

RESEARCH**PRINCE PIPES & FITTINGS | TARGET: Rs 650 | +15% | HOLD**

Faucetware acquisition to accelerate bathware growth engine

Daily macro indicators

Indicator	22-Mar	25-Mar	Chg (%)
US 10Y yield (%)	4.20	4.25	5bps
India 10Y yield (%)	7.05	7.09	5bps
USD/INR	83.15	83.43	(0.3)
Brent Crude (US\$/bbl)	85.4	86.8	1.5
Dow	39,476	39,314	(0.4)
Hang Seng	16,499	16,474	(0.2)
Sensex	72,641	72,832	0.3
India FII (US\$ mn)	20-Mar	21-Mar	Chg (\$ mn)
FII-D	259.8	113.2	(146.6)
FII-E	(269.9)	(159.6)	110.3

Source: Bank of Baroda Economics Research

SUMMARY**PRINCE PIPES & FITTINGS**

- 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

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HOLD

TP: Rs 650 | ▲ 15%

PRINCE PIPES & FITTINGS

| Building Materials

| 26 March 2024

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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%

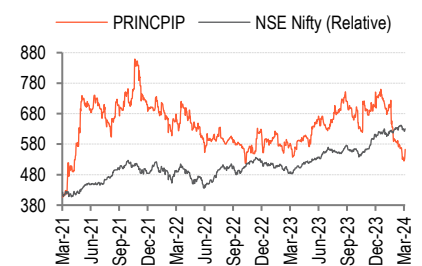
Source: NSE | Price as of 22 Mar 2024

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



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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

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