

Ratings

CRISIL

An S&P Global Company

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Rating Rationale

April 05, 2021 | Mumbai

The Supreme Industries Limited

Rating outlook revised to 'Positive'; Ratings reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.1445.9 Crore (Reduced from Rs.1612 Crore)
Long Term Rating	CRISIL AA/Positive (Outlook revised from 'Stable' and rating reaffirmed)
Short Term Rating	CRISIL A1+ (Reaffirmed)

Rs.200 Crore Commercial Paper	CRISIL A1+ (Reaffirmed)
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1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has revised its outlook on the long-term bank facilities of The Supreme Industries Ltd (Supreme) to 'Positive' from 'Stable', while reaffirming the rating at 'CRISIL AA'. The rating on the short-term facilities and the Rs 200 crore commercial paper programme has been reaffirmed at 'CRISIL A1+'. Rating on the bank facilities worth Rs 166.1 crore has been **withdrawn** as per the company request, in line with the withdrawal policy of CRISIL Ratings.

The outlook revision reflects the improvement in the business risk profile, driven by healthy pick up in sales and operating margin since the third quarter of fiscal 2021. Revenue has grown by 5% year-on-year to Rs 4,722 crore during the first nine months of fiscal 2021, despite the disruptions related to Covid-19 pandemic and lockdown measures. Healthy rural demand and better realisations, amidst rising crude prices, have led to healthy sales growth. Operating margin has improved to 18.1% during the first nine months of this fiscal, from 14.8% in fiscal 2020, driven by better realisations, ability to pass on hike in raw material prices to customers and increased share of higher-margin value-added products. CRISIL Ratings expects revenue growth of 10-12% year-on-year in fiscal 2021, alongwith healthy operating margin above 15%. Financial risk profile is also robust, supported by strong capital structure and debt protection metrics (net cash accrual to adjusted debt and interest coverage ratios of over 7 times and over 60 times, respectively, for fiscal 2020).

The ratings continue to reflect the company's strong business risk profile, healthy market position across segments, and robust financial risk profile. These strengths are partially offset by intense competition and exposure to volatility in raw material prices in-line with the industry, though Supreme has the ability to pass on price fluctuations to customers.

Analytical Approach

CRISIL has combined the business and financial risk profiles of Supreme and its wholly-owned subsidiary, Supreme Industries Overseas FZE. Investment in associate company, Supreme Petrochem Ltd (Supreme Petrochem), has been recognised as per the equity method, as Supreme holds 30.78% stake in it. Investment in the joint venture, Kumi Supreme India Pvt Ltd (with 20.67% shares that was exited in March 2020) has been moderately consolidated.

CRISIL has also factored in the income from the real estate segment as a part of non-operating income as the entity is mainly engaged in manufacture of plastic products (and not real estate).

Please refer Annexure - List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation.

Key Rating Drivers & Detailed Description

Strengths:

- Diversified revenue**

Supreme produces plastic-based products for piping systems (accounted for 63% of revenue in fiscal 2020), industrial goods (12%), consumer goods (7%), packaging products (18%). Catering to a diverse end-user profile mitigates the risk of slowdown in any segment or industry. Furthermore, revenue is supported by the increasing contribution of value-added products (40% during the first nine months of fiscal 2021), which have operating margin of over 17%.

- Healthy market position across business segments**

Supreme has an established track record and strong market position in each segment it operates in, backed by its widespread distribution network and ability to introduce new products. Collaborations with international manufacturers

has strengthened the product development capabilities, and translated into strong revenue growth and above-average profitability. The company has over 4,000 channel partners and 25 plants across the country. Supreme has set up a facility each in Giloth (Rajasthan) and Jadcherla (Telangana) in fiscal 2019, and is prioritising construction of the greenfield plant at Odisha, Tamil Nadu and Assam. Strong countrywide presence reduces freight cost and lead time for products to reach customers.

- **Robust financial risk profile**

Financial risk profile is marked by a comfortable network, low gearing and strong debt protection metrics. Network was Rs 2,245 crore as on March 31, 2020, with steady growth in cash accrual and low gearing of 0.19 time. Debt protection metrics were marked by net cash accrual to adjusted debt and interest coverage ratios of 0.76 time and about 30 times, respectively, for fiscal 2020. Expected annual net cash accrual of around Rs 550 crore should suffice to fund the capital expenditure (capex) and working capital in the absence of any long-term debt.

Weakness

- **Susceptibility to intense competition and volatility in raw material prices**

Prices of key raw materials, polyvinyl chloride, high-density polyethylene and polypropylene remain susceptible to movement in crude oil prices and foreign exchange rates, though Supreme has the ability to pass on any price fluctuations to consumers. With a large raw materials component in revenues (forming about 66% of revenue in fiscal 2020), the company also remains exposed to volatility in input prices. Further, the plastic processing industry is highly fragmented, especially in commoditised segments such as plastic furniture. However, Supreme partially mitigates such pressure by offering value-added products and has been able to maintain a healthy market share across segments.

Liquidity: Strong

Liquidity should remain strong, as the entire cash accrual can be used to meet the working capital expenses in the absence of any debt. Bank lines of Rs 1,704 crore, including fund and non-fund based limits, was utilised moderately, at 23% on an average during the 12 months through December 2020. Cash and bank balance was healthy at Rs 432 crore as on December 31, 2020. Moderate capex of Rs 400 crore in fiscal 2021, is likely to be funded internally. Dividend payout of 40% of net profit could constrain accretion to liquid reserves. Working capital requirement is sizeable with receivables and inventory at 22 and 70 days, respectively, as on March 31, 2020, albeit with moderation in inventory levels vis-a-vis March 2020 levels.

Outlook: Positive

CRISIL Ratings expects sustained improvement in Supreme's operating performance, backed by its diversified revenue profile, healthy demand in end user industries and increasing share of value-added products. The financial risk profile should remain robust too, in the absence of long-term debt. Capex is likely to be funded through internal accrual.

Rating Sensitivity Factors

Upward Factors

- Steady revenue growth of 10-12% and operating margin of 14-15% on a sustained basis
- Efficient working capital management and sustenance of strong financial risk profile

Downward Factors

- Steep decline in revenue, with operating margin falling below 12%
- Weakening of capital structure because of large, debt-funded capex or acquisition
- Sizeable stretch in the working capital cycle

About the Company

Supreme, India's leading processor of plastic, was incorporated in 1942. The company has a diverse product portfolio, comprising piping systems, cross laminated films and products, protective packaging products, industrial moulded components, moulded furniture, storage and material handling products, performance packaging films and composite, and liquefied petroleum gas cylinders. It has 25 manufacturing facilities across India.

For fiscal 2020, revenue was flat with 9% y-o-y growth in the plastic piping segment, offsetting the decline in other segments. Overall volume grew 3% y-o-y, partly shielding the fall in aggregate realisations. Profit after tax was higher at Rs 467 crore, against Rs 449 crore in the previous year.

Key Financial Indicators*

Particulars	Unit	2020	2019
Revenue	Rs.Crore	5483	5527
PAT	Rs.Crore	467	449
PAT margin	%	8.5	8.1
Adjusted debt/adjusted networkth	Times	0.19	0.08
Interest coverage	Times	29.45	24.17

*CRISIL adjusted numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL complexity levels are assigned to various types of financial instruments. The CRISIL complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL complexity levels for instruments that they consider for investment. Users may also call the Customer Service Helpdesk with queries on specific instruments.

Annexure - Details of Instrument(s)

ISIN	Facility	Date of	Coupon	Maturity	Issue size	Complexity	Rating assigned with
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		allotment	rate (%)	date	(Rs crore)	level	outlook
NA	Bill Discounting***	NA	NA	NA	10.00	NA	CRISIL AA/Positive
NA	Cash credit	NA	NA	NA	18.00	NA	CRISIL AA/Positive
NA	Cash credit^	NA	NA	NA	50.00	NA	CRISIL AA/Positive
NA	Cash credit & Working capital Demand loan	NA	NA	NA	15.00	NA	CRISIL AA/Positive
NA	Cash credit & Working capital Demand loan	NA	NA	NA	45.6	NA	Withdrawn
NA	Import Documentary Credit	NA	NA	NA	150.0	NA	CRISIL A1+
NA	Letter of credit	NA	NA	NA	175	NA	CRISIL A1+
NA	Letter of credit\$	NA	NA	NA	110.0	NA	CRISIL A1+
NA	Letter of credit & bank guarantee	NA	NA	NA	362.90	NA	CRISIL A1+
NA	Letter of credit & bank guarantee	NA	NA	NA	20.50	NA	Withdrawn
NA	Letter of credit & Bank guarantee**	NA	NA	NA	75	NA	CRISIL A1+
NA	Letter of credit^	NA	NA	NA	100	NA	CRISIL A1+
NA	Letter of credit^	NA	NA	NA	100	NA	Withdrawn
NA	Overdraft facility	NA	NA	NA	100	NA	CRISIL AA/Positive
NA	Working capital Demand loan	NA	NA	NA	155	NA	CRISIL AA/Positive
NA	Working capital Demand loan@	NA	NA	NA	125	NA	CRISIL AA/Positive
NA	Commercial paper	NA	NA	7-365 days	200	Simple	CRISIL A1+

***under e-SBD programme of Tata Auto Comp

^Fully interchangeable with working capital demand loan, buyer's credit's sub-limit of Rs 40 crore, letter of credit sub-limit of Rs 30 crore, and bank guarantee sub-limit of Rs 11 crore

\$Fully interchangeable with buyer's credit, purchase bill discounting sub-limit of Rs 50 crore and working capital loan sub-limit of Rs 75 crore

** Bank Guarantee Interchangeable upto Rs 14 crore

@Fully interchangeable with letter of credit and buyer's credit, interchangeable with Rs 25 crore of bank guarantee

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Supreme Industries Overseas FZE	Full	Wholly owned subsidiary
Supreme Petrochem Ltd	Moderate	29.99% stake
Kumi Supreme India Pvt Ltd	Moderate	20.67% stake

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2021 (History)		2020		2019		2018		Start of 2018
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	473.0	CRISIL AA/Positive		--	01-07-20	CRISIL AA/Stable	02-04-19	CRISIL AA/Positive	03-04-18	CRISIL AA/Stable	CRISIL AA/Stable
					--	30-04-20	CRISIL AA/Stable		--	31-01-18	CRISIL AA/Stable	--
Non-Fund Based Facilities	ST	972.9	CRISIL A1+		--	01-07-20	CRISIL A1+	02-04-19	CRISIL A1+	03-04-18	CRISIL A1+	CRISIL A1+
					--	30-04-20	CRISIL A1+		--	31-01-18	CRISIL A1+	--
Commercial Paper	ST	200.0	CRISIL A1+		--	01-07-20	CRISIL A1+	02-04-19	CRISIL A1+	03-04-18	CRISIL A1+	CRISIL A1+
					--	30-04-20	CRISIL A1+		--	31-01-18	CRISIL A1+	--
Short Term Debt	ST		--		--		--		--		--	CRISIL A1+

All amounts are in Rs.Cr.

Annexure - Details of various bank facilities

Current facilities			Previous facilities		
Facility	Amount (Rs.Crore)	Rating	Facility	Amount (Rs.Crore)	Rating
Bill Discounting***	10	CRISIL AA/Positive	Cash Credit	108.6	CRISIL AA/Stable
Cash Credit	18	CRISIL AA/Positive	Cash Credit^	50	CRISIL AA/Stable
Cash Credit^	50	CRISIL AA/Positive	Cash Credit	76.4	Withdrawn
Cash Credit & Working Capital Demand Loan	15	CRISIL AA/Positive	Cash Credit & Working Capital Demand Loan	65	CRISIL AA/Stable
Cash Credit & Working Capital Demand Loan	45.6	Withdrawn	Cash Credit & Working Capital Demand Loan	17.3	Withdrawn
Import Documentary Credit	150	CRISIL A1+	Import Documentary Credit	150	CRISIL A1+
Letter of Credit	175	CRISIL A1+	Letter of Credit	175	CRISIL A1+
Letter of Credit\$	110	CRISIL A1+	Letter of Credit\$	110	CRISIL A1+
Letter of Credit^	100	CRISIL A1+	Letter of Credit^	200	CRISIL A1+
Letter of Credit^	100	Withdrawn	Letter of credit & Bank Guarantee	453.4	CRISIL A1+
Letter of credit & Bank Guarantee	362.9	CRISIL A1+	Letter of credit & Bank Guarantee**	15	CRISIL A1+
Letter of credit & Bank Guarantee	20.5	Withdrawn	Letter of credit & Bank Guarantee	55.1	Withdrawn
Letter of credit & Bank Guarantee**	75	CRISIL A1+	Overdraft Facility	110	CRISIL AA/Stable
Overdraft Facility	100	CRISIL AA/Positive	Working Capital Demand Loan@	125	CRISIL AA/Stable
Working Capital Demand Loan	155	CRISIL AA/Positive	Working Capital Demand Loan	50	CRISIL AA/Stable
Working Capital Demand Loan@	125	CRISIL AA/Positive	-	-	-
Total	1612	-	Total	1760.8	-

***under e-SBD programme of Tata Auto Comp

^Fully interchangeable with working capital demand loan, buyer's credit's sub-limit of Rs 40 crore, letter of credit sub-limit of Rs 30 crore, and bank guarantee sub-limit of Rs 11 crore

\$Fully interchangeable with buyer's credit, purchase bill discounting sub-limit of Rs 50 crore and working capital loan sub-limit of Rs 75 crore

** Bank Guarantee Interchangeable upto Rs 14 crore

@Fully interchangeable with letter of credit and buyer's credit, interchangeable with Rs 25 crore of bank guarantee

Links to related criteria

[CRISILs Approach to Financial Ratios](#)[Rating criteria for manufacturing and service sector companies](#)[CRISILs Bank Loan Ratings - process, scale and default recognition](#)[CRISILs Criteria for rating short term debt](#)[CRISILs Criteria for Consolidation](#)[CRISILs Bank Loan Ratings](#)

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