



## 3R MATRIX

|                                       | + | = | - |
|---------------------------------------|---|---|---|
| Right Sector (RS)                     | ✓ | ✗ | ✗ |
| Right Quality (RQ)                    | ✓ | ✗ | ✗ |
| Right Valuation (RV)                  | ✗ | ✓ | ✗ |
| + Positive    = Neutral    - Negative |   |   |   |

## What has changed in 3R MATRIX

|    | Old |   | New |
|----|-----|---|-----|
| RS | ✗   | ↔ | ✗   |
| RQ | ✗   | ↔ | ✗   |
| RV | ✗   | ↔ | ✗   |

## Company details

|                               |                 |
|-------------------------------|-----------------|
| Market cap:                   | Rs. 51,090 cr   |
| 52-week high/low:             | Rs. 6,482/3,604 |
| NSE volume:<br>(No of shares) | 1.74 lakh       |
| BSE code:                     | 509930          |
| NSE code:                     | SUPREMEIND      |
| Free float:<br>(No of shares) | 6.5 cr          |

## Shareholding (%)

|           |    |
|-----------|----|
| Promoters | 49 |
| FII       | 25 |
| DII       | 12 |
| Others    | 15 |

## Price chart



Source: NSE India, Mirae Asset Sharekhan Research

## Price performance

| (%)                | 1m    | 3m    | 6m    | 12m  |
|--------------------|-------|-------|-------|------|
| Absolute           | -16.9 | -20.4 | -29.3 | -1.1 |
| Relative to Sensex | -15.7 | -15.3 | -25.1 | -9.0 |

Source: Mirae Asset Sharekhan Research, Bloomberg

## Supreme Industries Ltd

## Weak result; Maintain Buy on long term prospects

| Building Materials | Sharekhan code: SUPREMEIND |                |                         |
|--------------------|----------------------------|----------------|-------------------------|
| Reco/View: Buy     | ↔                          | CMP: Rs. 4,022 | Price Target: Rs. 5,000 |
| ↑ Upgrade          | ↔ Maintain                 | ↓ Downgrade    |                         |

## Summary

- We retain a Buy on Supreme Industries Limited (SIL) with a revised PT of Rs. 5,000, lowering our target price because of the reduction in estimated earnings.
- Q3FY2025 earnings lagged estimates led by sharp fall in PVC prices and weak infrastructure demand.
- The management is confident of achieving its overall volume growth guidance of 14-15% y-o-y in FY25 (Q4 volume growth should be over 30% for this). Consolidated OPM guidance lowered again to 13.5-14% from 14.5-15.25% in the last quarter.
- Stabilization of PVC prices, expected pick-up in infrastructure, housing and agriculture demand is expected to boost earnings.

Supreme Industries Limited (SIL) reported consolidated revenue of Rs. 2,510 crore (up only 2.5% y-o-y) on account of flattish realizations (0.5% decline y-o-y) while total volume growth was also soft at 3% y-o-y. Plastic piping volumes (up 3.7% y-o-y) were affected by weak infra demand and ~10% decline in PVC prices in Q3 (leading to deep de-stocking in entire trade channel), Consolidated OPM at 12.3% (down 320bps y-o-y) lagged our estimate of 12.8% due to inventory loss in the quarter. Overall, consolidated operating profit and net profit declined by 18.5% y-o-y and 27% y-o-y to Rs. 309 crore and Rs. 187 crore, respectively. The company has maintained its overall volume growth guidance of 14-15% for FY25 (ask rate for Q4 volume growth is over 30%). Consolidated OPM guidance was again lowered to 13.5-14% (from 14.5-15.25%) for FY2025. Stabilization of PVC prices at lower levels and expected pick-up in demand from infrastructure, housing and agriculture sectors, is expected to result in strong volume growth in Q4. SIL's capacity expansion plans remain on track with an overall capex commitment of Rs. 1,500 crore.

## Key positives

- Packaging products volume and value growth were strong at 8.6% y-o-y and 12.4% y-o-y, respectively.
- Value added product sales rose 13% y-o-y to Rs. 961 crore.

## Key negatives

- Total volumes grew only 3% y-o-y and were below expectations.
- Cash surplus reduced q-o-q to Rs. 290 crore as against Rs. 674 crore in Q2FY2025.

## Management Commentary

- The company has maintained its overall volume growth guidance of 14-15% y-o-y. OPM guidance was lowered to 13.5-14% from 14.5-15.25% in the last quarter.
- Agri and housing sector demand was low in the quarter while infrastructure sector demand was non-existent. Company expects all sectors demand to pick in Q4.
- The total capacity has increased to 8,20,000 tons and is expected to reach 9,00,000 tons in FY25.
- SIL is on track for its capex commitment of Rs. 1500 crore and cash outflow of Rs. 1000 crore during FY2025.

**Revision in earnings estimates** – We have cut our earnings estimates for FY2025-FY2027 to reflect the quarter's performance.

## Our Call

**Valuation – Retain BUY with a revised PT of Rs. 5,000:** SIL is expected to benefit from healthy agriculture, housing and infrastructure demand, with stabilization of PVC prices at lower levels. It is well poised to achieve a healthy volume growth trajectory over the next 3-4 years owing to sustained demand. A good long term demand outlook and incremental capacity additions are likely to drive an 10% net earnings CAGR over FY2024-FY2027. The stock trades at a P/E of 42.4x/35.8x its FY2026E/ FY2027E earnings. We maintain Buy with a revised PT of Rs. 5,000.

## Key Risks

Demand slowdown could affect revenue growth, while commodity price fluctuations might hit margins.

## Valuation (Consolidated)

|                    | Rs cr  |        |        |        |
|--------------------|--------|--------|--------|--------|
| Particulars        | FY24   | FY25E  | FY26E  | FY27E  |
| Revenue            | 10,134 | 11,276 | 13,025 | 15,016 |
| OPM (%)            | 15.3   | 13.4   | 14.1   | 14.6   |
| Adjusted PAT       | 1,070  | 988    | 1,206  | 1,428  |
| YoY growth (%)     | 23.6   | (7.6)  | 22.0   | 18.4   |
| Adjusted EPS (Rs.) | 84.2   | 77.8   | 94.9   | 112.4  |
| P/E (x)            | 47.8   | 51.7   | 42.4   | 35.8   |
| P/B (x)            | 10.0   | 8.9    | 7.8    | 6.8    |
| EV/EBITDA (x)      | 31.8   | 33.1   | 27.0   | 22.5   |
| RoNW (%)           | 20.9   | 17.2   | 18.5   | 19.1   |
| RoCE (%)           | 23.6   | 19.6   | 21.5   | 22.8   |

Source: Company; Mirae Asset Sharekhan estimates

## Key Conference Call Takeaways

- ♦ **Guidance:** The company is confident of achieving its overall volume growth guidance of 14-15% for FY25 inspite of the weak Q3 (Ask rate for Q4 volume growth is in excess of 30%). OPM guidance was marginally lowered to 13.5-14% from 14.5-15.25% earlier. It would assess the volume growth guidance for FY2026 later. In the long run, sustainable margin can be 14-15%.
- ♦ **Demand environment:** Agri demand was poor in the quarter, Infra demand was non-existent (but were less percentage in sales) and housing was also slow. Company expects demand to pick up in all sectors in Q4.
- ♦ **Segments:** OPVC capacity is 9,000 tons annually and company has guided for 6,000-7,000 tons of sales next year. in FY25. CPVC pipe volume growth was above 20% y-o-y in the quarter.
- ♦ **Capacity and capex:** Company's current capacity stands at 8,20,000 tons and will reach 9,00,000 tons by the end of FY25. Company plans to commit capex of about Rs. 1,500 crores, including carry-forward commitments, which will be entirely funded through internal accruals. The cash outflow for the capex is estimated at Rs. 1,000 crore, with Rs. 718 crore having been spent till now.
- ♦ **Others:** Inventory loss in 9MFY25 is estimated at excess of Rs. 100 crore. Value-added products' revenue grew by 13% y-o-y to Rs. 961 crore. Cash surplus stood at Rs. 290 crore as against Rs. 674 crore in Q2FY2025 (cash reduced due to accumulation of inventory by the company). Company sources 50% of the PVC resin from the domestic market and 50% is imported.

## Results (Consolidated)

| Particular                     | Q3FY25       | Q3FY24       | YoY (%)      | Q2FY25       | Rs cr<br>QoQ (%) |
|--------------------------------|--------------|--------------|--------------|--------------|------------------|
| <b>Revenue</b>                 | <b>2,510</b> | <b>2,449</b> | <b>2.5</b>   | <b>2,273</b> | <b>10.4</b>      |
| Total expenditure              | 2,201        | 2,070        | 6.3          | 1,954        | 12.7             |
| <b>EBITDA</b>                  | <b>309</b>   | <b>379</b>   | <b>-18.5</b> | <b>319</b>   | <b>-3.3</b>      |
| Depreciation                   | 91           | 77           | 18.2         | 90           | 1.5              |
| <b>EBIT</b>                    | <b>218</b>   | <b>302</b>   | <b>-27.9</b> | <b>229</b>   | <b>-5.1</b>      |
| Other income                   | 9            | 21           | -57.0        | 15           | -40.9            |
| Interest expenses              | 3            | 5            | -42.2        | 3            | 13.7             |
| <b>PBT</b>                     | <b>223</b>   | <b>317</b>   | <b>-29.5</b> | <b>242</b>   | <b>-7.6</b>      |
| Tax expenses                   | 58           | 82           | -28.6        | 63           | -7.1             |
| Share of profit from associate | 22           | 21           | 5.5          | 28           | -21.0            |
| <b>Adjusted net profit</b>     | <b>187</b>   | <b>256</b>   | <b>-27.0</b> | <b>207</b>   | <b>-9.5</b>      |
| Extraordinary items            | 0            | 0            | -            | 0            | -                |
| <b>Reported net profit</b>     | <b>187</b>   | <b>256</b>   | <b>-27.0</b> | <b>207</b>   | <b>-9.5</b>      |
| Adjusted EPS (Rs.)             | 14.7         | 20.2         | -27.0        | 16.3         | -9.5             |
|                                |              |              | <b>BPS</b>   |              | <b>BPS</b>       |
| EBITDA Margin (%)              | 12.3         | 15.5         | -320         | 14.0         | -170             |
| PAT Margin (%)                 | 7.4          | 10.5         | -310         | 9.1          | -170             |
| Effective tax rate (%)         | 26.2         | 25.8         | 40           | 26.0         | 20               |

Source: Company; Mirae Asset Sharekhan Research

## Outlook and Valuation

### ■ Sector View - Steady real estate demand and Infrastructure push from government to drive growth

The Indian real estate sector is going through an upcycle after Covid. Rise in urbanization and new homes will result in increased demand for plastic pipes. Also, the Indian government's focus on infrastructure development, including projects like 'Housing for All' and 'Smart Cities,' is boosting demand. As urbanization accelerates, the demand for efficient and durable piping solutions for water supply, sewage, and gas distribution systems is rising. Government initiatives to improve rural infrastructure, including water supply and sanitation, are also creating opportunities.

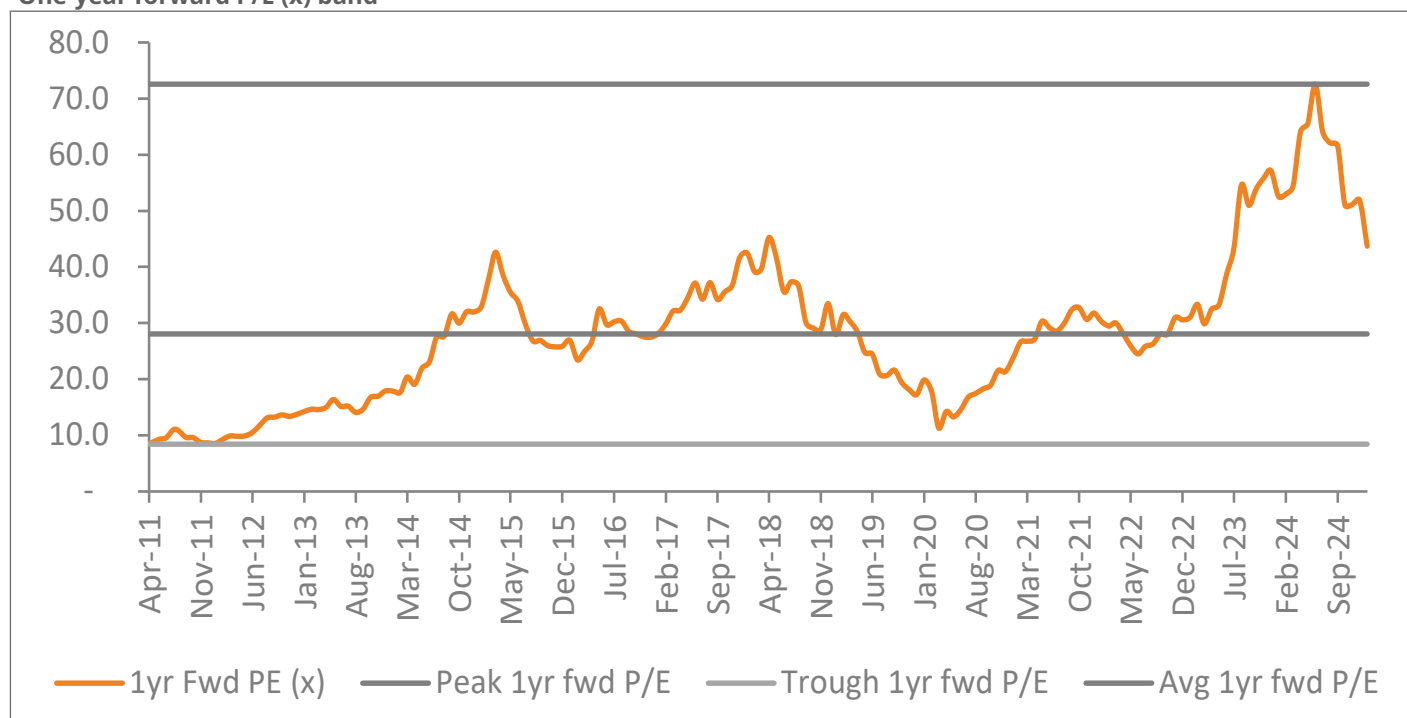
### ■ Company Outlook – Eyeing healthy demand growth

SIL is witnessing a pick-up in demand from metros in the housing sector. Demand for all its products remains strong along with a healthy revival in the agriculture sector. The company has gained a market share during FY2023 and FY2024 in both PVC and CPVC segments and is expected to outperform going forward.. The management remains optimistic about reporting 14-15% y-o-y volume growth in plastic piping for FY2025. It is expecting healthy demand from the housing, agriculture and infrastructure sectors. The company has a capital expenditure plan of Rs. 1,500 crore, which would be entirely funded through internal accruals.

### ■ Valuation – Retain BUY with a revised PT of Rs. 5,000

SIL is expected to benefit from healthy agriculture, housing and infrastructure demand, with stabilization of PVC prices at lower levels. It is well poised to achieve a healthy volume growth trajectory over the next 3-4 years owing to sustained demand. A good long term demand outlook and incremental capacity additions are likely to drive an 10% net earnings CAGR over FY2024-FY2027. The stock trades at a P/E of 42.4x/35.8x its FY2026E/FY2027E earnings. We maintain Buy with a revised PT of Rs. 5,000.

One-year forward P/E (x) band



Source: Company; Mirae Asset Sharekhan Research

## About the company

SIL is a leading manufacturer of plastic products with a significant presence across piping, packaging, industrial, and consumer segments. The company has emerged as one of the suitable proxy plays on growing plastic consumption in India because of a diversified product portfolio, an extensive distribution network, an improved capital structure, and the government's thrust on building better infrastructure.

## Investment theme

SIL is on a firm footing, with a strong product portfolio and new product launches, expected to drive growth in the coming years. The strong real estate upcycle and government's thrust on affordable housing and enhanced allocation towards irrigation projects will aid future growth for companies such as SIL. We remain positive about introducing value-added products and capacity expansion plans, which are largely funded by robust internal accruals. SIL enjoys superior return ratios with low gearing levels, and we expect the company to maintain high return ratios going forward.

## Key Risks

A slowdown in demand offtake from the user industry can impact revenue growth rates. Adverse commodity price fluctuation might impact the company's margin profile.

## Additional Data

### Key management personnel

|                  |  |
|------------------|--|
| M.P. Taparia     | Managing Director  |
| P C Somani       | Chief Finance Officer  |
| Rajendra J Saboo | AVP (Corporate Affairs) and Company Secretary and Compliance Officer |

Source: Company Website

### Top 10 shareholders

| Sr. No. | Holder Name                        | Holding (%) |
|---------|------------------------------------|-------------|
| 1       | Nalanda India Fund Ltd             | 3.49        |
| 2       | Kotak Mahindra Asset Management Co | 2.56        |
| 3       | Blackrock Inc                      | 2.53        |
| 4       | FundRock Management Co SA          | 2.32        |
| 5       | Vanguard Group Inc/The             | 2.04        |
| 6       | Norges Bank                        | 2.00        |
| 7       | HDFC Asset Management Co Ltd       | 1.57        |
| 8       | JP MORGAN CHASE & CO               | 1.51        |
| 9       | Axis Asset Management Co Ltd/India | 1.22        |
| 10      | Nippon Life India Asset Management | 1.18        |

Source: Bloomberg

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## Understanding the Mirae Asset Sharekhan 3R Matrix

| Right Sector    |  |
|-----------------|--|
| Positive        | Strong industry fundamentals (favorable demand-supply scenario, consistent industry growth), increasing investments, higher entry barrier, and favorable government policies   |
| Neutral         | Stagnancy in the industry growth due to macro factors and lower incremental investments by Government/private companies  |
| Negative        | Unable to recover from low in the stable economic environment, adverse government policies affecting the business fundamentals and global challenges (currency headwinds and unfavorable policies implemented by global industrial institutions) and any significant increase in commodity prices affecting profitability. |
| Right Quality   |  |
| Positive        | Sector leader, Strong management bandwidth, Strong financial track-record, Healthy Balance sheet/cash flows, differentiated product/service portfolio and Good corporate governance.   |
| Neutral         | Macro slowdown affecting near term growth profile, Untoward events such as natural calamities resulting in near term uncertainty, Company specific events such as factory shutdown, lack of positive triggers/events in near term, raw material price movement turning unfavourable  |
| Negative        | Weakening growth trend led by led by external/internal factors, reshuffling of key management personal, questionable corporate governance, high commodity prices/weak realisation environment resulting in margin pressure and deteriorating balance sheet   |
| Right Valuation |  |
| Positive        | Strong earnings growth expectation and improving return ratios but valuations are trading at discount to industry leaders/historical average multiples, Expansion in valuation multiple due to expected outperformance amongst its peers and Industry up-cycle with conducive business environment.                        |
| Neutral         | Trading at par to historical valuations and having limited scope of expansion in valuation multiples.  |
| Negative        | Trading at premium valuations but earnings outlook are weak; Emergence of roadblocks such as corporate governance issue, adverse government policies and bleak global macro environment etc warranting for lower than historical valuation multiple.   |

Source: Mirae Asset Sharekhan Research

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