1 August 2022

Supreme Industries

Off-take drives growth, input costs hit margins, broader outlook intact; maintaining a Buy

Rating: **Buy**
Target Price: Rs.2,467
Share Price: Rs.1,897

Strong off-take drove Supreme's Q1 good revenue growth. Blended realisations rose only by single digits. Input costs hit the gross margin, but economies of scale and a better product mix reduced the impact on operating margins. Revenue was up 64% y/y. Gross, EBITDA and PAT margins shrank 900bps, 435bps and 211bps y/y respectively to 26.5%, 12.2% and 9.7%. Revenue and earnings were 4% and 22% below ARe.

Healthy demand drives volumes. Revenue grew 64% y/y to Rs22bn, as volumes were 53% higher y/y to 108,922 tonnes (15% lower q/q), and blended realisations improved 8% y/y to Rs.195,868 a tonne, up 1.7% q/q. Value-added product revenue was lower (35%) vs 39% in the previous quarter as well as in the corresponding previous-year quarter.

Plastic piping profitability hit, despite strong revenue momentum. Off-take was up 65% y/y; realisations, 6.7% y/y. This led to robust (76% y/y) revenue growth to Rs14.6bn. Volatility in pricing, however, of raw materials and finished goods (inventory loss) curtailed profitability. The EBIT margin was 648bps lower y/y to 10.6%.

Scalable and sustainable growth. Capex of Rs7bn (incl. Rs2.8bn carried forward) has been committed for projects in different segments funded entirely via internal accruals. Plastic piping volume growth would be ahead of the 15%+ guidance in FY23 (guidance retained). Management also spoke of more revenue from value-added products and of the operating margin coming at ~15%,

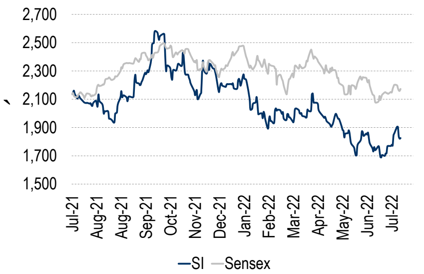
Valuation. The demand outlook is intact, but pricing is a challenge for the near term. We expect 7.6% and 8.5% revenue and earnings CAGRs respectively over FY22-24. We maintain a Buy rating, and cut our target price to Rs2,467 (from Rs2,546) based on 27.5x FY24e earnings (unchanged).

Key data	SI IN / SUPI.BO
52-week high / low	Rs.2694 / 1666
Sensex / Nifty	56072 / 16719
3-m average volume	$1.5m
Market cap	Rs.241bn / $3017.8m
Shares outstanding	127m

Shareholding pattern (%)	Jun'22	Mar'22	Dec'21
Promoters	48.8	48.8	48.8
- of which, Pledged	-	-	-
Free float	51.2	51.2	51.2
- Foreign institutions	15.8	16.2	16.2
- Domestic institutions	19.7	19.7	19.7
- Public	15.7	15.3	15.3

Estimates revision (%)	FY23e	FY24e
Sales	(0.7)	(2.2)
EBITDA	(4.5)	(5.0)
PAT	(3.9)	(3.3)

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	55,115	63,571	77,728	79,281	90,008
Net profit (Rs m)	4,674	9,782	9,684	9,600	11,398
EPS (Rs)	36.8	77.0	76.2	75.6	89.7
P/E (x)	51.6	24.6	24.9	25.1	21.1
EV / EBITDA (x)	29.1	18.2	19.0	18.7	15.7
P / BV (x)	10.7	7.6	6.3	5.4	4.6
RoE (%)	21.2	36.0	27.6	23.1	23.4
RoCE (%) after tax	17.2	27.5	21.0	17.8	18.3
Dividend yield (%)	0.7	1.2	1.3	1.4	1.5
Net debt / equity (x)	0.1	(0.2)	(0.1)	(0.2)	(0.2)

Source: Company, Anand Rathi Research

Rishab Bothra
Research Analyst

Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	55,115	63,571	77,728	79,281	90,008
Growth (%)	*-1.8*	*15.3*	*22.3*	*2.0*	*13.5*
Direct costs	35,783	40,385	53,532	53,886	60,474
SG&A	10,987	10,344	11,775	13,007	14,908
EBITDA	**8,346**	**12,843**	**12,421**	**12,388**	**14,626**
EBITDA margins (%)	*15.1*	*20.2*	*16.0*	*15.6*	*16.3*
- Depreciation	2,057	2,128	2,295	2,354	2,610
Other income	109	169	200	198	225
Interest expenses	297	221	52	-	-
PBT	6,101	10,663	10,274	10,232	12,242
Effective tax rate (%)	*28.5*	*22.0*	*25.6*	*25.0*	*25.0*
+ Associates / (Minorities)	312	1,460	2,044	1,926	2,217
Net income	4,674	9,782	9,684	9,600	11,398
Adjusted income	4,674	9,782	9,684	9,600	11,398
WANS	127.1	127.1	127.1	127.1	127.1
FDEPS (Rs / sh)	36.8	77.0	76.2	75.6	89.7
FDEPS growth (%)	*22.5*	*109.3*	*-1.0*	*-0.9*	*18.7*
Gross margins (%)	*35.1*	*36.5*	*31.1*	*32.0*	*32.8*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	254	254	254	254	254
Net worth	22,358	31,438	38,190	44,486	52,328
Debt	4,109	10	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	1,326	919	904	904	904
Capital employed	**28,047**	**32,621**	**39,348**	**45,645**	**53,486**
Net tangible assets	15,331	16,362	16,821	20,717	23,107
Net intangible assets	746	781	852	852	852
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	929	510	1,558	1,558	1,558
Investments (strategic)	2,020	3,312	4,702	4,702	4,702
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	2,811	2,668	3,492	3,916	4,633
Cash	2,314	7,684	5,264	9,576	11,456
Current liabilities	2,664	3,740	2,671	3,277	2,994
Working capital	6,559	5,045	9,330	7,602	10,172
Capital deployed	**28,047**	**32,621**	**39,348**	**45,645**	**53,486**
Contingent liabilities	849	788	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
EBIT (excl. other income)	**6,101**	**10,663**	**10,274**	**10,232**	**12,242**
+ Non-cash items	2,057	2,128	2,295	2,354	2,610
Oper. prof. before WC	**8,158**	**12,791**	**12,569**	**12,586**	**14,851**
- Incr. / (decr.) in WC	(920)	2,789	(6,128)	2,135	(3,215)
Others incl. taxes	(1,321)	(2,461)	(2,662)	(2,558)	(3,060)
Operating cash-flow	**5,917**	**13,119**	**3,779**	**12,163**	**8,576**
- Capex (tang. + intang.)	(2,953)	(2,774)	(3,873)	(6,250)	(5,000)
Free cash-flow	**2,964**	**10,344**	**(94)**	**5,913**	**3,576**
Acquisitions					
- Div.(incl. buyback & taxes)	(2,143)	(2,795)	(3,049)	(3,303)	(3,557)
+ Equity raised	-	-	-	-	-
+ Debt raised	2,489	(4,100)	(10)	-	-
- Fin investments	203	(1,292)	(1,390)	-	-
- Misc. (CFI + CFF)	(1,572)	3,212	2,123	1,701	1,861
Net cash-flow	**1,941**	**5,370**	**(2,420)**	**4,312**	**1,881**

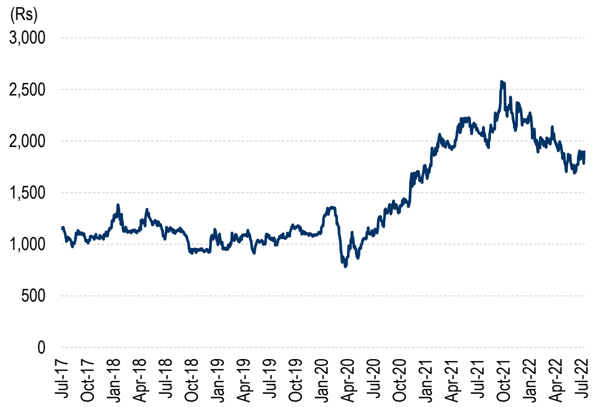
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	51.6	24.6	24.9	25.1	21.1
EV / EBITDA (x)	29.1	18.2	19.0	18.7	15.7
EV / Sales (x)	4.4	3.7	3.0	2.9	2.6
P/B (x)	10.7	7.6	6.3	5.4	4.6
RoE (%)	21.2	36.0	27.6	23.1	23.4
RoCE (%) - after tax	17.2	27.5	21.0	17.8	18.3
RoIC	19.8	36.6	29.5	24.8	26.2
DPS (Rs / sh)	14.0	22.0	24.0	26.0	28.0
Dividend yield (%)	0.7	1.2	1.3	1.4	1.5
Dividend payout (%) - incl. DDT	45.9	28.6	31.5	34.4	31.2
Net debt / equity (x)	0.1	(0.2)	(0.1)	(0.2)	(0.2)
Receivables (days)	20.7	22.4	21.9	22.5	22.5
Inventory (days)	59.0	43.7	59.2	50.0	56.3
Payables (days)	36.3	37.1	37.3	37.5	37.5
CFO : PAT %	126.6	134.1	39.0	126.7	75.2

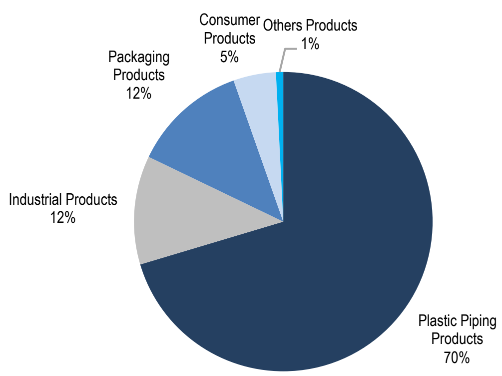
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – FY22 revenue break-up (consolidated)



Source: Company

Financial highlights

Fig 7 – Financials (consolidated)

(Rs m)	Q1 FY22	Q4 FY22	Q1 FY23	% Y/Y	% Q/Q	FY21	FY22	% Y/Y
Revenue	**13,421**	**25,571**	**22,060**	***64.4***	***-13.7***	**63,552**	**77,728**	***22.3***
Raw material costs	8,662	18,439	16,224	*87.3*	*-12.0*	40,427	53,532	*32.4*
Employee costs	803	904	910	*13.3*	*0.6*	3,104	3,453	*11.3*
Other expenses	1,736	2,314	2,237	*28.9*	*-3.3*	7,180	8,323	*15.9*
EBITDA	**2,220**	**3,914**	**2,689**	***21.1***	***-31.3***	**12,842**	**12,421**	***(3.3)***
Other income	43	86	46	*5.3*	*-47.1*	169	200	*18.1*
Depreciation	561	588	617	*9.9*	*4.9*	2,128	2,295	*7.9*
Finance costs	21	19	16	*-23.5*	*-13.3*	221	52	*(76.6)*
Share of profit from Associate	450	696	580	*28.8*	*-16.7*	1,460	2,044	*40.0*
PBT	**2,131**	**4,089**	2,682	*25.8*	*-34.4*	**12,122**	**12,318**	***1.6***
Tax	430	851	543	*26.4*	*-36.2*	2,341	2,633	*12.5*
PAT	**1,702**	**3,239**	**2,139**	***25.7***	***-34.0***	**9,781**	**9,684**	***(1.0)***
EPS (Rs)	13.4	25.5	16.8	*25.7*	*-34.0*	77.0	76.2	*(1.0)*
As % of revenue				**bps y/y**	**bps q/q**			**bps y/y**
Raw material costs	64.5	72.1	73.5	900	144	63.6	68.9	526
Gross margins	**35.5**	**27.9**	26.5	-900	-144	**36.4**	**31.1**	**-526**
Employee costs	6.0	3.5	4.1	-186	59	4.9	4.4	-44
Other expenses	12.9	9.0	10.1	-279	109	11.3	10.7	-59
EBITDA margins	**16.5**	**15.3**	12.2	-435	-312	**20.2**	**16.0**	**-423**
Other income	0.3	0.3	0.2	-12	-13	0.3	0.3	-1
Depreciation	4.2	2.3	2.8	-138	50	3.3	3.0	-40
Finance costs	0.2	0.1	0.1	-8	0	0.3	0.1	-28
PBT	**15.9**	**16.0**	12.2	-372	-384	**19.1**	**15.8**	**-323**
Effective tax rates	25.6	25.1	25.8	28	77	22.0	25.6	368
PAT	**12.7**	**12.7**	9.7	-298	-297	**15.4**	**12.5**	**-293**
Segment revenues (Rs m)				**% Y/Y**	**% Q/Q**			**% Y/Y**
Plastic piping	8,311	17,997	14,633	*76.1*	*-18.7*	40,988	50,460	*23.1*
Industrial products	1,989	3,003	3,023	*52.0*	*0.7*	7,611	10,237	*34.5*
Packaging products	2,441	3,190	3,263	*33.7*	*2.3*	10,351	12,101	*16.9*
Consumer products	485	1,180	958	*97.6*	*-18.8*	3,542	4,051	*14.4*
Others	195	201	183	*-6.4*	*-9.1*	1,060	880	*(17.0)*
Total	**13,421**	**25,571**	**22,060**	***64.4***	***-13.7***	**63,552**	**77,728**	***22.3***
EBIT (%)				**bps y/y**	**bps q/q**			**bps y/y**
Plastic piping	17.0	14.4	10.6	*-648*	*-383*	20.0	15.5	*(450)*
Industrial products	6.1	10.5	8.5	*232*	*-202*	8.3	8.3	*(1)*
Packaging products	7.0	10.6	7.0	*-4*	*-358*	12.0	8.3	*(370)*
Consumer products	1.3	12.3	11.5	*1,022*	*-79*	16.8	13.3	*(350)*
Others	(2.9)	5.1	-3.0	*-9*	*-808*	22.9	9.6	*(1,325)*
Blended EBIT margins (%)	**12.7**	**13.3**	**9.7**	***-307***	***-361***	**17.2**	**13.3**	***(392)***

Source: Company, Anand Rathi Research ** Note: Segment EBIT margins are as per reported figures, unadjusted for unallocable expenses / income*

Quantitative highlights

Fig 8 – Financials (consolidated)

(Rs m)	Q1 FY22	Q4 FY22	Q1 FY23	% Y/Y	% Q/Q	FY21	FY22	% Y/Y
Value-added turnover (Rs m)	8	9,729	7,610	*47.48*	*-21.78*	24,800	29,110	*17.4*
As % of sales	*39*	*39*	*35*	*-430 bps*	*-354 bps*	*40*	*38*	*(197) bps*
Volumes (tonnes)								
Plastic piping	48,111	96,507	79,424	*65.1*	*-17.7*	2,94,357	2,74,295	*(6.8)*
Industrial products	9,512	13,763	12,901	*35.6*	*-6.3*	41,451	48,030	*15.9*
Packaging products	11,532	13,131	12,866	*11.6*	*-2.0*	54,833	54,163	*(1.2)*
Consumer products	2,109	5,206	3,731	*76.9*	*-28.3*	18,468	17,420	*(5.7)*
Total	**71,264**	**1,28,607**	**1,08,922**	***52.8***	***-15.3***	**4,09,109**	**3,93,908**	***(3.7)***
Realisations (Rs / tonne)								
Plastic piping	1,72,736	1,86,487	1,84,244	*6.7*	*-1.2*	1,39,246	1,83,962	*32.1*
Industrial products	2,09,125	2,18,179	2,34,292	*12.0*	*7.4*	1,83,619	2,13,131	*16.1*
Packaging products	2,11,698	2,42,914	2,53,637	*19.8*	*4.4*	1,88,766	2,23,420	*18.4*
Consumer products	2,29,777	2,26,662	2,56,687	*11.7*	*13.2*	1,91,797	2,32,543	*21.2*
Blended realisation	**1,85,586**	**1,97,266**	**2,00,850**	***8.2***	***1.8***	**1,52,751**	**1,95,093**	***27.7***
EBIT / tonne								
Plastic piping	29,424	26,828	19,441	*-33.93*	*-27.53*	27,901	28,578	*2.4*
Industrial products	12,826	22,844	19,805	*54.41*	*-13.30*	15,310	17,751	*15.9*
Packaging products	14,863	25,657	17,698	*19.07*	*-31.02*	22,722	18,631	*(18.0)*
Consumer products	2,940	27,852	29,510	*903.80*	*5.95*	32,305	31,039	*(3.9)*
Blended EBIT / tonne	**24,068**	**26,324**	19,574	*-18.41*	*-25.87*	**26,130**	**25,999**	***(0.5)***

Source: Company, Anand Rathi Research

Q1 FY23 Results Highlights

- Healthy off-take drove Supreme Industries' strong revenue growth. Its gross margin was hit by higher input costs, but economies of scale and a change in the product mix restricted the operating-margin contraction.
- Healthy y/y volume growth across all categories led to robust, 64% y/y, revenue growth to Rs22bn.
- Higher input costs and inventory losses pulled the gross margin down 900bps y/y to 26.5%. Boosted by the strong revenue, the gross profit was up 23% y/y to Rs5.8bn.
- EBITDA grew 21% y/y to Rs2.7bn, though the EBITDA-margin contraction (at 435bps y/y, to 12.2%) was less than the gross-margin contraction, aided by economies of scale and a better product mix.
- The healthy operating profit and the increase in profit from the Associate (up ~29% y/y) led to a 26% y/y increase in PAT to Rs2.1bn.

Segment details

- **All segments.** The company's Q1 FY23 revenue grew 66% y/y to Rs22bn, as volumes were 53% higher y/y, but q/q 15% lower, to 108,922 tonnes, and blended realisations rose 8% y/y, 1.7% q/q, to Rs.199,133 a tonne,.
- **Share of value-added products to increase.** The turnover of value-added products increased 47% y/y to Rs7.6bn. However its share in overall sales was lower (35%, vs 39% the previous quarter and the corresponding previous-year quarter).
- **Value.** Plastic piping product revenue grew 76% y/y to Rs14.6bn, followed by industrial product revenue up 52% y/y to Rs3bn and packaging product revenue up 33.7% y/y to Rs3.3bn. Revenue growth in the consumer business was the highest at 98% y/y to Rs0.9bn, but its contribution to overall revenues was only ~4%.
- **Volume.** Offtake in plastic piping, industrial products and packaging were 65%, 36% and 12% y/y higher to 79,424, 12,901 and 12,866 tonnes respectively. Consumer product volume growth was a healthy 77% y/y to 3,731 tonnes (3% share of volumes sold). Volumes sold across segments were lower than in the previous quarter.
- **Realisations.** Realisations, too, improved in all segments, largely as higher input costs were passed on. Realisations in plastic piping, the highest revenue contributor, grew 7% y/y to Rs184 a kg. Realisations in industrials, packaging and consumer products improved 12%, 20% and 12% y/y to Rs234, Rs253 and Rs256 a kg respectively. Besides, realisations improved over the last quarter, except in plastic piping where it was 1.2% lower.
- **Profitability.** The plastic piping EBIT margin contracted a significant 648bps y/y to 10.6%. The industrial products, EBIT margin increased 232bps y/y to 8.5%, while packaging products EBIT margin was almost flat at 7%. The consumer products EBIT margin rose a considerable 1,022bps to 11.5%.

Segment-wise business update

- The Guwahati (Assam) unit commenced commercial production in Jul'22, and the Cuttack and Erode units are likely to begin production by Sep-Oct'22
- The company increased its offerings in **plumbing systems,** introducing PEX plain pipes and PEX composite pipes, ideal for hot water.
- The government of India is committed to implement its "Nal se Jal" scheme throughout the country by 2024. Here the company's olefin fittings and electro-fusion fittings have received positive responses.
- Fierce competition from **cross-laminated film** look-alike products is cutting into the company's business. The thrust this year will be on promoting non-tarpaulin applications (value-added products), aiming at new customers and making a breakthrough into new export markets for special applications.
- The company will launch a variety of models and focus on its premium range of **plastic furniture.** This should boost growth in this business.
- The **industrial components** division is showing signs of gradual improvement because of the good business environment. Greater demand is expected in appliances such as washing machines, air-conditioners, coolers and refrigerators.
- The company continues to enlarge its customer base across India and increase the number of its **material-handling** products.
- Repeated orders for composite **LPG cylinders** from customers, old and new, are encouraging. Supplies to the Indian Oil Corporation of India have commenced and the company's plants are running at full capacity. Work on doubling capacity (to 1m LPG cylinders) is progressing, and the added capacity will be operational by Nov'22.
- The **protective-packaging** business environment is showing signs of improvement. Business in consumer products such as sports goods, yoga mats and kids' puzzles & toys is showing traction. Healthy export growth is also anticipated. The company continues to develop various customised solutions for user industries and expects encouraging business in this segment.
- The **performance-packaging film** business has done well in the home market and has received good responses from the Middle East, Africa and Europe.
- The company is expected to soon achieve optimal utilisation owing to a better product mix and wider customer base. Hence, it will have to consider expansions across business segments.

Maintains surplus cash; capex to continue

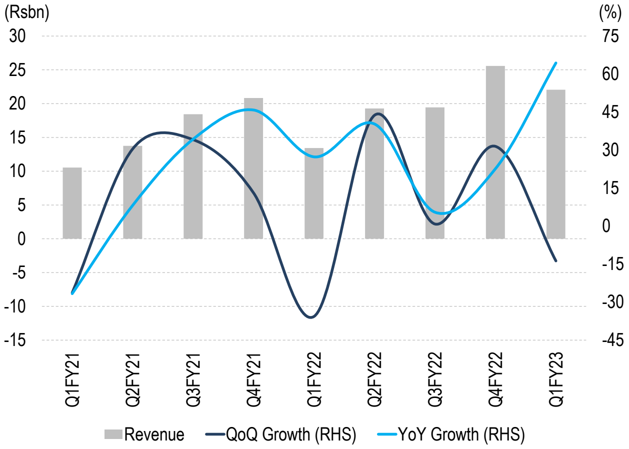
- The company continues to be net debt-free. In Q1 FY23, its cash surplus rose a small 3% over the previous quarter, to Rs5.3bn.
- Capex guidance is Rs5bn each for the next two years, and includes Rs3bn-3.5bn in plastic piping.
- The ~Rs.7bn capex for FY23 (incl. a carried-forward commitment of Rs2.8bn) is going smoothly and would be funded entirely from internal accruals. *(Details in the Q4 FY22 update)*

Concall KTAs

- The huge, 52.8% y/y, volume growth was chiefly due to the low base, Q1 FY22 having been affected by the Covid second wave.
- Non-agri pipe demand was better than that of agri pipes. Demand for CPVC was strong (in double digits) and is likely to persist.
- Prices of polymers, particularly of poly-propylene (PP), low denier poly-ethylene (LDPE) and poly-vinyl chloride (PVC) have come down by between Rs19 and Rs46 a kg since the beginning of the year, a 13% to 32% reduction.
- PVC resin prices have fallen considerably since Apr'22 (management says prices are close to the bottom). Though this would result in inventory losses in Q2 FY23, it would increase demand for the company's products.
- This has led to lower channel stocks as prices were in a continual downtrend. Channel inventory is expected to build up, post-Q2 FY23.
- The price of PVC is Rs95 a kg; CPVC prices are ~$2,200 a ton.
- Inventory days for CPVC and PVC are ~30 to 45.
- Management expects business in bath fittings to double in FY23.
- The company is optimistic about the various business segments in which it operates. It expects business conditions to improve from Oct'22 and lead to greater plastic piping volume growth in the rest of the year.
- Plastic piping volume growth would be ahead of the overall 15%+ volume growth guidance (retained) for FY23. Also, management guided to an increase in revenue from value-added products and to a ~15% overall operating margin
- It expects H2 FY23 to be better than H1.

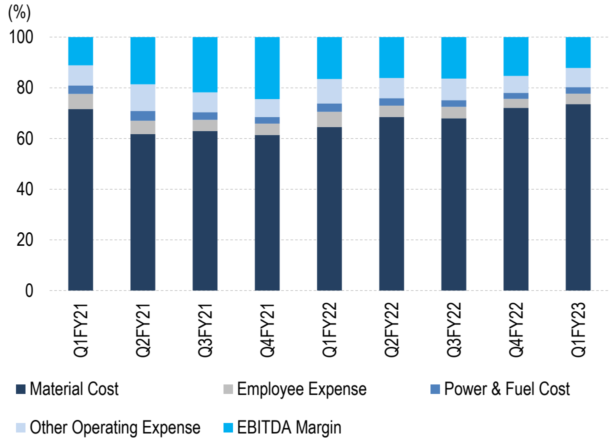
Story in charts

Fig 9 – Revenue and growth



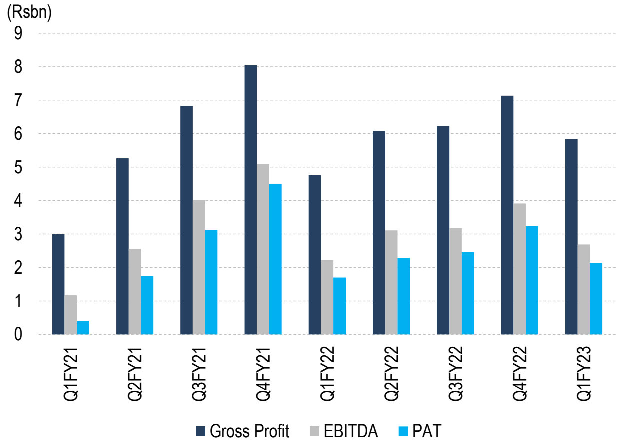
Source: Company, Anand Rathi Research

Fig 10 – Revenue split, expenses and EBITDA margin



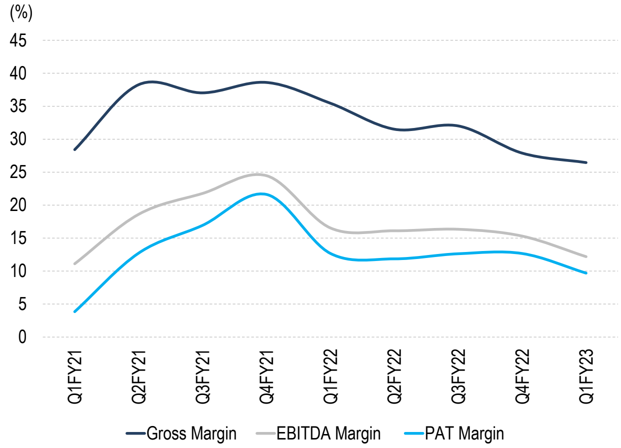
Source: Company, Anand Rathi Research

Fig 11 – Gross profit, EBITDA and PAT



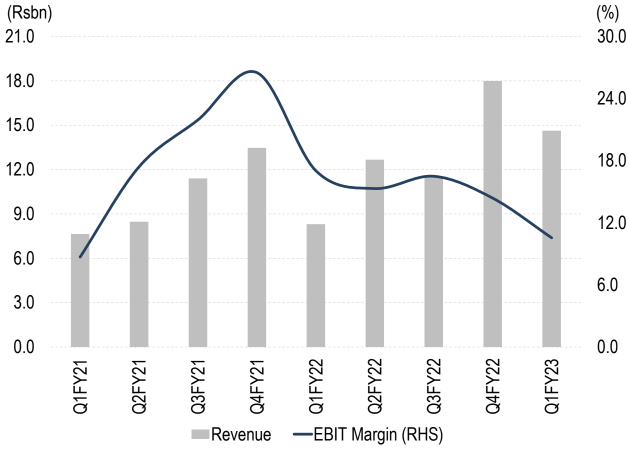
Source: Company, Anand Rathi Research

Fig 12 – Margin profile



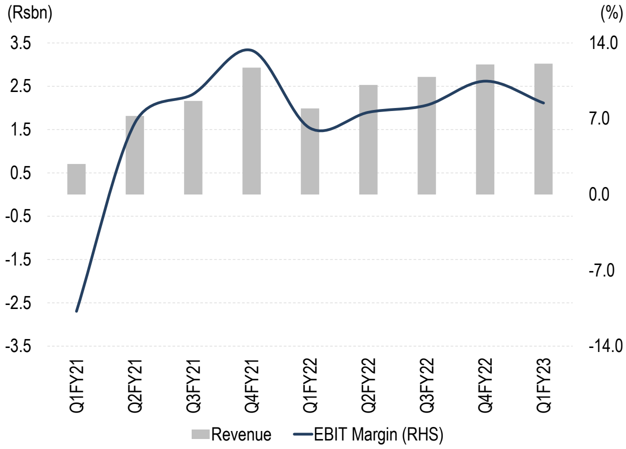
Source: Company, Anand Rathi Research

Fig 13 – Plastic piping products: revenue and EBIT margin



Source: Company, Anand Rathi Research

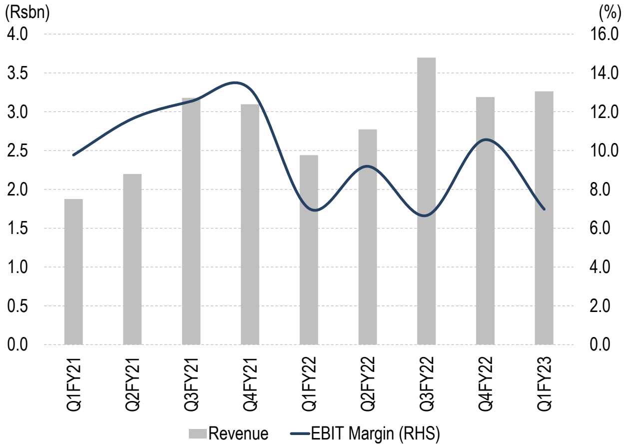
Fig 14 – Industrial products: revenue and EBIT margin



Source: Company, Anand Rathi Research

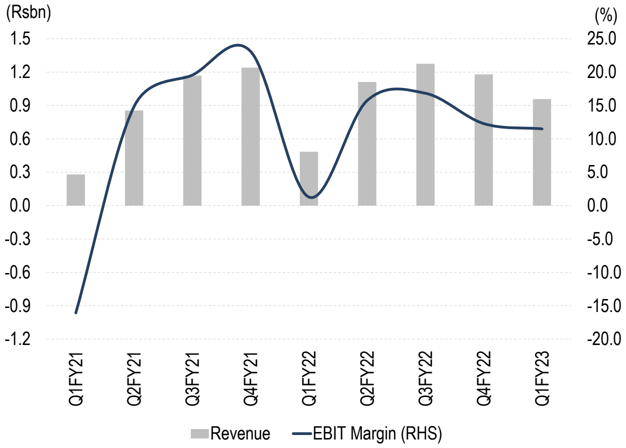
Story in Charts cont.

Fig 15 – Packaging products: revenue and EBIT margin



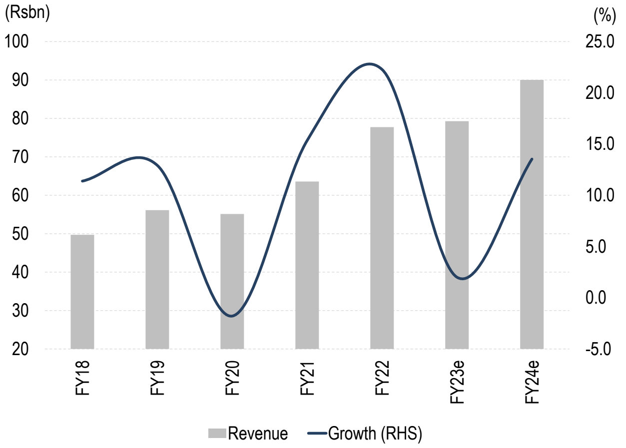
Source: Company, Anand Rathi Research

Fig 16 – Consumer products: revenue and EBIT margin



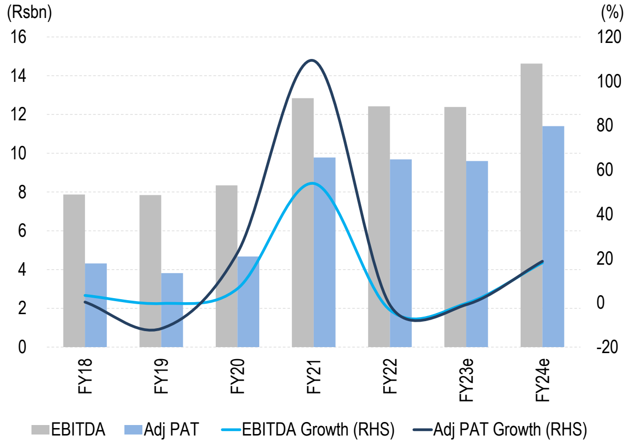
Source: Company, Anand Rathi Research

Fig 17 – Annual revenue and growth



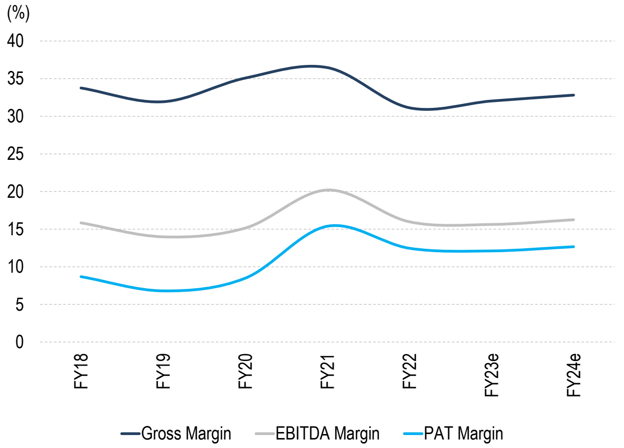
Source: Company, Anand Rathi Research

Fig 18 – Annual profitability and growth



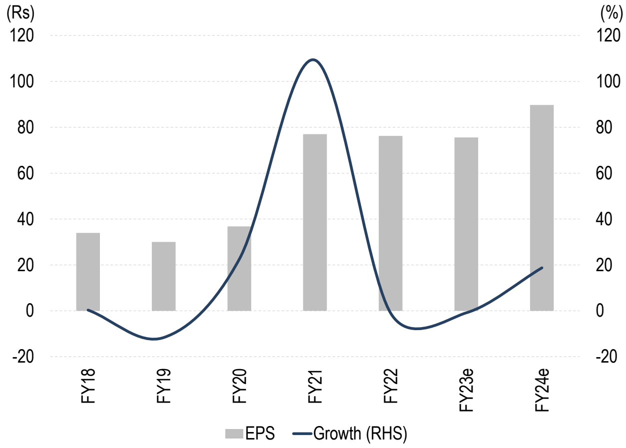
Source: Company, Anand Rathi Research

Fig 19 – Annual margin profile



Source: Company, Anand Rathi Research

Fig 20 – Annual EPS and growth



Source: Company, Anand Rathi Research

Valuation

We like Supreme for its leading position in plastic products. It is the largest plastic processor in India, selling ~0.4m tonnes of plastic products. It has 25 plants in India, with three more envisaged in the next six months.

Its key strengths are its strong brand equity and varied products, its leading position in key categories, extensive and strong distribution, regular capacity additions, focus on value-added products, efficient working-capital management, strong FCF generation, healthy return ratios and a sturdy balance sheet.

We believe that demand in most of its key verticals is encouraging, especially in plastic piping. Expansion of capacities in various segments and introduction of products are expected to aid healthy revenue growth. The key challenge, however, is to minimise input costs and increase overall profitability.

Revenue and earnings growth would be largely driven by more volumes and better realisations, while margins could also improve though gradually (pain expected in the near term). The low-yield cash surplus, however, may suppress return ratios, while healthy FCFs would continue.

Also, profit from the Associate (Supreme Petrochem) has risen considerably in the last few years and would continue. We have assumed Rs1,926m profit from the Associate in FY23, and Rs2,217m in FY24, assigning a 25% holding company discount, less than shown in the table below.

Fig 21 – Details of share of profit from Associate

(Rs m)	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e
Supreme Petrochem PAT	1,158	4,90	1,020	4,749	6,492	8342*	9,603*
Contribution to Supreme Industries	347	147	306	1,462	1,998	2,568	2,956
as % of Supreme Industries' PAT	*8.0*	*3.2*	*6.7*	*14.9*	*21.1*	*20.1*	*19.4*

Source: Anand Rathi Research

Note: Supreme Industries has a ~31% stake in Supreme Petrochem   ** Bloomberg consensus estimates*

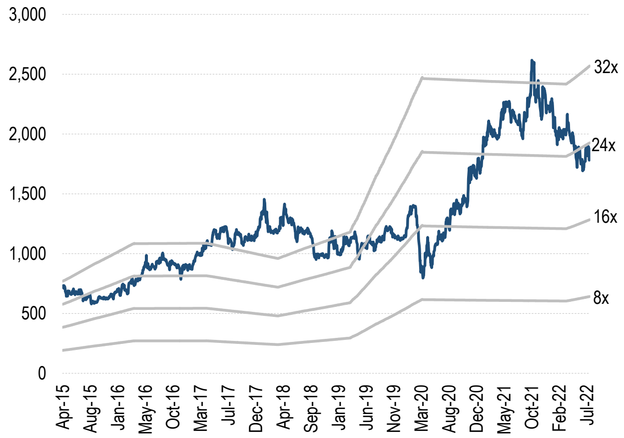
We have fine-tuned our FY23 and FY24 figures to factor in the strong volume growth in plastic piping and the continuing margin pressures in FY22. Hence, we expect 7.6% and 8.5% CAGRs over FY22-24 in revenue and earnings respectively. We maintain our Buy rating on the stock, and cut our target price to Rs.2,467 (earlier Rs.2,546) based on 27.5x FY24e earnings (unchanged).

Fig 22 – Change in estimates

	Old		New		% Var	
(Rs m)	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Income	79,831	92,071	79,281	90,008	*(0.7)*	*(2.2)*
EBITDA	12,973	15,393	12,388	14,626	*(4.5)*	*(5.0)*
EBITDA margin %	*16.3*	16.7	*15.6*	*16.3*	*(62)*	*(47)*
PAT	9,988	11,791	9,600	11,398	*(3.9)*	*(3.3)*
EPS	78.6	92.8	75.6	89.7	*(3.9)*	*(3.3)*

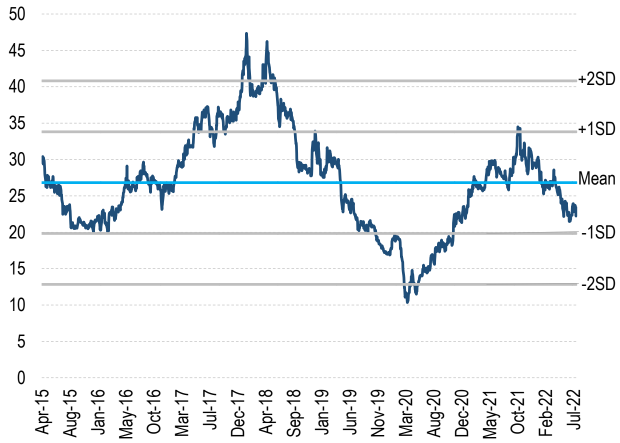
Source: Anand Rathi Research

Fig 23 – P/E band



Source: BSE, Anand Rathi Research

Fig 24 – Standard deviation



Source: BSE, Anand Rathi Research

Risks

- Less-than-expected growth in any of the business categories is a downward risk to our estimates.
- Adverse raw-material prices and keener competition may slash margins.

Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

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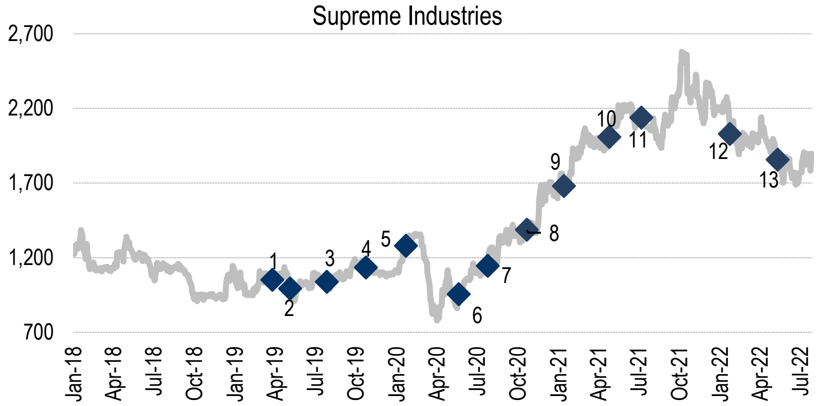
Rating and Target Price History (as of 31 July 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	28-Mar-19	Buy	1,304	1,100
2	7-May-19	Buy	1,202	1,037
3	29-Jul-19	Hold	1,131	1,075
4	25-Oct-19	Hold	1,257	1,187
5	24-Jan-20	Hold	1,423	1,318
6	22-May-20	Hold	1,085	975
7	27-Jul-20	Hold	1,261	1,160
8	28-Oct-20	Hold	1,636	1,460
9	25-Jan-21	Hold	1,948	1,730
10	3-May-21	Hold	2,256	2,109
11	21-Jul-21	Hold	2,276	2,104
12	27-Jan-22	Buy	2,697	2,057
13	4-May-22	Buy	2,546	1,993

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Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)

	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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