



TM

SYSTEMATIX INSTITUTIONAL EQUITIES

Systematix

Institutional Equities

Supreme Industries

30 April 2022

RESULT UPDATE

Sector: Plastic Pipes Rating: HOLD

CMP: Rs 1,947 Target Price: Rs 2,142

Stock Info

Sensex/Nifty	57,061/17,103
Bloomberg	SI IN
Equity shares (mn)	127.1
52-wk High/Low	2,617/1,910
Face value	Rs 2
M-Cap	Rs 247 bn/ USD 3.3bn
3-m avg turnover	USD 2.6mn

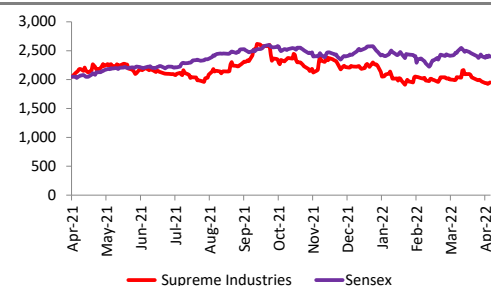
Financial Snapshot (Rs mn)

Y/E Mar	FY22E	FY23E	FY24E
Net sales	77,728	82,644	89,090
EBITDA	12,421	12,876	13,880
OPM (%)	16.0	15.6	15.6
PAT (adj.)	9,685	9,789	10,304
EPS (adj.) (Rs)	76.2	77.0	81.1
PE (x)	25.5	25.3	24.0
P/B (x)	6.4	5.5	4.7
EV/EBITDA (x)	19.5	18.6	17.0
RoE (%)	25.2	21.7	19.6
RoCE (%)	28.7	24.5	22.5
Net-D/E (x)	(0.1)	(0.2)	(0.2)

Shareholding Pattern (%)

	Mar'22	Dec'21	Sep'21
Promoter	48.9	48.9	48.9
- Pledged	-	-	-
FII	16.2	16.2	10.4
DII	19.7	19.7	25.3
Others	15.3	15.3	15.5

Stock Performance (1-year)



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Strong pipes volume drove 4Q performance

Supreme Industries (SI)'s 4QFY22 revenue and PAT beat was driven by strong pipes volume (up 27% YoY and 69% QoQ) while other segments had subdued performance. High RM prices and inadequate price hikes continued to weigh on gross margin (27.9%, down 412bps QoQ) and EBITDA margin (15.3%, down 103bps QoQ). We expect margin pressure to remain for next few quarters. Recent fall in PVC prices has improved trade sentiment and should drive re-stocking. The company aims to aggressively expand in pipes with focus on market-share gains. Higher inventory of packaging products ahead of season impacted cash levels. This will normalise and will support the capex plan. SI's long-term prospects are intact but at ~24x FY24E P/E (27x, the five-year mean) and a low 3% earnings CAGR over FY22-24 on margin normalisation, we maintain our HOLD rating on the stock with a revised target of Rs 2,142 (28x FY24E core P/E, 20x to JV share) vs Rs 2,419 earlier.

Strong volumes drove revenue and PAT beat; margin pressure continued though:

SI's 4Q revenue (up 23% YoY and 31% QoQ) was driven by strong recovery in pipes volume (up 69% QoQ); performance of other segments was subdued though. Elevated prices of key raw materials continued to weigh on gross margin (27.9%, down 412bps QoQ) and EBITDA margin (15.3%, down 103bps QoQ) due to inadequate price hikes. Blended EBIT/kg (Rs 26; down 37% YoY and 9% QoQ) was suppressed due to weak margins in pipes and consumer products; packaging and industrial products reported QoQ recovery on low bases. The share of value-added products improved to 38.6% from ~35% in the previous quarter. Strong JV profits (Rs 696mn, 21% of PAT) continued to boost SI's consolidated PAT.

Volumes up 16% YoY/41% QoQ led by strong recovery in pipes:

Strong 4Q volumes can be attributed to its pipes (up 27% YoY, 69% QoQ) division. CPVC pipes grew better than others. Packaging (down 16% YoY and 21% QoQ) saw a significant downfall while the industrial segment continued to recover (up 11% QoQ). Consumer products remained in slow lane as volumes declined 11% YoY and was flat QoQ. Softening PVC prices since end-Mar'22 has improved trade sentiment and will drive demand offtake. Sombre demand in agri pipes is expected to strongly recover in FY23. Material handling, performance and protective packaging division has shown good growth led by deepened market reach. Cross laminated film business impacted due to low tarpaulin demand and fierce competition. Company aims to focus on improving its non-tarpaulin product's share.

Volumes to rebound as PVC prices cool off:

After correcting ~6-7% over Q4FY22, PVC prices are expected to further soften and drive channel restocking. Thus, after a 4% YoY volume drop in FY22, the company expects over 15% growth in FY23.

Capex on track:

SI has invested Rs 4.7bn in FY22 on capacity expansion in all segments and targets a capex of ~Rs 5bn for FY23. Projects in its Guwahati, Cuttack and Erode plants will be operational during Aug-Sep'22. Post all expansion, 800,000 tons capacity will be available by Mar'23. Pipes capacity will increase to ~600,000 tons while composite cylinder's capacity to be doubled to 1mn cylinders.

Valuation and View:

We remain sanguine about SI's growth prospects due to structural demand drivers, network/region expansion and product launches. A healthy balance sheet will support continued capex to achieve growth in the long run. However, on flattish earnings CAGR over FY22-24, we retain our **HOLD** rating on the stock with a revised target of Rs 2,142. **Risks:** Volatile raw material prices pose risks on demand destruction and margin compression.

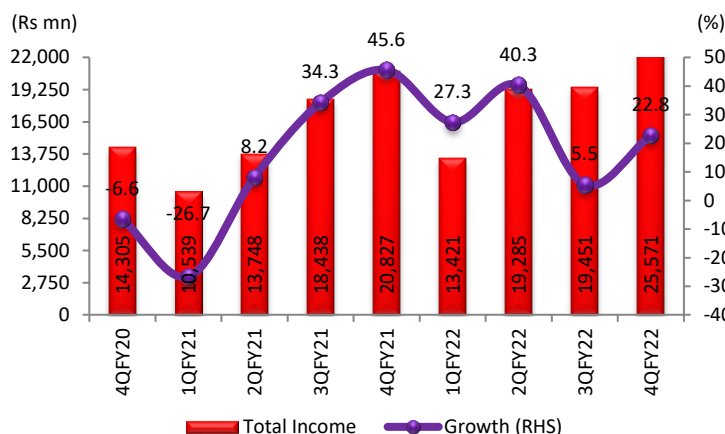
Investors are advised to refer disclosures made at the end of the research report.

Exhibit 1: Supreme Industries - Quarterly performance (consolidated)

(Rs mn)	4QFY21	1QFY22	2QFY22	3QFY22	4QFY22	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Total Income	20,827	13,421	19,285	19,451	25,571	23	31	77,728	63,552	22
EBITDA	5,097	2,220	3,108	3,179	3,914	(23)	23	12,421	12,842	(3)
PBT	4,581	1,681	2,571	2,629	3,393	(26)	29	10,274	10,662	(4)
Share of profit/(loss) of JVs	703	450	391	507	696	(1)	37	2,044	1,460	40
PAT (after JV)	4,504	1,702	2,287	2,457	3,239	(28)	32	9,685	9,781	(1)
EPS (Rs)	35.4	13.4	18.0	19.3	25.5	(28)	32	76.2	77.0	(1)
As % Total Income						YoY (bps)	QoQ (bps)			YoY (bps)
Gross margin	38.6	35.5	31.5	32.0	27.9	(1,072)	(412)	31.1	36.4	(526)
Employee costs	4.5	6.0	4.5	4.5	3.5	(93)	(99)	4.4	4.9	(44)
Other expenses	9.7	12.9	10.9	11.1	9.0	(62)	(210)	10.7	11.3	(59)
EBITDA margin	24.5	16.5	16.1	16.3	15.3	(916)	(103)	16.0	20.2	(423)
Depreciation	2.6	4.2	3.0	3.0	2.3	(33)	(65)	3.0	3.3	(40)
Finance costs	0.2	0.2	0.0	0.0	0.1	(16)	5	0.1	0.2	(18)
PBT	22.0	12.5	13.3	13.5	13.3	(873)	(25)	13.2	16.8	(356)
Effective tax rate	17.0	25.6	26.2	25.8	25.1	803	(72)	25.6	22.0	368
PAT (after JV)	21.6	12.7	11.9	12.6	12.7	(896)	3	9.8	13.1	(326)
Segment Revenue (Rs mn)						YoY (%)	QoQ (%)			YoY (%)
Plastic Piping System	13,468	8,311	12,673	11,479	17,997	34	57	50,460	40,988	23
Packaging Products	3,097	2,441	2,773	3,697	3,190	3	(14)	12,101	10,351	17
Industrial Products	2,931	1,989	2,530	2,715	3,003	2	11	10,237	7,611	34
Consumer Products	1,240	485	1,112	1,275	1,180	(5)	(7)	4,051	3,542	14
Others	92	195	199	285	201	120	(29)	880	1,060	(17)
Total	20,827	13,421	19,285	19,451	25,571	23	31	77,728	63,552	22
Volume (t)						YoY (%)	QoQ (%)			YoY (%)
Plastic Piping System	75,997	48,111	72,480	57,197	96,507	27	69	274,295	294,357	(7)
Packaging Products	15,627	11,532	12,905	16,594	13,131	(16)	(21)	54,162	54,833	(1)
Industrial Products	13,744	9,512	12,390	12,365	13,763	0	11	48,030	41,451	16
Total Average	111,238	71,264	102,673	91,363	128,607	16	41	393,907	409,109	(4)
Realisation (Rs per kg)						YoY (%)	QoQ (%)			YoY (%)
Plastic Piping System	177	173	175	201	187	5	(7)	184	139	32
Packaging Products	198	212	215	223	243	22	9	223	189	18
Industrial Products	213	209	204	220	218	2	(1)	213	184	16
Consumer Products	211	228	227	244	227	7	(7)	232	192	21
Total Average	187	188	188	213	199	6	(7)	197	155	27
Segment EBIT (%)						YoY (bps)	QoQ (bps)			YoY (bps)
Plastic Piping System	26.5	17.0	15.3	16.5	14.4	(1,212)	(211)	15.5	20.0	(450)
Packaging Products	13.2	7.0	9.2	6.7	10.6	(261)	391	8.3	12.0	(370)
Industrial Products	13.3	6.1	7.6	8.3	10.5	(284)	222	8.3	8.3	(1)
Consumer Products	23.1	1.3	15.7	16.8	12.3	(1,081)	(454)	13.3	16.8	(350)
EBIT /Kg						YoY (%)	QoQ (%)			YoY (%)
Plastic Piping System	47	29	27	33	27	(43)	(19)	29	28	2
Packaging Products	26	15	20	15	26	(2)	73	19	23	(18)
Industrial Products	28	13	16	18	23	(20)	26	18	15	16
Consumer Products	49	3	36	41	28	(43)	(32)	31	32	(4)
Total Average	42	24	25	29	26	(37)	(9)	26	27	(2)
Share of Value-added products (%)	39.6	39.4	39.9	35.1	38.6			38.2	40.1	

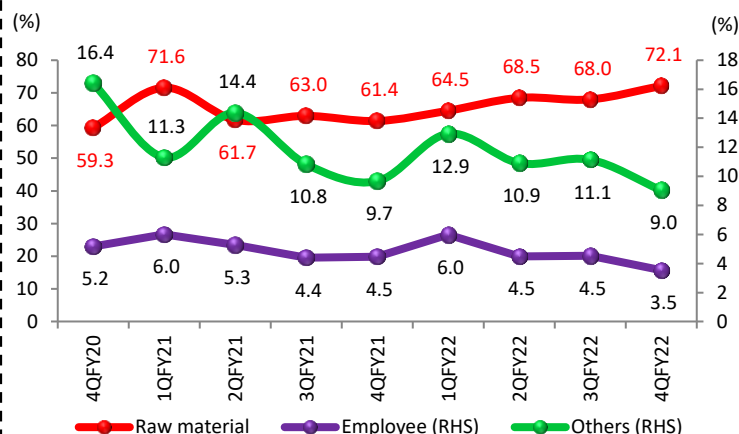
Source: Company, Systematix Institutional Research

Exhibit 2: Revenue growth - quarterly trend



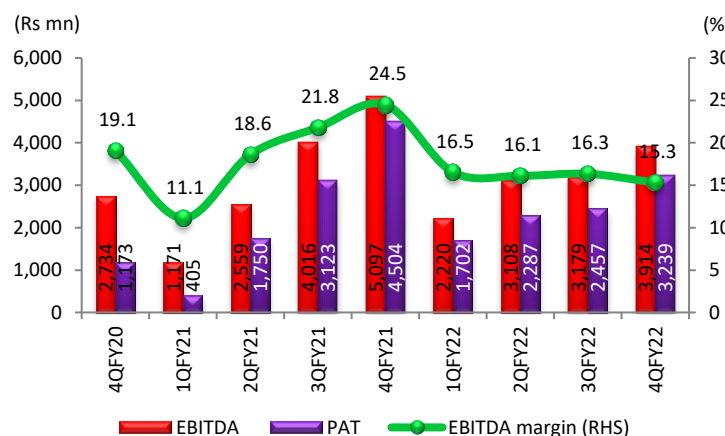
Source: Company, Systematix Institutional Research

Exhibit 3: Expenses as percentage of income – quarterly trend



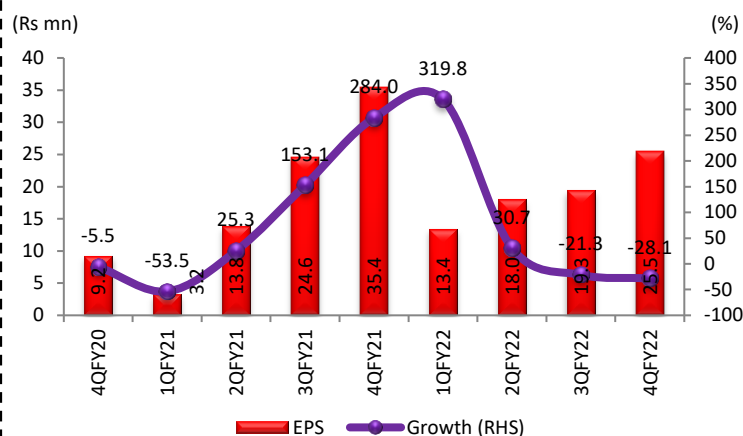
Source: Company, Systematix Institutional Research

Exhibit 4: EBITDA, PAT, margin - quarterly trends



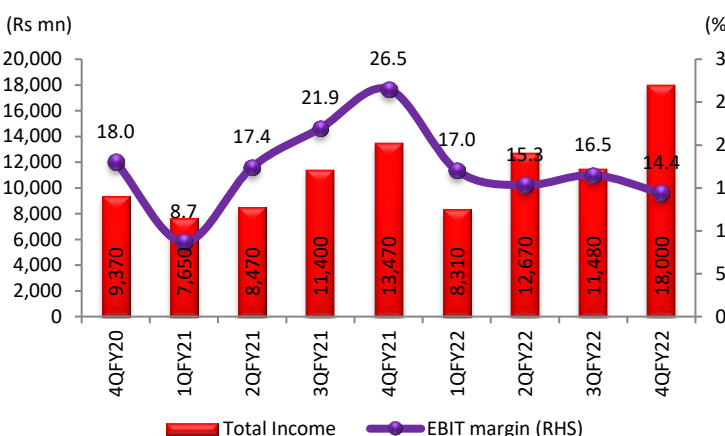
Source: Company, Systematix Institutional Research

Exhibit 5: Earnings growth – quarterly trends



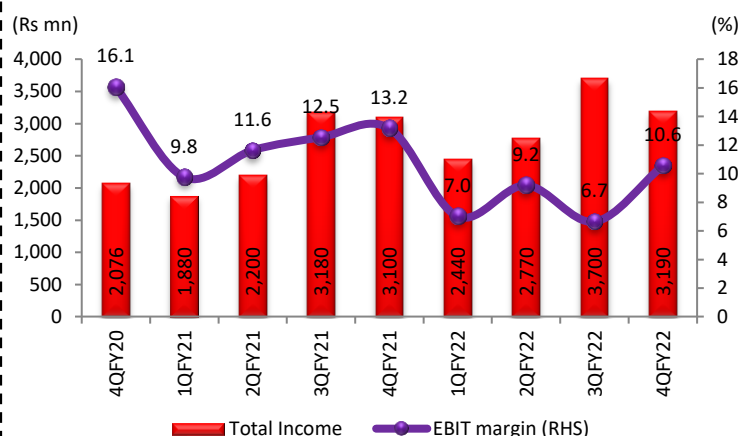
Source: Company, Systematix Institutional Research

Exhibit 6: Plastic pipes – revenue, EBIT-margin trends



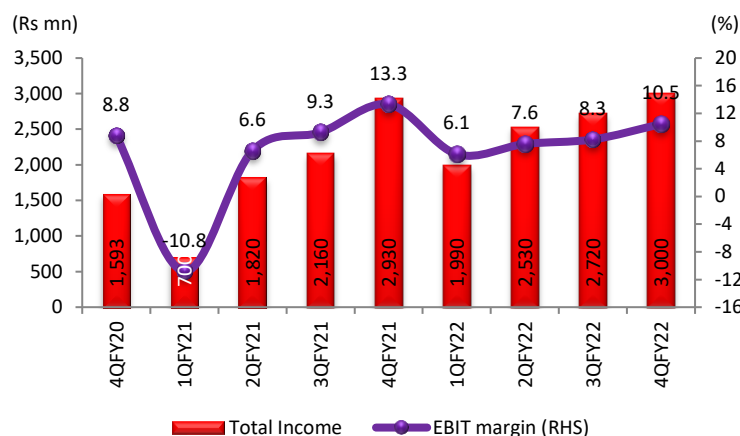
Source: Company, Systematix Institutional Research

Exhibit 7: Packaging product – revenue, EBIT-margin trends



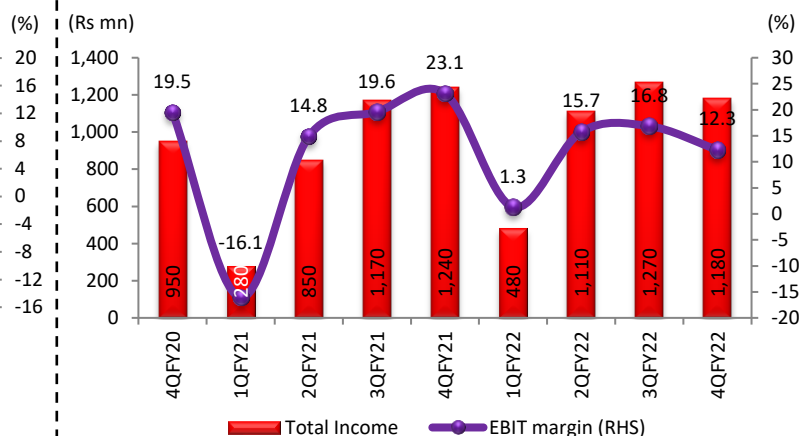
Source: Company, Systematix Institutional Research

Exhibit 8: Industrial product – revenue, EBIT-margin trends



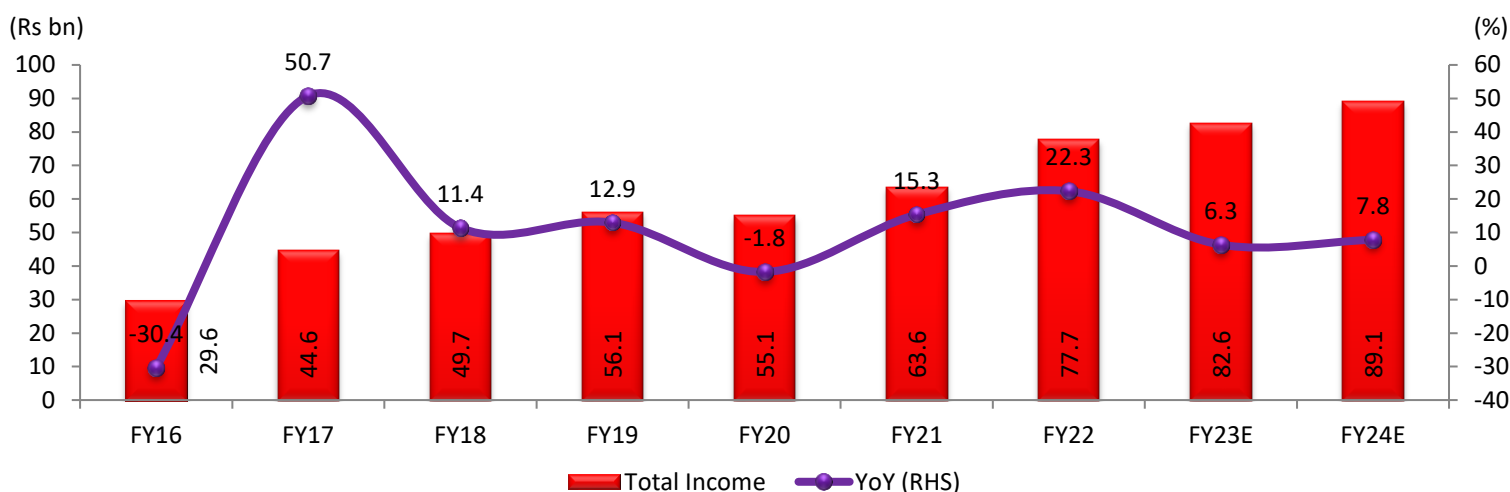
Source: Company, Systematix Institutional Research

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



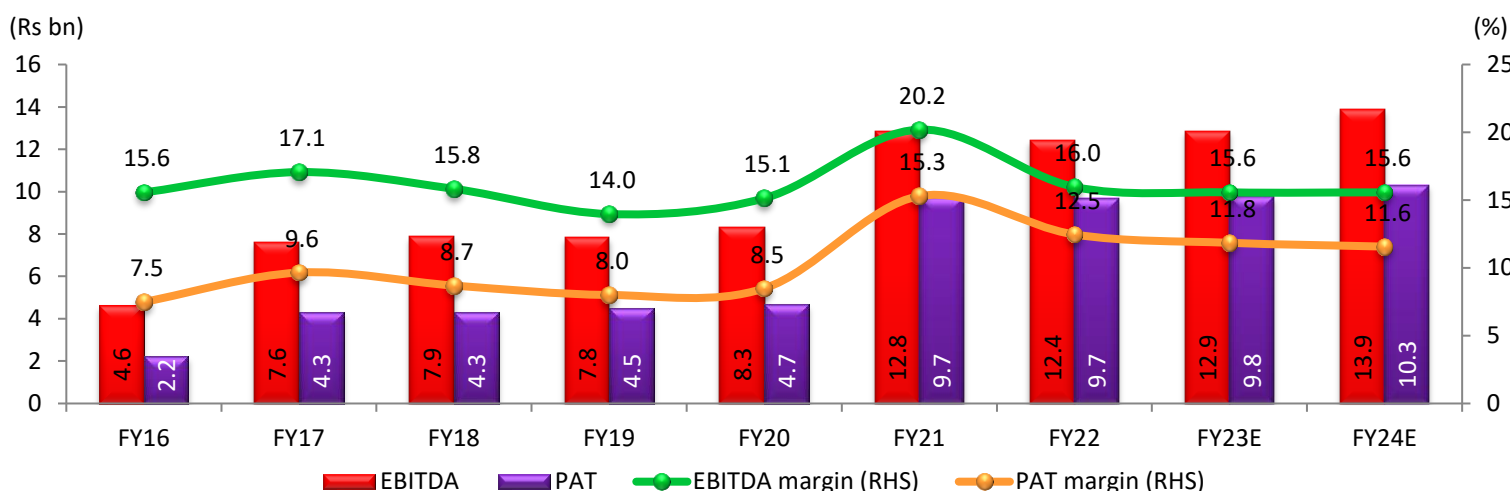
Source: Company, Systematix Institutional Research

Exhibit 10: Income – annual growth trend



Source: Company, Systematix Institutional Research

Exhibit 11: EBITDA, PAT – annual growth, margin trends



Source: Company, Systematix Institutional Research

Valuation and View

Supreme Industries 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 in the next year.

Over FY17-22, SI's revenue/EBITDA/PAT grew at a CAGR of 12%/10%/18% with RoE averaging at 24%; on a high base, we expect a CAGR of 7%/6%/3% over FY22-24E, driven by volume growth in all segments but lower realisations on expectation of fall in commodity prices. Inadequate price hikes will weigh on margins but healthy free cash flow should continue.

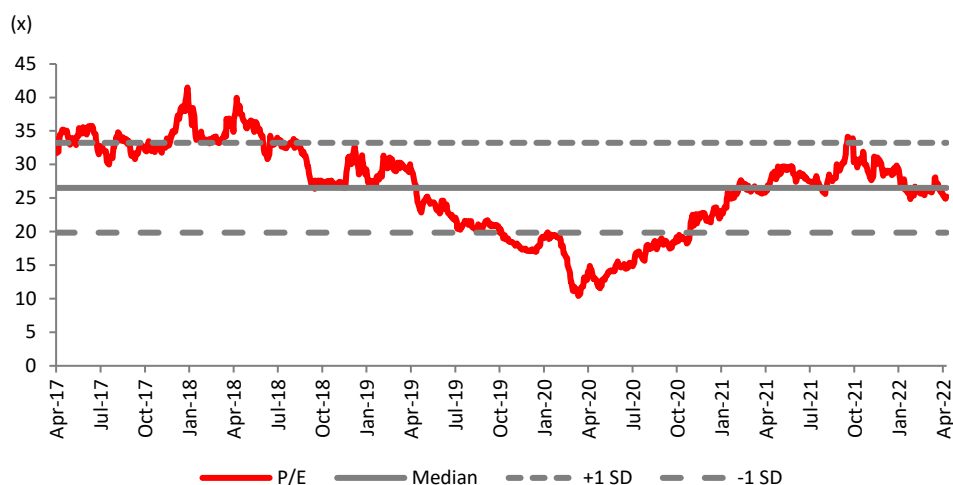
At ~24x FY24E P/E (vs. 27x five-year mean), we maintain our **HOLD** rating on the stock with a revised target price of Rs 2,142 (28x FY24E core P/E, 20x to JV share) vs. Rs 2,419 earlier. Polymer price movement and earnings growth/FCF are key monitorables.

Exhibit 12: Change in estimates

(Rs mn)	Old estimates			New estimates			% Var		
	FY22E	FY23E	FY24E	FY22	FY23E	FY24E	FY22E	FY23E	FY24E
Total Income	76,456	80,405	88,252	77,728	82,644	89,090	2	3	1
EBITDA	12,494	13,059	14,157	12,421	12,876	13,880	(1)	(1)	(2)
EBITDA margin (%)	16.3	16.2	16.0	16.0	15.6	15.6			
PAT	9,499	9,616	10,295	9,685	9,789	10,304	2	2	0
EPS	74.8	75.7	81.0	76.2	77.0	81.1	2	2	0

Source: Company, Systematix Institutional Research

Exhibit 13: P/E band – One-year-forward and Standard deviation



Source: Company, Systematix Institutional Research

Risks

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

FINANCIALS (CONSOLIDATED)

Profit & Loss Statement

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Net revenues	55,115	63,552	77,728	82,644	89,090
Growth (%)	-1.8	15.3	22.3	6.3	7.8
Direct costs	35,783	40,427	53,532	57,165	61,624
Gross Margin (%)	35.1	36.4	31.1	30.8	30.8
SG&A	10,987	10,283	11,775	12,603	13,586
EBITDA	8,346	12,842	12,421	12,876	13,880
EBITDA margins (%)	15.1	20.2	16.0	15.6	15.6
- Depreciation	2,057	2,128	2,295	2,547	2,840
Other income	14	105	200	150	150
Interest Exp	202	221	52	64	84
PBT	6,101	10,599	10,274	10,414	11,107
Effective tax rate (%)	28.5	22.1	25.6	25.6	25.6
+ Associates/(Minorities)	312	1,460	2,044	2,044	2,044
Net Income	4,674	9,718	9,685	9,789	10,304
Adjusted income	4,674	9,718	9,685	9,789	10,304
WANS	127	127	127	127	127
FDEPS (Rs /share)	36.8	76.5	76.2	77.0	81.1
FDEPS growth (%)	4.2	107.9	(0.3)	1.1	5.3

Source: Company, Systematix Institutional Research

Balance Sheet

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
Share capital	254	254	254	254	254
Net worth	22,612	31,692	38,444	45,183	52,438
Total debt	4,138	53	40	39	38
Minority interest	-	-	-	-	-
DT Liability/(Asset)	1,326	919	904	890	890
Capital employed	28,075	32,664	39,388	46,112	53,366
Net tangible assets	15,917	17,033	17,608	20,061	21,221
Net Intangible assets	160	124	76	76	76
Goodwill	-	-	-	-	-
CWIP	929	496	1,546	1,546	1,546
Investments (Strategic)	2,020	3,312	4,702	5,202	5,702
Investments (Financial)	53	54	57	3,557	7,557
Current Assets	14,792	14,120	20,705	21,721	23,932
Cash	2,314	7,684	5,264	4,496	4,489
Current Liabilities	8,110	10,159	10,570	10,547	11,156
Working capital	6,682	3,961	10,135	11,174	12,775
Capital deployed	28,075	32,664	39,388	46,112	53,366
Contingent Liabilities	849	789	-	-	-

Source: Company, Systematix Institutional Research

Cash Flow

YE: Mar (Rs mn)	FY20	FY21	FY22E	FY23E	FY24E
EBIT (incl. other income)	6,581	10,700	10,216	9,603	10,315
+ Non-cash items	2,057	2,130	2,295	2,547	2,840
OCF before WC changes	8,638	12,830	12,511	12,150	13,154
- Incr./(decr.) in WC	1,646	(1,955)	4,939	313	875
Others including taxes	1,621	2,322	2,868	2,719	2,897
Operating cash-flow	5,371	12,464	4,704	9,117	9,383
- Capex	2,417	2,266	4,699	5,000	4,000
Free cash-flow	2,954	10,198	5	4,117	5,383
Acquisitions	-	-	-	-	-
- Dividend	3,522	635	2,922	3,049	3,049
+ Equity raised	-	-	-	-	-
+ Debt raised	2,380	(4,104)	(11)	(1)	(1)
- Fin Investments	(283)	(136)	(178)	4,000	4,500
- Misc. Items (CFI + CFF)	216	178	(325)	(2,165)	(2,160)
Net cash-flow	1,878	5,416	(2,425)	(768)	(7)

Source: Company, Systematix Institutional Research

Ratios

YE: Mar	FY20	FY21	FY22E	FY23E	FY24E
P/E (x)	52.9	25.5	25.5	25.3	24.0
EV/EBITDA (x)	29.9	18.7	19.5	18.6	17.0
EV/sales (x)	4.5	3.8	3.1	2.9	2.6
P/B (x)	10.9	7.8	6.4	5.5	4.7
RoE (%)	20.7	30.7	25.2	21.7	19.6
RoCE (%)	24.0	35.6	28.7	24.5	22.5
ROIC (%)	18.8	38.3	32.8	27.1	25.9
DPS (Rs per share)	14.0	22.0	24.0	24.0	24.0
Dividend yield (%)	0.7	1.1	1.2	1.2	1.2
Dividend payout (%)	38.1	28.8	31.5	31.1	29.6
Net debt/equity (x)	0.1	(0.2)	(0.1)	(0.2)	(0.2)
Receivables (days)	20.7	22.4	21.9	22.0	22.0
Inventory (days)	59.0	43.7	59.2	55.0	55.0
Payables (days)	36.3	37.1	37.3	35.0	35.0
CFO:PAT%	114.9	128.3	48.6	93.1	91.1

Source: Company, Systematix Institutional Research

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