

De-growth in overall volumes. Rural piping segment showed growth.

- Results above estimates on revenue front as demand for piping products from rural segment grew 15%. Gross margins contracted by 180 bps. Share of value added products declined 17% YoY.
- SI reported volume de-growth of 12% in piping segment in Q1FY21, rural piping demand supported growth as housing segment was a complete washout. Overall volume de-growth registered for Q1FY21 was 19.4% which was impacted due to negative performance from all the segments. Consumer products segment de-grew 71% followed by industrial products segment which de-grew 54%
- Management has not guided any volume growth or margin guidance for FY21 as they believe they will have to wait till H2FY21 for the situation to get better and demand to pick up.
- We do not expect signs of recovery in this industry till H2FY21, as housing activities have not started and high margin CPVC segment has not picked up. Usually Q2FY21 is a lean quarter for the Company. We maintain our Reduce rating on the with a target price of Rs 1,227 to trade at 32x FY22E earnings.

Situation likely to get better from H2FY21

Industrial segment de-grew 54%, however, we do not see signs of recovery soon in this segment as industries have not started operating in full capacity. Consumer segment de-grew 70.5% as the unorganised players gained market and demand have still not revived as markets have not opened up. SI plans to introduce 12 new products in furniture segment in FY21. Packaging segment de-grew 20%. De-growth was mainly due to packaging film segment which is used in industrial products, the other products like cross laminated films and protective packaging segment have shown growth. Plants for Furniture and Industrial Components and certain segments of Packaging products are operating between 50 to 70% capacity utilization.

Q1FY21 Result (Rs Mn)

Particulars	Q1FY21	Q1FY20	YoY (%)	Q4FY20	QoQ (%)
Revenue	10,539	14,368	(26.7)	14,305	(26.3)
Total Expense	9,368	12,695	(26.2)	11,571	(19.0)
EBITDA	1,171	1,674	(30.0)	2,734	(57.2)
Depreciation	508	495	2.5	529	(4.0)
EBIT	663	1,178	(43.7)	2,206	(69.9)
Other Income	3	0	833.3	1	366.7
Interest	78	33	139.0	42	85.0
EBT	588	1,146	(48.7)	2,164	(72.8)
Tax	146	400	(63.4)	1,061	(86.2)
RPAT	442	746	(40.8)	1,103	(59.9)
APAT	399	865	(53.8)	1,149	(65.2)
			(bps)		(bps)
Gross Margin (%)	28.4	30.2	(180)	40.7	(1229)
EBITDA Margin (%)	11.1	11.6	(54)	19.1	(800)
NPM (%)	4.2	5.2	(100)	7.7	(352)
Tax Rate (%)	24.9	34.9	(997)	49.0	(2414)
EBIT Margin (%)	6.3	8.2	(191)	15.4	(912)

CMP	Rs 1,173
Target / Upside	Rs 1,227 / 5%
BSE Sensex	37,920
NSE Nifty	11,132

Script Details

Equity / FV	Rs 254mn / Rs 2
Market Cap	Rs 149bn
	USD 2bn
52-week High/Low	Rs 1,413/Rs 773
Avg. Volume (no)	67,638
NSE Symbol	SUPREMEIND
Bloomberg Code	SI IN

Shareholding Pattern Jun'20(%)

Promoters	49.7
MF/Banks/FIs	23.3
FIIIs	8.6
Public / Others	18.4

Valuation (x)

	FY20A	FY21E	FY22E
P/E	31.6	43.4	30.5
EV/EBITDA	18.1	23.0	17.6
ROE (%)	21.2	14.8	19.6
RoACE (%)	17.4	11.6	15.2

Estimates (Rs mn)

	FY20A	FY21E	FY22E
Revenue	55,115	49,522	59,140
EBITDA	8,346	6,584	8,565
PAT	4,630	3,418	4,872
EPS (Rs.)	36.4	26.9	38.4

AVP Research: Nidhi Doshi

Tel: +91 22 40969795

E-mail: nidhid@dolatcapital.com

Pipe Segment- to outperform

Piping segment reported de-growth in Q1FY21 of 12% due to housing segment which was a complete washout. However, 15% growth was seen in rural piping demand. Demand from Tier 3 and Tier 4 have picked up, where agriculture pipes are used. CPVC demand was very low and hardly there was any business in as real estate sector. Value added products which are high margin products have shown a de-growth of 17%. SI plans to introduce 230 new SKU's in FY21. Total SKU's in piping segment are 8,500. Major capex spending in FY21 will be undertaken in piping segment. Piping and value added segments are high value segments with better margins and improvement will augur well for margin profile at consolidated level. Capacity addition of 60,000 MT, from 4,40,000 MT to 5,00,000 MT is taken up in the piping segment to cater to any incremental demand. Management expects strong demand from pipe segment to bounce back once business returns to normalcy by September 2020 and will move to growth trajectory by November 2020.

Expansion Projects

SI is undertaking capacity expansion across products and across locations. Looking at the various steps taken by the government in this sector they have not slowed down their capex. SI plans to spend Rs. 3,500 mn by FY22. Out of this Rs. 1,300 mn will be spend at the Jadcherla plant. They have made capex commitment of Rs. 1,820 mn in FY20, which will go in production in FY21. During FY21, they envisage a capex of Rs. 1,500-2,000 Mn, of which 70%-80% will be spent in piping segment. With a total capex of Rs. 3,500 mn plus, the total capacity will increase from 6,36,000 MT to 7,00,000 MT.

Exhibit 1: Segment Volume

Segment	Volume (MT)			Value (Rs In Mn)			OPM %	
	Q1FY21	Q1FY20	% Inc/Dec	Q1FY21	Q1FY20	% Inc/Dec	Q1FY21	Q1FY20
Plastic Piping Products	74,992	85,214	(12.0)	7,650	8,980	(14.8)	11.7	11.3
Packaging Products	10,182	12,745	(20.1)	1,880	2,450	(23.3)	15.2	12.4
Industrial Products	4,770	10,369	(54.0)	700	1,880	(62.8)	1.4	10.8
Consumer Products	1,507	5,100	(70.5)	280	970	(71.1)	(2.1)	16.8
Total	91,451	113,428	(19.4)	10,510	14,280	(26.4)	11.3	11.8

Source: DART, Company

Exhibit 2: Actual V/s DART estimates

Particulars (Rs Mn)	Actual	DART Estimate	Deviation (%)	Comments
Revenue	10,539	7,328	43.8	Demand for pipes in rural areas and Tier 3 and Tier 4 cities were good.
EBITDA	1,171	1,108	5.7	Lower advertisement spend
EBITDA Margin (%)	11.1	15.1	(400.9)	
PAT	399	375	6.4	

Source: Company, DART

Exhibit 3: Change in estimates

Rs Mn	FY21E			FY22E		
	New	Previous	Chg (%)	New	Previous	Chg (%)
Revenue	49,522	49,783	(0.5)	59,140	58,712	0.7
EBITDA	6,584	6,633	(0.7)	8,565	8,482	1.0
EBITDA Margin (%)	13.3	13.3	(3.0)	14.5	14.4	4
PAT	3,418	3,455	(1.1)	4,872	4,810	1.3
EPS (Rs)	26.9	27.2	(1.1)	38.4	37.9	1.3

Source: Company, DART

Key Highlights

- SIL made revenues of Rs. 10,539 mn, which was a de-growth of 26.7% YoY and a de-growth of 26.3% QoQ.
- SIL made an operating profit of Rs. 1,171 mn, which was a de-growth of 30% YoY and 57.2% QoQ.
- Net profit (before share in associates) was at Rs 442 mn a de-growth of 40.8% YoY.
- Net profit (after share in associate) was at Rs 399 mn a de-growth of 53.9% YoY.

Conference Call Highlights

- The Company sold 91,451 MT of Plastic goods and achieved net product turnover of Rs. 10,400 Mn during Q1FY21 against sale of 1,13,428 MT and net product turnover of Rs. 14,180 Mn YoY achieving volume & product value de-growth of about 19 % and 27 %, respectively.
- The overall turnover of value added products remained at Rs. 3,780 mn during Q1FY21 as compared to Rs. 4,570 Mn YoY.
- Total Net Borrowing stands at surplus of Rs. 310 mn as on 30th June, 2020 as against Borrowings of Rs. 2,170 mn as on 31st March, 2020.
- Average Net Borrowing level during Q1FY21 remained at Rs. 1,340 mn against Rs. 1,690 mn YoY.
- Average Cost of Borrowings as on 30th June,2020 decreased to 7.53 % p.a. as against 8.35 % p.a. as on 31st March, 2020.
- There is robust demand from rural and Tier III & Tier IV cities. SI enjoyed better demand in rural market compared to Q1FY20.
- Usually July-Sept quarter is a lukewarm quarter for SI, there is a slowdown in rural demand as well. This year in Q2FY21, demand from housing and infrastructure is also not looking good.

Plastic Piping Segment:

- Piping segment saw a de-growth of 11%, however piping demand was good from rural pockets, which was volume growth of 15% YoY. De-growth was more severe due to housing segment. Agri pipes are sold in Tier 3 and Tier 4 cities.
- SI plan to introduce 230 new products in plastic piping division. They introduced 16 SKU's in Q1FY21. Total SKU's in piping segment is 8,500.

Packaging Division:

- Polymer prices had gone up by 3%, and hence SI had taken a price increase in cross laminated film segment. Market share has gone up as there was a growth of 20% in the product portfolio.
- In Protective Packaging segment there was a decent growth of 30% in June. Cross laminated film segment also saw growth. Packaging film segment saw a de-growth and July month also there was slowdown as the products are mainly used in industrial applications.

Capex:

- Central and State Governments are taking various steps to boost the economy by pushing infrastructure investments.
- Government has not slowed down its spending in Jal se Nal and other schemes.
- Envisaging good demand prospect in FY22, SI has committed an investment of around Rs. 3,500 mn in its various existing plants and in putting up new plant to make piping system at Orissa and a Cross Plastic Film plant at a site adjacent to its Composite Cylinder plant in Gujarat.
- Out of the Rs. 3,500 mn, Rs. 1,300 mn will be spent on Jadcherla plant in South. Major capex will be spent on Piping segment.
- Plan to invest Rs. 1,200 mn in Supreme Petrochem in FY21.

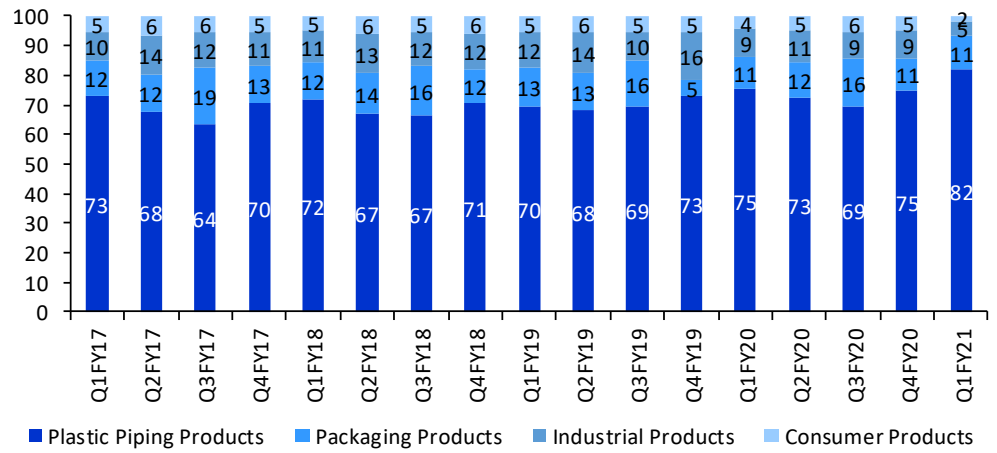
Recovery Phase:

- Although production and dispatches at all the plants have commenced during the last week of April/first week of May, 2020, normalcy of operations and business level is yet to be restored at pre-Covid level.
- Plants for Piping products, Packaging Film and Cross Laminated Film products and material handling products have seen gradual recovery and by now have reached near to normalcy of operations whereas plants for Furniture and Industrial Components and certain segments of Packaging products are operating between 50 to 70% capacity utilization.

Raw Material:

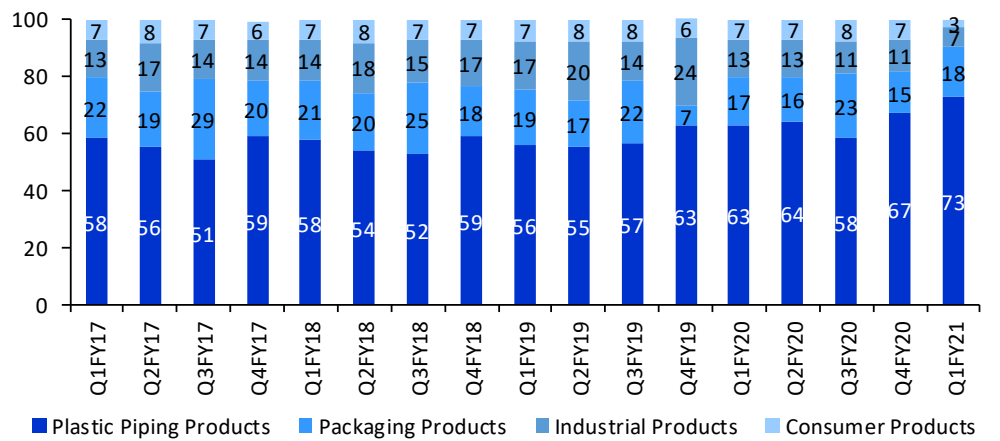
- Polymer prices have shown an upward trend since the second half of May but remain affordable.

Exhibit 4: Segment wise % of Total Volume



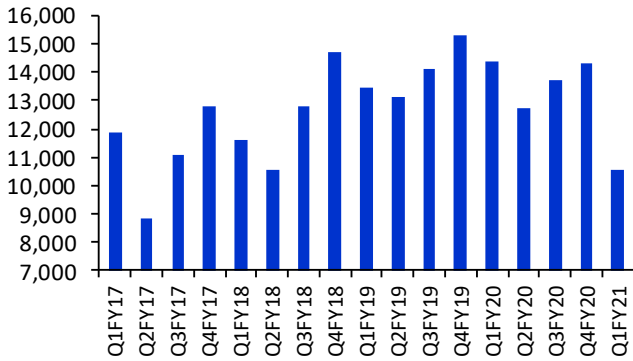
Source: Company, DART

Exhibit 5: Segment wise % of Total Revenue



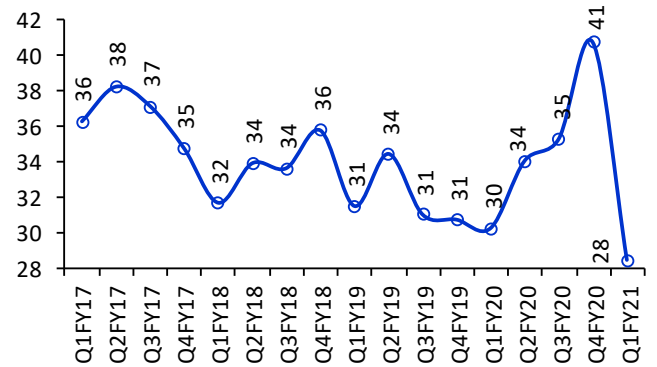
Source: Company, DART

Exhibit 6: Revenue (Rs Mn)



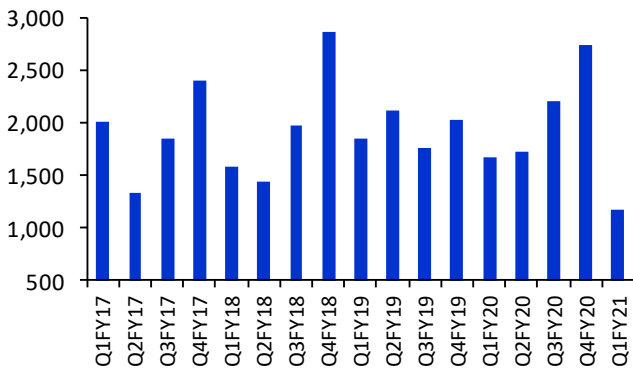
Source: Company, DART

Exhibit 7: Gross Margin (%)



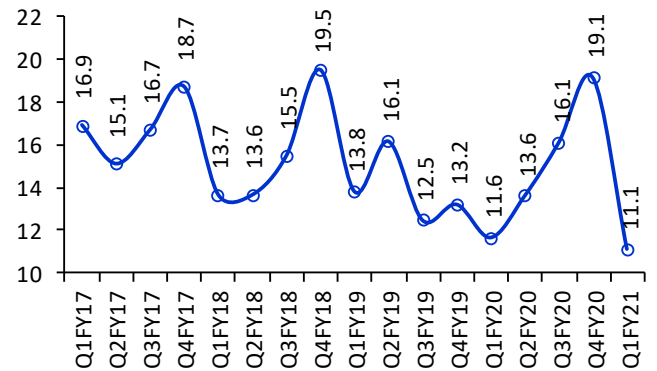
Source: Company, DART

Exhibit 8: EBITDA (Rs Mn)



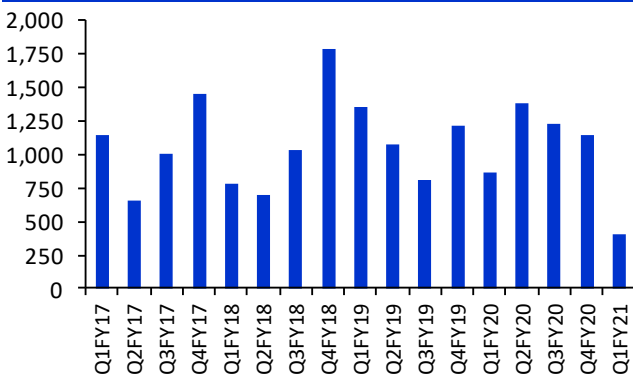
Source: Company, DART

Exhibit 9: OPM %



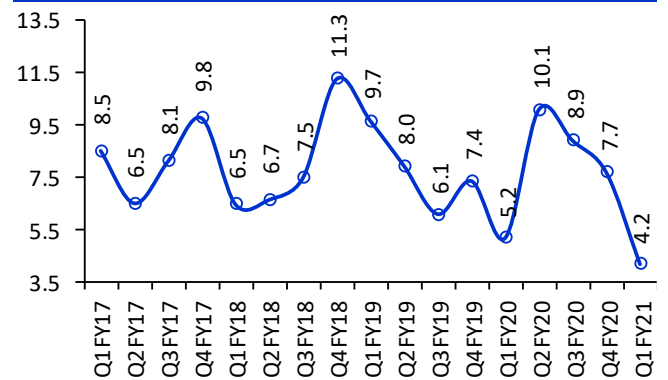
Source: Company, DART

Exhibit 10: Net Profit (Rs Mn)



Source: Company, DART

Exhibit 11: NPM %



Source: Company, DART

Profit and Loss Account

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Revenue	56,120	55,115	49,522	59,140
Total Expense	48,274	46,770	42,939	50,575
COGS	38,199	35,783	33,180	38,441
Employees Cost	2,546	2,798	2,826	2,967
Other expenses	7,529	8,189	6,933	9,167
EBIDTA	7,846	8,346	6,584	8,565
Depreciation	1,835	2,057	2,227	2,573
EBIT	6,010	6,289	4,357	5,992
Interest	260	202	195	185
Other Income	78	14	19	50
Exc. / E.O. items	672	0	0	0
EBT	6,500	6,101	4,180	5,857
Tax	2,158	1,739	1,052	1,474
RPAT	4,343	4,362	3,128	4,382
Minority Interest	0	0	0	1
Profit/Loss share of associates	144	312	300	500
APAT	4,463	4,718	3,438	4,893

Balance Sheet

(Rs Mn)	FY19A	FY20A	FY21E	FY22E
Sources of Funds				
Equity Capital	254	254	254	254
Minority Interest	0	0	0	0
Reserves & Surplus	21,286	22,358	23,546	25,892
Net Worth	21,540	22,612	23,800	26,146
Total Debt	1,621	4,109	3,909	3,709
Net Deferred Tax Liability	1,204	1,326	1,299	1,273
Total Capital Employed	24,364	28,047	29,008	31,128

Applications of Funds

Net Block	15,210	16,077	17,350	17,277
CWIP	900	929	1,028	1,103
Investments	2,223	2,073	2,073	2,073
Current Assets, Loans & Advances	13,959	17,106	16,287	19,365
Inventories	7,504	8,906	8,683	10,046
Receivables	3,874	3,128	2,849	3,241
Cash and Bank Balances	373	2,314	1,568	1,843
Loans and Advances	1,021	1,523	1,827	2,741
Other Current Assets	1,187	1,236	1,359	1,495
Less: Current Liabilities & Provisions	7,929	8,139	7,729	8,690
Payables	5,574	5,475	5,091	5,898
Other Current Liabilities	2,355	2,664	2,639	2,792
sub total				
Net Current Assets	6,030	8,968	8,557	10,675
Total Assets	24,364	28,047	29,008	31,128

E – Estimates

Important Ratios

Particulars	FY19A	FY20A	FY21E	FY22E
(A) Margins (%)				
Gross Profit Margin	31.9	35.1	33.0	35.0
EBIDTA Margin	14.0	15.1	13.3	14.5
EBIT Margin	10.7	11.4	8.8	10.1
Tax rate	33.2	28.5	25.2	25.2
Net Profit Margin	8.0	8.5	6.9	8.3
(B) As Percentage of Net Sales (%)				
COGS	68.1	64.9	67.0	65.0
Employee	4.5	5.1	5.7	5.0
Other	13.4	14.9	14.0	15.5
(C) Measure of Financial Status				
Gross Debt / Equity	0.1	0.2	0.2	0.1
Interest Coverage	23.1	31.1	22.3	32.3
Inventory days	49	59	64	62
Debtors days	25	21	21	20
Average Cost of Debt	12.7	7.0	4.9	4.9
Payable days	36	36	38	36
Working Capital days	39	59	63	66
FA T/O	3.7	3.4	2.9	3.4
(D) Measures of Investment				
AEPS (Rs)	35.1	36.4	26.9	38.4
CEPS (Rs)	49.6	53.3	44.6	58.8
DPS (Rs)	13.0	14.0	15.0	17.0
Dividend Payout (%)	37.0	37.7	55.4	44.1
BVPS (Rs)	169.5	178.0	187.3	205.8
RoANW (%)	22.2	21.2	14.8	19.6
RoACE (%)	16.7	17.4	11.6	15.2
RoAIC (%)	26.0	25.3	16.4	21.1
(E) Valuation Ratios				
CMP (Rs)	1173	1173	1173	1173
P/E	33.4	31.6	43.4	30.5
Mcap (Rs Mn)	149,022	149,022	149,022	149,022
MCap/ Sales	2.7	2.7	3.0	2.5
EV	150,269	150,817	151,363	150,888
EV/Sales	2.7	2.7	3.1	2.6
EV/EBITDA	19.2	18.1	23.0	17.6
P/BV	6.9	6.6	6.3	5.7
Dividend Yield (%)	1.1	1.2	1.3	1.4
(F) Growth Rate (%)				
Revenue	13.0	(1.8)	(10.1)	19.4
EBITDA	(0.3)	6.4	(21.1)	30.1
EBIT	(3.1)	4.6	(30.7)	37.5
PBT	7.8	(6.1)	(31.5)	40.1
APAT	3.5	5.7	(27.1)	42.3
EPS	3.5	5.7	(27.1)	42.3
Cash Flow				
(Rs Mn)	FY19A	FY20A	FY21E	FY22E
CFO	5,557	5,371	5,275	5,408
CFI	(2,396)	(1,937)	(3,280)	(2,221)
CFF	(3,160)	(1,555)	(2,625)	(2,912)
FCFF	2,297	2,974	1,676	2,833
Opening Cash	320	321	2,199	1,568
Closing Cash	321	2,199	1,568	1,843

E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-19	ACCUMULATE	1,129	1,075
Oct-19	REDUCE	1,241	1,177
Mar-20	Accumulate	1,029	874
May-20	Reduce	1,019	978
Jul-20	Reduce	1,249	1,135

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
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Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
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CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Jubbin Shah	VP - Derivatives Sales	yomika@dolatcapital.com	+9122 4096 979
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	AVP - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740

Equity Trading	Designation	E-mail	Direct Lines
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

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SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
