

All round performance...

Supreme Industries reported a strong set of Q2FY21 numbers led by a strong recovery in piping, packaging and industrial products categories. The key highlight of the results were: 1) demand for pipes and fittings used in the housing segments was robust across India barring Mumbai regions, 2) while the industry witnessed ~80% of pre-Covid level recovery in H1FY21, Supreme Industries saw ~94% recovery indicating market share gains from regional/ unorganised segments, 3) robust demand for packaging & industrial product categories with improved product mix, 4) sharp gross margin expansion, 5) value added product segment growth of 9% YoY, 6) continues with capex plan of ~ ₹ 350 crore to expand capacity in Odisha, Assam and Tamil Nadu in the next two to three years. We believe Supreme Industries would continue to report revenue CAGR of 10% led by volume growth supported by good demand for plastic products from housing & industrial segments along with expansion in new geographies. We maintain our positive stance on the stock, considering its leadership position in piping industry, healthy b/s supported by strong promoter pedigree.

Better product mix and good demand drives topline

Q2FY21 topline growth at 8% YoY at ~₹ 1375 crore was largely in line with our estimates. The plastic piping, packaging, industrial product categories revenue increased ~4%, ~11%, ~8% YoY to ₹ 847 crore, ₹ 220 crore, ₹ 182 crore, respectively. The valued product category revenue growth was at 9% YoY to ₹ 533 crore indicating good demand of premium product categories as well. The improved product mix led to a sharp rise in realisation by ~7% YoY in Q2FY21 while packaging & industrial products volume grew ~11% & 13% YoY, respectively. The piping segment volume decline of ~2% is attributable to a change in product mix. We model revenue CAGR of 10% in FY20-23E mainly led by volume growth.

Strong EBITDA margin led by saving in raw material prices

Better product mix, inventory gains drove gross margin up 424 bps YoY, leading to ~500 bps YoY rise in EBITDA margin to 18.6%. Segment wise EBITDA margin of piping systems, industrial, packaging, consumer products increased to 20.5% (up 410 bps YoY), 11.6% (up 780 bps YoY), 16.9% (up 980 bps YoY), 19.8% (up 280 bps YoY), respectively. We model normalised EBITDA margin of ~15-16% considering normalisation in input price.

Valuation & Outlook

We believe demand for the piping, packaging and industrial products would stay higher with a recovery in the housing sector and industrial activity. This coupled with market share gains supported by its robust supply chain network and capacity expansions would continue help drive volume growth in FY20-23E. We tweak our FY22E estimates and reiterate **BUY** rating on the stock with a revised target price of ₹ 1695 (valuing 35x FY22E).



Particulars

Particular	Amount
Market Capitalization (₹Crore)	18,584.1
Total Debt (FY 20) (₹Crore)	410.9
Cash & Invest. (FY 20) (₹Crore)	219.9
EV (₹Crore)	18,775.1
52 week H/L	1499/ 791
Equity capital (₹Crore)	25.4
Face value (₹)	2.0

Key Highlights

- Strong demand of plastic piping and other products across all regions
- Gross margin expansion by 424 bps led by better product mix and inventory gains. Margin to normalise, going forward
- Demand traction continues in Q3FY20
- Maintain BUY rating on stock with revised target price of 1695/share

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Key Financial Summary

(₹Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	5612.0	5511.5	5492.5	6409.7	7280.9	9.7
EBITDA	784.6	834.5	929.7	964.4	1155.0	11.4
EBITDA Margin (%)	14.0	15.1	16.9	15.0	15.9	
Net Profit	448.6	467.4	570.8	607.6	697.4	14.3
EPS (₹)	35.3	36.8	44.9	47.8	54.9	
P/E (x)	41.4	39.8	32.6	30.6	26.6	
Price/Book (x)	8.6	8.2	7.2	6.5	5.8	
Mcap/Sales (x)	3.3	3.4	3.4	2.9	2.6	
RoE (%)	18.7	20.7	22.3	21.2	21.6	
RoCE (%)	25.0	22.5	23.3	22.5	24.3	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ (%)	Comments
Revenue	1,374.8	1,322.4	1,270.9	8.2	1,053.9	30.4	Strong demand recovery across product categories along with better product mix drives the topline
Other Income	0.1	0.1	0.5	-85.2	0.3	-71.4	
Raw Material Exp	809.3	840.0	824.2	-1.8	746.7	8.4	Gross margin improved by ~424 bps YoY led by better product mix and inventory gains due to low raw material prices
Cost of traded goods	39.3	13.2	14.3	175.8	7.7	412.1	
Employee Exp	72.7	79.3	68.5	6.1	63.3	14.9	
Other expenditure	197.6	198.4	191.2	3.4	119.1	65.9	
EBITDA	255.9	191.4	172.8	48.1	117.1	118.5	
EBITDA Margin (%)	18.6	14.5	13.6	501 bps	11.1	750 bps	Better gross margin along with saving in other expenses help in EBITDA margin expansion
Depreciation	52.3	52.3	51.7	1.1	50.8	3.0	
Interest	2.5	8.1	7.1	-64.8	7.8	-68.0	
PBT	201.1	131.1	114.6	75.6	58.8	242.0	
Total Tax	52.7	32.9	-14.0	-475.4	14.6	260.0	Base period tax included effect of rate reduction
Profit from associates	26.5	-3.7	11.0	141.2	-3.7	-826.3	
PAT	175.0	94.5	139.6	25.3	40.5	331.7	PAT decline largely on account of lower sales during Q1

Key Metrics

Plastic Piping	847.0	854.7	812.0	4.3	765.0	10.7	Post ease in lockdown restrictions, the company witnessed improved demand of plastic pipe and fittings from recovery in housing industry. Better product mix helped drive realisation higher by ~6% YoY during the period
Packaging Products	220.0	207.6	198.0	11.1	188.0	17.0	Segment volume growth at 10.6% YoY led by good demand of packaging products from agriculture, FMCG and consumer durable segments
Industrial Products	182.0	182.0	169.0	7.7	70.0	160.0	Industrial products volume increased by 13.5% YoY led by strong demand of material handling products (fruit, vegetables etc) and demand recovery of other industrial segments
Consumer Products	85.0	78.1	86.0	-1.2	28.0	203.6	Sharp recovery witnessed in consumer product segment on a QoQ basis

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	Old	New	% Chg	
Revenue	5,351.5	5492.5	2.6	6,512.0	6409.7	(1.6)	7,370.0	7,280.9	(1.2)	Revenue estimate largely remained unchanged
EBITDA	774.5	929.7	20.0	1,046.9	964.4	(7.9)	1,208.5	1,155.0	(4.4)	
EBITDA Mar %	14.5	16.9	243bps	16.1	15.0	-105bps	16.4	15.9	-54bps	Strong performance of current quarter led improvement in margin for FY21E. However EBITDA margin to normalise with stabilisation in input prices
PAT	395.3	570.8	44.4	598.8	607.6	1.5	719.9	697.4	(3.1)	
EPS (₹)	31.1	44.9	44.5	47.1	47.8	1.6	56.7	54.9	(3.2)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

(%)	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Plastic Piping	8.6	3.1	17.1	14.0	1.9	17.9	13.3	Revise our volume growth estimate upward owing to good demand recovery post ease in lockdown
Packaging	(7.9)	1.8	16.5	12.9	(0.1)	24.7	13.3	We believe strong recovery in the cross laminated films and performance packaging would be partially offset by lower demand in protective packaging products
Industrial	(24.0)	(10.8)	20.0	12.9	(15.3)	38.8	13.7	Recovery in demand from consumer durables OEMs to drive segment performance, going forward
Furniture*	(4.0)	(16.7)	22.9	12.6	(19.1)	25.1	10.6	Market share gains from unorganised segment to help drive demand for consumer furniture business

Source: Company, ICICI Direct Research

Conference Call Highlights

Plastic piping system

- The piping segment recorded a change in product mix wherein volume declined ~2% YoY while value growth was higher by ~4% YoY. However, a recovery in housing segment helped drive demand in both urban and rural regions
- Piping systems EBITDA margin was up 410 bps YoY at 20.5%. The margin was at an all-time high due to better mix and notable inventory gains. However, margins are expected to normalise, going forward, with stabilisation in input prices
- PVC resins sales during H1FY21 declined 25% YoY. The piping industry consumes ~76% of total PVC resins demand
- The company has gained market share in the piping segment as other players business operations were impacted by labour shortage and regional lockdowns
- We expect continued strong rural demand led by good farm income (led by higher MSP and increased acreage due to better monsoon) and various other government schemes to support rural economy
- Total distribution increased to 1300 units by September 2020 compared to 1214 units in March 2020

Industrial products

- The industrial segment witnessed volume, value growth of ~13% and 8% YoY, respectively, in Q2FY21 mainly driven by strong demand of material handling products
- EBITDA margin increased 780 bps YoY to 11.6% in Q2FY21
- Industrial product demand is likely to continue with good demand from automotive, consumer durable and logistic sectors

Packaging products

- The packaging segment witnessed volume and value growth of 10.6% and 11% YoY, respectively, in Q2FY21. Segment EBITDA margin increased by 980 bps YoY at 16.9%
- Packaging segment witnessed good demand supported by many new applications/SKUs targeting agriculture sector

Consumer products (furniture)

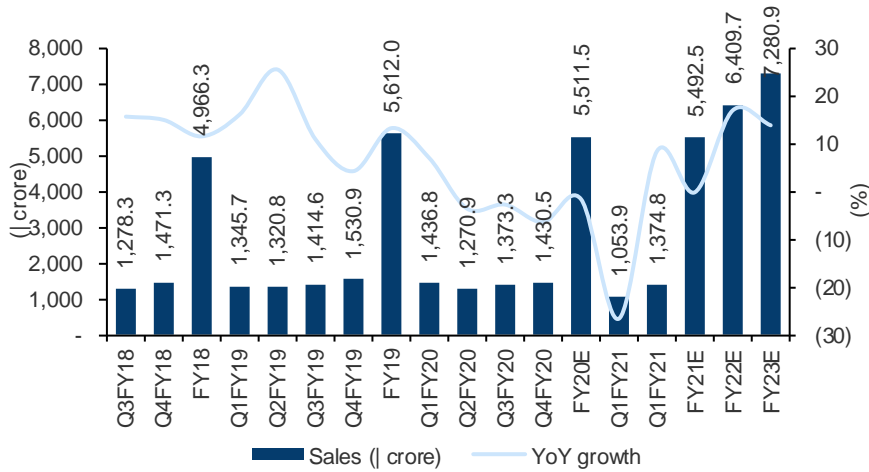
- Consumer product segment also witnessed a sharp demand recovery with sales reaching almost same levels of last year
- Segment EBITDA margin increased 280 bps YoY at 19.8%

Overall company highlights

- Value added products (VAPs) category revenue increased 9% YoY to ₹ 533 crore
- PVC prices moved northward due to supply concern. However, the same would stabilise with lower winter demand for housing in the US, Europe, China and other parts of the World. Prices may start softening from January 2021 onwards
- Various cost cutting measures and better product mix are likely to keep margin of piping and packaging segment at elevated levels
- Soft launch (212 units) of Bio-floc fish tanks in 11 states
- Supreme has decided to continue its investment plan to increase capacity in Odisha, Assam and Tamil Nadu. Odisha land deal may fructify by November

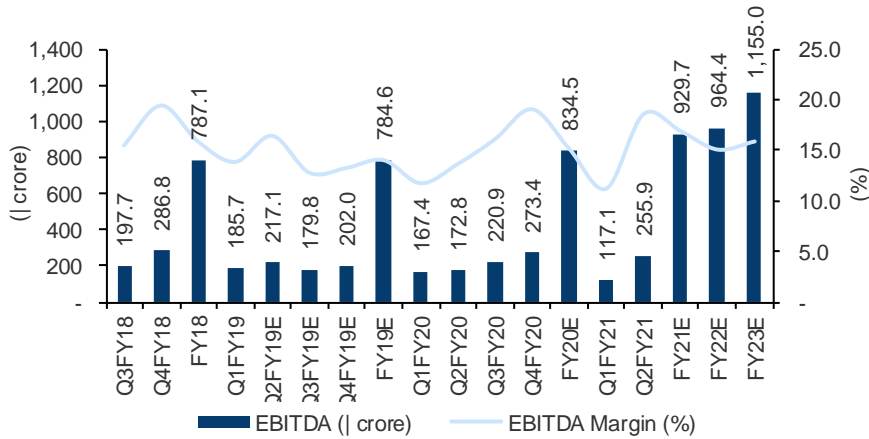
Financial story in charts

Exhibit 4: Revenue growth trend



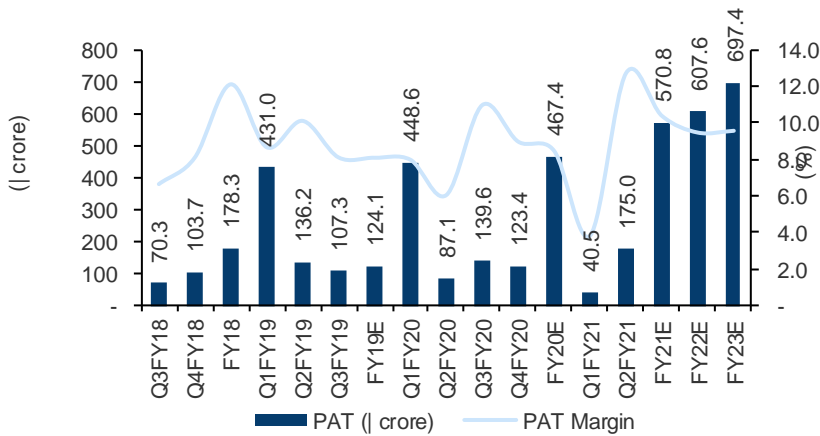
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



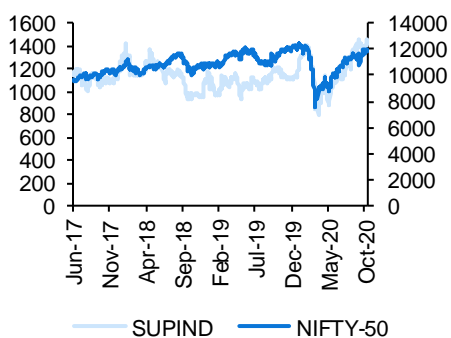
Source: Company, ICICI Direct Research

Exhibit 6: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 7: Price Chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Sep-19	Dec-19	Mar-20	Jun-20	Sep-20
Promoter	49.7	49.7	49.9	48.9	48.9
FII	8.1	8.2	8.0	8.5	8.9
DII	14.2	14.5	15.3	16.3	16.4
Others	28.0	27.6	26.8	26.3	25.8

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Net Sales	5511.5	5492.5	6409.7	7280.9	
Growth (%)	-1.8	-0.3	16.7	13.6	
Other Income	1.4	1.5	1.7	1.8	
Total Revenue	5513.0	5494.0	6411.4	7282.7	
Expenditure					
Raw Material Expenses	3706.0	3337.5	4093.0	4658.8	
Cost of goods traded	47.4	76.1	71.3	14.6	
Employees cost	279.8	292.1	356.1	389.3	
Other Expenditure	818.9	777.3	925.0	1063.3	
Total Operating Exp	4677.0	4562.7	5445.4	6125.9	
Operating Profit (EBITDA)	834.5	929.7	964.4	1155.0	
Growth (%)	6.4	11.4	3.7	19.8	
Depreciation	205.7	208.7	224.3	291.2	
Interest	20.2	17.4	10.5	7.5	
PBT after Excep Items	610.1	705.1	731.2	858.1	
Total Tax	173.9	179.2	184.2	215.9	
PAT before MI	436.2	526.0	546.9	642.2	
Profit from Associates	31.2	44.8	60.7	55.2	
Reported PAT	467.4	570.8	607.6	697.4	

Source: Company, ICICI Direct Research

Exhibit 11: 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	2539.7	2842.5	3204.5	
Total Shareholders funds	2261.2	2565.1	2867.9	3229.9	
Total Debt	410.9	400.9	300.9	200.9	
Deferred Tax Liability	132.6	132.6	132.6	132.6	
Total Liabilities	2804.7	3098.6	3301.4	3563.4	
Gross Block	3235.0	3582.0	3932.0	4332.0	
Accumulated Depreciation	1627.3	1836.0	2060.3	2351.6	
Net Block	1607.7	1746.0	1871.7	1980.5	
Capital WIP	92.9	45.9	45.9	45.9	
Total Fixed Assets	1700.7	1791.9	1917.6	2026.4	
Other Investments	207.3	207.3	230.3	263.3	
Inventory	890.6	827.6	965.9	1097.1	
Debtors	312.8	526.7	614.6	698.2	
Loans and Advances	184.4	164.3	179.5	203.9	
Cash	219.9	323.4	203.6	180.2	
Total Current Assets	1607.7	1841.9	1963.6	2179.4	
Creditors	547.5	557.9	632.2	718.1	
Provisions	31.3	34.6	39.2	44.5	
Total Current Liabilities	813.9	799.4	876.5	981.0	
Net Current Assets	793.9	1042.5	1087.1	1198.3	
Long term loans and advances	102.9	56.9	66.4	75.5	
Total Asset	2804.7	3098.6	3301.4	3563.4	

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit/(Loss) after taxation	467.4	570.8	607.6	697.4	
Add: Depreciation & Amortization	205.7	208.7	224.3	291.2	
Add: Interest Paid	20.2	17.4	10.5	7.5	
C/F bef working cap changes					
Net Increase in Current Assets	-82.1	-130.7	-241.4	-239.2	
Net Increase in Current Liabilities	21.0	-14.4	77.0	104.6	
Net cash flow from operating Ac	632.1	651.8	678.1	861.5	
(Inc)/Dec in Other Investments	15.1	0.0	-23.0	-33.0	
(Purchase)/Sale of Fixed Assets	-295.3	-300.0	-350.0	-400.0	
Net Cash flow from Investing Ac	-312.8	-254.0	-382.5	-442.0	
Proceeds/(Rep) of debt	248.9	-10.0	-100.0	-100.0	
(Payment) of Div & Div Tax	-214.1	-274.4	-304.8	-335.3	
Net Cash flow from Financing Act	-131.5	-294.3	-415.4	-442.9	
Net Cash flow	187.8	103.5	-119.8	-23.4	
Cash & Cash Equ at the begin.	32.1	219.9	323.4	203.6	
Cash & Cash Equ at the end	219.9	323.4	203.6	180.2	

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	36.8	44.9	47.8	54.9	
Cash EPS	53.0	61.4	65.5	77.8	
BV per share	178.0	201.9	225.8	254.3	
DPS	16.9	21.6	24.0	26.4	
Operating Ratios (%)					
EBITDA Margin	15.1	16.9	15.0	15.9	
PAT Margin	8.5	10.4	9.5	9.6	
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	22.3	21.2	21.6	
RoCE	22.5	23.3	22.5	24.3	
RoIC	24.0	25.0	23.2	24.8	
Valuation Ratios (x)					
P/E	39.8	32.6	30.6	26.6	
EV / EBITDA	22.5	20.1	19.4	16.1	
EV / Net Sales	3.4	3.4	2.9	2.6	
Market Cap / Sales	3.4	3.4	2.9	2.6	
Price to Book Value	8.2	7.2	6.5	5.8	
Solvency Ratios					
Debt / EBITDA	0.5	0.4	0.3	0.2	
Debt / Equity	0.2	0.2	0.1	0.1	
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 13: 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 (ASIPAI)	2,160	2,440	Buy	2,07,144	29.0	28.9	35.9	74.5	74.9	60.2	47.9	45.8	37.4	27.4	24.2	27.3	30.5	28.1	31.7
Astral Polytechnik (ASTP)	1,120	1,120	Hold	16,874	16.6	15.0	23.3	67.6	74.9	48.1	36.1	39.3	27.8	20.5	17.0	23.1	16.6	13.1	17.9
Amber Enterprises (AM)	2,158	2,600	Buy	6,786	52.2	19.0	70.6	41.3	113.8	30.6	22.8	33.1	15.2	14.3	6.3	16.2	14.5	4.2	13.7
Bajaj Electricals (BAJEL)	488	495	Buy	5,548	0.0	4.1	14.8	NM	119.2	33.1	26.1	26.3	15.0	8.4	6.7	13.4	4.5	4.2	10.2
Berger Paints (BERPAI)	607	580	Hold	58,952	6.8	6.1	9.7	89.9	99.0	62.3	51.7	55.0	37.8	26.6	22.0	31.3	24.7	19.7	27.1
EPL(ESSPRO)	251	270	Buy	7,919	6.7	7.0	9.5	37.4	35.7	26.5	13.6	12.4	10.5	15.6	16.5	19.4	14.3	13.9	16.3
Havells India (HAVIND)	729	630	Hold	45,482	11.7	8.0	14.4	62.1	90.9	50.6	33.9	40.7	25.5	19.6	14.3	22.6	17.0	11.4	18.3
Kansai Nerolac (KANNE)	512	510	Buy	27,593	9.9	7.9	11.8	51.5	64.5	43.3	30.3	35.3	24.2	17.6	14.7	19.9	14.1	11.3	15.3
Pidilite Industries (PIDINI)	1,519	1,595	Buy	77,135	22.1	17.8	28.0	68.7	85.2	54.3	43.5	53.3	35.1	31.0	23.4	34.0	26.1	19.2	27.7
Polycab India (POLI)	937	1,040	Buy	13,950	51.4	58.1	62.9	18.2	16.1	14.9	11.4	11.2	9.5	26.5	21.4	23.2	20.0	18.2	18.0
Supreme Indus (SUPIND)	1,463	1,695	Buy	18,584	36.8	44.9	47.8	39.8	32.6	30.6	22.5	20.1	19.4	22.5	23.3	22.5	20.7	22.3	21.2
Symphony (SYMLIM)	869	960	Buy	6,079	26.0	20.5	32.0	33.4	42.3	27.2	26.7	33.9	21.0	28.8	23.5	37.0	29.0	23.0	35.1
Time Techno (TIMTEC)	38	47	Hold	859	7.5	3.4	9.4	5.1	11.2	4.1	3.3	4.5	3.0	12.5	7.4	13.5	9.3	4.3	11.0
V-Guard Ind (VGUARD)	170	210	Buy	7,281	4.3	3.6	5.2	39.3	47.3	32.7	27.4	32.5	22.6	24.8	19.7	24.3	18.6	14.8	18.5
Voltas Ltd (VOLTAS)	703	725	Buy	23,251	15.8	10.7	22.7	44.6	65.7	30.9	29.4	51.3	23.6	19.5	11.5	20.4	13.0	8.0	15.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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