

Retail Equity Research
Supreme Industries Ltd

Plastic Products

BSE CODE : 509930 NSE CODE: SUPREMEIND
BLOOMBERG CODE: SI:IN SENSEX : 38,276

REDUCE

12M Investment Period Rating as per Mid Cap
CMP Rs1,016 TARGET Rs936 RETURN -8% ↓
(Closing: 07-05-19)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Weak operating performance...

Supreme Industries Ltd (SIL) is India's leading player in plastic products; the wide range of offering includes Plastic Piping system, Packaging, Industrial and Consumer products .

- Q4FY19 Revenue grew by modest 4%, but PAT declined by 37% YoY due to weak operating performance.
- EBITDA declined by 30% YoY and margins declined by 630bps YoY to 13.2% due to inventory loss & weak product mix.
- With gradual revival in demand from agriculture and housing segment, we expect volume & revenue growth to pick-up.
- However, rising competition and near term demand headwind is likely to keep margins under pressure in the near term.
- Considering this scenario, we lower our EPS estimates by 4% & 7% for FY20E & FY21E to factor in near term impact on margins.
- We are positive on long term growth of given its market leadership position, diversified product profile and strong balance sheet. However, keeping in view weak earnings outlook in the near term, we value SIL at P/E of 24x (25x) on FY20E and downgrade to "Reduce" from "Hold" with a target price of Rs936 .

Weak volume & Revenue growth...

SIL's Q4FY19 revenue grew by 4% YoY, led by piping segment which grew by 18% YoY, packaging 13% YoY and Consumer segment 5% YoY. While, it's Industrial segment de-grew by 10% YoY. The overall volume growth was at 10.5% YoY. Plastic piping & consumer segment volumes grew by 15% & 3% YoY respectively. Packaging volume grew by 14%, Industrial segment witnessed 13% de-growth. Overall volume growth for FY19 was at 7% and value growth was at 14% which was lower than our estimates. Management has guided a volume growth 10%-12% for FY20E. We lower our revenue estimates by 3% for FY20 & FY21E to factor in the impact on revenue for FY19. We expect revenue to grow by 13% CAGR over FY19-21E .

PAT to grow by 15% CAGR over FY19-21E...

SIL's Q4FY19 gross margins declined by 500bps YoY to 30.70% on account of inventory loss due to sharp fall in raw material cost, sub-optimum volumes and inferior product mix. EBITDA margins declined by 630bps YoY to 13.2% due to higher other expenses. The consolidated PAT declined by 37% YoY to Rs123cr. During FY19, operating margins from all the segments were on decline due to weak demand scenario, inferior product mix and inventory loss due to volatility in raw materials. However, we believe that going ahead with improvement in construction sector and stable raw materials prices EBITDA margins will be stable going forward. We factor EBITDA margin to be at 14.6% & 14.8% for FY20E & FY21E. However, given changes in revenue estimates our EPS estimates stand reduced by 3.5% & 6% for FY20E & FY21E .

Capex plans...

SIL plans to spend Rs300-350cr for expanding capacities of PVC Pipe System/HDPE Pipe System/CPVC . Expanding Roto Moulding Capacity. To add end of the line fabrication machines for performance packaging films. To enhance capacity in Protective Packaging Division.

Valuations

Given the near term demand headwinds and volatility in raw materials price, we believe that near margins will be impacted. We value SIL at P/E 24x (25x) on FY20E and downgrade to "Reduce" from Hold, with a target price of Rs936.

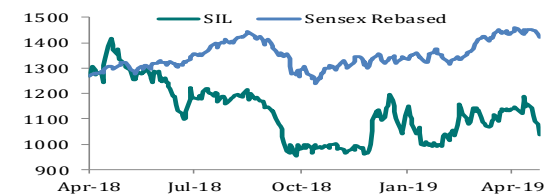
Company Data

Market Cap (cr)	Rs. 12,906
Enterprise Value (cr)	Rs. 13,073
Outstanding Shares (cr)	12.7
Free Float	50.3%
Dividend Yield	1.3%
52 week high	Rs. 1,380
52 week low	Rs. 936
6m average volume (cr)	0.3
Beta	0.8
Face value	Rs. 2

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	49.7	49.7	49.7
FII's	7.2	7.0	8.5
MFs/Insti	22.0	22.8	21.7
Public	16.6	16.5	16.5
Others	4.5	4.0	3.6
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	4.2%	4.0%	-23.3%
Absolute Sensex	3.5%	8.9%	8.7%
Relative Return*	0.7%	-4.9%	-32.0%

over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	5,612	6,272	7,206
Growth (%)	13.0	11.8	14.9
EBITDA	785	909	1,052
EBITDA Margin(%)	14.0	14.5	14.6
PAT Adj.	449	495	587
Growth (%)	3.9	10.4	18.5
Adj.EPS	35.3	39.0	46.2
Growth (%)	3.9	10.4	18.5
P/E	28.8	26.0	22.0
P/B	6.0	5.2	4.5
EV/EBITDA	16.7	14.3	12.4
ROE (%)	22.2	21.5	22.1
D/E	0.1	0.1	0.1

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

Rs cr)	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
Sales	1,531	1,471	4.1	2,941	2,750	7.0
EBITDA	202	287	(29.6)	378	484	(22.1)
EBITDA margins	13.2	19.5	(630bps)	12.8	17.6	(480bps)
Depreciation	48	41	16.3	94	84	11.3
EBIT	154	245	(37.3)	284	400	(29.1)
Interest	6	6	-	12	13	(13.5)
Other Income	3	4	-	11	4	(150.2)
Exceptional Items	11	-	-	11	-	-
PBT	162	244	(33.6)	294	391	(25.0)
Tax	49	77	(36.8)	95	129	(26.4)
Share of profit from Associate	11	12	-	6	21	(71.5)
Other comprehensive income	(-2)	-	-	(2)	(1)	-
Reported PAT	122	178	(31.5)	203	282	(28.0)
Adjustments	(9.3)	-	-	(9)	1	-
Adj PAT	113	178	(36.8)	194	283	(31.4)
No. of Shares	12.7	12.7	-	12.7	12.7	-
EPS (Rs)	8.9	14.0	(36.8)	15.3	22.2	(31.4)

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	6,468	7,432	6,272	7,206	(3.0)	(3.0)
EBITDA	944	1,130	909	1,052	(3.7)	(6.9)
Margins (%)	14.6	15.2	14.5	14.6	(10bps)	(60bps)
Adj. PAT	517	633	495	587	(4.3)	(7.3)
EPS	40.7	49.8	39.0	46.2	(4.3)	(7.3)

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	4,462	4,966	5,612	6,272	7,206
% change	50.7	11.3	13.0	11.8	14.9
EBITDA	762	787	785	909	1,032
% change	65.3	3.3	(0.3)	15.9	15.7
Depreciation	154	167	184	213	231
EBIT	608	620	601	696	821
Interest	34	27	26	18	15
Other Income	9	10	8	20	23
PBT	582	603	650	698	829
% change	80.9	3.5	7.8	7.3	18.8
Tax	206	206	216	237	282
Tax Rate (%)	35.3	34.1	33.2	34.0	34.0
Reported PAT	428	431	446	495	587
Adj.*	2	1	2.4	-	-
Adj. PAT	430	432	449	495	587
% change	95.9	0.3	3.9	10.4	18.5
No. of shares (cr)	12.7	12.7	12.7	12.7	12.7
Adj EPS (Rs)	33.9	34.0	35.3	39.0	46.2
% change	95.9	0.3	3.9	10.4	18.5
DPS (Rs)	9.4	14.5	14.7	14.7	14.7
CEPS (Rs)	46.0	47.1	49.8	55.8	64.4

CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	531	564	630	709	818
Non-cash adj.	58	8	36	(3)	(10)
Changes in W.C	(124)	(63)	5	(134)	(195)
C.F. Operation	465	509	671	571	613
Capital exp.	(210)	(286)	(366)	(300)	(300)
Change in inv.	2	3	(23)	(40)	(70)
Other invest.CF	6	15	-	-	-
C.F - Investment	(202)	(267)	(390)	(340)	(370)
Issue of equity	-	-	-	-	-
Issue/repay debt	(133)	(31)	(68)	(30)	(20)
Dividends paid	(46)	(229)	(187)	(187)	(187)
Other finance.CF	(31)	(26)	(26)	(18)	(15)
C.F - Finance	(210)	(286)	(281)	(235)	(222)
Chg. in cash	52	(44)	0	(4)	21
Closing cash	76	32	32	28	49

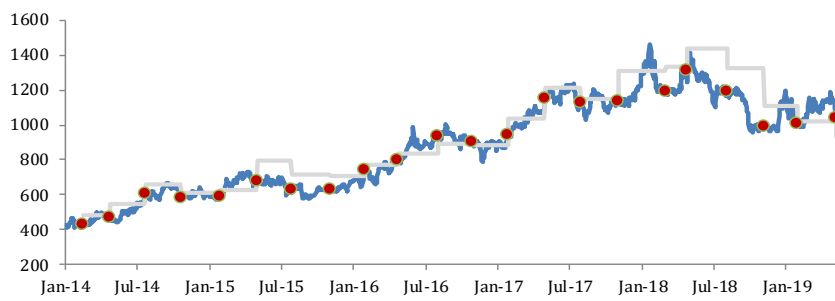
BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	76	32	32	28	49
Accounts Receivable	275	382	387	481	573
Inventories	777	697	750	867	995
Other Cur. Assets	194	203	234	272	314
Investments	175	194	217	257	327
Gross Fixed Assets	2,268	2,508	2,846	3,156	3,436
Net Fixed Assets	1,254	1,347	1,501	1,598	1,648
CWIP	46	63	90	80	100
Intangible Assets	10	18	20	20	20
Def. Tax (Net)	(116)	(113)	(123)	(102)	(78)
Other Assets	-	-	-	-	-
Total Assets	2,690	2,823	3,109	3,501	3,947
Current Liabilities	453	490	558	651	696
Provisions	17	20	24	34	39
Debt Funds	233	235	167	137	137
Other Liabilities	291	183	206	217	232
Equity Capital	25	25	25	25	25
Reserves & Surplus	1,670	1,869	2,129	2,437	2,837
Shareholder's Fund	1,696	1,895	2,154	2,462	2,862
Total Liabilities	2,690	2,823	3,109	3,501	3,947
BVPS	133	149	170	194	225

RATIOS

Y.E March	FY17A	FY18A	FY19A	FYE20E	FY21E
Profitab & Return					
EBITDA margin (%)	17.1	15.8	14.0	14.5	14.6
EBIT margin (%)	13.6	12.5	10.7	11.1	11.4
Net profit mgn.(%)	9.6	8.7	8.0	7.9	8.1
ROE (%)	28.6	24.0	22.2	21.5	22.1
ROCE (%)	26.1	22.1	20.9	20.6	21.4
W.C & Liquidity					
Receivables (days)	20.9	24.2	25.0	25.3	26.7
Inventory (days)	54.6	54.2	47.1	47.1	47.2
Payables (days)	50.0	52.4	50.1	52.2	50.8
Current ratio (x)	2.8	2.6	2.4	2.4	2.6
Quick ratio (x)	0.7	0.8	0.7	0.7	0.8
Turnover & Leverage					
Gross asset T.O (x)	2.1	2.1	2.1	2.1	2.2
Total asset T.O (x)	1.8	1.8	1.9	1.9	1.9
Int. covge. ratio (x)	17.9	23.0	23.1	38.2	54.0
Adj. debt/equity (x)	0.1	0.1	0.1	0.1	0.1
Valuation					
EV/Sales (x)	2.9	2.6	2.3	2.1	1.8
EV/EBITDA (x)	17.2	16.7	16.7	14.3	12.4
P/E (x)	30.0	29.9	28.8	26.0	22.0
P/BV (x)	7.6	6.8	6.0	5.2	4.5

Recommendation summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
02-November-15	Accumulate	704
29-January-16	Hold	768
22-April-16	Hold	836
02-August-16	Reduce	895
28-October-16	Reduce	885
27-January-16	Accumulate	1033
02-May-17	Hold	1209
31-July-17	Hold	1150
01-November-17	Buy	1307
1-March-18	Accumulate	1335
27-April-18	Accumulate	1440
06-August-18	Accumulate	1328
06-November-18	Accumulate	1108
29-January-19	Hold	1018
08-May-19	Reduce	936

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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