

SELL

TP: Rs 1,605 | ▼ 7%

SUPREME INDUSTRIES

Plastic Products

25 January 2021

Inventory gains aid higher profitability

Supreme Industries' (SI) Q3FY21 revenue grew 34% YoY, aided by a 10% rise in volumes. Inventory gains of Rs 800mn supported EBITDA margin expansion of 570bps YoY to 21.8% and EBITDA/PAT growth of 82%/112%. We hike FY21-FY23 EBITDA by 5-31% due to the inventory profits in Q3 and raise our target P/E to 30x (from 28x). Rolling valuations over, we have a new Mar'22 TP of Rs 1,605 (vs. Rs 1,325). Though we like SI for its strong balance sheet and comprehensive portfolio, we maintain SELL on limited upside.

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Revenue fuelled by higher PVC prices: SI's revenue grew 34% YoY to Rs 18.4bn as PVC resin prices increased 25% during the quarter and volumes grew 10%. Plastic piping/industrials/consumer revenues were up 43%/38%/12% YoY and volume growth stood at 9%/32%/11% (blended 10%). Management stated that demand has normalised across businesses but that higher PVC resin pricing was affecting demand in the agriculture pipe segment.

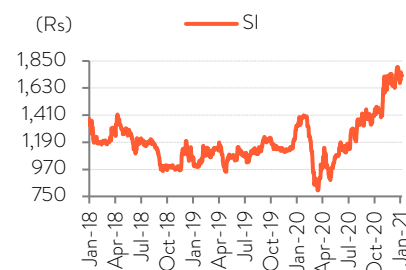
Inventory gains aid margins: SI's operating margins expanded 570bps YoY to 21.8% due to lower raw material (-175bps), power & fuel (-95bps) cost, and other expenditure (-240bps). Gross margins increased in Q3 mainly from inventory gains of Rs 800mn during the quarter and also higher value-added product sales. EBITDA/PAT thus surged 82%/112% YoY. Management indicated that these margins will not be sustainable once PVC prices correct.

Maintain SELL: We increase FY22/FY23 EBITDA estimates by 5% each and EPS by 9% each. Given inventory gains in Q3, we upgrade FY21 EBITDA by 31% while EPS rises 52% to factor in better associate company performance. Current valuations at 32.4x FY23E EPS look full and hence we retain our SELL rating. On rollover, we move to a new Mar'22 TP of Rs 1,605.

Ticker/Price	SI IN/Rs 1,732
Market cap	US\$ 3.0bn
Shares o/s	127mn
3M ADV	US\$ 2.6mn
52wk high/low	Rs 1,848/Rs 773
Promoter/FPI/DII	49%/9%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue (Rs mn)	56,086	55,087	62,098	62,921	69,596
EBITDA (Rs mn)	7,812	8,563	10,597	9,830	11,114
Adj. net profit (Rs mn)	3,683	4,866	6,900	5,924	6,798
Adj. EPS (Rs)	29.0	38.3	54.3	46.6	53.5
Adj. EPS growth (%)	(13.2)	32.1	41.8	(14.1)	14.7
Adj. ROAE (%)	18.2	22.0	28.3	21.4	21.9
Adj. P/E (x)	59.7	45.2	31.9	37.1	32.4
EV/EBITDA (x)	27.9	25.5	20.6	22.2	19.8

Source: Company, BOBCAPS Research

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Important disclosures, including any required research certifications, are provided at the end of this report.



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Total revenues	18,438	13,733	34.3	13,748	34.1	42,725	40,811	4.7
Total raw material consumed	11,610	8,891	30.6	8,486	36.8	27,641	27,301	1.2
% of sales	63.0	64.7	(177bps)	61.7	124bps	64.7	66.9	(220bps)
Employee expense	813	685	18.8	727	11.8	2,173	2,056	5.7
% of sales	4.4	5.0	(58bps)	5.3	(88bps)	5.1	5.0	5bps
Power & fuel expense	554	541	2.3	535	3.4	1,438	1,610	(10.7)
% of sales	3.0	3.9	(94bps)	3.9	(89bps)	3.4	3.9	(58bps)
Other expense	1,446	1,407	2.7	1,441	0.3	3,729	4,232	(11.9)
% of sales	7.8	10.2	(241bps)	10.5	(264bps)	8.7	10.4	(164bps)
Total expenditure	14,422	11,524	25.2	11,189	28.9	34,980	35,199	(0.6)
% of sales	78.2	83.9	(569bps)	81.4	(317bps)	81.9	86.3	(438bps)
EBITDA	4,016	2,209	81.8	2,559	57.0	7,745	5,611	38.0
% of sales	21.8	16.1	569bps	18.6	317bps	18.1	13.7	438bps
Depreciation	549	515	6.6	523	5.0	1,580	1,528	3.4
Other income	37	19	90.7	1	4,500.0	87	44	97.3
Interest cost	22	68	(67.7)	25	(12.0)	171	190	(10.1)
PBT	3,481	1,645	111.6	2,011	73.1	6,081	3,937	54.5
Taxes	886	419	111.5	527	68.2	1,560	678	130.0
Effective tax rate (%)	25.5	25.5	(1bps)	26.2	(74bps)	25.7	17.2	842bps
PAT	2,595	1,226	111.6	1,484	74.8	4,521	3,259	38.7
Share of profit of associate	528	8	6,846.1	265	99.1	757	242	212.1
RPAT	3,123	1,234	153.1	1,750	78.5	5,278	3,501	50.7

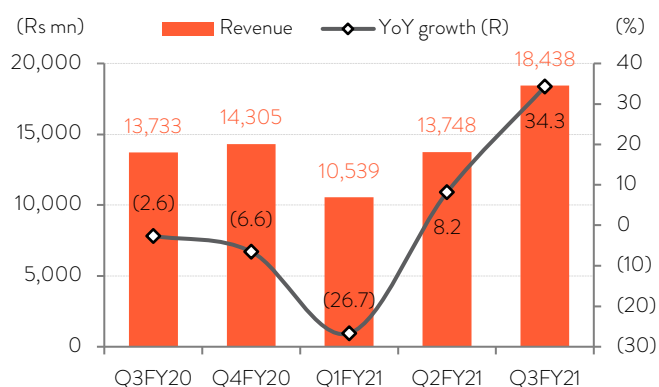
Source: Company, BOBCAPS Research

FIG 2 – CONSOLIDATED SEGMENTAL PERFORMANCE

(Rs mn)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	9MFY21	9MFY20	YoY (%)
Revenue								
Plastic Piping Products	11,402	7,984	42.8	8,473	34.6	27,520	25,079	9.7
Industrial Products	2,161	1,566	38.0	1,815	19.1	4,680	5,139	(8.9)
Packaging Products	3,179	3,086	3.0	2,198	44.6	7,253	7,517	(3.5)
Consumer Products	1,167	1,046	11.7	855	36.6	2,302	2,882	(20.1)
Others	528	52	914.2	408	29.6	969	194	400.1
Net revenue from operations	18,438	13,733	34.3	13,748	34.1	42,725	40,811	4.7
EBIT								
Plastic Piping Products	2,503	1,035	141.7	1,475	69.6	4,643	2,917	59.2
Industrial Products	201	85	136.2	120	67.2	244	186	31.6
Packaging Products	399	437	(8.8)	256	55.8	838	682	22.9
Consumer Products	228	153	49.5	127	79.9	310	391	(20.6)
Others	139	1	13,820.0	100	38.6	238	2	13,144.4
Total EBIT	3,469	1,711	102.7	2,079	66.9	6,274	4,177	50.2
EBIT margins (%)								
Plastic Piping Products	21.9	13.0	898bps	17	454bps	16.9	11.6	524bps
Industrial Products	9.3	5.4	386bps	7	267bps	5.2	3.6	161bps
Packaging Products	12.5	14.2	(163bps)	12	90bps	11.6	9.1	249bps
Consumer Products	19.6	14.6	495bps	15	471bps	13.5	13.6	(8bps)

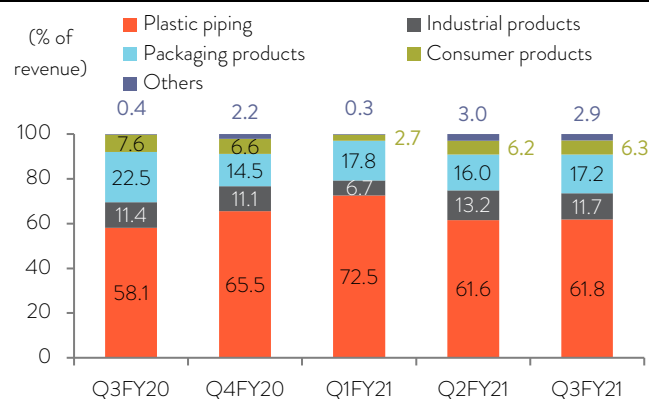
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GROWTH



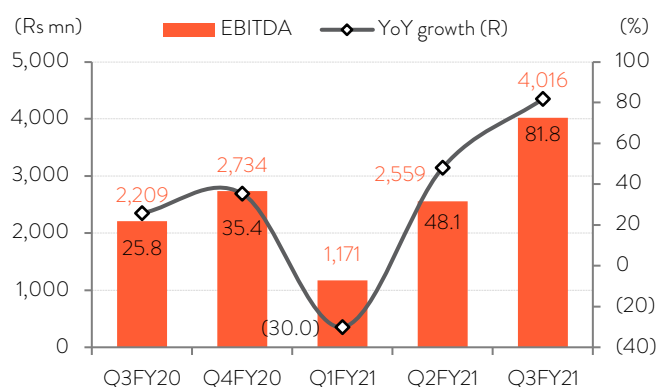
Source: BOBCAPS Research

FIG 4 – REVENUE MIX



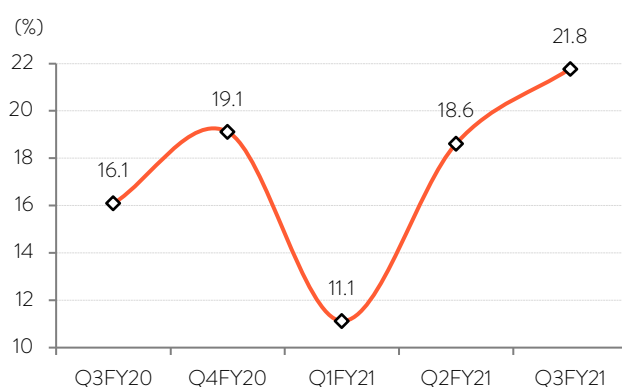
Source: BOBCAPS Research

FIG 5 – CONSOLIDATED EBITDA GROWTH



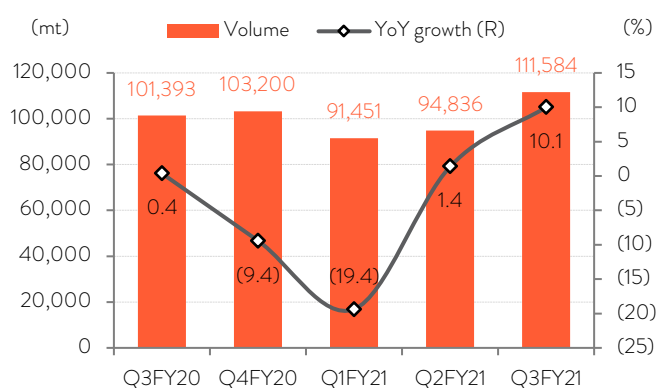
Source: BOBCAPS Research, Company

FIG 6 – CONSOLIDATED EBITDA MARGIN



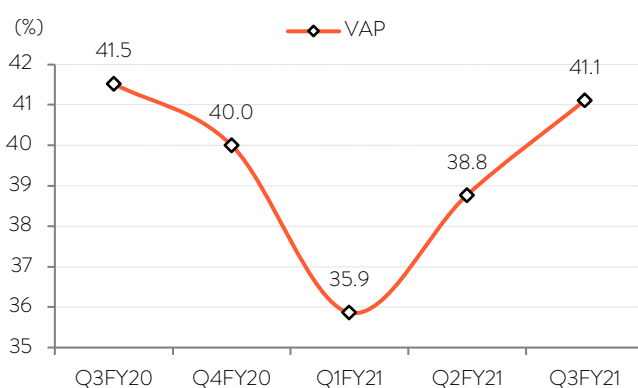
Source: BOBCAPS Research, Company

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)	Q3FY21	Q3FY20	YoY (%)	Q2FY21	QoQ (%)
Plastic piping	76,759	70,431	9.0	66,609	15.2
Packaging Products	16,785	16,399	2.4	12,239	37.1
Industrial Products	11,652	8,801	32.4	11,285	3.3
Consumer Products	6,388	5,762	10.9	4,703	35.8
Total	1,11,584	1,01,393	10.1	94,836	17.7

Source: BOBCAPS Research, Company

Earnings call highlights

- Per management, business has normalised across segments post-pandemic. SI saw healthy demand from rural markets and tier-3/4 cities due to a good crop. Offtake from urban markets has also started to pick up.
- The company did see a slowdown in agriculture pipe demand due to high PVC resin prices. The housing pipe market continues to do well, both in rural and urban areas.
- PVC resin prices have increased 25% during Q3FY21. Management believes prices will come down from March, aiding better demand from the agriculture segment.
- SI had inventory gains of Rs 800mn during the quarter which boosted its operating margins.
- In the industrial business, the company saw good demand for pellets. The industrial component business registered healthy offtake from consumer durable manufacturers.
- The 12,000t DWC pipe capacity is currently not fully utilised. Management is hopeful of seeing good demand from this segment as the government renews its focus on infrastructure spending.
- Management plans to spend Rs 4bn on capex in FY21 (includes Rs 1.82bn carried forward from last year). The company has Rs4.32 bn of cash on books as of 31st Dec,2020.
- The company currently has ~4,000 dealers (vs. 3,567 YoY).

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 (14-15%), impressive return ratios (ROE of 22% in FY23E) and a debt-free balance sheet

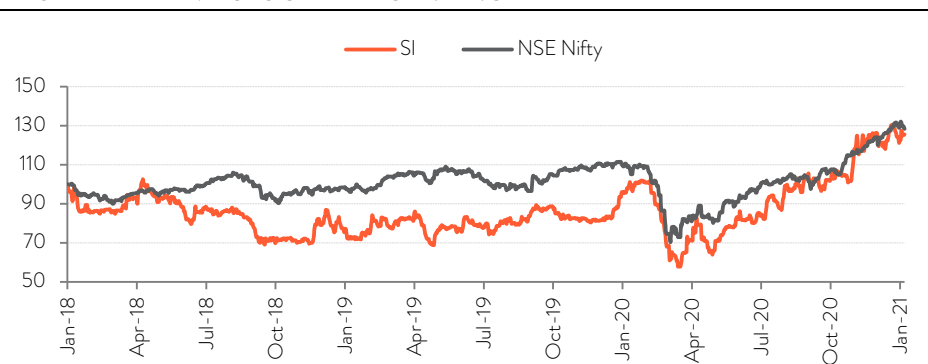
Post Q3, we increase FY22/FY23 earnings estimates by 9% each but raise our FY21 EPS by 52% due to inventory gains and better performance of associate company Supreme Petrochem. Though we like SI for its product portfolio and strong balance sheet, current valuations at 32.4x FY23E EPS offer limited upside. Maintain SELL as we roll forward to a revised Mar’22 target price of Rs 1,605 (earlier Rs 1,325). We now value SI at a one-year forward P/E of 30x (earlier 28x), in line with the five-year average.

FIG 10 – REVISED ESTIMATES

(Rs mn)	Old			New			Change (%)		
	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E
Revenue	54,211	61,249	67,734	62,098	62,921	69,596	14.5	2.7	2.7
EBITDA	8,100	9,334	10,556	10,597	9,830	11,114	30.8	5.3	5.3
PAT	4,534	5,429	6,212	6,900	5,924	6,798	52.2	9.1	9.4

Source: BOBCAPS Research

FIG 11 – RELATIVE STOCK PERFORMANCE



Source: NSE

Key risks

Key upside risks to our call are:

- above-expected margins in the event of reduced raw material cost,
- the unorganised market seeing a worse fall than anticipated, and
- above-anticipated demand from the housing market.

FINANCIALS

Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Total revenue	56,086	55,087	62,098	62,921	69,596
EBITDA	7,812	8,563	10,597	9,830	11,114
Depreciation	(1,835)	(2,057)	(2,146)	(2,377)	(2,624)
EBIT	5,977	6,506	8,452	7,453	8,490
Net interest income/(expenses)	(336)	(297)	(195)	(95)	(60)
Other income/(expenses)	56	84	117	164	197
Exceptional items	803	(192)	0	0	0
EBT	5,697	6,293	8,374	7,523	8,627
Income taxes	(2,158)	(1,739)	(2,374)	(2,038)	(2,339)
Min. int./Inc. from associates	144	312	900	440	510
Reported net profit	4,486	4,674	6,900	5,924	6,798
Adjustments	(803)	192	0	0	0
Adjusted net profit	3,683	4,866	6,900	5,924	6,798

Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Accounts payables	5,574	5,475	5,955	6,034	6,674
Other current liabilities	2,123	2,347	2,382	2,413	2,669
Provisions	240	313	435	440	487
Debt funds	1,613	4,113	1,500	400	200
Other liabilities	843	947	947	947	947
Equity capital	254	254	254	254	254
Reserves & surplus	21,286	22,358	25,918	28,975	32,483
Shareholders' fund	21,540	22,612	26,172	29,229	32,737
Total liabilities and equities	31,932	35,807	37,390	39,463	43,714
Cash and cash eq.	373	1,614	774	2,208	3,492
Accounts receivables	3,874	3,128	3,743	3,965	4,386
Inventories	7,504	8,906	9,357	8,619	9,534
Other current assets	1,847	2,379	2,382	2,413	2,669
Investments	2,223	2,773	2,773	2,773	2,773
Net fixed assets	15,014	15,917	17,271	18,395	19,771
CWIP	900	929	929	929	929
Intangible assets	196	160	160	160	160
Total assets	31,932	35,807	37,390	39,463	43,714

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Net income + Depreciation	6,322	6,731	9,046	8,301	9,422
Interest expenses	336	297	195	95	60
Changes in working capital	674	(989)	(433)	601	(648)
Cash flow from operations	7,331	6,038	8,808	8,997	8,834
Capital expenditures	(3,661)	(2,953)	(3,500)	(3,500)	(4,000)
Change in investments	287	(550)	0	0	0
Other investing cash flows	71	(211)	0	0	0
Cash flow from investing	(3,304)	(3,714)	(3,500)	(3,500)	(4,000)
Debt raised/repaid	(851)	2,500	(2,613)	(1,100)	(200)
Interest expenses	(336)	(297)	(195)	(95)	(60)
Dividends paid	(1,991)	(3,522)	(3,340)	(2,867)	(3,290)
Other financing cash flows	(840)	235	0	0	0
Cash flow from financing	(4,017)	(1,084)	(6,147)	(4,062)	(3,550)
Changes in cash and cash eq.	10	1,240	(840)	1,434	1,284
Closing cash and cash eq.	373	1,613	774	2,208	3,492

Per Share

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21E	FY22E	FY23E
Reported EPS	35.3	36.8	54.3	46.6	53.5
Adjusted EPS	29.0	38.3	54.3	46.6	53.5
Dividend per share	13.0	14.0	21.7	18.7	21.4
Book value per share	169.6	178.0	206.0	230.1	257.7

Valuations Ratios

Y/E 31 Mar (x)	FY19A	FY20A	FY21E	FY22E	FY23E
EV/Sales	3.9	4.0	3.5	3.5	3.2
EV/EBITDA	27.9	25.5	20.6	22.2	19.8
Adjusted P/E	59.7	45.2	31.9	37.1	32.4
P/BV	10.2	9.7	8.4	7.5	6.7

DuPont Analysis

Y/E 31 Mar (%)	FY19A	FY20A	FY21E	FY22E	FY23E
Tax burden (Net profit/PBT)	56.7	79.8	82.4	78.8	78.8
Interest burden (PBT/EBIT)	108.8	93.8	99.1	100.9	101.6
EBIT margin (EBIT/Revenue)	10.7	11.8	13.6	11.8	12.2
Asset turnover (Revenue/Avg TA)	183.0	162.6	169.7	163.7	167.3
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.5	1.4	1.3
Adjusted ROAE	18.2	22.0	28.3	21.4	21.9

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

Ratio Analysis

Y/E 31 Mar	FY19A	FY20A	FY21E	FY22E	FY23E
YoY growth (%)					
Revenue	13.0	(1.8)	12.7	1.3	10.6
EBITDA	(0.4)	9.6	23.8	(7.2)	13.1
Adjusted EPS	(13.2)	32.1	41.8	(14.1)	14.7
Profitability & Return ratios (%)					
EBITDA margin	13.9	15.5	17.1	15.6	16.0
EBIT margin	10.7	11.8	13.6	11.8	12.2
Adjusted profit margin	6.6	8.8	11.1	9.4	9.8
Adjusted ROAE	18.2	22.0	28.3	21.4	21.9
ROCE	17.9	18.7	22.3	19.0	19.8
Working capital days (days)					
Receivables	25	23	20	22	22
Inventory	69	84	83	79	73
Payables	40	43	41	41	40
Ratios (x)					
Gross asset turnover	2.1	1.9	1.9	1.8	1.8
Current ratio	1.4	1.3	1.6	1.9	2.0
Net interest coverage ratio	17.8	21.9	43.3	78.5	141.5
Adjusted debt/equity	0.1	0.1	0.0	(0.1)	(0.1)

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

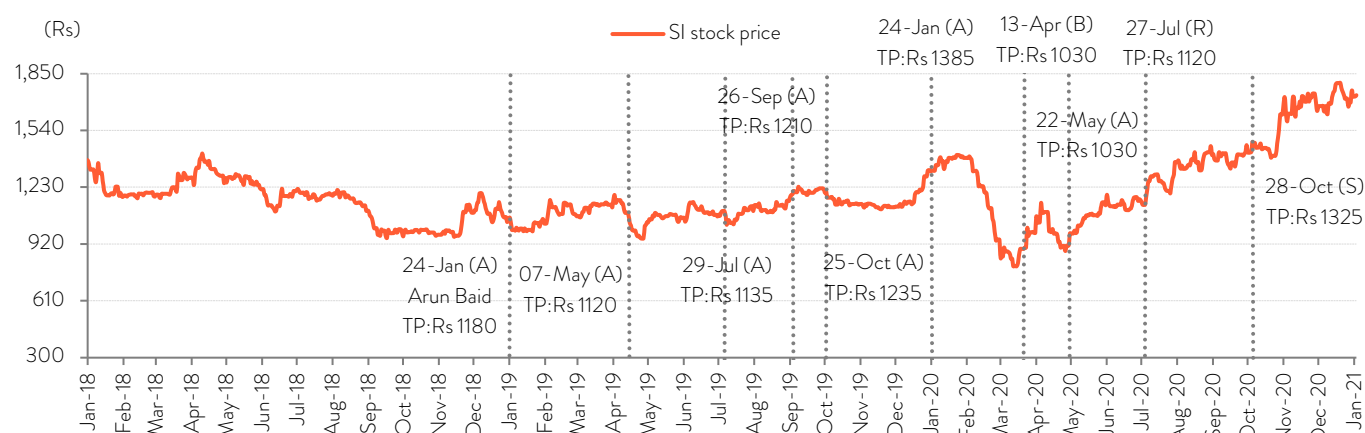
ADD – Expected return from >+5% to +15%

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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