

Strong performance led by higher realisations...

Supreme industries' performance in Q4FY21 was much ahead of our estimates on the revenue & profitability fronts. Revenue growth at ~46% YoY to ₹ 2084 crore was mainly driven by ~37% higher realisation. However, despite a lower base, overall volume growth at 8% YoY was lower than expected. The piping segment volume came in lower by 2% in Q4FY21 amid lower demand of agri pipes and change in product mix. The other three segments, packaging, industrial and consumer furniture sales was higher by 49%, 85% 30% YoY, respectively, in Q4FY21 on a favourable base and demand revival in selected product categories. On the margin front, while inventory gains remained higher (by ₹ 80-100 crore), significant saving in other costs (by ~650 bps YoY) led to 534 bps increase in EBITDA margin to 24.5%. Finally, PAT was up ~3.8x to ₹ 450 crore YoY supported by ~10x jump in profit from Supreme Petrochem. The management believes while the near term demand would be negatively impacted by sporadic lockdowns, the cooling off of raw material prices and expectation of better monsoons would help drive demand of plastic pipes with restoration of business activities. Further, the company has guided for EBITDA margin of ~17% (~200 bps higher than its last five years average), going forward, and envisages capex of ₹ 400 crore for FY22E.

Continues with capex plans despite Covid-19 related challenges

The company will continue to invest in capacity building despite Covid-19 related challenges. Supreme has earmarked a capex of ₹ 400 crore to expand its current manufacturing capacity by 40,000 MT to 7,37,000 MT in FY22. The company may see some inorganic route for future growth opportunities (however RoCE should be at Supreme Industries level) considering its strong balance sheet condition. Supreme has a healthy cash balance of ₹ 759 crore vs. borrowing of ₹ 217 crore at the end of FY21.

Focus to keep EBITDA margin at 17% level

EBITDA margin at 24.5% during Q4 is one of the highest in the history of Supreme backed by inventory gains amid rise in PVC prices. We believe the inventory gains are limited till FY21 and EBITDA margin will peak out from its high with ease in PVC prices, going forward. The management has guided for EBITDA margin of ~17% (~200 bps higher than its last five years average) backed by an improved product mix. Valued added product contribution in topline has increased from ~36% in FY18 to ~40% in FY21.

Valuation & Outlook

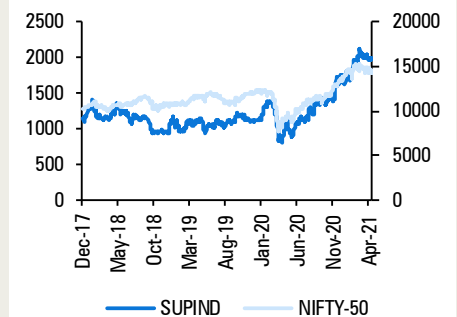
We revise our PAT estimate upward by 30%, 25% for FY22E, FY23E, respectively, given the margin guidance and higher profitability from Supreme Petrochem. We believe the recent run up in prices discount all near term positives. Hence, we downgrade our rating from BUY to **HOLD** with a revised target price of ₹ 2390 valuing at 33x FY23E (earlier TP of ₹ 2010).



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	27,056.8
Total Debt (FY21) (₹ Crore)	0.6
Cash & Invest. (FY21) (₹ Crore)	761.5
EV (₹ Crore)	26,295.8
52 week H/L	2213/ 875
Equity capital (₹ Crore)	25.4
Face value (₹)	2.0

Price Performance



Key risk to our call

- Delay in demand recovery from rural segment may slow volume growth, going forward (our estimate: ~15% FY21-23)
- Lower than guided EBITDA margin in FY21-23E (The company has guided EBITDA margin of 17% going forward)

Research Analyst

Sanjay Manyal
sanjay.manyal@icicisecurities.com

Hitesh Taunk
hitesh.taunk@icicisecurities.com

Key Financial Summary

(₹ Crore)	FY19	FY20	FY21	FY22E	FY23E	CAGR (FY21-23E)
Net Sales	5612.0	5511.5	6357.1	7029.4	7608.3	9.4
EBITDA	784.6	834.5	1284.3	1193.2	1323.2	1.5
EBITDA Margin (%)	14.0	15.1	20.2	17.0	17.4	
Net Profit	448.6	467.4	978.1	824.5	919.9	-3.0
EPS (₹)	35.3	36.8	77.0	64.9	72.4	
P/E (x)	60.3	57.9	27.7	32.8	29.4	
Price/Book (x)	12.6	12.0	8.5	7.8	6.6	
Mcap/Sales (x)	4.8	4.9	4.3	3.8	3.6	
RoE (%)	18.7	20.7	30.9	23.6	22.6	
RoCE (%)	25.0	22.2	32.7	26.2	25.2	

Exhibit 1: Variance Analysis

	Q4FY21	Q4FY21E	Q4FY20	YoY (%)	Q3FY21	QoQ (%)	Comments
Revenue	2,084.6	1,872.2	1,430.5	45.7	1,843.8	13.1	Overall volume growth was up 8% YoY while higher realisation is largely attributable to price hikes and change in product mix
Other Income	3.7	0.6	0.1	6,000.0	0.3	1,364.0	
Raw Material Exp	1,247.2	1,143.2	836.1	49.2	1,111.6	12.2	Gross margin improved ~184 bps QoQ led by improved product
Cost of traded goods	27.2	37.4	12.0	125.9	49.4	-45.0	
Employee Exp	93.1	82.4	74.2	25.5	81.3	14.5	
Other expenditure	207.4	271.5	234.7	-11.7	199.9	3.7	Various cost optimisation initiatives helped in saving of other costs by ~650 bps YoY and 100 bps QoQ
EBITDA	509.7	337.6	273.4	86.4	401.6	26.9	
EBITDA Margin (%)	24.5	18.0	19.1	534 bps	21.8	267 bps	Better gross margin along with saving in other expenses help in EBITDA margin expansion
Depreciation	54.8	57.1	52.9	3.7	54.9	-0.2	
Interest	0.5	4.1	4.2	-89.1	-1.2	-137.1	
PBT	458.1	277.0	216.4	111.7	348.1	31.6	
Total Tax	78.1	69.6	106.1	-26.4	88.6	-11.9	
Profit from associates	70.3	34.3	7.0	909.2	52.8	33.2	Strong growth in profit contribution from Supreme Petrochem
PAT	450.4	241.7	117.3	284.0	312.3	44.2	PAT growth is largely tracking sales growth, EBITDA margin expansion and higher profit contribution from associate company
Key Metrics							
Plastic Piping	1,347.0	1,273.3	937.0	43.8	1,140.0	18.2	Volume growth was lower at 2% YoY led by lower agri demand but higher realisation helped drive overall revenue growth
Packaging Products	309.0	275.2	207.9	48.6	318.0	-2.8	Higher volume growth of 40% on a favourable base and new launches in the protective packaging segment and higher demand of performance packaging products from dairy industry
Industrial Products	293.0	203.9	158.7	84.6	216.0	35.6	Low base coupled with strong demand from consumer durable segment helped drive volume growth at 45% YoY
Consumer Products	124.0	119.7	95.6	29.7	117.0	6.0	Volume growth was higher at 12% YoY largely on a low base

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore)	FY22E			FY23E			Comments
	Old	New	% Chg	Old	New	% Chg	
Revenue	6,668.1	7029.4	5.4	7,466.5	7,608.3	1.9	Change in revenue estimate considering current quarter performance
EBITDA	1,021.5	1193.2	16.8	1,168.0	1,323.2	13.3	
EBITDA Mar %	15.3	17.0	168bps	15.6	17.4	179bps	We believe the benefit of inventory gains are limited till FY21 and expect EBITDA margin to peak out from its high with ease in PVC prices, going forward. However, improving product mix, along with higher operating leverage would aid in better margins, going forward
PAT	634.6	824.5	29.9	736.3	919.9	24.9	
EPS (₹)	50.0	64.9	29.9	58.0	72.4	24.9	

Source: Company, ICICI Direct Research

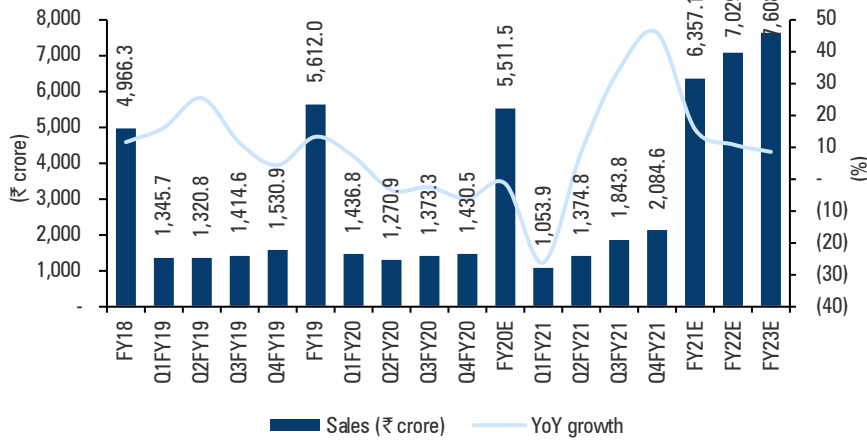
Exhibit 3: Assumptions

(%)	Current				Earlier		Comments
	FY20	FY21	FY22E	FY23E	FY22E	FY23E	
Plastic Piping	8.6	19.0	12.7	9.6	12.4	11.6	We model revenue CAGR of ~15% led by volume CAGR of 18% in FY20-23E
Packaging	(7.9)	7.8	5.0	5.0	13.8	12.8	Strong recovery in demand for cross laminated films and launch of new products in the performance packaging segment would help drive sales for packaging products, going forward
Industrial	(24.0)	13.1	9.4	6.8	15.4	12.7	Strong demand from material handling and other consumer durable segment would help drive segment performance, going forward
Furniture*	(4.0)	(7.6)	6.5	4.7	12.5	12.6	Market share gains from unorganised segment would help driving demand of consumer furniture business

Source: Company, ICICI Direct Research, * Consumer Products

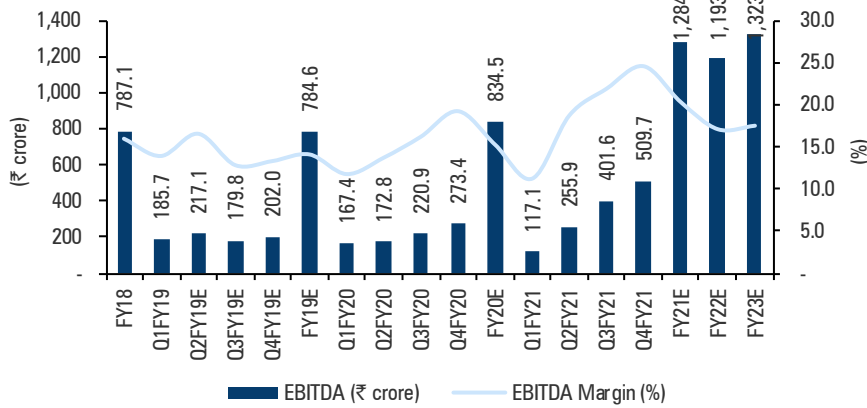
Financial story in charts

Exhibit 4: Revenue growth trend



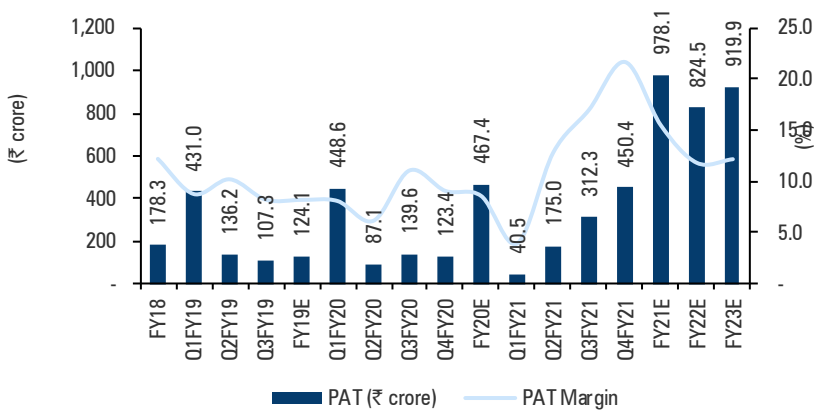
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



Source: Company, ICICI Direct Research

Exhibit 6: PAT growth trend



Source: Company, ICICI Direct Research

Conference Call Highlights

Plastic piping system

- Demand from agriculture pipe was lower due to high price. Volume de-grew ~2% in Q4FY21. However, demand is expected to recover from May-June 2021 onwards on the back of renovation works at field and softening of input prices
- For FY21, the piping segment volume de-grew by ~2% while strong growth in realisation helped drive revenue up by 19% YoY
- Strong realisation helped drive segment EBITDA margin up by 640 bps YoY to 27.1% in Q4FY21 while for FY21 the EBITDA margin was higher by 600 bps YoY to 22%

Industrial products

- The volume, value up 45%, 85%, respectively, Q4FY21. The EBITDA margin was up 250 bps YoY at 16.6% in Q4FY21
- For FY21, volume, value was up 7%, 13%, respectively. The EBITDA margin was up 300 bps YoY to 13% in FY21
- The industrial segment growth largely driven by consumer durable segment. The near term demand outlook looks challenging amid second wave of Covid-19
- The material handling division has shown good growth in essential commodities (food, fisheries, dairy, etc). Plans to introduce new models in pallets, crates, ice boxes

Packaging products

- The volume, value was up 40%, 49% YoY, respectively, in Q4FY21. The EBITDA margin was down 600 bps YoY to 16%
- For FY21, the volume, value was up 7%, 8% YoY, respectively. The EBITDA margin was up 100 bps YoY to 16%
- The company plans to increase the cross laminated film capacity from 27000 MT to 30,000 MT on expectation of strong domestic demand and export opportunities. The company plans to sell the products through online portals of super markets
- In the protective packaging segment, the company has developed new variant of interlock MAT for various sports applications using recycled material. Expect good business from export orders

Consumer products (furniture)

- The volume, value was up 12%, 30% YoY, respectively, in Q4FY21. The EBITDA margin was up 100 bps YoY to 25%
- For FY21, the volume, value declined 11%, 8% YoY, respectively. The EBITDA margin was up 200 bps YoY to 21%
- The company has started selling furniture through online channel. Sales through e-commerce portals increased 100% in FY21

Overall company highlights

- Value added products (VAPs) category revenue increased 20% YoY to ₹ 2480 crore
- PVC prices have peaked out. The company believes they should come down in the coming months
- Demand was robust till March 20, 2021 but sporadic lockdowns impacted sales in April 2021. However, the company expects a revival in agri demand from middle of May 2021 supported by lowering PVC prices and expectation of better monsoon

- Sales for April 2021 were at about ₹ 497 crore vs. sales of ₹ 145 crore in April 2020
- The company will use the excess cash flow for expansion in newer geographies. Supreme will expand manufacturing capacity in three new states by FY22. The company's presence will increase from current 10 states to 13 states with start of new plants
- In FY21, Supreme Industries PVC consumption declined 3.4% YoY vs. 15.6% decline of overall PVC industry in the same period. The company managed to increase market share in the PVC piping segment in FY21
- Strong demand from consumer appliances help drive demand of industrial product category
- Capacity as on March 2021, 500900 MT plastic piping (piping fittings and roto moulding), Industrial 72000 MT, packaging 86000 MT, consumer 38000 MT. Overall FY21 697000 MT vs. ~635900 as on March 2020
- The company has envisaged a capex of ₹ 400 crore for FY22 (includes carry forward capex of ₹ 198 crore of FY21) to increase the production capacity by 40,000 MT (maximum allocation will be for piping business)
- The company had ~₹ 200 crore inventory gains in FY21. Inventory gains for Q4FY21 was ~ ₹ 80-100 crore.
- With improved product mix and better operating leverage, company is looking ~17% is new normal EBITDA margin against historical EBITDA margins of ~15%
- For Supreme Petro, the company is operating at a peak utilisation. The company is planning to expand its polystyrene capacity by 90,000 MT and expandable polystyrene by 30,000 MT. The expansion plan will be completed by March 2022. The company has planned a capex of ₹ 260 crore for Supreme Petro

Financial summary

Exhibit 7: Profit and loss statement		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Net Sales	5511.5	6357.1	7029.4	7608.3	
Growth (%)	-1.8	15.3	10.6	8.2	
Other Income	1.4	4.3	4.6	5.0	
Total Revenue	5513.0	6361.3	7034.0	7613.3	
Expenditure					
Raw Material Expenses	3706.0	3764.4	4439.7	4746.4	
Cost of goods traded	47.4	123.6	77.7	76.1	
Employees cost	279.8	310.4	354.7	407.4	
Other Expenditure	818.9	724.0	964.0	1055.2	
Total Operating Exp	4677.0	5072.8	5836.1	6285.1	
Operating Profit (EBITDA)	834.5	1284.3	1193.2	1323.2	
Growth (%)	6.4	53.9	-7.1	10.9	
Depreciation	205.7	212.8	224.9	243.5	
Interest	20.2	9.5	1.5	3.2	
PBT after Excep Items	610.1	1066.2	971.4	1081.5	
Total Tax	173.9	234.1	243.5	271.0	
PAT before MI	436.2	832.2	727.9	810.6	
Profit from Associates	31.2	146.0	96.7	109.3	
Reported PAT	467.4	978.1	824.5	919.9	

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Equity Capital	25.4	25.4	25.4	25.4	
Reserve and Surplus	2235.8	3143.8	3462.1	4046.7	
Total Shareholders funds	2261.2	3169.2	3487.5	4072.1	
Total Debt	410.9	0.6	100.6	110.6	
Deferred Tax Liability	132.6	91.9	91.9	91.9	
Total Liabilities	2837.0	3291.7	3710.0	4304.6	
Gross Block					
	3235.0	3554.6	3959.5	4159.5	
Accumulated Depreciation					
	1627.3	1840.1	2065.0	2308.5	
Net Block					
	1607.7	1714.5	1894.5	1851.0	
Capital WIP					
	92.9	50.8	45.9	45.9	
Total Fixed Assets					
	1700.7	1765.3	1940.4	1896.9	
Other Investments					
	207.3	336.6	359.6	392.6	
Inventory					
	890.6	760.8	962.9	1083.9	
Debtors					
	312.8	389.8	539.2	583.6	
Loans and Advances					
	184.4	153.8	170.1	184.1	
Cash					
	219.9	761.5	705.5	1210.8	
Total Current Assets					
	1607.7	2065.9	2377.7	3062.4	
Creditors					
	547.5	646.2	693.3	750.4	
Provisions					
	31.3	29.8	53.1	57.4	
Total Current Liabilities					
	781.5	990.6	1094.2	1184.4	
Net Current Assets					
	826.2	1075.3	1283.5	1878.1	
Long term loans and advances					
	102.9	114.5	126.6	137.0	
Total Asset	2837.0	3291.7	3710.0	4304.6	

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement		₹ crore			
(Year-end March)	FY20	FY21	FY22E	FY23E	
Profit/(Loss) after taxation	467.4	978.1	824.5	919.9	
Add: Depreciation & Amortization	205.7	212.8	224.9	243.5	
Add: Interest Paid	20.2	9.5	1.5	3.2	
C/F bef working cap changes					
Net Increase in Current Assets	-82.1	83.4	-367.8	-179.4	
Net Increase in Current Liabilities	-11.4	209.1	103.6	90.1	
Net cash flow from operating Act	599.8	1492.9	786.8	1077.2	
(Inc)/Dec in Other Investments					
	15.1	-129.3	-23.0	-33.0	
(Purchase)/Sale of Fixed Assets					
	-295.3	-277.4	-400.0	-200.0	
Net Cash flow from Investing Act	-280.5	-461.3	-435.1	-243.4	
Proceeds/(Rep) of debt					
	248.9	-410.3	100.0	10.0	
(Payment) of Div & Div Tax					
	-214.1	-279.0	-304.8	-335.3	
Net Cash flow from Financing Act					
	-131.5	-490.0	-407.7	-328.5	
Net Cash flow					
	187.8	541.6	-56.1	505.3	
Cash & Cash Equ at the begin.					
	32.1	219.9	761.5	705.5	
Cash & Cash Equ at the end	219.9	761.5	705.5	1210.8	

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios		₹ crore			
(Year-end March)	FY20	FY21E	FY22E	FY23E	
Per share data (₹)					
EPS	36.8	77.0	64.9	72.4	
Cash EPS	53.0	93.8	82.6	91.6	
BV per share	178.0	249.5	274.5	320.6	
DPS	16.9	22.0	24.0	26.4	
Operating Ratios (%)					
EBITDA Margin	15.1	20.2	17.0	17.4	
PAT Margin	8.5	15.4	11.7	12.1	
Turnover Days					
Inventory Days	59.0	43.7	50.0	52.0	
Debtor Days	20.7	22.4	28.0	28.0	
Creditor Days	36.3	37.1	36.0	36.0	
Return Ratios (%)					
RoNW	20.7	30.9	23.6	22.6	
RoCE	22.2	32.7	26.2	25.2	
RoIC	24.0	40.0	30.5	32.8	
Valuation Ratios (x)					
P/E	57.9	27.7	32.8	29.4	
EV / EBITDA	32.7	20.5	22.2	19.6	
EV / Net Sales	4.9	4.1	3.8	3.4	
Market Cap / Sales	4.9	4.3	3.8	3.6	
Price to Book Value	12.0	8.5	7.8	6.6	
Solvency Ratios					
Debt / EBITDA	0.5	0.0	0.1	0.1	
Debt / Equity	0.2	0.0	0.0	0.0	
Current Ratio	2.4	1.9	2.2	2.3	
Quick Ratio	0.9	0.8	1.0	1.0	

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)	2,587	3,010	Hold	2,48,093	32.8	39.9	46.3	78.8	64.8	55.9	52.7	43.8	37.5	26.7	28.6	28.5	31.1	33.4	34.0
Astral Polytechnik (ASTPOL)	1,573	1,670	Hold	23,699	22.2	30.4	37.1	70.8	51.7	42.4	54.8	42.8	35.7	23.9	28.1	29.3	18.3	21.8	22.5
Amber Enterprises (AMBEN)	3,092	3,015	Buy	9,723	29.8	68.2	97.6	103.6	45.3	31.7	35.9	18.7	14.0	8.4	15.3	18.7	6.5	13.0	15.8
Bajaj Electricals (BAJELE)	1,144	1,075	Buy	13,006	18.9	25.4	35.2	NM	36.3	26.1	31.0	25.0	18.2	17.6	21.4	24.8	13.5	17.3	19.9
Berger Paints (BERPAI)	706	810	Hold	68,567	7.6	9.7	12.4	92.9	72.6	57.1	63.9	52.3	42.5	26.1	30.0	35.1	23.4	26.0	29.0
Crompton Greaves(CROGR)	370	480	Buy	23,199	7.9	9.5	12.0	46.5	38.8	30.7	37.6	31.9	25.8	31.1	34.8	41.1	27.4	28.4	32.1
Dixon Technologies (DIXTEC)	4,134	4,270	Buy	21,200	29.6	62.8	93.9	122.4	57.7	38.6	95.1	70.2	38.1	26.3	40.1	43.9	25.4	37.6	38.6
EPL (ESSPRO)	222	250	Hold	7,004	7.8	8.9	10.8	28.3	24.9	20.6	11.6	10.8	9.2	18.3	19.0	21.3	15.6	15.6	17.0
Havells India (HAVIND)	985	1,255	Hold	61,454	16.1	17.8	22.9	61.2	55.3	43.0	45.8	41.2	32.5	23.7	25.5	30.8	20.6	21.2	25.7
Kansai Nerolac (KANNER)	571	675	Buy	30,772	9.7	12.7	15.0	58.6	44.9	38.2	37.9	30.4	25.9	17.9	20.7	21.6	13.7	15.9	16.6
Pidilite Industries (PIDIND)	1,800	1,920	Buy	91,404	22.1	28.2	32.9	81.3	63.9	54.7	50.0	39.9	34.7	28.4	31.5	32.4	22.8	25.3	25.9
Polycab India (POLI)	1,448	1,385	Buy	21,558	57.9	67.2	79.7	25.0	21.5	18.2	15.3	11.9	9.8	21.2	24.4	26.2	18.1	19.0	20.1
Supreme Indus (SUPIND)	2,130	2,390	Hold	27,057	77.0	64.9	72.4	27.7	32.8	29.4	20.5	22.2	19.6	32.7	26.2	25.2	30.9	23.6	22.6
Symphony (SYMLIM)	1,132	1,345	Hold	7,919	15.3	28.5	39.5	74.0	39.8	28.6	60.0	33.1	23.8	15.2	28.2	34.9	14.9	26.8	32.5
Time Techno (TIMTEC)	77	75	Buy	1,741	4.4	9.6	-	17.5	8.0			5.7	3.8		8.4	13.7		5.5	11.2
V-Guard Ind (VGUARD)	223	265	Buy	9,551	4.2	6.1	7.1	52.7	36.7	31.5	34.8	26.2	22.4	23.6	27.9	29.0	16.8	21.1	21.9
Voltas Ltd (VOLTAS)	964	1,260	Buy	31,883	15.7	25.8	32.1	61.3	37.3	30.0	58.5	35.6	28.4	16.3	22.6	24.2	11.4	16.8	17.9

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavours to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



Pankaj Pandey

Head – Research

pankaj.pandey@icicisecurities.com

ICICI Direct Research Desk,
ICICI Securities Limited,
1st Floor, Akruti Trade Centre,
Road No 7, MIDC,
Andheri (East)
Mumbai – 400 093
research@icicidirect.com

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