

HOLD

TP: Rs 2,055 | ▼ 5%

SUPREME INDUSTRIES

Plastic Products

31 October 2022

Muted quarter but H2 revival on track

- Q2 revenue grew 8% YoY led by a 9% volume uptick despite seasonal weakness
- EBITDA margin contracted 905bps YoY to 7.1% as RM-to-sales cost surged 830bps on higher inventory losses
- Volume guidance upped but margins cut on volatile PVC prices. We lower FY23 EPS 10% (FY24 unchanged); retain HOLD and TP of Rs 2,055

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Healthy volumes drive topline growth: SI's Q2FY23 revenue grew 8.2% YoY to Rs 20.9bn as volumes in plastic pipes/industrial products/packaging products grew 9%/19%/3% YoY. Overall volumes increased 9% YoY (+2.6% QoQ) to 111,803mt.

EBITDA margin contracts 905bps: Gross margin declined 830bps YoY to 23.2% due to a drop in polymer prices and inventory losses. Further, the prices of different polymers, particularly polypropylene (PP), LDPE and PVC, have fallen between Rs 31/kg and Rs 55/kg since Jan'22 – a reduction of 21-38%. This has fuelled inventory losses and, in turn, a 905bps YoY drop in EBITDA margin to 7.1% (-515bps QoQ).

Volume guidance upped, margins reduced: Management has guided for 20% volume growth in FY23 (vs. 15% earlier) and 16% topline growth to Rs 90bn. EBITDA margin is now guided to be in the region of 12-12.5% (vs. 15% earlier). According to management, the steep fall in PVC resin prices by Rs 55/kg or 38% since April this year augurs well for volume growth in H2FY23 as products become more affordable.

Better quarter than FNXP: SI reported 9.3% YoY volume growth in plastic pipes vs. 6.8% for FNXP in Q2 and a 6.5% drop in realisations vs. a 16.5% decline for its peer. Revenue in plastic pipes grew 2.2% YoY vs. a 11% fall for FNXP. On a three-year basis, the company's plastic pipe revenue has clocked a 16.8% CAGR (Q2FY20-Q2FY23) vs. a 15.7% increase for its peer over the same period.

Maintain HOLD: The correction in PVC prices has cheered sentiments across the value chain, as reflected in the 9% YoY volume growth. However, channel inventory remains low. With PVC prices now trading close to normal levels, we expect volumes to pick up in H2FY23, further supported by rising agricultural demand and better affordability. We raise FY23/FY24 topline estimates 10%/18% given the higher volume guidance, but cut FY23 PAT by 10% (FY24E unchanged) to bake in the weaker margin outlook. We continue to value SI at 29x FY24E EPS vs. its 5Y median of 31.2x and maintain our TP of Rs 2,055 with a HOLD rating given limited upside potential.

Key changes

Target	Rating
◀▶	◀▶

Ticker/Price	SI IN/Rs 2,170
Market cap	US\$ 3.3bn
Free float	51%
3M ADV	US\$ 1.8mn
52wk high/low	Rs 2,493/Rs 1,666
Promoter/FPI/DII	49%/16%/35%

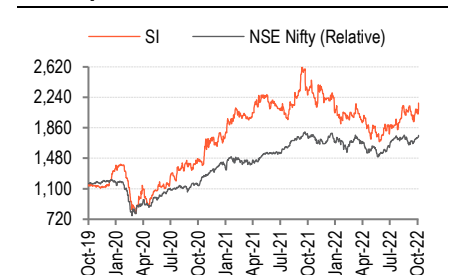
Source: NSE | Price as of 31 Oct 2022

Key financials

Y/E 31 Mar	FY22A	FY23E	FY24E
Total revenue (Rs mn)	77,728	86,486	1,00,916
EBITDA (Rs mn)	12,421	10,647	13,019
Adj. net profit (Rs mn)	9,684	7,319	8,998
Adj. EPS (Rs)	76.2	57.6	70.8
Consensus EPS (Rs)	76.2	76.3	84.6
Adj. ROAE (%)	27.6	18.1	20.3
Adj. P/E (x)	28.5	37.7	30.6
EV/EBITDA (x)	22.1	26.2	21.6
Adj. EPS growth (%)	1.0	(24.4)	22.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings call highlights

- **Furniture division:** SI's furniture segment posted revenue of Rs 2bn in H1FY23 with 17% volume growth and improved profitability over H1FY22. Prices of PP – its principal raw material – saw a steep correction during H1. This should result in improved segmental volumes and profits in H2FY23.
- **Cross-laminated films:** Cross-laminated film products have started to show improvement with increased sales of made-up products and penetration in several export markets. SI expects 10% volume growth in this segment for the year with better profitability.
- **Composite cylinders:** While orders for composite cylinders are flowing in from existing as well as new customers, SI is unable to take on the same due to capacity constraints. Existing capacity is running at full utilisation and primarily catering to orders received from Indian Oil Corp. Work on doubling capacity is progressing well and the same is likely to become operational by Dec'22.
- **Industrial components:** As per management, business conditions in the industrial components division are showing signs of gradual improvement. SI expects the demand climate to brighten for appliances such as washing machines, air conditioners, coolers and refrigerators – all segments where it has a good presence.
- **Value-added products:** Revenue from value-added products increased by 5% YoY to ~Rs 8bn in Q2FY23 compared to Rs 7.6bn in Q2FY22. The share of these products in total revenue stood at 38.2% vs. 39.3% in the year-ago quarter.
- **Segmental capacity:** As of Q2, capacity is as follows: plastic piping – 580,000mt, industrial products – 83,000mt, packaging products – 90,000mt and consumer products – 30,000mt.
- **Capex plan:** The company plans to incur capex of Rs 7bn in FY23, including carry-forward commitments of Rs 2.8bn. The entire capex and increased working capital requirement shall be funded from internal accruals.
- **Cash flows:** SI had a cash surplus of Rs 4.9bn as on 30 Sep 2022 as against a surplus of Rs 5.2bn as on 31 Mar 2022.
- **Dividend:** The board of directors has declared interim dividend of 300%, i.e. Rs 6/sh, for FY23.

Fig 1 – Quarterly performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Total revenues	20,866	19,285	8.2	22,060	(5.4)	42,926	32,706	31.2
Total raw material consumed	16,022	13,207	21.3	16,224	(1.2)	32,246	21,869	47.4
% of sales	76.8	68.5	830bps	73.5	324bps	75.1	66.9	825bps
Employee expense	882	866	1.9	910	(3.0)	1,792	1,669	7.4
% of sales	4.2	4.5	(26bps)	4.1	11bps	4.2	5.1	(93bps)
Power & fuel expense	659	566	16.3	565	16.6	1223	1010	21.2
% of sales	3.2	2.9	22bps	2.6	60bps	2.8	3.1	(24bps)
Other expense	1,832	1,539	19.1	1,672	9.6	3,505	2,831	23.8
% of sales	8.8	8.0	80bps	7.6	120bps	8.2	8.7	(49bps)
EBITDA	1,471	3,108	(52.7)	2,689	(45.3)	4,160	5,328	(21.9)
EBITDA margin (%)	7.1	16.1	(906bps)	12.2	(514bps)	9.7	16.3	(660bps)
Depreciation	649	571	13.5	617	5.1	1,265	1,132	11.7
Other income	55	41	35.0	46	21.3	101	84	19.7
Interest cost	12	7	76.5	16	(26.4)	28	28	0.7
PBT	866	2,571	(66.3)	2,102	(58.8)	2,968	4,252	(30.2)
Taxes	231	675	(65.7)	543	(57.4)	774	1,104	(29.9)
Effective tax rate (%)	27	26	47bps	26	88bps	26	26	12bps
PAT	635	1,896	(66.5)	1,559	(59.3)	2,193	3,147	(30.3)
Share of profit of associate	186	391	(52.5)	580	(68.0)	766	841	(9.0)
RPAT	820	2,287	(64.1)	2,139	(61.6)	2,959	3,989	(25.8)

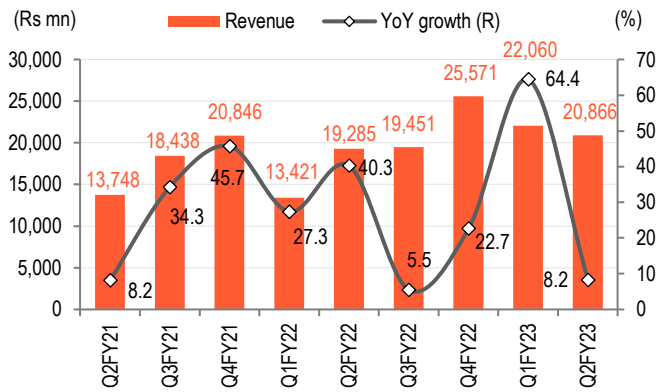
Source: Company, BOBCAPS Research

Fig 2 – Segmental performance

(Rs mn)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)	H1FY23	H1FY22	YoY (%)
Revenue								
Plastic Piping Products	12,947	12,673	2.2	14,633	(11.5)	27,581	20,983	31.4
Industrial Products	3,349	2,530	32.4	3,023	10.8	6,371	4,519	41.0
Packaging Products	3,278	2,773	18.2	3,263	0.5	6,542	5,214	25.5
Consumer Products	1,119	1,112	0.7	958	16.9	2,077	1,596	30.1
Others	173	199	(12.9)	183	(5.4)	356	394	(9.6)
Net Revenue from Operations	20,866	19,285	8.2	22,060	(5.4)	42,926	32,706	31.2
EBIT								
Plastic Piping Products	248	1,940	(87.2)	1,544	(84.0)	1,792	3,356	(46.6)
Industrial Products	298	192	55.3	256	16.8	554	314	76.3
Packaging Products	213	255	(16.4)	228	(6.4)	441	426	3.4
Consumer Products	155	175	(11.3)	110	41.0	265	181	46.4
Others	(32)	22	(248.8)	(6)	471.4	(38)	16	(336.5)
Total EBIT	882	2,584	(66)	2,132	(58.6)	3,014	4,293	(29.8)
EBIT margin (%)								
Plastic Piping Products	1.9	15.3	(1340bps)	10.6	(864bps)	6.5	16.0	(950bps)
Industrial Products	8.9	7.6	131bps	8.5	46bps	8.7	7.0	174bps
Packaging Products	6.5	9.2	(269bps)	7.0	(48bps)	6.7	8.2	(144bps)
Consumer Products	13.9	15.7	(187bps)	11.5	237bps	12.8	11.4	142bps

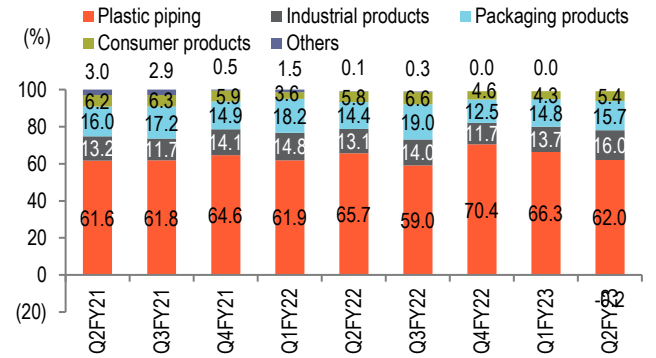
Source: Company, BOBCAPS Research

Fig 3 – Consolidated revenue growth



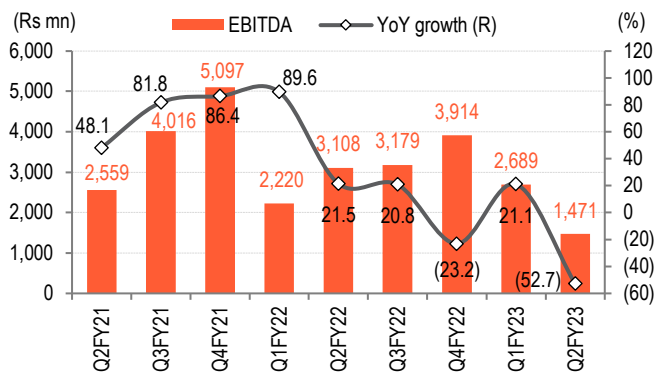
Source: Company, BOBCAPS Research

Fig 4 – Revenue mix



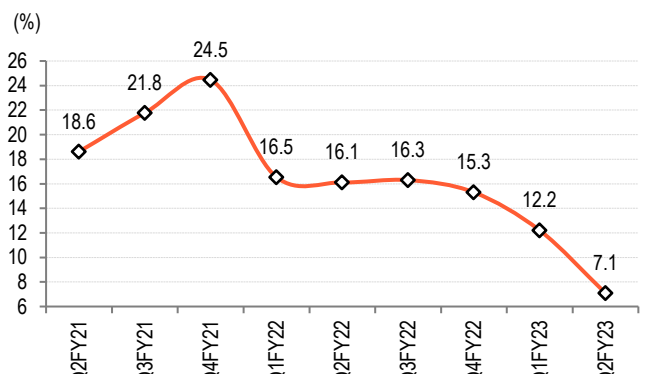
Source: Company, BOBCAPS Research

Fig 5 – Consolidated EBITDA growth



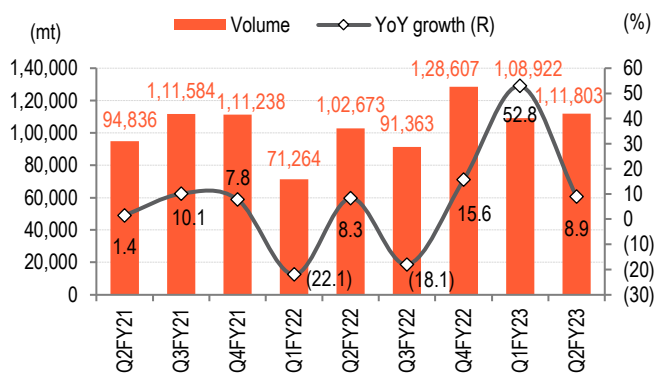
Source: Company, BOBCAPS Research

Fig 6 – Consolidated EBITDA margin



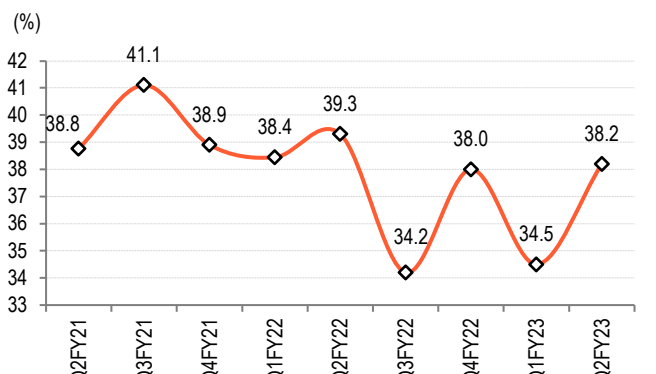
Source: Company, BOBCAPS Research

Fig 7 – Volume growth



Source: Company, BOBCAPS Research

Fig 8 – Revenue share of value-added products



Source: Company, BOBCAPS Research

Fig 9 – Segmental volume growth

(mt)	Q2FY23	Q2FY22	YoY (%)	Q1FY23	QoQ (%)
Plastic Piping	79,220	72,480	9.3	79,424	(0.3)
Industrial Products	14,766	12,390	19.2	12,901	14.5
Packaging Products	13,297	12,905	3.0	12,866	3.3
Consumer Products	4,520	4,898	(7.7)	3,731	21.1
Total	1,11,803	1,02,673	8.9	1,08,922	2.6

Source: Company, BOBCAPS Research

Valuation methodology

We remain positive on SI's growth supported by incremental capacity as well as improving housing demand, benefits from government schemes such as 'Nal Se Jal', infrastructure development, the company's net debt-free balance sheet and healthy return ratios. The correction in PVC prices over Q2FY23 has cheered sentiments across the value chain, as reflected in SI's 9% YoY volume growth. However, channel inventory remains low. With PVC prices now trading close to normal levels, we expect volumes to pick up in H2FY23, further supported by rising agricultural demand and better affordability.

We raise our FY23/FY24 topline estimates by 10%/18% given management's higher volume guidance, but cut FY23 PAT by 10% (FY24E unchanged) to bake in the weaker margin outlook. We continue to value SI at 29x FY24E EPS vs. its five-year median of 31.2x and maintain our TP of Rs 2,055 – retain HOLD as positives appear priced in, leaving limited upside potential.

Fig 10 – Revised estimates

(Rs mn)	New		Old		Change (%)	
	FY23E	FY24E	FY23E	FY24E	FY23E	FY24E
Net Sales	86,486	1,00,916	78,640	85,831	9.9	17.6
EBITDA	10,647	13,019	11,674	13,018	(8.8)	0.0
EBITDA margin (%)	12.3	12.9	14.8	15.2	(250bps)	(230bps)
PAT	7,319	8,998	8,087	8,997	(9.5)	0.0

Source: BOBCAPS Research

Key risks

Key upside risks to our estimates are:

- rising PVC prices,
- faster-than-expected revival in agricultural/housing markets, and
- complacent behaviour from unorganised players.

Key downside risks are:

- slowdown in demand,
- adverse commodity price fluctuations, and
- delayed capacity expansion.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Astral	ASTRA IN	4.9	2,031	2,205	HOLD
Finolex Industries	FNXP IN	1.0	134	130	HOLD
Supreme Industries	SI IN	3.3	2,170	2,055	HOLD

Source: BOBCAPS Research, NSE | Price as of 31 Oct 2022

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Total revenue	55,087	63,496	77,728	86,486	1,00,916
EBITDA	8,563	12,786	12,421	10,647	13,019
Depreciation	(2,057)	(2,128)	(2,295)	(2,727)	(3,024)
EBIT	6,506	10,658	10,126	7,920	9,995
Net interest inc./(exp.)	(297)	(221)	(52)	(95)	(177)
Other inc./(exp.)	84	37	200	259	311
Exceptional items	(192)	189	0	0	0
EBT	6,293	10,473	10,274	8,085	10,129
Income taxes	(1,739)	(2,341)	(2,633)	(2,466)	(3,031)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	312	1,460	2,044	1,700	1,900
Reported net profit	4,674	9,781	9,684	7,319	8,998
Adjustments	192	(189)	0	0	0
Adjusted net profit	4,866	9,592	9,684	7,319	8,998

Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Accounts payables	5,475	6,462	7,940	8,293	9,677
Other current liabilities	2,347	3,377	2,294	3,317	3,871
Provisions	313	364	320	605	706
Debt funds	4,113	10	40	908	858
Other liabilities	947	919	904	904	904
Equity capital	254	254	254	254	254
Reserves & surplus	22,358	31,438	38,190	42,031	46,130
Shareholders' fund	22,612	31,692	38,444	42,285	46,384
Total liab. and equities	35,807	42,823	49,942	56,313	62,400
Cash and cash eq.	1,614	1,039	5,307	6,012	5,405
Accounts receivables	3,128	3,898	4,668	5,450	6,359
Inventories	8,906	7,608	12,602	12,321	14,377
Other current assets	2,379	2,614	3,140	3,317	3,871
Investments	2,773	10,011	4,995	5,795	7,495
Net fixed assets	15,917	17,033	17,685	21,872	23,348
CWIP	929	508	1,546	1,546	1,546
Intangible assets	160	112	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	35,807	42,823	49,942	56,313	62,400

Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Cash flow from operations	6,038	14,491	6,093	11,125	10,719
Capital expenditures	(2,953)	(2,774)	(4,381)	(6,407)	(4,500)
Change in investments	(550)	(7,238)	5,016	(800)	(1,700)
Other investing cash flows	(211)	0	15	0	0
Cash flow from investing	(3,714)	(10,012)	650	(7,207)	(6,200)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,500	(4,103)	31	868	(50)
Interest expenses	(297)	(221)	(52)	(95)	(177)
Dividends paid	(3,522)	(635)	(3,689)	(3,985)	(4,899)
Other financing cash flows	235	(94)	0	0	0
Cash flow from financing	(1,084)	(5,053)	(3,710)	(3,212)	(5,126)
Chg in cash & cash eq.	1,240	(575)	3,034	705	(607)
Closing cash & cash eq.	1,613	1,039	4,073	4,778	4,170

Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22A	FY23E	FY24E
Reported EPS	36.8	77.0	76.2	57.6	70.8
Adjusted EPS	38.3	75.5	76.2	57.6	70.8
Dividend per share	14.0	14.0	24.0	25.9	31.9
Book value per share	178.0	249.5	302.6	332.9	365.1

Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22A	FY23E	FY24E
EV/Sales	5.0	4.3	3.5	3.2	2.8
EV/EBITDA	32.0	21.4	22.1	26.2	21.6
Adjusted P/E	56.7	28.7	28.5	37.7	30.6
P/BV	12.2	8.7	7.2	6.5	5.9

DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22A	FY23E	FY24E
Tax burden (Net profit/PBT)	79.8	90.0	94.3	90.5	88.8
Interest burden (PBT/EBIT)	93.8	100.0	101.5	102.1	101.3
EBIT margin (EBIT/Revenue)	11.8	16.8	13.0	9.2	9.9
Asset turnover (Rev./Avg TA)	162.6	161.5	167.6	162.8	170.0
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.3	1.3
Adjusted ROAE	22.0	35.3	27.6	18.1	20.3

Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22A	FY23E	FY24E
YoY growth (%)					
Revenue	(1.8)	15.3	22.4	11.3	16.7
EBITDA	9.6	49.3	(2.9)	(14.3)	22.3
Adjusted EPS	32.1	97.1	1.0	(24.4)	22.9
Profitability & Return ratios (%)					
EBITDA margin	15.5	20.1	16.0	12.3	12.9
EBIT margin	11.8	16.8	13.0	9.2	9.9
Adjusted profit margin	8.8	15.1	12.5	8.5	8.9
Adjusted ROAE	22.0	35.3	27.6	18.1	20.3
ROCE	18.7	28.5	21.5	13.5	15.5
Working capital days (days)					
Receivables	23	20	20	21	21
Inventory	84	75	69	74	68
Payables	43	43	40	39	37
Ratios (x)					
Gross asset turnover	1.9	2.0	2.2	2.1	2.2
Current ratio	1.3	1.5	2.4	2.1	2.0
Net interest coverage ratio	21.9	48.2	196.6	83.5	56.6
Adjusted debt/equity	0.1	0.0	(0.1)	(0.1)	(0.1)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

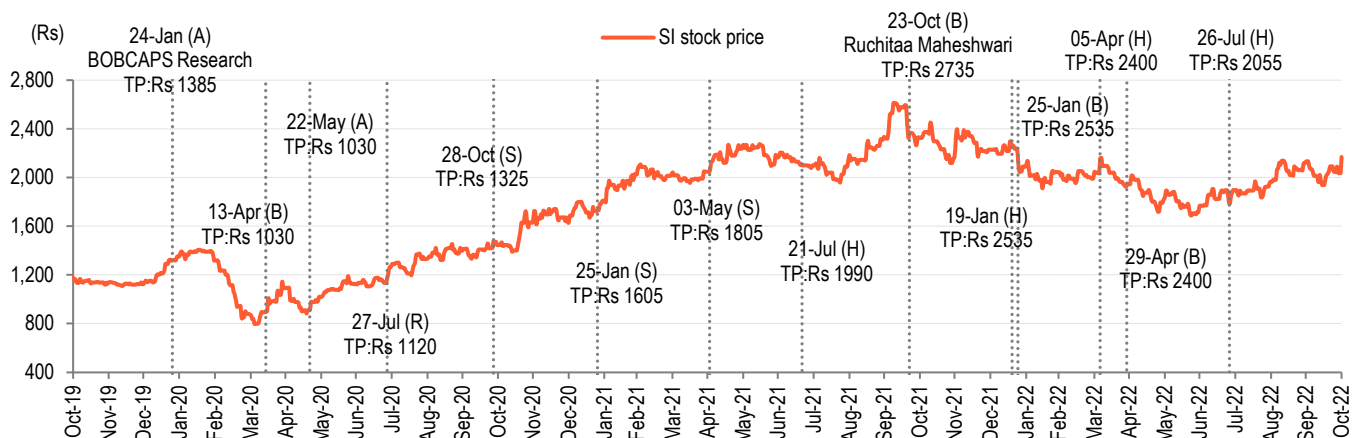
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SUPREME INDUSTRIES (SI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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