

Ratings

CRISIL Ratings Limited (A subsidiary of CRISIL Limited)



Rating Rationale

March 25, 2022 | Mumbai

The Supreme Industries Limited

Long-term rating upgraded to 'CRISIL AA+/Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	Rs.1445.9 Crore
Long Term Rating	CRISIL AA+/Stable (Upgraded from 'CRISIL AA/Positive')
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 upgraded its rating on the long-term bank facilities of The Supreme Industries Ltd (Supreme) to '**CRISIL AA+/Stable**' from 'CRISIL AA/Positive'. The rating on the short-term facilities and the Rs 200 crore commercial paper programme has been reaffirmed at 'CRISIL A1+'.

The rating action reflects the improvement in the business risk profile, driven by healthy pick-up in sales and operating margin backed by industry leading market position. Revenue grew 22% on-year to Rs 5,216 crore during the first nine months of fiscal 2022 with operating margin of 16.3%, despite pandemic induced disruptions owing to healthy demand amidst improving realisations as the company has been able to pass-on raw material price increases. In fiscal 2021, despite the pandemic, revenue grew 16% to Rs 6,350 crore with operating margin of 20.1% driven by healthy demand and inventory gains. CRISIL Ratings expects Supreme to register revenue growth of 10-12% year-on-year along with healthy operating margin above 15%, leading to strong annual cash generation in excess of Rs.700 crores.. 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 40 and 70 times, respectively, for fiscal 2021).

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 exposure to intense competition and 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 Ratings 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 a 30.78% stake in it.

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 66% of revenue in fiscal 2021), industrial goods (17%), consumer goods (6%) and packaging products (11%). 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 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 the ability to introduce new products. Collaborations with international manufacturers has strengthened the product development capabilities and translated into strong revenue growth along with above-average profitability. The company has over 4,000 distributors and 25 plants across the country. Supreme is prioritising the

construction of greenfield plants at Odisha, Tamil Nadu and Assam. Strong country-wide 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 3,597 crore as on December 31, 2021, with steady growth in cash accrual and nil gearing. Debt protection metrics were marked by net cash accrual to adjusted debt and interest coverage ratios of 42 and 72 times, respectively, for fiscal 2021. Expected annual net cash accrual of around Rs 700 crore should suffice to fund the capital expenditure (capex) and working capital in the absence of any long-term debt. Dividend payout is expected to range between 30-40% of profit after tax.

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 64% in fiscal 2021), 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 working capital requirements in the absence of any debt. Bank lines of Rs 1,471 crore, including fund and non-fund based limits, were utilised moderately, at 44% on average during the six months through December 2021. Cash and bank balance was healthy at Rs 737 crore as on March 31, 2021. Capex of Rs 520 crore in fiscal 2022, is likely to be funded internally from cash accruals. Dividend payout of 40% of net profit could constrain accretion to liquid reserves. Incremental working capital levels are expected to increase with higher commodity prices, but managed largely from internal accruals.

Outlook: Stable

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 accruals.

Rating Sensitivity Factors

Upward Factors

- Sustained healthy double digit revenue growth and operating margin above 16-18%, leading to better than anticipated cash accruals
- Efficient working capital management and prudently funded capital expenditure leading sustenance of strong financial risk profile and debt metrics
- Maintenance of healthy liquidity surpluses

Downward Factors

- Steep decline in revenue, with operating margin falling below 13-14%, also impacting cash generation
- Sizeable large debt funded capital expenditure or acquisitions, leading to material deterioration in debt metrics
- Sizeable reduction in cash surpluses, due to material dividend payout or share buyback.

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 facilities across India.

For the first nine months of fiscal 2022, revenue grew 22% to Rs 5,216 crore driven by improved realisation. Profit after tax grew to Rs 645 crore during the first nine months of fiscal 2022 from Rs 528 crore during the same period last year.

Key Financial Indicators

Particulars	Unit	2021	2020
Revenue	Rs.Crore	6350	5483
Profit After Tax (PAT)	Rs.Crore	9788	467
PAT Margin	%	15.4	8.5
Adjusted debt/adjusted networkth	Times	0.01	0.19
Interest coverage	Times	72.74	29.45

*CRISIL adjusted numbers

Any other information: Not applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings' complexity levels are assigned to various types of financial instruments. The CRISIL Ratings' complexity

levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' 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 allotment	Coupon rate (%)	Maturity date	Issue size (Rs.Crore)	Complexity level	Rating assigned with outlook
NA	Bill discounting*	NA	NA	NA	10.00	NA	CRISIL AA+/Stable
NA	Cash credit	NA	NA	NA	18.00	NA	CRISIL AA+/Stable
NA	Cash credit^	NA	NA	NA	50.00	NA	CRISIL AA+/Stable
NA	Cash Credit & Working Capital Demand Loan	NA	NA	NA	150	NA	CRISIL AA+/Stable
NA	Letter of credit	NA	NA	NA	225	NA	CRISIL A1+
NA	Letter of credit\$	NA	NA	NA	110.0	NA	CRISIL A1+
NA	Letter of credit & bank guarantee	NA	NA	NA	312.9	NA	CRISIL A1+
NA	Letter of credit & Bank guarantee**	NA	NA	NA	75	NA	CRISIL A1+
NA	Overdraft facility	NA	NA	NA	100	NA	CRISIL AA+/Stable
NA	Working capital demand loan	NA	NA	NA	220	NA	CRISIL AA+/Stable
NA	Working capital demand loan^	NA	NA	NA	100	NA	CRISIL AA+/Stable
NA	Working capital demand loan@	NA	NA	NA	75	NA	CRISIL AA+/Stable
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 up to 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

Name of company	Extent of consolidation	Rationale for consolidation
Supreme Industries Overseas FZE	Full	Wholly-owned subsidiary
Supreme Petrochem Ltd	Moderate	30.78% stake

Annexure - Rating History for last 3 Years

Instrument	Type	Current		2022 (History)		2021		2020		2019		Start of 2019
		Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	723.0	CRISIL AA+/Stable	--	--	05-04-21	CRISIL AA/Positive	01-07-20	CRISIL AA/Stable	02-04-19	CRISIL AA/Positive	CRISIL AA/Stable
				--	--	--	--	30-04-20	CRISIL AA/Stable	--	--	
Non-Fund Based Facilities	ST	722.9	CRISIL A1+	--	--	05-04-21	CRISIL A1+	01-07-20	CRISIL A1+	02-04-19	CRISIL A1+	CRISIL A1+
				--	--	--	--	30-04-20	CRISIL A1+	--	--	
Commercial Paper	ST	200.0	CRISIL A1+	--	--	05-04-21	CRISIL A1+	01-07-20	CRISIL A1+	02-04-19	CRISIL A1+	CRISIL A1+
				--	--	--	--	30-04-20	CRISIL A1+	--	--	

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Bill Discounting*	10	Kotak Mahindra Bank Limited	CRISIL AA+/Stable
Cash Credit	8	ICICI Bank Limited	CRISIL AA+/Stable
Cash Credit	10	Standard Chartered Bank Limited	CRISIL AA+/Stable
Cash Credit^	50	Citibank N. A.	CRISIL AA+/Stable
Cash Credit & Working Capital Demand Loan	150	The Hongkong and Shanghai Banking Corporation Limited	CRISIL AA+/Stable
Letter of Credit\$	110	HDFC Bank Limited	CRISIL A1+
Letter of Credit	225	Kotak Mahindra Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	140	Standard Chartered Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	97.9	ICICI Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee**	75	Axis Bank Limited	CRISIL A1+
Letter of credit & Bank Guarantee	75	YES Bank Limited	CRISIL A1+
Overdraft Facility	30	Axis Bank Limited	CRISIL AA+/Stable
Overdraft Facility	25	YES Bank Limited	CRISIL AA+/Stable
Overdraft Facility	45	HDFC Bank Limited	CRISIL AA+/Stable
Working Capital Demand Loan	50	YES Bank Limited	CRISIL AA+/Stable
Working Capital Demand Loan^	100	Citibank N. A.	CRISIL AA+/Stable
Working Capital Demand Loan	50	ICICI Bank Limited	CRISIL AA+/Stable
Working Capital Demand Loan@	75	Kotak Mahindra Bank Limited	CRISIL AA+/Stable
Working Capital Demand Loan	45	Axis Bank Limited	CRISIL AA+/Stable
Working Capital Demand Loan	75	JP Morgan Chase Bank N.A.	CRISIL AA+/Stable

This Annexure has been updated on 25-Mar-2022 in line with the lender-wise facility details as on 06-Dec-2021 received from the rated entity

*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 up to Rs 14 crore

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

Criteria Details

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](#)

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