

January 25, 2010

BUY

MEDIUM RISK

PRICE Rs. 422

TARGET Rs. 585

## PLASTICS

### EARLIER RECO

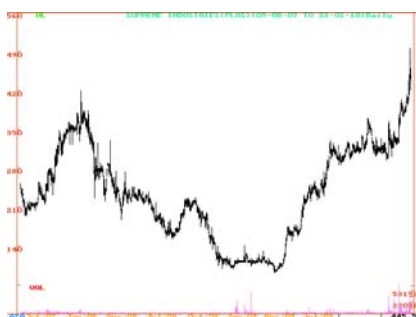
Buy	
Price	Rs.304
Target	Rs.395
Date	Aug 03, 2009

### SHARE HOLDING (%)

Promoters	48.89
FII	0.23
FI / MF	0.46
Body Corporates	13.21
Public & Others	37.21

### STOCK DATA

Reuters Code	SUPLBO	
Bloomberg Code	SI@IN	
BSE Code	509930	
NSE Code	SUPREMEIND	
Market Capitalization	Rs. 10723.0 mn US\$ 232.2 mn	
Shares Outstanding	25.41 mn	
52 Weeks (H/L)	Rs.496 /92	
Avg. Daily Volume (6m)	51,479 Shares	
Price Performance (%)		
1M	3M	6M
28	27	39
200 Days EMA Rs. 293		

Part of  Classic

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 pipes, cross-laminated film and protective packaging product segments, SIL has expanded its capacity from 1.8 lakh MT to 3.3 lakh MT. Its expansion has been carried out at Gadegaon (near Jalgaon in Maharashtra) on a plot of 134 acres. **We recently met the Management of the Company to discuss its financial performance during Q2FY10 (quarter ending December 31, 2009) and outlook for ensuing period. We present key takeaways of the Management Visit hereunder:**

- SIL has delivered excellent set of numbers in Q2FY10. Its revenues during the quarter grew by 32%YoY to Rs. 4,636.9 mn. Its EBITDA increased by 219.2% YoY to Rs. 552 mn with EBITDA margins increasing by 700 bps to 11.9%. Its APAT grew by a whopping 1,902.5% YoY to Rs. 269.4 mn.
- SIL has reported good set of numbers for H1FY10 too. Its revenues grew by 24.8% YoY to Rs. 8,062.7 mn, its EBIDTA increased by 134% YoY to Rs. 1,056.9 mn, while its EBIDTA margins increased by 610 bps to 13.1%. Its APAT has increased by 1,655.7% to Rs. 468 mn. It has reported an EPS of Rs. 18.4 & declared 50% interim dividend.
- SIL has achieved 27.1% YoY volume growth in H1FY10 & we expect its performance to remain strong during H2FY10 considering the robust demand for its products. The Company plans to spend Rs. 1.1bn in FY10 for capacity expansion (in almost all its segments), which would further increase its volume growth in the coming years.
- Overall, considering its industry leading positioning in all its segments within its plastic processing businesses (which set to grow in excess of 15%) and its increasing revenue share from high margin high value added products, we expect its volume to grow by 22% & 18% in FY10 & FY11 respectively and EBIDTA Margins to grow to 13.5% in both FY10 & FY11.
- Construction of SIL's ultra modern 10-storied commercial complex at its Andheri land has been completed (ready for fit out possession). In Q2FY10, SIL has realized Rs. 204.5 mn from sale of 13,106 square feet out of total saleable area. Considering the improved real estate scenario & its latest transaction price, we estimate the post-tax proceeds on sale of its property to be around Rs. 2,734 mn i.e. Rs. 109 per share (as against Rs. 75 earlier). We have adjusted our per share valuation for its property primarily driven by our conservative approach towards valuing its non-core assets.

### OUTLOOK & VALUATION

Supreme Industries has delivered strong business growth and is well-poised to grow at a fast pace in coming years. We have revised our FY2010 and FY2011 estimates of the Company based on our interaction with the Management and considering its spectacular performance in H1FY10. We now expect its FY2010 & FY2011 revenues to grow 23.2% and 18.1% & its FY2010 & FY2011 APAT to grow at 33.8% & 23.9% respectively. At the Current Market Price of Rs. 421, the stock is available at an attractive valuation of 8.8x & 7.1x its FY10E & FY11E earnings of Rs. 48 & Rs. 59.5 respectively. We retain 'BUY' rating on the stock with an increased target price of Rs. 585 (8x its FY11E Earnings plus value of Andheri property at Rs. 109 per share).

### KEY FINANCIALS

Y/E	Revenue (Rs mn)	APAT (Rs mn)	AEPS (Rs)	AEPS (% Ch.)	PER (x)	ROCE (%)	ROE (%)	P/BVPS (x)
June.								
FY09	16519.2	911.3	35.9	98.5	11.8	23.3	33.8	3.7
FY10E	20355.0	1219.7	48.0	33.8	8.8	26.4	34.9	2.6
FY11E	24036.7	1510.9	59.5	23.9	7.1	25.6	28.7	1.7

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Please refer to important disclosures at the end of the report

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**QUARTERLY RESULTS STATEMENT**

(Rs. mn)

Y/E June	Q2FY09	Q2FY10	H1FY09	H1FY10
<b>Revenues</b>	<b>3514.2</b>	<b>4636.9</b>	<b>6459.2</b>	<b>8062.7</b>
% Ch. YoY	-	31.9	-	24.8
RM Consumption	2463.7	3002.0	4404.8	5082.5
% Ch. YoY	-	21.8	-	15.4
% STO	70.1	64.7	68.2	63.0
Staff costs	139.0	177.4	280.2	335.7
% Ch. YoY	-	27.6	-	19.8
% STO	4.0	3.8	4.3	4.2
Other Expenditure	738.6	905.6	1322.6	1587.6
% Ch. YoY	-	22.6	-	20.0
% STO	21.0	19.5	20.5	19.7
<b>Total Expenditure</b>	<b>3341.3</b>	<b>4084.9</b>	<b>6007.5</b>	<b>7005.8</b>
% Ch. YoY	-	22.3	-	16.6
% STO	95.1	88.1	93.0	86.9
<b>EBITDA</b>	<b>172.9</b>	<b>552.0</b>	<b>451.6</b>	<b>1056.9</b>
% Ch. YoY	-	219.2	-	134.0
% Margin	4.9	11.9	7.0	13.1
Interest	141.1	98.5	262.0	191.8
% Ch. YoY	-	(30.2)	-	(26.8)
% of STO	4.0	2.1	4.1	2.4
<b>EBDT</b>	<b>31.8</b>	<b>453.5</b>	<b>189.6</b>	<b>865.1</b>
% Ch. YoY	-	1326.5	-	356.2
% Margin	0.9	9.8	2.9	10.7
Depreciation	108.7	125.0	215.9	249.7
% Ch. YoY	-	15.0	-	15.7
% of STO	3.1	2.7	3.3	3.1
<b>PBT excl. OI</b>	<b>(77.0)</b>	<b>328.5</b>	<b>(26.3)</b>	<b>615.4</b>
% Ch. YoY	-	526.8	-	2442.6
% Margin	(2.2)	7.1	(0.4)	7.6
Other Income	48.0	73.5	61.4	85.1
% Ch. YoY	-	53.0	-	38.5
% of STO	1.4	1.6	1.0	1.1
<b>PBT incl OI</b>	<b>(28.9)</b>	<b>401.9</b>	<b>35.2</b>	<b>700.5</b>
% Ch. YoY	-	1488.5	-	1892.5
% Margin	(0.8)	8.7	0.5	8.7
Tax	(14.0)	132.5	8.5	232.5
% Ch. YoY	-	1046.4	-	2635.3
% of PBT	48.4	33.0	24.2	33.2
<b>APAT</b>	<b>(14.9)</b>	<b>269.4</b>	<b>26.7</b>	<b>468.0</b>
% Ch. YoY	-	1902.5	-	1655.7
% Margin	(0.4)	5.8	0.4	5.8
Extraordinary Exp.	0.0	(89.8)	(62.0)	(89.8)
<b>RPAT</b>	<b>(14.9)</b>	<b>359.2</b>	<b>88.7</b>	<b>557.8</b>
% Margin	(0.4)	7.7	1.4	6.9

**PROFIT & LOSS STATEMENT**

(Rs.mn)

Y/E June	FY08	FY09	FY10E	FY11E
<b>Revenue</b>	<b>13102.2</b>	<b>16519.2</b>	<b>20355.0</b>	<b>24036.7</b>
% Ch. YoY	<b>12.8</b>	<b>26.1</b>	<b>23.2</b>	<b>18.1</b>
RM Consumption	8674.9	10513.6	13230.7	15623.8
% Ch. YoY	11.3	21.2	25.8	18.1
% STO	66.2	63.6	65.0	65.0
Staff costs	544.2	668.3	788.6	918.7
% Ch. YoY	33.4	22.8	18.0	16.5
% STO	4.2	4.0	3.9	3.8
Other Expenditure	2445.3	2958.2	3594.2	4259.2
% Ch. YoY	15.5	21.0	21.5	18.5
% STO	18.7	17.9	17.7	17.7
<b>Total Expenditure</b>	<b>11664.4</b>	<b>14140.0</b>	<b>17613.5</b>	<b>20801.7</b>
% Ch. YoY	13.0	20.6	24.6	18.1
% STO	89.0	88.7	86.5	86.5
<b>EBITDA</b>	<b>1437.8</b>	<b>2379.2</b>	<b>2741.4</b>	<b>3235.0</b>
% Ch. YoY	10.9	65.5	15.2	18.0
% Margin	11.0	14.4	13.5	13.5
Interest	390.0	545.6	436.5	414.7
% Ch. YoY	18.2	39.9	(20.0)	(5.0)
% of STO	3.0	3.3	2.1	1.7
<b>EBDT</b>	<b>1047.8</b>	<b>1833.6</b>	<b>2305.0</b>	<b>2820.3</b>
% Ch. YoY	8.4	75.0	25.7	22.4
% Margin	8.0	11.1	11.3	11.7
Depreciation	395.1	525.3	570.0	655.5
% Ch. YoY	(1.8)	33.0	8.5	15.0
% of STO	3.0	3.2	2.8	2.7
<b>PBT excl. OI</b>	<b>652.7</b>	<b>1308.3</b>	<b>1735.0</b>	<b>2164.9</b>
% Ch. YoY	15.8	100.4	32.6	24.8
% Margin	5.0	7.9	8.5	9.0
Other Income	89.4	90.5	113.1	124.4
% Ch. YoY	34.1	1.2	25.0	10.0
% Margin	0.7	0.5	0.6	0.5
<b>PBT incl OI</b>	<b>742.1</b>	<b>1398.7</b>	<b>1848.1</b>	<b>2289.3</b>
% Ch. YoY	17.7	88.5	32.1	23.9
% Margin	5.7	8.5	9.1	9.5
Tax	242.9	487.4	628.3	778.3
% Ch. YoY	17.1	100.7	28.9	23.9
% of PBT	32.7	34.8	34.0	34.0
<b>APAT</b>	<b>499.2</b>	<b>911.3</b>	<b>1219.7</b>	<b>1510.9</b>
% Ch. YoY	18.0	82.5	33.8	23.9
% Margin	3.8	5.5	6.0	6.3
Extraordinary Exp.	0.5	(62.3)	(448.8)	(1340.6)
<b>RPAT</b>	<b>498.8</b>	<b>973.6</b>	<b>1668.5</b>	<b>2851.5</b>
% Ch. YoY	(0.6)	95.2	71.4	70.9
% Margin	3.8	5.9	8.2	11.9

Source: Company, Sushil Finance Research Estimates

## BALANCE SHEET STATEMENT

(Rs.mn)

## FINANCIAL RATIO STATEMENT

As on 30 <sup>th</sup> June	FY08	FY09	FY10E	FY11E
<b>SOURCES OF FUNDS</b>				
Share Capital	276.2	254.1	254.1	254.1
Reserves & Surplus	2229.9	2626.7	3849.3	6165.9
<b>Net Worth</b>	<b>2506.1</b>	<b>2880.8</b>	<b>4103.4</b>	<b>6419.9</b>
Secured Loans	2722.6	2151.8	1613.8	1129.7
Unsecured Loans	280.6	335.6	352.4	317.2
<b>Total Loan funds</b>	<b>3003.2</b>	<b>2487.4</b>	<b>1966.2</b>	<b>1446.8</b>
<b>Capital Employed</b>	<b>5509.4</b>	<b>5368.2</b>	<b>6069.6</b>	<b>7866.8</b>
<b>APPLICATION OF FUNDS</b>				
Gross Block	8029.0	9022.5	10122.5	10872.5
Less: Depreciation	3388.1	3592.4	4162.4	4817.8
Net Block	4640.9	5430.0	5960.1	6054.6
Cap. WIP	684.1	895.2	300.0	150.0
Asset held for disposal	248.6	11.9	0.0	0.0
<b>Fixed Assets</b>	<b>5573.6</b>	<b>6337.2</b>	<b>6260.1</b>	<b>6204.6</b>
<b>Investments</b>	<b>339.5</b>	<b>336.2</b>	<b>336.2</b>	<b>336.2</b>
Sundry Debtors	1368.2	1156.4	1424.9	1682.6
Cash & Bank Bal	283.4	104.1	903.7	2732.5
Loans & Advances	893.9	720.6	887.9	1048.5
Inventories	1566.9	1682.9	2073.7	2448.8
<b>Curr Assets, Loans &amp; Adv</b>	<b>4112.4</b>	<b>3664.0</b>	<b>5290.1</b>	<b>7912.4</b>
Curr Liabilities	3786.6	3765.6	4640.0	5479.2
Provision	206.8	560.8	691.0	816.0
<b>Curr Liab &amp; Prov</b>	<b>3993.4</b>	<b>4326.4</b>	<b>5331.0</b>	<b>6295.3</b>
<b>Net Current Assets</b>	<b>119.0</b>	<b>(662.4)</b>	<b>(40.9)</b>	<b>1617.1</b>
Deferred Tax Asset	(522.8)	(642.8)	(485.7)	(291.1)
<b>Miscellaneous Exp</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Total Assets</b>	<b>5509.4</b>	<b>5368.2</b>	<b>6069.6</b>	<b>7866.8</b>

Y/E June	FY08	FY09	FY10E	FY11E
<b>Growth (%)</b>				
Net Sales	12.8	26.1	23.2	18.1
Adj. Net Profit	18.0	82.5	33.8	23.9
EBITDA	10.9	65.5	15.2	18.0
EPS	18.0	98.5	33.8	23.9
CEPS	(0.1)	85.6	48.0	54.5
Gr. Fixed Assets	17.3	11.0	10.9	6.9
Cap. Employed	17.5	(2.6)	11.6	22.8
<b>Valuation</b>				
EPS (Rs.)	18.1	35.9	48.0	59.5
CEPS (Rs.)	34.3	63.7	94.3	145.7
BVPS (Rs)	90.7	113.4	161.5	252.7
PER (x)	23.3	11.8	8.8	7.1
PEG (x)	1.3	0.1	0.3	0.3
P/CEPS (x)	12.3	6.6	4.5	2.9
P/BVPS (x)	4.7	3.7	2.6	1.7
EV/EBITDA (x)	10.0	5.5	4.3	2.9
EV/Net Sales (x)	1.1	0.8	0.6	0.4
<b>Profitability (%)</b>				
ROCE	15.1	23.3	26.4	25.6
ROE	20.9	33.8	34.9	28.7
EBIDTA Margin	11.0	14.4	13.5	13.5
EBDT Margin	8.0	11.1	11.3	11.7
NP Margin	3.8	5.5	6.0	6.3
Tax/PBT	32.7	34.8	34.0	34.0
<b>Turnover</b>				
Debtor Days	38	26	26	26
Creditor Days	105	83	83	83
N.Fixed Asset (x)	2.4	2.6	3.3	3.9
Total Assets (x)	2.4	3.1	3.4	3.1
Inventory Days	66	58	57	57

Source: Company, Sushil Finance Research Estimates

**CASH FLOW STATEMENT**

(Rs.mn)

Y/E June	FY08	FY09	FY10E	FY11E
<b>Cash Flow from Operating Activity</b>				
Profit available to Shareholders	2851.5	1668.5	973.6	498.8
Depreciation & Amortization	655.5	570.0	204.3	116.4
Change in Deferred Tax Liability	(194.6)	(157.1)	120.0	49.5
Change in Working Capital	170.8	178.0	602.2	160.7
<b>Cash Flow from Operating</b>	<b>3483.3</b>	<b>2259.4</b>	<b>1900.1</b>	<b>825.3</b>
<b>Cash Flow from Investing Activity</b>				
(Incr)/ Decr in Gross PP&E	(750.0)	(1100.0)	(993.5)	(1391.4)
(Incr)/Decr In Work in Progress	150.0	607.2	25.6	241.6
(Incr)/Decr In Investments	0.0	0.0	3.4	2.3
<b>Cash Flow from Investing</b>	<b>(600.0)</b>	<b>(492.8)</b>	<b>(964.5)</b>	<b>(1147.6)</b>
<b>Cash Flow from Financing Activity</b>				
Change in Debt	(519.4)	(521.2)	(515.8)	720.0
Change in Net Worth	0.0	(0.0)	(242.3)	1.8
Dividend	(535.0)	(445.9)	(356.7)	(258.5)
<b>Cash Flow from Financing</b>	<b>(1054.4)</b>	<b>(967.0)</b>	<b>(1114.8)</b>	<b>463.3</b>
<b>Incr/(Decr) in Balance Sheet Cash</b>	<b>1828.8</b>	<b>799.5</b>	<b>(179.2)</b>	<b>141.1</b>
<b>Cash at the Start of the Year</b>	<b>903.7</b>	<b>104.1</b>	<b>283.4</b>	<b>142.3</b>
<b>Cash at the End of the Year</b>	<b>2732.5</b>	<b>903.7</b>	<b>104.2</b>	<b>283.3</b>

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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