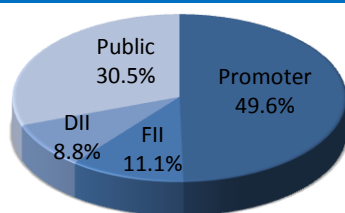


Key Share Data

Face Value (Rs.)	2
Equity Capital (Rs. Cr)	25.4
M.Cap (Rs. Cr.)	3618.4
52-wk High/Low	301.5/160.1
Avg. Daily Vol (In Qty)	20500
BSE Code	509930
NSE Code	SUPREMEIND
Reuters Code	SUPI.NS
Bloomberg Code	SI:IN

Shareholding Pattern (as on 30th Sep, 2012)


Source: BSE

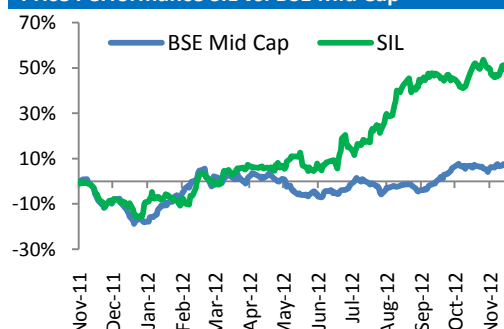
Key Financials (Rs. In Crore)

Particulars	FY11	FY12	FY13E	FY14E
Net Sales	2429.7	2896.5	3573.2	4383.4
growth (%)	22.3%	19.2%	23.4%	22.7%
EBITDA	332.2	425.7	518.1	635.6
PAT	169.7	232.4	250.9	336.3
growth (%)	19.5%	36.9%	8.0%	34.1%
EPS (Rs.)	13.4	18.3	19.8	26.5
BVPS (Rs.)	43.1	54.8	67.0	83.0

Key Financials Ratio

Particulars	FY11	FY12	FY13E	FY14E
P/E (x)	21.3	15.6	14.4	10.8
P/BVPS (x)	6.6	5.2	4.3	3.4
Mcap/Sales (x)	1.5	1.2	1.0	0.8
EV/EBITDA (x)	12.4	9.3	7.9	6.5
ROACE (%)	32.4%	38.5%	36.3%	39.1%
ROAE (%)	35.3%	37.3%	32.4%	35.3%
EBITDA Mar(%)	13.7%	14.7%	14.5%	14.5%
PAT Mar (%)	7.0%	8.0%	7.0%	7.7%
D/E (x)	0.9	0.5	0.6	0.5

Source: Company, SKP Research

Price Performance SIL vs. BSE Mid Cap

Analyst: Chirag K. Gothi

Tel No.: +91 22 2281 9012; Mobile: 9870895720

Email: chirag.gothi@skpmoneywise.com

Company Profile

Supreme Industries Ltd (SIL) was incorporated in 1942, recognized as a market leader of Indian plastic industry. It is among the largest plastic processing company in India, processing over 2.4 lakh metric tonnes of plastic per annum. It has a diversified business model with a large product portfolio spread across its four business divisions broadly categorized into: piping systems, packaging films, consumer products and industrial products.

Investment Rationale
Supreme earmarks Rs1,100 Cr for capex plan over next 5 Years:

- SIL has laid out a huge capex of Rs.1,100 crore spanning between FY12-16 through various green field and brown field projects which will enhance the present capacity from 3,46,000 MT to 6,30,000 MT by FY16.
- Company has plan total capex outlay of Rs.400 crore during FY13 to expand the capacity across all product verticals and to set up a new facility for composite product.

Focus on high-margin products:

- SIL continue to shift towards high margin value-added products (VAP) which have EBITDA margin of more than 17%.
- SIL's revenue share from VAP has increased from 15% during FY07 to 30.75% during FY12 and expects further increase to 35% by FY16.
- SIL is increasing its focus on existing VAP like cross laminated films, protective packaging products like insulation and construction films, CPVC pipes, PPRC pipes, and shifting from commodity furniture to premium moulded furniture.

New and Innovative products in pipeline:

- SIL has plans to introduce new and innovative products in next two years. These new and innovation product would help them to capture more business opportunities and also make a higher profitability.
- SIL is focusing on new products like Hi-Tech SWR system, bath room fittings, painted plastic upholstered chair, second generation cross laminated films, composite LPG cylinder and composite pipe which enables them to expand margins going forward.

Strong financials with higher return ratio:

- SIL has delivered strong growth in top line and bottom line at a CAGR of 22% and 44%, respectively, during FY08-12.
- Its EBITDA margins also expanded from 11% in FY08 to 14.7% in FY12 due to increase in production and increase in value added products. **We expect its EBITDA margins to remain strong at 14.5% in FY12-14E.**
- The company has recorded strong ROAE and operating cash flows over the years. ROAE during FY08-12 stood at 32.8%. **We expect ROAE of 32.5% and 35.3% in FY13E and FY14E respectively, on the back of strong operational efficiency.**

Outlook & Recommendation

- At the current market price of Rs.285, the stock is trading at a P/E of 15.6x, 14.4x and 10.8x of FY12, FY13E and FY14E earnings of Rs.18.3, Rs.19.8 and Rs. 26.5 per share respectively.
- We have valued SIL's core business through discounted cash flow with a fair value of Rs 368 per share.
- We have valued SIL's 30% stake in Supreme Petrochem based on its current market cap of Rs 553 crore, applying a holding company discount of 30% to arrive at a value of Rs 9 per share for Supreme Petrochem.
- We recommend BUY rating on the stock with a target price of Rs. 377/- (based on SOTP Valuation), at 32% upside over the period of 15 month.**

Industry Overview

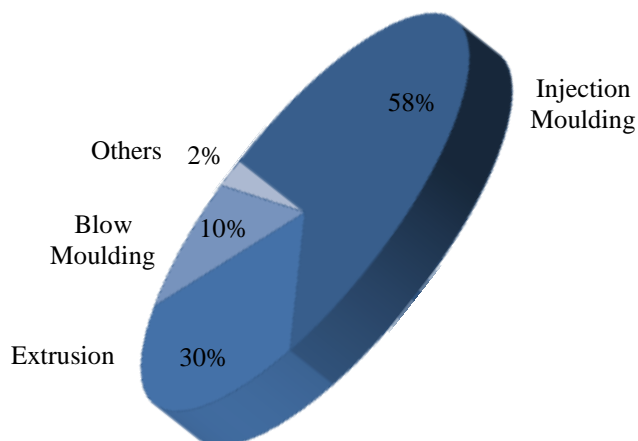
Plastic products are fundamental to many manufacturing industries and are widely used in various industry sectors, which include automotive, construction materials, healthcare, logistics, packaging, IT, household appliances, electronics and other consumer products industries. The advantages of using plastics will continuously cause it to replace other materials in a wide range of applications. While this trend is well-advanced in developed countries, there remains significant room for growth the use of plastics by developing countries, such as India, China, Brazil, in future.

Polymers are processed in a number of ways, to arrive at the end products. The different types of processing include:

Types of processing	Technology used for
Extrusion	Films and Sheets, Fibre and Filaments Pipes, Conduits and profiles, Miscellaneous applications
Injection Moulding	Industrial Injection Moulding, Household Injection Moulding and Thermo-ware/ Moulded luggage
Blow Moulding	Bottles, containers, Toys and Housewares
Roto Moulding	Large circular tanks such as water tanks

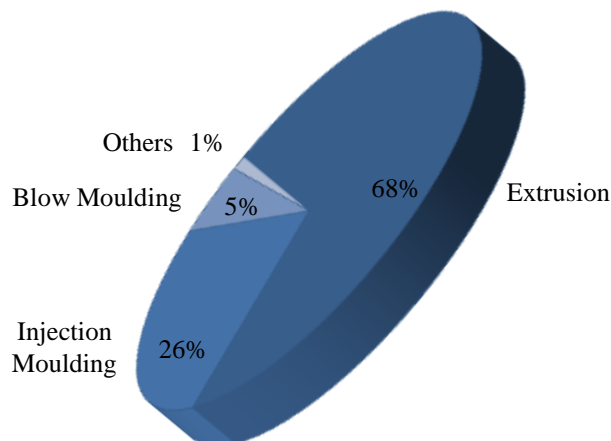
Source: CIPET, SKP Research

Plastic Processing Technologies in India



Source: CIPET, SKP Research

Process Share in Polymer Consumption in India



Source: CIPET, SKP Research

Polymer Consumption in India ('000 tonnes)

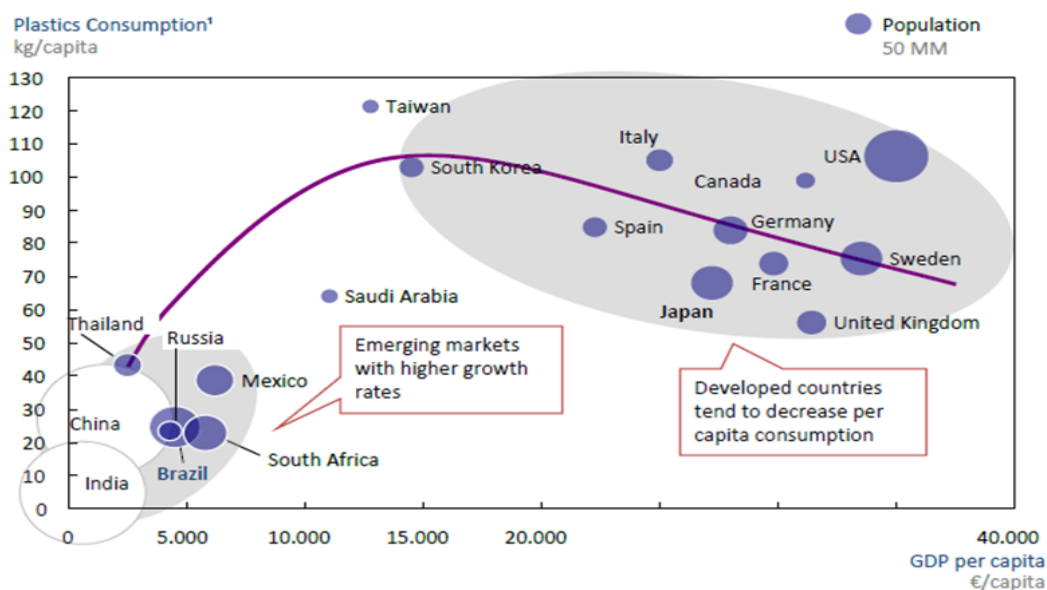
Plan	End of 10 th	End of 11 th	12 th Plan Period Projection				
Polymer	2006-07	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
LDPE	253	405	438	474	511	552	597
LLDPE	631	1198	1319	1478	1655	1854	2076
HDPE	990	1657	1822	1987	2165	2360	2573
PP	1423	2993	3275	3698	4105	4564	5015
PVC	1219	1925	2118	2330	2563	2820	3102
PS	246	377	430	479	533	598	638
Total	4762	8555	9402	10446	11532	12748	14001
Yearly Growth			10%	11%	10%	11%	10%

Source: 12th Five Year Plan

As per 12th five year plan, Consumption of PVC in India expects to grow at 10.14% CAGR.

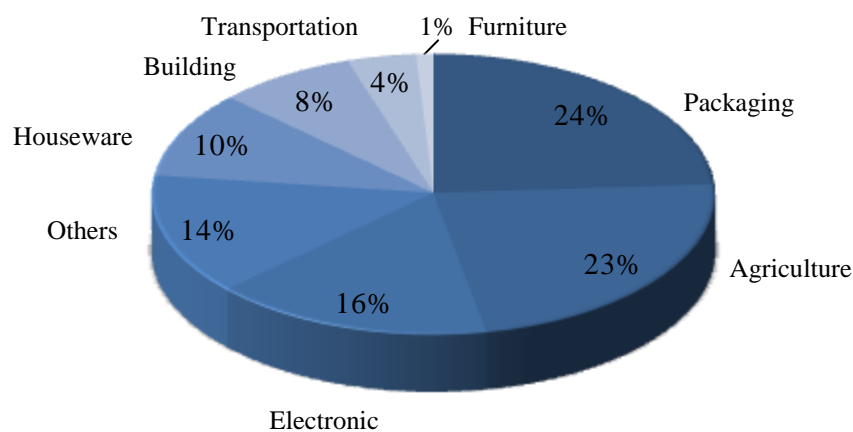
Per Capita Plastics Consumption in the World

Per capita consumption of plastic in India stands at 8kg, well below the world average of 29 kg. However, this is all set to double in the next five years due to the strong focus on irrigation, infra and agriculture sectors by the government.



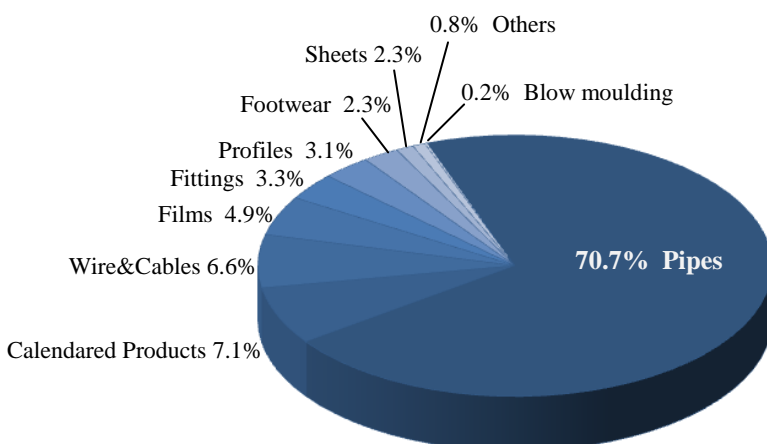
Note: Plastics includes EPS, HDPE, LDPE, LLDPE, PET Resins, PP, PS, e PVC
Source: World Bank, McKinsey

Plastics Consumption by Application in India



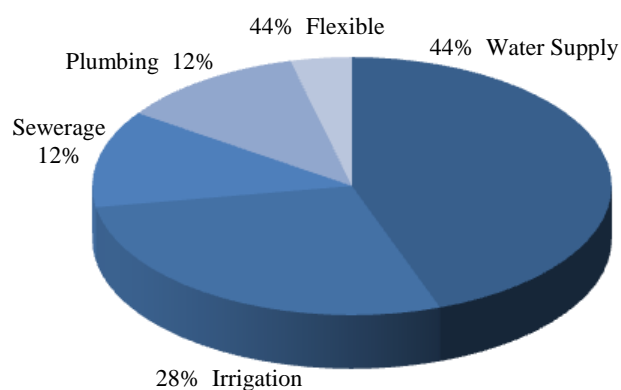
Source: British Plastic Federation

Sector-wise PVC Consumption in India



Source: Plastemart.com

Sector-wise PVC Pipe Consumption in India



Source: Plastemart.com

The Company: A Snap Shot

Supreme Industries Limited (SIL) was incorporated in 1942, one of the prominent plastic manufacturing companies in India. Currently company run under stewardship of B. L. Taparia, Chairman; M. P. Taparia, Managing Director and his team. The company is today one of the largest plastic processing companies in India, processing over 2.4 lakh metric tonnes of plastic per annum.

It has a diversified business model with a large product portfolio spread across its four business divisions broadly categorized into: piping systems, consumer products, industrial products, and packaging products.

Segment	Product Portfolio	Targeted Customer
Plastic Piping System	uPVC pipes, Injection moulded fittings, Handmade fittings, Polypropylene random, Co-polymer pipes & Fittings, HDPE Pipe systems, CPVC pipes systems, LLDPE Tube and Inspection chambers	<ul style="list-style-type: none"> Potable water supply Irrigation Drainage & Sanitation Housing
Consumer Products	<ul style="list-style-type: none"> Furniture 	<ul style="list-style-type: none"> Retail stores Educational Institutions
Industrial Products	<ul style="list-style-type: none"> Industrial components Material handling products (Crates, Pallets & Dustbins) 	<ul style="list-style-type: none"> Auto sector Electronic household Water purification filters Soft drink companies Agriculture & Fisheries
Packaging Products	<ul style="list-style-type: none"> Specialty films Protective packaging products Cross laminated film products 	<ul style="list-style-type: none"> Electronics Food industry Sports goods Insulation Construction Agriculture Floriculture Horticulture Grain storage Tarpaulin

Source: Company, SKP Research

Associate company - Supreme Petrochem Ltd:

The company has a 29.88% stake in Supreme Petrochem Limited (SPL) which is involved in the manufacture of polystyrene, expanded polystyrene, extruded polystyrene boards and compounds of polystyrene and polyolefins. SPL is the largest single site polystyrene (PS) producer with a capacity of 272,000 tonnes per annum, accounting for 2% of the global capacity and 60% of the domestic installed capacity. The facility is based on technology from the erstwhile Huntsman Chemical Corp (now NOVA Chemicals), US, with basic engineering by ABB Lummus Crest, US.

SPL is also the largest exporter of PS from India, exporting to over 80 countries around the globe. The product-range covers the entire spectrum of polystyrenes – general purpose polystyrene (GPPS), high-impact polystyrene (HIPS), speciality polymers, expanded polystyrene (EPS), extruded polystyrene (XPS), and compounded polymers.

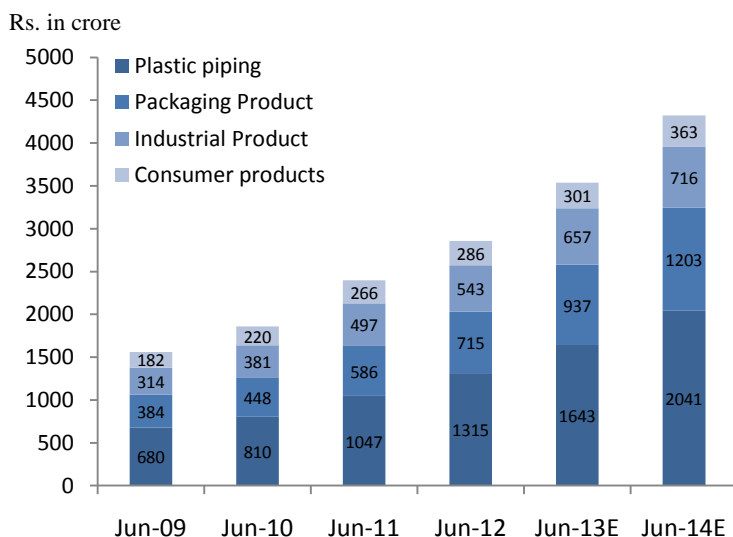
Subsidiary Company:

SIL hold 100% stake in Supreme Industries Overseas (FZE) which is located in the United Arab Emirates (UAE) by investing AED 150,000 (Rs.1.89 mn), which makes little contribution to revenues.

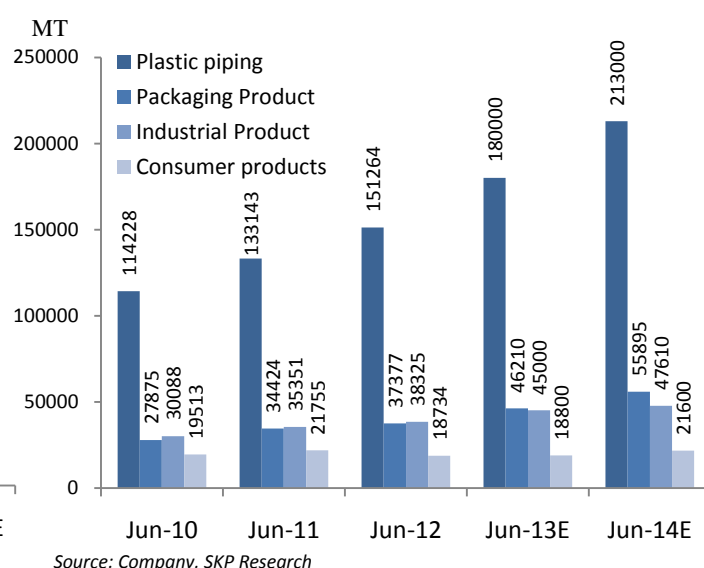
Diversified product portfolio

SIL have impressive product portfolio and a quality driven attitude which has given an edge in the competitive market. Also having basket of diversified product which is being supported by strong distribution network and market share. The company is well placed to leverage its strength and exploit the potential of the domestic plastic industry.

Segment-wise revenue contribution in value



Segment-wise revenue contribution in volume



Plastic Piping System



- SIL is one of the largest player in manufacturing of plastic pipes, which currently contribute 46% to its business. It has 9.5% market share of plastic pipe market estimated at Rs.13,500 crore.
- SIL has over 5550 products for 19 different application systems. Company supplies pipes and fittings from all major polymers like PVC, CPVC & PPR.
- PVC Pipes, the biggest contributor with 85% revenue share. CPVC, PPRC and HDPE pipes account for 11%, 2% and 2% respectively.
- SIL has more than 700 channel partners and more than 15,000 retail counters.
- Introduced various path breaking technologies in India like S.W.R. drainage system, aqua gold high pressure plumbing system, Indo-Green PP-R hot and cold water system, Eco-Drain structured wall hitech pipes, Nu-drain underground drainage system & inspection chambers.

Packaging Products



- SIL is a dominant player in the packaging products segment, which constitutes 25% of its business currently.
- Products consist of i) cross laminated films, ii) protective packaging products (PE foam, bubble wraps, cross linked foam) and iii) performance films (extruded plastic sheets used for packaging)
- SIL is the only Indian company to have the technology to manufacture cross laminated XF films under the brand name "Silpaulin" which contributes more than 50% of packaging product.** It has sole rights to manufacture & sell XF products in entire South Asia & whole of Africa have been extended to include entire East Asia (except Mongolia).
- Performance films are used for food items, largely edible oil. SIL supplies performance films to clients such as Ruchi Soya Ind Ltd, Adani Wilmar Ltd, Cargill Oil, etc. It is a highly competitive segment and entails relatively lower EBITDA margins of ~10%.

- Protective packaging products offers including thermoplastic polyethylene foam sheets and profiles, cap cells, cross-linked and blending PE foams, air bubble films and customized products including foam and bubble films that are corrosion resistant, anti-static, UV resistant and metal laminated.
- Around 35% revenue comes from packaging & cushioning under “PROTEC” brand and remaining revenue comes from construction accessories under “DURA” brand and thermal insulation under “INSU” brand.

Market share in protective packaging products

	Market Size (Rs. Cr.)	SIL Share
EPE Foam	325	36%
Air Bubble Film	240	18%
Cap Cell	160	30%
XLPE	60	50%

Source: Company, SKP Research

Industrial Products



- Industrial products segment broadly categorized into: i) Auto products ii) Consumer product and iii) Material handling products, which all constitutes 19% of its business currently.
- Auto segment, the biggest contributor with 40% revenue share. Consumer durables segment and material handling products contribute 28% and 32% respectively.
- In material handling products SIL is the second largest player with 15% market share after Nilkamal, which has a 33-35% share with estimated market size at Rs 1160 crore.

Segment	Product categories	Clients
Auto Products	Dashboards, Bumpers & Grills for 4 Wheelers, Parts for 2 Wheelers	M&M, Maruti Suzuki, Tata Motors, Ashok Leyland, Denso, Exide, Kinetic Eng, Piaggio
Consumer Product	Air-conditioner Grills, Washing machine, Tube and Components, Cabinets for Electronic Items, Water Purifier	Hitachi, Panasonic, Samsung, Tata Chemicals, Videocon, Whirlpool
Material Handling	Pallets, crates and bins	Coca Cola India, HUL, Pepsico India, Reliance Retail

Source: Company, SKP Research

Consumer Products



- SIL is the second largest player in manufacturing of moulded plastic furniture, which constitutes 10% of its business currently. It has 13% market share of moulded plastic furniture market estimated at Rs 2000 crore.
- SIL offering a wide range of moulded plastic furniture, like moulded plastic chairs, moulded plastic tables, plastic trolleys, plastic centre tables, plastic stools, plastic baby chairs, office furniture etc.
- The company has 253 exclusive franchise show rooms on all India bases displaying entire range of Supreme Furniture to the customer in a nice ambience.
- SIL faces competitive pressure from the unorganised industry in the commodity furniture space as a result of which its revenues grew marginally by 3% in FY12, while volumes declined by 10%. Hence in order to reduce the competition and maintain its margins in the consumer segment, SIL plans to focus on premium furniture.

Investment Rationale

Supreme earmarks Rs1,100 Cr for Capex plan over next 5 Years

- The company has committed a Capex of Rs.280 crore for FY12 for expansion plan out of which Rs.78 crore has been spend.
- During the year 2012-13, the company envisages total capex of Rs.400 crore including existing commitments. Investment plans are well in progress, mainly on the following segments;

Division	Installed Cap In June 12	Proposed Add. Cap for June 13	Location	Expected date of commencement
Plastic piping	2,00,000	50,000	Malanpur, MP	Partly by Nov 2012, Fully by March 2013
Packaging Product				
-Packaging film	9,500			
-Protective packaging	26,000	6,500	Hosur, Tamil Nadu	Sep-12
-XF films	18,000	12,000	Halol, Gujarat	4,000MT completed on Oct 2012, remaining 8,000MT (4,000MT by Jan 2013 and 4,000MT by Mar 2013)
Industrial products				
Moulded products	36,000			
Material handling	24,000	3,000	Southern India	
Consumer products	32,500	3,500		
Composite Products				
-Composite LPG Cylinders	-	5,00,000 Nos	Halol, Gujarat	March 2013
-Composite Pipes	-	15,000 Nos	Halol, Gujarat	March 2013

Source: Company, SKP Research

- Anticipating the growing demand for plastic products; management of SIL has also laid out a huge capex of Rs.1,100 crore spanning between FY12-16E through various green field and brown field projects which will enhance the present capacity from 3,46,000 MT to around 6,30,000 MT by FY16.
- SIL is likely to invest in the new products like Composite cylinders and pipes, electrofusion and compression moulded fittings for infrastructure and gas distribution, manhole and underground sewer systems, second generation cross laminated films & new products in the plastic piping segment over the next four years.

Segment-wise capacity (MT)	Jun-12	Jun-13E	Jun-14E	Jun-15E	Jun-16E
Plastic piping	2,00,000	2,50,000	3,00,000	3,50,000	3,90,000
Packaging Product					
Packaging film	9,500	9,500	9,500	9,500	9,500
Protective packaging	26,000	32,500	39,000	45,500	52,000
XF films	18,000	30,000	38,000	44,000	50,000
Industrial products	60,000	63,000	66,000	70,000	75,000
Consumer products	32,500	36,000	40,000	44,000	48,000
Total	3,46,000	4,21,000	4,92,500	5,63,000	6,24,500
Capex (Rs. in crore.)	78	330	250	250	200

Source: Company, SKP Research

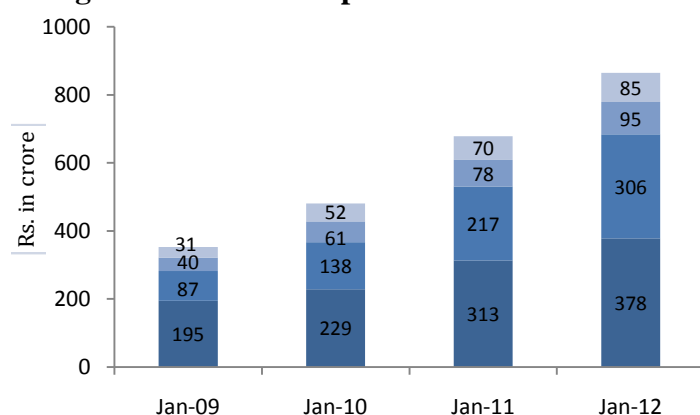
Focus on high-margin products

- SIL continue to shift towards high margin value-added products (VAP). The company categorized as VAP which having EBIDTA margin of more than 17%.
- SIL's revenue share from VAP has increased from 15% during FY07 to 30.75% during FY12. The management expects the share of VAP to further increase to 35% by FY16.
- Increased revenue from VAP coupled with closure of three loss and low margin making units which has helped SIL to expand its blended EBIDTA margin from 11% during FY07 to 15% in FY12.
- SIL is increasing its focus on existing VAP like cross laminated films (SILPAULIN), protective packaging products like insulation and construction films, CPVC pipes (subject to raw material available), PPRC pipes, and shifting from commodity furniture to premium moulded furniture.

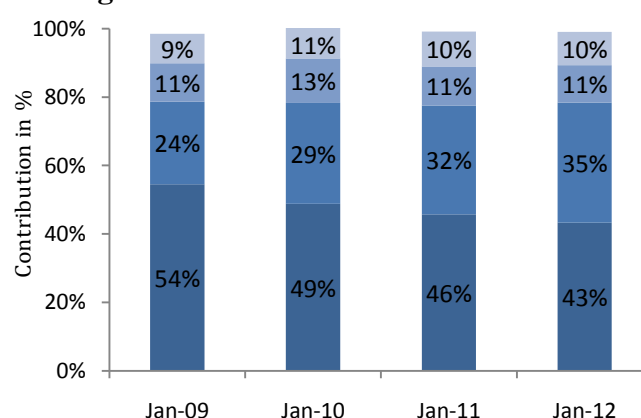
Rs. in crore

Product Group	2010-11			2011-12			Estimated share in FY16
	Total Net Turnover	Share of VAP	VAP Turnover	Total Net Turnover	Share of VAP	VAP Turnover	
Plastic Piping	992.72	21.90%	217.37	1320.25	23.16%	305.8	25%
Molded Furniture	246.71	31.60%	77.96	262.63	36.26%	95.23	80%
Cross Lami. Films	313.23	100.00%	313.23	378.17	100.00%	378.17	100%
Prot. Packaging	202.09	34.74%	70.21	236.82	35.99%	85.23	45%
Others	578.29			639.31			
Total	2333.04	29.34%	684.42	2837.18	30.75%	872.53	35%

Segment wise break up of VAP revenue



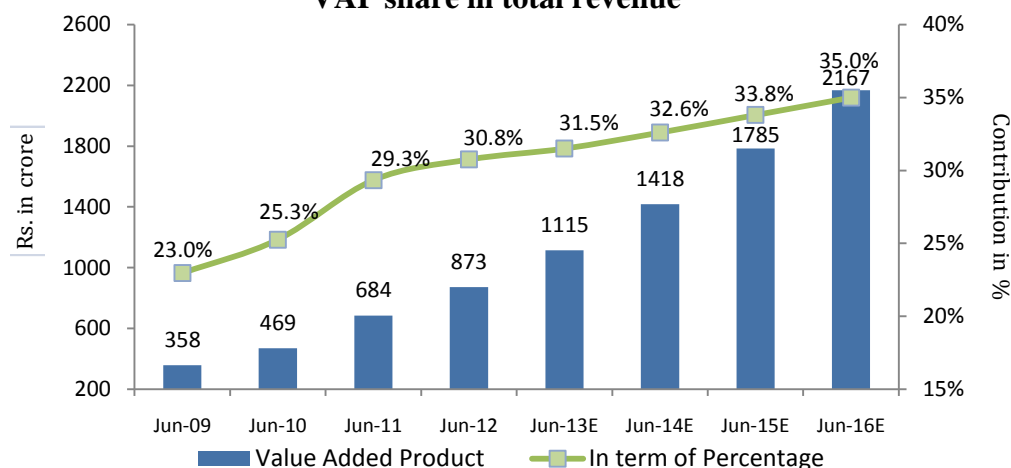
Segment wise share of VAP revenue



■ Cross Lami. Films ■ Plastic Piping ■ Molded Furniture ■ Prot. Packaging

Source: Company, SKP Research

VAP share in total revenue



Source: Company, SKP Research

New and Innovative products in pipeline

SIL has plans to introduce new and innovative products in next two years. These new and innovation product would help them to capture more business opportunities and also make a higher profitability.

Hi-Tech SWR system: Company plans to introduce the new series of Hi-Tech SWR system around November/December 2012.

Bath room fittings: Company has planned to extend the range of its plumbing products to include varieties of bath room fittings. They will supplement the CP Fittings in terms of aesthetics, performance and user friendly product design. The company expects to launch these fittings by January 2013.

Painted plastic upholstered chair: Company plans to introduce few more models in painted upholstered plastics chair to enhance the volume further of this range. A new paint shop is being planned at Durgapur, West Bengal for catering to east market with newer painted and upholstered plastic chairs models.

Second generation cross laminated films: The company's collaborator has developed cross line bonded film and cross plastics film, which are next generation film having superior properties. The exclusive rights granted to the company to manufacture and sell products developed from new technologies in India and SAARC countries have now been extended to include entire South Asia and East Asia (except Japan and Mongolia).

Composite LPG cylinder:

SIL has earmarked capex of Rs.75 crore for making a facility for manufacturing LPG composite cylinders with an initial capacity of 5 lakh cylinders per annum at Halol Gujarat and the plant is expected to be on stream by end of March 2013.



Multiple advantages of composite cylinder over steel cylinder:

- Composite cylinders are explosion proof
- Can withstand three times higher pressure before leaking locally
- These cylinders are aesthetically appealing, light weight (approx 1/3rd), non-corrosive, rust proof and maintenance free.
- The special construction material (glass reinforced fibre) allows consumers to see the level of gas inside the cylinder.

In the beginning company will focus at international markets like Europe and the Middle East for sale of composite cylinders with an EBIDTA margin of ~ 15%. Trial runs are likely to commence from first week of Jan'2013 and expected to commence production before end of Mar'2013.

Composite pipes:

- After composite cylinder, it is exploring business of composite pipes which are used in oil drilling due to long life of 25 years compared to 5 years of metal pipes.
- These are much lighter in weight compared to present special steel pipes in use. They are anti-corrosive which is desirable for these applications.
- The price of these pipes is 25% higher than steel pipes but the life is 25 years compared to five years for steel pipes.
- SIL's collaborator has already secured trial order for 6 kms from ONGC for down hole tubing. Order is likely to be executed by the co's collaborator in Aug / Sep 2012.
- Company has taken effective steps to produce these pipes and has ordered first small size plant to produce 15,000 pipes per annum.

Pan India presence helps to cater market efficiently

- SIL has 20 manufacturing facilities located at various places spread across the country, catering to the Pan-India demand and optimising logistics cost. The Company will have 22 manufacturing sites in operation before March 2013. It will increase to 28 manufacturing facilities by FY2016.
- SIL has a wide distribution network all across India with 2052 channel partners and 25000 retail counters. The company plans to reach its product in existing locations and capture market share in untapped locations. The company's products command great respect in the segments they operate due to its superior quality, range and service.

Current Facilities and Business Segments

Sr. No	Location	Plastic Piping System	Industrial products	Consumer Products	Packaging Products
1	Jalgaon I	✓			
2	Noida		✓		
3	Talegaon		✓		
4	Halol				✓
5	Malanpur I				✓
6	Khopoli				✓
7	Hosur				✓
8	Pondicherry		✓	✓	
9	Silvassa				✓
10	Khushkhera		✓		
11	Derabassi		✓	✓	
12	Durgapur		✓	✓	
13	Kanpur	✓			
14	Guwahati			✓	
15	Gadegaon	✓	✓	✓	✓
16	Urse				✓
17	Jalgaon II	✓			
18	Malanpur II	✓			✓
19	Sriperumbdur		✓		
20	Halol II				✓

Source: Company, SKP Research

Forthcoming New Facilities

Division	No. of new Locations	Proposed Locations
Industrial Moulded Products	1	Ahmedabad & Eastern India
Plastic Piping System	2	Eastern India & southern India
Cross Laminated Film Products	1	Halol (Gujarat)
Material Handling Products	0	Southern India
Protective Packaging Products	3	Hosur, Gujarat, Eastern India & Rajasthan
Composites	2	Western & North India
Total	9	

Source: Company, SKP Research

Technical collaboration with international players

SIL entered technical collaborations with international players. This collaboration has helped SIL to supplement its production capabilities and add new application coupled with low cost Indian manufacturing base.

Company	Country	Product Line
Rasmussen polymer development	Switzerland	Cross-Laminated Films
Kumi Kasai Co. Ltd	Japan	Automotive Components
Foam Partner	Switzerland	Reticulated PU Foam
Sanwa Kako	Japan	2 Stage Foam
PE Tech	Korea	Cross Linked Foam
Wavin Overseas	Holland	Plastic piping system
Industrie Polieco MPB SRL	Italy	Sewerage system

Source: Company, SKP Research

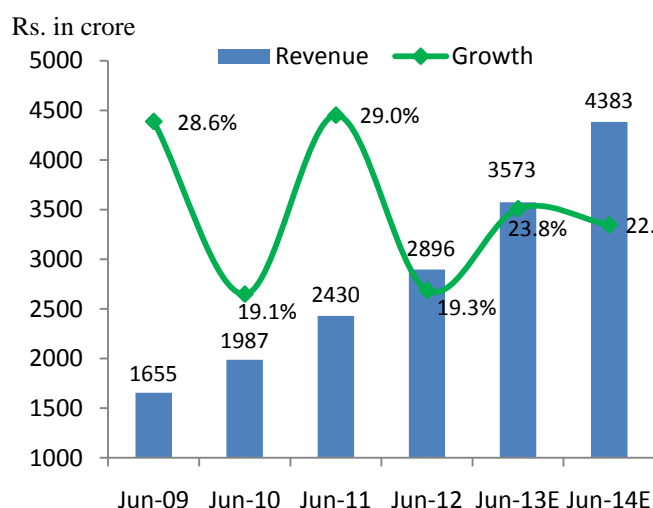
Concerns

- **Fluctuation in the prices of key raw materials:** PVC resin is the key raw material for SIL, which constitutes 45% of the total raw material costs. Any major fluctuation in crude prices would have a corresponding impact on prices of PVC as well as other raw materials that the company uses. For plastic piping product, the company able to pass on the price variation to the customers on same day and other product with a time lag of two to three weeks.
- **Delay in expansion:** Any delay in expansion plans of the company would have an adverse impact on the turnover of the business as the same has been factored in our estimates.
- **Delay in sale of commercial property:** Supreme's commercial real estate project in Andheri, Mumbai is currently witnessing sluggish sales due to a slowdown in Mumbai's commercial real estate market. Till date, the company has sold/negotiated ~95,000 sq ft for a consideration of Rs.150 crore (received Rs.130 crore). The management has indicated that it is currently not able to get desirable valuations for the project and does not plan to sell at lower valuations. Hence, we do not expect any sale from the same in FY13.
- **Competition from the unorganized Players:** SIL faces competition from a few established players in the organized market such as Finolex Ind., Nilkamal and Astral Poly. The unorganised sector has over 60% market share of the total plastic industry. Small manufacturers are spread across the country, making SIL's sales and distribution challenging. But corresponding introduction of innovative products, will limit the company's ability to maintain margins in the 14-15% range.

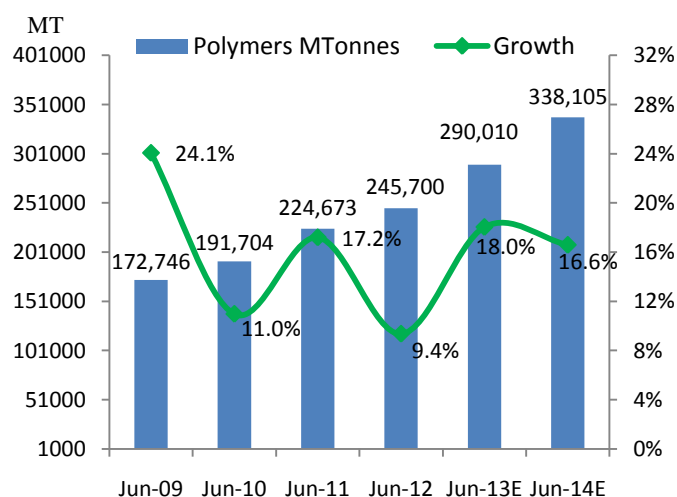
Financial Outlook

Sustained and Steady Top-Line Growth:

- SIL's revenues have grown at a CAGR of 22% from Rs.1310 crore in FY08 to Rs.2896 crore in FY12. The growth was largely driven by volumes (15.3% CAGR FY08-12) with the price lead growth being moderate (7.5% CAGR FY08-12).
- Going ahead, we believe that sales growth would continue to grow at 23% CAGR during FY12-14E to Rs.4383 crore and volumes growth of 17.3% CAGR during FY12-14E to 338105 MT with considering capacity expansion across all product division.*



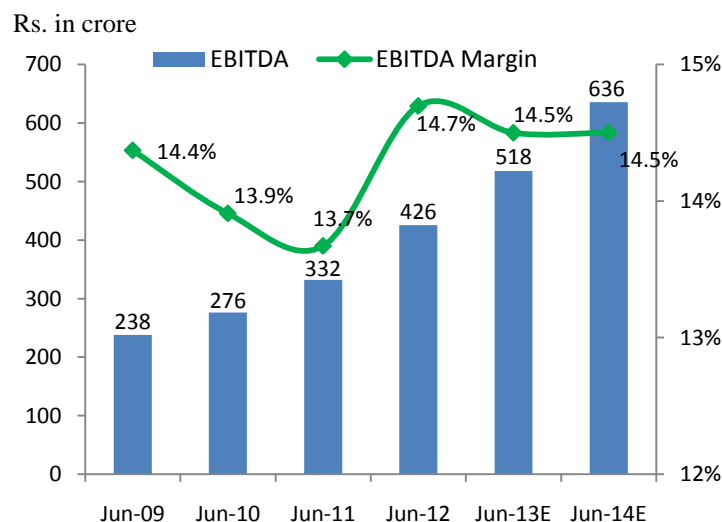
Source: Company, SKP Research



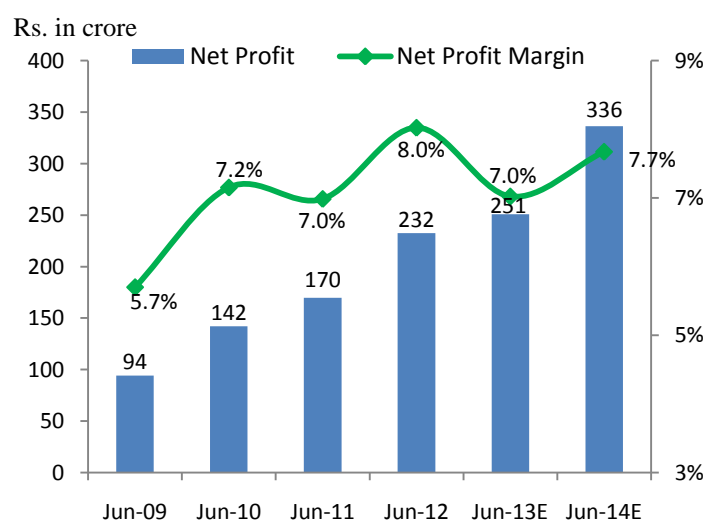
Source: Company, SKP Research

Strong Margin Performance:

- Over the last four years, SIL maintained EBITDA margin in the range of 13-15% in a challenging market environment.
- Going ahead, we expect company to deliver an EBITDA margin of 14.5% during FY13E and FY14E due to focus on Value Added Products.*
- SIL's PAT has grown at a CAGR of 35% from Rs.142 crore in FY09 to Rs.232 crore in FY12. It has maintained net profit margin in the range of 7-8% during FY10 to FY12.
- From last three years company has make profit from construction business which was included in net profit. *But going forward, we have not considered any revenue from construction business in FY13E and minor profit in FY14E.*



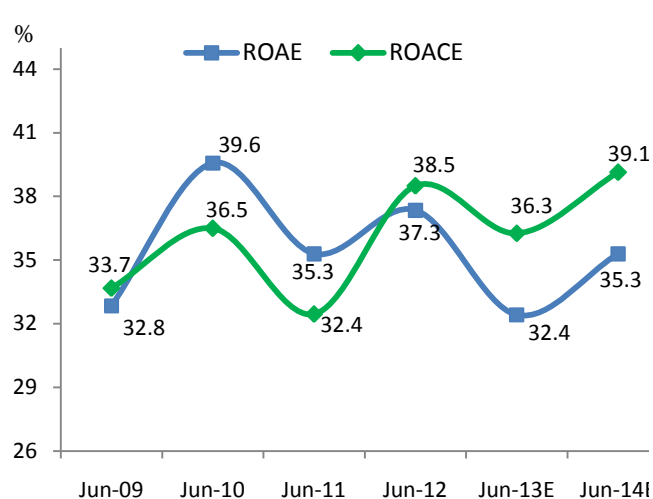
Source: Company, SKP Research



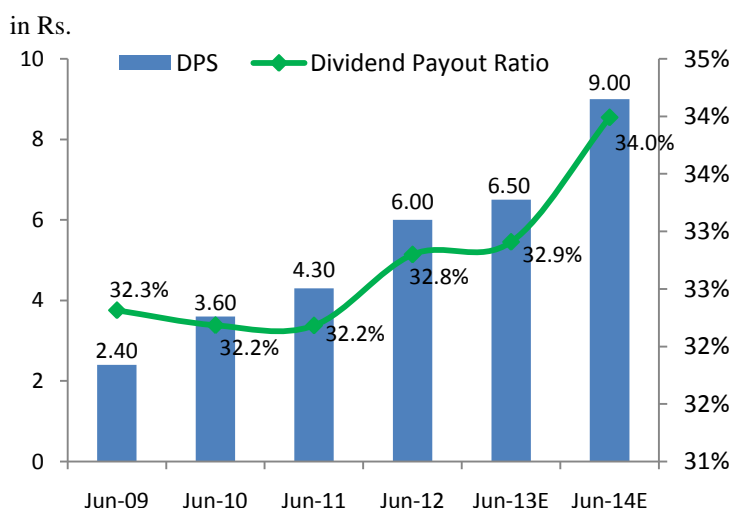
Source: Company, SKP Research

Healthy Return Ratios & Consistently High Dividend Payout:

- SIL has healthy return ratios with ROAE & ROACE maintained in the range of 32.5-39% which we expect to maintained going forward amid better working capital management and optimal utilization of assets.
- As compared to its peers, SIL has superior ROAE and ROACE
- SIL follows a consistent dividend policy with an average payout of ~32% which reflects its attitude towards minority shareholders.



Source: Company, SKP Research



Source: Company, SKP Research

Peer Group Analysis

Company	M-Cap	Revenue			EBITDA			EBITDA Margin %			PAT			PAT Margin %		
		FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E	FY12	FY13E	FY14E
Astral Poly	802	585	768	929	85	100	122	14.5	13.0	13.1	39	57	73	6.8	7.4	7.8
Finolex Ind	754	2100	NA	NA	217	NA	NA	10.3	NA	NA	75	NA	NA	3.6	NA	NA
Nilkamal	355	1517	1678	1893	160	183	206	10.6	10.9	10.9	61	67	74	4.0	4.0	3.9
Sintex	1682	4454	4715	5210	718	750	849	16.1	15.9	16.3	302	328	389	6.8	7.0	7.5
Time Tech	988	1528	1801	2163	243	287	341	15.9	16.0	15.8	90	112	144	5.9	6.2	6.7
Supreme	3620	2896	3573	4383	426	518	636	14.7	14.5	14.5	232	251	336	8.0	7.0	7.7

Source: Company, SKP Research Note: NA-Not Available

Key Ratio on TTM Basis

Company	FV	CMP	EPS	P/E	P/BV	EV/EBITDA	ROE %	ROCE %	D/E	M-Cap/Sales
Astral Poly	5	350.0	19.5	18.4	3.93	8.63	21.43	32.75	0.29	1.37
Finolex Ind	10	60.8	6.5	9.4	1.09	8.97	11.67	8.09	1.56	0.36
Nilkamal	10	238.0	32.7	7.3	0.83	4.52	11.50	13.69	0.81	0.23
Sintex	1	60.0	10.7	5.7	0.61	5.92	10.56	10.34	1.12	0.38
Time Technoplast	1	47.0	4.4	10.7	1.22	6.03	11.42	14.26	0.82	0.65
Supreme Ind	2	288.0	19.1	14.9	4.92	9.30	33.02	33.88	0.50	1.25

Source: Company, Bloomberg, SKP Research

Valuation:

We have valued SIL on SOTP valuations basis, where core business and stake in Supreme Petrochem have been valued separately. We have valued SIL's core business through discounted cash flow (DCF) method. Our DCF assumptions are 15.4% cost of equity, 6.6% post tax cost of debt, WACC of 12.3% and a terminal growth rate of 5%. We have explicit forecast till FY17, which we have assumed a high growth period of Five years at an average rate of 20% and 5% terminal growth and thereby derive a DCF value of Rs.368 per share for the stock.

We have valued SIL's 30% stake in Supreme Petrochem Ltd (SPL) based on its current market cap of Rs.553 crore. We have further applied a holding company discount of 30% to arrive at a value of Rs 9 per share for Supreme Petrochem.

Hence, we initiate coverage on the stock with 'BUY' recommendation and a target price of Rs.377 (based on SOTP Valuation), at 32% upside over the period of 15 month.

SOTP Valuation		
	Fig. in crore	Target price
SIL's core business (through DCF method)		Rs.368
SIL's stake in SPL		
Mcap of SPL at CMP	553	
SIL share in SPL (29.9%)	165	
Equity value for SPL (assuming 30% discount)	116	
No. Equity Shares of SIL	13	
Value per Share		Rs.9
Target price		Rs.377
Current stock price		Rs.285
Upside/(Downside)		32%

Financial Performance:

Income Statement

Figures: Rs in. crore

Particulars	Jun-11	Jun-12	Jun-13E	June-14E
Net Sales	2429.7	2896.5	3573.2	4383.4
growth (%)	22.3%	19.2%	23.4%	22.7%
Expenditure	2097.5	2470.8	3055.1	3747.8
(Inc)/Dec in Stocks	(19.7)	13.2	17.9	21.9
Raw materials	1514.7	1775.6	2215.4	2717.7
Purchase of Traded Goods	86.0	103.4	107.2	131.5
Power & Fuel Exp	100.2	117.1	142.9	175.3
Packing & Freight Exp	87.6	88.8	107.2	131.5
EBIDTA	332.2	425.7	518.1	635.6
EBIDTA Margin (%)	13.7%	14.7%	14.5%	14.5%
Depreciation	61.9	72.5	91.4	105.9
EBIT	270.3	353.2	426.8	529.7
Other Income				
-Const. business (net)	25.2	46.2	0.0	29.7
-Other	4.5	2.8	3.6	4.4
Interest Expenses	42.5	54.8	50.2	54.2
Profit Before Tax	257.5	347.4	380.2	509.6
Tax	87.7	115.0	129.3	173.3
Profit After Tax	169.7	232.4	250.9	336.3
growth (%)	19.5%	36.9%	8.0%	34.1%
PAT Margin (%)	7.0%	8.0%	7.0%	7.7%
O/S of Shares	12.7	12.7	12.7	12.7
EPS	15.4	19.0	19.8	26.5
DPS	4.3	6.0	6.5	9.0
Dividend payout ratio (%)	32.2	32.8	32.9	34.0

Ratio Analysis

Particulars	Jun-11	Jun-12	Jun-13E	June-14E
Earnings Ratios (%)				
EBDITA Margin	13.7	14.7	14.5	14.5
Net Profit Margin	7.0	8.0	7.0	7.7
ROACE	32.4	38.5	36.3	39.1
ROANW	35.3	37.3	32.4	35.3
ROAA	16.9	20.5	19.7	22.0
Valuation Ratio				
P/E (x)	21.3	15.6	14.4	10.8
Price/BVPS (x)	6.6	5.2	4.3	3.4
EV / EBITDA (x)	12.4	9.3	7.9	6.5
EV / Net Sales (x)	1.7	1.4	1.1	0.9
Balance Sheet Ratio				
D/E Ratio	0.9	0.5	0.6	0.5
Current Ratio	1.7	1.7	1.6	1.6
Interest Coverage	7.1	7.3	8.6	10.4
FA Turnover Ratio	3.7	3.9	4.1	4.1
Inventory Days	55	49	50	50
Debtors Days	22	21	21	21
Creditors Days	51	47	51	51
DuPont Analysis				
PAT / PBT	0.7	0.7	0.7	0.7
PBT / EBIT	0.9	0.9	0.9	0.9
EBIT / Net Sales	0.1	0.1	0.1	0.1
Net Sales / Total Assets	2.1	2.6	2.5	2.7
Total Assets / Equity	2.1	1.6	1.7	1.6
ROE	31.0%	33.4%	29.5%	31.9%

Balance Sheet

Figures: Rs in. crore

Particulars	Jun-11	Jun-12	Jun-13E	Jun-14E
Share Capital	25.4	25.4	25.4	25.4
Reserves	522.3	671.3	826.0	1029.2
Net Worth	547.7	696.7	851.4	1054.6
Total Debt	511.2	351.1	485.3	500.3
Deferred Tax Liability (Net)	79.5	83.3	83.3	83.3
Total Liabilities	1138.5	1131.1	1420.0	1638.2
Gross Block	1202.1	1245.1	1575.1	1825.1
Less: Depreciation	460.4	505.7	597.1	702.9
Net Block	741.7	739.4	978.0	1122.2
Capital work-in-progress	26.2	33.8	33.8	33.8
Total Fixed Assets	767.8	773.2	1011.8	1156.0
Investments	91.6	88.7	88.7	88.7
Inventories	345.4	314.0	418.5	513.4
Sundry Debtors	152.9	171.2	205.6	252.2
Cash and Bank Balances	14.2	14.4	15.0	20.0
Loans & Advances	151.1	170.6	214.4	263.0
Current Assets	663.6	670.1	853.5	1048.6
Current Liab & Prov	384.5	401.0	534.1	655.2
Net Current Assets	279.0	269.1	319.4	393.4
Total Assets	1138.5	1131.1	1420.0	1638.2

Cash Flow Statement

Figures: Rs in. crore

Particulars	Jun-11	Jun-12	Jun-13E	June-14E
PBT	283.6	356.7	380.2	509.6
Depreciation	61.9	72.5	91.4	105.9
Interest expense	42.5	54.8	50.2	54.2
Other (income)/Loss	(29.7)	(49.0)	(3.6)	(34.1)
(Inc)/Dec in WC	(60.1)	10.1	(49.7)	(69.0)
Taxes paid	(87.7)	(115.0)	(129.3)	(173.3)
Operating Cash Flows	210.4	330.0	339.2	393.3
Capital expenditure	(251.1)	(77.8)	(330.0)	(250.0)
(Inc)/Dec in Investment	(22.3)	2.9	0.0	0.0
Other income	29.7	49.0	3.6	34.1
Investing Cash Flows	(243.7)	(25.9)	(326.4)	(215.9)
Inc/(Dec) in debt	123.9	(160.1)	134.2	15.0
Dividend Paid Incl. Tax	(63.5)	(88.6)	(96.2)	(133.2)
Inc/(Dec) in Capital	0.0	0.0	0.0	0.0
Interest paid	(42.5)	(54.8)	(50.2)	(54.2)
Other Adjustments	11.0	(0.4)	0.0	0.0
Financing Cash Flows	28.9	(303.9)	(12.2)	(172.4)
Chg. in Cash & Equ	(4.5)	0.2	0.6	5.0
Opening Cash Balance	18.7	14.2	14.4	15.0
Closing Cash Balance	14.2	14.4	15.0	20.0

Source: Company Data, SKP Research

The above analysis and data are based on last available prices and not official closing rates. SKP Research is also available on Bloomberg, Thomson First Call & Investext Myiris, Moneycontrol, Ticker plant and ISI Securities

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