

Retail Equity Research Supreme Industries Ltd

Plastic Products

BSE CODE : 509930 NSE CODE: SUPREMEIND
BLOOMBERG CODE: SI:IN SENSEX : 30,609

Accumulate

12M Investment Period

Rating as per Mid Cap

CMP Rs.991 TARGET Rs1,126 RETURN 14% ↑
(Closing: 26-05-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Margin expands...positive surprise amid weak volumes
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 .

- We upgrade to Accumulate, given improvement in margin profile driven by better product mix & lower cost. We expect revival in revenue growth from H2FY21E, led by rural & agri demand.
- Q4FY20 Revenue de-grew by 6% YoY, but PAT grew by 4% YoY on account of higher operating margin.
- EBITDA margin improved by 590bps YoY to 19.1% led yearly discounts from RM supplier and better product mix.
- Q4 volume de-grew by 9 YoY, but management expects volume to pick-up led by revival in demand from packaging and plastic piping segment.
- We believe that earnings downgrade in stock prices has already factored. Considering this, we value SIL at P/E of 28x on FY22E with a target price of Rs1,126.

Covid-19 impacted revenue growth...

SIL's Q4FY20 revenue de-grew by 7% YoY, on account of shutdown due to covid-19 impact. Overall volume de-grew by 9% YoY. The volume impact seen was broad based across with Plastic piping, packaging, Industrial and consumer segment, 7%, 18%, 12% & 14% respectively. But on account of better product mix, revenue from Plastic piping & consumer revenue was flat YoY. While packaging & industrial segment witnessed de-grew by 22% & 35% YoY. Management has not given any guidance for FY21E. In the near term, Construction demand to be weak, however we expect agriculture related demand in plastic piping & packaging to support revenue. Given near term impact on revenue due to lockdown on account of covid-19 & weak construction demand, we lower our revenue estimates by 25% & 18% for FY21E & FY22E.

Soft RM prices & Better product mix supported margin...

SIL's Q4FY20 EBITDA margin improved by 590bps YoY to 19.1% and EBITDA grew by 35% YoY. Significant improvement in margins was due to yearly discount received from RM supplier and on account of higher value added share in sales mix. Considering the impact of lockdown on revenue growth and lower scale benefits, we factor lower our EBITDA margin to estimates by 280bps for FY21E. Given changes in our revenue & EBITDA estimates, our EPS estimates stand reduced by 53% & 24% for FY21E & FY22E. We expect PAT to grow by 5% CAGR over FY20-22E.

Capex plans...

SIL plans to spend Rs200cr for expanding capacities of PVC Pipe, HDPE pipes, DWC pipes, CPVC pipes and water tank moulds. Also plans to set up plant for cross laminated films.

Valuations

Going ahead, we expect construction demand to be muted in the near term. However, led by gradual improvement in rural & agriculture demand we expect revenue growth to pick-up from H2FY21E. We believe that near term weakness has already factored in stock prices. Given SIL strong brand recall, distribution network and healthy margin profile, we continue to remain constructive. We value SIL at P/E of 28x with a target price of Rs1,126 and recommend to Accumulate.

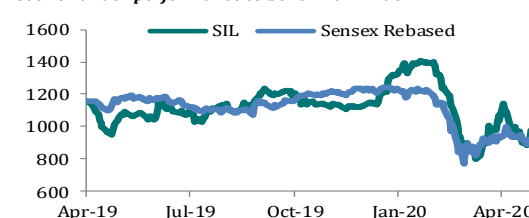
Company Data

Market Cap (cr)	Rs.12,587
Enterprise Value (cr)	Rs.13,030
Outstanding Shares (cr)	12.7
Free Float	50.3%
Dividend Yield	2.3%
52 week high	Rs.1,414
52 week low	Rs.791
6m average volume (cr)	0.3
Beta	0.8
Face value	Rs. 2

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	49.7	49.7	49.9
FII's	8.1	8.2	8.0
MFs/Insti	23.3	23.5	24.0
Public	15.3	15.0	14.1
Others	3.6	3.6	4.0
Total	100.0	100.0	100.0
Promoter Pledge	0.0	0.0	0.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-28.5%	-12.0%	-7.6%
Absolute Sensex	-22.3%	-24.6%	-21.9%
Relative Return*	-6.2%	12.6%	14.3%

over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	5,512	4,918	6,011
Growth (%)	(1.8)	(10.8)	22.2
EBITDA	835	566	872
EBITDA Margin(%)	15.1	11.5	14.5
PAT Adj.	467	268	511
Growth (%)	22.5	(43.0)	91.0
Adj.EPS	36.8	21.1	40.2
Growth (%)	22.5	(43.0)	91.0
P/E	26.9	47.0	24.6
P/B	5.6	5.4	4.8
EV/EBITDA	15.6	23.0	14.8
ROE (%)	21.2	11.7	20.6
D/E	0.6	0.7	0.8

Anil R
Research Analyst

Quarterly Financials

Profit & Loss

Rs (cr)	Q4FY20	Q4FY19	YoY Growth %	Q3FY19	QoQ Growth %
Sales	1,430	1,531	<i>(6.6)</i>	1,373	4.2
EBITDA	273	202	35.4	221	23.8
EBITDA margins	19.1	13.2	<i>+590bps</i>	16.1	300bps
Depreciation	53	48	9.8	52	2.6
EBIT	221	154	43.4	169	30.2
Interest	4	6	<i>(34.4)</i>	6	<i>(25.5)</i>
Other Income	0	3	-	1	<i>(92.5)</i>
Exceptional Items	-	-	-	-	-
PBT	216	151	43.8	165	31.5
Tax	106	49	117.2	42	153.2
Share of profit from Associate	11	7	37.2	1	-
Other comprehensive income	-	-	-	-	-
Reported PAT	117	113	4.0	123	<i>(5.0)</i>
Adjustments	-	-	-	-	-
Adj PAT	117	113	4.0	123	<i>(5.0)</i>
No. of Shares	12.7	12.7		12.7	
EPS (Rs)	9.2	8.9	4.0	9.7	<i>(5.0)</i>

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	6,532	7,318	4,918	6,011	<i>(24.7)</i>	<i>(18.0)</i>
EBITDA	934	1,061	566	872	<i>(39.5)</i>	<i>(18.0)</i>
Margins (%)	14.3	14.5	11.5	14.5	<i>(280bps)</i>	-
Adj. PAT	574	670	268	511	<i>(53.4)</i>	<i>(23.7)</i>
EPS	45.2	52.7	21.1	40.2	<i>(53.4)</i>	<i>(23.7)</i>

Consolidated Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	4,966	5,612	5512	4918	6011
% change	11.3	13.0	(1.8)	(10.8)	22.2
EBITDA	787	785	835	566	872
% change	3.3	(0.3)	6.4	(32.2)	54.1
Depreciation	167	184	206	225	242
EBIT	620	601	629	341	629
Interest	27	34	20	40	35
Other Income	10	15	1	10	14
PBT	603	650	610	310	608
% change	3.5	7.8	(6.1)	(49.1)	95.8
Tax	206	216	174	78	152
Tax Rate (%)	34.1	33.2	28.5	25.0	25.0
Reported PAT	431	446	463	268	511
Adj.*	1	(65)	-	-	-
Adj. PAT	432	381	463	268	511
% change	0.3	(11.7)	22.5	(42.7)	90.8
No. of shares (cr)	12.7	12.7	12.7	12.7	12.7
Adj EPS (Rs)	34.0	30.0	36.8	21.1	40.2
% change	0.3	(11.7)	22.5	(42.7)	90.8
DPS (Rs)	14.5	15.7	15.7	15.7	15.7
CEPS (Rs)	47.1	44.5	53.0	38.8	59.3

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Net inc. + Depn.	599	565	673	493	753
Non-cash adj.	(34)	(41)	29	40	35
Changes in W.C	(58)	32	(165)	(55)	(246)
C.F. Operation	508	556	537	477	542
Capital exp.	(282)	(326)	(240)	(257)	(350)
Change in inv.	(1)	68	26	15	-
Other invest.CF	15	18	-	-	-
C.F - Investment	(267)	(240)	(194)	(242)	(350)
Issue of equity	-	-	-	-	-
Issue/repay debt	(29)	(88)	238	(51)	(40)
Dividends paid	(229)	(199)	(352)	(199)	(199)
Other finance.CF	(26)	(29)	(41)	(40)	(35)
C.F - Finance	(284)	(316)	(156)	(290)	(274)
Chg. in cash	(43)	0	188	(55)	(82)
Closing cash	32	32	220	165	83

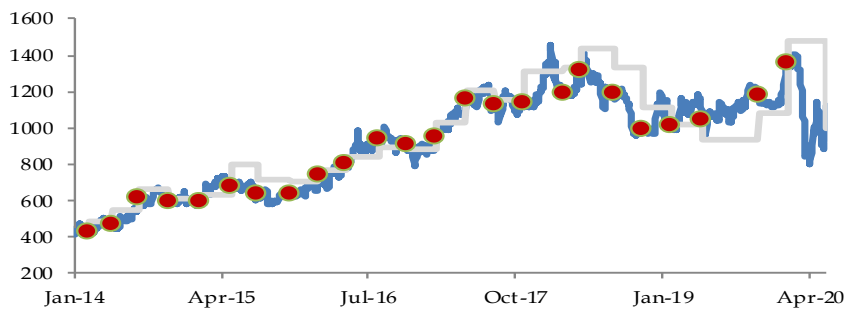
BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	32	32	220	165	83
Accounts Receivable	382	387	313	310	412
Inventories	697	750	891	754	921
Other Cur. Assets	203	226	287	260	321
Investments	194	222	207	192	192
Gross Fixed Assets	2,508	2,767	3,063	3,363	3,663
Net Fixed Assets	1,347	1,501	1,592	1,667	1,724
CWIP	63	90	93	50	100
Intangible Assets	18	20	16	16	16
Def. Tax (Net)	(113)	(120)	(133)	(133)	(133)
Other Assets	-	-	-	-	-
Total Assets	2,823	3,109	3,486	3,281	3,637
Current Liabilities	490	557	548	426	485
Provisions	20	24	31	27	36
Debt Funds	235	167	443	392	352
Other Liabilities	183	207	203	106	121
Equity Capital	25	25	25	25	25
Reserves & Surplus	1,869	2,129	2,236	2,305	2,616
Shareholder's Fund	1,895	2,154	2,261	2,330	2,642
Total Liabilities	2,823	3,109	3,486	3,281	3,637
BVPS	149	170	178	183	208

RATIOS

Y.E March	FY18A	FY19A	FY20A	FYE21E	FY22E
Profitab & Return					
EBITDA margin (%)	15.8	14.0	15.1	11.5	14.5
EBIT margin (%)	12.5	10.7	11.4	6.9	10.5
Net profit mgn.(%)	8.7	6.8	8.5	5.4	8.5
ROE (%)	24.0	18.8	21.2	11.7	20.6
ROCE (%)	22.1	18.2	19.2	11.0	18.8
W.C & Liquidity					
Receivables (days)	24.2	25.0	23.2	23.1	21.9
Inventory (days)	54.2	47.1	54.3	61.0	50.8
Payables (days)	52.4	50.0	56.4	54.9	42.0
Current ratio (x)	2.6	2.4	3.0	3.3	3.3
Quick ratio (x)	0.8	0.7	0.6	0.7	0.8
Turnover & Leverage					
Gross asset T.O (x)	2.1	2.1	1.9	1.5	1.7
Total asset T.O (x)	1.8	1.9	1.7	1.5	1.7
Int. covge. ratio (x)	23.0	17.9	31.1	8.6	17.8
Adj. debt/equity (x)	0.1	0.1	0.2	0.2	0.1
Valuation					
EV/Sales (x)	2.6	2.3	2.4	2.6	2.2
EV/EBITDA (x)	16.3	16.3	15.6	23.0	14.8
P/E (x)	29.2	33.0	26.9	47.0	24.6
P/BV (x)	6.6	5.8	5.6	5.4	4.8

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	1,033
02-May-17	Hold	1,209
31-July-17	Hold	1,150
01-November-17	Buy	1,307
1-March-18	Accumulate	1,335
27-April-18	Accumulate	1,440
06-August-18	Accumulate	1,328
06-November-18	Accumulate	1,108
29-January-19	Hold	1,018
08-May-19	Reduce	936
29-October-19	Reduce	1,082
29-January-20	Hold	1,476
27-May-20	Accumulate	1,126

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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Geojit Financial Services Ltd. (formerly known as Geojit BNP Paribas Financial Services Ltd.), Registered Office: 34/659-P, Civil Line Road, Padivattom, Kochi-682024, Kerala, India. Phone: +91 484-2901000, Website: www.geojit.com. For investor queries: customercare@geojit.com, For grievances: grievances@geojit.com, For compliance officer: compliance@geojit.com.

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