

HOLD
 TP: Rs 4,300 | ▲ 6%

SUPREME INDUSTRIES

Building Materials

22 January 2024

Results broadly in line; guidance upgraded on strong pipe demand

- Q3 broadly in line with our estimates; strong pipe performance for the eighth consecutive quarter
- Guidance raised slightly on robust demand traction for plastic pipes across end user industries
- Maintain HOLD as bright prospects baked into current valuations; TP unchanged at Rs 4,300

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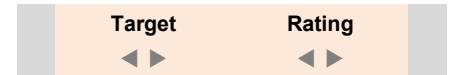
Q3 broadly in line: SI's Q3FY24 result largely met our expectations, but EPS fell short of our forecast by 4.4% due to an above-expected correction in pipe realisations (-8.1% QoQ vs. our estimate of -4%). Overall, SI's revenue/EBITDA/adj. PAT grew by 6%/25%/22% YoY mainly due to a weak base effect as the year-ago quarter had a large MTM inventory loss.

Key result highlights: Pipe segment EBITDA grew at a strong 26% YoY in Q3 led by healthy volume growth of 17% (despite a high base of 82% YoY growth in the year-ago quarter) and improvement in pipe EBITDA per unit by 7.5% YoY to Rs 21.6/kg off a weak base. On a 4Y CAGR basis, the company clocked pipe volume growth of 15% in Q3. Non-pipe segment EBITDA increased 22% YoY for the quarter driven by higher volumes (+5%) and expansion in EBITDA per unit (+16% YoY to Rs 33.5/kg) due to a better mix.

Guidance raised: SI has gained market share in plastic pipes as its PVC/CPVC portfolio (+24%/+8% YoY) has grown faster than the industry (+15%/+2% YoY) in 9MFY24. Management has raised pipe volume growth guidance slightly from 28% to 30% for FY24 (12-15% for FY25) due to affordable resin prices, good demand from the infrastructure and housing sectors, and a weak base of Jan-Feb'23. Pipe EBIT per unit is guided to be in the range of Rs 18-20/kg. Overall, SI has maintained its volume growth guidance of 23% YoY and raised operating margin guidance from 14.5% to 15.5% for FY24.

Maintain HOLD: We maintain our TP of Rs 4,300 and HOLD rating on the stock due to stretched valuations (trades at 42.3x on 1Y forward P/E vs. the 5Y average of 27.7x), even after factoring in reasonably optimistic assumptions (pipe/non-pipe volume CAGR of 18.9%/8% over FY23-FY26 vs. 7.9%/3.8% seen over FY15-FY23). We tweak our EPS estimates by +1.6%/+0.4%/+1% for FY24/FY25/FY26 based on the minor guidance upgrade. Our target P/E multiple remains unchanged at 40x on Sep'25E EPS – a large premium to the stock's historical multiple given SI's bright prospects. For details, see our Sector Report of 17 Jan: [Strong foundations](#).

Key changes



Ticker/Price	SI IN/Rs 4,070
Market cap	US\$ 6.3bn
Free float	51%
3M ADV	US\$ 8.3mn
52wk high/low	Rs 4,888/Rs 2,335
Promoter/FPI/DII	49%/24%/13%

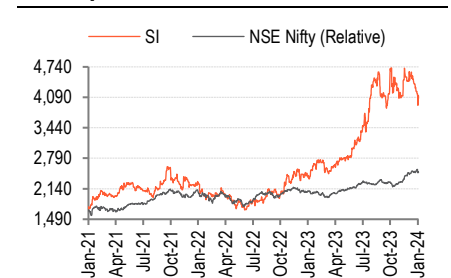
Source: NSE | Price as of 20 Jan 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	92,016	99,972	1,14,999
EBITDA (Rs mn)	11,997	15,499	18,880
Adj. net profit (Rs mn)	8,653	10,528	12,574
Adj. EPS (Rs)	68.1	82.9	99.0
Consensus EPS (Rs)	68.1	85.9	103.6
Adj. ROAE (%)	21.0	22.2	22.9
Adj. P/E (x)	59.8	49.1	41.1
EV/EBITDA (x)	43.6	33.8	27.9
Adj. EPS growth (%)	(11.7)	21.7	19.4

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Revenue	24,491	23,107	6.0	23,087	6.1	71,264	66,033	7.9
Raw material expense	16,405	16,463	(0.4)	15,357	6.8	48,322	48,709	(0.8)
Employee expense	1,098	959	14.5	1,059	3.7	3,189	2,751	15.9
Energy cost	851	699	21.9	781	9.0	2,425	1,922	26.2
Other expense	2,349	1,953	20.2	2,328	0.9	6,761	5,458	23.9
EBITDA	3,788	3,034	24.9	3,562	6.3	10,567	7,194	46.9
D&A	772	648	19.3	719	7.4	2,212	1,913	15.6
EBIT	3,016	2,386	26.4	2,843	6.1	8,355	5,281	58.2
Interest cost	52	12	348.7	16	232.9	84	40	111.1
Non-operating income/(expense)	207	83	149.8	127	63.2	476	184	159.3
Share of profit/(loss) from associate	208	276	(24.5)	240	(13.4)	662	1,041	(36.5)
PBT	3,380	2,733	23.7	3,195	5.8	9,408	6,466	45.5
Tax	818	633	29.2	763	7.2	2,259	1,407	60.5
Reported PAT	2,562	2,100	22.0	2,432	5.3	7,149	5,059	41.3
Adjusted PAT	2,562	2,100	22.0	2,432	5.3	7,149	5,059	41.3
As % of net revenues			(bps)		(bps)			(bps)
Gross margin	33.0	28.8	426	33.5	(46)	32.2	26.2	596
Employee cost	4.5	4.1	33	4.6	(10)	4.5	4.2	31
Energy cost	3.5	3.0	45	3.4	9	3.4	2.9	49
Other cost	9.6	8.5	114	10.1	(49)	9.5	8.3	122
EBITDA margin	15.5	13.1	234	15.4	4	14.8	10.9	393
Tax rate	24.2	23.2	105	23.9	32	24.0	21.8	225
PAT margin	10.5	9.1	137	10.5	(7)	10.0	7.7	237

Source: Company, BOBCAPS Research

Fig 2 – Segment financials

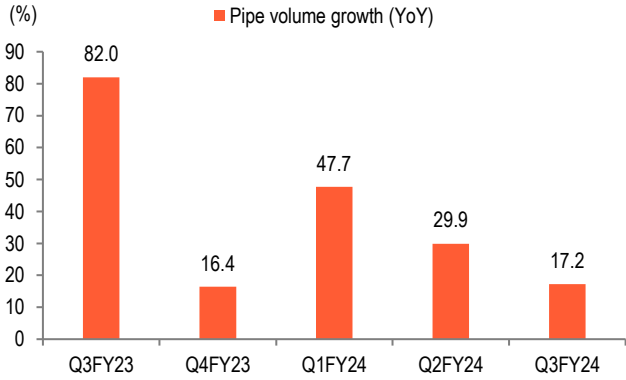
Particulars	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ (%)
Revenue (Rs mn)					
Pipe	16,437	15,087	8.9	15,093	8.9
Industrial	3,320	3,358	(1.2)	3,258	1.9
Packaging	3,540	3,419	3.5	3,522	0.5
Consumer	1,123	1,159	(3.1)	1,054	6.5
Total	24,491	23,107	6.0	23,087	6.1
Sales volume (ktpa)					
Pipe	122	104	17.2	103	18.5
Industrial	16	15	9.8	15	5.2
Packaging	15	15	3.1	15	0.7
Consumer	5	5	(2.6)	5	6.1
Total	158	138	14.2	138	14.7
Realisation (Rs/kg)					
Pipe	135	145	(7.0)	147	(8.1)
Industrial	205	227	(10.0)	211	(3.2)
Packaging	236	235	0.4	237	(0.2)
Consumer	234	235	(0.5)	233	0.4
Total	155	166	(7.1)	166	(7.2)
EBITDA (Rs/kg)					
Pipe	21.6	20.1	7.5	23.9	(9.6)
Industrial	23.8	27.4	(13.3)	22.2	7.3
Packaging	38.9	23.6	64.6	40.1	(2.9)
Consumer	49.5	48.6	1.8	48.0	3.2
Total	24.0	21.9	9.3	25.9	(7.3)

Source: Company, BOBCAPS Research

Earnings call highlights

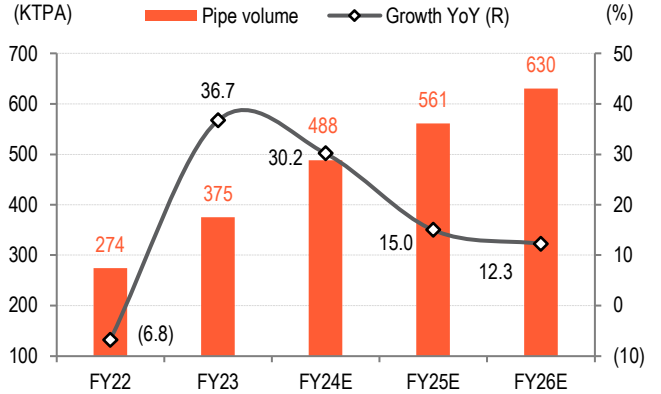
- **Plastic pipes:** Segment volumes grew at a robust 17% YoY and 14.7% on a four-year CAGR basis in Q3FY24. Despite higher volumes QoQ, pipe EBITDA per unit fell 10% sequentially to Rs 21.6/kg for the quarter due to MTM inventory loss on account of unfavourable resin price movement.
- **Industrial:** Segment volumes grew 10% YoY and 16.5% on a four-year CAGR basis in Q3 while segment EBITDA per unit improved by 7% QoQ to Rs 23.8/kg
- **Packaging:** The segment saw muted volume growth of 3% YoY with a 2.2% decline on a four-year CAGR basis due to intense competition across laminated films. Segment EBITDA per unit fell by 3% QoQ to Rs 38.9/kg for the quarter.
- **Consumer:** Segment volumes fell 3% YoY and 4.5% on a four-year CAGR basis in Q3 due to intense competition from unorganised players. However, segment EBITDA per unit improved by 3% QoQ to Rs 49.5/kg due to a better mix.
- **Guidance:** SI has maintained its volume growth guidance of 23% YoY for FY24 but increased EBITDA margin guidance from 14.5% to 15.5%. Management expects its pipe volumes to grow at 30% (vs. 28% earlier) in FY24 and 12-15% in FY25. Pipe EBIT per unit is expected to be in the range of Rs 18-20/kg. The company indicated that its packaging and consumer segments are likely to grow at a slow pace due to its thrust on raising the share of value-added products.
- **Pipe demand:** The company has observed strong demand for plastic pipe products across end user industries (agriculture, housing and infrastructure) in Q3FY24.
- **Pipe market share:** SI has gained market share in the plastic pipe industry as growth in its PVC/CPVC portfolio (+24%/8% YoY) has outpaced the industry (+15%/2% YoY) in 9MFY24.
- **Capex:** Management aims to increase total capacity from 0.8mtpa in Mar'23 to 1mtpa by Dec'24 at a cost of Rs 10bn. Roughly 77% of the capex is targeted towards plastic pipes. Net cash was stable QoQ at Rs 5.9bn in Dec'23.
- **Product launches:** SI plans to increase the capacity of O-PVC (oriented unplasticised polyvinyl chloride) from 3,000t at present to 40,000t. It has started offering CPVC (chlorinated polyvinyl chloride) pipes for industrial applications and HDPE (high density polyethylene) pipes for carrying natural gas.
- **Polymer prices:** Global PVC (polyvinyl chloride) resin prices have stabilised at an affordable level, which is expected to spur demand for plastic pipe products in the near term. CPVC resin prices have corrected by 10% in the past few months.
- **MTM inventory loss:** The company has booked an MTM inventory loss of Rs 0.5bn in 9MFY24.
- **Share of profit from associate (Supreme Petrochem):** The share of profit was down by 24.5% YoY in Q3FY24 due to weak resin prices.

Fig 3 – SI’s pipe volumes grew at a strong 17% YoY and 14.7% on 4Y CAGR basis in Q3FY24...



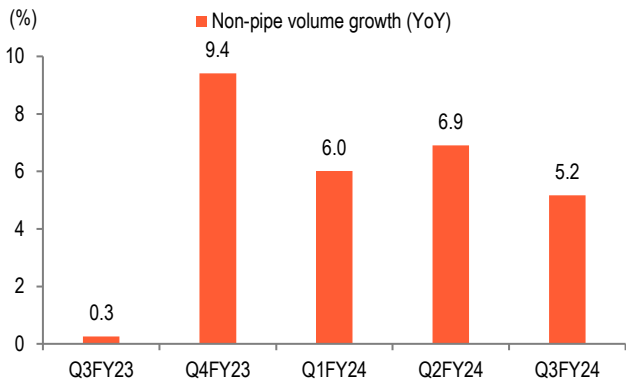
Source: Company, BOBCAPS Research

Fig 4 – ...we expect an 18.9% volume CAGR over FY23-FY26E on strong demand across end user industries



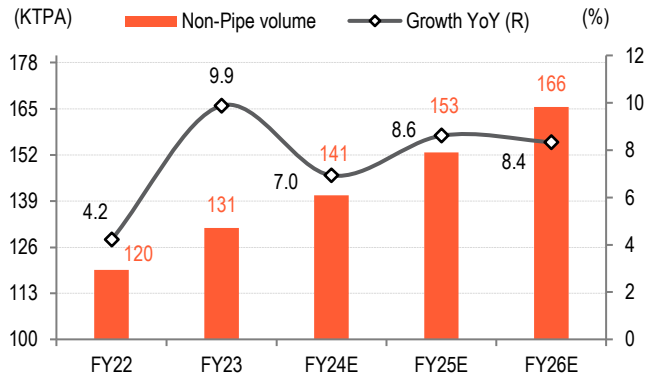
Source: Company, BOBCAPS Research

Fig 5 – Non-pipe volumes grew at a tepid pace of 5% YoY in Q3 over a weak base...



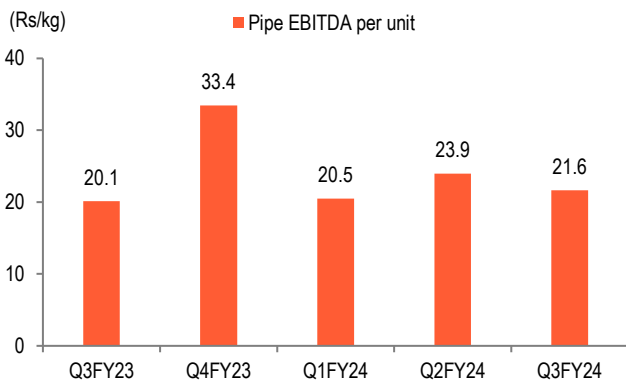
Source: Company, BOBCAPS Research

Fig 6 – ...expect slow 8% CAGR over FY23-FY26E due to intense competition



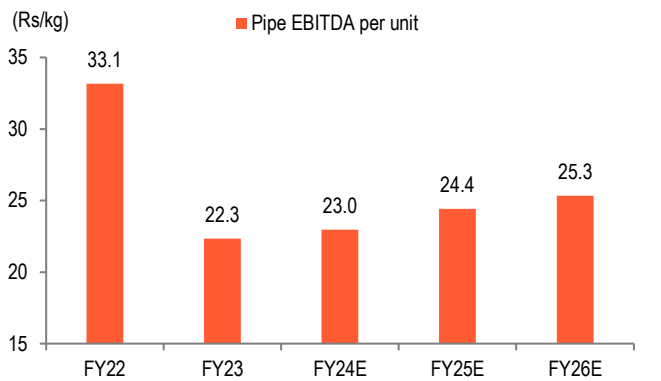
Source: Company, BOBCAPS Research

Fig 7 – Pipe EBITDA per unit improved YoY but fell 10% QoQ in Q3 due to unfavourable resin price movement...



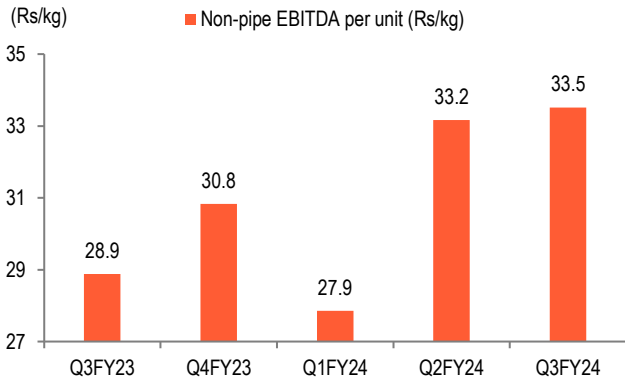
Source: Company, BOBCAPS Research

Fig 8 – ...but is projected to improve in near future due to operating leverage benefit and favourable resin prices



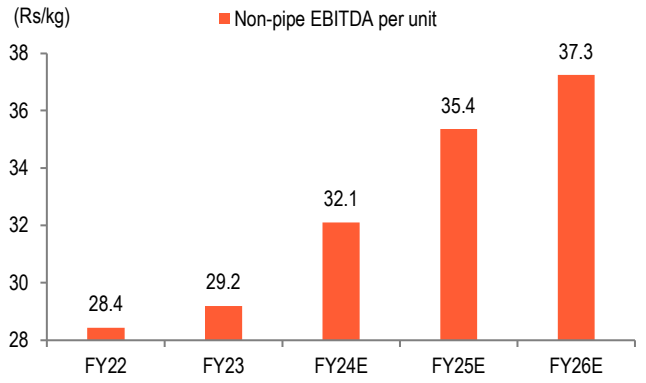
Source: Company, BOBCAPS Research

Fig 9 – Non-pipe EBITDA per unit improved 16% YoY but just 1% QoQ in Q3...



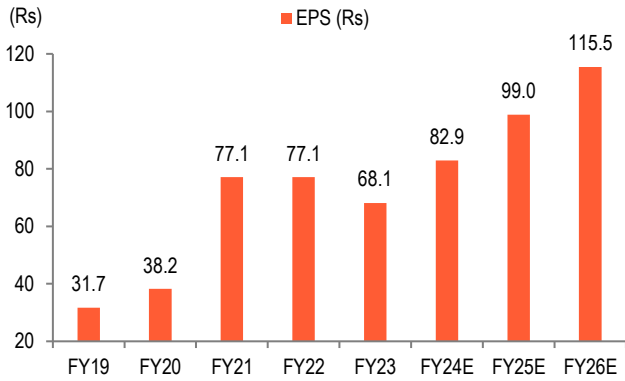
Source: Company, BOBCAPS Research

Fig 10 – ...and is projected to rise further in near future on rising share of value-added products



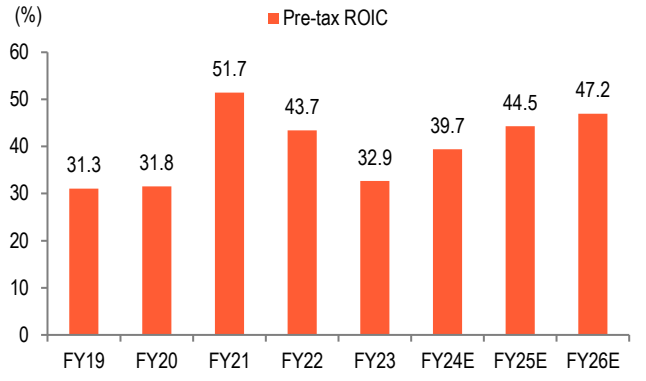
Source: Company, BOBCAPS Research

Fig 11 – EPS projected to grow at strong 20.3% CAGR over FY19-FY26E



Source: Company, BOBCAPS Research

Fig 12 – Pre-tax ROIC to remain healthy at >40% over FY24E-FY26E



Source: Company, BOBCAPS Research

Valuation methodology

We expect SI's EPS to log a strong 20.3% CAGR over FY19-FY26 and the company to operate at a healthy pre-tax ROIC of >40% over FY24-FY26. However, we maintain our HOLD rating on the stock with an unchanged TP of Rs 4,300 due to stretched valuations (trades at 42.3x on one-year forward P/E vs. the five-year average of 27.7x), even after factoring in reasonably optimistic assumptions. We expect a pipe/non-pipe volume CAGR of 18.9%/8% over FY23-FY26 vs. 7.9%/3.8% seen over FY15-FY23.

We tweak our EPS estimates by +1.6%/+0.4%/+1% for FY24/FY25/FY26 based on the minor guidance upgrade. Our target P/E multiple remains unchanged at 40x on Sep'25E EPS – a large premium to the stock's historical multiple given SI's bright prospects.

Fig 13 – Revised Estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	100.0	115.0	133.3	99.7	114.7	132.2	0.2	0.2	0.8
EBITDA	15.5	18.9	21.9	15.3	18.5	21.4	1.0	1.8	2.2
EBITDA margin	15.5	16.4	16.4	15.4	16.2	16.2	12bps	25bps	21bps
Adjusted PAT	10.5	12.6	14.7	10.4	12.5	14.5	1.6	0.4	1.0
Adjusted EPS (Rs)	82.9	99.0	115.5	81.5	98.6	114.4	1.6	0.4	1.0

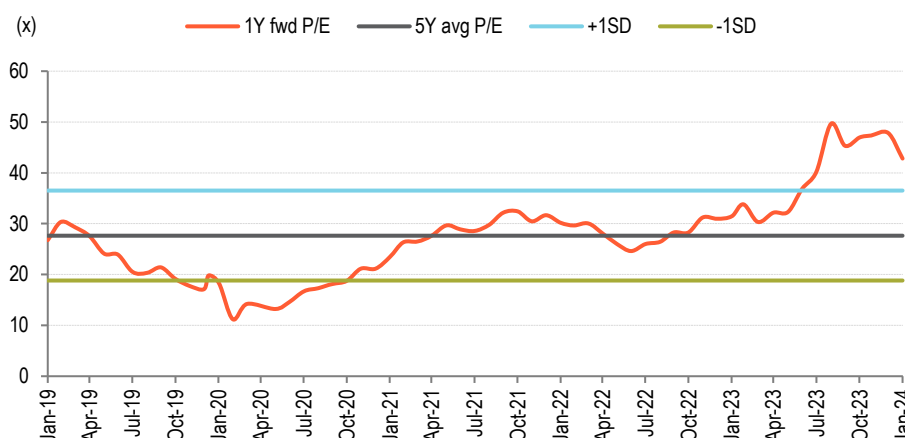
Source: Company, BOBCAPS Research

Fig 14 – Key assumptions

Parameters (%)	FY21A	FY22A	FY23A	FY24E	FY25E	FY26E
Revenue mix						
Pipe	64.5	64.9	65.6	67.9	69.2	70.5
Packaging	16.3	15.6	14.3	13.8	13.3	12.6
Industrial	12.0	13.2	14.6	13.3	12.7	12.4
Consumer	5.6	5.2	4.8	4.5	4.3	4.1
Sales volume growth						
Pipe	(2.1)	(6.8)	36.7	30.2	15.0	12.3
Packaging	6.8	(1.2)	0.1	7.6	7.7	7.0
Industrial	7.3	15.9	22.8	7.2	10.0	10.0
Consumer	(11.1)	(5.7)	4.8	4.3	7.0	7.0
Total	(0.6)	(3.7)	28.6	24.1	13.6	11.4
Average realisation growth	15.1	27.7	(7.5)	(12.4)	1.4	4.1
EBITDA margin						
Pipe	22.2	18.0	13.9	16.5	17.2	17.0
Packaging	16.0	12.3	10.5	15.4	17.1	18.0
Industrial	12.6	11.8	11.9	10.8	12.0	12.0
Consumer	21.1	17.5	19.0	20.9	21.1	21.1
Total	20.2	16.2	13.0	15.5	16.4	16.4

Source: Company, BOBCAPS Research

Fig 15 – Trading at 42.3x on 1Y forward P/E vs. 5Y average of 27.7x



Source: Company, BOBCAPS Research

Key risks

- Better-than-expected recovery in the real estate sector would be a key upside risk to our estimates.
- Market share loss in plastic pipes would represent a key downside risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Astral	ASTRA IN	6.0	1,823	2,000	HOLD
Century Plyboards	CPBI IN	2.2	804	800	HOLD
Cera Sanitaryware	CRS IN	1.3	8,140	8,100	HOLD
Finolex Industries	FNXP IN	1.8	234	230	HOLD
Greenlam Industries	GRLM IN	0.8	523	600	HOLD
Greenpanel Industries	GREENP IN	0.6	393	400	HOLD
Greenply Industries	MTLM IN	0.4	241	300	BUY
Hindware Home Innovation	HINDWARE IN	0.4	482	700	BUY
Kajaria Ceramics	KJC IN	2.7	1,380	1,450	HOLD
Prince Pipes & Fittings	PRINCEPIP IN	0.9	697	800	HOLD
Somany Ceramics	SOMC IN	0.3	694	900	BUY
Supreme Industries	SI IN	6.3	4,070	4,300	HOLD

Source: BOBCAPS Research, NSE | Price as of 20 Jan 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	77,728	92,016	99,972	1,14,999	1,33,344
EBITDA	12,561	11,997	15,499	18,880	21,902
Depreciation	2,295	2,634	2,992	3,343	3,695
EBIT	10,266	9,363	12,507	15,537	18,208
Net interest inc./(exp.)	(52)	(80)	(136)	(206)	(206)
Other inc./(exp.)	200	298	683	640	780
Exceptional items	140	0	0	0	0
EBT	10,274	9,580	13,054	15,971	18,781
Income taxes	2,633	2,460	3,396	4,229	4,937
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	2,044	1,533	870	833	833
Reported net profit	9,685	8,653	10,528	12,574	14,677
Adjustments	110	0	0	0	0
Adjusted net profit	9,795	8,653	10,528	12,574	14,677

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	7,940	9,038	9,897	11,385	13,201
Other current liabilities	1,988	2,237	2,237	2,237	2,237
Provisions	76	85	93	107	124
Debt funds	0	0	0	0	0
Other liabilities	1,512	1,562	1,562	1,562	1,562
Equity capital	254	254	254	254	254
Reserves & surplus	38,190	43,767	50,484	58,738	69,096
Shareholders' fund	38,444	44,021	50,738	58,992	69,350
Total liab. and equities	49,959	56,942	64,527	74,283	86,474
Cash and cash eq.	5,264	7,461	11,135	15,743	22,365
Accounts receivables	4,668	4,924	5,350	6,154	7,135
Inventories	12,602	13,856	15,054	17,317	20,080
Other current assets	2,219	2,546	2,825	3,249	3,768
Investments	4,759	5,713	5,713	5,713	5,713
Net fixed assets	16,821	19,764	21,772	23,429	24,734
CWIP	1,967	1,129	1,129	1,129	1,129
Intangible assets	864	878	878	878	878
Deferred tax assets, net	0	0	0	0	0
Other assets	795	672	672	672	672
Total assets	49,959	56,942	64,527	74,283	86,474

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	6,014	10,762	11,938	13,494	15,369
Capital expenditures	(4,104)	(4,753)	(5,000)	(5,000)	(5,000)
Change in investments	(1,393)	(954)	0	0	0
Other investing cash flows	59	298	683	640	780
Cash flow from investing	(5,437)	(5,409)	(4,317)	(4,360)	(4,220)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(12)	0	0	0	0
Interest expenses	(52)	(80)	(136)	(206)	(206)
Dividends paid	(3,049)	(3,303)	(3,812)	(4,320)	(4,320)
Other financing cash flows	116	228	0	0	0
Cash flow from financing	(2,997)	(3,156)	(3,947)	(4,526)	(4,526)
Chg in cash & cash eq.	(2,420)	2,197	3,674	4,608	6,623
Closing cash & cash eq.	5,264	7,461	11,135	15,743	22,365

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	76.2	68.1	82.9	99.0	115.5
Adjusted EPS	77.1	68.1	82.9	99.0	115.5
Dividend per share	24.0	26.0	30.0	34.0	34.0
Book value per share	302.6	346.5	399.4	464.3	545.8

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	6.7	5.7	5.2	4.6	4.0
EV/EBITDA	41.4	43.6	33.8	27.9	24.2
Adjusted P/E	52.8	59.8	49.1	41.1	35.2
P/BV	13.5	11.7	10.2	8.8	7.5

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	95.3	90.3	80.7	78.7	78.1
Interest burden (PBT/EBIT)	100.1	102.3	104.4	102.8	103.2
EBIT margin (EBIT/Revenue)	13.2	10.2	12.5	13.5	13.7
Asset turnover (Rev./Avg TA)	155.6	161.6	154.9	154.8	154.2
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.3
Adjusted ROAE	27.9	21.0	22.2	22.9	22.9

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	22.3	18.4	8.6	15.0	16.0
EBITDA	(2.3)	(4.5)	29.2	21.8	16.0
Adjusted EPS	0.0	(11.7)	21.7	19.4	16.7
Profitability & Return ratios (%)					
EBITDA margin	16.2	13.0	15.5	16.4	16.4
EBIT margin	13.2	10.2	12.5	13.5	13.7
Adjusted profit margin	12.6	9.4	10.5	10.9	11.0
Adjusted ROAE	27.9	21.0	22.2	22.9	22.9
ROCE	27.2	21.9	26.0	27.4	27.4
Working capital days (days)					
Receivables	22	20	20	20	20
Inventory	59	55	55	55	55
Payables	37	36	36	36	36
Ratios (x)					
Gross asset turnover	2.3	2.5	2.3	2.4	2.5
Current ratio	2.5	2.5	2.8	3.1	3.4
Net interest coverage ratio	199.3	116.7	92.2	75.3	88.2
Adjusted debt/equity	(0.1)	(0.2)	(0.2)	(0.3)	(0.3)

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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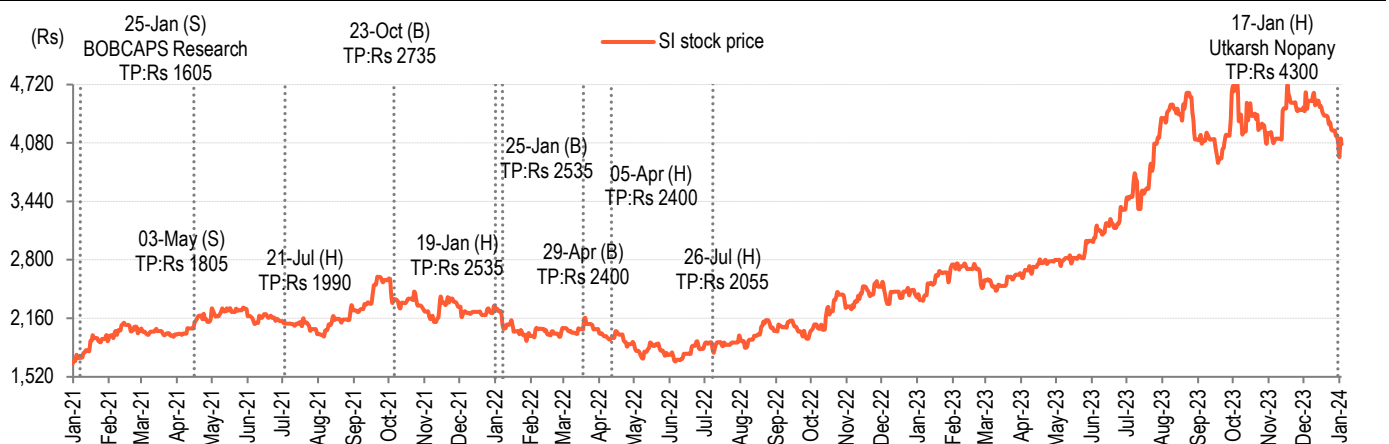
Recommendation scale: Recommendations and Absolute returns (%) over 12 months

- BUY** – Expected return >+15%
- HOLD** – Expected return from -6% to +15%
- SELL** – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SUPREME INDUSTRIES (SI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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