

The Supreme Industries Ltd

No. of shares (m)	127.0
Mkt cap (Rs crs/\$m)	27448/3697.2
Current price (Rs/\$)	2161/29.1
Price target (Rs/\$)	2644/35.6
52 W H/L (Rs.)	2338/1091
Book Value (Rs/\$)	232/3.1
Beta	0.3
Daily volume NSE (avg. monthly)	112470
P/BV (FY22e/23e)	7.8/6.6
EV/EBITDA (FY22e/23e)	21.8/19.5
P/E (FY22e/23e)	32.6/29.4
EPS growth (FY21/22e/23e)	99.7/-9.6/10.7
OPM (FY21/22e/23e)	20.2/17.5/17.5
ROE (FY21/22e/23e)	35.8/26.1/24.3
ROCE(FY21/22e/23e)	28.7/22.9/21.7
D/E ratio (FY21/22e/23e)	0.0/0.0/0.0
BSE Code	509930
NSE Code	SUPREMEIND
Bloomberg	SI IN
Reuters	SUPLNS

Shareholding pattern

	%
Promoters	48.9
MFs / Banks / FIs/Others	24.8
FPIs	9.0
Govt. Holding	-
Public & Others	17.4
Total	100.0

As on June 30, 2021

Recommendation

BUY

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Company Brief

Supreme operates in plastic piping, consumer products, packaging products, industrial products and composite products.

Quarterly Highlights

- Much of the growth in revenues (45.7%) in Q4 bear little resemblance to underlying growth for Supreme's plastics goods volumes grew by a measly 7.8% with dispatches of the flagship plastics piping products business declining by 1.7% (its revenues grew by some 44%) as the company amassed market share from unorganized players. Revenues of other businesses too rally with revenues of consumer products business rising the least at 30.6%.
- Record surge in OPMs in Q4 (24.5% Vs 19.1%) veils much of the perilousness of inventory gains (Rs 80-100 crs in Q4, constituting 4-5% of sales) thus underscoring the fragility of overall margin sustainability. Supreme's plastic piping products business is no exception as its EBIT margin surged to 26.5% last quarter from 18% in the same period a year ago, thus inventory gains markedly diminishing seeming "velocity" in gains.
- Higher margins coupled with record profits of Supreme Petrochem (Rs 70.34 crs in Q4 Vs Rs 52.79 crs in Q3 Vs Rs 6.97 crs in Q4 FY20), consolidated post tax earnings leapt by 247.8% to Rs 407.93 crs compared to Rs 312.28 crs in Q3 and Rs 117.28 crs in Q4 of last fiscal. Skewness in earnings accentuated by the pandemic induced lockdowns was scarcely hidden for PBT in the second half of last fiscal accounted for three-fourths of the annual tally.
- The stock currently trades at 32.6x FY22e EPS of Rs 66.35 and 29.4x FY23e EPS of Rs 73.45. Record jump in earnings attended by massive up move in free cash flows in second half of last fiscal jeopardized most of our estimates; record inventory gains coupled with gut-wrenching rebound in fortunes of Supreme Petrochem illuminate earnings the most. Yet earnings could face some friction in the current fiscal due to the base effect, stifling ROE which peaked to some 36% last fiscal. Taking in to account moderation in free cash flows this fiscal and next and visible catalysts for business growth, we recommend buying the stock with revised target of Rs 2644 (previous target: Rs 1457) based on 36x FY23e earnings.

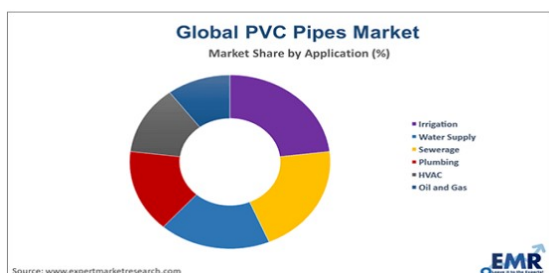
(Figures in Rs crs)	FY19	FY20	FY21	FY22e	FY23e
Income from operations	5611.99	5511.54	6357.06	6748.94	7442.26
Other Income	82.52	10.91	16.90	40.47	67.38
EBITDA (other income included)	867.09	845.46	1301.15	1224.84	1370.15
Profit after EO & associate profit	398.87	467.04	932.69	842.77	932.98
EPS (Rs)	31.40	36.77	73.42	66.35	73.45
EPS growth (%)	-7.5	17.1	99.7	-9.6	10.7

Outlook & Recommendation

PVC Pipes Industry

According to a report by Expert Market Research, the global PVC pipes market is expected to grow by 4.3% CAGR during 2021-26 and would reach 30.25 mn tons by the terminal year. Much of this growth, the report contends, would be driven by growing urbanization increasing demand for larger and cost-effective sewage lines, rising construction activities, infrastructural development and growing demand in chemical, oil & natural gas industry. Growth would also get uplift from the preferred properties of PVC pipes when compared to conventional pipes like GI, cast iron and cement pipes.

Allied Market Research pegs the Indian PVC pipes industry annual growth at 10.2% during 2016-23 not least due to upsurge in demand for pipes in the irrigation and housing & construction industry. Growth would get a leg up from increased focus of GOI on developing rural water management. Specifically, rise in awareness towards clean water supply in rural areas and increasing investment in developing regions of the market would also buoy market demand. Yet the growth would be hindered, the report posits, from availability of substitutes such as HDPE & ABS.



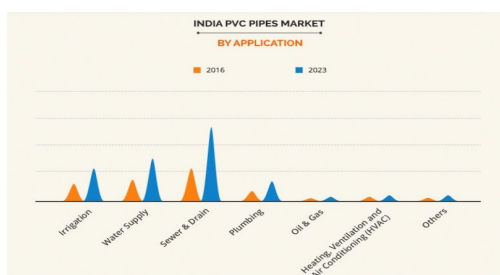
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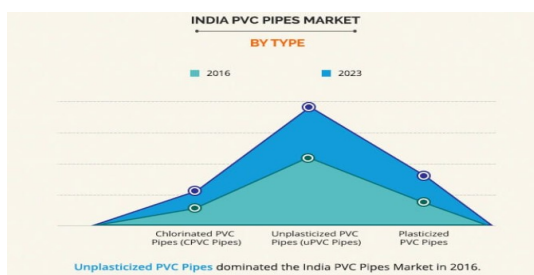
Source:EMR

Significant demand for PVC pipes in various industries and development of infrastructure in the emerging economies are expected to accelerate market growth. EPA, REACH, and other regulatory bodies have implemented guidelines for use of PVC material in various industries to control and safeguard the interest of consumers.

Renewed focus of GOI and states on building water and housing infrastructure in India through implementation of national schemes like Jal Jeevan Mission, Swatch Bharat Abhiyan and Smart Cities projects have laid strong foundation for demand growth of PVC pipes. Further government planned spending on various schemes such as Jal-Se-Nal and Pradhan Mantri Gramin Awas Yojana would help channelize sizable investments on pipeline installations. Real Estate Regulation Act (RERA) has brought about major structural changes in Indian housing sector.



Source: Allied Market Research

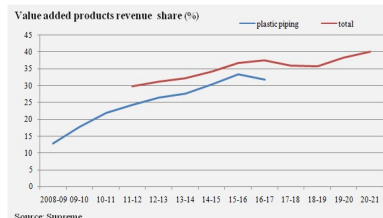
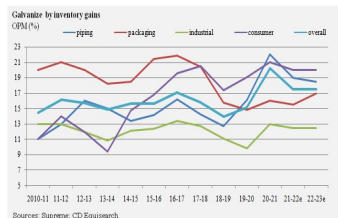
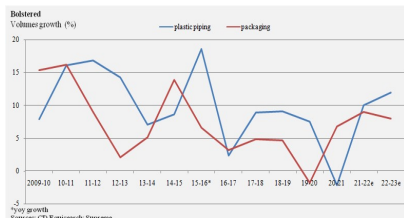


Source: Allied Market Research

Financials & Valuation

Undeterred by wrenching pandemic, Supreme Industries managed to grind out capital assets over Rs 300 crs last fiscal and is on course to put up Rs 400 crs of assets in the current fiscal across businesses, precisely in setting up new PVC pipes and roto & blow molded products unit in Assam; bringing forth plastic complexes in Odisha and Tamil Nadu; establishing PEX piping system capacity at Jadcherla; expanding bath fitting products capacity at Pondicherry. Planned build up in other businesses include capacity enhancements of industrial components, protective packaging and performance packaging division, besides adding new models of injection molded furniture and crates & pallets.

Fortified by GOI's aggressive water infrastructure and housing development plans and gradual ramp up of its distribution network (lends scaling effect), Supreme would go full throttle to boost volumes its plastic piping business over the next two years (annual growth expected in excess of 10%), though its margins, which flung due to record inventory gains last fiscal, would distinctly moderate this fiscal. New product introductions scarcely hit a bump for the plastic piping business unveiled scores of wares including injection molded pipes and bath fittings.



Underpinned by record volume growth of cross laminated films last fiscal, plans are firmed up to expand installed capacity of cross laminated films by 3000 mt this fiscal. A motley of factors, including, healthy order book of cross laminated films, peppy demand for protective packaging products in civil and export sector and improved product mix in performance films would support high single digit growth in packaging products business this fiscal. Despite the pandemic volume deceleration in its consumer products business was all but contained not least due to sturdy online business and export growth. Galvanizing the distribution network further this year would sway balance in favor of organized players.

The stock currently trades at 32.6x FY22e EPS of Rs 66.35 and 29.4x FY23e EPS of Rs 73.45. Thanks to base effect - exemplified by record inventory loss of over Rs 200 crs, earnings would face no small friction in the current year, despite barely inadequate volume growth. Yet record free cash flows accentuated by record earnings and imposing working capital management did a great deal to boost stock valuation (the current valuation discounts FY21 free cash flows with perpetual growth rate of 6.4%). Factoring in moderation in free cash flows this fiscal and next, we recommend buying the stock with revised target of Rs 2644 (previous target: Rs 1457) based on 36x FY23e earnings. For more info refer to our September report.



Cross Sectional Analysis

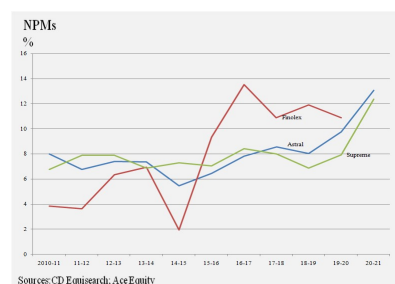
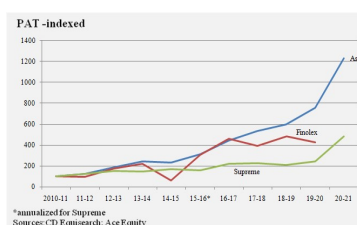
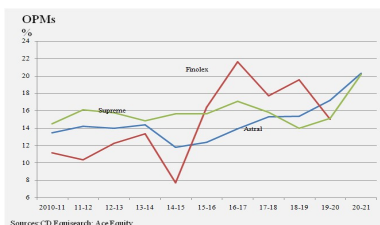
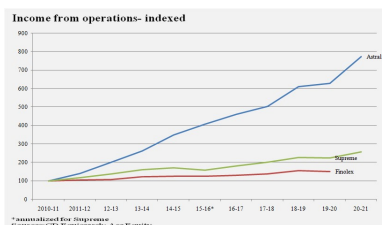
Company	Equity*	CMP	Mcap*	Sales*	Profit*	OPM (%)	NPM (%)	Int. Cov.	ROE (%)	DER	Mcap / sales	P/BV	P/E
Astral Poly	20	1995	40076	3176	404	20.3	13.1	42.2	28.2	0.0	12.6	24.8	99.1
Finolex Ind.	124	173	10716	2981	498	22.9	15.9	44.8	19.0	0.1	3.6	3.9	21.5
Supreme Inds	25	2161	27448	6357	933	20.2	12.4	49.0	35.8	0.0	4.3	9.3	29.4

*figures in crores; calculations on ttm basis

Book value adjusted for goodwill and revaluation reserves where applicable

Prodded by higher of take of pipes (up 25.8% in Q4 to 42534 mt), Astral's revenues (standalone) surged by some 80% to Rs 909.7 crs, while PBT (before exceptional items) rose manifold to Rs 192.7 crs. Operating profit margin moved in tandem as it rose to 23.5% in Q4 from 22.9% in the just preceding quarter. To strengthen its market presence, the company would add capacities of SWR, AGRI, CPVC & UPVC pipes at three different locations this fiscal year with the Orissa plant expected to commence production by September. To gain a toehold in plastic storage tank business, the company acquired water storage plant with capacity of some 13400 mt last fiscal. All thanks to good inventory management, working capital did see no small improvement by the end of last fiscal.

Record gains in PVC resin prices propelled by numerous supply side constraints explain much of the surge in earnings in Q3 with EBIT of PVC rising to Rs 245.64 crs compared to Rs 81.82 crs - margin at 35.5% Vs 20.1%. PVC pipes too followed but a dismal second for it reported an EBIT just over a third of PVC's. Higher PVC resin volume growth at 14.5% too supported the buoyancy. Overall OPM surged to 32.5% from just 24.7% in Q2 and 19.9% in the same quarter a year ago, resolutely reflected in record PVC/EDC delta. Post tax earnings jumped by an astonishing 163.3% to Rs 259.40 crs on yoy basis.



Financials

Quarterly Results

Figures in Rs crs

	Q4FY21	Q4FY20	% chg.	FY21	FY20	% chg.
Income from operations	2084.59	1430.49	45.7	6357.06	5511.54	15.3
Other Income	8.24	6.52	26.4	16.90	10.91	54.9
Total Income	2092.83	1437.01	45.6	6373.96	5522.45	15.4
Total Expenditure	1574.85	1157.06	36.1	5072.81	4676.99	8.5
EBIDTA (other income incl.)	517.98	279.95	85.0	1301.15	845.46	53.9
Interest	5.04	10.66	-52.7	22.13	29.67	-25.4
Depreciation	54.80	52.87	3.7	212.79	205.68	3.5
PBT	458.14	216.41	111.7	1066.23	610.11	74.8
Tax	78.10	106.10	-26.4	234.08	173.92	34.6
Net Profit	380.04	110.31	244.5	832.15	436.19	90.8
P/L of associate	70.34	6.97	909.2	145.99	31.21	367.8
Net Profit after MI & P/L associate	450.38	117.28	284.0	978.14	467.40	109.3
Extraordinary Item	42.45	0.00	-	45.45	0.36	12366.4
Adjusted Net Profit	407.93	117.28	247.8	932.69	467.04	99.7
EPS	32.11	9.23	247.8	73.42	36.77	99.7

Segment results

Figures in Rs crs

	Q4FY21	Q4FY20	% chg.	FY21	FY20	% chg.
Segment revenue						
Plastic piping products	1346.75	937.02	43.7	4098.79	3444.87	19.0
Industrial products	293.09	159.27	84.0	761.12	673.19	13.1
Packaging products	309.73	207.58	49.2	1035.06	959.27	7.9
Consumer products	124.00	94.98	30.6	354.21	383.20	-7.6
Others	11.02	31.64	-65.2	107.88	51.01	111.5
Net income from ops.	2084.59	1430.49	45.7	6357.06	5511.54	15.3
Segment EBIT						
Plastic piping products	357.01	168.83	111.5	821.29	460.52	78.3
Industrial products	39.02	14.01	178.5	63.46	32.58	94.8
Packaging products	40.80	33.36	22.3	124.59	101.51	22.7
Consumer products	28.64	18.52	54.6	59.66	57.60	3.6
Others	0.39	4.79	-91.9	24.23	4.97	387.5
Total	465.86	239.51	94.5	1093.23	657.18	66.4
Interest	5.04	10.66	-52.7	22.13	29.67	-25.4
Other unallocable exp.	2.68	12.43	-78.4	4.87	17.41	-72.0
PBT	458.14	216.41	111.7	1066.23	610.11	74.8

Consolidated Income Statement

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
Income from operations	5611.99	5511.54	6357.06	6748.94	7442.26
<i>Growth (%)</i>	12.9	-1.8	15.3	6.2	10.3
Other Income	82.52	10.91	16.90	40.47	67.38
Total Income	5694.51	5522.45	6373.96	6789.41	7509.64
Total Expenditure	4827.42	4676.99	5072.81	5564.57	6139.49
EBIDTA (other income incl.)	867.09	845.46	1301.15	1224.84	1370.15
Interest	33.55	29.67	22.13	6.18	6.36
EBDT	833.54	815.79	1279.02	1218.66	1363.79
Depreciation	183.54	205.68	212.79	232.28	252.68
Tax	215.75	173.92	234.08	251.53	283.33
Net Profit	434.25	436.19	832.15	734.86	827.78
P/L of associate	14.38	31.21	145.99	107.91	105.20
Profit after MI & associate profit	448.63	467.40	978.14	842.77	932.98
Extraordinary Item	49.76	0.36	45.45	-	-
Adjusted Net Profit	398.87	467.04	932.69	842.77	932.98
EPS* (Rs)	31.40	36.77	73.42	66.35	73.45

Consolidated Balance Sheet

Figures in Rs crs

	FY19	FY20	FY21	FY22e	FY23e
SOURCES OF FUNDS					
Share Capital	25.41	25.41	25.41	25.41	25.41
Reserves	2128.56	2235.78	3143.80	3707.10	4360.62
Total Shareholders Funds	2153.96	2261.18	3169.20	3732.51	4386.03
Long term debt	1.12	0.88	0.61	0.26	0.00
Total Liabilities	2155.08	2262.06	3169.81	3732.77	4386.03
APPLICATION OF FUNDS					
Gross Block	2809.00	3076.09	3382.18	3707.18	4057.18
Less: Accumulated Depreciation	1288.03	1468.35	1667.90	1900.18	2152.86
Net Block	1520.97	1607.74	1714.28	1807.00	1904.32
Capital Work in Progress	90.04	92.92	51.02	75.00	75.00
Investments	222.34	277.31	1001.10	1219.91	1897.62
Current Assets, Loans & Advances					
Inventory	750.44	890.57	760.77	877.36	967.49
Sundry Debtors	387.42	312.84	389.83	404.94	446.54
Cash and Bank	37.30	161.35	103.88	200.72	27.22
Loans and Advances	162.59	172.90	146.94	152.82	163.39
Total CA & LA	1337.75	1537.66	1401.42	1635.84	1604.64
Current Liabilities	927.94	1160.31	960.77	964.86	1052.13
Provisions	7.84	11.26	7.41	8.54	9.39
Total Current Liabilities	935.78	1171.57	968.18	973.39	1061.51
Net Current Assets	401.97	366.09	433.24	662.45	543.13
Net Deferred Tax	-120.36	-132.56	-91.92	-101.92	-111.92
Other Assets (Net Of Liabilities)	40.12	50.56	62.09	70.33	77.88
Total Assets	2155.08	2262.06	3169.81	3732.77	4386.03

Key Financial Ratios

	FY19	FY20	FY21	FY22e	FY23e
Growth Ratios (%)					
Revenue	12.9	-1.8	15.3	6.2	10.3
EBIDTA (other income included)	0.0	6.1	53.5	-5.6	11.9
Net Profit	-7.5	17.1	99.7	-9.6	10.7
EPS	-7.5	17.1	99.7	-9.6	10.7
Margins (%)					
Operating Profit Margin	14.0	15.1	20.2	17.5	17.5
Gross Profit Margin	13.6	14.8	20.1	18.1	18.3
Net Profit Margin	6.9	7.9	12.4	10.9	11.1
Return (%)					
ROCE	19.6	18.8	28.7	22.9	21.7
ROE	21.1	21.8	35.8	26.1	24.3
Valuations					
Market Cap / Sales	2.5	2.0	4.1	4.1	3.7
EV/EBIDTA	18.0	13.3	19.4	21.8	19.5
P/E	35.6	23.6	27.8	32.6	29.4
P/BV	7.0	4.9	8.8	7.8	6.6
Other Ratios					
Interest Coverage	18.3	21.5	49.0	160.6	175.6
Debt-Equity Ratio	0.1	0.2	0.0	0.0	0.0
Current Ratio ^a	1.2	1.4	1.7	2.0	2.4
Turnover Ratios					
Fixed Asset Turnover	3.9	3.5	3.8	3.8	4.0
Total Asset Turnover	3.0	2.6	2.4	2.1	2.1
Debtors Turnover	14.6	15.7	18.1	17.0	17.5
Inventory Turnover	6.7	5.7	6.1	6.8	6.7
Creditors Turnover	9.2	8.5	8.5	8.4	8.7
WC Ratios					
Debtor days	25.0	23.2	20.2	21.5	20.9
Inventory days	54.7	64.0	59.4	53.7	54.8
Creditor days	39.6	43.1	42.9	43.3	42.2
Cash conversion cycle	40.1	44.1	36.6	31.9	33.5

Cumulative Financial Data

Figures in Rs crs	FY12-14	FY15-17	FY18-20	FY21-23e
Income from operations	10294	11678	16094	20548
Operating profit	1596	1890	2406	3771
EBIT	1349	1504	1881	3195
PBT	1157	1378	1791	3160
PAT after MI & asso. Profit	811	975	1297	2708
Dividends	319	482	597	838
OPM (%)	15.5	16.2	15.0	18.4
NPM (%)	7.5	7.7	7.6	7.4
Interest coverage	7.0	11.9	20.9	92.1
ROE (%)	34.1	25.5	22.9	28.1
ROCE (%)	23.3	21.2	19.1	23.2
Fixed asset turnover	3.8	3.3	3.7	3.9
Debtors turnover	17.7	15.3	18.2	18.0
Inventory turnover	6.9	5.1	5.5	6.0
Creditors turnover	13.2	8.9	9.1	8.7
Debtors days	20.6	23.9	20.0	20.2
Inventory days	53.1	71.3	66.7	60.6
Creditor days	27.6	40.9	40.0	42.2
Cash conversion cycle	46.1	54.3	46.7	38.7
Dividend payout ratio (%)	41.1	53.9	47.1	35.0

FY21-14 implies three years ending fiscal 14

Much of the distressing impact of Covid -19 on consumer demand barely invoked anxiety beyond Q1 of FY21 for cumulative revenues of FY21-23 is projected to swell by some 28% on atypical margins - OPMs estimated to spiral to 18.4% in FY21-23 period from 15% in the previous period - bolstered by hefty inventory gains in FY21. Nudged by no dreary revival in rural demand - thanks to bumper food production and GOIs renewed focus on housing and water infrastructure, cumulative volume growth of Supreme's plastic piping products business (~18%) would outflank its other businesses, thus distinctly jostling cumulative post tax earnings growth during FY21-23 period (see table).

Expected upswing in Supreme's return on capital (ROE at 28.1% for FY21-23e Vs 22.9%) bear reflection of rebound in earnings of Supreme Petrochem and record margins in its plastic piping products - 22% in FY21 vs 16.1% in FY20. But much of this gaiety is expected to wane for margins across businesses are estimated to normalize starting current year. Resurgence in asset utilization would barely stymie asset turnover ratios with the fixed asset turnover projected to advance to 3.9 (see table). Underpinned by robust inventory management, cash conversion cycle would perceptible improve in FY21-23 period.

Financial Summary – US dollar denominated

million \$	FY19	FY20	FY21	FY22e	FY23e
Equity capital	3.7	3.4	3.5	3.4	3.4
Shareholders funds	291.5	299.9	401.8	473.7	561.7
Total debt	23.5	54.6	0.1	0.1	0.0
Net fixed assets (incl CWIP)	232.9	225.6	240.2	253.5	266.6
Investments	32.1	36.8	136.2	164.3	255.6
Net current assets	38.2	57.9	120.0	167.9	232.6
Total assets	291.6	300.1	401.9	473.7	488.5
Revenues	803.0	777.6	856.7	909.1	1002.5
EBITDA	114.0	119.2	174.8	165.0	184.6
EBDT	109.2	115.0	171.9	164.2	183.7
PBT	82.9	86.0	143.2	132.9	149.7
Profit after MI & associate profit	57.1	65.9	125.7	113.5	125.7
EPS(\$)	0.45	0.52	0.99	0.89	0.99
Book value (\$)	2.29	2.36	3.16	3.73	4.42

income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates (Rs 74.24/\$)

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY18	FY19	FY20	FY21
Average	64.45	69.89	70.88	74.20
Year end	65.04	69.17	75.39	73.50

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.