

### Inventory losses compress margins further

SIL's volumes and realisation grew by 53% and 8% YoY respectively. However, volumes were still 4% below 1QFY20 level. Sales grew 64% while EBITDA and PAT grew by 21% and 25% respectively on account of low base of 1QFY22. EBITDA margins declined to 12.2% on account of change in product mix (higher sales of agri pipes) and inventory losses led by sharp drop in PVC resin prices. PVC, PP and LDPE prices have declined between 13% to 32% YTD with PVC registering the highest fall since April'22. Management maintained volume growth guidance of 15 and EBITDA margins of 15% for FY23. Inventory losses are expected to extend in 2QFY23 and margins and demand are expected to be better in 2HFY23. We cut our EBITDA margin estimates by 100bps for FY23/24 while maintaining growth estimates and Buy rating on the stock with TP of Rs2,696, valuing at 30x FY24E.

#### Plastic Piping division to drive the growth

Plastic piping volumes grew 65% YoY (10% above our estimates, 72ktn) however, 7% below 1QFY20 level. Price per kg remained flat on QoQ basis at Rs184/kg. The company is expected to continue aggressive expansion in piping system division. SIL's new unit at Assam has commenced while the other two greenfield plants in Cuttack and Erode are expected to commence by Sept-Oct'22. Supreme has further bolstered its product portfolio by introducing PEX plain and PEX composite pipes (ideal for carrying hot water). SIL is receiving good response for its Olefin fittings and Electrofusion fittings for GOI's 'Nal Se Jal scheme'.

#### Packaging segment continued to faced headwinds

Packaging segment which contributed ~15% to the total sales faced headwinds in its cross laminated films business (sells under Silpaulin brand). The segment continues to remain impacted by fierce competition from look-alike products. The thrust in FY23 will be on promoting non-tarpaulin products in export markets which offers the company better pricing and margins. The Company has recently expanded its capacity to 30,000tn pa. Other two sub segments Protective Packaging and Performance Packaging registered good demand during the quarter in domestic and export markets. Within Protective Packaging – consumer products, yoga mats, sport goods, kids puzzle and toys received good demand. In export markets such as Middle East, Africa and Europe, Performance Packaging received good response. With improving product mix and increasing customer base company expects its capacity to run at full utilization level and may have to look for expansion opportunities in near future.

#### Valuations remain attractive

Supreme Industries, despite being the market leader in plastic pipes segment, is trading at significant discount to its historic multiples. We expect Supreme's sales, EBITDA and PAT to grow at CAGR of 10/9/9% respectively over FY22-24E. We estimate EBITDA margins to stabilize at an average of 15.5% for the next two years. We cut our EBITDA margin estimates by 100bps for FY23/24 while maintaining growth estimates and Buy rating on the stock with TP of Rs2,696, valuing at 30x FY24E.

#### Financial and valuation summary

YE Mar (Rs mn)	1QFY23A	1QFY22A	YoY (%)	4QFY22A	QoQ (%)	FY22A	FY23E	FY24E
Revenues	22,060	13,421	64.4	25,571	(13.7)	77,728	86,340	94,418
EBITDA	2,689	2,220	21.1	3,914	(31.3)	12,421	13,210	14,824
EBITDA margin (%)	12.2	16.5	(26.3)	15.3	(20.4)	16.0	15.3	15.7
Adj. Net profit	2,139	1,701	25.7	3,239	(34.0)	9,685	10,493	11,419
Adj. EPS (Rs)	16.8	13.4	25.7	25.5	(34.0)	76.2	82.6	89.9
EPS growth (%)						(1.0)	8.4	8.8
PE (x)						23.9	22.1	20.3
EV/EBITDA (x)						0.0	0.0	0.0
PBV (x)						6.0	6.0	5.0
RoE (%)						27.6	27.2	27.0
RoCE (%)						21.9	21.8	22.4

Source: Company, Centrum Broking

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#### Market Data

Bloomberg:	SI IN
52 week H/L:	2,694/1,666
Market cap:	Rs231.5bn
Shares Outstanding:	127.0mn
Free float:	51.2%
Avg. daily vol. 3mth:	63,394

Source: Bloomberg

#### Changes in the report

Rating:	BUY, Unchanged
Target price:	Rs2,853; decreased by 5.5%
EPS:	FY23E EPS: Rs82.6; down 7.0% FY24E EPS: Rs89.9; down 5.5%

Source: Centrum Broking

#### Shareholding pattern

	Jun-22	Mar-22	Dec-21	Sep-21
Promoter	48.9	48.9	48.9	48.9
FIIs	15.8	16.2	16.2	10.4
DIIIs	19.4	19.4	19.4	19.2
Public/other	15.9	15.6	15.6	21.6

Source: BSE

#### Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY23	Actual Q1FY23	Variance (%)
Revenue	19,075	22,060	15.7
EBITDA	2,822	2,689	-4.7
EBITDA margin %	14.8	12.2	-260bps
PBT	2,258	2,102	-6.9
Adj. PAT	2,388	2,136	-10.5

Source: Bloomberg, Centrum Broking



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## Thesis Snapshot

### Estimate revision

YE Mar (Rs mn)	FY23E New	FY23E Old	% chg	FY24E New	FY24E Old	% chg
Revenue	86,340	86,340	0.0	94,418	94,418	0.0
EBITDA	13,210	14,160	-6.7	14,824	15,673	-5.4
EBITDA margin %	15.3	16.4	-110bps	15.7	16.6	-90bps
Adj. PAT	10,493	11,284	-7.0	11,419	12,081	-5.5
Diluted EPS (Rs)	82.6	88.8	-7.0	89.9	95.1	-5.5

Source: Centrum Broking

### Supreme Industries versus NIFTY Midcap 100

	1m	6m	1 year
SI IN	6.9	(11.0)	(13.3)
NIFTY Midcap 100	9.7	(2.2)	5.2

Source: Bloomberg, NSE

### Key assumptions

Y/E Mar	FY23E	FY24E
Plastic Pipes (tn)	3,29,154	3,75,236
Packaging (tn)	58,496	63,176
Industrials (tn)	51,872	56,022
Consumer (tn)	20,556	23,022
Plastic Pipes (Rs/kg)	175	170
Packaging (Rs/kg)	217	215
Industrials (Rs/kg)	207	201
Consumer (Rs/kg)	225	223

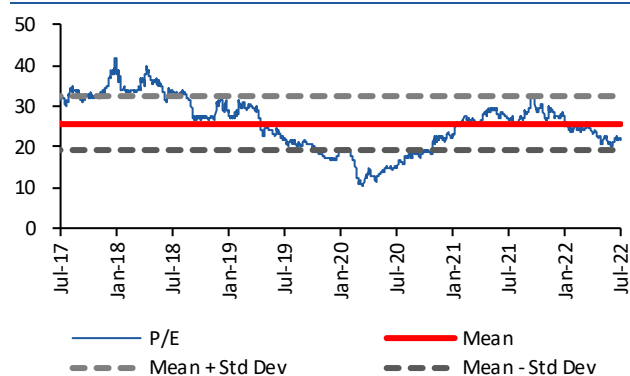
Source: Centrum Broking

### Valuations

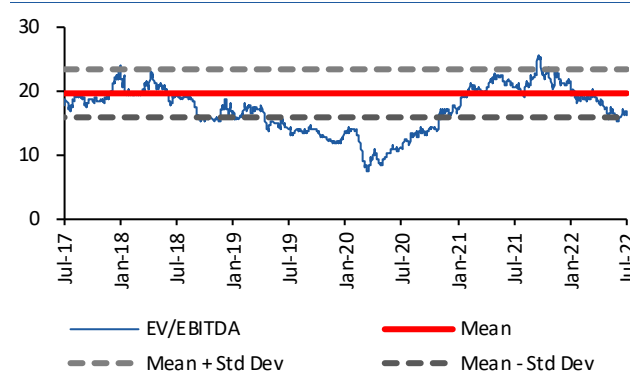
We value Supreme Industries at 30x FY24 EPS. Based on it we arrive at TP of Rs2,696. Our target multiple is based on the last five year PE median.

Valuations	Rs/share
FY24 EPS	89.9
Target Multiple (x)	30
Target Price	2,696

#### P/E mean and standard deviation



#### EV/EBITDA mean and standard deviation



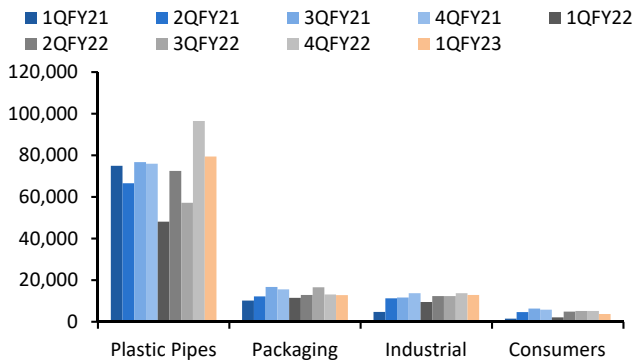
Source: Bloomberg, Centrum Broking

**Exhibit 1: 1QFY23 – Financial Snapshot**

Y/E March (Rsmn)	1QFY23	1QFY22	4QFY22	YoY(%)	QoQ (%)	FY21	FY22	YoY(%)
<b>Net sales</b>	<b>22,060</b>	<b>13,421</b>	<b>25,571</b>	<b>64.4</b>	<b>(13.7)</b>	<b>63,570</b>	<b>77,728</b>	<b>22.3</b>
Net raw material & Purchase of finished goods	16,224	8,662	18,439	87.3	(12.0)	40,385	53,532	32.6
% of sales	73.5	64.5	72.1	900bps	2.0	63.5	68.9	530bps
Employee expenses	910	801	904	13.5	0.6	3,102	3,450	11.2
Other expenses	2,237	1,738	2,314	28.7	(3.3)	7,241	8,324	15.0
<b>Total expenditure</b>	<b>19,371</b>	<b>11,201</b>	<b>21,657</b>	<b>72.9</b>	<b>(10.6)</b>	<b>50,728</b>	<b>65,306</b>	<b>28.7</b>
<b>Operating Profit</b>	<b>2,689</b>	<b>2,220</b>	<b>3,914</b>	<b>21.1</b>	<b>(31.3)</b>	<b>12,843</b>	<b>12,422</b>	<b>(3.3)</b>
<b>OPM(%)</b>	<b>12.2</b>	<b>16.5</b>	<b>15.3</b>	<b>-430bps</b>	<b>-310bps</b>	<b>20.2</b>	<b>16.0</b>	<b>-420bps</b>
Interest	16	21	19	(23.5)	(13.3)	2,128	2,295	7.9
<b>PBDT</b>	<b>2,673</b>	<b>2,199</b>	<b>3,896</b>	<b>21.6</b>	<b>(31.4)</b>	<b>4,871</b>	<b>6,094</b>	<b>25.1</b>
Depreciation	617	561	588	9.9	4.9	2,128	2,295	7.9
Other income	46	43	86	5.3	(47.1)	111	200	80.1
<b>PBT (before exp/Asso.)</b>	<b>2,102</b>	<b>1,681</b>	<b>3,393</b>	<b>25.0</b>	<b>(38.1)</b>	<b>10,714</b>	<b>10,275</b>	<b>(4.1)</b>
Tax	543	430	851	26.4	(36.2)	2,775	2,633	(5.1)
Effective tax rate (%)	25.8	25.6	25.1	30bps	3.1	25.9	25.6	-30bps
<b>Reported Net Profit</b>	<b>1,559</b>	<b>1,251</b>	<b>2,543</b>	<b>24.6</b>	<b>(38.7)</b>	<b>7,939</b>	<b>7,642</b>	<b>(3.7)</b>
Share of JV/Associate less minority interest	580	450	696	28.8	(16.7)	793	2,044	157.7
<b>Reported PAT</b>	<b>2,139</b>	<b>1,701</b>	<b>3,239</b>	<b>25.7</b>	<b>(34.0)</b>	<b>8,719</b>	<b>9,677</b>	<b>11.0</b>
<b>EPS (Rs.)</b>	<b>16.8</b>	<b>13.4</b>	<b>25.5</b>	<b>25.7</b>	<b>(34.0)</b>	<b>68.7</b>	<b>76.2</b>	<b>10.9</b>

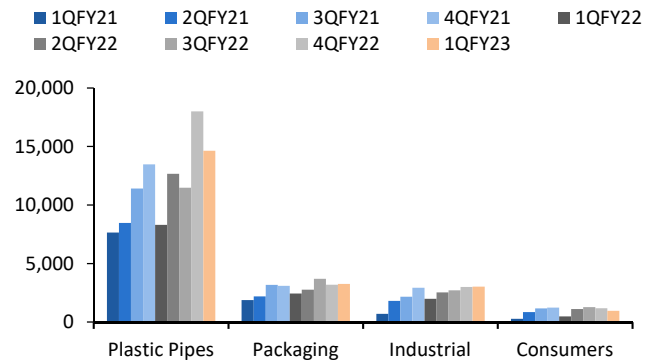
Source: Company, Centrum Broking

**Exhibit 2: Quarterly sales volumes (tn pa)**



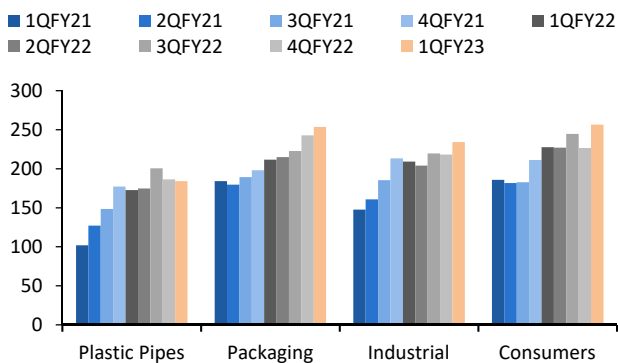
Source: Centrum Broking, Company Data

**Exhibit 3: Quarterly sales (Rsmn)**



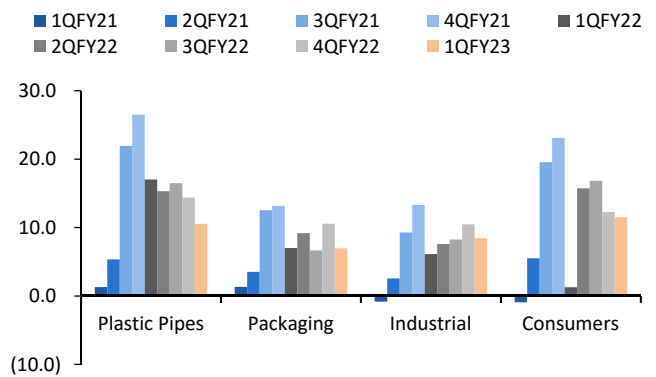
Source: Centrum Broking, Company Data

**Exhibit 4: Sales Realization (Rs/kg)**



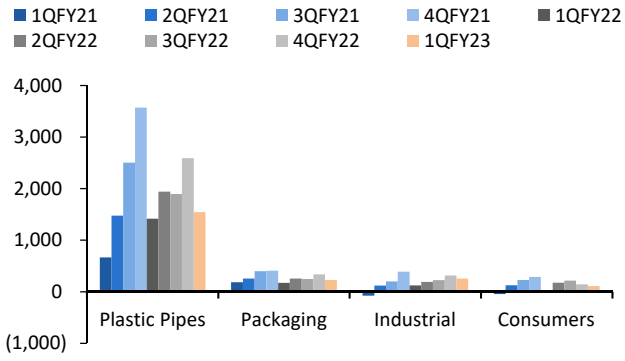
Source: Centrum Broking, Company Data

**Exhibit 5: Segmental EBIT(%)**



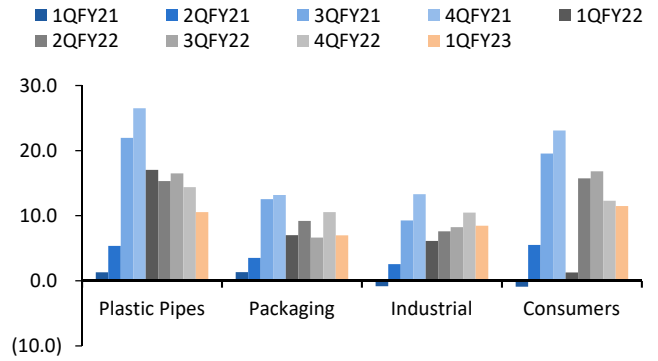
Source: Centrum Broking, Company Data

**Exhibit 6: Segmental EBIT (Rsmn)**



Source: Centrum Broking, Company Data

**Exhibit 7: Segmental EBIT (Rs/kg)**



Source: Centrum Broking, Company Data

## 1QFY23 conference call KTAs

### Volume and margins expectations for FY23:

- 2HFY23 will be expected to be much better both in terms of sales volumes growth and margin improvement
- Maintained volume growth guidance of 15% in FY23 vs. FY22 with EBITDA margin guidance of 15%

### Demand scenario across PVC and CPVC pipes:

- CPVC pipes demand was healthy and company grew in double digits
- PVC demand was impacted as construction activities were tad bit muted while agri volumes picked up compared to last two years
- Channel partners too were skeptical in stocking the inventory given the prices were declining sharply. Restocking is expected to start by end of 2QFY23.
- PVC volumes for India vs. Supreme Industries for 1QFY2 grew by 27/55% respectively.

### PVC vs. CPVC prices:

- Price differential between PVC and CPVC widened further in 1QFY23 as prices of PVC continued its declining trend while CPVC prices remained firm
- PVC prices from its peak of Rs160/kg in Oct'21 have declined sharply to Rs95/kg while CPVC prices are at \$2200-\$2300 per ton i.e. Rs185/kg (assuming \$1 = Rs80)

### Reasons for sharp decline in PVC resin prices:

- Imports from China has increased meaningfully after GOI removed the Anti-Dumping Duty (ADD) last year. China produces ~50% of world's global production of 45mtn. Removal of ADD and demand glut in China (led by COVID lockdown) have led to increase in PVC imports from China
- Apart from this, sharp increase in PVC prices from Rs70/kg to Rs160/kg during the pandemic led to decline in demand.
- Decline in freight cost too is contributing to fall in PVC resin prices

### Channel inventory for plastic pipes remain lean:

- Current inventory levels at channels remain low
- Distributors are stocking just enough inventory given the prices are falling sharply
- Restocking of inventory is expected to improve by end of 2QFY23
- During the period of restocking Supreme has registered sharp volume uptick (in March'22 Supreme sold 41ktn of plastic pipes). Similar volume uptick may be expected in coming quarters as channel partners will start restocking.

### Inventory losses to extend in 2QFY23:

- More inventory losses are expected in 2QFY22 as prices declined further by Rs20/kg during the current quarter (Supreme maintains 45 days of inventory of RM)
- Operating margins are expected to stabilize by 3QFY23 as polymer prices are expected to bottom out and demand is expected to improve meaningfully

### Demand for Industrial Products to improve gradually:

- Demand is expected to improve gradually with positive demand expectations in sectors of Consumer Appliances mainly washing machines, ACs, coolers and refrigerators
- Composite Cylinder's capacity is expected to double to 1mn pieces per year by Nov'22. This product falls under Value Added Products (VAP) i.e. EBITDA margin above 17%

P&L					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Revenues</b>	<b>55,115</b>	<b>63,571</b>	<b>77,728</b>	<b>86,340</b>	<b>94,418</b>
Operating Expense	37,944	42,370	55,666	61,906	67,509
Employee cost	2,798	3,104	3,453	4,058	4,249
Others	6,029	5,254	6,188	7,166	7,837
<b>EBITDA</b>	<b>8,346</b>	<b>12,843</b>	<b>12,421</b>	<b>13,210</b>	<b>14,824</b>
Depreciation & Amortisation	2,057	2,128	2,295	2,661	2,888
<b>EBIT</b>	<b>6,289</b>	<b>10,715</b>	<b>10,126</b>	<b>10,549</b>	<b>11,935</b>
Interest expenses	202	95	52	64	0
Other income	14	43	200	209	220
<b>PBT</b>	<b>6,101</b>	<b>10,662</b>	<b>10,274</b>	<b>10,695</b>	<b>12,155</b>
Taxes	1,739	2,341	2,633	2,347	2,668
Effective tax rate (%)	28.5	22.0	25.6	22.0	22.0
<b>PAT</b>	<b>4,362</b>	<b>8,322</b>	<b>7,641</b>	<b>8,347</b>	<b>9,487</b>
Minority/Associates	312	1,460	2,044	2,146	1,931
<b>Recurring PAT</b>	<b>4,674</b>	<b>9,781</b>	<b>9,685</b>	<b>10,493</b>	<b>11,419</b>
Extraordinary items	0	0	0	0	0
<b>Reported PAT</b>	<b>4,674</b>	<b>9,781</b>	<b>9,685</b>	<b>10,493</b>	<b>11,419</b>

Ratios					
YE Mar	FY20A	FY21A	FY22A	FY23E	FY24E
<b>Growth (%)</b>					
Revenue	(1.8)	15.3	22.3	11.1	9.4
EBITDA	6.4	53.9	(3.3)	6.4	12.2
Adj. EPS	4.2	109.3	(1.0)	8.4	8.8
<b>Margins (%)</b>					
Gross	35.1	36.5	31.1	31.5	31.7
EBITDA	15.1	20.2	16.0	15.3	15.7
EBIT	11.4	16.9	13.0	12.2	12.6
Adjusted PAT	8.5	15.4	12.4	12.2	12.1
<b>Returns (%)</b>					
ROE	21.2	36.0	27.6	27.2	27.0
ROCE	18.1	28.7	21.9	21.8	22.4
ROIC	18.0	32.6	21.9	25.2	27.9
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	1.7	1.9	2.2	2.2	2.2
Debtors	23	20	20	23	24
Inventory	84	75	69	73	66
Creditors	56	54	49	51	50
Net working capital	55	62	68	63	85
<b>Solvency (x)</b>					
Net debt-equity	0.1	(0.2)	(0.1)	(0.2)	(0.3)
Interest coverage ratio	41.3	135.2	241.2	206.4	0.0
Net debt/EBITDA	0.2	(0.6)	(0.4)	(0.5)	(0.9)
<b>Per share (Rs)</b>					
Adjusted EPS	36.8	77.0	76.2	82.6	89.9
BVPS	178.0	249.4	302.6	304.0	361.4
CEPS	53.0	93.7	94.3	103.5	112.6
DPS	27.7	5.0	23.0	24.8	27.0
Dividend payout (%)	75.4	6.5	30.2	30.0	30.0
<b>Valuation (x)</b>					
P/E	49.5	23.7	23.9	22.1	20.3
P/BV	10.2	7.3	6.0	6.0	5.0
EV/EBITDA	0.5	0.0	0.0	0.0	0.0
Dividend yield (%)	0.0	0.0	0.0	0.0	0.0

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Equity share capital	254	254	254	254	254
Reserves & surplus	22,358	31,438	38,190	38,368	45,659
Shareholders fund	22,612	31,692	38,444	38,622	45,913
Minority Interest	0	0	0	0	0
Total debt	4,109	6	0	0	0
Non Current Liabilities	323	300	363	363	363
Def tax liab. (net)	1,326	919	904	904	904
<b>Total liabilities</b>	<b>28,370</b>	<b>32,917</b>	<b>39,711</b>	<b>39,890</b>	<b>47,181</b>
Gross block	31,609	32,910	35,340	38,840	42,340
Less: acc. Depreciation	(16,117)	(16,425)	(18,443)	(21,104)	(23,992)
Net block	15,492	16,485	16,897	17,736	18,348
Capital WIP	929	496	1,546	583	0
Net fixed assets	16,421	16,981	18,443	18,319	18,348
Non Current Assets	3,688	5,182	6,763	6,763	6,763
Investments	0	0	0	0	0
Inventories	8,906	7,608	12,602	11,173	12,160
Sundry debtors	3,128	3,898	4,668	5,996	6,557
Cash & Cash Equivalents	2,314	7,684	5,264	7,236	13,784
Loans & advances	20	17	40	40	40
Other current assets	1,710	1,453	2,179	2,420	2,647
Trade payables	5,475	6,462	7,940	8,532	9,286
Other current liab.	2,028	3,146	1,988	3,195	3,493
Provisions	313	298	320	330	338
Net current assets	8,262	10,753	14,505	14,809	22,071
<b>Total assets</b>	<b>28,370</b>	<b>32,917</b>	<b>39,710</b>	<b>39,890</b>	<b>47,181</b>

Cashflow					
YE Mar (Rs mn)	FY20A	FY21A	FY22A	FY23E	FY24E
Profit Before Tax	6,413	12,122	12,318	12,841	14,087
Depreciation & Amortisation	2,059	2,130	2,295	2,661	2,888
Net Interest	296	221	51	64	0
Net Change – WC	(1,647)	1,955	(4,939)	1,668	(714)
Direct taxes	(1,621)	(2,322)	(2,868)	(2,347)	(2,668)
<b>Net cash from operations</b>	<b>5,393</b>	<b>12,464</b>	<b>4,704</b>	<b>12,531</b>	<b>11,442</b>
Capital expenditure	(2,417)	(2,266)	(4,699)	(2,537)	(2,917)
Acquisitions, net	0	0	0	0	0
Investments	263	80	85	0	0
Others	194	180	580	283	220
<b>Net cash from investing</b>	<b>(1,959)</b>	<b>(2,006)</b>	<b>(4,035)</b>	<b>(2,253)</b>	<b>(2,697)</b>
<b>FCF</b>	<b>3,434</b>	<b>10,458</b>	<b>669</b>	<b>10,278</b>	<b>8,744</b>
Issue of share capital	0	0	0	0	0
Increase/(decrease) in debt	2,380	(4,104)	(11)	0	0
Dividend paid	(3,522)	(635)	(2,922)	(8,168)	(2,196)
Interest paid	(271)	(166)	(10)	(64)	0
Others	(142)	(150)	(161)	0	0
<b>Net cash from financing</b>	<b>(1,555)</b>	<b>(5,055)</b>	<b>(3,103)</b>	<b>(8,232)</b>	<b>(2,196)</b>
Net change in Cash	1,879	5,403	(2,434)	2,045	6,548

Source: Company, Centrum Broking

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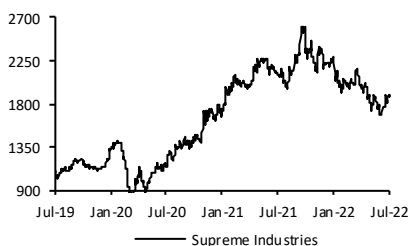
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#### Supreme Industries



Source: Bloomberg



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