

23 June 2024

India | Equity Research | Company Update

## Prince Pipes & Fittings

Plastic

### Pipe demand remains buoyant

We recently interacted with the management of Prince Pipe & Fittings (PRINCPIP). Takeaways from the meeting: 1) Demand scenario remains healthy with the company witnessing ~16-18% pipe volume growth QTD. Management remains confident of achieving 15% pipe volume growth guidance for FY25. 2) It has maintained OPM guidance of 12-14% in FY25, 3) NWC, which increased in FY24 by 40 days YoY (primarily due to debtor days increase of 27 days), is on track to come down by Q1FY25 as debtor days will reduce to ~65 days and further to ~55 days by the end FY25, 4) bathware segment continues to see traction and it targets to achieve breakeven in this segment in ~12-18 months. We maintain estimates and ADD rating on the stock with an unchanged Mar'25E TP of INR 723.

### Pipe demand trend remains healthy

PRINCPIP's management stated demand for pipes has been healthy in Q1FY25-TD and is being driven by agriculture and plumbing segments. Pipe volume growth in the ongoing quarter (Q1FY25-TD) was ~16-18% and it is on track to achieve the guidance of 15% volume growth for FY25. The continued uptrend of PVC prices is enabling better demand for pipe with some channel inventory stocking happening, too. The company believes there will be some inventory gain in the ongoing quarter (Q1FY25) due to rising trend of PVC but it may not be very material. Management does not foresee any PVC resin availability issue for itself in H1FY25 despite tightness in the market due to lower imports (on account of container availability issues) as it has adequately covered its requirement. PRINCPIP meets ~55-60% of its PVC resin requirement through imports. We have modelled 14.3% pipe volume CAGR over FY24-26E driven by higher plumbing volume.

### Pipe margins to be in the range of 12-14%

PRINCPIP's management indicated that in the ongoing quarter (Q1FY25) though pipe volume traction was strong its sales mix was not very favourable as agriculture segment mix (which has lower margins as compared to plumbing segment) increased due to healthy demand in this season. Management indicated margins in the ongoing quarter would be in the range of its medium-term margin guidance of 12-14% with no material inventory gains despite significant rise in PVC resin prices. We have modelled pipe operating margin of 13.4% each over FY25/26E.

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### Market Data

Market Cap (INR)	77bn
Market Cap (USD)	916mn
Bloomberg Code	PRINCPIP IN
Reuters Code	PRCE BO
52-week Range (INR)	776 /505
Free Float (%)	38.0
ADTV-3M (mn) (USD)	1.8

### Price Performance (%)

	3m	6m	12m
Absolute	27.2	(4.7)	4.2
Relative to Sensex	20.9	(13.6)	(17.3)

### Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	27,109	25,687	30,593	34,958
EBITDA	2,517	3,074	3,992	4,555
EBITDA %	9.3	12.0	13.1	13.0
Net Profit	1,199	1,691	2,307	2,665
EPS (INR)	10.8	15.3	20.9	24.1
EPS % Chg YoY	(52.2)	41.1	36.4	15.5
P/E (x)	63.8	45.2	33.2	28.7
EV/EBITDA (x)	29.8	24.9	18.8	16.0
RoCE (%)	8.6	10.1	12.6	12.9
RoE (%)	9.1	11.6	14.0	14.2

### Previous Reports

18-05-2024: [Q4FY24 results review](#)

22-03-2024: [Company Update](#)

### Bathware segment to breakeven in 12-18 months

PRINCIPAL's management stated that bathware segment was seeing increased traction and it targets to be EBIDTA breakeven in this business over the next 12-18 months. It plans to have pan-India presence in FY25 with the launch of products in South India by Q2FY25 and in East India in H2FY25.

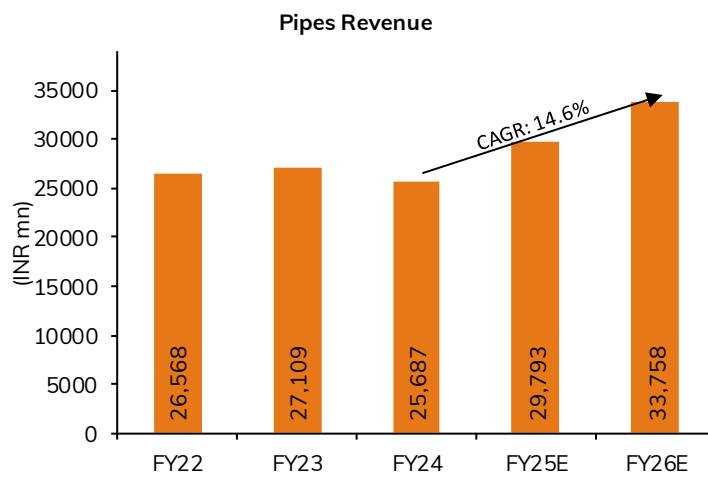
### NWC to improve from Q1 and further improve in FY25

PRINCIPAL had seen an increase in NWC of ~40days YoY in FY24 primarily as debtor days increased to 83 days (+27 days YoY) and creditor days declined by ~8 days. Management has stated that high increase in debtor days was due to increased sales in the month of Mar'24. It has guided for debtor days to come down to ~65 days by Q1FY25 and further down to ~55 days by Q4FY25 which will thus normalise its NWC in FY25.

### Maintain ADD

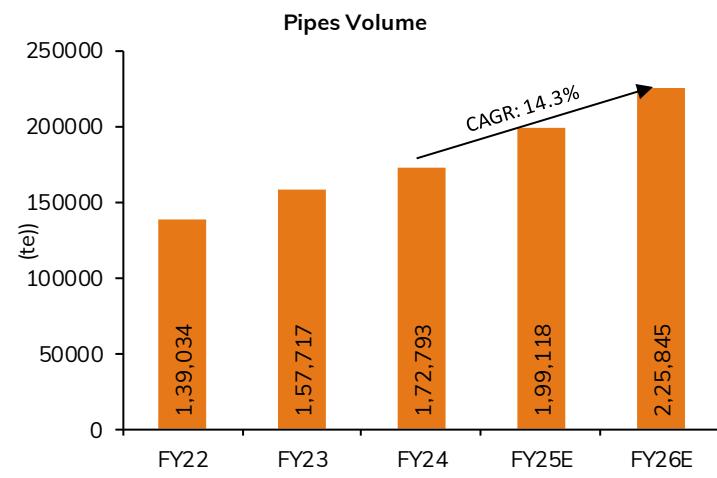
We maintain our estimates for PRINCIPAL and continue to like the company for its long-term growth prospects led by its comprehensive product portfolio, focus on enhancing distribution reach and emphasis on branding. Maintain **ADD** with an unchanged Mar'25E target price of INR 723, set at 30x 1-year forward P/E.

#### Exhibit 1: Expect plastic pipe revenue CAGR of 14.6% over FY24-26E



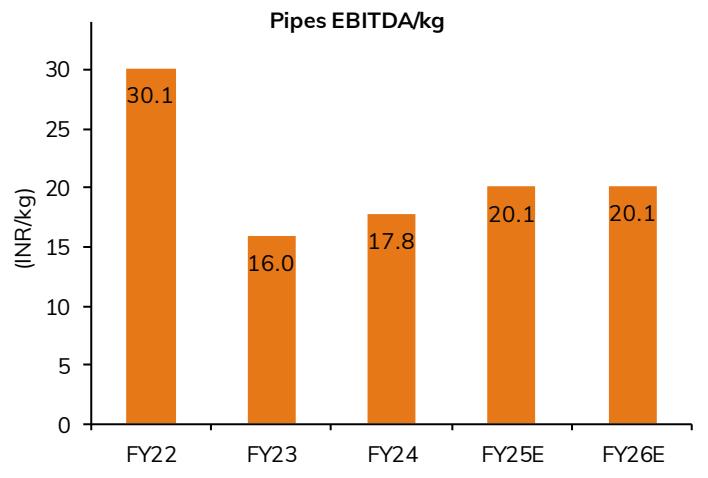
Source: I-Sec research, Company data

#### Exhibit 2: Plastic pipe volumes to witness 14.3% CAGR over FY24-26E



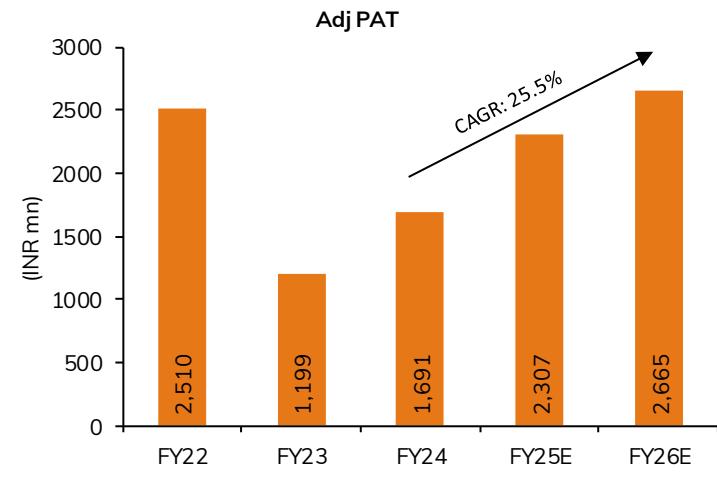
Source: I-Sec research, Company data

#### Exhibit 3: Pipe EBITDA/kg to rebound over FY25-26E

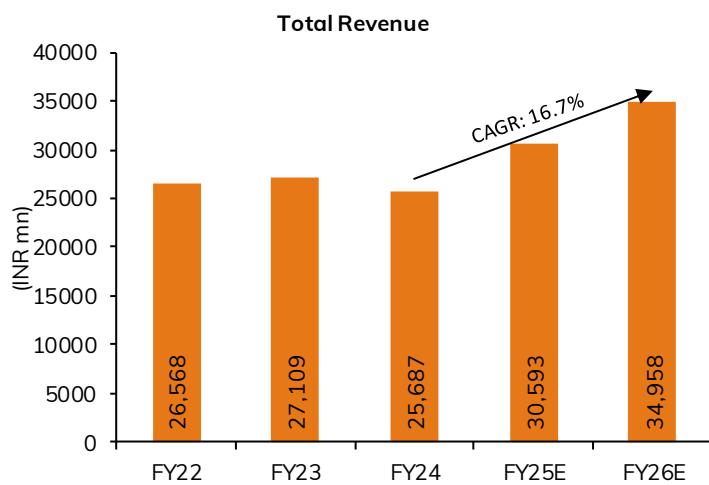


Source: I-Sec research, Company data

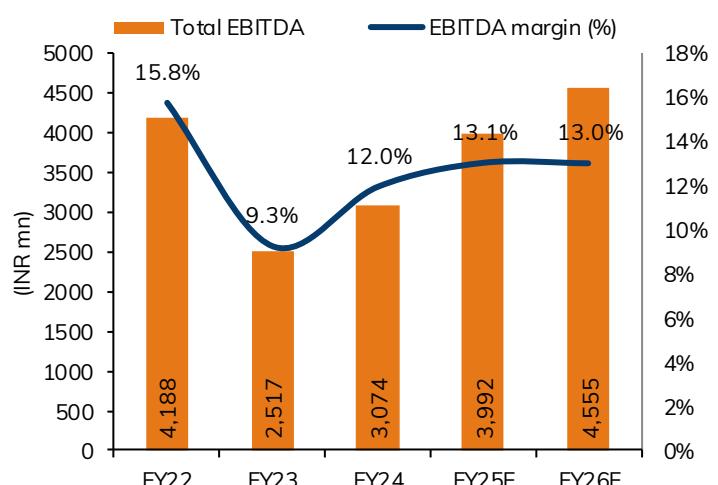
#### Exhibit 4: Expect APAT CAGR of 25.5% over FY24-26E



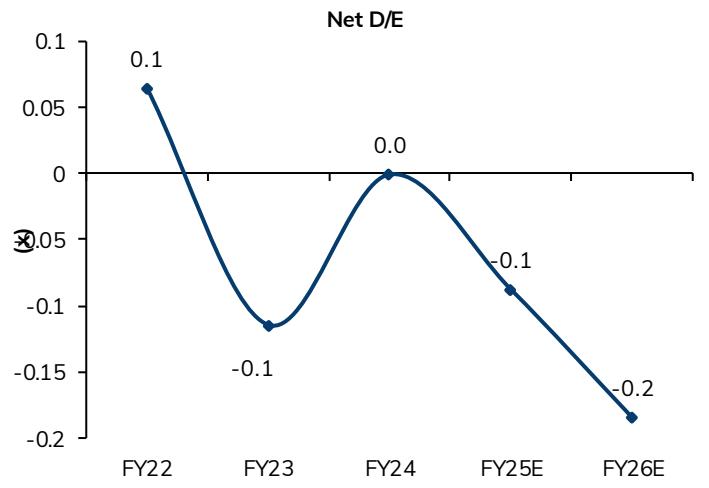
Source: I-Sec research, Company data

**Exhibit 5: Revenue to grow at 16.7% CAGR over FY24-26E**


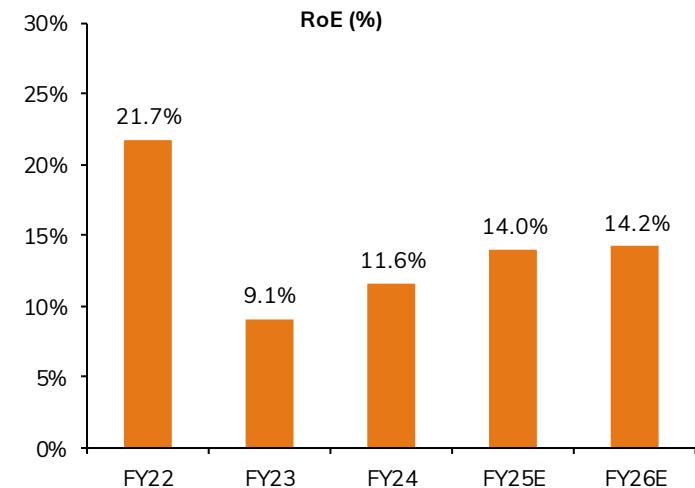
Source: I-Sec research, Company data

**Exhibit 6: Total EBITDA margin to remain robust**


Source: I-Sec research, Company data

**Exhibit 7: PRINCPPIP to remain net debt free**


Source: I-Sec research, Company data

**Exhibit 8: RoE to stabilise going forward**


Source: I-Sec research, Company data

## Valuation

PRINCPIP is among 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 enables it to have a wider distribution reach (via UltraTech business solutions platform) and have a secure CPVC supply (via Lubrizol), which can benefit it from the growing preference for organised players.

PRINCPIP is likely to witness EBIDTA CAGR of 21.7% driven by volume growth of 14.3% over FY24-26E, and healthy return ratios (RoE of 14.2% in FY26E). We maintain our estimates, and **ADD** rating on the stock with an unchanged Mar'25E target price of INR 723.

## Key downside risks

- **Slowdown in housing market:** Any unexpected demand slowdown in housing market may adversely affect growth in pipe segment.
- **Sharp fall in PVC resin prices:** A sharp and sudden fall in PVC resin prices may 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 could adversely affect profitability.

**Exhibit 9: Shareholding pattern**

%	Sep'23	Dec'23	Mar'24
Promoters	60.9	60.9	60.9
Institutional investors	23.6	24.1	23.7
MFs and others	15.8	15.8	15.6
FIs/Banks	0.0	0.0	0.0
Insurance	0.1	0.2	0.6
FII	7.7	8.1	7.5
Others	15.5	15.0	15.4

Source: Bloomberg

**Exhibit 10: Price chart**



Source: Bloomberg

## Financial Summary

### Exhibit 11: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Net Sales</b>	<b>27,109</b>	<b>25,687</b>	<b>30,593</b>	<b>34,958</b>
Operating Expenses	24,592	22,613	26,600	30,403
<b>EBITDA</b>	<b>2,517</b>	<b>3,074</b>	<b>3,992</b>	<b>4,555</b>
EBITDA Margin (%)	9.3	12.0	13.1	13.0
Depreciation & Amortization	830	912	1,006	1,121
<b>EBIT</b>	<b>1,687</b>	<b>2,162</b>	<b>2,986</b>	<b>3,434</b>
Interest expenditure	110	65	88	103
Other Non-operating Income	52	161	185	232
<b>Recurring PBT</b>	<b>1,629</b>	<b>2,258</b>	<b>3,084</b>	<b>3,562</b>
Less: Taxes	(436)	(612)	(777)	(898)
PAT	1,193	1,647	2,307	2,665
<b>Profit / (Loss) from Associates</b>	-	-	-	-
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	21	178	-	-
<b>Net Income (Reported)</b>	<b>1,214</b>	<b>1,825</b>	<b>2,307</b>	<b>2,665</b>
<b>Net Income (Adjusted)</b>	<b>1,199</b>	<b>1,691</b>	<b>2,307</b>	<b>2,665</b>

Source Company data, I-Sec research

### Exhibit 12: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Assets</b>				
Inventories	4,256	4,379	5,029	5,664
Cash & cash eqv.	2,140	1,156	2,575	4,609
Sundry Debtors	4,150	5,849	4,610	5,268
Other Current Assets	1,696	1,516	1,760	1,915
Trade payables	3,202	2,491	3,373	3,850
Other Current Liabilities	1,681	1,810	2,020	2,306
<b>Net Current Assets</b>	<b>7,361</b>	<b>8,599</b>	<b>8,581</b>	<b>11,300</b>
Investments	3	3	3	3
Net Fixed Assets	6,940	8,089	10,083	9,662
Other Non Current Assets	101	240	240	240
<b>Total Assets</b>	<b>14,405</b>	<b>16,931</b>	<b>18,907</b>	<b>21,205</b>
<b>Liabilities</b>				
Borrowings	581	1,144	1,044	944
Other Non Current Liabilities	184	343	343	343
<b>Total Liabilities</b>	<b>765</b>	<b>1,487</b>	<b>1,387</b>	<b>1,287</b>
Equity Share Capital	1,106	1,106	1,106	1,106
Reserves & Surplus	12,534	14,338	16,414	18,813
<b>Total Net Worth</b>	<b>13,640</b>	<b>15,444</b>	<b>17,520</b>	<b>19,918</b>
Minority Interest	-	-	-	-
<b>Total Liabilities &amp; Net Worth</b>	<b>14,405</b>	<b>16,931</b>	<b>18,907</b>	<b>21,205</b>

Source Company data, I-Sec research

### Exhibit 13: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	5,536	6,565	6,186	7,401
% growth (YOY)	-8.4	3.1	-12.4	-3.2
EBITDA	453	942	757	923
Margin %	8.2	14.3	12.2	12.5
Other Income	38	40	30	53
Extraordinaries	-	179	-0	0
Adjusted Net Profit	196	570	377	546

Source Company data, I-Sec research

### Exhibit 14: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Operating Cashflow</b>	<b>3,747</b>	<b>569</b>	<b>4,749</b>	<b>3,100</b>
Working Capital Changes	1,689	(2,222)	1,437	(685)
Capital Commitments	(1,159)	(2,093)	(3,000)	(700)
<b>Free Cashflow</b>	<b>2,588</b>	<b>(1,525)</b>	<b>1,749</b>	<b>2,400</b>
Other investing cashflow	14	-	-	-
<b>Cashflow from Investing Activities</b>	<b>(1,145)</b>	<b>(2,093)</b>	<b>(3,000)</b>	<b>(700)</b>
Issue of Share Capital	-	-	-	-
Inc (Dec) in Borrowings	(919)	563	(100)	(100)
Dividend paid	-	(111)	(231)	(266)
Others	(230)	88	0	0
<b>Cash flow from Financing Activities</b>	<b>(1,149)</b>	<b>541</b>	<b>(331)</b>	<b>(366)</b>
Chg. in Cash & Bank balance	1,453	(984)	1,419	2,034
<b>Closing cash &amp; balance</b>	<b>2,140</b>	<b>1,156</b>	<b>2,575</b>	<b>4,609</b>

Source Company data, I-Sec research

### Exhibit 15: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
<b>Per Share Data (INR)</b>				
Reported EPS	11.0	16.5	20.9	24.1
Adjusted EPS (Diluted)	10.8	15.3	20.9	24.1
Cash EPS	18.4	23.5	30.0	34.2
Dividend per share (DPS)	-	1.0	2.1	2.4
Book Value per share (BV)	123.4	139.7	158.5	180.2
Dividend Payout (%)	-	6.5	10.0	10.0
<b>Growth (%)</b>				
Net Sales	2.0	(5.2)	19.1	14.3
EBITDA	(39.9)	22.1	29.9	14.1
EPS (INR)	(52.2)	41.1	36.4	15.5
<b>Valuation Ratios (x)</b>				
P/E	63.8	45.2	33.2	28.7
P/CEPS	37.7	29.4	23.1	20.2
P/BV	5.6	5.0	4.4	3.8
EV / EBITDA	29.8	24.9	18.8	16.0
EV / Sales	2.8	3.0	2.5	2.1
Dividend Yield (%)	-	0.1	0.3	0.3
<b>Operating Ratios</b>				
Gross Profit Margins (%)	22.8	29.2	29.4	29.5
EBITDA Margins (%)	9.3	12.0	13.1	13.0
Effective Tax Rate (%)	26.8	27.1	25.2	25.2
Net Profit Margins (%)	4.4	6.6	7.5	7.6
NWC / Total Assets (%)	27.1	35.1	24.7	24.5
Net Debt / Equity (x)	(0.1)	0.0	(0.1)	(0.2)
Net Debt / EBITDA (x)	(0.6)	0.0	(0.4)	(0.8)
<b>Profitability Ratios</b>				
RoCE (%) (post-tax)	8.6	10.1	12.6	12.9
RoE (%)	9.1	11.6	14.0	14.2
<b>Cash Conversion Cycle (on net sales)</b>				
Inventory Days	57	62	60	59
Receivables Days	56	83	55	55
Payables Days	43	35	40	40

Source Company data, I-Sec research

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