

BUY
 TP: Rs 375 | ▲ 28%

PRINCE PIPES & FITTINGS

| Building Materials

| 12 February 2025

Disappointing performance on all fronts

- Dismal performance in Q3 on loss of market share even after following an aggressive pricing strategy and poor inventory management
- Target volume to grow at double-digit rate and EBITDA margin to improve to normal level of 12% from Q1FY26
- Maintain BUY; TP cut by 42% to Rs 375 on sharp earnings downgrade as well as cut in our target P/E multiple based on disappointing Q3

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Dismal Q3: PRINCEPIP reported a dismal performance for Q3FY25. Pipe sales volume de-grew by 3.3% YoY in Q3 over a weak base. EBITDA margin fell sharply by 1,172bps YoY to 0.5% in Q3FY25 due to lower gross margin (-859bps on account of MTM inventory loss of Rs 300mn and heavy discounts offered to dealers in view of intense competition in the sector) and negative operating leverage. The company reported loss of Rs 204mn in Q3FY25 vs PAT of Rs 376mn in Q3FY24.

Key highlights: PRINCEPIP appears to have lost market share in Q3FY25 as it has posted weak volume growth compared to its major peers (PRINCEPIP: -3.3%; ASTRA: 0.2%; SI: +3.7%; FNXP: +5.5%) even after following an aggressive pricing strategy. The company’s net debt position has gone up from Rs 0.8bn in Sep’24 to Rs 1.7bn in Dec’24 due to higher capex outlay and sharp increase in inventory (from 87 days in Q2FY25 to 107 days in Q3FY25).

Guidance: The company expects its pipe volume to grow at mid to high single digit in Q4FY25. The company offered 3% incentives to its dealers in Q3FY25 and it is continuing with those incentives in Q4FY25. Going ahead, the company expects its volume to grow at a double-digit rate and EBITDA margin to improve to 12% from Q1FY26. Management expects its inventory to come back to the normal level by Mar’25 and to book some inventory loss in Q4FY25 due to a further decline in PVC resin prices. The Bihar greenfield pipe project is expected to be operational with an initial capacity of 40ktpa (only pipes) in Apr’25 and then the capacity would be enhanced to 55-60ktpa (pipes & fittings) by Sep’25.

Maintain BUY; TP cut by 42% to Rs 375: We maintain our BUY rating on the stock as we believe its EBITDA margin would improve gradually to the 10Y average of around 12% in anticipation of demand recovery and stabilisation of PVC resin prices. At CMP, the stock trades at 30.5x on 1Y forward P/E vs 5Y average of 48.4x. We have cut our TP to Rs 375 (Rs 650 earlier) due to sharp earnings downgrade (-60%/-47%/-31% for FY25E/FY26E/FY27E) as well as cut in our target P/E multiple (from 30x to 25x on Dec’26) based on a disappointing Q3FY25.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	PRINCEPIP IN/Rs 294
Market cap	US\$ 373.6mn
Free float	39%
3M ADV	US\$ 0.9mn
52wk high/low	Rs 721/Rs 291
Promoter/FPI/DII	61%/6%/16%

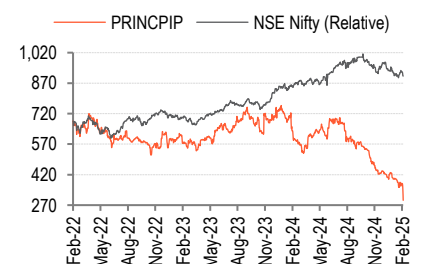
Source: NSE | Price as of 12 Feb 2025

Key financials

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,687	25,826	29,424
EBITDA (Rs mn)	3,107	1,822	2,761
Adj. net profit (Rs mn)	1,716	536	1,114
Adj. EPS (Rs)	15.5	4.8	10.1
Consensus EPS (Rs)	15.5	11.9	17.4
Adj. ROAE (%)	11.8	3.4	6.9
Adj. P/E (x)	18.9	60.6	29.1
EV/EBITDA (x)	10.6	18.3	11.5
Adj. EPS growth (%)	40.4	(68.8)	108.0

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Fig 1 – Quarterly performance – Standalone

(Rs mn)	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)	BOBCAPS Q3FY25E	Variance (%)
Operating income	5,777	6,186	(6.6)	6,221	(7.1)	18,043	18,286	(1.3)	5,797	(0.3)
Raw-Material expense	4,527	4,316	4.9	4,542	(0.3)	13,439	12,969	3.6		
Gross Profit	1,250	1,870	(33.2)	1,679	(25.5)	4,604	5,317	(13.4)		
Employee expense	450	373	20.8	446	0.9	1,278	1,098	16.4		
Other expense	770	741	3.9	776	(0.8)	2,257	2,068	9.1		
EBITDA	30	757	(96.1)	457	(93.5)	1,070	2,152	(50.3)	486	(93.9)
D&A	264	229	15.3	276	(4.1)	797	673	18.6		
EBIT	(235)	528	NM	181	NM	272	1,479	(81.6)		
Interest cost	32	27	19.6	16	98.2	63	51	23.0		
Other income	15	30	(49.5)	39	(61.4)	80	287	(72.0)		
PBT	(252)	531	NM	204	NM	289	1,714	(83.1)		
Tax	(48)	154	NM	57	NM	100	436	(77.1)		
Reported PAT	(204)	376	NM	147	NM	190	1,279	(85.2)		
Adjusted PAT	(204)	376	NM	147	NM	190	1,236	(84.7)	171	NM
As % of net revenues			(bps)		(bps)			(bps)		
Gross margin	21.6	30.2	(859)	27.0	(535)	25.5	29.1	(356)		
Employee cost	7.8	6.0	177	7.2	62	7.1	6.0	108		
Other cost	13.3	12.0	135	12.5	86	12.5	11.3	120		
EBITDA margin	0.5	12.2	(1172)	7.3	(683)	5.9	11.8	(584)		
Tax rate	18.9	29.1	(1016)	28.0	(911)	34.4	25.4	902		
APAT margin	(3.5)	6.1	(962)	2.4	(590)	1.1	6.8	(571)		

Source: Company, BOBCAPS Research

Fig 2 – Key operating metrics

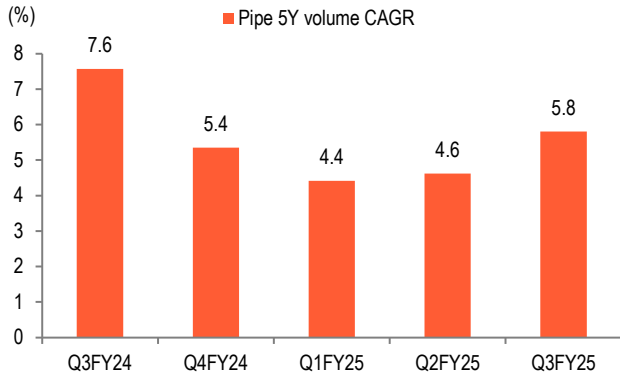
	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ (%)	9MFY25	9MFY24	YoY (%)
Sales volumes (ktpa)	41.3	42.7	(3.3)	43.3	(4.7)	127	121	4.4
Realisation (Rs/kg)	140.0	145.0	(3.4)	143.7	(2.6)	142	151	(5.5)
EBITDA per unit (Rs/kg)	0.7	17.7	(95.9)	10.6	(93.2)	8.4	17.7	(52.4)
Inventory (days)	107	74	-	87	-	-	-	-
Debtor (days)	56	72	-	55	-	-	-	-
Creditor (days)	51	55	-	36	-	-	-	-
Operating cycle (days)	112	91	-	106	-	-	-	-

Source: Company, BOBCAPS Research

Earnings call highlights

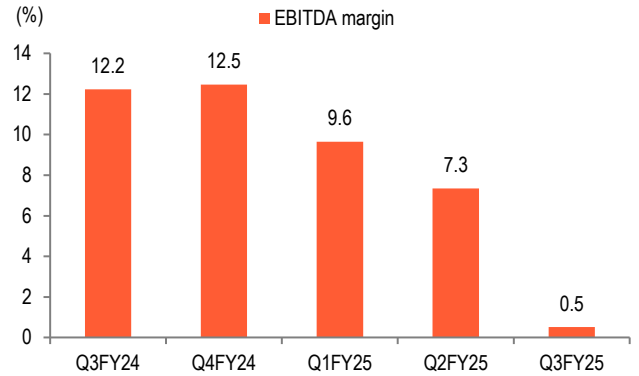
- **Pipe demand scenario:** The company observed weak pipe demand in Q3FY25, but expects demand to pick up in the next couple of quarters in anticipation of a favourable outcome of the anti-dumping duty on PVC resin and higher government budgetary allocation towards Jal Jeevan Mission, SWAMI scheme, etc.
- **Guidance:** Management expects its pipe volume to grow at a mid to high single digit in Q4FY25. The company started providing incentives of 3% to its dealers and is continuing with those incentives in Q4FY25. Going ahead, the company expects its volume to grow at a double-digit rate and EBITDA margin to improve to 12% from Q1FY26.
- **Working capital:** PRINCEPIP's operating cycle went up from 91 days in Q3FY24 to 112 days in Q3FY25 due to a steep increase in inventory (74 days in Q3FY24 to 107 days in Q3FY25). The company expects its inventory position to come back to normal level by the end of Mar'25.
- **Channel inventory** is very low at present due to fear among the dealers regarding the volatility of PVC resin prices. Management believes that PVC resin prices have bottomed out and expects the channel inventory level to improve as demand sentiment picks up in the near future.
- **MTM inventory loss:** The company recorded an inventory loss of Rs 300mn (Rs 500mn for 9MFY25) in Q3FY25 and expects to see some inventory loss in Q4FY25 as well.
- **Capex:** The company plans to spend Rs 2.6bn-2.7bn in FY25 (of which maintenance capex is around Rs 1.0bn-1.1bn and the remaining for the Bihar project). For FY26, maintenance capex outlay is estimated at Rs 0.8bn-0.9bn and the company plans to spend the remaining leftover capex for the Bihar project in FY26. The Bihar pipe project is expected to commence operations with an initial capacity of 40ktpa (only pipes) in Apr'25 and then the capacity is expected to increase to 55-60ktpa (pipes & fittings) by Sep'25.
- **Bathware:** The segment reported operating loss of Rs 55mn-60mn on revenue of Rs 95mn in Q2FY25. The company expanded its bathware operations in the south and east regions of India in Q3FY25.
- **Water tank** revenue was Rs 340mn in 9MFY25 (vs Rs 270mn in 9MFY24).
- **Net debt:** The company's net debt position rose from Rs 0.8bn in Sep'24 to Rs 1.7bn in Dec'24 due to higher capex outlay and sharp increase in inventory (from 87 days in Q2FY25 to 107 days in Q3FY25).

Fig 3 – PRINCPIP’s volumes de-grew by 3.3% YoY, but it grew by 5.8% on a 5Y CAGR basis in Q3FY25



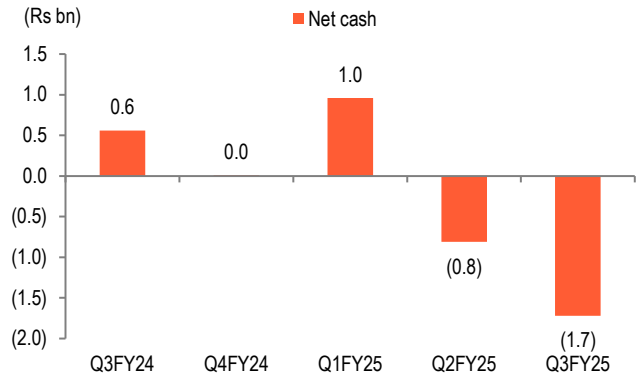
Source: Company, BOBCAPS Research

Fig 4 – EBITDA margin fell sharply in Q3FY25 due to MTM inventory loss and high discounts offered to its dealers



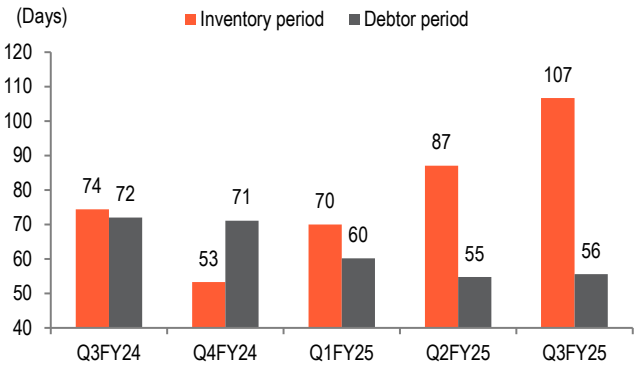
Source: Company, BOBCAPS Research

Fig 5 – Net debt has gone up from Rs 0.8bn in Sep’24 to Rs 1.7bn in Dec’24...



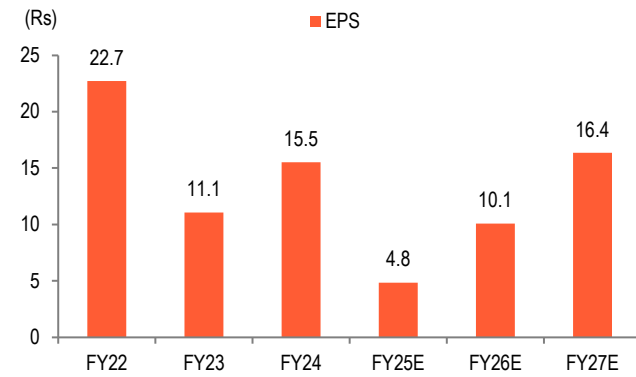
Source: Company, BOBCAPS Research

Fig 6 – ... due to higher capex outlay and sharp increase in inventory



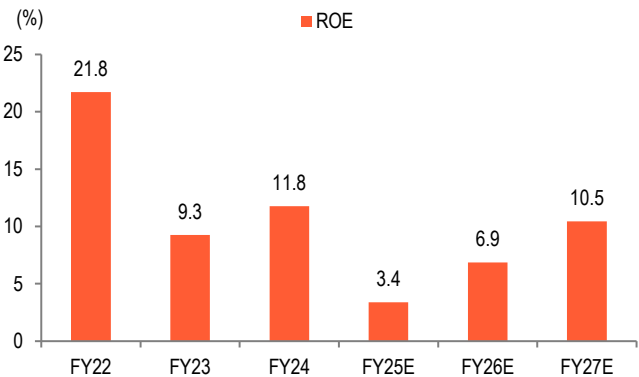
Source: Company, BOBCAPS Research

Fig 7 – PRINCPIP’s EPS is forecast to grow at 1.7% CAGR over FY24-FY27E



Source: Company, BOBCAPS Research

Fig 8 – ROE is projected to improve gradually to 10.5% in FY27E



Source: Company, BOBCAPS Research

Valuation methodology

We maintain our BUY rating on the stock as we believe its EBITDA margin would improve gradually to the 10Y average of around 12% in anticipation of demand recovery and stabilisation of PVC resin prices. At CMP, the stock trades at 30.5x on 1Y forward P/E vs 5Y average of 48.4x.

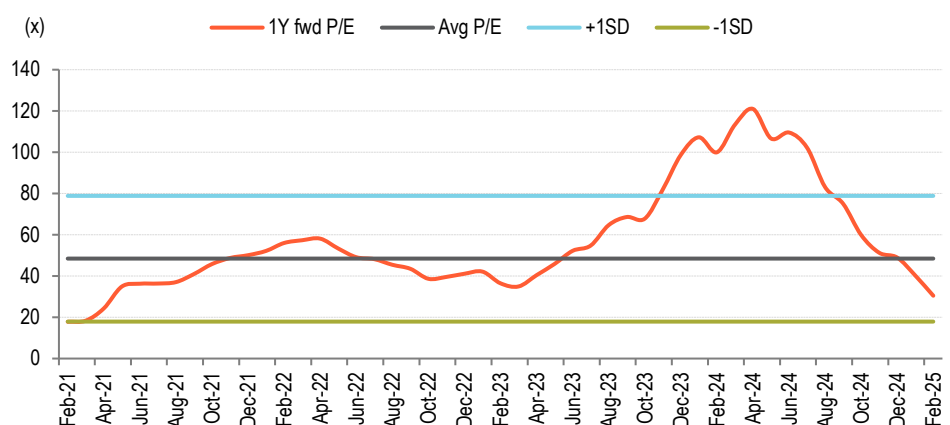
We have cut our TP to Rs 375 (Rs 650 earlier) due to sharp earnings downgrade (-60%/-47%/-31% for FY25E/FY26E/FY27E) as well as cut our target P/E multiple (from 30x to 25x on Dec'26) based on a disappointing Q3FY25.

Fig 9 – Revised estimates

Standalone (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Operating income	25,826	29,424	33,872	27,762	33,362	38,058	(7.0)	(11.8)	(11.0)
EBITDA	1,822	2,761	3,704	2,813	3,987	4,801	(35.2)	(30.7)	(22.8)
EBITDA Margin (%)	7.1	9.4	10.9	10.1	12.0	12.6	(308bps)	(257bps)	(168bps)
Adjusted PAT	536	1,114	1,808	1,331	2,089	2,622	(59.8)	(46.6)	(31.0)
EPS (Rs)	4.8	10.1	16.4	12.0	18.9	23.7	(59.8)	(46.6)	(31.0)

Source: BOBCAPS Research

Fig 10 – Trading at 30.5x on 1Y forward P/E vs 5Y average of 48.4x



Source: Bloomberg, BOBCAPS Research

Fig 11 – Key assumptions

	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Sales volume growth (%)	0.5	13.4	9.6	5.2	11.1	10.0
Realisation growth (%)	27.6	(10.1)	(13.5)	(4.4)	2.5	4.7
EBITDA per unit (Rs/kg)	30.1	16.0	18.0	10.0	13.7	16.7
Pre-tax ROIC (%)	32.5	13.4	16.3	4.7	9.0	13.0

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.

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Total revenue	27,109	25,687	25,826	29,424	33,872
EBITDA	2,517	3,107	1,822	2,761	3,704
Depreciation	830	912	1,067	1,191	1,208
EBIT	1,687	2,196	755	1,570	2,497
Net interest inc./(exp.)	(110)	(65)	(96)	(130)	(130)
Other inc./(exp.)	86	161	92	49	49
Exceptional items	14	33	0	0	0
EBT	1,648	2,258	752	1,489	2,416
Income taxes	434	613	216	375	608
Extraordinary items	0	(179)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
Reported net profit	1,214	1,825	536	1,114	1,808
Adjustments	9	(109)	0	0	0
Adjusted net profit	1,223	1,716	536	1,114	1,808

Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,202	2,491	2,635	3,002	3,456
Other current liabilities	794	1,659	1,659	1,659	1,659
Provisions	20	26	28	32	36
Debt funds	581	1,144	1,150	1,283	1,449
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	14,653	15,436	16,801
Shareholders' fund	13,640	15,444	15,759	16,541	17,907
Total liab. and equities	18,542	21,232	21,697	22,985	24,974
Cash and cash eq.	2,161	1,156	(265)	(786)	(1,050)
Accounts receivables	4,150	5,849	5,880	6,700	7,712
Inventories	4,256	4,379	4,538	5,060	5,812
Other current assets	684	1,081	1,143	1,302	1,498
Investments	3	3	3	3	3
Net fixed assets	6,750	7,736	9,369	9,678	9,971
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	21,697	22,985	24,974

Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Cash flow from operations	3,645	558	1,499	1,257	1,594
Capital expenditures	(1,000)	(2,347)	(2,700)	(1,500)	(1,500)
Change in investments	14	0	0	0	0
Other investing cash flows	72	307	92	49	49
Cash flow from investing	(915)	(2,040)	(2,608)	(1,451)	(1,451)
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(919)	563	5	134	165
Interest expenses	(110)	(65)	(96)	(130)	(130)
Dividends paid	0	(111)	(221)	(332)	(442)
Other financing cash flows	(227)	90	0	0	0
Cash flow from financing	(1,256)	478	(312)	(328)	(407)
Chg in cash & cash eq.	1,474	(1,005)	(1,421)	(522)	(264)
Closing cash & cash eq.	2,161	1,156	(265)	(787)	(1,051)

Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	11.0	16.5	4.8	10.1	16.4
Adjusted EPS	11.1	15.5	4.8	10.1	16.4
Dividend per share	0.0	1.0	2.0	3.0	4.0
Book value per share	123.4	139.7	142.5	149.6	162.0

Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.2	1.3	1.3	1.1	0.9
EV/EBITDA	13.0	10.6	18.3	11.5	8.3
Adjusted P/E	26.6	18.9	60.6	29.1	18.0
P/BV	2.4	2.1	2.1	2.0	1.8

DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.2	76.0	71.3	74.8	74.8
Interest burden (PBT/EBIT)	97.7	102.9	99.6	94.8	96.8
EBIT margin (EBIT/Revenue)	6.2	8.5	2.9	5.3	7.4
Asset turnover (Rev./Avg TA)	146.2	121.0	119.0	128.0	135.6
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.4	1.4
Adjusted ROAE	9.3	11.8	3.4	6.9	10.5

Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
YoY growth (%)					
Revenue	2.0	(5.2)	0.5	13.9	15.1
EBITDA	(39.9)	23.4	(41.4)	51.6	34.1
Adjusted EPS	(51.3)	40.4	(68.8)	108.0	62.2
Profitability & Return ratios (%)					
EBITDA margin	9.3	12.1	7.1	9.4	10.9
EBIT margin	6.2	8.5	2.9	5.3	7.4
Adjusted profit margin	4.5	6.7	2.1	3.8	5.3
Adjusted ROAE	9.3	11.8	3.4	6.9	10.5
ROCE	12.5	14.2	5.0	9.1	13.2
Working capital days (days)					
Receivables	56	83	83	83	83
Inventory	57	62	64	63	63
Payables	43	35	37	37	37
Ratios (x)					
Gross asset turnover	2.8	2.3	2.0	1.9	2.0
Current ratio	2.4	2.4	2.1	2.1	2.2
Net interest coverage ratio	15.3	33.8	7.9	12.1	19.2
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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BUY – Expected return >+15%

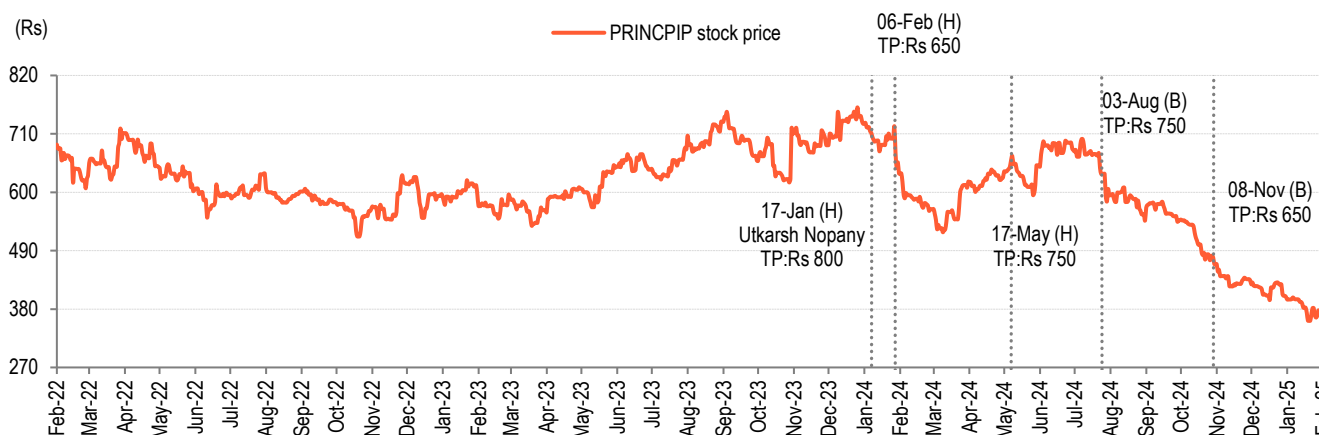
HOLD – Expected return from -6% to +15%

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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