

ADD

TP: Rs 1,235 | ▲ 5%

SUPREME INDUSTRIES

Plastic Products

25 October 2019

Healthy volume growth

Supreme Industries' (SI) Q2FY20 revenue grew 2.5% YoY (adj. for property sale last year), coming in slightly below estimates despite a healthy 12% YoY rise in volumes. Adj. EBITDA margins expanded 40bps YoY to 13.6% due to lower RM cost (-187bps) which was partly offset by higher employee/other expense. EBITDA/PBT grew 5.4%/6.9% YoY. Management has guided for volume growth of 10-12% with 13-14% operating margins in FY20. We trim FY20-FY22 earnings by 1-2% and roll to a Sep'20 TP of Rs 1,235 (earlier Rs 1,210).

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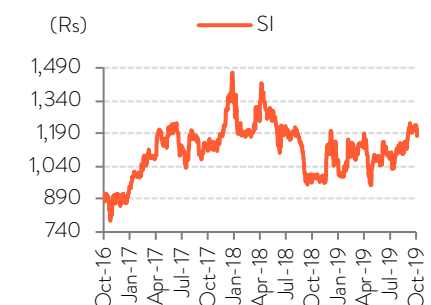
Piping segment leads volume growth: Adjusted for a Rs 808.5mn property sale in Q2FY19, SI's revenue grew 2.5% YoY to Rs 12.7bn in Q2. Plastic piping revenues increased 19% YoY, but the industrials/packing products/consumer segments declined 34%/5%/9%. Volume growth came from piping (+19.8%) and packaging (+5.9% YoY), with industrials (-13.1%) and consumer (-5.9% YoY) posting declines – blended growth thus stood at 12.4% YoY. SI saw high demand for plumbing pipes in Q2, whereas the industrial segment was muted. Management has guided for 10-12% volume growth in FY20 (13% in H1).

Ticker/Price	SI IN/Rs 1,174
Market cap	US\$ 2.1bn
Shares o/s	127mn
3M ADV	US\$ 0.6mn
52wk high/low	Rs 1,255/Rs 938
Promoter/FPI/DII	50%/8%/42%

Source: NSE

Lower RM cost aids margins: SI's adj. operating margins expanded 40bps YoY to 13.6% due to lower raw material cost (+187bps), partly offset by higher employee/other expenditure (+57bps/+80bps). Gross margins increased on higher sales of plumbing pipes. EBITDA/PBT for the quarter thus rose 5.4%/6.9% YoY (adj. for profit of Rs 531mn from sale of property in Q2FY19).

STOCK PERFORMANCE



Maintain ADD: We trim FY20-FY22 earnings estimates by 1-2% and move to a revised Sep'20 TP of Rs 1,235. Maintain ADD as we continue to like SI for its strong brand, comprehensive portfolio and sound balance sheet.

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue (Rs mn)	49,633	56,086	59,402	65,652	73,110
EBITDA (Rs mn)	7,841	7,812	8,028	9,122	10,347
Adj. net profit (Rs mn)	4,242	3,683	4,656	5,393	6,246
Adj. EPS (Rs)	33.4	29.0	36.7	42.5	49.2
Adj. EPS growth (%)	0.1	(13.2)	26.4	15.8	15.8
Adj. ROAE (%)	23.6	18.2	20.5	21.3	22.0
Adj. P/E (x)	35.2	40.5	32.0	27.7	23.9
EV/EBITDA (x)	18.8	18.8	18.4	16.2	14.4

Source: Company, BOBCAPS Research

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FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q2FY20	Q2FY19*	YoY (%)	Q1FY20	QoQ (%)
Total revenues	12,709	12,400	2.5	14,368	(11.5)
Total raw material consumed	8,384	8,412	(0.3)	10,027	(16.4)
% of sales	66.0	67.8	(187bps)	69.8	(381bps)
Employee expenses	685	598	14.6	655	4.6
% of sales	5.4	4.8	57bps	4.6	83bps
Power & fuel expense	519	491	5.8	549	(5.5)
% of sales	4.1	4.0	13bps	3.8	26bps
Other expenses	1,392	1,259	10.6	1,464	(4.9)
% of sales	11.0	10.2	80bps	10.2	77bps
Total expenditure	10,981	10,760	2.1	12,695	(13.5)
% of sales	86.4	86.8	(37bps)	88.4	(195bps)
EBITDA	1,728	1,640	5.4	1,674	3.3
% of sales	13.6	13.2	37bps	11.6	195bps
Depreciation	517	473	9.5	495	4.4
Other income	5	4	25.6	0	1700
Interest cost	71	100	(29.4)	33	116.9
PBT	1,146	1,072	6.9	1,146	0.0
Taxes	(140)	370	NA	400	NA
Effective tax rate (%)	(12.3)	34.5	NA	34.9	NA
PAT	1,286	701	83.3	746	72.3
Share of profit of associate	110	25	334.4	125	(11.9)
RPAT	1,396	727	92.0	871	60.2
Adj PAT	1,286	701	83.3	746	72.3

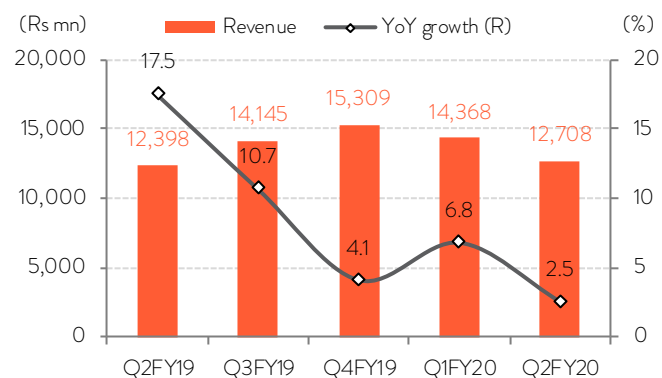
Source: Company, BOBCAPS Research | *Adjusted for property sale of Rs 808.5mn and PAT of Rs 346mn

FIG 2 – SEGMENTAL PERFORMANCE

(Rs mn)	Q2FY20	Q2FY19*	YoY (%)	Q1FY20	QoQ (%)
Revenue					
Plastic Piping Products	8,115	6,831	18.8	8,980	(9.6)
Industrial Products	1,691	2,544	(33.5)	1,883	(10.2)
Packaging Products	1,980	2,077	(4.7)	2,451	(19.2)
Consumer Products	863	946	(8.7)	974	(11.4)
Others	60	2	3,073.7	81	(25.8)
Net Revenue from Operations	12,709	12,399	2.5	14,368	(11.5)
EBIT					
Plastic Piping Products	1,099	650	69.1	783	40.3
Industrial Products	(20)	189	NM	120	NM
Packaging Products	38	244	(84.3)	206	(81.4)
Consumer Products	110	119	(8.0)	129	(14.8)
Others	3	32	(90.8)	(2)	NA
Total EBIT	1,230	1,233	(0.3)	1,236	(0.5)
EBIT Margins (%)					
Plastic Piping Products	13.5	9.5	403bps	8.7	482bps
Industrial Products	(1.2)	7.4	NA	6.4	NA
Packaging Products	1.9	11.7	180bps	8.4	(647bps)
Consumer Products	12.7	12.6	94bps	13.2	(51bps)

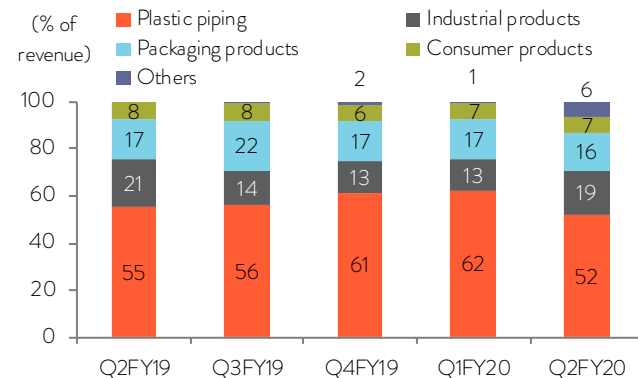
Source: Company, BOBCAPS Research | *Adjusted for property sale of Rs 808.5mn and PAT of Rs 346mn

FIG 3 – STANDALONE REVENUE GROWTH



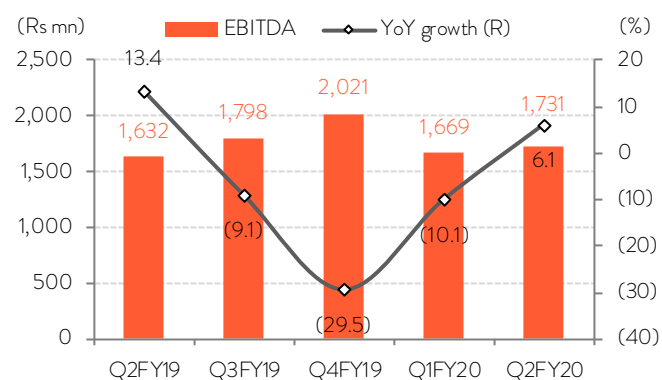
Source: BOBCAPS Research

FIG 4 – REVENUE MIX



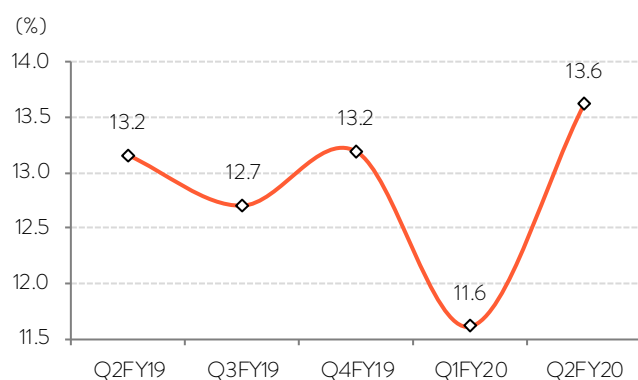
Source: BOBCAPS Research

FIG 5 – STANDALONE EBITDA GROWTH



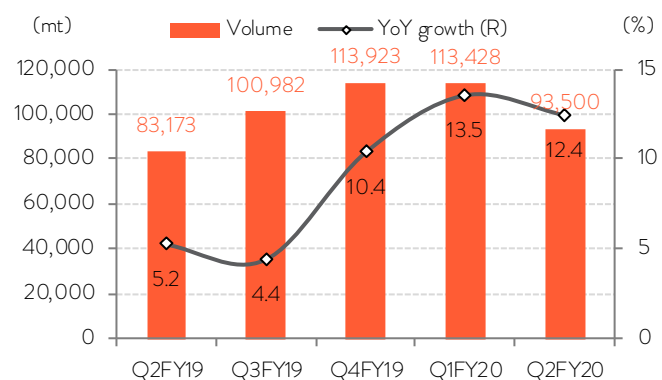
Source: BOBCAPS Research, Company

FIG 6 – STANDALONE EBITDA MARGIN



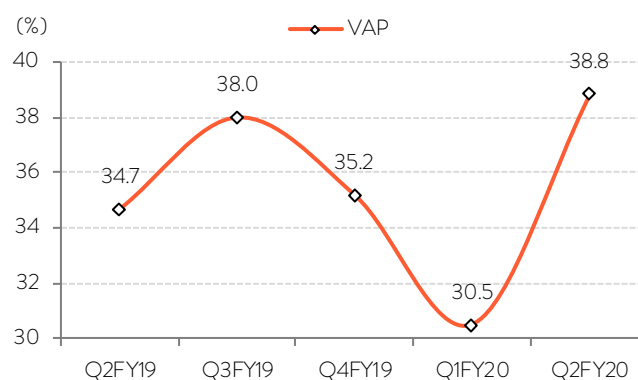
Source: BOBCAPS Research, Company

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)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Plastic Piping	67,812	56,627	19.8	85,214	(20.4)
Packaging Products	11,062	10,443	5.9	12,745	(13.2)
Industrial Products	9,953	11,453	(13.1)	10,369	(4.0)
Consumer Products	4,673	4,650	0.5	5,100	(8.4)
Total	93,500	83,173	12.4	1,13,428	(17.6)

Source: Company, BOBCAPS Research

Earnings call highlights

- SI saw high demand for plumbing pipes during Q2FY20 which aided robust growth in the segment.
- The industrial segment saw tepid demand from consumer appliance customers during Q2, which dampened sales in the segment. About 20% of industrial segment revenue is derived from the auto sector and the rest from appliances.
- The company has adjusted a charge of Rs 97mn from sales as a quality settlement claim pertaining to the supply of composite LPG cylinders to Bangladesh.
- Management stated that raw material prices have corrected significantly over the past few quarters and should remain benign going ahead.
- In the packaging segment, SI offered a special incentive of ~Rs 190 mn to dealers, which ate into segmental margins. Management has guided for normalisation of margins to historical levels going ahead.
- The company has taken price corrections in 'Silpaulin' and estimates that this will erode 2ppt of product margins.
- SI has reduced prices of DWC pipes in order to counter competition. Sales of these pipes normally takes place after the monsoons and the company expects a pickup post November.
- Management believes it can achieve blended operating margins of 13-14% in FY20. During the quarter, the company made a Rs 40.4mn provision for doubtful debts (booked under other expenses), which affected margins.
- SI has guided for volume growth of 10-12% in FY20 led by the piping segment.
- Plans are underway to add ~70,000mtpa of capacity in FY20 at an estimated capex of Rs 4bn, largely in the piping segment.
- Following the tax rate cut, SI will have an effective tax rate of 25.2% in FY20.

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 (13-14%), impressive return ratios (ROE of 21.3% in FY21E) and negligible debt make the stock attractive.

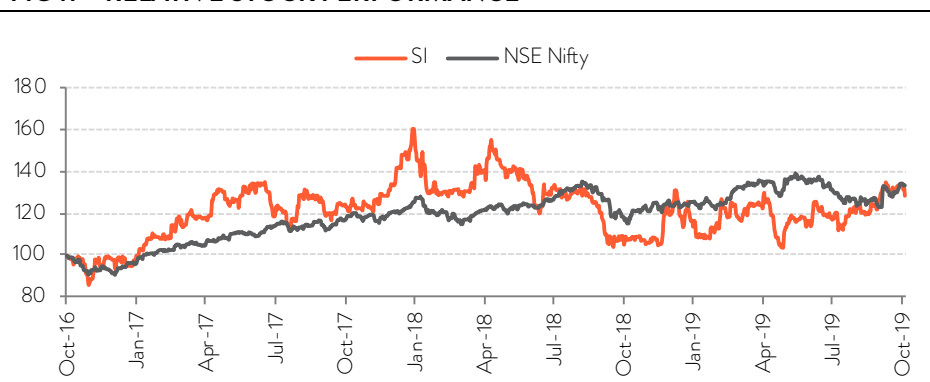
We marginally cut FY20-FY22 earnings estimates by 1-2% and continue to value SI at 27x one-year forward EPS, in line with the stock’s five-year average. Rolling valuations forward, we have a revised Sep’20 target price of Rs 1,235 (earlier Rs 1,210). Maintain ADD.

FIG 10 – REVISED ESTIMATES

(Rs mn)	Old			New			Change (%)		
	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Revenue	61,128	67,193	74,811	59,402	65,652	73,110	(2.8)	(2.3)	(2.3)
EBITDA	8334	9294	10593	8028	9122	10347	(3.7)	(1.8)	(2.3)
PAT	4,769	5,430	6,339	4,656	5,393	6,246	(2.4)	(0.7)	(1.5)

Source: BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key downside risks to our call are:

- high volatility in raw material prices,
- a slowdown in housing demand, and
- increased competition from unorganised players.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Total revenue	49,633	56,086	59,402	65,652	73,110
EBITDA	7,841	7,812	8,028	9,122	10,347
Depreciation	(1,672)	(1,835)	(2,046)	(2,284)	(2,520)
EBIT	6,169	5,977	5,982	6,838	7,827
Net interest income/(expenses)	(269)	(336)	(210)	(134)	(60)
Other income/(expenses)	53	56	70	87	117
Exceptional items	75	803	0	0	0
EBT	5,953	5,697	5,841	6,791	7,884
Income taxes	(2,057)	(2,158)	(1,495)	(1,739)	(2,018)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	347	144	310	340	380
Reported net profit	4,317	4,486	4,656	5,393	6,246
Adjustments	(75)	(803)	0	0	0
Adjusted net profit	4,242	3,683	4,656	5,393	6,246

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	4,898	5,574	5,696	6,295	7,011
Other current liabilities	2,726	2,966	2,796	3,001	3,247
Provisions	324	240	416	460	512
Debt funds	2,464	1,613	1,400	890	400
Other liabilities	0	0	0	0	0
Equity capital	254	254	254	254	254
Reserves & surplus	18,695	21,286	23,688	26,471	29,694
Shareholders' fund	18,949	21,540	23,942	26,725	29,948
Total liabilities and equities	29,361	31,932	34,250	37,371	41,117
Cash and cash eq.	363	373	129	579	1,608
Accounts receivables	3,820	3,874	4,231	4,677	5,208
Inventories	6,970	7,504	7,649	8,454	9,414
Other current assets	1,988	1,847	1,953	2,158	2,404
Investments	1,937	2,223	2,223	2,223	2,223
Net fixed assets	13,658	15,210	17,164	18,379	19,359
CWIP	626	900	900	900	900
Intangible assets	0	0	0	0	0
Deferred tax assets, net	0	0	0	0	0
Other assets	0	0	0	0	0
Total assets	29,361	31,932	34,250	37,371	41,117

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	5,989	6,322	6,702	7,677	8,766
Interest expenses	269	336	210	134	60
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(711)	674	(479)	(607)	(724)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	5,548	7,331	6,433	7,204	8,102
Capital expenditures	(2,855)	(3,661)	(4,000)	(3,500)	(3,500)
Change in investments	0	287	0	0	0
Other investing cash flows	(47)	71	0	0	0
Cash flow from investing	(2,902)	(3,304)	(4,000)	(3,500)	(3,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(314)	(851)	(213)	(510)	(490)
Interest expenses	(269)	(336)	(210)	(134)	(60)
Dividends paid	(2,293)	(1,991)	(2,253)	(2,610)	(3,023)
Other financing cash flows	(205)	(840)	0	0	0
Cash flow from financing	(3,081)	(4,017)	(2,676)	(3,254)	(3,573)
Changes in cash and cash eq.	(435)	10	(244)	450	1,029
Closing cash and cash eq.	363	373	129	579	1,608

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	34.0	35.3	36.7	42.5	49.2
Adjusted EPS	33.4	29.0	36.7	42.5	49.2
Dividend per share	9.0	15.7	17.7	20.5	23.8
Book value per share	149.2	169.6	188.5	210.4	235.8

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	3.0	2.6	2.5	2.3	2.0
EV/EBITDA	18.8	18.8	18.4	16.2	14.4
Adjusted P/E	35.2	40.5	32.0	27.7	23.9
P/BV	7.9	6.9	6.2	5.6	5.0

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.4	56.7	79.7	79.4	79.2
Interest burden (PBT/EBIT)	97.7	108.8	97.7	99.3	100.7
EBIT margin (EBIT/Revenue)	12.4	10.7	10.1	10.4	10.7
Asset turnover (Revenue/Avg TA)	172.9	183.0	179.5	183.3	186.3
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.4
Adjusted ROAE	23.6	18.2	20.5	21.3	22.0

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
YoY growth (%)					
Revenue	11.3	13.0	5.9	10.5	11.4
EBITDA	3.1	(0.4)	2.8	13.6	13.4
Adjusted EPS	0.1	(13.2)	26.4	15.8	15.8
Profitability & Return ratios (%)					
EBITDA margin	15.8	13.9	13.5	13.9	14.2
EBIT margin	12.4	10.7	10.1	10.4	10.7
Adjusted profit margin	8.5	6.6	7.8	8.2	8.5
Adjusted ROAE	23.6	18.2	20.5	21.3	22.0
ROCE	19.8	17.9	18.4	19.2	20.1
Working capital days (days)					
Receivables	24	25	25	25	25
Inventory	82	69	69	66	67
Payables	41	40	40	39	39
Ratios (x)					
Gross asset turnover	2.0	2.1	2.0	1.9	2.0
Current ratio	1.3	1.3	1.4	1.5	1.7
Net interest coverage ratio	22.9	17.8	28.5	51.2	130.4
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)

HISTORICAL RATINGS AND TARGET PRICE: SUPREME INDUSTRIES (SI IN)



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

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