Sharekhan
by BNP PARIBAS

Supreme Industries

Results better than expectation

Sector: Building Material
Results Update

	Change
Reco: **Buy**	↔
CMP: **Rs. 1,173**	
Price Target: **Rs. 1,350**	↑

↑ Upgrade ↔ No change ↓ Downgrade

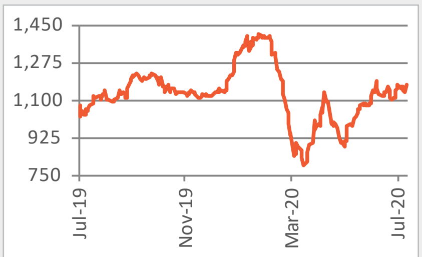
Company details

Market cap:	Rs. 14,896 cr
52-week high/low:	Rs. 1,414/791
NSE volume: (No of shares)	0.77 lakh
BSE code:	509930
NSE code:	SUPREMEIND
Sharekhan code:	SUPREMEIND
Free float: (No of shares)	6.5 cr

Shareholding (%)

Promoters	49
FII	8
DII	25
Others	18

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	4.5	3.2	-13.3	9.1
Relative to Sensex	-4.0	-16.3	-5.5	8.5

Sharekhan Research, Bloomberg

Supreme Industries Limited (SIL) delivered better than expected performance during the quarter, despite the adverse impact of the, COVID-19 led lockdown. Revenue witnessed a decline of 26.7% y-o-y to Rs 1054 crore, led by a volume decline of 19.4% y-o-y (91,451 MT of plastic goods) and blended realisation being lower by 9.0% yoy (Rs 115/kg). The contribution from value added product to overall revenues increased to 36% as compared to 32% in Q1FY2020. Input cost pressures led to gross margin contraction of 180 bps yoy to 28.4% while operating leverage restricted the contraction in EBITDA margin at 50 bps yoy to 11.1%.PAT witnessed a significant decline of 53.5% y-o-y to Rs 41 crores owing to lower operating profit coupled with under absorption of depreciation and increased interest expense, despite tax incidence being lower at 24.9% as compared to 34.9% during Q1FY2020.The pace of volume decline in key revenue generating segment i.e. plastic piping segment was lower at 12.0% as compared to other segments. Similarly, realisation decline was also lower at 3.3% y-o-y. The management stated that in the current COVID-19 led crisis it is difficult to provide annual guidance. However considering healthy demand prospects during FY2021-22E, the company intends to incur a capex of Rs 350 crores to expand capacities mainly in the piping segment and packaging film segment. From a medium to long term perspective the demand outlook remains encouraging given a recovery in rural economy, affordable housing sector and the Government's 'Nal se Jal' scheme for piped water connection.

Key positives

- Company turned cash surplus as on 30th June 2020 and continues with expansion plans to grab opportunities.
- EBITDA margin improved in plastic piping segment by 38 bps yoy to 11.7% and in packaging segment by 280 bps yoy to 15.2%.

Key negatives

- Volumes sold declined across segment leading to overall volume decline of 19.4% yoy.
- Realisation remained soft across segment resulting in blended realisation being lower by 9.0% yoy.

Our Call

Valuation: Maintain Buy with a revised PT of Rs. 1,350: Considering Q1FY2021 performance, we have revised our estimates for FY2021E and FY2022E and expect the company to deliver revenue and earnings CAGR of 6.9% and 10.7% respectively during FY2020-22E.We remain Positive on SIL from medium to long term perspective, given recovery in rural economy, affordable housing sector and the new scheme for piped water connection – 'Nal se Jal'. Given the positive demand outlook coupled with healthy cashflow generation and a strong balance sheet, we retain our Buy rating on the stock with a revised SoTP price target (PT) of Rs. 1,350 assigning a higher multiple to factor in early cycle recovery.

Key Risks

Slowdown in demand offtake could impact revenue growth rates. Adverse commodity price fluctuation might impact the margin profile.

Valuation Rs cr

Particulars	FY18	FY19	FY20	FY21E	FY22E
Revenue	4,970	5,612	5,512	5,036	6,297
OPM (%)	15.8	14.0	15.1	14.3	15.3
Adjusted PAT	432	381	405	342	497
% YoY growth	14.6	(11.7)	6.2	(15.5)	45.2
Adjusted EPS (Rs.)	34.0	30.0	31.9	26.9	39.1
P/E (x)	34.4	39.0	36.7	43.4	29.9
P/B (x)	7.8	6.9	6.1	5.6	6.0
EV/EBITDA (x)	18.6	18.8	17.7	20.9	15.4
RoNW (%)	22.8	17.7	16.8	13.0	20.1
RoCE (%)	27.5	24.5	23.7	17.6	26.8

Source: Company; Sharekhan estimates

Decent performance in challenging environment: Revenue witnessed a decline of 26.7% y-o-y to Rs 1054 crore, led by volume decline of 19.4% yoy (91,451MT of plastic goods) and blended realisation being lower by 9.0% yoy (Rs 115/kg).During the quarter though the revenue from value added products was also lower by 17.3% y-o-y to Rs 378 crores. However, the contribution from value added productsto overall revenues increased to 36% as compared to 32% in Q1FY2020. Input cost pressures led to gross margin contraction of 180 bps yoy to 28.4%, resulting in gross profit being down by 31.0% yoy to Rs 300 crore.Despite employee expense being higher at 6.0% of sales as compared to 4.3% during Q1FY2020, lower other expenses at 11.3% of sales as compared to 14.0% in Q1FY2020 restricted the contraction in EBITDA margin at 50 bps yoy to 11.1%, resulting in EBITDA being down by 30% yoy to Rs 117 crore.Despite lower tax incidence of 24.9% as compared to 34.9% during Q1FY2020, PAT witnessed a significant decline of 53.5% y-o-y to Rs 41 crores owing to lower operating profit coupled with under absorption of depreciation (though remained flat on a y-o-y basis) and increased interest expense (up by 2.4x to Rs 7.8 crore).

COVID-19 led crisis impacts volumes sold and realisation across all segments: Volumes declined across segments, but the pace of volume decline in its key revenue generating segment i.e. plastic piping segment was lower at 12.0% y-o-y as compared to 20.1% lower y-o-y in the packaging segment, 54.0% lower in Industrial products segment and 70.5% lower in consumer products segment. Similarly realisation was lower across all the segments, 3.3% y-o-y in plastic piping segment, 4.2% in packaging segment, 18.5% in Industrial products segment and 2.3% in consumer products segment.In terms of profitability, margin in plastic piping segment improved by 38 bps to 11.7% and in packaging segment improved by 280 bps to 15.2% while in Industrial product segment it contracted by 944 bps to 1.4% and in consumer product segment, the company reported loss at operating level.

Utilisation levels to scale upfurther: The capacity utilisation levels at facilities for Piping products, Packaging Film and Cross Laminated Film products and material handling products have seen gradual recovery and has reached near normalcy of operations while facilities for Furniture and Industrial Components and certain segments of Packaging products are operating between 50 to 70% capacity utilization currently wherein utilisation is expected to scale up further.

Expansion to continue led by healthy cash flow position: The company turned cash surplus as on 30th June 2020 with cash & cash equivalents of Rs 31 crores as compared to debt of Rs 217 crore as on 31st March 2020. Also the average borrowing cost of the company improved to 7.53% as against 8.35% as on 31st March 2020. Considering the good demand prospects during FY2021-22, the company intends to invest ~Rs 350 crores in its various existing facilities for expansion and to setup new facility to make piping system at Orissa and a Cross Plastic Film plant at a site adjacent to its' Composite Cylinder plant in Gujarat.

Results | Rs cr

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Net Sales	**1,053.9**	**1,436.8**	**-26.7**	**1,449.0**	**-27.3**
Total expenditure	936.8	1,269.5	-26.2	1,157.1	-19.0
EBITDA	117.1	167.4	-30.0	291.9	-59.9
Depreciation	50.8	49.5	2.5	52.9	-4.0
EBIT	**66.3**	**117.8**	**-43.7**	**239.1**	**-72.3**
Other income	0.3	0.0	833.3	0.1	366.7
Interest expenses	7.8	3.3	139.0	4.2	85.0
PBT	**58.8**	**114.6**	**-48.7**	**234.9**	**-75.0**
Tax expenses	14.6	40.0	-63.4	106.1	-86.2
Share of profit from associate	3.7	-12.5	-129.2	-7.0	-152.4
Adjusted net profit	**40.5**	**87.1**	**-53.5**	**135.8**	**-70.1**
Reported net profit	**40.5**	**87.1**	**-53.5**	**135.8**	**-70.1**
Adjusted EPS (Rs)	3.2	6.9	-53.5	9.2	-65.4
			BPS		**BPS**
EBITDA Margin (%)	11.1	11.6	-50	20.1	-900
PAT Margin (%)	3.8	6.1	-230	9.5	-570

Source: Company; Sharekhan Research

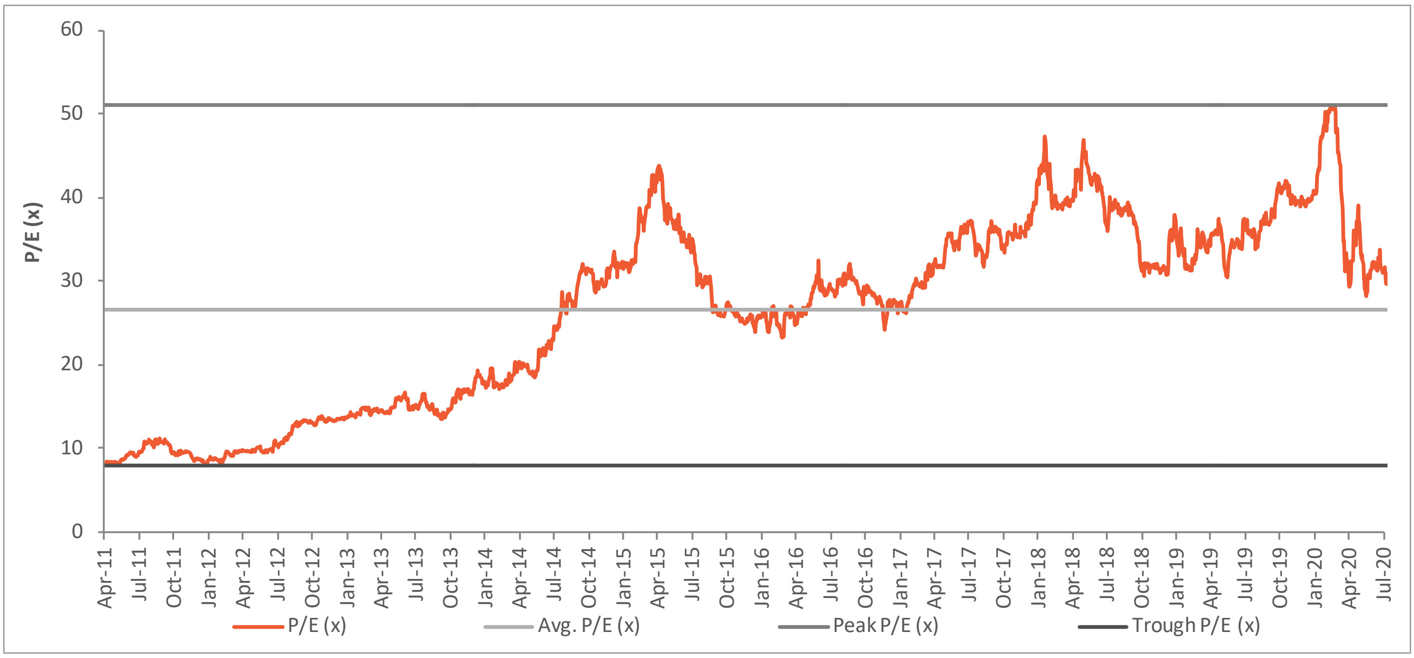
Outlook

Short term environment challenging, however to continue with capex as medium to long term demand environment remains intact: Management stated the COVID-19 led crisis makes it difficult to provide annual guidance. However, considering healthy demand prospects during FY2021-22E, the company intends to incur a capex of Rs 350 crores to expand capacities mainly in the piping segment and packaging film segment. From a medium to long term perspective the demand outlook remains encouraging given recovery in rural economy, affordable housing sector and the Government's 'Nal se Jal' scheme for piped water connection. The company also intends to increase its revenue contribution from value added products on a continuous basis.

Valuation

Maintain Buy with a revised PT of Rs. 1,350: Considering Q1FY2021 performance we have revised our estimates for FY2021E and FY2022E and expect the company to deliver revenue and earnings CAGR of 6.9% and 10.7% respectively during FY2020-22E.We remain Positive on SIL from medium to long term perspective, given recovery in rural economy, affordable housing sector and the new scheme for piped water connection – 'Nal se Jal'. Given the positive demand outlook coupled with healthy cashflow generation and a strong balance sheet, we retain our Buy rating on the stock with a revised SoTP price target (PT) of Rs. 1,350 assigning a higher multiple to factor in early cycle recovery.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

SIL is a leading manufacturer of plastic products with a significant presence across piping, packaging, industrial and consumer segments. The company has emerged as one of the best proxy plays on the growing plastic consumption in India because of a diversified product portfolio, an extensive distribution network, improved capital structure and government thrust on building a better infrastructure.

Investment theme

SIL is on a firm footing, with a strong product portfolio and new product launches, which are expected to drive growth in the coming years. The government's thrust on affordable housing and enhanced allocation towards irrigation projects will aid future growth for the companies such as SIL.We remain positive on the introduction of value-added products and capacity expansion plans, which are largely funded by robust internal accruals. SIL enjoys superior return ratios with low gearing levels, and we expect the company to maintain high return ratios going forward.

Key Risks

Slowdown in demand offtake from the user industry can impact revenue growth rates. Adverse commodity price fluctuation might impact margin profile.

Additional Data

Key management personnel

Bajranglal Surajmal Taparia	Non Executive Chairman
Mahavirprasad Surajmal Taparia	Executive Director
Shivratan Jeetmal Taparia	Executive Director
Vijaykumar Bajranglal Taparia	Executive Director
P C Somani	Chief Finance Officer
Rajendra J Saboo	AVP (Corporate Affairs) & Company Secretary & Compliance Officer

Source: Company Website

Top shareholders

Sr. No.	Holder Name	Holding (%)
1	Nalanda India Fund Ltd	4.81
2	Axis Mutual Fund Trustee Limited	3.21
3	Kotak Emerging Equity Scheme	2.34
4	HDFC Trustee Company Limited	2.30
5	GOVERNMENT PENSION FUND - GLOBAL	1.63
6	DSP Midcap Fund	1.47
7	Kotak India Midcap Fund	1.33
8	JP Morgan Emerging Markets Investment Trust Plc	1.09
9	J P Morgan Funds	1.03

Source: Bloomberg

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by BNP PARIBAS

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Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

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