

Sector: Building material
Results update

	Change
Reco: Hold	↔
CMP: Rs. 1,075	
Price Target: Rs. 1,200	↑

↑ Upgrade ↔ No change ↓ Downgrade

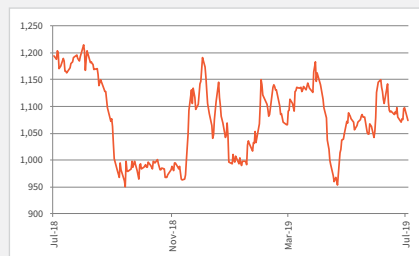
Company details

Market cap:	Rs. 13,650 cr
52-week high/low:	Rs. 935/1,269
NSE volume: (No of shares)	75,158
BSE code:	509930
NSE code:	SUPREMEIND
Sharekhan code:	SUPREMEIND
Free float: (No of shares)	6.4 cr

Shareholding (%)

Promoters	49.7
FII	8.4
DII	22.8
Others	19.1

Price chart



Price performance

(%)	1m	3m	6m	12m
Absolute	2.7	-4.3	11.2	-7.1
Relative to Sensex	7.1	-2.0	4.8	-10.5

Sharekhan Research, Bloomberg

Supreme Industries Limited (SIL) delivered better-than-expected revenue growth, while EBITDA margin missed our estimates. Revenue beat was led by strong volume growth (22.4% y-o-y) in plastic piping system, while the volume growth for remaining three segments remained weak during the quarter. Overall volume growth was healthy at 13.5% y-o-y, while blended realisation declined by 6% y-o-y. The management provided FY2020E revenue growth guidance of 12-15% in value terms, while volume growth guidance remained at 8-10%. The volume growth would be driven by healthy demand in plastic piping system on the back of “Nal se Jal” scheme and multiple initiatives by government. With an EBITDA margin of 11.6%, the management expects a recovery in margins going ahead on the back of better product mix and lower contribution from low margin agri-piping in coming quarters and provided FY2020E margin guidance band of 13.5-14.5%. Given the limited upside scope from the current level, we maintain our Hold rating on SIL with a revised PT of Rs. 1,200.

Key positives

- Strong volume growth in plastic piping system on the back of higher demand from agri-piping. Management expects the growth in plastic piping segment to continue on the back of “Nal se Jal” scheme and other government initiatives.
- FY2020E revenue growth guidance of 13-15% in value terms on the back of better product mix, with a volume growth at 8-10%.
- Management believes that erosion of margins have bottomed out and expects recovery from Q2FY2020E.

Key negatives

- EBITDA margin declined 220 BPS y-o-y at 11.6%, below our estimates.
- Except plastic piping segment, volume growth in other segments remained weak. Blended realisation declined 6% y-o-y in Q1FY2020.

Our Call

Valuation: Maintain Hold with a revised PT of Rs. 1,200: We have fine-tuned our earnings estimates for FY2020/FY2021E on account of strong volume growth, good demand environment for plastic piping system (~60% of total revenues) and anticipated recovery in margins. We continue to remain Positive on SIL over the long term, given recovery in rural economy, affordable housing sector and the new scheme for piped water connection – “Nal se Jal”. At the CMP, the stock is trading at 31x/27x its FY2020E/FY2021E earnings, which provides limited upside from the current level. We retain our Hold rating on the stock with a revised SoTP price target (PT) of Rs. 1,200.

Key Risks

Slowdown in demand offtake could impact revenue growth rates. Adverse commodity price fluctuation might impact the margin profile.

Valuation (consolidated)

Particulars	Rs cr			
	FY18	FY19	FY20E	FY21E
Revenues	4,970.1	5,612.0	6,365.4	7,192.5
OPM (%)	15.8	14.0	14.0	14.2
Adjusted PAT	431.8	381.4	440.1	509.7
% YoY growth	14.6	(11.7)	15.4	15.8
Adjusted EPS (Rs.)	34.0	30.0	34.7	40.1
P/E (x)	31.6	35.8	31.0	26.8
P/B (x)	3.6	3.2	2.8	2.5
EV/EBITDA (x)	17.1	17.2	14.8	13.1
RoNW (%)	22.8	17.7	18.0	18.4
RoCE (%)	27.5	24.5	25.7	26.4

Source: Company, Sharekhan Research

Revenue beat, margins missed the mark:

SIL delivered better-than-expected revenue performance in Q1FY2020, registering a revenue growth of 6.8% y-o-y. The revenue beat was led by strong 22.4% y-o-y volume growth in plastic piping system. Increased input cost along with inventory loss and higher sale of agri pipes during the quarter resulted in 125 BPS y-o-y decline in gross margins. Lower gross margin along with higher other operating expenses (up by 13% y-o-y) led to EBITDA margin contraction of 220 BPS y-o-y at 11.6% during Q1FY2020, below our estimates. As a result, EBITDA declined by 9.9% y-o-y to Rs. 167.4 crore in Q1FY2020. Excluding the extraordinary item of Rs. 55.9 crore in Q1FY2019, adjusted net income of Rs. 87.1 crore (up 8.3% y-o-y) was ahead of our estimates aided by lower-than-expected depreciation expenses and interest expenses.

Strong volume growth in plastic piping system continued

Revenue growth was supported by 13.5% y-o-y growth in overall volume, while blended realisation declined 6% y-o-y during the quarter. The volume growth was primarily driven by strong volume growth in plastic piping system (higher sale of agri piping during the quarter), while the volume growth of other three segments remained muted. Volume growth in industrial products and consumer products declined by 15.5% y-o-y (owing to divestment of the Khushkhera unit in Q1FY2019) and 3.3% y-o-y respectively, while volume growth of packaging products remained flattish at 0.8% y-o-y. The sharp decline industrial products volume growth was attributed to the softness in automobile sector (dropped to 20-25% of industrial products' revenue). Realisations of all four segments remained soft during the quarter. Realisation in plastic piping system, packaging products and industrial products declined 1.8% y-o-y, 6.5% y-o-y and 2.4% y-o-y respectively, while the realisation in consumer products remained flat. Overall revenue from value-added products increased by 6% y-o-y to Rs. 457 crore, resulting in contribution of 32% to overall revenue in Q1FY2020.

Margin under pressure owing to inventory loss and higher sale of low-margin products

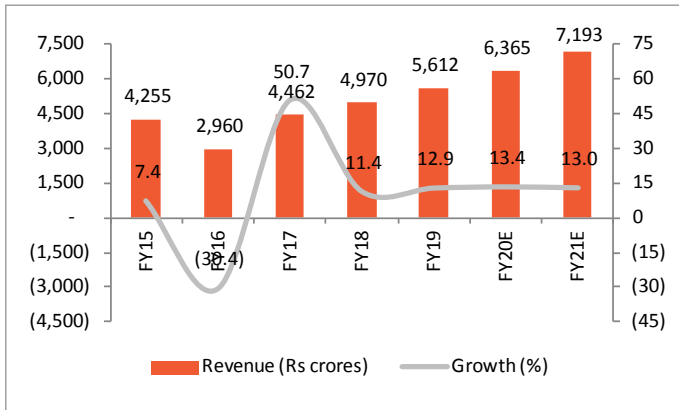
SIL witnessed overall EBITDA margin contraction of 220 BPS y-o-y to 11.6%, owing to inventory losses, higher sell of agri products and sharp margin contraction across its product segments (except consumer products) during Q1FY2020. The highest margin contraction continued to witness in packaging products, lower by 531 BPS y-o-y to 12.4%. Plastic piping system and industrial products witnessed margin contraction of 181 BPS and 59 BPS on a y-o-y basis to 11.3% and 10.8%, respectively. Notably, EBITDA margin of consumer products improved 147 BPS y-o-y during the quarter.

Results	Rs cr				
Particulars	Q1FY20	Q1FY19	y-o-y (%)	Q4FY19	q-o-q (%)
Net sales	1,436.8	1,345.7	6.8	1,530.9	-6.1
Total expenditure	1,269.5	1,160.0	9.4	1,328.9	-4.5
EBITDA	167.4	185.7	-9.9	202.0	-17.1
Depreciation	49.5	42.7	16.1	48.1	2.9
EBIT	117.8	143.0	-17.6	153.9	-23.4
Other income	0.0	0.6	-94.9	3.1	-99.0
Interest expenses	3.3	3.9	-17.3	6.4	-49.2
PBT	114.6	139.7	-18.0	150.5	-23.9
Tax expenses	40.0	65.2	-38.7	48.9	-18.2
Share of profit from association	-12.5	-6.0	108.3	-11.1	12.5
Adjusted net profit	87.1	80.5	8.3	112.8	-22.7
Extra ordinary items	0.0	-55.9	-	-11.3	-
Reported net profit	87.1	136.4	-36.1	124.1	-29.8
Adjusted EPS (Rs.)	6.9	6.3	8.3	8.9	-22.7
Margins (%)			BPS		BPS
EBITDA margin	11.6	13.8	-220	13.2	-160
PAT margin	6.1	6.0	10	7.4	-130

Source: Company; Sharekhan Research

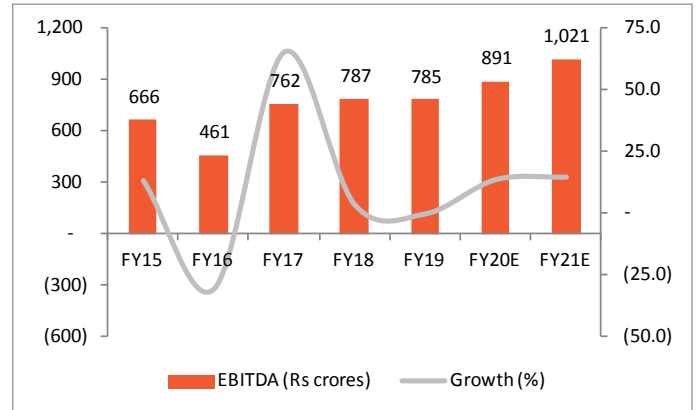
Financials in charts

Revenue (Rs. cr) and growth (%)



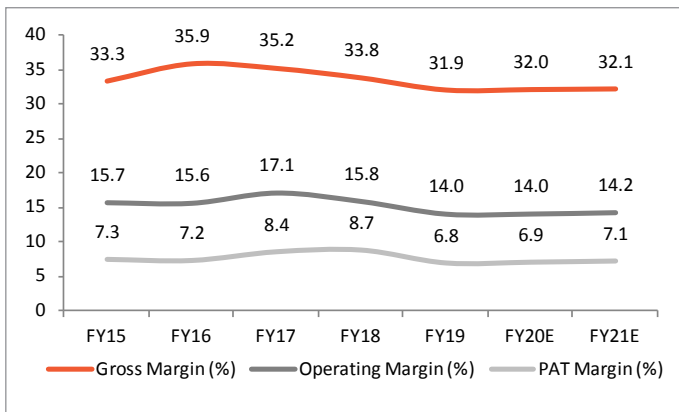
Source: Company, Sharekhan Research

EBITDA (Rs cr) and growth (%)



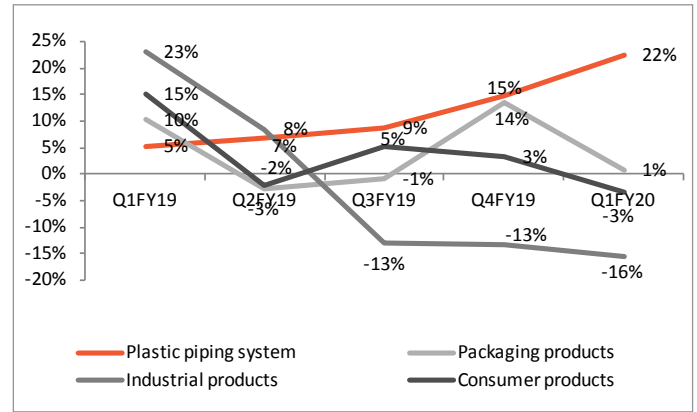
Source: Company, Sharekhan Research

Profitability trend



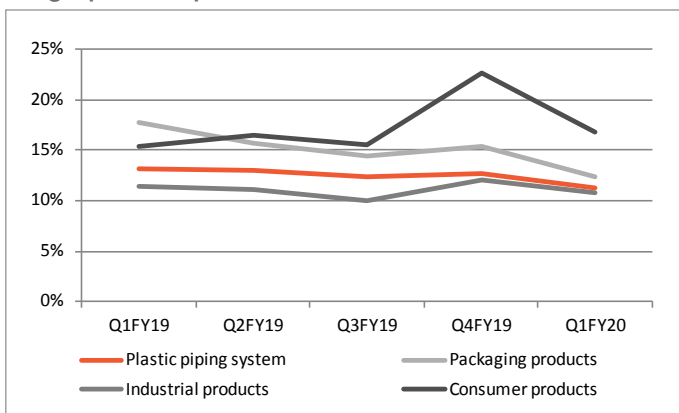
Source: Company, Sharekhan Research

Volume growth (%) of products



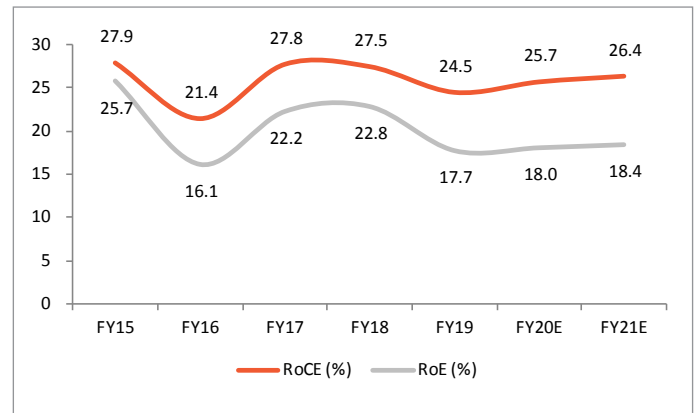
Source: Company, Sharekhan Research

Margin profile of products



Source: Company, Sharekhan Research

RoE (%) and RoCE (%) trend



Source: Company, Sharekhan Research

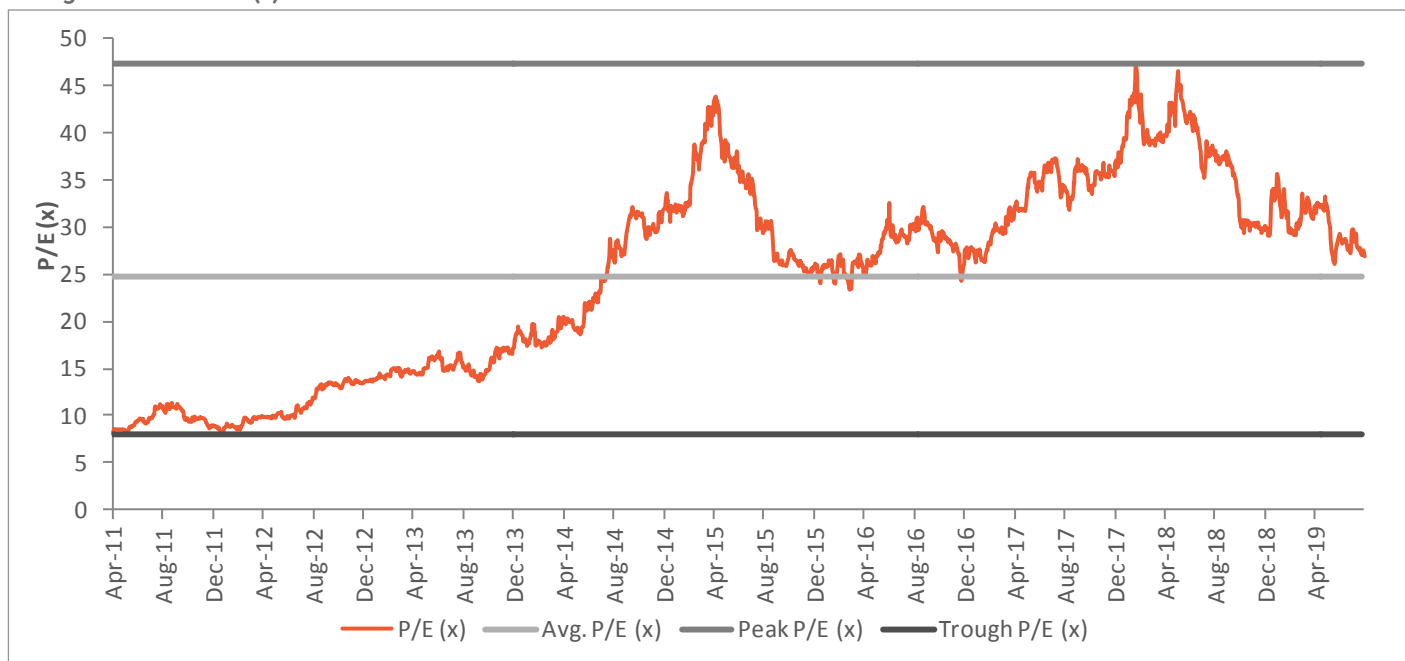
Outlook: Revenue growth guidance raised to 12-15%, retained margin guidance:

The management revised upward its revenue growth guidance to 12-15% for FY2020E, while it continued to maintain its volume growth guidance at 8-10%. The raise in revenue growth in value terms can be stemmed from the better product mix which has higher margins. Though strong plastic piping system volume growth was led by robust demand for agri pipe in Q1FY2020 owing to strong seasonality, the management remains confident on the growth in plastic piping system in FY2020E on the back of “Nal se Jal” scheme and multiple initiatives by government such as affordable house construction, establishing sewerage & drainage system, drinking water system, etc. SIL intends to incur capex of Rs. 300 crore-350 crore in FY2020E to double its Roto Moulding capacity and other plastic pipe manufacturing capacities at various locations, which would help the company to capture the upcoming opportunities. On the margins front, the management expects that operating margins to bounce back to the level of 13.5-14.5% for FY2020E, despite reporting a lower margin of 11.6% in Q1FY2020. Notably, the management believes that the steep price correction has bottomed out and there would be no further price cut in the polymers from Q2FY2020E, which would restrict any further inventory loss going ahead. Further, the better product mix would also help in improving margin performance.

Valuation

We have fine-tuned our earnings estimates for FY2020/FY2021E on account of strong volume growth, good demand environment for plastic piping system (~60% of total revenues) and anticipated recovery in margins. We continue to remain Positive on SIL over the long term, given recovery in rural economy, affordable housing sector and the new scheme for piped water connection – “Nal se Jal”. At the CMP, the stock is trading at 30x/26x its FY2020E/FY2021E earnings, which provides limited upside from the current level. We retain our Hold rating on the stock with a revised SoTP price target (PT) of Rs. 1,200.

One-year forward P/E (x) band



Source: Sharekhan Research

About company

Supreme Industries is a leading manufacturer of plastic products with a significant presence across Piping, Packaging, Industrial and Consumer segments. It has emerged as one of the best proxy plays on the growing plastic consumption in India on the back of a diversified product portfolio, an extensive distribution network, improved capital structure and government thrust on building a better infrastructure.

Investment theme

Supreme Industries is on a firm footing, with a strong product portfolio and new product launches are expected to drive growth in the coming years. The government's thrust on Affordable Housing and enhanced allocation towards Irrigation projects will aid future growth for the companies like Supreme Industries. We remain positive on the introduction of value-added products and capacity expansion plans, which are largely funded by robust internal accruals. Supreme Industries enjoys superior return ratios with low gearing levels, and we expect the company to maintain high return ratios going forward.

Key Risks

Slowdown in demand offtake from by user industry can impact revenue growth rates. Adverse commodity price fluctuation might impact the margin profile

Additional Data

Key management personnel

Bajranglal Surajmal Taparia	Non Executive Chairman
Mahavirprasad Surajmal Taparia	Executive Director
Shivratan Jeetmal Taparia	Executive Director
Vijaykumar Bajranglal Taparia	Executive Director
P C Somani	Chief Finance Officer
Rajendra J Saboo	AVP (Corporate Affairs) & Company Secretary & Compliance Officer

Source: Bloomberg

Top 10 shareholders

Sr. No.	Holder Name	Holding (%)
1	Boon Investment & Trading Co Pvt L	15.91
2	Jovial Investment & Trading Co Pvt	15.68
3	Venktesh Investment & Trading Co P	15.50
4	Nalanda India Fund Ltd	5.94
5	JPMorgan Chase & Co	3.55
6	Axis Asset Management Co Ltd/India	3.40
7	HDFC Asset Management Co Ltd	2.45
8	L&T Mutual Fund Trustee Ltd/India	2.21
9	DSP Investment Managers Pvt Ltd	1.96
10	Kotak Mahindra Asset Management Co	1.62

Source: Bloomberg

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

Sharekhan

by BNP PARIBAS

Know more about our products and services

For Private Circulation only

Disclaimer: This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusions from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he or its associates or his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company at the end of the month immediately preceding the date of publication of the research report nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document. Sharekhan Limited or its associates or analysts have not received any compensation for investment banking, merchant banking, brokerage services or any compensation or other benefits from the subject company or from third party in the past twelve months in connection with the research report.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Mr. Joby John Meledan; Tel: 022-61150000; email id: compliance@sharekhan.com;

For any queries or grievances kindly email igc@sharekhan.com or contact: myaccount@sharekhan.com

Registered Office: Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE / NSE / MSEI (CASH / F&O / CD) / MCX - Commodity: INZ000171337; DP: NSDL/CDSL-IN-DP-365-2018; PMS: INP000005786; Mutual Fund: ARN 20669; Research Analyst: INH000006183;

Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T&C on www.sharekhan.com; Investment in securities market are subject to market risks, read all the related documents carefully before investing.