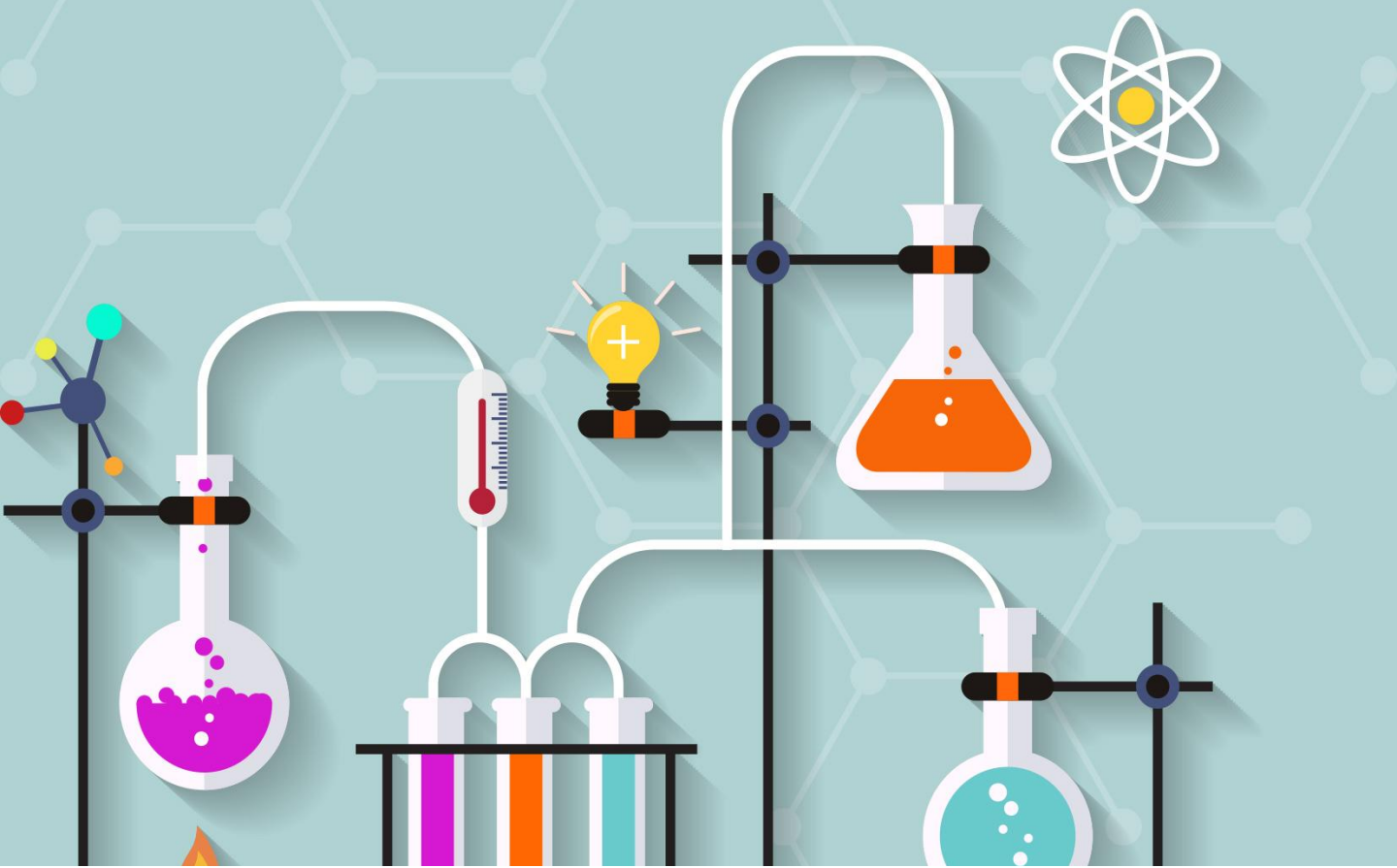


Supreme Petrochem Ltd.



Supreme Petrochem Ltd.

CMP INR 362	Target INR 425	Potential Upside 17.5%	Market Cap (INR Mn) 34,803	Recommendation Buy	Sector Specialty Chemicals
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Volatility in RM prices affecting demand !

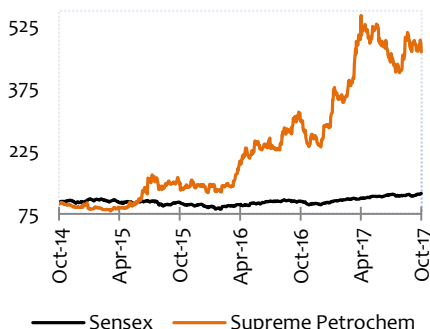
Result highlights

Total revenue for Q2FY18 came in at INR 7074.58 Mn as against our estimates of INR 7747.12 Mn which grew by 12.85% YoY and by 0.13% QoQ. EBITDA for Q2FY18 stood at INR 614.79 Mn as against our estimates of INR 635.9 mn showing a variation of 3.4% growing by 24.77% YoY and 230.54% QoQ. While EBITDA margins stood at 8.7% up by 83 bps YoY and by 606 bps QoQ mainly due to inventory gains. PAT for Q2FY18 stood at INR 366.78 Mn and PAT margin was at 5.18% in line with our estimations of 5.19% witnessing an increase of 62 bps YoY and 373 bps QoQ.

MARKET DATA

Shares outs (Mn)	97
EquityCap (INR Mn)	965
Mkt Cap (INR Mn)	34803
52 Wk H/L (INR)	447/180
Volume Avg (3m K)	75.6
Face Value (INR)	10
Bloomberg Code	SPPT IN

SHARE PRICE PERFORMANCE



Volatility in Styrene Monomer prices affecting volume growth: Supreme Petrochem Limited (SPL) is a pioneer player in the polystyrene market which accounts for ~96% of its total revenue as on FY17. During Q2FY18, net sales stood at 7074.58 Mn up by 12.85% YoY and by 0.13% QoQ as against our estimates of INR 7747.12 Mn showing a variation of 9.5%. The impact on sales mainly occurred due to lower demand off-take for company's products during the first few weeks post implementation of GST. Additionally, volatility in Styrene Monomer prices affected the demand growth for polystyrene products during the quarter. Likewise, cost of raw materials witnessed a hike of 14.75% YoY and 11.80% QoQ.

Over the years, SPL has shifted its focus to discrete innovative products entering into EPS 3D panel, SPC and XPS. However over the long term, we believe that with usage of products like EPS 3D panels and XPS boards being encouraged by the Government of India in construction of Anganwadis and affordable low cost housing; SPL should be one of the key demand beneficiaries. Consequently, we expect the revenue to grow at 15.74% CAGR over FY17-FY19E from INR 29,186 to INR 39,098.

Sustainable Margins despite volatility in raw material prices: EBITDA for Q2FY18 stood at INR 614.79 Mn with margins at 8.7% vis-a-vis EBITDA of INR 492.75 Mn with margin of 7.9% same quarter last year. During Q2FY18, prices of main raw material (Styrene Monomer) witnessed sharp movements from early August 2017 increasing by 25% in the same month ensued by a drop of 15% in the following month. The Company was able to improve its EBITDA margin witnessing an increase of 83 bps YoY and 606 bps QoQ primarily on account of inventory gains. PAT for Q2FY18 stood at INR 366.78 Mn and PAT margin was at 5.18% which saw a decline of 187 bps QoQ and an increase of 8 bps YoY. Accordingly, we expect EBITDA margin to touch 11.07% in FY19E from 10.19% in FY17.

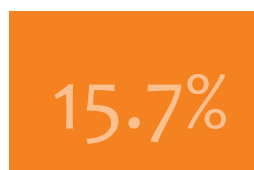
MARKET INFO

SENSEX	33157
NIFTY	10323

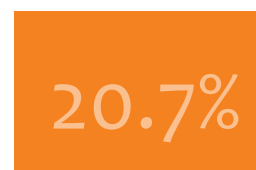
Valuation & Views: Supreme Petrochem Ltd is India's largest producer and global supplier of Polystyrene. As a result of wide fluctuations in raw materials prices along with implementation of GST, demand for the company's products was sluggish impacting the sales during the quarter. However, we remain positive on the long term outlook on the growth potential of SPL's products. Supreme Petrochem Ltd continues to remain debt free and fundamentally strong with RoE of 30.7% & RoCE of 44.5% in FY17. Going forward, we expect revenue/EBITDA/PAT to grow at 15.7%/20.67%/25.21% CAGR over FY17-FY19E. Further, we expect a change in product mix coupled with sustainability of healthy balance sheet and enhancement in return ratios. At CMP of INR 362 the stock is trading at P/E of 18x on FY18E and 13x on FY19E. We maintain our **"BUY" rating on the stock with target price of INR 425 assigning a P/E of 15x on FY19E EPS of 28.4 resulting into an upside of 17.5%.**

SHARE HOLDING PATTERN (%)

Particulars	Sep 17	Jun 17	Mar 17
Promoters	60.84	60.84	60.84
FII's	0.56	0.36	0.36
DII's	1.13	0.55	0.53
Others	37.48	38.25	38.26
Total	100	100	100



Revenue CAGR between FY17 and FY19E



EBITDA CAGR between FY17 and FY19E

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Supreme Petrochem Ltd.

Exhibit 1: Key Financials

Particulars (INR Mn)	FY15	FY16*	FY17	FY18E	FY19E
Net Revenues	26,525.4	20,680.5	29,186.2	33,602.3	39,098.4
EBITDA	933.0	1,037.4	2,972.8	3,171.8	4,328.7
PAT	356.6	564.0	1,789.9	1,964.4	2,736.9
EBITDA Margin (%)	3.52%	5.02%	10.19%	9.44%	11.07%
PAT Margin (%)	1.34%	2.73%	6.13%	5.85%	7.00%
EPS	3.7	5.8	18.5	20.4	28.4
P/E (x)	17	19	20	18	13

*9MFY16

Source: Company, KRChoksey Research

Exhibit 2: Result Snapshot

Particulars	Q2 FY18	Q1 FY18	Q2 FY17	Q-o-Q change %	Y-o-Y change %
Net Sales & Other Operating Income	7074.58	7065.16	6269.17	0.13%	12.85%
Total Expenditure					
Cost of Raw Materials	4469.5	3997.84	3895.16	11.80%	14.75%
Purchase of Finished Goods	1818.87	1803.24	1618.79	0.87%	12.36%
(Increase) / Decrease In Stocks	-320.399	608.944	-234.57	-152.62%	36.59%
Employee Benefit Expenses	84.277	99.699	89.581	-15.47%	-5.92%
Operating & Manufacturing Expenses	407.538	369.448	407.466	10.31%	0.02%
EBIDTA	614.791	185.997	492.753	230.54%	24.77%
EBITDA Margins (%)	8.69%	2.63%	7.86%	605.76 bps	83.02 bps
Other Income	13.298	31.801	12.448	-58.18%	6.83%
Depreciation	52.362	51.297	58.74	2.08%	-10.86%
EBIT	575.727	166.501	446.461	245.78%	28.95%
Interest	13.993	11.772	9.338	18.87%	49.85%
PBT	561.734	154.729	437.123	263.04%	28.51%
Tax	194.95	51.645	150.857	277.48%	29.23%
PAT	366.784	103.084	286.266	255.81%	28.13%
PAT Margin (%)	5.18%	1.46%	4.57%	372.55 bps	61.83 bps
EPS	3.79	1.07	2.97	254.21%	27.61%

Source: Company, KRChoksey Research

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Supreme Petrochem Ltd.

Exhibit 3: Income Statement

Particulars (INR Mn)	FY15	FY16*	FY17	FY18E	FY19E
Net Revenues	26,525.38	20,680.53	29,186.17	33,602.32	39,098.44
Cost of Goods Sold	23,502.47	18,064.42	24,134.94	28,057.94	32,060.72
Gross Profit	3,022.91	2,616.11	5,051.23	5,544.38	7,037.72
Employee Cost	319.26	262.45	353.07	388.37	427.21
Other Operating Expenses	1,770.62	1,316.25	1,725.40	1,984.21	2,281.84
EBITDA	933.03	1,037.41	2,972.76	3,171.80	4,328.66
Other Income	31.92	34.68	74.92	86.25	100.36
EBITDA, including OI	964.95	1,072.09	3,047.68	3,258.05	4,429.03
Depreciation	236.42	170.52	222.18	239.91	243.75
Net Interest Exp.	166.00	53.06	47.01	-	-
EBT	562.52	848.50	2,778.49	3,018.14	4,185.27
Taxes	210.01	279.80	983.06	967.52	1,348.02
Tax Rate	0.37	0.33	0.35	0.32	0.32
Net Income	352.52	568.70	1,795.43	2,050.62	2,837.25
EPS (INR)	3.70	5.84	18.55	20.36	28.36

*9MFY16

Source: Company, KRChoksey Research

Exhibit 4: Balance Sheet

Particulars (INR Mn)	FY15	FY16*	FY17	FY18E	FY19E
SOURCES OF FUNDS					
Share Capital	965.02	965.02	965.02	965.02	965.02
Reserves	2,798.62	3,182.26	4,855.98	6,231.04	8,146.86
Total Shareholders Funds	3,763.64	4,147.28	5,821.00	7,196.06	9,111.88
Long Term Borrowings	-	-	-	-	-
Net Deferred Tax liability	484.84	479.64	478.69	478.69	478.69
Other long term liabilities	14.69	18.97	26.33	26.33	26.33
Long term provisions	14.95	19.87	26.69	26.69	26.69
Current Liabilities and Provisions					
Short term borrowings	-	271.76	174.17	-	-
Trade Payables	3,930.09	4,127.42	4,318.22	4,950.38	5,760.08
Other Current Liabilities	308.51	299.33	434.54	404.11	470.21
Short Term Provisions	297.44	15.42	17.44	20.12	23.42
Total Current Liabilities	4,536.03	4,713.93	4,944.37	5,374.62	6,253.71
Total Liabilities	8,814.15	9,379.68	11,297.09	13,102.38	15,897.30
APPLICATION OF FUNDS :					
Net Block	3,451.33	3,327.88	3,367.83	3,427.92	3,249.16
Capital Work in Progress	42.78	102.84	126.76	-	-
Long term loans and advances	69.78	48.13	43.89	43.89	43.89
Other Non Current Assets	161.92	48.38	43.97	43.97	43.97
Current Assets, Loans & Advances					
Inventories	1,879.97	1,814.44	3,058.57	3,738.04	4,584.55
Sundry Debtors	2,389.64	2,811.62	3,073.89	3,839.07	4,702.11
Cash and Bank	324.99	709.18	977.87	1,277.05	2,391.97
Loans and Advances	436.47	97.44	65.46	126.29	176.33
Other Current assets	57.32	419.78	538.85	606.17	705.32
Total Current Assets	5,088.38	5,852.45	7,714.64	9,586.61	12,560.28
Total Assets	8,814.15	9,379.68	11,297.09	13,102.38	15,897.30

*9MFY16

Source: Company, KRChoksey Research

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Supreme Petrochem Ltd.

Exhibit 5: Cash flow statement

Particulars (INR Mn)	FY15	FY16*	FY17	FY18E	FY19E
PBT & Extraordinary	563	849	2778	2932	4085
Depreciation	236	171	222	240	244
After other adjustments					
(Inc) / Dec in Working Capital	(76)	214	(1411)	(968)	(980)
Taxes	(98)	(375)	(890)	(968)	(1348)
Others	174	(20)	(13)	0	0
Cash from Ops.	798	838	686	1236	2001
Purchase of Fixed Assets	(67)	(73)	(284)	(300)	(65)
Others	19	23	29	127	0
Cash from Investing	(48)	(51)	(255)	(173)	(65)
Borrowings (Net)	(322)	0	0	(174)	0
Others	(335)	(402)	(163)	(589)	(821)
Cash from Financing	(657)	(402)	(163)	(763)	(821)
Net Change in Cash	93	385	269	299	1115
Effects of foreign currency translation	0	0	0	0	0
BF Cash	232	325	709	978	1277
END Cash	325	710	978	1277	2392

*9MFY16

Source: Company, KRChoksey Research

Exhibit 6: Ratio Analysis

Particulars	FY15	FY16*	FY17	FY18E	FY19E
Profitability					
Return on Assets (%)	4.05	6.01	15.84	14.99	17.22
Return on Capital (%)	17.03	19.32	44.48	37.94	42.36
Return on Equity (%)	9.48	13.60	30.75	27.30	30.04
Margin Trend					
Gross Margin (%)	11.40	12.65	17.31	16.50	18.00
EBITDA Margin (%)	3.52	5.02	10.19	9.44	11.07
Net Margin (%)	1.34	2.73	6.13	5.85	7.00
Liquidity					
Current Ratio	1.12	1.24	1.56	1.78	2.01
Quick Ratio	0.71	0.86	0.94	1.09	1.28
Debtor Days	29.63	44.01	35.10	38.00	40.00
Inventory Days	23.31	28.40	34.93	37.00	39.00
Creditor Days	48.73	64.61	49.31	49.00	49.00
Working Capital Days	2.82	10.97	22.46	29.05	33.30
Solvency					
Total Debt / Equity	-	0.07	0.03	-	-
Interest Coverage	4.39	16.99	60.10	-	-
Valuation Ratios					
P/E	17.24	18.63	16.31	18.03	12.94
P/B	1.63	2.53	5.01	4.92	3.89

*9MFY16

Source: Company, KRChoksey Research

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Supreme Petrochem Ltd.

Supreme Petrochem Ltd.				Rating Legend	
Date	CMP (INR)	TP (INR)	Recommendation	Our Rating	Upside
27-Oct-17	362	425	BUY	Buy	More than 15%
26-Jul-17	344	425	BUY	Accumulate	5% – 15%
				Hold	0 – 5%
				Reduce	-5% – 0
				Sell	Less than – 5%

ANALYST CERTIFICATION:

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