

October 22, 2024

RESULT REPORT Q2 FY25 | Sector: Building Materials

Supreme Industries Ltd

Miss on pipe volume growth, guidance revised downwards!

Result Synopsis

Post 10-quarters of consistent growth, Supreme Industries Ltd (SI) registered a muted growth in its core segment i.e plastic pipes wherein volumes remained flattish at 102,238Te (2-year CAGR stood at 14%) and ASP improved to Rs141/Kg. Pipe demand was impacted due to channel de-stocking on the back of falling PVC resin prices, lower agri and infra demand. During the quarter, company witnessed a decline of 20%YoY in July'24, a growth of 3%YoY in August'24 & a growth of 15%YoY in September'24. Other segment's volume growth also remained sluggish at 3%YoY. Packaging was the only segment which reported a growth of 11%YoY. Pipe segment's profitability was impacted due to inventory loss of Rs350-400Mn & barring the same EBIT/Kg for plastic pipes stood at Rs18.1 Vs 19.5/16.5 in Q2FY24/Q1FY25 respectively. Consequently, blended operating margins remained under pressure at 14% Vs 15.4%/14.7% in Q2FY24/Q1FY25 respectively. Notably, CPVC segment reported a healthy growth of 33%YoY in H1FY25.

Guidance

Management revised their FY25 guidance downwards from 25%YoY growth for plastic pipes to 16-18% and overall volume growth from 20% to 14-15%. Margin guidance revised to 14.5%-15.25% and for plastic pipes the same should come in at 14-16% for FY25.

Our View

On the back of lackluster performance in Q2FY25, we have cut our FY25E/FY26E EPS by 7%/10% respectively largely driven by revision in plastic pipe volume growth for FY25E from 20% to 15%. We believe 15% volume CAGR is achievable by SI over FY25-FY27E owing to healthy demand from agri and plumbing segment and with stability in PVC resin prices, channel partners should resort to re-stocking which will enable the company to regain strong traction. We remain confident on company's growth trajectory over coming 2-years and expect a Revenue/EBITDA/PAT growth of 14% each respectively. We continue to value the company at P/E(x) of 45x on FY27E standalone EPS and Rs246/share contribution from Supreme Petrochem Ltd, arriving at a target price of Rs5,645. Hence, we assign a BUY rating on the stock.

Result Highlights

- Overall volumes came in at 138,077Te (9% below est), flattish on a YoY basis & a degrowth of 21%QoQ (2-year CAGR stood at 11%).
- Revenue stood at Rs22.73Bn (2% below est), a decline of 1.5%YoY & 14%QoQ.
- EBITDA margins came in at 14% (est of 14.8%) Vs 15.4%/14.7% in Q2FY24/Q1FY25 respectively. Absolute EBITDA stood at Rs3.19Bn, down by 10%YoY & 18% on sequential basis.

Exhibit 1: Actual vs estimates

Rs mn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	22,730	23,202	24,563	(2.0)	(7.5)	
EBITDA	3,193	3,435	3,671	(7.1)	(13.0)	
EBITDA Margin (%)	14.0	14.8	14.9	(76 bps)	(90 bps)	Below estimates.
Adjusted PAT	2,194	2,102	2,459	4.4	(10.8)	

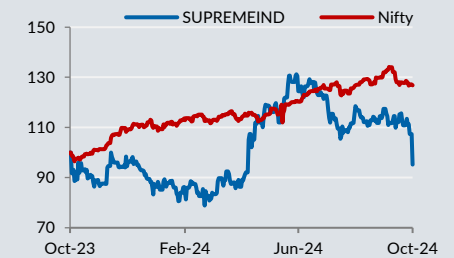
Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 4,486
Target Price	: Rs 5,645
Potential Return	: +26%

Stock data (as on Oct 22, 2024)

Nifty	24,472
52 Week h/l (Rs)	6,460 / 3,601
Market cap (Rs/USD mn)	632,587 / 7,526
Outstanding Shares (mn)	127
6m Avg t/o (Rs mn):	936
Div yield (%):	0.6
Bloomberg code:	SI IN
NSE code:	SUPREMEIND

Stock performance



	1M	3M	1Y
Absolute return	-18.9%	-21.2%	-4.8%

Shareholding pattern (As of Sep'24 end)

Promoter	48.9%
FII+DII	36.5%
Others	14.6%

Δ in stance

(1-Yr)	New	Old
Rating	BUY	REDUCE
Target Price	5,645	5,422

Δ in earnings estimates

	FY25E	FY26E	FY27E
EPS (New)	89.7	102.0	123.9
EPS (Old)	97.0	114.2	-
% change	-7.5%	-10.7%	-

Financial Summary (standalone)

(Rs mn)	FY25E	FY26E	FY27E
Net Revenue	115,143	131,276	149,790
YoY Growth	14%	14%	14%
EBITDA	17,512	20,028	23,149
EBITDA (%)	15.2%	15.3%	15.5%
PAT	11,417	13,003	15,243
YoY Growth	12%	14%	17%
ROE	23%	22%	22%
EPS	89.9	102.3	120.0
P/E	49.9	43.8	37.4
BV/Share	424.5	506.8	606.8
P/BV	10.6	8.9	7.4

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- Net profit stood at Rs2.19Bn, a degrowth of 16%YoY & 7%QoQ.

Segmental Highlights for Q2FY25:

- **Plastic Pipes** (74% of total volumes & 63% of revenue)- Volumes stood at 102,238Te, flattish on a YoY basis & a decline of 27%QoQ (2-year CAGR stood at 14%). ASP came in at Rs141 Vs Rs147/Rs133 in Q2FY24/Q1FY25 respectively. Revenue degrew by 5%YoY & 23%QoQ to Rs14.38Bn. EBIT/Kg came in at Rs14.7 Vs Rs19.5/Rs16.5 in Q2FY24/Q1FY25 respectively.
- **Industrials**- Volumes stood at 15,110Te, a decline of 2%YoY & flattish QoQ (2-year CAGR stood at 1%). ASP came in at Rs217 Vs Rs211/Rs205 in Q2FY24/Q1FY25 respectively. Revenue stood at Rs3.28Bn, flattish YoY & a growth of 7%QoQ. EBIT/Kg stood at Rs19 as compared to Rs16/Rs13 in Q2FY24/Q1FY25 respectively.
- **Packaging**- Volumes stood at 16,593Te, an 11%YoY & 13%QoQ growth (2-year CAGR stood at 12%). ASP came in at Rs241 Vs Rs237/Rs250 in Q2FY24/Q1FY25 respectively. Revenue increased by 14%YoY 9%QoQ to Rs4Bn. EBIT/kg stood at Rs25 Vs Rs32/Rs29 in Q2FY24/Q1FY25 respectively.
- **Consumer**- Volumes degrew by 8%YoY & increased by 3%QoQ to 4,136Te (2-year CAGR stood at -4%). ASP came in at Rs251 Vs Rs233/Rs243 in Q2FY24/Q1FY25 respectively. Revenue was flattish YoY & improved by 7%QoQ to Rs1.04Bn. EBIT/Kg came in at Rs41 Vs Rs41/Rs40 in Q2FY24/Q1FY25 respectively.

Other Highlights:

- Value added products revenue for Q2FY25 stood at Rs9.07Bn Vs Rs9.42Bn in Q2FY24.
- Cash surplus as on Sep'24 stood at Rs6.74Bn.
- Red Sea shipment movement blockage resulted in an increase in freight rate from ~US\$30/Te to ~US\$200/Te and thus container productivity was extremely low, which led to an increase in cost of PVC resin between mid-April to 30th June by 19%. However, with reduction in freight rates, PVC prices reduced by 17.5% over July to mid-August. ~66% demand (3.1Mn Te) of PVC resin in India is met by imports, of which >80% comes from Asian countries.
- New greenfield unit at Malanpur for production of industrial and ball valves commenced commercial production on 1st Sept'24.
- Company has been allotted required land near Patna at Bihar and purchased required private land at Kathua District in Jammu & Kashmir for putting up plastic product complex including Plastic Piping system. The execution of projects at these locations will be in FY26.
- Company has expanded & introduced various new models of chair & cabinet in its furniture segment. 10 new models have been introduced in the H1FY25. Total strength of showrooms has reached 328 by end of Sep'24 from 308 showrooms as on FY24.
- Company expects to launch and supply Windows in H1FY26E.
- Company has committed a capex of Rs15Bn including carryforward commitment with total cash outflow in FY25 expected to be Rs10Bn (Rs4.27Bn paid in H1FY25), and the said capex will be funded via internal accruals.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Revenue	23,685	23,087	24,491	30,079	26,364	22,730	(1.5)	(13.8)	46,772	49,093	5.0
Expenditure	20,468	19,522	20,698	25,169	22,487	19,536	0.1	(13.1)	39,990	42,024	5.1
- RM	16,560	15,357	16,405	20,262	17,958	14,886	(3.1)	(17.1)	31,917	32,844	2.9
- Staff Cost	1,030	1,056	1,096	1,228	1,210	1,195	13.2	(1.2)	2,086	2,405	15.3
- Power Cost	793	781	851	863	866	821	5.1	(5.2)	1,574	1,687	7.2
- Other Cost	2,086	2,328	2,346	2,816	2,454	2,634	13.2	7.3	4,413	5,089	15.3
Operating Profit	3,217	3,565	3,793	4,910	3,876	3,193	(10.4)	(17.6)	6,783	7,070	4.2
OPM(%)	13.6	15.4	15.5	16.3	14.7	14.0	(139.4)	(65.5)	14.5	14.4	(10.1)
Other Income	142	532	323	181	214	556	4.4	159.1	674	770	14.2
Depreciation	721	719	772	772	860	899	25.1	4.5	1,440	1,760	22.2
Interest	17	15	52	77	33	26	70.1	(21.3)	32	60	84.2
PBT	2,622	3,363	3,292	4,242	3,197	2,823	(16.0)	(11.7)	5,985	6,020	0.6
Tax	678	763	818	1,097	836	629	(17.5)	(24.7)	1,441	1,465	1.7
PAT	1,944	2,600	2,474	3,145	2,361	2,194	(15.6)	(7.1)	4,543	4,555	0.3
OCI	(7)	(7)	(7)	(46)	(17)	(17)	138.0	0.0	(14)	(34)	138.0
Reported PAT	1,937	2,593	2,467	3,099	2,345	2,177	(16.0)	(7.1)	4,529	4,522	(0.2)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	Q2 FY25	% yoy	% qoq	H1 FY24	H1 FY25	% yoy
Volumes (Te)											
Plastic pipe	117,274	102,929	122,003	158,795	140,153	102,238	(0.7)	(27.1)	220,203	242,391	10.1
Packaging	13,568	14,890	14,998	15,051	14,717	16,593	11.4	12.7	28,458	31,310	10.0
Industrial	13,409	15,425	16,231	16,871	14,963	15,110	(2.0)	1.0	28,834	30,073	4.3
Consumer	4,293	4,519	4,793	4,652	4,002	4,136	(8.5)	3.3	8,812	8,138	(7.6)
Revenue (Rs mn)											
Plastic pipe	16,261	15,093	16,437	21,530	18,584	14,380	(4.7)	(22.6)	31,354	32,964	5.1
Packaging	3,231	3,522	3,540	3,760	3,681	4,000	13.6	8.7	6,753	7,681	13.7
Industrial	2,985	3,258	3,320	3,520	3,064	3,280	0.7	7.1	6,243	6,344	1.6
Consumer	1,049	1,054	1,123	1,180	972	1,040	(1.4)	7.0	2,104	2,012	(4.4)
EBIT%											
Plastic pipe	11.9%	13.3%	13.0%	13.6%	12.4%	10.4%	(286)	(202)	12.6%	11.6%	(102)
Packaging	7.9%	13.6%	13.1%	18.0%	11.4%	10.3%	(333)	(120)	10.9%	10.8%	(4)
Industrial	6.3%	7.7%	8.9%	11.2%	6.4%	8.5%	79	216	7.1%	7.5%	43
Consumer	16.9%	16.6%	17.4%	17.4%	16.5%	16.3%	(27)	(20)	16.8%	16.4%	(31)

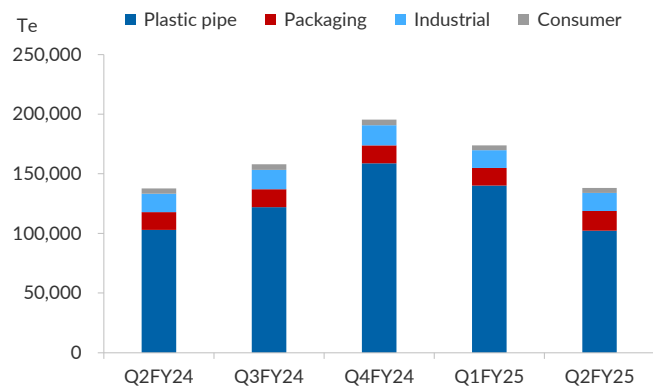
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management has cut volume guidance to 16-18% for FY25E from 25% earlier. Total volumes are expected to grow by 14-15%. Blended EBITDA margin guidance at 14.5-15.25%. Pipes segment margin is expected to be 14-16% and packaging products margin is expected to be 16-18%.
- Plastic pipe volumes degrew by 20%YoY in July, grew by 3%YoY in August, and grew by 15%YoY in September. Company expects H2 to be much better than H1 as channel inventory normalizes. H2 will see peak demand from agri segment.
- Company currently has a plastic pipes capacity of 790,000Te that will increase to 835,000Te by FY25 end. Peak utilization is at 80-85%.
- Inventory loss for the quarter stands at Rs350-400Mn.
- CPVC volumes grew by ~33% in H1FY25 as it is primarily for intra housing fittings and not impacted by monsoon.
- Company is planning to enter the above ground gas pipeline segment with a capacity of 3,000Te per month that has an annual market of 100,000Te and anticipate receiving orders soon.
- Company has set up a plant to make windows with a capacity of 5,000Te annually that can make 330,000 windows. The total market is 150,000Te per year.
- Even with further PVC capacities coming by 2026, India would still have to import >2Mn Te of PVC resin to meet requirement.
- CPVC resin market is 220,000Te annually but most of the CPVC resin manufacturers also import PVC to make CPVC.
- Company expects BIS to be extended as so far only 5 suppliers have received the certification else there would be a crisis in India with no PVC availability and PVC prices may increase further.
- No ADD has been imposed on CPVC from USA, EU, Japan. ADD has been imposed on some players from China & South Korea.
- Company only does 2,000-3,000Te of government orders per month.
- PVC pipes market grew by 9-10% in H1FY25. Total size for plastic pipes is 4.3-4.4Mn Te annually. Supreme is the largest player with ~35% market share of the organized market with Finolex being the second largest.
- Asset turnover for brownfield/greenfield projects is expected to be 2.5x/2x respectively.

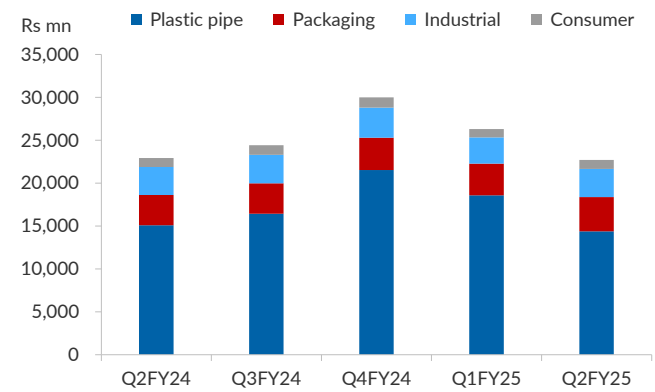
QUARTERLY TRENDS

Exhibit 4: Total volume remained flattish YoY...



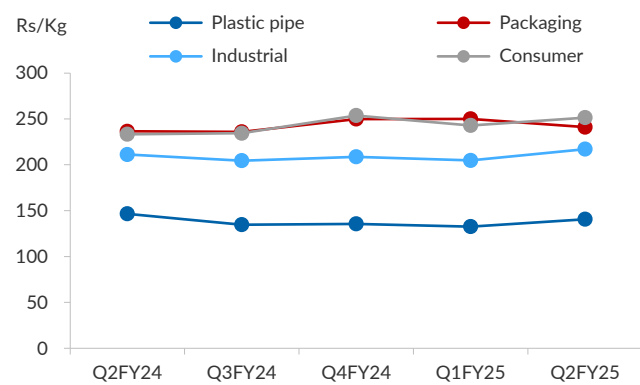
Source: Company, YES Sec

Exhibit 5: Plastic pipes revenue declined by 5%YoY...



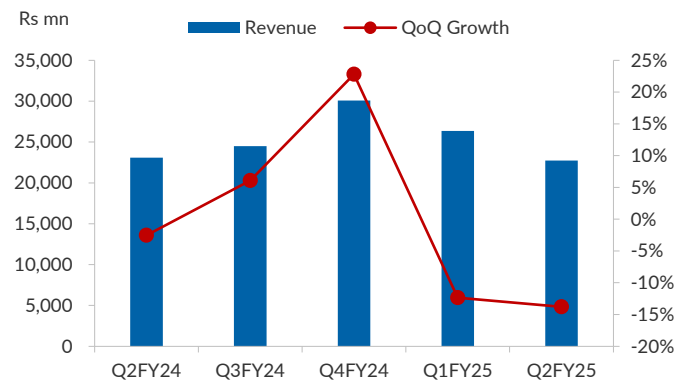
Source: Company, YES Sec

Exhibit 6: Pipes ASP improved to Rs141/kg ...



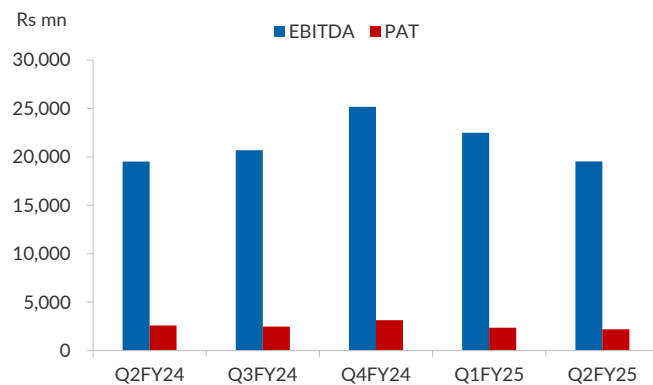
Source: Company, YES Sec

Exhibit 7: Net revenue degred by 1.5%YoY...



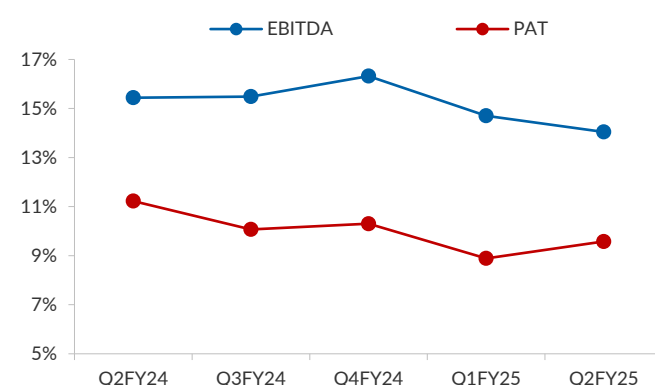
Source: Company, YES Sec

Exhibit 8: Operating profit remained flattish YoY...



Source: Company, YES Sec

Exhibit 9: OPM & NPM came in at 14% & 10%...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement (standalone)

Y/e 31 Mar (Rs mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	92,015	101,342	115,143	131,276	149,790
Growth (%)	18.4%	10.1%	13.6%	14.0%	14.1%
EBITDA	12,000	15,485	17,512	20,028	23,149
EBITDA margin (%)	13.0%	15.3%	15.2%	15.3%	15.5%
Growth (%)	(3.4%)	29.0%	13.1%	14.4%	15.6%
Depreciation & Amortization	2,634	2,984	3,491	4,021	4,374
Other income	819	1,178	1,252	1,381	1,599
EBIT	10,185	13,679	15,272	17,388	20,374
EBIT margin (%)	11.1%	13.5%	13.3%	13.2%	13.6%
Interest	80	161	50	50	50
PBT	10,104	13,518	15,222	17,338	20,324
Tax	2,460	3,357	3,806	4,334	5,081
Net profit	7,645	10,162	11,417	13,003	15,243
Net profit margin (%)	8.3%	10.0%	9.9%	9.9%	10.2%
EPS	60.2	80.0	89.9	102.3	120.0
Growth (%)	(5.8%)	32.9%	12.3%	13.9%	17.2%

Source: Company, YES Sec

Exhibit 11: Balance Sheet (standalone)

Y/e 31 Mar (Rs mn)	FY23	FY24	H1FY25	FY25E	FY26E	FY27E
Equity Share Capital	254	254	254	254	254	254
Reserves	38,194	44,731	46,458	53,674	64,137	76,839
Total Shareholders' Funds	38,448	44,985	46,712	53,928	64,391	77,093
Deferred Tax liabilities	904	908	1,006	960	960	960
Trade payables	9,047	10,153	10,027	11,418	12,864	14,465
Other financial liabilities	1,244	1,433	1,278	1,433	1,433	1,433
Total equity and liabilities	51,376	59,449	61,160	69,657	81,566	95,869
Non-current assets						
PPE	19,764	21,801	22,400	28,310	29,289	29,915
CWIP	837	1,437	2,042	1,437	1,437	1,437
Current assets						
Inventories	13,856	13,586	16,638	15,278	17,213	19,355
Trade receivables	4,918	5,111	5,420	5,807	6,621	7,555
Cash and cash equivalents	7,452	11,862	6,827	13,173	21,354	31,955
Loans and advances	19	25	24	25	25	25
Other current assets	2,416	2,261	2,293	2,261	2,261	2,261
Total assets	51,376	59,449	61,160	69,657	81,566	95,869

Source: Company, YES Sec

Exhibit 12: Cash Flow (standalone)

Y/e 31 Mar (Rs mn)	FY23	FY24	H1FY25	FY25E	FY26E	FY27E
PBT	10,104	13,518	6,020	15,290	17,338	20,324
Depreciation & Amortization	2,634	2,984	1,760	3,491	4,021	4,374
Finance cost	80	161	60	50	50	50
(Incr)/Decr in Working Capital	(770)	1,789	(3,406)	(1,123)	(1,303)	(1,475)
Taxes	(2,375)	(3,232)	(1,878)	(3,806)	(4,334)	(5,081)
Cash from ops.	8,914	14,128	1,586	13,902	15,772	18,192
(Incr)/ Decr in PP&E	(4,214)	(6,855)	(4,260)	(10,000)	(5,000)	(5,000)
Cash Flow from Investing	(3,489)	(6,085)	(3,802)	(10,000)	(5,000)	(5,000)
(Decr)/Incr in Borrowings	0	0	0	0	0	0
Finance cost	(15)	(39)	(23)	(50)	(50)	(50)
Dividend	(3,049)	(3,557)	(2,795)	(2,541)	(2,541)	(2,541)
Cash Flow from Financing	(3,270)	(3,817)	(2,954)	(2,591)	(2,591)	(2,591)
Incr/(Decr) in cash	2,156	4,226	(5,171)	1,311	8,181	10,601
Cash and cash equivalents at beg of year	5,175	7,377	11,782	11,862	13,173	21,354
Cash and cash equivalents at end of year	7,377	11,782	6,738	13,173	21,354	31,955

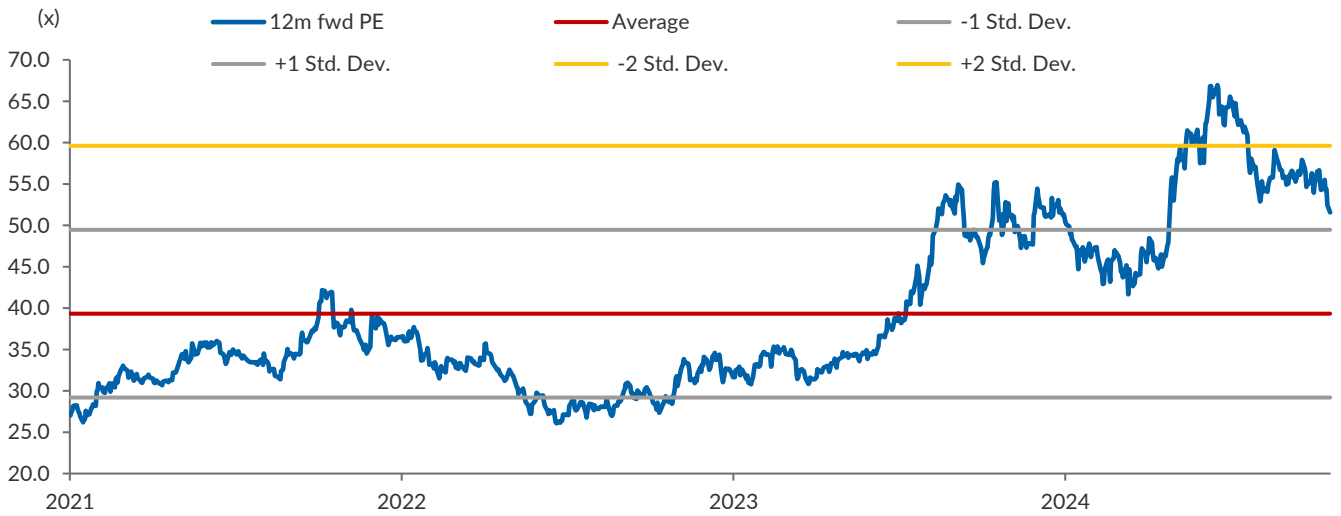
Source: Company, YES Sec

Exhibit 13: Ratios (standalone)

Key Ratios	FY23	FY24	FY25E	FY26E	FY27E
Growth Matrix (%)					
Revenue growth	18.4%	10.1%	13.6%	14.0%	14.1%
EBITDA growth	-3.4%	29.0%	13.1%	14.4%	15.6%
EBIT growth	-5.7%	34.3%	11.6%	13.9%	17.2%
PAT growth	-5.8%	32.9%	12.3%	13.9%	17.2%
Profitability ratios (%)					
EBITDA margin	13.0%	15.3%	15.2%	15.3%	15.5%
EBIT margin	11.1%	13.5%	13.3%	13.2%	13.6%
PAT margin	8.3%	10.0%	9.9%	9.9%	10.2%
RoCE	27.0%	31.5%	29.8%	28.6%	28.1%
RoE	21.1%	24.4%	23.1%	22.0%	21.5%
Per share values					
EPS	60.2	80.0	89.9	102.3	120.0
CEPS	80.9	103.5	117.3	134.0	154.4
BVPS	302.6	354.1	424.5	506.8	606.8
Valuation ratios (x)					
P/E	51.6	54.2	49.9	43.8	37.4
P/CEPS	38.4	41.9	38.2	33.5	29.1
P/B	10.3	12.3	10.6	8.9	7.4
EV/EBITDA	32.2	34.8	31.8	27.4	23.2
Leverage ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	(0.2)	(0.3)	-0.2	-0.3	-0.4
Net debt/EBITDA	(0.6)	(0.8)	-0.7	-1.1	-1.4
Int coverage	127.0	84.9	305.4	347.8	407.5
NWC days					
Receivables	20	18	18	18	18
Inventory	77	72	72	72	72
Payables	50	54	54	54	54

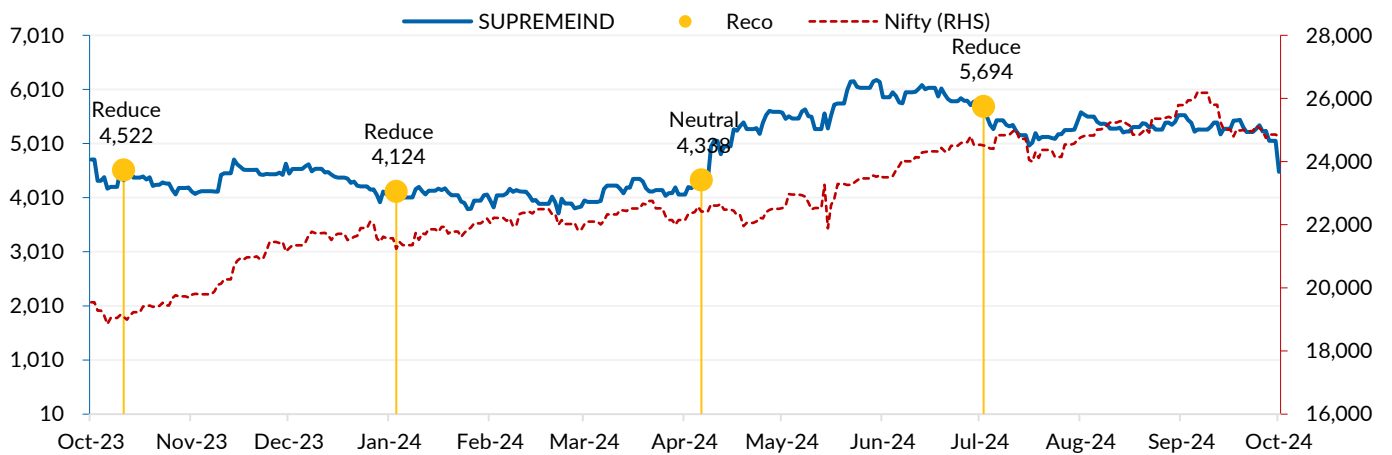
Source: Company, YES Sec

Exhibit 14: 1-year forward P/E (x) chart



Source: Company, YES Sec

Recommendation Tracker



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