Unfavorable product mix and weak demand in June led to a miss in OPM and net profit.
- Management has retained overall volume growth guidance of 20% y-o-y with plastic piping volume growth of 25% y-o-y for FY2025. Consolidate OPM is expected to be 15-15.5%.
- Capex commitment of Rs. 1,500 crore remains intact with expected overall capacity expansion to reach 1.25 million tonne and plastic piping to reach 1 million tonne.

Supreme Industries Limited (SIL) reported marginally lower-than-expected consolidated revenue of Rs. 2,636 crore (up 11% y-o-y) on account of lower-than-estimated realisations (change in product mix), while overall volume growth of 17% y-o-y (plastic piping – up 19.5% y-o-y) was better than our estimate of 15% y-o-y (plastic piping – up 18% y-o-y). Consolidated OPM at 14.7% (up 111 bps y-o-y) also lagged our estimate of 16.5%, led by higher sale of low-margin agri pipes and nil inventory gain (despite the increase in PVC prices during Q1). Overall consolidated operating profit and net profit grew by 20% y-o-y and 27% y-o-y to Rs. 387 crore and Rs. 273 crore, respectively (both lagged estimates). The company has retained its overall volume growth of 20% y-o-y and plastic piping volume growth of 25% y-o-y and consolidated OPM of 15-15.5% for FY2025. However, the steep rise in PVC prices during June (Rs. 8/kg) and partial rollback during July (Rs. 4/kg) may affect volume growth in Q2FY2025. SIL's capacity expansion plans remain on track with an overall capex commitment of Rs. 1,500 crore.

Key positives

- Plastic piping sales volume grew by 19.5% y-o-y and overall volume grew by 17% y-o-y, which were higher than our estimate of 18% y-o-y and 15% y-o-y, respectively.
- Value-added products grew by 22% y-o-y to Rs. 925 crore in Q1FY2025.
- Cash surplus increased to Rs. 1,245 crore from Rs. 1,178 crore in Q4FY2024.

Key negatives

- Overall blended realisations and plastic piping realisations were lower 4.9% y-o-y and 4.4% y-o-y, respectively.
- A higher share of low-margin agri products led to lower-than-estimated OPM.
- July 2024 business is expected to be impacted by the sharp PVC resin price hike in June 2024, with partial rollback in July.

Management Commentary

- The company has retained 25% y-o-y volume growth guidance for plastic piping and overall volume growth of 20% y-o-y for FY2025. Management has retained its consolidated OPM guidance at 15-15.5%. It expects to maintain 12-14% y-o-y volume growth in plastic piping post FY2026.
- The value-added product revenue share is currently hovering at 35-37%, which it targets to increase to 38-40% by this fiscal year-end.
- Post incurring Rs. 1,500 crore capex, its overall capacity would increase to 1.25 million tonne with plastic piping capacity at 1 million tonne.

Revision in estimates – We have fine-tuned our earnings estimates for FY2025-FY2026.

Our Call

Valuation – Retain BUY with an unchanged PT of Rs. 6,850: SIL continues to benefit from sustained agriculture and infrastructure demand, although volatility in PVC prices is expected to affect its business in the near term. However, it is well poised to achieve a healthy volume growth trajectory over the next 3-4 years owing to sustained demand. Aggressive expansions, funded entirely through internal accruals, are expected to keep its balance sheet strong. A healthy demand outlook and incremental capacity additions are likely to drive a 19% net earnings CAGR over FY2024-FY2027. The stock is currently trading at a P/E of 48x/40x its FY2026E/FY2027E earnings. We retain our BUY rating on the stock with an unchanged price target (PT) of Rs. 6,850, considering sustainable long-term demand growth tailwinds.

Key Risks

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

Valuation (Consolidated)

Particulars	FY24	FY25E	FY26E	FY27E
Revenue	10,134	12,180	14,056	16,224
OPM (%)	15.3	15.2	15.9	16.6
Adjusted PAT	1,070	1,263	1,506	1,797
% YoY growth	23.6	18.0	19.3	19.3
Adjusted EPS (Rs.)	84.2	99.4	118.6	141.5
P/E (x)	67.6	57.3	48.0	40.2
P/B (x)	14.1	12.2	10.5	9.0
EV/EBITDA (x)	45.5	38.3	31.5	25.9
RoNW (%)	20.9	21.3	21.8	22.3
RoCE (%)	23.6	24.4	25.6	26.7

Source: Company; Sharekhan estimates

Lower-than-expected OPM led to PAT miss

The company reported consolidated net revenue of Rs. 2,636 crore, up 11.3% y-o-y (down 12.4% q-o-q), which was 2% lower than our estimate. Plastic piping volume grew by 17% y-o-y to 173,835 MT (higher than our expectation of 15.2% y-o-y growth). The turnover from value-added products increased by 22.4% y-o-y to Rs. 925 crore. Revenue from Plastic Piping/Packaging/Industrial/Consumer Products was +14.3%/+13.9%/+2.6%/-7.4% y-o-y at Rs. 1,858/368/306/97 crore. OPM came in lower than our estimate at 14.7% (up 111 bps y-o-y, down 162 bps q-o-q) as against our estimate of 16.5%. Gross profit margin expanded by 180 bps y-o-y to 31.9% (lower by 75 bps q-o-q). Higher OPM y-o-y led to 20.4% y-o-y growth in operating profit at Rs. 387 crore, which was 13% lower than our estimate. Healthy revenue growth along with OPM expansion led to consolidated PAT growth of 26.8% y-o-y (10% lower than our estimate). Increased depreciation (up 19% y-o-y to Rs. 86 crore) was partially offset by higher other income (up 1.5x y-o-y at Rs. 21.4 crore). The company's net cash surplus increased to Rs. 1,245 crore from Rs. 1,178 crore in Q4FY2024. With increased business opportunities, the company has made capex commitments, including carry-forward commitments of around Rs. 1,500 crore. The entire capex shall be funded from internal accruals.

Key Conference Call Takeaways

- ♦ **Guidance:** The company has retained 25% y-o-y volume growth guidance for plastic piping and overall volume growth of 20% y-o-y for FY2025. Management's consolidated OPM guidance is retained at 15-15.5%. It expects to maintain 12-14% y-o-y volume growth in plastic piping post FY2026. Value-added product revenue share is currently hovering at 35-37%, which it targets to increase to 38-40% by this fiscal year-end.
- ♦ **Q1FY2025 performance:** The company achieved volume and value growth of 17% y-o-y and 12% y-o-y, respectively in Q1FY2025. CPVC pipe volume growth was more than 40% y-o-y. Consolidated operating profit was up 20% y-o-y to Rs. 387 crore, while net profit was up 27% y-o-y to Rs. 273 crore. Value-added products revenue grew by 22% y-o-y to Rs. 925 crore. Cash surplus stood at Rs. 1,245 crore. It did not have any inventory gain during the quarter.
- ♦ **Segment-wise performance:** Segment-wise volume and value growth were as follows – Plastic piping system business grew 20% in volume and 14% in value terms. The packaging product segment business grew by 10% in volume and 14% in value terms. The industrial product segment business grew 12% in volume and 3% in value terms. The consumer product segment business declined by 7% in both volume and value terms.
- ♦ **Capex:** The company plans to commit capex of about Rs. 1,500 crores, including carry-forward commitments, which will be entirely funded through internal accruals. The cash outflow for the capex is estimated at Rs. 1,000-1,200 crore. Post incurring, Rs. 1,500 crore capex, its overall capacity would increase to 1.25 million tonne with plastic piping capacity at 1 million tonne.
- ♦ **Industry growth:** The plastic piping industry is estimated to grow by 12-15% y-o-y in volume terms in FY2025.
- ♦ **PVC prices:** PVC resin prices increased by Rs. 13/kg or 15% y-o-y during Q1FY2025. In June 2024, PVC prices increased by Rs. 8/kg, which led to the withdrawal of purchases by dealers. However, from the second week of July, it has declined by Rs. 4/kg. The company expects re-stocking to start from the second half of August 2024, once prices stabilize. CPVC prices have started to go up.
- ♦ **Nal se Jal:** The Nal se Jal scheme's volume and value contribution was not much in Q1FY2025. It expects business to start from September 2024.
- ♦ **PVC-O pipes:** The current capacity of PVC-O pipes is 2,500 tonne. It is putting up nine more lines with an aggregate capacity of 30,000 tonne, which is expected over 30 months. Capex for one line is Rs. 40 crore. PVC-O pipes are expected to supplement ductile iron pipes once the government gives approval. Currently, the government purchases 4 million ductile iron pipes.

Results (Consolidated)

Rs cr

Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Revenue	2,636.4	2,368.6	11.3	3,007.9	-12.4
Total expenditure	2,249.0	2,047.0	9.9	2,517.2	-10.7
EBITDA	387.3	321.6	20.4	490.7	-21.1
Depreciation	86.0	72.1	19.4	77.2	11.5
EBIT	301.3	249.5	20.7	413.5	-27.1
Other income	21.4	14.2	51.0	18.1	18.5
Interest expenses	3.3	1.7	97.0	7.7	-56.9
PBT	319.4	262.1	21.9	423.9	-24.6
Tax expenses	83.6	67.8	23.2	109.7	-23.8
Share of profit from associate	37.5	21.3	76.0	40.7	-7.8
Adjusted net profit	273.4	215.5	26.8	354.8	-23.0
Extra ordinary items	0.0	0.0	-	0.0	-
Reported net profit	273.4	215.5	26.8	354.8	-23.0
Adjusted EPS (Rs.)	21.5	17.0	26.8	27.9	-23.0
			BPS		BPS
EBITDA Margin (%)	14.7	13.6	110	16.3	-160
PAT Margin (%)	10.4	9.1	130	11.8	-140
Effective tax rate (%)	26.2	25.9	30	25.9	30

Source: Company, Sharekhan Research

Outlook and Valuation

■ Sector view - Expect faster recovery in operations

The building materials industry was severely affected by 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.

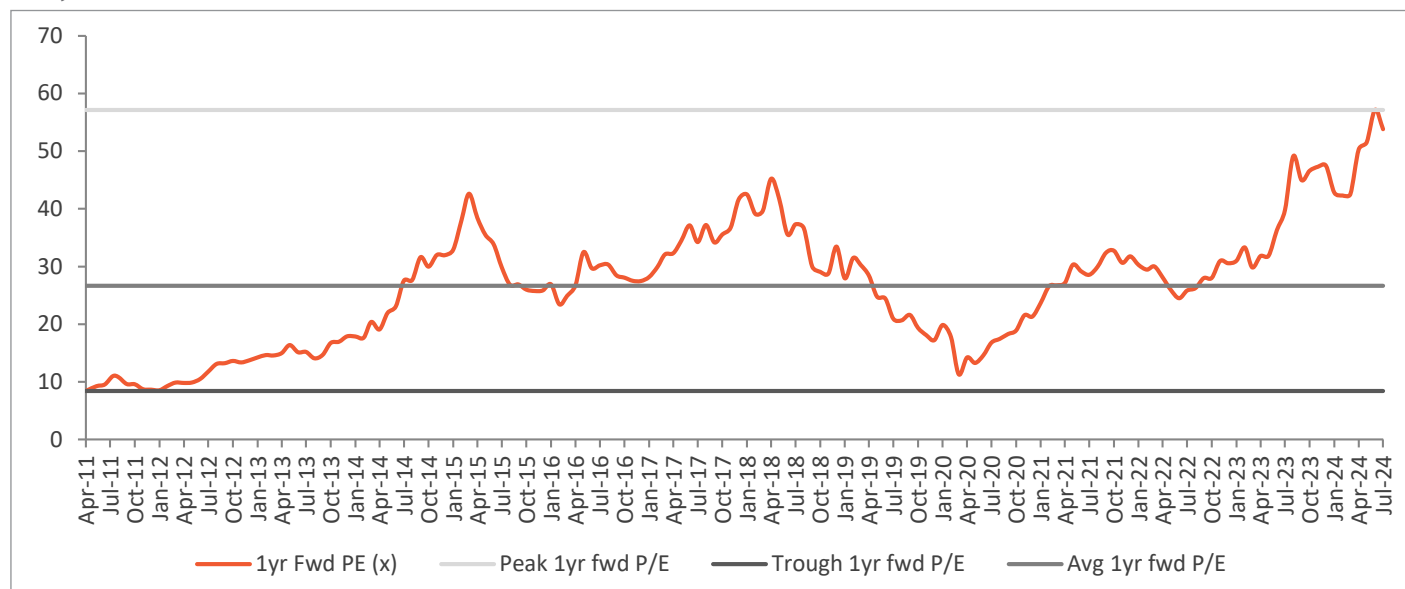
■ Company outlook - Eyeing healthy demand growth

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. Management remains optimistic about reporting 25% y-o-y volume growth in plastic piping for FY2025. Management remains confident of maintaining stable OPM. 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. 1,500 crore, which would be entirely funded through internal accruals.

■ Valuation - Retain BUY with an unchanged PT of Rs. 6,850

SIL continues to benefit from sustained agriculture and infrastructure demand, although volatility in PVC prices is expected to affect its business in the near term. However, it is well poised to achieve a healthy volume growth trajectory over the next 3-4 years owing to sustained demand. Aggressive expansions, funded entirely through internal accruals, are expected to keep its balance sheet strong. A healthy demand outlook and incremental capacity additions are likely to drive a 19% net earnings CAGR over FY2024-FY2027. The stock is currently trading at a P/E of 48x/40x its FY2026E/FY2027E earnings. We retain our BUY rating on the stock with an unchanged PT of Rs. 6,850, considering sustainable long-term demand growth tailwinds.

One-year forward P/E (x) band



Source: Sharekhan Research

Peer Comparison

Companies	P/E (x)		EV/EBITDA (x)		P/BV (x)		RoE (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Supreme Industries	57.3	48.0	38.3	31.5	12.2	10.5	21.3	21.8
Astral	80.9	63.4	49.8	39.8	15.5	12.5	21.1	21.9

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 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

A slowdown in demand offtake from the user industry can impact revenue growth rates. Adverse commodity price fluctuation might impact the company's 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

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

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

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

DISCLAIMER

This information/document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This information/ document is subject to changes without prior notice.

Recommendation in reports based on technical and derivatives analysis is based on studying charts of a stock's price movement, trading volume, outstanding positions, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals. However, this would only apply for information/document focused on technical and derivatives research and shall not apply to reports/documents/information focused on fundamental research.

This information/document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this information/report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved) and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other recommendations/ reports that are inconsistent with and reach different conclusions from the information presented in this recommendations/report.

This information/recommendation/report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst might have dealt or traded directly or indirectly in securities of the company and that all the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst and SHAREKHAN further certifies that either he or his relatives or Sharekhan associates might have direct or indirect financial interest or might have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report. The analyst and SHAREKHAN encourages independence in research report/ material preparation and strives to minimize conflict in preparation of research report. The analyst and SHAREKHAN does not have any material conflict of interest or has not served as officer, director or employee or engaged in market making activity of the company. The analyst and SHAREKHAN has not been a part of the team which has managed or co-managed the public offerings of the company, and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Ltd or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Forward-looking statements (if any) are provided to allow potential investors the opportunity to understand management's beliefs and opinions in respect of the future so that they may use such beliefs and opinions as one factor in evaluating an investment. These statements are not a guarantee of future performance and undue reliance should not be placed on them. Such forward-looking statements necessarily involve known and unknown risks and uncertainties, which may cause actual performance and financial results in future periods to differ materially from any projections of future performance or result expressed or implied by such forward-looking statements. Sharekhan/its affiliates undertakes no obligation to update forward-looking statements if circumstances or management's estimates or opinions should change except as required by applicable securities laws. The reader/investors are cautioned not to place undue reliance on forward-looking statements and use their independent judgement before taking any investment decision.

Investment in securities market are subject to market risks, read all the related documents carefully before investing. The securities quoted are for illustration only and are not recommendatory. Registration granted by SEBI, and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com

Registration and Contact Details: Name of Research Analyst - Sharekhan Limited, Research Analyst Regn No.: INH000006183. (CIN): - U99999MH1995PLC087498.

Registered Office: The Ruby, 18th Floor, 29 Senapati Bapat Marg, Dadar (West), Mumbai – 400 028, Maharashtra, INDIA. Tel: 022-67502000.

Correspondence Office: Gigaplex IT Park, Unit No 1001, 10th floor, Building No.9, TTC Industrial Area, Digha, Airoli-West, Navi Mumbai – 400 708. Tel: 022 61169000 / 61150000, Fax No. 61169699.

Other registrations of Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669. BSE – 748, NSE – 10733, MCX – 56125, MSEI – 1043.

Compliance Officer: Ms. Binkle R. Oza; Tel: 022-62263303; email id: complianceofficer@sharekhan.com

For any complaints/grievance, email us at igc@sharekhan.com or you may even call Customer Service desk on - 022-41523200/022 - 33054600