

Supreme Petrochem Limited

RECOMMENDATION SNAPSHOT					
*CMP	Initiation Price	Target	Potential Upside	Recommendation	MCap (Rsbn)
Rs690	Rs77	Rs900	30%	Buy	64.9

*as on 24 Jan, 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 Rs12,960mn as compared to Rs9,297mn in the same quarter last year, growth of 39.4%
- The Ebitda margins for the quarter under review stood at 17.3% as compared to 25.7% in the corresponding quarter last year
- The net profit came in at Rs1,645mn as against Rs1,715mn in the same quarter last year
- EPS for the quarter under review stood at Rs17.5 as compared to Rs18.24 in the corresponding period last year

Financials

Performance (Q3FY22)									
Q3FY22 Result (Rs mn)	Dec-21	Dec-20	y-o-y	Sept-21	q-o-q	9MFY22	9MFY21	y-o-y	FY22E
Total Revenue	12960	9297	39.4%	11908	8.8%	35346	19160	84.5%	46154
EBITDA	2242	2393	(6.3%)	1760	27.4%	5976	3526	69.5%	8585
Other Income	83	64	30.0%	46	81.4%	211	149	42.1%	220
Interest	14	25	(44.4%)	20	(31.2%)	45	57	(20.1%)	74
Depreciation	106	100	5.5%	109	(2.6%)	315	291	8.2%	409
Tax	560	617	(9.2%)	406	37.8%	1449	869	66.7%	2143
Net Profit	1645	1715	(4.1%)	1271	29.5%	4379	2458	78.1%	6179

Outlook and Recommendations:

During the quarter under review, operations at all the plants of the company were on track except for some disruptions seen in the plant at Manali (Tamil Nadu) due to heavy rains. SPL has reported a strong top-line growth, the margins are impacted as the delta between the raw material prices and finished goods has shrunk affecting the Indian markets and players like SPL. As per the Management expectation, the same is anticipated to last for another 2-3 months. As and when the demand from the OEM as well as the non-OEM segment keep soaring higher, the same will benefit the company. In addition to this, the growth recovery from the appliance industry can also benefit the demand for PS & EPS materials. Further opening up of the business and the economy can help boost the businesses in sectors like construction (insulation materials), cold supply chain, stationery, households etc., which can directly or indirectly benefit SPL as well. The compounds & master batches business is anticipated to grow in line with growth prospects of the polymer industry in India. Projects for setting up of 4th line of PS and expansion of EPS at both plant locations are progressing well and barring unforeseen circumstances, the company hopes to commission these projects in phases between March 2022 and June 2022 (slight delays noted here). On completion of these projects, the PS capacity would increase by 90,000MTA and EPS by 30,000MTA.

Outlook and Recommendations (contd.)

While looking at a volume growth of 12-14%, the Management expects the margins to be maintained. The company has undertaken a project to manufacture Mass Acrylonitrile Butadiene Styrene (mABS) at Raigad, with two lines of 70KTA each aggregating 140KTA. As per the press release, line-1 is scheduled to go on stream by June 2024 and line-2 is planned for completion by March 2025. The total project cost will be funded from the company's internal accruals. SPL has already entered into an agreement for license and basic engineering design for line-1 of 70 KTA with Mis Vesralis-Eni Chemicals Group. Overall, the variables of the raw material coupled with the fluctuations in the crude oil prices need to be monitored closely. SPL has proposed, (subject to all necessary approvals), reduction in its paid-up share capital by reducing the face value of each equity share to Rs4 per share from Rs10 per share. With regards to the upcoming capex and demand in the industry, SPL seems to be sound with all the requisites and thus, we maintain our target of Rs900.

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