



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Supreme Industries

24 January 2023

RESULT UPDATE

Sector: Plastic Pipes Rating: HOLD

CMP: Rs 2,395 Target Price: Rs 2,546

Stock Info

Sensex/Nifty	60,978/18,118
Bloomberg	SI IN
Equity shares (mn)	127.1
52-wk High/Low	2,563/1,693
Face value	Rs 2
M-Cap	Rs 304bn/ USD 3.8bn
3-m avg turnover	USD 2.6mn

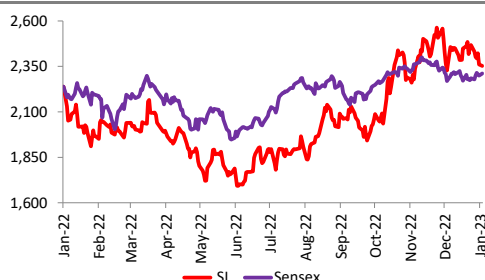
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	90,778	95,196	1,06,607
EBITDA	11,053	15,076	16,904
OPM (%)	12.2	15.8	15.9
PAT (adj.)	7,817	10,796	12,344
EPS (adj.) (Rs)	61.5	85.0	97.2
PE (x)	38.9	28.2	24.6
P/B (x)	6.9	5.9	5.0
EV/EBITDA (x)	26.9	19.4	16.9
RoE (%)	17.8	20.9	20.4
RoCE (%)	20.8	25.4	24.5
Net-D/E (x)	(0.2)	(0.2)	(0.3)

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	48.9	48.9	48.9
- Pledged	-	-	-
FII	17.4	16.3	15.8
DII	18.5	19.2	19.7
Others	15.2	15.7	15.7

Stock Performance (1-year)



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Strong pipe volumes drive 3Q; margins to normalise in FY24

Supreme Industries' (SI) 3Q (revenue up 19% YoY and 11% QoQ, EBITDA margin up 608bps QoQ at 13.1%) was driven by the pipes segment (volume/revenue up 82%/31% YoY and 31%/17% QoQ; EBIT margin up 942bps at 11.3%). Though margins recovered QoQ, they were restricted by some inventory losses (reversal likely in 4Q on expected rise in PVC prices). After 35%/48% volume growth in overall/pipes in 9M, management expects 25%/35% YoY growth in FY23 (4Q ask rate: 4%/11% YoY; we estimate 14%/12%). SI continues to focus on value-added products (VAP, 36% mix) in all segments. Its new plants in Guwahati and Erode turned operational in Dec'22, with Cuttack plant likely to follow suit in Feb'22. On a capex of ~Rs 5bn in FY23 (Rs 6.9bn net cash), 815,000 tons of capacity would be available by Mar'23. We have raised our earnings for FY23E by 7% to reflect the strong beat in 3Q, but maintained estimates for FY24/FY25. On a high base, we estimate 11%/11%/8% CAGR in SI's revenue/EBITDA/PAT over FY22-25E (FY18-22: 12%/ 12%/22%), respectively, restricted by lower realisations/margins, despite clocking in healthy 18% volume CAGR. RoE/ RoCE could rebound to ~20%/ 25% in FY25E with strong cash flows. At ~25x FY25E P/E on CMP, we maintain HOLD rating on SI, with an unchanged target price of Rs 2,546 (28x FY25E core P/E, 17x to JV share). Volume and margin trajectories are key near-term monitorables.

Strong 3Q beat driven by pipes segment: SI's revenue growth (19% YoY and 11% QoQ) was driven by strong pipe volumes (up 51% YoY and 24% QoQ on a low base) and revenue (up 31% YoY and /17% QoQ). Recovery in gross margin (up 554bps QoQ at 28.8%) was restricted by some inventory losses (reversal likely in 4Q on expected higher PVC prices). EBITDA margin at 13.1% too expanded (up 608bps QoQ) but was lower than normal 15-16% levels. EBIT margin in pipes stood at 11.3% (up 942bps QoQ). VAP increased by 24% YoY to Rs 8.3bn (36% mix). Net cash levels increased by Rs 1.7bn in 9M to Rs 6.9bn. The cross-laminated film division has introduced several new made-up products. The industrial segment received orders worth ~Rs 1.2bn for the supply of EVM and VVPAT machines. Furniture volumes/revenue grew 8%/13% YoY. SI continues to focus on rising mix of VAP in all segments.

Strong volumes to sustain; margins to normalize 4Q onwards: Pipe volumes were strong in 3Q (up 82% YoY and 31% QoQ), as the channel restocked inventory in Dec'22 seeing rising PVC price trend (but remained affordable). PVC prices fell by Rs 66/kg since Apr'22 till Nov'22, and recovered by Rs 15/kg to Rs 92/kg in Dec'22. Post 35%/48% volume growth in overall/pipes in 9M, management expects to close FY23 with 25%/35% YoY growth (4Q ask rate: 4%/11% YoY; we estimate 14%/12%). 3Q also witnessed some inventory losses, which management believes would reverse in 4Q.

Continued capex to support growth: After investing Rs 4.7bn in FY22 towards capacity expansion in all segments, SI is targeting a capex of ~Rs 5bn for FY23 (net cash: Rs 6.9bn). New plants in Guwahati and Erode turned operational in Dec'22, and Cuttack plant is likely to follow suit in Feb'22. Post these expansions, 815,000 tons of capacity would be available by Mar'23. Pipes capacity would rise to over 600,000 tons, while that in LPG cylinders would double to 1mn units (under trial production).

Maintain HOLD on fair valuations: We remain sanguine on SI's long-term growth prospects due to structural demand drivers, network/regional expansions, product launches and a healthy balance sheet. However, at low 8% earnings CAGR over FY22-25E and 25x FY25E P/E, we retain our **HOLD** rating on the stock.

Investors are advised to refer disclosures made at the end of the research report.

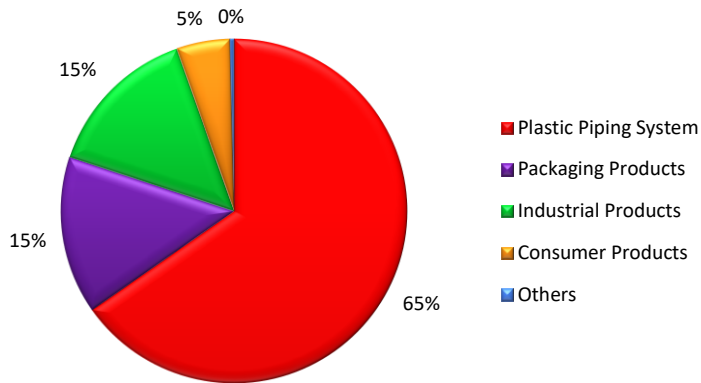
Exhibit 1: Supreme Industries – Quarterly performance (consolidated)

(Rs mn)	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	9MFY23	9MFY22	YoY (%)
Total Income	19,451	25,571	22,060	20,866	23,107	19	11	66,033	52,157	27
EBITDA	3,179	3,914	2,689	1,471	3,034	(5)	106	7,194	8,507	(15)
PBT	2,629	3,393	2,102	866	2,457	(7)	184	5,425	6,881	(21)
PAT (after JV)	2,457	3,239	2,139	820	2,100	(15)	156	5,059	6,446	(22)
EPS (Rs)	19.3	25.5	16.8	6.5	16.5	(15)	156	39.8	50.7	(22)
As % Total Income						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	32.0	27.9	26.5	23.2	28.8	(326)	554	26.2	32.7	(648)
Employee costs	4.5	3.5	4.1	4.2	4.1	(38)	(8)	4.2	4.9	(72)
Other expenses	11.1	9.0	10.1	11.9	11.5	33	(46)	11.2	11.5	(34)
EBITDA margin	16.3	15.3	12.2	7.1	13.1	(321)	608	10.9	16.3	(542)
Depreciation	3.0	2.3	2.8	3.1	2.8	(15)	(31)	2.9	3.3	(38)
Finance costs	0.0	0.1	0.1	0.1	0.0	3	(1)	0.1	0.1	(0)
PBT	13.5	13.3	9.5	4.2	10.6	(288)	648	8.2	13.2	(498)
Effective tax rate	25.8	25.1	25.8	26.7	25.8	(4)	(97)	25.9	25.9	4
PAT (after JV)	12.6	12.7	9.7	3.9	9.1	(354)	516	6.1	9.8	(369)
Segment Revenue (Rs mn)						YoY (%)	QoQ (%)			YoY (%)
Plastic Piping System	11,479	17,997	14,633	12,947	15,087	31	17	42,667	32,463	31
Packaging Products	3,697	3,190	3,263	3,278	3,419	(8)	4	9,961	8,911	12
Industrial Products	2,715	3,003	3,023	3,349	3,358	24	0	9,730	7,234	35
Consumer Products	1,275	1,180	958	1,119	1,159	(9)	4	3,236	2,871	13
Others	285	201	183	173	84	(70)	(51)	440	679	(35)
Total	19,451	25,571	22,060	20,866	23,107	19	11	66,033	52,157	27
Volume (t)						YoY (%)	QoQ (%)			YoY (%)
Plastic Piping System	57,197	96,507	79,424	79,220	1,04,109	82	31	2,62,753	1,77,788	48
Packaging Products	16,594	13,131	12,866	13,297	14,547	(12)	9	40,710	41,031	(1)
Industrial Products	12,365	13,763	12,901	14,766	14,785	20	0	42,452	34,267	24
Total Average	91,363	1,28,607	1,08,922	1,11,803	1,38,362	51	24	3,59,087	2,65,300	35
Realisation (Rs per kg)						YoY (%)	QoQ (%)			YoY (%)
Plastic Piping System	201	187	184	163	145	(28)	(11)	162	183	(11)
Packaging Products	223	243	253	247	235	5	(5)	245	217	13
Industrial Products	220	218	234	227	227	3	0	229	211	8
Consumer Products	244	227	257	248	236	(3)	(5)	246	234	5
Total Average	213	199	202	187	167	(22)	(11)	184	197	(6)
Segment EBIT (%)						YoY (bps)	QoQ (bps)			YoY (bps)
Plastic Piping System	16.5	14.4	10.6	1.9	11.3	(517)	942	8.2	16.2	(797)
Packaging Products	6.7	10.6	7.0	6.5	6.6	(5)	10	6.7	7.5	(85)
Industrial Products	8.3	10.5	8.5	8.9	9.4	116	50	8.9	7.4	150
Consumer Products	16.8	12.3	11.5	13.9	17.1	23	319	14.3	13.8	53
EBIT /Kg						YoY (%)	QoQ (%)			YoY (%)
Plastic Piping System	33	27	19	3	16	(50)	425	13	30	(55)
Packaging Products	15	26	18	16	16	5	(3)	16	16	(0)
Industrial Products	18	23	20	20	21	18	6	20	16	30
Consumer Products	41	28	30	34	40	(2)	17	35	32	8
Total Average	29	26	20	8	18	(39)	124	15	26	(42)
Share of Value-added products (%)	35.1	38.6	35.1	39.0	36.2			36.7	38.0	

Source: Company, Systematix Institutional Research

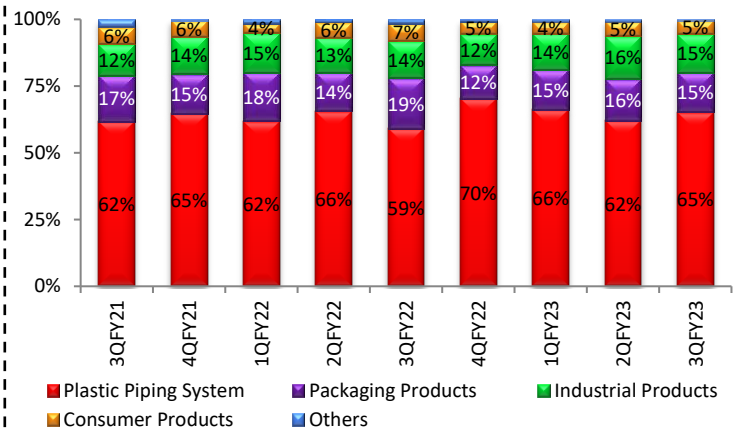
* Note: Segment EBIT margin is as per reported numbers and not adjusted for the unallocable expenses/income

Exhibit 2: Revenue mix – 3QFY23



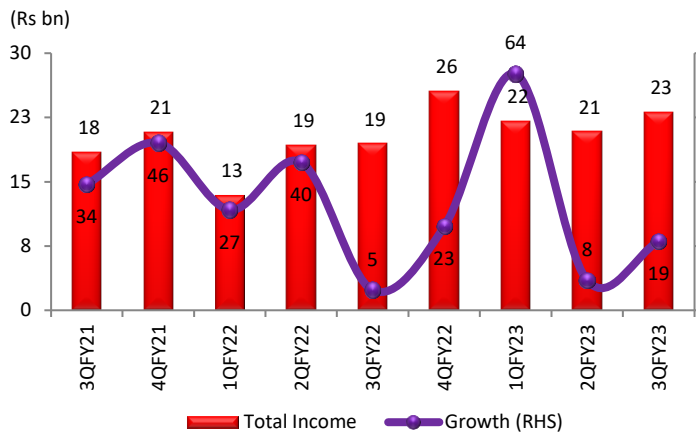
Source: Company, Systematix Institutional Research

Exhibit 3: Revenue mix – trend (%)



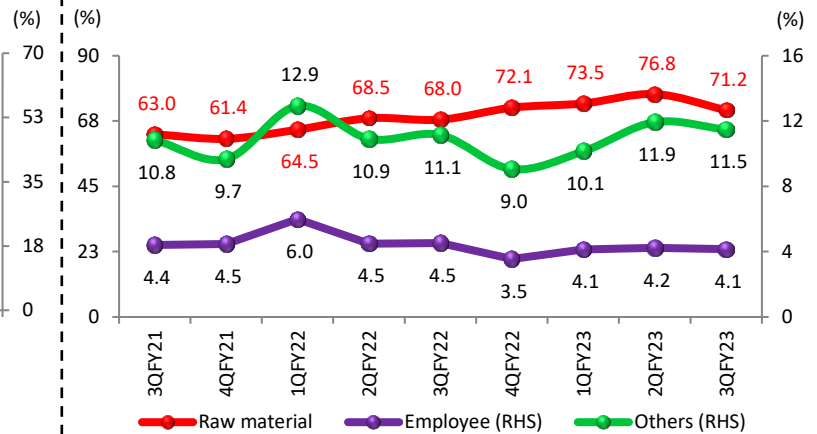
Source: Company, Systematix Institutional Research

Exhibit 4: Revenue growth - quarterly trend



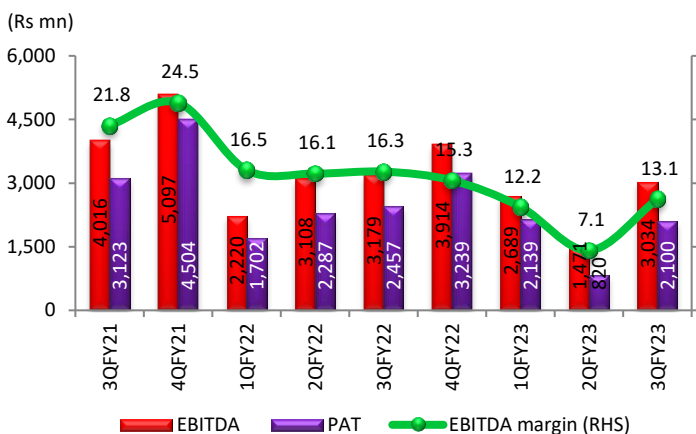
Source: Company, Systematix Institutional Research

Exhibit 5: Expenses as percentage of income – quarterly trend



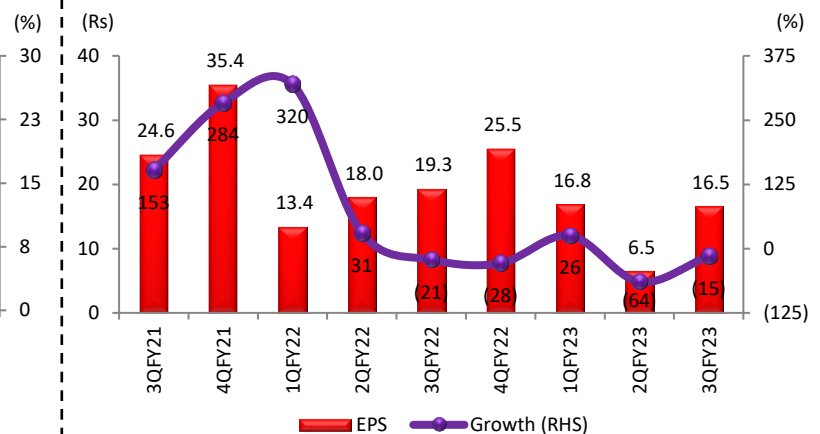
Source: Company, Systematix Institutional Research

Exhibit 6: EBITDA, PAT, margin – quarterly trends



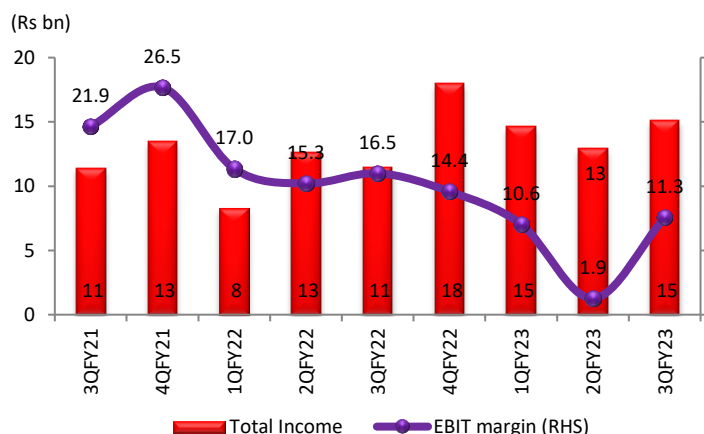
Source: Company, Systematix Institutional Research

Exhibit 7: Earnings growth – quarterly trends



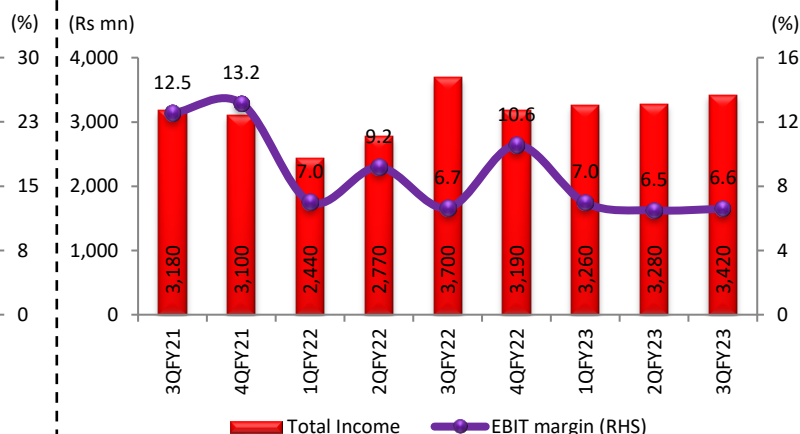
Source: Company, Systematix Institutional Research

Exhibit 8: Plastic pipes – revenue, EBIT-margin trends



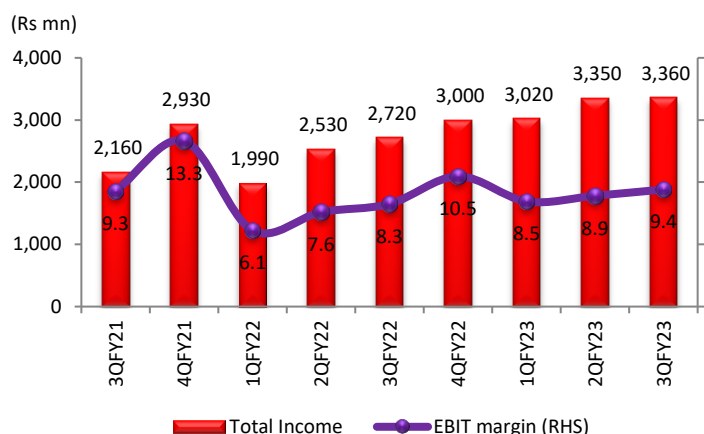
Source: Company, Systematix Institutional Research

Exhibit 9: Packaging product – revenue, EBIT-margin trends



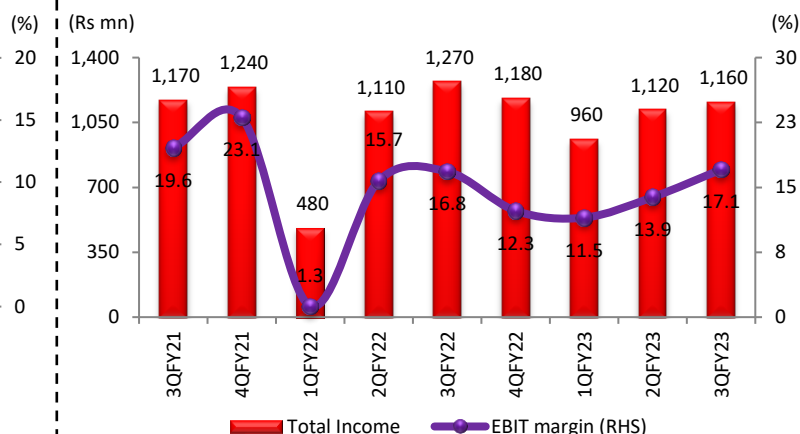
Source: Company, Systematix Institutional Research

Exhibit 10: Industrial product – revenue, EBIT-margin trends



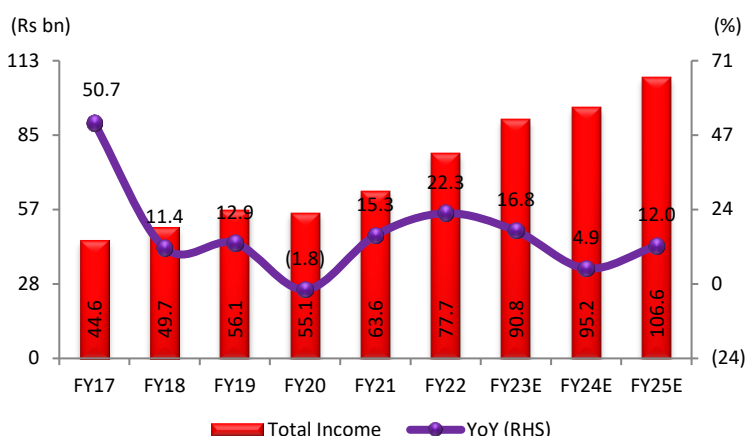
Source: Company, Systematix Institutional Research

Exhibit 11: Consumer product – revenue, EBIT margin trends



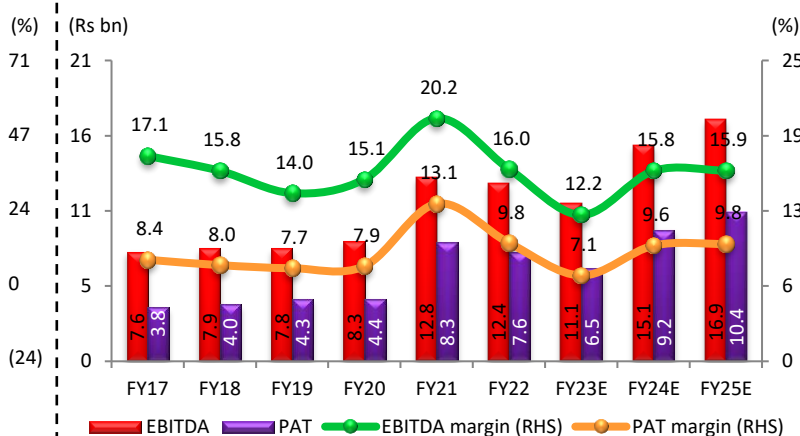
Source: Company, Systematix Institutional Research

Exhibit 12: Income – Annual growth trend



Source: Company, Systematix Institutional Research

Exhibit 13: EBITDA, PAT – Annual growth, margin trends



Source: Company, Systematix Institutional Research

Valuation and View

SI is the largest plastic processor in India selling ~0.4mn tonnes of plastic products across five segments. Its strengths are its brand equity, leadership position in key segments, regular capacity additions and focus on value-added products. It has 25 plants across India with three envisaged over the next year.

We have raised earnings for FY23E by 7% factoring in the strong beat in 3Q, but maintained our estimates for FY24/FY25. On a high base, we expect 11%/11%/8% CAGR in SI's revenue/EBITDA/PAT over FY22-25E (FY18-22: 12%/ 12%/22%), restricted by lower realisations/margins, despite clocking in healthy 18% volume CAGR. RoE/ RoCE is expected to rebound to ~20%/ 25%, respectively, in FY25E, with strong cash flows.

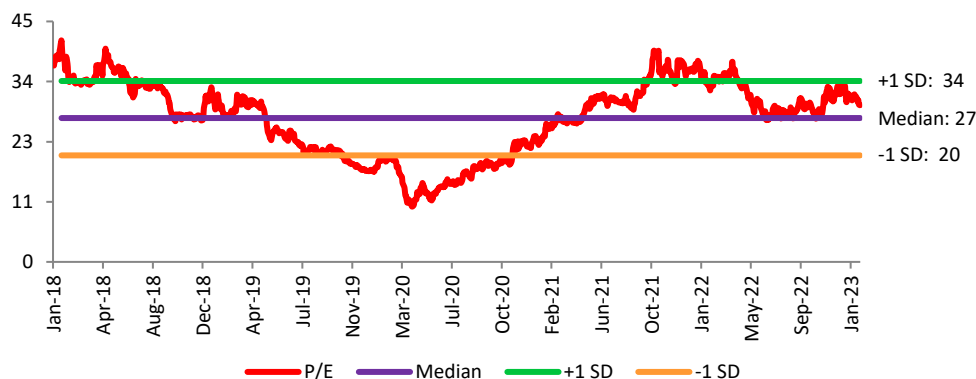
At ~25x FY25E P/E on CMP, we maintain **HOLD** rating on SI, with an unchanged target price of Rs 2,546 (28x FY25E core P/E, 17x to JV share). Volume and margin trajectories are key near-term monitorables.

Exhibit 14: Change in estimates

(Rs mn)	Old estimates			New estimates			% Variance		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	88,115	93,944	1,07,029	90,778	95,196	1,06,607	3	1	(0)
EBITDA	10,660	15,029	17,176	11,053	15,076	16,904	4	0	(2)
EBITDA margin (%)	12.1	16.0	16.0	12.2	15.8	15.9			
PAT	7,285	10,789	12,372	7,817	10,796	12,344	7	0	(0)
EPS (Rs)	57.3	84.9	97.4	61.5	85.0	97.2	7	0	(0)

Source: Systematix Institutional Research

Exhibit 15: P/E band – 1-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Risks

- High and volatile raw material prices could suppress demand and margins
- Lower-than-expected growth in its business divisions pose downside to our estimates

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues (Rs mn)	63,552	77,728	90,778	95,196	1,06,607
Growth (%)	15.3	22.3	16.8	4.9	12.0
Direct costs	40,427	53,532	65,830	65,073	72,319
Gross Margin (%)	36.4	31.1	27.5	31.6	32.2
SG&A	10,283	11,775	13,895	15,047	17,384
EBITDA	12,842	12,421	11,053	15,076	16,904
EBITDA margins (%)	20.2	16.0	12.2	15.8	15.9
- Depreciation	2,128	2,295	2,562	2,840	3,067
Other income	169	200	284	160	160
Interest Exp	221	52	52	62	-19
PBT	10,662	10,274	8,724	12,334	14,015
Effective tax rate (%)	22.0	25.6	25.8	25.8	25.8
+ Associates/(Minorities)	1,460	2,044	1,341	1,641	1,941
Net Income	9,781	9,685	7,817	10,796	12,344
Adjusted income	9,781	9,685	7,817	10,796	12,344
WANS	127	127	127	127	127
FDEPS (Rs/share)	77.0	76.2	61.5	85.0	97.2
FDEPS growth (%)	109.3	(1.0)	(19.3)	38.1	14.3

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	254	254	254	254	254
Net worth	31,692	38,444	43,973	51,720	60,507
Total debt	53	40	39	38	37
Minority interest	-	-	-	-	-
DT Liability/(Asset)	919	904	890	890	890
Capital Employed	32,664	39,388	44,902	52,648	61,434
Net tangible assets	17,033	17,608	20,047	21,207	21,140
Net Intangible assets	124	76	76	76	76
Goodwill	-	-	-	-	-
CWIP	496	1,546	546	546	546
Investments (Strategic)	3,312	4,702	5,202	5,702	6,202
Investments (Financial)	54	57	3,557	7,557	13,057
Current Assets	14,120	20,705	23,437	25,220	27,772
Cash	7,684	5,264	3,364	4,083	5,469
Current Liabilities	10,159	10,570	11,327	11,742	12,828
Working capital	3,961	10,135	12,110	13,478	14,944
Capital Deployed	32,664	39,388	44,902	52,648	61,434
Contingent Liabilities	789	684	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT (incl. other income)	10,700	10,216	7,766	11,510	13,817
+ Non-cash items	2,130	2,295	2,562	2,840	3,067
OCF before WC changes	12,830	12,511	10,327	14,350	16,884
- Incr./(decr.) in WC	(1,955)	4,939	1,249	642	1,446
Others including taxes	2,322	2,868	2,299	3,229	3,662
Operating cash-flow	12,464	4,704	6,780	10,479	11,775
- Capex	2,266	4,699	4,000	4,000	3,000
Free cash-flow	10,198	5	2,780	6,479	8,775
Acquisitions	-	-	-	-	-
- Dividend	635	2,922	2,287	3,049	3,557
+ Equity raised	-	-	-	-	-
+ Debt raised	(4,104)	(11)	(1)	(1)	(1)
- Fin Investments	(136)	(178)	4,000	4,500	6,000
- Misc. Items (CFI + CFF)	178	(325)	(1,608)	(1,789)	(2,170)
Net cash-flow	5,416	(2,425)	(1,900)	718	1,387

Source: Company, Systematix Institutional Research

Ratios @ Rs 2,395

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	31.1	31.4	38.9	28.2	24.6
EV/EBITDA (x)	23.1	24.1	26.9	19.4	16.9
EV/sales (x)	4.7	3.8	3.3	3.1	2.7
P/B (x)	9.6	7.9	6.9	5.9	5.0
RoE (%)	30.9	25.2	17.8	20.9	20.4
RoCE (%)	35.8	28.7	20.8	25.4	24.5
ROIC (%)	38.6	32.8	21.7	27.3	29.4
DPS (Rs per share)	22.0	24.0	18.0	24.0	28.0
Dividend yield (%)	0.9	1.0	0.8	1.0	1.2
Dividend payout (%)	28.6	31.5	29.3	28.2	28.8
Net debt/equity (x)	(0.2)	(0.1)	(0.2)	(0.2)	(0.3)
Receivables (days)	22	22	22	22	22
Inventory (days)	44	59	55	55	55
Payables (days)	37	37	35	35	35
CFO:PAT%	127	49	87	97	95

Source: Company, Systematix Institutional Research

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