

January 31, 2012
BUY
MEDIUM RISK
PRICE Rs.172
TARGET Rs.225

PLASTICS

EARLIER RECO

ACCUMULATE

Price	Rs.192
Target	Rs.225
Date	Nov 03, 2011

SHARE HOLDING (%)

Promoters	49.62
FII	8.48
Institutions	10.05
Body Corporates	9.04
Public & Others	22.81

STOCK DATA

Reuters Code	SUPI.BO	
Bloomberg Code	SI@IN	
BSE Code	509930	
NSE Symbol	SUPREMEIND	
Market Capitalization*	Rs. 21853 mn US\$ 441.5 mn	
Shares Outstanding*	127.05 mn	
52 Weeks (H/L)	Rs.235/ 140	
Avg. Daily Volume (6m)	49,441 Shares	
Price Performance (%)		
1M	3M	6M
(1)	(10)	(18)

200 Days EMA: Rs.176
***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 attended the concall and some of the key points pertaining to results and discussed in the concall as well are summarized below:**

- For the quarter ended 31st Dec, 2011 (Q2FY12), on a standalone basis, Supreme Industries Ltd (SIL) has posted net sales of Rs.7212.1 mn, registering a growth of 24% YoY. It's EBITDA increased by 10.3% YoY to Rs.875.9 mn and EBITDA margins decreased by 150 bps to 12.1%. It's APAT increased marginally by 5.4% YoY to Rs. 418.6 mn. Its AEPS for the quarter is Rs.3.3. However, Its RPAT registered 48.8% growth YoY at Rs. 614.4 mn, mainly due to proceeds from sale of its commercial property.
- Considering the sharp rise in the raw material prices & its consequent impact of trade & volumes; we believe the company has managed to perform reasonably well in relatively difficult environment. During the quarter the company declared an interim dividend of Rs.1.75 (FV=Rs.2) per share.
- During H1FY12, its net sales increased by 18% YoY to Rs. 12016.5 mn. Its EBIDTA increased by 6.6% to Rs. 1451.7 mn, while its EBIDTA margins decreased by 130 bps to 12.1%. Its APAT stood at Rs. 681.2 mn, registering a growth of 7.6% YoY. Its AEPS for H1FY12 stood at Rs.5.4. It registered a RPAT of Rs. 973.5 mn, growth of 19.31% YoY.
- On the commercial property side, during the quarter SIL realized Rs.691.6 mn from sale of 41,678 square feet. SIL has further negotiated sale of 13,116 square feet at a consideration of Rs. 216.5 mn & has received an advance payment of Rs. 32.475 mn. This transaction is likely to be through by Q3FY12 end.
- SIL processed 111,455 MT polymers in H1FY12 as compared to 101,852 MT of polymers in H1FY11, achieving a volume growth of 9% & value growth of 19%.

Segment	Volume Growth	Value Growth
Plastics Piping	18%	33%
Packaging Products	5%	14%
Industrial Products	3%	10%
Consumer Products	(20)%	2%

- SIL's consumer products segment had a de-growth of 20% in volume terms mainly because of the close down of mats division as the exports of mats continued to be weak and also the profits were severely affected on account of volatility of raw materials and foreign exchange.

OUTLOOK & VALUATION

Supreme Industries has delivered decent business growth and is well-poised to grow at a fast pace in coming years. SIL's margins had been growing steadily in the past; however it fell by about 100 bps in Q1FY12 & 150 bps in Q2FY12 due to lower volume growth & inventory loss. Going ahead, the management expects margins to improve in H2FY12 and expects the margins to be approximately 13.5% in FY12.

After incorporating H1FY12's performance, we have tweaked our numbers; we now expect FY12 and FY13 Revenue to grow at 15.9% & 21.5% and its APAT to grow at marginally by 7.6% in FY12 and 32.8% in FY13. At the Current Price of Rs.172, the stock is available at a valuation of 13.0x & 9.8x its FY12E & FY13E earnings of Rs.13.3 & Rs.17.6 respectively. We change our rating to 'BUY' with a maintained target of Rs. 225 (12x its FY13E Earnings plus value of Andheri property at Rs.15 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	16.4	23.8	40.1	5.8
FY11	24293.0	1567.4	17.5	12.3	13.9	20.9	36.1	4.5
FY12E	28160.4	1686.5	7.6	13.3	13.0	18.9	29.7	3.4
FY13E	34226.2	2240.1	32.8	17.6	9.8	20.3	28.8	2.4

QUARTERLY STATEMENT (Standalone)

Rs.mn

Y/E June	Q2FY11	Q2FY12	H1FY11	H1FY12
Net sales	6624.5	7212.1	10188.9	12016.5
Growth %	29.4	24.1	26.4	17.9
Total Expense	5787.6	6336.3	8827.4	10564.8
EBITDA	836.9	875.9	1361.5	1451.7
Growth %	13.3	10.3	28.8	6.6
Margin %	12.6	12.1	13.4	12.1
Interest	129.3	141.8	172.8	275.1
Depreciation	163.6	170.8	294.3	342.4
Other Income	0.5	11.4	52.6	101.9
PBT	544.6	574.6	947.0	936.2
Margin %	8.2	8.0	9.3	7.8
Tax	150.0	156.0	314.2	255.0
Rate %	27.5	27.1	33.2	27.2
APAT	394.6	418.6	632.8	681.2
Margin %	6.0	5.8	6.2	5.7
Extraordinary items	0.0	(195.8)	(183.1)	(292.4)
RPAT	394.6	614.4	815.9	973.5
Margin %	6.0	8.5	8.0	8.1

PROFIT & LOSS STATEMENT (Standalone)

Rs.mn

Y/E June	FY10	FY11	FY12E	FY13E
Net sales	19944.3	24293.0	28160.4	34226.2
Raw Material	13085.6	15766.9	18670.4	22760.4
Employee Cost	795.7	964.3	1108.9	1286.4
Other Expenses	3210.4	4224.2	4710.0	5557.8
EBITDA	2852.6	3337.6	3671.1	4621.6
Interest	330.3	424.9	552.4	580.0
Depreciation	529.2	618.9	724.1	832.7
Other Income	33.6	65.1	143.3	164.8
PBT	2026.7	2358.9	2538.0	3373.7
Tax	692.4	791.6	851.5	1133.6
APAT	1334.3	1567.4	1686.5	2240.1
Extraordinary items	(114.0)	(183.1)	(543.9)	(1121.0)
RPAT	1448.3	1750.5	2230.4	3361.1

BALANCE SHEET STATEMENT (Standalone)

Rs.mn

As on 30 th June	FY10	FY11	FY12E	FY13E
Equity Share Capital	254.1	254.1	254.1	254.1
Reserves and Surplus	3527.9	4641.6	6203.2	8821.3
Net worth	3781.9	4895.7	6457.3	9075.3
Total Loans	3873.6	5112.4	5238.2	5063.2
Capital Employed	7655.5	10008.1	11695.5	14138.5
Fixed Assets	5785.9	7678.2	8953.1	10370.5
Investments	336.2	336.4	536.4	1036.4
Inventories	2906.4	3454.1	3482.7	3402.4
Sundry Debtors	1314.4	1530.1	1773.7	2155.8
Cash & Bank Bal	182.5	139.5	535.6	1414.0
Loans & Advances	977.4	1510.2	1788.3	2180.1
Curr Liab & Prov	3148.9	3845.1	4539.7	5531.9
Net Current Assets	2231.9	2788.8	3040.6	3620.3
Deferred Tax Assets (Net)	(698.4)	(795.4)	(834.7)	(888.7)
Total Assets	7655.6	10008.1	11695.5	14138.5

FINANCIAL RATIO STATEMENT (Standalone)

Y/E June	FY10	FY11	FY12E	FY13E
Growth (%)				
Net Sales	20.7	21.8	15.9	21.5
APAT	46.4	17.5	7.6	32.8
EBITDA	19.9	17.0	10.0	25.9
Profitability (%)				
EBITDA Margin	14.3	13.7	13.0	13.5
Adj. PAT Margin	6.7	6.5	6.0	6.5
ROCE	23.8	20.9	18.9	20.3
ROE	40.1	36.1	29.7	28.8
Per Share Data (Rs.)				
Adj. EPS	10.5	12.3	13.3	17.6
Adj. CEPS	16.0	19.4	23.6	33.4
BVPS	29.8	38.5	50.8	71.4
Valuations (X)				
PER	16.4	13.9	13.0	9.8
PEG	0.4	0.8	1.7	0.3
P/BV	5.8	4.5	3.4	2.4
EV / EBITDA	9.0	8.0	7.2	5.5
EV / Net sales	1.3	1.1	0.9	0.7
Dividend Yield (%)	2.1	2.5	2.6	2.9
Turnover Days				
Debtors days	24	23	23	23
Creditors days	71	76	76	76
Gearing Ratio				
Total Debt to Equity	1.0	1.0	0.8	0.6

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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