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Company update and
earnings revision

Plastic

Target price: Rs400

Earnings revision

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

Target price revision

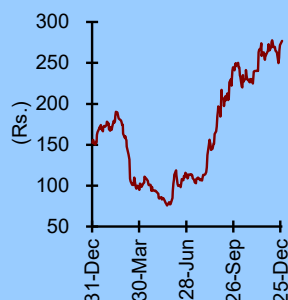
Rs400 from Rs334

Shareholding pattern

	Mar '20	Jun '20	Sep '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
FIs	7.3	7.0	7.3
Others	16.5	17.2	18.4

Source: CMIE

Price chart



INDIA

Prince Pipes and Fittings

BUY

Maintained

Rs277

Major beneficiary of industry consolidation

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	PRINCIPI 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

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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
Net Revenues	16,357	19,256	20,335	23,268
Operating Expenses	14,069	16,246	17,429	19,717
EBITDA	2,288	3,011	2,906	3,551
% 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
Recurring PBT	1,506	2,255	2,024	2,664
Less: Taxes	381	592	510	670
Less: Minority Interest	-	-	-	-
Add: Share of Profit of Associates	-	-	-	-
Net Income (Reported)	1,125	1,663	1,514	1,993
Extraordinaries (Net)	-	-	-	-
Recurring Net Income	1,125	1,663	1,514	1,993

Source: Company data, I-Sec research

Table 3: Balance sheet

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Assets				
Total Current Assets	9,135	9,541	10,588	12,201
of which cash & cash eqv.	2,570	2,202	2,338	2,508
Total Current Liabilities & Provisions	3,160	3,604	3,753	4,074
Net Current Assets	5,975	5,937	6,835	8,127
Investments	6	6	6	6
Net Fixed Assets	4,886	6,263	6,163	6,400
Capital Work-in-Progress	75	-	-	-
Goodwill	-	-	-	-
Total Assets	10,943	12,207	13,005	14,533
Liabilities				
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.	-	-	-	-
Net Worth	8,377	9,841	11,089	12,817
Total Liabilities	10,943	12,207	13,005	14,533

*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)	-	-	-	-
Net profit	243	283	113	466

Source: Company data, I-Sec research

Table 5: Cashflow statement

(Rs mn, year ending March 31)

	FY20	FY21E	FY22E	FY23E
Operating Cashflow	1,462	2,265	2,194	2,737
Working Capital Changes	(1,299)	(330)	(762)	(1,122)
Capital Commitments	(1,170)	(1,925)	(600)	(1,000)
Free Cashflow	(1,006)	10	832	614
Cashflow from Investing Activities	10	20	20	20
Issue of Share Capital	3,560	-	-	-
Inc (Dec) in Borrowings	(82)	(200)	(450)	(200)
Dividend paid	(133)	(199)	(265)	(265)
Change in Deferred Tax Liability	(2)	-	-	-
Chg. in Cash & Bank balance	2,347	(369)	137	169

Source: Company data, I-Sec research

Table 6: Key ratios

(Year ending March 31)

	FY20	FY21E	FY22E	FY23E
Per Share Data (in Rs.)				
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
Growth (%)				
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
Valuation Ratios (x)				
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
Operating Ratios				
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
Return/Profitability Ratios (%)				
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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