

CMP: Rs 2722
2 Year Target: Rs 2600

Investor's Rationale

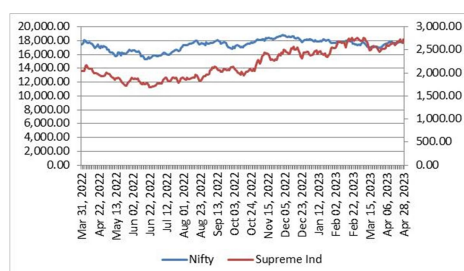
Supreme Industries' (SI) 4Q PAT (up 11% YoY and 71% QoQ) was driven by strong volumes (up 15% YoY and 7% QoQ), ~Rs 700mn inventory gain (2.7% of revenue) and robust earnings in Supreme Petro (SI's share: Rs 491mn, up 78% QoQ).

Cash levels surged to Rs 7.4bn at FY23-end (FY22: Rs 5.2bn), despite continued capex. The company outpaced industry growth of 32% YoY, posting robust 37% YoY growth in FY23 pipe volumes (on a low base); management aims for healthy 15% growth in FY24 on stable and affordable PVC prices. However, EBITDA margin guidance of 13- 15% seems underestimated after a 15.8% core EBITDA margin in 4Q (we estimate ~15.5% for FY24 and FY25).

After having invested ~Rs 8.7bn in last two years, mostly towards greenfield plants in Guwahati, Erode and Cuttack (turned operational Dec'22 onwards), SI is now working on a Rs 7.5bn capex plan (including a plant near Gwalior), which would catapult its total capacity to 950,000 tonnes by Mar'24 (currently ~800,000 tonnes). Based on these drivers, we estimate 9%/19%/19% CAGR in SI's revenue/EBITDA/PAT over FY23-25E (FY18-23: 13%/9%/15%), respectively, assuming ~14% volume CAGR and ~15.5% EBITDA margin. At ~28x FY25E P/E on CMP, we maintain HOLD with an unchanged TP of Rs 2,687 (30x FY25E core P/E, 16x to JV share). Key near-term monitorables: Volume and margin trajectories

Face Value	2.0
Market Cap (Rs cr)	34,574
52 week high/low	2855/1666
Shares O/S (Cr)	12.7
Book Value per Share (Rs)	347
Sensex	61,112
Nifty	18,065

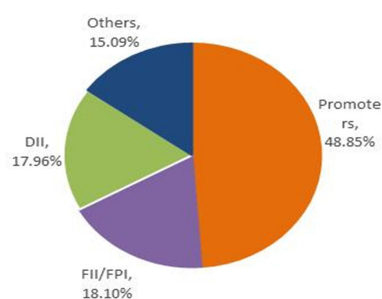
1 yr. Price Chart of Stock and Nifty



Valuation

We maintain HOLD with an unchanged TP of Rs 2,600 (29x FY25E core P/E, 16x to JV share).

Shareholding pattern as on 31st Mar 2023.



	FY22	FY23	FY24E	FY25E
Revenue (Rs.Cr)	77,728.0	92,015.0	96,696.0	1,08,530.0
EBITDA (Rs. cr)	2,295.0	2,634.0	2,911.0	3,203.0
Adj. profit (Rs.Cr)	9,685.0	8,652.0	10,778.0	12,284.0
P/E (x)	35.7	39.9	32.1	28.1
EV/EBITDA (x)	27.4	28.2	22.4	19.4
ROCE (%)	28.70	22.90	25.00	24.40
RONW	32.80	24.20	27.20	28.40

For FY24, management aims 15% volume growth in pipes but is cautious on margins:

- Strong growth in 4Q pipe volumes (up 16% YoY and 8% QoQ; up 37% YoY in FY23 vs. 32% for the industry) was driven by all verticals (agri, plumbing and infra). Channel inventory is at normal level and management aims for healthy 15% volume growth in pipes, backed by stable and affordable PVC prices. With SI having achieved 15.8% core EBITDA margin in 4Q (adjusted to ~Rs 700mn inventory gain, 2.7% of revenue), its guidance of 13-15% for FY24 seems underestimated (we expect 15.5%).

Continued capex to support growth:

- After having invested Rs 4.7bn in FY22 and Rs 4bn in FY23, SI is now working on Rs 7.5bn capacity expansion plan for all segments (including Malanpur plant near Gwalior) to be funded through internal accruals (Rs 7.4bn cash surplus). Its greenfield plants in Guwahati, Erode and Cuttack are operational since Dec'22. It also doubled its LPG cylinder capacity to 1mn units in FY23. From its current ~800,000-tonne capacity, SI aims to achieve 950,000 tonnes by Mar'24, with major addition in pipes (to reach over 700,000 tonnes). To remain competitive, SI is looking to fully pass on proximity-led logistic cost savings (~3%) to customers. On these drivers, we estimate 9%/19%/19% CAGR in SI's revenue/EBITDA
- /PAT over FY23-25E, respectively, on ~14% volume CAGR and ~15.5% EBITDA margin.

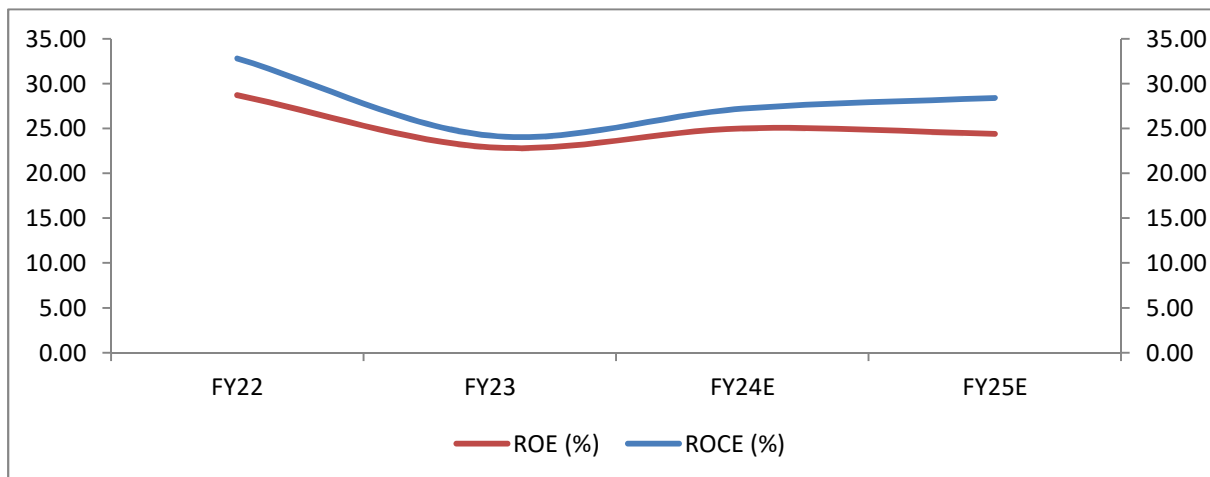
Outlook and guidance

- Season for agri pipes has just started, and the demand is quite robust.
- Given its healthy demand outlook in all business verticals, management aims for 15% volume growth in FY24.
- A low 13-15% EBITDA margin guidance is on anticipation of rise in the mix of lower-margin agri pipes.
- PVC prices are expected to stay close to the current levels.
- SI aims to add 100+ distributors in FY24. It added ~200 distributors in FY23 to reach 1,443 currently.
- Savings on logistics cost (~3%) from the new plants due to proximity to markets would be fully passed on to customers to remain competitive.

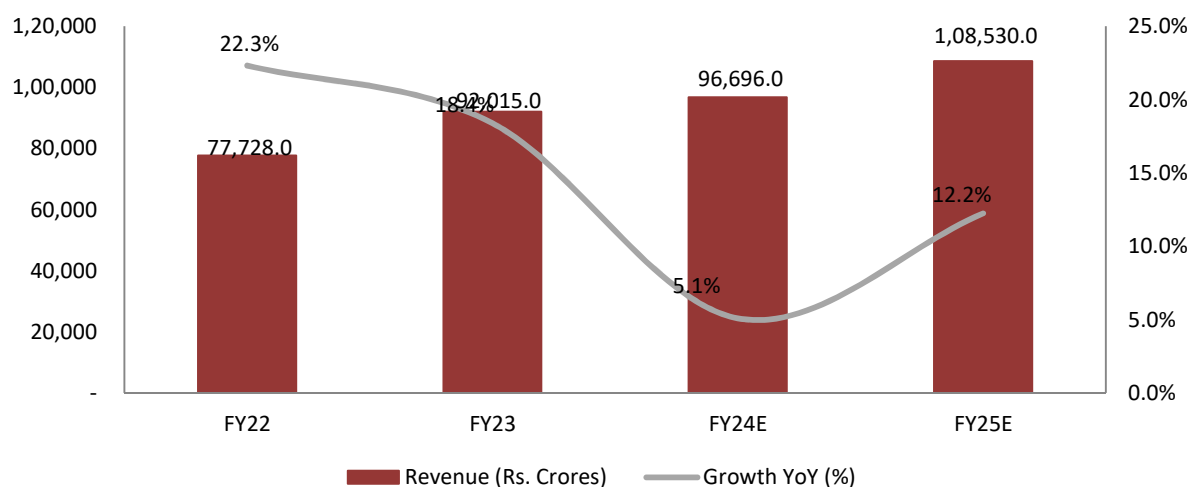
Capex

- Greenfield plants in Guwahati, Erode and Cuttack turned operational since
 - Dec'22.
 - Capacity of LPG cylinders too doubled to 1mn units in FY23.
 - After having invested Rs 4.7bn in FY22 and Rs 4bn in FY23, SI is currently working on a Rs 7.5bn capacity expansion plan in all segments (including a plant in Malanpur near Gwalior)
 - Capex will be funded through internal accruals (Rs 7.4bn cash surplus).
 - From its current ~800,000 tonne capacity (FY22: 725,000 tonnes), SI aims to achieve 950,000 tonnes by Mar'24, with major addition in pipes (to reach 700,000+ tonnes).
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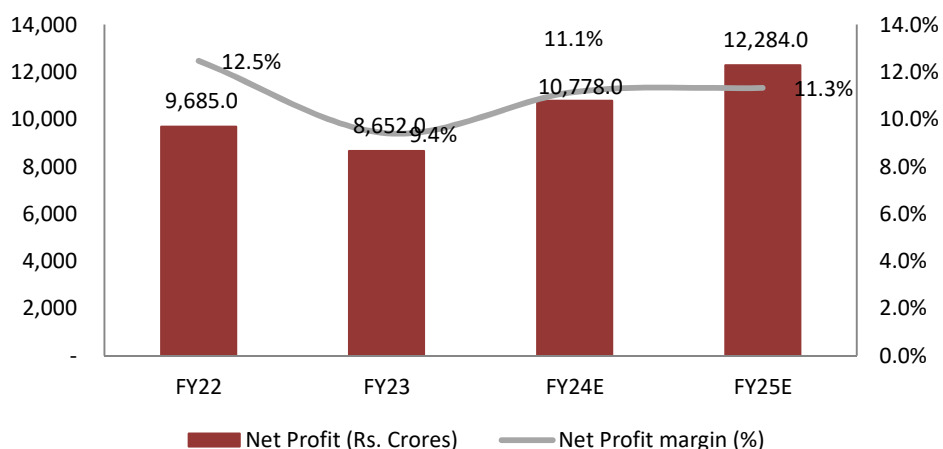
Return ratios to show strong growth in future



Revenue will experience Strong growth



Net profit will experience a growth trajectory





Outlook and Valuation

We remain sanguine on SI's long-term growth prospects due to structural demand drivers, network/regional expansions, product launches and a healthy balance sheet. However, at 28x FY25E P/E (near our target multiple), we see low potential in SI's scrip.

Supreme Industries Ltd- Company Overview

Supreme Industries Limited is an Indian plastics company, based in Mumbai. It handles volumes of over 320,000 tonnes of polymers annually. The company manufactures industrial and engineering molded furniture products, storage and material handling crates, multi-layer sheets, multi-layer films, packaging films, expanded polyethylene foam, PVC pipes and fittings, molded furniture, sataranj mats, disposable EPS containers



Balance sheet (Consolidated)

(Rs million)	FY22	FY23	FY24E	FY25E
Liabilities				
Share capital	254	254	254	254
Reserves	38190	43767	51496	60223
Net worth	38444	44021	51750	60477
Total debt	40	23	22	21
DT Liability/(Asset)	904	908	908	908
Other Liabilities				
Total Liabilities	39,388	44,953	52,681	61,407
Assets				
Net Tangible Assets	17,608	20,588	22,677	23,474
CWIP	1,546	837	837	837
Investments	4,759	5,774	10,274	16,274
Current Assets	20,707	22,228	24,277	26,878
Current Liabilities	10,570	11,990	12,223	13,356
Net Current Assets	10,137	10,238	12,054	13,522
Other Assets	5,338	7,516	6,839	7,300
Total Assets	39,388	44,953	52,681	61,407

Equity Research

Profit & Loss Account (Consolidated)

(Rs million)	FY22	FY23	FY24E	FY25E
Total operating income				
	77,728	92,015	96,696	1,08,530
EBITDA				
	12,421	11,996	14,956	16,960
Depreciation				
	2,295	2,634	2,911	3,203
EBIT				
	10,126	9,362	12,045	13,757
Interest cost	52	80	34	-11
Other Income & Extraordinary Items	200	298	160	160
Profit before tax	10,274	9,580	12,171	13,928
Tax	589	928	1,393	1,644
Profit after tax	9,685	8,652	10,778	12,284
Minority Interests				
P/L from Associates				
Other				
Adjusted PAT	9,685	8,652	10,778	12,284

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY22	FY23	FY24E	FY25E
EBIT (incl. other income)	10216	9422	12043	13757
+ Non-cash items	2295	2634	2911	3203
OCF before WC changes	12511	12056	14954	16960
- Incr./ (decr.) in WC	4941	778	1815	1467
Others including taxes	2868	2375	3173	3626
Cash flow from operating activities	4703	8903	9966	11866
- Capex	4699	4218	5000	4000
- Dividend	2,922	3,049	3,049	3,557
+ Debt raised	-11	-	-1	-1
- Fin Investments	-178	-188	4500	6000
- Misc. Items (CFI + CFF)	-325	-366	-1,908	-2,154
Net cash-flow	-2426	2191	-676	462

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY22	FY23	FY24E	FY25E
Per share data (Rs.)				
DPS	24.00	26.00	24.00	28.00
Margin (%)				
EBITDA	3.0%	2.9%	3.0%	3.0%
NPM	12.5%	9.4%	11.1%	11.3%
Return Ratios (%)				
ROCE	28.70	22.90	25.00	24.40
RONW	32.80	24.20	27.20	28.40
Valuation(x)				
P/E	35.7	39.9	32.1	28.1
EV/EBITDA	27.4	28.2	22.4	19.4
Receivables (days)	22	20	22	22
Inventory (days)	59	55	55	55
Payables (days)	37	36	35	35



Equity Research

Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

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