

23 October 2024

India | Equity Research | Q2FY25 results review

Supreme Industries

Plastic

Volumes and profitability disappoint; pipe volume guidance cut sharply

In Q2FY25, Supreme Industries (SI) reported disappointing operational performance. Blended plastic volume was flat YoY with pipes volume being flat too YoY (-27.1% QoQ; 5-year CAGR of 8.6%). As per management, volumes were tepid in Q2 due to PVC price volatility, adverse weather and low infra spending. Blended EBIT/kg contracted 18.9% YoY (on high base) to INR 17.1 (-3.6% QoQ), as pipes EBIT/kg fell 24.5% YoY to INR14.7 (-10.9% QoQ) due to inventory loss of INR 350–400mn (adj. EBIT/kg of INR 18.1-18.6). Management cut its pipe volume guidance to 16–18% (from 25%) for FY25. We cut our FY25–27E EBIDTA by ~8%-10% but upgrade the stock to **HOLD** (from Reduce) due to a ~21% price correction in the past three months with a rolled-over SoTP-based TP of INR 4,457 (earlier INR 4,905) set at an unchanged core business target P/E of 39x P/E.

Pipe volume growth flat YoY in Q2

SI reported flat YoY blended plastics volume growth (-20.6% QoQ; 5-year CAGR of 8.1%) with flat YoY growth in the pipes segment (-27.1% QoQ; 5-year CAGR of 8.6%), a 2% YoY dip in industrial products, 11.4% YoY growth in packaging products and 8.5% YoY dip in consumer products. Consolidate revenue slipped 1.5% YoY while blended realisation declined 1.1% YoY (+8.8% QoQ). Management stated that demand was weak in Jul–Aug'24 due to channel destocking (as PVC prices were on a falling trend during first half of Q2FY25), adverse weather and low infra spending by the government, but it saw notable demand improvement Sep'24 onwards. Management guides for pipe volume growth of 16–18% for FY25 (25% earlier), which implies growth of 20–24% in H2FY25 driven by low PVC prices and demand from housing and agri segment. We model pipe volume CAGR of 13.7% over FY24–27E.

Profitability impacted due to inventory losses

Blended EBIT/kg declined 18.9% YoY to INR17.1/kg (-3.6% QoQ) with plastic pipes EBIT/kg contracting 24.5% YoY (-10.9% QoQ) to INR14.7/kg (on high base) due to inventory loss of INR 350–400mn (as PVC price declined ~17.5% during first half of Q2FY25), adjusting for which EBIT/kg for pipes stood at INR 18.1-18.6/kg. Management guides for pipes operating margin of 14.5–15.25% for FY25 driven by operating leverage and stable RM prices. We model blended plastics EBIT/kg of ~INR 19.4-20.3/kg and plastic pipes EBIT/kg of ~INR 18-19.1/kg for FY25–27E.

Financial Summary

Y/E March (INR mn)	FY24A	FY25E	FY26E	FY27E
Net Revenue	1,01,134	1,16,440	1,31,375	1,47,718
EBITDA	15,386	17,514	20,132	22,891
EBITDA %	15.2	15.0	15.3	15.5
Net Profit	10,283	12,241	14,028	15,905
EPS (INR)	81.0	96.4	110.4	125.2
EPS % Chg YoY	21.2	19.0	14.6	13.4
P/E (x)	55.4	46.5	40.6	35.8
EV/EBITDA (x)	36.3	32.0	27.7	24.1
RoCE (%)	18.7	18.6	18.9	19.3
RoE (%)	21.6	22.4	22.6	22.9

Arun Baid

arun.baid@icicisecurities.com
+91 22 6807 7235

Sohil Kaura

sohil.kaura@icicisecurities.com

Market Data

Market Cap (INR)	570bn
Market Cap (USD)	6,777mn
Bloomberg Code	SI IN
Reuters Code	SUPI.BO
52-week Range (INR)	6,482 /3,601
Free Float (%)	51.0
ADTV-3M (mn) (USD)	7.9

Price Performance (%)	3m	6m	12m
Absolute	(21.2)	6.7	(4.8)
Relative to Sensex	(20.9)	(2.3)	(27.5)

ESG Score	2021	2022	Change
ESG score	69.5	71.9	2.4
Environment	50.0	54.6	4.6
Social	66.6	73.5	6.9
Governance	84.6	83.3	-1.3

Note - Score ranges from 0 - 100 with a higher number indicating a higher ESG score.

Source: SES ESG, I-sec research

Earnings Revisions (%)	FY25E	FY26E	FY27E
Revenue	(5.0)	(5.5)	(7.1)
EBITDA	(9.0)	(8.5)	(9.5)
EPS	(9.6)	(9.7)	(10.5)

Previous Reports

23-07-2024: [Q1FY25 results review](#)

27-04-2024: [Q4FY24 results review](#)

Valuation and view

SI operational performance in Q2 has been much lower than expectation. We cut our EBIDTA estimates by 8% to 10% for FY25E–27E, due to disappointing H1FY25 operating performance and lowering of guidance for FY25. We believe SI will likely have demand tailwinds going ahead from infra/housing/agri segments along with lower RM prices. We upgrade SI to **HOLD**, from Reduce, due to its stock's price correction of ~21% in the past three months, whereby making valuations reasonable with a rolled-over Sep'25E SoTP-based target price of INR 4,457.

Exhibit 1: Q2FY25 consolidated result review

INR mn	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Total revenues	22,730	23,087	(1.5%)	26,364	(13.8%)	49,093	46,773	5.0%
Raw Materials	14,886	15,357	(3.1%)	17,958	(17.1%)	32,844	31,917	2.9%
% of sales	65.5%	66.5%	-103 bps	68.1%	-262 bps	66.9%	68.2%	-134 bps
Employee expense	1,198	1,059	13.2%	1,213	(1.2%)	2,411	2,091	15.3%
% of sales	5.3%	4.6%	68 bps	4.6%	67 bps	4.9%	4.5%	44 bps
Power & fuel expense	821	781	5.1%	866	(5.2%)	1,687	1,574	7.2%
% of sales	3.6%	3.4%	23 bps	3.3%	33 bps	3.4%	3.4%	7 bps
Other expense	2,632	2,328	13.1%	2,454	7.3%	5,087	4,412	15.3%
% of sales	11.6%	10.1%	150 bps	9.3%	227 bps	10.4%	9.4%	93 bps
Total expenditure	19,537	19,525	0.1%	22,490	(13.1%)	42,027	39,995	5.1%
% of sales	86.0%	84.6%	139 bps	85.3%	65 bps	85.6%	85.5%	10 bps
EBIDTA	3,192	3,562	(10.4%)	3,873	(17.6%)	7,066	6,778	4.2%
EBITDA margin (%)	14.0%	15.4%	-139 bps	14.7%	-65 bps	14.4%	14.5%	-10 bps
Depreciation/Amortisation	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	5,338	(0.6%)
EBIT Margin (%)	10.1%	12.3%	-223 bps	11.4%	-134 bps	10.8%	11.4%	-61 bps
Net Interest Expenses	26	16	69.0%	33	(21.3%)	60	32	83.6%
Other non-operating income	151	127	18.6%	214	(29.8%)	365	269	35.7%
PBT	2,417	2,955	(18.2%)	3,194	(24.3%)	5,611	5,575	0.7%
Income Tax Expense	629	763	(17.5%)	836	(24.7%)	1,465	1,441	1.7%
PAT before associates	1,788	2,192	(18.4%)	2,358	(24.2%)	4,146	4,134	0.3%
Share of profit of associate	278	240	15.7%	375	(25.9%)	653	454	44.1%
Reported PAT	2,066	2,432	(15.0%)	2,734	(24.4%)	4,800	4,587	4.6%
Adjusted PAT	2,066	2,432	(15.0%)	2,734	(24.4%)	4,800	4,587	4.6%

Source: I-Sec research, Company data

Exhibit 2: Q2FY25 segmental result review

INR mn	Q2FY25	Q2FY24	YoY(%)	Q1FY25	QoQ(%)	H1FY25	H1FY24	YoY(%)
Segment revenue								
Plastic Piping Products	14,379	15,093	-4.7%	18,584	-22.6%	32,963	31,354	5.1%
Industrial Products	3,276	3,258	0.5%	3,064	6.9%	6,339	6,243	1.5%
Packaging Products	3,999	3,522	13.5%	3,681	8.6%	7,680	6,753	13.7%
Consumer Products	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%
EBIT								
Plastic Piping Products	1,504	2,006	-25.0%	2,313	-35.0%	3,817	3,947	-3.3%
Industrial Products	281	252	11.5%	195	44.0%	477	441	8.1%
Packaging Products	413	478	-13.7%	421	-2.0%	834	733	13.7%
Consumer Products	167	175	-4.7%	161	3.9%	328	353	-7.0%
Others	1	-3	-123.1%	-3	-124.0%	-2	-2	-9.5%
Total	2,366	2,909	-19%	3,088	-23.4%	5,454	5,472	-0.3%
EBIT margin (%)								
Plastic Piping Products	10.5%	13.3%	-283 bps	12.4%	-199 bps	11.6%	12.6%	-101 bps
Industrial Products	8.6%	7.7%	84 bps	6.4%	221 bps	7.5%	7.1%	45 bps
Packaging Products	10.3%	13.6%	-325 bps	11.4%	-112 bps	10.9%	10.9%	0 bps
Consumer Products	16.1%	16.6%	-54 bps	16.5%	-47 bps	16.3%	16.8%	-46 bps
Segment volume (te)								
Plastic Piping Products	1,02,238	1,02,929	-0.7%	1,40,153	-27.1%	2,42,391	2,20,203	10.1%
Industrial Products	15,110	15,425	-2.0%	14,963	1.0%	30,073	28,834	4.3%
Packaging Products	16,593	14,890	11.4%	14,717	12.7%	31,310	28,458	10.0%
Consumer Products	4,136	4,519	-8.5%	4,002	3.3%	8,138	8,812	-7.6%
Total	1,38,077	1,37,763	0.2%	1,73,835	-20.6%	3,11,912	2,86,307	8.9%
EBIT/kg (INR/kg)								
Plastic Piping Products	14.7	19.5	-24.5%	16.5	-10.9%	15.7	17.9	-12.1%
Industrial Products	18.6	16.4	13.8%	13.1	42.6%	15.9	15.3	3.6%
Packaging Products	24.9	32.1	-22.5%	28.6	-13.1%	26.6	25.8	3.4%
Consumer Products	40.4	38.8	4.1%	40.2	0.5%	40.3	40.0	0.7%
Total	17.1	21.1	-18.9%	17.8	-3.6%	17.5	19.1	-8.5%

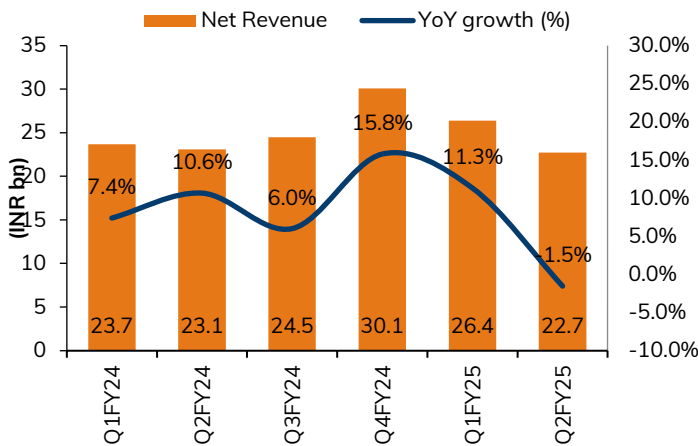
Source: I-Sec research, Company data

Key takeaways from Q2FY25 earnings conference call

- **Industry:** Management stated that plastic pipes industry in India is currently at 4.4mn te (of which 65% is organised) and is expected to grow at 10-12% in the medium term. PVC pipes industry grew at 9-10% during H1FY25.
- **Demand** in Q2FY25 was weak due to channel destocking (as PVC prices were on a falling trend during first half of Q2FY25), adverse weather (extended period of rains led to lower agri demand) and low infra spending by the government. Management indicated that Jul'24 saw a volume decline of ~20% YoY, Aug'24 witnessed 3% volume growth, while in Sep'24 pipes volumes grew 15% YoY. Management indicated that channel inventory is likely to have normalised now.
- **CPVC:** The CPVC segment grew ~33% in volume terms during H1FY25. Management indicated that plumbing demand was healthy which is why CPVC segment has grown significantly for the company.
- **Inventory loss:** Management indicated that it incurred inventory loss of INR 350-400mn in Q2FY25, as PVC prices declined 17.5% during the first half of Q2FY25.
- **Pricing:** Management indicated that PVC prices have largely bottomed out and should remain stable. CPVC prices have also been stable, despite implementation of ADD on Chinese and Korean imports (as there are multiple other sourcing countries available).

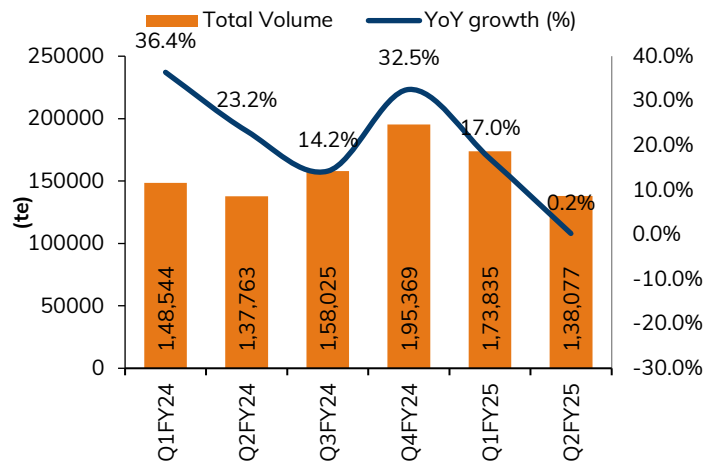
- Guidance:** For FY25, management has guided for pipes volume growth of 16-18% YoY (from 25% earlier) and blended plastic volume growth of 14-16%. It has guided for blended OPM of 14.5%-15.25% for FY25.
- Capacity expansion:** The new green field unit, manufacturing industrial and ball valves, at Malanpur (MP) commenced commercial production in Sep'24. The company has been allotted land near Patna in Bihar, and Kathua district in Jammu & Kashmir for putting plastic piping plants, which are expected to commence in FY26. Pipes segment capacity is expected to reach 8,35,000 te by end-FY25 (vs. 790,000te currently). The company is also undertaking expansion activities at Jadcherla (Telangana), Malanpur (MP) and Kharagpur (West Bengal) for protective packaging division, which shall commence in H2FY25.
- Capex:** The company has capex commitments of INR 15bn, of which it expects to incur INR 10bn in FY25.

Exhibit 3: Quarterly consolidated revenue



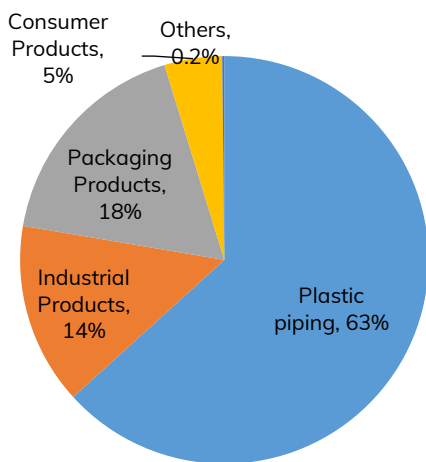
Source: Company data, I-Sec research

Exhibit 4: Quarterly blended plastics sales volume



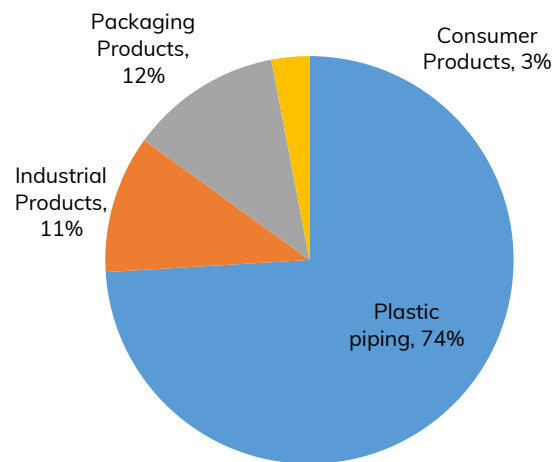
Source: Company data, I-Sec research

Exhibit 5: Q2FY25 revenue breakup



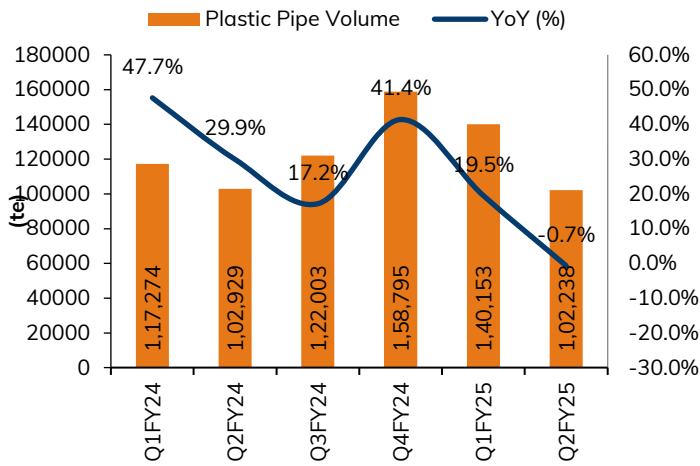
Source: Company data, I-Sec research

Exhibit 6: Q2FY25 sales volume breakup



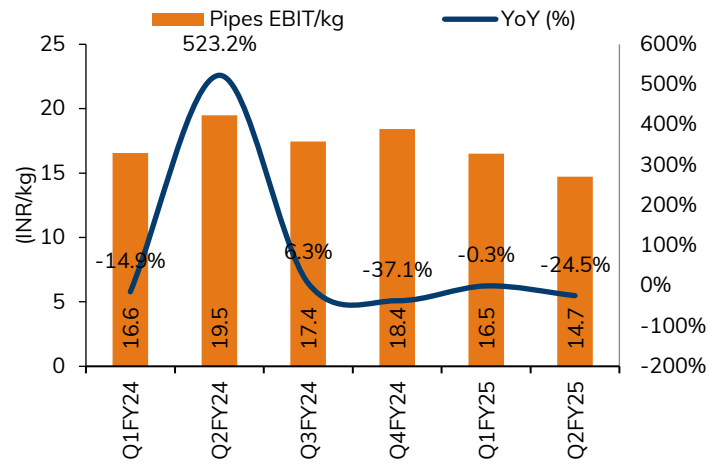
Source: Company data, I-Sec research

Exhibit 7: Quarterly plastic pipes sales volumes



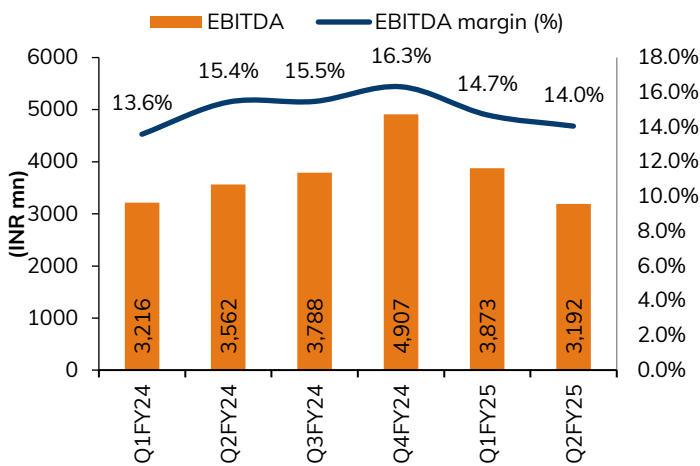
Source: Company data, I-Sec research

Exhibit 8: Quarterly plastic pipes EBIT/kg



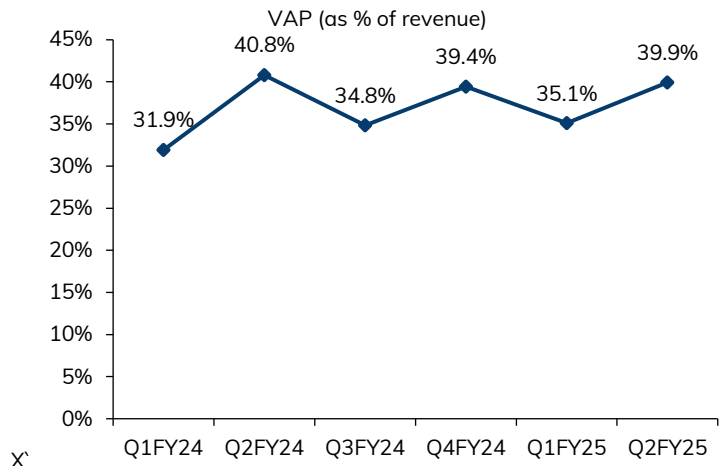
Source: Company data, I-Sec research

Exhibit 9: Quarterly EBITDA and margin



Source: Company data, I-Sec research

Exhibit 10: Share of value-added products



Source: Company data, I-Sec research

Valuation and view

SI is a play on India's growing housing and consumer market, backed by a strong brand, comprehensive product portfolio and wide distribution reach. The company has a healthy operating margin profile, impressive return ratios (RoE of >22%) and a balance sheet free of net debt.

We value SI on an SoTP basis considering its: 1) core operations; and 2) stake in associate, Supreme Petrochem Ltd.

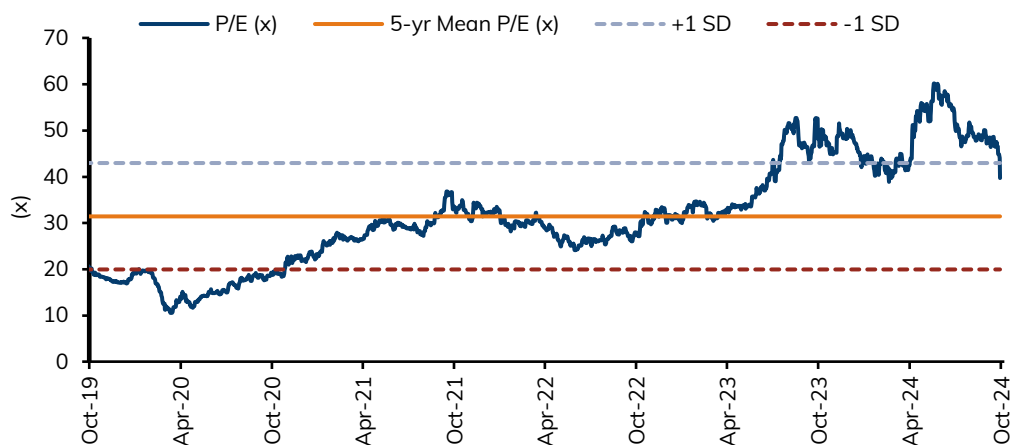
Exhibit 11: SIL's SoTP valuation table

A) Valuation of SI's core operations on P/E basis		
Standalone Jun'26 EPS (INR/share)		105
Target P/E (x)		39
Value per share (INR/share)	(A)	4,100
B) Value of SI's stake in Supreme Petrochem		
Supreme Petrochem Market capitalisation (INR mn)		1,47,368
Supreme Industries holding (%)		31%
Value of holding (INR mn)		45,360
Total No of equity shares (mn)		127
SI's value per share (INR/share)	(B)	357
C) SoTP Valuation of SI		
Value per share of SI's core operation		INR 4,100
Value of Si's stake in Supreme Petrochem		INR 357
Target Price (A) + (B)		INR 4,457

Source: I-Sec research, Company data

Upgrade to **HOLD** with a rolled over Sep'25E SoTP-based target price of INR 4,457 (earlier INR 4,905).

Exhibit 12: One-year forward P/E band



Source: I-Sec research, Company data, Bloomberg

Key downside risks

- **Slowdown in housing market:** Any unexpected demand slowdown in housing market will adversely affect growth in the pipes segment.
- **Sharp fall in PVC resin prices:** A sharp and sudden fall in PVC resin prices will adversely affect the profitability of the company.
- **Resurgence of pandemic:** Any resurgence of covid pandemic may dampen demand and thus adversely affect operational performance.

Key upside risks

- Better-than-expected demand from housing segment.
- Surge in PVC prices will lead to inventory gains.

Exhibit 13: Shareholding pattern

%	Mar'24	Jun'24	Sep'24
Promoters	48.9	48.0	48.9
Institutional investors	36.7	36.0	36.4
MFs and other	10.9	10.0	9.1
FIs/ Banks	0.1	0.0	0.0
Insurance Cos.	0.9	1.0	1.4
FII	24.8	25.0	25.9
Others	14.4	16.0	14.7

Source: Bloomberg, I-Sec research

Exhibit 14: Price chart



Source: Bloomberg, I-Sec research

Financial Summary

Exhibit 15: Profit & Loss

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Net Sales	1,01,134	1,16,440	1,31,375	1,47,718
Operating Expenses	85,747	98,926	1,11,243	1,24,827
EBITDA	15,386	17,514	20,132	22,891
EBITDA Margin (%)	15.2	15.0	15.3	15.5
Depreciation & Amortization	2,984	3,567	4,096	4,558
EBIT	12,402	13,947	16,036	18,333
Interest expenditure	161	120	100	90
Other Non-operating Income	177	831	854	863
Recurring PBT	12,418	14,658	16,790	19,106
Less: Taxes	(3,357)	(3,753)	(4,298)	(4,891)
PAT	9,061	10,906	12,492	14,215
Profit / (Loss) from Associates	1,069	1,336	1,536	1,690
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	567	-	-	-
Net Income (Reported)	10,697	12,241	14,028	15,905
Net Income (Adjusted)	10,283	12,241	14,028	15,905

Source Company data, I-Sec research

Exhibit 16: Balance sheet

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Assets				
Inventories	13,586	15,991	17,982	20,177
Cash & cash eqv.	11,873	10,168	12,334	17,580
Sundry Debtors	5,114	6,061	6,839	7,689
Other Current Assets	3,892	4,466	5,039	5,666
Trade payables	10,156	11,498	12,996	14,633
Other Current Liabilities	2,802	3,069	3,468	3,904
Net Current Assets	21,507	22,119	25,729	32,576
Investments	6,381	7,381	7,381	7,381
Net Fixed Assets	23,238	29,172	32,575	33,580
Other Non Current Assets	1,472	1,472	1,472	1,472
Total Assets	52,599	60,144	67,158	75,010
Liabilities				
Borrowings	-	200	200	100
Other Non Current Liabilities	1,511	1,511	1,511	1,511
Total Liabilities	1,511	1,711	1,711	1,611
Equity Share Capital	254	254	254	254
Reserves & Surplus	50,834	58,179	65,193	73,145
Total Net Worth	51,088	58,433	65,447	73,400
Minority Interest	-	-	-	-
Total Liabilities & Net Worth	52,599	60,144	67,158	75,010

Source Company data, I-Sec research

Exhibit 17: Quarterly trend

(INR mn, year ending March)

	Dec-23	Mar-24	Jun-24	Sep-24
Net Sales	24,491	30,079	26,364	22,730
% growth (YOY)	6.0	15.8	11.3	-1.5
EBITDA	3,788	4,907	3,873	3,192
Margin %	15.5	16.3	14.7	14.0
Other Income	207	181	214	151
Extraordinaries	-	-	-	-
Adjusted Net Profit	2,562	3,548	2,734	2,066

Source Company data, I-Sec research

Exhibit 18: Cashflow statement

(INR mn, year ending March)

	FY24A	FY25E	FY26E	FY27E
Operating Cashflow	13,757	12,156	15,144	17,172
Working Capital Changes	1,093	(2,316)	(1,444)	(1,601)
Capital Commitments	(6,191)	(9,500)	(7,500)	(5,563)
Free Cashflow	7,567	2,656	7,644	11,609
Other investing cashflow	(608)	(1,000)	-	-
Cashflow from Investing Activities	(6,799)	(10,500)	(7,500)	(5,563)
Issue of Share Capital	0	-	-	-
Inc (Dec) in Borrowings	-	200	-	(100)
Dividend paid	(3,811)	(4,897)	(7,014)	(7,952)
Others	1,264	1,336	1,536	1,690
Cash flow from Financing Activities	(2,547)	(3,361)	(5,478)	(6,363)
Chg. in Cash & Bank balance	4,412	(1,705)	2,166	5,246
Closing cash & balance	11,873	10,168	12,334	17,580

Source Company data, I-Sec research

Exhibit 19: Key ratios

(Year ending March)

	FY24A	FY25E	FY26E	FY27E
Per Share Data (INR)				
Reported EPS	84.2	96.4	110.4	125.2
Adjusted EPS (Diluted)	81.0	96.4	110.4	125.2
Cash EPS	104.4	124.4	142.7	161.1
Dividend per share (DPS)	30.0	38.5	55.2	62.6
Book Value per share (BV)	402.2	460.0	515.2	577.8
Dividend Payout (%)	37.1	40.0	50.0	50.0
Growth (%)				
Net Sales	10.1	15.1	12.8	12.4
EBITDA	28.1	13.8	15.0	13.7
EPS (INR)	21.2	19.0	14.6	13.4
Valuation Ratios (x)				
P/E	55.4	46.5	40.6	35.8
P/CEPS	43.0	36.0	31.4	27.8
P/BV	11.2	9.8	8.7	7.8
EV / EBITDA	36.3	32.0	27.7	24.1
EV / Sales	5.5	4.8	4.2	3.7
Dividend Yield (%)	0.7	0.9	1.2	1.4
Operating Ratios				
Gross Profit Margins (%)	32.2	32.0	31.9	31.8
EBITDA Margins (%)	15.2	15.0	15.3	15.5
Effective Tax Rate (%)	27.0	25.6	25.6	25.6
Net Profit Margins (%)	10.2	10.5	10.7	10.8
NWC / Total Assets (%)	14.7	16.0	16.0	16.0
Net Debt / Equity (x)	(0.2)	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.8)	(0.6)	(0.6)	(0.8)
Profitability Ratios				
RoCE (%) (post-tax)	18.7	18.6	18.9	19.3
RoE (%)	21.6	22.4	22.6	22.9
Cash Conversion Cycle (on net sales)				
Inventory Days	49	50	50	50
Receivables Days	18	19	19	19
Payables Days	37	36	36	36

Source Company data, I-Sec research

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Name of the Compliance officer (Research Analyst): Mr. Atul Agrawal, Contact number: 022-40701000, E-mail Address : complianceofficer@icicisecurities.com

For any queries or grievances: Mr. Bhavesh Soni Email address: headservicequality@icicidirect.com Contact Number: 18601231122
