

Supreme Industries

Wavin acquisition: growth accelerator

Plumbing demand remains muted, with low channel inventory driven by decreasing PVC resin prices. As per Supreme's management assessment, resin prices have bottomed out. We believe that if resin prices remain stable or increase for a few months, channel inventory will normalize, boosting the company's volume growth. The company targets to increase plumbing capacity, from 740K MT at FY24-end to 900/1,000K MT by FY25/26-end (ex-Wavin Industries acquisition). It expects to incur INR 3.5bn for the Wavin acquisition (73K MT plumbing capacity). Management expects the acquisition to be completed by June 2025. The company anticipates that Wavin will generate INR 7bn annual revenue under Supreme's management. Management is confident that the plants will soon operate at 65-70% utilization and deliver at least a 10% EBITDA margin. Assuming a 5% APAT margin for Wavin, this translates to a 10x EPS acquisition. We expect healthy plumbing demand in FY26, supported by the normalization of channel inventory and lower government spending in FY25 (an election year). We have modeled 11% consolidated volume growth (excluding Wavin) during FY24-27E, representing a 12% CAGR during FY25-27E. We like Supreme for its industry-leading plumbing volume growth, strong margins, healthy return ratios, and robust balance sheet. The stock has corrected sharply in the last few weeks, resulting in a comfortable valuation. Therefore, we maintain ADD rating with a lower target price of INR 4,210/sh. We value the core business at 40x Sep'26E EPS, with the pipes and non-pipes earnings valued at 50x and 17x PE, respectively, and its 30.8% holding in its associate, Supreme Petrochem, at a 30% discount to its current market capitalization.

- **Demand and pricing:** Plumbing demand remains muted in the market. PVC resin prices corrected in February and March. Consequently, channel inventory continues to remain at a low level. The company has guided 12% consolidated volume growth for FY25. In our view, the company will miss this target and deliver 8% volume growth for FY25. Owing to the correction in resin prices, the company may incur inventory losses in Q4FY25. According to management's assessment, resin prices have bottomed out. We believe that once resin prices remain stable or increase for a few months, channel inventory will normalize, which will boost the company's volume growth.
- **Organic expansion plan:** The company has made Capex commitments including carry forward commitments of INR 15bn. It expects ~INR 10bn Capex outflow in FY25, out of that INR 7.2bn is already incurred in 9MFY25. Its plumbing capacity has increased from 740K MT at FY24-end to 820K MT in Dec-24. Management aims to increase this capacity to 900K MT by FY25 (ex-Wavin). Currently, Supreme has three O-PVC lines of 9K MT capacity. By FY28, management aims to increase the O-PVC capacity to 32.5K MT.
- **Wavin inorganic acquisition:** The company expects to incur INR 3.5bn for the acquisition of Wavin (73K MT plumbing capacity), including working capital and incidental expenses. Management expects the acquisition to be completed by Jun-25. This acquisition will grant Supreme access to Wavin's water management technology for seven years, which, according to management's assessment, is expected to significantly benefit the company. However, Supreme will be required to pay annual technology fees for this access. Wavin's has three plants (Madhya Pradesh, Telangana, and Rajasthan), of which it owns one plant, while the remaining two are on long-term leases. The annual lease rentals are INR 50mn. In the future, Supreme plans to undertake brownfield expansions at the Rajasthan and Madhya Pradesh plants.

ADD

CMP (as on 21 Mar 2025)	INR 3,426
Target Price	INR 4,210
NIFTY	23,350

KEY CHANGES	OLD	NEW
Rating	ADD	ADD
Price Target	INR 4,410	INR 4,210
EPS	FY25E	FY26E
revision %	(3.1)	(3.3)

KEY STOCK DATA

Bloomberg code	SI IN
No. of Shares (mn)	127
MCap (INR bn) / (\$ mn)	435/5,064
6m avg traded value (INR mn)	983
52 Week high / low	INR 6,482/3,281

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	(29.2)	(38.1)	(13.4)
Relative (%)	(27.7)	(29.0)	(19.3)

SHAREHOLDING PATTERN (%)

	Sep-24	Dec-24
Promoters	48.85	48.85
FIs & Local MFs	10.61	11.95
FPIs	25.92	24.70
Public & Others	14.62	14.50
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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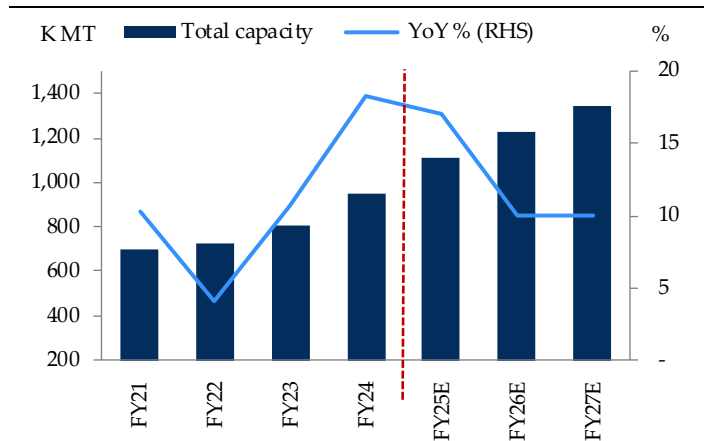
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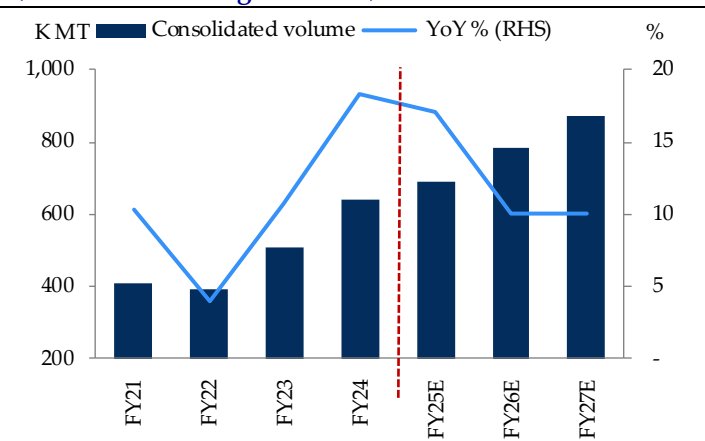
- **Wavin acquisition – EPS accretive, return ratios dilutive:** Supreme's strong cash position and operating cash flow will enable it to fully fund the acquisition internally. It anticipates that Wavin will generate INR 7bn in annual revenue under Supreme's management. Currently, Wavin is incurring losses. However, management is confident that the plants will soon operate at 65-70% utilization and deliver at least a 10% EBITDA margin. Therefore, if management delivers as per its plan, Wavin's APAT will be approximately INR 0.35bn (assuming a 5% APAT margin), translating to a 10x EPS acquisition. We value Supreme's plumbing business at 50x APAT, translating to an INR 17.5bn value for the company. Consequently, if we incorporate Wavin's projections based on management's estimates, our target price will increase by 3%. However, return ratios will be diluted due to this acquisition.
- **Outlook:** We expect healthy plumbing demand in FY26, supported by the normalization of channel inventory and lower government spending in FY25 (an election year). We have modeled 11% consolidated volume growth for the company during FY24-27E, representing a 12% CAGR during FY25-27E. Due to the absence of detailed financial information for Wavin, we have excluded its impact from our financial projections. We like Supreme for its industry-leading plumbing volume growth, strong margins, healthy return ratios, and robust balance sheet. Considering the sub-par demand in Q4, we have trimmed our volume estimates by 1% each for FY25-27E. Factoring in volume cut and high competitive intensity, we have lowered our APAT estimates by 3-4% each for FY25-27E. The stock has corrected sharply in the last few weeks, resulting in a comfortable valuation. Therefore, we maintain ADD rating with a lower target price of INR 4,210/sh. We value the core business at 40x Sep'26E EPS, with the pipes and non-pipes earnings valued at 50x and 17x PE, respectively, and its 30.8% holding in its associate, Supreme Petrochem, at a 30% discount to its current market capitalization.

Capacity will grow in double digits during FY24-27E.



Source: Company, HSIE Research

Consolidated volume will also grow in double digits (11% CAGR during FY24-27E).



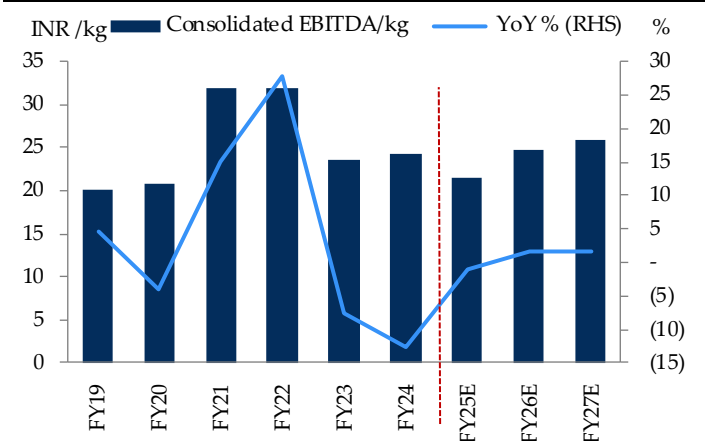
Source: Company, HSIE Research

We expect company realisation to increase in FY26/27E...



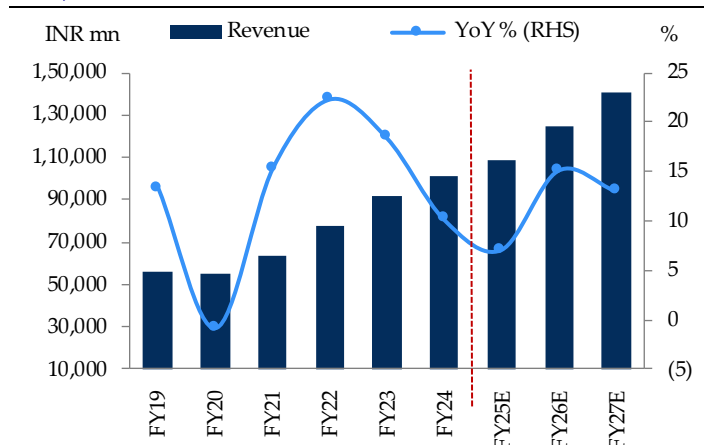
Source: Company, HSIE Research

...similar trend to be visible in unitary EBITDA also



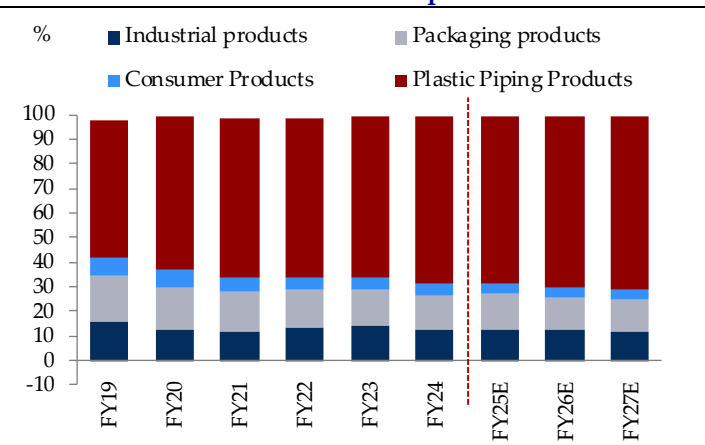
Source: Company, HSIE Research

We expect 12% revenue CAGR over FY24-27E (volume led)



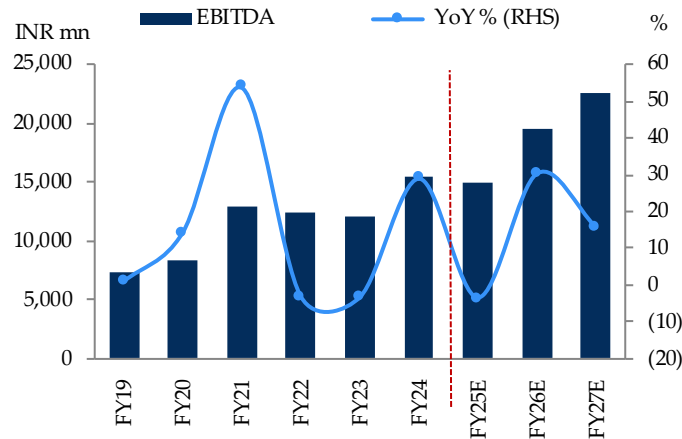
Source: Company, HSIE Research

Owing to strong plumbing growth, its revenue share will increase to 71% in FY27E compared to 57% in FY19



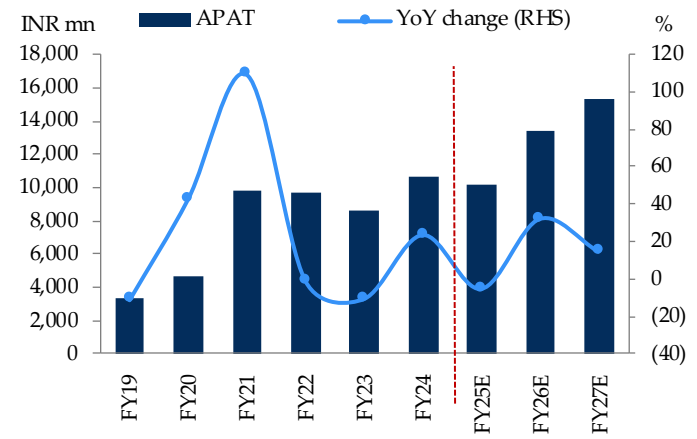
Source: Company, HSIE Research

EBITDA is expected to clock 13% CAGR during FY24-27E (healthy volume growth) ...



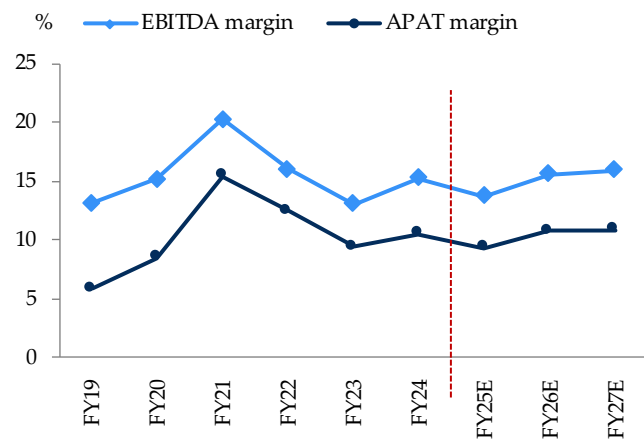
Source: Company, HSIE Research

...APAT too will grow at 13% CAGR during FY24-27E owing to higher EBITDA



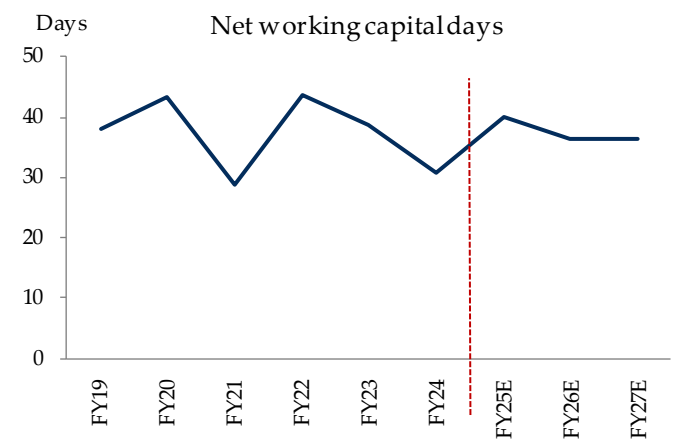
Source: Company, HSIE Research

EBITDA and APAT margin will improve in FY26/27E (low base owing to inventory loss and operating leverage gain)



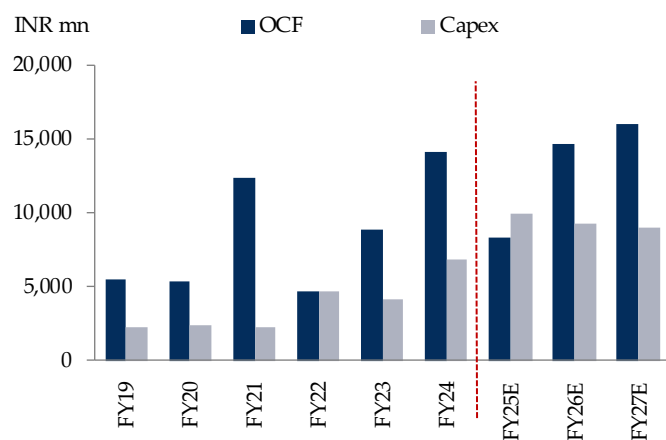
Source: Company, HSIE Research

We estimate working capital will shoot up in FY25 due to higher inventory; but it will decrease in FY26 as inventory stock will normalize



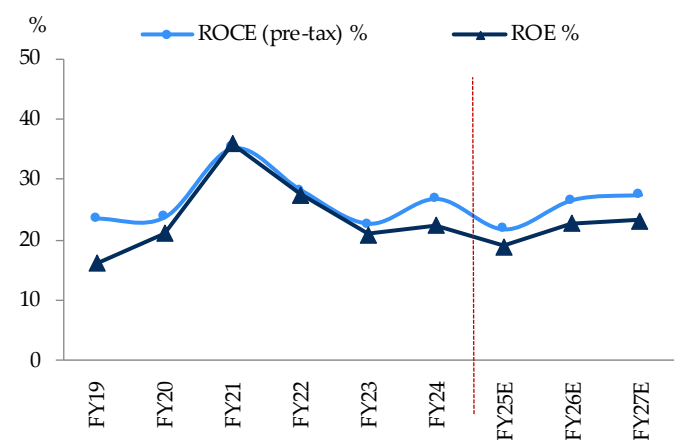
Source: Company, HSIE Research

Operating cash flow remains healthy to fund Capex



Source: Company, HSIE Research

Return ratios to improve in FY26/27E



Source: Company, HSIE Research

Estimates revision summary (consolidated)

INR mn	FY25E Old	FY25E Revised	Change %	FY26E Old	FY26E Revised	Change %	FY27E Old	FY27E Revised	Change %
Net Sales	109,179	108,500	-0.6	125,675	124,870	-0.6	142,800	141,135	-1.2
EBITDA	15,356	14,922	-2.8	20,087	19,463	-3.1	23,424	22,507	-3.9
APAT	10,462	10,139	-3.1	13,866	13,402	-3.3	16,053	15,371	-4.2

Source: Company, HSIE Research

Financials

Consolidated Income Statement

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Revenues	77,728	92,016	101,342	108,500	124,870	141,135
<i>Growth %</i>	<i>22.3</i>	<i>18.4</i>	<i>10.1</i>	<i>7.1</i>	<i>15.1</i>	<i>13.0</i>
Raw Material	53,532	65,992	68,584	72,795	83,763	91,837
Power & Fuel	2,134	2,667	3,288	3,797	4,370	4,940
Freight Expense	1,293	1,501	1,664	1,953	2,248	2,540
Employee cost	3,453	3,748	4,422	5,085	5,695	6,264
Other Expenses	4,895	6,112	7,912	9,948	9,331	13,046
EBITDA	12,421	11,997	15,473	14,922	19,463	22,507
<i>EBITDA Margin (%)</i>	<i>16.0</i>	<i>13.0</i>	<i>15.3</i>	<i>13.8</i>	<i>15.6</i>	<i>15.9</i>
<i>EBITDA Growth %</i>	<i>(3.3)</i>	<i>(3.4)</i>	<i>29.0</i>	<i>(3.6)</i>	<i>30.4</i>	<i>15.6</i>
Depreciation	2,295	2,634	2,984	3,652	3,988	4,686
EBIT	10,126	9,363	12,489	11,270	15,475	17,820
Other Income	200	298	657	657	657	755
Interest	52	80	161	150	150	150
PBT	10,274	9,580	12,985	11,777	15,982	18,426
Tax	2,633	2,460	3,357	3,027	4,107	4,735
RPAT	9,684	8,653	10,697	10,139	13,402	15,371
EO (Loss) / Profit (Net Of Tax)	-	-	-	-	-	-
APAT	9,684	8,653	10,697	10,139	13,402	15,371
<i>APAT Growth (%)</i>	<i>(1.0)</i>	<i>(10.6)</i>	<i>23.6</i>	<i>(5.2)</i>	<i>32.2</i>	<i>14.7</i>
AEPS	76.2	68.1	84.2	79.8	105.5	121.0
<i>AEPS Growth %</i>	<i>(1.0)</i>	<i>(10.6)</i>	<i>23.6</i>	<i>(5.2)</i>	<i>32.2</i>	<i>14.7</i>

Source: Company, HSIE Research (excluding Wavin Industries acquisition)

Consolidated Balance Sheet

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
SOURCES OF FUNDS						
Share Capital	254	254	254	254	254	254
Reserves And Surplus	38,190	43,767	50,834	55,529	62,042	69,584
Total Equity	38,444	44,021	51,088	55,783	62,296	69,838
Long-term Debt	457	512	551	551	551	551
Short-term Debt	-	-	-	-	-	-
Total Debt	457	512	551	551	551	551
Deferred Tax Liability	904	908	960	960	960	960
Long-term Liab+ Provisions	-	-	-	-	-	-
TOTAL SOURCES OF FUNDS	39,805	45,441	52,599	57,293	63,807	71,349
APPLICATION OF FUNDS						
Net Block	17,673	20,642	23,218	25,509	29,465	36,779
Capital WIP	1,558	837	1,493	5,493	6,793	3,793
Other Non-current Assets	-	-	-	-	-	-
Total Non-current Investments	4,759	5,774	6,381	6,381	6,381	6,381
Total Non-current Assets	23,989	27,253	31,092	37,384	42,639	46,953
Inventories	12,602	13,856	13,586	16,275	17,482	19,759
Debtors	4,668	4,924	5,114	6,510	7,492	8,468
Cash and Cash Equivalents	5,262	7,461	11,873	6,775	7,365	8,846
Other Current Assets (& Loans/adv)	3,437	3,448	3,892	4,005	4,124	4,248
Total Current Assets	25,969	29,689	34,465	33,565	36,463	41,321
Creditors	7,940	9,038	10,156	10,850	12,487	14,113
Other Current Liabilities & Provns	2,214	2,464	2,802	2,805	2,809	2,812
Total Current Liabilities	10,154	11,501	12,958	13,655	15,296	16,925
Net Current Assets	15,815	18,188	21,507	19,910	21,167	24,396
TOTAL APPLICATION OF FUNDS	39,805	45,441	52,599	57,293	63,807	71,349

Source: Company, HSIE Research (excluding Wavin Industries acquisition)

Consolidated Cash Flow

YE Mar (INR mn)	FY22	FY23	FY24	FY25E	FY26E	FY27E
Reported PBT	12,318	11,113	14,054	11,777	15,982	18,426
Non-operating & EO Items	(2,153)	(1,772)	(1,634)	(657)	(657)	(755)
Interest Expenses	51	80	161	150	150	150
Depreciation	2,295	2,634	2,984	3,652	3,988	4,686
Working Capital Change	(4,941)	(778)	1,796	(3,500)	(668)	(1,748)
Tax Paid	(2,868)	(2,375)	(3,232)	(3,027)	(4,107)	(4,735)
OPERATING CASH FLOW (a)	4,703	8,903	14,129	8,395	14,688	16,024
Capex	(4,661)	(4,218)	(6,855)	(9,944)	(9,244)	(9,000)
Free Cash Flow (FCF)	42	4,685	7,274	(1,549)	5,444	7,024
Investments	139	188	237	-	-	-
Non-operating Income	487	538	533	657	657	755
INVESTING CASH FLOW (b)	(4,035)	(3,493)	(6,085)	(9,287)	(8,587)	(8,245)
Debt Issuance/(Repaid)	(11)	-	-	-	-	-
Interest Expenses	(10)	(15)	(39)	(150)	(150)	(150)
FCFE	22	4,670	7,235	(1,699)	5,294	6,874
Share Capital Issuance	-	-	-	-	-	-
Dividend	(2,922)	(3,049)	(3,557)	(4,056)	(5,361)	(6,148)
FINANCING CASH FLOW (c)	(2,942)	(3,064)	(3,596)	(4,206)	(5,511)	(6,298)
NET CASH FLOW (a+b+c)	(2,275)	2,347	4,448	(5,098)	590	1,480
Closing Cash & Equivalents	5,409	7,610	11,909	6,775	7,365	8,846

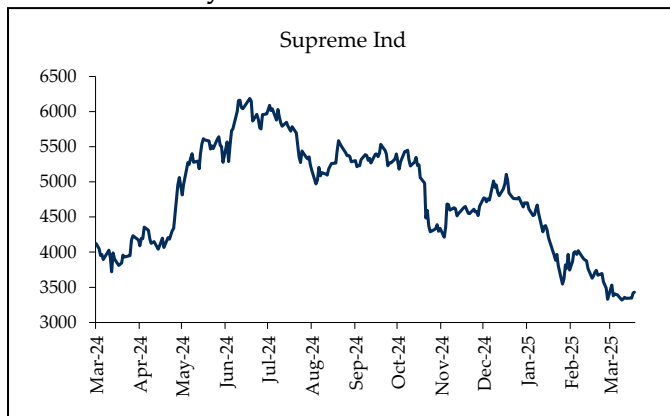
Source: Company, HSIE Research (excluding Wavin Industries acquisition)

Key Ratios

	FY22	FY23	FY24	FY25E	FY26E	FY27E
PROFITABILITY %						
EBITDA Margin	16.0	13.0	15.3	13.8	15.6	15.9
EBIT Margin	13.0	10.2	12.3	10.4	12.4	12.6
APAT Margin	12.5	9.4	10.6	9.3	10.7	10.9
RoE	27.6	21.0	22.5	19.0	22.7	23.3
RoIC (pre tax)	34.9	26.7	32.7	19.9	24.3	24.4
RoCE (pre-tax)	28.3	22.7	26.8	21.7	26.6	27.5
EFFICIENCY						
Tax Rate %	25.6	25.7	25.9	25.7	25.7	25.7
Fixed Asset Turnover (x)	2.2	2.3	2.3	2.2	2.2	2.1
Inventory (days)	59	55	49	55	51	51
Debtors (days)	22	20	18	22	22	22
Other Current Assets (days)	16	14	14	13	12	11
Payables (days)	37	36	37	37	37	37
Other Current Liab & Provns (days)	10	10	10	9	8	7
Cash Conversion Cycle (days)	50	43	35	44	40	40
Net Debt/EBITDA (x)	(0.4)	(0.6)	(0.7)	(0.4)	(0.4)	(0.4)
Net D/E	(0.1)	(0.2)	(0.2)	(0.1)	(0.1)	(0.1)
Interest Coverage	196.6	116.7	77.5	75.1	103.2	118.8
PER SHARE DATA (Rs)						
EPS	76.2	68.1	84.2	79.8	105.5	121.0
CEPS	94.3	88.8	107.7	108.6	136.9	157.9
Dividend	24.0	26.0	30.0	31.9	42.2	48.4
Book Value	302.6	346.5	402.1	439.1	490.3	549.7
VALUATION						
P/E (x)	44.9	50.3	40.7	42.9	32.5	28.3
P/Cash EPS (x)	36.3	38.6	31.8	31.6	25.0	21.7
P/BV (x)	11.3	9.9	8.5	7.8	7.0	6.2
EV/EBITDA (x)	34.7	35.7	27.4	28.8	22.0	19.0
Dividend Yield (%)	0.7	0.8	0.9	0.9	1.2	1.4
OCF/EV (%)	1.1	2.1	3.3	2.0	3.4	3.8
FCFF/EV (%)	0.0	1.1	1.7	(0.4)	1.3	1.6
FCFE/M Cap (%)	0.0	1.1	1.7	(0.4)	1.2	1.6

Source: Company, HSIE Research (excluding Wavin Industries acquisition)

1 Yr Price History



Rating Criteria

BUY: >+15% return potential
ADD: +5% to +15% return potential
REDUCE: -10% to +5% return potential
SELL: >10% Downside return potential

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