

**HOLD**

TP: Rs 1,990 | ▼ 5%

**SUPREME INDUSTRIES**

Plastic Products

21 July 2021

## Volumes hit by lower agricultural pipe sales

- SI's Q1 volumes slipped 22% YoY as agri pipe demand slowed, but pass-along of higher RM prices aided consolidated revenue growth of 27% YoY
- EBITDA margin expanded 545bps YoY due to a better product mix, resulting in EBITDA/PBT growth of 90%/186% YoY
- We raise FY22/FY23 PAT by ~5% and roll over to a Jun'22 TP of Rs 1,990 (vs. Rs 1,805). Upgrade to HOLD from SELL per our new rating scale

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**Revenue fueled by higher PVC prices:** SI's consolidated revenue grew 27% YoY to Rs 13.4bn due to pass-along of higher raw material (PVC) prices, even as volumes declined 22% despite a weak lockdown-hit base quarter. The PVC pipe segment led the volume decline (-35.8% YoY) as higher PVC resin prices and the second Covid wave stifled rural demand for agricultural pipes (-60% YoY). Packaging segment volumes fell 6.6% YoY as the peak demand season for tarpaulin was also affected by the resurgent pandemic. Industrial segment volumes grew 142% YoY whereas the consumer segment increased 40% aided by a tepid base.

**Housing demand outlook positive:** Per management, PVC pipe demand should increase going ahead as the construction sector has reopened. SI expects this business to grow in FY22 despite a lacklustre Q1, led by pipe demand from the housing market.

**Operating margin improves:** SI's operating margin expanded 545bps YoY to 16.5%, aided by a 700bps rise in gross margin (partly offset by higher other expense of 164bps YoY). EBITDA/PBT thus grew 90%/186% YoY. Gross margin expanded due to higher sales of value-added products (+37% YoY, 38.4% of total revenue) and reduced demand for agricultural pipes (lower margin). The company believes margins would remain robust for the full year as PVC prices have started moving up in Q2 which could limit inventory losses.

**Earnings revised upwards:** We increase our FY22/FY23 EBITDA estimates slightly to factor in better profitability from the company's focus on value-added products – this coupled with an above-expected Q1 performance at associate company Supreme Petrochem takes our PAT estimates higher by 6%/5%.

**Upgrade to HOLD:** We like SI for its strong balance sheet, comprehensive product portfolio and wide distribution reach, but find current valuations full at 33.2x FY23E EPS. On rollover, we have a revised Jun'22 TP of Rs 1,990 (earlier Rs 1,805), set at an unchanged 30x one-year forward P/E, in line with the stock's five-year average. Upgrade from SELL to HOLD as we realign to our new rating scale.

## Key changes

Target	Rating
▲	▲

Ticker/Price	SI IN/Rs 2,103
Market cap	US\$ 3.6bn
Free float	0%
3M ADV	US\$ 3.3mn
52wk high/low	Rs 2,340/Rs 1,128
Promoter/FPI/DII	49%/11%/40%

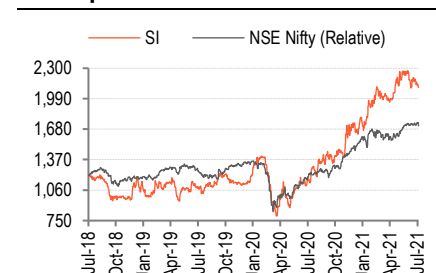
Source: NSE | Price as of 20 Jul 2021

## Key financials

Y/E 31 Mar	FY21A	FY22E	FY23E
Total revenue (Rs mn)	63,571	69,590	78,526
EBITDA (Rs mn)	12,843	10,352	11,633
Adj. net profit (Rs mn)	9,781	7,130	8,048
Adj. EPS (Rs)	77.0	56.1	63.4
Consensus EPS (Rs)	77.0	62.1	69.2
Adj. ROAE (%)	36.0	21.4	21.9
Adj. P/E (x)	27.3	37.5	33.2
EV/EBITDA (x)	20.7	26.1	23.5
Adj. EPS growth (%)	101.0	(27.1)	12.9

Source: Company, Bloomberg, BOBCAPS Research

## Stock performance



Source: NSE



**Fig 1 – Quarterly performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Total revenues</b>	<b>13,421</b>	<b>10,539</b>	<b>27.3</b>	<b>20,846</b>	<b>(35.6)</b>
Total raw material consumed	8,662	7,544	14.8	12,744	(32.0)
% of sales	64.5	71.6	(704bps)	61.1	341bps
Employee expense	803	633	26.9	931	(13.8)
% of sales	6.0	6.0	(2bps)	4.5	152bps
Power & fuel expense	444	349	27.2	548	(19.1)
% of sales	3.3	3.3	(1bps)	2.6	68bps
Other expense	1,292	842	53.4	1,526	(15.3)
% of sales	9.6	8.0	164bps	7.3	231bps
Total expenditure	11,201	9,368	19.6	15,749	(28.9)
% of sales	83.5	88.9	(543bps)	75.5	791bps
<b>EBITDA</b>	<b>2,220</b>	<b>1,171</b>	<b>89.6</b>	<b>5,097</b>	<b>(56.4)</b>
% of sales	16.5	11.1	543bps	24.5	(791bps)
Depreciation	561	508	10.5	548	2.4
Other income	43	3	1442.9	82	(47.6)
Interest cost	21	78	(72.7)	50	(57.7)
<b>PBT</b>	<b>1,681</b>	<b>588</b>	<b>185.8</b>	<b>4,581</b>	<b>(63.3)</b>
Taxes	429.6	146.4	193.4	781.0	(45.0)
Effective tax rate (%)	25.6	24.9	67bps	17.0	851bps
PAT	1,251	442	183.3	3,800	(67.1)
Add: Extraordinary items	0	0	-	0	-
Share of profit of associate	450	(37)	(1333.4)	703	(36.0)
<b>RPAT</b>	<b>1,702</b>	<b>405</b>	<b>319.8</b>	<b>4,504</b>	<b>(62.2)</b>

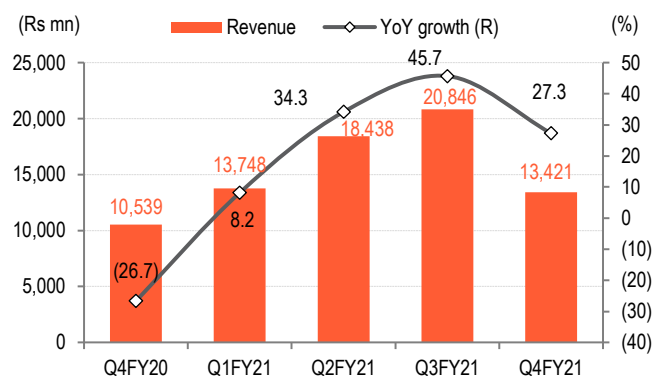
Source: Company, BOBCAPS Research

**Fig 2 – Segmental performance**

(Rs mn)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
<b>Segment revenue</b>					
Plastic Piping Products	8,311	7,646	8.7	13,468	(38.3)
Industrial Products	1,989	705	182.2	2,931	(32.1)
Packaging Products	2,441	1,876	30.2	3,097	(21.2)
Consumer Products	485	280	73.1	1,240	(60.9)
Others	195	33	500.6	110	77.1
<b>Net Revenue from Operations</b>	<b>13,421</b>	<b>10,539</b>	<b>27.3</b>	<b>20,846</b>	<b>(35.6)</b>
<b>EBIT</b>					
Plastic Piping Products	1,416	665	113.0	3,570	(60.3)
Industrial Products	122	(76)	(260.5)	390	(68.7)
Packaging Products	171	183	(6.5)	408	(58.0)
Consumer Products	6	(45)	(113.8)	286	(97.8)
Others	(6)	(1)	366.7	4	(243.6)
<b>Total Segment EBIT</b>	<b>1,710</b>	<b>726</b>	<b>136</b>	<b>4,659</b>	<b>(63.3)</b>
<b>EBIT margins (%)</b>					
Plastic Piping Products	17.0	8.7	834bps	27	(948bps)
Industrial Products	6.1	(10.8)	1,692bps	13	(718bps)
Packaging Products	7.0	9.8	(275bps)	13	(615bps)
Consumer Products	1.3	(16.1)	1,735bps	23	(2,182bps)

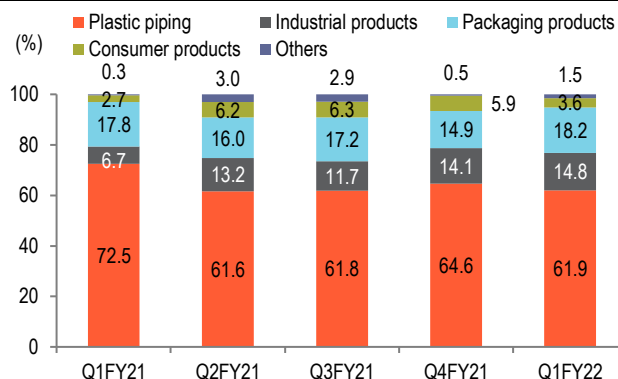
Source: Company, BOBCAPS Research

**Fig 3 – Consolidated revenue growth**



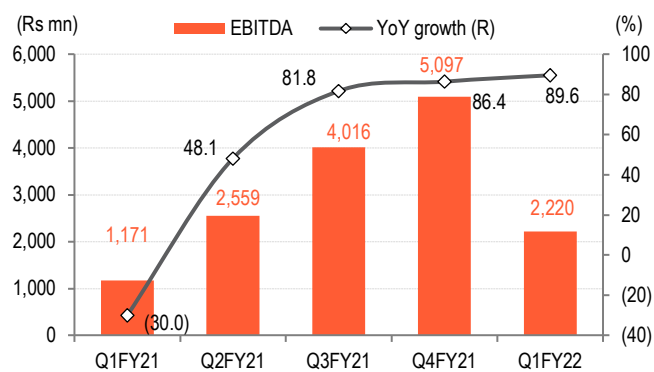
Source: Company, BOBCAPS Research

**Fig 4 – Revenue mix**



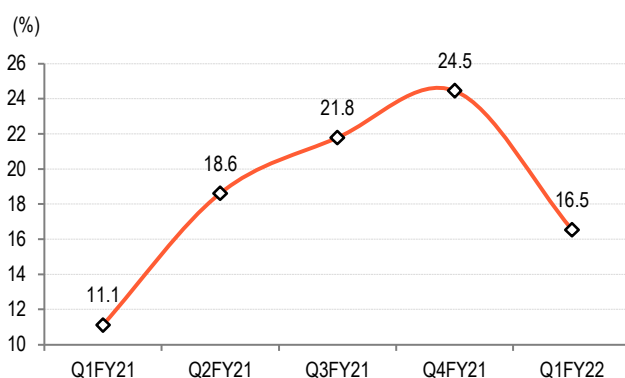
Source: Company, BOBCAPS Research

**Fig 5 – Consolidated EBITDA growth**



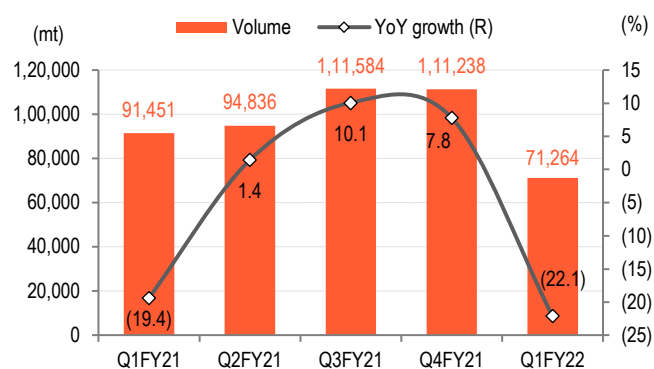
Source: Company, BOBCAPS Research

**Fig 6 – Consolidated EBITDA margin**



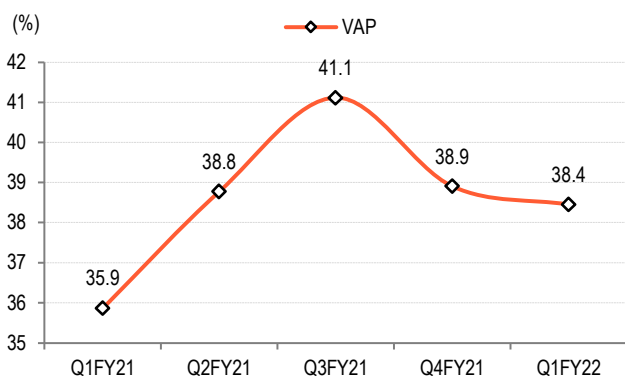
Source: Company, BOBCAPS Research

**Fig 7 – Volume growth**



Source: Company, BOBCAPS Research

**Fig 8 – Revenue share of value-added products**



Source: Company, BOBCAPS Research

**Fig 9 – Segmental volume growth**

(mt)	Q1FY22	Q1FY21	YoY (%)	Q4FY21	QoQ (%)
Plastic piping	48,111	74,992	(35.8)	75,997	(36.7)
Packaging Products	9,512	10,182	(6.6)	15,627	(39.1)
Industrial Products	11,532	4,770	141.8	13,744	(16.1)
Consumer Products	2,109	1,507	39.9	5,870	(64.1)
<b>Total</b>	<b>71,264</b>	<b>91,451</b>	<b>(22.1)</b>	<b>1,11,238</b>	<b>(35.9)</b>

Source: Company, BOBCAPS Research

## Earnings call highlights

- The second wave of Covid-19 suppressed SI's sales in April-May, especially for agricultural pipes which saw a 60% YoY volume drop-off during the peak Q1FY22 season.
- Management estimates it lost 22,000t of agriculture pipe sales during the quarter due to the pandemic, which caused piping segment volumes to fall 36% YoY in Q1.
- With demand from the construction sector reviving, SI has guided for growth in the pipe segment for the full year despite a tepid Q1.
- Packaging segment volumes declined 6.6% YoY during the quarter as production issues arose due to lower labour availability in rural areas affected by Covid.
- The CPVC segment continued to do well with volumes growing 42% YoY off a low base. Management aims to grow this segment at 20-25% in FY22.
- Consumer product volumes grew 40% YoY in Q1 due to a lower base and SI has begun a digital campaign to expand sales in the business.
- PVC prices had decreased by ~Rs 19/kg during the quarter but have once again increased by ~Rs 2/kg from July due to increased container and freight costs. Management expects prices to remain range-bound going forward.
- SI is raising its focus on higher-margin value-added products which contributed 38.4% of Q1 revenue vs. 35.9% in the year-ago quarter.
- Planned capex now stands at Rs 5.2bn for FY22 vs. the earlier guidance of Rs 4bn due to additional spend of Rs 1.2bn on a plastic plant in Orissa.
- The company had Rs 3.8bn of cash on books as of 30 Jun 2021. Cash balance reduced QoQ by ~Rs 3.8bn due to build-up of inventory and capex undertaken.
- Associate company Supreme Petrochem is expanding capacity by end-FY22 at a capex of Rs 2.6bn.

## 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. The company has a healthy operating margin profile (15-16%), impressive return ratios (ROE of 21.9% in FY23E) and a debt-free balance sheet

Following the Q1FY22 results, we increase FY22/FY23 EBITDA estimates by 1%/2% but raise PAT by 6%/5% due to an above-expected performance from associate company Supreme Petrochem. Though we like SI for its product portfolio and strong balance sheet, current valuations at 33.2x FY23E EPS look full. We roll over to a revised Jun'22 TP of Rs 1,990 (from Rs 1,805), based on an unchanged 30x one-year forward P/E – in line with the stock's five-year average multiple. Upgrade from SELL to HOLD as we realign to our new rating scale.

**Fig 10 – Revised estimates**

(Rs mn)	Old		New		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	66,323	74,167	69,590	78,526	4.9	5.9
EBIDTA	10,126	11,502	10,352	11,633	2.2	1.1
PAT	6,713	7,639	7,130	8,048	6.2	5.4

Source: BOBCAPS Research

**Fig 11 – Key assumptions**

Particulars	FY20	FY21	FY22E	FY23E	FY24E
<b>Volume (mt)</b>					
Plastic Piping	3,00,772	2,94,357	3,06,131	3,55,112	4,04,828
YoY (%)	7.5	(2.1)	4.0	16.0	14.0
Packaging Products	51,353	54,833	60,865	69,994	78,394
YoY (%)	(1.8)	6.8	11.0	15.0	12.0
Industrial Products	38,617	41,451	51,814	58,031	64,995
YoY (%)	(13.3)	7.3	25.0	12.0	12.0
Consumer Products	20,779	18,468	22,716	26,123	30,564
YoY (%)	(3.0)	(11.1)	23.0	15.0	17.0
<b>Total</b>	<b>4,11,521</b>	<b>4,09,109</b>	<b>4,41,525</b>	<b>5,09,261</b>	<b>5,78,781</b>
YoY (%)	3.4	(0.6)	7.9	15.3	13.7
EBIDTA (Rs/kg)	20.3	30.3	23.4	22.8	23.7
YoY (%)	9.9	49.0	(22.7)	(2.6)	3.8

Source: Company, BOBCAPS Research

Fig 12 – Peer comparison

Company	Ticker	Rating	Target Price (Rs)	Revenue CAGR FY21-23E (%)	EPS (Rs)		ROE (%)		Target P/E (x)
					FY22E	FY23E	FY22E	FY23E	
Kajaria Ceramics	KJC IN	REDUCE	950	19	24.0	29.6	19.9	23.3	32
Somany Ceramics	SOMC IN	BUY	640	16	21.8	29.1	13.2	15.3	22
Greenply Industries	MTLM IN	ADD	230	19	9.2	11.3	23.0	22.9	20
Century Plyboard	CPBI IN	SELL	370	19	11.9	14.7	19.1	19.6	25
Greenpanel Industries	GREENP IN	BUY	295	24	12.1	16.3	18.4	20.4	18
Cera Sanitaryware	CRS IN	HOLD	4,145	16	115.4	138.1	16.2	17.1	30
Astral	ASTRA IN	SELL	1210	16	20.2	25.2	20.3	22.6	48
Finolex Industries	FXNP IN	HOLD	175	1	6.8	7.3	12.9	13.0	24
Supreme Industries	SI IN	HOLD	1,990	11	56.1	63.4	22.7	21.6	30

Source: BOBCAPS Research

### Key risks

Key upside risks to our call are:

- above-expected margins in the event of reduced raw material cost,
- the unorganised market [or performing worse than anticipated]
- above-anticipated demand from the housing market.

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Total revenue</b>	<b>55,087</b>	<b>63,571</b>	<b>69,590</b>	<b>78,526</b>	<b>89,145</b>
EBITDA	8,563	12,843	10,352	11,633	13,729
Depreciation	(2,057)	(2,128)	(2,411)	(2,732)	(3,029)
EBIT	6,506	10,715	7,942	8,901	10,699
Net interest inc./(exp.)	(297)	(221)	(101)	(90)	(75)
Other inc./(exp.)	84	169	191	248	298
Exceptional items	(192)	0	0	0	0
EBT	6,293	10,662	8,031	9,059	10,922
Income taxes	(1,739)	(2,341)	(2,402)	(2,711)	(3,231)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	312	1,460	1,500	1,700	1,900
<b>Reported net profit</b>	<b>4,674</b>	<b>9,781</b>	<b>7,130</b>	<b>8,048</b>	<b>9,591</b>
Adjustments	192	0	0	0	0
<b>Adjusted net profit</b>	<b>4,866</b>	<b>9,781</b>	<b>7,130</b>	<b>8,048</b>	<b>9,591</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
Accounts payables	5,475	6,462	6,673	7,530	8,548
Other current liabilities	2,347	3,380	2,669	3,012	3,419
Provisions	313	364	487	550	624
Debt funds	4,113	6	500	400	350
Other liabilities	947	919	919	919	919
Equity capital	254	254	254	254	254
Reserves & surplus	22,358	31,438	34,685	38,351	42,720
Shareholders' fund	22,612	31,692	34,940	38,605	42,974
<b>Total liab. and equities</b>	<b>35,807</b>	<b>42,823</b>	<b>46,188</b>	<b>51,016</b>	<b>56,835</b>
Cash and cash eq.	1,614	7,684	5,417	6,299	8,057
Accounts receivables	3,128	3,898	4,385	4,948	5,617
Inventories	8,906	7,608	9,914	11,187	12,700
Other current assets	2,379	2,614	2,669	3,012	3,419
Investments	2,773	3,366	3,366	3,366	3,366
Net fixed assets	15,917	17,033	19,817	21,585	23,055
CWIP	929	508	508	508	508
Intangible assets	160	112	112	112	112
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
<b>Total assets</b>	<b>35,807</b>	<b>42,823</b>	<b>46,188</b>	<b>51,016</b>	<b>56,835</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY20A	FY21A	FY22E	FY23E	FY24E
<b>Cash flow from operations</b>	<b>6,038</b>	<b>14,494</b>	<b>6,417</b>	<b>9,954</b>	<b>11,606</b>
Capital expenditures	(2,953)	(2,774)	(5,195)	(4,500)	(4,500)
Change in investments	(550)	593	0	0	0
Other investing cash flows	(211)	(1,432)	0	0	0
<b>Cash flow from investing</b>	<b>(3,714)</b>	<b>(3,614)</b>	<b>(5,195)</b>	<b>(4,500)</b>	<b>(4,500)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	2,500	(4,107)	494	(100)	(50)
Interest expenses	(297)	(221)	(101)	(90)	(75)
Dividends paid	(3,522)	(635)	(3,882)	(4,382)	(5,222)
Other financing cash flows	235	153	0	0	0
<b>Cash flow from financing</b>	<b>(1,084)</b>	<b>(4,810)</b>	<b>(3,489)</b>	<b>(4,572)</b>	<b>(5,347)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,240</b>	<b>6,070</b>	<b>(2,267)</b>	<b>882</b>	<b>1,759</b>
<b>Closing cash &amp; cash eq.</b>	<b>1,613</b>	<b>7,684</b>	<b>5,417</b>	<b>6,299</b>	<b>8,057</b>

### Per Share

Y/E 31 Mar (Rs)	FY20A	FY21A	FY22E	FY23E	FY24E
Reported EPS	36.8	77.0	56.1	63.4	75.5
Adjusted EPS	38.3	77.0	56.1	63.4	75.5
Dividend per share	14.0	22.0	25.3	28.5	34.0
Book value per share	178.0	249.5	275.1	303.9	338.3

### Valuations Ratios

Y/E 31 Mar (x)	FY20A	FY21A	FY22E	FY23E	FY24E
EV/Sales	4.8	4.2	3.9	3.5	3.1
EV/EBITDA	31.0	20.7	26.1	23.5	19.9
Adjusted P/E	54.9	27.3	37.5	33.2	27.9
P/BV	11.8	8.4	7.6	6.9	6.2

### DuPont Analysis

Y/E 31 Mar (%)	FY20A	FY21A	FY22E	FY23E	FY24E
Tax burden (Net profit/PBT)	79.8	91.7	88.8	88.8	87.8
Interest burden (PBT/EBIT)	93.8	99.5	101.1	101.8	102.1
EBIT margin (EBIT/Revenue)	11.8	16.9	11.4	11.3	12.0
Asset turnover (Rev./Avg TA)	162.6	161.7	156.4	161.6	165.3
Leverage (Avg TA/Avg Equity)	1.5	1.4	1.3	1.3	1.3
<b>Adjusted ROAE</b>	<b>22.0</b>	<b>36.0</b>	<b>21.4</b>	<b>21.9</b>	<b>23.5</b>

### Ratio Analysis

Y/E 31 Mar	FY20A	FY21A	FY22E	FY23E	FY24E
<b>YoY growth (%)</b>					
Revenue	(1.8)	15.4	9.5	12.8	13.5
EBITDA	9.6	50.0	(19.4)	12.4	18.0
Adjusted EPS	32.1	101.0	(27.1)	12.9	19.2
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	15.5	20.2	14.9	14.8	15.4
EBIT margin	11.8	16.9	11.4	11.3	12.0
Adjusted profit margin	8.8	15.4	10.2	10.2	10.8
Adjusted ROAE	22.0	36.0	21.4	21.9	23.5
ROCE	18.7	28.6	16.6	16.8	18.3
<b>Working capital days (days)</b>					
Receivables	23	20	22	22	22
Inventory	84	75	69	74	74
Payables	43	43	40	39	39
<b>Ratios (x)</b>					
Gross asset turnover	1.9	2.0	1.9	1.9	1.9
Current ratio	1.3	2.1	2.2	2.2	2.3
Net interest coverage ratio	21.9	48.4	78.5	98.9	142.7
<b>Adjusted debt/equity</b>	<b>0.1</b>	<b>(0.2)</b>	<b>(0.1)</b>	<b>(0.2)</b>	<b>(0.2)</b>

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

## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

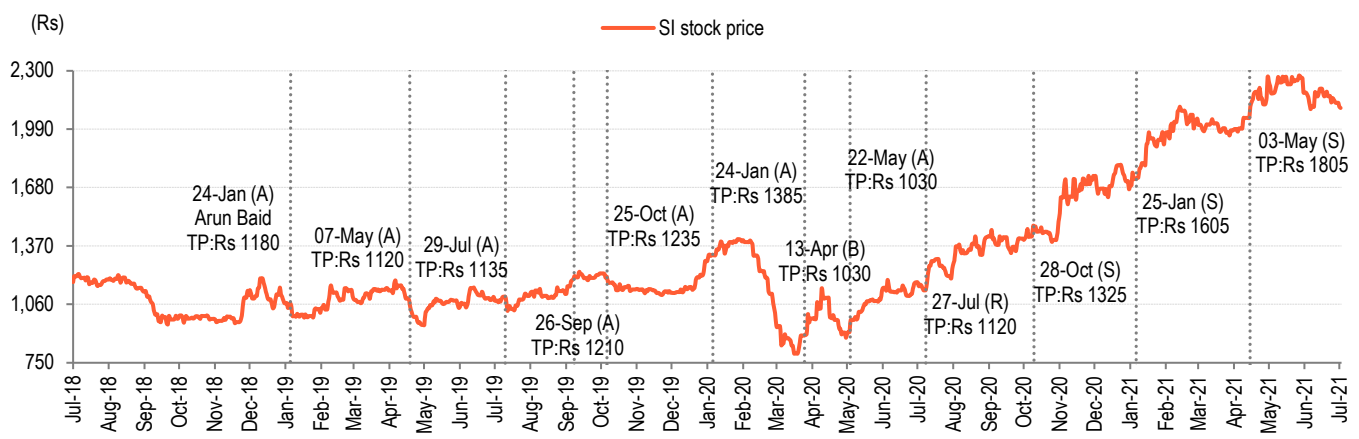
**HOLD** – Expected return from -6% to +15%

**SELL** – Expected return <-6%

**Note:** Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

### Ratings and Target Price (3-year history): SUPREME INDUSTRIES (SI IN)



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

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