

India

ADD (no change)

Consensus ratings*: Buy 17 Hold 8 Sell 3

Current price:	Rs3,360
Target price:	Rs3,949 ▲
Previous target:	Rs3,247
Up/downside:	17.5%
InCred Research / Consensus:	31.5%
Reuters:	
Bloomberg:	SI IN
Market cap:	US\$5,877m Rs426,785m
Average daily turnover:	US\$5.1m Rs373.0m
Current shares o/s:	127.0m
Free float:	51.2%

*Source: Bloomberg

Key changes in this note

- FY25F revenue raised by 2%.
- FY24F/25F EBITDA raised by 2.5%/8.6%.
- FY24F/25F PAT raised by 3.2%/9.5%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	8.3	23.4	77.1
Relative (%)	6.0	14.0	54.1

Major shareholders	% held
Promoters	48.9
Nalanda India Fund	4.8
Kotak Emerging Equity Scheme	3.3

Analyst(s)



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Supreme Industries

Strong volume on a low base, weak margin

- SIL's 1Q consolidated and pipe sales volume grew by 36% and 48% yoy, respectively. Higher infra/agri pipe sales mix led to lower margins in 1QFY24.
- Management has raised its sales volume guidance to 20%+ yoy and expects revenue of Rs110bn and EBITDA margin of 14%+ in FY24F.
- Normalization of PVC prices has made plastic products affordable again. Robust pipe demand to sustain. Retain ADD rating with higher TP of Rs3,949.

Adverse sales mix driven by very strong infra and agri demand

Supreme Industries' (SIL) 1QFY24 revenue/EBITDA/PAT stood at Rs23.7bn/Rs3.2bn/Rs2.2bn, +7%/+20%/+1% yoy, respectively. Revenue was in line but EBITDA/PAT missed our/Bloomberg consensus estimates by 3-13%. Value-added products' (VAPs) revenue stood at Rs7.6bn, contributing 32% to total sales. Consolidated gross/EBITDA margins stood at 30.1%/13.6%, +363bp/+139bp yoy, respectively. Overall sales volume stood at 148.5kt, +36% yoy. Pipe sales volume stood at 117.3kt, +48% yoy, driven by good seasonal demand for agriculture pipes and timely execution of the Maharashtra state government's order under the Nal-se-Jal scheme (~10% of sales, 12kt). CPVC product sales declined by ~12% yoy due to counterfeit products, mostly in North and East India. Hence, the pipe segment's EBIT/t stood at Rs16,552, down 15% yoy and 34% qoq, due to an adverse sales mix. Other segments grew their sales volume in the range of 5-15% yoy. We note that the industrial segment saw a sharp decline in EBIT margin to Rs14/kg, down 30% yoy/37% qoq. PVC price decline led to an inventory loss of Rs400m (Rs2.7/kg) in 1Q. Adjusted for this, consolidated EBITDA/kg stood at Rs24.3.

Volume growth guidance raised to 20%+, EBITDA margin at 14%+

Management expects affordable PVC prices to result in sustained robust demand for plastic products, especially pipes, well supported by discretionary consumption recovery in 2HFY24F & healthy government spending. Management raised its sales volume growth guidance to 20%+ yoy (pipes: 23-25% yoy) and the EBITDA margin at 14%+ on a consol. basis for FY24F. The company expects current PVC prices of Rs80-85/kg to stay range-bound over the next six months in India. FY24F capex guidance retained at Rs7.5bn.

Change in our estimates

We have raised EBITDA/PAT estimates by 2.5%/3.2% and 8.6%/9.5% for FY24F/25F, respectively, to account for FY24F higher sales volume guidance. We expect the EBITDA margin to be better than the management's guidance, assuming a higher VAP sales mix. This implies revenue/EBITDA/PAT CAGR of 13%/20%/20%, respectively, over FY23-25F.

Valuation and risks

Market share gains, cost leadership and solid cash flow growth are key positives. Retain ADD rating with a higher TP of Rs3,949 (from Rs3,247 earlier) based on a higher exit P/E of 40x (+2SD to 5-year mean) FY25F EPS. Downside risk: Sharp PVC price fluctuations.

Financial Summary

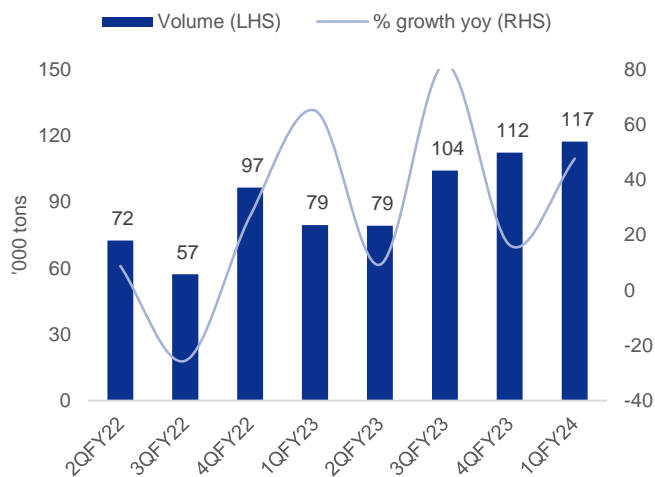
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue (Rsm)	63,571	77,728	92,016	101,727	117,503
Operating EBITDA (Rsm)	12,843	12,421	11,997	14,497	17,509
Net Profit (Rsm)	9,771	9,685	8,653	10,487	12,542
Core EPS (Rs)	76.9	76.2	68.1	82.6	98.7
Core EPS Growth	109.0%	(0.9%)	(10.6%)	21.2%	19.6%
FD Core P/E (x)	43.68	44.07	49.32	40.70	34.03
DPS (Rs)	22.0	24.0	26.0	28.0	31.0
Dividend Yield	0.65%	0.71%	0.77%	0.83%	0.92%
EV/EBITDA (x)	32.63	33.94	34.95	28.84	23.52
P/FCFE (x)	67.03	647.72	78.88	101.37	42.99
Net Gearing	(24.2%)	(13.7%)	(17.1%)	(16.9%)	(25.3%)
P/BV (x)	13.47	11.10	9.69	8.38	7.17
ROE	36.0%	27.6%	21.0%	22.1%	22.7%
% Change In Core EPS Estimates				3.16%	9.46%
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

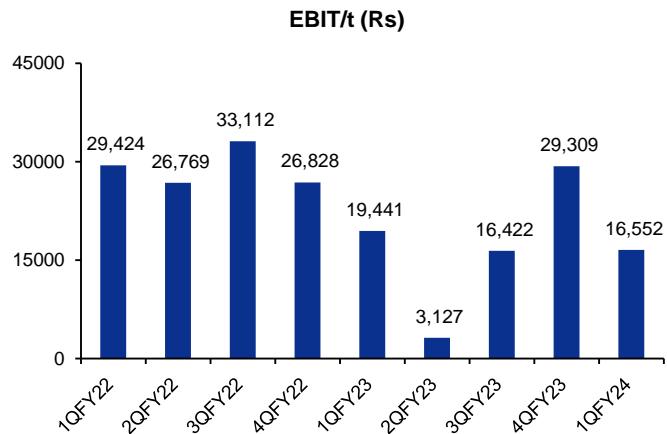
1QFY24 earnings-call takeaways

- **Market share trends:** Supreme Industries or SIL reported industry-leading sales volume growth of 36% yoy in plastic products and 48% yoy in plastic pipes in 1QFY24, implying meaningful market share gains. The FY24F guidance of 20%+ sales volume growth indicates incremental market share gains, in our view.
- **Segment-wise volume guidance:** Management targets to achieve sales volume of 460kt (+23% yoy) in plastic pipes, 67kt (+14% yoy) in industrial products and 64kt (+18% yoy) in packaging products in FY24F.
- **CPVC performance:** In the light of various counterfeit CPVC products launched by unorganized competitors, mostly in North and East India, CPVC product sales declined by 12% yoy in 1QFY24. The company won legal cases against these brands and the situation started to normalize in Jul 2023.
- **New product launch:** Management estimates the total addressable market (TAM) for PVC doors and windows to be around 100kt in India and 450kt in China annually. The company is setting up a new facility in Kanpur (Uttar Pradesh) for manufacturing PVC doors and windows, with an initial capacity of 10ktpa. Despite multiple players (both domestically and globally) competing in the segment, management expects the company to generate peak revenue of of Rs3.5bn at peak capacity utilization, with a total capex outlay of Rs1.6bn. These products are expected to register EBITDA margin of 17%+ at peak capacity utilization.
- **'Nal se Jal' order update:** SIL started meaningful supplies of polypropylene pipes under this scheme for an order won from Maharashtra state government to the tune of Rs4.8bn. Supplies against this order accounted for ~10% of sales volume of the pipe segment in 1QFY24.
- **Inventory loss:** PVC prices fell by ~10% between Apr-Jun 2023, leading to an estimated inventory loss of ~Rs400m (Rs2.6/kg) in 1QFY24, as per management. Adjusted for this, EBITDA/kg stood at Rs24+ for the reported quarter.
- **Polymer prices:** The prices of various polymers fell in the range of Rs5-8 per kg while the prices of polypropylene declined by Rs13/kg, leading to inventory losses during the quarter. PVC prices have risen in Jul 2023, and management expects them to remain range-bound at the current level of Rs80-85/kg over the next six months.
- **Capex:** SIL reiterated its earlier guidance of Rs7.5bn for FY24F, including the newly announced PVC doors and windows facility. The company is expanding its capacity and enlarging the product basket in the piping products segment and would also increase the capacity to 750kt against 600kt (currently) by the end of FY24F. The newly developed cross-laminated plastic film plant with a capacity of 2,500mt should commence production by Mar 2024F. Also, the greenfield plant in Malanpur (Madhya Pradesh) for the manufacture of industrial and ball valves is on track.
- **Cash and cash equivalents:** Net cash (including equivalents) stood at Rs9.5bn at the end of Jun 2023 as compared to Rs7.4bn at the end of Mar 2023.

Figure 1: Plastic pipe volume growth and EBIT/t

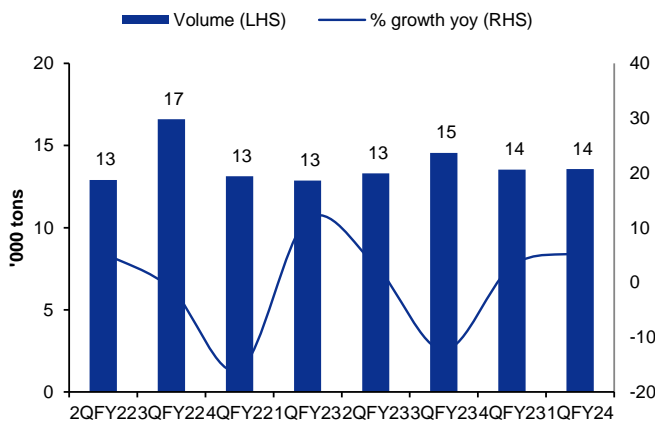


SOURCE: INCRED RESEARCH, COMPANY REPORTS

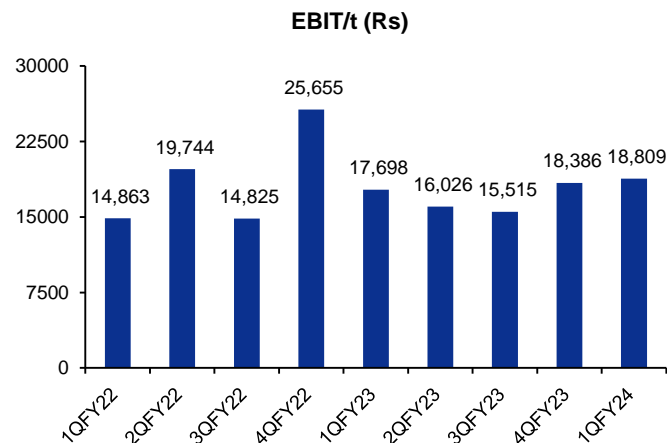


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Packaging products volume and EBIT/t

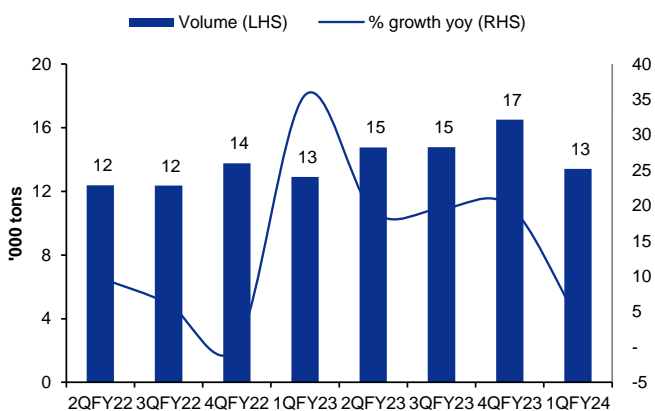


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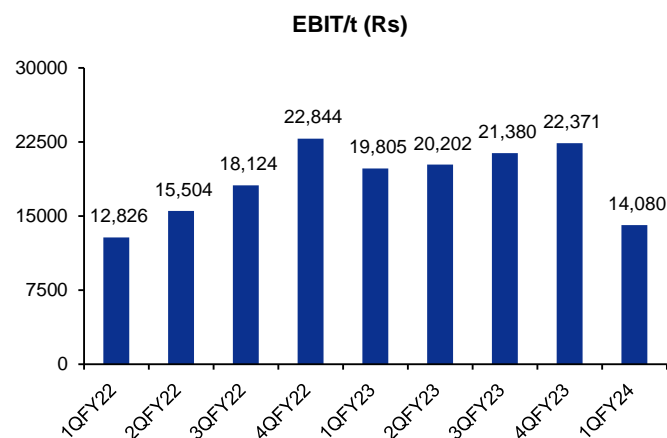


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Industrial products volume and EBIT/t

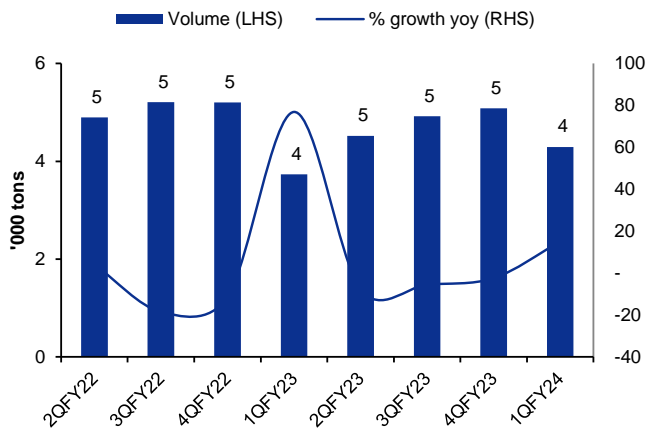


SOURCE: INCRED RESEARCH, COMPANY REPORTS

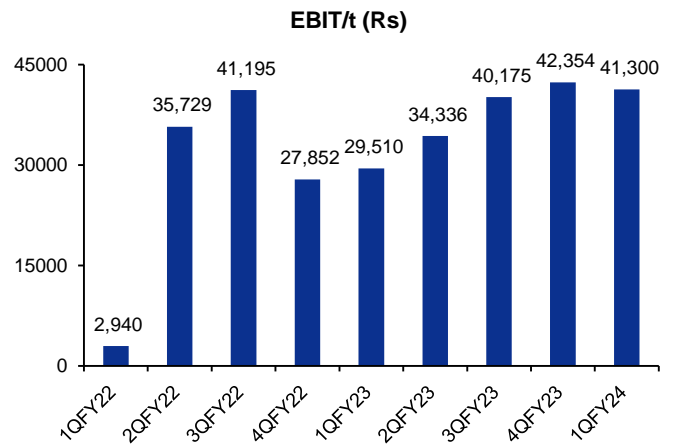


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consumer products volume and EBIT/t

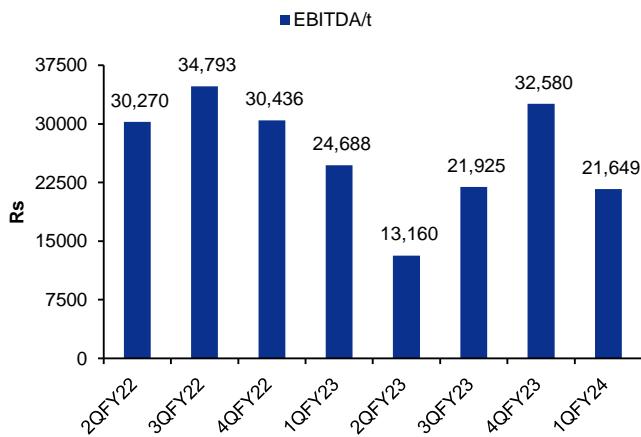


SOURCE: INCRED RESEARCH, COMPANY REPORTS



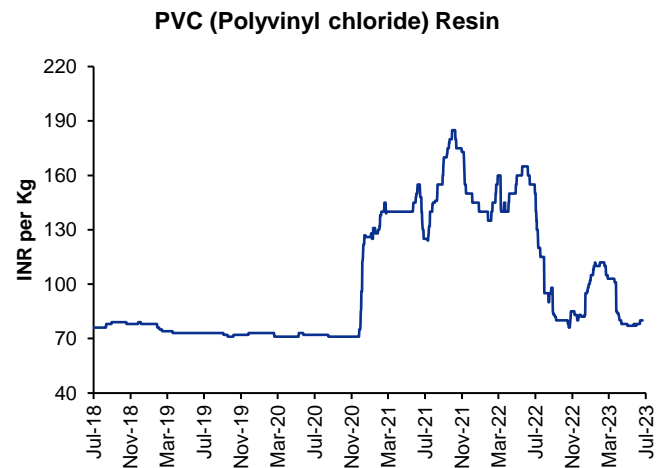
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: EBITDA/t (company-level)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: PVC resin prices



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 7: 1QFY24 quarter review

YE Mar (Rs m)	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue	23,686	22,060	7.4	25,983	(8.8)
EBITDA	3,216	2,689	19.6	4,803	(33.0)
EBITDA margin (%)	13.6	12.2	139 bp	18.5	-491 bp
Adj. PAT	2,155	2,139	0.8	3,594	(40.0)
Diluted EPS (Rs)	17.0	16.8		28.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 1QFY24 segment financials

	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Revenue (Rs m)					
Plastic Pipes	16,261	14,633	11.1	17,708	(8.2)
Packaging Products	3,231	3,263	(1.0)	3,231	0.0
Industrial Products	2,985	3,023	(1.2)	3,687	(19.0)
Consumer Products	1,049	958	9.6	1,211	(13.3)
Others	160	183	(12.7)	147	8.4
Total	23,686	22,060	7.4	25,983	(8.8)
EBIT (Rs m)					
Plastic Pipes	1,941	1,544	25.7	3,291	(41.0)
Packaging Products	255	228	12.1	249	2.6
Industrial Products	189	256	(26.1)	369	(48.9)
Consumer Products	177	110	61.0	215	(17.6)
Others	1	-5	(109.3)	11	(95.4)
Total	2,563	2,132	20.2	4,135	(38.0)
EBIT margin (%)					
Plastic Pipes	11.9	10.6	139 bp	18.6	-665 bp
Packaging Products	7.9	7.0	92 bp	7.7	20 bp
Industrial Products	6.3	8.5	-213 bp	10.0	-369 bp
Consumer Products	16.9	11.5	540 bp	17.8	-88 bp
Others	0.3	-3.0	327 bp	7.4	-710 bp
Total	10.8	9.7	116 bp	15.9	-510 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: EBIT/t

	1QFY24	1QFY23	yoy (%)	4QFY23	qoq (%)
Rs m					
Plastic Pipes	16,552	19,441	(14.9)	29,309	(43.5)
Packaging Products	18,809	17,698	6.3	18,386	2.3
Industrial Products	14,080	19,805	(28.9)	22,371	(37.1)
Consumer Products	41,300	29,510	40.0	42,354	(2.5)
Total	17,253	19,574	(11.9)	28,053	(38.5)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. our estimates

	1QFY24	1QFY24E	Var (%)
Rs m			
Revenue	23,686	23,947	(1.1)
EBITDA	3,216	3,484	(7.7)
EBITDA margin (%)	13.6	14.6	-97 bp
Adj. PAT	2,155	2,490	(13.5)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Actuals vs. Bloomberg consensus

	1QFY24	1QFY24C	Var (%)
Rs m			
Revenue	23,686	23,294	1.7
EBITDA	3,216	3,298	(2.5)
EBITDA margin (%)	14	14.2	-58 bp
Adj. PAT	2,155	2,466	(12.6)

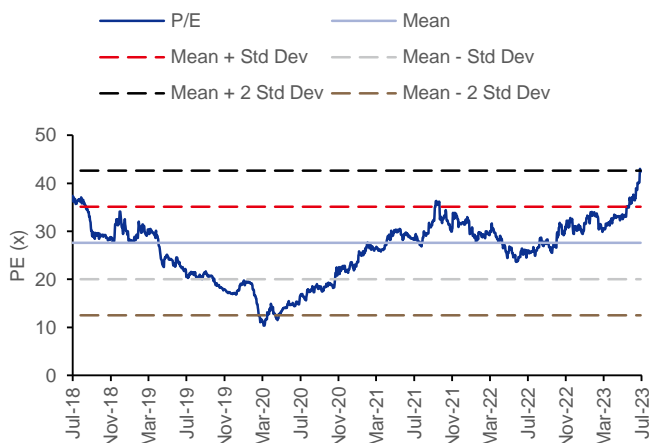
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: Our revised earnings estimates

	New estimates		Old estimates		Change (%)	
	FY24F	FY25F	FY24F	FY25F	FY24F	FY25F
Revenue	1,01,727	1,17,503	1,02,109	1,15,166	-0.4	2.0
EBITDA	14,497	17,509	14,143	16,124	2.5	8.6
Adjusted consol. PAT	10,487	12,542	10,166	11,458	3.2	9.5
EPS	82.6	98.7	80.0	90.2	3.2	9.5
EBITDA margin (%)	14.3	14.9	13.9	14.0	40 bp	90 bp

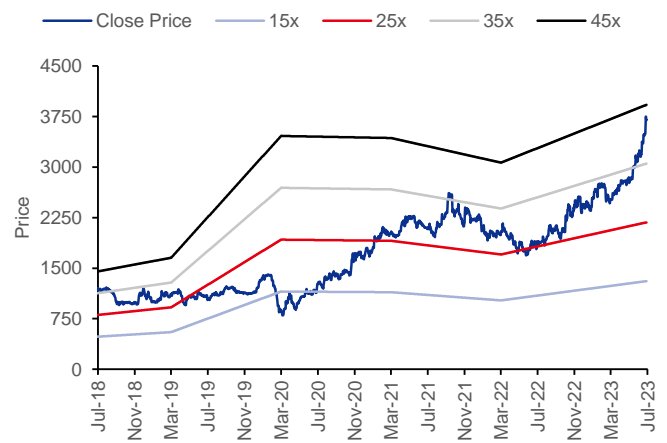
SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 13: P/E standard deviation (five-year mean)



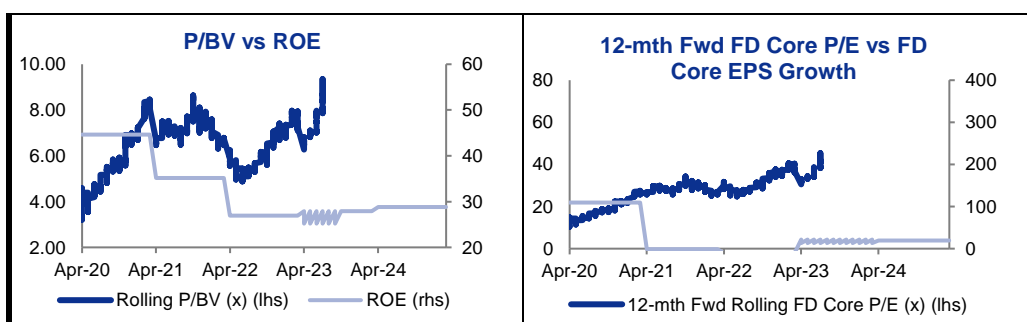
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 14: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	63,571	77,728	92,016	101,727	117,503
Gross Profit	23,186	24,197	26,024	31,129	36,427
Operating EBITDA	12,843	12,421	11,997	14,497	17,509
Depreciation And Amortisation	(2,128)	(2,295)	(2,634)	(2,903)	(3,386)
Operating EBIT	10,715	10,126	9,363	11,594	14,123
Financial Income/(Expense)	(193)	(38)	(56)	233	362
Pretax Income/(Loss) from Assoc.	1,460	2,044	1,533	1,227	1,227
Non-Operating Income/(Expense)	130	186	273	200	210
Profit Before Tax (pre-EI)	12,112	12,318	11,113	13,253	15,922
Exceptional Items					
Pre-tax Profit	12,112	12,318	11,113	13,253	15,922
Taxation	(2,341)	(2,633)	(2,460)	(2,766)	(3,380)
Exceptional Income - post-tax					
Profit After Tax	9,771	9,685	8,653	10,487	12,542
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,771	9,685	8,653	10,487	12,542
Recurring Net Profit	9,771	9,685	8,653	10,487	12,542
Fully Diluted Recurring Net Profit	9,771	9,685	8,653	10,487	12,542

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	12,843	12,421	11,997	14,497	17,509
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,955)	(4,939)	(778)	(1,529)	(817)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	3,686	48	(5)	1,659	1,799
Net Interest (Paid)/Received	212	41	64	(233)	(362)
Tax Paid	(2,322)	(2,868)	(2,375)	(2,766)	(3,380)
Cashflow From Operations	12,464	4,704	8,903	11,628	14,748
Capex	(2,266)	(4,699)	(4,243)	(7,200)	(4,735)
Disposals Of FAs/subsidiaries	56	39	25		
Acq. Of Subsidiaries/investments	94	139	188	(500)	(500)
Other Investing Cashflow	124	487	538	283	415
Cash Flow From Investing	(1,992)	(4,035)	(3,493)	(7,417)	(4,820)
Debt Raised/(repaid)	(4,104)	(11)			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(635)	(2,922)	(3,049)	(3,557)	(3,939)
Preferred Dividends					
Other Financing Cashflow	(166)	(10)	(15)	(50)	(53)
Cash Flow From Financing	(4,905)	(2,942)	(3,064)	(3,607)	(3,991)
Total Cash Generated	5,566	(2,273)	2,347	603	5,937
Free Cashflow To Equity	6,367	659	5,411	4,210	9,928
Free Cashflow To Firm	10,251	619	5,331	4,160	9,875

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	7,684	5,264	7,522	8,625	15,062
Total Debtors	3,898	4,668	4,924	6,132	7,082
Inventories	7,608	12,602	13,856	15,329	16,740
Total Other Current Assets	1,469	2,219	2,546	2,814	3,251
Total Current Assets	20,659	24,753	28,848	32,900	42,135
Fixed Assets	16,471	16,886	19,819	23,953	25,803
Total Investments	3,366	4,759	5,713	5,713	5,713
Intangible Assets					
Total Other Non-Current Assets	2,327	3,561	2,563	2,726	2,226
Total Non-current Assets	22,164	25,206	28,094	32,392	33,741
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	6,462	7,940	9,038	9,991	11,541
Other Current Liabilities	3,220	2,064	2,322	2,787	3,219
Total Current Liabilities	9,682	10,004	11,359	12,778	14,760
Total Long-term Debt	6				
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	524	607	654	654	654
Total Non-current Liabilities	530	607	654	654	654
Total Provisions	919	904	908	908	908
Total Liabilities	11,131	11,515	12,921	14,340	16,322
Shareholders Equity	31,692	38,444	44,021	50,951	59,554
Minority Interests					
Total Equity	31,692	38,444	44,021	50,951	59,554

Key Ratios					
	Mar-21A	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	15.3%	22.3%	18.4%	10.6%	15.5%
Operating EBITDA Growth	53.9%	(3.3%)	(3.4%)	20.8%	20.8%
Operating EBITDA Margin	20.2%	16.0%	13.0%	14.3%	14.9%
Net Cash Per Share (Rs)	60.44	41.44	59.21	67.90	118.57
BVPS (Rs)	249.49	302.64	346.55	401.10	468.83
Gross Interest Cover	48.42	196.62	116.74	231.88	269.01
Effective Tax Rate	19.3%	21.4%	22.1%	20.9%	21.2%
Net Dividend Payout Ratio	23.1%	24.7%	29.7%	26.8%	24.7%
Accounts Receivables Days	20.17	20.11	19.02	19.83	20.52
Inventory Days	74.62	68.90	73.17	75.45	72.19
Accounts Payables Days	53.94	49.10	46.95	49.19	48.47
ROIC (%)	44.3%	45.8%	31.3%	35.8%	37.0%
ROCE (%)	35.4%	28.2%	22.3%	24.5%	25.9%
Return On Average Assets	31.1%	26.6%	20.9%	21.3%	22.0%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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