

RESEARCH
Supreme Industries | Target: Rs 1,990 | -5% | HOLD

Volumes hit by lower agricultural pipe sales

SUMMARY
Supreme Industries

- 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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Daily macro indicators

Indicator	Current	2D (%)	1M (%)	12M (%)
US 10Y yield (%)	1.19	(10bps)	(25bps)	58bps
India 10Y yield (%)	6.19	(2bps)	19bps	39bps
USD/INR	74.88	(0.4)	(1.4)	0.1
Brent Crude (US\$/bbl)	68.62	(6.8)	(6.7)	58.5
Dow	33,962	(2.1)	2.0	27.3
Shanghai	3,539	0.0	0.4	6.8
Sensex	52,553	(1.1)	0.4	40.4
India FII (US\$ mn)	16-Jul	MTD	CYTD	FYTD
FII-D	(24.1)	56.7	(3,110.1)	(1,082.8)
FII-E	(56.8)	(510.5)	7,573.7	247.3

Source: Bank of Baroda Economics Research

BOBCAPS Research

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HOLD
 TP: Rs 1,990 | ▼ 5%

SUPREME INDUSTRIES | Plastic Products

21 July 2021

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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%

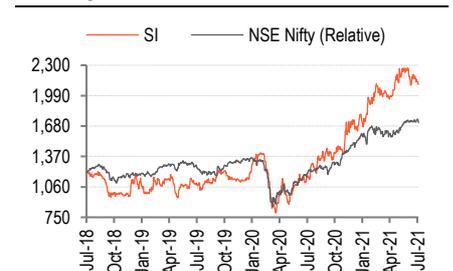
Source: NSE | Price as of 20 Jul 2021

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



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.

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