

November 3, 2011

ACCUMULATE

MEDIUM RISK

PRICE Rs.192

TARGET Rs.225

## PLASTICS

### EARLIER RECO

#### ACCUMULATE

Price	Rs.202
Target	Rs.235
Date	Aug 04, 2011

### SHARE HOLDING (%)

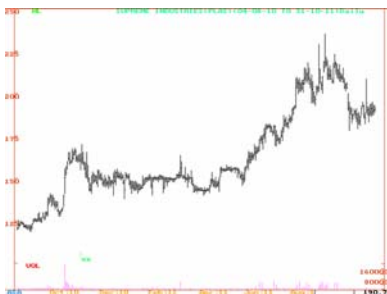
Promoters	49.62
FII	8.27
Institutions	9.51
Body Corporates	8.99
Public & Others	23.61

### STOCK DATA

Reuters Code	SUPI.BO	
Bloomberg Code	SI@IN	
BSE Code	509930	
NSE Symbol	SUPREMEIND	
Market Capitalization*	Rs. 24394 mn US\$ 498 mn	
Shares Outstanding*	127.05 mn	
52 Weeks (H/L)	Rs.236 / 136	
Avg. Daily Volume (6m)	84,989 Shares	
Price Performance (%)		
1M	3M	6M
1	(8)	24
200 Days EMA: Rs.175		

\*On fully diluted equity shares

Part of  Bonanza



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Supreme Industries Ltd. (SIL) is one of the leading players in the plastic processing industry. SIL operates in 4 major plastic products segments, all of which are growing at a strong 18-20% rate. SIL has 20 technologically advanced manufacturing facilities located at various places spread across the country. **We recently had an interaction with the management and some of the key points pertaining to results and discussed in the concall as well are summarized below:**

- For the quarter ended 30<sup>th</sup> Sep, 2011 (Q1FY12), on a standalone basis, Supreme Industries Ltd (SIL) posted net sales of Rs.4804.3 mn, registering a growth of 9.7% YoY. It's EBITDA increased marginally by 1.5% YoY to Rs.575.8 mn and EBITDA margins decreased by 100 bps to 12%. Its PBT (including other income) also increased marginally by 1.5% YoY to Rs.361.5 mn. Its APAT increased by 11.5% YoY to Rs. 262.5 mn. Its RPAT is Rs. 359.1 mn for the quarter. Its AEPS for the quarter is Rs.2.1.
- During Q1FY12, its margins were under pressure mainly due to higher conversion cost as plants were working at relatively lower capacity utilization (due to extended monsoon, which impacted product demand) and inventory correction due to fall in RM prices.
- On the commercial property side, SIL realized Rs.207.5 mn from sale of 13,169 square feet at an average realization of Rs. 15,757 during the quarter. SIL has further negotiated sale of 41,625 square feet at a consideration of Rs. 700.6 mn & has received an advance payment of Rs. 182.475 mn. This transaction is likely to be through by Q2FY12 end.
- SIL processed 46,761 MT of polymers in Q1FY12 compared to 45,531 MT in Q1FY11, achieving a volume growth of 3%.

Segment	Volume in tones (Q1FY11)	Volume in tonnes (Q1FY12)
Plastics Piping	24300	26300
Packaging Products	9000	8500
Consumer Products	4900	4000
Industrial Products	7800	8000

- SIL plans to incur a capex of Rs. 10 bn (from FY11 to FY15) for increasing capacity and putting up more manufacturing facilities. It has already incurred a Capex of Rs. 2.58 bn in FY11 and has planned a Capex of Rs.2.25 bn in FY12 and Rs.2.5 bn in FY13. SIL's capacity is expected to increase further from 2.92 lakh MT currently to about 3.7 lakh MT by FY12. It will also have 23 manufacturing facilities by FY12 as against 19 facilities in FY11.
- SIL plans to foray into Composite cylinder manufacturing and expects to start production by Q3FY12. The market size in India is around 17.5 mn cylinders per year and SIL's capacity would be around 400,000 cylinders per year. Capex for this is approximately Rs.650 mn with a potential to achieve turnover of around Rs. 1.2 bn per year.

### OUTLOOK & VALUATION

SIL has been in a capacity expansion mode since the last few years given the strong 20% plus demand growth environment for most of its products. While its margins have been growing steadily, it fell by about 100 bps in Q1FY12 due to lower volume growth & inventory loss. While Q2FY12 margins may also reflect some impact of the above, with the revival in its volume growth, the management expects margins to improve in H2FY12. Hence, its Revenues and profits are expected to grow at a robust pace during FY12 & FY13. However, considering its Q1FY12's performance, we have slightly reduced our estimates of FY12 and FY13. We now expect its FY2012 & FY2013 Revenue to grow at 17.3% & 19.8% and its APAT to grow at 17.2% & 28.7% respectively. At the Current Price of Rs.192, the stock is available at a valuation of 13.3x & 10.3x its FY12E & FY13E earnings of Rs.14.5 & Rs.18.6 resp. We maintain 'ACCUMULATE' rating on the stock with a reduced target price of Rs.225 (11x its FY13E Earnings plus value of Andheri property at Rs.20 per share).

### KEY FINANCIALS (Standalone)

Y/E June	Revenue (Rs mn)	APAT (Rs mn)	APAT (% Ch.)	AEPS (Rs.)	P/E (x)	ROCE (%)	ROE (%)	P/BV (x)
FY10	19944.3	1334.3	46.4	10.5	18.3	23.8	40.1	6.4
FY11	24293.0	1567.4	17.5	12.3	15.6	20.9	36.1	5.0
<b>FY12E</b>	<b>28495.7</b>	<b>1837.5</b>	<b>17.2</b>	<b>14.5</b>	<b>13.3</b>	<b>19.5</b>	<b>31.0</b>	<b>3.5</b>
<b>FY13E</b>	<b>34129.3</b>	<b>2365.0</b>	<b>28.7</b>	<b>18.6</b>	<b>10.3</b>	<b>18.9</b>	<b>25.8</b>	<b>2.1</b>

QUARTERLY STATEMENT (Standalone)					Rs.mn
Y/E June	Q4FY10	Q4FY11	Q1FY11	Q1FY12	
<b>Net sales</b>	6761.6	7479.6	4377.6	4804.3	
Growth %	19.9	10.6	27.8	9.7	
Total Expense	5704.5	6340.5	3810.3	4228.5	
<b>EBITDA</b>	1057.2	1139.1	567.3	575.8	
Growth %	(13.9)	7.8	12.4	1.5	
Margin %	15.6	15.2	13.0	12.0	
Interest	57.8	122.8	68.3	133.2	
Depreciation	151.2	161.0	142.9	171.6	
Other Income	(55.3)	12.1	0.1	90.5	
<b>PBT</b>	792.8	867.3	356.3	361.5	
Margin %	11.7	11.6	8.1	7.5	
Tax	272.9	327.3	120.7	99.0	
Rate %	34.4	37.7	33.9	27.4	
<b>APAT</b>	520.0	540.0	235.6	262.5	
Margin %	7.7	7.2	5.4	5.5	
Extraordinary items	0.0	0.0	(167.5)	(96.6)	
<b>RPAT</b>	520.0	540.0	403.1	359.1	
Margin %	7.7	7.2	9.2	7.5	

PROFIT & LOSS STATEMENT (Standalone)					Rs.mn
Y/E June	FY10	FY11	FY12E	FY13E	
<b>Net sales</b>	19944.3	24293.0	28495.7	34129.3	
Raw Material	13085.6	15766.9	18607.7	22388.8	
Employee Cost	795.7	964.3	1133.0	1314.3	
Other Expenses	3210.4	4224.2	4900.1	5669.4	
<b>EBITDA</b>	2852.6	3337.6	3854.9	4756.8	
Interest	330.3	424.9	488.7	498.4	
Depreciation	529.2	618.9	711.7	818.4	
Other Income	33.6	65.1	110.7	121.8	
<b>PBT</b>	2026.7	2358.9	2765.3	3561.7	
Tax	692.4	791.6	927.7	1196.7	
<b>APAT</b>	1334.3	1567.4	1837.5	2365.0	
Extraordinary items	(114.0)	(183.1)	(908.1)	(2794.8)	
<b>RPAT</b>	1448.3	1750.5	2745.6	5159.8	

BALANCE SHEET STATEMENT (Standalone)					Rs.mn
As on 30 <sup>th</sup> June	FY10	FY11	FY12E	FY13E	
Equity Share Capital	254.1	254.1	254.1	254.1	
Reserves and Surplus	3527.9	4641.6	6718.5	11135.1	
<b>Net worth</b>	<b>3781.9</b>	<b>4895.7</b>	<b>6972.5</b>	<b>11389.2</b>	
Total Loans	3873.6	5112.4	5240.2	4978.2	
<b>Capital Employed</b>	<b>7655.5</b>	<b>10008.1</b>	<b>12212.7</b>	<b>16367.4</b>	
<b>Fixed Assets</b>	<b>5785.9</b>	<b>7678.2</b>	<b>8203.0</b>	<b>8709.6</b>	
Investments	336.2	336.4	336.4	336.4	
Inventories	2906.4	3454.1	4051.6	4852.6	
Sundry Debtors	1314.4	1530.1	1794.8	2149.7	
Cash & Bank Bal	182.5	139.5	1403.9	4494.6	
Loans & Advances	977.4	1510.2	1771.5	2121.7	
Curr Liab & Prov	3148.9	3845.1	4510.3	5402.0	
<b>Net Current Assets</b>	<b>2231.9</b>	<b>2788.8</b>	<b>4511.5</b>	<b>8216.6</b>	
<b>Deferred Tax Assets (Net)</b>	<b>(698.4)</b>	<b>(795.4)</b>	<b>(838.2)</b>	<b>(895.2)</b>	
<b>Total Assets</b>	<b>7655.6</b>	<b>10008.1</b>	<b>12212.7</b>	<b>16367.4</b>	

FINANCIAL RATIO STATEMENT (Standalone)				
Y/E June	FY10	FY11	FY12E	FY13E
<b>Growth (%)</b>				
Net Sales	20.7	21.8	17.3	19.8
APAT	46.4	17.5	17.2	28.7
EBITDA	19.9	17.0	15.5	23.4
<b>Profitability (%)</b>				
EBITDA Margin	14.3	13.7	13.5	13.9
Adj. PAT Margin	6.7	6.5	6.4	6.9
ROCE	23.8	20.9	19.5	18.9
ROE	40.1	36.1	31.0	25.8
<b>Per Share Data (Rs.)</b>				
Adj. EPS	10.5	12.3	14.5	18.6
Adj. CEPS	16.0	19.4	27.6	47.5
BVPS	29.8	38.5	54.9	89.7
<b>Valuations (X)</b>				
PER	18.3	15.6	13.3	10.3
PEG	0.4	0.9	0.8	0.4
P/BV	6.4	5.0	3.5	2.1
EV / EBITDA	9.8	8.8	7.3	5.2
EV / Net sales	1.4	1.2	1.0	0.7
Dividend Yield (%)	1.9	2.2	2.3	2.6
<b>Turnover Days</b>				
Debtors days	24	23	23	23
Creditors days	46	50	50	50
<b>Gearing Ratio</b>				
Total Debt to Equity	1.0	1.0	0.8	0.4

Source : Company, Sushil Finance Research Estimates

## Rating Scale

This is a guide to the rating system used by our Institutional Research Team. Our rating system comprises of six rating categories, with a corresponding risk rating.

### Risk Rating

Risk Description	Predictability of Earnings / Dividends; Price Volatility
Low Risk	High predictability / Low volatility
Medium Risk	Moderate predictability / volatility
High Risk	Low predictability / High volatility

### Total Expected Return Matrix

Rating	Low Risk	Medium Risk	High Risk
Buy	Over 15 %	Over 20%	Over 25%
Accumulate	10 % to 15 %	15% to 20%	20% to 25%
Hold	0% to 10 %	0% to 15%	0% to 20%
Sell	Negative Returns	Negative Returns	Negative Returns
Neutral	Not Applicable	Not Applicable	Not Applicable
Not Rated	Not Applicable	Not Applicable	Not Applicable

#### Please Note

- Recommendations with "Neutral" Rating imply reversal of our earlier opinion (i.e. Book Profits / Losses).
- \*\* Indicates that the stock is illiquid With a view to combat the higher acquisition cost for illiquid stocks, we have enhanced our return criteria for such stocks by five percentage points.
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