

Strong demand recovery led by non-metro regions...

After posting ~27% YoY revenue drop in Q1FY21, Supreme Industries (SIL) saw a strong demand recovery at the start of Q2FY21. Despite intermediary lockdowns and concerns over low discretionary expenditure, the piping segment saw ~98% demand recovery in May-August 2020. Demand was largely driven by housing & infrastructure projects in non-metro regions. Also, dealers have started building inventory in anticipation of a reversal in raw material prices (HDPE, LDPE prices were up 24%, 16%, respectively, from lows in April 2020). We believe saving in other costs in addition to better gross margins (due to inventory gains, rising proportion of value added products) would help drive EBITDA margin in FY21E-23E. Further, SIL will continue its ₹ 350 crore of capex plans in FY21 to augment capacity of the piping & packaging business. This would help it to gain market share in the long run. Considering the improved performance, we tweak our earnings estimate for FY21E, FY22E and introduce FY23E financials with revenue, earning CAGR of 10%, 16%, respectively, in FY20-23E.

Piping & packaging business leads recovery

Piping (~63% of revenue) and packaging (~17% of revenue) segments recorded a strong demand recovery post easing of lockdown restrictions. In the piping segment, SIL increased its distribution reach to 1314 (from 1214 last year). It is also planning to launch ~344 SKUs in FY21. Further commencement of new piping capacity (~34000 MT) in Jadcharla (Telangana) would ensure faster sales recovery in FY21. On the packaging front, cross laminated films & products, performance packaging segment posted ~25%, 10% YoY, growth respectively, in the first five months of FY21 supported by strong demand for packaging products. Also, industrial and consumer furniture (both contribute ~20% to topline) segments have also started seeing a demand recovery albeit at a slow pace supported by demand improvement from consumer durable companies and market share gains in the furniture industry (~50% of the industry is unorganised).

Better product mix to drive EBITDA margin, going forward

The valued added products (VAP) contribution in topline has increased to 38% in FY20 from 36% in FY19. In the first five months of FY21, the contribution of VAP in topline increased by ~2 percentage points despite the lockdown led disruptions in metro regions. We believe continuous rising proportion of VAP in topline would help drive EBITDA margin, going forward. We model ~130 bps expansion in EBITDA margin in FY20-23E.

Valuation & Outlook

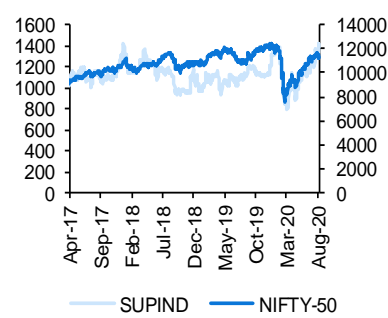
Supreme Industries' sharp business recovery post easing of lockdown restrictions depicts its strong supply chain networks and deep rural penetration. We change our rating from HOLD to **BUY** and value the company at 35x FY22E earnings with a revised target price of ₹ 1650/share.



Particulars

Particular	Amount
Market Capitalization (₹Crore)	17,961.6
Total Debt (FY 20) (₹Crore)	410.9
Cash & Invest. (FY 20) (₹Crore)	219.9
EV (₹Crore)	18,152.7
52 week H/L	1472/ 791
Equity capital (₹Crore)	25.4
Face value (₹)	2.0

Price Chart



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Key Financial Summary

(₹Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	5612.0	5511.5	5351.5	6512.0	7370.0	10.2
EBITDA	784.6	834.5	774.5	1046.9	1208.5	13.1
EBITDA Margin (%)	14.0	15.1	14.5	16.1	16.4	
Net Profit	448.6	467.4	395.3	598.8	719.9	15.5
EPS (₹)	35.3	36.8	31.1	47.1	56.7	
P/E (x)	40.0	38.4	45.4	30.0	24.9	
Price/Book (x)	8.3	7.9	7.5	6.6	5.7	
Mcap/Sales (x)	3.2	3.3	3.4	2.8	2.4	
RoE (%)	18.7	20.7	16.5	21.9	22.7	
RoCE (%)	25.0	22.5	18.9	25.0	26.5	

Source: Company, ICICI Direct Research

Exhibit 1: Change in estimates

(₹ Crore)	FY21E			FY22E			Introduced FY23E	Comments
	Old	New	% Chg	Old	New	% Chg		
Revenue	5,160.0	5351.5	3.7	6,258.7	6512.0	4.0	7,370.0	Introduce FY23E estimates with revenue CAGR of ~10% in FY20-23E, supported by piping and packaging business revenue CAGR of ~11% and 12%, respectively
EBITDA	720.3	774.5	7.5	951.5	1046.9	10.0	1,208.5	
EBITDA Margin %	14.0	14.5	47bps	15.2	16.1	88bps	16.4	
PAT	360.7	395.3	9.6	526.9	598.8	13.6	719.9	
EPS (₹)	28.4	31.1	9.6	41.5	47.1	13.6	56.7	

Source: Company, ICICI Direct Research

Exhibit 2: Assumptions

(%)	Current			Introduced FY23E	Earlier		Comments
	FY20	FY21E	FY22E		FY21E	FY22E	
Plastic Piping	8.6	1.9	17.9	13.3	(0.6)	19.8	We revise our volume growth estimate upward owing to good demand recovery post easing of lockdown
Packaging Products	(7.9)	(0.1)	24.7	13.3	(6.5)	19.1	We believe strong recovery in cross laminated films and performance packaging would be partly offset by lower demand in protective packaging products
Industrial Products	(24.0)	(15.3)	38.8	13.7	(21.5)	30.4	Recovery in demand from consumer durables OEMs to drive segment performance, going forward
Consumer Products	(4.0)	(19.1)	25.1	10.6	(20.0)	29.2	Market share gains from unorganised segment to help drive demand of consumer furniture business

Source: Company, ICICI Direct Research

Financial summary

Exhibit 3: Profit and loss statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Net Sales	5511.5	5351.5	6512.0	7370.0
Growth (%)	-1.8	-2.9	21.7	13.2
Other Income	1.4	1.5	1.7	1.8
Total Revenue	5513.0	5353.0	6513.7	7371.8
Expenditure				
Raw Material Expenses	3706.0	3345.0	4158.4	4741.7
Cost of goods traded	47.4	49.1	72.4	14.7
Employees cost	279.8	290.3	323.3	365.1
Other Expenditure	818.9	719.1	910.9	1040.0
Total Operating Exp	4677.0	4576.9	5465.1	6161.4
Operating Profit (EBITDA)	834.5	774.5	1046.9	1208.5
Growth (%)	6.4	-7.2	35.2	15.4
Depreciation	205.7	224.8	260.5	294.8
Interest	20.2	36.3	29.8	16.5
PBT after Excep Items	610.1	515.0	758.3	899.1
Total Tax	173.9	129.3	191.0	226.2
PAT before MI	436.2	385.8	567.3	672.9
Profit from Associates	31.2	9.5	31.5	47.0
Reported PAT	467.4	395.3	598.8	719.9

Source: Company, ICICI Direct Research

Exhibit 5: Balance sheet				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Equity Capital	25.4	25.4	25.4	25.4
Reserve and Surplus	2235.8	2364.2	2703.9	3149.5
Total Shareholders funds	2261.2	2389.7	2729.3	3174.9
Total Debt	410.9	400.9	290.9	140.9
Deferred Tax Liability	132.6	132.6	132.6	132.6
Total Liabilities	2804.7	2923.2	3152.8	3448.4
Gross Block	3235.0	3582.0	3882.0	4182.0
Accumulated Depreciation	1627.3	1852.0	2112.5	2407.3
Net Block	1607.7	1730.0	1769.5	1774.7
Capital WIP	92.9	45.9	45.9	45.9
Total Fixed Assets	1700.7	1775.9	1815.4	1820.6
Other Investments	207.3	207.3	230.3	263.3
Inventory	890.6	806.4	981.3	1110.5
Debtors	312.8	513.2	624.4	706.7
Loans and Advances	184.4	160.0	182.3	206.4
Cash	219.9	183.9	142.1	257.5
Total Current Assets	1607.7	1663.4	1930.1	2281.1
Creditors	547.5	543.6	642.3	726.9
Provisions	31.3	33.7	39.8	45.0
Total Current Liabilities	813.9	778.9	890.5	993.1
Net Current Assets	793.9	884.5	1039.6	1288.1
Long term loans and advances	102.9	55.5	67.5	76.4
Total Asset	2804.7	2923.2	3152.8	3448.5

Source: Company, ICICI Direct Research

Exhibit 4: Cash flow statement				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Profit/(Loss) after taxation	467.4	395.3	598.8	719.9
Add: Depreciation & Amortization	205.7	224.8	260.5	294.8
Add: Interest Paid	20.2	36.3	29.8	16.5
C/F bef working cap changes				
Net Increase in Current Assets	-82.1	-91.8	-308.5	-235.6
Net Increase in Current Liabilities	21.0	-34.9	111.6	102.6
Net cash flow from operating Ac	632.1	529.6	692.2	898.2
(Inc)/Dec in Other Investments	15.1	0.0	-23.0	-33.0
(Purchase)/Sale of Fixed Assets	-295.3	-300.0	-300.0	-300.0
Net Cash flow from Investing Ac	-312.8	-252.6	-335.0	-341.9
Proceeds/(Rep) of debt	248.9	-10.0	-110.0	-150.0
(Payment) of Div & Div Tax	-214.1	-274.4	-259.1	-274.4
Net Cash flow from Financing Act	-131.5	-313.1	-398.9	-440.8
Net Cash flow	187.8	-36.0	-41.8	115.5
Cash & Cash Equ at the begin.	32.1	219.9	183.9	142.1
Cash & Cash Equ at the end	219.9	183.9	142.1	257.5

Source: Company, ICICI Direct Research

Exhibit 6: Key ratios				
	₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E
Per share data (₹)				
EPS	36.8	31.1	47.1	56.7
Cash EPS	53.0	48.8	67.6	79.9
BV per share	178.0	188.1	214.9	249.9
DPS	16.9	21.6	20.4	21.6
Operating Ratios (%)				
EBITDA Margin	15.1	14.5	16.1	16.4
PAT Margin	8.5	7.4	9.2	9.8
Turnover Days				
Inventory Days	59.0	55.0	55.0	55.0
Debtor Days	20.7	35.0	35.0	35.0
Creditor Days	36.3	37.1	36.0	36.0
Return Ratios (%)				
RoNW	20.7	16.5	21.9	22.7
RoCE	22.5	18.9	25.0	26.5
RoIC	24.0	19.4	25.3	27.8
Valuation Ratios (x)				
P/E	38.4	45.4	30.0	24.9
EV / EBITDA	21.8	23.5	17.3	14.8
EV / Net Sales	3.3	3.4	2.8	2.4
Market Cap / Sales	3.3	3.4	2.8	2.4
Price to Book Value	7.9	7.5	6.6	5.7
Solvency Ratios				
Debt/ EBITDA	0.5	0.5	0.3	0.1
Debt/ Equity	0.2	0.2	0.1	0.0
Current Ratio	2.4	2.6	2.6	2.6
Quick Ratio	0.9	1.2	1.2	1.2

Source: Company, ICICI Direct Research

Exhibit 7: 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	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E
Asian Paints (ASIPA)	2,017	1,900	Hold	1,93,430	29.0	21.8	32.6	69.6	92.7	61.8	38.9	45.6	32.9	27.4	19.4	26.9	30.5	22.6	31.0
Astral Polytechnik (ASTP)	1,202	1,120	Hold	18,110	16.6	15.0	23.3	72.6	80.4	51.6	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM2)	2,065	1,980	Buy	6,494	52.2	18.4	63.7	39.6	112.3	32.4	18.1	27.6	13.2	14.3	7.0	17.4	14.5	5.3	15.5
Bajaj Electricals (BAJEL)	495	495	Buy	5,628	0.0	4.1	14.8	NM	120.9	33.5	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPA)	581	580	Hold	56,427	6.8	6.1	9.7	86.0	94.8	59.7	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
Essel Propack (ESSPRC)	292	270	Buy	9,213	6.7	7.0	9.5	43.5	41.6	30.8	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	671	630	Hold	41,864	11.7	8.0	14.4	57.1	83.7	46.6	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	518	510	Buy	27,916	9.9	7.9	11.8	52.1	65.3	43.8	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,498	1,595	Buy	76,068	22.1	17.8	28.0	67.8	84.0	53.6	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	897	950	Buy	13,354	51.4	42.2	55.4	17.4	21.2	16.2	10.7	13.4	9.8	26.5	16.8	22.2	20.0	13.9	17.0
Supreme Indus (SUPIND)	1,414	1,650	Buy	17,962	36.8	31.1	47.1	38.4	45.4	30.0	21.8	23.5	17.3	22.5	18.9	25.0	20.7	16.5	21.9
Symphony (SYMLIM)	865	960	Buy	6,051	26.0	20.5	32.0	33.2	42.1	27.0	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	42	47	Hold	950	7.5	3.4	9.4	5.6	12.4	4.5	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	176	210	Buy	7,538	4.3	3.6	5.2	40.7	49.0	33.8	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	679	725	Buy	22,457	15.8	10.7	22.7	43.1	63.5	29.9	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6
Wim Plast	397	490	Buy	476	37.6	26.6	41.0	10.6	14.9	9.7	7.1	8.7	5.9	15.6	11.4	16.3	12.9	8.7	12.5

Source: Company, ICICI Direct Research

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