

Equity Research Desk



ALPHA

18 AUG 2022

Supreme Industries Ltd. – Market Leader

Market Data	
CMP	Rs. 1969
Date	17-Aug-22
Target Price	Rs. 2410
Upside Potential	22.00%
52 Week High/Low	2694/1666
Market Cap	Mid Cap
Sector	Plastic Products
Rating	Buy

Supreme Industries Ltd. (SIL) is a plastic product manufacturer and the largest plastic processor in India, processing over 4 lakh MT annually. Company enjoys a significant market share across its business verticals like Plastic Piping , Industrial Products and Consumer Products. The company has been consistently increasing capacity in the plastics processing and has more than 8000 diversified products. Presence in the Indian plastic industry for over 50+ years under present management. Supreme Industries has 25 technologically advanced manufacturing facilities located at various places spread across the country. The company has built-up excellent relationship with its distributors and is also providing orientation to them, in order to ensure proper service to ultimate customers.



Products & Services: The company has products under four business verticals i.e., Plastic Piping, Packaging Products, Industrial Products and Consumer Products.

Plastic Piping System (PPS) - UPVC pipes, Injection Moulded PVC Fitting & Handmade Fitting, PPE Random Co-polymer Pipes, HDPE Pipe System, CPVC Pipe System, etc.

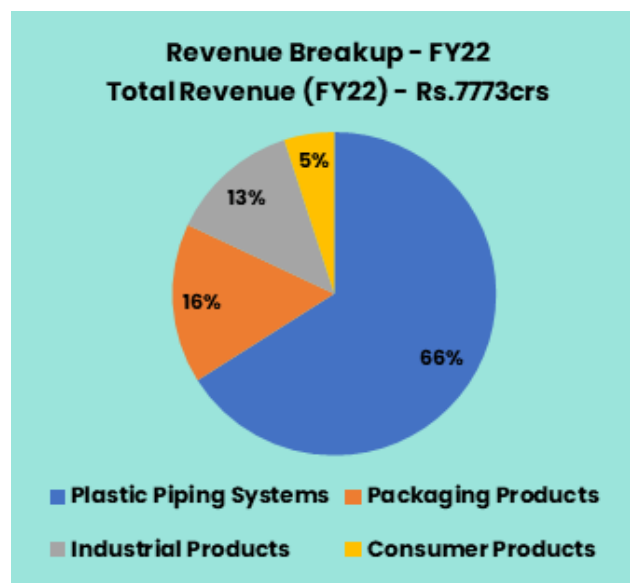
Consumer Products (CP) - Furniture like chair, table etc.

Industrial Products (IP) - Industrial components, material handling systems & pallets, Roto Moulded Crates, pallets & garbage bins and composite LPG cylinder.

Packaging Products (PP) - Flexible packaging Films products, protective packaging products and cross laminated film products.

SHP	Jun - 22 (%)	Mar - 22 (%)	Change
Promoters	48.85	48.85	0.00
FPI	15.79	16.16	-0.37
DII	19.69	19.65	0.04
Public & Others	15.67	15.34	0.33
Pledged	0.00	0.00	0.00

Subsidiaries: As on 31st Mar 2022, the company has one subsidiary company named Supreme Industries Overseas (FZE) and one associate company named Supreme Petrochem Ltd.





Key Rationale

- **Market Leader** – SIL has been able to retain its leadership position owing to continuous product launches across all segments. It is the Market leader in the PVC pipe industry with a value market share of 15%. With a focus on profitability, it has focused on premium product launches. The rising share of value-added products has helped the company retain or gain market share across most market segments. Revenue from value-added products increased by 47% YoY to Rs.760crs in Q1FY23 compared to Rs.520crs in Q1FY22. The share of these products in total revenue stood at 34.5% in Q1FY23 vs. 38.5% in Q1FY22.
- **Diversified Revenue** – In Q1FY23, industrial segment revenue growth came in at 52% YoY led by ~36% volume growth. The strong growth was led by material handling and consumer appliances segment. Packaging segment reported 12% volume growth and 34% value growth to Rs.326crs led by strong demand for consumer products, sports goods, yoga mats and kids' toys. For Q1FY23, consumer product segment reported revenue growth of ~100% YoY to Rs.96crs and sales volume increased by 77% YoY to Rs.3731 crs led by higher demand. Segment wise, EBIT margin of piping segment declined by 600 bps YoY to 11%. Industrial and consumer product segment margin increased by 300 bps and 1100 bps YoY to 9% and 11% respectively. Packaging segment EBIT margin remained flat at 7%.
- **Q1FY23** – Company's Q1FY23 revenue came at Rs.2206crs (64% YoY/-14% QoQ) on favourable low base. The robust sales volume (53% YoY) majorly propelled the topline during the quarter. The volume growth was led by 65% YoY increase in plastic pipes. The strong uptick in agricultural demand on a relatively less base augered well for sharp growth in piping segment. EBITDA margin for Q1FY23 was at 12.2% (-435bps YoY/-310bps QoQ). EBITDA margin was hit by inventory losses that company incurred.
- **Financial Performance** – The company has delivered a sales growth at a CAGR of 12% and Net Profit at a CAGR of 18% for the past 5 years. It has a 5-year average ROE of 26% for the period of FY18-22. Furthermore, the Company is debt-free, with a healthy balance sheet and a flexible capital structure. Led by strong operating profit growth and lean working capital, the company has been posting healthy operating cash flows year after year. Despite its continuous reinvestment in growth Capex, SIL has delivered positive FCF in almost all of the past 10 years (barring FY22 which is a flat number).

**Ratios - FY22**

ROE	25%
ROCE	32%
Div. Yield	1.22%
PE Ratio	26.00
Face Value	2.00
EPS	Rs. 76.24

Industry Analysis

The market for plastic pipes is valued at approximately Rs.300 billion, with organised players accounting for approximately 65% of the market. 50-55% of the industry's demand is accounted for by plumbing pipes used in residential and commercial real estate, 35% by agriculture, and 5-10% by infrastructure and industrial projects. The Indian plastic pipe market is expected to reach an estimated \$10.9 billion by 2027 and is forecast to grow at a CAGR of 12% from 2022 to 2027. Due to the government's emphasis on cleanliness and sanitation, affordable home building, and replacement and substitution demand, the domestic plastic pipes market grew at a CAGR of 10 to 12% between FY15 and FY20. Demand is anticipated to expand at a CAGR of 12 to 14% between FY21 and FY25, driven by increased investment in WSS projects, the substitution of metal pipes with polymer pipes, and replacement demand.

Growth Drivers

The irrigation industry is a major end-user segment for plastic pipes. Irrigation construction spending is expected to rise to Rs.3.7 lakh crore between FY21 to FY25. Earlier the irrigation construction spending stood at from Rs.3.1 lakh crore between 2016 to 2020.

In the Union Budget, the Drinking Water and Sanitation Department under the ministry has been allocated Rs.67,221crs, while Rs.18,968crs has been earmarked for the Department of Water Resources, River Development and Ganga Rejuvenation.

Urban infrastructure spending is expected to reach Rs.2.9 lakh crore from FY21 to FY25, a 1.35x increase over the previous five fiscal years.



Peer Analysis

Competitors: Astral Ltd, Finolex Industries, etc.

SIL is the largest in terms of market share with 15% in plastic piping segment where its peers namely Astral having 9% and Finolex industries having 12% respectively. In terms of P/E, Supreme is trading at 26x cheaper than Astral pipes with 84x which is heavily overpriced in terms of the Industry P/E of 29x.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS	Market Share
Supreme Inds	1969	25088	25.00%	32.00%	26	76.24	15%
Astral	2013	40444	21.00%	28.00%	84	24.08	9%
Finolex Inds	141	8767	20.00%	26.00%	8	16.98	12%

Outlook

SIL management has guided for 15% overall volume growth for FY23 with piping segment outpacing the overall growth. The EBITDA margins are expected to be sustained at 15%+ range. The management has indicated that PVC prices are going to bottom out by Aug-22 thus improving the business outlook from H2FY23 onwards, which will eventually lead to channel restocking. The capacity expansion work for the high-margin composite cylinders is expected to commence in Nov-22 leading to consolidated margins in Q4FY23. The management also expects the demand to continue on the back of government schemes like Nal-se-Jal. The packaging division business has picked up good momentum and the growth was good in the export markets in the segment. The company plans to incur capex of Rs.700crs in FY23, including carry-forward commitments of Rs.280crs. The entire capex and increased working capital requirement shall be funded from internal accruals.

Margins - FY22	
Gross	33%
EBITDA	16%
EBIT	12%



Valuation

SIL seems to be aptly poised to achieve its targeted guidance for FY23 following the positive demand outlook & favourable industry dynamics. The piping segment is expected to deliver strong growth in the wake of supportive government policies. We recommend a BUY rating in the stock with the target price (TP) of Rs.2410, 29x FY24E EPS.

Risks

- **Raw Material risk** – Company's operating profitability is moderately susceptible to volatility in prices of its key raw materials – polyvinyl chloride resin, polyethylene, and polypropylene; the prices of these commodities are linked to movements in crude oil prices.
- **Production Risk** – Any delay in expansion plans can affect the turnover as the company has an asset heavy model hence needs to invest continuously in the business to sustain growth.
- **Competitive Risk** – The plastic industry is highly fragmented with unorganized players accounting for 35-40% of the output and posing a stiff competition to SIL.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

Abeshek C V

Equity Research Analyst – Fundamental
Equity Research Desk





Disclaimer: Wealth India Financial Services Pvt. Ltd is registered under the SEBI (Research Analyst) Regulations, 2014 (SEBI Regulations) as a Research Analyst vide Registration No. INH200000394.

The analyst for this report certifies that all the views expressed in this report accurately reflect his / her personal views about the subject company or companies, and its / their securities. No part of his / her compensation was / is / will be, directly / indirectly related to specific recommendations or views expressed in this report. This material is for the personal information of the authorized recipient, and no action is solicited on the basis of this. It is not to be construed as an offer to sell, or the solicitation of an offer to buy any security, in any jurisdiction, where such an offer or solicitation would be illegal.

We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable, though its accuracy or completeness cannot be guaranteed. Neither Wealth India Financial Services Pvt. Ltd., nor any person connected with it, accepts any liability arising from the use of this document. The recipients of this material should rely on their own investigations and take their own professional advice. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance.

We and our affiliates, officers, directors, and employees worldwide:

Do not have any financial interest in the subject company / companies in this report;

Do not have any actual / beneficial ownership of one per cent or more in the company / companies mentioned in this document, or in its securities at the end of the month immediately preceding the date of publication of the research report, or the date of public appearance;

Do not have any other material conflict of interest at the time of publication of the research report, or at the time of public appearance;

Have not received any compensation from the subject company / companies in the past 12 months;

Have not managed or co-managed the public offering of securities for the subject company / companies in the past 12 months;

Have not received any compensation for investment banking, or merchant banking, or brokerage services from the subject company / companies in the past 12 months;

Have not served as an officer, director, or employee of the subject company;

Have not been engaged in market making activity for the subject company;

This document is not for public distribution. It has been furnished to you solely for your information, and must not be reproduced or redistributed to any other person.

You are receiving this mail because you are a registered user at www.FundsIndia.com.

Our mailing address is:

Uttam Building, Third Floor,

No. 38 & 39, Whites Road, Royapettah, Chennai – 600014