

22 March 2024

India | Equity Research | Company Update

Prince Pipes & Fittings

Plastic

Aquel acquisition to enable better penetration in bathware segment

Prince Pipes (PRINCEPI) has announced an asset-based purchase of bathware brand Aquel (faucetware plant capacity of 0.1mn pieces p.a.) for a cash consideration of INR 550mn (funded via internal accruals). Aquel is a 25-year-old brand with presence in western, central and certain parts of southern India. Aquel's current promoters have sold the business to PRINCEPI due to financial stress. We believe this acquisition was necessary for PRINCEPI to have a manufacturing base in faucets, which is a pre-requisite for growing the bathware segment. As per PRINCEPI management, it can capitalise Aquel's dealer mindshare by regular servicing. This acquisition is likely to boost PRINCEPI's plans of being a notable player in the bathware segment. However, revenue contribution from this segment may remain small (<5%) in the near term.

For pipes segment, management has guided for flat YoY volume growth in Q4FY24 and expects industry leading volume growth from Q1FY25. We cut our EBITDA estimates by ~2-4% over FY24-26E but upgrade the stock to **BUY** (from Add), led by stock price correction, with a revised Mar'25 TP of INR 723 (earlier INR 739).

Acquisition of bathware brand Aquel to aid bathware segment growth

PRINCEPI has done an asset-based purchase of brand Aquel, having 0.1mn pieces p.a. capacity in Gujarat for a cash consideration of INR 550mn and the management indicated further capex of up to ~INR 50mn to get the plant running. This plant, at peak utilisation, can generate revenue of INR 1-1.2bn. Aquel currently has an active network of 30-35 distributors with presence in western, central and certain parts of southern India. This acquisition is likely to give PRINCEPI a platform to leverage the Aquel brand and its distribution reach, thereby, enabling PRINCEPI's transition to a front of the wall brand. PRINCEPI plans to use 'Aquel by Prince' brand for its entire bathware category going ahead. We believe while revenue contribution from this segment may remain small in the near term, the acquisition can give PRINCEPI better control over faucetware manufacturing, and thus accelerate its growth in bathware segment. As per the management, replacement cost of Aquel type manufacturing facility is INR 350-400mn, which makes the acquisition reasonably valued.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	27,109	25,505	29,319	33,336
EBITDA	2,517	3,312	3,995	4,506
EBITDA %	9.3	13.0	13.6	13.5
Net Profit	1,199	1,857	2,387	2,664
EPS (INR)	10.8	16.8	21.6	24.1
EPS % Chg YoY	(52.2)	54.9	28.5	11.6
P/E (x)	50.2	32.4	25.2	22.6
EV/EBITDA (x)	23.3	17.3	14.4	12.4
RoCE (%)	8.6	11.9	13.3	13.5
RoE (%)	9.1	12.8	14.6	14.5

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Market Data

Market Cap (INR)	60bn
Market Cap (USD)	724mn
Bloomberg Code	PRINCEPI IN
Reuters Code	PRCE BO
52-week Range (INR)	776 /521
Free Float (%)	38.0
ADTV-3M (mn) (USD)	1.7

Price Performance (%)	3m	6m	12m
Absolute	(25.0)	(21.7)	(6.3)
Relative to Sensex	(27.6)	(31.4)	(31.4)

Earnings Revisions (%)	FY24E	FY25E	FY26E
Revenue	(2.8)	(2.2)	(1.2)
EBITDA	(4.1)	(3.2)	(1.7)
EPS	(5.3)	(3.8)	(2.2)

Previous Reports

06-02-2024: [Q3FY24 results review](#)

08-11-2023: [Q2FY24 results review](#)

Pipe business to see high growth from Q1FY25

PRINCPIP's management stated pipe demand remains healthy, driven by an uptick in real estate demand. It had taken corrective pricing action during Dec'23-Jan'24 (to resolve the issue of below industry volume growth in 9MFY24) and its pricing is now competitive with industry leaders. The impact of these measures is likely to be seen from Q1FY25E and it expects industry-leading growth in FY25. We have modelled pipe volume CAGR of 13.1% over FY24-26E.

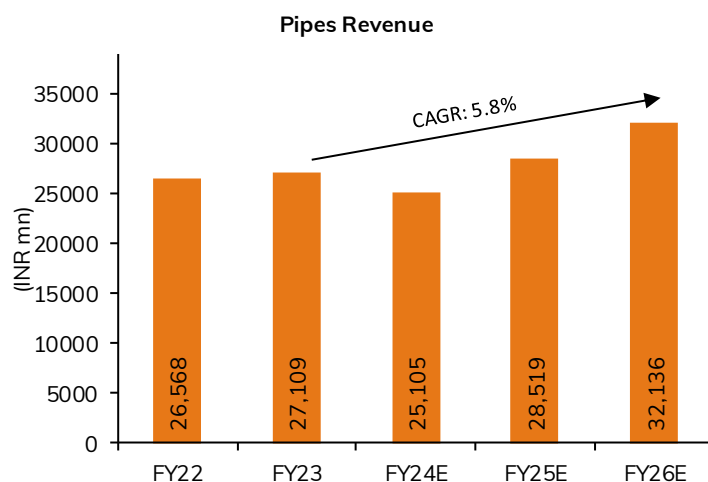
Valuation and view

The revenue contribution from Aquel's bathware acquisition may not be material for PRINCPIP's consolidated sales in the near term, but it may enable it to develop a better brand identity. We cut our EBIDTA estimates by ~2-4% over FY24-26E due to muted Q4FY24 pipe volume growth guidance. However, we upgrade the stock to **BUY** (from Add) with a revised Mar'25 target price of INR 723 (earlier: INR 739), set at an unchanged 30x 1-year forward P/E. Key risk: Execution below expectation on ramp up in pipe segment.

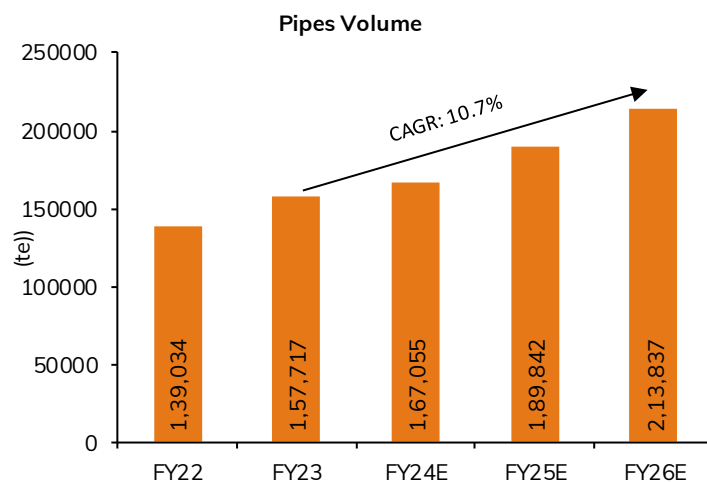
Exhibit 1: Aquel range of faucetware



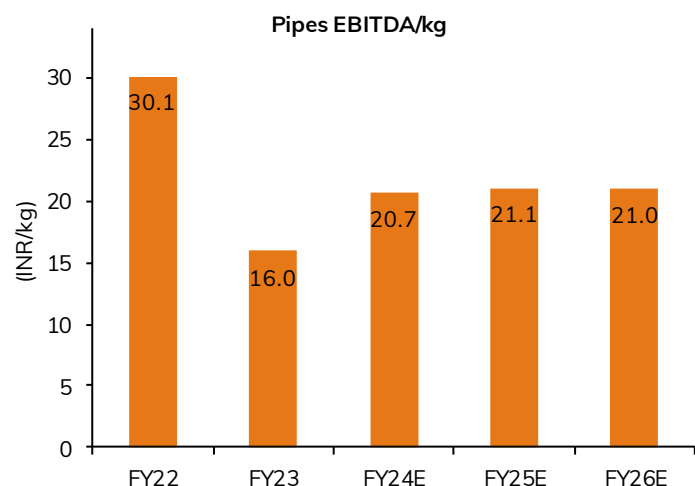
Source: Aquel Company Website, I-Sec Research

Exhibit 2: Expect plastic pipe revenue CAGR of 5.8% over FY23-26E

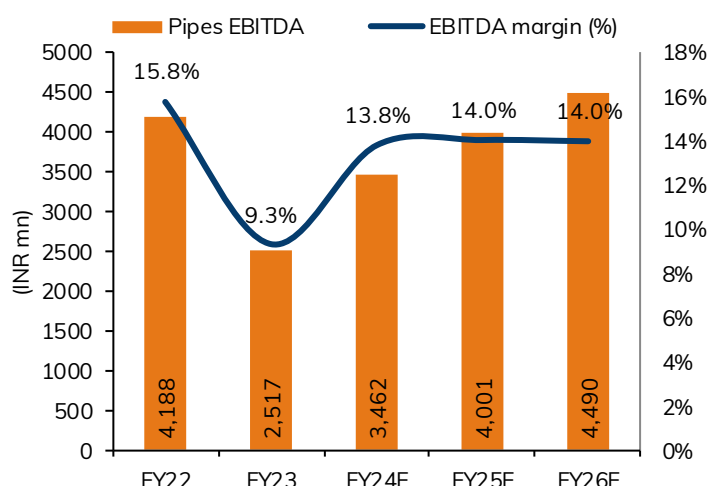
Source: I-Sec research, Company data

Exhibit 3: Plastic pipe volume likely to witness 10.7% CAGR over FY23-26E

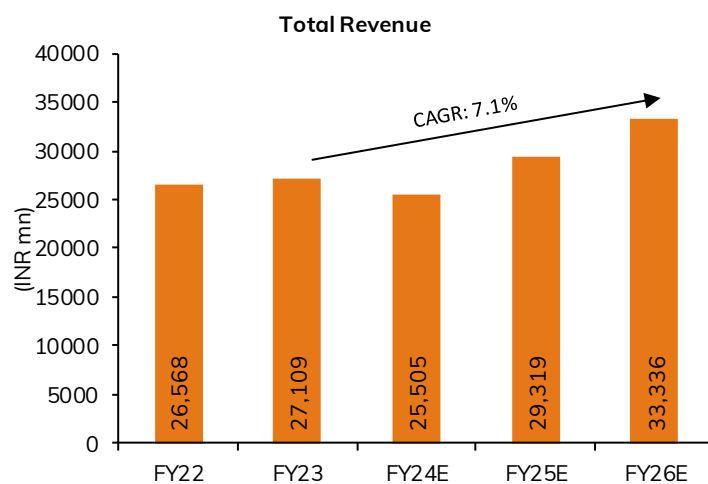
Source: I-Sec research, Company data

Exhibit 4: Pipe EBITDA/kg to rebound over FY24-26E

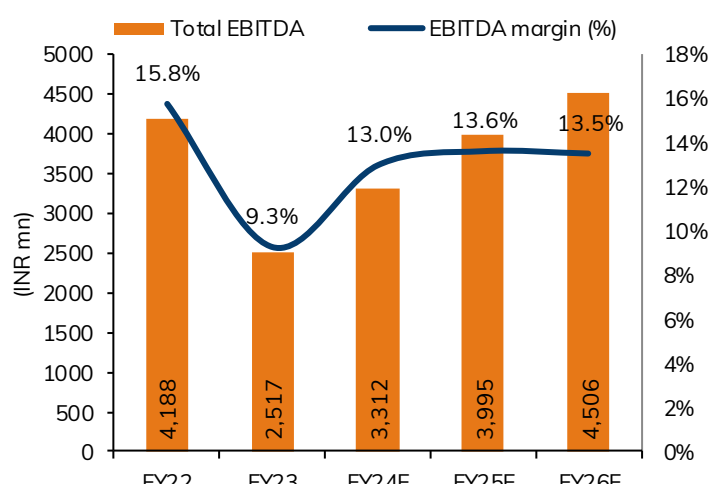
Source: I-Sec research, Company data

Exhibit 5: Pipe EBITDA margin to normalise over FY24-26E

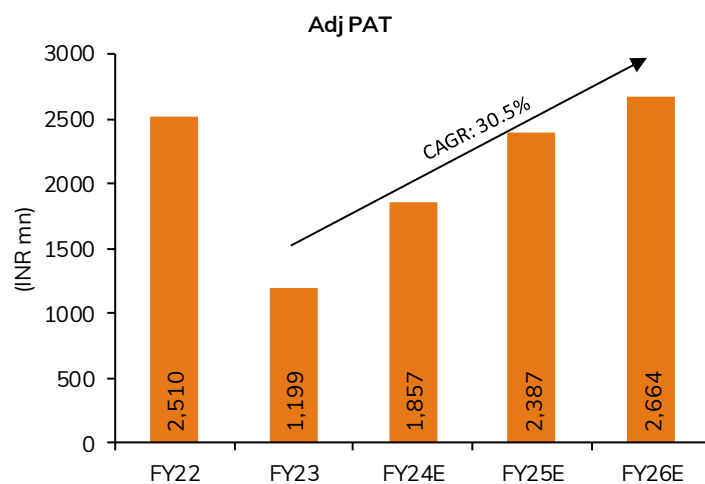
Source: I-Sec research, Company data

Exhibit 6: Consolidated revenue to grow at 7.1% CAGR over FY23-26E

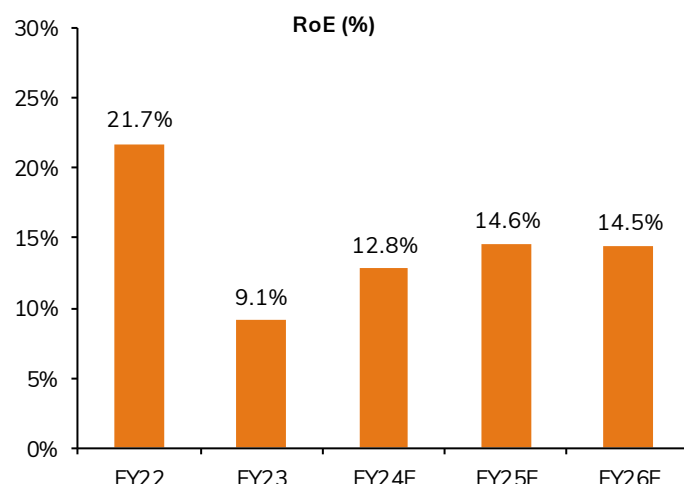
Source: I-Sec research, Company data

Exhibit 7: Consolidated EBITDA margin to remain robust over FY24-26E

Source: I-Sec research, Company data

Exhibit 8: APAT CAGR of 30.5% over FY23-26E due to low base

Source: I-Sec research, Company data

Exhibit 9: RoE to stabilise going forward

Source: I-Sec research, Company data

Key highlights from conference call

- PRINCEPIP has entered into an asset-purchase agreement to acquire the bathware brand Aquel along with its assets (including manufacturing plant, machinery and land in Bhuj, Gujarat) for INR 550mn, which will be funded via internal accruals. The acquisition will be completed in two tranches, with 1st tranche of acquisition of Aquel brand, moulds and dies done on an immediate basis and 2nd tranche of acquisition of land parcel, buildings, machinery, manufacturing equipment, office furniture and fixtures to be done by Oct'24. As per PRINCEPIP management, the cost of setting up a new greenfield faucet plant of similar capacity would be INR 350-400mn.
- The acquired plant has a capacity of 0.1mn pieces per year and is likely to generate revenue of INR 1-1.2bn at optimum utilisation (post an additional maintenance capex of up to ~INR 50mn). The acquired land is of 8 acres in size with the current plant built on ~2.5 acres, providing future expansion capabilities. PRINCEPIP management expects revenue contribution from this plant Q2FY25 onwards.
- With this acquisition, PRINCEPIP will have a platform to leverage the Aquel brand and its distribution strength. Aquel currently has an active network of 30-35 distributors with visible presence in western, central and certain parts of southern India. These are mostly large distributors as Aquel was earlier unable to cater to smaller distributors due to balance sheet issues.
- PRINCEPIP's bathware division currently has 27 active distributors and its products are outsourced from two facilities in Gujarat.
- There are currently nine ranges and 250 SKUs are being produced under the Aquel brand.
- Aquel plant is currently running at very low utilisation of ~15% and generated revenue of ~INR 70mn in FY23. But PRINCEPIP management believes there is a strong interest among dealers to revive the sales of this brand.
- Aquel's plant will have similar working capital requirements to that of current PRINCEPIP structure (inventory days of ~2 months and debtor days of 40-45days).

- Total addressable market for PRINCPIP now stands at ~INR 600bn (~INR 370bn for pipes, ~INR 180bn for bathware and ~INR 50bn for water tanks).
- Pipes segment
 - Management indicated demand tailwinds for pipes remain healthy driven by an uptick in real estate demand and affordability (low and stable PVC prices).
 - Management indicated it has taken corrective pricing action during Dec'23-Jan'24 (to resolve the issue of below industry volume growth in the past couple of quarters).
 - It has guided for flat YoY pipe volume growth in Q4FY24 and expects volume growth to be industry leading Q1FY25 onwards.

Valuation

PRINCPIP is amongst the top 5 players in India's plastic piping 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 have a secure CPVC supply (via Lubrizol), which may enable it to benefit from the growing preference for organised players.

PRINCPIP is likely to witness EBITDA CAGR of 21.4% driven by volume growth of **10.7%** over FY23-26E, and healthy return ratios (RoE of **14.5%** in FY26E). We upgrade the stock from Add to **BUY** with a revised Mar'25 target price of INR 723 (earlier: INR 739).

Key downside risks

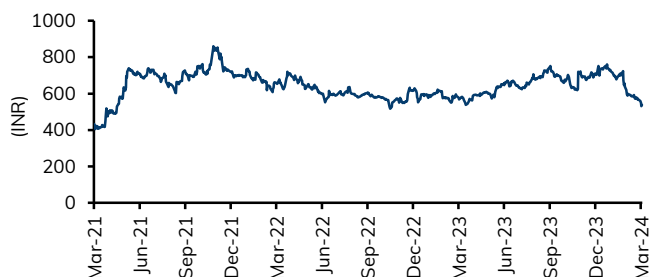
- Slowdown in housing market causing lower demand.
- Execution below expectation on ramp up in pipe segment.
- Sharp fall in PVC prices, which may adversely impact profitability of pipe segment due to inventory losses.
- Failure to scale up new businesses of bathware segment.

Exhibit 10: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	60.9	60.9	60.9
Institutional investors	22.6	23.6	24.1
MFs and others	12.8	15.8	15.8
FIs/Banks	0.0	0.0	0.0
Insurance	0.1	0.1	0.2
FIIIs	9.7	7.7	8.1
Others	16.5	15.5	15.0

Source: Bloomberg

Exhibit 11: Price chart



Source: Bloomberg

Financial Summary

Exhibit 12: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	27,109	25,505	29,319	33,336
Operating Expenses	24,592	22,192	25,325	28,830
EBITDA	2,517	3,312	3,995	4,506
EBITDA Margin (%)	9.3	13.0	13.6	13.5
Depreciation & Amortization	830	906	1,003	1,127
EBIT	1,687	2,406	2,992	3,379
Interest expenditure	110	67	33	25
Other Non-operating Income	52	158	232	209
Recurring PBT	1,629	2,496	3,191	3,562
Less: Taxes	(436)	(639)	(804)	(898)
PAT	1,193	1,857	2,387	2,664
Profit / (Loss) from Associates	-	-	-	-
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	21	-	-	-
Net Income (Reported)	1,214	1,857	2,387	2,664
Net Income (Adjusted)	1,199	1,857	2,387	2,664

Source Company data, I-Sec research

Exhibit 13: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Assets				
Inventories	4,256	3,952	4,510	5,134
Cash & cash eqv.	2,161	3,221	2,983	4,651
Sundry Debtors	4,150	3,843	4,418	5,023
Other Current Assets	930	1,048	1,205	1,370
Trade payables	3,202	2,938	3,427	3,892
Other Current Liabilities	935	888	1,019	1,157
Net Current Assets	7,361	8,239	8,670	11,129
Investments	3	3	3	3
Net Fixed Assets	6,940	7,534	9,031	8,603
Other Non Current Assets	101	101	101	101
Total Assets	14,405	15,876	17,805	19,837
Liabilities				
Borrowings	581	381	281	181
Other Non Current Liabilities	184	184	184	184
Total Liabilities	765	565	465	365
Equity Share Capital	1,106	1,106	1,106	1,106
Reserves & Surplus	12,534	14,205	16,234	18,366
Total Net Worth	13,640	15,311	17,340	19,471
Minority Interest	-	-	-	-
Total Liabilities & Net Worth	14,405	15,876	17,805	19,837

Source Company data, I-Sec research

Exhibit 14: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	7,644	5,536	6,565	6,186
% growth (YOY)	-15.2	-8.4	3.1	-12.4
EBITDA	1,483	453	942	757
Margin %	19.4	8.2	14.3	12.2
Other Income	34	38	40	30
Extraordinaries	-	-	179	-0
Adjusted Net Profit	941	196	570	377

Source Company data, I-Sec research

Exhibit 15: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	3,768	2,946	2,720	3,002
Working Capital Changes	1,710	182	(670)	(790)
Capital Commitments	(1,159)	(1,500)	(2,500)	(700)
Free Cashflow	2,609	1,446	220	2,302
Other investing cashflow	14	-	-	-
Cashflow from Investing Activities	(1,145)	(1,500)	(2,500)	(700)
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(919)	(200)	(100)	(100)
Dividend paid	-	(186)	(358)	(533)
Others	(230)	-	0	0
Cash flow from Financing Activities	(1,149)	(386)	(458)	(633)
Chg. in Cash & Bank balance	1,474	1,060	(238)	1,669
Closing cash & balance	2,161	3,221	2,983	4,651

Source Company data, I-Sec research

Exhibit 16: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	11.0	16.8	21.6	24.1
Adjusted EPS (Diluted)	10.8	16.8	21.6	24.1
Cash EPS	18.4	25.0	30.7	34.3
Dividend per share (DPS)	-	1.7	3.2	4.8
Book Value per share (BV)	123.4	138.5	156.8	176.1
Dividend Payout (%)	-	10.0	15.0	20.0
Growth (%)				
Net Sales	2.0	(5.9)	15.0	13.7
EBITDA	(39.9)	31.6	20.6	12.8
EPS (INR)	(52.2)	54.9	28.5	11.6
Valuation Ratios (x)				
P/E	50.2	32.4	25.2	22.6
P/CEPS	29.7	21.8	17.8	15.9
P/BV	4.4	3.9	3.5	3.1
EV / EBITDA	23.3	17.3	14.4	12.4
EV / Sales	2.2	2.2	2.0	1.7
Dividend Yield (%)	-	0.3	0.6	0.9
Operating Ratios				
Gross Profit Margins (%)	22.8	29.9	30.1	30.1
EBITDA Margins (%)	9.3	13.0	13.6	13.5
Effective Tax Rate (%)	26.8	25.6	25.2	25.2
Net Profit Margins (%)	4.4	7.3	8.1	8.0
NWC / Total Assets (%)	28.0	25.5	25.6	26.0
Net Debt / Equity (x)	(0.1)	(0.2)	(0.2)	(0.2)
Net Debt / EBITDA (x)	(0.6)	(0.9)	(0.7)	(1.0)
Profitability Ratios				
RoCE (%) (post-tax)	8.6	11.9	13.3	13.5
RoE (%)	9.1	12.8	14.6	14.5
Cash Conversion Cycle (on net sales)				
Inventory Days	57	57	56	56
Receivables Days	56	55	55	55
Payables Days	43	42	43	43

Source Company data, I-Sec research

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