

# Supreme Industries

## Moulding a success story

We initiate coverage on Supreme Industries (SIL) with an ADD rating and an SOTP-based target price of INR 2,045/share. The company is India's largest plastic product manufacturer, commanding leadership position in most product categories— plastic pipes, furniture, material handling, and protective packing products. We expect SIL's consolidated revenue/EBITDA/APAT to grow at 11/16/19% CAGR during FY20-23E, buoyed by demand rebound across its entire product segments and rising share of premium products. Lean working capital should further accelerate both return ratios (to 20%+) and FCF generation, despite its continued reinvestment in growth Capex.

- **Leadership across most categories:** SIL is India's largest plastic products producer with a pan-India presence. It is the leader in the fast-growing plastic piping segment with ~11% overall market share. Similarly, it enjoys 12% share in material handling, 15-55% share in many of its packaging product, and 13% share in plastic furniture (second largest in India).
- **Demand rebound and rising share of premium products:** We believe SIL would benefit from demand rebound across most product categories – pipes, automotive and consumer durables parts, material handling components, protective packing and tarpaulin. SIL's rising share of high-margin sales to 40% in FY21 vs 35% in FY17 should drive margin expansion. Thus, we estimate the company would deliver 11/16/19% consolidated revenue/EBITDA/APAT CAGR during FY21-23E.
- **Superior return ratios and free cash flow generation:** Aided by its healthy profitability and lean working capital, SIL has continuously generated FCF over the past nine years, despite its steady investments in growth Capex. SIL has also been able to sweat its assets well (>2x asset turnover), bolstering its return ratios (>15%+). We expect return ratios to further increase to 20%+ during FY21-23E.
- **Valuation and outlook:** In our view, SIL's steady growth, market share gains across key business segments, lean working capital, and sustained high return ratios have rerated its valuation in the past five years. With better demand outlook further culminating into expansion of return ratios, valuation rerating should continue. Hence, we value the company at 19x its FY23E consolidated EBITDA (10% premium to its 5-year mean multiple) and value its 30% holding in its associate Supreme Petrochem at a 30% discount to its current market cap. These lead to SOTP valuation of INR 2,045/share. We initiate coverage with an ADD rating.

### Consolidated Financial Summary

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net Sales	29,372	44,366	49,074	55,580	55,115	60,786	67,868	74,551
EBITDA	4,381	7,363	7,244	7,306	8,346	11,391	12,070	12,942
EBITAM (%)	14.9	16.6	14.8	13.1	15.1	18.7	17.8	17.4
APAT	2,062	4,048	3,691	3,274	4,674	7,707	7,508	7,841
AEPS (INR)	21.6	31.9	29.1	25.8	36.8	60.7	59.1	61.7
EV/EBITDA (x)	56.5	33.4	33.9	33.5	29.4	21.3	19.9	18.3
P/E (x)	118.2	60.2	66.0	74.4	52.1	31.6	32.5	31.1
RoE (%)	21.8	26.9	20.6	16.2	21.2	31.0	25.8	23.4

Source: Company, HSIE Research, FY16 is 9months of operations

## ADD

CMP (as on 3 Feb 2021)	INR 1,918
Target Price	INR 2,045
NIFTY (as on 3 Feb 2021)	14,790

### KEY STOCK DATA

Bloomberg code	SI IN
No. of Shares (mn)	127
MCap (INR bn) / (\$ mn)	243/3,334
6m avg traded value (INR mn)	172
52 Week high / low	INR 1,985/773

### STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	30.5	47.6	44.0
Relative (%)	5.6	11.6	18.0

### SHAREHOLDING PATTERN (%)

	Sep-20	Dec-20
Promoters	48.85	48.85
FIs & Local MFs	24.68	24.71
FPIs	8.94	8.84
Public & Others	17.53	17.60
Pledged Shares	-	-

Source : BSE

Pledged shares as % of total shares

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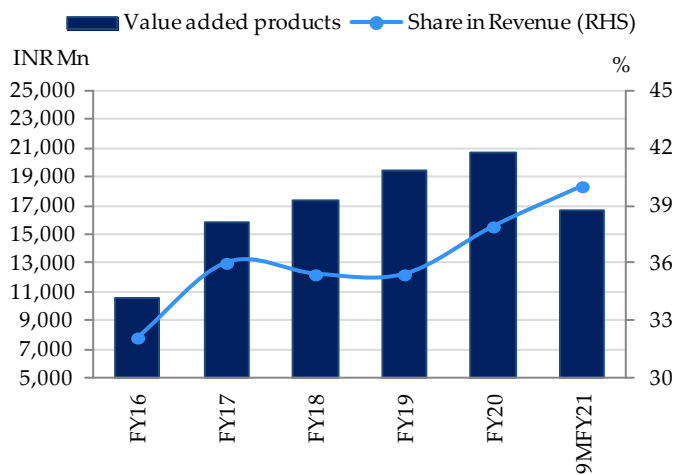
## Focus Charts

### SIL enjoys leadership position across most of its product categories

SIL's business segments	FY20 Rev INR bn	Rev Mix %	5-Yr Rev CAGR %	FY20 EBITDA INR bn	SIL's market share
Plastic Piping system	34.4	63	10.3	5.6	Largest player with 11% market share, leadership
Packaging products	9.6	17	1.0	1.4	>15-55% mkt share across 50% of the products
Industrial products	6.7	12	0.7	0.7	12% market share in Material Handling
Consumer products (Furniture)	3.8	7	6.8	0.7	2nd largest player with 13% market share

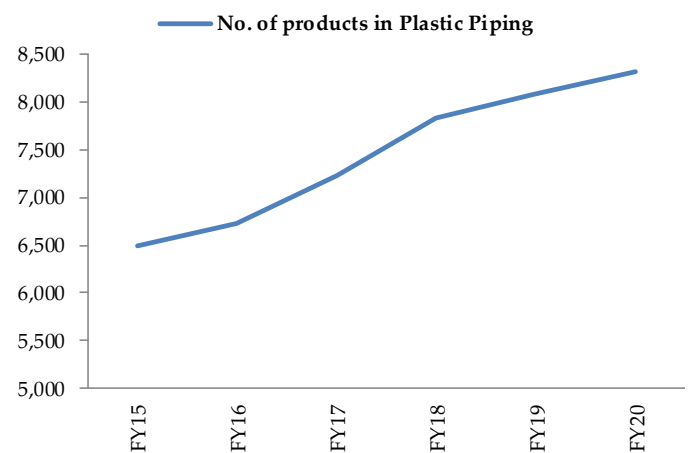
Source: Company, HSIE Research

### SIL has been continuously increasing the share of high-margin, value-added product



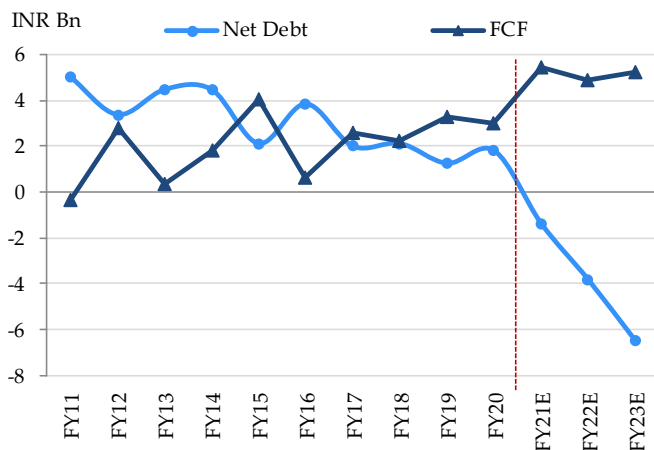
Source: Company, HSIE Research

### SIL's vast range of products (across all pipes categories) is on a rise, supporting its leadership



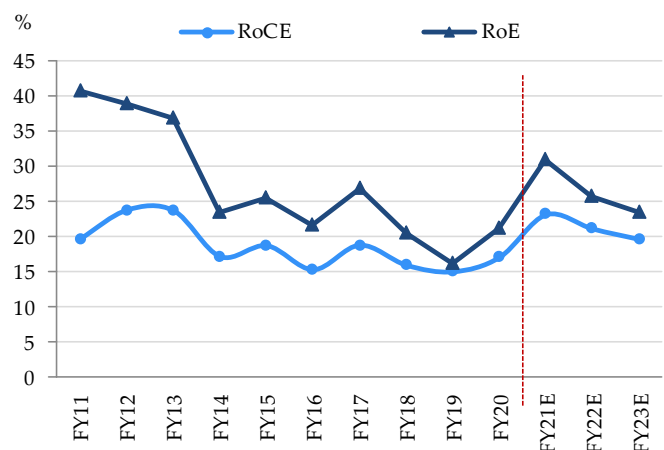
Source: Company, HSIE Research

### SIL's FCF in on a rise owing to its robust operating performance and lean working capital



Source: Company, HSIE Research

### We expect SIL to continue to deliver robust return ratios, owing to strong cashflows and high asset turn



Source: Company, HSIE Research

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## Largest producer of plastic product in the country

Supreme Industries (SIL) is the largest processor of polymers and resins into plastic products in India. The company has been engaged in this business for about six decades. Over the past 10 years, its capacity has grown at 8% CAGR to 640K MT in FY20. The company has 25 plants spread over 12 states/union territories in all the five regions of India. SIL's manufacturing plants across the four business segments it operates in are geographically spread across India. Supreme's spread-out production facilities across all business segments also gives it an edge over its competitors, since it allows the company to remain closer to its distribution network, resulting in lower opex.

### SIL's plants are well spread across India

Sr No	Plant Location	State	Region	Plastic Piping	Industrial Products	Consumer Products	Packaging Products
1	Derabassi	Punjab	North		Y	Y	
2	Ghilothe	Rajasthan	North		Y		
3	Noida	Uttar Pradesh	Central		Y		
4	Kanpur	Uttar Pradesh	Central	Y			
5	Malanpur - Unit I	Madhya Pradesh	Central				Y
6	Malanpur - Unit II	Madhya Pradesh	Central	Y			Y
7	Malanpur-Unit III	Madhya Pradesh	Central	Y			
8	Durgapur	West Bengal	East		Y	Y	
9	Kharagpur	West Bengal	East	Y		Y	Y
10	Guwahati	Assam	East			Y	
11	Halol -Unit I	Gujarat	West				Y
12	Halo -Unit II	Gujarat	West				Y
13	Halol -Unit III	Gujarat	West				Y
14	Halol -Unit IV	Gujarat	West		Y		
15	Silvassa	Union Territory	West				Y
16	Gadegaon	Maharashtra	West	Y	Y	Y	Y
17	Jalgaon - Unit I	Maharashtra	West	Y			
18	Jalgaon - Unit II	Maharashtra	West	Y			
19	Kanhe	Maharashtra	West		Y		
20	Khopoli	Maharashtra	West				Y
21	Urse	Maharashtra	West				Y
22	Jadcherla	Telangana	South	Y	Y	Y	Y
23	Puducherry	Union Territory	South		Y		
24	Sriperumbudur	Tamil Nadu	South		Y		
25	Hosur Unit	Tamil Nadu	South				Y

Source: Company, HSIE Research

## Leadership in most product categories

SIL has a large and diversified portfolio of products, which can be broadly classified in four segments – plastic piping products, industrial products, consumer products and packaging products. The company enjoys leadership in most of these product categories. Its large and diversified portfolio also provides it insulation from business cyclicity across any particular segment.

The piping division is the largest and fastest-growing business segment for the company, constituting 63% of its revenue. Currently, SIL has 10% overall market share and 15% share among the organised players in India. It is the market leader in the PVC piping (housing segment), second largest in agriculture pipes, and third largest in cPVC pipes.

In the industrial product segment, SIL manufactures components for the automotive and consumer durables industry and material handling products. In the material handling segment, its market share stands at 12% (vs 15% five year ago).

In the packaging segment, SIL is present across multiple segments. It enjoys high market share across various products within protective packing products (comprising ~50% of SIL's packing revenues) it supplies.

In the consumer product segment, SIL manufactures a vast range of moulded-plastic furniture. It is the second largest seller in the country, having steadily increased its market share from 10% in FY15 to ~13% at present.

### SIL's revenue mix and trend over the past five years

	FY20 Rev INR bn	Rev Mix %	5-Yr Rev CAGR %	FY20 EBITDA INR bn	Market Share %
Plastic Piping system	34.4	63	10.3	5.6	Largest player with 11% market share, leadership
Packaging products	9.6	17	1.0	1.4	>15-55% mkt share across 50% of the products
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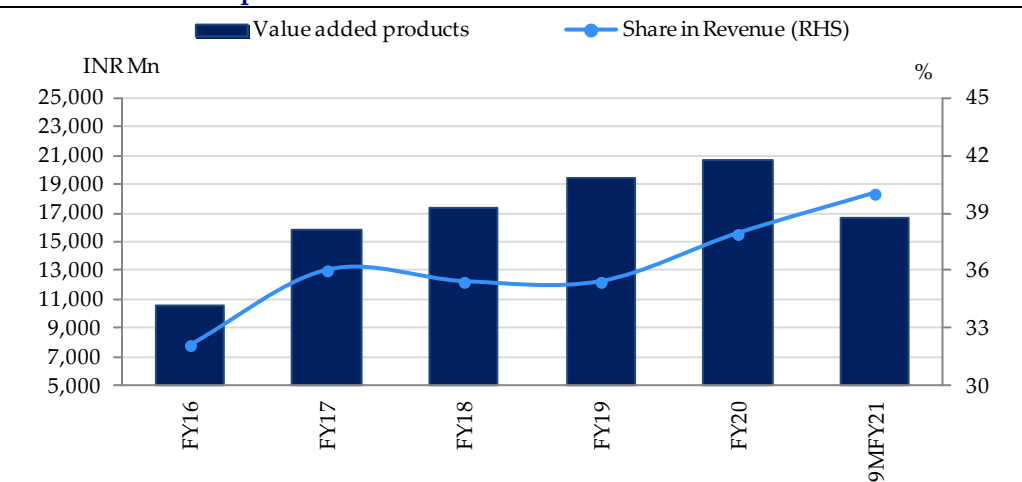
Source: Company, HSIE Research

## Rising share of value-added products

SIL has been able to retain its leadership position owing to continuous product launches across all segments. With a focus on profitability, it has focused on premium product launches. The rising share of value-added products has helped the company retain or gain market share across most market segments. Thus, the share of total revenue from high-margin value-added products has expanded from ~30% in FY15, to 40% in FY21E. The company classifies products with >17% EBITAM as value-added products.

In the piping product segment, >30% of its products are premium ones. In the consumer segment also, >50% of its moulded furniture are in the premium category. In the packaging segment, almost all of its cross-laminates and >40% of its protective packaging products (under industrial) fall in this category.

### SIL's value-added product share in on a rise



Source: Company, HSIE Research, FY16 is 9months of operations

### Strong technical collaborations support its premium product offerings

SIL has technical collaborations with multiple global companies, which has aided its continuous launches of speciality and value-added products in the piping and packaging segments. Strong technical tie-ups have contributed to large market share across many products. SIL sells under the packaging segment.

#### International technical collaboration across many products

Product Line	Segment	Technical collaborator
Fire Sprinkler Pipe System from CPVC	Plastic piping	Spears Mfg. Co. (Los Angeles, USA)
Septic Tanks	Plastic piping	Calcamite Sanitary Services (PTY)
Composite LPG Cylinders	Industrial	Kautex GMBH
Cross-laminated Films	Packaging	Rasmussen Polymer Development, Switzerland
Reticulated PU Foam	Packaging	Foam Partner, Switzerland
2 stage Foam	Packaging	Sanwa Kako, Japan
Cross Linked Foam	Packaging	PE Tech, Korea
Cross Plastic Film	Packaging	Swiss XPLASTX Technology SRL, Romania

Source: Company, HSIE Research

### SIL's product launches over the past several years

Segment	Products
Plastic piping	Light Hazard Fire Sprinkler System
	Bath Room Fittings
	DWC HDPE Pipe System
	HDPE Pipes above 315 MM Dia & up to 800 MM Dia
	CPVC Pipe System - 6" & above for Industrial Use
	Water Tanks & Septic Tanks
	Sewerage & Drainage System
	Industrial Valves
Packaging	XL Bonded Film - 35 GSM to 250 GSM
	30 & 35 GSM Cross Laminated Film & Cross Laminated Film - 400 GSM
	Varieties of Insulation Products in Protective Packaging Division
	Various Floor Protection & Sound Proofing Products in Protective Packaging Division
	Retail Product Range in Protective Packaging Division
Consumer	Blow Moulded Furniture
	Several varieties of new Furniture Products
	Roto Moulded Furniture
Industrials	Several varieties of Crates, Pallets & Dust Bin
	Composite LPG Cylinder

Source: Company, HSIE Research

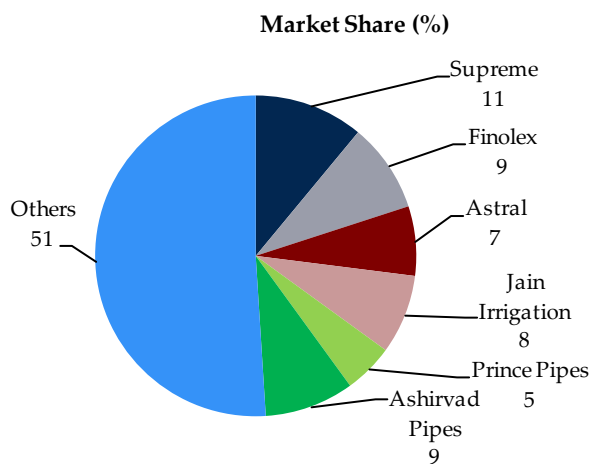


## Plastic piping division – market leadership, broad product portfolio

SIL is the market leader in the plastic piping segment with over 8,300 products across 31 different applications. The company offers various types of pipes and a large range of moulded fittings for use in potable water supply, irrigation, drainage, plumbing & sanitation and industrial piping. It also sells water & septic tanks and fire sprinkler systems in this category. About 65% of its pipes are sold in the agri segment

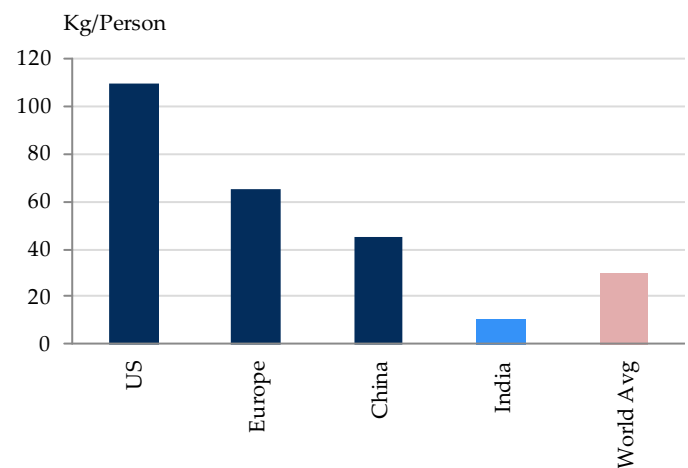
The piping industry has been growing at ~9% CAGR with current industry size at ~INR 34bn. About 65-70% of the market is controlled by organised/big players while the rest is catered to by smaller and unorganised players.

### Market Share – SIL is the market leader in the plastic pipe segment in India



Source: Company, HSIE Research

### Per-capita consumption – plastic pipes consumption in India is extremely under penetrated currently



Source: Company, HSIE Research

The piping segment is the largest business segment for SIL. It accounts for ~63/65% its consolidated revenue/EBITDA respectively. SIL is present in all product types (uPVC, cPVC, HDPE and PRR pipes). The cPVC, HDPE and PRR pipes fall in premium categories, commanding higher realisation. Similarly, the increasing presence in the fitting segment is value accretive. It commands higher margin (vs pipes) owing to its specialised nature, requiring higher precisions.

### SIL is present across all types of plastic pipes

Product	Supreme Ind	Finolex Ind	Astral Poly	Jain Irrigation	Prince Pipes	Ashirvad Pipes
PVC Pipes	Y	Y	Y	Y	Y	Y
CPVC Pipes	Y	Y	Y	Y	Y	Y
HDPE Pipes	Y		Y	Y	Y	
PPR Pipes	Y			Y	Y	

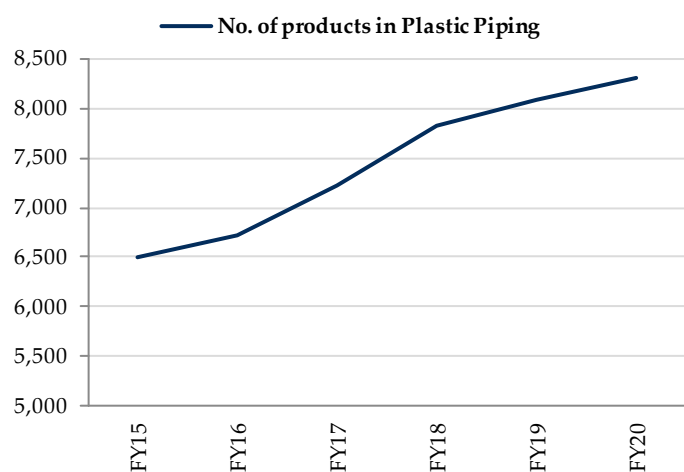
Source: Companies, HSIE Research



SIL has also recorded healthy growth in this segment. During FY15-20, segmental volume/revenue/EBITDA grew at 8/10/15% respectively. This healthy growth has been supported by the broad range of economy and premium products and the company's pan-India distribution.

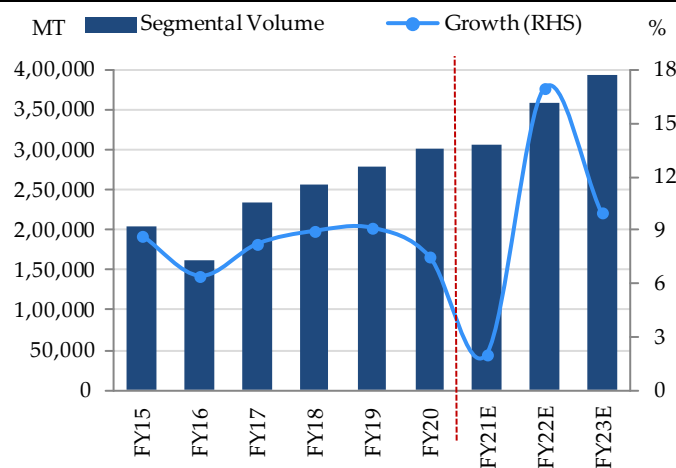
Buoyed by strong demand traction from the agriculture segment, demand recovery from the real-estate segment and SIL's continued business expansion should keep the segmental growth momentum intact, in our view. Raw material prices (except PVC resins which have shot up over the past five months) remain range bound. The industry expects PVC prices to cool off Mar'21 onwards once the supply situation eases globally. We model in 9/13/18% segmental volume/revenue/EBITDA CAGR during FY20-23E. During FY21, while soaring PVC prices reduced consumption ~20% YoY (during 9MFY21), SIL's piping product volume fell just 2% YoY, indicating SIL's continued market share gains, across both its PVC and cPVC pipes. We model in 9/13/18% segmental volume/revenue/EBITDA CAGR during FY20-23E.

### Continuously scaling of its product range



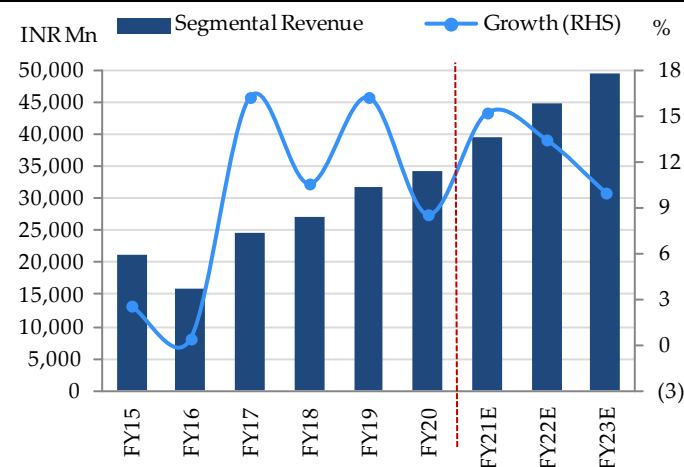
Source: Company, HSIE Research

### Segmental volumes grew at 8% CAGR during FY15-20, bolstering market share gains



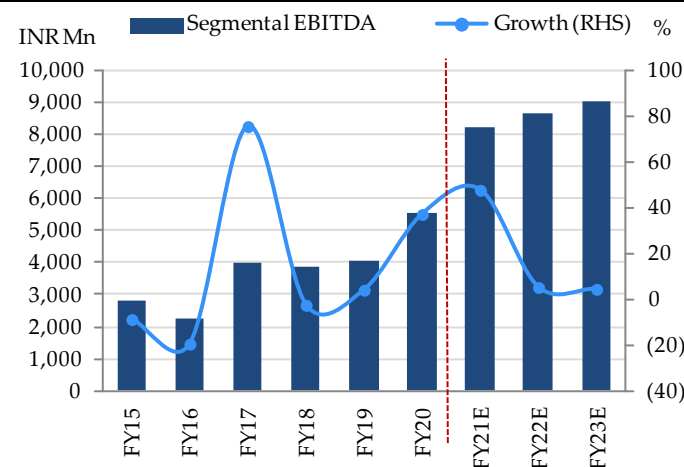
Source: Company, HSIE Research, FY16 is 9months of operations

### Segmental Revenue: 10% CAGR during FY15-20



Source: Company, HSIE Research, FY16 is 9months of operations

### Segmental EBITDA grew at 15% CAGR during FY15-20



Source: Company, HSIE Research, FY16 is 9months of operations

## Industrial products – volatile B2B exposure

This segment comprises 12/8% of SIL's FY20 revenue/EBITDA respectively. SIL caters mainly to various B2B customers in this segment- primarily automotive, consumer durables (CD) and material handling components. In the automotive segment, SIL is a tier-1 supplier of automotive companies. Sluggish demand across automotive and CD industries since 2HFY19 moderated the total revenue growth for SIL's industrial division.

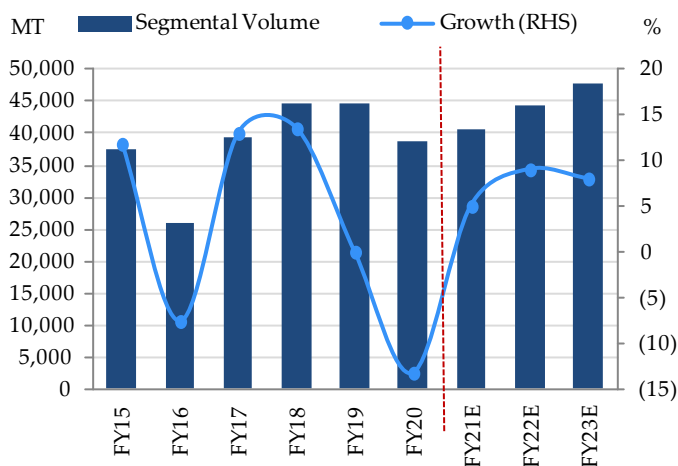
The material handling component segment of SIL makes crates, pallets, bins, dustbins, etc. Owing to stiff competition in this segment, the company's material handling revenue has remained largely flattish over the past five years. SIL steadily lost market share from 15% in FY15 to 10% in FY20.

SIL's light weight composite cylinder business, which was launched in 2012 as a safer replacement to metal gas cylinders, is yet to gain meaningful traction. The company has improved the product design with support of international consultants and expects orders to gain traction both in international and domestic markets.

Cumulatively, the industrial segment revenue grew at a modest 1% CAGR during FY15-20. Segmental EBITDA has been falling since FY18, thus leading to EBITDA declining at 3% rate during FY15-20.

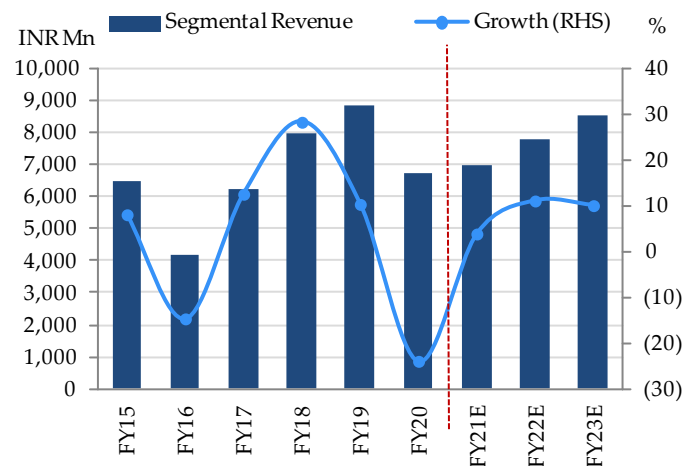
From 2QFY21 onwards, demand has rebound across automobiles and consumer durables. Strong uptick in e-commerce sales is also boosting demand for its material handling products. Thus, SIL's industrial segmental EBITDA for 9MFY21 has also surged 17% YoY despite sharp business loss in 1QFY21. We model in 7/8/14% segmental volume/revenue/EBITDA CAGR during FY20-23E.

### Demand volatility across automotive and CDs impacted volume uptick in past five years...



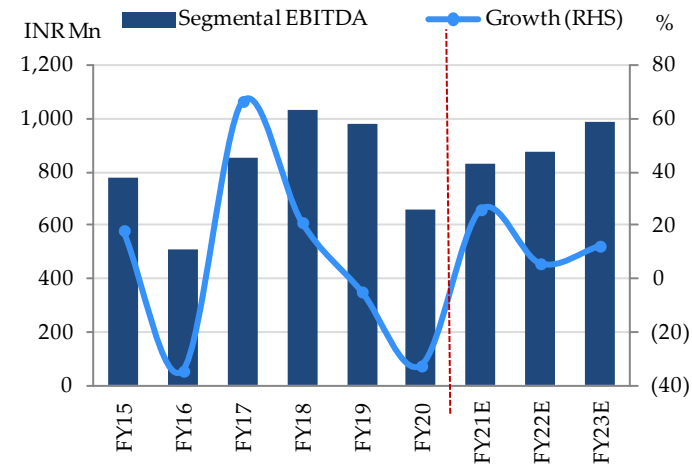
Source: Company, HSIE Research, FY16 is 9months of operations

### ...impacting revenue growth; Better outlook across automotive, CDs and material handling



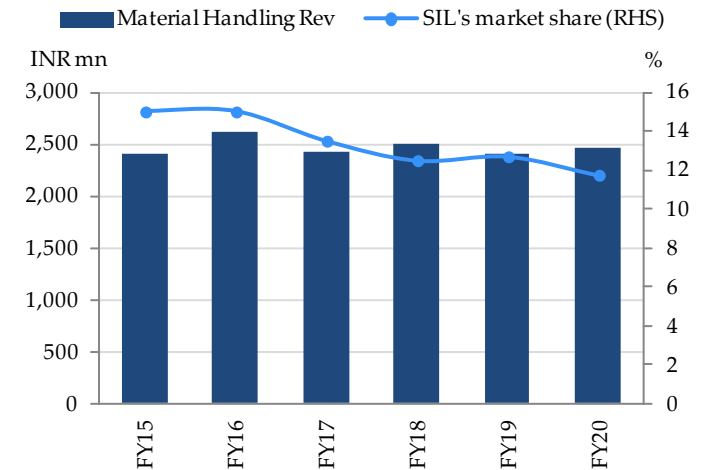
Source: Company, HSIE Research., FY16 is 9months of operations

### Good demand should ramp-up utilisation and profitability



Source: Company, HSIE Research, FY16 is 9months of operations

### Amid stiff competition the material handling revenue has been flattish in the past five years



Source: Company, HSIE Research

## Packaging division – protective packing on a steady path, tarpaulin sales rebounding

SIL's packaging division accounted for 17/17% of its consolidated revenue/EBITDA in FY20. The company's product offerings under this segment fall under three categories: protective packing (PPD), cross-laminated film products (CLF) and speciality performance film division (PLD).

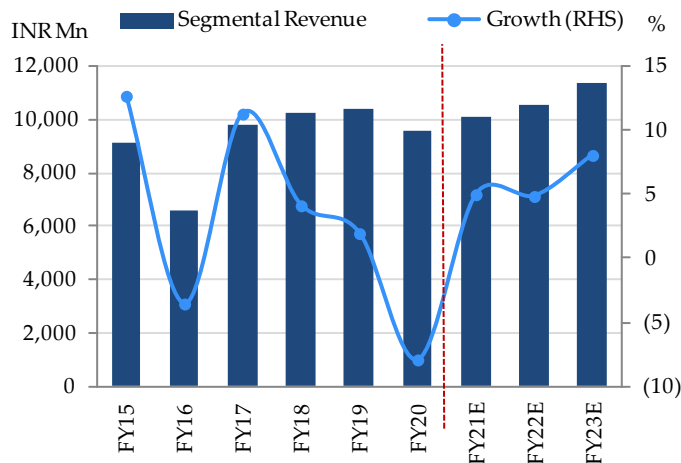
The protective packing division (PPD) comprising EPF foam, air bubble film, and cross-linked foam accounts for ~50% of the segmental revenues. SIL enjoys leadership position across all of these products, with 20-50% market share. This is supported by its strong technical collaborations and continuous new product launches. Healthy demand from across civil, construction and insulation industries, and SIL's capacity expansion in the segment have driven this segment's volume to grow at ~8% CAGR and the share of protective packing products have risen to ~50% (of divisional revenues) in FY20 from ~35% in FY16. Capacity ramp-up should continue to drive growth in this category. During FY21, demand has rebound owing to robust demand from construction and consumer durables segments, boosting growth outlook.

Under the cross-laminate film (CLF), SIL sells mainly tarpaulin, bags, fumigation cover, vermi bed, rainwater harvesting sheets, and pond liners. This segment's revenue currently accounts for ~35% SIL's revenue in the packing division (vs 50% in FY16). Tarpaulin is its main product (under the brand name Silpaulin and Silpaulin Star) and is mostly sold during Mar-June, before the onset of monsoon. SIL's tarpaulin sheet is a patented, cross-laminated product, whose weight is one-seventh of conventional cotton tarpaulin (without compromising its strength). However, the volume growth has not picked up over the past four years and in fact fell to a 5-year low in FY20, owing to sharp sales loss in Mar'20. SIL has been getting stiff competition from new entrants in this category, impacting sales. To counter this, the company launched the economy model of its tarpaulin and has worked on cost reduction. In FY21, with better sales for the economy model of tarpaulin and overall demand rebound, SIL expects its tarpaulin sales to rebound to ~21k MT (all-time high sales).

Under the third sub-category, SIL sells speciality performance films (PLD). It makes multilayer co-extruded film up to seven layers, which is used by various applications, ranging from oil films to thermoforming films, vacuum pouches, bulk bags and UHT milk films, etc. This is a small business segment, which accounts for ~10% of total packaging revenues. Over the past five years, rising competition from new entrants have muted revenue segmental growth. SIL's capacity expansion in 2019 should help revenue from this segment grow.

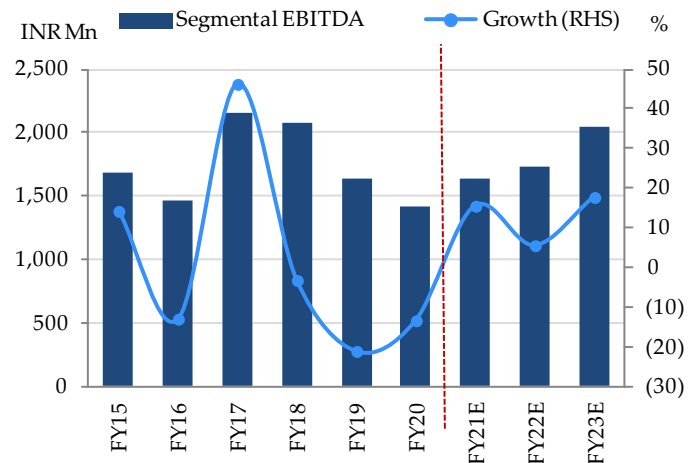
Factoring in continued traction in the protective packing segment, sales rebound across the cross-laminate and expansion-driven volume uptick in speciality films, we estimate segmental volume/revenue/EBITDA would register 6/6/13% CAGR during FY20-23E.

### Segmental Revenue has been led by higher growth in protective packing category



Source: Company, HSIE Research, FY16 is 9months of operations

### With recovery support from cross laminate sales, EBITDA should scale up to earlier peak



Source: Company, HSIE Research, FY16 is 9months of operations

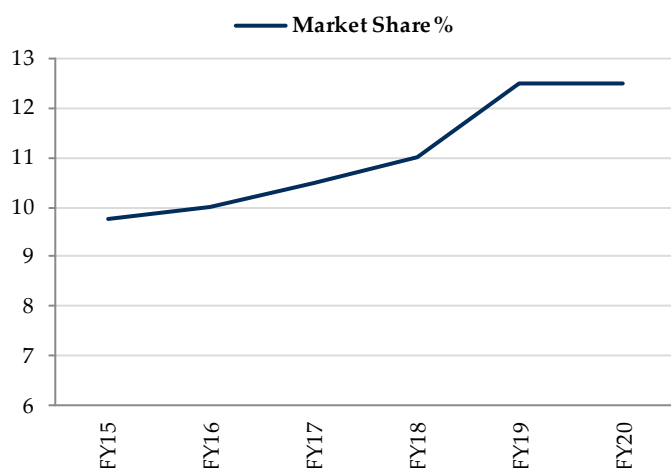
## Consumer products – market leadership, vast product portfolio

The consumer products division comprises plastic furniture business, which accounts for ~7% of SIL's total revenue. The company is the second largest plastic furniture manufacturer in India with 30K MT installed capacity, next to Nilkamal. It manufactures plastic furniture for household and institutional segments.

SIL is a pioneer in injection-moulded furniture with about three decades of experience in it. It is also expanding its range of blow-moulded and Roto-moulded furniture. Almost 50% of the segmental revenue comes from premium products in this segment. This has supported ~20% EBITDA margin in this segment (highest across all segments for SIL). SIL has been continuously expanding its distribution reach in this segment, which is helping it gain market share.

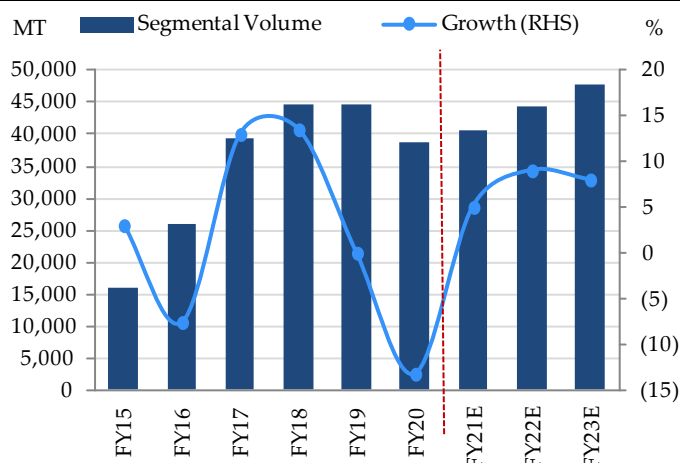
During FY15-20, the segmental revenue/volume/EBITDA grew at 5/7/12% CAGR. The increasing share of premium product launches and continued thrust on growing its distribution footprint should lead to segmental business growth. We model in 4/4/6% segmental volume/revenue/EBITDA CAGR during FY20-23E.

### SIL has been steadily gaining market share in plastic furniture segment



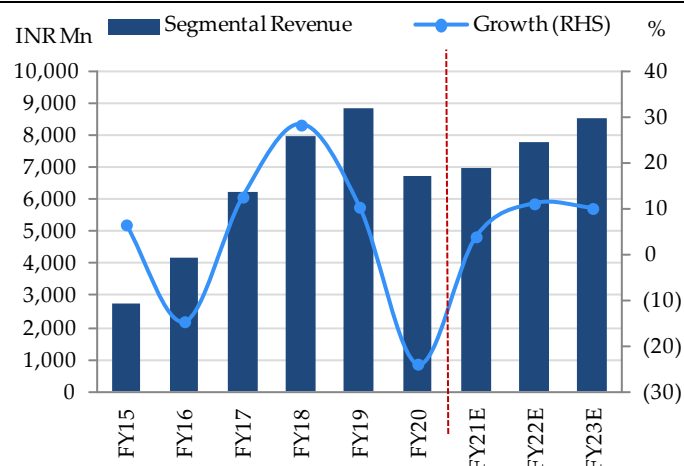
Source: Company, HSIE Research

### Increased premium product launched has driven its healthy volume growth...



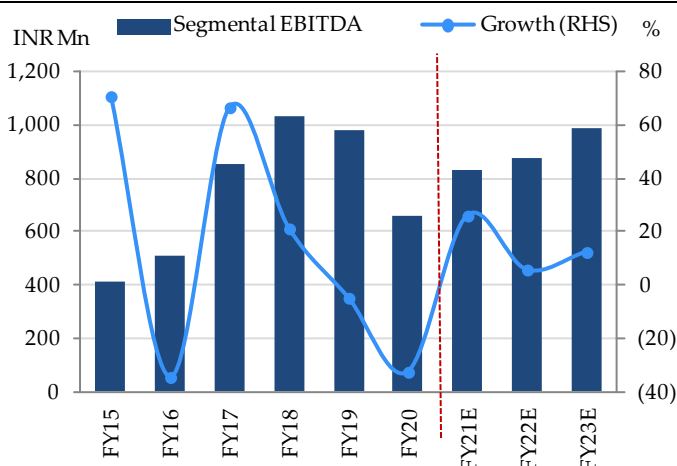
Source: Company, HSIE Research, FY16 is 9months of operations

### ... and segmental revenue



Source: Company, HSIE Research, FY16 is 9months of operations

### SIL's makes the best EBITDAM in this segment (~20%)

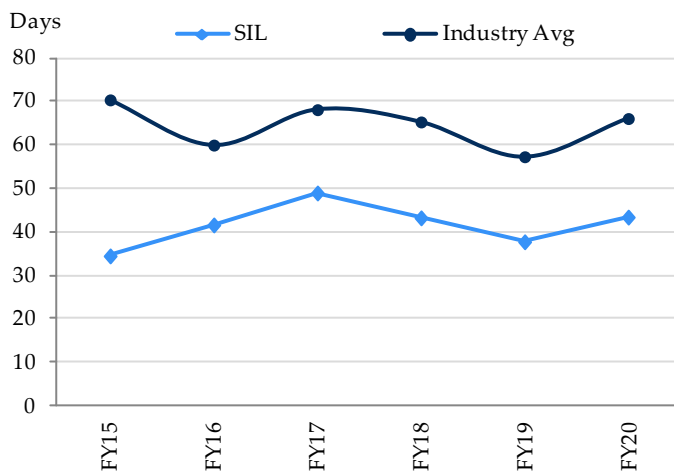


Source: Company, HSIE Research, FY16 is 9months of operations

## Lean working capital

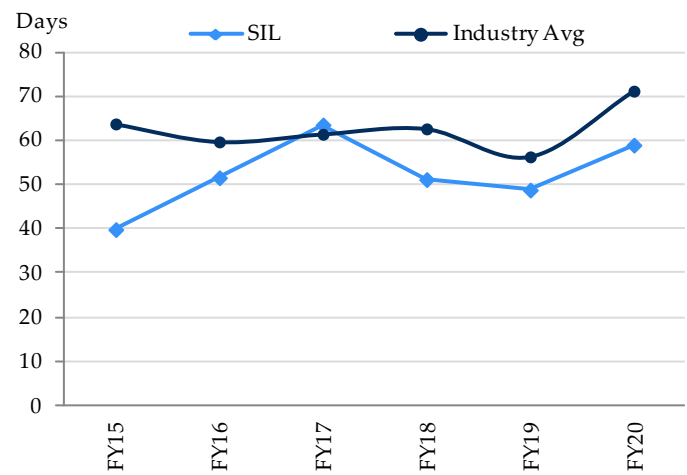
SIL has consistently shown strong working capital management. While the industry as a whole has a low working capital cycle, SIL scores with a leaner working capital profile. Its cash conversion cycle of ~40 days is much lower than the industry average of 65 days. Owing to its distribution and market positioning strength, SIL's debtor days stand at ~25 vs ~40 of the industry average. Despite its broad product range, its inventory days at 53 are lower than the industry average of ~63 days. In our view, SIL's well-distributed production spread across India allows it to have a leaner inventory. In terms of the payment outstanding to its suppliers, SIL's is in line with the industry at ~37 days.

### SIL's cash conversion cycle remains leaner than the industry



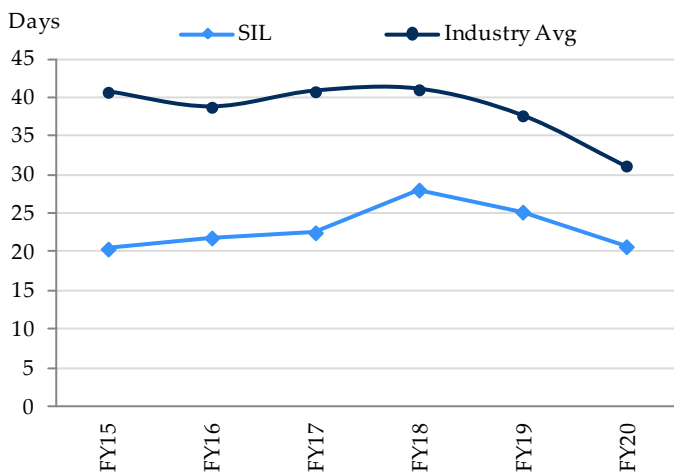
Source: Company, HSIE Research

### Despite its vast product range across multiple categories, SIL's inventory position is strong



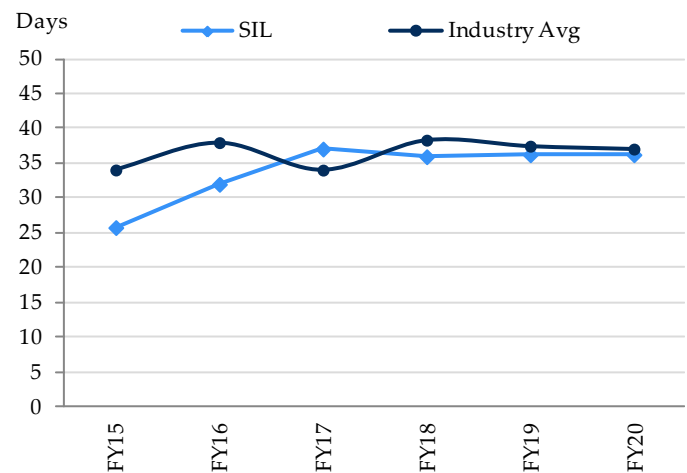
Source: Company, HSIE Research

### Its robust distribution and premium positioning supports its low debtor days



Source: Company, HSIE Research

### SIL payables to its vendors is largely inline industry trend



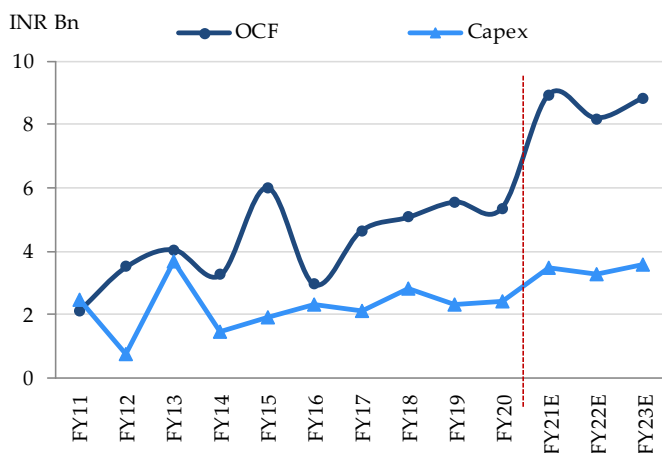
Source: Company, HSIE Research

## Robust free cash flow and return ratios

Led by strong operating profit growth and lean working capital, the company has been posting healthy operating cash flows year after year. Despite its continuous reinvestment in growth Capex (capacity increased at 8% CAGR in the past 10 years), SIL has delivered positive FCF in almost all of the past 10 years (barring FY11). Going ahead, we expect these trends to continue and free cash flow generation should remain high.

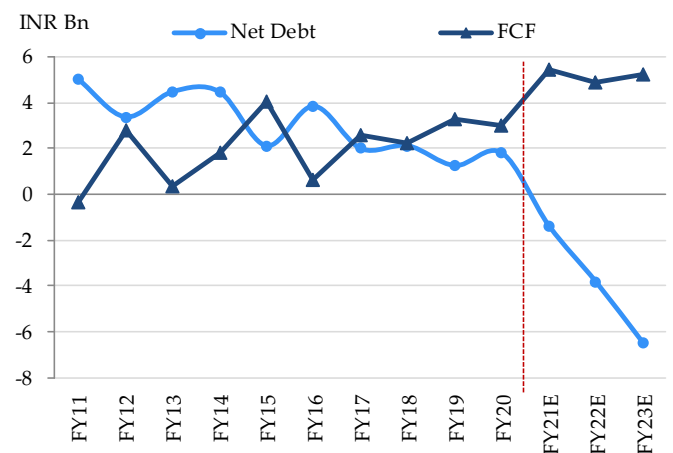
During FY21, SIL is targeting to spend ~INR 4bn (which includes spill over of INR 1.8bn from FY20). This is towards its on-going expansions at various sites – Odisha (Greenfield plant), Tamil Nadu and Assam. SIL will continue to invest in capacity expansion to drive its volume growth and market share gains.

### Strong OCF trend to continue, in our view...



Source: Company, HSIE Research, FY16 is 9months of operations

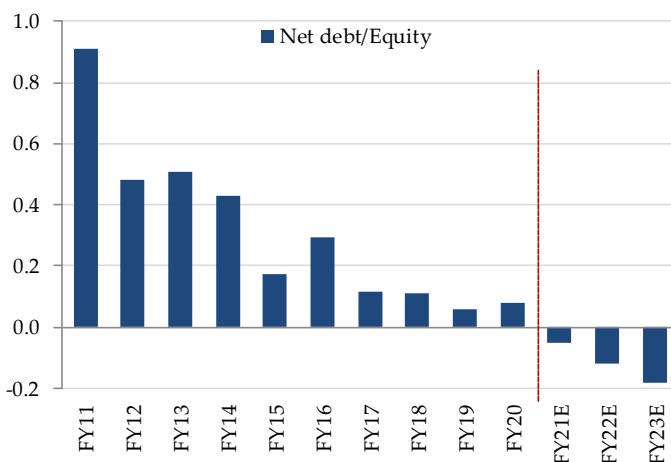
### .... leading to strong cash inflows despite continued capex outgo



Source: Company, HSIE Research, FY16 is 9months of operations

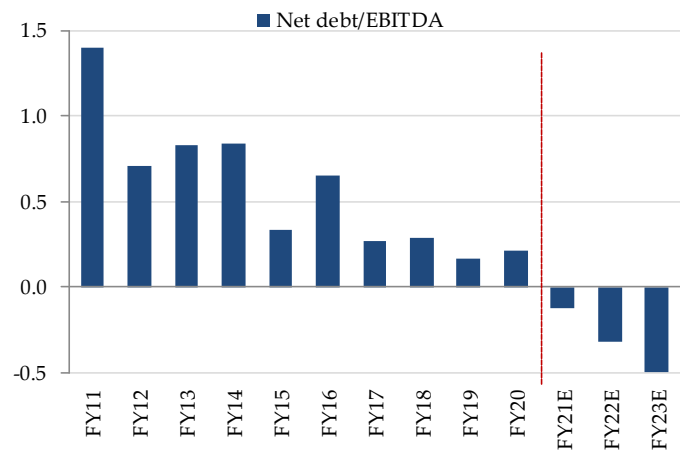
Owing to its continuous FCF generation, its balance sheet has remained comfortable throughout.

### SIL's balance sheet should turn net cash in FY21



Source: Company, HSIE Research

### Net debt/EBITDA trend



Source: Company, HSIE Research



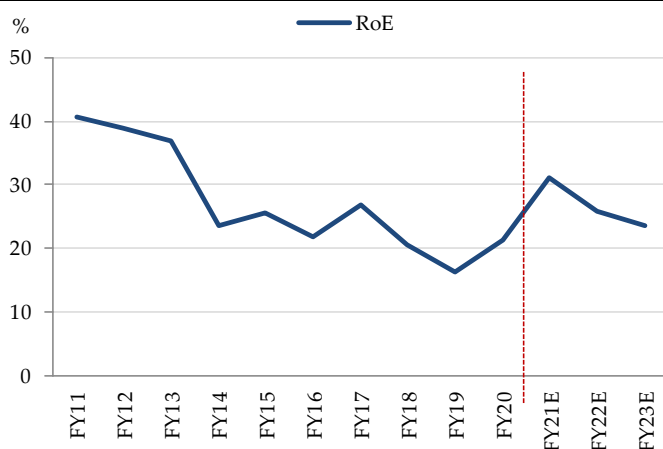
## Du-Pont analysis – strong return ratio profile

Despite low gearing, SIL's return ratios have also been strong, with the company continuously posting 20%+ RoE in the past 10 years, implying healthy margins and asset sweating. SIL's asset turn has been extremely strong at more than 2x throughout. Along with steady NPM, this has buoyed its RoE, despite lower contribution from its unlevered balance sheet. Its RoE has cooled off from ~40% levels during FY11-13 to 20% levels during FY16-20, led by a fall in asset turn (amid fast capacity expansion) and fall in leverage (as SIL reduced debt on its books). NPM has largely ranged between 7-9%. Robust all-round profitability gains during FY21-23E (including rising contribution from its associate Supreme Petrochem) should accelerate NPM to ~11%, thereby boosting RoE, north of 20%. Similarly, its RoCE has been at and above 15% over the past 10 years. A rebound in EBIT margin should further accelerate the RoCE to more than 20% during FY21-23E.

### Du Pont Analysis

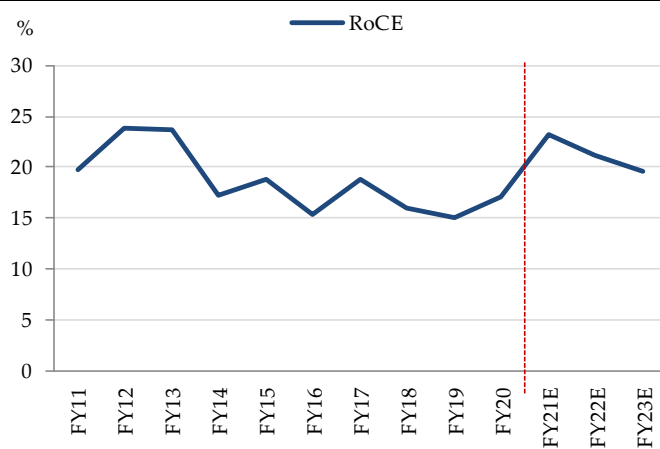
Particulars	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Net margin (%)	7.0	9.1	7.5	5.9	8.5	12.7	11.1	10.5
Asset turnover (x)	2.2	2.3	2.3	2.4	2.1	2.1	2.2	2.1
Leverage factor (x)	1.4	1.3	1.2	1.2	1.2	1.2	1.1	1.1
<b>RoE (%)</b>	<b>21.8</b>	<b>26.9</b>	<b>20.6</b>	<b>16.2</b>	<b>21.2</b>	<b>31.0</b>	<b>25.8</b>	<b>23.4</b>

**We expect RoE to rebound to >20% on robust earnings outlook and despite cash pile up**



Source: Company, HSIE Research

**Even RoCE should firm up to ~20% as core profitability is on a rise**



Source: Company, HSIE Research

## Valuations and recommendation

During the past 5/10 years, SIL has traded at a one-year forward mean valuation of 17/13x (on EV/EBITDA basis). During this period, its 5/10 years' mean P/E multiple stood at 32/25x.

In our view, the company's steady growth, market share gains across its key business segments, lean working capital, and sustained high return ratio has driven its valuation rerating in the past five years. With better demand outlook culminating in strong earnings momentum and return ratios, valuation rerating should continue. Subsequently, we ascribe 10% premium to its 5-year multiple. Hence, we value SIL at 19x its FY23E consolidated EBITDA (10% premium to its 5-year mean multiple) and value its 30% holding in its associate Supreme Petrochem at 30% discount to its current market cap. These lead to SOTP valuation of INR 2,045/sh. We initiate coverage with an ADD rating on the stock.

SIL's 1 yr forward EV/EBITDA valuation trend



Source: Company, HSIE Research

SIL's 1 yr forward P/E valuation trend



Source: Company, HSIE Research

### Key risks:

**A sharp rise in resin prices** has already moderated demand from the agri segment. If prices continue to firm up further, it can hit SIL's volume growth and profitability.

**Slump in recent demand trends:** From 2QFY21 onwards, demand has been increasing from rural, housing, infrastructure, consumer durables, automotive sectors, etc. While this may seem sustainable currently, any major slump in these demand drivers will also pull profit estimates down.

## 3QFY21 performance

During 3QFY21, SIL reported strong volume growth across plastic piping products, industrial products and furniture segments. This along with elevated realisation across all segments (on account of RM spike) led to consolidated revenues growth of 34% YoY. Healthy pricing, rising share of high-margin products, operating efficiencies, fixed cost reduction and inventory gains on resins bolstered margin expansion across all segments. Thus, consolidated revenue/EBITDA/APAT in 3QFY21 rose 34/96/173% YoY.

Robust performance during 2Q/3QFY21 has also offset the impact of sharp volume loss during 1QFY21 (lockdown impact), moderating the total volume decline to 3% YoY. Despite lower sales, consol revenue/EBITDA/APAT rebound 5/46/64% YoY on realisation gains, and lower operating costs.

### Quarterly Financial Snapshot

	Dec-20	Dec-19	YoY %	Sep-20	QoQ %	9M FY21	9M FY20	YoY %
<b>Net Sales</b>	<b>18,438</b>	<b>13,733</b>	<b>34.3</b>	<b>13,748</b>	<b>34.1</b>	<b>42,725</b>	<b>40,811</b>	<b>4.7</b>
Raw Materials	11,116	8,798	26.4	8,093	37.4	26,677	26,948	(1.0)
Power and Fuel	554	541	2.3	535	3.4	1,438	1,610	(10.7)
Employee	813	685	18.8	727	11.8	2,173	2,024	7.3
Other Exp	1,446	1,407	2.7	1,441	0.3	3,729	4,264	(12.6)
<b>EBITDA</b>	<b>4,510</b>	<b>2,302</b>	<b>95.9</b>	<b>2,952</b>	<b>52.8</b>	<b>8,709</b>	<b>5,965</b>	<b>46.0</b>
EBITDA margin (%)	24.5	16.8		21.5		20.4	14.6	
Depreciation	549	515	6.6	523	5.0	1,580	1,528	3.4
<b>EBIT</b>	<b>3,960</b>	<b>1,787</b>	<b>121.7</b>	<b>2,429</b>	<b>63.1</b>	<b>7,129</b>	<b>4,437</b>	<b>60.7</b>
Other Income	3	8	(68.8)	1	212.5	6	14	(55.5)
Interest Cost	(12)	57	(121.9)	25	(149.8)	90	160	(43.4)
<b>PBT</b>	<b>3,975</b>	<b>1,738</b>	<b>128.7</b>	<b>2,405</b>	<b>65.3</b>	<b>7,045</b>	<b>4,291</b>	<b>64.2</b>
Tax	886	419	111.5	527	68.2	1,560	678	130.0
Tax rate (%)	22.3	24.1		21.9		22.1	15.8	
Share of Associates profit	528	8		265		5,278	3,501	
<b>RPAT</b>	<b>3,617</b>	<b>1,327</b>	<b>172.6</b>	<b>2,143</b>	<b>68.8</b>	<b>10,763</b>	<b>7,113</b>	<b>51.3</b>
EO (Loss) / Profit (Net Of Tax)	-	-		-		-	-	
<b>APAT</b>	<b>3,617</b>	<b>1,327</b>	<b>172.6</b>	<b>2,143</b>	<b>68.8</b>	<b>10,763</b>	<b>7,113</b>	<b>51.3</b>
Adj PAT margin (%)	19.6	9.7		15.6		25.2	17.4	

Source: Company, HSIE Research

	Dec-20	Dec-19	YoY %	Sep-20	QoQ %	9M FY21	9M FY20	YoY %
<b>Total Sales Vol (MT)</b>	<b>111,584</b>	<b>101,393</b>	<b>10.1</b>	<b>94,836</b>	<b>17.7</b>	<b>297,871</b>	<b>308,321</b>	<b>(3.4)</b>
Plastics Piping Prod Vol (MT)	76,759	70,431	9.0	66,609	15.2	218,360	223,457	(2.3)
Revenue (INR mn)	11,402	7,984	42.8	8,473	34.6	27,520	25,079	9.7
EBITDA (INR mn)	2,792	1,276	118.9	1,739	60.6	5,426	3,627	49.6
OPM %	24.5	16.0		20.5		19.7	14.5	
Industrial Products Vol (MT)	11,652	8,801	32.4	11,285	3.3	27,707	29,123	(4.9)
Revenue (INR mn)	2,161	1,566	38.0	1,815	19.1	4,680	5,139	(8.9)
EBITDA (INR mn)	292	169	72.3	211	37.9	513	438	17.0
OPM %	13.5	10.8		11.7		11.0	8.5	
Packaging Products Vol (MT)	16,785	16,399	2.4	12,239	37.1	39,206	40,206	(2.5)
Revenue (INR mn)	3,179	3,086	3.0	2,198	44.6	7,253	7,517	(3.5)
EBITDA (INR mn)	292	169	72.3	211	37.9	513	438	17.0
OPM %	9.2	5.5		9.6		7.1	5.8	
Consumer Products Vol (MT)	6,388	5,762	10.9	4,703	35.8	12,598	15,535	(18.9)
Revenue (INR mn)	1,167	1,046	11.7	855	36.6	2,302	2,882	(20.1)
EBITDA (INR mn)	524	540	(2.9)	372	40.9	1,182	986	19.9
OPM %	44.9	51.7		43.5		51.4	34.2	

Source: Company, HSIE Research

## Operational assumptions and summary

In the piping segment, we model in 9/13/18% segmental volume/revenue/EBITDA CAGR during FY20-23E, factoring in SIL's continued market share gains and better demand outlook.

In the industrial segment, we estimate 7/8/14% segmental volume/revenue/EBITDA CAGR during FY20-23E, on demand revival across all its three business sub-segments.

Factoring in continued traction in the protective packing segment, sales rebound across the cross-laminate and expansion-driven volume uptick in speciality films, we estimate that the packaging segment volume/revenue/EBITDA would register 6/6/13% CAGR during FY20-23E.

The increasing share of premium product launches and continued thrust on growing its distribution footprint should lead to furniture business growth. We model in 4/4/6% segmental volume/revenue/EBITDA CAGR during FY20-23E.

### Operational Trends and Assumptions

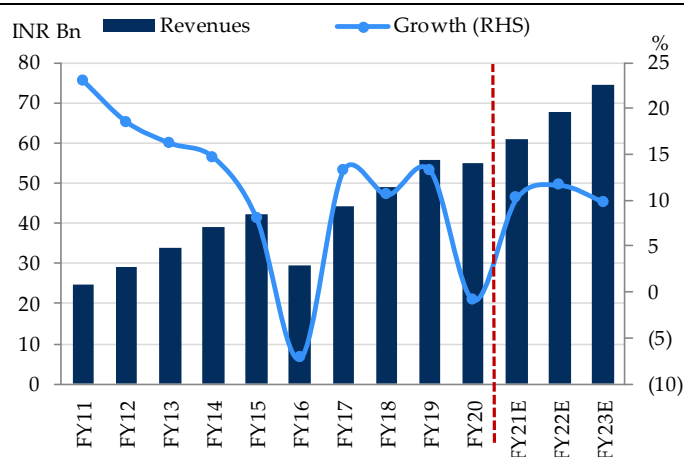
	FY15	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Plastic piping</b>									
Sales vol (K MT)	204	163	235	256	280	301	307	359	395
Revenue (INR mn)	21,130	15,912	24,670	27,285	31,728	34,449	39,706	45,062	49,568
EBITDA (INR mn)	2,820	2,270	3,990	3,890	4,050	5,560	8,223	8,659	9,049
OPM (%)	13.3	14.3	16.2	14.3	12.8	16.1	20.7	19.2	18.3
<b>Industrial product</b>									
Sales vol (K MT)	38	26	39	45	45	39	41	44	48
Revenue (INR mn)	6,490	4,155	6,241	8,015	8,850	6,732	6,998	7,780	8,571
EBITDA (INR mn)	780	510	850	1,030	980	660	832	879	988
OPM (%)	12.0	12.3	13.6	12.9	11.1	9.8	11.9	11.3	11.5
<b>Packaging product</b>									
Sales vol (K MT)	44	33	48	50	52	51	54	58	62
Revenue (INR mn)	9,140	6,612	9,813	10,218	10,418	9,593	10,072	10,562	11,414
EBITDA (INR mn)	1,690	1,470	2,150	2,080	1,640	1,420	1,640	1,731	2,037
OPM (%)	18.5	22.2	21.9	20.4	15.7	14.8	16.3	16.4	17.8
<b>Consumer product</b>									
Sales vol (K MT)	16	13	19	20	21	21	19	22	23
Revenue (INR mn)	2,760	2,147	3,147	3,519	3,994	3,832	3,449	3,847	4,319
EBITDA (INR mn)	410	370	620	720	700	730	696	801	869
OPM (%)	14.9	17.2	19.7	20.5	17.5	19.1	20.2	20.8	20.1

Source: Company, HSIE Research

## Financial summary

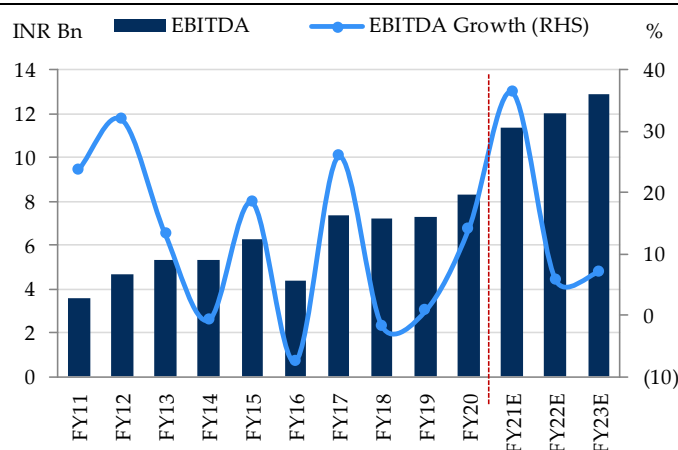
During FY20-23E, we estimate SIL's consolidated revenue to grow at 11% CAGR, driven by continued traction in the piping segment (13% CAGR) and expected recovery in the industrial segment (8% CAGR). We also estimate that the packaging and consumer segments would grow at 6% and 4% CAGR respectively. We estimate consolidated EBITDA to firm up at 16% CAGR, driven by robust profitability across all business segments.

### We expect consolidated revenue CAGR of 11% during FY20-23E



Source: Company, HSIE Research, FY16 is 9months of operations

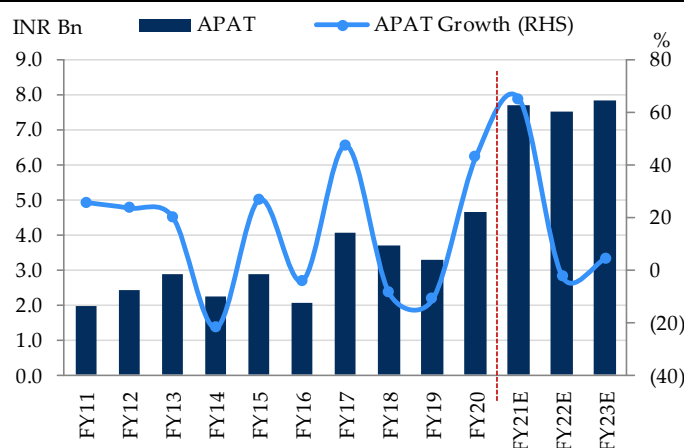
### And consolidated EBITDA CAGR of 16%



Source: Company, HSIE Research, FY16 is 9months of operations

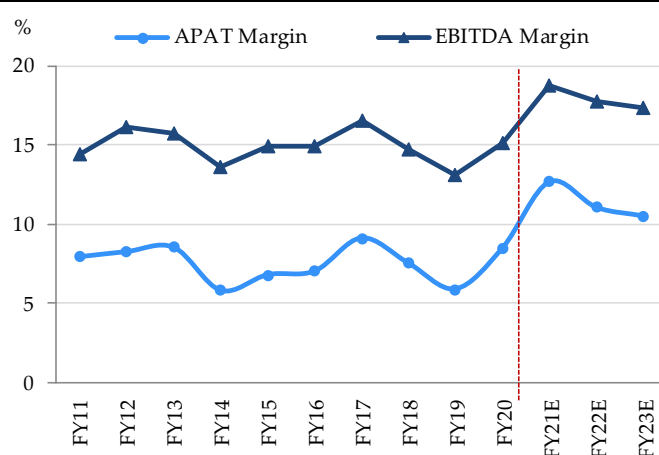
We estimate EBITDAM would firm up to 19% in FY21E on strong demand and pricing tailwinds and thereafter marginally cool off to ~17% during FY22-23E as we expect SIL to focus on market share gains. We expect APAT to grow at 19% CAGR, buoyed by healthy op profit gains and rebound in associate Supreme Petrochem's profitability.

### We expect APAT CAGR at 19%



Source: Company, HSIE Research, FY16 is 9months of operations

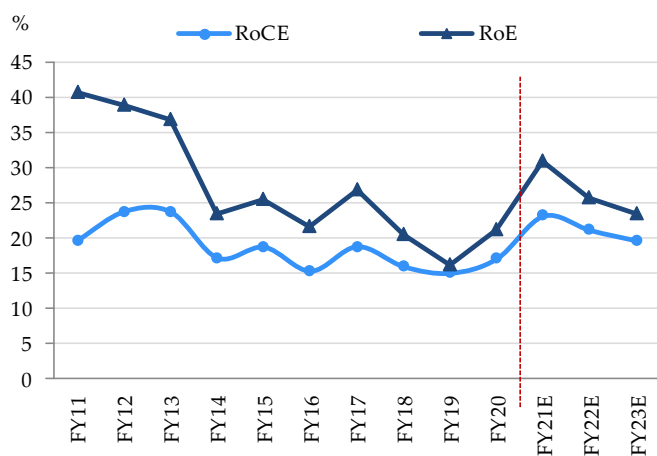
### EBITDAM, NPM trends



Source: Company, HSIE Research, FY16 is 9months of operations

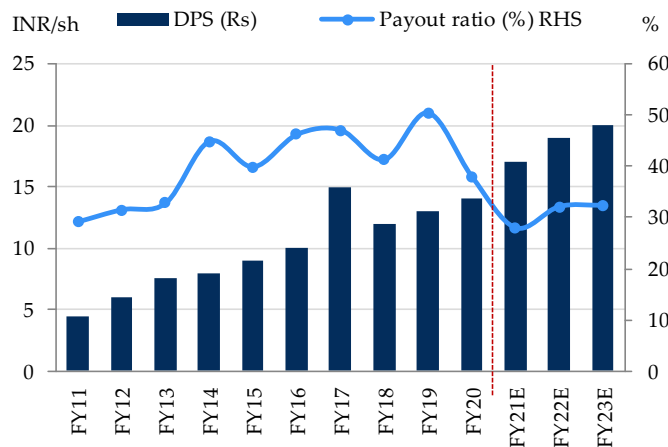
Strong operating profit coupled with high asset turn should buoy return ratios to 20% and above during FY21-23E. As we build in rising cash surplus, we expect dividend payment to continue to rise.

### Return ratios expected to firm up



Source: Company, HSIE Research

### High dividend payout



Source: Company, HSIE Research

# Financials

## Consolidated Income Statement

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>Revenues</b>	<b>29,372</b>	<b>44,366</b>	<b>49,074</b>	<b>55,580</b>	<b>55,115</b>	<b>60,786</b>	<b>67,868</b>	<b>74,551</b>
<b>Growth %</b>	<b>(7.2)</b>	<b>13.3</b>	<b>10.6</b>	<b>13.3</b>	<b>(0.8)</b>	<b>10.3</b>	<b>11.7</b>	<b>9.8</b>
Raw Material	19,493	28,917	32,921	38,199	35,783	40,619	46,050	50,795
Power & Fuel	1,152	1,627	1,736	2,055	2,161	2,310	2,579	2,833
Freight Expense	465	752	892	1,078	1,082	1,945	2,172	2,386
Employee cost	1,461	2,117	2,421	2,546	2,798	2,798	2,938	3,084
Other Expenses	2,420	3,592	3,860	4,397	4,947	1,723	2,059	2,511
<b>EBITDA</b>	<b>4,381</b>	<b>7,363</b>	<b>7,244</b>	<b>7,306</b>	<b>8,346</b>	<b>11,391</b>	<b>12,070</b>	<b>12,942</b>
<b>EBITDA Margin (%)</b>	<b>14.9</b>	<b>16.6</b>	<b>14.8</b>	<b>13.1</b>	<b>15.1</b>	<b>18.7</b>	<b>17.8</b>	<b>17.4</b>
<b>EBITDA Growth %</b>	<b>(7.4)</b>	<b>26.0</b>	<b>(1.6)</b>	<b>0.8</b>	<b>14.2</b>	<b>36.5</b>	<b>6.0</b>	<b>7.2</b>
Depreciation	1,046	1,543	1,672	1,835	2,057	2,097	2,308	2,552
<b>EBIT</b>	<b>3,336</b>	<b>5,820</b>	<b>5,573</b>	<b>5,470</b>	<b>6,289</b>	<b>9,294</b>	<b>9,762</b>	<b>10,390</b>
Other Income (Including EO Items)	(56)	51	35	750	14	10	10	10
Interest	289	303	206	260	202	128	53	41
<b>PBT</b>	<b>2,991</b>	<b>5,568</b>	<b>5,401</b>	<b>5,960</b>	<b>6,101</b>	<b>9,176</b>	<b>9,718</b>	<b>10,359</b>
Tax	1,176	2,058	2,057	2,158	1,739	2,569	3,110	3,418
Share in Associates profit	(170)	(537)	(347)	(144)	(312)	(1,100)	(900)	(900)
<b>RPAT</b>	<b>1,985</b>	<b>4,048</b>	<b>3,691</b>	<b>3,946</b>	<b>4,674</b>	<b>7,707</b>	<b>7,508</b>	<b>7,841</b>
EO (Loss) / Profit (Net Of Tax)	(77)	-	-	672	-	-	-	-
<b>APAT</b>	<b>2,062</b>	<b>4,048</b>	<b>3,691</b>	<b>3,274</b>	<b>4,674</b>	<b>7,707</b>	<b>7,508</b>	<b>7,841</b>
<b>APAT Growth (%)</b>	<b>(4.1)</b>	<b>47.2</b>	<b>(8.8)</b>	<b>(11.3)</b>	<b>42.7</b>	<b>64.9</b>	<b>(2.6)</b>	<b>4.4</b>
<b>AEPS</b>	<b>21.6</b>	<b>31.9</b>	<b>29.1</b>	<b>25.8</b>	<b>36.8</b>	<b>60.7</b>	<b>59.1</b>	<b>61.7</b>
<b>AEPS Growth %</b>	<b>(4.1)</b>	<b>47.2</b>	<b>(8.8)</b>	<b>(11.3)</b>	<b>42.7</b>	<b>64.9</b>	<b>(2.6)</b>	<b>4.4</b>

Source: Company, HSIE Research

## Consolidated Balance Sheet

YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>SOURCES OF FUNDS</b>								
Share Capital	254	254	254	254	254	254	254	254
Reserves And Surplus	12,903	16,703	18,695	21,286	22,358	26,805	30,999	35,399
<b>Total Equity</b>	<b>13,157</b>	<b>16,957</b>	<b>18,949</b>	<b>21,540</b>	<b>22,612</b>	<b>27,059</b>	<b>31,253</b>	<b>35,653</b>
<b>Minority Interest</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>
Long-term Debt	2,483	641	167	15	12	12	12	12
Short-term Debt	1,638	2,149	2,310	1,609	4,101	1,000	500	500
<b>Total Debt</b>	<b>4,121</b>	<b>2,790</b>	<b>2,477</b>	<b>1,624</b>	<b>4,113</b>	<b>1,012</b>	<b>512</b>	<b>512</b>
Deferred Tax Liability	1,055	1,163	1,134	1,204	1,326	1,326	1,326	1,326
Long-term Liab+ Provisions	-	-	-	-	-	-	-	-
<b>TOTAL SOURCES OF FUNDS</b>	<b>18,333</b>	<b>20,910</b>	<b>22,560</b>	<b>24,367</b>	<b>28,050</b>	<b>29,397</b>	<b>33,091</b>	<b>37,491</b>
<b>APPLICATION OF FUNDS</b>								
Net Block	11,847	12,633	13,534	15,210	16,077	16,980	18,172	19,620
Capital WIP	682	467	750	900	929	1,429	1,229	829
Goodwill	-	-	-	-	-	-	-	-
Other Non-current Assets	-	-	-	-	-	-	-	-
Total Non-current Investments	1,262	1,746	1,937	2,223	2,073	2,073	2,073	2,073
<b>Total Non-current Assets</b>	<b>13,790</b>	<b>14,847</b>	<b>16,221</b>	<b>18,334</b>	<b>19,079</b>	<b>20,482</b>	<b>21,474</b>	<b>22,522</b>
Inventories	5,579	7,769	6,970	7,504	8,906	8,510	9,502	10,437
Debtors	2,362	2,753	3,819	3,874	3,128	3,951	4,411	4,846
Cash and Cash Equivalents	289	798	363	373	2,314	2,378	4,318	6,965
Other Current Assets (& Loans/adv)	2,231	1,899	1,988	2,208	2,758	2,717	2,754	2,774
<b>Total Current Assets</b>	<b>10,460</b>	<b>13,219</b>	<b>13,140</b>	<b>13,959</b>	<b>17,106</b>	<b>17,557</b>	<b>20,985</b>	<b>25,022</b>
Creditors	3,439	4,533	4,898	5,574	5,475	6,079	6,787	7,455
Other Current Liabilities & Provns	2,478	2,624	1,903	2,351	2,660	2,564	2,580	2,598
<b>Total Current Liabilities</b>	<b>5,918</b>	<b>7,156</b>	<b>6,801</b>	<b>7,925</b>	<b>8,135</b>	<b>8,642</b>	<b>9,367</b>	<b>10,053</b>
<b>Net Current Assets</b>	<b>4,543</b>	<b>6,063</b>	<b>6,340</b>	<b>6,034</b>	<b>8,971</b>	<b>8,914</b>	<b>11,617</b>	<b>14,969</b>
<b>TOTAL APPLICATION OF FUNDS</b>	<b>18,333</b>	<b>20,910</b>	<b>22,560</b>	<b>24,367</b>	<b>28,050</b>	<b>29,397</b>	<b>33,091</b>	<b>37,491</b>

Source: Company, HSIE Research, FY16 is 9months of operations



## Consolidated Cash Flow

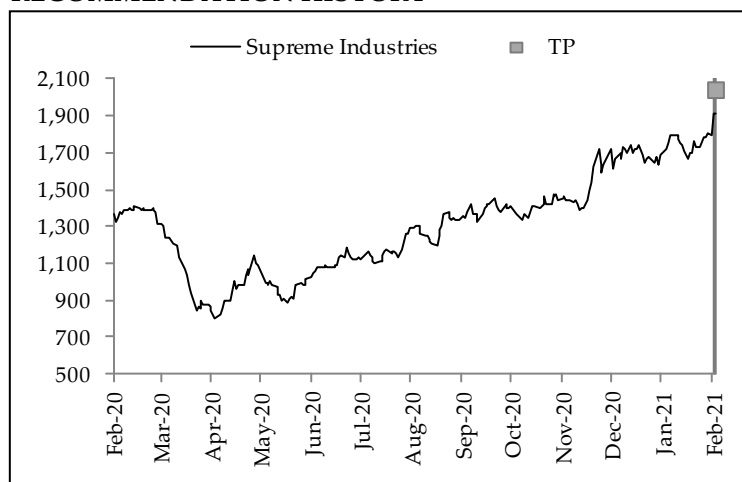
YE Mar (INR mn)	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
Reported PBT	3,297	5,825	6,375	5,972	6,413	9,176	9,718	10,359
Non-operating & EO Items	(42)	(57)	(491)	(345)	(127)	(10)	(10)	(10)
Interest Expenses	289	283	268	334	296	128	53	41
Depreciation	1,046	1,543	1,672	1,835	2,057	2,097	2,308	2,552
Working Capital Change	(374)	(1,238)	(576)	317	(1,646)	121	(763)	(704)
Tax Paid	(1,252)	(1,705)	(2,172)	(2,557)	(1,621)	(2,569)	(3,110)	(3,418)
<b>OPERATING CASH FLOW ( a )</b>	<b>2,964</b>	<b>4,650</b>	<b>5,076</b>	<b>5,557</b>	<b>5,371</b>	<b>8,943</b>	<b>8,197</b>	<b>8,820</b>
Capex	(2,319)	(2,099)	(2,816)	(2,297)	(2,397)	(3,500)	(3,300)	(3,600)
Free Cash Flow (FCF)	645	2,551	2,260	3,260	2,974	5,443	4,897	5,220
Investments	21	16	(7)	(280)	262	-	-	-
Non-operating Income	117	61	154	181	198	10	10	10
Others								
<b>INVESTING CASH FLOW ( b )</b>	<b>(2,181)</b>	<b>(2,022)</b>	<b>(2,669)</b>	<b>(2,396)</b>	<b>(1,937)</b>	<b>(3,490)</b>	<b>(3,290)</b>	<b>(3,590)</b>
Debt Issuance/(Repaid)	200	(1,331)	(286)	(882)	2,380	(3,101)	(500)	-
Interest Expenses	(319)	(314)	(259)	(287)	(271)	(128)	(53)	(41)
FCFE	527	906	1,715	2,091	5,083	2,214	4,344	5,179
Share Capital Issuance	-	-	-	-	-	-	-	-
Dividend	(1,150)	(459)	(2,293)	(1,991)	(3,522)	(2,160)	(2,414)	(2,541)
<b>FINANCING CASH FLOW ( c )</b>	<b>(1,268)</b>	<b>(2,104)</b>	<b>(2,838)</b>	<b>(3,160)</b>	<b>(1,414)</b>	<b>(5,389)</b>	<b>(2,967)</b>	<b>(2,582)</b>
<b>NET CASH FLOW (a+b+c)</b>	<b>(485)</b>	<b>524</b>	<b>(431)</b>	<b>1</b>	<b>2,020</b>	<b>64</b>	<b>1,940</b>	<b>2,648</b>
EO Items, Others								
<b>Closing Cash &amp; Equivalents</b>	<b>1,333</b>	<b>813</b>	<b>367</b>	<b>364</b>	<b>2,393</b>	<b>2,378</b>	<b>4,318</b>	<b>6,965</b>

## Key Ratios

	FY16	FY17	FY18	FY19	FY20	FY21E	FY22E	FY23E
<b>PROFITABILITY %</b>								
EBITDA Margin	14.9	16.6	14.8	13.1	15.1	18.7	17.8	17.4
EBIT Margin	11.4	13.1	11.4	9.8	11.4	15.3	14.4	13.9
APAT Margin	7.0	9.1	7.5	5.9	8.5	12.7	11.1	10.5
RoE	21.8	26.9	20.6	16.2	21.2	31.0	25.8	23.4
RoIC	16.2	19.2	16.3	15.0	17.9	25.2	23.6	23.3
RoCE	15.3	18.8	15.9	15.0	17.1	23.2	21.1	19.6
<b>EFFICIENCY</b>								
Tax Rate %	39.3	37.0	38.1	36.2	28.5	28.0	32.0	33.0
Fixed Asset Turnover (x)	2.0	2.0	2.0	2.1	1.9	1.9	1.9	1.9
Inventory (days)	52	64	52	49	59	51	51	51
Debtors (days)	22	23	28	25	21	24	24	24
Other Current Assets (days)	28	16	15	14	18	16	15	14
Payables (days)	32	37	36	37	36	37	37	37
Other Current Liab & Provns (days)	31	22	14	15	18	15	14	13
Cash Conversion Cycle (days)	39	43	44	37	44	39	39	39
Net Debt/EBITDA (x)	0.5	0.3	0.3	0.2	0.2	(0.1)	(0.3)	(0.5)
Net D/E	0.3	0.1	0.1	0.1	0.1	(0.1)	(0.1)	(0.2)
Interest Coverage	11.6	19.2	27.0	21.0	31.1	72.5	182.9	253.5
<b>PER SHARE DATA (INR)</b>								
EPS	21.6	31.9	29.1	25.8	36.8	60.7	59.1	61.7
CEPS	32.6	44.0	42.2	40.2	53.0	77.2	77.3	81.8
Dividend	10.0	15.0	12.0	13.0	14.0	17.0	19.0	20.0
Book Value	103.6	133.5	149.1	169.5	178.0	213.0	246.0	280.6
<b>VALUATION</b>								
P/E (x)	118.2	60.2	66.0	74.4	52.1	31.6	32.5	31.1
P/Cash EPS (x)	80.4	43.6	45.4	42.1	36.2	24.9	24.8	23.4
P/BV (x)	18.5	14.4	12.9	11.3	10.8	9.0	7.8	6.8
EV/EBITDA (x)	56.5	33.4	33.9	33.5	29.4	21.3	19.9	18.3
Dividend Yield (%)	0.5	0.8	0.6	0.7	0.7	0.9	1.0	1.0
OCF/EV (%)	1.2	1.9	2.1	2.3	2.2	3.7	3.4	3.7
FCFE/EV (%)	0.3	1.0	0.9	1.3	1.2	2.2	2.0	2.2
FCFE/M Cap (%)	0.2	0.4	0.7	0.9	2.1	0.9	1.8	2.1

Source: Company, HSIE Research, FY16 is 9months of operations

## RECOMMENDATION HISTORY



Date	CMP	Reco	Target
4-Feb-21	1,918	ADD	2,045

## Rating Criteria

BUY: >+15% return potential  
 ADD: +5% to +15% return potential  
 REDUCE: -10% to +5% return potential  
 SELL: >10% Downside return potential

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