

## Strong performance continues...

Supreme's strong performance continued in Q3FY21 also, with reported headline numbers much ahead of our estimates. The key highlights of the result were: 1) strong demand for piping products from housing segment supported by revival in real estate demand, 2) market share gains across all product categories (9MFY21 company's PVC resin sales volume recovery was much ahead at 96% vs. 79% recovery of industry), 3) robust demand for industrial & consumer product categories with improved product mix, 4) strong growth in value added product categories (up 33% YoY) in Q3FY21, 5) inventory gains of ₹ 80 crore and saving in other costs that drove EBITDA margin (adjusted EBITDA margin ~17% vs. 21.8 in Q3), 6) according to management, PVC price may normalise from March 2021 onwards, 7) continues with capex plan of ~ ₹ 400 crore to expand capacity in Odisha, Assam and Tamil Nadu in the next two years, 8) the management expects overall 11% volume CAGR, going forward. We build-in topline growth for FY20-23E in line with management expectation (largely driven by volume growth) along with normalised EBITDA margin, going forward.

## Focus on valued added product category, dealer addition

The company's valued added product category recorded strong growth of 33% YoY to ₹ 758 crore in Q3FY21. Valued added product contribution in topline has increased from ~36% in FY18 to ~40% in 9MFY21. The company further plans to increase revenue contribution from valued added product categories by widening distribution network, going forward. The company's total distribution network increased from 3567 in March 2020 to 4000 by December 2020 (up by 12%). The value added product category commands EBITDA margin of 17%+ vs. 15% company level margin (FY20). We believe rising contribution of value added products in topline would help drive overall EBITDA margin, going forward.

## Capex of ₹ 400 crore to increase geographical reach

The company has total 25 manufacturing units across 12 states in India. Supreme is planning a capex of ~₹ 400 crore (including maintenance capex) to increase its total manufacturing capacity by 10% to ~7,00,000 metric tonnes by 2022. The company is debt free and has cash balance of ₹ 432 crore by the end of December 2020. We believe the surplus cash would be utilised for future capex and company would maintain its debt free status.

## Valuation & Outlook

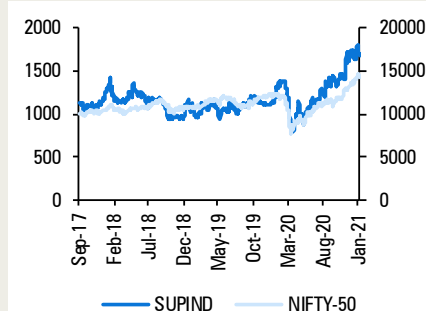
We believe government schemes like Housing for all, Jal Jeevan Mission would be key growth drivers for plastic piping industry, going forward. Also, market share gains supported by its robust supply chain network would continue help drive volume growth in FY20-23E. We roll over our valuation on FY23E and value the company at 35x FY23E earnings. We reiterate **BUY** rating on the stock with a revised target price of ₹ 2010 (earlier TP of ₹ 1695).



### 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

### Particulars



### Key risk to our call

- Delay in demand recovery from rural segment may slow volume growth, going forward (our estimate: ~11% FY20-23)
- Sharp rise in input prices (PVC prices up 25% in Q3FY21). Absorption of input price increase may lead to pressure on EBITDA margin

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### Key Financial Summary

(₹ Crore)	FY19	FY20	FY21E	FY22E	FY23E	CAGR (FY20-23E)
Net Sales	5612.0	5511.5	5998.4	6668.1	7466.5	10.6
EBITDA	784.6	834.5	1121.4	1021.5	1168.0	11.9
EBITDA Margin (%)	14.0	15.1	18.7	15.3	15.6	
Net Profit	448.6	467.4	790.3	634.6	736.3	16.4
EPS (₹)	35.3	36.8	62.2	50.0	58.0	
P/E (x)	49.0	47.1	27.8	34.7	29.9	
Price/Book (x)	10.2	9.7	7.9	7.1	6.3	
Mcap/Sales (x)	3.9	4.0	3.7	3.3	2.9	
RoE (%)	18.7	20.7	28.4	20.4	20.9	
RoCE (%)	25.0	22.5	27.3	21.7	23.2	

Exhibit 1: Variance Analysis

	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ (%)	Comments
<b>Revenue</b>	<b>1,843.8</b>	<b>1,618.0</b>	<b>1,373.3</b>	<b>34.3</b>	<b>1,374.8</b>	<b>34.1</b>	Overall volume growth up 10% while higher realisation is largely attributable to price hikes and change in product mix
Other Income	0.3	0.7	0.8	-68.8	0.1	212.5	
Raw Material Exp	1,111.6	971.2	879.8	26.4	809.3	37.4	Gross margin improved ~180 bps YoY led by better product mix and use of low price inventory helped (inventory gain of about ₹ 80 crore in Q3FY21)
Cost of traded goods	49.4	32.4	9.3	432.2	39.3	25.6	
Employee Exp	81.3	82.5	68.5	18.8	72.7	11.8	
Other expenditure	199.9	226.5	194.9	2.6	197.6	1.2	
<b>EBITDA</b>	<b>401.6</b>	<b>305.4</b>	<b>220.9</b>	<b>81.8</b>	<b>255.9</b>	<b>57.0</b>	
EBITDA Margin (%)	21.8	18.9	16.1	569 bps	18.6	317 bps	Better gross margin along with saving in other expenses help in expansion in EBITDA margin
Depreciation	54.9	55.1	51.5	6.6	52.3	5.0	
Interest	-1.2	3.0	5.7	-121.9	2.5	-149.8	
PBT	348.1	247.9	164.5	111.6	201.1	73.1	
Total Tax	88.6	62.3	41.9	111.5	52.7	68.2	
Profit from associates	52.8	11.0	0.8	6,846.1	26.5	99.1	Strong growth in profit contribution from Supreme Petrochem
<b>PAT</b>	<b>312.3</b>	<b>196.6</b>	<b>123.4</b>	<b>153.1</b>	<b>175.0</b>	<b>78.5</b>	PAT growth largely tracking sales growth, EBITDA margin expansion and higher profit contribution from associate company
<b>Key Metrics</b>							
Plastic Piping	1,140.0	987.2	798.0	42.9	847.0	34.6	Strong demand from urban regions supported by revival in housing projects helped drive 9% volume growth YoY. The company has passed on higher input cost, helped drive strong value growth during Q3FY21
Packaging Products	318.0	349.6	309.0	2.9	220.0	44.5	Higher input cost in the performance packaging segment impacted overall packaging demand during the period
Industrial Products	216.0	175.0	157.0	37.6	182.0	18.7	Low base coupled with strong demand from consumer durable segment helped drive volume growth at 32% YoY
Consumer Products	117.0	106.1	104.0	12.5	85.0	37.6	Sharp recovery witnessed in consumer product segment with volume growth of 11% YoY

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	5,492.5	5998.4	9.2	6,409.7	6668.1	4.0	7,280.9	7,466.5	2.5	Change in revenue estimate considering current quarter's performance
EBITDA	929.7	1121.4	20.6	964.4	1021.5	5.9	1,155.0	1,168.0	1.1	
EBITDA Mar %	16.9	18.7	180bps	15.0	15.3	32bps	15.9	15.6	-26bps	Strong performance of current quarter led improvement in margin for FY21E. However, EBITDA margin to normalise with stabilisation in input prices
PAT	570.8	790.3	38.5	607.6	634.6	4.4	697.4	736.3	5.6	
EPS (₹)	44.9	62.2	38.5	47.8	50.0	4.5	54.9	58.0	5.6	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

(%)	Current				Earlier			Comments
	FY20	FY21E	FY22E	FY23E	FY21E	FY22E	FY23E	
Plastic Piping	8.6	13.3	12.4	11.6	3.1	17.1	14.0	We model revenue CAGR of ~12% led by volume CAGR of 11% in FY20-23E
Packaging	(7.9)	2.7	13.8	12.8	1.8	16.5	12.9	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)	0.1	15.4	12.7	(10.8)	20.0	12.9	Strong demand from material handling and other consumer durable segment would help drive segment performance, going forward
Furniture*	(4.0)	(11.3)	12.5	12.6	(16.7)	22.9	12.6	Market share gains from unorganised segment would help drive demand of consumer furniture business

\*Consumer products

Source: Company, ICICI Direct Research

## Conference Call Highlights

### Plastic piping system

- Demand from agriculture pipe was lower due to high price. However, demand is expected to recovery from March 2021 onwards on the back of renovation works at field and softening of input prices
- The company has total installed capacity of 12000 for DWC pipe. Supreme is looking for only quality orders under this segment. Hence, the utilisation is low as of now
- Strong demand from urban housing helped drive demand for piping segment volume growth during the period
- Expect 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
- Piping segment volume, value growth was higher by 9% and 43%, respectively. The operating margin was up 500 bps YoY at 24%

### Industrial products

- Industrial product demand was robust from consumer durable and material handling front. The industrial segment witnessed volume, value growth of ~32% and 38% YoY, respectively, in Q3FY21.
- EBITDA margin increased 200 bps YoY to 13% in Q3FY21

### Packaging products

- The packaging segment volume, value growth was lower at 2% and 3% respectively, due to lower demand of performance packaging products, impacted by higher input price (LDPE price). However, demand of Cross Laminated and protective packaging products were strong. The operating margin was down by 100 bps YoY at 16% during Q3FY21
- Company introduced economy model of Tarpaulin also in Cross Laminated film segment having lower value addition
- Higher demand of Cross Laminated film products volume growth to 21,000 MT, higher by 24% YoY

### Consumer products (furniture)

- Consumer product segment also witnessed a sharp demand recovery with volume, valued growth of 11%, 12% respectively in Q3FY21
- Segment EBITDA margin increased 500 bps YoY at 23%

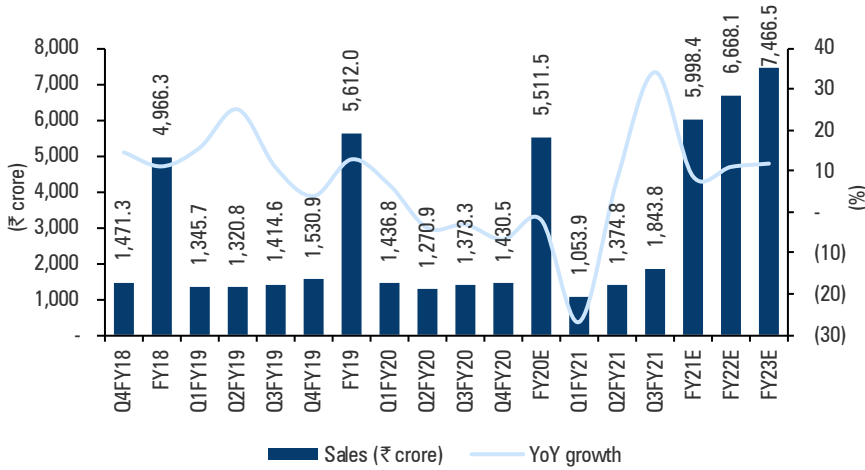
### Overall company highlights

- Value added products (VAPs) category revenue increased 33% YoY to ₹ 758 crore. Strong growth in the valued added product category helped drive operating margin up during Q3FY21
- PVC prices moved up by 25% YoY during Q3FY21 due to continuous supply concern. The company expects that such a high price is not sustainable and the price may soften from March 2021 onwards
- Adjusted with one-time inventory gain i.e. ₹ 80 crore, the normalised EBITDA margin would be ~17.4% (vs. reported EBITDA margin of 21.8%)
- The company is planning a capex of ₹ 400 crore (including carried forward investment of ₹ 182 crore from FY20) for its three new plants in Odisha, Tamil Nadu and Assam. All the plants will be operational from Q4FY22 onwards. The company aims to have factories across 29 states of India (vs. current plants in 12 states)

- Valued added product contribution to topline increased to 40% in 9MFY21 Vs 35.8% by FY18
- Supreme is aiming at RoCE of 25%+ on all incremental capex
- With increased free cashflows, the company may see some inorganic route for future growth opportunities (however RoCE should be at Supreme Industries level)
- The company has planned to launch various range of products which would be specially target to serve demand from Government's flagship 'Nal Se Jal' and 'Housing for all' schemes
- Supreme's total distribution channel has increased from 3567 in March'20 to ~4000 by December 2020. Number of distributions for Piping are 1373, Material Handling 205, Furniture 1214, cross laminated films 504 and protective packaging are 705, respectively
- Capacity as on December 2020, 499111 plastic piping (piping fittings and roto moulding, Industrial 74897, packaging 90554, 29848 consumer, 694409 vs. ~635900 as on March 2020
- For 9MFY21, the company gained market share in both PVC and CPVC product categories. The PVC resins sales (Industry) declined by 20.5% vs. 3.7% YoY sales decline of Supreme Industries. On the CPVC front, Supremes' CPVC sales were down 2.9% against overall CPVC compound (industry) sales which was declined by 13.5% during 9MFY21

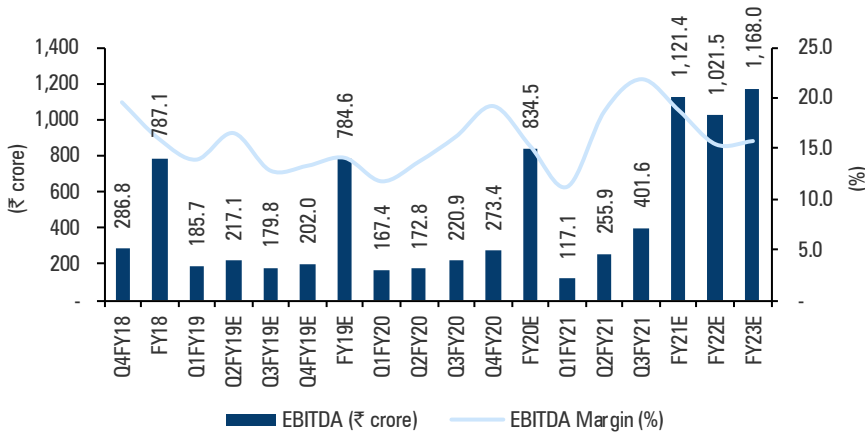
### Financial story in charts

Exhibit 4: Revenue growth trend



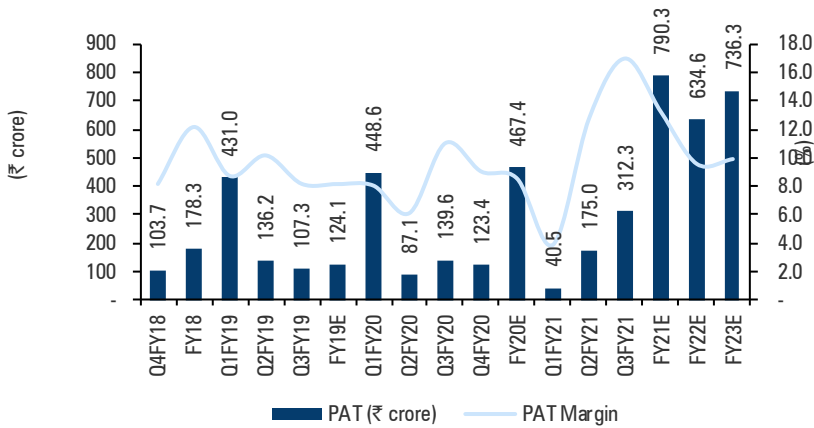
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: PAT growth trend



Source: Company, ICICI Direct Research

## Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Net Sales</b>	<b>5511.5</b>	<b>5998.4</b>	<b>6668.1</b>	<b>7466.5</b>	
Growth (%)	-1.8	8.8	11.2	12.0	
Other Income	1.4	1.5	1.7	1.8	
Total Revenue	5513.0	5999.9	6669.7	7468.3	
Expenditure					
Raw Material Expenses	3706.0	3576.2	4268.5	4730.9	
Cost of goods traded	47.4	130.9	73.7	74.7	
Employees cost	279.8	298.4	361.8	420.8	
Other Expenditure	818.9	758.3	942.4	1072.1	
Total Operating Exp	4677.0	4877.0	5646.5	6298.5	
<b>Operating Profit (EBITDA)</b>	<b>834.5</b>	<b>1121.4</b>	<b>1021.5</b>	<b>1168.0</b>	
Growth (%)	6.4	34.4	-8.9	14.3	
Depreciation	205.7	215.9	253.4	276.3	
Interest	20.2	17.4	10.5	7.5	
PBT after Excep Items	610.1	889.6	759.3	886.0	
Total Tax	173.9	227.7	191.2	222.9	
PAT before MI	436.2	661.9	568.0	663.1	
Profit from Associates	31.2	128.4	66.6	73.2	
<b>Reported PAT</b>	<b>467.4</b>	<b>790.3</b>	<b>634.6</b>	<b>736.3</b>	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Profit/(Loss) after taxation	467.4	790.3	634.6	736.3	
Add: Depreciation & Amortization	205.7	215.9	253.4	276.3	
Add: Interest Paid	20.2	17.4	10.5	7.5	
C/F bef working cap changes					
Net Increase in Current Assets	-82.1	-270.6	-172.4	-219.2	
Net Increase in Current Liabilities	21.0	59.2	38.7	94.3	
<b>Net cash flow from operating Act</b>	<b>632.1</b>	<b>812.3</b>	<b>764.8</b>	<b>895.1</b>	
(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	
<b>Net Cash flow from Investing Act</b>	<b>-312.8</b>	<b>-259.3</b>	<b>-379.9</b>	<b>-441.3</b>	
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	258.8	-30.5	11.0	
Cash & Cash Equ at the begin.	32.1	219.9	478.7	448.1	
<b>Cash &amp; Cash Equ at the end</b>	<b>219.9</b>	<b>478.7</b>	<b>448.1</b>	<b>459.1</b>	

Source: Company, ICICI Direct Research

Exhibit 9: 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	2759.3	3089.0	3490.0	
Total Shareholders funds	2261.2	2784.7	3114.4	3515.4	
Total Debt	410.9	400.9	300.9	200.9	
Deferred Tax Liability	132.6	132.6	132.6	132.6	
<b>Total Liabilities</b>	<b>2804.7</b>	<b>3318.2</b>	<b>3547.9</b>	<b>3848.9</b>	
Gross Block					
	3235.0	3582.0	3932.0	4332.0	
Accumulated Depreciation					
	1627.3	1843.2	2096.6	2372.9	
Net Block					
	1607.7	1738.8	1835.4	1959.2	
Capital WIP					
	92.9	45.9	45.9	45.9	
Total Fixed Assets					
	1700.7	1784.7	1881.3	2005.1	
Other Investments					
	207.3	207.3	230.3	263.3	
Inventory					
	890.6	903.9	1004.8	1125.1	
Debtors					
	312.8	575.2	639.4	716.0	
Loans and Advances					
	184.4	179.4	186.7	209.1	
Cash					
	219.9	478.7	448.1	459.1	
Total Current Assets					
	1607.7	2137.1	2279.0	2509.3	
Creditors					
	547.5	609.3	657.7	736.4	
Provisions					
	31.3	37.8	40.8	45.6	
Total Current Liabilities					
	813.9	873.1	911.8	1006.1	
Net Current Assets					
	793.9	1264.0	1367.2	1503.2	
Long term loans and advances					
	102.9	62.2	69.1	77.4	
<b>Total Asset</b>	<b>2804.7</b>	<b>3318.2</b>	<b>3547.9</b>	<b>3848.9</b>	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
<b>Per share data (₹)</b>					
EPS	36.8	62.2	50.0	58.0	
Cash EPS	53.0	79.2	69.9	79.7	
BV per share	178.0	219.2	245.2	276.7	
DPS	16.9	21.6	24.0	26.4	
<b>Operating Ratios (%)</b>					
EBITDA Margin	15.1	18.7	15.3	15.6	
PAT Margin	8.5	13.2	9.5	9.9	
<b>Turnover Days</b>					
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	
<b>Return Ratios (%)</b>					
RoNW	20.7	28.4	20.4	20.9	
RoCE	22.5	27.3	21.7	23.2	
RoIC	24.0	30.6	24.0	25.5	
<b>Valuation Ratios (x)</b>					
P/E	47.1	27.8	34.7	29.9	
EV / EBITDA	26.6	19.5	21.4	18.6	
EV / Net Sales	4.0	3.7	3.3	2.9	
Market Cap / Sales	4.0	3.7	3.3	2.9	
Price to Book Value	9.7	7.9	7.1	6.3	
<b>Solvency Ratios</b>					
Debt / EBITDA	0.5	0.4	0.3	0.2	
Debt / Equity	0.2	0.1	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 11: ICICI Direct Coverage Universe (Consumer Discretionary)**

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E
Asian Paints (ASIPAI)	2,513	3,010	Hold	2,40,997	32.8	39.9	46.3	76.5	62.9	54.3	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	1,656	1,260	Hold	24,950	20.7	25.5	27.8	79.9	65.0	59.6	41.8	35.8	33.1	22.3	24.5	24.1	17.3	19.1	18.6
Amber Enterprises (AMBEN)	2,514	2,830	Buy	7,906	23.7	75.1	90.0	106.0	33.5	27.9	35.8	15.9	13.2	7.2	17.0	17.8	5.3	14.3	14.7
Bajaj Electricals (BAJELE)	744	585	Buy	8,459	11.8	17.1	23.0	NM	43.6	32.3	26.3	20.2	15.9	10.8	14.7	18.6	8.3	13.0	15.4
Berger Paints (BERPAI)	748	675	Hold	72,646	7.8	9.7	11.7	96.2	77.5	63.7	60.3	50.8	43.0	26.9	30.3	34.0	23.8	25.7	27.9
Crompton Greaves(CROGR)	412	480	Buy	25,832	7.9	9.5	12.0	51.8	43.3	34.2	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
EPL (ESSPRO)	257	280	Hold	8,108	8.0	8.9	11.2	31.9	28.8	23.0	13.0	12.3	10.3	18.7	18.7	21.2	16.0	15.6	17.4
Havells India (HAVIND)	1,122	1,255	Hold	70,002	16.1	17.8	22.9	69.8	63.0	48.9	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	612	605	Buy	32,982	10.3	12.0	14.0	59.6	50.8	43.7	36.4	32.1	27.9	18.4	19.6	20.5	14.3	15.1	15.7
Pidilite Industries (PIDIND)	1,765	1,850	Buy	89,627	22.7	27.8	31.9	77.9	63.5	55.3	55.0	45.3	36.1	28.2	30.9	31.6	23.2	24.9	25.3
Polycab India (POLI)	1,211	1,040	Buy	18,029	58.1	62.9	74.4	20.8	19.3	16.3	13.3	11.3	9.2	21.4	23.2	25.1	18.2	18.0	19.2
Supreme Indus (SUPIND)	1,732	2,010	Buy	22,001	62.2	50.0	58.0	27.8	34.7	29.9	19.5	21.4	18.6	27.3	21.7	23.2	28.4	20.4	20.9
Symphony (SYMLIM)	1,020	1,090	Hold	7,136	13.1	29.8	40.0	77.6	34.2	25.5	61.3	26.7	19.7	16.7	35.7	41.8	17.1	34.1	38.7
Time Techno (TIMTEC)	51	43	Hold	1,153	7.5	4.0	9.1	6.8	12.8	5.6	3.1	4.3	2.8	12.5	8.0	13.2	9.3	5.0	10.7
V-Guard Ind (VGUARD)	235	210	Buy	10,065	3.7	5.3	6.2	63.8	44.2	37.8	34.5	25.4	21.6	20.1	25.3	26.9	15.1	19.5	20.8
Voltas Ltd (VOLTAS)	940	845	Hold	31,089	12.3	22.6	29.8	76.4	41.6	31.6	57.7	31.1	25.2	12.8	20.1	21.9	9.1	15.3	17.5

Source: Company, ICICI Direct Research

## RATING RATIONALE

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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