

Industrial segment remains a drag...

Supreme Industries Q4FY20 revenue (down ~8% YoY) was hit by packaging and industrial segments (together contributes ~30% of topline) with revenue de-growth of ~22% in each segment during Q4FY20, much lower than our estimate of 7% YoY. However, core business performance i.e. piping segment remained satisfactory with almost flat revenue YoY (up 17% QoQ) despite lockdown in March 2020. On the profitability front, EBITDA margin moved up ~590 bps YoY (303 bps QoQ) due to a sharp increase in gross margin (up ~1000 bps YoY, 545 bps QoQ) reflecting benefit of benign raw material prices and change in product mix. We believe the FY21E performance is likely to be impacted by less spending in construction and infra related works owing to Covid-19 pandemic. However, a slow recovery in demand of core business would drive the performance from FY22E onwards. We cut our revenue and earnings estimate by ~15%, ~29% for FY21E and ~20%, 16% for FY22E, respectively. Considering a slow recovery in demand of piping business and challenging condition for industrial product categories, we downgrade the rating from BUY to **HOLD**.

Lockdown, weak macro condition drags topline

Supreme's packaging, industrial business performance in FY20 (down 8%, 24% YoY in FY20E, respectively) was impacted by low pricing in cross laminated films products, slowdown in the automotive industry. However, the strong performance of piping business in H1FY20 helped the company to clock segment revenue growth of 9% in FY20 and helped mitigate poor show of industrial segments, to some extent. We believe low construction and infra spending coupled with slow demand recovery of industrial products categories would weigh on volume growth in FY20-22E (we model volume CAGR of ~4% for FY20-22E lower than 10 year's average of ~7%).

Favourable mix, benign raw material aids margin expansion

EBITDA margins rose ~590 bps YoY to ~19% in Q4FY20 (FY20: +110 bps YoY at 15.1%) mainly due to ~1000 bps YoY rise in gross margin in Q4FY20 (FY20: +300 bps YoY). This was largely due to a sharp increase in revenue contribution of value added product category from ~37% in Q4FY19 to ~40% in Q4FY20 (from 35% in FY19 to 38% in FY20). We believe such high gross margin of Q4FY20 is one-off event. It would normalise, going forward. Hence, we model 150 bps contraction in EBITDA margin for FY21E owing to low operating leverage, recovery in the same from FY22E onwards.

Valuation & Outlook

We believe a delay in construction activities and recovery in industrial products demand would lead to a slow recovery for Supreme in the coming period. Though we maintain our positive stance on the stock, we revise our rating from BUY to **HOLD** considering its present valuation at 35x FY21E, 24x FY22E. We maintain our target price at ₹ 1040/share.



Particulars

Particular	Amount
Market Capitalization (₹Crore)	12,423.2
Total Debt (FY 20) (₹Crore)	410.9
Cash & Invest. (FY 20) (₹Crore)	219.9
EV (₹Crore)	12,614.3
52 week H/L	1413/ 791
Equity capital (₹Crore)	25.4
Face value (₹)	2.0

Key Highlights

- Volume growth (down ~9% in Q4FY20) was impacted by lockdown and poor demand of industrial and packaging products
- Sharp decline in PVC prices (by ~11% from mid-March to starting of May 2020) and low operating leverage may result in normalisation of EBITDA margin in the coming period
- Expect recovery from H2FY20 in company's core business
- Maintain target price of ₹ 1040. Revise rating from BUY to HOLD

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Key Financial Summary

(₹Crore)	FY18	FY19	FY20	FY21E	FY22E	CAGR (FY20-22E)
Net Sales	4966.3	5612.0	5511.5	5049.1	5885.4	3.3
EBITDA	787.1	784.6	834.5	683.7	892.5	3.4
EBITDA Margin (%)	15.8	14.0	15.1	13.5	15.2	
Net Profit	431.0	448.6	467.4	350.8	504.6	3.9
EPS (₹)	33.9	35.3	36.8	27.6	39.7	
P/E (x)	28.8	27.7	26.6	35.4	24.6	
Price/Book (x)	6.6	5.8	5.5	5.3	4.8	
Mcap/Sales (x)	2.5	2.2	2.3	2.5	2.1	
RoE (%)	22.7	18.7	20.7	15.0	19.5	
RoCE (%)	27.9	25.0	22.5	15.7	21.1	0.4

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ (%)	Comments
Revenue	1,430.5	1,526.5	1,530.9	-6.6	1,373.3	4.2	Volume de-grows ~9% YoY led by industrial product category
Other Income	0.1	3.3	3.1	-98.1	0.8	-92.5	
Raw Material Exp	836.1	1,009.8	1,012.0	-17.4	879.8	-5.0	Gross margin expansion of ~1000 bps YoY largely on account of benign raw material prices and change in product mix
Cost of traded goods	12.0	27.5	49.0	-75.4	9.3	29.6	
Employee Exp	74.2	79.4	72.0	3.0	68.5	8.4	
Other expenditure	234.7	203.0	195.9	19.8	194.9	20.4	
EBITDA	273.4	206.9	202.0	35.4	220.9	23.8	
EBITDA Margin (%)	19.1	13.6	13.2	592 bps	16.1	303 bps	Sharp increase in gross margin helped drive EBITDA margin
Depreciation	52.9	48.7	48.1	9.8	51.5	2.6	
Interest	4.2	9.0	6.4	-34.4	5.7	-25.5	
PBT	216.4	152.5	161.8	33.7	164.5	31.5	
Total Tax	106.1	38.4	48.9	117.2	41.9	153.2	Include one-time charge of ₹ 42.5 crore deferred tax liability recognised on share of undistributed profits of associated
Profit from associates	7.0	3.4	11.1	-37.2	0.8	817.1	
PAT	117.3	117.5	124.1	-5.5	123.4	-5.0	Higher EBITDA margin offset by sharp increase in tax provision resulting in PAT decline of ~6% YoY
Key Metrics							
Plastic Piping	937.0	994.1	947.0	-1.0	798.0	17.4	Plastic piping business volume declined ~7% YoY largely hit by lockdown. However, better realisation restricted value drop
Packaging Products	207.9	263.1	267.6	-22.3	309.0	-32.7	Sharp decline in value led by ~18% YoY dip in volume owing to lower product demand
Industrial Products	158.7	176.5	203.5	-22.0	157.0	1.1	Industrial product demand largely hit by poor macro condition wherein volume, value degrows 12%, 22% YoY, respectively
Consumer Products	95.6	92.8	95.8	-0.2	104.0	-8.0	Lower volume offtake (down 14% YoY) largely led by change in product mix

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY21E			FY22E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	5,951.7	5049.1	(15.2)	7,333.1	5885.4	(19.7)	We cut our revenue estimate for FY21E, FY22E incorporating the lockdown impact and slow recovery in demand for industrial products category
EBITDA	844.9	683.7	(19.1)	1,032.4	892.5	(13.6)	
EBITDA Margin %	14.2	13.5	-66bps	14.1	15.2	106bps	
PAT	492.3	350.8	(28.7)	601.3	504.6	(16.1)	
EPS (₹)	38.8	27.6	(28.8)	47.3	39.7	(16.0)	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY19E	FY20E	FY21E	FY22E	FY21E	FY22E	
Plastic Piping	16.3	8.6	(6.8)	19.4	8.2	23.6	We revise our volume growth estimate downward owing to slow pick-up in demand due to lower construction activity during the pandemic
Packaging Products	2.0	(7.9)	(8.5)	10.5	4.6	22.1	We believe demand recovery and better realisation would help drive demand of packaging product from FY22E onwards
Industrial Products	10.5	(24.0)	(11.9)	10.2	(1.7)	22.2	Pressure from automotive industry likely to keep demand for products under check
Consumer Products	13.4	(4.0)	(3.7)	16.5	(0.8)	24.7	Focus on launch of premium category products to drive segment performance, going forward

Source: Company, ICICI Direct Research

Conference Call Highlights

Plastic piping system

- The piping segment recorded volume, value de-growth of 7%, 1% YoY for Q4FY20, respectively. However, for FY20, value, volume growth was at 7.5%, 9% YoY, respectively
- The demand for CPVC pipe also declined significantly due to low construction activity
- Piping segment saw ~800 bps YoY expansion in EBITDA margin to 21% in Q4FY20 and expansion of 340 bps YoY to 16.1%, respectively, largely led by a change in product mix and benign raw material prices
- Piping volume growth in H2FY20 was impacted by extended monsoon and lockdown situation
- Near term Covid-19 related lockdowns and migration of workers would keep demand under check. However, the company expects a possible recovery from Q2FY20 led by demand revival in rural India supported by various initiatives taken by the government during the pandemic
- Supreme is likely to increase piping manufacturing capacity from 4.46 lakh metric tonnes (MT) in FY20 to 5.0 lakh MT by FY21 despite demand related challenges in the near term

Industrial products

- The industrial segment witnessed a decline in volume and value by 12% and 22% YoY, respectively, in Q4FY20. For FY20, the value, volume de-grew 13% and 24%, respectively, mainly driven by low demand for automotive component business
- The segment EBITDA margin increased to 14.4% in Q4FY20 from 12% in Q4FY19. However, the same for FY20 declined ~130 bps YoY to 9.8%
- Supreme Industries has divested its whole stake (~21%) in Kumi Supreme India Pvt Ltd to Kumi (Thailand) Co Ltd for a consideration of ~₹ 24 crore. Consequently, it terminated the existing joint venture agreement between the company and Kumi Supreme India Pvt Ltd
- Supreme addressed and settled the issues regarding the complaints of composite cylinders from Bangladesh

Packaging products

- While the company witnessed stability on the pricing front in its cross laminated film products, the weak demand due to lockdown hit demand for packaging products during Q4
- The packaging segment witnessed a decline in volume and value by 18% and 22% YoY, respectively, in Q4FY20. For FY20, the value, volume de-grew 2% and 8%, respectively, mainly driven by pressure in realisation (rising competitive intensity)
- The segment EBITDA margin increased to ~21% in Q4FY20 from 15% in Q4FY19. However, the same for FY20 declined ~100 bps YoY to 14.8%
- The management denied there was any further price correction in the packaging segment

Consumer products (furniture)

- While consumer product segment volume declined ~14% YoY in Q4FY20, value growth remained flat due to a better product mix. For FY20, the value, volume de-grew 3%, 4% respectively

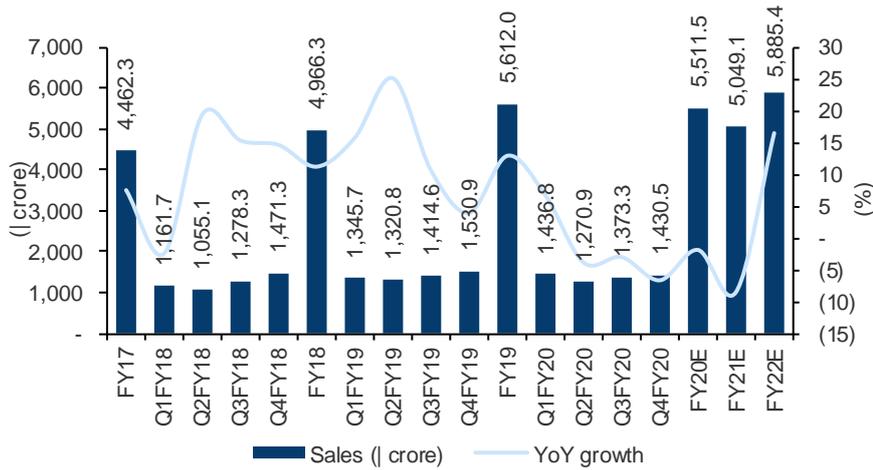
- The segment EBITDA margin increased to ~24% in Q4FY20 from 22.6% in Q4FY19. For FY20, margin improved ~166 bps YoY to 19.1%
- Consumer product categories are facing challenges (in offtake) from unorganised players with inferior quality of products

Overall company highlights

- The company has received a good discount on bulk volume offtake of raw materials in FY20, resulting in a sharp increase in gross margin during Q4FY20. However, the recent correction in raw material prices (from mid-March to start of May by ~11%) may lead to inventory loss in coming periods. Hence, the company may witness normalisation in EBITDA margin, going forward
- Value added products (VAPs) category revenue grew 6% YoY to 2070 crore while its contribution increased to 38% in FY20 (up from 35% in FY19)
- The current situation (Covid-19 pandemic) is likely to help the organised sector to grow faster than unorganised players due to their better balance sheet condition
- Supreme has decided to continue its investment plan of about ₹ 350 crore in the current year. It is likely to increase the plastic manufacturing capacity by 40000-45000 tonnes per annum. The major portion (~34000 tonnes) will be added in the piping segment
- Average borrowing for FY20 was ₹ 205 crore vs. ₹ 266 crore in the same period a year ago. Average borrowing cost as on March 2020 increased to 8.35% compared to 8.23% as on March 31, 2019
- The company has added ~167 new channel partners in FY20. The total count of channel partners is now at 1214

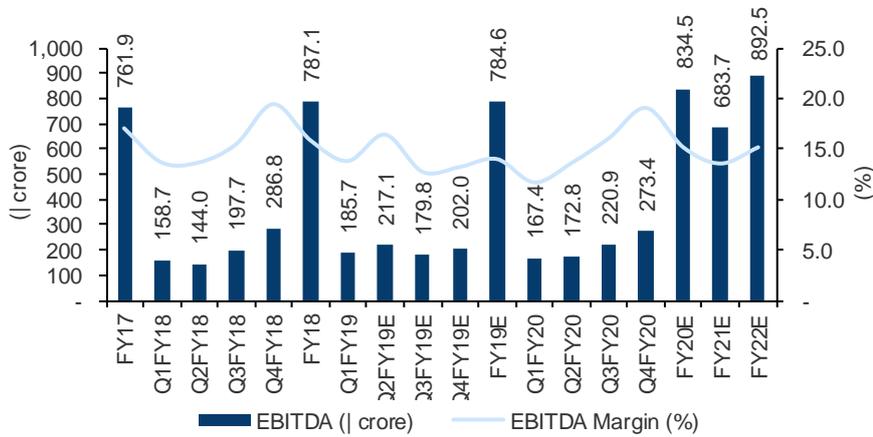
Financial story in charts

Exhibit 4: Muted revenue growth led by slow volume offtake



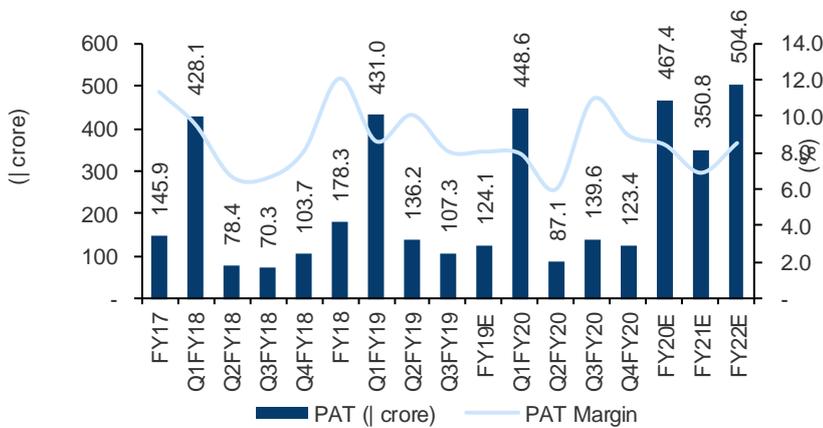
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

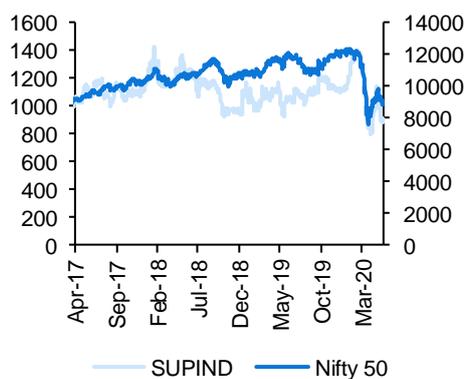
Exhibit 6: Muted bottomline growth



Source: Company, ICICI Direct Research

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Exhibit 7: Price Chart



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Shareholding Pattern

(in %)	Mar-19	Jun-19	Sep-19	Dec-19	Mar-20
Promoter	49.7	49.7	49.7	49.7	49.9
FII	8.5	8.4	8.1	8.2	8.0
DII	21.7	22.8	23.3	23.5	24.0
Others	20.1	19.1	18.9	18.6	18.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 9: Profit and loss statement				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Net Sales	5612.0	5511.5	5049.1	5885.4
Growth (%)		-1.8	-8.4	16.6
Other Income	7.8	1.4	1.5	1.7
Total Revenue	5619.8	5513.0	5050.7	5887.1
Expenditure				
Raw Material Expenses	3744.7	3706.0	3254.9	3710.8
Cost of goods traded	84.3	47.4	48.8	88.3
Employees cost	254.6	279.8	275.5	311.0
Other Expenditure	752.9	818.9	786.1	882.8
Total Operating Exp	4827.4	4677.0	4365.4	4992.9
Operating Profit (EBITDA)	784.6	834.5	683.7	892.5
Growth (%)	NM	6.4	-18.1	30.5
Depreciation	183.5	205.7	232.3	235.4
Interest	26.0	20.2	33.6	37.8
PBT after Excep Items	650.0	610.1	419.4	620.9
Total Tax	215.8	173.9	105.3	156.7
PAT before MI	434.3	436.2	314.1	464.3
Profit from Associates	14.4	31.2	36.7	40.4
Reported PAT	448.6	467.4	350.8	504.6

Source: Company, ICICI Direct Research

Exhibit 10: Cash flow statement				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Profit/(Loss) after taxation	448.6	467.4	350.8	504.6
Add: Depreciation & Amortization	183.5	205.7	232.3	235.4
Add: Interest Paid	26.0	20.2	33.6	37.8
C/F bef working cap changes				
Net Increase in Current Assets	-77.6	-82.1	-8.2	-171.6
Net Increase in Current Liabilities	97.4	21.0	-78.9	87.0
Net cash flow from operating Ac	678.1	632.1	529.5	693.2
(Inc)/Dec in Other Investments	-28.7	15.1	0.0	0.0
(Purchase)/Sale of Fixed Assets	-366.1	-295.3	-160.0	-300.0
Net Cash flow from Investing Ac	-392.1	-312.8	-109.4	-308.7
Proceeds/(Rep) of debt	-70.3	248.9	-10.0	-5.0
(Payment) of Div & Div Tax	-198.2	-214.1	-274.4	-259.1
Net Cash flow from Financing Act	-285.8	-131.5	-310.4	-301.9
Net Cash flow	0.1	187.8	109.7	82.6
Cash & Cash Equ at the begin.	32.0	32.1	219.9	329.5
Cash & Cash Equ at the end	32.1	219.9	329.5	412.2

Source: Company, ICICI Direct Research

Exhibit 11: Balance sheet				
	₹ crore			
(Year-end March)	FY19	FY20	FY21E	FY22E
Equity Capital	25.4	25.4	25.4	25.4
Reserve and Surplus	2128.6	2235.8	2319.7	2565.2
Total Shareholders funds	2154.0	2261.2	2345.1	2590.6
Total Debt	162.1	410.9	400.9	395.9
Deferred Tax Liability	120.4	132.6	132.6	132.6
Total Liabilities	2436.4	2804.7	2878.6	3119.1
Gross Block	2942.6	3235.0	3442.0	3742.0
Accumulated Depreciation	1421.6	1627.3	1859.5	2094.9
Net Block	1521.0	1607.7	1582.5	1647.1
Capital WIP	90.0	92.9	45.9	45.9
Total Fixed Assets	1611.0	1700.7	1628.4	1693.0
Other Investments	222.3	207.3	207.3	207.3
Inventory	750.4	890.6	760.8	838.5
Debtors	387.4	312.8	484.2	564.4
Loans and Advances	167.8	184.4	151.0	164.8
Cash	32.1	219.9	329.5	412.2
Total Current Assets	1337.8	1607.7	1725.5	1979.8
Creditors	557.4	547.5	512.9	596.6
Provisions	24.0	31.3	31.8	37.0
Total Current Liabilities	792.9	813.9	734.9	821.9
Net Current Assets	544.9	793.9	990.6	1157.9
Long term loans and advances	58.2	102.9	52.3	61.0
Total Asset	2436.4	2804.7	2878.6	3119.1

Source: Company, ICICI Direct Research

Exhibit 12: Key ratios				
	₹ crore			
(Year-end March)	FY19	FY20E	FY21E	FY22E
Per share data (₹)				
EPS	35.3	36.8	27.6	39.7
Cash EPS	49.8	53.0	45.9	58.3
BV per share	169.6	178.0	184.6	203.9
DPS	15.6	16.9	21.6	20.4
Operating Ratios (%)				
EBITDA Margin	14.0	15.1	13.5	15.2
PAT Margin	7.2	8.5	6.9	8.6
Turnover Days				
Inventory Days	48.8	59.0	55.0	52.0
Debtor Days	25.2	20.7	35.0	35.0
Creditor Days	36.3	36.3	37.1	37.0
Return Ratios (%)				
RoNW	18.7	20.7	15.0	19.5
RoCE	25.0	22.5	15.7	21.1
RoIC	24.4	24.0	17.1	23.6
Valuation Ratios (x)				
P/E	27.7	26.6	35.4	24.6
EV / EBITDA	16.0	15.1	18.3	13.9
EV / Net Sales	2.2	2.3	2.5	2.1
Market Cap / Sales	2.2	2.3	2.5	2.1
Price to Book Value	5.8	5.5	5.3	4.8
Solvency Ratios				
Debt/ EBITDA	0.2	0.5	0.6	0.4
Debt/ Equity	0.1	0.2	0.2	0.2
Current Ratio	2.2	2.4	2.6	2.5
Quick Ratio	1.0	0.9	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		FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E	FY20E	FY21E	FY22E
Asian Paints (ASIPAI)	1,617	1,900	Buy	1,55,070	29.9	32.5	38.6	54.1	49.8	41.9	36.3	33.1	27.9	30.7	31.5	33.5	26.6	26.3	27.8
Astral Polytechnik (ASTP)	840	1,075	Buy	12,656	18.2	19.8	25.0	46.2	42.4	33.6	31.3	27.7	23.0	21.5	22.3	23.6	17.9	16.6	17.8
Havells India (HAVIND)	459	575	Buy	28,637	11.7	7.8	13.2	39.1	58.6	34.7	29.0	36.8	23.3	19.6	14.0	21.2	17.0	11.2	17.1
Kansai Nerolac (KANNE)	353	415	Buy	19,024	9.9	7.8	10.4	35.5	45.2	33.9	26.6	31.2	24.1	17.6	14.5	17.9	14.1	11.1	13.7
Pidilite Industries (PIDINI)	1,398	1,485	Buy	71,673	25.0	26.7	31.3	55.9	52.4	44.7	37.9	35.8	30.5	32.7	30.6	30.9	26.6	24.5	24.6
Supreme Indus (SUPIND)	978	1,040	Hold	12,423	38.5	36.8	27.6	39.7	26.6	35.4	15.1	18.3	13.9	22.5	15.7	21.1	20.7	15.0	19.5
Voltas Ltd (VOLTAS)	450	535	Hold	14,883	16.6	17.6	21.4	27.1	25.6	21.0	21.1	21.0	16.9	21.1	19.6	21.7	14.8	14.1	15.9

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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