

Good rural demand saves performance...

Supreme Industries' Q1FY21 performance was largely impacted by lockdown in April 2020 and lower piping demand from housing segments. However, the company saw pent up demand in the agri piping segment from rural India in June 2020. While the company's piping & packaging films products have seen strong demand recovery in June 2020 (with operation reaching to almost pre covid-19 level), the demand recovery of industrial and furniture products was impacted by intermediary lockdowns. The management refrained from guiding volume offtake for FY21E due to widespread localised lockdowns that would likely delay the recovery process in construction activity. On the margin front, saving in other expenditure (down 41% YoY) helped cushion EBITDA margin from any sharp fall during the period but gross margin was under pressure mainly due to a change in mix. We believe the FY21E performance will be impacted by less spending in construction and infra related works amid lockdowns while the actual recovery in demand would improve from FY22E onwards.

Pent up demand in June 2020 drives recovery in Q1FY21

Volume growth was down ~19% YoY in Q1FY21 with a sharp decline in the volume of industrial, consumer product categories by 54%, 70%, respectively. However, strong pent up demand in June 2020 in the piping and packaging products categories restricted volume fall in the respective categories to the tune of ~12%, ~20%, respectively. While the company has gained market share in the piping products during Q1FY21, its cross laminated films category grew 40% in June 2020. Supreme sees good demand recovery in rural India but intermediate lockdowns in metro and tier I cities are likely to impact recovery process in Q2FY20.

Saving in other expenditure cushions EBITDA margin

A sharp decline in other expenditure by ~41% YoY (higher than revenue decline of ~27% YoY), helped negate ~200 bps contraction in gross margins in Q1FY21. We believe the gross margin pressure can be attributed to change in mix. We expect a slow recovery in the demand for housing pipes segment (relatively high margin products), industrial and consumer products categories to weigh on EBITDA margin during FY21.

Valuation & Outlook

While Supreme witnessed good pent up demand in May-June led by agri product categories, intermediary lockdowns are likely to delay the overall recovery process. This, coupled with a rising proportion of low margin piping business would weigh on gross margins and finally EBITDA margin. Though we maintain our positive stance on the stock, we believe the current price captures near term positives with present valuation hovering at 41x FY21E, 28x FY22E. We maintain our **HOLD** rating on the stock with a revised target price of ₹ 1245/share.



Particulars

Particular	Amount
Market Capitalization (₹Crore)	14,862.2
Total Debt (FY 20) (₹Crore)	410.9
Cash & Invest. (FY 20) (₹Crore)	219.9
EV (₹Crore)	15,053.2
52 week H/L	1413/ 791
Equity capital (₹Crore)	25.4
Face value (₹)	2.0

Key Highlights

- Volume de-grew ~19% in Q1FY21, impacted by lockdown and poor demand for industrial and consumer products
- Gross margins fell 200 bps YoY mainly due to change in product mix
- July sales impacted by intermediary lockdown
- Maintain HOLD rating on stock with revised target price of 1245/share

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Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4966.3	5612.0	5511.5	5160.2	6258.7	6.6
EBITDA	787.1	784.6	834.5	720.3	951.5	6.8
EBITDA Margin (%)	15.8	14.0	15.1	14.0	15.2	
Net Profit	431.0	448.6	467.4	360.7	526.9	6.2
EPS (₹)	33.9	35.3	36.8	28.4	41.5	
P/E (x)	34.5	33.1	31.8	41.2	28.2	
Price/Book (x)	7.8	6.9	6.6	6.3	5.7	
Mcap/Sales (x)	3.0	2.6	2.7	2.9	2.4	
RoE (%)	22.7	18.7	20.7	15.3	20.1	
RoCE (%)	27.9	25.0	22.5	17.5	22.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q1FY21	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Revenue	1,053.9	709.7	1,436.8	-26.7	1,430.5	-26.3	Volume de-grew ~19% YoY led by industrial and consumer product categories
Other Income	0.3	0.1	0.0	833.3	0.1	366.7	
Raw Material Exp	746.7	451.6	990.8	-24.6	836.1	-10.7	Gross margin declined ~180 bps YoY change in product mix
Cost of traded goods	7.7	7.1	11.9	-35.2	12.0	-36.2	
Employee Exp	63.3	63.9	65.5	-3.4	74.2	-14.7	
Other expenditure	119.1	127.7	201.3	-40.8	234.7	-49.3	Significant decline in freight & forwarding costs, discounts, travelling helped in saving other expenditure
EBITDA	117.1	59.4	167.4	-30.0	273.4	-57.2	
EBITDA Margin (%)	11.1	8.4	11.6	-54 bps	19.1	-800 bps	Sharp decline in other expenses helped cushion EBITDA margin
Depreciation	50.8	46.6	49.5	2.5	52.9	-4.0	
Interest	7.8	3.1	3.3	139.0	4.2	85.0	
PBT	58.8	9.8	114.6	-48.7	216.4	-72.8	
Total Tax	14.6	2.5	40.0	-63.4	106.1	-86.2	
Profit from associates	-3.7	6.2	12.5	-129.2	7.0	-152.4	
PAT	40.5	13.6	87.1	-53.5	117.3	-65.4	PAT decline largely on account of lower sales during Q1
Key Metrics							
Plastic Piping	765.0	455.8	898.0	-14.8	937.0	-18.4	Plastic piping business volume declined ~12% YoY mainly due to sharp dip in the demand of housing pipes. However, agri pipes segments witnessed demand recovery in June with volume growth of ~15% YoY
Packaging Products	188.0	118.0	245.1	-23.3	207.9	-9.6	Volume de-grew by 20% YoY mainly due to low demand of protective packaging. However, performance packaging and cross laminated business witnessed sharp demand recovery post ease in industrial products volume declined 54% YoY led by sharp decline volume from automotive segments
Industrial Products	70.0	89.1	188.3	-62.8	158.7	-55.9	
Consumer Products	28.0	46.8	97.4	-71.2	95.6	-70.7	Consumer product volume declined ~71% due to lockdowns

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY21E			FY22E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5,049.1	5160.2	2.2	5,885.4	6258.7	6.3	We slightly tweak our revenue estimates upwards factoring current quarter performance
EBITDA	683.7	720.3	5.4	892.5	951.5	6.6	
EBITDA Margin %	13.5	14.0	46bps	15.2	15.2	0bps	
PAT	350.8	360.7	2.8	504.6	526.9	4.4	
EPS (₹)	27.6	28.4	2.8	39.7	41.5	4.4	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

(%)	Current				Earlier		Comments
	FY19	FY20	FY21E	FY22E	FY21E	FY22E	
Plastic Piping	16.3	8.6	(0.6)	19.8	(6.8)	19.4	We revise our volume growth estimate upward owing to good demand recovery during Q1FY21 post ease in lockdown
Packaging Products	2.0	(7.9)	(6.5)	19.1	(8.5)	10.5	We believe strong recovery in cross laminated films and performance packaging would be partly offset by lower demand in protective packaging
Industrial Products	10.5	(24.0)	(21.5)	30.4	(11.9)	10.2	Pressure from automotive industry is likely to keep demand for products under check
Consumer Products	13.4	(4.0)	(20.0)	29.2	(3.7)	16.5	Demand is likely to remain muted owing to intermediary lockdowns

Source: Company, ICICI Direct Research

Conference Call Highlights

Plastic piping system

- The piping segment recorded volume, value de-growth of 12%, 15% YoY for Q1FY21, respectively. However, pent up demand witnessed from tier II and tier III cities led by agri piping demand
- The demand for housing pipe declined significantly due to lockdown and low labour availability
- The company has gained market share in the agri piping segment as other players business operations were impacted by labour shortage and regional lockdowns
- Near term Covid-19 related lockdowns and migration of workers would keep demand under check. Construction activities are likely to remain impacted owing to shortage of labour
- However, the company expects a possible recovery from Q3FY20 led by demand revival in rural India supported by various initiatives taken by the government during the pandemic

Industrial products

- The industrial segment witnessed a decline in volume and value by 54% and 63% YoY, respectively, in Q1FY21 mainly driven by low demand for automotive component business
- The segment EBITDA margin decreased to 1.4% in Q1FY21 from 10.8% in Q1FY20 mainly due to lower operating leverage
- Near term demand recovery looks challenging considering the lower offtake by key players amid lockdowns

Packaging products

- The packaging segment witnessed a decline in volume and value by 20% and 23% YoY, respectively, in Q1FY21
- The sharp decline in demand for protective packaging and industrial films was partially offset by price recovery in cross laminated film products (took price hike 3%) and volume growth of 20% in June 2020
- The segment EBITDA margin increased to ~15% in Q1FY21 from 12.4% in Q1FY20

Consumer products (furniture)

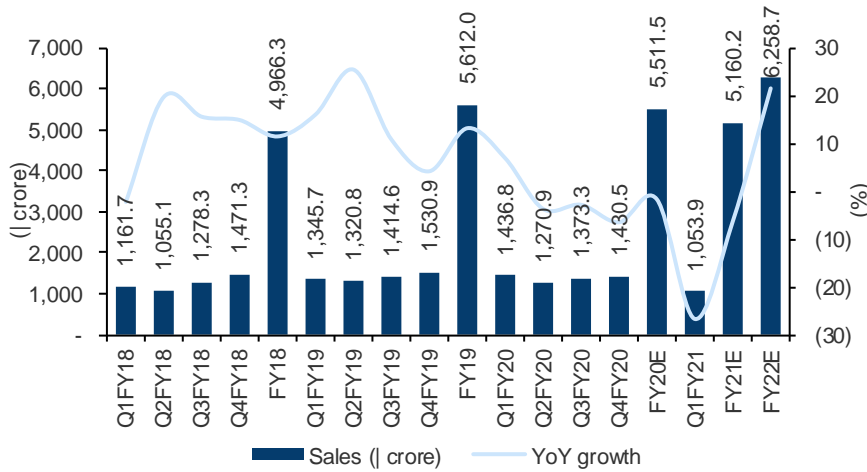
- Consumer product segment revenue declined 71% YoY led by volume decline of ~70.5% YoY in Q1FY21
- Segment EBITDA margin slipped into the red to ~-2.1% in Q1FY21 from positive 16.8% in Q1FY20 due to low operating leverage
- Consumer product categories are facing challenges (in offtake) due to intermediary lockdowns

Overall company highlights

- Value added products (VAPs) category revenue declined 17% YoY to ₹ 378 crore mainly due to low volume offtake
- Supply from unorganised sectors was not much impacted due to lockdown
- Supreme has decided to continue its investment plan of about ₹ 350 crore in the current year. It is likely to increase the plastic manufacturing capacity by 40000-45000 tonnes per annum. The major portion (~34000 tonnes) will be added in the piping segment
- Average borrowing for Q1FY21 was ₹ 134 crore vs. ₹ 169 crore in the same period a year ago. Average borrowing cost as on June 2020 fell to 7.53% vs. 8.35% as on March 31, 2020

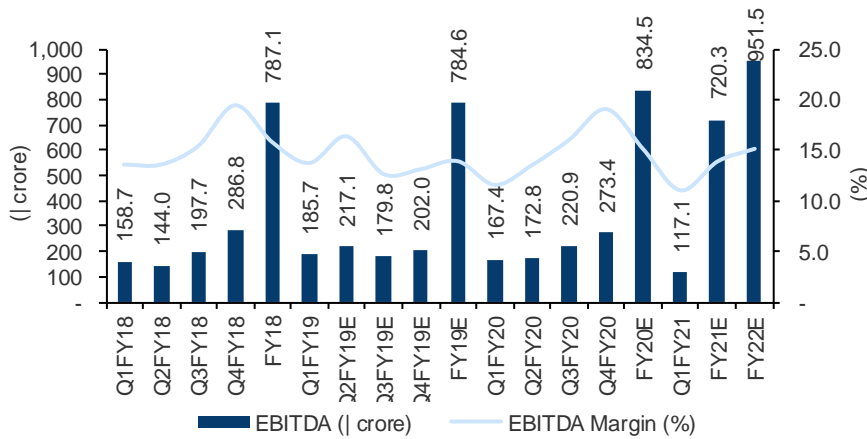
Financial story in charts

Exhibit 4: Muted revenue growth led by slow volume offtake



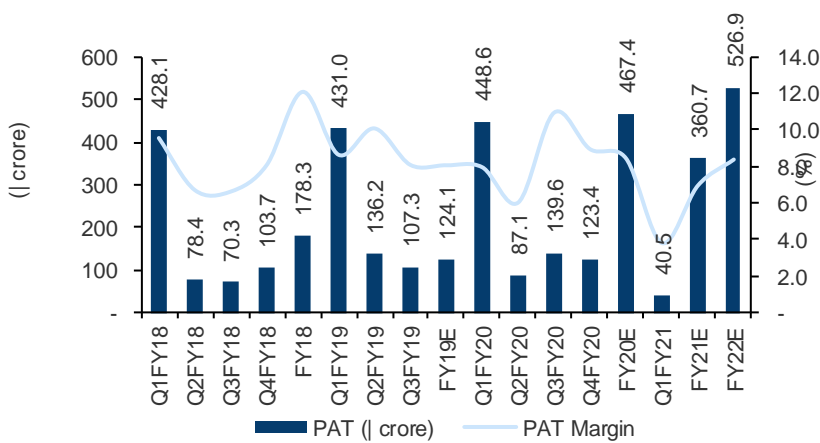
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



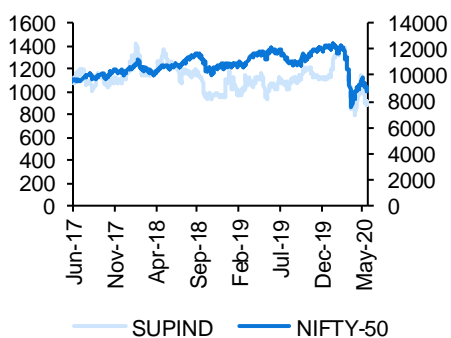
Source: Company, ICICI Direct Research

Exhibit 6: Muted bottomline growth



Source: Company, ICICI Direct Research

Exhibit 7: Price Chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Jun-19	Sep-19	Dec-19	Mar-20	Jun-20
Promoter	49.7	49.7	49.7	49.9	48.9
FII	8.4	8.1	8.2	8.0	8.5
DII	22.8	23.3	23.5	24.0	24.8
Others	19.1	18.9	18.6	18.0	17.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement					₹ crore
(Year-end March)	FY19	FY20E	FY21E	FY22E	
Net Sales	5612.0	5511.5	5160.2	6258.7	
Growth (%)		-1.8	-6.4	21.3	
Other Income	7.8	1.4	1.5	1.7	
Total Revenue	5619.8	5513.0	5161.7	6260.4	
Expenditure					
Raw Material Expenses	3744.7	3706.0	3279.2	4031.5	
Cost of goods traded	84.3	47.4	47.2	93.9	
Employees cost	254.6	279.8	287.1	309.5	
Other Expenditure	752.9	818.9	652.9	872.3	
Total Operating Exp	4827.4	4677.0	4439.9	5307.2	
Operating Profit (EBITDA)	784.6	834.5	720.3	951.5	
Growth (%)	NM	6.4	-13.7	32.1	
Depreciation	183.5	205.7	216.7	250.3	
Interest	26.0	20.2	36.3	40.4	
PBT after Excep Items	650.0	610.1	468.8	662.4	
Total Tax	215.8	173.9	117.7	167.0	
PAT before MI	434.3	436.2	351.2	495.4	
Profit from Associates	14.4	31.2	9.5	31.5	
Reported PAT	448.6	467.4	360.7	526.9	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Profit/(Loss) after taxation	448.6	467.4	360.7	526.9	
Add: Depreciation & Amortization	183.5	205.7	216.7	250.3	
Add: Interest Paid	26.0	20.2	36.3	40.4	
C/F bef working cap changes					
Net Increase in Current Assets	-77.6	-82.1	-38.9	-240.4	
Net Increase in Current Liabilities	97.4	21.0	-62.8	123.0	
Net cash flow from operating Ac	678.1	632.1	512.1	700.3	
(Inc)/Dec in Other Investments	-28.7	15.1	0.0	0.0	
(Purchase)/Sale of Fixed Assets	-366.1	-295.3	-300.0	-300.0	
Net Cash flow from Investing Ac	-392.1	-312.8	-250.6	-311.4	
Proceeds/(Rep) of debt	-70.3	248.9	-10.0	-5.0	
(Payment) of Div & Div Tax	-198.2	-214.1	-274.4	-259.1	
Net Cash flow from Financing Act	-285.8	-131.5	-313.1	-304.6	
Net Cash flow	0.1	187.8	-51.6	84.3	
Cash & Cash Equ at the begin.	32.0	32.1	219.9	168.2	
Cash & Cash Equ at the end	32.1	219.9	168.2	252.5	

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Equity Capital	25.4	25.4	25.4	25.4	
Reserve and Surplus	2128.6	2235.8	2329.7	2597.4	
Total Shareholders funds	2154.0	2261.2	2355.1	2622.8	
Total Debt	162.1	410.9	400.9	395.9	
Deferred Tax Liability	120.4	132.6	132.6	132.6	
Total Liabilities	2436.4	2804.7	2888.6	3151.3	
Gross Block	2942.6	3235.0	3582.0	3882.0	
Accumulated Depreciation	1421.6	1627.3	1844.0	2094.3	
Net Block	1521.0	1607.7	1738.0	1787.7	
Capital WIP	90.0	92.9	45.9	45.9	
Total Fixed Assets	1611.0	1700.7	1783.9	1833.6	
Other Investments	222.3	207.3	207.3	207.3	
Inventory	750.4	890.6	777.6	891.7	
Debtors	387.4	312.8	494.8	600.2	
Loans and Advances	167.8	184.4	154.3	175.2	
Cash	32.1	219.9	168.2	252.5	
Total Current Assets	1337.8	1607.7	1594.9	1919.6	
Creditors	557.4	547.5	524.1	634.4	
Provisions	24.0	31.3	32.5	39.3	
Total Current Liabilities	792.9	813.9	751.1	874.0	
Net Current Assets	544.9	793.9	843.9	1045.6	
Long term loans and advances	58.2	102.9	53.5	64.9	
Total Asset	2436.4	2804.7	2888.6	3151.3	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios					₹ crore
(Year-end March)	FY19	FY20	FY21E	FY22E	
Per share data (₹)					
EPS	35.3	36.8	28.4	41.5	
Cash EPS	49.8	53.0	45.5	61.2	
BV per share	169.6	178.0	185.4	206.5	
DPS	15.6	16.9	21.6	20.4	
Operating Ratios (%)					
EBITDA Margin	14.0	15.1	14.0	15.2	
PAT Margin	7.2	8.5	7.0	8.4	
Turnover Days					
Inventory Days	48.8	59.0	55.0	52.0	
Debtor Days	25.2	20.7	35.0	35.0	
Creditor Days	36.3	36.3	37.1	37.0	
Return Ratios (%)					
RoNW	18.7	20.7	15.3	20.1	
RoCE	25.0	22.5	17.5	22.3	
RoIC	24.4	24.0	17.9	23.5	
Valuation Ratios (x)					
P/E	33.1	31.8	41.2	28.2	
EV / EBITDA	19.1	18.0	21.0	15.8	
EV / Net Sales	2.7	2.7	2.9	2.4	
Market Cap / Sales	2.6	2.7	2.9	2.4	
Price to Book Value	6.9	6.6	6.3	5.7	
Solvency Ratios					
Debt/ EBITDA	0.2	0.5	0.6	0.4	
Debt/ Equity	0.1	0.2	0.2	0.2	
Current Ratio	2.2	2.4	2.6	2.5	
Quick Ratio	1.0	0.9	1.2	1.2	

Source: Company, ICICI Direct Research

Exhibit 13: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹Cr)	EPS (₹)				P/E (x)				EV/EBITDA (x)				RoCE (%)				RoE (%)			
	(₹)	TP(₹)	Rating		FY20	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E		
Asian Paints (ASIPA)	1,778	1,900	Hold	1,70,510	29.0	21.8	32.6	61.4	81.7	54.5	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0					
Astral Polytechnik (ASTP)	917	900	Hold	13,816	16.6	14.2	20.0	55.4	64.4	45.8	27.8	30.4	23.3	20.5	16.3	20.2	16.6	12.6	15.4					
Amber Enterprises (AM)	1,472	1,565	Hold	4,629	52.2	15.1	54.9	28.2	97.4	26.8	15.7	22.2	12.3	14.3	7.3	15.7	14.5	4.4	13.7					
Bajaj Electricals (BAJEL)	411	495	Buy	4,673	0.0	4.1	14.8	NM	100.4	27.8	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2					
Berger Paints (BERPA)	531	570	Hold	51,571	6.8	6.0	10.0	78.6	88.6	53.0	46.9	51.1	33.7	26.6	21.5	31.9	24.7	19.4	27.7					
Essel Propack (ESSPRC)	194	190	Hold	5,518	6.7	6.0	7.9	29.0	32.3	24.6	10.3	10.0	8.4	15.6	13.9	15.9	14.3	11.5	14.2					
Havells India (HAVIND)	595	575	Buy	37,122	11.7	7.8	13.2	50.7	76.0	45.0	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1					
Kansai Nerolac (KANNE)	440	415	Buy	23,712	9.9	7.8	10.4	44.3	56.3	42.3	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7					
Pidilite Industries (PIDINI)	1,356	1,485	Hold	69,519	21.9	18.3	26.2	62.0	74.0	51.7	44.7	51.5	37.0	31.0	24.4	32.6	26.1	19.8	26.6					
Polycab India (POLI)	804	950	Buy	11,970	51.4	42.2	55.4	15.6	19.0	14.5	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0					
Supreme Indus (SUPINC)	1,175	1,245	Hold	14,926	36.8	28.4	41.5	31.8	41.2	28.2	18.0	20.8	15.6	22.5	17.5	22.3	20.7	15.3	20.1					
Symphony (SYMLIM)	840	1,055	Buy	5,876	26.0	23.7	35.1	32.3	35.5	23.9	28.9	32.1	20.6	28.8	23.9	31.9	29.0	22.7	28.9					
Time Techno (TIMTEC)	39	42	Hold	882	7.5	3.2	9.0	5.2	12.3	4.3	3.1	4.4	2.8	12.5	7.1	13.1	9.3	4.0	10.7					
V-Guard Ind (VGUARD)	166	210	Buy	7,066	4.4	3.5	5.1	38.2	46.9	32.6	29.6	35.6	24.8	24.8	19.1	23.9	18.6	14.5	18.2					
Voltas Ltd (VOLTAS)	589	635	Buy	19,480	15.8	9.5	21.4	37.4	62.0	27.5	25.1	46.0	20.3	19.5	11.2	20.1	13.0	7.2	14.9					

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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