

Company update and  
earnings revision

## Plastics

Target price: Rs1,920

## Earnings revision

(%)	FY21E	FY22E
Sales	↑ 15.1	↑ 6.8
EBITDA	↑ 30.2	↑ 4.1
EPS	↑ 47.6	↑ 10.1

## Target price revision

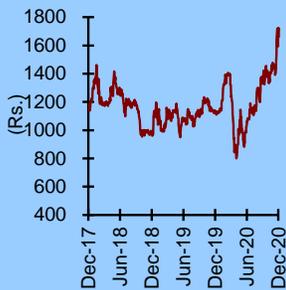
Rs1,690 to Rs1,920

## Shareholding pattern

	Mar '20	Jun '20	Sep '20
Promoters	49.9	48.9	48.9
Institutional investors	32.1	33.3	33.6
MFs and other	15.3	16.3	16.4
FIs/Banks	0.0	0.0	0.0
Insurance	0.0	0.0	0.0
FII	16.8	17.0	17.2
Others	18.0	17.8	17.5

Source: NSE

## Price chart



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INDIA

## Supreme Industries

BUY

Maintain

Moving from strength to strength

Rs1,660

We expect Supreme Industries (SIL) to gain considerable traction in revenues / earnings in the near to medium term driven by: 1) impressive volume traction in – a) plastic piping segment on the back of likely accelerated PVC/CPVC pipe industry consolidation post Covid and expected decentralisation of the company's manufacturing footprint, and b) packaging product segment driven by easing competitive intensity in SILPAULIN division in particular; and 2) scaling up of EBITDA margins led by superior product mix, intensified focus on the VAP portfolio, cost rationalisation and operating leverage. Healthy balance sheet, expected improvement in asset turns, incremental capex in higher-RoCE generating segments and likely traction in earnings is likely to drive considerable improvement in overall RoCEs to >26% in FY22E/FY23E. **Maintain BUY.**

- **Rolling over valuation to Sep'22E.** Considering the faster than expected recovery in overall volumes in the near to medium term and higher realisations driven by sharp spurt in polymer prices, we increase our revenue and PAT estimates by 15.1%/6.8% and 48.2%/10.1% respectively for FY21E/FY22E. We now expect revenues and core PAT to exhibit 11.5% and 6.7% CAGR over FY21E-FY22E respectively. While rolling forward estimates to FY23E, we maintain our **BUY** rating on the stock with a revised SoTP-based target price of Rs1,920 (earlier: Rs1,690) valuing it at 35x Sep'22E core earnings.
- **Volume growth at an inflection point.** SIL is likely to report muted 6.5%/7.3% volume/revenue CAGRs over FY17-FY20. The muted growth is largely attributable to single-digit volume growth (8.5% CAGR) in the plastic piping segment and flat to negative volume CAGR in other segments. With growth likely to accelerate in the: 1) plastic piping (driven by likely accelerated industry consolidation post Covid and expected decentralisation of the company's manufacturing footprint), 2) packaging product segment (driven by easing competitive intensity in SILPAULIN in particular), and 3) industrial and consumer segments (driven by pent-up demand and lower base), we expect SIL's volumes to be at an inflection point; we estimate volumes to grow at ~11% CAGR over the next two years.
- **EBITDA margin to improve on the back multiple levers.** We expect SIL's EBITDA margin to improve in the 16-17.5% range driven by: a) increasing share of VAP revenues led by likely scaling up of CPVC pipe and SILPAULIN segments (with cross-plastic film project likely to commence production next year); b) further decentralisation of its manufacturing footprint (with plastic piping greenfield projects in Telangana and Odisha going into production next year); c) superior product mix (plastic piping and packaging product segment to contribute over 80% of overall revenues by FY23E); d) recent fixed-cost rationalisation; and e) operating leverage.
- **RoCEs to cross 26% by FY23E.** Healthy balance sheet driven by strict working capital management and high FCF generation, expected improvement in asset turns with recent capex projects going into production over the next 2-3 quarters, incremental capex in higher-RoCE generating segments, and likely traction in earnings is expected to drive overall RoCEs to >26% in FY23E. This we believe would lead to further rating in the stock going forward.

Market Cap	Rs211bn/US\$2.8bn	Year to Mar	FY20	FY21E	FY22E	FY23E
Reuters/Bloomberg	SUPI.BO/SI IN	Revenue (Rs mn)	55,115	61,812	67,475	76,852
Shares Outstanding (mn)	127.0	Rec. Net Income (Rs mn)	4,362	6,329	6,197	7,216
52-week Range (Rs)	1739/791	EPS (Rs)	34.3	49.8	48.8	56.8
Free Float (%)	51.1	% Chg YoY	18.8	45.1	(2.1)	16.4
FII (%)	17.2	P/E (x)	48.3	33.3	34.0	29.2
Daily Volume (US\$/000)	1,759	CEPS (Rs)	53.0	71.2	72.9	82.9
Absolute Return 3m (%)	19.0	EV/E (x)	25.5	19.4	19.3	16.7
Absolute Return 12m (%)	51.5	Dividend Yield (%)	0.8	0.9	1.0	1.0
Sensex Return 3m (%)	18.3	RoCE (%)	23.9	29.9	26.2	26.4
Sensex Return 12m (%)	12.3	RoE (%)	21.2	27.6	23.2	23.1

Please refer to important disclosures at the end of this report

**Table 1: Earnings revision***(Rs mn, year ending March 31)*

	Old		New		% change	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	53,508.8	62,926.3	61,599.0	67,227.2	15.1%	6.8%
EBITDA	8,320.9	10,386.1	10,836.4	10,814.9	30.2%	4.1%
PAT	4,661.7	6,164.6	6,878.6	6,787.1	47.6%	10.1%
EPS	36.7	48.5	54.2	53.4	47.6%	10.1%

Source: Company data, I-Sec research

## Financial summary

Table 2: Profit &amp; Loss statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Net Revenues</b>	<b>55,115</b>	<b>61,812</b>	<b>67,475</b>	<b>76,852</b>
<b>Operating Expenses</b>	<b>46,770</b>	<b>50,976</b>	<b>56,660</b>	<b>64,480</b>
<b>EBITDA</b>	<b>8,346</b>	<b>10,836</b>	<b>10,815</b>	<b>12,372</b>
% margins	15.1%	17.5%	16.0%	16.1%
Depreciation & Amortisation	2,057	2,161	2,469	2,668
Gross Interest	202	173	86	89
Other Income	14	10	20	25
<b>Recurring PBT</b>	<b>6,101</b>	<b>8,513</b>	<b>8,280</b>	<b>9,640</b>
Less: Taxes	1,739	2,183	2,082	2,425
Less: Minority Interest	-	-	-	-
Add: Share of profit from associates	312	550	590	649
Add: Extraordinary Income (Net)	-	-	-	-
<b>Net Income (Reported)</b>	<b>4,674</b>	<b>6,879</b>	<b>6,787</b>	<b>7,864</b>
<b>Recurring core business income</b>	<b>4,362</b>	<b>6,329</b>	<b>6,197</b>	<b>7,216</b>

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Assets</b>				
Total Current Assets	17,106	17,738	21,492	26,458
of which cash & cash eqv.	2,314	1,499	3,266	5,751
Total Current Liabilities & Provisions	8,135	8,799	9,554	10,479
<b>Net Current Assets</b>	<b>8,971</b>	<b>8,939</b>	<b>11,938</b>	<b>15,979</b>
Investments	2,073	2,556	3,082	3,617
Net Fixed Assets	16,077	17,846	18,877	19,709
Capital Work-in-Progress	929	-	-	-
Goodwill	-	-	-	1
<b>Total Assets</b>	<b>28,050</b>	<b>29,341</b>	<b>33,897</b>	<b>39,306</b>
<b>Liabilities</b>				
Borrowings	4,113	825	1,200	1,350
Deferred Tax Liability	1,326	1,326	1,326	1,326
Minority Interest	-	-	-	-
Equity Share Capital	254	254	254	254
Face Value per share (Rs)	2	2	2	2
Reserves & Surplus*	22,358	26,937	31,117	36,375
Less: Misc. Exp. n.w.o.	-	-	-	1
<b>Net Worth</b>	<b>22,612</b>	<b>27,191</b>	<b>31,371</b>	<b>36,629</b>
<b>Total Liabilities</b>	<b>28,050</b>	<b>29,341</b>	<b>33,897</b>	<b>39,306</b>

\*Excluding revaluation reserves

Source: Company data, I-Sec research

Table 4: Quarterly trend

(Rs mn, year ending March 31)

	Dec-19	Mar-20	Jun-20	Sep-20
Net revenues	13,733	14,305	10,539	13,748
% growth (YoY)	(2.6)	(6.6)	(26.7)	8.2
EBITDA	2,209	2,734	1,171	2,559
Margin (%)	16.1	19.1	11.1	18.6
Other income	8	1	3	1
Extraordinaries (Net)	-	-	-	-
Net profit	1,234	1,173	405	1,750

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Operating Cashflow</b>	<b>4,896</b>	<b>9,039</b>	<b>9,256</b>	<b>10,532</b>
Working Capital Changes	(996)	(784)	(1,231)	(1,556)
Capital Commitments	(2,573)	(3,000)	(3,500)	(3,500)
<b>Free Cashflow</b>	<b>1,326</b>	<b>5,255</b>	<b>4,525</b>	<b>5,476</b>
<b>Cashflow from Investing Activities</b>	<b>151</b>	<b>(483)</b>	<b>(526)</b>	<b>(534)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	2,489	(3,288)	375	150
Dividend paid	(2,147)	(2,300)	(2,606)	(2,606)
<b>Change in Deferred Tax Liability</b>	<b>122</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Chg. in Cash &amp; Bank balance</b>	<b>1,941</b>	<b>(815)</b>	<b>1,768</b>	<b>2,486</b>

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
<b>Per Share Data (Rs)</b>				
Reported Con. EPS	36.8	54.2	53.4	61.9
Core business EPS	34.3	49.8	48.8	56.8
Cash EPS	53.0	71.2	72.9	82.9
Dividend per share (DPS)	14.0	15.0	17.0	17.0
Book Value per share (BV)	178.0	214.1	247.0	288.4
<b>Growth (%)</b>				
Net Sales	-1.8	12.7	9.1	13.9
EBITDA	6.4	29.8	-0.2	14.4
Core business PAT	18.8	45.1	-2.1	16.4
Reported Consolidated PAT	0.9	47.2	-1.3	15.9
Cash EPS	19.1	34.3	2.4	13.8
<b>Valuation Ratios (x)</b>				
P/E	48.3	33.3	34.0	29.2
P/CEPS	31.3	23.3	22.8	20.0
P/BV	9.3	7.8	6.7	5.8
EV / EBITDA	25.5	19.4	19.3	16.7
EV / Sales	3.9	3.4	3.1	2.7
<b>Operating Ratios</b>				
Raw Material / Sales (%)	62.3	63.9	65.1	65.2
Employee cost / Sales (%)	5.1	4.6	4.6	4.6
SG&A / Sales (%)	9.0	8.7	8.8	8.6
Other Income / PBT (%)	0.2	0.1	0.2	0.3
Effective Tax Rate (%)	21.6	25.7	25.2	25.2
Working Capital (days)	43.8	43.0	45.0	45.0
Inventory Turnover (days)	59.5	52.0	53.0	53.0
Receivables (days)	20.9	27.0	28.0	28.0
Payables (days)	36.6	36.0	36.0	36.0
Net D/E Ratio (x)	0.1	0.0	-0.1	-0.1
<b>Return/Profitability Ratios (%)</b>				
Net Income Margins	8.6	11.2	10.1	10.3
RoACE	23.9	29.9	26.2	26.4
RoAE	21.2	27.6	23.2	23.1
Dividend Payout	45.9	33.4	38.4	33.1
Dividend Yield	0.8	0.9	1.0	1.0
EBITDA Margins	15.1	17.5	16.0	16.1

Source: Company data, I-Sec research

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