

ADD

TP: Rs 1,135 | ▲ 6%

SUPREME INDUSTRIES

Plastic Products

29 July 2019

Good volume growth but margins underperform

Supreme Industries (SI) reported below-expected Q1FY20 revenue growth of 6.8% YoY despite a healthy 13.5% rise in volumes. EBITDA margins contracted 215bps YoY to 11.6% due to higher raw material cost (+125bps) and other expenditure (+80bps), which led to EBITDA/adj. PAT declines of 10%/16.5% YoY. Management has guided for revenue growth of 12-15% with operating margins of 13.5-14.5% in FY20. We pare FY20/FY21 earnings estimates by ~3% each and roll over to a revised Jun'20 TP of Rs 1,135 (earlier Rs 1,120).

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Volume-led revenue growth: SI's revenue grew 6.8% YoY to Rs 14.4bn in Q1 with plastic piping revenues up 20%, whereas industrials/packing products declined 17%/6% YoY. Volume growth came from piping (+22.4%) and packaging (+0.8% YoY), while the industrials and consumer segments fell 16.1%/3.3% YoY, leading to blended growth of 13.5% YoY. The company saw high demand in the agri pipes category. Management has maintained its overall guidance of 8-10% volume growth and 12-15% value growth for FY20.

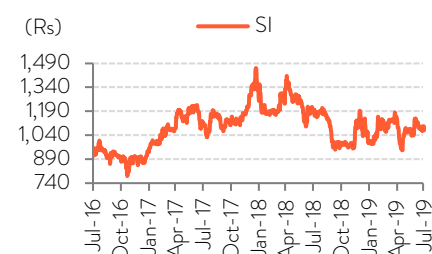
Operating margins slip: SI's operating margins contracted 215bps YoY to 11.6% primarily due to higher raw material cost (+125bps) and other expenditure (+80bps). Gross margins shrank on account of inventory losses in raw material (as prices fell) and also due to higher sales of agri pipes which have lower margins. EBITDA/adj. PAT for the quarter thus decreased 10%/16.5% YoY. Management has lowered its operating margin range to 13.5-14.5% (earlier 13.5-15%) for FY20.

Maintain ADD: We pare FY20/FY21 earnings estimates by ~3% each post the soft Q1 results and move to a revised Jun'20 TP of Rs 1,135. Maintain ADD as we continue to like SI for its strong brand, comprehensive portfolio, wide distribution reach and sound balance sheet.

Ticker/Price	SI IN/Rs 1,075
Market cap	US\$ 2.0bn
Shares o/s	127mn
3M ADV	US\$ 1.2mn
52wk high/low	Rs 1,275/Rs 938
Promoter/FPI/DII	50%/8%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20E	FY21E	FY22E
Adj. net profit (Rs mn)	4,242	3,683	4,321	5,089	6,011
Adj. EPS (Rs)	33.4	29.0	34.0	40.1	47.3
Adj. EPS growth (%)	0.1	(13.2)	17.3	17.8	18.1
Adj. ROAE (%)	23.6	18.2	19.1	20.3	21.5
Adj. P/E (x)	32.2	37.1	31.6	26.8	22.7
EV/EBITDA (x)	17.2	17.2	15.9	13.9	12.1

Source: Company, BOBCAPS Research

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FIG 1 – QUARTERLY PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Total revenues	14,368	13,457	6.8	15,309	(6.1)
Total raw material consumed	10,027	9,223	8.7	10,610	(5.5)
% of sales	69.8	68.5	125bps	69.3	48bps
Employee exps	655	600	9.1	720	(9.1)
% of sales	4.6	4.5	10bps	4.7	(15bps)
Power & fuel expense	549	489	12.4	545	0.9
% of sales	3.8	3.6	19bps	3.6	27bps
Other exp	1,464	1,288	13.6	1,415	3.5
% of sales	10.2	9.6	61bps	9.2	95bps
Total expenditure	12,695	11,600	9.4	13,289	(4.5)
% of sales	88.4	86.2	215bps	86.8	155bps
EBIDTA	1,674	1,857	(9.9)	2,020	(17.1)
% of sales	11.6	13.8	(215bps)	13.2	(155bps)
Depreciation	495	427	16.1	481	2.9
Other income	0	2	(83.3)	31	(99.0)
Interest cost	33	35	(7.6)	64	(49.2)
PBT	1,146	1,397	(18.0)	1,505	(23.9)
Taxes	399.5	651.9	(38.7)	488.6	(18)
Effective tax rate (%)	35	47	(1,181bps)	32	240bps
PAT	746	745	0.2	1,017	(26.6)
Add: extraordinary items	0	559	-	113	-
Share of profit of associate	125	60	108.3	111	12.5
RPAT	871	1,364	(36.1)	1,241	(29.8)
Adj PAT	746	894	(16.5)	1,017	(26.6)

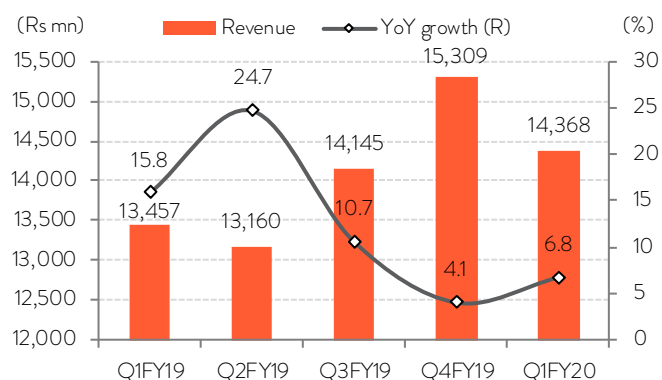
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL PERFORMANCE

(Rs mn)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Net Revenue from Operations					
Plastic Piping Products	8,980	7,475	20.1	9,408	(4.5)
Industrial Products	1,883	2,281	(17.5)	2,000	(5.9)
Packaging Products	2,451	2,598	(5.6)	2,674	(8.3)
Consumer Products	974	1,000	(2.6)	983	(1.0)
Others	81	105	(22.3)	240	(66.1)
Total	14,368	13,457	6.8	15,306	(6.1)
EBIT					
Plastic Piping Products	783	774	1.2	950	(17.6)
Industrial Products	120	196	(38.7)	155	(22.2)
Packaging Products	206	373	(44.9)	299	(31.2)
Consumer Products	129	121	6.6	183	(29.6)
Others	(2)	(23)	(90.7)	(3)	(16.0)
Total	1,236	1,441	(14.3)	1,584	(22.0)
Margins (%)					
Plastic Piping Products	8.7	10.3	(163bps)	10	(138bps)
Industrial Products	6.4	8.6	12bps	8	(134bps)
Packaging Products	8.4	14.4	(566bps)	11	(278bps)
Consumer Products	13.2	12.1	(335bps)	19	(538bps)

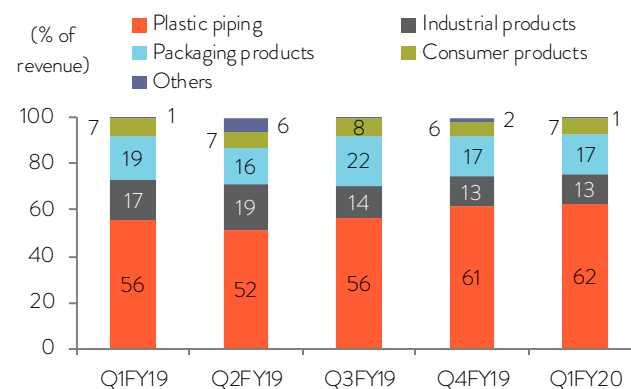
Source: Company, BOBCAPS Research

FIG 3 – REVENUE GROWTH



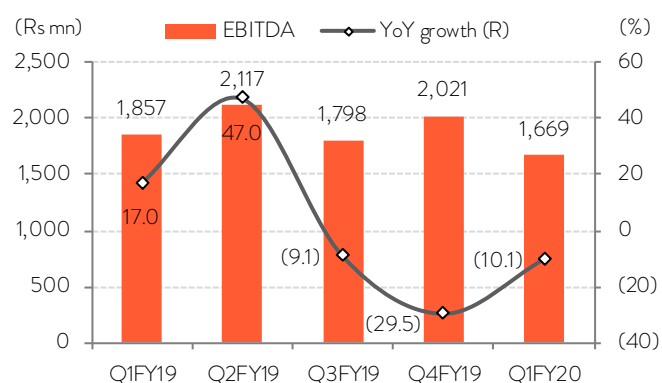
Source: BOBCAPS Research

FIG 4 – REVENUE MIX



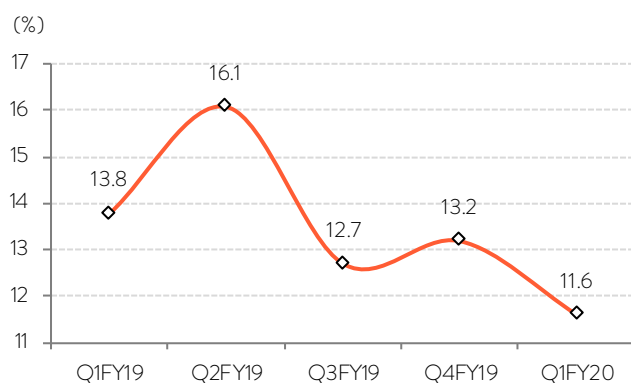
Source: BOBCAPS Research

FIG 5 – EBITDA GROWTH



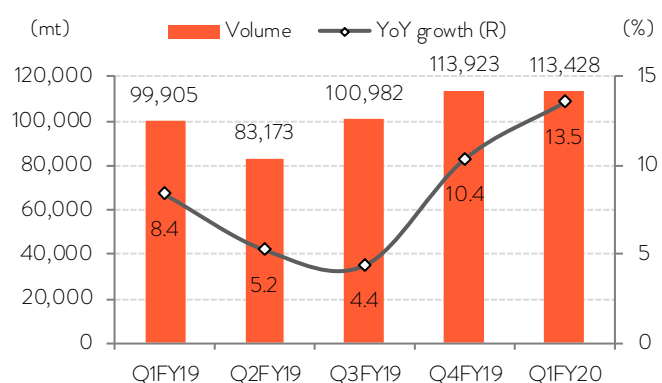
Source: BOBCAPS Research, Company

FIG 6 – EBITDA MARGIN



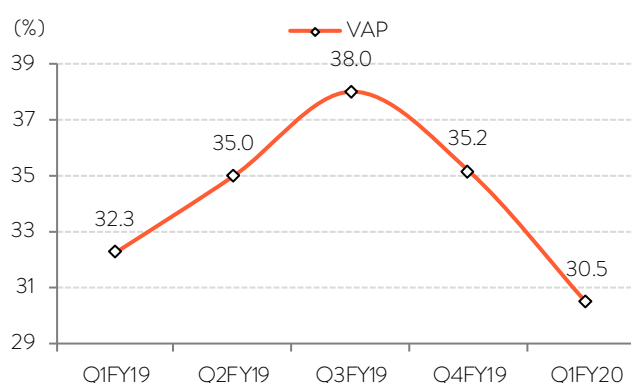
Source: BOBCAPS Research, Company

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)	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ (%)
Plastic Piping	85,214	69,622	22.4	83,476	2.1
Packaging Products	12,745	12,647	0.8	13,527	(5.8)
Industrial Products	10,369	12,361	(16.1)	10,907	(4.9)
Consumer Products	5,100	5,275	(3.3)	6,099	(16.4)
Total	1,13,428	99,905	13.5	1,14,009	(0.5)

Source: Company, BOBCAPS Research

Earnings call highlights

- SI saw high demand for agri pipes during Q1FY20 in geographies such as Maharashtra, Madhya Pradesh and Rajasthan.
- Due to the 12-13% fall in polyethylene prices during the quarter, the company incurred inventory losses which dented operating margins. Higher sales of agri pipes which have a weaker margin profile also took a toll on profitability.
- Management believes raw material prices have corrected significantly over the past few quarters and will remain benign going ahead.
- In the packaging segment, SI offered pre-season discounts which ate into segmental margins. Management has guided for normalisation of margins to historical levels going ahead.
- The company believes it can achieve blended operating margins of 13.5-14.5% in FY20 due to a better product mix and limited scope for inventory losses ahead.
- Management has guided for volume growth of 8-10% and value growth of 12-15% in FY20.
- In the industrial segment, the company sold one of its plants to its JV partner in Q2FY19 and was thus up against a high base in Q1. Adjusted for the plant sale, industrial segment revenues declined just 2-3% YoY vs. 17% reported.
- About 25% of industrial segment revenue is derived from the auto segment and the rest from appliances.
- Competition from the unorganised market has reduced in the piping segment, but not in furniture.
- DWC pipe sales have not picked up as envisaged by the company because competition continues to sell reprocessed material and thus remains cheaper.
- SI plans to add ~50,000mtpa of capacity in FY20 at an estimated capex of Rs 3bn-3.5bn, largely in the piping segment.
- Management expects a positive Ind-AS 116 impact of Rs 100mn-120mn at the EBITDA level due to rent paid though this will be adjusted with depreciation. Management does not see a material impact on P&L from the new accounting norms. Also, capitalisation on the balance sheet linked to this change would be a mere Rs 400mn-450mn.

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 (14-15%), impressive return ratios (ROE of 20.3% in FY21E) and negligible debt make the stock attractive.

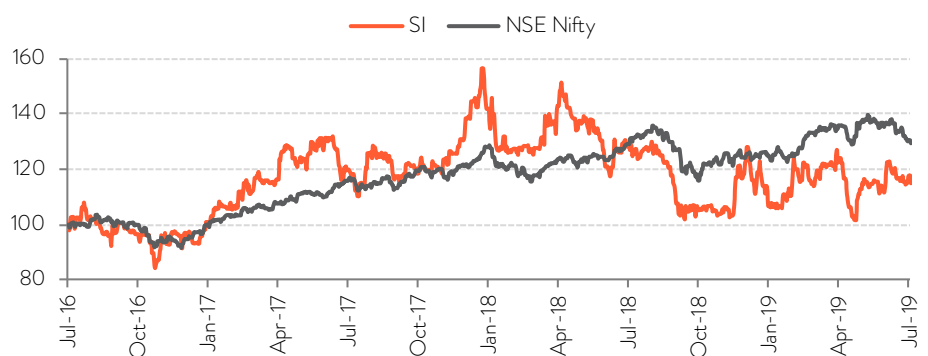
However, in light of the below-expected Q1FY20 results, we pare FY20/FY21 earnings estimates by ~3% each. We continue to value SI at 27x one-year forward EPS, in line with the stock’s five-year average, and roll over to a revised Jun’20 target price of Rs 1,135 (earlier Rs 1,120). Maintain ADD.

FIG 10 – REVISED ESTIMATES

(Rs mn)	Earlier		Now		Change (%)	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	62,061	70,802	61,128	68,955	(1.5)	(2.6)
EBIDTA	8,641	9,974	8,518	9,742	(1.4)	(2.3)
PAT	4,464	5,243	4,321	5,089	(3.2)	(2.9)

Source: Company, 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	61,128	68,955	77,921
EBITDA	7,841	7,812	8,518	9,742	11,231
EBIT	6,169	5,977	6,489	7,491	8,744
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	6,348	7,445	8,801
Income taxes	(2,057)	(2,158)	(2,222)	(2,606)	(3,081)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	347	144	195	250	290
Reported net profit	4,317	4,486	4,321	5,089	6,011
Adjustments	(75)	(803)	0	0	0
Adjusted net profit	4,242	3,683	4,321	5,089	6,011

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Accounts payables	4,898	5,574	5,862	6,612	7,472
Other current liabilities	2,726	2,966	2,853	3,110	3,405
Provisions	324	240	428	483	545
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	23,515	26,141	29,243
Shareholders' fund	18,949	21,540	23,769	26,395	29,497
Total liabilities and equities	29,361	31,932	34,312	37,490	41,319
Cash and cash eq.	363	373	272	378	1,106
Accounts receivables	3,820	3,874	4,354	4,912	5,551
Inventories	6,970	7,504	7,871	8,879	10,034
Other current assets	1,988	1,847	2,010	2,267	2,562
Investments	1,937	2,223	2,223	2,223	2,223
Net fixed assets	13,658	15,210	16,681	17,930	18,943
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	34,312	37,490	41,319

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20E	FY21E	FY22E
Net income + Depreciation	5,989	6,322	6,350	7,340	8,498
Interest expenses	269	336	210	134	60
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(711)	674	(647)	(760)	(871)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	5,548	7,331	5,913	6,713	7,687
Capital expenditures	(2,855)	(3,661)	(3,500)	(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)	(3,500)	(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)	(2,092)	(2,463)	(2,909)
Other financing cash flows	(205)	(840)	0	0	0
Cash flow from financing	(3,081)	(4,017)	(2,514)	(3,107)	(3,459)
Changes in cash and cash eq.	(435)	10	(101)	106	728
Closing cash and cash eq.	363	373	272	378	1,106

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20E	FY21E	FY22E
Reported EPS	34.0	35.3	34.0	40.1	47.3
Adjusted EPS	33.4	29.0	34.0	40.1	47.3
Dividend per share	9.0	15.7	16.5	19.4	22.9
Book value per share	149.2	169.6	187.1	207.8	232.2

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20E	FY21E	FY22E
EV/Sales	2.7	2.4	2.2	2.0	1.7
EV/EBITDA	17.2	17.2	15.9	13.9	12.1
Adjusted P/E	32.2	37.1	31.6	26.8	22.7
P/BV	7.2	6.3	5.7	5.2	4.6

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20E	FY21E	FY22E
Tax burden (Net profit/PBT)	70.4	56.7	68.1	68.4	68.3
Interest burden (PBT/EBIT)	97.7	108.8	97.8	99.4	100.7
EBIT margin (EBIT/Revenue)	12.4	10.7	10.6	10.9	11.2
Asset turnover (Revenue/Avg TA)	172.9	183.0	184.6	192.1	197.7
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.4	1.4
Adjusted ROAE	23.6	18.2	19.1	20.3	21.5

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	9.0	12.8	13.0
EBITDA	3.1	(0.4)	9.0	14.4	15.3
Adjusted EPS	0.1	(13.2)	17.3	17.8	18.1
Profitability & Return ratios (%)					
EBITDA margin	15.8	13.9	13.9	14.1	14.4
EBIT margin	12.4	10.7	10.6	10.9	11.2
Adjusted profit margin	8.5	6.6	7.1	7.4	7.7
Adjusted ROAE	23.6	18.2	19.1	20.3	21.5
ROCE	19.8	17.9	17.5	18.6	19.9
Working capital days (days)					
Receivables	24	25	25	25	25
Inventory	82	69	68	66	66
Payables	41	40	40	38	39
Ratios (x)					
Gross asset turnover	2.0	2.1	2.0	2.1	2.1
Current ratio	1.3	1.3	1.4	1.5	1.6
Net interest coverage ratio	22.9	17.8	30.9	56.1	145.7
Adjusted debt/equity	0.1	0.1	0.0	0.0	0.0

Source: Company, BOBCAPS Research

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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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