

Supreme Petrochem Ltd.

Weak gross spreads, higher competition & expensive valuation, Downgrade to SELL

The company reported in line revenue numbers growing by 3.5% YoY & 4.3% QoQ. Volumes reported strong growth of 28% YoY & 5% QoQ. Realizations witnessed steep decline on YoY basis led by weak demand of PS & higher global supply. PS & EPS spreads remained very weak during the quarter owing to weak export market and higher global supply. We anticipate improvement in H2FY24E owing to festive season demand & generally better Q4 because of robust appliances demand wherein PS & EPS are used. The recently expanded capacity of PS & EPS is contributing to volumes hence management volume guidance of 12-13% remains intact for FY24E. The company is also expanding its capacity in other business like XPS, SPC & ABS which will provide further impetus to volume growth. The company is dynamically shifting its focus from lesser margin PS products to margin accretive businesses like XPS, SPC & ABS. With expansion in existing capacity, the company is well poised to increase its presence further in international market. However, spreads remain weak and further competitive intensity in domestic and international markets with slew of expansion could lead to weaker profitability than earlier anticipated. Also, the stock has seen sharp run up in price exceeding our previous quarter target of Rs 521. Considering the negatives & overvaluation, we downgrade to SELL rating.

Weak PS & EPS spreads & increasing competitive intensity to weigh on profitability

- Global PS spreads declined in H1FY24 owing to weak demand & globally high supply led by recent capacity addition in China. Also, Supreme competitor in domestic market is expanding capacity in PS & ABS business very aggressively which will increase competitive intensity in the longer run.
- Considering such negatives, we have also factored in PS & EPS spreads cut to the tune of 10-20% range for FY24E & FY25E both. Also, ABS spreads have come down recently which led to cut in FY25E.
- Last quarter inventory losses led to steep cut EBITDA margin, around 7%. The recent upheaval in crude oil prices led by geopolitical tensions & capacity addition in China of Styrene Monomer(SM) have led to very volatile prices of SM. The only positive we note that the company is now operating on normalized spreads.

Focus on downstream brownfield expansion to unlock business opportunities

- 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.
- 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.
- 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.

Valuation

- We introduce FY26E estimates and value the stock on Sept 25E. Currently, the stock is trading at Sept 25E P/E of ~18.3x. We maintain our target multiple of 15x thereby, arriving at target price of Rs 468 per share which offers downside of 18% from current valuations.
- Therefore, we downgrade to SELL rating from earlier BUY rating on the stock.

Y/E Mar (Rs mn)	Q2FY24	Q2FY23	YoY (%)	Q1FY24	QoQ (%)	Q2FY24E	Var (%)
Revenue	12,777	12,346	3.5	12,251	4.3	12,795	-0.1
Operating cost	11,714	11,557	1.4	11,347	3.2		
EBITDA	1063	789	34.7	905	17.4	1,769	-39.9
<i>EBITDA margin (%)</i>	<i>8.3</i>	<i>6.4</i>	<i>193 bps</i>	<i>7.4</i>	<i>93 bps</i>	<i>13.8</i>	<i>(548) bps</i>
Depreciation	143	115	24.1	142	0.6		
Interest	19	9	109.7	6	211.5		
Other Income	156	117	32.7	179	-12.9		
PBT	1057	782	35.0	936	12.9		
Taxes paid	276	184	49.8	243	13.6		
Reported PAT	781	598	30.5	693	12.7	1,322	-41.0

Source: Company, SMIFS Research

Y/E Mar (Rs mn)	Revenue	YoY (%)	EBITDA	EBITDA (%)	Adj PAT	YoY (%)	Adj EPS	RoE (%)	RoCE (%)	Adj P/E (x)	EV/EBITDA (x)
FY22	50,323	58	9,039	18.0	6,633	39	35.3	51.4	50.2	10.0	6.3
FY23	52,872	5	6,581	12.4	4,981	-25	26.5	29.7	29.3	14.9	9.9
FY24E	52,022	-2	4,566	8.8	3,303	-34	17.6	17.4	17.3	32.6	22.3
FY25E	63,566	22	7,122	11.2	5,187	57	27.6	24.7	24.1	20.7	14.6
FY26E	78,717	24	9,008	11.4	6,549	26	34.8	26.7	26.0	16.4	11.3

Source: Company, SMIFS Research Estimates



Rating: **SELL** Downside: **18%**
 Current Price: **572** Target Price: **468**

Earlier recommendation

Previous Rating: BUY
 Previous Target Price: 521
 Source: SMIFS Research

Market data

Bloomberg: SPPT: IN
 52-week H/L (Rs): 618/345
 Mcap (Rs bn/USD bn): 107.6/1.3
 Shares outstanding (mn): 188.0
 Free float: 34.0%
 Daily vol. (3M Avg. In mn): 0.14mn
 Face Value (Rs): 2
 Source: Bloomberg, SMIFS Research

Shareholding pattern (%)

	Sep-23	Jun-23	Mar-23	Dec-22
Promoter	64.2%	64.2%	64.2%	64.2%
FIIIs	2.0%	2.0%	2.1%	2.1%
DIIIs	2.9%	2.4%	2.4%	2.4%
Public/others	30.9%	31.4%	31.3%	31.3%

Pro. Pledging (%)

Pledging 0.0 0.0 0.0 0.0
 Source: BSE

Price performance (%)*

	1M	3M	12M	36M
NIFTY 50	-2.8	-3.4	5.9	63.9
NIFTY 500	-2.8	-1.5	8.9	75.4
SPL	19.8	29.4	52.0	344.2

*as on 31st Oct 2023; Source: AceEquity, SMIFS Research

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Analyst Call Highlights

- **Demand outlook:** The demand globally has witnessed headwinds owing to appliances segment which is one of consumer segment of PS & EPS witnessing slower pickup in sales. PS business grew by mere 3-4% in H1FY24 and management expects this to pick up to 5-7% in H2FY24E because of strong demand from OEM owing to festive season. Construction sector in India is robust which is keeping robust insulation demand robust. Also, revival in exports market, the company is looking its exports footprint along with focussing on increase its wallet share from its existing clients.
- **Production volume trend:** The company reported volume growth of 28% YoY & ~5% QoQ to 81,131 tonnes in Q2FY24.
- **Exports momentum maintained:** Management maintained its exports run rate of (i.e. 12,000 – 13,000 tonnes) in Q2FY24 which is approx. 16-17% of overall volumes in Q2FY24. The company would be clocking ~50,000 volumes in exports market for FY24E which will be almost 15-16% of volumes in FY24E. Last 3 years, export has been around 6-8% of sales. With expansion in PS & EPS from this quarter, exports volumes has witnessed healthy momentum.
- **Value added grades has inched up:** The company value added grades is at 40% as compared with 25% last 2-3 years back, comparing its overall product portfolio. Generally value added grades are 25-30% premium than normal grades. The special compounds business should clock Rs7-7.5bn in topline on 50,000 TPA expansion at peak utilization levels.
- **Mass ABS expansion:** 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 calendar year end 2024 and second Phase by H1FY25. 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.
- **XPS Update:** The XPS contributes around 1-1.5% of overall sales. With expansion of 1,00,000 cubic meter, this is set to inch upto 3-4% of sales at full utilization levels.
- ABS commands 2-2.5x asset turnover whereas PS, EPS, XPS & special compounds command 5-5.5x asset turns.

Valuation and Recommendations

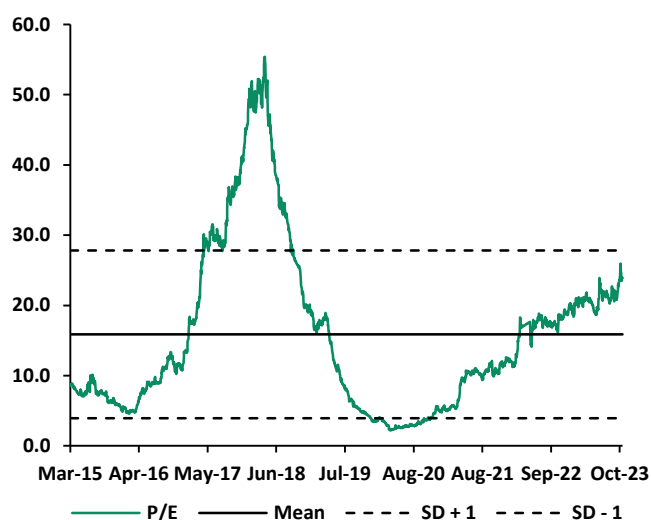
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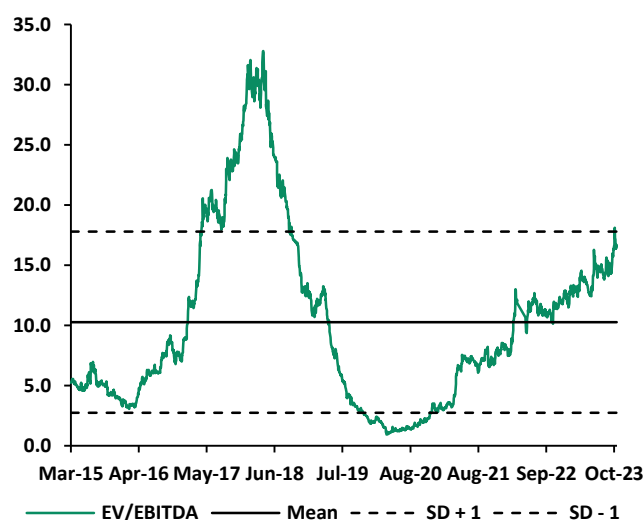
Risk to our call is increase in spreads & better than anticipated demand improvement in domestic and international market.

Fig 1: 1-year forward P/E



Source: AceEquity, SMIFS Research

Fig 2: 1-year forward EV/EBITDA

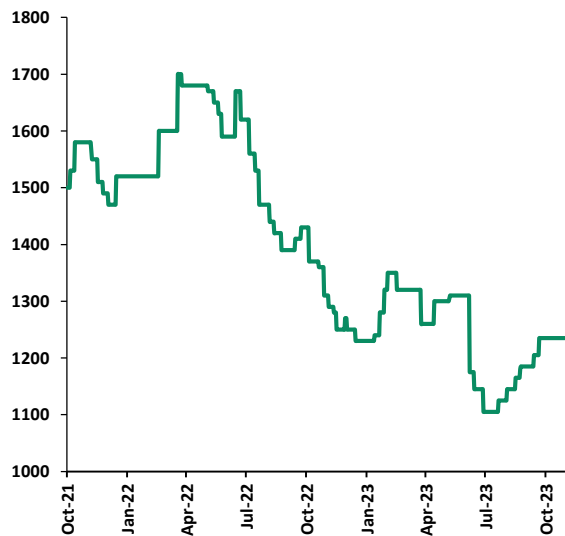


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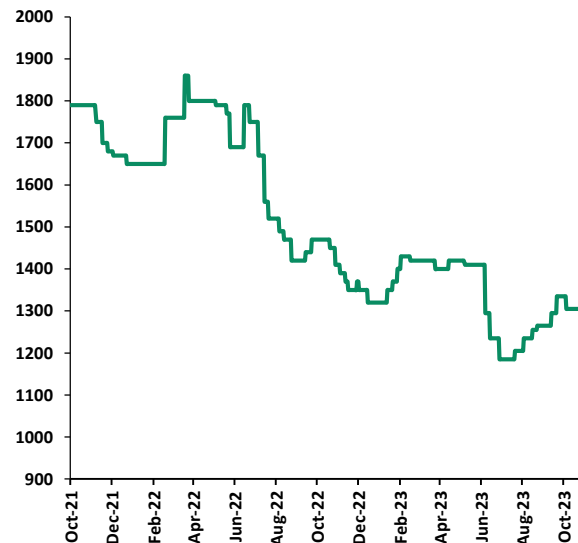
Key Performance Indicators

Operational Metrics	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Overall Volumes in tonnes	205000	233550	272627	282739	315248	356035	433072
Blended Gross Realization per kg	133	136	185	187	165	179	182
YoY Change (%)	-18.7	2.6	35.3	1.3	-11.8	8.2	1.8
Blended Gross Spread per kg	17.9	38.1	43.6	35.0	25.3	32.0	33.0
YoY Change (%)	10.8	112.8	14.3	-19.8	-27.7	26.9	2.9
Blended EBITDA Spreads per kg	7.2	28.6	33.2	23.3	14.5	20.0	20.8
YoY Change (%)	51.5	295.4	15.8	-29.8	-37.8	38.1	4.0

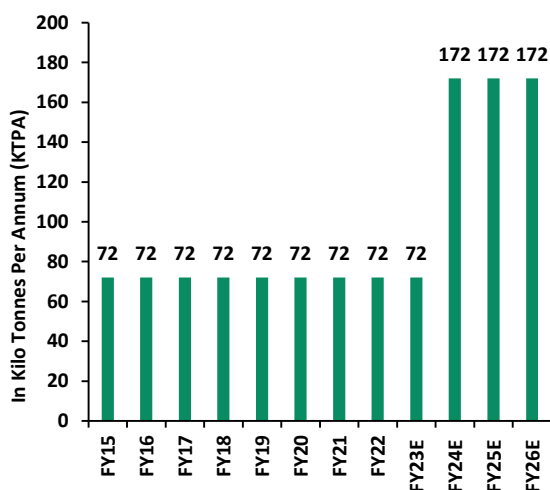
Source: Company, SMIFS Research Estimates, Note: In above table, Blended Gross & EBITDA spreads per kg numbers includes trading turnover component.

Fig 3: Indian PS GPPS CFR Price (Rs per kg)


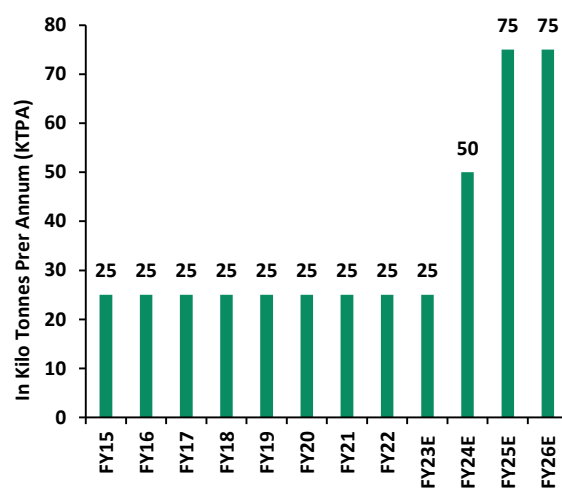
Source: Company, SMIFS Research Estimates

Fig 4: Indian HIPS CFR Spot Price (Rs per kg)


Source: Company, SMIFS Research Estimates

Fig 5: XPS capacity addition to fuel growth


Source: Company, SMIFS Research Estimates

Fig 6: SPC capacity to be added 3x by FY25E


Source: Company, SMIFS Research Estimates

Fig 7: 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: Company, SMIFS Research Estimates

Fig 8: Indian Styrene monomer Price (Rs per Kg)


Source: Company, SMIFS Research Estimates

Quarterly financials, operating metrics, key performance indicators

Fig 9: Quarterly Financials

Y/E March (Rs mn)	Q3FY22	Q4FY22	Q1FY23	Q2FY23	Q3FY23	Q4FY23	Q1FY24	Q2FY24
Net Sales	12960	14977	14854	12346	11804	13869	12251	12777
Raw Materials	9982	11118	11478	10750	9766	10995	10521	10844
Employee Costs	132	106	136	128	156	124	157	161
Other Expenditure	604	675	722	679	693	660	669	709
EBITDA	2242	3078	2517	789	1189	2089	905	1063
Depreciation	106	104	105	115	110	136	142	143
Interest	14	17	9	9	10	8	6	19
Other Income	83	94	121	117	142	210	179	156
PBT	2206	3051	2523	782	1211	2155	936	1057
Tax	560	797	632	184	315	557	243	276
<i>Tax rate (%)</i>	25	26	25	24	26	26	26	26
Reported PAT	1645	2254	1891	598	896	1598	693	781
Extraordinary items	0	0	0	0	0	0	0	0
Adjusted PAT	1645	2254	1891	598	896	1598	693	781
YoY Growth (%)								
<i>Revenue</i>	39.4	18.0	41.8	3.7	-8.9	-7.4	-17.5	3.5
<i>EBITDA</i>	-6.3	-2.7	27.5	-55.2	-47.0	-32.1	-64.1	34.7
<i>Adj PAT</i>	-4.1	-2.7	29.3	-52.9	-45.6	-29.1	-63.4	30.5
QoQ Growth (%)								
<i>Revenue</i>	8.8	15.6	-0.8	-16.9	-4.4	17.5	-11.7	4.3
<i>EBITDA</i>	27.4	37.3	-18.2	-68.7	50.6	75.7	-56.7	17.4
<i>Adj. PAT</i>	29.5	37.0	-16.1	-68.4	49.8	78.4	-56.7	12.7
Margin (%)								
<i>Gross</i>	23.0	25.8	22.7	12.9	17.3	20.7	14.1	15.1
<i>EBITDA</i>	17.3	20.6	16.9	6.4	10.1	15.1	7.4	8.3
<i>Adj PAT</i>	12.7	15.0	12.7	4.8	7.6	11.5	5.7	6.1
<i>Employee cost as % of sales</i>	1.0	0.7	0.9	1.0	1.3	0.9	1.3	1.3
<i>Other expenses as % of sales</i>	4.7	4.5	4.9	5.5	5.9	4.8	5.5	5.5
Operational Metrics								
<i>Overall Volume (in Tons)</i>	71244.0	81758.0	70,943	63,548	69,345	81,828	77,148	81,131
<i>Realization per kg</i>	181.9	183.2	209.4	194.3	170.2	169.5	158.8	157.5
<i>Gross spread per kg</i>	41.8	47.2	47.6	25.1	29.4	35.1	22.4	23.8
<i>EBITDA spread per kg</i>	31.5	37.6	35.5	12.4	17.1	25.5	11.7	13.1

Source: Company, SMIFS Research, Note: Realization, EBITDA & gross per ton includes trading revenue component which is almost 20-22% of sales

Fig 10: Change in Estimates

	New estimates		Old estimates		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	52,022	63,566	54,353	66,891	-4%	-5%
EBITDA	4,566	7,122	6,625	9,194	-31%	-23%
EBITDA Margin (%)	8.8%	11.2%	12.2%	13.7%	(342) bps	(250) bps
PAT	3,303	5,187	4,866	6,536	-32%	-21%
EPS (Rs)	17.6	27.6	25.9	34.8	-32%	-21%

Source: Company, SMIFS Research Estimates

- Topline estimates are cut owing to lower realization of PS & EPS of 3-5%.
- Steep change in FY24E & FY25E EBITDA owing to 10-20% range spreads cut of PS, EPS alongwith lower topline. There remains an upside risk to EBITDA if the company gets inventory gains benefit in subsequent quarters.

Financial Statements (Consolidated)

Income Statement					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Revenues	50,323	52,872	52,022	63,566	78,717
Raw Materials	38,444	42,990	44,060	52,156	64,441
% of sales	76.4	81.3	84.7	82.0	81.9
Personnel	483	547	656	785	897
% of sales	1.0	1.0	1.3	1.2	1.1
Other Expenses	2,356	2,754	2,740	3,503	4,372
% of sales	4.7	5.2	5.3	5.5	5.6
EBITDA	9,039	6,581	4,566	7,122	9,008
Depreciation & Amortization	419	466	653	784	1,001
Other Income	305	589	624	763	945
EBIT	8,926	6,705	4,537	7,101	8,952
Finance cost	48	36	65	78	85
Core PBT	8,573	6,080	3,848	6,260	7,922
PBT	8,878	6,669	4,472	7,023	8,866
Tax-Total	2,246	1,687	1,169	1,836	2,317
Tax Rate (%) - Total	25.3	25.3	26.1	26.1	26.1
PAT	6,633	4,981	3,303	5,187	6,549
Prior period adjustments	-	-	-	-	-
Adjusted PAT	6,633	4,981	3,303	5,187	6,549

Source: Company, SMIFS Research Estimates

Key Ratios					
YE March	FY22	FY23	FY24E	FY25E	FY26E
Growth Ratio (%)					
Revenue	58.0	5.1	-1.6	22.2	23.8
EBITDA	35.1	-27.2	-30.6	56.0	26.5
Adjusted PAT	38.9	-24.9	-33.7	57.0	26.2
Margin Ratios (%)					
Gross Profit	23.6	18.7	15.3	18.0	18.1
EBITDA	18.0	12.4	8.8	11.2	11.4
EBIT	17.7	12.7	8.7	11.2	11.4
Core PBT	17.0	11.5	7.4	9.8	10.1
PBT	17.6	12.6	8.6	11.0	11.3
Adjusted PAT	13.2	9.4	6.3	8.2	8.3
Return Ratios (%)					
ROE	51.4	29.7	17.4	24.7	26.7
ROCE	50.2	29.3	17.3	24.1	26.0
Turnover Ratios (days)					
Gross block turn ratio (x)	9.8	8.3	6.1	5.3	4.7
Adj OCF / Adj PAT (%)	97.9	60.1	115.9	84.5	90.2
Inventory	40.6	73.4	80.0	80.0	80.0
Debtors	29.9	25.0	30.0	35.0	35.0
Creditors	49.9	66.4	70.0	75.0	75.0
Cash conversion cycle	20.6	32.1	40.0	40.0	40.0
Solvency Ratio (x)					
Debt-equity	0.0	0.0	0.0	0.0	0.0
Net debt/equity	-0.6	-0.5	-0.3	-0.2	-0.2
Gross debt/EBITDA	0.0	0.0	0.1	0.1	0.1
Current Ratio	2.5	2.4	2.0	1.7	1.8
Interest coverage ratio	187.0	187.5	69.5	91.3	104.8
Dividend					
DPS	15.6	11.0	11.6	12.1	12.7
Dividend Yield (%)	2.2	2.8	2.0	2.1	2.2
Dividend Payout (%)	44.2	41.5	65.8	44.0	36.6
Per share (Rs)					
Basic EPS	35.3	26.5	17.6	27.6	34.8
Adjusted EPS	35.3	26.5	17.6	27.6	34.8
Adj CEPS	37.5	29.0	21.0	31.8	40.1
Adj BVPS	80.6	98.1	104.1	119.5	141.6
Valuation (x)*					
Adj P/E	10.0	14.9	32.6	20.7	16.4
P/BV	4.4	4.0	5.5	4.8	4.0
EV/EBITDA	6.3	9.9	22.3	14.6	11.3
EV / Sales	1.1	1.2	2.0	1.6	1.3
Adj Mcap / Core PBT	6.6	10.7	26.3	16.5	12.7
Adj Mcap / Adj OCF	8.7	21.8	26.4	23.6	17.0

Source: Company, SMIFS Research Estimates

Balance Sheet					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Source of funds					
Capital	376	376	376	376	376
Reserves & Surplus	14,780	18,063	19,194	22,101	26,255
Shareholders' Fund	15,156	18,439	19,570	22,477	26,631
Total loan funds	372	167	676	826	1,023
Other liabilities	411	426	703	985	1,215
Total Liabilities	15,940	19,031	20,949	24,288	28,869
Application of funds					
Gross Block	5,214	7,568	9,473	14,328	19,183
Net Block	3,369	5,266	6,608	10,769	14,713
Capital WIP	1,789	1,080	4,000	4,094	893
Investments	4,838	5,626	3,126	2,626	2,126
Other non current assets	175	679	479	527	590
Inventories	3,008	6,469	7,171	8,799	10,891
Sundry Debtors	4,118	3,623	4,276	6,095	7,548
Cash and bank balances	4,474	3,495	3,361	1,688	4,899
Other current assets	1,012	1,072	1,064	1,201	1,366
Total Current Assets	12,612	14,660	15,872	17,783	24,703
Sundry Creditors	5,259	7,820	8,450	10,717	13,241
Other current liabilities	1,583	459	685	794	914
Total Current Liabilities	6,843	8,279	9,135	11,511	14,156
Net Current Assets	5,769	6,381	6,737	6,272	10,548
Total Assets	15,940	19,031	20,949	24,288	28,869

Source: Company, SMIFS Research Estimates

Cash Flow					
YE March (Rs mn)	FY22	FY23	FY24E	FY25E	FY26E
Operating profit before WC changes	9,081	6,643	4,566	7,122	9,008
Net changes in working capital	-103	-1,694	-14	-975	-898
Tax Paid	-2,271	-1,713	-1,169	-1,836	-2,317
Cash flow from operating activities	6,707	3,236	3,384	4,311	5,793
Adj. OCF	6,495	2,994	3,828	4,384	5,904
Capital expenditure	-1,630	-2,052	-1,700	-4,650	-4,650
Adj. FCF	4,864	943	2,128	-266	1,254
Cash flow from investing activities	-1,400	-1,491	-1,790	-3,777	-299
Debt	372	167	676	826	1,023
Dividend	-1,551	-1,692	-2,172	-2,280	-2,394
Interest and lease	-213	-242	444	72	112
Cash flow from financing activities	-1,765	-1,936	-1,025	-1,308	-2,283
Net change in cash	3,542	-192	568	-773	3,211

Source: Company, SMIFS Research Estimates

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