

Prince Pipes & Fittings Ltd.



Initiating Coverage

Bloomberg Code: PRNCPIP.IN | Reuters Code: PRCE.NS

“Value Migration (UPVC to CPVC pipes) to drive margin Expansion & industry Consolidation”

Prince Pipes & Fittings Ltd. (Prince) with 3 decades of experience, is amongst the largest PVC pipe manufacturer in the country, with total capacity of 292K MTPA, having 6%/10% market share in PVC (5% in FY19) and CPVC respectively, commands a strong foothold in North/West India (east through contract manufacturing). Our focus on Prince is due to its strong product portfolio of UPVC, CPVC, PPR, and HDPE (sold under the brand Prince Pipes Ltd. & Trubore) having PAN India distribution network (1,500+ distributors, 7 manufacturing plants, 11 warehouses, 7,200 SKUs), where there is a shift from GI Pipes to PVC pipes and now UPVC to CPVC (due to its flexibility and ability to withstand extreme temperature [95°]). PVC pipes industry poised to see double digit growth especially, CPVC pipes (20%+ CAGR growth) on the back of reviving real estate market and Union Budget allocations to CAPEX (7.50 Lakh Cr. and with Grant to states effective Capex 10.86 Lakh Cr. for FY23), “Jal se Na” 60k Cr. [under 3.8 Cr. households] and “Prime Minister Aavas Yojna” 48k Cr. Unorganised players are facing serious raw material supply crunch after initiating ADD (anti-dumping duty) on CPVC resin/compound (Raw material which is a derivative of Crude oil) imports from China and Korea for a period of five years (valid up to Feb 2025). This is supporting organised players (65% of total plastic pipes market) to gain market share from unorganised players. The Company’s tie up with Lubrizol (for CPVC compound) is also playing as a safeguard for any supply crunch.

Strong growth outlook and progressive gain in market share

Prince posted strong Sales/Profit growth of 11%/24% CAGR respectively from FY16-21 due to rising demand from comprehensive product portfolio (7,200 SKUs), spread across plumbing, irrigation, and SWR management and focus on CPVC pipes (value added product). We estimate Revenue/EBITDA/PAT to grow at a whopping 11%/15%/17% CAGR respectively over FY22-FY25E on back of industry consolidation and government focus on smart cities & affordable housing. The current PVC Resin shortage will continue to stay, as crude is hitting new highs (touched \$130) due to Russia-Ukraine conflict.

CAPEX with strong distribution network, focus on branding & right product mix

Prince has utilized majority of its IPO proceeds (₹1,840 Mn) to set up 50k Tons of the capacity in Telangana. By 9MFY22, it has spent ₹1,750 Mn and will close the FY22 with approx. ₹2,000 Mn. Primary drivers for margin expansion would be inventory gain & product mix improvement. The focus on brand awareness by choosing Akshay Kumar as the brand ambassador and reducing dependence on agriculture segment (35% of revenue in FY16 to 30% in FY21, remaining 60% is building material in FY21) is playing well for the company. Prince has the largest distribution network of 1,500+ while, Astral (competitor) has 850. As per the channel checks, Prince is the first choice among buyers in UPVC compared to Astral. To leverage their distribution network, Prince has also launched range of water tanks (June 2020) under the Brand “Storefit”.

Initiate Coverage with Buy Rating

Prince has been enjoying high valuations since its IPO. We believe it is well-positioned to capture incremental market share and continues to be a strong challenger brand to sector leaders. The margins were a bit shy in FY22 as PVC prices declined, but it will improve steadily in FY23-FY24. We initiate a Buy rating for the target price of ₹ 862 (35x PE [TTM P/E is 27x] for FY23E EPS – 24.6).

Key Financials

Year to March	2020A	2021A	2022E	2023E	FY24E
Net sales (mn)	16,426	20,891	24,307	27,460	30,206
EBITDA (mn)	2,357	3,792	3,713	4,641	5,105
EBITDAM (%)	14%	18%	15%	17%	17%
PAT (mn)	1,125	2,218	2,067	2,725	2,995
ROE (%)	15%	24%	19%	20%	19%
ROCE (%)	20%	29%	23%	26%	24%
P/E (x)	8.7x	20.7x	34x	25x	23x
P/B (x)	1.3x	4.4x	6.1x	5.1x	4.3x

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Plastic Pipes

Current Price:	623
Target Price:	862
Expected Upside (%)	38%

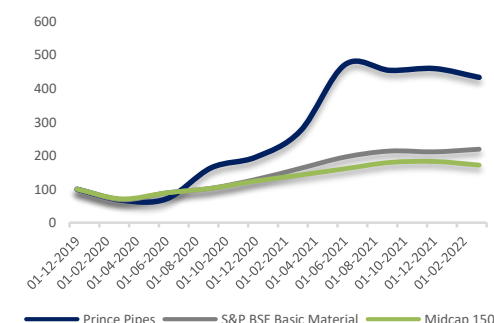
Stock Details

Bloomberg Code	PRNCPIP.IN
Reuters Code	PRCE.NS
Shares o/s (Mn)	110.6
M Cap (Rs. In Mn)	69,970
52 week H/L (Rs.)	896/400

Shareholding Pattern (%)

Promoter Group	62.94
FII	4.84
DII	13.75
Others	18.47

Stock Performance Chart



Stock Performance

Return (%)	1 Month	6 Month	1 Year
Absolute	0%	-6.1%	58.3%
Relative (Basic Material)	-9%	-8.4%	18.8%
(Midcap)	-3.9%	-8.8%	31.3%

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Prince’s Background & PVC Pipes Industry trend

- Incorporated in 1987, the company manufactures polymer pipes through UPVC (Unplasticised Polyvinyl Chloride); CPVC (Chlorinated polyvinyl chloride); PPR (Polypropylene Random); HDPE (High-density polyethylene); and DWC [Double Wall Corrugated] (all sold under the brand Prince & Trubore) with PAN India distribution network.
- CPVC, PPR and HDPE products have superior margins than the UPVC products. Prince is India’s only company to offer 3 polymer solutions for Industrial applications through “EASYFIT” in PVC, “GREENFIT” in PPR and now “ONEFIT CPVC piping”. It offers piping systems and fittings in the segments such as plumbing, sewage, agriculture and bore well. It has a total capacity of 292K MTPA and their seven manufacturing plants are located at Uttarakhand, Dadra & Nagar Haveli, Maharashtra, Chennai, Rajasthan and Telangana. The company went public at the end of Dec’19. Promoters currently own 63% of the company.

Exhibit 1: Prince Product Portfolio

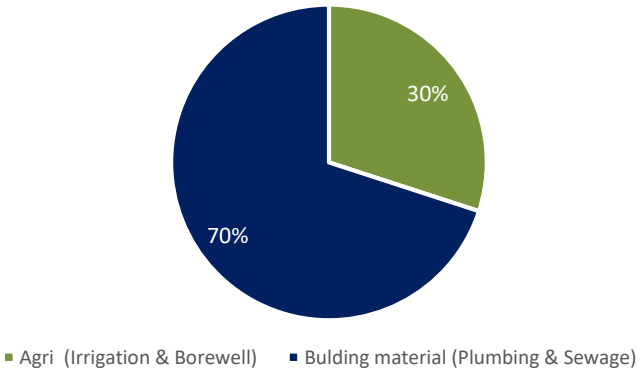


Source: Company Investor Presentation

Exhibit 2: Focus towards Building materials

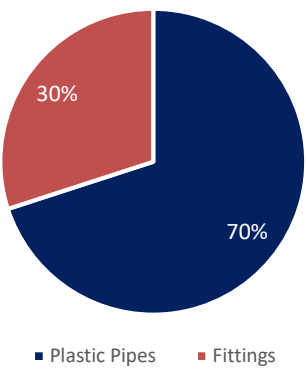
Exhibit 3: Pipe is the major contributor

Revenue Mix application wise (FY21)



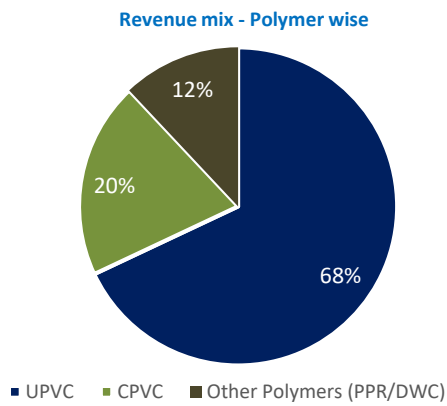
Source: Company, Bonanza Research

Pipes & Fittings Breakup (FY21)



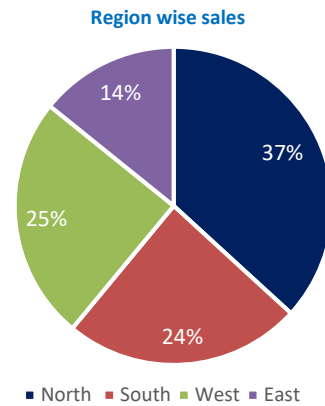
Source: Company, Bonanza Research

Exhibit 4: CPVC increased to 20%



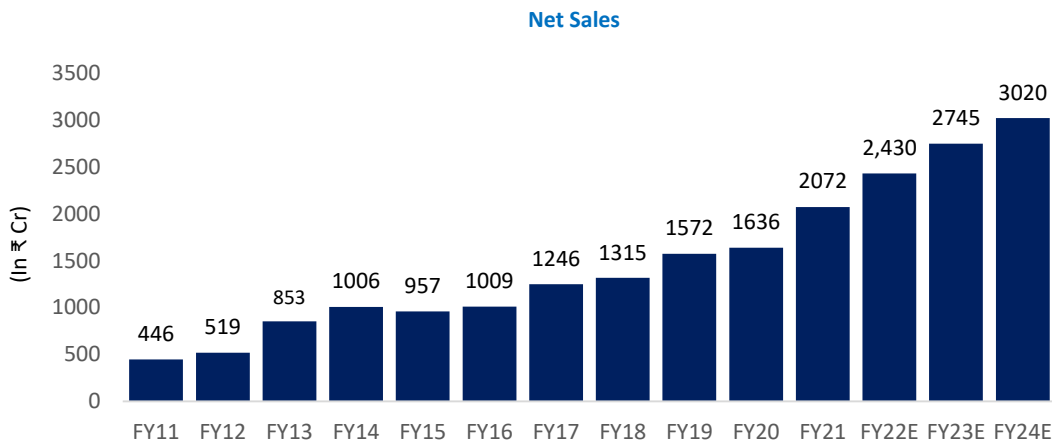
Source: Company, Bonanza Research

Exhibit 5: PAN India reach



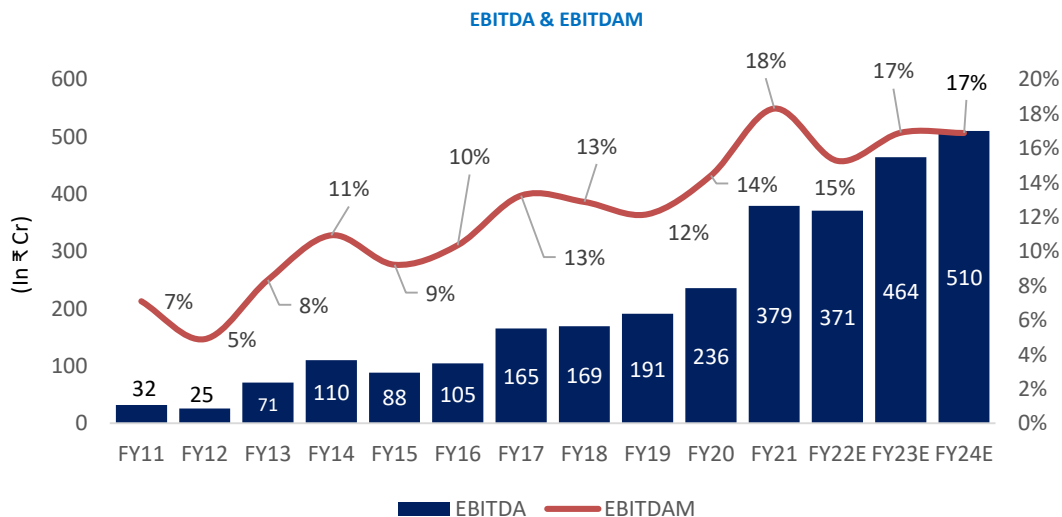
Source: Company, Bonanza Research

Exhibit 6: Strong Revenue growth



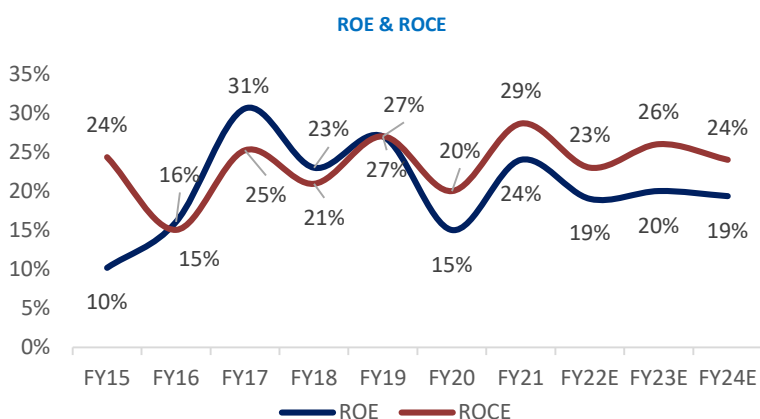
Source: Company, Bonanza Research

Exhibit 7: Improving EBITDA & EBITDA Margins



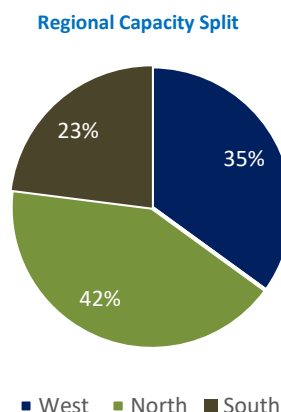
Source: Company, Bonanza Research

Exhibit 8: Strong Return Ratios



Source: Company, Bonanza Research

Exhibit 9: Diversified manufacturing capacities

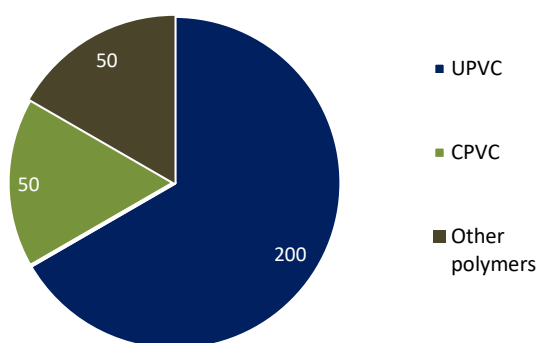


Source: Company, Bonanza Research

Fast catching up with Industry leaders

- As per the latest available data, India consumes 11 kg per capita of plastic, which is well below the world average of 28 kg, on the other hand, USA consumes a whopping 109 kg. The Indian plastic pipes and fittings industry is expected to reach ₹ 500-550 billion by the year 2025 growing at a CAGR of 10% from the current levels of ₹ 290-300 billion (as of FY20). Out of that UPVC is 200 billion, CPVC is 50 billion (growing double digit) and other polymers are 50 billion. DWC pipes, a sub-category of HDPE pipes are gradually replacing RCC pipes in underground drainage and other infra projects due to its longer life and low maintenance (Prince was the early mover in DWC pipes in 2017).
- Due to their specialized nature, fittings and CPVC fetch higher margins compared to other categories. Similarly, because of higher competition, companies earn lower margins in agri compared to plumbing and sewerage. Manufacturing pipes is simple and not very capital intensive, but fittings are different. Fittings require precision and significant investment in moulds which makes it capital intensive compared to pipes (~3x of pipes). The requirement to maintain large number of SKUs also increases the working capital in fittings. On the other hand, pipe is a fast-moving product and have higher asset turnover compared to fittings. However, due to its specialized nature, fittings fetch much higher margin than pipes (~2x of pipes). So, higher share of fittings differentiates a company from its competition as it helps them to sell more volumes of pipes.
- Industry growth was driven by rising demand from the construction and irrigation sectors. The sub-segments propelling off take in the construction space were increasing investments in WSS (Water supply & Sanitation) projects, substitution of metal pipes with polymer pipes, and replacement demand. The irrigation sector is the prime user of PVC pipes, contributing ~47% to total sales. WSS and plumbing contribute 35-40% to the total PVC pipe market in India. Out of India's 142 million hectares of cultivated land, only 50% is irrigated and about 63% of the irrigated land is dependent on tube wells which in turn are monsoon-dependant. Irrigation will rise sharply by 8-9% CAGR by FY24 compared with 9-10% CAGR over the past five years (April 1, 2014, to March 31, 2019).
- Swachh Bharat Mission:** Swachh Bharat Mission and National Mission for Clean Ganga (NMG), Atal Mission for Rejuvenation & Urban Transformation (AMRUT) are likely to boost investments in WSS. On the other hand, initiatives such as Pradhan Mantri Krishi Sinchayee Yojana (PMKSY) will also off take the irrigation sector.

Exhibit 10: Various Polymers Market size in India (in ₹ Billion) (FY20)



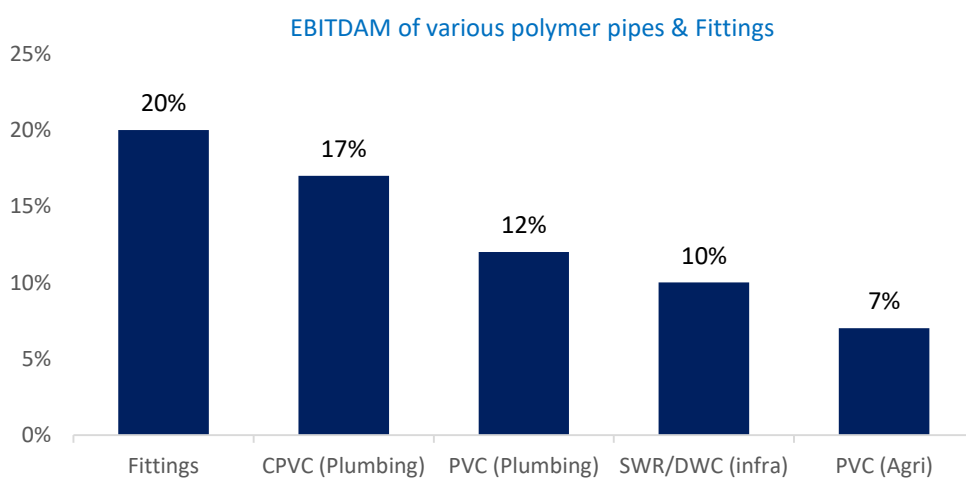
Source: Company, Bonanza Research

Exhibit 11: Applications for various Pipes

Types of Pipes	Applications
UPVC	Irrigation Cold water plumbing Drainage
CPVC	Hot (95°) and Cold water system Industrial applications
HDPE	Underground drainage structured wall WSS Solid wall
PPR	Hot and Cold water system Industrial applications
Composite pipes	Hot and Cold water system Gas Pipeline Industrial Application

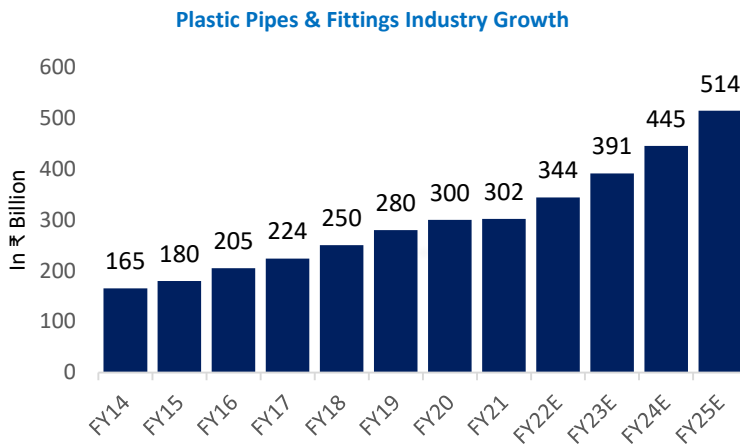
Source: Company, Bonanza Research

Exhibit: 12 Fittings generates superior margins followed by CPVC and PVC



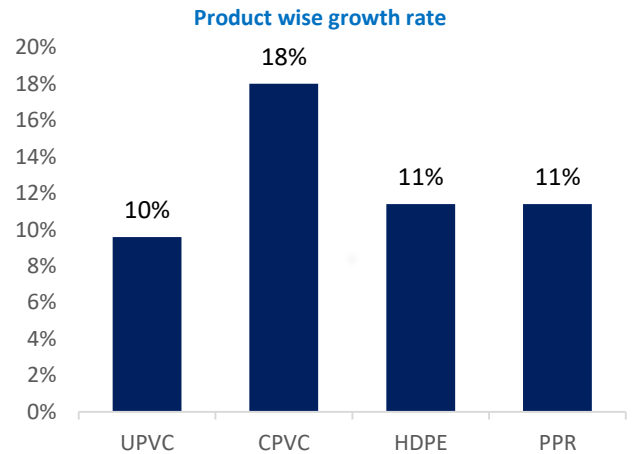
Source: Industry, Bonanza Research

Exhibit 13: Plastic Pipes & Fittings Industry growth



Source: Astral AR FY21, Bonanza Research

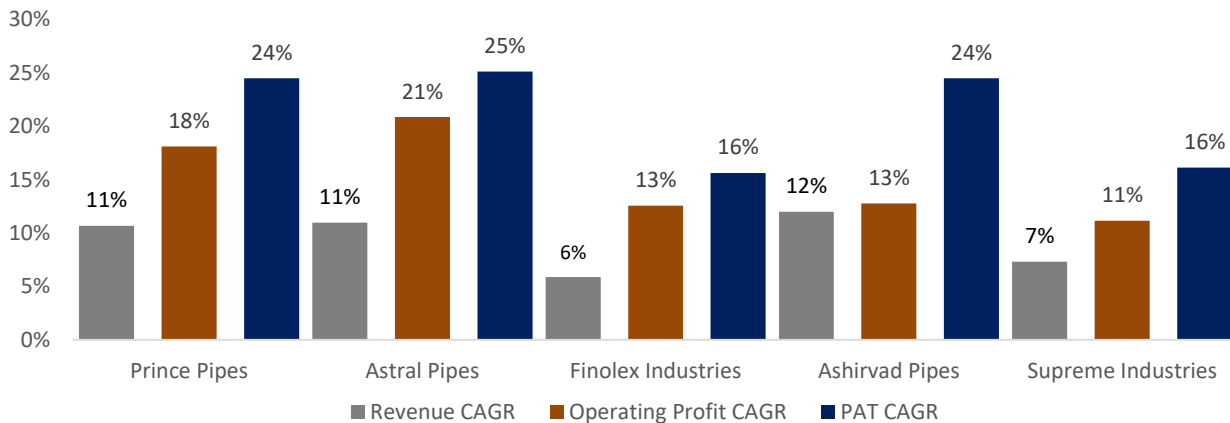
Exhibit 14: CPVC likely to clock highest growth rate (FY14-25E)



Source: Astral AR FY21, Bonanza Research

Exhibit 15: Prince has also shown healthy growth in last 5 years

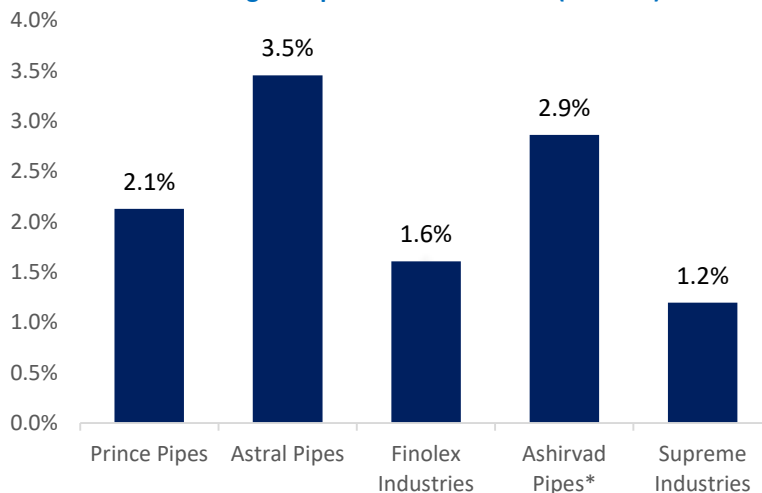
Revenue/Operating/PAT CAGR growth from FY16-FY21



Source: Company, Bonanza Research

Exhibit 16: Focus on branding

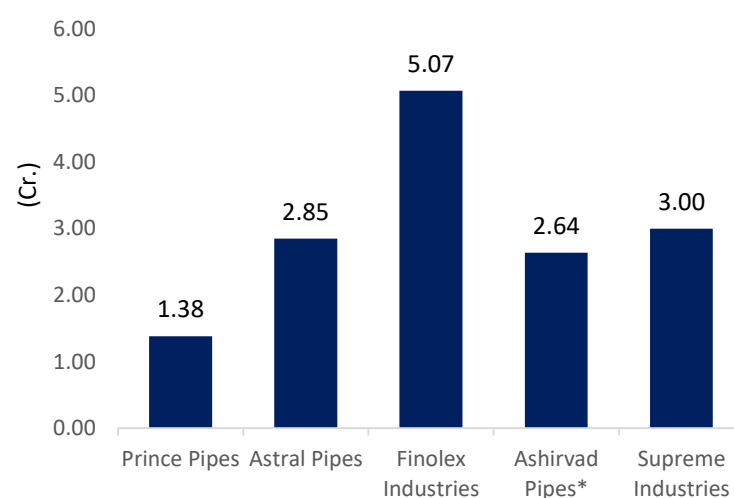
Avg. Ad spend % of sales from (FY16-21)



Source: Company, Bonanza Research

Exhibit 17: Prince is little behind in Revenue/distributor

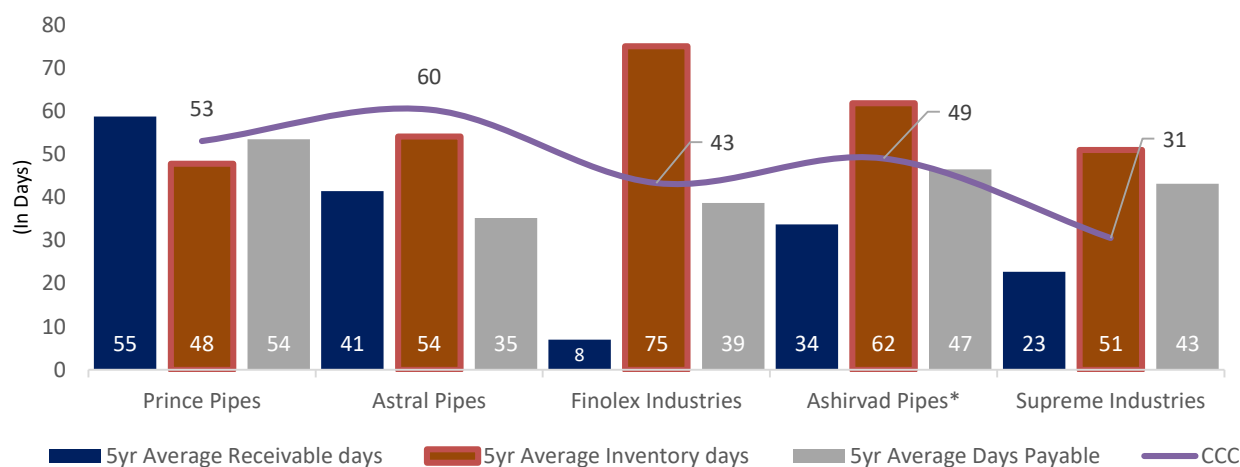
Revenue/ Distributor in FY21



Source: Company, Bonanza Research

Exhibit 18: Decent Cash Conversion Cycle

5 years Avg. Cash Conversion Cycle (FY16-FY21)



Source: Company, Bonanza Research

Exhibit 19: Competitor Analysis

	Prince Pipes	Astral Pipes	Finolex Industries	Ashirvad Pipes	Supreme Industries
Pipes Capacity in (MT)	2,90,000	2,63,342	3,70,000	2,00,000	2,50,000
Sales Volume in FY21 (MT)	1,38,289	1,36,590	2,12,060	1,49,532	2,94,357
Utilization (%)	50%	55%	58%	N/A	58%
No. of Manufacturing Facilities	7	7	3	2	8
Manufacturing Location	Maharashtra, Tamil Nadu, Uttarakhand, Dadra & Nagar Haveli, Rajasthan and Telangana	Gujarat, Tamil Nadu, Rajasthan, Maharashtra & Uttarakhand	Maharashtra and Gujarat	Karnataka and Rajasthan	Maharashtra, Telangana, Uttar Pradesh, Madhya Pradesh and West Bengal
Product Portfolio	UPVC, CPVC, HDPE, PPR pipes and fittings, Water Tanks	UPVC, CPVC, HDPE pipes and fittings, Water Tanks	UPVC, CPVC pipes and fittings, Water Tanks	UPVC, SWR, CPVC pipes and fittings	UPVC, CPVC, HDPE, PPR pipes and fittings, Water Tanks
TTM total revenue (₹Mn)	25170	40,800	43,030	35,032*	73000
FY16-21 Revenue CAGR	11%	11%	6%	12%	7%
FY16-21 Operating profit CAGR	18%	21%	13%	13%	11%
FY16-21 PAT CAGR	24%	25%	16%	24%	16%
% of revenues from Plastic pipes & fittings in FY21	100%	76%	80%	100%	63%
5 YR Avg. EBITDAM (FY16-21) [%]	13.0	16.2	19.8	18.9	16.1
5 yr Avg. NPM (FY16-21) [%]	6.0	8.2	12.2	10.4	8.6
5 YR Avg. CCC (FY16-21) [Days]	53	60	38	49	34
5 yr Avg. ROE (FY16-21) [%]	24	22	18	31	25
5 YR Avg. ROCE (FY16-21) [%]	22	29	24	35	33

Other product segment	None	Adhesive	PVC Resin	None	Packaging/Industrial products/Consumer durable
Mkt. share in overall industry	6% in pipes & Fittings. 10% in CPVC	10% in Pipes & 30% in CPVC	11% in Pipes & Fittings	12%	15%
No. of Distributors	1,500	850	1,000	1,100	1,368
Dealers	46,171	33,000	21,000	N/A	36,000
5 Yr Avg. Ad spending (% of sales) [FY16-21]	2%	3%	2%	3%	1%
Brand Ambassador	Akshay Kumar	Pipes: Ranveer Singh Adhesives: Varun Dhawan	Virendra Sehwal	None	None

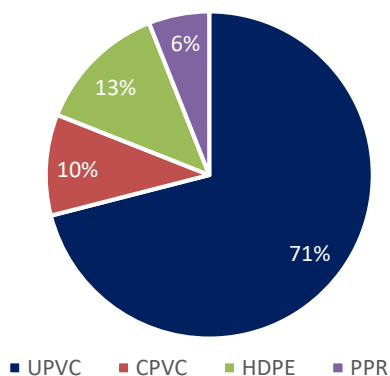
Source: Company, Bonanza Research

Migration from GI Pipes to UPVC and further shift to CPVC

- Since the early 1900's, the piping inside buildings was dominated mostly by metal pipes (copper pipes for high-end residences & hotels, & Galvanized Iron [GI] Pipes for the masses). The growing success of PVC in water schemes was seen as an opportunity. The rising price of metals in 2005 – 2010 further aided in growth of Plastic adoption and usage in the Construction space. As homes started using the UPVC threaded piping systems to a greater extent, the limitations of the systems became visible.
- After usage, the pipes showed failure when used in hot water. In North India where the summers are extremely hot, pipes failed due to this limitation, including water heater lines, where the failures were very frequent.

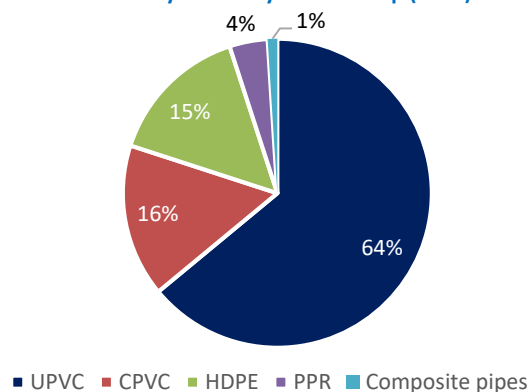
Exhibit 20: UPVC has the major share in PVC pipes market, while CPVC is gaining market aggressively

Industry wise Polymer breakup (FY14)



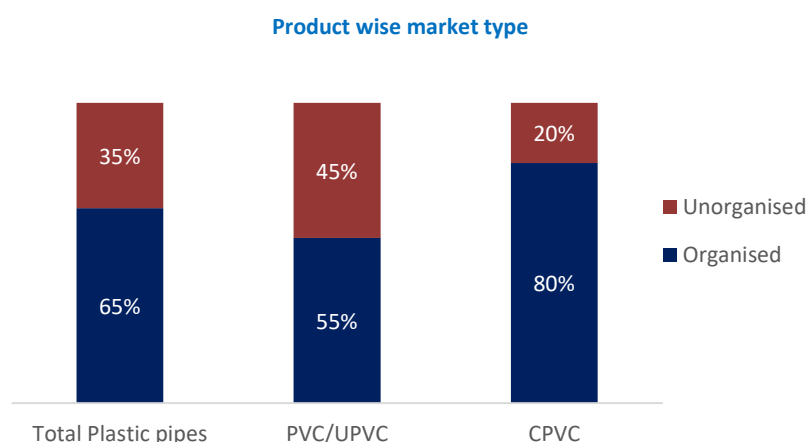
Source: Company, Bonanza Research

Industry wise Polymer breakup (FY20)



Source: Company, Bonanza Research

Exhibit 21: CPVC is more of an organised play



Source: Company, Bonanza Research

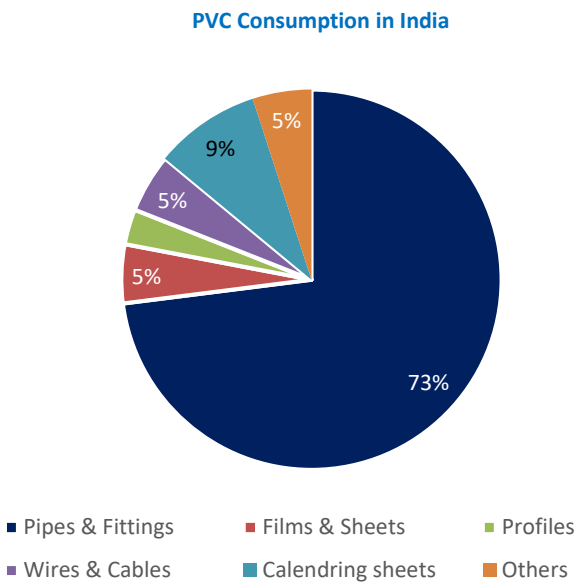
- The early 2000 saw the entry of many alternative materials in India: CPVC was developed by Lubrizol in the 1960 and is used extensively all over the world. Pipes have to be concealed during the time of construction and any leakage or joint loosening requires masonry work which damages the paint, tiles and overall look of the house. With increased awareness about durability of plastic pipes and BIS standards, residential consumers (UPVC, CPVC) and farmers (UPVC) are opting for better quality pipes to minimize these problems.

Supply Chain Disruption & Quality controls lead to market Consolidation

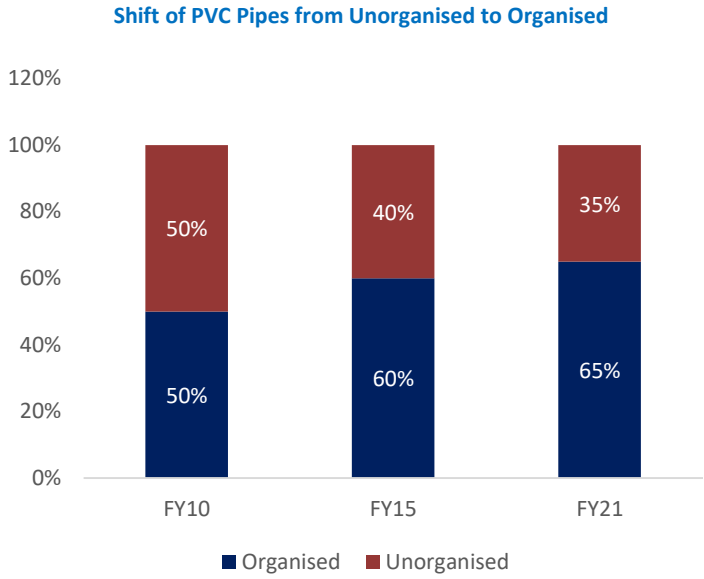
- Primary raw materials consumed by the company are **CPVC, UPVC, PPR, and HDPE resins**, which are derivatives of crude oil. Hence, prices of plastic pipes are correlated to crude oil prices. Even natural gas and coal have an influence on the price of PVC resin. In India PVC resin is imported from several countries, due to COVID many overseas industries went down with insufficient containers for importing. This affected the pipe industry significantly. Imports were also cut off, leading to a severe shortage of PVC resin. There were some local industries who were supplying the powder across the country.
- However, exports started to become more popular for the local suppliers as prices rose in international markets. As a result, the price of PVC pipes increased dramatically. The PVC prices have increased twofold and continue to grow northward. Additionally, in Feb'20, Government of India imposed an ADD (Anti-dumping duty) on imports of CPVC, originating in or exported from China and Korea, for a period of 5 years. Over the years, many PVC plants have had to shut down or shift from mercury-based catalyst processes to mercury-free processes owing to strict environmental regulations in China. Around 18 mt capacity in China is still dependent on mercury-based catalyst processes. This led to a shutdown of 4.5 mtpa of PVC capacities in China over 2015-19.
- As per DGTR findings, imports from these two countries were ~32% of India's overall CPVC resin/compound imports. The government's mandatory BIS (Bureau of Indian Standard) quality norms have further aggravated the economic stability of small and medium enterprises (SMEs) and have led the organized players to gain market share.

Exhibit 22: Pipes & Fittings is the major consumer of PVC

Exhibit 23: Unorganised players couldn't compete with big players



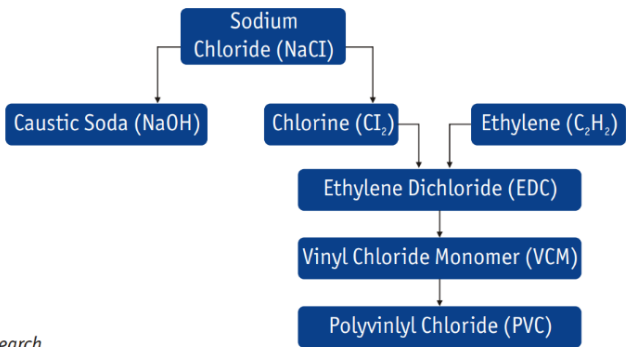
Source: Company, Bonanza Research



Source: Company, Bonanza Research

Raw materials for PVC resin

- PVC resin is the main RM for manufacturing of PVC pipes, while Ethylene dichloride (EDC, which is produced from ethylene and chlorine by direct chlorination,) is RM for PVC resin. Ethylene capacity in India stood at 7.05 million metric tons (Mt) in FY20. Reliance Industries Limited (“RIL”) backward integrated as it produces ethylene, chlorine, EDC and VCM (Vinyl Chloride Monomer) at its Gujarat petrochemical plant. It is the largest manufacturer of ethylene in India with a capacity of 3.8 Mt. PVC industry is the single largest consumer of chlorine globally.



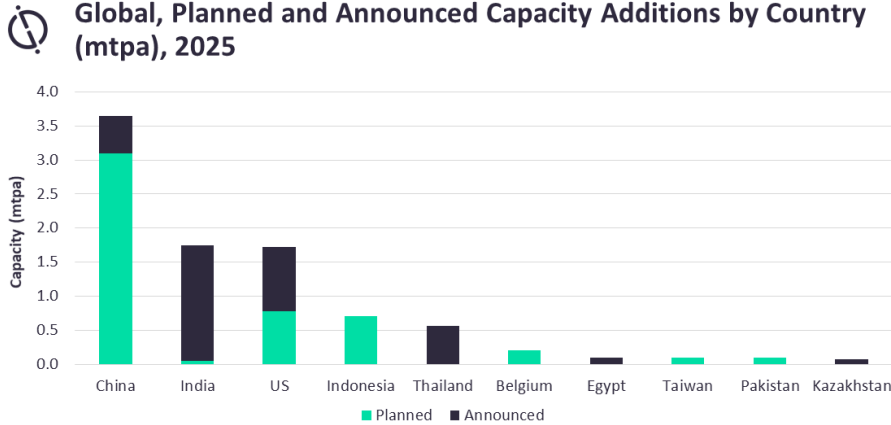
Source: Market Research

PVC Production capacity in India

- Domestic PVC resin capacity is pegged at approx. 1.5 mtpa (million tons per annum) while demand stood at 4.12 MTPA in FY21 and is forecast to reach 7.03 Million Tonnes by FY2030, growing at a healthy CAGR of 6.11% until FY30. Reliance Industries, CCVL (Chemplast Cuddalore Vinyls), Finolex Industries, DCW and DCM Sriram being the Key producers. However, the scenario is expected to change now as India has announced the second-highest capacity addition of PVC at 1.7 MTPA by 2025 after China.

- India meets 50%/90%+ of PVC and CPVC requirement via imports. Imports have been largely sourced from Japan, Taiwan, South Korea, and China historically.

Exhibit 24: India is expected to lead the PVC capacity addition after China



Source: GlobalData Oil and Gas Intelligence Center

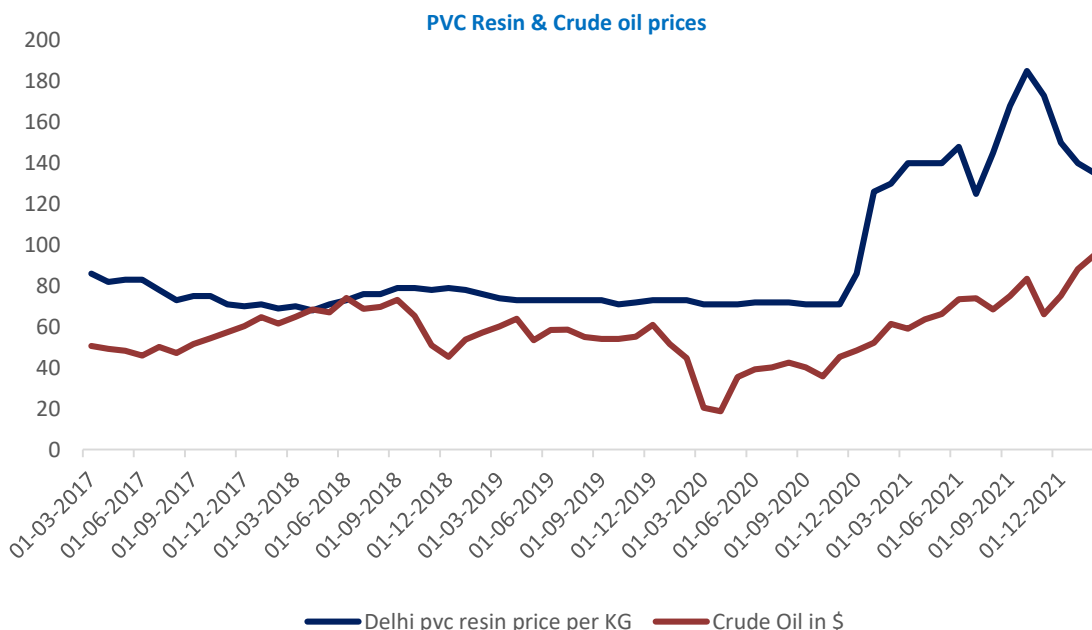
GlobalData.

Exhibit 25: PVC Production Capacities in India

Company	Capacity (KTPA)	Plant Location	Region
Reliance Industries	770	Hazira and Dahej, Gujarat	West
CCVL (Chemplast Cuddalore Vinyls Limited)	300	Cuddalore Plant, Tamil Nadu	South
Finolex Industries	272	Ratnagiri Plant, Maharashtra	West
DCW Ltd.	90	Sahupuram Plant, Tuticorin	South
DCM Shriram	82	Kota Plant, Rajasthan	North
Total	1514		

Source: Industry, Chemplast Sanmar DRHP, Bonanza Research

Exhibit 26: Strong Correlation between PVC Resin and Crude Oil prices



Source: Bloomberg, Bonanza Research

BIS license implementation to benefit organised players

- The government, in an official gazette issued in March-21, mandated all pipe manufacturers to get a BIS (Bureau of Indian Standard) licence by 30 September 2021. Further, the government has also laid down rules for phased abatement of the use of lead stabilizers in polyvinyl chloride (PVC) pipe manufacturing. Unorganized companies will have to incur significant CAPEX to meet the guidelines, resulting in erosion of price differential.

Lubrizol deal and synergy with Ultratech to boost volume and margins

- Post ADD imposition on PVC resin, in the late Aug'20, Prince tied up with US-based Lubrizol – the world's largest manufacturer of CPVC compound (Berkshire Hathaway Company Founded in 1928) – for a period of 3 years and currently sells under the brand "FlowGuard Plus".
- This tie-up will further support in improving the company's market share. Sourcing of quality resins is a strong entry barrier in CPVC pipes vis-à-vis other plastic pipes segments, as there are very few quality RM global suppliers. Most top Indian plastic manufacturers have tied up/source from either Lubrizol, Sekisui, Kaneka Corporation or Kem for one for their CPVC resin needs.



Source: Company website

- The company has also entered into a 3 year technical collaboration with **Tooling Holland BV**, 40+ years of experience in mould making, a **global leader in the international plastic injection moulding industry** based in The Netherlands. The company specializes in manufacture and exports of moulds for fittings (16-1000mm), crate and container moulds, thin wall packaging moulds and PET perform moulds. The goal of this technical partnership is to achieve optimal product design and mould layout, which will also help optimise production costs while delivering superior product. During Dec'14-Dec'19, Prince benefitted from a similar technical collaboration with "Wavin". This collaboration assisted the company in manufacturing and quality enhancement of plastic pipes, plant's productivity improvement, and sales. Prince and Ultratech Building Solution (UBS) have also joined hands to create an additional revenue channel and opportunity to market Prince's product basket. Prince will distribute their products on UBS platform which has a vast dealer (retail touch points) network of 2,000+.

Exhibit 27: Tie up of Indian brands with International players for CPVC Resin

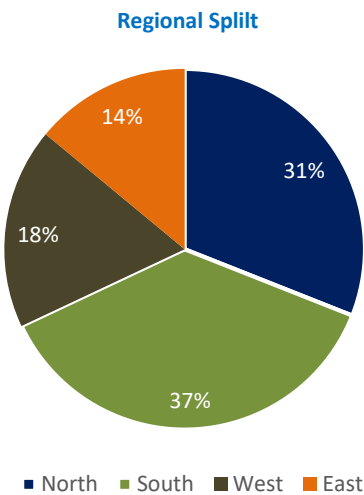
Indian Companies	Raw material Supplier
Astral	Sekisui
Prince Pipes	Lubrizol
Finolex	Multiple Sources
Ashirvad	Lubrizol
Supreme	Kaneka Corporation
Apollo	Kem one

Source: Industry, Bonanza Research

Strong Distribution network and focus on Branding

- Prince has largest distribution network in the industry (1,500+ distributors, 11 warehouses, 7200 SKUs). North and West are strong zones for the company and after Telangana plant, it will improve its roots in the South region as well. In Q3FY22 itself, Prince has added 50 new distributors which are spread across India covering tier 2/3 semi urban regions and rural markets. Over the past five years, it has almost doubled its channel partner count to >1,500. In the eastern states of Bihar and Odisha, it is largely catering through outsourced plants. The company is also aspiring to gain more traction in the non-trade (B2B) segment, which has a huge growth opportunity.

Exhibit 28: PAN India distribution network



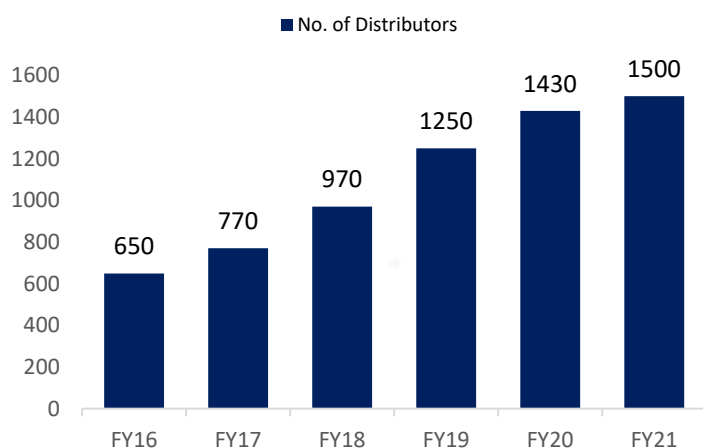
Source: Company, Bonanza Research

Exhibit 29: Akshay Kumar as Brand Ambassador



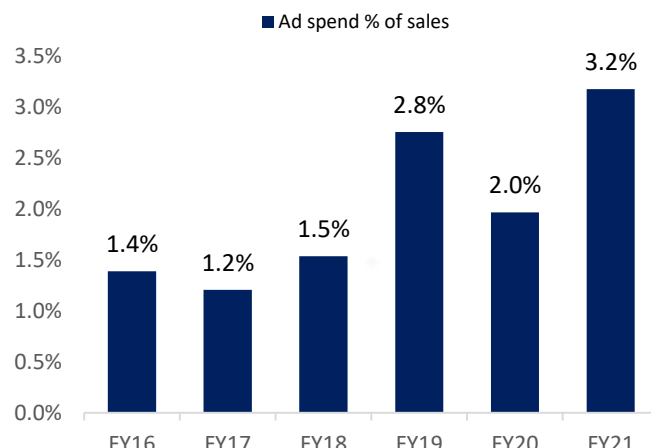
Source: Company website

Exhibit 30: Rising number of distributors



Source: Company, Bonanza Research

Exhibit 31: Increasing brand awareness



Source: Company, Bonanza Research

- Launch of Loyalty Programme** - Prince has been the first one in the industry to launch “Udaan” - a loyalty programme for retailers and plumbers. This programme aims to strengthen connect with its channel partners and plumbers, and to motivate them by giving reward points on every purchase, which can be redeemed later in exchange for gifts. This loyalty programme is currently operational in North India (except Madhya Pradesh), West India, South India and East India (only Bihar, Jharkhand and West Bengal). Prince also conducts Parivaar and Mitra Meets (include dealer/plumber meets).

Exhibit 32: Programmes to connect with dealers & Plumbers



Source: Company Investor Presentation

Telangana plant will reduce logistics cost and spread brand awareness in south region

- Even without having an integrated plant in South, Prince is among the top 3 choice of consumers (as per our channel check). They are now coming up with an integrated CPVC plant in Telangana for CPVC pipes and fittings and other polymers (partially operational), which has a total cost of ₹195 Cr. for 50,000 Tons of capacity. It is to be commissioned in two phases; phase 1 has been completed in February 2021 and phase 2 is expected to be completed by end of FY22. As of 9MFY22, ₹175-180 Cr. has already been spent, and the entire amount will be utilized in the next couple of months. In pipes, transportation costs play a critical role due to bulkiness of the product. This will further reduce logistics cost and improve margins going forward.

Exhibit 33: Plastic pipes and their Characteristics

	Galvanised Iron (GI)	UPVC	CPVC	HDPE	PPR
Life (Years)	10 to 15	20 to 25	30 to 35	50	50
Max operating temperature (°)	N/A	60 to 70	90 to 100	60 to 80	90 to 100
Cost	20-30% costlier than most plastic pipe varieties	Cheaper than GI	Cheaper than GI, costlier than UPVC	Cheaper than GI, costlier than UPVC	Cheaper than GI, costlier than UPVC
Corrosion	High corrosion due to rusting from prolonged exposure to water/moisture	No effect due to chemical resistance	Has anticorrosive properties	Excellent anticorrosion and chemical resistance	Good chemical resistance and corrosion resistance
Installation	Laborious, prone to issues in cases of poor workmanship	Done through cold welding	Cold welding. Needs solvent cement for installation	Hot welding. Known for more tolerance to poor installation	Hot fusion welding – requires specialised training and equipment

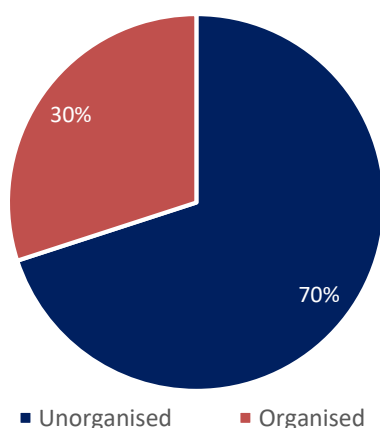
Source: Industry, Vectus Industries, Bonanza Research

Leveraging distribution network by launching new products

- Prince has Launched various new products like Double wall corrugated pipes (these will replace traditional RCC pipes in underground piping), low noise drainage system and water tank with the name of “Storefit”
- Moving on to the water tank industry, which is highly fragmented, the market size we estimate is about 4,000 Cr. and the organized to the unorganized split is 30:70.

Exhibit 34: Major Water tank market is still unorganised

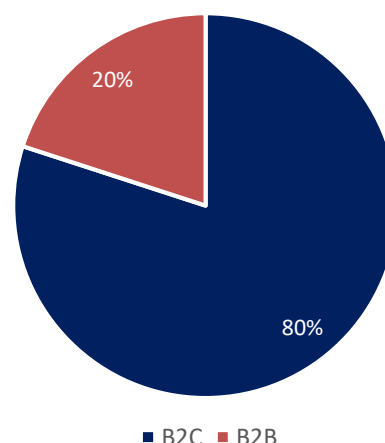
Water tank market in India



Source: Astral AR FY21, Bonanza Research

Exhibit 35: B2C is the bigger trend as of now

Water tank industry market share

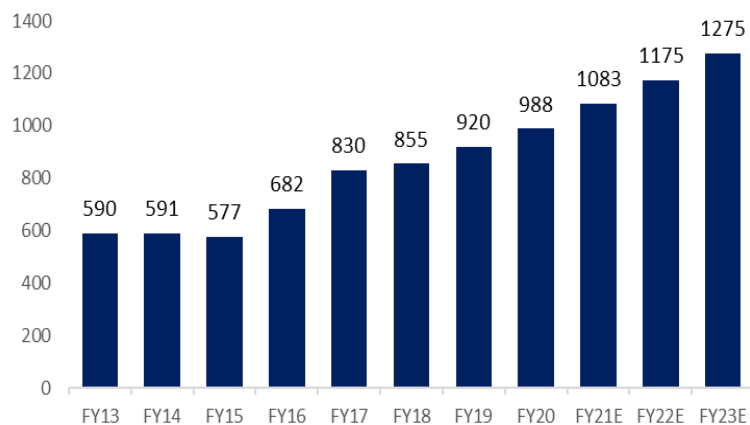


Source: Astral AR FY21, Bonanza Research

Government push towards Real Estate & Agri. demand

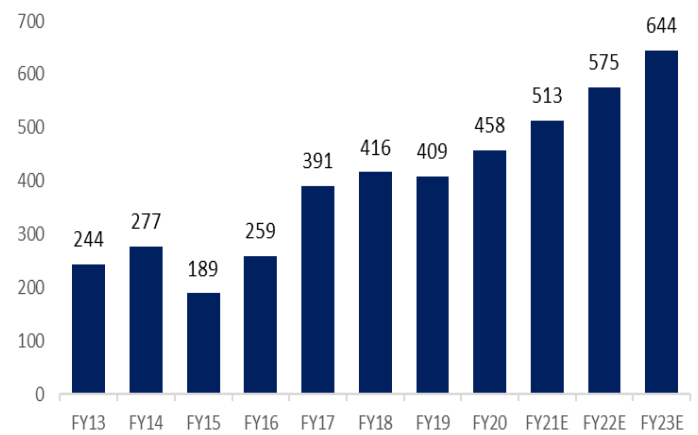
- There are multiple demand drivers such as irrigation, real estate, plumbing and WSS, urban/semi-urban sewerage infra and industrial uses. The irrigation sector is the prime user of PVC pipes, contributing ~47% to total sales. Agri sector, where 58% of the Indian population is dependent, is expected to grow in the coming years driven by increased Government investments in agricultural facilities such as irrigation systems, warehousing, and cold storage. Growth in the agriculture sector would further propel the Indian PVC pipes market. Irrigation will rise sharply by 8-9% CAGR by FY24 compared with 9-10% CAGR over the past five years (April 1, 2014, to March 31, 2019). In semi urban and rural areas, the affordable housing programme has taken place aggressively.
- Government push towards WSS** - WSS and plumbing are the second largest segments for plastic pipes, accounting for 35-40% share of the plastic pipes market. In the past five Fiscal years (i.e., from April 1, 2014, to March 31, 2019), government expenditure on the sector rose at 22% CAGR to about ₹624 billion in Fiscal 2019.

Exhibit 36: Growth in Irrigation (in ₹ Bn)



Source: Company, Bonanza Research

Exhibit 37: Rising Water supply & sanitation (WSS) (in ₹ Bn)



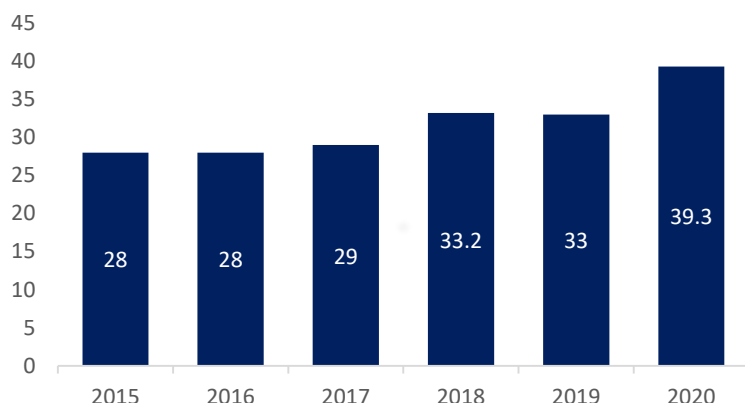
Source: Company, Bonanza Research

- Budget 2022 (Focus on Real Estate market)** - The budget defines ₹ 480 billion being allotted for housing projects under PM Housing Scheme. Furthermore, ₹ 600 billion allocated to cover 38 million households for tap water as part of “Har Ghar Nal Se Jal” Scheme and the continuation of the expansion of National Highways all of which augurs well for the pipes and the fitting industry.

The Cabinet decided that the flagship rural scheme, “Pradhan Mantri Awas Yojana Gramin” will be provided ₹ 2.17 Lakh crore in addition to central and state funding to achieve its target of building ₹ 2.95 crore houses. NITI Aayog expects that the Indian real estate sector will reach a market size of \$1 trillion by 2030 and will account for 13% of India’s GDP by 2025. Already being the third-largest sector to bring about economic growth, the real estate industry is expected to continue its upward trajectory in 2022.

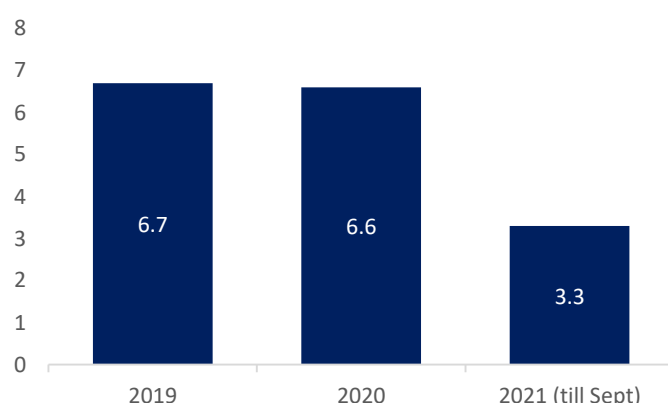
Exhibit 38: Real estate on a growth trajectory on the back of affordable housing/ Lower interest rates and WFH trend

Demand for Commercial spaces in top 8 cities (Million Sq. ft.)



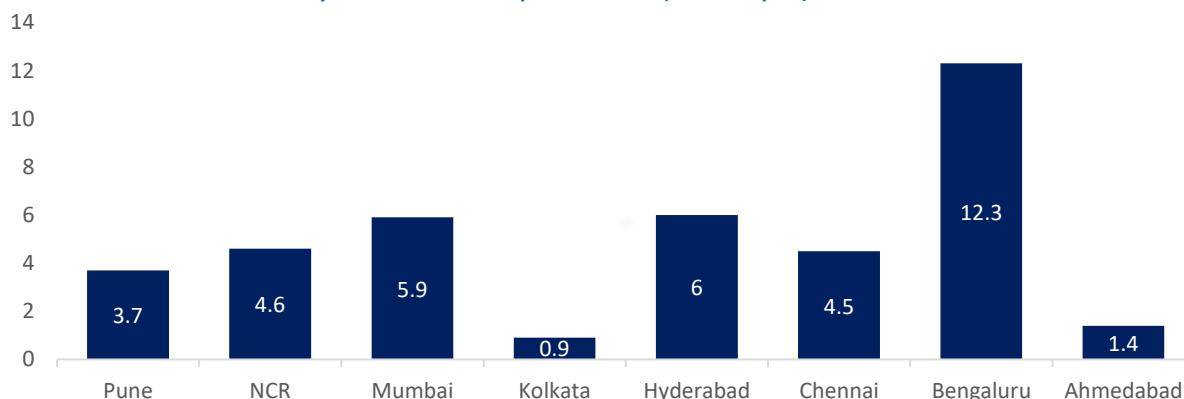
Source: IBEF, Bonanza Research

PE/VC Investment in Indian Real estate (\$ Billion)



Source: IBEF, Bonanza Research

City wise Commercial space Demand (Million sq. ft.) 2020



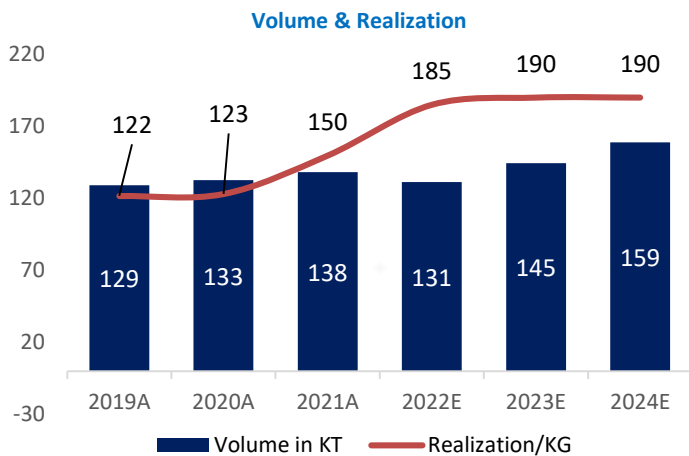
Source: IBEF, Bonanza Research

- Atmanirbhar Bharat will drive growth further going forward** -The Aatmanirbhar Bharat campaign was strengthened by RBI's announcement of loan moratoriums. Stamp duty cuts and reduction in loan rates continues to aid real estate developers during these volatile times. The implementation of Real Estate Regulatory Authority (RERA) has helped boost investments in real estate, enhancing transparency.

Financial Profile to Strengthen

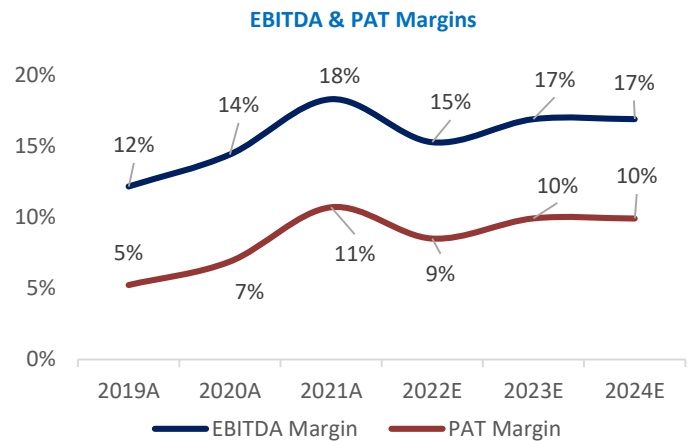
- Prince posted a 11%/24% revenue/profit CAGR respectively from FY16-21, despite pandemic-induced lockdowns hurting the industry from past one year. The average utilization for the company is about 50-55% which is at par to industry average (max 60-65% utilization). With gradual commercialization of the Telangana plant in FY22 and FY23, along with increased capacity utilization at other plants, we expect the company to continue growing its Volume/Revenue/EBITDA/PAT at a healthy 10%/11%/15%/17% CAGR respectively over FY22-FY25E.

Exhibit 39: Slight dip in Volume in FY22 (in KT)



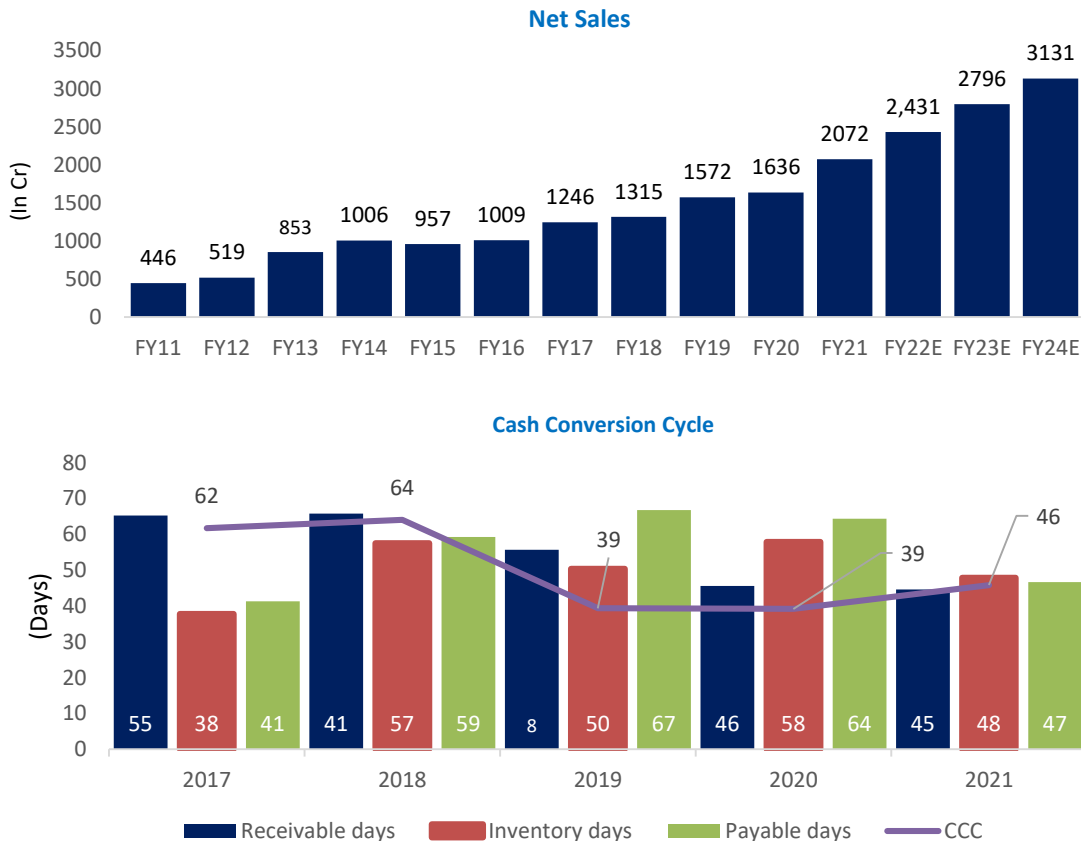
Source: Company, Bonanza Research

Exhibit 40: Healthy Margins



Source: Company, Bonanza Research

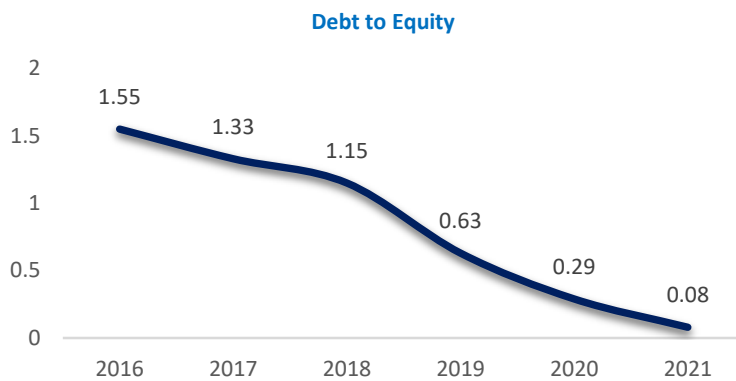
Exhibit 41: Strong Sales growth and improving cash conversion cycle



Source: Company, Bonanza Research

- EBITDA Margins shot up from 12% in FY19 to 18% in FY21 on inventory gains related to uptrend in PVC prices and hence improved the operating efficiencies/cost cutting. Though the trend of margin improvement related to inventory gain has reversed in FY22 due to sharp correction in PVC resin prices (inventory loss). But due to Russia - Ukraine conflict, we are seeing another uptrend from March 2022 onwards (Jan and Feb 2022 saw a reduction in prices.) and it will further pickup inventory gain in FY23 along with operating efficiencies, product mix improvements which will help the company posting a 15-17% EBITDAM in next couple of years.
- The company has repaid all its long term borrowing, reducing the overall borrowing from ₹264 Cr. in FY20 to ₹161 Cr. by H1FY22.

Exhibit 42: Sharp Reduction in Borrowings



Source: Company, Bonanza Research

Valuations & Recommendation

Initiate with Buy

- The Indian piping industry has seen significant unorganised to organised shift in the last couple of years due to rising awareness of use of quality pipes, this has been further aided by the pandemic-induced supply chain disruptions leading to raw material sourcing challenges for unorganized/regional players. Higher crude prices, due to Russia-Ukraine conflict clearly shows that higher PVC resin prices are here to stay for a while.
- The company has been focussing on improving its product mix, investing in branding, higher utilization levels and enhancing its distribution reach. Telangana plant will further strengthen Prince's brand in the Southern region and reduce logistics cost as well.
- EBITDA and PAT will be flattish in FY22 as volume growth will be offset by PVC price softening but as utilization levels pick up, operating leverage will drive EBITDA gains. We expect Volume/Revenue/EBITDA/PAT to grow at a healthy 10%/11%/15%/17% CAGR respectively over FY22-FY25E.
- Going ahead, we anticipate the market share pendulum to shift decisively in favour of large organized players given the worsening financial position of small fragmented players. We initiate a Buy rating for the target price of ₹862 (35x PE, which is average P/E multiple of the industry, for FY23 EPS of 24.6).

Exhibit 43: Peer Valuations

Peer Industry Competitors (Amount in Cr.)	Market related (TTM)			Valuation (TTM)			
	CMP*	Market Cap	EV	EV/EBITDA	P/E	P/S	P/B
Prince Pipes & Fittings	623	6,997	7,019	16x	27x	2.7x	6.2x
Astral Limited	2,006	40,465	40,036	49x	78x	10x	19x
Finolex Industries	149	9,663	9,093	7x	11x	2.2x	3x
Supreme Industries	1,991	25,360	25,020	16x	23x	3.5x	7.5x
Apollo Pipes	479	1,927	1,906	20x	38x	2.7x	5.1x
Average				22x	35.2x	4.2x	8x

Source: Company, Bonanza Research

*Note- Figures as of 29th March

Exhibit 44: Valuation Snapshot

Valuation	TP
Target P/E multiple (x)	35
FY23 Forward EPS (₹)	24.6
Target price per share (Rs)	862
No. of shares (Mn)	110.6
Target Mkt. cap (Rs MN)	95779

Key Risk

- **Volatility in Raw material price** - Prince Operations by change in raw material price (PVC Resin, a derivative of Crude oil), as they import half of its requirement. High volatility in Crude will lead to unsustainable margins.
- The operation of the company continues to remain moderately Working Capital intensive.
- Slowdown in Agriculture sector (30% of the revenue) and lower government spending on infrastructure will hurt the growth prospects of the industry.

Exhibit 45: Financial Statement

INCOME STATEMENT							
Fiscal year	2019A	2020A	2021A	2022E	2023E	2024E	2025E
<i>in (Million except per share)</i>							
Revenue from operations	15,719	16,357	20,715	24,307	27,460	30,206	33,226
Other income	71	69	176	0	0	0	0
Net revenue	15,790	16,426	20,891	24,307	27,460	30,206	33,226
Cost of goods sold	-11,274	-11,264	-13,789	-17,266	-18,593	-20,452	-22,497
Employee benefits expense	-817	-902	-997	-1,095	-1,392	-1,532	-1,685
Other expenses	-1,788	-1,903	-2,313	-2,233	-2,833	-3,116	-3,428
EBITDA	1,912	2,357	3,792	3,713	4,641	5,105	5,616
Depreciation and amortization expenses	-436	-520	-594	-780	-828	-923	-1,027
EBIT	1,476	1,837	3,198	2,933	3,813	4,182	4,588
Finance costs	-363	-332	-207	-149	-149	-149	-149
EBT	1,113	1,506	2,991	2,785	3,665	4,034	4,440
TAX EXPENSE	-292	-381	-773	-718	-939	-1,039	-1,142
Net profit	821	1,125	2,218	2,067	2,725	2,995	3,298
OCI	-1	-7	3.12	0	0	0	0
Total Coprehensive income for the year	820	1,119	2,221	2,067	2,725	2,995	3,298
EPS	9.1	10.2	20.2	18.7	24.6	27.1	29.8

Cashflow statement				
Fiscal year	2022E	2023E	2024E	2025E
<i>(€ mm except per share)</i>				
Net income	2,067	2,725	2,995	3,298
Depreciation and amortization	780	828	923	1,027
Operating profit before working capital	2,847	3,553	3,918	4,325
Working Capital				
Accounts receivable	-8	-459	-303	-705
Inventory	-3,079	2,192	-1,236	-815
Accounts payable	571	152	405	334
Other current asset	0	0	0	0
other current liabilities	0	0	0	0
Cash generated from operating activiti	330	5,437	2,785	3,139
Capital expenditure:	-2,000	-800	-1,000	-1,200
Cash flow from Investing activities	-2,000	-800	-1,000	-1,200
Equity issue/paid	0	0	0	0
Term Debt issued /(paid)	0	0	0	0
Dividends paid	-403	-367	-494	-494
Cash genrated from Financing activitie	-403	-367	-494	-494
Net cash flow	-2,073	4,270	1,291	1,445
Cash at the beginning of the period	2,299	227	4,496	5,787
Cash at the end of the period	227	4,496	5,787	7,232

Balance Sheet							
Fiscal year	2019A	2020A	2021A	2022E	2023E	2024E	2025E
ASSETS							
Non – current assets							
Fixed Asset (Gross block)	4,642	6,329	6,946	8,946	9,746	10,746	11,946
Less: Accumulated Depreciation	-1,047	-1,520	-1,997	-2,777	-3,605	-4,528	-5,555
Net Block	3,595	4,809	4,949	6,169	6,141	6,218	6,390
Capital work-in-progress	615	75	765	765	765	765	765
Right of use Asset	0	46.45	30.53	31	31	31	31
Goodwill	3	3	3	3	3	3	3
Other intangible assets	36	27	48	48	48	48	48
Investment	8	6	15	15	15	15	15
Loan	74	103	83	83	83	83	83
Other financial asset	87	87	53	53	53	53	53
Other non – current assets	582	497	258	258	258	258	258
Total non – current assets	5,000	5,655	6,204	7,424	7,396	7,473	7,645
Current assets							
Inventories	2,011	3,445	2,273	5,352	3,161	4,396	5,212
Financial assets							
(ii) Trade receivables	2,504	1,797	3,534	3,542	4,001	4,304	5,009
(iii) Cash and cash equivalents	223	2,570	2,299	227	4,496	5,787	7,232
(iv) Other current financial assets	4	85	73	73	73	73	73
Current tax asset	2	0	0	0	0	0	0
Other current assets	596	550	1,678	1,678	1,678	1,678	1,678
Total current assets	5,339	8,447	9,857	10,871	13,409	16,239	19,204
Total assets	10,339	14,102	16,061	18,295	20,805	23,712	26,849

EQUITY AND LIABILITIES							
Equity							
Equity share capital	900	1100	1100	1,100	1,100	1,100	1,100
Other equity	3089	7277	9335	10,998	13,356	15,857	18,661
Total equity	3,989	8,377	10,435	12,098	14,457	16,958	19,762
Liabilities							
Non – current liabilities							
(i) Borrowings	1,058	395	0	0	0	0	0
Lease liability	0	28	13	13	13	13	13
(ii) Other financial liabilities	160	146	146	146	146	146	146
Provisions	78	113	117	117	117	117	117
Deferred tax liabilities	149	133	133	133	133	133	133
Total non- current liabilities	1,445	815	408	408	408	408	408
Current liabilities							
Financial liabilities							
(i) Borrowings	1,457	2,038	852	852	852	852	852
(ii) Trade payables	2,152	1,808	2,491	3,062	3,213	3,619	3,953
(iii) Others financial liabilities	1,115	890	1,296	1,296	1,296	1,296	1,296
Provisions	16	21	17	17	17	17	17
Current tax liabilities	0	51	199	199	199	199	199
Other Liabilities	165	103	363	363	363	363	363
Total current liabilities	4,904	4,911	5,218	5,788	5,940	6,345	6,679
Total liabilities	6,350	5,725	5,626	6,197	6,348	6,754	7,088
Total equity and liabilities	10,339	14,102	16,061	18,295	20,805	23,712	26,849

Ratio Analysis							
	2019A	2020A	2021A	2022E	2023E	2024E	2025E
Liquidity Ratios							
Current Ratio	1.09	1.72	1.89	1.88	2.26	2.56	2.88
Quick Ratio	0.58	1.35	1.21	1.27	1.58	1.88	2.13
Efficiency Ratio							
ROE	27%	15%	24%	19%	20%	19%	18%
ROCE	27%	20%	29%	23%	26%	24%	23%
EPS	9.1	10.2	20.2	18.7	24.6	27.1	29.8
Growth Ratio							
Volume growth	N/A	3%	4%	-5%	10%	10%	10%
Net sales growth	N/A	4%	27%	16%	13%	10%	10%
EBITDA growth	N/A	23%	61%	-2%	25%	10%	10%
EBIT growth	N/A	24%	74%	-8%	30%	10%	10%
PAT growth	N/A	37%	97%	-7%	32%	10%	10%
Valuation Ratios							
EV/EBITDA	N/A	4.7x	11.7x	19 x	14 x	13 x	11 x
P/ E ratio	N/A	8.7x	20.7x	34 x	25 x	23 x	21 x
P/B Ratio	N/A	1.3x	4.4x	6 x	5 x	4 x	4 x
P/S Ratio	N/A	0.6x	2.2x	3 x	3 x	2 x	2 x
Margins							
EBITDA Margin	12%	14%	18%	15%	17%	17%	17%
EBIT Margin	9%	11%	15%	12%	14%	14%	14%
EBT Margin	7%	9%	14%	11%	13%	13%	13%
PAT Margin	5%	7%	11%	9%	10%	10%	10%

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