Supreme Industries Ltd.

1QFY18 Results: Estimate (↓), TP (↓), Rating (↓) | Regular Coverage

Absolute : SHORT
Relative : UNDERWEIGHT
9% Downside in 14 months

Miss on all counts, Margins to normalize going forward - downgrade to SHORT

Plastic Products

Rating Information	
Price (Rs)	1,132
Target Price (Rs)	1,012
Target Date	30th Sep'18
Target Set On	27th Jul'17
Implied yrs of growth (DCF)	15
Fair Value (DCF)	627
Fair Value (DDM)	360
Ind Benchmark	SPBSMIP
Model Portfolio Position	NA

Stock Information	
Market Cap (Rs Mn)	143,798
Free Float (%)	50.29 %
52 Wk H/L (Rs)	1124/730.5
Avg Daily Volume (1yr)	89,126
Avg Daily Value (Rs Mn)	83
Equity Cap (Rs Mn)	254
Face Value (Rs)	2
Bloomberg Code	SI IN

Ownership	Recent	3M	12M
Promoters	49.7 %	0.0 %	0.0 %
DII	18.5 %	0.1 %	0.0 %
FII	10.2 %	-0.4 %	-0.3 %
Public	21.6 %	0.3 %	0.3 %

Price %	1M	3M	12M
Absolute	-0.4 %	15.9 %	36.0 %
Vs Industry	-5.4 %	2.8 %	2.0 %
Astral Polytechnik	0.9 %	43.4 %	24.8 %
Finolex Industries	-0.2 %	16.7 %	60.6 %

Standalone Quarterly EPS forecast

Rs/Share	1Q	2Q	3Q	4Q
EPS (17A)	8.0	4.5	7.3	10.0
EPS (18E)	5.9	4.2	7.5	13.1

Supreme Industries (SIL) reported a 5% yoy decline in volumes and a 2% yoy drop in revenues (on a low base) due to pre-GST destocking and tepid pipe, packaging and consumer volumes. A correction in PVC prices and an 11% yoy decline in value-added products led to a ~330bps margin contraction to 13.7% and a 22%/26% yoy decline in EBITDA/PAT. Management has guided to FY18 volume growth of 12% (vs. 12-15% earlier); this implies 19% volume growth for the rest of FY18, which looks ambitious. FY17 saw ~160bps margin expansion to 17% (15-15.5% range earlier) and an increase in EPS consensus estimates. We think margins will rebound to 15-16% and this reversal will be a drag on FY18 earnings. We expect 10%/12%/8% volume/revenue/EBITDA CAGR over FY17-FY19E and are ~12% below consensus. Adjusting for Rs 54/sh of investment and real estate value, the stock trades at 35x/29x FY18E/19E vs. 13% EPS CAGR, and we expect time correction. Our Sep'18 TP stands at Rs 1,012 (Rs 1,028 earlier). Downgrade to SHORT.

Can ~19% growth in 9MFY18E be achieved? Management guided for volume growth of 12% in 9MFY18E as against a 5% decline in 1QFY18, implying ~19% growth for the rest of FY18E. We note that historically management has under-achieved its volume guidance (Exhibit 9, 10). Also, competition is increasing in key product categories, viz. CPVC and Shilpaulin. Though management expects lost demand in 1Q to come back in 2Q, attaining 12% growth in FY18 seems difficult given uncertain demand conditions in the GST transition phase.

Volume decline across segments, except industrial: Pipe volumes declined 7% yoy primarily due to pre-GST destocking by dealers. Packaging and consumer volumes slid 2%/8% yoy while industrial volumes increased 8% yoy. We expect a recovery in 2Q as dealers go for restocking.

Margins dip on inventory losses, decline in value-added products: EBITDAM slid 330bps to 13.7% due to (1) a 300bps contraction in gross margins, (2) inventory loss in PVC pipes as PVC prices declined by ~8-10% in 1Q, (3) and lower contribution of value-added products (32% vs. 35% earlier). Pipe/packaging/consumer EBITDA declined by 21%/23%/21% yoy while industrial EBITDA was flat. Interest cost declined 66% yoy on lower borrowings. Other income tanked 29% yoy while tax rate was flat at 35%. Recurring PAT dropped 26% yoy to Rs 753mn and was 41% below EE.

Reduce FY18E EPS by 12%, downgrade to SHORT: We lower our FY18E EPS by 12% to factor in a weak Q1 and lower realizations. We are ~15% below consensus EPS estimates as we expect margin to normalize. We revise our SoTP-based TP to Rs 1,012 set at a 26x Sep'18 TTM EPS of Rs 37 and Rs 54/sh stake in Supreme Petro and real estate.

Estimate Change

	FY18E	% Change	FY19E	% Change
Sales	47,698	-5%	55,878	-3%
EBITDA	7,574	-8%	8,872	-5%
Interest Cost	124	4%	83	7%
PAT	3,908	-10%	4,751	-6%

Consolidated Financials

Rs. Mn YE Mar	FY17A	FY18E	FY19E	FY20E
Sales	44,698	47,698	55,878	63,708
EBITDA	7,696	7,574	8,872	10,183
Depreciation	1,543	1,677	1,832	2,018
Interest Expense	302	124	83	61
Other Income	80	88	134	190
Reported PAT	3,796	3,908	4,751	5,557
Recurring PAT	3,873	3,908	4,751	5,557
Total Equity	15,536	17,308	19,639	22,634
Gross Debt	2,315	1,815	1,140	1,140
Cash	787	377	818	1,677
Rs. Mn YE Mar	**FY17A**	**FY18E**	**FY19E**	**FY20E**
Earnings	29.9	30.8	37.4	43.7
Book Value	122	136	155	178
Dividends	15.4	14.4	16.3	17.2
FCFF	22.2	23.7	30.0	27.2
P/E (x)	37.9	36.8	30.3	25.9
P/B (x)	9.3	8.3	7.3	6.4
EV/EBITDA (x)	19.1	19.3	16.3	14.1
ROE (%)	28 %	24 %	26 %	26 %
Core ROIC (%)	24 %	21 %	23 %	25 %
EBITDA Margin (%)	17 %	16 %	16 %	16 %
Net Margin (%)	9 %	8 %	9 %	9 %

Exhibit 1: Segment-wise volume/revenue/EBITDAM trend

	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	Comments
Sales Vol.							
Plastic Piping	75,450	70,872	45,266	51,570	67,549	66,149	
Packaging	10,868	11,739	8,299	15,333	12,245	11,469	
Industrials	10,019	9,436	9,023	9,708	10,817	9,979	
Consumer	5,310	4,976	4,206	4,561	5,054	4,584	
Total	101,467	97,045	66,808	81,183	95,870	92,196	
Volume (yoy)							
Plastic Piping	26.4%	6.1%	19.5%	3.7%	-10.5%	-6.7%	
Packaging	2.1%	-10.6%	6.8%	5.3%	12.7%	-2.3%	All segments see dip in volume except industrial
Industrials	-8.2%	1.5%	7.9%	26.7%	8.0%	5.8%	
Consumer	19.8%	3.1%	30.3%	-2.3%	-4.8%	-7.9%	
Total	18.4%	3.2%	16.7%	6.0%	-5.5%	-5.0%	
Revenue (Rs. Mn)							
Plastic Piping	7,118	6,860	4,833	5,619	7,360	6650	
Packaging	2,212	2,555	1,643	3,163	2,450	2390	
Industrials	1,503	1,502	1,499	1,449	1,790	1660	
Consumer	853	842	711	783	810	810	
Total	11,673	11,891	8,568	11,018	12,490	11,520	
Revenue (yoy)							
Plastic Piping	26%	-2%	20%	14%	3%	-3%	
Packaging	2%	-5%	4%	4%	11%	-6%	
Industrials	-15%	-3%	7%	16%	19%	10%	
Consumer	17%	-2%	22%	6%	-5%	-4%	
Total	8%	11%	-5%	11%	9%	-2%	
EBITDAM (%)							
Plastic Piping	15.4%	15.9%	16.5%	16.3%	16.0%	13%	
Packaging	26.0%	23.2%	16.4%	20.0%	26.6%	19%	
Industrials	15.9%	12.1%	12.9%	12.1%	17.0%	11%	
Consumer	21.1%	19.5%	16.5%	19.1%	23.0%	16%	
EBITDA/MT							
Plastic Piping	14,552	15,371	17,625	17,759	16,607	13,069	

	3QFY16	1QFY17	2QFY17	3QFY17	4QFY17	1QFY18	Comments
Packaging	53,023	50,400	32,385	41,261	53,780	39,594	
Industrials	23,922	19,248	21,480	17,984	29,784	18,298	
Consumer	33,928	32,966	27,888	32,717	38,670	28,272	
Blended	21,212	20,722	19,975	22,782	25,285	17,208	

Source: Equirus Securities, Company

Exhibit 2: Normalization of GPM as inventory gains turn to inventory losses (as % of sales based on TTM numbers)

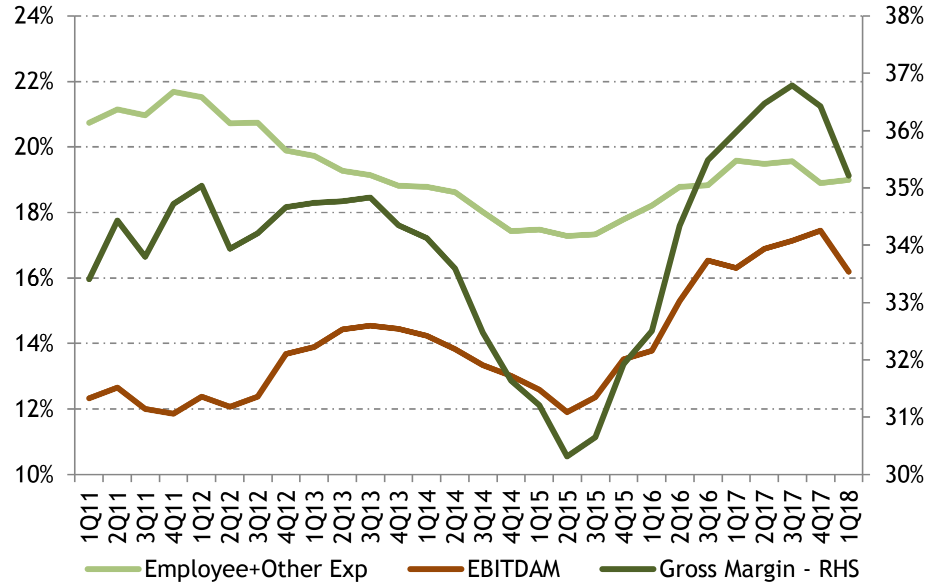


Exhibit 3: Value-added products (with >17% margins) declined from 35% to 32% yoy

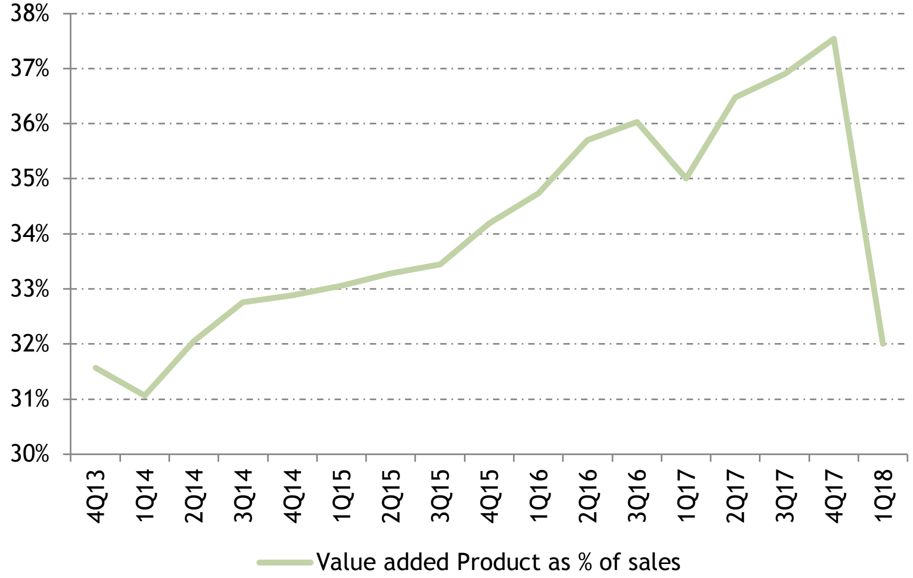
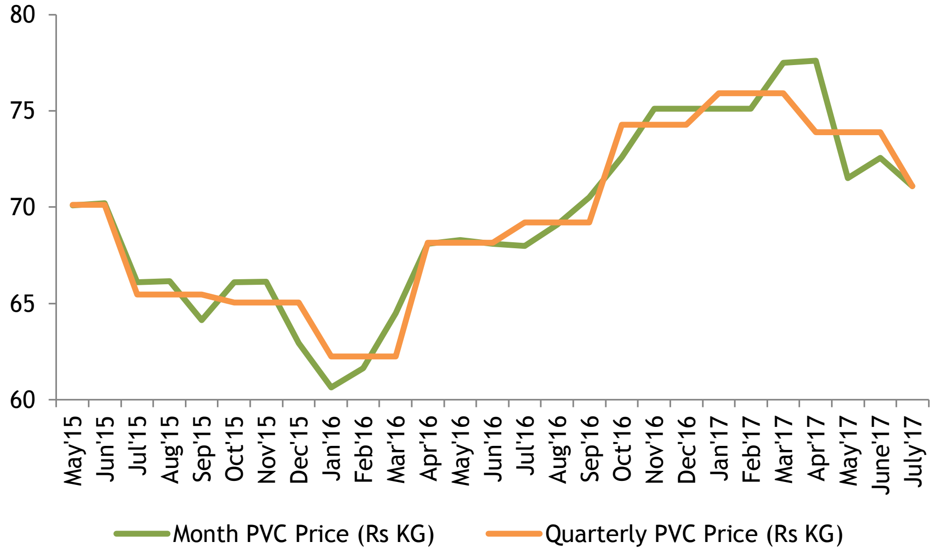
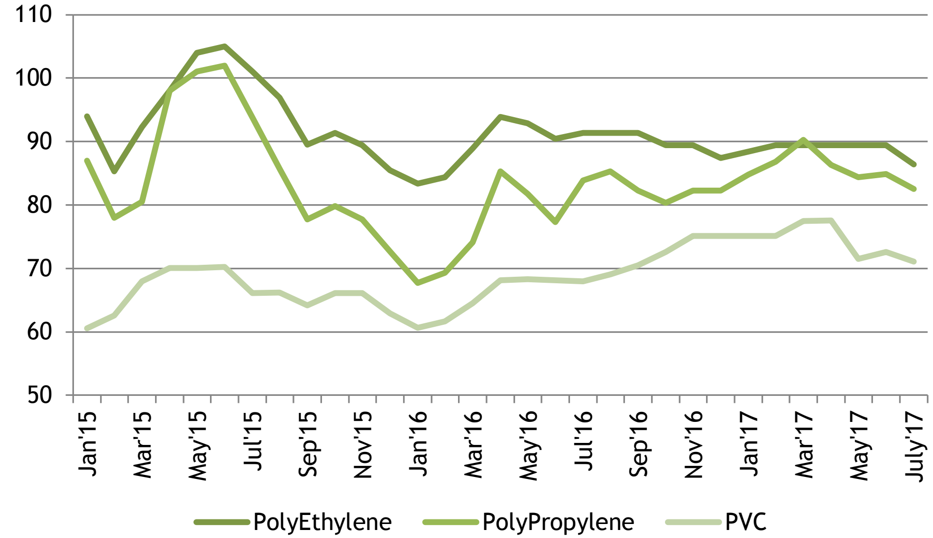


Exhibit 4: QoQ PVC prices declined by 8% to Rs 71/kg, which led to inventory losses in the pipe segment



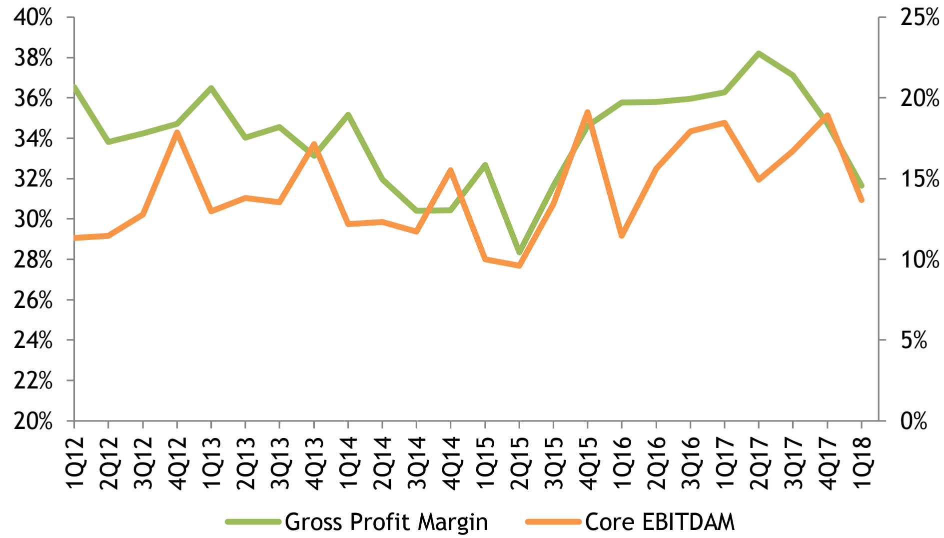
Source: Equirus Securities

Exhibit 5: PE prices remain stable but PVC/PP decline sharply; Packaging (PE) and Consumer (PP) segment has higher pricing power (In Rs.kg)



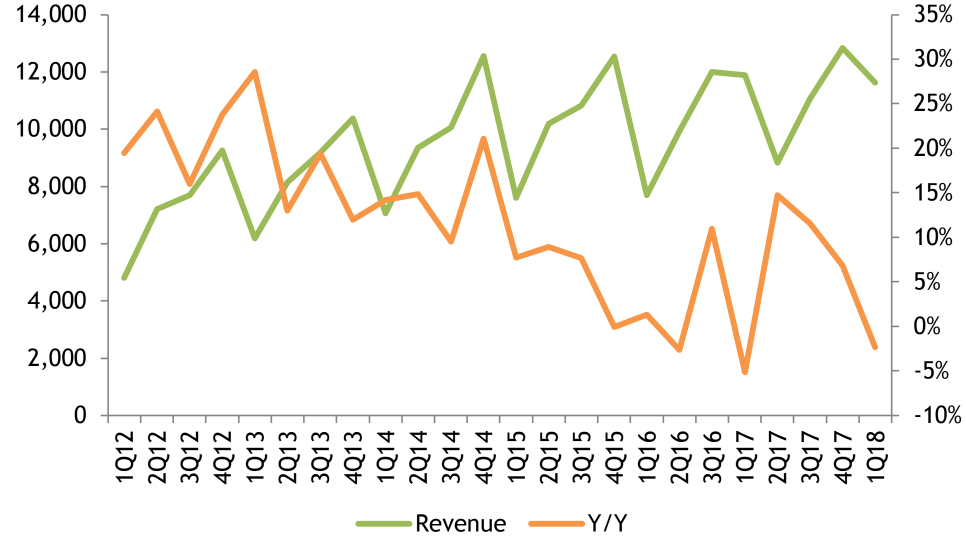
Source: Equirus Securities

Exhibit 6: GPM declined ~300 yoy; EBITDAM down ~330bps yoy on heavy inventory losses



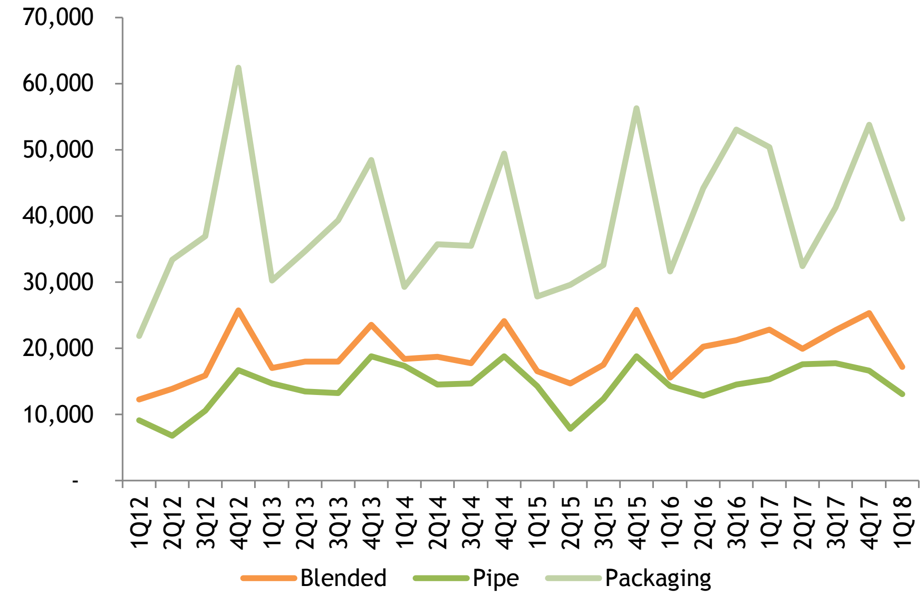
Source: Equirus Securities

Exhibit 7: Revenue growth declines due to low pipe and packaging volumes affected by dealer destocking



Source: Equirus Securities

Exhibit 8: EBITDA/MT driven by value added products



Source: Equirus Securities

Exhibit 9: Historically, SIL has under-achieved its initial volume guidance; value guidance is not completely in control of management due to volatility in polymer price

	Guidance		Later on revised to		Achieved	
	Volume	Value	Volume	Value	Volume	Value
FY13	16%	25%			10%	17%
FY14	12%	22%	9-10%	20-22%	2%	14%
FY15	12-15%	18-20%	12-15%	8-10%	10%	7%
9MFY16	15-18%	-	12-15%	-	13%	4%
FY17	12-15%	-	8-10%	-	4%	6%

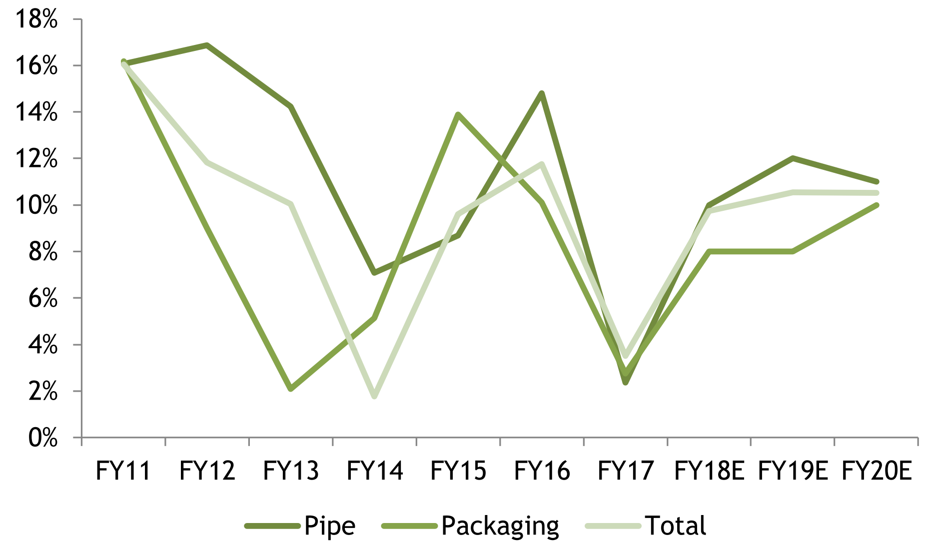
Source: Equirus Securities, Company

Exhibit 10: There has never been an upgrade in volume guidance during the year

Volume Guidance	FY13	FY14	FY15	9MFY16	FY17
Beginning	-	14%	-	-	12-15%
End of Q1	16%	12%	-	-	12-15%
End of Q2	16%	9-10%	12-15%	15-18%	8-10%
End of Q3	16%	6%	10-11%	12-15%	8-10%
Actual	**10%**	**2%**	**10%**	**13%**	**4%**

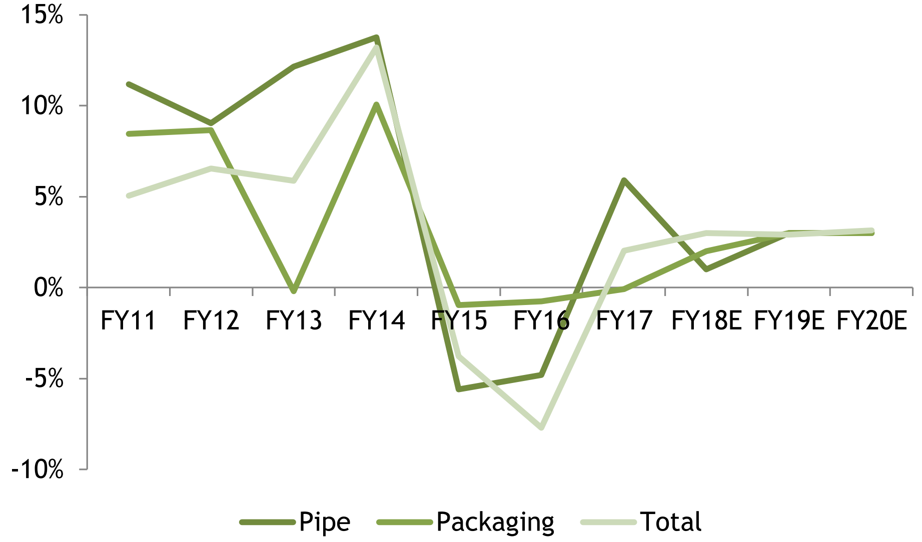
Source: Equirus Securities, Company

Exhibit 11: Expect 10% CAGR in volume over next 3 year driven by pipe/packaging



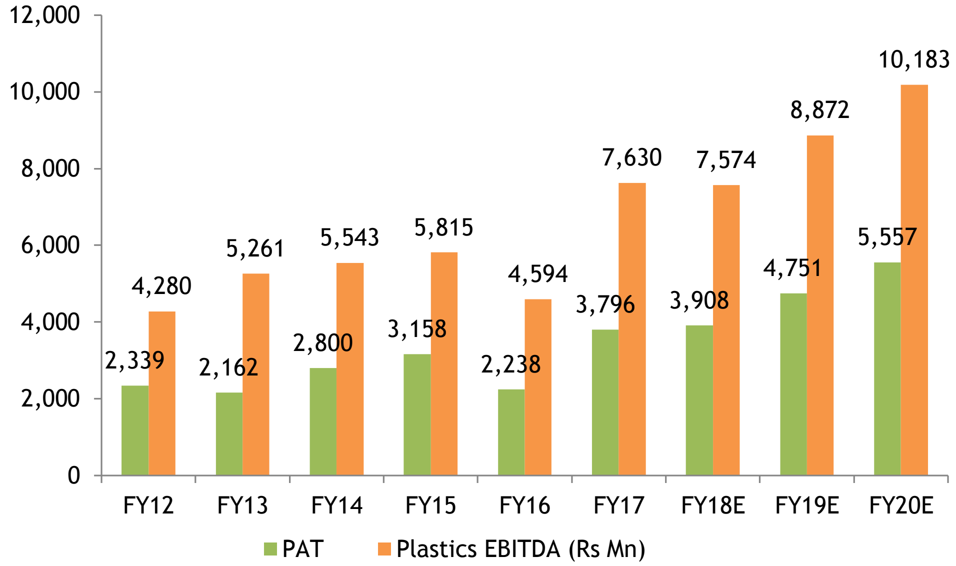
Source: Equirus Securities
*FY16 includes 4th quarter of FY15

Exhibit 12: But realization growth will be much lower than last few years as PVC/PE prices in INR terms are likely to remain range-bound



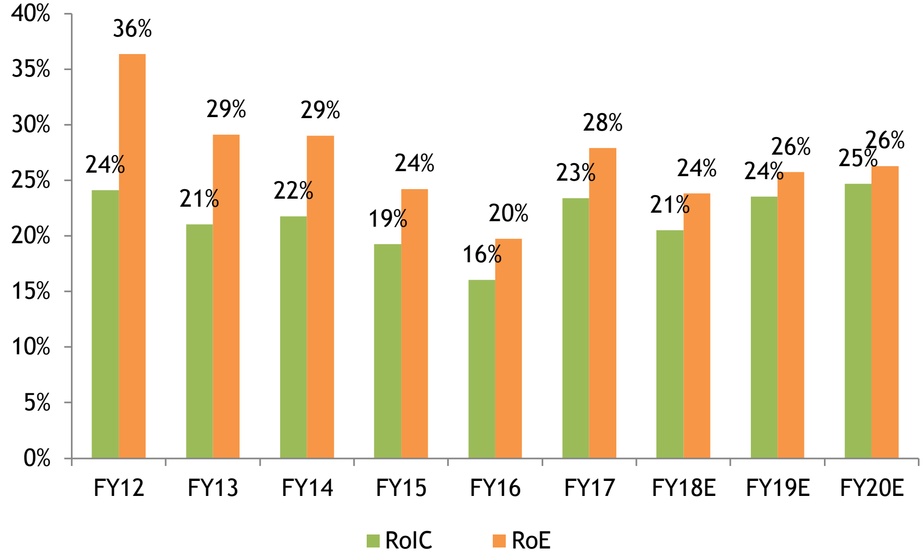
Source: Equirus Securities

Exhibit 13: Expect 10%/14% EBITDA/PAT CAGR over FY17-20E



*FY16 was a 9 Month year. Source: Equirus Securities

Exhibit 14: Return ratios to improve marginally over next 3 years



Source: Equirus, Company

Exhibit 15: SoTP valuations

Rs.Mn	Sep'17	Mar'18	Sep'18
TTM Plastic PAT	3,489	3,908	4,684
Core Business Multiple (x)	26	26	26
Business Value	90,716	101,609	121,797
Real-estate Value (Post Tax)	700	700	700
Supreme Petrochem stake @ 40% Holding company discount (Rs. Mn)	6,120	6,120	6,120
SOTP Value	97,536	108,429	128,617
SOTP Value (Rs./Share)	768	853	1,012
CMP (Rs./Share)	1,132	1,132	1,132
Upside	-32%	-24%	-10%

Source: Equirus Securities, Bloomberg

Key Con-call highlights

General Highlights:

- Volumes for 1QFY18 stood at 92,196 MT of plastic goods with net product turnover of Rs. 11.3bn vs. 97,045 MT in 1QFY17 with a net product turnover of Rs. 11.7bn recording volume/value de-growth of 5%/4% yoy.
- Segmental Revenues in 1QFY18: Plastic products: Rs. 6,650mn, Packaging products: Rs. 2,390mn, Industrial products: Rs. 1,660mn, Consumer products: Rs. 810mn. EBITDAM: Plastic Piping products: 13%, Packaging products: 19%, industrial products: 11% and consumers products: 16%.
- Gross margin were down due to PVC prices declining (decreased from Rs. 77/kg in beginning of year to Rs. 71/kg) resulting in inventory losses, lower production and decline in sale of value added items. Cross laminated films prices were reduced by ~2% due to increase in competitive intensity further affecting gross margins.
- RM inventory levels are kept at ~22000-23000 tons under normal conditions.
- Advertisement expenses in FY17 were Rs. 510mn; company plans to spend additional 30-40% in FY18.
- Share of value added products in total sales was 32% in 1QFY18 vs. 35% in 1QFY17.
- Total borrowing as on 30th June 2017 stood at Rs. 1,660mn as compared to Rs. 2,280mn as on 31st March 2017. Average cost of borrowing as on 30th June stood at 7.33% vs. 6.56% as on 31st March 2017. Company is committed to become virtually debt next year.
- Normal utilization levels are 65-70% for the company. Advance capacity addition is required to continue the growth momentum which is why company is adding capacities every year.
- Company envisages capex in the range of about Rs. 3 to 3.5bn in FY 2017-18. Commercial production of Blow furniture at Kharagpur (West Bengal) unit has commenced and 5 Product items have been launched in the market and received good response.
- Company has been allotted 40 acres of land at concessional rate by state government of Telangana. Steps are being taken to commence the project execution.
- Going forward, above normal rains will result in increased in demand in agriculture pipes, (agri-pipes demand starts from October) as compared to last year which was affected due to demonetization.

GST impact:

- Company started billing from 1st day of GST itself. All of 2699 distributers are GST registered and receiving goods according to new tax system.
- On most of products the total tax rate has gone down between 2% to 20% which is expected to facilitate the growth of the business.
- Too early to see the GST effect on un-organized players. Company believes that the share of unorganized players will go down with either moving to organized segment or closing off.
- Demand slowdown: the business was affected since last week of May due to GST implementation. Distributors started de-stocking the goods and also reduced buying resulting in lower off-take. Maximum impact of GST was seen in last week of May; April was better yoy and May was also decent. Now since most of customers are registered under GST, company expects business to normalize from August. Company expects to see recovery of lost business in 2Q.
- Overall volume growth is expected to grow more than 12% in FY18. Margins are expected to stay in range of 15-15.5% for FY18 despite lower margins in 1QFY18.

Segmental Performance

CPVC fire sprinklers:

- Supreme is the only Indian company with UL approvals. Company has already received an order and also installed them satisfactorily in Pune.
- With UL approval in place and clearance from many Chief Fire Officers resulting in increased acceptance, CPVC volume (apart from plastic piping system) is expected to grow in range of 12-15% in FY18.

Cross laminated films:

- Two new players have come in market and two more will come in near time. No volume de-growth was seen due to new entrants. Company has made extensive expansion in exports market by adding 10 more countries with total of 25 countries where supreme products are available. Last year Shilpaulin sale by company was of 20,000 tons with exports at 8,200 tons.
- In 7 states in North-Eastern India, J&K, Himachal, Uttaranchal, Maharashtra and MP (Rs. 420mn sales in these areas in FY17) total tax was 37-38% which has gone down to 18% post GST and this is expected to benefit greatly in terms of increased business and profitability.
- Additional capacity of 4,000 MT for performance packaging films is built in 1 acre land taking the total capacity to 12,000 MT.

Other Segments:

- **Bath fittings:** Company has recovered losses incurred in last couple of quarters. Business from this segment is expected to improve every quarter hereon.
- **Consumer furniture:** Due to GST, tax rates have gone up by 10% in TN, Pondicherry, Telangana and AP while in other states, rates are same with 1% up or down. It is the only item which is taxed at 28%. Revenues from consumer furniture were Rs. 520mn in FY17.
- **Composite cylinder**: No new orders were received from foreign countries as systems are not fully in place. No orders received Indian government also as nothing substantial development has taken place.

Quarterly Results Table

Rs Mn	1QFY18	1QFY18E	4QFY17	1QFY17	% Change 1QFY18E	% Change 4QFY17	% Change 1QFY17	Comments
Net Sales	11,617	14,085	12,826	11,893	-18%	-9%	-2%	
Goods Consumption	7,940	9,070	8,373	7,772	-12%	-5%	2%	
Employee Costs	537	558	552	505	-4%	-3%	6%	
Other Expenditure	1,553	2,113	1,476	1,596	-26%	5%	-3%	
Total Expenditures	**10,030**	**11,741**	**10,400**	**9,873**	**-15%**	**-4%**	**2%**	
EBITDA	**1,588**	**2,345**	**2,426**	**2,020**	**-32%**	**-35%**	**-21%**	
Depreciation	406	379	412	370	7%	-1%	10%	
EBIT	**1,182**	**1,965**	**2,015**	**1,650**	**-40%**	**-41%**	**-28%**	
Interest	33	54	34	97	-39%	-3%	-66%	
Other Income	4	14	26	6	-69%	-83%	-29%	
PBT	**1,152**	**1,924**	**2,006**	**1,559**	**-40%**	**-43%**	**-26%**	
Tax	399	654	733	537	-39%	-46%	-26%	
Reported PAT	**753**	**1,270**	**1,273**	**1,021**	**-41%**	**-41%**	**-26%**	
Extraordinaries	0	0	0	0				
Recurring PAT	**753**	**1,270**	**1,273**	**1,021**	**-41%**	**-41%**	**-26%**	
EPS (Rs)	5.9	10.0	10.0	8.0	-41%	-41%	-26%	
EBITDA Margin	13.7%	16.6%	18.9%	17.0%	-298 bps	-525 bps	-332 bps	
EBIT Margin	10.2%	14.0%	15.7%	13.9%	-378 bps	-553 bps	-370 bps	
PBT Margin	9.9%	13.7%	15.6%	13.1%	-374 bps	-572 bps	-319 bps	
PAT Margin	6.5%	9.0%	9.9%	8.6%	-253 bps	-344 bps	-211 bps	
Tax Rate	34.6%	34.0%	36.5%	34.5%	63 bps	-191 bps	17 bps	
Volume (In MT)	92,196	-	95,870	97,045	-	-4%	-5%	
Realization (Rs MT)	125,999	-	133,790	122,556	-	-6%	3%	
Real Estate Revenue	-	-	-	-	-	-	-	

Company Snapshot

How we differ from Consensus

	-	Equirus	Consensus	% Diff	Comment
EPS	FY18E	30.8	35.0	-12 %	We expect difficulty in achieving guided volume growth.
	FY19E	37.4	40.0	-7 %	
Sales	FY18E	47,698	50,406	-5 %	
	FY19E	55,878	57,361	-3 %	
PAT	FY18E	3,908	4,442	-12 %	
	FY19E	4,751	5,081	-6 %	

Our Key Investment arguments:

- Management has given growth guidance of 12-15% CAGR over next 3 years
- Supreme's core-RoIC peaked out in FY12-13 at 28% and it has been at 24-25% in last two years
- EBITDA margins to remain at ~16% going forward.
- Downgrade toSHORT as valuation at 26x Sep'18 EPS seems expensive given the growth challenges.

Key estimates

Particulars	FY15A	FY16A	FY17A	FY18E	FY19E	FY20E
Plastic Revenue Growth yoy (%)	5.5%	-28.0%	6.9%	17.2%	14.0%	6.9%
Plastic EBITDA Margin (%)	14.1%	15.5%	15.9%	15.9%	16.0%	15.9%
Real Estate Proceeds (Rs. Mn.)	1,393	0	0	0	0	0

***FY16 was a 9 months year.**

Risk to Our View

Sharp revival in volume and scale up of new products

Key Triggers

- RM inflation and volume pressure

Sensitivity to Key Variables	% Change	% impact on EBITDA
Raw Material Prices	5%	-24%

DCF Valuations & Assumptions

Rf	Beta	Ke	Term. Growth	Debt/IC in Term. Yr
6.6 %	0.9	12.0 %	2.5 %	4.8 %

-	FY18E	FY19E	FY20-22E	FY23-27E	FY28-32E
Sales Growth	7 %	17 %	15 %	11 %	9 %
NOPAT Margin	8 %	8 %	9 %	8 %	8 %
IC Turnover	2.46	2.68	2.70	2.78	2.88
RoIC	20.6 %	23.5 %	24.6 %	24.6 %	24.6 %
Years of strong growth	1	2	5	10	15
Valuation as on date (Rs)	285	323	391	494	580
Valuation as of Sep '18	307	349	423	533	627

Based on DCF, assuming15 years of 9% CAGR growth and 25% average ROIC, we derive current fair value of Rs. 580and Sep'18 fair value of Rs. 627.

Company Description:

Founded in 1942, Supreme Industries ltd (SIL) is an acknowledged leader of India's plastics industry. SIL is largest plastic processor with the capacity of 0.45mn tons and 19 plants across the country built over 70 years. SIL portfolio includes the piping, industrial, consumer and packaging division. It is one of the key beneficiaries of the India growth story in agriculture, infrastructure, housing and auto.

Comparable valuation			Mkt Cap	Price	Target	EPS			P/E			BPS	P/B	RoE			Div Yield	
Company	Reco.	CMP	Rs. Mn.	Target	Date	FY17A	FY18E	FY19E	FY17A	FY18E	FY19E	FY17A	FY18E	FY17A	FY18E	FY19E	FY17A	FY18E
Supreme Industries	SHORT	1,132	143,798	1,012	30th Sep'18	29.9	30.8	37.4	37.9	36.8	30.3	122.3	8.3	28 %	24 %	26 %	1.4 %	1.3 %
Astral Polytechnik	REDUCE	638	76,411	595	31st Mar'18	12.2	16.1	19.4	52.1	39.7	32.8	70.7	7.4	19 %	20 %	20 %	0.1 %	0.1 %
Finolex Industries	ADD	621	77,063	616	31st Mar'18	28.4	26.5	26.7	21.7	23.2	23.1	184.6	3.2	18 %	14 %	13 %	1.6 %	2.1 %

StandaloneQuarterly Earnings Forecast and Key Drivers

Rs in Mn	1Q17A	2Q17A	3Q17A	4Q17A	1Q18A	2Q18E	3Q18E	4Q18E	1Q19E	2Q19E	3Q19E	4Q19E	FY17A	FY18E	FY19E	FY20E
Revenue	11,893	8,827	11,072	12,826	11,617	9,283	12,129	14,670	15,684	10,714	13,928	15,553	44,698	47,698	55,878	63,708
Goods Consumption	7,772	5,454	6,963	8,373	7,940	5,853	7,846	9,508	10,612	6,921	9,241	10,284	28,183	31,147	37,058	41,761
Employee Costs	505	507	541	552	537	548	591	606	581	627	681	711	2,111	2,282	2,600	2,970
Other Expenditure	1,596	1,534	1,721	1,476	1,553	1,648	1,831	1,663	1,822	1,816	2,012	1,698	6,708	6,695	7,348	8,794
EBITDA	2,020	1,332	1,848	2,426	1,587	1,235	1,860	2,892	2,668	1,351	1,993	2,860	7,696	7,574	8,872	10,183
Depreciation	370	374	387	412	406	431	431	409	482	458	458	434	1,543	1,677	1,832	2,018
EBIT	1,650	959	1,461	2,015	1,181	804	1,429	2,483	2,187	893	1,535	2,426	6,153	5,896	7,041	8,165
Interest	97	86	85	34	33	33	30	27	24	22	20	17	302	124	83	61
Other Income	6	16	33	26	4	25	24	35	9	35	38	52	80	88	134	190
PBT	1,559	888	1,409	2,006	1,152	795	1,423	2,491	2,172	906	1,553	2,461	5,931	5,861	7,091	8,294
Tax	537	313	479	733	399	262	470	822	717	299	513	812	2,058	1,953	2,340	2,737
Recurring PAT	1,021	575	931	1,273	753	533	954	1,669	1,455	607	1,041	1,649	3,873	3,908	4,751	5,557
Extraordinary	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0
Reported PAT	1,021	575	931	1,273	753	533	954	1,669	1,455	607	1,041	1,649	3,873	3,908	4,751	5,557
EPS (Rs)	8.04	4.53	7.33	10.02	5.93	4.19	7.51	13.14	11.46	4.78	8.19	12.98	30.49	30.76	37.40	43.74
Key Drivers																
Plastic Piping	-	-	-	-	-	-	-	-	-	-	-	-	235,257	258,783	289,837	321,719
Packaging Products	-	-	-	-	-	-	-	-	-	-	-	-	47,616	51,425	55,539	61,093
Industrial Products	-	-	-	-	-	-	-	-	-	-	-	-	38,984	42,882	45,027	49,979
Consumer Products	-	-	-	-	-	-	-	-	-	-	-	-	18,797	21,053	23,158	24,316
Raw Material cost (% of sales)	-	-	-	-	-	-	-	-	-	-	-	-	63 %	65 %	66 %	66 %
Sequential Growth (%)																
Revenue	-1 %	-26 %	25 %	16 %	-9 %	-20 %	31 %	21 %	7 %	-32 %	30 %	12 %	-	-	-	-
Goods Consumption	1 %	-30 %	28 %	20 %	-5 %	-26 %	34 %	21 %	12 %	-35 %	34 %	11 %	-	-	-	-
EBITDA	-6 %	-34 %	39 %	31 %	-35 %	-22 %	51 %	55 %	-8 %	-49 %	48 %	44 %	-	-	-	-
EBIT	-7 %	-42 %	52 %	38 %	-41 %	-32 %	78 %	74 %	-12 %	-59 %	72 %	58 %	-	-	-	-
Recurring PAT	-7 %	-44 %	62 %	37 %	-41 %	-29 %	79 %	75 %	-13 %	-58 %	71 %	58 %	-	-	-	-
EPS	-7 %	-44 %	62 %	37 %	-41 %	-29 %	79 %	75 %	-13 %	-58 %	71 %	58 %	-	-	-	-
Yearly Growth (%)																
Revenue	-5 %	15 %	12 %	7 %	-2 %	5 %	10 %	14 %	35 %	15 %	15 %	6 %	50 %	7 %	17 %	14 %
EBITDA	-16 %	50 %	19 %	13 %	-21 %	-7 %	1 %	19 %	68 %	9 %	7 %	-1 %	63 %	-2 %	17 %	15 %
EBIT	-20 %	72 %	20 %	13 %	-28 %	-16 %	-2 %	23 %	85 %	11 %	7 %	-2 %	68 %	-4 %	19 %	16 %
Recurring PAT	-21 %	77 %	22 %	15 %	-26 %	-7 %	2 %	31 %	93 %	14 %	9 %	-1 %	67 %	1 %	22 %	17 %
EPS	-21 %	77 %	22 %	15 %	-26 %	-7 %	2 %	31 %	93 %	14 %	9 %	-1 %	67 %	1 %	22 %	17 %
Margin (%)																
EBITDA	17 %	15 %	17 %	19 %	14 %	13 %	15 %	20 %	17 %	13 %	14 %	18 %	17 %	16 %	16 %	16 %
EBIT	14 %	11 %	13 %	16 %	10 %	9 %	12 %	17 %	14 %	8 %	11 %	16 %	14 %	12 %	13 %	13 %
PBT	13 %	10 %	13 %	16 %	10 %	9 %	12 %	17 %	14 %	8 %	11 %	16 %	13 %	12 %	13 %	13 %
PAT	9 %	7 %	8 %	10 %	6 %	6 %	8 %	11 %	9 %	6 %	7 %	11 %	9 %	8 %	9 %	9 %

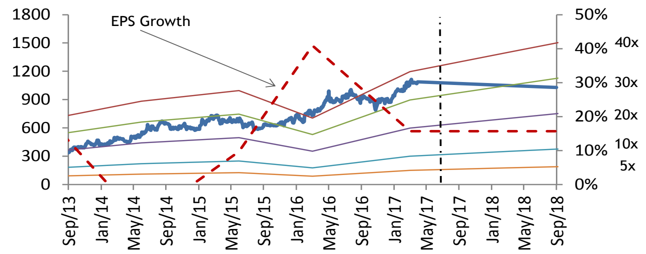
Consolidated Financials

P&L (Rs Mn)	FY17A	FY18E	FY19E	FY20E
Revenue	44,698	47,698	55,878	63,708
Op. Expenditure	37,002	40,124	47,006	53,525
EBITDA	7,696	7,574	8,872	10,183
Depreciation	1,543	1,677	1,832	2,018
EBIT	6,153	5,896	7,041	8,165
Interest Expense	302	124	83	61
Other Income	80	88	134	190
PBT	5,931	5,861	7,091	8,294
Tax	2,058	1,953	2,340	2,737
PAT bef. MI & Assoc.	3,873	3,908	4,751	5,557
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	3,873	3,908	4,751	5,557
Extraordinaires	77	0	0	0
Reported PAT	3,796	3,908	4,751	5,557
FDEPS (Rs)	29.9	30.8	37.4	43.7
DPS (Rs)	15.4	14.4	16.3	17.2
CEPS (Rs)	42.6	44.0	51.8	59.6
FCFPS (Rs)	22.2	23.7	30.0	27.2
BVPS (Rs)	122.3	136.2	154.6	178.2
EBITDAM (%)	17 %	16 %	16 %	16 %
PATM (%)	9 %	8 %	9 %	9 %
Tax Rate (%)	35 %	33 %	33 %	33 %
Sales Growth (%)	50 %	7 %	17 %	14 %
FDEPS Growth (%)	70 %	3 %	22 %	17 %

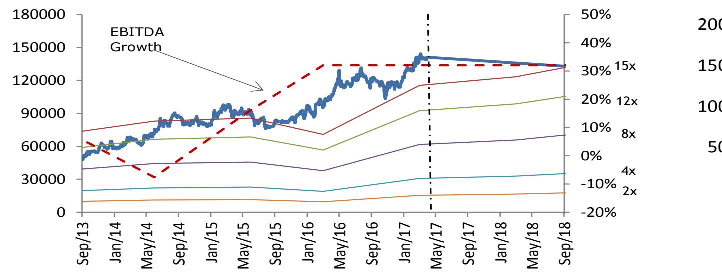
Balance Sheet (Rs Mn)	FY17A	FY18E	FY19E	FY20E
Equity Capital	254	254	254	254
Reserve	15,281	17,054	19,385	22,380
Networth	15,536	17,308	19,639	22,634
Long Term Debt	2,315	1,815	1,140	1,140
Def Tax Liability	1,304	605	380	380
Minority Interest	0	0	0	0
Account Payables	4,536	3,840	5,076	5,149
Other Curr Liabi	3,064	2,692	3,062	3,491
Total Liabilities & Equity	26,755	26,259	29,297	32,793
Net Fixed Assets	12,633	14,156	15,324	16,307
Capital WIP	459	459	459	459
Others	885	885	885	885
Inventory	7,768	6,460	7,348	8,378
Account Receivables	2,756	2,692	3,062	3,491
Other Current Assets	1,466	1,231	1,400	1,597
Cash	787	377	818	1,677
Total Assets	26,755	26,259	29,297	32,793
Non-cash Working Capital	4,390	3,851	3,672	4,826
Cash Conv Cycle	35.8	29.5	24.0	27.6
WC Turnover	10.2	12.4	15.2	13.2
FA Turnover	3.4	3.3	3.5	3.8
Net D/E	0.1	0.1	0.0	0.0
Revenue/Capital Employed	2.9	3.1	3.2	3.3
Capital Employed/Equity	1.5	1.3	1.3	1.2

Cash Flow (Rs Mn)	FY17A	FY18E	FY19E	FY20E
PBT	5,931	5,861	7,091	8,294
Depreciation	1,543	1,677	1,832	2,018
Others	87	0	0	0
Taxes Paid	1,705	1,953	2,340	2,737
Change in WC	-1,212	539	178	-1,154
Operating C/F	4,643	6,125	6,761	6,421
Capex	-2,099	-3,200	-3,000	-3,000
Change in Invest	16	0	0	0
Others	61	0	0	0
Investing C/F	-2,022	-3,200	-3,000	-3,000
Change in Debt	-1,331	-501	-675	0
Change in Equity	0	0	0	0
Others	-773	-2,835	-2,645	-2,562
Financing C/F	-2,104	-3,335	-3,320	-2,562
Net change in cash	518	-411	441	859
RoE (%)	28 %	24 %	26 %	26 %
RoIC (%)	23 %	21 %	24 %	25 %
Core RoIC (%)	24 %	21 %	23 %	25 %
Div Payout (%)	60 %	55 %	51 %	46 %
P/E	37.9	36.8	30.3	25.9
P/B	9.3	8.3	7.3	6.4
P/FCFF	51.0	47.8	37.7	41.5
EV/EBITDA	19.1	19.3	16.3	14.1
EV/Sales	3.3	3.1	2.6	2.3
Dividend Yield (%)	1.4 %	1.3 %	1.4 %	1.5 %

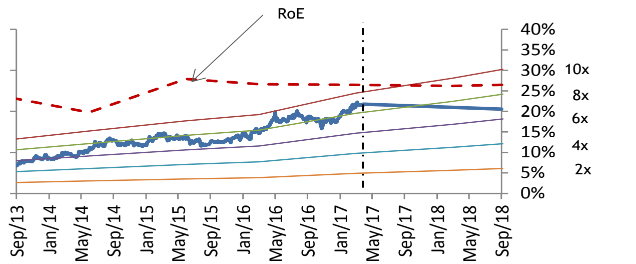
TTM P/E vs. 2 yrs. forward EPS growth



TTM EV/EBITDA vs. 2 yrs. forward EBITDA growth



TTM P/B vs. 2 yrs. forward RoE



Historical Consolidated Financials

P&L (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Revenue	39,017	41,154	29,709	44,698
Op. Expenditure	33,488	35,446	24,992	37,002
EBITDA	5,529	5,708	4,717	7,696
Depreciation	1,015	1,390	1,046	1,543
EBIT	4,513	4,318	3,671	6,153
Interest Expense	719	579	289	302
Other Income	104	68	108	80
PBT	3,899	3,807	3,491	5,931
Tax	1,334	1,277	1,176	2,058
PAT bef. MI & Assoc.	2,565	2,530	2,314	3,873
Minority Interest	0	0	0	0
Profit from Assoc.	0	0	0	0
Recurring PAT	2,565	2,565	2,565	2,565
Extraordinaires	-236	-628	77	77
Reported PAT	2,800	2,800	2,800	2,800
EPS (Rs)	22.1	24.9	17.6	29.9
DPS (Rs)	8.0	11.2	7.7	15.4
CEPS (Rs)	28.2	30.9	26.5	42.6
FCFPS (Rs)	18.9	28.2	7.7	22.2
BVPS (Rs)	76.0	88.5	96.2	122.3
EBITDAM (%)	14 %	14 %	16 %	17 %
PATM (%)	7 %	6 %	8 %	9 %
Tax Rate (%)	34 %	34 %	34 %	35 %
Sales growth (%)	15 %	5 %	-28 %	50 %
FDEPS growth (%)	30 %	13 %	-29 %	70 %

Balance Sheet (Rs Mn)	FY14A	FY15A	FY16A	FY17A
Equity Capital	254	254	254	254
Reserve	9,395	10,981	11,969	15,281
Networth	9,649	11,235	12,223	15,536
Long Term Debt	3,846	3,289	2,280	2,315
Def Tax Liability	1,279	1,010	1,180	1,304
Minority Interest	0	0	0	0
Account Payables	2,779	3,005	3,442	4,536
Other Curr Liabi	3,474	4,153	4,194	3,064
Total Liabilities & Equity	21,026	22,692	23,319	26,755
Net Fixed Assets	10,879	10,325	11,847	12,633
Capital WIP	181	998	682	459
Others	1,021	1,256	1,032	885
Inventory	4,976	4,647	5,579	7,768
Account Receivables	2,350	2,376	2,362	2,756
Other Current Assets	1,377	1,275	1,535	1,466
Cash	242	1,815	284	787
Total Assets	21,026	22,691	23,319	26,755
Non-cash Working Capital	2,451	1,140	1,839	4,390
Cash Conv Cycle	22.9	10.1	22.6	35.8
WC Turnover	15.9	36.1	16.2	10.2
FA Turnover	3.5	3.6	2.4	3.4
Net D/E	0.4	0.1	0.2	0.1
Revenue/Capital Employed	3.9	3.6	2.1	2.9
Capital Employed/Equity	1.8	1.6	1.6	1.5

Cash Flow (Rs Mn)	FY14A	FY15A	FY16A	FY17A
PBT	3,899	3,807	3,491	5,931
Depreciation	1,015	1,390	1,046	1,543
Others	-1,810	514	51	87
Taxes Paid	1,237	1,422	1,252	1,705
Change in WC	1,391	770	-373	-1,212
Operating C/F	3,259	5,058	2,963	4,643
Capex	-1,445	-1,936	-2,319	-2,099
Change in Invest	8	10	21	16
Others	100	66	117	61
Investing C/F	-1,337	-1,860	-2,181	-2,022
Change in Debt	1	-798	200	-1,331
Change in Equity	0	0	0	0
Others	-1,903	-1,798	-2,536	-773
Financing C/F	-1,903	-2,596	-2,335	-2,104
Net change in cash	19	602	-1,554	518
RoE (%)	29 %	24 %	20 %	28 %
RoIC (%)	22 %	19 %	16 %	23 %
Core RoIC (%)	22 %	20 %	16 %	24 %
Div Payout (%)	42 %	53 %	51 %	60 %
P/E	51.3	45.5	64.3	37.9
P/B	14.9	12.8	11.8	9.3
P/FCFF	60.0	40.1	147.7	51.0
EV/EBITDA	27.1	25.8	31.4	19.1
EV/Sales	3.8	3.6	5.0	3.3
Dividend Yield (%)	0.7 %	1.0 %	0.7 %	1.4 %

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Rating & Coverage Definitions:
Absolute Rating
• LONG : Over the investment horizon, ATR >= Ke for companies with Free Float market cap >Rs 5 billion and ATR >= 20% for rest of the companies
• ADD: ATR >= 5% but less than Ke over investment horizon
• REDUCE: ATR >= negative 10% but <5% over investment horizon
• SHORT: ATR < negative 10% over investment horizon
Relative Rating
• OVERWEIGHT: Likely to outperform the benchmark by at least 5% over investment horizon
• BENCHMARK: likely to perform in line with the benchmark
• UNDERWEIGHT: likely to under-perform the benchmark by at least 5% over investment horizon
Investment Horizon
Investment Horizon is set at a minimum 3 months to maximum 18 months with target date falling on last day of a calendar quarter.
Lite vs. Regular Coverage vs. Spot Coverage
We aim to keep our rating and estimates updated at least once a quarter for Regular Coverage stocks. Generally, we would have access to the company and we would maintain detailed financial model for Regular coverage companies. We intend to publish updates on Lite coverage stocks only an opportunistic basis and subject to our ability to contact the management. Our rating and estimates for Lite coverage stocks may not be current. Spot coverage is meant for one-off coverage of a specific company and in such cases, earnings forecast and target price are optional. Spot coverage is meant to stimulate discussion rather than provide a research opinion.

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Analyst Certification

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