

INITIATING COVERAGE REPORT

Supreme Petrochem Ltd.



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Supreme Petrochem Ltd

Capacity expansion & downstream focus to create value

Supreme Petrochem (SPL) has very strong business model in Polystyrene (PS) & Expandable Polystyrene (EPS) along with its downstream derivatives like XPS & SPC. The company is expanding its capacity in all business segments viewing the growth opportunities available post closure of business of its nearest competitor in India, increasing demand growth & strong balance sheet to fund capital expenditure. The company is dynamically shifting its focus from lesser margin PS products to margin accretive businesses like EPS, XPS, SPC & ABS. Also, exports is a huge opportunity & with SPL expanding capacity export share will increase in the long term. With expansion in existing capacity, the company is well poised to grow its presence further & getting greater visibility in international market. The business also has a strong moat because it requires handling of volatile raw materials like styrene & setting up a polystyrene business requires huge capital investment, government approvals are very difficult to crack & getting required customer approvals are lengthy & difficult which makes it impossible to dislocate any existing player in PS business. The company has very strong balance sheet, huge cash pile which will be deployed in expansion & stronger ROCE (25% average from FY15-22) & robust FCF yield (9% average from FY15-22). Considering the positives, we value the stock on 15x FY25 EPS of Rs 37.4 arriving at Rs 561 per share, upside of 51%.

Legacy business capacity expansion of PS will increase its foothold in domestic & exports market

- Historically, the company's volume growth in the PS business has been ~3% CAGR from from FY15-20 which suddenly grew by ~22% CAGR from FY20-22 because of shutdown of LG polymers capacity of 1,50,000 TPA. Shutdown of LG Polymers led to shift in volumes towards Supreme Petrochem and its capacity started operating at peak utilization levels. Earlier, the company had nameplate capacity of 2,72,000 TPA (Effective capacity of ~2,20,000 TPA).
- In order to capitalize on the opportunity, the company has completed its capacity expansion of 80,000 TPA which will support volume growth going ahead. With this expansion, the nameplate capacity has been expanded to 3,52,000 TPA (effective capacity 3,00,000 TPA).
- Post capacity expansion & improvement in spreads from H1FY23 levels, we expect PS business to grow at 7% CAGR from FY23E-25E.

Focus on downstream brownfield expansion to unlock business opportunities

- The company is expanding into EPS (Expandable Polystyrene) & downstream derivatives like XPS (Extruded Polystyrene) & SPC (Special Polymer Compounds) to enter into value added products & derisk itself from mere polystyrene manufacturer & also diversifying its end use applications.
- In EPS business, the company has expanded its phase 1 capacity by 35,000 TPA post which its capacity is ~107,100 TPA. Post phase 2 capacity expansion which is scheduled to be completed by Sept 24, the capacity will be expanded to 1,30,000 TPA. Considering the niche applications of EPS in packaging & insulation, capacity expansion & strong demand, we expect EPS business to grow at ~19% CAGR from FY22-25E.
- The company is setting up second line of Extruded Polystyrene Board with annual capacity of 1,00,000 cubic meter. This line will have the facility to produce boards with width of 1200 MM which are now being imported. Currently the company is manufacturing less than 1200 MM boards from its existing capacity in XPS. The said expansion plan is expected to be completed by March 2024. We expect post expansion, XPS business to grow at 25% CAGR from FY22-25E.
- In SPC business, the company is expanding its capacity from 25,000 TPA to 75,000 TPA in phases by FY25E at capex of Rs600-700mn. Post capacity expansion, increase in utilization would lead to strong volume growth & hence we expect SPC business to report revenue CAGR of 33% from FY22-25E.

Greenfield expansion in mass ABS will drive the growth going ahead

- The company is setting up a mass ABS Project of 1,40,000 TPA at their Amdoshi plant in two phases of 70,000 TPA each. Phase I is scheduled to go on stream by June 2024 and second Phase by March 2025. Mass ABS process is clean and environmentally friendly compared to conventional emulsion process, due to elimination of water pollution. The company has entered into an agreement for License and Basic Engineering Design with M/S Versailles - Eni Chemicals Group. The total project cost is estimated at Rs8.5bn for both phases.
- The company's focus is on import substitution because roughly 1.1-1.2 lakh of ABS is imported and the market is consolidated with only 2 players in India. Entry of SPL will likely increase the competitive intensity in the ABS space.
- ABS is the preferred engineering plastic when it comes with automotive applications as it is extensively used in manufacturing automotive parts. Consumer durables including small appliances, household goods, toys are the major applications of ABS.

Valuation

- Currently, the stock is trading at FY25E P/E of ~10x. We value the stock on forward P/E multiple of 15x owing to increasing share of speciality business, robust volume growth & strong exports growth and, thereby, arrive at target price of Rs 561 per share which offers upside of 51% from current valuations.
- Therefore, we assign **BUY** rating on the stock.

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY21	31,852	17	6,689	21.0	4,775	365	25.4	54.4	53.4	5.2	4.5
FY22	50,323	58	9,054	18.0	6,633	39	35.3	51.4	50.2	10.0	8.3
FY23E	49,420	-2	6,542	13.2	4,564	-31	24.3	27.3	27.0	15.3	11.7
FY24E	53,666	9	7,631	14.2	5,175	13	27.5	25.8	25.4	13.5	10.0
FY25E	67,129	25	10,363	15.4	7,030	36	37.4	28.7	28.1	9.9	7.4

Source: Company, SMIFS Research Estimates

Rating: **BUY** Upside: **51%**
 Current Price: **371** Target Price: **561**

| Market data

Bloomberg:	SPPT: IN
52-week H/L (Rs):	514/315
Mcap (Rs bn/USD bn):	69.8/0.86
Shares outstanding (mn):	188.0
Free float:	32.1%
Daily vol. (3M Avg.):	0.05mn
Face Value (Rs):	2
Group:	S&P BSE 500

Source: Bloomberg, SMIFS Research

| Shareholding pattern (%)

	Sept-22	Jun-22	Mar-22	Dec-21
Promoter	64.14	64.14	64.07	63.96
FIIs	2.20	2.13	2.05	2.07
DIIs	2.35	2.18	2.14	1.83
Public/others	32.14	31.74	31.56	31.31

Pro. Pledging

Pledging	0.0	0.0	0.0	0.0
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Source: BSE

| Price performance (%)*

	1M	3M	12M	36M
S&P BSE 500	-1.1	2.6	-0.5	53.2
SPL	-1.8	0.6	3.9	298

*as on 18th Jan 2023; Source: AceEquity, SMIFS Research

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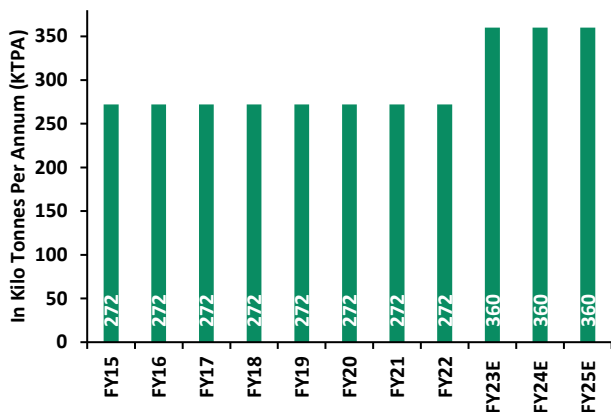
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Investment Rationale

Capacity expansion in Polystyrene (PS) to aid volume growth

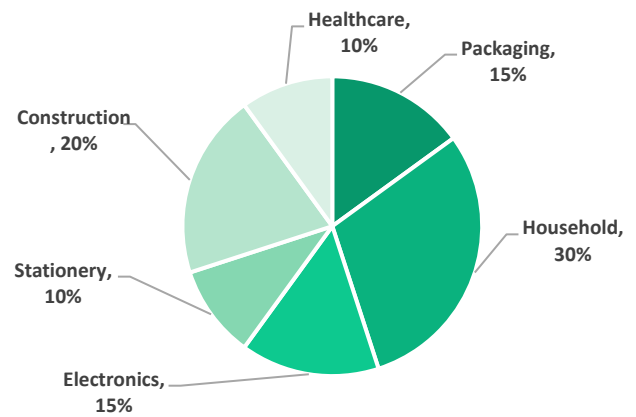
- Historically, the company’s volume growth in the PS business has been ~3% CAGR from FY15-20 which suddenly grew by ~22% CAGR from FY20-22 because of shutdown of LG polymers capacity of 1,50,000 TPA.
- Shutdown of LG Polymers led to shift in volumes towards Supreme Petrochem and its capacity started operating at peak utilization levels. Earlier, the company had nameplate capacity of 2,72,000 TPA (Effective capacity of ~2,20,000 TPA)
- In order to capitalize on the opportunity, the company has completed its capacity expansion of 80,000 TPA which will support volume growth going ahead. With this expansion, the nameplate capacity has been expanded to 3,52,000 TPA (effective capacity 3,00,000 TPA).
- With strong demand in the Polystyrene business in domestic market, Supreme Petrochem stands to gain with high single digit volume growth going ahead.
- Also, rising contribution of HIPS (High Impact Polystyrene) grades in overall polystyrene mix bodes well for the company. The company has a dedicated line for HIPS grades which helped in commanding better spreads over time. Generally, HIPS grade realizations are 5-10% premium as compared with GPPS grade.

Fig 1: PS Capacity addition to trigger volume growth



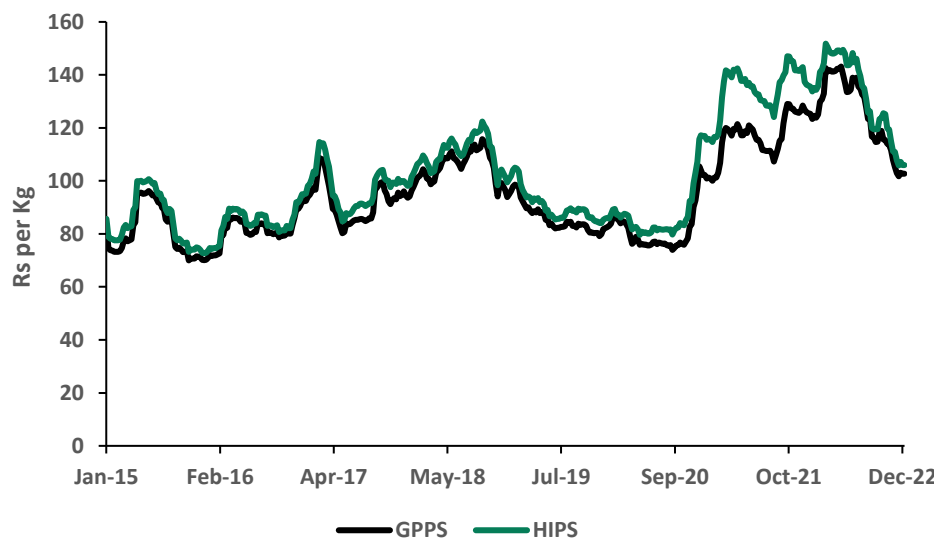
Source: Company, SMIFS Research Estimates, Note: The above mentioned capacity is nameplate capacity

Fig 2: Indian end user industries of polystyrene



Source: Company, SMIFS Research, Note: In India packaging is mere 10-15% whereas global application of PS in packaging is ~40%

Fig 3: India’s GPPS & HIPS grade prices

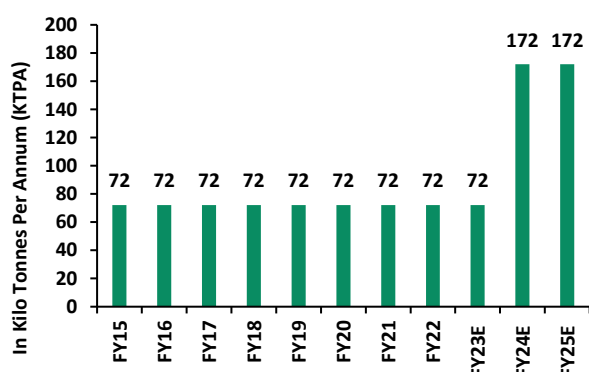


Source: Industry, SMIFS Research

Downstream capacity expansion in XPS & SPC to fuel growth going ahead

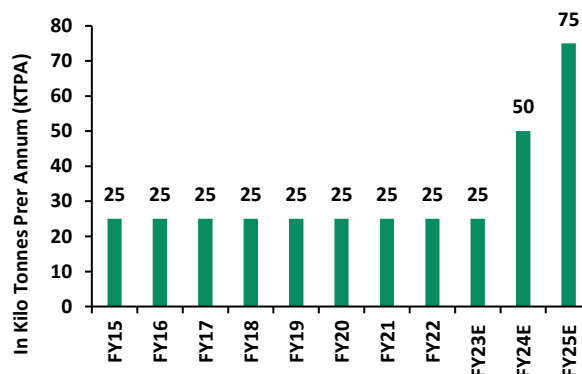
- The company is expanding into downstream derivatives like XPS (Extruded Polystyrene) & SPC to derisk itself from mere polystyrene manufacturer & also diversifying its end use applications.
- The raw material to make XPS & SPC is basic Polystyrene. For SPC, the other raw materials are also required like ABS, PS/PP/PE etc.
- XPS is a thermoplastic polymer. It has a closed cell structure and is generally stronger along with a higher mechanical performance and generally more expensive than EPS. Its density range is about 28–45 kg/m³.
- XPS is majorly used for building insulation purpose. The lower the thermal conductivity of the material the greater the material's ability to resist heat transfer, and hence the greater the insulation's effectiveness. Typical thermal conductivity values for extruded polystyrene are between 0.025 and 0.040W/mK.
- The company is setting up second line of Extruded Polystyrene Board with annual capacity of 1,00,000 cubic meter. This line will have the facility to produce boards with width of 1200 MM which are now being imported. Currently the company is manufacturing less than 1200 MM boards from its existing capacity in XPS.
- The said expansion plan is expected to be completed by March 2024.
- We expect post expansion, XPS business to grow at 25% CAGR from FY22-25E.

Fig 4: XPS capacity addition to fuel growth



Source: Company, SMIFS Research

Fig 5: SPC capacity to be added 3x by FY25E



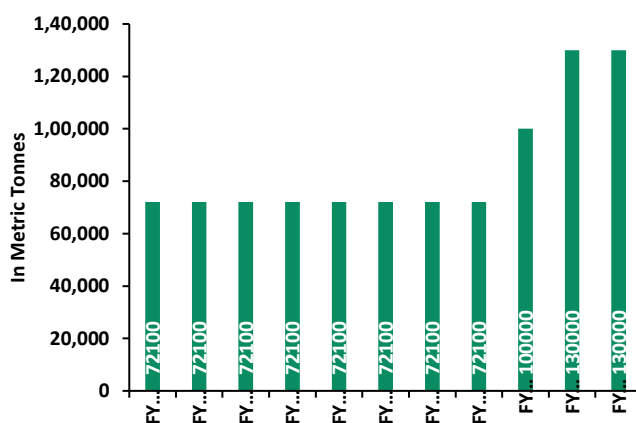
Source: Company, SMIFS Research

- In SPC (Special Polymer Compounds) business, the company is manufacturing masterbatches & specialized PS/PP compounds. Masterbatches are concentrates of colorants, fillers and additives which are used for enhancing specific characteristics of plastics needed for the end application.
- The main benefits of using masterbatches in plastic products is it helps reduce material cost by using less energy and also helps improve physical properties such as higher toughness, adhesion, UV resistance, flame retardant, anti-fouling, antimicrobials.
- SPC business has grown by ~18% volume CAGR from FY15-22 because of strong growth in masterbatch & PS/PP compounds business. Growth is led by increased application of black masterbatch in pipes for agriculture and portable water distribution, drip irrigation, mulch films, pond liners, packaging and industrial foam. White and additive masterbatch have shown steady growth in packaging and appliances. The company's additive masterbatch business is firmly established with several prestigious customers of the company's customer base.
- The company is focussing more towards PS/PP compounds which has electrical applications like switches, battery cases etc.
- The company is planning to expand its capacity from 25,000 TPA to 75,000 TPA in phases by FY25E at capex of Rs600-700mn.
- Post capacity expansion, increase in utilization would lead to stronger volume growth & hence we expect SPC business to report revenue CAGR of 33% from FY22-25E.

Expansion in Expandable Polystyrene (EPS) will lead to increase dominance in domestic market

- EPS is solid beads of Polystyrene impregnated with Pentane gas. EPS is processed then these beads expand and fuse to become foam called “Thermocol”. Its major applications are in packaging consumer durables, fish and fruit packaging and in construction for energy-efficient insulation. EPS can be moulded into any shape and are used in helmets, Infant car seats, 3D Panels for construction etc.
- The company has nameplate capacity of 72,100 TPA (Effective 50,000 TPA) of EPS and considering the increased demand applications, the company is looking to expand its capacity by ~58,000-60,000 TPA taking the total capacity to 1,30,100 TPA (Effective 1,10,000 TPA). The expansion was divided into 2 phases i.e phase 1 & phase 2 of which phase 1 is completed & company added capacity of 35,000 TPA. Hence capacity (post expansion) is 1,07,100 TPA (Effective 85,000 TPA).
- In terms of input output spreads, EPS has better spreads than Polystyrene. The last 2 years spreads i.e for FY21 & FY22 were almost 3x than the average of FY15-20.

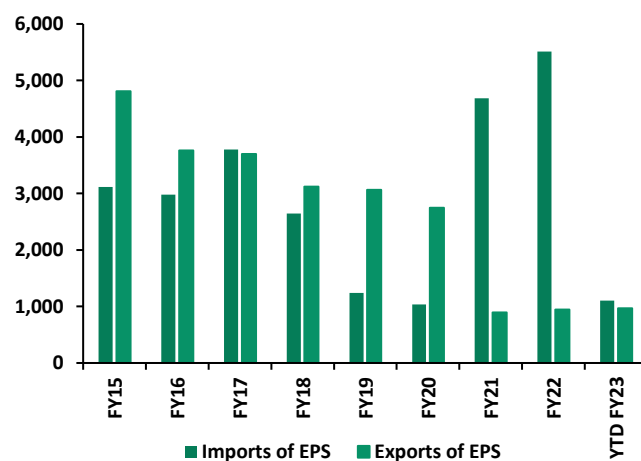
Fig 6: EPS capacity expansion to drive volume growth



Source: Company, SMIFS Research Estimates

Fig 7: Import Export trend of EPS

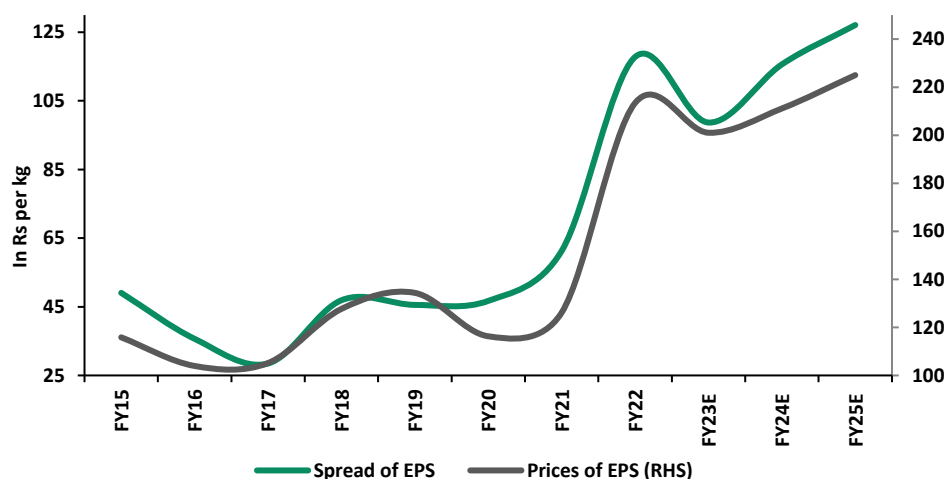
(In Metric Tonnes)



Source: Industry, SMIFS Research Estimates

- In India, EPS was manufactured by only handful of players, however, the largest market share was with Supreme Petrochem & LG Polymers. With closure of LG Polymer, diversion of volumes towards Supreme Petrochem has led to volume growth of 20% in FY21 & is now the single largest player in EPS manufacturing in India.
- Considering the niche applications of EPS in packaging & insulation, capacity expansion & strong demand, we expect EPS business to grow at 19% CAGR from FY22-25E.

Fig 8: Expandable Polystyrene(EPS) spreads to improve in the long term



Source: Industry, SMIFS Research Estimates

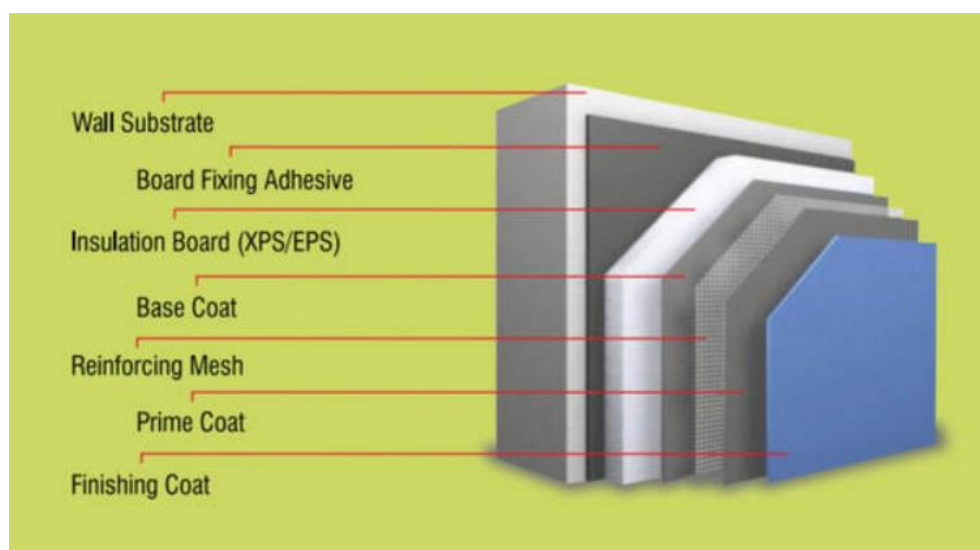
Why XPS & EPS is expected to grow manifold over the coming years?

- Globally XPS and EPS are the material of choice for insulating both commercial and residential buildings for energy conservation to reduce Co2 emissions. International Energy Alliance (IEA) in their India Energy Outlook 2021 has predicted that more than half the increase in demand for energy in India will come from cooling load of dwellings in the period from 2019 to 2040 and have urged government of India to give greater emphasis on building insulation to combat the same. SPL is well poised to participate in this segment as and when mandates are created by various state governments for building insulation.
- The company has promoted EIFS (External Insulation Finishing System) which has been well adopted by a few prestigious institutions like shopping malls, hospital and AIIMS amongst others. EIFS has increasingly usage of EPS & XPS and hence we expect EPS & XPS business to grow faster in the coming years.

We present a short analysis on EIFS (External Insulation Finishing System)

- EIFS or Exterior Insulation Finishing System is an external cladding system used to provide insulation, finishing and waterproofing to the building exterior. EIFS is a synthetic wall cladding that is usually have a plastic insulation, foam and a synthetic coating. EIFS are usually placed on the building exterior, using a adhesive agent attached to gypsum board.
- EIFS are mainly classified into 2 types based on the material used and the availability of a drainage system. The 2 types are: (A) Class PB (B) Class PM.
- Class PB uses expanded polystyrene (EPS) insulation which is adhered to the substrate with fiberglass mesh embedded in a nominal 1.6mm base coat. This can receive additional layers of mesh and base coat to increase the impact resistance.
- Class PM is modified polymer that uses extruded polystyrene (XPS) along with a cementitious base coat applied over mechanically attached glass fiber reinforcing mesh. This makes use of different insulation materials and base coats based on the requirements.

Fig 9: EIFS panels using EPS & XPS as Insulation



Source: Industry, SMIFS Research

- The global EIFS market size was valued at USD 74 bn in 2021 and is expected to grow at a CAGR of ~14% by 2027, thereby, reaching a size of USD 160 bn by 2027. We feel that since EIFS industry globally is growing in double digit, EPS & XPS growth also would remain strong over the coming years.
- And since Supreme Petrochem is the first mover in XPS, we believe the company is likely to experience strong trajectory of growth going ahead.

Limited capacity additions globally is a big trigger for EPS manufacturers

- Global Expandable Polystyrene (EPS) capacity will witness moderate growth over the next five years, potentially increasing from ~10.6 mtpa in 2021 to ~10.83 mtpa in 2026, thereby, recording a CAGR growth of mere 0.5% over the forecast period.
- Middle East & India are the only countries expanding capacity in EPS.
- Around 3 planned and announced Expandable Polystyrene (EPS) projects are expected to come on stream by 2026, predominantly in Middle East followed by Asia.
- Among countries, Iran is expected to lead Expandable Polystyrene (EPS) capacity additions by 2026, followed by India.
- Kimiya Sanaye Dalahoo Co, Petro Ramsheh Co and Supreme Petrochem Ltd are the three companies which have planned and announced capacity additions globally over the upcoming years.
- Within the Middle East, Iran has two new planned EPS projects, with a total capacity of about 0.17 mtpa which will come on stream by 2026. Kimiya Sanaye Dalahoo Co & Petro Ramsheh Co are the companies in Iran looking for adding new EPS capacities. Both the players are expected to spend a capital expenditure of \$246.76 million.
- In Asia, India has only one planned project i.e of Supreme Petrochem with capacity additions of about 0.06 mtpa (60,000 tonnes).

Raw material sourcing through imports, capacity addition in SM can impact global spreads

- The company uses Styrene Monomer (SM) as the major raw material which is manufactured using Benzene & Ethylene.
- The company imports Styrene Monomer from Kuwait, Saudi, Singapore, Korea etc. Almost 100% is imported as there are no domestic manufacturers of Styrene monomer.
- The company keeps very minimal raw material inventory of mere 10-20 days to mitigate any major fluctuation in raw material prices and most of it can be passed on immediately on spot basis.
- Around 1.2 million tonnes of annual nameplate capacity of Styrene Monomer is being added in Asia (particularly china) across 2023 which might put pressure on the spreads or margins of SM, thereby, benefitting PS & ABS manufacturers.
- Since SM is completely imported in India, IOCL has announced an investment plan at its existing Panipat refinery in Haryana in which they will construct a new SM plant with a capacity of around 387,000 MTPA, whereas the overall requirement of SM in India is around 900,000 MTPA. This project is expected to be completed by 2026-27, till then India will have to completely rely on the imports of Styrene Monomer.

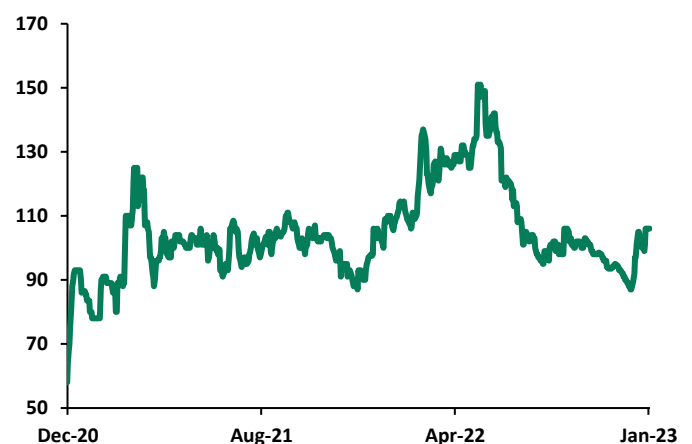
Fig 10: SM total capacity addition breakup in China

Company	Location	Nameplate Capacity ('000 tonnes/year)	Status
Zibo Junchen	Zibo, China	500	Feb-Mar 2023
Sinopec Luoyang Co.	Luoyang, China	120	Operationally ready, TBC mid 2023
Shandong Chambroad Petrochemicals	Binzhou, China	600	H2 2023 /Early 2024
Shandong Yulong PC	Longkou, China	1150	H1 2024
Zhejiang Petroleum & Chemical	Zhoushan, China	249	Full capacity by 2024
Closures			
Abel Chemical	Taixing, China	250	2023

Source: ICIS, SMIFS Research

Fig 11: Indian Styrene monomer Prices

(Rs per kg)



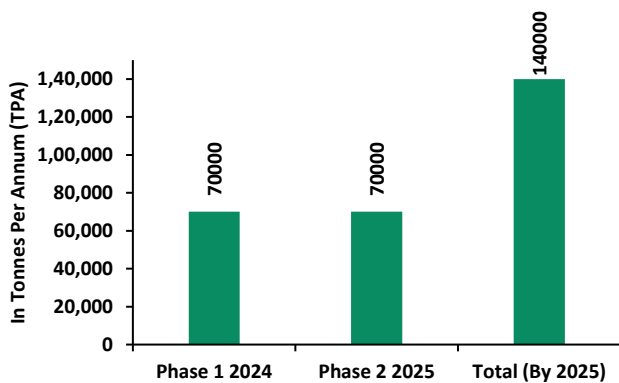
Source: Industry, SMIFS Research Estimates

- Apart from SM which is used in PS, for EPS the company uses pentane gas along with SM. For Mass ABS, raw materials required are Acrylonitrile, SM & PBR.

Greenfield expansion of new product mass ABS to be the growth driver

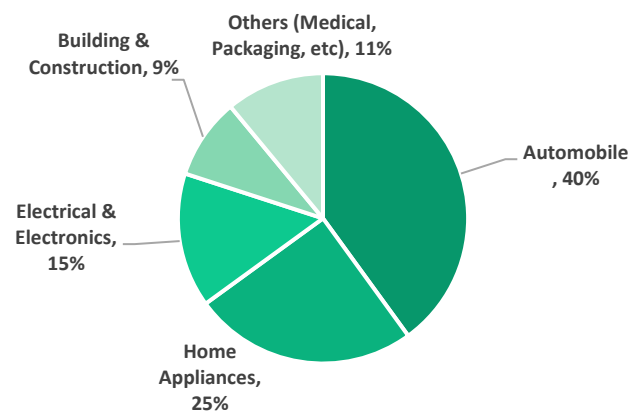
- Acrylonitrile Butadiene Styrene (ABS) is a hygroscopic, opaque, amorphous thermoplastic that is ideal for injection moulding, blow moulding and extrusion moulding. Its low melting temperature and low production cost make it ideal for many machining processes. It is widely used in electronic housings, auto parts, small appliances, consumer products, toys and many more.
- ABS has excellent mechanical properties such as it is hard and tough in nature and thus, delivers good impact strength. It offers a high degree of surface quality and exhibits good chemical resistance properties.
- ABS is the preferred engineering plastic when it comes with automotive applications as it is extensively used in manufacturing automotive parts. Consumer durables including small appliances, household goods, toys are the major applications of ABS. Majority of computer monitors, keyboard keycaps are commonly made out of ABS.

Fig 12: ABS capacity addition timeline



Source: Company, SMIFS Research Estimates

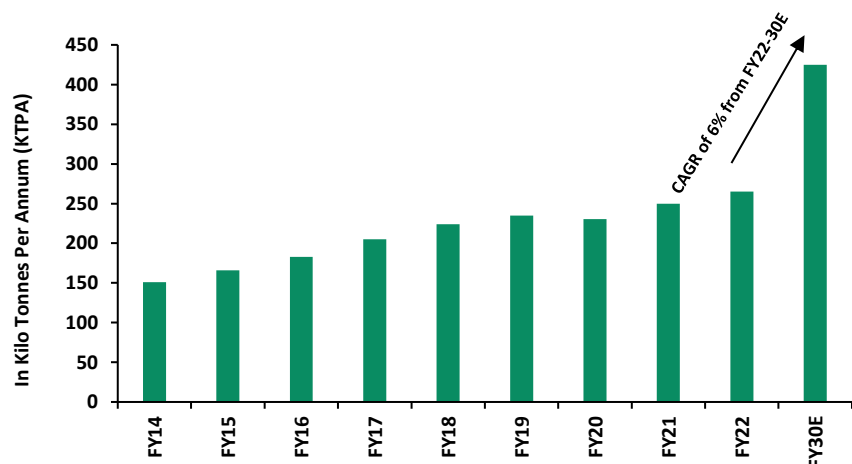
Fig 13: ABS end user industry demand split



Source: Company, SMIFS Research Estimates

- The company is setting up a mass ABS Project of 1,40,000 TPA at their Amdoshi plant in two phases of 70,000 TPA each. Phase I is scheduled to go on stream by June 2024 and second Phase by March 2025. Mass ABS process is clean and environmentally friendly compared to conventional emulsion process, due to elimination of water pollution. The company has entered into an agreement for License and Basic Engineering Design with M/S Versailles - Eni Chemicals Group. The total project cost is estimated at Rs8.5bn for both phases.
- The existing producers in India are producing ABS by conventional emulsion process which is energy as well as water intensive whereas SPL is proposing to produce ABS through continuous mass polymerization process which is energy efficient and environment friendly process without any water pollution.

Fig 14: ABS demand to grow at ~6% CAGR from FY22-30E

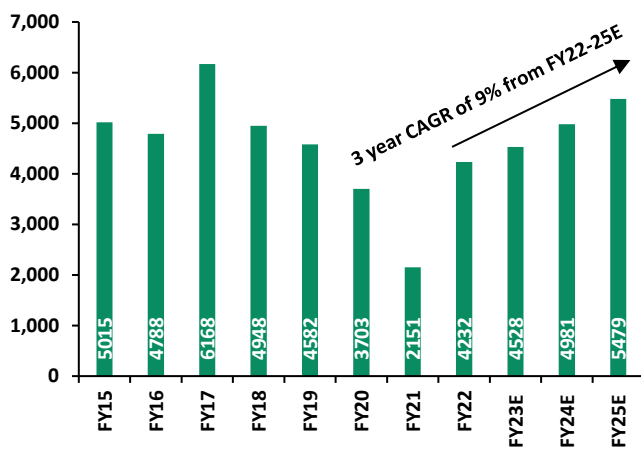


Source: Company, SMIFS Research Estimates

Exports growth to remain healthy going ahead

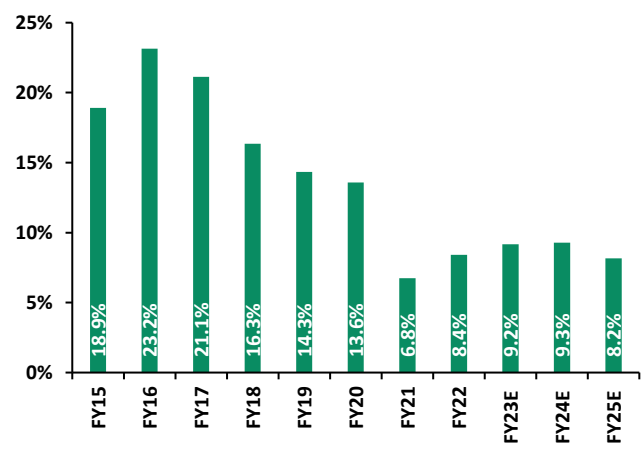
- The company exports to ~100 countries and have developed very strong relationships with its exports counterparts. Currently, the company enters into long term agreements and with increase in capacity of Polystyrene the company is also increasing its wallet share with existing clients.
- Historically, exports de-grew at a CAGR of 7% from FY17-22. This was majorly because of 2 reasons: (A) Loss of Turkey & Middle East market by SPL wherein Iranian PS producers were dumping at very low prices producers & (B) LG Polymer closure in FY20 which led increased enquiries & diversion of volumes towards the domestic market by SPL which led to decline in exports.

Fig 15: Exports growth likely to remain robust (Rs in mn)



Source: Company, SMIFS Research Estimates

Fig 16: Exports share to inch a bit up in the long term



Source: Company, SMIFS Research Estimates

- The global demand of PS is ~11 mn tonnes and considering India's ~2.6 lakh ton demand corresponds to ~2-2.5% market share of India in the global PS space. The global market is huge & fragmented with many countries and this leaves room for the SPL to expand its exports reach as currently exports contributes merely 8% of overall sales. Hence, we feel there is huge headroom for exports growth going ahead.
- The company's export volumes grew by 11% in FY22 & despite this growth the volume continue to be lower than pre covid levels, however, with increasing capacity in PS we expect exports volumes to grow 9% CAGR from FY22-25E.

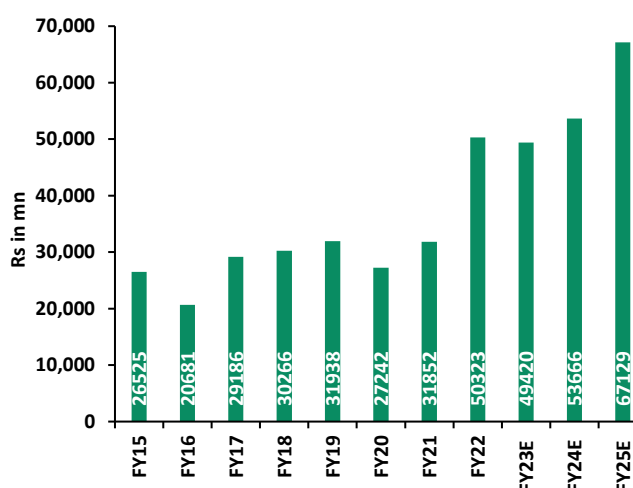
Developing & making new product portfolio in special compounds will increase value addition

- The company is the first to produce **Styrene Methyl Methacrylate (SMMA)** in India in 2018 which finds application in optical sheets, homeware, office accessories, toys and medical devices. The company has a modified PS line with ability to swing between PS and SMMA. The product is an economic alternative for PMMA, Polycarbonate (PC) and clear ABS and it has received healthy response for its unique advantages over others.
- Styrene Methyl Methacrylate (SMMA) is a transparent styrene acrylic copolymer, which is formed by blending styrene monomer (SM) and methyl methacrylate (MMA). It is a transparent compound with exceptional properties. Styrene Methyl Methacrylate is also known as MS resin and is employed as an affordable alternative to different resins, which are comparatively expensive.
- From an economic perspective SMMA is a more cost-effective solution than polycarbonate because (A) It is cheaper than polycarbonate (PC) & (B) The energy consumption during the thermoforming of SMMA is lower than for PC.
- Post LG polymer closure, PS demand has surged due to which the company didn't manufacture SMMA for the last 2 years. As and when capacity is available to make SMMA, the company can again start production as it already has the right technology & approvals for the same but it depends on future course of action.
- Since SMMA is a high margin segment, restart of this business would be a positive trigger for the company.

Strong revenue & EBITDA growth on the cards

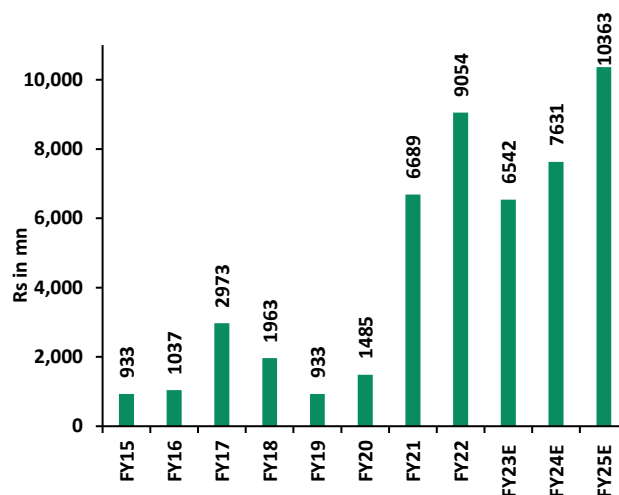
- After many years in lull, the company has opened its war chest of capital aligning capacity expansion in existing businesses of PS, EPS, XPS & SPC & putting up greenfield plant for ABS.
- Last 2 years (FY20-22), revenue grew by 36% CAGR which is ~15% led by volume growth & remaining by sharp increase in prices of PS, EPS & XPS.
- However, with Fed increasing interest rates, inflation cooling down & softening commodity prices have led to cooling of various petrochemical prices including PS, EPS & XPS. This is clearly reflected in Q2FY23 numbers wherein revenue declined by 17% QoQ and further decline is witnessed in prices of PS & EPS till 1st week of Jan 23. We feel PS & EPS prices have found a bottom in early 2023 and current prices are more rational & realistic based on economic demand.
- The future looks bright and as demand from end user industries grow which will determine the future course of action of PS & EPS prices.
- To gain foothold into global arena, the company is expanding its capacity and cumulatively spending Rs12.4bn over a period of 3 years which will keep its revenue momentum intact.
- We expect revenue to grow by 16.5% CAGR from FY23E-25E.

Fig 17: Revenue to grow at 16.5% CAGR from FY23E-25E



Source: Company, SMIFS Research Estimates

Fig 18: EBITDA to grow at ~26% CAGR from FY23E-25E



Source: Company, SMIFS Research Estimates

- EPS & downstream businesses like XPS & SPC are expected to grow much faster than its legacy PS business along with addition of ABS capacity will drive the revenue growth exponentially post FY25E also. The full utilization of downstream businesses will be achieved by approx. FY27E. **Hence, we feel Supreme Petrochem is a compounding story for the next 5 years.**
- Since, much of the damage in EBITDA is done in H1FY23 itself which is majorly because of decline in spreads of input output in all business segments, we find the current spreads comfortable & sustainable for the longer term, further as demand picks up spreads will also start to inch up.
- The company is also focussing on various cost initiatives like bringing its power cost down by using renewable sources & using bigger sized (30 KL) tank lorries for movement of SM which will help in bringing down overall cost per ton.
- Capacity expansion coupled with operating leverage will help operating profit to compound over the years. Hence, we expect EBITDA to grow by ~26% CAGR from FY23E-25E.

Capex Intensity to remain high going ahead

- The company has earmarked capex of Rs12-13bn for the next 3 years. The company is utilizing its internal war chest of capital to expand into existing chemistries like PS, EPS, XPS & SPC compounds along with setting up greenfield plant for mass ABS production.
- Of Rs12-13bn, roughly Rs2-2.4bn has been incurred till date for its PS & EPS (1st phase) capacity expansion.
- During last decade from FY11-20, the company didn't incur any meaningful capital expenditure except for maintainance purposes, due to which its FCF generation remained very healthy (almost 97% of OCF generation from FY16-22).

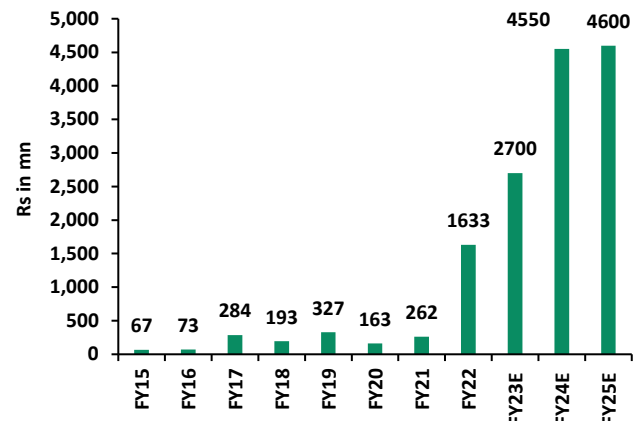
Fig 19: Capex breakup

(Capacity In MTPA unless mentioned)

Business Segment	Capacity	Capex (Rs bn)
Acrylonitrile Butadiene Styrene (ABS)	140000	8.5
Polystyrene (PS)	80000	2
Expandable Polystyrene (EPS)	60000	0.7
Extruded Polystyrene (XPS) (m3)	100000*	0.6
Speciality Compounds (SPC)	50000	0.6
Total		12.4

Source: Company, SMIFS Research, Note: XPS capacity is measured in meter cube

Fig 20: Clear as water....Capex intensity will be high

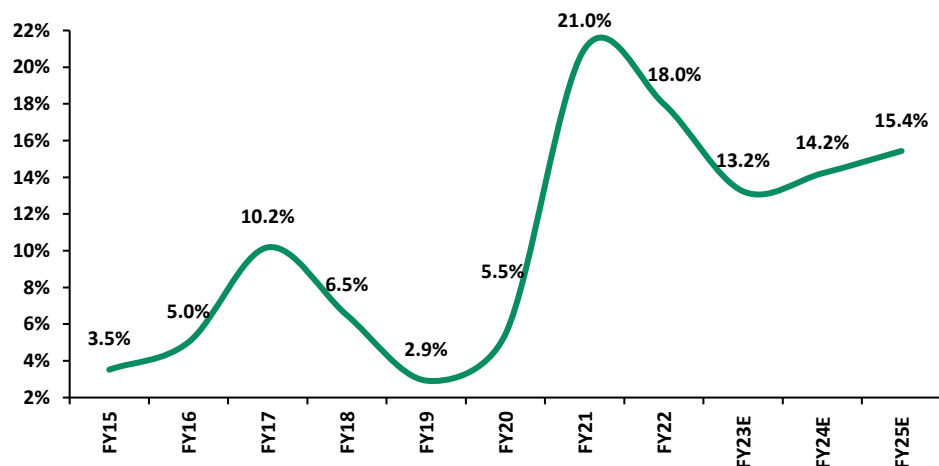


Source: Company, SMIFS Research Estimates

EBITDA margin to inch up post short term blip in FY23E

- Historically, the company used to generate low single digit margin & the trajectory completely changed when its competitor LG Polymer has completely shut down its PS & EPS business because of styrene vapour leakage incident in its plant which led to surge in PS & EPS prices. The input output spreads expanded sharply benefitting Supreme Petrochem to post highest & best ever margins in FY21 & FY22.
- However, with decline in inflation, easing of commodity prices & temporary impact on the demand, the input output spreads contracted from the peak which will impact the margins in full fiscal FY23E. However, we feel the current spreads has already discounted all the negativity and are hovering at near normalized levels.
- With expansion in niche segments, robust demand growth & operating leverage benefits we expect EBITDA margins to improve going ahead from FY23E levels.

Fig 21: Strong demand & foray in niche segments will lead to robust EBITDA margin

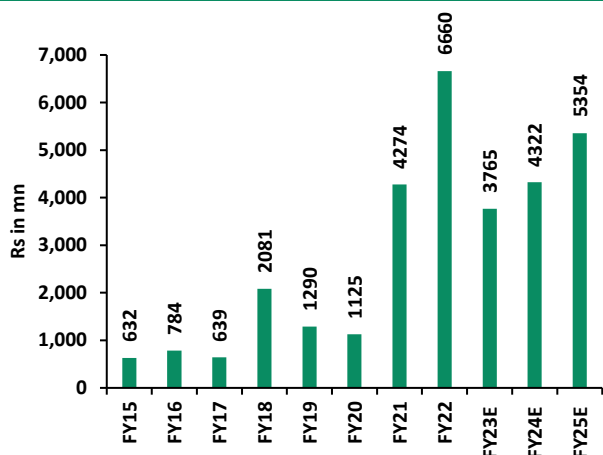


Source: Company, SMIFS Research Estimates

Strong cash generation augur well

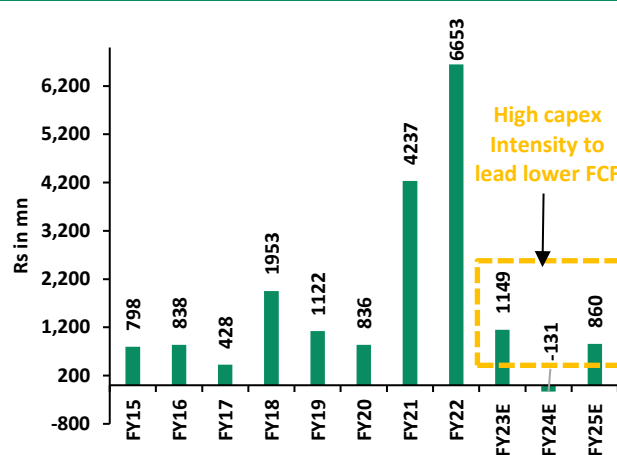
- The company is generating strong operating cash flows. The cumulative OCF generated from FY16-22 stood at ~Rs17.3bn and PAT cumulatively stood at ~Rs16.5bn during the same period indicating company has generated higher operating cash from operations and successfully converted profits into OCF. Going ahead we expect OCF to remain robust.
- FCF generation has been very robust over the last few years. The cumulative FCF generated from FY16-22 stood at ~Rs16.1bn which is almost 97% of OCF generated in the same period because the company did not resort for expansion or capex creation. Going ahead the company is expected to incur Rs12-13bn in capex which will drive the revenue and profits & consequently OCF and FCF of the company. FCF generation will be lower going ahead as heavy capital expenditure is on the cards.

Fig 22: OCF to remain robust from FY22-25E



Source: Company, SMIFS Research Estimates

Fig 23: Consistent FCF generation from FY16-22

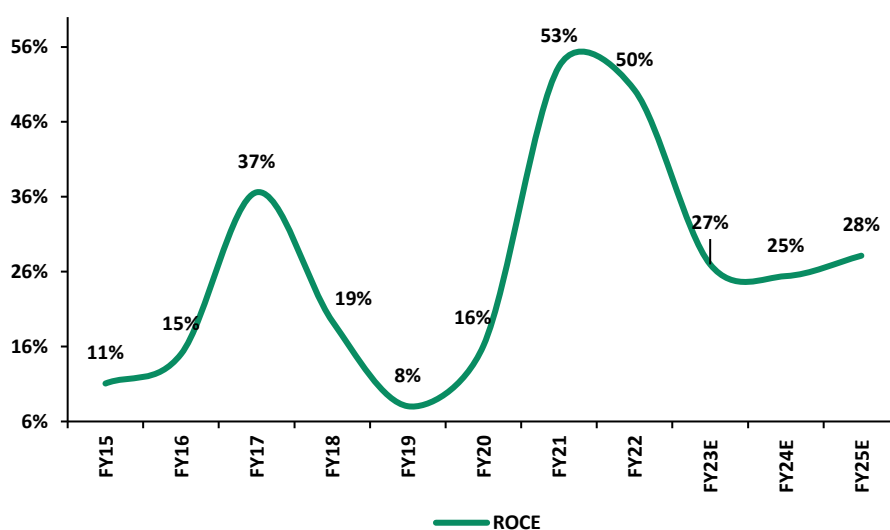


Source: Company, SMIFS Research Estimates

Robust return ratios to benefit the company

- Return ratios peaked in FY22 wherein higher spreads of PS & EPS benefitted the company. Normalization of spreads & aggressive capex for the next 3 years might suppress the return ratios, however, despite heavy capex we expect return ratios to be much higher than average of FY15-20.

Fig 24: Return ratios to remain robust



Source: Company, SMIFS Research Estimates

Buybacks & capital reduction

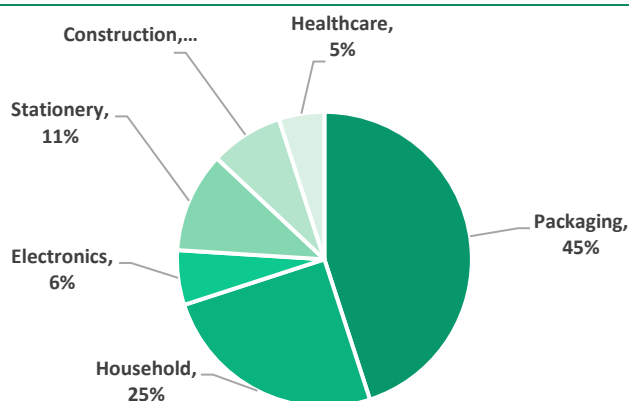
- The company has done buybacks & capital restructuring to simplify its structure which we feel is positive for the shareholders.
- The buybacks done instil confidence of the investors in the company's strong business model.
- The company has done total 3 buybacks in which they had bought back ~43.5 lakh shares with a total spend of Rs440.9mn (Excludes buyback distribution tax amount).
- Capital reduction programme was done to return surplus capital to shareholders in the form of dividend without reducing the number of shares. Here, the FV of the company has been brought down from Rs 10 earlier to Rs 4. Accordingly, every shareholder will receive Rs 6 per share.
- Post capital reduction, the company's existing paid up share capital has been reduced from Rs94.02bn to Rs37.6bn.

Industry Overview

What is Polystyrene: A snapshot

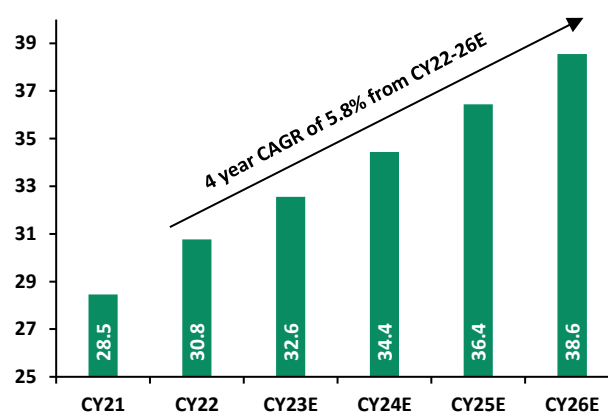
- Polystyrene (PS) is one of the most widely used kinds of plastic. It is a polymer made from the monomer styrene (derived from benzene and ethylene), a hydrocarbon compound. It is a thermoplastic polymer i.e melts if heated and becomes solid again when cooled, known for its versatility in high heat resistance, solid chemical strength, and notable rigidity that can be moulded into objects or made into a foam and used as thermal insulation. More than one-third of PS is used as a packaging material, so the heat resistance characteristic of PS is essential for hot-filled methods of food packaging.
- The global polystyrene market size is expected to grow 8.1% from \$28.5 billion in 2021 to \$30.8 billion in 2022. Over the longer term, the global polystyrene market size is expected to grow to \$38.6 billion in 2026 at a CAGR of 5.8%.

Fig 25: Global end user industries of PS



Source: Industry, SMIFS Research, Note: In global end users of PS, packaging forms 45% whereas in domestic packaging is mere 10-15%

Fig 26: Global PS market to grow ~6% from CY22-26E (In \$bn)



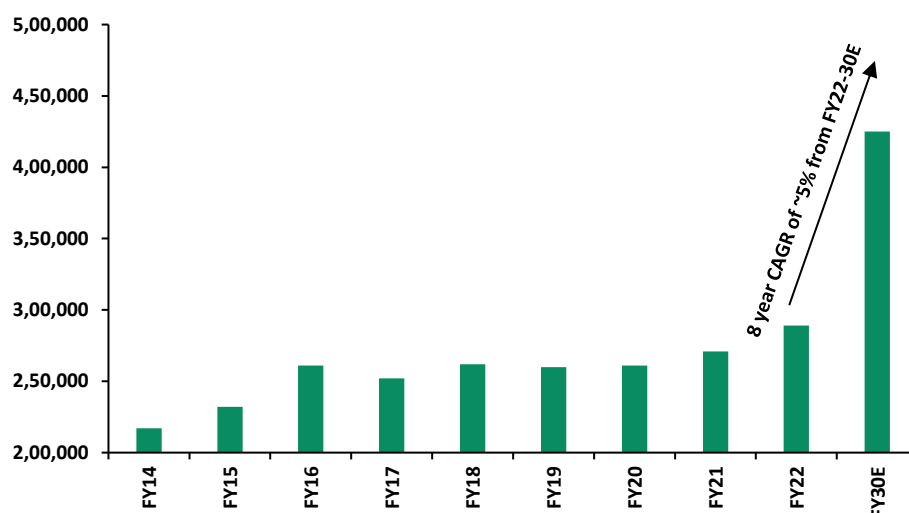
Source: www.expertmarketresearch.com, SMIFS Research

- The global PS market has undeniably suffered from an oversupply of capacity and weakening demand growth over the last decade. To survive, many PS producers responded by consolidating their capacity in many regions over the last few years through many mergers and acquisitions.
- Almost 40% of capacity has been removed over the years to improve operating rates and, thereby, given support to better margins. Also, developing markets for polystyrene such as the Middle East, Africa and China are focusing on increasing market share in which China has been steadily expanding its PS capacity and now accounts for more than 25% of the global total in 2021. (Source: spglobal)
- Northeast Asia is the largest player in the global polystyrene market. This region accounted for 45-50% of global polystyrene capacity and consumption. China dominates the polystyrene market in Northeast Asia.

Indian Polystyrene Market: A Snapshot

- India Polystyrene market demand stood at 2.9 lakh tonnes in FY21 and is expected to reach 4.25 lakh tonnes by FY30, thereby, growing at a healthy CAGR of ~5%. The growth in domestic manufacturing of advanced refrigerators backed by robust growth in demand for FDA compliant polymers for manufacturing disposable plastic cutleries and other kitchenware will drive the Polystyrene market in the forecast period.

Fig 27: Indian Polystyrene demand growth (In Metric tonnes)



Source: Industry, SMIFS Research

- On basis of type, India's Polystyrene Market can be categorized into General-Purpose Polystyrene (GPPS) and High-Impact Polystyrene (HIPS). While both GPPS and HIPS are considered low-cost, GPPS is the more cost-effective of the two.
- Being FDA compliant, GPPS finds major applications in food packaging, disposable utensils, cutleries, and various other consumer durables. Because of its glass-like clarity and easy moulding, GPPS is predominantly used for manufacturing opaque and transparent food storage containers or jewel cases.
- High impact PS or HIPS is known to possess high impact resistance and is predominantly used in consumer electronics and toys. Several grades of HIPS are formulated to develop exceptional characteristics for specific end-use, such as in refrigerator inner liner products and food trays that require high environmental stress crack resistance. The government Make in India scheme and its focus towards expanding the country's Appliances and Consumer Electronics industry is likely to impart great momentum to the Polystyrene demand going ahead.

Fig 28: Indian Polystyrene demand supply dynamics (In Metric Tonnes)

	CY17	CY18	CY19	CY20	CY21	CY22E
Capacity	471000	471000	471000	471000	381000	381000
Production	311350	301580	292860	291720	217450	235000
Utilization	66%	64%	62%	62%	57%	62%
Imports	24197	33852	30708	36117	41573	53311
Exports	60285	59951	44750	28549	32210	20984
Demand	262000	260000	261000	271000	289000	303450

Source: Industry, SMIFS Research

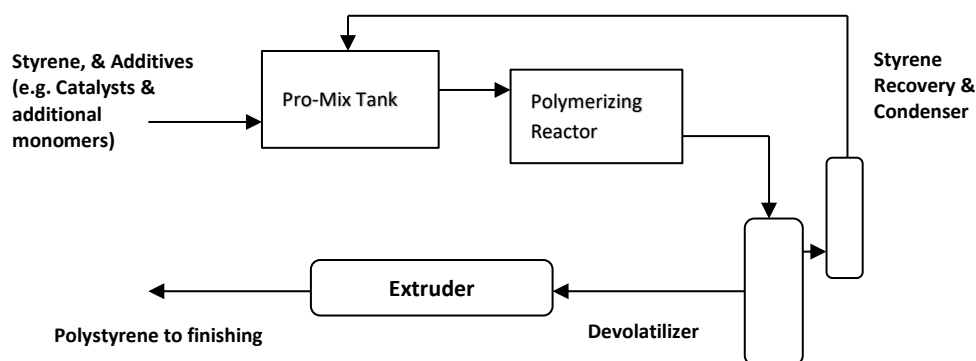
- As seen in table above, Indian polystyrene capacity declined from 4.71 lakh tonnes from CY20 to 3.81 lakh tonnes in CY21 owing to closure of LG Polymers polystyrene capacities.
- Closure of LG Polymer capacities was a game changer for Supreme Petrochem as its own capacity reached peak utilization levels in 2 years timeframe & also there was a need to import more PS as existing industry capacities were operating at peak utilization levels.

- As imports increased post closure of LG in CY20, exports also increased in CY21 but thereafter witnessing a sharp decline of ~35% in CY22 as existing companies focussed more on domestic market which means import substitution in play.

Production Process of Polystyrene

- Solution (bulk) polymerization is commonly referred to as mass polymerization in the industry. The vast majority of all polystyrene produced today is produced via this technology. The common solvents used in this process are the styrene monomer and ethyl benzene. The two types of mass polymerization are batch and continuous, of which continuous mass is by far the most popular.
- Batch mass polymerization consists of a polymerization section containing agitated vessels polymerizing up to 80% conversion in a batch method. The polymerized solution is then pumped to a batch finishing section for either devolatilisation or plate and frame final polymerization and grinding. The most widely used process for polymerization of polystyrene today is the continuous mass process. This solution is continuously prepared in a holding vessel and will then be injected into the reactor system.

Fig 29: General process flow diagram for Continuous Polystyrene Process



Source: CPMA, SMIFS Research

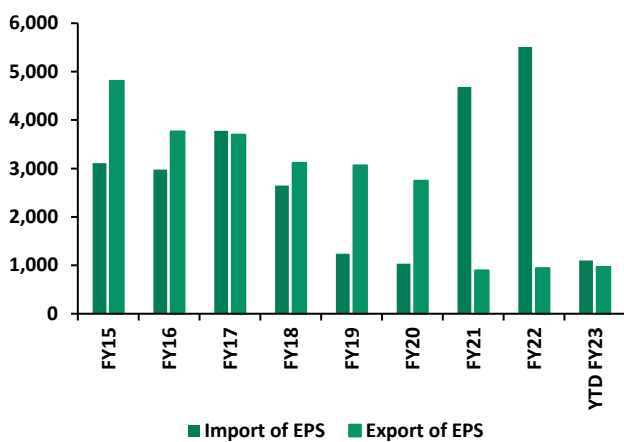
Stringent regulations a major hindrance to Polystyrene market

- Stringent regulations on plastic materials were a major restraint on the expansion of the polystyrene market.
- Government agencies and regulators are strictly assessing and managing the risks involved in the production and use of polystyrene & recently India has banned single use plastic which has an impact of 15,000-20,000 TPA on overall end user industries demand.
- Many cities in the USA have decided to ban polystyrene products from schools and other civic buildings. For instance, In June 2022, the executive department of the US federal government announced that it will ban the sale of single-use plastic on public lands, national parks by 2032.
- In addition, the Integrated Waste Management Authority passed an ordinance to ban polystyrene in the entire San Luis Obispo County. Polystyrene manufacturers are instructed to be compliant with complex regulations that govern labelling, handling, manufacturing and shipping and storage of the product leading to an increase in compliance costs for the manufacturers.

What is Expandable Polystyrene (EPS)?

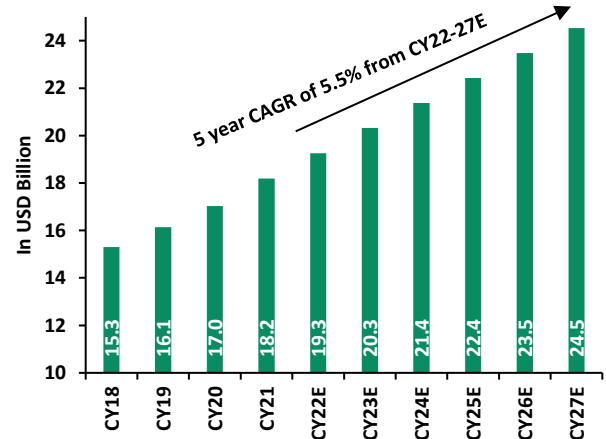
- Expanded Polystyrene (EPS) is a rigid, closed cell, thermoplastic foam material produced from solid beads of polystyrene, which is polymerised from styrene monomer and contains an expansion gas (pentane) dissolved within the polystyrene bead.
- EPS is very lightweight with very low thermal conductivity, low moisture absorption and excellent cushioning properties.
- As EPS is made of 98% air, it is one of the lightest packaging materials in existence and therefore it adds very little weight to packaging, which means transport costs and fuel emissions are kept to a minimum.
- The global Expanded Polystyrene (EPS) market size stood at USD 18.2 bn in 2021 and is expected to register a revenue CAGR of 5.5% by 2027. The growth is primarily driven by growth in the construction industry. EPS is one of the building materials that can improve a building's design and construction integrity. EPS is majorly used in packaging & is increasingly used in numerous building constructions due to its long-term benefits and improvements in terms of energy efficiency, durability, and interior environmental quality.

Fig 30: Import Export of EPS in India (In Metric Tonnes)



Source: Industry, SMIFS Research

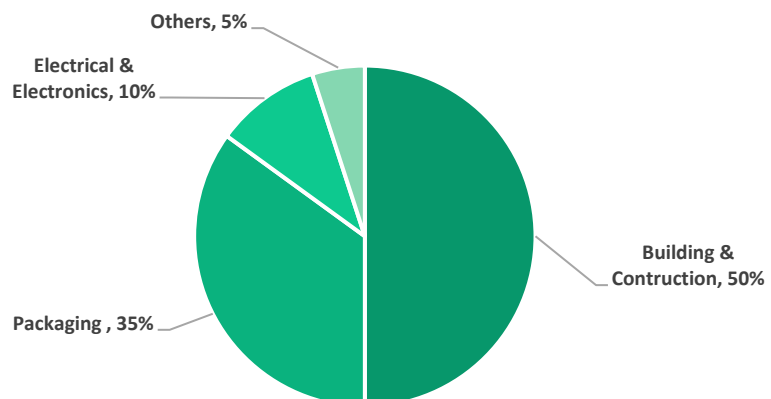
Fig 31: Global EPS market to grow 5.5% from CY22-27E



Source: Globalmarketinsights, SMIFS Research

- Already EPS capacity is installed with handful of players in India led by Supreme Petrochem & LG Polymers as the major producers before FY21, however, with the closure of LG Polymer only Supreme Petrochem is the leading & largest player of EPS in India.
- EPS is manufactured using 2 major raw materials i.e Styrene Monomer (SM) & pentane.
- Some of the key global producers of EPS are BASF, NOVA Chemicals, SABIC, DowDupont, Synthos Group etc.

Fig 32: Global end user industries of EPS



Source: Industry, SMIFS Research

Uses of Expandable Polystyrene (EPS)

Construction

- In recent years, there has been an explosive growth of interest in the application of expanded polystyrene (EPS) for construction industry.
- The foam in EPS is a lightweight cellular plastic consisting of small spherical-shaped particles containing about 98% air. This microcellular closed cell construction provides EPS with its excellent insulating and shock absorbing characteristics.
- A structural insulated panel (SIP) is a form of sandwich panel used in the construction industry which has outer layer made of EPS.

Packaging

- Industrial packaging frequently utilizes EPS packaging. Due to its shock absorption ability, EPS offers industrial items the perfect material for comprehensive protection and safety from risk during transit and handling. The hard, lightweight foam can be molded into any shape to protect and insulate delicate things during storage and transportation, such as fragile medical equipment, electronic components, electrical consumer goods, toys, and horticultural products.
- EPS is the perfect material for packing a variety of fish and food products. These products requires temperature control can be packaged in expanded polystyrene as their multiple cells act as independent air chambers insulating it thermally. According to Statista, the global seafood market reached a value of USD 253 billion in 2021, and it is projected to reach USD 336 billion by 2025. As a result, the demand for EPS products used for seafood packaging is anticipated to grow along the forecast period.
- In addition, EPS can incorporate additives to avoid excessive electrostatic load by favouring its use in the electronics industry.

Fig 33: Wide applications of Expandable Polystyrene (EPS)

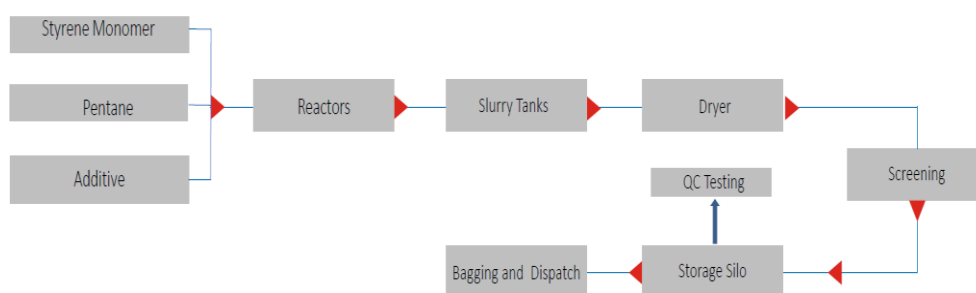


Source: Industry, SMIFS Research

Manufacturing Process of Expandable Polystyrene (EPS)

- EPS begins as a polystyrene bead or pellet. The pentane-loaded bead is exposed to pressurized steam, which causes the polystyrene to expand and mould into the desired shape and density needed.
- The final product is a moisture-resistant, closed-cell structure consisting of 98% air, yet can possess a compressive strength of up to 276 kPa (40 psi).
- EPS is available in varying densities usually from 14.4 kg/m³ to 28.8 kg/m³ (0.90 pcf to 1.8 pcf) depending on the intended application.

Fig 34: Manufacturing process of Expandable Polystyrene (EPS)



Source: Company Investor Presentation, SMIFS Research

Impact on environment from EPS?

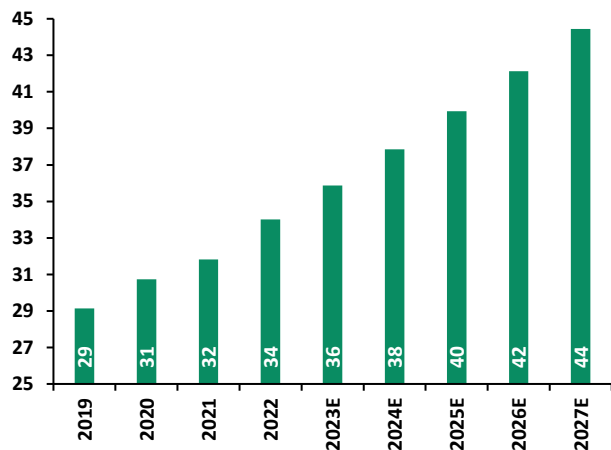
- EPS has a low carbon impact because clean manufacturing technologies equate to minimal energy and water inputs with no production waste. The protective performance of EPS also helps to reduce wastage caused by goods that are broken or damaged in the supply chain, which saves energy, materials, and transportation costs.
- The use of EPS also helps to prevent food wastage because due to its cellular nature, as it protects the food and avoids damage in the various stages of production and shipment from farm to fork, ensuring that many different foods reach the retailer or consumer in perfect condition.
- EPS is HFC, CFC, and HCFC free, with Pentane used as its blowing agent. Pentane has a low Global Warming Potential (GWP) of less than five - meaning the EU does not register pentane as a substance hazardous to human health or the environment.
- As EPS is extremely lightweight it helps to reduce fuel consumption - when goods are transported compared to other heavier packaging materials.
- The manufacture of EPS is a low pollution process. As steam is the key ingredient, and the water is re-used many times. There is no waste in the process as all cut off or rejects are re-used.
- Only 0.1% of total oil consumption is used to manufacture EPS.
- The carbon footprint of EPS is lower than many other packaging materials in use today.

Hence EPS is carbon neutral and positive for the company. This will benefit the company led by various factors like ref

Why is Acrylonitrile Butadiene Styrene (ABS)?

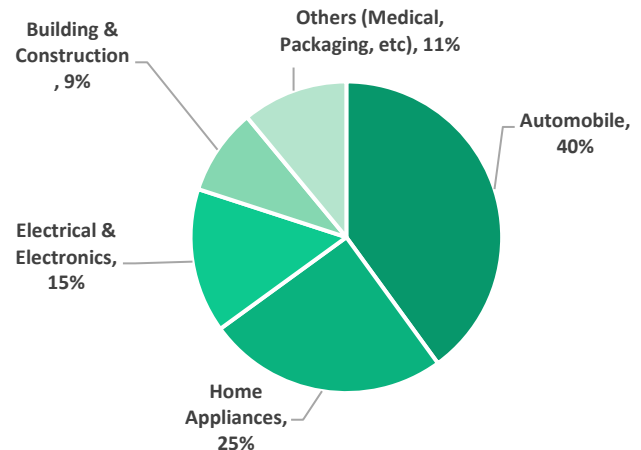
- ABS is a terpolymer made by polymerizing styrene and acrylonitrile in the presence of polybutadiene rubber.
- ABS has excellent mechanical properties such as it is hard and tough in nature and thus, delivers good impact strength. It offers a high degree of surface quality and exhibits good chemical resistance properties.
- ABS is the preferred engineering plastic when it comes to dealing with automotive applications. Being a great substitute to metals, ABS has been extensively used in manufacturing automotive parts.

Fig 35: Global ABS market size (In \$ bn)



Source: Marketintelligence, SMIFS Research

Fig 36: Breakup of end user industries of ABS (%)



Source: Company, SMIFS Research

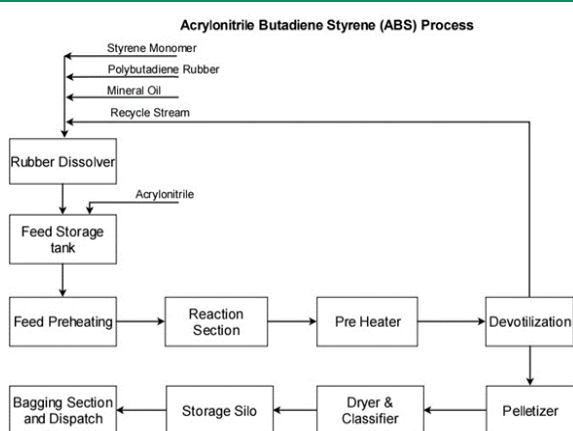
Why is the ABS Market Growing Rapidly?

- The rising applications of ABS in 3D printing along with the demand for 3D printers will support the overall ABS industry.
- The global ABS market is also growing due to rising demand from the automobile industry. The demand for fuel-efficient and lightweight vehicles, which help to mitigate fuel consumption, is the primary factor for driving the market ahead.
- Moreover, increased construction activity, growing demand for electronic applications, and expanding industrialization will contribute towards the growth of the market. The increased popularity of fuel economy and upcoming government regulatory frameworks could also boost the market.
- The emerging applications of ABS in 3D printing coupled with the rising demand for desktop 3D printers will support the overall ABS industry. 3D FDM/FFF printers and ABS plastics are a very popular combination for numerous applications.
- The Asia Pacific region is expected to dominate the global ABS market. It could account for 75% of the volume share by 2027. It could also have a CAGR of 5.1% due to the growing product adoption in the automotive industry, appliances, and consumer goods. Moreover, the rising construction activities in countries like India and China will propel the ABS market sale to all-time highs. ABS is used for manufacturing corrugated plastic structures and plastic tubing in the construction industry.
- The North American regions will be second to lead the ABS global market owing to the rising ABS applications. Furthermore, the growing demand for consumer goods along with the rising population could drive the consumption of ABS in the production of consumer goods,

Manufacturing process of ABS

- Acrylonitrile-Butadiene-Styrene (ABS) is produced by continuous bulk polymerization process. A styrene and Polybutadiene rubber solution will be prepared in feed preparation tank. This feed solution along with Acrylonitrile will be fed to plant. This feed solution will be processed through feed heater and series of agitated reactor at temperature of about 120 °C to 155 °C and pressure of about 0.2 Bar g to 2.0 Bar g as per process requirement. During processing through series of reactors, additives will be added to achieve required quality parameter. The heat of reaction is removed by evaporative cooling. After completion of reaction at the final reactor, unconverted material will be recovered from feed by devolatilization. Recovered unconverted stream will be used in process with fresh feed.
- Polymer will be processed at pelletizer and converted into cylindrical pellets. The pellets are cooled, dried, classified and conveyed to storage silos from where it is packed in 25 kg PP bags or 1000 Kg jumbo bags.

Fig 37: Process flow diagram of ABS



Source: Company, SMIFS Research

Fig 38: ABS image



Source: Industry, SMIFS Research

Duopoly market of ABS in India, Supreme Petrochem entry will intensify competition

- In India, ABS is being manufactured by Bhansali Engineering and Ineos Styrolution with a total capacity of around 360 KTPA. Since these are the only players operating in Indian ABS Market, they contribute to a market share of approximately 75% of the overall demand. The rest of the demand is met through cheaper imports from South Korea, Thailand, Malaysia, Saudi Arabia & China. Although the market prompts incredible opportunities for growth after the government's initiative of self-reliant India, the entry of new players in the Indian market is still a tough deal as there are certain complexities and high capital investment involved in the manufacturing of ABS.
- Despite high entry barriers Supreme Petrochem would be the 3rd player to enter into ABS market. They have the access to right technology & required capital to invest.

Fig 39: Indian ABS demand supply dynamics

	FY17	FY18	FY19	FY20	FY21	FY22
Capacity	128000	140000	140000	156000	210000	213000
Production	117010	117770	145230	148180	136460	121940
Utilization	91%	84%	104%	95%	65%	57%
Imports	102731	98026	119398	104643	98848	112791
Demand	205000	224000	235000	230300	250000	265000

Source: Industry, SMIFS Research

Corporate Governance

We believe that good corporate governance is necessary for enhancing the trust of the shareholders. Hereby, we present a detailed framework on corporate governance for the comfort of the investors of SPL considering board of directors, remuneration of key managerial personnel, contingent liability etc.

Promoters' Shareholding

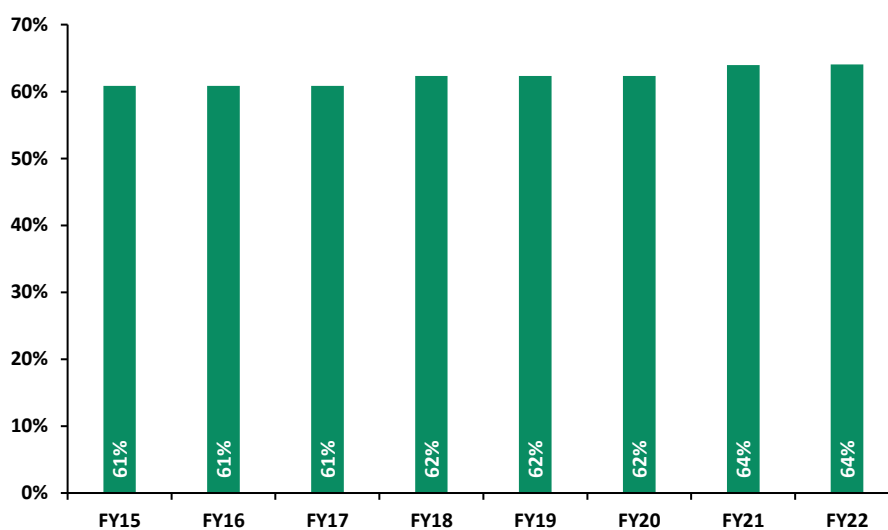
The promoters currently hold ~64.14% of the equity capital. Supreme Industries & R Raheja Investments Pvt Ltd both combined holds 61.6% (30.8% each) in the company. Smaller investment firms hold cumulatively 2.6% of the equity capital. The details of the shareholding and its movement are indicated in the following table and chart:

Fig 40: Latest Promoter Shareholding

Particulars	% Holding
The Supreme Industries Limited	30.8
R Raheja Investment Pvt. Ltd	30.8
Hathway Investments Pvt. Ltd	1.5
Jovial Investment and Trading Company Pvt. Ltd.	0.4
Venkatesh Investment and Trading Company	0.3
Boon Investment and Trading Company Pvt. Ltd.	0.4
Total	64.14

Source: Company Annual Report FY22, SMIFS Research

Fig 41: Promoter Shareholding



Source: Company Annual Report, SMIFS Research

The above graph shows increase in promoter shareholding from 61% in FY15 to 64% in FY22.

Promoter Remuneration

The promoter remuneration stood at ~0.03% of PBT as on FY22. The promoter remuneration includes only the sitting fees.

Fig 42: Remuneration of promoter

(Rs in mn)

	FY18	FY19	FY20	FY21	FY22
Mr. M. P. Taparia	0.3	0.3	0.3	0.3	0.7
Mr. Rajan B. Raheja	0.3	0.3	0.3	0.3	0.5
S. J. Taparia	0.4	0.4	0.5	0.5	0.7
B. L. Taparia	0.3	0.2	0.3	0.3	0.5
Total Remuneration	1.2	1.1	1.3	1.4	2.4
As a % of PBT	0.06%	0.15%	0.11%	0.02%	0.03%

Source: Company Annual Reports, SMIFS Research

Independent Director's Compensation

Independent directors were cumulatively paid ~Rs4.5mn which is 0.05% of PBT as on FY22. Independent directors were paid sitting fees.

Fig 43: Remuneration of Independent Director

(Rs in mn)

Name	FY22 Compensation (Rs in mn)	As % to PBT (FY22)
R. Kannan	1.0	0.01
M. S. Ramachandran	1.3	0.01
Ameeta Parpia	0.8	0.01
Dr. S. Sivaram	0.5	0.01
Rajeev Pandia	0.8	0.01
Total	4.5	0.05

Source: Company Annual Report FY22, SMIFS Research

Board Composition

Independent directors constitute 50% of the board composition. The details are given below:

Fig 44: Board Composition

	FY18	FY19	FY20	FY21	FY22
Non-Executive Promoter Directors	4	4	4	4	2
Non-Executive Director, Non-Independent Directors	0	0	0	0	2
Non-Executive Independent Directors	5	5	5	5	5
Whole Time Director*	0	0	0	1	1

Source: Company Annual Reports, SMIFS Research, Note: * indicates whole time director is Shri. K V Mujumdar

Contingent Liabilities

Except for letter of credit outstanding, the company's contingent liability as a % of net worth is less than 1%. A major portion of contingent liabilities is safe items which we have taken into consideration in calculating total liability.

Fig 45: Contingent Liability

(Rs in mn)

	FY20	FY21	FY22
Income tax & excise duty related	21.8	23.5	15.7
Guarantees or counter guarantees or other bank guarantees	31.1	31.8	61.0
Letters of Credit opened by Banks and outstanding	620.4	4140.1	4906.2
Others	52.6	19.3	0.0
Total	726.0	4214.7	4982.9
As a % of Net Worth	10.5%	39.6%	32.9%

Source: Company Annual Reports, SMIFS Research

Related Party Transaction

As per our analysis of RPT, nothing specific has come to our notice. The related party transactions increased in FY21 owing to rise in sale of goods to its group company Supreme Industries.

Fig 46: Related Party Transaction

(Rs in mn)

	FY18	FY19	FY20	FY21	FY22
The Supreme Industries Ltd.					
Sale of Goods (Net)	299	487	458	821	907
Purchase of goods	12	7	26	15	19
Balance receivable (Sales of goods)	21	17	54	173	2
Balance payable (Purchase of goods)	0	0	0	2	0
Total	332	512	539	1011	928
Loan to Shri D. N. Mishra (Company Secretary/Compliance Officer of SPL)					
Loan Given	0	0	0	0	5
Loan Repay	0	0	0	0	0
Loan balance	0	0	0	0	4
Dividend paid on Equity Shares					
The Supreme Industries Ltd.	130	130	174	116	477
R. Raheja Investments Pvt. Ltd.	130	130	174	116	477
Total	260	260	347	231	955
Promoter Group Persons & Entities					
Suman R. Raheja	0	0	0	0	0
Akshay Rajan Raheja	0	0	0	0	0
Viren Rajan Raheja	0	0	0	0	0
Bloomington Investment and Finance Private Limited	0	0	0	0	0
Coronet Investment Private Limited	0	0	0	3	10
Hathway Investment Private Limited	0	0	0	3	13
Matsyagandha Investment and Finance Private Limited	0	0	0	0	0
Manali Investment and Finance Private Ltd	0	0	0	0	0
Varahagiri Investment and Finance Pvt. Ltd.	0	0	0	0	0
Jovial Investment and Trading Company Private Limited	0	0	0	1	5
Venketesh Investment and Trading Company Private Limited	0	0	0	1	5
Boon Investment and Trading Company Private Limited	0	0	0	1	5
Total	0	0	0	9	37

Source: Company Annual Reports, SMIFS Research

Key Management Personnel

Fig 47: Details of promoter and director

Name	Designation	Profile
Shri. M. P. Taparia	Non-Executive - Non-Independent - Chairperson	Mr. M. P. Taparia is the Managing Director of The Supreme Petrochem Ltd. He has completed B.A. as its qualifications. Mr M.P. Taparia have rich experience in managing Plastic and Polymer businesses. He is the member of Stakeholders Relationship Committee, Corporate Social Responsibility Committee and also the Chairperson of Risk Management Committee.
Shri Rajan B. Raheja	Non-Executive - Non-Independent	Mr. Rajan is the Promoter of R. Raheja Group. Mr Rajan has a wide range of business which includes batteries, cement, software, ceramic tiles, media, and petrochemicals.
Shri B. L. Taparia	Non-Executive - Non-Independent	Shri B.L.Taparia is the chairperson of The Supreme Petrochem Ltd. Mr B.L. Taparia is also associated with multifaceted philanthropic activities.
Shri S. J. Taparia	Non-Executive - Non-Independent	He is the Executive Director of The Supreme Industries Limited and has rich experience in technical, operational and marketing of plastic and polymers. Shri S.J. Taparia is the nephew of Shri M.P. Taparia and Shri B.L. Taparia.
Shri Rakesh Nayyar	Executive Director & CFO	Shri Rakesh Nayar is a qualified Cost and Management Accountant and Company Secretary. He oversees Corporate Affairs, Finance, Banking, Accounting, Treasury, Taxation and other related matters.
Shri N. Gopal	Executive Director & Manager	Shri N. Gopal is a B-Tech (in Chemical Engineering) from Madras University and M.Sc., DIC (Advanced Chemical Engineering) from Imperial College, London. He has long experience in the Petrochemical field and also oversees the plant operations, supply chain and implementation of new projects.
Shri K. V. Mujumdar	Whole Time Director	Shri K.V. Mujumdar is a qualified Engineer and holds a diploma in Business Management. He has extensive and wide-ranging experience of about 45 years in the field of Chemicals and Petrochemicals. Mr K.V. Mujumdar have also the responsibility of plant operations at Amdoshi and Manali.
Shri Rajeev Pandia	Non-Executive Independent	Shri Rajeev is a fellow of Indian National Academy of Engineering and of Indian Institute of Chemical Engineers. In 2009, Shri Pandia received Lifetime Achievement Award from Indian Chemical Council for his contribution to the Indian chemical industry.
Dr. S Sivaram	Non-Executive Independent	Dr. S Sivaram is an INSA Senior Scientist and Honorary Professor at the Indian Institute of Science Education and Research. He is widely recognized for his contributions to polymer science, technology development, institution building and management of innovation in publicly funded organizations.
Ms. Ameeta Parpia	Non-Executive Independent	Ms. Ameeta is an Advocate and Solicitor with long standing experience in legal matters. She holds directorship of other reputed Companies. Ms Ameeta is the Non-Executive and Independent Director of Prism Johnson Limited, Hathway Cable and Datacom Ltd and The Supreme Industries Limited.
Shri R. Kannan	Non-Executive Independent	Shri R. Kannan was formerly General Manager at ICICI Limited and Director of Institute of Financial Management & Research (IFMR) Chennai. He is currently a visiting faculty Member at IFMR and is considered an expert in the Oil, Gas and Petrochemicals Industry. Mr R. Kannan is also the Non-Executive & Independent Director of The Supreme Industries Limited.
Shri M. S. Ramachandran	Non-Executive Independent	He is a former Chairman of IOC. Mr Ramachandran is currently Chairman of (ICICI Prudential Life Insurance Company Limited) apart from holding directorship of other reputed Companies.

Source: Company Investor Presentation, SMIFS Research

CSR Activities

SPL has been actively involved in CSR activities for the betterment of the society. The company has spent ~Rs34mn in FY21 and ~Rs54mn in FY22. The spend as % of prescribed limit is above 100% for both FY21 and FY22.

Fig 48: CSR spend

(Rs in mn)

Company	Avg Net Profit (last 3 Yrs)	Prescribed Expenditure	Total Spends	Spend as % of prescribed limit
FY22	2,776	54.0	56.6	104.7
FY21	1,240	33.7	35.2	104.4
FY20	1,775	35.5	26.6	75.0

Source: Company Annual Reports, SMIFS Research

Auditors

SPL appointed M/s. G M Kapadia & Co as the statutory auditor. The auditors have given a true and fair view for the results of the financial year 2021-22.

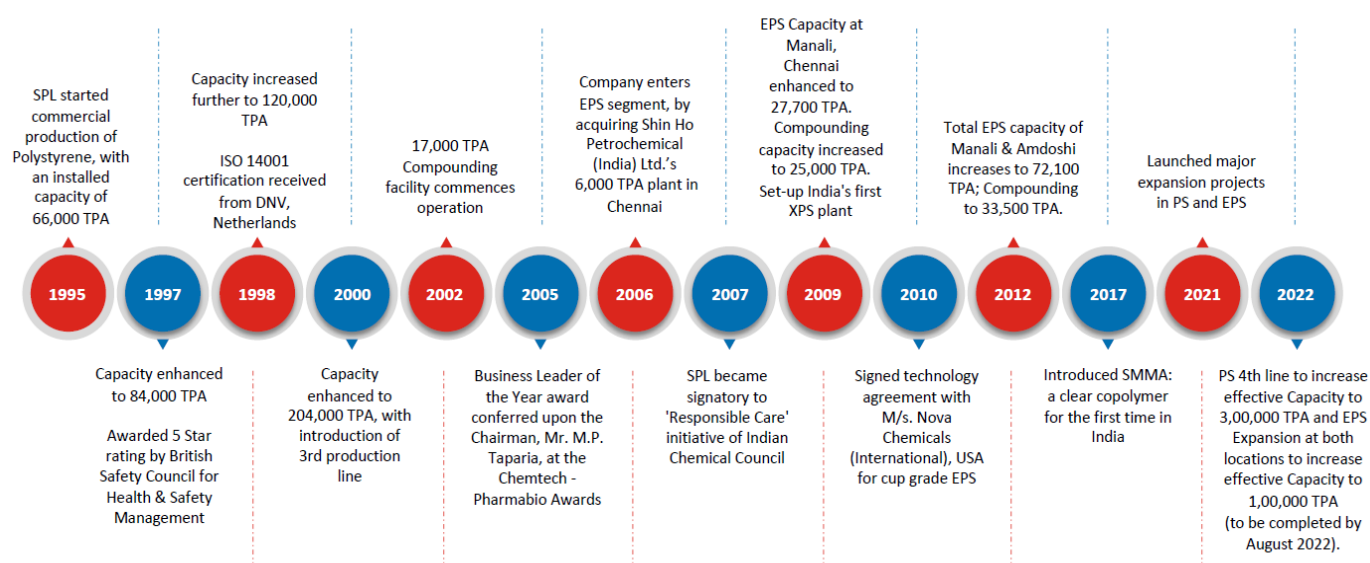
Fig 49: Auditor fee

Auditor Name	Type	Auditor Fees - (Rs mn)	As a % of PBT
M/s. G M Kapadia & Co. Chartered Accountants	Statutory Auditors	4.0	0.04

Source: Company Annual Reports, SMIFS Research

Key Milestones

Fig 50: Key Milestones of Supreme Petrochem



Source: Company Investor Presentation, SMIFS Research

Company Background

What is Supreme Petrochem all about?

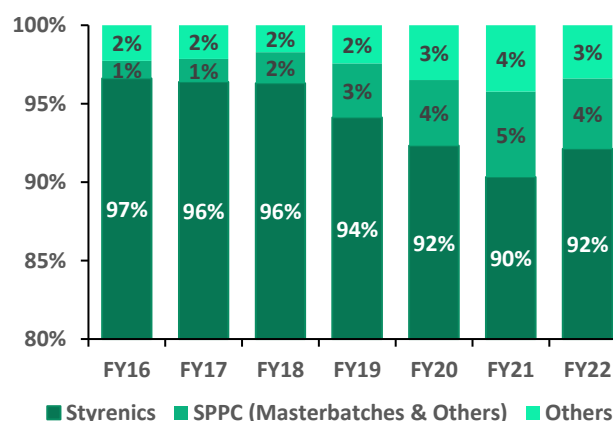
- Supreme Petrochem Ltd (SPL) was formed as a Joint Venture (JV) between the Supreme Industries and Rajan Raheja Group. The company started manufacturing Polystyrene (PS) with a modest capacity of 66,000 TPA in October 1995 & thereafter the company has grown impressively in size, stature & scale of operations.
- The company has state-of-the-art manufacturing facilities at 2 locations in India, the first at Amdoshi – Wangani Village near Nagothane in District Raigad Maharashtra and the Second in New Manali Town near Chennai in Tamil Nadu.
- From being a mere commodity player, SPL has now become a trusted source for a wide range of value added products. Also, the company has considerably enhanced its capabilities of customization which it now offers to its domestic & global clients.
- The product range of the company includes General Purpose Polystyrene (GPPS), High Impact Polystyrene (HIPS), Expandable Polystyrene (EPS), Masterbatches and Compounds (SPC), and Extruded Polystyrene (XPS) (INSUboard).
- The company has the largest capacity of Polystyrene (PS) with a nameplate capacity of 3.5 lakh TPA & Expandable Polystyrene (EPS) capacity of 1.1 lakh TPA which is the largest capacities in India. The company also has manufacturing capacity of 25,000 TPA for specialty grade compounds like Master batches & has 72,000 TPA capacity of Extruded Polystyrene.
- The company is entering into mass Acrylonitrile butadiene Styrene (ABS) manufacturing business with 1.4 lakh tonnes capacity divided into 2 phases of 70,000 TPA each.

Fig 51: Capacity breakup location wise (In TPA unless mentioned)

Product	Raigad, Maharashtra	Chennai, Tamil Nadu
Polystyrene	360000	
Expandable Polystyrene (EPS)	75,000	33000
Extruded Polystyrene (XPS)**	72,000	
Speciality Compounds (SPC)	25000	
ABS*	140000	

Source: Company, SMIFS Research; * indicates ABS business is still into commissioning stage and is not contributing to revenues on date, ** indicates capacity is in cubic meters.

Fig 52: Revenue breakup (%)



Source: Company, SMIFS Research Estimates, Note: The above revenue breakup excludes revenue earned from trading of raw materials

- The company exports its products to more than 100 countries around the globe. The company is characterized as the undisputed leader in Polystyrene in India, with a market share ~75% (on capacity).
- The company has strong reputation as a reliable supplier which is due to its internationally acclaimed safety record in plant operation and total compliance with global and local standards on EHS.

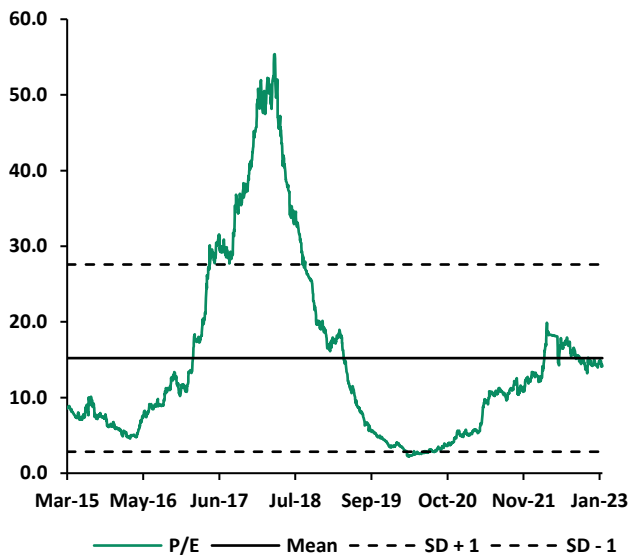
Valuation and Recommendations

Currently, the stock is trading at FY25E P/E of ~10x. We value the stock on forward P/E multiple of 15x owing to increasing share of speciality business, robust volume growth & strong exports, thereby, arrive at target price of Rs 561 per share which offers upside of 51% from current valuations.

Therefore, we assign **BUY** rating on the stock.

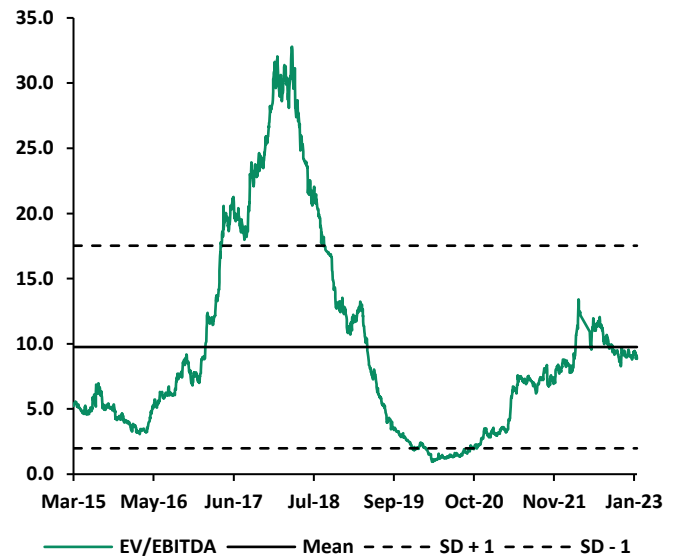
Risk to our call is unforeseen impact on the demand and sharp decline in spread.

Fig 53: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 54: 1-year forward EV/EBITDA



Source: AceEquity, SMIFS Research

Quarterly financials, operating metrics and key performance indicators

Fig 55: Quarterly Financials

Y/E March (Rs mn)	Q3FY21	Q4FY21	Q1FY22	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23
Net Sales	9297	12691	10478	11908	12960	14977	14854	12346
Raw Materials	6280	8869	7795	9548	9982	11118	11478	10750
Employee Costs	123	114	136	109	132	106	137	130
Other Expenditure	500	545	573	490	604	675	722	679
EBITDA	2393	3164	1974	1760	2242	3078	2517	787
Depreciation	100	101	100	109	106	104	105	115
Interest	25	16	11	20	14	17	9	9
Other Income	64	64	82	46	83	94	121	117
PBT	2332	3111	1944	1677	2206	3051	2522	780
Tax	617	794	482	406	560	797	632	184
Tax rate (%)	26	26	25	24	25	26	25	24
Reported PAT	1715	2317	1463	1271	1645	2254	1891	596
Extraordinary Items	0	0	0	0	0	0	0	0
Adj PAT	1715	2317	1463	1271	1645	2254	1891	596
YoY Growth (%)								
Revenue	49.5	91.5	258.5	71.6	39.4	18.0	41.8	3.7
EBITDA	1923.6	707.5	-6295.2	51.2	-6.3	-2.7	27.5	-55.3
Adj PAT	8174.1	885.5	-1330.7	47.5	-4.1	-2.7	29.3	-53.1
QoQ Growth (%)								
Revenue	34.0	36.5	-17.4	13.6	8.8	15.6	-0.8	-16.9
EBITDA	105.6	32.2	-37.6	-10.8	27.4	37.3	-18.2	-68.7
Adj. PAT	99.1	35.1	-36.9	-13.1	29.5	37.0	-16.1	-68.5
Margin (%)								
Gross Profit	32.4	30.1	25.6	19.8	23.0	25.8	22.7	12.9
EBITDA	25.7	24.9	18.8	14.8	17.3	20.6	16.9	6.4
Adj PAT	18.4	18.3	14.0	10.7	12.7	15.0	12.7	4.8
Employee cost as % of sales	1.3	0.9	1.3	0.9	1.0	0.7	0.9	1.1
Other expenses as % of sales	5.4	4.3	5.5	4.1	4.7	4.5	4.9	5.5
Operational Metrics								
Overall Volume (in Tons)	NA	NA	NA	NA	NA	NA	70,943	64,000
Realization per kg	NA	NA	NA	NA	NA	NA	209.4	192.9
Gross spread per kg	NA	NA	NA	NA	NA	NA	47.6	24.9
EBITDA spread per kg	NA	NA	NA	NA	NA	NA	35.5	12.3

Source: Company, SMIFS Research

Key Performance Indicators

Operational Metrics	FY20	FY21	FY22	FY23E	FY24E	FY25E
Overall Volumes in tonnes	205000	233550	272627	282739	318148	379935
Blended Gross Realization per kg	133	136	185	175	169	177
YoY Change (%)		2.6	35.3	-5.3	-3.5	4.7
Blended EBITDA per kg	7.2	28.6	33.2	23.1	24.0	27.3
YoY Change (%)		295.4	16.0	-30.3	3.7	13.7

Source: Company, SMIFS Research Estimates

Industry Comparison

Fig 56: Industry Comparison

Company Name	Net Sales			EBITDA			PAT			EBITDA Margin %			PAT Margin %		
	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Supreme Petrochem	50323	49420	53666	9054	6542	7631	6633	4564	5175	18.0	13.2	14.2	13.2	9.2	9.6
PCBL	44,464	61,329	65,969	6530	6982	8269	4260	4306	5066	14.7	11.4	12.5	9.6	7.0	7.7
NOCIL Ltd.	15,713	17,099	17,764	2,862	3,085	3,340	1,761	1,921	2,104	18.2	18.0	18.8	11.2	11.2	11.8
Oriental Carbon & Chemicals	4,437	5,345	5,891	870	1172	1335	462	791	921	19.6	21.9	22.7	10.4	14.8	15.6
Navin Fluorine International Ltd.	14,534	19,713	28,053	3,548	5,224	8,219	2631	3654	5,873	24.4	26.5	29.3	18.1	18.5	20.9
Aarti Industries	54,751	66,079	87,635	11,097	10,606	15,833	6,418	5,382	8,939	20.3	16.1	18.1	11.7	8.1	10.2
Fine Organic Industries Ltd.	18,600	28,800	29,200	3,500	6,600	6,200	2500	4,900	4,700	18.8	22.9	21.2	13.4	17.0	16.1
Deepak Nitrite Ltd.	68,022	77,205	88,786	15,948	14,292	18,656	10,666	9,623	12,834	23.4	18.5	21.0	15.7	12.5	14.5

Source: Bloomberg, SMIFS Research

Company Name	CAGR FY22-24E			ROE (%)			Dividend Yield			P/E			EV/EBITDA		
	Revenue	EBITDA	PAT	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E	FY22	FY23E	FY24E
Supreme Petrochem	3.3	-8.2	-11.7	51.4	27.3	25.8	2.2	2.0	2.1	10.0	16.2	14.3	8.3	12.4	10.6
PCBL	21.8	12.5	9.0	18.7	15.8	17.0	4.4	3.9	4.3	9.7	12.3	10.4	6.5	8.3	6.9
NOCIL Ltd.	6.3	8.0	9.3	12.9	12.7	12.8	1.3	1.6	1.7	22.5	19.9	18.2	13.8	12.0	10.7
Oriental Carbon & Chemicals	15.2	23.9	41.1	7.6	12.4	13.2	1.3	1.8	1.9	23.0	10.6	8.9	0.4	0.0	1.0
Navin Fluorine International Ltd.	38.9	52.2	49.4	15.2	17.5	22.7	0.3	0.2	0.4	83.2	63.4	41.5	62.6	46.8	30.6
Aarti Industries	26.5	19.4	18.0	13.7	10.3	14.8	0.2	0.3	0.3	39.7	45.5	27.4	29.3	25.1	17.1
Fine Organic Industries Ltd.	25.3	33.1	37.1	29.5	43.6	31.8	0.1	0.8	0.7	75.8	38.5	40.7	54.1	28.4	29.6
Deepak Nitrite Ltd.	14.2	8.2	9.7	32	22.4	23	0.3	0.2	0.3	28.0	31.0	23.2	18.1	21.2	14.4

Source: Bloomberg, SMIFS Research

Financial Statements

Income Statement					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenues	31,852	50,323	49,420	53,666	67,129
Raw Materials	22,949	38,444	39,784	42,288	51,856
% of sales	72.0	76.4	80.5	78.8	77.2
Personnel	457	483	584	700	837
% of sales	1.4	1.0	1.2	1.3	1.2
Other Expenses	1,757	2,342	2,511	3,047	4,074
% of sales	5.5	4.7	5.1	5.7	6.1
EBITDA	6,689	9,054	6,542	7,631	10,363
Other Income	391	419	539	812	1,096
Depreciation	213	305	247	268	336
EBIT	6,511	8,941	6,249	7,087	9,603
Finance cost	73	62	84	97	106
Core PBT	6,225	8,573	5,918	6,722	9,161
PBT	6,438	8,878	6,165	6,990	9,496
Tax-Total	1,663	2,246	1,601	1,815	2,466
<i>Tax Rate (%) - Total</i>	<i>25.8</i>	<i>25.3</i>	<i>26.0</i>	<i>26.0</i>	<i>26.0</i>
Reported PAT	4,775	6,633	4,564	5,175	7,030
Prior Period Adjustments	-	-	-	-	-
Adjusted PAT	4,775	6,633	4,564	5,175	7,030

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY21	FY22	FY23E	FY24E	FY25E
Growth Ratio (%)					
Revenue	16.9	58.0	-1.8	8.6	25.1
EBITDA	350.5	35.4	-27.7	16.7	35.8
Adjusted PAT	365.2	38.9	-31.2	13.4	35.8
Margin Ratios (%)					
Gross Profit	28.0	23.6	19.5	21.2	22.8
EBITDA	21.0	18.0	13.2	14.2	15.4
EBIT	20.4	17.8	12.6	13.2	14.3
Core PBT	19.5	17.0	12.0	12.5	13.6
PBT	20.2	17.6	12.5	13.0	14.1
Adjusted PAT	15.0	13.2	9.2	9.6	10.5
Return Ratios (%)					
ROE	54.4	51.4	27.3	25.8	28.7
ROCE	53.4	50.2	27.0	25.4	28.1
Turnover Ratios (days)					
Gross block turnover ratio	6.4	9.8	7.4	5.1	4.4
Adj CFO / Adj PAT (%)	86.7	97.9	86.2	86.5	78.6
Inventory	65.8	41.8	55.0	60.0	65.0
Debtors	36.3	28.9	35.0	40.0	45.0
Creditors-	83.1	52.0	60.0	60.0	60.0
Cash conversion cycle	19.0	18.7	30.0	40.0	50.0
Solvency Ratio (x)					
Debt-equity	0.6	0.6	0.6	0.6	0.6
Net debt/equity	-0.5	-0.6	-0.4	-0.3	-0.3
Gross debt/EBITDA	0.1	0.0	0.1	0.1	0.1
Current Ratio	2.2	2.5	2.2	2.3	2.4
Interest coverage ratio	89.5	143.3	74.1	73.4	90.2
Dividend					
DPS	15.0	15.6	8.0	8.4	9.2
Dividend Yield (%)	5.7	2.2	2.1	2.3	2.5
Dividend Payout (%)	59.1	44.2	32.8	30.4	24.6
Per share Ratios (Rs)					
Basic EPS	50.6	70.5	24.3	27.5	37.4
Adj EPS	25.4	35.3	24.3	27.5	37.4
CEPS	27.5	37.5	27.1	31.8	43.2
BV	56.6	80.6	96.9	116.1	144.3
Valuation (x)*					
Adj P/E	5.2	10.0	15.3	13.5	9.9
P/BV	2.3	4.4	3.8	3.2	2.6
EV/EBITDA	4.5	8.3	11.7	10.0	7.4
EV/Sales	0.9	1.5	1.6	1.4	1.1
Adj Mcap / Core PBT	3.1	6.6	10.5	9.3	6.8
Adj Mcap / Adj OCF	4.6	8.7	15.8	14.0	11.2

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Source of funds					
Share Capital	940	376	376	376	376
Reserves & Surplus	9,708	14,780	17,848	21,452	26,754
Shareholders' Funds	10,648	15,156	18,224	21,828	27,130
Total Loan Funds	411	372	544	698	873
Other Liabilities	427	411	567	726	1,038
Total Liabilities	11,486	15,940	19,335	23,252	29,041
Application of funds					
Gross Block	5,048	5,214	8,119	12,874	17,679
Net Block	3,588	3,369	5,735	9,677	13,386
Capital WIP	91	1,789	3,500	2,150	818
Investments	4,703	4,838	4,738	4,838	4,988
Other Non-Current Assets	224	175	215	284	341
Inventories	3,178	3,008	4,368	4,998	6,736
Sundry Debtors	3,850	4,118	4,739	5,881	8,276
Cash and bank balances	1,067	4,474	2,646	2,315	2,828
Other current assets	852	1,012	1,021	1,150	1,313
Total Current Assets	8,947	12,612	12,774	14,344	19,154
Sundry Creditors	5,685	5,259	6,540	6,951	8,524
Other current liabilities	382	1,583	1,087	1,090	1,121
Total Current Liabilities	6,068	6,843	7,626	8,041	9,645
Net Current Assets	2,880	5,769	5,147	6,302	9,508
Total Assets	11,486	15,940	19,335	23,252	29,041

Source: Company, SMIFS Research Estimates, Note: Total loan funds is only lease liability

Cash Flow					
YE March (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Operating profit before WC changes					
Operating profit before WC changes	6,774	9,096	6,542	7,631	10,363
Net changes in working capital	-778	-103	-1,091	-1,397	-2,436
Tax Paid	-1,649	-2,271	-1,601	-1,815	-2,466
Cash flow from operating activities	4,347	6,722	3,849	4,419	5,460
Adj. OCF	4,139	6,495	3,936	4,476	5,529
Capital expenditure	-217	-1,630	-2,700	-4,550	-4,600
Adj FCF	3,922	4,864	1,236	-74	929
Cash flow from investing activities	-639	-1,400	-4,268	-3,237	-3,287
Debt	411	372	544	698	873
Dividend Paid	-376	-1,551	-1,496	-1,571	-1,728
Interest and Lease Expense	-208	-228	87	57	69
Cash flow from financing activities	-1,044	-1,780	591	-1,513	-1,659
Net change in cash	2,664	3,542	172	-331	514

Source: Company, SMIFS Research Estimates

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