

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs865	Rs77	Rs1155	34%	Accumulate	81.3

*as on 25th July, 2022

About the Company:

Supreme Petrochem Limited (SPL) is the largest domestic manufacturer and exporter of Polystyrene (PS) commanding more than 50% market share. SPL is at the forefront of styrenics businesses in India and the company maintains the standing as one of the largest domestic producer of expandable polystyrene (EPS). Moreover, the company continues its operations in specialty polymers & compounds (SPC) and extruded polystyrene (XPS) foam board markets. SPL has two manufacturing plants, one at Nagothane (120km from Mumbai) and the other at Manali in Chennai. The company is promoted by Supreme Industries Limited and R. Raheja Investments Limited.

Results: Quick Glance:

- The company has reported net sales of Rs14854mn as compared to Rs10478mn in the same quarter last year, growth of 41.8%
- The Ebitda margins for the quarter under review stood at 16.9% as compared to 18.8% in the corresponding quarter last year
- The net profit came in at Rs1891mn as against Rs1463mn in the same quarter last year
- EPS for the quarter under review stood at Rs20.11 (FV=Rs4) as compared to Rs15.56 (FV=Rs10) in the corresponding period last year

Financials:

Performance (Q1FY23)							
Q1FY23 Result (Rs mn)	Jun-22	Jun-21	y-o-y	Mar-22	q-o-q	FY22	FY23E
Total Revenue	14854	10478	41.8%	14977	(0.8%)	50323	57857
EBITDA	2517	1974	27.5%	3078	(18.2%)	9054	10443
Other Income	121	82	47.2%	94	28.4%	305	302
Interest	9	11	(18.8%)	17	(46.4%)	62	103
Depreciation	105	100	5.4%	104	1.6%	419	476
Exceptional Items	0	0	-	0	-	0	0
Tax	632	482	31.1%	797	(20.8%)	2246	2618
Net Profit	1891	1463	29.3%	2254	(16.1%)	6633	7549

Outlook and Recommendations:

SPL has started the year with a good set of numbers. The fluctuations in the key raw material prices that is styrene monomer (which recently spiked due to global geo-political since Feb,2022) cannot be mitigated and thus the gross margins get effected and do not show any stable range. China is planning to add a capacity of 3.1 million tons per year of SM in 2022-23 which is also anticipated to re-align the global supply chain. Despite this, the company has been able to fetch healthy delta between price of raw material and the final product. Emerging suppliers from Asia are reported to have been showing keen interest to participate in the increased requirements of SM consequent on completion of expansion of PS/EPS capacities of SPL. Improved demand from the appliances sector with local manufacturers ramping up production and also from non-OEM segments helps increase in the volumes. Appliances sector majors are seeing rapid growth in demand especially AC manufacturing as well as refrigerator manufacturing which augurs well for SPL. Continuous efforts in promoting EIFS (External Insulation Finishing System) is expected to yield handsome business in the building insulation sector with increased usage of EPS in construction and insulation helping the growth of the EPS market.

Outlook and Recommendations (contd.):

A major e-commerce company has selected XPS boards of SPL for insulating its warehouses located across the country which is anticipated to be implemented in the course of 2022-23. The company is already investing in a new line with capability to produce wide width boards (which are currently being imported). Projects for setting up of 4th line of Polystyrene and expansion of Expandable Polystyrene at both the plant locations are now scheduled to be completed by August, 2022; this is due to late arrival of some of the imported equipment. These projects would add to the company's capacity 1,10,000MTPA of Polystyrene/Expandable Polystyrene. SPL is implementing a Mass ABS project with two lines of 70KTA each aggregating 140KTA at its plant in Raigad. The company has entered into an agreement for licence and basic engineering design for Line I of 70KTA with Versalis-ENI Chemicals Group. Discussions with the licensor are in progress for the second line of 70KTA. The first line is scheduled to go on stream by June 2024 and the second line is planned for completion by March 2025. Capex proposed to be incurred during FY23 for the ongoing PS, EPS expansion and the proposed EPS Phase 2, SPC, XPS expansions, Mass ABS Project (Line 1 and 2) is estimated at about ~Rs3500mn. SPL is a debt free, dividend paying, cash rich company undertaking a major capex plan (with internal accruals), has been doing constant buybacks (and gradually increasing the promoters shareholdings) and is also propelled by strategic technology tie-ups with industry leaders. The stock has been more than a ten-bagger for the long-term clients of Progressive Shares (if invested at the IC and still holding). The stock has breached our target price of Rs900, and looking at the major growth plans ahead, we recommend a SIP into the stock with another long-term target price of Rs1155.

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