Equity Research

May 26, 2023

BSE Sensex: 62502

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Q4FY23 result review and earnings and TP revision

Plastic

Target price: Rs703

Earnings revision

(%)	FY24E	FY25E
Revenue	↓ 1.7	↑ 0.0
EBITDA	↓ 3.6	↑ 1.3
PAT	↓ 4.4	↓ 0.6

Target price revision

Rs703 from Rs707

Shareholding pattern

	Sep '22	Dec '22	Mar '23
Promoters	62.9	62.9	60.9
Institutional investors	18.6	19.8	22.0
MFs and others	10.3	11.2	11.7
Insurance Cos.	0.1	4.2	4.1
FIIs	8.2	4.4	6.2
Others	18.5	17.3	17.1

Source: BSE

ESG disclosure score

Year	2020	2021	Chg
ESG score	**NA**	**NA**	**NA**
Environment	NA	NA	NA
Social	NA	NA	NA
Governance	NA	NA	NA

Note - Score ranges from 0 - 100 with a higher score indicating higher ESG disclosures.
Source: Bloomberg, I-sec research

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INDIA

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Prince Pipes and Fittings

BUY

Maintain

Demand, margin tailwinds to drive growth in FY24 **Rs610**

Prince Pipes and Fittings (PRINCPIP) has reported Q4FY23 revenue decline of 15.2% YoY with pipe volumes declining 2.1% YoY (4-year CAGR of 2.8%) and realisation down 13.3% YoY as PVC prices corrected. EBITDA/kg improved 110.5% QoQ to Rs33.5/kg (+7.9% YoY) due to inventory gains and improved product mix. Management reported inventory gains of ~Rs250mn, adjusting for which EBITDA/kg stood at ~Rs28/kg (up ~29% QoQ on adjusted EBITDA/kg for Q3FY23). Reported EBIDTA margin increased 956bps QoQ to 19.4% (+381bps YoY) as gross margin expanded 10.7ppt QoQ (+570bps YoY) partly due to inventory gains, resulting in EBITDA/APAT growth of 113.5%/166.0% QoQ, respectively. Management stated overall demand remains strong across plumbing, infrastructure and agri segments as PVC prices have stabilised at affordable levels (close to its 10-year average) in Q1FY24-TD. For FY24, it has guided for lower volume growth of 12-15% YoY due to the impact of ERP migration in Q1FY24. Barring the impact of ERP migration, it has guided for 15-20% volume CAGR for the next 2 years, driven by an uptick in real estate sector, increased government spending on infrastructure and pick up in agri market. It has also guided for pipe margin in the range of 13-15% in the medium term. Management also intends to launch bathware products by end-Q1FY24 and expects a cash loss of ~Rs150mn in FY24 from this segment. We cut our PAT estimates by ~4%/1% for FY24/25E; BUY with a revised Mar'24E target price of Rs703 (earlier: Rs707).

- **Volumes decline 2.1% YoY:** PRINCPIP posted Q4FY23 revenue decline of 15.2% YoY (4-year CAGR of 11.3%) on lower realisation (down 13.3% YoY due to decline in PVC price) and volume decline of 2.1% YoY (4-year CAGR of 2.8%). Management stated that due to increased affordability of PVC price (close to its 10-year average), end-user demand remains strong across all segments (plumbing, infrastructure and agri) in Q1FY24-TD. Management expects increased government infrastructure spending and continued uptick in real estate market to act as sustained demand drivers for pipe industry and has guided for 15-20% volume CAGR for next 2 years (barring the impact of ERP migration in Q1FY24). ERP migration in Q1FY24 has negatively impacted volumes and management has guided for 12-15% YoY volume growth in FY24. Working capital days in Q4FY23 stood at 57 (*vs* 68 days in Q4FY22), as inventory days improved to 57days (-28 days YoY). The company is now net-debt free with cash surplus of ~Rs1.6bn as of Mar 31, 2023. PRINCPIP has announced a greenfield pipes capex of Rs1.5bn to setup a facility of 35,000mtpa capacity in Bihar, which is likely to be operational by Q4FY25. We have modelled pipe volume CAGR of 13.7% over FY23-25E.

Market Cap	Rs67.5bn/US$816mn
Bloomberg	PRINCPIP IN
Shares Outstanding (mn)	110.6
52-week Range (Rs)	649/517
Free Float (%)	39.1
FII (%)	6.2
Daily Volume (US$'000)	1,213
Absolute Return 3m (%)	9.3
Absolute Return 12m (%)	(2.0)
Sensex Return 3m (%)	5.4
Sensex Return 12m (%)	16.6

Year to Mar	FY22	FY23	FY24E	FY25E
Revenue (Rs mn)	26,568	27,109	29,753	34,520
EBITDA(Rs mn)	4,188	2,503	3,601	4,323
Net Income (Rs mn)	2,514	1,213	2,102	2,591
EPS (Rs)	22.7	11.0	19.0	23.4
% Chg YoY	11.0	(51.7)	73.3	23.3
P/E (x)	26.8	55.6	32.1	26.0
EV/E (x)	16.3	26.3	18.1	14.9
Dividend Yield	0.6	0.0	0.3	0.6
RoCE (%)	20.1	8.6	13.3	14.5
RoE (%)	21.8	9.2	14.4	15.6

- **Inventory gains and superior product mix lead to high profitability:** EBITDA/kg improved 110.5% QoQ to Rs33.5/kg (+7.9% YoY) as management indicated inventory gains of ~Rs250mn and superior product mix in Q4FY23. Adjusting for inventory gains, EBITDA/kg stood at ~Rs28/kg (up ~29% QoQ on adjusted EBITDA/kg for Q3FY23). EBITDA margin expanded 956bps QoQ to 19.4% (+381bps YoY) as gross margin increased 10.7ppt QoQ (+570bps YoY) resulting in EBITDA/APAT growth of 113.5%/166.0% QoQ, respectively. Management stated PVC prices have largely stabilised and it does not expect profitability to be materially impacted by inventory gain/loss in Q1FY24. Management has guided for sustainable margins in the range of 13-15% over medium term, with an upward bias (due to improved product mix, decentralised manufacturing and operating leverage). We have modelled pipe margins of 12.8% for FY24E/FY25E, respectively (vs average margin of ~13.1% over FY16-23).

- **Valuations and view:** PRINCPIP's operational profitability in Q4FY23 has been better than expected. We continue to like PRINCPIP as we expect it to see demand tailwinds from plumbing, infra and agri industries (post Q1FY24 ERP implementation hiccup) with normalised profitability. Maintain **BUY** with a revised Mar'24 target price of Rs703, set at an unchanged 30x FY25E P/E.

Table 1: Q4FY23 result review

Rs Mn	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	FY23	FY22	YoY(%)
Total revenues	**7,644**	**9,012**	**(15.2%)**	**7,059**	**8.3%**	**27,109**	**26,568**	**2.0%**
Raw Materials	5,121	6,551	(21.8%)	5,483	(6.6%)	20,922	18,915	10.6%
% of sales	*67.0%*	*72.7%*	*-570 bps*	*77.7%*	*-1068 bps*	*77.2%*	*71.2%*	*598 bps*
Employee expense	309	351	(12.0%)	311	(0.7%)	1,161	1,162	(0.1%)
% of sales	*4.0%*	*3.9%*	*15 bps*	*4.4%*	*-37 bps*	*4.3%*	*4.4%*	*-9 bps*
Other expense	731	705	3.6%	570	28.2%	2,523	2,335	8.0%
% of sales	*9.6%*	*7.8%*	*174 bps*	*8.1%*	*148 bps*	*9.3%*	*8.8%*	*52 bps*
Total expenditure	**6,161**	**7,607**	**(19.0%)**	**6,364**	**(3.2%)**	**24,606**	**22,412**	**9.8%**
% of sales	*80.6%*	*84.4%*	*-381 bps*	*90.2%*	*-956 bps*	*90.8%*	*84.4%*	*641 bps*
EBIDTA	**1,483**	**1,405**	**5.6%**	**695**	**113.5%**	**2,503**	**4,156**	**(39.8%)**
% of sales	*19.4%*	*15.6%*	*381 bps*	*9.8%*	*956 bps*	*9.2%*	*15.6%*	*-641 bps*
Depreciation	211	199	6.2%	211	0.4%	830	703	18.1%
EBIT	**1,272**	**1,206**	**5.5%**	**484**	**162.7%**	**1,673**	**3,453**	**(51.5%)**
EBIT Margin (%)	*16.6%*	*13.4%*	*326 bps*	*6.9%*	*978 bps*	*6.2%*	*13.0%*	*-683 bps*
Interest Expenses	28	40	(29.9%)	16	74.6%	110	139	(20.8%)
Other income	34	1	nm	12	180.3%	86	55	56.3%
PBT	**1,278**	**1,167**	**9.5%**	**480**	**166.1%**	**1,648**	**3,369**	**(51.1%)**
Income Tax Expense	337	290	16.1%	126	166.6%	436	880	(50.5%)
Extraordinary Items	0	6	NM	0	NM	2	6	(70.2)%
Reported PAT	**941**	**882**	**6.7%**	**354**	**166.0%**	**1,214**	**2,494**	**(51.3%)**
APAT	**941**	**878**	**7.2%**	**354**	**166.0%**	**1,213**	**2,490**	**(51.3%)**

Source: Company data, I-Sec research

Table 2: Q4FY23 key operating metrics

	Q4FY23	Q4FY22	YoY(%)	Q3FY23	QoQ(%)	FY23	FY22	YoY(%)
Sales Volume (MT)	44,317	45,287	(2.1%)	43,693	1.4%	1,57,717	1,39,034	13.4%
Realisation (Rs/kg)	172	199	(13.3%)	162	6.8%	172	191	(10.1%)
EBITDA-per-unit (Rs/kg)	33.5	31.0	7.9%	15.9	110.5%	15.9	29.9	(46.9%)
Cash Conversion Cycle								
Debtor (Days)	56	60	-4 days	48	8 days	56	60	-4 days
Inventory (Days)	57	85	-28 days	61	-4 days	57	85	-28 days
Creditor (Days)	56	77	-21 days	65	-9 days	56	77	-21 days
Working Capital (Days)	57	68	-11 days	44	13 days	57	68	-11 days

Source: Company data, I-Sec research

Table 3: Change in estimates

	New		Previous		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenues	29,753	34,520	30,266	34,510	-1.7%	0.0%
EBIDTA	3,601	4,323	3,737	4,269	-3.6%	1.3%
PAT	2,102	2,591	2,199	2,607	-4.4%	-0.6%

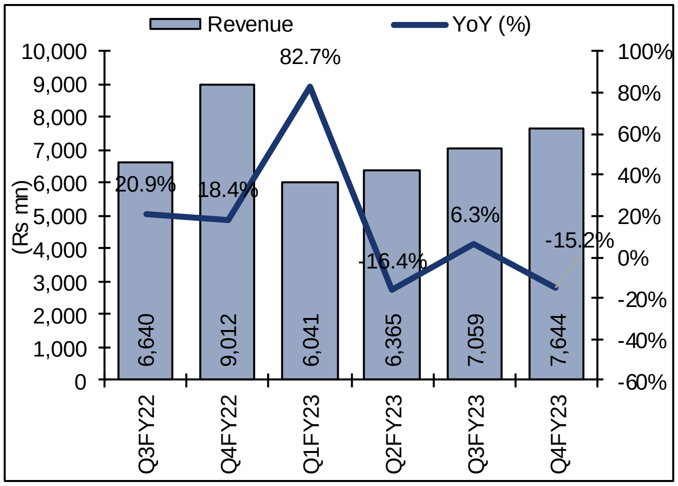
Source: Company data, I-Sec research

Key takeaways from Q4FY23 earnings conference call

- **Demand: Management reported positive demand environment for plastic pipes driven by strong growth across segments** – infrastructure, housing and agri. Management stated good demand is seen from Nal Se Jal scheme, and expects this scheme to create substantial demand going forward.
- **Inventory gains**: Management reported **inventory gain of Rs250mn in Q4.** It does not expect any significant inventory loss/gain going forward.
- **Outlook**: Management believes **government's push on infrastructure, along with strong demand from housing and real estate,** will be key demand drivers for pipe industry in medium to long term. Along with these demand tailwinds, **Prince Pipes plans to increase its dealer network and introduce new products to outgrow the industry**.
- **Bathware segment:** Management has **finalised product design, vendors and core team** for this segment and plans **to launch its products in Q1FY24-end.** The company has planned a dealer interaction for its launch in Jun'23. **Management expects Rs150mn cash loss from this segment in FY24.**
- **Channel inventory** continues be low due to high end-user industry demand. Also, inventory for PRINCPIP is lower due to the negative impact of ERP migration.
- **ERP migration**: Company is migrating to global ERP from legacy system. The migration process has extended from its scheduled completion in Apr'23 to May'23. This has **negatively impacted PRINCPIP's sales volumes in Q1FY24**. With this migration, management aims to achieve better production/demand planning and inventory management. Most of the expense incurred for this project has been accounted for in FY23.
- **Guidance:** Management has guided for **volume growth of 12-15% YoY in FY24** due to the negative impact of ERP migration in Q1FY24. Barring the impact of ERP migration, management expects **volume CAGR of 15-20%** for the next 2 years. Management **has guided for 13-15% sustainable EBITDA margin** in medium to long term.
- **Capacity expansion:** PRINCPIP has announced to setup a **greenfield pipes plant with initial capacity of 35,000mtpa in Bihar for a capex of Rs1.5bn**. This capacity is expected to **operationalise by Q4FY25**. The company already had an outsourced pipes facility in Bihar and Jharkhand and after commissioning of this plant, it will gradually transition from outsourced to in-house manufacturing in the region.
- **Capex**: Management has guided for capex of ~Rs1.6bn in FY24 (of which ~Rs0.8bn will be spent for greenfield pipes capacity and remaining will be maintenance capex).
- **Water tanks** generated revenue of ~Rs300mn in FY23 and the management expects to double this revenue in FY24**.**
- Management stated **branding spend** in Q4FY23 was Rs120mn and in FY23 it was Rs410mn (~1.5% FY23 sales).

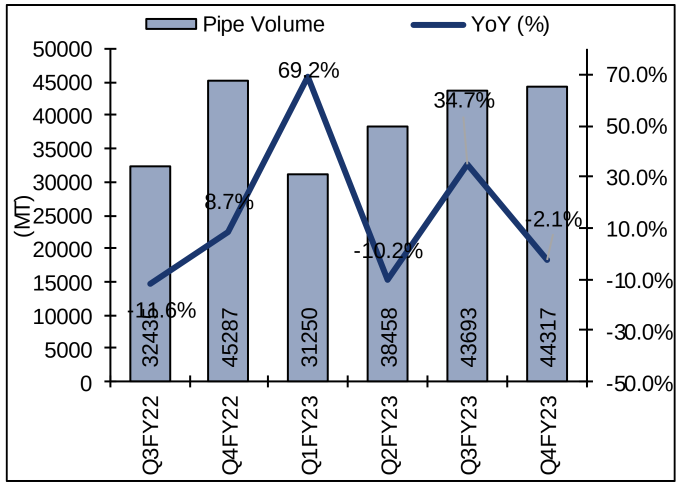
Key charts

Chart 1: Quarterly revenue



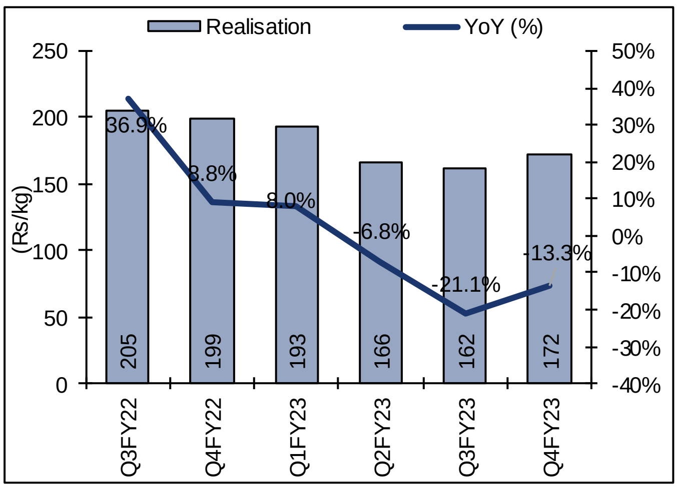
Source: Company data, I-Sec research

Chart 2: Quarterly volumes



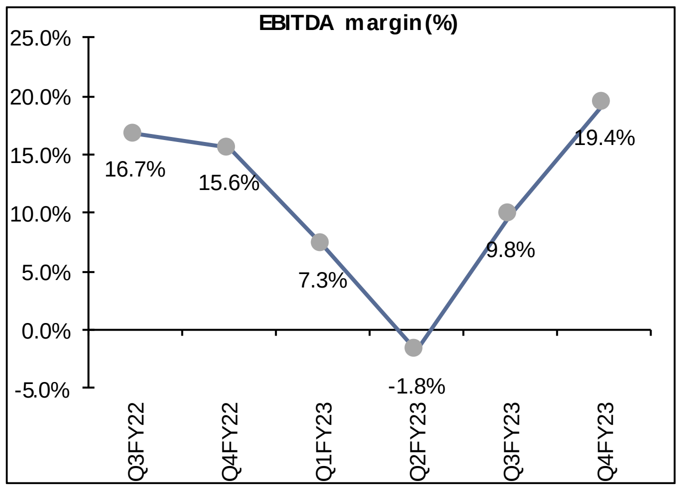
Source: Company data, I-Sec research

Chart 3: Quarterly realisation



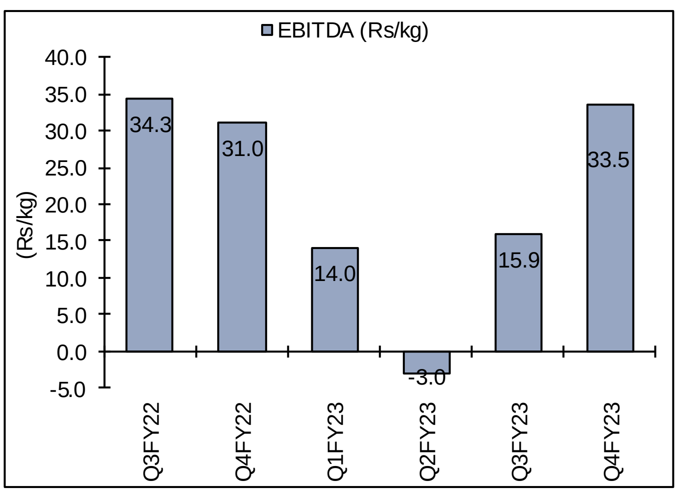
Source: Company data, I-Sec research

Chart 4: Quarterly EBITDA margin



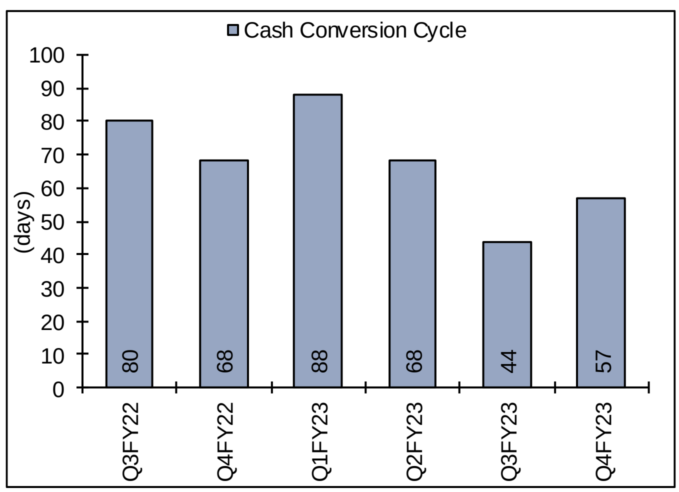
Source: Company data, I-Sec research

Chart 5: Quarterly EBITDA per unit



Source: Company data, I-Sec research

Chart 6: Quarterly cash conversion cycle



Source: Company data, I-Sec research

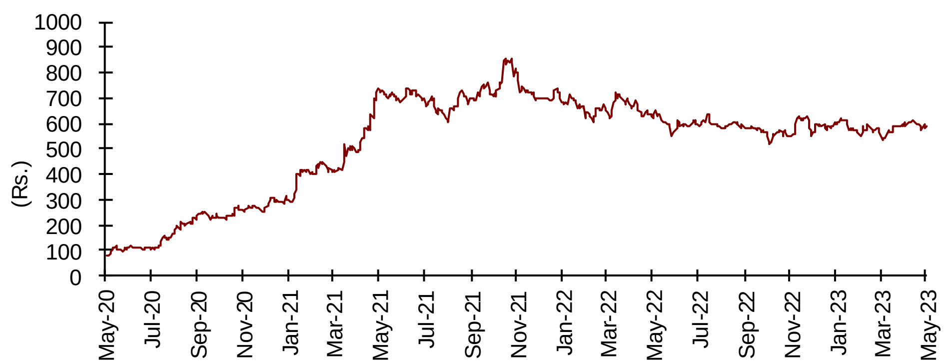
Valuations

PRINCPIP is one of the major pipe players in the industry. It has plants in seven locations and manufactures pipes and fittings on a wide base of polymer resins (CPVC, UPVC, HDPE, PPR). It also has multiple collaborations, which enable it to have a wider distribution reach (via UltraTech business solutions platform) and has a secure CPVC supply (via Lubrizol), which may enable it to benefit from the growing preference for organised players. Maintain **BUY** on the stock with a revised Mar'24 target price of Rs703, set at an unchanged 30x FY25E P/E.

Key risks

- **Slowdown in housing market:** Any unexpected demand slowdown in housing market will adversely affect growth in the pipe segment.
- **Sharp fall in PVC resin prices:** A sharp and sudden fallen in PVC resin prices will adversely affect the profitability of the company.
- **Resurgence of pandemic:** Any resurgence of covid pandemic may dampen demand and negatively impact the company's operational performance.
- **Adverse product mix:** Any change in the product mix away from CPVC/plumbing segment will adversely affect profitability.

Price chart



Source: Bloomberg

Financial summary

Table 4: Profit and loss statement

(Rs mn, year ending December 31)

	FY22	FY23	FY24E	FY25E
Operating Income (Sales)	**26,568**	**27,109**	**29,753**	**34,520**
Operating Expenses	22,380	24,606	26,152	30,197
EBITDA	**4,188**	**2,503**	**3,601**	**4,323**
% margins	15.8	9.2	12.1	12.5
Depreciation & Amortisation	703	830	876	984
Interest Cost	139	110	53	36
Other Income	55	86	169	199
Recurring PBT	**3,401**	**1,648**	**2,841**	**3,502**
Less: Taxes	880	436	739	910
Less: Minority Interest/Extraordinary Items	-27	2	-	-
Net Income (Reported)	**2,494**	**1,214**	**2,102**	**2,591**
Net Income (Adjusted)	**2,514**	**1,213**	**2,102**	**2,591**

Source: Company data, I-Sec research

Table 5: Balance sheet

(Rs mn, year ending December 31)

	FY22	FY23	FY24E	FY25E
Assets				
Total Current Assets	12,692	11,498	13,011	15,391
of which cash & cash eqv.	687	2,161	2,648	3,393
Total Current Liabilities	5,096	4,137	4,582	5,376
Net Current Assets	**7,596**	**7,361**	**8,429**	**10,015**
Investments	17	3	3	3
Net Fixed Assets	**6,682**	**7,041**	**7,665**	**8,181**
Total Assets	**19,390**	**18,542**	**20,679**	**23,575**
Liabilities				
Borrowings	**1,500**	**581**	**381**	**281**
Total Liabilities	**6,738**	**4,902**	**5,148**	**5,841**
Equity Share Capital	1,106	1,106	1,106	1,106
Face Value per share (Rs)	1	1	1	1
Reserves & Surplus	11,547	12,534	14,426	16,629
Net Worth	**12,653**	**13,640**	**15,532**	**17,734**
Minority Interest	-	-	-	-
Total Liabilities & Shareholders' Equity	**19,390**	**18,542**	**20,679**	**23,575**

Source: Company data, I-Sec research

Table 6: Quarterly trend

(Rs mn, year ending December 31)

	Jun'22	Sep'22	Dec'22	Mar'23
Net sales	6,041	6,365	7,059	7,644
% growth (YoY)	82.7	-16.4	6.3	-15.2
EBITDA	439	-113	695	1,483
EBITDA Margin (%)	7.3	-1.8	9.8	19.4
Other Income	12	27	12	34
Extraordinary Items	-	2	-	-
Net profit	160	-242	354	941

Source: Company data, I-Sec research

Table 7: Cashflow statement

(Rs mn, year ending December 31)

	FY22	FY23	FY24E	FY25E
Operating Cashflow	**-384**	**3,768**	**2,397**	**2,734**
Working Capital Changes	-3,570	1,710	-581	-841
Capex	-1,605	-1,159	-1,500	-1,500
Free Cashflow	**-1,989**	**2,609**	**897**	**1,234**
Cashflow from Investing Activities	**-1,607**	**-1,145**	**-1,500**	**-1,500**
Issue of Share Capital	5	-	-	-
Inc (Dec) in Borrowings	648	-919	-200	-100
Dividend paid	-387	0.0	-210	-389
Chg. In Cash & Cash equivalents	**-1,612**	**1,474**	**487**	**745**

Source: Company data, I-Sec research

Table 8: Key ratios

(Year ending December 31)

	FY22	FY23	FY24E	FY25E
Per Share Data (Rs)				
EPS (Diluted Adjusted)	22.7	11.0	19.0	23.4
CEPS (Cash EPS)	29.1	18.5	26.9	32.3
Dividend per share (DPS)	3.5	0.0	1.9	3.5
Book Value per share (BV)	114.4	123.4	140.5	160.4
Growth Ratios (%)				
Operating Income	28.3	2.0	9.8	16.0
EBITDA	13.9	(40.2)	43.9	20.0
Adjusted Net Income	11.0	(51.7)	73.3	23.3
EPS (Diluted Adjusted)	11.0	(51.7)	73.3	23.3
Valuation Ratios (x)				
P/E	26.8	55.6	32.1	26.0
P/CEPS	21.0	33.0	22.7	18.9
P/BV	5.3	4.9	4.3	3.8
EV / EBITDA	16.3	26.3	18.1	14.9
EV / Operating Income	2.6	2.4	2.2	1.9
Operating Ratios				
Other Income / PBT (%)	1.6	5.2	5.9	5.7
Effective Tax Rate (%)	25.9	26.4	26.0	26.0
NWC / Total Assets (%)	35.6	28.0	28.0	28.1
Net D/E Ratio (x)	0.1	-0.1	-0.1	-0.2
Return/Profitability Ratios (%)				
Adjusted Net Income Margins	9.5	4.5	7.1	7.5
RoCE	20.1	8.6	13.3	14.5
RoE	21.8	9.2	14.4	15.6
Dividend Yield	0.6	0.0	0.3	0.6
EBITDA Margins	15.8	9.2	12.1	12.5

Source: Company data, I-Sec research

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