

## Lower tax rate and reversal of inventory losses to boost earnings

The recent tax cut by the government from 33% to 25.2% is likely to boost earnings of Supreme by ~11% each for FY20E and FY21E. We change our earnings estimates and target price accordingly. We believe a tax cut would help generating strong cash flow for company going forward.

## Piping segment to drive volume growth

Supreme is one of the largest plastic processor in India with manufacturing capacity of ~ 6 lakhs tonnes. It has four business division namely Plastic piping division, Industrial products, Packaging products and consumer furniture segments. Supreme Industries is one of the largest PVC pipe and consumer furniture companies with organized market share of ~14% and 26% respectively. Further, Supreme's plastic piping division (contributes ~58% in topline) grew at CAGR of ~15% during FY11-19 (against Industry growth of ~12%) led by sustained demand of pipes from housing and agriculture sectors. The domestic piping industry would continue to grow at 12%-13% in the wake of various government initiatives to boost construction of affordable housing, establishing sewerage & drainage systems and drinking water system ('Nal se Jal') in the next 5 years. With segment revenue CAGR of 14%, we believe, Supreme would continuously outpace the industry growth due to its market leadership position

## Change in Product mix and recovery in PVC prices to help in recovery in margin

Supreme has recorded contraction in gross margin during Q1FY20 largely on account of inventory losses. The management has guided that inventory losses are limited to Q1FY20 and gross margin would return to its normal level from Q2FY20. We believe Supreme would be able to maintain operating margin between 14% and ~15%, owing to stability in raw material prices and rising proportion of value added products (achieved turnover growth of ~12% in FY19 and 6% in Q1FY20).

## Valuation & Outlook

We believe, company's revenue, earning to grow at a CAGR of 13% and ~21% respectively in FY19-21E led by strong volume traction in the piping segment and rising contribution of value added products in the topline (increased from 24% in FY12 to 35% in FY19). Despite capital intensive business, company D/E remained low at 0.2x due to efficient working capital management (~10% sales) and continue generation of free cashflow (average ₹ 200 crore annually in the last 8 years). This has resulted in average RoE and RoCE of ~26% and ~30% respectively in the last 8 years. We maintain our **BUY** recommendation on the stock with a revised target price of ₹ 1420/share.

### Key Financial Summary

(₹ Crore)	FY17	FY18	FY19	FY20E	FY21E	CAGR (FY19-21E)
Net Sales	4462.3	4966.3	5612.0	6263.2	7211.9	13.4
EBITDA	761.9	787.1	784.6	903.8	1078.5	17.2
EBITDA Margin (%)	17.1	15.8	14.0	14.4	15.0	
Net Profit	428.1	431.0	448.6	550.5	660.7	21.4
EPS (₹)	33.7	33.9	35.3	43.3	52.0	
P/E (x)	36.1	35.9	34.5	28.1	23.4	
Price/Book (x)	9.1	8.2	7.2	6.5	5.6	
Mcap/Sales (x)	3.5	3.1	2.8	2.5	2.1	
RoE (%)	25.2	22.7	18.7	23.2	23.7	
RoCE (%)	30.0	27.9	25.0	27.2	28.4	

Source: Company, ICICI Direct Research



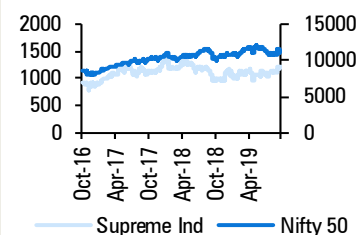
### Particulars

Particular	Amount
Market Capitalization (₹ Crore)	15,459.2
Total Debt (FY19) (₹ Crore)	162.1
Cash & Invest. (FY19) (₹ Crore)	32.1
EV (₹ Crore)	15,589.2
52 week H/L	1246/ 935
Equity capital (₹ Crore)	25.4
Face value (₹)	2.0

### Key Highlights

- Tax cut to boost earnings growth by ~11% each for FY20E and FY21E
- Strong growth in the Piping division
- Maintain **BUY** rating with revised target price of ₹ 1420/ share

### Price Chart



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## Financial summary

Exhibit 1: Profit and loss statement		₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E	
<b>Net Sales</b>	<b>4966.3</b>	<b>5612.0</b>	<b>6263.2</b>	<b>7211.9</b>	
Growth (%)		13.0	11.6	15.1	
Other Income	4.8	7.8	8.4	9.1	
Total Revenue	4971.0	5619.8	6271.6	7221.0	
Expenditure					
Raw Material Expenses	3171.1	3744.7	4113.3	4706.0	
Cost of goods traded	77.1	84.3	60.1	90.8	
Employees cost	241.9	254.6	287.5	365.6	
Other Expenditure	651.6	752.9	903.4	971.0	
Total Operating Exp	4179.2	4827.4	5359.5	6133.4	
<b>Operating Profit (EBITDA)</b>	<b>787.1</b>	<b>784.6</b>	<b>903.8</b>	<b>1078.5</b>	
Growth (%)	NM	-0.3	15.2	19.3	
Depreciation	167.2	183.5	200.4	230.8	
Interest	21.9	26.0	16.2	13.5	
PBT after Excep Items	602.8	650.0	695.5	843.4	
Total Tax	205.7	215.8	175.1	219.3	
PAT before MI	397.1	434.3	520.4	624.1	
Profit from Associates	33.9	14.4	30.0	36.6	
<b>Reported PAT</b>	<b>431.0</b>	<b>448.6</b>	<b>550.5</b>	<b>660.7</b>	

Source: Company, ICICI Direct Research

Exhibit 2: Cash flow statement		₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E	
Profit/(Loss) after taxation	431.0	448.6	550.5	660.7	
Add: Depreciation & Amortization	167.2	183.5	200.4	230.8	
Add: Interest Paid	21.9	26.0	16.2	13.5	
C/F bef working cap changes					
Net Increase in Current Assets	-25.6	-77.6	-134.3	-257.6	
Net Increase in Current Liabilities	-78.4	97.4	118.7	138.1	
<b>Net cash flow from operating Act</b>	<b>516.1</b>	<b>678.1</b>	<b>751.6</b>	<b>785.4</b>	
(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	
<b>Net Cash flow from Investing Act</b>	<b>-307.4</b>	<b>-392.1</b>	<b>-306.7</b>	<b>-409.8</b>	
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	-382.9	-277.3	
Net Cash flow	-44.3	0.1	61.9	98.3	
Cash & Cash Equ at the begin.	76.2	32.0	32.1	94.0	
<b>Cash &amp; Cash Equ at the end</b>	<b>32.0</b>	<b>32.1</b>	<b>94.0</b>	<b>192.2</b>	

Source: Company, ICICI Direct Research

Exhibit 3: Balance sheet		₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E	
Equity Capital	25.4	25.4	25.4	25.4	
Reserve and Surplus	1869.5	2128.6	2342.3	2759.2	
Total Shareholders funds	1894.9	2154.0	2367.7	2784.6	
Total Debt	232.4	162.1	132.1	112.1	
Deferred Tax Liability	113.4	120.4	120.4	120.4	
<b>Total Liabilities</b>	<b>2240.6</b>	<b>2436.4</b>	<b>2620.2</b>	<b>3017.0</b>	
Gross Block					
	2603.9	2942.6	3306.7	3706.7	
Accumulated Depreciation					
	1238.0	1421.6	1622.0	1852.8	
Net Block					
	1365.8	1521.0	1684.7	1853.9	
Capital WIP					
	62.6	90.0	45.9	45.9	
Total Fixed Assets					
	1428.4	1611.0	1730.6	1899.8	
Other Investments					
	193.7	222.3	202.3	202.3	
Inventory					
	697.0	750.4	823.7	987.9	
Debtors					
	382.0	387.4	429.0	494.0	
Loans and Advances					
	149.2	167.8	187.3	215.7	
Cash					
	32.0	32.1	94.0	192.2	
Total Current Assets					
	1260.1	1337.8	1533.9	1889.8	
Creditors					
	489.8	557.4	636.2	732.5	
Provisions					
	20.4	24.0	39.4	45.4	
Total Current Liabilities					
	695.5	792.9	911.6	1049.7	
Net Current Assets					
	564.6	544.9	622.3	840.1	
Long term loans and advances					
	53.9	58.2	64.9	74.7	
<b>Total Asset</b>	<b>2240.6</b>	<b>2436.4</b>	<b>2620.2</b>	<b>3017.0</b>	

Source: Company, ICICI Direct Research

Exhibit 4: Key ratios		₹ crore			
(Year-end March)	FY18	FY19	FY20E	FY21E	
<b>Per share data (₹)</b>					
EPS	33.9	35.3	43.3	52.0	
Cash EPS	47.1	49.8	59.1	70.2	
BV per share	149.2	169.6	186.4	219.2	
DPS	14.5	15.6	15.6	19.2	
<b>Operating Ratios (%)</b>					
EBITDA Margin	15.8	14.0	14.4	15.0	
PAT Margin	8.7	7.2	8.8	9.2	
<b>Turnover Days</b>					
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	
<b>Return Ratios (%)</b>					
RoNW	22.7	18.7	23.2	23.7	
RoCE	27.9	25.0	27.2	28.4	
RoIC	27.2	24.4	26.5	28.5	
<b>Valuation Ratios (x)</b>					
P/E	35.9	34.5	28.1	23.4	
EV / EBITDA	19.9	19.9	17.1	14.3	
EV / Net Sales	3.2	2.8	2.5	2.1	
Market Cap / Sales	3.1	2.8	2.5	2.1	
Price to Book Value	8.2	7.2	6.5	5.6	
<b>Solvency Ratios</b>					
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	
<b>Quick Ratio</b>	<b>1.0</b>	<b>1.0</b>	<b>0.9</b>	<b>0.9</b>	

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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