

**BUY**  
 TP: Rs 650 | ▲ 40%

**PRINCE PIPES & FITTINGS**

Building Materials

08 November 2024

**Mixed Q2FY25; market share gain at the cost of inferior margin**

- PRINCIPIP appears to have gained market share in Q2FY25 even after tightening the credit period for its dealers
- EBITDA margin to remain weak in the near future due to aggressive pricing strategy; but medium-term guidance of 12-13% remains intact
- Maintain BUY on strong earnings prospects and reasonable valuations; TP cut by 13% to Rs 650

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**Result snapshot:** PRINCIPIP topline came broadly in line with our estimate (-1%), but there was a sharp miss on EBITDA (-32%) for Q2FY25 due to margin pressure (-230bps QoQ to 7.3%) as the company preferred to grow its market share by providing trade incentives of 2% to its dealers in a weak market condition, and booked inventory loss of Rs 120mn-150mn. Overall, PRINCIPIP’s revenue/EBITDA/APAT de-grew by -5.2%/-51.5%/-77.8% YoY in Q2FY25.

**Key highlights:** PRINCIPIP appears to have gained market share in Q2FY25 as it has posted relatively better volume growth YoY compared to its major peers (APOLP standalone: -17.0%; SI: -0.7%; PRINCIPIP: +4.3%; FNXP: +10.2%) even after tightening its collection period (from 71 days in Q4FY24 to 60 in Q1FY25 and 55 in Q2FY25). The company had net debt of Rs 0.81bn in Sep’24 vs net cash position of Rs 0.96bn in Jun’24 due to the sharp increase in inventory (from 70 days in Q1FY25 to 87 days in Q2FY25) and higher capex outlay.

**Outlook:** The company targets growing its pipe volume at a modest pace of 8-10% YoY in FY25 (vs 8.6% YoY in H1FY25). We believe PRINCIPIP’s EBITDA margin may remain weak in the near future as it has preferred to grow market share by pursuing aggressive pricing strategy in weak market conditions, but management maintains its EBITDA margin guidance of 12-13% over the medium term. The Bihar greenfield pipe project (with 55ktpa capacity) is expected to be operational by Mar’25 (Jan’25 earlier). Capex guidance for FY25 is Rs 3.3bn-3.5bn. The company expects its ROCE to improve to 15-20% over the medium term.

**Maintain BUY; TP cut by 13% to Rs 650:** We maintain our BUY rating on the stock due to (a) strong earnings growth prospects (EPS to grow at a healthy 16.3% CAGR over FY24-FY27E), and (b) reasonable valuations (trades at 28.8x on 1Y forward P/E vs 5Y average P/E of 35.6x). We have cut our TP to Rs 650 (from Rs 750) due to the downward revision of our EPS estimates (-31.7%/-21.1%/-18.3% for FY25E/FY26E/FY27E) based on the weak Q2FY25 result. Our target P/E remains unchanged at 30x on Sep’26 estimates (Jun’26 earlier).

**Key changes**

Target	Rating
▼	◀ ▶

Ticker/Price	PRINCIPIP IN/Rs 465
Market cap	US\$ 608.7mn
Free float	39%
3M ADV	US\$ 1.2mn
52wk high/low	Rs 776/Rs 461
Promoter/FPI/DII	61%/7%/18%

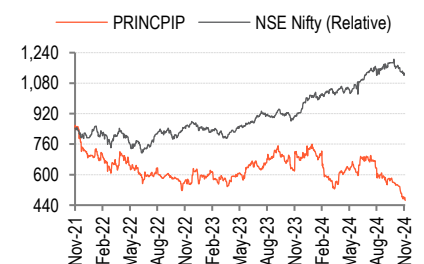
Source: NSE | Price as of 8 Nov 2024

**Key financials**

Y/E 31 Mar	FY24A	FY25E	FY26E
Total revenue (Rs mn)	25,687	27,762	33,362
EBITDA (Rs mn)	3,107	2,813	3,987
Adj. net profit (Rs mn)	1,716	1,331	2,089
Adj. EPS (Rs)	15.5	12.0	18.9
Consensus EPS (Rs)	15.5	16.5	22.7
Adj. ROAE (%)	11.8	8.3	12.0
Adj. P/E (x)	29.9	38.6	24.6
EV/EBITDA (x)	16.7	18.5	12.6
Adj. EPS growth (%)	40.4	(22.4)	56.9

Source: Company, Bloomberg, BOBCAPS Research

**Stock performance**



Source: NSE



**Fig 1 – Quarterly performance - Standalone**

(Rs mn)	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)	BOBCAPS Q2FY25E	Variance (%)
Operating income	6,221	6,565	(5.2)	6,045	2.9	12,265	12,100	1.4	6,311	(1.4)
Raw-Material expense	4,542	4,511	0.7	4,370	3.9	8,911	8,653	3.0	-	-
Gross Profit	1,679	2,054	(18.2)	1,675	0.2	3,354	3,447	(2.7)	-	-
Employee expense	446	405	10.2	382	16.9	828	725	14.1	-	-
Other expense	776	707	9.8	710	9.2	1,486	1,327	12.0	-	-
EBITDA	457	942	(51.5)	583	(21.6)	1,040	1,395	(25.5)	675	(32.3)
D&A	276	225	22.3	257	7.0	533	443	20.2	-	-
EBIT	181	716	(74.7)	325	(44.3)	507	951	(46.7)	-	-
Interest cost	16	7	137.4	14	13.1	31	24	26.8	-	-
Other income	39	219	(82.0)	26	53.5	65	257	(74.7)	-	-
PBT	204	928	(78.0)	337	(39.3)	541	1,184	(54.3)	-	-
Tax	57	222	(74.2)	90	(36.3)	147	281	(47.7)	-	-
Reported PAT	147	706	(79.2)	247	(40.4)	394	903	(56.4)	-	-
Adjusted PAT	147	663	(77.8)	247	(40.4)	394	860	(54.2)	331	(55.6)
<b>As % of net revenues</b>			<b>(bps)</b>		<b>(bps)</b>			<b>(bps)</b>		
Gross margin	27.0	31.3	(429)	27.7	(72)	27.3	28.5	(114)	-	-
Employee cost	7.2	6.2	101	6.3	86	6.7	6.0	76	-	-
Other cost	12.5	10.8	170	11.8	72	12.1	11.0	115	-	-
EBITDA margin	7.3	14.3	(700)	9.6	(230)	8.5	11.5	(305)	-	-
Tax rate	28.0	23.9	410	26.7	131	27.2	23.8	343	-	-
APAT margin	2.4	10.1	(774)	4.1	(172)	3.2	7.1	(389)	-	-

Source: Company, BOBCAPS Research

**Fig 2 – Key operating metrics**

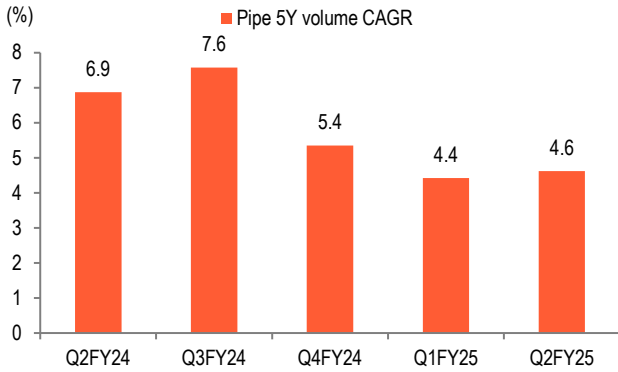
Particulars	Q2FY25	Q2FY24	YoY (%)	Q1FY25	QoQ (%)	H1FY25	H1FY24	YoY (%)
Sales Volumes (KTPA)	43.3	41.5	4.3	42.2	2.7	85	37	130.1
Realisation (Rs/kg)	143.7	158.1	(9.1)	143.3	0.2	143	326	(55.9)
EBITDA per unit (Rs/kg)	10.6	22.7	(53.5)	13.8	(23.6)	12.2	37.5	(67.6)
Inventory (days)	87	57	-	70	-	-	-	-
Debtor (days)	55	59	-	60	-	-	-	-
Creditor (days)	36	39	-	36	-	-	-	-
Operating cycle (days)	106	77	-	94	-	-	-	-

Source: Company, BOBCAPS Research

## Earnings call highlights

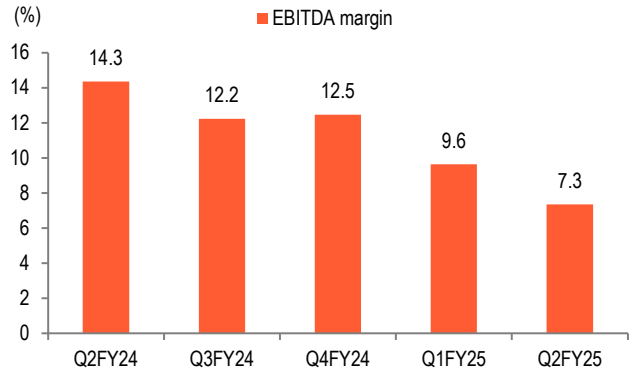
- **Pipe demand scenario:** The company posted weak volume growth of 4.3% YoY in Q2FY25 due to the impact of destocking in the channel on account of volatile PVC resin prices. The EBITDA margin fell sharply (-230bps QoQ to 7.3%) in Q2FY25 as the company preferred to grow its market share by providing trade incentives of 2% to its dealers in weak market conditions and booked inventory loss of Rs 120mn-150mn. The company has observed weak pipe demand in the month of Oct'24, but expects demand to pick-up for channel refilling in anticipation of hardening of PVC resin prices in the near future.
- **Guidance:** Management has guided for a moderate pipe volume growth target of 8-10% YoY in FY25 (vs +8.6% in H1FY25). The company continues to provide additional trade incentives of 2% to grow its market share, but it may be withdrawn post improvement in demand conditions. EBITDA margin is expected to return to the normal level of 12-13% over the next few quarters. The company expects its ROCE to improve to 15-20% over the medium term.
- **Ad spend:** Ad spend as a proportion of sales stood at 2.5% of sales in Q2FY25. The company expects to maintain a similar run rate (at 2.5%) for FY25.
- **Working capital:** PRINCEPIP's debtor period fell from 60 days in Q1FY25 to 55 days in Q2FY25 and aims to cut it further to below 50 days by the end of FY25 to improve its cash flow conversion cycle. The inventory period rose from 70 days in Q1FY25 to 87 days in Q2FY25, but the company aims to bring it down to 60-70 days in future.
- **Capex:** The company plans to spend Rs 3.3bn-3.5bn in FY25 (of which Rs 1.7bn would be spent on Bihar greenfield project, Rs 0.3bn-0.35bn for debottlenecking pipe capacity at the existing site, Rs 0.8bn-0.9bn for maintenance capex purpose, and Rs 0.5bn for the bathware division (including acquisition cost of the second phase of the Aquel plant of Rs 0.43bn). The Bihar pipe project (capacity increased to 55KTPA) is expected to be operational by Mar'25 (Jan'25 earlier).
- **Bathware:** The segment reported operating loss of Rs 30mn-40mn on revenue of Rs 70mn in Q2FY25. The company expects this segment to clock a revenue of Rs 250mn+ in FY25 and reach breakeven point by Q3FY26.
- **Water tank:** Revenue was Rs 120mn in Q2FY25.

**Fig 3 – PRINCPIP’s volumes grew by 4.3% YoY (5Y CAGR: +4.6%) in Q2FY25**



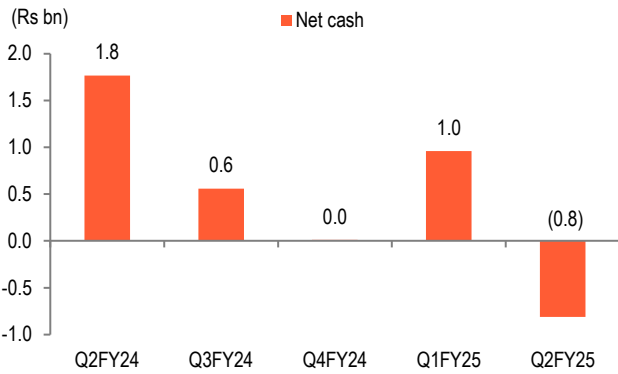
Source: Company, BOBCAPS Research

**Fig 4 – EBITDA margin fell sharply by 230bps QoQ to 7.3% in Q2FY25**



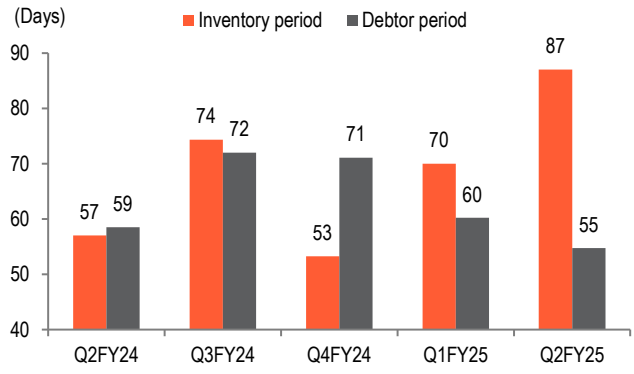
Source: Company, BOBCAPS Research

**Fig 5 – PRINCPIP had a net debt of Rs 0.81bn in Sep’24 vs net cash of Rs 0.96bn in Jun’24...**



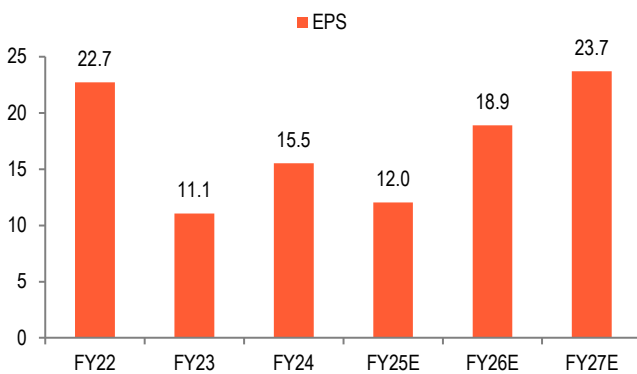
Source: Company, BOBCAPS Research

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



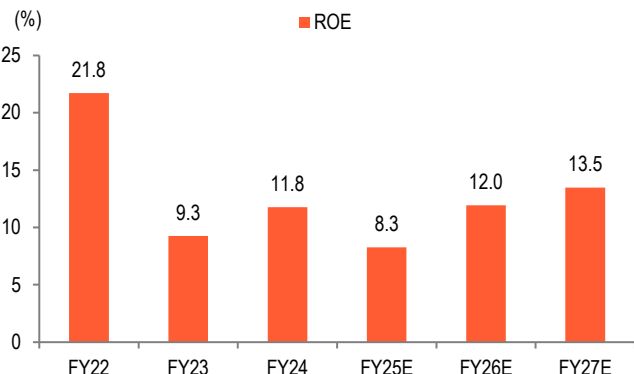
Source: Company, BOBCAPS Research

**Fig 7 – PRINCPIP’s EPS is forecast to grow at 15% CAGR over FY24-FY27E**



Source: Company, BOBCAPS Research

**Fig 8 – ROE is projected to improve gradually from 11.8% in FY24 to 13.5% in FY27E**



Source: Company, BOBCAPS Research

### Valuation methodology

We maintain our BUY rating on the stock due to (a) strong earnings growth prospects (EPS to grow at a healthy 16.3% CAGR over FY24-FY27E), and (b) reasonable valuations (trades at 28.8x on 1Y forward P/E vs 5Y average P/E of 35.6x).

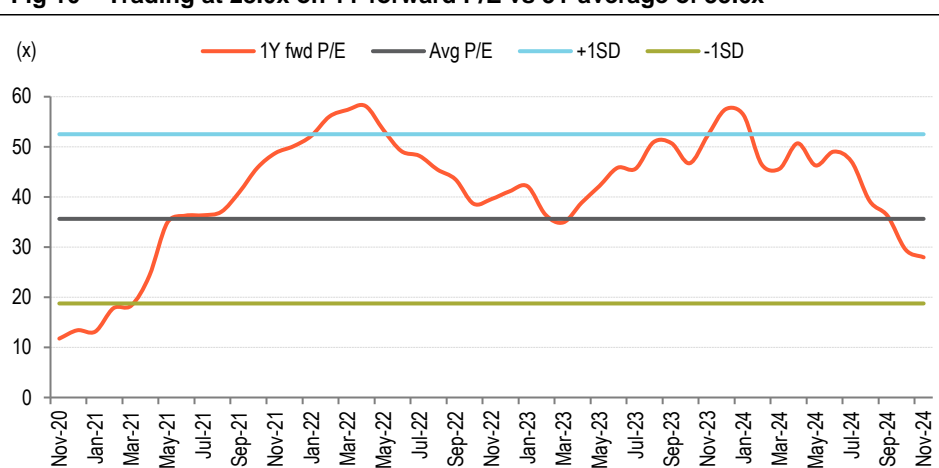
We have cut our TP to Rs 650 (from Rs 750) due to the downward revision of our EPS estimates (-31.7%/-21.1%/-18.3% for FY25/FY26/FY27) based on the weak Q2FY25 result. Our target P/E remains unchanged at 30x on Sep'26 estimates.

**Fig 9 – Revised estimates**

Standalone (Rs mn)	New			Old			Change (%)		
	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E	FY25E	FY26E	FY27E
Operating income	27,762	33,362	38,058	28,448	33,696	38,547	(2.4)	(1.0)	(1.3)
EBITDA	2,813	3,987	4,801	3,530	4,527	5,403	(20.3)	(11.9)	(11.2)
EBITDA Margin (%)	10.1	12.0	12.6	12.4	13.4	14.0	(228bps)	(148bps)	(140bps)
Adjusted PAT	1,331	2,089	2,622	1,950	2,649	3,209	(31.7)	(21.1)	(18.3)
EPS (Rs)	12.0	18.9	23.7	17.6	24.0	29.0	(31.7)	(21.1)	(18.3)

Source: BOBCAPS Research

**Fig 10 – Trading at 28.0x on 1Y forward P/E vs 5Y average of 35.6x**



Source: Bloomberg, BOBCAPS Research

**Fig 11 – Key assumptions**

Particulars	FY22A	FY23A	FY24A	FY25E	FY26E	FY27E
Sales Volume growth (%)	0.5	13.4	9.6	10.9	15.0	10.8
Realisation growth (%)	27.6	(10.1)	(13.5)	(2.5)	4.5	3.0
EBITDA per unit (Rs/kg)	30.1	16.0	18.0	14.7	18.1	19.7
Pre-tax ROIC (%)	32.5	13.4	16.3	10.3	14.0	15.7

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	0.2	512	550	HOLD
Astral	ASTRA IN	5.7	1,789	2,000	HOLD
Century Plyboards	CPBI IN	2.2	835	725	HOLD
Finolex Industries	FNXP IN	2.1	288	300	HOLD
Greenlam Industries	GRLM IN	0.8	556	530	HOLD
Greenpanel Industries	GREENP IN	0.5	372	365	HOLD
Greenply Industries	MTLM IN	0.5	356	380	HOLD
Hindware Home Innovation	HINDWARE IN	0.2	282	500	BUY
Kajaria Ceramics	KJC IN	2.3	1,201	1,450	HOLD
Prince Pipes & Fittings	PRINCP IN	0.6	465	650	BUY
Somany Ceramics	SOMC IN	0.3	683	850	BUY
Supreme Industries	SI IN	6.9	4,598	5,250	BUY

Source: BOBCAPS Research, NSE | Price as of 8 Nov 2024

## Financials

### Income Statement

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Total revenue</b>	<b>27,109</b>	<b>25,687</b>	<b>27,762</b>	<b>33,362</b>	<b>38,058</b>
EBITDA	2,517	3,107	2,813	3,987	4,801
Depreciation	830	912	1,099	1,273	1,374
EBIT	1,687	2,196	1,714	2,714	3,426
Net interest inc./(exp.)	(110)	(65)	(64)	(66)	(66)
Other inc./(exp.)	86	161	144	143	143
Exceptional items	14	33	0	0	0
EBT	1,648	2,258	1,794	2,792	3,504
Income taxes	434	613	462	703	882
Extraordinary items	0	(179)	0	0	0
Min. int./Inc. from assoc.	0	0	0	0	0
<b>Reported net profit</b>	<b>1,214</b>	<b>1,825</b>	<b>1,331</b>	<b>2,089</b>	<b>2,622</b>
Adjustments	9	(109)	0	0	0
<b>Adjusted net profit</b>	<b>1,223</b>	<b>1,716</b>	<b>1,331</b>	<b>2,089</b>	<b>2,622</b>

### Balance Sheet

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
Accounts payables	3,202	2,491	2,832	3,404	3,883
Other current liabilities	794	1,659	1,659	1,659	1,659
Provisions	20	26	30	36	41
Debt funds	581	1,144	1,222	1,430	1,605
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	15,449	17,206	19,385
Shareholders' fund	13,640	15,444	16,554	18,311	20,491
<b>Total liab. and equities</b>	<b>18,542</b>	<b>21,232</b>	<b>22,764</b>	<b>25,307</b>	<b>28,146</b>
Cash and cash eq.	2,161	1,156	(680)	(1,285)	(1,154)
Accounts receivables	4,150	5,849	6,321	7,596	8,665
Inventories	4,256	4,379	4,726	5,626	6,431
Other current assets	684	1,081	1,229	1,476	1,683
Investments	3	3	3	3	3
Net fixed assets	6,750	7,736	10,137	10,864	11,490
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
<b>Total assets</b>	<b>18,542</b>	<b>21,232</b>	<b>22,764</b>	<b>25,307</b>	<b>28,146</b>

### Cash Flows

Y/E 31 Mar (Rs mn)	FY23A	FY24A	FY25E	FY26E	FY27E
<b>Cash flow from operations</b>	<b>3,645</b>	<b>558</b>	<b>1,728</b>	<b>1,441</b>	<b>2,321</b>
Capital expenditures	(1,000)	(2,347)	(3,500)	(2,000)	(2,000)
Change in investments	14	0	0	0	0
Other investing cash flows	72	307	144	143	143
<b>Cash flow from investing</b>	<b>(915)</b>	<b>(2,040)</b>	<b>(3,356)</b>	<b>(1,857)</b>	<b>(1,857)</b>
Equities issued/Others	0	0	0	0	0
Debt raised/repaid	(919)	563	77	208	175
Interest expenses	(110)	(65)	(64)	(66)	(66)
Dividends paid	0	(111)	(221)	(332)	(442)
Other financing cash flows	(227)	90	0	0	0
<b>Cash flow from financing</b>	<b>(1,256)</b>	<b>478</b>	<b>(208)</b>	<b>(189)</b>	<b>(333)</b>
<b>Chg in cash &amp; cash eq.</b>	<b>1,474</b>	<b>(1,005)</b>	<b>(1,836)</b>	<b>(606)</b>	<b>131</b>
<b>Closing cash &amp; cash eq.</b>	<b>2,161</b>	<b>1,156</b>	<b>(680)</b>	<b>(1,285)</b>	<b>(1,155)</b>

### Per Share

Y/E 31 Mar (Rs)	FY23A	FY24A	FY25E	FY26E	FY27E
Reported EPS	11.0	16.5	12.0	18.9	23.7
Adjusted EPS	11.1	15.5	12.0	18.9	23.7
Dividend per share	0.0	1.0	2.0	3.0	4.0
Book value per share	123.4	139.7	149.7	165.6	185.3

### Valuations Ratios

Y/E 31 Mar (x)	FY23A	FY24A	FY25E	FY26E	FY27E
EV/Sales	1.9	2.0	1.9	1.5	1.3
EV/EBITDA	20.5	16.7	18.5	12.6	10.2
Adjusted P/E	42.0	29.9	38.6	24.6	19.6
P/BV	3.8	3.3	3.1	2.8	2.5

### DuPont Analysis

Y/E 31 Mar (%)	FY23A	FY24A	FY25E	FY26E	FY27E
Tax burden (Net profit/PBT)	74.2	76.0	74.2	74.8	74.8
Interest burden (PBT/EBIT)	97.7	102.9	104.7	102.8	102.3
EBIT margin (EBIT/Revenue)	6.2	8.5	6.2	8.1	9.0
Asset turnover (Rev./Avg TA)	146.2	121.0	122.0	131.8	135.2
Leverage (Avg TA/Avg Equity)	1.4	1.5	1.4	1.5	1.5
Adjusted ROAE	9.3	11.8	8.3	12.0	13.5

### Ratio Analysis

Y/E 31 Mar	FY23A	FY24A	FY25E	FY26E	FY27E
<b>YoY growth (%)</b>					
Revenue	2.0	(5.2)	8.1	20.2	14.1
EBITDA	(39.9)	23.4	(9.5)	41.8	20.4
Adjusted EPS	(51.3)	40.4	(22.4)	56.9	25.5
<b>Profitability &amp; Return ratios (%)</b>					
EBITDA margin	9.3	12.1	10.1	12.0	12.6
EBIT margin	6.2	8.5	6.2	8.1	9.0
Adjusted profit margin	4.5	6.7	4.8	6.3	6.9
Adjusted ROAE	9.3	11.8	8.3	12.0	13.5
ROCE	12.5	14.2	10.4	14.5	16.2
<b>Working capital days (days)</b>					
Receivables	56	83	83	83	83
Inventory	57	62	62	62	62
Payables	43	35	37	37	37
<b>Ratios (x)</b>					
Gross asset turnover	2.8	2.3	2.0	2.0	2.1
Current ratio	2.4	2.4	2.1	2.1	2.2
Net interest coverage ratio	15.3	33.8	26.9	41.4	52.3
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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### Recommendation scale: Recommendations and Absolute returns (%) over 12 months

**BUY** – Expected return >+15%

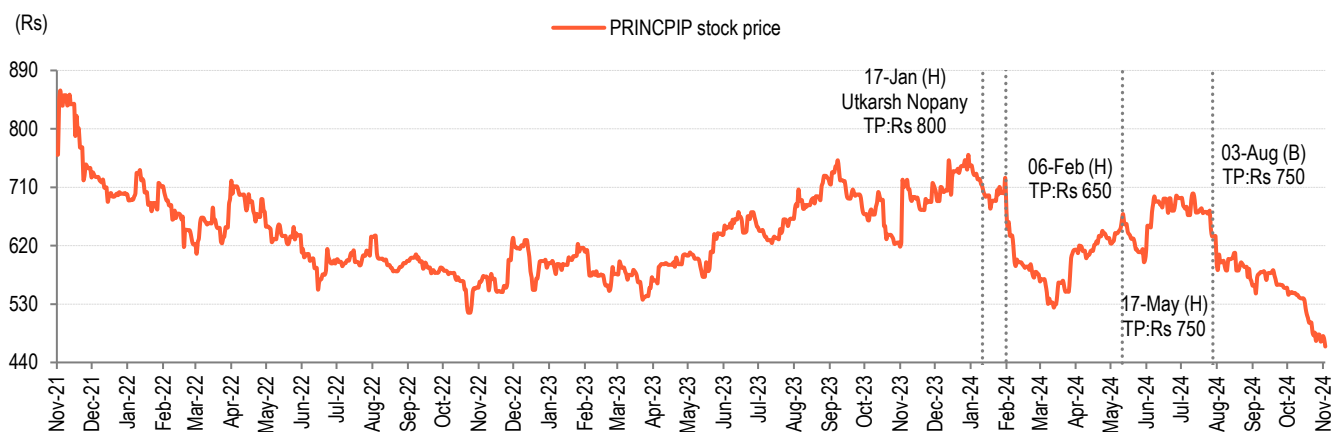
**HOLD** – Expected return from -6% to +15%

**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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