



DOHA BROKERAGE

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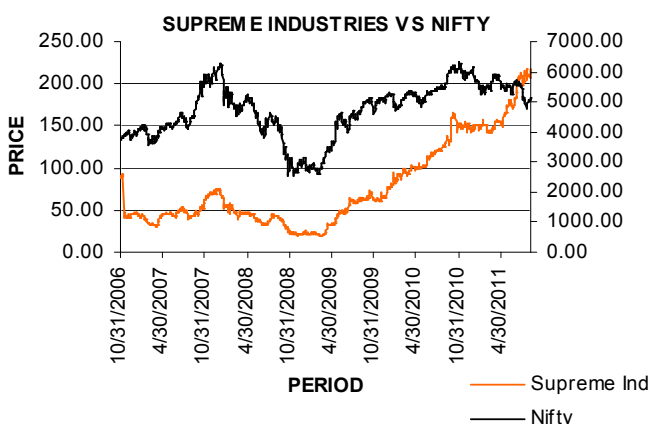
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Supreme Industries Ltd

NEUTRAL

an associate of DOHA BANK



Stock Data

CMP as on 4th Nov	193.05
NSE Code	SUPREMEIND
BSE Code	509930
Bloomberg Code	SI:IN
Reuters Code	SUPI.NS
52 Week High	245.10
52 Week Low	136.25
Market Cap (cr)	2487.19
Face Value	2.00
DPS	4.30
M Cap/Sales	1.02 times
Stock Beta	0.589
PE Multiple	14.31
P/BV	4.27
EV/EBITDA	8.01
Downside risk	Moderate

Major Highlights

Strong prospects in the plastic market:

The plastic industry in India is growing at a fast pace in recent times. The average usage of plastic per user in India is far lower than the developed market average. India's per capita usage of plastics is just one fifth of the world's average. This is expected to increase in the future. Plastic usage in the coming years is likely to witness a huge upsurge in demand in the Packaging and the infrastructure sectors. Consumption of plastics is expected to grow above 12% CAGR every year.

Diversified product portfolio:

The company has an excellent portfolio of quality products which cater to the domestic retail, industrial packaging and the agricultural sector. Most of the products are generic in nature and do not evolve much over a long period of time. Market share is improving in a fast rate and going forward we feel that the company should be able to perform well in the coming years. The company has taken utmost care to innovate its product portfolio from time to time and continues to maintain a supreme quality in all its products

Raw material prices have fallen:

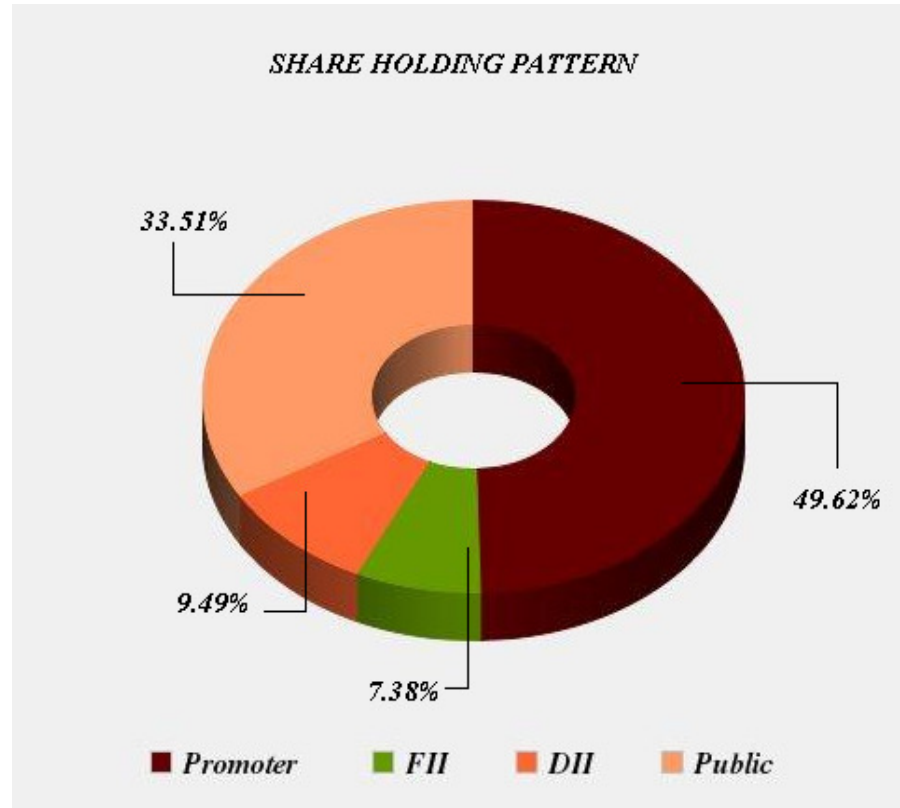
The company has witnessed the fall in the raw materials prices in the recent quarters. This is a good sign as far as the company is concerned, making us to assume that the cost of production could be reduced to more comfortable levels from here on. We feel that the company should be able to maintain its bottom line numbers even if the top line does suffer in the coming quarters. A serious deterioration in the global economy could witness a beating in the stock price leading making the valuation attractive for investors with a long term perspective.

Company Profile:

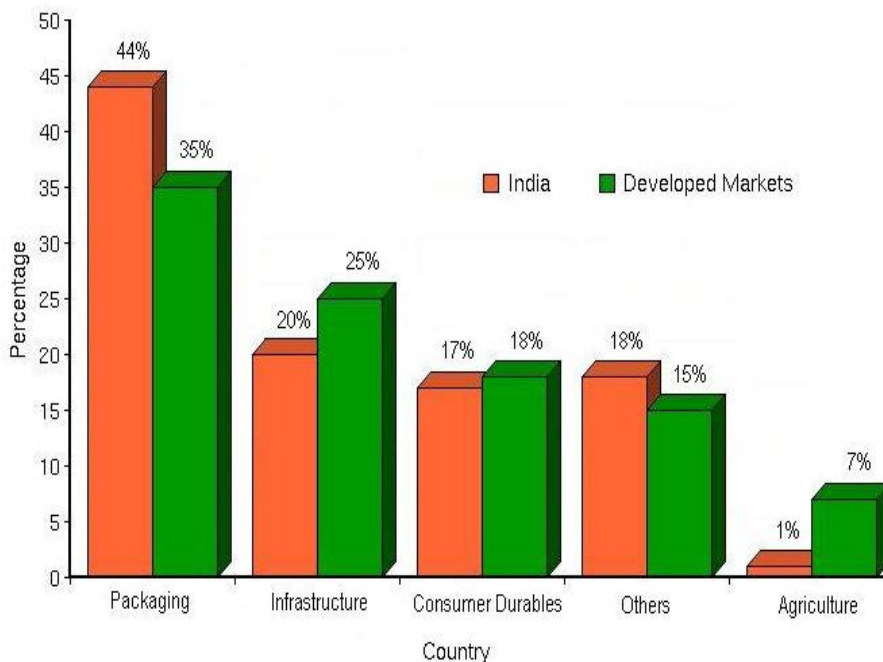
Founded in 1942, Supreme is an acknowledged leader of India's plastics industry. Handling volumes of over 200,000 tonnes of polymers annually effectively makes it the country's largest plastics processors. The company offers the most comprehensive range of plastic products in India. It presently has 19 advanced plants that are powered with technology from world leaders and complement their extensive facilities for R & D and new product development. Supreme Industries Limited is India's leading plastic processing company with seven business divisions. The company has forayed into different types of plastic processing in Injection Moulding, Rotational Moulding, Compression Moulding, Blow Moulding etc. Supreme Industries limited offers wide range of plastic products with a variety of applications in Moulded Furniture, Storage & Material Handling Products, XF Films & Products, Performance Films, Industrial Moulded Products, Protective Packaging Products, Plastic Piping System & Petrochemicals.

High Debt- A cause of concern?

The company relatively has higher debt levels than many of the peers in the industry. Debt Equity is presently at 0.94, we are anticipating that the company would continue to rely more on debt in the near future for funding its capex as well working capital needs. The management has made it clear that it would be investing 1000 crores in capex for the next five years. This would be needed for the company to keep up with the current change that is presently happening in the plastic industry especially after the entry of foreign players into the Indian market. The company has demonstrated its ability with its superior earnings power and has been successfully able to provide good returns by profitably reinvesting its retained earnings and going forward, and taking into consideration India's growth prospects in plastic products, we feel that the company should be able to create wealth to its shareholders in the coming years.



PLASTIC CONSUMPTION



Plastic - A Long Term Growth Promise:

The company's long term prospects continue to be robust. Plastics always continue to take over newer and newer applications which are being currently supplied out of conventional materials. The current consumption of plastics in India which was around 8 million tons in the financial year 2011 will reach to 20 million tons by the financial year 2020. The Indian economy GDP may cross \$ 5 trillion annually by 2020 from the current level of \$ 1.5 trillion. Consequently, per capita GDP will also continue to grow. The increased per capita income augments discretionary spending capacity of Indians. This will be translated into increased consumption of Plastics in the country.

Sectoral wise Growth Drivers

Agriculture- Sector: The agricultural sector in India continues to rely less on plastic. The efficiency of the agriculture in India can only be achieved as the industry relies more on modern equipments. With comparison to the developed markets, the Indian agricultural industry is much below in efficiency and should be able to improve once the farmers start relying more on advanced equipments. A normal monsoon is critical for more economic activity in the sector.

Packaging Sector: Currently the packaging sector has been growing at a fast pace with the demand for packaging material increasing steadily in the past few years. Looking forward, we are anticipating that the company would be able to cater to the needs of the growing Indian economy especially in the packaging sector.

Auto and Auto Ancillary Sector: The auto sector is a major user of plastics and in the coming years the sector would play a major role in the usage of plastics in India. This could be a major revenue driver in the long term. Currently, the company is manufacturing moulds for Exide Batteries and has also bagged orders from Tata Motors for fixing upholstery for its trucks that are manufactured in its plants.

Infrastructure Sector: The sector has been going through a difficult time for the past few quarters. But infrastructure demand in the long term is likely to remain and we expect that there would be increased dependence in plastics mainly due to the fact that it is currently one among the cheapest construction materials available.

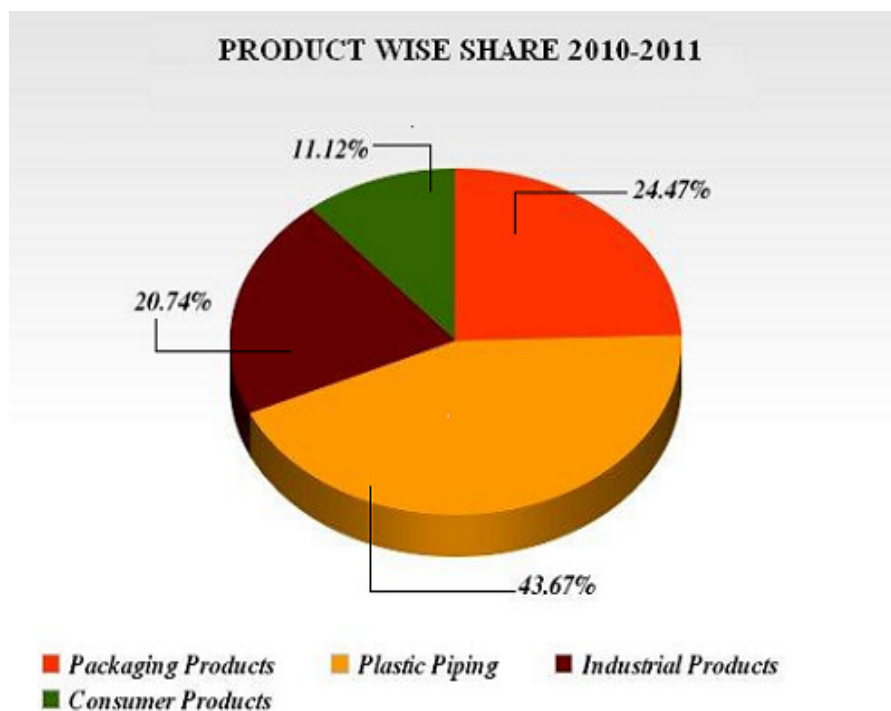
Product Portfolio

1. **Moulded Plastic Furniture:** The long term prospects for the moulded furniture are really good. The company has taken extra effort to be well ahead of competitors in quality and comfort. The brand name of the furniture products have improved considerably enabling the company to grow in leaps and bounds in recent times. We are very much bullish on this segment and see good revenue inflow and profit numbers this sector in the coming years.

2. **Material Handling & Storage Products:** The material handling products are expected to grow at a fast rate on the basis that the logistic business is currently in a rapid growth phase. The transport of agriculture and food products and the growth of the retail industry in recent times all are important catalyst for witnessing a strong performance of the sector. A critical factor for the success of the industry is good monsoons which result to more logistic activity from the rural to urban areas.

3. **Protecting packaging products:** The packaging business is expected to perform well leading to a 26% growth in value terms in the coming years.

4. **XF Films and Products:** The main advantage of this product is the multi usability and the regular demand flow from customers ranging from agriculture, infrastructure etc.. The company has been able to reap a lot of profits from this segment. Looking forward we expect that the revenue stream is likely to keep on flowing in the coming years



Reasons to invest in the company

- **Consumer Monopoly:** The company has an identifiable monopoly in certain products like the moulded furniture and the material handling and storage products. The company enjoys high market share in the sector. This we believe is a key factor which leads to high profitability for any business.
- **Strong upward trend in earnings:** The Company has consistently been witnessing a strong upward trend in the earnings for the past few years. We expect this trend to continue in the coming quarters unless some major structural change happens in the immediate short term. However a major catastrophe materializing in the subsequent quarters from the Euro zone, a high spurt in the crude oil prices etc could well alter the growth trajectory of the company for the next few years.
- **Generic Products:** The company manufactures products that are generic in nature having multiple uses. These factors would lead to a predictable revenue stream in the long term. The good brand name of the company also helps in improving its top line as well as bottom-line numbers. The company has over the years also stuck to its realm of expertise and is currently exploring new pockets within the sector thus being able to increase share holder value as well as market value without taking the risk of diversifying into unrelated sectors.
- **High Return on Equity:** The company has consistently given high returns on equity for the past ten years and going forward we feel that the company should still be able to maintain this trend in the near term.

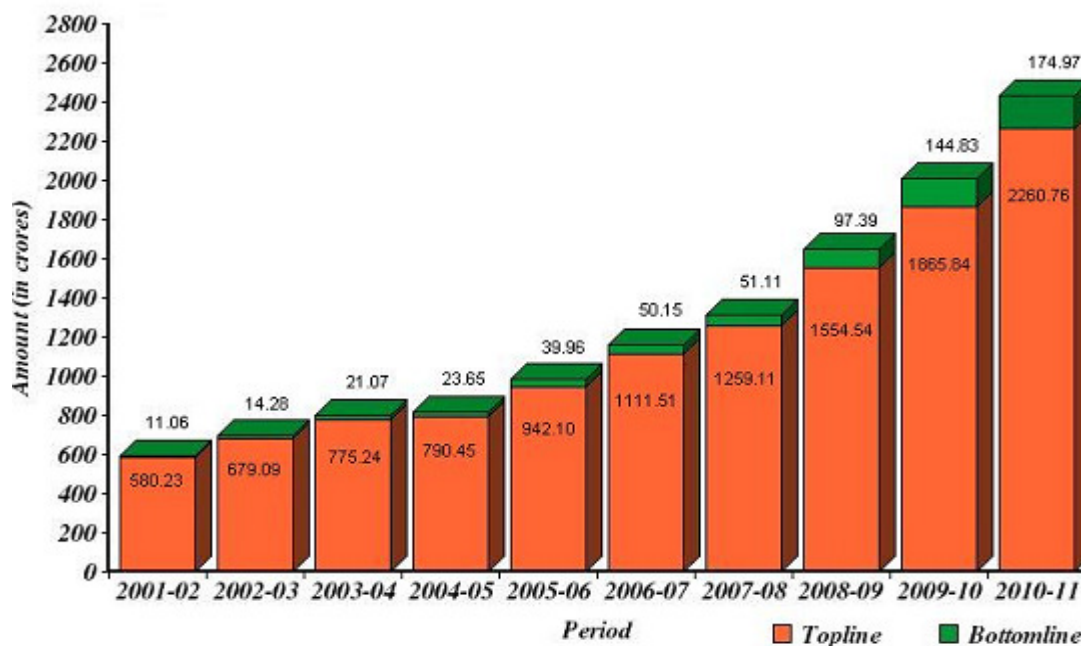
What would make us bullish on the stock?

- A fall in crude oil prices coupled with growth in the global and Indian economy.
- A strong sustainability in the rural demand in the coming quarters.
- More infrastructures spending by the government and a revival in the major frontline sectors of the Indian economy.
- A favorable monsoon in the next year.
- A revival in the global economy

What would make us bearish on the stock?

- High inflation coupled with increase in the crude oil prices.
- Sudden deterioration in the Euro zone leading to a full fledged financial crisis.
- Further hikes in the interest rates from here on.

TOPLINE VS BOTTOMLINE



Key Financials

PROFIT & LOSS ACCOUNT	FY10A	FY11A	FY12E	FY13E	FY14E
Income					
Net Sales	2007.02	2436.21	2874.72	3435.29	4062.24
Other Income	13.32	37.74	32.08	38.50	46.19
Total Income	2020.34	2473.95	2906.80	3473.79	4108.43
Expenditure					
Cost of Materials	1316.48	1591.40	1854.20	2250.12	2701.39
Manufacturing Selling & Other Expenses	401.00	520.67	632.44	772.94	914.00
Total Expenses	1717.48	2112.07	2486.64	3023.06	3615.39
Operating Profit	289.54	324.14	388.09	412.24	446.85
EBITDA	302.87	361.88	420.17	450.73	493.04
Interest	33.05	42.51	59.02	76.66	84.59
PBDT	269.82	319.37	361.15	374.07	408.45
Depreciation	52.94	61.91	76.66	89.73	101.80
Profit Before Tax	216.87	257.46	284.48	284.33	306.65
Tax	74.79	87.73	96.72	96.67	104.26
Profit in the Associate for the period	13.90	26.11	32.64	40.80	51.01
Reported Net Profit	155.98	195.84	220.40	228.46	253.39
Transferred to Capital Reserve	0.01	0.00	0.00	0.00	0.00
Dividend Paid	45.72	54.62	65.55	78.65	94.39
Corporate Dividend Tax Paid	2.16	2.74	3.28	3.93	4.72
Provision for Corporate Dividend Tax	5.49	6.18	7.54	9.05	10.85
Transferred to General Reserve	102.60	132.30	144.04	136.83	143.43
Per share					
<i>Earning Per Share</i>	12.28	15.42	17.35	17.99	19.95
<i>Cash EPS</i>	16.45	20.29	23.39	25.05	27.96
<i>Earnings Yield</i>	6.36%	7.99%	8.99%	9.32%	10.34%
<i>DPS</i>	3.60	4.30	5.16	6.19	7.43
<i>Dividend Yield</i>	1.87%	2.23%	2.67%	3.21%	3.85%
Valuation Ratios					
<i>P/E</i>	15.72	12.52	11.12	10.73	9.68
<i>P/BV</i>	5.63	4.25	3.37	2.81	2.40
<i>EV/EBITDA</i>	9.31	8.15	7.37	7.34	7.04
Return on Investment					
<i>ROCE</i>	19.46%	18.49%	16.22%	13.40%	12.53%
<i>ROIC</i>	26.80%	22.32%	21.45%	18.51%	16.94%
<i>ROTA</i>	13.15%	12.86%	11.55%	9.56%	9.04%
<i>Debt Equity</i>	0.94	0.93	0.96	1.06	1.08
Profitability Ratios					
<i>EBITDA Margin</i>	15.09%	14.85%	14.62%	13.12%	12.14%
<i>PBT Margin</i>	10.81%	10.57%	9.90%	8.28%	7.55%
<i>PAT Margin</i>	7.77%	8.04%	7.67%	6.65%	6.24%
CASH FLOW STATEMENT	FY10A	FY11A	FY12E	FY13E	FY14E
CASH FLOW FROM OPERATING ACTIVITIES					
Net Profit before Tax	216.87	257.46	284.48	284.33	306.65
Depreciation	52.94	61.91	76.66	89.73	101.80
Interest expense	(33.05)	(42.51)	(59.02)	(76.66)	(84.59)
Others	(16.32)	(19.35)	(31.77)	(19.17)	(24.36)
Tax Paid	(74.79)	(87.73)	(96.72)	(96.67)	(104.26)
Net cash flow from operating activities	145.66	169.78	173.63	181.56	195.25
CASH FLOW FROM INVESTING ACTIVITIES					
Purchase of fixed assets, net of reimbursements	(79.01)	(258.36)	(191.78)	(237.65)	(219.45)
Others	11.49	18.00	(46.19)	(54.35)	(59.77)
Net Cash used for investing activities	(67.52)	(240.36)	(237.97)	(292.00)	(279.22)
CASH FLOW FROM FINANCING ACTIVITIES					
Borrowings from banks net	(19.68)	123.87	155.66	209.27	174.61
Dividend Paid	(51.21)	(57.77)	(65.55)	(78.65)	(94.39)
Others	0.68	0.01	(16.63)	(25.78)	15.19
Net Cash generated from financing activities	(70.21)	66.11	73.48	104.84	95.41
NET CHANGE IN CASH & CASH EQUIVALENTS	7.93	(4.47)	9.14	(5.60)	11.44
Opening Balance of Cash Cash Equivalents	10.74	18.67	14.20	23.34	17.74
Closing Balance of Cash Cash Equivalents	18.67	14.20	23.34	17.74	29.18

BALANCE SHEET	FY10A	FY11A	FY12E	FY13E	FY14E
Sources Of Funds					
Equity Share Capital	25.41	25.41	25.41	25.41	25.42
Reserves & Surplus	388.67	522.30	666.34	803.18	946.61
Networth	414.07	547.71	691.75	828.58	972.02
Secured Loans	269.13	353.22	459.89	607.06	746.68
Unsecured Loans	118.24	158.02	207.00	269.10	304.09
Deferred Tax Liability	69.84	79.54	90.28	85.78	82.25
Current Liabilities & Provisions					
Creditors	253.55	330.39	389.38	495.03	567.29
Provisions	61.27	54.15	70.09	103.96	130.48
Total Liabilities	1186.10	1523.02	1908.39	2389.50	2802.81
Application Of Funds					
Gross Block	965.98	1202.10	1393.88	1631.53	1850.98
Less: Accum. Depreciation	403.34	460.43	537.09	626.83	728.63
Net Block	562.64	741.67	856.79	1004.70	1122.35
Capital Work in Progress	13.08	26.17	27.88	48.95	45.36
Investments	69.29	91.62	100.62	154.59	223.42
Current Assets Loans and Advances					
Inventories	293.54	345.41	445.58	563.12	670.27
Sundry Debtors	131.04	152.87	186.86	223.29	284.36
Cash and Bank Balance	18.67	14.20	23.34	17.74	29.18
Loans and Advances	97.82	151.10	267.33	377.10	427.87
Total Assets	1186.10	1523.02	1908.39	2389.50	2802.81

Investment Rationale

The company is currently operating in the fast growing plastic segment. A strong brand name with generic products and strong fundamentals makes us optimistic on the prospects of the company in the long term. However on taking a closer look into the valuations of the company, we feel the stock is currently trading at its fair value. We have assigned a fair value to the stock on the basis that in our view there is structurally no major change in the business leading us to assign a higher valuation multiple to the stock. Though there are enough reasons to recommend a buy at these levels, traditional valuation multiples like the PE and EV/EBITDA indicate that the company is currently trading in the higher valuation band and does not give us an overall comfort at this juncture. The uncertainties resulting from a fragile global market, high inflation persisting in the economy, crude oil still not at comfortable levels all raise concerns on how the stock price could behave in the short term. We feel that the stock still needs a substantial margin of safety to tilt the odds in our favor. A high debt in the balance sheet could also act as a catalyst for bears to pound the stock if an interest rate hikes happen in the future. We are currently “Neutral” on the stock and will wait for further developments to materialize before taking a solid call on the same.

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