



TM

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Building Materials

Strong recovery in agri pipes; wood panels, tiles in soft lane

SECTOR UPDATE

Industry Building Materials

BM coverage - rating and target price

Company	Rating	TP (Rs)	Upside (%)
Pipes			
Apollo Pipes (APOLP)	BUY	650	29
Astral (ASTRA)	HOLD	1,862	(3)
Finolex Ind (FNXP)	HOLD	181	2
Prince Pipes (PRINCPIP)	BUY	705	21
Supreme (SI)	HOLD	2,546	(6)
Wood Panel			
Greenpanel (GREENP)	BUY	455	58
Stylam (SYIL)	BUY	1,585	42

Source: Systematix Institutional Research

What's inside this report:

[Stock price performance \(1-month\)](#)

Management commentary during 3QFY23 ([Plastic Pipes](#), [Wood panel](#), [Tile/ceramics & bathware](#))

Systematix Vs. Bloomberg estimates ([Plastic Pipes](#), [Wood panel](#), [Tile/ceramics & bathware](#))

Company Section ([APOLP](#), [ASTRA](#), [FNXP](#), [PRINCPIP](#), [SI](#), [GREENP](#), [SYIL](#))

[Valuation Table](#)

Recent IC notes

Greenpanel IC – Riding on strong prospects of MDF; scope for a re-rating ([Report Link](#), 25-Nov-22)

Apollo Pipes IC – Expanding horizons in the fast-growing pipes industry ([Report Link](#), 28-Sep-22)

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Pipes reported strongest volumes (up 64% YoY, 30% QoQ) within the building materials space in 3QFY23, spurred by agri segment, as higher PVC prices (since Dec'22) caused channels to restock (after 3 years of flattish volumes). Inventory losses in Oct and Nov (due to sharp correction in PVC prices) and an inferior mix (agri segment) had led to limited margin recovery QoQ. With PVC prices heading north, we expect the volume trend to stay robust (on channels maintaining high stocks) and margins to expand (on inventory gains and liquidation of high-cost stock). Subdued domestic demand and margin pressure in all segments resulted in a weak 3Q for the wood panel segment (revenue/EBITDA/PAT down 6%/9%/14% QoQ). Rising wood prices continued to suppress plywood margins. Despite lackluster volumes, SYIL reported healthy 16.8% margin (up 70bps QoQ). GREENP pushed MDF volumes in the export markets as domestic volume suffered owing to rising imports; inferior mix and forex losses hurt margins. Management hopes to maintain healthy margins in the domestic market (no price cut despite competition from imports) but higher exports (single digit margin) could hurt its overall performance. Subdued demand of tiles (volumes/ revenues flattish QoQ, in line) and inflated gas prices (softened QoQ though) kept margins (flattish QoQ) of key tiles players, Kajaria (NOT RATED) and Somany (NOT RATED) under check. Cera (NOT RATED) continued to report strong growth (18%/10% YoY/QoQ) and margin (16%) on superior mix and cost savings. Leading players hope to achieve 12%+ volume CAGR and gradual margin expansion in the coming years on expected softening in gas prices and freight rates. Carysil's (NOT RATED) 3Q flat revenue QoQ was due to slowdown in the EU markets, with healthy recovery in the UK and US. Healthy 200bps QoQ rise in EBITDA margin (18.2%) led to 30% higher PAT.

Top picks: SYIL (strong growth, margin expansion), GREENP (attractive valuation), APOLP and PRINCPIP (improving industry outlook).

Plastic pipes: Agri segment spurred 3Q pipe volumes (up 64% YoY, 30% QoQ; [detailed table](#)), as channels began restocking (post 3 years of flattish volumes) on higher PVC prices since Dec'22. Inventory losses in Oct and Nov (PVC prices corrected sharply) and inferior mix (agri) restricted QoQ margin recovery. Rising price trend in PVC should sustain the strong volume growth, as we expect channels to maintain high stocks, and expand margins on inventory gains and clearance of high-cost stock.

Wood panels: All segments reported subdued domestic volume in 3Q (on soft demand) and margin pressure (overall revenue/EBITDA/PAT fell 6%/9%/14% QoQ; [detailed table](#)). Plywood margins of Century and Greenply remained suppressed on rising wood prices. Companies reported weak volumes and low margins in laminates; Stylam recorded healthy 16.8% margin (up 70bps QoQ). Weak domestic demand caused companies to push MDF in the export markets, with inferior mix and forex losses hurting margins here. As companies have yet not effected any price cuts in the domestic market (despite rise in imports), GREENP expects healthy margins to sustain. But single-digit margin in exports could hurt the overall performance.

Tiles/ceramics: Weak 3Q demand (volumes/revenues flattish QoQ, in line; [detailed table](#)) and inflated gas prices (softened QoQ though) kept margins (flattish QoQ) of Kajaria and Somany under check. Cera's robust performance (revenue up 18%/10% YoY/QoQ, 16% EBITDA margin) continued on superior mix and cost savings. Carysil's 3Q flat revenue QoQ. The EU markets remained weak; traction improved in the UK and US. A healthy EBITDA margin (18.2%, up 200bps QoQ) drove PAT (up 30%).

Exhibit 1: Valuation Table – 1

	M-cap (Rs bn)	CMP 16-Feb	Reco	TP (Rs)	Upside (%)	T PE 25E (x)	1-yr fwd PE (5-yr)			P/E			RoIC (%)	
							Mean	+1 SD	-1 SD	FY23E	FY24E	FY25E	FY22	FY25E
Pipes														
Apollo Pipes	20	502	Buy	650	29	25	31	52	9	87	26	19	13	19
Astral	388	1,928	Hold	1,862	(3)	50	65	86	43	98	62	52	28	38
Finolex Ind	110	178	Hold	181	2	18	17	26	8	52	21	18	28	14
Prince	64	581	Buy	705	21	26	33	57	10	77	27	21	22	24
Supreme	344	2,710	Hold	2,546	(6)	26	26	33	20	44	32	28	33	29
Wood Panel														
Century Ply	113	509	NR	NR	NR	NR	28	37	18	31	27	24	23	20
Greenlam	38	316	NR	NR	NR	NR	29	35	23	33	35	20	12	10
Greenpanel	35	288	Buy	455	58	18	14	22	6	15	13	11	21	20
Greenply	18	146	NR	NR	NR	NR	28	38	18	18	19	11	22	21
Stylam	19	1,119	Buy	1,585	42	18	15	20	10	20	16	13	18	27
Tiles/Ceramics														
Carysil	13	480	NR	NR	NR	NR	17	27	7	23	18	14	19	14
Cera	79	6,091	NR	NR	NR	NR	31	35	27	39	35	30	15	20
Kajaria Ceramics	172	1,078	NR	NR	NR	NR	36	46	26	51	34	29	21	24
Somany Ceramics	23	545	NR	NR	NR	NR	37	61	14	33	19	13	10	14

Source: BSE, Bloomberg, Systematix Institutional Research

Exhibit 2: Valuation Table – 2

	EPS (Rs)			CAGR (%) (FY17-22)			CAGR (%) (FY22-25E)			RoE (%)		RoCE (%)		EV/EBITDA (x)	
	FY23E	FY24E	FY25E	Rev	EBITDA	PAT	Rev	EBITDA	PAT	FY22	FY25E	FY22	FY25E	FY22	FY25E
Pipes															
Apollo Pipes	6	19	26	27	25	26	17	23	27	12	18	16	23	21	11
Astral	20	31	37	18	23	27	14	14	16	21	19	29	28	50	32
Finolex Ind	3	8	10	12	13	16	2	(8)	(6)	27	13	26	16	11	13
Prince	8	22	27	16	21	27	9	7	6	20	17	25	21	15	12
Supreme	62	85	97	12	10	18	11	11	8	25	20	29	25	26	19
Wood Panel															
Century Ply	16	19	21	11	11	10	15	12	14	20	18	27	23	21	15
Greenlam	10	9	16	10	6	13	22	27	27	14	19	13	14	21	12
Greenpanel	19	22	25	39	136	164	11	6	9	25	19	27	23	9	7
Greenply	8	8	13	14	23	46	20	27	20	18	19	16	20	13	7
Stylam	57	71	88	18	18	25	28	31	35	19	23	25	31	19	8
Tiles/Ceramics															
Carysil	21	27	35	22	32	52	24	21	13	26	21	27	21	14	9
Cera	156	176	204	7	5	8	17	19	21	15	17	19	22	32	18
Kajaria Ceramics	21	32	37	8	4	8	15	15	16	18	21	20	24	28	18
Somany Ceramics	17	29	41	4	(2)	(2)	15	17	26	12	17	11	15	13	7

Source: Bloomberg, Systematix Institutional Research

Exhibit 3: Building Materials - Stock price performance

	1-month	3-month	6-month	12-month	3-years
Pipes					
Supreme	13	14	38	36	93
Finolex Ind.	3	10	26	6	65
Prince	(0)	3	(3)	(14)	205
Apollo Pipes	(2)	7	(2)	2	221
Astral	(3)	0	(4)	1	115
Wood Panel					
Greenlam	2	(2)	(11)	(8)	65
Greenply	0	(7)	(20)	(26)	1
Century Ply	0	(12)	(24)	(16)	218
Stylam	(2)	10	(9)	17	377
Greenpanel	(11)	(19)	(35)	(37)	407
Rushil	(13)	(18)	(36)	(17)	158
Tiles/Ceramics					
Cera	14	14	25	40	148
Carysil	8	(2)	(28)	(33)	278
Somany	7	2	(16)	(34)	160
Kajaria	1	4	(8)	(15)	100

Source: BSE

Exhibit 4: PVC Pipes - 3QFY23 Review - Company-wise quarterly results

(Rs mn)	3QFY20	3QFY21	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	Over 3QFY20 (3-year CAGR)
Pipes (consolidated)										
Revenue	32,327	44,844	49,074	66,909	54,317	50,428	56,458	15	12	20
EBITDA	5,416	10,682	8,901	10,418	6,293	1,396	6,672	(25)	378	7
EBITDA margin (%)	16.8	23.8	18.1	15.6	11.6	2.8	11.8			
PAT	3,153	7,745	6,295	10,628	4,268	268	4,228	(33)	1,476	10
Pipes revenue	23,669	32,360	36,757	53,347	42,944	37,760	44,602	21	18	24
Pipes volume (t)	1,97,133	2,17,116	1,84,405	2,84,044	2,33,618	2,33,115	3,02,068	64	30	15
NSR (Rs /t)	1,20,066	1,49,044	1,99,326	1,87,812	1,83,822	1,61,982	1,47,656	(26)	(9)	7
Apollo Pipes										
Revenue	1,000	1,281	1,908	2,475	2,189	2,070	2,367	24	14	33
EBITDA	107	255	216	284	200	25	161	(26)	545	15
EBITDA margin (%)	10.7	19.9	11.3	11.5	9.2	1.2	6.8			
PAT	67	163	114	156	88	(48)	49	(57)	(201)	(10)
Pipes volume (t)	10,712	11,445	12,520	16,409	14,406	15,465	18,011	44	16	19
NSR (Rs /t)	93,370	1,11,892	1,52,433	1,50,804	1,51,945	1,33,861	1,31,408	(14)	(2)	12
EBITDA /kg	10	22	17	17	14	2	9	(48)	454	(4)
Astral										
Revenue	6,641	8,975	11,027	13,906	12,129	11,716	12,678	15	8	24
EBITDA	1,182	1,920	1,976	2,168	1,706	1,440	1,864	(6)	29	16
EBITDA margin (%)	17.8	21.4	17.9	15.6	14.1	12.3	14.7			
PAT	676	1,232	1,273	1,414	889	691	930	(27)	35	11
Pipes revenue	5,200	6,931	8,415	11,094	8,761	8,361	9,318	11	11	21
Pipes volume (t)	32,053	36,902	35,260	47,211	36,578	40,753	45,859	30	13	13
NSR (Rs /t)	1,62,231	1,87,822	2,38,656	2,34,988	2,39,516	2,05,163	2,03,188	(15)	(1)	8
EBITDA /kg	31	45	47	42	36	28	31			
Pipes EBITDA margin (%)	19	24	20	18	15	13	15			
Adhesives revenue	1,559	2,196	2,112	2,504	2,815	2,855	2,840	34	(1)	22
Adhesives EBITDA margin (%)	12.0	16.3	13.4	9.8	15.5	12.4	12.1			
Paints Revenue	-	-	500	500	553	500	520	4	4	-
Paints EBITDA margin (%)	-	-	17.0	17.0	15.0	13.9	12.6			
Finolex Industries										
Revenue	6,994	10,661	10,047	15,946	11,898	9,411	11,248	12	20	17
EBITDA	1,384	3,463	2,419	2,647	1,259	(1,427)	919	(62)	(164)	(13)
EBITDA margin (%)	19.8	32.5	24.1	16.6	10.6	(15.2)	8.2			
PAT	985	2,594	1,774	4,951	992	(954)	795	(55)	(183)	(7)
Pipes volume (t)	52,815	55,299	46,993	78,630	71,960	59,219	90,396	92	53	20
Pipes revenue	5,535	7,258	8,314	12,769	11,320	8,017	10,772	30	34	25
NSR (Rs /t)	1,04,802	1,31,250	1,76,914	1,62,396	1,57,311	1,35,384	1,19,159	(33)	(12)	4
EBIT /kg	8	16	12	12	6	(8)	8	(35)	(195)	(3)
PVC volume (t)	59,154	67,741	43,464	79,182	62,747	54,063	64,697	49	20	3
PVC revenue	4,080	6,912	6,362	10,440	7,846	4,811	5,041	(21)	5	7
NSR (Rs /t)	68,973	1,02,028	1,46,374	1,31,848	1,25,039	88,983	77,916	(47)	(12)	4
EBIT /kg	14	36	41	20	12	(20)	2	(95)	(109)	(48)
Prince Pipes										
Revenue	3,950	5,490	6,640	9,012	6,041	6,365	7,059	6	11	21
EBITDA	533	1,029	1,111	1,405	439	(113)	695	(37)	(712)	9
EBITDA margin (%)	13.5	18.8	16.7	15.6	7.3	(1.8)	9.8			
PAT	243	668	673	882	160	(241)	354	(47)	(247)	13
Pipes volume (t)	31,122	36,711	32,435	45,287	31,250	38,458	43,693	35	14	12
NSR (Rs /t)	1,26,920	1,49,550	2,04,724	1,98,997	1,93,305	1,65,502	1,61,558	(21)	(2)	8
EBITDA /kg	17	28	34	31	14	(3)	16	(54)	(639)	(2)
Supreme Industries										
Revenue	13,733	18,438	19,451	25,571	22,060	20,866	23,107	19	11	19
EBITDA	2,209	4,016	3,179	3,914	2,689	1,471	3,034	(5)	106	11
EBITDA margin (%)	16.1	21.8	16.3	15.3	12.2	7.1	13.1			
PAT	1,234	3,123	2,457	3,239	2,139	820	2,100	(15)	156	19
Pipes volume (t)	70,431	76,759	57,197	96,507	79,424	79,220	1,04,109	82	31	14
Pipes revenue	7,984	11,400	11,479	17,997	14,633	12,947	15,087	31	17	24
NSR (Rs /t)	1,13,355	1,48,517	2,00,698	1,86,487	1,84,244	1,63,432	1,44,914	(28)	(11)	9
EBIT /kg	15	33	33	27	19	3	16	(50)	425	4
Excl. pipes volume (t)	30,962	34,825	34,166	32,100	29,498	32,583	34,253	0	5	3
Excl. pipes revenue	5,750	7,038	7,972	7,574	7,426	7,919	8,020	1	1	12
NSR (Rs /t)	1,85,695	2,02,096	2,33,326	2,35,938	2,51,759	2,43,038	2,34,149	0	(4)	8
EBIT /kg	22	28	22	25	20	19	22	(1)	11	(0)

Source: Company, Systematix Institutional Research

Exhibit 5: Woodpanel - 3QFY23 Review - Company-wise quarterly results

(Rs mn)	3QFY20	3QFY21	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	Over 3QFY20 (3-year CAGR)
Wood Panel (consolidated)										
Revenue	17,574	18,686	24,936	26,579	27,227	28,284	26,799	7	(5)	15
EBITDA	2,481	3,268	4,095	4,441	4,480	4,290	3,742	(9)	(13)	15
EBITDA margin (%)	14.1	17.5	16.4	16.7	16.5	15.2	14.0			
PAT	947	1,711	2,368	2,557	2,635	2,702	2,187	(8)	(19)	32
Century Ply										
Revenue	6,050	6,601	8,548	9,011	8,888	9,086	8,837	3	(3)	13
EBITDA	841	1,237	1,501	1,607	1,431	1,230	1,287	(14)	5	15
EBITDA margin (%)	13.9	18.7	17.6	17.8	16.1	13.5	14.6			
PAT	250	659	941	885	923	941	822	(13)	(13)	49
Plywood volume (cbm)	63,996	71,977	81,828	87,398	88,015	87,547	87,606	7	0	11
Plywood revenue	3,219	3,560	4,369	4,758	4,735	4,856	4,814	10	(1)	14
NSR (Rs /cbm)	50,298	49,462	53,397	54,436	53,802	55,464	54,945	3	(1)	3
MDF volume (cbm)	41,554	49,207	55,903	48,137	45,309	45,109	48,100	(14)	7	5
MDF revenue	965	1,165	1,797	1,628	1,556	1,568	1,668	(7)	6	20
NSR (Rs /cbm)	23,216	23,675	32,138	33,812	34,344	34,751	34,672	8	(0)	14
Laminate volume (mn sheets)	1.6	1.6	1.7	2.0	1.8	1.9	1.7	(3)	(14)	2
Laminate revenue	1,125	1,190	1,487	1,689	1,619	1,740	1,563	5	(10)	12
NSR (Rs /sheet)	724	748	875	859	876	901	947	8	5	9
Greenlam										
Revenue	3,580	3,346	4,497	4,634	4,706	5,180	5,035	12	(3)	12
EBITDA	546	579	534	496	504	537	548	3	2	0
EBITDA margin (%)	15.3	17.3	11.9	10.7	10.7	10.4	10.9			
PAT	291	320	269	256	247	292	283	5	(3)	(1)
Laminate volume (mn sheets)	3.5	3.9	4.0	4.0	4.1	4.3	4.3	7	-	6
Laminate revenue	2,970	2,956	4,081	4,239	4,302	4,713	4,591	13	(3)	16
NSR (Rs /sheet)	839	756	1,025	1,060	1,044	1,106	1,078	5	(3)	9
Greenpanel										
Revenue	2,356	3,169	4,244	4,701	4,640	4,573	4,202	(1)	(8)	21
EBITDA	347	684	1,111	1,378	1,315	1,167	920	(17)	(21)	38
EBITDA margin (%)	14.7	21.6	26.2	29.3	28.3	25.5	21.9			
PAT	5	305	631	806	776	725	375	(41)	(48)	334
MDF volume (cbm)	86,369	1,23,723	1,20,724	1,24,538	1,25,029	1,26,232	1,18,218	(2)	(6)	11
MDF revenue	1,668	2,496	3,504	3,898	3,919	3,951	3,616	3	(8)	29
NSR (Rs /cbm)	19,317	20,173	29,025	31,300	31,345	31,299	30,585	5	(2)	17
Plywood volume (mn sqm)	2.3	2.5	2.5	2.5	2.5	2.0	2.0	(19)	(2)	(4)
Plywood revenue	585	620	670	705	709	610	575	(14)	(6)	(1)
NSR (Rs /sqm)	260	246	271	286	282	299	289	7	(3)	4
Greenply										
Revenue	3,460	3,404	4,211	4,486	4,535	4,947	4,282	2	(13)	7
EBITDA	397	417	428	445	401	489	329	(23)	(33)	(6)
EBITDA margin (%)	11.5	12.3	10.2	9.9	8.8	9.9	7.7			
PAT	213	250	298	290	207	236	363	22	54	19
Plywood volume (mn sqm)	14.3	14.0	15.6	17.1	16.0	17.0	16.4	5	(4)	5
Plywood revenue	3,184	3,101	3,730	4,143	3,946	4,318	3,994	7	(8)	8
NSR (Rs /sqm)	222	222	239	242	247	254	244	2	(4)	3
Rushil Décor										
Revenue	860	925	1,668	1,951	2,108	2,034	2,103	26	3	35
EBITDA	124	97	190	316	475	471	265	40	(44)	29
EBITDA margin (%)	14.4	10.5	11.4	16.2	22.5	23.2	12.6			
PAT	93	53	73	154	272	267	102	40	(62)	3
MDF volume (cbm)	21,467	19,780	47,081	53,729	58,745	54,344	57,310	22	5	39
MDF revenue	430	418	1,206	1,433	1,608	1,490	1,528	27	3	53
NSR (Rs /cbm)	20,041	21,114	25,622	26,666	27,379	27,419	26,662	4	(3)	10
Laminate volume (mn sheets)	0.7	0.9	0.7	0.7	0.6	0.7	0.8	13	7	4
Laminate revenue	414.5	497	473	498	476	528	560	18	6	11
NSR (Rs /sheet)	602	580	685	749	749	725	720	5	(1)	6
Stylam										
Revenue	1,268	1,241	1,769	1,797	2,350	2,463	2,340	32	(5)	23
EBITDA	225	254	331	199	353	396	394	19	(1)	21
EBITDA margin (%)	17.7	20.5	18.7	11.1	15.0	16.1	16.8			
PAT	94	125	156	166	210	242	240	54	(1)	37
Laminate volume (mn sheets)		2.1	2.4	2.3	2.7	3.2	3.0	25	(6)	-
Laminate revenue		1,228	1,744	1,762	2,310	2,403	2,255	29	(6)	-
NSR (Rs /sheet)		585	727	766	856	751	749	3	(0)	-

Source: Company, Systematix Institutional Research

Exhibit 6: Tile/Ceramics & Bathware - 3QFY23 Review - Company-wise quarterly results

(Rs mn)	3QFY20	3QFY21	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	YoY (%)	QoQ (%)	Over 3QFY20 (3-year CAGR)
Tiles/Ceramics (consolidated)										
Revenue	15,720	17,282	21,702	22,961	21,344	22,490	23,071	6	3	14
EBITDA	2,068	3,048	3,375	3,272	2,934	2,601	2,715	(20)	4	9
EBITDA margin (%)	13.2	17.6	15.6	14.2	13.7	11.6	11.8			
PAT	1,072	1,882	2,137	1,814	1,712	1,445	1,547	(28)	6	13
Carysil										
Revenue	732	875	1,280	1,389	1,713	1,392	1,378	8	(1)	23
EBITDA	123	202	279	282	337	224	250	(10)	11	27
EBITDA margin (%)	16.9	23.1	21.8	20.3	19.7	16.1	18.2			
PAT	68	121	173	164	187	92	121	(30)	30	21
Cera Sanitaryware										
Revenue	3,213	3,098	3,870	4,387	3,958	4,143	4,558	18	10	12
EBITDA	429	397	611	824	612	660	729	19	10	19
EBITDA margin (%)	13.4	12.8	15.8	18.8	15.5	15.9	16.0			
PAT	284	291	423	521	396	507	564	33	11	26
Sanitaryware revenue	1,478	1,394	2,063	2,313	2,120	2,254	2,461	19	9	19
Faucets revenue	803	868	1,336	1,458	1,365	1,417	1,504	13	6	23
Kajaria Ceramics										
Revenue	7,413	8,383	10,682	11,018	10,082	10,778	10,911	2	1	14
EBITDA	1,113	1,818	1,838	1,659	1,536	1,294	1,331	(28)	3	6
EBITDA margin (%)	15.0	21.7	17.2	15.1	15.2	12.0	12.2			
PAT	615	1,189	1,220	958	923	699	743	(39)	6	6
Power & Fuel cost (Rs/ scm)	92	77	123	126	152	141	26	(79)	(82)	(35)
Tiles volume (mn sqm)	20	23	26	26	23	25	25	(1)	2	8
Tiles revenue	6,837	7,582	9,616	9,999	9,089	9,743	9,839	2	1	13
Tiles NSR (Rs /sqm)	334	336	375	385	390	391	387	3	(1)	5
Somany Ceramics										
Revenue	4,362	4,925	5,870	6,168	5,591	6,178	6,224	6	1	13
EBITDA	403	631	646	507	449	422	406	(37)	(4)	0
EBITDA margin (%)	9.2	12.8	11.0	8.2	8.0	6.8	6.5			
PAT	104	280	322	172	205	147	120	(63)	(19)	5
Power & Fuel cost (Rs/ scm)	71	76	133	113	159	140	125	(5)	(10)	21
Tiles volume (mn sqm)	13.3	14.9	15.6	16.1	14.3	15.9	16.2	4	2	7
Tiles revenue	3,805	4,283	5,126	5,358	4,799	5,418	5,431	6	0	13
Tiles NSR (Rs /sqm)	286	288	329	333	337	341	336	2	(1)	6

Source: Company, Systematix Institutional Research

Exhibit 7: Management commentary during the 3QFY23 conference call

Plastic products (PVC pipes, etc)	
Apollo Pipes	(1) 3Q EBITDA (6.8%, Rs 8.9/kg) was limited by some inventory losses; (2) aims to achieve ~12% EBITDA margin and Rs 17-18/kg in the coming quarters, on expected stable PVC prices; (3) maintained volume/ revenue guidance of 20%/ 25-30% CAGR over 3 years; (4) New plant in Dadri to have 25,000 tons of value-added capacity in CPVC products, bath fittings and HDPE categories; May plan a large capex in next 15 months; (5) Product prices vs. peers are similar in north; have narrowed to ~4% from 8-10% 4 years ago in other regions; (6) 50%+ CAGR in CPVC (15%+ value mix) continues
Astral	(1) Pipes: Inventory losses in Oct and Nov, but some recovery in Dec, 3Q inventory loss at ~Rs 250mn; Stable PVC prices may lead to some inventory gains in 4Q; (2) Plumbing demand strong; Rex (infra pipes) is doing well now (up 25% in 9M); (3) Adhesives: Adj. EBITDA margin at ~14%; ~Rs 55mn currency loss in the UK; Resinova Unnao plant will be returned to its original promoter as per agreement in 2014 which expired in 2020, but extended due to COVID; Seal IT margin should rebound 1QFY24 onwards; (4) Bathware: 3Q revenue Rs 97mn and Rs 40mn loss; 9M at ~Rs 150mn and Rs 130mn loss; Opened 231 showrooms/display centers so far; 80 more planned in 4Q, and total 500 by Dec'23; Completed 3,000 bathrooms and is currently working on 18,000 bathroom projects; (5) Paints: SAP implementation to be over by 1QFY24; Would decide on re-branding soon
Finolex Industries	(1) Robust volume growth on PVC price normalcy and margin stabilisation on stable raw material costs; Demand was robust on pent-up demand; (2) Expect to breach pre-COVID levels by FY23-end in pipes; Slight sluggishness in demand visible over 3Q; (3) Capex guidance: FY23- ~Rs 1.5bn; FY24- similar to FY23; (4) PVC prices stable post Jan'23 (expected to remain range-bound ahead); No industry-wide supply constraint expected; (5) Non-agri mix: Volumes: 3Q/9M - 27%/ 30%; Growth (YoY): 3Q/ 9M - 33%/ 20%; Agri demand surpassed non agri; (6) Over Oct-Nov, PVC prices fell by ~Rs 11.5/ kg leading to inventory losses; (7) Capacity: 370k tons pipes capacity by FY23-end
Prince Pipes	(1) 3Q: Strong volumes (up 35% YoY) driven by all segments; Strong rebound in agri (~30% rev) on stable and affordable PVC prices and pent-up demand; Healthy traction in housing visible for 1-2 years (2) Aims to outpace 2-4% industry growth over the long term (~8% CAGR); (3) Revenue mix - CPVC 20%, Retail 75%, Project 25% (Lubrizol tie-up helping to expand fast); (4) 3Q EBITDA margin at 9.8%; Inventory loss ~Rs 300mn in 3Q (~4% of revenue); Margins to rebound, as all high-cost inventory is consumed; (5) Aims to reduce receivable days to 30 in 2-3 years from 48 as at end 3Q; (6) Telangana plant: production started; will aid growth in southern markets
Supreme Industries	(1) Pipe volumes were strong in 3Q, as the channels restocked inventory in Dec'22 on rising PVC price trend (but remained affordable); (2) 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); (3) 24% YoY increase in VAP to Rs 8.3bn (36% mix); (4) Targeting capex of ~Rs 5bn for FY23; New plants in Guwahati and Erode turned operational in Dec'22, and Cuttack plant is likely to follow suit in Feb'22; (5) Post these expansions, 815,000 tons of capacity would be available by Mar'23; Pipes capacity would rise to over 600,000 tons; (6) CPVC: 32% YoY growth in 9MFY23; No slowdown in demand expected
Woodpanel (Plywood, Laminates, MDF, Particle boards, etc)	
Century Ply	(1) Muted demand and competition from the unorganised segment resulted in weak laminate volumes; looking to expand SKUs to widen customer base; volumes should rebound in 1-2 quarters; (2) Higher A&P spend restricted EBITDA margin expansion on YoY basis; (3) Timber prices continue to be elevated due to low plantation cycle > should return in 2-3 years; (4) Price changes in last 2-3 months: Plywood up 1-4%, Laminate down 5-10%, MDF no change, Particle Board (PB) down 10%; (5) Looking to maintain MDF, PB margins at 20-25% even in worst case due to exposure to the northern region; (6) Import landed prices: PB: close to domestic prices, MDF: much lower than domestic prices; (7) PB prices, margins are the most vulnerable to competition, given 100% OEM exposure
Greenlam	(1) Exports were a bit soft in last two quarters due to soft demand and currency fluctuations - likely rebound 4Q onwards; Gross margins to remain stable (2) May take price cut in few SKUs after decline in RM prices; fall in sea freight already passed to customers; (3) FY23 revenue growth ~20% (Rs 5.5bn in 4Q); FY24 revenue growth 20%+; 12-13% vol growth in laminates; (4) Export revenue mix: 45% in 9M, ~50% in FY22; (5) Veneers, floors, doors remained in slow lane; (6) Capex spent Rs 3.25bn YTD (Plywood + Laminates + PB); rest of the major capex is to be spent in FY24 and a small portion in FY25 off Rs 9.5bn total; (7) aims 50% CU in new laminates in the first year and 100% from the 2 nd year; (8) ~18% imports (largely bare boards) from South-East Asia, mainly in South India; Realisation likely to fall on surging competition; Domestic leaders are focusing on pre-laminated boards over bare boards
Greenpanel	(1) FY24 MDF guidance: 10-12% volume growth, 25-26% operating margin; 4QFY23 MDF volume guidance: 135k-140k cbm (30-40k cbm on exports); Expect to maintain pricing despite large domestic capacity additions over next 1-2 years (2) MDF: Domestic margin maintained at 30%+; segment margins (25.6%) hurt due to greater export mix, which saw single-digit margin after 12% price cut in 3Q; (3) Euro and dollar appreciation led to heavy forex loss (Rs 172.2mn - Rs 84.5mn above EBITDA, Rs 87.7 - finance cost); (4) Overall demand healthy; domestic volumes impacted due to rise in imports from Vietnam, Indonesia (shifting from slowdown in the US, EU markets); (5) Incremental focus will be to boost export volumes for next few quarters; (6) Plywood: Timber prices close to peak in North; No clarity if prices will reduce in 4Q; South not lagging in plantations; (7) Shifting to new tax regime from FY24; (8) Debt: to repay ~Rs 500mn annually
Greenply	(1) Plywood: Demand was muted so far in 4Q; volume to grow 15% in FY23 (9M up 22%); 10% in FY24/FY25; margins to stay at 10%+; (3) Net debt to peak at Rs 6.5bn; Rs 1bn addition likely in 4QFY23; (4) a Rs 280mn one off (exceptional gain of Rs 96mn, tax refund of Rs 184mn) boosted PAT; (5) weak demand impacted plywood volumes; focus on premium category (57% mix; FY22 70%+); (6) weak demand in Europe impacted sales in Gabon subsidiary; looking at the US and other markets; (7) MDF: Trial run in Mar'23; sales team in place; appointing distributors; no export obligation but will do on need basis; cash breakeven (at 15% EBITDA margin) at Rs 3bn sales to be achieved in 1 st year; 20%+ margin from 2 nd year; expects furniture OEMs to set up facilities in the west and drive MDF volumes

Stylam	(1) Management expects exports (revenue down 6% QoQ) to rebound 4Q onwards, once logistics issues in the EU region normalise; (2) Softer RM prices leave room for further margin expansion; (3) aiming to scale its domestic business by enhancing distribution network; (4) Aims to achieve Rs 3bn+ revenue over next 3 years in acrylic panel sales; has appointed C&F agents and a business head (hired from the industry) to drive this business. Second line of acrylic solid surface would be fully operational soon. (5) Lower depreciation (Rs 38mn vs. Rs 60mn QoQ) was on account of aging of some assets; (6) Fluctuations in euro resulted in higher finance costs (Rs 41mn vs. Rs 13mn QoQ); (7) expects margins to expand further, as it uses lower-priced RMs; (8) incremental focus is to scale domestic business, whereby expanding distribution and warehouses would play key roles
Tiles/ Ceramics, Bathware and Kitchen products	
Carysil	(1) Aims Rs 10bn revenue with 30%+ CAGR in domestic sales in the coming years; Healthy 3Q EBITDA margin (18%+) to improve further with scale; domestic gross margin similar to exports, EBITDA margin lower due to A&P spend; (2) cost difference with European manufacturers has further increased (now ~35%), on sharp rise in energy cost which poses a big advantage for CARYSIL to add global OEMs and gain market share; (3) Domestic business: Focus on project sales (20% of domestic sales currently, to reach 50% in 2-3 years by launching relevant products with healthy margins); separate sales team in place; (4) Exports: UK market (including Sylmar) did well in 3Q; US is recovering too; key EU markets still weak; expect healthy traction in the US, UK markets in the coming quarters, based on order book position; to set up showrooms in Dubai to improve brand visibility and expand in Saudi and other gulf markets; (5) Capex: 100k unit faucet capacity to be operational in 1QFY24; newly acquired 60-acre land would be used for existing as well as new product lines
Cera Sanitaryware	(1) Continued to gain market share from other leading as well as small players; (2) Revenue guidance: doubling (to Rs 29bn) in 40 months over FY22; (3) EBITDA margin to stay at 16%+ in FY23/ FY24; (4) Channel inventory: >55% of the business is cash and carry (just-in-time model); Dealers keep low inventory to control WC; (5) Sanitaryware: Gaining market share from next 3 players; Land parcel acquired; Next 6-9 months for statutory approvals; (6) Faucets: Capacity increased to 0.4mn pcs p.m., to be further increased to 0.6mn pcs p.m.; Price rise of 27% over last 1.5 years slowed volume growth; (7) Price hikes: None taken in 3Q, while peers hiked; From 1 st Feb took price rationalisation (for uniform pricing market wide), resulting in 0.5-1% increase in sanitaryware prices and 0.5% decrease in faucets
Kajaria Ceramics	(1) Demand outlook: Jul-Oct was very tough; Demand picked up in Nov and Dec but was tough again in Jan'23; expects FY23 to end on strong note; 13-15% volume growth in FY24E; (2) Inflated fuel costs (up 25% YoY and 4% QoQ, 25.5% of revenue) continued to suppress margins; declining trend in fuel cost should aid margin expansion 4Q onwards; (3) Has shifted to alternate fuel (LPG 5%, Biofuel 30%), ~35% fuel mix in 4Q from nil earlier; (4) Rise in inventories inflated WC and impacted cash levels by Rs 100mn to Rs 1.88bn; (5) Excess inventory should normalise by Mar'23, per management; (5) Nepal plant: Work to start from 15 th March and should be operational by Mar'24; Coal fired plant with healthy margins; (6) Export momentum from Morbi has increased meaningfully [~Rs 160bn in FY23E vs ~Rs 127bn in FY22]
Somany Ceramics	(1) Stretched WC and net debt on higher inventory; (2) 3Q margins impacted on muted demand and additional benefits (~1.2%) given to dealers to push volumes; (3) Aims for 15%+ revenue growth in FY24; (4) Softening fuel prices (by 6-8% average in 4Q, ~10% in non-South region) should aid margin expansion 4Q onwards; (5) Muted demand from Europe led to Morbi volumes shifting to domestic markets; should normalise 4Q onwards as demand is expected to return; (6) Used 60% LPG in 3Q; gas prices have softened, so usage should revert to earlier levels; (7) Dealer inventory still below normal on expected further decline in fuel prices; (8) Capex: Exploring a JV in Nepal after imposition of duty on India imports; Rs 1.7bn project in India JV on schedule; (9) Bathware to grow at 20% CAGR; operates at 12%+ EBITDA margin

Source: Company, Systematix Institutional Research

Exhibit 8: PVC Pipes - Systematix vs. Bloomberg estimates

(Rs mn)	Estimates before 3QFY23 result			Estimates after 3QFY23 result			% Variance			Bloomberg estimates			% Variance with Systematix		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Apollo Pipes															
Total Income	8,502	10,333	12,274	9,213	10,581	12,411	8	2	1	9,068	11,021	13,137	(2)	4	6
EBITDA	623	1,367	1,735	658	1,369	1,738	6	0	0	652	1,267	1,671	(1)	(7)	(4)
EBITDA margin (%)	7.3	13.2	14.1	7.1	12.9	14.0				7.2	11.5	12.7			
PAT	209	757	1,023	226	754	1,023	8	(0)	(0)	230	702	960	2	(7)	(6)
Astral															
Total Income	49,871	56,182	65,323	51,056	56,693	65,238	2	1	(0)	52,107	61,458	71,023	2	8	9
EBITDA	7,312	9,586	11,178	7,446	9,686	11,211	2	1	0	7,752	10,171	12,003	4	5	7
EBITDA margin (%)	14.7	17.1	17.1	14.6	17.1	17.2				14.9	16.5	16.9			
PAT	3,987	6,151	7,484	3,945	6,230	7,507	(1)	1	0	4,527	6,494	7,913	15	4	5
Finolex Industries															
Total Income	45,589	46,183	51,248	42,516	45,182	49,532	(7)	(2)	(3)	44,470	48,286	51,525	5	7	4
EBITDA	3,757	7,084	8,374	2,232	6,702	7,991	(41)	(5)	(5)	2,425	6,890	8,452	9	3	6
EBITDA margin (%)	8.2	15.3	16.3	5.2	14.8	16.1				5.5	14.3	16.4			
PAT	2,987	5,222	6,180	2,137	5,225	6,215	(28)	0	1	1,812	5,101	6,117	(15)	(2)	(2)
Prince Pipes															
Total Income	26,164	29,333	33,869	27,513	29,862	34,472	5	2	2	26,906	30,273	34,340	(2)	1	(0)
EBITDA	1,875	4,132	4,944	1,996	4,197	5,052	6	2	2	2,166	4,008	4,804	9	(5)	(5)
EBITDA margin (%)	7.2	14.1	14.6	7.3	14.1	14.7				8.0	13.2	14.0			
PAT	706	2,314	2,864	836	2,411	2,999	18	4	5	974	2,343	2,927	17	(3)	(2)
Supreme Industries															
Total Income	88,115	93,944	1,07,029	90,778	95,196	1,06,607	3	1	(0)	89,924	97,441	1,09,945	(1)	2	3
EBITDA	10,660	15,029	17,176	11,053	15,076	16,904	4	0	(2)	10,836	14,350	16,755	(2)	(5)	(1)
EBITDA margin (%)	12.1	16.0	16.0	12.2	15.8	15.9				12.1	14.7	15.2			
PAT	7,285	10,789	12,372	7,817	10,796	12,344	7	0	(0)	7,755	10,247	12,025	(1)	(5)	(3)

Source: Bloomberg, Systematix Institutional Research

Exhibit 9: Woodpanel - Change in estimates

(Rs mn)	Estimates before 3QFY23 result			Estimates after 3QFY23 result			% Var		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Century Ply									
Total Income	36,063	41,124	45,486	36,361	41,028	46,071	1	(0)	1
EBITDA	5,467	6,891	7,305	5,380	6,695	7,447	(2)	(3)	2
EBITDA margin (%)	15.2	16.8	16.1	14.8	16.3	16.2			
PAT	3,721	4,314	4,661	3,640	4,122	4,695	(2)	(4)	1
Greenlam									
Total Income	20,537	24,487	30,131	20,594	24,484	31,297	0	(0)	4
EBITDA	2,312	2,904	3,965	2,227	2,734	3,842	(4)	(6)	(3)
EBITDA margin (%)	11.3	11.9	13.2	10.8	11.2	12.3			
PAT	1,198	1,237	1,998	1,168	1,102	1,896	(2)	(11)	(5)
Greenpanel									
Total Income	18,104	21,157	23,560	17,865	19,911	22,261	(1)	(6)	(6)
EBITDA	4,711	5,358	5,848	4,383	4,467	5,061	(7)	(17)	(13)
EBITDA margin (%)	26.0	25.3	24.8	24.5	22.4	22.7			
PAT	2,658	3,070	3,355	2,305	2,725	3,105	(13)	(11)	(7)
Greenply									
Total Income	19,251	23,203	27,264	18,751	22,633	26,856	(3)	(2)	(1)
EBITDA	1,854	2,397	3,335	1,645	2,135	3,084	(11)	(11)	(8)
EBITDA margin (%)	9.6	10.3	12.2	8.8	9.4	11.5			
PAT	930	1,079	1,751	1,007	966	1,623	8	(10)	(7)
Stylam									
Total Income	10,040	11,819	13,816	9,724	11,583	13,723	(3)	(2)	(1)
EBITDA	1,611	1,967	2,327	1,582	1,919	2,314	(2)	(2)	(1)
EBITDA margin (%)	16.0	16.6	16.8	16.3	16.6	16.9			
PAT	986	1,229	1,492	965	1,206	1,496	(2)	(2)	0

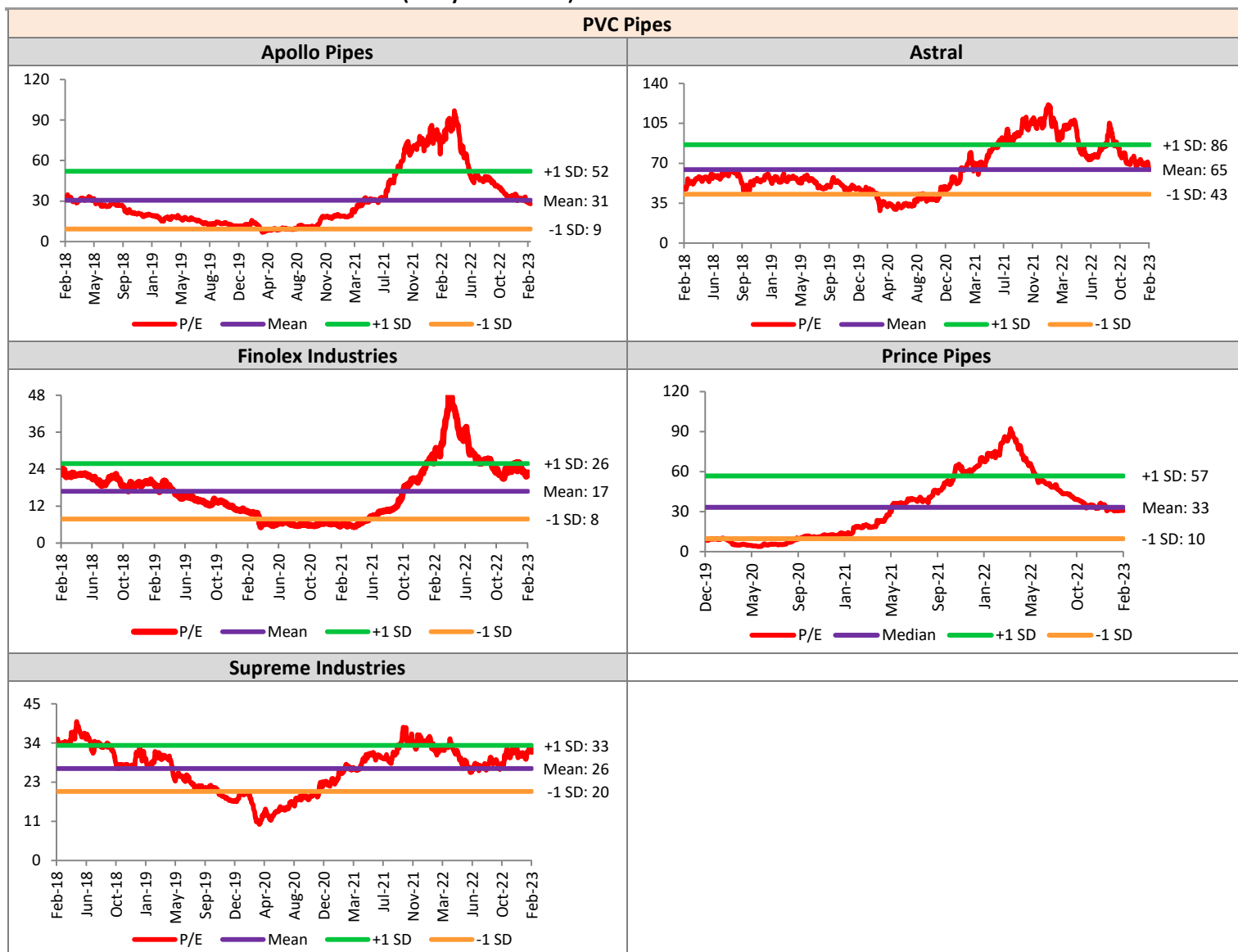
Source: Bloomberg, Systematix Institutional Research

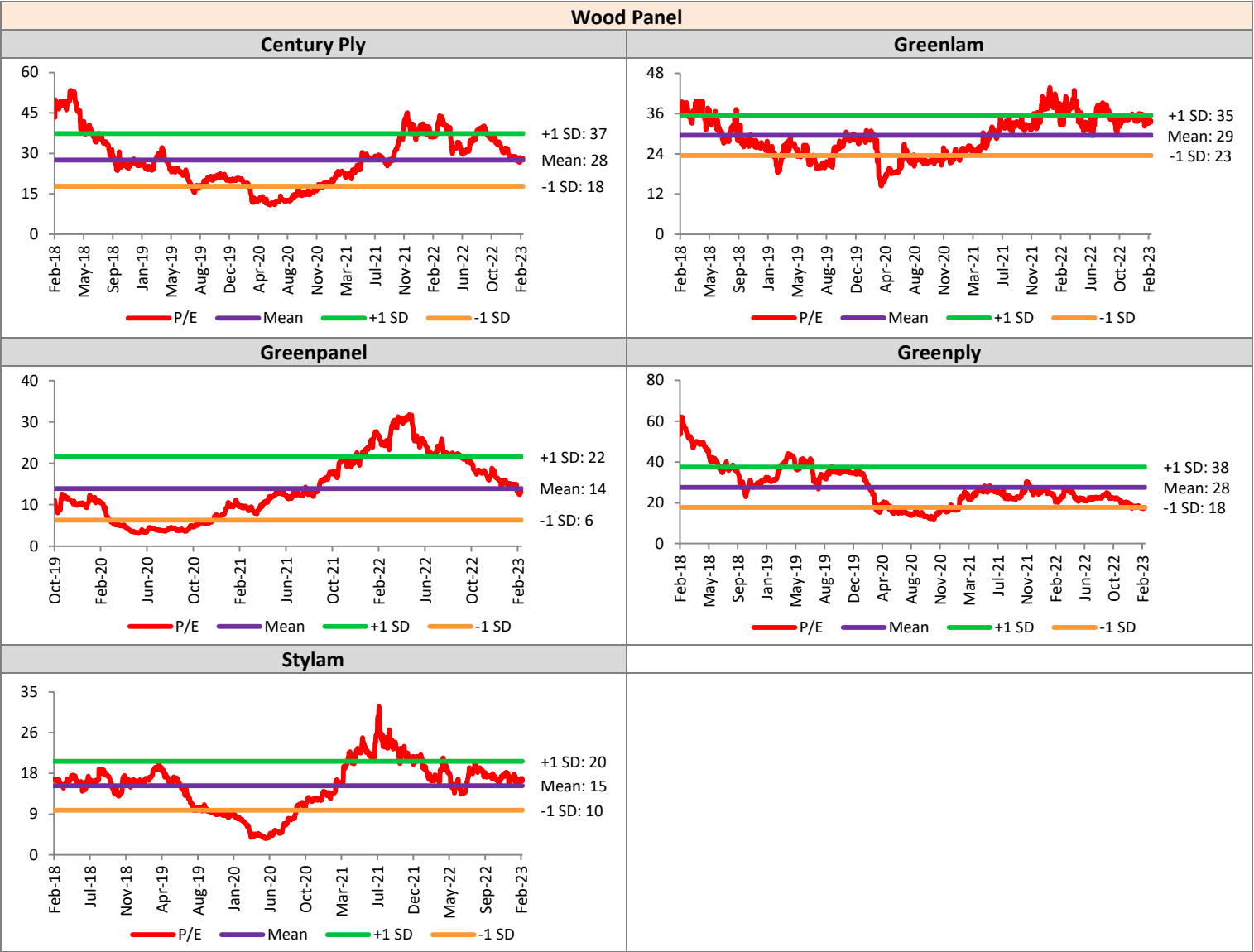
Exhibit 10: Tiles/Ceramics - Change in estimates

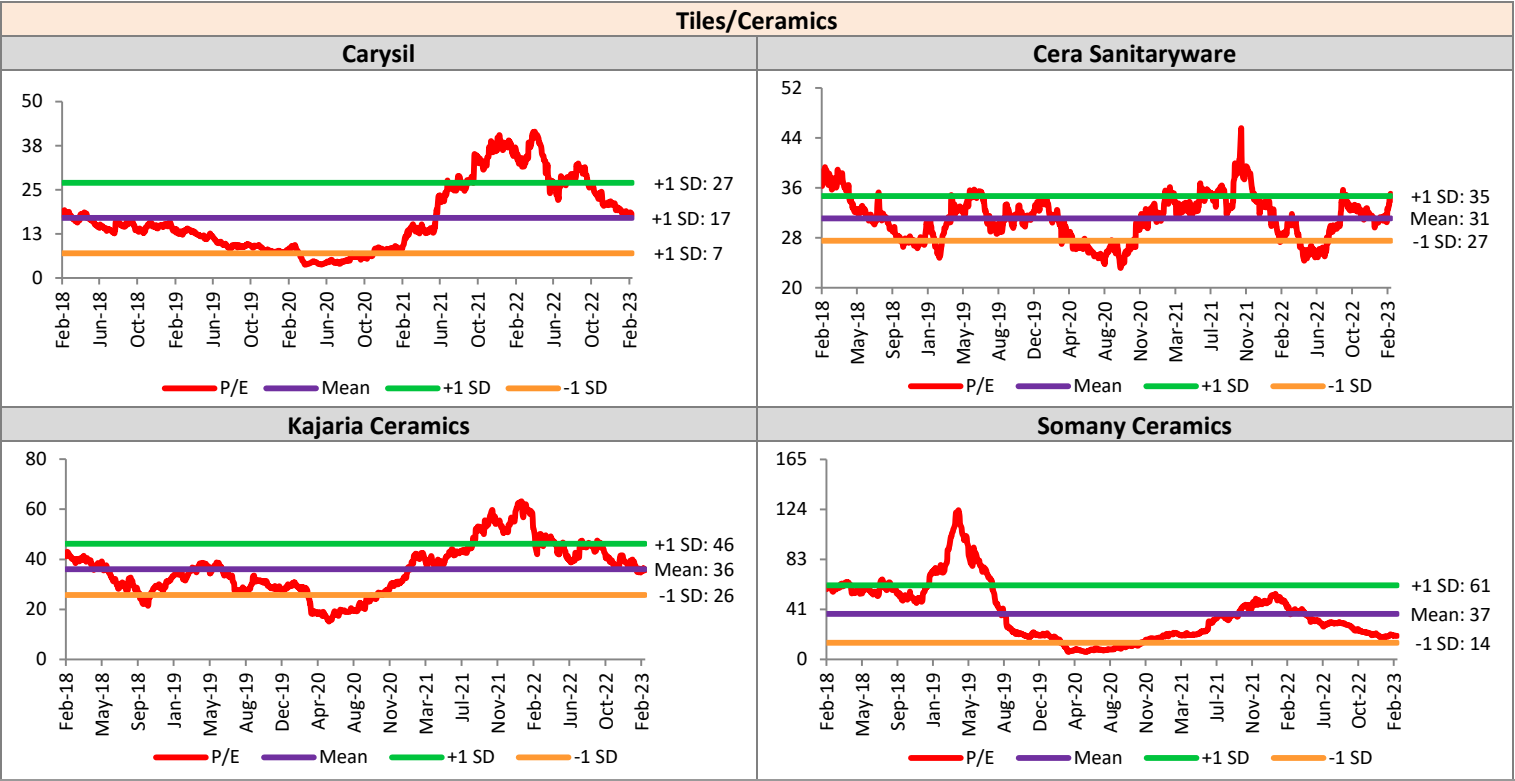
(Rs mn)	Estimates before 3QFY23 result			Estimates after 3QFY23 result			% Var		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Carysil									
Total Income	6,327	7,276	8,731	6,200	7,629	9,270	(2)	5	6
EBITDA	1,121	1,362	1,722	1,137	1,455	1,833	1	7	6
EBITDA margin (%)	17.7	18.7	19.7	18.3	19.1	19.8			
PAT	560	671	883	561	715	941	0	7	7
Cera Sanitaryware									
Total Income	16,935	19,468	22,381	17,586	20,217	23,242	4	4	4
EBITDA	2,809	3,253	3,747	2,864	3,361	3,875	2	3	3
EBITDA margin (%)	16.6	16.7	16.7	16.3	16.6	16.7			
PAT	1,943	2,251	2,599	2,028	2,289	2,650	4	2	2
Kajaria Ceramics									
Total Income	44,043	49,700	56,112	43,791	49,805	56,221	(1)	0	0
EBITDA	6,244	8,189	9,245	5,852	8,200	9,256	(6)	0	0
EBITDA margin (%)	14.2	16.5	16.5	13.4	16.5	16.5			
PAT	3,721	5,082	5,843	3,370	5,089	5,849	(9)	0	0
Somany Ceramics									
Total Income	24,621	27,601	30,949	24,711	28,134	31,549	0	2	2
EBITDA	2,026	2,602	3,289	1,829	2,702	3,345	(10)	4	2
EBITDA margin (%)	8.2	9.4	10.6	7.4	9.6	10.6			
PAT	869	1,265	1,798	705	1,233	1,755	(19)	(2)	(2)

Source: Bloomberg, Systematix Institutional Research

Exhibit 11: PE band and standard deviation (one-year forward)



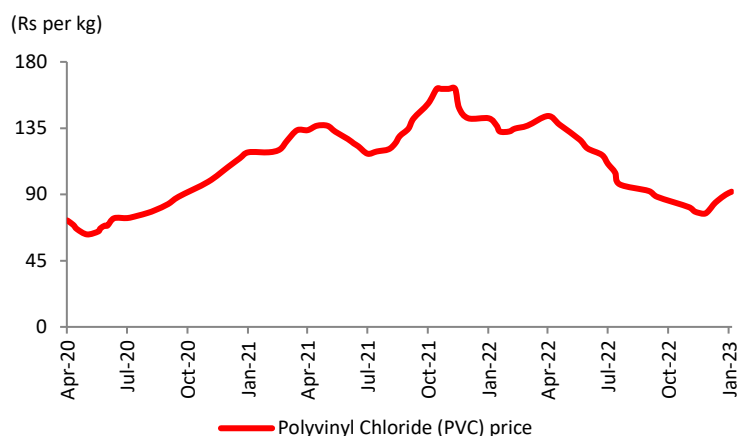




Source: BSE, Company, Systematix Institutional Research

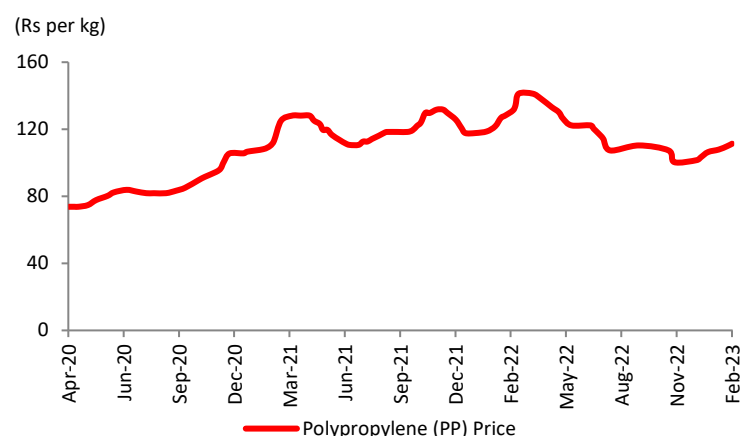
Commodity prices, currency movement

Exhibit 12: Price of polyvinyl chloride (PVC)



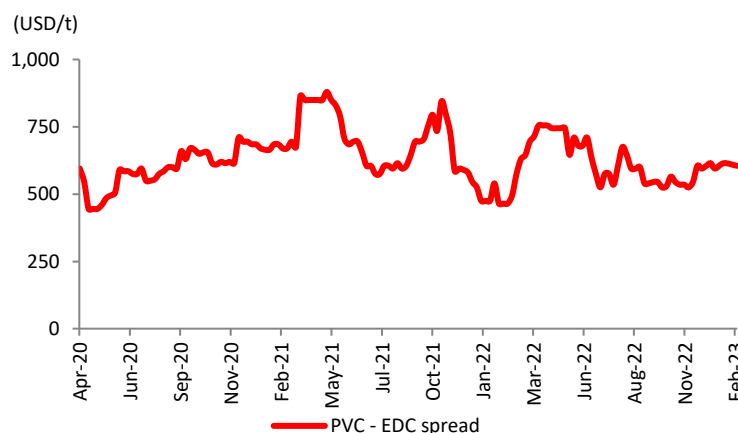
Source: Reliance

Exhibit 13: Price of polypropylene (PP)



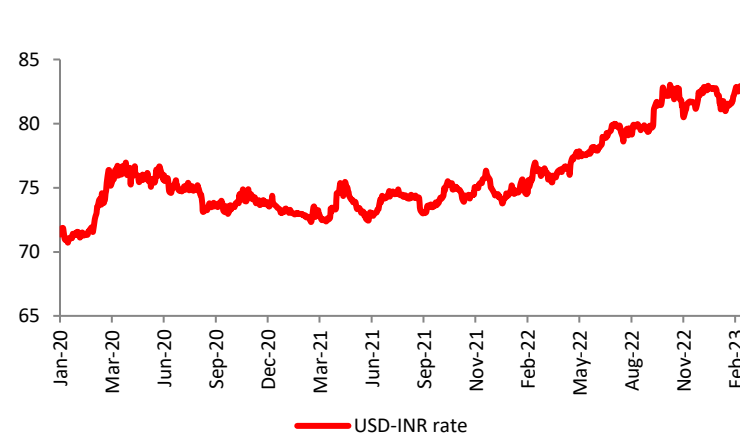
Source: Reliance

Exhibit 14: PVC - EDC spread



Source: Bloomberg

Exhibit 15: USD-INR rate



Source: Bloomberg

COMPANY SECTION

PLASTIC PIPES



TM

17 February 2023

Apollo Pipes

Strong 3Q volumes to sustain; margins to normalise from 4Q

COMPANY UPDATE

Sector: Plastic Pipes Rating: BUY

CMP: Rs 502 Target Price: Rs 650

Stock Info

Sensex/Nifty	61,320/ 18,036
Bloomberg	APOLP IN
Equity shares (mn)	39
52-wk High/Low	616/405
Face value	Rs 10
M-Cap	Rs 20bn/ USD 239mn
3-m avg turnover	USD 0.5mn

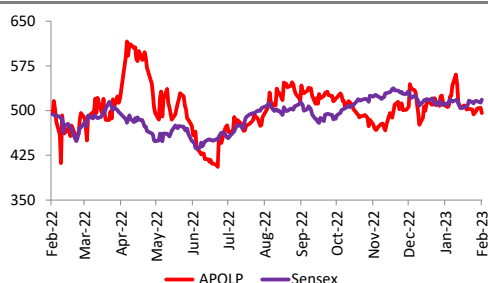
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	9,213	10,581	12,411
EBITDA	658	1,369	1,738
OPM (%)	7.1	12.9	14.0
PAT (adj.)	226	754	1,023
EPS (adj.) (Rs)	5.7	19.2	26.0
PE (x)	87.4	26.2	19.3
P/B (x)	4.7	4.0	3.4
EV/EBITDA (x)	30.4	14.6	11.2
RoE (%)	5.3	15.4	17.6
RoCE (%)	8.6	20.4	23.2
Net-D/E (x)	0.1	0.1	(0.0)

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	52.0	52.0	52.0
- Pledged	-	-	-
FII	2.4	2.2	1.0
DII	12.8	12.4	12.6
Others	32.8	33.4	34.4

Stock Performance (1-year)



Apollo Pipes' (APOLP) 3QFY23 revenue (up 24% YoY and 14% QoQ) was driven by strong volumes (up 44% YoY and 16% QoQ). Inventory loss limited EBITDA margin expansion (up 559bps QoQ) to 6.8%; we expect a reversal in 4Q. Forecasting stable PVC prices, management aims to achieve EBITDA margin of ~12% and EBITDA/kg of Rs 17-18 (3Q: ~Rs 9) in the coming quarters. Post its presence in all regions, now APOLP is working on a Rs 1.5bn capex plan (mostly internally funded) for 25,000mtpa capacities (mostly value-added products (VAP)) at Dadri. APOLP is also planning a large capex in the non-northern markets over the next 15-months. Pan-India aspirations, VAP and better-plant utilisation augur well for APOLP's healthy growth, EBITDA margin (~210bps expansion over FY22-25E) and return ratios. The company has maintained its volume/ revenue guidance of 20%/ 25-30% CAGR over next 3 years. We raised PAT by 8% for FY23E after the strong 3Q volumes, but maintained the same for FY24 and FY25. We estimate APOLP would continue its industry-leading performance to register 19%/17%/ 23%/27% CAGR in volume/revenue/ EBITDA/PAT over FY22-25E and ~18%/~23% RoE/RoCE in FY25E, respectively. Healthy OCF would support its growth capex. APOLP's industry leading growth would enable it to further shrink its valuation gap with peers. We reiterate BUY rating, with a TP of Rs 650, based on ~33x/ 25x FY24E/ FY25E P/E. Volume growth and margins are key near-term monitorables.

Strong volume-led 3Q; margins to normalise 4Q onwards: Strong volumes (up 44% YoY and 16% QoQ) drove APOLP's revenue (up 24% YoY and 14% QoQ), as realisation fell (14% YoY and 2% QoQ) on PVC price movement. Gross margin recovered 477bps QoQ to 24.2%. EBITDA margin expanded 559bps QoQ to 6.8%, though curtailed by inventory losses. EBITDA/kg stood at Rs 8.9/kg. Forecasting stable PVC prices, APOLP aims to achieve EBITDA margin of ~12% and EBITDA/kg of Rs 17-18 in the coming quarters. Net-debt improved to Rs 150mn on tight WC cycle. We expect continuous reduction in debtor days (40 days by FY25), efficient RM sourcing on greater volumes and channel financing to drive healthy FCF ahead, despite continued capex.

VAP, pan-India aspirations and better-plant utilisation are key focus areas: Manufacturing plants in all regions and distribution network expansion beyond North India have addressed the pan-India demand for APOLP's extensive product range (pipes to fittings, water tanks and bathware products). The company continued to expand capacity from 60,000mtpa in FY18 to 125,200mtpa currently; ~150,000mtpa by 2QFY24. The company intends to fund its Rs 1.5bn capex for 25,000mtpa capacity in VAP (in CPVC, bath fittings and HDPE) at Dadri internally. It has also planned a large capex over the next 15-months in India's non-northern markets. Based on this, management has maintained its volume/ revenue guidance of 20%/ 25-30% CAGR over next 3 years. Its product prices are similar to those of peers in the north; these have narrowed to ~4% from 8-10% 4 years ago in other regions. CPVC (15%+ value mix) continues to expand at 50%+ CAGR. Greater focus on the value-add building segment (60% revenue mix vs. <50% couple of years ago) and better plant utilisation (~65% expected in FY25 from ~46% in FY22) augur well for APOLP's EBITDA margin (expected to expand ~210bps to ~14% over FY22-25E).

Top pick within our PVC pipe coverage: Industry-leading growth, better return ratios and FCF are reasons for our upbeat outlook on APOLP. We maintain **BUY** with a TP of Rs 650, based on ~33x/25x FY24E/FY25E P/E (31x one-year forward 5-year mean).

Valuation and View

India's fastest-growing plastic pipes company, APOLP, benefits from its association with APL Apollo Tubes, which enjoys strong brand recall and a vast distribution network. Regular capacity addition has enabled APOLP to add SKUs to its existing product lines, as also expand into newer categories. We laud the company's aspiration to emerge as a leading pan-India player in the pipes and fittings industry.

We raised APOLP's PAT estimate by 8% for FY23E, given its strong volumes in 3Q, but maintained the same for FY24 and FY25. We expect APOLP to continue its industry-leading performance to register 19%/17%/23%/27% CAGR in volume/ revenue/ EBITDA/ PAT over FY22-25E, with an RoE of ~18% and RoCE of ~23% in FY25E.

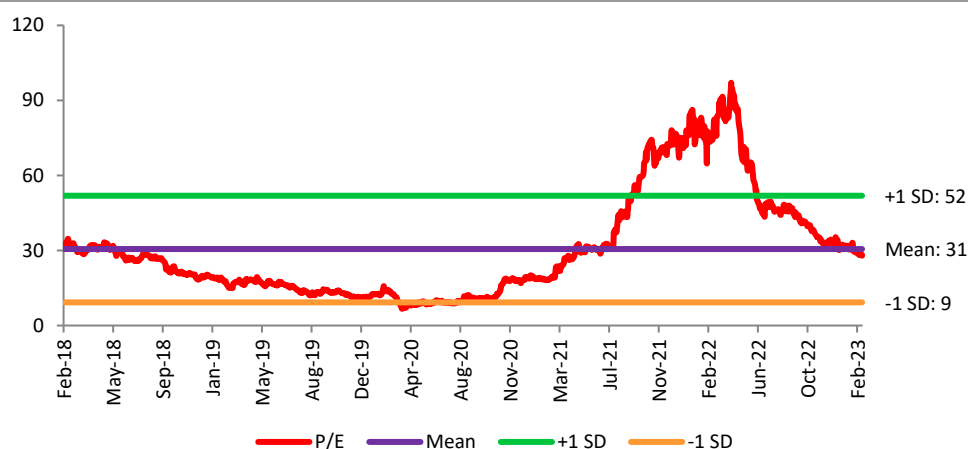
APOLP's status as the fastest-growing plastic pipes company in India, has helped it to reduce its valuation gap with peers since the last few years. We maintain our BUY rating on the stock, with a target price of Rs 650, based on ~33x/ 25x FY24E/ FY25E P/E (vs. 31x one-year forward mean over last five years). Volume growth and margins are key near-term monitorables.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Variance (%)			Bloomberg estimates			% Var with Systematix		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	9,213	10,581	12,411	9,213	10,581	12,411	-	-	-	9,068	11,021	13,137	(2)	4	6
EBITDA	658	1,369	1,738	658	1,369	1,738	-	-	-	652	1,267	1,671	(1)	(7)	(4)
EBITDA margin (%)	7.1	12.9	14.0	7.1	12.9	14.0				7.2	11.5	12.7			
PAT	226	754	1,023	226	754	1,023	-	-	-	230	702	960	2	(7)	(6)
EPS	5.7	19.2	26.0	5.7	19.2	26.0	-	-	-	6.6	17.883	24.4	15	(7)	(6)

Source: Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key Risks

- Slowdown in real-estate activities and the economy
- An unfavourable monsoon and high product prices
- Intensifying competition from large, organised and small regional players
- Price volatility in PVC

APOLLO PIPES (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues (Rs mn)	5,181	7,841	9,213	10,581	12,411
Growth (%)	27	51	18	15	17
Direct costs	3,618	5,732	6,981	7,456	8,672
Gross Margin (%)	30.2	26.9	24.2	29.5	30.1
SG&A	820	1,175	1,574	1,755	2,002
EBITDA	743	934	658	1,369	1,738
EBITDA margins (%)	14.3	11.9	7.1	12.9	14.0
- Depreciation	176	257	285	324	355
Other income	84	38	22	32	45
Interest Exp	44	43	85	65	55
PBT	607	672	311	1,012	1,373
Effective tax rate (%)	26.7	25.9	27.4	25.5	25.5
+ Associates/(Minorities)	-	-	-	-	-
Net Income	445	498	226	754	1,023
Adjusted income	445	498	226	754	1,023
WANS	39	39	39	39	39
FDEPS (Rs/share)	11.3	12.7	5.7	19.2	26.0
FDEPS growth (%)	56	12	(55)	234	36

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	131	393	393	393	393
Net worth	3,515	4,053	4,232	4,899	5,796
Total debt	629	387	377	367	357
Minority interest	-	-	-	-	-
DT Liability/(Asset)	24	14	13	12	11
Capital Employed	4,167	4,454	4,621	5,278	6,163
Net tangible assets	1,996	2,153	2,618	3,294	3,439
Net Intangible assets	213	211	211	211	211
Goodwill	-	-	-	-	-
CWIP	77	71	61	51	41
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	5	43	43	43	43
Current Assets	1,928	2,543	2,746	2,904	3,283
Cash	723	418	66	30	566
Current Liabilities	775	985	1,124	1,256	1,420
Working capital	1,153	1,558	1,622	1,648	1,863
Capital Deployed	4,167	4,454	4,621	5,278	6,163
Contingent Liabilities	43	392			

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT (before other income)	596	681	371	1,044	1,373
+ Non-cash items	176	257	285	324	355
OCF before WC	772	938	655	1,368	1,727
- Incr./(decr.) in WC	434	417	54	16	205
Others including taxes	129	158	95	268	360
Operating cash-flow	209	363	506	1,084	1,163
- Capex	617	405	740	990	490
Free cash-flow	(408)	(41)	(234)	94	673
Acquisitions					
- Dividend	-	-	47	87	126
+ Equity raised	-	-	-	-	-
+ Debt raised	(165)	(256)	(10)	(10)	(10)
- Fin Investments	0	14	-	-	-
- Misc. Items (CFI + CFF)	(17)	(7)	62	33	-
Net cash-flow	(557)	(304)	(353)	(36)	537

Source: Company, Systematix Institutional Research

Ratios @ Rs 502

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	44.4	39.7	87.4	26.2	19.3
EV/EBITDA (x)	26.5	21.1	30.4	14.6	11.2
EV/sales (x)	3.8	2.5	2.2	1.9	1.6
P/B (x)	5.6	4.9	4.7	4.0	3.4
RoE (%)	12.7	12.3	5.3	15.4	17.6
RoCE (%)	15.6	16.1	8.6	20.4	23.2
ROIC	14.8	13.3	5.3	15.4	18.9
DPS (Rs per share)	-	1.0	1.2	2.2	3.2
Dividend yield (%)	-	0.2	0.2	0.4	0.6
Dividend payout (%)	-	7.9	20.9	11.5	12.3
Net debt/equity (x)	(0.0)	(0.0)	0.1	0.1	(0.0)
Receivables (days)	44	33	32	31	30
Inventory (days)	55	61	56	51	51
Payables (days)	34	26	26	26	26
CFO: PAT%	47	73	224	144	114

Source: Company, Systematix Institutional Research



TM

Astral

17 February 2023

Healthy growth outlook; margins to normalise 4Q onward

COMPANY UPDATE

Sector: Plastic Pipes

Rating: HOLD

CMP: Rs 1,928

Target Price: Rs 1,862

Stock Info

Sensex/Nifty	61,320/ 18,036
Bloomberg	ASTRA IN
Equity shares (mn)	201
52-wk High/Low	2,593/1,607
Face value	Rs 1
M-Cap	Rs 388bn/USD 4.7bn
3-m Avg volume	USD 10.9mn

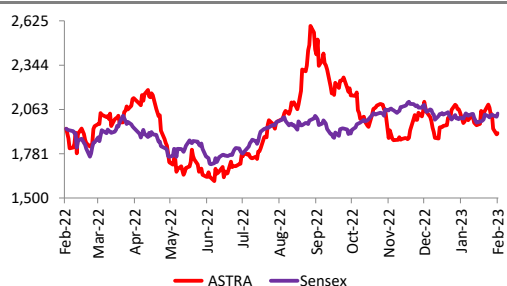
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	51,056	56,693	65,238
EBITDA	7,446	9,686	11,211
OPM (%)	14.6	17.1	17.2
PAT (adj.)	3,945	6,230	7,507
EPS (adj.) (Rs)	19.6	31.0	37.4
PE (x)	98.2	62.2	51.6
P/B (x)	14.5	12.1	10.0
EV/EBITDA (x)	51.1	38.7	32.8
RoE (%)	14.8	19.4	19.4
RoCE (%)	22.5	27.4	27.6
Net-D/E (x)	(0.3)	(0.4)	(0.5)

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	55.9	55.9	55.7
- Pledged	-	-	-
FII	14.9	16.3	16.1
DII	15.2	14.4	13.6
Others	14.0	13.5	14.6

Stock Performance (1-year)



Astral's (ASTRA) 3QFY23 results (revenue up 15% YoY and 8% QoQ, 14.7% EBITDA margin) were broadly in line driven by pipe segment (volumes up 30% YoY and 13% QoQ, healthy margin recovery despite inventory loss (~3% of revenue) and Rs 40mn of loss in bathware. Inventory/ forex losses suppressed margins in the adhesives business at ~12%. Net-cash stood healthy at Rs 4.8bn on tight working capital (WC) management. The company also announced bonus issue (1 for 3 held). Stable and affordable PVC prices should boost primary pipe sales on channel filling. We expect margins in pipes and adhesives to rebound, as high-cost inventory is mostly liquidated. Aggressive store and SKU expansions should drive traction in bathware. ASTRA expects new businesses to clock Rs 15bn revenues over the next five years. With its large capex (Rs 10bn over last five years) behind, better capacity utilisation (55-60% currently) will drive healthy FCF and return ratios ahead. We maintained our number post 3Q, estimating 14%/16% CAGR in revenue/PAT over FY22-25E (18%/27% over FY17-22). Expecting ASTRA's long-term prospects to stay intact, at ~52x FY25E P/E, we maintain HOLD, with a target price of Rs 1,862 (50x FY25E P/E). Robust growth, margins are keys for high valuations to sustain.

3Q – in-line performance; 1:3 bonus issue: In-line 3Q results (revenue up 15% YoY and 8% QoQ, 14.7% EBITDA margin) was led by strong pipe volumes (up 30% YoY and 13% QoQ) and healthy margin recovery, despite a Rs 130mn loss in the bathware segment. Inventory and forex losses suppressed margins in the adhesives business at ~12% (rebound likely from 4Q). Net-cash stood healthy at Rs 4.8bn on tight WC management. It has planned the launch of all 120 SKUs in valves in 4Q. Orissa plant is already producing PVC pipes and tanks (CPVC likely by 1QFY24).

Pipe volumes up 35% YoY; inventory gain likely in 4Q post ~Rs 250 loss in 3Q: Strong demand in all segments and channel restocking drove 3Q volumes. ASTRA's greater CPVC mix (~50% vs. <20% for peers) helped the company contain its inventory loss (~3% of 3Q revenue; 2Q at ~5% vs. ~10% for peers) due to relatively stable CPVC prices compared to PVC. Sharp decline in PVC prices during Oct and Nov 2022 led to the ~Rs 250mn loss in 3Q (~16% EBITDA margin, as expected). ASTRA expects healthy margins in 4Q, as it has liquidated the high-cost inventory in 3Q, and logged inventory gains on PVC price recovery since Dec. Stable and affordable PVC prices should drive channel filling and augur well for primary pipe volumes.

Growth and margins to rebound in adhesives 4Q onwards: Adhesives revenue was flattish QoQ (up 34% YoY) due to soft demand in Seal IT UK and domestic rural markets. Adjusting for the Rs 55mn currency loss in UK, EBITDA margin recovered at a healthy ~14%. Post high volatility (leading to inventory losses), silicon prices have fallen back to pre-COVID levels. On likely liquidation of high-cost inventory by 1Q, margins are expected to normalise at 15%+ levels in FY24. Resinova Unnao plant will be returned to the original promoter as per an agreement in 2014. Dahej plant, with a revenue potential of Rs 180bn is expected to start production 1QFY24 onwards.

Aggressive expansion in bathware; paints margins to expand from 4Q: After a strong footing in adhesives, ASTRA has entered the paints (acquired south India-based Gem Paints; 3Q/9M revenue Rs 0.53bn/Rs 1.6bn, ~12.6%/14% EBITDA margin) and bathware (asset-light model; set up 231 outlets and aims 500 by Dec'23) businesses. It also sees scope in water tanks and valves (high value-added products, 120 SKUs), and is targeting Rs 15bn revenues from the new businesses (paints ~Rs 7bn, bathware ~Rs 5bn, tanks ~Rs 3bn) over next 5-years.

Valuation and View

We find ASTRA appealing for its consistent focus on growth and profitability, supported by innovative product launches, vigorous brand building and successful product diversification. After establishing a leading position in plumbing pipes, it has now expanded into adhesives, paints and bathware segments. Its foray into adjacent segments (organically or inorganically) to lever its brand and distribution network, has worked well in capturing growth opportunities.

The company's consistent focus on properly allocating capital has been its strength, with capacity addition ahead of demand as its key strategy. It now has plants and depots across key regions, which should help it in shortening supply timelines and save on logistic costs.

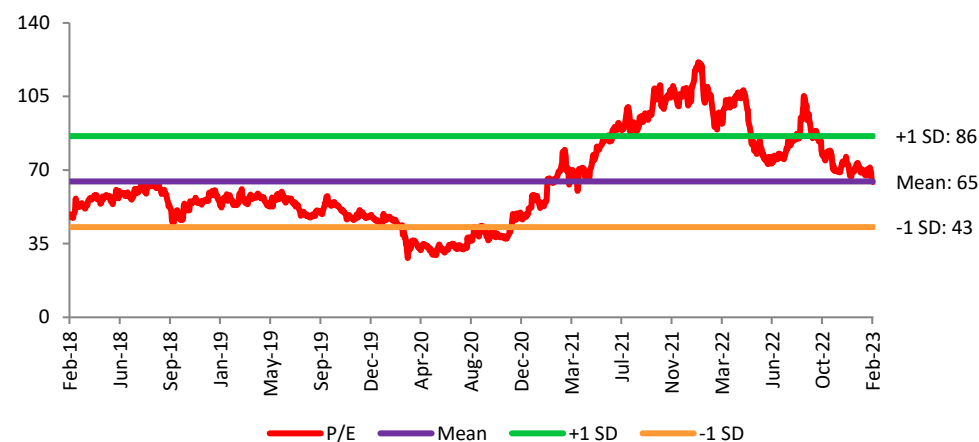
Revenue/PAT CAGR of 18%/27% over FY17-22 (higher than peers) and RoE expansion have supported ASTRA's high and premium valuation over peers. We maintained our estimates post 3Q, expecting 14%/16% CAGR over FY22-25E. While we continue to believe in ASTRA's long-term prospects, at ~52x FY25E P/E, we maintain **HOLD** rating on the stock, with a target price of Rs 1,862, based on 50x FY25E P/E. Robust growth, margins in existing and new businesses are key parameters to watch for ASTRA's high valuations to sustain.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Variance (%)			Bloomberg estimates			% Var with Systematix		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	51,056	56,693	65,238	51,056	56,693	65,238	-	-	-	52,107	61,458	71,023	2	8	9
EBITDA	7,446	9,686	11,211	7,446	9,686	11,211	-	-	-	7,752	10,171	12,003	4	5	7
EBITDA margin (%)	14.6	17.1	17.2	14.6	17.1	17.2				14.9	16.5	16.9			
PAT	3,945	6,230	7,507	3,945	6,230	7,507	-	-	-	4,527	6,494	7,913	15	4	5
EPS	19.6	31.0	37.4	19.6	31.0	37.4	-	-	-	22.5	32.3	39.3	15	4	5

Source: Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key Risks

- Lower-than-desired level of success in product launches
- Volatility in raw material prices

ASTRAL (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues (Rs mn)	31,763	43,940	51,056	56,693	65,238
Growth (%)	23.2	38.3	16.2	11.0	15.1
Direct costs	19,689	29,280	34,641	37,161	42,566
Gross Margin (%)	38.0	33.4	32.2	34.5	34.8
SG&A	5,629	7,107	8,969	9,846	11,461
EBITDA	6,445	7,553	7,446	9,686	11,211
EBITDA margins (%)	20.3	17.2	14.6	17.1	17.2
- Depreciation	1,165	1,269	1,793	1,841	1,941
Other income	251	349	313	635	913
Interest Exp	131	129	457	120	120
PBT	5,400	6,504	5,509	8,360	10,063
Effective tax rate (%)	23.1	24.3	24.7	25.0	25.0
+ Associates/(Minorities)	(108)	(85)	(203)	(40)	(40)
Net Income	4,044	4,838	3,945	6,230	7,507
Adjusted income	4,044	4,838	3,945	6,230	7,507
WANS	201.0	201.0	201.0	201.0	201.0
FDEPS (Rs/share)	20.1	24.1	19.6	31.0	37.4
FDEPS growth (%)	63.1	19.6	(18.5)	57.9	20.5

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	201	201	201	201	201
Net worth	18,958	23,366	26,708	32,134	38,636
Total debt (incl. Pref)	667	851	861	871	881
Minority interest	212	278	298	318	338
DT Liability/(Assets)	400	398	388	378	368
Capital Employed	20,237	24,893	28,255	33,701	40,223
Net tangible assets	10,280	12,160	12,867	12,026	11,586
Net Intangible assets	295	233	233	233	233
Goodwill	2,570	2,567	2,567	2,567	2,567
CWIP	566	1,232	732	432	132
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	-	-	7,500	13,500	20,000
Current Assets	8,256	11,259	14,033	15,633	17,950
Cash	4,760	6,418	358	421	422
Current Liabilities	6,490	8,976	10,035	11,111	12,666
Working capital	1,766	2,283	3,998	4,522	5,284
Capital Deployed	20,237	24,893	28,255	33,701	40,224
Contingent Liabilities	2,464	2,134	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT (before other income)	5,496	6,545	5,588	7,765	9,190
+ Non-cash items	1,165	1,269	1,793	1,841	1,941
OCF before WC	6,661	7,814	7,381	9,606	11,131
- Incr./(decr.) in WC	(1,142)	705	1,615	423	662
Others including taxes	1,162	1,678	1,502	2,230	2,656
Operating cash-flow	6,641	5,431	4,264	6,952	7,813
- Capex	1,717	3,460	2,000	700	1,200
Free cash-flow	4,924	1,971	2,264	6,252	6,613
Acquisitions	-	-	-	-	-
- Dividend	151	451	603	804	1,005
+ Equity raised	1	-	-	-	-
+ Debt raised	(1,242)	134	10	10	10
- Fin Investments	2,856	(4,140)	7,500	6,000	6,500
- Misc. Items (CFI + CFF)	108	88	217	(605)	(883)
Net cash-flow	568	5,706	(6,046)	64	1

Source: Company, Systematix Institutional Research

Ratios @ Rs 1,928

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	95.8	80.1	98.2	62.2	51.6
EV/EBITDA (x)	59.5	50.6	51.1	38.7	32.8
EV/sales (x)	12.1	8.7	7.5	6.6	5.6
P/B (x)	20.4	16.6	14.5	12.1	10.0
RoE (%)	21.3	20.7	14.8	19.4	19.4
RoCE (%)	29.8	29.4	22.5	27.4	27.6
ROIC	26.0	28.5	20.3	31.0	37.9
DPS (Rs per share)	1.0	1.8	3.0	4.0	5.0
Dividend yield (%)	0.1	0.1	0.2	0.2	0.3
Dividend payout (%)	5.0	7.3	15.3	12.9	13.4
Net debt/equity (x)	(0.2)	(0.2)	(0.3)	(0.4)	(0.5)
Receivables (days)	32	22	30	30	30
Inventory (days)	54	61	60	60	60
Payables (days)	59	62	60	60	60
CFO:PAT%	164	112	108	112	104

Source: Company, Systematix Institutional Research



TM

Finolex Industries

17 February 2023

Strong pipe volumes; concerns on volatile PVC margins persist

COMPANY UPDATE

Sector: Plastic Pipes

Rating: HOLD

CMP: Rs 178

Target Price: Rs 181

Stock Info

Sensex/Nifty	61,320/ 18,036
Bloomberg	FNXP IN
Equity shares (mn)	618.4
52-wk High/Low	189/130
Face value	Rs 2
M-Cap	Rs 110bn/ USD 1.3bn
3-m Avg turnover	USD 2.6mn

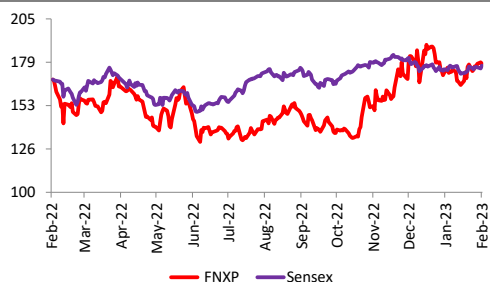
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	42,516	45,182	49,532
EBITDA	2,232	6,702	7,991
OPM (%)	5.2	14.8	16.1
PAT (adj.)	2,137	5,225	6,215
EPS (adj.) (Rs)	3.4	8.4	10.0
PE (x)	51.7	21.1	17.8
P/B (x)	2.7	2.5	2.3
EV/EBITDA (x)	49.6	16.1	13.2
RoE (%)	5.2	11.8	12.7
RoCE (%)	5.7	14.7	16.2
Net-D/E (x)	0.0	(0.1)	(0.1)

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	52.5	52.5	52.5
- Pledged	-	-	-
FII	5.4	5.6	5.7
DII	12.0	10.2	10.2
Others	30.2	31.8	31.7

Stock Performance (1-year)



Finolex Industries' (FNXP) in-line 3Q revenue (up 12% YoY and 20% QoQ) was driven by strong pipe volumes (up 92% YoY and 53% QoQ), spurred by pent-up demand in agri pipes. Pipe margins strongly rebounded close to normal levels, after liquidation of its high-cost inventory. Low margins in PVC resin led to large miss in EBITDA/PAT (down 62%/55% YoY). After a strong 3Q, management expects pipe volumes to slightly moderate in 4Q, with EBIT margin in the segment to touch normal level of ~8% (Rs 8-10/kg). A Rs 1.5bn capex annually will be on moulds/ fitting capacities and general maintenance. FNXP would continue to expand its portfolio (CPVC/SWR pipes) and network (north, east India). Post 3Q result, we cut FY23E earnings by 28%, estimating lower PVC margins, but broadly retained our FY24E and FY25E numbers. Given the sharp contraction in PVC-resin and pipe realisations and margins, we expect 2%/-8%/-6% CAGR in FNXP's revenue/EBITDA/adj. PAT over FY22-25E (12%/13%/16% CAGR over FY17-22). On expected tepid earnings, we maintain our HOLD rating on the stock, with a target price of Rs 181, based on 18x FY25E P/E (22x/15x FY25E P/E for pipes/PVC). PVC margins continue to be highly volatile and contribute to ~60% of FNXP's total EBIT, which explains why the stock trades at a lower PE than peers.

3Q – strong pipe volumes, low PVC-resin margin led to EBITDA/PAT miss: Consol. revenue (up 12% YoY and 20% QoQ) was driven by strong pipe volumes (up 92% YoY and 53% QoQ on pent-up demand in agri pipes). While pipe margins saw a strong rebound close to normal levels, low PVC-resin margins led to 62%/55% drop in EBITDA/PAT, respectively. Management is yet to finalise its net cash (Rs 15bn+) usage plan. FNXP expects a Rs 3bn monetisation arising from sale of land parcel by Dec'23.

Pipes & Fittings – Strong rebound in volumes, 4Q margins to normalise: Strong volumes (up 92% YoY and 53% QoQ on pent-up demand in agri pipes) drove revenue in the segment (up 29% YoY and 34% QoQ), as realisation fell 33% YoY and 12% QoQ. Healthy traction in non-agri pipes (3Q/9M volumes up 30%/27% YoY, 27%/30% mix) continued. CPVC (Rs 1.6bn, 4,100t) and fittings (Rs 2bn) contributed 15% and 19% to total pipe revenue, respectively, in 3Q. Channel inventory bounced back to normal levels (1-2 weeks). FNXP will likely continue to focus on increasing its non-agri mix to 50% over the next 3-4 years. Post huge inventory losses in 1H (nil EBIT), EBIT margin reached near normal level (6.4% in 3Q, Rs 7.6/kg) on liquidation of its high-cost inventory and stabilisation of PVC prices. After a strong 3Q, management expects pipes volumes to moderate slightly in 4Q. EBIT margins too could normalise at ~8% (Rs 8-10/kg). A Rs 1.5bn capex annually will be on moulds/ fitting capacities and general maintenance. The company should continue to focus on portfolio (CPVC/SWR pipes) and network (north, east India) expansion.

Sharp contraction in PVC resin EBIT should normalise from 4Q: PVC revenue (down 21% YoY, up 5% QoQ) was impacted by lower realisation (down 47% YoY and 12% QoQ at ~Rs 78/kg), even though volumes rose by 49% YoY and 20% QoQ. Uptick in PVC pipe demand augurs well for PVC resin volumes. Inventory losses continued to suppress EBIT margin (2.5% in 3Q, -1.4% in 9M), owing to the sharp correction in PVC-ECD (USD 570/t, USD 600/t in 2Q, USD 795/t in 3QFY22, USD 665/t currently) and PVC-VCM spreads (USD 190/t, USD 235/t in 2Q, USD 350/t in 3QFY22, USD 190/t currently). Management expects EBIT here to normalise at Rs 15/kg, with ~16% margins over the next few quarters. PVC resin contributed ~74% to FNXP's total EBIT in FY22, as EBIT averaged at ~Rs 32/kg at ~24% margin.

Valuation and View

We like FNXP for its leadership position in agri pipes, healthy FCF, greater focus on portfolio (CPVC/SWR pipes) and network (north, east) expansion. Much of its sales in the agri-pipes segment is based on cash and carry (unlike peers), which reflects its strong market position and brand equity. However, we remain concerned on volatility in PVC resin's margins. Additionally, high cash investments (low yield) have suppressed its return ratios.

Significantly high realisations and PVC EBIT margin (~31%) held FNXP's FY21 and FY22 PAT base too high. Post 3Q result, we cut FY23E earnings by 28% on lower PVC margin estimates, but broadly retained FY24E and FY25E numbers. Given the sharp contraction in PVC-resin and pipe realisations and margins, we estimate 2%/-8%/-6% CAGR in FNXP's revenue/EBITDA/adj. PAT over FY22-25E (12%/13%/16% CAGR over FY17-22).

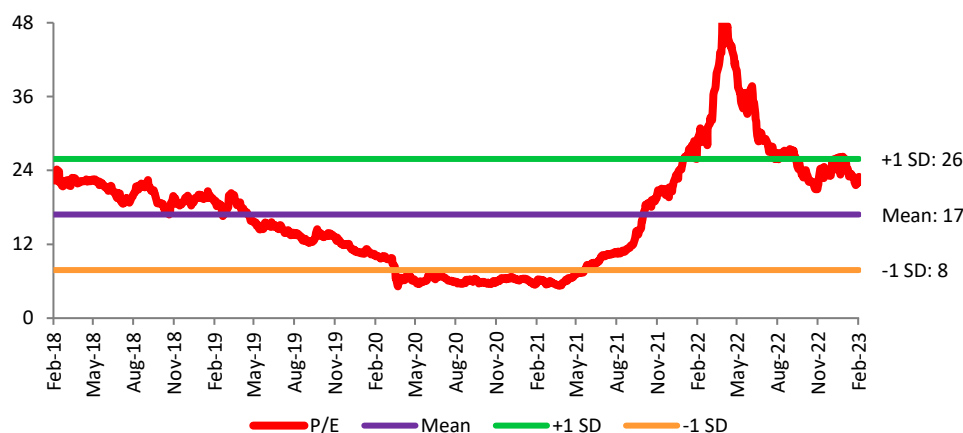
Due to expected tepid earnings, we maintain **HOLD** rating on the stock, with a target price of Rs 181, based on 18x FY25E P/E (22x/15x FY25E P/E for pipes/PVC). PVC margins continue to be highly volatile and contribute to ~60% of FNXP's total EBIT, which is the reason why the stock has been trading at a lower PE than peers. Higher-than-estimated PVC margin is a key upside risk to our calls.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Variance (%)			Bloomberg estimates			% Var with Systematix		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	42,516	45,182	49,532	42,516	45,182	49,532	-	-	-	44,470	48,286	51,525	5	7	4
EBITDA	2,232	6,702	7,991	2,232	6,702	7,991	-	-	-	2,425	6,890	8,452	9	3	6
EBITDA margin (%)	5.2	14.8	16.1	5.2	14.8	16.1				5.5	14.3	16.4			
PAT	2,137	5,225	6,215	2,137	5,225	6,215	-	-	-	1,812	5,101	6,117	(15)	(2)	(2)
EPS	3.4	8.4	10.0	3.4	8.4	10.0	-	-	-	3.2	8.6	10.4	(9)	2	4

Source: Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- Higher-than-estimated PVC margin is a key upside risk to our earnings estimates.

FINOLEX INDUSTRIES (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues (Rs mn)	34,623	46,473	42,516	45,182	49,532
Growth (%)	16	34	(9)	6	10
RM costs	19,288	28,491	30,204	29,910	32,196
Gross Margin (%)	44.3	38.7	29.0	33.8	35.0
SG&A	5,442	7,745	10,080	8,569	9,345
EBITDA	9,893	10,237	2,232	6,702	7,991
EBITDA margins (%)	28.6	22.0	5.2	14.8	16.1
- Depreciation	777	834	880	915	958
Other income	716	822	1,164	986	983
Interest Exp	73	141	238	143	103
PBT	9,759	13,845	2,278	6,631	7,914
Effective tax rate (%)	26.1	24.0	19.7	26.3	26.2
+ Associates/(Minorities)	-	-	-	-	-
Net Income	7,378	10,513	2,137	5,225	6,215
Adjusted income	7,378	7,505	2,137	5,225	6,215
WANS	621	621	621	621	621
FDEPS (Rs /share)	11.9	23.0	3.4	8.4	10.0
FDEPS growth (%)	122	93	(85)	145	19

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	1,241	1,241	1,241	1,241	1,241
Net worth	31,390	39,278	40,794	44,468	48,821
Total debt	2,039	2,780	2,281	1,781	1,281
Minority interest	-	-	-	-	-
DT Liability/(Asset)	1,395	1,360	1,332	1,304	1,276
Capital Employed	34,823	43,419	44,407	47,553	51,378
Net tangible assets	10,013	9,923	10,043	10,129	10,671
Net Intangible assets	11	9	9	9	9
Goodwill	-	-	-	-	-
CWIP	82	95	95	95	95
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	11,723	11,651	12,651	14,651	15,651
Current Assets	17,748	30,965	29,734	30,400	31,657
Cash	3,363	810	920	1,133	2,641
Current Liabilities	8,116	10,035	9,045	8,864	9,345
Working capital	9,632	20,930	20,689	21,536	22,311
Capital Deployed	34,823	43,419	44,407	47,553	51,378
Contingent Liabilities	1,011	767	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT (before other income)	9,227	9,498	1,598	6,063	7,344
+ Non-cash items	777	834	880	915	958
OCF before WC changes	10,004	10,332	2,478	6,978	8,302
- Incr./(decr.) in WC	(1,524)	756	(221)	867	796
Others including taxes	2,118	3,356	395	1,691	2,018
Operating cash-flow	9,410	6,220	2,303	4,421	5,489
- Capex	649	(2,962)	1,000	1,000	1,500
Free cash-flow	8,761	9,182	1,303	3,421	3,989
Acquisitions	-	-	-	-	-
- Dividend	42	2,482	621	1,551	1,862
+ Equity raised	-	-	-	-	-
+ Debt raised	(784)	728	(500)	(500)	(500)
- Fin Investments	8,376	7,778	1,000	2,000	1,000
- Misc. Items (CFI + CFF)	(182)	(272)	(927)	(844)	(880)
Net cash-flow	(259)	(78)	110	214	1,508

Source: Company, Systematix Institutional Research

Ratios @ Rs 178

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	15.0	7.7	51.7	21.1	17.8
EV/EBITDA (x)	11.0	11.0	49.6	16.1	13.2
EV/sales (x)	3.2	2.4	2.6	2.4	2.1
P/B (x)	3.5	2.8	2.7	2.5	2.3
RoE (%)	23.5	26.8	5.2	11.8	12.7
RoCE (%)	33.4	26.1	5.7	14.7	16.2
ROIC	27.0	28.4	5.0	12.2	14.1
DPS (Rs per share)	4.0	4.0	1.0	2.5	3.0
Dividend yield (%)	2.2	2.2	0.6	1.4	1.7
Dividend payout (%)	34	24	29	30	30
Net debt/equity (x)	(0.0)	0.1	0.0	(0.1)	(0.1)
Receivables (days)	16	26	26	26	26
Inventory (days)	97	80	80	80	80
Payables (days)	46	36	35	35	35
CFO:PAT%	128	59	108	85	88

Source: Company, Systematix Institutional Research

Prince Pipes & Fittings

17 February 2023

Strong volume and margin recovery to sustain

Prince Pipes' (PRINCIPI) 3QFY23 PAT surpassed our expectations to register strong pipe volumes (up 35% YoY and 14% QoQ, driven by all segments). Healthy recovery in EBITDA margin (9.8%, -1.8% in 2Q) was restricted by continued inventory losses (~4% of revenue, reversible on stable PVC prices). Net cash was healthy at Rs 1.6bn on tight WC management (44 days from 68 days as at end 2Q). Management is looking to reduce receivable days to 30 in 2-3 years, from 48 at the end of 3Q. The rebound in the agri segment should prolong for the next few quarters on pent-up demand, while traction in housing is visible for 1-2 years. PRINCIPI's remains focused on market-share gains (outpaced industry growth by 2-4%) and value-added products (CPVC, fittings, etc.). Its tie-up with Lubrizol will likely help in driving growth in its project business fast (currently 25% mix). Product launch in the bathware segment is scheduled in 4Q, which should enhance PRINCIPI's brand visibility and connect with customers. We raised our earnings by 18%/4%/5% for FY23E/FY24E/FY25E, post a strong 3Q, estimating 9%/7%/6% CAGR in revenue/EBITDA/PAT over FY22-25E (FY17-22: 16%/21%/27% CAGR) on a high base and softening product prices. We expect healthy cash flows and 20%+ RoCE to sustain. Notwithstanding the huge operational challenges faced by the plastic pipes industry in last 1.5 years, we expect the plastic pipes industry to be on a strong footing, on steep decline in PVC prices. We maintain BUY on PRINCIPI, with a target price of Rs 705 (26x FY25E P/E). Market share gains, focus on brand building and distribution/portfolio expansion underpin our optimistic view.

Beat in 3Q PAT driven by strong pipe volumes and EBITDA margin recovery: PRINCIPI's 3Q revenue (up 6% YoY and 11% QoQ) was driven by strong pipe volumes (up 35% YoY and 14% QoQ). Continued inventory losses (~4% of revenue, reversible) restricted the healthy recovery in gross (22.3%, up 925bps QoQ) and EBITDA margins (9.8%, -1.8% in 2Q). Net cash was healthy at Rs 1.6bn on tight WC management (44 days from 68 days as at end 2Q). The company is looking to reduce its receivable days from 48 as at end 3Q to 30 in 2-3 years.

Strong 3Q pipe volumes and adj. EBITDA margin (~14%) to sustain; focus on market-share gains, value-added products stays: All segments drove strong growth in pipe volumes (up 35% YoY and 14% QoQ). The robust rebound in agri (~30% revenue) came from stable and affordable PVC prices and pent-up demand, while healthy traction in housing (CPVC up ~20% YoY, 20% mix) continued (visible for 1-2 years). PRINCIPI aims to outpace industry growth (~8% CAGR) by 2-4% in the long term. From being a largely retail-focused company, the tie-up with Lubrizol should enable fast growth in its project business (currently 25% mix). 3Q EBITDA margin (9.8%) expansion was restricted by inventory losses (~Rs 300mn, ~4% of revenue), which should reverse 4Q onwards on stable PVC prices and liquidation of high-cost inventory. Upcoming capacities (~50,000t over 2-3 years) at its Jaipur and Telangana plants will likely strengthen PRINCIPI's growth/margins.

Foray into the bathware segment, a long term positive: With product launch planned by in 4Q, PRINCIPI hopes to garner market share from the unorganised sector (~35% of the industry) in the ~Rs 150bn faucet and sanitaryware market. This foray will likely help in improving its brand visibility and direct connect with end consumers. PRINCIPI is building its sales team and has shortlisted vendors for outsourcing. Existing vast distribution network would enable it to quickly ramp up.

COMPANY UPDATE

Sector: Plastic Pipes Rating: BUY

CMP: Rs 581 Target Price: Rs 705

Stock Info

Sensex/Nifty	61,320/ 18,036
Bloomberg	PRINCIPI IN
Equity shares (mn)	110.6
52-wk High/Low	719/517
Face value	Rs 10
M-Cap	Rs 64bn/ USD 777mn
3-m Avg turnover	USD 1.2mn

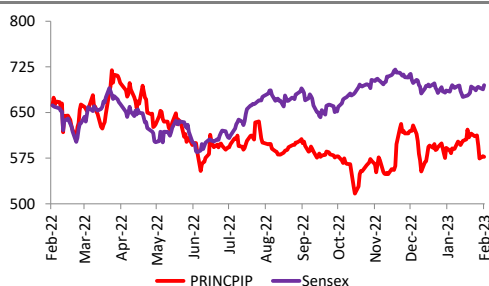
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	27,513	29,862	34,472
EBITDA	1,996	4,197	5,052
OPM (%)	7.3	14.1	14.7
PAT (adj.)	836	2,411	2,999
EPS (adj.) (Rs)	8	22	27
PE (x)	76.8	26.6	21.4
P/B (x)	4.8	4.2	3.6
EV/EBITDA (x)	31.3	14.6	11.7
RoE (%)	6.2	15.6	16.6
RoCE (%)	8.2	19.9	21.4
Net-D/E (x)	(0.1)	(0.2)	(0.3)

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	62.9	62.9	62.9
- Pledged	-	-	-
FII	4.4	4.0	4.1
DII	15.5	14.6	14.6
Others	17.2	18.5	18.4

Stock Performance (1-year)



Valuation and View

PRINCEPI is one of India's largest integrated piping solutions and multi polymer (CPVC, UPVC, HDPE, PPR) manufacturer. In August 2020, the company tied up with Lubrizol (inventors and largest manufacturers of CPVC compounds worldwide) and launched Prince *FlowGuard Plus* CPVC plumbing systems. The company is expanding its network of 1,500+ distributors. It has 7 state-of-the-art manufacturing units located across India, these being in Haridwar (Uttarakhand), Athal (Dadra and Nagar Haveli), Dadra (Dadra and Nagar Haveli), Kolhapur (Maharashtra), Chennai (Tamil Nadu), Jobner (Rajasthan) and Sangareddy (Telangana).

PRINCEPI achieved 16%/21%/27% CAGR in revenue/EBITDA/PAT over FY17-22 through healthy volume growth, superior realisation and huge margin expansion. We raised our earnings estimates by 18%/4%/5% for FY23/FY24/FY25, post strong 3Q. We estimate 9%/7%/6% CAGR in revenue/EBITDA/PAT over FY22-25E on a high base and softening product prices. We expect healthy cash flows, 20%+ RoCE to sustain.

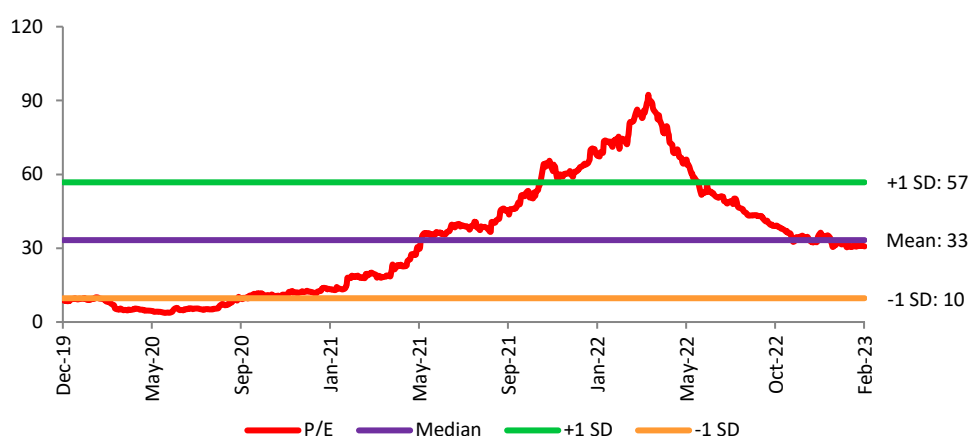
After facing significant operational challenges in last 1.5 years, we expect the plastic pipes industry to be on a strong footing on steep decline in PVC prices. We maintain our **BUY** rating on PRINCEPI, with a TP of Rs 705 (26x FY25E P/E). Our optimistic view on PRINCEPI is underpinned by factors such as market share gains, focus on brand building and distribution/portfolio expansion.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Variance (%)			Bloomberg estimates			% Var with Systematix		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	27,513	29,862	34,472	27,513	29,862	34,472	-	-	-	26,906	30,273	34,340	(2)	1	(0)
EBITDA	1,996	4,197	5,052	1,996	4,197	5,052	-	-	-	2,166	4,008	4,804	9	(5)	(5)
EBITDA margin (%)	7.3	14.1	14.7	7.3	14.1	14.7				8.0	13.2	14.0			
PAT	836	2,411	2,999	836	2,411	2,999	-	-	-	974	2,343	2,927	17	(3)	(2)
EPS	7.6	21.8	27.1	7.6	21.8	27.1	-	-	-	8.8	21.2	26.5	17	(3)	(2)

Source: Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key Risks

- High and volatile raw material prices may impact demand and profitability
- Intensifying competition may suppress demand and margins

PRINCE PIPES & FITTINGS (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues (Rs mn)	20,715	26,568	27,513	29,862	34,472
Growth (%)	26.6	28.3	3.6	8.5	15.4
Direct costs	13,789	18,915	21,837	21,611	24,603
Gross Margin (%)	33.4	28.8	20.6	27.6	28.6
SG&A	3,310	3,497	3,680	4,054	4,818
EBITDA	3,616	4,156	1,996	4,197	5,052
EBITDA margins (%)	17.5	15.6	7.3	14.1	14.7
- Depreciation	594	703	839	953	1,048
Other income	176	55	61	75	103
Interest Exp	207	139	97	84	84
PBT	2,991	3,369	1,121	3,234	4,022
Effective tax rate (%)	25.8	26.0	25.4	25.4	25.4
+ Associates/(Minorities)	-	-	-	-	-
Net Income	2,218	2,494	836	2,411	2,999
Adjusted income	2,218	2,494	836	2,411	2,999
WANS	111	111	111	111	111
FDEPS (Rs/share)	20.1	22.6	7.6	21.8	27.1
FDEPS growth (%)	97.2	12.4	(66.5)	188.5	24.4

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	1,100	1,106	1,106	1,106	1,106
Net worth	10,435	12,653	13,378	15,458	18,015
Total debt (including Pref)	852	1,500	1,300	1,100	1,100
Minority interest	-	-	-	-	-
DT Liability/(Asset)	133	123	113	102	102
Capital Employed	11,420	14,275	14,791	16,660	19,217
Net tangible assets	4,979	6,430	7,091	7,638	7,589
Net Intangible assets	51	26	26	26	26
Goodwill	-	-	-	-	-
CWIP	765	226	216	206	196
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	15	117	2,117	3,117	5,117
Current Assets	7,719	12,005	9,795	10,373	11,581
Cash	2,299	586	1,004	1,114	1,228
Current Liabilities	4,408	5,115	5,459	5,813	6,521
Working capital	3,311	6,890	4,337	4,559	5,060
Capital Deployed	11,420	14,275	14,791	16,660	19,217
Contingent Liabilities	56	45	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT (incl. other income)	3,099	3,591	1,121	3,234	4,022
+ Non-cash items	594	703	839	953	1,048
OCF before WC changes	3,693	4,295	1,960	4,187	5,070
- Incr./(decr.) in WC	(930)	4,288	(2,574)	203	481
Others including taxes	1,703	201	316	853	1,054
Operating cash-flow	2,920	(195)	4,218	3,131	3,535
- Capex	1,210	1,687	1,490	1,490	990
Free cash-flow	1,710	(1,882)	2,728	1,641	2,545
Acquisitions	-	-	-	-	-
- Dividend	165	385	111	332	442
+ Equity raised	(6)	107	-	-	-
+ Debt raised	(1,746)	648	(200)	(200)	-
- Fin Investments	(354)	(1,846)	2,000	1,000	2,000
- Misc. Items (CFI + CFF)	64	102	(1)	(1)	(11)
Net cash-flow	84	232	418	110	114

Source: Company, Systematix Institutional Research

Ratios @ Rs 581

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	29.0	25.8	76.8	26.6	21.4
EV/EBITDA (x)	17.4	15.6	31.3	14.6	11.7
EV/sales (x)	3.0	2.4	2.3	2.0	1.7
P/B (x)	6.2	5.1	4.8	4.2	3.6
RoE (%)	21.3	19.7	6.2	15.6	16.6
RoCE (%)	28.0	24.6	8.2	19.9	21.4
ROIC (%)	25.4	22.0	6.6	20.0	23.7
DPS (Rs per share)	3.5	3.5	1.0	3.0	4.0
Dividend yield (%)	0.6	0.6	0.2	0.5	0.7
Dividend payout (%)	17.4	15.5	13.2	13.8	14.7
Net debt/equity (x)	(0.1)	0.1	(0.1)	(0.2)	(0.3)
Receivables (days)	58	60	50	48	46
Inventory (days)	40	85	60	60	60
Payables (days)	55	55	55	55	55
CFO:PAT%	132	(8)	505	130	118

Source: Company, Systematix Institutional Research



TM

Supreme Industries

17 February 2023

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

COMPANY UPDATE

Sector: Plastic Pipes

Rating: HOLD

CMP: Rs 2,710

Target Price: Rs 2,546

Stock Info

Sensex/Nifty	61,320/ 18,036
Bloomberg	SI IN
Equity shares (mn)	127.1
52-wk High/Low	2,710/1,693
Face value	Rs 2
M-Cap	Rs 344bn/ USD 4.2bn
3-m avg turnover	USD 2.7mn

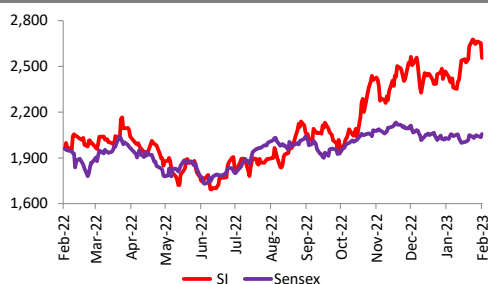
Financial Snapshot (Rs mn)

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)	44.0	31.9	27.9
P/B (x)	7.8	6.7	5.7
EV/EBITDA (x)	30.5	22.1	19.3
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	19.1	19.7
Others	15.2	15.7	15.7

Stock Performance (1-year)



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 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 ~28x FY25E P/E on CMP, we maintain HOLD rating on SI, with a 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 28x FY25E P/E, we retain our **HOLD** rating on the stock.

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 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.

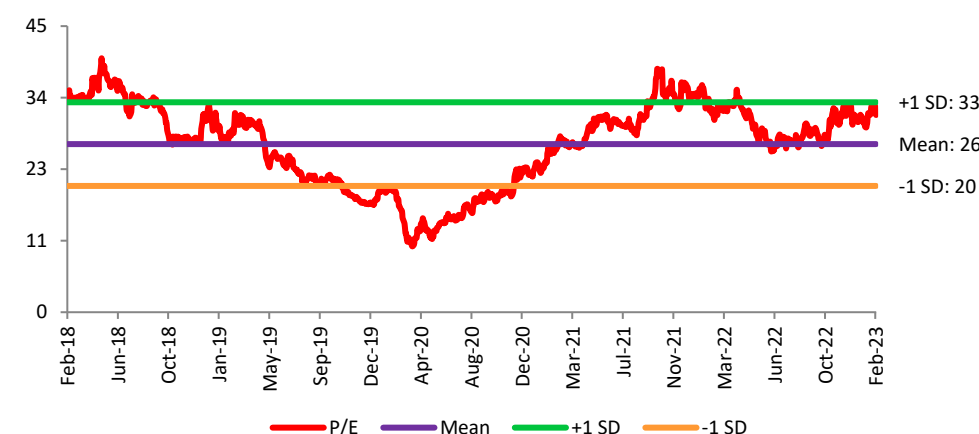
At ~28x FY25E P/E on CMP, we maintain **HOLD** rating on SI, with a target price of Rs 2,546 (28x FY25E core P/E, 17x to JV share). Volume and margin trajectories are key near-term monitorables.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Variance (%)			Bloomberg estimates			% Var with Systematix		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	90,778	95,196	1,06,607	90,778	95,196	1,06,607	-	-	-	89,924	97,441	1,09,945	(1)	2	3
EBITDA	11,053	15,076	16,904	11,053	15,076	16,904	-	-	-	10,836	14,350	16,755	(2)	(5)	(1)
EBITDA margin (%)	12.2	15.8	15.9	12.2	15.8	15.9				12.1	14.7	15.2			
PAT	7,817	10,796	12,344	7,817	10,796	12,344	-	-	-	7,755	10,247	12,025	(1)	(5)	(3)
EPS	61.5	85.0	97.2	61.5	85.0	97.2	-	-	-	60.9	80.7	94.7	(1)	(5)	(3)

Source: Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key 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

SUPREME INDUSTRIES (FINANCIALS)

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 2,710

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	35.2	35.6	44.0	31.9	27.9
EV/EBITDA (x)	26.2	27.3	30.5	22.1	19.3
EV/sales (x)	5.3	4.4	3.7	3.5	3.1
P/B (x)	10.9	9.0	7.8	6.7	5.7
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 (%)	0.8	0.9	0.7	0.9	1.0
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

COMPANY SECTION

WOOD PANEL



TM

Greenpanel Industries

17 February 2023

COMPANY UPDATE

Sector: Building Materials Rating: BUY

CMP: Rs 288 Target Price: Rs 455

Stock Info

Sensex/Nifty	61,320/ 18,036
Bloomberg	GREENP IN
Equity shares (mn)	123
52-wk High/Low	606/271
Face value	Rs 1
M-Cap	Rs 35bn/USD 427mn
3-m Avg turnover	USD 1.4mn

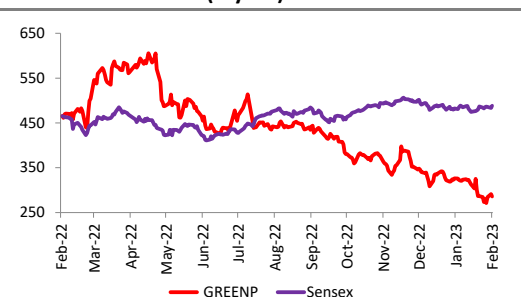
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	17,865	19,911	22,261
EBITDA	4,383	4,467	5,061
OPM (%)	24.5	22.4	22.7
PAT (adj.)	2,305	2,725	3,105
EPS (adj.) (Rs)	18.8	22.2	25.3
PE (x)	15.3	13.0	11.4
P/B (x)	3.1	2.6	2.2
EV/EBITDA (x)	8.0	7.9	6.9
RoE (%)	20.1	19.9	19.0
RoCE (%)	25.7	23.0	22.6
Net-D/E (x)	(0.0)	(0.0)	(0.0)

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	53.1	53.1	53.1
- Pledged	-	-	-
FII	4.6	6.4	6.3
DII	21.3	21.2	21.5
Others	21.0	19.3	19.2

Stock Performance (1-year)



MDF domestic margins healthy despite modest volume

Greenpanel's (GREENP) weak 3Q (revenue/PAT down 1%/41 YoY and 8%/48% QoQ, 21.9% EBITDA margin) was impacted by weak domestic MDF volumes, sharp dip in export realisation/margins and forex loss of Rs 173mn (4.1% of revenue). GREENP managed to retain its robust net-cash position (Rs 1.45bn, Rs 860mn added in 3Q). Despite healthy MDF demand, higher imports restricted GREENP's domestic volumes, but EBITDA margin at 30%+ sustained. Export margin slipped to single digit due to sharp dip (22%) in average realisation. EBITDA margin in MDF stood at 25.6%, excluding forex impact (vs. ~31% in 2Q). GREENP would prefer to boost export volumes rather than get into a price war in the domestic market and face imports. However, domestic markets would remain a medium-to-long term priority. Soft demand and GREENP's marginal position in plywood hurt segment results (revenue down 14% YoY, 7% EBITDA margin). On a high base, we estimate low 11%/6%/9% CAGR in revenue/EBITDA/PAT over FY22-25E (~10% earnings cut post 3Q) on likely moderating domestic volumes and exports margins. Notwithstanding the Rs 6bn capex, RoE (19%), RoCE (~23%) and FCF should remain healthy. While we remain cognizant of concerns pertaining to rising MDF imports (though transient) and huge capacity additions by domestic players over next 1-2 years, a ~50% correction in GREENP's scrip since May'22 seems overdone, in our view. At a compelling ~11x FY25E P/E, we maintain BUY rating, with a TP of Rs 455, based on 21x/18x FY24E/FY25E P/E.

3Q revenue in line, forex loss hurt margins, PAT: Revenue fell 1% YoY and 8% QoQ. Despite healthy gross margin (58.3%), EBITDA margin at 21.9%, was impacted by forex loss (Rs 83mn, 2% of revenue) and weak segment margins. The 41% YoY and 48% QoQ fall in PAT (Rs 375mn) was the result of lower segment margins and forex loss of Rs 173mn (4.1% of revenue). Net cash stood at Rs 1.45bn (added Rs 860mn in 3Q on tight WC management). GREENP has associated as principal sponsor with Delhi Capitals, an IPL franchise for 3 years.

MDF - Weak domestic volume and export realisations/margins led to miss: Total volume/ revenue (down 2%/up 3% YoY, down 6%/8% QoQ) was impacted by 8% YoY fall in domestic volumes, while export volumes rose 24% YoY. Defying the impact of rising imports, average realisation rose by 2% in the domestic market to maintain 30%+ EBITDA margin. A 22% decline in export realisation toppled margin to single digit. Overall, MDF EBITDA margin stood at 25.6%, excluding forex impact (vs. 30.4% in 2Q). Demand for MDF remained strong. We believe GREENP would prefer to boost export volumes rather than get into a price war in the domestic market to face imports. However, domestic market would remain a medium-to-long term priority. On a high base, we estimate 12%/12%/5% CAGR in MDF volumes/revenue/EBITDA over FY22-25E, factoring 25.5% EBITDA margin in FY24E/FY25E. Focus on distribution and value-added products (50%+ mix) should strengthen its realisation and margins.

Plywood - modest performance continued: Weak volumes (down 19% YoY and 2% QoQ) hurt revenue (down 14% YoY and 6% QoQ); Rise in timber prices impacted EBITDA margin (7% vs. 8.8% in 9M). GREENP, a small player in India's organised plywood market, holds ~4% market share and a capacity of 10.5mn sq. mtrs. at Rudrapur in north India. The contribution of plywood in GREENP's total revenue has steadily fallen from 25% in FY20 to 16% in FY22, with that of MDF expanding at a faster pace in last 3 years - a trend we believe would continue. We expect the segment to post low 5%/7%/5% CAGR over FY22-25E in volumes/revenue/EBITDA.

Valuation and View

We like GREENP for its market leadership in the fast-growing MDF industry (finding support from rising acceptance, strong demand revival in housing units and readymade furniture) and robust financials. The company posted 40%/77%/91% CAGR in revenue/EBITDA/PAT over FY19-22 on robust volume growth and margin expansion. After ~10% earnings cut post weak 3Q result, we estimate low 11%/6%/9% CAGR over FY22-25, respectively, on likely moderating domestic volumes (as imports are rising) and exports margins (intense competition). Notwithstanding the Rs 6bn capex, RoE (19%), RoCE (~23%) and FCF should remain healthy in future.

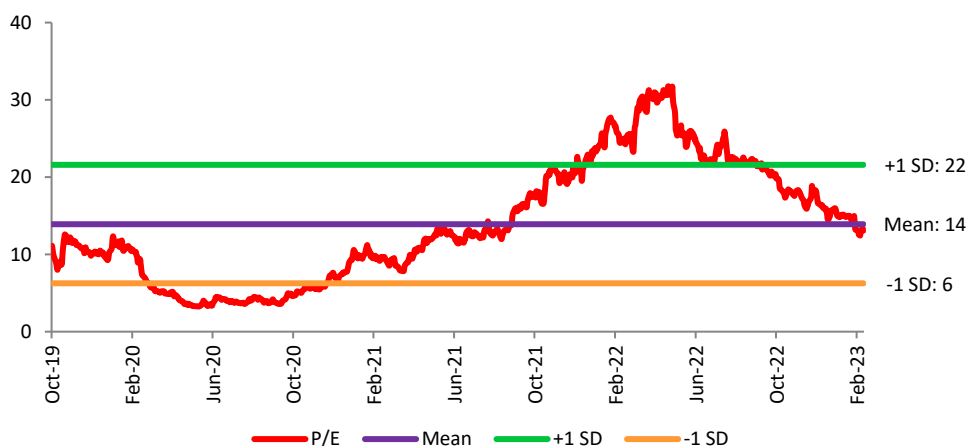
The sudden rise in demand for readymade furniture during COVID drove a strong turnaround in GREENP's financials and led to a re-rating of its valuations, resulting in its share price generating hefty returns. However, the scrip has corrected ~50% since its peak in May'22, on concerns that demand would moderate, margins could slip and competition could intensify owing to rising imports and huge capacity additions in India's MDF industry over next 1-2 years. While we acknowledge these concerns, these are transient, in our view, and believe the correction in the scrip is overdone. We find GREENP's scrip compelling at ~11x FY25E P/E. Hence, we maintain **BUY**, with a TP of Rs 455, based on 21x/18x FY24E/FY25E P/E.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Variance (%)			Bloomberg estimates			% Var with Systematix		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	17,865	19,911	22,261	17,865	19,911	22,261	-	-	-	18,405	19,917	22,257	3	0	(0)
EBITDA	4,383	4,467	5,061	4,383	4,467	5,061	-	-	-	4,533	4,569	4,930	3	2	(3)
EBITDA margin (%)	24.5	22.4	22.7	24.5	22.4	22.7				24.6	22.9	22.1			
PAT	2,305	2,725	3,105	2,305	2,725	3,105	-	-	-	2,503	2,756	2,958	9	1	(5)
EPS	18.8	22.2	25.3	18.8	22.2	25.3	-	-	-	20.7	22.9	24.6	10	3	(3)

Source: Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- Intensifying competition from rise in imports and huge domestic capacity addition
- Volatility in raw material prices

GREENPANEL INDUSTRIES (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues (Rs mn)	10,208	16,250	17,865	19,911	22,261
Growth (%)	16	59	10	11	12
Direct costs	4,629	6,709	7,242	8,510	9,470
Gross Margin (%)	54.7	58.7	59.5	57.3	57.5
SG&A	3,545	5,237	6,240	6,935	7,731
EBITDA	2,034	4,304	4,383	4,467	5,061
EBITDA margins (%)	19.9	26.5	24.5	22.4	22.7
- Depreciation	686	734	735	755	855
Other income	34	90	168	118	138
Interest Exp	372	171	178	148	148
PBT	1,010	3,489	3,577	3,682	4,196
Effective tax rate (%)	31.9	31.1	35.6	26.0	26.0
+ Associates/(Minorities)	-	-	-	-	-
Net Income	688	2,405	2,305	2,725	3,105
Adjusted income	688	2,405	2,305	2,725	3,105
WANS	123	123	123	123	123
FDEPS (Rs)	5.6	19.6	18.8	22.2	25.3
FDEPS growth (%)	376	249	(4)	18	14

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	123	123	123	123	123
Net worth	7,304	9,516	11,454	13,688	16,303
Total debt	4,890	3,172	2,722	2,272	2,222
Minority interest	-	-	-	-	-
DT Liability/(Asset)	202	682	692	702	712
Capital Employed	12,396	13,371	14,868	16,662	19,237
Net tangible assets	10,741	10,380	10,645	10,890	15,035
Net Intangible assets	2	2	2	2	2
Goodwill	-	-	-	-	-
CWIP	36	-	-	2,000	-
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	-	-	2,000	2,000	2,000
Current Assets	3,049	2,816	3,455	3,784	4,158
Cash	725	2,226	976	432	748
Current Liabilities	2,156	2,053	2,210	2,446	2,706
Working capital	892	763	1,245	1,338	1,452
Capital Deployed	12,396	13,371	14,868	16,662	19,237
Contingent Liabilities	2,490	103			

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT (incl. other income)	993	3,102	3,587	3,712	4,206
+ Non-cash items	686	734	735	755	855
OCF before WC changes	1,680	3,835	4,322	4,467	5,061
- Incr./(decr.) in WC	(620)	(402)	477	88	109
Others including taxes	164	581	789	475	608
Operating cash-flow	2,136	3,656	3,056	3,904	4,343
- Capex	127	336	1,000	3,000	3,000
Free cash-flow	2,008	3,320	2,056	904	1,343
Acquisitions					
- Dividend	-	184	368	491	491
+ Equity raised	-	-	-	-	-
+ Debt raised	(1,117)	(1,468)	(450)	(450)	(50)
- Fin Investments	594	1,058	2,000	-	-
- Misc. Items (CFI + CFF)	279	167	487	507	487
Net cash-flow	18	443	(1,250)	(544)	315

Source: Company, Systematix Institutional Research

Ratios @ Rs 288

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	51.3	14.7	15.3	13.0	11.4
EV/EBITDA (x)	19.4	8.4	8.0	7.9	6.9
EV/sales (x)	3.9	2.2	2.0	1.8	1.6
P/B (x)	4.8	3.7	3.1	2.6	2.2
RoE (%)	9.4	25.3	20.1	19.9	19.0
RoCE (%)	11.1	27.4	25.7	23.0	22.6
ROIC	5.8	21.1	20.0	20.9	20.2
DPS (Rs per share)	1.0	2.0	3.0	4.0	4.0
Dividend yield (%)	0.3	0.7	1.0	1.4	1.4
Dividend payout (%)	17.8	10.2	16.0	18.0	15.8
Net debt/equity (x)	0.6	0.1	(0.0)	(0.0)	(0.0)
Receivables (days)	28	9	20	20	20
Inventory (days)	53	37	35	35	35
Payables (days)	46	31	30	30	30
CFO:PAT%	310	152	133	143	140

Source: Company, Systematix Institutional Research



TM

Stylam Industries

17 February 2023

Volumes likely to rebound in 4Q; robust outlook intact

COMPANY UPDATE

Sector: Building Materials Rating: BUY

CMP: Rs 1,119 Target Price: Rs 1,585

Stock Info

Sensex/Nifty	61,320/ 18,036
Bloomberg	SYIL IN
Equity shares (mn)	16.9
52-wk High/Low	1,226/782
Face value	Rs 5
M-Cap	Rs 19bn/USD 0.2bn
3-m Avg turnover	USD 0.7mn

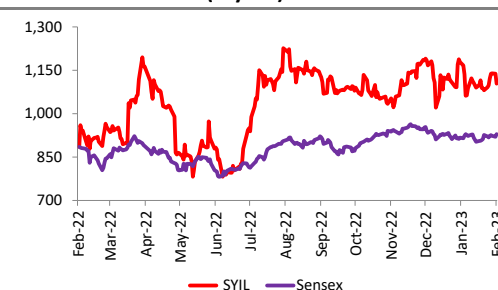
Financial Snapshot (Rs mn)

Y/E Mar	FY23E	FY24E	FY25E
Net sales	9,724	11,583	13,723
EBITDA	1,582	1,919	2,314
OPM (%)	16.3	16.6	16.9
PAT	965	1,206	1,496
EPS (Rs)	57.0	71.1	88.3
PE (x)	19.6	15.7	12.7
P/B (x)	4.7	3.7	2.9
EV/EBITDA (x)	12.4	9.9	7.8
RoE (%)	23.8	23.3	22.8
RoCE (%)	31.7	31.3	31.3
Net-D/E (x)	0.1	(0.0)	(0.1)

Shareholding Pattern (%)

	Dec'22	Sep'22	Jun'22
Promoter	54.6	54.6	54.6
- Pledged	-	-	-
FII	2.1	5.5	5.3
DII	11.6	11.3	11.1
Others	31.6	28.6	28.9

Stock Performance (1-year)



Stylam Industries' (SYIL) 3QFY23 volume/revenue/EBITDA/PAT fell 6%/5%/1%/1% QoQ, respectively, and missed our estimates by up to 10%, although robust 16.8% EBITDA margin (up 75bps QoQ) and lower net debt (Rs 360mn QoQ) were encouraging. Management expects exports (revenue down 6% QoQ) to rebound 4Q onwards, once logistics issues in the EU region normalise. Softer RM prices leave room for margin expansion further. SYIL is aiming to scale its domestic business by enhancing its distribution network. The Rs 5bn revenue potential on a Rs 500mn investment in laminate plant modernisation (likely operational in FY24) provides huge operating leverage (OpLev) benefits. Despite its slow start in acrylic panels sales (~Rs 75mn in 3Q; ~Rs 140mn in 9M), SYIL is confident of achieving Rs 3bn+ revenue over the next 3 years. We broadly retained estimates at 21%/30%/34%/37% CAGR in volume /revenue/EBITDA/PAT over FY22-25E (10%/18%/23%/31% over FY16-22), resp., with better margins, ~23% RoE, ~31% RoCE and healthy FCF. At an attractive ~16x/13x FY24E/25E EPS of Rs 71/Rs 88 and robust outlook, we maintain BUY rating, with a target price of Rs 1,585 (18x FY25E P/E vs. 20x +1SD 5-year mean). Slowdown in global demand, margin pressure due to heightened competition pose key risks to our view.

3Q: soft volume/revenue; 16.8% EBITDA margin, lower net-debt encouraging: SYIL's revenue/EBITDA/PAT was up by 32%/19%/54% YoY but fell by 5%/1%/1% QoQ, driven by 6% QoQ decline each in laminate volumes and exports. While gross margin contracted 25bps QoQ to 44.1%, EBITDA margin expanded 75bps QoQ to 16.8% on lower other expenses. Lower depreciation (Rs 38mn vs. Rs 60mn QoQ) was on account of aging of some assets. Fluctuations in euro resulted in higher finance costs (Rs 41mn vs. Rs 13mn QoQ). Net debt reduced by Rs 360mn QoQ to Rs 470mn as on 31st Dec'23. SYIL expects margins to expand further, as it uses lower-priced RMs.

Weak export sales in 3Q to rebound from 4Q; incremental focus on domestic markets: Fall in exports (down 6% QoQ at Rs 1.54bn, 66% mix) led to SYIL reporting 5% QoQ decline in revenue (Rs 2.34bn), with domestic sales flattish at Rs 800mn. A 6% lower QoQ volumes of 3mn laminate sheets (1.3mn in domestic) was impacted due to logistics issues arising from the Ukraine-Russia war. Management expects sales momentum to rebound 4Q onwards, once the situation normalises. India's low-cost manufacturing, customers' China+1 strategy and SYIL's strong relationships with its distributors would continue to drive its exports business. SYIL is also exploring newer markets (such as the US and South America), apart from increasing penetration in its existing markets. SYIL's incremental focus is to scale domestic business, wherein expanding distribution and warehouses would play key roles.

Acrylic solid surface sales gains pace: SYIL sold ~Rs 75mn worth acrylic panels in 3Q (vs. ~Rs 50mn in 2Q; 9M at ~Rs 140mn). Despite the slow start, SYIL is confident of achieving Rs 3bn+ revenue from the product over the next 3 years. It has appointed C&F agents and a business head (hired from the industry) to drive this business. The second line of acrylic solid surface would be fully operational soon.

Laminate capacity to increase 40% in FY24: SYIL has invested ~Rs 2bn over last 4-5 years towards expanding its laminate capacity (from 6.4mn to 14.3mn sheets) and adding new products (acrylic panels, pre-lam MDF boards). At 80% plant utilisation, SYIL is working to raise its laminate capacity by 40% via line balancing and modernisation, which would be operational in FY24. The Rs 5bn revenue potential on a Rs 500mn investment should drive SYIL's margins, return ratios on OpLev benefits.

Valuation and View

SYIL has been recording the fastest revenue and PAT growth among peers since the last decade. The company has strengthened its balance sheet by steadily retiring debt, and aims to utilise the cash flows to soon turn debt free. With the large capex behind, the current capacity itself can nearly double FY22 revenue of more than Rs 13bn. Given its huge surplus land parcel, it holds the potential to expand capacity multifold times at its existing location at Manak Tabra in Panchkula (Haryana).

We expect large OpLev on better plant utilisation will drive margins and return ratios over next 2-3 years. Post 3Q result, we broadly retained our estimates and expect laminate-volume/revenue/EBITDA/PAT CAGR of 21%/28%/31%/35% over FY22-25E (10%/18%/23%/31% over FY16-22), with healthy FCF, and RoE/RoCE of 23%/31% in FY25E from 19%/25% in FY22, respectively.

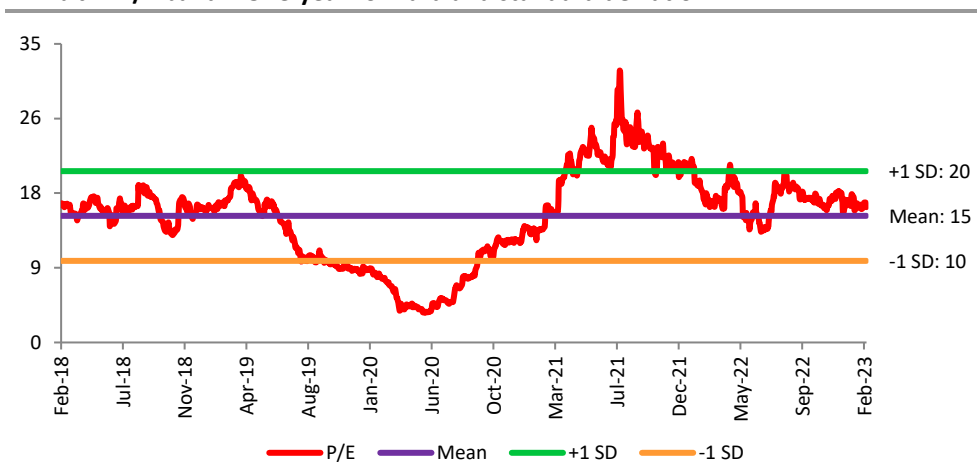
At CMP, the stock trades at an attractive ~16x/13x FY24E/25E EPS of Rs 71/Rs 88, respectively. We thus maintain our **BUY** rating on the stock, with a target price of Rs 1,585, based on 18x FY25E P/E (vs. 20x +1SD 5-year mean). Global demand slowdown and margin pressure on heightened competition are key risks to our view.

Exhibit 1: Change in estimates

(Rs mn)	Old estimates			New estimates			Variance (%)			Bloomberg estimates			% Var with Systematix		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Total Income	9,724	11,583	13,723	9,724	11,583	13,723	-	-	-	9,677	11,759	13,338	(0)	2	(3)
EBITDA	1,582	1,919	2,314	1,582	1,919	2,314	-	-	-	1,557	1,970	2,261	(2)	3	(2)
EBITDA margin (%)	16.3	16.6	16.9	16.3	16.6	16.9				16.1	16.8	17.0			
PAT	965	1,206	1,496	965	1,206	1,496	-	-	-	950	1,251	1,486	(2)	4	(1)
EPS	57.0	71.1	88.3	57.0	71.1	88.3	-	-	-	56.1	73.8	87.7	(2)	4	(1)

Source: Systematix Institutional Research

Exhibit 2: P/E band – One-year-forward and standard deviation



Source: BSE, Systematix Institutional Research

Key risks

- Slowdown in economic activity and real-estate demand
- Intensifying competition
- Inflation and cost of production
- Currency volatility

STYLAM INDUSTRIES (FINANCIALS)

Profit & Loss Statement

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Net revenues (Rs mn)	4,795	6,593	9,724	11,583	13,723
Growth (%)	4	37	47	19	18
Direct costs	2,465	3,755	5,441	6,446	7,595
Gross Margin (%)	48.6	43.0	44.1	44.4	44.7
SG&A	1,340	1,802	2,702	3,218	3,813
EBITDA	990	1,037	1,582	1,919	2,314
EBITDA margins (%)	20.6	15.7	16.3	16.6	16.9
- Depreciation	231	233	211	260	285
Other income	11	80	12	24	43
Interest Exp	60	78	106	64	64
PBT	709	806	1,277	1,618	2,009
Effective tax rate (%)	22	24	24	26	26
+ Associates/(Minorities)	1	2	3	3	3
Net Income	551	609	965	1,206	1,496
Adjusted income	551	609	965	1,206	1,496
WANS	17	17	17	17	17
FDEPS (Rs/share)	32.5	35.9	57.0	71.1	88.3
FDEPS growth (%)	48	10	59	25	24

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Share capital	85	85	85	85	85
Net worth	2,595	3,161	4,055	5,169	6,554
Total debt (including Pref)	426	651	651	651	651
Minority interest	-	-	-	-	-
DT Liability/(Asset)	122	108	108	108	108
Capital Employed	3,142	3,920	4,814	5,928	7,313
Net tangible assets	1,878	1,787	2,376	2,516	2,632
Net Intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP	-	-	-	-	-
Investments (Strategic)	-	-	-	-	-
Investments (Financial)	14	11	11	11	11
Current Assets	2,028	3,004	3,617	4,168	4,824
Cash	151	87	68	671	1,487
Current Liabilities	929	969	1,260	1,438	1,642
Working capital	1,099	2,035	2,358	2,730	3,182
Capital Deployed	3,142	3,920	4,814	5,929	7,312
Contingent Liabilities	376	387	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
EBIT (incl. other income)	746	833	1,054	1,242	1,512
Non-cash items	231	233	211	260	285
OCF before WC changes	978	1,066	1,265	1,502	1,796
Incr./(decr.) in WC	17	708	313	362	442
Others including taxes	172	191	10	10	10
Operating cash-flow	789	166	942	1,129	1,345
Capex	59	142	800	400	400
Free cash-flow	730	24	142	729	945
Acquisitions	-	-	-	-	-
Dividend	-	42	71	92	112
Equity raised	-	-	-	-	-
Debt raised	(582)	203	-	-	-
Fin Investments	4	-	-	-	-
Misc. Items (CFI + CFF)	54	249	89	35	16
Net cash-flow	90	(65)	(18)	602	817

Source: Company, Systematix Institutional Research

Ratios @ Rs 1,119

YE: Mar	FY21	FY22	FY23E	FY24E	FY25E
P/E (x)	34.4	31.1	19.6	15.7	12.7
EV/EBITDA (x)	19.4	18.8	12.4	9.9	7.8
EV/sales (x)	4.0	3.0	2.0	1.6	1.3
P/B (x)	7.3	6.0	4.7	3.7	2.9
RoE (%)	21.2	19.3	23.8	23.3	22.8
RoCE (%)	24.6	25.0	31.7	31.3	31.3
ROIC	18.2	17.8	22.5	24.1	27.0
DPS (Rs per share)	-	2.5	3.5	4.5	5.5
Dividend yield (%)	-	0.2	0.3	0.4	0.5
Dividend payout (%)	-	7.0	6.1	6.3	6.2
Net debt/equity (x)	0.1	0.2	0.1	(0.0)	(0.1)
Receivables (days)	75	66	62	60	59
Inventory (days)	55	74	55	55	55
Payables (days)	39	32	32	32	32
CFO:PAT%	143	27	98	94	90

Source: Company, Systematix Institutional Research

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Served as an officer, director or employee	No

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