

**BUY**

TP: Rs 2,400 | ▲ 23%

**SUPREME INDUSTRIES**

Plastic Products

29 April 2022

## Healthy volumes but margins soft; raise to BUY post correction

- Q4 revenue grew 23% YoY led by increased realisations (+6%) and volume recovery (+16%)
- EBITDA margin contracted 915bps YoY to 15.3% as RM-to-sales cost surged 1,095bps
- Upgrade from HOLD to BUY given the recent 10% stock price correction; TP maintained at Rs 2,400 (29x FY24E EPS)

Ruchitaa Maheshwari

researchreport@bobcaps.in

**High realisations and volume recovery aid strong topline growth:** SI's Q4FY22 revenue grew 23% YoY to Rs 25.6bn led by 27% volume growth in plastic pipe systems and a 6% rise in blended realisations to Rs 197/kg (vs Rs 210/kg in Q3FY22). Packaging product volumes declined 16% YoY, consumer products fell 11% and industrial products remained flattish. Overall volumes, however, increased ~16% YoY and ~41% QoQ to 128,607mt led by higher offtake in the housing segment and channel restocking at the dealer level. Aided by an increase in PVC prices (price hike to the tune of 10-12%) and improved demand in Q4, SI was able to recoup a large part of the volumes and sales lost amid the third Covid wave.

**Revival in pipes segment:** Segment-wise volume/value growth YoY for the quarter was as follows – plastic pipes: +27%/+34%, packaging products: -16%/+3%, industrial products: +0.1%/+2%, and consumer products: -11%/-5%.

**EBITDA margin contracts 915bps:** Gross margin declined 1,095bps YoY to 28% owing to high volatility in raw material prices and a change in product mix. EBITDA margin dropped 915bps YoY (-105bps QoQ) to 15.3%.

**Capex plan of Rs 7bn for FY23:** SI plans to incur capex of Rs 7bn including carry-forward commitments of Rs 2.8bn. The entire capex and increased working capital requirement shall be funded from internal accruals.

**Growth outlook steady; upgrade to BUY on recent correction:** We remain positive on SI's growth and margin prospects supported by its incremental capacity, net debt-free balance sheet and healthy return ratios, as well as the improving housing demand, benefits from government schemes such as 'Nal Se Jal' and renewed infrastructure development. The stock has corrected 10% in less than a month and is trading at a P/E of 23.5x on FY24E, which is a 31% discount to its five-year median of 34.2x. We continue to value SI at 29x FY24E EPS and maintain our TP of Rs 2,400 while upgrading the stock from HOLD to BUY following the recent correction.

## Key changes

Target	Rating
◀ ▶	▲

Ticker/Price	SI IN/Rs 1,947
Market cap	US\$ 3.2bn
Free float	51%
3M ADV	US\$ 2.6mn
52wk high/low	Rs 2,694/Rs 1,873
Promoter/FPI/DII	49%/16%/35%

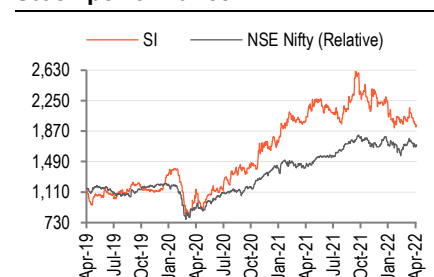
Source: NSE | Price as of 29 Apr 2022

## Key financials

Y/E 31 Mar	FY22P	FY23E	FY24E
Total revenue (Rs mn)	77,728	82,438	88,019
EBITDA (Rs mn)	12,421	13,858	14,966
Adj. net profit (Rs mn)	9,684	9,707	10,429
Adj. EPS (Rs)	76.2	76.4	82.1
Consensus EPS (Rs)	76.2	76.3	84.6
Adj. ROAE (%)	27.6	23.7	22.8
Adj. P/E (x)	25.5	25.5	23.7
EV/EBITDA (x)	19.9	18.1	16.9
Adj. EPS growth (%)	1.0	0.2	7.4

Source: Company, Bloomberg, BOBCAPS Research | P – Provisional

## Stock performance



Source: NSE



## Earnings call highlights

- **Volumes:** SI posted a 16% YoY volume pickup in Q4FY22 led by a 27% jump in plastic piping sales. Packaging product volumes fell 16% YoY and consumer products declined 11%, with industrial products remaining flattish. The company continues to add new products and deepen its market reach. Management has guided for a minimum of 15% volume growth in FY23.
- **Cross-laminated film:** SI's business of cross-laminated film products performed poorly in Q4 due to seasonality in one of its key products (tarpaulin – peak season between April and June), fierce competition from lookalike products and higher polymer prices which could not be passed on. The thrust in FY23 will be on promoting non-tarpaulin products, finding new applications, targeting new customers in existing markets and reaching new markets. SI expects exports to grow further in the current year and also aims to increase the sale of made-up products. The company has expanded its cross-laminated film capacity to 30,000mt per year.
- **Plastic furniture:** SI's furniture range is sold on various ecommerce portals and by retailers who are being serviced through 1,306 channel partners. In addition, the company has launched its own portal to showcase its wide range of premium products and plans to launch a variety of new models during FY23.
- **Composite cylinders:** The company has received a letter of intent (LOI) from IOCL for the supply of 735,186 composite LPG cylinders of 10kg capacity, valued at ~Rs 1.7bn. As the volume of business is large compared to the existing installed capacity, SI has taken steps to double capacity to ~1mn units per year and expects the same to become operational by Nov'22.
- **Value-added products:** Revenue from value-added products increased by 17% to Rs 29.1bn in FY22 compared to Rs 24.8bn in FY21. The share of these products in total revenue stood at 37.5% in FY22 vs. 39% in FY21.
- **CPVC pricing:** The CPVC pricing trend, unlike PVC, was steady in Q3FY22 and has been on an increasing trend in Q4. CPVC trades 35-40% higher than PVC.
- **Inventory:** During Q4, SI did not have any inventory loss.
- **Cash flows:** The company had a cash surplus of Rs 5.2bn as on 31 Mar 2022 as against a surplus of Rs 7.6bn as on 31 Mar 2021.
- **Capex of Rs 7bn planned for FY23:** A bulk of the Rs 7bn capex will be towards (a) completing and putting into operation ongoing project work at Assam to manufacture PVC pipes and Roto & Blow moulded products; (b) setup of a plastic product complex near Cuttack in Odisha and near Erode in Tamil Nadu (first phase expected to be completed by Aug-Sep'22); (c) doubling the capacity of composite LPG cylinders to 1mn pieces per year at Halol, Gujarat, and (d) Expanding capacities and product range of its bath fitting products at Puducherry.
- **Dividend:** The board has announced total dividend of Rs 24/sh in FY22.

**Fig 1 – Quarterly performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Total revenues</b>	<b>25,571</b>	<b>20,846</b>	<b>22.7</b>	<b>19,451</b>	<b>31.5</b>	<b>77,728</b>	<b>63,552</b>	<b>22.3</b>
Total raw material consumed	18,439	12,744	44.7	13,224	39.4	53,532	40,427	32.4
% of sales	72.1	61.1	1,097bps	68.0	412bps	68.9	63.6	526bps
Employee expense	904	931	(2.9)	880	2.7	3,453	3,104	11.3
% of sales	3.5	4.5	(93bps)	4.5	(99bps)	4.4	4.9	(44bps)
Power & fuel expense	615	548	12.2	510	20.5	2,134	1,986	7.5
% of sales	2.4	2.6	(22bps)	2.6	(22bps)	2.7	3.1	(38bps)
Other expense	1,699	1,526	11.4	1,658	2.5	6,188	5,194	19.1
% of sales	6.6	7.3	(67bps)	8.5	(188bps)	8.0	8.2	(21bps)
<b>EBITDA</b>	<b>3,914</b>	<b>5,097</b>	<b>(23.2)</b>	<b>3,179</b>	<b>23.1</b>	<b>12,421</b>	<b>12,842</b>	<b>(3.3)</b>
<b>EBITDA margin (%)</b>	<b>15.3</b>	<b>24.5</b>	<b>(915bps)</b>	<b>16.3</b>	<b>(103bps)</b>	<b>16.0</b>	<b>20.2</b>	<b>(423bps)</b>
Depreciation	588	548	7.3	575	2.3	2,295	2,128	7.9
Other income	86	82	4.4	29	192.5	200	169	18.1
Interest cost	19	50	(62.7)	5	308.7	52	221	(76.6)
<b>PBT</b>	<b>3,393</b>	<b>4,581</b>	<b>(25.9)</b>	<b>2,629</b>	<b>29.1</b>	<b>10,274</b>	<b>10,662</b>	<b>(3.6)</b>
Taxes	850.8	781.0	8.9	678.2	25.4	2,633.3	2,340.8	12.5
Effective tax rate (%)	25	17	803bps	26	(72bps)	26	22	368bps
<b>PAT</b>	<b>2,543</b>	<b>3,800</b>	<b>(33.1)</b>	<b>1,951</b>	<b>30.3</b>	<b>7,641</b>	<b>8,322</b>	<b>(8.2)</b>
Share of profit of associate	696	703	(1.0)	507	37.4	2,044	1,460	40.0
<b>RPAT</b>	<b>3,239</b>	<b>4,504</b>	<b>(28.1)</b>	<b>2,457</b>	<b>31.8</b>	<b>9,684</b>	<b>9,781</b>	<b>(1.0)</b>

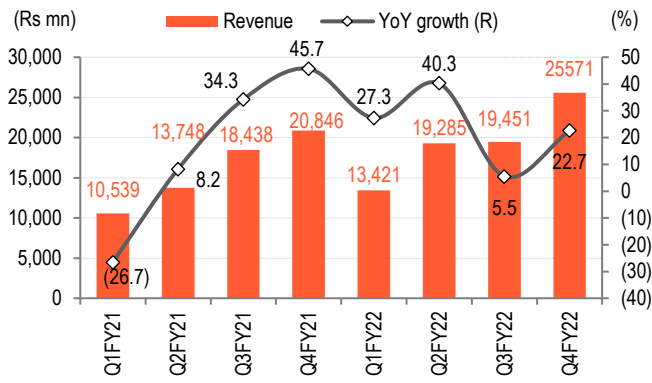
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

(Rs mn)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)	FY22	FY21	YoY (%)
<b>Segment revenue</b>								
Plastic Piping Products	17,997	13,468	33.6	11,479	56.8	50,460	40,988	23.1
Industrial Products	3,003	2,931	2.5	2,715	10.6	10,237	7,611	34.5
Packaging Products	3,190	3,097	3.0	3,697	(13.7)	12,101	10,351	16.9
Consumer Products	1,180	1,240	(4.8)	1,275	(7.4)	4,051	3,542	14.4
Others	201	110	82.5	285	(29.4)	880	1,079	(18.5)
<b>Net Revenue from Operations</b>	<b>25,571</b>	<b>20,846</b>	<b>22.7</b>	<b>19,451</b>	<b>31.5</b>	<b>77,728</b>	<b>63,571</b>	<b>22.3</b>
<b>EBIT</b>								
Plastic Piping Products	2,589	3,570	(27.5)	1,894	36.7	7,839	8,213	(4.6)
Industrial Products	314	390	(19.4)	224	40.3	853	635	34.4
Packaging Products	337	408	(17.4)	246	37.0	1,009	1,246	(19.0)
Consumer Products	145	286	(49.4)	215	(32.4)	541	597	(9.4)
Others	10	4	164.1	58	(82.3)	85	242	(65.1)
<b>Total Segment EBIT</b>	<b>3,396</b>	<b>4,659</b>	<b>(27.0)</b>	<b>2,637</b>	<b>28.8</b>	<b>10,326</b>	<b>10,932</b>	<b>(5.5)</b>
<b>EBIT margin (%)</b>								
Plastic Piping Products	14.4	26.5	(1,212bps)	16.5	(211bps)	15.5	20.0	(450bps)
Industrial Products	10.5	13.3	(284bps)	8.3	222bps	8.3	8.3	(1bps)
Packaging Products	10.6	13.2	(261bps)	6.7	391bps	8.3	12.0	(370bps)
Consumer Products	12.3	23.1	(1,081bps)	16.8	(454bps)	13.3	16.8	(350bps)

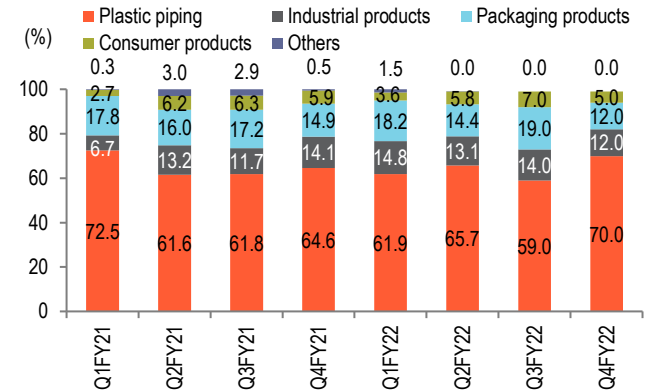
Source: Company, BOBCAPS Research

**Fig 3 – Consolidated revenue growth**



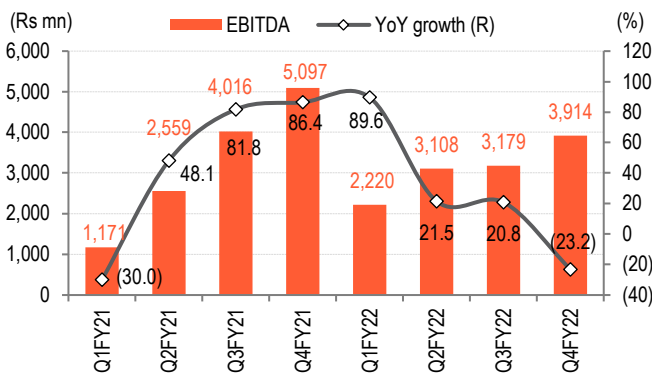
Source: Company, BOBCAPS Research

**Fig 4 – Revenue mix**



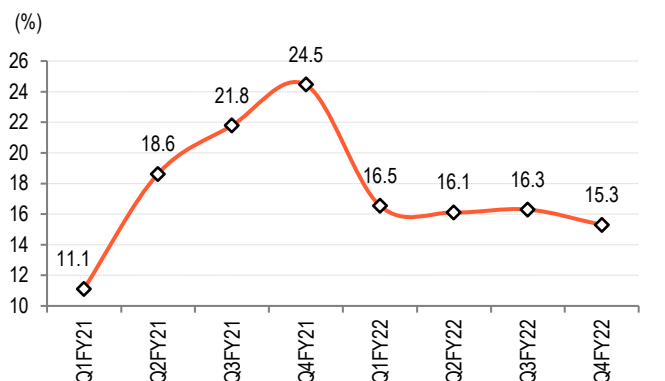
Source: Company, BOBCAPS Research

**Fig 5 – Consolidated EBITDA growth**



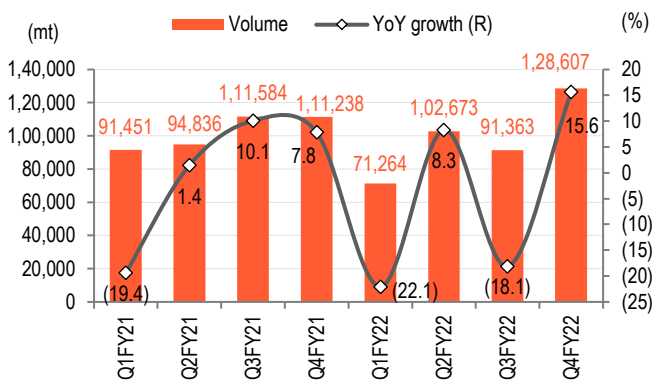
Source: Company, BOBCAPS Research

**Fig 6 – Consolidated EBITDA margin**



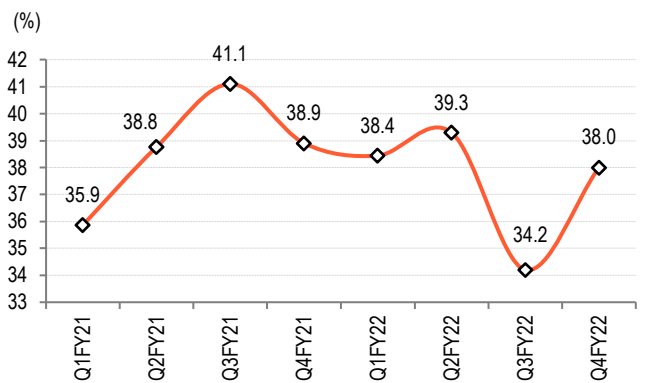
Source: Company, BOBCAPS Research

**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)	Q4FY22	Q4FY21	YoY (%)	Q3FY22	QoQ (%)
Plastic Piping	96,507	75,997	27.0	57,197	68.7
Packaging Products	13,131	15,627	(16.0)	12,365	6.2
Industrial Products	13,763	13,744	0.1	16,594	(17.1)
Consumer Products	5,206	5,870	(11.3)	5,207	0.0
<b>Total</b>	<b>1,28,607</b>	<b>1,11,238</b>	<b>15.6</b>	<b>91,363</b>	<b>40.8</b>

Source: Company, BOBCAPS Research

## Valuation methodology

We expect SI to gain considerable revenue traction in the near-to-medium term driven by robust volumes in both plastic piping (owing to accelerated PVC/CPVC pipe industry consolidation post Covid and expected decentralisation of its manufacturing footprint) and packaging products (driven by easing competitive intensity).

We remain positive on SI's growth and margin prospects 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 stock has corrected 10% in less than a month and is trading at a P/E of 23.5x on FY24E, which is a 31% discount to its five-year median of 34.2x. We continue to value SI at 29x FY24E EPS and maintain our TP of Rs 2,400 while upgrading the stock from HOLD to BUY following the recent correction.

**Fig 10 – Key assumptions**

Parameter	FY21	FY22	FY23E	FY24E
<b>Volume (mt)</b>				
Plastic Piping	2,94,357	2,74,295	3,18,347	3,34,264
YoY (%)	(2.1)	(6.8)	5.0	5.0
Packaging Products	54,833	54,163	61,605	67,766
YoY (%)	6.8	(1.2)	7.0	10.0
Industrial Products	41,451	48,030	50,156	55,172
YoY (%)	7.3	10.0	10.0	10.0
Consumer Products	18,468	17,420	23,166	25,946
YoY (%)	(11.1)	(5.7)	12.0	12.0
<b>Total</b>	<b>4,09,109</b>	<b>3,93,908</b>	<b>4,53,274</b>	<b>4,83,147</b>
YoY (%)	(0.6)	(3.7)	15.1	6.6

Source: Company, BOBCAPS Research

## Key risks

Key downside risks to our estimates are:

- slowdown in demand,
- adverse commodity price fluctuation, and
- delay in capacity expansion.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Total revenue</b>	<b>55,087</b>	<b>63,496</b>	<b>77,728</b>	<b>82,438</b>	<b>88,019</b>
EBITDA	8,563	12,786	12,421	13,858	14,966
Depreciation	(2,057)	(2,128)	(2,295)	(2,727)	(3,024)
EBIT	6,506	10,658	10,126	11,130	11,942
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	11,295	12,077
Income taxes	(1,739)	(2,341)	(2,633)	(3,287)	(3,548)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	312	1,460	2,044	1,700	1,900
<b>Reported net profit</b>	<b>4,674</b>	<b>9,781</b>	<b>9,684</b>	<b>9,707</b>	<b>10,429</b>
Adjustments	192	(189)	0	0	0
<b>Adjusted net profit</b>	<b>4,866</b>	<b>9,592</b>	<b>9,684</b>	<b>9,707</b>	<b>10,429</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
Accounts payables	5,475	6,462	7,940	7,905	8,440
Other current liabilities	2,347	3,377	2,294	3,162	3,376
Provisions	313	364	320	577	616
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	43,091	47,787
Shareholders' fund	22,612	31,692	38,444	43,346	48,041
<b>Total liab. and equities</b>	<b>35,807</b>	<b>42,823</b>	<b>49,942</b>	<b>56,802</b>	<b>62,235</b>
Cash and cash eq.	1,614	1,039	5,307	7,488	8,385
Accounts receivables	3,128	3,898	4,668	5,195	5,546
Inventories	8,906	7,608	12,602	11,745	12,540
Other current assets	2,379	2,614	3,140	3,162	3,376
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
<b>Total assets</b>	<b>35,807</b>	<b>42,823</b>	<b>49,942</b>	<b>56,802</b>	<b>62,235</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22P	FY23E	FY24E
<b>Cash flow from operations</b>	<b>6,038</b>	<b>14,491</b>	<b>6,093</b>	<b>13,928</b>	<b>13,057</b>
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
<b>Cash flow from investing</b>	<b>(3,714)</b>	<b>(10,012)</b>	<b>650</b>	<b>(7,207)</b>	<b>(6,200)</b>
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)	(5,313)	(5,734)
Other financing cash flows	235	(94)	0	0	0
<b>Cash flow from financing</b>	<b>(1,084)</b>	<b>(5,053)</b>	<b>(3,710)</b>	<b>(4,540)</b>	<b>(5,960)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,240</b>	<b>(575)</b>	<b>3,034</b>	<b>2,181</b>	<b>897</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,613</b>	<b>1,039</b>	<b>4,073</b>	<b>6,253</b>	<b>7,150</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22P	FY23E	FY24E
Reported EPS	36.8	77.0	76.2	76.4	82.1
Adjusted EPS	38.3	75.5	76.2	76.4	82.1
Dividend per share	14.0	14.0	24.0	34.6	37.3
Book value per share	178.0	249.5	302.6	341.2	378.2

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22P	FY23E	FY24E
EV/Sales	4.5	3.9	3.2	3.0	2.9
EV/EBITDA	28.7	19.2	19.9	18.1	16.9
Adjusted P/E	50.8	25.8	25.5	25.5	23.7
P/BV	10.9	7.8	6.4	5.7	5.1

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22P	FY23E	FY24E
Tax burden (Net profit/PBT)	79.8	90.0	94.3	85.9	86.4
Interest burden (PBT/EBIT)	93.8	100.0	101.5	101.5	101.1
EBIT margin (EBIT/Revenue)	11.8	16.8	13.0	13.5	13.6
Asset turnover (Rev./Avg TA)	162.6	161.5	167.6	154.5	147.9
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.3	1.3
<b>Adjusted ROAE</b>	<b>22.0</b>	<b>35.3</b>	<b>27.6</b>	<b>23.7</b>	<b>22.8</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22P	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(1.8)	15.3	22.4	6.1	6.8
EBITDA	9.6	49.3	(2.9)	11.6	8.0
Adjusted EPS	32.1	97.1	1.0	0.2	7.4
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.5	20.1	16.0	16.8	17.0
EBIT margin	11.8	16.8	13.0	13.5	13.6
Adjusted profit margin	8.8	15.1	12.5	11.8	11.8
Adjusted ROAE	22.0	35.3	27.6	23.7	22.8
ROCE	18.7	28.5	21.5	19.1	18.1
<b>Working capital days (days)</b>					
Receivables	23	20	20	22	22
Inventory	84	75	69	81	76
Payables	43	43	40	42	41
<b>Ratios (x)</b>					
Gross asset turnover	1.9	2.0	2.2	2.0	1.9
Current ratio	1.3	1.5	2.4	2.2	2.2
Net interest coverage ratio	21.9	48.2	196.6	117.4	67.6
<b>Adjusted debt/equity</b>	<b>0.1</b>	<b>0.0</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.2)</b>

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

## Disclaimer

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

**BUY** – Expected return >+15%

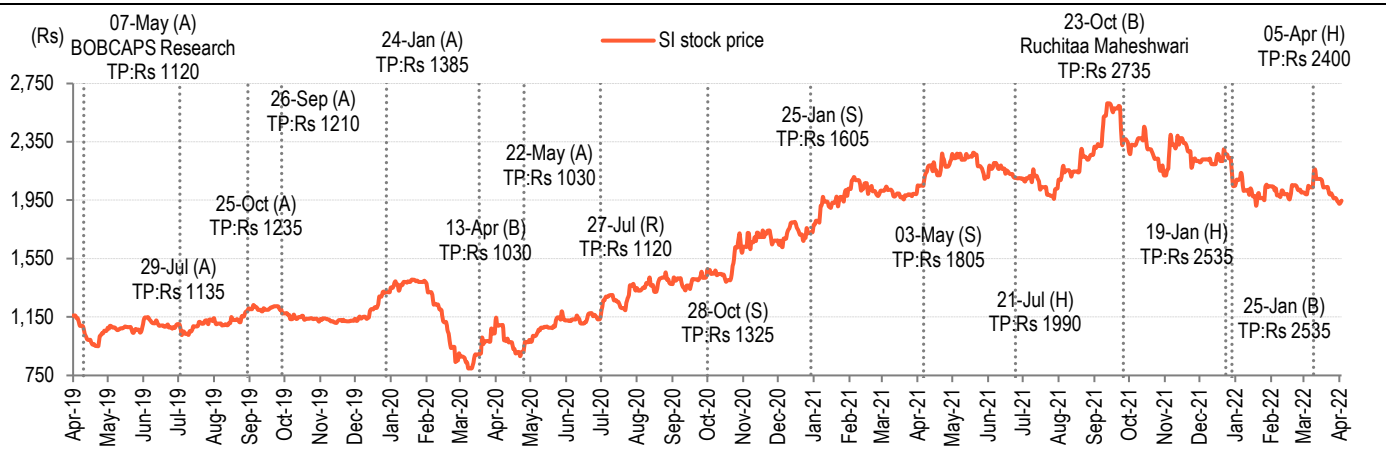
**HOLD** – Expected return from -6% to +15%

**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

### Rating distribution

As of 31 March 2022, out of 116 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 65 have BUY ratings, 31 have HOLD ratings, 5 are rated ADD\*, 1 is rated REDUCE\* and 14 are rated SELL. One company rated ADD has been an investment banking client in the last 12 months. (\*Our ADD and REDUCE ratings are in the process of being migrated to the new recommendation structure.)

### Analyst certification

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