



## India

**REDUCE** (previously ADD)

Consensus ratings\*: Buy 12 Hold 7 Sell 9

Current price:	Rs4,522
Target price:	Rs3,828
Previous target:	Rs3,949
Up/downside:	-15.3%
InCred Research / Consensus:	6.1%
Reuters:	SUPI.NS
Bloomberg:	SI IN
Market cap:	US\$6,900m
	Rs574,428m
Average daily turnover:	US\$16.0m
	Rs1331.0m
Current shares o/s:	127.0m
Free float:	51.2%

\*Source: Bloomberg

**Key changes in this note**

- FY24F/25F revenue cut by 1.5%/2.6%.
- FY24F/25F EBITDA raised/cut by 4.4%/0.3%, respectively.
- FY24F/25F PAT cut by 0.1%/3.1%.



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	9.7	27.4	108.4
Relative (%)	12.7	32.2	97.4

Major shareholders	% held
Promoters	48.9
Nalanda India Fund	4.8
Kotak Emerging Equity Scheme	3.0

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# Supreme Industries

## All positives priced in

- 2Q EBITDA/PAT were in line with our estimates while they beat Bloomberg consensus estimates by 9-11%. Plastic pipe sales volume: 103kt, +30% yoy.
- Massive ongoing capex to the tune of Rs8-9bn. Consolidated and plastic pipe capacity to increase by 25% and 30% yoy. FY24F guidance revised upwards.
- Stock price up 60%+ over the past six months. The stock trades at a P/E of 47x FY25F EPS. Risk-reward is unfavourable. Downgrade to REDUCE rating.

**Robust 2QFY24 results in line with our estimates, beat consensus**

Supreme Industries' (SIL) 2QFY24 revenue/EBITDA/PAT stood at Rs23.1bn/Rs3.6bn/Rs2.4bn, +11%/+142%/+197% yoy, respectively, in line with our estimates but beat Bloomberg consensus EBITDA/PAT estimates by 9%/11%, respectively. Consol. EBITDA/kg stood at Rs25.8 in 2Q. Consol. gross/EBITDA margins stood at 33.5%/15.4%, +1,026bp /+838bp yoy, respectively. Overall sales volume was at 137.8kt, +23% yoy. VAP revenue stood at Rs9.4bn, +18% yoy, contributing 41% to total sales. Pipe sales volume was at 102.9kt, +30% yoy, while segment EBIT grew to Rs19.5/kg, +18% qoq. Industrial and packaging product sales volume grew to 15.4kt, +4.5% yoy and 14.9kt, +12% yoy, respectively. The industrial segment's EBIT margin improved to Rs16/kg, +16% qoq, and the packaging segment's EBIT margin improved sharply to Rs32/kg, +71% qoq (new export orders). Consumer product sales volume was flat yoy.

**Massive capacity expansion to support sustained demand**

SIL raised consolidated/plastic pipe sales volume growth guidance to 23%/28% yoy (from 20%/25%, respectively, earlier). Plastic pipe demand remained healthy qoq while packaging product demand improved qoq. Industrial and consumer product demand was subdued and is expected to improve in 2HFY24F, as per management. Based on capex plans and recent acquisitions (acquired Parvati AgroPlast: 36kt, in Maharashtra), the consolidated and the plastic pipe capacities are expected to increase to 780kt, +30% yoy, and ~1mt, +25% yoy. Given a healthy 2HFY23, we expect a flattish 2HFY24F (EBITDA/PAT: +7%/+3% yoy). We expect EBITDA/PAT CAGR at 18% over FY23-26F.

**Marginal changes to our FY24F/25F estimates; introduce FY26F**

We account for 1HFY24 actuals, higher capex and introduce FY26F estimates. We raise EBITDA estimate by 4% for FY24F while retaining FY25F estimate. We retain FY24F EPS and cut it by 3% for FY25F. We expect EBITDA/t of Rs25-26/kg over FY24F-26F.

**Risk-reward unfair at current stock price; downgrade to REDUCE**

SIL's stock price has risen 60%+ in the last six months. The demand upcycle will lead to a consolidated sales volume CAGR of 15% over FY23-26F. We find the risk-reward ratio unfair at the current price and hence, downgrade the stock's rating to REDUCE (ADD earlier). Cut target price to Rs3,828 (Rs3,949 earlier) while retaining our exit P/E of 40x FY25F EPS. Upside risk: Volatile PVC prices.

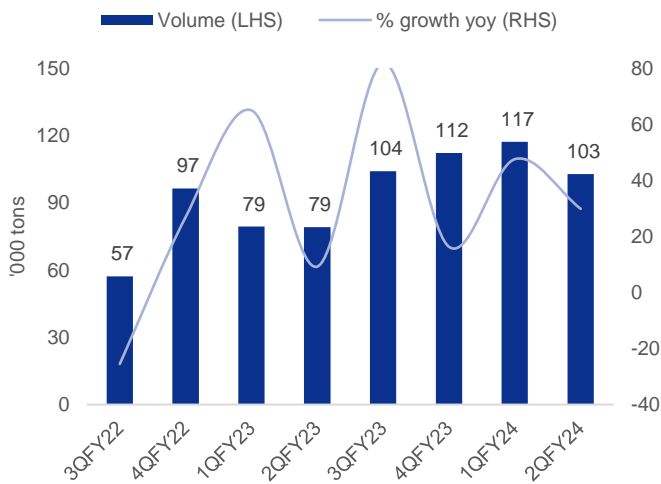
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	77,728	92,016	100,222	114,458	128,275
Operating EBITDA (Rsm)	12,421	11,997	15,134	17,455	20,011
Net Profit (Rsm)	9,685	8,653	10,474	12,155	14,332
Core EPS (Rs)	76.2	68.1	82.5	95.7	112.8
Core EPS Growth	(0.9%)	(10.6%)	21.0%	16.0%	17.9%
FD Core P/E (x)	59.31	66.38	54.84	47.26	40.08
DPS (Rs)	24.0	26.0	28.0	30.0	32.0
Dividend Yield	0.53%	0.57%	0.62%	0.66%	0.71%
EV/EBITDA (x)	45.82	47.25	37.45	32.10	27.58
P/FCFE (x)	871.80	106.16	177.70	58.07	47.60
Net Gearing	(13.7%)	(17.1%)	(15.0%)	(23.8%)	(32.4%)
P/BV (x)	14.94	13.05	11.28	9.69	8.26
ROE	27.6%	21.0%	22.1%	22.1%	22.2%
% Change In Core EPS Estimates			(0.12%)	(3.08%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

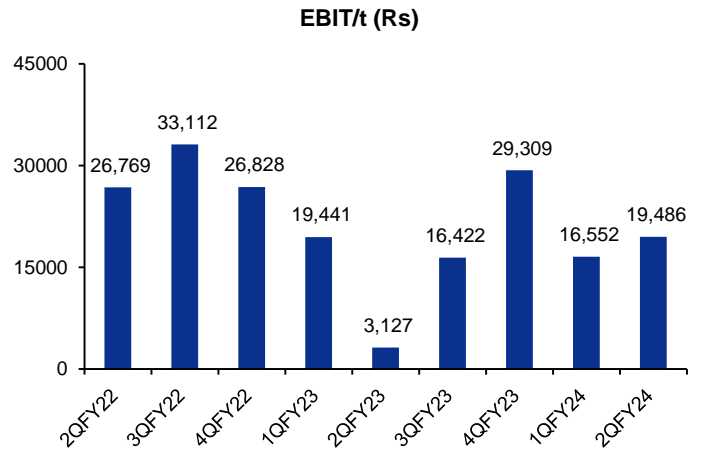
## 2QFY24 earnings-call takeaways

- **Volume and margin guidance:** Management aims to achieve sales target of Rs105bn+, overall sales volume growth of 23% yoy and plastic piping sales volume growth of 28% yoy in FY24F. The EBITDA margin is expected to be stable at 14.5% in FY24F. The manufacturing capacity is expected to touch 780kt by the end of FY24F, from 600kt at the end of FY23, in the piping segment.
- **CPVC sales:** As per management, all India CPVC sales volume declined in Apr-Aug 2023 and recovered in Sep 2023 (+3% yoy), leading to a 1HFY24 sales volume growth of +1.5% yoy. CPVC prices have corrected by 5-10% in 2Q, in line with PVC prices, and the plumbing demand should see a recovery in 2HFY24F.
- **Acquisition of Parvati Agro Plast:** SIL acquired M/s Parvati Agro Plast situated at Sangli (Maharashtra) on 17 Oct 2023 for a consideration of Rs 1.5bn. The company has a total installed capacity of 36kt comprising 15kt of PVC pipes, 18kt of HDPE pipes and 3kt of O-PVC pipes (drinking water application) spread over 13.48 acres of land. Given the substantial revenue potential in O-PVC pipes (high demand under the Nal Se Jal flagship program of the Indian government), management intends to increase the capacity to 15,000t. SIL has also signed an agreement to purchase the adjoining land admeasuring 7.76 acres for ~Rs200m from the family, which would enable the company to expand its operations at the same site.
- **Industrial product demand trend:** Nearly 40% of industrial product sales are to white goods brands. The B2C demand has been subdued in 1HFY24, impacting industrial product sales volume growth (1H: +4.5% yoy). Management expects the festive season to aid demand recovery and sees a relatively better performance in 2HFY24F.
- **PVC prices:** Reliance Industries reduced its PVC prices by ~12-13% (to Rs76-78/kg) in Oct 2023, in line with declining global prices. This led to channel destocking from end-Sep 2023 to early Oct 2023. Management stated the channel restarted stocking from mid-Oct 2023 and PVC prices have risen marginally as of end-Oct 2023. There was no inventory loss or gain in 2QFY24.
- **Capex:** SIL gave guidance that a capex outlay of Rs9bn (cash outflow of Rs8bn) in FY24F will be fully funded from internal cash accruals. The company's capex at Kanpur Dehat (Uttar Pradesh), Erode (Tamil Nadu) and Malanpur (Madhya Pradesh) is on track. Construction work on expansion of Gadegaon unit (Maharashtra) has been completed and the arrival of production equipment has commenced. The newly launched PE/AL/PE piping system and the electrical conduit system are progressing well. The bath fittings facility in Puducherry has been commissioned and is fully operational. The land acquisition for the PVC window and door manufacturing facility is expected to be completed by Dec 2023F and the plant is likely to commence operations by 4QFY25F.
- **Cash flow:** Net cash (including equivalents) stood at Rs5.9bn at the end of Sep 2023 as compared to Rs9.5bn at the end of Jun 2023. Net working capital cycle stood at 49 days of TTM sales at the end of Sep 2023 vs. 40 days at the end of Mar 2023. 1HFY24 OCF stood at Rs3bn, capex at Rs2.5bn and FCF at Rs500m.

Figure 1: Plastic pipe volume growth and EBIT/t

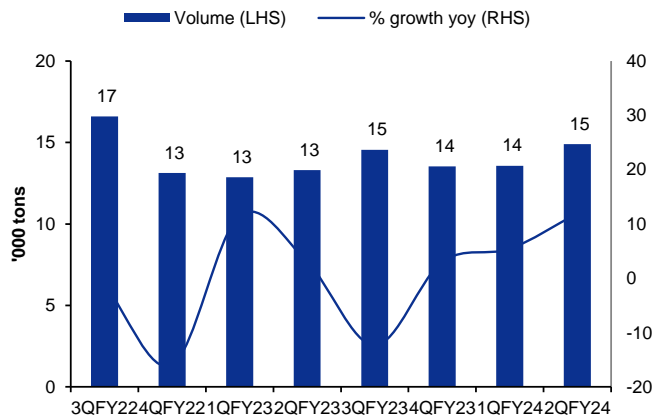


SOURCE: INCRED RESEARCH, COMPANY REPORTS

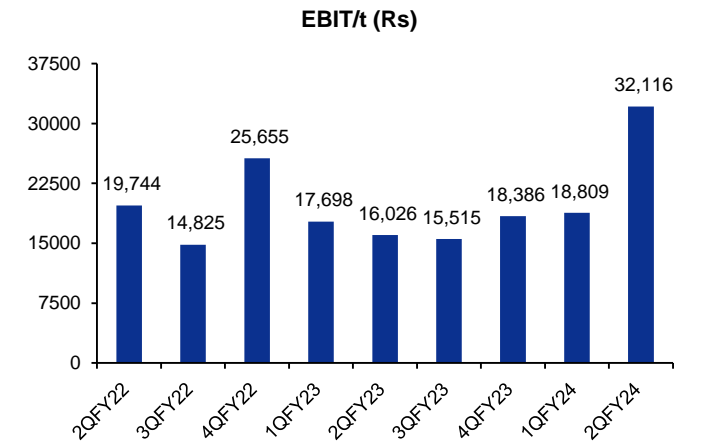


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Packaging products volume and EBIT/t

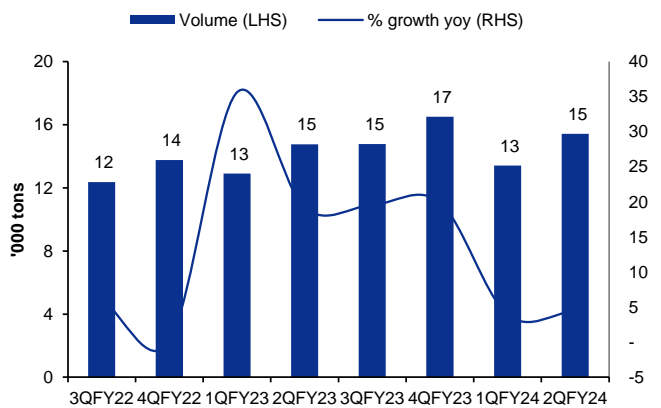


SOURCE: INCRED RESEARCH, COMPANY REPORTS

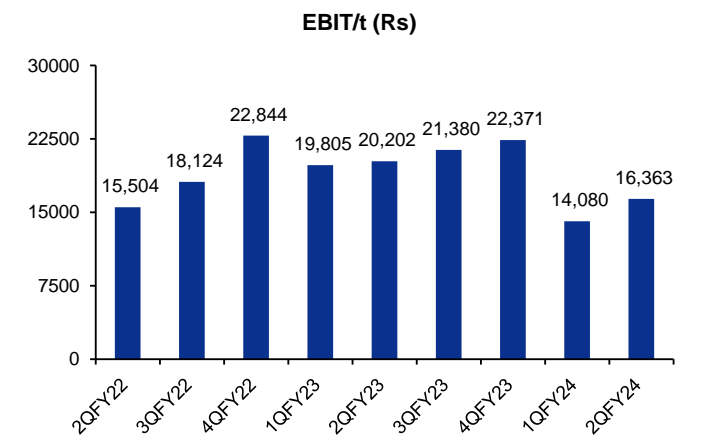


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Industrial products volume and EBIT/t

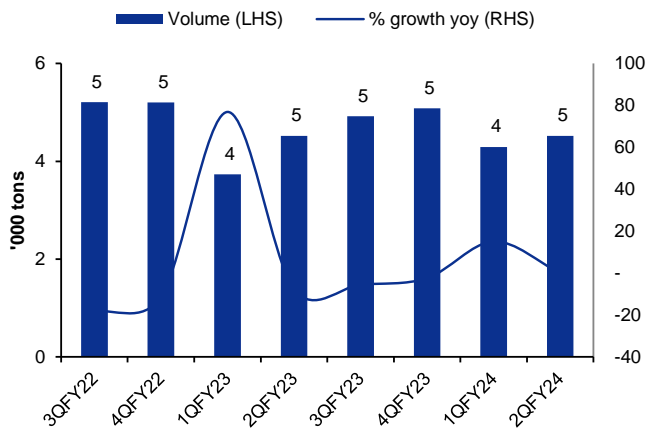


SOURCE: INCRED RESEARCH, COMPANY REPORTS

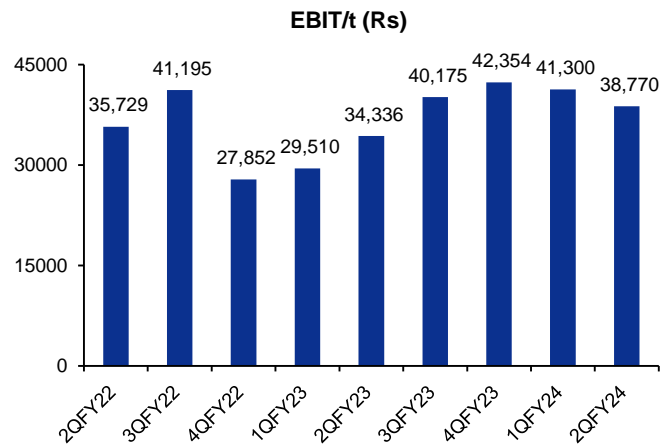


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 4: Consumer products volume and EBIT/t

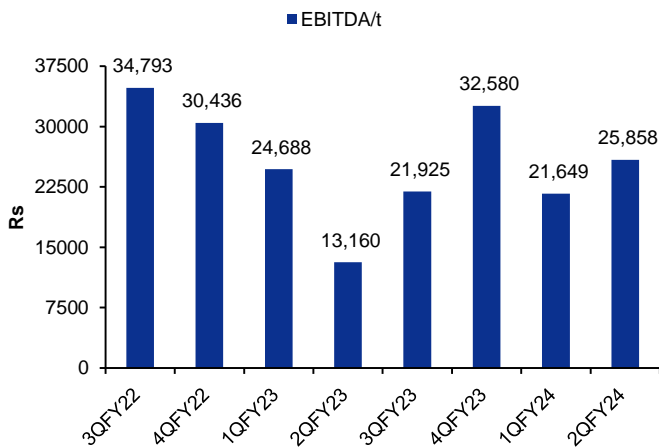


SOURCE: INCRED RESEARCH, COMPANY REPORTS



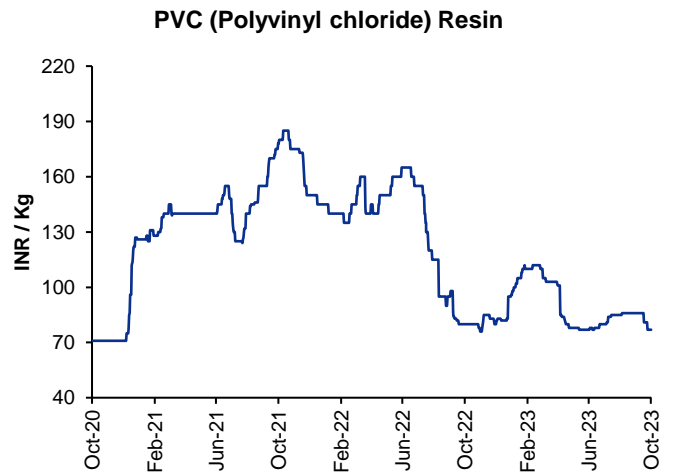
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: EBITDA/t (company-level)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: PVC resin prices



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 7: 2QFY24 quarter performance

Y/E Mar (Rs m)	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
Revenue	23,087	20,866	10.6	23,686	(2.5)	46,773	42,926	9.0
EBITDA	3,562	1,471	142.1	3,216	10.8	6,778	4,160	62.9
EBITDA margin (%)	15.4	7.1	838 bp	13.6	185 bp	14.5	9.7	480 bp
Adj. PAT	2,432	820	196.5	2,155	12.8	4,587	2,959	55.0
Diluted EPS (Rs)	19.1	6.5		17.0		36.1	23.3	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 2QFY24 segment financials

	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)	H1FY24	H1FY23	yoy (%)
<b>Revenue (Rs m)</b>								
Plastic pipes	15,093	12,947	16.6	16,261	(7.2)	31,354	27,581	13.7
Packaging products	3,522	3,278	7.4	3,231	9.0	6,753	6,542	3.2
Industrial products	3,258	3,349	(2.7)	2,985	9.1	6,243	6,371	(2.0)
Consumer products	1,054	1,119	(5.8)	1,049	0.5	2,104	2,077	1.3
Others	160	173	(7.8)	160	-	319	356	(10.3)
<b>Total</b>	<b>23,087</b>	<b>20,866</b>	<b>10.6</b>	<b>23,686</b>	<b>(2.5)</b>	<b>46,773</b>	<b>42,926</b>	<b>9.0</b>
<b>EBIT (Rs m)</b>								
Plastic pipes	2,006	248	709.7	1,941	3.3	3,947	1,792	120.3
Packaging products	478	213	124.4	255	87.4	733	441	66.4
Industrial products	252	298	(15.4)	189	33.7	441	554	(20.3)
Consumer products	175	155	12.9	177	(1.2)	353	265	32.9
Others	-3	-32	(91.9)	1	(620.0)	-2	-37	(94.4)
<b>Total</b>	<b>2,909</b>	<b>882</b>	<b>229.7</b>	<b>2,563</b>	<b>13.5</b>	<b>5,472</b>	<b>3,014</b>	<b>81.5</b>
<b>EBIT margin (%)</b>								
Plastic pipes	13.3	1.9	1138 bp	11.9	135 bp	12.6	6.5	609 bp
Packaging products	13.6	6.5	708 bp	7.9	568 bp	10.9	6.7	412 bp
Industrial products	7.7	8.9	-116 bp	6.3	142 bp	7.1	8.7	-163 bp
Consumer products	16.6	13.9	275 bp	16.9	-28 bp	16.8	12.8	398 bp
Others	-1.6	-18.5	1,687 bp	0.3	-194 bp	-0.7	-10.5	985 bp
<b>Total</b>	<b>12.6</b>	<b>4.2</b>	<b>837 bp</b>	<b>10.8</b>	<b>178 bp</b>	<b>11.7</b>	<b>7.0</b>	<b>468 bp</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: EBIT/t

Rs	2QFY24	2QFY23	yoy (%)	1QFY24	qoq (%)
Plastic pipes	19,486	3,127	523.2	16,552	17.7
Packaging products	32,116	16,026	100.4	18,809	70.7
Industrial products	16,363	20,202	(19.0)	14,080	16.2
Consumer products	38,770	34,336	12.9	41,300	(6.1)
<b>Total</b>	<b>21,115</b>	<b>7,892</b>	<b>167.6</b>	<b>17,253</b>	<b>22.4</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. our estimates

Rs m	2QFY24	2QFY24E	Var (%)
Revenue	23,087	22,542	2.4
EBITDA	3,562	3,618	(1.5)
EBITDA margin (%)	15.4	16.1	-62 bp
<b>Adj. PAT</b>	<b>2,432</b>	<b>2,572</b>	<b>(5.4)</b>

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Actuals vs. Bloomberg consensus

Rs m	2QFY24	2QFY24C	Var (%)
Revenue	23,087	23,019	0.3
EBITDA	3,562	3,274	8.8
EBITDA margin (%)	15	14.2	121 bp
<b>Adj. PAT</b>	<b>2,432</b>	<b>2,201</b>	<b>10.5</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	1,00,222	1,14,458	1,28,275	1,01,727	1,17,503	NA	-1.5	-2.6	NA
EBITDA	15,134	17,455	20,011	14,497	17,509	NA	4.4	-0.3	NA
<b>Adjusted consol. PAT</b>	<b>10,474</b>	<b>12,155</b>	<b>14,332</b>	<b>10,487</b>	<b>12,542</b>	NA	<b>-0.1</b>	<b>-3.1</b>	NA
EPS	82.5	95.7	112.8	82.6	98.7	NA	-0.1	-3.1	NA
<b>EBITDA margin (%)</b>	<b>15.1</b>	<b>15.3</b>	<b>15.6</b>	<b>14.3</b>	<b>14.9</b>	NA	<b>85 bp</b>	<b>35 bp</b>	NA

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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

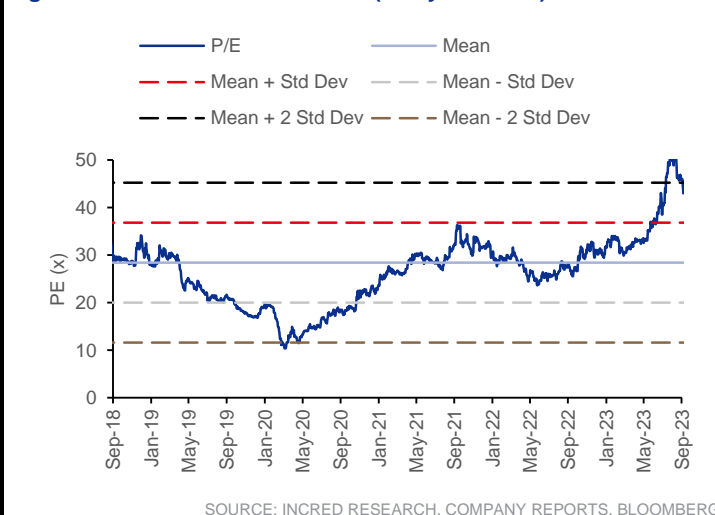
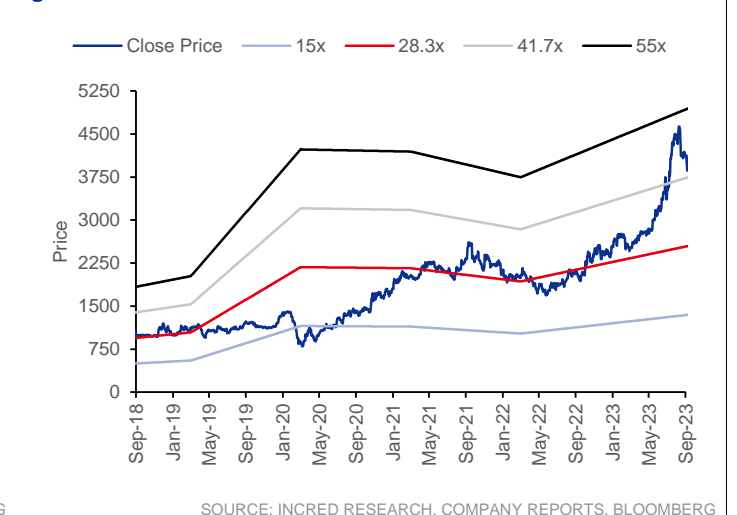
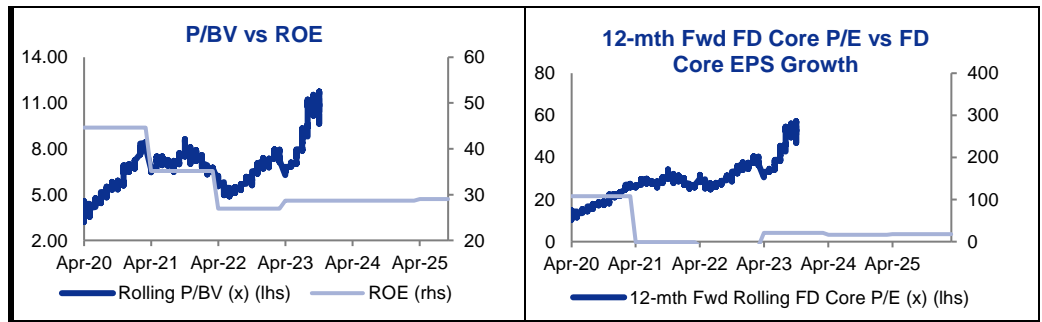


Figure 14: P/E band



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>77,728</b>	<b>92,016</b>	<b>100,222</b>	<b>114,458</b>	<b>128,275</b>
<b>Gross Profit</b>	<b>24,197</b>	<b>26,024</b>	<b>32,372</b>	<b>37,199</b>	<b>42,010</b>
<b>Operating EBITDA</b>	<b>12,421</b>	<b>11,997</b>	<b>15,134</b>	<b>17,455</b>	<b>20,011</b>
Depreciation And Amortisation	(2,295)	(2,634)	(2,971)	(3,515)	(3,733)
<b>Operating EBIT</b>	<b>10,126</b>	<b>9,363</b>	<b>12,163</b>	<b>13,940</b>	<b>16,278</b>
Financial Income/(Expense)	61	178	374	568	1,011
Pretax Income/(Loss) from Assoc.	2,044	1,533	997	1,196	1,283
Non-Operating Income/(Expense)	87	39	100	105	110
<b>Profit Before Tax (pre-EI)</b>	<b>12,318</b>	<b>11,113</b>	<b>13,633</b>	<b>15,808</b>	<b>18,682</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>12,318</b>	<b>11,113</b>	<b>13,633</b>	<b>15,808</b>	<b>18,682</b>
Taxation	(2,633)	(2,460)	(3,159)	(3,653)	(4,350)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>9,685</b>	<b>8,653</b>	<b>10,474</b>	<b>12,155</b>	<b>14,332</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>9,685</b>	<b>8,653</b>	<b>10,474</b>	<b>12,155</b>	<b>14,332</b>
Recurring Net Profit	9,685	8,653	10,474	12,155	14,332
<b>Fully Diluted Recurring Net Profit</b>	<b>9,685</b>	<b>8,653</b>	<b>10,474</b>	<b>12,155</b>	<b>14,332</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>12,421</b>	<b>11,997</b>	<b>15,134</b>	<b>17,455</b>	<b>20,011</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,939)	(778)	(1,592)	(1,642)	(1,594)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	48	(5)	1,471	1,869	2,404
Net Interest (Paid)/Received	41	64	(374)	(568)	(1,011)
Tax Paid	(2,868)	(2,375)	(3,159)	(3,653)	(4,350)
<b>Cashflow From Operations</b>	<b>4,704</b>	<b>8,903</b>	<b>11,478</b>	<b>13,461</b>	<b>15,460</b>
Capex	(4,699)	(4,243)	(8,200)	(3,721)	(3,993)
Disposals Of FAs/subsidiaries	39	25			
Acq. Of Subsidiaries/investments	139	188	(500)	(500)	(500)
Other Investing Cashflow	487	538	454	652	1,099
<b>Cash Flow From Investing</b>	<b>(4,035)</b>	<b>(3,493)</b>	<b>(8,246)</b>	<b>(3,569)</b>	<b>(3,393)</b>
Debt Raised/(repaid)	(11)				
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(2,922)	(3,049)	(3,557)	(3,812)	(4,066)
Preferred Dividends					
Other Financing Cashflow	(10)	(15)	(80)	(84)	(88)
<b>Cash Flow From Financing</b>	<b>(2,942)</b>	<b>(3,064)</b>	<b>(3,637)</b>	<b>(3,896)</b>	<b>(4,154)</b>
Total Cash Generated	(2,273)	2,347	(405)	5,996	7,913
<b>Free Cashflow To Equity</b>	<b>659</b>	<b>5,411</b>	<b>3,233</b>	<b>9,892</b>	<b>12,067</b>
<b>Free Cashflow To Firm</b>	<b>619</b>	<b>5,331</b>	<b>3,153</b>	<b>9,808</b>	<b>11,979</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	5,264	7,522	7,617	14,113	22,526
Total Debtors	4,668	4,924	6,041	6,899	7,732
Inventories	12,602	13,856	15,102	17,247	19,329
Total Other Current Assets	2,219	2,546	2,773	3,167	3,549
<b>Total Current Assets</b>	<b>24,753</b>	<b>28,848</b>	<b>31,533</b>	<b>41,426</b>	<b>53,136</b>
Fixed Assets	16,886	19,819	24,385	25,341	25,851
Total Investments	4,759	5,713	5,713	5,713	5,713
Intangible Assets					
Total Other Non-Current Assets	3,561	2,563	3,226	2,476	2,226
<b>Total Non-current Assets</b>	<b>25,206</b>	<b>28,094</b>	<b>33,323</b>	<b>33,529</b>	<b>33,789</b>
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	7,940	9,038	9,610	10,975	12,300
Other Current Liabilities	2,064	2,322	2,746	3,136	3,514
<b>Total Current Liabilities</b>	<b>10,004</b>	<b>11,359</b>	<b>12,356</b>	<b>14,111</b>	<b>15,815</b>
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	607	654	654	654	654
<b>Total Non-current Liabilities</b>	<b>607</b>	<b>654</b>	<b>654</b>	<b>654</b>	<b>654</b>
Total Provisions	904	908	908	908	908
<b>Total Liabilities</b>	<b>11,515</b>	<b>12,921</b>	<b>13,918</b>	<b>15,673</b>	<b>17,377</b>
Shareholders Equity	38,444	44,021	50,938	59,282	69,548
Minority Interests					
<b>Total Equity</b>	<b>38,444</b>	<b>44,021</b>	<b>50,938</b>	<b>59,282</b>	<b>69,548</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	22.3%	18.4%	8.9%	14.2%	12.1%
Operating EBITDA Growth	(3.3%)	(3.4%)	26.1%	15.3%	14.6%
Operating EBITDA Margin	16.0%	13.0%	15.1%	15.3%	15.6%
Net Cash Per Share (Rs)	41.44	59.21	59.96	111.10	177.33
BVPS (Rs)	302.64	346.55	401.00	466.69	547.51
Gross Interest Cover	196.62	116.74	152.03	165.95	184.56
Effective Tax Rate	21.4%	22.1%	23.2%	23.1%	23.3%
Net Dividend Payout Ratio	24.7%	29.7%	26.1%	24.1%	21.8%
Accounts Receivables Days	20.11	19.02	19.97	20.63	20.82
Inventory Days	68.90	73.17	77.89	76.41	77.38
Accounts Payables Days	49.10	46.95	50.16	48.63	49.24
ROIC (%)	45.8%	31.3%	37.6%	35.6%	39.7%
ROCE (%)	28.5%	22.8%	26.1%	26.0%	26.6%
Return On Average Assets	26.4%	20.5%	21.8%	21.8%	21.8%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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