

India

July 02, 2023 - 9:04 PM

ADD (no change)

Consensus ratings*: Buy 17 Hold 8 Sell 3	
Current price:	Rs3,198
Target price: ▶	Rs3,247
Previous target:	Rs3,247
Up/downside:	1.5%
InCred Research / Consensus:	9.8%
Reuters:	SUPI.NS
Bloomberg:	SI IN
Market cap:	US\$4,951m Rs406,194m
Average daily turnover:	US\$3.7m Rs302.3m
Current shares o/s:	127.0m
Free float:	51.2%
<small>*Source: Bloomberg</small>	

Key financial forecast

	Mar-23A	Mar-24F	Mar-25F
Net Profit (Rsm)	8,653	10,166	11,458
Core EPS (Rs)	68.12	80.03	90.20
Core EPS Growth	(10.6%)	17.5%	12.7%
FD Core P/E	46.94	39.96	35.45
Recurring ROE	21.0%	21.5%	21.2%
P/BV (x)	9.23	8.06	7.05
DPS (Rs)	26.00	30.01	33.01
Dividend Yield	0.81%	0.94%	1.03%



SOURCE: BLOOMBERG

Price performance	1M	3M	12M
Absolute (%)	13.4	27.2	80.7
Relative (%)	9.6	16.2	47.7

Major shareholders	% held
Promoters	48.9
Nalanda India Fund	4.8
Kotak Emerging Equity Scheme	3.2

Brokers Poll 2023

BROKERS POLL 2023

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InCred Research

Analyst(s)

Rahul AGARWAL
T (91) 22 4161 1553
E rahul.agarwal@incredcapital.com
Harshit SARAWAGI
T (91) 22 4161 0000
E harshit.sarawagi@incredcapital.com

Supreme Industries

FY23 AGM KTAs; good 1QFY24F likely

- SIL held its 80th AGM on 28 Jun 2023. Management reiterated its growth strategy, robust demand outlook, expansion plan & overall business scenario.
- Apr-May 2023 saw 40%+ sales volume growth yoy driven by affordable PVC prices. Prices are down 15%+ since Mar 2023. Highest-ever capex on track.
- Market share gains, channel expansion, export focus, industrial product demand improving & cost-efficient operations are key positives. Retain ADD.

Premium sales mix and timely capex to aid market share gain

- Supreme Industries (SIL) expects plastic consumption to grow by 10-12% p.a. over the next two-to-three years in India. It intends to beat this growth by 2-3% p.a. driven by timely capex, plants across India, launch of premium products and channel expansion.
- Brownfield expansion at five of its existing plants is a part of the highest-ever annual capex plan of Rs7.5bn for FY24F, including Rs1.5bn of carried-over capex from the last financial year. The total plastic manufacturing capacity to touch 950kt+ by Mar 2024F.
- Prominent niche products in categories like bath fittings, DWC pipe system, water tanks and electrofusion & compression-moulded fittings have the potential for a Rs4-5bn/year revenue run-rate over the next three-to-five years.
- FY23 value-added product (VAP) revenue was at Rs33.3bn, +14% yoy, 36% of total sales.
- The number of active channel partners across divisions stood at 4,577, +13% yoy, at the end of Mar 2023. Channel partners have grown at a CAGR of 6.7% over FY18-23.

Segment-wise performance and outlook

- **Plastic pipes:** SIL is adding four new systems to its existing 36 systems in the plastic piping segment in FY24F. The total plastic pipe manufacturing capacity to touch 750kt, +25% yoy, by Mar 2024F.
- **Industrial:** Automotive parts are selling well on the back of a recovery in passenger vehicle sales volume. The appliances segment is subdued due to unseasonal rains that has led to weak secondary sales and high channel inventory. Composite LPG cylinder capacity is now at 1m cylinders, and the order backlog is at an optimum level. SIL plans to add new industrial customers in sectors like telecom, infrastructure, electricals and railways.
- **Packaging:** Cross-laminated films continued to get impacted by fierce competition from look-alike products. SIL plans to introduce newly developed films, and a plant with annual capacity of 2.5kt should start operations by Mar 2024F.
- **Furniture:** The downward trend in polypropylene prices should drive sales volume growth due to a reduction in the price gap with reprocessed material manufacturers. SIL had 247 showrooms as of May 2023-end, and more are being added regularly.

Apr-May 2023 has been stellar; expect a strong 1QFY24F

- Revenue, including other income, for the first two months of 1QFY24F (Apr-May 2023) stood at Rs15.3bn, +10% yoy, while the sales volume stood at 96kt, +41% yoy. Including Jun 2023, we expect sales volume growth of ~20% yoy (lower agri sales in Jun 2023 as the monsoon season commenced) and EBITDA margin decline qoq in 1QFY24F. VAP sales fell to Rs4.5bn, or 30% of total sales, in Apr-May 2023.

PVC price trend

- Polymer prices continued to slide down, beginning from the second week of Mar 2023. PVC resin witnessed a fall of Rs14/kg since 9 Mar 2023, nearly 15% qoq. Current prices are at ~Rs80-82/kg for supplies from Reliance Industries. This price fall would lead to a marginal one-time inventory loss in 1QFY24F, as per SIL.

Change in its board of directors

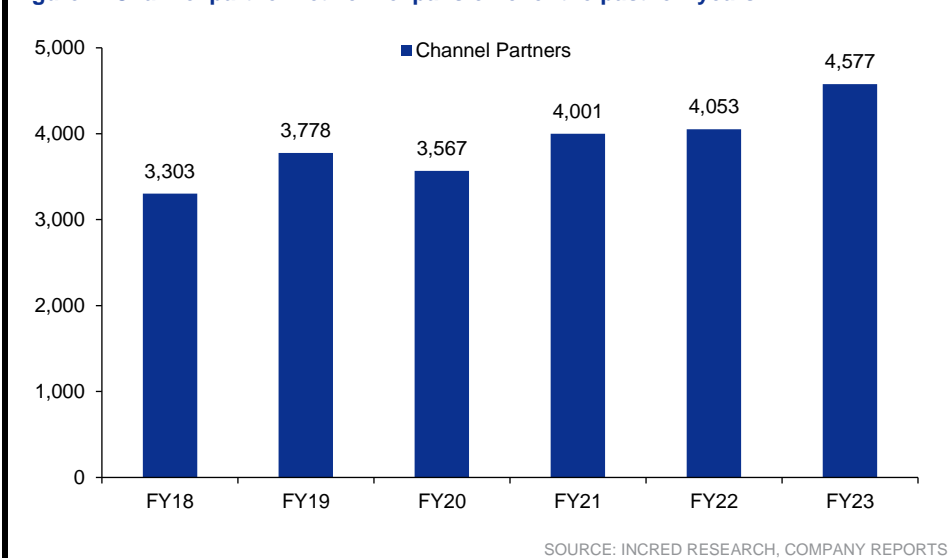
- SIL has appointed Mr. Vipul Shah and Mr. Pulak Prasad as additional directors on its board. Mr. Shah has vast experience in petrochemicals, LPG/LNG marketing, etc. and was the COO at Reliance Industries. He is a director on the board of Deepak Nitrite. Mr. Prasad is the founder and managing director of Nalanda Capital and has multiple directorships in listed companies in India.

Figure 1: Capex plan for FY24F

Product segment	Plant location	Capex description
Industrial and ball valves	Malanpur - Madhya Pradesh	State-of-the-art manufacturing facility.
Olefin fittings	Jadcherla - Telangana	Brownfield expansion.
Piping products	Erode - Tamil Nadu, Cuttack - Odisha	Brownfield expansion.
HDPE DWC pipes	Erode - Tamil Nadu, Kanpur - Uttar Pradesh	New product addition.
PE pipes	Jadcherla - Telangana, Gadegaon - Maharashtra	Brownfield expansion.
PP silent piping SWR system	Gadegaon - Maharashtra	New facility for use in high-rise buildings for low noise requirement.
Cross-plastic film	Talegaon - Maharashtra	New facility for cross-plastic films.
Bath-fittings products	Puducherry	Brownfield expansion.

SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Channel partner network expansion over the past few years



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Net Revenues	77,728	92,016	102,109	115,166
Gross Profit	24,197	26,024	30,736	34,666
Operating EBITDA	12,421	11,997	14,143	16,124
Depreciation And Amortisation	(2,295)	(2,634)	(2,882)	(3,281)
Operating EBIT	10,126	9,363	11,260	12,843
Financial Income/(Expense)	(38)	20	100	170
Pretax Income/(Loss) from Assoc.	2,044	1,533	1,227	1,227
Non-Operating Income/(Expense)	186	198	100	105
Profit Before Tax (pre-EI)	12,318	11,113	12,687	14,344
Exceptional Items				
Pre-tax Profit	12,318	11,113	12,687	14,344
Taxation	(2,633)	(2,460)	(2,521)	(2,886)
Exceptional Income - post-tax				
Profit After Tax	9,685	8,653	10,166	11,458
Minority Interests				
Preferred Dividends				
FX Gain/(Loss) - post tax				
Other Adjustments - post-tax				
Net Profit	9,685	8,653	10,166	11,458
Recurring Net Profit	9,685	8,653	10,166	11,458
Fully Diluted Recurring Net Profit	9,685	8,653	10,166	11,458

Balance Sheet

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Total Cash And Equivalents	5,264	7,522	9,655	15,733
Total Debtors	4,668	4,924	5,464	6,163
Inventories	12,602	13,856	15,386	16,407
Total Other Current Assets	2,219	2,546	2,825	3,186
Total Current Assets	24,753	28,848	33,331	41,489
Fixed Assets	16,886	19,819	22,774	23,992
Total Investments	4,759	5,713	5,713	5,713
Intangible Assets				
Total Other Non-Current Assets	3,561	2,563	2,726	2,226
Total Non-current Assets	25,206	28,094	31,212	31,931
Short-term Debt				
Current Portion of Long-Term Debt				
Total Creditors	7,940	9,038	10,029	11,311
Other Current Liabilities	2,064	2,322	2,576	2,906
Total Current Liabilities	10,004	11,359	12,605	14,217
Total Long-term Debt				
Hybrid Debt - Debt Component				
Total Other Non-Current Liabilities	607	654	654	654
Total Non-current Liabilities	607	654	654	654
Total Provisions	904	908	908	908
Total Liabilities	11,515	12,921	14,167	15,779
Shareholders Equity	38,444	44,021	50,376	57,641
Minority Interests				
Total Equity	38,444	44,021	50,376	57,641

Cash Flow

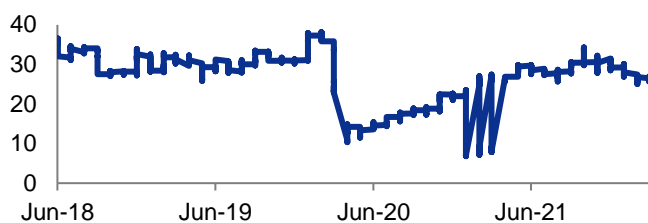
(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F
EBITDA	12,421	11,997	14,143	16,124
Cash Flow from Invt. & Assoc.				
Change In Working Capital	(4,939)	(778)	(1,103)	(469)
(Incr)/Decr in Total Provisions				
Other Non-Cash (Income)/Expense				
Other Operating Cashflow	48	(5)	1,427	1,501
Net Interest (Paid)/Received	41	64	(100)	(170)
Tax Paid	(2,868)	(2,375)	(2,521)	(2,886)
Cashflow From Operations	4,704	8,903	11,845	14,101
Capex	(4,699)	(4,243)	(6,000)	(4,000)
Disposals Of FAs/subsidiaries	39	25		
Acq. Of Subsidiaries/investments	139	188	(500)	(500)
Other Investing Cashflow	487	538	150	222
Cash Flow From Investing	(4,035)	(3,493)	(6,350)	(4,278)
Debt Raised/(repaid)	(11)			
Proceeds From Issue Of Shares				
Shares Repurchased				
Dividends Paid	(2,922)	(3,049)	(3,812)	(4,193)
Preferred Dividends				
Other Financing Cashflow	(10)	(15)	(50)	(53)
Cash Flow From Financing	(2,942)	(3,064)	(3,862)	(4,245)
Total Cash Generated	(2,273)	2,347	1,633	5,578
Free Cashflow To Equity	659	5,411	5,495	9,823
Free Cashflow To Firm	619	5,331	5,445	9,770

Key Ratios

	Mar-22A	Mar-23A	Mar-24F	Mar-25F
Revenue Growth	22.3%	18.4%	11.0%	12.8%
Operating EBITDA Growth	(3.3%)	(3.4%)	17.9%	14.0%
Operating EBITDA Margin	16.0%	13.0%	13.9%	14.0%
Net Cash Per Share (Rs)	41.44	59.21	76.01	123.86
BVPS (Rs)	302.64	346.55	396.57	453.77
Gross Interest Cover	196.62	116.74	225.21	244.62
Effective Tax Rate	21.4%	22.1%	19.9%	20.1%
Net Dividend Payout Ratio	24.7%	29.7%	30.0%	29.2%
Accounts Receivables Days	20.11	19.02	18.57	18.42
Inventory Days	68.90	73.17	74.77	72.08
Accounts Payables Days	49.10	46.95	48.75	48.38
ROIC (%)	45.8%	31.3%	34.8%	35.1%
ROCE (%)	28.2%	22.5%	23.7%	23.8%
Return On Average Assets	26.6%	20.8%	20.7%	20.5%

12-mth Fwd Rolling FD Core P/E

(x)



— 12-mth Fwd Rolling FD Core P/E (x)(lhs)

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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