

CMP	: INR 674
Reco	: BUY ↔
Target Price	: INR 840 ↓
Target Price Change	: -18%
Target FY26 P/E (x)	: 32
EPS Change FY24/ 25/ 26	: -23%/ -21%/ -18%

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Market data

Sensex	:	72,186
Sector	:	Plastic Piping
Market Cap (INR bn)	:	74.5
Market Cap (USD bn)	:	0.897
O/S Shares (mn)	:	110.6
52-wk HI/LO (INR)	:	776/532
Avg. Daily Vol ('000)	:	136
Bloomberg	:	PRINCPIN IN

Source: Bloomberg

Valuation

	FY24e	FY25e	FY26e
EPS (INR)	16.9	21.2	26.1
P/E (x)	39.9	31.8	25.8
P/BV (x)	4.9	4.3	3.8
EV/EBITDA (x)	22.1	18.6	14.9
Dividend Yield (%)	0.4	0.6	0.7

Source: Bloomberg

Returns (%)

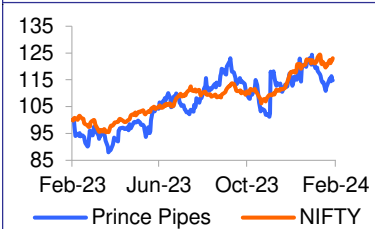
	1m	3m	6m	12m
Absolute	(9)	9	2	10
Relative	(10)	(2)	(7)	(8)

Source: Bloomberg

Shareholding pattern

Promoters	:	61%
Public	:	39%
Others	:	0%

Source: Bloomberg

Price performance vs Nifty

Source: Bloomberg

Indexed to 100

3QFY24 RESULT REVIEW

Prince Pipes and Fittings

Muted quarter; outlook remains positive

Prince Pipes (Prince) underperformed peer set growth with its volume declining 2.5% YoY thereby missing our estimates. Key highlights are 1) Market share loss on account of ERP issues in 1HFY24 and over premiumization in certain markets. A price correction exercise has been undertaken and Prince expects to recover lost market share from FY25 onwards. 2) Prince continues to invest in distribution, branding, and focusing on increasing presence in the projects business. CPVC contributed 20%–25% of revenue. 3) Bathware launched in North and West markets delivered 3Q revenue of INR 30 mn. Targeting breakeven in the next six months. 4) EBITDA margin stood at 12.2% (INR 17.7/kg, +12% YoY). Inventory loss of INR 100 mn in 3Q. EBITDA margin was subdued considering an inventory loss of INR 250 mn in the base quarter. Adjusted for inventory losses, EBITDA margin declined 7% YoY to INR 20.1/kg. 5) Investing INR 2.2 bn for a 50 kmtpa plant in Bihar. Maintained volume growth guidance in line with industry over 3–5 years. Long-term EBITDA guidance maintained at 12%–14%. Considering lower volume and margin, we cut our FY24/ 25/ 26 EPS estimates by 23%/ 21%/ 18%. Maintain BUY with revised TP of INR 840 (earlier INR 1,020) based on a PE of 32x FY26 EPS.

Targeting recovery of lost market share in FY25

Prince reported a revenue of INR 6.2 bn, a 12% YoY decline. Volume/ realization declined 2.5%/ 10% YoY for 3Q. Prince has lost market share on account of ERP issues in 1HFY24 and over premiumization in certain markets. A price correction exercise has been undertaken (contributing to a realization decline of 8% QoQ) and Prince expects to recover lost market share from FY25 onwards. During 3Q, the building materials segment grew faster compared to the agriculture segment. CPVC contributed 20%–25% of revenue. Bathware launched in North and West markets during 2QFY24 has received an encouraging response. 3QFY24 bathware segment revenue stood at INR 30 mn. Prince continues to invest in distribution, branding, and focusing on increasing presence in the projects business. Management maintained guidance of volume growth being in line with industry over 3–5 years. We have factored in volume/ revenue CAGR of 13%/ 8% over FY23–26.

EBITDA guidance maintained at 12%–14%

Prince reported 3QFY24 EBITDA of INR 757 mn (+9% YoY). EBITDA margin stood at 12.2% (INR 17.7/kg, +12% YoY). Inventory loss stood at INR 100 mn for 3QFY24. EBITDA growth is muted and margins are subdued considering an inventory loss of INR 250 mn in the base quarter. Adjusted for inventory losses, EBITDA margin declined 7% YoY to INR 20.1/kg. Employee and ad spends for the bathware segment stood at INR 30 mn. Expenses will increase going forward to ~INR 200 mn as the segment expands into new geographies and opens COCO stores. Targeting breakeven within six months. Ad spends for 3QFY24 stood at INR 120 mn. Management maintained EBITDA margin guidance at 12%–14% over the long term. We have factored in EBITDA CAGR of 25% over FY23–26E. We expect an EBITDA margin of 12.9%/ 13.5%/ 14.1% and EBITDA/kg of INR 19/ INR 20/ INR 21 in FY24/ FY25/ FY26 respectively.

Investment Summary

Prince has been spending on product portfolio expansion, expanding geographical reach, and increasing brand spends giving it the pricing power. We believe consolidation will continue in favor of branded players like Prince. We expect volume growth to pick up with the normalization of PVC prices. Margins are expected to improve with improving mix and operating leverage. Maintain BUY.

Table 1: Quarterly result

INR mn	3QFY24	3QFY23	YoY (%)	2QFY24	QoQ (%)	9MFY24	9MFY23	YoY (%)
Sales	6,186	7,059	(12.4)	6,565	(5.8)	18,286	19,465	(6.1)
Cost of Material Consumed	4,316	5,483	(21.3)	4,511	(4.3)	12,969	15,801	(17.9)
% of sales	69.8	77.7	(791 bps)	68.7	105 bps	70.9	81.2	(1,025 bps)
Employee cost	373	311	19.8	405	(7.9)	1,098	852	28.9
% of sales	6.0	4.4	162 bps	6.2	(14 bps)	6.0	4.4	163 bps
Other expenses	741	570	30.0	707	4.8	2,068	1,792	15.4
% of sales	12.0	8.1	390 bps	10.8	121 bps	11.3	9.2	210 bps
Total Exp	5,430	6,364	(14.7)	5,623	(3.4)	16,135	18,445	(12.5)
EBIDTA	757	695	8.9	942	(19.7)	2,152	1,020	111.0
Margin %	12.2	9.8	239 bps	14.3	(212 bps)	11.8	5.2	653 bps
Other income	30	12	147.0	40	(23.8)	108	51	109.9
Depreciation	229	211	8.8	225	1.7	673	619	8.7
Interest expenses	27	16	67.7	7	293.3	51	82	(37.1)
Profit Before Tax	530	480	10.5	749	(29.2)	1,535	370	314.4
Exceptional item	-	-	-	134	NA	134	-	NA
PBT after exceptional	530	480	10.5	884	(40.0)	1,670	370	350.7
Tax	154	126	22.0	177	(13.0)	391	97	301.0
Tax Rate %	29.1	26.3	275 bps	20.1	901 bps	23.4	26.3	(290 bps)
Reported Net Profit	376	354	6.3	706	(46.7)	1,279	273	368.4
Adjusted Net Profit	376	354	6.3	572	(34.2)	1,144	273	319.2
EPS (INR)	3.4	3.2	6.3	5.2	(34.2)	10.4	2.5	319.2

Source: Company, Antique

Table 2: 3QFY24 actuals vs. estimates

In mn	3QFY24	Antique	%ch	Consensus	%ch
Revenue	6,186	6,630	(6.7)	7,095	(12.8)
EBITDA	757	964	(21.5)	939	(19.4)
Adjusted PAT	376	579	(35.0)	525	(28.3)
EBIDTA Margin (%)	12.2	14.5	(231 bps)	13.2	(100 bps)
Volume (KMTPA)	43	44	-2.4%	NA	NA

Source: Company, Bloomberg, Antique

Table 3: Changes in estimates

INR mn	Previous			Revised			% ch		
	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E	FY24E	FY25E	FY26E
Revenue	28,320	32,281	37,545	25,920	29,290	34,465	(8.5)	(9.3)	(8.2)
EBITDA	4,059	4,737	5,584	3,331	3,954	4,860	(17.9)	(16.5)	(13.0)
EBITDA Margin	14.3	14.7	14.9	12.9	13.5	14.1	(148 bps)	(117 bps)	(77 bps)
Net Profit	2,420	2,962	3,513	1,869	2,340	2,886	(22.8)	(21.0)	(17.8)
EPS (INR)	21.9	26.8	31.8	16.9	21.2	26.1	(22.8)	(21.0)	(17.8)
TP (INR)		1,020			840			(17.6)	

Source: Antique

Conference Call Highlights

1. **Outlook:** 3Q performance was muted with steady growth in profitability and margins. Volume growth was muted on a high base of 3QFY23 (on account of channel re-stocking). The focus remains on optimizing CU, expanding market penetration, and optimizing product mix. Progressing aggressively to capture opportunities across bathware, water tanks, and pipes categories. PVC prices have stabilized and are expected to remain range-bound. Channel inventory is moderate. CPVC prices have corrected by 5%–7% in 3Q.
2. **Market share loss:** Prince has lost market share in 1HFY24 on account of ERP implementation issues and over premiumization in select geographies and product categories. Price correction was undertaken in 3QFY24. However, Prince expects the corrective measures to translate into a recovery of lost market share only from FY25 onwards. The loss of market share is at the retail level and not at the primary distributor's level.
3. **Guidance:** Targets to grow in line with industry growth over the long term. Long-term margin guidance maintained at 12%–14%. Jan'24 has seen healthy operational performance.
4. In 3QFY24, the plumbing & SWR (building materials) segment grew faster compared to the agriculture segment. Expect the trend to continue going forward.
5. **Capacity utilization:** 50%–52% of installed capacity.
6. **Inventory losses:** INR 100 mn.
7. **Advertising spends:** 2QFY24/ 3QFY24/ 9MFY24 – INR 150 mn/ INR 120 mn/ INR 390 mn.
8. **Tanks:** Continue to leverage multi-location manufacturing presence to scale up the segment. Setting up manufacturing in Haridwar and Chennai, taking its in-house manufacturing presence from five to seven locations.
9. **Product mix:** CPVC/ HDPE/ PPR – 20%–25%/ 4%–5%/ 5%–7%.
10. **Project business:** Continues to focus on expanding distribution, strengthening the channel network, adding new products to build portfolio depth in the projects segment. Innovative efforts are being made aimed at extending the B2B brand category to engage directly with audiences through B2C contact events across India.
11. **Government projects:** Participating in government projects for HDPE and agriculture products on a selective basis only where the working capital is not stretched.
12. **Bihar manufacturing facility:** Construction is ongoing and in full swing at Begusarai in Bihar as the company has conducted the ceremonial Bhoomi Pujan for its new integrated manufacturing facility. The plant will have a capacity of 50–52 kmtpa in FY26 to manufacture pipes, fittings, and tanks. Capex spend has been increased from INR 1.5 bn earlier to INR 2.2 bn in order to accommodate the fittings capacity. This will cater to demand in the North-East, which will be a major growth driver for the pipes industry in coming years. It will help in better servicing of the East India market and savings in fixed costs. It will also help to improve overall product basket sales. Capex outlay: INR 150–200 mn (excluding land cost of INR 280 mn) will be incurred in FY24. INR 1.75 bn will be spent in FY25. 35 acres of land will be utilized for expansion over the next 5–7 years.
13. **Bathware:** 3Q was the 1st full quarter of sales in the bathware segment. The product is well accepted across dealers and customers in North and West India and is breaking through key projects. The segment is present across more than 100 retail touch points in key Tier 2 and 3 markets of Northern India (Srinagar, Punjab, Haryana, Delhi, Rajasthan, Uttar Pradesh) and Western India (Mumbai, rest of Maharashtra and Gujarat). 3QFY24 revenue/ employee and ad spends for the segment: INR 30 mn each. The expenses will increase going forward to ~INR 200 mn as the segment expands in new geographies and opens COCO stores. Targeting breakeven within six months.

- 14. Product launches:** Duratap (faucets and showers) in Polytetra Methylene Terephthalate (PTMT)—it combines the advantages of both plastics and metals. The target market is a cost-conscious mass market segment. Terrafit—subsurface drainage pipes—addressing challenges related to excessive subsurface water in agriculture and plays a pivotal role in modern infrastructure development by regulating and maintaining water tables. Ideal for maintaining stability in agriculture & airports.
- 15. Gross debt as of Dec'23:** INR 500 mn of short-term debt. INR 40 mn of long-term debt for the Bihar plant.
- 16. Cash balance as of Dec'23:** INR 1,200 mn.
- 17. Working capital:** Maintaining 30 days inventory of raw materials and finished goods each. RM inventory for CPVC is ~10 days. Inventory/ receivables/ payable days as of Dec'23: 75/ 73/ 79 days.
- 18. Channel finance:** Limit increased from INR 1.05 bn in 1QFY24 to INR 1.26 bn in 2QFY24 post recourse shifted to distributor.

Table 4: Key financial parameters

Particulars	3QFY22	4QFY22	1QFY23	2QFY23	3QFY23	4QFY23	1QFY24	2QFY24	3QFY24	YoY (%)	QoQ (%)
Volume (MT)	32,435	45,287	31,250	38,458	43,693	44,317	37,155	41,529	42,665	(2.4)	2.7
Realization (INR/ kg)	205	199	193	166	162	172	149	158	145	(10.3)	(8.3)
Revenue (INR mn)	6,640	9,012	6,041	6,365	7,059	7,644	5,536	6,565	6,186	(12.4)	(5.8)
Gross margin (%)	31.3	27.3	20.8	13.1	22.3	33.0	25.2	31.3	30.2	791 bps	-105 bps
Gross margin (INR/ kg)	64.0	54.3	40.2	21.6	36.1	56.9	37.5	49.4	43.8	21.6	(11.4)
Adjusted gross margin (INR/ kg)	60.9	54.3	49.8	45.0	41.8	51.3	40.2	48.2	46.2	10.5	(4.3)
EBITDA (INR mn)	1,111	1,405	439	(113)	695	1,483	453	942	757	8.9	(19.7)
EBITDA margin (%)	16.7	15.6	7.3	(1.8)	9.8	19.4	8.2	14.3	12.2	239 bps	-212 bps
EBITDA margin (INR/ kg)	34.3	31.0	14.0	(3.0)	15.9	33.5	12.2	22.7	17.7	11.5	(21.8)
Adjusted EBITDA margin (INR/ kg)	31.2	31.0	23.6	20.5	21.6	27.8	14.9	21.5	20.1	(7.1)	(6.5)
Inventory gain/ (loss) (INR mn)	99	-	(300)	(900)	(250)	250	(100)	50	(100)	(60.0)	NA

Source: Company, Antique

Financials

Profit and loss account (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Net Revenue	26,568	27,109	25,920	29,290	34,465
Op. Expenses	22,412	24,602	22,590	25,336	29,605
EBITDA	4,156	2,507	3,331	3,954	4,860
Depreciation	703	830	908	950	1,206
EBIT	3,453	1,677	2,423	3,004	3,654
Other income	55	86	154	200	280
Interest Exp.	139	110	76	76	76
Extra Ordinary Items -gain/(loss)	-	-	(134)	-	-
Reported PBT	3,369	1,652	2,636	3,129	3,858
Tax	875	434	633	789	972
Reported PAT	2,494	1,218	2,003	2,340	2,886
Net Profit	2,494	1,218	2,003	2,340	2,886
Adjusted PAT	2,494	1,218	1,869	2,340	2,886
Adjusted EPS (INR)	22.6	11.0	16.9	21.2	26.1

Balance sheet (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Share Capital	1,106	1,106	1,106	1,106	1,106
Reserves & Surplus	11,547	12,534	14,205	16,104	18,437
Networth	12,653	13,640	15,311	17,209	19,543
Debt	1,500	581	581	581	581
Net deferred Tax liabilities	123	137	137	137	137
Capital Employed	14,276	14,358	16,029	17,927	20,261
Gross Fixed Assets	9,207	10,271	11,071	11,871	15,071
Accumulated Depreciation	2,751	3,465	4,373	5,322	6,528
Capital work in progress	226	236	986	2,436	750
Net Fixed Assets	6,682	7,041	7,683	8,984	9,293
Investments	17	3	3	3	3
Non Current Investments	17	3	3	3	3
Current Assets, Loans & Advances					
Inventory	6,188	4,256	5,681	6,019	7,082
Debtors	4,346	4,150	4,261	4,815	5,665
Cash & Bank balance	687	2,161	1,506	1,691	2,536
Loans & advances and others	1,471	930	930	930	930
Current Liabilities & Provisions					
Liabilities	3,986	3,202	2,904	3,281	3,861
Provisions	1,129	982	1,132	1,233	1,387
Net Current Assets	7,577	7,313	8,343	8,941	10,965
Application of Funds	14,276	14,358	16,029	17,927	20,261

Per share data

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
No. of shares (mn)	111	111	111	111	111
Diluted no. of shares (mn)	111	111	111	111	111
BVPS (INR)	114.4	123.4	138.5	155.7	176.8
CEPS (INR)	28.9	18.5	26.3	29.8	37.0
DPS (INR)	3.5	-	3.0	4.0	5.0

Source: Company, Antique

Cash flow statement (INR mn)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
PBT	3,369	1,648	2,501	3,129	3,858
Depreciation & amortization	703	830	908	950	1,206
Interest expense	139	102	76	76	76
(Inc)/Dec in working capital	(3,529)	1,473	(1,684)	(413)	(1,180)
Tax paid	(960)	(401)	(633)	(789)	(972)
Less: Interest/Div. Income Recd.	(46)	(48)	(154)	(200)	(280)
Other operating Cash Flow	129	(4)	134	-	-
CF from operating activities	(195)	3,602	1,149	2,753	2,707
Capital expenditure	(1,687)	(998)	(1,550)	(2,250)	(1,514)
Add: Interest/Div. Income Recd.	46	48	154	200	280
CF from investing activities	(1,641)	(950)	(1,396)	(2,050)	(1,234)
Inc/(Dec) in share capital	5	-	-	-	-
Inc/(Dec) in debt	648	(919)	-	-	-
Dividend Paid	(385)	(221)	(332)	(442)	(553)
Others	(44)	(37)	(76)	(76)	(76)
CF from financing activities	224	(1,177)	(407)	(518)	(628)
Net cash flow	(1,612)	1,474	(655)	185	845
Opening balance	2,299	687	2,161	1,506	1,691
Closing balance	687	2,161	1,506	1,691	2,536

Growth indicators (%)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
Revenue	28.3	2.0	(4.4)	13.0	17.7
EBITDA	14.8	(39.7)	32.9	18.7	22.9
Adj PAT	12.3	(51.2)	53.4	25.2	23.3
Adj EPS	11.7	(51.2)	53.4	25.2	23.3

Valuation (x)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
P/E (x)	29.9	61.2	39.9	31.8	25.8
P/BV (x)	5.9	5.5	4.9	4.3	3.8
EV/EBITDA (x)	18.1	29.1	22.1	18.6	14.9
EV/Sales (x)	2.8	2.7	2.8	2.5	2.1
Dividend Yield (%)	0.5	-	0.4	0.6	0.7

Financial ratios

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
RoE (%)	21.6	9.3	12.9	14.4	15.7
RoCE (%)	27.3	12.3	17.0	18.9	20.6
Asset/T.O (x)	2.1	1.9	1.7	1.7	1.8
Net Debt/Equity (x)	0.1	(0.1)	(0.1)	(0.1)	(0.1)
EBIT/Interest (x)	25.2	16.0	34.1	42.4	52.1

Margins (%)

Year ended 31 Mar	FY22	FY23	FY24e	FY25e	FY26e
EBITDA Margin (%)	15.6	9.2	12.9	13.5	14.1
EBIT Margin (%)	13.0	6.2	9.3	10.3	10.6
PAT Margin (%)	9.4	4.5	7.2	7.9	8.3

Source: Company Antique

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