

BUY

TP: Rs 5,250 | ▲ 17%

SUPREME INDUSTRIES

Building Materials

22 October 2024

Weak Q2; upgrade to BUY on reasonable valuations

- Weak Q2 on destocking of pipe inventories in the channel in a falling resin price environment, and MTM inventory loss
- Guidance for volume revised down to 14-15% (vs 20%) and margin to 14.5-15.25% (vs 15.0-15.5%) for FY25 based on the weak Q2 result
- Upgrade to BUY from HOLD as valuation has now become reasonable on relative basis; cut TP by 3% to Rs 5,250

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Weak Q2: SI missed our estimates (Revenue/EBITDA/APAT: -8%/-17%/-21%) driven by weak sales volume (+0.2% YoY vs +13.4% estimate) as well as lower EBITDA margin (-139bps YoY to 14.0% vs 15.5% estimate). Overall, SI's Revenue/EBITDA/APAT de-grew by 1.5%/10.4%/15.0% YoY in Q2FY25. However, SI EBITDA grew at a decent pace of 13% CAGR on a 5Y CAGR basis in Q2FY25.

Key highlights: Pipe volume was down 0.7% YoY (5Y CAGR: +8.6%) in Q2FY25 due to volatile resin prices, weak infra demand and extended monsoon. Pipe margin declined 142bps YoY/ 77bps QoQ to 14.9% in Q2FY25 due to (MTM) inventory loss and negative operating leverage. Non-pipe volume grew by 2.9% YoY (5Y CAGR: +6.9%) as increased packaging volume (+11.4%) more than offset the impact of weak sales volume of industrial (-2.0%) and consumer (-8.5%). However, non-pipe EBITDA margin contracted by 138bps YoY to 13.4% in Q2FY25.

Concall KTAs: The company revised down its consolidated/pipe volume growth guidance to +14-15% YoY (+20% earlier)/ +16-18% YoY (+25% earlier) for FY25 based on a weak H1FY25 performance. However, the company expects a good recovery in demand in H2FY25 due to stabilization of polymer prices. EBITDA margin guidance has also been lowered from the earlier 15.0-15.5% to 14.5-15.25% for FY25. The company expects its pipe segment margin to be 14-16% and packaging at 16-18% on a sustainable basis.

Upgrade to BUY, cut TP by 3% to Rs 5,250: We upgrade our rating to BUY from HOLD on strong business risk profile (EPS to grow at a healthy 20% CAGR over FY19-FY27E with an average ROIC profile of >40%) and valuation has now become reasonable in comparison to other leading building material companies. At CMP, the stock trades at 40.8x on 1Y forward P/E vs. 5Y average of 31.2x. We cut our TP to Rs 5,250 (Rs 5,400 earlier) due to the earnings downgrade (-4.7%/-1.8%/-1.8% for FY25E/FY26E/FY27E) based on a weak Q2FY25. Our target P/E remains unchanged at 45x on Sep'26 estimate (Jun'26 earlier).

Key changes

Target	Rating
▼	▲

Ticker/Price	SI IN/Rs 4,486
Market cap	US\$ 6.8bn
Free float	51%
3M ADV	US\$ 7.8mn
52wk high/low	Rs 6,460/Rs 3,601
Promoter/FPI/DII	49%/26%/11%

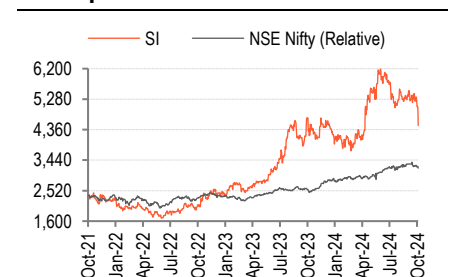
Source: NSE | Price as of 22 Oct 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	101,343	115,667	137,249
EBITDA (Rs mn)	15,473	18,141	21,959
Adj. net profit (Rs mn)	10,697	12,521	15,012
Adj. EPS (Rs)	84.2	98.6	118.2
Consensus EPS (Rs)	84.2	101.9	121.1
Adj. ROAE (%)	22.5	22.7	23.3
Adj. P/E (x)	53.3	45.5	38.0
EV/EBITDA (x)	37.2	31.9	26.5
Adj. EPS growth (%)	23.6	17.0	19.9

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Consolidated

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Revenue	22,730	23,087	(1.5)	26,364	(13.8)	49,093	46,773	5.0	24,756	(8.2)
Raw-Material expense	14,886	15,357	(3.1)	17,958	(17.1)	32,844	31,917	2.9		
Gross Profit	7,844	7,730	1.5	8,406	(6.7)	16,250	14,856	9.4		
Employee expense	1,198	1,059	13.2	1,213	(1.2)	2,411	2,091	15.3		
Energy cost	821	781	5.1	866	(5.2)	1,687	1,574	7.2		
Other expense	2,632	2,328	13.1	2,454	7.3	5,087	4,412	15.3		
EBITDA	3,192	3,562	(10.4)	3,873	(17.6)	7,066	6,778	4.2	3,828	(16.6)
D&A	899	719	25.1	860	4.5	1,760	1,440	22.2		
EBIT	2,293	2,843	(19.4)	3,013	(23.9)	5,306	5,339	(0.6)		
Interest cost	26	16	69.0	33	(21.3)	60	32	83.6		
Non-operating income/(expense)	151	127	18.6	214	(29.8)	365	269	35.7		
Share of profit/(loss) from associate	278	240	15.7	375	(25.9)	653	454	44.1		
PBT	2,695	3,195	(15.6)	3,569	(24.5)	6,265	6,029	3.9		
Tax	629	763	(17.5)	836	(24.7)	1,465	1,441	1.7		
Reported PAT	2,066	2,432	(15.0)	2,734	(24.4)	4,800	4,587	4.6	2615	(21.0)
Adjusted PAT	2,066	2,432	(15.0)	2,734	(24.4)	4,800	4,587	4.6		
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	34.5	33.5	103	31.9	262	33.1	31.8	134		
Employee cost	5.3	4.6	68	4.6	67	4.9	4.5	44		
Energy cost	3.6	3.4	23	3.3	33	3.4	3.4	7		
Other cost	11.6	10.1	150	9.3	227	10.4	9.4	93		
EBITDA margin	14.0	15.4	(139)	14.7	(65)	14.4	14.5	(10)		
Tax rate	23.3	23.9	(53)	23.4	(6)	23.4	23.9	(52)		
APAT margin	9.1	10.5	(144)	10.4	(128)	9.8	9.8	(3)		

Source: Company, BOBCAPS Research

Fig 2 – Segment Financials

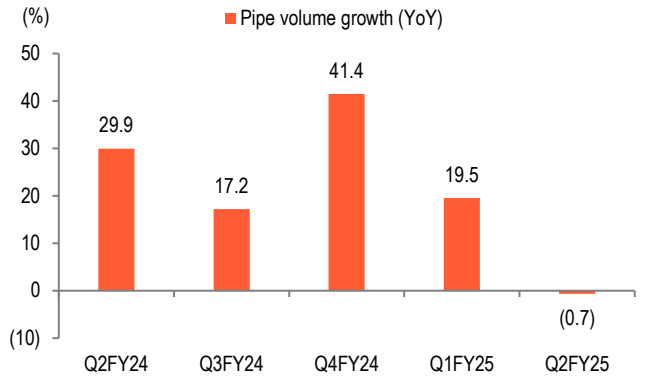
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Revenue (Rs mn)								
Pipe	14,379	15,093	(4.7)	18,584	(22.6)	32,963	31,354	5.1
Industrial	3,276	3,258	0.5	3,064	6.9	6,339	6,243	1.5
Packaging	3,999	3,522	13.5	3,681	8.6	7,680	6,753	13.7
Consumer	1,039	1,054	(1.5)	972	6.9	2,011	2,104	(4.4)
Others	37	160	(76.7)	63	(41.3)	100	319	(68.6)
Total	22,730	23,087	(1.5)	26,364	(13.8)	49,093	46,773	5.0
Sales Volume (ktpa)								
Pipe	102.2	102.9	(0.7)	140.2	(27.1)	242.4	220.2	10.1
Industrial	15.1	15.4	(2.0)	15.0	1.0	30.1	28.8	4.3
Packaging	16.6	14.9	11.4	14.7	12.7	31.3	28.5	10.0
Consumer	4.1	4.5	(8.5)	4.0	3.3	8.1	8.8	(7.6)
Total	138.1	137.8	0.2	173.8	(20.6)	311.9	286.3	8.9
Realisation (Rs/kg)								
Pipe	140.6	146.6	(4.1)	132.6	6.1	136	142	(4.5)
Industrial	217	211	2.6	205	5.9	211	217	(2.6)
Packaging	241	237	1.9	250	(3.7)	245	237	3.4
Consumer	251	233	7.7	243	3.4	247	239	3.5
Total	164.3	166.4	(1.3)	151.3	8.6	157	162	(3.2)
EBITDA (Rs mn)								
Pipe	2,143	2,464	(13.0)	2,913	(26.4)	5,056	4,865	3.9
Industrial	371	342	8.5	285	30.2	656	621	5.7
Packaging	531	596	(10.9)	540	(1.6)	1,071	970	10.4
Consumer	209	217	(3.8)	202	3.1	411	436	(5.7)
Others	(62)	(57)	7.3	(67)	(7.5)	(128)	(113)	13.0
Total	3,192	3,562	(10.4)	3,873	(17.6)	7,066	6,778	4.2
EBITDA margin (%)								
Pipe	14.9	16.3	(142)	15.7	(77)	15.3	15.5	(18)
Industrial	11.3	10.5	83	9.3	202	10.4	9.9	41
Packaging	13.3	16.9	(365)	14.7	(137)	13.9	14.4	(42)
Consumer	20.1	20.6	(48)	20.8	(75)	20.4	20.7	(27)
Total	14.0	15.4	(139)	14.7	(65)	14.4	14.5	(10)
EBITDA (Rs/kg)								
Pipe	21.0	23.9	(12.5)	20.8	0.9	20.9	22.1	(5.6)
Industrial	24.6	22.2	10.7	19.1	28.9	21.8	21.5	1.4
Packaging	32.0	40.1	(20.1)	36.7	(12.7)	34.2	34.1	0.3
Consumer	50.4	48.0	5.1	50.6	(0.3)	50.5	49.5	2.1
Total	23.1	25.9	(10.6)	22.3	3.8	22.7	23.7	(4.3)

Source: Company, BOBCAPS Research

Earnings call highlights

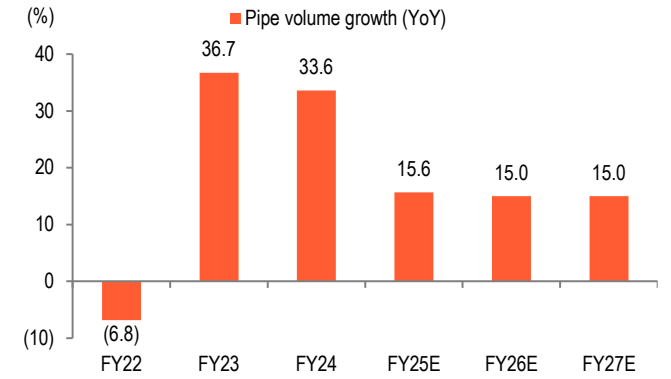
- **Plastic pipes:** Sales volume for this segment was down 0.7% YoY (5Y CAGR: +8.6%) in Q2FY25 due to volatile resin prices, weak infrastructure pipe demand and extended monsoon. Pipe segment margin was down 142bps YoY/ 77bps QoQ to 14.9% in Q2FY25 due to MTM inventory loss and negative operating leverage. CPVC pipe volume grew by 33% YoY in H1FY25 (Q1FY25: +40%). The company expects to receive gas piping order of 3,000 MT per month from Q3FY25.
- **Industrial:** Segment volume de-grew by 2.0% YoY (5Y CAGR: +8.7%) in Q2FY25, but EBITDA margin improved by 83bps YoY to 11.3% in Q2FY25.
- **Packaging:** Segment volume grew by 11.4% YoY (5Y CAGR: +8.4%) in Q1FY25 due to increased demand for cross laminated films and protective packaging. However, the segment's EBITDA margin was sharply down by 370bps YoY to 13.3% in Q2FY25 due to MTM inventory loss on account of steep decline in polymer prices.
- **Consumer:** Segment volume fell by 8.5% YoY (5Y CAGR: -2.4%) in Q2FY25. EBITDA margin also declined by 48bps to 20.1% YoY in Q2FY25.
- **Pipe demand scenario:** SI pipe volume de-grew by 20% YoY in Jul'24 due to destocking of pipe inventory in the channel. However, the company started witnessing improving pipe sales volumes (Aug: +3%; Sep: +15%) with stabilisation of PVC resin prices. Management believes the channel inventory has become normal by the end of Sep'24.
- **Guidance:** The company revised down its consolidated/pipe volume growth guidance to +14-15% YoY (+20% earlier)/ +16-18% YoY (+25% earlier) for FY25 based on weak H1FY25 performance. EBITDA margin guidance has also been revised down from the earlier 15.0-15.5% to 14.5-15.25% for FY25. The company expects its pipe segment margin to be 14-16% and packaging at 16-18% on a sustainable basis.
- **Capex:** SI's plans to incur capex of Rs 15bn for FY25. Pipe capacity is expected to increase from 790ktpa in Sep'24 to 835ktpa by Mar'25 mainly through brownfield expansion.
- **Net cash:** Net cash position has gone down from Rs 12.5bn in Jun'24 to Rs 6.7bn in Sep'24 due to inventory build-up (which is expected to be normalised by Mar'25) and higher capex.
- **MTM inventory loss:** The company booked MTM inventory loss of Rs 0.35bn-0.40bn in Q2FY25.
- **Value-added products (VAP):** VAP share as a % of revenue was down by 112bps YoY to 40.0% in Q2FY25 due to weak demand in the month of Jul'24.
- **Share of profit from associate (Supreme Petrochem):** The share of profit from associates rose 15.7% YoY in Q2FY25 due to the improvement in resin spread.

Fig 3 – SI’s pipe volumes de-grew by 0.7% YoY (5Y CAGR: +8.6%) in Q2FY25



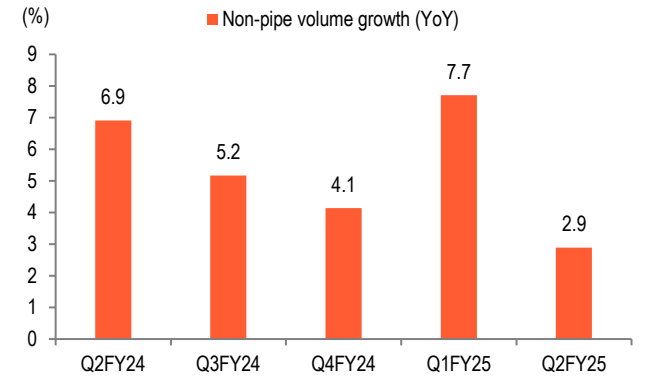
Source: Company, BOBCAPS Research

Fig 4 – SI’s pipe volume to grow at 15.2% CAGR over FY24-FY27E on strong demand across end-user sector



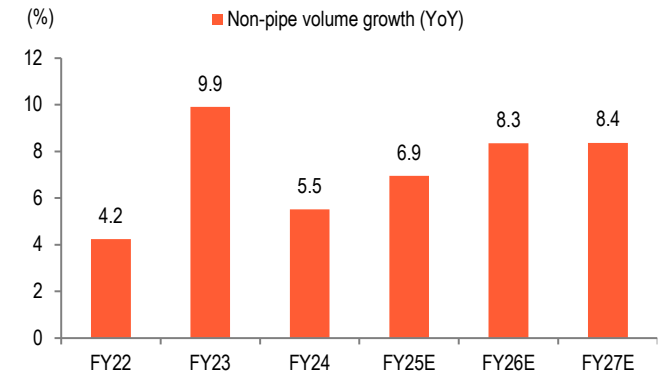
Source: Company, BOBCAPS Research

Fig 5 – Non-pipe volumes grew by 2.9% YoY (5Y CAGR: +6.9%) in Q2FY25 driven by packaging segment



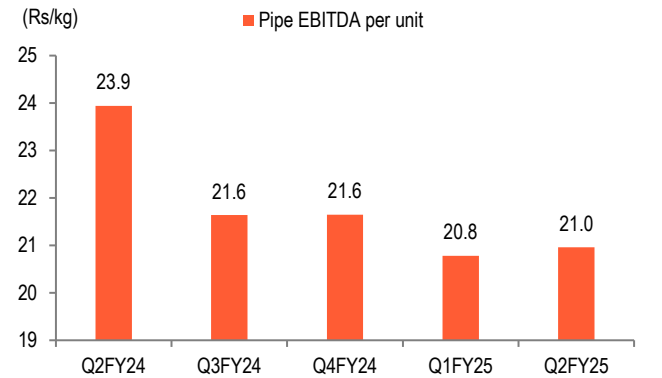
Source: Company, BOBCAPS Research

Fig 6 – SI’s non-pipe volume to grow at 7.9% CAGR over FY24-FY27E over a weak base



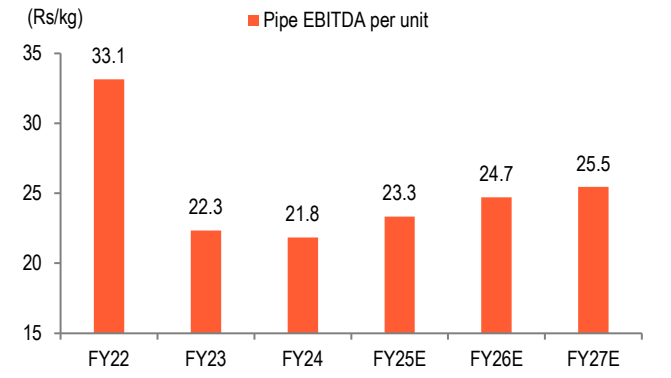
Source: Company, BOBCAPS Research

Fig 7 – Despite weak resin prices, SI’s pipe EBITDA per unit was relatively flat QoQ in Q2 on improved mix



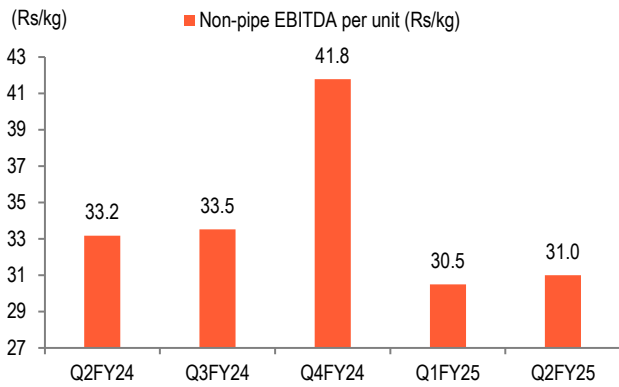
Source: Company, BOBCAPS Research

Fig 8 – We expect SI pipe EBITDA per unit to improve at 5.2% CAGR over FY24-FY27E



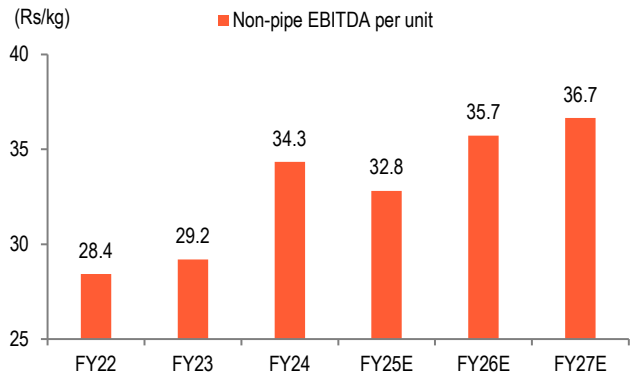
Source: Company, BOBCAPS Research

Fig 9 – Non-pipe EBITDA per unit was relatively flat QoQ in Q2FY25, despite unfavourable polymer prices



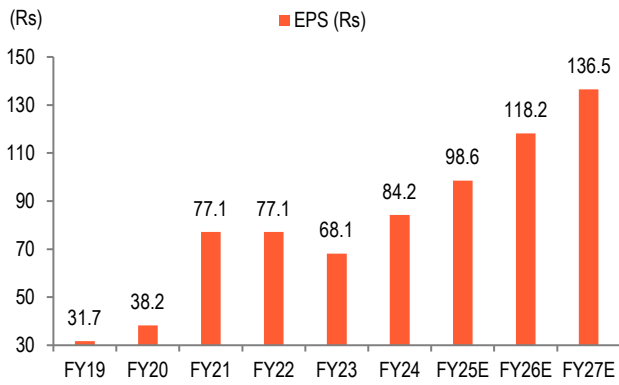
Source: Company, BOBCAPS Research

Fig 10 – SI non-pipe EBITDA per unit to rise gradually at 2.2% CAGR over FY24-FY27E



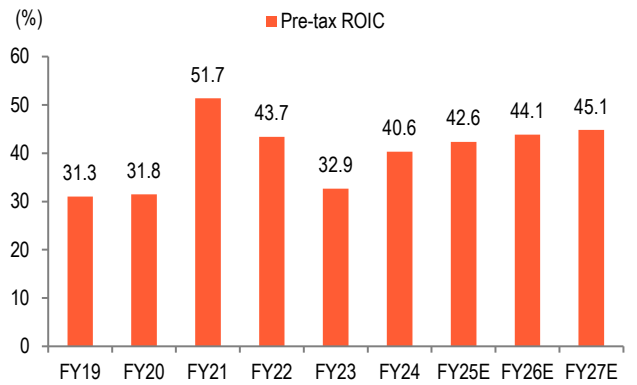
Source: Company, BOBCAPS Research

Fig 11 – SI EPS is projected to grow at strong 20.0% CAGR over FY19-FY27E



Source: Company, BOBCAPS Research

Fig 12 – SI's pre-tax ROIC to remain healthy at >40% over FY25E-FY27E



Source: Company, BOBCAPS Research

Valuation methodology

We upgrade our rating to BUY from HOLD on strong business risk profile (EPS to grow at a healthy 20% CAGR over FY19-FY27E with an average ROIC profile of >40%) and valuation has now become reasonable compared to other leading building material companies. At the CMP, the stock trades at 40.8x on 1Y forward P/E vs. 5Y average of 31.2x.

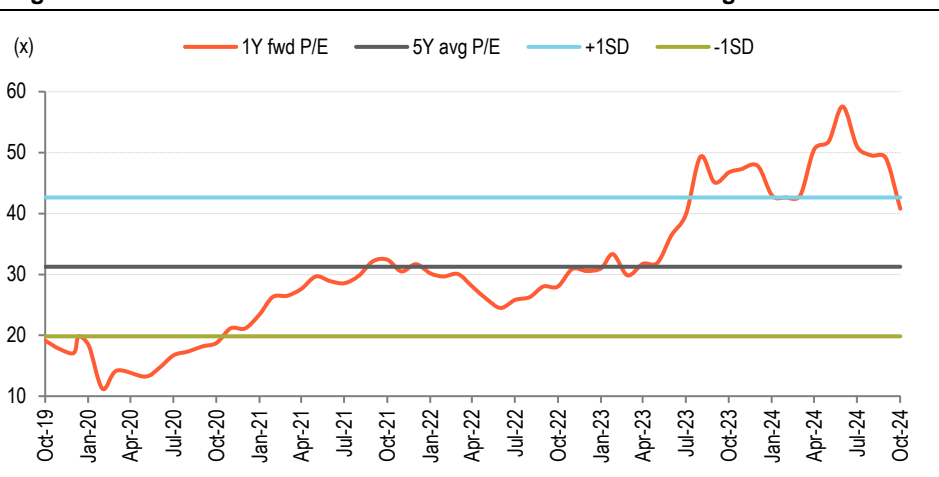
We cut our TP to Rs 5,250 (Rs 5,400 earlier) due to the earnings downgrade (-4.7%/-1.8%/-1.8% for FY25E/FY26E/FY27E) based on the weak Q2FY25 results. Our target P/E remains unchanged at 45x on Sep'26 estimate (Jun'26 earlier).

Fig 13 – Revised Estimates

Consolidated (Rs bn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Revenue	115.7	137.2	159.9	116.5	136.2	158.5	(0.7)	0.8	0.8
EBITDA	18.1	22.0	25.6	18.6	21.9	25.5	(2.6)	0.3	0.4
EBITDA margin (%)	15.7	16.0	16.0	16.0	16.1	16.1	(31bps)	(7bps)	(7bps)
Adjusted PAT	12.5	15.0	17.3	13.1	15.3	17.7	(4.7)	(1.8)	(1.8)
Adjusted EPS (Rs)	98.6	118.2	136.5	103.4	120.3	139.0	(4.7)	(1.8)	(1.8)

Source: BOBCAPS Research

Fig 14 – SI stock trades at 40.8x on 1Y forward P/E vs 5Y average of 31.2x



Source: Bloomberg, BOBCAPS Research

Fig 15 – Key assumptions

(%)	FY23A	FY24A	FY25E	FY26E	FY27E
Revenue mix					
Pipe	65.6	68.4	70.2	71.9	73.1
Packaging	14.3	13.9	13.3	12.3	11.6
Industrial	14.6	12.9	12.3	11.9	11.6
Consumer	4.8	4.4	4.0	3.7	3.5
Sales volume growth					
Pipe	36.7	33.6	15.6	15.0	15.0
Packaging	0.1	7.9	8.5	7.0	7.0
Industrial	22.8	5.0	7.3	10.0	10.0
Consumer	4.8	0.0	0.7	7.0	7.0
Total	28.6	26.3	13.8	13.6	13.7
EBITDA margin					
Pipe	13.9	15.8	16.7	16.7	16.7
Packaging	10.5	16.7	15.5	17.0	17.0
Industrial	11.9	11.4	10.9	11.4	11.4
Consumer	19.0	20.9	20.2	20.0	20.0
Total	13.0	15.3	15.7	16.0	16.0

Source: Company, BOBCAPS Research

Key risks

- Slow recovery in the real estate sector would be a key risk to our estimates.
- Market share loss in plastic pipes would represent a key risk.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.2	512	650	HOLD
Astral	ASTRA IN	5.7	1,790	2,200	HOLD
Century Plyboards	CPBI IN	2.3	879	725	HOLD
Finolex Industries	FNXP IN	2.2	297	325	HOLD
Greenlam Industries	GRLM IN	0.8	500	560	HOLD
Greenpanel Industries	GREENP IN	0.6	378	365	HOLD
Greenply Industries	MTLM IN	0.5	364	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.3	313	500	BUY
Kajaria Ceramics	KJC IN	2.4	1,287	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.7	524	750	BUY
Somany Ceramics	SOMC IN	0.3	682	900	BUY
Supreme Industries	SI IN	6.8	4,486	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 22 Oct 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	92,016	101,343	115,667	137,249	159,874
EBITDA	11,997	15,473	18,141	21,959	25,640
Depreciation	2,634	2,984	3,421	3,986	4,550
EBIT	9,363	12,490	14,720	17,973	21,090
Net interest inc./(exp.)	(80)	(161)	(112)	(105)	(105)
Other inc./(exp.)	298	657	765	800	800
Exceptional items	0	0	0	0	0
EBT	9,580	12,985	15,373	18,669	21,785
Income taxes	2,460	3,357	4,062	5,049	5,834
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	1,533	1,069	1,210	1,392	1,392
Reported net profit	8,653	10,697	12,521	15,012	17,344
Adjustments	0	0	0	0	0
Adjusted net profit	8,653	10,697	12,521	15,012	17,344

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	9,038	10,156	11,664	13,840	16,122
Other current liabilities	2,237	2,410	2,410	2,410	2,410
Provisions	85	162	186	221	257
Debt funds	0	0	0	0	0
Other liabilities	1,562	1,741	1,741	1,741	1,741
Equity capital	254	254	254	254	254
Reserves & surplus	43,767	50,834	59,035	69,219	81,227
Shareholders' fund	44,021	51,088	59,290	69,473	81,481
Total liab. and equities	56,942	65,557	75,291	87,685	102,011
Cash and cash eq.	7,461	11,873	14,011	17,911	24,089
Accounts receivables	4,924	5,114	5,837	6,926	8,068
Inventories	13,856	13,586	15,506	18,399	21,433
Other current assets	2,546	2,301	2,673	3,172	3,695
Investments	5,713	6,254	6,254	6,254	6,254
Net fixed assets	19,764	21,801	26,381	30,395	33,844
CWIP	1,129	2,363	2,363	2,363	2,363
Intangible assets	878	1,472	1,472	1,472	1,472
Deferred tax assets, net	0	0	0	0	0
Other assets	672	793	793	793	793
Total assets	56,942	65,557	75,290	87,685	102,011

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	10,762	14,937	13,805	16,032	18,819
Capital expenditures	(4,753)	(6,849)	(8,000)	(8,000)	(8,000)
Change in investments	(954)	(542)	0	0	0
Other investing cash flows	298	657	765	800	800
Cash flow from investing	(5,409)	(6,734)	(7,235)	(7,200)	(7,200)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	0	0	0	0	0
Interest expenses	(80)	(161)	(112)	(105)	(105)
Dividends paid	(3,303)	(3,812)	(4,320)	(4,828)	(5,336)
Other financing cash flows	228	181	0	0	0
Cash flow from financing	(3,156)	(3,791)	(4,432)	(4,933)	(5,441)
Chg in cash & cash eq.	2,197	4,412	2,139	3,899	6,178
Closing cash & cash eq.	7,461	11,873	14,012	17,911	24,089

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	68.1	84.2	98.6	118.2	136.5
Adjusted EPS	68.1	84.2	98.6	118.2	136.5
Dividend per share	26.0	30.0	34.0	38.0	42.0
Book value per share	346.5	402.1	466.7	546.8	641.3

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	6.3	5.7	5.0	4.2	3.7
EV/EBITDA	48.0	37.2	31.9	26.5	22.9
Adjusted P/E	65.9	53.3	45.5	38.0	32.9
P/BV	12.9	11.2	9.6	8.2	7.0

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	90.3	82.4	81.4	80.4	79.6
Interest burden (PBT/EBIT)	102.3	104.0	104.4	103.9	103.3
EBIT margin (EBIT/Revenue)	10.2	12.3	12.7	13.1	13.2
Asset turnover (Rev./Avg TA)	161.6	154.6	153.6	156.5	156.7
Leverage (Avg TA/Avg Equity)	1.4	1.4	1.4	1.4	1.4
Adjusted ROAE	21.0	22.5	22.7	23.3	23.0

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	18.4	10.1	14.1	18.7	16.5
EBITDA	(4.5)	29.0	17.2	21.0	16.8
Adjusted EPS	(11.7)	23.6	17.0	19.9	15.5
Profitability & Return ratios (%)					
EBITDA margin	13.0	15.3	15.7	16.0	16.0
EBIT margin	10.2	12.3	12.7	13.1	13.2
Adjusted profit margin	9.4	10.6	10.8	10.9	10.8
Adjusted ROAE	21.0	22.5	22.7	23.3	23.0
ROCE	21.9	25.7	26.1	27.0	26.9
Working capital days (days)					
Receivables	20	18	18	18	18
Inventory	55	49	49	49	49
Payables	36	37	37	37	37
Ratios (x)					
Gross asset turnover	2.5	2.4	2.4	2.4	2.5
Current ratio	2.5	2.6	2.7	2.8	3.0
Net interest coverage ratio	116.7	77.5	131.6	171.5	201.2
Adjusted debt/equity	(0.2)	(0.2)	(0.2)	(0.3)	(0.3)

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

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BUY – Expected return >+15%

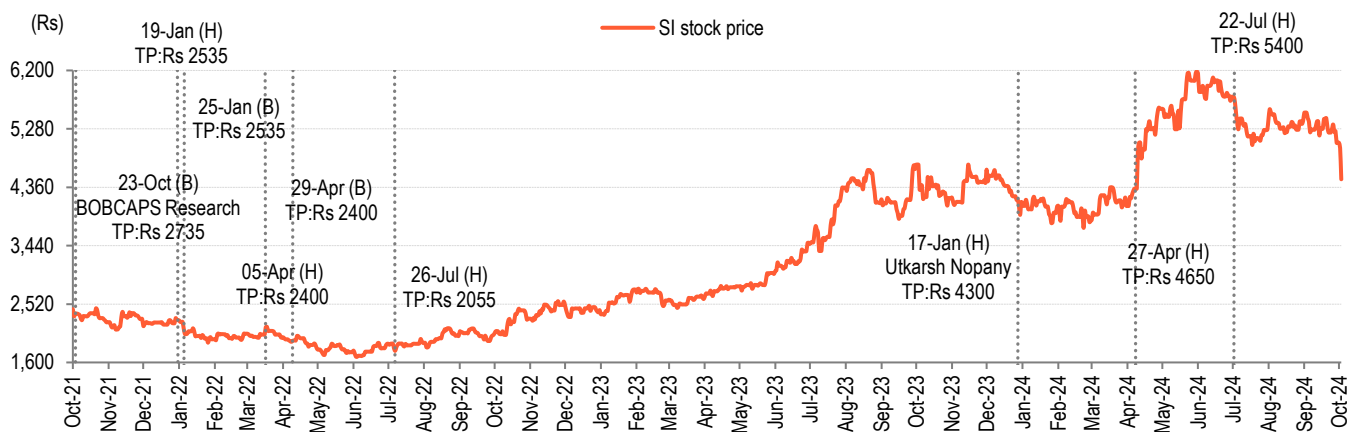
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

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