

Retail Equity Research

Supreme Industries Ltd.

Plastic Products

BSE CODE : 509930 NSE CODE: SUPREMEIND
BLOOMBERG CODE: SI:IN SENSEX : 66,009

SELL

12 Months Investment Period Rating as per Mid Cap
CMP Rs.4,105 TARGET Rs.3,694 RETURN -10% ↓
(Closing: 22-09-23)

KEY CHANGES:

TARGET ↑

RATING ↔

EARNINGS ↔

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.

- SIL is currently trading at 1 year forward P/E of 48x which is significant premium valuation to its historical average of ~30x, which does not provide comfort.
- In Q1FY24, SIL's revenue grew modestly by 7% YoY, impacted by a 31% YoY drop in PVC prices.
- However, sales volume showed a robust YoY growth of 36%, driven by agri. Pipes sales.
- EBITDA exhibited strong growth, was up by 20% YoY, with EBITDA margins at 13.6%, led by ease in input prices.
- Despite this, flat net profit resulted from a 60% decline in share profit from an associate due to inventory loss.
- 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 23% over FY23-FY25E.
- Despite positive outlook, given sharp run-up in stock prices and premium valuation, we value SIL at a P/E of 36x on FY25E EPS and maintain a SELL rating with a target price of Rs. 3,694.

Volume growth strong...

In SIL's Q1FY24, sales volume grew by a robust 36% YoY, led by Plastic piping and consumer, which grew by 48% & 15%, respectively. Healthy demand from housing and agricultural pipes aided volumes. The industrial and packaging segments reported modest volumes of 5.5% & 4.0%, respectively. However, overall revenue growth was modest at 7.6% YoY, as PVC prices declined by 31% YoY impacting realisation. The blended realization for Q1 fell by 21% YoY. Given the steep decline in input prices, affordability has improved significantly, and management expects volume to grow by 15%-20% if polymer prices remain stable. Going ahead, we anticipate volume & revenue to grow by 15% & 13% CAGR over FY23-25E, respectively.

Ease in input cost to stabilize at ~15% during FY23-25E.

SIL's Q1FY24 gross margins improved by 360bps YoY to 30.1% due to a sharp fall in raw material prices. EBITDA grew by 20% YoY, and EBITDA margin expanded by 140bps YoY to 13.6%. PAT was flat YoY, as the share of profit from Supreme Petro, was down by 63% YoY, largely due to inventory losses. We anticipate steady improvement in margins going forward, driven by higher volumes and stable raw material prices. We expect profitability to grow by a 23% CAGR over FY23-25E.

Valuations

Going ahead, 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 48x), does not provide comfort. We value SIL at a P/E of 36x on FY25E EPS and maintain SELL rating with a target price of Rs. 3,694.

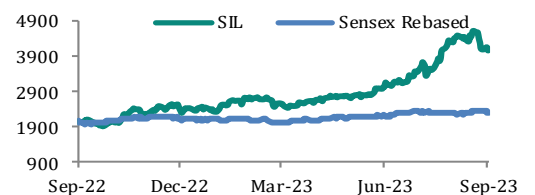
Company Data

Market Cap (cr)	Rs.52,145
Enterprise Value (cr)	Rs.51,446
Outstanding Shares (cr)	12.7
Free Float	51.2%
Dividend Yield	0.60%
52 week high	Rs.4,705
52 week low	Rs.1,906
6m average volume (cr)	0.01
Beta	0.8
Face value	Rs.2

Shareholding (%)	Q3FY23	Q4FY23	Q1FY24
Promoters	48.9	48.9	48.9
FII's	17.4	16.8	19.0
MFs/Institutions	18.5	18.1	17.1
Public	14.6	15.6	14.4
Others	0.6	0.6	0.6
Total	100.0	100.0	100.0
Promoter Pledge	Nil	Nil	Nil

Price Performance	3 Month	6 Month	1 Year
Absolute Return	32.3%	66.9%	97.7%
Absolute Sensex	4.8%	14.5%	11.7%
Relative Return*	27.4%	52.4%	86.0%

*over or under performance to benchmark index



Consolidated (cr)	FY23A	FY24E	FY25E
Sales	9,202	10,319	11,711
Growth (%)	18.4	12.1	13.5
EBITDA	1,200	1,529	1,815
EBITDA Margin (%)	13.0	14.8	15.5
PAT Adjusted	865	1,104	1,303
Growth (%)	(10.6)	27.6	18.0
Adjusted EPS	68.1	86.9	102.6
Growth (%)	(10.6)	27.6	18.0
P/E	60.3	47.2	40.0
P/B	11.8	9.6	7.8
EV/EBITDA	42.9	33.8	28.3
ROE (%)	21.0	22.4	21.4
D/E	0.0	0.0	0.0

ANIL R
Research Analyst

Quarterly Financials

Profit & Loss

Rs (cr)	Q1FY24	Q1FY23	YoY Growth (%)	Q4FY23	QoQ Growth (%)
Sales	2,369	2,206	7.4	2,598	(8.8)
EBITDA	322	269	19.6	480	(33.0)
EBITDA margins	13.6	12.2	+140bps	18.5	(490bps)
Depreciation	72	62	16.8	72	(0.1)
EBIT	250	207	20.4	408	(39.0)
Interest	2	2	3.7	4	(58.2)
Other Income	14	5	212.1	11	24.5
Exceptional Items	-	-	-	-	-
PBT	262	210	24.7	416	(37.0)
Tax	68	54	24.9	105	(35.5)
Share of profit from Associate	21	58	(63.2)	49	(56.6)
Other comprehensive income	-	-	-	-	-
Reported PAT	216	214	0.8	359	(40.0)
Adjustments	-	-	-	-	-
Adjusted PAT	216	214	0.8	359	(40.0)
No. of Shares	12.7	12.7	-	12.7	-
EPS (Rs)	17.0	16.8	0.8	28.3	(40.0)

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs.cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Revenue	6,355	7,773	9,202	10,319	11,711
% change	15.3	22.3	18.4	12.1	13.5
EBITDA	1,284	1,242	1,200	1,529	1,815
% change	53.9	(3.3)	(3.4)	27.5	18.7
Depreciation	213	230	263	300	349
EBIT	1,071	1,013	936	1,229	1,466
Interest	22	5	8	6	5
Other Income	17	20	30	36	50
PBT	1,066	1,027	958	1,259	1,511
% change	74.8	(3.6)	(6.8)	31.4	20.0
Tax	234	263	246	315	378
Tax Rate (%)	22.0%	25.6%	25.7%	25.0%	25.0%
Reported PAT	978	968	865	1,104	1,303
Adj*	-	-	-	-	-
Adj PAT	978	968	865	1,104	1,303
% change	109.3	(1.0)	(10.6)	27.6	18.0
No. of shares (cr)	12.7	12.7	12.7	12.7	12.7
Adj EPS (Rs.)	77.0	76.2	68.1	86.9	102.6
% change	109.3	-1.0	-10.6	27.6	18.0
DPS (Rs.)	5.0	3.8	3.8	3.8	3.8
CEPS (Rs.)	93.8	94.3	88.9	110.5	130.1

CASH FLOW

Y.E March (Rs.cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Net inc. + Depn.	1,191	1,198	1,129	1,404	1,653
Non-cash adj.	(142)	(250)	(178)	6	5
Changes in W.C	196	(494)	(78)	(620)	(214)
C.F. Operation	1,246	470	890	791	1,444
Capital exp.	(221)	(466)	(422)	(746)	(760)
Change in inv.	8	14	19	(280)	(280)
Other invest.CF	12	49	54	-	-
C.F - Investment	(201)	(403)	(349)	(1,026)	(1,040)
Issue of equity	-	-	-	-	-
Issue/repay debt	(410)	(1)	-	(10)	(10)
Dividends paid	(64)	(292)	(305)	(48)	(48)
Other finance.CF	(32)	(17)	(22)	(6)	(5)
C.F - Finance	(506)	(310)	(327)	(64)	(63)
Chg. in cash	540	(243)	215	(300)	341
Closing cash	762	519	738	438	779

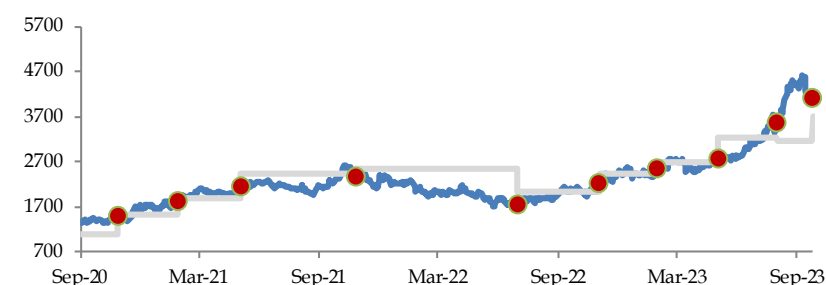
BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23A	FY24E	FY25E
Cash	762	519	738	438	779
Accounts Receivable	390	467	492	594	674
Inventories	761	1,260	1,386	1,635	1,784
Other Cur. Assets	268	351	353	636	754
Investments	337	476	577	857	1,137
Gross Fixed Assets	3,338	3,606	4,167	4,917	5,667
Net Fixed Assets	1,703	1,761	2,059	2,509	2,910
CWIP	51	155	84	80	90
Intangible Assets	11	8	5	5	5
Def. Tax (Net)	(92)	(90)	(91)	(91)	(91)
Other Assets	-	-	-	-	-
Total Assets	4,190	4,905	5,603	6,665	8,043
Current Liabilities	646	794	904	772	809
Provisions	30	32	35	74	83
Debt Funds	31	38	39	29	19
Other Liabilities	314	197	224	331	417
Equity Capital	25	25	25	25	25
Reserves & Surplus	3,144	3,819	4,377	5,433	6,689
Shareholder's Fund	3,169	3,844	4,402	5,459	6,714
Total Liabilities	4,190	4,905	5,603	6,665	8,043
BVPS (Rs.)	249	303	347	430	529

RATIOS

Y.E March	FY21A	FY22A	FY23A	FY24E	FY25E
Profitab. & Return					
EBITDA margin (%)	20.2	16.0	13.0	14.8	15.5
EBIT margin (%)	16.9	13.0	10.2	11.9	12.5
Net profit mgn.(%)	15.4	12.5	9.4	10.7	11.1
ROE (%)	36.0	27.6	21.0	22.4	21.4
ROCE (%)	33.7	27.5	20.9	22.3	21.4
W.C & Liquidity					
Receivables (days)	20.2	20.1	19.0	19.2	19.8
Inventory (days)	47.4	47.4	52.5	53.4	53.3
Payables (days)	53.9	49.1	47.0	42.5	35.5
Current ratio (x)	3.2	3.1	3.2	3.9	4.5
Quick ratio (x)	1.6	1.1	1.4	0.8	0.8
Turnover & Leverage					
Gross asset T.O (x)	2.0	2.2	2.4	2.3	2.2
Total asset T.O (x)	1.7	1.7	1.8	1.7	1.6
Int. coverage ratio (x)	48.6	196.6	116.7	190.1	304.9
Adj. debt/equity (x)	0.0	0.0	0.0	0.0	0.0
Valuation					
EV/Sales (x)	8.1	6.6	5.6	5.0	4.4
EV/EBITDA (x)	40.0	41.6	42.9	33.8	28.3
P/E (x)	53.3	53.8	60.3	47.2	40.0
P/BV (x)	16.5	13.6	11.8	9.6	7.8

Recommendation summary (Last 3 Years)



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

Source: Bloomberg, Geojit Research.

Investment Criteria

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

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.

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

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