

September 4th, 2008

BUY

MEDIUM RISK

PRICE Rs. 219

TARGET Rs. 375

PLASTICS

EARLIER RECO

Buy	
Price	Rs. 223
Target	Rs. 423
Date	2nd May'08

SHARE HOLDING (%)

Promoters	44.98
FII	3.13
FI / MF	0.03
Body Corporate	13.65
Public & Others	38.21

STOCK DATA

Reuters Code	SUPLBO
Bloomberg Code	SI@IN
BSE Code	509930
NSE Symbol	SUPREMEIND
Market Capitalization	Rs. 6048.7 mn US\$ 136.6 mn

Shares Outstanding 27.62 mn

52 Weeks (H/L) Rs.420 / 153

Avg. Daily Volume (6m) 4200 Shares

Price Performance (%)

1 M	3 M	6 M
30	(0)	(13)

200 Days EMA Rs. 252

Part of  Bonanza



Supreme Industries Ltd. (SIL) is one of the leading players in the plastic processing industry. In order to leverage the advantage of the strong growth in plastic pipe, cross-laminated film and protective packaging product segments, SIL is in the process of expanding its capacity of 1,80,000 MT to 3,30,000 MT. Its expansion is being carried out at Gadegaon, near Jalgaon, on a plot of 134 acres, where the Phase-I expansion was commissioned in Feb'08.

DECENT PERFORMANCE FOR Q4FY08 (Year Ending June)

Supreme Industries has delivered sound performance in Q4FY08. During the quarter, its revenues grew by 21.5% YoY to Rs. 4,419.1 mn. EBITDA increased by 6.5% YoY to Rs. 520.4 mn, while the EBITDA margins decreased by 166 bps to 11.8%. In Q4FY08, its APAT has increased by 17.2% YoY to Rs. 214.9 mn.

The Company has reported decent set of numbers for the year FY08, though below our estimates. During the period, its revenues grew by just 12.8% YoY to Rs. 13,102.2 mn, whereas its APAT grew by 18% YoY to Rs. 499.2 mn. The EBITDA increased by 10.9% YoY to Rs. 1,437.8 mn, while EBITDA margins decreasing by 20 bps to 11%. The main reason for lower than expected numbers was the unprecedented increase in the raw materials price and high forex & related expenses.

UPDATES ON ANDHERI COMMERCIAL PROJECT

The Company is constructing an ultra modern 10-storied commercial complex at its land in Veera Desai Road, Andheri (West), consisting of a saleable area of about 270,000 square feet. Earlier, the Company was looking at a combination of Sell as well as Lease Model for this project, but now is looking to selling out the complex entirely. Assuming a realization rate of Rs. 15,000 per square feet and after considering the cost of construction as well as tax expense, we have estimate the value of the property at Rs. 82 per share of SIL (as against Rs.92 per share of SIL earlier). The change in valuation is primarily driven by the increased cost of construction, slowdown in the real estate prices and also due to the delay in completion of work due to non-availability of laborers.

OUTLOOK & VALUATION

The performance of Supreme Industries during FY08 had been decent, though below our estimates. While the lower than expected numbers were largely due to external factors like increased raw material prices & forex related expenses, it will impact our estimates for FY09E & FY10E revenue & EPS. We have lowered our estimates for the coming 2 years & now expect its revenues to increase by 28% & 22% in FY09E & FY10E respectively and its APAT is expected to grow by 35% in FY09E and 20.2% in FY10E.

In line with our reduced FY09 & FY10 estimates, we are also revising the valuation of the core business from Rs. 331 per share to Rs. 293 per share (10 times its FY10E core earnings). We have also reduced the value of land to Rs. 82 per share (from Rs. 92 per share earlier) primarily due to increased cost of construction, slowdown in the real estate sector & delay in completion schedule. At the Current Market Price of Rs. 219, the stock is available at 9x and 7.5x its FY09E & FY10E estimated earnings of Rs. 24.4 & 29.3 respectively. We retain our 'BUY' rating on the stock with a reduced target price of Rs. 375 (10x its FY10E Earnings plus value of Andheri Land at Rs. 82 per share).

KEY FINANCIALS

Y/E	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	EPS (%Ch.)	PER (x)	ROCE (%)	ROE (%)	EV/EBIDTA (x)
March								
FY08	13102.2	499.2	18.1	18.0	12.1	15.1	20.9	6.1
FY09E	16770.8	673.8	24.4	35.0	9.0	18.2	26.5	4.7
FY10E	20460.4	809.7	29.3	20.2	7.5	18.1	21.2	3.1

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QUARTERLY RESULTS (Consolidated) (Rs.mn)

Y/E March	Q4FY08	Q4FY07	Q3FY08
Revenues	4419.1	3638.5	3262.0
% Ch. QoQ	35.5	20.3	13.2
% Ch. YoY	21.5	20.7	7.8
RM Consumption	2987.2	2449.1	2177.4
% Ch. QoQ	37.2	21.7	16.2
% Ch. YoY	22.0	20.9	8.2
% STO	67.6	67.3	66.7
Staff costs	174.1	128.2	133.5
% Ch. QoQ	30.5	32.5	4.2
% Ch. YoY	35.8	29.3	38.0
% STO	3.9	3.5	4.1
Other Expenditure	737.4	572.4	635.8
% Ch. QoQ	16.0	(4.2)	15.8
% Ch. YoY	28.8	1.5	6.4
% STO	16.7	15.7	19.5
Total Expenditure	3898.7	3149.6	2946.6
% Ch. QoQ	32.3	16.4	15.5
% Ch. YoY	23.8	17.2	8.9
% STO	88.2	86.6	90.3
EBITDA	520.4	488.9	315.4
% Ch. QoQ	65.0	53.3	(4.6)
% Ch. YoY	6.4	50.1	(1.1)
% Margin	11.8	13.4	9.7
Interest	110.3	97.4	110.8
% Ch. QoQ	(0.5)	8.0	29.0
% Ch. YoY	13.2	34.2	22.8
% of STO	2.5	2.7	3.4
EBDT	410.1	391.5	204.6
% Ch. QoQ	100.5	71.2	(16.4)
% Ch. YoY	4.8	54.6	(10.5)
% Margin	9.3	10.8	6.3
Depreciation	111.5	116.5	101.7
% Ch. QoQ	9.6	46.9	11.6
% Ch. YoY	(4.3)	5.5	28.2
% of STO	2.5	3.2	3.1
PBT excl. OI	298.6	275.0	102.9
% Ch. QoQ	190.3	84.1	(33.0)
% Ch. YoY	8.6	92.6	(31.1)
% Margin	6.8	7.6	3.2
Other Income	22.1	15.8	13.2
% Ch. QoQ	67.4	79.0	(67.6)
% Ch. YoY	40.4	(10.7)	50.1
% of STO	0.5	0.4	0.4
PBT incl OI	320.8	290.7	116.1
% Ch. QoQ	176.3	83.8	(40.2)
% Ch. YoY	10.3	81.3	(26.6)
% Margin	7.3	8.0	3.6
Tax	105.9	107.4	33.5
% Ch. QoQ	216.1	109.8	(42.2)
% Ch. YoY	(1.4)	96.3	(34.6)
% of PBT	33.0	36.9	28.9
APAT	214.9	183.3	82.6
% Ch. QoQ	160.1	71.4	(39.4)
% Ch. YoY	17.2	73.5	(22.8)
% Margin	4.9	5.0	2.5
Extraordinary Exp.	21.2	(0.5)	0.0
RPAT	193.7	183.8	82.6
% Margin	4.4	5.1	2.5

PROFIT & LOSS (Consolidated) (Rs.mn)

Y/E March	FY10E	FY09E	FY08	FY07
Revenue	20460.4	16770.8	13102.2	11616.6
% Ch. YoY	22.0	28.0	12.8	18.3
RM Consumption	14123.2	11325.3	8674.9	7795.6
% Ch. YoY	24.7	30.6	11.3	19.6
% STO	69.0	67.5	66.2	67.1
Staff costs	816.3	680.2	544.2	407.9
% Ch. YoY	20.0	25.0	33.4	19.4
% STO	4.0	4.1	4.2	3.5
Other Expenditure	3262.0	2836.5	2445.3	2116.8
% Ch. YoY	15.0	16.0	15.5	6.5
% STO	15.9	16.9	18.7	18.2
Total Expenditure	18201.4	14842.1	11664.4	10320.3
% Ch. YoY	22.6	27.2	13.0	16.6
% STO	89.0	88.5	89.0	88.8
EBITDA	2259.0	1928.8	1437.8	1296.3
% Ch. YoY	17.1	34.1	10.9	33.3
% Margin	11.0	11.5	11.0	11.2
Interest	600.6	546.0	390.0	330.1
% Ch. YoY	10.0	40.0	18.2	22.4
% of STO	2.9	3.3	3.0	2.8
EBDT	1658.4	1382.8	1047.8	966.2
% Ch. YoY	19.9	32.0	8.4	37.4
% Margin	8.1	8.2	8.0	8.3
Depreciation	545.2	474.1	395.1	402.5
% Ch. YoY	15.0	20.0	(1.8)	(2.6)
% of STO	2.7	2.8	3.0	3.5
PBT excl. OI	1113.2	908.7	652.7	563.8
% Ch. YoY	22.5	39.2	15.8	94.6
% Margin	5.4	5.4	5.0	4.9
Other Income	113.1	102.8	89.4	66.7
% Ch. YoY	10.0	15.0	34.1	42.9
% Margin	0.6	0.6	0.7	0.6
PBT incl OI	1226.2	1011.5	742.1	630.4
% Ch. YoY	21.2	36.3	17.7	87.5
% Margin	6.0	6.0	5.7	5.4
Tax	416.5	337.7	242.9	207.4
% Ch. YoY	23.4	39.0	17.1	100.0
% of PBT	34.0	33.4	32.7	32.9
APAT	809.7	673.8	499.2	423.0
% Ch. YoY	20.2	35.0	18.0	81.9
% Margin	4.0	4.0	3.8	3.6
Extraordinary Exp.	(2266.7)	0.0	0.5	(78.5)
RPAT	3076.4	673.8	498.8	501.5
% Ch. YoY	356.6	35.1	(0.6)	25.5
% Margin	15.0	4.0	3.8	4.3

Source : Company, Sushil Finance Research Estimates

BALANCE SHEET (Consolidated)

(Rs.mn)

As on 31 st March	FY10E	FY09E	FY08	FY07
SOURCES OF FUNDS				
Share Capital	276.2	276.2	276.2	276.2
Reserves & Surplus	4781.3	2304.4	2229.9	1987.9
Net Worth	5057.5	2580.6	2506.1	2264.1
Secured Loans	2096.4	2994.9	2722.6	2012.9
Unsecured Loans	270.3	336.7	280.6	270.3
Total Loan funds	2366.7	3331.6	3003.2	2283.2
Capital Employed	7424.3	5912.1	5509.3	4547.3
APPLICATION OF FUNDS				
Gross Block	10529.0	9279.0	8029.0	6637.6
Less: Depreciation	4407.5	3862.3	3388.1	3271.7
Net Block	6121.5	5416.7	4640.9	3365.9
Cap. WIP	150.0	400.0	684.1	865.7
Asset held for disposal	0.0	0.0	248.6	308.7
Fixed Assets	6271.5	5816.7	5573.6	4540.2
Investments	339.5	339.5	339.5	341.8
Sundry Debtors	2136.6	1751.3	1368.2	1252.2
Cash & Bank Bal	1414.7	409.1	283.4	142.3
Loans & Advances	1395.9	1144.2	893.9	556.3
Inventories	2446.9	2005.7	1566.9	1102.2
Curr Assets, Loans & Adv	7394.1	5310.3	4112.4	3052.9
Curr Liabilities	5913.1	4846.8	3786.6	2733.8
Provision	323.0	264.8	206.8	180.6
Curr Liab & Prov	6236.1	5111.5	3993.4	2914.4
Net Current Assets	1158.0	198.8	119.0	138.6
Deferred Tax Asset	(344.8)	(442.9)	(522.8)	(473.3)
Miscellaneous Exp				
Total Assets	5038.6	4218.4	2875.9	1884.1

FINANCIAL RATIOS (Consolidated)

Y/E March	FY10E	FY09E	FY08	FY07
Growth (%)				
Net Sales	22.0	28.0	12.8	18.3
Adj. Net Profit	20.2	35.0	18.0	81.9
EBITDA	17.1	34.1	10.9	33.3
EPS	20.2	35.0	18.0	81.9
CEPS	202.9	29.5	(0.1)	16.6
Gr. Fixed Assets	11.9	13.5	17.3	(1.0)
Cap. Employed	20.4	6.8	17.5	3.7
Valuation				
EPS (Rs.)	29.3	24.4	18.1	15.3
CEPS (Rs.)	134.7	44.5	34.3	34.4
BVPS (Rs)	183.1	93.4	90.7	82.0
PER (x)	7.5	9.0	12.1	14.3
PEG (x)	0.4	0.3	0.7	0.2
P/CEPS (x)	1.6	4.9	6.4	6.4
P/BVPS (x)	1.2	2.3	2.4	2.7
EV/EBITDA (x)	3.1	4.7	6.1	6.3
EV/Net Sales (x)	0.3	0.5	0.7	0.7
Profitability (%)				
ROCE	18.1	18.2	15.1	14.4
ROE	21.2	26.5	20.9	19.8
EBIDTA Margin	11.0	11.5	11.0	11.2
EBDT Margin	8.1	8.2	8.0	8.3
NP Margin	4.0	4.0	3.8	3.6
Tax/PBT	34.0	33.4	32.7	32.9
Turnover				
Debtor Days	38.1	38.1	38.1	39.3
Creditor Days	105.5	105.5	105.5	85.9
N.Fixed Asset (x)	3.3	2.9	2.4	2.6
Total Assets (x)	2.8	2.8	2.4	2.6
Inventory Days	63	65	66	52

Source : Company, Sushil Finance Research Estimates

CASH FLOW STATEMENT

(Rs.mn)

Y/E March	FY10	FY09	FY08	FY07
Cash Flow from Operating Activity				
Profit available to Shareholders	3076.4	673.8	498.8	501.5
Depreciation & Amortization	545.2	474.1	116.4	(166.7)
Change in Deferred Tax Liability	(98.1)	(79.9)	49.5	45.0
Change in Working Capital	46.3	46.0	160.7	801.8
Cash Flow from Operating	3569.8	1114.1	825.3	1181.6
Cash Flow from Investing Activity				
Change in Fixed Assets	(1000.0)	(717.2)	(1149.8)	(780.9)
Change In Investments	0.0	0.0	2.3	(2.1)
Change in Other Assets (Misc. Exp)	0.0	0.0	0.0	0.0
Cash Flow from Investing	(1000.0)	(717.2)	(1147.6)	(783.0)
Cash Flow from Financing Activity				
Change in Debt	(964.8)	328.4	720.0	(91.7)
Change in Net Worth	0.0	0.0	13.0	(1.5)
Dividend	(599.4)	(599.4)	(269.7)	(240.3)
Cash Flow from Financing	(1564.2)	(271.0)	463.3	(333.5)
Incr/(Decr) in Balance Sheet Cash	1005.6	125.8	141.1	65.2
Cash at the Start of the Year	409.1	283.4	142.3	77.1
Cash at the End of the Year	1414.7	409.2	283.3	142.3

Source: Company, Sushil Finance Research Estimates

Rating Scale

This is a guide to the rating system used by our Equity 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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