

Supreme Industries



DOLAT CAPITAL

CMP: ₹ 206

TP: ₹ 235

Accumulate

Revenue in-line with estimates

Supreme Industries (SIL) for Q3FY12 has reported net revenues at ₹ 7.6bn (Dolat Est. ₹ 7.6bn), YoY growth of 16% on back of 25% & 22% growth YoY in the packaging products & industrial product segment respectively which helped negate the lower than expected growth in plastic piping (13%) and consumer product segment (de-growth of 3%). Volume growth remained flat at 65,984 tonnes (below Dolat estimates) while realization grew by 16% (ahead of Dolat estimates).

Impressive operating performance powered by 100 bps expansion in margins

SIL's operating margins improved by 100bps from 12.8% in Q3 FY11 to 13.8% in Q3 FY12, led by inventory gains and lower cost of imported raw material on account of rupee appreciation. This resulted in EBITDA growing by 25% YoY to ₹ 1.05bn from ₹ 0.84bn (Dolat Est. ₹ 1.06bn).

Core profitability rises 25% to ₹ 493mn

Profits from the core business (adjusted for construction business profits & excluding share of associates) grew by 25% to ₹ 493mn as compared to ₹ 394mn (Dolat Est. ₹ 494mn). On consolidated basis (including share of associates & construction business), SIL has reported a growth of 13% to ₹ 547mn from ₹ 483mn YoY.

Q3FY12 Result (₹ mn)

Particulars	Q3FY12	Q3FY11	YoY(%)	Q2FY12	QoQ(%)	9MFY12	9MFY11	YoY(%)
Net Sales	7,586	6,537	16.0	7,128	6.4	19,443	16,639	16.9
Other Op. Income	100	88	13.6	85	17.9	259	175	47.9
Total Op. Income	7,686	6,625	16.0	7,213	6.6	19,703	16,814	17.2
Expenditure	6,638	5,788	14.7	6,319	5.1	17,179	14,616	17.5
Raw Materials	4,706	4,427	6.3	4,774	(1.4)	12,528	10,760	16.4
Staff Cost	258	230	12.3	268	(3.8)	778	657	18.4
Other Expenditure	1,675	1,132	48.0	1,277	31.1	3,873	3,199	21.1
Operating Profit	1,047	837	25.1	894	17.1	2,524	2,197	14.9
OPM (%)	14	13	100 bps	13	130bps	13	13	(20 bps)
Other Income	3	0	563.0	11	(72.8)	24	33	(26.9)
Interest	152	129	17.3	142	6.9	427	302	41.2
Depreciation	171	164	4.6	171	0.1	514	458	12.1
PBT	727	544	33.6	593	22.8	1,608	1,470	9.3
Exceptional Income	0	0	-	309	(100.0)	438	237	84.5
Tax on above	0	0	-	93	(100.0)	132	75	75.3
PBT post exceptional income	727	544	33.6	809	(10.1)	1,914	1,632	17.2
Tax	235	150	56.7	195	20.8	529	475	11.3
PAT	492	394	24.9	615	(19.9)	1,385	1,157	19.7
Share of Associate	54	88	(38.5)	(22)	(350.4)	80	199	(59.8)
Reported PAT	547	483	13.3	593	(7.8)	1,465	1,356	8.0
Adjusted PAT	547	483	13.3	376	45.3	1,159	1,194	(2.9)
NPM (%)	7.2	7.4	(20bps)	5.3	190 bps	6.0	7.2	(120 bps)
Reported EPS	4.3	3.8	13.3	4.7	(7.8)	11.5	10.7	8.0
Adjusted EPS - Consolidated	4.3	3.8	13.3	3.0	45.3	9.1	9.4	(2.9)
Adjusted EPS - Core Operations	3.9	3.1	24.9	3.1	23.7	8.5	7.8	8.4
Volume growth	65,984	65,828	0.2	64,694	2.0	177,439	167,680	5.8
Realisation growth	112,733	97,181	16.0	108,189	4.2	107,237	96,483	11.1

Financials

Year	Net Sales	Growth-%	EBITDA	OPM%	Adj.PAT	Growth-%	Adj.EPS(₹)	PER (X)	EV/EBITDA	ROANW-%	ROACE-%
FY11	23,965	20.6	3,322	13.9	1,781	21.2	14.0	14.7	9.4	37.0	27.3
FY12E	28,329	18.2	3,812	13.5	1,966	10.4	15.5	13.3	8.2	30.9	25.2
FY13E	33,000	16.5	4,689	14.2	2,584	31.4	20.3	10.1	6.7	30.9	26.7
FY14E	38,578	16.9	5,423	14.1	3,003	16.2	23.6	8.7	5.8	28.2	26.5

Figure in ₹ mn

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High Points

- Revenues in line with our expectations
- Flat volume growth a disappointment
- Core profitability up 25%, in line with estimates
- View: We maintain Accumulate with a target price of ₹ 235

Scrip Details

Equity	₹ 254mn
Face Value	₹ 2/-
Market Cap	₹ 26.1bn
	USD 501mn
52 week High / Low	₹ 235 / 146
Avg. Volume (no)	44,337
BSE Sensex	17151
NSE Nifty	5202
Bloomberg Code	SI IN
Reuters Code	SUPI.BO

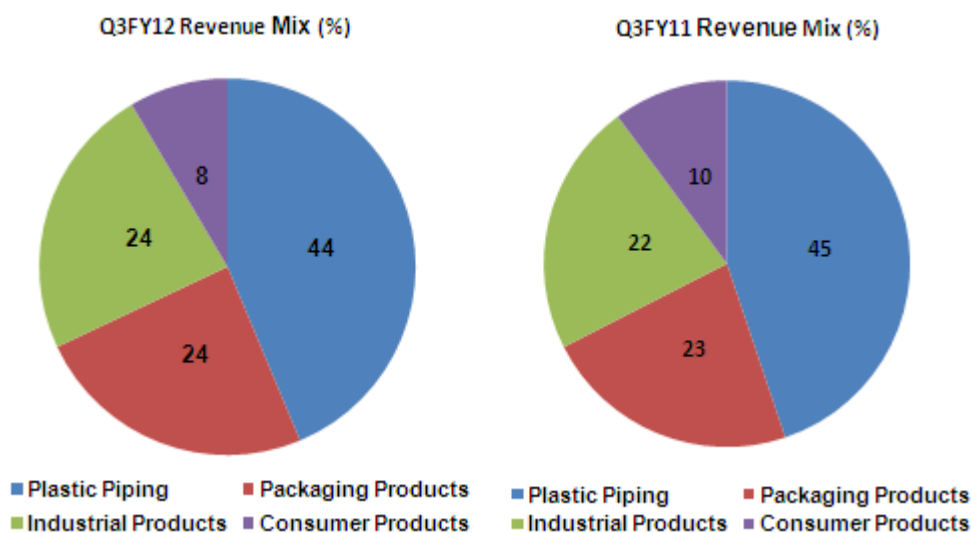
Packaging & industrial segment push the overall revenue growth to 16% YoY

Revenue growth of 16% YoY during the quarter under review was led by strong growth in its packaging & industrial segment. The packaging segment growth was driven by SILPAULIN segment which witnessed impressive growth for the quarter. The industrial growth revived QoQ due to resurgence in demand witnessed in industrial components (except for water purifier segment) & material handling segments.

Revenue growth segment-wise

Business segments	9MFY12	9MFY11	% Chg.	Q3FY12	Q3FY11	% Chg.
Plastic Piping	8,446	6,701	26.0	3,290	2,910	13.1
Packaging Products	4,890	4,159	17.6	1,830	1,470	24.5
Industrial Products	4,090	3,551	15.2	1,770	1,450	22.1
Consumer Products	1,860	1,860	0.	640	660	-3.0

Revenue Mix (%)



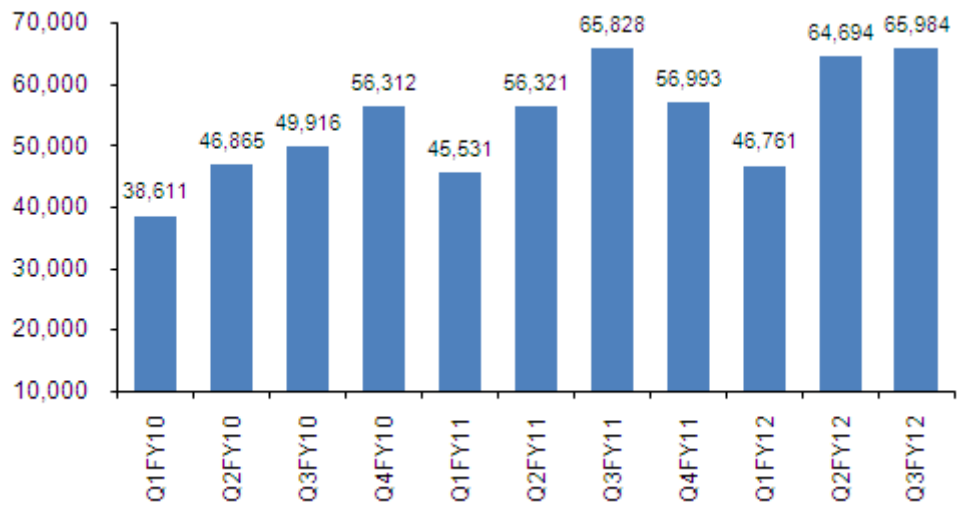
Source: Company, Dolat Research

Muted Volume Growth

For the quarter under review, volume growth has remained muted at 65984 tonnes in Q3FY12 as compared to 65828 tonnes in Q3FY11. Volume growth in piping segment remained flat while packaging product and industrial product segment registered growth of 9% & 8% YoY growth respectively. On the other hand consumer segment (read furniture) witnessed a volume decline of 15% YoY led by higher product prices prevalent during the quarter. For the nine months ended FY12, overall volumes have grown 6% to 177,439 tonnes. Management expects the volume growth of close to 10% for FY12.

Volume Growth (%)	9MFY12	9MFY11	% Chg.	Q3FY12	Q3FY11	% Chg.
Plastic Piping	107,305	97,681	9.9	39,948	40,568	-1.5
Packaging Products	28,017	26,276	6.6	9,557	8,773	8.9
Industrial Products	28,408	26,976	5.3	11,589	10,708	8.2
Consumer Products	13,709	16,747	-18.1	4,890	5,779	-15.4
Total	177,439	167,680	5.8	65,984	65,828	0.2

Source: Company, Dolat Research

Quarter-wise volume growth (in tonnes) for last 10 quarters:


Source: Company, Dolat Research

EBIDTA margins improve 100 bps YoY to 13.8% (In line with estimates)

EBIDTA margins expanded during the quarter led by inventory gains and decline in input cost on account of rupee appreciation. We expect the margins to witness a further increase in Q4FY12 led by higher margins from the SILPAULIN segment (no discounts offered in SILPAULIN for the June quarter). We expect the company to report margins of 13.5% for FY12 (9MFY12 OPM at 13%).

Capex guidance maintained at ₹ 2.5bn for FY12

SIL has already incurred a capex of ₹ 2.1bn during 9MFY12 in line with its strategy of incurring a capex of ₹ 2.5bn for FY12. Break-up of capex for FY12 is as under:

Business Segments	Capex (₹ mn)
Plastic Piping	620
Packaging products	960
Industrial products	210
Composite Cylinders	540
Consumer Products	50
Others	30
Total	2500

The company is expected to incur incremental capex of ₹ 2bn in FY13 as well. This would result in four new greenfield facilities likely to come on stream by FY13 as under:

- Protective packaging unit (for EPE foam) at Hosur – operational in Q1FY13.
- SILPAULIN unit at Halol (Gujarat) with initial capacity of 6,000 MTPA – operational by Q1FY13.
- Composite cylinder unit at Halol with initial capacity of 400,000 MTPA - operational by Q2FY13.
- Plastic piping unit at Malanpur to cater to growing markets of Chhattisgarh & MP - operational by Q1FY13.

Key Concall highlights:

- Robust demand expected to continue in the plastic piping & SILPAULIN segment.
- Demand for Industrial products has improved significantly except for the water purifier segment where the demand continues to remain sluggish
- Furniture segment witnessing demand contraction. SIL to focus on premium segment going forward with contribution seen increasing from 35% in FY12 to 50% in FY13
- Value added product share for 9MFY12 increased by 230 bps to 31.5%
- Industrial promotion subsidy accrued to the tune of ₹ 77mn for the quarter
- Debt on books increased to ₹ 5.9bn v/s ₹ 5.1bn QoQ due to increase in inventories from ₹ 2.9bn to ₹ 3.7bn QoQ. However the management maintains its stance to reduce the debt aggressively to ₹ 3.5bn the year end (FY12)
- Revenue growth guidance for FY12 maintained at 20%
- Volume growth guidance curtailed to 10-12% from 15% last quarter

Our View:

After the disappointing H1FY12, SIL has managed to post healthy Q3FY12 performance despite facing strong headwinds like subdued economic environment and higher input costs. With the margins expected to improve further in the last quarter, we expect the company to report better profitability in Q4FY12.

SIL currently trades at 13.3x & 10.1x its FY12E & FY13E earnings. We value SIL's core business at ₹ 225 per share based on 12x its FY13E earnings of ₹18.7. Further, SIL's 29.88% stake in SPL is valued at ₹ 10. Thus, the SoTP valuation (one year forward) for SIL comes to ₹ 235 per share. We maintain our **"Accumulate"** rating on the stock.

Valuation & Recommendation

We value SIL on SoTP basis for: (i) its core operations, and (ii) its stake in SPL

Valuation of SIL's core operations on PE basis	FY13E	FY14E
FY13E PAT (₹ mn)	2,377	2,739
EPS (₹)	18.7	21.6
FY13 PE (x)	11.0	9.6
Target PE multiple (x)	12.0	12.0
Valuation per share (₹)	225	259
Valuation of SIL's 29.9% stake in SPL on PE basis		
FY13E PAT of SPL (₹ mn)	693	884
SIL's stake (29.9%)	207	264
EPS (₹)	1.6	2.1
Target PE multiple (x)	6.0	6.0
Valuation per share (Rs)	10.0	13.0
SoTP Valuation of SIL		
Valuation per share of SIL's core operations (₹)	225	259
Valuation per share of SIL's stake in SPL (₹)	10.0	13.0
Target price (₹)	235	272
CMP (₹)	206	206
Upside potential (%)	14.0	32.0

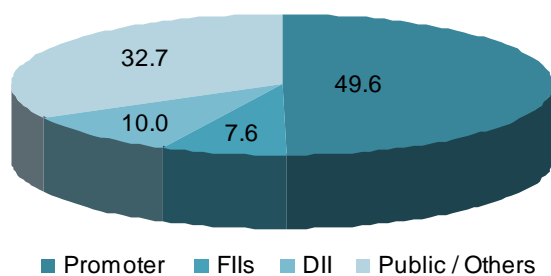
INCOME STATEMENT		₹ mn			
Particulars	June11	June12E	June13E	June14E	
Net Sales	23,965	28,329	33,000	38,578	
Other operating income	333	357	401	406	
Total Income	24,297	28,686	33,401	38,984	
Total Expenditure	20,975	24,874	28,712	33,561	
Raw Material	15,147	17,592	20,344	23,918	
EBIDTA (Excl. Other Income)	3,322	3,812	4,689	5,423	
EBIDTA (Incl. Other Income)	3,367	3,855	4,729	5,463	
Other Income	45	43	40	40	
Interest	425	509	491	491	
PBDT	2,986	3,389	4,279	5,013	
Depreciation	619	755	841	953	
Profit Before Tax & EO Items	2,367	2,634	3,437	4,060	
Extra Ordinary Exps/(Income) - Post tax	-177	-625	-661	-328	
Profit Before Tax	2,545	3,259	4,098	4,388	
Tax	802	758	1,020	1,281	
Net Profit	1,742	2,501	3,079	3,107	
Share of Associates	261	133	207	264	
Net Profit	2,003	2,635	3,286	3,371	
Adj. Net Profit (adj. for EO items)	1,781	1,966	2,584	3,003	

BALANCE SHEET					
Particulars	June11	June12E	June13E	June14E	
Sources of Funds					
Equity Capital	254	254	254	254	
Share Premium	475	475	475	475	
Other Reserves	4,748	6,508	8,758	11,048	
Net Worth	5,477	7,237	9,487	11,777	
Secured Loans	3,532	3,510	3,950	3,900	
Unsecured Loans	1,580	1,680	1,650	1,650	
Loan Funds	5,112	5,190	5,600	5,550	
Deferred Tax Liability (Net)	795	795	795	795	
Total Capital Employed	11,385	13,222	15,882	18,123	

Applications of Funds				
Gross Block	12,021	14,021	16,021	18,021
Less: Accumulated Depreciation	4,604	5,359	6,201	7,154
Net Block	7,417	8,661	9,820	10,867
Capital Work in Progress	262	200	200	200
Investments	916	1,004	1,166	1,385
Current Assets, Loans & Advances				
Inventories	3,454	4,191	4,973	5,813
Sundry Debtors	1,529	1,940	2,441	3,065
Cash and Bank Balance	142	140	123	109
Loans and Advances	1,511	2,228	2,869	3,100
<i>sub total</i>	6,636	8,499	10,406	12,087
Less : Current Liabilities & Provisions				
Current Liabilities	3,845	5,123	5,686	6,387
Provisions	1	20	25	30
<i>sub total</i>	3,845	5,143	5,711	6,417
Net Current Assets	2,790	3,357	4,695	5,670
Total Assets	11,385	13,222	15,882	18,123

E-estimates

Shareholding Pattern as on Dec'11 (%)



CASH FLOW					
Particulars	June11	June12E	June13E	June14E	
Profit before tax	2,761	3,350	4,265	4,612	
Depreciation & w.o.	619	755	841	953	
Direct taxes paid	-802	-758	-1,020	-1,281	
Change in Work. Cap. (Non Cash)	-518	-549	-1,356	-989	
Other	21	-19	-0	0	
(A) CF from Opt Activities	2,081	2,779	2,731	3,295	
Capex {Inc./ (Dec.) in FA n WIP}	-2,463	-1,938	-2,000	-2,000	
Free Cash Flow	-382	841	731	1,295	
Inc./ (Dec.) in Investments	-223	-88	-162	-219	
(B) CF from Inv. Activities	-2,686	-2,026	-2,162	-2,219	
Inc./ (Dec.) in Debt	1,239	78	410	-50	
Dividend Paid (Incl. Tax)	-635	-832	-996	-1,040	
(C) Cash Flow from Financing	603	-755	-586	-1,090	
Net Change in Cash	-2	-2	-17	-14	
Opening Cash balances	187	142	140	123	
Closing Cash balances	142	140	123	109	

E-estimates

IMPORTANT RATIOS					
Particulars	June11	June12E	June13E	June14E	
(A) Measures of Performance (%)					
Contribution Margin					
EBIDTA Margin (excl. O.I.)	12.5	12.2	13.0	13.0	
EBIDTA Margin (incl. O.I.)	13.9	13.5	14.2	14.1	
Interest / Sales	1.8	1.8	1.5	1.3	
PBDT Margin	12.3	11.8	12.8	12.9	
Tax/PBT	35.1	33.1	33.2	33.2	
Net Profit Margin	7.4	6.9	7.8	7.8	
(B) As Percentage of Net Sales					
Raw Material	61.3	62.1	61.7	62.0	
Employee Expenses	5.8	6.0	6.0	5.8	
Power, Oil & Fuel	4.2	4.5	4.5	4.5	
Selling & Administrative Expenses	6.7	6.4	6.3	6.2	
Packing, freight and transport charges	3.7	3.2	3.0	3.0	
(C) Measures of Financial Status					
Debt / Equity (x)	0.9	0.7	0.6	0.5	
Interest Coverage (x)	6.5	6.1	7.9	9.2	
Average Cost Of Debt (%)	8.3	9.8	8.2	8.2	
Debtors Period (days)	23	25	27	29	
Closing stock (days)	53	54	55	55	
Inventory Turnover Ratio (x)	6.9	6.8	6.6	6.6	
Fixed Assets Turnover (x)	2.0	2.0	2.1	2.1	
Working Capital Turnover (x)	8.6	8.4	7.0	6.8	
Working Capital Turnover (days)	48.0	54.0	58.0	60.0	
Non Cash Working Capital (₹ Mn)	2,648	3,217	4,572	5,561	
(D) Measures of Investment					
EPS (₹) (excl EO)	14.0	15.5	20.3	23.6	
EPS (₹)	15.4	20.4	25.5	26.2	
CEPS (₹)	18.9	21.4	27.0	31.1	
DPS (₹)	4.3	5.6	6.7	7.0	
Dividend Payout (%)	32.4	32.1	30.7	31.2	
Profit Ploughback (%)	67.6	67.9	69.3	68.8	
Book Value (₹)	43.0	56.9	74.6	92.6	
RoANW (%)	37.0	30.9	30.9	28.2	
RoACE (%)	27.3	25.2	26.7	26.5	
RoAIC (%) (Excl Cash & Invest.)	27.8	25.5	27.0	26.7	
(E) Valuation Ratios					
CMP (₹)	206	206	206	206	
P/E (x)	14.7	13.3	10.1	8.7	
Market Cap. (₹ Mn.)	26,168	26,168	26,168	26,168	
MCap/ Sales (x)	1.1	0.9	0.8	0.7	
EV (₹ Mn.)	31,138	31,217	31,644	31,609	
EV/Sales (x)	1.3	1.1	1.0	0.8	
EV/EBDITA (x)	9.4	8.2	6.7	5.8	
P/BV (x)	4.8	3.6	2.8	2.2	
Dividend Yield (%)	2.1	2.7	3.3	3.4	

E-estimates

BUY	Upside above 20%
ACCUMULATE	Upside above 5% and up to 20%
REDUCE	Upside up to 5%
SELL	Negative Returns

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