

Inventory losses hit margin...

Supremes' performance was hit by significant inventory losses during Q4FY19 owing to sharp decline in polymer prices, resulting a sharp contraction in EBITDA margin by ~630 bps YoY to ~13% (I-direct: 16.6%). As a result, net profit declined by ~30% YoY. On the positive front, volume growth at ~10% YoY (I-direct: ~13%) was led by ~15% and ~14% YoY growth in core business i.e. piping and packaging segments respectively. However, volume growth in the industrial and consumer segment was tad below the expectation at -13% and 3% YoY respectively. According to management, downside pricing pressure has been bottom-out and company is likely to maintain EBITDA margin in the range of ~14% -15%.

Volume growth led by core business

Supremes' plastic segment revenue growth at ~7% YoY was led by ~10% volume growth. Company faced pricing pressure on account of sharp decline in raw material prices. On the segment front, Supreme reported strong sales growth in the piping and packaging segment by 14% and 11% YoY led by volume growth of 15% and 14% YoY respectively. Company foresees strong demand for piping products (both PVC, CPVC) and bathroom fittings from the housing segments. In the packaging segment revenue growth would be driven by new launches and favourable mix in the protective & performance packaging and cross laminated films category. On the consumer product segment, lower revenue growth is attributable to focus on increasing revenue contribution from high margin products. We have modelled volume, revenue CAGR 11%, 13% in FY19-21E in line with management guidance.

Margin drag due to inventory losses

Supremes' EBITDA margin at 13% witnessed a decline of ~600 bps YoY in Q4FY19 even higher decline than our estimate of ~300 bps YoY. This was largely attributable to inventory losses owing to drop in PVC and HDPE prices by upto 12.5% and ~20% in the month of March'19. We believe impact of inventory losses would be limited to Q4FY19 and gross margin would return to its normal level from FY20E. We believe Supreme would be able to maintain operating margin between 14% ~15%, owing to stability in raw material prices.

Valuation & Outlook

Though we believe SIL is a strong play in the PVC industry, short-term headwinds such as high raw material prices and rising competition may restrict any sharp movement in EBITDA margin. However, strong balance sheet with debt/equity 0.08x and higher return ratios RoE, RoCE at 22%, 28% reduce the short-term concern in the industrial segments. We maintain our stance on the stock as **Buy** with revised target price of ₹ 1165/share



Particulars

Particular	Amount
Market Capitalization (₹ Crore)	12,855.1
Total Debt (FY19) (₹ Crore)	162.1
Cash & Invest. (FY19) (₹ Crore)	32.1
EV (₹ Crore)	12,985.1
52 week H/L	1377/ 935
Equity capital (₹ Crore)	25.4
Face value (₹)	2.0

Key Highlights

- Performance was hit by inventory losses due to sharp decline in raw material prices
- PVC prices and HDPE dropped by ~12.5% and ~20% respectively in March
- Company expects to attain revenue growth of ~12% FY20E with EBITDA margin in the range of 13.5%-15%
- Revised target upside from ₹ 1150 to ₹ 1165

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Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	4462.3	4966.3	5612.0	6234.4	7073.2	12.3
EBITDA	761.9	787.1	784.6	926.4	1040.0	15.1
EBITDA Margin (%)	17.1	15.8	14.0	14.9	14.7	
Net Profit	428.1	431.0	448.6	499.0	568.6	12.6
EPS (₹)	33.7	33.9	35.3	39.3	44.8	
P/E (x)	30.0	29.8	28.7	25.8	22.6	
Price/Book (x)	7.6	6.8	6.0	5.5	4.9	
Mcap/Sales (x)	2.9	2.6	2.3	2.1	1.8	
RoE (%)	25.2	22.7	18.7	21.5	21.5	
RoCE (%)	30.0	27.9	25.0	28.6	28.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis

	Q4FY19	Q4FY19E	Q4FY18	YoY (%)	Q3FY19	QoQ (%)	Comments
Revenue	1,530.9	1,683.5	1,471.3	4.1	1,414.6	8.2	Plastic segment revenue increased by ~7% YoY to ₹ 1487 crore led by ~10% volume growth
Other Income	3.1	7.4	3.7	-16.8	3.3	-6.4	
Raw Material Exp	1,012.0	1,084.6	906.0	11.7	966.1	4.8	
Cost of traded goods	49.0	8.4	42.0	16.6	7.3	575.6	
Employee Exp	72.0	75.8	70.5	2.1	62.8	14.6	
Other expenditure	195.9	235.7	166.0	18.0	198.6	-1.3	
EBITDA	202.0	279.1	286.8	-29.6	179.8	12.4	
EBITDA Margin (%)	13.2	16.6	19.5	-630 bps	12.7	48 bps	Lower gross margin (down by ~500 bps YoY) was largely due to inventory losses.
Depreciation	48.1	48.8	41.4	16.3	45.5	5.8	
Interest	6.4	5.4	5.6	14.8	5.2	23.0	
PBT	161.8	232.3	243.5	-33.5	132.4	22.3	
Total Tax	48.9	74.3	77.4	-36.8	46.2	5.8	
Profit from associates	11.1	3.5	12.2	-8.9	-5.2	-312.0	
PAT	124.1	161.4	178.3	-30.4	81.0	53.2	Sharp decline in EBITDA margin hit the PAT during Q4FY19
Key Metrics							
Plastic Piping	950.2	899.8	830.5	14.4	795.6	19.4	Revenue growth was largely driven by volume growth of ~15%.
Packaging Products	267.4	284.8	240.0	11.4	307.0	-12.9	Strong volume growth of ~14% YoY drives the revenue growth Performance should not be compared on a YoY basis as company has divested its auto component business during the month of July'18. However, demand of automotive component remained weak
Industrial Products	203.6	265.7	257.1	-20.8	199.0	2.3	Slow revenue growth mainly due to focus on high margin products
Consumer Products	97.9	106.2	95.4	2.6	108.3	(9.6)	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20E			FY21E			Comments
	Old	New	% Change	Old	New	% Change	
Revenue	5,694.5	6234.4	9.5	6,468.9	7073.2	9.3	We slightly tweak our estimates factoring revision of the revenue guidance by management. We have modelled volume, revenue CAGR 11%, 13% in FY19-21E in line with management guidance
EBITDA	852.1	926.4	8.7	992.8	1040.0	4.8	
EBITDA Margin %	15.0	14.9	-14bps	15.3	14.7	-60bps	We tweak margin estimates considering the flattish gross margin for FY19E-21E.
PAT	494.3	499.0	1.0	546.2	568.6	4.1	
EPS (₹)	38.9	39.3	1.0	43.0	44.8	4.1	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

	Current				Earlier		Comments
	FY18	FY19E	FY20E	FY21E	FY20E	FY21E	
Plastic Piping	9.9	17.7	11.6	13.3	9.0	12.9	Piping segment growth would largely be driven by good demand traction from affordable housing segment
Packaging Products	3.3	3.2	13.8	15.5	19.8	19.0	Launch of new products would help in driving revenue
Industrial Products	23.8	14.8	13.9	12.1	19.6	2.7	Industrial product sales growth would be largely driven by a revival in demand for industrial component categories (mainly automobile industry)
Consumer Products	11.2	14.7	15.8	13.0	25.7	13.1	Focus on launch of premium category products to drive segment performance

Source: Company, ICICI Direct Research

Conference Call Highlights

Plastic piping system

- PVC piping segment EBITDA margin declined from 17.5% in Q4FY18 to 12.6% in Q4FY19 due to significant inventory losses
- Raw material prices (PVC, HDPE) recorded a sharp decline of ~12.5% and ~20% in the month of March'19.
- Company expect spillover of some inventory losses in Q1FY20. However, EBITDA margin of FY20E would be better than FY19

Packaging product

- Company recorded packaging product volume growth of ~14% YoY led by higher growth in the performance packaging segment
- EBITDA margin declined from ~23% in Q4FY18 to ~15% in Q4FY19 mainly due to sharp decline in realisation
- Performance of cross laminated films was tepid due to sharp price cut owing to rising competition. Company expect nearly double digit (~10%) growth in the volume in FY20E
- According to management, the pricing pressure has bottomed out and launch of new products would drive the future performance

Industrial products

- Industrial product revenue declined by 21% YoY led by ~13% YoY volume decline. EBITDA margin decline from 16% in Q4FY18 to 12% in Q4FY19
- Performance should not be compared on a YoY basis as company has divested its auto component business during the month of July'18.

Consumer products

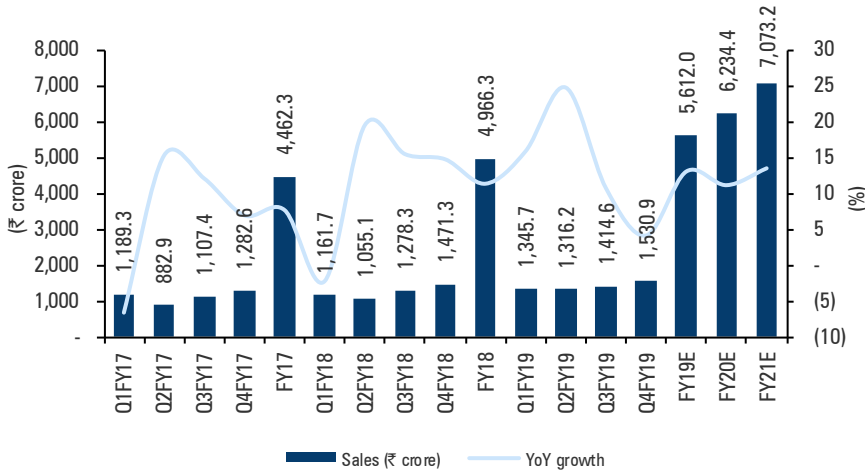
- Consumer products revenue growth at 3% driven by same amount of volume growth. EBITDA margin declined from 29.6% in Q4FY18 to 22.5% in Q4FY19
- Company is largely focusing to increase contribution from high margin products

Others

- PVC consumptions grew at muted rate of 2.1% and 4.9% in FY18 and FY19 respectively. Company expect revival in demand in FY20 onwards
- Company envisages capex of ~₹ 300-350 crore for FY20E to increase the capacity by ~50000-60000 tonnes.
- Company is targeting a revenue growth of ~12% led by ~10% volume growth. It expects EBITDA margin to be in the range of 13.5% to 15%
- Turnover of value added products increased by 12% YoY to ₹ 1944 crore
- D/E ratios came down from 0.14x in FY18 to .08x in FY19

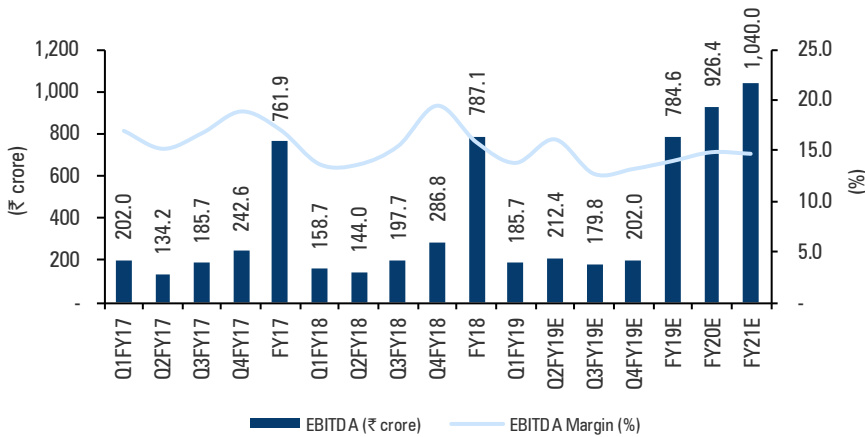
Financial story in charts

Exhibit 4: Revenue growth led by muted growth



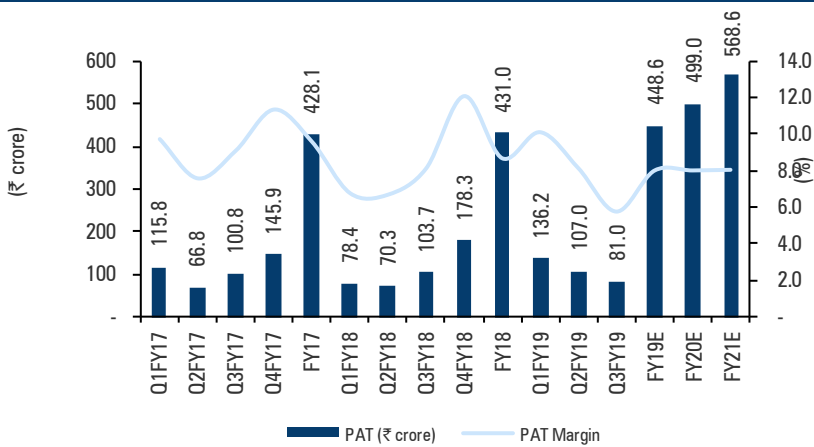
Source: Company, ICICI Direct Research

Exhibit 5: EBITDA margin movement



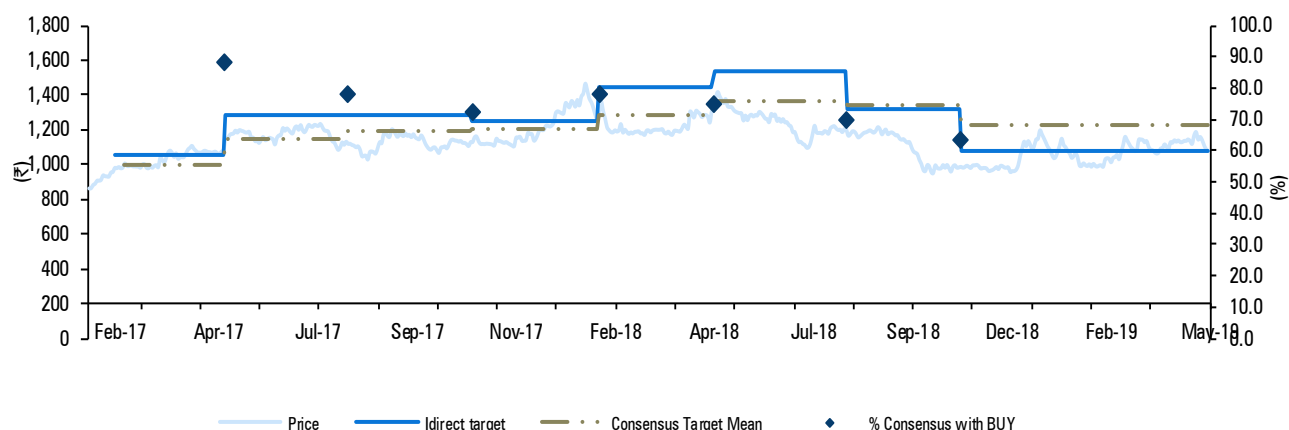
Source: Company, ICICI Direct Research

Exhibit 6: Strong return ratios due to lean balance sheet



Source: Company, ICICI Direct Research

Exhibit 7: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 8: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Boon Investment & Trading Co., Pvt. Ltd.	31-Dec-18	15.9	20.2	0.0
2	Jovial Investment & Trading Co., Pvt. Ltd.	31-Dec-18	15.7	19.9	0.0
3	Venktesh Investment & Trading Co., Pvt. Ltd.	31-Dec-18	15.5	19.7	0.0
4	Nalanda Capital Pte Ltd	31-Dec-18	5.9	7.5	0.0
5	Axis Asset Management Company Limited	31-Mar-19	3.1	4.0	0.0
6	JPMorgan Asset Management U.K. Limited	31-Dec-18	2.3	3.0	0.0
7	HDFC Asset Management Co., Ltd.	31-Mar-19	2.2	2.8	0.0
8	L&T Investment Management Limited	31-Mar-19	2.2	2.8	0.0
9	DSP Investment Managers Pvt. Ltd.	31-Mar-19	1.8	2.3	0.0
10	Kotak Mahindra Asset Management Company Ltd.	31-Dec-18	1.4	1.8	0.0

Source: Reuters, ICICI Direct Research

Exhibit 9: Recent Activity

Investor name			Investor name		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
Grandeur Peak Global Advisors, LLC	1.9	0.1	Matthews International Capital Management, L.L.C.	-13.4	-0.8
HSBC Global Asset Management (India) Private Limited	0.8	0.0	Invesco Hong Kong Limited	-2.0	-0.1
L&T Investment Management Limited	0.5	0.0	Edelweiss Asset Management Ltd.	-1.9	-0.1
IDFC Asset Management Company Private Limited	0.2	0.0	Amundi Hong Kong Limited	-0.7	-0.1
The Vanguard Group, Inc.	0.1	0.0	Invesco Asset Management (India) Private Limited	-0.6	0.0

Source: Reuters, ICICI Direct Research

Exhibit 10: Shareholding Pattern

(in %)	Mar-18	Jun-18	Sep-18	Dec-18	Mar-19
Promoter	49.7	49.7	49.7	49.7	49.7
FII	21.2	18.1	17.7	17.0	16.9
DII	7.4	10.4	10.5	12.8	13.2
Others	21.7	21.8	22.1	20.6	20.2

Source: Company, ICICI Direct Research

Financial summary

Exhibit 11: Profit and loss statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Net Sales	4966.3	5612.0	6234.4	7073.2
Growth (%)		13.0	11.1	13.5
Other Income	4.8	7.8	8.4	9.1
Total Revenue	4971.0	5619.8	6242.8	7082.2
Expenditure				
Raw Material Expenses	3171.1	3744.7	4073.6	4609.0
Cost of goods traded	77.1	84.3	59.3	98.5
Employees cost	241.9	254.6	306.3	356.0
Other Expenditure	651.6	752.9	868.6	969.7
Total Operating Exp	4179.2	4827.4	5307.8	6033.1
Operating Profit (EBITDA)	787.1	784.6	926.6	1040.0
Growth (%)	NM	-0.3	18.1	12.2
Depreciation	167.2	183.5	199.5	226.3
Interest	21.9	26.0	15.2	12.6
PBT after Excep Items	602.8	650.0	720.3	810.2
Total Tax	205.7	215.8	240.5	269.1
PAT before MI	397.1	434.3	479.8	541.1
Profit from Associates	33.9	14.4	19.3	27.5
Reported PAT	431.0	448.6	499.1	568.6
Growth (%)		4.1	11.3	13.9

Source: Company, ICICI Direct Research

Exhibit 12: Cash flow statement				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Profit/(Loss) after taxation	431.0	448.6	499.1	568.6
Add: Depreciation & Amortization	167.2	183.5	199.5	226.3
Add: Interest Paid	21.9	26.0	15.2	12.6
C/F bef working cap changes				
Net Increase in Current Assets	-25.6	-77.6	-127.6	-231.6
Net Increase in Current Liabilities	-78.4	97.4	114.6	122.1
Net cash flow from operating Act	516.1	678.1	700.7	698.0
(Inc)/Dec in Other Investments	-19.0	-28.7	20.0	0.0
(Purchase)/Sale of Fixed Assets	-286.4	-366.1	-320.0	-400.0
Net Cash flow from Investing Act	-307.4	-392.1	-306.5	-408.7
Proceeds/(Rep) of debt	0.8	-70.3	-30.0	-20.0
(Payment) of Div & Div Tax	-184.4	-198.2	-198.2	-243.9
Net Cash flow from Financing Act	-253.0	-285.8	-381.9	-276.5
Net Cash flow	-44.3	0.1	12.4	12.8
Cash & Cash Equ at the begin.	76.2	32.0	32.1	44.5
Cash & Cash Equ at the end	32.0	32.1	44.5	57.3

Source: Company, ICICI Direct Research

Exhibit 13: Balance sheet				
	₹ crore			
(Year-end March)	FY18	FY19E	FY20E	FY21E
Equity Capital	25.4	25.4	25.4	25.4
Reserve and Surplus	1869.5	2128.6	2291.0	2615.7
Total Shareholders funds	1894.9	2154.0	2316.4	2641.1
Total Debt	232.4	162.1	132.1	112.1
Deferred Tax Liability	113.4	120.4	120.4	120.4
Total Liabilities	2240.6	2436.4	2568.8	2873.5
Gross Block	2603.9	2942.6	3306.7	3706.7
Accumulated Depreciation	1238.0	1421.6	1621.1	1847.4
Net Block	1365.8	1521.0	1685.6	1859.3
Capital WIP	62.6	90.0	45.9	45.9
Total Fixed Assets	1428.4	1611.0	1731.5	1905.2
Other Investments	193.7	222.3	202.3	202.3
Inventory	697.0	750.4	819.9	968.9
Debtors	382.0	387.4	427.0	484.5
Loans and Advances	149.2	167.8	186.4	211.5
Cash	32.0	32.1	44.5	57.3
Total Current Assets	1260.1	1337.8	1477.8	1722.2
Creditors	489.8	557.4	633.3	718.5
Provisions	20.4	24.0	39.2	44.5
Total Current Liabilities	695.5	792.9	907.4	1029.5
Net Current Assets	564.6	544.9	570.4	692.7
Long term loans and advances	53.9	58.2	64.6	73.3
Total Asset	2240.6	2436.4	2568.8	2873.5

Source: Company, ICICI Direct Research

Exhibit 14: Key ratios				
	₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E
Per share data (₹)				
EPS	33.9	35.3	39.3	44.8
Cash EPS	47.1	49.8	55.0	62.6
BV per share	149.2	169.6	182.4	207.9
DPS	14.5	15.6	15.6	19.2
Operating Ratios (%)				
EBITDA Margin	15.8	14.0	14.9	14.7
PAT Margin	8.7	7.2	8.0	8.0
Turnover Days				
Inventory Days	51.2	48.8	48.0	50.0
Debtor Days	28.1	25.2	25.0	25.0
Creditor Days	36.0	36.3	37.1	37.1
Return Ratios (%)				
RoNW	22.7	18.7	21.5	21.5
RoCE	27.9	25.0	28.6	28.6
RoIC	27.2	24.4	27.5	27.5
Valuation Ratios (x)				
P/E	29.8	28.7	25.8	22.6
EV / EBITDA	16.6	16.6	14.0	12.4
EV / Net Sales	2.6	2.3	2.1	1.8
Market Cap / Sales	2.6	2.3	2.1	1.8
Price to Book Value	6.8	6.0	5.5	4.9
Solvency Ratios				
Debt / EBITDA	0.3	0.2	0.1	0.1
Debt / Equity	0.1	0.1	0.1	0.0
Current Ratio	2.4	2.2	2.1	2.2
Quick Ratio	1.0	1.0	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 15: ICICI Direct Coverage Universe (Consumer Discretionary)

Sector / Company	CMP			M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			RoCE (%)			RoE (%)		
	(₹)	TP(₹)	Rating		FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY18E	FY19E	FY20E
Asian Paints (ASIPAI)	1,388	1,600	Buy	133,109	24.0	28.3	33.0	57.8	49.0	42.1	35.9	30.4	25.7	32.2	33.8	33.7	24.5	25.3	24.8
Astral Polytechnik (ASTPOL)	1,164	1,250	Hold	13,939	14.6	22.3	29.1	79.9	52.3	40.0	39.3	28.3	23.1	20.7	24.8	26.3	13.9	17.7	19.0
Bajaj Electricals (BAJELE)	540	474	Hold	5,511	18.9	21.4	26.3	28.6	25.2	20.6	14.8	13.0	11.5	17.2	17.8	19.5	18.5	17.9	18.5
Havells India (HAVIND)	733	800	Buy	45,732	14.1	17.3	20.4	52.1	42.3	35.9	37.2	28.8	24.0	29.4	31.0	31.1	22.2	22.7	22.5
Kansai Nerolac (KANNER)	433	455	Hold	23,335	8.7	9.7	11.3	49.9	44.8	38.3	29.5	25.7	22.0	20.2	21.8	22.9	13.6	14.6	15.4
Pidilite Industries (PIDIND)	1,166	1,250	Buy	59,774	18.5	22.0	26.1	63.0	52.9	44.7	42.2	38.6	32.5	33.6	29.6	31.4	27.0	21.7	22.8
Essel Propack (ESSPRO)	133	136	Hold	4,179	5.8	6.7	8.0	23.0	19.7	16.6	9.4	8.1	6.9	18.3	20.3	22.9	14.6	15.8	17.1
Supreme Indus (SUPIND)	1,023	1,075	Buy	12,995	35.3	39.3	44.8	29.0	26.0	22.9	16.6	14.0	12.4	25.0	28.6	28.6	18.7	21.5	21.5
Symphony (SYMLIM)	1,341	1,110	Hold	9,381	18.8	25.9	31.7	71.3	51.9	42.3	37.7	52.5	35.2	41.3	25.5	34.5	31.5	22.6	29.9
V-Guard Ind (VGUARD)	210	205	Hold	8,939	3.3	4.2	5.1	63.3	50.0	40.8	43.9	41.9	32.8	23.7	24.0	26.0	17.7	18.2	19.8
Voltas Ltd (VOLTAS)	575	650	Hold	19,017	15.4	20.3	24.4	37.2	28.4	23.5	29.2	28.3	22.9	19.8	21.7	22.4	14.8	14.8	16.6
Time Techno (TIMTEC)	82	80	Hold	1,854	8.8	10.8	12.7	9.3	7.6	6.5	5.4	5.3	4.7	14.9	14.7	15.5	12.2	12.2	13.2

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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