

India

REDUCE (no change)

Consensus ratings*:	Buy 9	Hold 8	Sell 10
Current price:	Rs4,070		
Target price:	Rs3,771		
Previous target:	Rs3,828		
Up/downside:	-7.3%		
InCred Research / Consensus:	-14.1%		
Reuters:	SUPL.NS		
Bloomberg:	SI IN		
Market cap:	US\$6,224m	Rs516,999m	
Average daily turnover:	US\$17.8m	Rs1482.5m	
Current shares o/s:	127.0m		
Free float:	51.2%		

*Source: Bloomberg

Key changes in this note

- Revenue cut by 2% for FY25F/26F.
- EBITDA margin raised by 20-35bp for FY25F/26F.
- EPS cut by 1.5-2% for FY25F/26F.



Price performance	1M	3M	12M
Absolute (%)	(12.2)	(13.7)	72.4
Relative (%)	(12.6)	(20.9)	46.3

Major shareholders	% held
Promoters	48.9
Nalanda India Fund	4.4
Kotak Emerging Equity Scheme	3.0

Research Analyst(s)

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Supreme Industries

Moving ahead in line with expectations

- 3QFY24 performance was in line with our/Bloomberg consensus estimates. Plastic pipes sales vol: 122kt, +17% yoy, and EBIT/kg: Rs17.5/kg, +6% yoy.
- Nearly Rs10bn capex incurred on new pipe SKUs like O-PVC, HDPE for natural gas & CPVC for industrial use. Higher non-pipe segment margin to stay.
- We expect an optically soft 4QFY24F (high base yoy). Base-case EPS CAGR seen at 16% over FY24F-26F & positive surprises are less. Retain REDUCE.

Balancing sales growth and margins across its four segments

Supreme Industries or SIL's revenue/EBITDA/PAT stood at Rs24.5bn/Rs3.8bn/Rs2.6bn, +6%/+25%/+22% yoy, respectively, in 3QFY24, in line with our and Bloomberg consensus estimates. Consol. sales volume & EBITDA/kg stood at 158kt, +14% yoy, and Rs23.9/kg, +9.3% yoy, respectively. Consol. gross and EBITDA margins stood at 33% and 15.5%, +425bp/+235bp yoy, respectively. Volatility in PVC prices led to inventory loss of Rs510m (3Q: -Rs100m, our estimate) in 9MFY24. Pipe sales volume stood at 122kt, +17% yoy, while segment EBIT grew to Rs17.5/kg, +6% yoy. Packaging/industrial/consumer segments' sales volume growth was relatively lower vs. pipes and stood at 15kt/16.2kt/4.8kt, +3%/+10%/-3% yoy, respectively. Better sales mix (premium product sales) led to packaging and consumer goods EBIT margin of Rs31/kg and Rs41/kg, respectively. Weak demand for durables and appliances led to a decline in the industrial EBIT margin to Rs18/kg, down 15% yoy. Net cash was flat qoq at Rs5.9bn (Dec 2023).

Focus on higher sales growth in pipes and on margins in non-pipes

Nearly Rs10bn of capex is underway to expand the existing capacities and launch new products like O-PVC pipes (used for high-pressure water supply), HDPE pipes for natural gas transportation (could offset any decline in water pipe sales currently supplied under the Jal Jeevan Mission), CPVC pipes for industrial use (currently have only for plumbing and fire sprinklers), ball and industrial valves and PVC windows and doors. Management expects a stable agri-pipe sale season going ahead with no material hiccups from the general elections in India in 4QFY24-1QFY25F. SIL expects plastic pipe sales volume growth at 30%/12-15% yoy in FY24F/FY25F, respectively, and EBIT margin to sustain at Rs18-20/kg. Higher sales of premium products for packaging & plastic furniture to ensure sustenance of elevated margins. We expect plastic pipe sales volume CAGR at 14% & EBIT margin at Rs18-18.5/kg in FY24F-26F. We expect FCF of Rs24bn in the same period.

Change in our earnings estimates

We fine tune revenue/EBITDA/PAT estimates by 1-2%, implying revenue/EBITDA/PAT CAGR of 13%/14.5%/16%, respectively, & EBITDA margin of Rs24-25/kg in FY24F-26F.

Low probability of positive surprises ahead; need a lower entry price

We retain our REDUCE rating on SIL with a lower target price of Rs3,771 (Rs3,828 earlier) based on a P/E of 40x (close to five-year mean+1SD) FY25F EPS. We await a lower entry price. Upside risk: Higher-than-expected sales growth/margins.

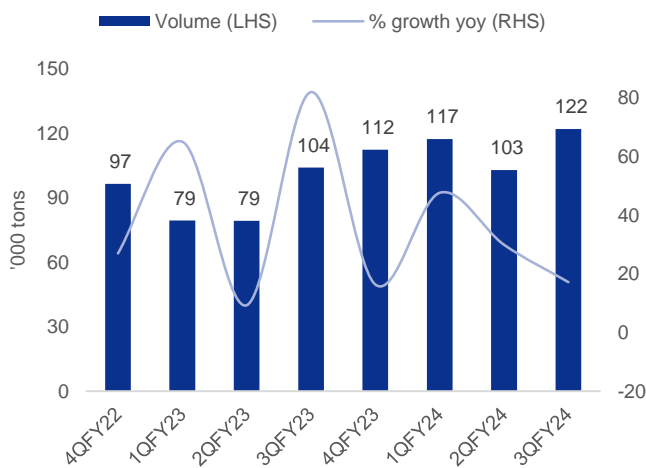
Financial Summary	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	77,728	92,016	99,030	112,050	126,137
Operating EBITDA (Rsm)	12,421	11,997	15,201	17,480	19,930
Net Profit (Rsm)	9,685	8,653	10,390	11,975	14,064
Core EPS (Rs)	76.2	68.1	81.8	94.3	110.7
Core EPS Growth	(0.9%)	(10.6%)	20.1%	15.3%	17.4%
FD Core P/E (x)	53.38	59.75	49.76	43.17	36.76
DPS (Rs)	24.0	26.0	28.0	30.0	32.0
Dividend Yield	0.59%	0.64%	0.69%	0.74%	0.79%
EV/EBITDA (x)	41.20	42.47	33.50	28.76	24.83
P/FCFE (x)	784.64	95.55	154.36	52.10	44.77
Net Gearing	(13.7%)	(17.1%)	(15.2%)	(24.1%)	(32.0%)
P/BV (x)	13.45	11.74	10.17	8.76	7.49
ROE	27.6%	21.0%	21.9%	21.8%	22.0%
% Change In Core EPS Estimates			(0.80%)	(1.48%)	(1.87%)
InCred Research/Consensus EPS (x)					

SOURCES: INCRED RESEARCH, COMPANY REPORTS

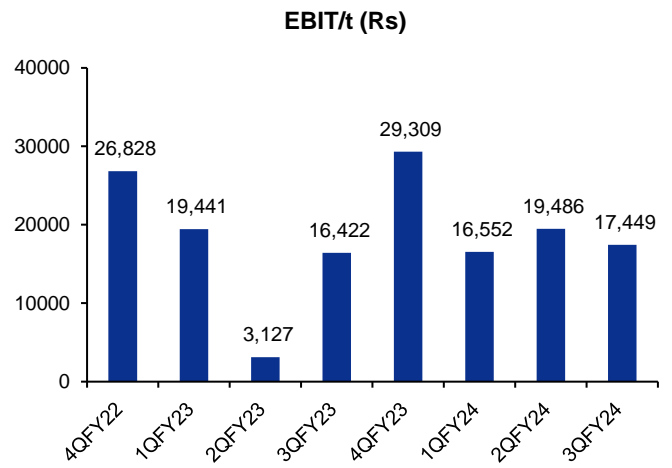
3QFY24 earnings-call takeaways

- **Volume and margin guidance:** Management targets to achieve overall sales volume growth of 23% yoy and plastic piping sales volume growth of 30% yoy in FY24F. The EBITDA margin is expected to be stable at 15.5% in FY24F. The total manufacturing capacity across all segments is expected to reach 1mt+ by the end of Dec 2024F. Management expects to achieve plastic pipe sales volume growth of 12-15% yoy in FY25F.
- **Industry growth vis-à-vis SIL:** As per management, PVC and CPVC industry pipe sales volume grew 15% yoy and 2% yoy in India vs. SIL's growth of 30% and 8% yoy, respectively, implying market share gains.
- **PVC prices:** Indian PVC prices remained largely stable at ~Rs80/kg during the quarter, barring the volatility at the start and the end of 3QFY24. Management expects stable prices going ahead, barring the risks associated with ongoing Houthi rebels' attacks in the Red Sea that could disrupt vessel traffic movement. Volatile PVC prices led to an inventory loss of Rs510m in 9MFY24. CPVC resin prices declined by ~10% over the past two-to-three months.
- **Non-pipe business update:** The industrial component division is dependent on appliances and white goods which have not fared well, even during the festive season gone by. SIL is focused on acquiring new customers for growth recovery in this segment. As regards its consumer products division, the number of retail showrooms at the end of Dec 2023 was at 298 vs. 244 in Mar 2023. The focus is to sell premium products like cabinets going ahead.
- **Exports:** Plastic pipes and packaging products could see a ramp-up of sales to international markets, as the company has seen a pick-up in customer enquiries after the participation in international exhibitions.
- **Update on acquisition of Parvati Agro Plast:** SIL acquired Parvati Agro Plast at Sangli (Maharashtra), having an annual capacity of 36kt, for a total consideration of Rs1.71bn (fully paid in cash). The additional adjoining land of 7.76 acres is still awaiting certain government clearances. Several balancing equipment to run the plant at optimum capacity are expected shortly. The company expects to run this plant at full capacity, beginning Feb 2024F. Management expects production of 8-9kt from this plant in 4QFY24F.
- **Capex:** The fourth unit at the Malanpur plant is expected to start commercial production of ball and industrial valves in 1QFY25F. The plant to produce acoustics polypropylene pipes is expected to start operations in 2QFY25F. SIL has placed an order for nine lines to manufacture O-PVC pipes. The expanded annual capacity is expected at 40kt, to be completed over the next two years. SIL intends to start O-PVC pipe production at Cuttack and Gadegaon plants, apart from its Sangli plant. Performance packaging capacities are optimally utilized, and availability of space remains a constraint for further growth in this segment. The PVC window and doors plant at Kanpur is under construction and orders for machinery are being placed with international suppliers. The plant is expected to start commercial production in 1HFY26F. The total cash outflow on account of capex is estimated at Rs7.5-8bn in FY24F.

Figure 1: Plastic pipe volume growth and EBIT/t

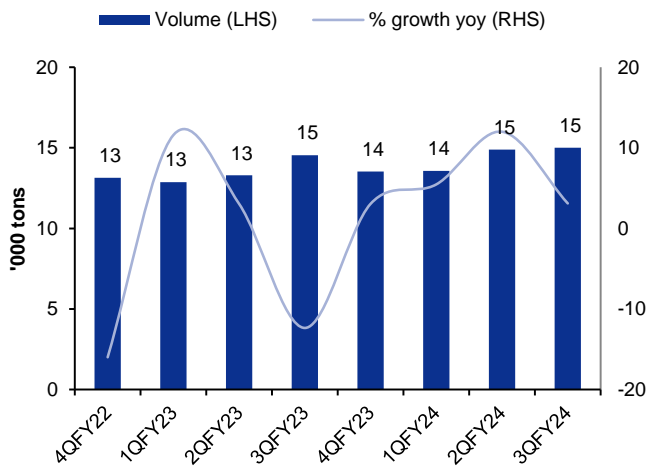


SOURCE: INCRED RESEARCH, COMPANY REPORTS

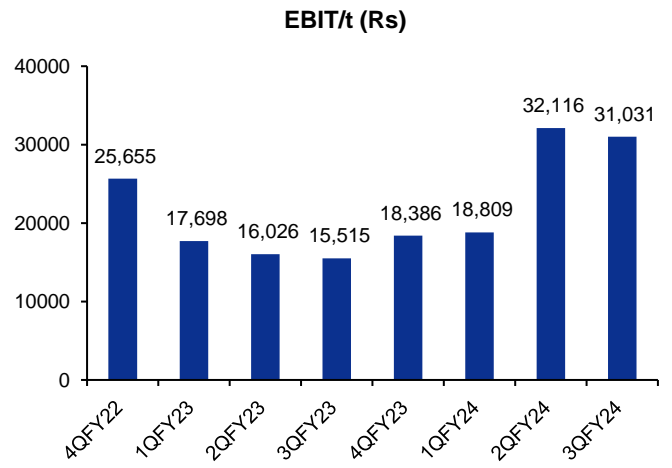


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Packaging products volume and EBIT/t

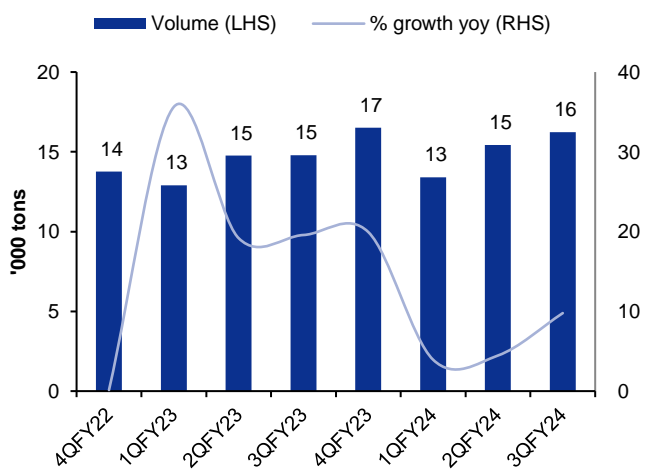


SOURCE: INCRED RESEARCH, COMPANY REPORTS

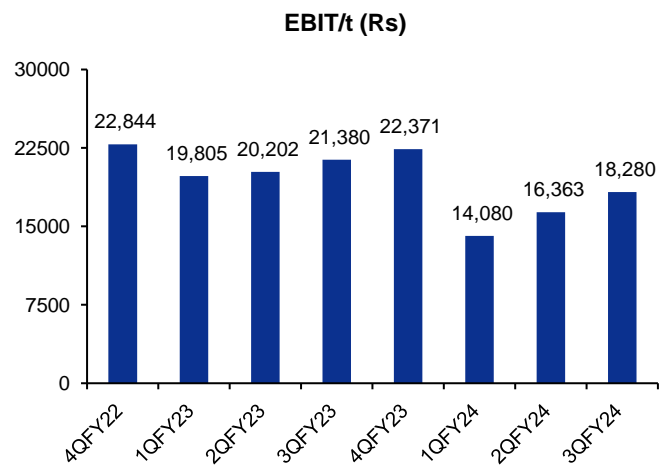


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 3: Industrial products volume and EBIT/t

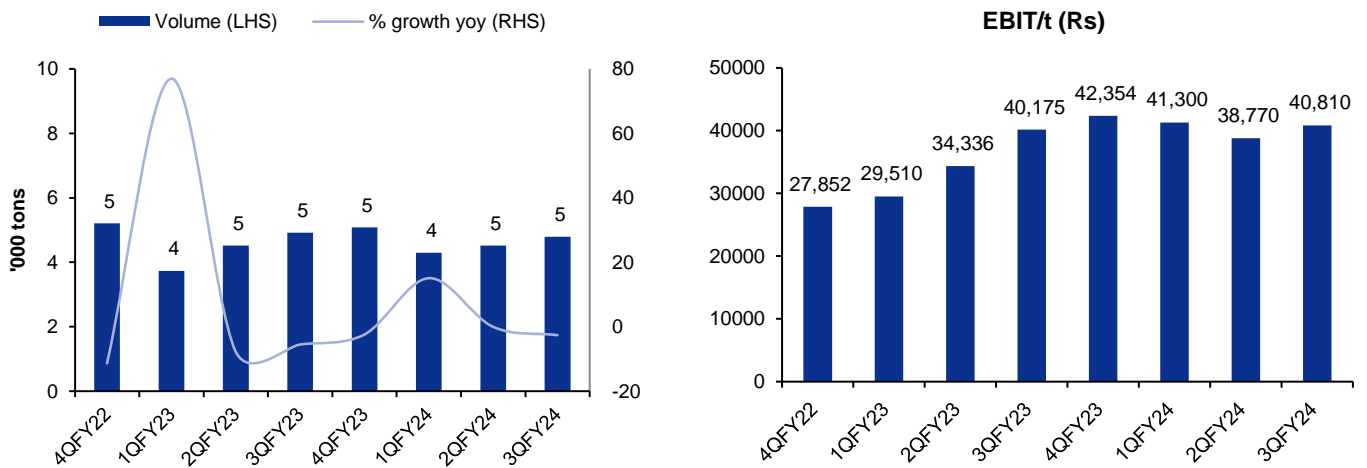


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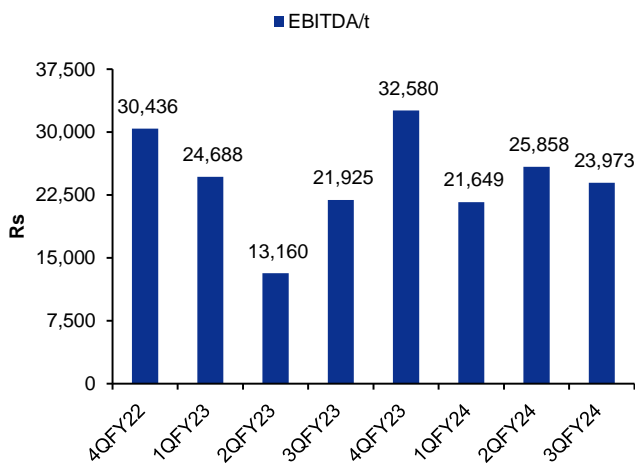
Figure 4: Consumer products volume and EBIT/t



SOURCE: INCRED RESEARCH, COMPANY REPORTS

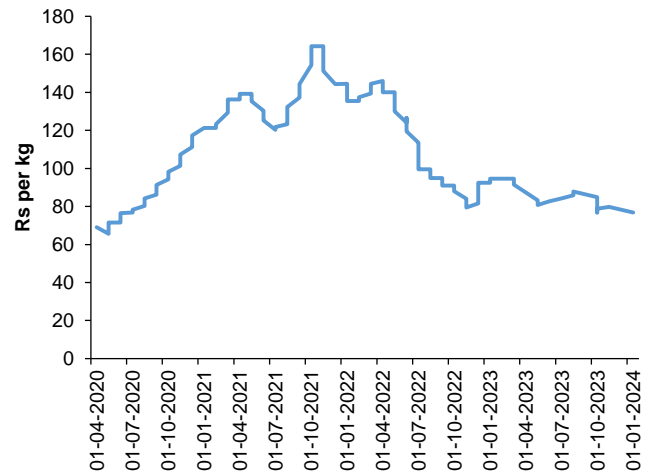
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 5: EBITDA/t (company-level)



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: PVC resin prices



SOURCE: INCRED RESEARCH, BLOOMBERG

Figure 7: 3QFY24 quarter results

Y/E Mar (Rs m)	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue	24,491	23,107	6.0	23,087	6.1	71,264	66,033	7.9
EBITDA	3,788	3,034	24.9	3,562	6.3	10,567	7,194	46.9
EBITDA margin (%)	15.5	13.1	234 bp	15.4	4 bp	14.8	10.9	393 bp
Adj. PAT	2,562	2,100	22.0	2,432	5.3	7,149	5,059	41.3
Diluted EPS (Rs)	20.2	16.5		19.1		56.3	39.8	

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: 3QFY24 segment financials

	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Revenue (Rs m)								
Plastic pipes	16,437	15,087	8.9	15,093	8.9	47,790	42,667	12.0
Packaging products	3,540	3,419	3.5	3,522	0.5	10,293	9,961	3.3
Industrial products	3,320	3,358	(1.2)	3,258	1.9	9,563	9,730	(1.7)
Consumer products	1,123	1,159	(3.1)	1,054	6.5	3,227	3,236	(0.3)
Others	72	84	(14.1)	160	(54.7)	391	440	(11.1)
Total	24,491	23,107	6.0	23,087	6.1	71,264	66,033	7.9
EBIT (Rs m)								
Plastic pipes	2,129	1,710	24.5	2,006	6.1	6,076	3,502	73.5
Packaging products	465	226	106.2	478	(2.7)	1,199	667	79.9
Industrial products	297	316	(6.1)	252	17.6	738	870	(15.2)
Consumer products	196	198	(1.1)	175	11.6	548	463	18.4
Others	-4	-0	875.0	-3	50.0	-6	-38	(84.1)
Total	3,083	2,449	25.9	2,909	6.0	8,554	5,463	56.6
EBIT margin (%)								
Plastic pipes	13.0	11.3	162 bp	13.3	-34 bp	12.7	8.2	451 bp
Packaging products	13.1	6.6	655 bp	13.6	-43 bp	11.6	6.7	496 bp
Industrial products	8.9	9.4	-47 bp	7.7	119 bp	7.7	8.9	-122 bp
Consumer products	17.4	17.1	35 bp	16.6	80 bp	17.0	14.3	268 bp
Others	-5.4	-0.5	-493 bp	-1.6	-377 bp	-1.5	-8.6	706 bp
Total	12.6	10.6	199 bp	12.6	-1 bp	12.0	8.3	373 bp

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 9: EBIT/t

Rs	3QFY24	3QFY23	yoy (%)	2QFY24	qoq (%)	9MFY24	9MFY23	yoy (%)
Plastic pipes	17,449	16,422	6.3	19,486	(10.5)	17,754	13,326	33.2
Packaging products	31,031	15,515	100.0	32,116	(3.4)	27,587	16,372	68.5
Industrial products	18,280	21,380	(14.5)	16,363	11.7	16,374	20,491	(20.1)
Consumer products	40,810	40,175	1.6	38,770	5.3	40,287	35,150	14.6
Total	19,507	17,699	10.2	21,115	(7.6)	19,252	15,214	26.5

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 10: Actuals vs. our estimates

Rs m	3QFY24	3QFY24F	Var (%)
Revenue	24,491	26,032	(5.9)
EBITDA	3,788	3,879	(2.3)
EBITDA margin (%)	15.5	14.9	57 bp
Adj. PAT	2,562	2,697	(5.0)

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

Figure 11: Actuals vs. Bloomberg consensus

Rs m	3QFY24	3QFY24C	Var (%)
Revenue	24,491	25,849	(5.3)
EBITDA	3,788	3,786	0.1
EBITDA margin (%)	15	14.6	82 bp
Adj. PAT	2,562	2,586	(1.0)

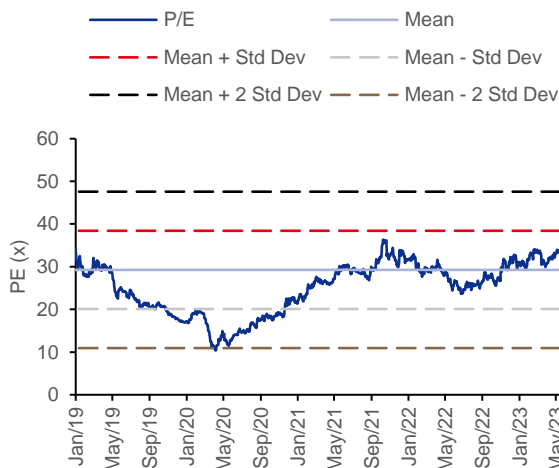
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 12: Our revised earnings estimates

	New estimates			Old estimates			Change (%)		
	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F	FY24F	FY25F	FY26F
Revenue	99,030	1,12,050	1,26,137	1,00,222	1,14,458	1,28,275	-1.2	-2.1	-1.7
EBITDA	15,201	17,480	19,930	15,134	17,455	20,011	0.4	0.1	-0.4
Adjusted consol. PAT	10,390	11,975	14,064	10,474	12,155	14,332	-0.8	-1.5	-1.9
EPS	81.8	94.3	110.7	82.5	95.7	112.8	-0.8	-1.5	-1.9
EBITDA margin (%)	15.4	15.6	15.8	15.1	15.3	15.6	25 bp	35 bp	20 bp

SOURCE: INCRED RESEARCH ESTIMATES, COMPANY REPORTS

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



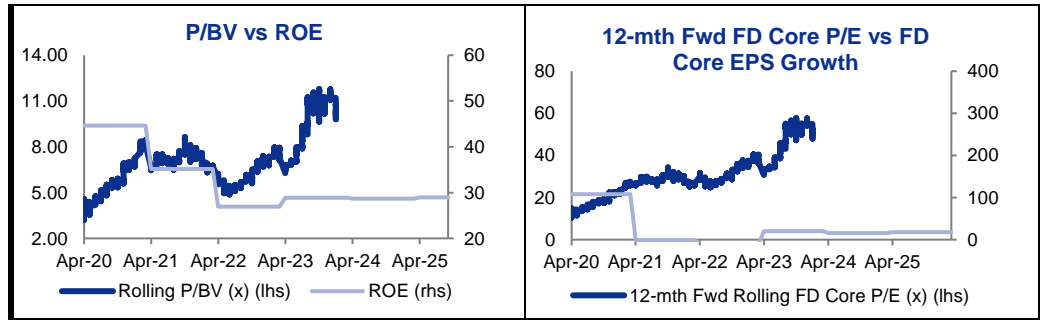
SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

Figure 14: P/E band



SOURCE: INCRED RESEARCH, COMPANY REPORTS, BLOOMBERG

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Net Revenues	77,728	92,016	99,030	112,050	126,137
Gross Profit	24,197	26,024	32,086	36,697	41,310
Operating EBITDA	12,421	11,997	15,201	17,480	19,930
Depreciation And Amortisation	(2,295)	(2,634)	(3,014)	(3,566)	(3,741)
Operating EBIT	10,126	9,363	12,187	13,914	16,188
Financial Income/(Expense)	61	178	357	553	979
Pretax Income/(Loss) from Assoc.	2,044	1,533	997	1,196	1,283
Non-Operating Income/(Expense)	87	39	150	100	105
Profit Before Tax (pre-EI)	12,318	11,113	13,691	15,763	18,555
Exceptional Items					
Pre-tax Profit	12,318	11,113	13,691	15,763	18,555
Taxation	(2,633)	(2,460)	(3,300)	(3,787)	(4,491)
Exceptional Income - post-tax					
Profit After Tax	9,685	8,653	10,390	11,975	14,064
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	9,685	8,653	10,390	11,975	14,064
Recurring Net Profit	9,685	8,653	10,390	11,975	14,064
Fully Diluted Recurring Net Profit	9,685	8,653	10,390	11,975	14,064

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
EBITDA	12,421	11,997	15,201	17,480	19,930
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(4,939)	(778)	(1,455)	(1,502)	(1,625)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense					
Other Operating Cashflow	48	(5)	1,504	1,849	2,367
Net Interest (Paid)/Received	41	64	(357)	(553)	(979)
Tax Paid	(2,868)	(2,375)	(3,300)	(3,787)	(4,491)
Cashflow From Operations	4,704	8,903	11,592	13,487	15,202
Capex	(4,699)	(4,243)	(8,200)	(3,721)	(4,243)
Disposals Of FAs/subsidiaries	39	25			
Acq. Of Subsidiaries/Investments	139	188	(500)	(500)	(500)
Other Investing Cashflow	487	538	457	658	1,089
Cash Flow From Investing	(4,035)	(3,493)	(8,243)	(3,563)	(3,653)
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)	(100)	(105)	(110)
Cash Flow From Financing	(2,942)	(3,064)	(3,657)	(3,917)	(4,176)
Total Cash Generated	(2,273)	2,347	(308)	6,007	7,373
Free Cashflow To Equity	659	5,411	3,349	9,924	11,548
Free Cashflow To Firm	619	5,331	3,249	9,819	11,438

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Total Cash And Equivalents	5,264	7,522	7,714	14,221	22,093
Total Debtors	4,668	4,924	5,969	6,754	7,603
Inventories	12,602	13,856	14,922	16,884	19,007
Total Other Current Assets	2,219	2,546	2,740	3,100	3,490
Total Current Assets	24,753	28,848	31,345	40,959	52,193
Fixed Assets	16,886	19,819	24,342	25,247	25,998
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
Total Non-current Assets	25,206	28,094	33,280	33,435	33,937
Short-term Debt					
Current Portion of Long-Term Debt					
Total Creditors	7,940	9,038	9,496	10,745	12,095
Other Current Liabilities	2,064	2,322	2,713	3,070	3,456
Total Current Liabilities	10,004	11,359	12,209	13,814	15,551
Total Long-term Debt					
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	607	654	654	654	654
Total Non-current Liabilities	607	654	654	654	654
Total Provisions	904	908	908	908	908
Total Liabilities	11,515	12,921	13,771	15,376	17,113
Shareholders Equity	38,444	44,021	50,854	59,018	69,016
Minority Interests					
Total Equity	38,444	44,021	50,854	59,018	69,016

Key Ratios					
	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue Growth	22.3%	18.4%	7.6%	13.1%	12.6%
Operating EBITDA Growth	(3.3%)	(3.4%)	26.7%	15.0%	14.0%
Operating EBITDA Margin	16.0%	13.0%	15.4%	15.6%	15.8%
Net Cash Per Share (Rs)	41.44	59.21	60.72	111.95	173.93
BVPS (Rs)	302.64	346.55	400.34	464.61	543.32
Gross Interest Cover	196.62	116.74	121.87	132.51	146.83
Effective Tax Rate	21.4%	22.1%	24.1%	24.0%	24.2%
Net Dividend Payout Ratio	24.7%	29.7%	26.0%	24.2%	21.9%
Accounts Receivables Days	20.11	19.02	20.07	20.72	20.77
Inventory Days	68.90	73.17	78.46	77.03	77.22
Accounts Payables Days	49.10	46.95	50.53	49.02	49.14
ROIC (%)	45.8%	31.3%	37.7%	35.7%	39.8%
ROCE (%)	28.5%	22.8%	26.2%	26.1%	26.6%
Return On Average Assets	26.4%	20.5%	21.9%	21.9%	21.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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