

# Retail Equity Research

## Supreme Industries Ltd.

### Plastic Products

BSE CODE : 509930      NSE CODE: SUPREMEIND  
BLOOMBERG CODE: SI:IN      SENSEX : 63,591

**SELL**

12 Months Investment Period      Rating as per Mid Cap  
CMP Rs.4,475    TARGET Rs.3,949    RETURN -12% ↓  
(Closing: 01-11-23)

#### KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↓

### Robust sales volume ...premium valuation a concern

Supreme Industries Ltd. (SIL) is India's leading player in plastic products; the company's wide range of offerings include plastic piping systems, packaging, industrial and consumer products.

- In Q2FY24, SIL's reported a revenue growth of 11% YoY, albeit impacted by a 6% YoY decline in PVC prices.
- However, sales volume showed a robust YoY growth of 23%, driven by strong Pipes sales.
- EBITDA exhibited strong growth, was better than expected, with margins at 15.4%, led by ease in input prices.
- Reported Net profit saw a significant threefold increase YoY, but at lower base and a substantial 30% YoY jump in share of profit from associate.
- Going ahead, stable demand in the housing and agriculture sectors is expected to drive volume growth, with EBITDA margins likely to remain around 15%. PAT is projected to grow by 22% over FY23-FY25E.
- SIL is currently trading at 1 year forward P/E of 45x which is significant premium valuation to its historical average of ~31x, which is a concern.
- Despite positive outlook, given sharp run-up in stock prices and premium valuation, we value SIL at a P/E of 39x on FY25E EPS and maintain a SELL rating with a target price of Rs. 3,949.

### Volume growth strong...

In SIL's Q2FY24, sales volume grew by a robust 23% YoY, led by Plastic piping and packaging, which grew by 30% & 12%, respectively. Healthy demand from housing and agricultural pipes aided volumes. The industrial reported modest volumes of 4.5%, while consumer segment volume was flat YoY. However, overall revenue grew by modest at 11% YoY, as PVC prices declined by 6% YoY impacting realization. The blended realization for Q2 fell by 10% YoY. Affordability has notably improved owing to the drop in input prices. Management has raised volume guidance from 15%-20% to 23% if polymer prices remain stable. Looking ahead, we anticipate an 18% CAGR volume and 13% CAGR in revenue over FY23-25E, respectively.

### Margins to stabilize at ~15% during FY23-25E.

SIL's Q2FY24 gross margins improved by 1030bps YoY to 33.5% due to a sharp fall in raw material prices. EBITDA grew by 142% YoY, and EBITDA margin expanded by 840bps YoY to 15.4%, largely due lower base. Reported Net profit was up by 197% YoY increase in share of profit from Supreme Petro. Going ahead, driven by healthy volumes and stable raw material prices., we anticipate EBITDA margins to remain steady in the range of 15% over FY24-25E. We expect profitability to grow by a 23% CAGR over FY23-25E.

### Valuations

Tailwinds like stable infra & agri volumes and lower input prices will drive growth. However, given the sharp rise in stock price and premium valuation (SIL is currently trading at a 1 year forward P/E of 45x), is a concern. We value SIL at a P/E of 39x on FY25E EPS and maintain SELL rating with a target price of Rs. 3,949.

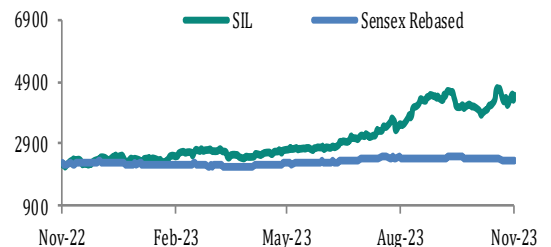
#### Company Data

Market Cap (cr)	₹ 56,845
Enterprise Value (cr)	₹ 56,146
Outstanding Shares (cr)	12.7
Free Float	51.2
Dividend Yield	0.60%
52 week high	₹ 4,884
52 week low	₹ 2,184
6m average volume (cr)	0.01
Beta	0.8
Face value	₹ 2

Shareholding (%)	Q4FY23	Q1FY24	Q2FY24
Promoters	48.9	48.9	48.9
FII's	16.8	19	23.9
MFs/Insti	18.1	17.1	12.5
Public	16.2	15.0	14.7
Total	100	100	100
Promoter Pledge (%)	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	27.0%	59.8%	97.6%
Absolute Sensex	-3.3%	3.0%	4.0%
Relative Return*	30.3%	56.9%	93.5%

\* over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	9,202	10,116	11,750
Growth (%)	18.4	9.9	16.2
EBITDA	1,200	1,493	1,809
EBITDA Margin(%)	13.0	14.8	15.4
PAT Adj.	865	1078	1286
Growth (%)	-10.6	24.5	19.3
Adj.EPS	68.1	84.8	101.3
Growth (%)	-10.6	24.5	19.3
P/E	65.7	52.8	44.2
P/B	12.9	11.0	9.2
EV/EBITDA	46.8	38.1	31.4
ROE (%)	21.0	22.5	22.7
D/E	0.0	0.0	0.0

**ANIL R**  
Research Analyst

## Quarterly Financials

### Profit & Loss

Rs.cr	Q2FY24	Q2FY23	YoY Growth (%)	Q1FY24	QoQ Growth (%)	H1FY24	H1FY23	YoY Growth (%)
<b>Sales</b>	<b>2,309</b>	<b>2,087</b>	<b>10.6</b>	<b>2,369</b>	<b>-2.5</b>	<b>4,677</b>	<b>4,293</b>	<b>9.0</b>
<b>EBITDA</b>	<b>356</b>	<b>147</b>	<b>142.1</b>	<b>322</b>	<b>10.8</b>	<b>678</b>	<b>416</b>	<b>62.9</b>
<b>EBITDA margin</b>	<b>12.3</b>	<b>3.9</b>	<b>837bps</b>	<b>10.5</b>	<b>178bps</b>	<b>14.5</b>	<b>9.7</b>	<b>480bps</b>
Depreciation	72	65	10.9	72	-0.2	144	127	13.8
<b>EBIT</b>	<b>284</b>	<b>82</b>	<b>245.5</b>	<b>250</b>	<b>13.9</b>	<b>534</b>	<b>290</b>	<b>84.4</b>
Interest	2	1	29.2	2	-8.3	3	3	14.5
Other Income	13	6	129.9	14	-10.6	27	10	167.0
Exceptional Items	-	-	-	-	-	-	-	-
<b>PBT</b>	<b>295</b>	<b>87</b>	<b>241.2</b>	<b>262</b>	<b>12.7</b>	<b>558</b>	<b>297</b>	<b>87.9</b>
Tax	76	23	229.7	68	12.5	144	77	86.1
Share of profit from Associate	24	19	29.5	21	-	45	77	-
Minority Interest	-	-	-	-	-	-	-	-
<b>Reported PAT</b>	<b>243</b>	<b>82</b>	<b>196.5</b>	<b>216</b>	<b>12.8</b>	<b>459</b>	<b>296</b>	<b>55.0</b>
Adjustments	-	-	-	-	-	-	-	-
<b>Adjusted PAT</b>	<b>243</b>	<b>82</b>	<b>196.5</b>	<b>216</b>	<b>12.8</b>	<b>459</b>	<b>296</b>	<b>55.0</b>
No. of Shares	62.5	62.5	-	62.5	-	62.5	62.5	-
<b>EPS (Rs)</b>	<b>19.1</b>	<b>6.5</b>	<b>196.5</b>	<b>17.0</b>	<b>12.8</b>	<b>36.1</b>	<b>23.3</b>	<b>55.0</b>

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	10,319	11,711	10,116	11,750	(2.0)	0.3
EBITDA	1,529	1,818	14,93	1,809	(2.3)	(0.3)
Margins (%)	14.8	15.5	14.8	15.4	-	(10bps)
Adjusted PAT	1104	1303	1,078	1,286	(2.4)	(1.3)
EPS	4.8	5.4	4.8	5.4	(2.4)	(1.3)

## Consolidated Financials

### PROFIT & LOSS

Y.E March (Rs.cr)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Revenue</b>	<b>6,355</b>	<b>7,773</b>	<b>9,202</b>	<b>10,116</b>	<b>11,750</b>
% change	15.3	22.3	18.4	9.9	16.2
<b>EBITDA</b>	<b>1,284</b>	<b>1,242</b>	<b>1,200</b>	<b>1,493</b>	<b>1,809</b>
% change	53.9	(3.3)	(3.4)	24.5	21.2
Depreciation	213	230	263	303	359
<b>EBIT</b>	<b>1,071</b>	<b>1,013</b>	<b>936</b>	<b>1,190</b>	<b>1,450</b>
Interest	22	5	8	6	5
Other Income	17	20	30	40	43
<b>PBT</b>	<b>1,066</b>	<b>1,027</b>	<b>958</b>	<b>1,224</b>	<b>1,488</b>
% change	74.8	(3.6)	(6.8)	27.7	21.6
Tax	234	263	246	306	372
Tax Rate (%)	22.0%	25.6%	25.7%	25.0%	25.0%
<b>Reported PAT</b>	<b>978</b>	<b>968</b>	<b>865</b>	<b>1,078</b>	<b>1,286</b>
Adj*	-	-	-	-	-
<b>Adj PAT</b>	<b>978</b>	<b>968</b>	<b>865</b>	<b>1,078</b>	<b>1,286</b>
% change	109.3	(1.0)	(10.6)	24.5	19.3
No. of shares (cr)	12.7	12.7	12.7	12.7	12.7
<b>Adj EPS (Rs.)</b>	<b>77.0</b>	<b>76.2</b>	<b>68.1</b>	<b>84.8</b>	<b>101.3</b>
% change	109.3	-1.0	-10.6	24.5	19.3
DPS (Rs.)	5.0	23.0	24.0	24.0	24.0
CEPS (Rs.)	93.8	94.3	88.9	108.7	129.5

### CASH FLOW

Y.E March (Rs.cr)	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Net inc. + Depn.</b>	<b>1,191</b>	<b>1,198</b>	<b>1,129</b>	<b>1,381</b>	<b>1,646</b>
Non-cash adj.	(142)	(250)	(178)	6	5
Changes in W.C	196	(494)	(78)	(580)	(255)
<b>C.F. Operation</b>	<b>1,246</b>	<b>470</b>	<b>890</b>	<b>807</b>	<b>1,395</b>
Capital exp.	(221)	(466)	(422)	(896)	(810)
Change in inv.	8	14	19	(280)	(280)
Other invest.CF	12	49	54	-	-
<b>C.F - Investment</b>	<b>(201)</b>	<b>(403)</b>	<b>(349)</b>	<b>(1,176)</b>	<b>(1,090)</b>
Issue of equity	-	-	-	-	-
Issue/repay debt	(410)	(1)	-	(10)	(10)
Dividends paid	(64)	(292)	(305)	(305)	(305)
Other finance.CF	(32)	(17)	(22)	(6)	(5)
<b>C.F - Finance</b>	<b>(506)</b>	<b>(310)</b>	<b>(327)</b>	<b>(321)</b>	<b>(320)</b>
Chg. in cash	540	(243)	215	(691)	(14)
Closing cash	762	519	738	47	33

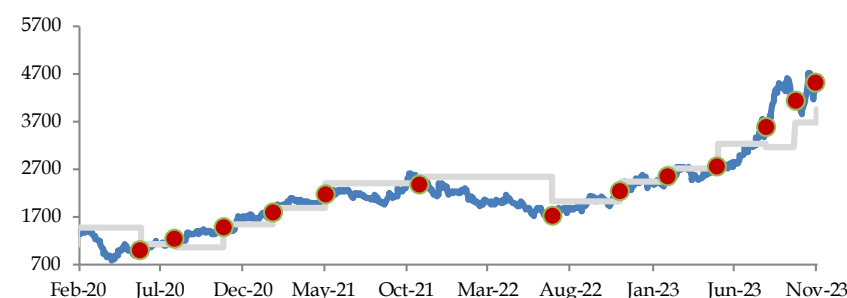
### BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	762	519	738	47	33
Accounts Receivable	390	467	492	582	676
Inventories	761	1,260	1,386	1,585	1,777
Other Cur. Assets	268	351	353	624	757
Investments	337	476	577	857	1,137
Gross Fixed Assets	3,338	3,606	4,144	5,044	5,844
Net Fixed Assets	1,703	1,761	2,059	2,656	3,096
CWIP	51	155	84	80	90
Intangible Assets	11	8	5	5	5
Def. Tax (Net)	(92)	(90)	(91)	(91)	(91)
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>4,190</b>	<b>4,905</b>	<b>5,603</b>	<b>6,345</b>	<b>7,481</b>
Current Liabilities	646	794	904	749	806
Provisions	30	32	35	72	84
Debt Funds	31	38	39	29	19
Other Liabilities	314	197	224	321	415
Equity Capital	25	25	25	25	25
Reserves & Surplus	3,144	3,819	4,377	5,150	6,131
Shareholder's Fund	3,169	3,844	4,402	5,175	6,156
<b>Total Liabilities</b>	<b>4,190</b>	<b>4,905</b>	<b>5,603</b>	<b>6,345</b>	<b>7,481</b>
<b>BVPS (Rs.)</b>	<b>249</b>	<b>303</b>	<b>347</b>	<b>407</b>	<b>485</b>

### RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	20.2	16.0	13.0	14.8	15.4
EBIT margin (%)	16.9	13.0	10.2	11.8	12.3
Net profit mgn.(%)	15.4	12.5	9.4	10.7	10.9
ROE (%)	36.0	27.6	21.0	22.5	22.7
ROCE (%)	33.7	27.5	20.9	22.4	22.7
<b>W.C &amp; Liquidity</b>					
Receivables (days)	20.2	20.1	19.0	19.4	19.5
Inventory (days)	47.4	47.4	52.5	53.6	52.2
Payables (days)	53.9	49.1	47.0	43.3	35.0
Current ratio (x)	3.2	3.1	3.2	3.5	3.6
Quick ratio (x)	1.6	1.1	1.4	0.8	0.8
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.0	2.2	2.4	2.2	2.2
Total asset T.O (x)	1.7	1.7	1.8	1.7	1.7
Int. coverage ratio (x)	48.6	196.6	116.7	184.0	301.6
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
<b>Valuation</b>					
EV/Sales (x)	8.8	7.3	6.1	5.6	4.8
EV/EBITDA (x)	43.7	45.4	46.8	38.1	31.4
P/E (x)	58.1	58.7	65.7	52.8	44.2
P/BV (x)	17.9	14.8	12.9	11.0	9.2

## Recommendation summary (Last 3 Years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
27-May-20	Accumulate	1,126
29-July-20	Sell	1,073
29-October-20	Hold	1,537
28-January-21	Hold	1,893
04-May-21	Accumulate	2,424
26-October-21	Hold	2,536
30-June-22	Buy	2,015
04-November-22	Accumulate	2,446
30-January-23	Hold	2,703
03-May-23	Buy	3,223
01-August-23	Sell	3,181
25-September-23	Sell	3,694
02-November-23	Sell	3,949

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
<b>Buy</b>	Upside is above 10%	Upside is above 15%	Upside is above 20%
<b>Accumulate</b>	-	Upside is between 10%-15%	Upside is between 10%-20%
<b>Hold</b>	Upside is between 0% - 10%	Upside is between 0%-10%	Upside is between 0%-10%
<b>Reduce/sell</b>	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
<b>Not rated/Neutral</b>			

### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated:** The analyst has no investment opinion on the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

The recommendations are based on 12 month horizon, unless otherwise specified. The investment ratings are on absolute positive/negative return basis. It is possible that due to volatile price fluctuation in the near to medium term, there could be a temporary mismatch to rating. For reasons of valuations/ return/lack of clarity/event we may revisit rating at appropriate time. Please note that the stock always carries the risk of being upgraded to BUY or downgraded to a HOLD, REDUCE or SELL.

Not rated/Neutral- The analyst has no investment opinion on the stock under review

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