

**SELL**

TP: Rs 1,805 | ▼ 14%

**SUPREME INDUSTRIES**

Plastic Products

03 May 2021

## Profit boosted by inventory gains, maintain SELL

Supreme Industries' (SI) Q4FY21 revenue grew 46% YoY, aided by an 8% rise in volumes off a tepid base. Inventory gains of Rs 0.8bn-1bn supported EBITDA margin expansion of 535bps YoY to 24.5% and EBITDA/PBT growth of 86%/112% YoY. Management stated that demand for agri PVC pipes was dull due to higher prices. We tweak FY22-FY23 EBITDA by 3% but raise PAT estimates by ~13% each due to a better performance from associate company Supreme Petrochem. Maintain SELL with a revised Mar'22 TP of Rs 1,805 (vs. Rs 1,605).

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**Revenue fuelled by higher PVC prices:** SI's revenue grew 46% YoY to Rs 20.8bn due to pass-along of higher raw material (PVC) prices. Plastic piping revenue grew 44% YoY, industrials 84%, packaging 49% and consumer 31%. Volume growth stood at just 8% YoY despite a tepid base in Q4FY20 (-9% YoY). Management stated that PVC pipe segment volumes declined 1.7% YoY in Q4 as higher prices led to deferred demand from the agriculture sector.

Ticker/Price SI IN/Rs 2,109

Market cap US\$ 3.6bn

Shares o/s 127mn

3M ADV US\$ 2.2mn

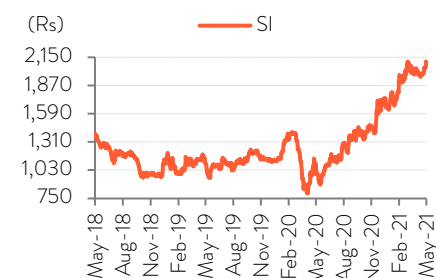
52wk high/low Rs 2,175/Rs 873

Promoter/FPI/DII 49%/9%/42%

Source: NSE

**Inventory gains aid margins:** SI's operating margin expanded 535bps YoY to 24.5%, aided by inventory gains of Rs 0.8bn-1bn and lower other expenses – this resulted in EBITDA/PBT growth of 86%/112% YoY. Per management, inventory gains of ~Rs 2bn during FY21 added 3ppt to operating margin. The company expects PVC prices to correct going forward and is targeting margins of 15.5-17%.

## STOCK PERFORMANCE



Source: NSE

**Maintain SELL:** SI has been a beneficiary of inventory gains due to rising PVC prices during FY21, driving EBITDA growth of 50% despite flattish volumes. Though we like the company for its strong balance sheet and broad portfolio, current valuations at 35.1x FY23E EPS look full, especially as volume growth remains lacklustre and a potential reversal in PVC prices could result in inventory losses. Maintain SELL with a revised Mar'22 TP of Rs 1,805.

## KEY FINANCIALS

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
Total revenue (Rs mn)	56,086	55,087	63,571	66,323	74,167
EBITDA (Rs mn)	7,812	8,563	12,843	10,126	11,502
Adj. net profit (Rs mn)	3,683	4,866	9,781	6,713	7,635
Adj. EPS (Rs)	29.0	38.3	77.0	52.8	60.1
Adj. EPS growth (%)	(13.2)	32.1	101.0	(31.4)	13.7
Adj. ROAE (%)	18.2	22.0	36.0	20.2	20.8
Adj. P/E (x)	72.7	55.1	27.4	39.9	35.1
EV/EBITDA (x)	34.0	31.1	20.7	26.7	23.9

Source: Company, BOBCAPS Research | P – Provisional

**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)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Total revenues</b>	<b>20,846</b>	<b>14,305</b>	<b>45.7</b>	<b>18,438</b>	<b>13</b>	<b>63,571</b>	<b>55,115</b>	<b>15.3</b>
Total raw material consumed	12,744	8,481	50.3	11,610	10	40,385	35,783	12.9
% of sales	61.1	59.3	184bps	63.0	(184bps)	63.5	64.9	(140bps)
Employee expense	931	742	25.5	813	15	3,104	2,798	10.9
% of sales	4.5	5.2	(72bps)	4.4	6bps	4.9	5.1	(19bps)
Power & fuel expense	548	551	(0.5)	554	(1)	1,986	2161	(8.1)
% of sales	2.6	3.9	(122bps)	3.0	(37bps)	3.1	3.9	(80bps)
Other expense	1,526	1,796	(15.1)	1,446	6	5,254	6,029	(12.8)
% of sales	7.3	12.6	(524bps)	7.8	(52bps)	8.3	10.9	(267bps)
Total expenditure	15,749	11,571	36.1	14,422	9	50,728	46,770	8.5
% of sales	75.5	80.9	(534bps)	78.2	(267bps)	79.8	84.9	(506bps)
<b>EBIDTA</b>	<b>5,097</b>	<b>2,734</b>	<b>86.4</b>	<b>4,016</b>	<b>27</b>	<b>12,843</b>	<b>8,346</b>	<b>53.9</b>
% of sales	24.5	19.1	534bps	21.8	267bps	20.2	15.1	506bps
Depreciation	548	529	3.7	549	0	2,128	2,057	3.5
Other income	82	65	26.4	37	124	169	14	1081.8
Interest cost	50	107	(52.7)	22	130	221	202	9.6
<b>PBT</b>	<b>4,581</b>	<b>2,164</b>	<b>111.7</b>	<b>3,481</b>	<b>32</b>	<b>10,662</b>	<b>6,101</b>	<b>74.8</b>
Taxes	781.0	1,061.0	(26.4)	886.4	(12)	2,340.8	1,739.2	34.6
Effective tax rate (%)	17	49	(3198bps)	25	(841bps)	22	29	(655bps)
PAT	3,800	1,103	244.5	2,595	46	8,322	4,362	90.8
Share of profit of associate	703	70	909.2	528	33	1,460	312	367.8
<b>RPAT</b>	<b>4,504</b>	<b>1,173</b>	<b>284.0</b>	<b>3,123</b>	<b>44</b>	<b>9,781</b>	<b>4,674</b>	<b>109.3</b>

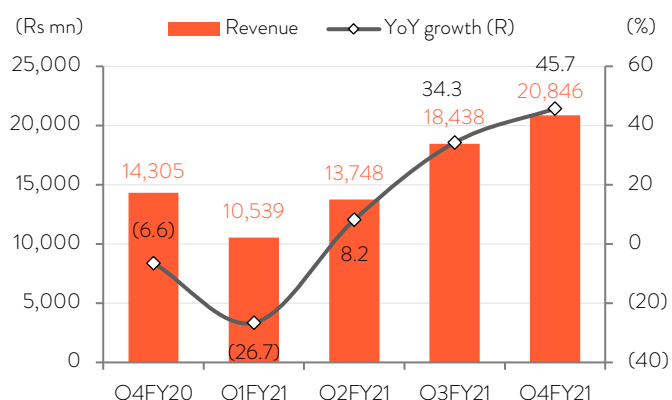
Source: Company, BOBCAPS Research

**FIG 2 – SEGMENTAL PERFORMANCE**

(Rs mn)	Q4FY21	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	FY21	FY20	YoY (%)
<b>Segment revenue</b>								
Plastic Piping Products	13,468	9,370	44	11,402	18	40,988	34,449	19
Industrial Products	2,931	1,593	84	2,161	36	7,611	6,732	13
Packaging Products	3,097	2,076	49	3,179	(3)	10,351	9,593	8
Consumer Products	1,240	950	31	1,167	6	3,542	3,832	(8)
Others	110	316	(65)	528	(79)	1,079	510	111
<b>Net Revenue from Operations</b>	<b>20,846</b>	<b>14,305</b>	<b>45.7</b>	<b>18,438</b>	<b>13</b>	<b>63,571</b>	<b>55,115</b>	<b>15.3</b>
<b>EBIT</b>								
Plastic Piping Products	3,570	1,688	111	2,503	43	8,213	4,605	78
Industrial Products	390	140	179	201	95	635	326	95
Packaging Products	408	334	22	399	2	1,246	1,015	23
Consumer Products	286	185	55	228	25	597	576	4
Others	4	48	(92)	139	(97)	242	50	388
<b>Total Segment Profit before Interest and Tax</b>	<b>4,659</b>	<b>2,395</b>	<b>95</b>	<b>3,469</b>	<b>34</b>	<b>10,932</b>	<b>6,572</b>	<b>66</b>
<b>EBIT margins (%)</b>								
Plastic Piping Products	26.5	18.0	849bps	22	456bps	20.0	13.4	667bps
Industrial Products	13.3	8.8	452bps	9	404bps	8.3	4.8	350bps
Packaging Products	13.2	16.1	(290bps)	13	63bps	12.0	10.6	145bps
Consumer Products	23.1	19.5	360bps	20	354bps	16.8	15.0	181bps

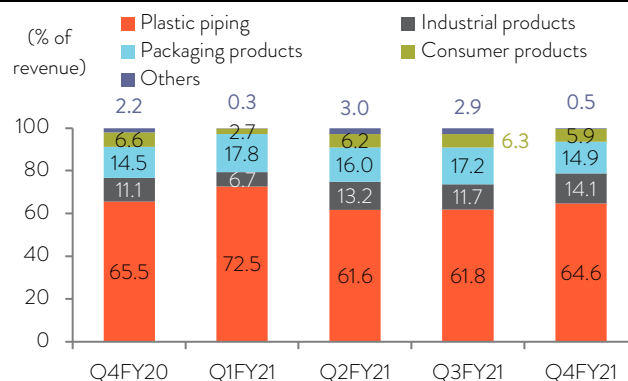
Source: Company, BOBCAPS Research

**FIG 3 – CONSOLIDATED REVENUE GROWTH**



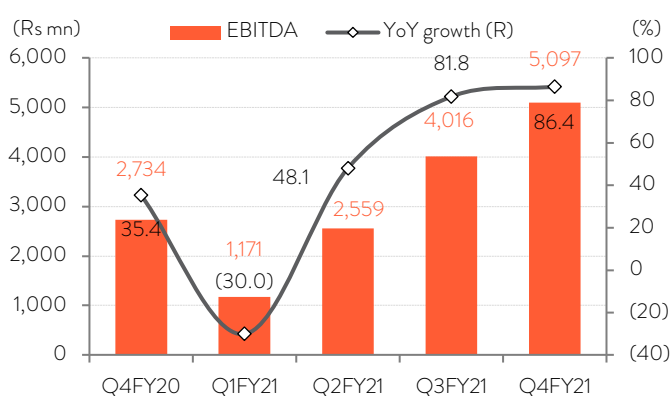
Source: BOBCAPS Research

**FIG 4 – REVENUE MIX**



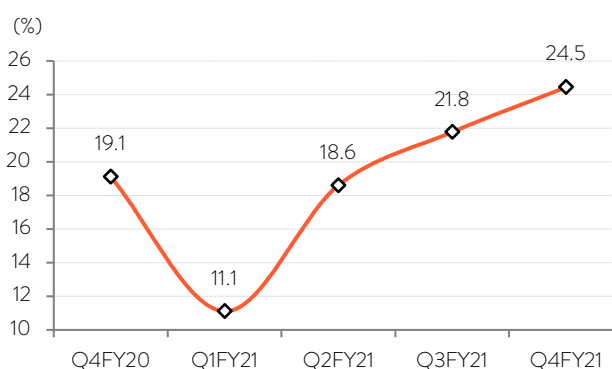
Source: BOBCAPS Research

**FIG 5 – CONSOLIDATED EBITDA GROWTH**



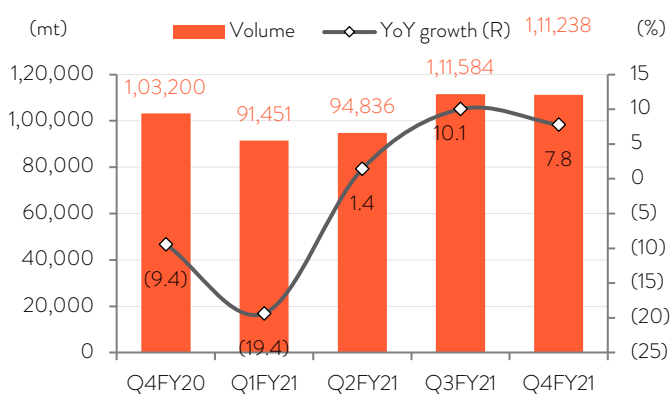
Source: BOBCAPS Research, Company

**FIG 6 – CONSOLIDATED EBITDA MARGIN**



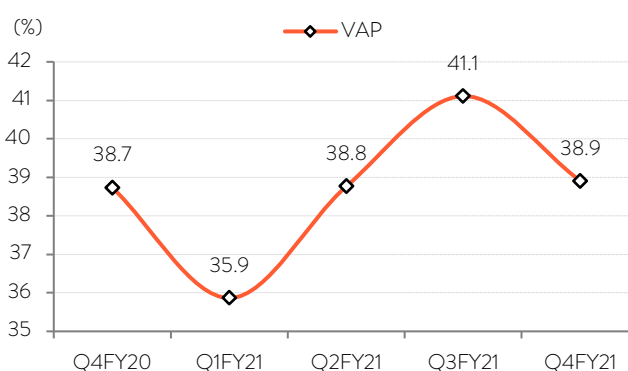
Source: BOBCAPS Research, Company

**FIG 7 – VOLUME GROWTH**



Source: BOBCAPS Research, Company

**FIG 8 – REVENUE SHARE OF VALUE-ADDED PRODUCTS**



Source: BOBCAPS Research, Company

**FIG 9 – SEGMENTAL VOLUMES**

(mt)	Q4FY21	Q4FY20	% YoY	Q3FY21	% QoQ
Plastic piping	75,997	77,315	(1.7)	76,759	(1.0)
Packaging Products	15,627	11,147	40.2	16,785	(6.9)
Industrial Products	13,744	9,494	44.8	11,652	18.0
Consumer Products	5,870	5,244	11.9	6,388	(8.1)
Total	1,11,238	1,03,200	7.8	1,11,584	(0.3)

Source: Company, BOBCAPS Research

## Earnings call highlights

- Q4 sales did get affected during the last two weeks of March due to a rapid increase in Covid-19 cases.
- PVC prices have increased by ~Rs 17/kg to ~Rs 135/kg during April and international prices are at the highest levels seen in the last 40 years. Management expects PVC prices to correct going forward.
- The company saw a slowdown in agriculture pipe demand in Q4 (volumes down 2% YoY) due to pass-along of high PVC resin prices, though some revival is being observed in the month of April.
- During FY21, management estimates that industry-wide PVC resin demand fell ~15% whereas SI saw a decline of 3.7%, implying market share gains for the company.
- SI had inventory gains of Rs 0.8bn-1bn during the quarter which boosted its operating margin. For FY21, inventory gains of ~Rs 2bn added 3ppt to margins.
- The company pegs sustainable EBITDA margins at 15.5-17% levels.
- Good demand from consumer durable manufacturers aided growth in the industrial business during the quarter.
- The packaging segment saw healthy demand from the performance packaging film segment, especially in the dairy & oil industry.
- Management believes the PVC pipe segment will gradually become more formalised over the long term.
- The company intends to look at inorganic opportunities only in existing business segments.
- SI plans to spend Rs 4bn on capex in FY22 (includes Rs 1.98bn carried forward from last year). The company has Rs 7.6bn of cash on books as of Mar'21.
- Associate company Supreme Petrochem is expanding capacity by end-FY22 at a capex of Rs 2.6bn. The company believes near-term spreads may sustain in this business.

## 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. The company has a healthy operating margin profile (14-15%), impressive return ratios (ROE of 20.8% in FY23E) and a debt-free balance sheet

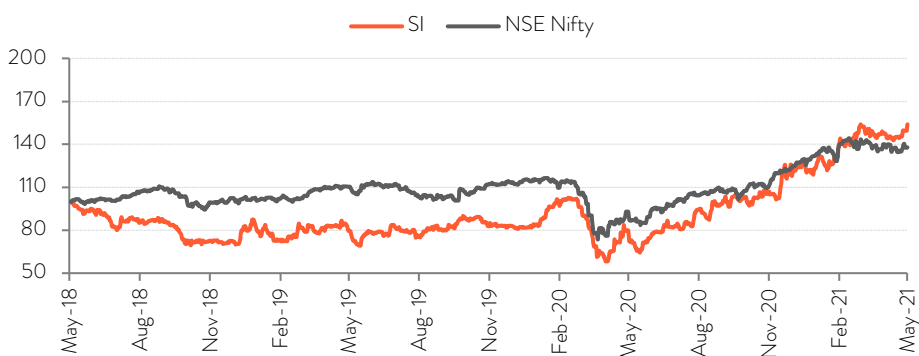
Following the Q4FY21 results, we increase FY22/FY23 EBITDA estimates by ~3% each but raise PAT by 13%/12 due to a better performance from associate company Supreme Petrochem. Though we like SI for its product portfolio and strong balance sheet, current valuations at 35.1x FY23E EPS are rich, especially in the context of low volume growth and risks to profit from inventory losses should PVC prices fall. Maintain SELL with a revised Mar'22 target price of Rs 1,805 (earlier Rs 1,605), set at an unchanged 30x FY23E P/E – in line with the stock's last five-year average.

**FIG 10 – REVISED ESTIMATES**

(Rs mn)	Old		New		Change (%)	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	62,921	69,596	66,323	74,167	5.4	6.6
EBIDTA	9830	11114	10126	11502	3.0	3.5
PAT	5,924	6,798	6,713	7,635	13.3	12.3

Source: BOBCAPS Research

**FIG 11 – RELATIVE STOCK PERFORMANCE**



Source: NSE

## Key risks

Key upside risks to our call are:

- above-expected margins in the event of reduced raw material cost,
- the unorganised market seeing a worse fall than anticipated, and
- above-anticipated demand from the housing market.

## FINANCIALS

### Income Statement

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
<b>Total revenue</b>	<b>56,086</b>	<b>55,087</b>	<b>63,571</b>	<b>66,323</b>	<b>74,167</b>
EBITDA	7,812	8,563	12,843	10,126	11,502
Depreciation	(1,835)	(2,057)	(2,128)	(2,369)	(2,650)
EBIT	5,977	6,506	10,715	7,757	8,852
Net interest income/(expenses)	(336)	(297)	(221)	(8)	(20)
Other income/(expenses)	56	84	169	254	380
Exceptional items	803	(192)	0	0	0
EBT	5,697	6,293	10,662	8,002	9,212
Income taxes	(2,158)	(1,739)	(2,341)	(2,310)	(2,627)
Extraordinary items	0	0	0	0	0
Min. int./Inc. from associates	144	312	1,460	1,020	1,050
<b>Reported net profit</b>	<b>4,486</b>	<b>4,674</b>	<b>9,781</b>	<b>6,713</b>	<b>7,635</b>
Adjustments	(803)	192	0	0	0
<b>Adjusted net profit</b>	<b>3,683</b>	<b>4,866</b>	<b>9,781</b>	<b>6,713</b>	<b>7,635</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Accounts payables	5,574	5,475	6,462	6,360	7,112
Other current liabilities	2,123	2,347	3,380	2,544	2,845
Provisions	240	313	364	464	519
Debt funds	1,613	4,113	6	100	100
Other liabilities	843	947	919	919	919
Equity capital	254	254	254	254	254
Reserves & surplus	21,286	22,358	31,438	34,496	38,435
Shareholders' fund	21,540	22,612	31,692	34,750	38,689
<b>Total liabilities and equities</b>	<b>31,932</b>	<b>35,807</b>	<b>42,823</b>	<b>45,137</b>	<b>50,185</b>
Cash and cash eq.	373	1,614	7,684	6,371	7,656
Accounts receivables	3,874	3,128	3,898	4,179	4,674
Inventories	7,504	8,906	7,608	9,449	10,566
Other current assets	1,847	2,379	2,614	2,544	2,845
Investments	2,223	2,773	3,366	3,366	3,366
Net fixed assets	15,014	15,917	16,985	18,560	20,410
CWIP	900	929	508	508	508
Intangible assets	196	160	160	160	160
<b>Total assets</b>	<b>31,932</b>	<b>35,807</b>	<b>42,823</b>	<b>45,137</b>	<b>50,185</b>

Source: Company, BOBCAPS Research

**Cash Flows**

Y/E 31 Mar (Rs mn)	FY19A	FY20A	FY21P	FY22E	FY23E
Net income + Depreciation	6,322	6,731	11,909	9,082	10,285
Interest expenses	336	297	221	8	20
Non-cash adjustments	0	0	0	0	0
Changes in working capital	674	(989)	2,364	(2,890)	(805)
Other operating cash flows	0	0	0	0	0
<b>Cash flow from operations</b>	<b>7,331</b>	<b>6,038</b>	<b>14,494</b>	<b>6,200</b>	<b>9,501</b>
Capital expenditures	(3,661)	(2,953)	(2,774)	(3,945)	(4,500)
Change in investments	287	(550)	593	0	0
Other investing cash flows	71	(211)	(1,432)	0	0
<b>Cash flow from investing</b>	<b>(3,304)</b>	<b>(3,714)</b>	<b>(3,614)</b>	<b>(3,945)</b>	<b>(4,500)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(851)	2,500	(4,107)	94	0
Interest expenses	(336)	(297)	(221)	(8)	(20)
Dividends paid	(1,991)	(3,522)	(635)	(3,655)	(3,695)
Other financing cash flows	(840)	235	153	0	0
<b>Cash flow from financing</b>	<b>(4,017)</b>	<b>(1,084)</b>	<b>(4,810)</b>	<b>(3,569)</b>	<b>(3,715)</b>
<b>Changes in cash and cash eq.</b>	<b>10</b>	<b>1,240</b>	<b>6,070</b>	<b>(1,313)</b>	<b>1,285</b>
<b>Closing cash and cash eq.</b>	<b>373</b>	<b>1,613</b>	<b>7,684</b>	<b>6,371</b>	<b>7,656</b>

**Per Share**

Y/E 31 Mar (Rs)	FY19A	FY20A	FY21P	FY22E	FY23E
Reported EPS	35.3	36.8	77.0	52.8	60.1
Adjusted EPS	29.0	38.3	77.0	52.8	60.1
Dividend per share	13.0	14.0	22.0	23.8	24.0
Book value per share	169.6	178.0	249.5	273.6	304.6

**Valuations Ratios**

Y/E 31 Mar (x)	FY19A	FY20A	FY21P	FY22E	FY23E
EV/Sales	4.7	4.8	4.2	4.1	3.7
EV/EBITDA	34.0	31.1	20.7	26.7	23.9
Adjusted P/E	72.7	55.1	27.4	39.9	35.1
P/BV	12.4	11.8	8.5	7.7	6.9

**DuPont Analysis**

Y/E 31 Mar (%)	FY19A	FY20A	FY21P	FY22E	FY23E
Tax burden (Net profit/PBT)	56.7	79.8	91.7	83.9	82.9
Interest burden (PBT/EBIT)	108.8	93.8	99.5	103.2	104.1
EBIT margin (EBIT/Revenue)	10.7	11.8	16.9	11.7	11.9
Asset turnover (Revenue/Avg TA)	183.0	162.6	161.7	150.8	155.6
Leverage (Avg TA/Avg Equity)	1.5	1.5	1.4	1.3	1.3
Adjusted ROAE	18.2	22.0	36.0	20.2	20.8

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

**Ratio Analysis**

Y/E 31 Mar	FY19A	FY20A	FY21P	FY22E	FY23E
<b>YoY growth (%)</b>					
Revenue	13.0	(1.8)	15.4	4.3	11.8
EBITDA	(0.4)	9.6	50.0	(21.2)	13.6
Adjusted EPS	(13.2)	32.1	101.0	(31.4)	13.7
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	13.9	15.5	20.2	15.3	15.5
EBIT margin	10.7	11.8	16.9	11.7	11.9
Adjusted profit margin	6.6	8.8	15.4	10.1	10.3
Adjusted ROAE	18.2	22.0	36.0	20.2	20.8
ROCE	17.9	18.7	28.6	16.6	17.2
<b>Working capital days (days)</b>					
Receivables	25	23	20	22	22
Inventory	69	84	75	71	75
Payables	40	43	43	42	39
<b>Ratios (x)</b>					
Gross asset turnover	2.1	1.9	2.0	1.9	1.9
Current ratio	1.4	1.3	2.1	2.4	2.4
Net interest coverage ratio	17.8	21.9	48.4	974.8	442.6
Adjusted debt/equity	0.1	0.1	(0.2)	(0.2)	(0.2)

Source: Company, BOBCAPS Research



## Disclaimer

### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

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

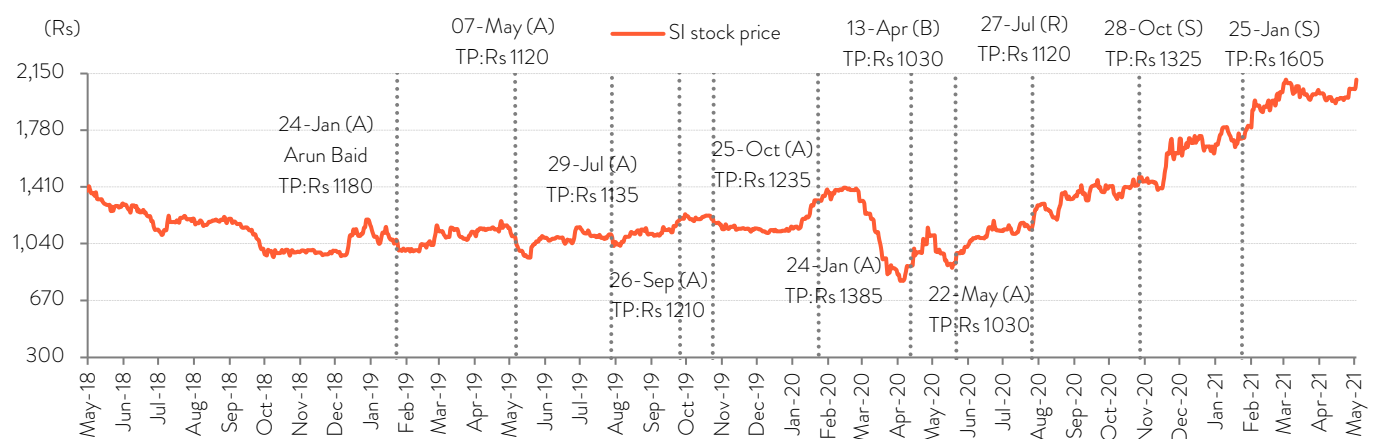
**REDUCE** – Expected return from -5% to +5%

**SELL** – Expected return <-5%

**Note:** Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

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.

### RATINGS AND TARGET PRICE (3-YEAR HISTORY): SUPREME INDUSTRIES (SI IN)



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

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