Equity Research

September 23, 2020

BSE Sensex: 37734

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Company update and reco change

Plastics

Target price: Rs1,640

Earnings revision

(%)	FY21E	FY22E
Sales	↑ 8.9	↑ 5.7
EBITDA	↑ 17.1	↑ 8.7
EPS	↑ 24.9	↑ 11.7

Target price revision

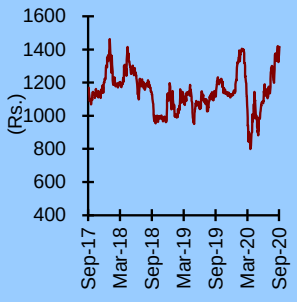
Rs1,640 to Rs1,135

Shareholding pattern

	Dec '19	Mar '20	Jun '20
Promoters	49.7	49.9	48.9
Institutional investors	31.7	32.1	33.3
MFs and other	14.5	15.3	16.3
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FIIs	17.2	16.8	17.0
Others	18.6	18.0	17.8

Source: NSE

Price chart



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INDIA

ICICI Securities

Supreme Industries

BUY

Upgrade from Hold

Perfect recipe for rerating; upgrade to BUY

Rs1,410

We upgrade Supreme Industries (SIL) to BUY driven by a) faster-than-expected recovery post Covid-19 led lockdown - mere 3.4%/3.7% volume/value decline in Jul and Aug'20 (Source: Chairman's speech at its recently concluded AGM); b) higher (double-digit) growth expectations post FY21 in its core segments – plastic piping and SILAPULIN; c) likely improvement in asset turns over the next 2-3 years with huge capex over FY20-FY21 going into the production next year; d) reducing dependence on commodity-led industrial and consumer product segments; d) higher EBITDA margin trajectory driven by increasing share of VAP revenues, further decentralisation of plants, superior product mix and operating leverage; and f) fast improving RoCEs led by strong traction in profitability and higher fixed asset turns.

- **Upgrade to BUY with a target price of Rs1,640.** Considering faster-than-expected recovery and improving visibility in its core segments – plastic piping and SILPAULIN, we revise our revenue and PAT estimates upwards by 8.9%/5.7% and 24.9%/11.7%, respectively for FY21E/FY22E. We now expect the company's revenue and core PAT to exhibit a 6.9% and 15.7% CAGR over FY20-FY22, respectively. We upgrade SI to BUY with a target price of Rs1,640 (Rs1,135 earlier) valuing it at 35x FY22E core earnings.
- **Volume growth at an inflection point.** SIL is likely to report a muted 3.9%/4.6% volume/revenue CAGR over FY17-FY21. The muted growth is largely attributed to single digit volume growth (6.2% CAGR) in its plastic piping segment and flat to negative volume CAGR in other segments. With growth likely to accelerate in its plastic piping (driven by likely accelerated industry consolidation post Covid-19 and expected decentralisation of its manufacturing footprint) and packaging product segment (driven by easing competitive intensity in its SILPAULIN segment in particular), we expect SIL's volumes to be an inflection point and register a double-digit volume growth CAGR over the next 2-3 years post FY21E.
- **EBITDA margins to improve led by multiple levers.** We expect SIL's EBITDA margins to improve in 15.5-16.5% range driven by a) increasing share of VAP revenues led by likely scaling up of its CPVC pipes and SILPAULIN segment (with cross plastic film project likely to commence production next year), b) further decentralisation of its manufacturing footprint (with plastic piping greenfield projects in Telangana and Orissa going into production next year), c) superior product mix (plastic piping and packaging product segment to contribute over 80% of its overall revenues by FY22E), d) recent fixed cost rationalisation and e) operating leverage.
- **RoCEs to cross 25%+ by FY22E.** Healthy balance sheet (driven by strict working capital management and high FCF generation), expected improvement in its asset turns (recent capex going into production over the next 2-3 quarters), incremental capex in higher RoCE generating (plastic piping and cross plastic film) segments and likely traction in earnings is expected to drive its overall RoCEs to 26.6% in FY22E and ~30% in FY23E. This, we believe, would lead to further rerating in the stock going forward.

Market Cap	Rs5.8bn/US$81mn
Reuters/Bloomberg	SUPI.BO/SI IN
Shares Outstanding (mn)	127.0
52-week Range (Rs)	1405/799
Free Float (%)	51.1
FII (%)	17.0
Daily Volume (US$/'000)	226
Absolute Return 3m (%)	24.4
Absolute Return 12m (%)	22.0
Sensex Return 3m (%)	8.7
Sensex Return 12m (%)	0.4

Year to Mar	FY19	FY20	FY21E	FY22E
Revenue (Rs mn)	56,120	55,115	53,722	63,174
Rec. Net Income (Rs mn)	3,671	4,362	4,404	5,842
EPS (Rs)	28.9	34.3	34.7	46.0
% Chg YoY	(7.6)	18.8	1.0	32.7
P/E (x)	48.7	40.9	40.6	30.6
CEPS (Rs)	44.5	53.0	53.9	68.2
EV/E (x)	22.9	21.6	21.6	17.3
Dividend Yield (%)	0.9	1.0	1.1	1.2
RoCE (%)	25.9	23.9	21.5	26.6
RoE (%)	18.8	21.2	19.4	23.1

Table 1: Earnings revision

(Rs mn, year ending March 31)

	Old		New		% change	
Revision in estimates	**FY21E**	**FY22E**	**FY21E**	**FY22E**	**FY21E**	**FY22E**
Revenue	49,137.2	59,534.5	53,508.8	62,926.3	8.9%	5.7%
EBITDA	7,104.1	9,558.6	8,320.9	10,386.1	17.1%	8.7%
EBIDTA margins	14.5%	16.1%	15.6%	16.5%	110bps	40bps
PAT (adj.)	3,682.4	5,518.1	4,598.0	6,164.6	24.9%	11.7%
EPS (adj.)	29.0	43.4	36.2	48.5	24.9%	11.7%

Source: Company data, I-Sec research

Key takeaways from Chairman speech

Plastic piping

- Between May and August, the company suffered a decline in volume growth by 1.36% and in value by 1.31%.
- However, with effect from August, the plastic pipe division is returning to normalcy registering a growth.
- Barring metro cities, demand for housing products revived throughout the country.
- Considering the widespread coverage of monsoon this year, demand from agriculture is expected to be better from mid-Sep'20 onwards.
- The company has increased its distributor strength to 1,314 Nos from 1,214 Nos in pipe division. It also covered additional 141 tehsils this year.
- The company had a plan to launch 344 sku's this year. Around 40 Nos sku's were launched by August.
- The company's expansion of CPVC pipe (plant) at Kharagpur and Malanpur will go in production by the end of this month.
- New PVC pipes plant at Jadcherla will go in production by next month with an annual capacity of 34,000 tons.
- The company's 5 layer premium water tank with superior insulation property has gone into production in 3 out of 5 manufacturing sites. It is well accepted in the market.

Packaging product segment

A. Cross laminated films

- The business of cross laminated film & products grew 24.6% in the first five months.
- During the period, the company had put up a new production facility at Halol exclusively for fabrication of made-up products, demand for which is expected to grow many folds.
- The company has soft launched bio-floc fish tanks in eleven states. The product demonstrates growth prospects in coming years. It shall introduce the same in the entire country after getting feedback for the performance of these tanks from the markets where these are being presently supplied.
- Exports have surged 32.53% during the period compared to corresponding period of previous year.

B. Protective packaging

- Introduction of low density EPE foam, various cost optimisation measures and revival of demand from industrial customers show positive signs and the company expects to reach growth trajectory soon in this business segment.
- Fitspree Yoga Mats (part of the Fitspree range of fitness products) has received encouraging response and is being worked upon for potential growth opportunities.

C. Performance films

- Performance films division was least disrupted being intermediary to essential commodities and grew ~10% in volume during the first five months as compared to corresponding period of previous year.
- It exported 599 MT as against 502 MT during the same period last year.
- This division sees good business opportunities both in domestic as well as export market.

Industrial product segment

A. Industrial component

- Industrial component business of the company is one of the most affected business segments due to delayed commencement of operations by OE customers.
- This division witnessed slow revival of demand during initial part of the year till July.
- Business is now recovering and moving towards normalcy.
- Appliances segment has started picking up and festive season is expected to be good. With better season for air conditioners and coolers, the company expects this division to do better business in the second half of the year as compared to previous year.

B. Material handling

- Material handling product division, which has primary products as crates, pallets and bins, was affected badly during the initial phase of total lockdown when most of the auto & appliances manufacturing units were closed.
- This division has worked aggressively on groceries, fruits & vegetables and other consumables and had a growth of over 50% in fruits & vegetables segment during five months as compared to corresponding period of previous year.
- More sales via online platforms and increased activities of logistics are auguring well for products of this division particularly for pallets & crates.
- With some revival of demand in automobiles, appliances, engineering sectors, which are major customer base of this division, it is expected to see business growth momentum October onwards.

Consumer product segment

- In earlier four months, business in this division was severely hit.
- Company could achieve turnover in Aug'20 vs Aug'19.
- The company's introduction of several new varieties of furniture last year received good response this year.
- Company had also increased its channel partner strength from 1,113 Nos to 1,158 Nos by the August-end this year. It also added 349 retailers during this period.
- The company is scaling up its e-commerce operations to boost online sale of its range of furniture.

LPG composite cylinder segment

- All technical issues related to its composite cylinder products have now been resolved and product has been perfected.
- Company continues to supply small quantities in various overseas markets; explore more export opportunities.
- There is lack of visibility in domestic market due to Covid-19 pandemic.

Capex

- The company plans to commit investment of ~Rs3.5bn in FY21 including carried forward committed capex of Rs1.8bn from previous year.
- The company has negotiated the purchase of 30 acres of land to put up a plastic piping complex at Odisha. Due to lockdown, legal possession of the land has been delayed. The company will initiate actions to put the complex after the possession of the land.
- The drawings of various equipments to put up cross plastic film project at the adjoining land to the composite cylinder plant are under preparation. Due to Covid-19 lockdown and resultant impact, the process is taking more time to finalise the drawings. The company intends to move expeditiously once the working drawings are frozen.

Distribution network

- The company is continuously working to increase its market reach by closely monitoring its presence at tehsil and district level and increasing its channel partners and retailers.
- The active channel partner strength of all its divisions put together stood at 3,567 nos. as of 31st March 2020.
- By August-end, the strength went up to 3,838 nos.

Others

- The turnover of value-added products for the first five months of the current year is Rs6.9bn as compared to Rs7.9bn during the corresponding period of previous year.
- Company has achieved export turnover of US$6.6mn until Aug'20 against US$9.2mn in the corresponding period of previous year.

- The company had a net surplus of Rs1.3bn at the end of Aug'20 and is expected to remain virtual debt free going forward.
- Raw material prices remain range bound in all polymers except PVC. In PVC prices, there is too much volatility starting from the middle of Mar'20 which continues even today. The supply situation of PVC resin may remain tight even up to Dec'20.

Financial summary

Table 2: Profit & loss statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Net Revenues	**56,120**	**55,115**	**53,722**	**63,174**
Operating Expenses	**48,274**	**46,770**	**45,401**	**52,788**
EBITDA	**7,846**	**8,345**	**8,321**	**10,386**
% margins	14.0%	15.1%	15.5%	16.4%
Depreciation & Amortisation	1,835	2,057	2,249	2,495
Gross Interest	260	202	209	123
Other Income	78	14	25	40
Recurring PBT	**5,828**	**6,101**	**5,888**	**7,808**
Less: Taxes	2,158	1,739	1,484	1,965
Less: Minority Interest	-	-	-	-
Add: Share of profit from associates	144	312	194	322
Add: Extraordinary Income (Net)	820	-	-	-
Net Income (Reported)	**4,634**	**4,674**	**4,598**	**6,165**
Recurring core business income	**3,671**	**4,362**	**4,404**	**5,842**

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Assets				
Total Current Assets	13,959	17,106	14,821	17,486
of which cash & cash eqv.	373	2,314	289	487
Total Current Liabilities & Provisions	7,925	8,139	6,901	7,830
Net Current Assets	**6,034**	**8,968**	**7,920**	**9,657**
Investments	2,223	2,073	2,258	2,575
Net Fixed Assets	15,210	16,077	17,757	18,762
Capital Work-in-Progress	900	929	-	-
Goodwill	-	-	-	-
Total Assets	**24,367**	**28,047**	**27,936**	**30,994**
Liabilities				
Borrowings	1,624	4,109	1,700	1,200
Deferred Tax Liability	1,204	1,326	1,326	1,326
Minority Interest	-	-	-	-
Equity Share Capital	254	254	254	254
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	21,286	22,358	24,656	28,214
Less: Misc. Exp. n.w.o.	-	-	-	-
Net Worth	**21,540**	**22,612**	**24,910**	**28,468**
Total Liabilities	**24,367**	**28,047**	**27,936**	**30,994**

*Excluding revaluation reserves
Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Sep-19	Dec-19	Mar-20	Jun-20
Net revenues	12,709	13,733	14,305	10,539
% growth (YoY)	2.5	(2.6)	(6.6)	(26.7)
EBITDA	1,728	2,209	2,734	1,171
Margin (%)	13.6	16.1	19.1	11.1
Other income	5	8	1	3
Extraordinaries (Net)	-	-	-	-
Net profit	1,396	1,234	1,173	405

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY19	FY20	FY21E	FY22E
Operating Cashflow	**5,592**	**5,276**	**6,847**	**8,660**
Working Capital Changes	316	(993)	(977)	(1,539)
Capital Commitments	(2,834)	(2,953)	(3,000)	(3,500)
Free Cashflow	**3,074**	**1,330**	**2,870**	**3,620**
Cashflow from Investing Activities	**(287)**	**151**	**(186)**	**(316)**
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(853)	2,485	(2,409)	(500)
Dividend paid	(1,993)	(2,147)	(2,300)	(2,606)
Change in Deferred Tax Liability	**70**	**122**	**-**	**-**
Chg. in Cash & Bank balance	**10**	**1,941**	**(2,025)**	**198**

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY19	FY20	FY21E	FY22E
Per Share Data (Rs)				
Reported Con. EPS	36.5	36.8	36.2	48.5
Core business EPS	28.9	34.3	34.7	46.0
Cash EPS	44.5	53.0	53.9	68.2
Dividend per share (DPS)	13.0	14.0	15.0	17.0
Book Value per share (BV)	169.6	178.0	196.1	224.1
Growth (%)				
Net Sales	13.2	-0.9	-2.9	17.6
EBITDA	-0.3	6.4	-0.3	24.8
Core business PAT	-7.6	18.8	1.0	32.7
Reported Consolidated PAT	7.3	0.9	-1.6	34.1
Cash EPS	-5.7	19.1	1.7	26.5
Valuation Ratios (x)				
P/E	48.7	40.9	40.6	30.6
P/CEPS	31.6	26.5	26.1	20.6
P/BV	8.3	7.9	7.2	6.3
EV / EBITDA	22.9	21.6	21.6	17.3
EV / Sales	3.2	3.3	3.4	2.8
Operating Ratios				
Raw Material / Sales (%)	68.5	61.7	65.9	64.7
Employee cost / Sales (%)	4.6	5.1	4.6	4.6
SG&A / Sales (%)	9.2	9.0	8.7	8.8
Other Income / PBT (%)	1.3	0.2	0.4	0.5
Effective Tax Rate (%)	37.0	21.6	25.2	25.2
Working Capital (days)	38.1	43.4	43.0	43.0
Inventory Turnover (days)	49.2	59.0	52.0	55.0
Receivables (days)	25.4	20.7	27.0	24.0
Payables (days)	36.6	36.3	36.0	36.0
Net D/E Ratio (x)	0.1	0.1	0.1	0.0
Return/Profitability Ratios (%)				
Net Income Margins	6.9	8.5	8.6	9.8
RoACE	25.9	23.9	21.5	26.6
RoAE	18.8	21.2	19.4	23.1
Dividend Payout	43.0	45.9	50.0	42.3
Dividend Yield	0.9	1.0	1.1	1.2
EBITDA Margins	14.0	15.1	15.5	16.4

Source: Company data, I-Sec research

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