

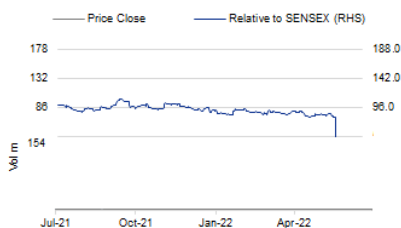
India

ADD (no change)

| | |
|--|------------|
| Consensus ratings*: Buy 23 Hold 3 Sell 2 | |
| Current price: | Rs1,782 |
| Target price: | Rs2,206 |
| Previous target: | Rs2,484 |
| Up/downside: | 23.8% |
| InCred Research / Consensus: | -3.1% |
| Reuters: | |
| Bloomberg: | SI IN |
| Market cap: | US\$3,118m |
| | Rs226,394m |
| Average daily turnover: | US\$2.4m |
| | Rs174.2m |
| Current shares o/s: | 127.0m |
| Free float: | 51.2% |
| *Source: Bloomberg | |

Key changes in this note

- FY23F/24F revenue cut by 15%/13%.
- FY23F/24F EBITDA cut by 21%/12%.
- FY23F/24F APAT cut by 17%/11%.



Source: Bloomberg

| | | | |
|--------------------------|-----|-------|--------|
| Price performance | 1M | 3M | 12M |
| Absolute (%) | 4.5 | (8.0) | (15.0) |
| Relative (%) | 0.5 | (5.4) | (19.1) |

| | |
|------------------------------|--------|
| Major shareholders | % held |
| Promoters | 48.9 |
| Nalanda India Fund | 4.8 |
| Kotak Emerging Equity Scheme | 3.1 |

Analyst(s)



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Supreme Industries

Volume & margin may improve going ahead

- PVC prices have corrected 35% between Apr-Jul 2022. As a result, channel destocking impacted 1Q volume while inventory losses led to lower margins.
- SIL's focus is on capacity creation, higher-margin products, increasing exports and improving its pan-India reach. Lower PVC prices to aid demand.
- Intense input price volatility led to lower sale volume and depressed margins. We expect a better 2HFY23F. Retain Add rating with a lower TP of Rs2,206.

Falling PVC prices led to lower-than-expected volume and margin

While 1QFY23 revenue met our expectations, EBITDA/PAT missed our estimates by 18%/10%, respectively. Revenue grew to Rs22bn, +64% yoy, while EBITDA/PAT was at Rs2.7bn/Rs2.1bn, +21%/+26% yoy, respectively, albeit on a very low base quarter. Total sale volume was at 108.9kt, +53% yoy, and 9% lower than estimated 120kt. Plastic pipe sale volume was at 79.4kt, +65% yoy. On a 3-year CAGR basis (1QFY20-1QFY23), total volume and pipe volume fell 1% and 2%, respectively. Overall EBITDA/t was at Rs24,688, down 22% yoy and 19% qoq. In plastic pipes, EBIT/t was at Rs19,441, down 34% yoy and 28% qoq. Indian PVC prices corrected 22% from Rs146/kg to Rs113/kg between Apr-Jun 2022. They fell further by 16% to Rs95/kg so far in Jul 2022. Steep price fall led to channel destocking and inventory loss, hitting volume and EBITDA margin performance in 1QFY23.

Focus is on pan-India reach, capacity creation and better sales mix

Supreme Industries Ltd. or SIL plans to add ~75kt of new capacity across its three plants located in Guwahati (started production in 1Q), Cuttack and Erode in FY23F. Most new product launches have higher value addition and are likely to post EBITDA margin of 17%+. In packaging products, fierce competition from look-alike tarpaulin products led SIL to focus on non-tarpaulin products in existing/new markets. In industrial products, demand outlook for automobile and large appliances is positive while composite LPG cylinder capacity is fully sold out. SIL will double its cylinder capacity to 1m units/year by Nov 2022F. SIL gave overall volume growth guidance of 15% yoy and EBITDA margin of 15% for FY23F.

Change in estimates

We incorporate current PVC prices, weak 1QFY23 and modify realization and EBITDA/t estimates accordingly across segments. We have cut revenue/EBITDA/PAT by 15%/21%/17% for FY23F and 13%/12%/11% for FY24F, respectively. We estimate revenue/EBITDA/PAT CAGR of 9%/10%/16%, respectively, over FY20-24F. We estimate cumulative FCF of Rs14bn in FY23F-24F.

Valuation and risks

SIL trades at P/E and EV/E of 27x and 18x FY24F estimates, respectively. PVC prices should stabilize in 2HFY23F and aid higher volume and EBITDA margin. Retain Add rating with a lower target price of Rs2,206 (from Rs2,484 earlier) based on a P/E of 33x FY24F EPS. Downside risks: Extreme volatility in PVC prices and delay in government spending.

Financial Summary

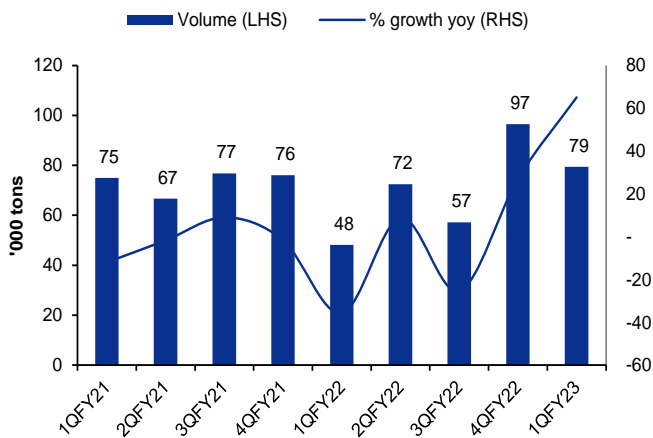
| | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|-----------------------------------|---------|---------|---------|---------|---------|
| Revenue (Rsm) | 55,115 | 63,571 | 77,728 | 73,957 | 79,118 |
| Operating EBITDA (Rsm) | 8,346 | 12,843 | 12,421 | 10,317 | 12,066 |
| Net Profit (Rsm) | 4,674 | 9,771 | 9,685 | 7,975 | 8,492 |
| Core EPS (Rs) | 36.8 | 76.9 | 76.2 | 62.8 | 66.9 |
| Core EPS Growth | 22.5% | 109.0% | (0.9%) | (17.7%) | 6.5% |
| FD Core P/E (x) | 48.44 | 23.17 | 23.38 | 28.39 | 26.66 |
| DPS (Rs) | 14.0 | 22.0 | 24.0 | 25.0 | 27.0 |
| Dividend Yield | 0.95% | 1.23% | 1.35% | 1.40% | 1.52% |
| EV/EBITDA (x) | 27.34 | 17.03 | 17.80 | 21.15 | 17.67 |
| P/FCFE (x) | 40.64 | 35.56 | 343.59 | 40.14 | 28.33 |
| Net Gearing | 7.9% | (24.2%) | (13.7%) | (18.9%) | (27.3%) |
| P/BV (x) | 10.01 | 7.14 | 5.89 | 5.24 | 4.69 |
| ROE | 21.2% | 36.0% | 27.6% | 19.5% | 18.6% |
| % Change In Core EPS Estimates | | | | | |
| InCred Research/Consensus EPS (x) | | | | | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

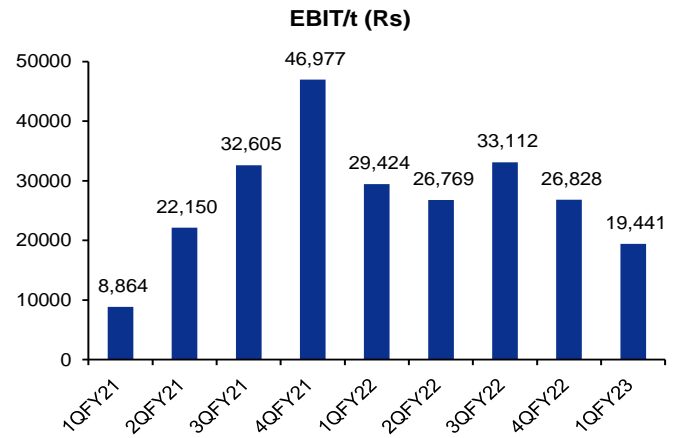
1QFY23 earnings-call highlights

- **Market share and revenue:** SIL's revenue grew 64% yoy to Rs22.1bn. The revenue growth was led by volume growth across segments - 65% yoy in plastic piping products, 36% yoy in industrial products, 12% in packaging products and 77% in consumer products. SIL commands a market share of ~15% in the organized plastic pipe segment.
- **New products:** SIL has done many successful product launches in the last four-to-five years. During 1QFY23, the company also launched many new products in the plastic piping segment, material handling segment and protective packaging products namely, brass compression fittings, electrofusion fittings, PP compression fittings, injection moulded fittings, blow-moulded tanks, and bath fittings (Aquakraft), 40-45 litre dustbins, etc. Each of these new products has the potential to clock over Rs1bn of sales annually.
- **Plastic pipe industry update:** The PVC pipe market size is estimated at Rs 400bn and SIL expects a 10-12% revenue CAGR in the pipe segment. In the CPVC segment, the company commands a market share of around ~20% and revenue grew in double digits during 1QFY23.
- **Guidance:** Management gave guidance of 15% volume growth in FY23F yoy and expects EBITDA margin to be around 15%. Plastic pipes are expected to grow over 15% yoy in terms of sales volume in FY23F. Due to the fall in PVC prices in Jul 2022, the company expects inventory losses in 2QFY23F.
- **Value-added product or VAP sales:** Revenue from VAP stood at Rs7.6bn, +47.5% yoy, ~35% of total revenue in 1QFY23.
- **Softening of raw material prices:** The prices of different polymers, particularly polypropylene (PP), low density polyethylene (LDPE) and poly vinyl chloride (PVC) have declined between Rs19/kg to Rs46/kg year-to-date i.e., a reduction between 13% to 32%. Due to falling prices of PVC, there have been inventory losses and channel destocking. The company expects channel restocking once PVC prices stabilize (from Sep 2022F).
- **PVC imports from China:** Due to local construction slowdown in China and removal of ADD (anti-dumping duty) from Feb 2022, India has seen a meaningful increase in PVC resin imports from China. China accounts for ~50% of ~45mt of global PVC resin capacity. Monthly imports from China into India stood at 80-90kt during 1QFY23.
- **Capex:** SIL gave capex guidance of Rs7bn for FY23F and thereafter Rs5bn annually on an average over the next three-to-five years. Trial run of the plastic piping products plant at Guwahati (Assam) has been completed and it has commenced commercial production from 1 Jul 2022. The company needs to enhance its capacity in the packaging segment as it is optimally utilizing it as on date.
- **Cash surplus:** SIL had net cash balance of Rs5.33bn at the end of Jun 2022 (vs. Rs5.18bn qoq).

Figure 1: Plastic pipes

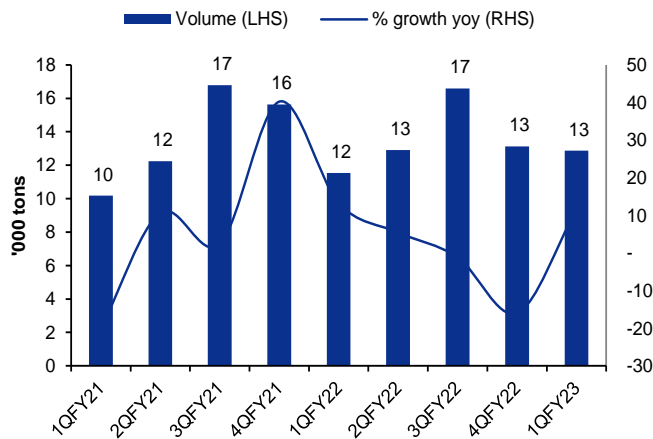


SOURCE: INCRED RESEARCH, COMPANY REPORTS

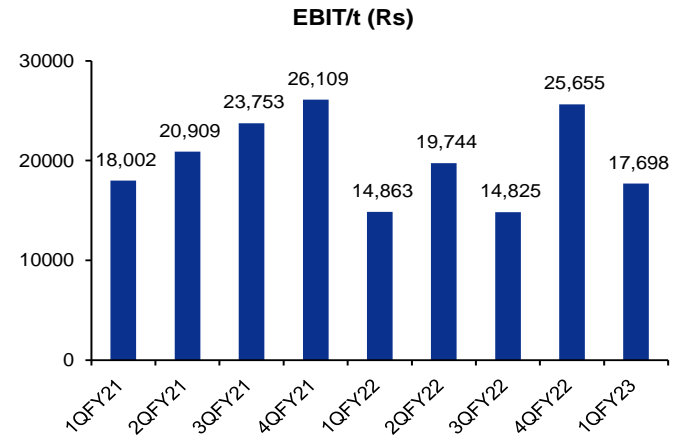


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Packaging products

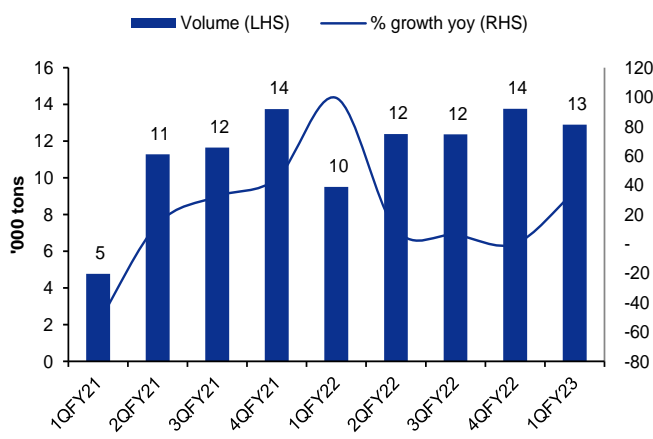


SOURCE: INCRED RESEARCH, COMPANY REPORTS

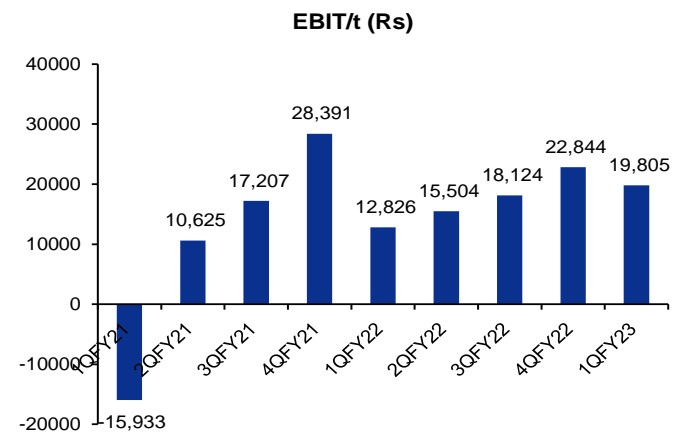


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Industrial products

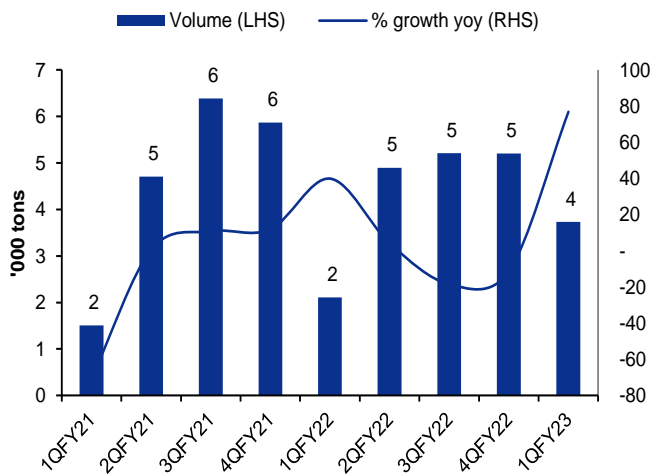


SOURCE: INCRED RESEARCH, COMPANY REPORTS

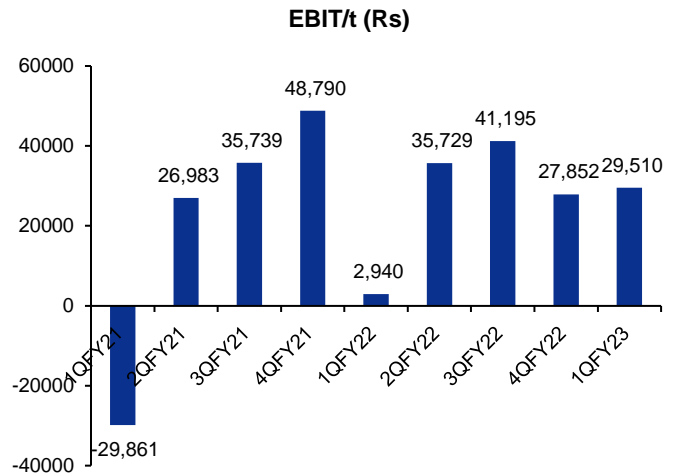


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consumer products

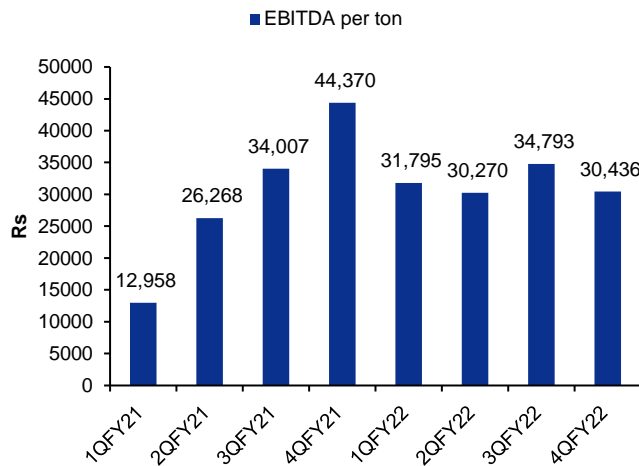


SOURCE: INCRED RESEARCH, COMPANY REPORTS



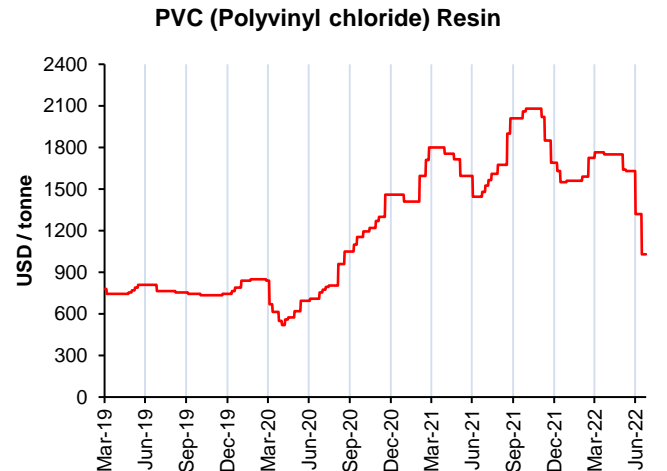
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: EBITDA/t (company-level)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: PVC resin prices



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 7: 1QFY23 results snapshot

| YE Mar (Rs m) | 1QFY23 | 1QFY22 | yoy (%) | 4QFY22 | qoq (%) |
|-------------------|--------|--------|---------|--------|---------|
| Revenue | 22,060 | 13,421 | 64.4 | 25,571 | (13.7) |
| EBITDA | 2,689 | 2,220 | 21.1 | 3,914 | (31.3) |
| EBITDA margin (%) | 12.2 | 16.5 | -435 bp | 15.3 | -312 bp |
| Adj. PAT | 2,139 | 1,702 | 25.7 | 3,239 | (34.0) |
| Diluted EPS (Rs) | 16.8 | 13.4 | | 25.5 | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 1QFY23 segment-wise results snapshot

| | 1QFY23 | 1QFY22 | yoy (%) | 4QFY22 | qoq (%) |
|------------------------|---------------|---------------|----------|---------------|---------|
| Revenue (Rs m) | | | | | |
| Plastic pipe | 14,633 | 8,311 | 76.1 | 17,997 | (18.7) |
| Packaging product | 3,263 | 2,441 | 33.7 | 3,190 | 2.3 |
| Industrial product | 3,023 | 1,989 | 52.0 | 3,003 | 0.7 |
| Consumer product | 958 | 485 | 97.6 | 1,180 | (18.8) |
| Others | 183 | 195 | (6.4) | 201 | (9.1) |
| Total | 22,060 | 13,421 | | 25,571 | |
| EBIT (Rs m) | | | | | |
| Plastic pipe | 1,544 | 1,416 | 9.1 | 2,589 | (40.4) |
| Packaging product | 228 | 171 | 32.8 | 337 | (32.4) |
| Industrial product | 256 | 122 | 109.4 | 314 | (18.7) |
| Consumer product | 110 | 6 | 1,675.8 | 145 | (24.1) |
| Others | -5 | -6 | (3.6) | 10 | (152.4) |
| Total | 2,132 | 1,710 | | 3,396 | |
| EBIT margin (%) | | | | | |
| Plastic pipe | 10.6 | 17.0 | -648 bp | 14.4 | -383 bp |
| Packaging product | 7.0 | 7.0 | -4 bp | 10.6 | -358 bp |
| Industrial product | 8.5 | 6.1 | 232 bp | 10.5 | -202 bp |
| Consumer product | 11.5 | 1.3 | 1,022 bp | 12.3 | -79 bp |
| Others | -3.0 | -2.9 | -9 bp | 5.1 | -808 bp |
| Total | 9.7 | 12.7 | | 13.3 | |

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: Actuals vs. our estimates

| Rs m | 1QFY23A | 1QFY23F | Var (%) |
|-------------------|---------|---------|---------|
| Revenue | 22,060 | 22,322 | (1.2) |
| EBITDA | 2,689 | 3,285 | (18.1) |
| EBITDA margin (%) | 12.2 | 14.7 | -253 bp |
| Adj. PAT | 2,139 | 2,365 | (9.6) |

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. Bloomberg consensus

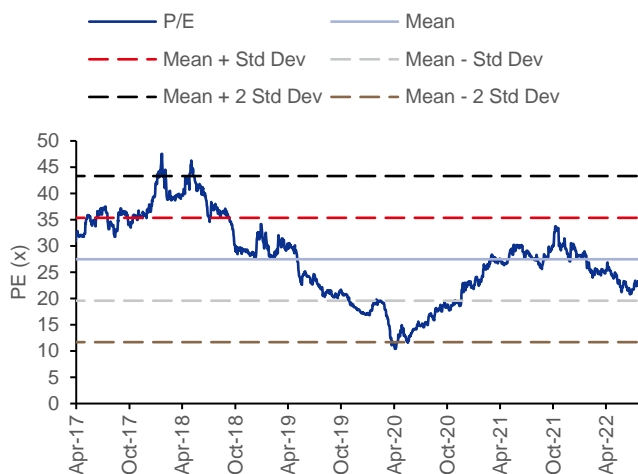
| Rs m | 1QFY23A | 1QFY23C | Var (%) |
|-------------------|---------|---------|---------|
| Revenue | 22,060 | 19,762 | 11.6 |
| EBITDA | 2,689 | 2,755 | (2.4) |
| EBITDA margin (%) | 12.2 | 13.9 | -175 bp |
| Adj. PAT | 2,139 | 2,181 | (1.9) |

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

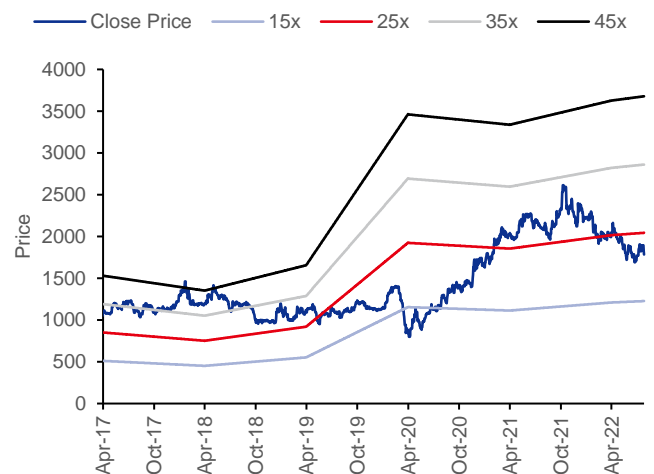
Figure 11: Revision in our earnings estimates

| | New estimates | | Old estimates | | Change (%) | |
|-----------------------------|---------------|--------------|---------------|--------------|--------------|--------------|
| | FY23F | FY24F | FY23F | FY24F | FY23F | FY24F |
| Revenue | 73,957 | 79,118 | 87,138 | 91,366 | -15.1 | -13.4 |
| EBITDA | 10,317 | 12,066 | 13,109 | 13,699 | -21.3 | -11.9 |
| Adjusted consol. PAT | 7,975 | 8,492 | 9,570 | 9,561 | -16.7 | -11.2 |
| EPS | 62.8 | 66.9 | 75.3 | 75.3 | -16.7 | -11.2 |
| EBITDA margin (%) | 14.0 | 15.3 | 15.0 | 15.0 | -109 bp | 26 bp |

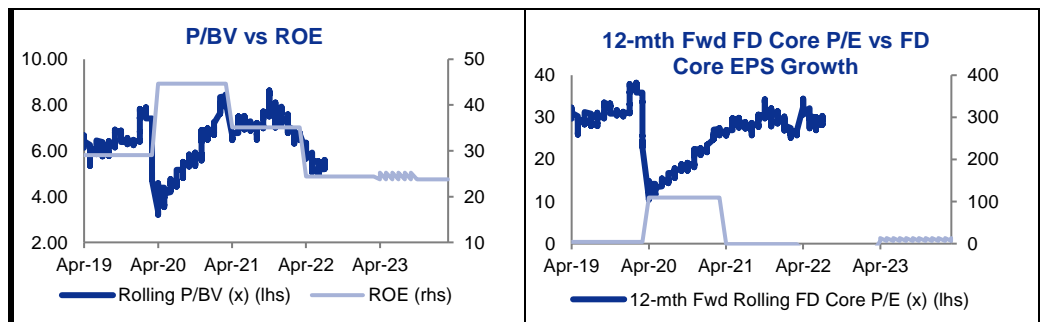
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 12: P/E SD (five-year mean P/E)


SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 13: P/E band


SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS

Profit & Loss

| (Rs mn) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|---|---------------|---------------|---------------|---------------|---------------|
| Total Net Revenues | 55,115 | 63,571 | 77,728 | 73,957 | 79,118 |
| Gross Profit | 19,333 | 23,186 | 24,197 | 22,890 | 25,713 |
| Operating EBITDA | 8,346 | 12,843 | 12,421 | 10,317 | 12,066 |
| Depreciation And Amortisation | (2,057) | (2,128) | (2,295) | (2,634) | (2,987) |
| Operating EBIT | 6,289 | 10,715 | 10,126 | 7,683 | 9,079 |
| Financial Income/(Expense) | (228) | (193) | (42) | 84 | 215 |
| Pretax Income/(Loss) from Assoc. | 312 | 1,460 | 2,044 | 2,090 | 1,463 |
| Non-Operating Income/(Expense) | 40 | 130 | 190 | 100 | 105 |
| Profit Before Tax (pre-EI) | 6,413 | 12,112 | 12,318 | 9,957 | 10,861 |
| Exceptional Items | | | | | |
| Pre-tax Profit | 6,413 | 12,112 | 12,318 | 9,957 | 10,861 |
| Taxation | (1,739) | (2,341) | (2,633) | (1,983) | (2,368) |
| Exceptional Income - post-tax | | | | | |
| Profit After Tax | 4,674 | 9,771 | 9,685 | 7,975 | 8,492 |
| Minority Interests | | | | | |
| Preferred Dividends | | | | | |
| FX Gain/(Loss) - post tax | | | | | |
| Other Adjustments - post-tax | | | | | |
| Net Profit | 4,674 | 9,771 | 9,685 | 7,975 | 8,492 |
| Recurring Net Profit | 4,674 | 9,771 | 9,685 | 7,975 | 8,492 |
| Fully Diluted Recurring Net Profit | 4,674 | 9,771 | 9,685 | 7,975 | 8,492 |

Cash Flow

| (Rs mn) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
|----------------------------------|----------------|----------------|----------------|----------------|----------------|
| EBITDA | 8,346 | 12,843 | 12,421 | 10,317 | 12,066 |
| Cash Flow from Invt. & Assoc. | | | | | |
| Change In Working Capital | (1,646) | (1,955) | (4,939) | 682 | 469 |
| (Incr)/Decr in Total Provisions | | | | | |
| Other Non-Cash (Income)/Expense | | | | | |
| Other Operating Cashflow | 66 | 3,686 | 48 | 2,274 | 1,782 |
| Net Interest (Paid)/Received | 227 | 212 | 41 | (84) | (215) |
| Tax Paid | (1,621) | (2,322) | (2,868) | (1,983) | (2,368) |
| Cashflow From Operations | 5,371 | 12,464 | 4,704 | 11,206 | 11,734 |
| Capex | (2,417) | (2,266) | (4,699) | (5,200) | (3,510) |
| Disposals Of FAs/subsidiaries | 20 | 56 | 39 | | |
| Acq. Of Subsidiaries/investments | 19 | 94 | 139 | (500) | (500) |
| Other Investing Cashflow | 198 | 124 | 487 | 134 | 267 |
| Cash Flow From Investing | (2,180) | (1,992) | (4,035) | (5,566) | (3,743) |
| Debt Raised/(repaid) | 2,380 | (4,104) | (11) | | |
| Proceeds From Issue Of Shares | | | | | |
| Shares Repurchased | | | | | |
| Dividends Paid | (3,522) | (635) | (2,922) | (3,176) | (3,430) |
| Preferred Dividends | | | | | |
| Other Financing Cashflow | (271) | (166) | (10) | (50) | (53) |
| Cash Flow From Financing | (1,414) | (4,905) | (2,942) | (3,226) | (3,483) |
| Total Cash Generated | 1,777 | 5,566 | (2,273) | 2,414 | 4,509 |
| Free Cashflow To Equity | 5,571 | 6,367 | 659 | 5,641 | 7,991 |
| Free Cashflow To Firm | 2,895 | 10,251 | 619 | 5,591 | 7,939 |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

| Balance Sheet | | | | | |
|--------------------------------------|----------------|----------------|----------------|----------------|----------------|
| (Rs mn) | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
| Total Cash And Equivalents | 2,314 | 7,684 | 5,264 | 8,178 | 13,187 |
| Total Debtors | 3,128 | 3,898 | 4,668 | 5,066 | 5,419 |
| Inventories | 8,906 | 7,608 | 12,602 | 11,144 | 10,838 |
| Total Other Current Assets | 1,729 | 1,469 | 2,219 | 2,112 | 2,259 |
| Total Current Assets | 16,077 | 20,659 | 24,753 | 26,500 | 31,703 |
| Fixed Assets | 15,492 | 16,471 | 16,886 | 20,498 | 21,021 |
| Total Investments | 2,073 | 3,366 | 4,759 | 4,759 | 4,759 |
| Intangible Assets | | | | | |
| Total Other Non-Current Assets | 2,544 | 2,327 | 3,561 | 2,515 | 2,515 |
| Total Non-current Assets | 20,108 | 22,164 | 25,206 | 27,772 | 28,295 |
| Short-term Debt | 4,101 | | | | |
| Current Portion of Long-Term Debt | | | | | |
| Total Creditors | 5,475 | 6,462 | 7,940 | 7,555 | 8,082 |
| Other Current Liabilities | 2,140 | 3,220 | 2,064 | 1,963 | 2,100 |
| Total Current Liabilities | 11,716 | 9,682 | 10,004 | 9,518 | 10,182 |
| Total Long-term Debt | 9 | 6 | | | |
| Hybrid Debt - Debt Component | | | | | |
| Total Other Non-Current Liabilities | 523 | 524 | 607 | 607 | 607 |
| Total Non-current Liabilities | 532 | 530 | 607 | 607 | 607 |
| Total Provisions | 1,326 | 919 | 904 | 904 | 904 |
| Total Liabilities | 13,574 | 11,131 | 11,515 | 11,030 | 11,694 |
| Shareholders Equity | 22,612 | 31,692 | 38,444 | 43,242 | 48,304 |
| Minority Interests | | | | | |
| Total Equity | 22,612 | 31,692 | 38,444 | 43,242 | 48,304 |

| Key Ratios | | | | | |
|---------------------------|----------------|----------------|----------------|----------------|----------------|
| | Mar-20A | Mar-21A | Mar-22A | Mar-23F | Mar-24F |
| Revenue Growth | (1.8%) | 15.3% | 22.3% | (4.9%) | 7.0% |
| Operating EBITDA Growth | 6.4% | 53.9% | (3.3%) | (16.9%) | 16.9% |
| Operating EBITDA Margin | 15.1% | 20.2% | 16.0% | 14.0% | 15.3% |
| Net Cash Per Share (Rs) | (14.13) | 60.44 | 41.44 | 64.38 | 103.81 |
| BVPS (Rs) | 178.01 | 249.49 | 302.64 | 340.42 | 380.27 |
| Gross Interest Cover | 21.20 | 48.42 | 196.62 | 153.67 | 172.92 |
| Effective Tax Rate | 27.1% | 19.3% | 21.4% | 19.9% | 21.8% |
| Net Dividend Payout Ratio | 33.4% | 23.1% | 24.7% | 31.9% | 31.6% |
| Accounts Receivables Days | 23.19 | 20.17 | 20.11 | 24.02 | 24.18 |
| Inventory Days | 83.70 | 74.62 | 68.90 | 84.86 | 75.12 |
| Accounts Payables Days | 56.35 | 53.94 | 49.10 | 55.37 | 53.44 |
| ROIC (%) | 28.7% | 44.3% | 45.8% | 25.7% | 28.5% |
| ROCE (%) | 24.3% | 35.4% | 28.2% | 18.7% | 20.0% |
| Return On Average Assets | 19.4% | 31.1% | 26.6% | 18.9% | 18.6% |

SOURCES: INCRED RESEARCH, COMPANY REPORTS

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CGS-CIMB Securities (USA) Inc. expects to receive or intend to seek compensation for investment banking services within the next 3 months.

CGS-CIMB Securities (USA) Inc. neither expects to receive nor intends to seek compensation for investment banking services from any of the company mentioned within the next 3 months.

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Recommendation Framework

Stock Ratings

Definition:

| | |
|--------|---|
| Add | The stock's total return is expected to exceed 10% over the next 12 months. |
| Hold | The stock's total return is expected to be between 0% and positive 10% over the next 12 months. |
| Reduce | The stock's total return is expected to fall below 0% or more over the next 12 months. |

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation. |
| Neutral | A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation. |
| Underweight | An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation. |

Country Ratings

Definition:

| | |
|-------------|--|
| Overweight | An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark. |
| Neutral | A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark. |
| Underweight | An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark. |