

11 March 2022

Supreme Industries – BUY

CMP : Rs.1,990.0
Target Price : Rs.2,386.0
Upside : 20%+
Stop Loss : Rs.1,725.0 (Closing basis)

Investment Thesis

Recently, the stock price of Supreme Industries Ltd. (Supreme Industries) corrected by ~26% from 52-week high of Rs.2,693.90 as it has reported 18.0% YoY volume de-growth in the last quarter due to inventory de-stocking at dealer's level amid volatile PVC prices.

Supreme Industries is India's largest plastic product manufacturer, commanding leadership position in most product categories– plastic pipes, furniture, material handling, and protective packing products. Supreme Industries commands 14% and 11% market share in organized and overall piping market, respectively, in India. Also, in the Industrial and Consumer product category, it has a strong market share of 12% and 14%, respectively. Supreme Industries has 25 plants spread over 12 states/UTs in all the five regions of India. Its spread-out production facilities across all business segments also gives an edge over its competitors, since it allows the company to remain closer to its distribution network, resulting in lower opex. Government's flagship 'Nal Se Jal' scheme with an outlay of ~Rs.3.000bn over the next five years is a big booster for domestic plastic piping companies like Supreme Industries.

Supreme Industries, in last quarter, has reported ~18% volume de-growth led by channel inventory rationalisation, extended monsoon and volatile PVC prices. Inventory de-stocking at dealer's level amid volatile PVC prices also resulted in 26% volume drop in the piping segment. The management expects FY22E revenues at ~Rs.75,000mn, implying Q4FY22E revenue growth at 13-14% YoY supported by dealer offtake amid pick up in PVC prices from January 2022. It has increased its focus towards valued added products as it command EBITDA margin of ~17%+ compared to overall margin of 15%. The revenue contribution of value added product to overall revenue has increased from 35% in FY18 to ~40% in FY21.

Financials

- During the past 5 years, revenue of Supreme Industries grew at CAGR of 16.5% while PAT grew at CAGR of 34.6% in the same period.

| Consol. (Rs.Mn.) | FY19 | FY20 | FY21 | FY22E | FY23E |
|------------------|--------|--------|--------|--------|--------|
| Revenue | 56,120 | 55,115 | 63,571 | 73,106 | 84,072 |
| EBITDA | 7,846 | 8,346 | 12,843 | 14,127 | 16,246 |
| % growth | -0.3 | 6.4 | 53.9 | 10.0 | 15.0 |
| PAT | 4,486 | 4,674 | 9,781 | 11,249 | 12,902 |
| EPS (INR) | 35.3 | 36.8 | 77.0 | 88.5 | 101.6 |
| P/E (x) | 56.4 | 54.1 | 25.8 | 22.5 | 19.6 |
| RoE (%) | 20.8% | 20.7% | 30.9% | 32.3% | 33.7% |

- Supreme Industries has reported only 5.5% YoY growth in revenue in Q3FY22 to Rs.19,451mn mainly driven by higher realization but overall volume de-grew by 18% YoY.

Stock Data

| | |
|-----------------------|---------------------|
| Market Cap (Rs. Mn) | 2,49,526 |
| Market Cap (\$ Mn) | 3,261.8 |
| Shares O/S (in Mn) | 127.1 |
| Avg. Volume (3 month) | 1,19,000 |
| 52-Week Range (Rs.) | 2,693.90 / 1,872.60 |

Shareholding Pattern

| | |
|-------------------------------|--------|
| Promoters | 48.85% |
| FIIIs | 16.16% |
| Institutions | 19.70% |
| Others (incl. body corporate) | 15.29% |

| Performance (%) | 1M | 6M | 1Yr |
|-----------------|-------|-------|-------|
| Absolute | 0.5% | -6.9% | -2.3% |
| BSE 500 | -4.4% | -4.2% | 12.0% |

Key Ratios

| | |
|---------------|--------|
| Div Yield | 1.1% |
| TTM PE | 23.1x |
| ROE | 31.8% |
| TTM EPS (Rs.) | 86.2/- |

- Supreme Industries' piping segment volume declined ~26% YoY, followed by 19% decline in volume of furniture business whereas packaging volume declined by 1% YoY in Q3FY22.
- Supreme Industries' EBITDA declined by 20.8% YoY in Q3FY22 to Rs.3,179mn. As a result, EBITDA margin also declined by 544bps YoY to 16.3% in Q3FY22 mainly due to EBITDA margin was much higher in the base quarter on account of favourable raw material prices. We believe that EBITDA margin has now come to its normalised level.

Key Business Highlights

- Supreme Industries, engaged in the manufacturing and marketing of plastic products and one of the major players in the plastic pipes business. It is among the largest plastic processing company in India, processing plastic over 640,000 MTPA.
- Supreme Industries manufactures and sells diverse range of plastic products under four different segments, plastic piping products, consumer products, industrial products and packaging products.
- Supreme Industries has 25 advanced plants, which are powered by technology from world leaders and complement its extensive facilities for R&D and new product development.

Valuation

- Supreme Industries has a well diversified portfolio of products, broadly classified in four segments. It enjoys leadership in most of these product categories. Its large and diversified portfolio also provides it insulation from business cyclicality across any particular segment. Supreme Industries is the market leader in the plastic piping segment with over 8,300 products across 31 different applications. It offers various types of pipes and a large range of moulded fittings for use in potable water supply, irrigation, drainage, plumbing & sanitation and industrial piping. It also sells water & septic tanks and fire sprinkler systems in this category. About 65% of its pipes are sold in the agri-segment. We believe revival in housing and infrastructure spends will be key growth drivers for PVC piping industry going ahead.
- Supreme Industries has maintained its leadership position owing to continuous product launches across all segments. Rising share of value-added products has helped the company to retain or gain market share across most market segments. Thus, the share of total revenue from high-margin value-added products has expanded from ~30% in FY15 to 40% in FY21. In piping product segment, more than 30% of its products are value-added products while in consumer segment over 50% of its moulded furniture are in value-added products category. In packaging segment, almost all of its cross-laminate products and over 40% of its protective packaging products (under industrial) are under value-added products category.
- With India's largest plastic product manufacturer, commanding leadership position in most product categories, 25 plants spread over 12 states/UTs in all the 5 regions of India, expected dealer offtake amid pick up in PVC prices, well diversified portfolio of products, rising share of value-added products and growing piping industry in India, we value Supreme Industries at 23.5x FY23E EPS of Rs.101.60 to arrive at target price of Rs.2,386.00, an upside of ~20%.

Risk & Concern

- Any delay in commencement of new plant may have adverse impact on the business of Supreme Industries.
- Any slowdown in economic growth of the country might affect Infrastructure activities and demand for plastic products.
- Any drastic increase in crude oil price may increase price of polymer, which may have negative impact on margin of Supreme Industries.

Graphs & Charts

Figure 1: Net Sales Trend

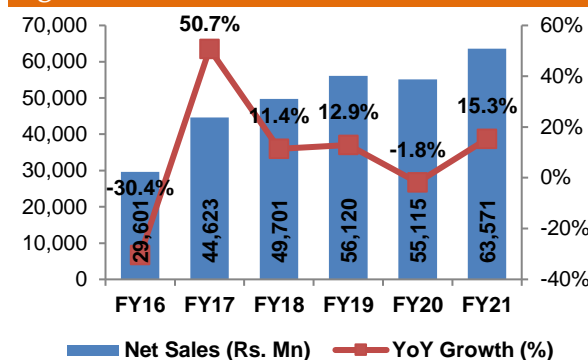


Figure 2: EBITDA & EBITDA Margin Trend

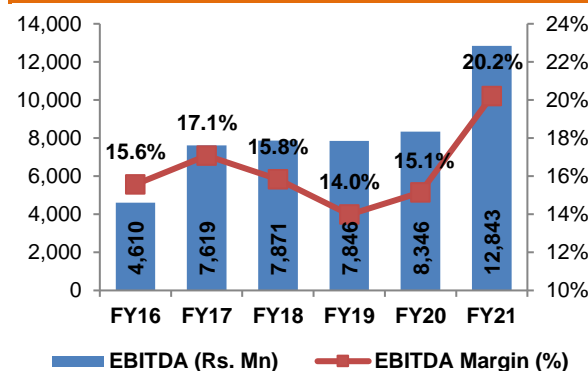


Figure 3: PAT Trend

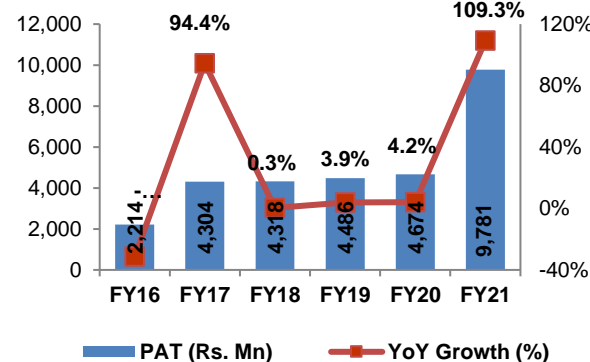
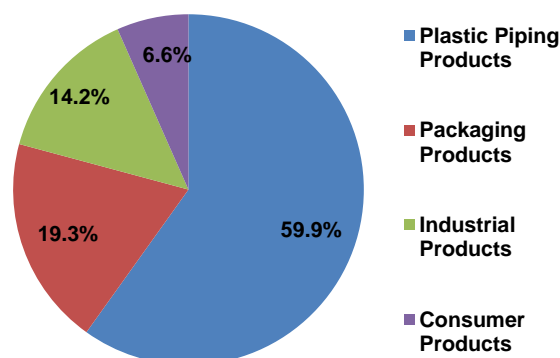


Figure 4: Segment-wise Revenue (Q3FY22)



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