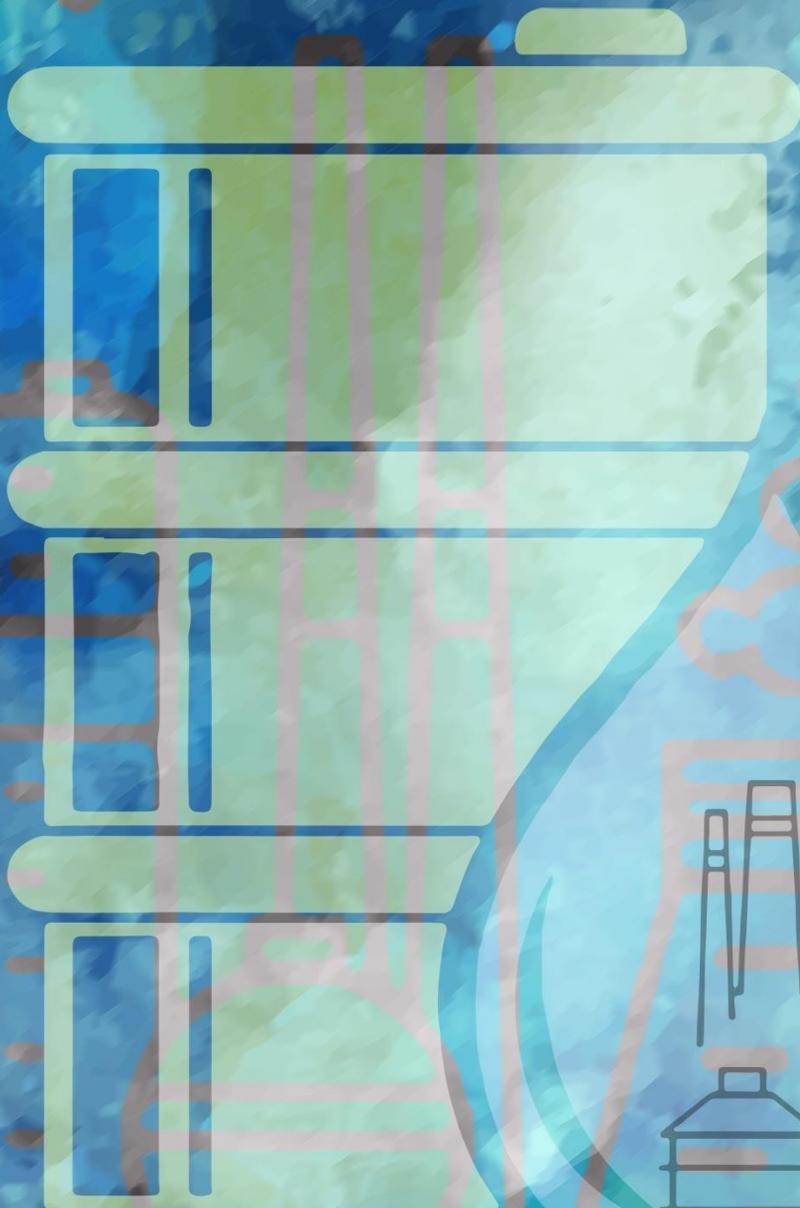


Supreme Petrochemicals Ltd



Supreme Petrochemicals Ltd.

Lower volume due to COVID, domestic volume more impacted

| | | | | | |
|----------------|-------------------|-------------------------|---------------------------------------|-----------------------|--------------------------|
| CMP INR 182 | Target INR 212 | Upside (%) INR 16.3% | Market Cap (INR Lakh) INR 1,71,709 | Recommendation BUY | Sector Petrochemicals |
|----------------|-------------------|-------------------------|---------------------------------------|-----------------------|--------------------------|

1QFY21 Result highlights:

- For 1QFY21, Supreme Petrochem's (SPL) revenue from operations decreased by 62.1% YoY (-55.9% QoQ) to INR 29,227 lakhs.
- Gross Profit Margin contracted 391bps/322bps YoY/QoQ to 11.7% in 1QFY21 from 15.6% in 1QFY20 & 14.9% in 4QFY20.
- EBITDA turned negative for the quarter and stood at INR 319 Lakhs vs INR 5,934 Lakhs in 1QFY20 & INR 3,918 Lakhs in 4QFY20.
- Company reported a Net Loss of INR 1,188 Lakhs, compared to Net Profit of INR 3,947 Lakhs in 1QFY20 & INR 2,351 Lakhs in 4QFY20.

MARKET DATA

| | |
|-----------------------|----------|
| Shares O/S (Lakh) | 941 |
| Equity Cap (INR Lakh) | 67,328 |
| Mkt Cap (INR Lakh) | 1,71,709 |
| 52 Wk H/L (INR) | 203/113 |
| Volume Avg (3m K) | 103 |
| Face Value (INR) | 10 |
| Bloomberg Code | SPPT IN |

KEY FINANCIALS

| Particulars (INR lakhs) | FY18 | FY19 | FY20 | FY21E | FY22E |
|-------------------------|----------|----------|----------|----------|----------|
| Net Sales | 3,10,412 | 3,19,381 | 2,72,425 | 2,36,224 | 3,19,771 |
| EBITDA | 19,627 | 9,335 | 14,849 | 11,807 | 19,932 |
| PAT | 11,612 | 4,921 | 10,265 | 5,477 | 11,362 |
| EPS | 12.0 | 5.1 | 10.6 | 5.8 | 12.1 |
| EBITDA Margin | 6.3% | 2.9% | 5.5% | 5.0% | 6.2% |
| NPM | 3.7% | 1.5% | 3.8% | 2.3% | 3.6% |

Source: Company, KRChoksey Research

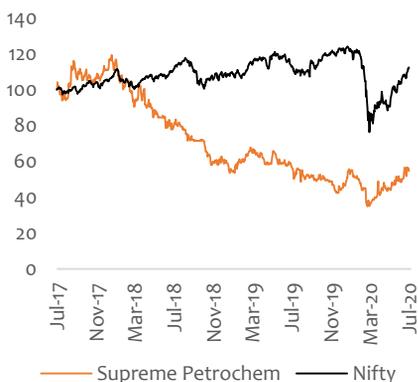
COVID-19 severely affected volumes; fall in domestic volume greater than export volume: The business was impacted due to COVID-19 pandemic and the ensuing lockdown that followed. Domestic volumes shrunk to 38% of the volumes in the corresponding quarter of the previous year. On exports front, the company performed well. Including exports, the company could sell only 53% of the total volumes in the corresponding quarter of the previous year. Company continues to face challenges with regards to labor shortages & restrictions on full fledged operations in some regions. It is currently operating at 70% utilization levels.

Gross margin contracts; EBITDA turns negative for the quarter: Gross Profit Margin contracted 391bps/322bps YoY/QoQ due to rise in material cost as a percentage of revenue to 64.2% (vs 56.6% in 1QFY20 & 62.5% in 4QFY20). Lower GPM & negative operating leverage resulted in negative EBITDA at INR 319 lakhs. Fixed costs like employee cost rose slightly by 1.8% YoY, increasing as a percentage of revenue to 3.8% in 1QFY21 (vs 1.4% in 1QFY20). Other expenses declined 36.9% YoY but as a percentage of revenue rose to 9.5% in 1QFY21 (vs 5.7% in 1QFY20).

Update on Buyback: The Company has bought back 23,89,226 Equity shares under the ongoing Buy Back Scheme of the Company till 30.06.2020. A total sum of INR 4,675 Lakhs has been spent on the shares bought back till 30.06.2020 (including INR 44.89 Lakhs towards Transaction Expenses and INR 829.7 Lakh: towards Buy Back Distribution Tax). Maximum buyback amount is INR 6,267 Lakhs (at maximum buyback price of INR 185/share).

Valuation and view: Brent crude is trading at 15% discount to its 1Y average price while USDINR is at 3% discount to 1Y average rate. However, the fall in Styrene Monomer (which is derived from crude oil) is higher than the price correction seen in Polystyrene prices. Styrene Monomer is currently trading at 18% discount to its 1Y average while Polystyrene is trading at 8% discount. This is positive for Supreme Petrochemicals as the current spread between Styrene Monomer & Polystyrene is ~15% higher than the last one-year average spread. **Shares of Supreme Petrochem are currently trading at a P/E multiple of 31.2x/15.0x on FY21/22E earnings, respectively after rallying ~17% in YTD. However, compared to historical valuations, the shares of Supreme Petrochem are trading at a discount of 27% to the 5Y long-term average of 24.1x. We continue to like the stock due to fundamental story (doubling of the capacity, widening of spread due to subdued crude prices & focus on value-added products). Hence, we apply a higher P/E multiple of 17.5x (earlier 17.0x) on FY22E estimated EPS of INR 12.1/share and raise our target price to INR 212/share, an upside of 16.3% over the CMP. Accordingly, we reiterate a "BUY" rating on the shares of Supreme Petrochem Ltd.**

SHARE PRICE PERFORMANCE



MARKET INFO

| | |
|--------|--------|
| SENSEX | 37,935 |
| NIFTY | 11,132 |

SHARE HOLDING PATTERN (%)

| Particulars | June-20 | Mar-20 | Dec-19 |
|-------------|---------|--------|--------|
| Promoters | 63.9% | 62.3% | 62.3% |
| FIs | 0.6% | 0.7% | 0.7% |
| DIs | 2.3% | 2.1% | 2.1% |
| Others | 33.2% | 34.9% | 34.9% |
| Total | 100% | 100% | 100% |



Revenue CAGR between FY20 and FY22E



PAT CAGR between FY20 and FY22E

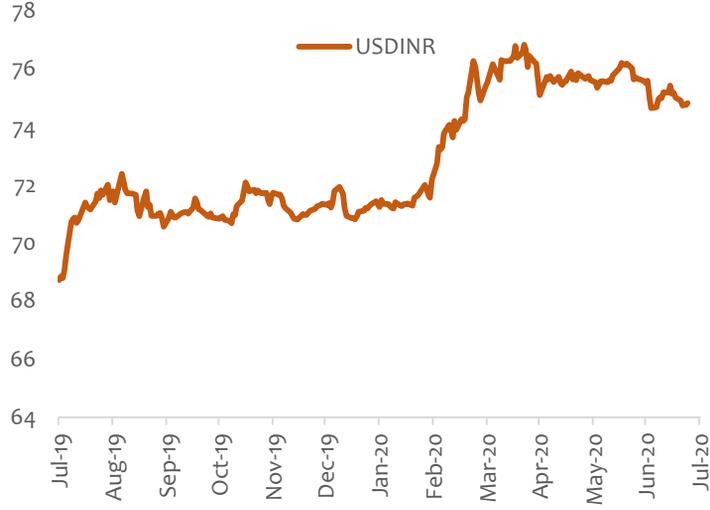
Supreme Petrochemicals Ltd.

Charts:

Lower crude prices to benefit input cost



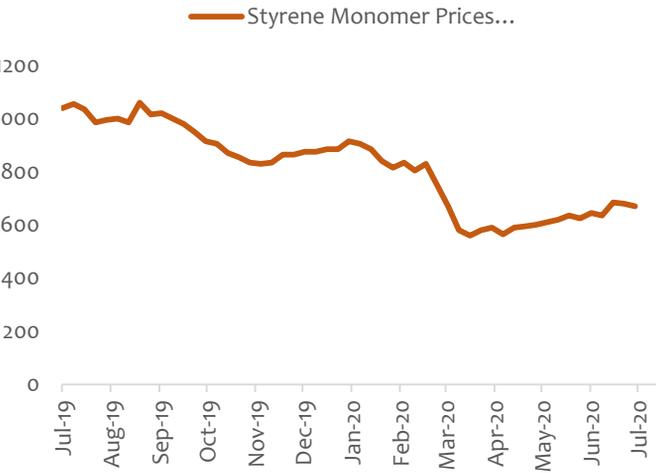
Export to benefit from depreciating Rupee



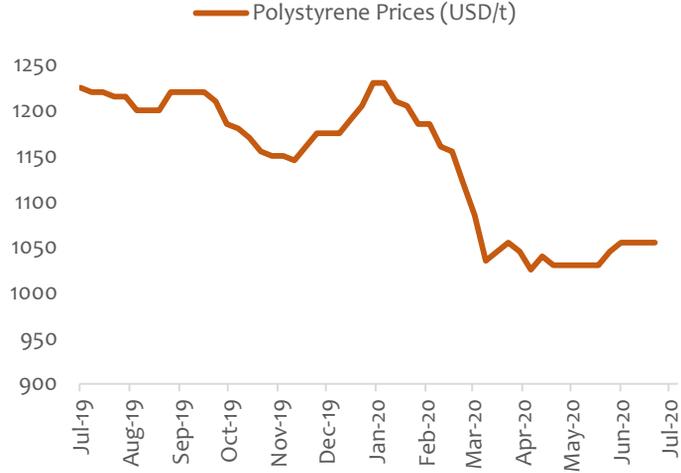
Source: Bloomberg, KRChoksey Research

Source: Bloomberg, KRChoksey Research

Monomer prices falling along with crude



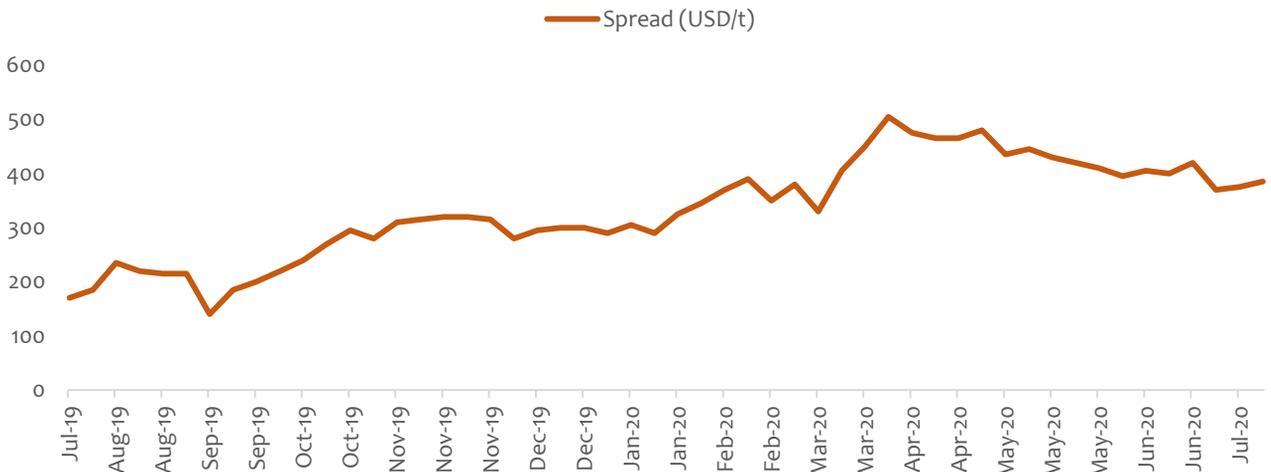
Moderation in prices with lower crude prices



Source: Bloomberg, KRChoksey Research

Source: Bloomberg, KRChoksey Research

Widening Spread between Polystyrene & Styrene (USD/t)



Source: Bloomberg, KRChoksey Research

Supreme Petrochemicals Ltd.

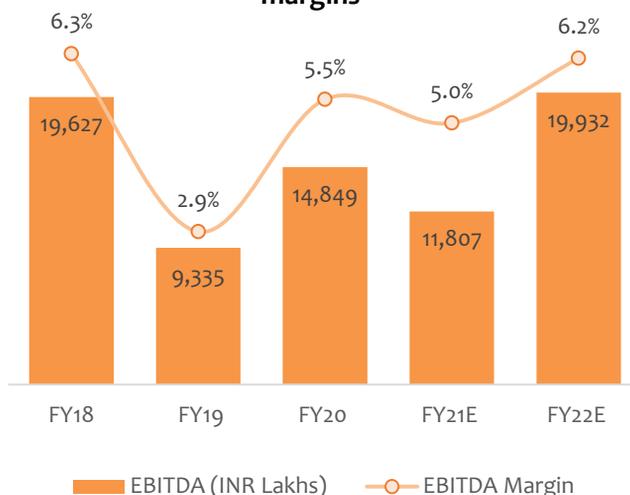
Financial Graphs:

Revenue from Operations (INR Lakhs)



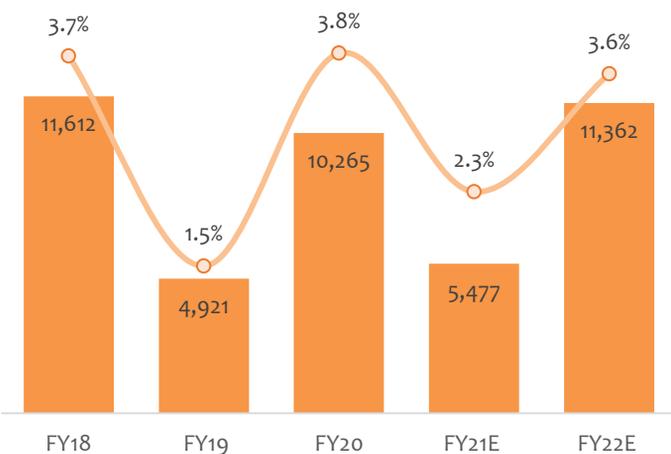
Source: Company, KRChoksey Research

Subdued crude oil prices to support margins



Source: Company, KRChoksey Research

Net Profit Margin to recover in FY22E



Source: Company, KRChoksey Research

Improving margin profile to uplift ROE



Source: Company, KRChoksey Research

Supreme Petrochemicals Ltd.

KEY FINANCIALS

Exhibit 1: Balance Sheet

| Particulars (INR lakhs) | FY18 | FY19 | FY20 | FY21E | FY22E |
|--------------------------------------|-----------------|-----------------|-----------------|-----------------|-----------------|
| Non-Current Assets | | | | | |
| Property, Plant and Equipment | 33,224 | 33,008 | 34,163 | 50,846 | 68,274 |
| Right to use assets | 0 | 0 | 2,847 | 1,987 | 1,140 |
| Capital Work-in Progress | 965 | 2,376 | 840 | 840 | 840 |
| Other Intangible Assets | 116 | 105 | 80 | 100 | 118 |
| Financial Assets | | | | | |
| Loans | 134 | 87 | 125 | 125 | 125 |
| Other Financial Assets | 346 | 442 | 412 | 420 | 429 |
| Other Non-Current Assets | 920 | 774 | 309 | 315 | 321 |
| Total non-current assets | 35,705 | 36,792 | 38,776 | 54,633 | 71,247 |
| Current Assets | | | | | |
| Inventories | 31,286 | 24,505 | 25,843 | 17,476 | 23,884 |
| Financial Assets | | | | | |
| Investment in Liquid scheme of MF | 11,060 | 25,080 | 13,481 | 13,481 | 13,481 |
| Trade Receivables | 29,526 | 28,469 | 24,808 | 20,710 | 26,283 |
| Cash and Cash Equivalents | 12,327 | 3,301 | 17,090 | 5,551 | 2,397 |
| Bank Balance other than cash | 512 | 529 | 495 | 495 | 495 |
| Loans | 71 | 80 | 90 | 90 | 90 |
| Other Financial Assets | 271 | 172 | 720 | 720 | 720 |
| Current Tax Assets (net) | 226 | 230 | 1,028 | 1,028 | 1,028 |
| Other Current Assets | 8,591 | 2,930 | 3,174 | 3,238 | 3,303 |
| Total current assets | 93,870 | 85,295 | 86,729 | 62,788 | 71,680 |
| TOTAL ASSETS | 1,29,575 | 1,22,087 | 1,25,506 | 1,17,421 | 1,42,927 |
| II Equity and Liabilities | | | | | |
| Shareholder's fund | | | | | |
| Equity Share Capital | 9,650 | 9,650 | 9,644 | 9,371 | 9,371 |
| Other Equity | 54,909 | 54,593 | 57,684 | 51,370 | 55,704 |
| Total Equity | 64,559 | 64,243 | 67,328 | 60,741 | 65,075 |
| Non-current Liabilities | | | | | |
| Long term borrowings | 0 | 0 | 0 | 9,525 | 19,050 |
| Lease liabilities | 0 | 0 | 1,707 | 1,707 | 1,707 |
| Provisions | 189 | 226 | 291 | 291 | 291 |
| Other financial liabilities | 308 | 361 | 346 | 353 | 360 |
| Deferred Tax Liabilities (Net) | 4,874 | 5,233 | 3,743 | 3,743 | 3,743 |
| Total non-current liabilities | 5,371 | 5,820 | 6,087 | 15,619 | 25,151 |
| Current Liabilities | | | | | |
| Financial Liabilities | | | | | |
| Lease Liabilities | 0 | 0 | 1,221 | 1,221 | 1,221 |
| Trade Payables | 57,082 | 47,412 | 47,616 | 36,566 | 48,185 |
| Other Financial Liabilities | 1,379 | 2,411 | 1,968 | 1,968 | 1,968 |
| Other Current Liabilities | 810 | 1,858 | 1,045 | 1,065 | 1,087 |
| Provisions | 193 | 160 | 214 | 214 | 214 |
| Current Tax Liabilities (net) | 181 | 182 | 26 | 26 | 26 |
| Total current liabilities | 59,645 | 52,023 | 52,090 | 41,061 | 52,701 |
| TOTAL LIABILITIES | 65,016 | 57,844 | 58,178 | 56,680 | 77,852 |
| Total Equity and Liabilities | 1,29,575 | 1,22,087 | 1,25,506 | 1,17,421 | 1,42,927 |

Source: Company, KRChoksey Research

Supreme Petrochemicals Ltd.

KEY FINANCIALS

Exhibit 2: Profit & Loss Statement

| Particulars (INR lakhs) | FY18 | FY19 | FY20 | FY21E | FY22E |
|--|-----------------|-----------------|-----------------|-----------------|-----------------|
| Revenue from Operations | 3,10,412 | 3,19,381 | 2,72,425 | 2,36,224 | 3,19,771 |
| Other Income | 802 | 1,003 | 1,193 | 1,213 | 1,335 |
| Total Income | 3,11,214 | 3,20,384 | 2,73,618 | 2,37,438 | 3,21,106 |
| Cost of Materials Consumed | 1,83,492 | 1,96,097 | 1,64,003 | 1,38,668 | 1,89,518 |
| Purchase of stock-in-trade | 79,103 | 86,023 | 70,385 | 59,056 | 79,943 |
| Excise Duty on Sale of Goods | 7,751 | 0 | 0 | 0 | 0 |
| Changes in Inventories of Finished Goods and WIP | -728 | 5,683 | 1,313 | 4,724 | 6,395 |
| Employee Benefit Expense | 3,950 | 3,966 | 4,169 | 4,724 | 3,198 |
| Other Expenses | 17,217 | 18,277 | 17,705 | 17,244 | 20,785 |
| Total Expenses | 2,92,860 | 3,12,373 | 2,61,178 | 2,29,349 | 3,04,608 |
| EBITDA | 19,627 | 9,335 | 14,849 | 11,807 | 19,932 |
| D&A | 2,075 | 2,327 | 3,603 | 4,932 | 4,769 |
| Operating Profit | 17,552 | 7,008 | 11,246 | 6,875 | 15,164 |
| Finance Costs | 460 | 394 | 649 | 786 | 1,349 |
| Other Income | 802 | 1,003 | 1,193 | 1,213 | 1,335 |
| Profit/Loss Before Tax | 17,894 | 7,616 | 11,790 | 7,303 | 15,149 |
| Income Tax Expenses | 6,282 | 2,696 | 1,525 | 1,826 | 3,787 |
| Profit/(Loss) for the year | 11,612 | 4,921 | 10,265 | 5,477 | 11,362 |

Source: Company, KRChoksey Research

Exhibit 3: Cash Flow Statement

| Particulars (INR lakhs) | FY18 | FY19 | FY20 | FY21E | FY22E |
|---|---------------|--------------|---------------|--------------|--------------|
| Net Cash Generated From Operations | 21,271 | 13,297 | 11,962 | 12,568 | 17,075 |
| Net Cash Flow from/(used in) Investing Activities | -1,464 | -2,661 | -756 | -20,783 | -21,377 |
| Net Cash Flow from Financing Activities | -5,687 | -5,626 | -9,049 | -3,325 | 1,148 |
| Net Inc/Dec in cash equivalents | 14,120 | 5,010 | 2,157 | -11,540 | -3,154 |
| Opening Balance | 9,779 | 12,839 | 3,830 | 17,585 | 6,046 |
| Investment in liquid scheme | -11,060 | -14,019 | 11,598 | 0 | 0 |
| Closing Balance Cash and Cash Equivalents | 12,839 | 3,830 | 17,585 | 6,046 | 2,892 |

Source: Company, KRChoksey Research

Exhibit 4: Ratio Analysis

| Key Ratio | FY18 | FY19 | FY20 | FY21E | FY22E |
|-----------------------|-------|-------|-------|-------|-------|
| EBITDA Margin | 6.3% | 2.9% | 5.5% | 5.0% | 6.2% |
| Tax rate (%) | 35.1% | 35.4% | 12.9% | 25.0% | 25.0% |
| Net Profit Margin (%) | 3.7% | 1.5% | 3.8% | 2.3% | 3.6% |
| RoE (%) | 18.0% | 7.7% | 15.2% | 9.0% | 17.5% |
| RoCE (%) | 16.6% | 7.0% | 14.0% | 7.2% | 12.6% |
| Current Ratio (x) | 1.6x | 1.6x | 1.7x | 1.5x | 1.4x |
| EPS (INR per share) | 12.0 | 5.1 | 10.6 | 5.8 | 12.1 |

Source: Company, KRChoksey Research

Supreme Petrochemicals Ltd.

| Supreme Petrochem Ltd. | | | | Rating Legend (Expected over a 12-month period) | |
|------------------------|-----------|----------|----------------|---|----------------|
| Date | CMP (INR) | TP (INR) | Recommendation | Our Rating | Upside |
| 27-Jul-20 | 182 | 212 | BUY | Buy | More than 15% |
| | | | | Accumulate | 5% – 15% |
| 24-Jun-20 | 177 | 206 | BUY | Hold | 0 – 5% |
| | | | | Reduce | -5% – 0 |
| 22-May-20 | 153 | 177 | BUY | Sell | Less than – 5% |

ANALYST CERTIFICATION:

I, Parvati Rai (MBA-Finance, M.com), Head Research, author and the name subscribed to this report, hereby certify that all of the views expressed in this research report accurately reflect my views about the subject issuer(s) or securities. I also certify that no part of our compensation was, is, or will be directly or indirectly related to the specific recommendation(s) or view(s) in this report.

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