

ADD

TP: Rs 1,030 | ▲ 5%

SUPREME INDUSTRIES

Plastic Products

22 May 2020

Lockdown erodes volumes; cut to ADD on limited upside

Supreme Industries (SI) reported below-estimated Q4FY20 revenues (-7% YoY) due to a 9% lockdown-led volume decline. EBITDA margins beat estimates, rising 590bps YoY to 19.1% on the back of lower RM cost (-10ppt), aiding EBITDA/PBT growth of 35%/44% YoY. Management refrained from giving FY21 guidance but expects business normalcy by September and growth from November. We broadly maintain estimates and keep our Mar'21 TP at Rs 1,030, but cut the stock from BUY to ADD due to limited upside.

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Volumes decline: SI's Q4 blended volume growth dipped 9.4% YoY, inducing a 6.6% YoY decline in revenue to Rs 14.3bn. Per management, the national lockdown had a significant impact on growth in the second half of March, which weighed on the Q4 topline. The company has not put out guidance for FY21 due to the unpredictable environment but is hopeful of business normalcy by Sep'20 and growth from Nov'20. SI has seen brisk demand from agriculture pipes in the current quarter (Q1FY21), though the housing segment remains lacklustre as most dealers are yet to open up outlets.

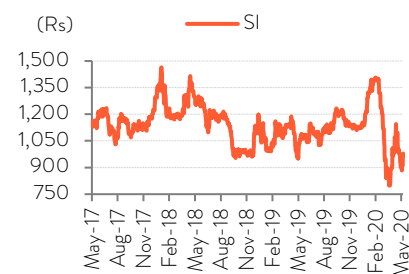
Lower RM cost aids margins: SI's operating margins expanded 590bps YoY to 19.1% due to lower raw material cost (-10ppt), which comfortably offset higher employee expenses (+48bps) and other expenses (+332bps), resulting in EBITDA/PBT growth of 35%/44% YoY. RM cost was lower as full-year supplier discounts were accounted for in Q4. Inventory gains from rising PVC prices (till the lockdown began) and increased sales of value-added products also aided margins. Management indicated that Q4 margins were not sustainable.

Downgrade to ADD: At current valuations of 25.7x FY22E EPS, stock upsidelook limited – we downgrade our rating from BUY to ADD with an unchanged Mar'21 TP of Rs 1,030 set at 27x FY22E EPS.

Ticker/Price	SI IN/Rs 978
Market cap	US\$ 1.6bn
Shares o/s	127mn
3M ADV	US\$ 1.3mn
52wk high/low	Rs 1,413/Rs 773
Promoter/FPI/DII	50%/8%/42%

Source: NSE

STOCK PERFORMANCE



Source: NSE

KEY FINANCIALS

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
Total revenue (Rs mn)	49,633	56,086	55,115	44,324	58,403
EBITDA (Rs mn)	7,841	7,812	8,346	6,066	8,633
Adj. net profit (Rs mn)	4,242	3,683	4,674	2,897	4,834
Adj. EPS (Rs)	33.4	29.0	36.8	22.8	38.1
Adj. EPS growth (%)	0.1	(13.2)	26.9	(38.0)	66.9
Adj. ROAE (%)	23.6	18.2	21.2	12.4	19.1
Adj. P/E (x)	29.3	33.7	26.6	42.9	25.7
EV/EBITDA (x)	15.5	15.6	14.7	20.2	14.2

Source: Company, BOBCAPS Research

BOB Capital Markets Ltd is a wholly owned subsidiary of Bank of Baroda

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



FIG 1 – CONSOLIDATED QUARTERLY PERFORMANCE

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
Total revenues	14,305	15,309	(6.6)	13,733	4.2	55,115	56,120	(1.8)
Total raw material consumed	8,481	10,610	(20.1)	8,891	(4.6)	35,783	38,199	(6.3)
% of sales	59.3	69.3	(1,001bps)	64.7	(545bps)	64.9	68.1	(314bps)
Employee exps	742	720	3.0	685	8.4	2,798	2,546	9.9
% of sales	5.2	4.7	48bps	5.0	20bps	5.1	4.5	54bps
Power & fuel expense	551	545	1.2	541	1.8	2161	2055	5.2
% of sales	3.9	3.6	29bps	3.9	(9bps)	3.9	3.7	26bps
Other exp	1,796	1,415	27.0	1,407	27.6	6,029	5,475	10.1
% of sales	12.6	9.2	332bps	10.2	231bps	10.9	9.8	118bps
Total expenditure	11,571	13,289	(12.9)	11,524	0.4	46,770	48,274	(3.1)
% of sales	80.9	86.8	(592bps)	83.9	(303bps)	84.9	86.0	(116bps)
EBITDA	2,734	2,020	35.4	2,209	23.8	8,346	7,846	6.4
% of sales	19.1	13.2	592bps	16.1	303bps	15.1	14.0	116bps
Depreciation	529	481	9.8	515	2.6	2,057	1,835	12.1
Other income	1	31	(98.1)	8	(92.5)	14	78	(81.6)
Interest cost	42	64	(34.4)	57	(25.5)	202	260	(22.3)
PBT	2,164	1,505	43.8	1,645	31.5	6,101	5,828	4.7
Taxes	1,061.0	488.6	117.2	419.1	153.2	1,739.2	2,157.5	(19.4)
Effective tax rate (%)	49	32	1,657bps	25	2,356bps	29	37	(851bps)
PAT	1,103	1,017	8.5	1,226	(10.0)	4,362	3,671	18.8
Add: extraordinary items	0	113	-	0	-	0	672	-
Share of profit of associate	70	111	(37.2)	8	817	312	144	117.0
RPAT	1,173	1,241	(5.5)	1,234	(5.0)	4,674	4,486	4.2

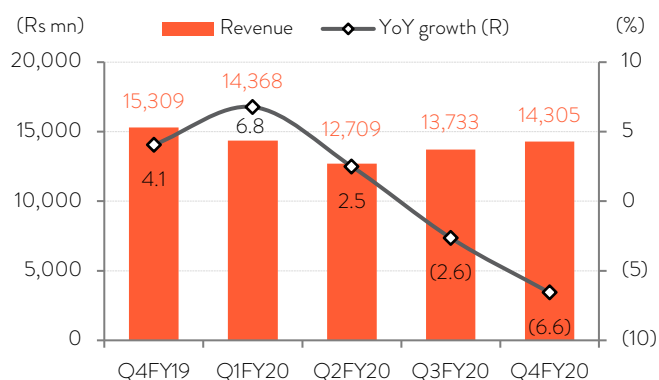
Source: Company, BOBCAPS Research

FIG 2 – SEGMENTAL RESULTS

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	FY20	FY19	YoY (%)
(1) Segment revenue								
Plastic Piping Products	9,370	9,408	(0.4)	7,984	17.4	34,449	31,728	8.6
Industrial Products	1,593	2,004	(20.5)	1,566	1.7	6,732	8,850	(23.9)
Packaging Products	2,076	2,674	(22.4)	3,086	(32.7)	9,593	10,418	(7.9)
Consumer Products	950	983	(3.4)	1,046	(9.2)	3,832	3,994	(4.1)
Others	316	240	31.8	52	507.3	510	1,130	(54.9)
Net Revenue from Operations	14,305	15,309	(6.6)	13,733	4.2	55,115	56,120	(1.8)
(2) Segment Results								
Plastic Piping Products	1,688	950	77.7	1,035	63.1	4,605	3,128	47.2
Industrial Products	140	155	(9.4)	85	65.0	326	636	(48.7)
Packaging Products	334	299	11.5	437	(23.7)	1,015	1,278	(20.6)
Consumer Products	185	183	1.3	153	21.3	576	560	2.9
Others	48	(3)	(2,016.0)	1	4,690.0	50	537	(90.7)
Total Segment Profit before Interest and Tax	2,395	1,584	51.2	1,711	39.9	6,572	6,139	7.1
Margins (%)								
Plastic Piping Products	18.0	10.1	792bps	13.0	505bps	13.4	9.9	351bps
Industrial Products	8.8	7.7	108bps	5.4	337bps	4.8	7.2	(234bps)
Packaging Products	16.1	11.2	489bps	14.2	190bps	10.6	12.3	(169bps)
Consumer Products	19.5	18.6	91bps	14.6	489bps	15.0	14.0	102bps

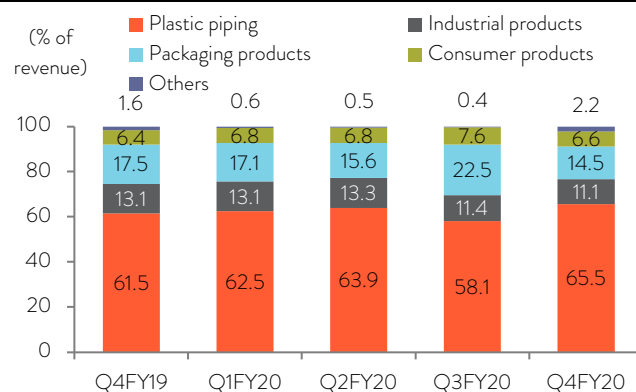
Source: Company, BOBCAPS Research

FIG 3 – CONSOLIDATED REVENUE GROWTH



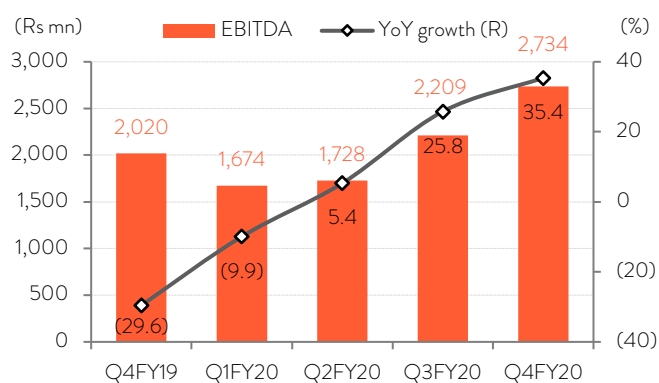
Source: BOBCAPS Research

FIG 4 – REVENUE MIX



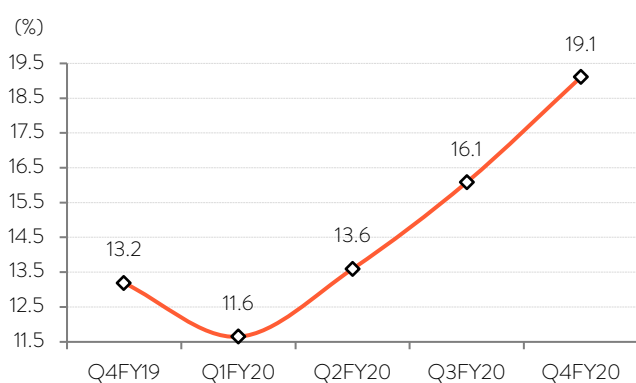
Source: BOBCAPS Research

FIG 5 – CONSOLIDATED EBITDA GROWTH



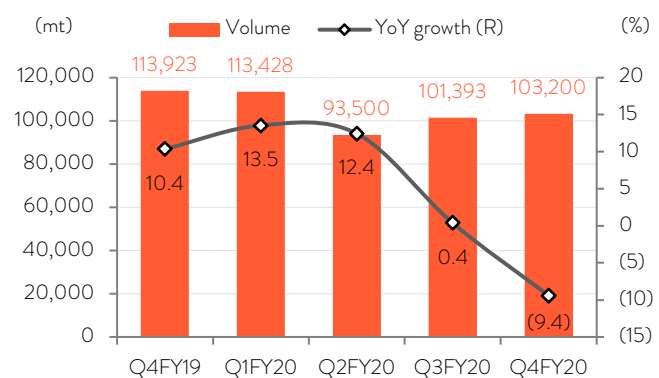
Source: BOBCAPS Research, Company

FIG 6 – CONSOLIDATED EBITDA MARGIN



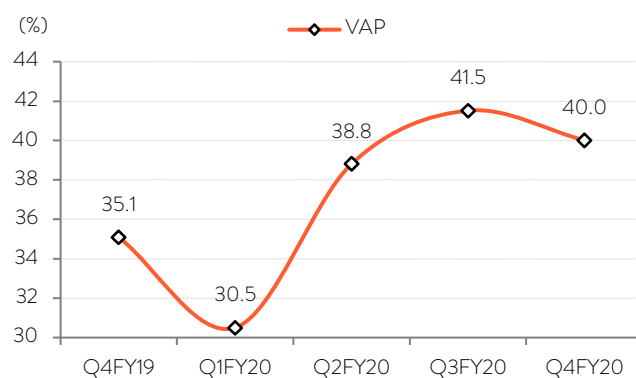
Source: BOBCAPS Research, Company

FIG 7 – VOLUME GROWTH



Source: BOBCAPS Research, Company

FIG 8 – REVENUE SHARE OF VALUE-ADDED PRODUCTS



Source: BOBCAPS Research, Company

FIG 9 – SEGMENTAL VOLUMES

(Rs mn)	Q4FY20	Q4FY19	YoY (%)	Q3FY20	QoQ (%)
Plastic piping	77,315	83,473	(7.4)	70,431	9.8
Packaging Products	11,147	13,527	(17.6)	16,399	(32.0)
Industrial Products	9,494	10,824	(12.3)	8,801	7.9
Consumer Products	5,244	6,099	(14.0)	5,762	(9.0)
Total	1,03,200	1,13,923	(9.4)	1,01,393	1.8

Source: Company, BOBCAPS Research

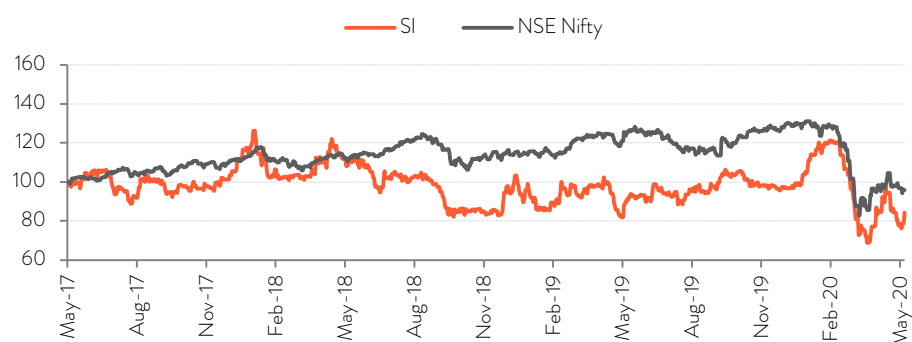
Earnings call highlights

- Management indicated that volumes declined in Q4FY20 solely due to the nationwide Covid-19-led lockdown in the second half of March.
- SI saw tepid demand for agricultural pipes in Q4 but demand has been brisk since April. Performance packaging films, cross-laminated films, and products such as covers and tarpaulins have also witnessed reasonable pick-up from April.
- PVC prices fell by Rs 13/kg over 18 March to 1 May 2020 but have since started to increase (up by Rs 4/kg in the month of May). Due to the initial decline in prices, SI may post some inventory loss in Q1FY21.
- Cross-laminated prices are not expected to fall further.
- Q4 margins were significantly higher at 19.1% due to yearly discounts from raw material suppliers being accounted for in the quarter. Also, a higher value-added product mix and some inventory gains due to rising PVC prices aided margins. Management does not expect these levels to sustain.
- The housing segment is not yet showing signs of material recovery, but SI is hopeful of improvement as dealers gradually open their outlets.
- Management did not provide volume growth and margin guidance for FY21 due to the current uncertain climate, but expects to see business stability by September and growth resuming by November.
- The company has not implemented any pay cuts or layoffs due to the lockdown.
- It has decided not to charge interest from dealers for amounts overdue given the current crisis.
- SI has decided on capex of Rs 1.5bn-2bn in FY21 and additional spill-over capex of Rs 1.8bn from FY20. Most of the spend will be toward the pipe segment.

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 19.1% in FY22E) and negligible debt make the stock attractive. However, current valuations at 25.7x FY22E EPS cap stock upsides – we downgrade our rating from BUY to ADD with an unchanged Mar'21 target price of Rs 1,030 set at 27x FY22E EPS.

FIG 10 – 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	FY20P	FY21E	FY22E
Total revenue	49,633	56,086	55,115	44,324	58,403
EBITDA	7,841	7,812	8,346	6,066	8,633
Depreciation	(1,672)	(1,835)	(2,057)	(2,212)	(2,412)
EBIT	6,169	5,977	6,289	3,855	6,221
Net interest income/(expenses)	(269)	(336)	(202)	(180)	(130)
Other income/(expenses)	53	56	14	19	26
Exceptional items	75	803	0	0	0
EBT	5,953	5,697	6,101	3,693	6,117
Income taxes	(2,057)	(2,158)	(1,739)	(997)	(1,663)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	347	144	312	200	380
Reported net profit	4,317	4,486	4,674	2,897	4,834
Adjustments	(75)	(803)	0	0	0
Adjusted net profit	4,242	3,683	4,674	2,897	4,834

Balance Sheet

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Accounts payables	4,898	5,574	5,475	4,250	5,600
Other current liabilities	2,726	2,966	3,298	2,647	3,187
Provisions	324	240	313	310	409
Debt funds	2,464	1,613	4,109	2,000	600
Other liabilities	0	0	0	0	0
Equity capital	254	254	254	254	254
Reserves & surplus	18,695	21,286	22,358	23,852	26,347
Shareholders' fund	18,949	21,540	22,612	24,107	26,601
Total liabilities and equities	29,361	31,932	35,807	33,314	36,397
Cash and cash eq.	363	373	2,314	803	540
Accounts receivables	3,820	3,874	3,128	3,157	4,160
Inventories	6,970	7,504	8,906	7,286	8,000
Other current assets	1,988	1,847	2,379	1,700	2,240
Investments	1,937	2,223	2,073	2,073	2,073
Net fixed assets	13,658	15,210	16,077	17,366	18,454
CWIP	626	900	929	929	929
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	35,807	33,314	36,397

Source: Company, BOBCAPS Research

Cash Flows

Y/E 31 Mar (Rs mn)	FY18A	FY19A	FY20P	FY21E	FY22E
Net income + Depreciation	5,989	6,322	6,731	5,108	7,246
Interest expenses	269	336	202	180	130
Non-cash adjustments	0	0	0	0	0
Changes in working capital	(711)	674	(986)	392	(269)
Other operating cash flows	0	0	0	0	0
Cash flow from operations	5,548	7,331	5,947	5,680	7,107
Capital expenditures	(2,855)	(3,661)	(2,953)	(3,500)	(3,500)
Change in investments	0	287	(151)	0	0
Other investing cash flows	(47)	71	(1,066)	0	0
Cash flow from investing	(2,902)	(3,304)	(4,169)	(3,500)	(3,500)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(314)	(851)	2,497	(2,109)	(1,400)
Interest expenses	(269)	(336)	(202)	(180)	(130)
Dividends paid	(2,293)	(1,991)	(2,131)	(1,402)	(2,340)
Other financing cash flows	(205)	(840)	0	0	0
Cash flow from financing	(3,081)	(4,017)	163	(3,691)	(3,870)
Changes in cash and cash eq.	(435)	10	1,941	(1,511)	(263)
Closing cash and cash eq.	363	373	2,314	803	540

Per Share

Y/E 31 Mar (Rs)	FY18A	FY19A	FY20P	FY21E	FY22E
Reported EPS	34.0	35.3	36.8	22.8	38.1
Adjusted EPS	33.4	29.0	36.8	22.8	38.1
Dividend per share	9.0	13.0	14.0	9.1	15.2
Book value per share	149.2	169.6	178.0	189.8	209.4

Valuations Ratios

Y/E 31 Mar (x)	FY18A	FY19A	FY20P	FY21E	FY22E
EV/Sales	2.4	2.2	2.2	2.8	2.1
EV/EBITDA	15.5	15.6	14.7	20.2	14.2
Adjusted P/E	29.3	33.7	26.6	42.9	25.7
P/BV	6.6	5.8	5.5	5.2	4.7

DuPont Analysis

Y/E 31 Mar (%)	FY18A	FY19A	FY20P	FY21E	FY22E
Tax burden (Net profit/PBT)	70.4	56.7	76.6	78.4	79.0
Interest burden (PBT/EBIT)	97.7	108.8	97.0	95.8	98.3
EBIT margin (EBIT/Revenue)	12.4	10.7	11.4	8.7	10.7
Asset turnover (Revenue/Avg TA)	172.9	183.0	162.7	128.3	167.6
Leverage (Avg TA/Avg Equity)	1.6	1.5	1.5	1.5	1.4
Adjusted ROAE	23.6	18.2	21.2	12.4	19.1

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

Ratio Analysis

Y/E 31 Mar	FY18A	FY19A	FY20P	FY21E	FY22E
YoY growth (%)					
Revenue	11.3	13.0	(1.7)	(19.6)	31.8
EBITDA	3.1	(0.4)	6.8	(27.3)	42.3
Adjusted EPS	0.1	(13.2)	26.9	(38.0)	66.9
Profitability & Return ratios (%)					
EBITDA margin	15.8	13.9	15.1	13.7	14.8
EBIT margin	12.4	10.7	11.4	8.7	10.7
Adjusted profit margin	8.5	6.6	8.5	6.5	8.3
Adjusted ROAE	23.6	18.2	21.2	12.4	19.1
ROCE	19.8	17.9	18.0	10.7	17.0
Working capital days (days)					
Receivables	24	25	23	26	23
Inventory	82	69	84	101	72
Payables	41	40	43	46	36
Ratios (x)					
Gross asset turnover	2.0	2.1	1.9	1.4	1.6
Current ratio	1.3	1.3	1.3	1.4	1.5
Net interest coverage ratio	22.9	17.8	31.1	21.4	47.9
Adjusted debt/equity	0.1	0.1	0.1	0.0	0.0

Source: Company, BOBCAPS Research

Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

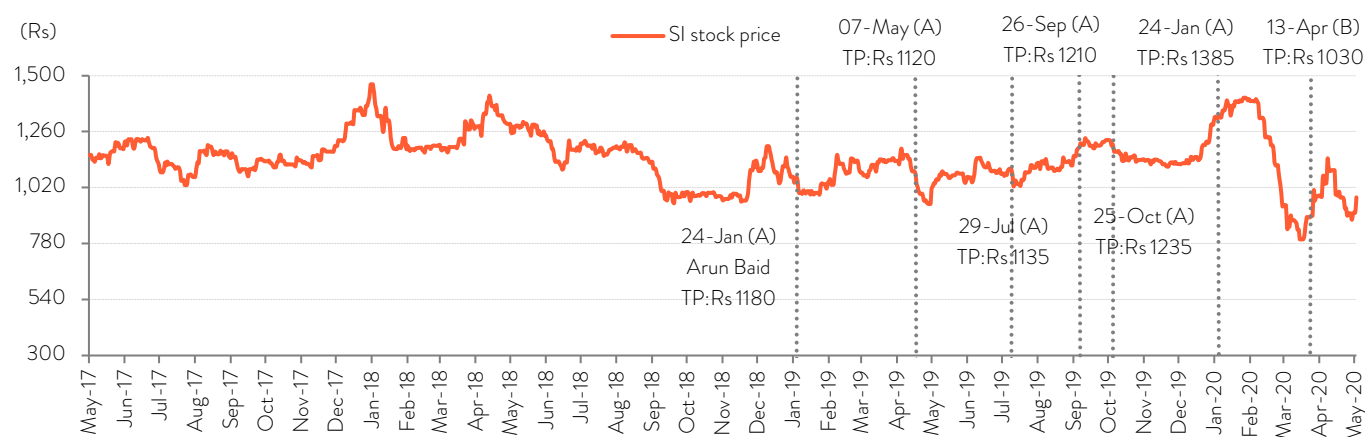
ADD – Expected return from >+5% to +15%

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)

HISTORICAL RATINGS AND TARGET PRICE: SUPREME INDUSTRIES (SI IN)



B – Buy, A – Add, R – Reduce, S – Sell

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