



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. 56,890 cr
52-week high/low:	Rs. 6,482/3,604
NSE volume: (No of shares)	4.3 lakh
BSE code:	509930
NSE code:	SUPREMEIND
Free float: (No of shares)	6.5 cr

Shareholding (%)

FII	26
Institutions	11
Public & others	15
Promoters	49

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	-17.8	-18.7	6.8	4.2
Relative to Sensex	-12.2	-18.4	-2.0	-20.0

Sharekhan Research, Bloomberg

Supreme Industries Ltd
Steep PVC volatility dent Q2; dip offers buying opportunity

Building Materials	Sharekhan code: SUPREMEIND		
Reco/View: Buy	↔	CMP: Rs. 4479	Price Target: Rs. 5700
↑ Upgrade	↔ Maintain	↓ Downgrade	

Summary

- We retain a Buy on Supreme Industries Limited (SIL) with a revised PT of Rs. 5,700, lowering our valuation multiple. Stock price correction of over 15% in past few days provide buying opportunity.
- Q2FY2025 earnings performance lagged estimates led by sharp volatility in PVC prices, weak infrastructure demand and extended monsoons. However, adjusted OPMs beat estimates.
- The management lowered overall volume growth guidance to 14-15% y-o-y and plastic piping volume growth to 16-18% y-o-y for FY2025. Consolidated OPM guidance marginally lowered to 14.5-15.25%.
- Stabilisation of PVC prices at lower levels, expected pick-up in infrastructure, housing and agriculture demand is expected to result in strong H2 performance.

Supreme Industries Limited (SIL) reported lower-than-expected consolidated revenue of Rs. 2,273 crore (down 1.5% y-o-y) on account of flattish volume growth y-o-y (plastic piping volumes decline 1% y-o-y) while realisations fell by 1% y-o-y (up 9% q-o-q). Plastic piping volumes were affected by steep 17.5% decline in PVC prices between July 1, 2024 and August 16, 2024 (leading to deep de-stocking in entire trade channel), low spending on infrastructure and extended monsoons. Consolidated OPM at 14% (down 139 bps y-o-y) lagged our estimate of 14.7% due to inventory loss of Rs. 35-40 crore (adjusting for the same OPMs were higher than estimate at 15.8%). Overall consolidated operating profit and net profit declined by 10.4% y-o-y and 15% y-o-y to Rs. 319 crore and Rs. 207 crore, respectively (11% and 13% lower than our estimates respectively). The company lowered its overall volume growth guidance to 14-15% (earlier 20% y-o-y) and plastic piping volume growth to 16-18% (earlier 25% y-o-y) for FY2025. Consolidated OPM guidance was marginally lowered to 14.5-15.25% (from 15-15.5% earlier) for FY2025. Stabilisation of PVC prices at lower levels and expected pick-up in demand from infrastructure, housing and agriculture sectors, is expected to result in strong volume growth in H2FY2025. SIL's capacity expansion plans remain on track with an overall capex commitment of Rs. 1,500 crore.

Key positives

- Packaging products reported strong volume and value growth of 11% y-o-y and 14% y-o-y, respectively.
- Blended realisations were up 9% q-o-q. Adjusting for inventory losses, consolidated OPM came in higher than estimate at 15.8%.

Key negatives

- Plastic piping volumes stayed flat y-o-y affected by sharp volatility in PVC prices, weak infrastructure demand and extended monsoons.
- Cash surplus reduced q-o-q to Rs. 674 crore as against Rs. 1245 crore in Q1FY2025.
- Value-added product revenues declined by 3.7% y-o-y to Rs. 907 crore.

Management Commentary

- The company lowered plastic piping volume growth guidance to 16-18% y-o-y from 25% y-o-y for FY2025 and overall volume growth to 14-15% y-o-y from 20% y-o-y. OPM guidance was marginally lowered to 14.5-15.25% from 15-15.5%.
- It is testing the gas piping market with an initial capacity of 3000 tonne per month and would be selling from current quarter. The annual market size for gas pipes is estimates at 1 lakh tonne.
- The company retained its capex commitment of Rs. 1500 crore and cash outflow of Rs. 1000 crore during FY2025.

Revision in estimates – We have fine-tuned our earnings estimates for FY2025-FY2027.

Our Call

Valuation – Retain BUY with a revised PT of Rs. 5,700: SIL is expected to benefit from healthy agriculture, housing and infrastructure demand, with stabilization of PVC prices at lower levels. 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 an 18% net earnings CAGR over FY2024-FY2027. The stock has corrected over 15% in trailing few days and is currently trading at a P/E of 39x/33x its FY2026E/FY2027E earnings. We believe that the recent correction offer buying opportunity and retain our BUY rating on the stock with a revised price target (PT) of Rs. 5,700, lowering our valuation multiple and 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	11,944	13,756	15,856
OPM (%)	15.3	15.1	15.8	16.5
Adjusted PAT	1,070	1,231	1,466	1,747
YoY growth (%)	23.6	15.1	19.0	19.2
Adjusted EPS (Rs.)	84.2	97.0	115.4	137.6
P/E (x)	53.2	46.2	38.8	32.6
P/B (x)	11.1	9.6	8.3	7.1
EV/EBITDA (x)	35.6	30.8	25.3	20.8
RoNW (%)	20.9	20.8	21.4	21.8
RoCE (%)	23.6	23.8	25.0	26.2

Source: Company; Sharekhan estimates

Key Conference Call Takeaways

- ◆ **Guidance:** The company lowered plastic piping volume growth guidance to 16-18% y-o-y from 25% y-o-y for FY2025 and overall volume growth to 14-15% y-o-y from 20% y-o-y. OPM guidance was marginally lowered to 14.5-15.25% from 15-15.5%. It would assess the volume growth guidance for FY2026 later (12-14% y-o-y stated during Q1FY2025 earnings call).
- ◆ **Q2FY2025 performance:** Company achieved a flat volume y-o-y and 2% y-o-y decline in value terms during Q2FY2025. CPVC pipe volume growth was 33% y-o-y during H1FY2025. Consolidated operating profit declined by 10% y-o-y to Rs. 319 crore and net profit declined by 15% y-o-y to Rs. 207 crore. Inventory loss in Q2 is estimated at Rs. 35-40 crore. Value-added products' revenue declined by 3.7% y-o-y to Rs. 907 crore. Cash surplus stood at Rs. 674 crore as against Rs. 1245 crore in Q1FY2025.
- ◆ **Segment-wise performance:** Segment-wise volume and value growth were as follows – Plastic piping system business de-grew 1% in volume and 5% in value terms. The packaging product segment business grew by 11% in volume and 14% in value terms. The industrial product segment business de-grew 2% in volume and grew by 1% in value terms. Consumer product segment business de-grew by 8% in volume and 1% in value terms.
- ◆ **Capex:** 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 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 have grown by 9-10% y-o-y in volume terms in H1FY2025.
- ◆ **PVC prices:** PVC resin prices steeply declined by 17.5% between July 1, 2024 and August 16, 2024 led by reversal of freight rate increase witnessed between mid-April and June 30, 2024 (PVC prices inched up 19%). Hence, the sharp volatility led to deep de-stocking in the entire trade channel. Further, low infra spending and extended monsoons impacted demand. For the company, PVC volumes de-grew by 20% y-o-y in July, marginal 3% y-o-y growth in August and healthy 15% growth in September 2024. PVC prices are now stable at lower levels, which along with expected improvement in infra and agri demand is expected to lead to strong volume growth in H2FY2025.
- ◆ **PE pipes:** It is testing the gas piping market with an initial capacity of 3000 tonne per month and would be selling from current quarter. It would also be supplying fittings. The annual market size of gas pipes is estimates at 1 lakh tonne.

Results (Consolidated)

Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)
Revenue	2,273.0	2,308.7	-1.5	2,636.4	-13.8
Total expenditure	1,953.7	1,952.5	0.1	2,249.0	-13.1
EBITDA	319.2	356.2	-10.4	387.3	-17.6
Depreciation	89.9	71.9	25.1	86.0	4.5
EBIT	229.3	284.3	-19.4	301.3	-23.9
Other income	15.1	12.7	18.6	21.4	-29.8
Interest expenses	2.6	1.6	69.0	3.3	-21.3
PBT	241.7	295.5	-18.2	319.4	-24.3
Tax expenses	62.9	76.3	-17.5	83.6	-24.7
Share of profit from associate	27.8	24.0	15.7	37.5	-25.9
Adjusted net profit	206.6	243.2	-15.0	273.4	-24.4
Extraordinary items	0.0	0.0	-	0.0	-
Reported net profit	206.6	243.2	-15.0	273.4	-24.4
Adjusted EPS (Rs.)	16.3	19.1	-15.0	21.5	-24.4
			BPS		BPS
EBITDA Margin (%)	14.0	15.4	-140	14.7	-70
PAT Margin (%)	9.1	10.5	-140	10.4	-130
Effective tax rate (%)	26.0	25.8	20	26.2	-20

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.

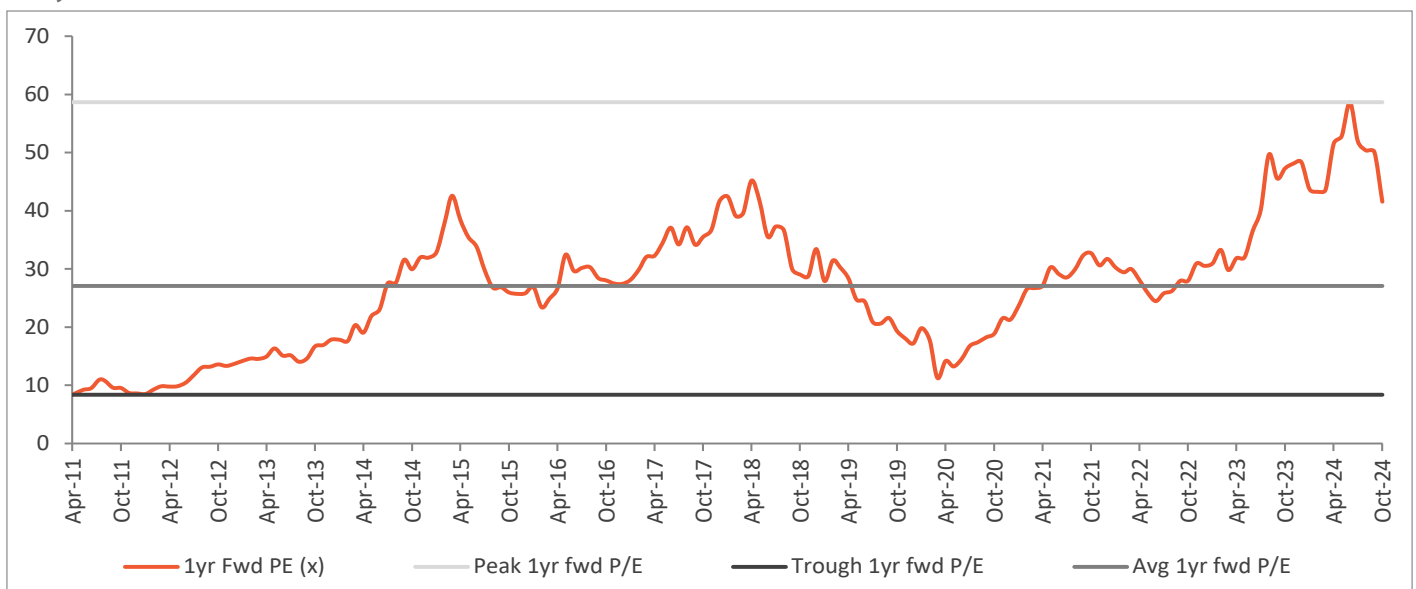
■ Company outlook - Eyeing healthy demand growth

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. The management remains optimistic about reporting 16-18% 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 a revised PT of Rs. 5,700

SIL is expected to benefit from healthy agriculture, housing and infrastructure demand, with stabilization of PVC prices at lower levels. 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 an 18% net earnings CAGR over FY2024-FY2027. The stock has corrected over 15% in trailing few days and is currently trading at a P/E of 39x/33x its FY2026E/FY2027E earnings. We believe that the recent correction offer buying opportunity and retain our BUY rating on the stock with a revised price target (PT) of Rs. 5,700, lowering our valuation multiple and 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	46.2	38.8	30.8	25.3	9.6	8.3	20.8	21.4
Astral	72.7	55.0	43.3	33.7	12.6	10.3	18.9	20.6

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) and Company Secretary and 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

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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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