ANANDRATHI

India I Equities

Plastic Products
Company Update

Change in Estimates ☑ Target ☑ Reco ☐

4 May 2022

Supreme Industries

Mixed results, weak margins, volume surprise; maintaining a Buy

Rating: **Buy**
Target Price: Rs.2,546
Share Price: Rs.1,993

Supreme Industries reported mixed Q4 FY22 results: strong revenue growth and weak margins. Revenue and earnings were respectively 17% and 13% ahead of our expectations. This was due to higher volume off-take despite margins being lower than anticipated. Revenue grew 23% y/y, owing to volume being 16% higher y/y to 128,607 tonnes, and blended realisations improved 6% y/y to Rs.207,412 a tonne.

Mixed performance. Revenue grew 22.8% y/y to Rs25,571m, supported by robust, 33.6% y/y, plastic piping revenue growth. Continuing higher input costs and changes in the product mix led to the gross margin contracting 1,072 bps y/y to 27.9%. The EBITDA margin too contracted, 916 bps y/y to 15.3%. Lower operating profit and a higher tax rate led to a 28.2% y/y drop in PAT to Rs3,239m.

Robust plastic piping volumes steal the show. Plastic piping volumes increased 27 y/y to 96,507 tonnes, while realisations improved 5.2% y/y to Rs186,487 a tonne. However, the segment disappointed in profitability as the EBIT margin contracted a sharp 1212bps y/y to 14.4%.

Outlook & Valuation. Management expects more than 15% volume growth as demand looks encouraging and has hence built up stocks accordingly (up 66% y/y to Rs12,602m). The company has a capex commitment of Rs7,000m (incl. Rs2,800m carried forward) for various projects in different segments.

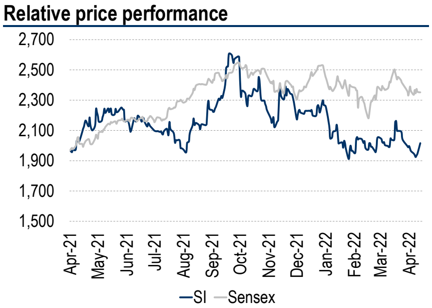
We have fine-tuned our FY23 and FY24 figures to factor in the strong volume growth in plastic piping along with the continued margin pressure. Hence, we expect revenue and earnings CAGRs of 8.8% and 10.2% respectively over FY22-24. We maintain our Buy rating on the stock, with a lower price target of Rs2,546 based on 27.5x FY24e earnings.

Key data	SI IN / SUPI.BO
52-week high / low	Rs.2694 / 1856
Sensex / Nifty	55669 / 16678
3-m average volume	$2.9m
Market cap	Rs.253bn / $3311.5m
Shares outstanding	127m

Shareholding pattern (%)	Mar'22	Dec'21	Sep'21
Promoters	48.8	48.8	48.8
- of which, Pledged	-	-	-
Free float	51.2	51.2	51.2
- Foreign institutions	16.2	16.2	10.4
- Domestic institutions	19.7	19.7	25.3
- Public	15.3	15.3	15.5

Estimates revision (%)	FY23e	FY24e
Sales	2.0	1.1
EBITDA	0.6	0.6
PAT	5.5	3.0

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY20	FY21	FY22	FY23e	FY24e
Sales (Rs m)	55,115	63,571	77,728	79,831	92,071
Net profit (Rs m)	4,674	9,782	9,684	9,954	11,763
EPS (Rs)	36.8	77.0	76.2	78.3	92.6
P/E (x)	54.2	25.9	26.1	25.4	21.5
EV / EBITDA (x)	30.7	19.2	20.0	18.8	15.6
P / BV (x)	11.2	8.0	6.6	5.6	4.7
RoE (%)	21.2	36.0	27.6	23.8	23.9
RoCE (%) after tax	16.6	26.5	20.5	18.5	19.1
Dividend yield (%)	0.7	1.1	1.2	1.3	1.4
Net debt / equity (x)	0.1	(0.2)	(0.1)	(0.2)	(0.2)

Source: Company, Anand Rathi Research

Rishab Bothra
Research Analyst
+9122 66266407
rishabbothra@rathi.com

Quick Glance – Financials and Valuations (consol.)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Net revenues	**55,115**	**63,571**	**77,728**	**79,831**	**92,071**
Growth (%)	*-1.8*	*15.3*	*22.3*	*2.7*	*15.3*
Direct costs	35,783	40,385	53,532	54,385	62,148
SG&A	10,987	10,344	11,775	12,474	14,530
EBITDA	**8,346**	**12,843**	**12,421**	**12,973**	**15,393**
EBITDA margins (%)	*15.1*	*20.2*	*16.0*	*16.3*	*16.7*
- Depreciation	2,057	2,128	2,295	2,354	2,610
Other income	109	169	200	200	230
Interest expenses	297	221	52	46	38
PBT	6,101	10,663	10,274	10,772	12,976
Effective tax rate (%)	*28.5*	*22.0*	*25.6*	*25.0*	*25.0*
+ Associates / (Minorities)	312	1,460	2,044	1,875	2,031
Net income	4,674	9,782	9,684	9,954	11,763
Adjusted income	4,674	9,782	9,684	9,954	11,763
WANS	127.1	127.1	127.1	127.1	127.1
FDEPS (Rs / sh)	36.8	77.0	76.2	78.3	92.6
FDEPS growth (%)	*22.5*	*109.3*	*-1.0*	*2.8*	*18.2*
Gross margins (%)	*35.1*	*36.5*	*31.1*	*31.9*	*32.5*

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
Share capital	254	254	254	254	254
Net worth	22,358	31,438	38,190	44,841	53,047
Debt	5,168	1,285	491	434	319
Minority interest	-	-	-	-	-
DTL / (Assets)	1,326	919	904	904	904
Capital employed	**29,105**	**33,897**	**39,839**	**46,433**	**54,525**
Net tangible assets	15,331	16,362	16,821	20,717	23,107
Net intangible assets	746	781	852	852	852
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	929	510	1,558	1,558	1,558
Investments (strategic)	2,020	3,312	4,702	4,702	4,702
Investments (financial)	-	-	-	-	-
Current assets (excl. cash)	2,811	2,668	3,492	3,938	4,723
Cash	2,314	7,684	5,264	9,326	12,853
Current liabilities	1,605	2,465	2,179	2,862	2,730
Working capital	6,559	5,045	9,330	8,202	9,459
Capital deployed	**29,105**	**33,897**	**39,839**	**46,433**	**54,525**
Contingent liabilities	849	788	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
EBIT (excl. other income)	**6,101**	**10,663**	**10,274**	**10,772**	**12,976**
+ Non-cash items	2,057	2,128	2,295	2,354	2,610
Oper. prof. before WC	**8,158**	**12,791**	**12,569**	**13,126**	**15,586**
- Incr. / (decr.) in WC	(1,144)	2,572	(5,344)	1,595	(1,796)
Others incl. taxes	(1,321)	(2,461)	(2,662)	(2,647)	(3,206)
Operating cash-flow	**5,693**	**12,901**	**4,563**	**12,074**	**10,583**
- Capex (tang. + intang.)	(2,953)	(2,774)	(3,873)	(6,250)	(5,000)
Free cash-flow	**2,740**	**10,127**	**690**	**5,824**	**5,583**
Acquisitions					
- Div.(incl. buyback & taxes)	(2,143)	(2,795)	(3,049)	(3,303)	(3,557)
+ Equity raised	-	-	-	-	-
+ Debt raised	2,713	(3,883)	(794)	(58)	(115)
- Fin investments	203	(1,292)	(1,390)	-	-
- Misc. (CFI + CFF)	(1,572)	3,212	2,123	1,598	1,616
Net cash-flow	**1,941**	**5,370**	**(2,420)**	**4,062**	**3,527**

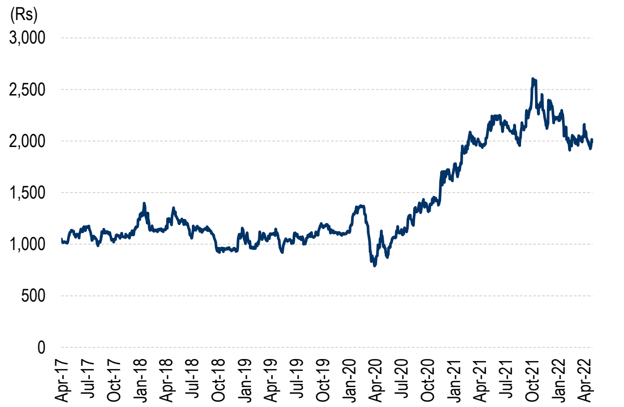
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis

Year-end: Mar	FY20	FY21	FY22	FY23e	FY24e
P/E (x)	54.2	25.9	26.1	25.4	21.5
EV / EBITDA (x)	30.7	19.2	20.0	18.8	15.6
EV / Sales (x)	4.6	3.9	3.2	3.1	2.6
P/B (x)	11.2	8.0	6.6	5.6	4.7
RoE (%)	21.2	36.0	27.6	23.8	23.9
RoCE (%) - after tax	16.6	26.5	20.5	18.5	19.1
RoIC	19.0	34.9	28.5	25.5	27.6
DPS (Rs / sh)	14.0	22.0	24.0	26.0	28.0
Dividend yield (%)	0.7	1.1	1.2	1.3	1.4
Dividend payout (%) - incl. DDT	45.9	28.6	31.5	33.2	30.2
Net debt / equity (x)	0.1	(0.2)	(0.1)	(0.2)	(0.2)
Receivables (days)	20.7	22.4	21.9	25.0	25.0
Inventory (days)	59.0	43.7	59.2	50.0	50.0
Payables (days)	36.3	37.1	37.3	37.5	37.5
CFO : PAT %	121.8	131.9	47.1	121.3	90.0

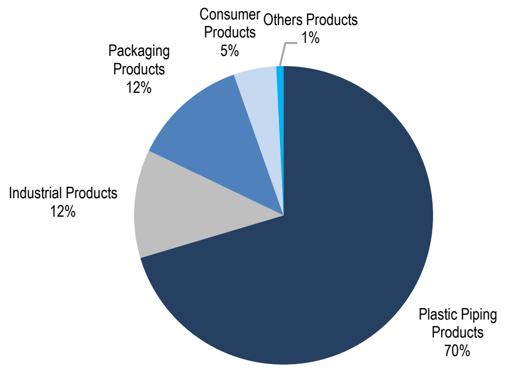
Source: Company, Anand Rathi Research

Fig 5 – Price movement



Source: Bloomberg

Fig 6 – Q4 FY22 revenue break-up (consolidated)



Source: Company

Financial highlights

Fig 7 – Financials (consolidated)

(Rs m)	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q	FY21	FY22	% Y/Y
Revenue	**20,827**	**13,421**	**19,285**	**19,451**	**25,571**	***22.8***	***31.5***	**63,552**	**77,728**	***22.3***
Raw material costs	12,786	8,662	13,207	13,224	18,439	*44.2*	*39.4*	40,427	53,532	*32.4*
Employee costs	931	803	866	880	904	*-2.9*	*2.7*	3,104	3,453	*11.3*
Other expenses	2,013	1,736	2,105	2,168	2,314	*14.9*	*6.7*	7,180	8,323	*15.9*
EBITDA	**5,097**	**2,220**	**3,108**	**3,179**	**3,914**	***-23.2***	***23.1***	**12,842**	**12,421**	***(3.3)***
Depreciation	548	561	571	575	588	*7.3*	*2.3*	2,128	2,295	*7.9*
Finance costs	50	21	7	5	19	*-62.1*	*308.7*	221	52	*(76.6)*
Other income	82	43	41	29	86	*4.5*	*192.5*	169	200	*18.1*
Share of Profit from Associate	703	450	391	507	696	*-1.0*	*37.4*	1,460	2,044	*40.0*
PBT	**5,285**	**2,131**	**2,962**	**3,135**	**4,089**	***-22.6***	***30.4***	**12,122**	**12,318**	***1.6***
Tax	781	430	675	678	851	*8.9*	*25.4*	2,341	2,633	*12.5*
PAT	**4,504**	**1,702**	**2,287**	**2,457**	**3,239**	***-28.1***	***31.8***	**9,781**	**9,684**	***(1.0)***
EPS (Rs)	35.4	13.4	18.0	19.3	25.5	*(28.1)*	*31.8*	77.0	76.2	*(1.0)*
As % of revenue						**bps y/y**	**bps q/q**			**bps y/y**
Material cost	61.4	64.5	68.5	68.0	72.1	*1072*	*412*	63.6	68.9	*526*
Gross margins	**38.6**	**35.5**	**31.5**	**32.0**	**27.9**	***-1072***	***-412***	**36.4**	**31.1**	***-526***
Employee costs	4.5	6.0	4.5	4.5	3.5	*-93*	*-99*	4.9	4.4	*-44*
Other expenses	9.7	12.9	10.9	11.1	9.0	*-62*	*-210*	11.3	10.7	*-59*
EBITDA margins	**24.5**	**16.5**	**16.1**	**16.3**	**15.3**	***-916***	***-103***	**20.2**	**16.0**	***-423***
Depreciation	2.6	4.2	3.0	3.0	2.3	*-33*	*-65*	3.3	3.0	*-40*
Finance costs	0.2	0.2	0.0	0.0	0.1	*-16*	*5*	0.3	0.1	*-28*
Other income	0.4	0.3	0.2	0.2	0.3	*-6*	*19*	0.3	0.3	*-1*
PBT	**25.4**	**15.9**	**15.4**	**16.1**	**16.0**	***-938***	***-13***	**19.1**	**15.8**	***-323***
Effective tax rates	17.0	25.6	26.2	25.8	25.1	*803*	*-72*	22.0	25.6	*368*
PAT	**21.6**	**12.7**	**11.9**	**12.6**	**12.7**	***-896***	***3***	**15.4**	**12.5**	***-293***
Segment revenues (Rs m)						**% Y/Y**	**% Q/Q**			**% Y/Y**
Plastic piping	13,468	8,311	12,673	11,479	17,997	*33.6*	*56.8*	40,988	50,460	*23.1*
Industrial products	2,931	1,989	2,530	2,715	3,003	*2.5*	*10.6*	7,611	10,237	*34.5*
Packaging products	3,097	2,441	2,773	3,697	3,190	*3.0*	*-13.7*	10,351	12,101	*16.9*
Consumer products	1,240	485	1,112	1,275	1,180	*-4.8*	*-7.4*	3,542	4,051	*14.4*
Others	92	195	199	285	201	*119.5*	*-29.4*	1,060	880	*(17.0)*
Total	**20,827**	**13,421**	**19,285**	**19,451**	**25,571**	***22.8***	***31.5***	**63,552**	**77,728**	***22.3***
EBIT (%)						**bps y/y**	**bps q/q**			**bps y/y**
Plastic piping	26.5	17.0	15.3	16.5	14.4	*-1212*	*-211*	20.0	15.5	*(450)*
Industrial products	13.3	6.1	7.6	8.3	10.5	*-284*	*222*	8.3	8.3	*(1)*
Packaging products	13.2	7.0	9.2	6.7	10.6	*-261*	*391*	12.0	8.3	*(370)*
Consumer products	23.1	1.3	15.7	16.8	12.3	*-1081*	*-454*	16.8	13.3	*(350)*
Others	4.3	(2.9)	10.8	20.5	5.1	*86*	*-1,536*	22.9	9.6	*(1,325)*
Blended EBIT margins (%)	**22.4**	**12.7**	**13.4**	**13.6**	**13.3**	***-909***	***-28***	**17.2**	**13.3**	***(392)***

Source: Company, Anand Rathi Research ** Note: Segment EBIT margins are as per reported figures, unadjusted for unallocable expenses / income*

Quantitative highlights

Fig 7 – Financials (consolidated)

(Rs m)	Q4 FY21	Q1 FY22	Q2 FY22	Q3 FY22	Q4 FY22	% Y/Y	% Q/Q	FY21	FY22	% Y/Y
Value-added turnover (Rs m)	8,110	5,160	7,580	6,650	9,729	*20.0*	*46.3*	24,800	29,110	*17.4*
As % of sales	40	39	40	35	39	*-95.8*	*353.0*	40	38	*(197.2)*
Volumes (MT)										
Plastic piping	75,997	48,111	72,480	57,197	96,507	*27.0*	*68.7*	2,94,357	2,74,295	*(6.8)*
Industrial products	13,744	9,512	12,390	12,364	13,763	*0.1*	*11.3*	41,451	48,030	*15.9*
Packaging products	15,627	11,532	12,905	16,594	13,131	*-16.0*	*-20.9*	54,833	54,163	*(1.2)*
Consumer products	5,870	2,109	4,898	5,207	5,206	*-11.3*	*-0.0*	18,468	17,420	*(5.7)*
Total	**1,11,238**	**71,264**	**1,02,673**	**91,362**	**1,28,607**	***15.6***	***40.8***	**4,09,109**	**3,93,908**	***(3.7)***
Realisations (Rs / tonne)										
Plastic piping	1,77,211	1,72,736	1,74,845	2,00,698	1,86,487	*5.2*	*-7.1*	1,39,246	1,83,962	*32.1*
Industrial products	2,13,249	2,09,125	2,04,157	2,19,605	2,18,179	*2.3*	*-0.6*	1,83,619	2,13,131	*16.1*
Packaging products	1,98,202	2,11,698	2,14,862	2,22,809	2,42,914	*22.6*	*9.0*	1,88,766	2,23,420	*18.4*
Consumer products	2,11,244	2,29,777	2,26,970	2,44,786	2,26,662	*7.3*	*-7.4*	1,91,797	2,32,543	*21.2*
Blended realisation	**1,86,408**	**1,85,586**	**1,85,899**	**2,09,785**	**1,97,266**	***5.8***	***-6.0***	**1,52,751**	**1,95,093**	***27.7***
EBIT / tonne										
Plastic piping	46,977	29,424	26,769	33,112	26,828	*-42.9*	*-19.0*	27,901	28,578	*2.4*
Industrial products	28,391	12,826	15,504	18,125	22,844	*-19.5*	*26.0*	15,310	17,751	*15.9*
Packaging products	26,109	14,863	19,744	14,825	25,657	*-1.7*	*73.1*	22,722	18,631	*(18.0)*
Consumer products	48,790	2,940	35,729	41,195	27,852	*-42.9*	*-32.4*	32,305	31,039	*(3.9)*
Blended EBIT / tonne	**41,845**	**24,068**	**24,954**	**28,223**	**26,324**	***-37.1***	***-6.7***	**26,130**	**25,999**	***(0.5)***

Source: Company, Anand Rathi Research

Q4 FY22 Results Highlights

- Supreme's Q4 FY22 performance was mixed; healthy volumes drove strong revenue growth, while higher costs ate into margins.
- Revenue grew 22.8% y/y to Rs25,571m, driven by strong plastic piping sales volumes (up 27% y/y).
- Higher input costs and the product-mix change compressed the gross profit 11.3% y/y to Rs7,132m, resulting in the gross margin contracting 1,072bps y/y to 27.9%.
- Employee, power & fuel and other manufacturing costs were 93bps, 23bps and 39bps lower y/y respectively to 3.5%, 2.4% and 6.6% (as percent of sales). Still, that restricted the fall in EBITDA, down 23.2% y/y to Rs3,914m, resulting in the EBITDA margin contracting 916 bps y/y to 15.3%.
- PAT, at Rs3,239m, was 28.2% lower y/y, largely owing to lower operating profits and a higher tax rate, 25.2% of PBT (excl. profit from the Associate) against 17% a year ago.

Quantitative details: More plastic piping volumes steal show

- **Overall.** Q4 revenue grew 23% y/y to Rs25,190m on 16% y/y volume growth to 128,607 tonnes and 6% blended realisation growth to Rs207,412 a tonne.

  FY22 revenue grew 23% y/y to Rs76,250m owing to 28% y/y higher blended realisation at Rs193,573 a tonne despite off-take being 4% y/y lower to 393,908 tonnes.
- **Volumes.** Plastic piping volumes grew a good 27% y/y, 68.7% q/q, to 96,507 tonnes, while industrial product volumes grew a small 0.1% y/y, 11.3% q/q to 13,763 tonnes.

  Packaging product and consumer product volumes were down 16% and 11.3% y/y respectively to 13,131 and 5,206 tonnes (down 20.9%, and almost flat q/q).
- **Realisations.** Packaging product realisation per tonne rose 22.6% y/y, 9% q/q, to Rs242,914. Realisations per tonne in plastic piping products, industrial products and consumer products rose 5.2%, 2.3% and 7.3% y/y respectively to Rs186,487, Rs218,179 and Rs226,662, 7.1%, 0.6% and 7.4% lower q/q.
- **Profitability.** All the divisions reported lower profitability y/y. The EBIT margins for plastic piping, consumer products, industrial products and packaging contracted 1212bps, 1,081bps, 284bps and 261bps y/y respectively to 14.4%, 12.3%, 10.5% and 10.6%.

  Q/q, however, the EBIT margins in industrial products and packaging products rose 222bps and 391bps respectively, while those of plastic piping and consumer products contracted 211bps and 454bps.

Other key details

- Revenue from value-added products in Q4 FY22 rose 20% y/y to Rs9,729m; its contribution to sales was 38.6% (96bps lower y/y, though q/q up 353bps).

  For FY22 it increased 17% y/y to Rs29,110m and its contribution to sales was 38.2% (down 197bps y/y).

- Surplus cash was down 31.8% y/y to Rs5,180m (higher working capital required, mainly stocks (up 66% y/y to Rs12,602m) due to robust demand.

- Dividend in FY22 increased by Rs2 a share to Rs24 (interim dividend of Rs6 ie, @ 300%, with a proposed final dividend of Rs18, ie, @ 900%).

  Hence, FY22 dividend outgo is expected to be Rs3,050m, against Rs2,790m in FY21.

Capex details

- The FY22 capex of Rs5,390m (Rs2590m+Rs2800m) has been funded through internal accruals, likely also for future expansion.

- **FY22 capex.** The company incurred Rs2,590m capex in FY22 toward **i)** ramping up plastic piping capacities, **ii)** introducing products in various business segments (capitalisation of moulds, etc.), **iii)** automation and **iv)** replacing and recalibrating old production equipment with the latest technology machines.

  Also, capex was incurred for i) increasing solar energy capacity for captive consumption and ii) rebalancing equipment at various locations.

- **Ongoing and future capex.** The company has envisaged Rs7,000m capex (incl. the carried forward commitment of Rs2,800m. Hence, the new capex announced is Rs4,200m).

  The carried forward capex commitment entrails completion of **i)** the ongoing project in Assam to manufacture PVC pipes and roto & blow-moulded products, and **ii)** the plastic product complexes near Cuttack, Odisha, and near Erode, Tamil Nadu (first phases likely to be completed by Aug-Sep'22).

  While the new projects will involve **i)** doubling of composite LPG cylinder capacities to 1m at the present location, Halol, Gujarat, **ii)** setting up of a PEX piping system and increasing capacity for olefin fittings at Jadcherla, **iii)** expanding capacity and widening its range of bath fittings at Puducherry, **iv)** increasing varieties of injection-moulded products in plastic piping, **v)** adding varieties of injection-moulded furniture and crates and pallets in material handling, **vi)** increasing capacity in industrial component-moulding business at various locations, and **vii)** installing required equipment in protective and performance packagings.

  The company intends to further install rooftop solar energy-generating plants at various locations and install balancing equipment at various locations to de-bottleneck and increase capacities.

Concall KTAs

Business context: Challenging past, bright future

The second wave of Covid-19 at the start of FY22 struck most of the company's divisions in the normally strong seasonal quarter for off-take (demand). Polymer prices, thereafter, moved up significantly till mid-Nov, severely cutting into margins.

Post-Nov, PVC resin prices have come off significantly. In expectation of a further fall, demand for plastic piping has temporarily reduced.

However, management is optimistic and is working toward achieving future growth plans (refer to capex section above).

The company has maintained huge stocks for the peak demand season. Channel stocks are at a minimal level (de-stocking in case PVC prices drop as in the past); hence, ahead, good growth is expected.

Management anticipates more than 15% volume growth in plastic piping and guided to yearly gross margins 30-32%.

Margins in plastic piping could be 17.5%+, while value addition could be 25-30%.

- **Plastic pipes.** The continued focus and priority approach by the Centre and state governments towards **i)** the Jal Jeevan Mission, **ii)** Swatch Bharat Abhiyan, **iii)** sanitation **iv)** affordable housing and other initiatives are expected to boost demand for plastic piping. To tap this opportunity the company is **i)** expanding capacities (brownfield and green-field), **ii)** launching new applications & systems, and **iii)** expanding its range of products.

  Agri pipe sales, one-third of plastic piping, was impacted in Q1 and Q3 last year, the two key seasons. However, matters look better for FY23. The company's CPVC has grown and so has the industry. The PVC and CPVC price difference is ~35-40% (CPVC higher than PVC). On average, PVC prices would be ~Rs150 a kg. Reduction of Rs6 per kg in PVC has already been passed on.

- **Cross-laminated film products.** Tarpaulin sales were impacted in Q1 FY22 due to the Covid-19 second wave. Also, heightened competition and input costs (higher polymer prices) cut margins in FY22.

  The company will focus on increasing sales from i) non-tarpaulin products, ii) new applications, iii) new customers, iv) new regions domestically, v) exports and vi) made-ups.

- **Plastic furniture.** The company continues to lead the market in premium plastic furniture. The products are sold through various e-commerce portals and retailers (serviced through 1,306 channel partners).

  The company launched its on-line portal to showcase its wide range of premium products and will continue to introduce products.

- **Industrial components.** Supply-chain issues hurt the FY22 performance as customers faced material shortages owing to i) shipping & logistics issues, ii) non-availability of containers, iii) semi-conductor shortages, etc. Also, rising commodity and fuel prices curtailed the performance.

For FY23, however, things looks positive as most of the issues in FY22 have been fading and demand for various appliances (washing machines, air conditioners, coolers and refrigerators) looks encouraging.

- **Material handling.** This division has done fairly well. Growth in essential commodities, retail, industrial sector, fruit and vegetables, e-commerce, FMCG, jumbo crates for fisheries, dairy, and injection & roto-moulded pallets and dustbins has been encouraging.

  The company expects the division to do well owing to i) new products ii) new customers and iii) forays into newer regions.

- **Composite LPG cylinders.** This product being accepted in the market repeat orders and those from new customers are coming in. The company had received an order of ~Rs1,700m from The Indian Oil Corporation to supply 735,186, ten-kg composite LPG cylinders.

  Since the order exceeded installed capacity, the company is doubling capacity to 1m p.a., likely to be completed by Nov'22.

- **Protective packaging.** This division saw good growth as demand traction was visible in all segments where it is used, like packaging, insulation and civil. Also, demand for consumer products such as sports goods, yoga mats and kids' puzzles & toys was favourable.

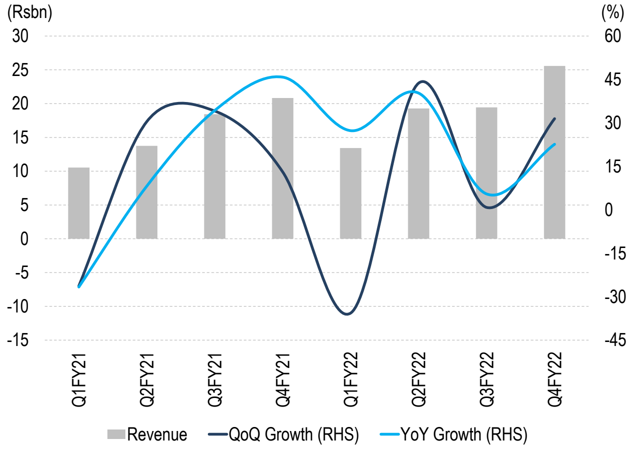
  Good growth is expected in exports as buyers have curbed dependence on China.

- **Performance packaging films.** This division also fared well owing to healthy demand from the dairy and oil industries in the essential products category. The company is making efforts to introduce value-added products to increase revenue and profitability.

  Export demand has also been encouraging, with Mid-East, Africa and Europe showing good traction. The company is trying to explore other parts of Europe and the USA.

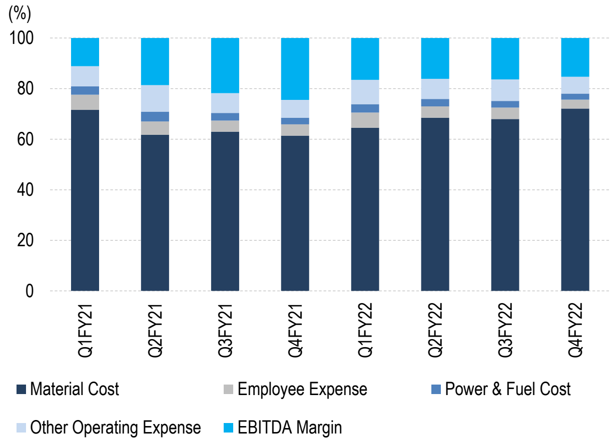
Story in Charts

Fig 8 – Revenue and growth



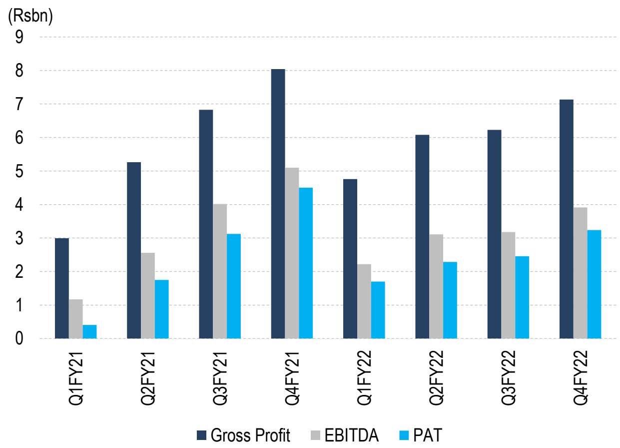
Source: Company, Anand Rathi Research

Fig 9 – Revenue split between expenses and margin



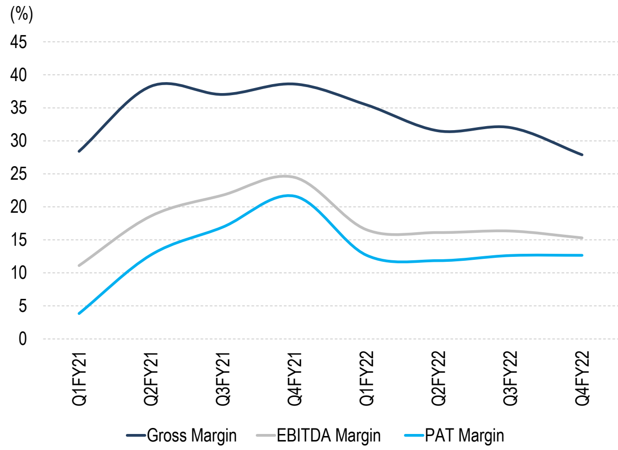
Source: Company, Anand Rathi Research

Fig 10 – Gross profit, EBITDA and PAT



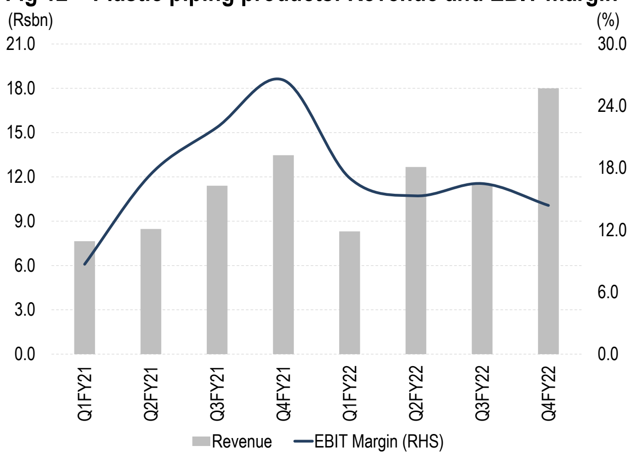
Source: Company, Anand Rathi Research

Fig 11 – Margin profile



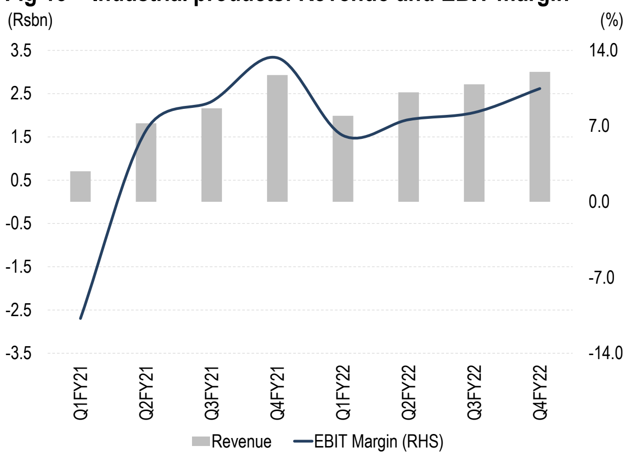
Source: Company, Anand Rathi Research

Fig 12 – Plastic piping products: Revenue and EBIT margin



Source: Company, Anand Rathi Research

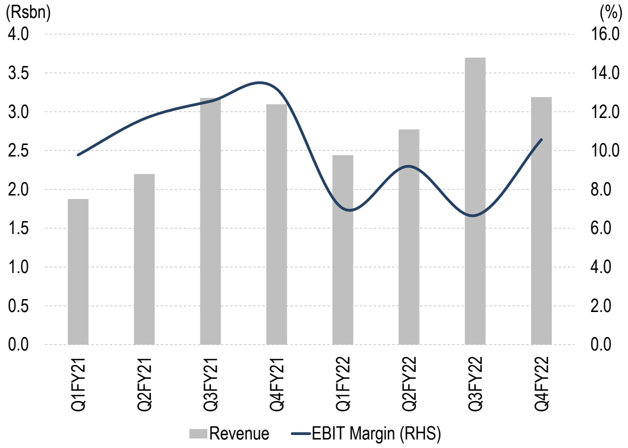
Fig 13 – Industrial products: Revenue and EBIT margin



Source: Company, Anand Rathi Research

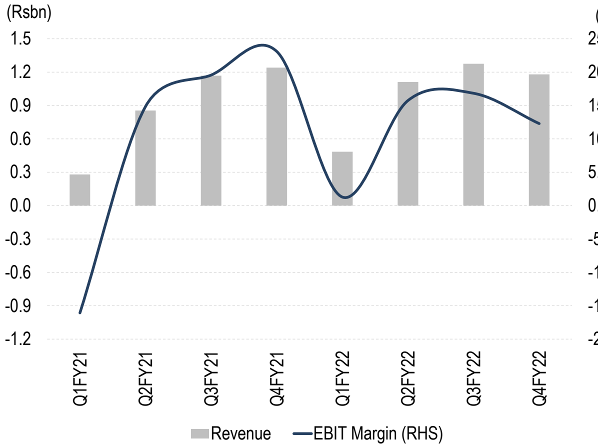
Story in Charts cont.

Fig 14 – Packaging products: Revenue and EBIT margin



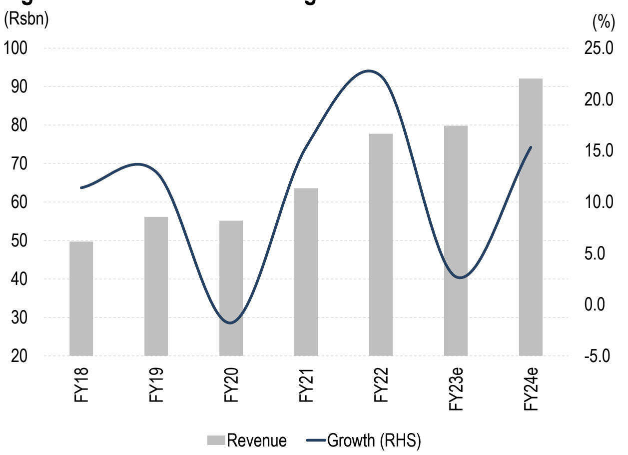
Source: Company, Anand Rathi Research

Fig 15 – Consumer products: Revenue and EBIT margin



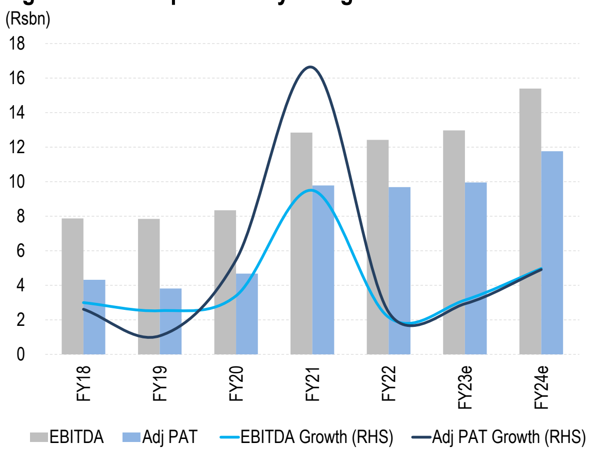
Source: Company, Anand Rathi Research

Fig 16 – Annual revenue and growth



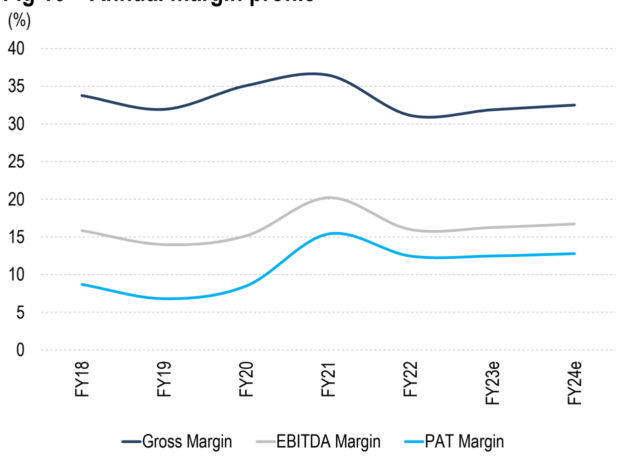
Source: Company, Anand Rathi Research

Fig 17 – Annual profitability and growth



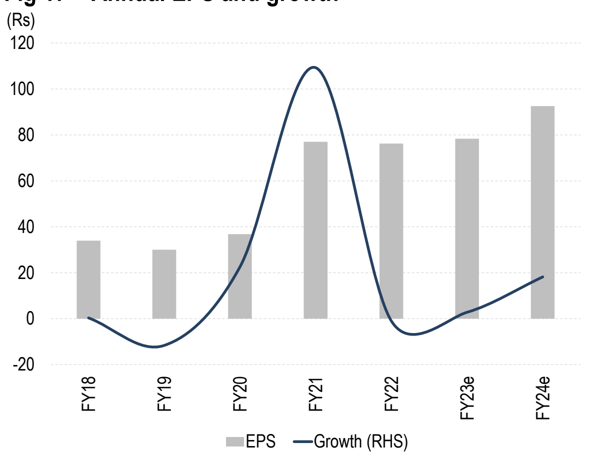
Source: Company, Anand Rathi Research

Fig 16 – Annual margin profile



Source: Company, Anand Rathi Research

Fig 17 – Annual EPS and growth



Source: Company, Anand Rathi Research

Valuation

We like Supreme for its leading position in plastic products. It is the largest plastic processor in India, selling ~0.4m tonnes of plastic products. It has 25 plants in India, with three more envisaged in the next six months.

Its key strengths are its strong brand equity and varied product range, leading position in key categories, extensive & strong distribution, regular capacity additions, focus on value-added products, efficient working-capital management, strong FCF generation, healthy return ratios and a strong balance sheet.

We believe that demand in most of its key verticals is encouraging especially in plastic piping. Expansion of capacities in various segment and introduction of products are expected to help deliver healthy revenue growth. However the key challenge is to minimise input cost pressures and increase overall profitability.

Revenue and earnings growth would be largely driven by more volumes and better realisations, while margins could also improve. However, the low-yielding cash surplus may suppress return ratios while healthy FCFs would continue.

Also, profit from the associate (Supreme Petrochem) has risen considerably in the last few years and would continue. We have taken Rs1,875m and Rs2,031m as FY23 and FY24 profit from the associate, less than shown in the table below.

Fig 18 – Details of share of profit from Associate

(Rs m)	FY18	FY19	FY20	FY21	FY22	FY23e	FY24e
Supreme Pertrochem PAT	1,158	4,90	1,020	4,749	6,633	6,898*	9,603*
Contribution to Supreme Industries	347	147	306	1,462	2,042	2,123	2,956
as % of Supreme Industries PAT	8.0	3.2	6.7	14.9	21.1	18.8	17.3

Source: Anand Rathi Research

*Note: Supreme Industries (SIL) stake in Supreme Petrochem (SPL) is ~31%, * Bloomberg consensus estimates*

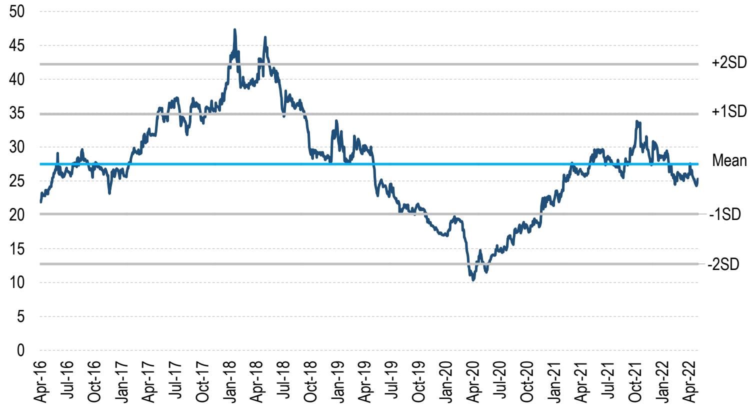
We have fine-tuned our FY23 and FY24 figures to factor in the strong volume growth in plastic piping and the continuing margin pressure in FY22. Hence, we expect revenue and earnings CAGRs of 8.8% and 10.2% over FY22-24. We maintain our Buy rating on the stock with a downward revision in price target to Rs2,546 based on 27.5x FY24e earnings (a five-year average multiple, earlier 30x).

Fig 19 – Change in estimates

	Old		New		% Var	
(Rsm)	FY23e	FY24e	FY23e	FY24e	FY23	FY24
Income	78,295	91,069	79,831	92,071	2.0	1.1
EBITDA	12,897	15,299	12,973	15,393	0.6	0.6
EBITDA margin %	16.5	16.8	16.3	16.7	(25)	(8)
PAT	9,431	11,420	9,954	11,763	5.5	3.0
EPS	74.2	89.9	78.3	92.6	5.6	3.0

Source: Anand Rathi Research

Fig 20 – P/E band – One-year-forward and Standard deviation



Source; BSE, Anand Rathi Research

Risks

- Less-than-expected growth in any of the business categories is a downward risk to our estimates.
- Adverse raw-material prices and keener competition may slash margins.

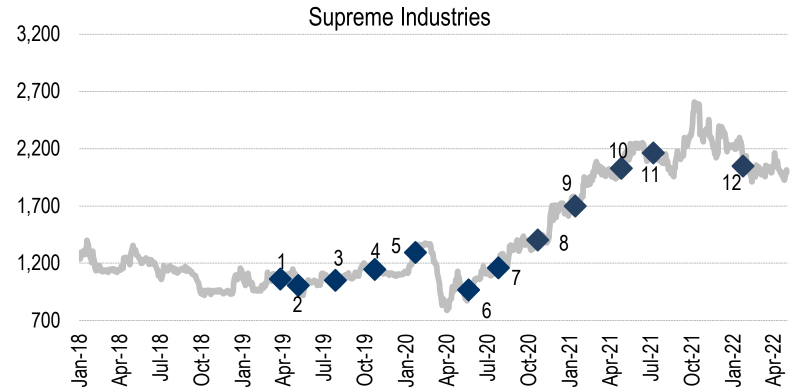
Appendix

Analyst Certification

The views expressed in this Research Report accurately reflect the personal views of the analyst(s) about the subject securities or issuers and no part of the compensation of the research analyst(s) was, is, or will be directly or indirectly related to the specific recommendations or views expressed by the research analyst(s) in this report. The research analysts are bound by stringent internal regulations and also legal and statutory requirements of the Securities and Exchange Board of India (hereinafter "SEBI") and the analysts' compensation are completely delinked from all the other companies and/or entities of Anand Rathi, and have no bearing whatsoever on any recommendation that they have given in the Research Report.

Important Disclosures on subject companies

Rating and Target Price History (as of 4 May 2022)



	Date	Rating	TP (Rs)	Share Price (Rs)
1	28-Mar-19	**Buy**	1,304	1,100
2	7-May-19	**Buy**	1,202	1,037
3	29-Jul-19	**Hold**	1,131	1,075
4	25-Oct-19	**Hold**	1,257	1,187
5	24-Jan-20	**Hold**	1,423	1,318
6	22-May-20	**Hold**	1,085	975
7	27-Jul-20	**Hold**	1,261	1,160
8	28-Oct-20	**Hold**	1,636	1,460
9	25-Jan-21	**Hold**	1,948	1,730
10	3-May-21	**Hold**	2,256	2,109
11	21-Jul-21	**Hold**	2,276	2,104
12	27-Jan-22	**Buy**	2,697	2,057
1	28-Mar-19	**Buy**	1,304	1,100
2	7-May-19	**Buy**	1,202	1,037
3	29-Jul-19	**Hold**	1,131	1,075
4	25-Oct-19	**Hold**	1,257	1,187

Anand Rathi Ratings Definitions

Analysts' ratings and the corresponding expected returns take into account our definitions of Large Caps (>US$1bn) and Mid/Small Caps (<US$1bn) as described in the Ratings Table below:

Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

Research Disclaimer and Disclosure inter-alia as required under Securities and Exchange Board of India (Research Analysts) Regulations, 2014

Anand Rathi Share and Stock Brokers Ltd. (hereinafter refer as ARSSBL) (Research Entity, SEBI Regn No. INH000000834, Date of Regn. 29/06/2015) is a subsidiary of the Anand Rathi Financial Services Ltd. ARSSBL is a corporate trading and clearing member of Bombay Stock Exchange Ltd, National Stock Exchange of India Ltd. (NSEIL), Multi Stock Exchange of India Ltd (MCX-SX), and also depository participant with National Securities Depository Ltd (NSDL) and Central Depository Services Ltd. ARSSBL is engaged into the business of Stock Broking, Depository Participant, Mutual Fund distributor.

The research analysts, strategists, or research associates principally responsible for the preparation of Anand Rathi research have received compensation based upon various factors, including quality of research, investor client feedback, stock picking, competitive factors and firm revenues.

General Disclaimer: This Research Report (hereinafter called "Report") is meant solely for use by the recipient and is not for circulation. This Report does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. The recommendations, if any, made herein are expression of views and/or opinions and should not be deemed or construed to be neither advice for the purpose of purchase or sale of any security, derivatives or any other security through ARSSBL nor any solicitation or offering of any investment /trading opportunity on behalf of the issuer(s) of the respective security (ies) referred to herein. These information / opinions / views are not meant to serve as a professional investment guide for the readers. No action is solicited based upon the information provided herein. Recipients of this Report should rely on information/data arising out of their own investigations. Readers are advised to seek independent professional advice and arrive at an informed trading/investment decision before executing any trades or making any investments. This Report has been prepared on the basis of publicly available information, internally developed data and other sources believed by ARSSBL to be reliable. ARSSBL or its directors, employees, affiliates or representatives do not assume any responsibility for, or warrant the accuracy, completeness, adequacy and reliability of such information / opinions / views. While due care has been taken to ensure that the disclosures and opinions given are fair and reasonable, none of the directors, employees, affiliates or representatives of ARSSBL shall be liable for any direct, indirect, special, incidental, consequential, punitive or exemplary damages, including lost profits arising in any way whatsoever from the information / opinions / views contained in this Report. The price and value of the investments referred to in this Report and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance. ARSSBL does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding taxation aspects of any potential investment.

Opinions expressed are our current opinions as of the date appearing on this Research only. We do not undertake to advise you as to any change of our views expressed in this Report. Research Report may differ between ARSSBL's RAs and/ or ARSSBL's associate companies on account of differences in research methodology, personal judgment and difference in time horizons for which recommendations are made. User should keep this risk in mind and not hold ARSSBL, its employees and associates responsible for any losses, damages of any type whatsoever.

ARSSBL and its associates or employees may; (a) from time to time, have long or short positions in, and buy or sell the investments in/ security of company (ies) mentioned herein or (b) be engaged in any other transaction involving such investments/ securities of company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) these and other activities of ARSSBL and its associates or employees may not be construed as potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall ARSSBL and its associates or employees or any third party involved in, or related to computing or compiling the information have any liability for any damages of any kind.

Details of Associates of ARSSBL and Brief History of Disciplinary action by regulatory authorities & its associates are available on our website i.e. www.rathionline.com

Disclaimers in respect of jurisdiction: This report is not directed to, or intended for distribution to or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction where such distribution, publication, availability or use would be contrary to law or regulation or which would subject ARSSBL to any registration or licensing requirement within such jurisdiction(s). No action has been or will be taken by ARSSBL in any jurisdiction (other than India), where any action for such purpose(s) is required. Accordingly, this Report shall not be possessed, circulated and/or distributed in any such country or jurisdiction unless such action is in compliance with all applicable laws and regulations of such country or jurisdiction. ARSSBL requires such recipient to inform himself about and to observe any restrictions at his own expense, without any liability to ARSSBL. Any dispute arising out of this Report shall be subject to the exclusive jurisdiction of the Courts in India.

Statements on ownership and material conflicts of interest, compensation - ARSSBL and Associates

Answers to the Best of the knowledge and belief of ARSSBL/ its Associates/ Research Analyst who is preparing this report

Research analyst or research entity or his associate or his relative has any financial interest in the subject company and the nature of such financial interest.	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company, at the end of the month immediately preceding the date of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have actual/beneficial ownership of one per cent or more securities of the subject company	No
ARSSBL/its Associates/ Research Analyst/ his Relative have any other material conflict of interest at the time of publication of the research report?	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have managed or co-managed public offering of securities for the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past twelve months	No
ARSSBL/its Associates/ Research Analyst/ his Relative have received any compensation or other benefits from the subject company or third party in connection with the research report	No
ARSSBL/its Associates/ Research Analyst/ his Relative have served as an officer, director or employee of the subject company.	No
ARSSBL/its Associates/ Research Analyst/ his Relative has been engaged in market making activity for the subject company.	No

Additional information on recommended securities/instruments is available on request.

ARSSBL registered address: Express Zone, A Wing, 9th Floor, Western Express Highway, Diagonally Opposite Oberoi Mall, Malad (E), Mumbai – 400097.
Tel No: +91 22 6281 7000 | Fax No: +91 22 4001 3770 | CIN: U67120MH1991PLC064106.