

REDUCE

TP: Rs 1,120 | ▼ 5%

SUPREME INDUSTRIES

Plastic Products

27 July 2020

Demand uncertainty persists; downgrade to REDUCE

Supreme Industries (SI) reported above-expected revenue of Rs 10.5bn (-27% YoY) in Q1FY21, with a 19% lockdown-led drop in volumes. EBITDA margins declined less than estimated, by 54bps YoY to 11.1%. EBITDA/PBT fell 30%/49% YoY. Management continued to refrain from giving FY21 guidance due to Covid-led demand uncertainty. We increase FY21 earnings by 5% but leave FY22 estimates unchanged and roll over to a Sep'21 TP of Rs 1,120 (earlier Rs 1,030). Cut from ADD to REDUCE on limited upside.

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Lockdown hits volumes: SI's Q1 blended volume/realisation declined 19%/9% YoY, resulting in revenue dropping 27% YoY to Rs 10.5bn. Revenue came primarily from the pipes/packaging segments which declined 15%/23% YoY, whereas the industrial/consumer segments fell 63%/71%. Demand for pipes came from the agriculture sector; the housing segment was lacklustre. SI's rural portfolio grew 15% YoY in Q1. Management did not proffer guidance as uncertainty over construction activity continues, given the extended lockdown in many states and labour migration. July has been slow with lower volume growth MoM and YoY.

Margins decline: Operating margins contracted 54bps YoY to 11.1% due to higher raw material cost/employee cost of 180bps/145bps YoY, partly offset by lower other expenses (-220bps). EBITDA/PBT thus dropped 30%/49% YoY. RM cost increased (as a % of sales) due to higher sales of agri pipes in Q1 which have lower margins, whereas other expense reduced due to cost initiatives.

Downgrade to REDUCE: We lower our rating from ADD to REDUCE due to the ~20% rally in stock price over the past two months, which leaves limited upside. Rolling valuations forward, we move to a Sep'21 TP of Rs 1,120, set at an unchanged one-year forward P/E of 27x.

Ticker/Price	SI IN/Rs 1,173
Market cap	US\$ 2.0bn
Shares o/s	127mn
3M ADV	US\$ 1.0mn
52wk high/low	Rs 1,413/Rs 773
Promoter/FPI/DII	49%/8%/43%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue (Rs mn)	56,086	55,115	47,417	58,151	65,160
EBITDA (Rs mn)	7,812	8,346	6,364	8,629	9,915
Adj. net profit (Rs mn)	3,683	4,674	3,043	4,831	5,678
Adj. EPS (Rs)	29.0	36.8	24.0	38.0	44.7
Adj. EPS growth (%)	(13.2)	26.9	(34.9)	58.7	17.5
Adj. ROAE (%)	18.2	21.2	13.0	19.0	20.2
Adj. P/E (x)	40.5	31.9	49.0	30.9	26.2
EV/EBITDA (x)	18.8	17.7	23.2	17.1	15.0

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Total revenues	10,539	14,368	(26.7)	14,305	(26.3)
Total raw material consumed	7,544	10,027	(24.8)	8,481	(11.1)
% of sales	71.6	69.8	180bps	59.3	1,229bps
Employee expense	633	655	(3.4)	742	(14.7)
% of sales	6.0	4.6	145bps	5.2	82bps
Power & fuel expense	349	549	(36.5)	551	(36.7)
% of sales	3.3	3.8	(51bps)	3.9	(54bps)
Other expense	842	1,464	(42.5)	1,796	(53.1)
% of sales	8.0	10.2	(220bps)	12.6	(456bps)
Total expenditure	9,368	12,695	(26.2)	11,571	(19.0)
% of sales	88.9	88.4	54bps	80.9	800bps
EBIDTA	1,171	1,674	(30.0)	2,734	(57.2)
% of sales	11.1	11.6	(54bps)	19.1	(800bps)
Depreciation	508	495	2.5	529	(4.0)
Other income	3	0	833.3	1	366.7
Interest cost	78	33	139.0	42	85.0
PBT	588	1,146	(48.7)	2,164	(72.8)
Taxes	146.4	399.5	(63.4)	1,061.0	(86.2)
Effective tax rate (%)	24.9	34.9	(997bps)	49.0	(2,414bps)
PAT	442	746	(40.8)	1,103	(59.9)
Share of profit of associate	(37)	125	(129.2)	70	(152.4)
RPAT	405	871	(53.5)	1,173	(65.4)

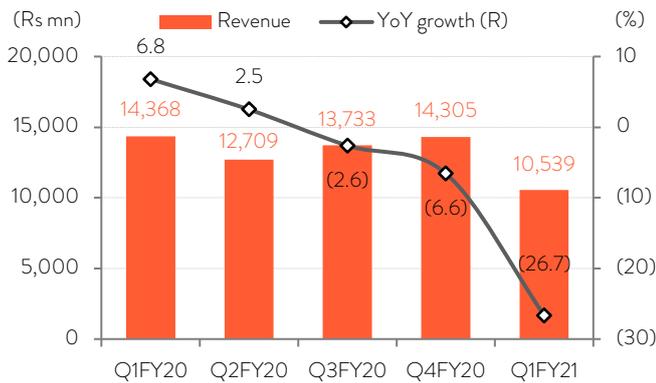
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
(1) Segment revenue					
Plastic Piping Products	7,646	8,980	(14.9)	9,370	(18.4)
Industrial Products	705	1,883	(62.6)	1,593	(55.7)
Packaging Products	1,876	2,451	(23.5)	2,076	(9.6)
Consumer Products	280	974	(71.2)	950	(70.5)
Others	33	81	(60.0)	316	(89.7)
Net Revenue from Operations	10,539	14,368	(26.7)	14,305	(26.3)
(2) Segment Results					
Plastic Piping Products	665	783	(15.1)	1,688	(60.6)
Industrial Products	(76)	120	(163.2)	140	(154.2)
Packaging Products	183	206	(11.0)	334	(45.1)
Consumer Products	(45)	129	(135.0)	185	(124.3)
Others	(1)	(2)	(42.9)	48	(102.5)
Total Segment Profit before Interest and Tax	726	1,236	(41.3)	2,395	(69.7)
Margins (%)					
Plastic Piping Products	8.7	8.7	(2bps)	18	(932bps)
Industrial Products	(10.8)	6.4	(1,717bps)	9	(1,958bps)
Packaging Products	9.8	8.4	137bps	16	(630bps)
Consumer Products	(16.1)	13.2	(2,928bps)	19	(3,557bps)

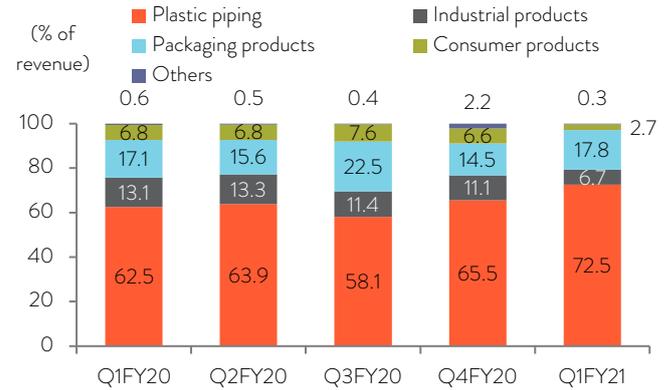
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GROWTH



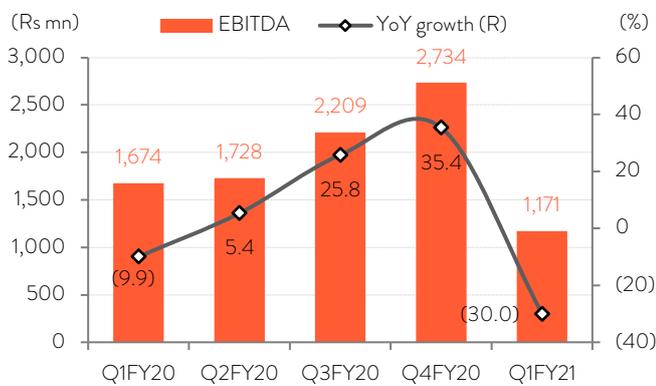
Source: BOBCAPS Research

FIG 4 – REVENUE MIX



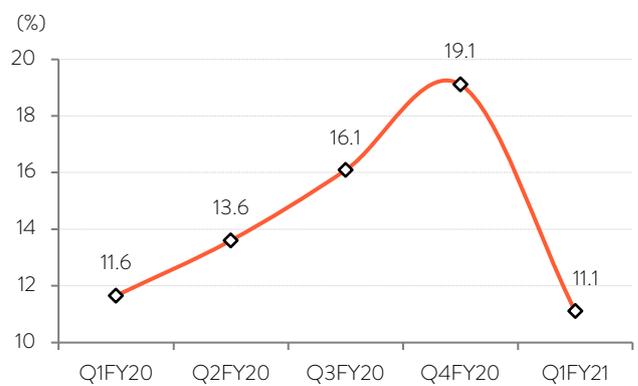
Source: BOBCAPS Research

FIG 5 – CONSOLIDATED EBITDA GROWTH



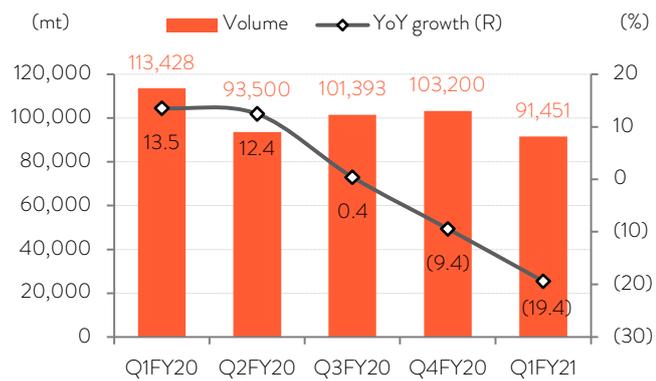
Source: BOBCAPS Research, Company

FIG 6 – CONSOLIDATED EBITDA MARGIN



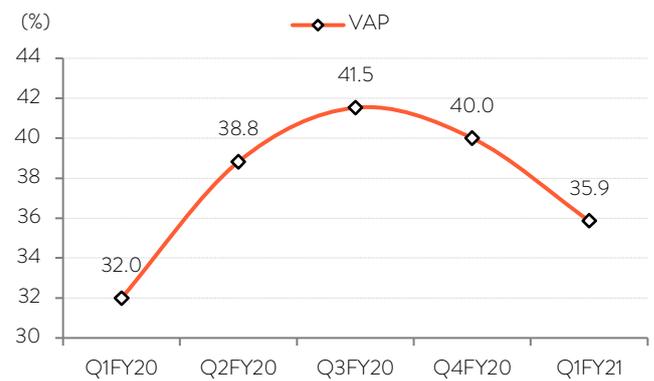
Source: BOBCAPS Research, Company

FIG 7 – VOLUME GROWTH



Source: BOBCAPS Research, Company

FIG 8 – REVENUE SHARE OF VALUE-ADDED PRODUCTS



Source: BOBCAPS Research, Company

FIG 9 – SEGMENTAL VOLUMES

(mt)	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Plastic piping	74,992	85,214	(12.0)	77,315	(3.0)
Packaging Products	10,182	12,745	(20.1)	11,147	(8.7)
Industrial Products	4,770	10,369	(54.0)	9,494	(49.8)
Consumer Products	1,507	5,100	(70.5)	5,244	(71.3)
Total	91,451	1,13,428	(19.4)	1,03,200	(11.4)

Source: BOBCAPS Research, Company

Earnings call highlights

- Management stated that pipe demand in Q1FY21 came from the agriculture segment, with the housing segment remaining tepid.
- SI believes it gained market share in agri pipes during Q1.
- Rural volume sales increased 15% YoY during the quarter but urban sales suffered due to the lockdown.
- Demand has slowed in a seasonally tepid Q2, with the company witnessing lower sales MoM and YoY in July.
- Due to a renewed lockdown in many states and lack of labour availability, construction activity has slowed which is hampering demand.
- Management did not provide volume growth and margin guidance for FY21 due to the current uncertain climate.
- PVC prices fell by Rs 13/kg over 18 March to 1 May but have since increased by Rs 12/kg as of end-June. Due to the initial decline in prices, SI may have had some inventory loss in Q1FY21.
- Lower availability of PVC resin is resulting in prices trending higher.
- Cross-laminated films saw good demand in June and volumes grew 20% YoY for the month. This business saw modest growth in Q1. Management does not expect incremental pressure from competition in this segment going ahead.
- The protective packaging segment remains under pressure with revenues continuing to decline.
- SI has taken some cost saving initiatives which will result in Rs 120mn-130mn of savings every quarter.
- The company has decided on capex of Rs 3.5bn in FY21. Most of the spend will be toward the pipe segment.

Valuation methodology

SI is a play on India's growing housing and consumer market, backed by a strong brand, comprehensive product portfolio and wide distribution reach. A healthy operating margin profile (14-15%), impressive return ratios (ROE of 19% in FY22E) and negligible debt make the stock attractive. However, following the ~20% run-up in stock price over the past two months, we see limited upside potential at current valuations of 30.9x FY22E EPS – we thus downgrade our rating from ADD to REDUCE as we await a better entry point.

We increase FY21 earnings by 5% to factor in the Q1FY21 results (FY22 estimates unchanged) and roll over to a revised Sep'21 target price of Rs 1,120 (earlier Rs 1,030). We continue to value the stock at a one-year forward P/E of 27x.

FIG 10 – REVISED ESTIMATES

(Rs mn)	Old		New		Change (%)	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	44,324	58,403	47,417	58,151	7.0	(0.4)
EBITDA	6,066	8,633	6,364	8,629	4.9	0.0
PAT	2,897	4,834	3,043	4,831	5.1	(0.1)

Source: BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key upside risks to our call are:

- lower-than-anticipated demand disruption due to Covid-19, and
- above-expected margins in the event of reduced raw material cost.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Total revenue	56,086	55,115	47,417	58,151	65,160
EBITDA	7,812	8,346	6,364	8,629	9,915
Depreciation	(1,835)	(2,057)	(2,212)	(2,412)	(2,661)
EBIT	5,977	6,289	4,152	6,217	7,254
Net interest income/(expenses)	(336)	(202)	(180)	(130)	(48)
Other income/(expenses)	56	14	19	26	36
Exceptional items	803	0	0	0	0
EBT	5,697	6,101	3,991	6,113	7,242
Income taxes	(2,158)	(1,739)	(1,047)	(1,662)	(1,954)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	144	312	100	380	390
Reported net profit	4,486	4,674	3,043	4,831	5,678
Adjustments	(803)	0	0	0	0
Adjusted net profit	3,683	4,674	3,043	4,831	5,678

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Accounts payables	5,574	5,475	4,547	5,576	6,248
Other current liabilities	2,123	2,351	1,819	2,230	2,499
Provisions	240	313	332	407	456
Debt funds	1,613	4,109	2,000	600	200
Other liabilities	843	947	947	947	947
Equity capital	254	254	254	254	254
Reserves & surplus	21,286	22,358	23,928	26,421	29,351
Shareholders' fund	21,540	22,612	24,182	26,675	29,605
Total liabilities and equities	31,932	35,807	33,826	36,435	39,955
Cash and cash eq.	373	2,314	468	641	1,093
Accounts receivables	3,874	3,128	3,378	4,142	4,642
Inventories	7,504	8,906	7,795	7,966	8,926
Other current assets	1,847	2,379	1,819	2,230	2,499
Investments	2,223	2,073	2,073	2,073	2,073
Net fixed assets	15,014	15,917	17,206	18,294	19,633
CWIP	900	929	929	929	929
Intangible assets	196	160	160	160	160
Total assets	31,932	35,807	33,826	36,435	39,955

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20P	FY21E	FY22E	FY23E
Net income + Depreciation	6,322	6,731	5,255	7,243	8,339
Interest expenses	336	202	180	130	48
Non-cash adjustments	0	0	0	0	0
Changes in working capital	674	(986)	(19)	168	(738)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	7,331	5,947	5,416	7,541	7,649
Capital expenditures	(3,661)	(2,953)	(3,500)	(3,500)	(4,000)
Change in investments	287	(151)	0	0	0
Other investing cash flows	71	(1,066)	0	0	0
Cash flow from investing	(3,304)	(4,169)	(3,500)	(3,500)	(4,000)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(851)	2,497	(2,109)	(1,400)	(400)
Interest expenses	(336)	(202)	(180)	(130)	(48)
Dividends paid	(1,991)	(2,131)	(1,473)	(2,338)	(2,748)
Other financing cash flows	(840)	0	0	0	0
Cash flow from financing	(4,017)	163	(3,762)	(3,868)	(3,196)
Changes in cash and cash eq.	10	1,941	(1,846)	173	453
Closing cash and cash eq.	373	2,314	468	641	1,093

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20P	FY21E	FY22E	FY23E
Reported EPS	35.3	36.8	24.0	38.0	44.7
Adjusted EPS	29.0	36.8	24.0	38.0	44.7
Dividend per share	13.0	14.0	9.6	15.2	17.9
Book value per share	169.6	178.0	190.4	210.0	233.1

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20P	FY21E	FY22E	FY23E
EV/Sales	2.6	2.7	3.1	2.5	2.3
EV/EBITDA	18.8	17.7	23.2	17.1	15.0
Adjusted P/E	40.5	31.9	49.0	30.9	26.2
P/BV	6.9	6.6	6.2	5.6	5.0

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20P	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	56.7	76.6	76.3	79.0	78.4
Interest burden (PBT/EBIT)	108.8	97.0	96.1	98.3	99.8
EBIT margin (EBIT/Revenue)	10.7	11.4	8.8	10.7	11.1
Asset turnover (Revenue/Avg TA)	183.0	162.7	136.2	165.5	170.6
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.4	1.4
Adjusted ROAE	18.2	21.2	13.0	19.0	20.2

Source: Company, BOBCAPS Research | Note: TA = Total Assets

Ratio Analysis

Y/E 31 Mar	FY19A	FY20P	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	13.0	(1.7)	(14.0)	22.6	12.1
EBITDA	(0.4)	6.8	(23.7)	35.6	14.9
Adjusted EPS	(13.2)	26.9	(34.9)	58.7	17.5
Profitability & Return ratios (%)					
EBITDA margin	13.9	15.1	13.4	14.8	15.2
EBIT margin	10.7	11.4	8.8	10.7	11.1
Adjusted profit margin	6.6	8.5	6.4	8.3	8.7
Adjusted ROAE	18.2	21.2	13.0	19.0	20.2
ROCE	17.9	18.0	11.6	16.9	18.6
Working capital days (days)					
Receivables	25	23	25	24	25
Inventory	69	84	96	75	72
Payables	40	43	45	37	39
Ratios (x)					
Gross asset turnover	2.1	1.9	1.5	1.6	1.6
Current ratio	1.4	1.4	1.5	1.7	1.8
Net interest coverage ratio	17.8	31.1	23.1	47.8	151.1
Adjusted debt/equity	0.1	0.1	0.1	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

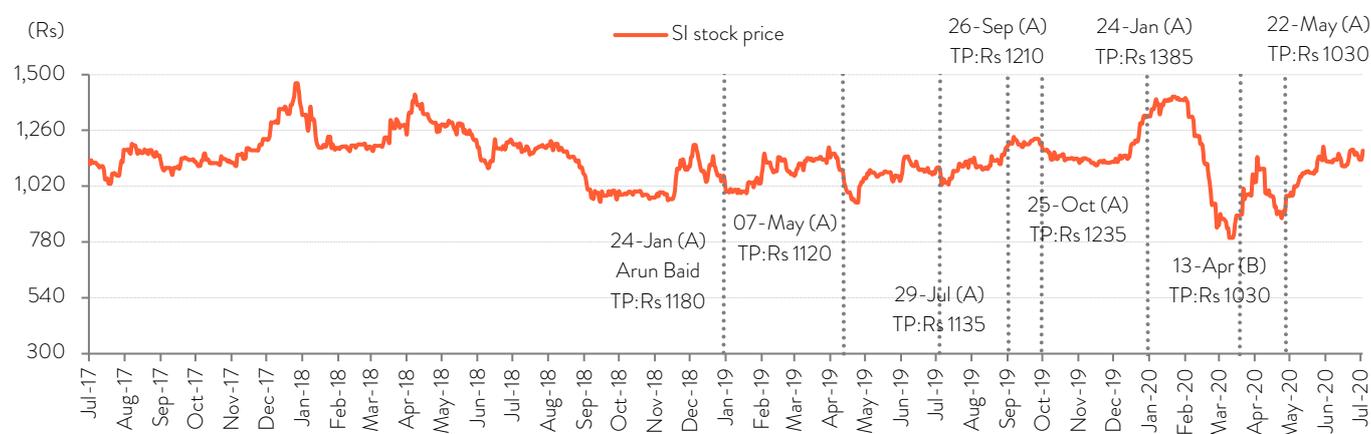
ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

RATINGS AND TARGET PRICE (3-YEAR HISTORY): SUPREME INDUSTRIES (SI IN)



B – Buy, A – Add, R – Reduce, S – Sell

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