

BUY
 TP: Rs 750 | ▲ 18%

PRINCE PIPES & FITTINGS

| Building Materials

| 03 August 2024

In-line Q1; focus on market share gain and better cash flow

- PRINCEPIP’s Q1 result came broadly in line with our estimate; gained market share even after tightening credit period in Q1
- Lowered EBITDA margin guidance to 12-13% (12-14% earlier) on increased focus towards market share and better cash flow conversion
- Upgrade to BUY with unchanged TP of Rs 750 on strong earnings prospects with improving ROE profile and reasonable valuations

Utkarsh Nopany
 research@bobcaps.in

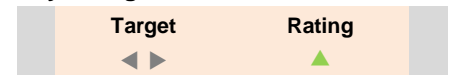
Broadly in-line Q1: PRINCEPIP slightly missed our estimate for Q1FY25 (Revenue: -1.7%; EBITDA: -3.2%) due to lower-than-expected volume (+13.5% YoY vs +15.0% estimated). Overall, Revenue/EBITDA/APAT grew by 9.2%/28.7%/25.8% YoY in Q1FY25 due to a weak base effect. However, on a 5Y CAGR basis, PRINCEPIP’s EBITDA grew a meagre 2.0% in Q1FY25.

Key highlights: PRINCEPIP appears to have gained market share in Q1FY25 as it posted relatively better volume growth compared to its major peers in Q1FY25 (SI: +19.5%; PRINCEPIP: +13.5%; APOLP standalone: -1.3%; FNXP: -1.7%) even after tightening its collection period (from 71 days in Q4FY24 to 60 days in Q1FY25). EBITDA margin improved by 146bps YoY to 9.6% in Q1FY25, but it was below the company’s guidance of 12-13% as management preferred to chase volume over margin. Net cash position was up from Rs 12mn in Mar’24 to Rs 960mn in Jun’24.

Margin guidance tweaked: PRINCEPIP plans to increase its capacity by 21-23% over the next 3-4 quarters to aggressively grow its volume in a favourable demand environment. The company has slightly tweaked its sustainable EBITDA margin guidance to 12-13% (12-14% earlier) as management focuses on growing market share in a competitive environment and better cash flow conversion by further tightening of the credit period to its dealers going ahead. The Bihar greenfield pipe project (with 45ktpa capacity) is expected to be operational by Jan’25 (Mar’25 earlier). With better utilisation of new plant (AP and Bihar), the company targets improving its ROE profile from 11.6% in FY24 to 16% over the next 2-3 years.

Upgrade to BUY with unchanged TP of Rs 750: We upgrade the rating on the stock from HOLD to BUY due to (a) strong earnings growth prospects (EPS to grow at a healthy 24% CAGR over FY24-FY27E) along with improvement in ROE profile (from 11.6% in FY24 to 15.4% in FY27E); and (b) reasonable valuations (trades at 31.3x on 1Y forward P/E vs 5Y average P/E of 32.5x). We have cut our EPS estimates (-4.5%/-3.7% for FY25E/FY26E) based on the Q1FY25 result, but we have kept our TP unchanged at Rs 750 due to the roll forward of our valuation from Mar’26 to Jun’26. Our target P/E remains unchanged at 30x.

Key changes



Ticker/Price	PRINCEPIP IN/Rs 635
Market cap	US\$ 837.8mn
Free float	39%
3M ADV	US\$ 1.8mn
52wk high/low	Rs 776/Rs 521
Promoter/FPI/DII	61%/6%/18%

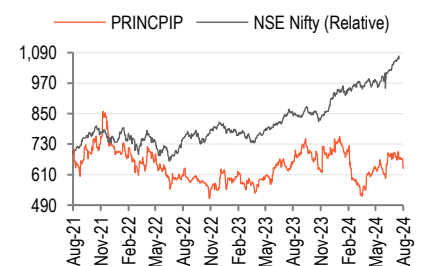
Source: NSE | Price as of 2 Aug 2024

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,687	28,448	33,696
EBITDA (Rs mn)	3,074	3,530	4,527
Adj. net profit (Rs mn)	1,692	1,950	2,649
Adj. EPS (Rs)	15.3	17.6	24.0
Consensus EPS (Rs)	15.3	19.4	24.6
Adj. ROAE (%)	11.6	12.0	14.4
Adj. P/E (x)	41.5	36.0	26.5
EV/EBITDA (x)	22.9	20.1	15.4
Adj. EPS growth (%)	38.3	15.3	35.8

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Standalone

Particulars (Rs mn)	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Operating income	6,045	5,536	9.2	7,401	(18.3)
Raw-Material expense	4,370	4,142	5.5	5,224	(16.3)
Gross Profit	1,675	1,393	20.2	2,177	(23.1)
Employee expense	382	320	19.1	379	0.6
Other expense	710	620	14.6	876	(18.9)
EBITDA	583	453	28.7	923	(36.8)
D&A	257	218	18.1	239	7.7
EBIT	325	235	38.5	684	(52.4)
Interest cost	14	17	(16.9)	14	7.0
Other income	26	38	(32.5)	53	(51.8)
PBT	337	256	31.7	723	(53.5)
Tax	90	59	51.4	177	(49.1)
Reported PAT	247	196	25.8	546	(54.9)
Adjusted PAT	247	196	25.8	546	(54.9)
As % of net revenues			(bps)		(bps)
Gross margin	27.7	25.2	254	29.4	(171)
Employee cost	6.3	5.8	52	5.1	119
Other cost	11.8	11.2	56	11.8	(8)
EBITDA margin	9.6	8.2	146	12.5	(282)
Tax rate	26.7	23.2	347	24.4	227
APAT margin	4.1	3.5	54	7.4	(330)

Source: Company, BOBCAPS Research

Fig 2 – Key operating metrics

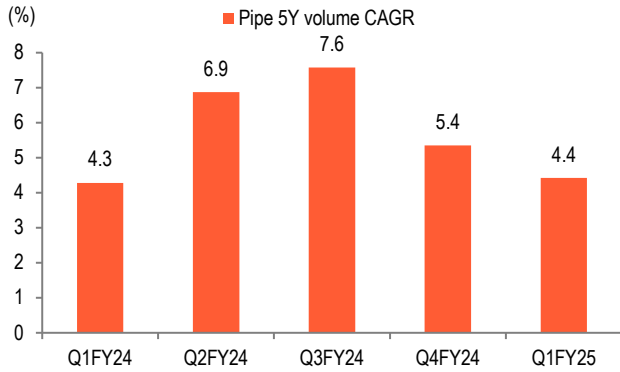
Particulars	Q1FY25	Q1FY24	YoY (%)	Q4FY24	QoQ (%)
Sales Volumes (KTPA)	42.2	37.2	13.5	51.4	(18.0)
Realization (Rs/kg)	143.3	149.0	(3.8)	143.9	(0.4)
EBITDA per unit (Rs/kg)	13.8	12.2	13.3	17.9	(22.9)
Inventory (days)	70	72	-	53	-
Debtor (days)	60	64	-	71	-
Creditor (days)	36	59	-	30	-
Operating cycle (days)	94	77	-	94	-

Source: Company, BOBCAPS Research

Earnings call highlights

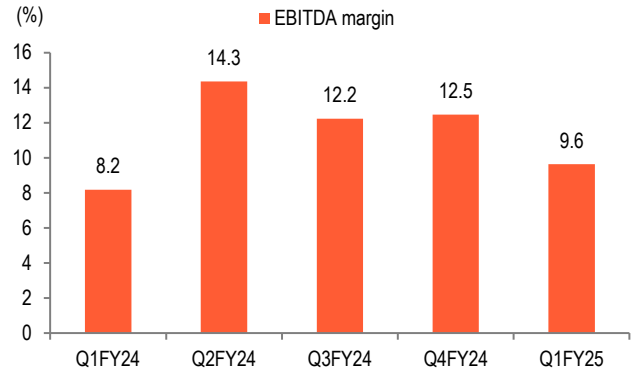
- **PVC resin:** Prices are expected to remain range bound in the near future.
- **Pipe demand scenario:** The company has observed good pipe demand across applications in Q1FY25. Demand was robust in Apr and May, but it tapered in Jun and Jul due to destocking of inventories in the channel. However, demand remained strong at the last mile level in Jun and Jul and restocking in the channel is expected to happen once PVC resin prices stabilise. The company expects the positive demand momentum to continue over the next two to three years due to affordable resin prices (for agri pipe) as well as good demand coming from real estate and infrastructure. Accordingly, the company plans to aggressively increase its pipe capacity to cater to growing demand in future.
- **Guidance:** Management targets growing its pipe volume at a better pace than the industry. The company lowered its sustainable EBITDA margin guidance slightly to 12-13% (12-14% earlier) as management focuses on growing market share in a competitive environment and better cash flow conversion by further tightening the credit period to its dealers going ahead.
- **Ad spend** as a proportion of sales was relatively stable at 2.3% in Q1FY25.
- **Working capital:** PRINCEPI's debtor period fell from 71 days in Q4FY24 to 60 in Q1FY25 and the company aims to cut it further in future to improve its cash flow conversion cycle. Inventory period rose from 53 days in Q4FY24 to 70 in Q1FY25 and the company aims to maintain inventory days at 60-70 in future.
- **Capex:** The Bihar pipe project (capacity of 45ktpa) is expected to be operational by Jan'25 (vs Mar'25) at a cost of Rs 2.2bn. The company plans to add pipe capacity of 35k-40ktpa at the existing site over the next three to four quarters.
- **Bathware:** The bathware segment reported operating loss of Rs 40mn on revenue of Rs 50mn in Q1FY25. The company plans to create a pan-India presence by entering the South and East regions of India over the next two quarters. The Bathware segment is likely to generate superior gross margin compared to pipe/tank once the plant capacity gets ramped up.
- **Water tank** revenue was around Rs 100mn-120mn in Q1FY25.
- **CPVC:** The company registered good growth in the CPVC piping system in Q1FY25 and expects the segment to grow at a good pace over the next three to five years due to affordable resin prices.

Fig 3 – PRINCEPIP’s volumes grew by 13.5% YoY and 4.4% on a 5Y CAGR basis in Q1FY25



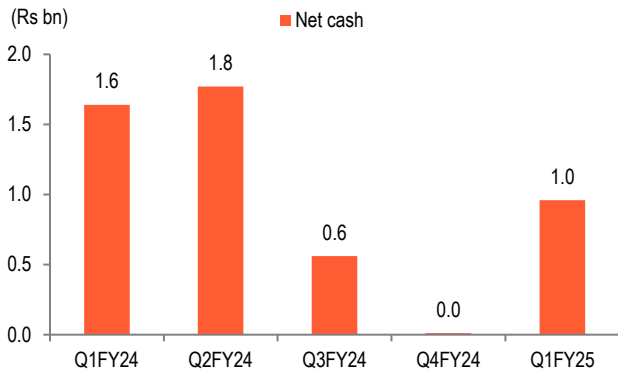
Source: Company, BOBCAPS Research

Fig 4 – EBITDA margin improved by 146bps QoQ to 9.6% in Q1FY25 due to weak base effect



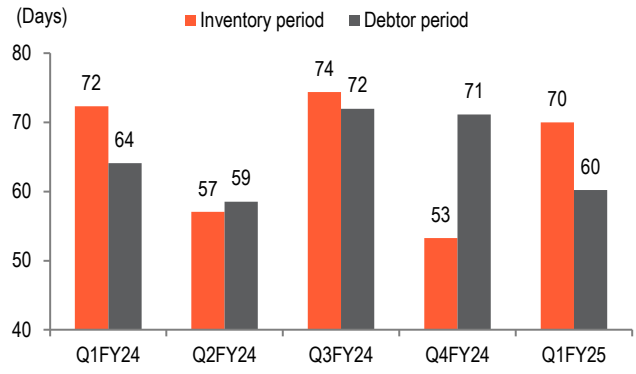
Source: Company, BOBCAPS Research

Fig 5 – Net cash position rose from Rs 12mn in Mar’24 to Rs 960mn in Jun’24...



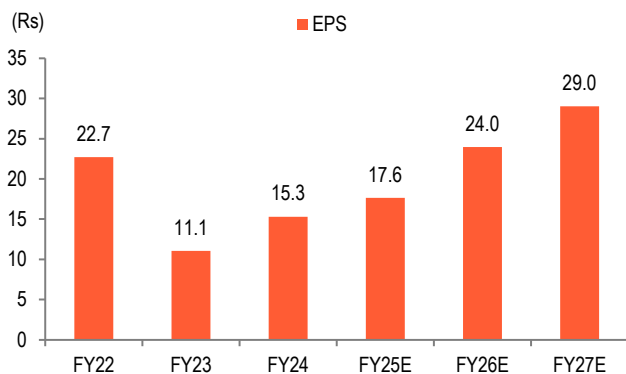
Source: Company, BOBCAPS Research

Fig 6 – ... due to better cash flow conversion by good control on receivables



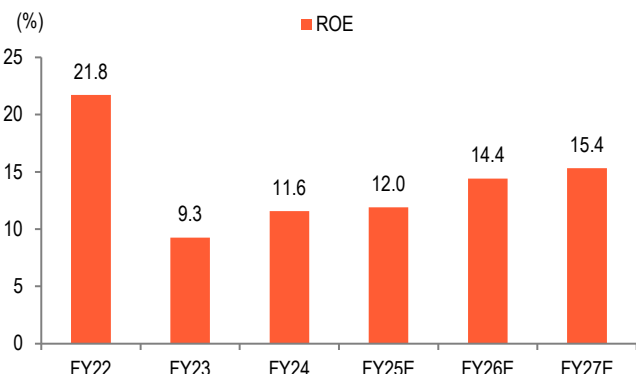
Source: Company, BOBCAPS Research

Fig 7 – PRINCEPIP’s EPS is forecast to grow at 24% CAGR over FY24-FY27E



Source: Company, BOBCAPS Research

Fig 8 – ROE is projected to gradually improve from 11.6% in FY24 to 15.4% in FY27E



Source: Company, BOBCAPS Research

Valuation methodology

We upgrade the rating on the stock from HOLD to BUY due to (a) strong earnings growth prospects (EPS to grow at a healthy 24% CAGR over FY24-FY27E) along with improvement in ROE profile (from 11.6% in FY24 to 15.4% in FY27E); and (b) reasonable valuations (trades at 31.3x on 1Y forward P/E vs 5Y average P/E of 32.5x).

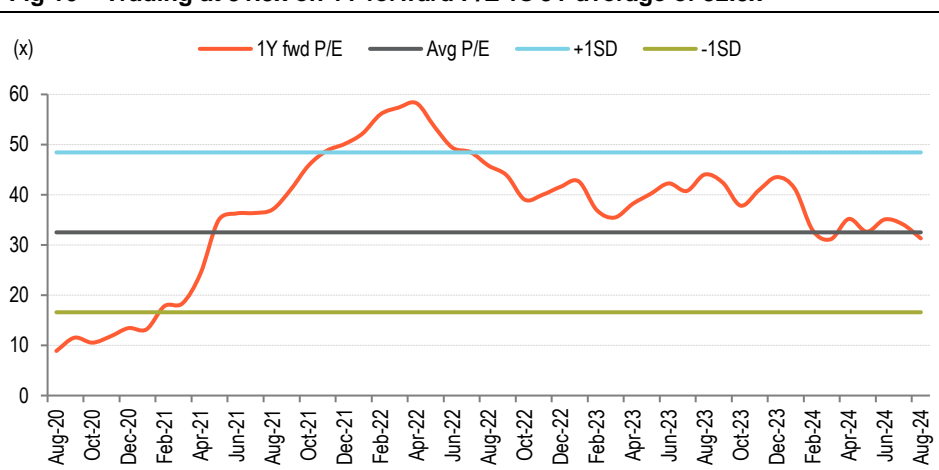
We cut our EPS estimates (-4.5%/-3.7% for FY25E/FY26E) based on Q1FY25 result, but have kept our TP unchanged at Rs 750 as we roll forward our valuation from Mar'26 to Jun'26. Our target P/E remains unchanged at 30x. We have introduced FY27 estimates.

Fig 9 – Revised estimates

Standalone (Rs mn)	New		Old		Change (%)	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Operating income	28,448	33,696	29,038	34,324	(2.0)	(1.8)
EBITDA	3,530	4,527	3,631	4,611	(2.8)	(1.8)
EBITDA Margin (%)	12.4	13.4	12.5	13.4	(9bps)	-
EPS (Rs)	17.6	24.0	18.5	24.9	(4.5)	(3.7)

Source: BOBCAPS Research

Fig 10 – Trading at 31.3x on 1Y forward P/E vs 5Y average of 32.5x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

Particulars	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Sales Volume growth (%)	0.5	13.4	9.6	12.2	15.0	11.1
Realisation growth (%)	27.6	(10.1)	(13.5)	(1.3)	3.0	3.0
EBITDA per unit (Rs/kg)	30.1	16.0	17.8	18.2	20.3	21.8
Pre-tax ROIC (%)	32.5	13.4	16.1	15.4	17.9	18.6

Source: Company, BOBCAPS Research

Key risks

- Market share loss in plastic pipes along with weak return ratios.
- Increased exposure to group companies and significant cost/time overruns in the Bihar greenfield project.

Sector recommendation snapshot

Company	Ticker	Market Cap (US\$ bn)	Price (Rs)	Target (Rs)	Rating
Apollo Pipes	APOLP IN	0.3	632	650	HOLD
Astral	ASTRA IN	6.8	2,130	2,200	HOLD
Century Plyboards	CPBI IN	1.9	713	700	HOLD
Cera Sanitaryware	CRS IN	1.4	8,939	7,700	HOLD
Finolex Industries	FNXP IN	2.3	310	325	HOLD
Greenlam Industries	GRLM IN	0.9	583	560	HOLD
Greenpanel Industries	GREENP IN	0.5	355	365	HOLD
Greenply Industries	MTLM IN	0.6	376	400	HOLD
Hindware Home Innovation	HINDWARE IN	0.4	437	600	BUY
Kajaria Ceramics	KJC IN	2.8	1,461	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.8	635	750	BUY
Somany Ceramics	SOMC IN	0.4	748	900	BUY
Supreme Industries	SI IN	7.8	5,163	5,400	HOLD

Source: BOBCAPS Research, NSE | Price as of 2 Aug 2024

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	27,109	25,687	28,448	33,696	38,547
EBITDA	2,517	3,074	3,530	4,527	5,403
Depreciation	830	912	1,003	1,072	1,240
EBIT	1,687	2,162	2,527	3,455	4,164
Net interest inc./(exp.)	(110)	(65)	(58)	(58)	(58)
Other inc./(exp.)	86	161	144	143	183
Exceptional items	14	0	0	0	0
EBT	1,648	2,258	2,613	3,540	4,288
Income taxes	434	613	663	891	1,079
Extraordinary items	0	(179)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,214	1,825	1,950	2,649	3,209
Adjustments	9	(133)	0	0	0
Adjusted net profit	1,223	1,692	1,950	2,649	3,209

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,202	2,491	2,759	3,268	3,739
Other current liabilities	794	1,659	1,659	1,659	1,659
Provisions	20	26	29	35	39
Debt funds	581	1,144	1,247	1,442	1,623
Other liabilities	305	467	467	467	467
Equity capital	1,106	1,106	1,106	1,106	1,106
Reserves & surplus	12,534	14,338	16,068	18,385	21,152
Shareholders' fund	13,640	15,444	17,173	19,490	22,257
Total liab. and equities	18,542	21,232	23,335	26,362	29,784
Cash and cash eq.	2,161	1,156	355	(374)	(380)
Accounts receivables	4,150	5,849	6,477	7,672	8,777
Inventories	4,256	4,379	4,791	5,704	6,565
Other current assets	684	1,081	1,197	1,417	1,621
Investments	3	3	3	3	3
Net fixed assets	6,750	7,736	9,483	10,911	12,171
CWIP	190	353	353	353	353
Intangible assets	101	240	240	240	240
Deferred tax assets, net	0	0	0	0	0
Other assets	246	435	435	435	435
Total assets	18,542	21,232	23,335	26,362	29,784

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	3,645	526	1,981	1,823	2,631
Capital expenditures	(1,000)	(2,349)	(2,750)	(2,500)	(2,500)
Change in investments	14	0	0	0	0
Other investing cash flows	72	340	144	143	183
Cash flow from investing	(19)	0	0	0	0
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(919)	563	103	195	180
Interest expenses	(110)	(65)	(58)	(58)	(58)
Dividends paid	0	(111)	(221)	(332)	(442)
Other financing cash flows	(227)	90	0	0	0
Cash flow from financing	(1,256)	478	(176)	(194)	(320)
Chg in cash & cash eq.	2,370	1,004	1,805	1,628	2,312
Closing cash & cash eq.	2,161	1,156	355	(374)	(380)

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	11.0	16.5	17.6	24.0	29.0
Adjusted EPS	11.1	15.3	17.6	24.0	29.0
Dividend per share	0.0	1.0	2.0	3.0	4.0
Book value per share	123.4	139.7	155.3	176.3	201.3

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	2.6	2.7	2.5	2.1	1.8
EV/EBITDA	28.0	22.9	20.1	15.4	12.7
Adjusted P/E	57.4	41.5	36.0	26.5	21.9
P/BV	5.1	4.5	4.1	3.6	3.2

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.2	74.9	74.6	74.8	74.8
Interest burden (PBT/EBIT)	97.7	104.4	103.4	102.5	103.0
EBIT margin (EBIT/Revenue)	6.2	8.4	8.9	10.3	10.8
Asset turnover (Rev./Avg TA)	146.2	121.0	121.9	127.8	129.4
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.4
Adjusted ROAE	9.3	11.6	12.0	14.4	15.4

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	2.0	(5.2)	10.7	18.5	14.4
EBITDA	(39.9)	22.1	14.8	28.2	19.4
Adjusted EPS	(51.3)	38.3	15.3	35.8	21.1
Profitability & Return ratios (%)					
EBITDA margin	9.3	12.0	12.4	13.4	14.0
EBIT margin	6.2	8.4	8.9	10.3	10.8
Adjusted profit margin	4.5	6.6	6.9	7.9	8.3
Adjusted ROAE	9.3	11.6	12.0	14.4	15.4
ROCE	12.5	14.0	14.5	17.2	18.2
Working capital days (days)					
Receivables	56	83	83	83	83
Inventory	57	62	61	62	62
Payables	43	35	35	35	35
Ratios (x)					
Gross asset turnover	2.8	2.3	2.1	2.1	2.1
Current ratio	2.4	2.4	2.3	2.3	2.4
Net interest coverage ratio	15.3	33.3	43.6	59.7	71.9
Adjusted debt/equity	(0.1)	0.0	0.1	0.1	0.1

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

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 Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**
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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

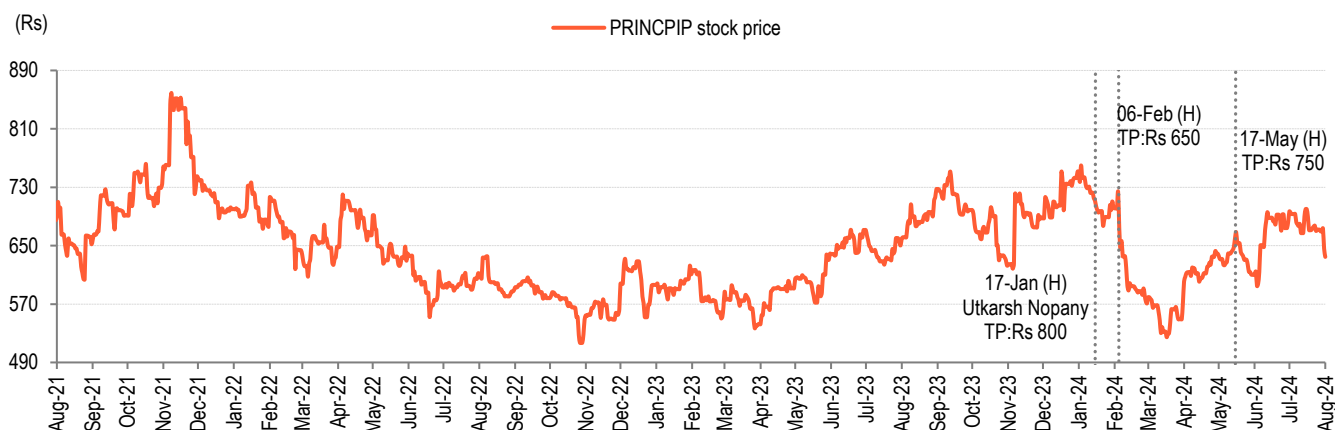
HOLD – Expected return from -6% to +15%

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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