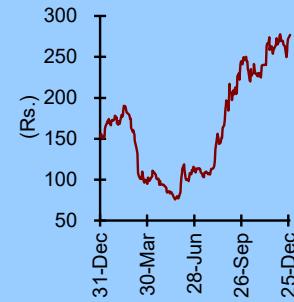


| (%)    | FY21E  | FY22E |
|--------|--------|-------|
| Sales  | ↑ 15.7 | ↑ 5.1 |
| EBITDA | ↑ 35.3 | ↑ 3.8 |
| PAT    | ↑ 51.3 | ↑ 3.0 |

|                         | Mar<br>'20 | Jun<br>'20 | Sep<br>'20 |
|-------------------------|------------|------------|------------|
| Promoters               | 63.3       | 63.3       | 63.3       |
| Institutional investors | 20.2       | 19.5       | 18.3       |
| MFs and others          | 11.1       | 12.5       | 11.0       |
| Insurance Cos.          | 1.8        | 0.0        | 0.0        |
| FII                     | 7.3        | 7.0        | 7.3        |
| Others                  | 16.5       | 17.2       | 18.4       |



We reiterate our positive stance on Prince Pipes & Fittings (PPF) given improving earnings expectations in the near to medium term on the back of: 1) ongoing industry consolidation in the PVC pipe segment, which would drive strong market share gains for PPF; 2) its increasing ability to raise CPVC pipe prices (than expected earlier) with higher probability of global CPVC majors taking a price hike in CPVC resin in the near term; 3) likely growth traction in the CPVC pipe segment driven by expected seamless entry into projects and bundling opportunities (post recent tie-up with Lubrizol); 4) structural improvement in EBITDA margin led by decentralisation of its manufacturing footprint (with the upcoming Telangana project), operating leverage and product mix improvement; and 4) sustained balance sheet improvement with higher FCF generation driving higher RoCEs over the next two years. Maintain BUY.

- **Valuation and outlook.** Considering the higher than expected revenue growth in H2FY21 led by accelerated industry consolidation and higher realisation due to sharp increase in PVC prices, we increase our earnings estimates for PPF by 51%/3% for FY21E/FY22E respectively. Rolling over our numbers to FY23, we now expect PPF to report revenue/PAT CAGRs of 12.5%/21% over FY20-FY23E respectively. We maintain our **BUY** rating on the stock with a revised target price of Rs400 (earlier: Rs334), valuing it at 25x Sep'22E earnings (30%/45% discount to the multiples assigned to SI/ASTRA respectively).
- **Volume growth at inflection point.** We expect PPF to report 11.3% / 12.5% volume /revenue CAGRs over FY20-FY23E led by: a) market share gains in PVC pipe segment on account of accelerated industry consolidation (driven by steep increase in PVC prices and tight availability of PVC resin) post Covid; b) likely growth traction in CPVC pipes driven by the company's expected seamless entry into projects (with the recent successful launch of CPVC *FlowGuard* pipes) and bundling opportunities; and c) recent foray into high-growth segments like DWC pipes and storage tanks.
- **Expect structural improvement in EBITDA margin over the next 2-3 years.** Decentralisation of its manufacturing footprint with the upcoming Telangana project, operating leverage and expected product mix improvement (driven by likely growth traction in CPVC pipe segment) are likely levers going forward for structural improvement in PPF's EBITDA margins. Hence, we expect the company to report overall EBITDA margin improvement from 14% in FY20 to 15.3% in FY23E. We expect PPF to exhibit a 15.8% EBITDA CAGR over FY20-FY23E.
- **Sustained balance sheet improvement to drive higher RoCEs:** Sharp curtailment in receivables and inventories in H1FY21 has led to significant improvement in the cash conversion cycle for PPF. Going forward, despite the large Telangana capex (likely to be commissioned by Q2FY22E), we expect PPF to generate impressive FCF from operations (company will also become 'net cash' post FY21E) driven by strict working capital discipline and strong traction in profitability. Consequently, we expect RoCE to improve to 20.7% by FY23E.

| Market Cap              | Rs30.4bn/US\$414mn | Year to Mar         | FY20   | FY21E  | FY22E  | FY23E  |
|-------------------------|--------------------|---------------------|--------|--------|--------|--------|
| Bloomberg               | PRINCPIP IN        | Net Revenue (Rs mn) | 16,357 | 19,256 | 20,335 | 23,268 |
| Shares Outstanding (mn) | 110.0              | Net Profit (Rs mn)  | 1,125  | 1,663  | 1,514  | 1,993  |
| 52-week Range (Rs)      | 278/76             | Dil. EPS (Rs)       | 10.2   | 15.1   | 13.8   | 18.1   |
| Free Float (%)          | 36.7               | % Chg YoY           | 37.0   | 47.8   | (9.0)  | 31.7   |
| FII (%)                 | 7.3                | P/E (x)             | 26.4   | 17.9   | 19.6   | 14.9   |
| Daily Volume (US\$'000) | 1,203              | CEPS (Rs)           | 14.9   | 20.8   | 20.1   | 25.1   |
| Absolute Return 3m (%)  | 15.5               | EV/EBITDA (x)       | 11.8   | 9.1    | 9.2    | 7.4    |
| Absolute Return 12m (%) | 58.0               | Dividend Yield (%)  | 0.4    | 0.6    | 0.7    | 0.7    |
| Sensex Return 3m (%)    | 24.9               | RoCE (%)            | 20.5   | 21.4   | 17.8   | 20.7   |
| Sensex Return 12m (%)   | 15.3               | RoE (%)             | 18.2   | 18.3   | 14.5   | 16.7   |

**Table 1: Change in estimates**

(Rs mn)

| Estimates      | Old     |         | New     |         | % change |        |
|----------------|---------|---------|---------|---------|----------|--------|
|                | FY21E   | FY22E   | FY21E   | FY22E   | FY21E    | FY22E  |
| Revenue        | 16637.2 | 19353.2 | 19256.2 | 20334.6 | 15.7%    | 5.1%   |
| EBITDA         | 2224.7  | 2798.2  | 3010.5  | 2905.7  | 35.3%    | 3.8%   |
| EBIDTA margins | 13.4%   | 14.5%   | 15.6%   | 14.3%   | 220bps   | -20bps |
| PAT            | 1099.1  | 1470.1  | 1662.9  | 1513.7  | 51.3%    | 3.0%   |
| EPS (Rs)       | 10.0    | 13.4    | 15.1    | 13.8    | 51.1%    | 2.9%   |

Source: Company data, I-Sec research

## Financial summary

**Table 2: Profit & Loss statement**

(Rs mn, year ending March 31)

|                                       | FY20          | FY21E         | FY22E         | FY23E         |
|---------------------------------------|---------------|---------------|---------------|---------------|
| <b>Net Revenues</b>                   | <b>16,357</b> | <b>19,256</b> | <b>20,335</b> | <b>23,268</b> |
| <b>Operating Expenses</b>             | <b>14,069</b> | <b>16,246</b> | <b>17,429</b> | <b>19,717</b> |
| <b>EBITDA</b>                         | <b>2,288</b>  | <b>3,011</b>  | <b>2,906</b>  | <b>3,551</b>  |
| % margins                             | 14.0%         | 15.6%         | 14.3%         | 15.3%         |
| Depreciation & Amortisation           | 520           | 622           | 700           | 764           |
| Gross Interest                        | 332           | 258           | 250           | 219           |
| Other Income                          | 69            | 125           | 68            | 95            |
| <b>Recurring PBT</b>                  | <b>1,506</b>  | <b>2,255</b>  | <b>2,024</b>  | <b>2,664</b>  |
| Less: Taxes                           | 381           | 592           | 510           | 670           |
| Less: Minority Interest               | -             | -             | -             | -             |
| Add: Share of Profit of<br>Associates | -             | -             | -             | -             |
| <b>Net Income (Reported)</b>          | <b>1,125</b>  | <b>1,663</b>  | <b>1,514</b>  | <b>1,993</b>  |
| Extraordinaries (Net)                 | -             | -             | -             | -             |
| <b>Recurring Net Income</b>           | <b>1,125</b>  | <b>1,663</b>  | <b>1,514</b>  | <b>1,993</b>  |

Source: Company data, I-Sec research

**Table 3: Balance sheet**

(Rs mn, year ending March 31)

|  | FY20          | FY21E         | FY22E         | FY23E         |
|--|---------------|---------------|---------------|---------------|
| <b>Assets</b>                          |               |               |               |               |
| Total Current Assets                   | 9,135         | 9,541         | 10,588        | 12,201        |
| of which cash & cash equiv.            | 2,570         | 2,202         | 2,338         | 2,508         |
| Total Current Liabilities & Provisions | 3,160         | 3,604         | 3,753         | 4,074         |
| <b>Net Current Assets</b>              | <b>5,975</b>  | <b>5,937</b>  | <b>6,835</b>  | <b>8,127</b>  |
| Investments                            | 6             | 6             | 6             | 6             |
| Net Fixed Assets                       | 4,886         | 6,263         | 6,163         | 6,400         |
| Capital Work-in-Progress               | 75            | -             | -             | -             |
| Goodwill                               | -             | -             | -             | -             |
| <b>Total Assets</b>                    | <b>10,943</b> | <b>12,207</b> | <b>13,005</b> | <b>14,533</b> |
| <b>Liabilities</b>                     |               |               |               |               |
| Borrowings                             | 2,433         | 2,233         | 1,783         | 1,583         |
| Deferred Tax Liability                 | 133           | 133           | 133           | 133           |
| Minority Interest                      | -             | -             | -             | -             |
| Equity Share Capital                   | 1,100         | 1,100         | 1,100         | 1,100         |
| Face Value per share (Rs)              | 10            | 10            | 10            | 10            |
| Reserves & Surplus*                    | 7,277         | 8,741         | 9,989         | 11,717        |
| Less: Misc. Exp. n.w.o.                | -             | -             | -             | -             |
| <b>Net Worth</b>                       | <b>8,377</b>  | <b>9,841</b>  | <b>11,089</b> | <b>12,817</b> |
| <b>Total Liabilities</b>               | <b>10,943</b> | <b>12,207</b> | <b>13,005</b> | <b>14,533</b> |

\*Excluding revaluation reserves

Source: Company data, I-Sec research

**Table 4: Quarterly trend**

(Rs mn, year ending March 31)

|                       | Dec-19     | Mar-20     | Jun-20     | Sep-20     |
|-----------------------|------------|------------|------------|------------|
| Net revenues          | 3,959      | 4,308      | 3,025      | 4,587      |
| % growth (YoY)        | 9.7        | (13.7)     | (20.4)     | 6.9        |
| EBITDA                | 533        | 576        | 316        | 803        |
| Margin (%)            | 13.5       | 13.4       | 10.5       | 17.5       |
| Other income          | 8          | 52         | 52         | 33         |
| Extraordinaries (Net) | -          | -          | -          | -          |
| <b>Net profit</b>     | <b>243</b> | <b>283</b> | <b>113</b> | <b>466</b> |

Source: Company data, I-Sec research

**Table 5: Cashflow statement**

(Rs mn, year ending March 31)

|   | FY20           | FY21E        | FY22E        | FY23E        |
|---|----------------|--------------|--------------|--------------|
| <b>Operating Cashflow</b>                 | <b>1,462</b>   | <b>2,265</b> | <b>2,194</b> | <b>2,737</b> |
| Working Capital Changes                   | (1,299)        | (330)        | (762)        | (1,122)      |
| Capital Commitments                       | (1,170)        | (1,925)      | (600)        | (1,000)      |
| <b>Free Cashflow</b>                      | <b>(1,006)</b> | <b>10</b>    | <b>832</b>   | <b>614</b>   |
| <b>Cashflow from Investing Activities</b> |                |              |              |              |
| Issue of Share Capital                    | 3,560          | -            | -            | -            |
| Inc (Dec) in Borrowings                   | (82)           | (200)        | (450)        | (200)        |
| Dividend paid                             | (133)          | (199)        | (265)        | (265)        |
| <b>Change in Deferred Tax Liability</b>   |                |              |              |              |
| Chg. in Cash & Bank balance               | (2)            | -            | -            | -            |
|   | <b>2,347</b>   | <b>(369)</b> | <b>137</b>   | <b>169</b>   |

Source: Company data, I-Sec research

**Table 6: Key ratios**

(Year ending March 31)

|  | FY20 | FY21E | FY22E | FY23E |
|--|------|-------|-------|-------|
| <b>Per Share Data (in Rs.)</b>         |      |       |       |       |
| EPS                                    | 10.2 | 15.1  | 13.8  | 18.1  |
| Cash EPS                               | 14.9 | 20.8  | 20.1  | 25.1  |
| Dividend per share (DPS)               | 1.0  | 1.5   | 2.0   | 2.0   |
| Book Value per share (BV)              | 76.1 | 89.4  | 100.8 | 116.5 |
| <b>Growth (%)</b>                      |      |       |       |       |
| Net Sales                              | 4.8  | 17.7  | 5.6   | 14.4  |
| EBITDA                                 | 24.3 | 31.6  | -3.5  | 22.2  |
| PAT                                    | 37.0 | 47.8  | -9.0  | 31.7  |
| Cash EPS                               | 37.0 | 47.8  | -9.0  | 31.7  |
| <b>Valuation Ratios (x)</b>            |      |       |       |       |
| P/E                                    | 26.4 | 17.9  | 19.6  | 14.9  |
| P/CEPS                                 | 18.1 | 13.0  | 13.4  | 10.8  |
| P/BV                                   | 3.5  | 3.0   | 2.7   | 2.3   |
| EV / EBITDA                            | 11.8 | 9.1   | 9.2   | 7.4   |
| EV / Sales                             | 1.7  | 1.4   | 1.3   | 1.1   |
| <b>Operating Ratios</b>                |      |       |       |       |
| Raw Material / Sales (%)               | 71.4 | 65.9  | 69.4  | 68.4  |
| Employee cost / Sales (%)              | 4.4  | 5.2   | 4.7   | 4.7   |
| SG&A / Sales (%)                       | 6.7  | 8.1   | 6.9   | 6.9   |
| Other Income / PBT (%)                 | 4.6  | 5.5   | 3.4   | 3.6   |
| Effective Tax Rate (%)                 | 25.2 | 26.3  | 25.2  | 25.2  |
| Working Capital (days)                 | 76.6 | 65.0  | 65.0  | 65.0  |
| Inventory Turnover (days)              | 76.9 | 55.0  | 55.0  | 55.0  |
| Receivables (days)                     | 40.1 | 50.0  | 50.0  | 50.0  |
| Payables (days)                        | 40.3 | 40.0  | 40.0  | 40.0  |
| Net D/E Ratio (x)                      | 0.1  | 0.0   | -0.1  | -0.1  |
| <b>Return/Profitability Ratios (%)</b> |      |       |       |       |
| Net Income Margins                     | 6.9  | 8.6   | 7.4   | 8.6   |
| RoACE                                  | 20.5 | 21.4  | 17.8  | 20.7  |
| RoAE                                   | 18.2 | 18.3  | 14.5  | 16.7  |
| Dividend Payout                        | 11.8 | 12.0  | 17.5  | 13.3  |
| Dividend Yield                         | 0.4  | 0.6   | 0.7   | 0.7   |
| EBITDA Margins                         | 14.0 | 15.6  | 14.3  | 15.3  |

Source: Company data, I-Sec research

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