

HOLD

TP: Rs 650 | ▲ 15%

PRINCE PIPES & FITTINGS

| Building Materials

| 26 March 2024

Faucetware acquisition to accelerate bathware growth engine

- PRINCEPIP acquired the faucetware brand Aquel and the manufacturing facility from Klaus Waren Fixtures for Rs 600mn
- Acquisition to be funded from internal cash accruals; the impact of acquisition to flow from Q2FY25
- Maintain HOLD rating with unchanged TP of Rs 650, valued at 30x on Sep'25 EPS

Utkarsh Nopany

research@bobcaps.in

Acquisition of faucetware asset: PRINCEPIP entered into an agreement with Klaus Waren Fixtures (unlisted; Rated: CRISIL D) and its promoter N.M. Shah to purchase its faucetware asset in Bhuj, Gujarat, for Rs 550mn in two phases. The first phase constitutes the immediate acquisition of the Aquel brand, with moulds and dies. The second involves acquiring the land, buildings, machinery, office furniture and fixtures of the plant in Bhuj, Gujarat by 15 Oct 2024. The plant is built over 2.5 acres of a total land parcel of ~8 acres, which could be used for future expansion.

Key call takeaways: The total acquisition cost would be ~Rs 600mn (including plant upgradation cost of Rs 20mn-50mn) versus replacement cost for putting up a similar facility at Rs 350mn-400mn. Revenue from the acquired asset fell to Rs 70mn in FY23 (Rs 400mn-500mn a decade ago) due to liquidity concerns of the promoters. The plant could generate peak revenue of Rs 1.0bn-1.2bn at full capacity. Aquel's distribution network is mainly in Gujarat, Maharashtra and North Karnataka. Much of PRINCEPIP faucetware's requirement would be met from this asset, and sanitaryware would continue to be sourced via its outsourcing model.

Company's plan: PRINCEPIP plans to sell its entire range of bathware under the Aquel brand name and packaging under 'Aquel by Prince' once the existing inventory is cleared. It expects the bathware segment to operate at lower margin as the focus would be to gain market share by investing in employees, brands and provide higher incentives to dealers, but the segment is likely to generate superior margin compared to pipes and tanks over the next five years due to the high scope of value-addition and requirement of after-sales service. We expect the acquisition's impact to flow from Q2FY25.

Our view: We think this move is positive for PRINCEPIP as its acquisition cost could be funded from existing net cash balance (Rs 560mn at end Dec'23); it allows for backward integration of the bathroom fittings business; and deploys capital into the growing and profitable business. We maintain our HOLD rating on the stock with TP of Rs 650 (valued at 30x on Sep'25 EPS). At CMP, the stock trades at 30.7x on 1Y forward P/E vs historical average P/E of 32.5x since its IPO.

Key changes

Target	Rating
◀ ▶	◀ ▶

Ticker/Price	PRINCEPIP IN/Rs 563
Market cap	US\$ 757.3mn
Free float	39%
3M ADV	US\$ 1.5mn
52wk high/low	Rs 776/Rs 521
Promoter/FPI/DII	61%/5%/19%

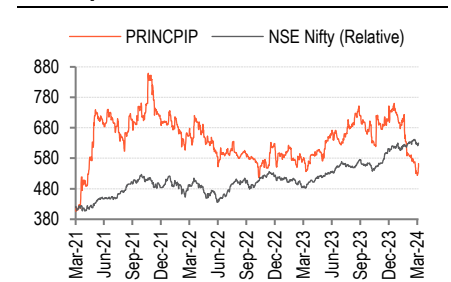
Source: NSE | Price as of 22 Mar 2024

Key financials

Y/E 31 Mar	FY23A	FY24E	FY25E
Total revenue (Rs mn)	27,109	25,354	28,773
EBITDA (Rs mn)	2,517	3,106	3,681
Adj. net profit (Rs mn)	1,223	1,645	2,036
Adj. EPS (Rs)	11.1	14.9	18.4
Consensus EPS (Rs)	11.1	16.3	21.8
Adj. ROAE (%)	9.3	11.5	13.0
Adj. P/E (x)	50.9	37.8	30.6
EV/EBITDA (x)	24.8	20.2	17.4
Adj. EPS growth (%)	(51.3)	34.5	23.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Total revenue	26,568	27,109	25,354	28,773	33,717
EBITDA	4,188	2,517	3,106	3,681	4,788
Depreciation	703	830	904	988	1,106
EBIT	3,485	1,687	2,202	2,692	3,682
Net interest inc./(exp.)	(139)	(110)	(80)	(113)	(113)
Other inc./(exp.)	55	86	142	142	142
Exceptional items	32	14	0	0	0
EBT	3,369	1,648	2,264	2,721	3,711
Income taxes	875	434	619	685	934
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	2,494	1,214	1,645	2,036	2,777
Adjustments	18	9	0	0	0
Adjusted net profit	2,512	1,223	1,645	2,036	2,777

Balance Sheet

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Accounts payables	3,986	3,202	3,144	3,568	4,181
Other current liabilities	980	794	794	794	794
Provisions	22	20	19	22	26
Debt funds	1,500	581	544	617	723
Other liabilities	250	305	305	305	305
Equity capital	1,106	1,106	1,106	1,106	1,106
Reserves & surplus	11,547	12,534	13,847	15,386	17,610
Shareholders' fund	12,653	13,640	14,953	16,491	18,715
Total liab. and equities	19,390	18,542	19,759	21,798	24,745
Cash and cash eq.	687	2,161	2,647	1,728	1,525
Accounts receivables	4,346	4,150	3,882	4,405	5,162
Inventories	6,188	4,256	4,472	5,055	5,924
Other current assets	1,046	684	672	762	892
Investments	17	3	3	3	3
Net fixed assets	6,415	6,750	7,546	9,307	10,701
CWIP	226	190	190	190	190
Intangible assets	41	101	101	101	101
Deferred tax assets, net	0	0	0	0	0
Other assets	425	246	246	246	246
Total assets	19,390	18,542	19,759	21,798	24,745

Cash Flows

Y/E 31 Mar (Rs mn)	FY22A	FY23A	FY24E	FY25E	FY26E
Cash flow from operations	(185)	3,645	2,494	2,226	2,715
Capital expenditures	(1,680)	(1,000)	(1,700)	(2,750)	(2,500)
Change in investments	(2)	14	0	0	0
Other investing cash flows	22	72	142	142	142
Cash flow from investing	(1)	(19)	0	0	0
Equities issued/Others	5	0	0	0	0
Debt raised/repaid	648	(919)	(38)	73	106
Interest expenses	(139)	(110)	(80)	(113)	(113)
Dividends paid	(387)	0	(332)	(498)	(553)
Other financing cash flows	105	(227)	0	0	0
Cash flow from financing	233	(1,256)	(449)	(537)	(560)
Chg in cash & cash eq.	47	2,370	2,045	1,689	2,155
Closing cash & cash eq.	687	2,161	2,647	1,728	1,525

Per Share

Y/E 31 Mar (Rs)	FY22A	FY23A	FY24E	FY25E	FY26E
Reported EPS	22.6	11.0	14.9	18.4	25.1
Adjusted EPS	22.7	11.1	14.9	18.4	25.1
Dividend per share	3.5	0.0	3.0	4.5	5.0
Book value per share	114.4	123.4	135.2	149.2	169.3

Valuations Ratios

Y/E 31 Mar (x)	FY22A	FY23A	FY24E	FY25E	FY26E
EV/Sales	2.4	2.3	2.5	2.2	1.9
EV/EBITDA	15.0	24.8	20.2	17.4	13.3
Adjusted P/E	24.8	50.9	37.8	30.6	22.4
P/BV	4.9	4.6	4.2	3.8	3.3

DuPont Analysis

Y/E 31 Mar (%)	FY22A	FY23A	FY24E	FY25E	FY26E
Tax burden (Net profit/PBT)	74.6	74.2	72.7	74.8	74.8
Interest burden (PBT/EBIT)	96.7	97.7	102.8	101.1	100.8
EBIT margin (EBIT/Revenue)	13.1	6.2	8.7	9.4	10.9
Asset turnover (Rev./Avg TA)	137.0	146.2	128.3	132.0	136.3
Leverage (Avg TA/Avg Equity)	1.7	1.4	1.4	1.4	1.4
Adjusted ROAE	21.8	9.3	11.5	13.0	15.8

Ratio Analysis

Y/E 31 Mar	FY22A	FY23A	FY24E	FY25E	FY26E
YoY growth (%)					
Revenue	28.3	2.0	(6.5)	13.5	17.2
EBITDA	13.9	(39.9)	23.4	18.5	30.1
Adjusted EPS	10.4	(51.3)	34.5	23.8	36.4
Profitability & Return ratios (%)					
EBITDA margin	15.8	9.3	12.2	12.8	14.2
EBIT margin	13.1	6.2	8.7	9.4	10.9
Adjusted profit margin	9.5	4.5	6.5	7.1	8.2
Adjusted ROAE	21.8	9.3	11.5	13.0	15.8
ROCE	25.0	12.5	15.1	16.6	19.7
Working capital days (days)					
Receivables	60	56	56	56	56
Inventory	85	57	64	64	64
Payables	55	43	45	45	45
Ratios (x)					
Gross asset turnover	3.3	2.8	2.3	2.2	2.1
Current ratio	1.9	2.4	2.6	2.4	2.4
Net interest coverage ratio	25.1	15.3	27.6	23.8	32.6
Adjusted debt/equity	0.1	(0.1)	(0.1)	(0.1)	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Name of the Research Entity: **BOB Capital Markets Limited**
 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
 SEBI Research Analyst Registration No: **INH000000040 valid till 03 February 2025**
 Brand Name: **BOBCAPS**
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BUY – Expected return >+15%

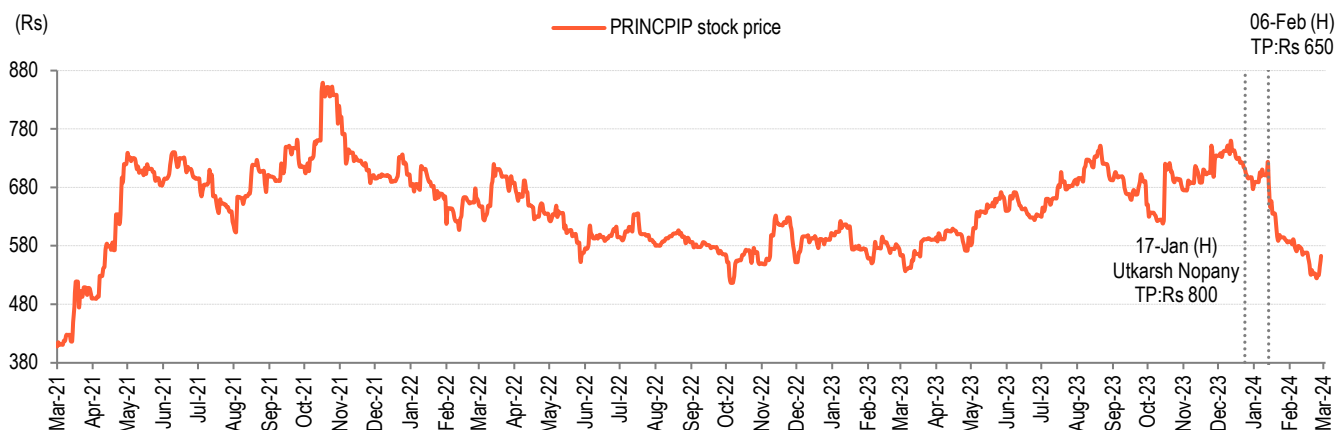
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): PRINCE PIPES & FITTINGS (PRINCIPI IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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