

July 22, 2024

RESULT REPORT Q1 FY25 | Sector: Building Materials

Supreme Industries Ltd.

Growth to sustain but rich valuation limits upside, assign REDUCE!

Result Synopsis

Supreme Industries Ltd (SI), registered strong volume growth of 17%YoY (2-year CAGR stood at 26%) which was largely in-line with our expectations. Plastic pipe division volumes (81% of total volumes), increased by 20%YoY (2-year CAGR stood at 33%), driven by strong demand from agri-segment. Value-added products revenue stood at Rs9.25Bn, a growth of 22%YoY, constituting 35% of total revenue. Realizations came in at Rs151/Kg, which was lower Vs our estimates of Rs156/Kg owing to higher mix of agri-products. Moreover, we were expecting marginal benefit from higher PVC resin prices which were up by Rs13/Kg during the quarter. Consequently, EBITDA margins stood at 14.7% (below our estimate of 16.8%) as against 13.6%/16.3% in Q1FY24/Q4FY24 respectively. Hence, net profit stood at Rs2.36Bn, considerably below our estimate of Rs3.03Bn.

Management reiterated their annual guidance of 25%YoY plastic pipe volume growth & overall volume growth of 20%YoY which implies that plastic pipe volumes/total volumes should grow by 27%YoY/21%YoY respectively for coming 9MFY25. Furthermore, management maintained margin guidance of 15-15.5% for FY25E.

We have cut our plastic pipes volume growth expectation from 22% to 20% & thus the overall volume to 17% from 20% for FY25E and also revised our EBIT/Kg estimate of plastic pipes for FY25E/FY26E to Rs17.7/Rs17.9 from Rs19.6/Rs19.8 respectively, resulting into EPS downgrade of 7%/5% for FY25E/FY26E respectively. We expect total volumes to grow by 15%CAGR over FY24-FY26E wherein plastic pipe segment volumes are likely to increase by 17%CAGR over similar period, on account of healthy demand across Agri, Infra and plumbing segment. We have valued the company at P/E(x) of 45x on FY26E standalone EPS of Rs114.2 plus Rs282/share contribution from Supreme Petrochem Ltd (listed subsidiary), arriving at a target price of Rs5,422. Though we remain confident on company's growth, rich valuation limits further upside. Hence, we have assigned a REDUCE rating to the stock.

Result Highlights

- Overall volumes came in at 173,835Te (in-line with our est), a growth of 17%YoY. 2-year CAGR stood at 26%.
- Revenue stood at Rs26.36Bn (6% below est), a growth of 11%YoY & decline of 12.4%QoQ.
- EBITDA margins came in at 14.7% (est of 16.8%) Vs 13.6%/16.3% in Q1FY24/Q4FY24 respectively. Absolute EBITDA stood at Rs3.88Bn, a 21%YoY growth and decline of 21% on sequential basis.
- Net profit stood at Rs2.36Bn, a growth of 21.5%YoY & decline of 25%QoQ.

Exhibit 1: Actual vs estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	26,364	27,987	27,119	(5.8)	(2.8)	
EBITDA	3,876	4,691	4,231	(17.4)	(8.4)	
EBITDA Margin (%)	14.7	16.8	15.6	-206 bps	-90 bps	Below estimates.
Adjusted PAT	2,361	3,032	2,863	(22.1)	(17.5)	

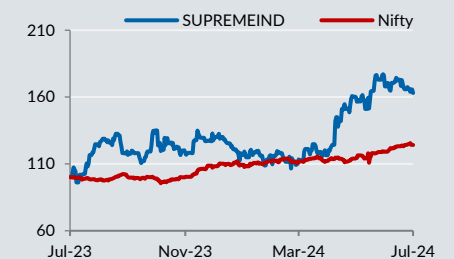
Source: Company, YES Sec

Reco	: REDUCE
CMP	: Rs 5,694
Target Price	: Rs 5,422
Potential Return	: -4.8%

Stock data (as on Jul 22, 2024)

Nifty	24,509
52 Week h/l (Rs)	6,460 / 3,182
Market cap (Rs/USD mn)	726,753 / 8,689
Outstanding Shares (mn)	127
6m Avg t/o (Rs mn):	956
Div yield (%):	0.5
Bloomberg code:	SI IN
NSE code:	SUPREMEIND

Stock performance



	1M	3M	1Y
Absolute return	-2.9%	35.4%	63.0%

Shareholding pattern (As of Jun'24 end)

Promoter	48.9%
FII+DII	36.5%
Others	14.6%

Δ in stance

(1-Yr)	New	Old
Rating	REDUCE	NEUTRAL
Target Price	5,422	5,050

Δ in earnings estimates

	FY25E	FY26E
EPS (New)	97.0	114.2
EPS (Old)	104.0	120.0
% change	-6.7%	-4.8%

Financial Summary (standalone)

(Rs mn)	FY24	FY25E	FY26E
Net Revenue	101,342	117,343	133,837
YoY Growth	10%	16%	14%
EBIDTA	15,485	18,871	21,579
EBIDTA (%)	15%	16%	16%
PAT	10,162	12,322	14,513
YoY Growth	33%	21%	18%
ROE	24%	25%	24%
EPS	80.0	97.0	114.2
P/E	54.2	58.7	49.8
BV/Share	354.1	431.6	525.8
P/BV	12.3	13.2	10.8

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Segmental Highlights for Q4FY24:

- **Plastic Pipes** (81% of total volumes & 70% of revenue)- Volumes stood at 140,153Te, growth of 20%YoY (2-year CAGR stood at 33%). ASP came in at Rs133 Vs Rs139/Rs136 in Q1FY24/Q4FY24 respectively. Revenue grew by 14%YoY to Rs18.58Bn. EBIT/Kg came in at Rs16.5 Vs Rs16.6/Rs18.4 in Q1FY24/Q4FY24 respectively.
- **Industrials**- Volumes stood at 14,963Te, a growth of 12%YoY & decline of 11%QoQ (2-year CAGR stood at 8%). ASP came in at Rs205 Vs Rs223/Rs208 in Q1FY24/Q4FY24 respectively. Revenue stood at Rs3.06Bn, a growth of 3%YoY & degrew 13%QoQ. EBIT/Kg stood at Rs13 as compared to Rs14/Rs23 in Q1FY24/Q4FY24 respectively.
- **Packaging**- Volumes stood at 14,717Te, an 8%YoY growth & remained flattish QoQ. (2-year CAGR stood at 7%). ASP came in at Rs250 Vs Rs238/Rs250 in Q1FY24/Q4FY24 respectively. Revenue increased by 14%YoY and remained flat on sequential basis. EBIT/kg stood at Rs29 Vs Rs19/Rs45 in Q1FY24/Q4FY24 respectively.
- **Consumer**- Volumes degrew by 7%YoY & 14%QoQ to 4,002Te (2-year CAGR stood at 4%). ASP came in at Rs243 Vs Rs244/Rs254 in Q1FY24/Q4FY24 respectively. Revenue declined by 7%YoY & 18%QoQ. EBIT/Kg came in at Rs40 Vs Rs41/Rs44 in Q1FY24/Q4FY24 respectively.

Other Notable Highlights:

- Value added products revenue for Q1FY25 stood at Rs9.25Bn Vs Rs7.56Bn in Q1FY24.
- Cash surplus as on June'24 stood at Rs12.45Bn.
- Company has committed a capex of Rs15Bn for next fiscal including carryforward commitment, and the said capex will be funded via internal accruals.
- Company has been allotted land at Malanpur (M.P.) for a new unit to expand its pipe & fitting capacities, additional land at Jadcherla (Telangana) for further expansion and completed the purchase of contiguous land to existing plant at Sangli (Maharashtra).
- With the completion of all the expansion plans undertaken, except the green field sites, installed capacities of the Piping System division shall reach to 835,000Te per annum in FY25E from 740,000Te as on March'2024.
- Number of showrooms for company's furniture segment has increased from 308 as on March'2024 to 319 as on June'2024.
- Company has placed equipment orders for making Windows at its new site at Kanpur Dehat and at its existing factory at Kharagpur and expects to supply Windows from these two sites in H1FY26E.

Exhibit 2: Quarterly Snapshot:

Rs mn	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Revenue	25,982	23,685	23,087	24,491	30,079	26,364	11.3	(12.4)
Expenditure	21,177	20,468	19,522	20,698	25,169	22,487	9.9	(10.7)
- RM	17,284	16,560	15,357	16,405	20,262	17,958	8.4	(11.4)
- Staff Cost	993	1,030	1,056	1,096	1,228	1,210	17.5	(1.5)
- Power Cost	745	793	781	851	863	866	9.2	0.3
- Other Cost	2,155	2,086	2,328	2,346	2,816	2,454	17.7	(12.9)
Operating Profit	4,805	3,217	3,565	3,793	4,910	3,876	20.5	(21.1)
OPM(%)	18.5	13.6	15.4	15.5	16.3	14.7	112.0	(162.1)
Other Income	114	142	532	323	181	214	51.0	18.4
Depreciation	721	721	719	772	772	860	19.4	11.5
Interest	40	17	15	52	77	33	97.0	(56.9)
PBT	4,158	2,622	3,363	3,292	4,242	3,197	21.9	(24.6)
Tax	1,052	678	763	818	1,097	836	23.2	(23.8)
PAT	3,106	1,944	2,600	2,474	3,145	2,361	21.5	(24.9)
OCI	(21)	(7)	(7)	(7)	(46)	(17)	138.0	(63.5)
Reported PAT	3,084	1,937	2,593	2,467	3,099	2,345	21.1	(24.3)

Source: Company, YES Sec

Exhibit 3: Operational Numbers:

Particulars	Q4 FY23	Q1 FY24	Q2 FY24	Q3 FY24	Q4 FY24	Q1 FY25	% yoy	% qoq
Volumes (Te)								
Plastic pipe	112,293	117,274	102,929	122,003	158,795	140,153	19.5	(11.7)
Packaging	13,532	13,568	14,890	14,998	15,051	14,717	8.5	(2.2)
Industrial	16,508	13,409	15,425	16,231	16,871	14,963	11.6	(11.3)
Consumer	5,081	4,293	4,519	4,793	4,652	4,002	(6.8)	(14.0)
Revenue (Rs mn)								
Plastic pipe	17,708	16,261	15,093	16,437	21,530	18,584	14.3	(13.7)
Packaging	3,231	3,231	3,522	3,540	3,760	3,681	13.9	(2.1)
Industrial	3,687	2,985	3,258	3,320	3,520	3,064	2.6	(13.0)
Consumer	1,211	1,049	1,054	1,123	1,180	972	(7.4)	(17.6)
EBIT%								
Plastic pipe	18.6%	11.9%	13.3%	13.0%	13.6%	12.4%	51 bps	(114) bps
Packaging	7.7%	7.9%	13.6%	13.1%	18.0%	11.4%	355 bps	(659) bps
Industrial	10.0%	6.3%	7.7%	8.9%	11.2%	6.4%	5 bps	(486) bps
Consumer	17.8%	16.9%	16.6%	17.4%	17.4%	16.5%	(35) bps	(84) bps

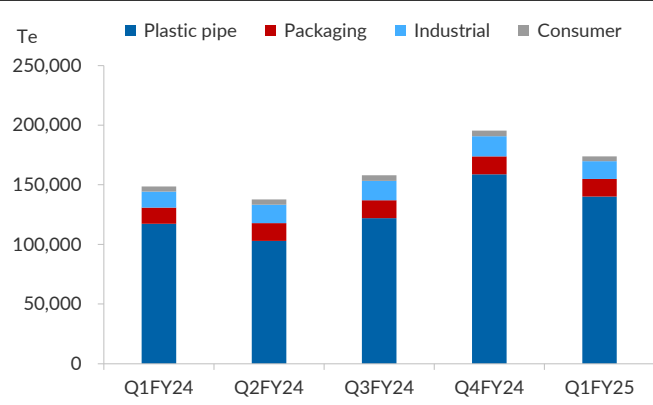
Source: Company, YES Sec

KEY CON-CALL HIGHLIGHTS

- Management maintained their volume growth guidance of 20%YoY and plastic pipe volume growth of 25%YoY for FY25E. Over similar period, industry is expected to grow by 12-15%.
- On margins, management reiterated their guidance of 15-15.5%.
- Beyond FY25E, on long-term basis, company aims to grow by 12-15%.
- Management stated that rapid rise in PVC resin prices restricted the volume growth. Demand in June end and July continues to remain soft.
- Share of value-added products should grow to ~38% from current ~35%.
- There were no inventory gains in Q1FY25. Company mentioned that higher freight cost led to escalation in resin prices however, the prices are likely to contract with lower freight cost. PVC resin prices have started to decline from 2nd week of July'25.
- Margins during Q1FY25 were lower due to change in product-mix which was skewed towards commodity products & SKUs.
- During the quarter, there was no major contribution from Nal Se Jal. However, post Budget, company expects works to regain traction from Sept'25 onwards.
- CPVC volumes during Q1FY25 increased by 40%YoY.
- Management has committed Rs15Bn capex for FY25E.
- Post all capex in FY25E, total capacities by end of FY26E will be 1.25MnTe of which 1MnTe will be for plastic pipes.

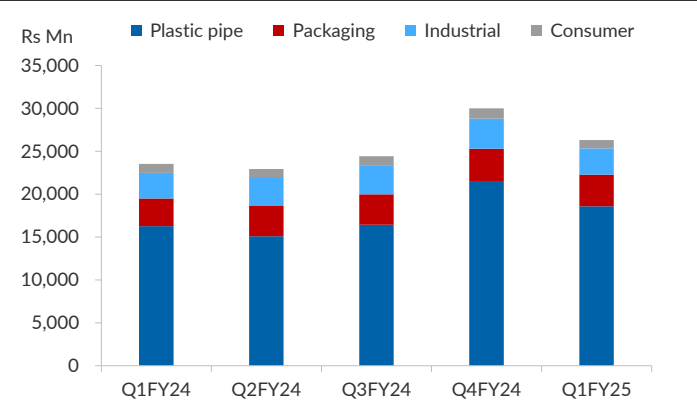
QUARTERLY TRENDS

Exhibit 4: Total Volume increased by 17%YoY...



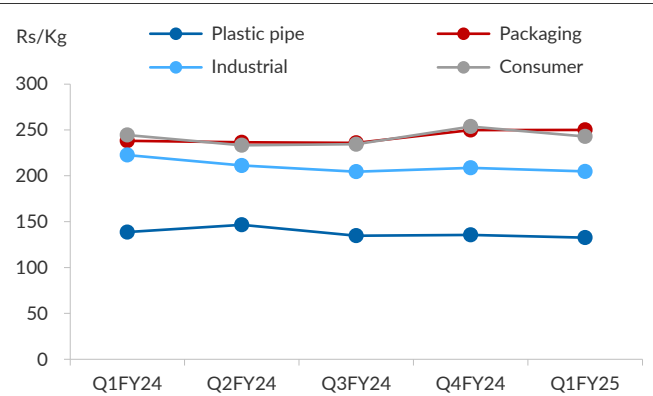
Source: Company, YES Sec

Exhibit 5: Plastic Pipes Revenue improved by 14%YoY...



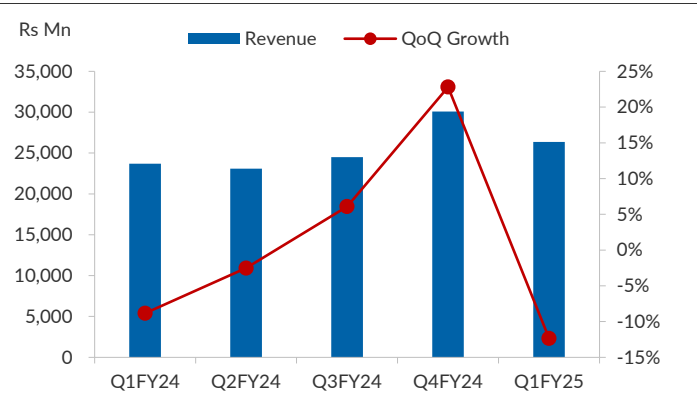
Source: Company, YES Sec

Exhibit 6: Pipes ASP declined to Rs133/kg ...



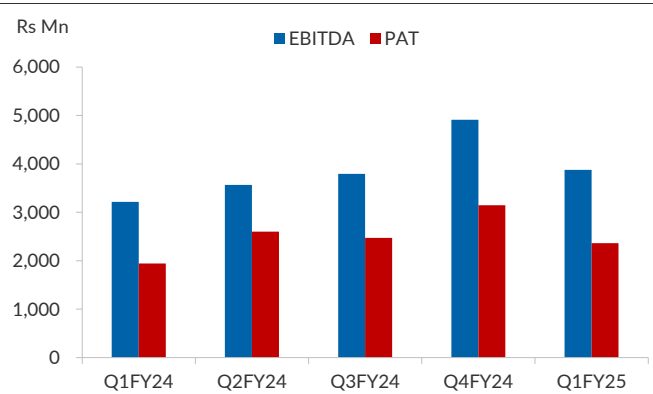
Source: Company, YES Sec

Exhibit 7: Net Revenue grew by 11%YoY...



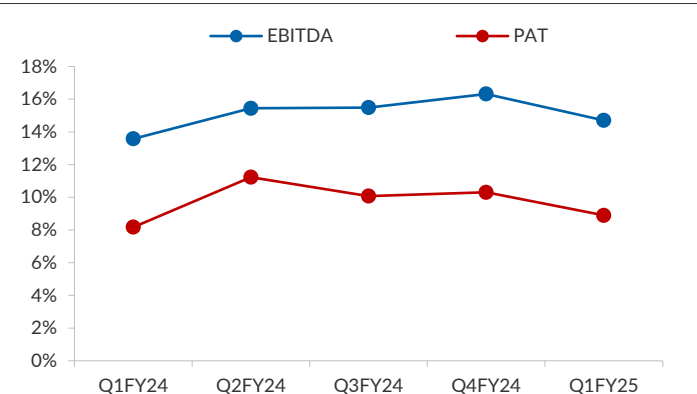
Source: Company, YES Sec

Exhibit 8: Operating Profit increased by 20%YoY...



Source: Company, YES Sec

Exhibit 9: OPM & NPM came in at 15% & 9%...



Source: Company, YES Sec

FINANCIALS

Exhibit 10: Income Statement (standalone)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Revenues	77,724	92,015	101,342	117,343	133,837
Growth (%)	22.3%	18.4%	10.1%	15.8%	14.1%
EBITDA	12,422	12,000	15,485	18,871	21,579
EBITDA margin (%)	16.0%	13.0%	15.3%	16.1%	16.1%
Growth (%)	-3.3%	-3.4%	29.0%	21.9%	14.3%
Depreciation & Amortization	2,295	2,634	2,984	3,988	4,585
Other income	677	819	1,178	1,597	2,407
EBIT	10,804	10,185	13,679	16,480	19,401
EBIT margin (%)	13.9%	11.1%	13.5%	14.0%	14.5%
Interest	52	80	161	50	50
PBT	10,752	10,104	13,518	16,430	19,351
Tax	2,633	2,460	3,357	4,107	4,838
Net profit	8,119	7,645	10,162	12,322	14,513
Net profit margin (%)	10.4%	8.3%	10.0%	10.5%	10.8%
EPS	63.9	60.2	80.0	97.0	114.2
Growth (%)	1.3%	-5.8%	32.9%	21.3%	17.8%

Source: Company, YES Sec

Exhibit 11: Balance Sheet (standalone)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
Equity Share Capital	254	254	254	254	254
Reserves	33,625	38,194	44,731	54,580	66,552
Total Shareholders' Funds	33,879	38,448	44,985	54,834	66,806
Deferred Tax liabilities	904	908	960	960	960
Trade payables	7,951	9,047	10,153	11,542	13,013
Other financial liabilities	1,344	1,244	1,433	1,433	1,433
Total equity and liabilities	45,404	51,376	59,449	70,687	84,131
Non-current assets					
PPE	16,821	19,764	21,801	27,813	28,228
CWIP	1,546	837	1,437	1,437	1,437
Current assets					
Inventories	12,602	13,856	13,586	15,444	17,413
Trade receivables	4,668	4,918	5,111	5,918	6,750
Cash and cash equivalents	5,249	7,452	11,862	14,423	24,651
Loans and advances	40	19	25	25	25
Other current assets	1,817	2,416	2,261	2,261	2,261
Total assets	45,404	51,376	59,449	70,687	84,131

Source: Company, YES Sec

Exhibit 12: Cash Flow (standalone)

Y/e 31 Mar (Rs mn)	FY22	FY23	FY24	FY25E	FY26E
PBT	10,752	10,104	13,518	16,498	19,351
Depreciation & Amortization	2,295	2,634	2,984	3,988	4,585
Finance cost	51	80	161	50	50
(Incr)/Decr in Working Capital	(4,932)	(770)	1,789	(1,277)	(1,329)
Taxes	(2,868)	(2,375)	(3,232)	(4,107)	(4,838)
Cash from ops.	4,710	8,914	14,128	15,152	17,819
(Incr)/ Decr in PP&E	(4,661)	(4,214)	(6,855)	(10,000)	(5,000)
Cash Flow from Investing	(4,035)	(3,489)	(6,085)	(10,000)	(5,000)
(Decr)/Incr in Borrowings	(11)	0	0	0	0
Finance cost	(10)	(15)	(39)	(50)	(50)
Dividend	(2,922)	(3,049)	(3,557)	(2,541)	(2,541)
Cash Flow from Financing	(3,103)	(3,270)	(3,817)	(2,591)	(2,591)
Incr/(Decr) in cash	(2,428)	2,156	4,226	2,561	10,228
Cash and cash equivalents at beginning of year	7,594	5,175	7,377	11,862	14,423
Cash and cash equivalents at end of year	5,175	7,377	11,782	14,423	24,651

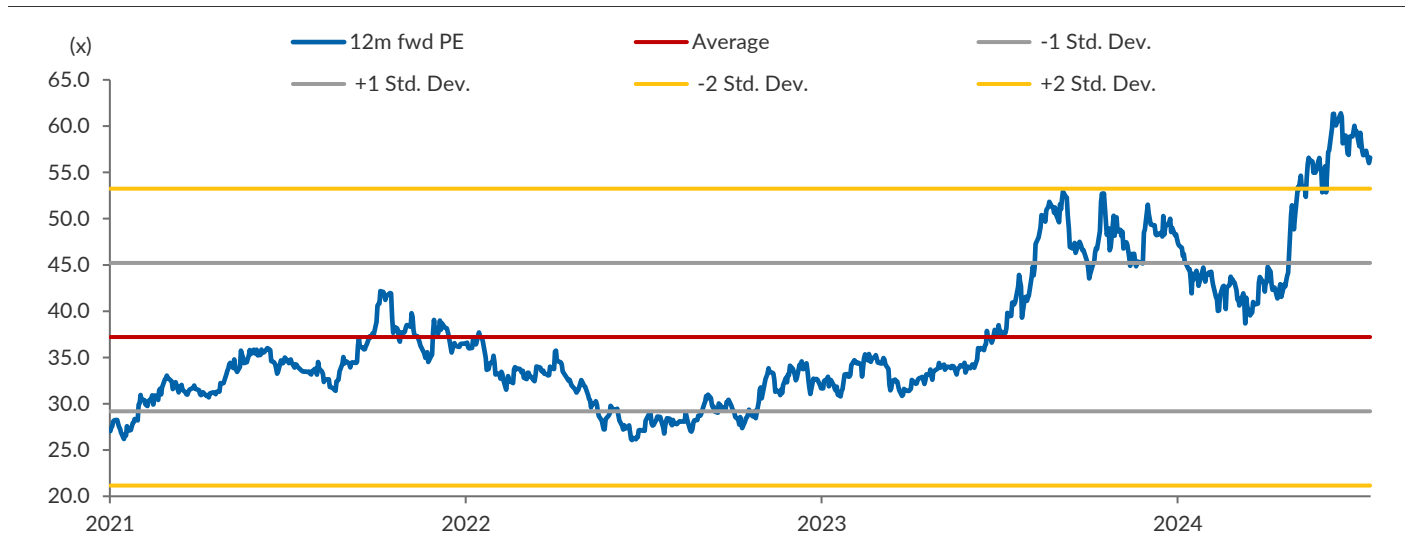
Source: Company, YES Sec

Exhibit 13: Ratios (standalone)

Key Ratios	FY22	FY23	FY24	FY25E	FY26E
Growth Matrix (%)					
Revenue growth	22.3%	18.4%	10.1%	15.8%	14.1%
EBITDA growth	-3.3%	-3.4%	29.0%	21.9%	14.3%
EBIT growth	-1.8%	-5.7%	34.3%	20.5%	17.7%
PAT growth	1.3%	-5.8%	32.9%	21.3%	17.8%
Profitability ratios (%)					
EBITDA margin	16.0%	13.0%	15.3%	16.1%	16.1%
EBIT margin	13.9%	11.1%	13.5%	14.0%	14.5%
PAT margin	10.4%	8.3%	10.0%	10.5%	10.8%
RoCE	33.0%	27.0%	31.5%	31.9%	31.0%
RoE	26.0%	21.1%	24.4%	24.7%	23.9%
Per share values					
EPS	63.9	60.2	80.0	97.0	114.2
CEPS	82.0	80.9	103.5	128.4	150.3
BVPS	266.7	302.6	354.1	431.6	525.8
Valuation ratios (x)					
P/E	31.5	51.6	54.2	58.7	49.8
P/CEPS	24.5	38.4	41.9	44.4	37.9
P/B	7.5	10.3	12.3	13.2	10.8
EV/EBITDA	20.1	32.2	34.8	37.6	32.4
Leverage ratios (x)					
Debt/ Equity	0.0	0.0	0.0	0.0	0.0
Net debt/Equity	(0.2)	(0.2)	(0.3)	(0.3)	(0.4)
Net debt/EBITDA	(0.4)	(0.6)	(0.8)	(0.8)	(1.1)
Int coverage	209.8	127.0	84.9	329.6	388.0
NWC days					
Receivables	22	20	18	18	18
Inventory	86	77	72	72	72
Payables	54	50	54	54	54

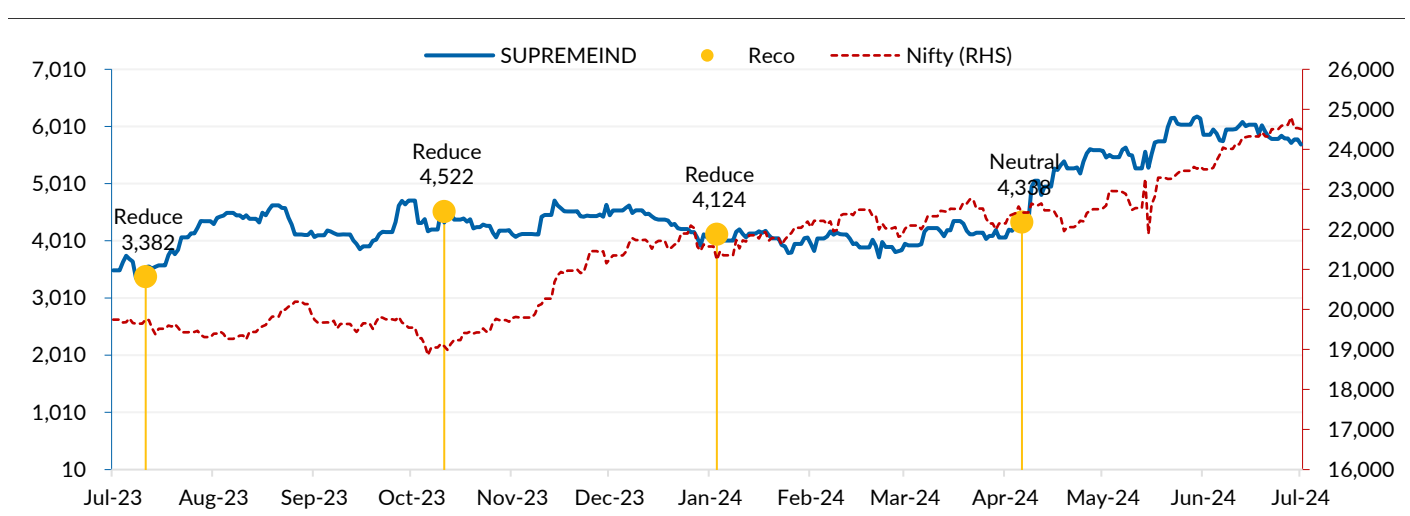
Source: Company, YES Sec

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



Source: Company, YES Sec

Recommendation Tracker



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